DEVELOPMENT OF CROWDFINANCING ENVIRONMENT IN BELARUS

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Abstract

The article gives a description of crowdfunding, clarifies the definition of this concept, reveals its environment and business models. Authors present some indicators that characterize the development of crowdfunding worldwide and focus on current situation of crowdfinancing in the Republic of Belarus. Among the main obstacles hampering the development of crowdeconomy in Belarus are the necessity to increase horizontal and vertical trust in the society, intensify the entrepreneurial initiative, the need to increase the level of financial awareness of the population, to have a cooperative position of the state in this aspect, and the necessity to develop a crowdfunding environment. Analyzing the existing crowdeconomic practice and business environment, the authors offer several directions for the development of crowdfinancing environment as a way to stimulate the national financial market.

Keywords: crowdfinancing, crowdinvesting, crowdplatform, ecosystem.

JEL code: G23, G29.

Introduction

There has been a significant development of Internet technologies in the recent decades that among others impact the current economic model. The possibility of implementing many actions online has led to the emergence of economic concepts associated with the collective action of many people on the Internet who strive to solve certain tasks together. They can include all the terms that have the English word "crowd": crowdfunding, crowdsourcing, crowdlending, crowdinvesting, crowdhunting etc. All of these are components of crowdeconomy, which is new model of the economy – “a dynamic ecosystem of productive people who participate through a platform with a purpose to achieve mutually beneficial goals” (Nekaj, 2016, p.2).

Crowdfunding, or public funding, is a significant component of the crowdeconomic environment. Being used in the early 21st century as an alternative source for funding musicians, in less than 10 years, it spread out to being a tool of collective lending and investing both individuals and small and medium-sized businesses.

A broad definition of crowdfunding refers to «the efforts by entrepreneurial individuals and groups cultural, social, and for-profit to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet» without standard financial intermediaries» (Mollick, 2014, p. 2).

Researchers at the University of Cambridge give their definition of crowdfunding as “provision of funding for projects, individuals, commercial and non-commercial entities by raising funds, small and large, from large groups of individuals and institutions” (Crowdfunding in East Africa, 2017, p. 12). However, note that this definition does not provide the main features of crowdfunding: the existence of an Internet platform that acts as an intermediary between the person raising money and the person financing the crowdfunds company; money transfers for the financing of a crowd company through electronic payment systems or aggregators.
In addition to the term "crowdfunding" in the economic literature and the World Wide Web, you can also find other concepts related to attracting money from a large number of people by placing a proposal on a specially created website. Thus, the following can be distinguished:  

1. (online) alternative finance (Hitting Stride…, 2017, p. 20) and crowdfinance, and the latter is more closely related to business models of raising funds aimed at earning additional income by the person providing it.

### Crowdfunding Environment and Business Models

Crowdfunding environment includes three main participants (Fig. 1) (see Akkizidis & Stagars, 2016, p. 17; Agrawal, Catalini & Goldfarb, 2014, p. 68):

1. **Initiators (creators)** of the project, or *fundraisers*, are individuals or a group of individuals as well as companies that raise “public” finance for implementing a project;

2. Depending on the business model of the crowdfunding platform: sponsors or *donors* engage in the charity crowdfunding; potential buyers or *prebuyers, backers* engage in reward crowdfunding; *investors* engage in investment crowdfunding; individuals and legal entities who transfer money are *funders* who engage in crowdfunding projects for charity or in order to get a product (souvenir) as soon as the project successfully starts or who invest in order to earn from the company’s activity that raises the finance through the crowdfunding campaign;

3. Crowdfunding platform acts as an intermediary between the aforementioned groups of individuals, it is "a specialized Internet resource on which crowdprojects are located" (Gorovaya, 2016, p. 8), or "a website dedicated to fundraising through crowdfundings» (Gedda et al., 2016, p. 32).

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![Fig. 1: Crowdfunding Ecosystem](image.png)

In addition to the three basic participants mentioned above, service providers (payment systems and operators, public relations agencies, etc.), as well as government bodies that regulate the activities of crowdfunding should be included in the environment.

In 2013, a group of researchers at the University of Cambridge developed a classification of an online alternative financial market on the basis of existing crowdfunding platforms in the United Kingdom that featured 9 alternative finance models (Collins, Wart & Zhang, 2013, p. 8). However, that classification was no longer relevant in a couple of years due to the dynamic development of the alternative finance sector, differences among business models in different countries, and the impossibility to make difference among approaches used for crowdfunding by different platforms as one platform opted for several business models and innovative financial instruments. Therefore, it is quite problematic to make a clear and detailed classification of existing crowdfunding business models.

Nevertheless, there are two ways platforms typically operate depending on additional income returned from the investment into a crowdfunding project:

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1 Technology-enabled online platforms (or channels) that act as intermediaries in the demand and supply of funding to individuals and businesses outside of the traditional banking system (Hitting Stride…, 2017, p. 20).
1) **non-investment-based model of crowdfunding** does not imply that a backer receives income, that is “money flow goes only in one direction” (Hitting Stride…, 2017, p. 22) – from the sponsor to the project initiator. These crowdfunding business models are considered traditional, because they were the first models used by Internet platforms.

2) **investment-based model of crowdfunding** implies that sponsors get income through purchasing debt or equity financial instruments or through financing a portion of a loan providing through the platform. Investment-based crowdfunding business models in contrast to non-investment-based ones are subject to the regulation by government agencies that monitor and control the financial markets of the country (Crowdfunding in East Africa, 2017, p. 12).

Within the framework of these two kinds of crowdfunding, different models are singled out, on the basis of which platforms operate, including in the non-investment based one:

a) **donation-based model** is a crowdfunding model, the purpose of which is to provide financial support for charity, research, creative, social and private projects without any financial or non-financial benefit of the sponsors. Initiators who are the beneficiaries of crowdcampaigns do not bear any obligations to the donors of money.

b) **reward-based crowdfunding** is a crowdfunding model where investor finances it in order to receive a non-financial compensation. This crowdfunding model is used to finance start-ups and personal creative projects. Non-financial compensation can be various kinds of souvenirs or non-financial rewards or, in case of a preorder system, the final product for which the crowdfunding project was launched.

Within the framework of investment-based crowdfunding the following business models got widespread:

a) **crowdinvesting, investment-based crowdfunding** is raising investors’ finance through traditional financial instruments (equity, debt, convertible securities and royalties) on crowdplatforms.

b) **lending-based crowdfunding, or crowdlending** – is providing individuals and legal entities with loan resources on Internet platforms.

**The Development of Crowdfunding Worldwide and in the Republic of Belarus**

If we turn to the data on the degree of development of this component of crowdeconomics, it can be noted that from 2009 to 2015, crowdfunding (in terms of attracted funds) in the world grew from 530 million US dollars in 2009 to 34 billion US dollars in 2015 showing a continuous positive dynamics over all these years (see Fig. 2). According to the World Bank, this figure will amount to 93 billion US dollars by 2025, some venture companies estimate its volume to be no less than 300 billion US dollars (Baumgardner, 2017).
According to a study conducted in 2016 by scientists at the University of Cambridge, the total volume of the global market of alternative finance in 2015 exceeded 100 billion euros, what accounted for a fourfold increase compared to 2014. According to the results of a study conducted in 2016, the European leader in terms of the volumes of alternative financial markets was Great Britain (79% of the regional market), in American leader was the US accounting for 98% of the alternative finance market of the whole region (Hitting Stride…, 2017, p. 32); the Asian-Pacific leader was China occupying 99% of the market of alternative finance of the whole region (Harnessing Potential…, 2016, p. 19, Pokrovskaya et al., 2016, p. 432). If we analyze the structure of the alternative financial market on the basis of business models used by the platforms, then researchers at the University of Cambridge have come to the conclusion that in all three major regions (Europe, Asia-Pacific and Americas), the largest share (more than 50%) is occupied by various models of crowdlending.

In Belarus, the development of crowdfunding started later than in the leading countries and neighboring states. Belarusian crowdfunding platforms use non-investment-based business models while the crowdlending model is only starting to be used, and the crowdinvesting model has not developed due to local legislation and weak development of the national financial market.

In particular, reward-based crowdfunding is already functioning in Belarus and is represented by two platforms: Talaka.by and Ulej.by, launched in 2014 and 2015, respectively. In addition, there is also the first crowdlending platform Kubyshka.by, launched in late 2016.

Ulej is a more traditional crowdfunding platform that uses the reward-based business model. Authors of projects classified in different categories (except for the charity-based ones and those assuming financial gain for the backers) can run crowd campaigns to raise money with the obligation to pay a total 10% commission (to the bank, platform and payment system) in case of a successful raising of the required amount. The platform uses the "all or nothing" approach, and all the money transferred to support the project is accumulated on a temporary account opened at the OAO Belgazprombank. During the time the platform operates, 140 crowdfunding projects were successfully financed, and the total amount "promised" by backers was 679,764.07 Belarusian rubles (346.1 thousands of US dollars). The overall level of success in financing crowdfunding projects was 29.7%, which is quite high (for example, at Kickstarter, the success rate in 2017 was 36%). We conducted an analysis of funds raised for projects, see Table 1. As we see, the most successful projects are those concerning literature.

![Global Crowdfunding Market, 2009-2015](image-url)
and social issues, while the least successful are those from the sections “Technology”, “Design” and “Food”.

Table 1. Performance indicators of crowdfunding platform Ulej

<table>
<thead>
<tr>
<th>Project category</th>
<th>Total number projects in the category</th>
<th>Total amount of “promised” funds</th>
<th>The amount of funds invested in successful projects</th>
<th>The amount of funds “promised” to unsuccessful projects</th>
<th>The amount of money “promised” for ongoing projects</th>
<th>Number of ongoing projects</th>
<th>Success rate of projects in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design</td>
<td>52</td>
<td>69 549.5</td>
<td>63 523</td>
<td>6 026.5</td>
<td>150</td>
<td>1</td>
<td>11.5</td>
</tr>
<tr>
<td>Food</td>
<td>16</td>
<td>48 669.1</td>
<td>45 631.6</td>
<td>3 037.5</td>
<td>0</td>
<td>1</td>
<td>12.5</td>
</tr>
<tr>
<td>Games</td>
<td>12</td>
<td>6 109</td>
<td>3 575.5</td>
<td>2 533.5</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Art</td>
<td>28</td>
<td>16 471.45</td>
<td>11 405</td>
<td>5 066.45</td>
<td>20</td>
<td>1</td>
<td>21.4</td>
</tr>
<tr>
<td>Literature</td>
<td>94</td>
<td>245 495.47</td>
<td>209 848.54</td>
<td>35 646.93</td>
<td>7 702</td>
<td>5</td>
<td>51.1</td>
</tr>
<tr>
<td>Music</td>
<td>61</td>
<td>54 164.23</td>
<td>46 095.8</td>
<td>8 068.43</td>
<td>1 101</td>
<td>3</td>
<td>31.1</td>
</tr>
<tr>
<td>Science and Education</td>
<td>24</td>
<td>29 010.59</td>
<td>22 498.5</td>
<td>6 512.09</td>
<td>1 585</td>
<td>2</td>
<td>25.0</td>
</tr>
<tr>
<td>Crafting</td>
<td>9</td>
<td>15 847</td>
<td>14 233</td>
<td>1 614</td>
<td>-</td>
<td>-</td>
<td>22.2</td>
</tr>
<tr>
<td>Social projects</td>
<td>55</td>
<td>76 140.61</td>
<td>62 128.01</td>
<td>14 012.6</td>
<td>949</td>
<td>3</td>
<td>38.2</td>
</tr>
<tr>
<td>Sports</td>
<td>18</td>
<td>22 932.56</td>
<td>22 258</td>
<td>674.56</td>
<td>-</td>
<td>-</td>
<td>38.9</td>
</tr>
<tr>
<td>Theater</td>
<td>10</td>
<td>13 087.34</td>
<td>12 494.84</td>
<td>592.5</td>
<td>-</td>
<td>-</td>
<td>30.0</td>
</tr>
<tr>
<td>Technology</td>
<td>29</td>
<td>8 160</td>
<td>4 033</td>
<td>4 127</td>
<td>-</td>
<td>-</td>
<td>10.3</td>
</tr>
<tr>
<td>Films and video</td>
<td>35</td>
<td>41 404.72</td>
<td>30 320.6</td>
<td>11 084.12</td>
<td>1 405</td>
<td>1</td>
<td>20.0</td>
</tr>
<tr>
<td>Photograph</td>
<td>6</td>
<td>1 542.5</td>
<td>1 399.5</td>
<td>143</td>
<td>-</td>
<td>-</td>
<td>33.3</td>
</tr>
<tr>
<td>Other</td>
<td>22</td>
<td>31 180</td>
<td>29 635</td>
<td>1 545</td>
<td>0</td>
<td>2</td>
<td>27.3</td>
</tr>
<tr>
<td>Total</td>
<td>471</td>
<td>679 764.07</td>
<td>579 079.89</td>
<td>100 684.23</td>
<td>12 912</td>
<td>19</td>
<td>29.7</td>
</tr>
</tbody>
</table>

Source: data compiled from the official site of crowdfunding platform Ulej.

The emergence and development of platforms in Belarus using non-financial models of crowdfunding can be explained, first of all, by the absence of significant legal restrictions in comparison to crowdinvesting and crowdlending as well as the possibility to control this type of activity within the framework of current legislation.

Nevertheless, this business model has a number of limitations for the use in Belarus. First of all, this is a small number of high-quality and detailed projects placed on the platform. According to the creators of the Belarusian Internet platforms, the initiators also do not always fully understand the concept of crowdfunding, according to which the author's idea should primarily bring value to the users’ community, and not to the author himself.

It should be noted that in Belarus at the moment there are more risks that are inherent not to a developing segment of the financial market, but for the emerging one. First of all, there is a high probability that crowdfunding as a part of the financial system will not be able to fit into the existing national model of financial market, since the Belarusian market is more bank oriented. At the same time, the use of various incentives (for example, tax incentives both in the United Kingdom and Australia) and adjustment of legal restrictions (for example, in the USA) will allow to adapt crowdfunding business model to the legal, national, social and economic features of every country.

The risk of the market's failure to use the new business model of raising funds is closely associated with the above-mentioned risk, and it can appear among various suspected subjects of the crowdfunding environment. People, for example will prefer to deposit money with a lower interest rate, but with a constantly accrued interest income and a lower risk level than invest into a project placed on a crowdfunding platform.

Equally important is the risk of over-regulation of crowdfunding by the supervising bodies that will limit its use as an alternative tool for raising funds. At the same time, the lack
of basic rules (analysis of crowdprojects, publication of basic information about a company by developers of the platform, verification of companies/initiators of the project, etc.) regulating this segment will increase the risks of fraudulent schemes by crowdfunding subjects.

Thus, the hypothesis of the authors is that Belarusian economy, which is characterized by insignificant indicators of financial depth, weak horizontal and vertical trust within the society, relatively undeveloped financial market and a low entrepreneurial initiative, is appropriate for the emerging crowdfinancing (Lvova et al, 2016) and further development of crowdfinancing and crowdlending, for familiarizing the subjects of the economy with the investment and development process and the development of the financial sector of the economy as a whole.

**Features and Prospects for the Introduction and Development of Crowdfunding Financial Models**

Despite the obvious advantages of crowdinvesting compared to the placement of securities on the stock exchange, some features of the financial market of Belarus largely level them. First, it is the underdevelopment of traditional financing schemes for start-up companies (venture funds, business angels). Since 2010, a public association “The Community of Business Angels and Venture Investors ‘BAVIN’” has been functioning in Belarus. At the end of 2016, the DIT “Russian-Belarusian venture investment fund” was established, however, investors themselves note a limited range of projects worthy of financing. Second, venture funds specialists and business angels are more familiar with the tools for evaluating startup companies than retail investors, therefore co-financing of crowdprojects is a more acceptable option for Belarus. Third, many financial venture capital financing instruments are not used in Belarus, which have found their successful application in crowdfinancing and which allow investors to change the form of participation in financing the company. Fourth, observing the rights of minority investors in crowdfinancing is an important aspect, since minority investors in the United Kingdom who acquired financial instruments of companies on platform sites often have been largely limited in their rights.

There are other restrictions on the introduction and development of crowdfunding financial model. First of all, this is an underdeveloped entrepreneurial culture. According to the National Statistical Committee of the Republic of Belarus, in 2016 the share of small and medium-sized businesses in the country's GDP accounted for approximately one third. However, it should be noted that the popularization of entrepreneurial activity in the country has developed only in recent years, and slightly less than half of all entrepreneurs are engaged in trade, not production and all the more in scientific developments. In addition, we can state a fairly low level of entrepreneurial culture in the country, primarily not in terms of developments, but in their commercialization, what can affect the development of crowdfunding in the country.

As a result, the state should intensively arrange additional activities to popularize crowdfunding among all members of the society. These can be educational campaigns on the role of entrepreneurship in the modern world, competitions, assistance provided to entrepreneurs by activists in performing various activities, providing consultations - everything in order to rally to develop and instill certain entrepreneurial skills including activity and responsibility (Crowdfunding’s Potential…, 2013, p. 53).

World Bank experts consider trust to be an important factor involving community into crowdfunding. An established entrepreneurial environment will not be able to function efficiently without the trust among entrepreneurs financed by individuals and legal entities, as well as their clients. In Belarus there are no studies to assess the level of trust, but empirical observations show a low level of horizontal and vertical trust in the society. Also low investment activity among people is a confirmation of this fact, first of all, since citizens of the
country have repeatedly lost their money savings both in the early 90s and during the period of existence of independent Belarus in numerous crises and fraudulent financial schemes. People still consider a bank deposit and savings in foreign currency to be the best way to save money. Investing money in other financial instruments and all the more in high-risk long-term projects is considered by the majority inexpedient suspicious and even totally fraudulent.

The level of financial trust is closely related to the level of financial awareness of the people. According to the OECD, the level of financial awareness of the Belarus inhabitants in 2016 was 11.7 points out of 21 (OECD/INFE International survey…, 2016), as a result the country was last but one in terms of financial awareness among 30 countries that took part in the study.

A positive prerequisite for the development of crowdfunding in Belarus is the availability of technology: access to the Internet, online transactions, the use of innovative methods of payment and money transfer.

Despite the existing restrictions on the development of financial crowdfunding business models, the offer of financial instruments of start-up companies, small and medium-sized businesses on platforms (when adopting appropriate legal acts) can significantly reduce costs in comparison with the traditional order of securities issuance, and transform the country's financial market.

On the other hand, as the practice of foreign countries shows, crowdinvesting has developed most in those countries in which at least one of the following conditions existed:

1. no or low level of regulation of crowdinvesting activity of platforms and crowdfunding subjects (Germany, United Kingdom);
2. creation of additional tax incentives for investors (United Kingdom, Australia).

It should be noted that tax incentives used are primarily aimed at increasing an interest towards financing small and medium-sized businesses by retail investors, what is inapplicable under the current legal and tax system of the Republic of Belarus. At the same time, the creation of low regulatory barriers for all crowdfunding subjects will attract additional capital to the activities of companies not only in Belarus, but also abroad.

**Conclusion**

Thus, the application of the of financial crowdfunding model for Belarus is seen by the authors as relevant: its implementation can serve as a starting point for the development of the national financial market as a whole, but a detailed development and creation of an appropriate financial infrastructure is required.

Adopting and developing crowdfunding in Belarus, one should understand the necessity of creating an environment: additional service providers that provide the functions of certain institutions, such as: rating agencies, due diligence providers for independent expertise of companies and projects, insurance providers for investors etc. Unfortunately, at the moment the above-mentioned institutions have not taken their place in the financial market of the country, what considerably complicates the introduction of crowdinvesting. First of all, the need for additional services for rating and assessment of projects will be placed on crowdfunding platforms, whose specialists often do not have experience in implementing such services. Apart from this, it is necessary to carry out measures to increase the financial awareness of funders: retail investors both in an online form and on specially developed training courses conducted at higher education institutions. On the one hand, this will increase the level of employment among the population, especially in the financial market, on the other hand, it will require additional costs for training specialists in this segment of the financial market.
References


