CROWDFUNDING AS AN INNOVATIVE PLATFORM FOR SMES DEVELOPMENT

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Small and medium-sized businesses or *small and medium-sized enterprises (hereinafter — SMEs)* are an integral part of each national economy. This is the most flexible and open to innovation element in a market economy. The main features of this type of business are market-oriented agility and mobility, relative independence, ability of staff capacity using in accordance with a flexible schedule. This business plays an important role for social reproduction in each country, because it is an integral part of any socio-economic system development, ensuring market relations stability, attracting the main part of individuals to open their own business and to ensure high productivity on the basis of specialization and cooperation in production. This has a beneficial effect on the national economy growth.

At the same time, one of the greatest challenges that prevent SMEs from realizing their whole economic potential is limited access to financing to support their economic activities. The own funds are mostly insufficient for business activities. Budget financing remains negligible and selective. Bank lending is often invalid to such enterprises because of high requirements for borrowers and high interest rates. In this context, SMEs are forced to look for alternative means to attract a sufficient cash flow that is necessary for their further development. In particular, crowdfunding represents such a mean.

Due to the fact that crowdfunding remains a new economic issue, it is not now well established from a variety of studies. The main part of researches devoted to crowdfunding began to appear only during the last five years. Furthermore, many foreign authors mainly investigated crowdfund-
ing origin, its ability to attract funds for projects, as well as practical recommendations to those who decide to use crowdfunding platforms to raise their funds through the Internet. In particular, S. Dresner [1], M. Thompson, S. Khambaita [2], I. Micic [3], T. Elliott Young [4], A. P. Borner [5], R. T. Harrison [6] and others researches and experts offer their findings about crowdfunding.

Meanwhile, there are some still episodic studies that provide information on crowdfunding in Ukraine. In particular, such questions are examined in a still limited number of scientific articles by Ukrainian authors, namely: I. Vasylchuk [7], O. Dyba, Iu. Gernego [8, 9], N. Shapran [10], O. Vasiliev, S. Matyushchenko [11], N. Medzhybovska [12], A. Ivashchenko, Ye. Polishchuk [13], K. Kovtunenko, O. Nesterenko [14]. The analysis of previous mentioned studies has made it possible to demonstrate that crowdfunding is considered both as an object of financial investment and as a mean for start-up projects financing and intellectual investment in Ukraine, as well as a way of financial support for small and medium-sized enterprises development.

The fact that the phenomenon of crowdfunding has appeared relatively recently in Ukraine and is still under investigation, while this mean is already rather developed in the world, in particular, becoming a powerful platform for SMEs development and socio-cultural projects implementation, enable us to talk about the current issues relevance.

The purpose of this research is to develop crowdfunding theoretical framework as an innovative financial mean for investment resources formation and to review in detail the available information on some practical aspects concerning crowdfunding use for SMEs development.

In order to achieve this purpose, the following tasks are to be considered:

– to develop an understanding of crowdfunding as a modern financial market mean;
– to generalize and specify crowdfunding classification taking into account its current implementation trends;
– to analyze the current state of crowdfunding market in Ukraine and crowdfunding platforms worldwide;
– to explore the crowdfunding potential in SMEs development projects financing and to develop recommendations for its intensification.
Firstly, this research gives a brief overview of the recent history of crowdfunding. Despite the generally accepted fact that the term was first used in 2006, there are different research opinions, namely: on the one hand, the majority agrees that the authorship of the term belongs to Jeff Howe [15], [16, p. 58], but, on the other hand, there is point of view that the author is Michael Sullivan [17]). However, the phenomenon of crowdfunding has much longer history. For instance, there are a number of architectural monuments, which were built by donations, in particular, the Cathedral of Christ the Savior in Moscow, the construction of the Statue of Liberty in New York, Sagrada Familia in Barcelona and etc. However, crowdfunding mass-adoption has grown simultaneously with advent and development of the Internet. The first example of internet crowdfunding is funds collection to organize a tour of rock band Marillion. In 1997, without any involvement of the band itself, fans of the band organized and conducted an online fundraising campaign to finance the band’s US musical tour. They joined forces to raise more than 60 000 USD. Since then, the band used this method to tour and records several more times [18, p. 302].

In 1999, the freelance association from the United Kingdom (The Professional Contractors Group), which was established online, collected 100 000 pounds for 5 days to carry out its professional activities as a public organization.

The US ArtistShare Company (2000/2001) was featured as the first music crowdfunding site. Then the website for the film industry was appeared, namely the website FilmVenture.com was founded in 2002.

As the result of crowdfunding successful application in the area of non-commercial cultural and social projects, crowdfunding becomes widespread in the area of financing start-ups and the local businesses.

In April 2012, the then US president, Barack Obama signed a new law, namely JOBS Act (Jumpstart Our Business Startups Act), which legalized such crowdfunding type and allowed startup companies to raise up to one million USD with it without any paper and registration for the sale of shares that they needed before [18, p. 302].

Further crowdfunding development was facilitated by social networks and particular websites. However, the general reason for the crowdfunding foundation and widespread is connected with the following prerequisites:
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– reluctance to deal with traditional financial intermediaries due to services high cost, funding limitation and significant transaction costs;
– development of information technologies and communication facilities;
– the emergence of stakeholders, which are interested in new ideas search for further investing, as well as those who needed to finance projects that could not be interesting for traditional investors.

Thus, generally, crowdfunding (the combination of two words — crowd and funding) can be explained as «public funding» or «funding by a group of stakeholders». There are wide ranges of crowdfunding concept definitions, highlighted by scientists and experts.

In particular, N. Omelchuk provides crowdfunding definition as a mechanism to raise funds in order to implement a product, conduct an event, help those who is in need, support business, etc. [19]. At the same time, the author does not provide information on such mean peculiarities.

J. Howe defines crowdfunding as a type of people (donors) collaboration who voluntarily combine their money or other resources, mainly using Internet, to support the other people or organizations (recipients) efforts [20, p. 12]. Despite the fact that this definition is wider than the previous one and represents a general idea of crowdfunding, the nature of the «efforts», to achieve which the funds are collected, remains still unclear.

In Merriam-Webster online vocabulary crowdfunding is defined as the practice of obtaining needed funding (as for a new business) by soliciting contributions from a large number of people especially from the online community [21]. In this case, crowdfunding is also considered as a kind of activity. However, the principles of its implementation are not clarified.

P. Belleflamme, T. Lambert and A. Schwienbacher describe crowdfunding as an open mainly online competition to provide financial resources either in the form of donations or in exchange for a future product or in other form of compensation to support initiatives for achieving specific goals [22, p. 8].

J. Hemer proposes the similar definition with addition that financial resources provision takes place either in the form of donations (without requirements) or in exchange of a certain compensation form or voting rights to support initiatives for achieving specific goals [23, p. 8].

A. Lay and S. Weaven examine crowdfunding as the possibility of venture projects financing and defining it as an increasing on-line trend, repre-
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senting a new potential capital pool as a resource for startup projects share
capital formation [24, p. 86]. In accordance with such approach, crowdfund-
ing is exclusively defined in relation with venture projects. However,
the real area of crowdfunding use is much wider.

This research is aimed to investigate whether crowdfunding is able to
be considered as an innovative financial mean. Meanwhile, crowdfunding
has to be understood as financial assets variety in the market circumstance
that are legal requirements of these assets owners for obtaining certain fu-
ture income (as a rule, in cash) and through which operations are carried
out in the financial market.

The answer to this question is affirmative because:
– using crowdfunding attracts cash flows, which move financial re-
sources from one economic entity to another; thus, the crowdfunding is
involved within the national income reallocation;
– in situation, when crowdfunding is not carried out on a free basis,
but involves a certain form of income for the project donor, we are able to
talk about the emergence of the financial obligations to the project initiator
and financial asset for the person who has allocated funds for project im-
plementation.

Taking into account the above mentioned researches and also under-
standing the main crowdfunding features, we propose to consider it as fol-
lovs: this is an innovative financial mean that allows to attract funds from a
group of individuals and / or legal entities (donors) using IT instruments on a
voluntary, time limit and possible payment basis to finance a specific business,
political, social, creative or environmental project initiated by other econom-
ic subjects (project initiators). In contrast with already existing approaches
to understanding crowdfunding, this definition identifies it as a financial
mean, which allows us to define the requirements to crowdfunding and
identify its role in financial resources attracting that are necessary for SMEs
development.

The rapid development of crowdfunding causes the emergence of its
numerous types, which composition needs to be ordered due to differences
in scientific classifications.

Most authors distinguish crowdfunding types based only on one clas-
sification, namely depending on the reward for the participants ([15], [16,
p. 59], [25, pp. 174-176]. However, under the current conditions, this fi-
nancial instrument becomes much more complicated that causes the emergence of other classification features.

In accordance with our point of view I. Vasylchuk offers the most complete classification, but she uses the term «forms» instead of «types» that is not reliable. After supplementing and clarifying the above mentioned classification we obtained the following structure of crowdfunding types (table. 1):

**Classification of crowdfunding***

<table>
<thead>
<tr>
<th>Crowdfunding features</th>
<th>Types</th>
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| Depending on the reward form for the donors** | 1. Donation-based (sponsorship), in which people do not receive any reward  
2. Investment-based, in which people receive reward:  
  2.1. non-financial, where donors receive goods or services in exchange for their contributions;  
  2.2. financial in form of:  
    2.2.1. share of income from the financed project  
    2.2.2. capital share ownership  
    2.2.3. income as the percentage for credit, granted for the project |
| Depending on motivation of project initiators | 1. Non-profit projects  
2. Profitable projects  
3. Intermediate projects |
| Depending on the way of donors’ participation in the project | 1. Donations  
2. Active investment  
3. Passive investment |
| Depending on the initiative nature and the level of projects implementation | 1. Projects of operating companies  
2. Startup projects  
3. Independent, individual projects |
| Depending on the project purpose | 1. Business project  
2. Social project  
3. Political project  
4. Ecological project  
5. Creative project  
6. Other projects |
## Chapter 1. Modern and traditional instruments of smes projects financing

<table>
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| Depending on the legal status of the project initiators | 1. Financing of individuals  
2. Legal entities financing |
| Depending on the term of project realization** | 1. Short-term (less than one year)  
2. Long-term (more than one year) |
| Depending on the order to receive funds for project financing** | 1. Funds are attracted by pre-sale of the goods  
2. “All or nothing” — funds are provided only in case when the whole claimed amount is collected  
3. Funds are provided in the amount that was collected  
4. Funds are provided in the amount declared to be the minimum required for the project (unless the whole claimed amount has not been collected) |
| Depending on the nature of reward for crowdfunding platform** | 1. Project applications are free of charge  
2. There is a commission fee for crowdfunding platform |

* Source: compared by authors based on [7, p. 63]  
** Supplementing and clarifying by authors

The above mentioned types of crowdfunding, depending on the reward form for the donors, need further clarification.

*Donation-based crowdfunding or sponsorship* is voluntary; it is carried out on the principles of altruism and without any obligations for the recipient. This type is mainly applied to social, political and medical projects (funds collection for assistance in disease treatment or for the charitable organization activities). This kind of crowdfunding was prevailed for some time.

*Investment-based crowdfunding* is different from the previous one and provides a certain donor reward — *financial or non-financial.*

The second one is the most common crowdfunding type because of an appropriate crowdfunding platform number. This is an effective raising funds mean for each project from creative to those of complex technological products. The main feature is that donors receive non-financial reward in response to their support. This may be the first copy of a book or music album, an invitation to a concert, a mention in the titles of the film, the first
sample of the product, an autograph, etc. Furthermore, there is no additional form of economic benefit.

A special case of the non-financial reward scheme is the pre-order model. The possible reward within this concept may be a self-financed product. For example, it is a book, a movie, a music album, software or a new gadget. The authors of such projects promise to deliver the product immediately after its production. Thus, such projects donors become the primary owners of collective financing result.

The type of crowdfunding that provides the financial reward to donor has a separate name — crowdinvesting. There is a possibility to divide particular subtypes of crowdinvesting depending on the mechanism for obtaining of a financial reward:

a) The “royalty” scheme, when a donor (investor) receives a share of the funded projects income or profit. This scheme is promising, because, on the one hand, it allows keeping an element of the project ownership, and on the other hand — to provide financial motivation.

b) Joint-Stock Crowdfunding, when a donor (investor) receives as a reward a share of property, business shares, dividends or voting rights at the general shareholders meeting. In spite of its high potential, the current subtype is simultaneously the most controversial because of its effect on the organizational and legal business form. Moreover, it is associated with an increased risk for investors.

c) Crowdlending, when the project funding is based on the credit principles and the credit interest is reward for a donor. In this case, the main advantages for lenders are higher rates and credit possibility in a wide range of industries. The borrower benefits from lower tariffs and ease of obtaining a credit. The main peculiarity of the current subtype is the availability of a clear timetable for returning debts to investors. Thus, investor has in advance the whole information about the timeframe, when he receives his investments back with the specified interest. Meanwhile, donors are represented exclusively by individuals. At the same time, either individuals or legal entities can act as borrowers that make this mean especially interesting for SMEs.

Understanding the crowdfunding diversity nowadays is possible on the basis of main and the most popular crowdfunding platforms development analyze. The first of them appeared in the early 2000th and were special-
ized in supporting cultural projects, namely: ArtistShare (2001, which is engaged in music projects) and FilmVenture (2002, attracts funding for the film industry). Furthermore, there are much more such websites nowadays.

Thus, according to the World Bank study, conducted in 2013, there was a following number of investment-based crowdfunding websites in separate countries, namely: United States — 344, United Kingdom — 87, France — 53, Netherlands and Canada — 34, Brazil — 17, Spain — 27, Germany — 26, Italy — 15, Australia — 12, India — 10, South Africa and Russian Federation — 4 [26, p. 18].

The following platforms are to be mentioned among the biggest and the most popular ones:

1. Kickstarter is the most popular platform that started its activity in 2009. More than 107 thousand projects within 15 different categories for the sum of 2.5 billion USD were successfully funded during this time. Nearly 11 million people supported the projects financially. The main Kickstarter features are conditions, when only an adult person residing the USA or one of the European countries (otherwise, the intermediary will be needed) is able to initiate the project and the project will be funded only in case of the whole claimed amount collection. Kickstarter takes 5 % commission from those amounts.

2. Indiegogo is a platform, which has started its activities almost simultaneously with Kickstarter. The platform is available for each adult person, regardless of the country of residence, to register a project. The project will be funded according to one of the available and independently chosen by the project initiator schemes, namely: either funds are provided only in case when the whole claimed amount is collected or funds are provided in the amount that was collected. The platform takes 5 % commission. Currently, 10 million people have supported more than 650 thousand projects, which worth over 900 million USD.

3. RocketHub is one of the largest and the oldest among such websites. In compartment with the previous mentioned platforms, the RocketHub commission is higher and depends on either the whole claimed sum (8%) or only its part (12%) has been collected [27].

4. Ulule is the French crowdfunding platform, which supported funding of more than 4900 creative, innovative or public projects with a 67% probability of success since 2010. Ulule was the first platform that creates
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possibility to raise funds in two ways, namely: either the project manager claims an appropriate amount for the project, or pre-sale of the goods (service) has to be arranged.

5. Crowdculture is Swedish platform, which was also founded in 2010. The unusual method of financing is its feature. The project is able to attract either funds of private investors or state budget funds (part of the national cultural budget). The share of public funds depends on the number of votes collected by the project from the platform participants.

6. Goteo is Spanish crowdfunding platform, which is intended both for socially important projects fundraising and their further common implementation. Goteo has also a unique funding method. There are two rounds, each lasting for 40 days. The task of the first round is to collect the minimum amount required to start the project. The optimal amount of money to improve the project is collected during the second round.

7. Derev is the strongest interactive platform in Italy, which deals with implementing social innovation. It provides both an opportunity to raise funds for projects and a possibility to collect signatures for petitions, to order the TV time for broadcasting conversations or interviews.

8. Wemakeit is the largest creative industry platform in Switzerland, which also supports non-profit organizations, providing their projects financing and assisting their community development. The platform has supported the launch of 550 projects worth 4 million CHF during the last two years.

The previously mentioned crowdfunding platforms are the most popular on the national level, but they are not exclusive ones. For instance, there are nearly two dozen platforms in France and more than thirty platforms in the USA. And eventually, such platforms started to appear in countries of the former Soviet Union. In particular, the following examples have to be mentioned:

1. Hive (Ulej) and Talakakosht (Talaka) are the initial crowdfunding platforms in Belarus. They allow collecting funds for any charitable goals. Meanwhile, the socio-cultural direction is the most popular, including the goals, which are related to national-cultural identity.

2. YguruYogur is a new crowdfunding platform, which was founded under the Azerbaijan Youth Foundation support. The platform is focused on cultural projects [28]
3. Planeta, «Every little bit helps» (S mira po nitki), Boomstarter are Russian crowdfunding platforms, intended to support both creative and cultural projects and projects in the field of business, education and ecology.

However, there are so far only two remarkable crowdfunding platforms in Ukraine, namely: Biggggidea (Spilnokosht), which was founded in 2012 for supporting education, health, literature, music, journalism and research projects; and Na-Starte, which was founded in 2014 for projects financing in the field of culture, publishing, art and sports.

In view of all that has been mentioned so far, one may suppose that the role of crowdfunding, especially web-enabled crowdfunding, in modern society is connected with the following tasks:

- Providing SMEs with access to capital.
- Cultivating high-growth entrepreneurs in developing countries.
- Supporting access to export markets.
- Catalyzing flows of capital within and between communities, irrespective of distance.

The first task is the basic one within the context of current research, because crowdfunding appears in response to the SMEs need to obtain support. SMEs, which are simultaneously outside the area of large financial corporations interest and require considerable amount of funds to start their own business or its recovery through innovations, are significantly interested in crowdfunding potential. Moreover, the attractiveness of this financial mean is formed both under the SMEs and projects donors influence (Table 2):

| Factors of crowdfunding attractiveness for donors and SMEs as project initiators* |
|---|---|
| **Project donor** | **SME (project initiator)** |
| 1. Possibilities to invest funds directly into the production of fascinating product or innovative idea at the initial stage; 2. Prospects for a high level of return on investment; | 1. Possibilities to realize idea, to find financing outside the traditional sources; 2. Minimal expenses unless the project is able to attract enough money; lower transaction costs 3. Funds allocation speed, considering the clearly limited duration of funds collection; |
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<table>
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<tr>
<th>Project donor</th>
<th>SME (project initiator)</th>
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<tr>
<td>3. A remarkable amount of projects for investment;</td>
<td>4. The cost of resources attracted through crowdfunding is much lower than such attracted through traditional financial means (for instance, bank credit);</td>
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<tr>
<td>4. Possibility of participation with small fund amounts;</td>
<td>5. Information asymmetry overcoming and collecting information about potential and currently active donors interests;</td>
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<tr>
<td>5. A wide spectrum of branches for financing choice;</td>
<td>6. Access to possibilities for implementing innovations in their economic activity;</td>
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<tr>
<td>6. Transparency of project information, accountability and responsibility of the project initiator to the community</td>
<td>7. Promotion of own products at the initial stage of their development and production, as well as business popularization due to the successful project implementation</td>
</tr>
</tbody>
</table>

* Source: compared by authors

Meanwhile, the financial potential of crowdfunding for SMEs is limited in Ukraine. Firstly, the underdeveloped infrastructure creates the primary problem. Secondly, the low financial literacy in society causes the lack of interest from potential donors. Moreover, the lack of high-speed Internet in our country creates the difficulties for web-enabled crowdfunding development that is the most competitive nowadays. In addition, a significant number of economic entities still have some problems with online payments, in particular due to the high level of distrust for such operations. Similarly, a lot of experts consider fraud as the main crowdfunding risk, because the funds collection can be organized as a part of the criminal financial scheme instead of charitable initiative or an interesting project financing. Moreover, there is still a need to attract more attention to crowdfunding in society.

There are two main general problems, which solution provides conditions for SMEs opportunities extending through using crowdfunding for their projects funding, namely: minimizing risks and creating attractive project for investors.

The first problem solution consists of the regulatory control over the crowdfunding platforms activities strengthening. In particular, those belonging to a stock subtype are obligated to be registered as brokers / dealers. This means that the business meets formal requirements, which are
important for investors. Therefore, the uncertified platforms will eventually leave the market.

However, there are other platforms that are more suitable for SMEs. The stringent regulatory changes demotivate such platforms users and need to be relieved. On the other hand, there is a possibility to increase the quality requirements of the submitted projects, as well as requirements to the report implementation progress.

Considering the problem of potential donors (investors) interest, our attention is paid to the researches, conducted by Eric Gilbert and Tanushree Mitra. The list of the most successful phrases that contribute to raising funds was presented by them due to the survey of 45 thousand projects, placed on the Kickstarter crowdfunding platform [29].

The authors have selected 100 phrases out of the 20 thousand most commonly used ones. These phrases are considered as the most likely to guarantee the success or failure of a project. The results had been summarized by authors and the worlds were distributed within six main categories:

– Exchange — phrases that express the desire to respond mutuality to the sponsor actions (Becker): «also receive two ...», «good karma» and etc.

– Rarity, belonging to something exclusive, manifested in such expressions as «new opportunities», «to give a chance» and etc.

– Social proof — evidence, this means that people are focused on others in committing their actions, namely: «have already funded / appreciated / supported ...» and etc.

– Social identity or sense of belonging to a particular social group, including: «accessible to», «appropriate» and etc.

– Actuality, which shows the fact that entrepreneurs act in the interests of other people, satisfy their desires with their product.

– Authority is used to emphasize the expertise and effectiveness of the project decisions, including: «we are able to offer», «the project will be».

Thus, the entities involved in the project financing intent to be insured in the appropriate purpose and efficiency of their money use, including financial success of the project. There is also a need to get something in return for their money.

The results of this study indicate that crowdfunding has a potential to play the role of an innovative mean for attracting financial resources in Ukraine. In particular, the important finding is that crowdfunding is able
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to turn into an effective mean for attracting financial capital into SMEs development. The main part of crowdfunding potential is based on the aggregate savings of households that do not trust in banks and other financial institutions.

In addition, this study has been unable to demonstrate that the rapid Internet technologies improvement, including development of social networks, promotes both the emergence of new crowdfunding platforms and creates new technical opportunities for additional SMEs investment resources formation.

However, the development of a civilized crowdfunding market in Ukraine is possible only in case of its effective regulation and normalization by public authorities. In addition, the further development of such market institutionalization is also important. These results further support the idea about possible transformation of crowdfunding financial potential into the investment resource for SMEs.

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