Iuliia O. Gernego

CROWDFUNDING: WORLDWIDE CONDITIONS AND PROSPECTS FOR USE IN UKRAINE

The paper provides the reasons for crowdfunding in today’s society. The nature of crowdfunding and the main conditions for its development worldwide are defined and the attractiveness of crowdfunding in Ukraine is grounded. The major possibilities for crowdfunding development are analysed.

Keywords: crowdfunding; financing; sources of financing.

JEL: G21; G29.

Introduction. At present, there are more and more entrepreneurs who tend to develop their business and innovative activity. Therefore, they are in need of significant financial support. Particularly, small and medium-sized enterprises have found themselves in the situation of diminished access to credit. But all kinds of enterprises even under good financial standing may struggle to gain access to reasonably priced loans. In developed countries the solution of this problem can be found in many ways through online platforms, which impacts are felt worldwide.

Long ago J.A. Schumpeter (1950) spoke in a similar context of the "gales of creative destruction", which may gain foothold and begin to disrupt the established ways of doing business. In developing countries nowadays crowdfunding is one of such ways of financing, which can change traditional business management. In the context of Ukraine’s market economy development, the issues of various financing sources’ search are getting more significance for entrepreneurs.

Theoretical basis for the research. According to G. Le Bon (1895). "While all our ancient beliefs are tottering and disappearing, while the old pillars of society are giv-
ing way one by one, the power of the crowd is the only force that nothing menaces, and of which the prestige is continually on the increase. The age we are about to enter will in truth be the era of crowds”.

Nowadays (since the late 1990s) collective efforts of individuals who network and pool their resources, usually via the Internet, to support the efforts initiated by other people or organizations are defined as crowdfunding (De Buysere et al., 2012). Crowdfunding plays the role of a disruptive technology of financial intermediation, comes with a set of challenges that policy makers cannot afford to ignore. Many authors pay attention to the nature of crowdfunding and the main conditions for its use are researched in different ways (Table 1).

Table 1. **Theoretical approaches to the nature of crowdfunding, compared by the author**

<table>
<thead>
<tr>
<th>#</th>
<th>Author (years)</th>
<th>Definition of crowdfunding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>S. Moeller (2008)</td>
<td>Customers involved in crowdfunding are not only integrated in the service delivery phase, but also contribute to the design and set up of the offering.</td>
</tr>
<tr>
<td>2</td>
<td>A. Ordanini (2009)</td>
<td>The request for financial resources on and offline in exchange for a reward offered by the creator, such as acknowledgment, experience or a product. It is an initiative undertaken to raise money for a new project proposed by collecting small to medium-size investments from other people (crowd).</td>
</tr>
<tr>
<td>3</td>
<td>A. Schwienbacher, B. Larralde (2010)</td>
<td>An open call, essentially through the Internet, for the provision of financial resources, either in the form of donation, or in exchange for some other form of reward and/or voting rights in order to support initiatives for specific purposes. Crowdfunding can be viewed as combining the concepts of crowdsourcing (i.e., seeking financing from the crowd) and microfinance (small amounts contributed; no collateral).</td>
</tr>
<tr>
<td>4</td>
<td>P. Belleflamme, T. Lambert, A. Schwienbacher (2011)</td>
<td>An open call over the Internet for financial resources in the form of a monetary donation, sometimes in exchange for a future product, service, or reward.</td>
</tr>
<tr>
<td>5</td>
<td>M. Poetz, M. Schreier (2012)</td>
<td>Crowdfunding draws inspiration from the concepts like microfinance. Crowdfunding represents its own unique category of fundraising, facilitated by a growing number of Internet sites devoted to the topic.</td>
</tr>
<tr>
<td>6</td>
<td>Z.J. Griffin (2012)</td>
<td>Crowdfunding essentially involves a sequence of processes whereby the entrepreneur posts a funding request on the crowdfunding platform or website, describing a proposed project.</td>
</tr>
<tr>
<td>7</td>
<td>G. Burch, A. Ghose, S. Wattal (2012)</td>
<td>All crowdfunding transactions are facilitated through internet-based crowdfunding platforms which also provide a convenient means for all exchanges of funds.</td>
</tr>
<tr>
<td>8</td>
<td>C.S. Bradford (2012)</td>
<td>Crowdfunding can be represented in different ways according to the current situation.</td>
</tr>
<tr>
<td>9</td>
<td>O.M. Lehnera (2013)</td>
<td>In the social entrepreneurship context crowdfunding is praised in media for its multifaceted potential.</td>
</tr>
<tr>
<td>10</td>
<td>R. Wash (2013)</td>
<td>Crowdfunding can be done in many ways – via an open call on one’s webpage, through posting a notice in a public place, or through organized online marketplace called a crowdfunding website.</td>
</tr>
</tbody>
</table>
In general, we define crowdfunding as the possibility to attract financial resources of the "crowd" through Internet. The subject of this research is to investigate the main conditions for crowdfunding development worldwide, the needs and prospects for its use in Ukraine.

**Data and methods.** To achieve the goals of our analysis, we used the data of the financial surveys conducted in Ukraine and worldwide. In the context of this research the analysis means inspecting, cleaning, transforming, and modeling data with the goal of discovering useful information, suggesting conclusions, and supporting decision-making (Bihany and Patil, 2014). The data for the volume and growth of crowdfunding worldwide and especially in Europe is taken from (The Statistics Portal; The World Bank, 2013). The objects under investigation for Ukraine were the financing sources of innovative activity (The State Statistics Service of Ukraine). Such type of selection was used to show the level of crowdfunding usage abroad and the need, potential and resources for its further implication within national economy.

**Key research findings and their interpretation.** Crowdfunding is the collective effort of a large number of individuals who network and pool small amounts of capital to finance a new or existing business venture. Each campaign is set for a goal amount of money and a fixed timeframe, each day is counted down and the money raised will be tallied up for visitors to follow its success (The Statistics Portal). We analyzed the volume and the growth of crowdfunding platforms worldwide to compare it with the similar tendencies for traditional financial sources (Figures 1 and 2).

The above trends demonstrate the growth of crowdfunding’s role in the society. According to our analytical research, the first online crowdfunding project is thought to have occurred in 1997. Rock band "Marillion" were unable to afford going to tour after the release of their seventh album so American fans used the then fledgling internet to raise 60,000 USD. Although the band wasn’t involved in the first round of fundraising, they have since used the same techniques to fund successfully the production of their following three albums. The first crowdfunding platform was launched in 2001, in the next 10 years the number of platforms has grown exponentially, in 2011 452 platforms across the world gathered 1.47 bln USD (Sharma and Thakur, 2015).

Using social networks and the viral nature of the as such have raised billions of dollars in debt, equity, and donations for various projects over the past 5 years. Kickstarter, for instance, the market leader in donation-based crowdfunding, has channeled over 815 mln USD from 4.9 mln backers (29% of which have invested in more than one project) to nearly 50,000 projects throughout the world since 2009 (The World, 2013).

For the same time period we can track the tendencies of credit provision by financial sector worldwide (Figure 2).

Comparing the abovementioned tendencies of crowdfunding and credit growth worldwide, we see that the crowdfunding growth is higher, than for traditional credits. It can be used as the basis and potential for further crowdfunding use among other financial resources worldwide.

While many developing economies may have the potential to capitalize on this new funding mechanism, those that wish to implement crowdfunding need to learn from the already developed world experience in order to understand how crowdfund-
ing functions. Developing countries that manage this process successfully may be able to leapfrog the developed world, in both regulatory and economic senses, by creating conditions for early-stage finance that facilitate entrepreneurship, fostering of innovative technologies and the emergence of new competitive industries (The World Bank, 2013). Furthermore, for Ukraine crowdfund may turn to be more efficient and effective than the traditional ways of financing.

According to the State Statistics Service of Ukraine, the key share in the total expenses for innovative activities belongs to own funds of enterprises. The part of "other resources" is not considerable (Table 2).

The "other sources" volume dynamics shows that national economy has the potential for its further development (Figure 3).

Figure 1. Crowdfunding trends worldwide, constructed by author on the basis of The Statistics Portal data

According to the State Statistics Service of Ukraine, the key share in the total expenses for innovative activities belongs to own funds of enterprises. The part of "other resources" is not considerable (Table 2).

The "other sources" volume dynamics shows that national economy has the potential for its further development (Figure 3).
Further development of crowdfunding is possible under specific strategies. According to the researches of the World Bank, they can be defined as economic, social, technologies and cultural strategies. Economic strategies are represented by craft exceptions to securities regulations that allow easy registration for equity offerings, strategically tie crowdfunding to patriotic and cultural messages. Social strate-
gies are connected with top social media, experts/bloggers, "other tastemakers" communicating with audience; media and educational events building awareness; regular crowdfunding events with trusted third parties to teach successful techniques. Technological strategy means lessons learned from developed world to determine the gaps in the existing technology for online financial transactions. Cultural strategies are represented by the existing incubator/accelerator/other coworking spaces as hubs for funding innovations, fostering professional investor and consumers confidence in crowdfunding through open communication (The World Bank, 2013).

Based on the analysis of the current trends in crowdfunding, it is possible to conclude that the closed nature of investing in business will change rapidly as the social web affects the flows of both information and capital to companies. Crowdfunding offers various benefits to a large spectrum of users. This is explained by its flexibility, community engagement, and the variety of financing forms it can offer. The rise of crowdfunding as a more distributed way to form capital is aligned with changes in the flow and distribution of information and the creation of new manufacturing capabilities. Due to its limited size, crowdfunding cannot be expected to solve all financial problems on its own. But at the same time crowdfunding is an alternative form of financing that can complement traditional financing. The rate of crowdfunding growth in both developing and developed countries suggests that it is able to become a financial tool in the most countries worldwide.

References:


Стаття надійшла до редакції 23.06.2015.