

## APPLICATION OF CROWDFUNDING AS AN ALTERNATIVE SOURCE OF PROJECT FINANCING IN EU COUNTRIES - ASSUMPTIONS OF ITS DEVELOPMENT IN BOSNIA AND HERZEGOVINA AND CROATIA

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**Abstract:** A new economic trend in the financing of projects, start-ups, innovative projects and many other projects from various fields (music, film, games) is widespread today and its called crowdfunding or group financing. With the development of new technologies, and thus social networks around the world, it creates the possibility and potential advantage of associating around the world in raising funds in an alternative way. Crowdfunding can be organized in several forms or models. The basic division is the one that is carried out by the European Commission: Reward-based crowdfunding, Donation-based crowdfunding, Share-based crowdfunding and Investment-based crowdfunding. The crowdfunding market is constantly growing. As conditions for traditional funding become more stringent, crowdfunding could be a potential key to success. Prospects for the development of crowdfunding in Bosnia and Herzegovina and Croatia are reflected in the legal regulation of this method of financing, which would facilitate administrative work, reduce handling costs and create legal certainty. Following the established regulations, intensive attention should be dedicated to the promotion of crowdfunding and "raising awareness" of citizens, pointing out the possible benefits and advantages that it offers. This will take some time, so that in the foreseeable future, alternative financing of crowdfunding will

gain in importance in Bosnia and Herzegovina and Croatia.

**Key words:** Crowdfunding, financing, projects, internet platform

### INTRODUCTION

The article is segmented into three parts: In the first part, an attempt will be made to define the term „Crowdfunding“ in a more detail way with the help of relevant academic literature. The second part of the article will present the Legislation of Crowdfunding in the European Union, as well as the trend of successful implementation of Crowdfunding in the countries of the European Union, the most successful projects, campaigns. The third part of the article shows the current situation regarding the implementation of crowdfunding in Bosnia and Herzegovina and Croatia, as well as the limiting factors of implementation. A SWOT analysis will be done for Bosnia and Herzegovina and Croatia to reach a conclusion: what is the current situation regarding the implementation of crowdfunding in the two observed countries, what are the potential opportunities for its future development, as well as limiting factors for its implementation.

**SUBJECT OF RESEARCH:** Crowdfunding development trend in EU countries. Development perspectives and limiting factors for the

application of Crowdfunding as an alternative source of project financing in Croatia and Bosnia and Herzegovina

#### RESEARCH ISSUES:

1) What are the key factors of success of project financing through crowdfunding in EU countries?

2) What are the limiting circumstances and factors for crowdfunding in Croatia and Bosnia and Herzegovina?

*PREVIOUS RESEARCH:* The European Commission's (2017) report entitled "Identifying market and regulatory obstacles to cross-border development of crowdfunding in the EU" explains what are the regulatory barriers and solutions for the application of crowdfunding financing models in European Union countries. The Center for Social Innovation and Sustainable Development conducted a survey in 2014 in Croatia on "Crowdfunding in the service of social innovation." The first "Global Crowdfunding Academy" funded by the European Union was launched in Bosnia and Herzegovina, within the project "Local Integrated Development" implemented by UNDP in Bosnia and Herzegovina. The aim of this project is to educate teams to successfully run crowdfunding campaigns to raise capital to finance projects. Based on the World Bank's report "Crowdfunding's Potential for the Developing World" (2013), it is obvious that the potential chances for the application of this type of financing in developing countries and what are the limiting factors for the development of this type of financing.

### 1. Conceptual definition of crowdfunding

#### 1.1. Definition of Crowdfunding

Many definitions of the term "crowdfunding" are present in the research of the relevant academic literature. Many authors define this term as a business model for investing, but since it is a relatively new term, discussions on the definition of this term are still open. By typing the term "crowdfunding" on Google Scholar, 16,500 results were obtained (in the range from 2000-2018).

The European Commission defines crowdfunding as group funding - a call open to the general public - especially through a website - to raise funds for a specific project or business investment. In response to problems in financing start-up companies, small businesses or projects, there is an alternative form of financing, known as Crowdfunding (joint or group financing). Crowdfunding can be defined as the practice of raising funds for start-up companies or small

businesses or projects by a large number of people investing small amounts of money through social media (Facebook, Twitter, LinkedIn or specialized blogs).

This is organized as a collective effort of non-professionals who invest their finances on the basis of trust via the Internet. (Hulme M; Wright C; 2006) "This type of financing for companies that lack capital for growth and development is known as social lending." In 2006, Jeff Howe and Mark Robinson first used the term "Crowdsourcing" in Wired Magazine (2020). So Crowdfunding can be treated as a product that has emerged from the development of information technology.

#### 1.2. Crowdfunding models

Due to the different characteristics of the launched fundraising platforms through Crowdfunding, there are various divisions of Crowdfunding types or models. So there are many classifications of Crowdfunding types or models in the relevant literature. In the last few years, various approaches have been developed in the systematic definition of types of crowdfunding.

Thus Beyond Bradford (2012) points out that depending on the legal regulation, the definition of Crowdfunding classification itself depends on the researchers and practitioners. According to Bishnu, Kenji and Takaaki (2018) "Crowdfunding can be classified into two groups: the first group refers to community-based crowdfunding and the second group refers to the type of crowdfunding based on financial return".

The first group refers to fundraising through donations and awards. The second group can be divided into three categories: 1) Crowdfunding based on loans or so-called, peer-to-peer (P2P), 2) Equity-based crowdfunding and 3) Royalty-based Crowdfunding.

There are different models of Crowdfunding, so the types of activities that are undertaken vary from model to model.

The European Commission document (Proposal for Regulations of the European Parliament and the Council) (2018) lists four main categories of crowdfunding platforms or models:

- 1) Donation Crowdfunding model;
- 2) Investment-based Crowdfunding;
- 3) Lending Crowdfunding (peer-to-peer finance) model;
- 4) Reward-based Crowdfunding model.

## 2. Examples of successful implementation of crowdfunding in EU countries

### 2.1. Legislation on the application of crowdfunding in EU countries

Since three large groups of Crowdfunding models are applied in the European member states, in relation to the specifics attached to each model individually, different rules and regulations must be applied. So the general legal acts regulating crowdfunding in the EU are as follows (Linan S. 2017):

- Anti-Money Laundering Directive (AMLD);
- Rulebook on regulation of information of the one who pays, ie transfers funds;
- Rulebook on unitary patent protection;
- E-Commerce Directive;
- Directive on deceptive and comparative advertising;
- Unfair Commercial Practices Directive and many others.

Other regulations are adopted on the basis of which crowdfunding model is applied and which EU member state is in question. So this all includes up-to-date rules of the market of financial instruments such as MiFID 2, then the Directive on Alternative Investment Funds, the Directive on Payment Services and many others. Thus, all these legislative measures and regulations depend on the jurisdiction of the EU member state, their national

laws regarding possible problems of money transfer regulation.

### 2.2. Development of crowdfunding and examples of its successful application in EU countries

Young companies have limited access to funding sources. For these reasons, the highest priority of the European Commission stated in the CMU (Capital Market Union) Action Plan is to stimulate investments that will contribute to the creation of new jobs, and which will ultimately increase Europe's competitiveness.

Based on the report of the European Commission "Crowdfunding - EU market mapping and case studies" (2015), 510 Internet platforms operating in the EU were identified, with an increase in their number of 23.2% in 2014 compared to 2013. The UK has the largest number of platforms, accounting for 28% of the total EU, accounting for over 90% of the € 2 billion. Then, France, which had the largest number of platforms (77 platforms), Germany (65 platforms), the Netherlands (58 platforms) and Italy (42 platforms). Compared to other Crowdfunding markets in the world, the European alternative finance market is 6 times smaller than the US and 17 times smaller than the Asian market. Also, the rapidly growing crowdfunding market is the Chinese market, which grew by as much as 312% in 2015, exceeding \$ 100 billion.

The crowdfunding market in Europe is growing rapidly. Thus, from the initial 1,127 million euros in 2013, it increased by 151% in 2014 compared to 2013, and until 2016, according to available data, it increased to 7,671 million euros, which means that in the last shown year In 2016, the market increased almost 7 times compared to 2013.

**Table no. 1** -Crowdfunding market by transaction values in EU by country, in 2018.

Country	The value of transactions (in MIL EUR)	The number of campaigns launched (in the thousands)	Value growth compared to 2017. (%)
Germany	33,1	8,5	10,7
France	84,4	23,7	13,2
Austria	7,2	1,7	21,7
Croatia	1,2	1,1	16,6
Finland	10,8	5	26,9
Denmark	25,4	2,7	24,2
Finland	10,8	11,4	25,5
Italy	31,9	7,4	24,3
Norway	2,2	0,3	1,7
Spain	13,7	5,4	9,4
Sweden	11,8	2,5	20,2

*Source:* Authors based on available data on the site: <https://www.statista.com/>

### 3. Perspectives and limiting factors of Crowdfunding implementation in Bosnia and Herzegovina and Croatia

#### 3.1. Bosnia and Herzegovina

In Bosnia and Herzegovina, "crowdfunding" is a relatively new term. In October 2017, the project "Local Integrated Development" LIR, funded by the EU budget, and implemented by the United Nations Development Program UNDP, together with Terra Hub Croatia and AltFinLab. This is how the first "Global Crowdfunding Academy" in Bosnia and Herzegovina was founded and launched. Public call for participation in the training program related to the implementation and implementation of "crowdfunding" campaigns in Bosnia and Herzegovina. The aim of this call is to

present a new form of alternative financing of particularly innovative projects in Bosnia and Herzegovina ([www.hocu.ba](http://www.hocu.ba)). In terms of "innovative" projects, the call emphasizes (but not exclusively) those projects that are related to green energy and environmental protection, innovative start-up companies, IT and hardware solutions, etc. The popularity of crowdfunding as an alternative source of funding is growing rapidly in many countries. It can lead to the creation of new jobs in the long run. This is especially important for Bosnia and Herzegovina, which belongs to the countries of the Western Balkans, where in most countries the unemployment rates for people under the age of 25 are twice as high as the total unemployment rate.

**Table no. 2** - SWOT analysis of the application of crowdfunding as an alternative source of funding in Bosnia and Herzegovina

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>✚ Use of the Internet;</li> <li>✚ Popularity of social networks (Facebook, Instagram, LikendIn).</li> <li>✚ Young population;</li> <li>✚ The geographical distribution of the population of Bosnia and Herzegovina in the Diaspora;</li> </ul>	<ul style="list-style-type: none"> <li>✚ There is no legal regulation for implementation;</li> <li>✚ Insufficient promotion of crowdfunding;</li> <li>✚ Insufficiently developed "awareness" of the possibilities and benefits of crowdfunding;</li> <li>✚ Insufficient information regarding financing from PayPal accounts;</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>✚ The rise in living standards;</li> <li>✚ Possibility of "fast" earnings;</li> <li>✚ Possibility of obtaining capital in a cheaper way; especially for small and medium companies (which make up 87% of the total number of companies in BiH)</li> <li>✚ Financing of innovative projects;</li> <li>✚ Long-term provision of new jobs;</li> </ul>	<ul style="list-style-type: none"> <li>✚ Insufficient information about crowdfunding as an alternative source of funding;</li> <li>✚ Excessive reliance on traditional sources of financing (mostly banks / loans);</li> <li>✚ Possible "money laundering";</li> <li>✚ Asymmetric information;</li> </ul>

**Source:** Authors based on: "Crowdfunding from an investor perspective" - [www.oxera.com](http://www.oxera.com); World Bank: „Crowdfunding's Potential for the Developing World,, InfoDev 2013.

Based on the obtained SWOT analysis for the implementation of Crowdfunding as an alternative source of funding in Bosnia and Herzegovina, it can be concluded that Bosnia and Herzegovina is currently the worst country in the region in terms of the implementation of Crowdfunding. As stated, the strengths of Bosnia and Herzegovina, on which it should rely to the greatest extent, have a great influence on the developed and popular social networks that are widely used in Bosnia and Herzegovina, such as: Facebook, Instagram, LikendIn, and many others. Also, this would mean the creation of new jobs, given that the

unemployment rate in Bosnia and Herzegovina is very high, especially for younger people. Also, younger residents should raise awareness, be informed and educated about the benefits of Crowdfunding, especially through the launched Crowdfunding academies in Bosnia and Herzegovina. On the other hand, the biggest current problem, is the limiting factor of Crowdfunding application, is certainly the lack of any legislation that would include certain Crowdfunding models and be harmonized with the country's jurisdiction, but also harmonization with European Union legislation and regulations. All

the threats that exist in connection with the application of crowdfunding in Bosnia and Herzegovina can be related to the insufficient information of the inhabitants of this country, so there are numerous risks that are mostly related to the so-called. „Money laundering“, asymmetric information, etc. Also, it is important to note that the financial market of Bosnia and Herzegovina, in the capital market is very underdeveloped and shallow, which means that a loan from a bank is still almost the only source of financing for companies, individuals, projects. One of the successfully implemented projects in Bosnia and Herzegovina through the Crowdfunding platform is the financing of the opening of the restaurant "Bistro Nomie" in Sarajevo in 2017, through the GoGetFundining.com (<https://gogetfunding.com>) platform. Through this campaign, 8,000 Swiss francs were raised.

### 3.2. Croatia

The popularity of Crowdfunding is growing intensively with the appearance of the first Croatian Crowdfunding platform Croinvest.eu (<https://croinvest.eu>), founded in 2014. The founder of this platform is the Center for Social Innovation and Sustainable Development (Cedior) (<https://cedior.org>). According to the study from the Cedior (2014), 99% of the Croatian population is unfamiliar with the term Crowdfunding and its meaning. Croatia Croinvest.eu Crowdfunding platform is used to raise funds for entrepreneurial ideas, infrastructure projects and socially useful projects, which apply for EU funds.

Since 2014, about 50 campaigns have been launched in Croatia, of which 15 have been successfully implemented. The requested amount of money was 1 million euros, and 386 thousand USD were collected from a total of 6,650 investors (Rajn, 2015). In 2015, HRK 10 million was raised through crowdfunding, which is a percentage increase of 90% compared to 2014, where 63 projects were launched, and 23 of them achieved their goal. In 2016, there was a significant drop in funds raised this way (2.3 million kuna). The most successful year was 2017, in which 78 projects were launched through the Indiegogo platform, of which 26 projects raised the requested money ([www.netokracija.com](http://www.netokracija.com)). Also, the number of supporters of domestic crowdfunding campaigns in Croatia increased, reaching 13,351. The campaigns that were launched were mostly from the field of music and art industry. Crowdfunding platform founded and launched in Croatia in 2016 by Vipnet was called „Make the right thing“, and based on donations (<https://cinipravustvar.hr>). In 2017, the Croatian Crowdfunding platform Croenergy.eu (<https://croenergy.eu>) was established, which is also based on donations. One of the successfully realized projects through Crowdfunding in Croatia was the campaign for the Baggizmo project, which was realized through the Kickstarter platform (<https://kickstarter.com>). Through this successful campaign, \$ 44,120 of the requested \$ 35,000 was raised. In 2014, the book "1000 Days of Spring" by Tomsilav Perk was financed through the Indiegogo platform, where 13,133USD was collected ([www.indiegogo.com](http://www.indiegogo.com)).

**Table no. 3** - SWOT analysis of the application of crowdfunding as an alternative source of funding in Croatia

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>✚ Developed social networks;</li> <li>✚ Young population;</li> <li>✚ Many successful project campaigns were conducted in a short time;</li> <li>✚ Initiated directives for legal regulation of this type of financing and harmonization with the EU;</li> <li>✚ Crowdfunding Academy established as the main promoter and educator of Crowdfunding;</li> </ul>	<ul style="list-style-type: none"> <li>✚ Insufficiently legally regulated way of financing; This would be a key weakness and obstacle to the development of crowdfunding in Croatia;</li> <li>✚ Insufficient number of domestic platforms;</li> </ul>
OPPORTUNITIES	THEREATS
<ul style="list-style-type: none"> <li>✚ Development of new domestic crowdfunding platforms;</li> <li>✚ Increased popularity among the population (especially younger);</li> <li>✚ Promoting the tax relief;</li> </ul>	<ul style="list-style-type: none"> <li>✚ Giving priority to financing through loans (banks);</li> <li>✚ Excessive bureaucratization - procedures and regulations during the launch of the campaign, its implementation and the implementation of the project;</li> <li>✚ Tax policy;</li> <li>✚ Possible "money laundering" and fraud;</li> </ul>

*Source: Authors based on: World Bank: "Crowdfunding's Potential for the Developing World" InfoDev 2013. Hrvoje Hafner: "Guide to Crowdfunding"; SMART Civil Society Development Association; Rijeka; 2017*

A SWOT analysis for Croatia regarding the implementation of Crowdfunding indicates that although Croatia is a member of the EU, it is far from other EU member states in terms of the implementation and regulation of crowdfunding. This means that this is the biggest weakness in terms of the current situation regarding the application of crowdfunding as an alternative source of funding. At the moment, there are no legal regulations in Croatia that specifically refer to the regulation of crowdfunding, not a special legislative body that deals specifically with these issues, unlike other EU countries. What is currently very positive is that despite this fact, many successful crowdfunding campaigns have been launched in Croatia, which would mean that there is some information about the benefits of financing through various models of crowdfunding. Also, what is positive and at this moment is a strength for Croatia regarding the implementation of Crowdfunding is certainly established Crowdfunding Academy as the main promoter and educator. A positive fact is certainly the existence of domestic Croatian crowdfunding platforms, but their number should increase in the near future. Also, a number of directives have been launched, which in part directly and specifically regulate crowdfunding and which have been incorporated into Croatian legislation. The Croatian Financial Services Supervisory Agency (HANFA) is responsible for implementing these actions ([www.hanfa.hr](http://www.hanfa.hr)).

## CONCLUSION

Available relevant data obtained from the various researches and reports of many institutions of the European Union are presented the development and growth of the Crowdfunding market in the European Union. As Crowdfunding was first presented in Bosnia and Herzegovina in 2017, the term itself is unknown among people. Based on the SWOT analysis for Bosnia and Herzegovina, it is concluded that due to insufficient promotion and the unknowns that this method of financing brings, it is currently not successfully applied in practice. What would be a key limiting factor is certainly the absence of any form of legal regulation. The perspective for Bosnia and Herzegovina, regarding the implementation of crowdfunding would certainly be the fact that social networks are widely used, as well as the distribution of the population of Bosnia and Herzegovina throughout the diaspora. On the other hand, although Croatia is a member state of the European Union, there are numerous problems related to the successful implementation of this type of financing. Based on the SWOT analysis, it is clear that, as in Bosnia and Herzegovina, the problem is related to the lack

of any legislation that would include crowdfunding in Croatia. What is a positive fact in this regard is certainly the initiatives launched by HANFA (Croatian Financial Services Supervisory Agency) in relation to this issue. Prospects for the development of crowdfunding in Bosnia and Herzegovina and Croatia are reflected in the legal regulation of this method of financing, which would facilitate administrative work, reduce handling costs and create legal certainty. Following the established regulations, intensive attention should be paid to the promotion of crowdfunding and "raising awareness" of citizens, pointing out the possible benefits and advantages it offers.

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## SUMMARY

With the development of modern technologies in the 1990s, the expansive development of the modern form of crowdfunding began, with the launch of an internet platform to raise funds to finance various projects through campaigns. The European Commission document (Proposal for Regulations of the European Parliament and the Council) from 2018 lists four main categories of crowdfunding platforms, ie models: 1) Donation Crowdfunding model; 2) Investment-based Crowdfunding model; 3) Lending Crowdfunding (peer-to-peer finance) model; 4) Reward-based Crowdfunding model. Compared to other Crowdfunding markets in the world, the European alternative finance market is 6 times smaller than the American market, and 17 times smaller than the Asian market. Also, the rapidly growing crowdfunding market is the Chinese market, which grew by as much as 312% in 2015, exceeding \$ 100 billion. Based on the obtained SWOT analysis for the implementation of Crowdfunding as an alternative source of funding in Bosnia and Herzegovina, it can be concluded that Bosnia and Herzegovina is currently the worst country in the region in terms of the implementation of Crowdfunding. A SWOT analysis done for Croatia regarding the implementation of Crowdfunding indicates that although Croatia is a member of the EU, it is far from other EU member states in terms of the implementation and regulation of Crowdfunding. Prospects for the development of crowdfunding in Bosnia and Herzegovina and Croatia are reflected in the legal regulation of this method of financing, which would facilitate administrative work, reduce handling costs and create legal certainty. Following the established regulations, intensive attention should be paid to the promotion of crowdfunding and "wake up call" of citizens, pointing out the possible benefits and advantages it offers.