

## **Crowdfunding and Entrepreneurship in the Western Balkans**

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### **Abstract**

The Western Balkans are former communist countries which have made the transition to capitalist economies. As part of this they continue to develop their entrepreneurial ecosystems to support private business and innovation. The region overall has a relatively high level of entrepreneurship which has led the Western Balkans to be labelled as the next frontier of start-ups in Europe. However, previous research has identified that challenges in obtaining finance, the need for high collateral, high interest rates and banks' inexperience of lending to start-ups has been a constraining factor in the region. Such a scenario provides potential for crowdfunding to be a useful tool to support the financing of entrepreneurship in the region. In the light of such potential, this chapter reviews the business and entrepreneurship data in the region and explores the limitations within the current crowdfunding ecosystem in the region to espouse how the Western Balkans can utilize crowdfunding to continue and sustain economic development by supporting the financing of entrepreneurial start-ups. This book chapter posits that whilst crowdfunding could provide valuable support to start-ups in the regions, the platforms operating in the region and the ecosystem is currently underdeveloped.

### **Keywords**

Western Balkans, Crowdfunding, Entrepreneurial Finance, Entrepreneurship, Innovation

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## **Introduction**

The impact of the Covid-19 pandemic on the economy has been unprecedented. Companies have experienced a reduction of their headcounts as per an increase of redundancies (OECD, 2020a) due to the sudden lack of liquidity that entrepreneurs have had to cope with, which caused a dry-up of sources of finance. As a consequence, many economies have been experiencing a harsh depression (IMF, 2020).

Despite the fast-moving scenario through which we are living preventing us from having a clear picture of the future, it has started to become clear that there will be a world prior to Covid and a world after Covid, a pre and a post pandemic. This is a strong indicator that some patterns have become outdated. Since the more the societal patterns have become obsolete, the more the need for entrepreneurship (Etzioni, 1987). Business creation in general, and innovative entrepreneurship in particular (Szabo & Herman, 2012), represents the way forward for societies to adapt to change and foster economic recovery. Indeed, gaps in economic development can be explained by disparities in innovative entrepreneurship. Yet, whilst in countries where entrepreneurship is embedded in the culture, like the US, a new wave of business creation is likely to sustain the economic recovery (IMF, 2020); in many other economy's projects have meanwhile been aborted due to the steep decline of equity investments thus confirming a contraction in the generation of new business (Beauhurst, 2020). This would add to the toll already paid by weaker economies with the likely consequence of having a disengaged entrepreneurial community (Davidsson & Gordon, 2016) and the risk, faced by many communities, to go through an entrepreneurial challenge which would foster the economic decline.

Among the latter, with a particular focus on Europe, one of the most interesting cases is that of the Western Balkans where literature is limited but would benefit from being further advanced as access for pre-seed stage companies to funding is very limited whilst the entrepreneurial potential of the area is high. The OECD (2020b) has advocated for governments in the region to remove bottlenecks to private sector growth (OECD, 2020b). In the context of the Covid-19 pandemic and beyond, such a combination could become a winning one to foster private growth at a time when the immediate fiscal stimulus, which has contained the recessive impact of the virus, has run out of steam. Indeed, due to the massive economic packages in 2020, according to the World Bank (2020), the deficit will increase from 4 to 10 percent of GDP for the countries of the area. Therefore, rebuilding fiscal sustainability to restore the macroeconomic stability is one of the top priorities for the regional governments which should be part of a broader strategy directed at promoting a resilient recovery, that is, one capable of

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absorbing future shocks. This should include the reform of structural weaknesses (e.g., infrastructures, access to capital, digitization) of the area to create conditions for accelerating private growth and job creation. In this perspective, the promotion of actions directed at facilitating access to alternative capital for entrepreneurs in their pre-seed phase, like crowdfunding, would be crucial to ensure a variety of supply channels beyond the traditional ones like banks. This would equip entrepreneurs with a wealth of opportunities to close the funding gap and get their business projects off the ground. Indeed, such transition economies can present great entrepreneurial opportunities for new entrepreneurs and entrepreneurial businesses, who can exploit changing customer demands and economic liberalization (Bell & Pham, 2020).

Within this type of context, unique institutional and cultural differences can exist, influencing the entrepreneurial and innovation systems (Bell et al., 2019). As such, entrepreneurs and businesses in these economies often behave differently (Ratten et al., 2017) and would benefit from different levels and types of support. For example, new programmes like, for example, the Closing the Innovation Gap Accelerator facilitated by the World Economic Forum, the EBRD Star Venture programme, the TechBoost programme initiative to support Western Balkan startups in tech, the Workshop Entrepreneurship & Innovation Lab, the Yunus Social Business Balkans, and many others would constitute a boost for the economic development of the area (Cracolici, 2020; World Bank, 2020).

Despite the numerous entrepreneurial financing opportunities crowdfunding could bring to the Western Balkans there remain numerous challenges. Cullman (2018) speculated that the number one challenge for Entrepreneurs is access to finance, and this is the same across all six countries which form the Western Balkans, as only 22% of young people have access to private capital. This is particularly pronounced in Bosnia and Herzegovina, where youth access to finance for entrepreneurship stands at 8%, the lowest amongst the countries of the area. Moreover, this aspect is accentuated at times of crisis when the obstacles faced by nascent entrepreneurial projects become even greater (Brown et al., 2020).

This book chapter seeks to review the business and entrepreneurship data in the region and explore the limitations within the crowdfunding ecosystem to espouse how the Western Balkans can utilize crowdfunding post-Covid to continue their economic development by supporting entrepreneurial and start-up financing. From the analysis of the crowdfunding in the Western Balkans future directions and avenues for research will be presented. The next section will present a background to the Western

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Balkans and the individual countries in the region. Following this a review of the literature, the methods adopted, and the results will be presented. Finally, the chapter will conclude with a conclusion which presents a series of recommendations for the policy makers and avenues for future research.

### **Background to the Western Balkans**

Whilst ten countries are located on the Balkan peninsular, the six countries of Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia are commonly referred to as the Western Balkans. The Western Balkans have been recognized as having a ‘European Perspective’ and have been identified as having a common future as EU Member States (EU, 2021). As such, many EU businesses and investment platforms extend their services into the Western Balkans. The main exports from the Western Balkans include machinery and appliances, base metals, and chemicals (EU, 2021). The Western Balkans have been posited as the next frontier for European start-ups as development continues to shift East across Europe (Cullmann, 2018). The six Western Balkan countries will now be briefly discussed.

#### *Albania*

With a population of circa 3 million people, in 2019 Albania reported a GDP annual growth rate of 2.24% and a percentage of unemployment of 5.83% (CIA World Factbook, 2021). The start-up ecosystem in Albania suffers from a slow development. The main reasons for this are common to the other countries of the region including a lack of coordinated national development policy, a weak stakeholder ecosystem, and the lack of access to financial instruments especially at a pre-seed and seed stage. On top of this there emerges the scarcity of supporting services to support entrepreneurship, like incubators and accelerators, due to a lack of demand. Nevertheless, events targeting entrepreneurs exhibit a willingness to promote entrepreneurship in the area as a driver of economic development, even though the government is perceived as passive (Startupeurope Network, 2021).

#### *Bosnia & Herzegovina*

With a population of nearly 4 million people, in 2019 Bosnia & Herzegovina had the highest level of unemployment in the region standing at 33.28% and GDP growth stood at 3% in 2017 (CIA Factbook, 2021). From an entrepreneurial perspective, Bosnia & Herzegovina remain a question mark in many aspects. For instance, if on the one hand the Country is seen as promising when looking at its

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entrepreneurial growth potential over the next decade, on the other it is not clear which direction this will take. At the moment, with the exception of the IT segment that represents the majority of new ventures, other start-ups are considered to be copies of Western existing start-ups. This constitutes a critical aspect, as the competitiveness of the market would ultimately depend on the innovativeness capabilities of its new ventures. On top of this, legislative barriers risk hindering the development of the local start-up ecosystem, spanning from a lack of incentives for private investors to flexible work legislation (Startupeurope Network, 2021).

### *Kosovo*

With a population of just under 2 million people, in 2017 Kosovo had the second highest level of unemployment in the region at 30.5% and a 3.7% GDP growth rate (CIA World Factbook, 2021). The start-up scene in Kosovo is a work in progress. If on the one hand the IT sector is contributing to the growth of the Country, on the other hand the lack of infrastructure and educational support still prevents a start-up ecosystem to emerge. However, the emergence of a start-up culture underpins the development of the awareness around the formation of new ventures. Nevertheless, the lack of access to finance, the lack of institutional pro-activity, and the lack of freedom of movement due to visa restrictions still constitute important barriers to future development. (Startupeurope Network, 2021).

### *Montenegro*

With a population of circa half a million people Montenegro is the least populous country in the region. It reported GDP growth of 4.3% in 2017 and an unemployment rate of 15.82% in 2019, which are some of the most positive figures in the region (CIA World Factbook). The startup ecosystem of Montenegro is still developing. The IT sector is the most common sector for new ventures, and this is largely focused on the service sector, which reflects the general trend of the economy transitioning to a service-based economy. Players lament a lack of policy support, which is limited to general guidance and recommendations with no specific measures influencing the emergence of an ecosystem. For example, investment in innovation accounts for only 0.4% of the Country's GDP, a thing which denotes scarce attention to the entrepreneurial development of the area. On top of this, the main barriers include a weak education system along with the absence of a network of private investors such as angels and institutional investors like venture capitalists (Startupeurope Network, 2021).

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### *North Macedonia*

With a population of over 2 million people North Macedonia reported no growth in GDP in 2017 and an unemployment rate of 17.29% in 2019 (CIA World Factbook). The North Macedonian start-up ecosystem is the smallest one in the Western Balkans group. From a general perspective it seems there is potential as the area produces robust ideas. Nevertheless, it seems that there is a difficulty in transforming those ideas into products. There are apparently a few reasons for this. The first one is inadequate support from business education which does not go beyond the basics. Second, from a regulatory point of view, there is not a specific legislative framework focusing on start-ups. Thirdly, in common with other countries in the region there is a lack of private investment and this is not incentivized. Fourth, in common with other nations of the area, brain drain is one of the main issues that government needs to cope with as people from the younger generation tend to leave the Country to make a better life elsewhere (Startupeurope Network, 2021).

### *Serbia*

Serbia is the most populous country in the Western Balkans with a population of nearly 7 million. Serbia's GDP grew 4.18% in 2019 and the country had an unemployment rate of 14.1% in 2017 (CIA World Factbook). Serbia represents the forefront of the startup scene in the Western Balkans. One of the reasons for this has been a specific focus from the government aimed at fostering the creation of new business. For example, 2016 was proclaimed as The Year of Entrepreneurship and this helped to promote the startup culture in the area. In addition, the National Youth Strategy 2015-2020, Support of SME and Competitiveness Strategy 2015-2020, Science and Technology Development of Republic of Serbia Strategy 2016-2020, IP Development Strategy, and IT Development Strategy, have been ad hoc initiatives designed to foster the entrepreneurial culture in the country. However, what still prevents such an ecosystem from thriving is the lack of access to private funding as only 10% of funding comes from private capital. This in turn affects the capacity of Serbia to internationalize as per the cost barriers represented, for example, by the high costs of market research (Startupeurope Network, 2021).

### *Western Balkans Summary*

The Western Balkans represents an interesting region and case for study of crowdfunding development as they are often considered the next frontier for start-ups in Europe (Cullmann, 2018). Table One provides a summary of the latest key economic indicators of the six Western Balkan

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countries, whilst Table Two presents business and start-up numbers based on the World Bank’s definition of a start-up, for the six Western Balkan countries.

*Table 1: Western Balkans Economic Indicators*

Country	Population	Economy Size (Bn)	GDP Growth	Unemployment Rate
Albania	3,088,385	\$39.859	2.24%	5.83%
Bosnia and Herzegovina	3,824,782	\$49.224	3.0%	33.28%
Kosovo	1,935,259	\$20.396	3.7%	30.5%
Montenegro	607,414	\$13.357	4.3%	15.82%
North Macedonia	2,128,262	\$34.333	0%	17.29%
Serbia	6,974,289	\$126.625	4.18%	14.1%

Sources: CIA World Factbook (2021)

*Table 2: Western Balkans Start-Up Figures*

Country	Total Number of Firms	Number of Firms per 1000 Inhabitants	Number of New Limited Liability Start-Ups	Estimate of New Self-Employed Start-Ups	Start-Ups as a Percent of Total Firms	Ease of Doing Business Index ‘Starting a business’ Score
Albania	107,677	34.9	2,679	30,000	33.3	91.8
Bosnia & Herzegovina	66,349	17.4	2,814	7,000	14.8	60
Kosovo	37,167	19.2	3,993	4,000	21.5	95.9
Montenegro	30,286	49.9	5,686	9,000	48.5	86.7
North Macedonia	54,896	25.8	2,818	1,000	7.0	88.6
Serbia	307,807	44.1	8236	43,000	16.6	89.3

Sources: European Commission Small Business Act (2019); CIA World Factbook (2021); Authors Calculations

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At first glance, the region takes the form of a mixed bag. It is clear that whilst the Western Balkans are an effective geographical grouping, the region is not a monolith and has many economic and entrepreneurial distinctive variations. Some areas of the region see a growing number of people taking part in entrepreneurial programs and projects which are fostering a post-war economy as in Bosnia & Herzegovina and North Macedonia, others, despite an increasing interest toward entrepreneurship, are still afflicted by problems of brain drain and market size issues, as in the case of Albania. Yet, other countries, like Serbia, Kosovo, and Montenegro are the promising leaders for the economic development of the area. For example, while Kosovo ranks 40th out of 190 regarding the ease of starting a business, and Montenegro ranks second only to Estonia as per the number of entrepreneurs, a country like Serbia stands in front of the others as one of the top five countries in terms of blockchain developers in the world (Cracolici, 2020). All of the countries in the Western Balkans have a relatively high Ease of Doing Business Index 'Starting a business' Score, except Bosnia & Herzegovina. This underscores the potential for mass entrepreneurship in the region if other factors such as the nurturing and training of potential entrepreneurs and funding can be provided to support future entrepreneurs (Bell & Bell, 2016). Montenegro has a particularly high rate of start-ups in the form of both limited companies and self-employment, with Albania, Kosovo, Bosnia & Herzegovina, and Serbia all having reasonable rates of entrepreneurship. North Macedonia's rate of start-ups lags behind the other countries in the region, along with sluggish economic growth in the country. Serbia and Albania have an imbalance between self-employment and the formation of limited liability enterprises, with the former heavily outweighing the latter. Bosnia & Herzegovina, Kosovo, and Montenegro have more of a balance between self-employment and the formation of limited liability enterprises, whilst North Macedonia has greater growth in the formation of liability enterprises than self-employment. Such a situation in North Macedonia might stem from the desire to formalize business in a country where ease of business is not as simple.

Research has found that small firms and new start-ups in the Western Balkans often feel constrained financially and locked out of finance due to high bank interest rates, complex application processes and banks requiring high collateral from personal sources (Culkins & Simmons, 2019). In addition, banks often do not have experience of lending to start-ups and such financing is dealt with by retail banks rather than corporate arms, so banks find analyzing business potential and returns challenging thus hindering their willingness to lend (Culkins & Simmons, 2019).



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In summary, whilst different characteristics and dynamics persist in each country, the Western Balkans in general presents both growing interest towards entrepreneurship and future potential for innovation and start-ups, which is supported by a relatively high Ease of Doing Business Index ‘Starting a business’ score. This has helped Montenegro to generate a particularly high percentage of new start-ups, with other countries in the region following. However, financing has been put forward as one of the main challenges in the region, as banks continue to transition into the post-communist era and meet the needs of private business funding.

## **Literature Review**

Crowdfunding can be seen as a form of collaborative finance. Tapscott and Williams (2010) first introduced the concept of collaborative finance in the aftermath of the global financial crisis: “The industry needs to take stock of what happened during the crisis and work to restore the trust and confidence of investors, regulators, and regular citizens. A new movement is beginning, and it’s inspired by the public anger at a host of things, from the behaviour of Wall Street and massive bank bonuses to the widening gap between the interest rate offered to savers and the rate charged to borrowers. It’s enabled now by the growth of mass collaboration via the Internet,” (pp. 31-32). In view of this, crowdfunding has increasingly gained the attention of academics as it has become a relevant topic to investigate (Moritz & Block, 2015; Gierczak et al., 2016).

Crowdfunding has been defined by Belleflamme et al. (2013, p. 8) as, “an open call, mostly through the Internet, for the provision of financial resources either in the form of donation or in exchange for the future product or some form of reward to support initiatives for specific purposes”. In the perspective of the current chapter, it can be viewed as a process whereby people, through open calls on the web, take part in a collective action to deliver value in the interest, at least, of the co-opted crowd (Ghezzi et al., 2018). In fact, in taking place via the internet in forms of open calls through online marketplaces (i.e., crowdfunding platforms), crowdfunding has enabled people to take an active stance in the entrepreneurial process by providing the entrepreneur “ideas, feedback, and solutions to develop corporate activities” (Belleflamme et al., 2014, p. 586). In this regard, crowdfunding has emerged as a subset of crowdsourcing (Afuah, 2014) whereby the crowd of backers provides the project owner support, during and in the aftermath of a campaign, on the development of a product as well as additional information about the future demand of the goods (Eldridge et al., 2021). Both crowdfunding and crowdsourcing, in the context of entrepreneurial finance, have been seen as a subset of Fintech (Martinez-Climent et al., 2018) defined as the use of new technology to

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tap in the wealth and to raise money for business or non-business-related projects. Technology represents the key cornerstone of the concept (Brown et al., 2015). This does not constitute the only way to approach the topic, of course. For instance, others (Shneor & Torjesen, 2020) position crowdfunding at the intersection of finance, entrepreneurship, marketing, e-commerce, and social networking.

Originating in the seventeenth century, when public issues were handled through public calls, crowdfunding as we know it today took off with musicians raising money and producing their music, prior to being adopted by filmmakers and journalists (Moritz & Block, 2015), at times when the whole music industry had to change its business model in the face of an unprecedented attack from piracy (Witt, 2015). Fuelled by the collapse of the traditional financial markets due to the global financial crisis of 2008 and to overcome the close inner circle of finance (Schwartz, 2013), in a span of just a few years, crowdfunding positioned itself as a robust alternative to traditional ways of funding entrepreneurship (Moritz & Block, 2015; Huynh, 2015; Estrin & Khavul, 2016).

An emerging field in the broader sphere of entrepreneurship research within the segment of entrepreneurial finance (Landström, 2017) as it has reshaped the whole financial industry as we knew it (Bellavitis et al., 2017), crowdfunding is usually classified into four classes (Wieck et al. 2013): “donation-based”, where funders do not receive any reward; “debt-based” when funders lend money to founders in return for interests; “reward-based” when gifts are offered from founders in return for their offer; and “equity-based” where funders receive a financial compensation (i.e. equity, revenue, and profit-share arrangements) in return for their investment.

The view of crowdfunding as just a source of finance in its various forms, however, is limited in scope. Indeed, crowdfunding also encapsulates marketing and innovation-related aspects (Block et al., 2020) which makes this for entrepreneurial finance a unique tool for any entrepreneur. Indeed, by running a campaign, entrepreneurs can on the one hand introduce a product well in advance of its production thus creating awareness and initial engagement. Moreover, crowdfunding allows an entrepreneur to gather relevant information from prospective customers including features they would like to be included in their product, not to mention useful insights to define an effective pricing and distribution strategy.

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However, it would be naïve approaching crowdfunding as a panacea. Indeed, it presents drawbacks that must be carefully managed. For example, especially in its equity form, the massive presence of information asymmetries and herding behaviour (e.g. Agrawal et al., 2013; Åstebro et al., 2018) represent important drawbacks to take into consideration from both an entrepreneurial and a regulatory perspective. That is why some refer to equity crowdfunding as an investing environment characterized by a high potential for frauds and scams (Kim & De Moor, 2017) so that researchers question whether equity crowdfunding is, in the end, a market “existing only for low-quality start-ups and foolish investors,” (Ibrahim, 2015, p. 564). For example, Walthoff-Borm et al. (2018), concluded that, in line with the pecking order theory according to which a company first prefers internal sources of finance prior to the use of external finance, companies that access equity crowdfunding use it as a last resort. In other words, ventures raising funds via equity crowdfunding are the riskiest ones. This could complement the view proposed by Belleflamme et al. (2014) who claim that the very reason why entrepreneurs prefer crowdfunding is the high presence of information asymmetries. For this reason, Vismara (2018) suggests that to be successful within their campaigns entrepreneurs need to reduce information asymmetries to increase levels of trust to sustain an investment decision. The clue behind this reasoning is provided by the crucial role played by retail investors in the equity crowdfunding dynamics. In other words, and arguably more in general, without project backers crowdfunding would not exist as a digital investing space. For example, Belleflamme et al. (2019) focusing on the entrepreneur-backer relationship have shown that informational and payoff externalities do shape funding dynamics and that recurrent backers are the real funding transmission channel. In turn, this aspect assumes particular relevance in light of their motivational drivers in supporting an entrepreneurial project via a crowdfunding platform. Those can take many forms including, the desire to contribute to ameliorate a specific community or society at large (Lukkarinen, 2020), a topical point in transition economies like the Western Balkans. In other words, this sort of equilibrium goes well beyond the running of a successful campaign because it is only by considering the backer that an entrepreneur can make the most of the crowdfunding activity, the added value of which is in creating a community and not just funding a business (Mollick, 2016). This has been confirmed by many best practices in the field including the case of the Scottish brewery BrewDog who, thanks to a strategic approach to community management during all the phases of their campaign, eventually managed to build a global and loyal brand community (Watt, 2015).

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All in all, crowdfunding represents a strategic device in the entrepreneurial toolkit in terms of both entrepreneurial finance and entrepreneurial marketing. But nevertheless, to make the most of its potential its risks must be carefully managed.

Having provided a succinct review of some of the main aspects of crowdfunding, the authors will now focus on the analysis of the state of the art of crowdfunding in the Western Balkans.

## **Methods**

There is currently a dearth of research into crowdfunding and entrepreneurship in the Western Balkans. Therefore, to further the literature in this area the authors applied desk research using secondary data from a range of sources to review the business and entrepreneurship data in the region, to explore the limitations within the crowdfunding ecosystem and to espouse how the Western Balkans can utilise crowdfunding to support entrepreneurial and start-up financing. The relatively high entrepreneurial potential of the countries in the region was reviewed in the previous section by calculating and analysing numerous metrics. The identification of such entrepreneurial potential, underpinned by previous research that highlighted that banks in the region had only limited success in supporting start-ups and innovation, highlights high potential for crowdfunding in the region. To review the current situation of crowdfunding in the Western Balkans and explore the limitations and potential opportunities, this book chapter reviews the operations of high-profile international platforms and whether they operate in the region, as well as indigenous platforms from the region. Reviewing whether international platforms are active in the region alongside other local indigenous platforms, and their respective scope and limitations, will provide an overview of the current crowdfunding situation. The data collected will also be analysed and used to underpin the current limitations, potential opportunities, and future research directions, to help support the development of crowdfunding in this region, which has much to gain from an effective crowdfunding network and ecosystem.

## **Results**

### *Scope of International Crowdfunding Platforms in the Western Balkans*

The major Western crowdfunding platforms currently do not accept projects seeking funding based in the Western Balkans as per their terms and conditions. This includes Fundly, GoFundMe, Indiegogo, KickStarter, Mightycause, SeedInvest, and StartEngine. These platforms filter out funding projects in the Western Balkans based on residence of individuals or business and bank account details. In some cases, it might be possible for residents of other countries to seek funding on behalf

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of individuals in the Western Balkans, but this limits the ability for most entrepreneurs in the Western Balkans to receive start-up funding from international platforms. Many of the funders are able and willing to accept investments from a wider range of countries including those from the Western Balkans. Whilst new start-ups in the Western Balkans cannot be funded through the major international crowdfunding platforms due to residency requirements, many of the platforms host projects relating to the region and missions to these countries, but the organization seeking the funding must be outside the region. Much of this is related to charity or non-profit work and does not directly support new start-ups in the Western Balkans. Many of the main international crowdfunding platforms have developed their global reach and continue to extend the range of countries where entrepreneurs can seek funding and start-up finance through crowdfunding, but this has yet to reach the Western Balkans. There could be a robust market for projects seeking investment through crowdfunding in the Western Balkans if, and when, international platforms seek to fund projects in these countries. Given the relative entrepreneurial nature of the region and ease of starting a business, it would seem logical for international crowdfunding platforms to enter these markets in the future, if they can iron out the legalities.

#### *Scope of Local and Indigenous Crowdfunding Platforms in the Western Balkans*

The analysis of international crowdfunding platforms presented in the previous section highlights a major shortage of international platforms supporting projects in the Western Balkans. There are several local crowdfunding platforms operating in the region, however, all of these have limitations and do not operate on the scale of the international platforms discussed in the section above. Table three outlines the three main local crowdfunding platforms operating the region, along with their activities and limitations.

Table 3: Local and Indigenous Crowdfunding Platforms in the Western Balkans

<b>Name</b>	<b>Country</b>	<b>Activity</b>	<b>Limitations</b>
Kosovoideas	Kosovo	Collection of funds for projects from backers and distribution to project owners  Funds raised: €290k ca.	Two legal entities created and controlled by the founders are based and registered in Switzerland

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		The company claims a 91% success rate.	possibly for tax reasons.
Catalyst Balkans	Serbia	<p>Understanding and leveraging domestic philanthropy for the social transformation of the countries of the Western Balkans by delivering the following:</p> <ul style="list-style-type: none"> <li>• A platform called Donacije.rs whose focus is on philanthropic donations (no disclosure on the amount raised so far)</li> <li>• Annual reports on philanthropy</li> <li>• Philanthropy sector news feed</li> <li>• A blog and online publication that engages no-profit and corporate philanthropy experts.</li> <li>• A knowledge bank in the form of a public database.</li> </ul>	<p>The platform is niche and is targeted towards philanthropy. Whilst it is targeting all the countries across the Western Balkans and Croatia it is not currently targeting being a mainstream platform, but rather philanthropy.</p>
Crowdfunding.rs	Serbia	Crowdfunding promotion, education, and support via a partnership with the	It does not emerge a focus on crowdfunding nor equity

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		<p>German BMZ<sup>1</sup> through the following:</p> <ul style="list-style-type: none"> <li>• Crowdfunding bootcamps</li> <li>• Crowdfunding academy</li> <li>• Support to crowdfunding campaigns on third-party platforms through which the company claim to have helped raise €50k ca. The company claims 4 successful campaigns whilst additional 6 are in the making<sup>2</sup>.</li> </ul>	<p>crowdfunding <i>stricto sensu</i> as the owner, the marketing agency Brodoto, mainly focuses on the educational side of the story.</p>
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Elaboration of the authors based on International Bank for Reconstruction and Development, 2020 verified online.

Two of the three crowdfunding platforms are based in Serbia, the largest economy in the region (Catalyst Balkans and Crowdfunding.rs), whilst the other is focused on Kosovo (Kosovoideas) but is located in Switzerland. Catalyst Balkans and Kosovoideas are most like the traditional crowdfunding platforms but are heavily focused on philanthropy and improving the region. Catalyst Balkans has a focus across the Western Balkans, whilst Kosovoideas only supports ideas that make Kosovo a better place. The focus of these two platforms on philanthropy means that these platforms are not mainstream and are targeted largely at the wealthy who want to give back to society. Such approaches seem logical in the region, but the niche focus potentially limits involvement in the platform. Crowdfunding.rs is not an active platform but designed to educate potential entrepreneurs and investors about crowdfunding and is run in collaboration with a German organization linking to a third-party crowdfunding platform. Such an education and training initiative could be useful for future

<sup>1</sup> Federal Ministry for Economic Cooperation and Development.

<sup>2</sup> 22 April 2021.

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entrepreneurs and start-ups but would appear premature given the lack of potential crowdfunding in the region. However, educating and training entrepreneurs now would support start-ups and provide ease of passage to platforms as new platforms emerge or international platforms enter the region.

It is clear, that in addition to the lack of presence of international crowdfunding platforms in the Western Balkans, the local platform and their offerings are limited. Local crowdfunding platforms in the region have positioned themselves as a philanthropic opportunity, rather than a more mainstream activity open to the masses. This quite likely reflects the limited civil society and safety nets in post-communist countries and the income inequality in the region. With regard to the state of the art of crowdfunding in the area, it could be defined as still in its awareness phase. This is the reason why there is a paucity of literature and data in this regard. This suggests that the market is still starting to form, as players in the field have been working to get the general public familiarised with the concept of crowdfunding.

#### *Crowdfunding Regulation and Technology*

Crowdfunding has not received much regulatory focus within the Balkans, most likely due to its limited presence and its focus on philanthropic investment. The World Bank (2020) sheds light on the absence of a regulatory framework. A study on fintech innovation in the region points out that, “While currently there is no bespoke crowdfunding regime in any of the countries in the region, regulators interpret existing domestic regulations differently.” The World Bank (2020) also highlighted that representatives of the Central Bank of the Republic of Kosovo were the only ones in the region to consider equity crowdfunding as a prohibited activity. Regulators in North Macedonia and Serbia are specific for having two different regulators having a different view on the permissibility of equity crowdfunding. In North Macedonia, equity crowdfunding is permitted from the lens of banking and payments regulator (the Central Bank of North Macedonia), whereas the Securities regulator considers it to be unclear. In Serbia, the opposite interpretation of existing rules was offered. “Equity crowdfunding is not disputable from the perspective of the Securities Commission, while the National Bank of Serbia has doubts over permissibility of such activity.” (Odorović et al., 2020, p. 39). The regulation of crowdfunding in the Western Balkans is currently relatively relaxed, however growth in its use and application in the region might spark more focus and rethinking when it comes to its regulation. The movement to effectively decentralise finance and funding of private business in the form of crowdfunding in former communist countries could still present some challenges to both the political system and society in the Western Balkans.



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With only limited crowdfunding platforms operating and start-ups receiving funding in the Western Balkans no novel technology to support this has emerged. If crowdfunding was more common in the region there could be greater potential for technological innovation and localisation. However, this is yet to be achieved but could evolve in the future if crowdfunding takes off in the region.

#### *Analysis of crowdfunding in the Western Balkans*

Existing players are acting as promoters of the crowdfunding culture in a development stage which can be defined as awareness with the aim of stimulating general interest. This represents a pivotal activity to help people familiarise themselves with this new kind of tool and to increase the demand for such a financial service. Moreover, they have been delivering on an important educational function. As seen above, one of the missing links to favour the development of a proper start-up ecosystem is the lack of adequate forms of education which would go beyond the basic business education. In this regard, having in place a system which educates young start-uppers and potential entrepreneurs on how to use crowdfunding to launch their business is of the utmost importance for the environment.

With a particular focus on the area, the World Bank (2020) highlighted that the regulatory obstacles have made it difficult to set-up an investment mechanism to support firms, including private equity and debt, venture capitalists, angels, and crowdfunding platforms. More in particular, despite some forms of private investment above mentioned, “for young, innovative firms at the pre-seed stage, access to funding and advisory support is limited, as are the possibilities for attracting private investment through, for example, crowdfunding or business angels. In the Western Balkans, firms at this stage fund their activities primarily from savings, friends and family, employment agency grants, refundable grants, or pre-investment support from government agencies.” (World Bank, 2020, p. 2). Moreover, a lack of harmonization of regulatory frameworks among the Countries of the area would put an additional burden to an already jeopardised context with the likely consequence of not keeping a unique direction thus affecting the effectiveness of future interventions. An additional element of weakness emerges from the inconsistencies of data, a thing which prevents further analysis. For example, whilst there is a small amount of data on reward forms and donation-based forms of crowdfunding, data on debt-crowdfunding (i.e. lending) “does not seem to be available.” (International Bank for Reconstruction and Development, 2020, p. 44). A similar situation, to the best knowledge of the authors, can be reported with regard to the equity crowdfunding segment with the

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exceptions of 2 licensing applications reported by the Central Bank of Serbia (International Bank for Reconstruction and Development, 2020).

In the context of the Western Balkans the levels of information asymmetries are high, a situation which poses several issues for retail investors to make investment decisions, as they are not able to make a proper evaluation of the promoted project. In other words, to make equity crowdfunding a success, transparency has to be taken into account to favour a transparent system to emerge so that retail investors can feel confident, and the entrepreneurs can raise funds for their new ventures. In practical terms, borrowing from Odorović et al. (2020), existing regulatory frameworks should be reviewed positing top priority investor protection safeguards by addressing the loopholes in existing regulations.

All the above, if on the one hand raises questions as to how crowdfunding can be supported to sustain an effective financing of new business, on the other hand has disclosed massive opportunities. As the World Bank suggests, the region should equip itself with a legal structure for crowdfunding which should adhere to the best international practice. In this regard, the new regulatory framework designed by the European Union should constitute the blueprint to refer to. This is of the utmost importance in view of the fact that local entrepreneurs should be allowed to access additional resources for their businesses, whilst investors need to be protected against the risks involved in such a digital fundraising environment.

### **Conclusions and Implications**

Crowdfunding is an emerging form of entrepreneurial finance which constitutes an additional source of finance for entrepreneurs. Due to its grassroots nature, it also represents an opportunity for transition economies to bring dynamism from the bottom up. However, crowdfunding still presents drawbacks which have to be managed in order to maximise its potential and this is of pivotal importance in the context of transition economies where the market is developing. In other words, bad rules could break the market. The analysis of the start-up figures and the need for more funding in the Western Balkans highlights the potential value of crowdfunding in the region. However, international players are largely absent and do not directly fund residents and business in the Western Balkans. However, with the combination of relatively high levels of entrepreneurship and ease of starting a business, the Western Balkans could be an attractive market for international crowdfunding platforms to expand into. This could also be supported by initiatives focused on crowdfunding

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training for potential and future entrepreneurs. Whilst there are a limited number of local crowdfunding platforms operating in the Western Balkans these are not targeted at the masses but rather philanthropy, this could be a decision related to relatively high levels of income inequality but could potentially present investment into start-ups as an activity only for the wealthy and elite. Despite this, there could be potential for international crowdfunding platforms to accept projects from residents and new start-ups located in the Western Balkans, which international investors are engaged with and willing to support. Expat communities originally connected to the region but now based overseas, could be a potential target as investors.

Whilst there is a need to introduce regulatory frameworks to allow entrepreneurs to crowd-in the resources required to encourage start-ups (World Bank, 2020), there also needs to be a robust regulation framework. Such a framework needs to ensure that the protection of the investor is at the top of the agenda to avoid disappointed investors from ceasing to invest (Belleflamme et al., 2019). However, such is the limited development of crowdfunding in the Western Balkans, the responsible parties in these countries are yet to set regulation out. This will allow these governments to follow existing regulation developed in other countries but will need tailoring to the region and its start-ups and investors.

All the above, which constitute only the first step towards a more extensive investigation which should mirror the development of the market which is currently in its very early stages, points out how in the current economic context entrepreneurial communities could constitute a real added value to foster the creation of new business and economic development in a region, the Western Balkans, that has been so far deprived of the new opportunities coming from already existing technology, despite its potential for being the start-up hub of the future in Europe. However, it also sheds light on the risks that need to be carefully managed to avoid undermining this effort, spanning from the risks associated to the entrepreneurial process per se and the ones related to the behaviour of the crowd in making investment choices where irrationality can play a big part. However, this represents only one side of the story since local governments should act to address infrastructural issues which could underpin these new opportunities. One of those is represented by the need to foster a digital transition of the region. In this regard, in their journey towards their full European citizenship, Western Balkans' governments should favour such a convergence by favouring internal collaboration among the local governments and by making the most of the recently adopted Economic and Investment Plan for the Western Balkans (European Commission, 2020a) whose €9 billion of grant funding, aimed at

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investments and providing support to competitiveness and digital transition, would “support the development of connected, competitive knowledge-based, sustainable, innovation oriented and thriving economies in the Western Balkans, with an increasingly dynamic private sector.” (European Commission, 2020b). To support such an effort of local governments in creating an entrepreneurial-friendly environment (i.e., entrepreneurial ecosystem), of interest would be further research addressing how government policy and support can encourage and promote an crowdfunding ecosystem for fostering and sustaining venturing. Additionally, training for potential entrepreneurs could help improve their chances of receiving funding. However, the development of ecosystems and training should be tailored to the context to maximise its benefits (Bell, 2019).

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