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## **Crowdfunding Financing as an Alternative Way of Financing Small and Medium Sized Enterprises of the Republic of North Macedonia**

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### **Abstract**

Since the emergence of major economic crises in the world, funding has become one of the most current research topics. In developed and underdeveloped economies, SMEs play an important role for the whole economy. The biggest problem facing SMEs is the lack of cheap alternative funding sources. The paper will analyze group or crowdfunding financing as a new potential for alternative SME financing in the Republic of North Macedonia. Crowdfunding means finding funding through social platforms from the public or a group of people who want to fund a particular project or innovation. This type of funding means a modern source that has emerged as a result of the development of technology and result of the increase in the use of the Internet and social platforms. In the Republic of North Macedonia, especially SMEs, except for traditional sources of financing, have no alternatives for financing business activities. SMEs in our country in most cases finance their activities through their own savings, loans from their families and friends and from banks. The underdevelopment of the financial sector and the lack of sufficient collateral by SMEs are forcing managers to use these traditional sources of funding. Especially in developed countries, one of the alternative sources of funding especially for start-ups is crowdfunding. During 2019, the Macedonian Stock Exchange of the Republic of North Macedonia took a step to offer a new alternative source of funding through the FOUNDERBEAM crowdfunding platform.

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The research paper examines the theoretical framework and the way group funding works, will analyze the operation of several social platforms around the world and will ultimately provide a case study of Founderbeam platform that is offered by North Macedonian Stock market as an alternative source of financing for small and medium enterprises in the Republic of North Macedonia.

**Keywords:** Alternative sources of funding; crowdfunding; crowdfunding platform; financial institutions.

## **1. Introduction**

Dynamic changes, uncertainty in the environment, growing global competition, internationalization of businesses and a number of global and local factors cause the need for the development of small and medium-sized enterprises. These enterprises have a significant role for the development of the entire economy, especially for increasing the gross domestic product, increasing employment, improving competition as well as for the local economic development of a country.

The world with globalization is becoming like a single market where companies face competition from a large number of enterprises. The development of the financial market in an economy is one of the key factors influencing the development of small and medium enterprises. As a result, the state authorities should pay special attention to regulating the conditions of the financial market in the economy.

Financing is one of the key problems faced by small and medium enterprises. The development of SMEs is directly dependent on the financial sector, that is, on the sources of financing. An underdeveloped financial market affects the development of enterprises in the economy. Obtaining expensive sources of financing, lack of a fast system for obtaining the necessary financing in a timely manner and the absence of alternative sources of financing affect the competitiveness of enterprises in the global market. Especially in developing economies such as ours, special attention should be paid to the financial market, that is, to the creation of financial institutions and sources of financing that will positively affect the competitiveness of our small and medium-sized enterprises on a global level.

Sources of financing play a significant role in the development of small and medium enterprises in any economy. At each stage of the life cycle, enterprises use different capital and debt sources of financing, that is, they use formal and informal sources of financing. Capital sources of financing that include personal finances, i.e. savings of entrepreneurs, loans from friends, pooling of capital or partnership, accumulated profits from enterprises and business angels are sources of financing that are used in the initial stages of the life of enterprises. With the development of enterprises, managers use other capital and debt sources of financing. Main sources of financing in the initial stages of the development of small and medium enterprises are own savings and loans from family and friends [1, 2].

New enterprises and of course enterprises in the early stages of development have problems finding sources of financing even from banks [3, 4]. With the development of the enterprise and with the provision of mortgage funds, companies reach a situation where they receive alternative and more economical sources of financing.

There are other sources of financing that are not very current in our country. In those modern sources of financing we can list: factoring, commercial bonds and new innovative ways of finding sources of financing such as crowdfunding, which represents the collection of money from investors on an internet platform. Also, business accelerators, business incubators and business angels are part of the group of alternative sources of business financing.

*The subject of this paper's research is group or commonly known crowdfunding as an alternative source of financing for small and medium-sized enterprises. The initial part of the paper analyzes the theoretical basis of crowdfunding, which represents a new innovative source of financing for small and medium enterprises in the world. The types and characteristics of crowdfunding financing and, of course, the advantages and disadvantages of this way of finding sources of financing are the subject of analysis. In the next part, an analysis is made of the functioning of several crowdfunding platforms in the world. Finally, the subject of analysis is the method of functioning of Founderbeam crowdfunding, the platform offered by the Macedonian Stock Exchange in order to offer an additional opportunity for better access to capital and sustainable financing of small and medium-sized enterprises in the Republic of North Macedonia.*

***The general hypothesis of the paper is that "Group financing is a potentially alternative source of financing the needs of small and medium enterprises in the Republic of North Macedonia".***

## **2. Literature Review**

### ***2.1. Crowdfunding Financing as an Alternative Source of Financing***

Sources of financing are very important for the growth of small and medium enterprises. Enterprises that are in the initial and initial development phase due to the lack of collateral are forced to use their own sources of financing.

The choice of funding sources has a direct impact on the profitability of enterprises. Those companies that use debt sources of financing have an additional cost of interest, which affects the increase in costs and profits of the company. The reduction in the company's profit directly affects the reduction of the amount for the liability for profit tax. Sources of financing are also significant in changing the ownership structure of enterprises. Those companies that use equity financing sources can lose the ownership majority in the total capital of the company.

The development of technology and the increased use of the Internet influence the emergence of new innovative sources of financing. One of the alternative sources of financing for small and medium-sized enterprises is crowdfunding. Crowdfunding is emerging as an alternative source of financing for new enterprises as well as companies that are in the early stages of development [5].

There are a number of definitions of crowdfunding. According to Kleman et al., crowdfunding occurs when a for-profit company publishes an open call through an Internet platform to finance the production or sale of its products. The purpose of the call is to find financial resources with no or modest return [6]. According to Lambert and Schwiendbacher, crowdfunding is a call through an internet platform to support investment projects

in the form of a donation, with the return of a reward, with a loan method or by obtaining ownership shares [7]. According to Mitra, crowdfunding is the financing of a project or investment by a group of people [8]. Another definition is that crowdfunding represents group or mass financing with small amounts of a specific project or investment [9]. In some literature and scientific articles, crowdfunding is named with the term "Crowdsourcing" financing [10]. Finally, if a synthesis of all definitions is made, it can be concluded that *crowdfunding is the financing of investment activities or projects through an internet platform by a large number of people with smaller amounts of financial resources in the form of a donation, loan or ownership right.*

*Crowdfunding through the image shows that it is a type of group financing in which creators of innovative ideas raise funds to finance their projects by collecting small sums of money from a large number of people.*



**Figure 1:** Graphic representation of crowdfunding.

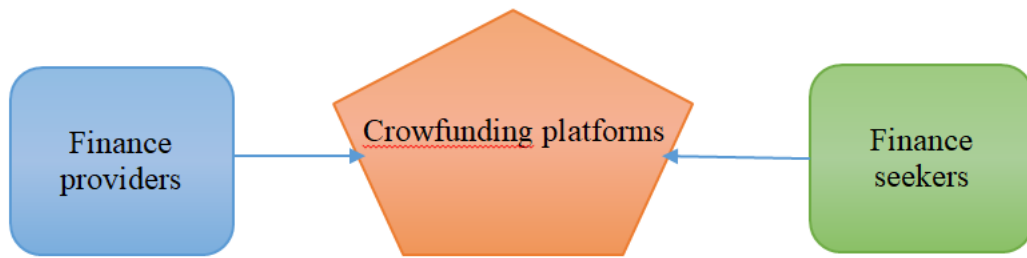
Entrepreneurs or investors in crowdfunding, in addition to finding finance for their projects or business activities, through crowdfunding platforms reduce the investor's risk, perform market analysis of the project, analysis of sales potential, implement a marketing campaign for their company and their goods or services and receive feedback from platform users [2, 5].

## **2.2 Entities in Crowdfunding**

Crowdfunding as a new innovative financing model appears as a result of the development of the use of the Internet. Today, we live in an age of technology where with the help of the internet we can get instant information about any phenomenon that occurs in different places of the world.

The increase in the use of the Internet affects the emergence of new forms of financial products and services such as crowdfunding platforms, where investors can invest even small amounts of financial resources in new innovative projects or business activities.

In crowdfunding, there are three parties: applicants for finance are people who implement innovative business activities, crowdfunding platforms are a place where applicants and people who give or invest their finances come together, and finally, providers of finance are people who donate or are investors. who invest their free financial resources in new projects [11].



**Figure 2:** A framework of crowdfunding process [12].

a) ***Finance seekers - startups:***

People who need finance for the realization of their projects are finance seekers. These people present their projects, i.e. their innovative products and services, in the crowdfunding platform in order to receive the necessary financing. Finance seekers can be different people with different educational status and different skills. Therefore, the products and services, that is, the projects that require financing, may have different characteristics. A large number of people in order to do a market analysis of their new products and services enter the crowdfunding platforms to get feedback from consumers.

b) ***Finance providers - investors:***

Finance providers are people who provide financial support to projects as investors or donors. Depending on the type of crowdfunding, finance providers can appear as donors who do not seek a return of their financial resources, people who seek to receive some small gifts, or they can be investors in the form of lenders or partners or shareholders of the funded. project.

c) ***Crowdfunding platforms:***

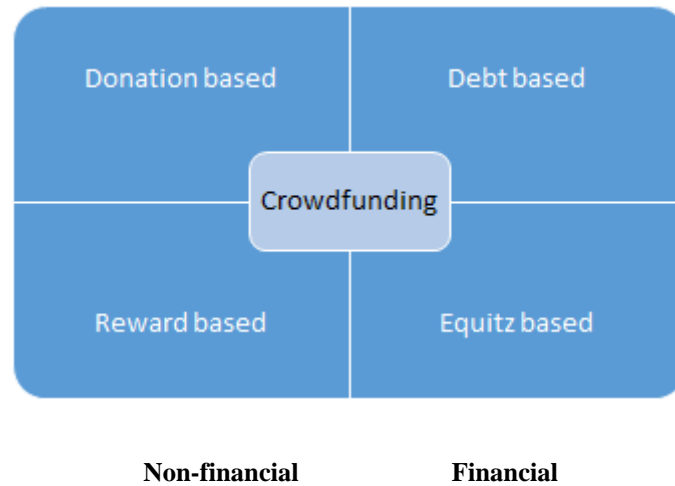
Crowdfunding platforms are places, that is, social digital platforms where applicants and providers of finance meet for the realization of new projects or business activities. According to the type of crowdfunding these platforms can differ. Investors enter their project images of new products and audio/video presentations of their projects in these platforms to get the necessary financing for the realization of their business ideas.

Crowdfunding platforms are for-profit organizations. Successful projects are those that collect the requested amount of financial resources during the publication of the project. Platforms take a commission from successful projects in the range of 4% to 15%. By doing so, they generate income for the survival of the platform as a for-profit organization. These platforms do not interfere in making investment decisions [13].

### ***2.3 Types Of Crowdfunding***

The emergence of crowdfunding as a new alternative source of funding is a result of technological development, that is, the use of the Internet and social networks. If the literature on crowdfunding is analyzed, it can be

concluded that most authors divide crowdfunding into four groups (Figure 3): donation-based, reward-based, equity-based, and lending or debt-based [14, 15].



**Figure 3:** Types of Crowdfunding.

These four types of crowdfunding can be divided into two groups: non-financial crowdfunding, which includes crowdfunding based on donation and reward, while the group of financial crowdfunding includes debt or equity crowdfunding.

- **Donation based crowdfunding**

The purpose of crowdfunding through donation is finding finance for the realization of a social project that has a character of social interest. In this type of crowdfunding, no return of the given financial resources is required. By giving help to a social project, people satisfy their will and show social responsibility and philanthropy towards society. This model of crowdfunding begins with the entry and presentation of the social project in the crowdfunding platform and ends with the transfer of the collected financial resources by the donors to those seeking funding for the project. In this type of crowdfunding, the required fund of money may not be collected, ie. the requirement is not to raise the required fund to transfer the financial assets to the applicants of finance.

- **Reward based crowdfunding**

In this type of crowdfunding, the finance providers do not demand a return on their invested funds, but instead receive the previously promised reward as a return.

These rewards can be entering a name in the project, receiving acknowledgments or receiving some symbolic rewards that do not have a greater financial value. Also, the financiers of the project can receive the privilege of purchasing the new products and services from the project. That is why in the world this model has the largest share in the total portfolio of crowdfunding.

- **Debt based crowdfunding**

Debt crowdfunding is a type of lending through an internet platform between mutually independent people. In the financial literature, this model of crowdfunding is referred to as peer to peer funding. In this model, those who seek financing for their projects borrow financial resources with a predetermined interest rate and repayment period. This means that applicants for financial resources do not take loans from a bank, but get the necessary financial resources in a simpler way through crowdfunding platforms. Internet platforms in this model of crowdfunding play the role of an intermediary that brings together those who are looking for financial means for the realization of a certain project or business with those who want to invest their money. Crowdfunding platforms, by fulfilling the predetermined fund of money, transfer it to the borrowers and carry out the transfer of returned loans from entrepreneurs to investors. Crowdfunding platforms receive a commission as compensation for their mediation role.

- **Equity based crowdfunding**

Capital crowdfunding is a model of crowdfunding where lenders, in return for their financial resources, receive a right to participate in the capital of the company. That participation right can be in the form of a share or share. In this model, entrepreneurs enter their projects or business plans on the online platform for crowdfunding, then the financial resources invested by the investors are transferred to a temporary account that is opened by the crowdfunding platform, an agreement is signed where it is determined the rights and obligations of the parties, then the internet platform informs the bank that the contract has been concluded and the conditions for transferring the funds to the entrepreneur have been met. Depending on the required fund of money, the crowdfunding campaign can last for several months, and the financing procedure ends with the fulfillment of the planned budget.

### **3. Examples of Crowdfunding Financing in the World**

The roots of crowdfunding first appeared in 2006 by the American journalist Jeff Howe, where he first used the term crowdsourcing [16]. This new alternative source of financing comes to the fore with the emergence of major economic crises, especially the financial crisis in 2008, which affected the tightening of financing conditions by conventional sources of financing such as banks. The increase in interest rates, required mortgages as collateral for obtaining financial resources are one of the main reasons for updating crowdfunding as an alternative source of funding. During 2016, there were more than 2000 crowdfunding platforms for crowdfunding in the world [17]. According to statistics for 2014, 29% of the total crowdfunding platforms are reward-based crowdfunding platforms, 23% are donor crowdfunding platforms, and approximately 20% of the total crowdfunding platforms are debt or equity crowdfunding platforms [18].

The most famous crowdfunding platforms for capital crowdfunding are: AngelList, CircleNet, Fundable, Sellaband, SellanApp, Appsfinder, Crowdfunder; the most famous debt crowdfunding platforms are: Kiva, Opportunity, Lendingclub, Prosper, GrowVC; the most famous platforms for crowdfunding based on a reward base are: Kickstarter, Indiegogo, RocketHub, Fundable and finally the most famous platforms for crowdfunding fast based on donations are: Experiment, DonorsChoose, Gofundme, YouCaring and Patreon. In the following section, the method of operation of the well-known crowdfunding platforms is the subject of analysis.

### **3.1 Crowdfunder**

The most famous crowdfunding platforms for capital crowdfunding are: AngelList, CircleNet, Fundable, Sellaband, SellanApp, Appsfinder, Crowdfunder; the most famous debt crowdfunding platforms are: Kiva, Opportunity, Lendingclub, Prosper, GrowVC; the most famous platforms for crowdfunding based on a reward base are: Kickstarter, Indiegogo, RocketHub, Fundable and finally the most famous platforms for crowdfunding fast based on donations are: Experiment, DonorsChoose, Gofundme, YouCaring and Patreon. In the following section, the method of operation of the well-known crowdfunding platforms is the subject of analysis.<sup>1</sup>

One of the most famous capital crowdfunding platforms is the Crowdfunder internet platform, which was founded in 2012 in the United States. The purpose of establishing this platform is to create a single platform that will help a large number of entrepreneurs and investors to develop their investments. The platform has 200,000 members, with a turnover of 160 million dollars, about 15,000 physical and 36,000 legal investors, more than 100 investment deals with an average of 1.8 million dollars have been financed. This platform is more designed for initial startups and those enterprises that are in the initial stage of development. The platform accepts businesses that fall into a variety of categories, including tech startups, social enterprises, small businesses in the film and entertainment industries. If the profile of the companies for which financial transactions are carried out is considered, it can be concluded that most of them are in the technology sector.

In Crowdfunder as one of the most popular capital crowdfunding platforms, trading or investing can only be done with accredited investors. According to the JUMP law, an accredited investor is considered to be an individual who has wealth (excluding property at the place of residence) of more than 1,000,000 US dollars or in recent years has achieved annual income of more than 200,000 US dollars, is a registered broker or investment advisor, etc. . Crowdfunder does not take any fee for creating a profile in the platform, and by making a decision to present a certain campaign for generating capital, then Crowdfunder charges a monthly fee for publishing the campaign. The monthly subscription can be paid in two ways:

- Monthly subscription **starter package** is \$299 which allows you to publish your Crowdfunder profile to the public and start collecting money
- **Premium package** of monthly subscription is \$499 which, apart from publishing and starting to collect money, gives permission to search and get in touch with accredited investors and Premium Plus package which offers the conditions contained in the premium package, free of charge for another month.

In the Crowdfunder platform, an entrepreneur seeking financing can increase the capital of the enterprise with a long, convertible loan where the borrowed funds are converted into a share or by dividing a part of the profit.

#### **3.1.1 Conditions for Participation in Crowdfunder**

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<sup>1</sup> JUMP act - Jumpstart Our Business Startups Act – This law was passed and signed by then US President Obama in 2012.



In the Croudfounder platform, everyone has the right to open a profile, but a campaign can be opened by anyone who prepares and submits three documents: a term list, an executive summary and an investor pitch deck, which is a public presentation for increasing the company's capital. These documents are not easy to create, so it is recommended to ask for help from professionals. Startup companies that have great potential, especially companies that are in technology businesses, are attractive for receiving large amounts of capital. No fee is required for registering in the platform, while publishing a campaign requires paying a monthly subscription which, if the campaign is unsuccessful, represents an expense for the company.

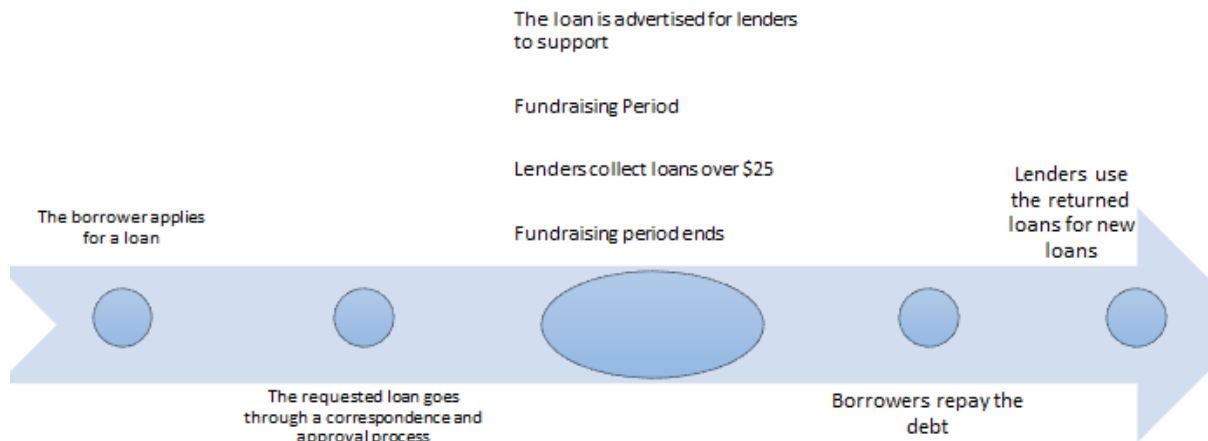
### **3.2 Kiva**

Financing based on debt crowdfunding is one of the alternative sources of financing by borrowing through credit intermediaries. This financing model gives the opportunity to natural persons and legal entities, i.e. companies, to be financed with loans provided by a large number of investors. The supply of loans offered by investors and the demand for finance meet in debt crowdfunding platforms. In the finance literature, this funding model is referred to as peer to peer lending.

KIVA debt crowdfunding platform as one of the most popular platforms was founded in 2005 as a non-profit organization in the USA. The organization's goal is to help more than 1.7 billion people gain access to financial services. Today the organization provides services in more than 80 countries, with a total loan amount of 1.4 billion dollars, of which about 97% have been returned to lenders. The organization's mission is to expand financial access and help disadvantaged communities. Durability, transparency and efficiency are the basis of their work, their mission and their financial model. This platform apart from providing loans to entrepreneurs, provides student loans for studies, loans for women entrepreneurs, loans to farmers and health loans. This organization offers financial means for lending with more favorable and flexible conditions for financing the entrepreneurial projects of the communities.

#### **3.2.1 KIVA's model**

The principle of operation of the KIVA crowdfunding platform globally is similar to other crowdfunding platforms. First you register in the platform and depending on whether you are calling as an investor, i.e. as a lender or as an entrepreneur looking for finance (See Figure 4). The borrower applies for a loan. Loans in this platform are given according to two methods as partner loans or direct loans. In this way, it is possible to reach a large number of entrepreneurs around the world. With a partner loan, the borrower applies for a local partner, while direct loans, borrowers apply through KIVA's web platform.



**Figure 4:** The microfinance path of KIVA loans [19].

After the completed application, the requested loan goes through the correspondence and approval process, then the requested loan is published in the platform to collect loans that cannot be less than \$25. After meeting the required fund of financial assets, the loan collection procedure is closed and the requested loan is transferred to the borrower. With the agreed lending conditions, the platform collects the loans from the borrowers and transfers them to the lenders. By returning the borrowed funds, lenders have the opportunity to invest their funds in new projects or businesses.

The KIVA platform enables micro-financing of the business plans of low-income entrepreneurs. A key feature of this crowdfunding platform is that it takes no fees from lenders, meaning 100% of the funds you lend on Kiva go towards supporting the borrower's loans. Income on this platform comes from online donations, corporate donations and grants received.

### 3.3 *Kickstarter*

One of the most famous gift-based crowdfunding platforms is the KICKSTARTER platform. Kickstarter is a founder-controlled freelance company founded in 2009 that employs 153 people in an old pencil factory in New York (<https://www.kickstarter.com>). They work to help people with creative and inspiring projects. The platform has supported more than 34,000 projects. Kickstarter is a huge global community built around creativity and creative projects. Over 10 million people, from every continent on Earth, have backed Kickstarter projects. This platform was created to help in the realization of creative projects. This means that the platform has a mission to positively impact society. The company supports creative projects, especially in art and culture.

Every project should have a plan to create something that will be shared with society. Backers who back a project on Kickstarter get to see the creative process and help that project come to life. The most supported projects on this platform occur in the film and video industry, music, games and technology industries (See Figure 5). After the realization of the project, the people who help receive certain rewards as a return of the given financial resources.

**Table 1:** Projects supported by Kickstarter [20].

Category	Started projects	Category	Started projects
<b>Total</b>		<b>471.648</b>	
Film & video	73.485	Fashion	30.559
Music	61.491	Food	29.398
Games	49.459	Comedy	15.288
Publishing	48.636	Photography	12.196
Technology	41.208	Theater	12.157
Design	39.698	Занаетчество	11.064
Art	37.167	Journalism	5.626
Moda	30.559	Dance	4.216

### 3.3.1 How Kickstarter Works

Creative projects are entered into the KICKSTARTER platform with the goal of collecting a certain amount of funding. Donations are transferred if the predetermined amount is collected. The promoter will only provide payment information if the project reaches the target at the time the deadline expires. If the campaign does not reach the target amount, the creators will not be paid and the funds will not be transferred to the investors. Kickstarter keeps 5% of the funds given as a fee for the platform. When announcing the project, the target amount and the time frame are determined and this cannot be changed. Kickstarter projects can last anywhere from 1 - 60 days.

### 3.4 Gofundme

GoFundMe is an online donation crowdfunding platform. In this platform, people donate financial resources for the realization of a project that has a character of social interest. GoFundMe does not charge any funding fees, but fund recipients are responsible for transaction fees when the donated funds arrive. The GoFundMe online platform is easy to use and one of the easiest ways to raise funds for humanitarian and social projects that are important to people. In just a few minutes, individuals and non-profits can personalize their campaign and share it with other people via email addresses or through social networks. GoFundMe is the largest platform in the world, with more than \$5 billion raised so far. With a community of more than 50 million donors, GoFundMe is changing the way the world donates. In addition to the website, this platform also has a mobile application where you can easily request financial resources for projects that have a social character.

#### 3.4.1 How Works Gofundme Platform

The initial step to start a campaign is signing up via email and then setting up the campaign. After uploading the photo and video, the campaign organizer must write the story. They can then share the campaign with their social network or via email and start fundraising. The creator has the right to edit the story, distribute the campaign continuously, post updates, post retractions and add information and contacts.

The GoFundMe campaign organizer can collect the entire amount. Once GoFundMe begins accepting online

donations, the campaign organizer can request a withdrawal at any time. Withdrawing money does not affect the progress meter displayed in the campaign. Bank transfers may take 2-5 business days to be transferred to the organizer's account (<https://www.gofundme.com>). Achieving the pre-planned funds is not mandatory. The project can receive additional funds even after the targeted amount has been collected. Supported campaigns or projects from this platform are: education, health, volunteering, sports, competitions, religion, creativity, business and so on. The platform does not charge a commission for starting the campaign. After collecting the target amount of funds, the platform takes 5% of the total funds collected. A fundraising project or campaign has no time limit to stay on this platform. The campaign creator can block himself from receiving donations whenever he wants or can delete himself from the platform.

The main advantages that this platform has are that it guarantees the protection of donors, it has a mobile application, 24/7 support at any time, no commission is charged for setting up a campaign, transfer costs of 2.9% and 0.3\$/per donation, has a large number of donors who have donated to several projects.

#### **4. Crowdfunding in Republic of North Macedonia**

Crowdfunding as an alternative way of financing small and medium enterprises has not been developed in the Macedonian financial market. Crowdfunding, as a new modern financing model, is constantly and repeatedly used as an alternative source of financing for entrepreneurial innovation projects in the world. In our country, like other developing countries, alternative sources of financing such as crowdfunding have not yet been developed.

The first crowdfunding platform in the Republic of North Macedonia is the "Let's fund it" platform. This platform was founded in 2013 by the non-governmental organization "Summer Work and Travel Alumni Macedonia (SWTA)" which aims to support, develop and implement the positive initiatives of the participants of the Work and Travel program in our society (<https://letsfundit.mk>). The main mission of this platform is to encourage the entrepreneurial spirit of young people in the Republic of North Macedonia and to provide access to financial resources for the implementation of innovative projects. This platform is one example of reward-based crowdfunding. Those who are the creators of the project are obliged to the supporters to offer an appropriate reward. Any person can see the content of this platform. However, a condition for using some applications on the platform is registration that contains accurate information about the registered person. Joining this platform is free. For the services used in the so-called software. SWTA should be paid a fee in the amount of 5% of the amount of the collected financial resources and the creator should pay the bank charges when transferring the collected financial resources. Funds pledged by supporters are paid to the UniBank account through the Cassys payment method. The Letsfundit.mk platform is not responsible for the payment.

The capital financial market, that is, the stock market of the Republic of North Macedonia, is not as developed as it is in other countries in the Balkans. Efforts have been made for many years to increase the volume of trading through the stock exchange, but it has not had any great positive impact. Analyzing the statistical data obtained by the Central Registry of the Republic of North Macedonia shows that the percentage participation of joint stock companies in the country is low and according to the legal legislation only joint stock companies

have the right to participate in stock exchange transactions, which negatively affects the development of the capital financial market of our country. The stock market as a capital market for small and medium enterprises remains closed for the provision of financing and capital. For this reason, the Innovation and Technological Development Fund together with the Macedonian Stock Exchange signed a memorandum of cooperation in March 2019, the main purpose of which is to enable access to alternative sources of financing and capital raising. The representatives of the Macedonian Stock Exchange have signed a cooperation agreement with the Funderbeam crowdfunding platform.

**Funderbeam** is a company that was founded in 2013 with the aim of finding a global solution to the financing problems of small and medium enterprises that are in the early stage of development. The innovative system of the Funderbeam crowdfunding platform is based on blockchain technology. Funderbeam provides investors with access to a community of ambitious growth companies as well as liquidity through the secondary market with the ability to get in and out whenever needed. The platform is a place where companies that need to raise finance and investors that are looking for an opportunity to invest their spare cash in companies that are in the early stages of development are connected.

Funderbeam Group's parent company is Funderbeam Market Limited registered in the United Kingdom, while operating subsidiaries are in Estonia and Croatia.

In March 2019, the Macedonian Stock Exchange of the Republic of North Macedonia concluded a cooperation agreement with the company Funderbeam SEE, registered in the Republic of Croatia, where the stock exchange has the role of being an educator and promoting this platform of small and medium-sized enterprises and startup companies, which will be an alternative source for obtaining additional capital.

This platform offers funding sources to all companies on our market in addition to joint stock companies. The important macroeconomic role played by small and medium-sized enterprises in the world and in our country, influenced the receipt of support from USAID North Macedonia. In the region, this platform is used in the Republic of Slovenia and the Republic of Croatia.

#### ***4.1 Objectives of the Funderbeam platform***

Funderbeam as a crowdfunding platform allows domestic and foreign physical and legal investors to invest in newly founded companies and companies at an early stage of development in our country and abroad through the primary market and further secondary trading of investors with acquired certificates for the investments made through the secondary market.

The purpose of this platform is to raise funds by companies that are about to be founded or are in the early stages of development and to facilitate the investment of interested persons in such companies.<sup>2</sup>

#### ***4.2 Parties to the Funderbeam Platform***

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<sup>2</sup> <https://www.mse.mk/Repository/Reports/2019/Funderbeam>

All individuals who are citizens of the Republic of North Macedonia and legal entities established on our market and foreign trading companies can participate in the Funderbeam platform. Companies established in accordance with the Law on Commercial Companies or a foreign company can participate in the Funderbeam platform for obtaining and investing financial resources. Joint-stock companies are starting to use this platform as an alternative source of financing.

#### **4.3 How the Funderbeam Platform Works**

Participation on the Funderbeam crowdfunding platform begins with the registration of the natural or legal person on the platform. The investment process consists of four stages:

1. Indicative phase
2. Investment offer
3. Payment of funds from investors
4. Investment of funds in the enterprise

**In the first phase**, the so-called **indicative phase**, the investor has the right to choose a company in which he wants to invest. The company that wants to collect financial resources publishes a campaign with the aim of collecting offers from investors. Through the Funderbeam platform, investors report the amount they are interested in investing in the company that has announced a fundraising campaign.

In the **second stage**, the company that collects financial resources reviews the data for investors who are interested in investing in their company. Then the enterprise and the investor agree on the terms of investment in the enterprise. The lead investor and the company must send an investment offer to the selected investors with a description of the conditions of the investment, i.e. by determining the conditions for how the value of the company will be estimated, how the voting rights will be distributed between the investment company and the founders of the company, the management method with the company, the method of notifying investors about the company's work, dividend payment, method of disposing of shares in the company, etc.

In the **third stage**, funds are paid in accordance with the conditions established in the given offer. Payments can be made by issuing a foreign currency payment order in a bank or with a payment card through an online POS terminal. The invested funds from the investment are paid to the account of the investment company, founded and headquartered in Estonia, and the parties have no obligation to notify the National Bank of the Republic of North Macedonia.

**In the last**, fourth stage, the investment company invests the funds collected from the investors in the company in the form of a monetary contribution to the capital, where the investment company receives a share in the company. After entering the financial resources and registering the investment company as a partner in the share of the company, the investor receives from the Funderbeam platform a so-called "**confirmation of investment**".

The investment company is managed by the named two managers, one of whom is the leading investor and representative of the Funderbeam group. As a representative of the Investment Company, which is a partner in

the enterprise, the leading investor will be able to:

- participates in the strategic management of the enterprise;
- performs effective supervision of the company's work; and
- to make sure that the enterprise adheres to the undertaken obligations towards the investor union, with the concluded partnership agreement.

On the other hand, the representative of the Funderbeam group, as the second manager, will take care and control that the lead investor acts in the best interest of all individual investors in the syndicate and the undertaken obligations towards *Funderbeam*.

The financial assets invested by the investor in the investment company are invested as a hybrid loan. This loan given by the investor to the investment company entitles the investor to demand repayment of the loan with interest only when the investment company generates income from the share and it has no maturity date. For this reason, the investor as a lender and the investment company as a borrower conclude a separate loan agreement in electronic form in the platform. After the transfer of the financial assets from the investor and the investment company and with the conclusion of the loan agreement, an investment certificate is issued. These investment certificates are subject to trading on the secondary market on the Funderbeam platform. This platform allows the investment certificate to be transferred from one investor to another for a fee. The amount of the investment confirmation is determined by free agreement between the parties. The new owner enters into a contract for the change of ownership of the investment certificate with the updated new data of the new investor.

In the process of the investment campaign, the company should publish detailed information about the company's business operations. According to that information, investors receive relevant information whether to invest in the investment company or not. If the investment campaign is realized successfully, then the company must publish the detailed information about the business operations, including quarterly reports, annual financial reports, which are important for obtaining information about the successful operation of the company.

#### ***4.4 The Financing Model through the Funderbeam Platform of Macedonian Enterprises***

Funderbeam as a crowdfunding platform is a new source of financing for small and medium enterprises in the Republic of North Macedonia. The platform is available for companies that are established as limited liability companies. The company should be registered on the platform and should publish a created campaign in which it promotes its products, services or the investment that is planned to be realized, which should be approved by the Funderbeam platform.

In the next step, the company that publishes the campaign should conclude an agreement with Funderbeam and the lead investor, where the rights and obligations between the three parties are regulated. These parties should also provide a written agreement defining the terms of the campaign:

- the minimum amount that should be collected through the platform
- the amount of the lead investor's investment

- the duration of the campaign and
- other conditions that regulate the running of the campaign.

After the approval of the campaign and conclusion of the contract where the rights and obligations are determined, the new company is founded in Estonia. After the establishment of the company, a new agreement is concluded between the company, the leading investor and the investment company, where the conditions for the hybrid loan are regulated. Enterprises and the lead investor should agree on the terms of the investment, which refers to:

- the company should publish financial statements and provide explanations about the company's operations to the platform, the investor union and the investment company
- the method of valuation of the enterprise and the size of the voting right of the investment company in relation to the founders of the enterprise;
- the majority with which certain decisions should be taken at the meeting of partners of the enterprise and the management body of the enterprise;
- how the supervision of the enterprise will be carried out;
- the amount, method and term of dividend payment from the company to the investment company as its partner;
- the method of disposing of the shares in the enterprise, rights of priority, etc.<sup>3</sup>

If the company's campaign does not attract a lot of attention from investors and the planned funds are not collected, the investment is not realized and the funds collected until then are returned to the investors.

If the campaign is successful and all the legal conditions and documents for investment are met, the procedure for increasing the share capital is in order according to our legal regulations, namely:

- the basic capital of the company is increased by the amount equal to the investment as a cash deposit and
- the investor acquires ownership rights in the form of a share in the enterprise.

Entities that participate in the Funderbeam crowdfunding model are:

- investors who can be individuals and legal entities
- Special company – Credit SPV as a non-resident
- Domestic company raising capital

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<sup>3</sup> <https://www.mse.mk/Repository/Reports/2019/Funderbeam%20priracnik/Funderbeam%20-%20D0%BF%D1%80%D0%B0%D0%B2%D0%B5%D0%BD%20D0%BF%D1%80%D0%B8%D1%80%D0%B0%D1%87%D0%BD%D0%B8%D0%BA.pdf> – page 12





**Figure 5:** Funding model through FUNDERBEAM platform [21].

Investors provide a loan (loan) to the special company – Credit SPV by concluding an appropriate loan agreement. The credit SPV will invest the funds raised from investors in shares issued by the domestic company (LLC). This type of transaction, that is, the shares of the Credit SPV are registered in the trade register at the Central Registry of the RSM, as well as in the register of foreign investments at the Central Registry of the RSM. There is an option for the Credit SPV to invest the funds raised from the investors in a convertible loan entered into with the domestic company.<sup>4</sup>

The Funderbeam platform does not charge for platform registration, but upon successful collection of the planned amount of funds, 4% of the total funds collected is charged. Funderbeam Group does not charge any fee for investing, acquiring investment certificates or trading investment certificates.

## 5. Conclusion

Today's world is becoming more and more global. Enterprises are in competition with a large number of companies from developed and underdeveloped countries in the world. This means that everyone is involved in a global market where they do not have the same conditions for development. In underdeveloped countries where there is no developed financial market, it can significantly affect the development of small and medium-sized enterprises.

The Internet and technology has a significant role in the development of the daily life of society. Every year the number of people who use the internet and social platforms is increasing ie. it affects the operations of financial institutions as well. Today, in the world, in addition to conventional sources of financing, alternative sources of financing are also becoming current. As one of the modern alternative sources of financing, group financing, commonly known as crowdfunding, appears. Crowdfunding as a new alternative source of funding has a number of advantages and disadvantages. This financing model appears as an alternative financing model that eliminates

<sup>4</sup> "TAX GUIDELINES for investing, trading and raising funds through the FUNDERBEAM PLATFORM", 2019, Macedonian Stock Exchange Skopje - page 10

the shortcomings of conventional financing models. Especially with the emergence of major economic crises such as the crisis in 2008, it influenced the operation of financial institutions to implement more stringent conditions for financing legal entities.

With the impact of economic crises and the tightening of financing conditions for small and medium-sized enterprises, a need arose for the emergence of new alternative sources of financing that replace the traditional sources. Crowdfunding is a new modern model of financing small and medium-sized enterprises by a large number of investors in an Internet platform. In the world, the number of alternative sources of financing and crowdfunding platforms is constantly increasing. Also, the volume of financing by these modern sources of financing has an accelerated trend of increase.

Our country, as a developing country where the participation of small and medium-sized enterprises in the market is very large, ***should carefully monitor the new trends that appear in the financial sector***. One of these new alternative sources of financing is crowdfunding, which is becoming one of the most used models for finding financing in the world, especially in the early stages of small business development. In order to improve the competitiveness of our enterprises, it is necessary to enable better and more accessible conditions for the financing of creative innovative projects by SMEs.

Four types of crowdfunding occur in the financial sector. Donation crowdfunding, reward crowdfunding, debt and equity crowdfunding. The main advantages that these forms of financing provide is that these platforms provide financial opportunities for financing in a fast and accessible way without the existence of mortgages (collateral), those who are looking for financing can decide for themselves which source of financing to use, it gives the opportunity for performing market analysis of new products and services, enable contribution to social good. The main disadvantages of this funding model are the possible occurrence of fraud by the participants of crowdfunding platforms, the inability to influence the management and management of the company, ideas can be easily copied and the existence of asymmetric information about the operations of enterprises. The influence of the gray economy, especially in developing countries such as our country, is one of the main negative aspects that affects the development of these alternative sources of financing. In particular, the state should pay close attention to the new trends in financing for the timely adoption of legal frameworks for the entry of these alternative sources of financing, which have a significant impact on the development of the competitiveness of small and medium-sized enterprises with the world.

The paper analyzes the operation of the most popular crowdfunding platforms, the way they function and the conditions offered by the four types of crowdfunding platforms. The main conclusion of the analysis is that in the world crowdfunding is becoming one of the most current alternative sources of financing for profit and non-profit organizations, which unfortunately is not yet developed in our financial market. The main advantage offered by this model of alternative financing is that entrepreneurs are not limited to financing only with their savings and traditional financial institutions, but there is a potential for financing from all over the world.

In March 2019, the Innovation and Technological Development Fund together with the Macedonian Stock Exchange signed a memorandum of cooperation, the main purpose of which is to enable access to alternative

sources of financing and capital raising. This represents one step to improve and advance the financing conditions for our small and medium-sized enterprises. In this framework, the Macedonian Stock Exchange signed a cooperation agreement with the **Funderbeam crowdfunding platform**, which has a role in promoting crowdfunding in the market of the Republic of North Macedonia.

The Funderbeam platform is emerging as a new alternative financing opportunity for our SMEs. It goes without saying that this new financing model should first be properly **promoted to the public and to innovative small and medium-sized enterprises as a new alternative for generating finance**. In doing so, our companies should receive information about the possibilities of crowdfunding, the method of financing in crowdfunding platforms, as well as the presentation of successful projects that are financed by this financing model. It is understood that the increase in the use of the Internet and social networks in the next period will have an impact on the development of financial services both in the world and in our country. That's why state **policymakers should provide financial infrastructure and legislation for the penetration of new alternative financial services** in the world that will play a significant role in macroeconomic development and reducing migration. The final conclusion is that **crowdfunding can be a potential alternative source of financing in the market of the Republic of North Macedonia, especially for younger entrepreneurs with innovative projects**.

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