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**CROWDFUNDING AS AN
INNOVATIVE TECHNOLOGY
FOR FINANCING AND
PROMOTING BUSINESS
PROJECTS**

The intensification of the impact of globalization processes on economic systems and the pace of development of information technologies, the comprehensive distribution of social networks, make use of innovative approaches to financing projects that are based not on state guarantees or statutory capital, but on public participation. These challenges are exacerbated for social ventures, which are driven by the ambiguous and sometimes dichotomous goal to achieve a double bottom line: to balance social and for-profit goals.

Thus, in today's environment, the fastest and most effective way to solve the problems of finding resources for starting and developing projects isn't cheap credit resources or lobbying interests in power, is self-financing.

The innovation technology to raise funds from a significant number of investors – internet users related to social networks, to financing and popularization various projects is crowdfunding.

Crowdfunding defined as "funding from the world on a string", "social bank", "collective purse", "popular finance", "people's clubbing."

Crowdfunding – a technology of social financing through the Internet, form of social investment that they carry persons that are not institutional investors, such as government, business, investment funds, venture capital, business angels and others. The main actors are the social finance people for whom making money in certain projects (production, innovation, cultural etc.) occupation is temporary and additional to the main types of economic activity.

Funding in this case through specialized Internet platform to help create the most complete description of the project or funding requirements. For more informative and motivating potential investors are placed investments in the form of photos, links to videos, documents (business plan, etc.) And notes required amount for financing, the period for which the money involved, the proposed percentage of income. With the social nature of the project, with donations usually indicates that the non-repayable financial assistance. There is a practice of presenting projects in such popular portals social networks, mailing information to potentially interested groups.

Based on the study and systematization of information [1; 2; 3, etc.], the differences from traditional forms of crowdfunding to raise funds to financing the projects include:

- Multisubject (mass): funds attracted a huge number of people ("Becker" donor ") that are social investors – subjects of collective funding through crowdfunding Internet platform;

- Microfinance: attracting and implementing social mikro investments because people can invest even small amounts of money to various projects;

- Global finance space: crowdfunding overcomes the inherent limitation of traditional forms of financing, such as those associated with the location of the investor and innovator, the level of national and international financial markets; As the financial infrastructure that provides cash flows, national regulation of the financial sector, corporate management and others;

- Networked arrangement of funding: public funds involved by establishing relationships investors and developers in social networks;

- Savings on intermediaries "reduced the number of hierarchical links through direct connection of people with money to people who need them" [2], that a social bank, which accumulates and uses the financial resources of the population;

- Saving transaction costs: project developer and potential investors, crowdfunding using technology to minimize costs compared to the use of other funding mechanisms offered by the financial market;

- A form of venture financing, as minor amounts of social investments, risks crowdfunding is not large. However, along with the presentation of creative projects to copyright kraudfandynhovyh platforms may also happen fraud ("Fake projects").

Depending on the purpose of developers (authors) projects are the following crowdfunding:

- social crowdfunding: projects aimed at solving specific social problems. However, a non-profit social crowdfunding model is not a charity, because social investors can benefit from or participate in project financing, or usually funds will be returned at the project implementation;
- business crowdfunding: entrepreneurial projects with innovation orientation associated with the introduction of innovations for profit;
- innovative crowdfunding, crowdfunding or ideas projects aimed at developing new products, technologies and so on. Innovative crowdfunding is possible not only in industrial or scientific, but also social, cultural and other spheres;
- cultural (creative) crowdfunding: projects aimed at financial support for activities in the field of culture and art;
- political crowdfunding: projects related to the activities of political groups, parties and monitoring the effectiveness of political and legal measures and so on.

The conducted researches allow to define such types of crowdfunding: donation, lending and equity crowdfunding.

In the donation crowdfunding model, the founder receives money from a crowd without any tangible return for that contribution. In the pure donation model, no rewards at all are offered to contributors. The funds received are essentially a grant given for a specific purpose, but without the expectation of a specific return to the funder. Donation crowdfunding is more popular for projects with smaller funding goals; globally, 90% of donation crowdfunding campaigns raised less than 10 000 USD [4]. Lending crowdfunding, often referred to as peer-to-business (P2B) or peer-to-peer (P2P) crowdfunding, raises money with the expectation that founders will repay supporters. Lending crowdfunding is the largest crowdfunding type by funding volume [4] and takes one of three forms: the pre-sales model, the traditional lending model, and the forgivable loan. The pre-sales model offers the finished product in return for the contributor's pledge; the contribution amount requested from each crowd member is determined by an assessment of the fair market value of the product. The traditional lending agreement uses standard terms where loans are repaid with interest determined precampaign launch. The forgivable loan repays contributions only if and when the project begins to generate revenue or profit. With both the traditional and forgivable loan, crowdfunding projects are assessed according to their risk levels – either by the platform itself or by a third-party evaluator. Lenders choose the level of risk they are prepared to

accept and support projects accordingly. Equity crowdfunding, also referred to as investment crowdfunding, the venture raises money from a crowd in exchange for an ownership stake in the firm. That is, investors are offered equity or bond-like shares. Investor led equity crowdfunding typically involves accredited investors, such as venture capitalists, angel investors, or sector specialists who negotiate with the founder on funding terms. These projects are then promoted to accredited investors via platforms that are often subscription only [5].

But it is necessary to focus on the last type of crowdfunding. For example, in Ukraine underdevelopment in the legislative framework in this area, it will be considered a criminal offense, as under the current procedure at national level the issue of shares, sale of uncertain individuals online is unacceptable. In the US, occupying the largest share to mobilize financial resources through crowdfunding currently accepted are only two relevant law (Jobs act) to consolidate and settlement mechanism of investment (share) crowdfunding. But successful experience in Finland, France, Australia, where for many years crowdfunding is permitted, indicates the possibility of attracting significant investment framework for the creation of start-up capital is based on it.

Crowdfunding campaigns provide producers with a number of benefits, beyond the strict financial gains, among them:

- Profile – a compelling project can raise a producer's profile and provide a boost to their reputation;
- Marketing – project initiators can show there is an audience and market for their project. In the case of an unsuccessful campaign, it provides good market feedback;
- Audience engagement – crowd funding creates a forum where project initiators can engage with their audiences. Audience can engage in the production process by following progress through updates from the creators and sharing feedback via comment features on the project's crowdfunding page;
- Feedback – offering pre-release access to content or the opportunity to beta-test content to project backers as a part of the funding incentives provides the project initiators with instant access to good market testing feedback.

There are also financial benefits to the creator. For one, crowdfunding allows creators to attain low-cost capital. With crowdfunding, creators can find funders from around the world, sell both their product and equity, and benefit from increased information

flow.

Proponents also identify a potential outcome of crowdfunding as an exponential increase in available venture capital. Proponents also cite that a benefit for companies receiving crowdfunding support is that they retain control of their operations, as voting rights are not conveyed along with ownership when crowdfunding.

Crowdfunding also comes with a number of potential risks or barriers. For the creator, as well as the investor, as a rule crowdfunding contains high levels of risk, uncertainty, and information asymmetry. They include:

- Reputation – failure to meet campaign goals or to generate interest results in a public failure. Reaching financial goals and successfully gathering substantial public support but being unable to deliver on a project for some reason can severely negatively impact one's reputation;

- IP protection – many Interactive Digital Media developers and content producers are reluctant to publicly announce the details of a project before production due to concerns about idea theft and protecting their IP from plagiarism. Creators who engage in crowdfunding are required to release their product to the public in early stages of funding and development, exposing themselves to the risk of copy by competitors;

- Donor exhaustion – there is a risk that if the same network of supporters is reached out to multiple times, that network will eventually cease to supply necessary support;

- Public fear of abuse – concern among supporters that without a regulatory framework, the likelihood of a scam or an abuse of funds is high. The concern may become a barrier to public engagement.

Equity crowdfunding is revolutionary because it can dramatically open up access to both investors and entrepreneurs.

Passing through crowdfunded technology, a novice entrepreneur acquires not only money, but also invaluable experience in the production, promotion, sale and support of his goods (services). PR-agencies or producers' centers help to pass through these stages more effectively.

Components of the implementation of successful projects using the mechanism of crowdfunding in the modern business environment are:

1. Preparation of the plan, including campaign objectives, the strategy of its implementation, budget and resources.

2. Forming a working group. The team should be as involved

specialists (they will do the work before, during and after the campaign), and the founders, who will seek to develop business.

3. Development of multimedia content for channels using popular, attracting the attention of users of social networks, the use of e-mail marketing campaigns, publishing blog posts, presenting some videos.

4. Inspire customers by providing information about the campaign, its objectives, the allocation of the benefits of the project, its novelty.

5. Confusion of trust to clients through own attitude and deeds, because investors have the right to know what their money will be spent on.

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6. Readiness for experiments, provides for using new techniques, technologies, mechanisms in the production and communication fields.

7. Readiness for changes due to the high dynamic of the external and internal environment of the project.

8. Involvement of interested audience by means of popularization in social networks, e-mail, public relations, public speeches.

9. Drafting of the budget taking into account planned and unplanned expenses.

10. Fidelity to the promoted idea, which allows you to create and improve your business reputation.

The active using of crowdfunding in the international financial market can be attributed to the creation of the first professional crowdfunding Companies Kickstarter and IndieGoGo in 2008-2009. Currently, there are dozens of such companies, and the crowdfunding Platforms operate in various areas of financing in the following countries: USA, Canada, Israel, France, Sweden, Belgium, Germany and others. It should be noted that the specialization of the platforms subsequently led to the emergence of resources that accept exclusively technological projects: Technofunding (United Kingdom, 2013), Innobus (Russia, 2013). Many similar platforms have been launched recently and have a fairly modest set of projects. However, the largest players are the universal platforms, with which mainly technical projects are funded.

Typological created all crowdfunding platforms can be divided into two types depending on the order of fundraising:

– based on conception TRS – Guarantee limit (the principle of "all or nothing"), that is, if the project does not gather useful declared amount, then he does not get anything, and people who previously allocated money on it, they will not be written off from the accounts;

– is another option when returning to small individual investors is problematic, and in meeting even half of the original amount due to the sponsors have the opportunity to get them, minus the platform.

Beginning in 2013, the global market of crowdfunding is developing very active. If in 2012 its finance volume amounted to 2,7 billion USD in the United States, in 2013, it has been increased by almost 2,3 times and reached a mark of 6,1 billion USD; in 2015 the market volume amounted to 34,4 billion USD.

According to the World Bank's forecast, by 2025 the global market for crude fangding will reach 96 billion USD. However, the common trend indicates that this will happen much earlier. In addition, according to the World Bank, only a third of projects funded by crowdfunding is non-profit. In 2015, according to Forbes, funding for projects under the crowdfunding scheme exceeded the investment of business angels (private venture capital investors), and tends to outperform venture capital in the long run.

According to statistics, the most active regions for the application of crowdfunding technology are North America (48%), Asia (29%) and Europe (18%) [6].

The most powerful crowdfunding projects were launched on the platform Kickstarter. According to the Kickstarter official website [7] as of November 2017, 382 531 projects were launched on the site, totaling 3,426 billion USD. Of these, 135 784 projects, or 56%, were successfully funded for a total of 3.02 billion USD. The financing was carried out by 13 963 355 backers, of which 4 505 926 (32,26%) repeat backers. Most successfully funded projects raise less than 10 000 USD, but a growing number have reached six, seven, and even eight figures: less than 1000 USD – 16 703, from 1000 USD to 9999 USD – 75 788, from 10 000 USD to 19 999 – 19 593 projects.

For example, creating intelligent clock Pebble Time supported 78 471 person what was collected over 20,3 mln. USD (about 1 mln USD per hour), for the design cooler bag Coolest Cooler attracted 13 mln. USD, and for the game console Ouya backers did not regret 8 590 000 USD [7].

The most actively financed were games, design and technology projects (739,54 mln. USD, 722,23 mln. USD, 693,83 mln. USD

respectively). Among them 94 technological and 92 games projects, were funded for more than 1 mln. USD.

The largest Ukrainian ideas-projects (startups) that have been financed and popularized via crowdfunding became LaMetric (collected 370 thousands USD.), Petcube (251 thousands USD) and flash iBlazr (156 thousands USD).

A striking example is not only for the study of demand for products, but the determination of the direct expediency of expanding business and the development of the international market is the young Ukrainian company "Ukrainian Gears" (UGEARS), which developing and implementing unique three-dimensional mechanisms and designs. So, "UGEARS" on the crowdfunding platform Kickstarter, from January 2016 to July 2017, successfully carried out four companies to raise funds, steadily gaining popularity and expanding investment volumes. In particular, the fourth project "UGEARS Hurdy-Gurdy: unique mechanical musical model" were supported by 2 954 people (709 new backers and 2245 Returning Backers from more than 10 countries) at summary on 288 326 USD.

However, there are few representatives of domestic projects at Kickstarter, in particular due to the combination of withdrawal facilities and the language barrier.

For financing in small volumes or if the project is of local value, it is more expedient to use the national analogues of the crowdfunding platforms.

The first poll in Ukraine for the collective financing was "Jointfunds", created in 2012 on a platform of social innovations "Big Idea". During the period of functioning there were involved 12,59 million UAH from 25 810 persons successfully implemented 201 projects, the most famous of which is the Public TV, Film Rover, action Make Ukraine clean, picnic Glory Art Frolova [8]. However, only recently began to submit commercial application projects not only create some social capital to society, but also provide an opportunity to generate revenue.

In February 2013 created the second Ukrainian crowdfunding platform "Na – Starte", where 90% of the projects were commercial, but only about 15% of which – successful implemented (at about 4 million UAH) [9].

The greatest impact of the latest projects on the site was reached to finance the creation film by famous ukrainian comedian, thereby attracted 3,7 million UAH (124% of the required amount). This result is

the maximum for the domestic crowdfunding platforms.

In summary, it can be argued that crowdfunding – an innovative financial service, the main idea is based on the cooperation in the form of the collective funding of different kinds of projects to achieve set objectives, implemented through capital formation, which comes in small amounts from a large not previously known number of people on the basis of open competition using Internet technologies.

Crowdfunding today demonstrates and establishes the philosophy of business that works on the principle of "do it together". It may be a true test of a new instrument for the project, determining the target audience, learning preferences and wishes of potential customers.

Considering all the facts and trends of modern business technologies, crowdfunding in the short term, with appropriate legislative provision rightly converted from the financial experiment to successful working technology.

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