

# Crowdfunding in Serbia: What Do We Know So Far?

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**Abstract.** Crowdfunding has become a vital alternative financing method, gaining momentum across various sectors globally. Initially used for artistic projects, crowdfunding has evolved into a diverse ecosystem supporting entrepreneurial ventures, profit-driven initiatives, and philanthropic endeavors. Crowdfunding offers a powerful mechanism for organizations and companies to harness the collective wisdom, creativity, and resources of the crowd to achieve a wide range of goals efficiently and effectively. While crowdfunding in Serbia may not be as developed as in some other countries, there are clear signs of progress and growing interest in alternative financing options. With ongoing efforts to improve the regulatory framework, raise awareness, and support entrepreneurial initiatives, crowdfunding possesses the capacity to play an increasingly important role in the development of Serbia's economy and society.

**Keywords.** Crowdfunding, Group Financing, Crowdfunding platforms, Crowdfunding in Serbia.

## 1 Introduction

Crowdfunding is a rapidly growing phenomenon that has gained importance in recent years and is becoming increasingly prevalent in many different sectors and industries. Crowdfunding is particularly significant for startups because most banks and venture capital firms are often hesitant to provide loans to entrepreneurs in the early stages of their development (Bruntje & Gajda, 2016). They usually prefer to invest or lend once they are certain that the entrepreneur can repay the borrowed funds. On the other hand, crowdfunding allows startups to access funding directly from a diverse group of individuals who believe in their ideas, often providing a crucial source of capital in the early, riskier phases of their business journey. At the beginning of the development of crowdfunding, it was primarily used as a way to fund artistic projects, especially music projects. The first crowdfunding campaign dates back to 1997 when fans of British rock band Marillion raised \$60,000 via an online initiative to finance the band's reunion tour. Consequently, other artists in musical and other artistic fields also began to adopt crowdfunding (Bruntje & Gajda, 2016). In 2023, there are several hundred (489) crowdfunding platforms, with the highest number found in the UK (94), Italy (66), France (63) and Germany (46) (Bednroz, 2023). However, when considering the number of crowdfunding platforms per capita, the Baltic countries stand out – Estonia (22 platforms per 1 million people), Latvia (4.7) and Lithuania (3.9), while these figures for the previously mentioned countries are somewhat lower – UK (1.5), Italy (1.1) and Germany (0.6) (Bednroz, 2023). However, most Eastern and South-eastern European countries have a very small or non-existent number of crowdfunding platforms. The global crowdfunding market was valued at \$1.25 billion in 2022 and is anticipated to reach \$3.62 billion by 2030. North America dominated the global market with a share of 41.6% in 2022 (Fortune Business Insights, 2023). Crowdfunding is often defined as an alternative method of financing businesses or projects from many individuals, each contributing relatively modest amounts to sustain entrepreneurial ventures, profit-driven initiatives, or philanthropic endeavours (Wahjono et al., 2021). This alternative fund-raising activity is typically associated with an internet-based organisation and is often conducted by a crowdfunding operator, who is responsible for connecting project initiators or fund owners. Operators play a pivotal role in facilitating communication, allowing project initiators to interact with fund owners, investors, or debtors. This interaction involves the submission of business proposals or activity details and any information necessary for the operation or initiation of business ventures or new projects. A well-executed crowdfunding campaign can provide enough information to prevent entrepreneurship startups from failing. It is crucial to note that despite

this collaborative funding approach, the ultimate ownership of the projects, products, or ideas remains with the fundraisers and initiators (Wahjono et al., 2021).

The subject of this scientific paper is qualitative research on the different crowdfunding types and crowdfunding platforms operating in Serbia. At the beginning of the paper, in the introduction, the significance and concept of crowdfunding are described, along with the current global situation and trends related to crowdfunding. The first section of the research outlines the main characteristics, similarities, and differences among various types of crowdfunding. The second section focuses on the prevalence of crowdfunding in Serbia, its business models, and key participants. Finally, the paper concludes with the main findings and reflections on further development of crowdfunding in Serbia.

## 2 Crowdfunding Models

The focus of the first part of the conducted qualitative research is to explore different types of crowdfunding. Depending on what financiers expect as a return on investment, three different types of crowdfunding can be identified: Investment-based crowdfunding, Reward-based crowdfunding, and Donation-based crowdfunding (Živanović et al., 2023). Additionally, there is one more type of crowdfunding that is important to mention, which is called civic crowdfunding. All these models will be more closely presented in the paragraphs below.

### 2.1. Investment-based Crowdfunding

This form of crowdfunding implies that investors expect a corresponding monetary return. Depending on the nature and source of the monetary return realised by investors, Investment-based crowdfunding can be classified into three different groups: Equity-based crowdfunding, Royalty-based crowdfunding, and Lending-based crowdfunding (Živanović et al., 2023).

Equity-based crowdfunding represents the most complex form of crowdfunding, where entrepreneurs, through an online platform, issue securities to potential investors in exchange for funding their business ventures. This crowdfunding method operates on the principle of investors putting capital into a particular business and, in exchange, acquiring a share of ownership in the company (Bojković et al., 2022). Unlike other forms of group financing, in this case, the platform conducts a more rigorous selection of entrepreneurs who can advertise their venture and submit accompanying documentation. Platforms also define the type of security offered to investors (participating notes, convertible bonds, stocks), and the possibility of choice depends on the regulations in a specific country, the type of investors the platform aims to attract, and the level of risk the platform wants investors to bear. The most known crowdfunding platforms of this type are Crowdcube, CircleUp, Wefunder, and StartEngine (Bojković et al., 2022).

The second form of Investment-based crowdfunding is Royalty-based crowdfunding. This type of crowdfunding implies that financiers invest funds in projects, and in return, they receive a percentage of the revenue from the moment the project becomes sufficiently successful to generate income. The entrepreneur, together with the platform manager, predefines the revenue percentage for potential investors and the payback period for the investment (Bellefalmme et al., 2015).

The third form of Investment-based crowdfunding is Lending-based crowdfunding, also known as peer-to-peer lending. In this form of crowdfunding, investors provide funds to individuals, groups, or small businesses, expecting repayment after a defined period, with or without interest (Bellefalmme et al., 2015). This fundraising method serves as an alternative to borrowing from banks, with a significant difference being that there is a larger number of smaller investors on the investor side. Unlike banks, platforms do not bear credit risks and generate income by charging a commission. Both investors and borrowers benefit from the fact that the difference between the margin earned by banks and the commission charged by the platform is shared between users of the platform – borrowers have access to funds with lower costs, and investors earn yield in the form of interest as compensation for bearing credit risk. An example of a Lending-based crowdfunding platform is an American platform called Prosper, founded in 2005. Since then, this platform has provided more than \$25 billion for more than 1.4 million individuals (Prosper.com, 2024). The platform makes the selection of incoming loan applications through the credit score evaluation process. This process is based on the personal

characteristics of the applicant, the number of loan holders, the purposes for which the collected funds will be used, etc.

## **2.2 Reward-based crowdfunding**

This crowdfunding model represents a particular form of group financing where investors are not motivated by receiving monetary returns but rather by supporting a specific campaign and consuming what results from that campaign. This type of crowdfunding is commonly used in creative industries (culture, arts, gaming, etc.). The project's end product serves as a reward for those who funded the project (Bellefalmme et al., 2015). This type of group financing is characterised by investors simultaneously acting as financiers of a particular project and as consumers of the product or service that represents the output of that project (prosumers). Investors are not solely interested in whether the project will generate positive returns; they are more interested in whether the project will meet their expectations in terms of the final output and whether it will align with their tastes and preferences, which are the reasons they supported the project. The most successful platform for Reward-based crowdfunding is an American platform called Kickstarter. From its founding in 2009, over 250 thousand projects were financed, and more than \$7.8 billion was collected. This platform is available in 25 countries (Kickstarter.com, 2024).

## **2.3 Donation-based crowdfunding**

The last crowdfunding model is donation-based crowdfunding which is a group financing where investors do not expect any direct financial or material return for their contributions. Instead, they donate money to support the cause or project out of altruism, goodwill, or a belief in the mission (Bojković et al., 2022). Donation-based crowdfunding is often associated with charitable causes, non-profit organizations, social enterprises, or individuals seeking financial assistance for personal emergencies, medical expenses, community projects, disaster relief, or creative endeavours. Donors are usually informed about how their contributions will be used, and campaigners are often required to provide updates on the progress of their projects or causes. Transparency is crucial for building trust and credibility with donors.

## **2.4 Civic crowdfunding**

Civic crowdfunding is the practice of gathering funds from a large number of citizens to implement projects of public interest, which typically entail benefits for a larger group of people than those who supported the implementation. Improving local parks, small green spaces in the neighbourhood, supporting local entrepreneurs or social enterprises, renovating sports fields, backing youth projects, and similar initiatives represent good examples of civic crowdfunding (Božović, 2021). Local governments can participate in civic crowdfunding, and they have various modalities available for their engagement, depending on the possibilities offered by the legislative framework. Donacije.rs is the only domestic crowdfunding platform which is dedicated to non-profit entities. Campaigns on this platform rarely gather large sums of money, but most projects are successful.

## **3 Crowdfunding platforms operating in Serbia**

The second part of this qualitative research is focused on the analysis of crowdfunding and its main participants in Serbia. Crowdfunding in Serbia has become increasingly popular in recent years, although it is not as widespread or developed as in some other countries. The main reason for this is that there is a lower level of financial literacy among smaller enterprises, as well as insufficient awareness of the importance and opportunities offered by alternative funding sources. The second issue is related to the regulatory framework defined by the Foreign Exchange Law, which does not allow foreign investors to participate in crowdfunding campaigns, significantly reducing the number of potential investors. However, it seems that this problem could be partially overcome by introducing the Digital Assets Law (Živojinović et al., 2022). The biggest crowdfunding platforms in Serbia are Ventu.rs and Dobri Dabar.

Ventu.rs is a crowdfunding platform launched at the end of 2020 as a joint initiative of the consulting firm BDO Business Advisory and the company CONDA. Like all the platforms based on group financing, this platform connects financiers who invest their financial resources on one side with entrepreneurs and/or small businesses that use those funds to finance and develop their business ventures on the other side. Users of the platform have access to two financing models, depending on the type of company (Živojinović et al., 2022). The first model, intended for startups, involves financiers investing monetary funds in a business venture, thereby receiving a fixed interest rate of 7% annually and achieving the potential for additional returns through participation in the company's value growth. In other words, in addition to the primary interest, the investor receives a so-called stake in the investment with the increase in the company's value. This stake is virtual because it does not grant ownership rights and control to the investor but only the possibility of receiving additional returns. The second financing model, intended for small and medium-sized enterprises, is also based on a loan agreement where companies pay the investor a basic interest rate (usually 6% annually) and a bonus interest rate depending on the company's profit. In the first model, the repayment term for the loan is 5 to 7 years, while in the second model, companies repay the loan for 3 to 7 years. Although, depending on the type of contract, the loan may have a character closer to debt (second model) or a character more similar to investing in equity capital (first model), it is essential to emphasise that in neither of these two cases do investors become co-owners of the assets, nor do they gain the right to control and manage the company. The funds will be returned to the investors if the companies do not reach the targeted amount through the platform. Ventu.rs also conducts detailed verification and selection of business ventures/ideas for which a campaign will be launched on the platform, monitors the entire process of financing, and, together with its partners, provides expert and administrative support in that process. The platform charges a commission for its services in the form of a certain percentage of the raised financial resources. So far, six campaigns – Bubaja, Forest Secret, Autology, Kuća od blata – Mir Media, PetKlub and DB Taktil d.o.o. – have been funded through the Ventu.rs platform, raising a total of €791,800 from around 340 investors (Ventu.rs, 2024).

Dobri Dabar is a Serbian crowdfunding platform that the Loud Crowd Association launched with the support of the German-Serbian initiative for sustainable growth and employment. Dobri Dabar started operating in February 2022. In accordance with the platform's name, its focus is on initiatives that raise awareness about sustainable development, environmental care, and vulnerable social groups. Specifically, the platform supports the following areas: regional development and employment support, creating and protecting a better environment, creativity in culture and arts, science and research development, renovation, protection and development of spiritual and cultural values, civil society development, human rights and fundamental freedoms protection, children and youth rights protection, organisation of events of general significance and education development (Živojinović et al., 2022). The platform provides options for fixed or flexible project financing. Fixed financing means the campaign must reach the target amount to receive the funds. Since the platform is free, if the targeted amount is raised, it is transferred to the campaign owners minus transaction fees for credit card payments. In the case of an unsuccessful campaign, the funds are returned to the financiers. Most campaigns can only use this form of financing for two reasons: it reduces the risk of the project's failure and increases motivation to work on the campaign. Flexible funding is suitable for projects with measurable goals. So far, eight campaigns – Beogradska pčela, To finish a movie called Bube, Duh šume, Festival 'Novi balkanski ritam', Mali seoski park, Podrži Highwaystar – Podrži kulturu, ŠARMANI – fundraising for recording an album called "Muzički omnibus", Za još jednu volonTuru – have been funded through the Dobri Dabar platform, raising a total of RSD 2,718,028 (Dobri Dabar.com, 2024).

## 4 Discussion and Conclusion

In conclusion, this qualitative research provides insights into main types of crowdfunding: Investment-based crowdfunding, Reward-based crowdfunding, Donation-based crowdfunding and Civic crowdfunding. Also, the paper provides insights into two prominent crowdfunding platforms in Serbia, Ventu.rs and Dobri Dabar, which cater to different funding needs. Ventu.rs, operational since 2020, focuses on investments in startups through subordinated loans, fostering entrepreneurship while ensuring investor protection. On the other hand, Dobri Dabar, launched in 2022, focuses on sustainable development initiatives, offers flexible financing options, and fosters community engagement. Overall, crowdfunding in Serbia has the potential for further development driven by innovative platforms,

supportive initiatives, and evolving regulatory frameworks, poised to empower entrepreneurs and investors and, finally, have a positive impact on socio-economic growth.

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