Association of Belarusian Business Abroad

CASE – Centrum Analiz Społeczno-Ekonomicznych
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POLICY PAPER

Investment crowdfunding platforms and their opportunities for easing access to finance for SMEs with Belarusian shareholders in the EU

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Abstract

The policy paper reviews opportunities and challenges stemming from the worldwide and regional experience of investment crowdfunding platforms for small and medium-sized enterprises (SMEs), specifically platforms in Estonia, Latvia, Lithuania and Poland, that are relevant for companies with Belarusian shareholders registered in the EU. There is a large number of businesses owned by Belarusians in the EU (at least 8,623 as of January 2024) contributing to the economies of EU Member States, in particular by creating tens of thousands of jobs (at least 19,400 as of January 2024). The majority of them are relatively new businesses that relocated from Belarus following political repression after the presidential elections in 2020. Their access to financing through traditional bank lending channels is very restricted, mainly because of their lack of collateral, sanctions against certain Belarusians and Belarusian companies, and the applicants' short credit history. However, there are alternative non-banking ways of funding businesses available to Belarusian entrepreneurs, including crowdfunding. This paper analyses equity and debt crowdfunding, which is still in its early stages but is steadily growing, as is the amount of money raised through equity crowdfunding in the EU. Using crowdfunding platforms requires little effort, and has numerous advantages that this paper lists and explains from the perspective of a business seeking to raise capital for its development. First of all, equity and debt crowdfunding can help businesses access capital that they may not be able to secure through traditional means. Secondly, by offering access to a broader potential investor base, equity and debt crowdfunding can reduce the cost of financing compared to conventional forms. Thirdly, financing via investment crowdfunding can bring some long-term benefits for SMEs, such as expansion and diversification of the investor base (in the case of equity crowdfunding), and increase in business visibility and credibility associated with better corporate governance standards. The paper also refers to the challenges and even drawbacks of investment crowdfunding, and addresses potential solutions to these problems for companies with Belarusian shareholders. The proposed solutions may have long-term benefits, since they improve financial literacy of Belarusian businessowners, integrate Belarusian entrepreneurs further into the EU economy, strengthen their impact on the host economies as well as on the Belarusian diaspora, create a network of well-established companies, connected in the West, that may be stakeholders of future economic reforms in Belarus, and enhance the economic transition there.

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ABBA – Association of Belarusian Business Abroad is the biggest association of Belarusian business abroad bringing together more than 100 members from 11 countries from the EU, UK, USA and Canada. ABBA's goal is to integrate, protect the interests and develop the legal and ethical businesses of entrepreneurs with Belarusian roots for the development of New Belarus as an independent democratic country.

CASE – Center for Social and Economic Research is an independent, non-profit research institute founded on the idea that research-based policy-making is vital for the economic welfare of societies. Established in Warsaw in 1991, CASE today is recognised as the top think tank in Central and Eastern Europe and is one of the most highly regarded think tanks internationally. CASE carries out policy-oriented research and development assistance projects, specialising in the areas of: 1) Fiscal, monetary and financial policies; 2) Sustainable development policies; and 3) Trade, innovation and productivity policies.

Introduction

The private sector emerged as the key driver of protests following the fraudulent presidential election in Belarus in August 2020 (OSCE, 2020), and faced a harsh government response in the aftermath, leading to the first mass wave of business migration from Belarus. The political crisis affected many Belarusian private companies across a variety of sectors, as well as the self-employed. According to a survey conducted in October-November 2021, the political crisis led to financial losses for more than 60% of the surveyed businesses.[1] Subsequently, following the Russian invasion of Ukraine on 24 February 2022, the private sector experienced further pressure to relocate from Belarus due to the challenges related to the newly imposed economic sanctions against Belarus.

The relocation of Belarusian businesses to the EU continued in 2022 and 2023. As a result, as of January 2024 there were at least 8,623 businesses with Belarusian shareholders[2] registered in the EU (excluding self-employment, see Figure 1, and Naūrodski & Alachnovič, 2024). Poland, Estonia, Lithuania and Latvia together account for 96% of all firms with Belarusian shareholders registered in the EU. The number of new registrations reached a record high level in 2022. In 2023, new business registrations were lower in the four key countries. 58% of all businesses were registered in 2020–2023. The enterprises with Belarusian roots in these four key destinations are predominantly micro and small firms (with up to 50 employees) in service sectors. The top 4 sectors in terms of number of businesses are retail, wholesale, transport and construction. The relocated Belarusian businesses contributed to the economies of EU Member States by creating at least 19,400 jobs as of January 2024 (Naūrodski & Alachnovič, 2024).

Figure 1. Total number of companies with Belarusian beneficiaries in the EU, as of Jan 2024

Responding to the financing needs of these companies, ABBA and CASE have drawn up a series of policy papers aimed at exploring alternative non-bank financing options for businesses with Belarusian shareholders in the EU. The outcome will be solutions involving non-bank debt and equity financing instruments designed to encourage improved risk allocation and risk-taking, thereby supporting the development and growth of young and promising firms with Belarusian shareholders. Insights from these policy papers will be further utilised in discussions with stakeholders involved in Belarusian business support programmes in the EU.

The structure of the review is as follows. The first part discusses why financing poses a problem for Belarusians interested in investing in the EU, while also providing estimates of the investment gap for Belarusian firms in the EU. The second part presents the essence of investment crowdfunding, outlining what SMEs can gain from crowdfunding platforms, and examining their key opportunities and challenges. The third part provides a short description of equity crowdfunding platforms in the EU, specifically in Lithuania, Latvia, Estonia and Poland, and compares them with one another. It offers insights into issues that could be relevant for businesses with Belarusian shareholders in the EU. We conclude the review with policy solutions that could potentially be implemented at the EU or national levels. The Annex provides methodological notes.

[1] Survey conducted by Imaguru Startup Hub and Coordination Council, covering 154 companies (the survey is no longer publicly available).
[2] We define a EU business with Belarusian shareholder or Belarusian capital as a EU-based enterprise with at least one shareholder being a citizen of Belarus or a business registered in Belarus. The definition "Belarusian business" in the text refers to a business with Belarusian shareholder registered in one of the EU countries.

1. Problem statement and market gap analysis

At the moment, the situation of businesses with Belarusian owners in the EU is quite unique compared to businesses registered by local citizens or immigrants from elsewhere, for six key reasons:

- restrictions related to financial assets,[3] which froze the potential collateral that Belarusian citizens in the EU could pledge in exchange for traditional bank funding
- severe limitations on bank transfers to and from Belarus due to the financial sanctions imposed by the EU
- restrictions on Belarusian citizens introduced by the sanctions (the toxicity of the Belarusian passport), which make carrying out formalities in EU countries very troublesome and risky, especially in banking operations, despite Belarus passport holders receiving residence permits in the EU
- uncertainty regarding the extension of EU legal status, due to some EU countries introducing restrictions on Belarusian nationals, and because of Belarusians being treated in general as a security risk[4]
- the inability to provide collateral for a loan, often because of a combination of the above factors; this even includes real estate collateral (very common in funding small companies at the launch phase in some parts of the EU[5])
- the individual credit history of applicants with Belarusian passports in the EU – often too short for them to qualify for a loan

Altogether, this significantly complicates investments by potential Belarusian entrepreneurs in the EU, despite their willingness to register new businesses and invest in their development.

Restricted access to finance for SMEs does not come as a surprise, as it is usually a significant growth constraint for small and medium-sized enterprises worldwide.[6] EU evidence indicates, however, that access to finance is reported as the third major concern by euro area businesses (around 25% of firms reported access to finance as a major concern for their business in 2023, down from around 40% in 2012) (European Central Bank, 2023). We therefore assumed that a Belarusian immigrant in the EU would have relatively more restricted access to funding for starting and developing their own business than is the case for an EU citizen.

This assumption was studied in the two surveys of businesses with Belarusian shareholders in EU countries conducted in 2022–2023. The first survey of the financial needs of companies with Belarusian shareholders and self-employed Belarusian individuals in the EU from December 2022 to January 2023[7] showed that 80% of the companies expressed the need for a loan in the coming year of operations (Naūrodski & Alachnovič, 2023). Of the companies surveyed, only 18% had previously applied for a bank loan. Of those who applied, 35% obtained a positive response from a bank. Companies with positive responses were registered between 2012 and 2022, which suggests that the year of registration was not a critical factor for bank decisions. The second survey of Belarusian entrepreneurs, conducted in September to October 2023,[8] revealed a more modest appetite for external financing, and showed that

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[3] In 2022 the European Commission prohibited the acceptance of deposits exceeding €100,000 from Belarusian nationals or residents, the holding of accounts of Belarusian clients by the EU central securities depositories, as well as the selling of euro-denominated securities to Belarusian clients. Source: https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1649.

[4] Recent changes in the legislation of Estonia, Latvia, and Lithuania tend to set tougher conditions for holders of Belarusian passports to obtain a visa, residence permit or citizenship, to buy property, or even to drive a car with Belarusian plates.

[5] See, for instance, Banerjee and Blickle (2021).

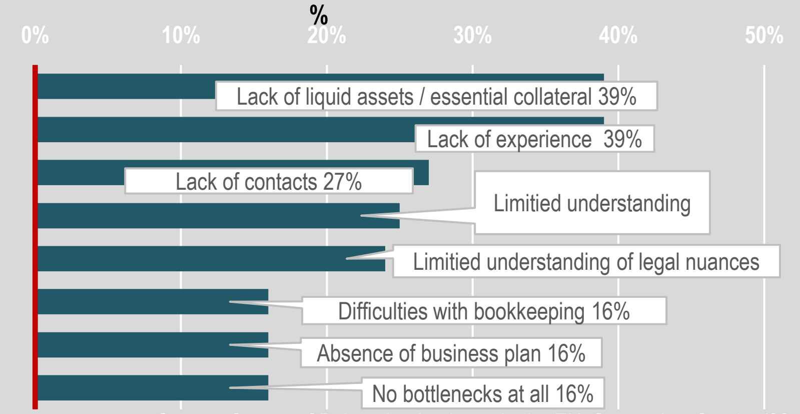
[6] See, for instance, Beck and Demirgüç-Kunt (2006).

[7] The survey covered businesses with Belarusian shareholders and self-employed individuals registered in Poland, Lithuania, and Germany. The responses were controlled for diversity in terms of country and region of registration, annual turnover, number of employees, and sector of operations. In total, 77 responses were collected, of which 61 (79%) were from Poland.

[8] The survey covered businesses with Belarusian shareholders in the EU. 102 Belarusian owners of businesses in the EU were surveyed, and a focus group was held with 5 owners. Sample profile: 69% of the respondents were from Poland, 20% from Lithuania, 11% from other EU countries, representing 15 various sectors of the EU economy. The share of micro-enterprises (up to 9 employees) in the survey was 89%,

almost every second business (47%) lacked the financial resources needed for its development (Naūrodski & Alachnovič, 2023). The key bottlenecks for external financing in the EU countries studied here are lack of liquid assets and essential collateral (answered by 39% of those who indicated a need for external financing) and lack of experience in obtaining external financing (39%) (Figure 2). As a result of the above-mentioned

Figure 2. External financing bottenecks for your company , %



Source: Survey of Belarusian business in the EU, September-October'23

restrictions observed by entrepreneurs from Belarus in the surveyed EU countries, only 17% of all respondents applied to banks for loans in 2022–2023 (similarly to the first survey), while 28% said they planned to apply. The success rate among those who had already applied for a business loan was 24%, while 71% had their applications rejected, and 5% were awaiting a decision.

The survey findings suggest that unsatisfied demand for bank-based financing for businesses with Belarusian capital ranges from 65% to 75% of the total assessed financial needs. Due to the limited statistics available and unreliable or biased data acquired from surveys, it is difficult to estimate the actual financial requirement among Belarusian enterprises registered in the EU. Simple calculations based on the distribution of the businesses' responses regarding the scale of their requirements and the total number of Belarusian firms in the EU[9] indicate that the total financial need would be over EUR 100 million.

On the other hand, it should be underlined that efforts by Belarusian businesses to access the financial market are severely hampered by factors that are also justified or common for local businesses in the EU. Firstly, Belarusian businesses are very small, employing 2–3 employees on average. Secondly, while not questioning the fact that medium-sized, small and micro-enterprises produce a significant percentage of national income, one must not forget that the risk posed by these enterprises as customers of the financial market is much greater than among large enterprises. The smaller the enterprise, the less is known about it. They rarely have a long credit history, their reporting (if they report at all) is extremely limited, and they use very simplified accounting. Financial institutions are therefore reluctant to consider such small clients. Thirdly, the valuation of credit risk is more difficult in their case. Financial institutions have very little knowledge of the Belarusian financial market. At least in recent years this market has not been widely exploited, and business cooperation between EU and Belarusian companies has disappeared. Hence, a Belarusian part of the business and credit history of companies that fully or partially relocated to the EU might not be considered in their loan applications by banks in the EU.

In addition, the impediments to financial access listed above (Figure 2) are of various types, but from the point of view of the finance provider particularly important (although not necessarily frequent) are: lack of liquid assets / essential collateral; limited understanding of financial forecasting; difficulties with bookkeeping; and the absence of a business plan. If local entrepreneurs (for example from Poland or the Baltic states) were to apply for a loan, almost any of the items listed would prevent them from

small businesses (11-49 employees) accounted for 8%, and 3% of the businesses were medium-sized (50-249 employees). 71% of the business owners were male, and 68% of all respondents had higher education.

[9] We realise that not all EU-registered firms have started operations. Data from the open data platforms show that only around half of the businesses have employees and any turnover. We therefore took a threshold of 50% of the total number of businesses to be included in the market size for the calculations.

receiving a loan. It is therefore not surprising that financial institutions regard them as serious obstacles to the granting of financing. A solution here could be the development and promotion of financial literacy among Belarusian immigrants who moved to the EU in the past years.

Bearing in mind that there is a significant market gap in external financing for businesses with Belarusian shareholders in the EU, and the fact that businesses with a Belarusian owner constitute a risky category of borrowers with limited access to liquid assets and essential collateral, there is potential for them to use the investment crowdfunding market instead of or complementary to banking loans. Poland and the Baltic countries, as the key destinations for Belarusian businesses with well-developed financial infrastructure, could provide certain equity and debt crowdfunding opportunities appropriate for SMEs with Belarusian shareholders, and supply a certain share of external financing for Belarusian SMEs.

2. SMEs and investment crowdfunding: opportunities and challenges

What is equity and debt crowdfunding?

Equity and debt crowdfunding are relatively new financial mechanisms for raising capital from multiple investors with few formalities. We refer to them as *investment crowdfunding* opportunities via an online platform, where businesses (usually SMEs) solicit a bunch of investors (i.e. the crowd) each willing to invest a relatively small amount of money. The low minimum investment amount (for many platforms the standard is €100/$100 or €500/$500,[10] although there are also platforms where one can invest a minimum of €10/$10[11]) makes investment crowdfunding accessible to a wide range of investors without going to a bank or stock exchange.

However, equity and debt crowdfunding are two different approaches to investment. In the case of equity crowdfunding, broad groups of investors fund businesses and start-up companies in exchange for equity (i.e. an ownership stake). Investors give money to a business, and receive ownership of a small piece of that business. As with a stock exchange, if the business succeeds then its value goes up, as too does the value of a share in that business. The return can also take the form of dividends when a company makes profits. Debt crowdfunding in turn offers an expected fixed return on investments.

There are multiple platforms that specialise in either debt or equity crowdfunding, or offer both.[12] Each of these platforms comes with a unique set of requirements for investors and businesses, as well as different offering types and investment structures. While some platforms take a percentage of the interest paid to investors, others have servicing fees or a posting fee for each listing. As a rule, in investment crowdfunding the borrower pays more than the investor, and the fee is correlated to the total amount raised.[13]

Investment crowdfunding (equity-based and debt-based crowdfunding, as well as real estate crowdfunding[14]) must be distinguished from other traditional crowdfunding methods, such as rewards-based and donation-based crowdfunding. Real estate crowdfunding focuses on real estate development projects, and assumes that the funded property serves as collateral for the debt. Technically, real estate crowdfunding falls under either the debt or equity categories of investment crowdfunding, but due to

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[10] See Chapter 3 for a review of the platforms in Lithuania, Latvia, Estonia, and Poland.
[11] For instance, Finbee (www.finbee.lt), SAVY (gosavy.com), SMBX (www.thesmbx.com) or WorthyBonds (www.worthybonds.com).
[12] There are hundreds of platforms across the world. For example, for equity crowdfunding specialised online platforms are Republic (formerly Ceedrs), CrowdCube, Wefunder, StartEngine, and Fundable. For debt crowdfunding there are WeShareBonds, Capitalia, and Fundhero. Mixed investment crowdfunding platforms are SMBX, WorthyBonds, LITA, Crowd2Fund, and Invesdor. The full list of platforms can be found at: https://thecrowdspace.com/platforms/.
[13] This fee is typically deducted from the funds raised before they are disbursed to the issuer. See, for instance: https://www.startengine.com/blog/what-fees-are-charged-by-crowdfunding-websites/ or https://www.linkedin.com/pulse/navigating-costs-understanding-fees-associated-crowdfunding-vesterr-nncqe.
[14] Various sources and regulators do not refer to real estate as a separate type of crowdfunding (for instance, see https://single-market-economy.ec.europa.eu/access-finance/guide-crowdfunding/what-crowdfunding/crowdfunding-explained_en).

its growing popularity in Europe we treat it as a separate type of investment crowdfunding based on real estate collateral.[15]

Box 1. Typical investment crowdfunding process

On average, the funding process for a borrower is as follows:

1. **Application stage.** The potential borrower fills in an application for financing of equity or for a business loan.
2. **Project evaluation.** Crowdfunding platform specialists analyse the submitted material in detail, assess the opportunities and risks of the business/project, and select the business/project that fits the platform's risk criteria.
3. **Funding campaign.** Selected projects are placed initially for a pre-funding campaign to monitor the investors' demand and later for a crowdfunding campaign to raise funds from investors.
4. **Transfer of funds to the borrower.** After a project is fully funded, the borrower usually signs the agreements that ensure payments to investors.
5. **Debt repayment / equity rewards.** In the case of debt crowdfunding, the borrower makes repayments according to a repayment schedule detailed in every project description. In the case of equity, dividends will be paid when the company makes a profit and allocates it for dividends.

Source: own elaboration

Opportunities and advantages

There are a few key reasons why equity and debt crowdfunding can have a positive impact on business development and the economy in general. The first and most important is that equity and debt crowdfunding can help businesses access capital they may not be able to secure through traditional means. This is particularly important for small businesses and start-ups, which often have difficulty and face tough competition securing funding from traditional sources such as banks or venture capitalists (European Commission, 2017). One of the key research questions is whether investment crowdfunding has democratised access to finance and can lead to greater financial inclusion.[16] While research for financial inclusion in investment crowdfunding is currently rather limited, there is evidence that gender diversity, for instance, is greater in equity crowdfunding platforms than in traditional entrepreneurial finance markets (Vismara et al., 2017). Debt crowdfunding may be positioned to serve SMEs, start-ups, or individuals with limited or no credit history (Jenik et al., 2017), which happens to be exactly the case of relocated businesses with Belarusian shareholders in the EU.

Secondly, from a financial perspective, the cost of equity and debt crowdfunding can – given the access to a wider potential investor base – be lower than traditional forms of finance. According to Yasar (2021), under certain circumstances equity crowdfunding can help entrepreneurs raise capital at lower costs than conventional financing sources, mainly for three reasons: 1) improved matching of creators with the funders who are most eager to invest in their start-ups; 2) bundling equity sale with additional rewards such as early access to products or recognition; 3) the information better conveyed to investors in comparison to traditional funding sources. Moreover, equity crowdfunding allows SMEs to focus on a long-term financing source that does not need to be paid back, resulting in less of a financial burden during times of economic stress. It thereby increases SMEs' capacity to carry more debt financing in the balance sheet (Cerpentier et al., 2022). European authorities admit that equity crowdfunding is usually less costly than being listed on the stock market.[17] In the case of debt crowdfunding, businesses can secure funding for both small and large projects, usually at a reasonable cost. Debt platforms can reduce the cost of the loan to the fundraiser because, unlike banks, they use innovative algorithms to determine

[15] We distinguish real estate crowdfunding as a separate type when presenting investment crowdfunding platforms in Chapter 3. For more technical information, please read, for instance: https://equitymultiple.com/blog/what-is-real-estate-crowdfunding.

[16] According to the World Bank, financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way (https://www.worldbank.org/en/topic/financialinclusion/overview).

[17] https://single-market-economy.ec.europa.eu/access-finance/guide-crowdfunding/different-types-crowdfunding/equity-crowdfunding_en.

the creditworthiness of applicants, and specialise in a limited number of products and services that allow platforms to operate with a relatively low infrastructure cost (Jenik et al., 2017). One recent online review of debt and revenue-sharing crowdfunding platforms reported that the average interest rate was 11.2% since mid-2022, over an average maturity term of 3.9 years.[18]

Thirdly, equity and debt crowdfunding have the potential to enhance innovation. Businesses looking at the crowdfunding market often direct their efforts towards introducing innovative products and attract much attention from the wider public via social networks. Investment crowdfunding campaigns frequently address specific challenges, and with broader access to the public through social media, crowdfunders can consider investing in new products, services and technologies, drawing support for their ideas from the crowd. As one recent report indicates, the extensive reach of social media allows crowdfunding campaigns to efficiently promote and publicise initiatives, attracting a large number of potential backers from around 4.2 billion people globally who regularly use social media, representing 54% of the world's population.[19] In academic literature, however, evidence of a correlation between investment crowdfunding and innovation is somewhat mixed. For example, Paschen (2017) and Stanko & Henard (2016) posited that crowdfunding fosters innovation by increasing the generation of ideas and through feedback from backers (i.e. the wisdom-of-crowd effect), while Eldridge et al. (2021) found a negative relationship between crowdfunding and two metrics of innovation.

Fourthly, equity and debt crowdfunding can support the growth of existing businesses, helping them to expand their products and services while focusing on their local and global impact. Investment crowdfunding can become a substantial contributor to impact investing, which seeks to support socially responsible projects leveraging social media for promotion and local communities (Agrawal & Hockerts, 2021). For local markets, crowdfunding can be used as the primary avenue for fundraising while enhancing visibility for forthcoming initiatives and PR campaigns (Feola et al., 2017).

Finally, financing via investment crowdfunding can also bring some long-term benefits for small businesses beyond initial access to capital. It can increase business visibility and credibility associated with corporate governance standards (Czugan et al, 2022). Public accountability, increased transparency and available reporting implicitly or explicitly required by investors encourage better management practices, governance and performance monitoring.

Challenges

From the perspective of borrowers, we distinguish five major challenges for successful investment crowdfunding:

1. low liquidity that impacts investor interest
2. the cost of a successful public campaign
3. increased expectations from investors in regard to borrowers' corporate governance standards
4. the dilution of shares in the case of equity crowdfunding
5. the dearth of investment crowdfunding infrastructure.

Low levels of liquidity constitute one of the most important deterrents to investment in SME securities. Lack of liquidity discourages investor participation and increases the costs of capital-raising for small businesses (Lipson & Mortal, 2009). In the case of equity and debt crowdfunding, liquidity is one of the core issues, as in fact there is no public market for the investment (Jenik et al., 2017). Put simply, when the investment crowdfunding is done, the investor will not be able to easily sell their equity or loan, and investors sometimes need to find a new buyer themselves.[20] However, a growing share of investment

[18] See https://kingscrowd.com/are-current-debt-and-revenue-share-interest-rates-fair-for-investors. Average interest rates for Estonia, Latvia, Lithuania, and Poland are reviewed in Chapter 3.

[19] https://finance.yahoo.com/news/crowdfunding-industry-report-2023-empowering-081800097.html.

[20] For instance, Emiteo.pl guidelines say that any investor can sell their shares directly to another private investor behind the counter. On the Wefunder platform, you can sell your stake to another investor if they are a family member or an accredited investor during the first year of your investment. After the first year, you can sell your stake to any interested buyer. In either case, you need to find a buyer first. Once you

crowdfunding platforms provide their own secondary market option, through which investors can transfer the available rights to loan to other investors or purchase from other investors.[21] In this case, investments acquired on the secondary market are subject to the same conditions as all primary market investments. In practice, there can be four options for investors to sell their stakes in a crowdfunding investment:

- the secondary market, if available on the crowdfunding platform
- through a private sale (over-the-counter), pursuant to the legislation of the investor's country of residence
- buyout of the shares/debt by the borrower, as may be stipulated in the crowdfunding agreement
- in the case of equity crowdfunding a successful business may, after some time, be publicly traded on the stock market (SME market or regulated market), and investors will be able to sell their stakes at the market price[22]

This highlights the importance of a tailored approach to funding campaigns, where borrowers seek to establish customised relationships with investors, some of whom may also be current or future customers or supporters of their products or services. Successful public campaigns on social media require careful planning, as they can take time to develop and their costs may vary. One of the goals for an investment crowdfunding campaign is to reduce the risk of investment. Investors are aware that most start-ups do not succeed, since more than two-thirds of them never deliver a positive return to investors (Eisenmann, 2021). In the case of investment crowdfunding platforms, the limited choice and shortage of historical data on potential investments make the risk of investment comparatively high. Potential business fraud makes this risk even higher. A borrower must provide an investment-ready project, present a business plan and financial forecasts, and set up a reliable communication strategy with the most important information about the project readily available and easily understandable to potential investors.

Crowd investors typically have increased expectations of borrowers' corporate governance standards, and this entails additional costs for businesses that cannot be ignored (Agrawal et al., 2014). These expectations can include information disclosure and legal documents provided for public review, annual general meetings with shareholders, the management of corporate rights, annual reports, decision procedures, and so on. Due diligence is usually carried out by the crowdfunding platform, while an investor may have the option of asking for more information, and the borrower should be prepared to provide this information even if it means additional costs.[23]

The dilution of shares is another potential challenge, but only in the case of equity crowdfunding, since borrowers offer equity to individual investors in exchange for funds. Investors' rights can vary; however, shareholders typically have voting rights on key matters in running the business, market risk, financial snapshot, likely returns, and so on. Communication between the shareholders often becomes an issue (Kleinert & Volkmann, 2019). When planning a crowdfunding campaign, it is crucial to understand how much of the control rights over the business a borrower is ready to give to external shareholders. Another associated risk is the cost of potential compensation, as in some cases investors may claim damages to compensate for money loss resulting, for instance, from breach of contract.[24]

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have a buyer, you must email Wefunder to set up the legal transfer documents. During this process, you also need to arrange the transfer of funds between you and the buyer, as Wefunder does not assist with this step.

[21] As presented in Chapter 3, in Lithuania, Latvia, Estonia and Poland some crowdfunding platforms have secondary markets, for instance, Crowsestate, HeavyFinance, CrowdedHero.

[22] For instance in Poland, out of 85 companies that issued on Polish investment crowdfunding platforms in 2021, five were already quoted on the stock exchange (NewConnect), while 27 planned their debut in 2022 and another 22 planned this within the next two years (see Czugan et al, 2022).

[23] https://single-market-economy.ec.europa.eu/access-finance/guide-crowdfunding/different-types-crowdfunding/equity-crowdfunding_en.

[24] Ibid.

Finally, the absence of an ecosystem that can cater to SMEs' specific financial needs might reduce businesses' willingness to crowdfund. For investment crowdfunding markets to flourish, there should be the right balance between adequate investor protection on the one hand, and affordable costs for SMEs' access to funds on the other. This could be achieved through the development of investment crowdfunding ecosystems that include regulations, platforms, information distributors, analyses and research, market-makers, advisors, and so on. At present, the investment crowdfunding ecosystem is in its formative stages. A larger number of participants in such an ecosystem would create greater crowdfunding capacity for SMEs and support them in the longer term.

3. Investment crowdfunding options for Belarusian SMEs that have relocated to the EU

The crowdfunding market in the EU has been developing fast in recent years. Initially lagging behind the US market, the EU investment crowdfunding industry was impeded by high compliance costs and a lack of harmonisation across the Union. In 2021, the EU launched harmonised rules designed to improve online capital formation under the ECSPR (European Crowdfunding Service Provider for Business Regulation, see Box 2). According to this common-sense approach, crowdfunding platforms approved under the ECSPR with relaxed requirements for the emission of securities may raise up to €5 million over a period of 12 months from anyone over the age of 18 in each EU Member State. Campaigns exceeding €5 million are regulated by Directive 2014/65/EU on financial markets (MiFiD II), and hence, prospectuses must be published when securities are issued and offered to the public. The ECSPR does not apply to individuals using crowdfunding for personal reasons (i.e. rewards crowdfunding and donation crowdfunding).

Box 2. European Crowdfunding Service Provider for Business Regulation (ECSPR)

The Regulation 2020/1503[25] came into force on 10 November 2021 to harmonise how retail investors invest in start-ups and private businesses across Europe. The regulation created a uniform regulatory framework across the EU for both equity-based and debt-based crowdfunding platforms, allowing them to apply for an EU licence based on a single set of rules, and making it easier to offer services to both businesses and investors across the EU.

The ECSPR mechanism for licensed platforms works like this: an equity or debt crowdfunding platform willing to provide crowdfunding for business applies to the relevant authority in one of the member states to enable the sale of securities across the EU. However, EU Member States have their own national thresholds below which the obligation to publish a securities prospectus does not apply for securities issued in the local market. For instance, in Czechia the threshold is €1 million, in Poland it is €5 m, and in Lithuania it is €8 m.[26]

Source: European Commission, European Securities and Markets Authority (ESMA)

Estimates are that over €1 billion was raised under the ECSPR in 2023, with the majority originating from debt-based offerings.[27] Some platforms specialise in niche sectors such as sustainable business, green offerings, or real estate. In April 2024, there were more than 190 platforms with ECSPR approval, according to the European Securities and Markets Authority (ESMA); the number had more than tripled in less than a year (in October 2023 there were just over 60 providers under the ECSPR) (see Figure 3).[28]

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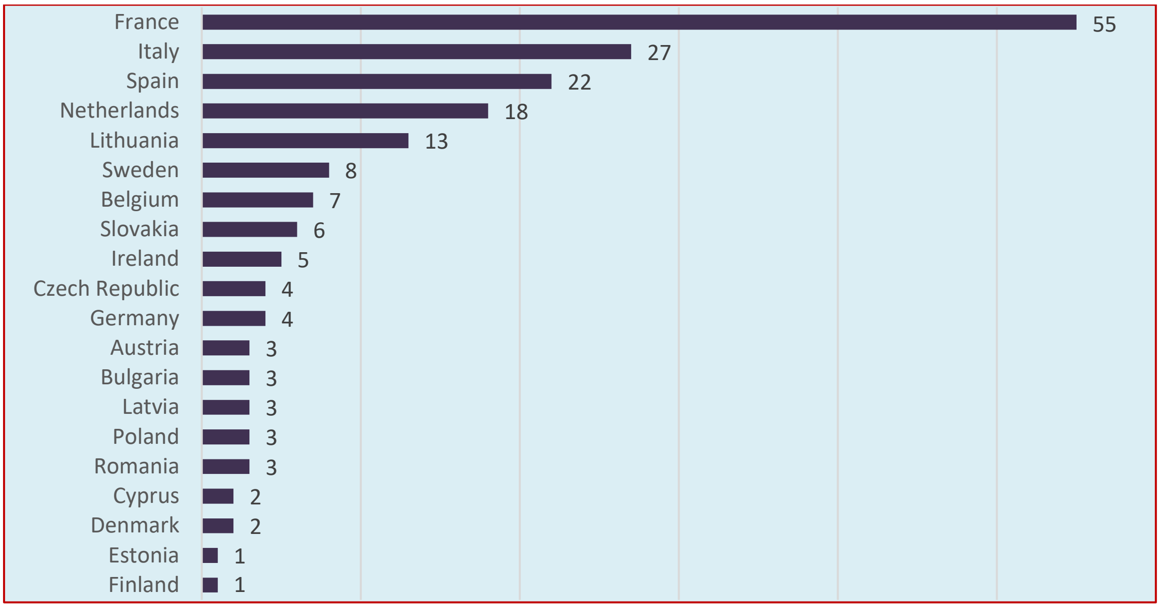
[25] Regulation (EU) 2020/1503 on European crowdfunding service providers for business, see https://eur-lex.europa.eu/legal-content/EN/AUTO/?uri=celex:32020R1503.
[26] The full list of thresholds can be found here: https://www.esma.europa.eu/sites/default/files/library/esma31-62-1193_prospectus_thresholds.pdf.
[27] https://eurocrowd.org/blog/2023/11/23/ecspr-monitor-5-a-paradigm-shift-for-the-crowdfunding-sector/.
[28] The full list of platforms can be found here: https://www.crowdfundinsider.com/2024/04/224308-eu-there-are-now-190-ecspr-approved-crowdfunding-platforms/.

Figure 3: Number of platforms approved under the ECSPR in EU countries, as of April 2024



Source: Crowdfundinsider.com

Many European investment crowdfunding platforms remain unlicensed under the ECSPR. A survey of European crowdfunding platforms indicates that 81.6% of equity and 65.5% of debt platforms are licensed under the ECSPR (Shneor et al., 2023). In Germany, for example, there are three crowdfunding regimes: 1) the ECSPR regime; 2) the German crowdfunding exemption for investment assets; and 3) the German crowdfunding exemption for securities between €5 million and €8 million.[29] As of March 2023, there were a total of 594 crowdfunding platforms operating in Europe (both licensed and unlicensed).[30]

In absolute terms (both licensed and unlicensed platforms), Germany, the UK and France are the countries with the largest number of platforms, while the Baltic countries punch well above their weight in terms of number of platforms operating per capita (Shneor et al., 2023). The picture changes with licensed crowdfunding platforms under the ECSPR: Lithuania is the leader among the Baltic countries, but also one of the leaders in the EU, outperforming Scandinavian countries and Germany in total number of licensed platforms. Lithuania has a broad range of investment products with a broad offering for small businesses and decent financial results for investors from all over the EU.

Table 1 provides a summary of all crowdfunding platforms currently approved under the ECSPR as of July 2024 in Poland, Lithuania, Latvia and Estonia, as these are the key destination countries for relocated Belarusian businesses in the EU. Most of these platforms are debt-based, and they include real estate-backed loans. However, it must be kept in mind that a business does not have to be registered in these countries in order to participate in crowdfunding.

Table 1. List of investment crowdfunding platforms approved under the ECSPR in Poland, Lithuania, Latvia and Estonia

Platform name	Website	Country	Type	Investment raised, EUR m	Average return on investment, %	No of investors	Minimum investment, EUR	Loan-to-Value, %	Secondary market
Crowdestate	crowdestate.eu	EE	RE	135	13.4	68043	100	n/a	YES
Capitalia	capitalia.com	LV	D	77	12.31	1131	200	n/a	NO
CrowdedHero	crowdedhero.com	LV	E+D	n/a	n/a	n/a	n/a	n/a	YES
LANDE.finance	lande.finance	LV	D	23.4	10.8	7329	50	44	YES
Greenit Crowd	greenit.lt	LT	D	n/a	10	n/a	50	n/a	NO
Crowdpear	crowdpear.com	LT	RE	11,2	11.2	6716	100	60.8	NO

[29] Ibid.
[30] Ibid.

Finbee	finbee.lt	LT	D	74.4	13.8	22751	10	n/a	NO
FinoMark	finomark.lt	LT	D	9.3	11.67	4045	100	38.77	NO
Go invest	CapitalGoInvest.lt	LT	RE	n/a	n/a	n/a	500	n/a	NO
HeavyFinance	heavyfinance.com	LT	D	57.16	12.96	11999	100	n/a	YES
Let'sInvest	letsinvest.eu	LT	RE	39	10.21	2515	500	n/a	NO
Inrento	inrento.lt	LT	RE	27.5	13.38	2835	500	n/a	YES
Nordstreet	nordstreet.com	LT	RE+D	43.4	12.49	5354	100	75	YES
BeMyBond	bemybond.com	LT	D	n/a	n/a	n/a	n/a	n/a	NO
Profitus	profitus.lt	LT	RE+D	188.1	12.14	38360	100	65.8	NO
SAVY	gosavy.com	LT	D	8.4	13	43695	10	n/a	YES
Rontgen	rontgen.lt	LT	RE	136.3	n/a	3756	100	n/a	NO
Emiteo sp. z o.o.	emiteo.pl	PL	E	3	n/a	11300	n/a	n/a	NO
Finansowo.pl	finansowo.pl	PL	D	n/a	n/a	n/a	n/a	n/a	n/a
GPW Private Market S.A.	gpwpm.pl	PL	E	n/a	n/a	n/a	n/a	n/a	n/a

Notes: E – equity crowdfunding; D – debt crowdfunding; RE – Real estate crowdfunding
Loan-to-Value is the average amount of debt that can be raised relative to total value of the project

There is an important practical issue related to equity crowdfunding in the EU. If a business considers using equity crowdfunding, it must be registered as a publicly tradable company. Article 2 of ECSPR authorises Member States to allow shares in limited liability companies to be sold through crowdfunding platforms only when there are no restrictions on the disposal of shares, including limitations on the ability to offer or advertise shares to the public in each EU Member State. According to the laws of Poland,[31] Lithuania,[32] Latvia[33] and Estonia[34], shares of a private limited liability company cannot be placed and traded publicly. This presents a significant legal barrier for Belarusian businesses in the EU seeking equity crowdfunding, as we estimate that the share of publicly tradable companies among the total number of firms with Belarusian shareholders in the EU is extremely low, at less than 0.01%.[35] Companies wishing to use equity crowdfunding would need to change their legal status by opting for one of the available options in Poland[36] or the Baltic countries.[37] While changing the legal form of a business is challenging and costly, it can be a feasible and strategic step when planning for a company's growth and long-term development.

However, there is a practical solution with a Special Purpose Vehicle (SPV) that allows private limited liability companies to use equity crowdfunding in the Baltic countries and Poland. For instance, the CrowdedHero platform based in Latvia explains that an SPV is a publicly tradable Joint Stock Company that pulls together a crowd of investors, and makes an investment into the project owner's company share capital, holding the legal title to shares on trust for investors (the crowd). Figure 4 illustrates how this model works.

Figure 4: Special Purpose Vehicle (SPV) mechanism of equity crowdfunding

[31] https://www.kochanski.pl/en/prohibition-of-equity-crowdfunding-in-limited-liability-companies.
[32] https://www.lb.lt/uploads/documents/files/Questions%20and%20answers.pdf.
[33] https://www.ur.gov.lv/en/register/company-or-merchant/llc-with-no-min-capital-requirement.
[34] https://www.baltic-legal.com/estonia-company-formation-and-registration-eng.htm.
[35] In Poland, Lithuania, Latvia and Estonia we found only six such companies: four in Poland and two in Estonia (as of January 2024).
[36] See, for instance: https://lawboxfirm.com/przeksztalcenie-spolki-z-o-o-w-spolke-akcyjna.
[37] See an example for Lithuania: http://www.invoco.lt/imoniu-pertvarkymas-reorganizavimas.

Source: Crowdedhero.com

For all businesses that operate as private limited liability companies, fundraising for projects is readily available via debt crowdfunding. As a result, debt-based crowdfunding is more popular in the EU – and generates a greater share of successful investments – than equity crowdfunding.

EU legislation allows businesses to choose any crowdfunding platform in the EU, not necessarily in their country of registration. For instance, interested Belarusian businesses registered in Poland can apply to crowdfunding platforms in the Baltic countries. This option is especially relevant, as the Polish equity crowdfunding market currently appears to be in a slump, and its capacity has been shrinking. The number of equity emissions in 2023 was 83% down compared to 2021, and the total volume of funds raised was less than €5 million (only 17% of the volume in the record year 2021). In the meantime, the number of investors in Poland decreased from over 33,000 in 2020 to below 2,700 in 2023.[38] Several factors have contributed to this situation, mainly inflation and tighter regulations since November 2023. The above suggests that the Polish equity crowdfunding market will find it hard to play a prominent role in providing the funding required by Belarusian entrepreneurs, who must also look at other available EU crowdfunding options.

4. Conclusions and policy proposals

There is a significant and constantly growing number of companies owned by Belarusians in the EU contributing to the economies of EU Member States, including through the creation of thousands of jobs. However, these businesses face highly restricted access to traditional bank financing, primarily due to a lack of collateral (often the result of frozen assets in Belarus, due to political persecution or regulatory restrictions imposed by the authoritarian regime of Lukashenka), sanctions, and the applicants' short credit history. Nevertheless, alternative non-banking financing options are available to Belarusian entrepreneurs, including investment crowdfunding. We analysed opportunities of equity and debt crowdfunding for firms with Belarusian shareholders in the EU, looking in particular at licensed investment crowdfunding platforms in Poland, Lithuania, Latvia and Estonia.

Investment crowdfunding is a relatively new channel of financing business, especially in the EU (for example it has only been present in Poland since 2012). The market is still relatively small, but it has been developing in the EU (although Poland experienced an opposite trend since 2021). Nevertheless, the Belarusian business community could succeed in raising financing for at least some ventures through investment crowdfunding. These platforms require little effort in terms of applying, and they provide numerous advantages that this paper explores from the perspective of businesses seeking capital for growth. First of all, both equity and debt crowdfunding can help businesses access funding that may be unattainable through traditional channels. Secondly, by offering access to a broader potential investor base, equity and debt crowdfunding can reduce the cost of financing compared to conventional forms. Thirdly, financing through investment crowdfunding can bring some long-term benefits for SMEs, such as an expansion and diversification of the investor base (in the case of equity crowdfunding), and greater business visibility and credibility associated with better corporate governance standards. Finally, equity and debt crowdfunding have the potential to enhance innovation and support the growth of existing businesses, helping them to expand their products and services while focusing on their local and global impact.

There are, however, certain challenges involved with equity and debt crowdfunding from the perspective of borrowers. In the paper we distinguish five major challenges for successful investment crowdfunding: low liquidity that has an impact on investor interest; the cost of a successful public

[38] The data comes from the Equity Crowdfunding 3.0 Report 2023 issued by the Association of Financial Enterprises in Poland: https://zpf.pl/pliki/raporty/raport-crowdfunding-udzialowy_2023.pdf.

campaign; increased expectations from investors in regard to borrowers' corporate governance standards; the dilution of shares in the case of equity crowdfunding; and lack of investment crowdfunding infrastructure.

Currently, the share of publicly tradable firms among all businesses with Belarusian shareholders in the EU is extremely low. Businesses operating as private limited liability companies in Poland, Lithuania, Latvia and Estonia can raise funds for projects via debt crowdfunding, while there is in the EU certain legal limit for using equity crowdfunding for this legal form of business (it is available for publicly tradable companies and Special Purpose Vehicles).

Based on the issues presented in the paper, we have three policy proposals. Our first proposal is to launch an information campaign targeting firms with Belarusian shareholders in the EU, promoting the opportunities available through equity and debt crowdfunding platforms in Poland, Lithuania, Latvia and Estonia. The campaign could highlight specific benefits that investment crowdfunding can bring, while it should focus on the accessibility of this funding opportunity, and explain in detail the equity and debt crowdfunding processes. This promotional campaign could be implemented via the Association of Belarusian Business Abroad (ABBA), using both private and public funds. Private funds could be raised from 20 licensed crowdfunding platforms currently operating in Poland, Lithuania, Latvia and Estonia to promote their platforms among relocated Belarusian businesses in the EU. Public funds could be sourced from the European Commission's programmes for supporting the Belarusian private sector in exile. In addition, a separate information campaign could be targeted to the broader Belarusian diaspora in the EU in general, and in Poland and Lithuania in particular. This campaign should aim to encourage Belarusians living in the EU to invest in Belarusian businesses. Based on Eurostat data, we estimate that the total number of Belarusians with long-term residence permits in the EU already exceeds 225,000 (as of June 2024). Their participation in financing Belarusian entrepreneurs would certainly be very helpful, both financially and in terms of image. Such a campaign must be carefully designed, and accurately defining its target audience will be very important.

Our second policy proposal is to negotiate with chosen investment crowdfunding platforms on becoming partner platforms for relocated Belarusian companies, and the Belarusian diaspora in the EU in general. The idea is to approach investment crowdfunding opportunities for Belarusians from both sides: as borrowers and as investors. As borrowers, the relocated Belarusian businesses could use a partner platform to raise money for investment, including with contributions from the Belarusian diaspora. As investors, Belarusians living in the EU could contribute with their private funds to the investment projects by the Belarusian companies relocated to the EU. This proposal would utilise the institutional potential of ABBA to serve as a contact point for investment crowdfunding consultations for relocated Belarusian businesses. A business interested in debt or equity crowdfunding could contact ABBA directly for more information about a funding opportunity and EU crowdfunding platforms. ABBA would thereby add to the existing investment crowdfunding infrastructure, with a focus on relocated Belarusian businesses in the EU.

Our third policy proposal is to run a financial literacy education campaign for Belarusian immigrants in the EU. This comes in response to the issue of poor knowledge of the financial markets in European countries in general, as revealed by the surveys. Today, any entrepreneur, regardless of their nationality, will meet with a negative response from a bank when applying for a loan while lacking the required knowledge.

A series of financial education events, training, and relevant information materials for Belarusian entrepreneurs would contribute to their financial proficiency and ultimately help them with running the business, reducing the risks and therefore the cost of financing, and improving their image. The costs of such activities would be relatively low, especially since – once recorded – it could be available online.

Investment crowdfunding can bring benefits for both businesses and economies. The proper promotion of equity and debt crowdfunding for Belarusian companies relocated to the EU would further contribute to the economies of EU countries by accumulating new investment and creating new jobs in the companies concerned. Besides, it would provide two key benefits for Belarusians and their aspirations for democratic change and economic reform in their homeland: (i) it will facilitate the integration of Belarusian entrepreneurs into EU economies, amplifying their impact on both the host countries and the Belarusian diaspora; and (ii) it will give the Belarusian business community access to a network of well-established and connected companies within the EU, offering valuable experience and capital to support Belarus's economic transition once the country embarks on a democratic path.

Annex 1. Methodologic notes

Calculations of the number of businesses with Belarusian shareholders and the number of Belarusians residing in the EU are based on statistics from five sources:

1. open official data from national authorities' and governmental institutions' websites;
2. data on key economic indicators of firms with Belarusian beneficiaries in Poland (obtained via Centralny Ośrodek Informacji Gospodarczej), Lithuania, Latvia, and Estonia (for all three countries, data were obtained via the open data platform Okredo);
3. data requested from national authorities via email and data from the presentation of the Vice Minister of Economy of Lithuania at the Belarusian Business Forum in Vilnius on 26 April 2023;
4. data from public sources of information (research institutions, open data platforms, media);
5. Eurostat data on first residence permits for Belarusian citizens granted by EU countries.

Three methodological notes must be made here. First, we define an EU business with a Belarusian shareholder or Belarusian capital as an EU-based enterprise with at least one shareholder being a citizen of Belarus or a business registered in Belarus. The term "Belarusian business" in the text therefore refers to a business with a Belarusian shareholder registered in an EU country.

Secondly, we estimate there to be quite a significant number of Belarusians who are formally minority shareholders in EU companies. For instance, in Poland, the share of companies with at least three owners, and at least one of them a Belarusian citizen, is 71% among the total number of companies with Belarusian shareholders; the share of companies with at least four owners and at least one of them a Belarusian citizen is 31%; the share of companies with at least five owners and at least one of them a Belarusian citizen is 5%. Our findings show that often after 2020, Belarusians opted to have at least one local business shareholder, i.e. a holder of an EU country passport, to avoid being treated as a purely Belarusian-owned business. This said, the practical and formal ownership of a business may not necessarily be the same.

Thirdly, we realise that the number of businesses with Belarusian capital in the EU may be higher than that presented in the policy paper, because our calculations do not include:

1. businesses with indirect Belarusian beneficiaries (for example if a shareholder of an EU enterprise is a Cyprus business owned by a Belarusian citizen or company registered in Belarus);
2. businesses registered by shareholders with dual citizenship, one of which is Belarusian.

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