

CROWDFUNDING AS AN ALTERNATIVE SOURCE OF FINANCING SMALL AND MEDIUM ENTERPRISES – CASE OF NORTH MACEDONIA

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Abstract

Small and medium enterprises are the backbone of the national economy. They are shaping a country's economy because they have a significant contribution to the creation of job, added value, increasing export and innovation, poverty reduction etc. One of the most serious problems faced by SMEs is the lack of financial resources and limited access to alternative forms for business funding. Considering this and the emergence of the economic crises in the world, the access to finance has become one of the most research topics. In the Republic of North Macedonia, SMEs usually use 3F money (founders, family, friends) and traditional sources of financing, such as bank loans with high interest rates and complex procedures. Furthermore, SMEs have no alternatives for financing business activities due to underdevelopment of the capital market.

Crowdfunding is a new model for collecting funds through the Internet by "open invitation" to large number of investors with relatively small contributions. Considering this, the main aim of the paper is to analyze crowdfunding as a source of SMEs financing in the Republic of North Macedonia. Therefore, a survey will be conducted on a sample of SMEs. The findings highlight that crowdfunding is a relatively new method of financing and most of the entrepreneurs are not familiar with the benefits of this form for business funding.

Key words: SMEs, financing, crowdfunding

1. Introduction

The financing of the corporative sector's investment projects is a permanent and dynamic process which determines the business entities' survival and development. Providing the necessary financial resources is a very important and complex process, which consists of planning, acquiring and use of the necessary financial resources for

the current and developmental operation. The business entities most often use a combination of various financing sources, taking care of the ratio between the equity and the borrowed capital.

The importance of finance has considerably increased in modern days due to following reasons in addition to the usual need: (Odzaklieska et al, 2019, p.12)

- Need for Large Scale Operation: Now-a-days business activities are generally undertaken on a large scale. The products of any country are now freely and easily available in other countries. The entire world has become a big market. So, to survive in the business world the businessman has to expand the horizon of his activities and function on large scale. This expansion of business always demands more funds.
- Use of Modern Technology: Use of latest technology in the process of production as well as distribution has become imperative for every business now-a-days. To meet the competition, production process now demands use of modern machinery, equipment and tools. Hence, there is a greater need for finance to meet the challenge of the world's markets successfully.
- Promotion of sales: In this era of competition a large amount of money is to be spent on activities for promoting sales. This involves advertisement, personal selling, use of sales promotional schemes, providing after sales service and free home delivery, etc. which need huge amount of funds.

But, one of the most serious problems of the businesses is difficult access to finance. This especially refers to the SMEs which have very limited access to financing sources. Therefore, SMEs are attempting to solve this problem using alternative sources of funding. Nowadays, crowdfunding as alternative way of financing the businesses became a growing phenomenon.

Crowdfunding can allow entrepreneurs to raise funds for their project. Otherwise speaking, the entrepreneur finds alternative in crowdfunding, and instead of relying on the small number of highly sophisticated investors and bank managers, he uses the benefits of the Internet and motivates and uses a large audience (a large number of individuals), of which each member gives a small contribution, but they all together reach the common goal. Crowdfunding is thus used as a much needed and necessary alternative source of SMEs financing. (Golić, 2014, p.40)

Regarding all these above, our study is aimed at investigating the crowdfunding as a source of SMEs financing with an overview of the Republic of North Macedonia.

The rest of the paper is organized as follows. Section 2 deals with some previous work related with the crowdfunding as an alternative method of financing the small and medium enterprises. Section 3 briefly introduce the reader to the alternative methods of SMEs funding. In section 4 the authors give an overview of the crowdfunding as an alternative source of SMEs financing in North Macedonia. Section 5 provides insights into the data, methodology, and results of the analysis,

and explains the economic significance and messages of the obtained results. The last section concludes and recommends.

2. Related research

The implementation of an innovative idea by small and medium-sized enterprises often is difficult because of the difficulty in finding a source of financing (Cichy, 2016). New ventures and projects require the resources to succeed, and one of the main problems is to find sources of funding, which are not family, friends or own savings (Golić, 2014, p.40). The modern level of development of communication technology, exchange of information, the possibility of combining these potentials and using synergistic initiatives provides an opportunity to overcome this barrier. Dynamically growing crowdfunding is an opportunity for implemented projects (Cichy, 2016, p.38-48).

In recent years, crowdfunding has emerged as a powerful alternative for financing various activities, ranging from startup companies and academic spinoffs to SMEs (Baldissarro et al., 2025). With the ability to pool resources and connect with a global audience, crowdfunding has revolutionized the way projects are funded (Larsen, 2023).

Crowdfunding is the process of raising funds from a group of individuals through an online platform of donations or investments. The platform connects the entrepreneurs with the potential sponsor who are interested in supporting innovative and impactful initiatives. On this way, project creators are able to present their ideas before a wide audience and provide the necessary financial resources to finance their projects. Crucial for this source of business funding is the fact that it helps entrepreneur to avoid the bank loans which are characterized with high interest rates and complex procedures for approval, especially for small and medium sized businesses.

Limitations of conventional funding sources have led to increased interest in crowdfunding, leveraging online platforms, which democratized access to capital, enabling entrepreneurs to develop products and services that align with broader population needs (Hoque, 2024). Crowdfunding, a vital component of fintech, promotes financial inclusion by dismantling traditional barriers to access and empowering businesses of all sizes. Together, crowdfunding and fintech support individual entrepreneurs and encourage sustainable business practices, which are crucial in today's global landscape (Baldissarro et al. 2025)

In developing countries such as North Macedonia, due to the complex economic and social conditions, small and micro businesses are faced with the issue of providing quality funding sources to support their investment projects. Since the capital market as alternative form for business funding is undeveloped, Macedonian companies have mostly relied on bank lending to finance their fixed investment and working capital needs. The experience in North Macedonia have shown that the main problem of the SMEs, are the unfavorable loans offered by the commercial banks, i.e., the high

interest rates and the complex procedures for the bank credits approval. So, limited access to bank credit, in particular for small enterprises, is viewed by many policy makers and academics as a major growth constraint for emerging and developing economies (Levine R., 2006).

Crowdfunding as an innovative financing tool for SMEs is introduced in Republic of North Macedonia in 2014 named Funderbeam which was established as a startup company to enable the companies' easier access to capital and sustainable funding in the initial phase of founding the SMEs. Actually, funderbeam is crowdfunding platform which connects the companies with a monetary deficit with the investors who are looking for opportunities for investing in companies in the initial phase of their development.

In March 2019, the Macedonian Stock Exchange of the Republic of North Macedonia concluded a cooperation agreement with the company Funderbeam SEE, registered in the Republic of Croatia, where the stock exchange has the role of being an educator and promoting this platform of small and medium-sized enterprises and startup companies, which will be an alternative source for obtaining additional capital. This platform offers funding sources to all companies on our market in addition to joint stock companies. The important macroeconomic role played by small and medium-sized enterprises in the world and in our country, influenced the receipt of support from USAID North Macedonia. In the region, this platform is used in the Republic of Slovenia and the Republic of Croatia (Jusufi, 2023).

3. Overview for SMEs financing

Nowadays the contemporary market conditions characterized by the free operation of market laws, pluralism in ownership and the existence of different types of ownership, liberalization of economic entities, development of financial markets, internationalization of capital, rapid technical and technological development, frequent changes in demand and reduced product lifecycle have imposed the need for the development of dynamic, flexible and innovative businesses such as SMEs. In EU 99% of businesses are SMEs and they provide more than 85 million jobs. The ideas and solutions of 24,3 million entrepreneurs have a huge contribution to creating sustainable and digital economy (European Commission).

According to Suklev (2006) the key characteristics of SMEs are: flexibility; independence; proximity in business relations; great opportunities for creation of new jobs; the creativity among individuals and realization of their ideas, adapting to market needs and so on. SMEs have a numerous advantage such as: (Tomash, 2010)

- greater flexibility and increased reaction to adapt to the market changes;
- quick and timely decisions;
- simple and low hierarchical structure, so control and other functions are performed directly;

- due to their large number, SMEs contribute to maintaining a satisfactory level of competition, and thus the development of products and services that meet consumer needs;
- better access to market information due to direct communication with consumers;
- increased flexibility so they have the opportunity to constantly innovate, introduce new products to the market etc;
- tasks are performed in teams;
- greater productivity of employees, compared to large companies, because communication with those in charge is direct and has a positive impact on their motivation.

Despite numerous advantages, SMEs also had numerous disadvantages, such as lack of general administration, lack of an expert group in financing and lack of department, lack of capital and financial planning, not taking enough support from the banks and other financial corporations, lack of product development, lack of coordination between production and sale, not showing the activities of modern marketing, littleness of business sites and residential areas, risk of bankruptcy and losing its independency, not to be able to provide specialized staff, legislation and bureaucracy, SMEs may be called disadvantageous (Keskgn et al, 2010).

Financing of SMEs is a complex process, but necessary for their establishment and further functioning. Entrepreneurs can obtain funds from informal sources much more easily and quickly, because there is no formal legal procedure that needs to be carried out beforehand. This includes the entrepreneurs' own savings and loans from families, friends, founders (3F money). On the other hand, formal sources involve a procedure for approving and using funds, and include: money from official financial institutions, such as formal venture capital, money from banks, and money mobilized through the stock market. Also, it should be noted that at different stages of development, entrepreneurs may use different sources of financing.

Crediting, as an external source of SMEs financing is traditionally the most common, but at the same time it is accompanied by high costs and complex administrative procedures. Therefore, SMEs should use alternative sources of financing. As one of the alternative sources of financing SMEs is crowdfunding.

Crowdfunding is a innovative and new concept which allows the entrepreneurs to collect funds by large number of individuals with small contributions and this activity is usually done through Internet.

Ahlers et al. (2012, 4-5) define crowdfunding as "open call, essentially through the Internet, for the provision of financial resources either in form of donations (without rewards) or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes."

Crowdfunding as an alternative source of financing of SMEs makes capital more accessible and efficient, and in the end, creates more jobs and increases GDP (Golić,

2014). Therefore, the policy makers should establish prerequisites to support expansion of a crowdfunding.

4. Analysis of crowdfunding as an alternative source of SMEs financing in North Macedonia

Crowdfunding, as a new modern financing model is used as an alternative source of financing entrepreneurial projects.

Letsfundit is the first crowdfunding platform with the aim to support young people to start business and to increase the entrepreneurial spirit among young people. It was founded in 2012 when a group of young enthusiasts had the idea to offer a new, non-traditional way of financing businesses and projects in Macedonia.

There are 8 startups crowdfunding platforms in Macedonia. They offer Equity, Debt, P2P lending, Reward, Tokenized, Donation or Mini-bonds investment opportunities for retail and accredited investors. Here are some tips to start investing on crowdfunding platforms for startups projects in Macedonia. (Crowdspace, List of Startups crowdfunding platforms in Macedonia | CrowdSpace).

- Find out if the platform is regulated and what legislative framework it is subject to.
- Decide on the crowdfunding type you're willing to invest in: it'll help align your expectations with the potential returns and narrow down the area of interest to investigate.
- Do your homework and research the project in detail: if there is a partner involved and their professional reputation, if the platform has hosted a similar project before, etc.
- Start small, and don't rush trusting the platform with large amounts, whichever that is for you.
- Research the platform's previous reputation.
- Try spreading your investment across a few providers or projects to diversify the portfolio. Should a project delay or even go bust, you won't lose all your funds.

Funderbeam is a global crowdfunding platform for connecting with a monetary deficit with the investors who are looking for opportunities to invest in companies. It helps founders raise funds outside their home country and provide access and liquidity to early-stage investors. In 2019 Macedonian Stock Exchange has signed an exclusive cooperation agreement with Funderbeam SEE. Funderbeam SEE is part of the Funderbeam Market Limited group that offers a global scheme for collective financing.

The users of Funderbeam platform have a wide range of benefits such as: (Macedonia Stock Exchange)

- Earlystage companies and growing companies gain access to new capital from domestic and foreign investors through the implementation of special campaigns in which they will present key information about their operations;
- Investors are informed about this type of investment and get the opportunity to invest in early-stage companies and growing companies, within the investment structure offered by the platform;
- Investors through the platform get access to the secondary market for further trading with their investments.

Despite the opportunities that offers crowdfunding there are risk for startups, such as:

- Risk of losing the money invested
- Poor liquidity
- Risk of running into fraud
- Lack of transparency.

5. RESEARCH AND RESULTS

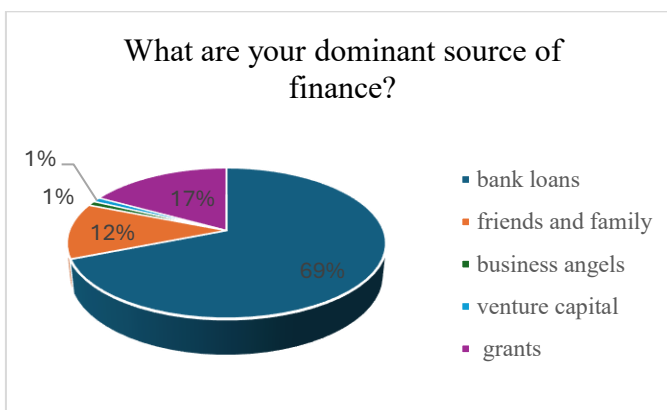
The research methodology is based on primary data obtained from previously prepared, structured questionnaire. The survey comprised of small sample of 100 SMEs from North Macedonia most of them from the Pelagonia region and there were 61 questionnaires. In order to perceive the current situation, the questions were divided in three groups. The first set of questions concerns general company data. The second group of questions refers to the information and usage of crowdfunding and the third group of questions are related to advantages and barriers for crowdfunding as a source of SMEs financing.

On the basis of data analysis from the first group of questions, the following results have been obtained: The most of the respondents were micro business, i.e. 53% are micro businesses, 28% are small, and 19 % are medium businesses. Also, 58% businesses were older than 10 years, 42 % were older less than 10 years. The businesses that were part of the research are usually from wholesale and retail trade 45% and from manufacturing industry 27% and others 28%.

The results of the second group of question shows that 53% are informed about crowdfunding as a source of financing, 38% aren't informed and 9% didn't answer. Also 91% of respondents have no experience with crowdfunding and 9% didn't answer.

Most of the businesses also 69% are financed by bank loans, 12% use money of the friends and family and unfortunately only 1% have used venture capitals and business angels.

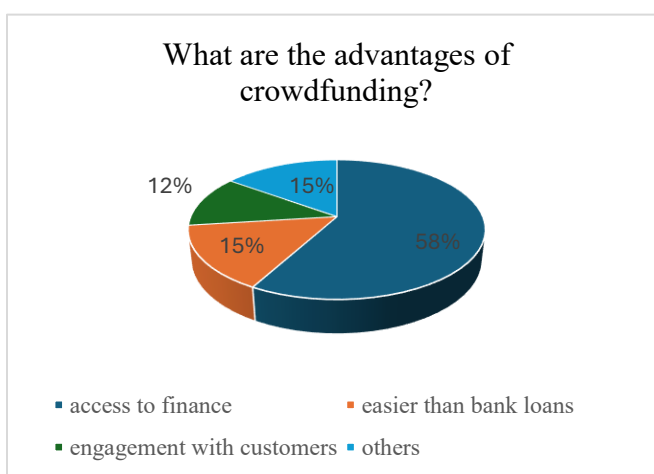
Figure 1



Source: processing by the authors

The results of the next question shows that main advantages of the crowdfunding is access to finance (58% of the respondents).

Figure2

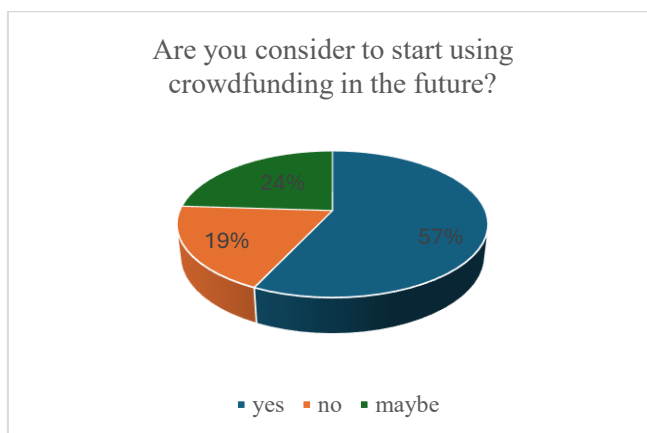


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The next question was focus on the obstacles of using crowdfunding and the results shows that the main obstacle is the less of information about crowdfunding and it's advantages.

The last question is “Are you consider to start using crowdfunding in the future” and the results shows that 25 % consider to use crowdfund, 34% nor consider to use crowdfund and 41% answered with maybe.

Figure 3



Source: processing by the authors

Conclusion

Crowdfunding as a relatively new and not exactly well-known mechanism for financing SMEs. This innovative approach enables entrepreneurs to raise funds from a large number of investors by using internet (online platforms).

In our country there is a lack of precise legislation regulating these methods so there is a lack of trust among investors and entrepreneurs.

Considering this, the results of the conducted research in this paper, confirmed that although SMEs are facing with high interest rates and complex procedures for bank loans approval, dominant part of their investment projects they financed by bank loans.

In the future, we expect crowdfunding development for financing SMEs and meanwhile some measures should be taken:

- organizing training and workshop to increasing awareness of the importance of crowdfunding;
- access to consultants who can guide SMEs through the crowdfunding process
- developing crowdfunding platforms that are easier for use by SMEs
- Government support including the creation of legal frameworks, financial incentives, and public awareness campaigns for increasing the trust in crowdfunding as a method of financing SMEs.

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