**TITLE**

**“The Potential Role of Equity Crowdfunding as a Catalyst to Foster Entrepreneurship in the Western Balkans as the Next EU Startup Hub in the Post-Covid Era”**

**AUTHORS**

Sabia, Luca | Coventry University | Sir William Lyons Building | Room G05 | Gosford Street | Coventry | CV1 5DL | e-mail: ad6411@coventry.ac.uk | Telephone: +44 (0) 7923 272430 | Fax: N/A – *Corresponding Author*

Bell, Robin | University of Worcester | City Campus, Castle St, Worcester WR1 3AS | e-mail: r.bell@worc.ac.uk | Telephone: +44 (0) 1905 542444 | Fax: N/A

Bozward, David | Royal Agricultural University | Stroud Rd, Cirencester GL7 6JS | e-mail: david.bozward@rau.ac.uk | Telephone: +44 (0) 1285 652531 | Fax. N/A

1. **Introduction**

The impact of the Covid-19 pandemic on the economy has been unprecedented. Companies have experienced a reduction of their headcounts as per an increase of redundancies (OECD, 2020a) due to the sudden lack of liquidity entrepreneurs have had to cope with, which caused a dry-up of sources of finance.

As a consequence, many economies have been experiencing a harsh depression (IMF, 2020). Despite the fast moving scenario through which we are living preventing us from having a clear picture of the future, it has started to become clear that there will be a world prior to Covid and a world after Covid, a pre and a post pandemic. This is a considerable signal that some patterns have become outdated.

Since the more the societal patterns have become obsolete, the more the need for entrepreneurship (Etzioni, 1987). Business creation in general, and innovative entrepreneurship in particular (Szabo and Herman, 2012), represents the way forward for societies to adapt to change and foster economic recovery. Indeed, gaps in economic development can be explained by disparities in innovative entrepreneurship.

Yet, whilst in countries where entrepreneurship is embedded in the culture, like the US, a new wave of business creation is likely to sustain the economic recovery (IMF, 2020); in many other economies projects have meanwhile been aborted due to the steep decline of equity investments thus confirming a contraction in the generation of new business (Beauhurst, 2020).

This would add to the toll already paid by weaker economies with the likely consequence of having a disengaged entrepreneurial community (Davidsson and Gordon, 2016) and the risk, faced by many communities, to go through an entrepreneurial challenge which would foster the economic decline.

Among the latter, with a particular focus on Europe, one of the most interesting cases is that of the Western Balkans where literature is limited, but would benefit from being further advanced as access for pre-seed stage companies to funding is very limited, but the entrepreneurial potential of the area is high. This book chapter seeks to review, explore and espouse how the Western Balkans can utilise equity crowdfunding post-Covid to continue their economic development through supporting entrepreneurial and start-up financing. In this regard the authors will examine first equity crowdfunding as a collaborative form of entrepreneurial finance to then focus on how it could be enacted in context thus representing an opportunity to foster social and economic development.

1. **Theoretical background**

The digital transformation of the economy has created a wealth of resources and opportunities thus taking collaboration and cooperation to a new level, never experienced before, simply by leveraging social connections through the web. In acting as mediators between supply and demand, digital platforms have opened up new ways of production which have reshaped business models of entire industries. From an entrepreneurial perspective, digital platforms have facilitated collectives to take part in the creation of value (Kenney and Zysman, 2016) and, in doing so, have made networks of resources and social capital more robust. Indeed, they have changed whole production ecosystems by resetting entry barriers, reverting the logic of value creation and value capture. In fact, technological disruption has given people and organizations alike the possibility to engage directly with other people and organizations whilst offering new insights and pathways for entrepreneurs to develop new businesses (Fischer and Reuber, 2011).This is why it has been argued that the Internet has created an abundance of powered-people (Nekaj, 2017) eager to contribute to the value creation process. Let’s consider, for instance, crowdsourcing in the digital context. It has become a diffuse driver of inclusion (Lenart-Gansiniec, 2016) by providing society at large with a strategy to address the request for change, enabling bottom-up, decentralized processes, and the participation of different actors with different capabilities and interests (Lettice and Parekh, 2010) to create a new dynamic ecosystem. This is what researchers defined as crowd economy, a “distinctly new set of economic relations that depend on the Internet, computation, and data,” (Kenney and Zysman, 2016, p. 66). Organized in online communities, that is, “social networks in which people with common interests, goals, or practices interact to share information and knowledge, and engage in social interaction” (Chiu et al., 2006, p. 1873), people have become a central actor of the entrepreneurial process as they help the entrepreneur to overcome resource-based hurdles to launch a plethora of new entrepreneurial projects. This has changed the logic of access, as people actually function as gatekeepers for the construction of brand new worlds and crowdsourcing has emerged as a value co-creation strategy whereby the value co-created in an open context could be appropriated by society as a whole (Chesbrough and Di Minin, 2014).

As a function of interaction (Grönroos and Voima, 2013), co-creation can be valued both ways: on the one hand as a way for the member of the community to participate in the entrepreneurial process and, on the other, as an opportunity for the entrepreneur to be involved in community members’ lives. (Heinonen et al., 2010). In other words, co-creation is mutual value creation (Ramaswamy, 2011). This requires open systems as “co-creation occurs only when two or more parties influence each other,” (Grönroos and Voima, 2013, pg. 142) and is only possible when the two spheres of interactions are jointed as co-creation happens only when there is direct interaction. In other words, co-creation is socially embedded (Edvardsson et al., 2011) as value is value because it is created and validated as such. It follows that creating value is a function of how actors of a specific context interact and co-create, that is, the social forces in a specific context are the ones who shape value creation and it is reproduced by social structures: “Providers’ and customers’ positions in the social structure and their participation in processes of signification, domination, and legitimation affect the likelihood of their deploying an effective and mutually satisfactory co-creation process.” (Galvagno and Dalli, 2014, pg. 646). Therefore, it could be argued that by embedding (Granovetter, 1985) themselves in the community, the entrepreneur could remove barriers to resource building.

In turn, this has had an impact on the concept of the entrepreneurial social capital as something that was intended to be purely owned by the entrepreneur to something diffused, owned by all the parties involved in the process implying the extension of scope of opportunities (Dubini and Aldrich, 1991). It can be argued that whilst the mainstream approach to entrepreneurship considers the entrepreneur as the virtuoso who makes the most of a disequilibrium (i.e. soloist approach) and the network-based approach to some degree extends this view by posing the entrepreneur at the centre of a net with the purpose of acquiring resources and exploit arbitrage opportunities, the community-based approach overturns both perspectives. The clue for this relies on the concept of identity (Ashfort and Mael, 1989). Identity is indeed the contextual hook which would allow the entrepreneur to be part of a community and the community to take part in the exchange of resources for generating value. In a digital environment people are more interconnected than ever so that, on a broader scale, society would be enriched by enhanced individual capacities of working in groups. In other words, the human connectedness resulting from the collaborative economy, has opened-up new opportunities to explore value co-creation perspectives at the intersection of technological availability and cultural readiness needed to foster dynamics which have shaped different forms of collaborations, such as collaborative production, collaborative consumption, collaborative education and collaborative finance (Sundararajan, 2016, pg. 82).

Tapscott and Williams (2010) first introduced the concept of collaborative finance in the aftermath of the global financial crisis: “The industry needs to take stock of what happened during the crisis and work to restore the trust and confidence of investors, regulators, and regular citizens. A new movement is beginning, and it's inspired by the public anger at a host of things, from the behaviour of Wall Street and massive bank bonuses to the widening gap between the interest rate offered to savers and the rate charged to borrowers. It's enabled now by the growth of mass collaboration via the Internet,” (pp. 56-57). In view of this, crowdfunding (and in particular its debt and equity forms) has increasingly gained the attention of academics as it has become a relevant topic to investigate (Moritz and Block, 2014; Gierczak et al., 2016) considering perspectives of capital seekers (i.e. project initiators), capital providers (i.e. backers), and intermediaries (i.e. platforms), from several angles (Mochkabadi and Volkmann, 2018). Generally speaking, crowdfunding has been defined by Belleflamme and colleagues as “an open call, mostly through the Internet, for the provision of financial resources either in the form of donation or in exchange for the future product or some form of reward to support initiatives for specific purposes,” (2013, p. 8). In the perspective of the current chapter, it can be viewed as a process whereby people, through open calls on the web, take part into a collective action to deliver value in the interest, at least, of the co-opted crowd (Ghezzi et al., 2017). In fact, in taking place via the internet in forms of open calls through online marketplaces (i.e. crowdfunding platforms), crowdfunding enabled people to take an active stance in the entrepreneurial process by providing the entrepreneur “ideas, feedback, and solutions to develop corporate activities” (Belleflamme et al., 2014, pg. 586). In this regard, crowdfunding has emerged as a subset of crowdsourcing (Afuah, 2014) whereby the crowd of backers provides the project owner feedback, during and in the aftermath of a campaign, on the development of a product as well as additional information about the future demand of the goods (Eldridge et al., 2019). Both, crowdfunding and crowdsourcing, in the context of entrepreneurial finance, have been seen as a subset of Fintech (Martinez-Climent et al., 2014) meant as the use of new technology to tap in the wealth and to raise money for business or non business-related projects. Technology represents indeed the key cornerstone of the concept (Brown et al., 2015). This does not respresent the only way to approach the topic, of course. For instance, others (Shneor and Torjesen, 2020) position crowdfunding at the intersection of finance, entrepreneurship, marketing, e-commerce, and social networking. Other approaches have emerged too. Among the others, the Digital Finance Cube developed by Gomter and colleagues (2017) is one of the most effective ones. Whilst not specifically referring to crowdfunding, it offers an effective way to study it. By orthogonal intersecting three different dimensions of digital finance (digital finance business functions, digital finance technologies and technological concepts, and digital finance institutions), it is in fact possible to identify the theoretical territory of crowdfunding. In particular, looking at the above definitions of crowdfunding through the lens provided by the cube, it would be possible to argue that:

1. In respect of the Digital Finance as a Business Function, crowdfunding is a form of digital financing, that is, a way for new ventures to become financially independent;
2. In respect of the Digital Finance Technologies and Technological Concepts, crowdfunding is a type of business fundraising which makes the most of social networks because, to deliver their campaigns, entrepreneurs leverage the pervasiveness of social networks to reach out to online investing communities;
3. In respect of Digital Finance Institutions, crowdfunding is part of the fintech industry meant as new players able to provide in an innovative way entrepreneurial finance services, spanning from serving entrepreneurs with the technology needed to raise funds by leveraging the possibilities of Information Technology in the Internet environment, to the support needed to manage their investing communities throughout the whole campaign process. That is: pre-raise, during the campaign, and post-raise.

Fuelled by the collapse of the traditional financial markets due to the global financial crisis of 2008 and to overcome the close inner circle of finance (Schwartz, 2013), in a span of just a few years, crowdfunding positioned itself as a robust alternative to traditional ways of funding entrepreneurship (Moritz and Block, 2014; Huynh, 2015; Estrin and Khavul, 2016). An emerging field in the broader sphere of entrepreneurship research within the segment of entrepreneurial finance (Landström, 2017; Mochkabadi and Volkmann, 2018) as it has reshaped the whole financial industry as we knew it (Bellavitis et al., 2017), crowdfunding is usually classified into four classes (Wieck et al. 2013): “donation-based”, where funders do not receive any reward; “debt-based” when funders lend money to founders in return for interests; “reward-based” when gifts are offered from founders in return for their offer; and “equity-based” where funders receive a financial compensation (i.e. equity, revenue, and profit-share arrangements) in return for their investment.

For the purpose of the present chapter, the main focus will be on the equity-based form of crowdfunding defined as “investments via an internet platform undertaken by both specialist and small novice investors in return for share capital which is issued directly to investors or held by a nominee” (Brown et al., 2015, pg. 8). This definition sheds light on one of the main purposes of equity crowdfunding, that is, the acquisition of capital (Gierczak et al., 2016) while capital seekers and capital providers work together on a common goal through a platform (Lee and Sorenson, 2016). For project initiators, or entrepreneurs, equity crowdfunding is also a way of promoting a product or an idea at a lower cost when compared to traditional marketing and communication practices (Lehner, 2013). From the capital providers’ perspective, Grossman (2016) argues that digital innovation made things easier for investors to invest their money with the consequence to remodel the whole sector by lowering entry barriers for capital providers.

Despite being a highly relational form of entrepreneurial finance (Brown et al., 2019), research on the interplay between entrepreneurs and online communities appears to be fragmented as only a few studies have been dedicated to the investigation of the intersection between virtual communities, meant as “an online social network in which community members interact with each other” (Cai et al., 2019, pg.5) and equity crowdfunding as a means to offer “entrepreneurs an online social media marketplace where they can access numerous potential investors,” (Estrin et al., 2018, pg. 425). Certainly, the theme should be one of the most topical within entrepreneurship with scholars and in particular within the entrepreneurial finance segment. Virtual communities are in fact ubiquitous vis-á-vis the entrepreneurial process. For example, they provide the entrepreneur with feedback allowing him/her to fine-tune the project accordingly. They are the sounding board on which the entrepreneur builds the brand story, crafting its values as the clue for the identity of that community. They are also the capital providers for the new venture to take off. The embedded mechanism which makes this possible is social capital as defined above. This opens up a new perspective through which looking at equity crowdfunding not only as a funding strategy but also as an effectuation process. In tapping into the wealth of the crowd (Burtch et al., 2013), project initiators like entrepreneurs create grassroots movements tied together by the fact they to pledge in projects they believe in. This is why Mollick and Rubb (2016), in analysing the role of crowdfunding as a driver to democratize innovation, talk about grassroots innovation as in working together, project owners and backers, toward a horizon of shared values get beyond the market value in itself of those projects:

Therefore the question: due to its grassroots nature, can equity crowdfunding play a role as a social and economic development strategy? Generally speaking, equity crowdfunding resonates well with the utilitarian ethos of reform and social improvement (Shneor and Torjesen, 2020). Indeed, the idea that a greater sum of happiness affects a greater number of people in society (i.e. the utilitarian view) applies to equity crowdfunding as per the democratizing aspect of opening access to finance to a diffused number of entrepreneurs whose projects are validated by a crowd of people investing in them thus allowing a greater resources allocation efficiencies. In fact, equity crowdfunding disrupts the traditional entrepreneurial finance oligopoly by giving more entrepreneurs new opportunities to launch their projects, especially to the ones belonging to the weaker segments of population in society; in turn, it provides more people in society with the possibility to take part in the entrepreneurial process thus influencing it. In other words, they help the supply of new products and services to align to societal aspirations and desires and this, in turn, would minimize inequalities in the long term by fostering inclusion (Sabia, 2021). Such an aspect, then draws its strength from the active participation of people in terms of money and ideas, is particular relevant in view of the possibility of entrepreneurial projects to serve part of the population which have not been served by public institutions (e.g. healthcare, education, energy, and funding for communal expenses).

However, equity crowdfunding presents some drawbacks that could deter prospect retail investors to use it, namely, the massive presence of information asymmetries and herding behaviour are present in such an investing context (e.g. Agrawal et al., 2013; Åstebro et al., 2018). With regard to the former, Hornuf and Matthias (2016) found that start-up failures are more common where the level of transparency of the campaign was low. With regard to the latter, there could be a risk for the tyranny of the majority to take place. Indeed, adapting from Guinier (1995), people with greater economic power could favour specific projects to emerge. On a bigger scale, a consideration has also to be made in evaluating the opportunity to use equity crowdfunding. For example, comparing and contrasting different sources of entrepreneurial finance, Deutsch, (2018) pointed out that “equity crowdfunding have yielded mediocre results compared to venture capital and angel investing,” as nearly 20% of new businesses created by raising funds by using this entrepreneurial finance strategy went out of business and so the related impact on new job creation was affected. Moreover, literature on equity crowdfunding economics confirms the “benefits from crowdfunding will not be uniformly distributed. Certain types of ventures will benefit more than others from this new form of finance. For example, the types of ventures that may disproportionately benefit include those with consumer products where the value proposition can be easily communicated via text and video and where the product is unique and not subject to easy imitation when publicly disclosed. Even still, these ventures may prefer to raise their funds from traditional sources unless the cost of capital is significantly lower or they are able to derive additional benefits from interacting with a crowd of heterogeneous, geographically dispersed funders.” (Agrawal et al., 2013, pg.38).

In view of the above, it emerges that the outcomes in terms of positive impact of equity crowdfunding appears to be a mixed bag so that more research has to be delivered to bring more clarity within this field of enquiry.

In the context of equity crowdfunding, people and money coexist peculiarly, that is, entrepreneurs pitching business ideas via online platforms to collect funds from a dispersed crowd (Drover et al., 2017). One of the first issues to emerge is that equity crowdfunding platforms have to cope with collective-actions problems since crowd-investors do not have time and resources nor sufficient financial expertise to deliver a proper due diligence (Vismara, 2016). Opposing this view Gunther et al. (2015) claimed that crowd-investors assess pitched projects in line with their financial expertise and that the combination of their industry knowledge and their financial expertise will determine the invested amount. In the debate, Ahlers and colleagues (2015) pointed out that the information asymmetries in equity crowdfunding affect the capacity of retail investors to read between the lines to effectively assess pitched projects. This is mainly due to the difficulty of an entrepreneur to communicate the value of their entrepreneurial project and to the characteristics of the digital context where crowdfunding takes places. Such a combination of factors suggests that campaign dynamics could exacerbate one of the issues that characterise the agency dilemma (Bapna, 2019; Ahlers et al., 2015) in both the initial phase (i.e. pre-raise phase) of a campaign (i.e. adverse selection) and in the aftermath (i.e. post-raise phase) of a campaign (i.e. moral hazard). Whilst with the latter the main point of attention is whether the entrepreneur will maintain the promises made during the campaign in using the money raised, with regard to the latter the focal point is about the quality of the information provided by the entrepreneur (Stiglitz, 2000) and the consequent difficulty of the retail investor in detecting the quality of the entrepreneurial project to pledge into, independently by their skills or the time they have to evaluate a project. That is why some refer to crowdfunding as an investing environment characterized by a high potential for frauds and scams (Kim and De Moor, 2017) so that researchers question whether crowdfunding is, in the end, a market for lemons (Ibrahim, 2016). Walthoff-Borm et al. (2018), on their side, add to this risk concluding that, in line with the pecking order theory according to which a company first prefers internal sources of finance prior to the use of external finance, companies that access equity crowdfunding use it as a last resort. In other words, ventures raising funds via equity crowdfunding are the riskiest ones. This could complement the view proposed by Belleflamme and colleagues (2014) who claim that the very reason why entrepreneurs prefer crowdfunding is the high presence of information asymmetries. For this reason, Vismara (2018) suggests that to be successful within their campaigns entrepreneurs need to reduce information asymmetries as to increase levels of trusts to sustain an investment decision. The clue behind this reasoning is provided by the crucial role played by retail investors in the equity crowdfunding dynamics. In other words, without them equity crowdfunding would not exist as a digital investing space. Therefore, the question becomes to what point information asymmetries can be considered a resource for the entrepreneur to being successful within their equity crowdfunding campaign, or a limitation, and in that case more transparency would be needed in communicating with the retail investor. Such a debate provides requires to gain a better understanding of the behaviour of the retail investor, that is, how they make an investing decision, how they manage the variables they take into account, how the context influences their decisional process and so on. In other words, it is pivotal to outline the behaviour of the crowd and the communication the entrepreneur must deliver. This is particularly relevant in terms of future regulatory efforts to protect them and allow the industry to be sustainable in the long term (Moritz and Block, 2015).

In this perspective, research started to develop. For example, a recent study (Sabia, 2021) pointed out how retail investors make investment decisions by combining rational and irrational elements in an approach which could be defined as bounded rationality. More specifically, it has started to emerge that retail investors in the context of equity crowdfunding express a preference for a light approach, one which privileges soft elements to be considered. This can be explained by referring to the features of the investment space, that is, the presence of a high level of information asymmetries, as mentioned. From this it can be argued that the combination of rational and irrational elements in the decisional process is the result of the conjunction of uncertainty and ambiguity. In such circumstances, the crowdinvestor does not look for searching all the information they would need in order to make a rational and fully informed decision since the cost of acquiring additional information would be too high vis-à-vis the financial return depending on the limited amount of money they are willing to lose.

It is important for regulators to be aware that investors are not in the position to manage the risks to which they are naturally exposed with the likely consequence of ceasing to invest so putting at risk the whole market and further prevent private growth. In other words, there is a technical justification for regulating as for the government “to be acting in pursuit of the public interest” since an “uncontrolled market place will, for some reason, fail to produce behaviour or results in accordance with the public interest.” (Baldwin and Cave, 1999, pg. 9). Such a public interest view is of particular importance with regard “to the earliest stages of the life-cycle of regulatory affairs,” (Baldwin and Cave, 1999, pg. 20), like in the context of transition economies.

In other words, since it takes a village to grow a business, if on the one hand entrepreneurs should be provided with effective tools to access capital on the other, the remaining part of the village, that is, people investing in these companies should be protected both from a personal investment perspective and from their belonging to a wider community in which the entrepreneur is embedded. This is of particular relevance as to counterbalance the drawbacks of equity crowdfunding allowing itself to fulfill its role of additional financing opportunity for entrepreneur to start a business whilst helping a developing economic to make the most of the dynamism brought in the system not only by the new entrepreneurial venture but also from the crowd participating to it. This is of the utmost importance expescially in contexts of economic transition like the Western Balkans.

1. **The case of the Western Balkans**

The Western Balkans represent an interesting case of study as they are often considered the next frontier for start-ups in Europe (Cullmann, 2018). However, local governments should operate to address the weaknesses of the areas and remove bottlenecks to private sector growth (OECD, 2020b). At first glance, the region takes the form of a mixed bag. Indeed, whilst some areas of the region see a growing number of people taking part in entrepreneurial programmes and projects which are fostering a post-war economy as in Bosnia and Herzegovina and North Macedonia, others, despite an increasing interest toward entrepreneurship, are still afflicted by problems of brain drain and market size issues, as in the case of Albania. Yet, other countries, like Serbia, Kosovo, and Montenegro are the promising leaders for the economic development of the area. For example, while Kosovo ranks 40th out of 190 regarding the ease of starting a business, and Montenegro ranks second only to Estonia as per the number of entrepreneurs, a country like Serbia stands in front of the others as one of the top five countries in terms of blockchain developers in the world (Cracolici, 2020). In other words, different characteristics and dynamics persist in each area, but overall the region presents, on the one hand, a growing interest toward entrepreneurship and, on the other, a high-skilled know-how, both elements to foster innovative entrepreneurship as an engine for growth. In the context of the Covid-19 pandemic and beyond, such a combination could become a winning one to foster private growth at a time when the immediate fiscal stimulus, which has contained the recessive impact of the virus, has run out of steam. Indeed, due to the massive economic packages in 2020, according to the World Bank (2020), deficit will increase from 4 to 10 percent of GDP for the countries of the area. Therefore, if on the one hand rebuilding fiscal sustainability to restore the macroeconomic stability is one of the top priorities for the regional governments, on the other, this should be part of a broader strategy meant at promoting a resilient recovery, that is, one capable of absorbing future shocks. This should include the reform of structural weaknesses (e.g. infrastructures, access to capital, digitization) of the area to create conditions for accelerating private growth and job creation. In this perspective, the promotion of actions meant at facilitating access to alternative capital for entrepreneurs in their pre-seed phase, like equity crowdfunding, would be crucial to ensure a variety of supply channels beyond the traditional ones like banks. This would equip entrepreneurs with a wealth of opportunities to close the funding gap and get their business projects off the ground.

Such transition economies can present great entrepreneurial opportunities for new entrepreneurs and entrepreneurial businesses, who can exploit changing customer demands and economic liberalisation (Bell and Pham, 2020). Within this type of context, unique institutional and cultural differences can exist, influencing the entrepreneurial and innovation systems (Bell et al., 2019). As such, entrepreneurs and businesses in these economies often behave differently (Ratten et al., 2017) and would benefit from different levels and types of support. For example, new programmes like, for example, the Closing the Innovation Gap Accelerator facilitated by the World Economic Forum, the EBRD Star Venture programme, the TechBoost programme initiative to support Western Balkan startups in tech, the Workshop Entrepreneurship & Innovation Lab, the Yunus Social Business Balkans, and many others would constitute a boost for the economic development of the area (Cracolici, 2020; World Bank, 2020).

However, entrepreneurs lack access to alternative forms of finance like equity crowdfunding. A study by the International Bank for Reconstruction and Development (2020) sheds light of the state of the art of crowdfunding in the area and includes only five crowdfundig platforms, one based in Kosovo and four in Serbia. Looking more in detail, one appears to be a crowdfunding platform based in Switzerland; one is a donation based platform whose focus is philanthropy; one can be defined as a crowdfunding academy meant to educate people on how to run a campaign; one is an aggregator of campaigns delivered via other platforms worldwide and only one results to be a pure equity crowdfunding portal. This suggests that the market is at its very early stage and players in the field have been working to get the general public familiarised with the concept of crowdfunding. Interestingly in one case such promotion activity has been delivered through a partnership between a marketing agency - which focuses on social impact and owns both the crowdfunding academy and the crowdfunding aggregator - and the German Federal Ministry of Economic Cooperation and Development with the aim of promoting sustainable growth and employment.

Using the lens provided by the Digital Finance Cube (Gomber et al., 2017) from a business function perspective, such a state of things despite the many efforts of the players in the market, would prevent many new ventures to become financially independent. This, combined with the impact of Covid-19 could put a halt to the innovation process represented by the above mentioned programmes designed to encourage the economic development of the area. With a particular focus on the area, the World Bank (2020) pointed out that the regulatory obstacles have made it difficult to set-up an investment mechanism to support firms, including private equity and debt, venture capitalists, angels and crowdfunding platforms. More in particular, despite some forms of private investment above mentioned, “for young, innovative firms at the pre-seed stage, access to funding and advisory support is limited, as are the possibilities for attracting private investment through, e.g., crowd-funding or business angels. In the Western Balkans firms at this stage fund their activities primarily from savings, friends and family, employment agency grants, refundable grants, or pre-investment support from government agencies.” (World Bank, 2020, pg. 2).

Moreover, with an eye on crowdfunding, the report, based on qualitative data and the only one existing at this time to the best knowledge of the authors, also sheds light on the fact that the crowdfunding platforms lack of a regulatory framework. In particular, a study on fintech innovation in the region points out that “While currently there is no bespoke crowdfunding regime in any of the countries in the region, regulators interpret existing domestic regulations differently. Representatives of the Central Bank of the Republic of Kosovo were the only ones to consider equity crowdfunding as a prohibited activity. Regulators in North Macedonia and Serbia are specific for having two different regulators having a different view on permissibility of equity crowdfunding. In North Macedonia, equity crowdfunding is permitted from the lenses of banking and payments regulator (the Central Bank of North Macedonia), whereas Securities regulator considers it to be unclear. In Serbia, the opposite interpretation of existing rules was offered. Equity crowdfunding is not disputable from the perspective of the Securities Commission, while the National Bank of Serbia has doubts over permissibility of such activity.” (Odorović et al., 2020, p. 39).

This raises questions as to how equity crowdfunding can be supported to sustain an effective financing of new business. As the World Bank suggests, the region should equip itself with a legal structure for crowdfunding which should adhere to the best international practice. In this regard, the new regulatory framework designed by the European Union should constitute the blueprint to refer to. This is of the utmost importance in view of the fact that if on the one hand local entrepreneurs should be allowed to access additional resources for their businesses, on the other investors should be protected against the risks involved in such a digital fundraising environment. Using again the lens provided by the Digital Finance Cube (Gomber et al., 2017), with particular regard to the technological aspect of it, equity crowdfunding is a form of business fundraising which thrives on the involvement of a great number of investors reached out via social networks. However, as mentioned, in such a context the levels of information asymmetries are high a situation which poses several issues for retail investors to make an investment decisions as they are not able to make a proper evaluation of the promoted project, as seen above. In other words, to make of equity crowdfunding a success, transparency has to be hold into account to favour a transparent system has to emerge so that retail investors can feel confident and the entrepreneurs can raise funds for their new ventures. In practical terms, borrowing from Odorović et al. (2020) existing regulatory frameworks should be reviewed posing as a top priority investor protection safeguards by addressing the loopholes in existing regulations.

1. **Conclusions**

Equity crowdfunding is an emerging form of entrepreneurial finance which constitutes an additional source of finance for entrepreneurs. Due to its grassroots nature, it also represents an opportunity for transition economies to bring dynamism from the bottom up. However, equity crowdfunding still presents drawbacks which have to be managed in order to maximise its potential and this is of pivotal importance in the context of transition economies where the market if forming. In other words, bad rules could break the market.

This is why, in particular those economies, whilst on the one hand need to introduce regulatory frameworks to allow entrepreneurs to crowd-in resources needed to encourage start-ups (World Bank, 2020), on the other hand the regulator, whilst referring to existing blueprints (CCAF, 2020), has to make sure the protection of the investor is at the top of the agenda to avoid disappointed investors from ceasing to invest (Belleflamme et al., 2019).

All the above, which constitute only the first step towards a more extensive investigation which should mirror the development of the market which is currently as its very early stages, point out how in the current economic context entrepreneurial communities could constitute a real added value to foster the creation of new business and economic development in a region, Western Balkans, that has been so far deprived of the new opportunities coming from already existing technology despite its potential for being the start-up hub of the future in Europe. However, it also sheds lights on the risks to be carefully managed to avoid undermining this effort, spanning from risks associated to the entrepreneurial process per se and the ones related to the behaviour of the crowd in making investment choice where irrationality can play a big part.

However, this represents, as mentioned above, only one side of the story since the local governments should act to address infrastructural issues which could underpin these new opportunities. One of those is represented by the need to foster a digital transition of the region. In this regard, in their journey towards their full European citizenship, Western Balkans’ governments should favour such a convergence by favouring internal collaboration among the local governments and by making the most of the recently adopted Economic and Investment Plan for the Western Balkans (European Commission, 2020b) whose €9 billion of grant funding, aimed at investments and providing support to competitiveness and digital transition would “support the development of connected, competitive knowledge-based, sustainable, innovation oriented and thriving economies in the Western Balkans, with an increasingly dynamic private sector.” (European Commission, 2020a).

To support such an effort of local governments in creating an entrepreneurial-friendly environment (i.e. entrepreneurial ecosystem), of interest would be further research addressing how government policy and support can encourage and promote an equity crowdfunding ecosystem for fostering and sustaining venturing.

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