

THE ROLE OF CROWDFUNDING SYSTEMS DURING CRISES AND MILITARY ACTIONS

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Abstract. This article is about how crowdfunding and crowdinvesting systems can be used during crises and hostilities. This article provides examples of different types of possible crowd-system. *Research subject.* Crowdfunding and crowdinvesting systems as the institutional instruments (P2P) which are used during crises and hostilities, among them are as follows: Violence Crowdfunding systems, General Crowdfunding Systems, and Crowdinvesting Systems alike. *Methodology.* The authors used a complex of research methods and approached as interdisciplinary approach, evidence-based approach, and practical business cases. Also, general scientific research *methods* were used (analysis and synthesis of information), as well as an inductive and deductive research methods. *The goal* of the article is to consider the prospects for the use of crowdfunding platforms as an element of solving the military crisis on the territory of Ukraine. *Conclusions.* The Special attention was paid to the war crises in Ukraine and the situation of the crowdfunding and crowdinvesting systems in Ukrainian society. It is provided detailed examples of the use of crowdsourcing systems in Ukraine during the war nowadays and explained the need for the creation of an independent Ukrainian crowdfunding platform. Additionally, the ways of the creation of such a platform are clarified. Ukrainian society during the military crisis gained experience in crowdfunding that was not familiar or even available. However, Ukrainian society is very actively popularizing crowdfunding or rather its foundations. Crowdfunding is currently most common when looking for funding for military needs: from mass arms purchases to financing individual soldiers. In a short time, thanks to the stress of war, many people have made crowdfunding a part of their lives and instilled this habit in society. The first crowdfunding platforms are already appearing to give Ukrainians the opportunity to fund some Ukrainian startups, companies, and ideas. One of the most difficult elements in creating and launching a crowdfunding platform is not building the platform itself, but integrating it. A decade ago, the creation of a crowdfunding platform and integration of the entire crowdfunding system, was a complicated and costly procedure. The most difficult thing is to integrate the platform into society so that mass use can begin.

Key words: crowdfunding, crowdinvesting, war in Ukraine, solution for crises, solution for hospitalities, COVID-19.

JEL Classification: O15, H12

1. Introduction

Over the past few years, COVID-19 has shaped our world and changed the economy in which people live today. No sooner had Ukraine recovered from the pandemic than it plunged the country into a military crisis that has now brought some new parameters to the economy.

The changes showed the transition from the conventional economy to the war economy, which changed industries, laws, and social structure. During this three-year transition, pandemic and war, there was an opportunity to explore these changes and see how new P2P systems, such as crowdfunding, could fit into these rather challenging coming years.

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The purpose of this article is to examine the prospects for the use of crowdfunding platforms as an element of resolving the military crisis in Ukraine.

General scientific methods of research (analysis and synthesis of information on the topic), as well as the inductive method of research, the deductive method and the comparative method were used in writing the article.

One of the first uncertainties that appear in the economic picture of a country at war is the erratic behavior of the financial market. (Schneider, et al., 2006, p. 625–628). Then stocks start to suffer, and brokers look for more stable investments. The first thing that discourages major financial players from investing is government bonds and gold. In addition, stocks of domestic corporations are becoming less attractive in international stock markets, and traders are changing their priority to stocks of corporations that do not come from national economies at war. Investors will sell stocks and move to less risky options if the market expects a protracted conflict. Thus, a negative collective view of the likely course of events reduces the overall value of the stock market, while the expectation of a favorable course of events makes stocks more attractive.

According to the International Monetary Fund, Ukraine's economy, based on GDP, has fallen by about 30-50%, and the war appears to have lasted longer than the world community imagined in its early stages (Irtyshev et al., 2022, p. 80). One way to smooth things over is to introduce new types of crowdfunding systems that can allow small and medium-sized entrepreneurs and talents to find funding for their projects, survive wartime, and develop their projects on a large scale. Such projects can support and provide sustainability for the project owners, their families, and the economy of the country in which these projects are developed.

2. Crowdfunding systems that can be used during crises and military actions

Based on the current economic picture, we can conclude that the economy is feeling the transformation in all sectors, and prices are experiencing severe inflation at all stages and in all industries. High rent prices, high food and fuel prices are all hitting the middle class in Ukraine hard. If one considers the business sector, the total direct losses of small and medium-sized businesses in Ukraine during the full-scale Russian invasion are estimated at \$64-85 billion. Only 15% remained unchanged or even increased from what they were as of February 23 ("During the war, small and medium-sized businesses lost up to \$85 billion – experts", 2022). Despite such shocking figures, it was noted that after the initial shock had passed, small and medium business in Ukraine began to actively renew itself: "since Russia's full-scale invasion of our land, almost

150,000 new enterprises have been registered in the country, of which 132,000 are individual entrepreneurs." (Schwartz, 2022) The indicators demonstrate once again that small and medium-sized businesses can begin to actively develop during wartime to compensate for the lack of resources and services. As an example, during the war in Ukraine, one of the largest shipping companies, Nova Poshta, opened two branches of its company in Poland (Eismunt, 2022). However, in addition to these large companies, many individual entrepreneurs have also begun to provide similar services, ahead of large companies. Since the beginning of the year, Ukrainian citizens have created 10,207 companies in Poland ("Ukrainians opened 10,000 companies in Poland in six months", 2022).

And it is when an individual entrepreneur plans to launch a company providing needed services or products that he can find support and funding through a crowdfunding platform. Continuing with the delivery service example, imagine Ukrainian refugees in Europe who would like a safe and familiar delivery service. Of course, people would support such an initiative to get a much-needed service. Crowdfunding systems are helpful in two scenarios: when people are enjoying a good economy and have some bonus funds to spend on projects, or when people are suffering from a shrinking and falling economy and are looking for a way to use the remaining funds to find a way to survive. Probably the second scenario is the most effective for developing a mindset and habit of crowdfunding. This is especially true for funding military purchases. For example, "in the course of the "Road of Victory" initiative, initiated by Kyivstar, Okean Elzy group and the "Come back alive" charitable fund, 14,818,840 hryvnias were collected for 15 pickups by Ukrainian military." ("Ukrainians collected funds for 15 new pickup trucks for the Armed Forces", 2022) There are many examples of fundraising and they range from 1,000 hryvnias to six-figure sums. "As of March 5, 2022, a total of almost 10 billion UAH equivalent was transferred to the special account opened by the National Bank to support the Armed Forces of Ukraine," ("More than UAH 10 billion was collected to support the Army and humanitarian aid", 2022) and it is worth noting that funding is also actively received on other accounts of various charitable foundations and individuals.

The types of crowdfunding (P2P) systems that are used during crises and warfare are as follows:

Violence crowdfunding systems – began during the war against ISIS, when crowdfunding systems gave people a psychological opportunity to send financial aid to the U.S. army and thus support actions in the war zone (Sunday Grove, 2019, p. 89). In Ukraine there is a perfect example of the actor Serhii Prytula, who raised money through the media and the

Internet for the power systems under the name Bayraktar. He did not use any crowdfunding platform to do this, but he did use the media to raise the funds needed for the war. In the case of the U.S. Army and the U.S. society, they used the media and a specific crowdfunding system platform.

General Crowdfunding systems – such as Kickstarter, IndieGoGo or GoFundMe are systems that can marketplace your project or talent, but these projects or talents can't have a violent purpose. In the case of these three aforementioned platforms, it functions and promotes projects through so-called bakers and rewards. Bakers are platform users, and rewards are offered by project creators (sometimes recommended by the platform itself) (Shengsheng et al., 2014, p. 2–3). In Ukraine, these platforms cannot be used because these platforms are integrated with the country's financial systems, and in the case of Ukraine, because of the large number of fraudulent activities on the Internet before and during the war, these organizations have not taken steps towards the Ukrainian market.

Crowdinvesting systems – these are systems that use platforms to bring venture capitalists together and invest in the equity of a project by obtaining some kind of benefit or equity. The best examples are the British platforms Crowdcube and Seeders (this last one is also a Portuguese-based corporation). These platforms offer investors shares in a future or already established limited liability company. But in the case of some countries, where notarized share transfer procedures are more expensive, projects use profit-sharing notes, silent partnerships and profit-sharing loans. The direct difference between crowdfunding and crowdinvesting is that in crowdfunding, the backers receive some reward, while in crowdinvesting, the backers are not backers, but venture capitalists who expect to receive some monetary and equity contributions (Binda, 2017, p. 8–9). In Ukraine, such systems also do not yet exist.

All three of these systems can be used in times of crisis and during warfare. The first system has some ethical problems that should be dealt with separately. But in the case of the crowdfunding and crowdinvesting systems, it is clear how they could smooth out a falling economy and rising prices in all sectors. The fact that such systems do not exist in Ukraine, and that those that exist in Western markets cannot be activated in Ukraine, testifies to the incredible niche market, which is absolutely free from competition.

During the war in Ukraine, the AirBnB platform was used to raise money for people affected by shelling. The apartments and houses that were present on the platform were financed by bookies, even without any further sense of actually coming to live there (Comerford, 2022). The platform owners and directors permitted this and the bakers used, an absolutely non-crowdfunding platform, to crowdfund for the sake of the citizens of Ukraine.

Now one can only imagine what will happen when Ukraine has its own, real system of crowdfunding and crowdinvesting, which will make it possible to support this country in times of war, during any impending crisis, as well as in times of peaceful and positive dynamics. After all, examples of mass fundraising are already actively taking place during the seven months of the war. Military crowdfunding under the slogan "Donate for the Armed Forces of Ukraine" has become part of the lives of many citizens, there are constantly raising funds for various things: cars, weapons, drones, bulletproof vests, tents, etc. The pace of fundraising, governed by the war, became very fast: "in one day the special account of the National Bank, opened to collect funds to support the Armed Forces of Ukraine, received almost 300 million hryvnia (in equivalent)." ("In one day, almost UAH 300 million was deposited into a special account for collecting funds for the needs of the army", 2022)

3. How to create and integrate crowdfunding systems in a crisis and hostile environment?

One of the most difficult elements in creating and launching a crowdfunding platform is not the creation of the platform itself, but its integration. For example, ten years ago, creating a crowdfunding platform and integrating the entire crowdfunding system was a complicated and expensive procedure. However, this has changed dramatically in the last 3 years, and now you can create a crowdfunding platform using WIX, WordPress, Themeum, WooCommerce, etc.

The hardest part is to integrate the platform into society so that mass use begins. The advantage of international platforms, such as Kickstarter, is that the platform works in many countries, which means it generates trust among users and receives a mass turnover of users (both innovators and backers). One of the reasons why Ukraine as a country cannot use any of the already existing crowdfunding platforms around the world is that these platforms are companies that have to be very responsible for transactions and show their actions very transparently. The Ukrainian market is still not cleared of the high level of fraud and digital security problems, which is the reason why for the last year none of the existing crowdfunding platforms allowed Ukrainian citizens to register on the platform. This is one of the weighty reasons why there is no big platform in Ukraine yet. However, more and more enthusiasts are creating crowdfunding platforms in Ukraine like Spilnokosht, RazomGo, GoFundEd (Tolub, 2021), however, none of these platforms can be called a full-fledged ultimate crowdfunding platform in Ukraine, also due to the volume of money turnover within the platforms.

Empathy, happiness, guilt, and identity are psychological factors that drive backers to fund various projects posted on various crowdfunding

platforms (Gerber, et al., 2012, p. 2–3). Interpersonal communication and a spark between the one who is needed and the one who supports is a must in such an environment. It can be said that crowdfunding platforms create a sense of community, a sense of ecosystem and belonging to this or that problem, to this or that trend, to this or that moment of happiness, to this or that type of movement.

One of the crises that showed the effectiveness of crowdfunding was before the war in Ukraine, the COVID-19 pandemic. During 2 years of the worst pandemic in the world we expected crowdfunding platforms to appear on the Ukrainian market, but it did not happen. Meanwhile, in different countries of the world crowdfunding still had a chance to show itself as a well-deserved place of help.

Just in France, nationwide platforms like Leetchi, Ulule and KissKissBankBank organized themselves to embrace the different new problems which appeared all through France with the coming of the COVID-19 crisis (Moine, 2020, p. 1–5). People across the country used these platforms to donate and support the necessary organizations or individuals to adapt to the new reality of the pandemic and confront the problems that began to pile up throughout the region. This case showed how well crowdfunding platforms can solve problems, even hidden ones, and help people band together to create projects and donate the necessary funds to support these projects and help solve problems.

Crowdfunding platforms were also used during the last COVID-19 crisis in China (Ho, 2021, p. 4–10). The Chinese experience has shown that it is necessary to become emotionally and personally attached to the problems that a particular project solves. The use of photographs, the use of external sites to support the project, the use of social media, and the creation of a problem-solving community were all steps toward success and powerful support for various projects during the pandemic. Also, the feeling that these projects were not forgotten and active was a big factor for supporters. Crowdfunding platforms are just platforms, they are places where people can meet for a specific purpose, but at the end of the day the users (backers or supporters) are the ones who create a community, upload videos and information about the success of the money invested and the positive results that these money and projects have produced.

Crowdfunding can be adapted to any type of society, religion, gender or ideology. Fintech has opened the door to unite crowds into communities and societies and made it possible to be together and face any crisis or enmity as one nation, one gender, one party, one race, or one group of people.

In Malaysia, during the COVID-19 pandemic, there was created a special Islamic crowdfunding

system with its own type of rules, which were Halal, based on the Al Shariah and the Quran (Dzuljastri, 2021, p. 92–99). This shows that crowdfunding can be adapted to a very strict and conservative society with high standards in the area of rules and restrictions.

Many examples are related to gender crowdfunding. There are many cases in the field of entrepreneurship where women have created their own crowdfunding platforms and systems to continue their projects and fight gender discrimination and specific problems together.

During the COVID-19 pandemic in South America, there were many cases where women collectively organized their own crowdfunding systems to promote and advance their innovative projects (Alva, 2021, p. 2–5).

Under COVID-19 in Ukraine it is difficult to find striking examples of the use of crowdfunding in any form, but during the war there are already striking examples of co-financing, not even directly related to the purchase of military equipment. In addition, a whole trend to support Ukrainian entrepreneurs and small businesses under the slogan "Pidtrymui ukrainske" ("support Ukrainian"). At this point, the war has motivated Ukrainian society to actively support and develop Ukrainian projects, businesses and manufacturers. This trend is great for popularizing crowdfunding, as society is particularly interested in supporting local businesses.

4. Conclusions

As discussed in this article, Ukrainian society during the military crisis had an experience with crowdfunding that was not familiar or even available. However, Ukrainian society is very active in popularizing crowdfunding, or rather its basics. Currently, crowdfunding is most common when seeking funds for military needs, from massive weapons purchases to funding for individual soldiers. In a short time, thanks to the stress of war, many people have made crowdfunding part of their lives and instilled the habit in society.

The first crowdfunding platforms are already appearing to give Ukrainians the opportunity to fund some Ukrainian startups, companies and ideas.

A review and analysis of various fundraisers suggests that a full-fledged crowdfunding platform can become very popular. This is important, among other things, for the popularization of Ukrainian arbitrage, which is a popular trend in Ukraine.

It should be noted that motivation through military stress, combined with pro-Ukrainian trends and the digitalization of Ukrainian society can give incredible results and possibly bring crowdfunding to a new level of development.

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