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RECOMMENDATIONS FOR REGULATORS, INTERMEDIARIES AND OTHER STAKEHOLDERS FOR IMPLEMENTING CROWDLENDING IN SERBIA

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Contents

1.	Introduction	3
2.	Tax Incentives – Best Practice Example	4
3.	Regulatory Sandbox as Framework for Introducing Crowdlending and other FinTech Business Models.....	5
4.	Recommendations to Regulators for Implementing Two Crowdlending Platforms Analysed as Case Studies	7
5.	General Recommendations for Creating Favourable Environment for Crowdlending in Serbia	11

I. Introduction

The role of the government and its affiliates in the development of proper business environment both through regulation and more direct involvement was and still is very important for accessibility of finance, and thus development of micro and SME companies. Banking, foreign exchange and tax laws set the legislative framework, while development funds, subsidies and other government incentives have more direct influence on access to financing for innovative companies, start-ups and SMEs.

Crowdfunding, as another innovative financing source also depends heavily on local regulation and openness of the local authorities to alternative financing solutions. Although, according to Serbian laws crowdfunding, at least inside Serbia, is legally possible, there are still many other measures that government can undertake in order to make this alternative financing source and investment opportunity available to both companies and retail investors.

Rationale for the government to even consider regulation improvement in this regard can be summarized in the following three points:

- Innovation support – As a key driver of economic growth in today’s knowledge-based economies and societies, innovation is recognized as main contributor to development and living standard improvement.
- Risk mitigation – Investing in small and innovative companies is generally riskier than investing in larger or even listed companies. Therefore, this segment is mostly ignored by traditional financing suppliers and needs to be financed by entities willing to take more risks and offer more adequate financial services. The more the potential loss is reduced, the more finance will be available. Experiences from other countries confirm that regulators can contribute to risk mitigation significantly.
- Importance for the national economy – Micro companies and SMEs generate 43.3% of Serbian gross added value and employ 46.5% of the working force in the country.¹

Summarized, by supporting innovation and mitigating risk, the government is fostering entrepreneurship in a segment of the economy with significant contribution to growth. However, this governmental support has to be based on economic principles, conditioned on economic logic, and to fulfil the real needs of economy timely and efficiently.

There are many ways how governments offer their support, and Serbian government has followed some of these. Establishing the Development Agency of Serbia (RAS) and Innovation Fund are some of the measures taken, but there is so much more that can be done, especially in the field of legislation. In this paper we analyse two examples of governmental measures in this regard, namely regulatory sandboxes and tax incentive schemes of the government of the United Kingdom (EIS and SEIS).

“A regulatory sandbox is a framework set up by a financial sector regulator to allow small scale, live testing of innovations by private firms in a controlled environment (operating under a special exemption, allowance, or other limited, time-bound exception) under the regulator’s supervision. The concept, which was developed in a time of rapid technological innovation in financial markets, is an attempt to address the frictions between regulators’ desire to encourage and enable innovation and the emphasis on regulation following the financial crisis of 2007-2008.”²

The Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) are two UK government initiatives offering attractive tax reliefs to persons investing in micro, small and medium enterprises participating in these schemes. They are described in detail and put into context of Serbian market with the goal of presenting an extremely successful example of

¹ “Report on small and medium enterprises and entrepreneurship for 2017” – Ministry of Economy

² CGAP Working Paper – “Regulatory Sandboxes and Financial Inclusion” - Ivo Jenik and Kate Lauer, October 2017

government support to innovative companies.

In the fourth chapter, we touched on two crowdlending case studies (CONDA and Bitbond) analyzed in the previous parts of this study, as two good examples of crowdlending platforms which could be fully implemented on Serbian market provided some regulatory changes. In case of regulator deciding to make such services possible in Serbia, we summarized the recommendations to regulators how they could be made possible through regulation adjustment. It is important to note, that both companies analyzed are currently considering market entry in Serbia. While Bitbond is only generally interested in Serbian market, CONDA has already found a local partner, BDO Business Advisory, with whom they are intensively working on establishing a local platform in 2019.

Lastly, we analyzed other stakeholders and possible ways of creating a favorable ecosystem for crowdlending in Serbia. We listed measures that could be undertaken, which stakeholders are they addressing and what benefits they are supposed to deliver. This chapter rounds the set of recommendations that would support and propel crowdlending as valuable alternative for fundraising for micro, small and medium sized enterprises.

2. Tax Incentives – Best Practice Example

The United Kingdom (UK), as one of the most advanced economies in the field of small business financing can be taken as a role model and best practice example when it comes to developing alternative financing. Besides being much less bank oriented financial market, government lead fostering of entrepreneurial spirit and supporting of investments has also contributed to the UK making up 73% of total alternative finance market in Europe in 2016.³

Due to the common understanding, that investing in small companies generally bears more risk than investing in listed and larger companies, with additional problem of no easy way of selling shares, the government introduced tax reliefs as an incentive for investors. The fact that low base of small companies enables them to grow very quickly, enables the offsetting of foregone taxes on the investor side through higher corporate tax incomes.

The **Enterprise Investment Scheme (EIS)** was introduced in 1994 to help smaller, unlisted companies raise funding by offering a set of tax reliefs to investors, helping them reduce the amount of capital at risk. It offers following tax reliefs:

- Income tax relief of 30% of the investment amount;
- No capital gains tax on any profit made from an EIS eligible investment;
- Any realized loss on investment can be offset against income tax;
- No inheritance tax on shares bought through EIS.

To be eligible for these benefits, investors must hold the shares for at least three years. There are also restrictions regarding kinds of businesses one can invest in (for example, banks, farms and nursing homes are excluded), maximum amount of investment (1 million GBP each year) and equity share (30% maximum). The investment targets must not have more than 250 employees and gross assets of 15 million GBP.

The **Seed Enterprise Investment Scheme (SEIS)** was set up in 2012 with purpose of supporting investments in companies of smaller size than EIS. It offers even more generous tax reliefs than EIS:

- Income tax relief of 50% of the investment amount;
- No capital gains tax on any profit made from an SEIS eligible investment;

³ Expanding Horizons – The 3rd European Alternative Finance Industry Report: Cambridge Center for Alternative Finance, 2017

- Any realized loss on investment can be offset against income tax;
- No inheritance tax on shares bought through SEIS;
- Capital gains reinvestment relief (50% of paid capital gains taxes on other investments can be reclaimed if reinvested in SEIS eligible investments).

Similar to EIS, SEIS also has several restrictions, one of the most important being the maximum annual investment amount of 100,000 GBP. Eligible target companies must not have larger workforce and gross assets than 50 employees and 200,000 GBP respectively, and must not be more than two years old.

This kind of schemes has proven to be very successful. Since EIS was launched in 1994, more than 27,905 companies have received over 18 billion GBP in investments. Since SEIS is relatively recent development, it is still early to give a final judgement. However, track records from 2016 and 2017 show promising results, since 4,665 companies received 357 million GBP through SEIS in just these two years.⁴

Although many of the fundraising businesses use these schemes to attract investors on crowdfunding platforms, both EIS and SEIS tax relief schemes apply only to investments in equity and thus are not compatible with crowdlending. This makes sense in the UK, since equity crowdfunding is relatively common and easily feasible under the local laws. In Serbia, however, where equity crowdfunding is theoretically possible but economically and practically not feasible, this kind of tax relief scheme would simply not be applicable. However, it could be easily applied in the same manner on crowdlending campaigns. This would be adequate especially when it comes to hybrid crowdlending, which is used as an equity surrogate due to both equity and debt features of this kind of financing.

Significant differences in tax laws would probably make this kind of tax relief less effective in Serbia, compared to the UK. Nevertheless, high income individuals (with income over 2,375,136 RSD per year⁵), who are affected by the personal income tax, would still have an incentive to reduce their taxes payables and invest. Since population affected by this tax is the most probable as investors, this kind of incentive would certainly contribute to higher investment volume in micro companies and SMEs.

Although there are some recently introduced tax incentives for investments in innovative businesses in Serbia (Incentives for research and development costs), they apply only to companies and not individual investors. Tax reliefs equivalent to EIS and SEIS, applicable to crowdlending with equity investing features, would provide a great deal of support to investors in innovative startups and SMEs in general.

3. Regulatory Sandbox as Framework for Introducing Crowdlending and other FinTech Business Models

Regulatory sandbox overview

In general, regulatory sandbox represents a framework set up by a regulator to allow companies to safely experiment in a closed and controlled environment. This means that the companies are operating under special conditions aimed to allow various exceptions to the general regulatory rules provided that such operation is closely supervised by the regulator. Regulatory sandbox is used for testing grounds for new and innovative products, services, business models and delivery mechanisms without immediately incurring all standard regulatory consequences of engaging in the

⁴ Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief – Statistics on Companies raising funds: HM Revenue and Customs, May 2018

⁵ In 2018.

respective activity.

The mechanisms of regulatory sandbox are widely used throughout the world as a tool for testing pioneer projects and encouraging their development. The United Kingdom, as a state institutionally committed to the development of FinTech, was the first to launch a regulatory sandbox in this sector. In particular, in 2015 the British Financial Conduct Authority initiated the Project Innovate whose purpose was to explore innovative ideas that inevitably require changes to the regulatory system. This project aimed to adjust strict compliance conditions with the growth and pace of the most innovative companies, in a way that does not smother the FinTech sector with burdensome procedures, but at the same time fosters consumer protection.

The regulatory sandbox may acquire many benefits such as:

- (i) Potential for financial inclusion – FinTech innovations may produce more affordable products and services that could be distributed to the otherwise excluded groups. Additionally, their operational optimization may serve low-margin customers profitably. Thus, regulatory sandbox may be a useful instrument for encouraging such innovations without incurring major risks.
- (ii) Innovative products reached the market – Due to the regulatory uncertainty, some innovations are abandoned at an early stage and never even tested. As the sandbox framework enables companies to manage regulatory risks during the testing stage, more solutions may be trialled and later potentially introduced to the market.
- (iii) Secure innovations – Regulatory sandbox ensures that new products are robust and secure before they are launched to the market.
- (iv) Attracting investments – Promoting innovation through the existence of a regulatory sandbox with the consent of the regulator broadcasts positive signals that the respective state and its authorities welcome innovation which potentially attracts additional investments.

The National Bank of Serbia (“NBS”) also recognized the above advantages and in the beginning of 2018 introduced a regulatory sandbox in the area of FinTech and payment services. Local companies and entrepreneurs are invited to perform payment services under controlled conditions without necessity to obtain relevant license but under the close scrutiny of the NBS. Thus, the companies interested in participating in this regulatory sandbox need to obtain a prior opinion of the NBS and allow the regulator to perform regular insights into the respective project.

Recommendation for the implementation of regulatory sandbox in Serbia

As we outlined in the Deliverable II, certain differences in Conda and Bitbond crowdlending schemes may trigger distinct implications from a regulatory and legal perspective. Additionally, other types of crowdlending models that were not part of our analysis may be based on entirely different mechanisms. Despite the fact that all crowdlending platforms are generally based on similar notion that involves open calls for loan financing through an internet platform, numerous dissimilarities between them would cause diverse obstacles in their implementation in Serbia.

Thus, until an adequate regulation on crowdlending is adopted in Serbia, we would propose the adoption of regulatory sandbox in the field of crowdlending. Specifically, the targeted stakeholders (i.e. the NBS, the Ministry of Finance and the Tax Administration) could form a working group that would approve and monitor crowdlending platforms. These platforms would operate under specific rules at the edge or even outside of the existing regulatory framework established only for purposes of crowdlending. Such rules should address all of the above issues and additional issues encountered in other models of crowdlending platforms which could be resolved ad hoc and on a case by case basis. This wait-and-see strategy would enable immediate operation of crowdlending platforms in Serbia and at the same time contribute to gathering of practical input necessary for the adoption of a comprehensive crowdlending legislation in the future.

4. Recommendations to Regulators for Implementing Two Crowdfunding Platforms Analysed as Case Studies

Within our work on Deliverables I and II, we conducted an extensive research of general legal, regulatory and administrative framework to determine the rules potentially applicable to certain models of crowdfunding platforms. In particular, through the case study of two utterly different types of crowdfunding platforms (Conda and Bitbond), we analysed various aspects of their business models to determine the feasibility of implementing similar platforms in the Republic of Serbia (“Serbia”).

Although both Conda and Bitbond models are based on the same concept that involves open calls for peer-to-peer lending, the implementation of Conda’s platform seems more likely to succeed under Serbian regulations. Specifically, given that Bitbond model involves cryptocurrency loans, its establishment may be relatively complex (if possible at all) due to the absence of cryptocurrency regulation and a rather conservative standpoint of the regulators on this matter.

On the other hand, there should be no material legal obstacles for the establishment of Conda model for local participants within Serbia. Additionally, as outlined in Section 5.2.2.1 (Legal Accountability / Licensing) of the Deliverable II, the existing regulatory framework does not impose licencing requirements with respect to the platform operator. In particular, Conda platform operator should be regarded as a mere intermediary between the participants of a crowdfunding campaign and as such does not acquire, possess or hold the respective campaign funds. Consequently, it does not hold deposits or grants credits for which a specific banking licence would be required.

Moreover, the lenders would not be subject to banking licence requirements either as long as they refrain from involvement in crowdfunding as their primary business activity. Namely, banking licence would be normally required for those entities that are engaged in granting the loans as their predominant or frequent business activity. However, please note that there are no specific guidelines on what may be deemed as a business activity of lending. In our view, it may be reasonably interpreted that non-bank entities (including private persons) are entitled to grant loans as long as their total income is not solely or predominantly based on crowdfunding activities and the volume of loans granted does not generate majority of their income.

However, the cross-border aspects of Conda’s model that involve loans advanced by foreign investors may be difficult to implement due to different legal obstacles imposed by the FX Regulation. Upon pinpointing the main foreign exchange issues, we discussed these with the National Bank of Serbia (“NBS”), as a banking and forex regulator, to identify their key drivers, policy requirements and objectives. Although these discussions were highly productive and constructive, they were not conclusive and the main issues preventing implementation of cross-border aspects of crowdfunding platforms remain unresolved for now. However, feasible implementation of cross-border crowdfunding platforms does not necessarily require changes to the FX Law itself and could be achieved by rather technical amendments to the pertinent FX secondary regulations (which are adopted by the NBS).

Due to the specific nature of crowdfunding financing models, the optimal solution would be to adopt a comprehensive legislation that would regulate the operation of crowdfunding platforms. The legislator should consider the EU proposals for regulation on European crowdfunding, but at the same time take into account the specifics of Serbian market and current regulatory frameworks. For instance, the adoption of crowdfunding legislation would not be sufficient for the full implementation of cross-border platforms until the FX regulation is aligned with such framework.

Nevertheless, until such piece of legislation is adopted, there should be no legal impediments for the implementation of Conda model for local participants, whereas the main issues preventing the cross-border operations of Conda platform in Serbia could be resolved with the support of the NBS. Thus, we have outlined below our recommendations for the main issues identified under Deliverables I and II that prevent the implementation of Bitbond model and obstruct the cross-

border operations of Conda model in Serbia. These proposals are mainly based on the amendments in the current regulatory framework in Serbia.

Conda

The key obstacles we identified are in the field of the FX Regulation and as such may impede the cross-border investments of foreign lenders. We have briefly repeated our findings on this matter and proposed certain solutions below.

Foreign exchange issues

As outlined in more detail in Section 5.2.2.1 (*Foreign Exchange*) of the Deliverable II, foreign financial loans need to be reported to the NBS prior to their disbursement. Consequently, drawing of the loan can begin only once the NBS confirms due reporting of the loan agreement (meaning that the NBS has rubber-stamped the reporting forms and awarded application number to the loan).

Such *ex ante* reporting obligation means that the crowd-investors would be unable to, simultaneously with subscription, transfer the loan to the escrow account of the Serbian borrower. Instead, during the subscription period of a campaign, the crowd-investors would only be bound by the agreement to execute the payments once the campaign is declared successful and the loan agreement reported.

In this scenario, crowd-investors would be able to withdraw from their commitment during the subscription period, while enforcing their obligation to invest would involve lengthy court proceedings which may be rather expensive and with an unpredictable outcome.

Additionally, for the loan to be reported with the NBS, certain loan data (such as the loan amount, contracting parties, interest rates, utilization and repayment schedules etc.) needs to be specified at the moment of report filing. Thus, given that all loan data (for example, data on all investors) would be unknown until the completion of campaign, reporting of the loan may not be duly completed before the campaign has been declared successful.

Finally, in Conda's model crowd-investors are entitled to a "bonus interest rate" dependable on the performance of the borrower and/or its enterprise value. The reporting of such interest with the NBS may be problematic, as its nature significantly differs from the nature of ordinary interest. Specifically, the "bonus interest rates" depend on borrower's performance and represent financial return on quasi-equity financing dissimilar to general debt financing. Thus, the NBS may refuse to confirm reporting of the respective loan if it deems that the "bonus interest rate" is exorbitant and/or incompliant with the FX Regulation.

Recommendations

In our view, one of the potential solutions to be adopted by the NBS may be the adoption of amendments to the Loan Reporting Guidelines⁶ and the FX Payment Transaction Guidelines⁷ for crowdlending purposes.

Specifically, the NBS may allow in the Loan Reporting Guidelines a prior reporting of the template loan agreement incorporating all of the terms of a crowdlending campaign but without indicating the lenders and other details of the loan that will not be known at the moment of reporting. Specifically:

- before the launch of the crowdlending campaign, the borrower would file for reporting of the template crowdlending agreement,

⁶ Guidelines on filling out foreign loan credit business forms ("Official Gazette of RS" No. 102/2018) ("**Loan Reporting Guidelines**").

⁷ Decision on Terms and Conditions of Performing Foreign Payment Transactions ("Official Gazette of RS", Nos 24/2007, 31/2007, 38/2010 and 111/2015) ("**FX Payment Transaction Guidelines**").

- upon review of the terms under the respective agreement, the NBS would award the loan application number to the crowdlending campaign without reporting each lender of record and other missing data pertaining to the loan,
- once a lender signs the crowdlending agreement and enters into the project it would make payments under the previously awarded loan application number,
- all payments would be made to the borrower's escrow account held with the local bank,
- the escrow account would be inaccessible to the borrower until the funds are fully raised,
- once the campaign is declared successful, the funds would be disbursed to the borrower or, in case of failure of the crowdlending project, the funds would be returned to the crowd-investors and loan application cancelled with the NBS.

If the campaign was successful, the borrower would subsequently deliver to the NBS all data on each lender in the campaign, as well as other missing data. In this way, each lender would be reported as a lender of record prior to the maturity date, the borrower would be timely enabled to effectuate repayments of the loan and investors would be able to make payments simultaneously with subscription for a campaign.

Further, the FX Payment Transaction Guidelines should also be adjusted as to include a new payment code under which the borrower would be able to:

- return the funds to the lenders in case the campaign is not successful, the investors withdrew its investment, or the borrower refused the offer of the particular investor, and to
- make payments on the basis of the "bonus interest rate" (alternatively, given its equity-like nature, payments of "bonus interest rate" could also be enabled by extending the existing payment code for direct investments (no. 160) to include all payments on the basis of participation in a company).

Alternatively, another potential solution we identified after the discussions with the NBS, would be to amend the Decision on Foreign Deposits⁸. Specifically, Serbian residents are prohibited from opening bank accounts abroad except in certain limited cases prescribed under the Decision on Foreign Deposits none of which could be applied to crowdlending campaigns.

On the other hand, as we understood from the meeting with the NBS, one of the main macroeconomic concerns of the regulator is to keep track of cash inflows and outflows of Serbian residents. That is why the FX Regulation requires reporting of the loan before its disbursement. Conda's model is in essence in line with this concern as the borrower would not have access to funds before the campaign is declared successful. Therefore, one of the potential solutions would be to amend the Decision on Foreign Deposits so to allow participants in crowdlending campaigns to hold funds at a bank account abroad during the campaign and before the loan is duly reported with the NBS. This exception would be subject to prior approval of the NBS and would be conditioned with immediate transfer of funds to Serbia upon completion of campaign and due reporting of the loan. In this way, the NBS would preserve its role in the control of cash inflows/outflows while enabling the foreign investors to simultaneously disburse the loan to the borrower with subscription to a campaign.

AML & KYC issues and recommendations

As outlined in Section 5.2.2.3 (AML & KYC) of the Deliverable II, the AML Law⁹ applies only to

⁸ Decision on Terms and Conditions under which Residents may hold Foreign Exchange in Bank Accounts Abroad ("Official Gazette of RS" nos. 31/2012, 71/2013, 98/2013, 125/2014 and 102/2015 and 37/2018) ("**Decision on Foreign Deposits**").

⁹ Law on preventing money laundering and financing of terrorism ("Official Gazette of RS" No. 113/2017) ("**AML Law**").

certain entities listed thereunder. If Conda platform operator is established in a form of a general corporate entity, it should not be subject to AML & KYC requirements.

Nevertheless, AML and KYC requirements would have to be complied with by the local banks or payment institutions involved in the crowdlending campaign. In March 2019, the NBS rendered a new bylaw regulating the manner of customer identity verification by means of electronic communication and with no personal presence of the respective customer in certain cases¹⁰. Given that the Conda project campaigns are based on online transactions without physical presence of the participants involved, this newly introduced bylaw should ease the burden in AML & KYC compliance procedures of the banks/payment institutions. However, it remains to be seen how this newly enacted decision will be implemented in practice.

BITBOND

Although both study models are based on generally similar notion that involves open calls for loan financing through an internet platform, Bitbond's model is vastly different from Conda's. Among other, one of the main dissimilarities is that Bitbond is based on in-kind lending of cryptocurrencies (as opposed to fiat currencies). Cryptocurrencies are not expressly regulated in Serbia and over the past few years the NBS and the Securities Commission of the Republic of Serbia ("**SEC**") issued several conservative statements regarding cryptocurrency transactions. Thus, it seems that the implementation of the Bitbond model would be more complicated as it would also require the adoption of legislation governing cryptocurrencies. Nevertheless, we have set out below the main recommendations for the legislator, the NBS and the SEC with regards to the Bitbond model.

Cryptocurrency issues and recommendations

On 5 March 2019, the SEC in cooperation with the Office of the Prime Minister published a call for consultations regarding the regulation of cryptocurrencies which shall remain open for public until 15 May 2019. The SEC acknowledged the significance of development of digital technologies and the need to ensure financial stability and investor protection within cryptocurrency transactions.

Thus, this positive initiative may be the beginning of opening the doors to innovative financing structures such as Bitbond model. Consequently, our recommendation with regards to this matter, would be the adoption of a legislation governing cryptocurrency transactions, including local and cross-border lending of cryptocurrencies via an online platform. This piece of legislation should consider the input gathered by the SEC from the public and the industry. Upon adoption of such legislation, the NBS should align the FX Regulation with the cryptocurrency regulation to enable its full implementation in the cross-border context.

Foreign exchange issues and recommendations

Unlike for foreign financial loans, the FX Regulation does not expressly provide for an obligation to report a foreign in-kind loan (i.e. Bitbond loan). However, failure to do so may be construed as circumvention of the foreign exchange regulations as the nature of cryptocurrency loans is, in its essence, closer to monetary loans. On the other hand, one would be unable to report such loan to the NBS due to the absence of procedures prescribed for reporting of in-kind loans.

Therefore, our recommendation for the NBS with respect to this matter would be to amend the Loan Reporting Guidelines and other bylaws under the FX regulation to introduce the procedures for reporting of foreign in-kind loans. However, given the above-mentioned recent developments within the cryptocurrency regulatory framework, the preferred approach would be to postpone this alignment until the adoption of cryptocurrency legislation. In this way, the amendment of the said bylaws could incorporate the procedures for reporting of foreign cryptocurrency loans which

¹⁰ Decision on Conditions and Manner of Establishing and Verifying Identity of a Natural Person through Means of Electronic Communication ("Official Gazette of RS", No 15/2019).

would more adequately address the implementation of Bitbond model in Serbia.

AML & KYC issues and recommendations

As indicated in Section 6.2.2.5 (AML&KYC) of the Deliverable II, the recently adopted AML Law for the first time introduced entities providing services concerning the sale, purchase and transfer of virtual currencies through internet platforms as obligors. Therefore, Bitbond platform would be subject to the AML & KYC requirements under the AML Law which may impede Bitbond's model of crowdlending.

In particular, one of the main obligations of the platform under the AML Law would include KYC checks with respect to the Serbian borrowers and Serbian investors and monitoring of their business transactions. In practice, conducting KYC checks in relation to the investors may be challenging. Specifically, as the investors are entering into crowdlending campaigns online and without any physical presence, it is questionable whether the platform would be able to conduct the necessary KYC checks. Although the AML Law sets certain principles for verification of customer's identity electronically, currently in practice non-face-to-face verification is not allowed. The main principle under the AML Law is that the customer's identity is verified in person. Although there are certain exceptions to this rule, at the moment these may not be relied upon for the purposes of implementing Bitbond platform in Serbia and the identity of the investors would have to be verified in person.

As mentioned above, the NBS recently adopted a new bylaw regulating the manner of customer identity verification by means of electronic communication and with no personal presence of the respective customer in certain cases. However, this bylaw is not applicable to the entities providing services concerning the sale, purchase and transfer of virtual currencies through internet platforms as obligors (i.e. platform like Bitbond). Thus, our recommendation would be to extend the application of the newly adopted bylaw to the platforms that operate with virtual currencies as well. However, this also requires slight amendments in the AML Law, as the law currently entitles the NBS to prescribe non-face-to-face identification procedures only for certain other entities such as banks, insurance and financial leasing companies, etc. Additionally, it still remains to be seen how the newly enacted decision will be implemented in practice hence the risk of additional practical issues that may arise in the implementation of Bitbond model may not be excluded.

5. General Recommendations for Creating Favourable Environment for Crowdlending in Serbia

In order to implement a crowdlending platform model in any market, platform operators need to establish relationship of trust with both lenders and borrowers. As is usually the case with innovative business models, especially in FinTech, the market needs to be convinced of not only its economic, but also legal feasibility. Therefore, it is of crucial importance for crowdlending platforms to make their operations as transparent as possible, to both their current users (lenders and borrowers) and the general public.

Their activities can be grouped under following measures:

- Educating the market – Since crowdlending platforms are a very innovative type of financial service, sometimes including unusual (hybrid contracts) or unseen elements (crowdfunding campaigns), great deal of work has to be done in the field of creating transparency. Both potential lenders and borrowers, as well as other stakeholders like regulators and complementary service suppliers have to be well informed about every single aspect of crowdlending.

One of the main points the market has to be informed about is the risk involved. Platform operators should in no instance understate the level of risk the investors are assuming and are advised to make sure that every investor is aware of it. If operators want to establish and retain investors trust, nature of crowdinvesting as an asset class with high level of risk

needs to be clearly stated at all times.

Just like investors, borrowers also have to get informed about the possibilities and risks of crowdlending, the latter being mostly connected to campaign costs and interest rates. Platforms should explain to the borrowers all the possible outcomes of the crowdlending campaigns preferably in scenarios. Furthermore, platforms should emphasize the importance of marketing and public relations for the probability of campaign success. Workshops covering the subjects of possible costs and marketing and PR measures would help potential borrowers assess the benefit of crowdlending and increase their chances for successful fundraising.

In order to educate all the stakeholders, platforms can organize different informative events such as: crowdfunding workshops (for potential borrowers), lectures, conferences, panels, etc. Publishing an informative brochure about their services is another recommendable activity.

However, most effective in educating the market would probably be independent, platform non-related organizations, like ministries, institutes, chambers of commerce or development organizations (such as USAID). Their independent position would guarantee objective approach and be more acceptable to general public, since education measures stemming from platforms might be perceived as conflict of interest.

- Selection process – The whole platform business model is based on reputation of the platform's operator. Investors rely that only projects of certain quality will be approved to raise funds on a platform and perceive credit scoring or some kind of due diligence check as one of the main functions of platform operators. Although well informed investors are willing to take the risk of borrower's default due to objective business risk, cases of fraud or deliberate lack of risk disclosure by borrowers would most probably not be acceptable.

Therefore, platform operators need to establish some kind of selection process that would make any possibility of fraud and dishonest acting improbable. Cooperation with credit scoring agencies (i.e. Kreditni biro) or banks in this regard might be beneficial to platform operators, but also establishing an investor community or even some kind of advisory board, can also support and give legitimacy to the selection process to a large extent.

The investor community and advisory board can also help by recommending new borrowers (guaranteeing for their legitimacy with their own reputation) or get involved with their expertise and contacts into the process of evaluation of potential borrowers. Therefore, the establishing of a strong investment community would be of great importance, as discussed in the next point.

- Investor community - Establishing investor community is one of the building blocks for building transparency and trust around crowdlending platforms. Building and maintaining relationships with the investor community through regular events, newsletters and internet forums keeps the community informed and up to date with all relevant developments.

As described in the previous point, investor community can help with finding new borrowers, which they might find investment worthy, or participate in the evaluation process by offering their expertise or of their contacts. This kind of cooperation might be impractical with the whole community, but single platform might select a group of reputable experts and establish an advisory board. This board of experts and experienced investors is much easier to organize while still representing interests of the investment community. Selecting a group of renowned, well connected and motivated (by being investors themselves) members would increase the probability of success for the platform.

One of the measures in this sense would be organizing events and workshops for investors in order to build a strong, informed and competent community. Also, establishing specialized digital media outlets (web pages, social media groups, podcasts, internet forums) independent from any single platform would facilitate exchange of information, further increasing the size and the level of expertise of the general investor community.

- Involving lead investors – Another measure of establishing trust and improving the probability of platform success is building partnerships with reputable partners as lead investors. These investors have more resources and knowledge to assess each borrower and their lead in a crowdfunding campaign would give legitimacy to the borrower and build confidence among smaller, retail investors that the project is worthy of their investment. Among possible are banks, corporations, business angels, VC funds, development banks and agencies, etc.

However, these investors are very risk averse and would probably be reluctant to put their reputation at risk without being absolutely convinced of crowdlending as a feasible financial service. Therefore, platforms would have to put a lot of effort in educating this type of investors (partners) in order to gain their trust. Events, lectures and conferences specially organized for them, addressing their needs and pain points, would be very helpful in gaining their interest.

Another helpful idea would be developing some kind of association of investors with the goal of promoting investment through crowdlending platforms. Additional goal could be introduction of some kind of certifying body which would be tasked with certification of investors on the model similar to AngelList in the USA. Investors certified by this body would be recognized by companies as reputable, ethical and competent, making them suitable to take place in advisory boards of crowdlending platforms or as lead investors (mentioned in further text) in crowdlending campaigns.

This kind of certification would not only be beneficial to for crowdlending but other types of investing too. If this initiative would come from within the existing community, but in cooperation with some independent organization, the chances of achieving the set goal would be very high.

- Educating other stakeholders – Apart from direct users and regulators, there are also some other stakeholders that might be interested to take part in activities related to crowdlending. Among many possible stakeholders, there are four groups of entities that might be interested in crowdlending.
 - (i) Marketing advisors – Due to the fact that marketing of both platforms and single campaigns will affect the success of crowdlending in Serbia, marketing advisors can contribute immensely to the promotion of this innovative financial service and new investment opportunities.
 - (ii) Financial advisors – In order to develop business plans, some companies with lack of financial literacy will need services of financial advisors. Furthermore, platforms might also require a third, independent party to check potential borrowers, which is a function that can be best fulfilled by financial advisors.
 - (iii) Corporations - As we have mentioned on several spots in this study, corporations can act as lead investors in scope of crowdlending campaigns. However, they can also act as sponsors of campaigns by making partnerships with small companies in need of funds. For example, if corporation is a retailer of a certain product or service provided by a fundraising company, their commitment to purchase the product or service of the given company gives legitimacy to the whole project and increases chances of success for the emerging enterprise. At the same time, they benefit from the campaign's publicity and marketing effect through higher sales of the borrower's product through the corporation's sales channels. In short, corporations can use successful crowdlending campaign as a proof of market demand and confirmation that their suppliers have successful product or service that they also will benefit from.
 - (iv) Development agencies – Agencies interested in supporting micro and SMEs, as well regional development and financial inclusion might see crowdlending as a powerful tool to achieve their goals. Potential social effects of crowdlending, described in Deliverable III, is in line with missions of most governmental and non-governmental organisations supporting economic development and fight against poverty.

- Promoting the new service – Finally, there is no better way to secure long term success of crowdlending platforms and introduce them to the mainstream of financial services, then promoting its benefits and effects. Since crowdlending is partially dependent on good marketing, any work in this regard will be highly beneficial for any platform that might enter the Serbian market, and, considering innovative nature of the given business model, the importance of promotion and marketing cannot be overstated. Especially in such a highly conservative environment, as Serbian financial market.