# Investment crowdfunding and its opportunities in Armenia

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Alexey Veretenov and Edgar Evoyan
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*Investment crowdfunding has recently gained widespread recognition worldwide as an effective means of alternative financing for start-up businesses and startups. During the Fintech 360 conference, held in Yerevan on November 2-5, Alexey Veretenov, VP for strategy and marketing at the Armenian State Interest Fund (ANIF), and Edgar Evoyan, head of ARFI crowdfunding platform at ANIF, spoke about the opportunities and challenges of this platform in Armenia.*

*Speaking with **Banks.am** Edgar Evoyan and Alexey Veretenov detailed about the possibilities of raising capital for startups, its limitations and ANIF's work in investment crowdfunding.*

## Investment crowdfunding and opportunities

***Edgar Evoyan, head of ARFI platform***

Everything that relates to investment crowdfunding started in 2017, following the changes in the U.S. legislation that allowed ordinary investors to invest in private companies through such platforms. These investments became quite widespread, and many private companies used the provided opportunities. Currently, about $40 billion is raised annually worldwide through this tool, mostly in North America and Europe.

Compared to other funding sources, investment crowdfunding offers more opportunities for companies. For example, compared to venture capital funding, it allows for more extensive marketing, i.e. the company name and its products are widely spread through crowdfunding platforms. And it goes both ways; as a result of their marketing, companies bring new customers and new investors to the platform.



Edgar Evoyan
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The next important opportunity for startups is to understand whether their product is in demand or not. Before investing in a company, the investor has to understand whether he/she believes in the company's product or whether will use the company's services. And if the investment crowdfunding is successful and the companies are confident that they have started a good business, the project will succeed. No one knows exactly who the investors are. For example, the investor can be a lawyer, who, as an owner, will offer his/her legal services for free, etc.

**Who can use it?**

***Edgar Evoyan, head of ARFI platform***

Investment crowdfunding can be used by companies with high growth potential which have already proven that their product is good. If to segment, there may be IT startups that have 10-fold or more growth potential, and non-IT startups that have slightly lower growth potential for which investors usually want to see a different revenue/risk ratio. In the first case, due to the very high growth potential, investors say they may not need sales story, which means it is enough to show them what problem the companies are solving. If they believe in the problem, in the team and see the original version of the product, they will probably invest.



Edgar Evoyan
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In the other case, the lower growth potential makes the risk containment mechanisms higher, creating a need to show a sales history, which will give the investor the confidence that despite lower growth potential as compared to the IT startups, it is less risky than the other. If we look at it from this perspective, any company in any industry can benefit from investment crowdfunding.

In investment crowdfunding, the interests of both the company and the investors are protected. The important part here is that investors are considered passive, that is, they invest, help the company, but do not interfere in the activities and management of this company.

**Crowdfunding and attracting investments in Armenia**

***Edgar Evoyan, head of ARFI platform***

There is no investment crowdfunding in Armenia yet. The market is just developing. The regulations were adopted in February 2022. If to compare with other countries, in my opinion, we have a free regulatory regime in terms that companies can receive up to AMD 2.5 billion annual funding through these platforms.

There is no monetary limit for investors, which is a very good approach, although platform operators must provide information on the risks before investments are made, depending on the invested amount. The regulatory field fixed AMD 300,000 and if they want to invest more, they are asked again: have you thought about diversification, etc.?

The regulatory framework is generally aimed at informing investors about everything before investing, and if all thid is acceptable to them, there is no monetary limit.



Edgar Evoyan
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Armenia's Central Bank's step to create a free regulatory field in Armenia can be quite welcomed, but it has not been calculated yet how much it will be in demand. Nevertheless, I believe that the advantages provided by investment crowdfunding platforms at the moment will be quite demanded by companies, given the alternatives they provide. For example, at the moment, the SME sector has very limited lending opportunities, and this comes as an alternative.

As for why crowdfunding is interesting to investors, I should note that pre-IPO companies usually have much higher growth potential than those already listed. At that time, the price of their securities goes up so much that we may say investors do not make a use of the high growth potential. And at the investing stage, they can get much higher returns.

***Alexey Veretenov, ANIF's VP for strategy and marketing***

Attracting investment to Armenia is easy and possible. The question is how to provide information, how to

package and present a business model with the right strategy. Now all fintechs and startups talk about their projects, but there are very few rational results. Attracting investment is an issue where the emotional and rational fields have to be balanced.



Alexey Veretenov
Image by: Mediamax

You have to think not only about raising money, but more about how to increase the multiplier. There are few companies I help raise investments for. They have this mentality: we need $300,000, help us find them. I do it easily, but I actually repackage the business model for them and help raise not $300,000 but $1 million. The business does not change much from this, the only thing that changes is how we strategize the business model and present it as an opportunity for people. This is the school that has been missing here. In the U.S. Silicon Valley, they are fully in that culture, they know from a young age what to do, what investor to apply to, while here this educational path is missing. This is what I want to do in ANIF – create this department and help the businesses applying to us be guided by this culture.

**Mistakes of start-up businesses when raising capital**

***Alexey Veretenov, ANIF's VP for strategy and marketing***

At the first stage when there is only a business idea, the project and its author do not understand what passive investing is, he/she immediately says: I have a great idea, I have everything and all I need is money. That is not a right way to work at this stage, there has to be a business angel that you have to talk and work with, who will also be your consultant that you have to trust over time. When you do not have a business trajectory yet, you have not proven your concept, consumers are not ready to pay for it, it is impossible to attract normal investment.




Alexey Veretenov
Image by: Mediamax

The business that already has the first trajectory will contact not with business angels, but with foundations, institutional players, or some enterprises. In case of attracting investment from institutionals or foundations, you have to present the scale of the business, and for attracting from enterprises you have to present how your business can multiply their investment. This is what they need, they do not care what your business is, but how it will affect their core business.

I have met both good and bad cases of business projects in Armenia. I communicated with a company working with banks and fintech in Armenia, which was looking for investments. I helped them develop a strategy and "open doors" to different countries. It worked so well for us that we have entered the phase when we did not need investments any more, the company enters new countries due to self-repayment. There are a lot of newcomers like that, there is just a need to guide them a little bit and they will start flying like a rocket on their own.

Of course, I have also seen bad cases where a company has realized only 5% of its potential due to its overconfidence.

**The most important advice for businesses seeking to develop**

***Alexey Veretenov, ANIF's VP for strategy and marketing***

If you divide start-up businesses and startups, the start-up business should not think about investments, about some unprecedentedly big strategies, but about a vision, where it is not doing business, but is creating value, it should test it and understand who the customer is.

People in Armenia are as connected to their business ideas as to their own children. In fact, this is their forte, as they do their best for both children and projects. But to avoid getting connected and falling in love with that project ahead of time, they need to test optimally, define a hypothesis, and see how it works.



Alexey Veretenov
Image by: Mediamax

In case of startups, which already have a certain trajectory, consumer or customer, it is quite different. Their task should be to think about growth and business models, the architecture. And only in this case they can act effectively.

**ANIF's crowdfunding programs**

***Edgar Evoyan, head of ARFI platform***

During its activity, ANIF received a large number of applications with good projects but which did not meet the fund's monetary limitations. ANIF has another requirement as well: 50% or more must be co-invested by other investor or the founders. In other words, the presented projects did not meet this or that standard, which became the basis for the idea of forming a new online investment crowdfunding platform, ARFI. It is in the final stage of formation and we will announce it very soon. Time will show, but I think that investment crowdfunding will be a very successful financial instrument for Armenia.

**Arpi Jilavyan**

**Photos by Emin Aristakesyan**

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