

## ROLE OF CROWDFUNDING PLATFORMS IN RURAL TOURISM DEVELOPMENT

**Abstract:** Increase in the attractiveness of rural tourism as a tool for local economic development, is imposing the need for identification of factors which could adversely affect its development. Consequently, the tourism development strategies should be developed with the objective of eliminating negative effects arising from these factors. One of the factors faced by local government and rural entrepreneurs is the lack of adequate level of funds needed for financing different investment activities related to rural tourism development. Currently, entrepreneurs could finance their activities either from their own funds, government programs or traditional financing sources.

Nevertheless, it can be noted that strategies for rural tourism development fail to incorporate the alternative financing sources as viable sources for raising funds and attracting investors. These new sources of finance could offer numerous benefits for the development of rural tourism. Thus, utilization of crowdfunding platforms should become an integral part of every tourism development strategy.

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### Author information:

#### Zoran Temelkov

PhD, University Professor  
at Goce Delcev University, Stip  
✉ [zoran.temelkov@ugd.edu.mk](mailto:zoran.temelkov@ugd.edu.mk)  
🌐 Macedonia

#### Keywords:

fintech, crowdfunding platforms, rural  
tourism, economic growth

#### Gule Gulev

PhD, University Professor  
at International Slavic University "G. R. Derzhavin"  
✉ [gule.gulev@msu.edu.mk](mailto:gule.gulev@msu.edu.mk)  
🌐 Macedonia

## 1. Introduction

Because of the numerous economic benefits coming from the tourism industry, tourism development has already become an integral part of the national development strategies in different countries. Recognizing the importance of the tourism sector, it is widely accepted that rural tourism development can have significant contribution for the development of rural areas and local communities. This is in a sense that rural tourism could offer the possibility for diversification of income generating activities in rural areas, participate in the job creation process, increase the growth of the local economy, and stop the migration from rural towards urban areas.

Although the importance of rural tourism is accepted, there are factors which have negative impact on its development and growth. One of the primary factors which is impeding rural tourism development is the inadequate level of funds. This means, that rural entrepreneurs and local governments are not able to finance their investment activities and development of sustainable rural tourism sector. There are numerous reasons behind this inadequate level of funds faced by rural communities, one being the limited availability of sources of finance. The possibilities for overcoming this problem, or at least, reducing its negative effects, could be found in the utilization of the potential benefits brought by the crowdfunding platforms.

Namely, crowdfunding platforms can offer the opportunity for rural entrepreneurs to raise funds at much lower cost. Also, through the usage of crowdfunding platforms as a source of finance, entrepreneurs are able to bypass the financial intermediaries (e.g. Banks), and eliminate some of the transactional costs. In addition, these platforms could also offer non-financial benefits for the rural communities, benefits such as free promotion, development of loyal consumers (coming from investors and donors) and networking. Thus, policy makers should include the crowdfunding platforms in their development strategies.

## 2. Factors impeding rural tourism development

Although the term rural tourism has gained popularity in the last decade or so, a precise definition of rural tourism is difficult to be provided. Namely, the term rural tourism can have discrepancies in its definitions from one country to another. Countries define the rural tourism in accordance to their specific needs i.e. their socio-cultural and economic environment. This means that the reach of the concept behind rural tourism depends on the culture, environment, types of rural areas, and economic stage of development of an economy. Thus, the difficulty for providing a unified definition regarding rural tourism comes from the numerous activities which could be included and offered under this form of tourism in different countries. Table 1 provides basic overview regarding the perception of rural tourism as well as basic activities and products (services) offered under the framework of rural tourism in different countries.

Differences regarding the meaning of rural tourism in different countries is evident from Table 1. That is, while Finland includes the rental of cabins under the rural tourism framework, Slovenia is considering the farm tourism as rural tourism.

**Table 1: The meaning of rural tourism in different countries**

| Country     | Meaning of rural tourism   |
|-------------|--|
| Finland     | The rental of cabins or the supply of services in the rural environment, such as food or transportation.   |
| Hungary     | Only activities and services provided in villages are included in this type of tourism, namely: affordable accommodation, involvement in agricultural activities or in other types of local activities.  |
| Slovenia    | Most important form of rural tourism is farm tourism, where guests either live with farmer families or in guest houses, while visiting the farm in order to have their meals or to explore the farmyard. |
| Netherlands | Camping in farms, where the majority of services provided are route-related, such as: cycling, horse riding/walking etc.   |
| Greece      | Accommodation in traditionally furnished rooms, with a traditional breakfast – most often made with homemade products.   |

*Source: Aurel Petru Darău et al., (2010) The concept of rural tourism and agritourism, "Vasile Goldiș" University Press, Vol.5 Iss.1 pp.39-42.*

It can be concluded that the activities and services included under the rural tourism will differ from one country to another, because each country is adapting their rural tourism development strategy in accordance to their specific conditions.

Even though numerous definitions could be found in relation to rural tourism, they do have some overlapping. This means that, it is generally accepted that rural tourism represents the offerings of tourist activities and services which are executed in the agricultural, at farm, or non-urban (rural) areas within the country (Irshad, H., 2010). In addition, rural tourism can be defined as a form of tourism where the

activities are performed by local people (Ionel Barbu, 2013). Another general definition regarding rural tourism is that this form of tourism represents the activities which promote rural life and rural culture and heritage in rural areas, and simultaneously providing economic and social benefits for rural communities (Karin Andreea Sasuand Gheorghe Epuran, 2016).

Although, a precise and universal definition for rural tourism is difficult to be offered it is widely accepted that this form of tourism has significant role in local economic development, especially development of non-urban areas. There have been numerous factors contributing toward the decrease of economic activities in non-urban areas. In addition, the migration from rural toward urban areas have augmented the negative effect on economic development in rural areas. Consequently, the development of rural tourism has been considered to be available method for development of rural areas (Saarinen, J., & Lenao, M., 2014). The idea is that development of rural tourism will contribute toward the diversification of economic activities in rural areas. Thus, decreasing the dependency of local community on the income generated with agricultural and farming activities. This means that, the rural tourism can provide the opportunity for job creation, increase in income generating activities and attracting an inflow of external funds (investments) into the local community (Elias Giannakis, 2014). Furthermore, rural tourism can have strategic importance when it comes to the elimination of social isolation of rural areas (Darko Dragi Dimitrovski et al., 2012). It could be said that policy makers create strategy for rural tourism development with the aim of improving the living standards of local communities.

Regardless of the strategic importance of rural tourism for local economic growth, its development is still faced with numerous obstacles, which means that, policy makers and local communities should create and implement a strategy which will eliminate all or most of the factors adversely affecting the development of rural tourism. But for the purpose of creating such a strategy, the factors should be identified.

There are numerous factors which could unfavorably affect the development of rural tourism. Different factors could have negative effect on different aspects of the development of rural tourism. According to Ilija Moric (2013) some of the factors which could hinder the development of rural tourism are:

- Discrepancies in products and service quality
- Limited financial and non-financial resources
- Inadequate understanding of rural tourism
- Lack of adequate support from local government and development agencies
- Lack of adequate marketing strategy
- Inadequate level of funds for starting a business
- Inadequate products and services or support from traditional funding sources

More detailed presentation in relation to potential factors which could obstruct rural tourism development are provided by Natalia Klok (2011). Namely, Natalia Klok (2011) is categorizing these factors in two broad categories i.e. external and internal factors. The subcategories of the external and internal factors are shown in Table 2.

Table 2: External and internal factors affecting rural tourism development

| <b>External factors</b> |                                   |
|-------------------------|-----------------------------------|
| Regulatory              | Political situation               |
|                         | Legislation base                  |
| Economic                | State support                     |
|                         | Crediting                         |
|                         | Tax privileges                    |
| Environmental           | Attractiveness of the environment |

|                         |  |
|-------------------------|--|
|                         | Geographical location                        |
|                         | Historic-cultural environment of the region  |
|                         | Investment attractiveness of the region      |
|                         | Social and industrial infrastructure         |
|                         | Involvement of the local authorities         |
| <b>Internal factors</b> |  |
| Socio-cultural          | Knowledge                                    |
|                         | Experience                                   |
|                         | Farm design                                  |
|                         | Hospitality and communicability              |
| Economic                | Financial and labor resources                |
|                         | Prices                                       |
|                         | Quality of services                          |
|                         | Marketing and distribution                   |
|                         | The level of the agricultural of development |
|                         | Residential properties                       |
|                         | Material and technical base                  |

*Source: Natalia Klok (2011) The detection of main factors that influence on the development of rural tourism, Socio-economic Research Bulletin №41, pp. 38.*

It is obvious that one of the factors which has crucial importance in the development of rural tourism is the level of funds which are at disposal in the local community as well as the degree of investment attractiveness for potential investor to direct their finances in the specific region.

This means that although tourism enterprises operating in rural areas could be profitable, entrepreneurs are faced with limited amount and limited availability of funds needed to build tourist facilities (Stefan Neumeier and Kim Pollermann, 2014). The problem with inadequate capital levels could be additionally augmented as a problem faced by low income residents in rural areas because of the decrease in economic activities in some rural areas. In addition, Lela Ristic et al., (2016) are also identifying similar factors which could limit the development of rural tourism. They are stating the inability to raise funds as one of the major weaknesses of rural areas for the development of rural tourism. Moreover, they are also pointing out the inadequate development policy, migration from rural to urban areas, and unwillingness for investment in rural tourism, as some of the major factors which could limit the growth of rural tourism.

Also, underdeveloped network of cooperation and partners is yet another factor which could limit the development of rural tourism (Lena-Marie Lun et al., 2016). More precisely, rural areas with the objective to develop rural tourism activities should direct their efforts to create a network of partners, network for cooperation as well network of investors. These networks could be beneficial for the creation and implementation of strategies for rural tourism development.

It could be said that successful development of rural tourism can be achieved through governmental support, support from national and international organizations and broadening of tourism products and services (Ilija Moric, 2013). The support provided by the government should promote entrepreneurship and promotion of tourism activities in rural areas.

Numerous factors which could support or impede rural tourism development have been identified. But maybe the initial focus should be on the development of adequate policy and solving the need for adequate level of funds. This means that, local communities should be able to raise adequate level of funds for the purpose of financing the development of tourism activities in their region. In order

for the limited access to finances to be eliminated as an obstacle, policy makers should identify some of the reasons behind this limited access to finance.

Namely, entrepreneurs in rural areas are faced with difficulties when it comes to obtaining funds because of their characteristics. Meaning that the traditional sources for financing (e.g. Banks) may be unwilling to lend money to rural entrepreneurs because they are perceived as risky borrowers.

Entrepreneurs in rural areas usually have low level of acceptable collateral which could serve as a guarantee for a loan. In addition, enterprises in these regions can lack stability in their income, which is additionally augmented when it comes to tourist enterprises. Namely, tourist enterprises can have fluctuations in their revenue because of the seasonality of their operations. Thus, their repayment ability is additionally hindered when it comes to obtaining finances from traditional sources.

Consequently, the local community and local entrepreneurs have two basic options for development of rural tourism in terms of securing sufficient funds. Stated differently, local communities could obtain finances from the government or they should seek for alternative sources of finances. Thus, on one hand, policy makers should increase the share of funds and financial instruments, such as subsidies, available for rural tourism development. On the other hand, policy makers could direct their efforts towards broadening of the financial sources available for local communities i.e. increase the availability of alternative financing sources.

### **3. Potential role of crowdfunding in rural tourism development**

For the purpose of achieving growth and development the tourism sector will need certain level of investments, a level which most probably could not be satisfied with the traditional sources of finance OECD (2018). Because there will be limited funds available through the traditional sources of finance, there is a danger of the occurrence of financing gap for the tourism sector. Thus, rural areas and enterprises performing activities in the rural tourism sector, will need alternative sources of finance.

It is noticeable that the problem with access to adequate level of funds needed for rural tourism development could be one of the primary problems which could limit the development. In an effort to eliminate this potential problem for local communities and rural entrepreneurs, the importance of alternative financing sources should be taken into consideration and maybe implemented in the development strategies. Namely, the development of financial technology companies has enabled access to finance for entrepreneurs who were otherwise unable to obtain funds from the traditional financing channels.

Example for alternative financing sources are the financing instruments and options available through the crowdfunding platforms. Crowdfunding is the process in which projects are raising smaller amount of funds from multiple donors or investors willing to finance the success of the project. The crowdfunding platforms could provide numerous benefits for the local communities and rural entrepreneurs.

Moreover, crowdfunding platforms are also eliminating the need for intermediary in the process of obtaining funds through the traditional sources of finance. Eliminating the need for financial intermediaries is reducing the cost for raising funds for enterprises in the tourism industry.

It should be pointed out that crowdfunding platforms are becoming an attractive way for investment for potential investors. This is in a sense that these platforms are providing opportunity for risk reduction through the dispersion of investors' funds across multiple projects. This means that investors are in constant search for viable investment opportunities.

Crowdfunding platforms can have multiple roles in the development of tourism industry, especially the development of rural tourism. The roles which could be performed by the crowdfunding platforms can be of financial and non-financial nature. The financial nature refers to the role of the platforms in augmenting the opportunity for tourism enterprises and communities to raise funds for the

purpose of financing tourism related activities. Crowdfunding platforms can be utilized for raising funds for different projects, such as:

- Renovation of accommodation capacities
- Building new accommodations
- Renovation and building of other hospitality facilities
- Protection of cultural heritage
- Energy efficient projects
- Sustainable activities

While the financial role is to offer the possibility for entities to raise funds, the non-financial roles are providing support for further development of tourism industry in rural areas. Namely, though the utilization of crowdfunding platforms, project owners can also enjoy their benefits, which means that, crowdfunding platforms can offer direct or indirect promotional activities of the tourism facilities and the rural area where the project will be implemented.

Furthermore, crowdfunding platforms can increase the number of loyal visitors, as the travelers who will visit the same place multiple times. This is in a sense that investors which have invested or donated money for certain projects, especially when a certain facility is built and they have certain perks, could visit the same place more than once in order to enjoy different perks.

#### **4. Conclusion**

The importance of rural tourism for the local economic growth is widely recognized by scholars and practitioners. Nevertheless, local communities and rural entrepreneurs are faced with numerous factors which have negative impact on the pace with which this form of tourism is developing. Maybe the most important factor to be considered by the policy makers is the need for adequate levels of funds. Namely, because of the insufficient level of personal funds and access to external funds, rural entrepreneurs are unable to finance major investment such as building tourism facilities, promotion of activities and services, improvement of the quality of tourist products and services, etc. In addition, local governments are also faced with a problem because of the inadequate level of funds. This means, that rural municipalities are not able to invest in infrastructure (e.g. roads or water supply system,) which could be of crucial importance for the development of the rural tourism.

For this reason, aside of the traditional financing sources, governments should expand the availability of sources for funds for investment activities in the rural tourism. Focus should be given on the development and utilization of crowdfunding platforms as a new type of financing source for rural entrepreneurs and local government. These crowdfunding platforms could offer multiple benefits for the rural tourism development. These benefits come in the form of increased access to finance as well as non-financial benefits such as increased promotion of the rural area and its products and services.

The impact and potential of crowdfunding platforms for the development of rural tourism should not be neglected by the policy makers. These platforms should be incorporated in the tourism development strategy because they have the potential to cope with the limited level of funds, as one of the most important factors which is limiting the growth of rural tourism.

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