

Opportunities and Potential for the Development of Crowd Investing in Russia

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Abstract—The article considers the development of a promising “crowd investing” economic model for investors in projects in the Russian and global financial market. The advantages and disadvantages of crowd investing, as well as the principles of work of crowd investing platforms, are identified. The authors have identified and disclosed the main advantages and disadvantages of crowdinvesting, as well as the principles of crowdinvesting platforms. Research is based on the data of a detailed analysis of the Russian crowd investing market. The Russian crowd investing market is analyzed, the main crowd investing companies in Russia and the directions of their activities are determined. As platforms where client can invest in projects and return funds after a certain period of time with interest, it is possible to highlight StartTrack, Alfa-Stream from Alfa-Bank, Aktiv, Gorod deneg (P2P lending), Planeta.ru. The growth potential of crowd investing in the regions of the world is identified; the prospects for its development at the global and national levels are outlined. It should be emphasized that in the medium term, crowd investing will be part of horizontal economic systems with financial and other methods of exchange or support. Blockchain and cryptocurrencies are becoming a particular incentive for the development of crowd funding. As for the Russian practice of crowd investing development, it provides simple tools for development at the Western qualitative level, although not at the same pace as in the West.

Keywords—investment, crowd funding, crowd investing, digital economy, crowd investing platform.

I. INTRODUCTION

In recent years, the practice of investing has been gaining momentum as business entities seek to increase their profits and to invest available spare resources in a profitable project. However, startup investors and young companies may have difficulties with investing, since they do not have the spare funds and sufficient capital to invest.

In this regard, the popularity of investment platforms as a source of funds for young companies is growing worldwide. The main types of investment on this kind of platforms are crowd lending, crowd investing and crowd rewarding, which are types of crowd funding. Such form of investment as crowd investing can help startup investors to expect good returns in the future. Crowd investing is a relatively new concept for the

Russian market; hence it is necessary to understand what it is and how it works.

II. METHODS

The research methodology is based on the materials of Russian and foreign scientists and economists. It should be noted that all calculations in the scientific study were performed on the factual materials of the reporting of federal statistical data, which include a set of general methods of scientific research such as: analysis, synthesis, statistical method, mathematical method, monographic method, and factor economic analysis.

III. DISCUSSION

The concept of crowd investing, like many other economic models and investment directions, emerged in Russia as a result of its development abroad. In most cases, crowd investing is compared to crowd funding, the practice of attracting large numbers of people to transfer a small amount of money to finance a business project, often using the Internet. But these concepts are different, and crowd investing is a form of crowd funding. Crowd lending and crowd investing differ from classical crowd funding in that they focus on increasing investors' capital.

The point of crowd investing is that people contribute not so much for the end result as or only for financial profit. In other words, the well-known crowd funding is primarily a manifestation of modern social marketing and neuro-economics, and crowd investing is a transformation of the investment market where investors receive a stake in the project.

Thus, crowd investing is a way of attracting money to a small company from a large number of investors in exchange for a stake in this company [12]. In most cases, such process of attracting alternative financing is carried out through a specialized online platform (Figure 1).

As you can see from the data in Figure 1, the process begins with a person creating their own project or organization and seeking further funding. Eventually, they decide to achieve the goal by using a crowd funding platform.

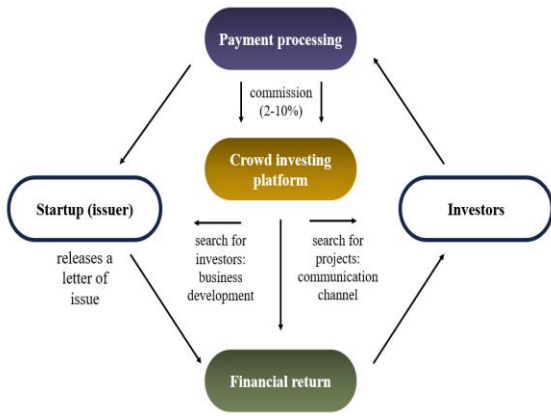


Fig. 1. The operating principle of crowdfunding [13]

This platform allows the future recipient of funds to analyze the declared data and records them in the catalog. After that, crowd funding platform begins to find those who are willing and ready to invest in financing the project. The next step is to visit the site of this platform by the investors, where they make the decision and submit an application to conclude an agreement. The investor is then contacted to clarify the details and offer assistance in the transaction. The payment is processed by the platform and is received into the account of the company, which uses it for its development. After a certain amount of time, company must return part of the funds to the platform, which redistributes payments among the depositors.

Like any economic model, crowd investing has its advantages and disadvantages (Table 1).

TABLE I. ADVANTAGES AND DISADVANTAGES OF CROWD INVESTING

Advantages	Disadvantages
Suitable for aspiring businessmen, does not require deep knowledge	Lack of legislative regulation, in case of controversial issues it is difficult to prove your case
Possible to start with small investments	Risk that the project will not succeed
Opportunity to receive a large income in case of the development of the project	Paying dividends can take a long time
Ability to invest online through dedicated platforms or directly	Risk of bankruptcy of the platform where the client makes a transaction (if it is not carried out directly)
Wide range of projects	Difficult to determine which startup will be successful, preferably to seek help from experts

It should be noted that a substantial amount of money is required to get started. If the starting capital is small, then large platforms will be inaccessible and closed for the investors.

The activities of such platforms in different countries have their own characteristics, taking into account local legislation, the restrictions of which are the main obstacle to the expansion of the crowd funding market, allowing only accredited investors to enter the platforms.

The advantages of crowd investing over other types of financing are, first of all, that it is financing in the capital of companies, and therefore, both investors and founders of the enterprise take a responsible approach to this process. In crowd lending, for example, the investor is concerned not so much with the success of the project or the quality of the products, as with the timeliness of payments under the contract and the amount of interest. Crowd investing allows a significant number of people to become owners of new businesses, companies, and technologies, participate in financial development and invest intellectual resources in the future success of the company. The opportunity to take part in its development is becoming an important motivating factor for a private investor.

It is believed that the first crowd investing platform appeared in 2004 in Australia [14]. It was called ASOBB (Australian Small Scale Offerings Board Ltd.), and was later renamed to Enable Funding. The platform had managed to attract about \$100 million in projects as of 2017. Legislation regulating crowdfunding in Australia was passed only in 2017, under which companies with assets and annual turnover of no more than \$25 million can raise funds via crowd investing platforms.

Crowd investing is not very popular in Russia due to the lack of a special legislative framework protecting the interests of investors and low awareness (in other words, few people know that there is such a way of investing).

Today, there are more than 670 platforms worldwide, 344 of which operate in the United States. The total amount of money raised this way in 2015 amounted to about \$2.1 billion. Figure 2 presents the country ranking by number of crowd investing platforms.

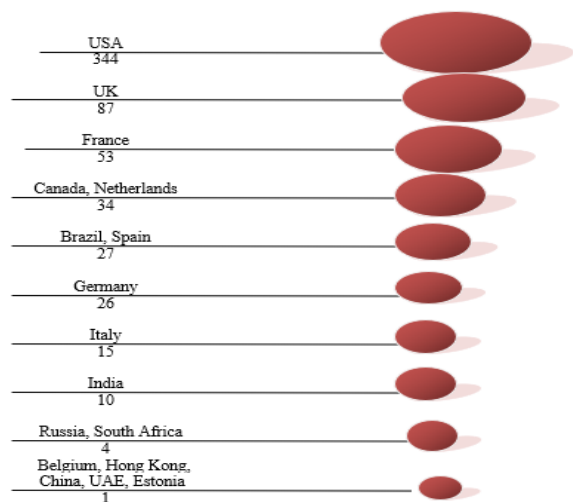


Fig. 2. Ranking of countries by the number of crowd investing platforms

Figure 2 shows that Russia is on the same level as South Africa, ranking 9th out of a top ten leaders. Belgium, China, Estonia, Hong Kong, and the United Arab Emirates ranked last.

Table 2 provides basic information about the main crowd investing platforms.

TABLE II. INDICATORS OF THE MAIN ACTIVITY OF CROWD INVESTING COMPANIES IN RUSSIA

Name of the platform	Total turnover, rub.	Investment per company, rub.	Average check per investor company, rub.	Average number of investors in a company	Minimum amount of investmen, rub.	Platform commission, per cent	
						For the company	For the investor
StartTrack	1,498 billion	22 million	426 thousand	52	3 million	5,0	0
Gorod deneg	465,8 million	1 million	420 thousand	2-3	50 thousand.	2,5-5,5	2,0
Venture Club	897 million	13 million	3,3 thousand	4	3 million	1,0-5,0	Club system with paid membership
Planeta.ru	760,2 million	282 thousand	1,5 thousand	189	10 thousand	10,0-15,0	0

- StartTrack is one of the first crowd investing platforms in Russia (was founded in 2014). The minimum investment amount is 100,000 rubles. At StartTrack, growing companies receive private financing from a wide range of investors, loans and investments in capital, online or offline, from 3 million rubles. In 2,5 years, 39 companies received more than 998 million rubles via StartTrack. In 2015, 47 investment transactions were made on StartTrack, and in the first six months of 2016 it was 265. Many companies are investing in this project. For example, Passteam, the creator of the virtual loyalty card cloud platform, has attracted capital investment from a number of private investors at StartTrack. The deal took place in February 2020.
- Alfa-Stream from Alfa-Bank, where it is possible not to choose the company where the funds are directed, but simply to pay a minimum amount (10,000 rubles), after which it will be distributed by assets. In 2018, the average return of investors was 17.3%, and in April 2019 it was raised to 22.3%.
- Aktivio is a platform where the minimum investment amount is 500,000 rubles. Aktivio's history began in 2015. Its founder is Oscar Hartmann, who is also the founder of the KupiVip shopping club. There is a possibility to invest in commercial real estate, and annual income is about 11%. Unlike previous platforms, Aktivio offers to invest not in business, but in real estate. The average annual profitability of objects starts at 12.7% per annum, while the market average is 10%. The global market for crowd funding in the field of commercial real estate, according to Massolution, amounted to \$1.01 billion at the end of 2019. Aktivio is a platform capable of providing collective investments in commercial properties of institutional quality for investors with relatively small amounts.
- Gorod deneg (P2P-lending) is a Russian crowd investing platform where investors and borrowers can contact each other directly without intermediaries. This platform is part of the working group at the Skolkovo Foundation's Center of Competence for Digital Economy Regulation and the working group of

Nevertheless, there are resources in Russia where an investor can find potentially interesting projects.

Among the largest platforms for investment in projects, the following options can be identified:

the Russian Central Bank (Bank of Russia) on crowd funding regulation.

- Planeta.ru is the largest crowd funding platform in Russia, winner of the 2014 Runet Prize and the 2017 all-Russian "Prometheus" Prize. Planeta.ru can raise funds for projects of various categories. The platform hosts projects and helps in their promotion. During the existence of the service, about 3000 projects were financed for the amount of more than 300 million rubles.

The list can be continued, as Russian citizens also have the opportunity to work at foreign platforms.

The volume of the global crowd investing market for 2014-2023 is presented in the following Figure 4.

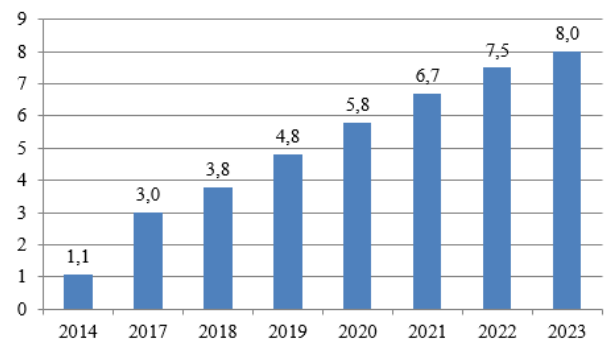


Fig. 3. Dynamics of the global crowdinvesting market in 2014-2023 [15]

According to figure 3, the total volume of transactions in the global market of crowd investing reached \$3.82 billion in 2018. Statista estimates the average annual growth of the segment in 2019-2023 will be 13.7%. This means that the global crowd investing market will more than double by 2023. The volume of the Russian crowd financing market in 2018, according to the Central Bank of the Russian Federation, amounted to 15.2 billion rubles, or approximately \$244 million. This is 30% more than in 2017. At the same time, crowd lending became the main instrument and occupies 36% of the market, or 14.6 billion rubles.

Crowd investing is the topical theme of this year for Bank of Russia experts. At their last meeting, experts highlighted

the principles of the crowd investing, its advantages for entrepreneurs, and the basic rules of its organization. In particular, the experts of the Bank of Russia for the Central Federal District addressed the main provisions under Law 259-FZ, which came into force at the beginning of 2020. The Law regulates the attraction of investments using investment platforms and defines the basic concepts of these activities. According to the requirements of the Law, the amount of capital of an investment platform operator must be at least 5 million rubles. The Bank of Russia will keep a register of such operators. Similar platforms already exist and operate in Russia.

Figure 4 illustrates the structure of the crowdinvesting market in Russia in 2017-2020.

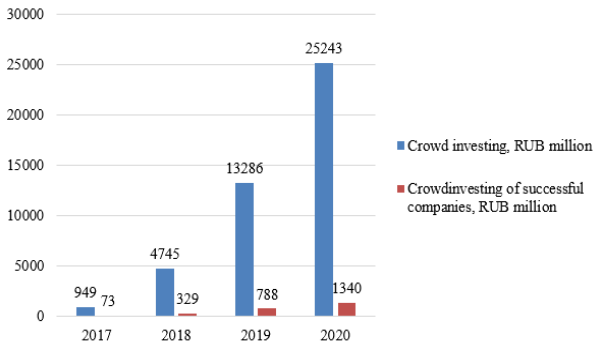


Fig. 4. Dynamics and structure of the Russian crowdinvesting market in 2017-2020

Thus, Figure 4 shows that during 2017-2019 the growth of the crowd investing market has been taking place. According to the forecast, 9,500 companies will be launched by 2020, out of 2,500 will be venture capital companies. Crowd investing will have a positive impact on the economy, including the main macroeconomic indicator of GDP, which will increase by 0.3% compared to 2016 and will amount to 256 billion rubles. At the same time, it should be noted that 82 billion rubles will be raised through crowd investing platforms.

In addition, companies that have received funding through crowd funding will continue to recruit employees during the lifecycle and beyond the forecast period.

The following Figure 5 illustrates the growth potential of crowd investing by regions of the world in billions of US dollars until 2025.

In the medium term, crowd investing will be an important part of horizontal economies with financial and other methods of exchange or support. Blockchain and cryptocurrencies are becoming a particularly important stimulus for crowd funding. The exchanges and smart funds (Openledger, ICOO) have already started to operate there.

In the report of the Center for Strategic Research (CSR) “New instruments for attracting financing for the development of technological companies: the practice of use and development prospects in Russia” the forecast of experts of the Higher School of Economics is that Russia’s GDP may grow on 255.8 billion rubles in case of creation of comfortable jurisdiction by the end of 2020, of which 173.3 billion rubles will be obtained from crowd lending projects and 82.5 billion rubles from crowd investing.

According to the Central Bank of Russia, in 2023 small and medium-sized businesses will attract about a trillion rubles through collective investment sites.

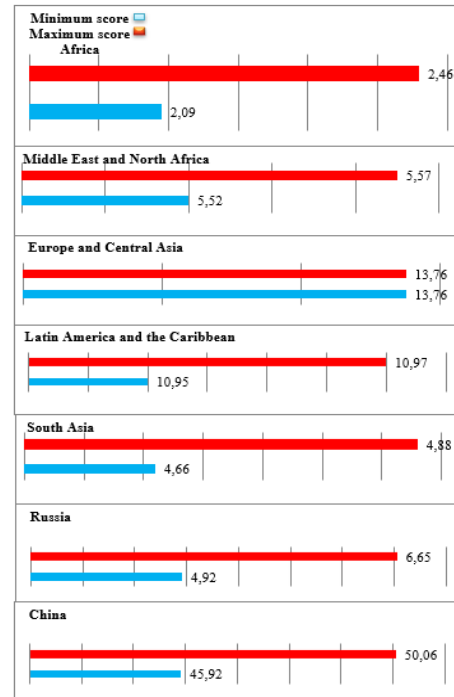


Fig. 5. Dynamics of the growth potential of crowd investing by regions of the world in billions of US dollars until 2025

Statista estimates that the segment will grow at an average annual rate of 13.7% in 2019-2023. This means that the global crowd investing market will more than double by 2023. The transaction value is expected to show an annual growth (CAGR 2020-2024) of 12.5%, leading to a projected total of \$8,292.4 million by 2024. The average funding for one campaign in the crowd investing segment is \$100,578 in 2020. From a global comparison, the highest transaction value is found in China (\$1,140 million in 2020). In China, it is estimated that the largest transaction amount is in China (\$1,140 million in 2020).

Today, the Russian crowd financing market is at the stage of formation, and, and experts estimate that it is four to five years behind the leading countries - the United States and the United Kingdom. Experts suggest that the current realities of the Russian market are the development of an adequate regulatory framework with a focus on “soft regulation”, the creation of incentives for non-professional investors, as well as mechanisms to protect depositors.

IV. CONCLUSION

Thus, the development of crowd investing in Russia can become a successful tool for increasing capital. All Russian citizens and legal entities will be able to invest through such platforms. At the same time, citizens who do not have the status of a qualified investor will be able to invest in projects no more than 600 thousand rubles per year. Legal entities and individual entrepreneurs will be able to attract investments, but not more than 1 billion rubles per year. New 259-FZ “On Investment Attraction with Use of Investment Platforms and on Modification of Separate Legal Acts of the Russian Federation”, which came into force on January 1, 2020. that Russia can expect an explosive growth of interest in such investment in the coming years. One way or another, crowd investing, which gives ordinary people the opportunity to invest and earn, continues to develop in Russia, although not

at the same pace as it is abroad. Thus, experts have already noted the growth of the crowd investing market due to the entry of new players and expect that it to reach 30 billion rubles by early 2021.

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