

Crowd Funding as a Promising Alternative Model of Bank Lending

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Abstract—The article examines the theoretical aspects of crowdfunding technology and generalizes methodological approaches to crowdfunding types. The emphasis is primarily that crowdfunding is an innovative tool for financing business projects and is a promising counterpart to bank lending. The main advantages and disadvantages of crowdfunding in comparison with bank credit have been identified. The leading foreign experience of using this financing instrument has been analyzed, and its dynamic development has been proved based on statistical data analysis. The state of the Russian crowdfunding market has been studied, and specific features of its functioning have been revealed. Based on the analysis of crowdfunding trends in economically developed countries and specific features of national crowdfinancing the main directions for increasing the effective functioning and further development thereof as a promising and alternative model of bank lending in Russia are proposed. Scientific and practical recommendations have been put forward, such as the Creating an appropriate legal framework in the field of crowdfinancing; encouraging different types of individual investors to enter the crowdfunding market through transparent fund-raising and the ease of the transfer itself; establishing risk minimization mechanisms for non-professional investors by diversifying the level of investment; developing crowdfunding infrastructure.

Keywords—*crowdfunding, credit, bank, business, financial project, technology, efficiency, entrepreneurs, investors, funds.*

I. INTRODUCTION

Modernization of the economy and scientific and technological progress are a stimulator for the progressive achievements of the world economy. In recent years, the popularity of crowdfunding projects has increased around the world. Today, crowd funding is the easiest way to raise the necessary funds. Unlike banks, which prefer to invest in projects with minimal risk, crowdfunding is a promising investment model, enabling most promising entrepreneurs to obtain financing for further development at the stage of their inception. Stimulating the innovative development of the economy is a priority for any country, and crowdfunding can be used to finance various social, cultural, creative projects,

business, and inventions. Most innovative and social projects are financed under this scheme, but there are also many business ideas that are difficult to obtain credit by fulfilling all the bank's conditions.

Crowdfunding as a business tool is relatively poorly understood from a scientific point of view. In contrast to "traditional" sources of financing, such as bank lending, the coverage of the essence of crowdfunding in the scientific literature remains low, despite increasing interest. Most of the information is provided in the form of Internet articles, surveys, opinions and statements about the phenomenon. Among the authors of works dedicated to crowdfunding are: R.V. Beketov [2], K.A. Mekhanich [3], S.V. Rukavishnikov [7], V.A. Tegin [9], B.F. Usmanov, J. Howe [10], M. Robinson, O.M. Shevchenko [11], N.G. Kopasovskaya, et. al. In addition, at the moment there are no works that investigate crowdfunding as a promising and alternative model of bank lending. However, due to its dynamic development in modern conditions, crowdfunding has not received a comprehensive reflection in the works of researchers, since the practice of using this financing tool is ahead of the theory of this issue.

The purpose of the article is to analyze the possibilities of crowdfunding as an alternative model of bank lending to start-up entrepreneurs and to determine the prospects for the further development of this area.

II. METHODOLOGY

To achieve this goal, research methods were used, such as: observation and collection of facts, induction and deduction, comparison, and a graphical method that illustrate specific economic relationships.

III. RESULTS AND DISCUSSION

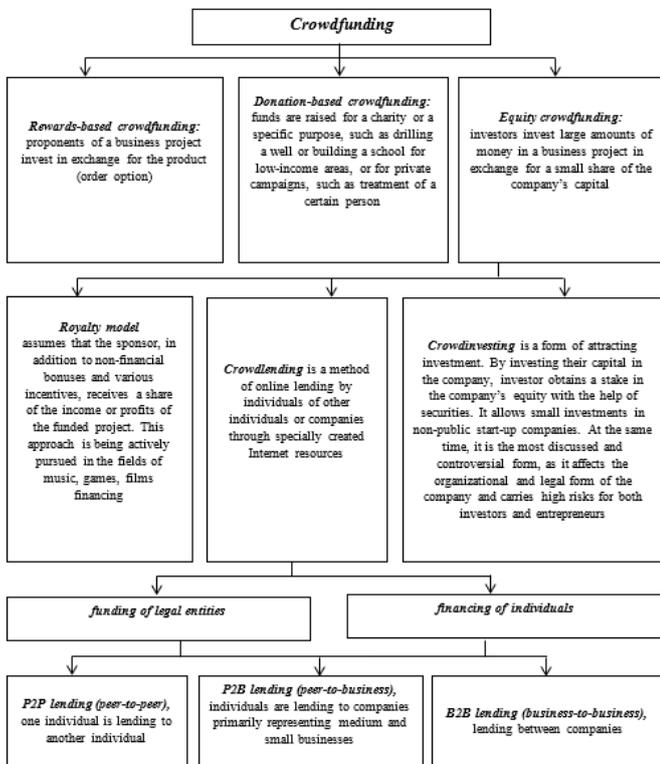
The word "crowdfunding" means "wholesale financing" or "community financing". Under current conditions, it means co-financing by people from all over the world of interesting and beneficial projects in various fields of activity: charity, art,

sports, education, science, technology, politics, business, start-ups, and so on.

Crowdfunding is a form of crowdsourcing, which in turn means mobilizing people and resources through information technology to meet the various challenges of business, the state and society as a whole.

Namely, the essence of crowdfunding is that in order to implement their idea, an individual or legal entity does not seek financial help from credit organizations, but instead places a business plan for the project on Internet resources (crowdfunding platforms), thereby drawing the attention of ordinary people who are willing and ready to finance this project. As a reward, investors can receive copies of manufactured products, or discounts on services / products, or participate in the implementation of the project, etc.

The following crowdfunding types are distinguished in international practice (Fig. 1).



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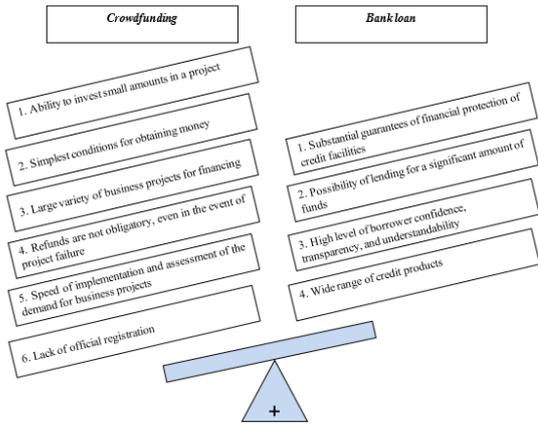
Fig. 1. Types of crowdfunding

Crowdlending, as a method of financing, practically does not differ from bank lending. It is an instrument in which investors receive a guaranteed interest on the amount invested and fully return their investment after a specified period. Simply put, these are interest-bearing loans without the involvement of banks. Borrowers usually expect less overpayment, and lenders expect higher interest than bank deposits.

In its simplest form, crowdfunding is a very good substitute for a more traditional way of attracting capital, such as bank loans and borrowings. In other words, crowdfunding is available to everyone. Attracting borrowed funds through crowdfunding technologies does not require accompanying a team of lawyers, accountants, business experts, which makes

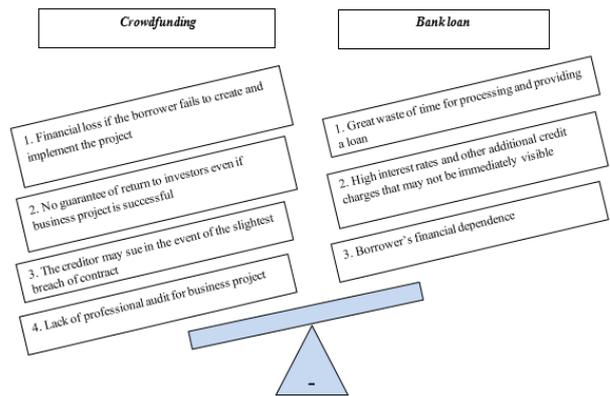
this method of lending cheaper. One of the key conditions for the successful development of banking activities is the policy of continuous innovation [12].

Crowdfunding owes its rapid development to several differences from bank loans. The advantages and disadvantages of crowdfunding (Fig. 2, 3) should be considered in more detail.



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Fig. 2. Advantages of crowdfunding comparing with bank loan



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Fig. 3. Disadvantages of crowdfunding comparing with bank loan

Despite all the disadvantages, studies show that crowdfunding has been actively developing in recent years all over the world, and a significant part of the financial resources in the crowdfunding market is attracted by small and medium-sized enterprises. Global funding through crowdfunding increased from \$57.2 billion in 2017 to \$114.3 billion in 2019. As for the analysis of the topic of crowdfunding projects, world practice shows that the most popular sector of financing is business and entrepreneurship - 41.3%, social projects - 19%, and cinematography - 12.2%. In the business and entrepreneurship sector, projects are financed mainly under the public investment scheme, while social projects and films are financed under the scheme without financial reward. In the structure of the global crowdfunding market, 70% falls on the American and European markets, despite the spread of this financing instrument in other countries. Thus, by the volume of crowdfunding in 2019, the countries of the world were distributed as follows: North America - \$ 61.2 billion, Asia - \$ 36.8 billion, Europe - \$ 16.3 billion. Fig. 4 shows the amount

of funding for various types of crowdfunding worldwide as of 01.01.2020.

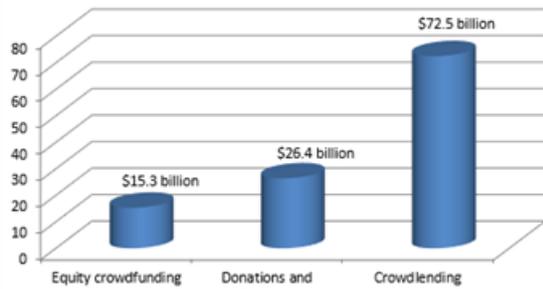
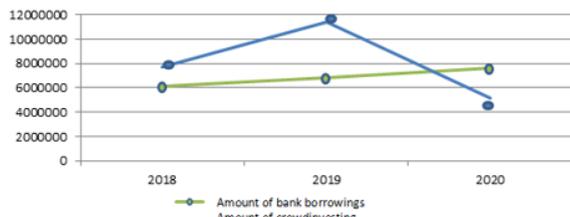


Fig. 4. Global funding volumes by type of crowdfunding in 2019

An analysis of Figure 4 shows that the most demanded segment in the crowdfunding market at the end of 2019 is crowdlending, which occupies two-thirds of the entire market - it raised \$ 72.5 billion.

As for the Russian crowdfunding market, it is in the early stages of formation, therefore, the peculiarities of its development have some differences from those of the world. For Russia, crowdfinancing is new, underdeveloped both in terms of the number of platforms and the scale of projects implemented. Its resources are sufficient only to meet the small-scale needs of small businesses and people. It is almost impossible to raise funds on Russian platforms for realization of ambitious high-tech project, start-up with a product that will be oriented to the world market. Such projects have to use the services of European and American crowdfunding companies.

However, the crowdinvesting market in Russia is growing. According to the Central Bank of the Russian Federation, in 2019 it amounted to 5.2 billion rubles, in 2018 - 11.4 billion rubles, and in 2017 - 7.7 billion rubles (Fig. 5) [5].



	Amount of bank borrowings	Amount of crowdinvesting
<i>Small and medium-sized enterprises, including individual entrepreneurs</i>		
01.01.2018	6 117 152	7 700 000
01.01.2019	6 816 081	11 400 000
01.01.2020	7 587 008	5 200 000

Fig. 4. Volume of bank loans and crowdinvesting in Russia, RUB million

In Russia, crowdlending is the most popular in the form of P2B-lending - targeted loans to businesses. Examples of crowdlending services in Russia: Alfa-Stream, Gorod deneg, StartTrack, Penenza, Sberbank platform. The small and medium-sized business financing segment accounts for the majority (96%) of the Russian crowdfunding market. According to the Central Bank of the Russian Federation, it reached 4.9 billion rubles in 2019. The share of overdue

payments also increased: in 2018 it was 4.7%, and in 2019 - 9.6%.

On the contrary, the volume of financing of individuals (P2P) is declining. In the first six months of 2020, it decreased by a third - from 85 to 63 million rubles. A number of experts believe that this segment may soon disappear.

According to Central Bank forecasts, by 2022 the Russian crowdfunding market will increase to 20-23 billion rubles, where the bulk will be taken by B2B-lending.

Thus, the above-mentioned crowdfunding features compared to the advantages of bank loans allow us to propose the following scientific and practical recommendations for the effective functioning and further development of crowdfunding as a promising and alternative model of bank lending in Russia:

1. Creating an appropriate legal framework in the field of crowdfinancing, which will expand the opportunities for small and medium-sized enterprises to attract resources.
2. Encouraging different types of individual investors to enter the crowdfunding market through transparent fund-raising and the ease of the transfer itself; developed communication between project developers and investors.
3. Establishing mechanisms to minimize risks for non-professional investors by diversifying the level of investment.
4. Developing crowdfunding infrastructure through various types of crowdplatforms; consulting agencies, whose task will be to support business projects, help in their design, advise founders, inform about collective financing on the Internet, fully manage projects.

IV. CONCLUSIONS

Crowdfunding is a good option for raising funds for business projects, however, like any technological innovation, it needs to improve various processes, mainly in Russia. This requires the efforts and willingness of the state and project developers to work on this issue.

Crowdfunding as a financing instrument is not a full-fledged replacement for bank lending, but it is a real tool for launching a new business project, it gives an opportunity to check the appropriateness of ideas, and consumer interest in the final results, since investors financing a business project are the first users of the proposed service / product.

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