Development of Crowd Investments in the Region: Opportunities and Challenges

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ABSTRACT
The purpose of this study is to try to determine the main directions for the development of crowd investments in the Russian Federation and in its regions, as well as to identify the tasks of forming crowd investment mechanisms based on the introduction of digital innovative developments. The paper investigates the main development directions of crowd investments in the Russian Federation taking into account the analysis of world trends in the development of crowd technologies. The main problems of the development of crowd technologies in modern conditions are identified, the features of the implementation of crowd investments in Russia are identified, with the improvement of the particular characteristics of legal regulation and the possibilities for the development of crowdfunding. The risks inherent in crowd investments have been identified, priority measures have been offered, the implementation of which will allow implementing crowd technologies in the regions of the Russian Federation. The research results can be applied both in the course of the formation and implementation of the regional social and economic policy in general, and its structural elements separately. Based on the research results, the features and particular characteristics of crowdfunding activities were established and benchmarks were set, the implementation of which will allow developing crowd-investment mechanisms in the regions.

Keywords: Economy, Region, Crowd investments, Development.

1. INTRODUCTION

Many foreign researchers, including Agarwal A., Catalini C., Goldfarb A., Davies R., Belleflamme P., Lambert T. and Schwienbacher A. believe that the modern term of crowdfunding and its derivative as crowd investments appeared in 2006 year although they do not deny that the very phenomenon of public funding has its roots in the distant past [1,2,3].

In the Russian Federation, crowd investments (investments based on interests, crowd investments) acquired their legislative basis in 2020, that is, there was a legislatively enshrined opportunity to implement "digital" investment projects. In particular, crowdfunding activities have been enshrined in the following regulatory legal acts:


In modern world practice, there is a fairly large number of useable technologies of crowdfunding activities; investments that bring various kinds of "bonuses and prizes" have become popular types of crowd investments in domestic practice. (table 1)
All digital platforms that carry out activities to attract investment today implement one of three types of crowd investments possible in our country:

1. Investment based on donations, it does not imply that investors receive any income and deductions except for the possibility of obtaining moral satisfaction from their involvement in a particular project. As a result, it is very attractive for persons who do not want to take on any obligations.

2. The second type is the most preferable for investors since it is based on receiving a certain type of remuneration or income. It should be noted that the most popular type of remuneration today is the receipt of a product or service in priority order. In addition to remuneration in the form of receiving a bonus, this type of investment also involves receiving a monetary reward, most often it is defined as a specified share of future profits upon successful project implementation.

3. Debt investment is the most common type in world practice. It is based on attracting small loans from private investors. This type of investment is most attractive for start-up firms since it is very difficult for them to get venture funding without a credit history and a large amount of guarantees.

For Russia and its regions, all of the above crowdfunding mechanisms are very promising. They are able to introduce mechanisms into regional social and economic development systems that can launch the processes of the emergence of previously unavailable forms of investments, which include venture financing mechanisms, Islamic finance, and low-risk investments.

At the same time, it should be kept in mind that the development of crowdfunding is hampered by its regulatory lack of regulation, which becomes the reason that start-up firms cannot attract funding due to the similarity of the transfer of a share in a public offering-related project.

From which it follows that the process of attracting financing in exchange for the presented shares of the company on digital platforms contradicts the established special legislation, and at best it simply does not comply with it.

World practice has long faced a similar problem, and its solution lies within the framework of the adoption of the necessary legislation in order to avoid various kinds of incidents.

So, for example, in the article titled as “Some simple economics of crowdfunding” the team of authors Ajay K. Agrawal, Christian Catalini and Avi Goldfarb [1], considering a similar problem, indicate the timely signing on April 5, 2012 by US President Barack Obama of the law “Jumpstart Our Business Startups (JOBS)”, which made it possible to raise funds in exchange for a share in the company.

Considering the experience of Russia in the development of digital platforms and attracting investments on their basis, it should be noted that the most popular platform was and remains Boomstarter. The amount of investments attracted with the platform is 23,456,232 rubles [6]. This amount of raised funds is many times less than that of funds raised, for example by American digital platforms but, nevertheless, it is quite good for a relatively young digital project in the context of an underdeveloped financial market and lack of information from the population about the possibilities of participating in low-risk investments.

Digital platforms supporting both charity and creative projects are developing quite actively in our country. Planeta.ru and Kroogi are the main Russian digital platforms that work with musicians, sculptors, painters, writers, photographers, etc. [7.8].

The modern crowdfunding development trend has recently attracted large companies that are trying to keep up with digital innovations. For example, such a giant as Facebook launched the Yandex.Money software application, on the basis of which users can raise funds for the implementation of their projects ranging from basic research to travel around the world, which is why it was called “Raise money”. At the same time, Yandex.Music announced the inclusion of a mechanism to transfer funds to a popular artist for the development of his/her work.
3. CROWD INVESTMENTS: PROBLEMS AND RISKS OF PARTICIPANTS

A percentage or commission is usually withheld from the funds raised on the basis of digital platforms, which is given to the financial intermediary (of the digital platform), as a rule, such a commission ranges from 5 to 15%. [9]. There are digital platforms that do not take a commission since they are exclusively engaged in social and charitable projects based on donations.

The commission of digital platforms is the very insurance element that is intended to cover their possible costs, for example: the project did not raise the required amount of financial resources and will not be implemented, in this case, the digital platform returns funds in full to the persons who have invested in the project, including all costs associated with commission for transfers.

The initially defined goal, the established amount of necessary financial resources, the approved calculation of possible costs, and the transparency of the process of raising funds make crowd investments one of the most popular ways to raise funds [10].

Considering crowd technologies as a means of attracting investment, it is necessary to take into account the preferences of investors, such an analysis was carried out by Belleflamme P., Lambert T. and Schwenbacher A. in Crowdfunding: Tapping the right crowd [3]. Specifically, they took a close look at two different forms of crowdfunding: pre-order of a product and exchange for a share of future profits, and concluded from the study that investors would prefer the pre-order if the initial capital requirement is relatively low, and profit sharing otherwise.

At the same time, fund raising of business structures based on crowd technologies has its own significant obligations / encumbrances, and also, being low-risk ones, they do not completely exclude the investment risk that investors assume. In this context, crowdfunding does not change the principles and mechanisms inherent in investing (with the exception of donation-based projects).

Another important problem in the development of crowd technologies is the risks characteristic of innovative projects. So entrepreneurs bear the risk of borrowing an original business idea since these ideas are voiced on open digital platforms, especially in this aspect, projects related to technological innovations are vulnerable. Here the principle of transparency and openness forms the risk of leakage of ideas and technologies for the implementation of business projects.

At the same time, the early protection of both industrial and intellectual property rights will not save the entrepreneur.

On the other hand, the existing digital platforms for attracting financial resources do not imply sufficient funds to implement projects on an industrial scale, which reduces the number of projects that would be harmed by maximum transparency. At the same time, the average income of Russians as well as the lack of the overwhelming desire for technical innovation and its support do not imply the possibility of 100% financing of a technologically complex project.

However, they do not exclude the possibility of implementing a small part of such projects thanks to digital platforms, in this case crowdfunding acts as an additional source of funding. The use of crowdfunding as a method of co-financing fairly large and ambitious projects will also be viewed as a competitive advantage in fundraising.

On the other side are the risks of investors who can only with a certain probability predict the success of the project, its prospects, not to mention the possibilities of using crowd technologies in fraudulent schemes.

At the same time, digital platforms cannot be held responsible for the feasibility and implementation of a business project since this is not included in the list of their tasks and powers. But this does not exclude but rather stimulates the desire of the digital platform moderators to thoroughly work out the probable project with its developers to make sure that their intentions are serious. Today this mechanism allows avoiding dishonesty in the field of crowd investments.

Based on the above, in our opinion, the most tangible consequences of a failed project may be in the event of debt and equity crowdfunding. It is not for nothing that this direction is given more attention in the field of its legal regulation.

In Russia, debt crowd-investing is practically not used today, and accordingly there is no regulatory support.

Not quite a risk but just an urgent issue that needs its regulatory and legal elaboration is control over the use of the financial resources raised and not yet transferred to the initiators. The accompanying link of control is detailed regulation and accounting for the return of funds to sponsors, if they were not raised in the required amount in the end.

The lack of legal regulation in this area will sooner or later lead to problems. Here it is necessary to remember that companies that carry out crowdfunding activities are not subject to the Federal Law as of August 7, 2001. No. 115-FZ "On Counteracting Legalization (Laundering) of Criminaly Obtained Incomes and Financing of Terrorism" [11]. This aspect completely excludes the control of special services over the activities of companies involved in crowdfunding activities.
4. CROWD INVESTMENTS: REGIONAL MEASUREMENT

It goes without saying that the development of crowd technologies is a stimulating factor for the development of the economies of our country's regions. Therefore, competitive advantages will be gained by those regions that can form a fairly successful digital investment potential. And we are talking not only about small and social projects, but rather large regional projects based on public co-financing are being touched upon.

The US experience in the application of crowd technologies in the regional aspect, highlighting its positive impact on the economy, is considered by R. Davies in the article “Three provocations for civic crowdfunding” [2], according to the author, crowd technologies will allow creating public or quasi-public assets, but here too a new approach is needed in the development of regional economic and legal mechanisms.

With regard to the regional aspect of crowd investments, it can be stated that “investments for all” will allow achieving the following quality indicators:

1. increase the involvement of all segments of the population in investment activities, including people with disabilities;
2. develop the investment potential of the region through “digital” platforms for the formation of investment resources.

The development and popularization of crowd investments in the regions of Russia should become a strategic priority for the intensification of their “digital” investment activities, and assume the need to implement current changes in the social and economic system of the region based on solving the following tasks:

The first task is “to determine the possibilities of crowd technologies in the global and domestic practices of the development of digital investment activities.”

The task is implemented by:

1. Studying all investment-significant factors in the implementation of crowd technologies taking into account the peculiar characteristics of regional social and economic development.
2. Developing offers for improving the regional legislation aimed at regulating relations related to the implementation of crowd investments and the formation of the “digital investment potential” of the region as well as making amendments to the already formed array of “investment” regulatory legal acts.
3. Substantiation of the directions of an economically "positive" development of crowd investments in the region as a mechanism for reviving the economic activity of the population through the involvement of the general population in investment activities.

The implementation of the first task will allow achieving the following effect:

1. Develop the regional “investment” legislation based on scientifically grounded offers for the implementation and support of crowd investments.
2. Improve the “investment climate” of the region due to the “positive” effect from the implementation of “digital” investment projects.

The second task is “popularization of crowd technologies both among the business community and among various age and social groups of the population of the region”.

The task is implemented by:

1. Studying the investment activity of the population in various spheres of public life, and analyzing the “digital” investment opportunities of young people in the region.
2. Holding events for “popularization of crowd investments both among the business community and among various age and social groups of the population of the region.

The implementation of the second task will allow achieving the following effect:

1. Develop the investment sphere of the region through the formation of new "digital" investment resources.
2. Improve the quality of life of the population of the region by involving broad strata of society in investment activities.

5. CONCLUSIONS AND RESULTS

Under modern development conditions of crowdfunding activities, the most popular type of crowd investment in Russia are as follows:

1. obligation-free investments based on donations;
2. investments for a reward based on the receipt of privileges or rewards due to the implementation of the project.

This type of crowdfunding as debt investment is currently not used in the Russian Federation, and accordingly there is no regulatory support for it.

At its core, crowdfunding does not change the principles and mechanisms inherent in investing (with the exception of donation-based projects).

The development of crowdfunding in Russia is hampered by its regulatory misregulating, which often
becomes the reason that some crowdfunding mechanisms remain tacitly prohibited.

Crowdfunding mechanisms are very promising for the regions. They are able to introduce mechanisms into the social and economic system of regional development that can trigger the processes of the emergence of previously unavailable forms of investment, which include venture financing mechanisms, Islamic finance, and low-risk investment.

The development and popularization of crowd investments in the regions of the Russian Federation as a strategic priority for the intensification of their “digital” investment activities implies the need to implement current changes in the social and economic system of the region and involves solving such problems as identifying the possibilities of crowd technologies and popularizing crowd technologies.

REFERENCES


