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Scientific article

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Alternative sources of capital attraction: crowdfunding and crowdinvesting startups

Abstract: The study focuses on a new form of external non-bank financing for capital-seeking parties by attracting financial resources from a large number of capital providers through Internet platforms to finance an idea, project or company i.e. crowdfunding. The study identifies key trends in attracting external financing, identified both traditional and alternative sources. An overview of the key crowdfunding sites in the Russian Federation is also made. According to the results of the study, the place of crowdfunding in the business financing system was determined depending on the life cycle of the enterprise, as well as on capital intensity and scalability. Crowdfunding already occupies an important place in the system of financing startups and small businesses. Various business models and crowdfunding platforms allow solving several problems at once with lower costs and expenses compared to securities market instruments, as well as with tangible advantages over classical bank lending. For the first time, most Russian crowdfunding platforms are reviewed, a system matrix of enterprise financing is proposed, and the areas of application that are most suitable for using crowdfunding platforms are highlighted, depending on the industry's capital intensity and the scalability. The results obtained are of practical interest for the development of startups and small enterprises.

Keywords: crowdfunding, small business, start-up, financing, investment platform.

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Научная статья

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Альтернативные источники привлечения капитала: краудфандинг и краудинвестинг стартапов

Аннотация: Исследование посвящено новой форме внешнего небанковского финансирования для сторон, ищущих капитал, путем привлечения финансовых ресурсов от большого числа поставщиков капитала через интернет-платформы для финансирования идеи, проекта или компании, — краудфандингу. В ходе исследования выявлены ключевые тенденции привлечения внешнего финансирования, определены как традиционные, так и альтернативные источники. Также сделан обзор ключевых площадок краудфандинга в РФ. По результатам исследования определено место краудфандинга в системе финансирования бизнеса в зависимости от жизненного цикла предприятия, а также от капиталоемкости и возможностей масштабирования. Краудфандинг уже занимает в системе финансирования стартапов и малого бизнеса важное место. Различные бизнес-модели и платформы краудфандинга позволяют решить сразу несколько задач с меньшим объемом затрат и издержек по сравнению с инструментами рынка ценных бумаг, а также с ощутимыми преимуществами по сравнению с классическим банковским кредитованием. Впервые предлагаются новые подходы в части формирования регламентов, модельных законов союзов стран, организаций сотрудничества. Полученные результаты представляют практический интерес для развития стартапов и малых предприятий.

Ключевые слова: краудфандинг, малое предпринимательство, стартап, финансирование, инвестиционная платформа.

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Introduction

The small business sector, with low economic efficiency, has a low capital intensity and is a generator of jobs, forms the budgets of some territories without large taxpayers, while, due to its characteristics, small and micro-enterprises have low access to financing with very high demand. Thus, crowdfunding can take a key place among the sources of financing for small and medium-sized businesses, especially in the early stages of company development. The purpose of this study is to determine crowdfunding, its key models, and most importantly, to determine the place in the system of financing small and medium-sized enterprises among alternative and traditional sources of attracting external capital.

Methods

The methodological basis of this research is the categorical apparatus of economic and financial theory, the principles of formal logic, modeling methods, economic and statistical techniques. To solve the tasks, the methods of analysis and synthesis, abstraction and generalization, the structural-functional method of system research were used. Comparative analysis, scientific knowledge and methods based on logical reasoning were also used.

The relevance of the research topic is accumulated by the following circumstances, firstly, small enterprises, due to their specifics, have a low opportunity to attract financing with a high need for funds, while this becomes even more pronounced and significant in a volatile economy, secondly, recently the Russian Federation adopted a package of legal and regulatory framework regulating the main issues of the activities of crowdfunding platforms and requiring improvement, thirdly, with the introduction of regulation of the sphere, crowdfunding platforms have now received a new round of development.

As a formulation of the question, the authors during the study also tested the following hypotheses:

Hypothesis 1. Crowdfunding platforms make it possible to attract external financing with lower costs and expenses compared to securities market instruments and classical bank lending.

Hypothesis 2. Crowdinvesting and crowdlending are key business models for small businesses to attract external financing.

Hypothesis 3. There are spheres and industries, including creative ones, in which the background for the development of alternative technologies is more favorable.

Hypothesis 4. Various models of crowdfunding are primarily of greatest interest to startups and small businesses in the IT sphere.

Review of literary sources. The scientific literature examines in detail the features of alternative financing in the context of the global financial crisis (Patlasov O. Yu., Gorokhov A. A., 2016), the species diversity of crowdfunding and public funding mechanisms (Patlasov O. Yu., 2015). Crowdfunding forms can be distinguished from each other depending on the type of financial or non-financial reward (Günther E., Riethmüller T., 2020). The collection “Legal Aspects of Crowdfunding” presents a comparative approach to crowdfunding legal regulation and also gives a range of legal solutions to manage crowdfunding activity (Legal Aspects of Crowdfunding, 2021). The crowd-entrepreneur relationship in the context of crowdinvesting suffers from persistent problems with information asymmetries and hidden activities

that undermine financial decisions and campaign results; entrepreneurs can solve these problems by attracting experienced investors or a syndicate of investors (Lambert T., Ralcheva A., Roosenboom P., 2018).

Results

How firms should finance their businesses, and how they actually do it, are important issues that have occupied researchers and financial practitioners in the past still occupy now. Since in the era of the cyclical economy, crisis phenomena in the context of the globalization of the economy, the possibilities of attracting financing for the maintenance and development of business for small and medium-sized enterprises become decisive. However, most of the research focuses on large, public corporations. Today, it is generally accepted that small businesses differ in many respects from large companies. The specific characteristics of small businesses affect not only their business strategy, but also their financial decisions. The financing instruments available and used by small businesses also differ from larger firms. Different target systems of entrepreneurship, business models, growth ambitions, the degree of resilience to risk and the desire for independence also directly influence the choice of funding sources for these. In addition, based on their size and ownership structure, small businesses are characterized by a high degree of information opacity. As a rule, they are not required to publish annual reports, and contracts with their partners and stakeholders remain confidential. As a result, small businesses often face difficulties in showing the quality and reliability of their business and, as a result, have difficulties in attracting the necessary financial resources. This situation is especially important for young companies, start-ups, and weakens significantly during the life cycle of the enterprise. In the early stages of a business, firms need different financial instruments than in the later stages. In addition, the availability and variability of financial instruments changes significantly over the life cycle of companies. Moreover, small businesses usually only have access to private equity and debt markets but not public markets. Information opacity is one of the reasons why small businesses, for the most part, cannot enter public markets. Other reasons are the high costs associated with the placement of public securities, registration and listing requirements. The size of the securities issue required to justify these costs exceeds the demand of most small and medium-sized enterprises.

Although financing for small businesses differs from financing for large companies, they can choose from different sources and instruments of financing. These sources and instruments can be both of key importance in the capital structure, and they can play an additional or optional role.

Most modern research focuses mainly on firms' decision to finance their company with equity or borrowed funds. However, equity and debt financing includes a number of different sources and financing instruments. To better understand the research issues of financing small businesses, we will divide the sources of financing into traditional and alternative ones. "Traditional capital" is usually provided by the owner (s), family and friends, outside investors (direct investment, venture capital) and is generated from the activities of the firm. "Traditional debt" is mainly provided by financial institutions (short-term and long-term loans and borrowings) and the government (grants and subsidies). Alternative sources of finance typically include trade and asset-related instruments, as well as more modern alternatives to non-bank finance. These include trade finance, leasing and factoring, as well as new instruments (resulting from financial engineering) such as crowdfunding, which is the key focus of this study.

The most important sources of external capital for small businesses are financial institutions even at the very early stages of the company's development. The main function of banks is to provide two types of loans: short-term financing in the form of overdrafts and credit lines and long-term financing with different maturities. Short-term loans are usually used to finance working capital needs, while bank loans are used to finance specific assets and investment projects. Typically, low levels of lending to small businesses – with relatively little profit potential for banks – often do not justify in-depth firm appraisals. As a consequence, banks require collateral to secure their claims in the event that firms are unable to repay the loan, and include various covenants in the loan agreement. This reduces risks arising from lack of information and conflicts of interest with owner-managers of small and medium-sized enterprises. As a consequence, young companies with fewer and lower quality of tangible assets, high investment risks

and less well-established relationships with banks face the greatest difficulties in gaining access to bank lending. Practice shows that during financial crises, banks primarily reduce their high-risk loans, and, as a result, small businesses suffer the most from tightening credit conditions.

Buyers of products and suppliers do not always expect direct payment for goods and services sold and can provide a so-called trade credit, a deferred payment for a certain period of time. From the point of view of suppliers, providing trade credit helps their customers finance their purchases and reduces uncertainty about product quality as the product can be tested before payment. Hence, by providing trade finance, suppliers may be able to establish relationships, increase their sales and market share, and even profitability through hidden interest rates included in the purchase price. It has been found that providing trade credit can even help firms obtain bank loans, as this can be perceived as a positive signal of creditworthiness. While trade credit is an important form of finance over a company's life cycle, vendors are often reluctant to provide trade credit to very young firms because information asymmetries and default rates are so high. But because smaller and younger firms tend to be in financial distress more often, they are more dependent on alternative forms of financing such as trade finance. Moreover, small businesses often prefer trade credit over bank loans because suppliers are less stringent in their debt collection and recovery policies. However, trade finance may be more expensive for companies than other types of lending. Therefore, in practice, companies, whenever possible, replace it with cheaper short-term bank financing. In general, trade finance is more of an additional source than traditional bank lending.

Another alternative source of business finance is leasing – a contractual agreement whereby a borrower (“lessee”) leases fixed assets from a lender (“lessor”) for a specified period of time in exchange for a specified fee. A lease often contains the option to purchase an asset at the end of the lease term at a predetermined price. While leasing companies can provide a wide variety of asset types, the most commonly used assets for leasing are automobiles, machinery and industrial equipment. Leasing is a type of investment financing in which legal and economic ownership of an asset is separated. The asset is controlled by the lessee, while the lessor remains the legal owner. The resulting risks to the lessor are reflected in the rent. Access to a lease does not directly depend on the buyer's creditworthiness, as the lease agreement is based on the underlying asset and the lessor retains the right to return the leased asset if the buyer does not pay the rent. Leasing is one of the important financing instruments for small businesses. Since leasing often does not require any additional collateral, leasing is especially interesting for small firms with limited credit opportunities. In addition, leasing does not imply disclosure of information about private companies. The capital requirements for the provision of the asset are allocated over an agreed period of time, with the option to renew the leased equipment at the end of the agreed lease period, thus avoiding the risk of obsolescence.

Factoring is a transaction-based financing method that enables firms to manage their receivables and obtain working capital financing. As part of a business transaction, after the goods have been delivered, buyers usually expect a grace period (30–90 days). During this period, the supplier must refinance its sales pending receipt of the outstanding debt. Factoring allows a supplier to sell an invoice to a specialized factoring company or bank at a discount and receive direct liquidity in return. The discount includes interest until due date plus a service charge including a risk premium that could negatively impact the profitability of sales. However, this negative effect can be offset by the earlier availability of liquidity and savings generated by transferring credit management to a bank or factoring company. In addition, factoring is often provided “without recourse”, which means that the bank cannot demand the invoice amount from the seller (supplier) if the debtor (buyer) fails to fulfill its obligations. Thus, non-recourse factoring allows the supplier to transfer the credit risk to the financial institution. Especially small businesses under financial pressure that sell products to large buyers use factoring as a source of funding. The reason for this finding is that factoring is not actually a lending method based on a supplier's creditworthiness, but rather an asset financing method based on a buyer's creditworthiness. This effect is even more pronounced in the case of reverse factoring, as the bank enters into an agreement directly with a large, high-quality company to finance receivables from its small suppliers. It can be summarized that alternative financing methods such as trade finance, leasing and factoring can facilitate and expand access to finance, especially for small and young companies.

The financial crisis and the challenges of small businesses' access to traditional financing instruments sparked a debate about financing alternatives. In recent years, there have been modifications to existing funding methods and new sources of funding have emerged. For example, private investors, such as venture capital funds, reduce the risks of their investments and increase the efficiency of their activities by investing in projects jointly on an equal footing. New government initiatives have been created to improve access to finance for small firms. And the enterprises themselves are trying to find new ways to increase their financial capabilities.

Financing for small businesses using external non-banking alternatives has generated a lot of interest in recent years. In addition to alternatives based on trade and assets, another option is to establish a direct link between borrowers and lenders through financial markets without the intermediation of banks. However, banks have a certain advantage over other lenders due to more information about the borrower and greater efficiency in monitoring its activities. In the alternative finance market, non-bank capital providers such as insurance companies, pension funds, asset management companies and retail investors must make financing and investment decisions without the same information and capabilities as banks. This situation is especially difficult in the case of small and medium-sized enterprises, as they tend to be opaque due to high information asymmetries, without credit ratings and other reliable information about the company that allows lenders to make informed decisions. In addition to initiatives by banks and governments to mitigate the risks associated with lending to small businesses and to increase market lending through instruments such as the securitization of loans and bonds, various alternatives have been created to facilitate market finance for small businesses. One of the opportunities for small businesses is to issue private placements. Private placements are long-term debt instruments with a fixed interest rate (maturity 5-7 years), which are concluded directly between the company seeking capital and one or more institutional investors. In the US, the private placements market is well developed, but in Europe and the Russian Federation, the markets are still relatively small and highly fragmented. Lack of standardized information and documentation on the creditworthiness of issuers, lack of liquidity in the secondary market and differences in legislation are the main obstacles to this financing instrument. Despite the fact that private placements are very flexible and they do not have minimum size restrictions, the costs of such placements require a minimum issue amount, which is usually of interest to larger companies.

Crowdfunding is a new form of external non-bank financing for capital seekers by raising financial resources from a large number of capital providers through online platforms to fund an idea, project or company. Crowdfunding is usually carried out using a specialized platform that provides a standardized procedure for market participants. Although the general term "crowdfunding" is often used, there are various models of crowdfunding that vary in complexity and risk. There are four main types of crowdfunding: donation, reward, lending and equity crowdfunding. These types of crowdfunding differ in the use of financial resources and income for investors. Donation-based crowdfunding is collecting money online for charitable, social, or creative projects. In reward-based crowdfunding, entrepreneurs have the opportunity to pre-finance their production with raised funds. Investors do not receive financial returns, but in exchange for their participation, they receive a reward, often a finished product. In contrast, credit-based crowdfunding (crowdfunding) involves the provision of credit by a large number of lenders in order to generate interest income. In order to provide capital, investors receive a fixed interest rate and repayment of the body of the debt at the end of the term. Equity-based crowdfunding (crowdfunding) means selling shares of a company to crowdfunding investors.

Crowdfunding is a financing tool especially suitable in the early stages of a firm's development. It is not only a fundraising method, but also a way to draw public attention to a product and company. The company has the opportunity to test the product on the market and get fast and high-quality feedback. Beyond these benefits, crowdfunding has a number of risks for businesses. For a successful crowdfunding campaign, a firm must publish information about the idea, product, and company. Ensuring transparency is essential to ensure legitimacy and credibility, and to convince people to invest in a project.

Crowdfunding in its current context is relatively young and business models are developing rapidly. Crowdfunding platforms have emerged recently as internet technologies have evolved to provide easy and

simple two-way communication. This allows interaction between numerous investors and project owners. The growth of crowdfunding as a new complementary and alternative form of financing is undeniable, and its importance for business both domestically and abroad is already significant. With the ever-increasing penetration of digitalization, coupled with tighter regulations for banks, alternative financing has become an important part of today's financial markets, especially for small and medium-sized businesses. Crowdfunding, at least for now, can be considered one of the most viable examples of the gradual transformation of financial markets brought about by the advent of financial technology. Thus, crowdfunding joins an important group of innovations that, over time, have reshaped, shaped and developed financial markets such as credit cards, stocks, mutual funds and online banking. However, crowdfunding has nothing new and similar ways to attract external funding have been used in the past. Nowadays, crowdfunding is increasingly becoming an integral part of the financial industry, especially for startups and early stage companies that have traditionally been funded by "family, friends and fools" to grow and gradually attract more interest from seasoned investors and venture capital funds.

It is nothing new to receive money from a large number of participants (sponsors, lenders, investors). However, crowdfunding as a concept is a modern financial service based on advanced digitalization. It is an underlying technology that can help investors find businesses and projects that require funding and, accordingly, allows businesses or projects to find investors and sponsors to fund their growth and development. According to one definition, "crowdfunding" refers to the ability to pool small amounts of capital from a potentially large pool of interested investors. However, this definition is close to the definition of an initial public offering (IPO). The IPO pooling opportunity is mainly based on the marketing efforts of investment banks acting as "underwriters", while in crowdfunding it is based on the digital online platform and its functions. In recent years, we have seen hybrid models in which IPOs were also conducted through crowdfunding platforms. The crowdfunding platform is "an Internet application that brings together project owners and their potential investors (lenders), as well as facilitating information exchange between them in accordance with various business models". Crowdfunding platforms act as intermediaries between investors and companies (or other projects) and offer investors opportunities to find and support projects in which they are interested. The main value proposition of the platform is to lower transaction costs and lower the bar for starting a fundraising campaign. Just a decade ago, it was nearly impossible for an early stage venture to find cost-effective access to tens of thousands of potential investors. Until now, crowdfunding is gaining momentum very quickly. The main factors that have contributed to this growth and spread of crowdfunding are such as the international crisis in the financial markets in 2008, which led, among other things, to tightening capital adequacy and solvency requirements for credit institutions, and the exploding use of Internet use and ease of use, that allowed us to attract a large number of potential investors with minimal costs. In the near future, crowdfunding may become an increasingly important source of alternative, non-bank financing.

High-growth businesses often lack access to finance and the ability to attract new investors. Low availability of alternative funding sources, lack of experience and the relatively high cost of listing on stock exchanges slow down the growth trajectory of companies. Thus, from the perspective of growth-oriented companies, financing opportunities that complement or alternatively to bank financing, such as crowdfunding, have become more important. Crowdfunding is especially important for financing the growth of knowledge-intensive enterprises and innovative companies in general.

The size of the crowdfunding market and therefore the importance of this form of funding is growing rapidly. Crowdfunding operations, carried out digitally on various technology platforms over the Internet, are a concrete demonstration of how digitalization and business models using new technology solutions are significantly impacting the availability of finance for small businesses. The history of financial markets is full of innovations, from the invention of money and its use as a medium of exchange, the exit from the system of gold-denominated currencies, to the growing popularity of online payment systems. Crowdfunding as a form of financing is part of this series of innovations in the general history of financial markets. Crowdfunding has taken a small but significant position in the international financial markets in a relatively short period of time, making it an important and affordable funding channel, especially

for start-ups and small and medium-sized enterprises. One could also say that crowdfunding has democratized the commercialization and financing by making investment in startups more widespread and accessible to all people, rather than being available only to high net worth individuals, business angels or venture capital funds. It also provided new opportunities for companies seeking funding and diversified the functioning of existing financial markets.

Internet platforms are at the core of crowdfunding as an alternative source of external finance for small and medium-sized businesses. To launch their project, find and attract the necessary financing, entrepreneurs must familiarize themselves with the platform's requirements and best practices in order to increase the chances of financing. As a rule, the platforms provide special project pages, analytics, project monitoring and information services, etc. Entrepreneurs can describe their project, indicate financing conditions, and also indicate financial (non-financial) benefits for investors. The project description area allows entrepreneurs to provide information to convince investors to support the project. The crowdfunding platform must hold funds until the project has received the full amount of funding needed. Also, the platform should conduct a comprehensive audit of the activities of issuers and the intended use of funds, should provide all necessary information and try to protect investors from fraudulent schemes.

The leading international crowdfunding sites are Kickstarter and Indiegogo from the US and CrowdCube from the UK. The main goal of the platforms is to link capital to business. While small business owners can request capital for a project on their corporate website, small businesses need to generate enough traffic and investors to their website. This could be a problem. Therefore, platforms are provided by more interested investors. For example, through the largest crowdfunding platform, Kickstarter, more than 200,000 projects worth over \$ 6 billion have been successfully funded since launch in April 2009 to the present. Kickstarter raises funds primarily in the arts, technology, food, and other areas. If the required level of funding is reached, then Kickstarter will charge small businesses 5 % of the total project funding.

To date, 42 crowdfunding platforms are registered in the Russian Federation's Investment Platform Operator Register, the vast majority of which are crowdfunding companies. Only one platform represents the crowdfunding segment – StartTrack. At the same time, the first and largest platforms in the Russian Federation Planeta and Boomstarter are not regulated by FZ-259 – the basic law regulating crowdfunding in Russia (Federal Law no. 259-FZ of 02.08.2019 (as amended on 31.07.2020) “On Attracting Investments using Investment Platforms and on Amendments to Certain Legislative Acts of the Russian Federation”).

Let's analyze the key crowdfunding sites in the Russian Federation in a little more detail.

The main point of STRK (StartTrack) is to give an investor the opportunity to purchase shares of a promising company at the preIPO stage, before the start of its public offering. In the US market, this is called Private Placement. It was decided to implement the same idea of accessibility of small and medium capitalization projects to private investors in Russia. StartTrack was restarted in a new format. Now you can buy and sell shares of small and medium-sized companies on the site. In fact, StartTrack is the only investment platform in Russia where you can incorporate your company by selling shares to retail investors with a check of RUB 50,000 or more, and investing the money received in business development.

The Stream investment platform provides an opportunity for small businesses to attract loans for maintenance and development. The maximum loan term is 12 months, the maximum loan amount is 20 million rubles. Investments in Potok include several types of loans – classic, factoring and tender. The Potok platform is part of the Alfa Group.

SberCredo allows small businesses to receive loans of up to 800,000 rubles for a period of 1 to 6 months. Of the key features, it can be noted separately that the assessment of borrowers is carried out according to its own scoring model, which takes into account more than 100 criteria, work with overdue debts is also carried out, and a subsidiary of Sberbank PJSC can be a co-investor.

Platform # 1 specializes in raising finance for businesses that participate in and execute commercial and government procurement. The loan amount can reach 15 million rubles with an interest rate of 18% per annum.

Lemon.online is a fintech platform that helps small and medium-sized companies in Russia grow. The platform includes a fast business financing service and an investment platform for private and

institutional investors. The project has been successfully operating since 2018. During this time, more than 21 thousand companies from various industries were analyzed, more than 1 billion rubles were financed. Several fintech business solutions have been developed that help dynamically growing companies to tidy up their financial statements and optimize the financial cycle, quickly obtain factoring and lease financing in accordance with the stage of the company's growth, optimize work with accounts receivable and move customer relationships online. The Lemon.online investment platform allows private investors and banks to directly invest in Russia's growing business. The investment is secured by a pledge of the right to claim receivables.

In addition to the above, the largest crowdfunding platforms are Co-Fi, karma, Jetland, Smally, Incrowd, etc.

Standing apart from other platforms are registrars and depositories such as NRK-R.O.S.T., which are included in the register for a another purpose – accounting for utilitarian digital rights and financial assets that do not belong to crowdfunding models. In addition, NRK-R.O.S.T. provides registration services for additional issues of shares placed by private subscription using an investment platform.

It is worth paying attention to one interesting point that a number of platforms have been launched by banks, despite the fact that both in their essence and in their purpose they are rather competing business models. The market pioneer is Alfa Stream from Alfa Bank, Moduldengi from Modulbank, SimplyFi from SimpleFinance, and Sberbank have also launched their crowdfunding service. Such platforms are primarily focused on attracting money from private investors. According to the Ministry of Economic Development, there are now about \$ 50 billion in bank deposits, and it is more than realistic to attract at least \$ 1 billion to the crowdfunding market. Of course, banks will not create competitors for themselves. They clearly divide markets and transfer inconvenient clients in terms of bank lending to a complementary platform or share credit risks with attracted investors.

Based on the results of the study, a matrix of funding sources has been formed according to the life cycle of an enterprise, which defines the place and role of crowdfunding as an alternative tool for raising capital.

Table 1 – Business financing matrix

Таблица 1 – Матрица финансирования бизнеса

	1st stage - sowing	2nd stage - startup	3rd stage - extension	4th stage - growth	Stage 5 - Mature Growth
	Early stages			Growth stage	Mature stage
Stage goals	• Development and testing of ideas	• Product release To the market	• Formation and strengthening of the position on the market	• Active growth of the share on the market	• Holding a stake on the market
The main signs	• Product - no • Cash flow - no or negative	• Product - testing and first sales • Cash flow - negative	• The share of the product on the market starts to grow • Cash flow can become positive	• Sales revenue product is growing rapidly • Cash flow - positive	• Sales revenue stable, growth is insignificant • Cash flow is stable or growing
Funding availability	Low		Average		High
The need for external financing	High			Average	Low
Funding volume	Up to RUB 100 million	From 100 up to RUB 500 million	From 500 million rubles and more		
Sources of funding	Own funds	Venture funds			
	Relatives and friends		Strategic investors		
	Business angels		Private equity funds		
	Crowdfunding			Banks	
	State support measures (grants, subsidies, concessional financing)				
	Accelerators			Stock Market	

Table 1 (concluded)

Окончание таблицы 1

Risk of capital loss	High		Average	Low
Expected return on alternative investments	50–70%	40–60%	35–50%	25–35%
Cost estimation company	High uncertainty: depends entirely on the company's future growth potential		Moderate accuracy	Objective
Main financing instruments (debt, equity and hybrid)	Contribution to the authorized capital / purchase of a block of shares			
	* Convertible loan * Profit-sharing loan * Issuer's warrant / option			
		Mezzanine financing		
	Subordinated loan			
				Complex structured, hybrid tools
The main ways to exit investments	Sale to a strategic investor			
			Sale to a financial investor	
			Repurchase of a share by the founder or management	IPO
	Repayment of loans by the company			
	Liquidation or bankruptcy			

Sources: Database of the Moscow Exchange [Electronic resource] // Official website of the Moscow Exchange. URL: <http://www.micex.ru/>, Database of the Central Bank of the Russian Federation [Electronic resource] // Official website of the Central Bank of the Russian Federation. URL: <http://cbr.ru/>, authors' analysis

In addition, this path of a young and developing enterprise (see Fig. 1) can become the beginning for further expansion, making it possible to attract classical instruments for raising capital (including through bonds and stocks), being a positive track and an example of business financing. Different platforms and crowdfunding business models can solve several problems at once, thus it becomes appropriate to use different combinations of all platforms. In this case, the most correct way to attract external financing is presented in Figure 1.



Fig. 1. Stages of raising external funding for start-ups and small businesses

Рис. 1. Этапы привлечения внешнего финансирования для стартапов и малых предприятий

Source: compiled by the authors

In addition, scopes of crowdfunding are identified depending on the business industry, its capital intensity and scalability.

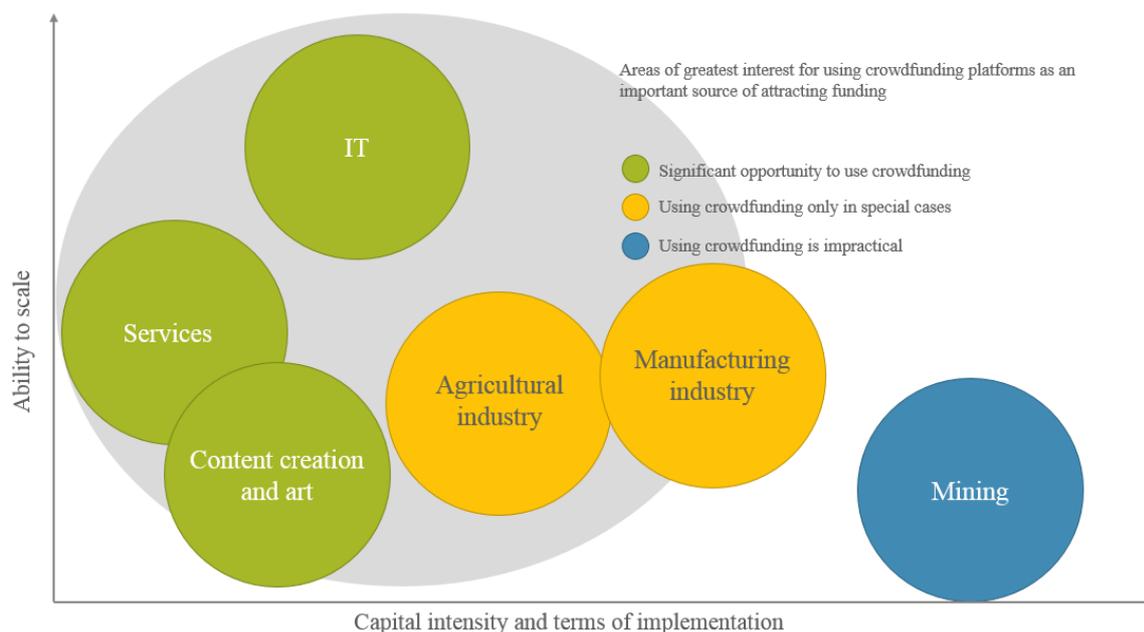


Fig. 2. Scopes of crowdfunding

Рис. 2. Сферы применения краудфандинга

Source: compiled by the authors

So, we can conclude that various models of crowdfunding are primarily of the greatest interest to startups and small businesses from the IT, services, content creation and production sectors that do not require significant capital investments and long implementation times. It is also important to note that crowdfunding platforms provide access to financing for innovative and risky projects that do not have the ability to attract traditional funding sources.

Conclusions

Thus, we can note the important place of crowdfunding in the system of financing small businesses. Various business models and crowdfunding platforms allow solving several problems at once with lower costs and expenses compared to securities market instruments, as well as with tangible advantages over classical bank lending.

So, reward-based crowdfunding allows analyzing the demand for products, analyzing the possible range of prices for products sold, and also makes it possible to organize the release of new or innovative products, which is due to the essence of this crowdfunding model – prepayment, transfer of funds before the start of production and sale of the final product. In addition, such a crowdfunding model allows to attract a loyal audience, tell in more detail about the product, and most importantly, buyers can immediately get significant traffic.

Further, crowdfunding makes it possible to attract liquidity for young and growing companies when there is no opportunity to attract bank financing (for example, due to the lack of high-quality loan collateral, or the limited limits provided). Crowdfunding also allows to raise funds under more flexible terms. A bank, if it is the main creditor of an enterprise, especially one representing a small business, can dictate its conditions for doing business, setting certain financial conditions (covenant). And in the event of an increase in business risks, it can begin work on the early return of the issued loan funds, which in turn can have an extremely negative effect not only on the trajectory and pace of business development, but also raise the issue of survival in principle.

And the last model used as an alternative source of financing for small businesses, crowdfunding, is an excellent way to attract additional funds, capital, in order to grow, develop and scale a business without increasing the risk of an increase in the debt burden with an increase in financial leverage, and also without losing management capabilities. business and full influence on the development vector due to the large number of investors investing in a project or startup (as opposed to attracting one or several large investors – venture capital funds, business angels, direct investment funds of strategic investors, etc.).

The widespread use of alternative investment mechanisms in developed countries and in a number of countries with emerging markets (China, India, etc.) had a positive impact on the dynamics of their economic activity. Taking into account the significant lag behind these countries in terms of the level of development of alternative investment mechanisms, Russia currently has significant growth potential. At this stage of development of the Russian financial market, the main reasons for the low interest of investors in alternative investments are the low level of trust and information transparency of the alternative investment market, high risks of law enforcement. The development of alternative investment mechanisms, in turn, will contribute to:

- an inflow of additional capital to the direct investment market, an increase in the number of its participants and the volume of direct investment, and an increase in their availability;
- increasing the supply of long-term investments to finance the development of companies;
- development of innovative sectors of the economy;
- increasing the level of corporate governance of companies;
- improving the quality of doing business;
- increasing the investment attractiveness of Russian companies for investors;
- the development of the financial market and the increase in the number of IPOs;
- reducing the riskiness of operations carried out on investment platforms.

Creation of a favorable environment in the alternative investment market will increase its attractiveness for a wider range of investors.

Investment models of crowdfunding are unlikely to replace traditional sources of financing for small enterprises in the foreseeable future, nevertheless, they will definitely fill the open niche between venture capital investment at the pre-seed and seed stages on the one hand (private investors will get access to the market) and IPO, on the other, by opening access to new a source of external financing without losing control over the business and at low costs.

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