Vol. 16 ▪ No. 4 ▪ 2022 Russian Journal of Social Sciences and Humanities ISSN 1998-5320 (Print) ISSN 12587-943X (Online)
Economic Science

УДК 336.64
JEL G32
DOI: 10.57015/issn1998-5320.2022.16.4.20

Scientific article

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# Analysis of crowdfunding business models: key advantages of crowdfunding platforms

**Annotation:** Within the framework of this study, an analysis of various crowdfunding models, their differences, and identified the key advantages of each business model in attracting financing for small enterprises and startups. The complexity of the financing process is determined as exponential, the simplest form is crowdfunding of donations, and the most complex is equity financing (crowdinvesting). The study identifies and identifies the main advantages of attracting financing through crowdfunding platforms, compared with classical ways to attract funds: the availability and low cost of a source of capital attraction, assessment of market potential, consumer feedback, removal of geographical barriers to raising capital, and much more. In addition, based on the results of the study, a roadmap has been formed for the use of various sources of financing, as well as various business models of crowdfunding. The information base of the study consisted of information and analytical materials on the functioning of domestic and foreign capital markets, statistical data, regulatory legal acts of the Russian Federation, periodical press materials, Internet resources of Russian and foreign sources. The results obtained are of practical interest for the development of startups and small enterprises.

**Keywords:** crowdfunding, crowdinvesting, crowdlanding, small and medium-sized entrepreneurship, financing, investment platform.

**Paper submitted:** September 11, 2022.

**For citation:** Anikin V. Yu., Patlasov O. Yu. (2022) Analysis of crowdfunding business models: key advantages of crowdfunding platforms. Russian Journal of Social Sciences and Humanities, vol. 16, no. 4, pp. 177–187. DOI: 10.57015/issn1998-5320.2022.16.4.20.

Научная статья

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# Анализ бизнес-моделей краудфандинга: ключевые преимущества краудфандинговых платформ

**Аннотация.** В рамках данного исследования проведен анализ различных моделей краудфандинга, их отличий, а также выявлены ключевые преимущества каждой бизнес-модели в рамках привлечения финансирования для малых предприятий и стартапов. Определена сложность процесса финансирования как экспоненциальная, простейшей формой является краудфандинг пожертвований, а наиболее сложной – долевое финансирование (краудинвестинг). В исследовании выявлены и обозначены главные преимущества привлечения финансирования через краудфандинговые платформы, по сравнению с классическими способами привлечь денежные средства: доступность и низкая стоимость источника привлечения капитала, оценка потенциала рынка, отзывы потребителей, устранение географических барьеров для привлечения капитала и многое другое. Кроме того, в работе по результатам исследования сформирована дорожная карта использования различных источников финансирования, а также различных бизнес-моделей краудфандинга. Информационную базу исследования составили информационно-аналитические материалы по вопросам функционирования отечественного и зарубежного рынков капитала, статистические данные, нормативные правовые акты Российской Федерации, материалы периодической печати, интернет-ресурсы российских и зарубежных источников. Полученные результаты представляют практический интерес для развития стартапов и малых предприятий.

**Ключевые слова:** краудфандинг, краудинвестинг, краудлендинг, малое и среднее предпринимательство, финансирование, инвестиционная платформа.

**Дата поступления статьи:** 11 сентября 2022 г.

**Для цитирования:** Аникин В. Ю., Патласов О. Ю. (2022) Анализ бизнес-моделей краудфандинга: ключевые преимущества краудфандинговых платформ. Наука о человеке: гуманитарные исследования, том 16, № 4, с. 177–187. DOI: 10.57015/issn1998-5320.2022.16.4.20.

## Introduction

Small and medium-sized enterprises, especially start-ups, lacking credit history, collateral and other factors often experience considerable difficulties in attracting external sources of business financing. Thus, crowdfunding can take a key place among the sources of financing for small businesses in the early stages of company development. The purpose of this study is to analyze key crowdfunding models, as well as identify the key benefits and risks of raising funds through crowdfunding platforms.As part of the work, the following hypotheses are tested: crowdinvesting and crowdlending are key business models for small and medium-sized businesses to attract external financing; crowdfunding is a more attractive tool for raising capital for startups compared to classic (traditional) tools; crowdfunding can be used as a source of financing at different stages of development.

The scientific literature describes the key trends in attracting external financing, examines the place of crowdfunding in the business financing system depending on the life cycle of the enterprise, as well as on capital intensity and scaling capabilities (Anikin, Patlasov, 2022). The place of crowdinvesting in the financial market system of the Russian Federation (Bazhanov, 2018), issues of risk minimization in the process of attracting external resources (Kharlamov, 2020), legal forms and nuances of crowdfunding models (Kuznetsova, 2019, Gabov, Khavanova, 2020, Kazachonok, 2020)[1], foreign examples of the implementation of crowdfunding platforms (Xie, Liu, Chen, 2019, Regner, 2021),

This article reveals the key advantages and disadvantages of crowdfunding business models, and also reflects a roadmap for using various crowdfunding options depending on the stage of business development, current conditions and needs.

## Methodology

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 systemic research were used. Comparative analysis, scientific knowledge and methods based on logical reasoning were also used.

## Results

Crowdfunding platform models can be divided into four key and most used forms - donation-based crowdfunding, rewards, crowdfunding and crowdinvesting. In this regard, the complexity of the financing process is exponential, that is, the simplest form is donation, and the most difficult is equity financing – crowdinvesting (Makarova, Osipova, 2018; Panova, 2018).

Donation-based crowdfunding focuses on the altruistic activities and charity of people who are willing tovoluntarily provide their financial assistance. Participants finance the project, not intending to make a profit or receive anything in return, but only moral satisfaction. One of the typical examples of this type of crowdfunding is Red Cross and Medecins sans Frontiere, where sponsors support people in need and cover their costs (for example, for their medical care). GoFundMe is one well-known donation-

[1] 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"

raising platform. The donation-based model is the simplest, as a legal transaction takes the form of a donation. The only risk in this model is that the project may not achieve its goals.

Reward-basedcrowdfunding is the most popular and successful crowdfunding model. Two of the largest and best known crowdfunding platforms in the US are Kickstarter and Indiegogo. Participants receive non-financial rewards in exchange for donations to the project. For example, an entrepreneur who is a filmmaker gives his sponsor a role in a film as a reward, or a writer gives the first copy of his book as a gift for his contribution.

Crowdlanding (crowdfunding lending) is a type of lending in which individuals or companies issue loans to other individuals or companies through a web platform with the motivation to return their money with interest. This type of crowdfunding is similar to bank loans, but the difference is that depositors can opt out of making a profit by asking only for the loan money, not interest. FundingCircle is one of the most prominent lending partnerships in the UK, funding over 100,000 businesses worth over £ 11 billion.

Crowdfunding (equity-based crowdfunding) – due to its inherent complexity, is the least common version of crowdfunding at the moment, which is now in its infancy in Europe and was adopted in the US a few years ago. It allows investors to acquirea stake in a new business by becoming co-owners in exchange for funding, in the hope that the business will flourish and they will eventually receive a share of the profits in the form of dividends.From a legal point of view, an investor buys a stake in a company, the value of which must be estimated, while entrepreneurs must create the value of the company's equity capital, which is extremely difficult to estimate. EquityNet was the first crowdfunding platform that allowed companies to publicly advertise their funding needs through crowdfunding. Other crowdfunding platforms in Europe with significant audience reach are Crowdcube and Seedrs.

The last two forms of crowdfunding – crowdfunding and crowdinvesting – are of the greatest interest, since they are the key alternative sources for attracting external financing for small businesses. Next, we'll take a closer look at these crowdfunding business models.

Crowdlanding. The crowdfunding phenomenon enteredthe global stage with the emergence of lending-based crowdfunding in the mid-2000s, when two new platforms emerged on both sides of the Atlantic. Zopa was founded in the UK in 2005 and Prosper was founded in the US in 2006. (Bachmann et al. 2011).Lenders and borrowers find each other through specialized websites that bypass traditional financial institutions while receiving commissions for successful transactions. The new phenomenon is called Peer-to-Peer (hereinafter "P2P") lending. Since its inception, P2P lending has provided good returns for investors and a lower capital costs for borrowers, saving on transaction costs compared to placing bonds on the stock market or using classic bank financing. This model allows borrowers to obtain a loan without the participation of a financial institution and allows them to get more favorable conditions than those offered by traditional banks. This phenomenon has received a new impetus after the global financial crisis as a result of a significant reduction in traditional financing for small and medium-sized enterprises.This development was part of a broader trend in the fintech industry in which technological change has enabled new methods and business models to revolutionize traditional financial services, while increasing user distrust of traditional institutions after of the financial crisis. In addition, alternative financing models have the greatest potential to expand access to finance for small and medium-sized enterprises that may have previously been left behind by traditional lending practices.For both borrowers and investors, the crowdfunding space offers unprecedented access as the entry barrieris often low, with some platforms offering a minimum investment of only $ 1, while the minimum and maximum loan amounts on the platforms range from a few dollars to several million dollars (Ziegler, Shneor, 2020). Therefore, in general, crowdfunding may offer more diverse sources of financing for the real economy in countries that previously relied excessivelyon bank lending to grow and scale their businesses.Over the past decade, the industry has seen a proliferation of debt-based crowdfunding models, from P2P lending to debt offering, now collectively called crowdfunding. While the consumer lending model remains the largest form of crowdfunding, the asset class has expanded significantly, with firms now offering business loans, real estate loans, mortgages and a host of other debt obligations. Today crowdfunding has become a global and massive activity, with platforms operating in almost every country in the world.

While the concept of direct lending is neither new nor revolutionary, conducting such transactions over the Internet using online platforms makes crowdlanding a new phenomenon. These platforms and the models they represent are evolving in response to gaps in the traditional lending market dominated by banks and living outside the existing or traditional debt ecosystem. Crowdlanding, also called FinTech Credit, can be defined as any lending activity provided by Internet platforms that match borrowers to lenders (investors) (Bank for International Settlements and Financial Stability Board 2017). Peer-to-peer (P2P) lending is a model in which a group of individual or institutional investors provides a loan (secured or unsecured) to a consumer or business borrower. In its most orthodox form, the P2P lending platform acts as a marketplace that connects the borrower and the investor (s), so that the risk of financial loss in the event of a default on loan rests with the investor and not with the platform.

Another form of cruadlanding is a model in which a digital lending platform lends directly to businesses using its own funds. Thus, these platforms function not only as intermediaries, but also actively issue loans themselves. In such a case, the risk of financial losses in non-payment of the loan lies with the platform operator. While the above represents the largest share of crowdfunding volumes as well as the most common practice, complementary, hybrid models such as trade finance and debt securities have emerged in recent years. In this case, trade finance, one of the fastest growing models, refers to an online marketplace where businesses can sell part or all of their receivables at a discount. Individual lenders or institutional investors can act as a counterparty in a sale and purchase transaction, which again opens up new investment opportunities for a wider range of investors. This model is of particular relevance for small businesses to raise short-term debt by pre-financing their outstanding accounts through individual or institutional investors.

As FinTech credit markets mature and the number of players increases, expanded services and functionality are emerging. One type of such extensions can be identified with the emergence of aggregator platforms, which are tools that collect data from a number of platforms to enable borrowers to find suitable loan products across multiple crowdfunding platforms in a centralized location. Due to the illiquid nature of some of the loans, some platforms have created secondary markets. In crowdfunding, the secondary market acts as a marketplace that allows creditorsto sell their loans before the loan matures. Here, the buyer may be another lender or even the platform itself. Loans may be sold at a discount or premium, or they may be sold at face value, provided that the loan is repaid in accordance with the repayment schedule. However, the secondary market for P2P loans is a relatively new phenomenon, not all platforms offer secondary market opportunities, which are often characterized by low liquidity.

Because crowdfunding occurs primarily online, it lowers operating costs for loan intermediaries by eliminating the need for physical branches, while providing near-complete automation of loan application, credit risk assessment, cashdisbursements and loan servicing. In addition, platforms may not be subject to certain licensing or other regimes, which reduces regulatory or compliance costs. For these reasons, lending platforms may offer lower interest rates for borrowers or higher returns for investors.

At the moment, there is an institutionalization of crowdfunding. Institutionalization means a growing share of lending that can be attributed to institutional investors such as pension funds, mutual funds, management companies and banks. To a certain extent, the involvement of institutional investors in crowdfunding can be controversial. While retail investment remains the main driver of alternative finance volumes, institutional investors are also making a difference.Regionally, the United States is heavily dependent on institutional investors, with 85 % of funding coming from institutional investors. On the other hand, Africa and the Middle East are the regions with the lowest share of institutional investment – 17 % and 12%, respectively. In all other regions (Asia and the Pacific, Canada, Europe, Latin America and the United Kingdom), institutional investors account for about 50 % of funding (Ziegler, Shneor, 2020).

Crowdinvesting. Since the inception of the first online crowdinvesting platform, equity crowdfunding has quickly established itself globally as an equity financing mechanism for early-stage companies.

This allows businesses to raise funds for growth and expansion, and some businesses have indeed achieved significant growth following their crowdfunding campaign. The investor base isconsists of private investors and increasingly professional investors such as business angels, venture capital funds and private equity funds.

Most equity crowdfunding platforms operate on an all-or-nothing model in which a campaign must reach a predetermined minimum funding target in order to be successful and for the venture to receive its investment. If the minimum target is not met, the funds are returned to the investors. The platform income model is usually based primarily on success commissions. Compared to traditional forms of early-stage equity investing, the standardized online nature of the crowdfunding investing process through crowdfunding platformsreduces transaction costs. Indeed, low transaction costs on the part of investors, along with low minimum investment thresholds, are key factors in ensuring the participationof the large masses in crowdinvesting. Accordingly, the market power of individual crowd investors, both before and after investment, is usually low. Since fundraisers and platforms predefine the terms of the campaign, potential investors cannot influence the terms of transactions or covenants. The general shareholder rights vary by country and platform. While some platforms call for using the same class of shares for crowdfunding investors as for other equity investors, others offer shareholder agreements in which shares offered through crowdfunding form a separate class without voting rights.

The share of capital retained by entrepreneursduring the placement of sharessignals the confidence of entrepreneurs in the future prospects of the enterprise and influences the interest of investors. The human capital of entrepreneurs, measured by business education and entrepreneurial experience, serves as a clear signal of the quality of a startup and thus stimulates investment. The enterprise's intellectual capital can signal innovationopportunities, management skills, and overall enterprise quality, and also creates barriers to entry for competitors. Investors prefer to take on the high risks inherent in crowdfunding where entrepreneurs seek to reduce uncertainty by offering detailed financial information.Updates that entrepreneurs post on the campaign website during the campaign have a positive impact on fundraising efficiency as they can conveyinformationabout business value to potential investors in a reliable and understandable manner. Business angels and venture capital funds usually conduct deep due diligence of investees, or at least perform moderate due diligence. Thus, startups that have already attracted business angels or venture capital funds with a long and successful experience in investing and developing startups are more likely to be able to successfully attract funding through crowdfunding campaigns, since the presence of professional investors helps to mitigate the adverse impact of information asymmetries.

Most equity crowdfunding platforms provide transparency in digital format, with all potential investors usually able to see in real time the total amount of funds already invested, the number of investors or investments already made in the campaign, and investment-related comments left by other users. This contrasts with the dynamics of funding primary public placements, when investors do not know how much money others have already invested at the time of subscription. Accordingly, when making investment decisions, crowdfunding investors take into account not only available startup information and predetermined campaign characteristics, but also campaign finance dynamics, thereby at least partially relying on the behavior of others.

Equity crowdfunding is partly directed on the same market as traditional forms of entrepreneurial finance, primarily business angels, venture capital funds, and private equity funds. However, it partly serves to finance enterprises that might otherwise be left without the necessary funding. The key difference between crowdfunding and more traditional forms of early equity financing is the digital nature of online crowdfunding, which enables businesses to raise investments from large number of people without personal interaction between entrepreneur and investor and with a high degree of efficiency.In this context, it is worth noting that from the point of view of the enterprise, the various forms of financing do not have to be mutually exclusive, and their sequential order is not constant. Businesses can use different sources of funding at different stages of the life cycle. Startups that have successfully received equity crowdfunding funding are more likely to attract investment from angel investors or venture capitalists in subsequent rounds of funding, while businesses with unsuccessful equity crowdfunding campaigns may fail in subsequent rounds of funding. In addition, businesses can use multiple forms at the same time.

The benefits of using crowdfunding for small business owners include idea testing, validating the business concept, maintaining the control of the company, solving the financial problems of the company, creating a loyal community, increasing the level of marketing, price determining , economic benefits and social impact. Crowdfunding is unique as a funding option that offers significantly more benefits than traditional funding. Small business owners face information asymmetriesin their search for financing. In crowdfunding, investors usually require less preliminary business information and do not require detailed and complex contracts. Crowdfunding uses collective decision-making to assess and attract funding.Benefits include stimulating the growth of small enterprises,addressing capital shortages, promoting products or services, gaining customer feedback, and improving business models. Crowdfunding attracts startups because it removes geographic barriers to raising capital and the need for personal communication with investors. Entrepreneurs can use crowdfunding to test business ideas, validate products, and support the business. Crowd involvement is a signal of legitimacy as the crowd chooses worthy businesses to contribute, with sponsorship levels measured for greater consumer interest. Small business owners can use crowdfunding platforms as a proof of concept, raising capital, marketing and promotional activities, building brand awareness, launching products, funding future efforts without raising debt or capital erosion. Crowdfunding allows entrepreneurs to test new ideas with minimal risk and loss for any investor and inspire creativity and innovation.

Another characteristic of crowdfunding is self-regulation, where the crowd chooses whether to invest or not, which is not the case in traditional funding. In addition, crowdfunding helps support companies with limited income and short time to market or even no profit. Retaining control over the firm's business decisions is another benefit for entrepreneurs using crowdfunding instead of other funding options. Crowdfunding is a capital accumulation strategy that allows entrepreneurs to raise funds without giving up property rights. By working with venture capital funds, entrepreneurs relinquish ownership and full control over the company's activities.

Entrepreneurs can use crowdfunding to provide feedback and solve company problems without paying them. Crowds, thanks to collective intelligence, can effectively solve company problems more than individuals. The crowd creates value for companies by offering design and product improvement suggestions, shortening creation and production times, solving company problems, creating marketing hype and cutting costs. Crowdfunding connects entrepreneurs directly with consumers, enabling direct feedback, communication, and product development with an interaction that provides feedback that would otherwise cost millions of dollars and lengthen market research time. As a result, small businesses get more loyal customers, better customer perception of the new product. Crowdfunding allows small businesses to check the prices of their products. Small businesses can poll the crowd to pick the best price, form factor, product name, and other possible use cases for the product. This information improves the business model, attracts more consumers, and is relatively free for small businesses. In addition, small businesses can differentiate prices between sponsors and other consumers, thereby demonstrating consumers' willingness to pay and maximize profits. Crowdfunding plays an important role in marketing to future consumers and participants. Crowdfunding marketing activities include product development, promotion and advertising, and market research. Evenfailedprojectsgetsomefre epublicity.Crowdfunding offers startups economic advantages over other types of traditional funding. Small business owners can potentially receive funds faster than other options that require applications and long waiting periods. Small business owners can raise capital from anywhere in the world rather than being tied to local funding sources, which closes the financial gap for small businesses. As a new phenomenon, crowdfunding can develop and transform traditional business models. Crowdfunding will stimulate new investments in entrepreneurial projects, change the structure of existing investments, and possibly replace other forms of investment.

Despite the potential of crowdfunding, small business owners must consider the challenges and disadvantages when using crowdfunding. These issues primarily include information asymmetries, high risk, lack of platform experience, limited financial capacity, stolen intellectual property, fraud, etc. Small business owners must carefully weigh these issues against the benefits of crowdfunding to ensure successful funding (Sheina, Kurdyumov, Izmodenov, 2020, Pargachevskaya, Parshina, Troyan, Pushkareva, 2019, Böckel, Hörisch, Tenner, 2021).

Crowdfunding allows high-risk businesses to access finance with minimal risk for thousands of investors. Small businesses run the risk of losing business ideas and intellectual property by disclosing business information on the Internet. Hence, small business owners should take appropriate steps to protect copyrights, trademarks, patents, and other protections before engaging in crowdfunding. Future issues with crowdfunding could include data security, copyright ownership. As with any firm doing business on the Internet, firms must put in place additional security and intellectual property protections. Another problem with crowdfunding is that entrepreneurs may spend a significant amount of time on projects and may lack the resources to manage them effectively. Small businesses may lack the organization, staff, time and resources to manage securities and awards, promote a business idea, and communicate with investors and lenders.

Additional disadvantages of crowdfunding are that disclosure and reporting requirements may be too complex for small businesses, small businesses may still need to prepare for subsequent investment rounds, governments may enact new regulatory laws, investors with managerial oversight create high coordination costs. and VCs don't like complex financial structures. Small businesses are responsible for any false facts or misleading information. Internet platforms do not provide any guarantees that entrepreneurs will deliver on their promises. However, there is no evidence that entrepreneurs are committing fraud in order to get money. While potential fraud is a concern, highly regulated securities markets have also faced fraud, such as at major international banks such as Lehman Brothers and Bear Sterns.

Next, let's take a closer look at some of the advantages, as well as the disadvantages and risks of crowdfunding.

Availability and low cost of the source of capital. Crowdfunding undoubtedly facilitated access to finance for small businesses and minimized the cost of raising capital for a large number of investors. This allows new entrepreneurs to interact with potential contributors and share their crowdfunding campaign online via social media, email, or other methods. In terms of cost, a crowdfunding campaign can be more time-consuming but less expensive compared to traditional financing mechanisms. The cost of a campaign is much less, since structuring a project or startup profile (text, photos and video) and launching it to the public is an inexpensive procedure. Moreover, using crowdfunding as a fundraising method reduces the cost of meeting and contacting potential investors. Crowdfunding, unlike other financial forms, does not require a physical presence.

Market assessment. Crowdfunding provides an opportunity for new companies to present their company and their promising business plan to the masses and thus test the competitiveness of their project before embarking on it. By pre-ordering new products, an entrepreneur can test people's reactions and willingness to contribute, while reducing the risk of failure. If many potential investors express their enthusiasm and ask for information about the project, it is a positive sign that the author's idea is worth the investment and is more likely to be successful. By studying the test results and understanding the interests of people, the owners of an idea, project or operating business can improve and refine their business plan.

Consumer reviews. Entrepreneurs can use wide audiences as target groups for feedback, leverage their knowledge and advice, and reach out to their circle of influence for additional support. Thus, business owners become more famous, attracting more and more people, but at the same time they are aware of their weaknesses and problems in order to avoid them in the future.

Democratization of entrepreneurship. Prior to crowdfunding, a person with a creative idea but no money or personal connections had to look exclusively to business angels, banks, venture capital funds, or other sources of capital to obtain funding. Currently, crowdfunding has lowered the social and geographic bar by giving everyone the opportunity to receive funding through an online platform. This increases the likelihood that a budding entrepreneur from a humble background or from a geographically remote region will find financial supporters for their idea and their project.

Community investment. As stated by many platform participants, crowdfunding encourages new founders and investors to remain in their community, strengthening the local community, but also expanding it internationally. Most entrepreneurs focus on a project within their geographic community, but are trying to raise funds around the world. The online business model makes it easier and more convenient for an entrepreneur to work on his project in his area and at the same time be addressed to an unknown international group of people.

Let's now look at the downside of crowdfunding, the hidden risks, and legal issues. Crowdfunding is an attractive alternative for both an entrepreneur and an investor to develop new business activities, however, due to the novelty of the concept of crowdfunding, a number of problems have arisen that can lead to an underestimation of the approach. Therefore, the parties, before considering what appears to be a new opportunity, must be aware of the risks that this trend may conceal and the complex legal issues they will face.

One of the main drawbacks of crowdfunding is the risk of fraud that investors take when they agree to fund unknown projects and startups over the Internet. Since crowdfunding does not have a proper regulatory framework, the potential for fraud is high. The anonymity that the Internet offers, coupled with the reduced amount of information required for crowdfunding, exacerbates the phenomenon of fraud. Investors lack personal contacts and the only thing they know about the project is the information they get from the platform. In addition, the geographic separation between the business / entrepreneur and the investor may prohibit the investor from physical supervision of the business. Some companies try to hide their financial situation, while others remain silent about their real intentions, receive money from investors and disappear, or at least fail to deliver on their campaign promises. A high percentage of fraud is found in crowdfunding investment models for investors because they cannot predict in advance the success of a project or the attractiveness of a product to an audience.

The risk of failure is the risk of not achieving the goal, not only of achieving the goal of crowdfunding, but also of providing investors with their reward in a timely manner. The failure rate in crowdfunding projects is high, for example, in the stock-based model, it is estimated at about 50 %. If the entrepreneur fails to meet the funding goal, any funding must be returned unless the parties have signed contractual agreements with different conditions.

Potential failure creates poor past performance for the business and can cause reputational damage, a fact that can dissuade participants from funding a project that once failed. However, the worst-case scenario is when disgruntled participants could potentially band together to file a class action claim for default. For this reason, owners of crowdfunding campaigns should not overestimate the income of investors by making unrealistic plans. On the other hand, investors should be protected in case of failure, not only by filing legal action against the campaign initiator, because then it will be too late, but also by the provisions of the platform. Some platforms have implemented provisions (mainly in the lending model) that reimburse investors in the event of default. The compensation fund is formed by borrowers who contribute to this fund a percentage of their total loan portfolio.

Since this is a relatively new phenomenon, legislation and regulatory frameworks governing all crowdfunding issues are still being developed. As there is currently no general legislation covering all crowdfunding business models, and as a result, the parties do not understand which law is applicable. Each time the parties have to check the national and relevant laws, otherwise they may violate the laws. The small amount of cross-border project financing indicates that crowdfunding remains largely a regional or local phenomenon.

One important thing that many entrepreneurs do not consider when raising money through any crowdfunding platform in exchange for a product or stock is that they sign an enforceable contract. This has a practical implementation when an entrepreneur does not fulfill his obligations to his investor, since the investor has the right to file a claim against him with a claim for damages. For this reason, an entrepreneur must be very specific in terms and description of their proposals when entering a business and signing a contract with an unknown investor through an online platform. He must make sure he can deliver on his promises (after calculating the potential costs) before entering into an agreement with investors.

At the moment, the main problem with the share-based crowdfunding model is the strict regulation of share issuance. In practice, national regulations are usually very strict with regard to the offer and

ISSN 1998-5320 (Print)
ISSN 12587-943X (Online)


sale of securities to the public, often restricting them to qualified investors and people with whom the entrepreneur already had a clear funding relationship. Another major issue is the provision of financial payments, such as calculating and costing the number of shares given in exchange for a contribution, and the percentage of the business that these shares constitute. Another problem is that equity investors want to be involved in running a business. They ask for information about the project and frequent meetings to participate in the decision-making process. Startups and small businesses do not have the experience of managing a large group of demanding investors. Moreover, entrepreneurs must assess how much capital they want to raise before starting a crowdfunding campaign. They should deduct the administrative costs and the amount required before, during and after the campaign, and then calculate the remaining amount for the investors. This can be difficult for the hobbyist entrepreneur as there are costs such as legal fees that cannot be accurately estimated.

Based on the research results, a roadmap was developed to take advantage of crowdfunding platforms, as well as key crowdfunding business models (see тable).

**Roadmap for crowdfunding use**

**Дорожная карта использования краудфандинга**

| CONDITIONS | ACTIONS | BENEFITS |
|---|---|---|
| – It is necessary to create a new product<br>– Unknown demand and acceptable price of a new product<br>– Requiresadditionalproductpromo tion | – Organization of a campaign to raise funds on crowdfunding platforms (based on rewards) | – Possibility of obtaining financing before the start of production<br>– Ability to set a minimum bar for raising funds for the project<br>– Market assessment, analysis of demand for products<br>– Identifying the highest possible selling price<br>– Additional marketing and advertising activities<br>– Increasingbrandawareness<br>– Building a loyal consumer community<br>– Customer reviews (the ability to modify the product) |
| – No credithistory<br>– Thereisnocollateral<br>– Lackofindustryexperience<br>– An insignificant / too significant amount is required in relation to the planned volume of business (in comparison with the credit limits of classical banks) | – Organization of a fundraising campaign on crowdfunding platforms | – Attraction of any amount of funds (low entry threshold)<br>– Absence of dependence on one creditor<br>– Ability to set your own requirements when placing a crowdfunding campaign<br>– The cost of raising capital may be cheaper compared to traditional sources<br>– Automation and simplification of receiving funds<br>– There is no rigid reporting form<br>– Geographic barriersareremoved |
| – There are no own funds for development<br>– The market allows you to scale your business | – Organization of a fundraising campaign on crowdinvesting platforms | – Attraction of any amount of funds (low entry threshold)<br>– Ability to set your own requirements when placing a crowdfunding campaign<br>– Absence of dependence on one investor (there are still opportunities to make decisions independently)<br>– The cost of raising capital may be cheaper compared to traditional sources<br>– Automation and simplification of receiving funds<br>– There is no rigid reporting form<br>– Geographic barriersareremoved |

Source: compiled by the authors

**Conclusions**

Thus, today we can distinguish four main models of crowdfunding: donation-based, reward-based, crowdfunding and crowdinvesting. The last two business models for small businesses are of the greatest interest as alternative sources of raising capital for starting, developing and scaling a business. Choosing such platforms, entrepreneurs receive a number of advantages over the classical ways to raise funds: the availability and low cost of a source of raising capital, assessing market potential, consumer reviews, eliminating geographic barriers to raising capital, and much more. Thus, crowdfunding and crowdinvesting are unlikely to replace traditional instruments for financing small and medium-sized businesses in the near future. At the same time, they will definitely occupy their niche for new and growing innovative enterprises, becoming not just an additional source of funding, but also an excellent opportunity to test their business hypotheses, business models and new ideas, to get feedback on products or services planned for implementation. Which together will improve your product and significantly increase the likelihood of successful project implementation and business development.

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