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Crowdfunding in Russia: An Empirical Study

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Abstract:

The beginning of crowdfunding in Russia is associated with a launch of the crowdfunding platform for creative projects Kroogi. Although it has been 10 years since Kroogi was established, we have to admit that crowdfunding in Russia remains a comparatively small and local market.

Definitely, the Russian crowdfunding industry has experienced substantial fluctuations, but nowadays it shows sustainable growth and both market players and the regulator believe in its prospective, so that new players appear, new regulations are expected. In 2017, the biggest Russian crowdfunding platform Planeta.ru celebrated its fifth anniversary and claimed to have raised over 770 million Russian rubles. Still, the rate of successfully funded projects is rather low.

To improve the situation it is necessary to find out which crowdfunding projects potential backers are more willing to support. Within the scope of this paper we provide quantitative analysis of open data on 9 179 projects divided by 15 categories from two largest non-equity-based crowdfunding platforms in Russia. The key findings demonstrate the total funding, the largest categories by number of projects, most popular categories within the backers support, the sum of average pledges.

Issues for further research and discussion are identified including factors of project success and backers' motivation.

Keywords: *Crowdfunding, crowd technologies, entrepreneurial finance, alternative finance, Russia.*

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1. Introduction

Crowdfunding is the practice of financing a project by collecting small amounts of money from a large number of participants, usually via the Internet. This comparatively new mechanism of attracting capital to projects began to gain popularity during the financial crisis of 2008-2009, which was a consequence of the increasing complexity of raising funds by traditional methods, primarily due to the reduction of access to borrowed capital for small businesses.

At the moment, there are more than 600 crowd-hosting platforms in the world, and the total amount of funds collected through them, according to Crowdfunding Industry Report, is estimated at 35 billion US dollars.

In Russia, more than 800 million rubles have been collected at Planeta.ru, the largest crowdfunding platform. Prospects for the development of the Russian market are supported by high rates of financial technologies development, the need of searching for additional finance sources for small and medium enterprices and non-government organizations, as well as increasing citizens' social activity. Crowd-technologies are also a direction of the FinNet market in the National Technology Initiative (NTI), which is intended to become one of the main instruments for the implementation of the Scientific and Technological Development (STD) Strategy.

Moreover, in 2016, the Central Bank for the first time conducted monitoring of the crowdfunding market and outlined further steps for interaction with crowd-platforms. One of the direction is crowdfunding regulation development. Now there are two law projects presented by the Central Bank and the Ministry of Economic Development of the Russian Federation. It is necessary to mention that although there are two leaders on the Russian crowdfunding market, new platforms still emerge covering some specific areas of crowdfunding such as nature, charity, books and technologies. All of the above shows a growing demand for data and research on Russian crowdfunding.

We present an empirical study that was conducted in Russia, based on data gathered in open sources. Finally, we discuss the findings and draw some implications for research and practice.

2. Literature review

Michael Sullivan, the founder of Fundavlog, used the word "crowdfunding" for the first time to describe the essence of the platform in 2006, but still there is no single approach to define this phenomenon, or even regulated spelling of this word: crowd funding, crowd-funding or crowdfunding. For the purpose of this paper the most common spelling "crowdfunding" is used. The review of literature on the issue reveals many definitions of crowdfunding, though generally it is associated with collecting money from a large number of people for specific purpose primarily via Internet-based platforms. Key definitions of crowdfunding are shown in Table 1.

Table 1. *Crowdfunding definitions*

Author / source	Definition
Ahlers, G. K. C. *et al.*	A form of collecting funds by an individual or a group of individuals by means of voluntary donation, usually, of (extremely) small amounts to support a certain idea
Ordanini, A., Miceli, L., Pizzetti, M., Parasuraman, A.	A personal initiative taken to raise funds for a new project that was presented by a certain individual by means of small or medium investment of a group of interested parties
Schwienbacher, A., Larralde, B.	An open request via Internet (predominantly) to give funds in the form of voluntary donations in exchange for some form of award and/or right of voting.
Rubinton, B.	A process, where one party attracts funds to fund a project, while requesting and receiving small contributions from a great number of people in exchange for providing a certain value to such people.
Guseva D., Malykhin N.	A collective contribution of people using their resources to support projects that were initiated by other people or entities. In the modern world, this process takes place via Internet.
Tegin V., Usmanov B.	A collective cooperation based on the trust of those joining their financial or other resources via Internet to support projects that were commenced by nitiative of other people (entities).

Source: *Larionov, 2014.*

The analysis of the current state of research demonstrates the growing interest of Russian and foreign scientists in crowdfunding. The first publication on the topic in Scopus appeared in 2010, and in 2016 there were 167 publications. The most remarkable international researchers of the field are Bretschneider, U., Zheng, H., Burtch, G., Gerber, E.M., Leimeister, J.M. Russian researches are also interested in different aspects of crowdfunding. Some of them consider crowdfunding as a perspective tool for start-ups development. (Profatilov, D.A., Bykova, O.N., Olkhovskaya, M.O., 2015). Sokolov (2015) pays attention to crowdfunding opportunities for political activities. Characteristics of crowdfunding platforms as multi-sided platforms are the main focus of Yablonsky, S. (2016; 2018) works. Balykhin, M.G. and Generalova A.V. explore the application of crowdfunding for scientific projects. To summarize, the main areas of research on the topic include:

- a description of crowdfunding as a new way to attract funding;
- study of various aspects of investor motivation;
- comparison of crowdfunding models;
- characterization of various categories of crowdfunding in terms of fundraising;

- a description of the development of crowd-industry in different countries.

The analysis performed made it possible to identify the following weakly studied directions:

- quantitative analysis of the Russian market industry;
- identification of the Russian distinguishing features of crowdfunding;
- the study of the impact of institutional factors on the development of the crowd-industry;
- a comparative analysis of the legal framework in different countries and its impact on the development of the crowd-industry.

Moreover, it should be mentioned that the majority of the Russian-speaking scientific publications are descriptive, thus the specifics of crowdfunding in Russia and neighboring countries remain unexplored, which discourage both regulators and crowd-hosting platforms, as well as potential users, project authors and their investors. Data sets accumulated by national crowd-platforms remain unanalyzed, so market participants are forced to act with uncertainty, which reduces their effectiveness and, as a consequence, the rate of successful projects.

3. Objectives, data and methods

The main objective of this research is to provide reliable analysis of Russian crowdfunding, aggregating data from two major crowdfunding platforms, structuring it by categories and ranging categories by number of projects, funds gathered, number of backers and rate of success. We collected data from two biggest Russian crowdfunding platforms: Planeta.ru and Boomstarter.ru. The key results are presented in Table 2. Appendix 1 contains the aggregated data by different categories. Among many Russian crowdfunding platforms, some of which are niche, some are developing, and some are just not very popular, these two are the largest. We can say that Planeta.ru and Boomstarter have created this market in Russia and are still defining what crowdfunding in Russia looks like. Kickstarter, to compare, claims over 140.000 successfully funded projects and over 3.566 million total dollars pledged.

***Table 2**. Planeta and Boomstarter key results*

Platform	Projects funded	Total pledges	Backers
Planeta	2.911	806 mln rub	
Boomstarter	1.702	353 mln rub	190.000

***Source:** Developed by author.*

As it is showed in Table 3, we gathered 9.179 projects from both platforms, backed by 386.617 people. Total goals of these projects were 4.481 million rubles, but they managed to gain only 650 million rubles. A large number of projects, which officially took off, but did not collect a single ruble and many projects, which set unrealistic goals, can explain this.

Table 3. *Gathered data key numbers*

Number of projects	9.179
Number of backers	386.617
Funds gathered	649.884.509
Total goals	4.481.893.675

Source: *Developed by author.*

According to Table 4, the average project was funded by 70.801 rubles, while the average donation is 1.681 rubles. The difference between average amount funded per project and average goal is explained by unrealistic expectations of many project founders and lack of discipline in work toward achieving goals.

Table 4. *Average results*

Funded average	70.801
Average goal	488.277
Average backers	42
Average donation	1.681

Source: *Developed by author.*

The analyzed projects success rates are ranged in Table 5. About 16% of all projects never received a single pledge, but it fits to world practice, for example, this measure for Kickstarter is 14%. At the same time, only 27% of projects received more than 25% of original goal, which is terribly low comparing to 78% of Kickstarter projects that raised more than 20% of original goal.

Table 5. *Project success rates*

	Number of projects	% of projects
Raised over 100%	1.568	17%
Raised over 75%	1.687	18%
Raised over 50%	2.165	24%
Raised over 25%	2.466	27%
Raised nothing	1.508	16%

Source: *Developed by author.*

4. Projects by categories

4.1. Categories by number of projects

As demonstrated in Table 6, the biggest category by number of projects is Publishing, followed by Video, Society, Music and Technology. The most popular categories in the terms of the number of launched projects in Kickstarter are Film & Video, Publishing, Games, Technology and Design, which shows some similarities, but the number of Kickstarter projects in Publishing category, for example is 41.271, more than 30 times bigger.

Table 6. *Categories by number of projects*

Category	Projects
Publishing	1.337
Video	1.114
Society	1.063
Music	996
Technology	832
Arts	573
Games	459
Food	403
Events	374
Design	358
Sports	281
Theatre	153
Photography	146
Fashion	134
Dance	20
Others	936

Source: *Developed by author.*

4.2. Categories by total amount of funds gathered

Based on Table 7, the leading category by the total amount of funds gathered is Music, followed by Video, Society, Publishing and Technology. Three most funded categories – Music, Video and Society together claim to have received over 44% of total pledges. The highest average funded categories are Theatre and Music.

Table 7. *Categories by total amount of funds gathered*

Category	Funded	Funded, average
Music	99 719 684	100 120
Video	94 220 476	84 579
Society	90 978 733	85 587
Publishing	74 533 010	55 746
Technology	39 662 674	47 671
Games	34 043 814	74 170
Food	33 538 511	83 222
Design	26 781 420	74 808
Arts	25 445 437	44 407
Events	17 248 669	46 119
Theatre	16 378 780	107 051
Sports	8 918 713	31 739

Photography	8 627 710	59 094
Fashion	1 911 870	14 268
Others	77 445 788	82 741

Source: *Developed by author.*

4.3. Categories by number of backers

Provided by Table 8, the most popular category in terms of number of backers is Music, followed by Video, Society, Publishing and Technology. Music category also proves to be the most supported by the average number of backers for a project. The least supported category Fashion both the smallest number of backers total and average, which gives us an idea that this category is not popular not only among project founders, but among potential backers too. The leading categories by the average number of backers are Music (90) and Arts (69).

Table 8. *Categories by number of backers*

Category	Backers, total	Backers, average
Music	55 242	90
Video	41 456	44
Society	41 646	55
Publishing	58 610	37
Technology	23 204	28
Games	16 622	36
Food	6 250	25
Design	12 511	35
Arts	14 212	69
Events	9 223	25
Theatre	7 161	47
Sports	4 298	16
Photography	10 043	15
Fashion	1 039	8
Others	84 589	39

Source: *Developed by authors.*

4.3. Categories by rate of success

Some crowdfunding platforms define successful projects as those, which funded 100% and more, some are satisfied with 50%. We measured category success as the percentage of projects, which funded more than 50% of the goal announced.

The most successful category is Theatre, followed by Music, Photography, Society and Publishing (Table 9). Suddenly, two of the least popular categories both by number of projects and by amounts funded, as well as by the number of backers, total and average, turn to be most successful.

Table 9. *Categories by rate of success (over 50%)*

Category	Rate of success	Number of successful projects	Number of projects, total
Theatre	37%	56	153
Music	33%	327	996
Photography	30%	44	146
Society	30%	320	1 063
Publishing	26%	350	1 337
Design	24%	87	358
Video	23%	260	1 114
Arts	19%	111	573
Games	19%	85	459
Food	17%	67	403
Dance	15%	3	20
Sports	15%	41	281
Events	14%	53	374
Technology	10%	83	832
Others	29%	270	936

Source: *Developed by authors.*

5. Conclusion

In Russia, like worldwide, crowdfunding is more developed in creative-based industries, such as Video, Music, Publishing and Technologies. At the same time, there is a peculiarity: one of the most popular crowdfunding categories in Russia is Society, associated with charity and social initiatives. We suggest, that is due to lack of state finance in this segment and insufficient support from business.

Another result of this research is that the largest categories in terms of the number of projects are not necessarily successive: sometimes people are more willing to support niche categories such as Theatre and Photography, these categories show higher percentage of funded projects than Video. Unexpectedly Games, a category popular both on Kickstarter and Indiegogo, is nor popular, nor successive in Russia.

Thus, we conclude that in many cases Russians share common taste in funding projects with regards to some unique features. For further research we would like to consider analysis of successful projects, especially the factors and conditions which might increase the project funding.

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Appendix 1:

Category	Projects total	Funded	Goals	Gathered average
Video	1 114	94 220 476	641 066 851	84 579
Design	358	26 781 420	101 191 553	74 808
Food	403	33 538 511	256 851 739	83 222
Games	459	34 043 814	455 034 713	74 170
Publishing	1 337	74 533 010	332 588 581	55 746
Arts	573	25 445 437	190 295 219	44 407
Events	374	17 248 669	312 005 314	46 119
Fashion	134	1 911 870	44 883 583	14 268
Music	996	99 719 684	245 809 214	100 120
Society	1 063	90 978 733	715 637 874	85 587
Sports	281	8 918 713	142 100 374	31 739
Dance	20	429 220	5 718 400	21 461
Theatre	153	16 378 780	47 351 680	107 051
Technology	832	39 662 674	579 750 531	47 671
Photography	146	8 627 710	44 354 444	59 094
Others	936	77 445 788	367 253 605	82 741
All	9 179	649 884 509	4 481 893 675	70 801