

CROWSFUNDING OR NATIONAL FUNDING OF SOCIO-CULTURAL PROJECTS

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Abstract: *more recently, the main way to raise funds in the cultural sphere were fundraising techniques. Today, with the development of the Internet and the expansion of communication possibilities, new way to raise capital is crowdfunding. With the help of this technology entrepreneurs of the creative class got a unique opportunity to present their ideas to the Internet community, which is an active participant in the production and marketing processes. The approach is attractive to entrepreneurs, because it not only allows raising capital for small businesses, which have very limited financing options, but also serves as a tool for testing marketability. Individuals enjoy the possibility to contribute to the ideas they believe in, even if they can invest only small amounts. Governments appreciate the approach due to its positive effects on economy – creating jobs, fostering economic recovery and innovations. Due to the novelty of the approach, a number of problems and fears arises, what might lead to an underestimation of the approach and possibly missed opportunities. Gaining deeper understanding about crowdfunding could be useful for entrepreneurs choosing a way to raise capital and investors seeking for different investment opportunities.*

Keywords: *crowdfunding, crowdfunding platforms, startups, entrepreneurs.*

КРАУДФАНДИНГ ИЛИ НАРОДНОЕ ФИНАНСИРОВАНИЕ СОЦИОКУЛЬТУРНЫХ ПРОЕКТОВ

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Аннотация: *совсем недавно, основным способом привлечения средств в сферу культуры были технологии фандрайзинга. Сегодня, с развитием Интернета и расширением коммуникационных возможностей, новые способы привлечения финансовых средств является краудфандинг. С помощью этой технологии предприниматели творческого класса получили уникальную возможность представить свои идеи интернет-сообществу, которое является активным участником производственных и маркетинговых процессов. Данный подход является привлекательным для предпринимателей, потому что позволяет не только привлечь капитал для малого бизнеса, который имеет очень ограниченные возможности финансирования, но также служит в качестве инструмента для проверки конкурентоспособности. Физические лица используют возможность внести свой вклад в идеи, в которые они верят, даже если они могут инвестировать только небольшую сумму. Правительство ценит этот подход из-за его положительного воздействия на экономику - создание новых рабочих мест, способствуя восстановлению экономики и развитию инноваций. Однако возникает целый ряд проблем и страхов из-за новизны данной технологии, а это уже может повлечь за собой своего рода недооценку возможностей, либо их упущение. Поэтому так важно более глубокое изучение краудфандинга, особенно для предпринимателей, выбирающих способ привлечения капитала, и инвесторов, ищущих различные виды инвестиционных возможностей.*

Ключевые слова: *краудфандинг, краудфандинговые платформы, стартапы, предприниматели.*

It should be noted that currently there is no legislation restricting the rights of cultural institutions in the promotion of their projects using the crowdfunding resources. The raised funds can be equated to the sponsorship and formalized in the appropriate manner on the basis of an agreement between the portal and the culture organization. The funds raised through crowdfunding resource can be equated to the sponsorship.

It is necessary to consider all the information and opinions in order to provide a tool for investors and entrepreneurs to deepen their knowledge on crowdfunding. Thus, the article aims to broaden the body of knowledge about crowdfunding. The research problem is: what are the strengths, weaknesses, opportunities and threats of crowdfunding in Russia? The object of the article is crowdfunding.

The notion and aim of crowdfunding

Gobble (2012) states that «the term “crowdfunding” is fairly recent – it was coined only in 2006 by Michael Sullivan» [1]. Sigar (2012) describes «crowdfunding as an innovative method of raising funds for entrepreneurs that has become increasingly popular in the internet age» [2]. Lynn (2012) and Lynn & Sabbagh (2012) describe «crowdfunding as a working tool, based on the ability to pool money from individuals who have a common interest and are willing to provide small contributions towards the venture». [3]

It can be noticed, that different authors' perception and attitude towards crowdfunding depends on their point of view towards the three parties involved in crowdfunding. Crowdfunding is based on the close cooperation between investors, intermediaries and entrepreneurs:

In the case of crowdfunding, investors are large groups of ordinary people, who can make small contributions (\$1-\$100) for the ideas they find promising. This provides individuals, who can invest only small amounts, a possibility to do that. Moreover, crowdfunding delivers ordinary people the decision right about which ideas are worth to be turned into businesses and which are not. Also, investors often get something in return – it can be a T-shirt, frames of films, tickets to a concert, etc.

Intermediaries are usually crowdfunding platforms, in other words «specialized crowdfunding websites». Powers (2012) states, that «these websites display business models and allow investors to make online contributions. The main purpose of such websites is to connect people with entrepreneurs». [4] The crowdfunding platforms could be divided into two types, according to the way they behave with collected money. The first type of crowdfunding platforms hold funds in an escrow account – if the needed amount is not reached, the contributions are returned to investors. The other type of crowdfunding platforms allows entrepreneurs to keep all the funds raised.

Entrepreneurs who seek financing through crowdfunding are often those, who fail to raise capital in other ways. Crowdfunding not only provides capital for such businesses, but it is also helps to test the idea. If the crowd, a large group of individuals, is willing to invest, this means the idea is marketable.

The full definition of crowdfunding should emphasize not only the most important features of the method, but also the link between the three important parties. «Raised capital and new investment possibilities are the results of the successful linkages» [5]. The results could not be achieved if one of the parties fails to cooperate. Crowdfunding could be described as a method to establish the connection between entrepreneurs, who aim to raise capital, and novel investors, who form an emerging source of capital and are willing to invest small amounts, through internet-based intermediaries.

Summing up all the information, crowdfunding can be described as the collective cooperation of people who voluntarily pooling their money or other resources, usually via the Internet and social networks to support the efforts of another people or organizations.

Crowdfunding technology can be used to raise funds for various purposes:

- support for innovative projects;
- financing of charity events;
- support for young artists;
- putting investments into small business start-up capital;
- support from fans;
- creation of the free software;
- support of political campaigns etc.

Crowdfunding technology can be successfully applied in all social and cultural spheres. The advantage of crowdfunding for the cultural sphere can be explained due to that it doesn't imply being bound with raising funds as it implies being bound with the creation of an online community that aims to bring to life a new idea and become the main tool for its promotion.

«It is a forming online community that is made up of potential visitors and guides of the organization ideas and therefore it means that crowdfunding can be used as a free marketing tool» [6].

The mechanics of the process

Crowdfunding technology is realized according to a simple comprehensible scheme:

- 1) the predetermination of a particular amount of funds that is required for the idea implementation;
- 2) the description of the project, the predetermination of fundraising period (usually the initiator or the author of the project do that);
- 3) the publicity of the project on a specialised site. The author and the initiator of the project address to the general public in order to attract the attention of potential investors, which will make financial contributions to the project.

The main advantage of crowdfunding for potential patrons is that they choose what projects they are interested in and want to make financial contributions to, and initially they receive all the necessary information about the project. Moreover, they can monitor online the status and dynamics of the project.

The main instrument of national funding technology is specialized crowdfunding sites - online platforms supporting the collective cooperation and building trust between people who invest their money and other resources in the crowd - projects. Crowd-platform create the necessary organizational systems and conditions for

integration of resources between authors and investors, forming a virtual community of free investors and provide transference of their private capital directly to the projects proponents regardless of geographic and cultural boundaries. Crowdfunding platforms were created in order to achieve three main objectives:

1) democratization of the arts and culture support process, as well as generation of additional revenue for the entertainment industry;

2) support for innovative decisions and start-ups, what will allow the traditional intermediaries find successful and talented people;

3) creation of a transparent and effective mechanism for implementation of the national funding project.

The first site that is considered as a crowdfunding service is «ArtistShare», registered in the USA in 2000 and focused only on the music industry. Musicians post their videos and audio recordings, and potential investors can listen to them for free or to pay and then to download them, they also can make financial contributions from 1000\$ to 18.000\$ to support creative development of the favourite artist and to have an opportunity to gain access to many unique materials.

The crowdfunding sites boom occurred in the period after 2008, when the national funding idea finally looked like a serious alternative that enables to work with several large investors, partners or sponsors.

At the moment, there are more than 500 of crowd - platforms with wide and narrow specialization. As a rule, crowd resources offer to choose two basic models of national funding:

- all or nothing: if at the end of the stated period, the amount of money that was pointed in the project agreement, is raised, then it is transferred to the initiator, and if the target was not achieved, then all raised money returns to investors and then it is considered that the project officially failed;

- all that there is: if the target amount of money was raised then it was transferred to the author of the project. And only after that, he can decide to accept this financial support as a partial funding (in this case he will be obliged to report to investors on the results of the project) or give it back to investors.

In 2012, the global market capacity of crowdfunding amounted to 2.8 billion dollars, and, according to financial forecasts, by 2020 it would reach 10 billion dollars. Now crowdfunding is at the stage of popularization rather than commercialization, but recent studies allow to expect a quick fix of technology in the modern investment practice.

Review of platforms

The most successful and popular crowdfunding platform was launched in 2009. The resource «Kickstarter» is a site for raising funds for the implementation of creative, scientific and industrial projects in the United States and the United Kingdom according to the crowdfunding scheme. «Kickstarter» offers to raise funds for projects implementation in 13 categories: art, comics, dance, design, fashion, films and videos, food, computer games, music, photography, publishing, technology, theater. In less than five years from an experimental platform «Kickstarter» turned into the leading platform that is dynamically developing, defining the main trends and prospects of the national funding development.

In 2012, the resource launched «Kicking It Forward» program, where by March 2013, 233 projects took a part in; 5% of the profits from their implementation, the creators promise to spend on funding other Kickstarter's projects that ensures an increase of the number of funded initiatives in the future.

Earlier this year, Kickstarter published statistics for 2012, according to which more than 2 million people donated nearly 320 million dollars on 18 thousand projects. Every single person donated 142\$, and each project earned 17,658 dollars.

Private investors donated on an average 606\$ per minute. 50 thousand people invested in 10 or more projects, and 452 benefactors invested in more than 100 projects. Projects were supported by investors from 177 countries, that makes 90% of the world.

The priority of the national funding according to the Kickstarter website is:

- Art;
- Film industry;
- Music;
- Publishing;
- Theatre;
- Computer technologies.

Crowdfunding opens promising prospects for the industry that creates mass cultural products. According to the Kickstarter platform statistics, projects in the sphere of music and cinematography receive the great support from investors.

According to the foreign practice, crowdfunding is a recognized investment alternative with promising prospects, while in Russia it is still in a formative stage.

However, this concept is gradually gaining popularity in the domestic investment practice. Crowdfunding is considered as a result of a movement of good people, who raise money for good projects, or as a dubious financial investment mechanism, initiated by the pyramid-builders. Thus, crowdfunding, as an innovative capital formation strategy and investment possibility, has both supporters and skeptics.

«In the USA, the situation is changing very rapidly to the benefit of crowdfunding. In 2012 President Barack Obama signed the JOBS Act (Jumpstart Our Business Startups), in which Title III is dedicated for crowdfunding. According to Ramsey (2012), as a result of JOBS Act, entrepreneurs can soon crowdfund their businesses using equities rather than goods in exchange for money» [7].

But in Russia national funding mechanism is perceived as fraud, so that the initiators of the introduction of crowdfunding technology in the Russian system of project financing have to overcome distrust of the Russian people who are skeptical about the participation in projects where you need to chip in money for a very clouded outlook.

A distinctive feature of the Russian crowdfunding is its focus on the socio-cultural sphere, which is explained by the fact that crowdfunding pioneer in the Russia were steel artists - young musicians and artists. The first crowdfunding platform in Russia was «Kroogi», which was registered in 2008, but the first successes of crowdfunding projects happened in 2012-2013.

According to «StartupAfisha» service data, today in Russia there are more than twenty active crowdfunding resources. Most of them have no specialization, and raise funds for any purpose (47.6%). And the only platform that has a narrow specialization is a custom software. The rest provide their platform for creative (28.5%) and social (19%) projects.

Unfortunately, some Russian platforms already abandoned by investors and developers. The reason is a wrong work with the authors and poor quality projects. This situation showed that many authors main purpose was to earn money, rather than development of their product, they were not ready to share the details of the project with their potential sponsors, what violates the very concept of crowdfunding.

The platform "Every little bit helps" became the first successfully launched resource in Russia, which received positive feedback from the Internet community. In the first year of the crowdfunding operation the data analysis showed that people's priority were projects that vary from design, education to sports, and just in a year sponsors donated about two thousand rubles. Unfortunately, due to the increasing competition in the segment of crowdfunding sites, currently the platform "Every little bit helps" gave the ground and was replaced by new, more dynamic platforms.

The leader and the main Russian crowdfunding platform is currently Planeta.ru platform. It was officially launched in June 2012, and on 15th of March, 2013 the amount of raised funds exceeded 10 million rubles.

Now Planeta.ru remains a platform for collective funding of creative and social projects, but in the future service creators are planning to maintain technological developments and even scientific projects. According to statistics, by the 1st of April 2013, the platform raised 11 million rubles, there were registered almost 10 thousand of Investors, 52 projects which are in development and 43 projects which were completed successfully.

Crowdfunding as an exchange. Crowdfunding Participants

Crowdfunding is often associated with charity, but it is wrong, because it implies not just simple donation, but sharing with the emergence of obligations to investors. People feel their direct participation, their personal involvement in the given project.

For example:

Theatre decided to find money, to release the album of posters, using crowdfunding. In the frames of this project, it was decided to provide gifts to some investors: those who donated more than 500 rubles - a 20% discount in the case if investors decided to buy the album; those who donated more than 1,000 rubles - a 50% discount, and the most generous donor would be presented not only with the album but also with signatures of leading actors and theater management.

It is important to understand that in the frames of crowdfunding each person acts as an agent who offers, choose and promotes projects he believes in. Crowd-investors can play the role of donors that support socially-oriented projects or act as shareholders and contribute to the development and promotion of the project: each person disseminates information about the project, which he supports, in social networks, providing the inflow of financial assistance. Indeed, the main point of crowdfunding is that a few enthusiasts invest their money in a project, it may be called as "a support group", and the key to the project's success is to find these several investors, because they will "infect" others with their example.

How to attract investors?

The benefits that are provided in exchange for investments is a fundamental key to a crowd-project success. Often projects fail because of wrong or ill-chosen formulated benefits because it is the main tool to attract the attention of potential investors, this is the only thing that is able to persuade them to invest money in one or another project.

In terms of the offered benefits, Scott Steinberg offers to divide crowdfunding into four main types:

- a draw: investors receive a share in the projects and make part of the proceeds;
- loaning: investors receive income from invested funds and await their return with interest;
- bonus: investors receive non-financial benefits, and the projects are often used for pre-sales;
- a grant: investors do not expect anything in return, following their philanthropic motives, but the benefit here is the feeling of involvement.

In modern practice, crowdfunding in the frames of a draw and loan successfully applied in the field of technological innovations, when the project involves the long-term development prospects with access possibility to a wide market with mass production, and the investor becomes a shareholder.

Crowdfunding in the frames of a bonus and a grant are most common at the moment.

According to recent studies at the University of Bristol, a bonus and grant crowdfunding make 77% of global national financial market, successfully functioning just as in innovative projects so in the socio-cultural sphere. Bonus crowdfunding is called a successfully integrated mechanism into the national financial model of traditional market relations. Most of crowd-projects, where a bonus scheme of crowdfunding operates, offer investors not only to invest, but to purchase a bonus package, the so-called lot, occupancy of which depends on the amount of invested funds.

Creating an attractive bonus is one of the main tasks for launching a crowd-project. Often, the access to unique materials, such as: director diaries, sketches, early musical recordings, notes can be considered as a bonus - the investors like to have objects that exist in a single copy. Epy The system of remuneration works effectively, and there are all preconditions for its further development.

Crowdfunding helps the projects' authors to finance their projects and to measure public interest before launching new products or introducing new services.

In addition, this technology offers the possibility of direct communication with consumers, who are willing to provide financial support in the early stages of project development. As an additional benefit, crowdfunding gives the author a possibility to build strong relationships with loyal customers who will eventually become the main defenders of the product after its release.

Even when the project ends, the work goes on. It is necessary not to forget about investors, so it is important to respect them and give them the attention they deserve. It is also necessary to think in advance about how to stay in touch with them. This way helps crowdfunding projects to achieve new and previously unforeseen heights.

Crowdfunding Prospects

Today, experts estimate the volume of the Russian market of crowdfunding to 8 million dollars. Firstly, you must understand that crowdfunding provides a platform for launching of the project, but it does not always work. Regular visitors of cultural organizations may not like being involved into a new technology; constant Internet audience may be not interested in the content, which cultural organizations offer. In addition, the organization itself may not be ready to constantly report the results of fund-raising and its usage publicly.

Investment experts are very optimistic about the crowdfunding prospects, and consider it as a new financial model with growing popularity. But the phenomenon of crowdfunding is that the audience itself will decide what it wants to watch, listen to, and crowd-investments will be considered not as a charitable donation for the idea realization, but as a prepayment for the opportunity to get a unique service or an innovative product.

However, crowdfunding today has to cope with a number of regular issues: being a completely new form of financing, it is fighting for its legalization at the level of international law, as well as for attraction a wide audience of supporters - both investors and authors. Created to promote innovative financing, crowdfunding caused significant changes in consumer expectations, competition and demand.

In the near future crowdfunding, undoubtedly, turn from the experiment in a working tool - it helps to pinpoint its audience and also to know exactly what it wants and likes. First of all, this can be referred to the areas of the media business and mass culture. However, cultural organizations also should get experience in this field.

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