

Comparative analysis of Russian crowdlending platforms

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Abstract. The study summarizes the main findings from the analysis of the leading Russian crowdfunding platforms in a three-year time interval. The purpose of the study is to identify the features of functioning of the largest Russian investment platforms in the p2b lending segment. The paper highlights the specifics of the p2b market in Russia and the factors of attractiveness of crowdlending for borrowers and investors. The p2b market in Russia is at the stage of initial institutionalization; the paper provides practical recommendations aimed at increasing the security and transparency of financial transactions done through investment platforms.

Keywords: crowdlending, investment platforms, Bank of Russia, p2b market, crowdinvesting.

JEL codes: G11, G21

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Introduction

Crowdlending has long been successful in the West and is now beginning to gain popularity in Russia. For instance, analysts estimate that the global p2b lending market has grown by more than 1000% over the past four years, reaching \$119 billion in 2018, and is trending to grow further (Laptev, 2018).

Note that crowdlending is part of the larger crowdfunding market.

The Bank of Russia identifies four segments of crowdfunding:

1. P2P lending: the investor and the borrower are individuals. The p2p lending market size for 2019 decreased for 70%, from RUB 268 mln to RUB 80.6 mln.
2. P2B lending: investor – individual, borrower – organization. The p2b lending is the largest crowdfunding segment: it grew from RUB 4 bln in the first nine months of 2018 (excluding unscrupulous market players) to RUB 4.1 bln in 2019.
3. B2B lending: the investor and the borrower are organizations. The largest drop in the volume of funds raised was in b2b lending – by 80.5%, down to RUB 860 mln (versus RUB 4.4 bln in 2018). But the downward trend is not new – in 2017, this segment had RUB 6.3 billion.
4. Crowdfunding for rewards: funds are raised for purposes or projects and return in a non-financial form. The Rewards crowdfunding sector remained traditionally stable in 2017. 2.5 thousand projects were financed, almost RUB 163 mln was raised for them. The average amount raised per project was RUB 53,036,

the average funding per successful project was RUB 66,485. For 2019, this segment grew insignificantly – from RUB 129 mln to RUB 132 mln (Bank of Russia, 2018).

The analysis of data in Table 1 shows that the lion's share of deals in the Russian crowdfunding segment belongs to p2b lending (see Table 1). The mechanism of p2b-lending is quite simple – the investment platform aggregates investment offers of entrepreneurs on the one side, and on the other side – temporarily free funds of individuals usually, thus acting as an intermediary.

Table 1 – Crowdfunding volumes by type of project lending (classification of the Bank of Russia), mln RUB

Type of project lending	2018 (9 months)	2019 (9 months)
p2p	268	81
p2b	4000	4100
b2b	4400	860
Rewards	129	132

Source: Savalei, 2021

Total volume of p2b lending market in Russia in 2020 according to expert estimates was at about RUB 7-7.5 bln.

To date, Russia has 47 investment platforms included in the register of the Bank of Russia (no more than 10 of them are actively operating in the market) (Bank of Russia, 2021).

Study structure:

- The Sources and Methods section presents and substantiates the research methods used and highlights the goals and objectives of the study;
- The Results section contains the main results of the study;
- The Discussion section provides the analysis of the obtained results;
- The last section contains a description of the practical relevance of the study in addition to the key conclusions.

Methodology

The purpose of the study is to identify the features of functioning of the largest Russian investment platforms in the p2b lending segment.

The study addressed two objectives:

1. To analyze the leading crowdlending platforms in Russia in 2018-20, highlighting their features;
2. To demonstrate the specifics of the Russian p2b lending market, based on the analysis of the largest players in this crowdfunding segment.

Methodological research basis

Source data:

- public information presented on the websites of the operators of the investment platforms analyzed in the research;
- registry of operators of Bank of Russia investment platforms, organization verification services (<https://www.rusprofile.ru/>, etc.).

Study boundaries: 2018-2020, Russian Federation.

Results

Our research analyzed 9 leading crowdlending platforms in Russia in 2018-20 (Table 2, Fig. 1).

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Table 2 – Comparative analysis of the largest crowdlending platforms in Russia, 2020

Platform name	Loan terms and conditions	Number of investment proposals, pcs.	Financial performance results, RUB	Total volume of investments attracted using the investment platform by means of a loan, RUB	Features
Platforma №1	<p>Application submission: a loan to secure participation in the procurement. Up to RUB 7.5 mln, from 18% per annum, up to 60 days.</p> <p>Contract performance: a loan for the performance of a contract. Amount up to RUB 15 mln, from 18% per annum, up to 180 days.</p> <p>Contract performance: a loan secured by rights of claim on the completed procurement. Amount up to RUB 15 mln, from 18% per annum, up to 120 days.</p> <p>Average loan rate: 25 %</p> <p>Average loan term: 165 days</p>	25	-16.769 mln	62,764,744.69	Specializes in raising finance for SMEs that participate in and perform commercial and public procurement
Co-Fi	<p>Maximum loan: RUB 3 mln.</p> <p>Loan term: up to 36 months.</p> <p>Loan rate: 15 to 25%</p> <p>Platform commission: 5%</p>	0	-7.428 bln	0	Russia's first crowdlending platform for raising collective investments in creative projects

Karma Technology	Loan amount: RUB 1-5 mln. Loan term: 3-12 months Loan rate: 15%-22% per annum (depends on borrower's reliability rating, amount, loan term, etc.). Platform commission: 4.0% per annum of the maximum loan amount and for the entire term of the loan as specified by the Borrower in the Preliminary Application, but not less than RUB 50,000.	86	-1.790 mln	274.432 mln	
Gorod Deneg	Loan amount: RUB 100,000-15,000,000 Loan term: 1-36 months Loan rate: calculated individually (depending on the internal rating, above 20%). Platform commission: 3-6% (depending on project duration, number of projects).	68	- 42.557 mln	155,890,000	Part of the Mikro Kapital Group, which specializes in finances and investment and brings together companies in Europe, Russia, and Asia
Platforma Kapital (renamed in Kolesnik. Investitsii, 4/30/21)	Loan amount: RUB 1-30 mln. Collateral: immovable property. Financing up to 60% of the collateral value. An additional guarantee is possible. Loan rate: 17% per annum. Platform commission: 4% of the loan amount (incl. a RUB 15,000 advance payment, which is transferred	4	-0.483 mln	16,248,333	

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	prior to the application. Upon loan disbursement, the fee of the Platform is reduced by the amount of the advance payment). Loan term: 6-60 months.				
VDELO	Loan amount: RUB 50,000-1,000,000,000 Loan rate: the interest rate is calculated based on the project rating. Rate scale: rating less than 5 — 18%, rating 5-6 — 15%, rating 7-8 — 13%, rating 9-10 — 11%. Platform commission: the fee percentage depends on the loan disbursement period: up to 30 days — 1% 31-180 days — 1.8% from 181 days — 2.5%. Loan term: 20 days-12 months.	15	2.081 mln	71.700 mln	Borrowers can be private entrepreneurs and legal entities registered and operating in the Sverdlovsk Region
Money Friends	Loan rate: Rates are formed based on platform rating, from 18% per annum Platform commission: 3%	133	-0.219 mln	176,630,700	
Fair Finance	Loan amount: up to RUB 5 mln and 80% of the government contract Loan term: up to 12 months, repayment at the end of the term Loan rate: 18-32% per annum	15	-1.538 mln	28,278,901	

	Platform commission: predetermined amount of money depending on the size of the loan				
MD FINANCE	Loan amount: RUB 500,000-20,000,000 Loan term: 1-12 months Loan rate: 20-29% Platform commission: 1-3.5% (depending on the loan term).	474	0.335 mln	809.971 mln	A crowdlending platform focused on the execution of government contracts.

Source: composed by the authors

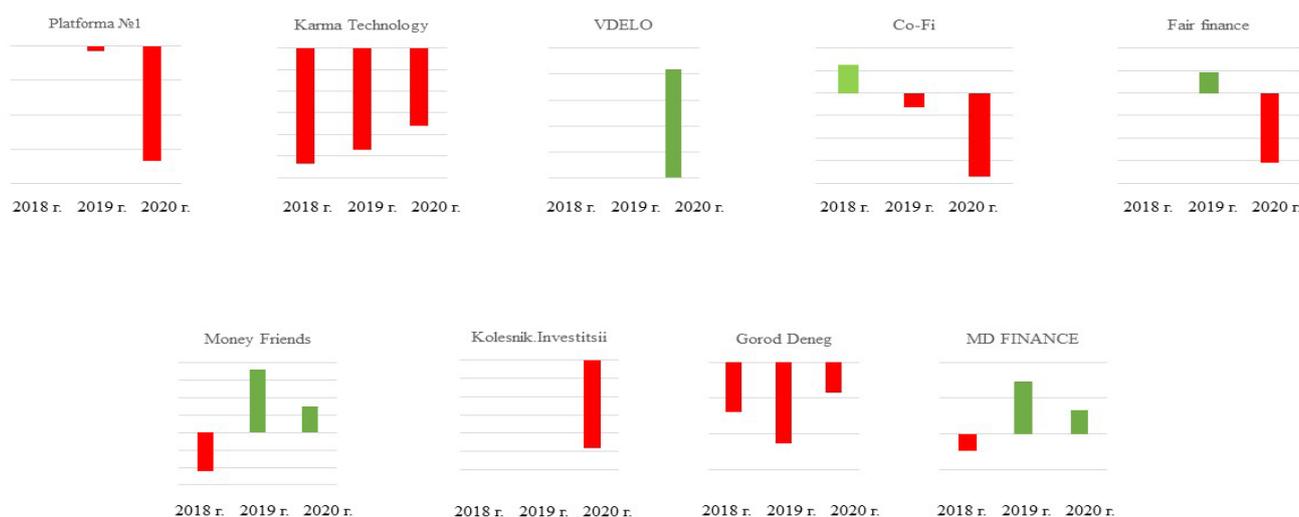


Figure 1. Financial results of leading crowdlending platforms in Russia, 2018-2020

Source: composed by the authors

Discussion

As a result of the study, we have identified features of the p2b-market in Russia.

1. All analyzed operators of crowdlending investment platforms are organizations of limited liability.
2. 6 of the 9 crowdlending platforms analyzed showed a decline in profits in 2018-2020; VDELO, MoneyFriends, MD FINANCE have a net profit by 2020. (Fig. 1).
3. The analyzed crowdlending platforms have a number of features in common:
 - high cost of borrowed funds (significantly higher than a bank loan)
 - a one-time fee for arranging and raising funds (avg. 3-5% of the loan)
 - fast lending decision (from 1 day)
 - short-term lending (up to 1 year)
 - emerging platform specialization: Platform №1 and MD FINANCE – government contracts; Co-Fi – creative projects, VDELO – entrepreneurs of a particular region
 - the largest crowdlending platforms are affiliated with the parent bank or group of investment companies (MD FINANCE, Gorod Deneg)

– few investment proposals that attracted investments using investment platforms in 2020 – only MD FINANCE and MoneyFriends have more than 100 offers per year

– Some crowdlending platforms use internal scoring and rating systems for borrower assessment (Karma Technology, Gorod Deneg, VDELO, MoneyFriends)

4. Russian crowdlending platforms are attractive due to a number of factors:

– simplicity and speed of fundraising application procedure

– no hidden fees

– online loans with a minimum set of documents

5. Only one of the nine platforms analyzed uses blockchain technology – Co-Fi. Blockchain is not used to ensure the security and transparency of financial transactions themselves, but to organize the circulation of rights and intellectual property objects built on the principles of a distributed registry. The analyzed crowdlending platform works together with the IPChain project, which allows it to trace the history of an intellectual property object throughout its life and works with any type of object: copyright, utility models, trademarks. The blockchain technology within the Co-Fi/IPChain platform has, above all, helps overcome the crisis of trust in intellectual property:

– the creation and circulation of rights to the intellectual products have become more transparent;

– the right holders are protected, primarily in terms of fair reimbursement or reward;

– the procedure for resolving intellectual property disputes has become simpler, including through pre-trial settlements and obtaining full information about the disputed object through the digital infrastructure (Bank of Russia, 2021).

Conclusion

The findings show that for borrowers, the ability to raise funds through crowdlending platforms is seen as an overdraft with short repayment intervals. Any delay in performance of obligations results in a significant increase in the debt burden for the borrower.

For investors, crowdlending platforms are a high-risk (significant number of delinquencies within the investment portfolio) and high-return (significantly higher than passive deposit income) investment tool. All additional fees, commissions (including taxes) are shifted from the investor to the borrower. The most popular among investors are platforms working with government contracts (considered by investors as a factor reducing the risk of delinquency).

All in all, the stage of institutionalization where the p2b-market in Russia is now (such as specialized investment platforms; unified operating environment of the platforms; a complex, small, and high-risk market) encourages players in this crowdfunding segment to promptly search for and implement new development tools. In our view, blockchain is one such tool that can significantly increase the attractiveness of investment platforms in Russia. Integrating blockchain technology into an ecosystem of investment platforms will ensure the security and transparency of all financial transactions: the entire chain of transactions and the current list of owners of financial assets (borrowers and lenders) will be stored as an immutable record in a distributed registry.

We hope that this work will stimulate a new wave of applied research of crowdfunding in Russia.

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