Green crowdfunding and its place in the development of the ESG institute in Russia

Vitali Daroshka¹, Igor Aleksandrov²*, Vyacheslav Trushkin³, Irina Chekhovskikh³, Alexey Terentyev⁴, and Ekaterina Ol⁴

¹Belarusian Trade and Economic University of Consumer Cooperatives, Oktyabrya Avenue 50, 246012, Gomel, Belarus
²Peter the Great St. Petersburg Polytechnic University, Politekhnicheskaya, 29, 195251, St. Petersburg, Russia
³St. Petersburg State University of Veterinary Medicine, Chernigovskaya 5, 196084, St. Petersburg, Russia
⁴St. Petersburg State Agrarian University, Pushkin, Peterburgskoe highway 2, 196601, St. Petersburg, Russia

Abstract. The history of banks' involvement in solving the issues of sustainable development of the society is, on the one hand, short by the standards of economic history, and on the other hand, bright and ambiguous. This is explained by the strategic goal of the banking institution functioning - ensuring a stable turnover of financial resources in the socio-economic system of the country and building up financial capital. It is the latter component that caused the interest of the market and state regulators in the possibility of attracting banks' capital to finance so-called "green projects" aimed at solving local or global environmental problems of mankind. Today, the strategic agenda of more and more banks includes various elements of ESG-methodology of responsible corporate behavior, implemented in the form of corporate social policy (mainly focused on the bank's staff and its clients) and a portfolio of "green investments" - a group of projects that are mainly socially-oriented or infrastructural in nature. The purpose of such responsible investment is both to solve specific socially or environmentally important tasks and to strengthen the market position of the bank-investor itself, which forms a positive image in the eyes of its key stakeholders and improves the rating position of investment attractiveness both domestically and in international rankings compiled by reputable analytical agencies, such as S&P, Moody's Investors, and Fitch Ratings.

1 Introduction

The interests of business and society in the economic thought of mankind have historically been positioned as appositive: business pursues commercial profit, society needs to finance non-commercial interests related to its security and harmonious development. Such a paradigm was considered as unconditional in the scientific works of domestic and foreign

* Corresponding author: a7830298@gmail.com

© The Authors, published by EDP Sciences. This is an open access article distributed under the terms of the Creative Commons Attribution License 4.0 (https://creativecommons.org/licenses/by/4.0/).
economists until the middle of the XX century, when humanity faced global environmental problems, and its very existence became questionable. It was the crisis of the concept of "consumer society" that raised the question that the interests of business and society could actually be harmonized by finding points of cooperation. The idea of "friendship of interests" between business and society was first voiced by the founder of U.S. Steel Corporation E. Carnegie: "...by improving private relations with society to gain new competitive advantages (acting in its own commercial interests), such a business forms a common favorable business environment, acting in the interests of sustainable development of the entire market and society" [1, C.C.-5-5]. [1].

Green crowdfunding is the suitable mechanism that helps to bring together the interests of business and society, leveling out conflicts of interest between the parties, since the goal of such projects is to care for the well-being of future generations. In addition, green crowdfunding can become a real "litmus test" for investors and businesses to check compliance with ESG principles in the process of their implementation of green projects.

The relevance of the topic of the scientific publication for Russia is associated with significant changes in the national legislation, in particular, the adoption of the Federal Law "On attracting investments using investment platforms and on amendments to certain legislative acts of the Russian Federation" №259-FZ 02.08.2019, which allowed to form a regulatory and infrastructural environment for the implementation of green initiatives by responsible civil society.

2 Green Crowdfunding Concept, Crowdfunding Regulatory Practices: Russia and the World

A systemic step towards sustainable development was the study of financial system sustainability with the aim of mobilizing capital for a green economy, initiated by the United Nations Environment Program (UNEP) in 2014-2015. The roadmap for a sustainable financial system published by UNEP in 2017 initiated the revision of national socio-economic development strategies and the formation of regional roadmaps in developed and developing countries.

In the Russian Federation, the activities of investment platforms are regulated by the Federal Law "On Attracting Investments with the Use of Investment Platforms and on Amendments to Certain Legislative Acts of the Russian Federation" No. 259-FZ 02.08.2019 (as amended on 14.07.2022): in accordance with Article 2, paragraph 1, clause 1 "an investment platform is an information system in the information and telecommunications network "Internet", used for the conclusion of investment agreements with the help of information technologies and technical means of this information system. Projects on platforms such as "financial and non-financial donations" are checked for the presence / absence of threats to national security in accordance with the Federal Law "On Combating Terrorism" of 06.03.2006 № 35-FZ (as amended by 26.05.2021 № 155-FZ) ;

In the EU regulatory practice, the concept of "investment platform" is defined by the European Banking Authority (EBA) within the framework of Regulation (EU) 2020/1503 "On European providers of crowdfunding services for business" as an online service that allows to buy and hold shares, bonds and funds in one place, i.e. we see a narrower functional interpretation of the institution, limited to operations with securities and investment operations in private and institutional funds. In addition, the activity of platforms is focused on long-term investments and financing of innovative (venture) projects [2].

In the U.S. law enforcement practice there is no single legal act regulating the activities of NPOs in general investment platforms in particular, so aggregating the points of view of
the most important state regulators (Federal Trade Commission, Securities Administration and Consumer Financial Protection Bureau) the term can be defined as a mechanism for attracting financial capital by corporate clients in public financial markets and obtaining loans by retail clients using information and computer technologies, as well as the mechanism of attracting financial capital by corporate clients in public financial markets and obtaining loans by retail clients using information and computer technologies [3].

Based on the above, we can draw the following conclusions about the practice of green crowdfunding as part of the institution of non-banking green finance:

- for the Russian Federation, the emergence of investment platforms is primarily associated with the active digitalization of business processes in the financial sphere (in the world, the request for the development of the institution of non-banking finance has been acute for a long time, and the emergence of platforms is a natural course of its evolution), and they are not so much a request of clients as the interest of businesses in the IT sector to effectively invest capital and strengthen their market influence in a new market for themselves - the market of non-banking financial products and services;

- regulatory practice in the Russian Federation is largely "imported", which creates certain difficulties in its full-fledged application due to the lack of identical experience of non-bank debt and equity financing institutions for retail and corporate clients;

- in terms of instruments authorized for use in the Russian Federation, the emphasis is placed on the most controlled and accountable instruments of the Central Bank of the Russian Federation, which is due to the fears of the power vertical of the emergence of threats of financing destructive activities (terrorism, mass protests, etc.), which can be disguised as investments and donations for social projects and civic initiatives.

- In domestic practice, there is an invisible but important psychological barrier among clients to the use of investment platforms due to both fear of working with something new and distrust of digital instruments due to insufficient financial, legal literacy and digital skills, as well as the presence of a significant number of fraud cases related to the activities of NPOs, for example, in the field of microfinance, which significantly complicates the popularization and formation of long-term trust in platforms. [4; 5].

3 Analysis of the green crowdfunding market in Russia: problems and development prospects

Using data from the Bank of Russia's public information and analytical reports "Review of the Crowdfunding Market in Russia", thematic publications of the analytical agency "NAFI" and the Association of Investment Platform Operators, the author prepared a table reflecting the key indicators of investment platforms development in Russia for 2017 - 2022 (Table 1).

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Aggregate volume of financing raised and managed by investment platforms, bln. rub.</td>
<td>6,2</td>
<td>11,2</td>
<td>11,4</td>
<td>7,2</td>
<td>7,0</td>
<td>13,8</td>
</tr>
<tr>
<td>Including by type of instruments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Crowdfunding sector Rewards</td>
<td>0,15</td>
<td>0,16</td>
<td>0,13</td>
<td>0,13</td>
<td>0,2</td>
<td>...</td>
</tr>
<tr>
<td>1.2 Crowdlending</td>
<td>5,71</td>
<td>10,8</td>
<td>6,7</td>
<td>5,4</td>
<td>6,0</td>
<td>9,06</td>
</tr>
<tr>
<td>1.3 Crowdinvesting</td>
<td>0,34</td>
<td>0,15</td>
<td>4,57</td>
<td>1,67</td>
<td>0,8</td>
<td>4,74</td>
</tr>
<tr>
<td>2. Number of investment platforms, total, units.</td>
<td>24</td>
<td>30</td>
<td>27</td>
<td>25</td>
<td>20</td>
<td>31</td>
</tr>
<tr>
<td>Including by specialization:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1. Key indicators of functioning of crowdfunding platforms in Russia for 2017 - 2022
2.1 Financing for bonus (reward crowdfunding)  5  7  6  5  4  4
2.2 Debt peer-to-peer financing (debt crowdfunding)  18  20  16  10  10  23
2.3 Equity crowdfunding (Equity crowdfunding)  4  3  5  10  6  4
3 Type of investment platform founder, in % of total  -  -  -  -  -  -
3.1 Banks and non-banks  12,5  14,7  12,6  11,3  15,2  10,7
3.2 Non-bank organizations (including MFIs)  30,7  32,6  35,1  32,5  37,7  28,8
3.3 Fintech companies (including subsidiaries of major IT companies)  16,8  20,3  28,7  31,4  34,9  44,1
3.4 Private investors  42,4  37,8  32,9  36,2  28,7  25,5
4. Share of financing raised through the platform in the total volume of debt in the economy, in % of the total  0,45  0,52  0,49  0,64  0,7  0,84

_Source: compiled by the author._

As follows from the data in the table, in Russia in the analyzed period there is a quantitative growth of financing attracted and managed by investment platforms: in 2022 compared to 2017 it increased by 7.6 billion rubles, or 222.6%. The number of investment platform operators also increased over the same period: 24 units. - in 2016, 31 units. - It is important to note that we are talking about accredited operators of investment platforms that meet the criteria and requirements for an investment platform and its operator (Articles 10, 11, 15 of Federal Law No. 259-FZ).

However, when examining the register of microfinance organizations, it turns out that the number of those falling under the characteristics of an investment platform is 9-11 units higher (depending on the identity with the criteria of the law). This situation is due to some gaps in the legislation, such as the authorization for MFIs to be founders of investment platforms, as well as data distortion on the part of MFI managers themselves, as evidenced by the ongoing purge of unscrupulous businesses.

Based on data from the Register of Investment Platform Operators of the Bank of Russia, as of 11.01.2023, there were 63 investment platforms operating in the Russian Federation, while specialized crowd investing companies, as of November 2022, had 14 businesses, the largest of which are: Potok; JetLend, VDelo, MoneyFriends, City of Money; Rounds (formerly StartTrack); Venture Club; Simex; Zapusk.

Based on the results of the analytical section of the research, the author identified the most important problematic aspects of the functioning of investment platforms and their role in the development of the non-banking legal entity financing market and possible ways to resolve them:

1. Lack of a minimum set of systematized requirements to the competence and knowledge of the investment platform operator - currently, Federal Law No. 259-FZ does not provide for the assessment of the competence of the platform operator, which carries significant risks in the examination and selection of projects for investment or analysis of business entities for the provision of debt financing in terms of subjectivization of the assessment, insufficient identification and consideration of transaction risks or incorrect assessment of the commercial potential of financiers

A solution to this problem could be to supplement the law with a requirement to include in the platform's managing persons specialists with specialized education or experience in managing venture projects, for example, from the pool of business angels, industry experts from business and academic circles with a positive business reputation and relevant experience and competencies. The second option could be the introduction of the obligation
to undergo state expertise on the basis of affiliated structures of sectoral state regulators (ministries), determined by the goals and objectives of the project or sectoral private expert structures with sufficient confidence on the part of regulators [6-9].

2 Lack of clearly stated in the Federal Law No. 259-FZ standards of safe operation of the investment platform by analogy with banks and NPOs - according to Article 11, paragraph 6, additional requirements may be imposed on investment platforms by the Bank of Russia, but then a reservation is made about the applicability of this paragraph to platforms, which are used to acquire securities or utilitarian digital rights, i.e. there are no de jure standards of safe operation for debt financing operations, and the management of the platform is not subject to the requirements of the Federal Law No. 259-FZ. This situation multiplies the risks of overestimation of own forces and occurrence of uncovered losses and even bankruptcy of the platform.

The solution to this problem is to develop, based on the analysis of practices of both large and small investment platforms in the field of crowdfunding and the development of a set of norms of safe functioning, possibly with gradation depending on the level of business activity (for example, the management of the platform "Potok" in its work uses scoring models and algorithms for assessing credit risks used in the parent company - "Alfa Bank").

3 The presence of a regulatory gap on the mandatory use of escrow agent services in the formation of the pool of investments - according to the requirements of Federal Law No. 259-FZ, the total amount of investments raised on the platform for individual entrepreneurs and legal entities of all organizational forms, except PAO, the limit of financing should not exceed 1.0 billion rubles, while the responsibility for control of the collected form is vested in the platform operators, which allows clients in the absence of a well-established system of information exchange between platforms to collect amounts greater than the limit for different types of investments. For PJSCs, the need to introduce the use of an escrow agent is necessary for capital raising operations through the sale of utilitarian digital rights, since this group of instruments is associated with a large number of fraudulent transactions, including the withdrawal of capital abroad (according to data for 2021 - 41.0%).

The introduction of mandatory opening of an escrow account or the use of an agent, for example, from the amount of 500 million rubles for individual entrepreneurs and legal entities (except PJSC) and more than 1.0 billion rubles for PJSC will make the process of fundraising transparent, because the platform operator will see the progress of capital accumulation at the beneficiary, the regulator - will get additional control over the movement of capital.

4. Weak development of intercompany cooperation between investment platforms and banks, platforms and venture funds - currently banks perceive platforms primarily as their competitors or even "financial hyenas", taking clients who were denied financing in classical banks. In fact, these institutions work in a single space of the financial market and should complement each other and help to ensure maximum mobilization and operation of capital: thus, banks can conclude partnership agreements with platform operators and redirect to them a part of retail and corporate clients whose requests cannot be satisfied by the bank in exchange for a part of remuneration or equity participation in the management of the platform.

5. Problematic protection of investors' interests in cases of bankruptcy of the business-beneficiary of debt or equity financing - unlike a classic bank deposit (insured by the Deposit Insurance Agency), capital placement operations on an investment platform are not subject to insurance. Currently, the National Financial Association (NFA) has prepared amendments to the second reading of the draft law on insurance of investments of individuals on individual investment accounts, but its full implementation means the need to revise the investment limit and simultaneously increase the ceiling of tax benefits on income received from invested capital (the focus is supposed to be on long-term
investments for a period of 24 months or more and mainly in innovative projects or the real sector of the economy) [10,11,12].

4 Conclusion

The results of the research have shown that green crowdfunding as a subject of ESG institution has good prospects for development and taking a worthy place as a source of debt financing for SMEs and venture projects. At the same time, the existing regulatory and competitive environment of the financial market severely limits the opportunities of platforms, making them, in a sense, outsiders for clients. In order to create a trajectory of sustainable development of investment platforms, it is necessary to deeply elaborate the legislative gaps, increase financial literacy of citizens themselves, toughen responsibility for fraud in the financial market, as well as increase the protection of platform participants' interests, which in the long term will ensure their trust and openness to investment behavior.

Foreign practice of green crowdfunding is more differentiated: for the U.S. it is a tool for lobbying corporate interests of the industry inside the country and on the world market, as well as a means of protection in trade wars and transfer of green technologies; for the EU it is mainly a tool for attracting corporate investments in environmental projects and green technologies; for China it is a combined tool for protecting its own interests in trade wars with the U.S. and increasing the environmental culture and responsibility of business.

In general, in the Russian Federation the peculiarities of ESG-methodology and green crowdfunding implementation are, on the one hand, focused on economic benefits for business itself, and only then - for society; on the other hand, in the Russian Federation ESG-principles are almost all coordinated and unified with the state programs for the development of industries and territories of the companies themselves at the expense of private investment, i.e., strictly speaking, they are not the initiative of the companies themselves.

References

   https://doi.org/10.1371/journal.pone.0258334


   https://doi.org/10.1016/j.cbrev.2021.01.001

   https://doi.org/10.1007/s10961-021-09875-0

7. Aleksandrov I, Daroshka V, Isakov A, Chekhovskikh I, Ol E and Borisova E 2021 Agriculture sphere in the era of Industry 4.0: The world experience and Russian practice of the digital business model building in the agroindustry E3S Web of Conferences 258 06058


