

“AN ANALYTICAL STUDY ON CROWDFUNDING IN INDIA”

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ABSTRACT

In present world of Innovation and technology, crowdfunding is an internet based financing for new and creative projects. Since the entrepreneurs and fund seekers can raise required capital using shares, debentures, private lenders, banks, venture capital and other financial institutions but still many new innovative projects are struggling to get required capital, for such an idea the best source according to many researchers is crowdfunding. Collective funds will be raised through online from millions of investors by presenting their projects/ plans/ ideas as start-ups. This paper studies the crowdfunding, conceptual knowledge to the public about crowdfunding, methods through which funds will be raised, Indian online crowdfunding platforms and also the risk awareness among the investors.

KEYWORDS: *Crowd Funding, Internet based, Crowd Funding Platforms, Risk*

Article History

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INTRODUCTION

Crowd funding is raising of funds especially small amount from several investors through a web-based platform or social networking site for a specific project, business venture, health or social cause. Crowd funding is the process of funding a project/ plan by raising capital through a large number of people specifically via internet. These contributions are sought through an online crowd-funding platform, while the offer may also be promoted through social media. “Crowd sourced funding is a means of raising money for a creative project (for instance, music, film, book publication), a benevolent or public-interest cause (for instance, a community based social or co-operative initiative) or a business venture, through small financial contributions from persons who may number in the hundreds or thousands” (Corporations and Markets Advisory Committee, Australia 2013).

One of the first instances of using internet to raise funds occurred in 1997 when the British rock group Marillion raised \$60,000 from its fans to fund its North American tour. Artist Share was the first US-based company to establish the crowdfunding website in 2001.

Financial crises in 2008 gave rise to equity crowdfunding as a possible alternative for sourcing capital to support entrepreneurial ideas, innovative and ventures. This is the new way of pooling finance for ideas, social cause, charities, disaster relief cause, events etc. It is vital to formulate stable crowdfunding regulations in India that can reduce the cost of raising capital and to increase liquidity with investor protection.

LITERATURE REVIEW

Hetal Jhaveri, Anjali Choksi (2014) concluded that 'Crowdfunding is in nascent stage in India. It will take time to increase the awareness and change the mindset of people. In a way it is not a new concept in India. For ages, donations have been taken to build temples, cash covers are taken at marriages, and religious festivals are celebrated through contributions. But fund raising through contributions from public through internet based platforms is relatively an innovative concept'.

Pavan Krishna (2015) of the view that crowd funding is rapidly being looked upon as a serious way of raising funds for startups and new businesses. The US and European agencies have started implementing laws for this to function. There are serious concerns, which make it mandatory to bring this method under the laws of the land. India may soon bring in the requisite laws to support this in a big way, as efficient crowd funding system can really play the role of catalyst in bringing the startup ideas into reality.

Aditi Bhargava et.al (2017) opined that the risks associated with crowdfunding are related to the internet. If the internet becomes a safer place carry out activities of trade and commerce at, then crowdfunding as a concept would be able to reach its potential to full and would function as a channel in realizing dreams of various people. Also, to build trust in people, some provisions should be such that would make this process of crowd funding offline too.

Hasnan Baber (2019) is of the opinion that crowd funding is gaining popularity among the startups which find traditional primary financial market inaccessible. The attitude of contributors who are known as the crowd was yet to be investigated so this study was aimed to check the influence of attitude on the intention of the crowd to adopt crowdfunding. A favourable attitude towards a product or service is formed through prior experience of related services and influence of reference groups.

Hetal Jhaveri et.al (2017) said that crowd funding is not a fundraising method that replaces all the traditional funding techniques but it is best to think it as simply a new method of obtaining funds and should be evaluated in light of other alternatives that are available to the budding entrepreneur. While looking forward, crowd funding has a bright future as internet penetration and e-commerce success will pave the way for crowd funding. To make this a safer platform of fund raising, what we require is regulations.

Rupin Pawha (2015) found that there are no specific regulations for crowdfunding in India and in the light of the current laws with respect to raising money from the public, a startup cannot really opt for crowd funding, as the same will lead to violation of prohibition against soliciting investment from the public by private companies. There is a crying need of a set regulation for crowdfunding in India.

Abhrajir Sarkar (2016) viewed crowd funding is an application of crowd sourcing. It is rapidly moving seriously in an upward direction of raising funds for start-up of new business. The Foreign countries have already started implementing crowd funding regulatory framework. In India this concept must be nurtured more so that an infant industry grows fast. It will act as a catalyst in bringing the new industry into reality'.

OBJECTIVES OF THE STUDY

The primary objective of this study is to have a holistic view of crowd funding in India. The other objectives are listed as below:

- To understand the concept and evolution of crowdfunding.
- To determine the types and platforms available in India.
- To know the process and the framework for crowd funding in India.
- To offer suggestions for better usage of crowd funding in India.

RESEARCH METHODOLOGY

This study is descriptive and analytical in nature. The secondary data is collected from numerous journals, books, reports, magazines and e-resources for the purpose of the study.

SIGNIFICANCE OF CROWD FUNDING

Crowd funding is an advanced way to provide required amount of funds to young entrepreneurs and technology professionals requiring initial stage or seed capital for startup companies which may spur entrepreneurship and eventually assist and contribute in boosting the growth of real economy. A company raising funds through web-based crowd funding platforms or websites offers equity or debt interests to its business. Investors who make small contributions, through a crowd funding platform or social media. Usually funding is made through online, on the basis of future estimates rather than a feasible business in operation which increases the risk of failures and therefore loss to the investors.

STEPS IN CROWD FUNDING

- Identification and Documentation of idea or project or need.
- Selecting suitable crowdfunding platform depending upon the type of crowdfunding requirement.
- Planning for crowdfunding campaign page, information about the title of venture, its need for applicability to the common man, goal and also a clear video which explains and convinces the investor.
- Creating a promotional video and plan of action on crowdfunding campaign.
- Detailed explanation of operation, the promises on rewards or share in future profits.
- Updating the investors with current state of projects.
- On project completion and success communication of the same to the investors with promised rewards and returns.
- Lastly you can go for communicating future plans with word of thanks to all the investors.

TYPES OF CROWD FUNDING

Crowd funding can be mainly classified into following types

Equity based Crowd Funding

Equity based crowdfunding is a method of raising funds by the companies online from crowd in exchange for equity or ownership in the companies' stocks. This is available only for accredited investors and suitable for product, service and B2B companies. Equity crowdfunding supports real investments in private companies.

Reward based Crowd Funding

This allows raising funds from the public by selling products, merchandise, Services, pre-orders etc. Contributions made are exchanged for current or future goods or services in the form of perks or rewards. Rewards are usually non-financial in nature and the size of the reward is a consideration of the amount contributed.

Lending based Crowd Funding

The method helps the small business organization to be financed from multiple investors directly. This is an unsecured personal loan from the crowd expecting to get the principal amount of contribution with interest and it is also called as Debt based crowdfunding. This method is also called as peer to peer lending.

Donation based Crowd Funding

This is a voluntary contribution from the donor in the form of donation without expecting any financial or material return. The funds are to support the charitable projects, social cause, medical emergencies, natural disasters and NGO campaign.

Human capital Crowd Funding

This type allows to raise funds required for the individual growth with specific need of funds like athletic preparation and participation, students seeking higher education and other growth and futuristic activity-oriented projects without creating any debt.

Some of the top crowd funding platforms are:

- www.impactguru.com
- www.keto.org
- www.wishberry.in
- www.milaap.org
- www.ignitiondeck.com
- www.fueladream.com
- www.milaap.org
- www.start51.com
- And many more.

BENEFITS OF CROWD FUNDING

- It helps to raise funds faster compared to other sources of finance.
- It reduces the cost involved in raising investment and it is a new way of investing and raising the finance.
- Crowd funding is a boon for the start-ups which can avail investment from interested groups, by which every creative and new ideas will be provided with an opportunity to develop.
- Financial crisis (2008) caused in failure of number of Banks and, accordingly the Basel III Capital adequacy norms have been made applicable to Banks. As a result, Banks have become increasingly constrained in their ability to offer money to the projects or start-ups which may have high risk element. Hence, there is a need for funding for SME business ideas through different sources.
- It helps people who are in need of money for medical, social and charity issues can raise funds using donation-based crowdfunding.
- This boosts creativity, innovativeness and entrepreneurial ideas among youngsters and reduces all economic problems such as unemployment, poverty etc.
- Crowdfunding also helps the people in the field of artistic, philanthropic, musicians, painters, movie makers, singers, scientist etc.
- Through crowdfunding many small investors undertake CSR initiatives.
- Crowdfunding provides a new method of financing for start-ups and SMEs and increases flows of credit to SMEs and other users in the real economy.
- SMEs can raise funds at lower cost of capital without undergoing any rigorous and lengthy procedures in web-based funding option.
- It provides new investment avenue and provides a new product for portfolio divergence of Investors.
- It increases competition in a space conventionally dominated by a few providers (providing finance to Start-ups and SMEs).
- Crowdfunding platform engages in strict enquiry and due diligence of projects to be included on their website, to maintain the reputation of their website.
- Some crowdfunding platforms provide free of cost publishing option to encourage development of business and economy.

DRAWBACKS OF CROWD FUNDING

- Sometime fraudulent projects will be funded which is a loss to investors and who may feel discouraged or cheated and may not continue to transact or contribute further and also in the future endeavours.
- Not all start-ups can guarantee the success of the project which is a risky thing.
- The level of awareness about crowdfunding in India is less compared to other countries.

- Indian online trust level is less, as crowdfunding depends completely on online transfers so secured online transaction must be facilitated to the users.
- Success of any campaign depends on the networking and publishing abilities and also efforts of the projected way to attract investors and donors.

LEGAL FRAMEWORK IN INDIA

The provisions in the existing legal framework for raising funds by companies are regulated under Companies' Act 2013 and Securities Act i.e. SEBI Act, 1992, Securities Contracts (Regulation) Act, 1956, Depositories Act, 1996. Raising of pooled managed investment funds by various entities such as Alternative Investment Fund (AIF), Mutual Fund (MF) etc. is regulated under Securities Laws. SEBI has proposed guidelines in 2014 by a 'Consultation Paper on Crowdfunding in India' for crowd funding aims at improving access to funds for start-ups and SME's.

- Accredited Investors may invest in crowdfunding.
- There should be Qualified Institutional Buyers to hold at least 5% of issued securities.
- Retail Investor maximum number is 200.
- Start-ups less than 2 years old can only be eligible to participate.
- Detailed disclosure of proposed plan, funds utilization, audited financial statements, management information and likewise.
- Registered crowdfunding platform must conduct regulatory checks and constitute a 'Screening committee' consisting of 10 persons with experience in capital markets, start-ups management etc.

Therefore it would be appropriate for regulators to take appropriate stand in this regard and send out a message to the various stakeholders recognizing this emerging route of funding. India, so far, does not face a significant exposure to crowdfunding but given that this mode of fund raising is growing at a scorching pace, it is important that regulators keep an open eye and a vigilant attitude.

CONCLUSION

As crowdfunding is internet-based activity which involves online money transfer and information exchange, there is in need of protected way of transaction with proper regulations in India. Since the "Crowd funding" phenomenon is gaining its popularity, its importance cannot be ignored. To regulate crowd funding, it is very important to take note that while it is necessary to ensure that Start-ups/SMEs could raise funds at ease, it is equally important to ensure that no systemic risks are created wherein retail investors are lured by some unscrupulous players by substituting the existing framework, which has been developed over a period of time through experience and observation.

Till now, many feel online transaction to be unsecure and depend on networking skills of investors and even fund seekers. Reward based and donation based crowdfunding has become popular in India compared to other type. Many online funding initiations for social cause by small investors have been taken without depending and expecting government to do such developmental activities and which shows a collective effort for a common cause. This can also reach national and international investors resulting huge funds as investment and even a national investor can also invest in international

projects with small amount of fund. Hence, there is necessity to strike a proper balance between investor protection and the role equity markets can play in supporting economic development and growth.

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