Crowd Funding in India

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Abstract

Research in the field of crowd funding has been emerging in India over past few years. This is due to the release of the consultation paper by SEBI in June 2014.

Crowd funding is a newly introduced concept in India highlighting the use of technology. This concept has helped a lot of emerging startups and SMES raise funds for commencement of their businesses. It is a digital platform for the people willing to invest and for the people who wants investment, whereby the whole process is conducted over the internet having worldwide reach.

Crowd funding though beneficial, investors in India have adapted themselves to the traditional way of funding making them reluctant to switch to new methods of raising finance.

This article aims at examining the entire concept of crowd funding in India and the factors hindering its growth.

Keywords: Crowd funding, SEBI and Risks.

Introduction

Crowd funding is a new-go-to strategy for budding startups. It is a practice of accumulating resources from numerous people, does the term ‘crowd’ to fund prospective projects. Crowd funding is an advanced version of raising funds via the web- based platform bringing together all the investors at a common ground. It is a new internet phenomenon where people come together through a virtual forum to achieve some common purposes. Crowd funding is also known as “financial escalators” as its helping new business ventures raise funds. Crowd funding in India is still a new concept and requires attention.

The Models of Crowd funding are as follows:

- **Donation Based Crowd funding:** Donation based crowd funding is a way of raising funds for projects by asking huge number of contributors to individually donate a small amount to it. Donation based crowd funding is mostly used to raise funds for charities and social service causes. In donation based crowd funding individuals donate money without expecting anything in return. It’s the most preferred way of fundraising in India. Some examples of donation based crowd funding are Kick starter, Indiegogo, GoFundMe and First Giving.
- **Equity Based Crowd Funding:** In equity based crowd funding funds are raised by a company through issue of equity shares. As equity owners investors receive returns on their investments and also receive share of profits in the form of dividends. Usually the amount invested by the investors is high. Equity based crowd funding is an illegal concept in India. In India the rules regarding crowd funding are moderated by the market regulator SEBI (Securities and Exchange Board of India). Equity based crowd funding is quite famous in USA and UK.
- **Debt Based Crowd funding:** In debt based crowd funding funds are raised by companies from investors in return for interest. Debt based crowd funding has been one of the most effective

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ways of raising funds for startups. Startups in the recent years have been successful in raising funds through debt based crowd funding. Though debt based crowd funding and Bank loans are almost similar in nature, startups nowadays prefer raising funds through debt based crowd funding because of its advantages. Debt based crowd funding and equity based crowd funding are often used interchangeably but there is a thin line between both of these.

- **Reward Based Crowd funding:** In reward based crowd funding funds are raised from individuals in return for a product or service. Mostly reward based crowd funding campaigns are run by artists, musicians and producers of films.

Literature Review

The literature review considered for this exploratory research covers crowd funding, its risks and its limitations in the Indian market.

Crowd Funding

SEBI defined crowd funding in the consultation paper (2014) as "Crowd sourced funding is a means of raising money for the creative project (for instance, music, film, book publications) a benevolent or public interest cause (for instance, a community based social or cooperative initiative) or a business venture, to small financial contributions from persons who many numbers in hundreds or thousands. Those contributions are sought through an online crowd funding platform, while the offer may also be promoted through social media."

Prinsha K (2016) in her paper "a study of crowd funding and its implication in India" states that Crowd funding is essentially the opposite of the mainstream approach to business finance. We can think of this fundraising approach (crowd funding) as a funnel, with us and our pitch at the wide end and our audience of investors at the closed end. Fail to point that funnel at the right investor or firm at the right time, and that's your time and money lost.Crowd funding platforms, on the other hand, turns that funnel on-end. By giving you the entrepreneur, and a single platform to build, showcase, and share your pitch resources this approach dramatically streamlines the traditional model.

Akshay Verma and Shwetaketu Radia Tyagi in their research paper on "An overview of crowd funding in the Indian setting" (2016) highlights crowd funding as a process of raising small amounts of capital from large number of people over the internet. They observed that crow funding has emerged as an exciting alternative to the conventional financial market. Entrepreneurs are being drawn by the low cost of raising capital for their businesses.

Veedantam Leela in his research paper titled "crowd funding-a study of risk factors" (2016) stated that crow funding provides real time financial assistance through internet banking services to those entrepreneurs who aspire to start their ventures. His study has highlighted the degree of informed consent which people have and the factors they consider seriously prior to lending or pledging funds in crowd funding events, and to access the impact of risk awareness and risk ignorance among the potential fund lenders in crowd funding and its effects on the fund lenders willingness to adapt to new situations.

Dr. Hetal Jhaveri and Prof. Anjali Choksi in their paper "crowd funding at India: a study of Indian online crowd funding platforms" (2014) stated crowd funding as a collective effort by people who network and contribute collectively for a cause or a business idea. They observed that this concept was very similar to the traditional concept of charity or social cooperation but unlike funding here is done with an objective of earning some return either monetary or intangible. In India, the crowd funding is still in its nascent stage even though the potential is incredibly high.

Anubhab Sarkar in his research paper titled "Crowd funding in India: Major Roadblocks and the way ahead" (2014) explained crowd funding as solicitation of funds in small amounts from several unsophisticated investors via web-based platform or social media to fund new business ventures, art, film etc. He observed that India has seen a surge of numerous non-equity crowd funding platforms in the recent years, but there is no equity based crowd funding platforms yet as it is a grey and murky area and proper reforms are yet to take place facilitating equity crowd funding model to work.

Ivo Jenik, Timothy Lyman, and Alessandro Nava in their working paper named "crowd funding and financial inclusion" (2017) stated Crowd funding as a financial innovation, a FinTech, the fastest growing financial industry, and the next big thing in finance. "Crowd funding" typically describes a method of financing whereby small amounts of funds are raised from large numbers of individuals or legal entities to fund businesses, specific projects, individual consumption, or other needs. It involves bypassing traditional financial intermediaries and using online web-based platforms to connect users of funds with retail funders. Definitions of crowd funding vary, but they often include the following key components: (i) raising funds in small amounts,(ii) from many to many,(iii) using digital technology

Observation

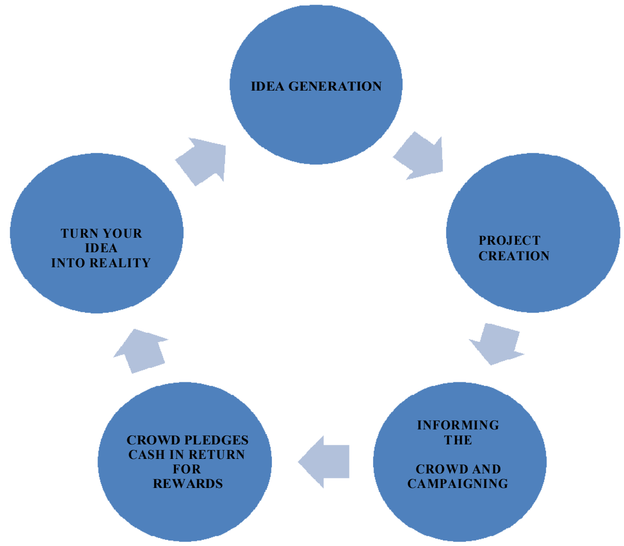
On completing an extensive secondary research and literature review, the following conclusions can be made:

- Crowd funding has still not gained much visibility and acceptance in India. In the recent years India has seen an increase in non-equity based crowd funding platforms but equity based crowd funding still stands illegal in India.
- Crowd funding still is largely a developed world phenomenon; it has not been accepted fully by developing nations, as people are not ready to invest considering the risks associated with crowd funding.

Research Gap

This research is conducted to know the visibility of crowd funding in India. After the extensive research, this can be said that crowd funding is an emerging concept in India and its acceptance is still a question here, in contrast to its usage in other countries like US. Crowd funding on that other hand is a digital platform for raising funds thus, it is considered as a taboo in India.

Conceptual Model



The figure above reflects the entire working mechanism i.e. the various steps required in turning your idea into reality. Also, this is a universal process followed on the same lines across the globe.

Conclusion

Crowd funding is a phenomenon of raising alternative sources of funds via web based platform (internet). Here, the businesses have access to global market thereby helping them raise small amount of funds from large number of people from a common platform. There have been many companies coming up which are providing such services for the emerging startups so that they can raise funds through this platform. Moreover, this study shows that even after the release of consultation paper by SEBI in 2014 it is seen that it has not gained a lot of popularity in India as a whole. People here are still very reluctant of practicing this method. Nevertheless, equity based crowd funding is still illegal in India.

After conducting the research and understanding the literature review it can be said that crowd funding is a better alternative of raising funds than the traditional way of financing but still it does not really suit the Indian market and the mindset with which it is flanked.

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