RELEVANCE OF CROWDFUNDING IN INDIA

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ABSTRACT
Crowdfunding has proved to be a boon for the projects in life sciences or other related projects which lack enough funds. From healthcare to real estate, IT to literature and business to non-profit, Crowdfunding helps projects garner capital at every stage. Crowdfunding is an innovative way for financing. Crowd funding is solicitation of funds (small amount) from multiple investors through a web-based platform or social networking site for a specific project, business venture or social cause. Basically it is an internet-inspired means of raising money from the mass market, for a project or business. It is a continuous and growing series of virtual on-line auction houses, matching borrowers and lenders; investors and investees; and donors and donees. Crowdfunding enhanced the capabilities of Inventors, Engineers &Entrepreneurs. It also helps to enhance innovations. The basic objective of paper is to show the relevance of Crowdfunding in India. It also highlights the various issues and challenges of crowdfunding. The paper is concluded with the suggestions to make this method (crowdfunding) effective.

KEYWORDS: Project, Multiple, Investors and Social Networking.

1. INTRODUCTION:
Crowdfunding is a financing method that involves funding a project with relatively modest contributions from a large group of individuals, rather than seeking substantial sums from a small number of investors. The funding campaign and transactions are typically conducted online through dedicated Crowdfunding sites, often in conjunction with social networking sites. Depending on the project, campaign contributors may be essentially making donations, investing for a potential future return on investment (ROI), or prepaying for a product or service. (crowdfunding).Crowdfunding is asking a crowd of people to donate a defined amount of money for a specific cause or project in exchange for various rewards. There are three general categories Crowdfunding can fall under: Equity, Donation, and Debt. Equity-based Crowdfunding is asking a crowd to donate to your business or project in exchange for equity.
Donation-based Crowdfunding is asking a crowd to donate to your project in exchange for tangible, non-monetary rewards such as an e-card, t-shirt, pre-released CD, or the finished product.

Debt-based Crowdfunding is asking a crowd to donate to your business or business project in exchange for financial return and/or interest at a future date. (what is crowdfunding?)

In other words Crowdfunding is an innovative way for financing. Crowd funding is solicitation of funds (small amount) from multiple investors through a web-based platform or social networking site for a specific project, business venture or social cause.

2. Objectives of Study:
   - The basic objective of paper is to show the relevance of Crowdfunding in India.
   - It also highlights the various issues and challenges of crowd funding.
   - The paper is concluded with the suggestions to make this method (crowd funding) effective.
   - The next objective is to understand present scenario of Crowdfunding in India.
   - To identify the limitations of crowd funding.

3. Research Methodology: Paper is based on secondary data. Information available on websites, Journals, articles, newspapers is used to find conclusion.

4. Review of literature:
   Crowdfunding in the academic circles is still in its infancy only starting to really take off at this moment in time. This means that published papers on the topic are minimal and information still lies mostly in whitepapers and on the internet in blogs and websites. (Vargas).

QuingGuo (2010): ‘The Practical use of Crowd funding: Two cases illustration’ focuses on analyzing the application of crowd funding by studying two prime movers in the industry. According to the author, Kickstarter and IndieGoGo experienced an increasing growth. Further, study gives an idea about the views of platform creator and investors of two illustrated cases. Ordanini Andrea, Lucia Miceli, Marta Pizzetti, & A.Parasurman (2011): The authors have considered three crowdfunding cases viz. Sellaband in music business, Trempoline in financial services and Kapipal in non-profit service. The research basically
focuses on two questions - (i) how and why do consumers turn into crowdfunding participant? (ii) how and why do service provider set up crowdfunding initiative?

Hemer Joachim (2011): ‘A snapshot on crowd funding- working paper’ analyses the different crowdfunding initiatives, investors and success rate of projects. The paper analyses the success rate of the projects initiated by crowd funding. It also enumerates the characteristics, advantages and risk factors associated with crowdfunding.

Agrawal Ajay & Avi Goldfarb (2011): ‘The Geography of crowdfunding’ analyses about the geographic territory of crowdfunding. Apparently, there is no geographic boundary for crowdfunding as fund is raised online through internet but the researchers have concluded that the local investors are motivated early to invest in the project initiated by the person of their territory compare to other investors. Thus the geographic limit of crowd funding is personal connection of an investor to the entrepreneur.

Ethan Mollic (2013): In the paper titled ‘The dynamics of Crowdfunding: An exploratory study’ the author has described the underlying dynamics of success and failure among crowd funded ventures. The quality of the project and personal connections are the main determinants for the success of crowd funded project.

S. Nagalakshmi & U. Gana Cecilia (2014) : The paper focuses on the emerging trends in crowd funding in India and theoretical aspect of the same. From the above detailed reviewed literature it was found that very few researchers have focused the crowdfunding in India. (THAKER, VOLUME NO. 5 (2015), ISSUE NO. 01 (JANUARY) ISSN 2231-4245).

5. Crowd funding: Models in India: Three models are generally used for Crowd funding in India, these are:

1. Donation and reward based: The platform accepts a donation from many donors for projects. In most cases, there turn involves finished goods like the “pebble watch” or assigned DVD of the movie received by the crowd. Sites like Ketto do this kind of crowd sourcing in India.

2. Lending based: These borrowers take money with a promise to return it with certain interests from different people (lenders) and facilitate loans or microfinance to the needy. Microfinance platform Milaap is an example of such crowd sourcing in India.

3. Equity based crowd funding: This mode of crowd funding, where investors take a share of equity in the project or start up, is not legal in India yet. (Priyadarshi, 2014)
6. **Role of Crowdfunding in India:** Crowdfunding is useful for a variety of opportunities, whether fundraising for disaster-relief, creative projects, creating a salable product, or creating a start-up.

I. Lack of money becomes a hurdle in the way of talented people. Crowd funding helps to cross that hurdle and provide opportunity to fulfill dreams.

II. Crowdfunding platforms allow us to market our project, generate interest, and receive funds. It is new way to raise fund with low cost. Crowdfunding can be fast, efficient, and effective if done right.

III. Crowdfunding backers can provide useful feedback about our project, which is useful for growth and development of project.

IV. Once we get a solid base of support, there is no limit to the amount of projects we can fund. Means the option of crowdfunding is available for long term as well as for short terms.

V. Crowdfunding minimizes the traditional fundraising process(and its associated time and cost) so entrepreneurs may spend more time where it counts, on the business.

VI. Crowdfunding is not limited to certain kinds of project, there is no discrimination! Only great ideas! This works. It is open for all kinds of projects.

VII. The risk involved in crowdfunding is less in compared to other business ventures reason being the size of amount is less for an individual and he knows the idea well in advance.

VIII. It is easier to raise funds from crowdfunding than traditional ways like bank loan. The process is very simple that the entrepreneur has to create campaign for his project which will be displayed on crowd funding platform thus it does not require do any paper work and it does not consume too much time.

IX. It provides opportunity for pre-selling the product or concept which is not yet launched in the market and entrepreneur can have reactions of the users before actually launching it in the market.

7. **Limitations of Crowdfunding in India:**

   The biggest limitation of Crowdfunding is it provides opportunity for stealing of an idea. While creating the campaign for crowd funding project the entrepreneur has to provide information in such a way that it attracts potential investors but does not lead to giving information to competitors and thus it becomes difficult.
The venture capitalist or angle investors will not be ready to invest in such project in future because of so many small contributors and hence it creates negative impression for the future finance options.

In Crowdfunding, investor generally expects quick and timely return which creates unnecessary pressure on the entrepreneur. (THAKER, VOLUME NO. 5 (2015), ISSUE NO. 01 (JANUARY) ISSN 2231-4245)

8. **How to Crowd fund one’s Project:** Many projects fail because their product prototype isn’t impressive to attract crowd. Here are a few points that One (Borrower; Investees; Donees) should consider before launching One’s crowdfunding drive:

- Choose a platform or to create an online profile
- Get your content ready and explain your project
- Create Interest for fund raising goals
- Get payments right y Share the same with public at large including your peers Share the same with public at large, including your peers, relatives, friends of friends, and so forth.

**List of Crowdfunding Websites:**

1. Ignite Intent
2. PikAVenture.com
3. start51.com
4. YourSeva
5. RangDe
6. WeFunder
7. Ketto
8. LetsVenture
9. WishBerry
10. Catapooolt

India has seen a massive Crowdfunding success story many years before the term was coined: the story of the Reliance Industries founder Dhirubhai Ambani. His small yet growing textile business was crowd funded by communities across the Indian state of Gujarat.

Recently, platforms such as Wishberry and Ignite Intent have been launched in the country. There have been attempts at Crowdfunding for events like the Goa Project and
campaigns like Teach for India. Crowdfunding is slowly becoming an alternative funding channel for the film industry.

Why is there hope for Crowdfunding in India? Varun Seth, the F d & CEO of Founder &CEO of Ktteo, a crowdfunding at form based in Mumbai, feels that India is being the biggest countries for Non-Government Organizations (NGOs), so crowdfunding stands a big chance. Section 135 of the new Companies Act, 2013 which mandates all companies to spend 2% of their average net profits on all companies to spend 2% of their average net profits on corporate social responsibility, will also help them Crowdfunding gain attraction.

9. Challenges in India:

"Product-based projects are in huge demand but they are also the most risky as such projects have high chances of being fake,". Due diligence is required before accepting such Projects said Rajat Das, founder of Delhi based crowdfunding platform thehotstart.com. "If you compare the scam rate in crowdfunding, it is much lower than even IPOs," said Ahmedabad based Ateet Bajaj, who founded crowdfunding platform start51.com.

- A low trust level on online things is a bigger challenge for crowdfunding in India.
- As long as the crowdfunding platforms on behalf of project campaigners or entrepreneurs are not making any financial promises to the contributors, they should not be safe to operate especially in case of Lending based model and Equity based model.
- The Crowdfunding industry is not so investor-friendly.
- People are not ready for this concept as it is new one and online based, channelized through Internet.

10. Suggestions:

Crowdfunding Platform/Website is the center point of interaction between the companies and the prospective investors. Moreover it also works as the repository of all the information and disclosures provided by the companies periodically. It occupies a very crucial position in the entire infrastructure. Therefore it needs to be secure and safe from all types of cyber-attacks.

1. It is desirable that platform owners draft a security policy which shall, then, be put in public for comments and analysis. There shall be regular audits by reputed external
auditors who is CISA (Certified Information Systems Auditor) or otherwise appropriately qualified that the security measures taken by the Platform Owners are adequate and meet the requirements and that risk management systems are in place to identify and mitigate the risks arising out of the regular operations.

2. Platform shall provide a Grievance Redressal mechanism for the investors as well as the issuers.

3. There are certain guidelines issued by SEBI for crowdfunding so the platform should properly follow the guideline foe it successfully functioning.

4. In the Indian scenario also, it is difficult to provide a secondary market trading framework for the companies displayed on a crowdfunding platform, as then it would be treated as a Stock Exchange. Hence, companies displayed on Crowdfunding Platforms will not be treated as “Listed Companies” and there will be no secondary market liquidity in such scrip’s and investors should be made aware about such risks before investing in such companies.

5. The promoter(s), shall be required to maintain a minimum of 5% equity stake in the company for at least three years from the date of the issue. (Consultation Paper on Crowdfunding in India, 2014)

11. Conclusion:

There is no doubt that crowd funding is rapidly being looked as a new way of raising funds for startups and new businesses in India. National Crowd funding Association (NCFA) of India is an organization to promote crowd funding in India. NCFA provides its members with opportunities to shape the industry, learn the details of the marketplace, and stay informed and ahead in this dynamic industry. However, there are serious concerns which one needs to ponder upon as:

1. While on one hand, it perhaps bit derogatory to seek community help for their project; on the other, most of them still don’t know what a crowd-funding campaign entails and wrongly perceive it to be some type of magic potion which can give instant results.

2. India, the prominent categories are still largely restricted to either NGO causes or entertainment projects. Why aren’t these platforms looking at encouraging other categories onto this domain?
Thus, to conclude we can say that for successfully crowdfunding one should not only need to focus on the grey legal areas but on the other said aspects so that crowd funding platforms should be more trustable, transparent and democratic in nature with the fund raisers and project campaigners. In India now a days due to campaign of digital marketing, e commerce and e banking it seems to be opened door for crowdfunding. Its future is bright.

12. Bibliography
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