

CROWDFUNDING: A LATERAL APPROACH TO PROVIDE FINANCE TO START-UPS IN INDIA

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ABSTRACT

Crowdfunding has a long history with deep roots. It is a source of alternate finance in various fields and attaining major significance in the field of start-ups. Though the concept is traditional as in earlier days people used to appeal for funding but in those days, mostly the concept was initiated by mail subscription. However, in crowd funding the request is made through various online platforms. There are three major parties in crowd funding viz. the project initiator, individuals or companies who support the idea and the online platform or moderator which brings the parties together. This paper is an attempt to study the concept of crowd funding and analyze its various models. All the models are evaluated on various bases to obtain the summary of the popular crowdfunding models in India. The paper also aims at getting the overview of popular crowdfunding platforms in India. The shortcomings or criticisms of the concept would also be premeditated.

Keywords: *Crowdfunding, Start-ups, Business Model, Funding, Crowdfunding Platforms.*

Introduction

India is the eminent name in the field of start-ups. In the world, it has third highest numbers of start-ups followed by the US and the UK. On an average, everyday 3 to 4 start-ups emerge in India. It may be interesting as well as disheartening to know that almost 30% of the start-ups close down in the very first year of their establishment, while overall 50% of the start-ups close down in the first two years of their establishment. The country with such high young population is definitely expected to come out with innovative ideas and start-up units more effectively and frequently in comparison to the countries smaller in the terms of population. With such a structure, it is important to know the reasons of the failure of almost half of the units in the first two years of the establishment especially when they were started with zeal and enthusiasm. The major problem of young entrepreneurs in India is regarding the seed capital which is required in the initial days of their venture. They are young people who usually come from middle class or lower class backgrounds; thus, do not have enough collateral and cash flows to attain finance through traditional methods. In this case crowdfunding is an emerging as a new and innovative solution for entrepreneur to get easy finance based on the model 'keep what you get'. The concept of crowdfunding is already attending popularity in developed countries and has the ability to gain momentum in developing countries like India. It may be assumed as the largest growing financial industry in the modern era of technology. Moreover, it also fulfills the agenda of financial inclusion of the Government of India. It is an instrument of not only investment in micro and small scale industries but also for social change.

Research Objectives

- To study is to analyze the background of crowdfunding
- To examine the characteristics of various categories of crowdfunding
- To Study the popular crowdfunding platforms in India

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Historical Perspective

In earlier days, the similar kind of business model was used for books by the authors. When they wrote the book, they were doubtful about whether it would be sold or not. In that case they use to publicize their books through other books and request for their subscription. Though, this concept was not exactly crowdfunding, it can be used as a base for the concept of crowdfunding for better understanding. London's mercantile community saved the Bank of England in the 1730s when customers demanded their pounds to be converted into gold - they supported the currency until confidence in the pound was restored, thus crowdfunded their own money. In 1885, when government sources failed to provide funding to build a monumental base for the Statue of Liberty, a newspaper-led campaign attracted small donations from 1,60,000 donors.

The present version of crowdfunding was mainstreamed for the use of art and music in the year 1997 when the fans of British rock band raised 60,000 US dollars to sponsor their US tour. They subsequently used the same method for launching their studio albums later. Since internet was not popular those days, they used crowdfunding via magazines and documentary video. After that writer/director Mark Tapio collected 1,25,000 US dollars from 25 fans to make his film 'Foreign Correspondents'.

Connotation and Working

Crowdfunding is a technology enabled lateral approach to raise big amount of funds from large number of people through small individual contributions in the form of donation or investment. Usually, this is done through crowdfunding platform where the entrepreneurs present their innovative ideas along with their particular need. These platforms help the entrepreneur to propagate their projects all over the globe over their websites and thus getting financial assistance from the people. In return, they charge a nominal amount of commission. A firm named Kickstarter is the most popular platform on internet for crowdfunding which has raised over one billion dollar for entrepreneurs till now. The concept is that the business schools provide an opportunity to their students to showcase their ideas in front of industrialists who may be interested to invest in their innovative and sustainable ideas. But for that segment of society who cannot afford to send their children to these elite business schools which are providing opportunities to their students, crowdfunding is the solution to make their idea reach number of people. The fields where crowd funding is been mostly used these days are artistic and creative ideas, educational expenses, medical expenses and community oriented projects. The concept is also criticized for quackery funding and fraudulent posts related to costly treatments.

Categories/Models of Crowdfunding

Generally, people pay for two reasons, firstly investing in a project to receive rate of return or to provide financial assistance to needy people without any expectation as consideration. There can broadly be four models of crowdfunding:

- Donation based crowdfunding: In this model, donations are invited for social, environmental, charitable and individual causes. These campaigns are generally run by individuals who are in need of donation for individual purposes like medical or education or by non-profit organizations for working upon their social projects.
- Reward based crowdfunding: Entrepreneurs can have an access to the low-cost finance as compared to the traditional methods. The funding channel does not only provide funds but also facilitate marketing research to get an estimate of the market demand in future. This platform can be best used to provide information to the prospective customers about the innovative products appeared in the market.
- Debt crowdfunding: This medium can provide P2P (Peer to Peer), P2B (Peer to Business) and B2B (Business to Business) lending. It is the scheme which is regulated by Reserve Bank of India with the intention of lending the finance to cater the financial needs of the individual and the business entities for their upcoming business.
- Equity crowdfunding: This category relates to investment in projects in order to earn shares of unlisted entities. The rules differ in each country as per the country's regulations. In India, the trading in equity crowdfunding is not legal. The guidelines are being proposed by SEBI but final guidelines are yet to come.

The major characteristics of the various models of crowdfunding are listed below in the table.

Table 1: Major Features of Various Models of Crowdfunding

Crowdfunding Model	Donation	Reward	Equity	Debt
Form of return	Charity	Rewards and intangible benefits	Dividend	Interest
Significance of social network	Very high	Very high	High	Low
Liquidity	Very good	Good	Good	Bad
Funder's motivation	Philanthropy	Desire for reward	Desire for profit	Desire for interest
Form of support	Charity fund	Pre-purchase	Investment	Loan

Table 2: List of popular crowdfunding platforms in India:

S.No.	Crowdfunding Platform	Projects Undertaken	Business Model
1.	Ketto	Creative projects	Rewards based
2.	Milaap	Personal and medical causes	Donation based
3.	Wishberry	Creative projects	Rewards based
4.	Impact Guru	Start-ups and non-profit organizations	Rewards and donation based
5.	Bitgiving	Start-ups and creative projects	Rewards and donation based
6.	The Hot Start	Creative projects	Rewards based
7.	Rang De	Micro or low-cost loans	Peer to peer lending

Shortcomings of Crowdfunding

The crowdfunding platforms have their own norms and guidelines and those project which is unable to fulfill those guidelines are not given the benefit of the platform. It is getting extremely popular due to its inherent advantages, so it has a fierce competition to show that close line that differentiates individual's project from others. Some of the platforms charge heavy commission and even the part of the total fund raised which sometimes, defeats its purpose. Some fake drafts show very expensive medical requirements which do not turn out to be true. That creates a trust issue among the donors.

Conclusion

Crowdfunding is gaining immense popularity in India because Indian youth have creative ideas but shortage of funds. It is an internet driven platform which acts as a mediator between the people who have funds and who need funds. Some of its models have attractive features which catch the attention of the individuals and businesses with innovative ideas. Though there are various limitations and challenges the project initiator has to face and the road path is long in India. Yet, many micro and small-scale firms, entrepreneurs and NGOs have been successful in attaining the significant amount to fulfill their personal, entrepreneurial and social ambitions.

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