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CROWD FUNDING: THE INDIAN SCENARIO

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ABSTRACT

Crowd funding, as a process of raising capital from the public group, is becoming prominent nowadays. The group can be an informal group in which everyone comes in to contact mainly through social media. Today, internet is used widely for such raising of fund mainly through facebook, whatsapp, instagram etc. Capital can be raised for any purpose like arts, dance, paintings, own business, contribution towards any natural calamities. It is not a new practice of fund raising but used in different situations by different persons. When we enter in to the Indian context, there are films made out of Crowdfunding financing viz., Manthan (1976), I AM (2010), Greater Elephant (2012), Lucia (2013), Placebo (2015) were some of them with an attempt to promote the nation's independent film industry. The current situation of flood affected Kerala also hint the importance of the crowd funding which makes the topic more relevant. The Government of Kerala has requested for the fund for reconstruction by utilising the Crowdfunding financing.

The most pioneer situation for Crowdfunding is considered to be related to the Statue of Liberty. After the completion of the statue, they met with a problem of financial constraints for the construction of a deserving platform on which it should be placed. This was tackled by way of asking donations from the public mainly through the dailies which was considered as the media for mass communication in those days. The people contributed their small savings to this programme and a good platform was constructed for the elegant positioning of the statue. Thus this is a theoretical study that analyses the crowd funding and its possibilities in the Indian scenario. The study discusses the theoretical concept of crowd funding and its various implications in the light of Indian financial necessities Hence the paper is endeavoring to analyse several crowd funding situations carried down in Indian environment.

KEYWORDS: *Crowdfunding, Startups, JOBS Act, Fund Raising, Mass Communication.*

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Introduction

The term crowd funding is a new terminology that we came to hear from very few years back. The terminology is new to everyone but the practice of doing crowd funding is not an innovative one as most of the people from different nations were used to raise their needy capital for their essential activities. Even when we go through the history, we can find out the presence of crowd funding in different situations but in different names.

Normally, crowd funding is a finance raising process especially by the startups for fulfilling their dreams. As we know that finance is the back bone every activity irrespective of commercial or non-commercial in nature. The most difficulty for a nation is not with lack of entrepreneurs or upcoming ideas but with the no availability of finds for financing. Even the banking institutions are one of the resorts for raising capital, unfortunately they will not be ready to take the risk of financing to startups. Then the next source of fund is venture capital. But the fact is that it has its own formalities and modes operandi for its operations and again it is much far from the reach of an entrepreneur is concerned. When compared to

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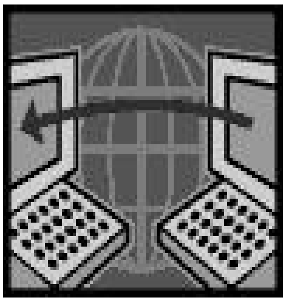
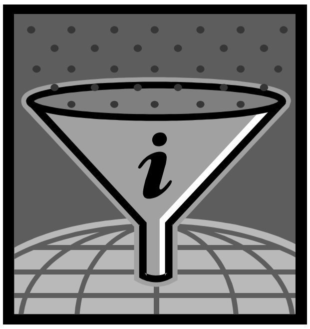
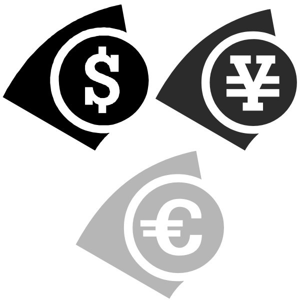
these dilemmas crowd funding gives a wider scope for raising the finance for any person for any purpose irrespective of commercial or not. Even the persons who are from the arts background like singers, dancers and the same can raise the essential fund through crowd funding. Crowd funding is defined as the process of taking a project or business, in need of investment, and asking a large group of people to supply this investment. This phenomenon has exponentially increased in popularity over the last few years and, as a consequence, is now presented as a viable method of funding for designers. Regardless of its new-found popularity, however, statistics show that the vast majority of crowd funding campaigns dramatically fail with 81% of failed campaigns reaching less than 20% of their funding goal.[1]

Crowdfunding is the use of small amounts of capital from a large number of individuals to finance a new business venture. Crowdfunding makes use of the easy accessibility of vast networks of people through social media and Crowdfunding websites to bring investors and entrepreneurs together, and has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners, relatives and venture capitalists.

From the ancient Indian history, there are a citations regarding *aswamedhayaga* which is performed for the ultimate victory and goodness for the entire world by the kings. This ceremony needs a lot of money and wealth for its successful completion which is contributed by neighboring kings and also with small contributions from the general public according to their abilities and savings. As a continuation, Indian film industry also witnessed helping hands of Crowdfunding for the completion of their films.

The most recent Crowdfunding financing is done in the state of Kerala in relation with the flood calamity which is done by the Government of Kerala for the reconstruction of Kerala infrastructure.


Theoretical Background

Crowdfunding is an innovative strategy for budding startups. It is the practice of contributing resources by the public, especially through a social network like facebook, whatsapp and the like. It is considered as an alternative finance system through which any one can raise capital for any purpose irrespective of commercial or non commercial in nature. It is actually pooling of small denominations of money to the needy people who has a specific object as his dream. As the raising of capital is a difficult as well as more complicated process, most of the persons find it as a bottles neck and put their dream in to dark room. But in this phenomenon, there is no such formalities and complications. The most interesting thing is that the risk of repayment and rewards are not present here. That means the crowdfunding itself has three dimensions. Donations based, equity based and debt based crowd funding.

Types of Crowdfunding

Donation based crowd funding is one among them which mainly looks for charity, services and other calamities relief fund. In this type of funds, person(s) or anybody asks the public for the donations without any obligation to repay. Here any amount raised here will not be repaid and normally no rewards are expected towards this contribution. A best example for this is the request made by the Government of Kerala for the reconstruction and rehabilitation of the victims of flood. The government gave advertisement in all media including online for the reconstruction of all the infrastructural and basic needs of the common people.

Another case for the donation based crowd funding is the advertisement given for the treatment for any serious diseases like cancer, dialysis and like situations. Here, the family members or friends and relatives or even strangers of the victims can collect fund for the above purpose and it is not necessary that it is a compulsory payment at a fixed rate. Anyone can donate from his small saving towards this charity purpose. Similar incident to this is persons collecting fund by distributing some cards describing why they are collecting this fund. Mostly the reasons behind will be marriage of their children, fund for the treatment of any serious diseases. Donations received by the religious as well as charitable institutions for their development or routine purposes can be considered as donations based crowd funding.

The second category is debt based crowdfunding. It is different from the donation based crowd funding. Here as the name implies, the person is raising fund from the public as debt. After the utilization of the fund, it must be repaid to payers with interest. It is otherwise known as peer-to-peer lending. Similar to this type another type of fund is reward crowdfunding. Here the person who accepts the fund should have to reward the payers in the form of prizes or some gifts or any privilege cards or a like.

Another category of crowd funding is equity crowd funding. Here there is a similarity with the debt crowdfunding. Here the persons are collecting funds from the public and should pay back to them in future. But the difference is that the reward is not paid in cash or gifts but the contributors will be issued with the shares of the company and will be the owners of the company. But the difficulty is that there are restrictions in India for the above said category.

Problems Regarding Crowdfunding in India

As the features of crowdfunding are highly recommendable, the practical aspect of equity crowdfunding is facing with some bottles neck. The most critical argument pointing out towards the equity fund is related with the transparency of the operations. SEBI and RBI in India is not so much recommending the equity crowdfunding due to the uncertainties behind it. One of the arguments against the equity crowdfunding is that it can be used as a tool for bond washing transaction. There is no basic control or regulations over this crowdfunding by SEBI or RBI as it is a sudden upcoming in the financial market. This is proven in the case of Sahara. So the regulatory bodies are not in their full confidence to admit the practical functioning of equity fund. The second issue is raised regarding the investors protection. Normally in debt crowdfunding, there is no security is provided by the persons for getting the fund. The investors cannot claim their fund as there is no written and registered agreement with them. Thus RBI cannot assure the interest of the investors is in safe. The government as well as the regulatory bodies is not convinced about the purpose of such fund which is raised for. All these anomalies slow downed the crowdfunding in Indian economy.

Solutions for the Uncertainties

The US has found out a solution for the better functioning of the crowdfunding by way of passing an act called Jumpstart Our Business Startups Act, or JOBS Act which is known by the name Crowdfund Act until the official signature was put by Obama. The rules of JOBS act is accepted by the SEBI and RBI and some of their notifications and rules are[3]:

- When it comes to retail investors, the maximum amount of contribution you can get is Rs.60,000/-.
- The Startups which are aged more than 2 years are not allowed to participate in any crowdfunding activities.
- The Crowdfunding platform in which a startup is going to raise their funds must adhere to certain regulatory checks.
- In many cases only accredited Investors may invest.
- The startup must disclose their plans such as their business plans, their intent of using the funds and the financial statements which are properly audited.

Conclusion

The upcoming financial issues in any sector or activities will find its own way for its smooth functioning. One such discovery is the introduction of Crowdfunding. This is a new strategy to collect funds in small denominations from different persons irrespective of relations and utilising the amount for the fulfillment of the dreams of several persons. The crowdfunding strategy helps small business units rather than the gigantic ones. The most interesting feature of this strategy is that there may not be any direct contact between the payer and the ultimate utiliser of the fund. The amount for the payment does not has any minimum-maximum limits but depends on the payers' capacity and their personal discretions.

The recent scenario of Kerala affected by flood is very much pathetic and helpings from different parts of the world have joined for its restructuring along with the initiatives taken by the Government of Kerala. There are some news regarding seeking help for meeting the medical treatment or similar like is a usual thing in the dailies and through online. All these are some of the piece of evidences for the practical requirement of crowd funding and its significance in the current Indian scenario. But the most relevant fact is that necessary rules and regulations must have been passed for its better functioning and to protect the investors' interest.

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