

Crowd Funding In India: Issues & Challenges

Abhrajit Sarkar

Research Scholar in Management

JIS University

Agar Para, West Bengal

Abstract

Crowd funding, the term itself have a deeper meaning. Crowd funding makes an infant industry grow fast. It provides new investment avenues and provides a new product for portfolio diversification of investors. Crowd funding, new paradigm for the young individuals to start up a business. The objective of this study has been focused on its issues & challenges, its acceptance in Indian environment, & risk involved in the industry itself. The study itself is descriptive in nature. The secondary data have been collected from various research papers, websites, & journals. The crowd funding is an application on crowd sourcing. This concept was firstly implemented in the year 2000 and has been growing rapidly all over the world. There are 52 crowd funding platform worldwide. According to SEBI only Accredited investors are allowed to participate in this crowd funding activities. Such investors would include High Net worth individuals. SEBI have emphasized various elements which conceptualized the crowd funding model for INDIA.

SEBI have tried to make a balance between investor protection and the role of equity markets in the economic development and growth and to avoid systematic risk being created in the economy.

Keywords

Crowd funding, Portfolio diversification, Crowd sourcing, accredited investors, High net worth individuals, Systematic risk.

Introduction

Crowd funding, new paradigm for the young individuals to start up a business. It is simple as the name suggests “crowd “funds yours business. Now this may sound very simple process of collecting fund from the crowd or people who like yours business but underlines a giant puzzle which has to be sorted out. Crowd can be the boon or a disaster depending on whether it is with you or against you.

Concept of Crowd Funding

Crowd Funding is an internet-enabled way for business or other organisations to raise money in the form of either donations or investment from multiple individuals. Crowd Funding involves small and medium sized companies raising funds from investors using the internet (usually social networking sites or specialist crowd funding websites). It is an umbrella term describing the use of small amount of money obtained from a large number of individuals or organisations to fund a project, a business or personal loan and other needs through an online web based platform.

Types of Crowd Funding

Crowd funding can be divided into four categories:

- a) Donation Based
- b) Reward Based
- c) Peer to Peer Lending
- d) Equity Based.

The Donation based crowd funding denotes solicitation of funds for social, artistic, philanthropic or for other purpose and not in exchange for anything tangible value.

In US, Kickstarter, Indiegogo etc. are some of the platforms that support donation based crowd funding.

The reward Based Crowd Funding refers to solicitations for funds wherein investors receives some existing or future tangible reward as consideration. Rocket hub, Kick Starter enable reward based crowd funding.

Peer to Peer lending, an online platform matches lenders/ investors with borrowers/ issuers in order to provide unsecured loans and interest rate is set by the platform. Some peer to peer platforms arrange loans between individual while other platforms pool funds which are then lent to small and medium size business. In US, Lending club, prosper etc. and from UK Zopa, Funding circle are some leading examples.

Equity based Crowd Funding, in consideration of fund solicited from investors; equity share of the company is issued. It refers to fund raising by a business particularly early stage funding, through offering equity interest in the business to investors online.

Some examples of Equity Based Crowd Funding platforms are Syndicate Room, Crowd cube and Seeders.

Objectives of study

- 1) The Indian scenario about crowd funding.

- 2) Drivers & key factors of Crowd Funding.
- 3) Need for Crowd Funding.
- 4) Challenges and Legal issues in India.
- 5) Risk involve in crowd funding.
- 6) Merits & demerits of Crowd Funding.

Research Methodology

This study is descriptive in nature. The secondary data was collected from various Websites and journals.

Emergence of Crowd Funding in India

In less than a decade, crowd funding has gained traction in a number of developed economics including Australia, United Kingdom, Netherland, Italy, and the United States. This process of raising fund is spreading across the developed world and is now attracting considerable interest in every sector of the world as well. This concept popularly started in the US & UK in an emerging way of raising capital through the use of internet and social networking sites. With support from government and developed organisations crowd funding could become a useful tool in the developing world like India as well. In India Crowd Funding is very common in Film Industry. A most successful story of crowd funding

projects in India emerges with the Bollywood Film Industry. Onir's Film I am a major crowd Funding project which rise around Rs. 80 lakhs from around 450 Contributors through crowd funding platform. Another massive funding story coined with the reliance industries founder Dhirubhai Ambani for his growing textile business in Gujarat. India is a huge market with Global business and investment opportunities which shows the possibilities for growing an infant industry to a large scale through crowd funding. But it is restricted only to micro financing category project and occasionally donation-reward crowd funding category.

Indian Scenario

India is a developing country with enormous economy. The capital formation power of crowd funding is taking hold in this dynamic country. Donation based crowd funding and reward based crowd funding is very popular in India. Goa project and campaigns like Teach for India is one of the major crowd funding projects in India. National Crowd Funding Association (NCFA) of India is an organisation to promote crowd funding in India. The mission of NCFA is to support, educate and establish the Indian Crowd Funding market its membership is open to all

from general Public to investing seeking people.

Crowd Funding Drivers

As India being the biggest country for the NGO's crowd funding stands a biggest chance. Lot of new platforms are going to come in the next few days. As per the Companies Act 2013, all companies are required to spend 2% of their profits on corporate social responsibility, which will help the crowd funding to gain traction.

Why do we need Crowd Funding in India?

Despite the evolution of Venture capital Funds (VCFs) and Private Equity (PE) investors, it is not easy for a start-up or an SME to raise money. The Crowd Funding route entities would be able to solicit investment in smaller sums from large number of investors. It provides new investment avenues and also provides new product portfolio diversification of investors. It seems to be the key towards boosting the start-up eco-system in India.

Key Factors of Crowd Funding

The Key factors which will make crowd funding success are:

- Idea should be clear
- Create a compelling video.
- Raise sufficient funds as required.
- Choose the right crowd funding platform.
- Plan a marketing campaign, which is needed.

It will take creativity, effort and a lot of time.

All these factors are necessary to build the culture of trust which is essential for the funding of companies, projects.

Challenges of Crowd Funding in India

- ❖ The idea of crowd funding is not new in India. The concept of online crowd funding is new to the country. Places of worship, for example, are built over right using a large no of donations.
- ❖ Indian industry is not so investor friendly. People are still not ready for this concept.
- ❖ Low trust level of doing the things online are also a challenge. India is an e commerce space needs to really mature before anything substantial can happen in this space.
- ❖ To build long term credibility and transparency in Indian Industry, the crowd Funding

platform should approach proactively.

- ❖ Crowd funding will have to look at building an offline loan to finally induce mass awareness and encouraging larger participation.

Legal issues of Crowd Funding

Investors would find some solace in the compulsory routing of all crowd funding issues. Through SEBI-recognized crowd funding platform. Companies can raise up to Rs. 10 crore in a year through entities under this route. As per the proposal from SEBI only 'accredited investor' would be allowed to participate in crowd funding activities. Such investors would include High Net worth Individuals (HNIs should have a minimum network of Rs. 2 crore) companies having network of minimum Rs. 20 crore, institutionally investors and finally secure retail investors (Accredited investors) as advised by portfolio managers or investment advisers. It has also been proposed that crowd funding investment in case of retail investors (who have filed income tax return for at least last 3 financial years) would be allowed to raise fund through crowd funding which are not associated with a business

group having turnover of more than Rs. 25 crore. Entities with an establish business already listed on stock exchange or been in existence for 4 years or more would be barred to.

The Reserve Bank of India in 2011 approved Milaap, a non-profit micro Finance institution to crowd for the overseas. Though there is no Cap on QIBS, a maximum of 200 HNIs and retail investors can participate in an issue.

However only NSE and SEBI register depositories are eligible to set up a crowd funding platform. A SEBI is also open to allow technology business incubators promoted by the Central Government or State Government to set up a crowd funding platform.

Modalities involved in Crowd Funding

SEBI has emphasized on the following elements while conceptualizing the Crowd Funding Model for India.

- ✓ Eligible entities include unlisted public company incorporated in India not more than 48 months old, and not promoted, sponsor or related to an industrial group which has a turnover in excess of Rs. 250 million approx. or has established business.

- ✓ Eligible investors are allowed to invest.
- ✓ Set up an internet based crowd funding platform enabling online solicitation from eligible investors.

Global scenario

In US the Jumpstart our business start-up at 2012 (JOBS ACT) had steam lines provision relating to raising capital for start-ups and SMEs. The United Kingdom also introduces crowd funding regulations in 2014 as per Financial Conduct Authority (FCA). France has brought in the concept of accredited investors in its laws.

Risk involved in Crowd Funding

Crowd funding is a difficult task to convince so many people as the money would have to pay back. So the owner of the project has to be clear and set up a communication media to attract people. SEBI has attempted to customise the concept of crowd funding to strike a proper balance between the investor protection and the role of equity market play in supporting economics development and to avoid systematic risk. Investors might lose confidence if the target amounts are not met.

To avoid this type of risk the project on crowd funding platform would be carefully rated.

Pros & Cons of Crowd Funding

It minimises the tedious fund raising process. Minimum amount of Capital have to be spare to participate in financing.

Complex difficult and niche ideas get funded.

On The other hand, business ideas should be protected with a patent or copyright, otherwise it will be stolen by somebody and lose its importance.

Crowd Funding platforms in India

Start 51.com is a crowd funding platform for projects in any area of expertise. This platform takes the initiative to transform innovative ideologies into a smaller reality, from films to games.

Fund dreams in India enables people to raise fund for personal cause and social cause.

Igniteintent.com gives a platform to fund all creative brave and innovative ideas. This is associated to crowd sourcing. Org. Igniteintent.com is a team who values new ideas and innovation.

Conclusion

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.

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