

Conference Paper

Crowd Funding: - As Emerging Method to Finance Startup in India

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Abstract

Finance is the basic factor which decides the existence and growth of a new startup. Crowd funding is rapid growing way of raising finance in India and that day is not so far when it will be abide with legal laws and regulations. Crowd funding is similar to the stock exchange where fund is raised from public through online mode but it is legally not authorized as stock exchange is. In India untapped market available for crowd funding and the need is to make it legal and streamline. In this paper I will discuss the process of crowd funding, different platforms and legal status of crowd funding in India.

Keywords: crowd funding, technology, campaigner, donor, crowd funding platform

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1. Introduction

Crowd funding is the method by which fund is being raised online from crowd including friends, family and relatives. Basically Crowd funding is used for collection of fund utilized for social cause or for some creative purpose like music, art, painting etc. Crowd funding platform is also utilized by the artists for starting their art gallery or work shop for, book publication etc. In India crowd funding is not utilized for the commercial purpose as per SEBI guidelines. The statics shows that the India is still so behind in comparison to other countries in transaction value under crowdfunding.

TABLE 1: Global Crowdfunding Transaction Values.

Countries	Transaction Values (in US \$ million)
China	5,576
United State	718
United Kingdom	88
France	79
Canada	43
India	2

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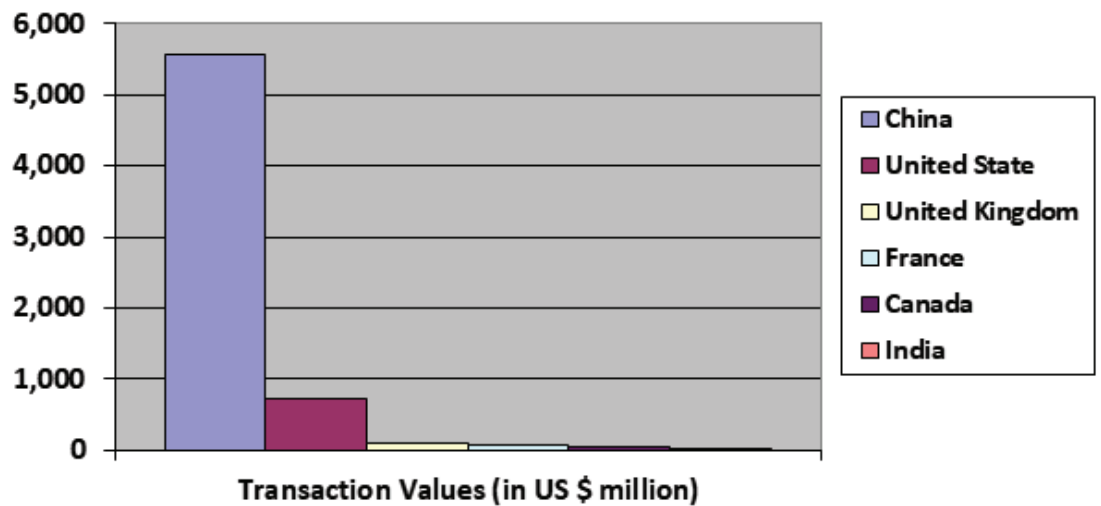


Figure 1: Global Crowdfunding Transaction Values (Source: Statista, may 2019@ natural earth).

There are **4** ways by which fund can be raised under crowd funding:

Donation crowd funding: under donation people fund the campaigner for some social cause without any expectation of return. This is the most common method for crowd funding.

Debt crowd funding: it is another method of crowd funding where many investors fund in small amount through internet. In this method interest is given to the donor on his funding. This method is suitable for those fund raisers who have already established business and have sufficient cash inflow for repayment. It is also called 'peer-to-peer (p2p)':

Reward crowd funding: under this method donor expect some reward from campaigner in return to his fund like: campaigner's painting, music or dinner with him

Equity crowd funding: this is the way where campaigner raise the fund for some commercial purpose and against that he provides the ownership to the donor. But this model is not working in India because companies Act, contract Act, SEBI, and other legal authorities have not permitted this platform.

There are different sites available for crowd funding, some are for promoting the artists some facilitate the funds in a way as it comes and some of them are for collecting the fund only till reaching on its target. In India mostly platforms are available for donation purpose. Following are the sites available for crowd funding:

1. www.create.goodclap.com
2. www.impactguru.com

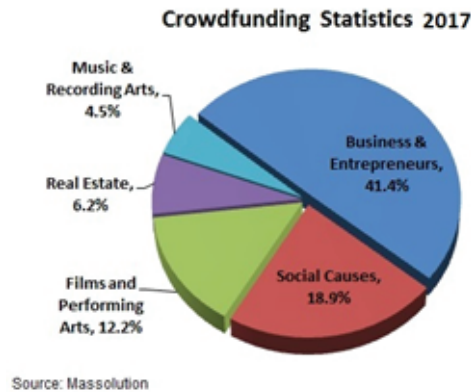


Figure 2: Platforms for crowd funding in India.

3. www.ketto.com
4. www.milaap.com
5. www.wishberry.com
6. www.bitgiving.com
7. www.fueladream.com
8. www.catapoolit.com
9. www.funddreamsindia.com
10. www.start51.com

1.1. Process of raising fund in crowd funding

Crowd funding provides the platform to the fund raiser via website. Fund raiser registered his/her project on website and website facilitates the fund raiser to create a campaign of his product and raise the fund. Some website provides free platform to create campaign and some charge processing fees. Here an example of website www.fuleadream.com is taken to explain the process of crowd funding. In 7 simple steps person can raising fund via crowd funding:

1. **Basic Information:**

Very first step of crowd funding is to register the project on website (crowd funding platform) and for this the fund raiser is required to give all the basic information which includes his/her banking and personal detail.

2. Campaign Details:

Second step is creating a campaign for raising the fund and for the promotion of the product. In this step the detail about the creative idea or product is to be mentioned on website and the required fund.

3. Reward:

After creating the campaign next step is for mentioning reward to the donor. Reward could be of different type like free concert pass, free painting of artist, dinner with the campaigner, or any other thing which can delight the donor.

4. Team:

In this step fund raiser mention about his team

5. Key links:

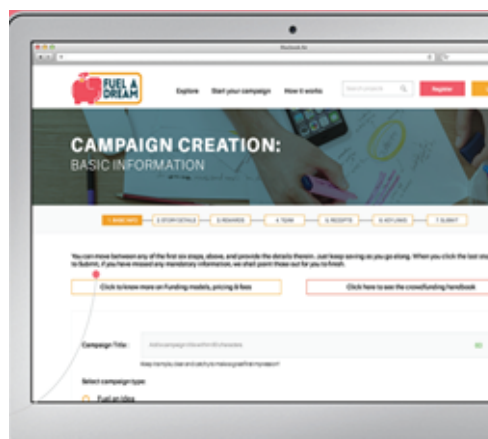
At this stage the fund raiser provides the related link like face book link, his product website link or any other related link that he find relevant to the campaign.

6. Submit:

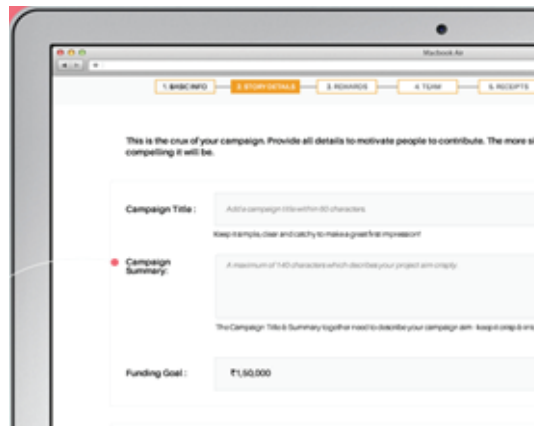
Lastly the fund raiser submits his proposal on website with the hope of funding from public.

1.2. Screen shots of crowd funding process:-

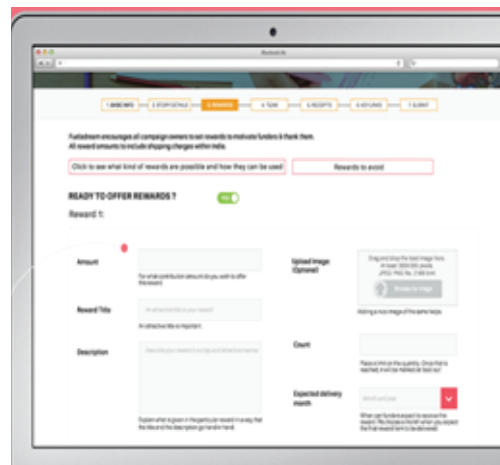
1. Basic information



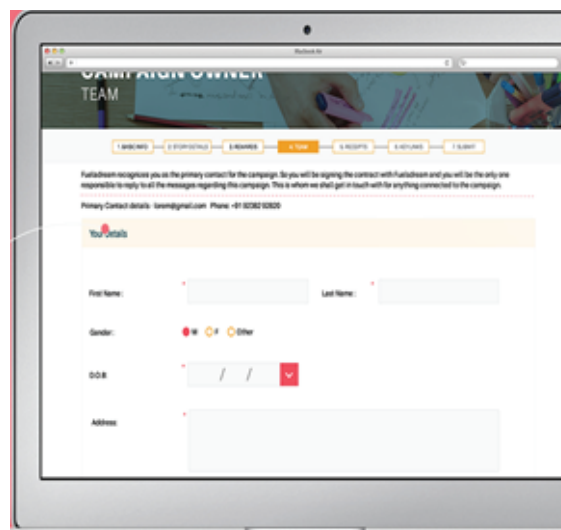
2. campaign Details



3. Reward



4. Team



5. Receipt

1.3. Legal Status of Crowd funding in India

As far as the legal status of crowd funding is concern the crowdfunding is partially legal, it is classified in 4 models first two models are comes under the donation and reward categories and as these models don't involved the financial return, they are legal and most popular methods of crowdfunding in India. Another 2 models peer-to peer and equity model as they involved the financial return commitment they required the legal permission of SEBI and till now there is no legal law or regulation for these crowd funding models in India. But SEBI has realized an article in 2016 and according to that SEBI has mentioned the need for regulation of crowd funding.

According Indian companies act, the company cannot allot the share to more than 200 people in one year and if it exceed it becomes a public offer and comes under SEBI guidelines.

RBI is still in process of drafting the regulations for peer to peer and equity crowd-funding but not any legal law or regulation has finalized in India.

1.4. Challenges for crowd funding in India

1. Legal recognition is a big challenge for Crowd funding in India. Crowd funding yet not has any legal status in India and it is not abide with the rules and regulations, this is what stop bringing trust among people for crowd funding.
2. In Crowd funding fund raiser doesn't make any commitment of return.
3. Crowd funding is completely a technology based method which requires internet knowledge and access.
4. Risk of default is attached with crowd funding and it's a very big challenge.

Crowdfunding aimed at improving access to funds in India

For start- ups, the funding sources include private equity, and loan arrangements from financial institution. After the product or business becomes commercially viable public offering equity takes place. However, Funds may be ask for at an earlier stage, in Equity crowdfunding, for instance, pilot development. Thus, giving the Company, access to funds beyond the traditional sources mentioned above. It is essential to formulate balanced crowdfunding regulations in India that lower the cost of capital and increases liquidity while ensuring adequate investor protection and minimizing investment risks. For making the more access to crowdfunding following SEBI guidelines are proposed in India:

1. Only “Accredited Investors” may invest
2. Qualified Institutional Buyers (“QIBs”) to hold 5% of issued securities; at least 5% of issued Securities.
3. Retail Investor contribution: Minimum- INR 20,000 and maximum- INR 60,000
4. Maximum number of retail investors- 200
5. Start-ups which are less than two years old only, eligible to participate
6. Disclosure details on proposed business plan, intended fund usage, audited financial statements, management details etc.
7. Registered crowdfunding platform to conduct regulatory checks and basic due diligence of start-ups and investors; and Constitution of ‘screening committee’ by each platform comprising 10 persons with experience in capital markets, mentoring start-ups etc.

2. Conclusion

In India crowd funding brings certain advantages which other existing platforms are not providing to the startups. Crowdfunding is working as catalyst for new ventures. The lacking which is faced by crowd funding is “legal recognition”. Sometimes donors pull their hands back because of absence of authorized information of campaigner. Growth of Crowd funding is supported by rapid increase in internet users and role of social media in India. But SEBI has not given the approval to the digital equity shares in crowdfunding. In growing country like India more Along with all challenges some opportunities are also there in Indian market for crowdfunding which will open some new gateway for the growth of crowdfunding.

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