



## **CROWDFUNDING IN INDIA: OPPORTUNITIES AND CHALLENGES**

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### **Abstract**

*Crowd funding has evolved as a novel technique for raising capital, allowing entrepreneurs and inventors to obtain funds directly from the general public. India's crowdfunding market brings distinct advantages and challenges. This article investigates crowdfunding's viability as a financing option, the governmental and cultural constraints it encounters, and its future possibilities. This paper, through case studies and a complete study of current market developments, gives an understanding of how crowdfunding might be effectively used in India. By researching various crowdfunding methods and platforms, the researchers can determine the key elements impacting crowdfunding's popularity and development in India.*

**Key Words:** *Crowdfunding, Startups, Platforms, Campaigners, Backers.*

### **1.1 Introduction**

Crowdfunding, the process of supporting a project or cause (Jhaveri, 2014) by obtaining small sums of money from a large number of individuals, usually over the Internet, has changed the conventional finance structure. Crowdfunding offers founders an innovative option to raise funds for a wide range of initiatives. (Mollick, 2014) It has enabled entrepreneurs, creative people, and innovators worldwide by allowing them to access finances and validate their ideas. Crowdfunding is gaining traction in India, owing to increased internet penetration and broad social media use. However, the crowdfunding ecosystem in India confronts particular hurdles that must be overcome in order to reach its full potential. The purpose of this study is to investigate the potential and challenges that crowdfunding brings to India. By researching numerous crowdfunding strategies and platforms, the researcher provides a thorough overview of India's crowdfunding situation.

#### **1.1.1 Definitions**

*Thomas Lambert and Armin Schwenbacher* defined “Crowdfunding involves an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes.”

*According to E. Mollick* “Crowdfunding refers to the efforts by entrepreneurial individuals and groups – cultural, social, and for-profit – to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries.”

### **1.2 Literature Review**

The global economic downturn has made it difficult for individuals, entrepreneurs, and small businesses to receive loans from financial institutions due to insufficient guarantees or a lack of interaction with venture capitalists or business angels. This led to the development of crowdfunding as an option to fund new ideas. (Ho et al., 2014)



There are various models of crowdfunding, each serving distinct industries and requirements. Donation-based, reward-based, equity-based, and debt-based crowdfunding are the main methods. Donation-based crowdfunding involves backers making contributions without anticipating a profit. In reward-based crowdfunding, contributors get a good or service in exchange for their money. The largest category of CFPs is reward-based, while equity-based is the fastest-growing (Jhaveri, 2014). Through equity-based crowdfunding, supporters can contribute to a business in return for shares or stock. Peer-to-peer lending, or debt-based crowdfunding, is a model in which investors lend money to people or companies in exchange for interest-bearing repayments. Crowdfunding has grown significantly on a global scale. In addition to being a simple means of fundraising, crowdfunding is regarded as a creative environment with scope for advancement. (Lipusch *et al.*, 2016) Research demonstrates how well it works to raise money for companies, social causes, and artistic endeavours. The literature also highlights how crucial social media and technology. (Lu *et al.*, 2014) are to crowdfunding initiatives, giving campaigners the ability to successfully engage backers and reach a wide audience. Crowdfunding is still in its infancy in India, despite being well-established in wealthy nations. According to the research that is currently available, in order to promote the expansion of crowdfunding in India, a favourable regulatory framework (Hemer, 2011) for reducing information asymmetries and increasing consumer awareness is essential (Moritz *et al.*, 2015)

### 1.3 Objectives of the Study

1. To examine the growth and development of crowdfunding in India.
2. To uncover important opportunities in the crowdfunding ecosystem.
3. To assess the challenges and barriers to crowdfunding in India.
4. To examine the regulatory landscape and its implications for crowdfunding.

### 1.4 .Methodology

This study employed a qualitative methodology to examine the Indian crowdfunding landscape by including secondary data from major stakeholder reports and case studies. The information is acquired from various sources, such as crowdfunding websites, regulatory agencies, and successful project profiles. The analysis focuses on identifying emerging patterns and trends, as well as the factors that positively or negatively impact crowdfunding initiatives. Additionally, the study explores campaign designs, legal frameworks, and strategic methods that significantly influence crowdfunding outcomes. To present a comprehensive picture of the Indian crowdfunding scene, the intention is to highlight the challenges of navigating this financial architecture and the opportunities available to prospective campaigners. By providing a clearer understanding of the processes involved and offering practical insights, the article aims to significantly contribute to the conversation about crowdfunding and its potential as a financial instrument in the Indian context.

### 1.5 Crowdfunding Opportunities In India

#### 1.5.1 Access to Funding for Startups and SMEs

Crowd-funding platforms offer easy access to capital investment, reducing transactional costs and promoting innovation, commoditization, and startups by connecting creators, entrepreneurs, and funders. (Ho *et al.*, 2014) In India, crowdfunding presents a strong substitute for conventional financing techniques for new businesses and small- to medium-sized organisations (SMEs). Conventional funding sources, like venture capital and bank loans, can have strict conditions and a prolonged approval process. Conversely, crowdfunding offers entrepreneurs an easily accessible venue to directly present their ideas to the wider public and secure the required money. Startups and SMEs



stand to gain a great deal from this democratization of finance, which will allow them to launch cutting-edge goods and services.

### **1.5.2 Community Engagement and Support**

Through crowdfunding, business owners can create a community around their concept. Crowdfunding fosters community engagement by connecting initiators of innovative projects with supportive citizens, enabling collective financing for social entrepreneurship, promoting positive change, and addressing societal needs. (Elena & Cristian, 2014) Through consistent contact, updates, and personal networks, campaigners can build a sense of belonging and allegiance among their supporters, which is closely associated with crowdfunding success *Smriti, Pathak. (2016)*. Beyond monetary contributions, this community involvement can lead to supporters frequently becoming recommenders and project boosters. Leveraging these connections can increase the reach and impact of crowdfunding campaigns in India, where community and social media channels are essential for business and social interactions.

### **1.5.3 Diversification of Investment Opportunities**

Through crowdfunding, people can diversify their investment portfolios by contributing to the projects and initiatives they support. Crowdfunding offers a venue for investors, particularly those seeking different investment alternatives, to support creative initiatives and maybe earn rewards. The primary reasons for participation in crowdfunding investments are thought to be material and/or emotional. (*Jalonen, 2013*) Crowdfunding opens up a new investment option in India, where conventional investments like equities and real estate are more popular and appeal to younger, tech-savvy investors.

### **1.5.4 Role of Technology and Social Media**

The expansion of crowdfunding has been greatly aided by India's growing social media and internet usage. Technology and social media play an important part in crowdfunding by affecting fundraising results, directing successful promotional efforts, and forecasting project success rates based on consumer interest and commercial dynamics. (*Lu et al., 2014*)

Campaigners can utilise social media platforms such as Facebook, Twitter, LinkedIn, and WhatsApp to spread their message, interact with potential supporters, and reach a broad audience (*Bretschneider et al., 2014*). A flawless transaction experience for supporters is ensured by technology, which also makes secure and effective payment processing possible. The possibility of crowdfunding to connect with and engage a larger audience grows as internet penetration in India keeps rising.

## **1.6 Challenges in Crowdfunding in India**

### **1.6.1 Regulatory and Legal Challenges**

The legal and regulatory framework in India is one of the major obstacles to crowdfunding. Both supporters and project launchers are left feeling uneasy by the absence of explicit rules and regulations. Limited regulation in the crowdfunding market allows for diverse experimentation, but undesirable developments may occur. Policymakers must implement rules to protect both founders and investors. (*Hemer, 2011*) The development of equity- and debt-based crowdfunding is restricted since regulatory organisations such as the Securities and Exchange Board of India (SEBI) have not yet established thorough regulations for these fundraising structures. Concerns have also been raised about the Companies Act and the Foreign Contribution Regulation Act (FCRA) compliance, which can make crowdfunding more difficult.



### **1.6.2 Trust and Credibility Issues**

Building credibility and trust is critical to the success of crowdfunding initiatives (*DuVernet et al., 2016*) In India, where scams and fraudulent transactions have made backers suspicious, gaining confidence is especially difficult. Campaigners must provide clear and complete information about their ideas, including the risks and how the cash will be used. Platforms also help to ensure the credibility of campaigns by doing due diligence and assessing projects before they launch. However, the absence of a strong legal framework and standardised norms might damage trust in the crowdfunding ecosystem.

### **1.6.3 Market Awareness and Understanding**

Even with crowdfunding's increasing popularity, the Indian population is still mostly unaware of and uninformed about it. The concept and various crowdfunding methods are unfamiliar to a large number of potential funders. To boost participation and support, it is imperative to inform the public about crowdfunding's advantages, hazards, and operations. To reach a wider audience and explain the crowdfunding process, platforms and campaigners must spend money on marketing and awareness campaigns.

### **1.6.4 Cultural and Societal Barriers**

Crowdfunding expansion in India may face obstacles due to cultural and societal constraints. Participants in crowdfunding campaigns may be less inclined to do so if they have traditional beliefs about money, investments, and risk. One factor that may influence the uptake of crowdfunding is the inclination towards tangible assets such as real estate and gold as opposed to intangible investments. Furthermore, societal norms and expectations around financial support and giving might have an impact on how well donation- and reward-based crowdfunding initiatives perform. Mentality changes and greater awareness of the advantages and potential of crowdfunding are necessary to break through these cultural and societal hurdles.

### **1.7 Successful crowdfunding campaigns in India**

Several crowdfunding campaigns in India have successfully raised significant funds, showcasing the potential of this financing method. For instance, the regional movie "Lucia" used crowdfunding to finance its production, raising over INR 50 lakhs from more than 110 investors. The campaign leveraged social media and the film's unique storyline to engage backers and create a sense of community around the project. One of the pioneers of Indian crowdfunding is Adhitya Iyer, author of "The Great Indian Obsession: The Untold Story of India's Engineers." Through research and personal accounts, his book explores India's obsession with engineering jobs. Iyer set out to raise \$10,000 through an Indiegogo crowdfunding campaign in 2014. A total of 200 backers contributed almost \$12,000 to the campaign, which struck a chord with many Indians. Iyer was able to compile accounts from engineers all throughout India because of this funding. The book was widely praised for its candid examination of societal forces when it was published in 2014. Iyer's accomplishment demonstrated crowdfunding's potential as an effective fundraising source for independent ventures in India.

Failures in campaigns can teach us vital things as well, just as successes can provide insightful information. Transparency and communication issues are typical causes of crowdfunding campaign failures. Backers may become disappointed with campaigners if they don't receive regular updates or respond to their grievances. Furthermore, setting inappropriate funding targets or neglecting to properly market the campaign can lead to insufficient funds. Analysing failed campaigns can help



show common problems and effective practices, assisting future campaigners in organising and carrying out successful crowdfunding initiatives.

## **1.8 Discussion**

### **1.8.1 Comparison with Global Crowdfunding Trends**

When comparing India's crowdfunding ecosystem to global patterns, it demonstrates both similarities and distinctions. Globally, equity-driven and debt-based crowdfunding have been regulated effectively and are popular, particularly in the United States and the United Kingdom. In contrast, these models encounter considerable regulatory hurdles in India, limiting their expansion. However, crowdfunding can potentially democratise access to money and promote innovation in both contexts. Specific techniques are required to fully realise the promise of crowdfunding in India due to the country's distinct cultural, socioeconomic, and regulatory environments.

### **1.8.2 Implications for Entrepreneurs and Investors**

Crowdfunding allows entrepreneurs to verify their ideas, interact with potential customers, and generate capital without relying entirely on traditional finance channels. It also gives valuable market input, which helps entrepreneurs improve their products, services, and business methods. For investors, crowdfunding opens up new opportunities and allows them to support creative ideas and projects. However, the absence of regulatory certainty and potential threats necessitate careful analysis and adequate investigation.

### **1.8.3 Policy Recommendations**

To encourage the expansion of crowdfunding in India, a variety of policy ideas can be considered:

1.8.3.1 Establish Clear Regulations: Regulatory agencies such as SEBI ought to establish comprehensive guidelines for equity- and debt-based crowdfunding, offering clarity as well as protection to both campaigners and funders. The government should enhance crowdfunding platform motivation by implementing monetary regulation, market transparency, expanding financial acquisition channels, preventing phishing, and safeguarding investor rights(*Ho et al., 2014*)

1.8.3.2 Increase Awareness and Education: Both government and business stakeholders should make investments in awareness campaigns to inform everyone about crowdfunding, its benefits, and its drawbacks.

1.8.3.3 Improve Trust and Credibility: Platforms should use standardised methods for screening campaigns and maintaining transparency.

1.8.3.4 Leverage Technology and social media: Investing through technology and social media can increase the reach and effect of crowdfunding projects, attracting a larger audience.

## **Conclusion**

Crowdfunding has tremendous potential for India's entrepreneurial environment, providing a viable alternative to conventional financing. It gives startups and SMEs access to funding, encourages involvement with communities, and broadens investment prospects(*Golic, 2014*). To fully realise its potential, clear rules, more market knowledge, and measures to develop trust and confidence are required. Overcoming cultural and sociological constraints, as well as harnessing technology and social media, are all critical for the success of crowdfunding in India. Future studies should concentrate on long-term research to track the progress of crowdfunding in India and its effects on



different sectors. Crowdfunding has the potential to be a strong instrument for stimulating creativity and economic development in India if these problems and opportunities are addressed.

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