XIBA Business Review
4 (2) 2021, 24-27

Crowdfunding - A Rapid Traction of Social Investing in India

A. Pugazh Naavarasi*

Abstract *Crowdfunding is the rapid development of social investment in modern society. Crowdfunding is the joint effort of individuals, communities, or people coming together to fund business ideas. This sounds very familiar to the traditional notions of philanthropy or social support, but here money is meant to generate monetary or intangible income. In modern society, crowdfunding is raising money by connecting to the internet and using social networks. Crowdfunding has a tremendous potential in India, but it is still in its infancy. The purpose of this paper is to focus on the needs, challenges in crowdfunding, their acceptance in the Indian environment, crowdfunding platforms in India and the risks associated with the industry itself.*

Keywords *Crowdfunding, Social Investing, Crowd Sourcing, Indian Investors*

INTRODUCTION

Crowdfunding is gaining momentum as an alternative form of investment for investors around the world. Crowdfunding refers to raising money from many investors through a web platform or social networking site for a specific purpose. These goals can be projects (e.g. music, film, book publis-hing), philanthropy or public interest (e.g. joint or joint initiatives) or commercial ventures commercial. Generally, small financial contributions from a large number of individuals can meet the financial needs of invested companies that do not have access to these funds. These donations were raised through online crowdfunding platforms or social networks.

CROWDFUNDING STATUS IN INDIA

Donation/Social Loan Crowdfunding

A legal form of community crowdfunding in which donations are made in the form of donations without a motive for return. For example: goals such as social, artistic, etc.

Crowdfunding for Pre-Order

Investors contribute today with the aim of purchasing a product later, having purchased it before. For example, pre-order furniture made from post-production plastic waste. This is considered legal in India.

Crowdfunding Rewards

This is also a legitimate form of crowdfunding in which funds are contributed for the purpose of receiving a future or present tangible reward (e.g., pilot product, membership rewards program, etc).

Debt Crowdfunding

This is a form of Peer-to-Peer lending where an online platform connects lenders/investors with borrowers/issuers to provide unsecured and fixed interest loans. determined by the platform. In India, NBFC is licensed to operate as a P2P platform that can only conduct such transactions.

Equity based Crowdfunding

It refers to fund raised by a business, particularly early stage funding, through offering equity interests in the business to investors online. Equity Crowdfunding is considered unauthorised, unregulated and illegal by SEBI in India. The Securities and Exchange Board of India (SEBI), the regulator for the securities market in India, aims to protect the interests of investors in the country and due to the risks associated with crowdfunding equity, and it has been categorized as illegal. The risk of non-regulated investments is high because the investor may lack the skills and experience to assess the risk prior to investing. Small investors with limited savings

* Research Scholar, Xavier Institute of Business Administration, St. Xavier's College (Autonomous) Affiliated to Manonmaniam Sundaranar University, Tirunelveli, Tamil Nadu, India. Email: pugazhragaxiba15@gmail.com

may get attracted to such risky investments in the expectation of high returns if the start-up goes successful. However, in the absence of existing regulation and less recourse on the issuer of securities, these securities are not guaranteed and could constitute an obstacle the liquidity of a low risk appetite investor. Further, the investor relies on soft information and is not able to undertake due diligence to the extent that venture capital, private equity and other financial banks do with detailed information.

Future of Crowdfunding in India

Sources of start-up funding include private equity, angel investors, and loan arrangements from a financial institution. Any public offering of shares takes place only when the product or company becomes commercially viable. However, in equity-based crowdfunding, funds can be raised at an earlier stage, such as pilot development. Thus, allowing the Association access to funds beyond the traditional sources mentioned above. It is essential to develop a balanced crowdfunding regulation in India to reduce the cost of capital and increase liquidity while ensuring adequate investor protection and minimizing investment risks. SEBI released guidelines in 2014, through its "Crowdfunding Consultation Document in India" for crowdfunding to improve access to capital for start-ups businesses and small and medium enterprises.

SEBI's Key Recommendations for Crowdfunding

- Only "accredited investors" can invest.
- A qualified institutional buyer ("QIB") must hold 5% of the issued securities or more.
- Contributions from individual investors: minimum INR 20,000 and maximum INR 60,000 etc.

Crowdfunding Overseas Status

96% of all RFs in the US, UK and China (financial rewards) in the crowdfunding market, the United States is 51%, China is 28% and the UK is 17%. Israel and Japan have banned peer-to-peer lending and equity crowdfunding.

A successful crowdfunding campaign can be more profitable than just fundraising. It can,

- Generate a large amount of free publicity.
- Recruit many people to protect the company.
- Provide founders with detailed market information about their product or service.

RISKS IN CROWDFUNDING

Solvency Risk

In P2P operations this kind of risk will be magnified because of bigger imbalance between entrepreneurs and investors, as long as there's no regulation specifying what data is to be shared between them.

Liquidity Risk

That one party within the monetary operation won't acquire the required liquidity to assume its obligations is one in all the most monetary risks in ancient operations further as in P2P.

Credit Risk

Though this could be joined to the liquidity risk, this kind of risk is predicated on the chance that one in all the parties within the monetary operation could fail to assume all of the obligations in agreement between the bourgeois and therefore the capitalist and, therefore, that a loss could also be incurred for the opposite party of the agreement.

Operational Risk

This refers to the chance of experiencing losses ensuing from failures in processes, information, and internal systems of the platform further as losses ensuing from human error or the implications of events external to the operation that have an effect on its method, like name risks as an example.

Market Risk

The danger that exists as a result of the truthful price or future money flows of a monetary instrument could fluctuate as a results of value variations within the market.

Lack of Coordination

Although new rules square measure getting down to be created to control P2P monetary transactions, there's still some uncertainty concerning the appliance of sure native rules within the international context that raises capital from the community takes place, on condition that access to the relevant web transactions is international.

Poor coordination between regulators in several countries will cause a fragmented market and not facilitate crowdfunding grow. Specific rules square measure getting down to emerge in countries wherever P2P funding transactions square measure most typical, regulation these transactions with 2 goals, on the one hand, to safeguard unqualified investors conditions and, on the opposite hand, to facilitate access to finance for start-ups or tiny businesses WHO have issue self-financing within the typical monetary markets.

Crowdfunding sites facilitate innovators to launch ideas, social entrepreneurs to give birth to social amendment, and startups to lift funds. Most startups, tiny businesses, and people avoid difficult fundraising strategies. Raising capital through bank loans, capital and angel investors involves difficult procedures. additionally, before raising funds, startups should contemplate the various stages of funding to choose the way to raise funds. Crowdfunding may be abundant and fewer complicated model.

BEST CROWDFUNDING SITES IN INDIA THAT ARE SHAPING THE EXPANSION OF CONCEPTS AND STARTUPS, PARTICULARLY FOR ENTREPRENEURS

Milaap

Most popular for fundraising for private and social causes, Milaap could be a platform for people, NGOs and social entrepreneurs to lift funds for causes. The platform provides micro-loans to individuals in rural and underdeveloped areas of the country to support education, sanitation, health and energy. They concentrate on low financial borrowers, tiny funds for company and social activities for the aim of providing small loans to rural India.

Kickstarter

Kickstarter is one of the primary crowdfunding websites in India. The platform is most recognised for innovative initiatives. Films, books, research, and innovation are variety of the categories of campaigns that are often visible during this platform. From appropriate human consumption cutlery to a photographic assortment on Indian deities, to wearable fitness school for social impact, Kickstarter helps countless initiatives. The campaigners are anticipated to produce distinct rewards for distinct categories of finances to the donors. Focus areas of Kickstarter is power and merchandising and therefore their purpose is to deliver innovative initiatives to life.

Wishberry

Art, comics, publishing, theatre, music and dance, Wishberry is the platform that supports all artistic comes. For those trying to fund innovative comes, want berry is that the platform to travel to. It additionally helps activists with consulting and selling services. Like Kickstarter, Wishberry is additionally a rewards-based platform. Funders and donors receive rewards from the comes that they fund. Wishberry's mission to bring artistic and innovative concepts to life and build a community of patrons for artistic concepts in India.

Fuel a Dream

Some crowdfunding platforms are grappling with credibleness problems and therefore the credibleness of campaigns announce on the platform. Fuel a Dream is reducing the quantity of comes to unravel this downside, a part known as "Crowd Favorites" lists the foremost likable and sponsored campaigns. They concentrate on artistic concepts, causes, charities, events and community policy. Their goal is to alter ancient strategies and alter fundraising.

CONCLUSION

This paper concludes that crowdfunding represents a strong tool for plan testing and market validation request by expressing their interest through money donations. Crowdfunding is prime in building a network of individuals who multiply their data networking, raising awareness of rural tiny businesses. Crowdfunding represents a valuable supply of abstract information that make and answer accomplish higher market appropriate product launches. Therefore, sound into web audiences supply new ways that for entrepreneurs to induce the resources they have for concepts implementation would are troublesome for these firms within the past. This enables young entrepreneurs to focus not solely on creating cash, however additionally on caring, serving to others, and caring.

REFERENCES

Astelluccio, M. (2012). Opening the crowdfunding release valves. *Strategic Finance, 93*(8), 59-60.

Padhiar, J. (2021). Top 9 crowdfunding sites in India for startups to raise funds. Retrieved from https://digest.myhq.in/top-crowdfunding-sites-in-india

Manchanda, K., & Muralidharan, P. (2014). Crowdfunding: A new paradigm in startup financing. *Global Conference on Business & Finance Proceedings, 9*(1), 369-374.

Massolution. (2013). CF - The crowdfunding industry report. Retrieved from http://www.crowdsourcing.org/editorial/2013cf-the-crowdfunding-industry-report/25107

Steinberg, D. (2012). *The Kickstarter handbook: Real-life success stories of artists, inventors, and entrepreneurs.* Philadelphia, PA: Quirk Books.

Zvilichovsky, D., Inbar, Y., & Barzilay, O. (2013). *Playing both sides of the market: Success and reciprocity on crowdfunding platforms.* Paper Presented at the Proceedings of the International Conference on Information Systems, Milan, Italy.