



A study of alternative financing in India- Crowdfunding

Chaya R¹, Sharada Devi K G²

¹ Assistant Professor, Department of Studies and Research in Commerce, Karnataka State Open University, Mysuru, Karnataka, India

² Research scholar, Department of studies and research in commerce, Karnataka State Open University, Mysuru, Karnataka, India

Abstract

Crowdfunding is a collaborative effort by people to engage and support a personal, social, or corporate initiative. Large groups of individuals combine tiny individual investments to give the cash required to get a business or project off the ground. Individuals, non-profits, or businesses can launch campaigns for specific causes, to which anybody can donate. Nowadays, Crowdfunding is linked to the Internet and the usage of social media for fundraising. Even though the potential is enormous, Crowdfunding in India is still in its infancy. There have been lesser studies that have looked into the crowdfunding process. Not many in particular have investigated how social networks aid in the success of crowdfunding initiatives. Hence, the study investigates the operation and emphasis areas of Indian online crowdfunding platforms and how CFPs assist economic activities and social causes.

Keywords: crowdfunding, alternative financing, fundraising, social media, an online crowdfunding platform

Introduction

Crowdfunding, in its purest form, is the collection of cash from the general public. Most businesses face an intrinsic challenge in the early phases of their careers by attracting external financing due to a lack of indemnity and cash flows. Though there are various traditional funding sources for bigger firms, startups typically require a smaller amount of cash. As a result, they usually depend on peers for financial assistance. In recent years, most businesses have begun to rely on internet platforms for funding from the general public, rather than beating on the doors of traditional sources such as corporates, banks, or venture capitalists.

This approach, known as crowdsourcing, has made it feasible to raise funds for project-specific investments and launch new businesses. Crowdfunding has become very popular in recent years, allowing many individuals to collectively fund a new business venture or startup through a technology infrastructure. The present crowdfunding business consists of three players- the project originator, the interested investor, and a portal- that connects the parties. Ultimately, an increasing number of entrepreneurs are turning to Crowdfund to get their unique ideas off the ground.

The crowd has the finances that rising enterprises demand. The entire crowdfunding trend is to collect money through relatively tiny donations from the masses or a big number of people. An examination of ongoing fundraising efforts on crowdfunding platforms to offer an overview of recent developments in the financing of educational technology businesses. Identifying the most popular crowdfunding sites and describing the most successful crowdfunding projects in educational technology.

Crowdfunding is defined as a collaborative effort by people who network and donate collectively for a cause or a business concept. This appears to be very similar to the conventional notion of charity or social cooperation, but unlike financing, it is done with

the goal of gaining some kind of return, whether monetary or intangible. According to Matteo Rossi (January 2014), it is the process of supporting a project or business by soliciting a large number of modest amounts of money from a large number of people. He reveals the goals, characteristics, responsibilities, duties, and investment levels of crowdfunding activity. He stated that while Crowdfunding may give much-needed financial resources, there is no comprehensive data on the potential of Crowdfunding for scientific research, and he discussed his familiarity with other emerging ways to engage the public in scientific research.

Research objectives

- To comprehend the concept and various forms of Crowdfunding.
- To gain a better understanding of the performance of crowdfunding platforms in India.
- To comprehend the primary focus areas of crowdfunding platforms in India.

Research Method

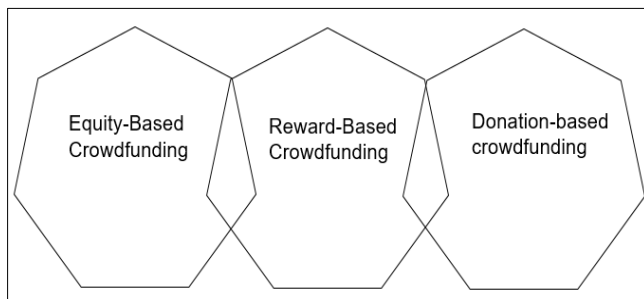
Data was gathered from published publications in periodicals, journals, and government publications in order to meet the aims stated above. The primary source of secondary data was collected from major crowdfunding portals.

Background

Crowdfunding evolved from the notion of crowdsourcing, in which a group of individuals collaborates to solve a problem. Participants in crowdfunding act as promoters and investors in support of suggested initiatives. As a result, Crowdfunding combines entrepreneurship with social network involvement.

In Crowdfunding, a proposer starts a project and asks for a particular amount of money to be raised in a certain length of time. Investors that are interested in the project can contribute money to it. If the fundraising objective is met, the money is awarded to the proposer, and the investors receive equal rewards. Most crowdfunding platforms (like Kickstarter) also follow an all-or-nothing principle: if the fundraising target is not met by the deadline, all money is refunded to investors, and all pledges are revoked. An all-or-nothing concept like this one helps investors avoid the danger of spending for nothing. Aside from fundraising activities on crowdfunding platforms, there are usually fundraising-related social activities on social networks such as Twitter. Specifically, unique and creative crowdfunding initiatives are prominently discussed on social networks where people are eager to share their interests, offer or reply to comments, and promote and publicize project news. These actions on social networks may be viewed as a complementary data source to crowdfunding websites, providing further insights into the crowdfunding process.

Types of Crowdfunding



1. **Equity-Based Crowdfunding:** By exchanging cash for equity shares, donors can become part-owners of a firm. The equity owners obtain a financial return in proportion to their participation (a percentage of the profits as a dividend or payout). This is the most common type of crowdsourcing.
2. **Reward-based Crowdfunding** is individuals donating to a business in exchange for a reward, which is generally a form of the product or service that the firm provides. The distance between the entrepreneur and the investor is irrelevant in this sort of fundraising. Many aspects of rewards-based Crowdfunding are referred to as non-equity Crowdfunding. This sort of funding is utilized in various situations, including support for free software development, film marketing, academic research, civic initiatives, and innovative innovations.
3. **Crowdfunding based on donations:** It is a method of raising funds for a project by asking many donors to each contribute a little amount without expecting anything in return.

This sort of fundraising is done mostly for social reasons, and nothing is asked in return. Natural disasters, calamity assistance, charities, and medical expenses are examples of joint projects for such support.

Customers turning into investors

When any of the crowdfunding methods uses a threshold pledge approach (where all pledges are voided only if a minimal amount is reached before some timeframe), we can see preliminary

investors as privately contributing to the public good; by donating, they increase the likelihood that the good or service will be put on the market. There is little doubt that valuable insights may be discovered in the large literature on finance and economics that analyses the private provision of public goods. However, contrary to popular belief, the good created after the threshold is achieved is of a personal character (there is no collective consumption).

Analysis and Findings

Crowdfunding stems from the wider notion of crowdsourcing, which employs the “community” to gather ideas, comments, and solutions in order to develop company operations. In the case of Crowdfunding, the goal is to raise funds for investment; this is typically accomplished through the use of social networks, particularly those accessible via the Internet (Twitter, Facebook, LinkedIn, and several other specialized blogs). Crowd-funders (those who supply the money) can sometimes engage in strategic choices or even vote.

Crowdfunding websites provide you with a space to host your campaign in exchange for a portion of the funds earned. Backers are offered different “benefits” based on the amount of financing they supply. These benefits might include a limited-edition promotional item, early access to the product being supported, or some sort of public recognition—the more cash provided, the greater the reward.

Most crowdfunding platforms ask you to specify a financial target for your campaign as well as a timeline for reaching that goal, which is often between 30 and 90 days. Some sites allow you to keep all of the funds received during a campaign, whether or not you reach your target. Other Crowdfunding platforms employ an all-or-nothing approach, in which money is returned to backers if the drive fails.

Social media in Crowdfunding

Media was utilized to study the structure of the postings, the sorts of expressions, and the movement in feelings. Furthermore, sources make an attempt to analyze Social media’s predictive capabilities. This shows how the Internet may be used to forecast real-world outcomes. They used a linear regression model to estimate box-office sales for movies. They then enhanced the results by categorizing hashtags to emotions.

An international study looked at the impact of a creator’s active blog engagement on four social media variables: Facebook likes, Twitter followers, Tweets, and Google hits on the platform name. He found a weak link between success and these factors. Another study looked at the link between social networks like Facebook friends/likes and social interactions and the effectiveness of a crowdfunding campaign.

The findings showed that there is no link between the size of a social network and its success; individuals’ contributions to the crowd initiate the crowdfunding procedure and impact the final value of the offers or results of the process. Individuals work as agents for the initiatives in which they believe, presenting, choosing, and marketing them. They occasionally take on the role of a benefactor, assisting with social causes. In certain situations, they become stockholders and contribute to the offering’s development and growth. Individuals share information about initiatives they support in their online networks, which generates further support.

The study looked at the influence of social capital on project success. Individual social capital had a substantial positive influence on the chance of project success. Still, territorial social capital had no significant effect on project success. The study of the relationship of campaign success to social network and media activities continues and indicates that successful creators have more friends but a sparse network, whereas failed creators have a dense network. They proposed that sparse and diversified networks are advantageous to project success

Findings

According to the study’s predetermined objectives, the top

crowdfunding platforms were assessed using a set of characteristics such as the scope, promotional tools, their Uniqueness, business model, the fee charged, fundraising limits, timeframes, and the total number of events and amount generated. The table above gives a clear overview of the crowdfunding platforms’ campaign emphasis points.

Furthermore, the table explains a comprehensive percentage-wise marketing trend. It is also clear that the scope of three out of four crowdfunding sites is limited. Because the concept is still in its early stages, promotion is critical. Each crowdfunding site has its own manner of doing so. The business models used by CFPs are equally important.

Table 1

Criteria	Ketto	Wishberry	Catapooolt	Milaap
Website	www.ketto.org	www.wishberry.in	www.catapooolt.com	www.milaap.org
Launched	2012	2011	2012	2010
Sectors	NGO’s, Corporates, Individuals.	Social, creative, technology, food and theatre.	Media and Entertainment, movies, books, and startups.	Healthcare, Education, Sports, Disaster Relief and Personal causes.
Scope	Limited	Limited	Wide	Limited
Marketing tool	Promotion by Bollywood celebrities	Reward-based Crowdfunding	Packaging Rewards	Cause-based campaigns.
Uniqueness	Campaigning for NGO’s	Exclusive Rewards	Focusing on Theatricals	Focusing on disaster relief.
Business Model	Raise funds for social, creative, and personal causes	Personalized Consultation, “All or nothing model.”	Startups, social and Technology.	Respond to a Personal and Societal cause.
Region of operation	Domestic and International	Domestic and International	Global with special focus on Asia	Domestic
Fees and commission	6%+ GST	100% + CC- 3500/- SMM & PR- 10000/-*	10%+18% of 10%+GST	5%, 8% and 13.5% **
Min. fundraising	Rs.1000	100% of target amount, else refunded.	80% of requirements.	No min goal, campaigner receives; whatever raised.
Duration to raise funds	Depends on the Project	Max 100 days	Max 90 days.	Flexible Time limit
Special Remarks	Higher CSR	Exclusive Rewards	Advisory role, to promote Crowdfunding	Societal concern in funding.
No. of Projects	80,000+	500+	50000	1,00,000+
Amount Raised	300 crore+	Rs.13 crores	N/A	Rs.413.81 Crores

Source: Crowdfunding platforms.

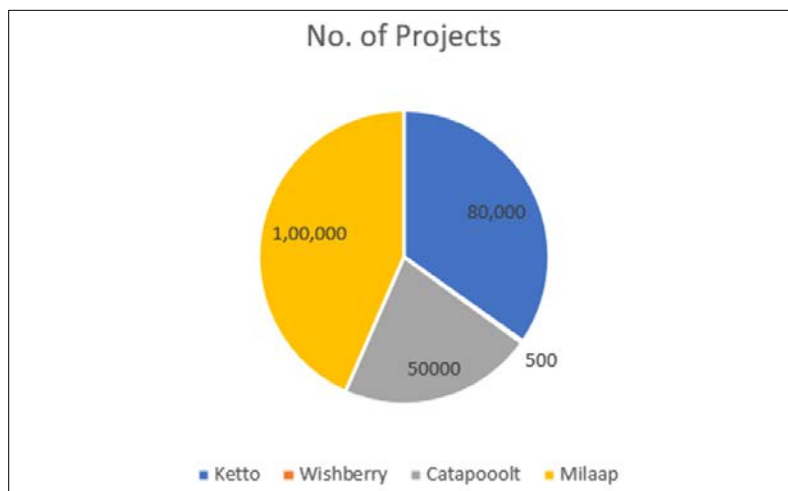


Fig 1

CFPs use the ‘keep it all’ paradigm or the ‘all or nothing model’. CFPs charge variable fees and commissions ranging from a

minimum of 5% to a high of 13.5 %, plus GST. It is also worth noting that the CFPs have backed a large number of projects

ranging from 500+ to 100,000+, as well as raising money ranging from 13+ crores to 400+ crores. The focus regions among projects are depicted in the table above of four crowdfunding sites. The crowdfunding site clearly has a wide range of industries to focus on, but the bulk of campaigns revolve around innovation, social issues, science and technology, and ICT.

The data also showed that entrepreneurship and social reasons are given more weight, which is a positive indicator for an economy's overall development.

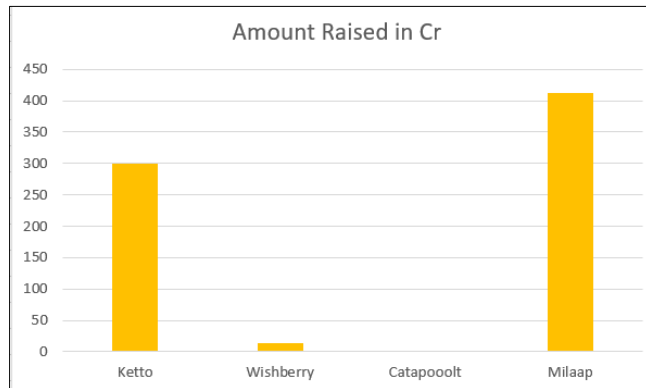


Fig 2

Crowdfunding has a lot of theoretical potential if it is executed and accepted by the public. This study was carried out to better evaluate the potential operation of crowdfunding platforms in India, using a restricted number of criteria and Campaigns. Furthermore, the possibility of doing research on international CFPs with a greater number of factors and campaigns is broadly accessible.

Conclusions

Crowdfunding is sometimes known as “free and fair finance” since it does not use typical financial middlemen. Crowdfunding, which has enormous promise, is undeniably in its infancy. As a result, it is imperative that policymakers examine the legislation and provide a robust support structure for this prospective industry. Crowdfunding plays an important role in capital accumulation for small and medium-sized businesses, which would otherwise face significant difficulties with traditional means of capital accumulation such as banking institutions. Crowdfunding platforms are an excellent resource for both fund seekers and fund providers, but they must enhance their competencies in order to compete for mainstream financing in the future.

Because the study duration and scope were limited to that of a research article, the Crowdfunding portals were also chosen at random, as were the campaigns for the study.

As Crowdfunding grows in popularity as a viable fundraising technique in many sectors – via the collaborative efforts of individuals who network and pool their money together – it becomes necessary to consider how to attract additional donations. In this article, we showed the underlying comparisons for crowdfunding platforms.

In 2025, Crowdfunding is estimated to be worth \$1 trillion. According to data published in a May 2014 study titled “The State of the Crowdfunding Nation” by the United Kingdom-based The Crowdfunding Centre, more than US\$60,000 was raised on an

hourly basis via worldwide crowdfunding projects during March 2014. Daily, 442 crowdfunding initiatives were started throughout the world during this time period.

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