

# CROWDFUNDING: CURVATION TO RAISE FUND THROUGH INFOBAHN

**Ms. Simpi Khandelwal**

Research Scholar, Gold Medalist  
(MBA – Finance), Jiwaji University, Gwalior

**Dr. Vishal Vyas**

Assistant Professor Finance),  
Management, IIITM, Gwalior

**Dr. Swarna Parmar**

Sr. Assistant Professor(finance),  
SOS (Management), Jiwaji University, Gwalior

## ABSTRACT

*Crowdfunding has been touted as a financial archetype to raise fund through digital technology, giving shape to financial inclusion which contour the threshold for growth and development in India. This financial innovation curving the funding structure through digitalised social platform. Crowdfunding bracket covers donation, reward, debt, and equity. It is an open choice to fund the idea, concept or cause as it does not pose compulsion on an individual. The umbrella of crowdfunding curtails the gap of funds for start-ups. It is an alternate and auxiliary source of capital where efforts are funded by drawing small contribution from large number of individuals or legal entities without long established financial intermediaries. As the digitalisation fuels advancement in different ways to communicate, connect and participate with others, it gives spark to the financial inclusion in varied realm of the country. This paper attempts to hold broad insight into crowd funding in India for new innovative value-added ventures. Further, this paper highlights the challenges and associated risk along with future prospect to foster financial inclusion into the deep-seated roots of the country.*

**Keywords:** Crowd Funding, Financial Inclusion, Financial Archetype

## INTRODUCTION

Crowdfunding is an auxiliary financing method, whereby bantam funds are raised from individual at large or from legal entities to fund definite cause or purpose, projects, businesses, or other needs. It involves circumventing regular financial intermediaries and using infobahn web-based platforms to connect with funders. Crowdfunding comprised of key elements like to raise bantam funds, from many individuals by using digital technology. Crowdfunding forms the part of financial innovations enabled by technological advancements. It is touted as a financial archetype to raise fund through digital technology which gives shape to financial inclusion that contour the threshold for growth and development in India.

The origin of crowdfunding got evolved from “collaborative finance” and “crowdsourcing” notion. Here, crowdsourcing touches the power of the crowd to increase efficiency which would be impossible for a single individual to undertake alone. While crowdfunding taps into the wallet of the crowd, bringing together an individual or entity in need of funding with coterie members willing to contribute. Crowdfunding mainly forms a part of FinTech's subcategory called alternative finance (AltFi). AltFi refers to technology-enabled market-based funding apart from traditional financial system through infobahn.

There was a long-ago practice where a person used to borrow the money from other person with certain rate of interest and the money needs to be returned at specified time with interest. Here, in the concept of crowdfunding the small sum of money is raised from many people through online platform by explaining the need or purpose. It is the funders choice whether to give money or not, depend on his thought of giving, refers, to as psychological connectivity with the cause or purpose. It does not pose any compulsion on an individual. In today's scenario it covers the four brackets of donation, reward, debt, and equity which is its pillar for formation stage. It is curving the funding structure through digitalised social platform. The umbrella of crowdfunding curtails the gap of funds for start-ups. It is an alternate and auxiliary source of capital where efforts are funded by drawing small contribution from large number of individuals or legal entities without long established financial intermediaries. As the digitalisation fuels advancement in different ways to communicate, connect and participate with others, it gives spark to the financial inclusion in varied realm of the country.

It offers what new is the concept of intermediation which is expedite by technology as the notion of paralleling people to the one who need money with the one who has money to fund. Crowdfunding has the budding efficiency to transform retail financial services through smartphones and other devices via infobahn connectivity in constantly changing economic conditions. This could foster economic growth and entrepreneurship. This paper asserts that crowdfunding is marvelled as an important role in financial inclusion. At first, crowdfunding crop up in developed countries, and took off smoothly, with the emanate markets and developing countries to forte the financial inclusion into the deep-seated roots of the country. To map the crowdfunding globally requires further attention of policy makers. It has potential to benefit financially forbid and underserved people including improved access to finance and facilitating access to digital investments that currently have lower financial returns on their savings.

There are various curves which determine crowdfunding usage that showcase the problem and its attainment. It is a passage to the fundraisers to reach public at large through infobahn. It also clarifies which crowdfunding bracket to use. Crowdfunding flowchart is presented in figure 1, which showcase the different parameters for the use of crowdfunding bracket.

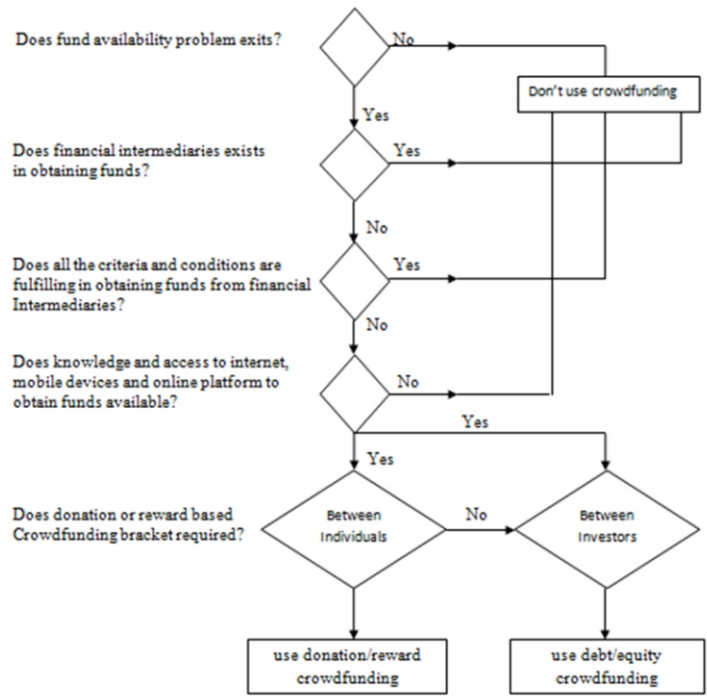


Figure 1. Flowchart of different crowd funding brackets  
Source: Author own analysis

Some remarkable definitions are also accorded by, European Commission, 2016, World Bank, 2013, The International Organisation of Securities Commissions (IOSCO), 2014. Crowdfunding leads to extension of monetary services to the different sectors apart from financial institutions with easy funds availability to poor individuals which leads to reduction in the circulation of fake money. But its another side cannot be ignored. It does not serve individuals that do not have gadgets like smart phones or digital devices as it relies on internet, which excludes individuals that do not have connectivity to it and if digital data security breaches then it can turn down customers' trust in digital platforms. In India, various policies and regulatory environments are not enabling full-scale crowdfunding.

This paper provides a discussion on issues which involve challenges and risk associated with digital financial inclusion via crowdfunding for start-ups in India. Digital financial inclusion through crowdfunding proves to be boom for the users who are in need of financial services, digital fund providers and for the economy as a whole. Its working system challenges and associated risk in the area of start-ups are discussed as its outcome to be a catalyst for greater financial inclusion via digital finance. It is known to be a FinTech, the next big thing in finance and the fastest growing financial industry. Fintech providers have pragmatic effects for financial inclusion in developing economy and the accessibility that digital finance through crowdfunding. It cater individual requirement with the availability of funds which is more worth than to obtain funds through financial market. Despite of the advantage of crowdfunding, this paper highlighted challenges and risk associated that it poses for financial inclusion. Finally, an alluring direction for future prospect to foster financial inclusion is discussed.

## **CROWD FUNDING BRACKET**

Crowd funding bracket covers coterie and financial return funding platform (donation, reward, debt, and equity). The well-known brackets of coterie funding (donation and reward) are working from long time but what is stored for the other bracket is worth study for. These brackets stand upon on what funders expect in return for their money. It may be satisfaction to fund noble cause, it can be reward in any form, it can be interest, or it can be share in profits that drives motivation to invest. Coterie funding, that is, donation and reward-based crowdfunding are the crux of crowdfunding emergence.

## **COTERIE FUNDING PLATFORM**

### **a. Donation-Based Crowdfunding**

Donation-based crowdfunding allows donortogive money to the people who in need with no monetary return through an infobahn platform. This type of crowdfunding is used in non-profit organisations to support various causes pertaining to social, environmental, charitable, or the support to save animals. The platform earns its revenue from the fund collected from each donation. It includes two ways to perform, first, through personal campaigns and second, charity fundraising. Individual beneficiary, a ménage, or a small coterieforms the part of personal campaigns which raise money for a cause of their own interest. It includes to fund medical treatment, education, and many more areas whereascharity fundraisinginvolves a registered charity.Both personalcampaigns and charity fundraisingcan be furtherance as either all-or-nothing (the beneficiary receivesthe collected funds only if threshold has been met)or keep-what-you-raise campaigns (the beneficiary can keep thefunds whatever is raised).It offers the benefit of social participation and afeeling of gleam, voting with money and formalization of support whereas it puts the side of risk too in form of fraud, fake campaigns,cyber-attack, bearing the cost of campaign, currency exchange rate exposure, taxes, failure of platform technology leading to loss of data as well as funds, money laundering and enhancing terrorist financing purposes due to lack of regulation and oversight.

### **b. Reward-Based Crowd funding**

Reward-based crowdfunding allows funders (donors) to bestow to campaigns in return for a non-monetary reward. Rewards can be in form of token of appreciation, or pre-purchasing of a product or service before it is launched in the market, some offers, gift vouchers, etc based on the contributed amount. Reward-based crowdfunding shares similar characteristics with the donation-based crowdfunding. It is mostly to fund art and for the development of new products and innovations.Reward-based crowdfundingis paramount to fund innovations, as iterves publicity purposethrough campaigns.Innovators raise awareness and usage about their innovativeproducts and receive feedback and response from core customers.It offers the benefit of front runner status, enables innovator to access capital at a lower cost as compared to traditionalway-out, crowd vigorous alertness and good tips helps to access risk to start any project.

However, it has number of shady sides too like incompetency in delivering the product along with promised quality, only relying on wisdom of crowd may not be always turnup good, beneficiaries had to disclose their innovative idea and product that it may breach their intellectual property rights. The risk of it to get copied before them always persists.

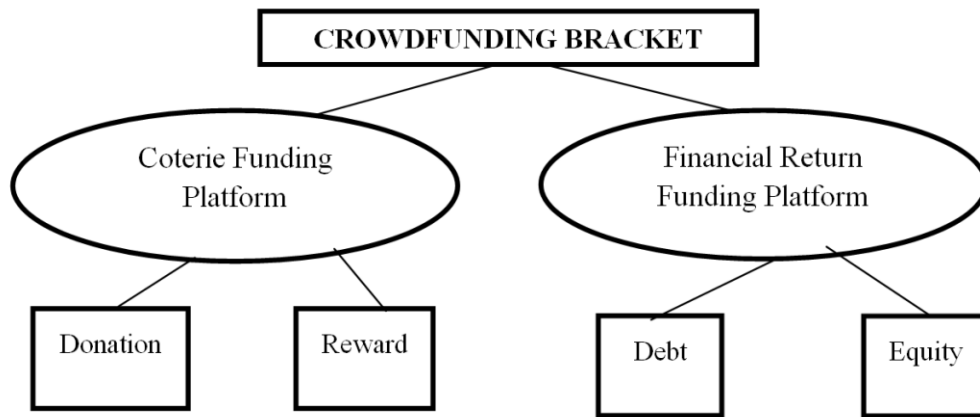
## **FINANCIAL RETURN FUNDING PLATFORM**

### **a. Debt-Based Crowdfunding**

Debt-based crowdfunding allow the funders to lend money to fundraisers or to invest in their projects in return for interest. It is also known as loan-based crowdfunding or individual to individual lending, person to business lending or else business to business lending. Based on segregation introduced by IOSCO and other researchers (Kirby and Worner (2014, pp. 16–19)), there are five major operational models of debt crowdfunding: (i) client-segregated account, (ii) balance sheet lending, (iii) notary, (iv) “guaranteed” return, and (v) offline. Debt-based crowdfunding offers benefits that leads to access to new investor class, financial return, access to fund at lower cost, bridges the gap left by the bank and convenient and operational to 24\*7. Benefits always come with its shady side too. It possesses risk of financial loss, there is a lack of transparency, and funder amount is blocked, over indebtedness of fundraisers. This is a prohibited crowd funding majorly around the world.

### **b. Equity-Based Crowdfunding**

Equity-based crowdfunding allows a person and institutional funders to invest in an unlisted issuer in exchange for shares. Funders in equity crowdfunding platforms purchase shares, which look for innovative idea or project through InfoBahn connectivity, thus, becoming owners but their formation is illegal to raise funds by selling equity. It will suit for start-ups. If an investment target is reached, the deal is closed. These platform charges a commission based on the amount raised and, in some cases, based on future profits. It benefits in many ways like access to good investment opportunity along with financial gain, it helps fundraisers to reach out globally and fetch for good investment from many to many investors along with limited liability. As this bracket is not operational in India but yes it holds good future for financial inclusion prospects.



**Figure 2.** Crowdfunding Brackets

**Source:** Author own analysis

Thus, from the above brackets it can be concluded that donation and reward-based crowdfunding are coterie funding platform where financial return is not the only aim. Deriving satisfaction, belongingness and up heading moral values are its core outcome. Whereas, debt and equity-based crowdfunding are the financial return funding platform where monetary benefit is foremost goal of the funder. Both sets of funding platform lead to the financial inclusion in India as can be seen in figure 2.

## CROWDFUNDING WELLSPRING FOR VENTURE FUNDS IN INDIA

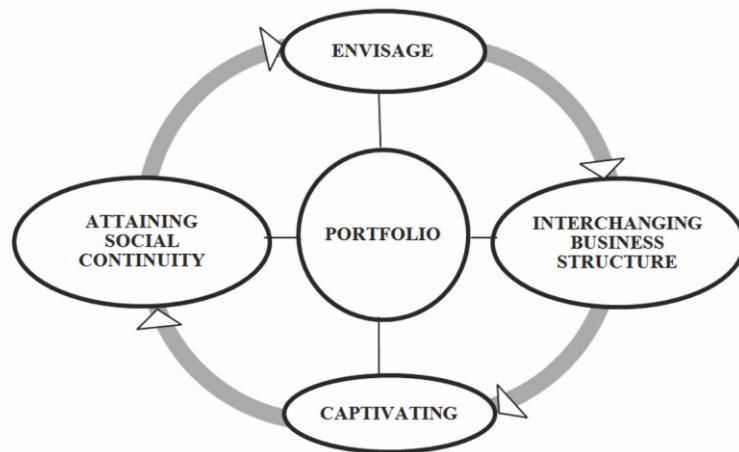
Crowdfunding an auxiliary source opens the gate for venture capital through infobahn where the idea or concept is disclosed to public at large via platform and it gives open choice to public to make contributions (by the funder). Financial return crowd funding (alternate and auxiliary source of funding)platform is tuning tobridge fund gaps evidenced by start-ups from the traditional source of financing that is banks. Crowdfunding, either online or offline requires effort to make campaigns and publicize them.

Start-ups have numerous benefits through crowdfunding. It let people to evaluate the plan the start-uphas and provides valuable feedback through interest of the consumers along with, it greatly popularizes your brand. It serves as manure to the seeding start-ups and to the budding SMEs.

The positive or negative increase in fund depends upon which type of platform the funds are called for. Donation and reward-based funding do not

depend on financial return, but debt-based crowdfunding surely depends upon the financial return which converts donor into investor. In India, start-ups cannot be equity-based crowdfunding.

Crowdfunding is wellspring for venture fund as it is anticipated to bring number of benefits both to the funders and fundraisers like portfolio diversification, assets building, low cost funds and quick access to it, democratization of finance and many. It is a platform where customers, investors and entrepreneurs are brought together as it is an open and multisided network that matches funders and fundraisers. It holds attention of many investors to fund the project for start-ups. This unique structure blends both social and business network and comprised of more distant network relationship. Figure 3 shows blend of four synergic capabilities that forms the portfolio for the change in business financial archetype.



**Figure 3.** Four Synergic Capabilities: Change in Business Financial Archetype

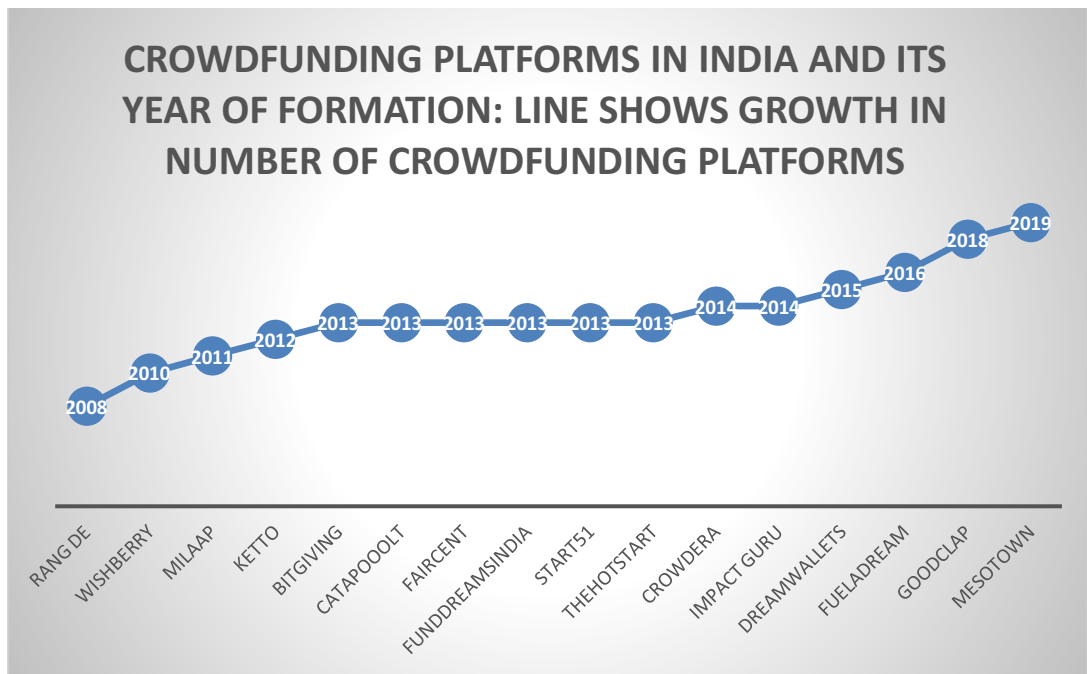
**Source:** Author own analysis

Here the role of social media cannot be failed to hit. Its interplay helps in achieving the desired amount and reaches to the world at large. Since personal network and project traits are associated with victory of efforts that provide opportunity to move towards sustainable society. As most of the Start-ups are hungry for financial resources that catches the attention for new source of finance. This source of finance ignites in year 2008 by Rang De



platform and for the others their journey begins. Bitgiving, Catapooolt, Crowdera, DreamWallets, Faircent, FuelADream, FundDreamsIndia, Impact Guru, Ketto, Milaap, Rang De, Start51, TheHotStart, Wishberry, Goodclap, Mesotown and many more are the crowdfunding platforms in India.

Crowdfunding is the budding source of finance in India specially with highest facebook social mediabase with 270 million users as of July 2018. This open the gates for infobahn web system for fund raising. Faircent.com is India's largest peer-to-peer (P2P) lending platform to receive Certificate of Registration (CoR) as a Non-Banking Financial Company (NBFC - P2P) from the Reserve Bank of India (RBI) with 40,000 registered lenders, 3.5 lakh registered borrowers, and 6,000 loans processed as of May 2018 (source: faircent.com). It is projected to reach large in numbers in near future. This move for offering lower rate of interest loans to borrowers boosts its coverage and reach. There are many platforms in India for different purpose and need solution that are serving fundraisers to raise funds for causes in various fields including entrepreneurship, cultural causes, social causes, medical causes, research work etc.

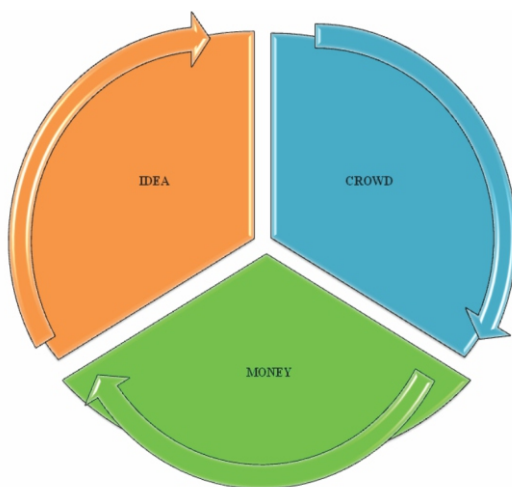


**Graph 1.** Growth in Crowdfunding platforms in India year by year

**Source:** Author own analysis

The above graph showcases the crowdfunding platforms in India and their year of establishment from 2008 to 2019. It gives explicit insight into the growth history of number of companies for more than a decade. Platform named Ignite Intent which was formed in the year 2013 but it becomes non-functional in the year 2016. Crowdfunding is catalysing the funding archetype for start-ups, which helps in enmeshing more innovative ventures to raise fund smoothly and run their business. Growth in number of companies not only fuels advancement in different ways to communicate, connect and participate with others, but also gives spark to the financial inclusion in varied realm of the country.

The US and other countries around world have already unfolded the laws and regulations towards crowdfunding implementation to function effectively. Every origin has its own challenges and risk, but its intensity needs to check upon. There are no serious consequences that can be concluded if crowdfunding in India comes under legal scrutiny. It has resulted an inclusive crowdfunding system which will play catalytic role in yielding start-up proposition into reality. It is one of lubricating model for raising capital that will foster financial inclusion in India.



**Figure 4.** Chain to raise fund from Crowd: Nucleus of Effort

**Source:** Author own analysis

Figure 4 represents simple chain of crowdfunding approach to raise fund from crowd. It states that an idea is presented to crowd via platform and if they like or are interested than they can fund for the same that results in slew of funds that can finance idea to wings its working. Crowdfunding platform

offer ready to move in market for the innovation that is done in India. From getting innovations move in market with low overhead costs to interact directly with the customers are making crowdfunding platform an attractive option for innovators. [Versatyl travel jacket](#), SPERO electric bike, weaving ASU machine and many more are the examples of innovative start ups. These are funded through fuel a dream crowdfunding platform.

Crowdfunding platform has many benefits like improved access to finance, producing innovative models for financial inclusion, access to new investor class and likewise. But it cannot get rid from many issues, challenges and associated risks. The foremost issue of crowdfunding in India to finance start-ups from the development perspective which is yet to be seen. The vital check of crowdfunding depends on the extent to which this mode of fund is used to bolster financial inclusion and economic growth in India. It holds the challenges and the associated risk which are shown in table 2.

### CHALLENGES AND ASSOCIATED RISK OF CROWDFUNDING

CHALLENGES	CHALLENGES
<ul style="list-style-type: none"> <li>• The poor, financially forbid, and underserved, are not connected much, only few crowd funding platforms till date are devised to target this segment.</li> <li>• Obtain credit scoring or worthiness of borrowers by platforms that may extend access to credit.</li> <li>• Limited access to technology as to that population who does not have access to the web that turns it tough for innovators to horizon international funders and to build an extended network.</li> <li>• Lack of awareness and trust in many markets as due to slight awareness among core users about this innovative source of finance.</li> <li>• Selection of adequate platform that can reach to the millions itself is a big challenge.</li> <li>• To set right image for crowd funding in the mind of investors.</li> </ul>	<ul style="list-style-type: none"> <li>• There is no legal regulation and framework or a watchdog that can hold the collar of forged people.</li> <li>• No insight into the system where money is going it can be fake web infobahn that frauds with the fund.</li> <li>• No proper tracker to catch hold of raiders and transfer money back.</li> <li>• No set transparency to know how and where funds are utilised.</li> <li>• No clause of what if project fails, will money be refunded back.</li> <li>• Threat of cyber-attack that can lead to loss of data and funds.</li> <li>• Disclosure of idea or concept may lead to breach of intellectual property.</li> <li>• Rare case, if technology fails, it may lead to complete erosion of full data set even the funds.</li> <li>• There is no proper way out for investor protection for the loss or misuse of fund.</li> </ul>

**Table 2.** Challenges and Risk: crowd funding for new venture  
**Source:** Author own analysis

## **DISCUSSION**

This paper summarises the mapping of crowdfunding in India for start-ups and SMEs. It is a gleam for financial inclusion in India by improving access to unserved people at large. The crowdfunding platform will be able to promote financial inclusion only when sound legal and regulatory framework exists. In 2016-17, SEBI had sent show cause notices to several crowdfunding platforms, including technology providers such as LinkedIn, for facilitating fund raisings that are in violation of SEBI rules. SEBI registrations will impact the freedom of these platforms that typically cater largely to smaller start-ups. Policymakers need to find the way to regulate crowd funding to achieve market building potential along with managing risk that comes along with it. In absence of proper framework, it may break or worse the trust of the funders that is born to revolutionise.

This paper lays backstory by providing overview of crowdfunding web system and specifying its brackets. It also presents challenges and risk associated with it along with number of benefits that can broaden the funding structure in India.

The absence of regulation on financial return crowdfunding that can cause lack of internationalisation of fact that it reduces marketing costs and has potentiality to receive feedback from market. It is still a neoteric and evolving mode which is reliant on Web2.0 technology. However, this study presents deeper insights into crowdfunding platforms that act as a funding begetter for start-ups.

## **CONCLUSION**

This paper presents conceptual clarity of crowdfunding, it discusses about major brackets of crowdfunding and showcases it through table that enables to decide when and which crowdfunding bracket to use. Financial return platform that is debt and Equity crowdfunding require more footsteps to establish in India that can boost financial inclusions strongly. Further, funding structure for start-ups in form of venture funds is discussed which specifies major issues in form of challenges and risk associated with it. There exist numerous benefits to raise fund via crowdfunding is also highlighted. Four synergic capabilities that form the portfolio for change in business financial archetype is presented.

Crowdfunding umbrella curtails gap which is left by financial intermediaries and can boost up fund raising through crowd more easily. In-depth competitive analysis of crowdfunding in India requires study which can showcase impact of crowdfunding access to unserved people. It also has a potential for equity-based crowdfunding to work forward to improve the level of crowd awareness. Basic legal and regulatory framework requirement is to be addressed and risk faced by both financial return crowdfunding platforms. Combining crowdfunding with blockchain technology leads to the future prospect for growth and development of country's economy. It will transform greater financial data inclusion to real financial inclusion.

Thus, this paper sums up with the crux of crowdfunding leading to greater financial inclusion that can meet out demand for fund requirement to materialise the idea or concept into practice. Crowdfunding bracket covers two platforms with its subdivision that specifies the type of crowdfunding opted for. As per SEBI, the knowledge of investments by citizens of India is not at par. Therefore, equity based crowdfunding and investment based crowdfunding are not in vogue in India.

Crowdfunding platforms in India are epidemic and have a enormous role in raising fund. Graph is presented to depict growth in number of firms over a decade and can be more enhanced with the trusted source by inducing blockchain technology into this system. It also invites hardcore effort to set right frame of the term crowdfunding in the mind of people to make its reach to the financially excluded people at large that can boost its coverage and can contribute to financial inclusion at its best that can foster growth and development in the country.

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