
Crowdfunding for Entrepreneurship in India: Does It Feasible?

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Abstract

For economic growth, job creation, and poverty reduction, India requires more entrepreneurs. Many people wish to start their own businesses or try out their business ideas for the first time. They do not, however, succeed. Access to capital at an early stage and during the growth phase of a business is the most significant challenge to overcome in entrepreneurship. This paper tries to find a new way to fill the financial gap for setting up a business for those who do not have funds or need financial support for their ideas. Crowdfunding is a new and popular approach to raise funds for a variety of causes, including entrepreneurship, medical expenditures, disaster relief, education, and food for the needy. This study looks into the viability of crowdfunding as a tool for entrepreneurship development in India. The paper is exploratory in nature, and it explores the legality, availability, accessibility, and funding process of crowdfunding. The legality of crowdfunding has been investigated using the government report and existing rules and regulations. An in-depth study of numerous crowdfunding platforms and reports linked to crowdfunding has been explored the availability, accessibility, and funding method of crowdfunding.

Keywords:

Crowdfunding;
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Introduction

Entrepreneurship development is the process of a person becoming an entrepreneur in a systematic and planned manner. Entrepreneurship development refers to developing entrepreneurial abilities in ordinary people, providing necessary information, developing technical, financial, marketing, and managerial skills, and cultivating entrepreneurial mindsets. Entrepreneurship is a driving force behind the country's growth. According to the research, entrepreneurship may play a vital role in accomplishing crucial policy goals for the

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country's growth. The following are the primary areas where increasing entrepreneurial activity can make a significant difference:

- i) Provide chances for job creation, career advancement, and the development of new products/services
- ii) Increased productivity, innovation, and economic growth.
- iii) Poverty reduction and social inclusion.
- iv) Attract new customers and expand the markets.

Entrepreneurship starts with innovative ideas, and it goes through commercialisation with the execution of a proper business plan. The first step of any business is to invest some capital, and this initial capital is called a seed fund. The entrepreneurs fulfil the requirement of seed fund through own saving or by financial help from friends and family. The studies reveal that most of the ideas could not shape due to lack of initial funds or unavailability of finance. Furthermore, there is also a financial gap at the growth phase of the businesses. One of the constraints of entrepreneurship development in India is the lack of access to finance at all stages of business. Crowdfunding is a new and trending way to raise funds for innovative business ideas. It has the capability to minimise the financial constraints of entrepreneurship.

Concept of Crowdfunding

As per the SEBI draft on crowdfunding, "Crowdfunding is a solicitation of funds (small amount) from multiple investors through a web-based platform or social networking site for a specific project, business venture or social cause". In a blog post in 2006, Michael Sullivan created the word "crowdfunding" to refer to philanthropic donations. Crowdfunding is a new, inventive way to raise funds that is facilitated by technology. It's an innovative way to support a wide range of business projects.¹It empowers individuals to seek support from the crowd or masses for artistic, for-profit, or social purposes (Mollick, 2014). For entrepreneurs, crowdfunding has become a valuable source of fundraising as an alternate source of capital. An individual entrepreneur can use an internet crowdfunding platform or social media to raise funds.

¹Sherwani, N. U. K., et al. (2018)

Category of Crowdfunding

Crowdfunding is categorised into four categories: donation-based crowdfunding, reward-based crowdfunding, peer-to-peer lending (Interest-based crowdfunding), and equity-based crowdfunding.²

Crowdfunding: how does it work?

Crowdfunding is an innovative new way to raise funds from the public. Different stakeholders are involved in the crowdfunding process. Identifying the participants and their respective influence on the process is the best method to understand the working ecosystem of crowdfunding. In the crowdfunding ecosystem, there are four primary players.³

Website Providers

According to the analysis, crowdfunding is a technology-based phenomenon in which website providers supply online platforms. Founders can promote their initiative to a huge number of potential backers through online networks. The website providers also serve as a communication route between the creators and backers with social media sharing capabilities. They make it easier for both entrepreneurs and backers to make secure payments. The website providers' overall responsibility is to design and manage the entire crowdfunding process and ensure it executes properly (Beaulieu et al., 2015, Sherwani et al., 2018).

Founders

The term "founders" is used to describe people or groups of individuals who start a crowdfunding campaign in order to raise funds for their idea. Borrower, creator, entrepreneur, company, owner, and startup are some of the terms used to describe founders. Apart from raising funds, founders can utilise crowdfunding to obtain visibility for future funding, test the market for an idea, gain validation, and create relationships and collaboration with backers. (Beaulieu et al., 2015, Sherwani et al., 2018).

²*ibid1*

³*ibid1*

Backers

Individuals or institutions who invest or contribute funds as consumers, contributors, investors, crowd funders, funders, or lenders are referred to as backers. The goal of backers is to provide finances and test the market and provide feedback on an idea.

Traditional Capital Market

The traditional capital market is made up of angel investors, venture capital funds, and banks. The traditional capital market serves as a source of financing for funders. The traditional capital market also serves as a validator for the presence of a market and the exploration of various price points in the crowdfunding ecosystem.

Legal or Ethical Actors

Controlling the crowdfunding ecosystem is also critical. It ensures that it is safe and fair to all participants while adhering to accepted legal and ethical guidelines.

Benefits of Crowdfunding for Entrepreneurship

Crowdfunding may help entrepreneurs and early-stage companies to verify their ideas, acquire funds, locate early users, and gain the awareness they need to succeed. To summarise, a crowdfunding campaign can help a startup get more momentum than other financing options since it is: i) more efficient, ii) has social proof and validation, iii) attracts early adopters and devoted supporters, and iv) marketing and media exposure.

Research Question

The research question of this study is to evaluate the feasibility of crowdfunding for entrepreneurship in India?

Components for Research

The feasibility of crowdfunding has been tested on four components: legality, availability, accessibility, and funding process (Figure 1). An extensive review of literature has been done on each component of feasibility check for crowdfunding. The online portals, apps, and other digital platforms were explored to know the facts and figures.

Legality

Crowdfunding is a new source of alternative finance for raising funds by individuals, artisans, entrepreneurs, startups, NGOs etc. As it is in the nascent stage in India, very few jurisdictions are available for regulating crowdfunding in India. There is a consultation paper on crowdfunding in India issued by SEBI in 2014. The paper examined all types of crowdfunding in India within the existing regulatory framework. SEBI has observed that the donation and reward-based crowdfunding for donation or intangible rewards and no financial returns are expected in the form of yield or return on investment by donors or grantors. Hence, donation-based funding does not come under the purview of the security market and banking regulators; however, the Income Tax Act regulates donations. Peer-to-Peer crowdfunding is debt-based crowdfunding with a fixed interest rate, and interest-based funding is regulated by a banking regulator, i.e. Reserve Bank of India (RBI). In a consultation paper on Peer to Peer Lending, RBI has suggested the proposed regulatory framework including permitted activity, regulation on capital, governance, customer inference, business continuity plan and reporting.

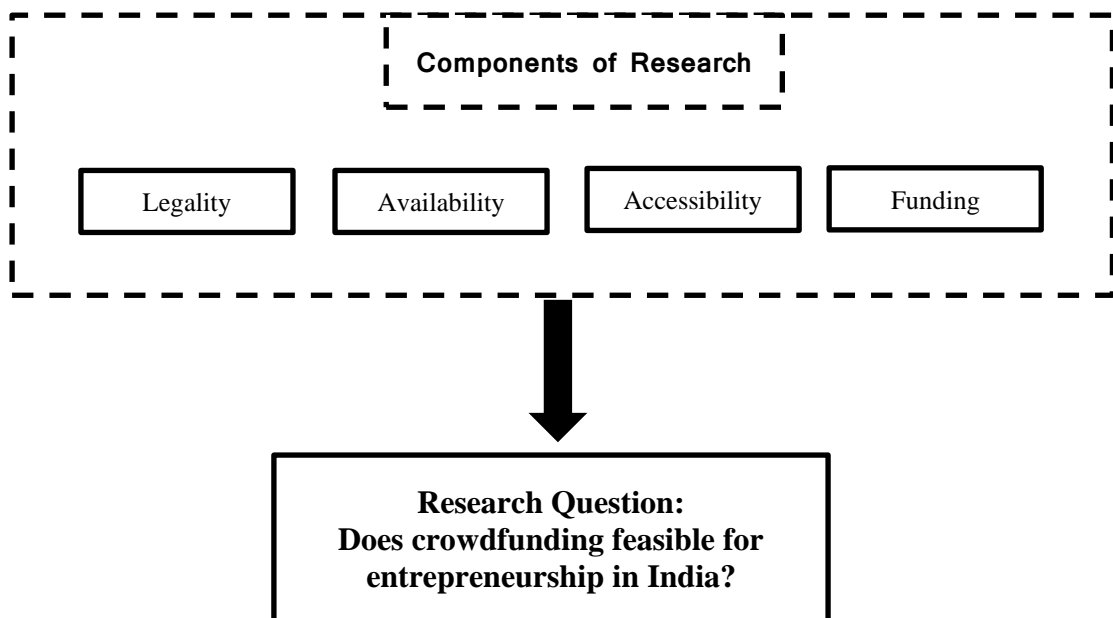


Figure 1: Component of Research

Afterwards, in the draft, "Non-Banking Financial Company – Peer to Peer Lending Platform (Reserve Bank) Directions, 2017", RBI has specified the directions for the registration and

operation of Peer to Peer lending by crowdfunding platforms. The regulatory framework for Peer to PeerLending Crowdfunding has been summarised in Table 1.

Table 1: Regulatory Framework for Peer to Peer lending by RBI

Crowdfunding	Registration	Activities	Restrictions
Peer to Peer Lending	Peer to Peer Lending Crowdfunding Platforms should be registered as NBFC-P2Ps ⁴ .	<p>NBFC-P2P will act as an intermediary providing an online platform to the participants.</p> <p>The storing and processing of all data should be in Indian located hardware.</p> <p>The NBFC-P2P will undertake the credit assessment and risk profiling of the borrowers for prospective lenders.</p> <p>The platform will do documentation for loan agreement, assistance in disbursement and repayment of loans.</p> <p>NBFC-P2P will render the services of recovery of loans.</p>	<p>NBFC-P2P cannot lend on its own.</p> <p>Cannot provide or arrange any credit enhancement or guarantee.</p> <p>Can not facilitate any secured lending linked to its online platform.</p> <p>Can not hold in its balance sheet of lending or borrowing activities of the participants.</p> <p>Cannot cross-sell any product other than insurance for loan specific.</p> <p>Cannot allow international transactions, i.e. the flow of funds.</p>

(Source: Self Prepared and Compiled)

Equity-based crowdfunding is a case of raising funds by offering equity interests in the business to many investors. Hence, it comes under the purview of the Security Exchange Board of India (SEBI) and is regulated under the Company Act, 2013 and SEBI Act, 1992, Securities Contracts (Regulation) Act, 1956, and Depositories Act, 1996. Equity-based crowdfunding is not permissible in India, but few online platforms are operating using the quasi-equity crowdfunding model on the basis of private placement principles under the Company Act, 2013. SEBI has stated in a notice that the equity-based crowdfunding platforms are neither authorised nor recognised in any law governing the securities market. SEBI's stand on equity-based crowdfunding has

⁴ Non-Banking Financial Company – P2Ps as mentioned in RBI draft “**Non-Banking Financial Company – Peer to Peer Lending Platform (Reserve Bank) Directions, 2017**”

not been clear, but some guidelines in the consultation paper have been summarised in Table 2.

Table 2: Regulatory Framework for Equity-based Crowdfunding by SEBI

Crowdfunding	Legal Obligations	Activities
Equity-based Crowdfunding	<p>The following entities are permitted to set up crowdfunding –</p> <p>Class I Entities:</p> <ul style="list-style-type: none"> - Recognised Stock Exchanges - SEBI registered depositories - Other entities having relevant experiences and knowledge <p>Class II Entities:</p> <ul style="list-style-type: none"> - Technology Business Incubators (TBIs) promoted by state or central government, functioning as a registered non-profit society, having five years of experience, and having a minimum net worth of INR 10 crores. <p>Class III Entities:</p> <ul style="list-style-type: none"> - Associations and Networks of Angel Investors should be registered as Section 8 companies with a minimum paid-up share capital of INR 2 crores and having a track record of minimum 3 years with minimum 100 active members from the relevant industry. 	<ul style="list-style-type: none"> - Only Accredited investors can invest, such as Qualified Institutional Buyers (QIBs), Companies with a minimum net worth of INR 20 crores, HNI with a minimum net worth of INR 2 crores and eligible retail investors. - QIBs can hold at least 5% of issued securities. - Retail Investors can contribute a minimum of INR. 20000 and maximum INR 60000. - The maximum number of investors should not be more than 200. - The startups less than two years old are eligible to participate. <p>Crowdfunding platforms:</p> <ul style="list-style-type: none"> - To conduct screening and basic due diligence of the business of startup. - To manage background and regulatory checks on issuers, whole-time directors, promoters, shareholders having more than 20% stake in the company. - To conduct KYC and net worth requirements. - To maintain all records of the activities and be ready to transfer of information to SEBI.

(Source: Self-prepared)

Availability

Crowdfunding is a technology-based platform for raising funds from the crowd over the internet. As the funds are transferred from backers to founders through online platforms, the availability of crowdfunding platforms is essential across the globe. However, the legality and regulatory frameworks bound it to the limited territories. In India, more than 30 crowdfunding platforms provide services for raising funds throughout the country. The popular crowdfunding platforms of all types of funding are listed in Table 3.

Table 3: Availability based on Types of Crowdfunding

S. No.	Crowdfunding	Donation Based	Reward Based	Peer to Peer	Equity Based
1	AnyTimeLoan	No	No	Yes	No
2	Bitgiving	Yes	Yes	No	No
3	Cashkumar.	No	No	Yes	No
4	Catapooolt	Yes	Yes	No	No
5	Crowdera	Yes	Yes	No	No
6	DreamWallets	Yes	Yes	No	No
7	Eduharma	Yes	Yes	No	No
8	Faircent	No	No	Yes	No
9	FuelADream	Yes	Yes	No	No
10	Fund Dreams India	Yes	Yes	No	No
11	I-LEND	No	No	Yes	No
12	Impact Guru	Yes	Yes	No	No
13	IndiaMoneyMart	No	No	Yes	No
14	Ketto	Yes	Yes	No	No
15	LendBox	No	No	Yes	No
16	LenDenClub	No	No	Yes	No
17	Milaap	Yes	Yes	No	No
18	Monexo	No	No	Yes	No
19	PeerLend	No	No	Yes	No
20	People-Lend	No	No	Yes	No
21	RangDe	Yes	Yes	Yes	No
22	Start51	No	Yes	No	No
23	Wishberry	No	Yes	No	No

(Source: Self Prepared)

Most of the crowdfunding mentioned above platforms are based on donations or rewards. Equity-based crowdfunding is illegal, but few platforms provide fundraising activities for startups from angel investors and venture capitalists based on donations or rewards only.

Accessibility

Crowdfunding is an innovative and technology-based platform that is entering the capital market space. It is an online platform, particularly related to Web 2.0⁵. As it is an internet-based platform, the accessibility of these platforms is not possible through an office or a traditional way, and it depends on internet access and digital literacy, financial literacy, intermediaries and upfront fee or transaction fee.

⁵O'Reilly, Tim (2005). "What Is Web 2.0". O'Reilly Network.

Internet Access and Digital Literacy

India is the second-largest online market, with over 460 million internet users.⁶ Despite a large number of internet users, only 29.53 per cent⁷ of the country's population accessed the internet, and 24.3 per cent⁸ of the population accessed the internet through mobiles in 2016. As the data shows, around one-fourth of India's population are away from the virtual world, i.e. internet. It means, most of the population do not know how to use the internet for general activities such as email, social networking, online shopping, etc. Due to poor internet access and being digitally illiterate, crowdfunding platforms are not within reach of the country's large population.

Financial Literacy

Financial literacy refers to the capacity to make sound financial decisions based on skills and information. For microfinance or other traditional finances, institutions approach the needy people and provide them with details about interest rates, upfront fees, repayment conditions etc. However, in the case of crowdfunding, the impoverished people approach the crowdfunding platforms and are aware of the terms and conditions for availing of the service of raising funds. In India, only 24 per cent of the adult population understand the basic financial concepts. Financial illiteracy can be one of the hurdles to access crowdfunding platforms.

Intermediaries (NGOs)

The traditional way of financing is to acquire funds with interest. For the benefits of commission, a large number of intermediaries offer their services for raising or acquiring funds. As most crowdfunding platforms are donation or rewards-based, the existence of intermediaries is negligible. Some of the Non-Profit Organisations (NGOs) assist in funding through crowdfunding platforms, but their reachability to rural and urban India is not up to the mark.

⁶<https://www.moneycontrol.com/news/technology/data-story-how-india-has-turned-into-the-worlds-second-largest-online-market-2362555.html>

⁷<https://economictimes.indiatimes.com/tech/internet/internet-users-in-india-to-reach-627-million-in-2019-report/articleshow/68288868.cms>

⁸*ibid*⁷

Upfront Fee/ Transaction Fee

The traditional approach of raising finance or funds are based on interest with an upfront fee and transaction fee. The upfront fee is charged against the service provided by the crowdfunding platforms such as Ketto, Wishberry, FuelADream, Catapoolt, etc. The crowdfunding platforms are much greedy for the transaction fees for making profits against their services. The transaction fees, ranging from 5 to 10 per cent, are charged from the founders. The founders are aware of the cost and ready to pay for the funding. So, the upfront fee or transaction fee can not act as a hurdle for the crowdfunding process.

Funding

The funding process of crowdfunding platforms is very easy and simple. The fundraising process begins with creating a campaign with some essential details and proof for donation or reward-based crowdfunding. Once, fundraiser goes with its campaign through different social and digital media; the funds start receiving from family, friends and even strangers throughout the globe. The funds can easily be withdrawn from the fundraiser's bank account after or during the campaign. Similarly, raising capital for enterprising ideas starts with a campaign. But here, either debt or equity-based crowdfunding is applicable for funding the project. The funding for a project needs a perfect business plan with some necessary details. A project's online presence and popularity attract prospective angel investors, venture capitalists, financial institutions, etc., even after the closing of campaigns. The crowdfunding platforms have a win-win situation in all types of fundraising campaigns. They are eager for their commissions or upfront fees for using the platforms. Hence, all online platforms do help in all phases during the fundraising process.

Conclusions

Doubtlessly, crowdfunding has the potential to solve financial problems across the world. It is also beneficial in India to get funds for urgent needs like illness, education, natural disaster etc. Although crowdfunding platforms are the easiest way to earn money; however, it is not easy to get funds for entrepreneurship in India. The legality of these platforms is not needed for the donation and reward-based crowdfunding. A number of online platforms exist in India and providing all types of crowdfunding services except equity-based services. Equity-based crowdfunding is under consideration, and hopefully, it will be available with some legal

formalities shortly. The accessibility of these platforms is limited to digitally literate individuals. The funding process is not an issue as it is an online and transparent platform. Hence, It is summarised that crowdfunding is only feasible for donation and reward-based funding; it is still looking for the legality of equity-based crowdfunding.

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