

Crowdfunding Ecosystem in India

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Abstract: *Crowdfunding is a method with the support of which funds may be raised from multiple investors. The Crowdfunding can be raised through diverse modes which include online Crowdfunding platforms, social networking web sites (for ex. Facebook, Twitter) to fund for social cause, innovative projects, business ventures & so on. To understand how Crowdfunding works, it is essential to understand who are the actors involved in Crowdfunding space. The proper way of understanding ecosystem is to identify the parties involved and their respective influence on the process. This paper mainly aims to understand the factors influencing the evolution of Crowdfunding ecosystem in India & to design Crowdfunding promotion model. The study identified cultural, social, technological & regulatory factors based on descriptive research analysis and it concludes with a note that all the 4 factors plays a major role in developing effective Crowdfunding framework in India.*

Keywords: Crowdfunding, Crowdfunding Platforms, Ecosystem

1. Introduction

To understand how Crowdfunding works it is essential to understand who are the actors involved in Crowdfunding space. Different actors influence in different ways by creating an ecosystem that determines the process functions and the practices that are enabled. The proper way of understanding ecosystem is to identify the parties involved and their respective influence on the process. Mainly three parties are involved in Crowdfunding process namely Fund raisers, investors & Crowdfunding platforms.

Crowdfunding is a method with the support of which funds may be raised from multiple investors. The Crowdfunding can be raised through diverse modes which include online Crowdfunding platforms, social networking web sites (for ex. Facebook, Twitter) to fund for social cause, innovative projects, business ventures & so on. According to the SEBI Consultation Paper on Crowdfunding in India—Crowdfunding is 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.

The concept of Crowdfunding came into existence from 2008 financial crises when artisans, entrepreneurs and early-stage enterprises were finding it difficult to raise fund from financial institutions & banks. Crowdfunding is an online extension of traditional method of raising funds from friends & relatives: communities pool money to fund members with business ideas. Within a decade Crowdfunding concept gained prominence in most of the developed countries like Australia, The United Kingdom, the Netherlands, Italy and the United State.

Crowdfunding throughout the globe has lately taken the limelight with numerous multi-million groups that have taken the recourse to Crowdfunding. Organizations like GE have set forth a massive Crowdfunding model and have partnered with local cars to increase “FirstBuild”, an internet site which connects engineers to producers and have efficiently raised \$2.5 Million.

According to a World Bank commissioned report in 2013,

Kickstarter, the marketplace chief in pledge or donation-primarily based Crowdfunding, has generated over USD 815 million from 4.9 million Sponsors to fund almost 50,000 projects throughout the world, between 2009 and 2013. By March 2014, Kickstarter had surpassed USD 1 billion. The 2013 World Bank document also brought out the importance of Crowdfunding in growing nations. It is anticipated that families in growing international locations might have the potential to make crowdfunded investments of up to USD 96 billion a year. (Anthony Lambkin, 2013)

According to Massolution Crowdfunding report 2015, the worldwide Crowdfunding industry grew immensely in 2014 extended through 167% to reach \$16.2 billion, up from \$6.1 billion in 2013. The industry has rose more than double all over again and reached to \$34.4 billion, in 2015.

In addition, Massolution provides that the constant increase in 2014 changed into due to a spike in Crowdfunding projects from Asia; the Asian Crowdfunding volumes grew by 320%, to \$3.4 billion raised from various initiatives. This places Asia ahead of Europe with \$3.26 billion as the second one-biggest area via Crowdfunding quantity. North the United States took the lead role inside the international in phrases of Crowdfunding volumes, developing by 145% and elevating a total of \$9.46 billion in 2014. Commercial enterprise and entrepreneurship had been the most famous Crowdfunding class, collecting \$6.7 billion in 2014, provides Massolution. (SH, 2016)

2. Objectives of the Study

Prime Objectives of the Study are;

- 1) To know the Crowdfunding growth & development in India.
- 2) To understand the factors influencing evolution of Crowdfunding in relations to Indian Ecosystem.
- 3) To develop a framework for Crowdfunding promotion in India

4) Research Methodology

Study is based on descriptive research & data is collected from various secondary sources like research articles, journals, books, websites etc.

5) Growth of Crowdfunding

Total volume of Crowdfunding in worldwide from 2012-2015 has noticed a revolutionary growth. According to Statista-the statistics portal it was \$2.7 billion in 2012, \$6.1 billion in 2013, \$16.2 billion in 2014 & \$34.4 in 2015. Lending model has gained prominence by raising total volume of \$25.1 billion in 2015 compared to donation mode \$2.85 billion, reward model \$2.68 billion, equity model \$2.56 billion, hybrid model \$0.81 billion & royalty model \$0.41 billion.

The statistic shows the number of crowdfunding platforms worldwide in 2014, by region. In that year, there were 600 crowdfunding platforms in Europe, 375 in North America, 169 in Asia, 50 in South America, 37 in Oceania & 19 in Africa. As of May 2017, Wefunder was the leading crowdfunding platform in the United States, in terms of number of offerings.

Transaction Value in Indian Crowdfunding segment amounts to US\$6m in 2017. Transaction Value is expected to show an annual growth rate (CAGR 2017-2021) of 24.8 % resulting in the total amount of US\$16m in 2021. The average funding per campaign amounts to US\$171.60 in 2017. From a global comparison perspective it is shown that the highest transaction value is reached in China (US\$5,505m in 2017).

6) Crowdfunding in India

The concept of Crowdfunding and crowd sourcing is not new in India. In 1976, Shyam Benegal collected Rs 2 each from five lakh farmers to make the national award winning film Manthan. Manthan was a true story of a struggling entrepreneur who was later known as 'the father of white revolution.'

However, the newly coined term 'Crowdfunding' has emerged out of the west and has been catering to not only creative projects but also hard core equity investments. People have started perceiving this very enthusiastically and that gives more confidence to the concept, thus increasing the trust factor. Recently, platforms such as Wishberry and Ignite Intent have been launched in the country. Most of them are in the rewards and donation space, as there aren't too many regulatory issues around this model.

There have been attempts at crowd funding for events like the Goa Project and campaigns like Teach for India. Crowd funding is slowly becoming an alternative funding channel for the film industry. Film Director Pawan Kumar from Karnataka recently raised Rs 51 lakh for his film Lucia in 30 days using Face book and other platforms. Filmmaker Abhay Kumar rose around Rs.5 lakh over the last 20 days for his documentary Placebo. Varun Sheth and film star Kunal Kapoor launched Ketto on 15 August to build an online network focusing on philanthropy in India. It connects non-profits and other companies aiming for social impact with the public. (Chaudhary, 2013)

According to Digital Market Outlook document - Transaction Value in Indian Crowdfunding segment amounts to USD 415.9 million in 2016. It is expected to show an annual growth rate (CAGR 2016-2020) of 61.20% resulting in the total amount of USD 2,808.6 million in 2020. The average

transaction value of per small and medium-sized enterprise in the Crowdfunding segment amounts to USD 14.20 in 2016. From a global comparison perspective it is shown that the highest transaction value is reached in the United States (USD 2,098.3 million in 2016). (Crowdfunding, 2016)

7) Factors Necessary for Developing Crowdfunding Ecosystem

There are four factors necessary for crowdfunding to evolve – cultural, social, technological, and regulatory.

a) Cultural Factors

- **Trust:** Crowdfunding platforms are a novel place for fundraising activities, functioning as online intermediaries between entrepreneurs with ideas and the public with money and expertise. In the context of social networking, trust plays an essential role between fundraisers & investors. Investors commit their capital depending on the degree of trust & credibility of the campaign & platforms. Campaigns have to be strictly monitored by platforms that are being published in order to protect the interest of all parties involved. By doing so they can gain the credibility of investors & other parties' involved in crowdfunding activities. Higher the trust higher will be the capital flow which can be a win – win situation for all.
- **Attitude:** A critical factor of convergence between lender & borrowers lies in positive attitude & behaviour of both parties in communication & interaction via the web. The objective of each investor differs from one another & they display distinguishable behaviour and attitude towards the projects they choose to back, towards project categories and crowdfunding. This demands the need for fundraisers/platforms to clearly define their targeting strategy in terms of types of benefits and means to contact and attract new backers through both online and offline networks.
- **Tolerance of Risk:** Generally crowdfunding is used in the initial funding or early-stage financing, both involve in high risks. Crowdfunding industry is still in its early stage of development; appropriate shareholders and stakeholders' protection mechanism not only benefits entrepreneurs, investors and platforms, but also has great significance for the industry itself. Platforms have adopted various methods to reduce risks based on the general risk management theory, the risk management technique & trying to protect the interest of investors.

b) Social factors

There are many entrepreneurs in India, start-up companies are more motivated than before, not just to make money for themselves and their families, but to reduce poverty and modernize country's financial and business ecosystem. The rises of social entrepreneurship, NGO's, SME's are an important developmental step for the nation. It signals a growing focus on development of technology that can expand financial inclusion. These new entrepreneurs are developing new technologies that can help the country to reach its economic goals.

c) Technological Factors

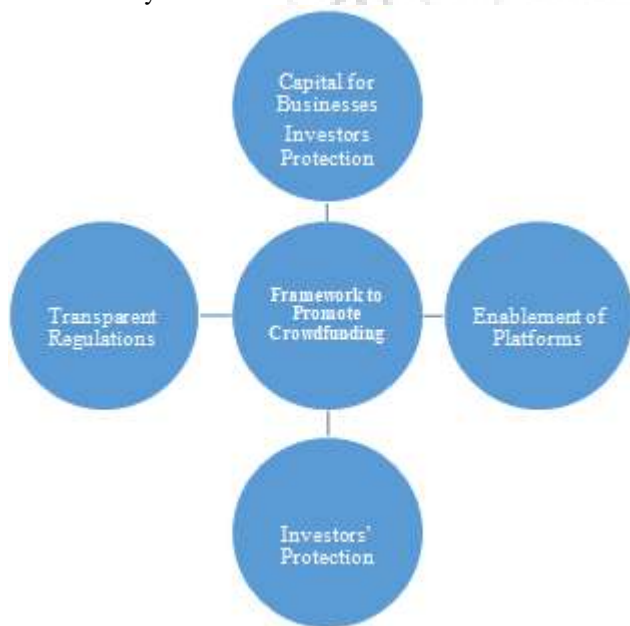
Crowdfunding is enabled through technology; therefore, Crowdfunding platforms play a vital in the crowdfunding phenomenon. They provide the technology backbone that allows organizations to expose their project idea to a large number of potential investors. They also facilitate communication between the fund raisers & investors through features such as a comment section, project update capabilities, and email exchanges. Links to social websites such as Facebook and Twitter allow supporters to easily promote a project in their social networks. They have integrated third party payment processing capabilities that provide privacy and assure investors of secure payment processing. Thus, Crowdfunding platforms act as intermediaries and are the hub of the ecosystem.

d) Regulatory Factors

Regulations control the environment, so having it is safe and fair for all stakeholders. But crowdfunding industry in India is not completely regulated. Late 2014 Securities & Exchange Board of India issues a consultation paper on Crowdfunding. In that paper, it is clearly stated that Reward & Donation based Crowdfunding models are completely legal whereas Equity & Debt models are not yet. SEBI's newly formed framework struggles to find the right balance between protection of investors and promotion of entrepreneurship. There is a need for balanced crowdfunding regulations in India that lowers the cost of capital and increases liquidity while ensuring adequate investor protection and minimizing investment risks.

3. Framework to Promote Crowdfunding

Below designed framework is developed based on the above mentions ecosystem factors.



Finance or funds are the life blood for any organization be it a profit making or non-profit making organizations. Running organizations without capital is impossible.

Organizations/individuals can raise capital for their business activities via Crowdfunding Platforms.

Crowdfunding Platforms act as intermediaries between business firms & investors. They provide an opportunity for investors to invest in unique & innovative projects of organizations by enabling various services by using technology or internet.

Every investor thinks twice before investing in any project or organization because of safety. It's the responsibility of firms & platforms to protect interest of investors. Crowdfunding platforms have taken various risk management measures to protect investor's fund.

Business firms, Crowdfunding Platforms & Investors are interlinked. One can't function without the support of other & to function all these three parties smoothly they require the effective & transparent regulations from Govt. & regulatory authorities. With the cooperation & support of each other Crowdfunding framework can function effectively.

4. Conclusion

Crowdfunding is fast growing & emerging investment avenue in financial services field. Within a short period of time it has gained prominence & many crowdfunding platforms evolved in India. Cultural, Social, Technological & Regulatory factors plays a major role in developing effective Crowdfunding framework in India.

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