

# Crowdfunding: *To analyze awareness about crowdfunding among people.*

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## Abstract:

Crowdfunding is the use of small amounts of capital from a large number of individuals to finance a new business venture or for donation purpose. Crowdfunding makes use of the easy accessibility of vast networks of people through [social media](#) and crowdfunding websites to bring investors and entrepreneurs together, with the potential to increase entrepreneurship by expanding the pool of investors beyond the traditional circle of owners, relatives and [venture capitalists](#) and helping those who have medical emergency by collecting donations online.

Crowdfunding is not a new concept in India. In India we have seen people collecting amount from public through donation box in hand or donation boxes kept on the counter of some hotel/shop for some specific cause. It may be for medical, for education, or for construction of temple in that area or for some other charitable purpose.

Interestingly, it can be said that India has seen a massive crowdfunding success story many years before the term was coined: the story of the Reliance Industries founder Dhirubhai Ambani. His small yet growing textile business was crowdfunded by communities across the Indian state of Gujarat. Another example is of Veteran director Shyam Benegal who collected Rs 2 from 5 lakh farmers of the Gujarat Milk Cooperative Milk Marketing Federation way back in 1976 to create a marketing film for them called Manthan, which was instrumental in transforming the cooperative back then into the dairy giant it is today -Amul. The difference we can see is in the use of platform. First people were using physical platform and now they use online platform and this is how Crowdfunding comes into play.

But how many people are aware of crowdfunding online platform and whether they are confident to make online contributions and willing to take advantage of online platform is important to study to know the penetration level of crowdfunding in India.

*Keywords: Crowdfunding, online platform, donation, investment.*

## Introduction:

Crowdfunding, a popular concept started in the US and the UK, is an emerging way of raising capital, entails the use of internet or social networking sites such as Facebook or LinkedIn or Twitter or even some dedicated websites.

In India, crowdfunding via the internet has been around since a decade but has gathered pace only in the past five years. The penetration of the internet and the popularity of smartphones have stirred a lot of action in this segment. India has just overtaken the U.S. to become the No. 1 country for Facebook users: It has an audience of more than 241 million active users compared to 240 million in the U.S. The Facebook metric matters because in crowdfunding, "the single most predictive factor for the rate of emergence is social media penetration," notes a World Bank report titled, "[Crowdfunding's Potential for the Developing World](#)."

In light of this positive trend, in 2014, SEBI released a '[Consultation Paper on Crowdfunding in India](#)'. This defined crowdfunding as "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."

However in India, Crowdfunding is limited to giving donations and loans. The Securities and Exchange Board of India (SEBI) claims the Indian public lacks adequate investment knowledge or experience and requires strict protection. It has recently sidelined an incomplete aim to create a regulatory framework for investment crowdfunding, and equity crowdfunding in India remains on hold.

Currently, in India, non-profits are not leveraging crowdfunding platforms. They resort to traditional fundraising which might show results over time but will not help in cases of emergencies. If your non-profit has an urgent funding requirement for a social cause, online crowdfunding is a quicker and more economical option to broadcast your need and raise funds in no time. It is less time-consuming and a lot cheaper when compared to other methods of fundraising.

This also presents an opportunity for new organizations to establish their credibility, create an online presence and spread the word on social media and other platforms. New supporters are attracted towards your cause and your charity, which helps in broadening your network online.

### Why Crowdfunding needed?

Every year, India spends \$100 billion on healthcare, 60 percent of which is on out-of-pocket expenses that are not reimbursed by the insurance companies. According to a FICCI-KPMG report, the healthcare sector has witnessed a 16.5 percent CAGR growth over the past decade, and it is expected to touch \$280 billion by 2020.

However, despite the growth, India's public healthcare remains in shambles, with the government spending a mere 1.15 percent of its GDP on providing access to healthcare. And this access to funds for healthcare has become a life-or-death situation, literally, in many cases. This is where crowdfunding platforms have stepped in and gained prominence. Through a simple click of a button, people are able to share their stories, and the difficulties and challenges they faced during emergencies with the hope to raise financial support through public contributions. Given the high cost involved in medical care, many people resort to personal loans with steep interest rates and struggle to pay them back, spending sometimes years to close a loan. Since online crowdfunding comes without debts, it becomes an optimal solution for many patients.

While the present level of awareness about crowdfunding among patients and medical professionals remains modest, it seems to be picking up gradually. Crowdfunding platforms work in tandem with hospitals to notify the patient about the option of raising funds through online crowdfunding. They also help them by verifying their medical records. For those worried about where their funds go, crowdfunding platforms are doing their bit to alleviate their fears.

### How it works?

Videos are uploaded on social sites like facebook, instagram etc in that video an appeal is made by individual to investors to make contributions in business or a short film of patient is uploaded in which that patient or his/her relative ask for contribution for patients' medical treatment. Here the trust of people plays a main role. The first thing that comes in mind is whether the video is true or fake, whether the contributions or investment made by us will reach to needy person or not. And therefore building trust in mind of investors/contributors is important.

### Applications of Crowdfunding in India

1. Crowdfunding for personal & Individual Use
2. Crowdfunding for real estate
3. Crowdfunding for startups (In India)
4. Crowdfunding for businesses in India
5. Crowdfunding loans
6. Crowdfunding college debt

India's top peer-to-peer lending platforms



### Some of the key SEBI guidelines on crowdfunding:

- 1) Only 'Accredited Investors may invest;
- 2) Qualified Institutional Buyers ("QIBs") to hold 5% of issued securities;
- 3) Retail Investor contribution: Minimum- INR 20,000 and maximum- INR 60,000;
- 4) Maximum number of retail investors- 200;
- 5) Only start-ups less than two years old eligible to participate;
- 6) Disclosure requirements such as anticipated business plan, intended usage of funds, audited financial statements, management details etc.;
- 7) Registered crowdfunding platform to conduct regulatory checks and basic due diligence of start-ups and investors; and Constitution of 'screening committee' by each platform comprising 10 persons with experience in capital markets, mentoring start-ups etc.

SEBI has taken cautious steps that lean towards investor protection. The rising need for the safeguard is indisputable. But it also falls short in *upholding economic objectives that make equity-based crowdfunding viable in India.*

The sources of funding for Start-ups include private equity, angel investor and loan arrangements from financial institution. Any offering of public equity takes place only after the product or business becomes commercially viable. However, in Equity based Crowdfunding, funds may be solicited at an earlier stage, for instance, pilot development. Thus, giving the Company, access to funds beyond the traditional sources mentioned above.

It is essential to formulate balanced crowdfunding regulations in India that lower the cost of capital and increases liquidity while ensuring adequate investor protection and minimizing investment risks.

### Literature Review:

Crowdfunding draws inspiration from concepts like micro-finance ([Morduch, 1999](#)) and crowdsourcing ([Poetz and Schreier, 2012](#)), but represents its own unique category of fundraising, facilitated by a growing number of internet sites devoted to the topic. As in any emergent field, the popular and academic conceptions of crowdfunding are in a state of evolutionary flux that makes complete definitions arbitrarily limiting. In one of the few published overviews of the topic, [Schwienbacher and Larralde \(2010\)](#) define crowdfunding as “an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes.” However, even this expansive definition potentially leaves out examples that scholars in various fields have labeled “crowdfunding,” including internet-based peer-to-peer lending ([Lin and Viswanathan, 2013](#)) and fundraising drives initiated by fans of a music group ([Burkett, 2011](#)), among many other cases.

Crowdfunding is a novel method for funding a variety of new ventures, allowing individual founders of for-profit, cultural, or social projects to request funding from many individuals, often in return for future products or equity. Crowdfunding projects can range greatly in both goal and magnitude, from small artistic projects to entrepreneurs seeking hundreds of thousands of dollars in seed capital as an alternative to traditional venture capital investment ([Schwienbacher and Larralde, 2010](#)). Despite over a billion dollars spent by millions of individual crowdfunding backers, and large-scale action by the US Congress to encourage crowdfunding as a source of capital for new ventures, even basic academic knowledge of the dynamics of crowdfunding is lacking, outside of the still-uncommon analysis of particular crowdfunding efforts ([Agrawal et al., 2010](#), [Burtch et al., 2011](#)). For example, scholars know very little about the dynamics of successful crowdfunding, as well as the general distribution and use of crowdfunding mechanisms.

The future looks bright for the segment but there are some challenges too. Some promising start-ups are picked up by the angel investors at an early stage and don't reach the crowdfunding platforms. "Plus, the absence of a standardized process for rating investment opportunities makes it difficult for an investor to evaluate a project," says Gayathri Parthasarathy, National Head - Financial Services, KPMG in India. However, with Sebi working on a regulatory framework for crowdfunding, things may look up for the sector, she said. A regulatory framework would be a boon for the investor as it will mitigate the risk of fraud and ensure due diligence and immediate transactions reporting. As of now, the crowdfunding industry seems to be on the right path but whether it attains the glory it deserves, only time will tell.

“Crowdfunding in India is fine as long as the campaigns are not offering equity or loan paybacks in lieu of contributions,” he contends. “It is important that the campaign does not violate existing regulations including Sebi’s Collective Investment Scheme laws.”

The World Bank report observes that “crowdfunding has emerged as a multibillion-dollar global industry.” But a “constellation of trust,” incubated by social media, is necessary to promote its growth in developing nations.

Nearly 80% of the donations are still raised offline while online donations represent less than 10% of the total revenues amongst NGOs working in India, according to a research report titled ‘Online Giving in India – Insights to improve results’ by CAF India.

### Objectives:

1. To analyze awareness of Crowdfunding among people.
2. To know the confidence level of people to make online contributions.
3. To learn about willingness of people to take advantage of crowdfunding in future.

### Research Methodology:

I have used both primary and secondary data for accomplishing above objectives.

#### Primary data:

I have used Quantitative Research Method. I Prepared Questionnaire and filled it from people falling within the age group of 35-65 years.

#### Secondary Data:

I have used Internet for accessing information about Crowdfunding and for collecting statistical data relating to it.

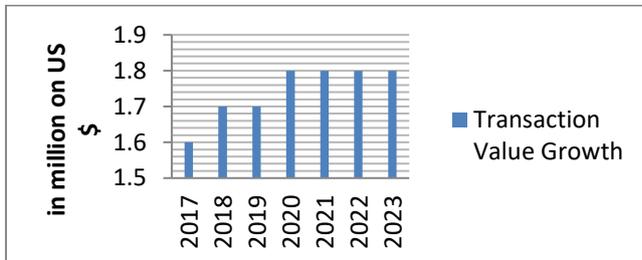
#### Sample Size:

I have considered 200 people as a sample size from which 165 people responded to my questionnaire. My sample area was Jalgaon city from which I randomly selected people.

**Data Analysis:**

From the data given below we can view the transaction value generated through crowdfunding platform in India. It forms a very little amount in comparison to other countries.

- Transaction value in the Crowdfunding segment amounts to US\$1.8m in 2020.
- Transaction value is expected to show an annual growth rate (CAGR 2020-2023) of 0.3% resulting in the total amount of US\$1.8m by 2023.
- The average funding per campaign in the Crowdfunding segment amounts to US\$112 in 2020.



Country	Amount in \$
China	US\$ 7,049m
United State	US\$782m
United Kingdom	US\$100m
France	US\$86m
Canada	US\$47m
India	US\$2m

Source: www.statista.com.

From a global comparison perspective we can see that highest transaction value is reached in china (US\$7,049m) in 2020 and India has least transaction value (US\$2m) which is only 0.028% of china.

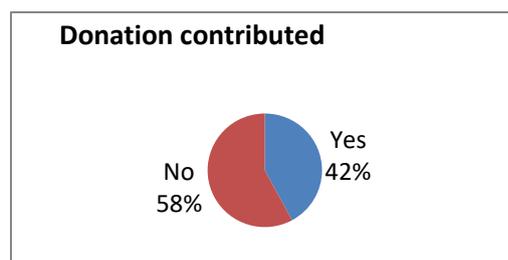
I have asked questions to know the awareness of crowdfunding among people and whether they like to use this platform in future for donation/investment purpose or in case emergency arises.

1. Age and Gender of respondent.

Age	Gender		Percentage	
	Male	Female	Male	Female
35-64 years				
Respondent	85.84	79.16	52.05%	47.97
Total	165		100%	

I got respond for my questionnaire from 165 people from which 85.84 were Male and 79.16 were female respondents forming 52.05% and 47.97% respectively.

2. Have you made any kind of donation?



From above data we can analyze that 42% had contributed towards society by making donations and about 58% respondents have given negative response towards it. People who have made donations have mostly used offline platform as they find it safer.

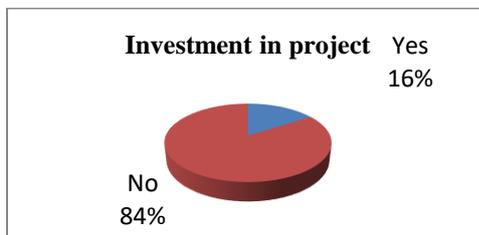
3.

For what Purpose Donation was made?					
Education	Health	Animal	Environment	Other	Total
15.23%	12.26%	2.42%	10.83%	1.36%	42.10%

From 42% respondent 15.23% have made donations for Education, 12.26% for health, 2.42% had contributed for Animal charity, 10.83% had donated for environment purpose and 1.36% have done charity for other purposes. This shows that people are willing to make donations but they prefer offline platform instead of online.

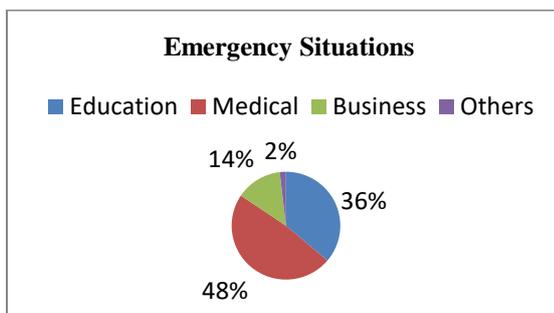
4. Have you made investment in any kind of Project? What type of platform you used to make investment?

Question asked	Online	Offline
Platform Used for Making Investment	00	16%



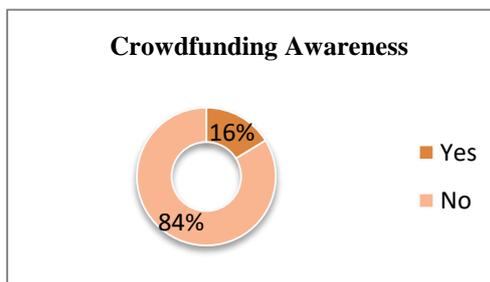
About 16% respondent had also made investment in project and all of them had used offline platform.

5. Have you ever found short of money in emergency case? If yes, than what kind of emergency occurred?



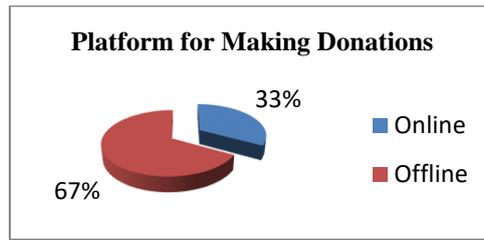
About 43.63% people said that they found themselves short of fund when emergency occurred and at that moment they borrowed money from their relatives, friends, taken loan from banks, loan on their provident fund etc. Mostly they used offline platform. And when asked about kind of emergency they faced 15.78% said they face medical emergency, 21.04% said they faced Education emergency, 6% said have business problems and about 0.8% gave other reasons.

6. Have you heard about Crowdfunding?



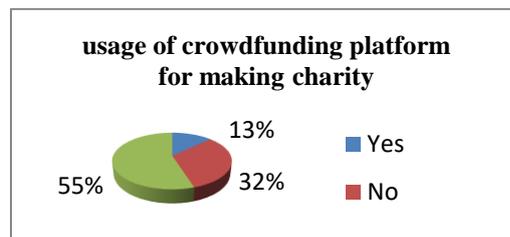
We can view from above data that only 16% respondent had heard about crowdfunding. It forms a very little percentage. People must be given knowledge about crowdfunding so that they can use this platform in emergency case.

7. Do you think that online is better platform for making donation than offline?



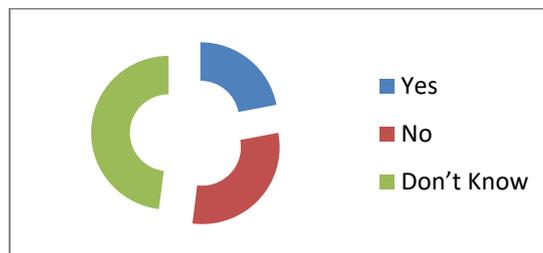
About 33% respondent said that online platform is better and safer; on the other side 67% said that using online platform for making donation or investment is not a better option. This shows that today where internet users are increasing in India still the people find themselves unsafe for making online donations/investment. This required stringent security measures to be taken by regulatory authority so that investors/ donors will not hesitate to invest their money through online platform.

8. After knowing about crowdfunding, would you like to crowd fund a project/ make a donation through this platform?



From above data we can analyze that 55% respondent opted for Don't Know option when asked whether they will make investment/ donation through crowdfunding platform. This required more marketing of various crowdfunding platforms available to them and benefits which investors can gain from investing through crowdfunding.

9. Will you be willing to use Crowdfunding platform in future in case emergency arises?



In this case also 48% replied to don't know option, 30% said No and about 22% said yes for using crowdfunding platform in emergency case.

**Findings:**

1. People are contributing in society by making donations and helping new ventures by making investment, but for that today also offline mode is mostly preferred by people.
2. People find themselves short of fund and mostly middle and poor class people. In such case they arrange fund mostly by taking loan from banks and this creates a burden for them as they have to pay loan for many years.
3. About 84% people are not aware about crowdfunding. They have even not listened this term.
4. After giving information about crowdfunding 48% respondent said that they don't know whether they will use this platform or not. They lack confidence in this platform.
5. Though internet users are increasing in India but still people are not confident enough to do any type of online transactions and main reason is trust. They lack trust as many fake videos and sites are uploaded online.

**Recommendation:**

1. First and foremost requirement is building confidence among people. Safety rules and regulations must be taken by particular regulatory authority to safeguard the interest of people.
2. Creating awareness among people about various crowdfunding platforms available in India and the process they have to follow while making donations/ investments.

3. Campaigns can be carried in semi-urban and rural areas to guide people about using online platform for their new ventures and in case emergency arises.
4. Implementing stringent rules to control money laundering through online platform and other malpractices followed online.

**Conclusion:**

India is moving towards digitization. Many people in India have started using online modes for making transactions. But when it comes to make charity or making investment in new venture the first questions arises in the mind of people is whether charity made by us will reach the needy person or not, whether we will be benefited or not by making investment in unknown persons project. People in India mostly wanted to be at safe side they mostly avoid risk

As I have analyzed that after providing them information about crowdfunding, they still have some hesitation in mind and it was relating to safety of their funds. When people become aware and feel confident and safe the market for crowdfunding will definitely increase and will create a big opportunity for people.

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