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Crowd Funding: Emerging Forms of Financing

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ABSTRACT

Crowd funding is a finance raising process especially by the startups for fulfilling their dreams. It is not a new practice of fund raising but used in different contexts by different persons and groups. The group can be an informal group in which everyone comes in to contact mainly through social media. The most pioneer situation for Crowd funding is considered to be related to the Statue of Liberty. After the completion of the statue, there met with a problem of financial constraints for a deserving platform on which it should be placed. This was tackled by way of asking donations from the public mainly through the dailies which was considered as the media for mass communication in those days. The people contributed their small savings to this programme and a good platform was constructed for the elegant positioning of the statue. Capital can be raised for any purpose like arts, dance, paintings, business, contribution towards any natural calamities and so on and so forth. It has all become more popular in recent years due to a proliferation of websites that allow nonprofits, artists, film makers, musicians and businesses to raise money. As we know, finance is the back bone of every activity irrespective of commercial or non-commercial in nature. The most important constraint for economic development is not the lack of entrepreneurs or upcoming ideas but the non availability of funds for financing. The present paper deals the theoretical concept of crowd funding and its various implications in the light of Indian financial necessities.

KEY WORDS: internet of things, crowd funding, social media, fund raising, pooling of money

INTRODUCTION

Crowd funding is about persuading individuals to each give a small contribution. In this way when thousands of donors are gathered, a sizeable capital is pooled. The term crowd funding is a new terminology that we came to hear from very few years back. The terminology is new to everyone but the practice of doing crowd funding is not an innovative one as most of the people from different nations were used to raise their needy capital for their essential activities. Even when we go through the history, we can find out the presence of crowd funding in different situations but in different names. Normally, Even the banking institutions are one of the resorts for raising capital, unfortunately they will not be ready to take the risk of financing to startups. Then the next source of fund is venture capital. But the fact is that it has its own formalities and modes operandi for its operations and again it is much far from the reach of an entrepreneur is concerned. When compared to these dilemmas crowd funding gives a wider scope for raising the finance for any person for any purpose irrespective of commercial or not. Even the persons who are from the arts background like singers, dancers and the same can raise the essential fund through crowd funding.

Crowd funding is defined as the process of taking a project or business, in need of investment, and asking a large group of people to supply this investment. This phenomenon has exponentially increased in popularity over the last few years and, as a consequence, is now

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presented as a viable method of funding for designers. Crowd funding is the use of small amounts of capital from a large number of individuals to finance a new business venture. Crowd funding makes use of the easy accessibility of vast networks of people through social media and Crowd funding websites to bring investors and entrepreneurs together, and has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners, relatives and venture capitalists.

Crowd funding is an innovative strategy for budding startups. It is the practice of contributing resources by the public, especially through a social network like facebook, whatsapp and the like. It is considered as an alternative finance system through which any one can raise capital for any purpose irrespective of commercial or non commercial in nature. It is actually pooling of small denominations of money to the needy people who has a specific object as his dream. As the raising of capital is a difficult as well as more complicated process, most of the persons find it as a bottles neck and put their dream in to dark room. But in this phenomenon, there is no such formalities and complications. The most interesting thing is that the risk of repayment and rewards are not present here. That means the crowd funding it has three dimensions.

Donations based, equity based and debt based crowd funding.
Donation based crowd funding is one among them which mainly looks for charity, services and other calamities relief fund. In this type of funds, person(s) or anybody asks the public for the donations without any obligation to repay. Here any amount raised here will not be repaid and normally no rewards are expected towards this contribution. A best example for this is the request made by the Government of Kerala for the reconstruction and rehabilitation of the victims of flood. The government gave advertisement in all media including online for the reconstruction of all the infrastructural and basic needs of the common people.

Another case for the donation based crowd funding is the advertisement given for the treatment for any serious diseases like cancer, dialysis and like situations. Here, the family members or friends and relatives or even strangers of the victims can collect fund for the above purpose and it is not necessary that it is a compulsory payment at a fixed rate. Anyone can donate from his small saving towards this charity purpose. Similar incident to this is persons collecting fund by distributing some cards describing why they are collecting this fund. Mostly the reasons behind will be marriage of their children, fund for the treatment of any serious diseases.

Donations received by the religious as well as charitable institutions for their development or routine purposes can be considered as donations based crowd funding. The second category is debt based crowd funding. It is different from the donation based crowd funding. Here as the name implies, the person is raising fund from the public as debt. After the utilization of the fund, it must be repaid to payers with interest. It is otherwise known as peer-to-peer lending. Similar to this type another type of fund is reward crowd funding. Here the person who accepts the fund should have to reward the payers in the form of prizes or some gifts or any privilege cards or a like.

Another category of crowd funding is equity crowd funding. Here there is a similarity with the debt crowd funding. Here the persons are collecting funds from the public and should pay back to them in future. But the difference is that the reward is not paid in cash or gifts but the contributors will be issued with the shares of the company and will be the owners of the company. But the difficulty is that there are restrictions in India for the above said category.

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The positive side of crowd funding is that it provides another strategy for startups or early stage companies ready to take it to the next level such as rolling out a product or service. Before, a business owner was subject to the caprices of individual angel investors or bank loan officers. Now it is possible to pitch a business plan to the masses. A successful crowd funding round not only provides business with needed cash, but creates a base of customers who feel as though they have a stake in the business' success. At the same time the other end of the story can be if they don't have an engaging story to tell, then crowd funding bid could be a flop. Sites such as Kickstarter don't collect money until a fundraising goal is reached, so that's still a lot of wasted time that could have been spent doing other things to grow the business. It could be even worse if you meet your goal but then realize you underestimated how much money you needed. A business risks getting sued if it promises customers products or perks in return for donations, and then fails to deliver.

BOTTLENECKS

As the features of crowd funding are highly recommendable, the practical aspect of equity crowd funding is facing with some bottles neck. The most critical argument pointing out towards the equity fund is related with the transparency of the operations. SEBI and RBI in India is not so much recommending the equity crowd funding due to the uncertainties behind it. One of the arguments against the equity crowd funding is that it can be used as a tool for bond washing transaction. There is no basic control or regulations over this crowd funding by SEBI or RBI as it is a sudden upcoming in the financial market. This is proven in the case of Sahara. So the regulatory bodies are not in their full confidence to admit the practical functioning of equity fund.

The second issue is raised regarding the investors protection. Normally in debt crowd funding, there is no security is provided by the persons for getting the fund. The investors cannot claim their fund as there is no written and registered agreement with them. Thus RBI cannot assure the interest of the investors is in safe. The government as well as the regulatory bodies is not convinced about the purpose of such fund which is raised for. All these anomalies slow downed the crowd funding in Indian economy.

The US has found out a solution for the better functioning of the crowd funding by way of passing an act called Jumpstart Our Business Startups Act, or JOBS Act which is known by the name Crowd fund Act until the official signature was put by Obama. The rules of JOBS act is accepted by the SEBI and RBI and some of their notifications and rules are.

- When it comes to retail investors, the maximum amount of contribution you can get is Rs.60,000/-.
- The Startups which are aged more than 2 years are not allowed to participate in any crowd funding activities.
- The Crowd funding platform in which a startup is going to raise their funds must adhere to certain regulatory checks.
- In many cases only accredited Investors may invest.
- The startup must disclose their plans such as their business plans, their intent of using the funds and the financial statements which are properly audited.

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FACTORS THAT CAN BETTER ENSURE A SUCCESSFUL CROWD FUNDING CAMPAIGN:

- Have at least a small network of enthusiastic friends and family willing to help get the ball rolling by giving and urging others to give.
- Present a serious business plan and an explanation of why the money will take your enterprise to the next level.
- Demonstrate that you have your own skin in the game because of the personal funds you have already poured into the business.
- Include a video pitch and keep it short and concise, with a call to action.
- Be prepared to essentially live online, staying active on social media sites, until the crowd funding campaign is complete

CONCLUSION

Successful crowd funding is more than just raising money. Crowd funding project can bring together many elements for an entrepreneur. The most common type of crowd funding fundraising is using sites like Kickstarter and Indiegogo variety, where donations are sought in return for special rewards. That could mean free product or even a chance to be involved in designing the product or service. The upcoming financial issues in any sector or activities will find its own way for its smooth functioning. One such discovery is the introduction of Crowd funding. This is a new strategy to collect funds in small denominations from different persons irrespective of relations and utilizing the amount for the fulfillment of the dreams of several persons. The crowd funding strategy is handy to small business units rather than the big firms. It is also possible to use crowd funding to assemble loans and royalty financing. The site Lending Club, for example, allows members to directly invest in and borrow from each other, with the claim that eliminating the banking middleman means "both sides can win" in the transactions. Royalty financing sites appear to be rarer, but the idea is to link business owners with investors who lend money for a guaranteed percentage of revenues for whatever the business is selling.

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