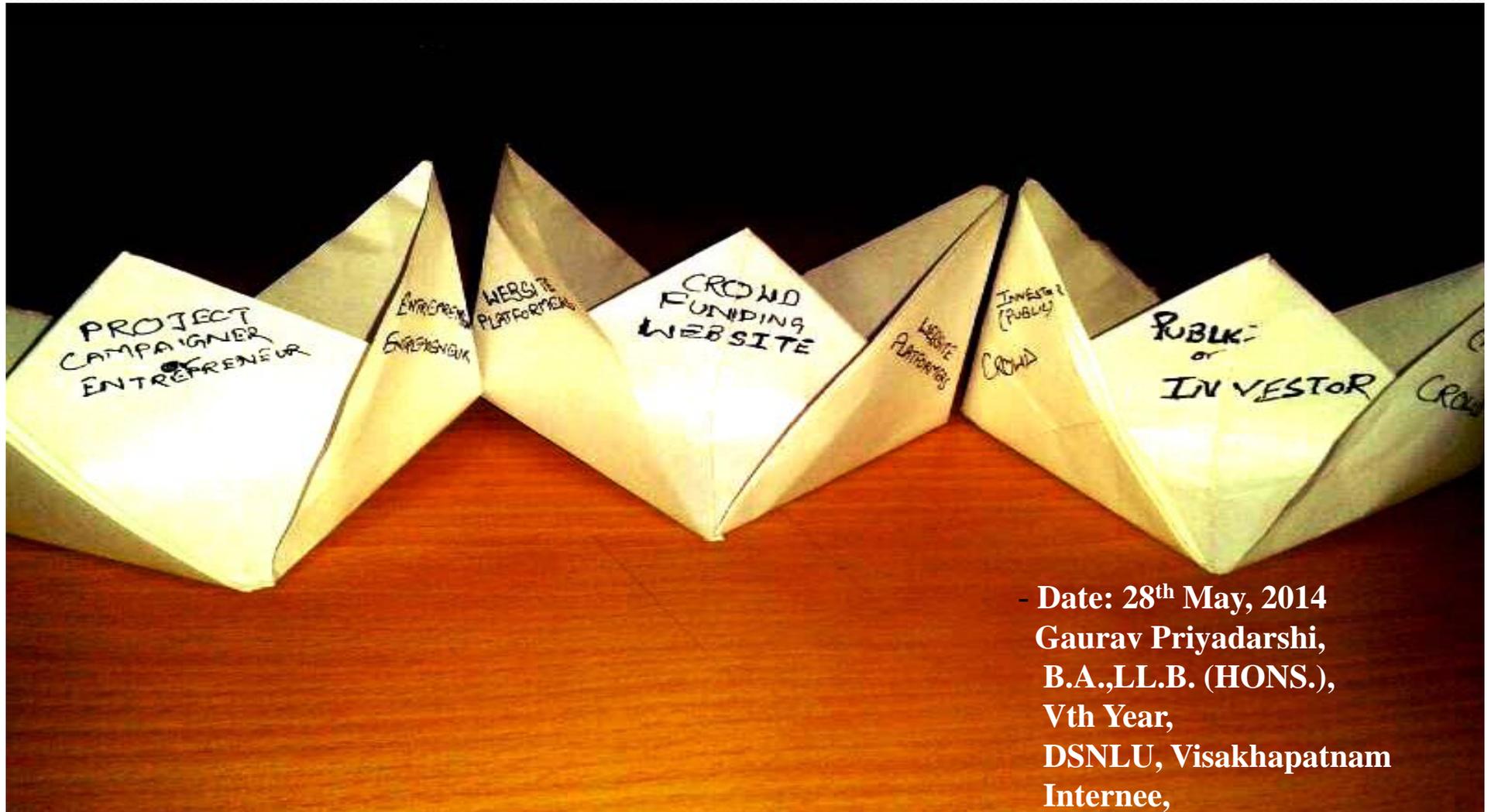# Crowd Funding : Reference to India

- Date: 28th May, 2014
  Gaurav Priyadarshi,
  B.A.,LL.B. (HONS.),
  Vth Year,
  DSNLU, Visakhapatnam
  Internee,

Crowd Funding : What is it?

- Crowd Funding is an internet-inspired means of raising money from the mass market, for a project or business.
- "A continuous and growing series of virtual on-line auction houses, matching borrowers and lenders; investors and investees; and donors and donees".

A little money — By pooling small contributions of money... × A lot of people — ...from groups of people who share common interests... = The power of crowdfunding — ...everyone has the power to achieve financial goals!

Crowdfunding :History

- Crowdfunding has its origins in the concept of crowdsourcing, which is the broader concept of an individual reaching a goal by receiving and leveraging small contributions from many parties. Crowdfunding is the application of this concept.

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

Crowdfunding : Parties

Three parties are involved namely **Project Campaigner or Entrepreneur**, **Website Platformer**, and **Crowd or Investor** as to constitute the business of crowdfunding. Whereas the role of Website Platformer is to bring the other Parties jointly and meet together.
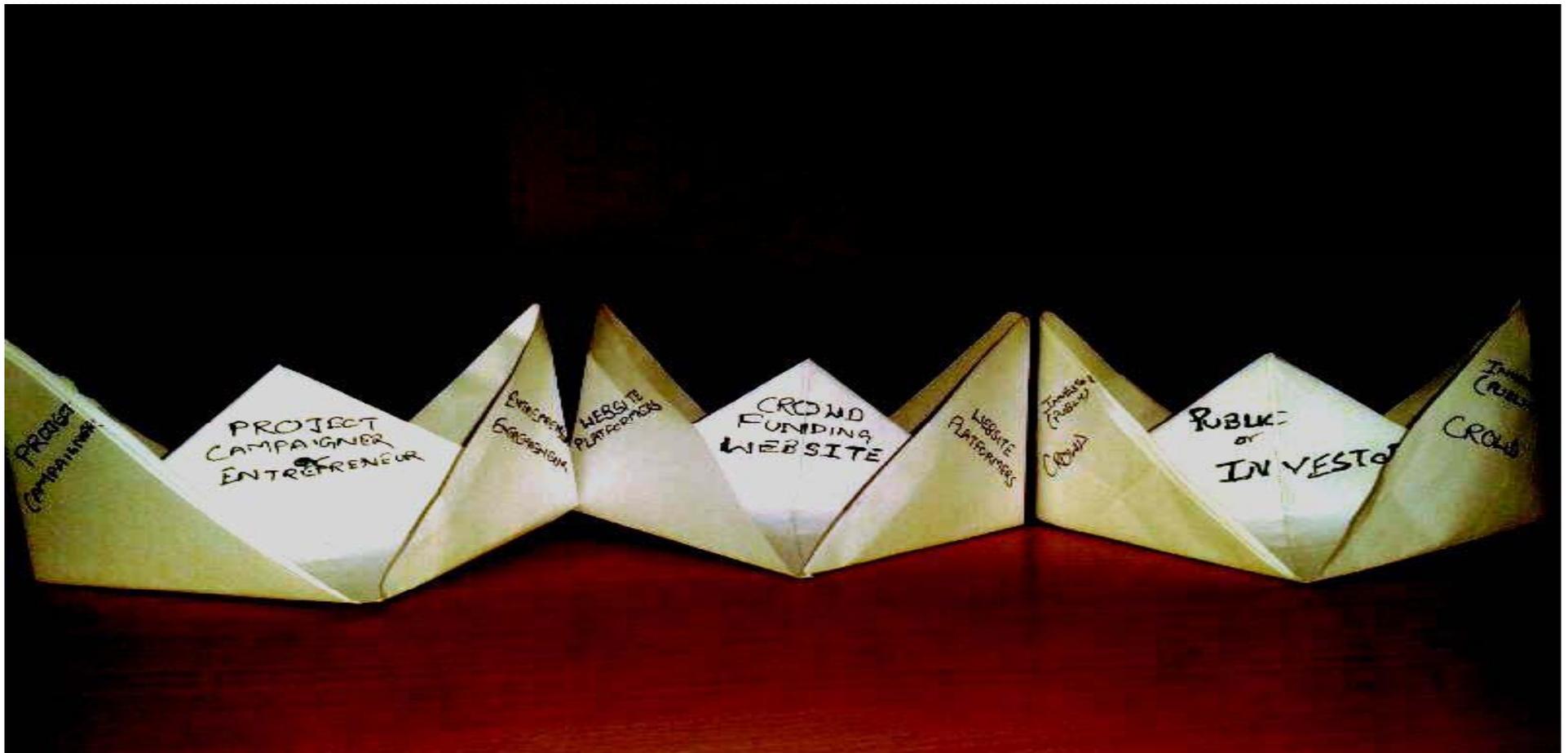
How to Crowdfund Your Project..

Many projects fail because their product prototype isn't impressive to attract crowd. Here are a few points that One (Borrower; Investees; Donees) should consider before launching One's crowdfunding drive:

- **Choose a platform or to create an online profile**
- **Get your content ready and explain your project**
- **Create Interest for fund raising goals**
- **Get payments right**
- **Share the same with public at large, including your peers, relatives, friends of friends, and so forth.**

List of Crowdfunding Websites : India

- **Ignite Intent**
- **PikAVenture**.com
- **start51.com**
- **YourSeva**
- **RangDe**
- **WeFunder**
- **Ketto**
- **LetsVenture**
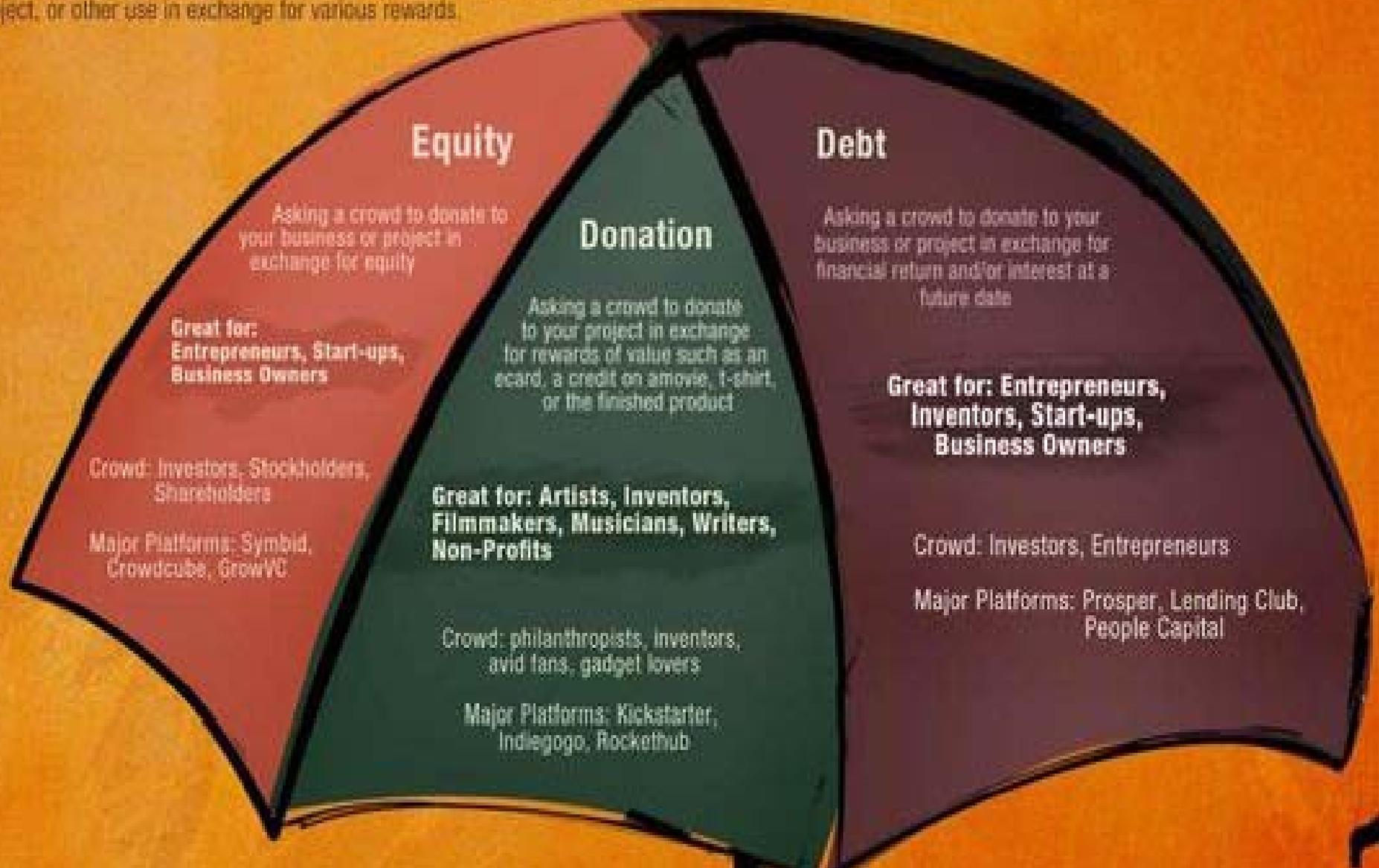- **WishBerry**
- **Catapoolt**

Crowdfunding : Models

- **1. Donation and reward based:** The platform accepts a donation from many donors for projects. In most cases, the return involves finished goods like the "pebble watch" or a signed DVD of the movie received by the crowd. Sites like Ketto do this kind of crowdsourcing in India.

- **2. Lending based:** These borrowers take money with a promise to return it with certain interests from different people (lenders) and facilitate loans or microfinance to the needy. Microfinance platform Milaap is an example of such crowd sourcing in India.

- **3. Equity based crowdfunding:** This mode of crowdfunding, where investors take a share of equity in the project or startup, is not legal in India yet.

Umbrella of Crowdfunding

Crowdfunding:

Asking a crowd to donate a defined amount of money for a specified cause, project, or other use in exchange for various rewards.

Equity

Asking a crowd to donate to your business or project in exchange for equity

Great for: Entrepreneurs, Start-ups, Business Owners

Crowd: Investors, Stockholders, Shareholders

Major Platforms: Symbid, Crowdcube, GrowVC

Donation

Asking a crowd to donate to your project in exchange for rewards of value such as an ecard, a credit on a movie, t-shirt, or the finished product

Great for: Artists, Inventors, Filmmakers, Musicians, Writers, Non-Profits

Crowd: philanthropists, inventors, avid fans, gadget lovers

Major Platforms: Kickstarter, Indiegogo, Rockethub

Debt

Asking a crowd to donate to your business or project in exchange for financial return and/or interest at a future date

Great for: Entrepreneurs, Inventors, Start-ups, Business Owners

Crowd: Investors, Entrepreneurs

Major Platforms: Prosper, Lending Club, People Capital

CrowdFunding Scenario : India

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.

- Recently, platforms such as Wishberry and Ignite Intent have been launched in the country.
- There have been attempts at crowdfunding for events like the Goa Project and campaigns like Teach for India.
- Crowdfunding is slowly becoming an alternative funding channel for the film industry.

Crowdfunding: Drivers In India

- Why is there hope for crowdfunding in India? Varun Seth, the Founder & CEO of Ketto, a crowdfunding platform based in Mumbai, feels that India is being the biggest countries for Non Government Organisations (NGOs), so crowdfunding stands a big chance.

- Section 135 of the new Companies Act,2013 which mandates all companies to spend 2% of their average net profits on corporate social responsibility, will also help them crowdfunding gain attraction.

Crowdfunding fraud: How big is the threat..

- The $1.5 million worth of reported scams are less than 1 per cent of the total money raised by Kickstarter for projects in last five years. (source : Economic Times)

- Crowdfunding scam: Someone copied Ken Lowery and Robert Wilson IV's Kickstarter campaign for Like a Virus, including the video, and made it into an IndieGoGo campaign, presumably planning to pocket the money and run.

Indian view:

"Product-based projects are in huge demand but they are also the most risky as such projects have high chances of being fake,".
Due diligence is required before accepting such Projects said Rajat Das, founder of Delhi based crowdfunding platform thehotstart.com.

- "If you compare the scam rate in crowdfunding , it is much lower than even IPOs," said Ahmedabad based Ateet Bajaj, who founded crowdfunding platform start51.com .

NB: **Recent study commissioned by the World Bank** that addressed the issue of crowdfunding fraud in detail did not cite one case. (Source : www.infodev.org)

KeyPoints Involved In CrowdFunding : India

- **The crowd can not get any shares or profits from the success of the company in case of donation based model and lending based model**

- **Offering incentives may be seen as offering return on investment in case of donation based model**

- **Who ensures that promises are kept?**

- **Auditing and accounting of the funds raised**

- **Role and liability of the funding platforms**

Challenges in India

- Low trust levels of doing the things online is also a challenge.
- As long as the crowdfunding platforms on behalf of project campaigners or entrepreneurs are not making any financial promises to the contributors, they should not be safe to operate especially in case of Lending based model and Equity based model.
- The crowdfunding industry is not so investor-friendly.
- People are not ready for this concept as it is new one and online based, channelized through Internet.

As Regulations in India

- Here in India, the concept is catching up fast and is posing a danger at the same time as many money laundering schemes might run in the name of crowdfunding via social media, pushing SEBI to set up a regulatory framework if it is found that such platforms involve large amounts of money or issuance of securities.

- A discussion is on to find a nodal agency for such activities following a talk with various stakeholders like banking regulator RBI, Finance Ministry and Corporate Affairs Ministry.

- An official from SEBI stated that crowdfunding can be either regulated under SEBI's existing norms for Collective Investment Schemes or Alternative Investment Funds.

- But still there is no proper legal regime as to regulating the crowdfunding in India.

Had a look on these Datas….

Lets take a look at some data:-

- Total number of projects crowdfunded so far: More than 150!

- Total amount raised through crowd-funding in India: More than INR 300 Lakhs!

- Highest amount crowdfunded for a single project: INR 84 Lakhs (Onir's film I AM)

- Highest number of contributors for a single project: 610 (Pawan Kumar's film LUCIA)

- Crowdfunding Platforms: More than 3

NB: (Data Source Analysis of existing platforms and key crowdfunded projects done by team at Catapoolt)

Some key demographics of Crowdfunders in India

- Average contribution per project: Rs 2,800/-
- Average number of contributors per project: 24
- Most contributors are from cities Mumbai and Delhi. Almost 60% of current funders are coming from non-metros and international destinations.
- Most crowdfunders are currently males aged between 25-40 years

NB: (Data Source Analysis of existing platforms and key crowdfunded projects done by team at Catapooolt)

A Big Example set-up "Lucia" & "I AM" films for fim industry in relation to crowd funding: India

- Lucia, an independent Kannada film made by an ex-IT professional, Pawan Kumar . It made on the total budget of Rs 71 lakhs and has been already sold to Udaya TV for about Rs 95 lakhs. The film has almost 600 producers approached through his crowdfunded campaigning link. Lucia is being the first ever crowdfunded regional film which managed to raise Rs 51 lakhs in a span of just 31 days!

- This film is thus yet another ratification of crowdfunding, which is a $6 Billion global phenomenon today. It is gradually firming up its presence and success in India.

- According to Onir, the Director of film "I Am" (which been financed through donations by more than 400 persons approached through Wishberry Site), said that the idea of crowd funding is not legal as per the Indian taxation system. He recalls how he received a letter from the tax department stating that he couldn't raise funds for his film from the public.

- But Priyanka Agarwal, CEO of a crowd-funding website said: "Onir raised funds for film from locals and foreign contributors in exchange for profit. Thus If he wasn't offering 'profits', then he wouldn't have faced any issue."

Conclusion

- There is no doubt that crowd funding is rapidly being looked as a serious way of raising funds for startups and new businesses in India.

- However, there are serious concerns which one needs to ponder upon as :

1. While on one hand, it perhaps bit derogatory to seek community help for their project; on the other, most of them still don't know what a crowd-funding campaign entails and wrongly perceive it to be some type of magic potion which can give instant results.

2. India, the prominent categories are still largely restricted to either NGO causes or entertainment projects. Why aren't these platforms looking at encouraging other categories onto this domain?

Thus, to conclude by saying that one not only needs to focus on the grey legal areas but on the other said aspects so that crowd funding platforms should be more trustable, transparent and democratic in nature with the fund raisers and project campaigners.