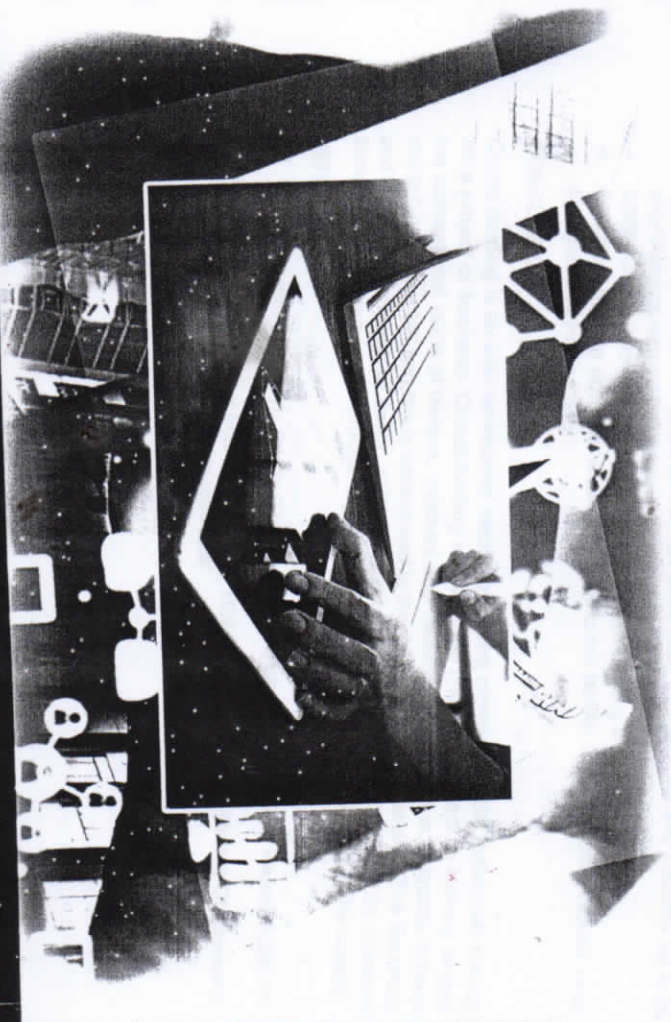


ALTERNATIVE FINANCE



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- Crowd funding platforms are also limited in terms of who may set them up and checks as well as balances put in place.
- SEBI's regulations do not provide exemptions to small companies seeking public funds.
- Proposed regulations also required that equity crowd funding companies follow requirements in Section 42 of the Companies Act 2013 provides the following regulations.
- Companies may offer securities to not more than 200 persons and possess up to 50 shareholders without being required to take up public issue.
- SEBI's paper does not take cross border crowd funding into account
- Countries that do not offer exemptions for cross border crowd funding include India, Malaysia and Hong Kong

CONCLUSION

Crowd funding is an internet-inspired means of raising money from the individuals market, for a project or business. Crowd-funding expands the pool of investors by looking beyond the conventional circle of owners, relatives and venture capitalists. It is a popular concept started in US and UK and this is widespread in the developing world as well. The Securities and Exchange Board of India (SEBI) issued a press release titled "SEBI Cautions Investors". SEBI provides a precise regulatory framework for Crowd funding in the country.

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Crowd Funding: An Emerging Form of Alternative Financing in India

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ABSTRACT: Crowd funding is one of the flourishing forms of alternative financing in India. Crowd funding is a collective effort by people who share and contribute as a group, and pooling of small amounts of money from many investors through internet platforms for a business idea. This seems very similar to the traditional concept of charity or social cooperation but unlike funding here is done with an objective of earning some return either monetary or intangible. The modern day crowd funding is associated with the internet and the use of social media for fund raising. In India, even though the potential for crowd funding is high, the crowd funding is still in its nascent stage. Crowd funding is relatively a new concept and the usage of internet for raising funds is even less. According to a World Bank report (2012), India has only 10 CFPs as against 344 in the US and 87 in the UK. The paper studies the current status of crowd funding in India and also explains the major pros and cons of crowd funding in India.

KEYWORDS: Crowd funding, Online Platforms, Crowd Funding Models

INTRODUCTION

An alternative source of fund is the new buzz word in the financial sector. Alternative financing simply an innovation centered on various financial instruments that look to simplify the borrowing and lending process and help businesses in their financial goals. Especially after the financial crisis 2008 this alternative financing became popular. Crowd funding is an important form of alternate financing, internet-enabled way for businesses or other organizations to raise money in the form of either donations or investments from multiple individuals. This new form of capital formation emerged in an organized way in the wake of the 2008 financial crisis largely because of the difficulties faced by artisans, entrepreneurs and early-stage enterprises, in raising funds. With traditional banks less willing to lend, entrepreneurs started to look elsewhere for capital.

Crowd funding began as an online extension of traditional financing by friends and family, people pool money to fund members with business ideas. Crowd funding is the process of one party financing a project by requesting and receiving small contribution from many parties in exchange for a form of value to those parties. Crowd funding connects investors with small business startups and projects through an online transaction portal that removes barriers to entry. With support from governments and development organizations, crowd funding could become a useful tool in the developing world as well.

Objectives of the study

1. To describe the current status of crowd funding in India
2. To examine the pros and cons of crowd funding in India

Methodology of the Study

The study is descriptive in nature and based on secondary data. The secondary data was

collected from various Articles, Reports, Journals, Websites etc.

CROWDFUNDING IN INDIA

In India, National Crowd funding Association (NCFA) of India is an organisation that promote crowd funding. NCFA provides its members with opportunities to shape the industry, learn the details of the marketplace, and stay informed and ahead in this dynamic industry. The mission of NCFA is to support, educate, and establish the Indian crowd funding market. NCFA India holds an independent position with membership open to the general public including interested parties such as entrepreneurs, investors, lawyers, technologists, financial advisors, regulators, educators, students, media professionals and those who serve the industry, whether donation-based or equity-based. India is a developing country with a population of over 1.2 Billion, and a middle class that is expanding dramatically, one would expect the capital formation power of crowd funding would be taking hold in this dynamic country. Equity crowd funding is not live yet in India, but it is expected to hit the country at some point in the near future.

In the coming days many crowd funding platforms are expected to be start in India. Recently, platforms such as Wish berry 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.

Models of Crowd Funding

Massolution (<http://www.massolution.com>), a leading firm in crowd sourcing solutions, defines 4 categories of crowd funding platforms (CFPs). A CFP is an operator that facilitates monetary exchange between funders and fund raisers

1. **Equity Based model** - The investor receives an equity stake in the project.
2. **Donation Based model** - In this model, individuals make a financial contribution to a project without any expectations of financial benefits.
3. **Lending Based model** - In this, the investor will loan money to the project with the expectation of being repaid under the terms and conditions agreed.
4. **Reward Based Model** - Wherein investors receive some existing or future tangible reward (such as an existing or future consumer product or a membership rewards scheme) as consideration.

Crowd Funding in India-Institutions

Crowd funding is relatively a new concept in India and the usage of Internet for raising funds is even less. According to a World Bank report (2012), India has only 10 CFPs as against 344 in the US and 87 in the UK. Few well known CFPs in India -

- Catapooft - <http://www.crowdfundinsider.com>
 - Pick A Venture: signup.pikaventure.com
 - Start 51 - <http://www.start51.com>
- Ignite Intent - <http://www.igniteintent.com>
 - Wishberry - <https://www.wishberry.in>
- Ketto - <http://ketto.org>

Apart from the local players, many global CFPs have also launched their local platforms for India e.g. Grow VC - <http://india.growvc.com/>. This means the initiator has various options for launching his/her idea and the same way the investor has various options to select the right idea and the CFP based on his preferences.

Pros and Cons of Crowd Funding in India

Advantages of Crowd Funding

- Lack of money becomes a hurdle in the way of talented people. Crowd funding helps to cross that hurdle and fulfill dreams.
- It is open to anyone with potential and a dream. Artists, musicians, painters, dancers, singers, photographers, writers, scientists, event managers anyone can benefit from crowd funding.
- It helps collect funds for the project quickly and easily.
- Crowd funding minimizes the tedious fundraising process (and its associated time and cost) so entrepreneurs spend more time where it counts, on the business.
- Anyone who is interested and has a little capital to spare can participate in financings.
- Ultimately, the industry shifts from "rich get richer" to "smart gets richer."
- Complex, difficult, and niche ideas get funded.

Disadvantages of crowd funding

- Crowd funding information is highly asymmetric with respect to what venture capitalists and to a lesser extent angels obtain in diligence. Investors are susceptible to fraud or just plain incompetence.
- Crazy ideas get funded. More ideas get funded today than can possibly return capital but with crowd funding, the percentage of successes markedly decreases. A lion's share of crowd funded investments will never make money and investors will be out-of-luck. While small, fragmented investments limit the catastrophic risk to any single investor, too many failures will give crowd funding a bad rap and prompt regulatory tightening.

CONCLUSION

Crowd funding is in a nascent stage in India. It will take time to increase the awareness and change the mindset of people. In a way, it is not a new concept in India. For ages donations have been taken to build temples, cash covers are taken at marriages, and religious festivals are celebrated through contributions. But fund raising through contributions from the public through internet based platforms is relatively an innovative concept. Crowd funding is not a fundraising method that replaces all the traditional fundraising techniques but it is best to think it as simply a new method of obtaining funding and should be evaluated in light of other alternatives that are available to the initiator. While looking forward, crowd funding has a bright future as internet penetration and e-commerce success will pave the way for crowd funding. There is no doubt that crowd funding is rapidly being looked upon as a serious way of raising funds for startups and new businesses.

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