

Crowd Funding as an Emerging Trend of Financing

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ABSTRACT

Crowd funding through the Internet, a new fundraising technique for small business ventures, can benefit fund-seeking companies by helping to overcome funding difficulties, providing value-added involvement, facilitating access to further funding, providing publicity and contacts, and enabling fundraising with only limited or no loss of control and ownership. The consulting paper aims to provide a global overview of crowd funding, benefits and risks associated with it and regulatory approaches by different jurisdictions towards crowd funding. This paper aims to explore value added aspect along with financial aspect of crowd funding by way of product development, corporate development and online communication. We also identify types of crowd funding and broadly explaining the common crowd funding platforms which provide short term loans to Start-ups and SMEs by many small investors. The findings indicate that crowd funding serves as a multifaceted early-stage support instrument for innovation implementation facilities by the crowd funding resources. This study aims to offer new potentials in crowd funding through micro-credit and micro-finance crowd funding to rural section of people within the society and also short term loans to women's, especially and also empowering them to stand on their own rather depending on others.

Key words: Crowd funding, fund-seeking companies, global overview, benefits and risks, regulatory approaches, corporate development, micro-credit and micro-finance.

1.0 INTRODUCTION

In the 21st Century, Crowd funding is consider to be a new internet based method to raise capital- short term investments from the individual investors. This approach for entrepreneurs has not only leaded to marketability but also helps to raise small capital for the business. It also helps small investor individuals to present their ideas for the business. Governments encouraged such crowd funding techniques, showing a positive effect on the economy by way of creating jobs, fostering economy recovery and also innovations.

The consulting paper aims at the present global scenario of crowd funding, the benefits and risks associated with crowd funding. The paper also discusses the regulatory approaches for the applicability of crowd funding in different countries. The paper proposes framework for crowd funding by giving an access to capital market to provide funds for Start-ups and SMEs and providing investor protection. The paper also covers the extent of crowd funding in the field of microcredit and microfinance.

2.0 WHAT IS CROWD FUNDING?

Crowd funding is investing funds, in the form of small amounts of investment from multiple investors through different social networking sites and internet based platforms, for social cause and business venture.

Crowd sourced funding is a means of raising money for a creative project(for instance, music, film, book publication), a benevolent or public-interest cause(for instance, a community based social or co-operative initiative) or a business venture, through small financial contributions from persons who may number in the hundreds or thousands. Those contributions are sought through an online crowd funding platform, while the offer may also be promoted through social media.¹

3.0 HOW IT WORKS?

It is apparently a new sector in the business world that is still developing. While many business person knows the proper use for such type of fund raising- small business also has the access to funding opportunities.

The Online platforms for crowd funding at a global level provides an easy access to Investments and donations for the small businesses and further it co-ordinates to the administrative body of raising funds.²

The basic point of view of crowd funding is based on three important closed corporations between – Investors, Intermediaries & Entrepreneurs. Investors are those large groups of ordinary people, who makes small contribution (\$1- \$100) for the ideas. They may get t-shirt, tickets to concert, dinner with a director in return for presenting their ideas. The crowd funding platforms such as specialized crowd funding websites are known as The Intermediaries. The main purpose of such intermediaries is connecting people to entrepreneurs worldwide. Seeking finance through crowd funding are The Entrepreneurs who fails to raise capital in any other way crowd funding works as a test for the idea along with providing capital to such small businesses.

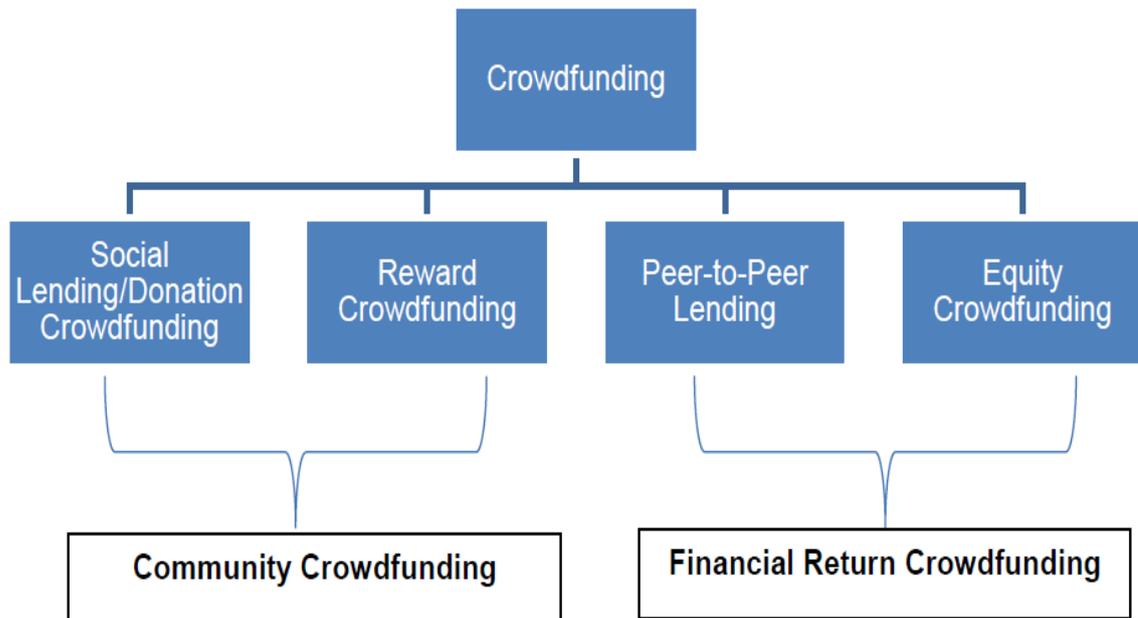
Thus, it links between the three important parties which could be describe as a *method to establish a connection between entrepreneurs*, who aim to raise capital and *novel investors*, who form an emerging source of capital and are willing to invest small amounts, through *internet based intermediaries*.³

¹Crowd Based Equity Funding – Discussion Paper - Corporations and Markets Advisory Committee, Australia, September , 2013

²<http://www.thisismoney.co.uk/money/smallbusiness/article-2333399/Crowdfunding-does-work.html>

³Mechanic.ktu.lt/index.php/Ekv/article/view/3713/2499

4.0 TYPES OF CROWD FUNDING



Source:- IOSCO Staff Working Paper- Crowd-funding: An Infant industries Growing Fast,2014.

4.1 Donation Crowd Funding:

Donation Crowd funding is a form of contribution by way of charities, funds for social, artistic, Philanthropic works and gathering communities through internet to donate a project.

It is basically for small organization and people raising money for personal or specific cause in the form of return intangible benefits.

The investor of such crowd funding is intrinsically and socially motivated. Popular sites include Crowdrise etc.

4.2 Reward Crowd Funding:

Reward based crowd funding significantly grows in the funding of creative, social, and entrepreneurial projects.

In such crowd funding investors receive existing or future tangible reward as consideration and usually operating a tiered system where more you donate the better reward you receive. It last for 1 to 3 months.

4.3 Peer-to-Peer Lending

A Peer-to- Peer lending is nothing but is only an online platform which helps to match between lenders/investors with the borrowers/issuers. The interest rate for such type of lending money is set by the platform itself and it can differ from one platform to another.

Through Peer-to-peer lending platforms, securities loan can become securities but only with a contract or an agreement between the lender and borrower by keeping a security note.⁴

Retail Investors or the small investors, generally avoid such type of lending because there is no investor's protection, and there is always a chance of default in getting back the invested amount.

As per the report of Open Data Institute, published on July, 2013, it was found that more than 49,000 investors in UK had funded through peer-to-peer lending worth more than £378m.⁵

Some of the major peer-to-peer lending platforms in United States are Lending Club, Prosper etc. and in UK are Funding Circle, Zopa etc.

As per the IOSCO paper⁶, in Germany and Italy, peer-to-peer platforms are classified as banks.

4.4 Equity Based Crowd funding

In an Equity Based Crowd Funding, the investors are awarded Equity Shares of the Company in consideration for the investments done by them towards the company.

It is nothing but only a online platforms to raise funds for the early Start-ups and offering online equity interest to the investors who invest their money. New ventures and small scale business generally raise their funds through such crowd funding as they are a newly Start-ups for the market and would be unable to raise huge amount of funds in a short span of time.

In such crowd funding, the solicitation of equity is done at a very early stage, as compared to the traditional manner of funding of money by the individual investors or the private equity members, after the product is launched in the market and is available for the commercial use.

Some of the examples of Equity Based Crowd Funding Platforms are Seedrs, Syndicate Room and Crowdcube.

5.0 Benefits of Crowd Funding

In the present era and in real economy, crowd funding plays a very important role, as it emerges as a new mode of funding money for small businesses or the newly set up Start-ups in the market.

As the Basel III Capital adequacy norms were applicable on the banks, the lending process of funds was getting very difficult and also had a high element of risk in it. To balance the situation an alternative was demanded within the market. Crowd funding emerged as a beneficial market for the SMEs and Small Start-ups for raising the funds easily and within short period of time.

⁴ IOSCO Staff Working Paper - Crowd-funding: An Infant Industry Growing Fast , 2014

⁵ Crowd Based Equity Funding – Discussion Paper - Corporations and Markets Advisory Committee, Australia, September , 2013

⁶ IOSCO Staff Working Paper - Crowd-funding: An Infant Industry Growing Fast , 2014

Through Crowd Funding, the process of getting money or raising money for the business was easy and no rigorous or long procedure was to be followed as compared to the procedures which the banks used to follow for lending the money to the business ventures or the companies.

Crowd funding provided huge competitions in the market as the products was available in a short period of time and also the fiancé was easily available for the start-ups and SMEs.

It provided new investments and the products in the market had their own identity and were diversified in nature.

To maintain the reputation of the online websites or such crowd funding platforms, the operators engaged vetting or due diligence of projects.

6.0 Risks of Crowd Funding

As the retail investors are unable to handle the risk of default in payment through crowd funding, the Venture Capital Funds (VCFs) and the Private Equity (PE) borne the risks for the new Start-ups and the SMEs.

The VCFs and The PE investors solicit the small amount of investments for different investors and helps as mediators for the Start-ups and SMEs, along with handling high risk and low liquidity of money.

There are chances of default in money getting back to the investors. The crowd funding platforms may in due course of time shut down either temporarily or permanently, and then no recovery is available to the investors.

The risk of failure and loss of equity to the individual investors through crowd funding is very high, as new companies in the market don't have viable business models.

As compared to the Corporate Banks, there is no collateral, as such, so the risk in funding such companies is very high for the investors. As compared to the traditional investors, such as Banks or the VCFs, the chance to tackle such risk is very low among the crowd funding platforms.

The crowd funding through online also increases the risk of fraud. False websites or the fraudsters may use such way of funding any projects and asking to disclose the credit card numbers of the investors.

The individual investors may not practice a good diversification principle, which leads to increase in risk of fraud. In peer-to-peer crowd funding there is a chance of Money Laundering.

Since, crowd funding is done online, there is lack of transparency of platforms or the websites and even the identity of the company may not be disclosed properly.

7.0 REGULATION OF CROWD FUNDING IN VARIOUS JURISDICTION

United States

To regulate crowd funding platforms, Jumpstart Our Business Startups Act, 2012 or (JOBS Act) this had already proposed a basic regulatory framework for crowd funding. Before this in U.S there was ban on 'general solicitation' or 'general advertising' for investment in securities.

Title II of the JOBS Act, which deals with accredited investors which deals with equity. Rules and Sec under this title came into effect from September 2013. Entrepreneurs of U.S which may publicly advertise and make opportunity for their company's market. The "accredited investors" in effect to individuals with an \$1million liquid net worth of annual incomes over \$200,000 which include social media, internet, radio television etc.

Title III of the JOBS Act which deals with Crowd Sourced equity Funding (CSEF) which offers to investors only. For a modest amounts of capital the companies' startup to use online intermediaries. This provision has not come into force yet now.

Under this act, for qualifying an transaction as a crowd funding, some specification are required they are as follows:-

- The amount raised not to exceed \$1 million in a 12-month period (this amount is to be adjusted for inflation at least every five years).
- Individual investments in a 12-month period are limited to:
 1. the greater of \$2,000 or 5 percent of annual income or net worth, if annual income or net worth of the investor is less than \$100,000; and
 2. 10 percent of annual income or net worth (not to exceed an amount sold of \$100,000), if annual income or net worth of the investor is \$100,000 or more (these amounts are to be adjusted for inflation at least every five years); and.
- Transactions must be conducted through an intermediary that either is registered as a broker or is registered as a new type of entity called a "funding platform."
- Crowd funding requires the issuing company (emerging growth company) to file a disclosure document with SEC at least 21 days prior to first sale, and requires scaled financial disclosure, including audited financial statements for raises of over \$500,000.
- Annual reports must be filed with SEC by the issuer company which completes crowd funding round.
- Funding platforms (but not broker-dealers) cannot: offer investment advice or make recommendations to investors. They cannot solicit transactions for securities offered or displayed on its platform, or compensating employees or agents for doing so. They cannot hold or manage any investor funds or securities⁷.

New Zealand

Recently the Act name which enacted Financial markets Conduct Act, 2013 which contains provisions designed to facilitate CSEF. The new Regulations in New Zealand which raise up

⁷http://sebi.com/cms/sebi_data/attachdocs/1403005615257.pdf

to a maximum of \$2 Million from 20 investors in one year from the basis of crowd funding without any issues. This covers both of the Varieties of crowd funding such as Equity and Peer-to-peer lending.

Financial Markets Authority has both equity crowd funding and peer-to-peer crowd funding for a license to operate the platforms.

Australia

The Australian Government (Corporations and Market Advisory committee) has recently came out with a new concept that it's a paper based crowd funding and this process currently framing a ruled for equity Based Crowd funding.

In Australia the current regulations which allow raising not more than \$20 Million or transferring equity not more than 20 people in any given 12 months. The rules of it are under revision.

Canada

In Canada Crowd funding is divided into Non-Equity and equity crowd funding platroms.in this equity crowd funding involves the issuance of securities and also consists of Peer-to-Peer lending and equity transactions.

“Canadian Securities Administrators (CSA), an umbrella organization for different provincial and territorial securities regulators in Canada, has published National Instrument (in 2014) involving prospectus exemptions that include the Offering Memorandum exemption (the OM exemption) which is used by registered dealers to sell securities on the internet to the public. The OM exemption is available in all jurisdictions in Canada, except Ontario, and has been in place for many years.”⁸

The registration is required for Crowd Sourced Equity funding platforms, which having an integrity, proficiency and solvency requirements, for the person operating them. Registrations of for address of concerns are necessary for a security purpose and also to avoid fraud for the investors.

United Kingdom.

Financial Conduct Authority (FCA) comes out in year 2014 in month of March. These regulations governing the crowd funding in Britain. This new Regime is applicable to the firms operating such as Loan- Based crowd funding and Investment-Based Crowd funding platforms.

Loan Based Crowd funding platforms: In these platforms it includes peer-to-peer lending or peer-to-business lending on which consumers can invest in a loan agreement.

⁸http://sebi.com/cms/sebi_data/attachdocs/1403005615257.pdf

New Regulations for these platforms are as follows: Investors by ring fencing to the investments get safe guard for new platforms and also for finances. So if anything happens wrong to platforms the investments would hurt by anything. They also need a plans about third party to give an ensure seamless operations.

Each platforms of loan Based crowd funding should hold £20,000 from October this year and £50,000 from April 2017 .and also it should have a capital reserves for an investing.

There is a new regulation about disclosures, which should not be misleading and all risk should be highlighted

Unlike savings or bank accounts, neither loan nor investment-based crowd funding is covered by the £85,000 Financial Services Compensation Scheme. Thus loan-based crowd funding is still very much an investment, rather than savings product⁹.

If any agreement which any investors want to cancel then it should be canceled within 14 days, which did not provide access to a secondary market.

The new regulations have an access to financial services which is ombudsman for all complainants.

Investment-Based Crowd funding Platforms: - These platforms on which consumers buy an investments such as equity securities or debt securities which are not listed or traded on a recognized exchange, or collective investment scheme. Thus its non-readily realized securities.

The new regulation which is passed is slightly different from loan-based crowd funding platforms by the FCA, and it will come into effect from April 1, 2014. As result the consumer credit market which transferred from the office of Fair Trading to FCA. This is the responsibility for regulating loan-based crowd funding.

What is the difference in the rules of Loan- based and Investment-Based crowd funding?

The following points are as follows:

- Retail clients who are advised,
- Retail clients classified as corporate finance contacts or venture capital contacts,
- Retail clients certified as sophisticated or high net worth, or
- Retail clients who confirm that they will not invest more than 10 per cent of their net investible assets in these products.¹⁰

⁹http://sebi.com/cms/sebi_data/attachdocs/1403005615257.pdf

¹⁰http://sebi.com/cms/sebi_data/attachdocs/1403005615257.pdf

So without fail investor should tick mark an above any one categories. And also investors should pass an online appropriateness test for proving that they are aware of the risks and also before October or within October 2014 the platforms should start this test.

Indian Scenario

Existing Legal Framework: The existing Legal framework for raising funds by companies are regulated under companies Act 2013 and securities Act which means SEBI Act, 1993, Securities Contracts Act, 1956etc. They all raise money through Alternative Investment Fund, Mutual Fund etc. is regulated under legal work.

Public Issue of Securities by Companies:

In companies Act, 2013 companies making public issues of securities which comply public issue requirements. Rules are made under this apart from the requirements of SEBI regulations.

This act proposing a company to make a public issue for listing an application to recognized stock exchanges. It also requires company to file a prospectus with registrar of companies.

Under Section 24 of the Companies Act, 2013, the provisions relating to issue and transfer of securities by listed companies or those companies which intend to get their securities listed on any recognized stock exchange in India shall be administered by SEBI. Hence, SEBI regulates public issuance of securities and those private placements which are proposed to be listed on stock exchange(s).

In SEBI Regulations, 2009 it required issuers for making an public issues of specified securities with requirements such as appointment of merchant banker, registrar to issue, filing of draft document with SEBI, minimum promoter's contribution, lock-in requirements, etc.

Private Placements of Securities by Companies:

Recently misuse of private placement route by some companies, which had huge issued number for debt of securities to public which grab under private placements, in companies' act 2013. And in which rules also being made to put restrictions on private placements which regulated previously.

As per chapter III- of companies' rules, 2014 in case of private placement of securities and invitation cannot be made to more than 200 people in the aggregate in a financial year. Such type of offer should made only for such persons whose names are recorded by the company prior to the invitation to subscribe and shall receive the offer by name and also to make complete record by the company and also complete information which shall be filed with the registrar.

All payable amounts should be placed through cheque or demand draft or other banking transactions channels and also by cash. This is being, made from the person bank account which subscribing to such securities in which company shall keep a record of all such bank

accounts. The time limit for that is sixty days from the date of application else money has to repay back to the investors. Company which offers securities through private placement should not use any media or any marketing or any other distribution channels or any agents to inform in public etc.

Ministry of Corporate Affairs has also notified Companies (Prospectus and Allotment of Securities) Rules, 2014. As per the said Rules, a private placement offer letter shall be accompanied by an application form serially numbered and addressed specifically to the person to whom the offer is made and no person other than the person so addressed in the application form shall be allowed to apply through such application form. The value of such offer or invitation per person shall be with an investment size of not less than Rs.20, 000 of face value of the securities.¹¹

The registrar of companies within 30 days of allotment along with complete list of security holders containing of full name, address, permanent Account number and e-mail ID all are required for a return allotment to securities.

Companies Act, 2013 mentions that any offer or invitation that is not in compliance with the provisions of Section 42 shall be treated as a public offer and all provisions of Companies Act, 2013, and the Securities Contracts (Regulation) Act, 1956 and the Securities and Exchange Board of India Act, 1992 shall be required to be complied with, including the above mentioned requirements.¹²

However, as mentioned above, Companies Act, 2013 provides a window for making private placement offers to Qualified Institutional Buyers (QIBs) and the 'limit of 200' is not applicable to such QIBs. QIBs are the entities such as a MF, Foreign Portfolio Investor (FPI), AIF, Scheduled Commercial Bank; IRDA registered Insurance Company etc. as defined in SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.¹³

8.0 CROED FUNDING PLATFORMS

Basically, there are many crowd funding platforms around the world, which work on either yearly basis or may be opened up for certain time period or even it can be started for completing certain task or project. The most renowned platform and also the highest trading platform for crowd funding are **KICK STARTER** and **INDIEGOGO**. Both the platforms are broadly explained below.

8.1 Kick Starter

Kick starter is a most important global based crowd funding in United States. Kick starter headquarters is in New York city, New York, U.S. the founders of the this crowd funding are Perry Chen, Yancey Stickler, Charles Adler. They launched this crowd funding on 28 April

¹¹http://sebi.com/cms/sebi_data/attachdocs/1403005615257.pdf

¹²http://sebi.com/cms/sebi_data/attachdocs/1403005615257.pdf

¹³http://sebi.com/cms/sebi_data/attachdocs/1403005615257.pdf

2009. The New York Times called Kick starter as “the people’s NEA. Time named it one of the “Best Inventions of 2010”. And also best websites of 2011.

Kick starter help to bring these creative projects to a life. Kick starter in very short time period received more than \$1.5billion in pledges from 7.8 million backers after funding 200,000 creative projects, they are films, music, stage shows, comics, journalism, videogames, technology and other food related projects.

Until 2010, Andy Baio served as the site’s CTO then he joined expert Labs. On October 31 2012 it opened projects based in the United Kingdom and also followed same by Canada on September 9 2013 and same by Australia and New Zealand on November 13 2013 and same in Norway and Sweden on September 15 2014 etc. On February 14, 2013 Kick Starter released an IOS app called kick starter for the iPhone. And this is for the first time official mobile presence.

Kick starter crowd funding platforms is making their money from public which is having traditional avenues of investment. The creators who set a goal for minimum funding choose a deadline for gathering of money. If they not set the goal then funds are not collected. In kick starter where artists go directly in touch with their audiences to get funds for their work. And it also offered tangible rewards in exchange of pledges. By 5% fee on funds kick starter applies the total amount of funds raised and sometimes they get additional 3 to 5% more for payments processor.

Kick Starter is having no ownership for the investment and projects and work they produce. Every project launched in the site a permanently accessible to the Public. If projects are completed then it cannot be deleted and edited from the site. The people, who post projects in Kick Starter, will deliver on their projects which use money to implement the project which doesn’t have guarantee and expectations to meet backers. They also advise to backers to use their own supporting judgment for a project. If the deliver promises are failure and damages are made from backers side then kick starter warn project leaders that they would be liable for legal damages.

Projects of Kick starter

The kick starter business is rising day by day. In the year 2010, it had 3910 successfully projects and \$276318 pledged. In 2011 11,836 were successfully projects funded and \$99,344,381 were pledged. And in 2012 18,109 were successfully projects funded and \$319,786,629 were pledged kick starter also publish statistics to its project on 21, 2012, as because of this on February 13 2015 there were 207,135 launched projects with a success rate of 40%. And \$1,523,718,656 pledged.

After making of dock for I Phone which designed by Casey Hopkins became the first Kick Starter to break million dollars pledged. In another few hours Double Fine Productions Fund a new adventure game and it same reached over \$3million pledged within less than 24hours and after this first time kick starter raised over an million dollars in a single day. The “Coolest Cooler” an icebox created by Ryan Grepper, on 30 August 2014 which make an

history in kick starter with US\$13.28 million in funding which break the record of Pebble Smartwatch.

Professor Ethan Mollick and Jeanne Pi started research in July 2012 to the kick starter projects in which they get success and failure. After analysis they find that kick starter homepage is having 89% chance of being successful compared to 30 % and for an average 30 days project has 35% chance of success while 60 days project has 295 chance of success and rest all are constant.

The largest Kick Starter Projects by Funds Are as Bellow:-

The most raised project is between \$1,000 and \$9,999. This half of the dollar amount drop to less than half in the Design, Games and Technology sectors.

Later in another two categories it remains four-figure range.

30% of amount is completed in fashion projects which had their goals.

In all 80% are successfully passed and only 20% mark reach their goal.

In the year 2015, the site had 24.6 million per month and ranked 22 among websites about people and Society.

Categories

In the Kick Starter, the Creators categorize projects into 13 categories and 36 subcategories. They are follows Comics, Art, Technology, Food, Games, Music, Photography, Theater, Film and Video is the categories in which it had largest market.

The half amount of the Kick Starter is based on Games. More than \$2 out of \$10 spent on kick starter.¹⁴

Best Things known for Kick starter¹⁵

Kick starter is a new way to fund creative projects.

Kick starter is full of big and small projects which brought to a life by direct support of public. It's a home for everything from films, Games and music to art etc. after launched in 2009, 9.2 million people pledged more than \$1.9 billion, and funded 90,000 of creative projects. And right now kick starter is raising thousands of creative projects.

Each Project is Independently Created.

The Categories which kick starter has mentioned have complete control to their responsibility over it. It is the platform and resource was any one can launch a project as long as they follow the rules of kick starter.

¹⁴<https://en.wikipedia.org/wiki/Kickstarter>

¹⁵<https://www.kickstarter.com/hello>

Both together, creators and backers make projects happen.

In this creators set a goal and give deadline. After project set if public like the project they pledge money and make the project successful. After funding on these platforms the projects should be reached to goals to receive money and if it is not effective then funding makes a momentum and rallying on people. Till date about 44% of projects have reached to their funding goals.

Creators Keep 100% ownership of their work.

In these platform backers plays an important role for creators. And creators give them back a reward by thanking backers for their support. For creators backers are the big support for finished work. So this way Creators keep 100% ownership of their work.

Our Mission is to Help Bring Creative Projects to Life.

Kick starter is an Independent company of many people. They spent their time to making kick starter better and better every day for the benefit of answering the questions from creators, and backers for new funding projects. They apply 5% fee if project is successfully running. They believe that kick starter has an better projects in their site all over the world.

Thus, Kick Starter is the biggest platform for crowd funding in many different ways of creative projects. People get more attractive towards this platform, for their new projects and growth of business ventures. The platform is also used widely for music, video games and video projects and movies because investors get easily attracted to new concepts of earning money by way of innovations and attracting huge population of people by way of entertainment.

8.2 Indiegogo

Working as an analyst on Wall Street, Danae Ringelmann co-produced reading of an Arthur Miller play in 2002. This play was popular between audiences; at that time but then some financial problem arise so Ringelmann decided to seek alternative revenue streams. Originally Ringelmann was inspired to work with an independent filmmakers and theater producers. After that, she took help of her senior, who works with a 50 years old company, named as JPMorgan and asked to fund her film.

Then after, in 2006 she went to Haas School of Business to start a company where she felt it would be “democratic fundraising”. At Haas School of Business, she met the two people who were having a similar experience like her named as Etric Schell and Slava Rubin. Slava Rubin had started a charity, which was working for cancer research, after he lost his father due to cancer when he was child, and Etric Schell worked with The House Theater Company in Chicago.

On project **Keiyaku**, all the three people, Ringelmann, Schell, and Rubin developed their concept in 2007. It's an international crowd funding website and it was founded by Danae Ringelmann and their headquarters was in San Francisco, California.

Indiegogo allows people to solicit funds for idea, charity or startup business, it also charges only 5% fee on contributions. And this charge is an addition to credit card and PayPal charges that range from 3.5% to 9%. Officially this site was launched for Sundance Film Festival in January 2008, which was more focus for Film Projects.

MTV New Media partnered with Indiegogo in year June 2010 to develop new content from the site's projects. Company suddenly raised funds around 1.5 million for financing round which was led by Metamorphic Ventures by FF venture Capital, MHS Capital and Steve Schoerrler, Zynga's co-founder. After that in year 2013 in February, President Barack Obama's has startup partnership of America with Indiegogo to offer entrepreneurs for crowd funding in U.S.

Indiegogo raised a \$15 million in year June 2012, for Series A round from Insight ventures, Khosla Ventures and Steve Schoettler, Zynga's co-founder. After Series A, simantionosly Series B was came and in that funding was added up to \$40 million to bring the total venture capital rising to \$56.5 million.

In Indiegogo crowd funding anyone can raise funds which had a best idea for raising funds for their goal. All around nine million people from all around world visit the site on a monthly basis. Indiegogo runs on a rewards-based system, which means that customers, donors, investors who wants to help for raise to project or some product they give it and in reward they receive a gift, other than an equity stake in the company.

CEO, of Indiegogo Slava Rubin wants that the company is having an interest for moving towards equity funding in future, once laws around it become clear in the U.S. last year i.e. in year 2014, Indiegogo launched an "Indiegogo Life for the people to get service and can raise money for their medical emergencies, expenses, celebrations, or other different events which is relating to life. In this platform they don't charge more money so people can easily raise funds.

Top projects for an Indiegogo:-

Top five largest project of Indiegogo crowd funding.

Ran k	Total USD	Projec t name	Creato r	Categor y	% funde d	Backer s	Closin g date
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Top five largest project of Indiegogo crowd funding.

Ran k	Total USD	Projec t name	Creato r	Categor y	% funde d	Backer s	Closin g date
1	\$12,174,187	Flow Hive	Honey Flow	Technolog y	17,385	36,653	2015-03-07
2	\$5,859,412	Sondors Electric Bike ¹	Storm Sondors	Technolog y	6,855	14,646	2015-04-02
3	\$5,048,213	Restore King Chapel Now	Elise Durham	Education	63	282	2015-05-22
4	\$5,022,943	An Hour of Code for Every Student	Code.org	Education	26,570	2,801	2014-12-14
5	\$4,511,301	Super Troopers 2	Broken Lizard Industries	Film	215	52,532	2015-04-24

Rules of Indiegogo

Under this crowd funding platforms the ages of 13 and 17 cannot use the site without the permission of legal guardian's. The owners of Campaign may not create a campaign which tries to raise funds for not illegal activities.

The campaign offers perks, which cannot offer any forms of interest for the venture, or any financial incentive. This campaign cannot offer to raised funds for illegal work such as in alcohol, drugs, weapons or ammunition, or any form of lottery or gambling etc. and also

other ideas like opportunities of hate, personal injury, death, or damage of property, or anything which distributed that violates another person's rights.¹⁶

9.0 Micro-credit Crowd Funding

In the present era of business, the small businessmen lacks huge amount of collateral to borrow large investments for the business. The Crowd funding by way of **microcredit** is a small attempt to impoverished borrowers who lack huge collaterals and who doesn't have a good market credit history. Microcredit is a method of pooling short term credit loan (**microloans**) to help in the new Start-ups and other small scale business ventures.

Microcredit helps the entrepreneurs to arrange handful of cash and also alleviate poverty from the society. It plays a major role in backward areas or small villages, wherein the people are illiterate and lack proper paper work and is unable to arrange loans. Microcredit nowadays is most use full to women's and it provides empowerment to them in one or the other form.¹⁷

The idea of microcredit was firstly introduced in the era of 18th & 19th Century. In the 19th Century Individualist **Lysander Spooner** wrote the most important benefits of numerous small loans for entrepreneurial activities to eliminate poverty.¹⁸

The first evaluation of microcredit was conducted by Professor **Esther Duflo**, showing mixed results: there was no effect on education, health, household expenditure or any other gender equity but the test also showed a resulting increase in the number of new business, reaching to around one third compared to a control group.¹⁹ Professor **Dean Karlan** from **Yale University** says "*whilst microcredit generates benefits it isn't the panacea that it has been purported to be*".²⁰

Microcredit is a very old concept for financing short term loans at small scale level and was introduced by the **Grameen Bank** founded in **Bangladesh** in 1983 by **Muhammad Yunus**.²¹ The United Nations had declared the year 2005 as the **International Year of Microcredit**. As per the present records, microcredit is widely considered to be used in the upcoming developing countries and is presented as having "*enormous potential as a tool for poverty alleviation*".²²

The modern microcredit can be linked to several organizations having their origin in the past such as Grameen Bank in 1983, BRAC in 1972 and ASA in 1978.²³ In the year 2002, the

¹⁶ https://en.wikipedia.org/wiki/Indiegogo#Top_projects_by_funds_raised

¹⁷ Jason Cons and Kasia Paprocki of the Goldin Institute, "[The Limits of Microcredit—A Bangladeshi Case](#)", *Food First Backgrounder* (Institute for Food and Development Policy), Winter 2008, volume 14, number 4.

¹⁸ Spooner, Lysander (1846). "[Poverty: Its illegal causes and legal cure](#)". Boston. Retrieved 30 January 2012.

¹⁹ Banerjee, Abhijit; Esther Duflo; Rachel Glennester; Cynthia Kinnan. "[The miracle of microfinance? Evidence from a randomized evaluation](#)". Retrieved 17 April 2012.

²⁰ BBC: [Business Weekly](#), 2 August 2009

²¹ Bateman, Milford (2010). *Why Doesn't Microfinance Work?*. Zed Books.

²² IBID

²³ Drake, Deborah (2002). *The Commercialization of Microfinance*. Kumarian.

older Grameen Bank was turned into a corporate entity and was named as Grameen II.²⁴ Thereafter, certain principles were set for lending and funding microcredit. These are-

- Economic Principles.
- Group Lending.
- Lending to women.

Economic Principles:

Many micro lenders began as non-profit organizations and worked with government institutions for lending small funds. They were initially created as alternatives to the “loan-sharks”.²⁵ With the coming of **neoliberalism** the concept of “*financial systems approach*” presented by **Harvard Institute for International Development** and became dominant ideology among microcredit organizations.

Group Lending:

The main aim of such group lending microcredit was to provide mutual encouragement, information and assistance in times of need, through small loans.²⁶ The use of group-lending was seen as the cost associated with it was low and also enforcing repayment was significantly lower when credit was distributed to groups rather than individuals.

Lending to Women:

Microcredit has now become a very important principle for **Lending to Women** small amount of loans and short term credits.²⁷ The microcredit schemes are widely seen by **NGOs** such as BancoSol, Pro Mujer and WWB to attract women within the nation. Pro Mujer is implemented to provide microcredits to women along with health-care services, as the clients are also very important for the microcredit organization. In 1980s Grameen Bank analyzed that women had higher repayment rates and many short term loan transactions. Subsequently, the microcredit institutions focused on funding through this with the goal of empowering women.

Micro credit has presently emerged for the poor section people and with the principle to acquire savings and investments if they have the capital. In the developing countries, microcredit has emerged as an alternative in compare to the existing methods of funding the poor section of people in the nation.²⁸

²⁴ IBID

²⁵ Bateman, Milford (2010). *Why Doesn't Microfinance Work?* Zed Books.

²⁶ Armendariz, Beatriz (2005). *The Economics of Microfinance*. Cambridge, Mass: The MIT Press.

²⁷ IBID

²⁸ University of Michigan, Urban and Regional Planning Economic Development Handbook: [Microcredit strategies for assisting neighborhood businesses](#), 22 March 2005, retrieved on 13 February 2012

Even the **International Donor Agencies** drawn low cost microcredit programs which simply gave money but made profits also along with carrying out professed mission of poverty alleviation and women's empowerment.²⁹

NABARD is set in the year 1982 under the Act of Parliament as a development bank to provide and regulate credit and other facilities for the development of certain sectors such as agriculture, cottage and village industries, handicrafts and other economic activities in rural areas.³⁰ It has played a significant role in promoting microcredit. The Small Industries Development Bank of India (SIDBI), an apex financial institution for promoting, financing and developing small scale industries in India, has launched a major project as SIDBI Foundation for Micro Credit (SFMC).³¹

The benefits of micro-credit appeared to be:-

- Reduced vulnerability of the poor sector people to adverse circumstances.
- Increased consumption in the same group
- Empowerment of women.

Thus, Micro-credit has played a very important role in the nation by helping lower level citizen, speedy small loans, better schemes for the women's etc.

Micro-credit also provided a clear benefit to the borrowers in the commercial set-ups and also it become financially viable, due to which commercial banks such as ICICI and other international banks like Rabobank and also Citibank had entered the field of lending short term micro-credits.

10.0 Micro Finance Crowd Funding

Like Micro-credit, Micro Finance is also a source of financial services for individual investors as well as the small business mans who lack in accessing money from the banks and other related services.

Micro Finance can be mechanized by two ways: (1) Group- Based Models & (2) Relationship- Based Banking. It also helps to describe supply of financial services to low income employees.

The main object of Micro Finance is “ a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also **savings, insurance and fund transfers.**”³²

²⁹ *http://www.unitus.com/wwd_borrowerprofs.asp

³⁰ *<http://www.nabard.org/>

³¹ *<http://www.sidbi.com/english/products/sfmc/sfmc.asp>

³²Robert Peck Christen, Richard Rosenberg & Veena Jayadeva. *Financial institutions with a double-bottom line: implications for the future of microfinance.* [CGAP](#) Occasional Paper, July 2004, pp. 2-3.

Micro-finance is nothing but only a way to promote employment, economic development and growth through small businesses and micro- entrepreneurs.³³

In rural areas, many activities are classified as “developed world” but they are not **monetized**: not recorded in terms of money. Many of the needs, in those areas are not fulfilled and people acquire different means to fulfill it. Some of these needs are describe in the book *The Poor and Their Money*, by Stuart Rutherford and Sukhwinder Arora:

- ✚ *Lifecycle Needs*: such as weddings, funerals, education, widowhood and old age.
- ✚ *Personal Emergencies*: such as sickness, injury, unemployment and death.
- ✚ *Disasters*: such as floods, cyclones and man-made events.
- ✚ *Investment Opportunities*: such as buying land or equipment, securing a job etc.³⁴

Micro Finance is the proper tool to reduce income inequality, allowing citizens from lower socio-economical classes to participate in the economy. Moreover, its involvement has shown to lead to a downward trend in income inequality (Hermes, 2014).³⁵

Micro-credit institutions funded loans through saving accounts that helped poor people to manage their lifestyle. Micro Finance aimed at meeting the needs of the poor and rural section of people through a mix of savings and credit. In Bangladesh, along with **Grameen Bank**, two other institutions provided the facility of microfinance to rural **non-farm micro-enterprises**.³⁶

Micro Finance practitioners have argued that high interest rates are unavoidable, because of cost on lending loans was very high and also the institution had to pay to the officer’s salary and other staff fees. The traditional approach of micro finance has limited progress in terms of lending the money. Even offering loans at interest and fee rates of 37% mean that borrowers who do not manage to earn at least 37% rate of return may actually end up poorer as a result of accepting the loans.³⁷

Micro Finance experts focused women to lend money , and focused to provide all the services to the women at early because it was seen that women generally paid back the money within specified time period and along with interest rates. There was very less default in money by women as compared to the men.

Micro Finance emphasized more on women’s and many female-oriented lending schemes were introduced by the institutions with the intent to improve the status of women and alienate poverty. Even the institutions were of the view that by providing initial capital to

³³ <https://en.wikipedia.org/wiki/Microfinance>

³⁴ Rutherford, Stuart; Arora, Sukhwinder (2009). *The poor and their money: micro finance from a twenty-first century consumer's perspective*. Warwickshire, UK: Practical Action. p. 4. ISBN 9781853396885.

³⁵ Hermes, N. (2014). Does microfinance affect income inequality? *Applied Economics*, 46(9), 1021-1034. doi:10.1080/00036846.2013.864039

³⁶ Khandker, Shahidur R. (1999). *Fighting poverty with microcredit: experience in Bangladesh*. Dhaka, Bangladesh: The University Press Ltd. p. 78. ISBN 9789840514687.

³⁷ "[Microfinance: Do the micro-loans contribute to the well-being of the people or do they leave them even poorer due to high interest rates?](#)". Quora. Retrieved 2014-06-11.

women at low interest rate would support her to be independent from men and would increase the ratio self-sufficiency within them, which ultimately increased a sustainable growth of enterprise.

Micro financing only aims at extending small amounts of loans to the people in need of small amount of capital which they are unable to get from the banks as they don't have enough collateral to keep with the banks at a very low interest rate to remove poverty from the rural areas, and also to provide opportunities to rural people to come up within the society.

Micro Finance is considered a tool for socio-economic development, and can be clearly distinguished from charity. Families who are destitute, or so poor they are unlikely to be able to generate the cash flow required to repay a loan, should be recipients of charity.³⁸

In India, the main features of the micro finance are:

- ❖ Loan given without security
- ❖ Loans to those people who live below poverty line
- ❖ Members of SHGs may benefit from micro finance
- ❖ Terms and conditions offered to poor people are decided by NGOs.

Micro Finance has also taken steps towards creating awareness regarding HIV/AIDS and few social interventions have taken by the institutions to help to spread awareness. Some of the interventions are "Intervention with Microfinance for AIDS and Gender Equity"(IMAGE) which incorporates micro financing with "The Sisters-for-Life" program that educates on different gender roles, gender-based violence and HIV/AIDS infections to strengthen the communication skills and leadership of women.³⁹

Microfinance has also combined with business education and with other packages of health interventions.⁴⁰ **Pro Mujer**, a non-governmental organization (NGO) with operations in five Latin American countries, combines microfinance and healthcare. Pro Mujer uses a "one-stop-one" approach, which means in one building, the clients find financial services, business training, empowerment advice and healthcare services combined.⁴¹

Micro Finance has the appeal of bringing financial power to the people who need it most and whose resourcefulness and ingenuity it will fuel.⁴²

³⁸Helms, Brigit (2006). *Access for All: Building Inclusive Financial Systems*. Washington: [The World Bank](#). ISBN 0-8213-6360-3

³⁹Kim, J.C., Watts, C. H., Hargreaves, J. R., Ndhlovu, L. X., Phetla, G., Morison, L. A., et al. (2007). Understanding the impact of a microfinance-based intervention of women's empowerment and the reduction of intimate partner violence in South Africa. *American Journal of Public Health*.

⁴⁰Smith, Stephen C. (April 2002). "[Village banking and maternal and child health: evidence from Ecuador and Honduras](#)". *World Development* (Elsevier) **30** (4): 707–723. Doi:[10.1016/S0305-750X\(01\)00128-0](#).

⁴¹Sölle de Hilari, Caroline (11 October 2013). "[Microinsurance: Healthy clients](#)"(Digital magazine). *D+C Development and Cooperation* (Germany: Engagement Global – Service for Development Initiatives). Retrieved 12 February 2015.

⁴²http://www.neeley.tcu.edu/uploadedFiles/Academic_Departments/Management/zol003102949p.pdf

Conclusion

It is imperative that government has initiated steps towards promoting Crowd Funding at a global level and thereby stimulating an environment of online transfer of money by the investors and funding the plans and many other projects in a very short span of time. The Grameen Bank is a major step towards lending short term loans to new Start-ups and SMEs by the small investors as well as the large investors. The Crowd Funding platforms provide a very easy access to the investors, with a strong base and security of not default in payment of their invested money and also speedy transfer of money from around the world. It has been very beneficial for funding short term, goal orientated projects. Generally, crowd funding techniques are widely used for funding movies, films, Role Acts, etc. In the words of Mittal, “There’s a rapidly growing acceptance of crowd funding in the technology and business community, proven in part by the follow-on investments by traditional Venture Capitals in companies that have partaken in both rewards-based and equity-based crowd funding”. Micro-credit and Micro Finance based crowd funding has also emerged now-a-days at the rural level, providing short term credit facilities to poor section of people and also easy availability of money to women’s helping them to be self-sufficient. At last, I must say, “By helping the aggregation of capital and removing friction from the process, crowd funding brings new ideas to the market. It is a powerful trend that we should all expect to continue in a big way.”

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