

# Contribution of Crowdfunding in the Growth of MSMEs

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**Abstract:** Crowdfunding is famous method of arranging funds for MSMEs through social media with the help of internet from potential investors. Due to globalisation and invention of advanced technologies, it has become necessity for MSMEs to arrange funds by crowdfunding. Crowdfunding found as a better alternative to replace the role of banking and non banking financial institutions. Banks and other financial institution feels hesitation in paying huge loan amount to them because of high risk involved and non performing assets. MSMEs are the back bone of Indian economy so for their survival, funds are more required. The present paper focuses on importance and contribution of crowdfunding sites and obstacles faced by the MSMEs during crowdfunding process. Secondary source of information used by the researcher and it was found that crowdfunding is the best option for MSMEs and it will give motivation to them to fulfil their objectives within specific time period. Government and policy holders should take care while preparing policies for enhancing crowdfunding and protection of the information of investors and MSMEs should be insured.

**Keywords:** MSMEs, Crowdfunding, Investors, Indian Economy.

## Introduction

Crowd-funding is very effective way to collect finance for MSMEs for their productive purpose in the form of internet and social media platform. Due to Technological advancements, funds are required for smooth functioning of businesses and for solving various social issues. Crowdfunding provides a better platform to arrange finance for those needed persons who are not able to arrange funds from banks and other financial institutions. MSMEs not only can arrange funds through crowdfunding but can also share innovative ideas among various business units. In India, the concept of crowd funding is at new or infant stage. MSMEs are the back bone of Indian economy so for

their survival, funds are more required. And it feels the necessity of adopting crowdfunding in India. MSMEs face difficulties in arranging credit due to small sized units and lack of managing credit in proper manner. Banks and non banking financial institutions are also facing difficulties and threats in providing funds to them because of no timely returning of credit amount and they feel insecure and assume credit to MSMEs as high risk factors due to high NPAs. To face this worst situation, crowdfunding is a good and modern platform and method of arranging working capital for small sized units working in India. Various organisations such as Kickstartera and Ketto are working as crowdfunding units for helping MSMEs. Crowdfunding is a link between investors and small and medium enterprises because it arranges funds for MSMEs in small quantity and provides opportunities to invest money in those units with the use of advanced technology. MSMEs get benefitted from crowdfunding in the form of arranging funds and in providing strategic base for better functioning. Crowdfunding has become an alternative source for MSMEs and entrepreneurs for effective functioning of businesses. MSMEs, small businesses and start-ups are the main pillars for economic growth of the India at social and economic level. They contribute as an estimate of 30 percent in Indian GDP and 49 percents MSMEs belongs to rural areas. Still they are facing difficulties in managing and operating businesses due to shortage of funds as working capital. They have very short means of finance and they are not able to connect with new and prospective investors due to the shortage of vast network facilities. There are numerous crowdfunding agencies working in India some of them are restricted and some are active. Equity based, reward based, donation based crowdfunding and peer to peer crowdfunding are the examples of crowdfunding institutions. Reserve bank of India managed and control peer to peer based crowdfunding and reward based and donation based methods are best methods of providing funds to small entrepreneurs for fulfilling their business expectations.

### **Review of Literature**

To promote MSMEs in Indonesia, Modalky and GandengTangan based on loan and Indves based on equity are more popular and crowdfunding agencies. Under Indves method, while providing financial assistance through crowdfunding methods, sharia principles are used for managing business. For adopting crowding method according to the suitability to the MSMEs, advanced technology based business are required. Protection of Consumer data

is also found as a big hurdle in adopting crowding methods and new technology. So there is a need to develop new regulations and norms for making businesses more technologically based and for improving economical development (3 *Fintech (2018)*, .

MSMEs found as the creator and generator of employment and wealth for the economy of country. They are facing the problems of shortage and utilisation of funds and even banks and non banking institutions found themselves in very risky situation during and after giving loans to MSMEs. Indian government is also taking crowdfunding as an initiative steps for developing MSMEs(Faisal & M M, 2018).

The present paper focused on the critical aspects of crowdfunding in the field of literature and media. MSMEs cannot dependent fully on crowdfunding option because it is only an alternative to providing financial assistance through internet. Crowdfunding is the better platform to connect charity respondent with finance seekers for performing businesses. Like other funding sources, it is also required proper strategic planning, management, implementation (Adams, 2014).

Women empowerment found essential and as basic pillar for the economic development of the Indonesia economy. Proper availability of funds to women group for performing business with biasness found in that country. To overcome this situation sharia based funding model can prove a better solution to strengthen them in the form of providing funds(Wardhana *et al.*, 2020).

Banks, non banking financial institutions and co-operative societies are providing financial support and assistance to MSMEs surviving in Indonesia economy under the supervision of Indonesian government. Besides that, Finetech based on Peer to Peer funding found as a good method to provide funds to MSMEs for their business. Finetech have the capability to solve the financial problems and to support MSMEs in productive activities (Darma *et al.*, 2020).

To study the impact of capital investment and employees working in MSMEs on MSMEs, study was conducted in Odisha and it was found that as compare to employees or workers, MSMEs are more influenced from capital investment. To fulfil their capital requirement, MSMEs are required to adopt crowdfunding option(Kumar Behera *et al.*, 2018).

Crowdfunding option required advanced technologies and use of internet to arrange funds for further development including communication process

and interviews. Besides that, crowdfunding policies, investors motivational forces, management of funds are the basic requirement to control and manage finance through crowdfunding (Jenik *et al.*, 2017).

Crowd funding also known as alternative providing funding to different sectors specially MSMEs through new technology and also creates a link between investors and borrowers of productive units. Policymaker should take proper care while considering crowdfunding as a weapon to fulfil financial requirement and should consider as a source of arranging and providing funds (Herrera, 2016).

Management information system should be adopted by micro small and medium enterprises which will be helpful in arranging and managing funds and fulfilling social welfare through crowdfunding. Very few small sized units are able to use crowdfunding as financial sources based on technology for acquiring funds as working capital (Banding *et al.*, 2020).

The research shows that if MSMEs will take the option of equity based crowdfunding based on android peer to peer application, it will provide benefits to both investors and small business. Through this app, small businessmen can present their business proposal to investors. On the basis of it, investor can take the decision to invest in their business through equity based crowd funding (Banding *et al.*, 2020).

## Objectives

- To understand the contribution of Crowd funding sites in funding MSMEs.
- To study the benefits of crowd funding in the growth of MSME's businesses.
- To know the obstacles faced by MSMEs in considering Crowd funding option.

## Research Methodology

The present paper considers secondary sources such as research papers, articles, publications, newsletters and websites relating to crowd funding and importance to MSMEs.

## Advantage of Crowdfunding towards MSMEs

For the new start-ups business, sufficient funds are required to maintain proper and permanent place for MSMEs in the market. Arranging funds through

crowdfunding option is a better option for MSMEs and also provide better opportunities to them to avail the position in the market. MSMEs will be able to expand their market share by presenting better goods and services and crowdfunding makes them able to make their business attractive and effective not only for consumers but also for prospective investors. Campaigning is required for potential investors to force them to invest in small industries through social media and advanced and latest technologies and it is an effective mean of self marketing also for MSMEs.

### **Advantage of Crowdfunding towards Investors**

Crowdfunding provides investment opportunities to investor while investing their money in small and medium size enterprises. Risk factor is also present in this investment opportunity still investors can avail high profits while investing in that business units. Principles of high risk high profits apply on them and they not only invest in one particular project but invest their money in different projects at one time. Social media and latest technology helps them in providing investment opportunity. Failure of one project will never affect the other project's return to investors. Investment limits and investment provision are also informed to investors to make safe investment. Investors can also get tax advantage because return from investment is tax free in the hands of the investors.

### **Forms of Crowdfunding**

Crowdfunding is the process of arranging funds from investors to MSMEs through social media and digital mode. Various forms such as donation based, reward based, equity based and debt based crowdfunding are used for this purpose. In donation based funding, investors invest money in the small units at individual or group level without taking consideration to returns. Non profits organisation accepts funds from educational and political institutions. Under reward based crowd funding lenders provide money or fund on the behalf of sign of admire or MSMEs' product to small and medium enterprises. Under peer to peer or debt based crowd funding, investors invest their money on the behalf of debt obligations to MSMEs and that amount is equal to the original credit amount. Under Equity based crowd funding, new start-up businesses and small and medium enterprises take benefits of funds from investors on the behalf of equity shares.

## **Latest Crowd funding platforms to support MSMEs**

Various crowd funding agencies are performing very actively in providing financial assistance to MSMEs. While taking services of these sites, small and medium enterprises should take care of the fees charged by these sites and benefits received from them. Many of them take a particular percentage of the total earnings of MSMEs as fees or contribution fees.

### **Kick Starter**

Kickstarter came in to existence in the year 2009 raising capital of more than \$5 billion for 189,000 units in October 2020. MSMEs that are willing to arrange funds from kick starter site should set their goals and time to fulfil those goals along with small reward for the investors.

### **Indiegogo**

Indiegogo site are providing their services for technological advancements, creative and innovative works and projects. Working style of this site is as similar to kick-starters but it is not based on all or nothing fund raising model. Two types of alternatives such as fixed and flexible funding are provided by the investors. Under fixed funding, compilations of goals are mandatory for borrowers otherwise they have to return back the whole amount to investors.

### **Causes**

Causes site is working as biggest online platform that provide their services to more than 186 million of users in 156 countries. Non profits organisations take the advantage of causes sites without paying fees because these NGOs have the shortage of funding facilities, networking knowledge and required resources.

### **Patreon**

Patreon are providing their services to online users such as you tubers and bloggers etc. Digital creators have to make a subscription model to raise funds from patreon site and mandatory to upload required content regularly otherwise investors can cancel their subscription. Patreon site consist more than 2 million patrons and more than 1 lakh creators.

### **Gofundme**

Gofundme site based on no or nothing based model operating various funding programmes such as Las Vegas fund and Time's up Legal Defence fund to

provide medical and emergency facilities. Gofundme site receives 2.9% as processing fees but traditional starts up businesses are not so active in arranging funds from this site.

### **CircleUp**

Circle up site connect those investors whose net worth of \$ 1 million with an annual earnings of \$ 2 lakh with the needed institution having \$ 1 million revenue. It raised funds of \$ 260 million for more than 196 new start-up businesses.

### **Lending Club**

This site provides personal and business loans through crowd funding. Lending club site is based on debt based crowd funding providing funds more fast than banks. As compare to equity based crowd funding there is no requirement to set plans and projects for getting funds.

### **Necessity of crowd funding**

Various types of crowd funding options are available and managed by government and Reserve bank of India. Among them equity based crowd funding is restricted by the government and peer to peer crowd funding is managed and control by reserve bank of India. Community based crowd funding has the capability to fulfil the expectations of creative entrepreneurs.

### **Source of arranging funds**

For starting up the business and to sell the products in the market, crowd funding is the best option for small business and MSMEs can take the benefits of crowd funding by making direct contact with investors. Among all other types of crowd funding, donation based crowd funding is the best option for small and medium enterprises to arrange funds for running business.

### **Testing the business Thought**

Crowd funding is an option to know the reaction and response of investors regarding validity of business. On the basis of these responses, business ideas can be modified or changed and can be make more effective to gain marketable profits.

### **Instrument for marketing the business**

Crowd funding platform provides knowledge about the goals and objectives of small and medium enterprises to investors or donors through social media and advanced technologies. It provides relevant information about the small and medium enterprises to more and diversified channels for further contribution.

Before facing the market, crowd funding provides an opportunity to MSMEs to sell their products and services in advance and to know the reaction of investors to change the concept of product or idea. Crowd funding provides the platform to analyse the response of investors and market so that decision for continuation can be taken.

### **Obstacles in adoption of crowd funding for MSMEs**

If we talk about the positive aspects of MSMEs, we found that in India there are approximate five hundred lakh units working as micro, small and medium enterprises providing their contribution in Indian GDP at 45 percent and also providing employment to more than 46 crore people in India with the growth rate of 11.5 percent per year. Traditional style of operating and performing business and fear to adapt latest technology are main obstacles in the growth of MSMEs. Revenue of MSMEs can be improved by 35 percent if they ready to use and adopt new and advanced digital methods. For better improvement they are required to change their mind set, enhance creative and innovative methods of performing work, management through digitalised mode, acceptance of e-commerce concept because they are still immature in dealing with technology and learning about hardware and software knowledge. For performing all these function they are dependent on banks for financial assistance. Banks feels hesitate in funding them because of high risk and high generation chances of NPAs. Owners and managers of MSMEs are not proficient in speaking English and all technological knowledge base in English. MSMEs need money for performing day to day activities and for acquiring fixed assets. For arranging funds, MSMEs are based on unorganised sectors, friends, relatives and their own savings. Fintech firms, crowd funding options and sites came in to existence for helping those MSMEs who have the shortage of funds but for attaining funds from investors in the form of crowd funding they need to present their financial documents and plans very clearly and should use digitalisation in managing accounts and funds.



## Conclusion

Crowd funding is the better option for arranging funds through digital mode from various investors for managing businesses and even solving social and environmental issues. Small and medium enterprises, new start up business can get benefit from this option because MSMEs' contribution in Indian GDP and in generating employment cannot be denied. Shortage of working capital, less knowledge of market, fear in adopting new and latest technologies is various problems faced by the MSMEs. Crowd funding sites such as ketto, circle up, go fund me etc are various famous in providing funds based on donation based, reward based and equity based crowd funding. Through this MSMEs will be able to achieve their objectives and will gain new and innovative ideas and sufficient funds for further growth.

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