
CROWDFUNDING: AN INNOVATIVE WAY TO FINANCE SOCIAL ENTREPRENEURS

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I. INTRODUCTION

The world is rapidly changing and the entire change and development of civilization is the result of trade, commerce and industrialization. In this development the human resource in general and entrepreneur in particular plays an important role. Entrepreneurship is the creative activity that includes identifying opportunities in the market, gathering all the necessary resources required to carry out these opportunities. An entrepreneur plays a vital role in the development of the economy as it creates job opportunities, reduces financial burden and provides competition. In the words of Joseph Schumpeter *"The rate of economic growth of nation depends upon the rate of innovation and technical progress. The rate of technical progress and innovation in turn depends upon the supply of entrepreneurs in the economy."* Whenever there is some opportunity in the market these entrepreneurs find solution for it but to implement it in practical sense there is need of huge resources. Though these entrepreneurs are the engine for economic growth, even then they face financial crises. The major problem that they face while gathering resources is lack of availability of finance on easy financial terms. This problem becomes major obstacle especially for social entrepreneurs.

Social entrepreneurship: Social entrepreneurship also known as altruistic entrepreneurship is the process of starting-up new venture for a social cause. These enterprises are established with the notion to meet the unmet needs of community such as micro-finance institutions, providing special services to unprivileged sections of society through educational, vocational and health and hygiene.

Social entrepreneurs are the individuals who target societal problems and provide innovative solutions by setting up new projects. They work to solve the social, cultural and

environmental issues such as poverty alleviation, health care and community development. Categorizing on the basis of economic motive, they may work on either earned income model or low income model or no income model. Those social entrepreneurs who work on earned income model, price the product and service including profit margins for future survival. As they have profit motive, thus they also get financial support on easy term. Those following low income model tend to price the products at marginal rates just to cover basic cost and those with no income model sell everything for free. But the major problem faced by them is lack of financial support from financial institutions and investors as they don't have any profit motive. Crowdfunding has emerged as an innovative source of finance for them.

Crowdfunding: Crowdfunding is the process of asking the general public for donations that provide startup capital for new ventures. It is an Internet-enabled way for business and social entrepreneurs to raise money in the form of either donations or investments from multiple individuals. Using the technique, entrepreneurs especially those with social motive can pitch their ideas straight to everyday Internet users, who provide financial backing. This method of raising finance gained importance with the popularity of internet. There are various crowdfunding platforms available at national and international levels such as Kickstarter, Milaap, IndieGoGo, Wishberry, Ketto etc. As far as types of crowdfunding are concerned, it is categorized into four types namely equity funding, peer to peer lending, donations and rewards.

II. REVIEW OF LITERATURE

Different authors have previously researched on crowdfunding and social entrepreneurship. ZoricaGolic in her research named- 'Advantages of Crowdfunding as an Alternative Source of Financing of Small and Medium-Sized Enterprises' explained the crowdfunding as an alternative way to fill the gap in the absence of capital for SMEs marginalized by traditional funding source. It clarifies various aspects of crowdfunding and the benefits of its use for SMEs and thus gain more knowledge on this fast-growing phenomenon. A down side of crowdfunding is that it has the potential to be harmful to customers at the base of the pyramid. By design, a crowdfunding platform often matches consumers (funders) with a consumer (a fundraiser). As per SEFORIS, in Belgium most of the organisations generate

regular income through using earned income model, means that they sell the products that they innovate for the society at profit to the company. In china people take money from their friends and relatives to finance seed capital social ventures (China Social Enterprise Report 2012). Procurement of financial capital has long been accepted as one of the main difficulties encountered by those starting new business ventures, and there exists a wealth of literature seeking to understand, analyze and make recommendations for businesses requiring capital (Denis, 2004; Hand Wong, 2006; Klein et al., 2014; Macht and Robinson, 2009; Wong, 2002; Kerr et al., 2011; Kerr, 2010; Lam, 2010). In the 42 countries assessed by The Global Entrepreneurship Monitor, over 90% (\$600m) of startup capital was raised from sources other than banks and venture capitalists, with just 5.8% of that coming from BAs, and over 60% being invested by the founders themselves (GEM, 2006; Lam, 2009). Moreover, it is estimated that fewer than 0.5% of new ventures are created with business angel (BA) or venture capitalist (VC) investment (Bygrave et al., 2003, pp. 114). Macht and Weatherston (2014) anticipated that crowdfunding would offer unique opportunities in this area including, importantly, a lack of restrictions regarding the nature of the firm involved.

III. OBJECTIVES

1. To understand the concept of crowdfunding as a source of finance for social entrepreneurs.
2. To study the national and international crowdfunding platforms for funding social ventures.
3. To study the social ventures funded by each of these crowdfunding sites.
4. To examine the benefits of crowdfunding to social entrepreneurs.

5. IV. RESEARCH METHODOLOGY

This paper is purely descriptive in nature. The research is based on secondary data collected from magazines, journals, research papers and internet websites.

V. CROWDFUNDING AS A SOURCE OF FINANCE FOR SOCIAL ENTREPRENEURS

Social entrepreneurs face financial crises as they don't have profit motive and they also operate in a high risk profile. The problem become severe when they work on no return model. Under such circumstances, crowdfunding acts as boon for them as these websites

provides a platform for social entrepreneurs to express their project ideas and gain free financial support from online community. They can receive financial arrangements in following ways:

Donation based: It involves donating small amounts to meet the larger funding aim of a specific project while receiving no financial or material return in exchange.

Reward based: It includes donating small amounts to meet the larger funding aim of a specific project with the expectation of receiving a tangible (but non-financial) reward or product in return.

Peer-to-Peer lending: It involves borrowing from a number of lenders via an online platform, each lender lending a (small) amount in return for financial compensation.

Equity based: Here the investors invest in a business via an online crowdfunding platform in return for a share in the business.

VI. CROWDFUNDING PLATFORMS AT NATIONAL AND INTERNATIONAL LEVELS

Crowdfunding platforms are the intermediaries which act as a link between social entrepreneurs and general public. The funding facilities provided by them depends upon the nature of business that the entrepreneur want to start. The most popular crowdfunding platforms operating at international level are as follows:

1. KICKSTARTER: It is an American platform founded by Jessica Genet and Stephan Angoulvan. They launched the first Kickstarter project in late 2009 and raised \$13,597 from 188 funders in eight weeks. For starting a new project, the fund raiser gets a fundraising page, which includes the funding goal, a video explaining the venture, and the deadline (one to 60 days after the launch). Till now Kickstarter has funded 1,51,270 projects funded by 15,262,935 funders. Categories under this include Design and technology, food and craft, film, publishing, music, games, arts, comics and illustration. It works on 'All or Nothing' model. However, Kickstarter does not work on equity and donation based crowdfunding.

2. INDIEGOGO: Launched in 2008, Indiegogo represents 235 countries. The site has aired more than 8,00,000 successful ideas. It is a platform for unique ideas, innovative technologies. It works on fixed and flexible system which means that whatever amount you

have raised you can withdraw the same. This site is best to launch social ventures. Example for this is a company named 'Unlimited Tomorrow' founded in Feb 2014 by social entrepreneur- Lachappalle for manufacturing first Artificial robotic limbs for amputees. He raised 114% of the project cost i. e. \$1,109,291.

3. START SOME GOOD: It was launched by Tom Dawkins and Alex Budak in March 2011, primarily to startup social ventures. This Launchpad works on donation and reward based model and has raised \$9,309,146 to fund 932 social projects. Example: The organisation namely 'Energy for old Fadama' founded in July 2012 by David Boyd. The team provides solar energy to twenty community buildings in Old Fadama: seven schools, nine mosques, two community centers, a church, and a police station.

4.CROWDRISE:CrowdRise is an innovative, cost-effective online fundraising platform dedicated exclusively to charitable giving. It works purely on donation based model and has raised over 1.5 million charities of \$5 billion from 50 million+ donors. It has launch over 1 million campaigns. Some of its partners include American Cancer Society, New York City Marathon, Red Cross, UNICEF, Tough Mudder, United Airlines, Huffington Post, Active, Live Nation, and Viacom as well as artists like Kristen Bell, Pearl Jam, Sean Penn, Big Sean etc.

5.CAUSES: Founded in 2007 by Matt Mahan and Matt Wilson and located in San Francisco, CA, Causes is a tech company that provides people with the platform and tools required to make the world a better place. It discovers, support, and organize campaigns around the issues that impact us and our community. Example: Green Wish™ by Ed Begley Jr. (TV actor) is a non-profit organisation that helps local, green organizations fund projects for their communities through donations.

VII. NATIONAL CROWDFUNDING PLATFORMS

As India is a developing nation with numerous social and environmental problems, only government cannot tackle all these issues. There is need of support from public by way of social entrepreneurship to solve these issues. There are many crowdfunding platforms which provides funding to start a social venture. Most popular among these are:

1) MILAAP: Milaap is the number one crowdfunding website based in Bangalore, India with headquarters in Singapore. Founded in 2010 by a team of young and passionate entrepreneurs, Milaap has pioneered the development of P2P lending in India. It works on peer to peer lending as well as donation based model. So far the company has raised USD \$1,60,000 from corporates, high-net-worth individuals.

KEY FEATURES:

- Setting up a campaign is extremely easy and absolutely free on Milaap. Your campaign manager will help you through the way giving you tips on using all your resources for driving your campaign.
- The website charges a platform fee of 5% on the total funds raised on our basic plan..
- It provides one to one training through their dedicated fundraiser managers.
- Works on keep what you raise model. That means if your goal is not met even then you can assess your funds raised.
- It has offices in multiple countries to cater to the needs of NRIs.

2) KETTO: Founded on 15 August 2012 by VarunSheth along with ZaheerAdenwala and Bollywood actor KunalKapoor, Ketto is a Mumbai based crowdfunding platform focusing mainly in social domain. It raises funds for various categories like NGOs, non-profits and also support project for creative as well as personal causes. So far, it has raised Rs.300 crores for 80000 projects.

KEY FEATURES:

- The platform fee is 6% while the upfront fee for setting up a campaign is over Rs. 2000.
- Supported by organizations like Google Grants, London Business school, kwan.in and numerous Bollywood celebrities.
- Social projects under Ketto covers 10 causes which includes - water, sports, education, children, women empowerment, health and sanitation, malnutrition, environment, disabilities.

- It works on keep what you raise model.
- It has team of dedicated fundraiser managers who help the entrepreneurs to raise funds for new ventures.

3) WISHBERRY: Wishberry is a crowdfunding platform inspired by Kickstarter. It was launched by Priyanka Aggarwal & Anshulika Dubey in 2012, and is one of the most successful platforms for Creative Artists. It accepts film/audiovisual projects in following categories: Feature Film, Documentary Film, Short Film, Web-Series, Music Video, Film Festival. It is a rewards-based crowdfunding platform, which means that funders in return receive intangible rewards such as early bird or special access to the project they funded (invite to film premiers), limited edition merchandize, experience in the making of the project etc. Till now it has raised Rs.2,88,00,000.

KEY FEATURES

- The cost of listing a project on this crowdfunding platform is Rs.3999, and upon withdrawal, Wishberry deducts 10% as platform fee.
- The process of raising funds is very simple. Firstly, the fundraiser submits his project on Wishberry by filling a form. If the project gets approved, then Wishberry consultants help them to prepare for crowdfunding. Once ready, the campaign goes live and fundraiser get up to 60 days to meet funding goal.
- All or Nothing: You get funded only if you have raised 100% or more of your funding goal. If not, the money goes back to the funders.

4) FUELADREAM: FuelADream is a crowdfunding website for people which aim to raise funds for creative ideas, causes, charities, events, and community-led activities. They've successfully raised funds for innovative projects like the smartest ELECTRIC BICYCLE and much more. Rs. 3000 is the fee to start a campaign, and 9% of the funds raised would be the platform fee. FuelADream was launched in Mid-April of 2016 and is based in Bengaluru. They a crowdfundorganisations that currently aims to raise funds for creative ideas, causes, charities, events and community led activities with a initial focus on India.

5) IMPACTGURU: ImpactGuru is a venture which was incubated in Harvard's Innovation Lab's Venture Initiation Program in the USA. It was founded by Piyush Jain (CEO) and Khushboo Jain (COO) and launched by Maneka Gandhi, Union Cabinet Minister for Women & Child Development, Government of India in August 2015, and it helps to fund for various causes ranging from donation-based to reward-based. All you have to pay is the platform fee of 5%. It is a donation based crowdfunding platform that offers global crowdfunding solutions for NGOs, social enterprises, startups and individuals. Impact Guru has mobilized ₹ 600 crores (US\$84 million) for various NGOs and social enterprises in more than 15 countries.

6) DREAMWALLETS: DreamWallets is a Jaipur based crowdfunding startup which has many campaigns ranging in many categories such as Music, photography, food, fashion, environment and much more. They began their operations in July 2015. It works on reward based model and allows the fundraisers to keep what they have raised. An entrepreneur can raise funds under 13 categories i.e. film, stage, music, art and craft, social, literature, events, technology, environment, gaming, food, fashion, photography, travel, start-ups and sports.

VIII. EXAMPLES OF SOCIAL VENTURES SET UP THROUGH CROWDFUNDING PLATFORMS

KETTO

- **Transcribe** established by MadhavLavakare to provide low cost device to help people with hearing impairment. He raised Rs. 2,05,716 for his venture.
- **Aakar** social ventures is an initiative by Nishi Arora and JaydeepMandal. Aakar is a hybrid social enterprise comprised of Aakar Innovations and Aakar Social Ventures that enables women to produce and distribute affordable, high-quality, 100% compostable sanitary napkins within their communities while simultaneously raising awareness of menstrual hygiene in village community. This venture is working in 15 states and 15 countries and has raised \$2,99,677 from Ketto.

MILAAP

- **ALAI:ALAI** (Trust Reg No: MLS-4-00075-2017-18), Animal Lives Are Important, is a **dog rescue & rehabilitation shelter** for injured, abandoned and abused dogs in Bangalore. This social enterprise raised Rs. 5,14,860 from Milaap funders.
- **Pathshala:** A social initiative by Dev Kumar (IAS) and Dr. Priyanka to set up an English medium school for underprivileged children of mine workers in Dhanbad. They raised Rs.8,40,000 to set up their school.
- **IMPACTGURU**
- **Women Right To Sight:** It is a voluntary organization named as ANV (A New Vision) which aims at restoring the sight of underprivileged visually impaired women in villages. It raised Rs. 6,77,629 i.e.141% of the total project cost.
- **Arpan-** It is a social venture set up by Yash charitable Trust. It is cafe run by persons with developmental disabilities along with daily lunch delivery- ArpanDabba service. It raised Rs.7,50,646 to set up this venture.

WISHBERRY

- **The Borderlands:** It is a documentary film made by the National Award winning collective Camera and Shorts to bring together human stories of borderland citizens from all of India's borders with its seven neighboring countries. The aim is to capture this human side of life, beyond the general understanding of military and political relationships. It raised Rs 26,91,012 i.e. 108% of the cost.
- **Battle of Bollywood:** Organized by Rishi It is UK's biggest Bollywood dance competition that provides a platform for artists and dancers to connect & grow beyond borders. It raised Rs 10,05,000 i.e. 101% of the campaign price.

DREAMWALLET

- **Atmospheric Water Generator** - SwapnilShrivastav developed Atmospheric Water Generator under Uravu Labs which can generate drinking water from the air around us to gear up for water sustainability. It Raised Rs. 10,599.34 i.e. 211.99% of the cost.

- **Grow It Yourself (GiY):** It is a social venture by MayoorsShetty for manufacturing products to enable urban population to grow the food they consume using our IoT enabled agri solution which relieves them from manual tasks of gardening and monitoring plant health. Where they can get organic food throughout the year. They raised Rs. 16,750 i.e. 167.5% of the total campaign goal.

IX. BENEFITS OF CROWDFUNDING FOR SOCIAL ENTREPRENEURS

1) Easy way to raise capital.

Crowdfunding is a great way to fund a venture as there is no need to fulfil obligations for borrowing or to issue prospectus for equity investments. A social venture not earning anything even can raise finance through public support. This support is either fully free by way of donation or is given against some kind of rewards (tangible gifts, special treatments, involvement in the project).

2) A Strong Marketing Weapon

A crowdfunding campaign is a good way to introduce a venture's overall mission and vision to the market, as a social cause supported by one person is shared by the others. Many crowdfunding platforms incorporate social media mechanisms (facebook, Twitter etc.) making it painless to get referral traffic to your website and other social media pages. In this way thousands of potential investors visits the entrepreneurs' project page in order to understand the concept and future prospect. These users are also important for viral marketing, as they have the ability to share and spread the word to their connections.

3) Approval to the Idea

By showing and convincing the funders that your venture is really credible, then receiving sufficient market validation at an early stage is hard. The venture which has been funded more than 100% shows that everybody finds this concept as credible. The first question that any angel or institutional investor will ask will often be along the lines of proof of concept, and a good way to gain some respect and credibility is being able to show them that your venture had a successful crowdfunding campaign.

4) Provides Feedback

It is generally said that more heads will lead to more ideas. By having a crowdfunding campaign, the entrepreneur has the ability to engage the crowd and receive comments, feedback, and ideas. This feedback is extremely valuable, as it can help understand some aspects of their business that were previously un-thought of. It could also potentially inspire some other ideas.

5) Create Early Adopters

The people who invest in the business generally become the potential buyers as they evaluate the business and his owner's philosophy. These people are early adopters. Early adopters are very important to every business, as they will help spread the initial word without asking for anything in return. Such people care about the venture's brand and message, and are likely to be loyal customers throughout the life of it.

6) User Friendly Process

To apply for a loan or pursue other capital investments are two of the most cumbersome processes that every entrepreneur has to go through, especially during the early stages of the company. But the procedure of raising funds through crowdfunding is quite simple. In order to get started on the crowdfunding path to funding and exposure, an entrepreneur only needs to contact the chosen crowdfunding platform that best suits their campaign theme and purpose, share their venture's powerful message, make a video, and establish some attractive rewards.

7) Creates Public Relations

The momentum created by successful crowdfunding campaigns attracts potential investment from traditional channels and attention from media outlets. Success stories make for interesting reading, and reporters are always hungry for them. Crowdfunding is a unique and hot industry these days, and countless entrepreneurs who have been successful with it have seen larger success and exposure as a result.

8)No Repayments

On all or nothing crowdfunding platforms (meaning that you only get the funds raised if you reach 100% or more of your funding goal) there are so many benefits, and no fee to participate. If an entrepreneur sets a goal and doesn't reach it, there is no penalty. All the

funds are returned to each contributor, the entrepreneur doesn't get anything and neither does the platform. On the other hand, if the fundraising project is successful, everyone wins and gets to be a part of a successful crowdfunding project. When successful, the average commission for the platforms is around 5% of total funds raised.

Thus, crowdfunding is an excellent way for entrepreneurs to receive the financing and exposure they need in order to verify, execute, and help their ventures grow.

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