

CROWDFUNDING



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If you are on Facebook, Twitter or any other social media website you couldn't have missed the "ALS ice bucket challenge".



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The idea was simple.

Take a bucket of ice cold water, dump it on your head and pledge to donate money for research into a progressive neurodegenerative disease called ALS (amyotrophic lateral sclerosis).

You then nominate three other people to do the same.



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Many big celebrities have gone under the bucket and donated towards ALS research. Thanks to social media, the challenge has spread across borders rapidly and helped to garner huge sum of money which would otherwise be difficult to raise from conventional sources.



**So why are we discussing
this?**



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We are here to discuss the concept
of Crowdfunding.

What is that?



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Crowdfunding is the practice of raising capital for new projects, ideas and businesses from a large number of people, typically via the internet.



Over the past several years,
Crowdfunding has become a
popular means for entrepreneurs
globally to raise funds.



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So, what are the different types of Crowdfunding?



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- **Equity Based:** Investors receive shares and revenue in the company. Angel investors, private equity players and venture capitalists follow this model.
- **Lending Based:** Investors are repaid their investment over a period of time either just the principle amount or with interest.
- **Rewards Based:** Investors receive either tangible item or services in return for their money. Depending on the amount, different rewards are offered.
- **Donation Based:** Contributors donate funds just like they do to charities and other non-profit organizations / causes.



The most popular way of securing Crowdfunding is the rewards based funding model.



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How does it work?



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The Crowdfunding is an easy process. It usually takes place in following order:

- Describe your idea / business proposal briefly but clearly
- Determine the minimum amount of money required to translate idea into reality
- Set what Rewards / Incentives will be offered to the crowd for funding the project
- Make a video presentation



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- Put your project on Crowdfunding website for free or for a charge. There are plethoras of Crowdfunding websites that promises start-ups not just funding but also mentoring and advisory services
- Ask the crowd to contribute money. Get your project successfully funded and receive money
- And finally, after the success of the initiative, the contributors should get their rewards



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THE PROS

- Crowdfunding platforms help fund seekers with marketing strategies, mentorship, consulting and legal advice.
- Provides a forum for feedback on the project
- Relatively inexpensive way to raise funds



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THE CONS

- Often limited amount of funds are raised compared to required funds
- Suitable for raising funds for a one-time project and not viable for long-term funding strategy.
- Exposes the project / idea to public, thus compromising your business strategy.
- Some due diligence and caution by investors / contributors are required to avoid fraud



What does the law say?



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In India, Crowdfunding is governed by the Companies Act. In June 2014, Securities and Exchange Board of India (SEBI) floated a consultation paper on Crowdfunding and its costs and benefits, suggesting that it has become big enough to catch the regulator's eye.

The proposed SEBI regulations exclude donations and reward based platforms in which no financial return is expected. For platforms involving financial returns, the market regulator has proposed the needs to be regulated appropriately to ensure that fly by night operators don't cheat investors.

Hopefully, the final regulations, which are pending, will find a way to harness the power of Crowdfunding effectively without throwing cold water on the concept.



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Hope you have understood the concept of 'Crowdfunding'.



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