

# Crowd Funding as an Alternative Source of Finance

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## Abstract

Crowd funding has become a new and alternative source of funds where individuals, startups, and small businesses can raise funds through a huge number of people usually on an online platform. Crowd funding is a financing approach that takes advantage of digital connectivity and social networks to raise small amounts of money through a large number of participants. This is compared to more traditional financing sources like bank loans or venture capital. This is a democratized way of accessing financing especially to those entrepreneurs who might not have a collateral, credit history or institutional investors. Transparency, community involvement, and direct interaction between fund seekers and fund contributors are the core principles of the Crowdfunding concept. It can take different forms, such as donation-based, reward-based, equity-based, and debt-based model to suit the diverse financial requirements and risk tolerance. Crowd funding does not only offer a source of finance, it also assists in validating business concepts, establishing customer bases, and creating market presence. Keywords: Crowdfunding, Startup, Financial Inclusion, Digital Finance.

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## 1. Introduction

Crowdfunding can be described as the act of soliciting small sums of money contributed by many people, usually via the internet to finance a business project or enterprise or a societal cause. Entrepreneurs are no longer required to rely on an individual bank or other financial institution to take out a big loan, but rather they can solicit contributions, however small, of hundreds or thousands of their supporters. The joint contributions form a significant capital that may be used to start or to grow a startup. Crowdfunding has become a force in the world with the development of websites like Kickstarter and Indiegogo. These sites gave businesspeople a virtual platform to introduce their ideas,

raise funding goals, and find their supporters all over the globe. These platforms were able to fund many innovative products, creative projects, and technology-based startups and show that public participation could be an effective substitute or supplement to traditional ways of financing. Crowdfunding is not just a financial instrument; it is also an effective financing instrument as well as a key marketing and market validation instrument. By initiating a crowdfunding campaign, entrepreneurs introduce their product or service idea to the potential customers. When individuals are ready to invest in the idea, it will be a sign of actual market need. This certification decreases the risks involved in the emergence of new products. In contrast to bank loans when the funds are provided on the grounds of financial evaluation, crowdfunding is the way of providing funds on the basis of the interest of the people and the image of worthiness.

Moreover, crowdfunding campaigns may also compel entrepreneurs to produce memorable presentations that may include videos, product prototypes, business description, and clear explanation of how the money will be spent. This process compels startups to hone their value proposition and marketing approach. Active advertising using social media also increases the visibility and participation by customers. Due to this, startups do not only raise funds but also create an initial customer base and brand awareness even before they actually enter the market. Risk distribution is another key benefit of crowdfunding. In the case of bank financing the startup is under full responsibility of repaying the loan with interest whether the business is successful or not. In some forms of crowdfunding, like reward-based crowdfunding, repayment of funds with interest is not a requirement. Rather, products, services, or other non-monetary rewards are given to contributors. This relieves the startup of financial strain at the start-up.

### Characteristics of Crowdfunding:

1. There can be large number of contributors and Funding comes from many individuals rather than a single institution.
2. A smaller investor can invest a relatively small amount.
3. Funds can be raised through online Campaigns and are hosted on digital platforms.
4. A time bound campaigns are run and most campaigns operate within a fixed time period.
5. Funding is Target-Based and Entrepreneurs set a specific funding goal.
6. There is transparency and regular updates and open communication build trust.

### Overview of the Crowdfunding Industry

Crowdfunding is an industry that has seen a fast growth in the world in the last ten years. Kickstarter and Indiegogo became the first online platforms to implement reward-based crowdfunding and showed how online communities could be used to fund innovative projects. Crowdfunding has grown to be a significant element of alternative finance in the world, particularly in small businesses, social enterprises, creatives, and startups. The crowdfunding business is currently in its infancy in India, but has demonstrated great promise.. The first are platforms like Ketto, Wishberry, and M

### Review of Literature

The literature underscores the fact that crowdfunding is a fast-growing alternative source of funding, particularly in the case of innovative and start-up businesses. Leoński (2022) highlights the increased importance of online crowdfunding platforms in assisting with the support of business ideas and evaluates the leading Polish ones and contrasts their features, performance, and opportunities to the entrepreneurs. Also, according to Firszt (2025), startups with impediments to conventional financing, including bank loans or capital markets that are not always available in the initial phases, are especially useful in crowdfunding. Although there are other sources of funding such as business angels, they are not yet well established in particular regions hence crowdfunding is an option.. Previously, Urbiola (2015) defined crowdfunding as a crowd-based form of financing facilitated by ICT innovation and development, which involves a large group of people bringing together small sums of money via platforms that match fund seekers and funders. Collectively, these

works highlight the possibility of crowdfunding as a flexible, accessible, and technology-driven financing tool.

### Objective of the Research

1. To examine how Indian startups utilize crowdfunding platforms as an alternative to traditional bank financing.
2. To study the factors contributing to successful crowdfunding campaigns, including campaign presentation, social media engagement, and reward structures.
3. To investigate the impact of crowdfunding on startup growth, funding efficiency, and long-term sustainability.

### Hypothesis

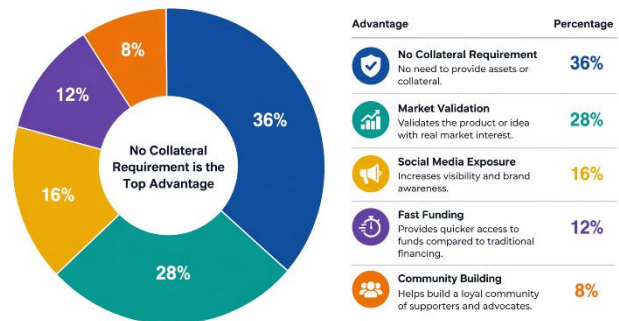
**(H<sub>0</sub>):** Crowdfunding does not significantly influence startup funding success, market validation, or growth compared to traditional bank financing.

**(H<sub>1</sub>):** Crowdfunding significantly impacts startup funding success, market validation, and growth, offering a viable alternative to traditional bank financing.

### Data Analysis

Chart :1

Most Valued Advantages of Crowdfunding for Startups

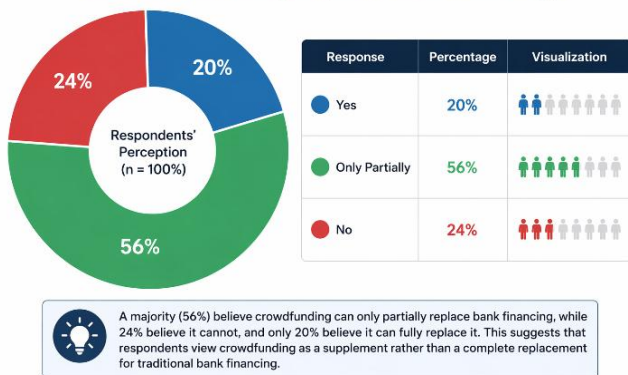


The key benefit observed is a lack of collateral requirements, which is 36% of the responses. It means that startups greatly favor crowdfunding as it eliminates one of the largest obstacles related to the conventional bank financing, where collateral is frequently a requirement. Market validation (28%), comes second in the list of factors that are considered by the entrepreneurs and this implies that apart from being a

source of funds, crowdfunding is also a method used by the entrepreneurs to test their business ideas in the real market. It will allow them to gauge the interest and demand of customers before their products or services are introduced in full. In the third place is social media exposure (16%) which is an indication that crowdfunding platforms are also useful as a marketing tool. They assist startups to gain visibility, brand awareness, and reach out to more people at a young age. Another benefit is fast financing (12%), which implies that startups value faster availability of funds in relation to more traditional means of financing, which are often time-intensive and presuppose complicated processes. Finally, the least mentioned benefit is community building (8%), which, nevertheless, also contributes to startups developing a faithful fan base and potential customers. In general, according to the chart, financial accessibility (no collateral and speed) plays a vital role, but non-financial advantages like validation and exposure also play an important role in the increasing popularity of crowdfunding among startups.

Chart :2

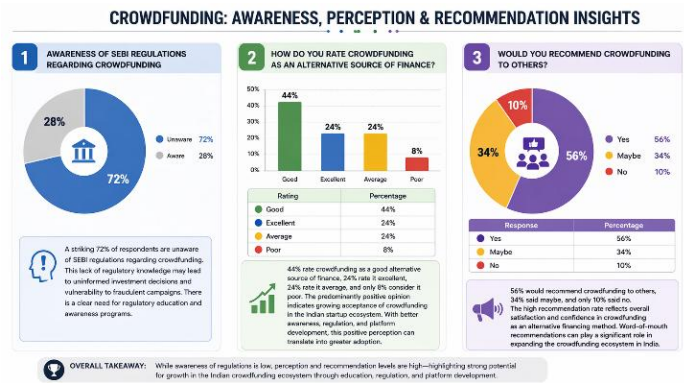
**Can Crowdfunding Replace Bank Financing?**



Most of the respondents (56%) feel that bank financing can only be partially substituted by crowdfunding. This implies that, although crowdfunding is considered to be a beneficial financing method, it is not viewed as an all-encompassing alternative. Rather, it is considered as an auxiliary resource that can be used to supplement certain needs, especially startups and early-stage projects. At the same time, 24% of the respondents believe that crowdfunding in no way can substitute bank financing. This group is probably facing the constraints of crowdfunding, including the uncertainty of funding, regulation or its inapplicability to the large-scale financing needs. Conversely, a small fraction of 20% of the respondents think that crowdfunding will be able to completely replace traditional banking practices. This

relatively lower percentage indicates that full dependence on crowdfunding is not a popular one. Generally, it is apparent in the chart that the majority of the respondents view crowdfunding as an addition, but not a replacement to bank financing. It emphasizes the significance of historic financial institutions and recognizes the increasing role of crowdfunding in the modern financial ecosystem, particularly in the startups and innovative projects.

Chart :3



To begin with, the chart indicates a wide gap of knowledge in terms of regulations. The vast majority (72) of the respondents do not know anything about the SEBI regulations regarding the crowdfunding, and only 28% know more or less. This is a sign of a critical information void, a factor that can potentially subject investors and entrepreneurs to fraud or making uninformed decisions. It also gives a clear indication that more regulatory education and awareness programs should be put in place. Secondly, the view of crowdfunding as a substitute source of finance is mainly positive. Around 44 percent of the respondents will classify it as a good choice, 24 percent classify it as excellent and 24 percent as average. It is only perceived as poor by a small percentage (8%). This is an indication of increasing acceptance and confidence in crowdfunding as a source of financing, particularly in the startup ecosystem. Finally, this positive perspective is also supported by the trend of recommendations. Over fifty-six percent (56) of the respondents would recommend crowdfunding to others, and 34 are not sure and only 10 would not recommend it. The willingness to recommend is high which means the general level of satisfaction and confidence among the users. It is also implied that word-of-mouth could play a great role in the growth of crowdfunding in India. In general, the chart shows that despite a low level

of awareness about regulatory frameworks, the perception and acceptance of crowdfunding are high. Crowdfunding can significantly expand as a significant alternative source of finance with better regulation, increased awareness and reliability of the platform.

### **Findings**

The overall results provide an insight into the overall awareness, perception, usage, and challenges of the crowdfunding among the respondents, both in terms of its increasing significance and its current shortcomings. In general, crowdfunding is not well known as half of the people interviewed are aware of the concept. Nevertheless, there is still lack of insight, including familiarity with other models, platforms, and regulatory frameworks. Such gap is further supported by the fact that, 72 percent of the respondents are not aware of the SEBI regulations as a result of which there is a great necessity of financial and regulatory education. Social media is emerging as the leading awareness creator (38%), as well as a key to the success of the campaign according to 80% of the interviewees. This highlights the strong influence of digital platforms in facilitating crowdfunding and influencing investor behavior. Platform wise, Ketto is the most popular platform with the next being international websites such as Kickstarter, which indicate a local and international presence. Although awareness is relatively high, actual involvement is also fairly low; only 34% of the respondents have contributed to crowdfunding campaigns. This shows there is an evident disconnect between knowledge and action. Nevertheless, the prospects are very promising, with 48 percent of the interviewees ready to utilize crowdfunding their startups and 36 percent ready to do so which is a good sign of expansion. In terms of preferences, the most preferred model is reward-based crowdfunding (40%), primarily due to the absence of equity dilution and interest payment. Crowdfunding has an added attractiveness in that it has one of the most important features, namely no collateral requirement (36%), which directly counteracts significant obstacles to conventional financing collateral requirements (32%), and high interest rates (24%). Concurrently, the respondents are aware of some risks involved in crowdfunding. The most apparent challenge is viewed as campaign failure (30%), and issues with fraud (24%), indicating that there should be a better level of transparency, trust, and regulatory control. On effectiveness, 80 percent of the respondents concur that crowdfunding assists in market validation and 68 percent rate it as a good or excellent financing option. Furthermore, 56% of them are

ready to recommend crowdfunding, which is quite a positive perception and level of satisfaction. Nevertheless, crowdfunding is not considered a total alternative as compared to traditional banking. Most people (56-percent) feel that it can only partially displace bank financing, implying that it is most effective as a supplementary source of finance, which does not stand on its own.

### **Conclusions**

The current research paper on crowdfunding as an alternative source of finance offers some valuable insights into its awareness, adoption, benefits, and challenges in the startup ecosystem in Nagpur. First of all, the research comes to the conclusion that awareness of the existence of crowdfunding is moderate but not exhaustive. Although over a half of the respondents are conversant with the concept, they have limited knowledge on the various types of crowdfunding, websites and regulatory provisions. It means that the level of awareness is surface level, and there is a necessity to enhance financial literacy and organized knowledge distribution. The second major finding is that social media is a major factor in popularizing crowdfunding. It is not merely the most important reporter of awareness but also the key influencer of the crowdfunding campaign success. This emphasizes the growing significance of online platforms to shape contemporary financing patterns and start-up visibility. Another distinct gap that is detected in the study is the gap between awareness and participation. A considerable number of the respondents know about crowdfunding, but few have made contributions to campaigns. Lack of trust, fear of fraud, and inadequate information are some of the factors that can be attributed to this gap. Nevertheless, the readiness of respondents to use crowdfunding in their personal projects shows that there is a huge potential. Regarding preferences, the most popular type of the crowdfunding is reward-based, primarily because of its non-dilutive capital and no repayment requirements. Moreover, crowdfunding is also appreciated due to financing, but also market validation that assists startups to determine demand in advance before introducing goods on a mass basis. The results also affirm that the fact that collateral is not required is the biggest strength of the crowdfunding option, and thus it is particularly appealing to start-ups that would otherwise not meet the high standards of the conventional bank loaning. This supports the importance of crowdfunding in terms of financial inclusion of early-stage businesses. Nonetheless, the research also finds out that crowdfunding cannot entirely substitute the conventional bank funding. The majority of respondents see it as an

additive and not a substitute. This implies that the two financing methods co-exist and play distinct roles at various stages and requirements of the business. One of the key issues found is the lack of regulatory awareness especially in respect to SEBI guidelines. This presents threats to investors and entrepreneurs and underscores the necessity of awareness campaigns, better regulation, and improved governance systems. In general, the paper finds that crowdfunding has a high potential as an alternative financing in India, particularly among startups. It is a good alternative because of its advantages, including its accessibility, flexibility, market validation, and involvement in the community. Nevertheless, to achieve its potential, it is necessary to work on the increase of awareness and trust, reinforcement of regulations and transparency of platforms. Lastly, (according to the empirical results), the null hypothesis (H<sub>0</sub>) is rejected and the alternative hypothesis (H<sub>1</sub>) is accepted, leading to the conclusion that crowdfunding positively influences startup funding success and is a potential substitute (although complementary) of the traditional sources of finance.

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