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THE IMPACT OF CROWDFUNDING ON STARTUP GROWTH IN THE INDIAN ECOSYSTEM

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ABSTRACT

This study explores the relationship between crowdfunding, crowd-investing, and startups and their impact on India's economic landscape. The authors analyse existing literature to emphasise how these mechanisms expand capital availability for new ventures. The investigation highlights the role of startups in driving economic growth through job creation, attracting investments, and fostering innovation. Additionally, the authors discuss how startups promote social inclusion and bridge socioeconomic gaps by ensuring that technological advancements reach remote areas. The authors illustrate how startups can reshape societal structures and enhance well-being, positioning India as a global economic powerhouse. Stakeholders can foster collaboration and drive sustainable development by understanding the integration between crowdfunding, crowd-investing, and startups.

In conclusion, this paper emphasises the transformative effects of crowdfunding and crowd-investing on India's economy, advocating for an environment that nurtures innovation and investment for a prosperous and inclusive future.

KEYWORDS: Crowdfunding, Startups, Business Venture, Projects, SME, India.

INTRODUCTION

Business owners and small startups frequently face significant obstacles in obtaining funding, especially in less developed countries, where this issue is particularly intense. The rise of crowdfunding, which is defined as an "open invitation to the public to raise financial resources for a specific project," offers a technological solution to overcome barriers in capital-raising. Crowdfunding provides a more attainable funding option, which can help reduce obstacles for

entrepreneurs as they struggle to start new ventures. Significantly, crowdfunding has helped launch new products in the marketplace, bypassing traditional avenues such as venture capitalists.

Despite significant progress in the field, a substantial gap persists in developing a robust conceptual framework that effectively connects crowdfunding mechanisms with the dynamics of startup enterprises. Crowdfunding unequivocally has the potential to overcome key barriers to entry. It effectively tackles (a) economies of scale, (b) access to capital, (c) access to distribution, and (d) incumbency advantages, which often create cost disadvantages that are independent of scale. This article aims to create a conceptual framework that integrates crowdfunding as a strategic tool for establishing and developing startup businesses in India. The primary research question driving this investigation is, "What elements affect entrepreneurs' tendency to use crowdfunding to raise funds for prospective startups?"

LITERATURE REVIEW

A Study on Crowdfunding as an Innovative Way to Finance Startups, by Atharv Vyas, Ramakanth, and Jaspreet (2023), highlights crowdfunding as a growing concept that connects entrepreneurs with investors through online platforms. The industry has grown significantly by raising billions for startup projects, including in art. This article explores the types of crowdfunding and its potential as a financing method for small and large businesses.

In their 2022 paper "Factors Affecting Crowdfunding Success," Zhunzhun Liu, Shen Ben, and Ruidong Zhang conducted a meta-analysis identifying key determinants of crowdfunding success. The study highlights critical factors such as the fundraiser's human capital, project location, team size, investor expertise, project quality, and platform interactivity.

The article "Crowdfunding for Startups in India" (2021) by Dr. Vijayalakshmi P. and Dr. V. Priyadarshini discusses crowdfunding as a growing concept that connects entrepreneurs with investors to facilitate online fundraising. The industry has seen significant growth, supporting various art projects and startups. With India's expanding economy and educated middle class, crowdfunding can transform fundraising for small and medium enterprises (SMEs) by providing an alternative funding source and removing entry barriers through online platforms.

In her paper titled "Crowd Funding in India," V. Vaishali Singh (2020) adds to the established knowledge regarding crowdfunding in India, offering a detailed perspective on its various types, the related risks, the regulatory framework, comparative analysis, and the dynamics of successful platforms.

Dr Rahul Raj's 2018 paper highlights key factors driving India's startup success, including a young,

tech-savvy population eager for innovation, supportive government initiatives like Startup India, and increased digital adoption. The presence of venture capitalists and angel investors has also provided essential funding and mentorship. Despite challenges like bureaucratic hurdles and infrastructure issues, the future of entrepreneurship in India looks promising.

In their 2018 study titled "Role of Indian Startups on Economic Growth," Prajakta R. Patil and Hemangi V. Mahajan conclude that indigenous startups not only enhance people's lives by providing affordable services but also serve as key drivers for the development and progress of the Indian economy.

In their 2014 paper "Crowdfunding: A New Paradigm in Start-up Financing," Manchanda and Muralidharan argue that the rise of equity crowdfunding will not replace venture capital. They believe these online platforms will enhance investor access to overlooked opportunities, allowing traditional venture capital and crowdfunding to coexist and benefit from their complementary roles in financing.

Objectives of the Study

1. To explore the dynamics of crowdfunding and Crowd investment.
2. To unveil the role of Crowdfunding for Startup Development in the Indian Context.
3. To analyse the Contribution of Startups to India's Economic Development.

Dynamics of Crowd Funding & Crowd Investment

Crowdfunding and crowd-investing are related yet distinct financial methods that have reshaped the fundraising environment, especially for startups and innovative projects. Despite drawing capital from diverse individual investors, these entities differ significantly in their strategic objectives and the specifics of the financial interactions they enable.

Crowdfunding refers to raising funds from a large group of people, typically through online platforms, to support various projects, from artistic endeavours to entrepreneurial initiatives. This method encompasses a variety of modalities, including donation-based, reward-based, and equity-based models. In donation and reward-based crowdfunding, contributors provide resources without expecting equity return, driven primarily by selflessness or the desire for tangible rewards. In contrast, equity-based crowdfunding, commonly called crowd-investing, represents a significant shift in the paradigm, allowing investors to contribute capital in return for ownership stakes in the business. This model transforms the funding dynamics, aligning investor interests with the long-term performance and profitability of the venture.

Crowd-investing is a powerful and specialised segment of equity-based crowdfunding, characterised

by allocating shares or equity to backers in exchange for their financial support. This change in paradigm converts investors into shareholders with a genuine interest in the company's outcomes, presenting the possibility of financial returns proportional to the business's success. Essentially, crowd-investing goes beyond the satisfaction of non-financial rewards commonly found in other types of crowdfunding, connecting backers' interests directly to the venture's financial success.

The rise of crowdfunding and crowd-investing reflects a significant transformation in how entrepreneurs secure funding, making capital more accessible and bypassing the conventional routes that depend on institutional investors or banks. These systems provide crucial support, especially for emerging startups and small businesses facing the financial challenges of starting up and growing. However, it is essential to understand the differences between the two approaches, as they involve different implications and risk levels based on the specific characteristics and direction of the project or business.

Crowdfunding and crowd-investing represent potent means of gathering capital, harnessing the ability to rally grassroots backing and cultivate mutually beneficial connections between creators and their supporters. The decision between the two depends on carefully evaluating the funding requirements and strategic goals that support the project. For businesses aiming to strengthen their financial stability while preserving independence and flexibility, crowd-investing presents an appealing option, providing investors with a direct interest in the company's success. In contrast, projects motivated by altruistic or non-monetary incentives can benefit from the various pathways offered by traditional crowdfunding. In this context, backers are often encouraged by a range of non-financial rewards or derive intrinsic satisfaction from supporting a meaningful cause.

In conclusion, crowdfunding and crowd-investing serve as crucial avenues that are transforming modern finance, enabling entrepreneurs to tap into the collective wisdom and resources of the public. Although their primary goal remains aligned – to promote innovation and stimulate socioeconomic advancement – the differences in their approaches highlight the necessity for informed decision-making based on a nuanced understanding of their respective features and applications.

Role of Crowd Funding in Startup Development in India

Crowdfunding has emerged as an innovative element in India's startup ecosystem, changing the way entrepreneurs obtain financing for their projects. This innovative method of raising funds has surfaced as a strong alternative to conventional options such as venture capital, angel investing, and bank financing, providing startups with numerous advantages that go well beyond mere financial assistance. One of the key benefits of crowdfunding is its ability to make capital more accessible to startups in India. Securing funding for early-stage ventures has historically been difficult, as entrepreneurs often encounter barriers related to geographic limitations and insufficient connections within the investor

community. Nonetheless, crowdfunding platforms have metamorphosed the landscape by offering a level playing field where startups can present their ideas and attract investments from diverse backers, regardless of their location or personal network.

The recent availability of capital has played a crucial role in closing the funding gap faced by numerous early-stage startups in India. Entrepreneurs can now utilise online platforms to reach a wider audience of potential investors, accessing a previously untapped source of funding. This inflow of capital at the early stages of a startup's journey can provide the necessary support to transform ideas into viable businesses, accelerating growth and driving innovation across various sectors of the economy.

Furthermore, crowdfunding acts as a litmus test for assessing the viability of a startup's ideas and offerings. A successful crowdfunding drive not only raises essential funds but also acts as a verification of market demand. When individuals are prepared to put their hard-earned money into a startup, it indicates a true interest in the products or services being provided. This offers important insights to entrepreneurs and aids in establishing trust among potential investors and collaborators.

In addition to its financial benefits, crowdfunding encourages significant interaction between startups and their customer base. By implementing impactful campaigns that effectively communicate their vision, mission, and products, entrepreneurs can engage with their target audience more profoundly, fostering a sense of community around their brand. This interactive approach fosters brand loyalty and reveals consumer preferences, warranting startups to refine their offerings and customise their approaches to meet market needs.

In addition, crowdfunding lessens startups' reliance on conventional funding sources, providing a more adaptable and fair option. Crowdfunding stands out from venture capital and bank loans, which typically impose rigid terms and conditions or demand substantial equity stakes. With crowdfunding, startups can confidently retain ownership and control over their businesses, allowing them to grow on their own terms. This independence is especially crucial in the initial phases, as maintaining creative freedom and the ability to make strategic choices can determine a startup's success or failure.

Alongside its financial and strategic advantages, crowdfunding offers startups a chance to create a beneficial social influence. Various crowdfunding platforms in India feature campaigns aimed at social or environmental initiatives, drawing in socially aware investors who are keen to back projects that reflect their principles. By supporting initiatives that offer social advantages, startups can improve their brand reputation, draw in customers with similar values, and positively impact society.

In general, crowdfunding has become a revolutionary step for startups in India, providing a multiple

method for raising funds and advancing business development. Its impact stretches beyond merely gathering funds, involving validation in the market, engagement with customers, decreased dependence on conventional funding methods, and opportunities for social impact. As the crowdfunding landscape develops and broadens, its importance within the startup environment is likely to increase, enabling entrepreneurs to achieve their goals and stimulating innovation in different territories. Crowdfunding has the potential to equalise access to funding, build significant relationships with clients, and drive positive social impact, making it increasingly important in influencing the future of entrepreneurship in India.

Contribution of Startups to India's Economic Development

India's economic path is undergoing a substantial change, driven by the emergence of its dynamic startup atmosphere. Traditionally recognised as a centre for outsourcing and IT services, India is currently undergoing an important change towards growth powered by innovation, driven by the energy of its young population. This essay explores the various ways startups impact India's economy, highlighting their function as innovators, creators of jobs, attractions for international investment, and contributors to the country's GDP growth.

Fundamental to India's startup boom is its demographic benefit, with a growing population aged 20-24, India has a vibrant pool of talent and entrepreneurial energy. This demographic advantage creates a favourable environment for the growth of startups in different sectors, stimulating innovation and challenging established industries.

Technology startups have become significant contributors to the economic development of India. Through the use of technology and digital advancements, these startups are converting the IT-BPM industry. Their innovative solutions and business strategies not only create significant income but also establish India as a worldwide leader in tech innovation.

The e-commerce boom stands as evidence of the transformative power of startups in India. E-commerce startups are changing consumer behaviours and market trends, with an expected growth rate surpassing 50% in the next five years. Their innovative platforms and inventive approaches are broadening market access, opening up new pathways for companies, and fostering economic development.

International investors are becoming more conscious of the opportunities within India's startup landscape, contributing considerable funds to local businesses. This surge of international investment not only offers financial aid but also helps the exchange of knowledge and access to markets, driving the growth of startups and helping India's economic progress.

Government efforts focused on creating a caring atmosphere for startups are enhancing India's entrepreneurial ecosystem. The initiatives to increase the ease of doing business index and streamline regulations clearly showcase a solid commitment to fostering innovation and entrepreneurship. These policy reforms improve investor's confidence, stimulate startup growth, and contribute to India's development as a global innovation hub.

Startups are essential for job creation, providing a wide range of employment openings across multiple skill sets and sectors. Startups play a vital role in driving economic growth by promoting a strong culture of innovation and entrepreneurship. They empower individuals to seize control of their ideas and make significant contributions to progress and development. Startups undeniably create jobs that offer higher wages, promote skill development, and enhance job satisfaction, all of which significantly drive socio-economic progress.

The growing influence of startups on India's GDP is profound, reflecting their role as engines of economic growth. Startups undeniably challenge traditional norms, ignite competition, and bring significant efficiency gains, which in turn intensely boost overall productivity and competitiveness across industries. Their innovative products and services address unmet needs, create value, and catalyze sectoral change, contributing significantly to India's economic success.

In conclusion, startups are transforming India's economic landscape by promoting innovation, generating employment, attracting investments, and driving GDP growth. Supported by a favourable demographic profile, technological advancements, and proactive government policies, startups are playing a critical role in advancing India towards sustainable and inclusive economic development. As the startup ecosystem continues to mature, its influence on India's economy is expected to intensify, indicating a new era of prosperity and progress for the nation.

- **Generating Jobs Opportunities:** With 112 million individuals aged 20 to 24, startups are critical in addressing India's unemployment problem. As of August 29, 2022, the startup ecosystem has rapidly grown, overtaking larger enterprises in job creation, especially in sectors lacking government jobs. This vibrant culture leads to innovation and economic growth, providing diverse opportunities for the younger generation to actively shape the future economy.
- **Attracting Fresh Investments:** Global corporations are diagnosing the potential of Indian startups, resulting in a rise in outsourcing and investments. For example, Accenture allocated \$1.35 million to startups last year, highlighting the important opportunities for these companies to impact local and global markets. This investment boosts both startup growth and economic vibrancy.

- **Advancing Research and Development:** Startups play a significant role in R&D, particularly in high-tech and knowledge-based services. Their alliances with academic institutions and researchers drive innovation and technological progress, which are crucial for economic growth and global competitiveness.
- **Enhancing Gross Domestic Product (GDP):** India's GDP is expected to grow by 6.9% in FY 2022-23 and 6.2% in FY 2023-24, despite inflation. A significant contributor to this growth is the support for startup initiatives, which enhance domestic revenue and circulate consumer capital, significantly boosting the nation's GDP.
- **Making Technology Benefits Accessible to All:** Startups drive innovation and ensure its benefits reach remote areas. Fintech and AgriTech companies bridge the rural-urban divide with accessible financial solutions and agricultural support in tier 2 and 3 cities. E-commerce startups using electric vehicle technology for last-mile delivery also support local entrepreneurs in rural areas, boosting global competitiveness.

Startups are essential for enhancing local economies by generating employment opportunities, injecting funds into societies, and encouraging creativity and innovation. As they grow, these businesses attract skilled workers, which creates jobs and helps to develop new skills. This leads to higher demand for locally made goods and services, improving the overall economic health of the region.

By prioritizing domestic needs, startups play a crucial role in lessening reliance on overseas products, thereby solidifying the Indian market.

Fostering a startup-friendly environment in India requires more than financial incentives; it requires backing from experienced founders, strategic investors, and a solid ecosystem. Critical components include state-specific policies, accessible resources, and educational initiatives to nurture entrepreneurship and sustainable economic growth. With startups leading the way, India is set for enduring expansion and global competitiveness.

Analysis and Findings

- Crowdfunding involves various funding models: donation-based, reward-based, and equity-based. Donation-based crowdfunding relies on humanity without financial returns, while reward-based crowdfunding offers perks to backers. As opposed to, equity-based crowdfunding gives investors a stake in the project or company in exchange for funding.
- Crowd-investing refers to a form of crowdfunding where people offer financial contributions

in return for equity in a business. This model allows smaller investors to participate in early-stage projects, encouraging innovation by providing access to capital from a wide range of sponsors. Both crowd-investing and traditional funding offer alternative avenues for startups, with crowd-investing potentially providing financial returns.

- It is crucial for startups to realize the distinctions between crowdfunding and crowd-investing while selecting their funding plans. Crowdfunding comprises raising capital from a large number of individuals online without providing equity in return, whereas crowd-investing attracts investors in exchange for equity or profit shares in the company.
- In India's startup ecosystem, crowdfunding has changed access to capital, especially for nascent ventures. It helps to bridge the funding gap many startups encounter by allowing them to attract a multiple pool of backers, including individuals and institutions, which broadens funding avenues and lessens dependence on conventional financing.
- Successful crowdfunding drives provide financial support and endorse market demand, showing interest in the startup's product. They also stimulate direct engagement with customers, providing an understanding of likes and challenges. This interface strengthens brand loyalty and helps startups to improve their offerings based on instant feedback.
- Crowdfunding can enhance a startup's marketing and observability in its target market. Through captivating narratives and creative approaches, startups can successfully communicate their value proposition and differentiate themselves from their competitors.
- Startups represent economic potential and drive social change by creating jobs, attracting investments, and fostering innovation. Supporting a robust ecosystem for startups is essential for nations seeking all-around growth and sustainable development, as they contribute significantly to research, development, and technological progress.
- Startups are essential to India's economy, contributing to GDP by boosting domestic revenue and facilitating the flow of consumer capital. They drive technological diffusion, helping reduce rural-urban disparities and strengthen local economies. Beyond revenue generation, startups create jobs and enhance cash flow in communities, highlighting their role in promoting economic growth and inclusive development for a more equitable distribution of resources and opportunities.

The analysis emphasizes how crowdfunding and startups are changing India's entrepreneurial scene and contributing to economic progress. By utilizing alternative funding sources and encouraging innovation, startups are crucial in generating employment, drawing in investments, promoting technological advancement, and boosting the country's competitiveness globally. Ongoing support

and cultivation of the startup ecosystem are vital for maintaining India's economic growth path and promoting an entrepreneurial culture.

CONCLUSION

To summarize, the interrelationship between crowdfunding, crowd-investing, and startups highlights a substantial shift in India's economic environment. Crowdfunding, through its several funding approaches, has made capital access more equitable, especially helping early-stage startups. Meanwhile, crowd-investing, which falls under the umbrella of crowdfunding, provides investors with the chance to gain equity stakes, thereby driving financial returns and encouraging a more sustainable funding environment for startups.

Startups play a significant role in India's economic development, driving job creation, attracting investments, promoting innovation, and enhancing GDP. They help to bridge socio-economic divides by extending technology to remote areas, promoting inclusive growth.

A supportive environment for startups is crucial, requiring a holistic plan, state-specific policies, and visionary leadership. By nurturing a robust ecosystem, India can maintain economic growth, enhance innovation, and improve global competitiveness.

In summary, crowdfunding, crowd-investing, and startups create a dynamic ecosystem that promotes entrepreneurship and innovation. Continued investment in this space is essential to harness India's demographic dividend and realize its global potential.

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