



Crowdfunding

Why in News

Recently, a 11 year old girl from Hyderabad has collected ₹6.2 lakh using crowdfunding to buy food for the less fortunate during the [lockdown](#).

Key Points

- **Crowdfunding** is a method of raising capital through the collective effort of a **large number of individual investors**.
- This approach taps into the collective efforts of a large pool of individuals, primarily **online via social media** and crowdfunding platforms and leverages their networks for greater reach and exposure.

Types of Crowdfunding

- The 3 primary types of crowdfunding are **donation-based, rewards-based, and equity-based**.
 - **Donation-Based Crowdfunding:** Donation-based crowdfunding is a way to source money for a project by asking a large number of contributors to individually donate a small amount to it. In return, the backers may receive token rewards that increase in prestige as the size of the donation increases. For the smallest sums, however, the funder may receive nothing at all.
 - **Rewards-Based Crowdfunding:** Rewards-based crowdfunding involves individuals contributing to a business in exchange for a **“reward,”** typically a **form of the product or service which company offers**. Even though this method offers backers a reward, it's still generally considered a subset of donation-based crowdfunding since **there is no financial or equity return**.
 - **Equity-Based Crowdfunding:** Unlike the donation-based and rewards-based methods, equity-based crowdfunding allows contributors to become **part-owners of the company by trading capital for equity shares**. As equity owners, the contributors receive a financial return on their investment and ultimately receive a **share of the profits in the form of a dividend or distribution**.

Benefits of Crowdfunding

- From tapping into a wider investor pool to enjoying more flexible fundraising options, there are a number of **benefits to crowdfunding** over traditional methods:
 - **Reach** - By using a crowdfunding platform, one has access to thousands of accredited investors who can see, interact with, and share the fundraising campaign.
 - **Presentation** - By creating a crowdfunding campaign, one goes through the invaluable process of looking at the business from the top level—its history, traction, offerings, addressable market, value proposition, with digestible packages.
 - **PR & Marketing** - From launch to close, one can share and promote the campaign through social media, email newsletters, and other online marketing tactics.
 - **Validation of Concept** - Presenting the concept or business to the masses affords an

- excellent opportunity to **validate and refine offering**.
- **Efficiency** - One of the best things about online crowdfunding is its ability to **centralize and streamline fundraising efforts**.

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