

Chapter 12

Crowdfunding: Can It Support Urban Local Bodies in India?

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ABSTRACT

The chapter studies and attempts to understand the idea of crowdfunding and the possibility of it being adopted and adapted within the urban Indian framework. It explores the potential of crowdfunding – the civic variety, which can supplement a small but meaningful percentage of financial resources required to provide urban services in Indian cities. The objective of using the crowdfunding platform is to create sustainable and livable cities. While the delivery of basic urban services is the responsibility of the urban local bodies, it is observed that the available financial resources at their disposal poses an impediment in service delivery. With the process of urbanization gaining momentum, India will require billions of dollars to build the much-needed urban infrastructure and provide basic urban services. It is envisaged that civic crowdfunding, which addresses the varied requirements of urban citizens, may be the appropriate solution to the problem.

INTRODUCTION

Crowdfunding, is an alternate method of raising capital, which has evolved and been found to be very popular in USA and UK having seen a meteoric rise in its global value from \$ 880 million in 2010, to \$ 34.4 billion of capital, by 2015-16 (Massolution Report, 2015). Crowdfunding gained momentum in USA post the subprime mortgage crises in 2008, resulting in the failure of a number of banks. The compelling situation thus shifted the focus of banks' away from lending to small business, resulting in a market gap and the genesis of an alternative channel of capital financing, referred to as 'crowdfunding', with an inherent potential to enhance market efficiency. While North America in 2015, accounted for 50% (\$17.25 billion) of the market, it was followed by Asia with 30.5% (\$10.5 billion) and Europe at 18.7% (\$6.48 billion) (Bhatia, 2016). Given the universality of online banking, cheaper smartphones

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and smarter technology, these factors have provided an enabling environment resulting in limitless possibilities and opportunities for crowdfunding.

In the Indian context, there is a view that crowdfunding has been a practice followed over the years for building temples and collecting funds for important festival celebrations. In the present digital age, crowdfunding is relatively new, is being explored and envisaged to be one of the biggest financial changes in history, having the potential to revolutionize the way money is exchanged (Prabhu, 2016).

The chapter is a study attempting to understand the idea of crowdfunding, particularly civic crowdfunding and its inherent features that have the potential for being adopted and adapted within the urban Indian framework. It is motivated by the growing urbanization process in India, wherein the urban population at 439.8 million in 2017 (Worldometers, 2017) is poised to increase to 590 million by 2030 (McKinsey Global Institute (MGI) Report, 2010). This will compel the constitutionally empowered Urban Local Bodies (ULBs) or city administrators to facilitate planned development, provide amenities and services to urban settlements. It requires raising revenues through taxations and user charges and earmarking expenditure, in order to build the urban infrastructure and services for Indian cities. Additionally, with the future making of cities guided by the United Nations (UN) - Sustainable Development Goals (SDG-11), the functions and responsibilities of the ULBs are widened to ensure livable, inclusive, safe, resilient and sustainable cities. This poses additional challenges for ULBs, which have been resource constrained as discussed by (Pethe, Nallathiga, Gandhi, & Tandel, 2014), (Bandyopadhyay, 2014) and (The World Bank Group, 2015). Given the existing situation, it is felt that crowdfunding platforms have the potential to provide opportunities for being explored and utilized at the city level to achieve the above-mentioned outcomes. The authors hence pose the question:

Given the critically low levels of financial resource available with the ULBs in India, coupled with the challenges to raise further resources, can crowdfunding platform be the appropriate platform, to provide meaningful financial resources, required for ensuring and enhancing quality of urban services to the citizens of a developing and emerging economy like India?

To address the above question, the schematic framework of the chapter begins with the introduction, followed by the background of crowdfunding, which discusses the concept, models and issues of crowdfunding. It is also supported by a sub-segment that throws light on the various cases of crowdfunding in India and its emerging potential to fund social or civic projects. The ensuing section throws light on the ULBs and the quality of urban services provided. It also puts forth the schedule XII of the Indian Constitution which defines the various functions of the ULBs and links it with the targets highlighted in the SDG (11), 'Sustainable Cities and Communities' discussing the financial provisions required for the delivery of the same. The succeeding part highlights the scope of civic crowdfunding and its potential to address the future concerns of urban development. This is further supported in the subsequent segment wherein the authors present three designed hypothetical case studies, with respect to select wards in Pune city, governed by Pune Municipal Corporation (PMC). The chapter ends by discussing the future research direction and the pertinent conclusions.

CROWDFUNDING: A BACKGROUND

Crowdfunding is a method of seeking or soliciting funds (small amount) from multiple investors through a web-based platform or social networking site for a specific project, business venture or social cause (SEBI, 2017). While crowdfunding is an umbrella term that describes the use of small amounts of money,

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