

# Crowd funding: Solution to Financial Inclusion in Women Entrepreneurship

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## Abstract

This paper aims to focus on issues of women's financial inclusion that create a hurdle for women entrepreneurs to smoothly operate and face cut throne competition and sustainable development. As the study of financial institutions' loans which is granted to women-owned SMEs tend to be significantly much lower than their demand. Thus, due to lack of finance they not only lack in capital formation but also not able to meet working capital requirements for smooth functioning of day to day operations, effectively and efficiently.

This paper is theoretical cum analytical in nature and the data were collected from secondary sources for the purpose of the study. The findings of this paper focused on the problem of financial gap faced by women entrepreneurs. In accordance with this, the paper highlights the crowd funding as an alternative of financial inclusion and focused on its significance to fill the financial gap.

**Key Words:** Entrepreneurship, Financial Inclusion, Crowd Funding

## Introduction

India is a developing country. it stands fifth in the ranking of GDP (nominal) 2019 and 126th in per capita income. Liberalization privatization and globalization makes India and Open Economy. Key player in foreign market and face Global competition Government of India takes various measures to expand the Horizon of economic boundaries. They promote production and distribution of goods and services to outside the geographical boundaries of the country. For this purpose small and medium scale enterprise join hands and form strategic Alliance with giant Corporate. Since independence small scale entrepreneur contribute a major share toward the national GDP and per capita income. an estimated 29.8 million MSMEs in India contribute

11.5% of gross domestic product 45% of industrial output 40% of export and employee nearly 69 million people. entrepreneurship foster the growth of economy not only in terms of GDP but also it helps in capital formation and distribution, Employment generation, mobilization and utilization of resources, eradication of poverty, creation of utility and enhancing standard of living etc.

India having 51.4 7% male and 48.5 3% female according to the census 2011, proven to be male dominated country. In India major share of business are occupied by male and they get privileged not only in agriculture but also in service sector of the economy. Apart from this woman not only engaged themselves in agriculture sector but also in industrial as well as service sector in India. Approximately 78% of women enterprise belongs to the service sector. in past year, women prove themselves in entrepreneurial sector also. Around 3.0 1 million women owned Enterprises represent 10% of all MSME in the country. This data was not very much impressive but fair enough to represent the contribution of women. Women owned enterprise contribute 3.09 % of industrial output and employ over 8 million people. Women enterprise plays a vital role in socio economic development of the economy but there are various factor that imposed barrier for their smooth functioning and hamper their growth. these factors are lack of market awareness, lack of trained and skilled human resource, obsolete Technology, difficulty in assessing business services, lack of infrastructure and moreover lack of capital. capital constraints is the key problem that create other factor as barriers. major source of finance for women are there own saving. they can't even get the benefit of ancestral property as they have only ownership but not the power to assess or take decision in respect of property. they can't even pledge their land or jewellery to secure loan from bank or financial institution. Government of India working on women empowerment making them self sufficient by providing various schemes of providing knowledge, skills, training and Finance but they are not up to the requirement. total supply of formal finance to women owned MSME was around Indian rupee 2.3 1 trillion, which contribute only 27% of total demand as there exist a finance gap of Indian Rupee 6.37 trillion which is 73 percent of total demand.

Source of finance available for women owned MSMEs are bank loan lending from financial institution government financing schemes to women enterprise lending from friends and family retained earnings, SHG schemes. But still there is a need of alternative source of Financing that can help in financing women Enterprise by providing them credit facility with minimum cost of borrowing, low transaction cost, immediate requirement of fund without any Collateral requirement and necessary paper work.

## Review of Literature

**Disha Bhanot, Varadraj Bapat, Sasadhar Bera, (2012)** in their research concluded that level of financial inclusion in north-east India remains very low. Income, awareness of self help groups (SHGs), financial information from various channels and education are influential factors leading to inclusion. Nearness to post office banks increases the likelihood of inclusion. Factors like area terrain and receipt of government benefit individually do not facilitate inclusion. However, recipients of government benefits in plain areas show increased level of inclusion.

**Frances M. Amatucci, Daria C. Crawley, (2011)** says that women businesses owner grows worldwide, it is increasingly important to understand the factors which contribute to their success. While entrepreneurship research identifies access to human and financial capital as being important, this study explore the role of socio cognitive factors such as confidence in one's abilities to perform a particular task. This paper aims to examine gender-related attitudes toward financial management drawing from existing studies education, cognitive psychology, and entrepreneurship. Empirical findings only partially attest to the lack of confidence combined with anxiety about dealing with financial management.

**Robert D. Hisrich, (1986)** stated that the risks of starting and operating a business are increased by being in a male dominated area, having few role models and lacking confidence in some business skills. To be successful she needs to establish a track record. Necessary education and business training should be obtained. Occupational experience in middle management or technical areas is beneficial. Before starting up the family situation should be assessed. A strong moral support system of family, friends, clients and business associates should be established. She must be determined to succeed and work hard in a professional manner. Research findings from a mail survey and personal interviews with a sample of women entrepreneurs in the US, Puerto Rico, Ireland and Northern Ireland are presented.

**Daphne Halkias, Chinedum Nwajiuba, Nicholas Harkiolakis, Sylva M. Caracatsanis, (2011)** examine the business and social profiles of 67 women entrepreneurs in three regions of Nigeria in order to identify patterns of entrepreneurship and social and economic challenges facing women business owners in Nigeria. The study aims to support and encourage sustainable small-scale economic development activities by Nigerian women and determine ways to integrate these small businesses into existing urban economic development projects and strategies for poverty alleviation, expand understanding of the business and social profiles of women entrepreneurs in Nigeria, examine the contextual influences on their work, raise the level of awareness of women entrepreneurs amongst all economically active agents and researchers, influence social and economic policy addressing issues of women entrepreneurs.

**Dinabandhu Sethi, Debashis Acharya, (2018)** assess the dynamic impact of financial inclusion on

economic growth for a large number of developed and developing countries. This study uses some panel data models such as country-fixed effect, random effect and time fixed effect regressions, panel co integration, and panel causality tests to examine the linkage between financial inclusion and economic growth. The empirical findings reveal that there is a positive and long run relationship between financial inclusion and economic growth across 31 countries in the world. Further, panel causality test shows a bi-directional causality between financial inclusion and economic growth. Thus, the study confirms that financial inclusion is one of the main drivers of economic growth. **Marialuisa Saviano, Luisa Nenci, Francesco Caputo (2017)** investigate women's financial inclusion as a critical element for the competitiveness of the Middle East and North Africa (MENA) market for entrepreneurship and sustainable development of the region, as MENA financial institutions' loans to women-owned SMEs tend to be significantly lower than the share of women-owned SMEs in their target markets. The main focus is to study the financial gap that women entrepreneurs. In accordance with this, the paper highlights the need of a more systemic approach and long-term vision to support a more extensive women financial inclusion in MENA regions.

**M. Abu Naser, David Crowther , (2016)** studied financial crisis of developing countries. It will try to give direction to the attractiveness of micro-credit and empowerment between the UK-based women small-scale entrepreneur and women microfinance-based entrepreneur who live in developing countries. This paper will exemplify that debt is not an effective tool for helping most poor women to enhance their economic conditions also the state of management of microfinance-based enterprises.

Entrepreneurial finance is rapidly evolving. Whether in mature or developing Economies, entrepreneurs are combining traditional debt and equity start-up finance (e.g., friends, family, angel investors, venture capitalists, and occasionally banks) with microfinance (**Khavul, 2010**), crowdfunding (**Schwiebacher, Belleflamme, & Lambert, 2013**), peer-to-peer lending, and other financial innovations (**Moeninghoff & Wieandt, 2012**). Small firms, who can have difficulty to obtain capital, have access to anyone in the world (**Bradford, 2012**).

Another antecedent of crowd funding is microfinance, which involves lending small amounts of money, typically to poorer borrowers (**Mincer, 2008**). There is a difference between microfinance and crowd fund: in microfinance is important the beneficiary, very small firms, in crowd funding is important the donor, small contributors for a common aim.

In the aftermath of the 2008 financial crisis, small businesses found it increasingly difficult to raise funds. As a response, crowd funding has emerged as a viable alternative for sourcing capital to support innovative, entrepreneurial ideas and ventures

according to World Bank Research and Policy Report (**Abraham and Schmukler, 2017**), despite MSMEs significant contributions to the economy, access to financing and funding are relatively limited compared to

large enterprises. They are less likely to have formal bank loans or other lines of credit because they tend to be young, informal and operate in unfamiliar business sectors which discourage the conventional financial institution from serving them.

Based on the study of World Bank, 2013 Report (**Abraham and Schmukler, 2017**), there is a high proportion of MSMEs needing financial backing from financial institutions:

- \_ 20 per cent of MSMEs in high-income countries;
- \_ 28 per cent in middle-income countries; and
- \_44 per cent in low-income countries.

**H. Zaiyu (2018)** online financing such as crowd funding, has proliferated in many countries and begun to fill this gap by offering a diversified range of financing services in areas where conventional financial channels cannot effectively operate or have been too slow to operate.

### **Objective**

1. To acknowledge financial barriers faced by women owned Enterprise.
2. To find out alternative source of Financing.
3. To study crowd funding as next best alternative source of finance.

### **Methodology**

This paper is theoretical cum analytical in nature. The data has been collected from secondary sources for the purpose of the study. This paper delineates funding issues of women owned enterprises and an alternative source of financing apart from traditional sources.

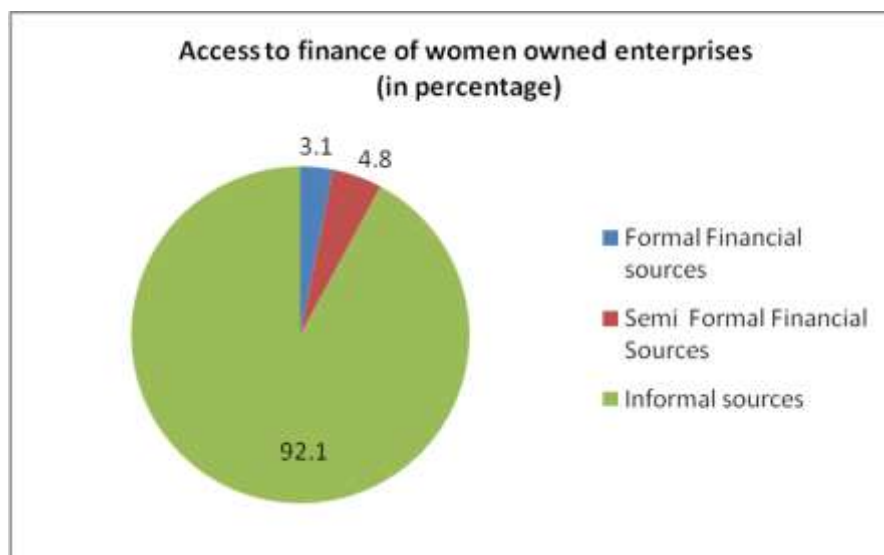
### **Discussion**

Since independence condition of women is miserable in India. Their social and economic condition is unfit. Large number of female is still illiterate. For women empowerment government of India has taken various measures and launched various schemes for womens' upliftment such as Swa shakti, Swayam Siddha, Mahila-e-Haat, STEP for providing financial assistance and employment generation, Beti Bachao Beti Padhao for providing education, Swahdar Greh for providing Micro Finance Facility, and various other schemes to make women self depend. Government bodies such as NABARD and MSME for rural development and entrepreneurship also plays significant role in improving social, cultural and economic conditions of women.

Although there are numerous schemes, facilities and subsidies are being provided from the part of government, still women of India are deprived in terms of basic necessities of life. Primary factor responsible behind this

was lack of Finance, and this will lead to various other problems such as lack of capital, unemployment, poverty, education etc.

On the basis of scale of operation and capital employment, there are three categories of MSMEs, such as Micro, Small and Medium. In India there are total 2,929,377 Women owned enterprise in Micro category out of which 274,059 are registered and 2,655,31 unregistered, in Small category there are 71,136 enterprises out of which 40,722 are registered and 30,414 unregistered and in Medium category there are 276 registered women owned enterprises.

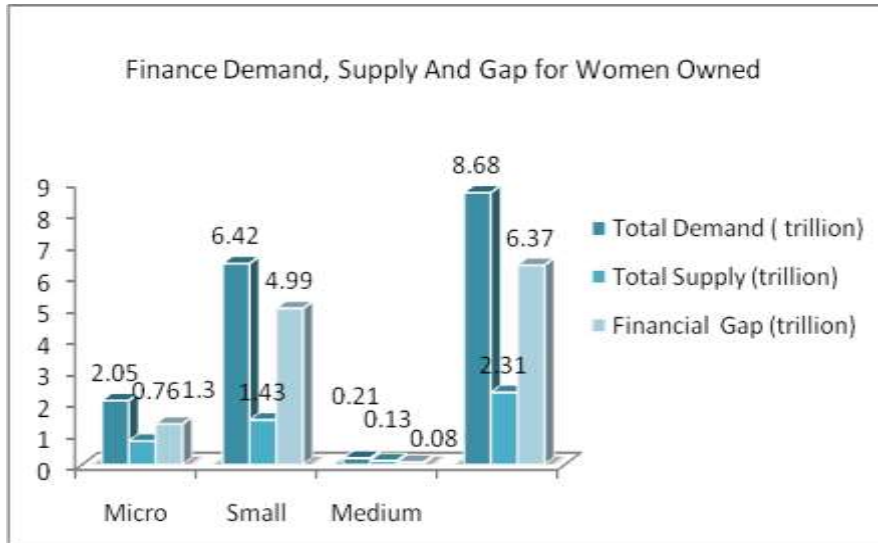


Source: <https://www.ifc.org>

For a successful operation of any enterprise, Finance plays a key role. Finance is needed for both working capital demand and long term assets financing and investment demand. Above fig shows sources of finance to women owned enterprises. Formal financing sources for funding women owned enterprise is 3.1 percent, semi-formal sources of financing consist 4.8 percent and major portion of funding was facilitated through self, family, friends, or informal sources i.e. 92.1 percent.

Government plays a significant role in providing financial assistance to women owned enterprises for their smooth functioning. The government of India has taken various actions for public sector banks to increase women's access to bank finance. It set a target of 5 percent aggregate public sector bank lending to women and instructed the central bank to track performances. Several benefits are provided by government for women to provide them assistance in purchasing home, such as, benefit from tax exemptions, lower stamp duties, and easier availability of home loans. This helps women to get advantage of collateral security by mortgaging their asset for loan and capital formation. However, lack of awareness among target clients led to low uptake of this scheme.

In 2012 formal finance is extended around 2.31 trillion. This credit facility supplied by various types of financial institutions such as public sector banks, non-banking financial corporations, and self-help group-bank linkage programs.



Source: <https://www.ifc.org>

Above Fig shows funding gap in Micro, Small and Medium categories of MSMEs. In case of micro category there was a total demand of finance 2.05 trillion but total supply was 0.76 trillion that shows a gap of 1.3 trillion i.e. 63.41 percent demand of finance was unfulfilled. In case of small category there was a total demand of finance 6.42 trillion but total supply was 1.43 trillion that shows a gap of 4.99 trillion i.e. 77.73 percent demand of finance was unfulfilled. In case of medium category there was a total demand of finance 8.68 trillion but total supply was 2.31 trillion that shows a gap of 6.37 trillion i.e. 73.39 percent demand of finance was unfulfilled.

Overall there is huge gap of finance (approx. 73.82 percent). Factors responsible for such huge funding gap are lack of collateral security, lack of customized product and services to suit the need of women entrepreneurs, perception that bank branches are unwelcoming to women customers, Information asymmetry between financial service provider and women entrepreneurs, dominant role of male members of family makes women entrepreneurs less attractive.

## Suggestion

To overcome the problem of financial gap, there is a need of alternative source of finance apart from traditional source of financing. There is a need of funding source which allows benefit to both investor and entrepreneur. Being an investee women enterprenurs need source of fund that possess minimum cost of capital, easier availability of fund without any collateral requirement and unnecessary paper work. On the other hand, investor want regular return on their capital invested along with security of their capital.

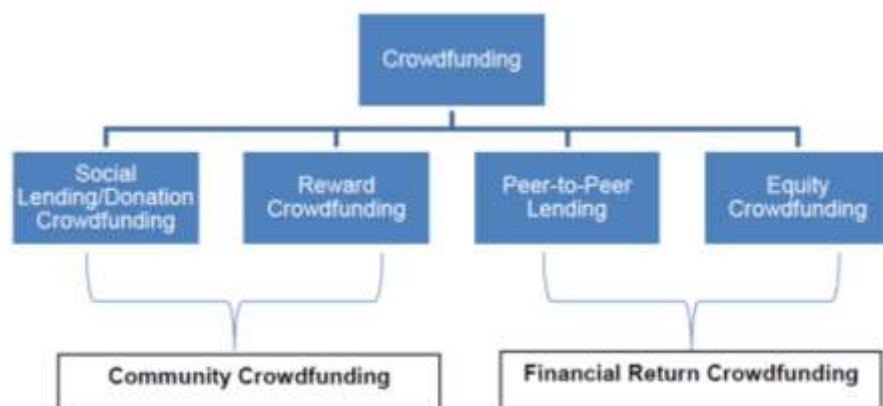
To facilitate such kind of investment and capital formation there is an innovative tool of funding namely Crowdfunding. According to the **Crowdfunding Centre (2014)**, the highest performing countries based on the number of successful projects are the USA, UK, Canada, Germany, France, Australia and Italy.

Crowdfunding is an innovative fund raising technique where borrower, generally start-ups or small businesses, borrow fund from large number of crowd in small denomination through web based portal. There are basically 3 parties involved in this model comprising borrower, investor and crowdfunding portal. Borrower showcase their business ideas or projects on web based portal known as crowdfunding platform and through these portals investor come to know about the innovative business idea, requirement of fund, objective of the business, risk associated with it, expected rate of return and they donate or invest on such businesses depending upon the need

Crowdfunding provide pitch for financing various projects ranging from social, educational, political, business start-ups. Crowdfunding model is used for raising fund for creative projects such as film, music album, and book, for projects associated with public interest such as social and co-operative initiatives or for funding business ventures.

## Types of crowd funding

Crowd-funding can be divided into four categories: donation crowdfunding, reward crowdfunding, peer-to-peer lending and equity crowdfunding.



Source: IOSCO Staff Working Paper - Crowd-funding: An Infant Industry Growing Fast, 2014,

Based on form of contribution from investor to issuer and form of return from issuer to investor, following are the various types of crowdfunding models:

1. **Donation Crowdfunding:** Donation based crowdfunding means solicitation of fund for social, charity, philanthropic purpose. In this model of crowdfunding, donor will not get any tangible benefits. This model is generally suitable for funding small denomination of capital.

2. **Reward Crowdfunding:** In this model of crowdfunding borrower fund the production cost of creative, social, & start-ups related projects such as projects for movie, books, game and artistic products and in return provide the opportunity to investor to be the first owner of the final product.

3: **Peer to Peer Lending:** Borrower seeking capital in the form of debt may create a pitch on a internet portal and through those portal investor interact with borrower and provide unsecured loan to the borrower at rate fixed by the portal or rate prevailing in the market for similar type of debt. In some cases portal pool fund from large amount of investor and lent to the issuer. There a greater chance of risk of default from the side of issuer.

4: **Equity Crowdfunding:** It refers to the solicitation of fund at the early stage of start-up by the investor to the borrower in the form of equity for earning profit/revenue in businesses or projects. There exist a thin line difference between equity crowdfunding and traditional mode of issuing equity share capital. In traditional mode, offering of public equity is made after business or product become viable but on the contrary offering can made at the early stage of conception of idea.

### **Key benefits of Crowdfunding for women owned enterprise**

1. Primary benefit of crowdfunding for women entrepreneur are that they get their project funded by large volume of crowd and also rate of return is comparatively lesser then the rate prevailing in the market as both investor and investee decide the cost of capital through mutual negotiation over crowdfunding platform.

2. Crowdfunding technique of fund raising help in spreading the risk faced by women entrepreneur, as fund are collected from huge volume of investors and they invest very nominal value in overall capital structure of the business.

3. Crowdfunding provide affordable and attainable option of fund raising to women entrepreneurs as cost of borrowing is less than the traditional method of fund raising.

4. With the help of crowdfunding, women can check the viability of their business idea, as they get advice and suggestion over platform from the investors and experts and also projects which are failing in raising money will prove to be insufficient or incompatible.

5. Not only Crowdfunding provides social and economical benefit to the start-ups and small SME's for their development and expansion, but also they provide job creation and economic recovery.

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