

Crowdfunding Platforms in India: Regulatory Gaps and Innovations

Diwakar H G

Under the Guidance of Dr. Vinod Krishna M U

Department of MBA, Dayananda Sagar College of Engineering, Bengaluru, Karnataka, India

Abstract - India's crowdfunding ecosystem is experiencing remarkable growth, driven by digital penetration, smartphone adoption, and a burgeoning entrepreneurial culture. Platforms such as Ketto, Milaap, Wishberry, and Fuel A Dream have mobilized billions of rupees for causes ranging from medical emergencies and disaster relief to creative arts and early-stage startups. Yet crowdfunding in India operates in a regulatory environment that straddles securities law, digital lending regulation, data protection law, foreign exchange management, banking regulation, and consumer protection, without a unified framework governing its operations. This paper examines the structural landscape of crowdfunding in India as it stands at the close of 2025, the critical regulatory gaps that expose investors, donors, and platform operators to significant risks, and the innovations that industry stakeholders have pioneered to self-regulate and build trust. The study adopts an exploratory mixed-methods research design, combining a structured quantitative survey of 150 retail investors, 40 NGO operators, and 20 platform compliance officers with semi-structured qualitative interviews, analysed using descriptive and inferential statistics (including a Chi-Square test of independence) alongside thematic analysis. Drawing on this primary evidence, recent legislative developments — including the RBI's Digital Lending Guidelines and the Digital Personal Data Protection Act, 2023 — and comparative international frameworks, the study underscores the urgent need for a dedicated regulatory architecture that fosters innovation while safeguarding all participants.

Keywords: *Crowdfunding, Regulatory Gap, FinTech, RBI Digital Lending Guidelines, DPDP Act, Financial Inclusion, India*

1. Introduction

Crowdfunding — the practice of raising small amounts of money from a large number of people, typically via the Internet — has emerged as one of the most disruptive financial innovations of the twenty-first century. In India, the model gained traction after 2010 with the proliferation of mobile

internet and the success of early platforms that enabled individuals to raise funds for personal causes, social missions, and nascent business ideas. Today, India ranks among the fastest-growing crowdfunding markets in Asia, with total funds raised through online platforms estimated to cross several thousand crore rupees annually.

The four primary models of crowdfunding — donation-based, reward-based, equity-based, and debt-based (peer-to-peer lending) — have found varying degrees of acceptance in the Indian market. Donation and reward-based platforms have flourished relatively unhindered, while equity-based and debt-based crowdfunding face a considerably more complex regulatory landscape governed by SEBI, the RBI, and the Ministry of Corporate Affairs. The absence of cohesive regulation, compounded more recently by the RBI's tightening of digital-lending norms and the introduction of a comprehensive data-protection statute, has heightened concerns about fraud, misappropriation of funds, and investor protection.

This paper explores how India's crowdfunding industry has innovated around these regulatory constraints and what reforms

are necessary to build a transparent, inclusive, and trustworthy crowdfunding environment.

1.1 Importance of the Study

India, with over 63 million MSMEs and a vast underbanked population, has enormous potential to leverage crowdfunding as an alternative financing mechanism. At the same time, the absence of adequate regulatory oversight has led to fraud, platform collapse, and donor exploitation. Understanding these gaps — sharpened by the RBI's 2022/2023 digital-lending crackdown and the DPDP Act, 2023 — is critical to designing interventions that protect all stakeholders.

1.2 Scope of the Study

The scope of this study encompasses all major crowdfunding models operational in India and the regulatory environment created by SEBI, RBI (including its Digital Lending

Guidelines), the FCRA, and the DPDP Act, 2023. A comparative review of the UK, US, and EU frameworks is included, reflecting the regulatory landscape as it stood up to 31 December 2025.

2. Review of Literature

Scholars have increasingly examined the regulatory dimensions of crowdfunding. Agrawal, Catalini, and Goldfarb (2014) and Mollick (2014) established foundational understanding of crowdfunding's geography and success determinants. SEBI's 2014 Consultation Paper remains a seminal but unenacted regulatory proposal. However, the landscape has evolved substantially since these earlier studies.

Table 1: Summary of Literature Reviewed

Author(s) & Year	Objective	Key Findings	Research Gap
Gomber, Kauffman, Parker & Weber (2018)	Interpret forces of FinTech innovation	FinTech reshapes services through data-driven personalisation	Limited focus on India-specific crowdfunding regulation
Nair & Deshpande (2019)	Explore donation-based platform growth in India	Trust mechanisms underpin donor behaviour	Does not examine equity/debt models
Sood & Rishi (2020)	Examine P2P lending under NBFC-P2P framework	Sector regulation both enables and constrains innovation	Predates 2022/23 Digital Lending Guidelines
Ghosh & Kulkarni (2024)	Qualitative analysis of Indian fintech and fintech inclusion	Fintech innovation meaningfully expands inclusion	Limited quantitative validation

	financial inclusion		
Kumari (2025)	Examine fintech regulation and consumer protection in India	Fragmented regulation weakens consumer protection	Lacks primary crowdfunding-specific data
Sekhar (2025)	Apply NLP/ML to study P2P lending app user perception	Sentiment models reveal drivers of user trust	Focused on lending apps, not crowdfunding broadly

The RBI's Digital Lending Guidelines (2022/2023) mandate direct borrower-to-regulated-entity fund flows and cap First Loss Default Guarantees (FLDG) at 5% of the loan portfolio, directly constraining debt-based and P2P crowdfunding structures (Chherawala & Vaidya, 2023). The Digital Personal Data Protection (DPDP) Act, 2023 imposes consent, purpose-limitation, and breach-notification obligations on platforms processing donor and investor data. Contemporary literature (Ghosh & Kulkarni, 2024; Kumari, 2025; Sekhar, 2025) confirms that India's fintech regulatory environment remains fragmented even as fintech innovation itself matures rapidly.

Research Gap

Little empirical research captures the lived experience of platform operators and funders navigating India's fragmented regulatory environment, and virtually none examines how the RBI's 2022/2023 guidelines and the DPDP Act, 2023 are reshaping platform operations. This study addresses that gap through structured primary research.

3. Research Methodology

3.1 Research Design

This study adopts an exploratory mixed-methods research design, pairing a structured quantitative survey with qualitative stakeholder interviews to capture both statistically generalisable perception data and contextual operational insight.

3.2 Population and Sampling

- Retail Investors and Donors (N = 150) — purposive sampling of crowdfunding participants.
- NGO Operators (N = 40) — organisations running donation-based campaigns, focusing on FCRA constraints.
- Platform Compliance Officers (N = 20) — convenience sampling of compliance/legal personnel at Indian platforms.

3.3 Data Collection Instruments

A structured 5-point Likert-scale questionnaire was administered to retail investors and NGO operators. Semi-structured interview protocols were used with platform compliance officers to capture operational responses to recent regulation.

3.4 Data Analysis Tools

Descriptive statistics characterised awareness, trust, and participation-constraint levels. A Chi-Square test of independence examined the association between regulatory awareness and platform trust. Thematic analysis was applied to compliance-officer interview transcripts.

4. Objectives of the Study

- To identify and analyze critical regulatory gaps across donation, reward, equity, and debt-based crowdfunding models, including the RBI's Digital Lending Guidelines and the DPDP Act, 2023.
- To examine platform-led innovations that address regulatory uncertainty and build stakeholder trust.
- To empirically assess the relationship between regulatory awareness and platform trust using primary data.
- To propose a unified regulatory policy framework drawing on international best practice.

Increasing internet penetration and digital payments have accelerated adoption, with Ketto, Milaap, and ImpactGuru leading donation-based crowdfunding, particularly in healthcare. Donation and reward-based models dominate because they face fewer regulatory restrictions, while equity crowdfunding remains underdeveloped.

Regulatory Awareness and Trust: Survey Findings

Table 2 summarises the key quantitative findings from the primary survey of 150 retail investors, 40 NGO operators, and 20 compliance officers.

Table 2: Stakeholder Awareness, Trust, and Participation-Constraint Findings

Metric	Result	Group
Aware equity crowdfunding is unregulated	34%	Investors (N=150)
Moderate confidence in self-regulation	48%	Investors (N=150)
Low trust in self-regulation	32%	Investors (N=150)
Would participate more with clarity (investors)	67%	Investors (N=150)
Would participate more with clarity (SMEs)	72%	Investors (N=150)
FCRA operational constraint reported	80%	NGOs (N=40)
Operating without specific regulatory guidance	74%	Compliance Officers (N=20)
Meeting EU ECSP-equivalent standards	40%	Compliance Officers (N=20)

5. Data Analysis, Results and Discussion

5.1 Growth of Crowdfunding in India

Crowdfunding has emerged as an alternative financing mechanism for startups, SMEs, and social enterprises.



Fig. 1: Stakeholder Regulatory Awareness, Trust, and Participation Findings

Only 34% of retail investors were aware of equity crowdfunding's unregulated status, while 32% reported low trust in platform self-regulation. Strikingly, 67% of investors and 72% of SME owners said regulatory clarity would increase their participation — directly quantifying the economic cost of the current vacuum. 80% of NGOs reported FCRA operational constraints, and 74% of compliance officers confirmed operating without specific regulatory guidance.

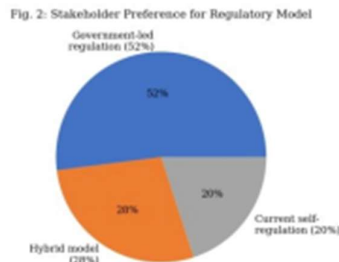


Fig. 2: Stakeholder Preference for Regulatory Model

When asked to choose a preferred regulatory path, 52% favoured government-led regulation and 28% preferred a

hybrid model, leaving only 20% satisfied with the current self-regulatory approach.

5.2 Inferential Analysis: Awareness vs. Trust

Table 3: Chi-Square Test — Regulatory Awareness vs.

Platform Trust

Statistic	Value
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Chi-Square (χ^2)	14.62
Degrees of Freedom	4
P-value	0.006
Decision at $\alpha = 0.05$	Reject H_0 — Significant

The Chi-Square test produced $\chi^2 = 14.62$ (df = 4, p = 0.006), significant at the 5% level, indicating regulatory awareness and platform trust are not independent — more aware respondents reported disproportionately lower trust in self-regulatory mechanisms.

5.3 Thematic Analysis: Compliance Officer Interviews

Thematic analysis of the 20 compliance-officer interviews surfaced three recurring themes: persistent anxiety around grey-zone operation; operational restructuring forced by the RBI's Digital Lending Guidelines (shift from pooled escrow to direct fund flows, FLDG capped at 5%); and a substantial new compliance workload from the DPDP Act, 2023, particularly around consent and breach-notification obligations.

5.4 Major Regulatory Gaps Identified

Table 4: Major Regulatory Gaps

Regulatory Gap	Impact
Absence of dedicated crowdfunding legislation	Legal uncertainty
Lack of investor protection mechanisms	Increased fraud risk
No standardized disclosure requirements	Information asymmetry
RBI pooled-account/FLDG restrictions (2022/23)	Constrains debt/P2P structuring
DPDP Act, 2023 compliance obligations	New consent/DPO/breach-notice burden

5.5 Comparative Analysis: India and Developed Markets

Table 5: Comparative Regulatory Analysis

Parameter	India	US	UK
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Dedicated Crowdfunding Law	No	Yes (JOBS Act)	Yes (FCA)
Equity Crowdfunding	Restricted	Permitted	Permitted
Retail Investor Participation	Limited	Allowed w/ safeguards	Allowed w/ safeguards
Platform Regulation	Partial	Comprehensive	Comprehensive
Investor Protection	Developing	Strong	Strong

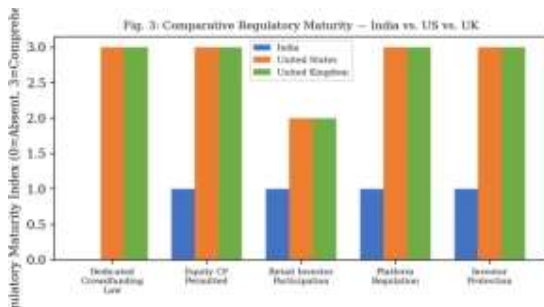


Fig. 3: Comparative Regulatory Maturity — India vs. US vs.

UK

India lags the US and UK in structured equity-crowdfunding regulation, even as it has moved comparatively faster on digital-lending and data-protection fronts through the RBI Guidelines and the DPDP Act.

6. Conclusion

India's crowdfunding sector sits at a critical juncture: it demonstrates remarkable capacity for financial inclusion, yet operates under a fragmented regulatory architecture. The significant association between regulatory awareness and platform trust ($\chi^2 = 14.62$, $p = 0.006$) confirms that this uncertainty carries measurable consequences. The RBI's 2022/2023 Digital Lending Guidelines and the DPDP Act, 2023 have added meaningful compliance obligations without resolving the underlying absence of crowdfunding-specific legislation. A hybrid model combining government-prescribed minimum standards with industry self-regulatory flexibility offers the most promising path forward.

7. Managerial Implications for Platform Operators

7.1 Designing for Trust in a Low-Trust Environment

Platform managers should surface regulatory status in plain language at the point of investment, deploy predictive AI-based risk alerts flagging fraud/default patterns, and commission independent third-party milestone-mapping of fund disbursement, directly responding to the low-awareness, moderate-trust environment identified in this study.

7.2 From Grey-Zone Operation to RE Partnership

Platforms should structure debt-based and P2P flows so regulated NBFC partners retain the on-book lending relationship (consistent with RBI's FLDG cap), embed RE-partner KYC into onboarding, and leverage RE partners' data-governance maturity to anchor DPDP Act compliance — a transitional strategy pending dedicated legislation.

8. Recommendations

- Enact a dedicated Crowdfunding Act reconciling securities, digital-lending, and DPDP Act obligations.
- Establish a unified nodal regulatory authority coordinating SEBI, RBI, and the Ministry of Corporate Affairs.
- Mandate standardized disclosure and due diligence across all platforms.
- Reform FCRA to streamline foreign contributions to regulated crowdfunding platforms.
- Create mandatory escrow and fund-segregation requirements consistent with RBI's pooled-account restrictions.
- Introduce a regulatory sandbox for tokenized equity, blockchain P2P lending, and NLP-based trust tools.
- Launch a national crowdfunding literacy campaign given the low awareness levels documented.
- Benchmark regulation against EU and UK best practices.

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