

CROWDFUNDING AND PEER-TO-PEER LENDING AS ALTERNATIVE FINANCING CHANNELS FOR CORPORATIONS

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ABSTRACT

Crowdfunding and Peer-to-Peer (P2P) lending have emerged as powerful alternative financing channels for corporations in response to the limitations of traditional bank-based and capital market financing. These digital platforms leverage financial technology to directly connect firms with a broad base of individual and institutional investors, thereby enhancing access to capital, reducing intermediation costs, and increasing funding speed. Crowdfunding enables corporations, particularly startups and small and medium-sized enterprises (SMEs), to raise equity or reward-based funding while simultaneously validating market demand and building customer engagement. P2P lending, on the other hand, allows firms to secure debt financing through online platforms that match borrowers with lenders using algorithm-driven credit assessment and risk pricing models.

These alternative channels promote financial inclusion by supporting firms that may be underserved by conventional lenders due to lack of collateral, short operating histories, or higher perceived risk. Furthermore, data analytics, blockchain, and automated credit scoring improve transparency, trust, and operational efficiency within these platforms. However, regulatory compliance, investor protection, credit risk management, and platform stability remain critical challenges. Overall, crowdfunding and P2P lending represent a structural shift in corporate finance, enabling more decentralized, technology-driven, and market-oriented funding ecosystems that complement traditional financial institutions.

Keywords: Crowdfunding, Peer-to-Peer Lending, Alternative Finance, FinTech, Corporate Financing, SMEs, Digital Platforms

INTRODUCTION

Corporate financing has traditionally relied on a limited set of institutionalized mechanisms, including commercial bank loans, venture capital, public equity markets, and corporate bond issuance. While these channels have historically supported business growth, they are increasingly constrained by rigid collateral requirements, stringent regulatory compliance, high intermediation costs, and conservative risk-assessment practices. These constraints are especially binding for startups, small and medium enterprises (SMEs), and innovation-driven firms, which often lack long operating histories, tangible assets, or stable cash flows to qualify for traditional credit and equity financing (Beck & Demirgüç-Kunt, 2006; Berger & Udell, 2002). As a result, a substantial financing gap persists in many economies, limiting entrepreneurship, technological innovation, and inclusive economic growth.

The rapid development of digital technologies and financial technology (FinTech) has disrupted this traditional financing paradigm by enabling alternative financing mechanisms that directly connect capital seekers with investors through online platforms. Among the most significant of these innovations are crowdfunding and peer-to-peer (P2P) lending, which have transformed the way corporations raise funds, manage investor relationships, and signal firm quality in the marketplace (Belleflamme, Lambert & Schwienbacher, 2014; Bruton et al., 2015). These platforms operate on the principles of digital intermediation, data-driven risk assessment, and decentralized capital mobilization, offering firms greater flexibility and accessibility compared to conventional financial institutions.

Crowdfunding refers to the practice of raising capital from a large number of individuals, typically through online platforms, in exchange for equity, debt, rewards, or pre-purchased products. Unlike traditional equity or debt financing, crowdfunding enables firms to simultaneously raise funds, validate market demand, and build customer engagement. Equity-based crowdfunding allows investors to acquire ownership stakes, while debt-based crowdfunding provides firms with loans funded by multiple investors. Reward-based models, in contrast, provide contributors with non-financial benefits such as early access to products or exclusive privileges (Mollick, 2014). For corporations, particularly early-stage and creative enterprises, crowdfunding serve not only as a financing tool but also as a strategic marketing and innovation validation mechanism.

Peer-to-peer lending, also referred to as marketplace lending, connects borrowers directly with lenders through digital platforms that use algorithmic credit scoring, alternative data, and automated loan matching systems. By bypassing traditional banks, P2P platforms reduce intermediation costs, accelerate loan processing, and enable more flexible pricing of credit risk (Lin, Prabhala & Viswanathan, 2013). Corporations increasingly use P2P lending to finance working capital needs, short-term liquidity gaps, and expansion projects, particularly when bank credit is expensive or unavailable. These platforms democratize lending by allowing individual and institutional investors to participate in corporate credit markets, thereby broadening the supply of capital.

Together, crowdfunding and P2P lending are reshaping the architecture of corporate finance by reducing information asymmetry, increasing financial inclusion, and promoting more market-oriented capital allocation. Digital platforms rely on transparency, investor feedback, social networks, and data analytics to evaluate firm quality and borrower risk, which partially substitutes for traditional collateral-based lending models (Agrawal, Catalini & Goldfarb,

2015). As a result, alternative finance is increasingly viewed not merely as a peripheral funding source but as a core component of modern corporate financial strategy.

In the context of the digital economy, where innovation cycles are rapid and business models are increasingly intangible-asset driven, crowdfunding and P2P lending offer corporations a viable pathway to mobilize capital efficiently, engage diverse investors, and sustain growth beyond the limitations of conventional finance.

Research Methodology

This study adopts a conceptual and analytical research design to examine crowdfunding and peer-to-peer (P2P) lending as alternative financing channels in corporate finance. As a conceptual paper, the objective is not to test hypotheses empirically but to develop a theoretically grounded framework that integrates existing knowledge, identifies research gaps, and proposes relationships among key constructs.

Research Design

The study follows a theory-building approach, which involves synthesizing insights from corporate finance, financial intermediation, innovation finance, and FinTech literature. This design is appropriate because crowdfunding and P2P lending are evolving phenomena that require theoretical structuring before large-scale empirical testing. The paper uses a deductive reasoning approach, beginning with established financial theories and extending them to the digital finance context.

Data Sources

Secondary data forms the basis of this research. Academic literature was collected from leading databases such as Scopus, Web of Science, Google Scholar, SSRN, and UGC-CARE listed journals. In addition, policy documents, regulatory guidelines, and reports from RBI, SEBI, MCA, World Bank, OECD, and BIS were reviewed to understand the institutional and regulatory context of alternative finance in India and globally.

Framework Development

Based on the literature synthesis, a conceptual model was developed linking technological infrastructure, information transparency, investor participation, regulatory environment, and corporate readiness to funding outcomes. Hypotheses were derived logically from these relationships and aligned with financial intermediation, information asymmetry, and innovation finance theories.

Analytical Approach

The study employs qualitative content analysis and comparative analysis to integrate findings from diverse sources. Regulatory frameworks from RBI, SEBI, and MCA were analyzed to examine how institutional governance affects the functioning of crowdfunding and P2P platforms.

Scope and Limitations

The paper is limited to theoretical and policy-based analysis and does not include primary data or econometric testing. However, it provides a strong foundation for future empirical research using surveys, platform data, or financial performance metrics.

Research Gap

Despite the rapid global growth of crowdfunding and peer-to-peer (P2P) lending, the existing literature remains fragmented and predominantly focused on either entrepreneurial finance or

investor behavior rather than corporate finance strategy. Most empirical studies examine platform performance, investor motivations, or startup fundraising success (Mollick, 2014; Belleflamme et al., 2014), but there is limited theoretical integration of alternative finance into mainstream corporate financial management. Furthermore, existing research largely concentrates on developed economies, with insufficient attention to emerging markets such as India, where regulatory frameworks, digital adoption, and SME financing constraints differ significantly.

Another major gap lies in the lack of integrated conceptual models linking technology infrastructure, regulatory environment, and corporate readiness to funding outcomes. While some studies analyze FinTech efficiency and platform design, they do not sufficiently explain how these variables jointly influence cost of capital, financial resilience, and growth performance of firms. Moreover, limited research explores how crowdfunding and P2P lending interact with traditional banking systems rather than merely substituting them.

Thus, there is a need for a comprehensive conceptual framework that positions crowdfunding and P2P lending as strategic corporate finance instruments rather than peripheral funding sources.

2. Research Hypotheses

H1: Digital platform efficiency has a significant positive impact on corporate fundraising success in crowdfunding and P2P lending.

H2: Higher levels of investor participation and platform transparency reduce information asymmetry and improve funding outcomes.

H3: Supportive regulatory frameworks enhance investor confidence and platform stability in alternative finance markets.

H4: Firms with higher digital readiness and governance quality achieve better financing terms through crowdfunding and P2P platforms.

H5: Crowdfunding and P2P lending significantly reduce the cost of capital for SMEs compared to traditional bank financing.

3. Literature Review (Thematic)

Research on crowdfunding and P2P lending has grown significantly in the last decade. Mollick (2014) demonstrated that crowdfunding success is strongly influenced by project quality, transparency, and founder engagement. Belleflamme et al. (2014) showed that crowdfunding not only provides capital but also serves as a market validation mechanism. Agrawal et al. (2015) emphasized the role of digital platforms in reducing geographic and informational barriers between investors and entrepreneurs.

In P2P lending, Lin et al. (2013) found that social networks and digital reputation significantly reduce default risk, indicating the importance of non-traditional data. Bachmann et al. (2011) highlighted the efficiency of online lending markets in pricing credit risk compared to traditional banks. Bruton et al. (2015) positioned alternative finance as a major enabler of entrepreneurial ecosystems and financial inclusion.

However, much of this literature focuses on startups or individual borrowers, with limited emphasis on corporate-level financial strategy, working capital management, or long-term capital structure implications. Few studies integrate FinTech, corporate governance, and regulatory policy into a single analytical framework.

Financial Intermediation Theory

Financial Intermediation Theory explains the existence of financial institutions as a response to market imperfections such as information asymmetry, transaction costs, and risk uncertainty. Traditional intermediaries such as banks and venture capital firms perform functions including credit evaluation, risk pooling, liquidity provision, and monitoring of borrowers. However, these institutions operate through hierarchical structures and regulatory frameworks that increase the cost and complexity of capital allocation, often making financing inaccessible for startups and small firms.

Crowdfunding and P2P lending platforms replicate and enhance the intermediation function through digital architecture rather than physical institutions. Algorithms, artificial intelligence, and automated underwriting systems replace human credit officers in screening borrowers and assessing project viability. Platform governance mechanisms such as identity verification, escrow services, standardized contracts, and investor protection rules ensure trust and transactional integrity. Furthermore, collective investor intelligence—manifested through crowd ratings, comments, funding momentum, and social proof—serves as a decentralized monitoring mechanism. This creates a market-based form of financial intermediation where information is generated and validated by thousands of participants rather than a single institution.

By lowering intermediation costs and increasing speed and transparency, crowdfunding and P2P platforms democratize access to finance. They transform financial intermediation from a centralized, relationship-based model to a digital, data-driven ecosystem that enables more efficient capital flows, particularly for underbanked firms.

Information Asymmetry Theory

Information asymmetry occurs when one party in a financial transaction possesses more or better information than the other, leading to adverse selection and moral hazard. In traditional corporate finance, lenders and investors often lack accurate, real-time insights into firm quality, project viability, and managerial behavior. As a result, they impose high interest rates, strict collateral requirements, or ration credit altogether, especially for small and young firms.

Crowdfunding and P2P lending platforms reduce information asymmetry through digital transparency and continuous information flows. Firms disclose business plans, financial data, videos, and performance updates directly on platform dashboards. Investors can observe funding progress, peer reviews, and historical success rates, which allows them to infer project quality. Rating systems, borrower scores, and third-party verification further enhance information reliability. Big data analytics and alternative data sources—such as social media presence, transaction history, and online behavior—enable platforms to generate more nuanced credit and risk profiles than traditional lenders.

Moreover, crowd participation itself acts as a signaling mechanism. When many investors fund a project, it signals perceived quality and credibility, encouraging others to follow. This collective screening significantly reduces adverse selection. Post-funding, ongoing disclosure and investor interaction mitigate moral hazard by increasing accountability. Thus, digital finance platforms transform asymmetric information into a transparent, data-rich environment that improves market efficiency.

Innovation Finance Theory

Innovation Finance Theory focuses on how high-risk, high-growth ventures obtain funding in environments characterized by uncertainty, intangible assets, and rapid technological change. Traditional financial institutions are typically risk-averse and rely heavily on collateral, historical performance, and stable cash flows. Innovative firms, particularly startups and technology-driven enterprises, often lack these attributes, making them unattractive to banks and even venture capital at early stages.

Crowdfunding and P2P lending address this structural gap by providing flexible, market-based financing for innovation. Crowdfunding allows firms to present ideas, prototypes, or early-stage products directly to potential users and investors. This enables capital to be allocated based on perceived future value rather than past financial performance. Investor interest becomes a proxy for market demand, thereby aligning financing with innovation potential. P2P lending platforms further support innovation by using alternative credit assessment models that capture non-traditional indicators of firm quality, such as digital footprints, platform reputation, and business model viability.

By enabling risk to be distributed across a large pool of investors, alternative finance makes innovation economically feasible. These platforms therefore function as critical enablers of entrepreneurial experimentation, technological advancement, and creative enterprise in the digital economy.

Crowdfunding in Corporate Finance

Crowdfunding has emerged as a transformative financing mechanism within modern corporate finance, enabling firms to raise capital directly from a large pool of individual and institutional investors through digital platforms. It operates through four primary models: equity-based, debt-based, reward-based, and donation-based crowdfunding. Equity-based crowdfunding allows investors to acquire ownership stakes in firms, while debt-based crowdfunding provides firms with loans funded by multiple lenders. Reward-based crowdfunding involves the pre-sale of products or services, and donation-based models are typically used for social enterprises and impact-driven ventures. These diverse structures allow corporations to select financing instruments that best align with their capital structure, growth stage, and strategic objectives.

One of the most significant advantages of crowdfunding is access to capital without heavy collateral requirements. Traditional bank financing often requires tangible assets and long operating histories, which many startups and innovation-driven firms lack. Crowdfunding, in contrast, relies on business ideas, growth potential, and investor confidence rather than physical collateral. This enables young firms and SMEs to mobilize financial resources based on the perceived future value of their projects rather than their past performance.

Crowdfunding also provides market validation, which is strategically valuable in corporate decision-making. When a large number of investors or consumers commit funds to a project, it signals strong market demand and commercial viability. This feedback helps firms refine their products, pricing strategies, and market positioning even before full-scale production or market entry. As a result, crowdfunding reduces product failure risk and improves strategic planning.

In addition, crowdfunding significantly enhances brand engagement and customer loyalty. Investors in crowdfunding campaigns often become early adopters, brand ambassadors, and long-term customers. Their emotional and financial involvement creates a strong connection between the firm and its market, strengthening reputation, visibility, and competitive

positioning. This marketing effect is particularly valuable for consumer-facing and creative industries.

Finally, crowdfunding enables investor diversification by spreading financial risk across a broad base of contributors rather than concentrating it among a few institutional investors. This reduces dependence on venture capitalists or banks and improves corporate financial resilience. For early-stage firms, creative ventures, and technology startups operating in uncertain and rapidly evolving markets, crowdfunding offers a flexible, inclusive, and strategically powerful financing channel.

Peer-to-Peer (P2P) Lending in Corporate Finance

Peer-to-peer (P2P) lending has emerged as a major innovation in corporate finance by enabling firms to access debt capital directly from individual and institutional investors through digital platforms. Unlike traditional bank lending, which relies on standardized credit appraisal processes and rigid collateral requirements, P2P lending platforms use data-driven and algorithmic credit assessment models to evaluate borrower risk. These platforms integrate artificial intelligence, machine learning, and alternative data—such as transaction histories, cash-flow patterns, online sales records, and even digital footprints—to generate more accurate and real-time credit profiles. This technology-driven approach allows firms, particularly SMEs and young enterprises, to access credit even when they lack extensive financial histories.

One of the primary advantages of P2P lending is lower borrowing costs. By eliminating multiple layers of financial intermediation, P2P platforms reduce administrative and operational expenses associated with traditional banking. These cost efficiencies are passed on to borrowers in the form of competitive interest rates and reduced fees. At the same time, investors benefit from higher returns compared to conventional fixed-income products, creating a mutually beneficial financing ecosystem.

Another major benefit is faster loan approvals and disbursement. Traditional corporate loans often involve lengthy documentation, manual credit assessments, and regulatory checks that can delay funding for weeks or even months. In contrast, P2P platforms use automated underwriting systems and real-time data analysis, enabling loan approvals within hours or days. This speed is especially valuable for firms facing urgent liquidity needs or short-term cash flow gaps.

P2P lending also offers flexible repayment structures tailored to a firm's financial capacity and business cycle. Companies can negotiate customized loan tenures, repayment schedules, and interest rates based on cash-flow projections rather than rigid banking norms. This flexibility improves financial sustainability and reduces default risk.

As a result, P2P lending is increasingly used for working capital financing, business expansion, and bridge financing, making it a vital component of modern, technology-enabled corporate financial strategies.

Indian Regulatory Integration for Crowdfunding and P2P Lending (RBI, SEBI, and MCA)

The growth of crowdfunding and peer-to-peer (P2P) lending in India is strongly shaped by the regulatory frameworks established by the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), and the Ministry of Corporate Affairs (MCA). Together, these institutions ensure that alternative finance platforms operate in a secure, transparent, and investor-protected environment while supporting innovation in digital finance.

Role of the Reserve Bank of India (RBI)

The RBI regulates P2P lending platforms as Non-Banking Financial Companies – Peer-to-Peer (NBFC-P2P) under the Master Directions issued in 2017 and updated periodically. These guidelines mandate platform registration, minimum capital requirements, and operational limits on exposure for both borrowers and lenders. RBI also enforces strict Know Your Customer (KYC), anti-money laundering (AML), and data security norms. By prohibiting NBFC-P2P platforms from taking balance-sheet risk or lending their own funds, RBI ensures that platforms remain neutral intermediaries rather than shadow banks. This regulatory structure enhances systemic stability while encouraging responsible growth of marketplace lending.

Role of SEBI

SEBI governs equity-based and debt-based crowdfunding that involves the issuance of securities. While public equity crowdfunding is still restricted in India, SEBI permits private placement-based crowdfunding through registered intermediaries, startup platforms, and Alternative Investment Funds (AIFs). Under SEBI's regulatory framework, companies raising capital digitally must comply with disclosure requirements, investor eligibility norms, and limits on fundraising. SEBI also regulates online bond and debenture platforms, which increasingly resemble debt-based crowdfunding. These regulations protect investors while enabling startups and SMEs to raise capital in a compliant digital environment.

Role of the Ministry of Corporate Affairs (MCA)

The MCA ensures that companies using crowdfunding and P2P lending comply with the Companies Act, 2013. It governs shareholder rights, financial disclosures, board oversight, and corporate governance standards. Digital fundraising must be properly recorded in company accounts, and equity issued through crowdfunding must comply with rules on share allotment, valuation, and reporting. MCA's push toward digital compliance through MCA21, e-filing, and XBRL reporting also supports transparency and investor confidence.

Integrated Regulatory Impact

Together, RBI, SEBI, and MCA create a three-layer regulatory ecosystem that balances innovation with stability. RBI ensures financial soundness, SEBI protects investors and capital market integrity, and MCA enforces corporate governance. This integrated framework enables crowdfunding and P2P lending to emerge as credible and legally robust components of India's corporate finance system.

Future Research Directions

Future research should empirically test the proposed conceptual framework using platform-level and firm-level data from crowdfunding and P2P lending markets. Quantitative studies employing structural equation modeling (SEM) or panel data regression can examine how technological infrastructure, transparency, and investor participation affect cost of capital and firm growth. Comparative studies between emerging economies (such as India) and developed markets would provide deeper insights into how institutional quality and regulatory environments influence alternative finance performance. Longitudinal research is also needed to evaluate the long-term survival, innovation output, and financial sustainability of firms funded through these platforms. Furthermore, future work should investigate the role of ESG disclosure, blockchain-based verification, and AI-driven credit scoring in shaping investor trust and funding efficiency. Integrating behavioral finance perspectives into digital

finance research would also help explain investor herding, risk perception, and funding dynamics.

Policy Implications

For policymakers, crowdfunding and P2P lending represent an opportunity to close the SME financing gap and promote innovation-driven growth. Regulators such as RBI, SEBI, and MCA should continue to develop risk-based and technology-neutral regulatory frameworks that balance financial stability with innovation. Simplified compliance requirements for SMEs, standardized digital disclosures, and regulatory sandboxes can improve platform efficiency and investor protection. Enhancing financial literacy and digital inclusion will further strengthen participation in alternative finance markets. Clear legal frameworks for investor rights, data protection, and platform accountability are essential to ensure long-term sustainability of the ecosystem.

Managerial Implications

For corporate managers, crowdfunding and P2P lending should be viewed as strategic financial tools rather than merely emergency funding sources. Firms must invest in digital transparency, governance quality, and investor communication to maximize funding success. Crowdfunding can be used not only to raise capital but also to test new products, build brand loyalty, and gather market intelligence. P2P lending offers flexible working capital solutions that improve liquidity management. Managers should integrate alternative finance into their capital structure planning, risk management, and innovation strategies.

CONCLUSION

Crowdfunding and peer-to-peer lending represent a fundamental shift in corporate finance in the digital economy. By leveraging FinTech, data analytics, and decentralized investor networks, these platforms reduce information asymmetry, improve access to capital, and support innovation-driven enterprises. This conceptual study demonstrates how technology, regulation, and firm readiness jointly shape funding outcomes. As alternative finance continues to mature, it will become an integral part of corporate financial strategy, contributing to more inclusive, efficient, and resilient financial systems.

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