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A Study on Navigating Legal Challenges in Crowdfunding Contract: Issues of Accountability and Enforcement

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ABSTRACT

Crowdfunding, a popular method of raising capital through contributions from a large number of individuals, often involves complex legal challenges when formalizing contracts between fundraisers and backers. These challenges primarily stem from the lack of clear regulations, ambiguities in contractual terms, and differing interpretations of rights and obligations. The aim of studying legal challenges in crowdfunding contracts is to identify, analyze, and address the legal complexities and ambiguities that arise in crowdfunding agreements. The research represents the empirical approach using convenient sampling to collect data. The key findings on legal challenges in crowdfunding contracts include ambiguity in defining roles and obligations, lack of regulatory uniformity, risks of fraud and misrepresentation, intellectual property concerns, limited legal remedies for backers, and enforcement challenges, particularly in cross-border campaigns. Data privacy issues, unclear taxation policies, platform liability disclaimers, and insufficient consumer protections further complicate the landscape. These issues underscore the need for clearer regulations, transparent contracts, and better legal safeguards for all stakeholders. In conclusion, crowdfunding has revolutionized the way individuals and businesses raise capital, but it is not without significant legal challenges. Ambiguities in contractual obligations, regulatory inconsistencies, and risks such as fraud, intellectual property theft, and data privacy breaches create vulnerabilities for fundraisers, backers, and platforms. Limited legal remedies and enforcement difficulties, especially in cross-border campaigns, further complicate the situation.

Keywords: Crowdfunding, Fundraising and backers, Contractual terms, legal complexities, intellectual property concerns.

I. INTRODUCTION

Crowdfunding has gained widespread popularity in recent years, transforming the way individuals and businesses access capital. By allowing a large number of people to contribute

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small amounts of money, often through online platforms, crowdfunding democratizes fundraising and opens up opportunities for a variety of projects, from creative endeavors to innovative startups. However, as the crowdfunding landscape expands, it brings to light numerous legal challenges that need to be addressed. One of the primary concerns is the ambiguity in crowdfunding contracts, where both fundraisers and backers may struggle to fully understand their rights and obligations. Additionally, the legal landscape is often fragmented, with varying regulations across different jurisdictions, making it difficult to establish a unified approach. Fraud and misrepresentation are also significant risks, as some fundraisers may fail to deliver on promises or intentionally deceive backers. Intellectual property rights, data privacy issues, and unclear tax obligations add to the complexity. As crowdfunding grows, it is essential to develop a robust legal framework that addresses these issues, ensuring transparency, trust, and fairness for all parties involved. By doing so, crowdfunding can continue to thrive as an accessible and reliable means of raising capital.

Evaluation of the topic:

The evaluation of legal challenges in crowdfunding contracts highlights the pressing need for clarity and regulation within the rapidly growing crowdfunding industry. While crowdfunding offers innovative solutions for raising capital, its legal complexities present significant hurdles. The ambiguity in contracts and the lack of clear terms regarding the roles and responsibilities of both fundraisers and backers create a breeding ground for misunderstandings and disputes. These issues are compounded by the absence of uniform global regulations, as crowdfunding laws vary widely between jurisdictions, which complicates cross-border campaigns and enforcement.

Government Initiatives:

Securities and Exchange Board of India (SEBI) Consultation, National Startup Policy (2020), Pradhan Mantri Mudra Yojana (PMMY), Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGS)

II. FACTORS AFFECTING:

Several factors influence the success and growth of crowdfunding in India. One of the primary factors is regulation; the absence of a comprehensive legal framework specifically governing crowdfunding raises concerns around investor protection, fraud prevention, and transparency. Without clear guidelines, platforms may struggle with credibility and legal compliance. Technological infrastructure also plays a critical role; while India has seen a surge in internet penetration and mobile usage, inconsistent access to digital platforms in rural areas can limit

the reach of crowdfunding campaigns. Another key factor is trust and awareness; potential backers may hesitate to invest in unfamiliar projects due to concerns about the legitimacy of fundraisers, highlighting the need for greater awareness and trust-building measures. Economic conditions affect disposable income levels and willingness to invest, with economic downturns or financial instability reducing participation in crowdfunding efforts. Cultural factors also come into play, as crowdfunding is still a relatively new concept in India, and traditional methods of fundraising may be preferred by some individuals or organizations. Finally, the role of media and influencers is significant; the ability to effectively market a crowdfunding campaign through social media and influencers can greatly impact its success, as visibility is a critical factor in attracting backers. These factors collectively shape the dynamics of crowdfunding in India, affecting its overall growth and adoption.

III. CURRENT TRENDS

Addition to the trends mentioned, several other developments are influencing the crowdfunding landscape in India. One key trend is the increased participation of millennials and Gen Z in crowdfunding campaigns. These younger generations, who are tech-savvy and socially conscious, are driving a shift in how funding is raised. They are more inclined to support causes that align with their values, such as sustainability, environmental protection, and social justice, making them active participants in donation-based crowdfunding. Another notable trend is the integration of blockchain technology in crowdfunding platforms. Blockchain can enhance transparency, security, and trust by providing immutable records of transactions, which can address concerns about fraud and misuse of funds. Several platforms are beginning to explore blockchain's potential for tracking investments and ensuring that backers' funds are being used appropriately. Corporate social responsibility (CSR) initiatives are also increasingly intersecting with crowdfunding. Many companies are recognizing the potential of crowdfunding as a tool for supporting community-driven projects or charitable causes as part of their CSR efforts. These collaborations have led to higher visibility and greater credibility for crowdfunding campaigns, as companies often bring in established reputations and resources. The adoption of micro-investing in equity crowdfunding is gaining momentum, allowing smaller investors to participate in startups and businesses with lower investment thresholds. This trend makes equity crowdfunding more accessible to a wider pool of investors and democratizes investment opportunities, encouraging participation from those who might not traditionally engage in venture capital or angel investing. Furthermore, the growth of peer-to-peer (P2P) lending platforms in India is complementing crowdfunding trends, particularly in the financial sector. These platforms allow individuals to lend directly to borrowers, bypassing

traditional financial institutions, and provide an alternative source of capital for borrowers and startups. The rise of P2P lending is blurring the lines between crowdfunding and lending, creating hybrid models of fundraising that combine the strengths of both.

IV. COMPARISON WITH OTHER COUNTRY:

Crowdfunding in India is still in its developmental stages compared to more mature markets like the United States, the United Kingdom, and China. In countries like the U.S., crowdfunding is widely recognized and regulated, with the **JOBS Act** enabling equity crowdfunding and clear guidelines protecting investors, creating a thriving ecosystem for both rewards and equity-based crowdfunding. The UK also boasts well-regulated platforms like Crowdcube and Seedrs, which offer equity crowdfunding options for startups. In contrast, India's crowdfunding market is mostly centered around donation-based and reward-based models, with platforms like Ketto and Milaap gaining popularity for raising funds for social causes, medical expenses, and personal projects. The lack of a structured regulatory framework in India, particularly for equity crowdfunding, hinders its growth compared to countries like the U.S. and the UK, where these models are more established. While India's crowdfunding market is growing, especially in social impact areas, it faces challenges such as lower public awareness of equity crowdfunding, limited legal clarity, and economic factors that affect disposable income and investor participation. However, the Indian government's initiatives like Startup India are creating a more favorable environment for startups and indirectly supporting the growth of crowdfunding. As regulations develop and public understanding of equity crowdfunding grows, India could see an expansion of crowdfunding, eventually aligning with global trends.

V. OBJECTIVES

- To analyse the most common legal challenges faced by backers
- To examine the crowdfunding platforms are in addressing disputes
- To examine the most important legal obligation for campaign creators
- To analyse the fraudulent crowdfunding campaigns

VI. REVIEW OF LITERATURE

A transition toward a more sustainable economy requires substantial innovations. To this end, sustainability innovators need not only ideas but also financial resources. Yet, especially nascent sustainability innovators suffer from trust issues and other barriers to funding through traditional financing. In this regard, crowdfunding (CF) offers a promising approach but also creates additional challenges, such as how to phrase campaign descriptions in order to credibly

communicate sustainability intentions. As CF involves complex choices, it is far from obvious how sustainability innovators can best utilize it. To address this gap, in this article, we describe a systematic literature review (SLR) that analyzed 78 relevant publications. The results of the SLR show that innovation's sustainability orientation influences the dynamics in the components of the CF system through the two key mechanisms of information asymmetries and motivational effects. Building upon this, the article presents and analyzes critical choice parameters for sustainability innovators who tap into CF, which in particular concerns the choice of CF platform, CF type, and campaign communication. Furthermore, related propositions and a research agenda on CF and sustainability are provided. **(Mark beckammm,2012)**

The paper takes stock of accumulated knowledge on factors impacting the success of online crowdfunding (CF) campaigns while suggesting opportunities for future research development. Most research involves quantitative analyses of public data collected from reward-CF platforms. More research is required in equity, lending, donation and other CF contexts. Existing studies are mostly anchored in theories of signaling, social capital and elaboration likelihood. There is a need for wider conceptualization of success beyond financial indicators. And based on aggregated summaries of effects, the paper suggests a series of CF success models, while outlining an agenda for future research. **(Rotem sheoner , 2017)**

The transition from industrial to social economy and from knowledge produces a paradigm shift, which is the space in which new professions, new values and even new forms of financing are shaped. The purpose of this paper is to analyze the phenomenon of crowdfunding, and the specific focus is the small- and medium-sized enterprises' (SMEs') dimension, typical in startups firms. This work discusses the main thematic areas in the scientific literature on the phenomenon of crowdfunding (*RQ1*) and how is crowdfunding treated in SMEs' dimension (*RQ2*). The study shows that from the scientific point of view, the treatment of the crowdfunding phenomenon is strongly developing in many research areas. The most recurrent are those that deal with studies linked to socio-geographical and institutional contexts and those that analyze individual behavior of investors and crowd funders. Residual area remains the one dedicated to SMEs, where this research has led to poor results. **(Paola Paoloni, 2019)**

A solid amount of research on crowdfunding per se is available; however, cross-border issues remain largely neglected. Although crowdfunding campaigns are theoretically easy to establish over the Internet, projects with their origin in small countries such as Liechtenstein constantly face the limitation of potential financing within a country with only a few people and therefore have only minor investment potential. We use a systematic literature review to analyze and

build on well-known success factors, to identify three key factors to consider when targeting cross-border investors—behavioral biases, multiple taxation system, and multiple legislation—which are approached in a multidisciplinary discussion (**Martin angere, 2023**)

VII. LIMITATION

The limitations of the topic stem from several factors. First, crowdfunding regulations differ significantly across countries, making it challenging to establish a universal legal framework applicable to all jurisdictions. This creates difficulty in drawing general conclusions or offering solutions that can be applied globally. Additionally, the legal landscape for crowdfunding is still evolving, and ongoing regulatory changes could make the topic quickly outdated or necessitate continuous updates. There is also limited access to comprehensive data on legal issues faced by crowdfunding participants, as many campaigns are private or not fully disclosed. The focus of the topic might also be narrowed to mainstream crowdfunding models like donation-based, reward-based, and equity crowdfunding, potentially overlooking other models that could present their own unique legal challenges. Furthermore, the complex nature of legal principles involved—ranging from securities law to intellectual property rights—can make the analysis difficult to generalize. Additionally, with a relatively small number of legal case studies and precedents in crowdfunding, the depth of understanding may be constrained. Finally, the focus on legal aspects alone may not capture the full spectrum of challenges in crowdfunding, such as technological issues, trust-building, and platform dynamics, leaving certain important factors unexplored. These limitations need to be considered when studying the legal challenges within the crowdfunding ecosystem.

VIII. SUGGESTION

To address the legal challenges in crowdfunding contracts, it is essential for governments to establish clear and comprehensive regulatory frameworks that protect both fundraisers and investors. A uniform legal structure would help minimize the risks of fraud and ensure transparency in crowdfunding activities. Additionally, crowdfunding platforms should implement robust due diligence procedures to verify the legitimacy of campaigns and prevent fraudulent activities. Legal protections should also be strengthened for intellectual property rights, ensuring that backers' contributions are not misused or exploited. A greater emphasis on investor education is necessary, as many backers may not fully understand the risks involved, particularly in equity crowdfunding. Platforms should also provide more accessible and straightforward contract terms, explaining rights and obligations to all parties involved. Furthermore, international cooperation between regulators could help address cross-border

crowdfunding issues, establishing common standards that foster global investment opportunities while protecting stakeholders. Finally, fostering awareness and building trust in the crowdfunding ecosystem can encourage more people to participate safely and confidently. These measures would contribute to creating a more secure and effective crowdfunding environment.

IX. CONCLUSION

In conclusion, while crowdfunding has emerged as a valuable tool for raising funds in various sectors, it faces significant legal challenges that need to be addressed for its sustainable growth. This study aimed to examine the legal challenges in crowdfunding contracts, focusing on the rights and responsibilities of backers, campaign creators, and crowdfunding platforms. Findings indicate that backers often face risks such as fraud, non-delivery of rewards, and lack of dispute resolution mechanisms, while creators struggle with unclear legal obligations and regulatory compliance. The study recommends stronger platform accountability, improved legal education for participants, and stricter enforcement of fraud prevention measures. Future research should explore the effectiveness of government regulations, cross-border legal complexities, and alternative dispute resolution mechanisms in crowdfunding. Overall, the study highlights the need for greater legal clarity, ethical enforcement, and protective measures to ensure fairness and trust in the crowdfunding ecosystem.

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