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By Som Raj Nepali

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Keywords: *equity, donation, reward, financial technology and regulation.*

GJMBR-C Classification: *JEL Classification: G10, G18, G21, G23, G28*



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Crowdfunding Prospects in Nepal

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Abstract- Graduation of Nepal from Least Developed Country (LDC) by achieving remaining criteria of Gross National Income (GNI) per capita threshold of US $1230 from the status of US $1,196 is urging for huge investments in Nepal. The study helps to analyze the potentiality of crowd funding in Nepal with the due consideration of its financial development, technological advancement and regulatory requirements & legislations. Government of Nepal and Nepal Rastra Bank are contributing towards Digital Nepal under the Digital Nepal Framework-2019. The conglomeration of Financial Technology (FIN-Tech), and Information and Communication Technology (ICT) in Nepalese financial system is facilitating the implementation of crowdfunding. Similarly, the study reveals that crowdfunding has potentiality of becoming the pillar of alternative finance source in Nepal. However, lack of regulatory guidances is the major barrier for the establishment, operation and growth of crowdfunding, which requires a rigorous study on it scope, viability and regulation.

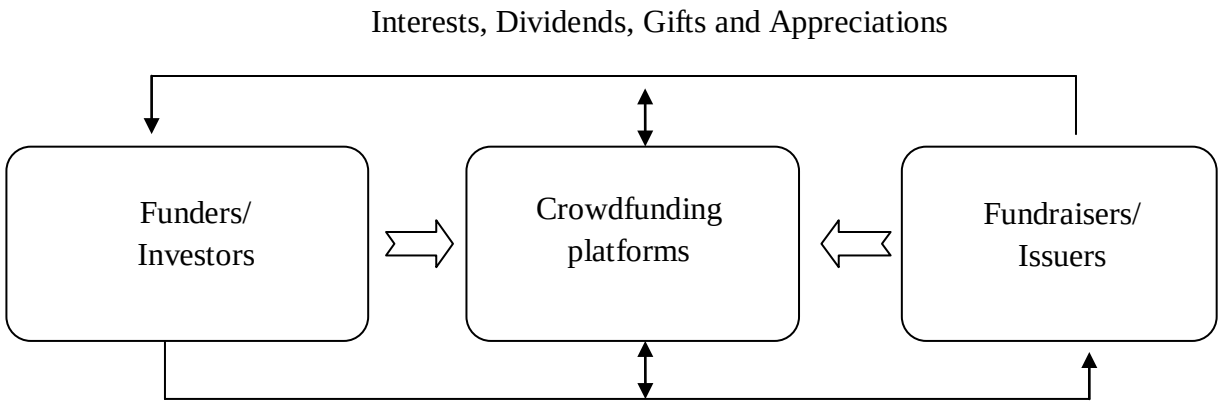
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I. Introduction

The concept of crowdfunding is believed to be grown in developed countries in a response to the credit crunch and financing difficulties faced by early stage Small and Middle-scale Enterprises (SMEs) resulting from the financial crisis of 2008. The traditional banking system and its difficulties in response to the financial crisis have triggered a search for new alternative financing sources; crowd funding. Crowdfunding is a form of fund-raising usually over the network of the internet. Individuals with ideas of startups and in need of funds and financial support can present their ideas over the internet or forum, for example, Kickstarter, Seedrs and so on. Then, the users of the forum or the crowd decide if they are willing to invest in some ideas presented there.

Literally, crowd-refers to a large group or conglomeration of individuals contributing via the internet, by financially supporting a project or cause (Lasrado and Lugmayr, 2013). Funding mechanism-are the principles or rules the intermediaries set under which funding takes place (Schulz et al., 2015).



Source: Author's creation

Figure 1: System of crowdfunding

Especially, crowd funding is considered as a part of Fin Tech's sub-category, which is called Alternative Finance. It is a technology-enabled market based funding which comes outside the financial system (Jenik, Lyman and Nava, 2017). According to Haddad and Hornuf (2019), it is one of the parts of Fin-Tech developments, which addresses needs in capital raising through innovative and digital solutions.

Crowd funding platforms adopt diversified business models under the different local and

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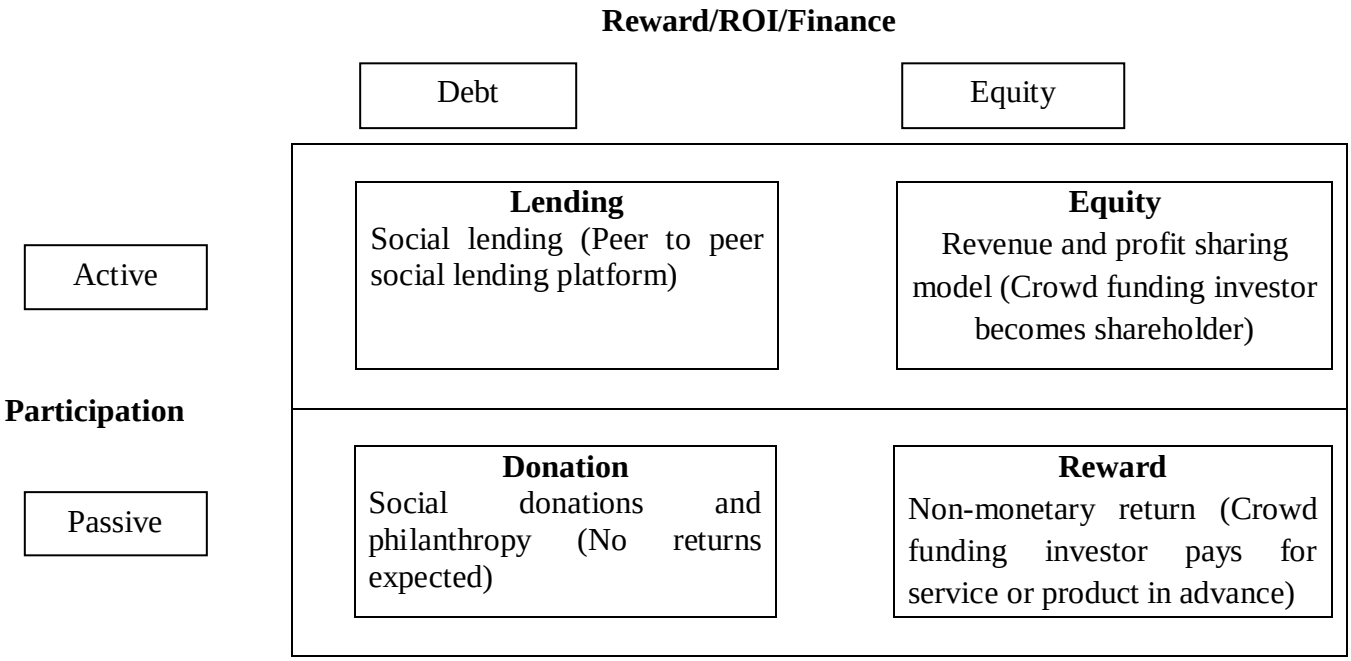
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international rules, regulations, legal regimes and structures. According to IOSCO (2015), the benefits of crowd funding can be listed out as below:

a. Facilitate funding for small and medium sized enterprises;
b. Seed capital to start-up companies;
c. Lower cost of capital/high returns;
d. Portfolio diversification;
e. Cost efficiency of relatively simple infrastructure;
f. Convenience of online platform; and
g. Increased competition in a space traditionally dominated by a few providers.

II. Types of Crowdfunding

The crowdfunding projects types can be presented in figure as below:



Source: Menon et al. (2018)

Figure 2: Types of crowdfunding

The detail characteristics and nature of the crowdfunding can be explained as below:

a) Lending based crowd funding

Under it, crowdfunder lends money to companies or startups or individuals in return of a fixed interest rate for a specified schedule. The interest rate is generally lower than that of banks and financial institutions and is based on the risk factor It is also called as peer to peer lending, whereby peers lend to other peers via internet or online platforms. It comes under the regulation of monetary authority.

b) Equity based crowd funding

Under it, crowd funding buys equity or profit sharing arrangements in a company. In other words, investor becomes the owner of the company and is supposed to get dividend as well. This has more potentiality to attract relatively large numbers of investors. It also comes under the regulation of the central banks or monetary authority.

c) Donation based crowdfunding

By the name itself, under it crowdfunder donates funds to a dedicated cause or project without expecting any monetary or non-monetary returns. It is more like philanthropic in nature. This type of funding occurs in the area like; school constructions, hospital establishments and operation, disaster reliefs and so on. Here, investors get nothing but Thank you as a reward, in other words, investors are appreciated and recognized in return of his/her investment. NGO's have been using this model of crowdfunding for years.

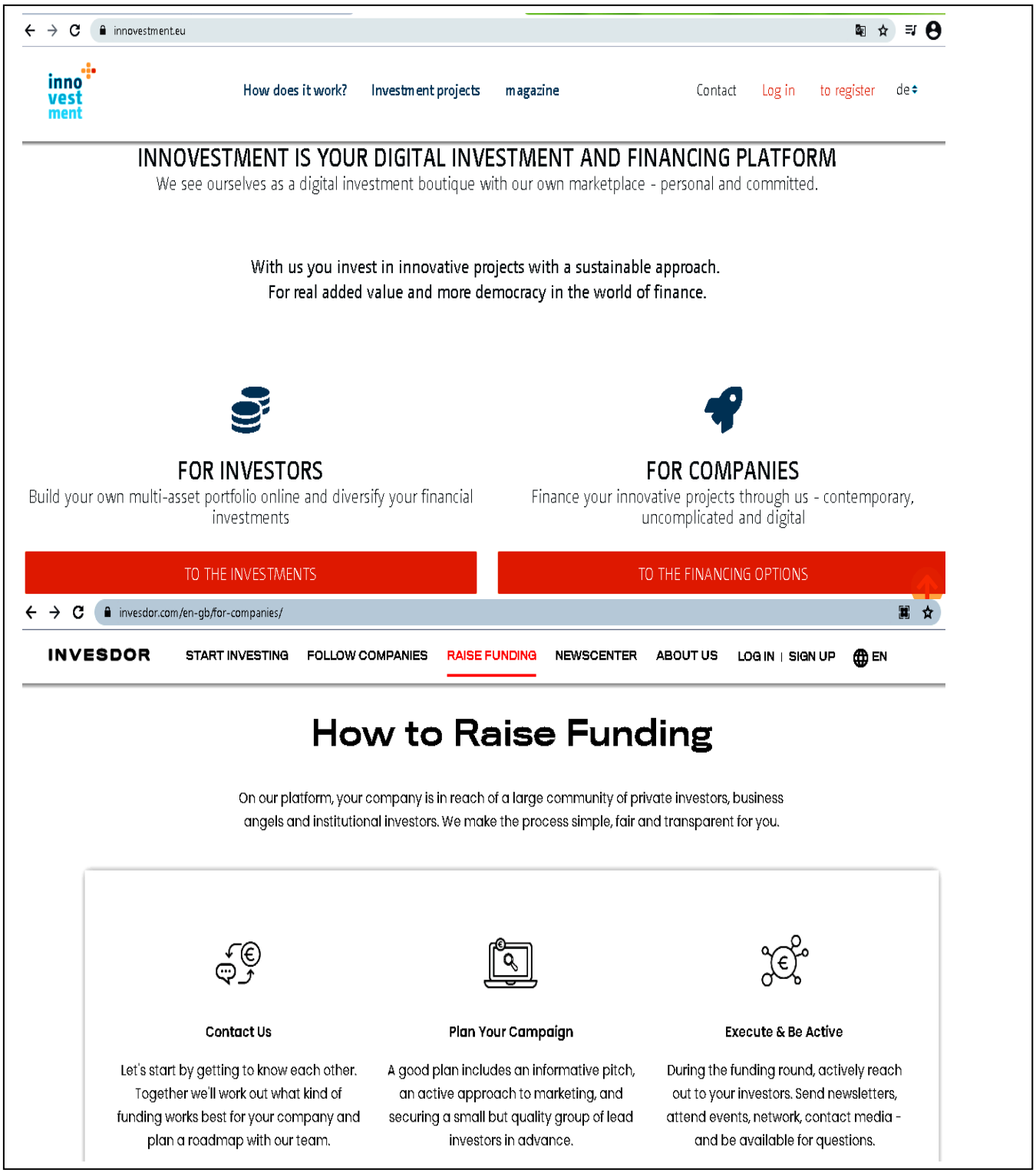
d) Reward based crowdfunding

Under it, there is reward for the crowd funders. However, the reward may take the form of products or gifts or membership or invitation for the events instead of interest or profit share in return of funds. Here, investors also receive a token gift of pre-purchase of service or product. Therefore, it has been used as a tool of pre-selling products, which also generates revenue for the start-ups.

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III. Crowdfunding Models and Platforms

The major crowd funding models can be shown as below:



Source: Innovestment and Invesdor platforms

Figure 3: Example of crowdfunding platforms

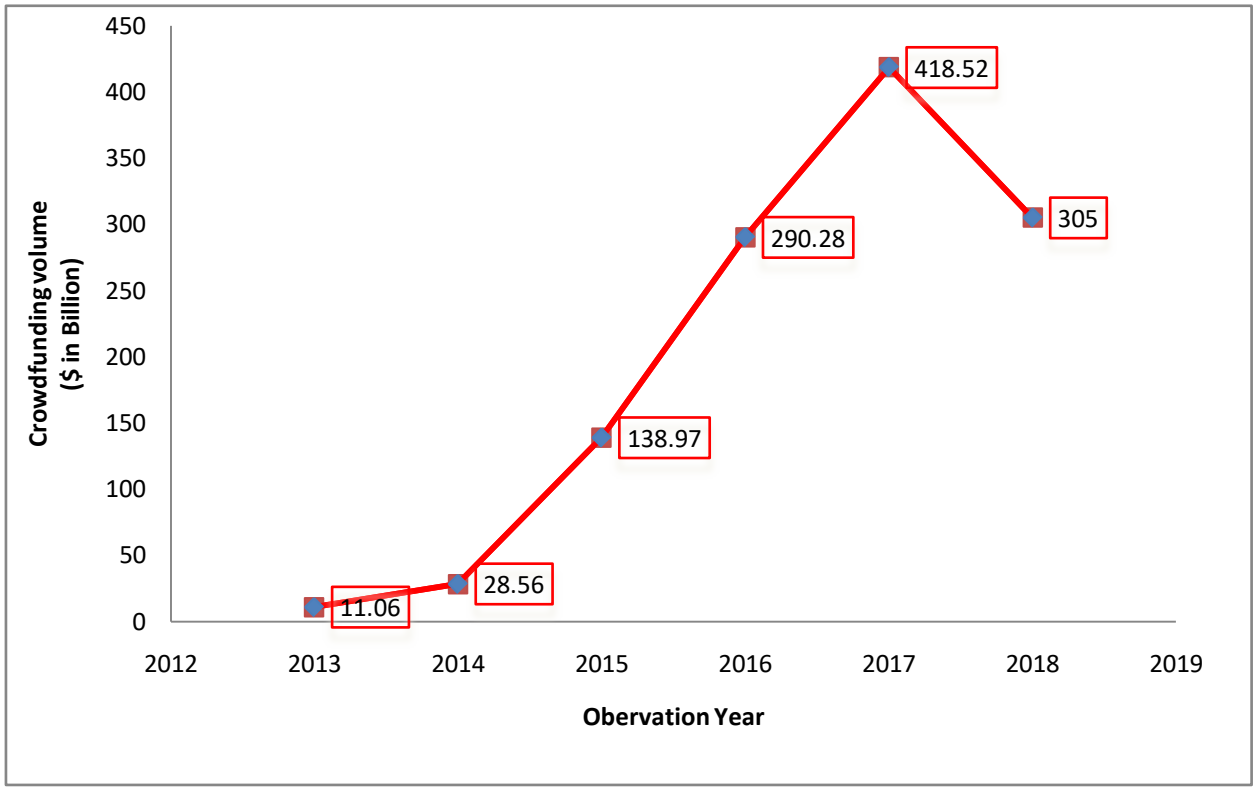
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IV. Global Scenario of Crowdfunding

Crowdfunding has been occupying a significant place in the discussion of economic forum, political, social and cultural discourses after the global recession of 2008. There has been a search for the better source of funds and investment alternatives thereof. Across the world, developments in financial technology (Fin-Tech) are revolutionizing the way people interact with financial services-allowing faster payments, more secure transactions, user-friendly interfaces, and reducing costs.

According to UNDP (2017), crowdfunding is an innovative approach for projects, organizations, entrepreneurs, and startups to raise money for their causes from multiple individual donors or investors. The industry is expected to reach an annual volume of US$100 billion by 2025 and becoming the leading financial channel for SMEs.

The figure (see Figure 4) shows the global total volume that alternative finance platforms having facilitated along with the percentage change in some years.



Source: Schmidt (2020) and Cambridge Centre for Alternative Finance (2020).

Figure 4: Global alternative finance volume ($ in Billion)

The total global alternative finance volume has grown from $11.06 billion in 2013 to $418.52 billion in 2017 (Ziegler, Shneor and Zhang, 2020). As a result, the concept of crowdfunding has taken more space and growth substantially. According to Schmidt (2020), China solely accounted for 85.5 percent of the worldwide crowdfunding market in 2017.

a) South Asian and Nepalese Scenario of Crowdfunding

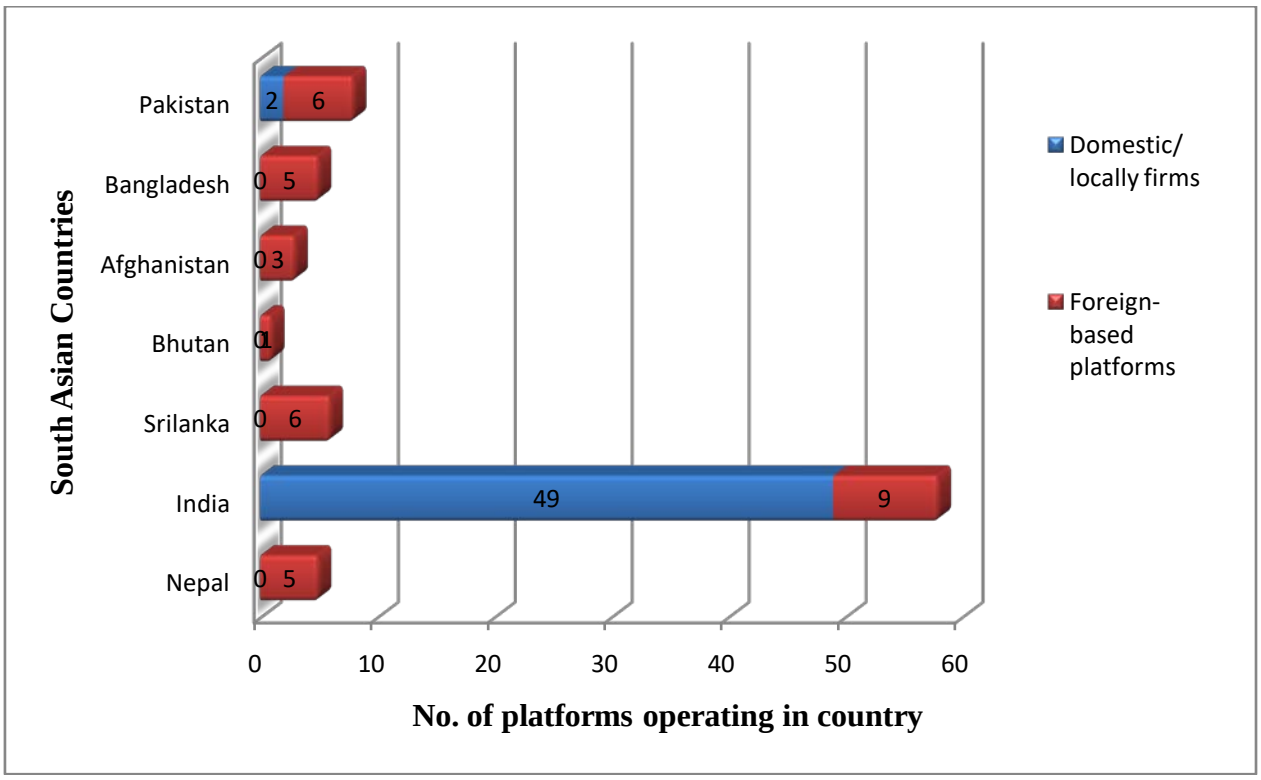
With the growing development in information technology, financial innovations and an avenue towards digital economy, modern and innovative models of finance have been emerged all around the world. The following table shows the regulatory provisions and legislations regarding the crowdfunding in South Asian countries.

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Table 3: Crowdfunding in South Asian countries

S/N	South Asian Countries	Provisions related to crowd funding	Remarks
1	Srilanka	A crowdfunding initiative that merely procures gifted or donated sums without the possibility of a return may not be considered unlawful under the Securities Act (2008).	D'Rosario, M., Busary, A., & Raval, K. (2016).
2	Nepal	The Securities Act 2007 does not permit non broker intermediaries to engage in capital raising related activities.	Securities Board of Nepal (SEBON) (2021)
3	Bangladesh	The Securities and Exchange Commission Act, 1993 is silent in relation to crowdfunding type methods. A crowdfunding initiative that merely procures gifted or donated sums without the possibility of a return may not be considered unlawful under it.	D'Rosario, M., Busary, A., & Raval, K. (2016).
4	India	However, it is evident that crowdfunding as a discrete activity would be prohibited and would be considered unlawful under Indian securities legislation. In 2017, RBI issued directions targeting 'Non-Banking Financial Companies' and specifically P2P lending platforms. These directions require all P2P lending platforms to obtain a certificate from RBI.	D'Rosario, M., Busary, A., & Raval, K. (2016); Suresh, K., Oyna, S., & Munim, Z. H. (2020)
5	Bhutan	The Royal Monetary Authority of Bhutan, in exercise of the powers conferred by Sections 202 of the Financial Services Act of Bhutan 2011, has formulated and promulgated "Crowdfunding Rules & Regulations 2019."	Royal Monetary Authority of Bhutan (RMAB) (2019).
6	Pakistan	Securities & Exchange Commission of Pakistan (SECP) has granted approval to the first technology based crowdfunding platform that allows startups and SMEs to raise funds from investors in return for securities.	SEC pakistan (27 october, 2020)

The following figure illustrates the number of crowdfunding platforms operating in South Asian countries.



Source: Cambridge Centre for Alternative Finance (2020)

Figure 5: No. of crowdfunding platforms operating in South Asian countries

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The following table shows the volume of alternative finance in South Asian countries.

Table 4: Volume of alternative finance in South Asian countries.

S/N	South Asian Countries	Volume ($ USD)
1	Nepal	1,014,850
2	Bhutan	10,000
3	Bangladesh	10,272
4	Sri Lanka	38,926
5	Pakistan	8,571,762
6	India	268,579,820

Source: Cambridge Centre for Alternative Finance (2018), Ziegler et al. (2018)

The above table shows that India is the largest market in terms of volume of alternative finance followed by the Pakistan and Nepal. According to UNDP (2017), crowdfunding in developing countries raised US$430 million in 2015 with India, Philippines, and Nepal in the top three.

b) Nepalese Economic and Payment System Scenario

Shares of public and private sectors in fiscal year 2018/19 were 79.7 percent and 20.3 percent respectively. In comparison to the public sector, the rate of capital formation of private sector is high.

Table 5: Economic indicators

S/N	Particulars	2019/20 (Estimated)	2019/20 (Actual)	2020/21 (Estimated)
1	Gross Investment, 2020/21	Rs. 1889.26 Billion	-	Rs. 1312.71 Billion
2	Gross investment to GDP	50.20%	28.40%	30.80%
3	Fixed capital formation to GDP	28.10%	28.40%	27.30%
4	Gross fixed capital formation of government sector	77.90%	18.60% (Rest 7.6% public corporation)	18.10% (Rest 8.4% public corporation)
5	Gross fixed capital formation of private sector	22.10%	73.10%	74.30%
6	Gap between Savings and investment	32.10%	22.10%	24.20%
8	GDI per capita in current price	US $ 1085 (GDP per capita)	US $ 1196	US $ 1196

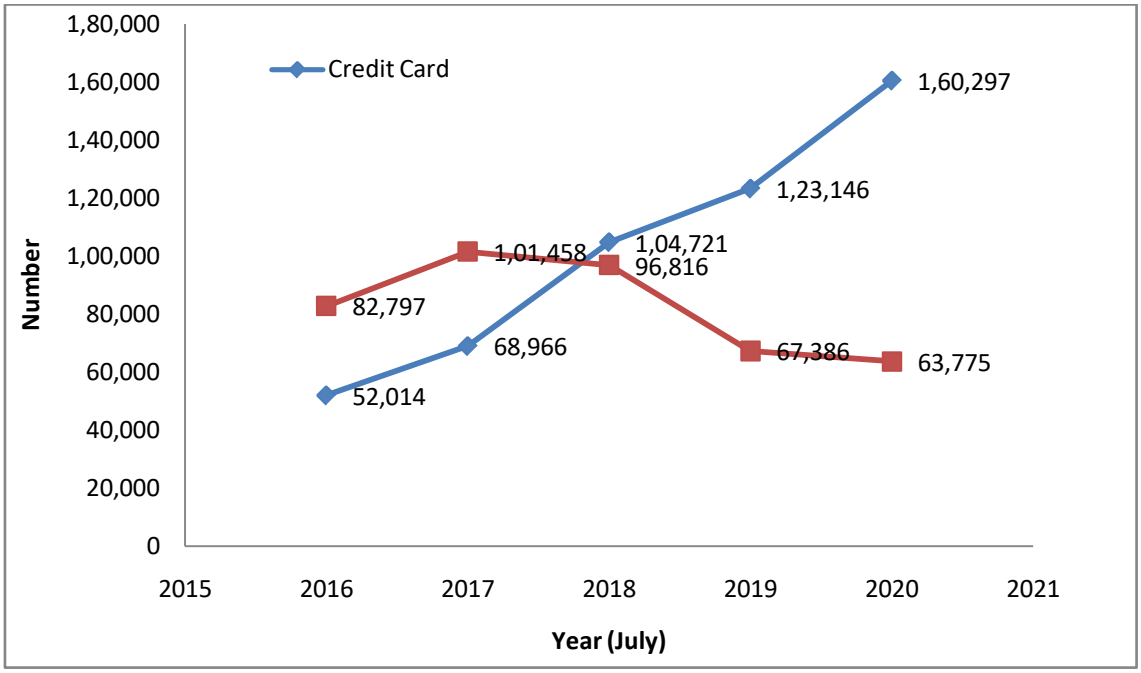
Source: Ministry of Finance, Economic Survey 2019/20 & 2020/21

The concept of digital economy and its supporting pillars like; SMS banking, mobile banking, QR code scan system, POS machine, internet banking, connect IPS and RTGS system can facilitate the crowdfunding. Technological awareness and subjective norms positively influence backers' crowdfunding intentions (Hasan, Ahmad, Rahman, and Islam, 2018).

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V. Payment Instruments Issued

The following figure shows the number of payment instruments issued in Nepal.



Source: Payment Systems Oversight Report, 2019/20

Figure 6: Number of payment instruments issued

The following table represnets the major payment system indicators in Nepal.

Table 6: Major payment system indicators

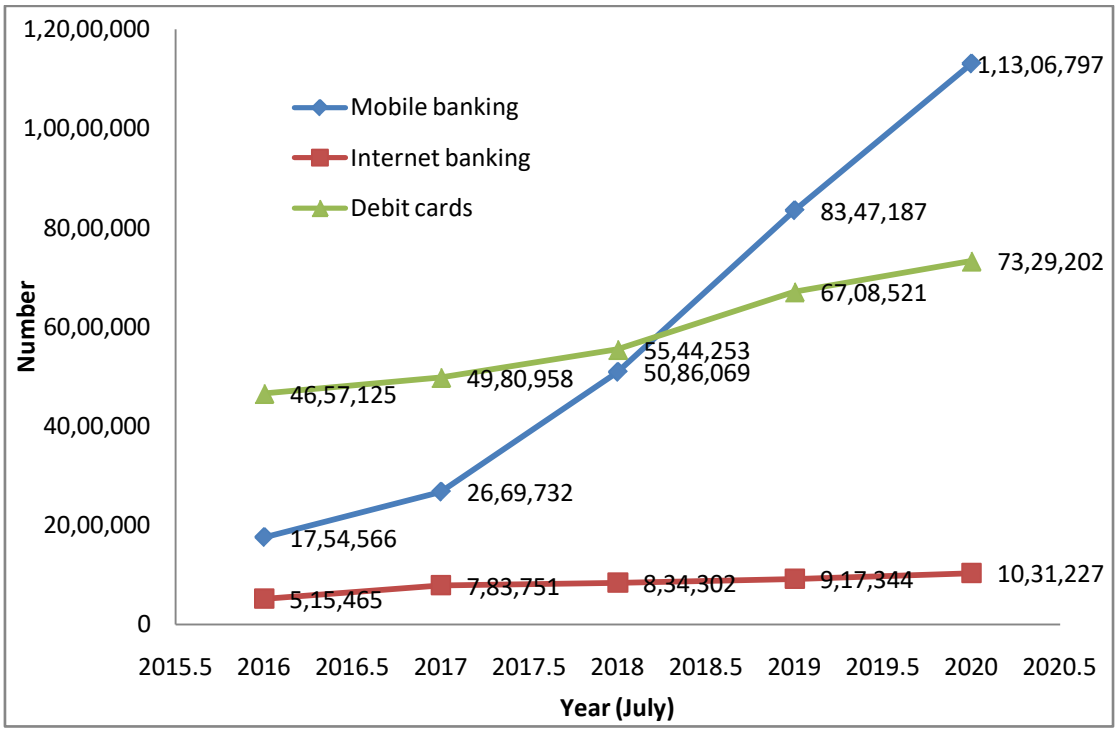
S/N	Particulars	Mid July 2020
1	Total number of ATMs	4,106
2	Total inter-bank payment system (IPS) Transaction Presented Count (Yearly)	5,875,765
3	Total ConnectIPS Transaction Presented Count (Yearly)	2,849,964
4	Total number of Non-BFIs working as PSO	9
5	Total number of Non-bank institution operating as PSP	14

Source: Payment Systems Oversight Report, 2019/20

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a) Payment Channels

The following figure shows the number of customers on payment channels in Nepal.



Source: Payment Systems Oversight Report, 2019/20

Figure 7: Number of customers on payment channels

b) 15th Five Year Plan (FY2020-FY2024)

There has been a remarkable progress in adoption of information technology in Nepalese economy. According to Nepal Telecommunications Authority (2020), telephone service penetration has reached to 126.72 % of the total population, mobile phone service has exceeded 90% of the people, and internet penetration has reached to 74.43%. Similarly, International Telecommunication Union reported that Nepal will be among the frontrunners in internet penetration at 79% by 2025 (Frost and Sullivan, 2018).

The Government of Nepal's 15th five-year plan (FY2020-FY2024) envisions Digital Nepal project with the total estimated cost of NRs. 107.50. According to NPC (2020), 65.9 per cent of the population has access to the Internet services, and digital literacy stands at 40 percent. The Government of Nepal's 15th five-year plan (FY2020-FY2024) envisions increasing internet penetration to 80% by FY2024 (NPC, 2020). The rapid and improved access to the information technology specifically internet via mobile phones and other devices, boom in social networks and Fin-Tech developments have helped growth of crowdfunding in developed as well as in developing countries like Nepal.

c) Digital Nepal Framework-2019

Digital Nepal Framework is in effect in Nepal since 2019. It has selected 8 major sectors which includes eighty initiatives. They all support for the economic growth through enhanced use of ICT in major sectors. One of the major sectors to build up the digital foundation and its effective utilization is on financial sector. It targets unbanked population get into the banking or financial sector by the use of ICT. Besides, it aims for leveraging the financial inclusion and access upto 55 percent of the population employing Fin-Tech and digital ways (DNF, 2019).

Ministry of Communications and Information Technology (MoCIT) has recently launched the beta version of the application called "*Nagarik App*". This app has been launched with an aim to provide all the government reated services through a single online platform, which is under the government's Digital Nepal Framework project. Similarly, "*Mero Kitta*" app is another example of the Ministry of Land Management, Cooperatives and Poverty Alleviation's initiatives towards digital Nepal. This app provides online land related services without having to visit government offices.

d) Nepal Rastra Bank and Legal Frameworks/Initiatives for Digital Payment System

Nepal Rastra Bank is the central bank of Nepal and it is committed to develop the digital economy and promote digital financial system in Nepal. According to NRB Act (2002) First amendment 2006, one of the major objectives of NRB is to develop a secure, healthy and efficient system of payment. Therefore, various commendable efforts have been making for the

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payment system modernization, started with the formulation of Nepal Payment System Development Strategy (NPSDS) in 2014. NPSDS guides NRB to implement the strategy across the nine pillars.

Furthermore, following strategic and legal formulation and implementations are regarded as the breakthrough in making Nepalese economy a Digital economy:

a. Licensing Policy for Institution/Mechanism Operating Payment Related Activities, 2016
b. Payment and Settlement Act, 2018,
c. Payment and Settlement Bylaws 2020,
d. Real Time Gross Settlement (RTGS) System Rule, 2019,
e. Unified Directives,
f. Monetary policy, and
g. International guiding polices such as Principles of Financial Market Infrastructures (PFMIs)

These policy level milestones are expanding, improving and securing the digital mode of payments in Nepalese economy.

e) Third Strategic Plan (2017-2021) of NRB

According the Third Strategic Plan (2017-2021) of NRB, NRB has set four core pillars that are essential for achieving organizational goals and objectives. Pillar two is related to Financial Stability and Financial Sector Development. One of its objectives is to Enhance Financial Access and Financial Inclusion, which is an integral part of Financial Sector Development Strategy (FSDS) announced in 2017. In order to achieve this objective, among others strategies and actions, encouraging different modes of digital financing is one of the important actions. Therefore, NRB is in avenue of supporting digital economy of Nepal. Therefore, it is important to pro-actively and prudentially develop technological and policy level regulatory framework to support crowdfunding.

The monetary policy 2020/21 has significantly focused on Fin-Tech and digital payment in Nepal. One of the stances of monetary policy 2020/21 is that "digitization will be promoted to make payment system more secure, healthy and efficient." Following are the major provisions in monetary policy 2020/21 relating to the digital economy and digital Nepal.

a. Settlement of financial transactions through digital means will be encouraged following the spirit of the Digital Nepal Framework implemented by the GoN, which aims to promote sound and secure electronic payment system in order to minimize the cash transactions.
b. National Payment Switch will be established to facilitate the payment system further in order to maintain records of all electronic transactions conducted in Nepal.
c. A guideline will be issued to manage the electronic payments made through Quick Response (QR) code.
d. Provisions will be made to receive foreign currency earned from the exports of IT related services exported through online or electronic means in the bank account or card of the exporter or service provider.
e. Likewise, necessary arrangements will be made to receive remittances through mobile wallets.

f) Crowdfunding and its Potentiality on Economic Development of Nepal

A neo-classical economic growth model of Solow-Swan (1956) focuses on long run economic growth with the key components of saving and investment. It says that an increase in saving and investment raises the capital stock and thus raises the full-employment national income and product. Investment is one of the pillar for the economic growth.

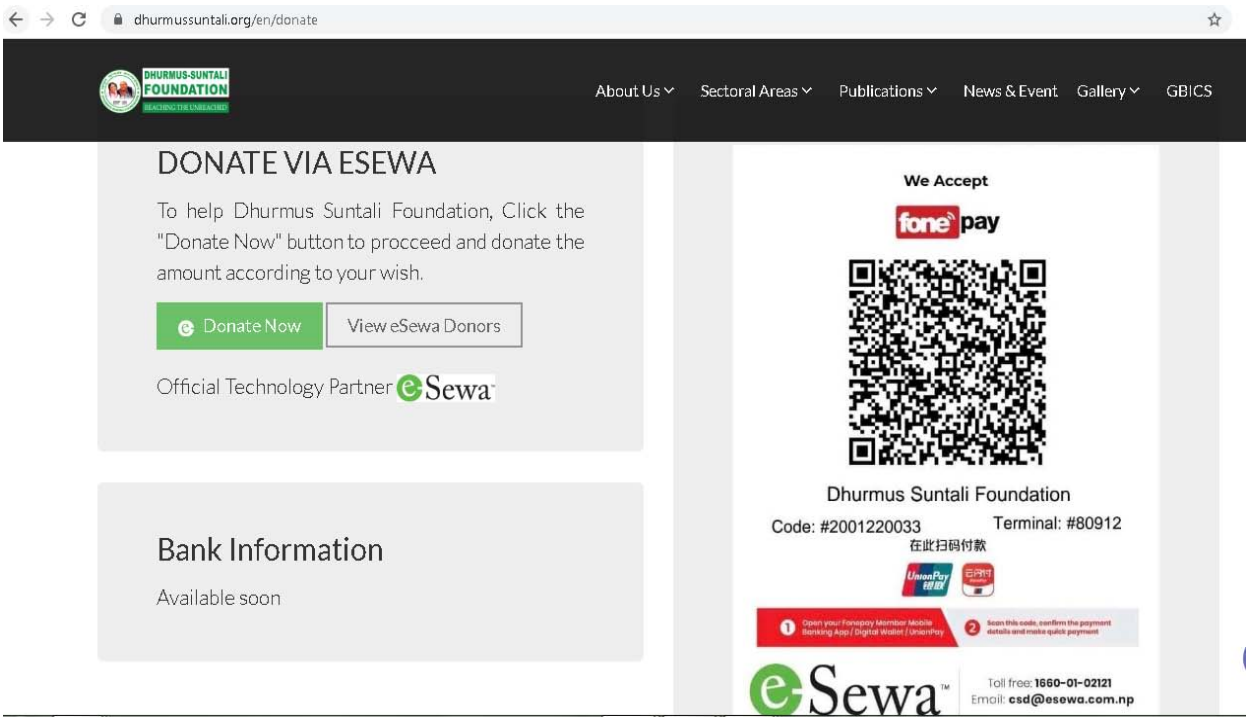
The previous economic crises, frequent credit crunch and stringent regulatory requirements as such have been demanding for alternative financing. In the context of Nepal, there has been a rapid growth of informal sectors that are bridging the gap between the savers and users of funds by any means. According to a study of United Nations Capital Development Fund (UNCDF) (2017), it revelaed that 24% of Nepali adults had been refused loans due to lack of proof of sufficient income, while 19% were unable to provide collateral. There is always a gap between required capital and fulfilled invesment's. Therefore, people who are not confident enough to proceed through the formal channels due to stringent regulatory requirements and searching for alternative way of investment are the growth factors of crowd funding. On the other hand, small investors are searching for investment alternatives that give them, even though smaller, returns.

Besides, a unprecedented global pandemic of Corona Virus-COVID 19 has magnified the prominence of digital and electronic transactions in an economy no matter of its size. The market has already started as there are some online platforms that provide startup solutions for the investors and entrepreneurs in Nepal, for example, *Clock b.* Similarly, international competition and opportunities viz. Hult Prize, GIST Tech-I, Seedstar, and IdeaStudio in Nepal are attempting to bridge the gap between the start-ups, entrepreneurs and investors.

Similarly, there are well known donation based crowd funded projects which are being operated by a not for profit and non-government humanitarian organization called *Dhurmus Suntali Foundation (DSF).* The inception of DSF virtuously was for humanitarian support in reconstruction of settlements for survivor of 2015 Nepal earthquake and since then started

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implementing social, economic and infrastructure development initiatives in Nepal (DSF, 2021).



Source: https://dhurmussuntali.org/

Figure 8: Dhurmus Suntali Foundation

It is now focused on mega-projects like ongoing construction of Gautam Buddha International Cricket Stadium-multiple sport venues and covered halls representing all 77 districts. It is also fully implementing crowdfunding for collecting donations using Fin-Tech. According to annual report (DSFa, 2021), DSF has collected donations of NRs. 18,53,42,791.75 and expensed the same amount for completing 7.17 percentage of the project until the review period. The initiative and success of the DSF has also shown an avenue for the crowdfunding in Nepal. DSF has supported for the infrastructure development in Nepal although it is based on donation crowdfunding. Therefore, these platforms act as alternative finance source and support for the other kinds of philanthropic causes and economic development of Nepal.

Crowd funding can be a one of the major and alternative financing solutions for achieving sustainable development as well. Out of total 17 sustainable development goals, 8th goal is related to decent work and economic growth. Similarly, 9th goal concerns with industry, innovation and infrastructure. The government's big plan of 'Digital Nepal' is designed to facilitate Nepal to connect its driving socioeconomic growth of citizens, which will help and support to achieve the sustainable development goal (Giri, 2020).

In order to achieve these major goals, one of the major resources is capital and capital can be collected from alternative financing along with the traditional financing. Crowd funding is one of the emerging platforms for collecting small investments for the huge projects. Innovation in financial tools and techniques yields secured and productive platforms for the funds generation.

It helps the development of small and medium scale enterprises in such a way that it does not interfere with future development potentiality and sustainability.

The United Nations Committee for Development Policy (UNCDP) has recommended for Nepal's graduation from the Least Developed Country (LDC) category, which would be effective in 2026 after the preparatory period ends. The efforts have been made to graduate by 2022 via 12th 3 years plan. This upgrade is based on three graduation thresholds as presented below and these must be met in two consecutive triennial reviews (or income only).

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Table 7: LDC graduation thresholds

S/N	Parameters	LDC graduation thresholds	Nepal's achievements	Remarks
1	GNI Per capita	US $ 1,230 or above	US $ 1,196*	Need to achieve
2	Human Assets Index (HAI)	66 or above	Greater than 71.2	Achieved
3	Economic Vulnerability Index (EVI)	32 or below	Less than 28.4	Achieved

*Source: United Nations, Economic and Social Commission for Asia and the Pacific, (2019), and Economic Survey Report, 2020/21**

Nepal has already attained two indicators with HAI of greater than 71.2 and EVI of less than 28.4 respectively (UN, ESCAP, 2019). However, Nepal has not attained the GNI per capita threshold of $1230, which is currently US $ 1196. In order to achieve the GNI per capita threshold, Nepal has to work hard for the sustainable, wide, and higher economic growth. For this Nepal has to maintain at least double-digit growth rate for the remaining fiscal years which requires huge investments in every sectors. In contrast to it, a contemporary banking and formal financial system may be insufficient for the required investments and economic activities. Therefore, crowd funding platforms with supportive legal and regulatory environment are pillars towards economic development of Nepal.

Economic development not only implies the monetary or income growth of the people of a country but also means mental, personal, or social growth. Alternative finance, crowdfunding, provides an increasingly vital source for start-ups, entrepreneurs and Small and Medium Enterprises. At the same time, it provides a platform to share the ideas and work on to make it possible or turn into a reality. It entice individuals or entrepreneurs to be creative, innovative and persuasive to get the funder's attention and funds. Therefore, it is possible for the startups to finance their businesses either from equity or debt or mix of both and give return to the funders. There is a potentiality of crowd funding to be have positive effect on investment efficiency in the developing economies like Nepal.

Besides, business and philanthropic purposes, crowdfunding are used for the political purpose also. There are ample of examples that political campaigns also use crowdfunding to finance their events and projects. Even political projects have been crowdfunded, for instance a majority of Barrack Obama's election campaign funds in 2008 came from small financial contributions which raised over 200 million dollars in microdonations (Eranti, 2014). Better political issues and agendas funded via crowdfunding leads towards better government and support for the economic development of nation.

g) Regulation of Payment System and Crowfunding in Nepal

It's a responsibility of monetary as well as regulatory authority to protect investor, issuer and crowdfunding platforms. In international context, American Jumpstart Our Business Startups (JOBS) Act - 2012, enacted in US, is one of the first regulatory frameworks for crowdfunding in the USA. Title III of the JOBS Act-2012, is also called as the Crowdfunding Act, also known as Regulation Crowdfunding (Reg CF) and effective from 2016. Reg CF allowed eligible companies to raise capital through equity-based platforms with an exemption from registration crowdfunding transactions. However, the regulation also included several limitations on the maximum investable amount per year, combined with tailored disclosure procedures and disqualification criteria (Chervyakov and Rocholl, 2019). In European level, there are provisions for the regulations on investment and lending instruments, however, they are not specifically tailored for crowdfunding related activities.

Regulation of crowdfunding does influence the expenses, incomes and investments. It can go either way i.e. positive, negative or both, For instance, in 2017 China's volume accounted for 86% of global volumes, while this year it shrank to 71%. This decline is mostly explained by regulatory enforcement efforts by Chinese authorities in a market in which, until recently, such regulations were largely unclearly specified Cambridge Centre for Alternative Finance (2020).

Because crowdfunding is just starting to be regulated across the globe, many jurisdictions do not impose stringent regulations on crowdfunding just yet. Under the United States SEC (Securities and Exchange Commission) rules, an intermediary that is a funding portal is required to ensure that investors send money or other consideration directly to a third party that has agreed in writing to hold the funds for the benefit of, and to promptly transmit or return the funds to, the persons entitled (IOSCO, 2015).

A study by Rau (2019), using the Cambridge Centre for Alternative Finance (CCAF) database, showed that national volumes of crowdfunding are positively associated with the rule of law in the country and its quality of regulation. Similarly, it is positively relate to the control of corruption, presence of explicit or bespoke crowdfunding regulations, ease of setting up business, and financial profitability of existing financial intermediaries (e.g. the banking sector). In Indian context, central bank of India i.e Reserve Bank of India

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(RBI) regulates all types of money lending. Peer to peer (P2P) lending has been there in India since 2014, however there was no specific regualtion until the latter half of 2017 (Menon, 2016).

In Nepalese context, Nepal Rastra Bank (NRB) has been continuously issuing various directives, guidelines, and policies to the licensed institutions for ensuring secured and seamless payment system. A dedicated department, Payment Systems Department, has been set up in NRB's organizational structure to regulate and oversight of payment institutions (NRBc, 2019/20).

As one of the strategies to strengthen the Nepalese payment system, the monetary policy 2019/20 has already prioritized and worked on arranging for the settlement of transactions within the country by ensuring interoperability of electronic payment transactions through the development of national payment gateway/switch. The monetary policy 2020/21 has focused on some regulatory frameworks. Like;

a. New license to Payment System Operator (PSO) and Payment Service Provider (PSP) has been suspended except in the case of those which have been provided Letter of Intent (LOI).
b. License of the PSPs that fail to make at least three hundred thousand customers and at least six hundred thousand monthly average transactions by mid-July 2021 may be revoked.
c. Payment System Development Indicators (PSDIs) will be published.

The first attracting policy for establishing crowdfunding platform, as mentioned above, is Licensing Policy for Institution/Mechanism Operating Payment Related Activities, 2016. This policy has stated that there is provision for providing license to Payment Service Provider (PSP), which carries out payment related transaction function through telecommunication network. According to this policy, PSPs can perform, activities like; giving/taking payment and intermediate between customer and service provider, domestic money transfer service in home country and other activities except as prescribed above. However, this policy is still unclear about providing license to PSPs that perform crowd fudning in Nepal.

Securities Act, 2007 of Nepal also doesnot allow non-broker intermediaries to involve themselves in raising capital and such activities in any other ways. Securities Act, 2007, section 63 as divided the types and nature of the securities business where it doesnot acknowledge any licensing provisions, pursuant to section 58, relating to crowd funding platforms which issue securities and operate in Nepal (SEBON, 2021).

In crowdfunding, an internet is employed as a medium for the communication and operation of online platforms. By the nature itself, there is huge possibility and risk of cyber crime, cyber threat and cyber attacks in crowd funding platforms. There is a cyber law called Electronic Transactions Act (2008) in Nepal. According to Electronic Transactions Act (2008) Chapter 9, section 53 Abetment to commit computer related offence, "a person who abets other to commit an offence relating to computer under this Act or who attempts or is involved in the conspiracy to commit such an offence shall be liable to the punishment with a fine not exceeding fifty thousand Rupees or with imprisonment not exceeding six months or with both, depending on the degree of the offence."

Similarly, Electronic Transactions Act (2008) section 54 has a provision of 'Punishment to the Accomplice', which state that "a person who assists others to commit any offence under this Act or acts as accomplice, by any means shall be liable to one half of the punishment for which the principal is liable." Fines, penalties and punishments are the ways of regulation of cyber sector. A study concluded that the Nepal government must conduct a professional analysis of cyber crime, cyber threat, cyber security, and cyber strategies (Giri, 2019).

VI. Conclusion

Government of Nepal and Nepal Rastra Bank (NRB) are in the avenue of making Digital Nepal with the effective implementation of Digital Nepal Framework-2019. An enhanced financial access and financial inclusions have fueled the need for digital economy and demand for the innovative investment alternatives. Besides formal and regular mode of financing channels, Nepal also needs alternative financing channels for the sustainable, wide, and higher economic development. One of the latest, young and dynamically evolving alternative financing sources, in developed as well as developing economies, is crowd funding. Crowdfunding is an internet-based platforms used for collecting funds from individuals in small amount for business or social or cultural cause and issues employing social media especially.

Crowd funding has shown the huge potentiality for the development of Nepal. Success of existing donation based crowdfunding platform initiated by the Dhurmus Suntali Foundation is the best example. After the review of legislations regarding Nepalese payment system, it shows that there has not been even a licensing and other regulatory provision for the crowdfunding platforms. Regualtions based on the nature, type and models of crowd funding is the urgent need of Nepal. Likewise, cyber security is a main challenges for the growth of internet based platforms like; crowdfunding. Sooner or later modern Fin-Tech based products; like crowd funding platforms become the necessity of the economy and NRB has to be proactive and prudent to regulate such systems along with the ICT infrastructural developments. NRB, with the

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vision of modern, dynamic, credible and effective central bank of Nepal, facilitates crowdfunding as an alternative financing source in Nepalese economy.

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