



# Crowdfunding in Emerging Markets: Lessons from East African Startups



SUPPORTED BY

**WORLD BANK GROUP**



# Crowdfunding in Emerging Markets: Lessons from East African Startups

© 2015 The World Bank Group

1818 H Street NW

Washington, DC 20433

**Website:** [www.infodev.org](http://www.infodev.org)

**Email:** [info@infodev.org](mailto:info@infodev.org)

**Twitter:** @infoDev

**Facebook:** /infoDevWBG

**This work is a product of the staff of infoDev/World Bank Group.**

The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of the donors of infoDev, the World Bank Group, its Board of Directors, or the governments they represent. The World Bank Group does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank Group concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

**Rights and Permissions:** This work is available under the Creative Commons Attribution 3.0 Unported license (CC BY 3.0) <http://creativecommons.org/licenses/by/3.0>. Under the Creative Commons Attribution license, you are free to copy, distribute, transmit, and adapt this work, including for commercial purposes, under the following conditions:

**Attribution:** Please cite the work as follows: “Crowdfunding in Emerging Markets: Lessons from East African Startups.” 2015. Washington, DC: The World Bank Group. License: Creative Commons Attribution CC BY 3.0

**Photo Credits:** Cover Photo: Georgina Goodwin/World Bank



# Acknowledgements

This report was commissioned by the World Bank Group/ infoDev's Climate Technology Program, in collaboration with the World Bank Group's Innovation and Entrepreneurship Practice. The paper was authored by Sam Raymond of infoDev. Interviews with firms were carried out by Sherwood Neiss of Crowdfund Capital Advisors. Unique data collection and synthesis was generously provided by Allied Crowds.

The paper benefited from discussions with and guidance from numerous World Bank colleagues, in particular Aun Rahman, Michael Ehst, Varun Bhandari, and Nicola Vesco.

This report was sponsored by the World Bank Group's Innovation and Entrepreneurship Practice under the leadership of Ganesh Rasagam.

The report was made possible through the support of the UK's Department for International Development (DFID), Australia's Department of Foreign Affairs and Trade (Australian Aid), Denmark's Ministry of Foreign Affairs (DANIDA), Norway's Ministry of Foreign Affairs, and the Netherlands' Ministry of Foreign Affairs.



# Crowdfunding in Emerging Markets: Lessons from East African Startups

## Table of Contents

<b>Introduction</b>	<b>1</b>
<b>1. Crowdfunding is significantly more difficult than most entrepreneurs anticipate</b>	<b>3</b>
Box 1. Shake Your Power	4
Box 2. Nikweli	9
<b>2. Business needs should dictate platform choice</b>	<b>5</b>
Box 3. Wanda Organic	5
<b>3. Barriers to payment are a major challenge for African crowdfunders</b>	<b>8</b>
<b>4. Network quality and quantity dictates funding potential</b>	<b>9</b>
Box 4. Fishmate	9
<b>5. Entrepreneurs should tap resources to help them crowdfund</b>	<b>12</b>
Box 5. The Cheetah Fund	12
Box 6. Develatech	13
<b>6. In addition to funding, crowdfunding can have non-monetary benefits</b>	<b>14</b>
<b>Conclusion</b>	<b>15</b>

# Introduction

In the past 10 years crowdfunding – raising monetary contributions from a large number of people, typically online, to fund a project or venture – has evolved into a \$16 billion market. It is growing around 300 percent per year<sup>1</sup> and is concentrated in North America and Europe.<sup>2</sup>

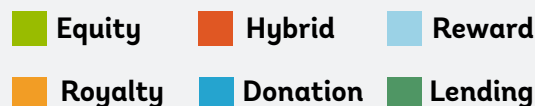
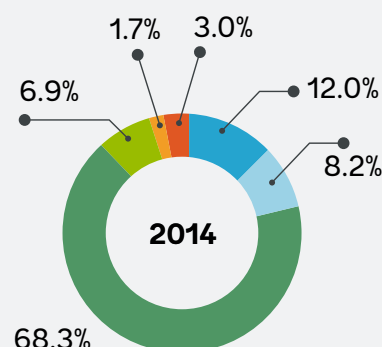
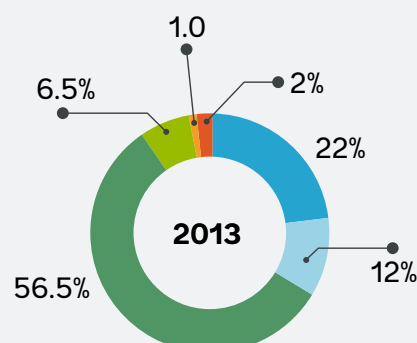
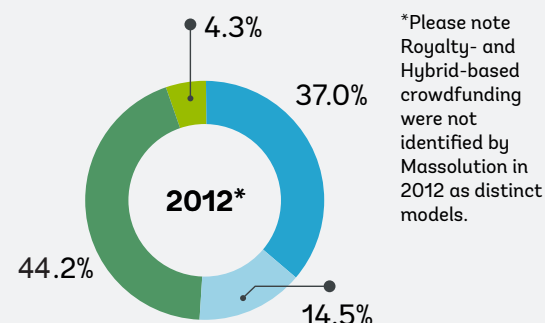
The total crowdfunding market is composed of various sub-types, including lending (debt), equity, and royalty-based models, as well as non-securitized types, such as charitable donations and rewards crowdfunding. Over the past few years, lending crowdfunding has been the fastest growing type (see Figure 1).

The total crowdfunding market in the developing world is projected to be about \$327 million for 2015 – about 2 percent of the global total.<sup>3</sup>

Despite its slow adoption in developing economies, crowdfunding has been heralded as an opportunity to expand access to capital for entrepreneurs. In 2013, the World Bank published a report, *Crowdfunding's Potential for the Developing World*, which estimated a \$96 billion crowdfunding market in the developing world by 2025.

Developing countries in Africa are among the lowest performing in the world in terms of utilizing crowdfunding. In 2015, the African crowdfunding market will total about \$70 million, which accounts for less than half of one percent of global crowdfunding activity and about 21 percent of emerging market activity. Of that \$70 million, about 54 percent was generated by peer-to-peer lending platforms, such as Kiva.org. An average Kiva loan is \$415.67 and goes towards “lifestyle” businesses rather than the creative, technological or infrastructural projects typically launched by high-growth potential entrepreneurs in other crowdfunding markets. These statistics suggests that crowdfunding for African entrepreneurs in these sectors is still in a nascent stage. Low African adoption of crowdfunding by entrepreneurs can be attributed to a number of factors, including national regulatory environments that are not conducive for crowdfunding of equity and debt and technological

**FIGURE 1. POPULARITY OF CROWDFUNDING SUB-TYPES (2012-2014)**



Source: Massolutions. 2015.

1 Massolutions. 2015.

2 <http://www.crowdsourcing.org/editorial/global-crowdfunding-market-to-reach-344b-in-2015-predicts-massolutions-2015cf-industry-report/45376>

3 AlliedCrowds. Excludes China.



# Crowdfunding in Emerging Markets: Lessons from East African Startups

environments where e-commerce is not widely utilized. In spite of these macro-environmental hurdles, entrepreneurs are utilizing innovative strategies to overcome the challenges they face when raising money from crowds.

The purpose of this paper is to capture lessons learned from East African entrepreneurs who were some of crowdfunding's first adopters. Their experiences can serve as a practical guide for entrepreneurs looking to more effectively utilize crowdfunding across all emerging markets. In order to gather this data, the World Bank conducted interviews with a number of East African technology entrepreneurs who ran crowdfunding campaigns, both successfully and unsuccessfully. The following paper offers six key lessons for entrepreneurs in Africa and other emerging markets as they consider when, why and how to launch a crowdfunding campaign.

1. **Crowdfunding is much more difficult than most entrepreneurs anticipate and is not for everyone. Opportunity costs abound.** Running a successful campaign requires significant human and financial resources. Entrepreneurs should research other crowdfunding campaigns in similar sector or geographic areas to understand what to expect and carefully consider how the opportunity costs of crowdfunding compares with other available sources of capital.
2. **Business needs should dictate platform choice.** Entrepreneurs should realistically assess how much capital can be raised from crowdfunding platforms that serve their geographic areas. Debt and equity platforms that tend to enable larger amounts of funding are often not available in many emerging markets.

*“ These statistics suggest that crowdfunding for African entrepreneurs in these sectors is still in a nascent stage. ”*

3. **Payment systems impact platform choice.** Leading international crowdfunding platforms often set restrictions on who can launch campaigns and use payment systems that bar contributions from developing world contributors. Local-based platforms are better suited to engage the developing world, but have a much smaller pool of potential contributors.
4. **Quality and quantity of contributor networks are key.** Entrepreneurs should spend a significant amount of time building a contact base that will contribute capital and promote the campaign. In addition, entrepreneurs who can “pre-raise” funds from their existing networks before a campaign goes live stand a better chance of meeting their fundraising goals.
5. **Entrepreneurs should tap into complementary resources and organizations to increase their likelihood of success.** Business incubators and mentors can be essential sources of information and support for first-time crowdfunders. Matching funds have proven to be an effective tool to incentivize local contributors to channel their funds through online platforms.
6. **Crowdfunding can have non-monetary benefits.** In addition to capital, crowdfunding helped EAF businesses increase credibility and market awareness, which sometimes resulted in partnerships, sales or investment. Entrepreneurs even used feedback from contributors to refine their products or business models.

The following sections examine these six lessons in greater detail.



# 1. CROWDFUNDING IS MUCH MORE DIFFICULT THAN MOST ENTREPRENEURS ANTICIPATE

Crowdfunding is an exciting concept for entrepreneurs who see it as an opportunity to overcome traditional access to finance challenges. However, crowdfunding is very challenging and requires a significant commitment of time and resources, especially in regions where crowdfunding is a new phenomenon, like East Africa (EAF).

A typical crowdfunding campaign can take months to prepare. Hours are spent conducting online and offline communications and considerable money is spent on shooting a crowdfunding video. Our examination of EAF crowdfunding campaigns found that the greatest cost of running a crowdfunding campaign was the staff time required to prepare, execute, and follow-up on a campaign. The campaign is a major time commitment and can detract from ongoing business operations. An example of the scope of this time commitment is the **Shake Your Power** crowdfunding campaign (see Box 1).

## BOX 1. SHAKE YOUR POWER

Shake Your Power (United Kingdom/Kenya) is a project to build and distribute kinetic energy-generating musical shakers, which can be used for off-grid personal needs. The project is run by British-Indian musician Sudha Kheterpal, best known as the percussionist in Faithless and The Return of the Spice Girls. Shake Your Power used Kickstarter<sup>4</sup> to raise £53,001 (at the time about \$81,000) from 943 backers, surpassing her £50,000 goal. The money has been used for research and development, design and engineering fees, materials, and educational kits to explain how the product works.

<sup>4</sup> As will be discussed later, Kickstarter is only available in certain countries, not including Tanzania, one location of the Shake Your Power project. However, because one of the founders is originally from Canada, she was able to create a Kickstarter campaign with a Canadian bank account.

Kheterpal spent an average of 20 hours a day on the month-long campaign, which required extensive outreach. As soon as someone would donate, she or someone on the team would thank them directly. During the course of the campaign, she responded to a multitude of questions in real time, gave over 50 media interviews, and produced three update films. When asked if she knew beforehand how much time the campaign would take, Kheterpal said, “I had no idea what I was getting into.”

Kheterpal was not the only one. A number of EAF entrepreneurs surveyed underestimated the time it would take to effectively run a crowdfunding campaign. One entrepreneur, who wished to remain anonymous, said, “The time commitment is greater than one can expect, and it comes on unexpectedly. If we had more time I would have done much better. Just to prepare I would have wanted three to four months.”

This was a common refrain among EAF entrepreneurs who said that crowdfunding detracted from the amount of time they spent engaging with customers on the ground and from the overall health of their businesses.

One anonymous entrepreneur said, “You eventually feel like you lose out on normal business operations, management and engagement with the company. Sales go down and you generally lose income as you put more time into the crowdfunding process.”

**It is important for entrepreneurs to budget time and resources so that their businesses do not suffer.** In order to better anticipate the time commitment, entrepreneurs engaged with individuals who had run similar crowdfunding campaigns. These crowdfunders were contacted via their profiles on crowdfunding platforms and were often willing to reflect on their experience. Once entrepreneurs had a rough sense of the required time commitment, some arranged for interns to assist with communications duties. Extra human resources allowed entrepreneurs to cope with

# Crowdfunding in Emerging Markets: Lessons from East African Startups

unanticipated spikes in crowdfunding and/or business duties. In Nairobi, students at the Strathmore Business School were willing to assist crowdfunding entrepreneurs in return for the opportunity to experience a crowdfunding campaign first hand.

While the time commitment is substantial and should not be taken lightly, the issue of time is not limited to crowdfunding. It applies to other types of fundraising as well. Once

entrepreneurs have determined the total time they will spend on crowdfunding, they should compare it to the estimated time needed to raise other types of capital. This will help determine the opportunity cost.

In a place like Kenya for example, where grant financing is available from multiple sources, crowdfunding may not be the most efficient way to raise capital. This opportunity cost assessment is demonstrated by Tiffany Tong of **Nikweli** (see Box 2).



## BOX 2. NIKWELI

**Nikweli** (Tanzania) is a human resources matching engine for service industry businesses in Tanzania. The company is run by Tiffany Tong, who faced challenges raising funds to register her company, refine her website, perform outreach, and advertise. Nikweli used Kickstarter to raise CAD\$6,366 (about \$5,000) from 40 backers, which surpassed her goal of CAD\$5,000 (about \$4,000). Tong chose donations crowdfunding over grant financing because grant application processes were too protracted, and she needed money relatively quickly. Although the company currently has two private investors, the company was too early stage at the time for venture capital or a bank loan. "There was a lot to follow up on. We had to send out personalized emails to friends and family," Tiffany said. The outreach, while time consuming, "was fun, but was also time we could have spent doing things for the company."



## 2. BUSINESS NEEDS SHOULD DICTATE PLATFORM CHOICE

Once an entrepreneur has determined she has the time and resources to pursue crowdfunding, she must then choose a crowdfunding platform that meets her business needs. In East Africa, and around the world, entrepreneurs choose crowdfunding platforms based on both the amount of funding and the non-monetary benefits they hope to secure. Some hypothetical use-cases include:

- A young company with a prototype conducts market tests via a presale crowdfunding platform to gauge popularity and solicit feedback from early buyers.
- A business that intends to launch an existing product or service into a new market uses a crowdfunding platform with a recognizable and credible brand for a publicity campaign in a new market geography.
- A business in need of capital and/or well-networked mentors uses an equity platform to engage angel investors and other prominent members of the business community.
- A project with a significant social good component offers rewards in return for the charitable contributions of international donors.
- Or finally, a business that needs a significant amount of capital to build infrastructure leverages its cash flow to access debt via a peer-to-peer lending platform.

These cases demonstrate two types of benefits: monetary and non-monetary. In order to determine the appropriate platform for the required monetary benefits, emerging market entrepreneurs should ask themselves the following:

1. What is the specific funding needed for the business?
2. What type of financial instrument is best suited to raise that sort of capital?
3. What platforms offer that instrument and are available in your region?
4. Does that platform's payment infrastructure allow contributions from your networks?

The company **Wanda Organic** illustrates the choices regarding fundraising targets and platform choice.

### BOX 3. WANDA ORGANIC

**Wanda Organic (Kenya)** is a bio-organic soil fertility technology company led by CEO Marion Moon and incubated at the Kenya Climate Innovation Center. Wanda fertilizers enable farmers to produce more and better food, thus increasing profitability, family incomes, improving nutrition, creating new employment and developing rural economies, while restoring and strengthening the health of Africa's soil. Wanda used Indiegogo to raise \$7,895 from 32 people (one \$5,000 donation came offline in the form of a check). Wanda's intended goal was to raise \$45,000 for the construction of two distribution centers, build training and demonstration sites, hire two agents, and cover administrative costs.

**Wanda Organic's** \$45,000 target was not particularly unrealistic in some markets – the global average for renewable energy projects on Indiegogo is \$58,000.<sup>5</sup> However, platform selection and funding targets should also be dictated by the historical data for campaigns that originate from the same country as the crowdfunding entrepreneur. Very few Kenyan projects on any platform have raised this amount, which may have dissuaded Moon from choosing this funding goal or this type of crowdfunding platform. While Moon may have been able to find this information from the Indiegogo platform, there does not exist the type of amalgamated data on a country, sector and instrument level that exists for more developed crowdfunding ecosystems. This lack of data hinders entrepreneurs from making informed decisions about whether their fundraising goals are achievable. Regarding platform choice, **Wanda Organic** said their donation campaign turned out to be ill-suited for their target contributors. The Indiegogo campaign garnered great exposure and invigorated their online presence, resulting in multiple new partnerships, but it did not result in the financing they hoped to secure.

5 2014, Crowdfund Capital Advisors. Interviews

# Crowdfunding in Emerging Markets: Lessons from East African Startups

"We ticked a lot of boxes people were interested in (women, entrepreneurship, agriculture, Kenya)," Marion said, "but not the [financial instrument] they wanted to use. People wanted to participate, but we didn't have the structure they wanted to invest in – debt. If I had to do it all over again, I wouldn't choose donation." Unfortunately, Marion could not access a platform that would allow her networks in Kenya to issue debt.

**If an emerging market entrepreneur is best serviced by a particular instrument (e.g. debt or equity), and that instrument is not available in his country or region, then he should consider alternative sources**

**of financing.** Many countries with access to presale and contributions crowdfunding do not have access to debt and equity crowdfunding.

It is not surprising that contributions platforms outnumber debt and equity platforms in Africa. The earliest examples of crowdfunding in what are now considered very sophisticated crowdfunding ecosystems in the U.S. and Europe began with simple pre-purchase or charitable contribution campaigns for creative projects or simple consumer goods. This is precisely the type of use-case most widely evident in Africa, as shown in the following list<sup>6</sup> of presale, contributions or reward platforms based in Africa:

## EGYPT



## KENYA



## GHANA



## NIGERIA



## UGANDA



<sup>6</sup> List compiled by AlliedCrowds.



Regarding the crowdfunding of equity and debt, access to these types of platforms is available for EAF entrepreneurs, but it requires supportive national legal and regulatory frameworks. In Africa, the Lelapa Fund, Homestrings and VC4Africa platforms are challenging the status quo of equity financing for startups. Teams at these platforms are constantly engaging with regulators, mapping demand, and targeting investors. Entrepreneurs who are interested in the crowdfunding of equity or debt should reference the requirements and guidelines listed on these platforms to guide their decisions. At present, the only peer-to-peer lending platform based on the African continent is Rainfin<sup>7</sup>, which serves South Africa.

<sup>7</sup> <https://www.rainfin.com/>

The following is a list of equity platforms launched in Africa:

#### PAN AFRICAN



#### UGANDA



# Crowdfunding in Emerging Markets: Lessons from East African Startups

## 3. BARRIERS TO PAYMENT ARE A MAJOR CHALLENGE FOR AFRICAN CROWDFUNDERS

Crowdfunding platforms each have unique payment processors and payment guidelines that greatly impact who can receive and contribute to a campaign. Platform restrictions should be considered by emerging market entrepreneurs when assessing how well a particular crowdfunding platform will enable the raising of money from their online networks.

Kickstarter, the international platform with the largest critical mass of users, bars the raising of funds by individuals who do not have an identification card and bank account in one of the 18 OECD countries<sup>8</sup>. This disqualifies the majority of EAF entrepreneurs from launching campaigns on this platform. Regarding contributions to campaigns, Kickstarter requires the use of a major credit card and Indiegogo requires either a major credit card, Apply Pay or Paypal, which are not widely used in EAF. If an entrepreneur's primary network is located locally, and does not use these systems, then they face significant disincentive to use these international platforms.

Tong's Nikweli Kickstarter campaign demonstrates the constraints imposed by payment systems. Tong is a Canadian national and used Kickstarter for its brand recognition in Canada. She could access Kickstarter because she is a dual citizen with a Canadian bank account. As she publicized her campaign via social media, she met local Tanzanians who wanted to support the campaign but did not meet Kickstarter's credit card requirement. Tong reports that many Tanzanians said, "Why can't I give you money directly, rather than through this platform?"

She would have loved to secure local contributions, but she did not know of a local Kickstarter plug-in that could accept mobile money, a form of payment popular with Tanzanians. In addition to payment system requirements, Tong recounts that it was also hard telling Tanzanian funders that a fee would take a bite out of their contributions. Tong most likely missed out on potential local contributions but without a trusted platform connected to popular mobile payments systems,

she found it more efficient to engage her Canadian networks and leave Tanzanian networks out altogether.

There are, however, African platforms in the early stages of marrying mobile payments with crowdfunding. **M-Changa** is a Kenya crowdfunding platform built to accept payments from mobile phones. M-Changa now has 28,000 users and has mobilized more than Ksh 30 million (about \$307,000). Currently, the majority of this is from subscribers of mobile networks like Safaricom and Airtel, which allow customers to donate on M-Changa. A recent partnership with Equity Bank even allows bank customers to participate in fundraisers via mobile wallet or over the counter.

The collected funds are held in a trust and can be withdrawn by the fundraiser whenever he or she wishes. M-Changa charges a 4.25 percent service fee,<sup>9</sup> making them very competitive compared to other crowdfunding websites and more traditional financing sources.

M-Changa also caters to donors outside of Kenya, who can contribute via PayPal and credit card. But as Nikweli's story shows, entrepreneurs who target contributors both inside and outside of their home countries face a unique challenge. Local Africans are willing to contribute using mobile payments while international contributors are more inclined to use credit and debit cards via platforms like Kickstarter which they know and trust.

“ Different platforms and different payment systems allow access to different local and international crowds. By choosing one platform over another, entrepreneurs are also having to choose one crowd over another. ”

<sup>8</sup> US, UK, Canada, Australia, New Zealand, The Netherlands, Denmark, Ireland, Norway, Sweden, Spain, France, Germany, Austria, Italy, Belgium, Luxembourg and Switzerland

<sup>9</sup> <http://www.howwemadeitinafrica.com/m-changa-modernising-traditional-fundraising-in-kenya/49464/>



## 4. NETWORK QUALITY AND QUANTITY DICTATES FUNDING POTENTIAL

A common narrative is that crowdfunding is a transformative technology that can overcome traditional impediments to capital. While crowdfunding does present an opportunity to overcome traditional barriers to capital, it is merely a new, technology-enabled way to do a very old and difficult thing: raising money from a network. For entrepreneurs in emerging markets, the lessons from EAF highlight two key takeaways about how the quantity and quality of networks can impact funding potential.

Regarding network quantity, entrepreneurs should spend a significant amount of time building a contact base that they can reasonably expect will contribute capital and promote the campaign.

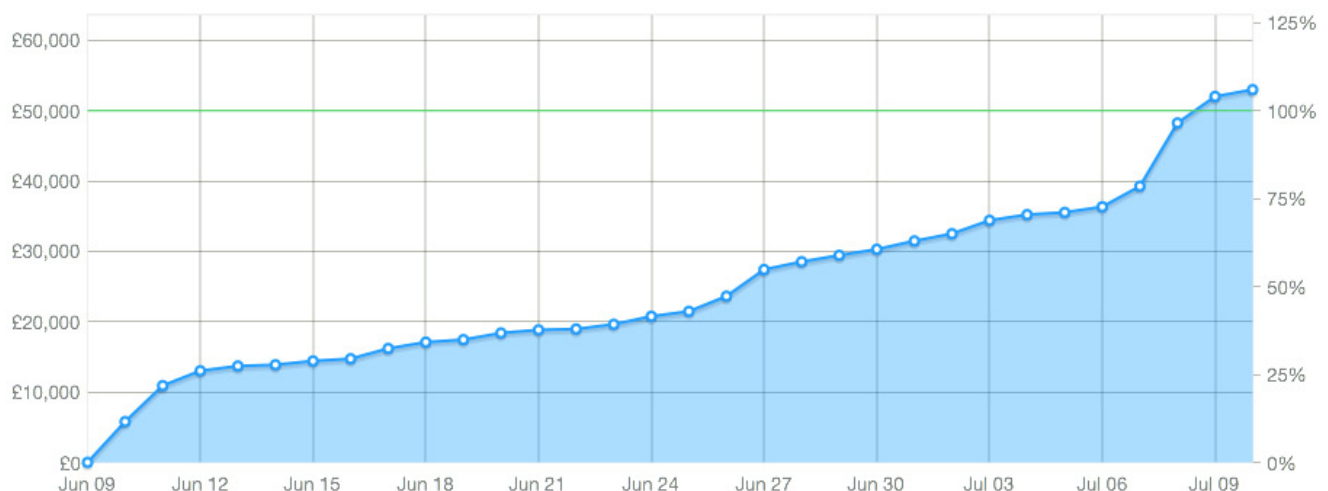
An example of base building is the work done by Kheterpal of **Shake Your Power**. As previously mentioned, Shake Your

Power used Kickstarter to raise £53,001 (about \$81,000), just surpassing the £50,000 goal, from 943 backers, 160 of whom Kheterpal knew personally. Even though they had marketing outreach from third party media outlets and on Kickstarter's homepage itself, almost 60 percent of the funds came directly from people within Kheterpal's social network (Facebook, Twitter, and Google).

"Spend your time before your campaign preparing," Kheterpal says. "Get your marketing messages sorted out and prime your friends and followers that the campaign is coming to increase awareness." "I personally wrote to every single one of my Facebook friends," she says. "And really try to aim within the first 24 hours to get 10 percent of your goal." Figure 2 illustrates the fundraising levels over time for Shake Your Power.

**FIGURE 2. SHAKE YOUR POWER FUNDRAISING OVER THE CAMPAIGN PERIOD**

### Funding progress



# Crowdfunding in Emerging Markets: Lessons from East African Startups

Kheterpal's network is largely based in the U.K. and the U.S., so the total fundraising target is not a realistic expectation for the majority of EAF or emerging market crowdfunding campaigns. Individuals who live in more developed crowdfunding ecosystems are more familiar and trusting of the crowdfunding phenomenon and online transactions, and so larger pools of potential contributors can be reached.

However, Kheterpal's story is interesting because it shows how a well-connected individual in a developed crowdfunding ecosystem can expose an African-based project to a wide network of international contributors. An African company that cemented a partnership with a similar individual, or perhaps in some cases contracted an international marketing firm, could potentially experience similar results.

**Entrepreneurs who cannot confidently access international crowdfunding markets should think realistically about the fundraising potential of their available networks.**

In most cases, potential contributors in East Africa are not familiar with the phenomenon of crowdfunding and do not regularly trust and transact over the internet.

In more developed crowdfunding ecosystems, tools such as Krowdster allow entrepreneurs to gauge the fundraising potential of their online social networks. No such tool exists for EAF or developing markets, so entrepreneurs should conduct their own ad hoc assessments. This assessment should also benchmark crowdfunding performance for the relevant sector globally, regionally, and in the relevant country.<sup>10</sup> Fundraising examples at the regional level should also be categorized by their engagement of international or local crowds. Entrepreneurs should directly engage with pertinent campaigns (both successful and unsuccessful) to understand their available network size and assessing the funding goal in relation to an assumed conversion rate.<sup>11</sup>

Regarding network quality, if an entrepreneur thinks there is a low likelihood that large volume of online social networks will carry her past her fundraising goal, then she should

implement a strategy to galvanize offline networks to support the campaign, and adjust the fundraising target accordingly. An example of an entrepreneur who successfully monetized an existing but reluctant offline social network is 24-year old Mukeli Matai of **Fishmate**.



## BOX 4. FISHMATE

**Fishmate (Kenya)** is the brainchild of 24-year old Mukeli Matai of Nairobi, Kenya. The idea was born from the World Bank Group's open data bootcamp in 2012, where she accessed information about endangered fisheries and decided to build a company to address fishing sustainability. Matai took advantage of the 1% Club partnership with the Cheetah Fund<sup>12</sup> to conduct two separate crowdfunding campaigns. Her first campaign in Kenya raised €2,678 from about 20 members of her family which then triggered a matching contribution of about €6,000 from the Cheetah Fund. Fishmate then was selected by Dutch university students for a second campaign run in the Netherlands that raised an additional €7,912.

Similar to Kheterpal, Mutai built a base of individuals who would form the foundation of her campaign. However, these individuals were all based locally in Kenya, much smaller in number, and were either unable or reluctant to contribute money online. In response, Mutai formed a *harambee*<sup>13</sup>, an ad-hoc, in-person

<sup>10</sup> An example of benchmarking is available in APEN Design's 5 Massive Impacts of Crowdfunding Whitepaper, available at <https://www.krowdster.co/5-massive-impacts-of-crowdfunding>.

<sup>11</sup> The rate at which individuals in an entrepreneur's network contribute to a crowdfunding campaign.

<sup>12</sup> More information on The Cheetah Fund is located in Section 5: "Entrepreneurs should tap resources."

<sup>13</sup> Harambee (Swahili: [ha'rambe]) is a Kenyan tradition of community self-help events, e.g. fundraising or development activities. Harambee literally means "all pull together" in Swahili, and is also the official motto of Kenya and appears on its coat of arms.

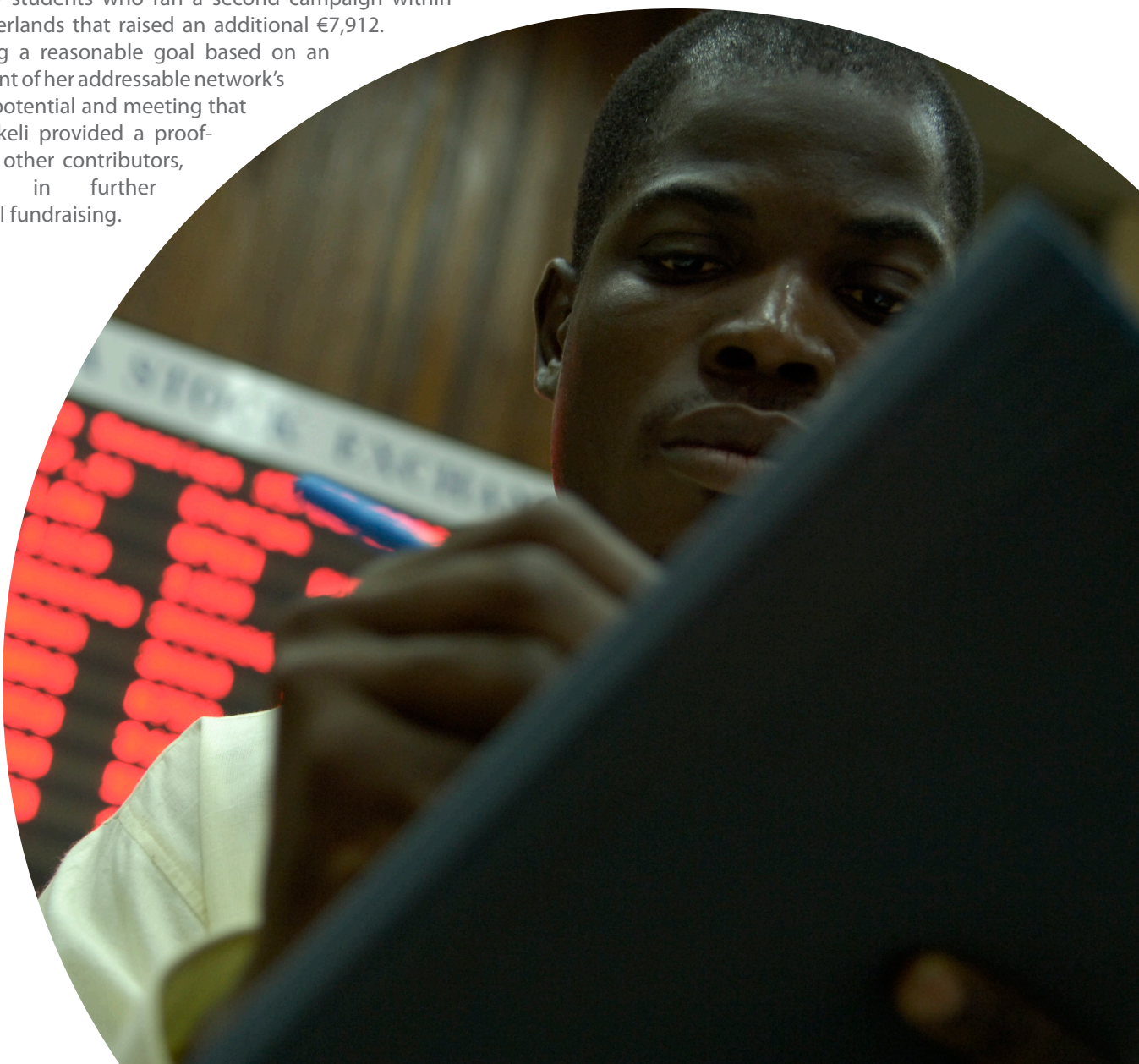


community that organizes to support a cause. Instead of her personal networks contributing directly through the campaign site, the group appointed a “treasurer” to collect funds from members via mPesa or in cash. This treasurer then made a single contribution to the 1% Club platform, which then transferred funds to Mutai’s bank account. Fishmate raised €2,678 from about 20 family members, which was matched with €6,000 from the Cheetah Fund. It should be noted that the matching funds provided an important incentive for her network to contribute online. Matching fund mechanisms are discussed in greater detail in the following Section 5: “Entrepreneurs should tap resources.”

The successful campaign, though a relatively small sum, qualified Fishmate for international sponsorship by Dutch university students who ran a second campaign within the Netherlands that raised an additional €7,912.

By setting a reasonable goal based on an assessment of her addressable network’s funding potential and meeting that goal, Mukeli provided a proof-point for other contributors, resulting in further successful fundraising.

“Entrepreneurs who cannot confidently access international crowdfunding markets should think realistically about the fundraising potential of their available networks.”



# Crowdfunding in Emerging Markets: Lessons from East African Startups

## 5. ENTREPRENEURS SHOULD TAP RESOURCES TO HELP THEM CROWDFUND

Whenever possible entrepreneurs should seek assistance to increase their crowdfunding capacity and their likelihood of success. In the developed world, there is widely available literature that chronicles best practices to increase chances of success across all types of crowdfunding. In emerging markets like EAF, entrepreneurs face a dearth of qualitative and quantitative data, to help guide their actions.

**To mitigate this information gap, the entrepreneurs we interviewed engaged with multiple resources, including matching funds, business incubators and online knowledge-networks, to increase their fundraising prospects.**

### MATCHING FUNDS

Around the world, a number of crowdfunding matching schemes have been implemented to incentivize the giving or lending of money to certain campaigns. To date, this type of mechanism has been implemented once in Africa and was accessed by two of the successful crowdfunding entrepreneurs with whom we spoke.

Matching funds are beneficial to both individual crowdfunding campaigns and crowdfunding ecosystems. Injected capital not only helps entrepreneurs reach their fundraising goals, but also creates a clear impetus to bring offline contributions to online platforms, as was the case with Fishmate's *harambee*. In this manner, Fishmate raised €2,678 that was matched with €6,000 from the Cheetah Fund. This offline to online effect has a positive ecosystem impact by helping generate success stories that will increase understanding and acceptance of crowdfunding.

### BUSINESS INCUBATORS

As African crowdfunding experiences accrue, business support organizations such as the Kenya Climate Innovation Center, VC4Africa, iHub, and others can serve as repositories for locally relevant information and crowdfunding experiences, as well as connection points with local service providers (e.g. videographers, marketing professionals, mentors, etc.) who have prior crowdfunding experience and can support campaigns. When laying the foundation for a crowdfunding campaign, incubators can encourage and help



### BOX 5. THE CHEETAH FUND

**The Cheetah Fund** is a €400,000 fund that partnered with the 1% Club Netherlands crowdfunding platform to support African pioneers with seed money to kick-start or boost their world changing projects. If pioneers manage to crowdfund at least 30 percent of their target amount via 1% Club within 30 days, the Cheetah Fund then grants them the remaining amount.





entrepreneurs assess of their opportunity costs, network quality and select an appropriate platform. Incubators can also provide technical assistance on social media and marketing strategies throughout a campaign.

**Develatech (Kenya)** is a Kenya Climate Innovation Center incubatee which produces and sells clean cook stoves and illustrates the role of a business incubator to support a crowdfunding campaign.



## BOX 6. DEVELATECH

**Develatech (Kenya)** is a company that produces and sells clean cookstoves and is an incubatee of the Kenya Climate Innovation Center. The company targeted African customers via the African crowdfunding platform, the 1% Club and also took advantage of a matching scheme being offered by the Cheetah Fund. Using this scheme, he successfully raised a total of €15,000 (about \$17,000).

The incubator connected the company with a mentor to assist with preparation and launch of a 1% club campaign, which successfully raised €15,000. Then the mentor and the entrepreneur worked together to form a strategy to build on their success. As a result, Develatech is developing a camping cook stove which can be pre-sold to Western outdoor enthusiasts via an international crowdfunding site. In the future, in addition to sourcing mentors, business incubators could leverage an experienced crowdfunder like Develatech to provide peer-to-peer learning opportunities with other companies in the incubator.

Incubators can also be used to build confidence in potential campaign contributors. By publicly displaying their affiliation with a well-regarded incubator in a crowdfunding campaign video, the entrepreneur will build trust with potential contributors, especially if that incubator has a competitive induction process and rigorous company assessment standards, **Wanda Organic** prominently featured staff from the Feed the Future Innovation Engine, a USAID backed incubation program, in their Indiegogo pitch video in order to showcase a reputable partner and verify Wanda's good reputation.

## ONLINE RESOURCES

The open nature of online platforms can afford aspiring entrepreneurs direct access to individuals who have run successful crowdfunding campaigns.<sup>14</sup> One anonymous entrepreneur remarked, "The people with prior success in my field on Kickstarter were great peer mentors. They were very generous with their time and sincerely wanted to help me succeed by sharing their contacts and knowledge."

Beyond sourcing mentors, many platforms have robust instructional manuals, data sets and testimonials from entrepreneurs who have used their platforms in the past. For example, nearly all the platforms identified in Section 2: "Platform Choice" host crowdfunding training materials on their sites. These resources can provide a useful introduction to the concept of each platform but should be used only as one source of information among many, especially if the resources are mostly focused on the developed world context.

Entrepreneurs should also utilize resources available via the African Crowdfunding Association (ACfA). The ACfA will be the industry association for Crowdfunding professionals and companies in Africa. The goal of the ACfA is to lobby for crowdfunding legislation creation and reforms, increase public awareness, and to create a more cohesive industry structure in Africa that protects investors and democratizes access to capital for all Africans.

<sup>14</sup> Many of the entrepreneurs interviewed for this paper were contacted directly via the messaging functions on the platforms on which they operated their campaigns.

# Crowdfunding in Emerging Markets: Lessons from East African Startups

## 6. IN ADDITION TO FUNDING, CROWDFUNDING CAN HAVE NON-MONETARY BENEFITS

**Beyond monetary gains, crowdfunding was shown to increase the outward visibility and transparency of a company, which in turn increases its perceived trustworthiness with customers, investors and partners.** A number of entrepreneurs with whom we spoke did not hit their fundraising goals but could still be considered successful. They effectively delivered on crowdfunding campaign promises, raised a nominal amount of fundraising, and improved the relative position of their companies.

One anonymous entrepreneur who did not reach a set fundraising goal stated, “I’ve received calls from everyone, from recruitment agencies to equity partners.” As a direct result of the campaign, the company signed a contract worth \$120,000 with one of its partners. **Exposure from the campaign was used to foster and build new strategic partnerships.**

“We started a key partnership with Cisco,” says another entrepreneur who did not hit her funding target. “We realized the campaign can give new partners access to the bottom of the pyramid.” It also allows the campaign sponsors to use their brands to recruit talent. “People are asking us for internships and work,” said another.

Another entrepreneur leveraged crowdfunding for market intelligence on product demand, branding, and online strategy, eventually parlaying the crowdfunding experience into additional technical support for her business. “I’m grateful for the insight given to [our firm] on tapping into crowdfunding networks not only for money but for brand building. Our brand has grown since the campaign and we are happy to say that we are now part of the 12 enterprises selected to join the Unreasonable Institute<sup>15</sup> program. The visibility given to us during the crowdfunding campaign has given us a surge to international recognition!”

Moon from **Wanda Organic** said the whole crowdfunding experience redefined the way her company approaches their online and social media presence. “It has built our brand. We post a lot more now because of it. And now there is this perception that our company is huge because we post every day. If we keep this up and we try crowdfunding again it will go a long way in changing the outcome. One of the things I like about the process is how it changed the type of people who are following us. It isn’t about just getting millions of people, but getting the right kind of people.”

Tong from **Nikweli** said that her success in the campaign served as a useful proof point for the future growth of her business. “We are able to say we ran a crowdfunding campaign and it was successful. It helped with our credibility and played a role in getting us into African Leadership Ventures, an accelerator program that invested \$20,000 in the business.”

Credits Photo:  
Jonathan Ernst  
/ World Bank

“Exposure from the campaign was used to foster and build new strategic partnerships.”

<sup>15</sup> <http://unreasonableinstitute.org/>





# CONCLUSION

While the six lessons above should serve as a practical guide for entrepreneurs looking to utilize crowdfunding, the lessons also indicate a number of potential actions for both public and private actors to improve the function of the EAF crowdfunding ecosystem.

**The discussion of opportunity costs, choosing a platform and networking strategies highlights the clear need for more industry data and transparency.** Governments, academic institutions, development institutions and the private sector should consider knowledge partnerships to capture and share industry data. An interesting model for such partnership is the Microfinance Information Exchange, a non-profit organization that acts as a business information provider in the microfinance sector that was originally incubated by the World Bank. Similarly, entrepreneurs who have crowdfunded should openly share their successes and failures as bloggers, mentors and coaches. Incubators should serve as hosting grounds for these practitioners and offer unique and locally-tailored training programs that stem from the experiences of these entrepreneurs.

Further, **the private sector can monetize research on network effects and fundraising norms across the continent**, similar to the Krowdster tool. Entrepreneurs are hungry for information that helps them understand the potential of crowdfunding and make informed decisions. A central listing of crowdfunding platforms and accreditation tools by neutral third parties could increase the trustworthiness of burgeoning crowdfunding platforms among international networks and increase the fundraising potential of EAF entrepreneurs.

Regarding the supply of capital in Africa, **the Cheetah Fund model could potentially be scaled across the East Africa region, or even the entire continent, to include other crowdfunding platforms and instruments, such as debt.** Such an intervention could bring many fundraising efforts online, which would increase the likelihood of firms realizing the positive non-monetary benefits mentioned in Section 6: "Crowdfunding non-monetary benefits." Firms that successfully access the monetary and non-monetary benefits of crowdfunding are found to be more competitive and more sustainable, which would be a boon for African and emerging market startup ecosystems.<sup>16</sup>

When it comes to increasing access to the supply of international capital, including capital from diaspora networks, **entrepreneurs should seek partnerships with individuals or marketing firms located in more developed crowdfunding ecosystems.** Kheterpal is a very unique case, but she was incredibly effective at mobilizing U.K. networks for an Africa-focused project. The private sector could potentially monetize a matching mechanism to pair well-networked individuals in developed countries with projects or entrepreneurs in emerging markets who need finance.

**There is significant room for payment systems innovation within the private sector.** Fundraisers should be able to receive payments from both international and African contributors for a single crowdfunding campaign on a single platform. The expansion of mobile payments and bitcoin in emerging markets offer the potential to leapfrog credit card banking in U.S. and European crowdfunding ecosystems.

Marion Moon's wish for a debt crowdfunding product highlights a demand for regulatory actions that will expand crowdfunding products beyond contributions, reward and presale crowdfunding. **National and regional authorities should collaborate to define clear rules of the game** that allow these technological intermediaries to operate and innovate. Regulators should issue guidelines that allow for greater utilization and normalization of debt, equity and invoice lending platforms so that African projects and entrepreneurs can access investors in Africa and international markets. With clear guidelines in place, the securities crowdfunding market will grow backed by sophisticated intermediaries that conduct trustworthy diligence and inspire trust in the investor community.

The lessons and conclusions outlined in this paper are intended to serve as an initial touch point for early adopters in Africa's crowdfunding landscape. It should also serve as a call to action for African crowdfunding platforms, business incubators and stakeholders in the crowdfunding ecosystem to preserve and share as much data as possible. Capturing and sharing of this data will help create systems and norms that mitigate risks and promote the scalable growth of crowdfunding entrepreneurs in EAF and beyond.

<sup>16</sup> [http://www.camac.gov.au/camac/camac.nsf/byheadline/pdfs/submissions\\_6/\\$file/a\\_tompkins\\_ipledg\\_csef.pdf](http://www.camac.gov.au/camac/camac.nsf/byheadline/pdfs/submissions_6/$file/a_tompkins_ipledg_csef.pdf)

© 2015 The World Bank Group

1818 H Street NW

Washington, DC 20433

**Website:** [www.infodev.org](http://www.infodev.org)

**Email:** [info@infodev.org](mailto:info@infodev.org)

**Twitter:** [@infoDev](https://twitter.com/infoDev)

**Facebook:** [/infoDevWBG](https://www.facebook.com/infoDevWBG)



SUPPORTED BY

**WORLD BANK GROUP**

