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WHO ARE WE?

AFRICARENA

Since its inception in 2017, AfricArena has been a platform dedicated to supporting the creation of market access and investment opportunities for its ever-increasing community of founders, angels, corporates, and VC investors. Designed with a digital approach, a series of impact events and interventions, and an open-source platform for all stakeholders, all based on principles of open innovation and entrepreneurship, the AfricArena brand has rapidly gained enormous credibility in the ecosystem.

AfricArena hosts its renowned annual summit that provides a platform for Africa's best startups and innovators to showcase in front of an audience of local and international investors looking for world-class talent to partner with. AfricArena accelerates the growth of tech startups and the ecosystems in which they operate by providing a platform where they can share their business model, gain valuable networks and attain funding.
# CONTENTS

| ACKNOWLEDGEMENTS                        | 2 |
| WHO ARE WE?                             | 3 |
| AFRICARENA                              | 3 |
| CONTENTS                                | 4 |
| INTRODUCTION                            | 6 |
| WHAT IS CROWDFUNDING?                   | 8 |
| EQUITY-BASED CROWDFUNDING               | 8 |
| DEBT-BASED CROWDFUNDING                 | 8 |
| PROJECT-BASED CROWDFUNDING              | 9 |
| KEY TAKEAWAYS                           | 12 |
| AFRICAN COUNTRIES THAT PREPARED         | 13 |
| NIGERIA                                 | 13 |
| GHANA                                   | 14 |
| KENYA                                   | 15 |
| EGYPT                                   | 15 |
| KEY TAKEAWAYS                           | 17 |
| CURRENT REGULATIONS                     | 18 |
| MOROCCO                                 | 18 |
| TUNISIA                                 | 18 |
| SOUTH AFRICA                            | 19 |
| MAURITIUS                               | 19 |
| KEY TAKEAWAYS                           | 20 |
| NOTABLE AFRICAN CAMPAIGNS               | 21 |
| EVERSEND                                | 21 |
| KIRO’O GAMES                            | 21 |
| LULA                                    | 21 |
| A VIABLE MARKETPLACE                    | 22 |
| INVESTORS AND CROWDFUNDING PLATFORMS    | 22 |
| CROWDFUNDING PLATFORMS                  | 23 |
| KEY TAKEAWAYS                           | 27 |
| CHALLENGES                              | 28 |
| INFRASTRUCTURE                          | 28 |
INTRODUCTION

The African continent faces a hurdle when it comes to venture capital investing. Problems ranging from expensive equity, lack of network, or the unequal distribution of capital have led to startups not scaling efficiently. According to the Partech Africa Report, 2019 Africa Tech Venture Capital Report, Africa makes up 1% of global venture capital activity (an estimated $2.02B). Most investments are concentrated in Nigeria, Egypt, South Africa, and Kenya.

Even within this category, most investments support Series B and Series C rounds. In other words, there is a significant gap in early-stage venture capital investments. We propose that crowdfunding can contribute to filling the gap in funding as it not only democratizes both the investing and fundraising process but also validates a startup's product or concept. Crowdfunding will allow African founders to be seen and budding angel investors, both local and diaspora, to get plugged into the tech ecosystem in an impactful way.
According to Afrikstart's *Crowdfunding in Africa*, Africa-based crowdfunding platforms make up less than 0.1% of global crowdfunding deals. However, the potential African market size is $2.5 billion by 2025.

Our goal is to explore the current state of crowdfunding in Africa, pointing out the potential upside. We hope to show how crowdfunding can better balance the inverted triangles above. We will also explore crowdfunding's role in the United States, Singapore, and India to compare.
WHAT IS CROWDFUNDING?

Crowdfunding is a democratized method of raising capital through one's community and network. This platform allows the person/institution to raise capital to publicly share their pitch in a forum that gives them access to various investors or donors in one setting. The first known crowdfunding instance occurred in 1997 and was donation-based. A British rock band raised money from its fans to fund a reunion tour. The first official crowdfunding site ArtistShare was created in 2000 as a donation-based platform that allowed fans to support their favorite independent artists. The main kinds of crowdfunding are equity-based, debt-based, and project-based crowdfunding. This paper will focus primarily on equity-based and debt-based crowdfunding as tools to bridge the financing gap for startups in Africa.

EQUITY-BASED CROWDFUNDING

Equity crowdfunding is similar to other traditional investment vehicles. The startup sells shares of its company to investors on a platform. Unlike traditional fundraising methods, the key is to raise capital from a large pool of investors at a time. The benefits of this method are twofold. Firstly, it gives startups access and exposure that they might not be able to get through their network, placing them in front of potential angel investors. Secondly, there's less pressure on management to appease shareholders’ needs since ownership is not concentrated around a venture capital firm. A significant downside to this method relates to the investors. There is little liquidity in this investment method and usually entails higher risk. Investors must also wait until the startup is acquired, larger investors want to consolidate the capital table or, more seldom, an IPO occurs.

DEBT-BASED CROWDFUNDING

Debt-based crowdfunding, also known as peer-to-peer lending, allows debt transactions between the startup and investors, with the investors expecting their return in the form of interest. This method is similar to a standard loan a company would get from a bank or any traditional lender. The pros of pursuing a debt-crowdfunding campaign are identical to those of choosing an equity-based campaign. It allows companies to cast a wider net when trying to attract potential lenders. An investor-related benefit is liquidity. Investors will receive their fixed return based on the agreed lending terms, making this a lower risk investment.
PROJECT-BASED CROWDFUNDING

Project-based crowdfunding allows people to raise money for projects ranging from medical bills to creating a minimum viable product. The two forms of project-based crowdfunding are rewards-based and donation based. This form of crowdfunding is more prevalent in Africa, specifically for the nonprofit sector related projects.

Donation-based crowdfunding allows fundraisers to create a campaign surrounding their cause. The purpose of this form of crowdfunding is to raise awareness of the project or cause and fundraise. One of the most popular American donation-based crowdfunding sites is GoFundMe. This platform allows individuals, groups, and organizations to raise funds for anything ranging from graduations to supporting small businesses. Additionally, M-Changa, a Kenya-based crowdfunding platform, provides a similar service tailored to the local population.

Rewards-based crowdfunding is similar to donations-based crowdfunding. The key difference is that when people donate to a campaign, they receive a reward. Campaigns usually have different tiers of rewards based on the amount donated. One of the top American platforms is Kickstarter. Additionally, Thundafund is a significant platform based in South Africa.
Overall, investors and entrepreneurs both see the value of crowdfunding. Crowdfunding allows the entrepreneur to do market research and increase their customer base while raising funds from those who are excited about the product. A successful campaign can add increased validation that the product or concept has a market fit and a strong following. It also gives them access to affordable early-stage funding without losing control of their product or idea.
Angel investors and VC firms see it as a possible way to facilitate co-investing. Untapped’s Jim Chu mentioned how he leans on co-investing as a way to vet startups. If another trusted investor is willing to vouch for a startup with their money, Chu would have more confidence in carrying out the investment. Additionally, since many deals come from the investors’ network, a credible crowdfunding platform can expose investors to startups that are not in their visibility line.

However, the key thing that investors and entrepreneurs want to be able to maintain is their relationship. Due diligence on both sides came up during interviews. Investors like to invest in the founding team. For example, ABAN’s Tomi Davies highlighted that he invests because he wants to get involved with startups and not make money. Therefore, they want to get to know the founding team and build a relationship with them.

Additionally, investors want to identify with who they are co-investing. Co-investing is a big trend among angels and venture capital firms alike. However, this relationship only works if the co-investor is a credible part of that country or the industry’s ecosystem. The network is vital in this space. Although crowdfunding democratizes investments, depending on how inclusive the platform is, it can dilute investors’ network with potential fraudsters.

Additionally, investors worry about whether the startup raising capital through a crowdfunding platform is legitimately trying to build a business or if they will soon find the founder closing shop and disappearing with their money.

On the other side of the marketplace, entrepreneurs would also like to vet their investors. They want to make sure they can trust who’s investing in their company and ensure that those people are credible in the tech ecosystem. Entrepreneurs also fear fraud on the investor front.

A crowdfunding platform that allows investors and founders greater access to each other could be a potential game-changer in early-stage fundraising rounds.
KEY TAKEAWAYS

Equity crowdfunding allows startups and small businesses to create campaigns that investors fund in return for company shares.

Debt crowdfunding, also known as peer-to-peer lending, allows lenders to fund startups and small businesses in return for their initial loan plus the agreed-upon interest.

Project crowdfunding allows individuals, groups, and organizations to raise funds through donations with or without the potential of a reward.

Both entrepreneurs and investors would prefer a crowdfunding platform that would foster a relationship with each other.
AFRICAN COUNTRIES THAT PREPARED

Most African countries do not have any regulation that is specific to crowdfunding. However, a couple of countries are laying the groundwork for crowdfunding's entrance when it becomes legally accepted. This section will focus on Nigeria, Ghana, Kenya, and Egypt and how their governments are working to support their growing tech ecosystems.

NIGERIA

Regulation aside, crowdfunding can be a powerful fundraising tool for the Nigerian entrepreneurial community. Nigeria is home to Africa’s largest economy as well as Africa’s most populous nation. The nation boasts approximately 142 million mobile subscriptions and 92 million internet subscriptions. Nigeria’s tech scene has garnered international attention with heavyweights such as Jumia, Konga, and Andela. The growing number of successful startups is a testament to the founders’ savviness and a culture of innovation and disruption, particularly in the fintech space. There are approximately 262 local investors who are investing side by side with international investors. However, there remains a funding gap for early-stage startups looking to raise less than $100,000. Additionally, in 2017, the Lagosian government instituted the Lagos State Employment Trust Fund. The state government established this fund to support Lagos’ bustling startup community. There are six key initiatives which are as follows:

1. Workplace Vouchers: Start-ups can apply for monthly vouchers for coworking spaces
2. Hub Loans: Tech Hubs can borrow up to $140,000 at 0% interest to help scale operations
3. Event Sponsorship: The government provides grants up to $14,000 to help promote Lagos’ tech ecosystems. Grants can go towards events such as pitch competitions, hackathons, etc.
4. Program Vouchers: The government is also providing subsidies to entrepreneurs interested in growing a specific skill set. Subsidies can help with accelerator programs, coding classes, etc.
5. Accelerator Program: Lagos Innovates will partner with local accelerators to create a 12-week program for founders.
6. Co-Investment Scheme: The government will look into ways to de-risk early-stage investing by matching investors’ investments in startups.
Although equity and debt crowdfunding are still illegal in Nigeria, the government and the success of Nigerian tech startups are paving the way for their impactful future entrance. Hopefully, these initiatives will build trust between investors and founders, which can lead to creating a safe and trustworthy crowdfunding community.

**GHANA**

The Ghanaian government has made significant strides to increase the country's ease of doing business. 34.7% of the population has internet access, and 79% has electricity access. Additionally, Ghana received $3.5 billion of foreign direct investment in 2018. To aid in the increase of digitization, the government has helped with the following:

1. Establishing a digital addressing system to help with likes of ride-sharing and delivery apps
2. Laying the groundwork for establishing mobile money service interoperability
3. Tax breaks for startups
4. Digitization of official services such as passports and IDs

Corporates partner with the government to develop startups and their founders and continue to grow Ghana's tech ecosystem.

Ghana has made waves in the international tech community with companies like mPharma, PEG Africa, and the Zipline Drone Delivery Network. Additionally, in 2019, Google opened its AI Research Center in Accra.

The government is making strides to make Ghana a more accessible place for startups to operate. As founders find increased avenues of support, the next step is to find affordable capital. Dreamoval’s Claud Hutchful shared his company's fundraising journey and how his team turned that capital that came with the loss of control. He feels that crowdfunding can help early-stage startups get the seed capital they need without their innovation getting clipped. Crowdfunding provides an opportunity to help startups get to the next level and provide a trustworthy forum for potential investors.
KENYA

Kenya has a strong tech scene, and its startups lead in consistently getting funding. Kenya attracts a plethora of both local and international investors, as well as international founders. Due to the success of M-Pesa, a mobile money transfer service founded in 2007, Kenya has been able to grow a sustainable tech ecosystem driven by disruption and inclusion.

Nairobi is home to various hubs and accelerators, ranging from Nairobi Garage and SwahiliBox to iHub and Nailab. The capital city is also home to the East Africa Venture Capital Association, whose mission is to promote investments into the region. The Kenyan government has made strides to support and partner with different hubs and accelerators to increase access to resources through projects such as the Kenya Industry and Entrepreneurship Project, which aims to support 162 startups in an accelerator program. Like Nigeria, Kenyan early-stage companies lack an abundance of funding options for raising less than $100,000. When surveyed, 32% of founders felt that access to funding was still a significant hurdle.

Although Kenya is known for its Silicon Savannah, funding local startups is still a significant hurdle. Crowdfunding allows early-stage startups to put themselves out there to garner attention from smaller investors as well as more prominent angel investors or venture capitalists who may not have noticed the startup beforehand.

EGYPT

Egypt has become MENA’s star when it comes to its startup community. The country has approximately 95 million mobile users and 14 million e-wallets. Startups such as Swvl (a bus booking app) and Vezeeta (a healthcare app that allows users to find doctors and schedule appointments) have raised multi-millions of dollars over four to five funding rounds. One major star is Fawry, a successful electronic payments platform that IPOed in 2019.

The government has also played a key role in supporting the burgeoning ecosystem. For example, Falak, a government-run accelerator, supports early-stage startups. Egypt’s General Authority for Investment and Free Zones created an incubator named Bedaya that provides funding, a working space, and networking opportunities. CV Ventures evolved from a public-private partnership between the Commercial International Bank and the Central Bank of Egypt.
The Egyptian government has made significant strides in supporting Egyptian tech innovation and entrepreneurship. Crowdfunding can help bring in additional capital from locals and those in the diaspora looking to invest in the Egyptian tech ecosystem.
KEY TAKEAWAYS

Nigeria, Ghana, Kenya, and Egypt show great potential for equity and debt crowdfunding.

Governmental support and successful startups have begun to lay the foundation of the trust in the ecosystem needed to facilitate crowdfunding.

Crowdfunding can provide affordable and democratized capital to the expanding tech ecosystem.
CURRENT REGULATIONS

As of 2020, crowdfunding is officially regulated in two out of fifty-four countries, Morocco and Tunisia. However, other countries are making headway in developing crowdfunding platforms without standard laws. This section will showcase Morocco’s and Tunisia’s new legislation on crowdfunding and how it takes from laws regulating established banking and investing practices. We also outline the unregulated activities in South Africa and Mauritius and how crowdfunding platforms can exist.

MOROCCO

Morocco’s crowdfunding regulation is relatively new. The rule was created in 2018 and instated in 2019. It is compliant with Sharia law. A collaborative funding company (crowdfunding firm) must be established to support the collaborative funding platform (crowdfunding platform operated by crowdfunding firm). The collaborative funding company must have a minimum capital of MAD300,000 at the time of its incorporation. The collaborative funding company must also engage with a Bank of Al-Maghrib authorized credit institution and join the association of crowdfunding companies.

The Bill goes into further detail on how the crowdfunding platform manages its campaigns and investors and transfers funds between the two parties. For example, a crowdfunding platform is responsible for educating its users on the potential risk of their investments and conducting due diligence on both companies and investors. The max amount invested by a single investor is MAD250,000 per project, MAD500,000 in total per year. The max that a company can raise is MAD5,000,000. For debt crowdfunding campaigns, interest rates cannot exceed the rate set by the Bank Al-Maghrib. The Bank Al-Maghrib will supervise all debt crowdfunding activities, while the Moroccan Capital Market Authority will supervise all equity crowdfunding activities.

TUNISIA

As of 2020, crowdfunding is legal in Tunisia. This comes after the Startup Act’s passing, which set government policy and support for the Tunisian startup community. Tunisia’s Start-Up Act provides grants, tax exemptions, help with filing international patents, and other resources to help build the Tunisian entrepreneurial ecosystem. Laws that govern equity crowdfunding will fall under the Conseil du Marché Financier, while laws governing debt crowdfunding will fall under the Central Bank.
**SOUTH AFRICA**

Crowdfunding is not regulated in South Africa. However, the platforms and their users are expected to adhere to pre-established finance banking regulations.

1. Debt crowdfunding platforms are expected to follow the rules laid out in the Banks Act 1990. This piece of legislation governs how banks run and operate. Since loans are classified under the category of "the business of a bank," this form of crowdfunding would have to follow the rules and regulations applied to traditional banking.

2. Equity crowdfunding regulation falls under the Financial Markets Act 2012. This act regulates exchanges, central securities depositories, clearinghouses, trade depositaries, and securities trading. It creates a code of conduct when dealing with the financial market.

3. Financial Intelligence Centre Act 38 of 2001 (FICA) governs due diligence. It was created to counter fraud and money laundering as well as financial terrorism. It's the backbone of risk management and compliance initiatives.

**MAURITIUS**

The Mauritius government is working on passing legislation on crowdfunding. Regulation regarding debt-crowdfunding is farther along than regulation for equity crowdfunding. In the interim, crowdfunding platforms, such as Fundkiss, operate under a Regulatory Sandbox License. These licenses enable investors to conduct business activities in a space where there's currently no regulatory framework. The Economic Development Board issues these.

A massive barrier for crowdfunding platforms is regulation. Other countries that were not mentioned either use pre-existing banking and financial market laws to govern crowdfunding activity or only allow either reward or donation-based platforms. Some African nations are working on their startup acts in addition to trying to create regulation around crowdfunding within their country. The African Crowdfunding Association (ACfA), founded in 2016, is a Pan-African industry association for crowdfunding. It has features of a self-regulatory organization that help protect the industry and strengthen governance in the absence of national regulatory frameworks. They have created a benchmark regulatory framework, the "ACfA Label Framework," which member platforms can align themselves, and which national regulators can use as a starting point from which to develop localized frameworks. ACfA facilitates dialogue between the industry and national regulators to promote the development and implementation of crowdfunding policies.
KEY TAKEAWAYS

Only two out of fifty-four African countries, Morocco and Tunisia, have regulation around crowdfunding.

Crowdfunding in South Africa and Mauritius is not regulated but must adhere to pre-existing banking and investing regulation or under a soapbox.

Crowdfunding Regulation is a significant barrier for entry for African tech communities interested in this alternative investing strategy.
NOTABLE AFRICAN CAMPAIGNS

Eversend

Eversend is an Uganda-based fintech app. It's a multi-currency e-wallet that allows users to exchange, spend, and send money globally and electronically. Eversend chose to raise funds on an equity-based crowdfunding platform. They decided to put their campaign on Seedrs, a firm based in London. As of May 27th, 2020, they raised 899,930 Euros on their Seedrs campaign from 995 investors, 162% of the original 550,000 Euros target.

Kiro'o Games

This Cameroon-based startup creates video steeped in African themes and is the first to create an African themed role play game. To develop its first title, Kiro'o games raised 9,774 Euros on Kickstarter, a donation-based crowdfunding platform. In 2019, the firm conducted a new round of funding. This time, they chose to go the equity crowdfunding route. They raised $305,000 on platforms such as Kickstarter, its own in-house firm Rebuntu, and Cameroonian angel investors. They plan on using the capital to expand their catalog and to increase headcount.

Lula

Lula is a South African based startup that was founded in 2014. Its business model is to provide a corporate rideshare service for commuters. Lula works with the likes of Old Mutual and We Think Code. Although it had already raised over R3.7 million from other investors, Lula attempted to raise R2.5 million on South Africa's only equity crowdfunding platform Uprise Africa to expand into new regions and scale up operations. However, they ended up raising only R361,000. Since they were unable to hit their target, the money raised was returned to the investors.
A Viable Marketplace

We surveyed investors and crowdfunding platforms across the continent to gauge sentiments on crowdfunding. We gained insight into when and how investors felt comfortable utilizing crowdfunding. We also learned how crowdfunding platforms could attract investors and founders to their platforms.

Investors and Crowdfunding Platforms

Our survey asked investors how likely they would invest in a crowdfunding campaign if the following measures were met. Investors were instructed to choose a number from 1 to 5, 1 meaning highly unlikely to invest, and 5 meaning very likely to invest. The chart below shows the average sentiment of all investors.

Would You Be More Willing To Invest Via Crowdfunding If...

- The platform had ties/relationships with VC and PE funds and could potentially act as a pipeline for them?
- The platform had a robust legal and investment due diligence team?
- You saw more skilled entrepreneurs launching funding campaigns for their startups?
- It was Pan African or focused on one country?
- It was primarily focused on investing in Africa, but was headquartered outside of Africa?
- It is raising on part of the overall capital through a crowdfunding platform?
- The crowdfunding platform had its own set of investors’ protection rights?
- The platform opted for a license as financial services or a registered credit provider?

2020 AfricArena Crowdfunding Survey
Based on our investor survey, investors are keen to utilize crowdfunding platforms as long as the following are at play:

1. Founders use crowdfunding to raise part of their capital.
2. Crowdfunding platforms have robust due diligence.
3. Crowdfunding platforms create internal regulation to protect investors.

Investors are less likely to engage if the crowdfunding platform is based locally.

**CROWDFUNDING PLATFORMS**

![How You Attract Investors]
The crowdfunding platforms attract both local and diaspora investors equally. This chart shows the breakdown of investing in B2B companies versus B2C companies. Networking is critical to engaging investors on the platform. This is in line with the investors’ desire to develop more than a surface level relationship with the founders they invest in.
B2B founders tend to learn more about crowdfunding through social media. The key difference in attracting B2B and B2C founders is that B2B founders learn more about crowdfunding through pitch competitions. B2C founders tend to respond more to email marketing.

Crowdfunding platforms tend to value social media reputation as a way to gauge investor trustworthiness.
Crowdfunding platforms' approach to due diligence varies depending on the type of business. Due diligence on B2B companies tends to focus on the KYC and the due diligence checklist. On the other hand, due diligence on B2C companies tends to focus on the network and the KYC.
KEY TAKEAWAYS

Investors care about the robust vetting of startups they invest in on crowdfunding platforms.

Crowdfunding platforms tend to attract investors via networking.

Crowdfunding platforms tend to attract founders via social media.

Due diligence approaches vary depending on whether the business is B2B or B2C.
CREATING A CROWDFUNDING PLATFORM does not come with its challenges. The main challenges affecting its development are related to infrastructure and trustworthiness. This section will dive into infrastructure as it relates to payment solutions, mobile technologies, and the overall hurdles of moving money. Additionally, we will focus on the investors and founders' general trust in crowdfunding as a viable fundraising alternative.

INFRASTRUCTURE

The two key areas to explore regarding infrastructure's impact on crowdfunding's viability on the continent are the following: fund transfer and payment solutions and mobile technologies.

Fund Transfer and Payment solutions

Although mobile money is increasing in popularity all over the continent, electronic payment platforms and integration still have a long way to go. The main issues electronic payment faces are lack of consumer trust, lack of a regulatory framework, expensive licenses to operate, and lack of interoperability between banks and non-bank financial services companies.

Lack of consumer trust

Cybersecurity is a big concern, and rightly so. Customers are concerned about security breaches, fraud, and weak identification mechanisms. According to KnowBe4's white paper "African Cybersecurity Research Report," 65% of those surveyed listed cybercrime as a big concern. Most users fall under the trap of not knowing what they do not know and then fail to recognize danger. Public and private sectors need to continue taking action to not only educate consumers, but also create regulation, have stronger accountability, and invest in resources that will help protect all stakeholders.

Lack of Regulatory Framework

Governments need to play a role in creating a secure environment where such transactions can thrive. As more innovative methods are developed in the digital wallet and payment space, the government needs to be quick and agile to maintain a favorable environment for
the companies producing these platforms and systems. Governments also need to play a part in risk mitigation by creating guidelines and regulations for cyber-security and specific regulations for new-age banking platforms. Additionally, governments must decide how they want to regulate electronic payment platforms as banks or new entities. By creating regulatory sandboxes, banks can experiment with which approaches work best. Lastly, governments must make consistent regulation that supports disruption and innovation and not produces laws that hinder progress. For example, Tech Cabal's Alexander Onukwue mentioned how, after startups and venture capitalists invested time and money into rideshare motorbikes, the Nigerian government created regulations restricting such businesses. In South Africa, Sun Exchange raised R 4.2 million on Uprise Africa. However, the Sun Exchange had to return funds to investors due to COVID-19 related delays in approvals with the South African Reserve Bank and filings with the Companies and Intellectual Property Commission.

Lack of interoperability between banks and non-bank financial services

Although mobile money has helped shift consumers into digital banking, it has barely moved the needle when dealing with vendors and merchants. Vendors and consumers are used to sending each other money through personal accounts; this has been proven and trusted. However, cash is still used when working with vendors. A big issue is that there is no common platform, such as Paypal, connecting customers and merchants. This issue leaves customers and merchants in silos, fostering further disconnect and the inability to move forward efficiently with electronic payment.

Mobile Technology

Mobile connectivity has increased drastically in Africa and is expected to reach 440 million people by 2025. However, this rapid increase in phone ownership does not equate to a rise in actual accessibility. Expensive prepaid data plans and smartphones become a barrier to entry to experiencing proper unlimited connectivity. Prepaid plans alone makeup 8.76% of the median income in Africa overall. This is higher than the UB Broadband Commission's target of 2% for middle-income countries. For example, in Ghana, MTN charges 50 pesewas for 23MB. Instead of a utility, internet access has become an as-needed, pay-as-you-go supplement. Most mobile outreach is done via SMS. For example, mobile payment transactions through the likes of Kenya's M-Pesa or mobile money platforms such as Airtel Money are all conducted via SMS. Due to its ease of use and low entry barriers, this has become a staple in how people utilize their mobile device, whether it’s a smartphone or not.
TRUSTWORTHINESS

Trustworthiness is a crucial concern when it comes to raising capital through a crowdfunding platform. Thorough due diligence should be done on both investors and startups. Even with processes in place, unfortunate occurrences still happen. A recent incident with trustworthiness involves South Africa’s first equity-based crowdfunding platform, Uprise Africa.

Uprise Africa was funded in 2017 and aimed to be a creative space for startups and small businesses to raise capital. Their average investment size is R 13,088.39, with a 67% success rate. They have 9,977 active users on their platform. Two of their most successful campaigns have been Drifter Brewing Company and Sun Exchange. Drifter Brewing Company is a craft beer manufacturer that raised funds to help with its expansion strategy. The company decided to pursue crowdfunding after raising R1.8 million through a private investor. They set a crowdfunding goal of R3 million but ended up raising R 3.889 million with 235 investors. Sun Exchange, a South African peer-to-peer solar leasing platform, pursued crowdfunding to raise capital to help cover marketing costs and its expansion strategy. This company ended up raising R 4.2 million from 288 investors over 60 days.

Although Uprise Africa had successful campaigns, a recent event regarding a tech startup has put a slight damper on the firm. South African startup Intergreatme, an identity management platform, raised R32.6 million on Uprise Africa’s platform. However, R25 million of the amount raised was fake. Five pledges making up the R25 million failed the compliance test. The pledged amount never cleared at the bank but was advertised on the Uprise Africa website. The investor who committed R25 million also had a history of fraud that was later uncovered. The FSCA regulates Uprise Africa as a registered Financial Services Provider. ACfA conducted a review on Uprise Africa’s compliance with ACfA’s Charter of Good Conduct and put forth recommendations for risk management. ACfA deemed Uprise Africa compliant with its Charter in all other respects.

Crowdfunding, although an exciting space, is still highly unregulated in Africa. Non-profit organizations such as the African Crowdfunding Association provide guidance for crowdfunding platforms as well as advocate for regulation on a state level. However, it is up to platforms to maintain strict due diligence of both the investors and the companies allowed.
KEY TAKEAWAYS

The lack of regulation, infrastructure, trustworthiness, and lack of awareness are key challenges in integrating crowdfunding into the fundraising ecosystem.

Within infrastructure, the key challenges facing crowdfunding are lack of consumer trust, lack of a regulatory framework supporting new, disruptive startups, lack of interoperability between banks and non-banks, and costs associated with mobile technology.

Investor and founder sentiments regarding crowdfunding also pose an issue. There needs to be an increased underlying faith that the stakeholders on the platform are trustworthy and fair.
SUCCESS OUTSIDE AFRICA

SINGAPORE

How does Singapore regulate crowdfunding?

Singapore's Money Authority of Singapore (MAS) regulates crowdfunding under the Securities and Futures Act and the Financial Advisers Act. Although crowdfunding is conducted with ease, the Singaporean government has put a basic framework to create a trustworthy environment for both the startup and the investors. Crowdfunding platforms that have financial returns need to be granted a license to operate.

By law, crowdfunding investors, specifically on debt-based platforms, are considered moneylenders. Under normal circumstances, each investor would have a specific moneylender’s license requiring them to put down S$20,000 and be qualified to manage moneylending. However, if they invest via crowdfunding platforms, it removes the requirement of going through that process.

Debt-crowdfunding specific regulation

1. Money raised within 12 months cannot exceed S$5 million
2. The capital requirement for each platform is S$50,000.
3. All risks need to be disclosed.

Equity-crowdfunding specific regulation

1. The platform must have a capital markets service license.
2. If the platform is advising investors, it must also hold a license to act as a financial advisor.
3. The platform must register a prospectus that clearly defines the security in detail.
How does a crowdfunding platform make money?

There are three methods that platforms use to earn revenue. They are the following:

1. Success fee: This is the most common way that crowdfunding sites earn money. They usually take a cut out of the total raised on a campaign in the 3%-4% range.
2. Membership fee: This is a monthly membership fee charged to each campaign.
3. Equity Interest: The crowdfunding platform gets shares of the companies running campaigns on their platform.

Example of a successful platform: FundedHere

FundedHere, which started operating in March 2016, is the first registered equity and debt crowdfunding platform in Asia. So far, they have raised ~S$18.5 million with 30 successful proposals. To have a campaign listed on FundedHere, companies must adhere to the following:

1. Incorporate in Singapore
2. Existed for at least three months
3. Have at least one Singaporean founder
4. Minimum paid-up capital of S$50,000

FundedHere also offers a product called ListCo Bond. It helps investors to invest in publicly traded companies. Requirements related specifically to debt-based crowdfunding product are:

1. Must be majority-owned by Singaporeans
2. Cannot be on a Singaporean Exchange watchlist
3. Positive Net Tangible Assets
4. Lien on Shareholder Equity
5. Corporate Guarantee

Investor requirements:
1. Equity Investments: Minimum investment of S$5,000 per investor
2. Debt Investments: S$50,000 per investor

**Example of a successful crowdfunding campaign: AEvice Health**

AEvice Health is a Singaporean MedTech firm that uses analytics and mobile platforms to develop wearable devices to monitor respiratory diseases such as asthma. The firm raised S$516,000 over 30 days on the FundedHere platform, surpassing its initial target of S$450,000. Eleven investors funded the campaign. Lead investor, Kelvin Chan, invested S$202,000 into the campaign.

**UNITED STATES**

**How does the United States regulate crowdfunding?**

The 2012 JumpStart Our Business Startups Act (JOBS Act) under the Securities and Exchange Commission established regulation surrounding how startups and small businesses could raise capital through crowdfunding. Title III, established in 2016, within the JOBS Act, specifies how much each firm can raise via crowdfunding. For example, a firm can raise a max of $1.07 million within 12 months. If the investor's net worth or annual income is less than $107,000, they can invest a maximum of lesser of the following: $2200 or 5% of the annual income. If the investor's annual income and net worth exceed more than $107,000, then they can invest a max of the lesser of 10% of the net worth or 10% of the annual income up to a maximum of $107,000.

Additionally, the regulation specifies all documents the firm needs to disclose to maintain transparency during the marketplace transaction. The firm must publish its business plan, what it plans to use the capital for, the security and methodology for determining the price, financial statement, investment target, and financial statements.

Crowdfunding platforms need to provide investors with educational materials so that investors are aware of risks related to these types of investments. Other regulations surrounding crowdfunding portals include the following: the portal cannot offer advice on investments, compensate promoters, or handle investor funds.
How does a crowdfunding platform make money?

There are three methods that platforms use to earn revenue. They are the following:

1. Success fee: This is the most common way that crowdfunding sites earn money. They usually take a cut out of the total raised on a campaign in the 3%-4% range.

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3. Equity Interest: The crowdfunding platform gets shares of the companies running campaigns on their platform.

Example of a successful platform: Republic.co

Republic is an equity crowdfunding was founded in 2016. Their mission is to democratize fundraising in the United States and make the fundraising process more inclusive. Republic does thorough due diligence on its startups and accepts less than 5% of the startups that apply to be a part of the platform. Republic supports companies from a range of industries varying from AI and crypto to food and beverage. The average amount raised on the platform is $500,000. 90% of campaigns on the platform meet their minimum goal. Republic earns revenue from campaigns and not investors. The platform takes 6% of the cash raised and 2% of the securities issued.

Example of a successful crowdfunding campaign: Neopenda

Neopenda is a medical device startup that creates solutions, such as their neonatal vital signs monitor, giving patients in low resource areas access to high-quality health information. Before launching on Republic, Neopenda raised $770,000 in seed funding. On Republic, the firm was able to raise $270,206 from 849 investors in 2019. The campaign enabled the startup to gain increased visibility, which led to $150,000 in follow up investments from angel investors.
INDIA

How does India regulate crowdfunding?

Equity-based crowdfunding is still illegal in India. Due to the current lack of regulation surrounding equity-based crowdfunding and the government's aim to protect investors, equity-based crowdfunding is not allowed until further legislation is passed. As an alternative, the Indian government has created fund-based crowdfunding. Platforms must register as an Alternative Investment Fund, and only accredited investors can invest. Accredited Investors must be high net-worth individuals or companies under the Companies Act. The Companies Act 2013 regulates how a company is incorporated, its responsibilities and its directors, and how to dissolve a company.

Debt-based crowdfunding is legal, and its jurisdiction is under both the Reserve Bank of India under the Securities and Exchange Board of India (SEBI) regulation. Under SEBI, only accredited investors can partake in crowdfunding. Investors can invest between INR 20,000 and INR 60,000. There can be a max of 200 investors. Only startups that are less than two years old can engage on the crowdfunding platform. Non-Banking Financial Company-licensed crowdfunding platforms are also responsible for doing due diligence on both founders and investors.

How does a crowdfunding platform make money?

There are three methods that platforms use to earn revenue. They are the following:

1. Filing fee: Borrowers pay this fee for debt-crowdfunding campaign creation, due diligence, and term creation.

2. Upfront fee: Lenders pay this fee to process and verify documentation.

3. Success fee: This is the most common way that crowdfunding sites earn money. They usually take a cut out of the total raised on a campaign.

Example of a successful platform: Faircent

Faircent is a debt-crowdfunding platform that connects borrowers and lenders; only Indian residents can access the platform. This two-sided marketplace is a less expensive alternative to banks for creditworthy borrowers. Additionally, lenders can earn a
competitive return on their investment. Both borrowers and lenders go through a thorough due diligence process to ensure both parties are protected. Individuals can borrow up to INR 5,000,000, and businesses can borrow up to INR 10,000,000. Interest rates range from 12% to 28%, and loans are listed on the platform for 15 days. Payback terms can range from 6 to 36 months.

Example of a successful crowdfunding campaign: Exploride

Exploride is a transparent display that sits on a car’s dashboard, allowing the user to see maps, play music, and read messages without taking their eyes off the road. The company raised over $700,000 from 2,365 backers on Indigogo, a rewards-based crowdfunding platform.
KEY TAKEAWAYS

Equity and debt crowdfunding are regulated differently in Singapore. Equity crowdfunding is regulated under the Securities and Futures Act, whereas debt crowdfunding platforms are regulated as moneylenders.

Crowdfunding in the United States is regulated by the Jobs Act, which governs explicitly how startups and small businesses can fundraise via crowdfunding.

Equity crowdfunding is illegal in India. However, debt crowdfunding is legal and regulated by both the Reserve Bank of India under the Securities and Exchange Board of India.
SUMMARY

1. Debt and equity crowdfunding is a financing alternative that can be a gamechanger for early-stage startups in Africa.

2. Infrastructure, fraud, and regulation are deterrents to crowdfunding's growth.

3. Both investors and entrepreneurs value relationships and networks when deciding on investment partners; crowdfunding removes that direct link between the two.

4. Establishing trust between investors, crowdfunding platforms, and entrepreneurs are critical to a successful partnership.

5. Crowdfunding can be a tool to help founders get access to future venture capital funding.
BRIDGING THE FUNDING GAP

Overall, crowdfunding is a growing space for alternative finance. In 2018, the global crowdfunding market was valued at $10.2 billion and was expected to reach $28.8 billion by 2025.

Crowdfunding can be an essential tool in bridging the gap for early-stage startups. Early-stage startups garnered an estimated 5% - 10% of angel investments. Where founders may lack the network or visibility to traditional capital, crowdfunding creates a space of accessibility to a range of founders. This form of fundraising helps equalize the playing field for early-stage startups. Not only will they get access to funding directly through the platform, but it gives them exposure within both angel investors as well as potential consumers of their product/solution solely due to the marketing that comes with a successful campaign. With visibility comes mentorship and access to brilliant ideas, concepts, and products that may have been overlooked.

Additionally, crowdfunding democratizes investing, allowing non-traditional contributors to take part in startup fundraising. Although it is a risky investment, as most venture investments are, it spreads the risk and incentivizes a direct and more localized investment approach. This can be key in engaging the diaspora and the growing African middle class and allowing them to participate in Africa’s growing tech ecosystem. Additionally, these platforms do help founders market their products and promote their brand to the general public. As more countries engage in and pass their startup acts that promote, support, and invest in tech entrepreneurship, crowdfunding will hopefully gain traction and legal backing. The main reasons crowdfunding as an alternative fundraising platform remains immature is as follows:

1. Lack of debt and equity crowdfunding platforms that are available
2. Only a few countries have legalized equity and debt crowdfunding.
3. Lack of robust regulation around crowdfunding
4. A highly fragmented ecosystem

We envision three main possibilities on how to strengthen crowdfunding in Africa.

1. We believe that crowdfunding platforms can work with accelerators to legitimize the platform and garner entrepreneur and investor trust. This will also help investors get to know the founders and play a role in mentoring and supporting the startups outside of providing capital.
2. We believe that successful foreign crowdfunding platforms can expand into Africa to increase investor and entrepreneur faith in this space. Established platforms such as the American Republic and the Indian Faircent that already have a track record can make it easier for people to feel comfortable using the crowdfunding platform. These platforms can bring the clout and the critical mass needed to invigorate crowdfunding. However, regarding American platforms, this may mean that startups would need to raise funds via a US Delaware C-Corp Incorporation parent company.

3. We believe that standard venture capital or crowdfunding may not be the solution to early-stage fundraising problems. We propose a hybrid of the two, like Jim Chu’s Untapped or Iyinoluwa Aboyeji’s Future Africa. Future Africa acts as an investment syndicate, which will pool capital from various investors to invest in a company that Future Africa sources and vets.
APPENDIX


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