

Crowdfunding for Green Businesses: Lessons from East African Startups

Crowdfunding offers a new alternative to address the financing needs of capital-intensive clean technology businesses in developing countries. To better understand crowdfunding's potential and limitations, the World Bank Group's Climate Technology Program interviewed a number of East African entrepreneurs who were early adopters of this new fundraising mechanism. From their successes and failures, key lessons were drawn for entrepreneurs, investors, and regulators.

Find the full report "*Crowdfunding in Emerging Markets: Lessons from East African Startups*" at www.infodev.org/CrowdfundingAfrica.



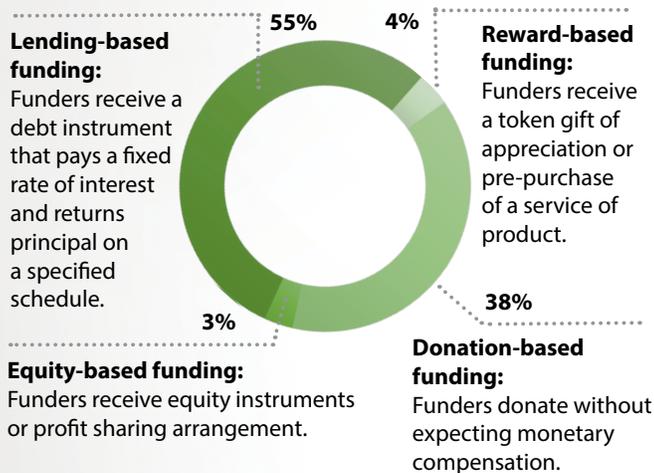
Introduction

Crowdfunding is a technology-enabled approach to raising funding online from multiple individuals to finance a project or business venture. An entrepreneur launches a campaign on a crowdfunding platform to pitch his or her idea to a large number of potential supporters for donations or investments.

In North America and Europe, crowdfunding has emerged as a promising alternative for entrepreneurial finance. In particular, crowdfunding platforms are increasingly targeting the development and commercialization of clean technologies in developing countries. For example, Kiva, a leading peer-to-peer lending platform, launched the Kiva Green Loan in 2011 to provide small loans to both individuals who seek to purchase clean energy products and retailers who distribute them.¹ Mosaic, a debt crowdfunding platform that funds solar projects in the United States, is planning to develop a new loan product to allow the American public to invest in clean energy infrastructure projects in the developing world. Mosaic will adapt its lending model to the context of

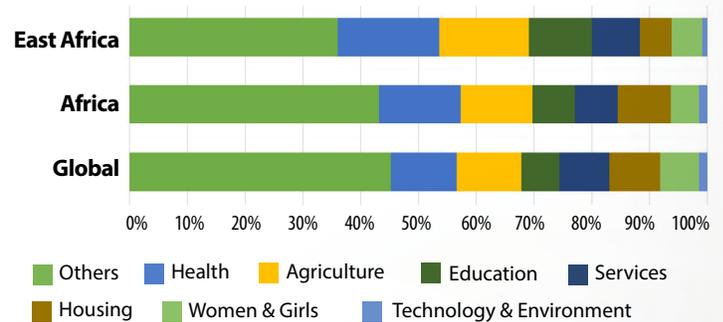
1. http://www.kiva.org/press/releases/release_20130114-13

Figure 1. African Crowdfunding Market Breakdown by Funding Type in 2015



Source: AlliedCrowds

Figure 2. Crowdfunding Breakdown by Sectors (2015)



Source: AlliedCrowds

developing countries by enabling end customers to make payments via mobile phones to developers and investors.² These innovative crowdfunding models may provide solutions to common financial challenges faced by clean technology ventures in developing countries, such as high upfront capital requirements and consumer acceptance.

Today the Africa crowdfunding market is active and growing, though concentrated in peer-to-peer lending (see **Figure 1** and **Figure 2**). According to a report by Allied Crowds, the total crowdfunding market in the developing world, excluding China, is projected to be about \$660 million for 2016 – of which Africa should account for about 27 percent.³

As the concentration in lending-based crowdfunding suggests, early-stage entrepreneurs in Africa are not yet leveraging the full range of options for this new financing tool. To understand how clean technology firms in developing countries can more effectively utilize crowdfunding, the World Bank Group's Climate Technology Program interviewed a number of East African (EAF) entrepreneurs who were early adopters of this new fundraising mechanism. Their experiences led to the following key lessons.

2. <https://joinmosaic.com/blog/press-release-mosaic-awarded-1-million-powerful-answers-award-verizon/>

3. <https://cdn.filestackcontent.com/kNfFQ9IgT2ObxzjhGqUU>

Lesson 1. Time Commitment of Crowdfunding Campaign

Although crowdfunding has generated a great deal of buzz as a source of entrepreneurial finance, it requires a significant commitment of time and resources. In new crowdfunding markets like EAF, entrepreneurs tend to underestimate the effort needed to crowdfund effectively. A typical campaign can take months and considerable funding to prepare, execute, and follow up. One common challenge shared by the interviewed EAF entrepreneurs was that crowdfunding distracted them from ongoing business operations. See **Figure 3** for a short case study.

It is critical for entrepreneurs to budget time and resources so that their businesses do not suffer. Small ventures might hire temporary staff to launch and implement a crowdfunding campaign. Entrepreneurs should also compare the total time they will spend on crowdfunding to the time needed to raise other types of capital. This will help them evaluate the opportunity costs of crowdfunding and determine the best way to raise capital and resources. For example, crowdfunding may not always be the most favorable option in countries such as Ethiopia, where grant financing is available from multiple sources.

Figure 3. Nikweli's Campaign on Kickstarter

Nikweli is a human resources matching engine for service industry businesses founded by Tiffany Tong in Tanzania.*

The Challenge

Raise CAD\$5,000 on Kickstarter to:

- register her company
- refine her website
- perform outreach
- advertise

Platform Choice and Funding Benchmark

- Kickstarter is a donation-based platform, and Nikweli represented categories that were especially attractive to contributors, such as women, entrepreneurship, and Africa.
 - Nikweli raised CAD\$6,366 (about \$5,000) from 40 backers, which surpassed her goal.

Tong's Reflection

- "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."



Why Crowdfunding?

- Tong chose donation-based crowdfunding over grant 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.

* Some companies from outside the clean technology sector were included in the research to capture a broad range of crowdfunding lessons for EAF entrepreneurs.

Lesson 2. Platform Choice

Once an entrepreneur has decided to pursue crowdfunding, the next step is to choose a platform that can meet the company's business needs. There is a wide range of platforms that offer entrepreneurs access to diverse financial products and contributors. Choosing the correct platform is crucial to achieving success, and entrepreneurs should base their platform choice on:

- Business needs, both monetary and non-monetary
- Awareness of the existence of a platform that could meet business needs
- Sufficient information to explain the platform's offerings and how to work with the platform

Crowdfunding is mainly a fundraising mechanism, but it also

offers various non-monetary benefits, such as gauging demand through product presales. Entrepreneurs should think holistically about their business needs and choose a platform that can provide maximum benefits. **Figure 4** offers a number of questions and examples that can help entrepreneurs determine the appropriate platform for their crowdfunding campaigns.

Besides business needs, when choosing a platform and setting a fundraising target, entrepreneurs should also consider statistics, such as the success rate for a particular instrument or the average amount raised in a specific region. The story of **Wanda Organic (Figure 5)** illustrates how data scarcity can mislead an entrepreneur into choosing an ill-suited platform.

Figure 4. Monetary and Non-Monetary Needs

Case 1

A business in need of capital and well-connected mentors uses an equity platform to engage angel investors and other prominent members of the business community.

Case 2

A business that needs a significant amount of capital to build infrastructure leverages its cash flow to access debt through a peer-to-peer lending platform.

Monetary needs:

1. What is the specific funding need?
2. What type of financial instrument is most appropriate?
3. Which platforms offer the desired instruments in your region?

Non-monetary needs:

1. Does the business offer a new product and need to gauge market demand in advance?
2. Is the business trying to enter a new market? Does it need a publicity campaign?

Case 3

A young company with a prototype conducts market tests through a presale crowdfunding platform to gauge popularity and solicit feedback from early buyers.

Case 4

A business that intends to launch an existing product into a new market uses a crowdfunding platform with a recognizable and credible brand for a publicity campaign in that new market.

Figure 5. The Crowdfunding Experience of Wanda Organic

Wanda Organic is a bio-organic soil company led by Marion Moon and incubated at the **Kenya Climate Innovation Center**. Wanda fertilizers enable farmers to produce more and better food, thus increasing family incomes, creating new employment, and developing rural economies, while restoring and strengthening the health of Africa's soil.

The Challenge

Raise \$45,000 on Indiegogo to:

- Construct two distribution centers
- Build training and demonstration sites
- Cover administrative costs

Moon's Reflection

- The Indiegogo campaign garnered great exposure and invigorated their online presence, but it didn't result in the financing they wanted.
- "If I had to do it all over again, I wouldn't choose a donation-based platform."

Platform Choice and Funding Benchmark

- Indiegogo is a donation-based platform, and campaigns related to women's entrepreneurship and agriculture typically performed strongly.
- The \$45,000 goal initially seemed realistic given the \$58,000 global average for renewable energy projects on Indiegogo.

The Problems

- Wrong instrument: Interested backers preferred debt to donation.
- No access: Moon could not access a platform that would allow her to issue debt to her network in Kenya.
- Wrong benchmark: Moon targeted Kenyan contributors, but the benchmark came from data in developed countries.



Lesson 3. Barriers to Payment

Entrepreneurs in developing countries face a unique challenge when attempting to transact across borders. Platforms often restrict who is eligible to launch campaigns on their platforms, and local legal and regulatory regimes impede transfer of funds across borders. For example, to launch a campaign on Kickstarter, entrepreneurs must have an identification card (ID) and bank account from one of the 18 OECD countries. Payment systems utilized by the most popular platforms assess fees and limit monthly withdrawal which stymie the amount East African entrepreneurs can raise from outside their home

country. However, if entrepreneurs run their campaigns on local platforms, such as M-Changa, they are choosing local over international crowds as these platforms do not have enough credibility or popularity to appeal to international contributors. Therefore, platform restrictions should be considered by emerging market entrepreneurs when assessing how effectively a platform will be able to raise money from their online networks. See **Figure 6** for payment guidelines for some of the major platforms in Africa.

Figure 6. Payment Systems

	Platforms	Entrepreneurs	Backers
International	 <p>Charges a 5% fee and a 3% payment processing fee, plus \$0.20 per pledge.</p>	Must have an ID and a bank account in one of 18 OECD countries.	Must pay with a major credit card.
	 <p>Charges a 5% fee and a payment processing fee depending on the payment method.</p>	No restrictions on geographic location.	Must pay with a major credit card, Apple Pay, or PayPal.
African	 <p>A Kenyan platform that marries mobile payment with crowdfunding. Charges a service fee of 4.25%</p>	No restrictions on geographic location.	Can pay with PayPal, credit cards, M-Pesa or Kenyan mobile networks such as Safaricom and Airtel.

Lesson 4. Maximizing Funding Potential

While crowdfunding presents an opportunity to overcome traditional barriers to capital, it is simply a technology-enabled approach to performing an old and difficult task: raising money from a network. The experiences from EAF highlight two takeaways that could help entrepreneurs in developing countries maximize the amount of funding received.

First, entrepreneurs should spend a significant amount of time building a contact base they can reasonably expect will contribute to the campaign. The quality and quantity of networks dictate the funding potential of a crowdfunding campaign.

The experience of **Shake Your Power** illustrates the importance of base building. **Shake Your Power** is a project in Kenya run by British-Indian musician Sudha Kheterpal. She produced a musical instrument called a Spark that can be used to generate off-grid power. Shaking the Spark for 12 minutes produces one hour of light. Kheterpal successfully raised £53,001 (about \$81,000) through a campaign with a target of £50,000 on Kickstarter. Kheterpal spent a huge amount of time promoting the campaign to her network and almost 60% of the £53,001 came from people within her extended social network. However, Kheterpal is a

British-Indian entrepreneur whose network is based in the United Kingdom and the United States, an advantage most EAF entrepreneurs do not have. Entrepreneurs who cannot confidently access international crowdfunding markets should think realistically about the fundraising potential of their available networks.

Second, entrepreneurs should seek assistance from multiple sources, including matching funds, business incubators, and online networks, as described below, 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 campaigns with a positive social or environmental impact. See **Figure 7** for an example of a matching partnership between **Fishmate** and the **Cheetah Fund**.

Business Incubators and Accelerators

Business incubators, such as the World Bank Group-supported **Kenya Climate Innovation Center**,⁴ can help entrepreneurs effectively leverage crowdfunding. Business incubators and accelerators can provide locally relevant data, assist with

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4. www.kenyacic.org

platform choice, and provide critical support to marketing strategies and campaign management. Affiliation with a well-regarded incubation organization can also build the confidence of potential campaign contributors.

Online Resources

Crowdfunding platforms offer great training tools for entrepreneurs. To help entrepreneurs familiarize themselves with crowdfunding activities, many platforms have instructional manuals, data sets, and testimonials. Additionally, experienced crowdfunders can serve as peer mentors by sharing their contacts, knowledge, and successful campaigns with aspiring entrepreneurs.

Lesson 5. Non-Monetary Benefits

Beyond monetary gains, crowdfunding has been shown to increase the outward visibility and transparency of a company, which in turn increases its perceived trustworthiness with customers, investors, and partners. Crowdfunding campaigns can be used to engage with the potential customers early on in a product life cycle as a way to gather market information and refine the product, raise awareness, engage potential evangelists, and build new strategic partnerships.

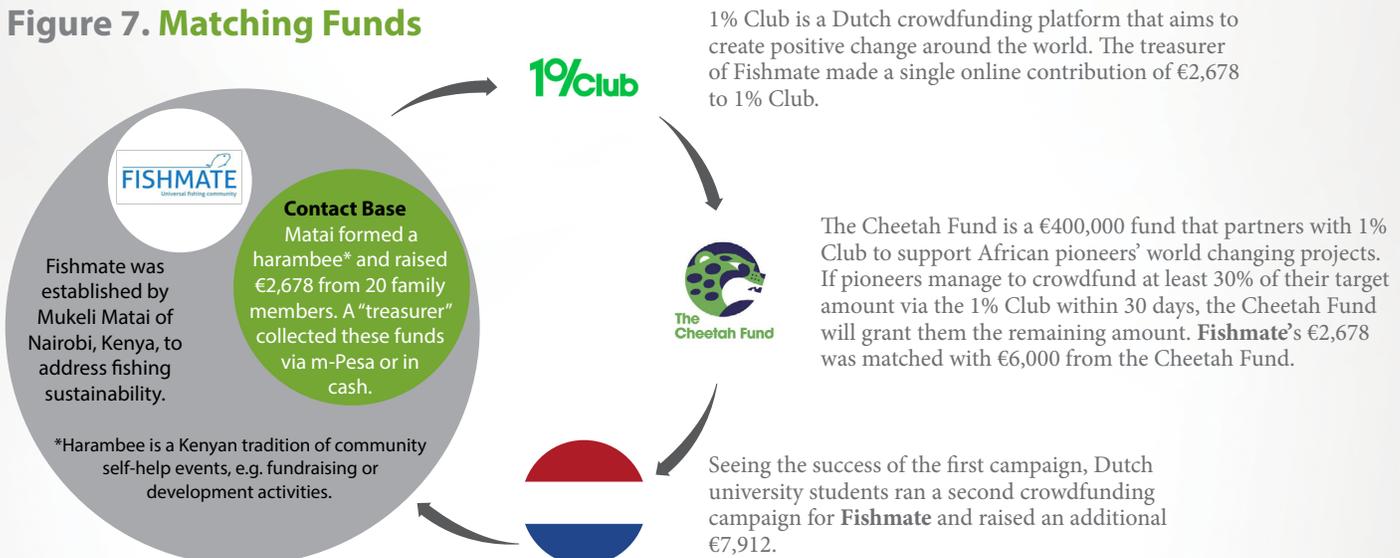
For example, one climate smart agriculture entrepreneur interviewed did not reach his fundraising target, but he secured a contract of \$120,000 with a partner as a direct result of the crowdfunding campaign. Another clean fuel entrepreneur who did not meet her target secured a partnership with Cisco.

Conclusion

While the crowdfunding market in Africa is nascent, there are many reasons to be optimistic about its future. As the market matures and grows, a number of interesting evolutions can be expedited by the collaborative efforts of the public and private sectors, such as data collection, the matching fund model, and payment system innovation.

In the clean technology sector, crowdfunding platforms face both opportunities and risks in their experiments to expand in developing countries. Ill-suited regulations in equity and debt crowdfunding, limited investor protection, and the lack of effective due diligence are among the barriers to expanding crowdfunding investment. Nevertheless, given the environmental and social goals of the businesses and the growing market opportunities, crowdfunding investment could play a catalytic role in financing clean technology ventures across the developing world.

Figure 7. Matching Funds



Climate Technology Program

In Brief

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The Climate Technology Program (CTP) In Brief series is a publication of the World Bank Group's Trade and Competitiveness (T&C) Global Practice and infoDev. infoDev's CTP is managed by the Innovation and Entrepreneurship Unit of T&C.

CTP focuses on the growing opportunities of the clean technology sector in developing countries. Through a global network of seven Climate Innovation Centers, the program provides local entrepreneurs with the knowledge and resources they need to launch and scale their innovative business solutions to climate change. CTP In Brief is a series of knowledge briefs highlighting important aspects of the CTP global and in-country operations and research.

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