

The crowdfunding potential of Africa

A recent report published by the University of Cambridge Judge Business School analyses the current position of Africa on the world's alternative finance stage and highlights Africa's position and potential in the ever-evolving crowdfunding sector.



Michael Roberts

The Africa and Middle East Alternative Finance Benchmarking Report, published in February 2017, is the first comprehensive study of the size and growth of crowdfunding and P2P lending markets in Africa and the Middle East. The report includes additional chapters on the regulatory landscapes in Africa.

The report comments that the United Kingdom has long led the way in the crowdfunding sphere. It explains that the public's dissatisfaction with the banks and the increase in the number of new crowdfunding and peer-to-peer lending platforms have combined to pique the interest of the British people in the available alternatives to traditional finance.

Technological revolution

An inspiring technological revolution has been supported by laws, tax breaks and government initiatives. The industry has catapulted, leaping from an estimated valuation of \$880 million in 2010 to \$34 billion just five years later, in 2015.

Other countries are beginning to follow the UK's lead and, if the trajectory of the UK is anything to go by, the crowdfunding scene will soon be coming to life all over the world.

The report explains that crowdfunding in Africa is just beginning to gain publicity and garner attention. As detailed in the document, the third-largest model in Africa is peer-to-peer business lending, which totalled \$16 million in volume over a two-year period between 2014 and 2015.

This model experienced rapid growth, starting at a modest \$2 million, and reaching a sizeable \$14 million in 2015. Some 90% of online alternative finance originated from platforms headquartered outside Africa, evidencing the potential for home-grown platforms.

Market leaders

Kenya and South Africa are the market leaders, raising \$16.7 million and \$15 million respectively from online channels in 2015. Peer-to-peer business lending had a lower average deal size, of \$41,000, with an average of 24 lenders each.

The market is relatively evenly distributed across 10 core countries. South Africa had the largest number of online alternative finance platforms, with eight surveyed respondents. Egypt and Morocco followed, with three domestically-based platforms each, and then Ghana and Nigeria, with two per country. Senegal, Uganda, and Zimbabwe had one surveyed platform each.

South Africa's FinTech specialist and White Label Crowdfunding (WLCF) partner, Khonology, says crowdfunding will provide establishing African businesses with funding alternatives. It believes that the high barriers to business loans faced SMEs will no longer be a hurdle for innovative, grass root solution providers.

"With many township entrepreneurs depending on their small businesses and business plans to acquire funds, crowdfund reduces barriers of entries, such as collateral or healthy balance sheets," says Khonology CEO Michael Roberts.

"Crowdfunding offers access to cash that will empower the misunderstood, determined and small township businesses," he adds.

According to the report, the East Africa region has the largest market share of the alternative finance market. In 2015, East Africa accounted for 41% of total African market share, while West Africa accounted for 24% and Southern Africa accounted for 19%.

The make-up of the South African market differs markedly from the rest of Africa. In 2015, the vast majority of market activity – \$13.8 million – came from peer-to-peer consumer and business lending, with the remaining \$1.2 million spread across microfinance, donation-based and reward-based crowdfunding.

The rapid growth and emergence of online peer-to-peer lending models in South Africa suggests that this model will likely dominate the national market, and could potentially propel South Africa forward as the emerging market leader for both online consumer and business peer-to-peer lending in Africa.

Regulation and policy for alternative finance are at the very earliest of stages of development for many financial regulators globally, and this is the case in Africa. Nevertheless, several positive steps have been taken towards developing a specific regulatory response to this emergent industry that provides additional and vital channels of financing for individuals, start-ups and SMEs.

Regulatory frameworks

What is clear is that there is no customised, tailor-made alternative finance regulation regime that has been enacted in Africa, as has been the case in other more established markets, such as the UK, Italy, the USA or Malaysia. Existing, generic financial services regulations are still likely to apply to firms seeking to provide services that fall within the remit of these existing laws.

Many risk-adverse corporates will wait for the implementation of the regulatory framework before acting on this opportunity. However, White Label Crowdfunding has repeatedly witnessed that the regulatory risks are lower than many expect.

Having recently partnered with the local Value Added Reseller Khonology, WLCF is looking to collaborate with the founder of new African platforms and is keen to support the shaping of the market.

"Africa is based on Ubuntu and community spirit; amazingly, crowdfunding looks to leverage this community engagement. Africa currently has a need for alternative solutions to the current legacy service offerings," says Roberts.

"Khonology loves the fact that crowdfunding leverages technology to provide a solution that is community driven and requires active participation and engagement. The collaboration that Khonology has embarked on with WLCF is testament to our business offering; we provide knowledge, collaborate and drive transformation," he concludes.