The state of crowdfunding in Africa and its potential impact: a literature review

Bouba Ismaila (a) *

(a) Department of Accounting, Vaal University of Technology, Vanderbijlpark, South Africa

ARTICLE INFO

Article history:
Received 25 April 2023
Received in rev. form 12 June 2023
Accepted 17 July 2023

Keywords:
Crowdfunding; Africa; Financial inclusion; funding; small business

JEL Classification:
M13

ABSTRACT

The purpose of this review is to shed light on the current state of crowdfunding and its possible effects on African communities. The goal of this article is to give a narrative overview of how crowdfunding has evolved, along with trends, challenges, and potential effects on African communities. Despite recent advancements in the usage of mobile technology on the continent, the growth of crowdfunding based on internet platforms has been quite gradual. According to research, the success of crowdfunding initiatives in Africa depends on a hybrid strategy that involves the "offline" network of backers. The majority of research concluded that the biggest barriers to the growth of crowdfunding in Africa were a lack of knowledge and trust in public institutions, lax laws protecting the rights of backers, and ensuring transparency, as well as technology (internet connection). Also mentioned was the possibility that significant cultural aspects of offline crowdfunding, if taken into consideration, would make it easier for African business owners to adopt the practice. It has lagged behind other continents in the use of crowdfunding to raise money for small businesses or individuals, which could also help with financial inclusion in Africa, either directly for individuals or by sponsoring small enterprises. It is necessary to have a regulatory framework that promotes technology advancement while also reducing crime and fraud. Additionally, establishing platforms based on continents and creating synergies with existing financial actors would raise awareness, boost confidence, and whet interest in using them.

© 2023 by the authors. Licensee SSBFN. Istanbul, Turkey. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (http://creativecommons.org/licenses/by/4.0/).

INTRODUCTION

Clarifying the current condition of crowdfunding and its prospective financial opportunities in Africa is the goal of this review. The African entrepreneur is full of new ideas, but he or she lacks the tools, information, and/or experience necessary to realize their dreams (Onginjo & Mei, 2022). According to these writers, crowdfunding is an essential instrument for bringing people and communities together with the shared objective of combining private and public resources to promote the welfare of the general populace (Onginjo et al.). Accordingly, Kim & De Moor (2017) concur and claim that each sort of crowdfunding is a beneficial way to encourage financial inclusion, more specifically when it is used to finance social projects by social companies. The practice of a group of people, referred to as "the crowd," contributing financial resources to help an enterprise take off or support a particular cause is known as crowdfunding (Berndt, 2016a). A different writer (Harms, 2007) describes crowdfunding as "a group of consumers that join forces (financial resources) together to make a specific project happen."

Crowdfunding can be broadly divided into four categories: loan-based, donation-based, equity-based, and reward-based. Peer-to-peer lending, also known as loan-based crowdfunding, is a model where investors lend money in exchange for interest and the promise of a later repayment of the principal (Zhao et al., 2019). According to the equity-based approach, investors should receive shares of the businesses they invest in as compensation. When the initiatives they fund are successful, the investors receive dividends in addition to shares (Agrawal et al., 2015). It is based on "an exchange of a monetary contribution" for some non-monetary reward, where backers would anticipate that "fund recipients" would provide "a tangible but non-financial reward or product" at a later date.
in exchange for their contributions (Zhao et al., 2019). People donate money in exchange for rewards, services, or products (such as concert tickets, an innovative product, or a computer game). With the use of donation-based crowdfunding platforms, investors can contribute money to worthy causes without worrying about getting anything in return (Agrawal et al., 2015).

The low penetration levels of traditional financial institutions that are prevalent in many African economies leads to a systematic discrimination of micro and small enterprises in terms of access to finance, creating a gap for other types of funding such as crowdfunding. Studies examining the impact of crowdfunding can help measure and capture the extent to which crowdfunding contributes to venture creation, survival, and growth, as well as the extent to which crowdfunding enables greater inclusivity and access to finance for groups that traditionally struggle with it such as women (Chao et al., 2020). It is also worth to note that most reviewed studies on crowdfunding in Africa have reported almost the same problems that has hindered its development, one of which being internet connectivity. With mobile money becoming an important component in Africa’s financial services landscape, as driven by more than 140 mobile money service firms catering for one in every ten African adults (Chirongwa et al., 2017), this may be an opportunity for crowdfunding platforms to increase their footprint on the continent that is lagging way behind others. (Vries, 2019) asserts that key Characteristics of a crowdfunding ecosystem are measured in terms of a country technological infrastructure, economic development, and regulatory framework. These features will be discussed throughout the review.

A narrative review process has been adopted to find and analyse research and literature on the development, trends, and possible impact on financial inclusion of crowdfunding in Africa on its people. The search strategy involved identifying relevant databases which included Scopus, Google Scholar and ResearchGate especially. These three search engines were deemed enough since most articles are found in many of them; and especially Google scholar has a flexible connection, yet with a broad scope of searching ability across huge number of online scholarly published papers. The references list of included articles were screened for additional interest. The review also included grey literature (e.g. reports, policy literature, blog posts, white and conference papers, and dissertations/theses) by utilising advanced Google Scholar website targeted searching. Not time frame was considered as that could have reduced the number of papers for the review to a very few. Because of its exploratory nature, the review did not adopt a more inclusive approach to article selection such as what is used for a systematic review.

The search technique combines titles and free-text searches with keywords like crowdfunding, financial inclusion, and Africa. Nothing turned up in the search results when all three terms were combined. A few articles surfaced when financial inclusion and crowdfunding were coupled, but none of them were specific to Africa. Only eight studies referenced crowdfunding when financial inclusion and Africa were combined in the search results, which included 56 papers. Sixteen papers were found in the search results when crowdfunding and Africa were combined. Furthermore, only those papers that at least mentioned crowdfunding and Africa (or an African country where the study was conducted) together, or articles that mentioned financial inclusion in addition to the two words, were retained for the review after going through the abstracts and conclusions of the papers. In order to find research in North Africa that did not use the word Africa, a separate advanced search was conducted using the words crowdfunding and Maghreb. In that specific search, only eight studies were found. For the purposes of comparison, seven publications on traditional (offline) crowdfunding in Africa that were cited in various studies found through the search were also taken into account. 31 papers in total were picked up by the various portals for review.

All studies deemed irrelevant to the narrative review or lacking at least the two keywords of crowdfunding and Africa were eliminated. Furthermore, because the findings frequently contain the same data, research that had been completed in the same year for the same nation or regions were not all included. Depending on which one has more material pertinent to this evaluation, one or the other was included.

**Literature Review**

**Key trends on crowdfunding offering and use in Africa?**

Over the past fifteen years, scholars have started paying attention to crowdfunding in Africa; an online crowd participatory financing that has been in practice in the developed world for way back, but new to the African continent in its online form. Although more entrepreneurial ventures are using the power of the crowd to get financed (N’Guessan et al., 2017), the use of crowdfunding as an alternative method of raising fund by SMES in Africa is still at its nascent stage as it only represents less than 0.1% of the total worldwide crowdfunding market (Olafusi et al., 2022). Furthermore, while many platforms are presently active, non-African-based platforms are able to collect more funds for projects in Africa (N’Guessan et al., 2017). (Olafusi et al., 2022) add that this led to the restricted number of contributors on both the demand and funding side of African crowdfunding platform, thus making it less striking for Africans. In sub-Saharan Africa, while most countries are lagging behind with the adoption of crowdfunding, South Africa, Nigeria, Kenya, Uganda, and Ghana have the highest crowdfunding activity overall (N’Guessan et al., 2017; Onginjo & Mei, 2022). It is also to be noted that the highest project crowdfunding categories in Africa are all creative-oriented categories: Photography, Film and Video, Publishing, and Art; this being a common trend for most rewards-based crowdfunding data (Onginjo & Mei, 2022).

(Hiller, 2017)) found that Southern Africa exhibits by far the highest crowdfunding activity, yet essential project metrics such as the average funding amount do not show the same geographical concentration. Hiller’s findings show that for the average African country, overall productivity and basic requirements are positively correlated with crowdfunding activity; in particular, institutions and infrastructure seem to be decisive enabling factors. His findings also suggest that for those African countries with the lowest
productivity, it is about building up the most basic requirements to enable (independent) gains in crowdfunding activity by further increases in productivity. Echoing many studies, Hiller’s study demonstrates that the domestic crowdfunding platforms (CFP) are in their infancy, with only a limited number of participants on both the demand and supply side, making it not surprising that the domestic crowdfunding market is currently small and that the majority of African crowdfunding activity takes place on international platforms. Also, donation-based and reward-based crowdfunding currently dominate African crowdfunding activity on both domestic and international platforms. This is mainly due to the fact that both forms do not require any specific legislation and are therefore more easily accessible for stakeholders even in the less developed African countries (Hiller 2017). On the other hand, it’s very difficult for Africans to access international debt-based and equity-based CFPs as these platform focus on local markets in order to be legally compliant. Hiller states that, in order to benefit from that potential, international CFPs should improve their access for African entrepreneurs; in particular, restrictions on platform participation should be removed, and financial services should be extended. (Adjakou, 2021) reported that:

In West and North Africa only 22% and 33% of the platforms created in the span of 2012 to 2020 are still operating. East Africa and South Africa are doing far better as respectively 70% and 55% of their crowdfunding platforms are still operating. The study also found that French Speaking countries struggle a lot in implementing and sustaining crowdfunding platform.

In North Africa, Morocco and Algeria are leading the race (Maso Mankunku & Muroi, 2019; Sabah & Hidayat, 2021; Tadjousti & Jaouad, 2022). On their side, (Ridha & Abdelouahab, 2021)) note that this type of financing through crowdfunding is still fairly recent in Algeria, or it has not yet been found, suggesting that people are not aware of its existence. Nonetheless, the authors acknowledge that notwithstanding the difficulties that exist, the Twiza and Ninvest platforms have adapted best to the environment in which they exist with the means they have (Ridha and Abdelouahab 2021). It is suggested that the success of crowdfunding projects in Africa hinges on a type of hybrid model involving the ‘offline’ community of backers (Onginjo & Mei, 2022). Notable examples of these ‘offline’ communities of backers include Susu in Ghana, Mabati in Kenya, Ekub in Ethiopia, Tontine in Mali, and Stokvels in South Africa (Coetzee, 2013).

Still, on the continent in general, not only the penetration of crowdfunding is low, but many platforms do not manage to survive for long. In South Africa, as per October 2020, only 12 out of the 22 platforms recorded are still active; East Africa and North Africa come with respectively 7 platforms active out of 10 and 3 platforms active out of 9 (Adjakou, 2021). This showed that 58% of platforms created from 2012 to 2020 are now inactive; only 27, about 42% of the 64 initially recorded are still functioning (Adjakou, 2021). In North Africa, there are mainly four crowdfunding platforms (Smala & co, CoFundy, Afrikivity and Chriky) which are not intended only for Maghreb countries, but also to other African and European countries; and they operate under the rule that in case of fundraising failure, no commission is applied on the four platforms (Tekfi, 2018). Many authors reported that the worldwide combined African crowdfunding market share remained less than 0.1% of the crowdfunding global volume (Adjakou, 2021; Onginjo & Mei, 2022; Sabah & Hidayat, 2021; Tadjousti & Jaouad, 2022).

Also, some regions and countries dominate the rest in terms of use, as well as the number of functioning platforms. Out of the 76 functional crowdfunding platforms in Africa in 2021, 66 operate exclusively in South Africa and East Africa while only 10 are West Africa and North Africa focused (Adjakou, 2021). In addition, among the platform covering the whole Africa for now, only 6 are French speaking countries focused whereas 70 are African English-speaking countries focused (Adjakou, 2021).

By December 2022, data retrieved from TheCrowdDatacenter reported 147 projects across Nigeria from 2019 which helped to raise a total of $22,779. The Crowdfunding data centre went further stipulating that in 2019 Nigerians got only 1% of success rate on all the campaigns that were initiated (TheCrowdDataCenter, 2022a). Still in West Africa, besides Benin and Nigeria, no crowdfunding campaigns started in the other west African countries in 2019; depicting a picture is how ignorant people are still about crowdfunding in West Africa (Adjakou, 2021). In the most developed crowdfunding market so far in Africa, the South African market, only 201 crowdfunding campaigns took place between 2019 and 2022 with an achievement rate of 21%, raising a total sum of $749,149 (TheCrowdDataCenter, 2022). Kenya did not do well either, in term of achievement rate with its 86 projects between 2019 and 2022, combining a total of $927,063 (TheCrowdDataCenter, 2022e). Rwanda with 0% rate of success over the 6 projects started in the country had nonetheless managed to raise $14,331 between 2019 and 2022 (TheCrowdDataCenter, 2022b). Burundi too, had a 0% of success rate and $0 raised on the 2 campaigns started in the country (TheCrowdDataCenter, 2022d). Tanzania stood out with the top achievement rate on crowdfunding ventures in Africa from 2019 to 2022, with 25% raised over the 13 campaigns launched in the country which aided to raise a total sum of $49,670 (TheCrowdDataCenter, 2022c).

Some authors encourage optimism as conditions of growing popularity of digital and mobile finance, low penetration of traditional financial institutions, and a long cultural heritage of communal mutual support may enhance crowdfunding uptake (Chao et al., 2020). They cautioned though, that the extent to which crowdfunding may deliver on its promises of improved access to finance and enablement of growth remains to be substantiated empirically (Chao et al.). (Adjakou, 2021) reported that:

Although there is a growth by 101.5% of crowdfunding volume in 2018 in Africa after the decrease of 42.8% the African market share encountered in 2017, it is obvious that the African part in the crowdfunding market is a chicken feed and that this financial alternative still has a long way to go in Africa in order to live up to its full promises.

Table 1 shows the number and percentage of domestic active and inactive platforms per region in Africa from 2012 to 2020.
The development of crowdfunding based on online platforms has been rather sluggish on the African continent, despite the recent years’ milestone on the use of mobile technology on the continent, as mentioned earlier. It is argued that trust between strangers and trust towards online transactions are required in order to facilitate a thriving crowdfunding market (Kshetri, 2015). Research from other contexts of online transactions shows that satisfactory online customer experience enhances trust in e-retailing/online shopping (Rose et al., 2012) and in e-banking/online banking (Ghane et al., 2011). Put together, these insights may suggest that trust can also be created with experience, and that adoption may be enhanced by creating opportunities for crowdfunding experience with low entry thresholds. Here, information about delivery and repayment of loans, as well as non-delivery or non-payment on loans, will be publicly available; and that may also deter fundraisers from shirking such responsibilities to avoid a damage to their reputation and self-image. While social lending is part of many African cultures, this way of financing may be viewed with suspicion by those who are not familiar with the concept and its operations. Not being personally acquainted with an entrepreneur may limit the willingness of a crowd to contribute to his venture (Berndt, 2016b). Because of the differences among regions of Africa which include ethnic diversity, countries economic disparities, language, colonial heritage, it would be understandable to look at the regions separately, and explore how they have been doing with crowdfunding in their endeavour to tackle financial exclusion.

**East Africa**

In East Africa, crowdfunding is in its infancy in relation to maturing into a substantial funding source, like the rest of the continent; but the region remains one of the leading region on the continent along with Southern Africa which is mostly dominated by South Africa. Looking at Kenya, the leading country in the region, there is still a long way to go for the crowdfunding ecosystem to grow into a sustainable source of SME financing, with social media users, internet users, the corresponding penetration and growth rates for both these two, the gross domestic product (GDP) purchasing power parity (PPP) and urbanisation rates all being less than the global average (Vries, 2019). This author states that Kenya is showing promise in the crowdfunding ecosystem, even though efforts need to be focused on generating a larger amount of this figure from native crowdfunding platforms, since this is what helps the growth of a nation’s crowdfunding understanding, acceptance and utilisation (Vries, 2019). In fact, Kenya houses one of the most successful fundraising platform on the continent, M-Changa. M-Changa is an online and mobile fundraising platform that provides individuals and institutions with a simple, secure and convenient way to raise funds virtually (About M-Changa, 2023). M-Changa is the only active native Kenyan crowdfunding platform, and raised the sixth most out of any native African crowdfunding platform, while also recording the sixth largest traffic out of all the native African crowdfunding platforms (Vries, 2019). Berndt (2016a) described how this platform works in the following:

Fundraisers open a fundraising account which is then listed on the venture page. Donors can view all the fundraising options on the website and donate by using a mobile phone account or through PayPal (for international donors). A fundraiser can only have one active fundraising effort at a time, and withdrawals are possible once the balance exceeds KES250 (€2.5). M-Changa charges a 5 per cent commission based on the amount raised and a KES40 (0.4) handling fee on PayPal deposits. There is also a service fee that is charged when a fundraiser withdraws funds from the account (4.25 per cent of the total amount collected plus normal network charges). While this site provides an opportunity for entrepreneurs to raise funds, its focus is mainly on social causes.

The Ugandan crowdfunding environment is still very immature, and has a big progress to make for the sector to grow into a viable basis of SME sponsoring. However, promising indications for the future development of native Ugandan crowdfunding was reported by the Founder and Director of Akkabo (Uganda Donation/Rewards Crowdfunding Platform) who is looking to plan strategic partnerships for Akkabo with members of local investor networks to pivot crowdfunding activities from charity type campaigns to SME financing campaigns (Vries, 2019). In addition, the regulatory framework AFCA should see security based crowdfunding emerge and evolve gradually into the Ugandan crowdfunding ecosystem, providing SMEs with a greater chance of securing financing through crowdfunding once these models are established (Vries, 2019).

### Table 1: Number and percentage of platforms per region in Africa from 2012 to 2020

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Platforms</th>
<th>Number of Active Platforms</th>
<th>Number of Inactive Platforms</th>
<th>Percentage of Active Platforms</th>
<th>Percentage of Inactive Platforms</th>
<th>Operating in African French-speaking countries</th>
<th>Operating in African English-speaking countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Africa</td>
<td>10</td>
<td>7</td>
<td>3</td>
<td>70%</td>
<td>30%</td>
<td>6 (8%)</td>
<td>70 (92%)</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>22</td>
<td>12</td>
<td>10</td>
<td>55%</td>
<td>45%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>North Africa</td>
<td>9</td>
<td>3</td>
<td>6</td>
<td>33%</td>
<td>67%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>West Africa</td>
<td>23</td>
<td>5</td>
<td>18</td>
<td>22%</td>
<td>78%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Adjakou (2021)
Southern Africa

South Africa is by far the most dominant country in crowdfunding development in this region, and the in the continent as it will be seen in the following studies and reports. Vries (2019) study showed South Africa is relatively close for a developing nation to the global average on several measures (social media and internet penetration rates, and GDP), whereas social media growth rate and urbanisation rate were both above the global averages, justifying its number one position on the continent in crowdfunding success and growth. It is the only country in Southern Africa that has been found in the literature with a quite busy crowdfunding ecosystem. Other countries of the region have also been trying to regain the lost ground. These include Botswana, Zimbabwe, and Zambia that has been reported to make exceptional progress between 2016 and 2018 (Adjakou, 2021).

FundFind is a South African platform that funds businesses by offering those investing a reward (or a choice of three reward levels). Investments can be made over a 90-day period but the platform recommends a 30 to 60-day duration. A fundraiser can select either the ‘all-or nothing’ or the ‘keep-what-you-raise’ approach for the venture and there is no limit on the types of ventures that are put on the site (apart from illegal and immoral ones). The platform charges a fee for using the platform (Berndt, 2016a). Berndt explained that the platform demands a fee for utilising its service – either 5 per cent (all-or-nothing ventures) or 9 per cent (keep-what-you-raise ventures). Payments are done over online bank payments and also via credit cards.

Thundafund is another South Africa’s leading online Crowdfunding marketplace for creatives and innovators. Through Thundafund, entrepreneurs with their respective projects & ideas can raise capital and build a supportive crowd of backers through the process of crowdfunding (About Thundafund, 2022). All projects on Thundafund are required to reach their Tipping Point before their project closes in order to receive all their funds. If their target is not reached, all backers of the project will be reimbursed minus the banking fees. Once your project is successfully funded, Thundafund receives a commission on the final amount crowdfunded: 5% for certified NGOs; 7% for individuals and organisations (How Does Thundafund Work, 2023). To date, the platform have raised over 5 million Rand for more than 1400 projects funded, mainly in South Africa and Kenya (About Thundafund, 2022).

In a study of factors influencing crowdfunding plausibility in post hyper-inflationary Zimbabwe, it was established that mainly five factors drive crowdfunding: strong active social network, easy reliable payment system, a passionate audience, a funding gap, and the regulatory framework in the country (Munyanyi & Mapfumo, 2018).

West Africa

In West Africa, Nigeria and Ghana are the countries that lead in crowdfunding as an online fund raising tool, although the method is as at infancy level as it is in the rest of Africa. A study on crowdfunding genesis and comprehensive review by (Adjakou, 2021) reports that West Africa which is mostly French dominantly speaking, performs very poorly as rarely the projects listed on the scarce platforms still operating manage to gather more than 2% of their funding goals. Similarly, a study by (Soreh, 2017) on awareness and attitude towards crowdfunding in Nigeria revealed the following:

Crowdfunding as a funding innovation for entrepreneurial activities is in its very infancy in Nigeria. Similarly, crowdfunding awareness in Nigeria is as low as 24% based on the sample size, a situation that might not be different with a larger sample size. However, with 76% desired rate from the sample size to participate in crowdfunding campaigns either as a fundraiser or backer is very encouraging at the same time signalling that awareness is likely increasing.

Findings by (Kuma et al., 2022) suggest that though crowdfunding is a fairly new concept in Ghana; it is similar to Susu, which is a Ghanaian traditional microfinancing concept and therefore has a high acceptability rate; and the rotational savings and credit concept of Susu have similarities with peer-to-peer lenders (P2P) crowdfunding, except in the area of platforms used in accessing these funds. They add that The public is already involved in funding support for community projects in the form of donation for altruistic reasons, so acceptance of CF will be very high (Kuma et al. 2022).

North Africa

The first Crowdfunding initiatives in the Maghreb date back to 2013, which saw the foundation in Algeria of two platforms dedicated to crowdfunding, in particular the donation platform Twiza and the equity platform Crowdfunding Chirky (Tekfi, 2018). Twiza.com was founded in July 2013, and was the first platform for Algerian crowdfunding, with the objective to be able to carry out Algerian projects that do not find financial resources from traditional channels (Ridha & Abdelouahab, 2021). Ninvesti was launched in 2019 as a platform for modern crowdfunding, aimed in particular at Algerians established abroad, whilst remains open to all contributors, and operating under the ‘all or nothing’ rule, meaning that if the collection purpose is not achieved within the allotted time, contributors are reimbursed and the bearer does not get the funding; no commission is perceived by the platform either (Ridha & Abdelouahab 2021). (Sabah & Hidayat, 2021) contend that Crowdfunding will boost entrepreneurship and entrepreneurial spirit, which remains the key to sustainable economic development, by encouraging young entrepreneurs to realize their projects, and will participate in the dynamisation of the Algerian economy by reviving the national production of goods and services. Besides, the development of crowdfunding is synonymous with the rise of new jobs essentially based on the web such as: application developer, network architect, community leader, web editor, site moderator web, lawyers etc., benefiting the entire society (Sabah & Hidayat 2021). An inquiry by (Yasmine & Hadjer, 2022) on crowdfunding in Algeria revealed that most platforms that have launched are
dedicated to arts and culture with 60% of the population, and with 30% of dedicated companies to the Journalism sector or the production of Documentary, with financing the eco-entrepreneurship sector being inexistent.

For Morocco and Tunisia, Crowdfunding was born in 2014, with the foundation of four platforms dedicated to crowdfunding, in particular the Atadamone and smala & co donation platforms for Morocco and the Cofundy and Afrikwity platforms for Tunisia (Tekfi, 2018). The common point between these different Crowdfunding platforms is the absence of a lending platform with interest in the Maghreb (Sabah & Hidayat, 2021; Tekfi, 2018). In Tunisia, the Cofundy and Afrikwity platforms are subject to the French regulations, where Crowdfunding is an activity well regulated by legislation, while Tunisia has no regulatory framework adapted to the various activities of the Crowdfunding (Tekfi, 2018). This author adds that the reduced number of projects financed by crowdfunding platforms in the Maghreb is mainly due to the absence of a strong crowdfunding culture in this region (Tekfi, 2018).

Findings by Tekfi (2018) on the Characteristics and operation of crowdfunding in the Maghreb revealed that crowdfunding in Morocco, Tunisia and Algeria have some similarities which translate to:

i. the presence of donation or equity Crowdfunding platforms and an absence of platforms loans with interest;

ii. a small number of projects financed by Crowdfunding;

iii. Crowdfunding still in its embryonic phase;

iv. an absence of a regulatory framework that can manage Crowdfunding activities;

v. the payment of investors, by check or through international payment cards.

vi. Crowdfunding platforms that are not used only by Maghreb countries, but also by other African countries.

Challenges faced by crowdfunding in Africa

Almost all reviewed studies report more or less the same issues that crowdfunding is facing in Africa. For instance, (Onginjo & Mei, 2022) cite the lack of faith in public institutions, Weak regulations to protect the backers’ interests and ensure transparency and entrepreneurial accountability of crowdfunding platforms, and a slow-paced developing ICT infrastructure. To support of that, (Adereymi et al., 2021) mention the issues of regulation, lack of adequate awareness, as well as fraud and corruption. On their part, (Omenguélé & Mbouolang, 2022) worry about the digital divide being the main potential inhibitor of crowdfunding development in Africa. (Chao et al., 2020) refer to the conditions of unclear regulation, relatively low levels of internet access, and societies characterized by low social trust may all hinder crowdfunding uptake. Furthermore, (Sabah & Hidayat, 2021) posit that It is difficult to survive as an intermediary in the financing operation for crowdfunding because of risk of frauds, cyberattacks, and platforms default; due to increased competition. Adding to that (Berndt, 2016a) says that payment is a real issue both for those wanting to contribute and for fundraiser who need to access funds that have been raised, in addition to other issues relating to knowledge about crowdfunding among entrepreneurs as a growth option and access to platforms for those who wish to support a particular cause.

According to Berndt, issues that require attention in Africa also include: a regulatory environment which facilitates the development of technological innovations and investments in these innovations, as well as access to the Internet and the use of social media to spread messages about various ventures. Furthermore, many countries in Africa are currently experiencing issues related to the shortage of electricity (for example, Nigeria, Kenya and South Africa) on top of the challenge associated with the increased potential of fraud and crime associated with crowdfunding (Berndt 2016a). From their study, (Tadjousti & Jaoud, 2022) posit that regulatory barriers are a handicap to the development of crowdfunding in Morocco, in addition to information asymmetry in holding back the rise of crowdfunding. Furthermore, Moroccans make little use of e-commerce for the financing of their project; psychological and cultural barriers also hinder the use of crowdfunding platforms; and the risk of fraud is a major obstacle (Tadjousti & Jaoud, 2022).

In support of other findings, (Olafusi et al., 2022) claim that the regulatory framework is a key enabler for the development of crowdfunding platforms which prospective users see as a greater risk for investors than traditional funding. The lack of culture or knowledge of mechanisms of crowdfunding and total mistrust vis-à-vis entrepreneurial projects with profit, added to the loan-based Crowdfunding coming up against the banking monopoly, while equity crowdfunding coming up against the restrictive rules of the public offering are some of the challenges of North African crowdfunding platform raised by (Tekfi, 2018). As for the rest of the African continent, the regulatory factor is the main constraint that hinders the development of crowdfunding in the Maghreb and the functioning of crowdfunding platforms in that region (Tekfi, 2018).

More similar challenges have been reported by (Yasmine & Hadjer, 2022), with their inquiry participants citing several factors that contribute to the failure of crowdfunding in Algeria with: 40 % finding failure in the presence of an e-finance culture; 35% at the level of delay in the initiation and establishment of an e-payment system. and 25% in the absence of a legal and regulatory framework in Algeria. It is argued that Algerian Dinars is the main factor that has helped to curb the crowdfunding in Algeria (Yasmine and Hadjer 2022). These two results show conflicting opinions between the Algerian entrepreneurs seeking funding and the crowdfunding platforms that are supposed to serve them, setting in the air the uncertainty of the crowdfunding on the entire African continent.
Potential solutions for crowdfunding development problems in Africa

In a bid to find solutions to multiple crowdfunding problems in this region, a number of measures have been put in place. For instance, in Morocco, in 2017, there was a creation of the Moroccan Federation of Crowdfunding (FMC) in order to assist and collaborate with the Ministry of Economy and Finance to develop Crowdfunding in Morocco and Africa (Maso Mankunku & Muroi, 2019). Furthermore, in 2018, a bill has been put in place to regulate the activities of crowdfunding (Maso Mankunku & Muroi, 2019). In Tunisia, in 2018, a draft law on participatory financing of the economy is in the process of being finalized by the Ministry of Industry and SMEs and will soon be put into operation in Tunisia. Low level of Internet penetration is an obstacle that has been taken into account by new platforms such as Ghana’s M-Changa, which uses SMS via mobile phones to present projects (N’Guessan et al., 2017). For Sabah and Hadjat (2021), given the important role of these platforms in promoting access to finance for SMEs, which will have a positive impact on financial inclusion and sustainable development, an essential role of authorities in control and regulation in Arab countries is to:

i. Support this sector, and study its risks and strengthen regulatory frameworks according to international best practices.

ii. Find the appropriate legislative framework for the licensing of crowdfunding.

iii. Subject crowdfunding companies to the supervision of banks central and institutions.

iv. Prepare studies and research on crowdfunding platforms.

One solution that has been adopted by Smala & co and that made them the symbol of the emergence of crowdfunding in Morocco is the removal of all commissions from Smala & co, in order to enable project leaders to make the most of their mobilization efforts following the campaigns (Tekfi, 2018). With regard to overcoming the issue of fraud and give international equity crowdfunding investors the certainty that they will have recourse in the case of fraud, (Gibbons, 2022) suggests that the nations involved need to create multilateral treaties that unify the definition of fraud and the violations that result in fraud liability. However, in order for international equity crowdfunding to succeed, there must be some form of oversight by one central intermediary which can also help overcome the information asymmetry challenge; and if the ACFA has the required capacity, it would be a good candidate to fill the Intermediary role (Gibbons 2022). This author emphasizes that:

This intermediary would be responsible for standardization of crowdfunding campaigns; the curation of investable campaigns that are available to international investors; the navigation of the regulatory environment in all countries that participate; the lobbying of host governments to enact compatible, if not uniform, crowdfunding-friendly legislation; and the resolution of disputes between investors and the target SMEs.

Policymakers likewise, need to acknowledge crowdfunding as an innovative type of funding that is able to alleviate the early-stage finance gap for African businessmen. More specifically, crowdfunding should be a critical part of any government program targeted at small ventures in Africa; and this should also include the training of government personnel in charge of those services (Hiller, 2017). Although there is often an additional cost to the entrepreneur, some platforms such as Kiva.org use field partners, which are institutions or NGOs, to tackle the issue of lack of internet by working through these intermediaries (N’Guessan et al., 2017). These partners play an essential intermediary role and, in many countries, they have to work around the language barrier that is English (N’Guessan et al. 2017). According to (Yasmine & Hadjer, 2022), for Algerian crowdfunding ecosystem to thrive, Authorities should:

i. Support this sector, and study its risks and strengthen the frameworks

ii. Find the appropriate legislative framework for granting licenses to crowdfunding platforms.

iii. Submit crowdfunding companies to the supervision of central banks and institutions.

iv. Prepare studies and research on the platforms of crowdfunding and their roles in promoting and financial inclusion and promoting development sustainability, as well as the associated risks.

v. Promote awareness of the importance of crowdfunding

Traditional (offline) crowdfunding platforms in Africa

Tradition of credit associations and other forms of microfinancing (delivered in diverse formats) have existed in many African cultures for decades. Notable examples of these credit associations include Susu in Ghana, Mabati in Kenya, Ekub in Ethiopia, Tontine in Mali, and Stokvels in South Africa (Coetzee, 2013). Let’s look at the cases of ‘tontines’ that also operate in Cameroon where the researcher come from and stokvels in South Africa where the researcher resides. In Cameroon, tontines are very popular particularly in one region of the country. The people who originate from that region of Cameroon are so fond of the tontines that whenever they find themselves in the world, they form a group of tontines to assist one another in their financial emancipation. According to (Rozas & Gauthier, 2012), tontines also known as Rotating Savings and Credit Associations (RSCA), are one of the most popular forms of unions to finance projects in countries where access to credit is restricted, especially in French speaking countries. The tontines function in a very simple way. Adherents meet every week (no formal minimum or maximum number), generally on Sundays. They decide how much money each participant would have to do deposit at every meeting. After every
meeting, one participant takes the money to start a small business, grow their existing business or resolve a pressing issue such as paying study fees at home all sending their kids abroad (Rozas & Gauthier, 2012; Yatabary, 2015). After the next meeting is somebody else’s turn; and the cycle continues. To sum up what tontine can do or may be, (Modeste & Fouda, 2018) state that the tontine presents itself as the bank of the excluded from the formal financing institutions.

As for stokvels in South Africa, they operate in a slightly different way. According to (Koenane, 2019) stokvels are ‘clubs of only twelve or more people and serve as rotating credit associations or saving schemes in South Africa where members contribute an agreed amount monthly from which they receive a lump sum payment in an agreed time frame’. They are ‘registered as deposit-taking financial institutions with the National Stokvel Association of South Africa (NASASA) whose activities are regulated by the South African Reserve Bank (SARB) in compliance with and in terms of the Banks Act 94 of 1990. The motto remains the same as that of the tontines, which is improving financial conditions of the participants. This author argues that stokvels the most shared way of a sustainable financial survival, especially among the less fortunate in South Africa (Koenane 2019). (Mashigo & Schoeman, 2012) on their side, posit that is a routine in deprived populations that stokvel adherents hold consistent meetings, on a weekly, fortnightly, or monthly periods in line with their constitutions. This industry generates billions of Rand every year according to research (Ngcobo & Chisasa, 2018) with members of about one fifth of the total population of South Africa.

**Way forward**

Considering these challenges that face crowdfunding in Africa, but also the opportunities that crowdfunding presents, let’s look at the perspective and way forward that may take crowdfunding success in Africa to the next level. (Maso Mankunku & Muroi, 2019) cite the following technological factors that could be a trigger to further development of crowdfunding in North Africa, thus on the entire continent:

i. The development of the Internet has enabled holders of North African projects through their campaigns, to be able to reach a large crowd that may be interested by their ideas to finally collect the funds and carry out their projects.

ii. The emergence of web 2.0 allows entrepreneurs to do without expensive advertisements to create and run their campaigns on their own. Fundraising success then depends on entrepreneurs’ social media traction and dedication in the defence of their projects.

iii. The existence and use of electronic means of payment facilitates the donor contribution procedure as they have several advantages in terms of terms of speed, security, etc.

Vries (2019) recommended the use of the Correct Crowdfunding Model for different lifecycle of projects. For instance, he suggests that the pre-start-up phase be paired with the donation crowdfunding model; reward and debt based crowdfunding would be recommended for the start-up phase; and in the growth phase, equity based crowdfunding is most applicable model for start-ups to utilise (Vries 2019, 13-14). Therefore, crowdfunding platforms should be visible on Facebook to capture the attention of those crowds, and bring them on board. Vries adds that countries should prepare traditionally appropriate messages, circulated over both social media and mainstream media advocating that crowdfunding is a new and innovative way of placing money in the hands of resident businesses that will employ people and help the local economy.

(Chao et al., 2020) suggest that for broader public implementation of crowdfunding, stakeholders keen on such growth may need to participate in relevant strategy development, enactment of technological answers appropriate for existing ICT and financial setup, growing public cognizance through education, decreasing user entry obstacles, and building low-risk or risk-free motivations for trial. Furthermore, studies examining the impact of crowdfunding can help us measure and capture the extent to which crowdfunding contributes to venture creation, survival, and growth, as well as the extent to which crowdfunding enables greater inclusivity and access to finance for groups that traditionally struggle with it such as women (Chao et al., 2020). Another author, (Berndt, 2016b) proposes a good example of an approach that can be found in ‘suggestions that crowdfunding may be adapted to solving regional issues such as power shortages, which are usually experienced in most parts of Africa, and by addressing a concrete need affecting people’s lives, which will make crowdfunding more attractive for those who live in affected areas’. Likewise, having an attractive campaign is necessary if an entrepreneur is to attract enough contributors; the fund thus needs to provide guidance to entrepreneurs as to how to compile the call together by providing specific ways in which the likelihood of success can be increased (Berndt 2016b).

(Olafusi et al., 2022) advised that crowdfunding be more encouraged so that the need for a succession of physical gatherings and contacts among parties before money is given be decreased and the obstacles put on funding by physical place of SMEs be removed. They contend that developing the crowdfunding market has the potentials to eradicate poverty by channeling fund from the surplus to the deficit unit (Olafusi et al. 2022). For this to happen, these authors recommend stakeholders’ sensitization, increase awareness on the use of technology through education of SME owners, in addition to friendly but firm regulatory framework (Olafusi et al. 2022). (N’Guessan et al., 2017) advise that the partner related model of Kiva may be adopted by the continent platforms to increase their footprint (using institutions around the world that act as Kiva’s representatives in the field), as more lenders have been financing projects in Africa through Kiva.org.
Role of diaspora

Migrant networks influence investment by facilitating the familiarity effect and by decreasing constraints imposed by information asymmetries and transactions costs (Leblang, 2010). For instance, French-based Lelapa Fund platform that is dedicated to facilitating investments in Africa by tapping onto African diasporas, which, according to one of its co-founders, perceives fewer barriers to such investments while normalizing risk associated with African venturing (Chao et al., 2020). In addition, through crowdfunding, African migrants can continue supporting entrepreneurial activities by helping family members and friends in their countries of origin via the mediation of crowdfunding platforms (Chao et al., 2020).

Crowdfunding and financial inclusion

As presented in this review, crowdfunding may be a cheap way to fund start-up businesses in Africa. With the high unemployment rate, crowdfunding may be used as an opportunity to boost entrepreneurship and substantially alleviate unemployment, especially among the youth. More importantly this is another way to increase financial inclusion among the African populations without having to rely on the government. It has been reported earlier how offline crowdfunding such as tontines and stokvels can initiate and boost entrepreneurship, therefore alleviates poverty and improve financial inclusion. Online crowdfunding can do the same in a more organised way. However, the operators of online crowdfunding have to tackle the many challenges that have been raised by various studies as depicted in previous sections. The main challenges to be tackled include regulation issues, sufficient awareness about crowdfunding, and loyalty and trust in the online crowdfunding platforms. Another challenge that has been cited as a hindrance to online crowdfunding is access to technology, especially internet connectivity. But studies have shown that this problem is taking care of itself. Almost three quarter of African population own a phone; a large part of which with internet connection used for e-commerce, mobile payment etc. (Modeste & Fouda, 2018). Governments need to play their part by regulating the crowdfunding industry to increase trust in the industry. The crowdfunding platforms themselves, especially the local ones, should do more awareness campaigns about their very existence, activities, and what they are able to offer the population (funders and fund raisers alike).

Conclusion

The reviewed literature showed that crowdfunding is a valuable means to promote financial inclusion, especially when it is employed for financing businesses as well as social projects. A large majority of reviewed studies on crowdfunding in Africa have reported almost the same problems that have hindered its development. These include the lack of awareness and faith in public institutions, weak regulations to protect the backers’ interests and ensure transparency, as well as technology (an internet connection). Moreover, differences among regions of Africa, which include ethnic diversity, countries economic disparities, language, and colonial heritage, are also obstacles to the development of crowdfunding on the continent. In line with this, the review further revealed that West Africa, which is mostly French-speaking, performs very poorly, as rarely do the projects listed on the scarce crowdfunding platforms still operating manage to gather more than 2% of their funding goals.

The above suggests that for crowdfunding to start developing on the African continent, there needs to be a huge mindset shift in some regions of the continent. Furthermore, awareness campaigns should be constantly conducted in every medium possible. Different governments should also take care of the regulatory side to make the sector more trustworthy and viable. Traditional (offline) crowdfunding, under different names according to regions or countries, has also been labeled as one of the most popular forms of financing projects in countries where access to credit is restricted, especially in French-speaking countries.

One of the contributing solutions to the development of crowdfunding in Africa that was hardly mentioned in a very few papers is the role of the diaspora. It was argued that through crowdfunding, African migrants can continue supporting entrepreneurial activities by helping family members and friends in their countries of origin via the mediation of crowdfunding platforms. The role of the diaspora should be explored more seriously, and awareness campaigns should be launched within that community too, as part of the solution possibilities for crowdfunding in Africa. For this purpose, it is essential to connect with top social media specialists, bloggers, and tastemakers to interconnect with native and outside-based listeners and readers. Another weakness of the literature on Crowdfunding in Africa is that most of the studies have been exploratory and qualitative in nature, based on existing literature. Very few studies involved empirical inquiries, and that is the challenge for future research. Extensive empirical studies should be the focus from now on in order to demystify the real issues of crowdfunding in Africa and work together with all stakeholders to resolve them. Crowdfunding should have the same attention as other financial inclusion sectors such as credit and savings cooperatives, from governments, the population, and the platform creators alike.

Acknowledgments

The author acknowledges that the article is his work alone, based on literature review on crowdfunding in Africa. All authors whose work has been cited are acknowledged. The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy or position of any affiliated agency of the author.

Author Contributions: Conceptualization, Methodology, Data Collection, Formal Analysis, Writing—Original Draft Preparation, Writing—Review And Editing by author. Author read and agreed to the published the final version of the manuscript.

Institutional Review Board Statement: Ethical review and approval were waived for this study, due to that the research does not deal with vulnerable groups or sensitive issues.
Data Availability Statement: The data presented in this study are available on request from the corresponding author. The data are not publicly available due to privacy.

References


Publisher’s Note: SSBFNET stays neutral with regard to jurisdictional claims in published maps and institutional affiliations.

© 2023 by the authors. Licensee SSBFNET, Istanbul, Turkey. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (http://creativecommons.org/licenses/by/4.0/).