



Covid-19 Advisory Note: How Development Agencies can use Crowdfunding in Africa

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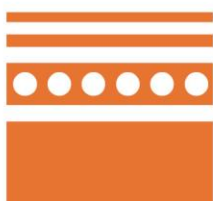
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Development finance institutions will play a critical role in Africa's resilience and recovery from the Covid-19 crisis, both through direct financing of African institutions thanks to their continued access to capital markets and high ratings, and through unlocking domestic savings through capital markets innovations. This note aims to provide development agencies with strategies that leverage crowdfunding, an alternative investment mechanism that has useful features in the current context. Funding needs at the individual (aid) and business (finance) levels have been well documented elsewhere. Examples of the use of crowdfunding during the Covid-19 crisis are provided [here](#). We identify at least four Covid-related trends that favour the use of crowdfunding:

1. A "risk-off" investment regime means less risk capital for African GPs, SMEs and start-ups.
2. Widespread economic recession will herald lower valuations and hence the need for smaller investment deal sizes: everyone is now in the "missing middle".
3. Heightened exchange rate volatility requires local currency finance.
4. Social distancing and travel bans require digitised investment processes.

Crowdfunding platforms provide an alternative finance mechanism to traditional funds. Both SMEs and GPs can use crowdfunding platforms to raise funds. In the case of GPs, a "crowdinvestment vehicle" is listed on a crowdfunding platform rather than a single deal. Crowdfunding platforms are ideal for small deal sizes, as the overall transaction costs are minimized through technology and mutualised across a large number of deals. Funds are generally raised in local capital from local or diaspora individual investors. Lastly, crowdfunding platforms make use of digitised investment process that allow investors to participate in due diligence without needing to be located in the same city as the investee, and to leverage the due diligence done by other investors that are located in the same city.

The significance of the ballooning "missing middle" trend is reflected in the decision of South African billionaire, Johann Rupert, to deploy his R1bn Covid support programme through a specialised SME finance organisation, [Business Partners](#). Business Partners is the only organisation whose relentless focus on financing "missing middle" SMEs has resulted in scalable, digitised investment processes capable of supporting hundreds (and now thousands) of SMEs per year under a Permanent Capital Vehicle structure. This type of organisation is lacking in other African markets. Crowdfunding and alternative fintech lenders can help fill this gap thanks to their scalable, digitised processes and focus on the low end of the SME market.





We identify three areas of action for development agencies: market building, investment and aid.

I. MARKET BUILDING ACTIONS

Fund the implementation of the enabling framework for investments-based crowdfunding. FSD Africa has funded the first stage of this and regulators in several countries are committed to the process; however, more funding is required to implement the framework.

- Type of funding: Grant
- Implementation partner(s): ACfA, Regulators
- Time to impact: 6-12 months
- Geographies: Kenya, Rwanda, Uganda, Nigeria, CEMAC, Angola (2020); Zambia, Ghana, WAEMU, Malawi, Namibia and others (2021-22)
- COVID-19 LENS: this intervention is what allows all further actions on crowdfunding to take place in a legal, secure and compliant fashion. It is critical that crowdfunding is enabled now in order to be used in the recovery period.

II. INVESTMENT ACTIONS

- A. Design a co-investment strategy to catalyse private sector investments on crowdfunding platforms
 1. Type of funding: Grants, Zero-interest rate loans, Uncollateralized debt, Equity (various)
 2. Implementation partner(s): Crowdfunding platforms, Angel networks
 3. Time to impact: 3-6 months
 4. Geographies: jurisdictions with an enabling framework
 5. COVID-9 LENS: this intervention could be structured to target investments in companies assisting in the crisis, eg. Private health clinics, hand sanitizer and mask production companies.

- B. Fund small, local GPs using Crowdinvestment Vehicles (CIVs)
 1. Type of funding: Risk capital; Grants (TA for design and potentially new platform development); Permanent Capital Vehicle structures
 2. Implementation partner(s): emerging GPs, crowdfunding platforms
 3. Time to impact: 6-12 months
 4. Geographies: jurisdictions with an enabling framework
 5. COVID-9 LENS: this intervention could target CIVs with large exposures to Health and MedTech companies, and/or to sectors that are poised to grow in a post-Covid world.





C. Invest in Crowdfunding Intermediaries

1. Crowdfunding is a resilient sector in a post-Covid world for the reasons listed above
2. With an enabling framework being rolled out in several African markets including its largest, Nigeria, there is an opportunity for new and existing platforms to take new market share and establish market dominance.
3. Capital investments into the intermediaries will allow them to position their platforms for new client groups such as GPs
4. Part of the capital investment could be allocated to investments in the underlyings to pilot new financial instruments.
5. Type of funding: Equity, Debt, TA
6. Implementation partner(s): crowdfunding platforms
7. Time to impact: 3-6 months
8. Geographies: jurisdictions with an enabling framework
9. COVID-9 LENS: this intervention could include specific relief for SMEs affected by Covid and/or enable the intermediary to provide direct relief such as 3-6 months interest payment moratoria.

III. AID ACTIONS

Development agencies seeking to provide relief in the emergency response to Covid-19 may consider the following interventions that use donations-based crowdfunding platforms:

- **Cash transfers:** these are direct transfers of cash to individuals considered vulnerable as a result of Covid-19. Crowdfunding platforms should be scrutinized on their beneficiary selection criteria and processes to avoid agency problems related to such an intervention. Crowdfunding platforms may provide an effective access to parts of the population that are not covered by government safety nets and public relief efforts.
- **Campaigns with a direct beneficiary:** these interventions involve the funding of a crowdfunding campaign set up by an institution such as a hospital or clinic that is raising funds for medical equipment and supplies.
- **Campaigns with indirect beneficiaries:** these interventions use an institution such as a hospital to identify funding needs of individuals, eg. medical bills, which are then crowdfunded. The institution is well placed to ascertain the veracity of the need and can provide proof, such as a prescription or hospital bill.

Finally, African economies need an alliance of governments, private sector and development agencies to survive the Covid-19 fallout. This alliance must rewrite the playbook: new financial instruments, faster processes, a shift in risk perception and mindset are required.





What does a tripartite alliance for crowdfunding look like?

Governments:

- Drive the adoption of appropriate regulations and incentives for crowdfunding
- Distribute stimulus packages through licenced crowdfunding platforms

Private sector:

- Crowdfunding platforms distribute government and development agency support
- Private individual investors invest in local SMEs and Start-ups
- Smaller GPs use crowdinvestment vehicles to raise their funds on crowdfunding platforms

Development agencies:

- Enable the market through regulations,
- De-risk local investments to catalyse private sector investment
- Complement government relief efforts by funding vulnerable groups through donations-based crowdfunding platforms.

About the African Crowdfunding Association

The African Crowdfunding Association (ACfA) is a Pan - African industry association for crowdfunding intermediaries in Africa. Funded by FSD Africa (UKAID/DfID), ACfA works with Regulators on the continent to strengthen the legal framework, regulation and oversight of crowdfunding. ACfA also works to build the crowdfunding market through awareness raising actions and trainings to its members.

Please request a list of ACfA-approved crowdfunding platforms if you are considering the above interventions.

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