Crowdfunding Lessons from Developing Economies

The Importance of Ready Entrepreneurs, Enablers, and Mentors as highlighted from Clean Tech Campaigns

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Introduction

When the e-commerce industry launched in the developed economies it was first met with skepticism. Why would anyone want to buy a product online? How can you trust a seller and feel confident that your product will arrive as promised? How safe is your bank information and what if a fraudster stole your money or identity? A little over a decade old and multibillions of dollars later, it is impossible to imagine life in the West without e-commerce. Millions of people send billions of dollars to people and businesses for products and services in online transactions. Ratings mechanisms shed light on the trustworthiness of sellers, the authenticity of Airbnb rentals, and the perception of Uber drivers. Thanks to technology that evolved along with e-commerce, more and more people are accustomed to receiving a text message, email, or phone call when someone makes a suspicious charge using their credit card, opens an account on their credit profile, or tries to make a large withdrawal from their bank.

None of this would have happened if the tools and technologies had not been developed to facilitate the evolution of this industry, to answer the questions, and tackle the problems. Even though e-commerce has had its share of failures (Pets.com), setbacks (slow growth in online grocery delivery) and challenges (online marketing), the market continues to grow economically, evolve technologically, and efficiently transact business. Rather than shy away from technology when problems arise, smart people, organizations, and governments realize the benefits far exceed the risks, and technological innovation is something to get in front of, not behind.

These same technologies led to new forms of online engagement called the Social Network (made famous by Facebook) and now are unveiling the rapid evolution of the online financial marketplace (made famous by Kickstarter and LendingClub). These new marketplaces provide a meeting ground for people and businesses that need money, and people who have it. This is called crowdfunding, and has taken on several forms that include donation, people give their money to others; rewards, people receive a reward or product for their money; debt, people loan money to
other people and/or businesses in exchange for principal and interest; and equity, people invest in businesses for the long-term potential of profit.

In less than a decade, crowdfunding has evolved into a $16 billion\(^1\) marketplace, mostly in the advanced countries in the developed world\(^2\). It has been heralded as the next frontier in finance, the missing middle, offering developing economies the opportunity to leapfrog many developed economies in access capital. In 2013, the World Bank published a report, *Crowdfunding’s Potential for the Developing World*, which estimated that as much as $96 billion in capital could be unlocked and directed towards individuals and innovative businesses around the world seeking funding to grow. This hypothesis was based on the evolution of crowdfunding in the developed economies and that with the right enabling environment (the right mix of social, cultural, regulatory, and technological variables) supply would meet demand for capital. However, the report left open several key questions, for instance:

- Is there sufficient demand from entrepreneurs in the developing world to crowdfund their ideas?;
- Is the funding void that exists in the developing economy different that on advanced economies and could crowdfunding fill that gap?;
- Is awareness of crowdfunding deep enough to have a significant impact?; and
- Could crowdfunding bridge the gap between proof of concept and seed funding in the developing economies as has been seen in the developed world?

To test the hypothesis and answer some of these questions, a pilot test was conducted by the World Bank at the Kenya Climate Innovation Center (KCIC) located at the Strathmore Business School in Nairobi, Kenya. The KCIC is a shining example of an accelerator focused on promoting clean-tech solutions in Kenya. In the 3 years since it was established the KCIC has graduated over 50

\(^1\) All dollar amounts are U.S. dollars unless otherwise indicated.

businesses. The KCIC provides on average US$25,000 in grant funding to innovative companies that meet a selection profile that includes: team, technology and market potential. Post grant financing, these companies face the omnipresent challenge of access to capital, because no matter where you are in the world as an entrepreneur, capital is limited and hard to come by. Some of the funding challenges that these startups and small medium enterprises (SMEs) face include:

- capital markets are geared toward larger companies that are more established;
- bank financing is limited, because startups and SMEs are too young and/or too risky; and
- the business angel and venture capital (VC) market is nascent and focused on “big wins.”

Six entrepreneurial teams were selected in Kenya to be taken through a process that included crowdfunding training, mentorship, and milestone deliverables. The net objective was to launch crowdfunding campaigns, quantify the results, and capture lessons from a developing economy point of view. As the program progressed, it evolved and was adapted in light of improved understanding about the environment in which the entrepreneurs operated, the readiness of the teams, and their ability to meet deadlines. As with many pilots, timelines were extended, mentorship was augmented, and goals were adjusted. Ultimately, while none of the teams met their funding target in full, all of them received valuable lessons. Participants in the program thought it was a worthwhile experience that would help them in their next attempt, in which they would focus more on building their social network prior to crowdfunding, and approach it with a clearer understanding of the time commitment.

In order to build further on these findings, examples of successful clean-tech crowdfunding campaigns were analyzed. In this comparison, only developing economy campaigns were considered. However, this presented several challenges: comparable campaigns were all run by indigenous white Kenyans or westerners had established social networks with greater disposable income, and these social
networks were their main funders. These factors were acknowledged as affecting the outcome of the campaigns but nonetheless provide insight into what entrepreneurs in a developing economy should consider when trying to build a successful crowdfunding campaign.

The report also encompasses learning from both successful and unsuccessful campaigns. It should provide readers (entrepreneurs, incubators and accelerators, and global enablers) with practical lessons to help them prepare to crowdfund if they determine it is a path they wish to pursue. Everyone interviewed, even those that were unsuccessful, saw benefits to crowdfunding in addition to monetary benefits. These tangible benefits should encourage others to consider crowdfunding and define success on the priority of those benefits, particularly if they don’t hit their funding target.

Tangentially, this report seeks to shed light on questions similar to those at the beginning of this report, for instance: what would it take for someone to send money to an entrepreneur on the other side of the world?; how can you trust that entrepreneur and feel confident that they will do as they promise?; and how credible is the crowdfunding marketplace and what if a fraudster took off with your money?

Six Themes

Throughout the interview process, and in discussions with at least 20 more individuals from the developing economies, six major themes emerged:

1. There is an opportunity cost to crowdfunding versus other sources of capital;
2. Crowdfunding is new and awareness, understanding, and contextual applicability is lacking;
3. Platform selection can influence crowdfunding outcomes;
4. You cannot crowdfund without a crowd;
5. Where there is trust and authenticity, there is capital; and
6. Mentoring by a local champion may overcome educational barriers.
For each theme, interviews and research revealed many factors that play an important role in influencing the outcome of a crowdfunding campaign. These include environmental variables that are beyond the control of the entrepreneur (such as social, cultural, and regulatory issues) as well as issues more personal to the individual entrepreneur (such as available time, extent and quality of social networks, and a general openness to the process)

### Opportunity Cost of Crowdfunding

Crowdfunding is a new way to do a traditional but difficult thing. It leverages technology (Internet platforms) and the social network (community) to efficiently reach a broader set of supporters (crowdfunders). However crowdfunding is not the only financing tool available to entrepreneurs, and entrepreneurs that are serious about raising money need to consider the alternatives available. Entrepreneurs need to understand that different types of capital are appropriate for different types of businesses. Different types of capital are right for different stages of a company’s development. Furthermore, different types of capital may be better suited for the developing economy than the West. Even the starting point for capital in the developing economy is different in many cases and usually begins with grants and microfinance, while in the developed world it typically begins with one’s personal savings. The most common main funding options are outlined below, with their strengths and weaknesses.

### Developing Economy Funding Sources

Microfinance was made popular by the Grameen Bank and brought into the online world with the help of Kiva. The Grameen Bank is both a microfinance organization and development bank that makes small loans to the impoverished without collateral (the main thing banks require, and the main thing the impoverished and other fringe entrepreneurs lack). Grameen Bank prides itself on servicing over 7.5 million borrowers, mostly women, with 65% of them able to

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improve their socioeconomic conditions. However, the Grameen Bank only serves Bangladesh. This is where Kiva stepped in to open the doors to entrepreneurs outside of Bangladesh. Like the Grameen Bank, Kiva serves the low end of the funding spectrum. It provides a simple “we help you” model. Kiva partners in performing diligence on entrepreneurs, they do the marketing outreach, gather financing, and handle repayments. This is unlike crowdfunding, where the entrepreneur is responsible for all the campaign preparation, marketing outreach, and communication. This is usually the biggest challenge for entrepreneurs in preparing to raise money and reaching their funding target. Perhaps the biggest difference between the two is that those seeking crowdfunding are usually trying to raise larger sums of money for bigger outcomes than those in microfinance.

Figure 1. Characteristics of Different Sources of Funding.
Grants are funds provided by governments, universities, NGOs, and so on, to fund specific projects. Usually these organizations invite individuals and businesses to submit proposals for grant funding. Grants require report writing, documentation, follow up, and disclosures on expenditures. While application for grants come with structure and are typically relatively simple, funding delays can be common. Crowdfunding has a closed window for funding with no guarantee on financing. Crowdfunding while not requiring ongoing reporting is driven by transparency via ongoing communication. One of the entrepreneurs who went through the crowdfunding mentorship and also received grant financing described the difference as, “in grant financing you are trying to mold your company into a profile by ticking boxes. In crowdfunding you invite people to join you on a journey.” She best captured the difference by saying “one is process driven while the other is emotion driven.”

Business angels and venture capital – Angels are typically high net worth individuals, many with prior entrepreneurial experience who make investments into promising startups. They usually co-invest with other angels in a deal. They usually reside within proximity to an entrepreneur and play an active role in fine-tuning the business model with their knowledge and experience. Venture capital is money managed by firms (VCs) that invest in businesses. They usually deploy larger amounts of money in a fewer companies and play an important role in scaling a business by leveraging their relationships. In either case, the challenge is getting introductions to them and securing funding. It has been widely discussed how hard the money is to come by and VCs fund less than 2% of the deals they are offered. In the developing economy, there are even fewer angels and VCs, and where they exist they are decentralized making co-investment or syndication of individual deals to other investors more difficult. This means they have to consolidate their money in fewer deals, thus reducing the total potential number of companies that can be funded.
Banks can provide a loan if a business has cash flow, collateral, and fits the bank’s risk profile. Unfortunately, for many startups and even SMEs, this hurdle is too high (for example, the firm does not meet the minimum number of years in business, minimum sales history, or minimum deposits on hand). With the collapse of the financial markets during the global financial crisis of 2008, lending requirements became stricter as banks became more conservative. The trickle down results of this had a more negative impact on the availability of funds for startups and SMEs than it did for larger, more established enterprises. Nonetheless, banks tend to be constrained in their investment options and many ideas that are ripe for crowdfunding are not ripe for bank financing.

Entrepreneurs often say that while there are many funding options in theory, in practice there are few that fit. This makes the funding challenge even harder in the developing economy. It is also the reason why crowdfunding may represent a unique opportunity. However, crowdfunding may also come with similar challenges, as was discovered in the pilot.

**Focusing on the Business**

There are trade offs when it comes to raising capital. The first is that raising capital takes time and effort and means that the entrepreneur has to devote attention to this while continuing to focus on the day-to-day running of the business. This may also be the case when running a crowdfunding campaign, particularly if human capital to help execute a campaign is lacking. Invariably taking resources away from one will affect the time and attention paid to another. This was summarized best by one entrepreneur who said, “You eventually feel like you lose out on one side of normal business operations, management and engagement with the company. Sales go down and you generally lose income as you put more time into the crowdfunding process.” This challenge however is not limited to crowdfunding but applies to any type of financing in which raising money is often referred to as a “full time job.” It is important for entrepreneurs to budget the time and resources for this so that the business does not suffer.
Case Study: Nikweli – Using technology to connect job seekers with service and industry jobs in Tanzania

Agnieszka Łyniewska is a former World Bank employee that saw a need. There was a disconnect between companies looking for service and industry employees in Tanzania, and young individuals seeking them. Her goal was to solve this problem with a technology platform that would seamlessly match the two. In order to accomplish this Angie needed to register her company, develop the second version of her technology/website, perform outreach, and advertise. Like many startups, other forms of financing were not open to her – she did not qualify for loans, and her grant funding was taking too long to arrive.

In response, she created a Kickstarter crowdfunding campaign with the goal of raising CAD$5,000 (about $4,000) to meet her cash needs. She raised CAD$6,366 (about $5,000) from 40 backers. The main target of her campaign outreach was friends and family and not Tanzanian locals, who do not have a strong historical culture of giving to strangers. When they do choose to give, they tend to give cash, which cannot be accepted by Kickstarter. In addition, credit cards (the main payment mechanism) are not widely used. When asked about the low use of online payments, Angie said, “people still go to a store to pay for a plane ticket.” While she bemoaned the fact that “Kickstarter took a lot in fees,” they were able to hit their target. Ninety-five percent of their backers were personal contacts. “It was a bit more work than we

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4 As will be discussed later, Kickstarter is only available in certain countries not including Tanzania. However because Angie is originally from Canada with a Canadian bank account she was able to create a Kickstarter campaign.
thought,” she said. Compared to the process for grant financing, it was a faster process but time consuming. “There was a lot to follow up on. We had to send out personalized emails to friends and family.” That outreach, while time consuming, she said, “was fun, but was also time we could have spent doing things for the company.” In order to get the 40 donors, she reached out to 500 individuals. Now that she was successful she says the campaign served as a useful proof point. “We are able to say we ran a crowdfunding campaign and it was successful. It helped with our credibility and played a role in getting us into African Leadership Ventures, an accelerator program that invested $20,000 in the business.” Some of the key lessons from this campaign are:

• A realistic target should be set that matches the minimum amount of funding needed to accomplish the goal.
• It will take more time than expected.
• The majority of the money will probably come from first and second degree connections.
• Outreach should be personalized.
• While the opportunity cost is time, the benefit is credibility, awareness, funding, and the potential for follow on investment.

Questions Entrepreneurs Need to Ask Themselves
To better understand these opportunity costs one needs to understand the motivation and mindset of the entrepreneur. Questions entrepreneurs should to ask themselves are:

Table 1. Understanding Motivation and Mindset of the Entrepreneur

<table>
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<tr>
<th>Question</th>
<th>Consideration</th>
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<tbody>
<tr>
<td>Why do you want to raise capital?</td>
<td>In crowdfunding, the crowd wants to know how much money you need, why you need it, and how you are going to spend it. Make sure you can clearly explain this. Do not think of the crowd as an untapped torrent of cash. Keep it simple, small, and accountable.</td>
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Awareness, Understanding, and Contextual Applicability

When considering crowdfunding, one should understand that the prospects of a company cannot be divorced from the context within which it operates. This is true not just for the company (micro) but the environment for entrepreneurship in that country as well (macro). There are, however, ways to mitigate the risks and these include:

Research crowdfunding campaign averages. This requires spending time on crowdfunding websites and documenting your findings. Findings from this research should be used to answer the following questions: How does the sector perform in crowdfunding globally, in the relevant country, and regionally? How does the sector perform with the different types (donation, rewards, debt or equity) of crowdfunding? The reality of these findings should not be ignored. They set a range based on prior outcomes that determine what can realistically be achieved. For example, the average raise for all renewable energy projects around the world on Indiegogo is $58,000. It would be unrealistic to attempt to raise $500,000 when the data signals that this is not achievable.

<table>
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<tr>
<td>How are you going to raise capital while running a business?</td>
<td>Whether crowdfunding or another form of fundraising, raising money is a full-time job. Because of this you either need to budget to have two full-time jobs (Chief Executive Officer and Chief Fundraiser) or additional human resources to pick up the slack on running the business. (Note: do not try to outsource the money raising part. The crowd is putting their money in YOU not someone raising money for you)</td>
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<tr>
<td>Will you be fully committed to raising capital</td>
<td>In crowdfunding the beginning of a campaign is exciting for you and your backers. But the crowd’s interest will wane and there will be many disappointments. You cannot give in. If you do, you probably will not reach your goal. Crowdfunding is a game of endurance and it takes time and preparation.</td>
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<tr>
<td>If you pin your hopes on crowdfunding and you do not consider other forms of financing what happens if you don't succeed?</td>
<td>Crowdfunding is not the cure for all the funding challenges that startups and SMEs face. Consider all your funding alternatives and be smart. You need to have multiple plans in case one fails. This includes your crowdfunding campaign. However do not only look to crowdfunding for money, consider all the other benefits it may bring to you including brand exposure.</td>
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Understand the cultural variables that drive giving. For example, people are generous in Kenya, but primarily within their own communities. Outside of that, people are skeptical that the funds will go where expected. Outreach needs to take these kinds of cultural variables into account (for example, a campaign might target 90% diaspora and 10% local potential supporters) so that time is not spent targeting the local population when the most funding will come from elsewhere.

Understand how money flows. “In Kenya mobile money transfer is more common that credit cards,” said one entrepreneur. “You cannot separate yourself from this reality.” Thus it is important to research which crowdfunding platforms integrate mobile money payments so that those who wish to provide funds for a campaign are able to do so easily.

Understand the funding capacity of the network, particularly at different times of the year. For instance, in targeting diaspora networks, it is important to understand when is the best time of the year to approach them (for example, when they are in the giving mood, towards the end of the year, and so on) and avoid launching a campaign when backers are less likely to give (for example, January, summer, and mid-financial year). Good times might include Chinese New Year, Christmas or other significant yearly milestones that equate with giving in a particular diaspora.

Understand where capital is flowing. Understanding what is going on in the world may be key to a campaign. For example, a campaign may benefit from money flowing into causes like the Ebola crisis if the company has a product or service that may help. Or perhaps a business with social impact like job creation may match where global money is flowing. Being aware of the sources of such capital can help in targeting a campaign. For clean technologies, where is the money coming from and going to? Finding answers to questions like this and identifying supporters of such causes may help to find the contributors to a campaign. Peer mentors can play an important role in identifying who these supporters might be, so guidance should be sought from those who have previously run successful crowdfunding campaigns. One of the entrepreneurs in the pilot program said, “The people with prior success
in my field with Kickstarter were great peer mentors. They were very generous with their time and sincerely wanted to help me succeed by sharing their contacts and knowledge.”

Companies that are interested in crowdfunding have to determine if they are truly well equipped to conduct a fundraising campaign, taking stock of the micro variables that the company can influence. Companies need to perform an internal audit to see if they have the necessary capacity, human resources, community of supporters, as well as a story that matches the interests of those supporters.

The audit particularly needs to be realistic about the time commitment that is required in crowdfunding. As stated by one entrepreneur, “The time commitment is greater than one can expect, and it comes on unexpectedly. If we had more time I would have done much better. Just to prepare I would have wanted 3 to 4 months, and then did the soft launch⁵.” This begs the question: what exactly is it that demands so much time? It comes down to taking the time to learn what crowdfunding is and the different types. The tasks involved include:

- Conducting focus groups to make sure the company’s message resonates with potential backers.

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⁵ In the pilot, the entrepreneurs prepared all their crowdfunding materials and prior to their campaign going live had a “soft launch.” In this period they reached out to those backers they were “confident” would contribute to their campaign to let them know what they were doing, why they needed their money on the first day of the campaign (to show social proof to others), and when they would need it. They used this to get a verbal commitment of funds they were going to expect on the first day. Past experience shows that if you hit 30% of your funding target within the first week, you are almost certain to reach your funding target.
• Preparing all the campaign components (for example, graphics, video, written materials, and loans documents or subscription agreements if seeking debt or equity).

• Understanding, and knowing how to use, the social media analytical tools to amplify marketing outreach\(^6\).

• Executing the marketing plan and managing the campaign

Entrepreneurs seeking crowdfunding should follow a framework to assess if the necessary capacity, resources, and supporters are sufficient to proceed. Such a framework would benefit from the use of project management tools such as a Gantt chart (see Figure 2) that breaks the timeline of a campaign down into components, includes estimations for time needed to complete each step and projects a date at which the section should be complete. Using a tool can not only help to understand the time commitment necessary but keep the project on time as it progresses.

Finally, entrepreneurs should understand that crowdfunding comes with its fair share of costs. For example, there are costs required by a campaign sponsor to create graphics that will be used on the campaign page, produce, film and edit the

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\(^6\) For the program that was run in Kenya, the participants had access to a social media tracking tool called Nuvi (http://www.nuvi.com). While relatively easy to use it requires set up, maintenance, and continual participation for maximum effect.
video, and assist in marketing outreach including any press they wish to receive in the nationwide media.

Case Study: Wanda Organic – Return on time other than money

Marion Moon, an entrepreneur in Nairobi, Kenya, is a client of the Kenya Climate Innovation Center. Her company, Wanda Organics, is focused on soil fertility. “By bringing farmers the very latest in bio-organic soil fertility technologies, Wanda enables them to produce more and better food than ever before, thus increasing profitability and family incomes, improving nutrition, creating new employment, developing rural economies, while restoring and strengthening the health of Africa’s soil.”

Her crowdfunding goal of $45,000 was to be used to build two distribution centers, build training and demonstration sites, hire two agents, as well as cover administrative costs. When her campaign closed she had raised $7,895 from 32 people (one $5,000 donation came offline in the form of a check).

Marion admits there were some challenges. “To raise donations for our kind of project or business is not so appealing. You go for donations or grants for emergencies, for education, for health issues but not for a business (even an environmental impact one). The ideal structure should have been debt. I had a lot of people approach me and say, ‘I have this but what do I get in return?’”
And she faced similar challenges with her marketing outreach. “When we launched our campaign we started to get a lot of local attention.” However her target market was diaspora backers who would be willing to use credit cards (people in Kenya were reluctant to use credit cards online). “Trying to reconcile who we were targeting (diaspora) with who we were marketing to (local contacts) became tricky.”

However, she also admits the process had a lot of benefits. “Before we had the campaign we didn’t have social media entrenched into our thinking.” After the campaign she acknowledged that “social media can have a lot of impact and we pay closer attention to it now because we see what kind of impact it had for us, not only in terms of a crowdfunding project but as way to keep people informed.” The impact “built our brand,” she says. “There is (now) this perception that Wanda is huge because we post every day. It is changing who we are, the type of people following us, and how people see us. Qualitatively the people who have followed us have improved.”

It also propelled her image. “I’ve been invited to contribute an article on agriculture in East Africa. I didn’t know my opinion mattered.” But people said, “we read about you.” She now has an equity investor on the table and a partnership with a development agency, both of which were a direct result of the campaign.

Some of the key lessons from this campaign are:

1. It is important to spend the time matching the type of company to the right type of crowdfunding.
2. Crowdfunding is about much more than money. If social media and marketing outreach is done right, it can have a positive impact on the brand and propel an entrepreneur as an expert.
3. If a campaign only accepts credit cards but is located in a country where culturally people are suspicious of purchasing online, the option of collecting funds offline should also be made available and reported on the campaign web page.
Platform Selection Can Influence Crowdfunding Outcomes

While Kickstarter and Indiegogo might have the biggest brand recognition when it comes to crowdfunding, there are several others that are multiple times larger, based on transaction volume, such as LendingClub, Prosper, and Justgiving. However, brand, transaction volume, or the number of campaigns alone should not determine which is the right choice for an entrepreneur when considering a crowdfunding platform. In particular when considering crowdfunding in the developing world this is even more important as other challenges arise. These challenges include the payment mechanism of the platform (for example, what forms of payment does the platform accept on behalf of the campaign?) and cultural constraints around online payments (for example, as already highlighted, in countries such as Kenya and Tanzania people fear using credit cards online, although they are willing to swipe their cards on a machine, write a check or pay with cash). The disconnect between how people prefer to pay locally and what the platforms can accept as a payment represents a big challenge and may reduce the chance for entrepreneurs to hit their funding targets.

The entrepreneurs in the Kenya pilot faced both challenges. First, because none of the entrepreneurs had a U.S. bank account (or account from which Kickstarter could accept payments) they were immediately disqualified from using Kickstarter, the preferred platform choice of many of the participants. Second, alternatives, such as Indiegogo, allowed them to launch campaigns but still left them with the local payment challenge. This is exemplified by the entrepreneur who stated earlier her frustration at the inability to convert the local media and attention into dollars for her campaign, because the payment gateway for local currencies did not exist.

However, there are ways of working around these issues. In the case of Kenya, M-Changa offers an alternative. M-Changa is a crowdfunding platform built to address the main problem facing local purveyors of crowdfunding campaigns,

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7 Kickstarter currently host campaigns from the following countries: United States, United Kingdom, Canada, Australia, New Zealand, the Netherlands, Denmark, Ireland, Norway, Sweden, Germany, France, and Spain.
accepting payments the way Kenyans are used to making them – via their mobile phones. M-Changa has its own payment gateway to process mobile payments but also accepts M-Pesa, the widely used mobile payment system. M-Changa even has the ability to integrate with crowdfunding platforms like Indiegogo. In doing so, they are able to address the local payment issue, which means increased local engagement as well as the ability to attract an international audience. Nevertheless, this does not come without its fair share of work. Campaign sponsors who wish to be listed on both M-Changa and Indiegogo essentially have to run simultaneous campaigns. This means double the work, double the updates, double the communication, and so on. However, if managed properly, the campaign will benefit from increased local media coverage that prefers to discuss how a “local entrepreneur is using a local crowdfunding platform to receive local currency from a local crowd.” If crowdfunding is about community finance, and this money resides both domestically and internationally, a true unified solution needs to be presented in order for the full potential of these campaigns to exist. Until then, entrepreneurs need to look for local platforms that can address this challenge.

Engage Other Ecosystem Players

Entrepreneurs are afraid that not having the brand recognition of platforms like Kickstarter or Indiegogo may harm their chances of reaching their funding targets. The reality, as will be discussed later, is that success depends more on “who you know” rather than on the technology used. So how can entrepreneurs in the developing economy tackle this challenge? They should not only identify local crowdfunding platforms but engage with other ecosystem players that “partner” with those local crowdfunding platform.

In Kenya, some of those players are the Kenya Climate Innovation Center (KCIC), iHub, Nailab, 1% Club, and M-Changa. The KCIC, iHub, and Nailab are co-working, incubator, and accelerator programs that not only connect individuals, but also offer matching fund opportunities. A perfect example of this (and one of the success stories in the case of Kenya) is the Cheetah Fund in conjunction with the 1% club. The Cheetah Fund is a €400,000 (about $450,000) fund to “support
African pioneers with seed money to kick-start or boost their world changing projects. If pioneers manage to crowdfund at least 30% of their target amount via 1% Club within 30 days, The Cheetah Fund will grant them the remaining amount.” This is a great way to combine crowdfunding with grant financing and was one of the ways in which one of the pilot entrepreneurs used the mentorship to successfully raised €15,000 (about $17,000). Entrepreneurs should seek out such local collaboration initiatives as it will dramatically reduce the amount needed to crowdfund and expand their ability to receive additional financing⁸.

Figure 2. Matching the Business to the Crowdfunding Platform

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⁸ The World Bank report, *Crowdfunding’s Potential for the Developing World*, explains how this can be accomplished. For more information see: How Governments, Multilaterals, and Development Organizations Focused on Building Entrepreneurial Capacity can Leverage Crowdfunding Co-investment Vehicles to Maximize their Efforts.
Delving deeper, entrepreneurs need to determine which particular category of campaign (donation, rewards, debt or equity) is most appropriate, given the business concept, the stage of development, growth potential, and the type of people being targeted. The matrix shown in Figure 2 should assist. One axis shows the stage of the business (from idea to an established business that has customers and cash flow), while a second describes the growth potential of the business – from low (for example, a local store) to high (for example, technology companies that have a strategic buyer). On the third axis is the type of business (from service to product), and on the fourth is the type of backer to be targeted, that is either donor, or investor (from one that expects no return or a conservative one to high-risk taker).

Entrepreneurs need to analyze their business according to each of these axes and decide where their business model fits in the matrix. Care is needed not to choose the wrong type of platform. As one entrepreneur said, “we ticked a lot of boxes people were interested in (women, entrepreneur, agriculture, Kenya) but not the one they wanted to use (debt). People wanted to participate but we didn’t have the structure they wanted to invest in – debt. If I had to do it all over again, I wouldn’t choose donation.”

While debt and equity appear in the matrix, these are not always an option (nor were they an option for the pilot). The buying and selling of securities (any promise of a financial return is considered a security) is highly regulated. Entrepreneurs need to research if this type of crowdfunding is available in their country (each country regulates their capital markets individually), and if it is allowed what the rules are. They should determine if any local crowdfunding platforms are offering this and consult a securities lawyer before offering either debt or equity to the public via crowdfunding. For those that wish to enable these forms of
You Cannot Crowdfund Without a Crowd

While choosing the right platform is key to speaking about a campaign, the platform alone will not convert a campaign into money. You cannot crowdfund without a crowd. Many entrepreneurs believe that their campaign will go viral when, in reality, one’s network has a greater chance of determining success. This means it is important build the network before starting a campaign, ensuring it is up to date, active, engaged, and keenly focused on the entrepreneur, the business, and the problem that is trying to be solved. For each of these targets “you, your business, and the problem you solve,” there are different networks. One of the keys to crowdfunding is working out how to activate each of those networks. This starts with understanding and navigating the social network.

First, the entrepreneur needs to build a database of contacts that includes individuals, organizations, associations, nonprofits, NGOs, newspapers, radio television, and magazines. Time should be taken to build this list that includes contact name and contact information, because the entrepreneur will be reaching out to all of them during a crowdfunding campaign. All potential contacts should be included. The need to cast the net widely is illustrated by the following example.

One of the entrepreneurs in Kenya developed a clean, multi-fuel, multi-pot cooking stove. One of his identified contacts was a fishing magazine. The magazine saw the story from several angles:

• It was a new innovative product fishermen that could use;
• It was a clean-tech product that addressed concerns over the environment of which they were keenly aware;

9 For more information on this read “How to Build a Business Case for Debt and Equity Crowdfunding
They could tell an interesting story about how an entrepreneur was using
crowdfunding to raise the money; and
It was a way to engage their readers in learning more about the product,
engage them in the story, and show them where they could buy it.

The magazine wrote about the campaign and the entrepreneur’s phone started to
ring (mainly because his campaign did not go live before the article was published,
which illustrates another important lesson on timing and coordination). So building
a database of contacts requires thinking broadly and capturing anyone who might
be interested in in the product or service in question.

Entrepreneurs should engage these networks online via websites, groups on
Facebook, LinkedIn, and any local social network community by joining dialogs or
posting blogs. This will create an online presence for the entrepreneur, which is
important because in crowdfunding, having someone tweet on your behalf will only
help if you already have some online presence and profile already. Sending
thousands of unsolicited emails is not the way to do this because building an
organic network, particularly one that cares as much about what interests the
entrepreneur, takes time. A few of the entrepreneurs took note of this by saying,
“It isn’t a direct guarantee that your network is your net worth,” and “in
crowdfunding you never really know who is going to contribute, if they will at all,
or if your project will be favored by a well wisher. It is all less certain.” It is
important to form a relationship with the network so that when they are asked for
money, they feel a sense of connection. Or as one entrepreneur put it, “you are
dealing with a big audience with no reason to rally behind you.”

How can entrepreneurs in the developing economy get a broad audience to rally
around them? First, they need to assess the quality of the contacts in their list.
Then they need to prioritize those that may be the most beneficial to them for
which they already have a relationship. Then they need to engage these particular
people in what they are trying to achieve and seek their assistance. By following this
process an entrepreneur is “strategically curating their crowd to those that are most beneficial.” One entrepreneur put it succinctly when he said, “it isn’t how many friends or followers you have but, rather how many people are willing to buy you lunch.” It is those people who are willing to meet you for lunch who are most likely going to be campaign promoters and sponsors.

But how do you get people to buy you lunch that you don’t really know? First, you start to hang out with them, in person or online. To do this, a marketing plan is needed, which should draw upon the entrepreneur’s Facebook friends, Twitter followers, and other social networks, to identify the most active re-tweeters or commenters and assess how active the entrepreneur is in engaging with them. If such a network is absent, then the entrepreneur either has spend time building it, which would be expected to take six to nine months, or outsource it to someone that specializes in online marketing. This, however, is costly and does not mitigate the risk of failure because it is challenging, and somewhat contradictory, to outsource the building of a social network that is supposed to be personal.

Fostering the development of a personal social network is even more important in economies where e-commerce does not exist or is nascent. Overcoming the challenge of trying to get backers to pay online with a credit card will be easier if the entrepreneur has a built a personal relationship so that funders are willing to accept this risk.

Even with the best relationships and partnerships, entrepreneurs should not assume that their partners will promote their campaigns for them or that their outreach efforts will translate directly into cash. One entrepreneur who failed to hit his funding target took umbrage at his larger partners and said, “the partners didn’t promote the campaigns enough. They were big institutions with a very wide reach and substantial funding. If they really wanted to get involved and make sure that we hit our target, it could have been done. I feel that was not beyond them at all. In fact it should have been a walk in the park.” This serves to illustrate that the only person who can really be relied upon to do the work needed is the entrepreneur.
The work necessary in continuously engaging with a network cannot be outsourced and it cannot be assumed that network partners will deliver results just because they are larger than the entrepreneur or startup. Partners will almost certainly be busy and, while they might be in favor of a new crowdfunding campaign, it might not be a priority. Entrepreneurs should understand that the role of their partners is not to raise funds for them but, rather, to promote the entrepreneur’s fundraising activities.

There is also a misperception that simply listing a campaign on a well-known crowdfunding platform will automatically translate into donors and dollars. This is simply not the case, as it is a competitive market and there are thousands of campaigns active at the same time. Moreover, backers are not simply waiting for the right opportunity to donate money to come along; they are going to the campaign pages of people that invited them there.

Nevertheless, it is still possible to leverage the platform to work on the behalf of a campaign. For example, some platforms like Kickstarter have features such as a “staff pick of the day” if a campaign hits a target within a short period of the campaign launching. Early success may get the campaign listed on the platform’s front page and in their daily or weekly newsletter that may reach tens of thousands if not millions of views. If this happens, it can open a campaign up to people that otherwise would not have seen it.

**Case Study: Shake Your Power – How to leverage a crowdfunding platform’s network**

British-Indian musician, Sudha Kheterpal, had a vision. What if there was a way to harness the kinetic energy created in the process of performing music and use it for off-grid personal needs, like plugging in a light or charging a mobile phone? In Kenya, where 75 percent of the people live off the grid (and love music) she set up SPARK to deliver this solution. In the 30 days that her campaign ran, Sudha says she and her business partner, Nick were a “self-perpetual marketing machine.” It paid off as they were able to raise £53,001 (about $81,000) from 943 backers (her
goal was £50,000). The money would be used for research and development, to pay for design and engineering fees, materials, and education kits to explain how the product worked.

She is not the first person in Kenya with an off-grid solution but she was the first to bring a unique product like this to the crowd. So what was the key to her success? “Spend your time before your campaign preparing,” she says. “Get your marketing messages sorted out. Prime your friends and followers that the campaign is coming to increase awareness.” Of the 947 backers to their campaign, Sudha knew 160 of them personally. “I personally wrote to every single one of my Facebook friends,” she says. “And really try to aim within the first 24 hours to get 10 percent of your goal.” On Kickstarter, if you do this, she says, “you [can] get picked up as the Staff Pick of the Day. This allows for global syndication of the campaign which otherwise would have stayed local.” Kickstarter campaigns stay in their country of origin unless they become syndicated, at which point it is included in their newsletter with millions of potential readers.

So what can entrepreneurs in the developing economy learn from this? First, don’t plan to go it alone. Sudha had two people running the whole campaign. Her partner Nick was focused on social media while she was sending personal emails and on the phone talking to anyone who might be interested. Prior to the campaign launch, Nick performed “call outs” three, two and one day prior to the campaign
launch. By spreading awareness about the launch of the campaign and engaging people to come in on the first day they generated £10,000 (20 percent of target) in the first 24 hours. As soon as they hit 10 percent of their target, “Nick reached out to Kickstarter and hounded them to get featured.” That worked and they were selected as a Staff Pick of the Day. “As soon as that happened we were listed on the U.S. website and Kickstarter included us in a newsletter.” This brought in £16,838 (33.6 percent) in pledges from outside their first or second degree connections.

Even though they had the marketing outreach of Kickstarter, when analyzing the campaign results, almost 60 percent of the funds came from people they had approached directly or were part of her social network (Facebook, Twitter, and Google). Most of the balance was a direct result of being featured on Kickstarter’s website, newsletter, and the 48-hour reminder email. So even though being chosen as a Staff Pick on a platform is a positive sign, it should not be assumed that this will generate most of the money needed.

Some of the key lessons from this campaign are:

• A campaign will take more time than expected. According to Sudha, “there were days that were insane because Nick and I were going nuts on PR. Then there were other days when no money came in and I was up all night. I spent about 20 hours a day for 1 month focused on crowdfunding. It was “full on.” This needs to be budgeted for.

• Outreach should be personal and followers kept informed if opportunities exist, such as being featured as “Staff Pick of the Day” if a particular milestone is reached, as this may stimulate further sizable funds form outside the immediate network. This will be easier if it is a team effort.

• Crowdfunding can bring significant public relations benefits. As a result of the campaign and particularly because of the high profile on Kickstarter, Sudha was contacted by two PR firms which led to press coverage in the United States, including Huffington Post, CNBC, and TED talks, as well as global interviews.
• Another important lesson from this campaign was that the length of a video on a platform should be kept to two minutes or less. Sudha’s second video was over four minutes long and had 33,543 plays, but only 26 percent of viewers watched the film to the end.

A key lesson for any entrepreneur in the developing economy is that a successful outcome of a crowdfunding campaign will require complete commitment. If the campaign starts to snowball as it did for Sudha, the opportunities that arise can then be used to grow the brand and build the profile of the entrepreneur as an expert.

Social media plays an important role not only during the crowdfunding campaign but also afterwards as a way to keep people informed about your brand. As one entrepreneur who wasn’t successful at hitting her target said, “It has built our brand, we post a lot more now because of it. And now there is this perception that our company is huge because we post everyday. If we keep this up and we try crowdfunding again it will go a long way in changing the outcome. One of the things I like about the process is how it changed the type of people who are following us. It isn’t about just getting millions of people, but getting the right kind of people.”

Post campaign, entrepreneurs (both successful and unsuccessful) need to manage their brand to help achieve the goals they outlined during the campaign. “I’ve received calls from everyone from recruitment agencies to equity partners,” says one entrepreneur who did not reach his funding target of $50,000. However, as a direct result of the campaign he signed a contract worth $120,000 with one of his partners. Exposure from a campaign can be used to foster or build new strategic

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10 In analyzing the campaigns that were successful in the developing economy context, the preponderance of the number of non-African campaign sponsors relative to the African ones is clear. This may be explained by a few variables: 1) the people sponsoring the campaigns went with platforms that were non-African and, hence, might not be African themselves; b) the people sponsoring the campaigns had friends and family in the developed world who used credit cards to give; or c) there is generally more awareness about crowdfunding in the West as opposed to Africa.
partnerships. “We started a key partnership with Cisco,” says another entrepreneur who did not hit her funding target. “We realized the campaign can give new partners access to the bottom of the pyramid.” It also allows the campaign sponsors to use their brand to recruit talent. “People are asking us for internships and work,” said another. All of these benefits other than direct capital during the campaign can help promote businesses further than had they done nothing.

**Where There is Trust and Authenticity There is Capital**

Capital flows, both in amount and efficiency, to people and businesses that are perceived to have trust and authenticity. In a developing economy context, this is particularly relevant, especially because face-to-face interaction may be restricted. In Figure 3, the total amount of funds raised grows based on the degree of affiliation (proxy for trust) as well as the size of the donation or investment and the quantity of those investments. Data show that the amount of capital varies based on the type of campaign, but all trend upwards based on the degree of affiliation.

**Figure 3. Trust and the Flow of Capital.**

![Image](crowdfundcapitaladvisors.com)
As entrepreneurs move up the crowdfunding ladder (donation, to rewards, to debt, and then equity) the importance of trust and authenticity increases. This may be related to how funders feel about a campaign’s outcome. At the lower end of the spectrum (donation) donors seem to put their trust in an individual’s aspirations and hence the outcome they support is to be part of something they care about. Raising significant crowdfunding capital under this model is a challenge. At the higher end (equity), backers seem to put their trust in an organization’s ability to execute their strategy, and if trust and a first-degree relationship exist, larger sums of capital can be raised. In the middle, backers put their trust on a specific outcome, or they use risk-adjusted returns to compensate for the fluctuations in trust and authenticity. Again, depending on the degree of connection, and the model, the amount of capital they can raise may grow.

The greatest degree trust, however, is needed between investors and entrepreneurs in the equity model because entrepreneurs will not pay back investors for a long time, possibly not ever. That requires a lot of trust.

Where first-degree relationships do not exist to establish trust, what can entrepreneurs in the developing economy do to make their campaigns more transparent? Online peer review and reputation management tools for entrepreneurs, their businesses and even investors are still nascent in their use and development in the developed world. eBay, Yelp, TripAdvisor and Amazon reviews shed light on people, businesses, and products but do not focus on campaigns. But the need is there (and a business opportunity for someone who wants to address it). As one entrepreneur put it: “As an entrepreneur in Africa, I have a harder task [building trust and transparency]. Someone has to perform due diligence on me. And I have to build credibility.” But it can be done. Developing economy entrepreneurs may benefit from the review of an enabling organization, like an incubator or accelerator. The following case study explains how one organization is facilitating trust between Kenyan entrepreneurs and diaspora investors.
Case study: LelapaFund – The importance of trust and transparency and how they facilitate it

LelapaFund is a France-based equity-crowdfunding (ECF) platform operating with local regulatory approval in Nairobi, Kenya and designed to allow global and African diaspora investors, both individual and institutional, to co-invest in African small businesses. LelapaFund hosts startups and growth-phase small businesses with consumer-facing products, raising between $30,000 and $500,000. Between January and April 2015, one hundred Kenyan startups and small businesses were interviewed for their platform. After comprehensive screening and due diligence, five were selected. Deal structure and valuation were negotiated through a collaborative process with lead investors. This provides the crowd with confidence because the deal is vetted by a party with a vested interest.

Cross-border co-investment raises unprecedented issues of trust and transparency. Addressing them is critical to the success of African ECF initiatives and unlocking a $1-3 billion per year opportunity. Lelapa looks at trust and transparency from the supply (donor/investor) side, and has determined that investment decisions are based on a combination of trust in the platform as an intermediary, and trust in the counterparty to the transaction.

How does a cross-border ECF platform build trust and transparency?

Successful two-sided online marketplaces, such as Airbnb (hosts and guests) and Uber (drivers and riders), enable peer-to-peer transactions thanks largely to the critical role played by the intermediary itself. Beyond creating a user-friendly platform, the intermediary is generally held responsible for consumer protection, legality of transactions, post-transaction conflict resolution, and even insurance for damages borne by users. These platforms provide a useful benchmark for ECF intermediaries. However, user trust in ECF platforms is increasingly underpinned by their regulatory status. Cross-border ECF platforms can offer a high degree of comfort to users by ensuring that they are regulated in a jurisdiction with ECF laws covering risk management, fraud, and consumer protection.
Beyond regulatory compliance in their domestic jurisdiction, ECF platforms operating in developing countries can build trust with users by engaging local stakeholders. For example, LelapaFund engaged with the Kenyan Capital Markets Authority for twelve months prior to its pilot phase in order to obtain formal support for the application of French ECF laws locally. This is particularly valued by Kenyan diaspora investors; however, other platforms have dealt with this issue by structuring transactions through vehicles in offshore jurisdictions according to the preferences of their investor base (for example, Eureeca and Emerging Crowd).

**Building trust with investors**

There are four ways that Lelapa Fund builds trust with investors:

*License label:* Trust can be signaled to site visitors and users with a license label and mandatory legal mentions displayed on the website. For example, France’s “Crowdfund Investment Advisor” label is granted to regulated platforms only. License approval is a rigorous procedure and platforms must demonstrate precise risk warnings, suitability tests, progressive access and a full notice in lieu of prospectus for each campaign.

*Physical presence:* Arms-length individual investors are more likely to trust a platform with pre- and post-transaction relationships with investees. Trust gained through high-touch relationships requires a dual physical presence in the countries of investor and issuer. LelapaFund hosts regular “Entrepreneur Meet-ups” in Nairobi and cohosts “Investor Meet-ups” with angel networks in Paris and London. The latter are also used to build trust and spur co-investment between Francophone and Anglophone African diaspora investors.
**Transparent due diligence:** Investors value due diligence procedures that adhere to global best practices of venture capital, including management team, legal, financial and business elements. These should be detailed on the platform along with visual elements such as photos and videos of site visits, interview recordings and original documentation. Importantly, investors benefit from “crowd diligence” which provides valuable market insight, particularly when the crowd comprises African diaspora individuals.

**Post-transaction oversight:** ECF portals in developed markets do not typically provide post-transaction management services; however, investors in developing markets value transparency measures such as monitoring use of funds and milestone-linked access to capital tranches. LelapaFund requires all issuers to open dedicated bank accounts on which they, or a mandated lead investor, are dual signatories. This works well when combined with pre-transaction itemization and allocation of funds, and can be an effective antifraud and claw back measure.

**Building trust with issuers**

Lelapa Fund builds trust with issuers in three ways:

*Neutrality:* Issuers’ prior experience with investors or informal investment groups are often characterized by a lack of contractual transparency, a high percentage of foregone ownership, and perceived unfairness in valuation. ECF platforms act as the intermediary and bring more transparency and hence fairness to the deal structure for the issuer. Issuers thus value the neutral position of the ECF intermediary with an alignment of interests based on a one-off success fee rather than an equity stake.

*Peer relationship:* Over 90 percent of entrepreneurs met during their pilot were below the age of 32. Building trust with a younger demographic group is facilitated by a peer relationship. For example, interaction on social media sites and at social events can signal social capital and is mutually considered an asset to the relationship.
This is not the case for established businesses whose management teams prefer to meet in formal settings with senior staff.

*Autonomy:* The intermediary must ensure that the entrepreneur “owns” the process of building and maintaining trust with investors. This is a fine-tuning exercise to ensure the issuer always feels directly responsible to its shareholders, rather than LelapaFund, and is empowered and autonomous in managing that relationship. Consistent, nuanced communication such as using “your shareholders” and “your investors” in lieu of “LelapaFund”, and investor-entrepreneur role-playing during meet-ups are simple tools to achieve this.

**How Can an Entrepreneur Build and Maintain Trust with Arms-Length Investors?**

*Pre-transaction:* Key management staff must have a strong online presence and be searchable on multiple platforms, while proof of product traction should be readily available. The use of Facebook is most prevalent in Kenya, while Yelp and TripAdvisor are hardly used. There is no local Kenyan platform dedicated to reviews, but customer reviews are often prominently displayed on company websites. Low bandwidth direct and group messaging applications such as WhatsApp and SMS are widely used to communicate with clients, place orders and manage deliveries and after-sale service. The same channels could be leveraged to share information with potential investors.

*Campaign:* Management teams must be directly engaged with investors throughout the 90-day campaign through online Q&A, telephone and web conferences. Issuers can leverage the diaspora in multiple ways: transport product samples affordably to investors abroad, demonstrate product/market fit to non-diaspora investors, and use their social capital as a bridge to investors. Issuers can also travel to investor hubs to pitch directly.
Post-transaction: Maintaining trust and transparency post-transaction relies on effective investor relations based on global best practice where possible. Progress updates through blogs and email newsletters in combination with formal reporting and web-based annual general meetings keep shareholders engaged. LelapaFund provides simple online tools such as a forum for uploading documents and group emailing functionalities.

Developing Economies Require a Collaborative Effort

While enabling organizations are stepping up to make the process more transparent, there is a great role for multilateral and nongovernmental organizations to help build capacity. Through direct assistance to entrepreneurs and indirect assistance to intermediaries, multilateral organizations can widen the range of trust-building tools to enable entrepreneurs to use the Internet efficiently to raise capital. Some of the recommendations include:

1. Help offset campaign costs. For instance the costs associated with a 90-day campaign are high and require 24/7 power, internet connectivity, high bandwidth for video conferencing, and international calling;

2. Provide sponsorship for management teams to travel to investor hubs to meet with potential investors;

3. Provide sponsorship of capacity-building workshops for startups and small businesses to learn best practice in crowdfunding, investor relations, and reporting;

4. Contribute resources to national regulators in developing countries to implement local ECF frameworks, which protect minority shareholders and encourage local individual investors to participate in small business investment.

Trust is built through relationships. Where these relationships do not exist, they must be fostered.
Mentoring By a Local Champion May Overcome Educational Barriers

Where entrepreneurship is not part of the culture and, as exemplified by the role the local crowdfunding platform played above, it helps to have local stakeholders and enablers as local champions. However, the process must be demand driven. Empathetic multilateral organizations should not proselytize and ask entrepreneurs if they wish to crowdfund; entrepreneurs need to take the initiative and ask for the training and the technology they need. Without the demand, campaigns may lack engagement and commitment.

Local champions can provide a safe zone for entrepreneurs to learn and receive mentorship. However, in developing economies the resources of these enablers may need to be stretched or scaled. A key lesson from the Kenya pilot is that, where there is an enabling organization, a mentor and entrepreneurs, structure is critically important. Roles and responsibilities need to be defined upfront and entrepreneurs need to know where to go for answers to specific questions. Mentors that are brought in need to understand and accept the local context within which they will provide the mentorship. As one of the entrepreneur’s said, they “have to be willing to go to the slums and be patient.”

By coming to these centers, entrepreneurs will be looking to these champions for the training they need to demonstrate to their crowd that they are serious, transparent, and accountable. This training might extend beyond that of crowdfunding, and champions should consider the resources they have to assist where entrepreneurs lack skills (for example, in marketing, entrepreneurial finance, social media, and networking).

In reviewing the pilot that took place in Kenya and the mentorship that followed, there are several lessons that should be carried forward:

1. The pilot should have been structured into three distinct stages:
a. Education: Entrepreneurs first need to understand what crowdfunding is and what is the social network;

b. Application: The second stage should focus on how crowdfunding works by using examples and group exercises followed by digestion; and

c. Execution: Finally, this learning should be acted upon and supported through the mentorship. As one entrepreneur summarized it, “Training to think through issues takes time. Three months is not enough time to think them through. It takes more like six or seven months, particularly if you want quality.” Adequate time needs to be given to each stage.

2. Technology should be leveraged for improved teaching. Better outcomes will be achieved if programs can partner with organizations that have test environments for crowdfunding, to test learning, apply examples, and allow for the construction of campaigns that prove validation of concepts by “likes” instead of dollars.

The experience of the Kenya Climate Innovation Center itself highlights some of the key lessons from the nine-month program, many of which summarize the entire report.

Case Study: The role of an enabler

Incubators provide a crucial supporting pillar of a startup ecosystem. The support provided by incubators plays a big role in making fundraising easier for startups. Enterprises engaging in crowdfunding through an incubator have the advantage of being able to leverage the expertise, facilities, and peer learning provided by this ecosystem. The crowdfunding pilot provided KCIC with good insights for incubators looking to introduce crowdfund investing as a funding model within its ecosystem. The complete program comes with a technology component that allows students to create mock campaigns and test them on their crowd. For more information email info@theccagroup.com.

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1 A byproduct of the pilot is a “train-the-trainer” manual developed to help enabling organizations understand how to teach crowdfunding and run a mentorship program. The complete program comes with a technology component that allows students to create mock campaigns and test them on their crowd. For more information email info@theccagroup.com.
strategic plan. The key considerations for incubators on each component of the crowdfunding campaign are outlined below:

- **Branding and soft launch**: the branding process for a startup should begin long before the campaign goes live in order to gain momentum.
  
  ★ Video production and graphic design: a professional videographer and graphic designer should be engaged, preferably with previous experience in crowdfunding. However, since few service providers possess this experience, it will be necessary for entrepreneurs, videographers, and designers interested in venturing in the crowdfunding space to get inspiration from campaigns that have worked through watching their videos and learning from them. High-quality branding material can be utilized even after campaigns close for updating websites, social media pages, and so on. Putting aside a budget to facilitate this is important.

- **Growing a social media network**: Entrepreneurs need support and guidance in establishing a strong online community early and in building a long-term and authentic relationship with the social networks early enough, long before launching a campaign – six months before the main campaign would be ideal.
  
  ★ Recommendations include leveraging individuals or relevant organizations with large social media followings, and getting local celebrities to endorse campaigns. However, this may not automatically translate into backers. There is a need to go a step further and reach out to these networks personally, offline during the soft launch. Incubators could facilitate in creatively engaging these networks during the soft launch, for example, through hosting briefing cocktails, breakfasts, and so on.

- **Creating a short pitch**: Since English is not the first language for most entrepreneurs in Sub-Saharan Africa (SSA), more time is required to rehearse their short pitch for it to become second nature. Rehearsing can be done with
the help of colleagues and peers within the incubation space to help in refining the pitch.

- **Choosing the right platform**: It is key to partner with credible and reliable payment platforms used by the local platform in order to attract local backers, for example, M-Changa. This should be coupled with awareness raising and public education through having strategic partnerships with the local media.

- **Selection criteria**: A methodology should be developed to select appropriate companies for crowdfunding. Over and above having a sound business model, the criteria for selecting crowdfunding teams could also be largely guided by: pro-activeness of the team/founder, the ability to leverage their social networks, and so on.

- **Building investors’ confidence**: To ensure investor confidence, incubators may be required to act as an active investor in future campaigns. Initial funding of the campaign from the incubator to help the campaigns reach the 30 percent tipping point would help solve the first money challenge and generate momentum required to draw attention from potential backers.

- **Reaching out to the diaspora**: crowdfunding provides a good platform for the diaspora community to invest in companies back home. Incubators could develop a more targeted approach to reach out to the diaspora community.

- **Human resources**: Preparing for crowdfunding comes with hard work and is time consuming. A budget should be set aside to bring in additional resources during the campaign period. Key resources would include: marketing/campaign personnel, graphic designers, and so on.
• **Setting up peer learning structures:** A community of practice (CoP) should be introduced for teams participating in crowdfunding. CoPs provide a platform for sharing experiences. Other ways to keep the teams driven and inspired throughout the process should be initiated to keep up the momentum.

• **Ensure that the entrepreneur sticks to the agreed goals:** As incubators introduce crowdfunding as a funding model within their strategic plans, there should be deliberate effort to ensure that the incubators’ and the stakeholders’ goals align. This will ensure that the incubator is achieving its goals and having impact in the sector in which they are working.

• **Continuous capacity on crowdfunding within the incubator:** A more targeted and ongoing training program for staff within the incubator on crowdfunding could greatly help the contact persons to provide support to the entrepreneurs engaging in the campaigns more efficiently. The training modules could include: structuring perks and rewards, phases of a crowdfunding campaign, and so on.

**Conclusion**

There is much to be learned about running a pilot program and even more lessons will come from future ones. However, there were some overriding themes that developing economy entrepreneurs can take into account when deciding on their path forward. As one entrepreneur said, “the preparation for crowdfunding is structured (you need a certain layout, you need to give reward, etc.) but the outreach side of things is the side that makes all the difference. It is the side that determines whether or not you will be successful.” You cannot forgo the later for the first part. Entrepreneurs should look to crowdfunding as the beginning of a journey. They should aim small, achieve their target, deliver on their promise, and then return for another round of financing.
Having a track record of success will not only build credibility and trust, but also build the entrepreneur’s brand, establish their market, and help them raise follow-on funding. Crowdfunding is not just about the money but the network. Even if fundraising targets are not reached, valuable relationships may have been built with people who eventually may give more than just money.

It is easy to identify failure in a campaign if one or more of the keys to success is not executed well (for example, low, no, or poor network activation, a mismatch in the product offering to crowdfunding type, incorrect platform selection, or lack of motivation). Entrepreneurs should make sure they understand these factors and have created strategies to address them before they venture into a campaign in a developing economy. Prior to crowdfunding, entrepreneurs should understand their desired outcomes – is it just money, or is it about building brand, introduction to strategic partners that may foster business growth, or something else? Fundamentally, entrepreneurs need to remember, “if you aren’t ready, don’t move forward.” The crowd will sense this.

Enablers looking to promote crowdfunding in their region should aim for success. They should encourage entrepreneurs to understand the circumstances under which they operate (for example, does the local population have a culture of giving, are people accustomed to giving online, and are large actionable networks already in place?) Enablers should aim to have one local success story for others in the region to point to and follow.

Entrepreneurs in the developing economy who are considering crowdfunding should focus on the benefits outside of direct capital. This quote from an entrepreneur whose campaign was not successful is typical: “I’m grateful for the insight given to [our firm] on tapping into crowdfunding networks not only for money but for brand building. Our brand has grown since the campaign and we are happy to say that we are now part of the 12 enterprises selected to join the Unreasonable Institute program. The visibility given to us during the crowdfunding campaign has given us a surge to international recognition. Thank you!”
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