

Developing World Alternative Finance



'For Sale, Semien Mountains' by SarahTz is licenced under CC BY 2.0

June 2017

AlliedCrowds

Executive Summary

WHAT WE DO



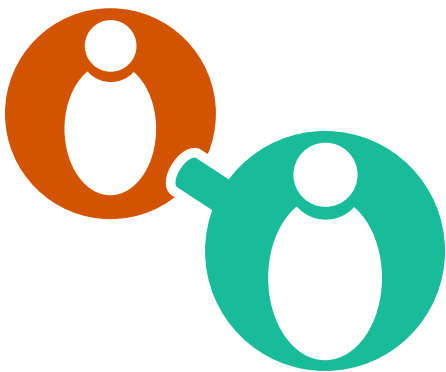
DATA AND ANALYTICS:

We use proprietary methods to provide accurate insight on alternative finance in the developing world.



TECHNOLOGY SOLUTIONS:

We work with global organizations to develop crowdfunding platforms, database solutions, and provide other related services.



ADVISORY:

We leverage our extensive industry knowledge to guide those interested in alternative finance.

It's been a busy year at AlliedCrowds since our previous [report on crowdfunding](#) in 2015-16. We created the first crowdfunding [platform in Ecuador](#) for UNDP, [authored](#) and [presented](#) industry-leading research, bolstered our consulting services, and expanded our focus beyond crowdfunding to all forms of alternative finance in emerging markets.

We wholeheartedly believe in the future of crowdfunding in emerging markets and its potential to help improve access to funding for entrepreneurs and SMEs across the world. Crowdfunding, however, isn't always the best option for entrepreneurs. Instead, smaller companies may benefit more from a government-funded innovation competition or development bank. Larger firms, on the other hand, may need more capital than a typical crowdfunding campaign raises; in that case, going to a VC or private equity fund can be a better solution.

The AlliedCrowds Capital Finder is meant to help entrepreneurs locate funding sources that will be most relevant to them, in terms of sector, funding type (equity, debt, grant), and stage of investment. It is a powerful tool that we think can go a long way toward lowering transaction costs associated with fundraising in emerging markets.

In addition to helping entrepreneurs access funders, the Capital Finder is also a powerful database, with unique and highly actionable information on alternative finance industries throughout emerging markets. It is especially useful when combined with other indicators. Capital Finder data, for example, can help organizations understand what sectors are over- or under-performing in their countries relative to neighbors or countries with similar levels of GDP per capita, and should therefore be supported. Or, it can identify what country or group of countries is overachieving in terms of VC activity, and apply lessons learned from them.

The insights and information contained in this report are based on the Capital Finder. To date, we have focused the data gathering process on capital providers in Africa. For that reason, the focus of this report is alternative finance in that continent. As we continue to fill out the database, we will update our readers in new reports and [blog posts](#) -- stay tuned! If you would like to use AlliedCrowds data in your initiatives, or to find out how the Capital Finder can fit within your organizations, please get in touch.

We hope you share our excitement for AlliedCrowds's broader remit, and as always, feel free to get in touch at: info@alliedcrowds.com.

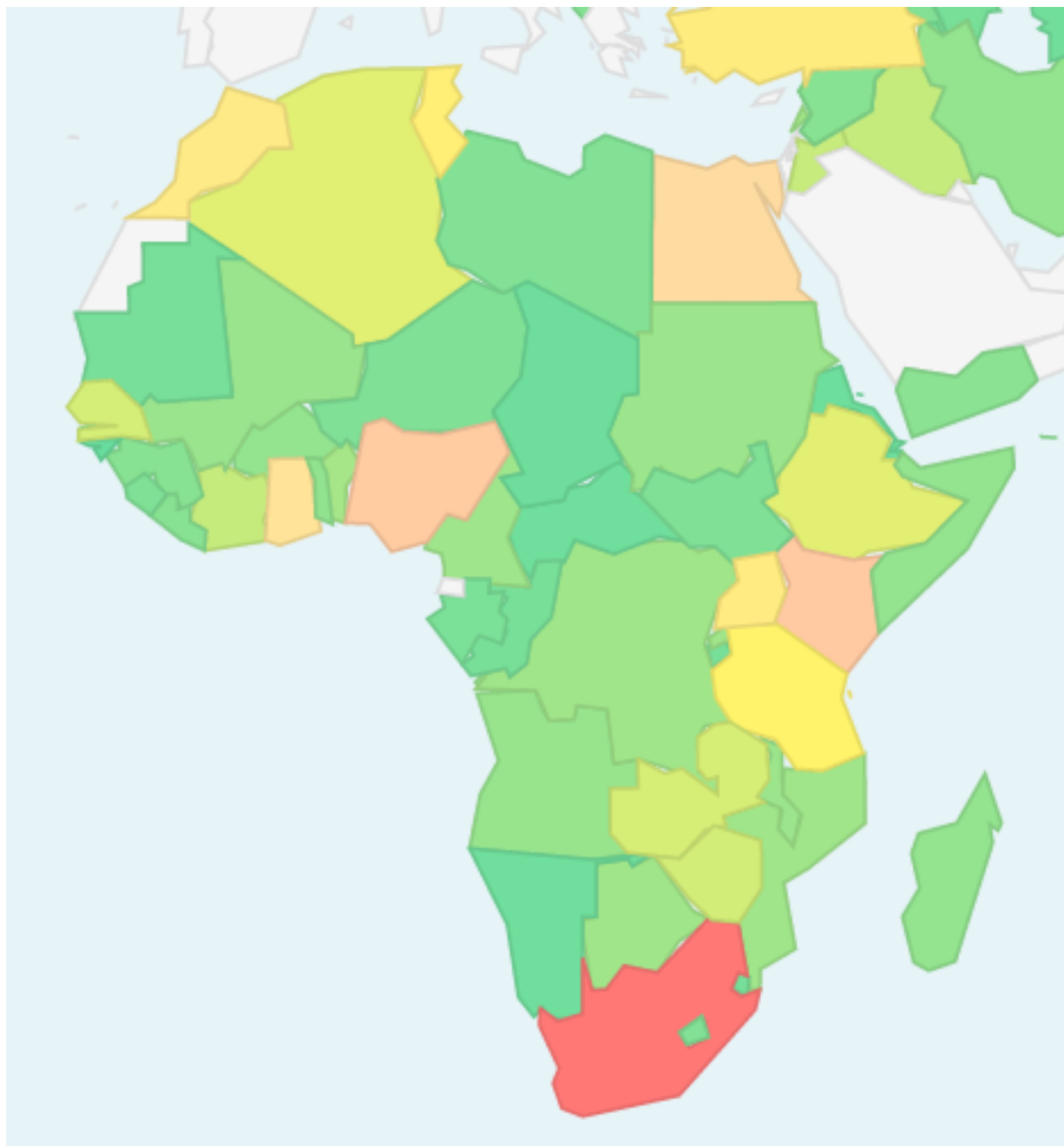
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FIND OUT MORE:

Interested in our products? Want to learn more about our services and pricing? To find out more about how we can help you leverage the power of alternative finance, contact us today at info@alliedcrowds.com.

Africa's Alternative Finance Heatmap



Top Country in Africa:
South Africa
360 capital providers

Top Sector in Africa:
Construction
691 capital providers

Top Provider Type for Africa:
Venture Capital
930 capital providers

INTRODUCTION

In July 2015, prior to the announcement of the Sustainable Development Goals (SDGs), world leaders gathered at Addis Ababa for the Third International Conference on Financing for Development. Following the four-day event, the United Nations released the [Addis Ababa Action Agenda](#) (AAAA), a document affirming global leaders' commitment to addressing the challenges of financing for development.

One of the key messages of the AAAA was that funding from the public sector was not enough to finance the SDGs. In order to help the public sector in financing development projects, the AAAA suggests a greater role for private sector funding.

One way to do this is by leveraging blended finance, defined by the World Economic Forum as "the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets," aimed at channelling private investment to sectors of high-development impact while delivering risk-adjusted returns. Given this stated emphasis on private funding, organizations are increasingly exploring alternative finance as a way to encourage private sector flows. Alternative finance is private funding that comes

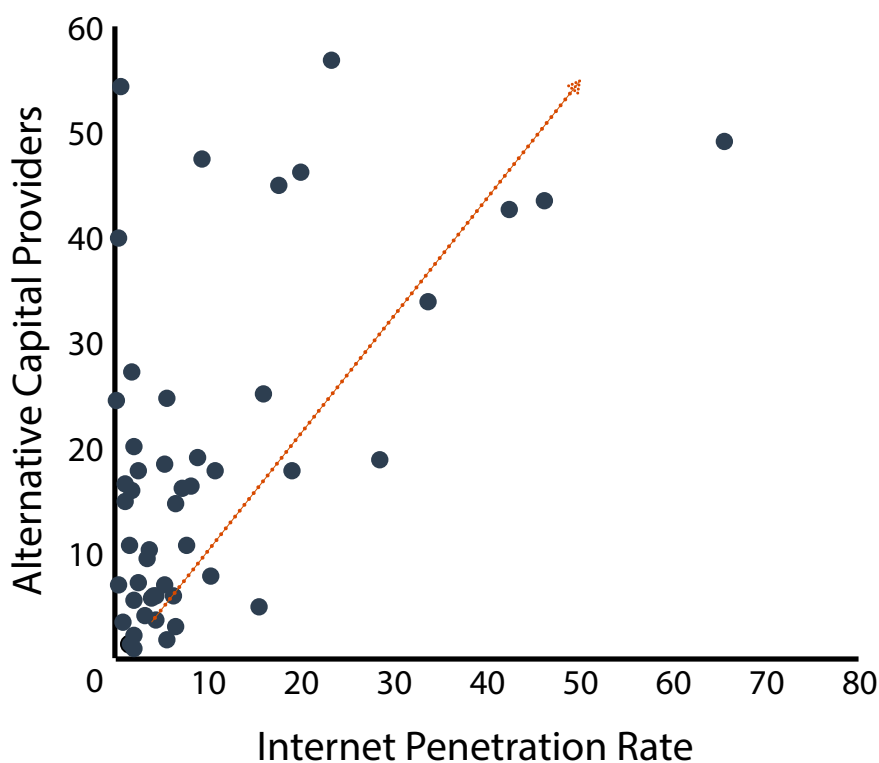
from outside of traditional funding sources: commercial banks and capital markets. Alternative finance solutions have become increasingly popular, and especially so since the financial crisis, which made banks more risk-averse and limited their ability to lend to SMEs across the world. This has forced businesses and projects to secure financing from novel sources. Alternative finance is an emerging industry, and its definition varies. Ernst and Young, for example, includes peer-to-peer (P2P) lending, crowdfunding, microfinance, and invoice trading within its definition; others also include innovative financing structures like social impact bonds.

AlliedCrowds's definition of alternative finance is tailored specifically to the developing world, where market imperfections often prevent banks from working with all but the largest firms within a nation. Our definition includes five types of funders: venture capital (VC) firms, broadly defined to include early stage investors through private equity firms; angel investor networks; impact investors; crowdfunding platforms; and public/semi-public sources of funding like government-run innovation competitions and development finance institutions.

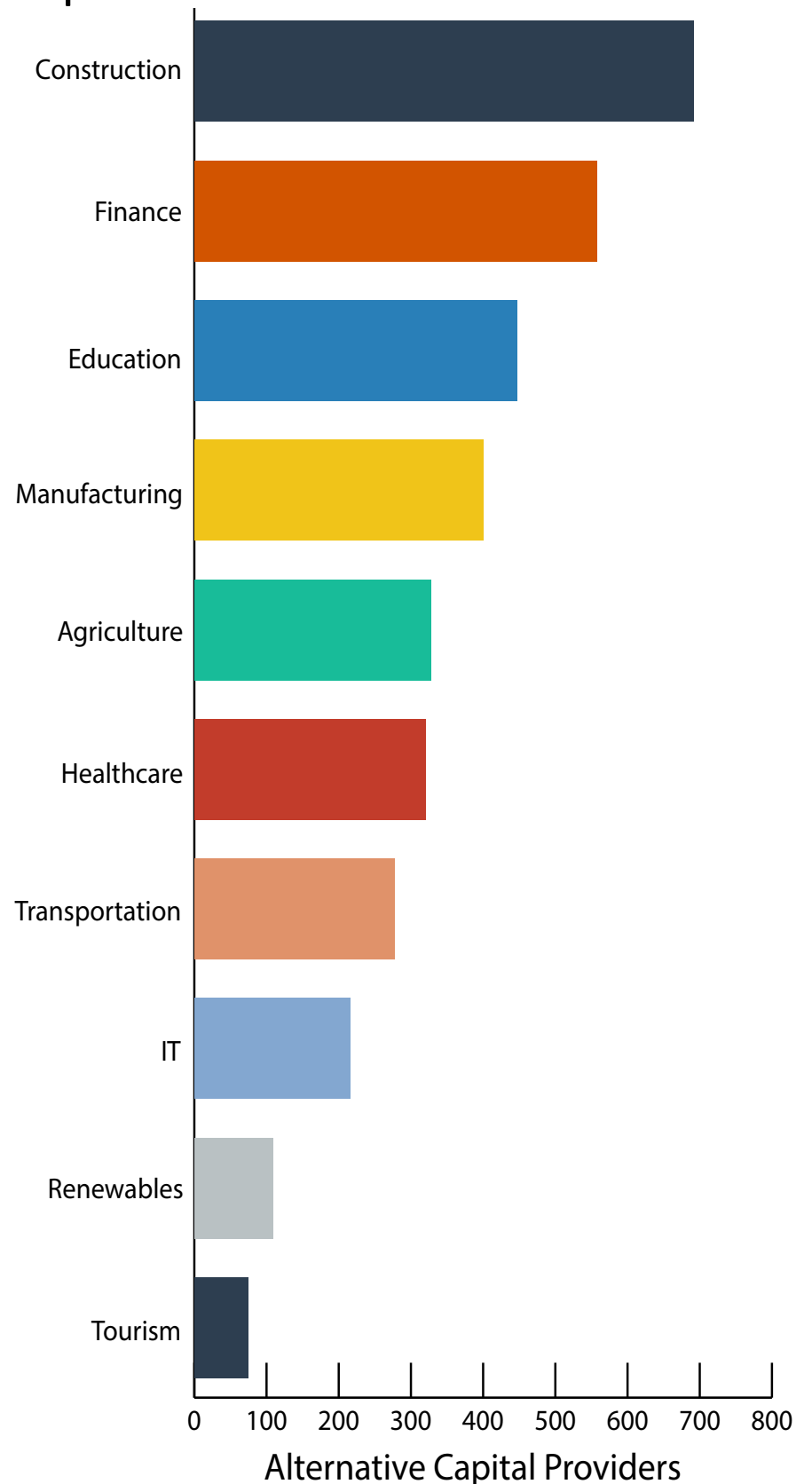
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Africa's Alternative Finance Landscape

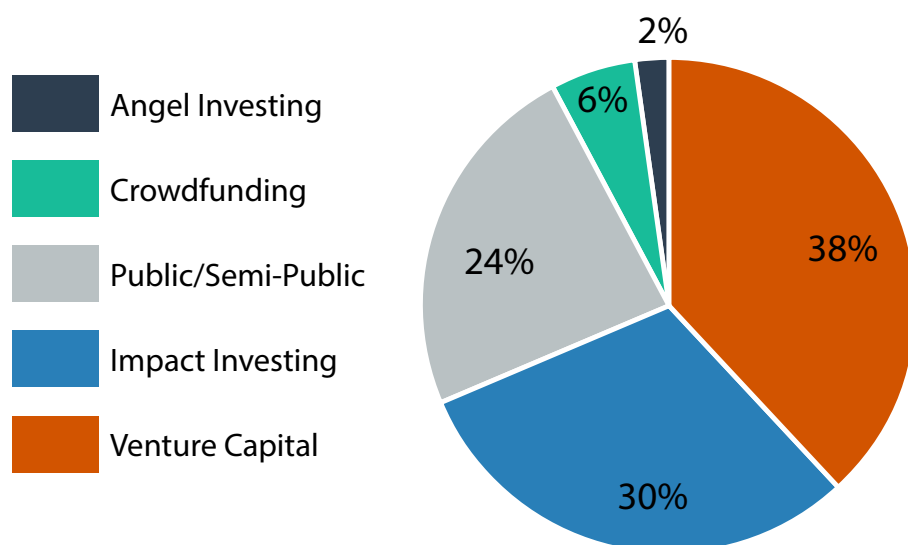
Alternative Capital Providers vs. Internet Penetration



Top Sectors for Alternative Finance



Alternative Capital Providers by Funding Type



The data from this report comes from the Capital Finder, a unique database of alternative capital providers that are active in emerging markets.

Information on capital providers is compiled manually by contractors from within focus regions and countries; recruiting from within focus countries ensures that language barriers are not an issue. The contractors identify and input data points like office locations, social

media sites, URLs, and other information.

Next, AlliedCrowds conducts an analysis to assign a Relevancy Score for each capital provider within country and region of operation. This captures indicators like social media follower distribution, office locations, and website keyword analysis. The process involves natural language processing and machine learning, meaning the score is continually tweaked and improved. It's meant to pick up

subtle differences among platforms; for example, a VC that claims to operate across West Africa but mentions Nigeria ten times more frequently on its site than Ghana will have a higher relevancy score for the former than the latter. This allows AlliedCrowds to determine how many alternative funders are truly relevant to the countries in which they operate. These relevant providers make up the data in this and other AlliedCrowds reports.

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AlliedCrowds League Table

AlliedCrowds Rank	Country	
1		SOUTH AFRICA
2		KENYA
3		NIGERIA
4		EGYPT
5		GHANA
6		MOROCCO
7		UGANDA
8		TUNISIA
9		TANZANIA
10		ETHIOPIA
11		ALGERIA
12		ZAMBIA
13		SENEGAL
14		ZIMBABWE
15		MAURITIUS
16		CÔTE D'IVOIRE
17		BENIN
18		CONGO, DEM. REP
19		BOTSWANA
20		RWANDA
21		MOZAMBIQUE
22		CAMEROON
23		SUDAN
24		MALAWI
25		MALI
26		ANGOLA
27		MADAGASCAR
28		SOMALIA
29		BURKINA FASO
30		TOGO

METHODOLOGY

The AlliedCrowds League Table is a proprietary index that ranks countries on the strength of their alternative finance ecosystems. The table above shows a ranking of the top 30 (out of 53) African countries that we track in our Capital Finder.

The countries are ranked according to the number of alternative capital providers (angel investor networks, crowdfunding platforms, VC and private equity firms, impact investors and public / semi-public funders).

This is a straightforward way to rank the countries and the results are hardly surprising: South Africa is the most advanced economy in the region, and jockeys with Nigeria for the distinction of being the largest. Kenya, meanwhile, is East Africa's leading economy and the home of the 'Silicon Savannah.'

Regionally, East Africa appears to be leading the continent, with four countries represented in the top ten: Kenya, Uganda, Tanzania, and Ethiopia. Though Rwanda is recognized as an innovative and growing economy that's business-friendly and has a relatively advanced financial ecosystem, it ranks only 20th on our list. This is because the country has a relatively small population and economy, and therefore a small number of alternative capital providers in absolute terms.

Some countries (like the Democratic Republic of Congo) shows up surprisingly high on our list. This is likely due to the number of NGOs, DFIs, and other semi-public organizations operating on the ground.

They supplement and in some cases stand in for private funding that is missing in the frontier markets.

Our aim is to create multiple league tables that take into account not only the total number of alternative funders in a country, but also incorporate factors like sector analysis. This is because certain countries may be stronger than their peers in certain sectors, and we aim to make it clear who is under- or over-performing.

Additionally, we will be combining external datasets from organizations like the World Bank, in order to ensure that outside variables are considered when creating the indices. For example, when comparing two countries with the same number of agricultural funders, a country with a large percentage of uncultivated arable land may be ranked lower than one whose agricultural sector is more developed.

Given that we've constructed our database to be highly flexible, the League Tables can be combined with external factors and customized for specific use cases -- contact us if you'd like to find out how our indices can help your organization to better make sense of the alternative finance ecosystem in the country or region that you operate in.

We hope that as our database grows, the League Tables become the most comprehensive and trusted benchmarks for the alternative finance industry for the developing world.

Spotlight on West Africa



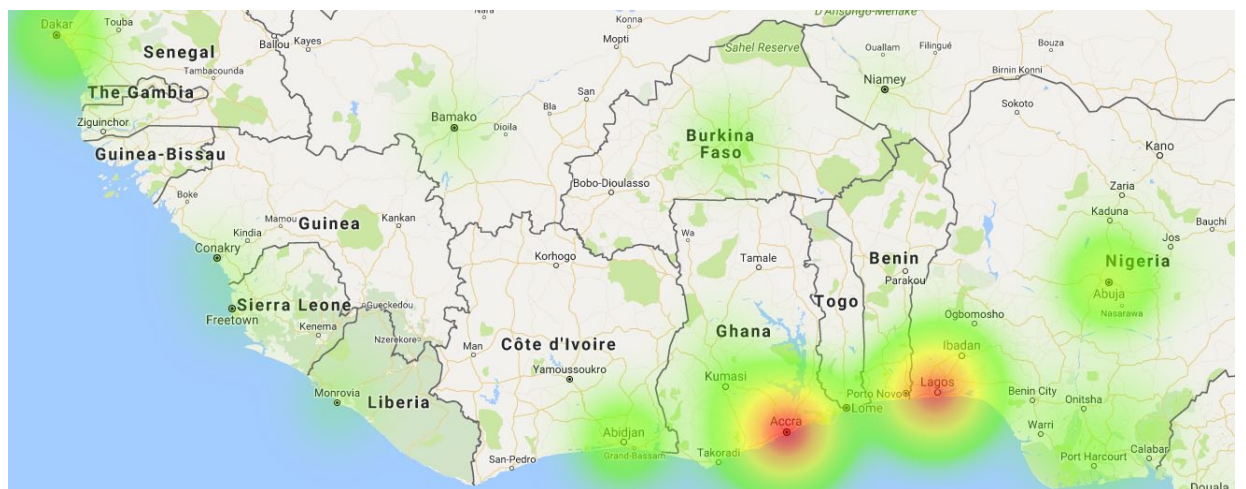
Market Scenes in Abuja' by IFPRI is licensed under CC BY NC ND 2.0

Considering obstacles such as limited access to finance, unstable government policies, and [limited state support](#), Africa's entrepreneurial energy is a remarkable display of self-sufficiency. Combined with a growing middle-class, the African youth population is outpacing available jobs in the market; this makes entrepreneurship and small business growth relevant and important topics.

The [highest concentration](#) of fast-growing companies in Africa is in West Africa, and the region shows promise for local innovation and entrepreneurship. Increasingly, strong startups are emerging in the region. An example is UMT, a 25-minute non-blood malaria tester, developed for use in Africa. This innovation won the inaugural 2015 Health Innovation Challenge Awards in Nigeria and gained support from significant private sector entities worldwide.

Despite the interest of international investors, many West African entrepreneurs face challenges in redesigning their businesses for maximum efficiency during a period of [currency controls](#), devaluations, and government inactivity and stagnancy. Another challenge is that West Africa is made up of both anglophone and francophone countries; [language barriers](#) and linguistic biases have contributed to reduced investment deals in some localities.

There are challenges even in the region's largest economy, Nigeria, where access to capital remains a problem. Lack of credit creates a binding constraint as entrepreneurs are unable to invest in productivity-enhancing inputs. Weak institutions further discourage entrepreneurship; for example, [lack of enforcement](#) of Nigerian patent laws discourages entrepreneurs from commercializing their ideas and inventions. Due to such structural obstacles, [80% of SMEs in Nigeria](#) fail within five years. Corruption, poor entrepreneurial orientation, and bureaucratic bottlenecks are some reasons for the dampened start-up ac-



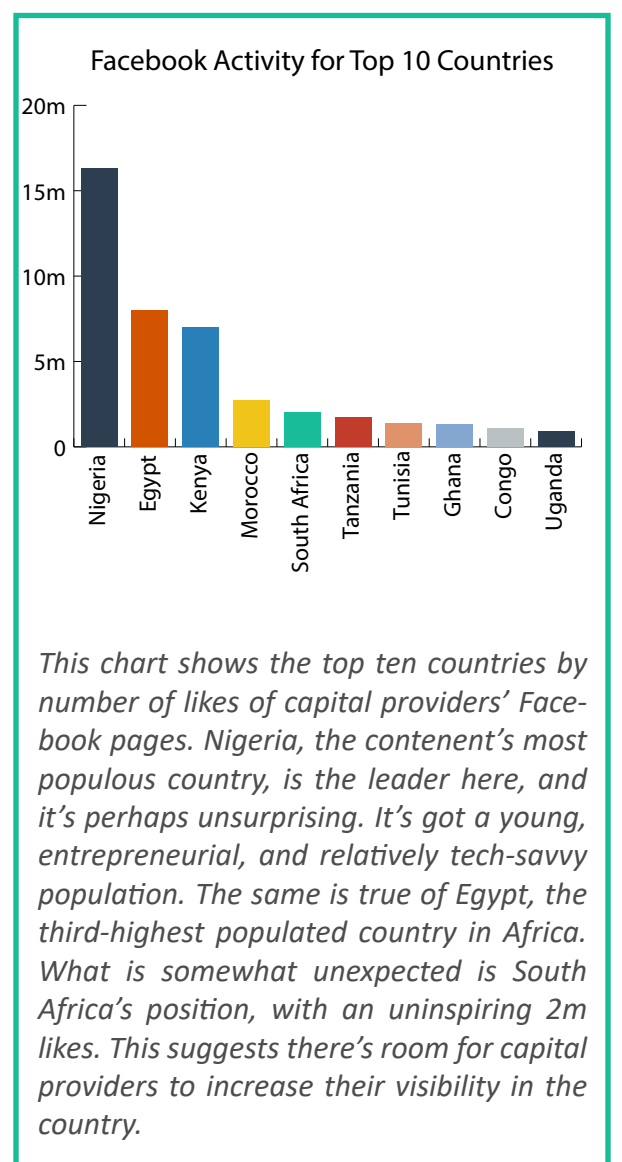
Alternative finance hubs across Western Africa.

tivity that ensues after a few years. Various government interventions in the area of creating capital support for these micro entrepreneurs have not yielded the expected result.

While relatively new in Nigeria, the VC and Private Equity industry is experiencing significant growth. Equity financing of SMEs, through VCs and PE firms, is partially a response to the failure of formal lending programs to meet SMEs' development. SMEs in an economically depressed environment such as Nigeria need ongoing assistance, [not just capital](#), and motivated equity investors can act as mentors and business partners.

West Africa more generally also witnesses significant PE activity; between 2007 and 2015, it [witnessed 16% of PE exits](#) within Africa (equalling the proportion of exits in North Africa, and only surpassed by Southern Africa). In 2016, it was the [most active region](#) on the continent. Furthermore, between 2010 and 2016 in West Africa, there were over 240 reported PE deals and 80 exits; Nigeria accounted for the [greatest share](#) (43%) of PE exits by number.

As the West African countries continue to adopt new models of business financing, expect to see more entrepreneurs and startup enter the market.



This chart shows the top ten countries by number of likes of capital providers' Facebook pages. Nigeria, the continent's most populous country, is the leader here, and it's perhaps unsurprising. It's got a young, entrepreneurial, and relatively tech-savvy population. The same is true of Egypt, the third-highest populated country in Africa. What is somewhat unexpected is South Africa's position, with an uninspiring 2m likes. This suggests there's room for capital providers to increase their visibility in the country.