

# Chapter 8

## A Comparative Analysis of Africa and Chinese Crowdfunding Markets

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### ABSTRACT

*This chapter compares the African and Chinese crowdfunding markets with a view to draw lessons from the two markets. China has a longer experience than Africa in the crowdfunding activities; crowdfunding processes in the country may not be directly applicable to the African states, but there are lessons that can be learnt by individual or group of African or Asian governments. These differing experiences identified can serve as a practical guide for urban development actors longing for sustainable funding for important urban development projects. In order to gather this data, the authors conducted a desktop review of literature, both grey and published being work on crowdfunding in Africa and China. Data collected were analysed using thematic content analysis. The chapter argues that the low adoption of crowdfunding by Africa can be attributed to a number of factors, including national regulatory environments that are not conducive for crowdfunding of equity and debt, and unconducive technological environments where e-commerce is not widely utilised.*

### INTRODUCTION

The future growth of Africa is not so dissimilar from that of Asia, especially China (Koch and Siering, 2015; Arvanitis, 2015). The urbanization of China represents the greatest demographic change witnessed in late 20th and early 21st century. Similarly, Africa's urbanization will be the largest shifts for the rest of this 21<sup>st</sup> century (Arvanitis, 2015). Given that Chinese context resemble the African context, there are a lot of lessons that can be drawn from China's growth initiatives to map Africa's growth trajectory. The potential for a demographic dividend is clear as witnessed from China. By 2050, the greater population

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of Africa will be in urban areas and will be having greater share of the world's labor force (World Bank, 2015). This creates the potential for a rapid increase in the per capita incomes which is the demographic dividend given that both worker productivity and the share of the population that is employed increase. In the interest of a modesty growth in Africa, there is need for a deliberate investment in sustainable infrastructure, both soft and hard (ibid). However, funding is a challenge especially in development projects. Crowdfunding has been named to be an innovative funding mechanism that can assist most jurisdictions to harness the demographic dividend (Mollick, 2014). Crowdfunding involves the soliciting funds, in all amounts, from many people essentially via the internet. Wicks (2013:5) describes crowdfunding as an act where many people (crowd) support, financially, a development project through contributing small amounts of money either in return for a reward, equity or as a donation. This provides the much needed alternative to the traditional forms of finance required build sustainable infrastructure for sustainable urban development (ibid). It relies on social networking and uses the internet, through online platforms, to spread the word about a project or product that needs funding (ibid). In the past decade, crowdfunding has evolved into a billion dollar market. It is growing around 300 percent per year and is concentrated in North America and Europe, and rapidly rising in the Asian countries (The World Bank, 2015). The total crowdfunding market is composed of various subtypes, including lending (debt), equity, and royalty-based models, as well as non-securitised types, such as charitable donations and rewards crowdfunding (ibid).

Although the Chinese crowdfunding market is still small as compared to Europe or America, it is able to attract huge sums of funds through its various crowdfunding platforms. However, its growth is being slowed by the concerns of negativity and suspicion by the authorities in China fearing issues of illegal fundraising and foreign capital monitoring (China Impact Fund, 2014:2). In the world, Africa is the lowest performing crowdfunding markets. Despite this slow adoption, crowdfunding has been heralded as an opportunity to expand access to capital for projects. It has the potential to reach about 2.5 billion by 2025 (World Bank, 2015; Hui et al, 2014:1). In Africa, this challenge is compounded by several issues which are both political as well as the lack of breadth and depth of financial markets. Within this framework, crowdfunding comes as a new opportunity that can facilitate the transfer of funds from those who are looking to donate or invest to those in need of the capital (Pazowski and Czudec, 2014). It is understood that community-based financial solidarity and fundraising are an integral part of the African culture and traditions, pooling resources through crowdfunding seems viable. The pooling of funds in most African communities is customary where kinships through cultural ties support various social and economic projects in their local families and communities. This therefore makes it just a matter of time for Africans to take the opportunity to translate the traditional fundraising processes to online crowdfunding platforms (ibid). In this sense, it can be argued that crowdfunding is a viable alternative source of funding for development projects in the African continent.

This present chapter compares the African and Chinese crowdfunding markets with a view to drawing lessons from the two markets. Though the jurisdiction seems to be similar, the crowdfunding processes in China are not directly applicable to the African states and vice-versa but there are lessons that can be learnt by individual or group of African or Asian governments. This chapter is structured to include the following headings, Introduction, Literature Review, Methodology, Results and Discussion and, Conclusion and Recommendations.

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