Developing World Crowdfunding
Entrepreneurship through Crowdfunding

Monthly Report
August 2015
Crowdfunding — the innovative way for people to finance their projects, causes, or startups — is still raising relatively small amounts in the developing world. But the funding model is growing very fast, and early adopters are already making an impact.

This month, we spotlight South America, analyzing how crowdfunding can help to aid the bustling entrepreneurs in the region. The relatively high internet and social media adoption in the region means that crowdfunding has many avenues to growth.

One clear developing world crowdfunding leader is Brazil, and that shouldn’t be surprising. It is the biggest economy in South America, made up of a highly entrepreneurial population; the citizens are also known for their social media savvy. There are already multiple successful Brazilian crowdfunding platforms; collectively, they have been able to raise almost $1 million in July. More impressive, however, is the fact that the country has a budding equity crowdfunding industry, encouraged by favorable regulation.

Education is crucial for all developing nations, and we dedicate a section to highlighting how crowdfunding can help to fill funding gaps. Though money is just one of many complex issues preventing students from enrolling and staying in school, we believe crowdfunding can not only help to fund schools, but it can also be very effective in eliminating the often hidden costs, like buying uniforms and classroom materials. Public-private partnership structures are already beginning to benefit crowdfunding projects, and we believe these can be highly effective once rolled out in developing nations.

As a leader in the developing world crowdfunding space, we are encouraged by the high growth of the industry, and by the speed with which crowdfunding is developing. We believe it’s in the interest of every company, institution, and organization to explore how they can make use of crowdfunding to advance their goals and to help communities in developing nations.
WHAT IS ALLIEDCROWDS COUNTRY RANK?

As the leader in research and analytics on crowdfunding in the developing world, we brainstormed the best way to share our country-level data in an intuitive manner. Allowing individuals to understand our insights has been a key driver in much of our analytics. Having refined this principle, we are pleased to share the AlliedCrowds Country Rank.

The AlliedCrowds Country Rank is a measure of how a country has leveraged crowdfunding to boost its competitiveness in global markets. We control for factors such as population, remittance inflows, and GDP, enabling us to make fair comparisons across vastly different countries.

In analyzing the data, we have found that monthly and annual crowdfunding inflow numbers do not tell the whole story. That’s because crowdfunding inflows mirror GDP and population too closely to reveal the true crowdfunding capitalization of each country. In other words, crowdfunding totals mask the successes of smaller countries. In order to appropriately demonstrate each country’s ability to leverage crowdfunding effectively, we have developed a consistent method of separating out these country-level factors.

THE METHODOLOGY

More specifically, three different elements comprise our country ranking:

Macro: Macro measures how the total crowdfunding activity in each country compares relative to its GDP and population. This ensures that the variation in crowdfunding inflows by country are due to the country’s unique crowdfunding capacity and not its size.

Inflows: Inflows measures how the total crowdfunding amounts in each country compare to total foreign aid and personal remittance. We have found that these are large drivers of crowdfunding inflows and, therefore, it is important that they do not impact our crowdfunding ranking.

Infrastructure: Infrastructure measures the number of foreign and domestic crowdfunding platforms operating in each country relative to population, and captures any regulatory hurdles that may be preventing a country from competing on the same level as others in its peer group.

The Google Trends analysis shows the increasing interest in crowdfunding around the world. As people become more aware of the power of crowdfunding, we predict that it will experience faster growth, both in the developed and the developing world.
July Recap

Breakdown by Crowdfunding Type

Over last month, the combined market share of equity and reward crowdfunding has jumped from 16 to 21 percent.

Platforms to Watch

Ketto, a leading crowdfunding platform in India, recently raised $700,000 to grow its team, improve its offerings, and expand to neighboring countries in the region. There is much potential for crowdfunding in Southeast Asia, and with newfound money at its disposal, Ketto is well poised to become a key player in the region.

GlobalGiving, a true trailblazer, continues to introduce innovations into the crowdfunding space. Only recently, the platform saw a major redesign and added new features to allow non-profits to raise funding more effectively. Check out our platform spotlight to find out more about its plans.

Singapore-based Crowdo, formerly known as Crowdonomic, rebranded after being granted a license to operate an equity crowdfunding platform in Malaysia. Expect Crowdo to become a major player in the region — in rewards-, lending-, and equity-based crowdfunding — as it continues to expand.

Top Categories

Crowdfunding allows for flexible funding across different industries and categories. People give, lend, and invest with control and can adapt to rapidly changing needs and opportunities.

Fastest Growing Countries

The top five countries by growth demonstrate the ever-changing environment of crowdfunding. With performances like 100 percent growth in Zimbabwe, it is clear that growth can be sudden and explosive.
South America presents an exciting opportunity for crowdfunding. The concept is already gaining traction — in total, countries in the region have raised $2.95 million from over 3500 campaigns in the past month.

South America has not traditionally been seen as a hotbed of innovation, but the perception is changing thanks to concerted government efforts to spur entrepreneurship. Arguably the most famous initiative is Start-Up Chile, a state-sponsored program to draw entrepreneurs from around the world to Santiago. Launched in 2010, it became a quick success, inspiring similar initiatives in Brazil, Peru, and elsewhere in the world. These efforts point toward a bright future for the region's entrepreneurs.

Crowdfunding platforms are able to attract capital from Spanish speakers from around the world, including, crucially, the diaspora community in the US. Spanish is the second-most spoken language globally, meaning South American projects have the potential to reach hundreds of millions of people across the world.

Despite these advantages, crowdfunding in South America has hurdles to overcome in the near future. Arguably the biggest concern is around online payment processing. A 2014 World Bank study found that in the wider Latin America and the Caribbean region, less than ten percent of adults have access to online payments. Unlike in Africa (a region we spotlighted in our previous report), mobile payment solutions are limited. These problems are affecting many industries, including e-commerce, and solutions are being developed to overcome the problem. In the near term, however, this will impede the industry's growth.
Most countries in the developing world are just starting to realize the potential of crowdfunding. Brazil, on the other hand, is well on its way to becoming a hub of crowdfunding activity. The country raised over $980,000 in July, and we estimate it will bring in over $11.5 million in 2015. Brazil is a key player in the South America, accounting for over 33 percent of the total amount raised via crowdfunding in the region last month. The country has 21 home-grown platforms, the largest number among the countries we track.

As one of the largest economies in the world, with internet penetration rates above 55 percent, it is not surprising that Brazil is growing into crowdfunding powerhouse. Brazilians are heavy social media users, coming in second in the world (behind the US) in the number of both Twitter and Facebook users. Brazilians view entrepreneurship favorably, with a large number of self-employed workers; but access to funding, especially among young entrepreneurs, is limited — a recent EY report found that 43 percent of entrepreneurs under the age of 40 described funding as “very difficult” to access.

In this context, crowdfunding has emerged as an alternative to more traditional funding models. Prominent platforms like Catarse and Queremos! help creatives fund their albums, books, and events. The vast majority of sites operate in Portuguese only, suggesting that Brazil’s young platforms are not looking to market themselves outside the country. This is a marked difference from platforms in most other developing countries who generally try to attract diaspora or international funding.

Brazil is also in the early stages of establishing an equity crowdfunding ecosystem — the rudimentary regulations are already in place to allow citizens to invest in early-stage startups. Frederico Plass Rizzo, co-founder of equity crowdfunding platform Broota Brasil, says he and other evangelists are in discussion with Comissão de Valores Mobiliários (a regulatory body akin to the SEC in the US) to create regulations specifically for equity crowdfunding; he expects the law to go up for discussion by the end of the year. As more people become aware of equity crowdfunding as a method of startup financing, the lack of regulatory hurdles should enable it to flourish quickly.
Education is a crucial component for development. Not only does it teach useful skills, providing access to better jobs, but it is also an investment in the long-term prospects of economies, creating prosperous, knowledge-based communities.

In many developing world countries, quality education is something that is still limited to a wealthy few citizens. Consider Sub-Saharan Africa: while much progress has been made in the last 15 years in improving primary education enrollment rates (over 90 percent of children enter primary school), only 59 percent complete primary education; only 12 percent complete senior secondary education. The reasons for the lack of access to quality education are complex and vary from nation to nation. Sometimes, children simply cannot make the miles-long trip to their school. Such problems cannot be solved simply through greater financing.

But funding is still a big barrier to greater enrollment rates. The opportunity costs of attending school can be high. Even where primary education is free, hidden costs like uniforms and exam fees can be high enough to prevent the poorest students from attending. At school, students often lack access to appropriate materials.

For these problems, crowdfunding can be an effective fix — especially given UNESCO’s recent findings that both governments and international development organizations have failed to prioritize education financing. Because crowdfunding allows for greater transparency in the way funds are allocated, donors are able to choose specific programs and initiatives they care deeply about; e.g., science projects in East Africa, or girls’ education in the Middle East. This creates stronger connections between donors and recipients.

It is also a fantastic opportunity for corporate social responsibility action. Given the rising importance and prevalence of public-private partnerships for education, corporations can improve brand perception and awareness by funding education campaigns. That is already happening in the US — last summer, Google funded all of the DonorsChoose crowdfunding campaigns in 11 cities. The $3.5 million donated reached over 288,000 children, creating a positive long-term relationship between Google and the students it helped. Such initiatives can easily be replicated in the developing world.

We analyzed over 4000 education crowdfunding projects to determine the most frequently used words. The results are displayed in this word cloud, where the size of each word is relative to its usage.
Established in 2002, GlobalGiving is a true crowdfunding pioneer. With over $188 million raised to help fight poverty around the world, the platform is far from content with resting on its laurels. As it looks to the future, it aims to build on lessons learned to revolutionize the way nonprofits raise money and evaluate the effectiveness of projects — a key problem facing organizations of all sizes.

The organization plans to grow significantly in the next five years. By 2020, it aims to deliver at least $100 million from one million donors to 10,000 organizations around the world. Key to propelling this growth is a new initiative that aligns funding with performance.

Last month, GlobalGiving announced GG Rewards, a program to allow the most effective nonprofits to raise the most money from the platform’s backers. GG Rewards is the manifestation of “Listen, Act, Learn, Repeat” cycle of progress that GlobalGiving believes is key to revolutionizing nonprofit fundraising and evaluation.

Citing internal and external research, GlobalGiving believes that the key to an organization’s effectiveness is its ability to listen. Much of development aid today is doled out in a top-down fashion, with well-intentioned experts and organizations providing solutions, but rarely sticking around to see their effectiveness. GlobalGiving believes organizations are most effective when they listen to their beneficiaries, who can provide insights into what worked, what didn’t, and why. Now, the platform is putting that belief into action.

The increased focus on effectiveness is a vision the founders have had since launching their platform, but weren’t able to undertake before proving the fundraising model.

“To be practical, we focused on delivering funding because that’s what most organizations are interested in,” explains Mari Kuraishi, co-founder and president of GlobalGiving. “Now that we’ve gotten that under control and established systems, we are becoming equally focused on trying to find the right tools, information, and data that will allow organizations to become more effective. That’s how GG Rewards came about.”

The goal is to reduce — if not entirely eliminate — a tradeoff that Kuraishi sees many nonprofits having to consider: spending time and resources on fundraising, or on improving their operations.

“For so many organizations, that’s a fairly stark tradeoff,” she says. “You need to pay the bills — and surviving is an important part of becoming more effective. So it’s not surprising there’s such a focus on fundraising. But we want to make it so that if you do spend that extra hour, the extra day, on making your organization more effective, we give you access to more financial resources.”

GG Rewards provides nonprofits with incentives to listen to, engage with, and report to both donors and beneficiaries. Those who are more engaged with their constituents will become more visible on the platform. GlobalGiving predicts this will allow them to raise greater sums of money, further propelling them up the GG Rewards rankings and allowing them to raise more money still.

“Over iterations, communities are more likely to come up with solutions that stick,” Kuraishi says. “We want to figure out how organizations can leverage community input in a continuous feedback mechanism.”

Time will tell whether the platform’s predictions about listening as a driver of effectiveness and funding will come true. But as a pioneer in the nonprofit crowdfunding space and having more knowledge about it than any other platform, GlobalGiving’s vision is difficult to bet against.

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EMPOWERING WOMEN THROUGH DESIGN

Rural women in Peru are skilled in traditional craft techniques, but lacking in economic opportunities. Awamaki, a non-profit, wants to link Peru’s rural women directly with designers, providing crucial training and access to market. The campaign is currently open to donations.

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