

Developing World Crowdfunding

Diaspora Crowdfunding



"Hill Houses" by Teseum is licensed under CC BY NC 2.0

Special Report

October 2015

AlliedCrowds

Foreword



GLOBAL
DIASPORA
WEEK

AlliedCrowds is pleased to participate in the International Diaspora's Engagement Alliance's Global Diaspora Week

Diaspora communities are a highly important group, facilitating dialogue across borders and enriching local cultures with foreign traditions and customs. Diaspora communities also play a big role in channeling funds back to their home nations in the form of remittances. With much of this money bypassing formal channels, governments are increasingly looking to capture these informal flows of funds.

We believe crowdfunding can be a highly effective way to capture remittance flows, and we've written this brief as an introductory exploration of the topic.

As the report explains, crowdfunding can play a crucial role in freeing up information and connecting investors with entrepreneurs and project creators across the world. Several crowdfunding platforms have already been set up specifically to capture remittance funding; others are actively targeting diaspora communities in order to help campaigns raise the money they need. With crowdfunding continuing to grow in the developing world, we believe diaspora can play an increasingly important role in channeling money to fund projects and businesses back home

ABOUT ALLIEDCROWDS

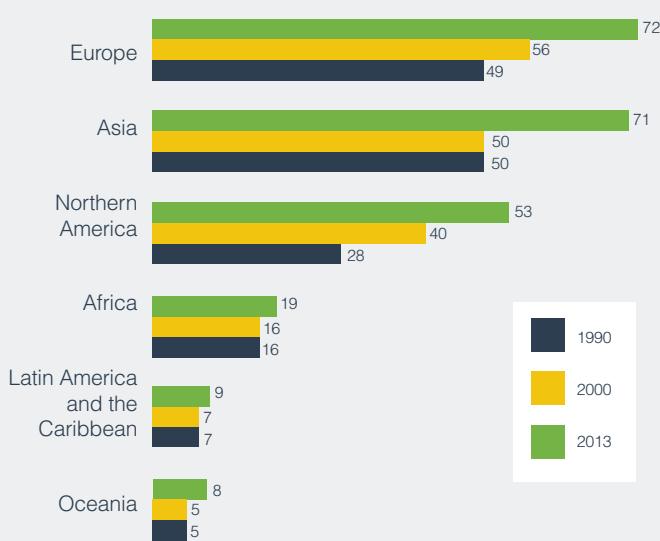
AlliedCrowds is a leading advisory and data and analytics firm, focusing on crowdfunding in the developing world. With our proprietary data and analytics, we have positioned ourselves as the leader in information on development world crowdfunding. In order to provide insight into the economic potential of crowdfunding, we share our analytics every month in our global crowdfunding reports.

We also work with some of the top development institutions in the world to consult on crowdfunding solutions. Our end-to-end solutions include diagnosing suitability for crowdfunding, designing target operating model, and implementing campaigns on existing platforms or building bespoke crowdfunding platforms, which have more flexibility, lower cost, and greater marketing potential than their current donation sites.

Global Remittance Flows 2000-14



International migrant stock by major areas, 1990, 2000 and 2013 (millions)



Special thanks to: Alison Carlman, Sara Gallagher,
Tobias Grinwis, Peter Heijen, Varun Sheth

Introduction



"Internet Cafe in Kampala" by World Bank Photo Collection is licensed under CC BY NC ND 2.0

Crowdfunding is a novel way for project organizers, entrepreneurs, and startups to raise money for their causes. Facilitated by the spread of online technologies (and specifically, social media), crowdfunding capitalizes on the many-to-many form of communication that has already opened up new opportunities in industries from ecommerce (e.g., Ebay) to accommodation and travel (e.g., Airbnb, Uber). There are four models of crowdfunding: donations-, rewards-, lending-, and equity-based.

Donations-based crowdfunding allows individuals to send money to people or projects in need, with no expectations of a tangible perk in exchange for their money.

Rewards-based crowdfunding channels money to creatives or entrepreneurs, who promise to send a reward in exchange for the money; often, this model is used to collect pre-orders for an innovative product.

Lending-based (or debt-based) crowdfunding allows individuals to lend money to other individuals, or to companies, in return for regular (and agreed-upon) interest payments.

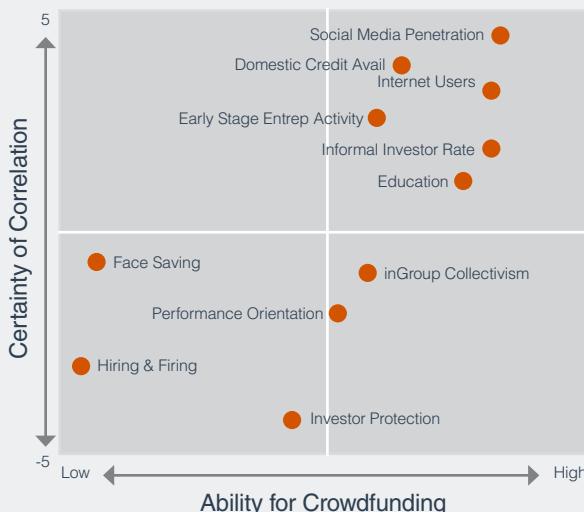
Equity-based crowdfunding allows individuals to purchase equity in a company, with the possibility of selling it on a secondary market, or waiting for a company to make an exit, leading to a financial return.

The crowdfunding platforms take on marketplace features — enabling causes, products, projects, or startups (depending on the crowdfunding model) to post their campaigns, and allowing the audience to browse through them, or to search for those matching specific categories, locations, etc.

Crowdfunding has grown rapidly over the last several years, morphing from a way for amateurs to fund hobby projects, to a multibillion dollar market globally, embraced by both SMEs and large firms, as well as some of the largest multilateral institutions around the globe.

PROPENSITY TO LAUNCH CROWDFUNDING PLATFORM

What factors enable or deter a crowdfunding ecosystem?



Findings

Positive Factors

Strong social media usage
High degree of early stage entrepreneurial activity
Strong friends and family funding network
Access to education

Negative Factors

More focus on saving face
Overly burdensome hiring & firing
Overburdened investor regulations/protection

Source: [Crowdfunding's Potential for the Developing World, infoDev](#)

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Crowdfunding Market Overview

"Peru - Trekking to Huchuy Cusco" by McKay Savage is licensed under CC BY 2.0

Crowdfunding is expected to raise [\\$34.4 billion](#) globally this year, with most of that market concentrated in developed nations. We predict crowdfunding in the developing world to raise \$450 million in 2015, with India, Brazil, Mexico, the Philippines, Kenya, and Nepal raising the most among their peers.

Though crowdfunding in the developing world is raising relatively small amounts thus far, we believe there is tremendous potential for the fundraising method to make a big impact in emerging nations. Crowdfunding has the potential to leapfrog antiquated technologies and processes; it also holds the promise of democratizing the funding process for startups and projects, meaning there is less of a chance for corrupt officials to send money to shady firms.

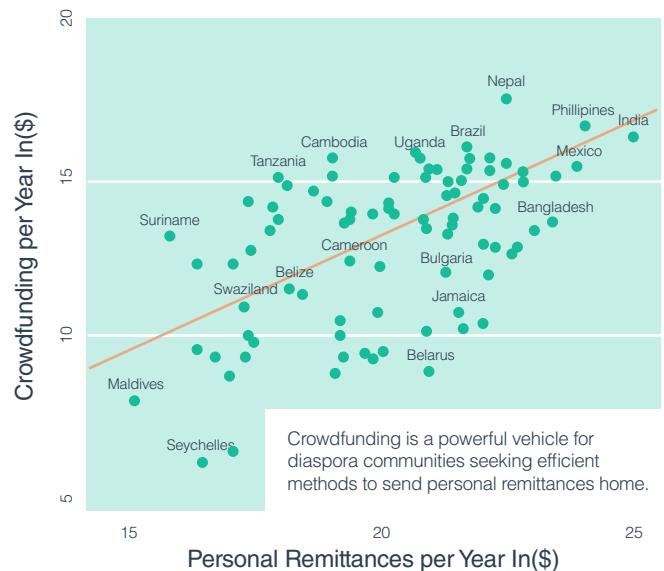
Part of the reason why we are optimistic about the crowdfunding market in the developing world is the important role of diaspora communities in promoting crowdfunding. There are 232 million international migrants around the world, [according to UN numbers](#), who sent back over \$580 billion dollars to their home countries — \$2,500 per person, on average.

If it can capture 10 percent of the global remittance market over the next ten years, diaspora crowdfunding can grow to a \$58bn industry.

We see a strong relationship between crowdfunding and remittances, and we predict that governments in developing nations (who absorb the lion's share of the remittances — \$440 billion) will begin to make use of crowdfunding as a way to formalize the remittance flows.

Our thinking is grounded in extensive precedent. Mali and Mexico, among many other nations, for example, have

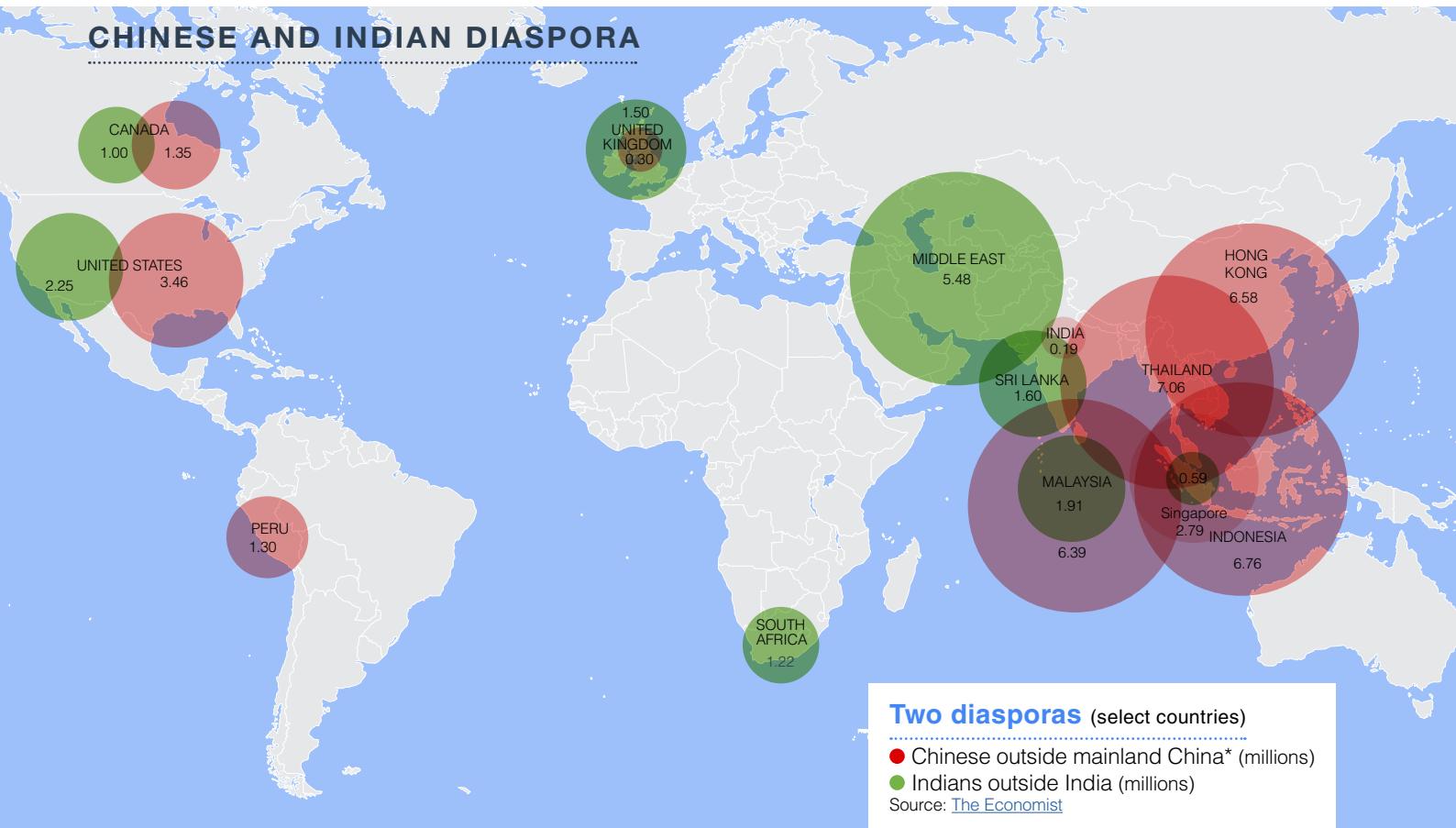
Crowdfunding vs. Personal Remittances Across Countries



created ministries or opened government divisions with the specific purpose of liaising with the diaspora. Mexico, specifically, has been an active champion of capturing and formalizing remittance dollars. One initiative that has proved particularly popular is the [3x1 program](#), in which three layers of government match every dollar invested by the diaspora.

That program has spread to many other nations across the world, and are not only helping to fund community projects, but are also creating a greater link between the diaspora community and their family members and peers back home. The closer connection to communities back home can minimize the effects of brain drain; the funding of longer-term projects or businesses can help to create a path to more sustainable development, as well as promote entrepreneurship among the communities back home.

The Role of Crowdfunding



Crowdfunding can play a highly important role in promoting government schemes to effectively channel remittance and investment flows.

Arguably the most important reason is that crowdfunding can break down [information asymmetries](#). This is highly useful for both the recipients of funding, as well as those who are looking to fund or invest in projects back home. A marketplace-style platform enables potential investors to look through the opportunities in their home countries; they can filter projects by distance to their hometown, or by sector, to ensure they are supporting the cause they believe in most. That level of transparency is difficult to create without a marketplace structure, and the lack thereof can prevent otherwise willing members of the diaspora from investing in their home nations.

For project creators and entrepreneurs, crowdfunding platforms can create an avenue to find growth capital that so few have access to, especially in the developing world. Indeed, the diaspora's early involvement in funding projects can have a validating effect, encouraging other (non-diaspora) investors to fund projects in the developing world — something that's often deemed to be risky, but also carries the opportunity to

realize higher returns than in developed nations.

Crowdfunding platforms also have the opportunity to play the intermediary role that's needed to help investors [navigate the complicated legal frameworks](#) associated with investing money outside of their countries of residence. Navigating all the relevant laws and regulations will not be an easy task for any platform looking to facilitate the flow of funds across borders, and government backing can play a big role in both legitimizing the platform, and ensuring that the process is legally sound.

Additionally, crowdfunding platforms can create competition with money wire services. Sending money to Africa, for example, can carry [fees as high as 12 percent](#). By creating competition, platforms will incentivize intermediaries to lower their fees.

On a macro level, channeling increased remittance funding and investment can help nations close the balance of payments gap, and inject liquidity into the economy. Furthermore, crowdfunding can provide non-financial benefits like reducing the effects of brain drain, promoting a culture of entrepreneurship in home nations, creating a new avenue for entrepreneurs to find investor capital, and more.

Case Study: GlobalGiving



GlobalGiving

To find out more about how crowdfunding platforms perceive diaspora communities, we spoke with Alison Carlman, Senior Communications and Marketing Manager at GlobalGiving.

ALLIEDCROWDS: Do you have information about how many of your donors are members of the diaspora?

GLOBALGIVING: We do recommend to our nonprofit partners that they focus on the diaspora communities in their outreach, and their efforts are often based on their own networks, so they might be able to gauge percentages more easily because they have personal relationships with many of their donors, or they have information in their GlobalGiving dashboard about how their donors were referred to their GlobalGiving project (and they can infer based on their advocates' outreach efforts.)

AC: How extensively does GG market its projects to the diaspora? Do you see the community as a potentially highly important donor group? Why or why not?

GG: We definitely believe that diaspora communities are an important part of the global crowdfunding picture, but we don't target any groups specifically with our own fundraising efforts; rather, we re-target donors with project recommendations that align with their previous donations on GlobalGiving. This means that if a member of the Filipino diaspora gave on GlobalGiving after Typhoon Haiyan, he or she will likely see appeals for other projects in the Philippines, and appeals for other natural disasters, because we can assume that some affinity to the Philippines or empathy after a disaster was what

triggered them to give in the first place, and might work again. Sometimes it works and sometimes it doesn't. Again, the answer is different for our international nonprofit partners; we recommend that almost every international nonprofit reach out to diaspora communities because this is a very important donor group.

AC: Do you think donations-based crowdfunding is the best model to capture the diaspora's interest?

GG: Donation-based crowdfunding can be very powerful for organizations hoping to reach diaspora donors because crowdfunding campaigns help diaspora communities rally around goals and projects that they care about. There's also great power in the peer-to-peer component of donations-based crowdfunding; people invite their friends and family to give to a cause that they know resonates with them. We often advise nonprofits to identify fundraising advocates who can champion the cause during a campaign and rally their networks to give, helping the nonprofit grow its audience.

AC: Governments are increasingly looking to formalize diaspora funding through matching programs like 3x1 or by other means — do you see crowdfunding as something that can also be used to promote such initiatives?

GG: Absolutely; and there's room for companies to play a role in mobilizing

diaspora support for local projects as well. We often see employees of global companies motivated to give to projects in their country of origin when they're motivated by their company's offer to match donations through GlobalGiving.

AC: Given crowdfunding's ability to create an emotional connection between the backers and the beneficiaries, do you think diaspora communities are a good fit for crowdfunding?

GG: Yes, it's important for fundraisers to create an emotional connection with their donors, and often diaspora communities understand stories and the context behind them without a lot of unnecessary explanation. What's left for the fundraiser is to convince diaspora communities that a small, individual donations can make a difference, and perhaps more importantly for some communities, that the organization is trustworthy, the money transfer process is safe, and the funding will be used effectively and transparently. Diaspora communities are very aware of scams and politics that could be at play.

AC: Any other points regarding diaspora crowdfunding that you feel are important?

GG: Diaspora donors, like all donors, are more likely to be moved to give if someone they know and trust asks them to give. That's why nonprofits should empower fundraising advocates who are part of or connected to diaspora communities to help spread their message and make the asks on their behalf.

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Developments to Date



"Rebuilding lives and hope in Pakistan"
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Some government agencies are already exploring the way crowdfunding can be used to channel money from the diaspora to communities back home. Perhaps the most significant example of this so far has been the USAID partnership with Homestrings for African Diaspora Marketplace III, a business plan competition that aims to award members of the African diaspora with funding to facilitate the creation of sustainable businesses in their home countries.

Homestrings, a crowdfunding platform for investment opportunities in Africa, agreed to host the projects for follow-on funding, indicating USAID's recognition of the potential of the diaspora to support entrepreneurial projects supporting sustainable development programs in home countries.

Homestrings is one of several platforms created specifically to capture diaspora remittance inflows. The platforms diaspora-focused platforms include Zafen (a Kiva partner) and ISupportJamaica (created by the third-largest financial institution in Jamaica), as well as Afrikstart and LelapaFund in Africa.

Many other platforms, like Idea.me, cater to the diaspora community by translating the site into English; others, like Zoomaal, see a significant portion of funding come from members of the diaspora. Ketto, a leading platform in India, also sees about 40 percent of its funding come from outside of India, according to cofounder and CEO Varun Sheth.

Despite the gains made thus far to recruit diaspora communities to crowdfunding platforms, there are still challenges. The main ones are around reaching the diaspora communities. As members of the diaspora can be very close to each other, they may be difficult to find for those who are not a part of the community. "I think most diaspora members do have an emotional connection to their home country, but reaching

out to them or advertise directly (and successfully) is a bit more difficult to achieve," said Peter Heijen, founder and CEO at Lendahand, a lending-based Dutch crowdfunding platform that works with entrepreneurs in the Philippines, Colombia, Ghana, and Mongolia. Government involvement can help to alleviate this problem, but other solutions are needed.

THE OUTLOOK

This primer has introduced the concept of crowdfunding for diaspora, showing some of the achievements to date. With an increasing number of government agencies and institutions looking to increase diaspora remittances and investment, crowdfunding may be a solution to many of the problems associated with engaging the diaspora.

This is a topic that deserves institutional attention, and AlliedCrowds is able to conduct the exploratory research and analysis to help identify the areas of greatest need, in order to make this space grow quickly and efficiently.

Specifically, we wish to conduct a survey of crowdfunding platforms, members of the diaspora community worldwide, and government agencies in order to get a better understanding of how crowdfunding can be used to engage the diaspora. We then aim to analyze the survey data and responses, and create specific suggestions on how crowdfunding can help to channel remittance and investment flows, as well as provide non-financial benefits like promoting entrepreneurship in home countries, reducing the effects of brain drain, and legitimizing investment opportunities for non-diaspora foreign investors.

[Click here](#) to keep up with the latest developments in diaspora crowdfunding.

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