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Narrowing the Financing Gap in Resource-Constrained Environments

An Exploration of Crowdfunding Platforms in Kenya

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Sammanfattning

Examensarbetets titel: Narrowing the Financing Gap in Resource-Constrained Environments – An Exploration of Crowdfunding Platforms in Kenya

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Ämne/kurs: Examensarbete i entreprenörskap och innovation på kandidatnivå, FEKH99, företagsekonomi, 15 högskolepoäng

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Nyckelord: Entrepreneurship, crowdfunding platforms, financing gap, financial inclusion, SMEs, donations-based crowdfunding, debt-based crowdfunding, rewards-based crowdfunding

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Syfte: Syftet med studien är att undersöka hur crowdfunding kan bidra till att minska finansieringsgapet för små och medelstora företag i Kenya, samt undersöka orsakerna till att crowdfunding ännu inte har etablerat sig som ett vanligt alternativ till traditionella finansieringsmetoder i Kenya.

Metod: Den kvalitativa studien är utformad av explorativ karaktär. Den empiriska datan samlades in genom semistrukturerade intervjuer.

Teoretiska perspektiv: Studiens teoretiska referensram utgår från forskning gällande crowdfunding plattformar, finansieringsgap och implementation av crowdfunding i utvecklingsländer.

Empiri: I empirin redovisas materialet från semistruktuerade intervjuer med experter, forskare och managers inom crowdfunding.

Resultat: Studiens resultat visar att Kenyas finansieringsgap är definierat av flertalet underliggande problem. Crowdfunding kan bidra till att minska finansieringsgapet, dock behöver fyra identifierade problem bemötas innan crowdfunding kan bidra i sin helhet.

Abstract

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Word count: 23 257

Purpose: The purpose of this research is to investigate how crowdfunding may help narrow the financing gap for SMEs in Kenya, and explore the reasons why crowdfunding has not yet established itself as a mainstream alternative to traditional financing methods in Kenya.

Methodology: The research uses a qualitative research design and is exploratory in nature. Empirical data has been collected through semi-structured interviews.

Theoretical perspectives: The theoretical framework is based on research regarding crowdfunding platforms, financing gaps, and implementation of crowdfunding in developing countries.

Empirical foundation: The findings represent data from semi structured interviews with crowdfunding academics and crowdfunding platform managers.

Conclusions: The results of the study show that the financing gap in Kenya is caused by a multitude of underlying issues. Crowdfunding can help narrow the financing gap. However, four key problems need to be addressed before crowdfunding can realize its full potential.

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Introduction

Entrepreneurship and innovation are key building blocks to a healthy, sustainable and growing economy (The World Bank, 2019). By exploiting business opportunities, entrepreneurs help facilitate economic growth, generate taxable income sources, and increase levels of labour market participation (OECD, 2018). Entrepreneurship can be particularly useful in developing countries. Not only do entrepreneurs create more jobs and boost economic development, but also extend essential products and services (e.g. mobile banking and medicine), to a more affordable price for those who need it the most (Rasagam, 2015). While entrepreneurship, innovation and new venture creation are essential building blocks for economic development, entrepreneurs in developing countries face several barriers to entry. One central and overarching issue is the challenge to raise funds (Cowan, 2019). Many entrepreneurs together with small and medium-sized enterprises (SMEs) struggle to find adequate funding vehicles and opportunities to kick-start their businesses. The term *missing middle* is often used to describe this phenomena. The term refers to the gap in available finance that SMEs experience while looking for funds. The missing middle problem is complicated and no single root cause exists (Cowan, 2019). Hence, no clear cut, *one size fits all* system is likely to solve this issue. Instead, many systems and solutions that offer different incentives and trade-offs have to be put in place to satisfy expected returns from investors and the reality of emerging markets (Randall and Chien, 2017).

For entrepreneurs and SMEs operating in resource scarce environments, where access to traditional funding channels are limited, new channels of alternative finance are emerging. Alternative finance refers to instruments that have been developed outside the scope of the traditional financial systems, which includes subsets such as: crowdfunding, alternative currencies, and third-party payments platforms (Garvey et al., 2017). One alternative financial instrument that has shown great potential (Best et al., 2013) and that may help narrow the financing gap in developing countries is crowdfunding. Crowdfunding was first introduced in the early 2000s (Landström et al., 2019) and has since then evolved into a multifaceted financing technology that now includes several subcategories, such as debt based crowdfunding, equity based crowdfunding and donations based crowdfunding (Garvey et al., 2017). In its simplest form, crowdfunding can be described as the allocation of capital for projects and individuals, both commercial and non-commercial, by raising funds from a large and diverse group of individuals or companies (Garvey et al., 2017). While crowdfunding has grown substantially since its inception, it is still a relatively novel form of financing technology (Garvey et al., 2017). Furthermore, the vast majority of crowdfunding activity still takes place in only a few parts of the world, most notably the United States and Europe (Landström et al., 2019). However, crowdfunding has shown potential in developing countries (Garvey et al., 2017). A key question researchers and practitioners have asked is when, rather than if, crowdfunding will be established as a viable and mainstream alternative financing tool in emerging markets (Stein et al., 2013).

Nevertheless, crowdfunding is still not being adopted as quickly as predicted. Reasons for this may include inhibition from regulatory environments and issues with corruption in certain locales (Rau, 2017).

Africa is at present one of the smallest global regions in terms of crowdfunding volumes and adoption, yet research suggests that it has one of the greatest potentials for crowdfunding growth (Chao et al., 2020a). A key reason for this is the widespread adoption and accelerated use of digital finance and mobile money in a number of African countries. Furthermore, Africa is still under-represented in terms of traditional financial services. Hence, crowdfunding may offer an opportunity to introduce innovative financial services that have not existed before (Chao et al., 2020a).

Kenya has exhibited more crowdfunding activity than many of its neighbours, and is one of the leading countries in crowdfunding in Africa (Ziegler et al., 2020). At the same time, the missing middle issue means that the financing gap for SMEs in Kenya is substantial (Cowan, 2019). This gap is according to Cowan (2019) a key underlying cause for the lack of SME growth in Kenya. A number of initiatives have been implemented in order to address the missing middle and narrow the financing gap for SMEs. For example, FinTech development (Collins, 2018), regulatory sandboxes (Appaya and Gradstein, 2020) and grants (The World Bank, 2020). Crowdfunding in Kenya has not yet established itself as a viable, mainstream alternative. Yet, crowdfunding may hold promise as a partial, complementary solution to the missing middle problem.

This study will attempt to (i) investigate how crowdfunding may help to narrow the financing gap for SMEs in Kenya, and (ii) explore the reasons why crowdfunding has not yet established itself as a mainstream alternative to traditional financing methods in Kenya. The scope of this study was limited to the gathering of data from the perspective of crowdfunding platform managers and crowdfunding academics. As the authors of this research felt this group would provide the most fruitful data and findings given the relative immaturity of the full crowdfunding ecosystem in Kenya. Hence, the scope of the study does not include data gathering from other crowdfunding stakeholders such as: investors, campaigners, regulators, service providers, technology providers, analysts, and so on.

The findings of this study may add to the body of knowledge on how crowdfunding technology may be useful to address the financing gap for SMEs in general, both in Kenya and potentially in other countries in the developing world as well.

2

Literature Review

The review of the literature below is focused on building a theoretical foundation for understanding and analysing the development of crowdfunding in general, crowdfunding platforms in particular, and their potential role in alleviating the so-called missing middle of financing gap experienced by SMEs in Kenya. First, a short overview of traditional capital markets and debt based banking systems is undertaken. This provides a reference point and a contrast to alternative financial systems, such as crowdfunding. Second, a definition of the SME financing gap as outlined by the OECD is considered. This provides the basis of a theoretical underpinning to further analyse the specific financing gap for SMEs in Kenya, and provides a reference foundation with which to interpret and analyse the findings of this research. Third, a review of crowdfunding platforms in general, as well as an outline of different crowdfunding platform types is provided. Fourth, a review of the state of crowdfunding in Kenya is undertaken based on the research by the Cambridge Centre for Alternative Finance and the World Bank Group. Fifth, a framework of strategies that reduce the risks of crowdfunding will be discussed. The framework is provided by the World Bank Group and outlines four approaches that can support the integration of crowdfunding into the fabric of a country's financial infrastructure. Finally, the concepts and ideas in the literature review are summarised in a conceptual framework which provides the reader with a holistic overview of the theoretical underpinnings of this research.

2.1 A Conceptual Understanding of Capital Markets

Companies access to finance is affected by the development of institutions such as banks and markets (Ayyagari et al., 2012). The institutions exist within a financial system, that can be bank-based or market-based. In a bank-based system, such as Germany, the banks have a key-role in allocating capital and overseeing the investment of corporate managers. The banks within the bank-based system are commonly owned by the state. In a market-based system, such as the United States, the banks cooperate with the securities markets in capital allocation and financial management. The absence of state ownership in the larger banks of a country, together with stronger institutions, commonly distinguishes the market-based system. The financial structure is usually more advanced in developed countries. As coun-

Figure 2.1: Capital markets displaying the interaction between corporations, banks, institutions and investors via capital, bonds or shares. Adapted after the corporate finance institute (Corporate Finance Institute, 2021, n.p.).

tries become more developed, the financial structure generally gravitates towards a market-based system.

One way of companies accessing financial capital to grow is through the capital market (as seen in Fig. 2.1).

The capital market is a digital venue, where suppliers of capital and those in need of capital are brought together for exchange of financial products. The capital market is divided into a supply side and a demand side (Corporate Finance Institute, 2021).

The supply side consists of investors that supply capital. Actors on the buy side include institutional investors, such as banks, insurance companies and funds. Also retail investors, such as individuals. Other actors are the Fund Managers, who can handle the investors' money. The Fund Managers invest the money into corporations, that is in need of more capital to grow. In exchange, the corporations issue debt or equity for the capital invested (Corporate Finance Institute, 2021).

The demand side consists of companies that demand capital. Actors on the sell side include investment banks, that can be employed as mediators to introduce like-minded institutions and corporations with each other. The corporations hire other actors such as accounting firms to support them with capital statements and raising of capital. The capital market is in turn divided into a primary and a secondary market (Corporate Finance Institute, 2021).

The primary market, is where private corporations initially can access capital through founders, relatives, venture capitalists or angel investors. Private corporations can become public through Initial Public Offering (IPOs), which is when corporations offer securities to institutional and retail investors in exchange for capital (Corporate Finance Institute, 2021).

The secondary market, is where the already emitted debt and equity securities from the primary market are traded. The transactions take place online, on a stock exchange or Over the Counter (OTC). In the secondary market there is more capital in motion due to fund managers and investors ability to freely trade bonds and shares. The investment banks provide equity research which guides the strategic decision-making of buyers and sellers, which in turn accelerates the trade (Corporate Finance Institute, 2021).

2.2 The SME Financing Gap Problem Defined

The OECD (2006) stated that a vital effort to reduce poverty and increase prosperity in emerging economies, in large part depends on SMEs access to external finance. Indeed, most economies at all income levels, have set common policy objectives to ensure that adequate financing is available for SMEs (OECD, 2006). This priority stems from a consensus amongst policy makers that SMEs are crucial for sustained economic development. A lack of access to finance can be an inhibiting factor for the development of the sector (OECD, 2006). In large economies, the SME sector is widely recognized as important for generating employment and economic growth. In emerging markets, the need to stimulate the SME sector is regarded as even more crucial. Furthermore, in developing economies, a high proportion of the population work in micro and smaller enterprises which frequently do not have access to adequate financing (OECD, 2006).

This lack of access is referred to by many commentators as the *financing gap* for SMEs (OECD, 2006). Although there is no commonly agreed definition for this term, it is widely understood to refer to the state of affairs whereby economically significant SMEs have difficulty obtaining financing from banks, capital markets or other suppliers of finance (OECD, 2006). It is also asserted that: (i) The structural characteristics of the formal financial system is unable to provide finance to those entities who may need it the most. And, (ii) if entrepreneurs in those markets had access to adequate financing, they would be able to use the funds in a productive way (OECD, 2006).

The OECD (2006) research suggests that there are several types of financing gaps that impact SMEs in both emerging and developed economies. Although, they are typically more common in emerging markets. They categorise these as follows:

Category 1: Structural Weaknesses of the Financial System

The first category of financing gaps for SMEs may be caused by structural weaknesses in the financial system of that country. This reflects an underlying malfunctioning of the formal financial system which means that SMEs are not able to access the financing they seek (OECD, 2006). Larger enterprises or the public sector in such economies can obtain credit from the formal financial system. However, smaller enterprises in the SME sector have to rely on internal cash flow, or credit from informal sources (OECD, 2006). This results in a situation whereby the SME sector is forced to operate on the periphery of the formal economy, even though SMEs generate a large portion of output and employment in the country. It also means that SMEs are inhibited from achieving their full potential to stimulate dynamism and innovation in the economy (OECD, 2006).

Category 2: Lack of Equity Culture

Another reason for the lack of dynamic growth in SMEs may be due to the low rate of enterprise formation which utilises equity funding. Countries that lack an *equity* *culture* are characterised as bank-dominated. Such countries rely on debt financing, rather than the use of capital markets (OECD, 2006). Typically bank dominated systems are found in continental Europe. Although it is not clear whether a reliance on bank lending rather than equity capital leads to a better or worse economic performance, it seems that some successful economies are increasingly using capital markets for funding sources (OECD, 2006). Reforms that encourage a judicious mix of debt financing and equity financing in emerging markets may be useful to stimulate a more vibrant SME sector. Hence, by developing easier access to equity based funding, the SME financing gap may be alleviated.

Category 3: Scarcity of high growth SMEs in technology sectors

The third category of SME financing gaps occurs when a country lacks dynamic SMEs in high technology sectors. In such countries, the general SME sector may be relatively well established. However, policy objectives and financial institutions tend to focus on developing high-growth SMEs in order to reap the benefits of enhanced competitiveness and the development of cutting-edge technology. The OECD (2006) suggests that a more targeted policy that enables specific funding for high growth SMEs may be needed, rather than a broad based reform of the financial sector (OECD, 2006). This is asserted on the grounds that high growth SMEs that focus on cutting edge technologies are crucial for economic growth in all economies.

2.3 An Introduction to Crowdfunding Platforms

Crowdfunding Platforms (CFPs) can in its essence be described as platforms that provide the link between investors with capital and entrepreneurs providing goods and services. The following sections will give further deinitions and segmentations of the concept, as well as describe its value caption and creation, and the economic and value structure of CFPs.

2.3.1 Defining and Segmenting Types of Crowdfunding Platforms

Belleflamme et al. (2014) provide a useful definition for contemporary crowdfunding platforms: "internet-based platforms that link fundraisers to funders with the aim of funding a particular campaign by typically many funders". Garvey et al. (2017) described crowdfunding itself as the provision of funding for a variety of entities including: (i) projects, (ii) individuals and (iii) commercial and non-commercial entities by accessing funds provided by a large group of individuals and institutions, both small and large. Furthermore, Garvey et al. (2017) subdivided the crowdfunding market into four broad groups: (i) donation, (ii) reward, (iii) equity and (iv) loan-based models.

2.3.2 Value Capture and Value Creation in Crowdfunding Platforms

Landström et al. (2019) draw upon the notions and theoretical constructs of value capture and value creation as described in the literature (Amit and Zott; Bowman and Ambrosini; Lepak et al., 2001; 2000; 2007) to create a useful model that helps elucidate the role of CFPs in two-sided markets.

Amit and Zott (2001) view value creation as occurring when novel processes connect previously separate market actors or when transactional inefficiencies are replaced with newer more innovative transactional structures. Amit and Zott (2001) further introduce the notion of lock-in which occurs when customers engage in repeated financial and/or other transactions.

With regard to value creation by CFPs, Younkin and Kashkooli (2016) identified four main problems that CFPs seek to solve. (i) Coordination: CFPs leverage networks of investors that coalesce and coordinate together on the platform. These networks provide new value to entities seeking access to funds in an effective and efficient way. (ii) Gatekeeping: CFPs provide access to capital and funding that would not be accessible to entities on their own. (iii) Patronage: CFPs enable a substitution of otherwise inadequate revenue streams with alternatives such as patronage models that allow small contributions from many supporters that have a specific interest in a project or individual. (iv) Inexperience: Some CFP platforms provide complementary services beyond fundraising for inexperienced teams and individuals. Such complementary services may include: business plan modelling, start-up pitching and success benchmark models.

Value capture (Landström et al., 2019) can be seen as the way that CFPs derive financial compensation from the transactions that represent value capture on their platforms. CFPs provide value to fundraisers and funding entities through the process described in value creation above. Note that the type of relationship that the CFP has with the funding entities changes depending upon the type of business model of different CFPs (Tomczak and Brem, 2013).

2.3.3 The Economic and Value Structure of Crowdfunding Platforms

Landström et al. (2019) show how Amit and Zott (2001) and Younkin and Kashkooli (2016), drawing on the notion of two-sided markets introduced by Rochet and Tirole (2003), describe how CFPs create value by serving two separate yet interdependent groups of market participants. Two-sided markets explain the relationship between different participants on CFPs. One one side of the platform are a group of participants who are seeking funds, these include: entrepreneurs, artists and project initiators. On the other side of the platform, are the funding actors including: lendings, investors and contributors (Landström et al., 2019). The CFP can be thought of as both a financial intermediary (Landström et al., 2019) and as an enabler of two-sided markets (Rochet and Tirole, 2003).

The model presented by Landström et al. (2019) shows an inner pathway that describes the central processes of CFPs (see Fig. 2.2). For example, funders provide capital to fundraisers in exchange for some type of interest or compensation in kind. This compensation or interest includes: (i) rewards, (ii) dividends, (iii) equity, (iv) personal satisfaction (Landström et al., 2019). The CFPs enjoy value capture by extracting financial return from the transactions on the platform.

The outer pathway represents the value creation process of CFPs. By consolidating and aggregating the wants and needs of funders the CFP solves a problem for fundraisers who extract value for themselves by engaging with the platform. At

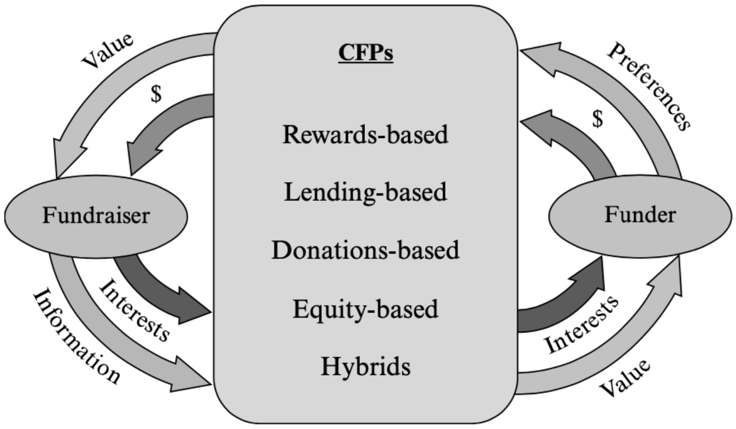

Figure 2.2: Value creation and capture as indicated by outer and inner pathways for crowdfunding platforms (Landström et al., 2019, p. 101).

the same time, funders gain value from CFPs by their ability to package and provide relevant information on fundraising campaigns that may be of interest to fundraisers looking for interesting campaigns to engage with.

2.4 Main Types of Crowdfunding and Their Benefits

The crowdfunding ecosystem is divided into several subcategories of crowdfunding models. The following sections will present the four most commonly used types.

2.4.1 Donations-Based Crowdfunding

Donations-based crowdfunding enables individuals to support people or projects in need of money, without any financial return in exchange for the investment. Donations-based crowdfunding is used primarily in the non-profit sector in order to support various social, environmental, political, or charitable causes. The revenue from the platform primarily originates from fees collected from each donation. There are two common subcategories of donations-based crowdfunding; personal campaigns and charity fundraising (Vargas et al., 2015). Key motivations of donations-based crowdfunding for the investors are e.g. community participation, the ability to vote with their money, as well as the possibility of formalizing support to relatives and friends in need. Possible risks with donations-based crowdfunding are fake campaigns or cyber-attacks (Landström et al., 2019).

2.4.2 Rewards-Based Crowdfunding

Rewards-based crowdfunding enables the contribution to campaigns in exchange for a non-financial reward. The rewards often comprise of tokens of appreciation, as e.g. an artist's autograph, mentioning the donor's name in the credits, or a T-shirt, or it could also consist of the pre-purchasing of a product or service in accordance with the contributed amount. In addition to the key motivations for donations-based crowdfunding, donors utilizing rewards-based crowdfunding expect a more tangible outcome of their investment, as well as to obtain early-adopter status of an invention, including e.g. updates or direct communication directly from the inventors (Schwienbacher and Larralde, 2010). Rewards-based crowdfunding enables access to capital at a lower cost, compared to traditional sources for the beneficiaries (Agrawal et al.; Agrawal et al., 2011; 2014). This corresponds to the fact that rewards-based crowdfunding primarily is used to fund art, such as movies, music, and for the development of new products and innovations. Possible risks that are associated with rewards-based crowdfunding are that professional investors could be excluded from financing possibilities. Investments from angel investors and venture capitalists often bring additional knowledge and value to the company, which is not possible to gain from non-professional donors (Jenik et al., 2017).

2.4.3 Debt-Based Crowdfunding

Debt-based crowdfunding, also known as lending-based crowdfunding, marketplace lending, or peer-to-peer (P2P) lending, enables direct lending to fundraisers or investment in debt obligations, which is platform-issued. Investors utilizing non-profit platforms actively seek to reach communities with limited access to formal loans without expectations of a financial return, which also means that these types of loans are associated with higher risk on financial loss on the one-hand-side, while on the other hand they are also associated with higher financial return for the investors. Debt-based crowdfunding can be divided into different subcategories based on whether the parties are individuals or businesses: Peer-to-peer lending, where individual investors lend to individual fundraisers and entrepreneurs. Peer-to-business lending, where individual investors lend to small and medium enterprises. Business-to-business lending, where the investors comprise of different businesses wanting to lend money with high rates of return. Debt-based crowdfunding has the advantage of granting access to a new asset class for the investors, where P2P lending is allowing un-collateralised debt, hence enabling better portfolio diversification and ultimately leading to reduced systemic risk due to the small amounts in diversified assets that the investors are lending to (Kirby and Worner, 2014). Debt-based crowdfunding can also be seen as filling a gap left by banks, where due to the tighter restrictions on traditional lenders introduced after the financial crisis the appetite for lending has been decreased. This decrease in lending proneness by banks, particularly to the least profitable and the riskiest segments, has left a market gap for debt-based crowdfunding, which has stepped in as an alternative to traditional lending.

2.4.4 Equity-Based Crowdfunding

Equity-based crowdfunding enables individual and institutional investors to invest in unlisted entities in exchange for shares in the entity (Jenik et al., 2017). Equity-based crowdfunding can therefore be said to fund legal entities that are able to raise funds by selling their equity. This crowdfunding method is in particular found to be suitable for start-ups as well as small and medium sized enterprises. If the investment target is reached, the deal is closed between the pool of investors, the issuer, as well as the platform. Usually, the platform charges a commission which is based on the amount that has been raised as well as on the basis of future profit. The key benefit of equity-based crowdfunding is based on its efficient and effective inter-mediation of funds, which allows investors to invest in a new asset class for a higher yield, as well as for entrepreneurs to access funding (Kirby and Worner, 2014). Benefits for investors when utilizing equity-based crowdfunding include: (i) access to investment opportunities that in the past were restricted to traditional financial intermediaries and venture capitalists (Gubler, 2013); (ii) considerable potential for financial gain when a bet on a start-up succeeds to become the new market leader; (iii) aligned incentives between investors and entrepreneurs. Benefits for entrepreneurs when utilizing equity-based crowdfunding include: (i) limited liability; (ii) enabling global reach; (iii) improved investment attractiveness for conventional investment sources. Improving the attractiveness of an investment for conventional sources is important and needs to be highlighted. A crowdfunding campaign that succeeds in attracting investment from established and conventional investors with a good reputation, provides a strong signal to other potential new investors in the market. This then adds to the likelihood of attracting additional sources of funding going forward.

2.5 The State of Crowdfunding in Kenya

According to Ziegler et al. (2020), Kenya's alternative finance industry is one of the biggest in Africa and ranks in the top three countries on the continent. The Kenyan alternative finance markets generated approximately 35 MUSD in 2018, growing by more than 78% year-on-year (Ziegler et al., 2020). This now represents nearly 17% of all the African online alternative finance industry. In Kenya, P2P Consumer Lending accounted for 52.4% of alternative finance volume at 18.3 MUSD, while Balance Sheet Consumer Lending represented 37.7%, or 13.2 MUSD (Ziegler et al., 2020).

At a broader level, crowdfunding volumes are significantly skewed towards certain crowdfunding models. Debt based crowdfunding platforms are clearly dominating the crowdfunding ecosystem in Kenya, while equity based and non-investment type crowdfunding lags behind considerably (Garvey et al., 2017). In 2017, debt based crowdfunding totalled 12.4 million USD in the East African region, equity based crowdfunding 0.15 million USD and non-investment 0.61 million USD. While all three market segments have grown since then, debt based crowdfunding has in relative terms maintained its position as the market leading alternative (Garvey et al., 2017).

Regulatory Environment

Crowdfunding in Kenya is not regulated by any specific overarching laws or dedicated regulatory institutions (Ziegler et al., 2020). The Kenyan Capital Markets Authority and the Central Bank of Kenya govern the alternative finance industry in the country. A sandbox initiative launched by the Kenyan Capital Markets Authority is helping foster innovation (Ziegler et al., 2020).

The need for alternative finance in general, and crowdfunding technology in particular, is supported by data from a study done by the Bruhn et al. (2017). The report quantified the number of SMEs in Kenya at approximately 1.5 million, and calculated that while the supply of capital for SMEs in the country was 3.8 BUSD there was an actual SME financing gap of 19.3 BUSD (Bruhn et al., 2017). This demonstrates a clear need in the economy for additional forms of financing, whether traditional, alternative or perhaps specific crowdfunding solutions.

2.6 Crowdfunding Drivers

According to Best et al. (2013), implementing crowdfunding investing (CFI) in a country involves facing several problems. Hence, isolated measures are not enough to enable a successful crowdfunding ecosystem in a given economy. The World Bank suggests that crowdfunding platforms will each their greatest potential when a combination of initiatives are implemented. These include: government initiatives, regulatory actions and technology and digital infrastructure.

> Developing countries that manage this process successfully may be able to leapfrog the developed world, in both a regulatory and economic sense, by creating frameworks for early-stage finance that facilitate entrepreneurship, the fostering of innovative technology enterprises and the emergence of new competitive industries (Stein et al., 2013, p. 9).

Risks associated with crowdfunding can be mitigated by adopting the four approaches described by Best et al. (2013). The successful execution of the model described below will enable a wider audience to become aware of new investment opportunities, and at the same time may increase crowdfunding activity. While offering protection against the possibility of failure. Such a framework may be appropriate for the Kenyan context and may also help build a better economy of trust.

2.6.1 Economic Approach

One part of the economic approach is the regulations (Best et al., 2013). New regulations should be crafted in order to facilitate the usage of crowdfunding, without compromising the protection of investors. The authorities should continuously monitor and renew regulations for SME's, without making the regulations too demanding. The regulations should not make it too expensive to raise capital, or too complicated to execute campaigns. This can result in more companies entering the *grey economy*, which means that operations that are legal but unregulated (Best et al., 2013).

A regulatory framework specifically designed for crowdfunding investing in the country would boost crowdfunding activity. With new proper regulations, the registration process to equity and debt-based crowdfunding campaigns can be facilitated. For example, regulations that allow the registration of crowdfunding campaigns entirely online, would clearly be beneficial for the efficiency and effectiveness of crowdfunding campaigns (Best et al., 2013).

Crowdfunding market alliances can also help build a vibrant crowdfunding ecosystem (Best et al., 2013). Stakeholders in such an alliance include: crowdfunding platforms, entrepreneurs, investors, local banks, angel investors, and so on. New ways of engaging and interacting with these stakeholders should be the goal of these alliance structures (Best et al., 2013).

2.6.2 Social Approach

The social approach emphasize that online social networks are the number one driver of crowdfunding activities (Best et al., 2013). In order to solve the social issue, the population need to have access to, and engage in, these networks. One suggestion is to let influential local people share the usefulness and positives of crowdfunding activities, as it has shown to increase funding. This is especially important in the first phase, the critical phase, of the crowdfunding campaign. Furthermore, as there is a correlation between foreign direct investments and the success of CF, it would be beneficial for the authorities to involve the Kenyan diaspora.

Another part of the social approach includes educational efforts (Best et al., 2013). Crowdfunding events can be held in order to increase awareness of crowdfunding and how to use crowdfunding platforms effectively. Education could create a link between crowdfunding investing and technology start-up centers. As the technology and usage of crowdfunding becomes more recognized, it could result in higher private and professional investor confidence. The private sector can contribute to the education and support of entrepreneurial activities by providing incubators, accelerator programs and shared work spaces. Here, new innovative ways of funding can be presented together with local success stories, which in turn result in a stronger entrepreneurial spirit and enhanced trust in crowdfunding (Best et al., 2013).

2.6.3 Technological Approach

The technological approach suggests that lessons can be learned from the parts of the world where crowdfunding is more developed, such as The United States and the United Kingdom (Best et al., 2013). The available knowledge can give stakeholders in developing countries inspiration on how to support crowdfunding, despite the possible challenges they face. It goes without saying that online crowdfunding platforms need to have access to strong internet connectivity. This is a foundation required for success, and is the first point in regards to adequate technology (Best et al., 2013). In addition, the extensive use of social media will help coordinate the activities of crowdfunding stakeholders in a country.

2.6.4 Cultural Approach

Building an accepted culture of crowdfunding requires the active involvement of a wide range of crowdfunding stakeholders. It is important that national authorities are involved, and there is wide recognition that crowdfunding can contribute to increasing employment, growing the economy, and increasing revenues and profits for a wide section of enterprises from small to large. A key message is that crowdfunding should be seen as a viable and useful solution for all members of society (Best et al., 2013).

2.7 An Explanatory Framework for the Emergence and Success of Crowdfunding

The literature review identified four specific conceptual frameworks to analyse the existing state, structure and relative maturity of the Kenyan financial system and crowdfunding infrastructure.

Figure 2.3 provides a graphic summary of the four conceptual frameworks and how they are integrated from a holistic perspective. This is designed to provide the reader with a simple visual overview of the way the authors have integrated the four conceptual frameworks and their specific components. This in turn, is used as a proposed theoretical underpinning with which to interpret and analyse the findings and results of the study.

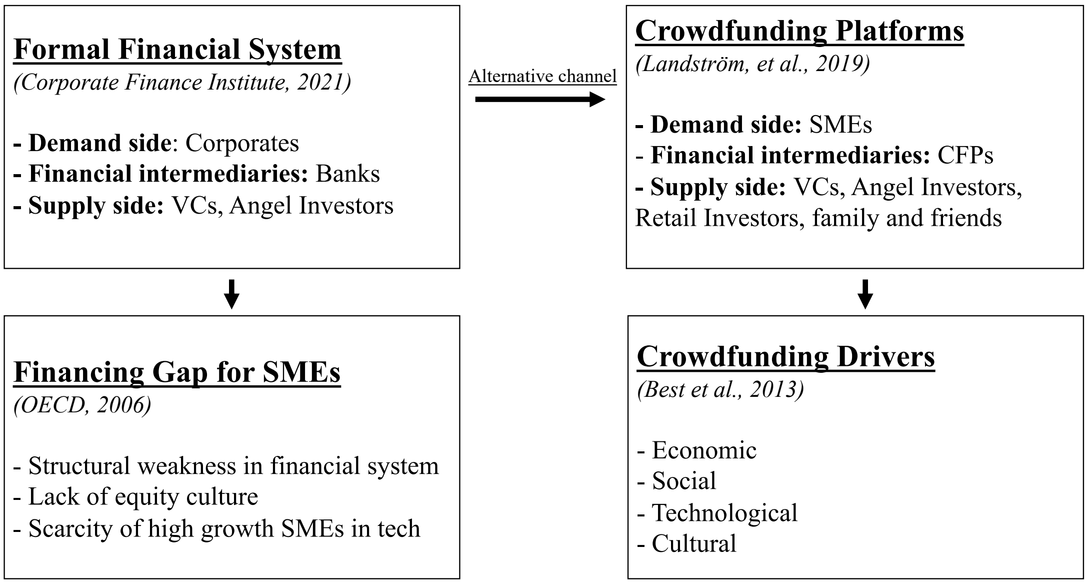

Figure 2.3: Conceptual framework. Adapted after Onyango (2018).

The graphic summary consists of four quadrants:

(i) The top left quadrant describes traditional finance systems which are centered around capital markets and bank-based debt lending.

(ii) The bottom left quadrant summarises the three SME funding gaps identified by the OECD (2006).

(iii) The top right quadrant outlines the basic structure of crowdfunding platforms.

(iv) The bottom right quadrant details the necessary drivers required to successfully integrate crowdfunding into a national financial infrastructure.

The quadrants are related as follows: In emerging economies, the reason for the existence of financing gaps for SMEs (bottom left quadrant) is because the traditional finance systems (top left quadrant) are not able to meet the capital requirement needs for the SME sector. This deficiency in the mainstream financial infrastructure provides the motivation for the emergence of new alternative finance systems. One such system is crowdfunding (top right quadrant), which also consists of its own financial actors and service providers, such as SMEs, Crowdfunding platforms, VCs, Angel Investors, family and friends. Finally, for crowdfunding to be successfully integrated into a country (bottom right quadrant), it needs to meet specific economic, social, technological and cultural conditions.

Finally, the conceptual frameworks outlined in the upper right quadrant (Landström et al., 2019), lower left quadrant (OECD, 2006), and lower right quadrant (Best et al., 2013) are used as the theoretical foundation for the analysis of the findings and research results. A fuller description of the application of these conceptual frameworks and the methodology used for the analysis is discussed in section 4.5.

3

Purpose of the Research

The purpose of this research is to (i) investigate how crowdfunding may help to narrow the financing gap for SMEs in Kenya, and (ii) explore the reasons why crowdfunding has not yet established itself as a mainstream alternative to traditional financing methods in Kenya. To date, there is a consensus in the literature regarding crowdfunding potential to facilitate financial inclusion and narrow the financing gap for SMEs, entrepreneurs and other entities seeking funding in resource-constrained environments in both developing countries and emerging markets. However, most of the research to date has focused on quantitative research through attempts to measure the growth, expansion and activity on crowdfunding platforms. In the literature there is a lack of qualitative based approaches to understanding the crowdfunding phenomena in terms of reasons for successes, failures and adoption or otherwise in particular contexts and national settings.

Using a qualitative research methodology, this study will seek to address this gap in the literature and build a set of qualitative data intended to add to the body of knowledge of how crowdfunding can help fill the gaps within financial systems, and thereby enhancing financial inclusion for entrepreneurs in resource-constrained environments. Compared to other geographies such as the US, United Kingdom, and China, usage rates of crowdfunding platforms are still relatively low. Nevertheless, according to the CCAF (Ziegler et al., 2020), Kenya has one of the highest utilization of crowdfunding platforms in Africa. Hence, Kenya is likely to provide fruitful data that may produce interesting findings and analysis. The scope of this study is further limited to the gathering of data from the perspective of crowdfunding platform managers and crowdfunding academics. As the authors of this research felt this group would provide the most fruitful data and findings given the relative immaturity of the full crowdfunding ecosystem in Kenya. Hence, the scope of the study does not include data gathering from other crowdfunding stakeholders such as: investors, campaigners, regulators, service providers, technology providers, analysts, and so on. This study will seek to answer three research questions:

1. What are the fundamental characteristics of the financing gap for SMEs in Kenya? And to what extent can crowdfunding help narrow the financing gap for SMEs in the country?

2. How do the crowdfunding platforms work in Kenya?

3. What is needed in order to further facilitate the utilization of crowdfunding in the country?

4

Research Methodology

The following section provides an explanation for the reasoning behind the research design and why a qualitative research method was employed. Furthermore, a reasoning for the collection of literature and selection of data is presented. Thereafter, an explanation of how the interviews were conducted, how the resulting data from the interviews were structured and why a thematic analysis was adopted takes place. The quality, the reliability and validity of the study is presented. Finally, ethical considerations and limitations of the study are discussed.

4.1 Qualitative Research

In regards to the purpose of research and in accordance with Bryman and Bell (2017), a combination of research methods were being used in order to achieve the research objective. The study used a qualitative research method of semi-structured interviews with crowdfunding experts, financial experts and crowdfunding platform managers. Bryman and Bell (2017) suggest that responses in qualitative interviews tend to be in line with what the interviewee wants the situation to look like, rather than the actual state of affairs. Hence, for the collection of primary data a variation of researchers, experts and mangers were chosen as interview subjects in order to gain different perspectives. In terms of secondary data collection, previous research on crowdfunding and crowdfunding platforms was identified. Existing data on crowdfunding in the Kenyan context is limited. Hence, an exploratory research approach, gathering qualitative data was chosen.

Given the nature of the research, an abductive research approach seemed to be most appropriate to answer the research questions (Bryman and Bell, 2017). An abductive method enables flexibility and the opportunity to develop a theoretical framework as the research process continues. This allows the fruitful incorporation of new insights generated in the research process.

4.2 Collection of Literature

A theoretical literature review was carried out in order to identify what research and theoretical frameworks that exist in regards to the research question (Bryman and Bell, 2017). The literature review process took place in order to acquire a more holistic understanding of crowdfunding tools, capital market systems and the specific background and context of Kenya. The process started off by reading books and articles on the topic, which showed what had been established as consensus knowledge on the topic. The literature review showed that existing theories have a strong relationship, as recurrent experts have worked with similar research on the topic. However, the existing research is limited in its extent in regards to the context of Kenya. Further investigation could therefore provide valuable contribution to the study area. The current consensus knowledge, and research extent, helped to identify relevant research questions. Based on the literature review, given the limited existing research in the Kenyan context, an exploratory study approach appeared to be appropriate in order to answer the research questions (Bryman and Bell, 2017). The Cambridge Centre for Alternative Finance (CCAF) was recognised, with extensive knowledge and data on alternative finance and crowdfunding in Africa. The first expert interview took place with Kieran Garvey, previously the Regulatory and Policy Lead, and currently Research Affiliate at the CCAF. This interview was the starting line for the remainder of the qualitative data collection process.

4.3 Selection

This study investigated the crowdfunding ecosystem in Kenya primarily from the perspective of crowdfunding platforms. In order to get a holistic picture of the Kenyan crowdfunding ecosystem, the perspective of crowdfunding academics and financial experts was also examined. Hence, the appropriate data selection structure for the study was to find interview subjects from the crowdfunding platform perspective as well as the academic point of view. In order to get a representative and balanced data sample, three interview subjects were identified for the respective perspectives. Three crowdfunding platform managers, and three crowdfunding and finance experts.

4.3.1 Crowdfunding Platform Managers

When choosing the sample of crowdfunding platform managers, representation of the Kenyan crowdfunding ecosystem was prioritised. In Kenya, the most established forms of crowdfunding are debt based crowdfunding, rewards based crowdfunding and donations based crowdfunding (Ziegler et al., 2020). Hence, one platform manager from each category was identified and interviewed. It is important to note that the crowdfunding activity in East Africa is heavily skewed towards debt based crowdfunding (Ziegler et al., 2020). A more representative sample may have matched debt based crowdfunding platforms proportionate to the crowdfunding activity in Kenya. However, since the study aims to acquire an holistic picture of available crowdfunding alternatives, the decision was made to limit the sample to one crowdfunding platform per crowdfunding category.

Naomi Sang works as Media and Communication Lead for the donations-based crowdfunding platform M-Changa. She has been with the company since October 2019. Sang is in charge of external communication for the company, such as social media management and blog writing (Sang, 2021).

Matt Roberts-Davies is the COO for the rewards-based crowdfunding platform Thundafund. He previously worked at Kiva in San Francisco, and started working with crowdfunding in 2017. Roberts-Davies has been the General Manager for M-Changa, and is currently working as Head of Sales with marketing and business development for the platform (Roberts-Davies, 2021).

Fridah Ntarangwi is the founder of, as well as works as a Managing Partner for the debt-based crowdfunding platform ZidiCircle since 2016. Prior to this, she worked at the Kenyan Central Bank as Financial Markets Intelligence Officer, and has been involved with SME financing since 2015 by taking on roles such as Senior Manager-SME investments at Financial Access, CE Finance Project Lead at PGGM and International Start-up Coach at TEC Europe (Ntarangwi, 2021).

4.3.2 Crowdfunding and Finance Experts

When identifying and choosing experts to interview for the study, sample bias was taken into account. The main goal with interviewing crowdfunding and finance experts was to get a better understanding of the Kenyan financial system. To acquire a holistic view of the ecosystem, experts with different research knowledge and with different perspectives, while still being knowledgeable about the specific subject and the context of Kenya, were prioritised. In order to minimise sample bias, experts from different geographical locations, different ages, different sex and cultures were contacted.

Rotem Shneor is an Associate Professor at the University of Agder (UiA) School of Business and Law. He also works as an Affiliate Researcher at the Cambridge Centre for Alternative Finance. Furthermore, Shneor is the founder of the Nordic Crowdfunding Alliance, and co-founder of the Norwegian Crowdfunding Association. Finally, Shneor is the co-author of the book Advances in Crowdfunding Research and Practise and the chapter Crowdfunding in Africa: Opportunities and Challenges (Shneor, 2021).

Linda Onyango is the CEO of the SME Support Centre (SSC), a management consulting firm for small and medium enterprises in East Africa, operating in all sectors of the economy. Prior to this, Onyango worked in roles such as Business Analyst at PwC, Strategy and Operations Manager at KPMG East Africa, Lead SME Advisor at Energy 4 Impact Partner at MN Capital Advisors Africa. Onyango wrote her master thesis from Strathmore Business School (SBS) called An Analysis of the Effect of Crowdfunding Platforms in Enhancing the Financing Sources for Micro, Small and Medium Enterprises (MSMEs) in Kenya (Onyango, 2021).

Kieran Garvey has been with the Cambridge Centre for Alternative Finance (CCAF) since 2015. For approximately five years, Garvey worked as the Regulatory & Policy Lead at the centre where he led the CCAF's education and capacity building actives such as online programme for financial regulators and policy makers from 100+ countries in 160+ central banks and regulatory authorities globally. Garvey is a co-author of 30+ FinTech and Crowdfunding reports tracking global market and regulatory data. Prior to this, Garvey worked in roles such as Research Analyst at Trillion Fund - a renewable energy crowdfunding platform, Associate Manager at UK Crowdfunding Association and Crowdfunding advisor at the Parliamentary Office of MP Barry Sheerman in England (Garvey, 2021).

4.4 Collection of Data

Since the crowdfunding ecosystem in Kenya is still in its infancy, the potential number of interview subjects was limited. The sample size for the study would therefore be relatively small. The interview subjects were initially hard to contact. The planned data collection process would mean for professionals to set aside at least 30 minutes of their time to answer the interview questions. Hence, in order to identify and encourage participation in the study, a snowball selection method was utilised. After each interview the authors asked the interview subject if anyone else in their network were active in the crowdfunding ecosystem in Kenya, and if they would be interested in participating in the study.

The interviews were conducted one-to-one over Zoom, each interview lasting between 30 minutes to one hour. A total of eight interviews were conducted with CFP managers and industry experts. This was the most practical and cost-efficient method due to the geographical distance. Follow up interviews were conducted when the authors of the study identified new questions that needed answers from specific interview subjects. Two follow-up interviews were carried out during the data collection process. One with Naomi Sang, Communication Lead at M-Changa, and one with Rotem Shneor, Associate Professor at the University of Agder (UiA) School of Business.

All three co-authors of this study participated in all eight interviews. After each interview, the authors discussed the outcomes of the interview for a minimum of 30 minutes to gather thoughts and impressions. All eight interviews were transcribed as soon as possible, when the impressions were still fresh so that the interviews were easily accessible for later use.

For some sections of the thesis, the qualitative data was supplemented by secondary data obtained via desktop research. This included data from the given crowdfunding platform websites and media outlets. Additionally, findings from the Cambridge Centre for Alternative Finance's (CCAF) report, Global Alternative Finance Market Bench marking Report (Ziegler et al., 2020), were used to gather additional complementary quantitative data.

4.5 Analytical Approach

In order to organise the analysis and interpretation of the findings into a coherent structure that would address and answer the research questions, the following method was adopted.

First, the data from the interviews was read, sorted, and divided into three specific groupings that matched the content of the research questions. This produced three sections of findings that were presented in chapter 5, and then analysed in chapter 6. Each specific section within chapter 5 and 6 corresponds to the three research questions of this study. The transcripts from the interviews formed the basis for the analysis which was structured as follows:

(i) The data was read with the goal of finding common patterns in the text. (ii) These patterns were identified and organised into a set of themes that were presented in each of the sections described above. (iii) Relevant themes that corresponded to each section (and research question) were identified, presented, discussed and analysed using the theoretical frameworks presented in the literature review section in chapter 2.

The first section in chapter 5 and 6, which corresponded to research question 1, used the OECD (2006) framework of different categories of financing gaps for SMEs. These were then analysed in the context of Kenya using the themes that were identified based on the research data. The question of whether crowdfunding might alleviate these three different financing gaps identified by the OECD (2006) was also analysed using the same thematic structure.

The second section in both chapter 5 and 6 was organised around the content of research question 2. It focused on presenting and investigating the three separate crowdfunding platforms, ThundaFund, M-Changa and ZidiCircle in Kenya. The data from the respondents who worked on the respective platforms was analysed using a framework proposed by Landström et al. (2019). This analysis then allowed a comparison to be made between the platforms.

Finally, for section three in chapter 5 and 6, themes were identified that matched the last research question. Four central themes from the data were identified and presented. These findings were then analysed using the rubric proposed by the Stein et al. (2013) as discussed in the literature review.

4.6 Quality of the Study

In order to ensure quality of the study, focused was laid on separating the data collection into two parts, where the first part focused on getting expert opinions on crowdfunding in their respective areas. This allowed the authors to get input and theoretical advice from experts, as opposed to risking letting the authors' own opinions and prejudice have a significant influence on how the second part of the interviews were planned and executed. In the second part of the study interviews were conducted with selected crowdfunding platform managers to learn about their motivations and views on the crowdfunding landscape in Kenya. The platforms were selected after input from the experts from the first round of interviews, with an emphasis on getting information from the three different crowdfunding types that are available in Kenya as well as getting access to key people at the largest domestic crowdfunding platforms available in Kenya.

4.7 Reliability

According to Bryman and Bell (2017), reliability of a research method can be divided into two parts; external reliability and internal reliability. External reliability describes how well it would be possible to repeat the study and get the same or a similar result (Bryman and Bell, 2017). In the case of this research project, as discussed in the previous sections, the answers would be strongly dependent on the different selected experts and selected platforms as well as their answers and the data which is available on the selected platforms, and would therefore have an impact on the external reliability of our study. Even if a new set of experts and/or platforms would be selected with our criteria, suitable crowdfunding platforms in Kenya who are recommended by our experts, it is impossible that the social setting would be identical, and therefore changes in answers are to be expected. It is, however, still believed that the individual experiences are important for the learning purposes by this qualitative study where key success factors for crowdfunding could be identified. As a follow-up study, a more quantitative approach with a more narrow selection on identified key areas could be done, which also would have higher external reliability. The selected approach towards addressing this possible difficulty with the selected research topic and method, is to focus on describing the results thoroughly in order to increase the possibility to transfer the research results also to another environment, as described by Bryman and Bell (2017). In order to ensure internal reliability, where focus is on the different researchers in a team are agreeing on the interpretation of what is heard and understood during the interviews, focus was put on making sure that all the team members were present and actively participating in all interviews. There also were follow-up meetings directly after the individual interviews in order to discuss and consolidate the impressions and findings before forgetting small nuances of the different experts' answers. Furthermore, the experts were informed about their answers, and the authors' interpretations of their answers, during the follow-up interviews to make sure that they were correctly understood and interpreted. It is also of high importance to us to describe all of the steps and phases of the research process in this thesis in a complete and honest manner, in order to ensure that the readers of this work can view it critically and therefore ensure its reliability, as described by Bryman and Bell (2017).

4.8 Validity

Bryman and Bell (2017) describe research validity as whether the researchers are observing, identifying or measuring what they are assuming to do. Furthermore, internal validity describes how well the observations of the research are fitting the theories that are developed based upon the observations, whereas the external validity focuses on how the research results can be generalized to other social environments and situations. In the present case with examining the crowdfunding platforms in Kenya, the aim is to alleviate this potential issue by combining semi-structured interviews with experts where the authors try to get in-depth knowledge about the topic in the region, as well as to learn from their experience about crowdfunding in their respective area and/or platform. Whether the presented research results can be generalized to other social environments and situations is seen as based on triangulation based on qualitative interviews, earlier research articles and overall secondary research data about financial systems and Kenya in general. Because of this wide approach with bench-marking of the collected data with the status of research, it is concluded that the presented research results can be generalized to other social environments and situations.

4.9 Ethical Considerations

Bryman and Bell (2017), drawing on the work of Diener and Crandall (1978), highlight four key areas when considering ethical considerations in research methods. These include the following: in conducting the research, (i) is there harm to the participant? (ii) Is there a lack of informed consent? (iii) Is there an invasion of privacy? (iv) Is deception involved? (Bryman and Bell, 2017).

(i) The researchers took great care to ensure that the research study would not harm research participants as they were fully informed at the start of the interviews of the nature of the study, the type of questions and the use of their responses.

(ii) Before each interview, the interviewee was explicitly asked to agree to two things and give informed consent. A) The approval of recording the interview, and B) the consent to include the interviewee's names and titles as reference to their comments. Although it is often normal to gain written consent for the collection of qualitative data (Bryman and Bell, 2017), in the case of using recording equipment to gather data, informed consent can also be formally recorded rather than formally written.

(iii) All six respondents were made fully aware of the study and the fact that their responses would be included in the study. They were asked if they accepted these terms, and they formally agreed in a recorded format. They also agreed that their real names would be used to reference their comments. Hence, all the names are explicitly stated in this study. During the research collection, all data was password protected. The recordings of the interviews were deleted soon after the interviews had been transcribed. Moreover, all raw data will be deleted after the publication of this study.

(iv) The researchers paid careful attention to accurately interpret the responses from the interviewees, and to ensure that the findings and the data collected represented the information provided by the respondents. Great care was taken to avoid erroneously interpreting data to support the frames of the study. The finalized product of the study was shared with the interviewees, as the material might be of interest for further research, and as a token of appreciation.

5

Findings

Chapter five consists of three sections which present and discuss the findings of the research. The first section reviews factors and market forces influencing the supply and demand of capital in Kenya, which in turn impacts the financing gap for SMEs. The data gathered in the research is then presented and discussed from the perspective of the interviewees on these matters. The second section presents findings, primarily gathered from interviews with crowdfunding platform managers. It focuses on the three specific crowdfunding platforms ThundaFund, M-Changa, and ZidiCirle. The final section presents four specific challenges crowdfunding platforms face in the Kenyan market. There was a general consensus from interviewees on the nature of these challenges and perspectives are provided on how they might be overcome.

5.1 The Supply and Demand of Start-Up Capital in Kenya

One way to view and explain the financial situation in Kenya, and the prevalent financing gap for SMEs in the country, is by categorising financial market actors into a supply side, and a demand side of start-up capital, as suggested by Onyango (2020). Actors who supply capital generally expect to receive a return on their investment, and in turn, actors who demand the capital generally pay dividends to the supplier of the capital.

5.1.1 The Demand Side of Start-Up Capital in Kenya

According to Onyango (2020), the main driver of the demand side of capital is the significant number of unemployed Kenyan youth, who are looking for entrepreneurship as an alternative source of income. Kenya is experiencing a youth bulge, where the supply of young workers has increased tremendously in recent years. The majority of the young working population are university graduates and more educated than the previous working generation. However, the labour market in Kenya is still experiencing a severe disequilibrium, where the demand for labour cannot keep up with the amount of new graduates. Onyango (2020) states that only 1 out of 5 go into formal employment. The remaining 4 out of 5 seek alternative sources of income through entrepreneurial activities. The entrepreneurial activities in Kenya consist primarily of trading and manufacturing. Onyango (2020) states that approximately 65 per cent of business are trading business, where Kenyan entrepreneurs buy goods from China and re-sell the imported products in Kenya. Onyango (2020) suggest that manufacturing is another common venture, where Kenyan entrepreneurs for instance manufacture their own natural oils or beauty products. These types of businesses make up the majority of ventures in Kenya. A low to medium growth rate is a common characteristic for most of these ventures. However, in order to start, sustain, and expand business activity, they require capital like any other business (Onyango, 2020).

5.1.2 The Supply Side of Start-Up Capital in Kenya

Onyango (2020) suggests that the supply side of capital in Kenya by and large consist of financial institutions such as banks, VC funds and angel investors (see Appendix C for a complete list of questions). Banks, however, will not supply capital without any collateral. Since very few SMEs lack the necessary collateral, banks are generally reluctant to provide normal bank loans to SMEs (Onyango, 2020). Shneor (2020a) asserts that banking services in Kenya are too complex, difficult and expensive to serve the needs of the majority of the population (see Appendix B for a complete list of questions).

Shneor (2020a) described this situation as a "ranking monopoly", where banks only serve the needs of the already well off members of the population, while not serving the financial needs of those that may need it the most.

Ntarangwi (2020) points out that venture capital funds and angel investors exacerbate this state of affairs as they typically only consider investing in larger, high growth, opportunities. Angel investing in particular is not sufficiently developed in Kenya to serve the role it does in other countries. In fact, Ntarangwi (2020) asserts that angel investing mainly consists of unofficial capital raising from family and friends.

It is important to note that the SMEs that do get funding generally are high growth, tech start-ups, with unique value propositions and solutions. They typically receive funding from actors based in Europe or more developed funding environments (Onyango, 2020).

This results in a situation where there is a real lack of opportunities for access to capital for small and medium growth SMEs in Kenya (Garvey, 2020) (see Appendix A for a complete list of questions).

Finally, Onyango (2020) identifies another group of actors on the supply side of capital for SMEs, called "logbook financiers". Logbook financiers supply loans that are secured by a vehicle's logbook, where the borrower's car typically is the pledge of property to the lender, to secure the repayment of the loan. These loans are typically very punitive, where the lender can charge up to 20 per cent interest per month. According to Onyango (2020), these loans don't make sense for SMEs, who lack both collateral to take the loan as well as the necessary capital and income to pay back the loan on time. Onyango (2020) suggests that these new logbook financiers do provide an adequate or sustainable solution to the funding gap in Kenya. On the contrary, such loans actually aggravates the problem.

5.2 Crowdfunding Tools Used in Kenya

Out of the crowdfunding tools that were described in section 2.4, only a few are actually currently used in Kenya according to our interviewees. In the interviews with Naomi Sang (Sang; Sang, 2020a; 2020b) at M-Changa (M-Changa, 2021), Matt Roberts-Davies (Roberts-Davies, 2020) at M-Changa and Thundafund (Thundafund, 2021a), and Fridah Ntarangwi (Ntarangwi, 2020) at ZidiCircle (ZidiCircle, 2021a) (see Appendices D, E and F for a complete list of questions), who all are located in Kenya, they all confirm the presence of donations-based crowdfunding as the most developed type in Kenya where M-Changa being the major platform. The second most developed crowdfunding type in Kenya is described as debt-based, where e.g. Pezesha (Pezesha, 2021) and ZidiCircle (ZidiCircle, 2021a) were mentioned. Finally, also a rewards-based platform, Thundafund has been established locally in Kenya in 2018, as mentioned by Roberts-Davies (2020), COO of Thundafund. Furthermore, all interviewees were strongly positive towards the future of crowdfunding in Kenya and anticipate a high growth in the coming three to five years.

None of the interviewees were aware of an equity-based crowdfunding platform in Kenya, only Roberts-Davies was aware of a new equity-based platform located in South Africa (Roberts-Davies, 2020). When asked about the reason for the lack of equity-based crowdfunding platforms in Kenya, he mentioned regulations and immaturity of the crowdfunding market, both in terms of entrepreneurs and crowd, as possible reasons for this.

5.2.1 Donations-based Crowdfunding – M-Changa

During the interviews with Naomi Sang from M-Changa, she described how the donations-based platform evolved when its founder Kyai Mullei needed a formalised tool for *harambee*[1] during his stay in the United States. Because he was already working in the field of IT, he decided to create a platform where he could send money to his family and friends in Kenya in a safe manner, and at the same time keep track of his donations to the various causes that he supported.

Since M-Changa was founded in 2012, it has established itself as the market leader for donations-based crowdfunding platforms in Kenya, with Roberts-Davies (2020) describing it as "In donation based, M-Changa is the market leader." Their business model is providing individuals, NGOs, as well as SMEs and entrepreneurs with a platform which enables a safe infrastructure for crowdfunding at the cost of a 4,25% fee (Sang, 2020b). Typical amounts that ususally are targeted for crowdfunding campaigns at M-Changa are around 2kUSD for SMEs and >10kUSD for NGOs according to Sang (2020b): "I would say the average is, especially for SMEs like businesses, around 200k Kenyan schilling. That's about 2000 USD. That's what most people ask for ... for NGOs it's usually 1 Million plus, Kenyan schilling.". While typical donations-based crowdfunding campaigns are mainly being used for financing of weddings, funerals and medical treatments, the typical SME entrepreneur is either a farmer or a trader of the kind that purchases imported goods which they

[1]Harambee is Swahili and means *all pull together*, which is a Kenyan tradition of community self-help events (Mbithi and Rasmusson, 1977). It is so central to Kenyan culture that it even appears on its coat of arms and is also the official motto of Kenya.

then sell locally in Kenya. Other examples mentioned by Sang (2020a) for small entrepreneurs seeking funding opportunities at M-Changa or similar platforms were water shops or shoe makers. What united them all in their search for initial funds on crowdfunding platforms were their lack of collateral needed in order to take out a loan, or the possibility for financial support from parents or relatives for starting capital. As is described in the harambee culture, typically the donations occur from family members or friends, and in order to expand the circle of people who donate to your cause, a sufficient amount of marketing work is needed, as described by Sang:

> When you come and raise funds on the platform, you're the one who will do most of the work, share your story and make people fundraise. The benefit is that you don't need to have the collateral, so we don't have the requirements that loans have. But also, in comparison to grants or a loan, once you get the money as a business, you raise the fund on M-Changa, it's all yours to spend (Sang, 2020a).

The same important distinction is also described by the founder Kyai Mullei in one of the earlier interviews about harambee culture and the M-Changa crowdfunding platform: "M-Changa is a culture-based product that reflects the Harambee-culture in Kenya and other countries in East Africa. The distinction is important. Harambees rely first and foremost on family networks and then friends." (Hurst, 2014). This corresponds well with the fact that 97% of all donations on M-Changa are from people located in Kenya, and 95% of all payments are mobile payments (Roberts-Davies, 2020). Several additional advantages, as opposed to using informal networks and sending of cash, with using the M-Changa platform for crowdfunding are also mentioned:

> With the platform people are no longer forced to travel, but you can set it up online and people use mobile money. Some features like treasurers who know that any time you want to make a withdrawal it has to be approved. If you want to make a fundraiser they can check the validity. And it enables you the option of using Visa and Mastercard. So people can easily contribute to your fundraiser. Withdrawal is also easy with either mobile money or into your bank (Sang, 2020a).

Especially the fact that M-Changa has an authorized treasurer and that three verified people are needed in order to transfer the funds, was described as a strength of the organization, which also was seen as central for gaining and remaining people's trust in M-Changa.

5.2.2 Debt-based Crowdfunding – ZidiCircle

Fridah Ntarangwi, the founder and CEO of ZidiCircle, one of Kenya's largest debt-based crowdfunding platforms, founded ZidiCircle in 2016 after having worked several years in the financial sector, including the Central Bank of Kenya. In 2014 she moved to the Netherlands to pursue her master's degree with a major in financial markets and regulations. After obtaining her degree she was working as an emerging markets advisory with focus on East Africa, and saw several problems and gaps, of which she identified "Not doing specialised lending to SMEs, such as Agriculture lending." being on of the most important ones (Ntarangwi, 2020). At that point, there was just generalized lending, and no specialized lending for e.g. Agriculture available. At this initial point, Ntarangwi then focused on helping the entrepreneurs restructure and do product development for this category of agriculture lending purposes, and it was during this time that she realized that financial knowledge in general was missing. Additionally, as was identified by Sang (2020a), Ntarangwi also saw the missing collateral as central for the entrepreneurs inability to secure loans with traditional financial institutions such as banks. Furthermore, she identified the next problem of the entrepreneurs as being in a cycle of always repaying debt, as opposed to really actually expanding and growing their businesses, which should be their main focus. At this point, Ntarangwi saw the potential of the debt-based crowdfunding platform that she created step-wise:

> I set up ZidiCircle to help these SMEs get access to capital. In the beginning I was just helping them with fundraising, negotiating deals, but mostly from institutional investors. But after that I realised that this was all scalable, and that is how we came up with ZidiCircle crowdfunding platform (Ntarangwi, 2020).

ZidiCircle focuses on entrepreneurs and SMEs that usually would not qualify for loans at banks, with typical numbers raised during their crowdfunding campaigns in the range of "Mostly 20 000 Euros to 150 000 Euros. But we, in some unique cases, fund even 5 000 Euros" (Ntarangwi, 2020). Their business model is to take a percentage of the raised capital loan and share it between the company itself and its investing partners: "If we promise the investor 4%, we add 4% for our operations ... It is not a standard, but for example some could be 5% to the investor, and we end up having 10%. It is anywhere between 6% and 10% annual interest." (Ntarangwi, 2020). In terms of interest, ZidiCirle and debt-based crowdfunding platforms in general are not comparable to traditional banks or even mobile credits, where the interest rates are very high (Ntarangwi; Onyango, 2020; 2020), but instead focus is on mid- and long-term effects on society as well as positioning themselves within the financial landscape:

> We believe in interventions, we hope that companies can create more employment ... we kind of take an approach which is different from the banks. I can't say that we are substituting what the banks are doing, but that it is complementary, but in a different way (Ntarangwi, 2020).

As opposed to the donations-based crowdfunding example of M-Changa, where 97% of all donations come from inside Kenya, ZidiCircle has 100% of its lenders outside of Africa, with most of them located in the Netherlands but with a substantial part of them belonging to the African diaspora. It should also be acknowledged that for debt-based crowdfunding, as is the case for banks, in most cases some kind of collateral is needed for the entrepreneurs in order to get a loan. This will limit the crowdfunders who are successful in debt-based crowdfunding to older people who already have obtained something valuable enough to be able to act as a collateral for a loan, e.g. property, a car, or some kind of equipment (Onyango; Sang, 2020; 2020a). Furthermore, it is estimated that the the crowdfunding amounts are higher for debt-based compared to donations-based crowdfunding campaigns. The time and process of searching for funds online is taken into the risk trade-off estimation by the individual entrepreneur, meaning that when raising lower sums of approximately 200k, it is considered easier to try to get these sums from donations than going through the work to get a loan that has to be paid back with interest (Sang, 2020b). But for amounts around 1 Million and above, it might take a lot of time and maybe not even be possible get to these amounts with donations- or rewards-based crowdfunding campaigns, and especially for these cases, people might rather go for a loan-based solution according to Sang (2020a).

5.2.3 Rewards-based Crowdfunding – Thundafund

Thundafund was initially founded in 2012 in South Africa by Patrick Schofield (Thundafund, 2021a), and in 2018 it was relaunched in Kenya with Matt Roberts-Davies as COO and head of the operations in Kenya. The intention of Schofield when founding Thundafund was similar to the idea of Kullei when founding M-Changa, except for the explicit focus on creators. Because South Africa has quite strict laws on money inflows, which poses a problem for international crowdfunding platforms, and additionally the impractical side of international transactions, the idea of a national rewards-based crowdfunding platform was initiated. The initial focus of Schofield was to build a platform that he himself could use to raise money, being in the creative space himself (Roberts-Davies, 2020).

Roberts-Davies (2020) describes how Thundafund more is focusing on business funding, as compared to M-Changa which mainly focuses on social causes like medical bills, and this was the personal reason for him to seek the COO role at Thundafund, while still being part-time at M-Changa as Head of Sales, Marketing & Business Development. Thundafund aims to meet the needs of businesses that just are starting out, and in these cases rewards-based crowdfunding can be a good solution to obtain that initial funding to get traction. For smaller businesses who are good in revenue, even if they are excluded from financing possibilities by banks, crowdfunding investing can still be a good option. Instead of debt, Thundafund is starting a type of crowdfunding where the crowd gets parts of revenue. "We'll do it in partnership with the banks. For those that they can serve, we could make a solution. They want a guarantee and we can share the risk. There is a spectrum of needs and rewards in this missing middle space." (Roberts-Davies, 2020).

For the entrepreneurs and SMEs that are turning to rewards-based crowdfunding, the majority of the companies are low-tech, meaning that they should be able to register using WhatsApp, as well as to participate using mobile money (Roberts-Davies, 2020). Roberts-Davies furthermore describes that there is a lot of access in the technology, as well as in operations for the entrepreneurs, but that instead the role of the crowdfunding platforms comprises of much more hand-holding and customer care.
When asked about where Thundafund fits within the financial landscape in Kenya, Roberts-Davies answers:

> That's a good question. If it comes to business funding I think crowdfunding is usually in addition, it doesn't stop people from going to a bank or whatever. In many ways though it is formalizing what is already happening when collecting money from friends and family, it simplifies that. It does not represent a change in culture but provides a tool for what is already happening (Roberts-Davies, 2020).

Since there have not been many crowdfunding platforms in Kenya so far, with Thundafund being the first rewards-based platform, the crowd as well as the entrepreneurs still needs to get used to the concept (Roberts-Davies, 2020). He furthermore differentiates between rewards-based and debt-based crowdfunding in Kenya in the sums that are required by the entrepreneurs, with debt-based crowdfunders requiring higher amounts and that these companies in general are larger than entrepreneurs seeking opportunities in rewards-based crowdfunding. Hence debt-based crowdfunding is currently excluding most smaller businesses in Kenya, and Roberts-Davies sees Thundafund as filling the in-between space within the crowdfunding landscape. Concerning how Thundafund aims to reach a crowd that would be willing to invest in rewards-based crowdfunding, Roberts-Davies identifies the same possible crowd as they already have contact with for the donations-based platform M-Changa: "People who are donating to these causes are probably the same who would also fund businesses, so we don't need to differentiate between donors and investors." (Roberts-Davies, 2020).

Concerning Thundafund's cost structure, it is designed so that only once a crowdfunding project has been successfully funded, Thundafund receives a commission on the final crowdfunded amount. This amount constitutes of 5% for certified NGOs and 7% for individuals and organisations (Thundafund, 2021a). Furthermore, typical funding amounts for projects on Thundafund average of approximately 3000 USD (Roberts-Davies, 2020).

5.3 Identified Challenges with Crowdfunding in Kenya

Below is a summary of the identified challenges with crowdfunding in Kenya. The identified challenges are divided into four themes that were identified by reviewing the transcribed interviews: regulation, trust, education and communication. This summary is created in order to provide a better understanding of the identified contextual issues, that influence the effectiveness of crowdfunding platforms and their impact on the capital market in Kenya.

5.3.1 Regulation

One of the fundamental barriers for crowdfunding platforms are regulatory issues. Shneor explains that: "The current laws are excessive or just not relevant to internet reality - they were formed last century. Before anybody thought about the internet and what a crowd economy could look like" (Shneor, 2020a). He continues to explain that the lack of regulations could result in operations outside the regulatory framework, such as internet scams. Roberts-Davies (2020) suggests that the ongoing schemes in Kenya has made the regulators cautious to act. One possible solution for the regulatory issue is according to Ntarangwi (2020) more interaction between platforms and regulators. Shneor (2020a) explains that updated regulations would contribute to investor and consumer protection, creating a more favorable environment for crowdfunding activities and enable industry growth. In line with Shneor's arguments, Ntarangwi (2020) explains that distinct crowdfunding regulations would bring confidence to the whole market and the platforms. Furthermore

Shneor (2020a) argues that Kenyan authorities understand the potential and express interest in crowdfunding, but the volumes of crowdfunding are currently too small to result in regulatory changes. A temporary solution might be for the platforms to work together with the financial authorities, under supervision, to identify the challenges and what type of regulations are needed in order for the platforms to function properly. This phenomena is also called regulatory sandboxes. Shneor adds, "You need to create a legal framework that can enable smaller secondary market operations, now it's very limited". According to Onyango (2020), regulations is not an issue for most crowdfunding platforms in Kenya. However, lending platforms need to consider how much interest they are charging. When questioned about the relationship between regulation and development of crowdfunding, she answers that:

> The only thing you need to look out for as a lending platform is how much interest you are charging. Because then the Central Bank of Kenya will step in. The Central Bank of Kenya has really regulated FinTech in the country. FinTech practices for collecting money and debt have not been ethical. Regulation is coming for those (Onyango, 2020).

5.3.2 Trust

Crowdfunding is a relatively new concept for Kenyan people to trust (Shneor, 2020a). For this reason, the issue of social distrust requires some extra efforts in order to provide suitable solutions. Shnoer states that:

> What we mean with low trust society is that when you compare, to other countries in the world, the percentage of the population that say that they trust others or that others can be trusted, is much lower than anywhere else in the world. In such an environment of trust, by engaging with people that you don't know over mobile internet medium, the trust problem sort of increases. This requires some extra effort (Shneor, 2020a).

He continues to explain that there are possible solutions and the interest for crowdfunding is growing in Kenya. Other ways of approaching the issue of trust is described by Sang:

> Especially since sometimes people are concerned that people take their money. So we have to keep showing them and earning their trust. When I see my friends telling me that they trust this platform, this is then one of the reasons that I might also use it (Sang, 2020a).

In line with the argument of Sang, Shneor (2020b) explains how important it is for crowdfunding platforms to be developed with the trust issue in mind. One component that directly affects the level of trust experienced towards crowdfunding platforms is the level of transparency. It is easier for users to trust the platform if they know what is happening with the money. Furthermore, the crowdfunding platforms need to be linked with payment and communication systems that the local people already use and trust, such as WhatsApp and M-Pesa. Ntarangwi (2020) also explains how platforms can build trust, she adds that: "I think the really authentic local platforms are good for the market". Another possible solution is presented by Shneor:

> The most of the funding that happens in Africa is also by international platforms rather than locally based platforms. This is very unique to Africa. There is also a need for starting up local platforms, with local places, local languages, accessibility that adds more trust and familiarity.And maybe more willingness to do this for a local company rather than international ones Shneor (2020a).

5.3.3 Education

When the Kenyan population think of crowdfunding they might ask themselves questions such as: "Why do we need this?", "Why should I change the way I do things?" and "Why should I trust this?" (Shneor, 2020a). Shneor continue to explain that people could experience suspicion towards using crowdfunding platforms, simply because they lack knowledge in the area. It is not only the Kenyan population that is in need of education. According to Roberts-Davies (2020), the regulators need more knowledge in order to successfully support the crowdfunding landscape in Kenya. He also explain that the two platforms of Thundafund and M-Changa are cooperating, as the platforms have different target markets the cooperation does not give rise to a conflict. For this reason, Shneor (2020a) , Roberts-Davies (2020) and Ntarangwi (2020) argues that there is a need for proper education in crowdfunding. The training can come from educational institutions, the platforms, entrepreneurial hubs and authorities (Shneor, 2020a). Roberts-Davies (2020) explains, "We appreciate having things like African CF association, because they can be more focused on education. It's hard enough running a platform without having to focus too much on this". When asked about if platforms can be a part of educational efforts, Shneor replies:

> I think everybody can be a part of education. The regulators, the platforms, the educational institutions, entrepreneurial hubs, authorities ... In many cases the platforms do take this responsibility because they want to recruit people and educate. But if we want this to be let's say, unbiased education, then it needs to come through the public through education systems. Because platforms I think in their education efforts of course underestimate the risks, underplay the problems, because part of the education also is a sales pitch (Shneor, 2020a).

M-Changa is one platform that uses blogs and meetings in order to educate businesses in how to raise more money through crowdfunding. Sang explains:

> For the success stories, if an organization has raised an amount and it has worked well, we request them to talk about the work that they are doing, how M-Changa helped them, the features that made it possible and if they can recommend others to use it (Sang, 2020a).

5.3.4 Communication

In order to raise awareness and increase the knowledge of crowdfunding, proper communication is needed. Shneor (2020a) and Sang (2020a) argues that the success cases of crowdfunding campaigns needs to be communicated in order to inspire others to follow, and to overlook the trust-issue. Shneor (2020a) emphasize that companies, entrepreneurs and individuals need to become aware of the possibilities of increased access to finance through crowdfunding. When asked about to what extent the Kenyan population have access to communication tools, Roberts-Davies answers:

> Everyone is on WhatsApp. I was very surprised, in the villages where elderly women use WhatsApp on the buses. Even though their English is quite poor they are leaving each other voice messages. The signal isn't good enough in order to call, and sms is expensive ... Even though people are connected in Kenya, they don't know about the different applications (Roberts-Davies, 2020).

Sang (2020a) further emphasize that mobile money is a viable option in Kenya. Even elderly people have access, and use, mobile money through M-Pesa. In fact, 60% of the donations to M-Changa is performed through mobile money payments. Shneor (2020a) argues that by communicating real success cases, the idea of crowdfunding becomes more concrete, traceable and realistic. Success stories could be communicated through word of mouth, social media or education. Shneor (2020a) and Sang (2020a) agree upon that once companies know that crowdfunding is possible, people need to be informed on how to use it. Shneor (2020a) states that, "I think it's a question of time and experience. The whole industry is still very young, in some countries it's just a few years old. It takes time to convince them to use the basics".

6

Analysis and Discussion

The following chapter sets out an analysis of the findings discussed in chapter 5. It is organised into three sections. These correspond and match the content of the research questions. Section one reviews how crowdfunding can be used to alleviate three specific financing gaps in Kenya. This analysis draws on a framework provided by the OECD (2006), which identifies different categories of financing gaps for SMEs. Section two focuses on the findings gathered regarding the three separate Kenyan crowdfunding platforms: ThundaFund, M-Changa, and ZidiCirle. The findings were analysed using a framework proposed by Landström et al. (2019). The results were then used to construct a comparative analysis of the three platforms. Finally, section three uses the World Bank rubric described by Best et al. (2013) to investigate and analyse the four challenges identified in chapter five.

6.1 Interpretation of the SME Financing Gap in Kenya and Where Crowdfunding Can Help

6.1.1 The SME Financing Gap in Kenya

Drawing on the framework provided by the OECD (2006), an analysis of the findings suggests that the SME financing gap in Kenya cannot be understood from the perspective of one predefined category. Instead, the analysis suggests that the fundamentals of the financing gap in Kenya share characteristics from all three categories suggested by the OECD (2006): (i) Structural weakness of the financial system, (ii) Lack of equity culture, and (iii) Scarcity of high growth SMEs in technology sectors.

Category 1: Structural weaknesses of the financial system

The first form of financing gap presented by the OECD (2006), emphasises the prejudice against SMEs due to their higher variance in profitability and year-on-year volatility in earnings. In such environments, financial institutions favour provision of funds to bigger, more established enterprises (OECD, 2006).

Traditional financial institutions, such as entities in the formal banking system, tend to favour lending and providing capital to larger more established enterprises (OECD, 2006). In contrast, SMEs in general tend to find it more difficult to attract loans from the formal financial institutions. The OECD (2006) presents this as the first type of financing gap, and it can be understood as a type or prejudice against

SMEs due to the fact that their earnings are often volatile and their profitability can vary greatly. Hence, they tend to be pushed to the periphery of the formal economy, and consequently can be forced to seek capital elsewhere outside the formal banking system.

Onyango (2020) and Shneor (2020a) also highlighted a set of similar problems faced in Kenya, in relation to the supply side of capital in Kenya today. For example, Onyango (2020) suggested that only a few SMEs have the necessary collateral to be considered worthy of loans by the formal financial institutions in Kenya. As a result, many SMEs are simply disregarded or ignored, and fall outside this route to obtaining capital. This view is reinforced by Shneor (2020a) who stated that banks are not able to engage the whole section of the population because their services are too expensive and the conditions for engagement are too onerous. This means that only well off, larger enterprises enjoy access to banking services, loans, and the capital they require for expansion and growth.

Onyango (2020) stated that, as a result of this financing gap, a range of alternative financing solutions have emerged in Kenya. These include: logbook financiers, FinTech lenders, and informal networks consisting of family and friends as financiers.

Category 2: Lack of Equity Culture

The OECD (2006) identified a second form of financing gap impacting SMEs as a lack of a so-called "equity culture". Countries in continental Europe represent examples of this phenomena, where most funding and capital raising takes place through bank loans rather than through equity sharing.

According to Onyango (2020), a similar lack of equity culture exists in Kenya. This is due to the fact that small and medium SMEs tend to be wary of engaging in equity based funding deals, because they are reluctant to share any of the equity in their own companies with other parties. However, Onyango (2020) does make the point that equity financing exists in Kenya, but in general it is only common amongst tech start-ups who are receiving funding from VCs based outside the country.

The Onyango (2020) makes the point that the lack of equity financing in some economies does not seem to have an adverse effect on economic growth, and is not primarily due to a malfunctioning in the financial system, but rather represents a conventional way of doing business in particular national domains. Onyango (2020), suggests that this cultural dimension may also apply in the Kenyan context, and that a cultural shift needs to take place for equity based funding to grow meaningfully in the economy. Roberts-Davies (2020) supports this view and makes the point that equity funding deals are very scarce in the country.

This is an important distinction in the context of understanding the financing gaps in Kenya. For it is not only the fact that banks are reluctant to lend money to smaller SMEs, but also that equity based funding alternatives are in short supply, which exacerbates the general funding problem for SMEs.

Category 3: Scarcity of high growth SMEs in technology sectors

A lack of high growth dynamic tech start-ups in a given country was identified by the OECD (2006) as a third type financing gap affecting the SME sector. The OECD (2006) suggests that formal policy objectives should be put in place to encourage financial institutions to support such high growth SMEs. The OECD (2006) asserts that this type of financial support for an innovative technology sector is essential for economic competitiveness.

In the case of Kenya however, the situation can be interpreted differently. A suggestion to focus on the high growth tech start-ups, at the expense of low and medium growth SMEs, may in fact be counterproductive to the objectives of growing the economy and alleviating unemployment. A focus on providing funding for high growth tech start-ups may paradoxically increase the financing gap for the country as a whole.

Onyango (2020) supports this view. She points out that it is the high growth tech start-ups in Kenya that tend to attract funding from angel investors who are mainly based in Europe. Whereas the vast majority starting business in Africa do not fall into the high growth sector. They are instead normal, low or medium growth enterprises, such as restaurants, traders and so on. Angel investors and other actors are not interested in investing in such businesses (Onyango, 2020). Hence, it might be concluded that a deliberate policy by the government to focus on the high growth tech sector only, may not be the most fruitful way forward in the specific case of Kenya.

6.1.2 Where Crowdfunding Can Help

The question of whether crowdfunding is a useful tool to help alleviate the financing gap in Kenya is still an open question. Garvey (2020) stated that "I don't think it [crowdfunding] is going to replace anything, if anything it is just adding an additional channel in a relatively weak capital market environment." It may be fruitful however, to examine the potential of crowdfunding relative to the specific categories outlined above, to analyse in more depth whether in fact crowdfunding has a place in alleviating the financing gap in Kenya.

Category 1: Structural weaknesses of the financial system

The current total supply of capital provided to SMEs in Kenya in 2017, was estimated to be approximately 3.8 BUSD. The financing gap amounted to circa 19.3 BUSD in that same year (Bruhn et al., 2017). Hence, the problem is significant. At present, crowdfunding activity itself in Kenya, is heavily skewed towards debt-based crowdfunding (Ziegler et al., 2020). The OECD (2006) highlighted the problems that SMEs in accessing traditional debt-based finance. So it is interesting to speculate that this bias towards debt-based crowdfunding may reflect the difficulties that SMEs have in raising debt-based capital using traditional financial infrastructure. However, the 19.3 BUSD financing gap for SMEs in Kenya, suggests that crowdfunding solutions still have a long way to go to help alleviate the problem.

There is a potential however for this problem to be alleviated in the near term. There are a number of crowdfunding platforms which allow debt-based financing in Kenya. Hence, one possible way to alleviate the financing gap would be to promote and widely communicate the benefits of debt-based crowdfunding platforms to the 1.5 million SMEs in Kenya (Bruhn et al., 2017). If such a communication campaign were successful, it might be speculated that the effect could be immediate on alleviating the problem, as laid out in figure 6.1.

Category 2: Lack of Equity Culture

As discussed above, there is a lack of equity based financing alternatives in Kenya, both in the traditional financing ecosystem and on crowdfunding platforms (Ziegler et al., 2020). This point was reinforced by Garvey (2020) who pointed out that the secondary market for equity based crowdfunding is illiquid and immature. This means that investors are reluctant to use equity based crowdfunding because of the risks associated with a lack of liquidity for disposal of shares to potential buyers.

This situation is unlikely to change in the short to medium term (Garvey, 2020). It is clear that equity based crowdfunding in Kenya is still in its infancy, and a lot more expansion and growth needs to take place before it can impact the financing gap for SMEs in any meaningful way.

Nevertheless, it can be further speculated that if the existing problems faced by equity based financing were able to be solved, equity-based finance on crowdfunding platforms might be a useful additional channel in the future.

Category 3: Scarcity of high growth SMEs in technology sectors

Analysis of the findings above showed that there is a funding bias towards high growth tech start-ups in Kenya (Onyango, 2020). The point was also made that the suggestion by the OECD (2006), to focus on high growth tech start-ups to raise employment and economic activity in the country, may not help alleviate the financing gap for SMEs in Kenya. Instead, a focus on democratising access to capital on behalf of small to medium growth SMEs may be a better way to stimulate growth and employment given that there are so many smaller enterprises in Kenya (Onyango, 2020).

Crowdfunding platforms can democratise both investing and funding in a very real way. Hence, crowdfunding may be a useful tool to mitigate and solve some of these financing problems (Onyango, 2020). Retail investors, for example, may have a different set of incentives and motivations to invest from typical VCs and angel investors. Crowdfunding platforms allow a wider range of funding actors to engage with individuals and SMEs seeking funding. Hence, they are more flexible and allow the expression of different types of incentives that motivate these funding actors (Onyango, 2020). Once again, a focus on communicating and promoting crowdfunding platforms in this way might have an immediate effect on alleviating the financing gap for SMEs in Kenya (see table 6.1).

Table 6.1: Summary of financing gaps according to the OECD classification in Kenya. Adapted after OECD (2006).

OECD categorisation	**Category 1:** Structural weaknesses of the financial system.	**Category 2:** Lack of equity culture.	**Category 3:** Scarcity of high growth SMEs in tech sectors.
How crowdfunding can help	Promote debt-based crowdfunding alternatives.	Develop more equity-based crowdfunding alternatives.	Democratise investing and funding via crowdfunding.
Effect	Immediate	Long term	Immediate

6.2 Operations of Platforms – How the Crowdfunding Platforms Work in Kenya

The purpose of a crowdfunding platform is, as described in 2.4, to connect two separate but connected markets, which corresponds well with how all three platform managers describe how their respective crowdfunding platform operates in section 5.2. The following sections are divided into inner and outer pathways of the respective crowdfunding platforms for analysis of their value creation and capture according to theories presented by Landström et al. (2019).

6.2.1 M-Changa

Inner Pathways of the Crowdfunding Platform M-Changa

Early in the operations of the M-Changa platform, the need for an online platform to facilitate the harambee culture in Kenya was recognized. M-Changa itself describes the crowdfunding platform as the innovative combination of harambee culture, social media and mobile payments, as indicated in figure 6.1. Harambee culture is seen as

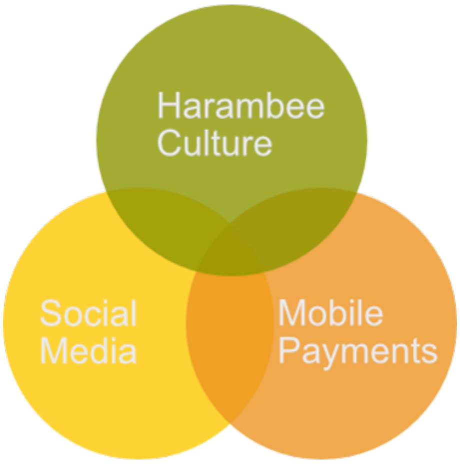

Figure 6.1: Venn diagram displaying the overlap of harambee culture, social media and mobile payments that M-Changa is combining in its crowdfunding platform (Nandi, 2019, n.p.).

central for the Kenyan society where there is a strong will and tradition of friends and family coming together to pay for a wedding, funeral or medical treatment. The innovative step that M-Changa had already introduced in 2012, when it was founded, was to identify a platform solution that combined mobile payments. This meant that more people would be able to contribute to the harambee. It also utilized social media so that campaigns could be more widely spread than would otherwise be possible without such tools. M-Changa provides a clear example of the innovative use of technology to connect two separate but connected markets of fundraisers and funding contributors.

Outer Pathways of the Crowdfunding Platform M-Changa

The role of M-Changa concerning *coordination*, as well as creating additional opportunities of raising funds within a network as a result of the more efficient way

M-Changa is able to leverage and activate existing networks, is one of the platform's biggest strengths. As mentioned by Sang (2020a), typically the donations on M-Changa occur from family members or friends, and in order to expand the circle of people who donate to your cause, a sufficient amount of marketing work is needed. It is clear that expanding the harambee culture to also utilize social media and mobile payments expands the possible amounts that can be collected for a harambee cause, while the types of entrepreneurs and crowd seems to be merely identical to harambee where the M-Changa platform is not utilized, unless a significant of marketing work is done.

In terms of *gatekeeping*, i.e. enabling greater access to pools of capital that otherwise would be been inaccessible, M-Changa can be seen as marginally enabling this. As described by Sang "When you come and raise funds on the platform, you're the one who will do most of the work, share your story and make people fundraise." (Sang, 2020a), as well as Mullei "Harambees rely first and foremost on family networks and then friends." (Hurst, 2014). While M-Changa theoretically could enable a larger circle of people that donate to a crowdfunding campaign, according to our interviewees this is not what mainly is happening, but instead M-Changa provides a formalised manner of organizing the already existing harambee donations between family and friends.

Patronage, described as the act of replacing a current revenue stream by an alternative, is considered as low for M-Changa. This is concluded since a patronage site typically encourages continual contributions from funders for specific projects, which in the case of M-Changa not really is the case. Once an entrepreneur or SME has had a successful crowdfunding campaign on M-Changa there is no logic follow-up project for which a donor acting as a patron would finance because of the first finanzed project.

Concerning M-Changa's role in addressing *inexperience*, i.e. how the platform can provide solutions to problems that are specific to first-time founders, the conclusion is that this is at medium level. Both Sang (2020a) and Roberts-Davies (2020) describe how a certain amount of "hand-holding" is seen as part of their business concept, meaning giving confidence and building trust within the community to enable assurance of the technology. However, since M-Changa already has been around for relatively long and M-Changa already is rather established and well-known, it is estimated that this no longer plays a very central role at this stage.

In summary, it can be said that M-Changa typically caters to entrepreneurs seeking funding from family and friends for typical harambee purposes such as weddings, funerals and medical bills. M-Changa offers the added value of having a treasurer, meaning that there is added safety to the funds that are raised, and several people are needed in order to withdraw the money, meaning that the risk of losing money is kept at a minimum. Furthermore, M-Changa is used for keeping track of which family members and friends that have already donated, and how much, to your cause. For the crowd-side, it enables people to keep track of the causes and family members that they have already sent harambee money to. The M-Changa crowdfunding platform primarily fulfills the need of formalising harambee donations between family and friends in a safe and transparent manner.

6.2.2 ZidiCircle

Inner Pathways of the Crowdfunding Platform ZidiCircle

ZidiCircle provides one of the largest platforms for debt-based crowdfunding in Kenya and operates through thorough screening and de-risking with high level due diligence in order to minimize the risk. Additionally most businesses have to provide a collateral in order to further minimize the risk for the investors (ZidiCircle, 2021b). All of their investors are ranked as professional investors and categorized as high net worth individuals or companies/institutions/groups that are able to invest amounts starting with 100 kEuro (ZidiCircle, 2021b). This differentiates them from the more general definition of the crowd in crowdfunding terms, where usually smaller amounts are referred to when talking about funding possibilities. It actually excludes the majority of investors who would normally be interested in supporting crowdfunding campaigns, whether they are situated internationally or locally in Kenya. Still it provides the high net worth individuals or companies/institutions/groups with a possibility to invest in the crowdfunding space in Kenya that otherwise only banks would be able to. As displayed in figure 6.2, the investor view of debt-based crowdfunding at ZidiCircle is very similar to how banks and other financial institutes target their marketing towards potential investors (Abratt and Russell, 1999), and not the typical crowdfunding information, as is otherwise found on the other platforms (M-Changa; Thundafund, 2021; 2021a). The investor has the possibility to choose a project according to the preferred sectors, such as food & agriculture, sustainable manufacturing, renewables and tech solutions for social needs. ZidiCircle ensures that the selected businesses meet the criteria of sustainable businesses, from their due diligence processes. Apart from their focus on businesses that have promising turnover, they also describe the importance of the company playing a major part in contributing to social economic conditions in their country, such as e.g. poverty eradication or employment creation (ZidiCircle, 2021b).

ZidiCircle clearly connects two separate but connected markets – high net worth individuals living in predominantly European countries with a wish to invest in

Figure 6.2: ZidiCircle investing steps displaying the four steps of registering, choosing project preferences, review of documents and return on investments as shown in their webpage (ZidiCircle, 2021b, n.p.).

companies in Kenya but do not have the time or interest to do their due diligence in order to de-risk their investments, and entrepreneurs in Kenya in need of larger sums than would be available in the typical donations- or rewards-based crowdfunding campaigns. Furthermore, when the entrepreneurs get their loan application within ZidiCircle approved, the capital is made available immediately, as opposed to e.g. donations-based crowdfunding where the entrepreneur has to wait and see whether the crowdfunding target is reached or not during the campaign.

Outer Pathways of the Crowdfunding Platform ZidiCircle

The role of ZidiCircle regarding *coordination*, meaning how it focuses on creating additional opportunities of raising funds within an existing network as a result of the more efficient way ZidiCircle leverages and activates existing networks, is seen as rather low. This is mainly viewed in this way since the entrepreneurs seeking funding at ZidiCircle already are quite developed in terms of having a business plan, and the SMEs in general already being quite developed in order to be able to successfully secure a loan with ZidiCircle.

Concerning *gatekeeping* on the other hand, the role of ZidiCircle is seen as major, since they clearly provide greater access to pools of capital that otherwise would be been inaccessible for the entrepreneurs. This is definitively one of the strengths of the ZidiCircle platform since it provides an investment opportunity for individuals that are not necessarily linked to the local markets in Kenya, but still have the wish to invest in selected industries within the country. The possibility for individual entrepreneurs and SMEs to get access to sums that otherwise only would be available through bank loans, with less stringent and limiting criteria than a traditional bank loan, provides a huge advantage for the local industries with its inflow of capital to Kenyan entrepreneurs and SMEs.

Also concerning *patronage*, which is described as the act of replacing a current revenue stream by alternative revenue streams, the role of ZidiCircle is seen as high. This is viewed this way, since ZidiCircle, when seen as a patronage site, clearly encourages continual contributions from its funders for specific projects. It was clearly stated by Ntarangwi during the interviews that the number of investors are relatively low, but that the amount of invested capital still has been able to grow (Ntarangwi, 2020), which clearly indicates that the investors, once they have made a first positive experience with the platform, continues to invest with it.

Finally, the role of ZidiCircle when it comes to alleviating *inexperience* is seen as at medium level. Since the entrepreneurs and SMEs that are funded by ZidiCircle already are quite developed, the solutions to problems specific to first-time founders that ZidiCircle provide is not exceedingly high, but on the other hand the entrepreneurs and SMEs most probably have not had previous experience with bank loans or debt-based crowdfunding previous to their application with ZidiCircle. Therefore, clearly some support is needed in terms of guiding when it comes to addressing their inexperience in this area, whereas other, more traditional business areas, most probably already are more developed than would be the case with entrepreneurs and SMEs seeking funding at donations- and rewards-based crowdfunding platforms.

In summary, it can be said that ZidiCircle caters to rather developed entrepreneurs and SMEs who already have had a business for a couple of years but are looking for additional capital in order to further grow in their respective areas. The crowd that is investing in ZidiCircle is situated outside of Kenya and consists of wealthy individuals who wish to participate in the development of Kenyan entrepreneurs and SMEs, but do not have the time or interest/knowledge to research individual companies for direct investments.

6.2.3 Thundafund

Inner Pathways of the Crowdfunding Platform Thundafund

The rewards-based crowdfunding platform Thundafund operates as a connector between entrepreneurs – project creators, and the funding crowd – backers. The crowdfunding platform acts only as a connector for project creators and backers. The funds used via Thundafund are only held on behalf of projects until their campaigns are completed (no more than 90 days). If the campaigns are successful in their completion, the funds are transferred to the project creators, and if they are unsuccessful the funds are returned to the backers. Typical entrepreneurs that utilize Thundafund for rewards-based crowdfunding are artists and creative people working e.g. in the space of art and photography, craft, design, fashion or music (Thundafund, 2021a).

The rewards system is based on different levels of funding yielding different types or amounts of rewards, as displayed in figure 6.3a. In this example, and artist will provide the backer with a CD for a contribution of R100, a T-shirt for R250, and a CD, T-shirt and signed poster for a contribution of R500.

(a) Rewards-based crowdfunding displaying different examples of rewards that the crowd can expect for various levels of investments.

(b) All or nothing concept of Thundafund indicating the different levels needed in order to get a successful campaign.

(c) Examples of time limits that Thundafund utilizes for their different campaigns.

Figure 6.3: Main concepts of Thundafund's rewards-based crowdfunding with examples of rewards for different levels, tipping points and dream goal indicated in the all or nothing approach, and examples of different time limits that they have for campaigns on their platforms (Thundafund, 2021b, n.p.).

Thundafund has a *all or nothing* system, meaning that each project creator has to define a tipping point for the project, which it has to reach in order for the money to be paid out (see Fig. 6.3b). If this level is not reached, the money will be repaid to the backers and no costs will incur for the project creator Thundafund (2021b). Not only the tipping point, i.e. the minimum required to make the project work, but also a dream goal, what the project creator envisions is needed in order to make the project come to life, is defined so that the backers have full transparency about the project prospects. Thundafund also impels the project creators to define a deadline for their crowdfunding campaigns by selecting a time limit, as indicated in figure 6.3c. This on one hand side supports the project creators in making a sprint when it comes to marketing of their crowdfunding campaign, and it also helps the backers in the sense that the will receive information after maximum 60 days of whether the crowdfunding campaign they wanted to support has been successful and they can expect a reward, or if it has been unsuccessful and they will get their money back.

The crowd utilizing Thundafund for rewards-based crowdfunding, i.e. the backers, can according to Roberts-Davies (2020) be divided into three sub-groups:

1. First degree network – The committed:
   Family and friends, as well as close supporters or trustees on whom the project creator can trust to make a pledge and will most definitively support the campaign. According to Roberts-Davies (2020) and Sang (2020a), very similar to the people who also support donation-based crowdfunding campaigns at M-Changa.

2. Second degree network – The inspired:
   Other people that are aware of the project creator or the crowdfunding project. They may be people on a mailing list, the project's Facebook fans or Twitter followers. Also friends and networks of the first degree network are included in this category (Thundafund, 2021b).

3. Third degree network – The shoppers:
   This is defined as everyone else, including the friends of second degree networks, people who may see the project advertised or see a tweet online, or other people browsing on the Thundafund webpage (Thundafund, 2021a).

Thundafund clearly connects two separate but connected markets; artists who are in need of capital in order to facilitate the creation and realization of their project, and backers who want to enable smaller projects to have a possibility to purchase their products, while supporting a cause of their choice.

Outer Pathways of the Crowdfunding Platform Thundafund

Thundafund's role in the case of *coordination*, i.e. how additional opportunities of raising funds within a network as a result of the more efficient way Thundafund is able to leverage and activate existing networks, is viewed as medium. While entrepreneurs and SMEs seeking funding through Thundafund already have to be quite well-informed about rewards-based crowdfunding in order to be aware of the platform, using the platform to reach their backers to reach out to their network in a coordinated manner is definitively supported by the Thundafund platform.

In the case of *gatekeeping*, defined as the greater access to pools of capital that otherwise would be been inaccessible, the role of Thundafund is estimated as medium. This is because while according to Roberts-Davies (2020), the majority of the backers belong to groups 1 and 2 as described in section 6.2.3 above, there still are funders belonging to group 3, the shoppers, who otherwise probably not would have found the desired product and been able to invest in it in an easy manner. In case the proportions of backers would change in the future, also the estimation of Thundafund's gatekeeping role would change accordingly.

Concerning Thundafund's role within the area of *patronage*, which is described as the act of replacing a current revenue streams by an alternative one and the sites encouragement of continual contributions from funders for specific projects, it is estimated as high. This is since backers are able to find their favorite artists and repeatedly support them in different projects in an easy manner.

Finally, when it comes to Thundafund's role concerning *inexperience* it is estimated as low, since the role of Thundafund in providing solutions to problems specific to first-time founders is not necessarily the key aim of Thundafund. The project creators that utilize Thundafund mostly are quite well-informed about rewards-based crowdfunding in order to be aware of the platform, which weeds out the most financially inexperienced artists.

6.2.4 Comparative Analysis of the Crowdfunding Platforms in Kenya

The following comparative analysis of the crowdfunding platforms M-Changa, ZidiCircle and Thundafund is divided into a first section where focus is put on the inner pathways as described in Landström et al. (2019) and value capture according to Amit and Zott (2001). The following section then focuses on the outer pathways as described in Landström et al. (2019) and value creation depicted by Younkin and Kashkooli (2016).

Value Capture and Inner Pathways

The concept of value capture has been described by Amit and Zott (2001) for e-businesses in general, where they found a dependence on efficiency, novelty, lock-in and complementarities.

In terms of efficiency defined as gains due to lower cost per transaction, novelty in the meaning of connecting previously unconnected parties, and lock-in defined as motivation of customers to engage in repeat transactions, all three platforms that were examined are seen as successful in these areas. When it comes to complementarities, defined as how a collection of goods being worth more than each good by itself, there is still a lot of potential mainly for the different types of crowdfunding platforms to collaborate and promote each others. Especially since they are not competing for the same entrepreneurs or funding crowd, an expanded collaboration in efforts of education and marketing of crowdfunding in general would according to the authors have great potential for the crowdfunding landscape as a whole in Kenya. Due to the fact that the crowdfunding technology still is relatively new in the country, it is not yet seen as a zero-sum-game where one *winner takes all* platform has emerged to dominate the ecosystem, hence collaboration is seen as something that would be beneficial at this stage of crowdfunding in Kenya.

Value Creation and Outer Pathways

According to Belleflamme et al. (2014), crowdfunding platforms are defined as platforms that serve two separate but connected markets, with fundraisers or entrepreneurs on one side, and funders or the crowd on the other side. Additionally according to Younkin and Kashkooli (2016), the value creation, defined by the outer pathways according to Landström et al. (2019), point to four key problems that the crowdfunding platforms solve, which can be seen as summarized for the three examined platforms in table 6.2. The comparative analysis between the three platforms addressed in the study show that different platform categories offer different trade-offs that may suit differing investor and funding wants and needs. As seen in table 6.2, for coordination the role of M-Changa is seen as high since it mainly supports entrepreneurs, SMEs as well as individuals during their first interaction with crowdfunding as a concept. Thundafund also caters to individuals and smaller organizations that are fairly new to the concept and is therefore estimated as medium, whereas ZidiCircle has the most developed businesses and investors on their platform out of the three crowdfunding platforms that are compared. For M-Changa, both gatekeeping and patronage are assessed as low since it is understood that the crowd usually supports one specific campaign and not necessarily follows an artist that they repeatedly supports and where the platform would enable new resources that otherwise would not be available, as is rather the case for ZidiCircle and Thundafund. Concerning inexperience, the roles of M-Changa and ZidiCircle both are rated as medium since on one hand side providing solutions to problems specific to first-time founders not is the core of the platforms, just as in the case of Thundafund. On the other hand, M-Changa and ZidiCircle do see the customers that might have their first interaction with crowdfunding for donations or debt, leading to some extent to alleviate the issue of inexperience. Thundafund, on the other hand, is not seen as necessarily doing this since their project creators and backers already have to be quite experienced with the concept of crowdfunding to even seek the platform (Roberts-Davies, 2020).

Table 6.2: Estimated impact of the selected crowdfunding platforms on value creation represented by the outer pathways coordination, gatekeeping, patronage and inexperience (Landström et al.; Younkin and Kashkooli, 2019; 2016)

	M-Changa	**ZidiCircle**	**Thundafund**
Coordination	High	Low	Medium
Gatekeeping	Low	High	Medium
Patronage	Low	High	High
Inexperience	Medium	Medium	Low

6.3 Identified Challenges Applied on Crowdfunding Strategies

The following section will analyze how the identified challenges relates to the crowdfunding drivers, the four strategies that can reduce the risk of crowdfunding (Best et al., 2013). The identified challenges will be related to more than one strategy, in order to fully understand the issues and the measures that needs to be taken, to facilitate further utilization of crowdfunding. The technological and cultural strategy are merged into one analysis, as both strategies covers the same identified problems: communication and trust.

6.3.1 Economic

Through the economic approach presented by Best et al. (2013), the identified challenge of regulation can be addressed. There is to a certain extent consensus regarding what is need in order to solve the regulatory challenges in Kenya among researchers, platform managers and experts. The findings of the research suggests that the absence of regulations most likely constitutes a hinder for the operations of crowdfunding platforms.

Firstly, the regulations need to be adapted to the contextual situation of Kenya. According to Roberts-Davies (2020), there is an ongoing issue with schemes happening in Kenya, and it is possible that these schemes are operated by companies on the grey market. The economical approach propose that the regulations should not make it too expensive to raise capital, or too complicated to finish campaigns (Best et al., 2013). Because this can result in more companies entering the *grey economy*, which imply operations that are legal but unregulated. In contrast to the economical approach, Shneor (2020a) explains how it is not the regulatory framework, but rather the absence of one that can result in operations on the grey market and internet scams. Roberts-Davies (2020) further describes how the ongoing schemes potentially have made the regulators cautious to act. However, it is likely to assume that, with or without regulations, internet scams might continue to a certain extent. In the context of Kenya, Onyango (2020) explains how lending-based platforms face a bigger regulatory challenge compared to other crowdfunding models. The findings of the research therefore suggests that there is not a complete absence of regulations, as the Central Bank of Kenya has shown to intervene with unethical activities of FintTech companies. The economic approach propose that new regulations possibly can facilitate the registration process for lending-based crowdfunding campaigns. The approach also suggests that it would be beneficial to be able to complete the registration for crowdfunding campaigns completely online.

Secondly, the regulations probably need to ensure investor and consumer protection. It is possible that the ongoing schemes have made investors and consumers question how protected they are while operating on the market, creating an unfavorable environment for crowdfunding activities. The economical approach propose that regulations should be crafted in order to facilitate the usage of crowdfunding, without compromising the protection of investors (Best et al., 2013). In line with the economic approach, Shneor (2020a) explains how "updated regulations would contribute to investor and consumer protection, creating a more favorable environment for crowdfunding activities and that it can enable industry growth.".

Thirdly, Shneor (2020a) suggests that a temporary solution for the regulatory issue is regulatory sandboxes. He explains that "the platforms can work together with the financial authorities, under supervision, to identify the challenges and what type of regulations are needed in order for the platforms to function properly". This idea shares similarities with the suggestion from Ntarangwi (2020), of more interaction between platforms and regulators. It is highly likely that regulatory sandboxes can facilitate the cooperation of crowdfunding platforms and authorities, enabling the forming of regulations made specifically for the contextual issues faced in Kenya.

The economic approach propose another solution that could help solve the economic challenge, which is the forming of a crowdfunding market alliance (Best et al., 2013). The research so far has discussed the impact of increased cooperation between crowdfunding platforms and authorities. However, the possible impact of increased cooperation between different crowdfunding platforms might have been overlooked. As of right now, the two crowdfunding platforms that cooperate is Thundafund and M-Changa (Roberts-Davies, 2020). Since there are several more crowdfunding platforms operating on the Kenyan market, the current cooperation between platforms appear to be limited. The economic approach suggests that a crowdfunding alliance could increase cooperation between stakeholders, increase the contribution crowdfunding platforms make to each other and possibly lead to new ways of engaging public and institutional investors. An alliance of crowdfunding platforms with shared resources and stronger funding connections could potentially drive up the crowdfunding activities. Higher volumes is according to, Shneor (2020a) what the industry needs. He explains that the Kenyan authorities are interested in further development of crowdfunding, but the current volumes are too small to result in regulatory changes. As can be seen in table 6.3, the findings of the research suggests that further cooperation between crowdfunding platforms in Kenya possibly could expand the market extent of the crowdfunding ecosystem, potentially resulting in crowdfunding covering a bigger part of the financing gap in Kenya.

6.3.2 Social

Through the social approach presented by Best et al. (2013), the identified challenges of communication and education can be addressed. There is to a certain extent consensus regarding what is needed in order to solve the communications and educational challenges in Kenya among researchers, platform managers and experts. The findings of the research suggests that lacking communication and education on crowdfunding most likely constitutes a hinder for the operations of crowdfunding platforms.

Firstly, the concept of crowdfunding needs to be communicated more effectively by using successful crowdfunding campaigns. According to Shneor (2020a) and Sang (2020a) there is an ongoing issue of crowdfunding not getting enough, nor the right exposure. They continue to explain how the success cases of crowdfunding campaigns need to be communicated in order to inspire others to use crowdfunding. The social approach propose that online social networks are the number one driver of crowdfunding activities (Best et al., 2013). The approach also suggests that crowdfunding activities can increase if influential individuals share the usefulness and positives of crowdfunding. For crowdfunding platforms, the communication is especially important in the first phase, the critical phase, of the crowdfunding campaign. However, in order for online communication to function, it is fair to assume that the Kenyan population need to have access to these networks. Shneor (2020a) and Sang (2020a) seems to argue that if the older generation communicate through Whatsapp and use mobile money through Mpesa, the rest of the population should be able to do it as well. For this reason, there is a consensus among platform managers that people have access to the necessary communication tools in order to use crowdfunding. By facilitating access to social networks, the Kenyan population might use it more. This could result in an increased awareness of crowdfunding, and possibly lead to more crowdfunding activities. It is therefore possible to assume that communication of successful crowdfunding campaigns through social networks, during the critical phase of ongoing campaigns, might increase investment. In fact, Shneor (2020a) emphasizes that by communicating real success cases, the idea of crowdfunding becomes more concrete, traceable and realistic. The communication of crowdfunding campaigns could be targeted directly towards the intended receiver, or through other channels such as word-of-mouth.

Secondly, the social approach propose that there is a correlation between foreign direct investments and the success of crowdfunding campaigns, and that it would be beneficial for the authorities to involve the Kenyan diaspora (Best et al., 2013). It is therefore likely to assume that by creating a stronger communication channel between Kenya and the Kenyan diaspora, it could facilitate the way Kenyan crowdfunding platforms communicate their existence and successful crowdfunding stories to possible investors abroad. Zidicircle is such as platform, that already collects most of its capital from funders outside of Kenya (Ntarangwi, 2020).

Thirdly, the social approach propose another solution that could help solve the social challenges, which is stronger educational efforts in Kenya (Best et al., 2013). There is a consensus among experts and platform managers that the educational efforts with crowdfunding currently is limited in Kenya. In fact, because of the lack of crowdfunding knowledge in Kenya, people might experience suspicion towards using crowdfunding platforms. It is therefore possible to assume that by increasing education on how to use crowdfunding, the experienced suspicion towards crowdfunding could be reduced and crowdfunding activity might be increased. The social approach suggests that the private sector can contribute to the education and support of entrepreneurial activities by providing incubators, accelerating programs and shared work spaces. In these contexts, crowdfunding events can be held in order to increase awareness of crowdfunding and how to effectively use it. It is possible to assume that by providing stronger associations between crowdfunding and the business industry, the suspicion experienced towards crowdfunding platforms could likely decrease among the Kenyan population. The social approach furthers emphasize that through the efforts of the private sector, new innovative ways of funding can be presented together with local success stories, which in turn can result in a stronger entrepreneurial spirit and enhanced trust in regard to crowdfunding (Best et al., 2013). Education could also create a link between crowdfunding investing and high-tech and start-up centers. As the technology and usage of crowdfunding becomes more recognized, it could result in higher private and professional investor confidence. The contribution of the private sector is in accordance with the opinion of Roberts-Davies (2020), who explains that platforms such as M-Changa and Thundafund can appreciate the educational efforts other organizations provide. Crowdfunding platforms such as M-Changa does however support the educational efforts, by educating businesses in social networks regarding how to raise money through crowdfunding. M-Changa also request companies that have had successful crowdfunding campaigns to talk about the features that made it possible and to recommend it to other actors on the market. It is likely to assume that the educational efforts of crowdfunding platforms as described not only results in increased awareness on how to use crowdfunding, but also contributes to word-of-mouth marketing. The importance of word-of-mouth is further emphasized by Sang (2020a), who explains that "When I see my friends telling me that they trust this platform, this is then one of the reasons that I might also use it". However, the educational efforts of crowdfunding platforms are not completely unbiased, according to Shneor (2020a). He thinks that platforms, in their educational efforts, simultaneously per-form a sales pitch. For this reason, he suggests that the education might need to come from the public educational systems.

Conclusively, the finding of the research suggests that by facilitating access to social networks, and communicating successful campaigns through these social networks, crowdfunding activity would likely increase. By creating a stronger communication channel between Kenya and the Kenyan diaspora, it could facilitate for crowdfunding platforms to reach out to possible investors abroad. By increasing education on how to use crowdfunding, and by providing stronger associations to the business industry, the experienced suspicion towards crowdfunding could be reduced. With combined efforts of the private and public sector, a stronger relationship between crowdfunding platforms and other stakeholders could be created. This can be seen in table 6.3. Examples of stakeholders include start-ups and public education. It is possible to assume that a social structure as such, also could provide higher investor confidence and increase crowdfunding activities on the Kenyan market.

6.3.3 Technological and Cultural

Through the technological and cultural approach presented by Best et al. (2013), the identified challenges of communication and trust can be addressed. There is to a certain extent consensus regarding what is needed in order to solve the communication and trust challenges in Kenya among researchers, platform managers and experts. The findings of the research suggests that lacking communication and trust regarding crowdfunding constitutes a hinder for the operations of crowdfunding platforms.

Firstly, differences in technological development within Kenya could present a challenge for crowdfunding. The technological approach explains how crowdfunding would not be able to function properly without decent internet connection(Best et al., 2013). Despite the fact that that Kenya is in the forefront of mobile usage and digital solutions among other African countries Ziegler et al. (2020), technological inequality may present a hinder for crowdfunding activities. Roberts-Davies (2020) explains how the mobile signal in the rural areas is not good enough to make calls. If the mobile signal is insufficient, it is possible that the internet connection is negatively influenced as well. For this reason, crowdfunding might be harder to access in the rural areas, compared to the cities. The importance of accessing crowdfunding platforms through mobile phones is emphasized by Sang (2020a), who explains that sixty percent of the donations to M-Changa is performed through mobile money payments. The findings of the research therefore suggests that facilitated access to stable internet connection across Kenya, could potentially increase crowdfunding activities. Furthermore, because it is not possible to make calls in the rural areas, the quality of communication among the Kenyan population is negatively affected. The technological approach emphasize how important communication is for crowdfunding platforms. It is therefore possible that improved mobile signal in rural areas could influence crowdfunding activities as well.

Secondly, the findings suggest that communication on crowdfunding influence the trust experienced towards platforms. The technological approach suggests that communication between companies, investors and other stakeholders should be facilitated by allowing and providing new solutions, such as communication over social media (Best et al., 2013). In line with this approach, Shneor (2020b) suggest that the platforms need to be linked with payment and communication systems that the Kenyan people already use and trust, such as Whatsapp and Mpesa. Overlapping characteristics between the technological approach and what Shneor suggests, is possible to identify in the work of the M-Changa. As seen in 6.1, this platform has successfully integrated mobile payments and social media into their platform structure. It is highly likely that a platform integration as such could result in better communication and increased trust among platform users. Furthermore, Shneor (2020b) emphasize that it is important to develop the crowdfunding platforms with the trust issue in mind. He continues to explain that transparency is another part of the platforms that directly affect the level of trust users experience towards crowdfunding platforms. It is possible to assume that platform transparency can allow for stakeholders to visually be informed about the process and success of ongoing and previous crowdfunding campaigns on the platforms. In this sense, it might be possible to regard platform transparency as a form of communications tool. The findings of the research therefore suggests that platforms could become more user-friendly by integrating already used communication and payment systems with the platform. Transparency is another feature that can be used on platforms in order to improve communication and increase trust experienced towards the platform.

Thirdly, the increase of locally based crowdfunding could result in several societal benefits. Shneor (2020a) explains how most of the funding that happens in Africa is by international platforms, rather than locally based platforms. He explains how "There is also a need for starting up local platforms, with local places, local languages, accessibility that adds more trust and familiarity. And maybe more willingness to do this for a local company rather than international ones". Additionally, the the cultural approach suggests that the country should connect the concept of crowdfunding with the culture (Best et al., 2013). As seen in 6.1, M-Changa has integrated the local culture of Harambee into their platform. Therefore, it is very likely that Kenyan's might experience higher levels of trust towards M-Changa, as the configuration of the website offers stronger cultural associations for the anticipated users. Furthermore, it is likely to assume that locally based crowdfunding platforms not only could contribute by improving access to capital, but also contribute by increasing monetary flow into local corporations, increase employment and possibly boosting Kenya's economy. The cultural approach emphasizes that all the upsides of local crowdfunding platforms, and using crowdfunding, need to be communicated to the population. The message should also emphasize that crowdfunding is a viable solution for the whole population (,). The potential societal contribution crowdfunding has, if properly communicated, could possibly serve as an incentive for the whole society to engage more in crowdfunding activities. The findings of the research therefore underline how crowdfunding platforms, together with other actors on the market, collectively could increase trust and create a better environment for crowdfunding. Shneor (2020a) states that the crowdfunding industry is still very young in Kenya. He thinks that with time and experience, crowdfunding will grow. However, the technological framework propose that lessons can be learned for Kenya from other countries where crowdfunding is more developed (Best et al., 2013). In the same way, it could be possible for crowdfunding platforms in Kenya to take inspiration from other platforms that are more technological developed, such as a better integrated website.

Conclusively, the finding of the research suggests that facilitated access to stable internet connection and improved mobile signal across Kenya, could potentially increase crowdfunding activities. It is highly likely that by integrating mobile payments, social media and transparency into the platforms, communication could be facilitated and trust could be enhanced among platform users. Crowdfunding platforms could, together with other actors on the market, collectively increase trust and create a better environment for crowdfunding. As can be seen in table 6.3, the operations and features of M-Changa likely contributes to local societies in Kenya. Therefore, it might be useful for other similar platforms to take the same approaches into consideration in their work.

Table 6.3: Identified Challenges Applied on Crowdfunding Strategies. Adapted after Best et al. (2013).

Crowdfunding strategies	Economic	Social	Technology and culture
Identified challenges	Regulation	Communication and education	Communication and trust
What is needed in order to further facilitate the utilization of crowdfunding in Kenya?	Further cooperation between crowdfunding platforms and authorities, through a crowdfunding market alliance.	Combined efforts of the private and public sector, to create a stronger social structure through networks.	Platforms taking similar approaches as M-Changa, regarding operations and features.

7

Conclusion

In the following chapter, a review and summary of the findings is provided. Then the research questions are addressed by summarizing the analysis presented in chapter 6. The contribution to the literature and the practical implications of this research is then discussed. Suggestions for further research are proposed. And finally, the limitations of the study are enumerated.

7.1 A Review and Summary of the Findings

The financing gap in Kenya

A review of the findings indicated that the interviewees agreed that a financing gap in Kenya does exist. Onyango (2020) in particular was vocal in supporting the notion of understanding the effects of the financing gap on SME growth in Kenya. She referred to her previous research into this topic (Onyango, 2018), and was able to provide interesting new insights that helped gather data to support the research questions. Onyango (2020) and Sang (2020b), also provided data which showed that the number of low or medium growth SMEs is expanding rapidly in Kenya. These SMEs require capital to launch, but are not able to meet their requirements in the existing financial system. Hence, they confirmed the existence of a financing gap for a large number of SMEs in the country. They also highlighted the high rates of youth unemployment amongst graduates in Kenya. Four out of five do not gain formal employment after graduating. Hence, they seek to generate income by engaging in entrepreneurial activities instead. This is a key reason for the increasing number of low or medium growth SMEs.

A review of crowdfunding platforms in Kenya

Data obtained directly from the interviewees and secondary research data provided an interesting set of findings on the functioning and growth of crowdfunding platforms in Kenya.

(i) Crowdfunding volumes are heavily skewed towards debt-based financing, whereas in terms of number of campaigns, donations-based crowdfunding is the most common type.

(ii) The interviewees highlighted the fact that in the population in general in Kenya, equity-based financing is still relatively unusual and is not yet preferred as a standard way of raising finance.

(iii) All interviewees located in Kenya anticipate a strong growth in all types of crowdfunding in Kenya in the coming three to five years.

Identified challenges for crowdfunding in Kenya

The framework of four approaches presented by Best et al. (2013), concludes that what is needed in order to further facilitate the utilization of crowdfunding in Kenya is not the result of isolated measures, but rather a collective effort of building a functional crowdfunding ecosystem. If the crowdfunding platforms in Kenya consider these four strategies in their work, the four identified challenges in Kenya will be easier to take on. There was a consensus between both crowdfunding academics and crowdfunding platform managers, which confirmed that at least four distinct challenges exist for the growth and adoption of crowdfunding platforms in Kenya. The findings of the research suggests the following:

(i) Further cooperation between crowdfunding platforms and authorities, through a crowdfunding market alliance, could increase crowdfunding activity in Kenya. A crowdfunding market alliance could in turn serve as a driving force to further indicate the need of new regulatory frameworks for the decision making authorities.

(ii) With combined efforts of the private and public sector, a stronger relationship between crowdfunding platforms and other stakeholders such as start-ups and public education could be created. It is possible to assume that a social structure as such, also could provide higher investor confidence and increase crowdfunding activities.

(iii) The work and features of platforms such as M-Changa likely contributes to the local society in Kenya. Therefore, it might be useful for other platforms to take similar approaches into consideration in their operations.

7.2 Addressing the Research Questions Using the Analysis of the Data

What are the fundamental characteristics of the financing gap for SMEs in Kenya? And to what extent can crowdfunding help narrow the financing gap for SMEs in the country?

In answer to the two parts of the first research question: (i) What are the fundamental characteristics of the financing gap for SMEs in Kenya and (ii) To what extent can crowdfunding help narrow the financing gap for SMEs in the country? A conceptual framework from the OECD (2006), proposing three categories of financing gaps, was used to identify the particular financing gap for SMEs in Kenya supported by findings of the research.

In answer to the first part of the first research question, the particular financing gap in Kenya shared characteristics of all three categories proposed by the OECD (2006). These were as follows:

(i) In Kenya, debt based funding instruments provided by formal financial institutions are either too expensive (Shneor, 2020a) or are unavailable to the majority of SMEs because they lack the necessary collateral to enable loans (Onyango, 2020).

(ii) SMEs are further constrained in their ability to raise funding because of the lack of a well developed private equity based funding infrastructure (Onyango, 2020). Furthermore, as in continental Europe, start-ups in Kenya tend to raise funding through debt-based financing. This may be due to cultural preferences where founders of start-ups prefer to retain 100% equity ownership (Onyango, 2020).

(iii) As the majority of SMEs in Kenya fall into the low to medium growth SME category, VC and Angel Investors tend to overlook investments in such companies (Onyango, 2020). Instead, these investors prefer to invest in high growth tech start-ups which are few and far between in the Kenyan SME domain (Onyango, 2020).

In answer to the question of how crowdfunding may help narrow the financing gap for SMEs in Kenya, the OECD (2006) framework was useful in identifying how crowdfunding technology can help alleviate the three issues described above.

(i) First, analysis of the findings in this study showed that debt-based crowdfunding platforms can help deal with the issue of lack of access to traditional financial debt-based funding. Further analysis shows that investors who are comfortable with debt-based crowdfunding are willing to take on the additional risk of offering loans to SMEs without the normal level of collateral required by traditional financial institutions. Hence, this does not replace the traditional routes, but adds an additional channel in a relatively weak capital market environment (Garvey, 2020).

(ii) Analysis of the findings also show that while equity-based crowdfunding platforms are not yet prevalent or readily available in Kenya, it is worthwhile to continue the development of such platforms on the grounds that the greater the number of alternative channels of raising capital the better. The interviewees confirmed that equity-based crowdfunding platforms are few in number. However, they would be a desirable addition to further narrow the financing gap in the future.

(iii) Analysis of the findings also leads to a speculation that the democratisation of funding and investing in SMEs, allowed by crowdfunding technology, may help alleviate the tendency for VCs and Angel Investors to focus exclusively on high growth tech start-ups. As noted above, this bias hampers the growth of smaller SMEs. Crowdfunding platforms may encourage and enable other investors with different investment criteria to participate. These criteria may include A) differences in ROI expectations, B) reasons over and above capital returns, C) desire to invest in ethical and non-profit projects, and so on. Further research may be needed to investigate the speculation more deeply.

How do crowdfunding platforms work in Kenya?

Furthermore, the comparative analysis between the three platforms addressed in the study show that different platform categories offer different trade-offs that may suit differing investor and funding wants and needs. An increase in diversity in service offerings in crowdfunding adds value to the ecosystem. Due to the relative novelty of the technology in the country, crowdfunding is not yet a zero-sum-game where a winner takes all platform has emerged to dominate the ecosystem.

What is needed in order to further facilitate the utilization of crowdfunding in the country?

Finally in order to answer the last research question, what is needed in order to further facilitate the utilization of crowdfunding in Kenya, the four strategy framework was applied to the four identified problems. Each part of the strategy framework has shown to affect crowdfunding platforms situation in Kenya.

(i) When applying the economical approach to the identified problems with crowdfunding, several conclusions can be made. The finding of the research suggests when forming a new regulatory framework regarding Crowdfunding in Kenya, the regulations need to be adopted to the contextual situation of Kenya. Emphasizes should be on offering investor and consumer protection, in order to counteract the presence of an unfavorable crowdfunding environment. Furthermore, regulatory sandboxes have been identified as a possible solution to the regulatory challenge, since increased cooperation between platforms and authorities might result in more accurate regulations.

(ii) When applying the social approach to the identified problems with crowdfunding, several conclusions can be made. The finding of the research suggests that by facilitating access to social networks, and communicating successful campaigns through these social networks, crowdfunding activity would likely increase. By creating a stronger communication channel between Kenya and the Kenyan diaspora, it could facilitate for crowdfunding platforms to reach out to possible investors abroad. Furthermore, by increasing education on how to use crowdfunding, and by providing stronger associations to the business industry, the experienced suspicion towards crowdfunding could be reduced.

(iii) When applying the technological and cultural approach to the identified problems with crowdfunding, several conclusions can be made. The finding of the research suggests that facilitated access to stable internet connection and improved mobile signal across Kenya, could potentially increase crowdfunding activities. It is highly likely that by integrating mobile payments, social media and transparency into the platforms, communication could be facilitated and trust could be enhanced among platform users. Furthermore, crowdfunding platforms could, together with other actors on the market, collectively increase trust and create a better environment for crowdfunding.

7.3 Contributions and Practical Implications

The results of this study will offer theoretical and practical contributions to further research on crowdfunding.

(i) The OECD (2006) report, on different categories financing gaps that are relevant to understanding the capital deficiencies for SMEs, drew the conclusion that when a country lacks high growth SMEs in the technology sector, targeted policies that enable specific fundings for such SMEs should be emphasised. The reasoning behind this statement is that high growth tech SMEs enhance competitiveness and produce cutting-edge technology, which in general is beneficial to any society.

    The analysis of the SMEs in this research study suggests an alternative interpretation that may be relevant for inclusion in the literature and may be a legitimate subject for further research. One of the conclusions of the findings and analysis of this study is that a funding bias towards high growth tech start-ups actually leads to a greater financing gap for low and medium SMEs. Given the importance of such low and medium growth SMEs for the potential of economic growth and new employment in Kenya, it may be that policy should be directed toward this group of SMEs rather than the high tech sector as suggested by the (OECD, 2006). It is clear that high growth technology SMEs are essential to the growth of the economy as asserted by the OECD (2006), however, it seems that supporting this group while neglecting the low growth SMEs may not produce the best financial, social, and employment outcomes economies such as Kenya. Hence, we suggest that this finding has a potential for further investigation and may provide a small contribution to the literature in the field.

(ii) This research will further add on to the body of knowledge presented by the CCAF, the World bank and the OECD. The problems they have identified with crowdfunding in the developing world have, through this research, been applied and further emphasized in the context of Kenya. This research have taken a unique approach by combining the viewpoints of experts, researchers and crowdfunding platform managers. Summarizing the viewpoints of several key stakeholders have not been done in the same way in previous research. As a consequence of the unique approach, the findings and results presented show originality. Furthermore, by using previous research it is possible to form realistic theoretical and analytical frameworks. By applying such frameworks, the understanding of specific problems in countries can be facilitated. In this research, the frameworks helped to understand the behaviour of crowdfunding market actors in Kenya. By understanding the behavior and identifying underlying problems, it was possible to bring forward solutions.

(iii) In regards to practical implications, this study was important to conduct in order to identify the four challenges that crowdfunding platforms face in the context of Kenya. In addition to the four challenges, the results suggest that increased cooperation among crowdfunding platforms and other stakeholders in Kenya is important to facilitate the forming of a functional crowdfunding ecosystem.

7.4 Suggestions for Further Research

This study suggests there are at least three underlying issues that may be responsible for the financing gap identified for SMEs in Kenya. Crowdfunding, while contributing to alleviating this financing gap, may not be the only solution. Other alternative financial technologies and systems (Garvey et al., 2017) may also play a part in the future to increasing financial inclusion. Future research may identify these technologies and further investigate their potential role in meeting the needs of SMEs funding requirements in Kenya and elsewhere.

This study focused on understanding crowdfunding platforms from the perspective of academics specialising in finance and managers of crowdfunding platforms themselves. While outside the scope of this study, future research into crowdfunding platforms and ecosystems might seek to gather data directly from the users of those platforms, including: SMEs, individuals, investors, and other entities. Such research would provide additional data and potentially a better understanding of the topic.

In order to gain usage and traction of crowdfunding platforms in Kenya, this study identified four areas that need greater attention: (i) regulation , (ii) trust, (iii) education, and (iv) communication. Future research might focus on each of these areas independently in order to gain greater understanding into their importance for the expansion and growth of crowdfunding platforms. Each of these areas requires its own strategic plan and tactical implementation and hence is worthy of a deeper investigation.

7.5 Limitations

A potential limitation of this study is the fact that only six people were interviewed for this study – three experts and three crowdfunding platform managers. It would have been interesting to see whether the results would have been similar also with a larger number of interviewees, especially in the sub-group with crowdfunding platform managers. Furthermore, it is believed that it would have been beneficial to have met the interview subjects in person for the interviews in order to be able to catch nuances of language that are not always possible with video calls. Hence, future researchers are encouraged to expand the number of interviewees and planning for face to face interviews in the case of time and resources permitting such an approach.

The collected data that was used in this thesis was based on qualitative interviews only, which potentially could pose a limitation of the research. Ideally this qualitative data could have been complemented by specific in-depth quantitative data which would enable quantification of e.g. the success rate or effectiveness of the different crowdfunding platforms in terms of enabling crowdfunding campaigns and distribution of capital. Therefore, also this would be a strong recommendation for future research projects focusing on crowdfunding platforms.

8

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Appendix A

Interview questions for expert interview with Kieran Garvey

Interview 1 with Kieran Garvey, Tuesday 1.12.2020.

Background

We are working on a proposal for our thesis on Crowdfunding platforms. The objective is to gather qualitative empirical research data on Crowdfunding platforms in an East African country (e.g. Kenya) through direct interviews with key stakeholders in the Crowdfunding ecosystem.

The goal of the research is to: (i) understand how Crowdfunding platforms in an African country have been able to meet funding requirements of local entrepreneurs. (ii) IF they are able to substitute other systems and instruments in capital market systems that are not widely available to smaller businesses and entrepreneurs. (iii) How the success of these platforms might be a model for adoption in other societies, both in the developing world and developed economies.

Introductory questions

1. Is it ok to record the interview and use your comments and title/name as a reference in our thesis?

2. This research will seek to add to the body of knowledge on how equity based crowdfunding and debt based crowdfunding helps fill the gaps within capital market systems and thereby enhance financial inclusion for entrepreneurs in resource-constrained environments. When you did your research in Crowdfunding, did you ever investigate how Crowdfunding could be a substitute to other financial instruments for financing? I.e. the “buy-side” in capital markets such as Hedge Funds, VC investors, Investment Banks etc?

General questions

3. Our background research suggests that equity based and debt based crowdfunding platforms can act as a “substitute” for “Buy Side” Fund Managers (see figure A.1). What opportunities does the existing Capital Market provide for entrepreneurs in East Africa? Is there something missing in the existing capital market system? Do you believe that crowdfunding is a viable substitute for capital market buy side investors in Africa?

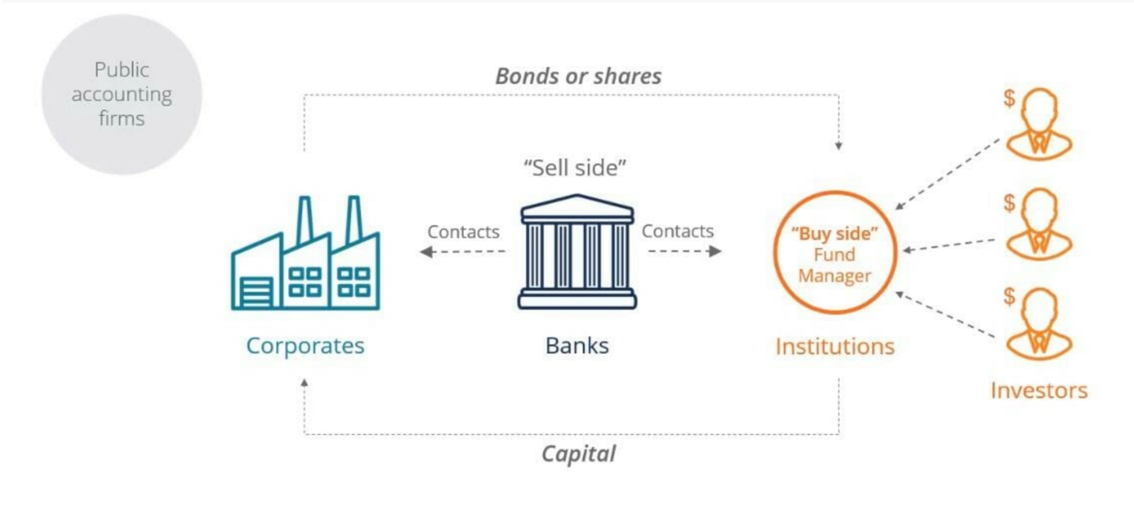

Figure A.1: Capital markets.

4. In Kenya, we have so far identified three platforms of interest. Thundafund (rewards based and revenue based crowdfunding), Pezesha (P2P lending) and Zidicircle (P2P lending). Do you recognise these platforms? Do you know of any other platforms that may be of interest?

5. Do you know of any hurdles that East African entrepreneurs face when seeking funding? Is the situation unique to countries within East Africa?

6. Have you seen any clear benefits with equity or debt based crowdfunding in East African countries?

7. During your research on Crowdfunding in East Africa, did you conduct desktop research that could be relevant for our thesis topic? Do you have any suggestions?

Questions for further research

8. Would you be interested in this type of research? Or is there something else, based on your background on Crowdfunding, that you would be more interested in?

9. Do you think it is possible for us to find enough data regarding the objective and research questions?

10. Do you know anyone else in your network that might be available for an interview?

11. Would it be possible to conduct a follow-up interview with you soon with more in-depth questions?

Appendix B

Interview questions for expert interviews with Prof. Rotem Shneor

Interview 1 with Prof. Rotem Shneor, Wednesday 9.12.2020.

Background
The goal of our research is to understand the financial gap in capital markets for SMEs in Kenya. The "financing gap" describes how entrepreneurs/companies have limited access to funding, mainly in developing countries. We try to understand if and how crowdfunding platforms influence the financial gap. In other words, are crowdfunding platforms a possible tool for solving the capital issue for entrepreneurs in resource constrained environments?

Introductory questions

1. Is it ok to record the interview and use your comments and title/name as a reference in our thesis?

2. When you did your research on crowdfunding in Africa, did you ever investigate

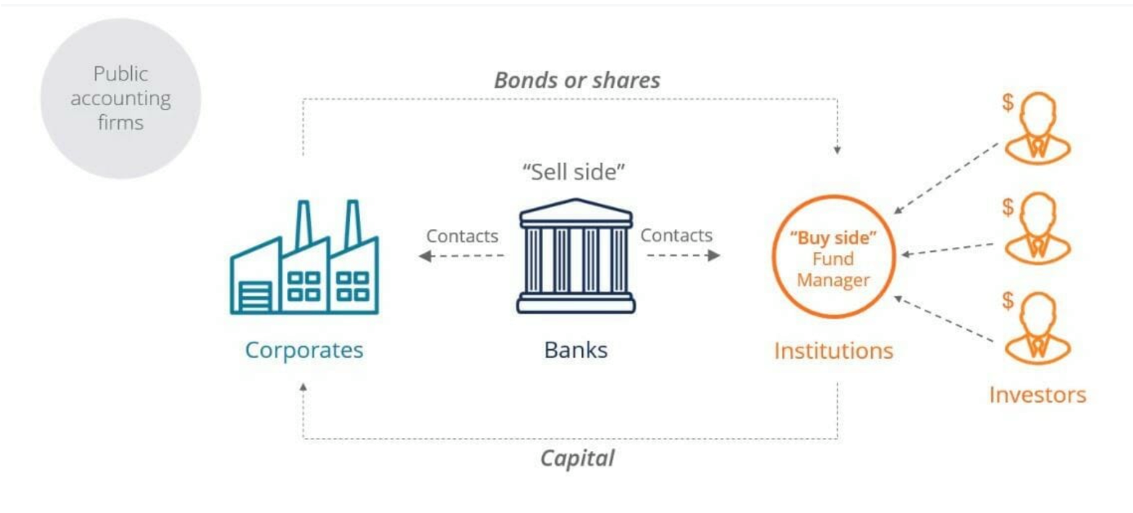

Figure B.1: Capital markets.

how crowdfunding could act as a substitute or complement to other financial instruments for financing? I.e. the "buy-side" in capital markets, such as hedge funds, VCs, investment banks, and even unofficial funding networks (see figure B.1)?

3. Do you know of any hurdles that Kenyan entrepreneurs face when seeking funding through traditional capital markets? Is the situation unique to Kenya or is it similar in other countries in Sub Saharan Africa?

4. Have you seen any clear benefits with crowdfunding in Africa?

General questions

5. Our background research into this topic tells us that crowdfunding has not established itself as a well known, viable alternative or supplement in the Kenyan capital market system. What's your take on this? Why is it not used more?

6. Is there a way for crowdfunding to narrow the financial gap for entrepreneurs and companies (limited access to capital) in Kenya? In what possible ways?

7. How can you make crowdfunding more accessible and mainstream in Kenya? Do you see any obstacles for platforms externally? E.g. regulations?

8. In your opinion, what action can crowdfunding platforms take to facilitate growth and access of crowdfunding in Kenya?

Questions for further research

9. Do you know anyone else in your network that may be available for an interview?

10. Would it be possible to conduct a follow-up interview with you in the coming weeks?

Interview 2 with Prof. Rotem Shneor, Wednesday 16.12.2020.

1. During our research we have identified that two of the main problems with crowdfunding success in Kenya today is (i) The information gap, i.e. that both investors and SMEs need to know more about crowdfunding before they can use it, and (ii) the trust problem, i.e. that both investors and SMEs want to see success cases before they decide to adopt crowdfunding as an alternative funding mechanism. Our question to you is, what do you think is the solution to these problems? (i) How can we fill the information gap? (ii) How can we create more success stories?

2. Do you see any other fundamental problems with crowdfunding success in Kenya today?

3. You previously mentioned that the capital invested in crowdfunding campaigns origins from investors in other countries outside of Kenya. Is this the same for all crowdfunding models or limited to the donation model? Do you think that this money is from people of other nationalities or from Kenyans in diasporas?

4. Which are the most critical moments for crowdfunding platforms to be successful. Is it before the campaign, during the campaign or afterwards?

5. In our opinion, one solution to the trust problem could be for platforms to follow up on both successful and unsuccessful campaigns, track the data, and make conclusions and define necessary steps to solve the trust issue based on this. However, after interviewing two Kenyan crowdfunding platforms, they say that this sort of data tracking is not part of their business model. Why do you think crowdfunding platforms don't follow up on campaigns? Is this something European platforms do? Do you see any benefit in doing so?

Appendix C

Interview questions for expert interview with Linda Onyango

Interview 1 with Linda Onyango, Monday 14.12.2020.

Background
The goal of our research is to understand the financial gap in capital markets for SMEs in Kenya. The "financing gap" describes how entrepreneurs/companies have limited access to funding, mainly in developing countries. We try to understand if and how crowdfunding platforms influence the financial gap. In other words, are crowdfunding platforms a possible tool for solving the capital issue for entrepreneurs in resource constrained environments?

Introductory questions

1. Is it ok to record the interview and use your comments and title/name as a reference in our thesis?

2. When you did your research on crowdfunding in Africa, did you ever investigate how crowdfunding could act as a substitute or complement to other financial instruments for financing? I.e. the "buy-side" in capital markets, such as

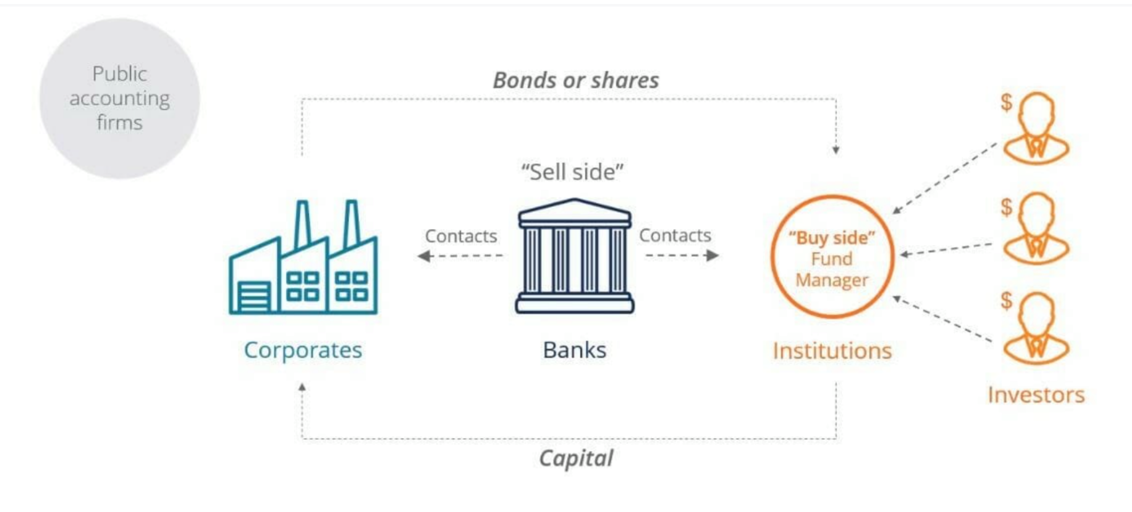

Figure C.1: Capital markets.

hedge funds, VCs, investment banks, and even unofficial funding networks (see figure C.1)?

3. Do you know of any hurdles that Kenyan entrepreneurs face when seeking funding through traditional capital markets? Is the situation unique to Kenya or is it similar in other countries in Sub Saharan Africa?

4. Have you seen any clear benefits with crowdfunding in Africa?

General questions

5. Our background research into this topic tells us that crowdfunding has not established itself as a well known, viable alternative or supplement in the Kenyan capital market system. What's your take on this? Why is it not used more?

6. Is there a way for crowdfunding to narrow the financial gap for entrepreneurs and companies (limited access to capital) in Kenya? In what possible ways?

7. How can you make crowdfunding more accessible and mainstream in Kenya? Do you see any obstacles for platforms externally? E.g. regulations?

8. In your opinion, what action can crowdfunding platforms take to facilitate growth and access of crowdfunding in Kenya?

Questions for further research

9. Do you know anyone else in your network that may be available for an interview?

Appendix D

Interview questions for crowdfunding platform expert interviews with Naomi Sang

Interview 1 with Naomi Sang, Thursday 10.12.2020.

Background

The goal of our research is to understand the financial gap in capital markets for SMEs in Kenya. The "financing gap" describes how entrepreneurs/companies have limited access to funding, mainly in developing countries. We try to understand if and how crowdfunding platforms influence the financial gap. In other words, are crowdfunding platforms a possible tool for solving the capital issue for entrepreneurs in resource constrained environments?

Introductory questions

1. Is it ok to record the interview and use your comments and title/name as a reference in our thesis?
2. When was your crowdfunding platform founded?
3. What was the main reason/reasons for starting the platform?

General questions

4. What are the most common ways for companies to access capital in Kenya? Retail investors, VC funds, angel investors, unofficial funding networks, etc.?
5. Our background research into this topic tells us that crowdfunding has not established itself as a well known, viable alternative or supplement in the Kenyan capital market system. What's your take on this? Why is it not used more?
6. Do you experience your platform to substitute the traditional way of funding through the capital market? Or is your platform more of a supplement to the existing capital market? Or could it be regarded as something completely different?

7. Is there a way for crowdfunding to narrow the financial gap for entrepreneurs and companies (limited access to capital) in Kenya? In what possible ways?
8. How can you make crowdfunding more accessible and mainstream in Kenya? Do you see any obstacles externally? E.g. regulations?
9. Is your crowdfunding platform taking any certain actions internally in order to facilitate the access to funds through crowdfunding? E.g. marketing activities?

Questions for further research

10. Do you measure/follow up on the success of the companies/campaigns after they've been financed on your platform? If so, how do you measure this?

Interview 2 with Naomi Sang, Thursday 17.12.2020.

1. How big is a typical campaign on M-changa? How much money?
2. What are the pros with M-changa compared to M-pesa (unofficial fundraising with family and friends) or Thundafund? What is the price of investing? Do you take a share of the campaign or how do you make money? If entrepreneurs typically raise money from friends and family, rather than formal investors, why do they need crowdfunding platforms? How can you solve this problem?
3. Some experts see flaws in reward based crowdfunding as the infrastructure in Kenya is too poor to deliver the rewards. Can it even be the case that the transport and delivery is more expensive than the actual reward? What types of rewards are realistic to have? What are the pros of a reward based model for CFPs that focuses on corporations?
4. Maybe there is a youth bulge and that young people are being "forced/pushed" into entrepreneurship, with focus on farming or trading. How can CFPs "support" these entrepreneurs? What role does the CFPs play?
5. What's your take on debt based CF and CFP? Which gap could they fill? How do you think they compare with donations based or rewards based platforms?
6. A few days back we had an interview with Linda Onyango from SME Support Centre in Kenya. One central service in her business model is to help SMEs formalise their business model. Formalisation of business models is in her opinion a crucial part in solving the trust issue many Kenyan investors experience on crowdfunding platforms. Does M-changa help entrepreneurs "formalise" the individual crowdfunding campaigns? Do you work with similar consultancy businesses as "SME Support Centre " to help entrepreneurs set up their crowdfunding campaigns? Do you see any benefit in doing so?

Appendix E

Interview questions for crowdfunding platform expert interview with Matt Roberts-Davies

Interview 1 with Matt Roberts-Davies, Tuesday 15.12.2020.

Background

The goal of our research is to understand the financial gap in capital markets for SMEs in Kenya. The "financing gap" describes how entrepreneurs/companies have limited access to funding, mainly in developing countries. We try to understand if and how crowdfunding platforms influence the financial gap. In other words, are crowdfunding platforms a possible tool for solving the capital issue for entrepreneurs in resource constrained environments?

Introductory questions

1. Is it ok to record the interview and use your comments and title/name as a reference in our thesis?

2. When was your crowdfunding platform founded?

3. What was the main reason/reasons for starting the platform?

   General questions

4. What are the most common ways for companies to access capital in Kenya? Retail investors, VC funds, angel investors, unofficial funding networks, etc.?

5. Our background research into this topic tells us that crowdfunding has not established itself as a well known, viable alternative or supplement in the Kenyan capital market system. What's your take on this? Why is it not used more?

6. Do you experience your platform to substitute the traditional way of funding through the capital market? Or is your platform more of a supplement to

the existing capital market? Or could it be regarded as something completely different?

7. Is there a way for crowdfunding to narrow the financial gap for entrepreneurs and companies (limited access to capital) in Kenya? In what possible ways?
8. How can you make crowdfunding more accessible and mainstream in Kenya? Do you see any obstacles externally? E.g. regulations?
9. Is your crowdfunding platform taking any certain actions internally in order to facilitate the access to funds through crowdfunding? E.g. marketing activities?

Questions for further research

10. Do you measure/follow up on the success of the companies/campaigns after they've been financed on your platform? If so, how do you measure this?

Appendix F

Interview questions for crowdfunding platform expert interview with Fridah Ntarangwi-Kimathi

Interview 1 with Fridah Ntarangwi-Kimathi, Thursday 17.12.2020.

Background

The goal of our research is to understand the financial gap in capital markets for SMEs in Kenya. The "financing gap" describes how entrepreneurs/companies have limited access to funding, mainly in developing countries. We try to understand if and how crowdfunding platforms influence the financial gap. In other words, are crowdfunding platforms a possible tool for solving the capital issue for entrepreneurs in resource constrained environments?

Introductory questions

1. Is it ok to record the interview and use your comments and title/name as a reference in our thesis?

2. When was your crowdfunding platform founded?

3. What was the main reason/reasons for starting the platform?

   General questions

4. What are the most common ways for companies to access capital in Kenya? Retail investors, VC funds, angel investors, unofficial funding networks, etc.?

5. Our background research into this topic tells us that crowdfunding has not established itself as a well known, viable alternative or supplement in the Kenyan capital market system. What's your take on this? Why is it not used more?

6. Do you experience your platform to substitute the traditional way of funding through the capital market? Or is your platform more of a supplement to

the existing capital market? Or could it be regarded as something completely different?

7. Is there a way for crowdfunding to narrow the financial gap for entrepreneurs and companies (limited access to capital) in Kenya? In what possible ways?

8. How can you make crowdfunding more accessible and mainstream in Kenya? Do you see any obstacles externally? E.g. regulations?

9. Is your crowdfunding platform taking any certain actions internally in order to facilitate the access to funds through crowdfunding? E.g. marketing activities?

Questions for further research

10. Do you measure/follow up on the success of the companies/campaigns after they've been financed on your platform? If so, how do you measure this?