

Article

How Crowdfunding Strategies Create Ventures in Africa

Satyendra Singh¹ 

¹ University of Winnipeg, Canada

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The World Bank estimates 600 million jobs need to be created by 2030 to meet the needs of a global workforce. Ventures and entrepreneurs represent about 90% of the workforce. Yet, only 50% of entrepreneurs have access to formal credit. The situation is much worse in Africa (20% in Uganda). Crowdfunding is an alternative to a formal banking system. The article generates eight insights and explains how crowdfunding strategies (debt, reward, donation, and equity) could create ventures and help them seek growth, expansion, and internationalization funding and ultimately become sustainable entrepreneurs.

INTRODUCTION

The European Investment Bank states that ventures can solve Africa's challenges (EIB, 2022). But ventures need funding to start. Crowdfunding is one of the strategies that ventures can use to generate finances and conduct business. The arrival of the Internet in the early 1990s contributed to online crowdfunding platforms, particularly during the financial crisis of 2008, which popularized crowdfunding as an alternative traditional funding source. Crowdfunding is primarily designed to raise funds through a network of people pooling resources online to support ventures that create employment and stimulate growth. Although Africa has significant growth opportunities (Nachum et al., 2023), and African entrepreneurs have shown interest in digital technologies (Singh, 2024), general crowdfunding awareness in Africa is low compared to other parts of the world. However, as the awareness about crowdfunding increases through education and marketing, more backers are likely to support crowdfunding campaigns through *lending*, *donations*, *rewards*, or *equity*. Backers are the backbone of crowdfunding.

Traditional financing for ventures is costly and not readily accessible in Africa. Crowdfunding can be an option for those who lack credit history and collateral. Beaulieu et al. (2015) have suggested crowdfunding platforms. For example, *Mama's Dream campaign* (Kenya) raised about \$15K from over 300 backers to improve the lives of women and children. Similarly, *Chicken Run* (Uganda) raised \$3K from over 60 backers to support a local chicken farm and provide employment opportunities for young people in the community (Hiller, 2017). These examples suggest how crowdfunding can create ventures, develop products and services, generate employment, and contribute to venture growth.

Social Proof Theory (Roethke, Klumpe, Adam, & Benlian, 2020) guides our discussion to synthesize and develop insights about crowdfunding in the African context. It theorizes that we emulate actions when we see others doing it.

The theory is relevant to crowdfunding as backers are likely to contribute to campaigns and support ventures when they see evidence of success. It could also be that social proof theory applies more when backers know the success stories of other backers. We find three unique ways in which social proof theory relates to crowdfunding in the context of Africa. First, it is interesting how low connectivity and poor visibility of crowdfunding moves social proof from an online to an offline conversation, such as community events, meetings, and word-of-mouth communications, which lends credence and contributes to the campaign's success. Second, as campaigns are often related to social causes and people can see the results of the campaigns, social proof takes the place of backers and influencers, enhancing trust and credibility. Finally, most people in Africa are cautious about spending money due to financial hardship. So, they want to be sure that if the money is invested, it will not be lost; it must result in a return. In this context, social proof theory plays a vital role in reducing the perceived risk of investment when they see a trustworthy leader, influencer, or institution encouraging them to contribute to the campaign, which is likely to benefit the community and the region.

A recent study by Cumming and Sewaid (2024) finds that culture impacts crowdfunding success. Crowdfunding in African cultures is not new; it existed long ago as a practice called *Harambee* and *Susu* in which communities pool resources to support a common cause. Since then, crowdfunding has evolved into modern online fundraising platforms. The evolution led to the four kinds of crowdfunding: debt-based, reward-based, donation-based, and equity-based (Jenik, Lyman, & Nava, 2017).

THE ACTIONABLE INSIGHTS

We develop eight insights by linking the four kinds of crowdfunding to capital—money for seed or growth—and

creating eight cells with their distinct calls for action and associated venture strategies. Admittedly, all typologies have an inherent overlap in social studies, and the oversimplification of a complex reality and human behavior can fall anywhere within the cells (Singh, Dash, & Vashko, 2016). However, we have tried to balance simplicity with the necessity to accurately categorize the typological cells to make them as distinct as possible. In this context, we used the typology as a starting point to shape our discussion around the cells. In short, we aim to move startup ventures to a self-sustaining, equity-based, growth-oriented entrepreneurial level (i.e., the upper right cell). We explain the cells in the next section. Each cell is labeled with its representative name in [Table 1](#).

INITIAL FUNDING (DEBT-SEED)

Initial funding is about investments. This kind of crowdfunding is not very popular in Africa as crowdfunding literacy is low and crowdfunding is perceived as risky. A marketing and promotion campaign highlighting the venture's mission, products, and benefits may attract backers to seek information about the venture's idea and financial return prospects. An effective marketing campaign using social media with appealing narrative, audio, and visuals can lead to interest in backers to make initial investments. Ventures focused on the Internet, app development, solar energy, and telehealth are likely to succeed as these products provide inexpensive alternatives. For example, *Fintech* is successful as its innovation offers an alternative to banks and the Internet. Developing products relevant to African markets is the key to securing initial funding. *GoFundMe*, *M-Changa* (Africa's largest online crowdfunding platform), and *Uprise* are popular crowdfunding platforms with built-in marketing and social media functions to create venture awareness.

TRANSITION FUNDING (DEBT-GROWTH)

This debt-based growth stage emphasizes the transition from the introductory stage to growth. At this stage, more ventures are likely to appear with similar products, making the business environment more competitive. The similarities highlight the need for differentiated product development. Usually, crowdfunding begins with simple products, so it suffers from the risk of being copied or similar products being developed. Although more products in markets may mean more demand, highlighting differential attributes and unique selling propositions is necessary to compete and maximize revenue from the niche segment or informal sector. For example, *M-Pesa* transfers money, pays bills, and receives funds without opening a bank account. It benefits people working in the informal economy who need bank access but lack collateral. In another example, *Twiga* (Kenya) Foods identified inefficiency in the supply chain and developed an app that connects farmers to vendors in urban areas. Doing so reduces wastage and increases the vendors' income. Africa offers vast opportunities for ventures to transition to growth by addressing social challenges.

REWARD FUNDING (REWARD-SEED)

Reward funding is personal and relates to backers receiving non-monetary benefits such as products or services in exchange for their contribution to crowdfunding. Although reward funding has merit in that ventures can raise funds without borrowing from a bank, crowdfunding is not popular in Africa, as backers wish to receive monetary benefits due to the weak economic condition of the continent. As a result, ventures rely on Africa-specific crowdfunding platforms such as *Thundafund* (South Africa) and *234Give* (Nigeria) to create synergy between backers and ventures. In this context, backers' feedback on ventures' products is valuable for them to accept products instead of money. If backers' feedback is implemented for product development or modification, they are more likely to receive non-monetary rewards. In the meantime, ventures can use the seed money to test the feasibility of the reward funding and build a reputation to earn backers' confidence in new products and services, which is essential for repeat funding and growth.

INCENTIVE FUNDING (REWARD-GROWTH)

Incentive funding is about ventures giving non-monetary incentives to backers for scaling up their operations for society's common good. The funding objective differs from reward funding in that incentive funding products are approved by backers and promoted for mass consumption. In South Africa, the *Lumkani* venture raised over \$40K through crowdfunding on *Indiegogo* to produce fire detectors for informal settlements (Horga, 2013). The smoke detector device solved the problem of fire hazards in crowded, high-risk places, where governments do not have operational fire extinguishing trucks. Incentive crowdfunding can also be effective where ventures have the opportunity to develop and deliver digital products (e.g., books, music, apps) to backers (as incentives) and customers (for a fee or subscription). Thus, ventures learn and create crowdfunding-enabled websites for digital product development consistent with backers' wishes. Hence, they are more likely to back the venture.

PHILANTHROPIC FUNDING (DONATION-SEED)

This funding relates to using nonprofit ventures' philanthropic missions and causes to attract donations to fund ventures where backers do not expect a financial return. In this case, targeting the diaspora community for fundraising is an effective strategy. The African diaspora communities that share similar cultures and regions but live overseas are likely to fund nonprofit organizations as their interests and values align with a social cause, including a sense of responsibility, emotional ties, and love for their homeland. To maintain the ties, many African governments, such as Angola, Ghana, Kenya, Rwanda, and Tomé, among others, have policies to connect diasporas to their homeland by offering dual citizenship and tax incentives for donations. Ventures focusing on social causes such as education (i.e., poverty reduction) and health are most likely to run a

Table 1. Crowdfunding Strategies

CROWDFUNDING Equity	<i>Catalyst Funding</i> ● Explore product and market fit ● Focus on customers and competition ► Strategy: Market Orientation	<i>Expansion Funding</i> ● Develop <u>self-sustaining entrepreneurship</u> ● Focus on Joint venture, merger, acquisition ► Strategy: Strategic Expansion	<i>Catalyst Funding</i> seeks <u>seed capital</u> from backers who share the venture's ownership. <i>Recommendation:</i> Support market-oriented ventures focusing on customers, competition, and shareholders. The <i>E4Impact Accelerator</i> in Kenya enables backers to invest in equity to grow businesses.
			<i>Expansion Funding</i> seeks <u>major funding</u> for diversification and internationalization in exchange for share ownership. <i>Recommendations:</i> Attract major backers interested in established ventures seeking strategic expansion by achieving economies of scale and scope. <i>Uprise. Africa</i> drives equity crowdfunding companions, helping small ventures to become large entrepreneurs.
Donation	<i>Philanthropic Funding</i> ● Focus on mission ● Build brand image ► Strategy: Social Orientation	<i>Impact Funding</i> ● Focus on broader social cause ● Leverage brand image ► Strategy: Charity Orientation	<i>Philanthropic funding</i> is ideal for <u>nonprofit ventures</u> addressing social problems. <i>Recommendation:</i> Emphasize social mission and transparency in using funding to build donors' trust and ventures' image. <i>Africans in the Diaspora (AiD)</i> mobilize international funds for socially oriented activities such as poverty and employment.
			<i>Impact Funding</i> targets growth-stage nonprofits looking to expand their mission and impact as a <u>charity</u> . <i>Recommendation:</i> Raise funds to give based on milestones and measurable impact (e.g., number of schools and hospitals). <i>GiveDirectly</i> contributes to poverty reduction in Africa.
Reward	<i>Reward Funding</i> ● Develop new products ● Get backers' feedback ► Strategy: Synergy Creation	<i>Incentive Funding</i> ● Create value for the venture ● Explain non-monetary benefits ► Strategy: Incentive Orientation	<i>Reward funding</i> seeks backers who expect non-financial <u>personal rewards</u> in exchange for their investment <i>Recommendations:</i> Create synergies by aligning rewards with backers' interests through their feedback. <i>234Give</i> in Nigeria creates such synergy between backers and ventures.
			<i>Incentive funding</i> seeks backers that support established ventures through <u>general incentives</u> . These incentives are more for the common good than personal interests. <i>Recommendation:</i> Provide backers with progressively scalable incentives that enhance the ventures' value. <i>Koko Networks</i> in Kenya provides social benefits such as clean coking (e.g., bioethanol, liquefied petroleum gas) to African households as incentives (e.g., community, social) for backers to invest.
Debt	<i>Initial Funding</i> ● Create venture awareness ● Highlight the venture's mission ► Strategy: Marketing	<i>Transition Funding</i> ● Identify a unique selling proposition ● Prioritize revenue for growth ► Strategy: Differentiation	<i>Initial funding</i> supports <u>early-stage startups</u> and creates awareness through marketing of the funding opportunities. <i>Recommendations:</i> Offer funding to those with no credit history, similar to microfinance. <i>FINT Nigeria</i> offers microloans with variable return plans depending upon the account receivable cycle.
			<i>Transition funding</i> supports <u>startups' expansion</u> and scaling by highlighting their unique features as differentiators. <i>Recommendations:</i> Prioritize lending to sectors with high growth potential (e.g., agriculture, education, energy, health, and technology). <i>FarmDrive</i> in Kenya supports farming-related activities.
CAPITAL	Seed	Growth	

Source: the author

● Actionable Insights, ► Executable strategies

successful crowdfunding campaign and enhance their brand image. Religious organizations also internationalize their operations through branding (e.g., denominations). Diaspora-supported *Africans in the Diaspora (AiD)* mobilizes resources by leveraging its network to support socially oriented projects—poverty, employment, and the environment.

IMPACT FUNDING (DONATION-GROWTH)

Nonprofit ventures impact society and the economy and have the potential to become charity ventures to raise and distribute funds. This is possible when charity ventures focus on broader social issues such as poverty reduction and healthcare access by developing charity-oriented strategies to provide equal opportunity to people for upward social mobility. Given Africa has mainly developing countries, developing a charity venture with a good brand image is noteworthy and worth marketing and promoting (including diaspora communities) to have a meaningful impact on society. The funding goal is to leverage the brand image for brand awareness and product extension. *Western Union Foundation* has a good brand image for supporting vulnerable communities. Other crowdfunding platforms—*Feenix* (for students) and *BackaBuddy*—became popular in raising funds during the pandemic; donations increased significantly. Backers saw COVID-19 as a social cause for donations.

CATALYST FUNDING (EQUITY-SEED)

Catalyst funding indicates the venture's growth potential. Its primary purpose is to take the venture to the next level through equity generation. This strategy is based on direct financial return, so the venture has more potential to scale up. At this initial stage, ventures are expected to be market-oriented; that is, they need to explore new products and services to serve the needs of current and future customers while keeping an eye on the competition and market and technological turbulences. The market-oriented strategy leads to product acceptance, brand image, and equity. A recognizable brand image, message, and logo earn the support of backers. As a result, the market-oriented strategy further leads to demand, economies of scale, and low production costs, allowing ventures to save revenue for expansion. *Njorku* is a technology-based, market-oriented job search venture that recruits people for the right jobs in Cameroon, Ghana, Kenya, Uganda, Egypt, Nigeria, and South Africa. A market orientation strategy is the key to seeking equity.

EXPANSION FUNDING (EQUITY-GROWTH)

This is the most desirable stage for ventures for strategic expansion—joint ventures, mergers, and acquisitions. However, it is worth examining if the future expected value from the expansion exceeds the present costs. If so, the expansion strategy should be amplified on crowdfunding platforms to create opportunities for backers, and diaspora communities to support new ventures or expand estab-

lished ones. *Gocycle* (gocycle.com) is for equity crowdfunding. The goal is to become a self-sustaining entrepreneur through equity, market and social orientations while hedging risks (Singh, 2025).

THE AFRICAN CONTEXT: THE BARRIERS TO CROWDFUNDING

Africa has a unique context, challenges, and barriers that can impede the success of crowdfunding. We identify five such barriers: connectivity issues, trust deficit, financial illiteracy, regulatory framework, and economic challenges. First, Africa has low connectivity. Although a few countries—Kenya and Nigeria—have good internet connectivity, its penetration in rural areas is low, limiting crowdfunding campaigns' ability to seek backers. Second, people are reluctant to invest online due to the lack of trust and fraudulent activities. However, such problems can be mitigated by being transparent or getting the endorsement of community leaders or trusted organizations. Third, financial literacy and accessibility are low. Only 20 percent of people in Uganda can access bank accounts and credit cards. Although Kenya and Tanzania have access to the banking system through *M-Pesa*, participation in crowdfunding campaigns is still limited. Fourth, regulatory frameworks relating to investment protection and equity funding are slow to evolve. *Uprise.Africa* in South Africa has found some success in encouraging backers to participate in the equity market to achieve growth. Finally, economic barriers such as poverty, unemployment, and inflation prevent most people in Africa from participating in crowdfunding campaigns.

FUTURE DIRECTIONS FOR CROWDFUNDING FOUNDERS, PLATFORM DESIGNERS, AND POLICYMAKERS

TIPS FOR FOUNDERS

Africa has low economic status and financial literacy. Crowdfunding founders need to focus on weak socio-economic sectors—health, education, technology, and agriculture. Projects in these sectors tend to be more successful as they align with community needs, solve social problems, and enhance quality of life. *Farmcrowdy* in Nigeria helps farmers raise funds and improve the food security situation. We recommend that crowdfunding founders involve the community, organize social activities, and promote the benefits of the fundraising campaign and its subsequent impact on backers, community and society.

GUIDELINES FOR PLATFORM DESIGNERS

Embracing mobile technology is the key to successful crowdfunding. Although access to credit cards is limited, crowdfunding founders can integrate mobile money platforms (e.g., *M-Pesa*, *Airtel*, *MTN Mobile*) into the crowdfunding system for its success. *M-Changa* in Kenya and

Akabbo in Uganda have successfully integrated a mobile money platform that accepts SMS and mobile money from backers for crowdfunding. Because mobile money is SMS based (i.e., offline solutions), it is effective in reaching areas with low internet connectivity. Similarly, *Village Capital* manages projects relating to community and environmental problems. African platforms can emulate its success. However, a few countries have banned financial institutions (e.g., PayPal).

POLICY CONSIDERATION

Crowdfunding founders would need to navigate some of the challenges associated with the regulatory and policy framework, as it is undeveloped in most African countries. They will likely work with legal experts, financial authorities, and government officials to understand and comply with local regulations. For example, *Mara Mentor* in Nigeria partners with the Ernst & Young and United Nations Women Knowledge Gateway. *Thundafund* in South Africa works within evolving policies and regulations and ensures compliance in ever-expanding African markets.

RISKS TO CONSIDER

Low-trust environments, fraud, campaign failure, or under-delivery are important considerations when launching a crowdfunding campaign in Africa. Similarly, equity crowdfunding potential depends heavily on the regulatory maturity of the target country, so legal consultations for guidance before pursuing crowdfunding strategies are advisable.

CONCLUSION

We aimed to show how different crowdfunding strategies create ventures and transition them from startups to equity-based, self-sustaining entrepreneurs. In this context, we created an eight-cell typology, highlighted actionable insights, and suggested corresponding business strategies. These cells enable international managers to gain insights into which crowdfunding strategy (out of the eight cells) is most effective for targeting specific backers, thus increasing the chances of crowdfunding success for business growth and internationalization. It is worth noting that equity crowdfunding is prevalent in the USA but not in India or many countries in Africa. So alternative fundraising strategies, such as rewards or donations, are worth exploring. Consideration of the international aspect of crowdfunding is important.

This article also discusses international crowdfunding strategies. The first strategy is to solicit crowdfunding from the diaspora (i.e., the international community), which is more likely to fund projects due to their roots in Africa or for altruistic reasons. This kind of funding is akin to small-scale FDI in Africa via crowdfunding platforms. Indeed, backers can also be from Africa, but the probability of getting their support may be low. The second international strategy is the internationalization of African fundrais-

ing platforms, such as *M-Changa* in Kenya and *Thundafund* in South Africa. Venture founders can tap into overseas backers, secure funding, and expand beyond Africa by integrating financial institutions and credit cards into the platforms. American Africans are likely to support African platforms because of their connection to the continent, whereas Americans may like to support them for altruistic or business reasons. The goal is to crowdfund internationally regardless of nationality, culture, or religious factors.

These insights should be interpreted in the African context. It is a large continent with natural differences in its countries and regions. The differences in economic activities, regional development, regulatory frameworks, and technological and financial access, among others, impact crowdfunding effectiveness. Kenya, Nigeria, South Africa, Uganda, and North Africa have more conducive environments to crowdfunding than other parts of Africa. Therefore, it is essential to tailor crowdfunding campaigns to a specific country or region for their optimal performance. Nonetheless, the suggested crowdfunding platforms, examples, and business strategies are insightful, actionable, and valuable for venture founders.

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ABOUT THE AUTHOR

Satyendra Singh is a Professor of *Marketing and International Business* at the University of Winnipeg, Canada, and a visiting professor at the Regent University College of Science and Technology, Ghana, Africa. He focuses on business research in Africa and Asia. He has authored books and published widely, including articles in *Industrial Marketing Management*, *International Marketing Review*, *Thunderbird International Business Review*, and *Journal of Services Marketing*, among others. Dr. Singh is the recipient of the Social Sciences and Humanities Research Council (SSHRC) Explore Grant, Canada. For more information, visit <https://sites.google.com/view/drsatsingh> or contact at s.singh@uwinnipeg.ca

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