

The State of Crowdfunding for MSMEs in Nigeria

An assessment to enhance the crowdfunding market

May 2024

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Overview of the assessment

- Crowdfunding as a financing option for MSMEs in Nigeria
- Regulatory activities and concerns
- Applicable models
- Challenges in the crowdfunding Market
- Market trends, dynamics, and opportunities

Methodology

- Set of people interviewed
- Tools used in the interview
- Type of interview
- Type of data used

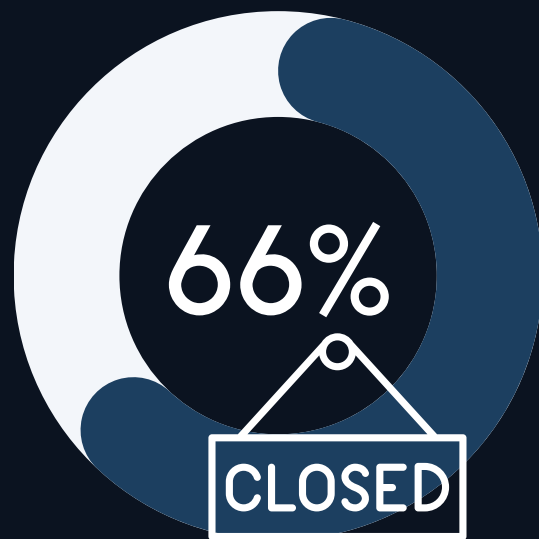
Key findings

- The Nigerian crowdfunding market is still young
- The failure of businesses that were engaged in crowdfunding, especially in 2020
- The need for continuous engagement
- Regulatory activities are a major concern for both licensed and unlicensed players
- Inadequacy of investor education

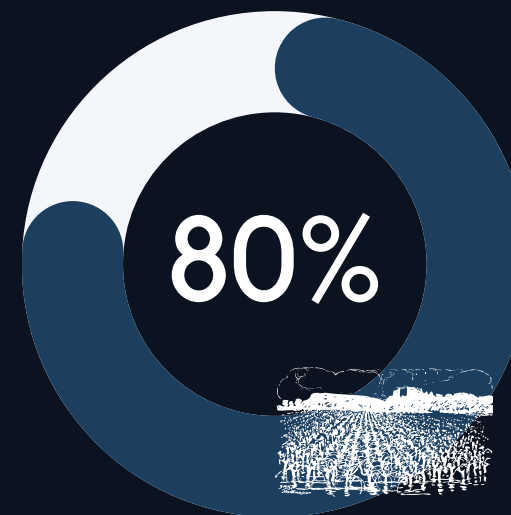


The current crowdfunding landscape

Overview of surveyed intermediaries

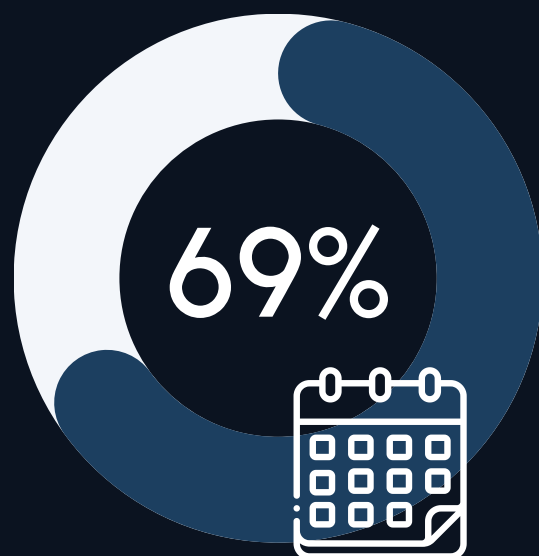


66% of crowdfunding platforms surveyed for this assessment have shut down



80% of intermediaries established between 2016 and 2019 were agrofunding platforms

**Only one is currently active*

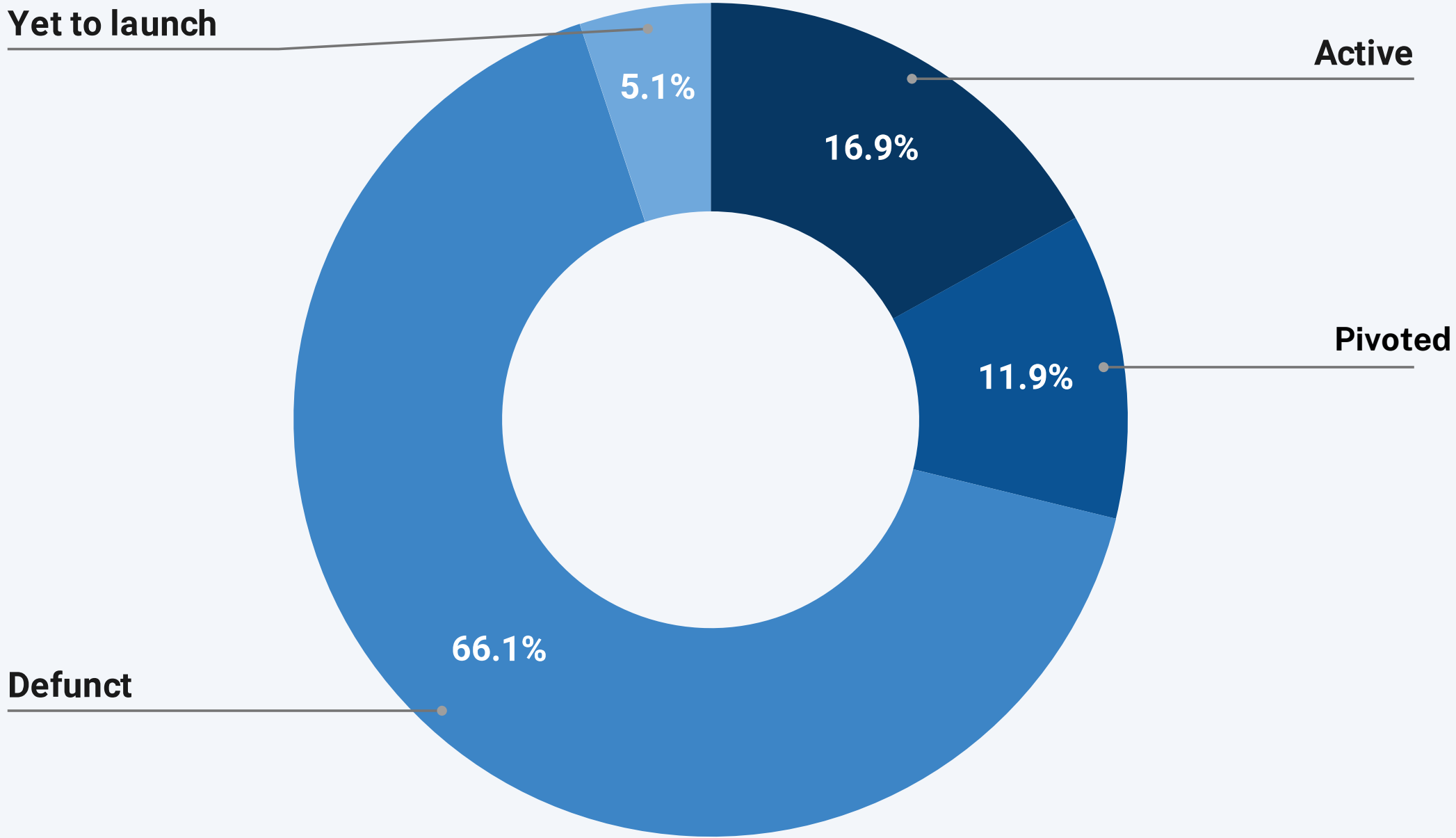


69% of crowdfunding platforms surveyed for this assessment have shut down



The largest share of defunct Crowdfunding Intermediaries are agrofunding

The status of Crowdfunding Intermediaries in Nigeria



Applicable revenue models in the Nigerian crowdfunding market



▶▶ **Commission-based**

▶▶ **Profit-sharing model**

▶▶ **Revenue from value-added services**

Market trends



- Debt raising in the Nigerian startup landscape
- Communicating with investors is a major problem

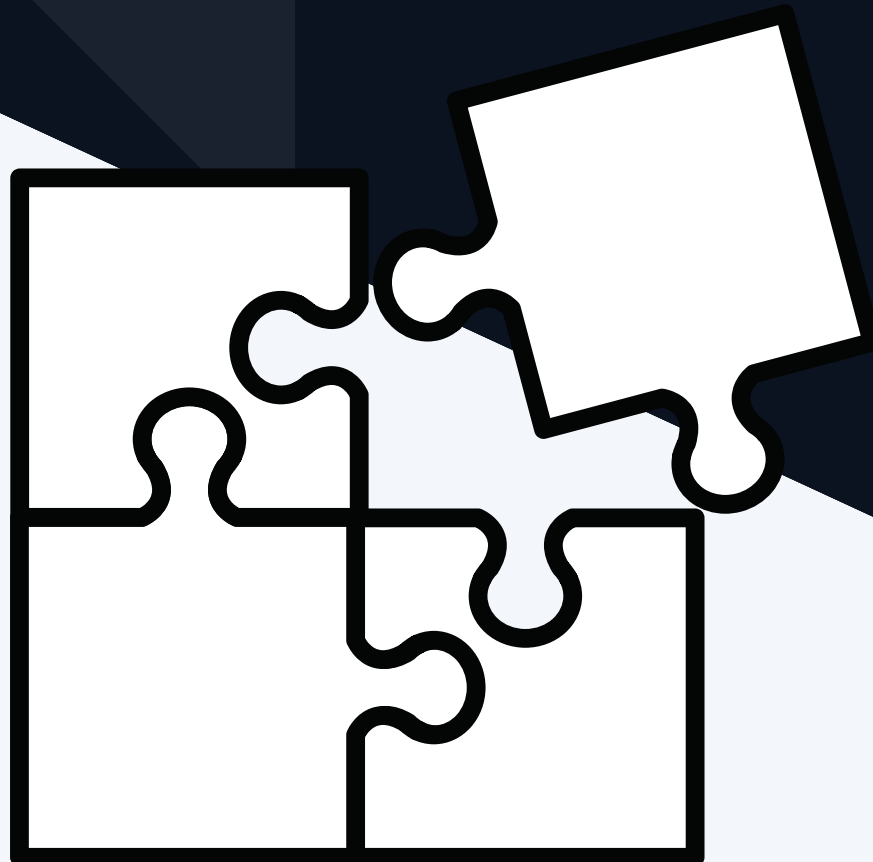
Past intermediaries

- The business model of crowdfunding wasn't the problem
- failure rate of small businesses
 - 5-10% of small businesses survive and grow to maturity in Nigeria
- Communicating with investors is a major problem
- Misappropriation of funds by intermediaries



Challenges

- Reputational challenge
- Licence application process timeframe
- Limitation on how much can be raised
- Regulatory bottleneck
- Investor education
- Working with smallholder farmers



Comparison with other African markets

	Nigeria	Morocco	Tunisia	*Ghana
Crowdfunding activities in focus	Investment-based	-Investment-based -Donation-based -Loans	-Investment-based -Donation-based -Loans	Investment-based
Minimum paid-up capital	₦100m (\$113.9k) (\$261k as of Jan. 2021)	MAD300,000 (USD30.2k)	TND100,000 (\$32.4k)	GHS 250,000 (\$21k)
Maximum amount that can be raised in a 12-month period	₦100m (\$114k) ₦1b (\$1.14m) for agricultural or commodities projects	-Investment-based: MAD5m (\$503k) -Loan-based: MAD3m (\$301k) -Donation-based: MAD450k (\$45k)	TND2m (\$647k)	-GHS 6m (\$504k) -GHS 10m (\$840k) for agricultural projects
Regulatory authorities	The Securities and Exchange Commission, Nigeria	- Moroccan Capital Market Authority - Bank Al-Maghrib	-The Financial Market Council -The Central Bank of Tunisia -The Microfinance Control Authority	- Bank of Ghana - Securities and Exchange Commission, Ghana
Time frame of application process	Not specified	45 days	60 days	90 days

Only Securities and Exchange Commission, Ghana allows promotion of individual offerings beyond the platform.

Exchange rate is as of January 5, 2024, except otherwise stated.

Opportunities for crowdfunding in Nigeria



- MSMEs' unmet financial demands
- Retail investors
- Agriculture
- Housing deficit in Nigeria

Key sectors benefiting from crowdfunding

Education, Financial Services, Entertainment, Energy, Manufacturing, Telecommunications, Healthcare, Recycling, and Real Estate, among others.

MSMEs' unmet financial demands

3%

of businesses have no access to credit within the formal financial sector

38.4m

SMEDAN's figure (2020)

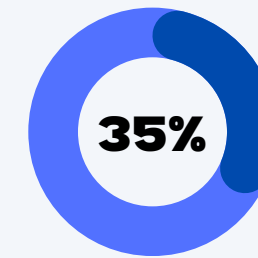
46.31%

MSME's contribution to the national GDP

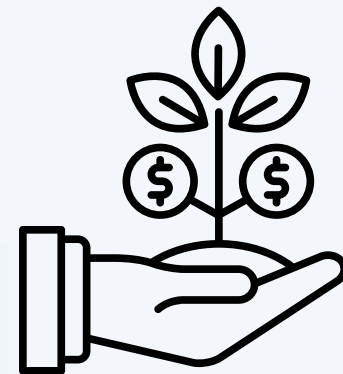
Retail investors



The influx of
retail
investment
platforms



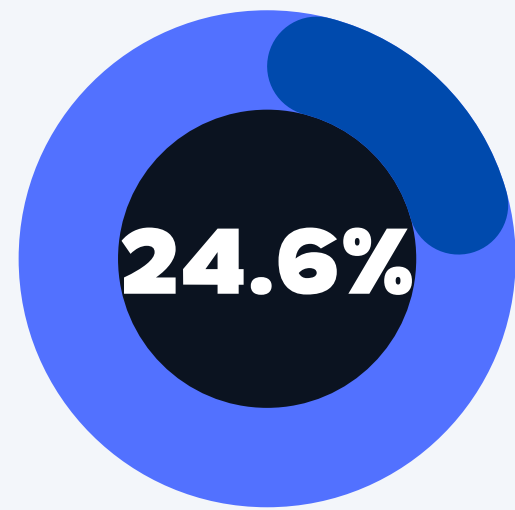
increase in retail
participation
witnessed by the
Nigerian Stock
Exchange.



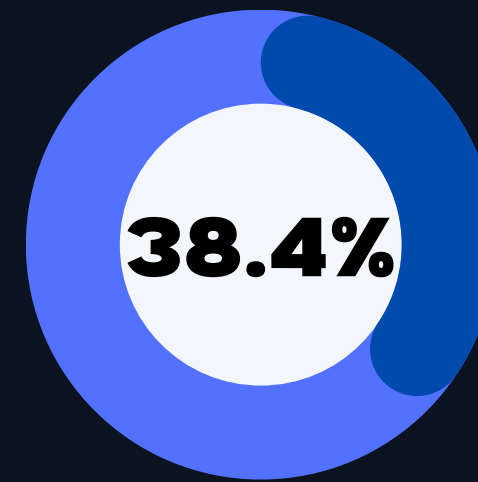
Investment led the
financial services
needed by people with
mobile and bank
accounts.

**Nigerian Financial Services Market Report*

Agriculture



Contribution to the Nigeria's nominal GDP in Q4 2023.



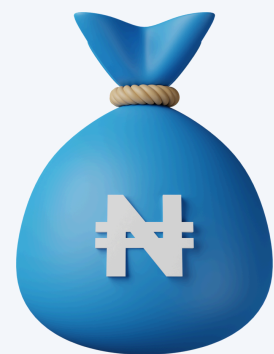
Share of MSMEs that are in the agricultural space

Agriculture

36.87m ha

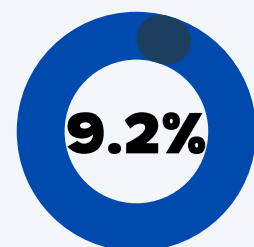


arable
farmland



₦83tr

The estimated figure for the financing demand in Nigeria's agriculture space

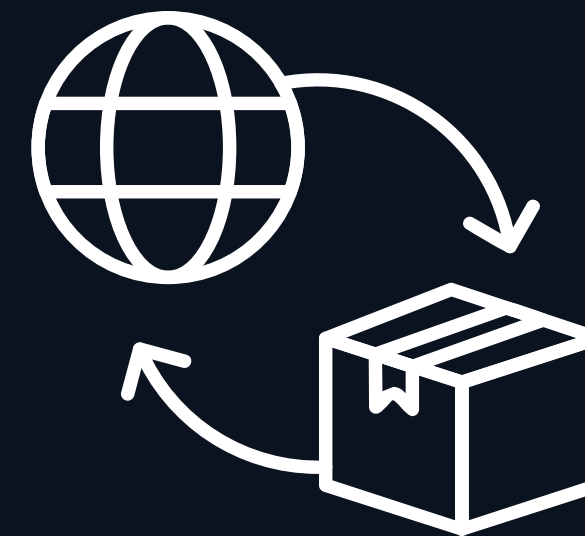


financial
demand met

One prominent intermediary was raising about \$2 million annually

₦598b

Agricultural goods
exported in 2022



₦1.87tr

Agricultural goods
imported in 2022

Investor perspectives and risk management

- Investor behaviour and associated risks
- Risks associated with crowdfunding investments
- Strategies for mitigating risks associated with crowdfunding
- Building investor confidence in the market
 - Constant warning
 - Investor relations
 - Continuous engagement
 - Due diligence

Factors that will influence the future of the market

- Reduced barriers
- Economic stability
- Increased disposable income
- Fair play by all parties
- Continuous stakeholder engagement
- Investor education

Recommendations for regulatory improvements

- Application timeline
- The need for a licence badge
- Increase the maximum that can be raised within a year (or set sector-specific funding limitations)
- Portal for the submission of fundraising offering
- Promotion of crowdfunding offerings
- Continuous stakeholder engagement



Recommendations for collaborative initiatives

- Collaboration with counterparts from other African markets
- Working with intermediaries to drive public awareness about the market
- Possible parley with the CBN for banks to invest in crowdfunding offerings





Thank You
For Your Attention

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