Crowdfunding's growing impetus in Africa

Peer-to-peer business lending is the third-largest finance model in Africa, totalling $16m in volume in 2014 and 2015, and it's growing in popularity.

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The *Africa and Middle East Alternative Finance Benchmarking Report*, published in February, is the first comprehensive study of the size and growth of crowdfunding and P2P lending markets in Africa and the Middle East. It includes additional chapters on the regulatory landscapes in Africa.

Market evenly distributed

Growing Kenya and South Africa are the market leaders, raising $16.7m and $15m respectively from online channels in 2015. Peer-to-peer business lending had a lower average deal size of $41,000, with an average of 24 lenders each.

The market is relatively evenly distributed across 10 core countries. South Africa had the largest number of online alternative finance platforms, with eight surveyed respondents. Egypt and Morocco followed, with three domestically-based platforms each, and then Ghana and Nigeria, with two per country. Senegal, Uganda, and Zimbabwe had one surveyed platform each.

According to the report, the East Africa region has the largest market share of the alternative finance market. In 2015, East Africa accounted for 41% of total African market share, while West Africa accounted for 24% and Southern Africa accounted for 19%.

South African scenario

The make-up of the South African market differs markedly from the rest of Africa. In 2015, the vast majority of market activity – $13.8m – came from peer-to-peer consumer and business lending, with the remaining $1.2m spread across microfinance, donation-based and reward-based crowdfunding.

The rapid growth and emergence of online peer-to-peer lending models in South Africa suggests that this model will likely dominate the national market, and could potentially propel South Africa forward as the emerging market leader for both online consumer and business peer-to-peer lending in Africa.

Generic financial policies still apply

Regulation and policy for alternative finance are at the very earliest of stages of development for many financial regulators globally, and this is the case in Africa.

Nevertheless, several positive steps have been taken towards developing a specific regulatory response to this emergent industry that provides additional and vital channels of financing for individuals, start-ups and SMEs.

What is clear is that there is no customised, tailor-made alternative finance regulation regime that has been enacted in Africa, as has been the case in other more established markets, such as the UK, Italy, the USA or Malaysia.

Existing, generic financial services regulations are still likely to apply to firms seeking to provide services that fall within the remit of these existing laws.

Many risk-adverse corporates will wait for the implementation of the regulatory framework before acting on this opportunity.