

Crowdfunding As an Alternative Source of Financing for Smes in Tanzania

Nsubili Isaga

Mzumbe University

Abstract

In recent years, research on crowdfunding has significantly increased in less developed countries. This is caused by existing ideas that crowdfunding offers a new way to finance business compared to traditional finance like banks. Despite the interest in crowdfunding, research shows that, in practice, crowdfunding is still behind banks in financing businesses, including SMEs. Most SMEs are solely financed by their resources and funds from families and friends, and they rely on bank financing in the absence of these. However, most young SMEs fail to meet the banks' demands because they need experience, collaterals, and credit history. This study aimed to establish the motives behind the engagement in crowdfunding lending mode among entrepreneurs in Tanzania. The respondents (100) were purposely selected from the Kiva platform (one of the leading lending business crowdfunding platforms) and thereafter were invited for the interview. First of all, most entrepreneurs who had a loan from Kiva have a low understanding of crowdfunding. Most of the groundwork was conducted by the financial intermediary (field partner), and it wasn't easy to differentiate the loan from financial institutions and Kiva. We also find that entrepreneurs often engage in crowdfunding to raise capital. We observed that most of the loan was intended for food production, veterinary, timber processing, repairing, and health issues. Based on the findings, this study recommends improving the knowledge about crowdfunding among youth entrepreneurs. In addition, there is a need to improve information transparency on borrowers and field partners.

Keywords: external financing, field partner, Kiva, banks, lending based