

**ASHESI UNIVERSITY COLLEGE**

**INVESTIGATING THE LEGAL AND INSTITUTIONAL PRE-REQUISITES  
FOR A SUCCESSFUL IMPLEMENTATION OF CROWDINVESTMENT IN  
GHANA**

BY

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### **STUDENT'S DECLARATION**

I hereby declare that this dissertation is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature .....

Candidate's Name .....

Date: .....

### **SUPERVISOR'S DECLARATION**

*I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of theses laid down by Ashesi University College.*

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## **Abstract**

This study investigated the ease of access to capital by Small and Medium Enterprises' (SMEs) in the Ghanaian economy as the Ghanaian media have highlighted that Ghanaian SMEs suffer to find financing to survive and grow. The study explored the Crowdinvestment concept as a solution to the financing problem faced by businesses in Ghana.

The study was exploratory in nature and employed both primary and secondary data to draw its conclusions. Random sampling and purposive sampling methods such as snow-ball were used to identify the participants of the study. The participants were either engaged in a one-on-one interview or asked to fill out questionnaires depending on the group of participants they fell in. Qualitative Content Analysis and graphical representations were used to analyze the data.

Even though the study found that the current Ghanaian investment and business environments are favorable to the concept, it also revealed the necessity of education in the success of the concept in the country. Since the concept is new, the education of all stakeholders through research and pilot projects was found to be imperative. The study also elaborated on the various factors, legal, legislative and institutional, that need to be critically considered for the crowdinvestment concept to work in Ghana.

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## **List of Abbreviations and Acronyms**

BoG	Bank of Ghana
CI	Crowdinvestment
GAX	Ghana Alternative Market
GIPC	Ghana Investment Promotion Centre
GNA	Ghana News Agency
GSE	Ghana Stock Exchange
ICT	Information and Communications Technology
IEA	Institute of Economic Affairs
NBSSI	National Board for Small Scale Industries
NGO	Non-Governmental Organization
SME	Small and Medium Enterprise

## **1. CHAPTER ONE: INTRODUCTION**

### **1.1 Introduction**

Fred Degbee Jnr. is a Ghanaian entrepreneur who graduated from Ashesi University in 2006. His firm manufactures shoes locally, and has gained an excellent reputation thanks to the quality of his products. Fred wants to expand his business and reach customers even outside of Ghana but he is constantly facing a lack of capital necessary to boost his business.

Fred lives in Ghana, a country that is arousing many investors' interest because of its fast economic growth and its political stability. Indeed, the real GDP growth of Ghana over the last years has been higher than that of the other West African and African countries (Appendix 1). Ghana is therefore clearly doing better than the average developing African country. Further, Ghana has not experienced any political upheaval of significant magnitude since 1992 although six elections have been organized over the period with the last election taking place in 2012.

In 2010, Ghana earned a low middle income status after years of being labeled a low income country. This is the result of a likely improved economic performance in the country. Despite what looks like a great investment environment for entrepreneurs and investors, entrepreneurs in the Ghanaian society like Fred still suffer from a severe lack of capital to fund their projects. Even when capital is available, interest rates are very high.

Studies by Agbozo et al. (2012), Omidyar Network (2013), and Wolf (2004) suggested that the limited access to credit in the Ghanaian economy is the



most important challenge faced by entrepreneurs in the country. This condition hinders the growth of the SMEs and that of the entire economy.

In Ghana, startups which in this context are micro, small and medium enterprises (SMEs) make up 90% of the registered companies in the country (Registrar General qtd. in Agbozo, 2012). This makes these types of “start-up” companies the major drivers of the country’s economy. According to Agbozo et al. (2012), these types of companies are ‘the catalyst for the economic growth of the country as they are a major source of income and employment’.

Despite their crucial role in development, SMEs have a very hard time financing their businesses. According to Biekpe (2004), governments and traditional banks in sub-Saharan Africa fail to provide adequate support to small businesses causing majority of such firms to fail in their first year (Biekpe, 2004 qtd. in Agbozo et al., 2012).

This lack of financing for the early stage businesses has a severe negative impact on the economic well-being of the entire nation. This is so because these firms are the major sources of employment and productivity so when they fail the economy suffers. The sources of credit for SMEs in Ghana are very limited. The major sources of financing are ‘trade credit, bank overdraft and bank loans’ (Agbozo et al. 2012). Personal savings, the microfinance industry and the Ghanaian traditional Susu constitute other strong sources of credit that the SMEs rely on. Agbozo et al. (2012)’s point on the major sources of financing in Ghana shows how heavily entrepreneurs need to rely

on external sources of financing to run their businesses. Among those external sources, bank loans stand out as being the one that small businesses tend to turn to the most (Cole et al., 1995 qtd. in Abor et al., 2007).

In Ghana, however, the 'cumbersome banking procedures, the absence of viable and bankable projects, the lack of collateral, and the high interest rates on bank loans' cause startups to have difficulties getting funds from the banking institutions. (Aryeetey, 1998 qtd. in Abor, 2007).

Alternative sources of financing such as venture capital or the microfinance industry also poorly address the problem of the SMEs. According to Belleflamme et al. (2010), this is because business angels and venture capital funds demand higher return rates or larger ownership stakes meaning that most SMEs, specifically in Ghana, fail to catch their interest.

Also, even though Ghana has a thriving microfinance industry, the SMEs are still generally too big for the semi-formal suppliers of microfinance (credit union, cooperatives etc.) and informal suppliers of microfinance (Susu collectors, traders, money lenders etc.) (BoG, 2007, qtd. in Alabi, 2007). This imposes a great limitation on SMEs that require greater amounts of financing in order to start or grow their businesses.

In the attempt to find solutions to the lack of financing in the Ghanaian economy, there is a need to explore new and innovative ways of financing for SMEs. This paper thus explores the concept of 'crowdinvestment' as a plausible way for Ghanaian entrepreneurs to finance their businesses.

Crowdinvestment is “a method of financing whereby an entrepreneur sells equity or equity-like shares in a company to a group of [...] investors through an open call for funding on internet-based platforms” (Ahlers et al. 2012, qtd. in Stiernblad, 2013). According to Hagedorn et al. (2013), ‘crowdinvesting or crowdinvestment could become a promising financing instrument’ (Hagedorn et al., 2013). This is because of the proximity that the concept creates between the entrepreneurs and the investors as well as the increasing number of investors who are choosing to invest on online platforms.

Further, given that every country is somewhat unique as far as policies and legal frameworks are concerned, there is a need to investigate if the existing Ghanaian policies and laws are likely to be supportive of crowdinvestment. This will enable us to establish whether Crowdinvestment will be a viable option for Ghanaians like Fred to obtain the financing they need to run their businesses. The paper therefore evaluates Ghanaian investment policies to determine whether the economy can accommodate such a financial concept and any additional policies that might be required to make it viable.

## **1.2 The Crowdinvestment Concept**

This paper will not make much sense unless we provide a proper definition and history of the crowdinvestment concept and its characteristics.

The ‘crowd revolution’ these last years has shown how much the power of the crowd has been neglected in the field of Finance and in business in general. The concept of crowdinvestment has two main predecessors from

which it comes analogically, crowdsourcing and crowdfunding. Crowdsourcing, which is the oldest concept, was the first one to fall back on the crowd – the general public – for ideas and feedback on products.

According to Kleeman (2009) and Hermer (2011), 'the term "crowdsourcing" in general means the outsourcing of a special problem to a large, unspecified and anonymous group of individuals (the "crowd") with the intention to solve the problem by drawing on their assets, resources, knowledge or expertise (Kleeman et. al., 2009, Hermer, 2011qtd. in Hagedorn, 2013).

The crowd usually provides its services through online platforms and social networks and basically constitutes an 'unpaid workforce' (Hagedorn, 2013) to the companies/individuals that seek its services. Crowdsourcing offers benefits to both the crowd and the companies/individuals that seek its knowledge. It gives the opportunity to consumers, for example, to make their requests and needs clear to companies so that they can get the highest satisfaction out of their purchases. The companies similarly get first-hand information from their customers that causes them to perform better and increase profitability (Hagedorn, 2013).

'Crowdfunding involves an open call, essentially through the internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting in order to support initiatives for specific purposes (Schwienbacher et al., 2010 qtd. in Hagedorn, 2013). The nature of the reward attached to the idea of crowdfunding is the main factor that differentiates crowdfunding from crowdinvestment. Crowdfunding provides

money mainly on the premises 'that an investor does not intend to gain any financial profit, such as interest or dividends' (Hemer et al., 2011 qtd. in Hagedorn, 2013). The concept is therefore crafted around donations and sponsoring (Hagedorn, 2013). It becomes obvious from this point that crowdfundinvestment focuses on the equity part of crowdfunding. It is a 'special form of crowdfunding [...] and also an alternative financing instrument besides crowdfunding' (Hagedorn, 2013).

In a manner similar to crowdfunding, crowdfundinvestment is also done through online platforms and falls under 'microfinancing' (Hagedorn, 2013). This gives it the definition of 'a financing method for young ventures and other commercial projects that supports the acquisition of equity by coordinating the submission of different forms of shares to an undefined group of possible investors through social virtual communities' (Hagedorn, 2013). The concept can probably be thought of as another version of the stock exchange, in this case for startups and commercial projects. Crowdfundinvestment is also usually referred to in literature as 'equity crowdfunding'. Ahlers et al. (2012) defined equity crowdfunding as "a method of financing whereby an entrepreneur sells equity or equity-like shares in a company to a group of [...] investors through an open call for funding on internet-based platforms" (Ahlers et al. 2012, qtd. in Stiernblad, 2013). The table below provided by Collins and Pierrakis (2012), comprehensively compares crowdfunding modes of operation to that of crowd equity funding or crowdfundinvestment.

	Form of contribution	Form of return	Motivation of funder
Donation Crowdfunding	Donation	Intangible benefits	Intrinsic and social motivation.
Reward Crowdfunding	Donation/ Pre-purchase	Rewards but also intangible benefits.	Combination of intrinsic and social motivation and desire for reward.
Crowdfunded Lending	Loan	Repayment of loan with interest. Some socially motivated lending is interest free.	Combination of intrinsic, social and financial motivation.
Equity Crowdfunding	Investment	Return on investment in time if the business does well. Rewards also offered sometimes. Intangible benefits another factor for many investors.	Combination of intrinsic, social and financial motivation.

Figure 1 - Table by Collins and Pierrakis, Nesta Foundation (2012)

Crowdinvestment is more complex than its two predecessors, crowdsourcing and crowdfunding, in the sense that it deals with equity, thus national regulations. Countries often have economic and financial regulations within which crowdinvestment might not function well. The American restrictions concerning who can and cannot be an investor, for example, does not give the latitude to the crowd to invest in projects on crowdinvestment platforms. It therefore becomes imperative to study the regulatory framework of any country that wants to adopt such a model for the successful implementation of the concept.

### 1.3 Problem statement

The International Finance Corporation estimates that up to 84% of small and medium-sized enterprises (SMEs) in Africa are either un-served or

underserved, representing a value gap in credit financing of USD 140-170 billion' (Omidyar Network, 2013). This shows that there is potential in Africa and that if given the right resources, here capital, African entrepreneurs will be able to set up and run projects that will thrive and contribute to the economic growth of their economies.

A study conducted in Africa by Omidyar Network (2013) suggested that unlike in other African countries, the Ghanaian business environment is relatively welcoming and mild for startups. The country was 'ranked 64<sup>th</sup> in the World Bank's Ease of Doing Business Index for 2012' (Omidyar Network, 2013).

This shows that Ghana has the potential to boost its economic growth and set itself on a sure path to development. Despite the helpful business environment, Ghanaian entrepreneurs have difficulties implementing their projects. The study by Omidyar Network (2013) showed that 'limited supply of capital and business support services' (Omidyar Network, 2013) were the main challenges cited by entrepreneurs in Ghana. This indicates the incapacity of the current financial institutions in the country to provide adequate financing to entrepreneurs in the country. The banking sector (as an external source) and personal funds, including family loans, have been the main focus of Ghanaian entrepreneurs as far as financing is concerned. As a developing country, savings will not be as high as they might be in the developed world, making it hard for the entrepreneurs to raise money from their families. Moreover, the rigidity of the banking sector characterized by

the high interest rate constitutes a challenge for the entrepreneurs and the survival of their projects. The high interest rates on borrowing and the low interest rates on savings lead to a high interest rate spread which makes financing options difficult for the Ghanaian entrepreneur.

There is therefore a need to either better the financial institutions that are present now or come up with innovative and feasible financial models to help the Ghanaian economy fill its financial gap.

The filling of this financial gap in a developing country like Ghana would have a strong positive impact on employment which will eventually raise income, standard of living and human capital. The success of the entrepreneurs, which starts with the availability of capital, is therefore positively linked to economic development. A solution to this problem would mean that Ghanaian entrepreneurs will have enough money to start and grow their businesses; it would also mean that investors, both local and foreign, would have more investment opportunities in one of the fastest growing regions in the world, Ghana.

'Crowdinvestment' is an emerging financial concept that is inexistent in Africa but has been tested and adopted in other economies such as Germany. This alternative way of financing which uses the crowd as a driving investment force can be a potential model that Ghana might be able to adopt. As the country is gaining much attention nowadays for being an economically and politically sound environment, getting the 'crowd' to invest in Ghana should not be a hustle. However, this is a too big assumption to make; there must



be a thorough understanding of the Ghanaian legal and legislative frameworks by the potential investors, entrepreneurs that will be using the crowdfund investment platforms. This will help identify the policies and regulations that need to be in place for crowdfund investment to work in the Ghanaian economy. The identification of the right set of policies and regulations needed to welcome this concept will also serve as a way to anticipate potential bottlenecks associated to crowdfund investment. Based on evidence from countries that are already using the concept, most of the bottlenecks have to do with the regulations. The successful implementation of the concept as well as the protection of all parties that will be involved in this concept therefore heavily depends on the thorough understanding of the Ghanaian regulatory framework.

#### **1.4 Research Question**

*Can crowdfund investment help solve the financing problem for Ghanaian SMES and in particular what investment policies and laws need to be maintained, revised or implemented for the concept to succeed in Ghana?*

#### **1.5 Research Objectives**

- To understand why capital for funding projects is so difficult to come by in Ghana
- To evaluate the concept of crowdfund investment and its applicability to a developing country like Ghana

- To investigate what investment policies and laws need to be maintained, revised or implemented for crowdfund investment to succeed in Ghana

### **1.6 Significance of the study**

New and innovative financial models should be explored for the Ghanaian economy to unleash its full potential. This discovery process can start with the crowdfund investment model. Whether the Ghanaian legal framework is or will be favorable to the model is one of the main factors that determine its feasibility in Ghana. This study therefore seeks to understand the crowdfund investment concept, examine the nature of the Ghanaian investment policies and make recommendations for useful additional policies. Not only will this research add significantly to literature and knowledge, but it will also help entrepreneurs and investors willing to explore the Ghanaian business environment to perform well. As the credit gap is a common phenomenon in developing countries, this research can serve as a benchmark for other developing countries that wish to explore the crowdfund investment concept. The research therefore will be beneficial to not only the Ghanaian economy but almost all developing economies that have similarities with the Ghanaian economy.

## **2. CHAPTER TWO: LITERATURE REVIEW**

### **2.1 The problem facing Ghanaian entrepreneurs**

Agbozo et al (2012) in their research on the unavailability of credit for small and medium-sized enterprises (SMEs) in Ghana stated that those enterprises/firms are the main drivers of growth in the Ghanaian economy. This is because they represent a major source of income and employment in the country (Agbozo et al., 2012). This being said, the well-being of the entire Ghanaian economy heavily depends on the success of its SMEs and the private sector as a whole.

Unfortunately, these enterprises face many challenges that hinder their growth and that of the entire economy. To investigate those challenges, Agbozo et al (2012) used a random sample of 30 SME owners in and around Accra as well as secondary data from the National Board of Small scale Enterprises. The SMEs ranked the access to finance first (84%) as their most pressing problem, over competition, cost of production and availability of skilled labor (Agbozo et al., 2012).

A study conducted by Omidyar Network (2013) on the Ghanaian business environment suggested that Ghana's supply for capital composite indicators was lower than what is prevalent in Sub-Saharan Africa. Equity capital, for example, was 1.9 for Ghana as opposed to 2.24 for Sub-Saharan Africa. Clearly, Ghanaians do not get as much access to equity capital as the average Sub-Sahara African does. The study concluded that "the availability

of capital for new and growing firms [...] is insufficient” (Omidyar Network, 2013).

Another study by Wolf pointed to the lack of credit or capital in the Ghanaian economy as one of the biggest challenges faced by entrepreneurs in the country. From a sample of a hundred enterprises in the Ghanaian agricultural and manufacturing sectors , Wolf (2004) found out that interest rates, access to credit, depreciation and inflation were the firms’ biggest challenges (Wolf, 2004).

From the above studies, it is clear that Ghanaian entrepreneurs face a severe lack of financing which prevents them from building their businesses, careers and nation. This lack of capital is worsened by the high interest on loans, the low savings rate and inflation which are predominant in the Ghanaian economy. Thus, measures have to be taken both on the governmental side and on the private side so that these issues are effectively addressed and the gap in the supply and demand of capital narrowed to the bare minimum.

## **2.2 Sources of financing in Ghana**

Is the poor access to credit in Ghana due to inadequate sources of financing? According to Mensah (2004), the Ghanaian financial sector is divided into three: the commercial banks (merchant, development, rural and community banks), the saving and loan companies, and the non-bank financial institutions (Mensah, 2004). These institutions can be re-categorized into the formal, the semi-formal and the informal sources of financing. The banking sector is the main constituent of the formal financial agents in the Ghanaian

economy. According to Jones et al. (2000), the semi-formal financial sector includes "Credit Unions, savings and credit Co-operatives and a number of NGOs" (Jones et al., 2000). The informal financial agents include "moneylenders, Susu collectors (savings mobilisers), traders, agricultural processors and input distributors, Susu groups/ROSCAs (Rotating Savings and Credit Associations), and friends and relatives" (Jones et al., 2000).

### **2.2.1 The formal and the semi-formal financial agents**

#### ***2.2.1.1 The Banks***

Cole et al. (1995) stated that bank loans were the most used source of formal financing in Ghana. In a study conducted on 30 random SMEs in and around Accra and data from the National Board of Small scale Enterprises, the majority of the respondents (29%) stated that they got their recent loans from banks and microfinance institutions.

However, Ghanaian entrepreneurs find it difficult to get capital from the banks and other formal financial institutions. According to Alabi et al. (2007), limited access to deposits, credit facilities and financial support services coupled with the lack of collateral security and the high risks and failure rates of SMEs, cause the banks to be reluctant in giving loans to these types of firms (World Bank, 1994 qtd. in Alabi, 2007).

In their attempt to leverage the risks of lending to SMEs, Ghanaian banks tend to charge very high interest rates. That tends to significantly limit access to credit in the economy and hinder investment, savings, incomes and

economic growth. According to Kwakye (2010), the high interest rate on loans in the Ghanaian economy is caused by:

- “The structural weaknesses and inefficiencies in the banking system that prevent rapid transmission of lower interest rates to borrowing customers;
- Perceived risks of lending, including macroeconomic instability, lack of collateral, and absence of credit-related information on borrowers” (Kwakye, 2010)

Kwakye’s recommendations to the Ghanaian policy-makers on the reduction of interest rate on borrowing also suggests that the absence of a cap on the lending-deposit rate spread as well as the high primary reserve requirement for banks in the country are other factors that account for the high lending rate.

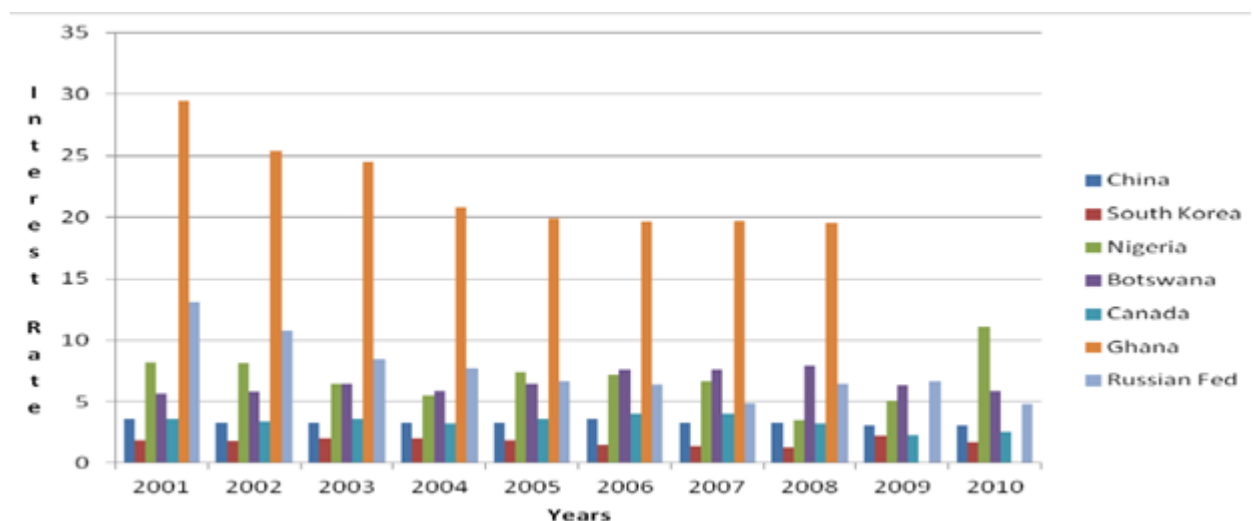


Figure 2 - Source: The World Bank and the Bank of Ghana (N’Ketsia, 2012)

The graph above shows the interest rate spread (difference between interest rate on borrowing and interest rate for saving) of different countries over a nine years period. Interest rate in Ghana can be seen to be tremendously higher than what it is in the other countries. It is therefore much more expensive for a Ghanaian entrepreneur to borrow than it is for a Nigerian one for example. It also means that entrepreneurs in the international context have more possibilities to use leverage to finance their businesses while the high interest rate on borrowing in Ghana does not make investments worth undertaking. Moreover, the high interest rate spread in Ghana as compared to other countries suggests that people are discouraged to save and to borrow.

#### ***2.2.1.2 The non-banking financial institutions: Savings and Loans***

The Ghanaian economy over years has seen an increase in the size of the non-banking financial institutions sector. This is because the "Ghanaian economy, like all other developing economies, has a large proportion of business in the small-scale and self-employed group. These people have needs which are not being satisfied by the traditional banks [...]. It is hoped that the non-banking financial institutions, which comprise various categories of organizations including Savings and Loans companies, will service the part of the market which remains outside the traditional banking scope" (Mensah, 2009).

Savings and Loans (S&L) institutions are known as 'thrift institutions' meaning that they "encourage moderate-income workers to save money on a

regular basis. Likewise, the institution invests in loans [...] especially mortgage loans” (Johnson, 2003 qtd. in Mensah, 2009).

In a study conducted by Mensah (2009) where 118 respondents (made up of 100 customers of S&L companies, 8 S&L companies and 10 banks) were sampled, it was found that even though S&Ls service all types of enterprises, their main focus is on small-scale businesses. This means that there is a huge portion of SMEs in the country that are not being served by these types of institutions. Moreover, interest rates on loans from the S&L institutions were said to be higher than those offered by the banks. Ghanaian entrepreneurs therefore suffer from the high cost of borrowing from both the banking and the non-banking financial structures.

### **2.2.2 The informal financial agents**

A study of Ghanaian and Kenyan entrepreneurs by Chu and Benzing (2007) suggested that 77 percent of Kenyans and 95 percent of Ghanaians used personal savings and family to fulfill on-going financial needs. A sample of 200 Kenyan business owners and 156 Ghanaian entrepreneurs was chosen from the Chamber membership directories for Nairobi and Accra. This shows how heavily personal savings accounts for the informal financing sources.

In an environment where personal savings carry such an important weight in the survival of businesses, it is imperative that interest rates on saving are encouraging.



#### **2.2.2.1 Savings gap in Ghana**

Galizia et al. (2003) defined savings gap as “the difference between the capital formation and the savings of an economic sector over a given period and it measures the need of external funds of that sector” (Galizia et al., 2003).

The heavy reliance of SMEs on owners’ personal savings constitutes an issue in Ghana and in developing countries as a whole since savings is usually very low in those environments. According to the Harrod-Domar growth model, savings and economic growth are positively correlated because savings are used to finance investment which in turn stimulates growth (Todaro et al, 2011).

On the micro level, savings and incomes are correlated, because high savings allow businesses to undertake profitable investments, which increase the future incomes of these companies. This means that a high savings rate among Ghanaian entrepreneurs would make it easier for them to invest in their businesses. Also, a high rate of saving in the nation would mean that it would be less difficult for the entrepreneurs to get loans and financing from banks and other formal financial institutions. This will surely have a positive impact on the economy as a whole.

The low saving rate in the Ghanaian economy is reflected in the very small portion of the population that owns bank accounts (Asante Bremang, 2012). The reasons behind such a low saving rate are the “low savings and deposit

rates, poor attitudes of bankers towards small savers, numerous documentation requirements” (Asante Bremang, 2012).

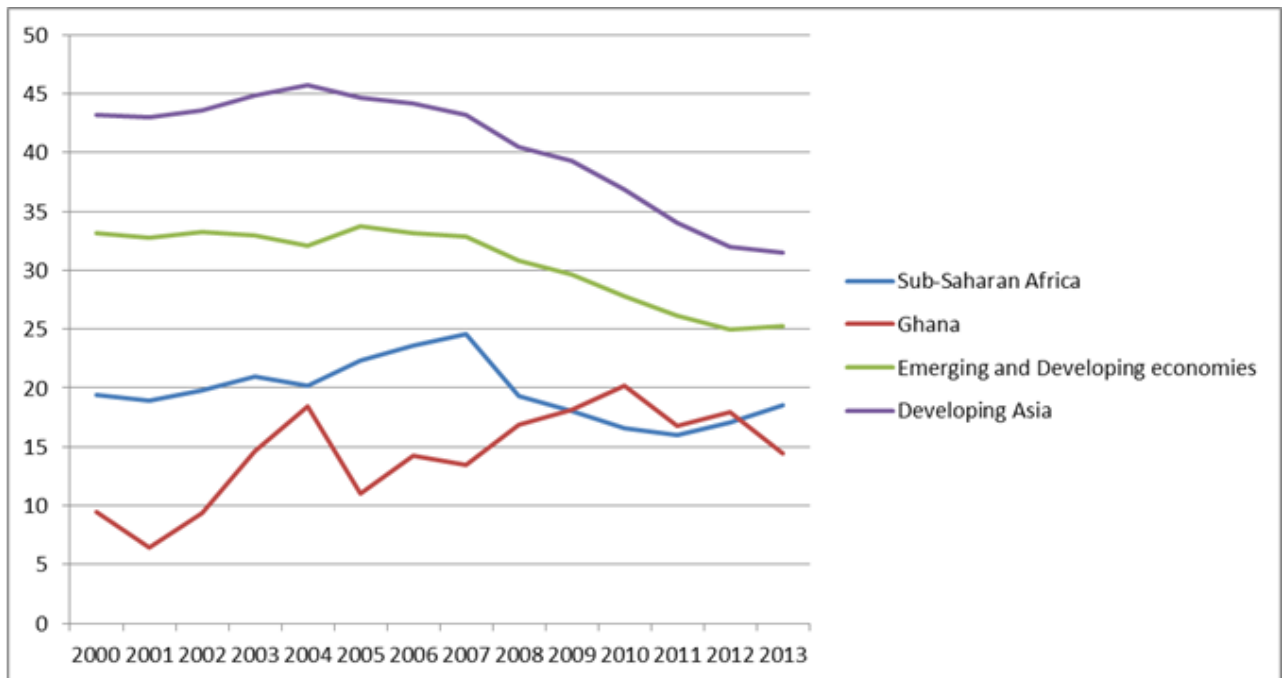


Figure 3 - Source: Adapted from Economy Watch

The diagram above depicts the savings rates in Ghana and other regions of the world. It appears that the Ghanaian savings rate is lower than what it is in the developing world in general. The savings rate in Sub-Saharan Africa is even higher than what it is in Ghana. This shows that as compared to other Sub-Saharan African countries, Ghana’s savings rate stands to be lower.

### 2.2.2.2 Interest rates on loans and savings

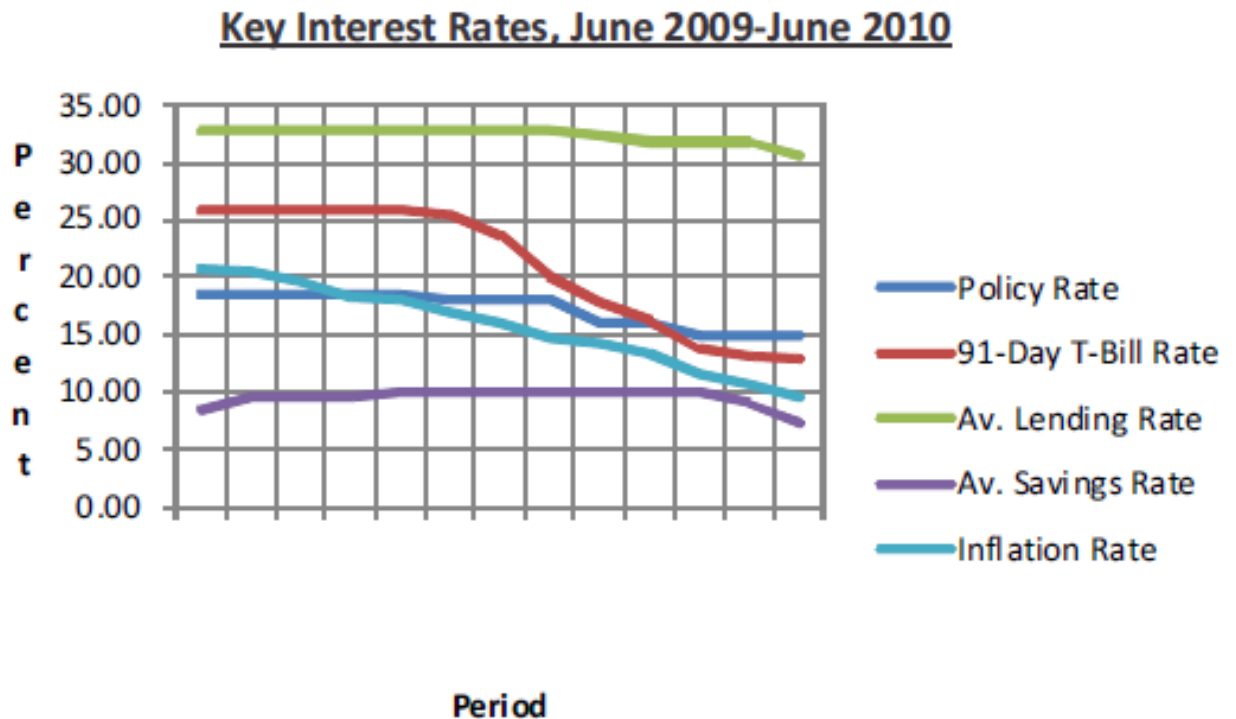


Figure 4 - Source: Kwakye, J.K., 2010, IEA Ghana

The graph above shows the differences in financial rates in Ghana during a one-year period. The difference between the lending rate and the saving rate is striking. Ghanaians are clearly not encouraged to save and invest as the lending rate and the inflation rate in the country is significantly higher than the saving rate. The low rate on saving results in a vicious circle where no one wants to save. This dries up loanable funds and increases the interest rate on borrowing. The high interest rate on borrowing reduces investments and incomes which lessens available funds for borrowing. This clearly would cause Ghanaian entrepreneurs to have limited access to credit.

The above conclusion is strengthened by the governor of the Bank of Ghana who pointed at the high cost of borrowing and the insignificant interest on

savings as the reasons why Ghanaians feel reluctant to save (Governor of Bank of Ghana, 2010 qtd. in Asante Bremang, 2012). Asante Bremang's research, which used three different groups of people as samples (51 randomly selected people from the financial district in Accra, two experts in finance and banking and individuals from the informal sector), also comes up with the same conclusion. According to his study, Ghanaians are not motivated to save because of the lack of incentives from banks which charge interest rates on loans that tremendously exceed the returns on investment (Asante Bremang, 2012). This lack of savings negatively affects the entrepreneurs, who sometimes have no other options than to turn to the traditional way of financing in Ghana, Susu.

#### ***2.2.2.3 Susu as a source of financing for Ghanaian SMEs***

Susu is a traditional system of saving in the informal sector of Ghana's economy. Participants in a Susu scheme usually live in the same locality and have businesses located close to each other. Participants contribute a small amount of money every day which is kept either in the trust of one of the members or with a designated Susu operator who owns a small structure that is located in the middle of the market where the participants work or in the middle of the community's business district. When one of the members needs a loan, they can access the loan from the Susu contributions with a promise to pay back. The Susu operator does charge a fee for being the custodian of the money, the giver of loans and the one who recovers debt.

In other words, Susu consists of depositing fixed amounts of money periodically with Susu operators; "these monies are held by the operator for a pre-arranged period of time or until it is required by the saver, or lent to borrowers with the Susu savings scheme at a fee" (Asante Bremang, 2012). This allows entrepreneurs who have been saving with the Susu operators to have access to some capital for their ventures.

According to the World Bank (1994), Susu "has been a major source of fund mobilization for many MSEs in Ghana"(World Bank, 1994 qtd. in Alabi, 2007). Barclays Ghana even refers to it as the "Ghanaian Micro-finance" (Barclays Ghana qtd. in Alabi, 2007). According to the study by Alabi et al. (2007) which sampled 5 Susu clubs, 10 mobile collectors and 5 Susu cooperatives in Ghana, Susu generally contributes to the development of MSEs in Ghana. This means that Susu can be an effective source of financing for the SMEs in Ghana. However, Susu seems to strongly rely on personal savings; the model can therefore be argued not to be very different from just financing projects directly from the entrepreneurs' pockets. As a result, Susu can be argued not to be efficient, as the savings rate in Ghana is known to be low. It is also inadequate when it comes to supporting the businesses to scale up, as scaling up generally means big investments. Alabi et al. (2007) came to the same conclusion when they were investigating the importance of Susu in SMEs development in Ghana. According to their study, even though Susu helps Ghanaian SMEs to develop, it only favors the development of unorganized SMEs. Thus, SMEs "that do not rely on heavy capital outlay are more likely to succeed with Susu than those with heavy capital outlay" (Alabi

et al., 2007). As growth is an important aspect of the life of Ghanaian SMEs, it is crucial for the businesses to use sources of financing that will help them scale up. The Ghanaian traditional way of financing can therefore not be a solution to the lack of capital for entrepreneurs in the economy.

### **2.3 What is the Ghanaian government doing to help?**

The Ghanaian government seldom introduces programs called the official SMEs credit schemes which aim at increasing the flow of financing for SMEs in the country. Examples of such schemes include the Austrian Import Program (1990), the Japanese Non-Project Grants (1987-2000) and the Canadian Structural Adjustment Fund and Support for Public Expenditure Reforms (SPER) (Mensah, 2004).

Lending schemes such as the Business Assistance Fund, the Ghana Investment Fund and the Export Development and Investment Fund (EDIF) have also been attempted by the government. However, these programs have failed to provide enough capital to the SMEs causing some of them to seek help from development partners (donors). Appendix 2 shows some of the foreign agencies that help the SMEs in Ghana.

One of the governmental initiatives that SMEs would tend to benefit from is the Skills Development Fund (SDF) which aims at improving and securing funding for technical and vocational education in Ghana. The success of this program can be argued to help SMEs get more access to credit especially from the banks and financial institutions. Indeed, a higher level of training

and education of the entrepreneurs and their employees can potentially help the SMEs to be less risky in the eyes of banks.

Unfortunately, the overall efforts of the Ghanaian government and the foreign agencies do not seem to be felt by the entrepreneurs, who argue that they are not getting enough support from government. In a study conducted by Omidyar Network (2013) on the Ghanaian business environment, an entrepreneur said that: "the government started some credit facilities, but if you are not one of their cronies, then you can't get credit" (Entrepreneur, qtd. in Omidyar Network, 2013). Moreover, 64% of the respondents that took part of the study disagreed with the statement "there is a sufficient number of government programs to support new firms" (Omidyar Network, 2013).

This suggests the presence of corruption and bureaucracy in the system as well as the dissatisfaction of entrepreneurs as far as governmental initiatives vis-a-vis credit are concerned. The inadequate governmental credit programs, the corruption and the bureaucracy in the Ghanaian economy supports Biekpe (2004)'s point about governments in Sub-Saharan Africa causing the failure of SMEs in their first year due to lack of support (Biekpe, 2004 qtd. in Agbozo et al., 2012).

## **2.4 Alternative sources of financing**

### **2.4. 1 Private Equity**

The Ghanaian private equity industry has long been neglected as an alternative source of financing for Ghanaian entrepreneurs. In 2004 however,

the Government of Ghana introduced the Venture Capital Trust Fund as a means of launching the private equity industry in the country. The industry grew with local and foreign private equity funds which promoted investments with and in Ghanaian businesses (Owusu-Adjei, 2010).

The study conducted by Owusu-Adjei (2010) involved participants from both local and foreign private equity firms. The study concluded that private equity is a good and viable way of securing capital for Ghanaian businesses.

However, the concept fails to be friendly to start-ups which in Ghana are the types of firms that need capital the most. Owusu-Adjei (2010) gave two reasons for this failure:

- "Local fund managers are learning from the traditional financial institutions and becoming more risk averse for the sake of protecting their nest eggs;
- With limited fund sizes and high demand for capital, it makes very little business sense to invest in risky start-ups when there are established firms with lower risk profiles clamoring for capital" (Owusu-Adjei, 2010).

Even though private equity represents a good alternative in terms of sources of capital in Ghana, it appears to have failed to serve start-ups or small businesses.



#### **2.4.2 The Ghana Alternative Market**

In 2013, Ghana welcomed the Ghana Alternative Market (GAX). It is a “parallel market operated by the Ghana Stock Exchange. It focusses on businesses with potential for growth” (GSE, 2013). The GAX is opened to early stage businesses making it a potential reliable source of capital for Ghanaian SMEs.

Among the benefits that come with getting listed on the GAX, are: the easy access to long term capital, the access to long term capital at a relatively lower cost, the improvement in the company’s financials, the enhancement of the company’s status in the community, the realization of value of investments, and the possibility for the SMEs to benefit from the GAX-SME Support Fund (GSE, 2013).

The GAX clearly represents a good opportunity for Ghanaian SMEs to raise the capital necessary to finance their activities. However, some of the listing requirements of potential GAX companies can constitute bottlenecks for the SMEs. An example is the required minimum prior-to-listing stated capital which amounts GHc 250,000. This amount of money is very likely to cut off a lot of the startups which will end up with no other financing alternative. Another requirement that might cause the SMEs not to be able to get listed on the GAX is the Sponsorship requirement. Indeed, all companies that aspire to get listed need to be licensed by dealing members, investors advisors or issuing houses. Given the high level of corruption and

bureaucracy in the Ghanaian economy, getting those key people or bodies to license the SMEs might constitute a big challenge for the companies.

Even though the GAX seems to have a good agenda for the Ghanaian early stage businesses so that they can also actively participate in the economy, some of the listing requirements do not seem to be very friendly to the SMEs. This means that these businesses are still having a very hard time getting capital to finance their activities and growth.

#### **2.4.3 The Crowdinvestment or Equity Crowdfunding concept**

From the literature above, it is clear that there is a need for Ghanaian entrepreneurs to find alternative sources of financing in order to run their businesses. Sources of funding for businesses are rare because average incomes are low, saving rates are low and the spread between the interest rate on borrowing and saving is high.

In the attempt to finding an alternative and innovative source of capital for Ghana, the proposition of Hagedorn et al. (2013) can be examined. Hagedorn et al. (2013) proposed Crowdinvestment or crowd equity funding as a way to fill the early stage financing gap of businesses. They suggested the method to “ventures with small financial demand and preference for equity resources” as it is “a new, easily obtainable way to acquire capital” (Hagedorn et al, 2013).

##### **2.4.3.1 Getting to know the Crowdinvestment concept**

Crowdinvestment is an emerging source of financing which consists in connecting the investors and the fund seekers on an online platform where

shares can be traded. Ahlers et al. (2012) defines it as “a method of financing whereby an entrepreneur sells equity or equity-like shares in a company to a group of [...] investors through an open call for funding on internet-based platforms” (Ahlers et al. 2012, qtd. in Stiernblad, 2013).

Crowdinvestment is relatively new in the financial world and its analysis and evaluation is at a fetal stage in academia. It's predecessors, crowdsourcing and crowdfunding, have been more discussed and analyzed in researchers' master theses, articles and study works (Hagedorn et al., 2013). Even though a few researchers such as Belleflamme et al. (2010) mentioned or explored crowdinvestment in their works on crowdsourcing and crowdfunding, very few works were consecrated solely to this new concept.

The work of Klohn and Hornuf (2012) can then be considered a classic in the field as it focuses mainly on the concept and explores the legal requirements that need to be fulfilled. Nevertheless, the paucity of scholarly works on crowdinvestment did not prevent 'the daily media, digital media and fact books' (Hagedorn et al., 2013) from buzzing about and exploring the concept.

According to Hagedorn et al. (2013), there are three main reasons why crowdinvesting as a concept is not only rare in academia but also hard to implement. 'First, the research area is very new compared to others. The first investments in Germany were only made almost two years ago. This implies less study material, which provides fewer opportunities for thorough empirical investigations (Hagedorn et al., 2013). This means that there is

very little that is known about the dynamics of the concept and the characteristics of the economies in which it is likely to thrive.

'Second, the method of crowdfund investment is not popular in every country. For example, it cannot be applied in the U.S. because of regulatory restrictions that are only slowly changing' (Hagedorn et al., 2013). For example, rules 501, 505 and 507 of Regulation D in the US prohibit any random person to be an investor. In other words, one must fit an investor profile before powers to act as such could be granted to him/her.

This law, which is still under revision, constitutes a barrier to the establishment and the success of crowdfund investment. In Ghana, the law is not clear on whether anybody at all can invest in businesses in the country. The country however has very friendly investment regulations towards foreign investors. This might help crowdfund investment to establish itself and thrive in the country. This is because most of investors who already carry their activities online and would be willing to use Ghanaian crowdfunding platforms are foreign investors

'Third, the terminology "crowdfunding" lacks an exact and common definition that would simplify the academic classification and research approaches' (Hagedorn et al. 2013). These three points, according to Hagedorn et al. (2013), are the main reasons why crowdfund investment is not being actively discussed in academia.

#### ***2.4.3.2 Crowdfund investment and regulations***

The main concern that the limited literature available on Crowdfund investment recurrently raises is the usually rigid regulatory environments of countries.

Investment policies, laws and practices in the country determine whether the concept will be feasible in that environment or not. According to Collins and Pierrakis, regulation “has hindered the expansion in the number of equity crowdfunding facilitators” (Collins et al., 2012) and so there is a need for clearer legislation in interested countries. The lack of or inadequate regulations in the US financial markets and other places eventually led to global financial crisis. This strengthens the point that, as a new concept, crowdfundinvestment needs clear regulations so the economies can be fully protected.

In the case of the US, even though the country is developed and equipped with the structures and supporting industries for Crowdfundinvestment to thrive, the unfavorable investment regulatory environment is preventing the country from hosting the concept. The country is, however, working around the regulations so that some room can be made for Crowdfundinvestment.

As part of those efforts, the US Securities and Exchange Commission has recently unanimously voted rules for equity crowdfunding (Raymond et al., 2013).

The reason why regulation represents the biggest challenge to crowdfundinvestment, according to Collins et al. (2012), is that the “lack of experience of non-professional investors may lead to investments made into fraudulent businesses or in businesses that, although genuine in their intentions, have little chance of success” (Collins et al., 2012). This can be harmful to economies in the sense that it can create uncertainty in the investment environment which can hinder economic growth. Despite the

strict regulations, European countries seem to be embracing the concept. The continent has experiencing a rise in the number of equity crowdfunding platforms in various countries (Appendix 3).

#### ***2.4.3.3 Crowdinvestment and Developing economies***

Hagedorn et al. (2013)'s point about Crowdinvestment being more apt to succeed in rich countries than poor ones, has been recently criticized and demonstrated to be wrong. A report by infoDev argued that by improving technology, Crowdinvestment can 'serve as an enabling mechanism for new venture formation, job creation and inclusive economic growth' (Raymond et al., 2013).

It can also be argued that as emerging economies are now going through trials and errors to determine the right set of regulations that will foster their economic growth, they are more likely to successfully host the Crowdinvestment concept. Indeed, their regulatory frameworks can be more flexible, so that the economies more easily make room for the concept as opposed to economies like the US which are economically and legally well grounded.

#### ***2.4.3.4 Crowdinvestment in Africa and Ghana***

Despite its few years of existence, the crowdfunding concept together with its different focuses (lending, equity, reward) has grown into a multi-billion dollar industry. There were about 452 crowdfunding platforms operating in 45 countries as at 2012 (Crowdsourcing.org, 2012). In Sub-Saharan Africa, "the rapid growth of the middle class coupled an increasing presence of

mobile technology has led to an upsurge of the number of active crowdfunding platforms since 2011” (Tetteh et al. 2014). Today, there are many crowdfunding platforms operating in different African countries; among them are: FundFind, Ventura Capital for Africa (VC4A), StartMe, Gogo-Afrika, Startup Africa Fund, ThundaFund, M-Changa, Jump Starter and 234Give.

Currently, a platform, SliceBiz, is also being built in Ghana. SliceBiz is the first crowdfunding platform being implemented in the country. It focuses on micro-investment and seeks to provide seed funding for startups in Africa. The platform therefore focuses on just a portion of the Ghanaian SMEs as it only provides seed funding leaving out the SMEs willing to scale-up or grow. The platform is expected to launch its activities this year in Ghana.

#### ***2.4.3.5 Crowdfunding in Europe – Germany, UK, Italy and Spain***

Even though European countries differ tremendously in all aspects from African countries, they seem to be facing the same set of problems when it comes to SMEs financing. According to the European Commission, 90% of the existing 23 million SMEs in Europe have less than 10 employees, indicating that the majority of SMEs in Europe are at an early stage. These SMEs provide 67% of all jobs and 80% of all new jobs created (Aschenbeck-Florange, 2013).

In a similar manner SMEs play a crucial role in the development of African countries (Ghana in particular), they also seem to be the main agents of the recovery of Europe’s economy. Unfortunately, these SMEs in Europe, just like the ones in Ghana, have a hard time getting financing for their businesses.

The European Investment Bank estimated that “only 30% of businesses are using bank loans while some 40% rely on short-term bank credit or overdraft facilities (Aschenbeck-Florange, 2013). Venture capitalists and business angels in Europe also invest in only a handful projects out of all those existing million ones. This results in the majority of the SMEs financing their businesses with their own savings, the help of their families, friends and fans (Aschenbeck-Florange et al., 2013).

In the attempt to curb the severe lack of financing, countries in Europe such as Germany, UK, Italy and Spain, opened their doors to crowdfunding and crowdfinvestment. The European Crowdfunding Network conducted a research on the concepts in those four different European countries. The research showed that for the concepts to work there must be supportive regulations already present in the environments and possibly new ones that will need to be created for the concepts to thrive.

Aschenbeck-Florange et al. (2013) compiled the regulations currently guiding four European countries as well as the new ones to be created. Given the similar set of financing problems faced by European SMEs and the Ghanaian ones, these regulations might constitute a blueprint for the Ghanaian policymaker as far as crowdfinvestment is concerned.

Countries Regulations	Germany	UK	Italy	Spain
	-If Crowdfunding platform facilitates offering of securities or	-Equity Model often entails conducting regulated	-Equity Model is potentially subject to regulated	-Crowdfunding platforms operating the Equity Model are



	<p>investment products (<i>Vermögensanlagen</i>) the operator of the platform provides financial services → BaFin authorization required -Exemption for investment broking and contract broking only regarding newly issued investment products (<i>Vermögensanlagen</i>)</p>	<p>securities business → FCA authorization required -Many Equity Model platforms use exclusions and exemptions from regulated activities regime → new regulated activity regime likely to be developed to close down loopholes -In Equity Model, where profit share is not channeled through a standard corporate issuer/shareholder relationship, investment may be characterized as collective investment scheme → prohibition on promoting collective investment schemes to retail investors</p>	<p>activities regime -According to Italian Law 221/2012 platform must restrict offers of securities to shares in "innovative start-up Italian company" -Many Crowdfunding platforms use exclusions and exemptions from regulated activities regime (acting as broker and not as offeror) → position to be cleared after the issuing of Law 221/2012 and the entering into force of the CONSOB regulation</p>	<p>not treated as performing financial services, even if a number of platforms appear to fall within the scope of MiFID and Spanish financial services law -No Crowdfunding platforms are currently supervised by the Bank of Spain or the CNMV</p>
	<p>-Prospectus requirement for offering of securities or investment products (<i>Vermögensanlagen</i>)</p>	<p>-Prospectus requirement for offering of transferable securities (such as shares) -Threshold:</p>	<p>-Prospectus requirement for offering of securities -Threshold: EUR 5 million per issuer</p>	<p>The companies regime in Spain does not lend itself to the offering of shares → the Equity</p>

	<i>en)</i> -Threshold: EUR 100.000 per issuer within 12 months	EUR 5 million per issuer within 12 months	within 12 months	Model is generally operated by means of joint accounts to which the prospectus regime does not apply
<b>Possible additional regulation / requirements</b>				
	-Transfer of funds through operator may constitute money remittance service → BaFin authorization required -"Commercial Agents" exemption probably not applicable to operators of Crowdfunding platforms	-Transfer of funds through operator may constitute money remittance service → FCA authorization would be required -Exemption for "Commercial Agents" likely to apply to operators of Crowdfunding platforms	Transfer of funds through operator may constitute money remittance service → CONSOB authorization	Transfer of funds through operator does not constitute money remittance service
	-German Trade, Commerce and Industry Regulation Act( <i>Gewerbeordnung</i> ) -German Act on Money Laundering( <i>Geldwäschegesetz</i> ) -German Securities Trading Act( <i>Wertpapierhandelsgesetz</i> )	Money Laundering Regulations 2007	-Italian Money Laundering law -Italian Data Privacy law -Italian Law 231/2001	Draft Bill that supports entrepreneurs

Figure 5 - Adapted from the European Crowdfunding Network in association with Osborne Clarke, 2013

From Figure 5, it is clear that the essential enabling element for the crowdinvestment in Europe is the presence of regulatory bodies that design

policies and laws specifically for the success of the concept. The platforms also made sure to set up measures and regulations that fit the requirements of the economies the concept is being implemented in. Finally, it is clear that the success of crowdfund investment in these countries heavily depends on the existence of supporting industries and infrastructures. The well-established and secured banking sector, the thriving manufacturing and exports industry and the reliable transportation, power and communication systems are examples of solid foundations that have helped effectively build the crowdfund investment concept and which should be replicated by any economy interested in implementing the concept.

## **2.5 A glance at the Ghanaian Investments policies and regulations**

Investors, especially those who are foreign, are protected against discrimination under the GIPC Act 2013, (Act 865). This means that on the condition that other requirements are satisfied, anybody willing and able to invest in Ghana is allowed to do so. The Act gives the right to foreign investors to be treated as the local ones, thus to be subject to the same rules and advantages as their local counterparts. Moreover, the Foreign Exchange Act, 2006 (Act 723) gives authority to non-resident investors to freely invest in the Ghanaian market without any limits or prior exchange control approval (GSE, 2013).

Under the Foreign Exchange Act, 2006 (Act 723), investors are also guaranteed unconditional transferability of their funds, through an authorized bank, in freely convertible currency. These funds include the investors'

original capital and all capital gains and related earnings made in the course of doing business in the country. The capital gains on listed securities are exempt from tax while a withholding tax of 8% is charged on dividend income for all investors, domestic and foreign (GSE, 2013).

In the GIPC Act, 2013, Ghanaian entrepreneurs who partner with foreign investors are expected to have a minimum of 30% equity participation in the joint venture. Capital requirements for foreign investors are set at USD 50,000 for a joint venture with a Ghanaian party; USD 200,000 in the case where the enterprise is fully controlled by the foreign investor; and USD 300,000 to a million US Dollars in the case of retail trade (GNA, 2013; Goitom, 2013)

Based on the above legislative provisions, the Ghanaian investment environment can therefore be believed to be friendly to foreign investors as stated by the GIPC. It is however important to highlight the recent measures taken by the Bank of Ghana to slow down the rapid devaluation of the Cedi. Indeed, the commercial banks and other financial institutions in the country have been prohibited from issuing checks and check books on Foreign Exchange Accounts (FEA) and foreign currency accounts (FCA) (Merchant Bank, 2013). Over-the-counter withdrawals of more than USD 10,000 have also been prohibited (Graphic, 2014). These new measures will have direct implications on the cost of doing business in Ghana, which is likely to increase. This shows the urge to explore new and innovative ways such as

the Crowdinvestment concept for Ghanaian SMEs to get financing for their businesses.

## **2.6 Conclusions of the literature review and justification for the study**

In general, the literature is unanimous on the limited access of credit by entrepreneurs in the Ghanaian economy. This suggests that the existing traditional sources of financing are failing to bridge the gap between credit demand and credit supply. This situation was found to be harmful to the economic growth and development of the country. The need for alternative sources of capital therefore becomes crucial. The nascent private equity industry is a potential solution to the problem, but it was found to be inadequate in helping small scale businesses which make up a big proportion of businesses in the country.

The Crowdinvestment or Equity Crowdfunding concept has been explored as a potential alternative source of financing in Ghana. This concept was looked at mainly because of the growing amount of investment that is being made through online platforms; the fast economic growth in the Ghanaian economy which is arousing the interest of many investors; and the flexible Ghanaian regulatory framework which can hypothetically, easily accommodate the concept.

Unfortunately, there is no literature on how feasible the concept might be/is in a developing country like Ghana. In other words, there are no recommendations on how policies and laws in developing countries can be

constructed so that those countries can also benefit from the Crowdinvestment concept.

It is in light of determining the right set of policies and regulations for Ghana that this paper seeks to contribute to the Ghanaian private sector. The results of this study will not only contribute to the Ghanaian economy but also to almost all developing economies, as these countries tend to all suffer from a deficit of credit supply.

### **3. CHAPTER THREE: METHODOLOGY**

#### **3.1 Introduction**

This study aims at pointing out the necessary policies and regulations for the Crowdinvestment or Equity Crowdfunding concept to be implemented and successful in Ghana. This chapter discusses the research tools and method used in order to collect data and ensure representativeness. It explains the reasons behind the choices of the sources of the data used, the sample area, the sample size etc. The chapter concludes with the limitations of the research methods used.

#### **3.2 Types and sources of data**

Past research on the Ghanaian financial environment, particularly on the traditional Susu, the private equity industry and the banking sector, respectively, by Alabi (2007), Bremang (2012) and N'Ketsia (2012) used both primary and secondary data. As far as the primary data was concerned, they all used mixed-method qualitative and quantitative data through purposive interviews.

Due to the exploratory nature of this study and the short time frame, a purely qualitative approach was adopted. This is because "qualitative research design tries to explore ideas, understand phenomenon and answer questions" (Sportscience, 2008 qtd. in Bremang, 2012). These qualitative data were obtained through primary and secondary sources.

The secondary sources mainly consisted of information gathered online. These sources were very helpful in finding out more about how the

Crowdinvestment concept was doing in the economies that were already hosting it. They also gave valuable information about the Ghanaian regulatory framework, as well as that of the countries that are already experiencing Crowdinvestment.

The primary data were collected from three sources (groups of people):

- Group 1: The financial experts – This group of people consisted of the financial and investment experts of GIPC. These people were targeted because they were the main people able to provide useful insights about the existing policies and the necessary additional ones that would be needed for the Crowdinvestment concept to succeed in the Ghanaian economy.
- Group 2: The Financial institutions – These institutions represent the main sources of formal financing for the SMEs in the nation. Information gathered from them provided more insights into the financial needs of the SMEs and the problems that usually arise when these firms are granted credit.
- Group 2: The entrepreneurs – This group was made of Ghanaian entrepreneurs whose businesses were at an early stage or an expansion stage and were in need of capital. The information gathered from these people was vital for assessing the feasibility of CI in Ghana as the entrepreneurs are one of the key players in the success of the concept.



### **3.3 Description of sample area**

This study used Ghana as its sample area for the primary data and the rest of the world with a focus on Europe as its sample area for the secondary data. Ghana represented the sample area because the experts interviewed reside in Ghana and are the knowledgeable ones as far as the Ghanaian legislative environment is concerned. The entrepreneurs also participate in the Ghanaian business environment and therefore know and understand the dynamics in the economy.

The rest of the world as the sample area of the secondary data, even though too big and too vague, allowed us to examine, compare and contrast the different regulatory frameworks across countries that host the Crowdfund investment concept.

### **3.4 Sampling technique**

#### **3.4.1 Groups 1 & 2**

A purposive sampling technique was used to select the participants of these groups. A purposive sampling technique "is a deliberate non random sampling technique used to obtain data by selecting a particular group of respondents (Wadsworth, 2005 qtd. in Bremang, 2012). This technique was chosen because there was a need to select the participants based on their ability to answer technical questions regarding SMEs in Ghana, the different sources of credit, the regulatory framework and the viability of the Crowdfund investment concept.

### **3.4.2 Group 3**

A combination of simple random sampling and snowball methods was used to recruit the participants of this group. A snowball method works on a recommendation basis; in other words, a participant recommends the next participant in the study. This method is often used when participants are hard to determine. In this case, getting a large number (representative enough number) of entrepreneurs was a challenge. The snowball method was helpful in enlarging the number of participants.

### **3.5 Sample size**

The sample size for the entire research was forty-one (41). The main participants of the study were the policymakers, in this case the financial and investment experts from GIPC.

#### **3.5.1 Group 1**

GIPC experts - The GIPC is “a government agency, responsible under the GIPC Act, 2013 (Act 865): to encourage and promote investments in Ghana, to provide for the creation of an attractive incentive framework and a transparent, predictable and facilitating environment for investments in Ghana” (GIPC, 2013). The body’s ability to formulate policies as far as investments in the Ghanaian economy is concerned, makes it a valuable participant in this study.

The management team at the GIPC was especially helpful. This is because the members of the team have first-hand information and knowledge about the Ghanaian economy and are able to judge the feasibility of a concept like

Crowdinvestment in Ghana. The management team is made up of six (6) individuals, from which three (3) were selected to participate in the study. As this was 50% of the management team, this percentage was enough to ensure representativeness. These people were selected based on the affiliation of their jobs at GIPC with investments and legal issues. The three people were: The Director of Investor Services, the Director of Legal and Secretary to the Board, and the Principal Investment Promotion Officer and Head of Monitoring and Tracking Debt.

### **3.5.2 Group 2**

Microfinance Institutions: The microfinance institutions are present in large numbers in the country and are known to have a large clientele of SMEs. As a major source of financing for the SMEs, it was important to include them in this study. CashPlus Microfinance Ltd. was therefore selected, based on convenience to participate in the study.

Savings and Loans: Due to their strong presence in the Ghanaian economy, it was necessary to include them in the study. Advans Ghana Ltd. was therefore selected based on convenience, to participate in the study.

Banks: The banks in the Ghanaian economy serve different types of people. Due to their very diverse clientele in terms of SMEs, and their status as the biggest source of financing for Ghanaian SMEs, it was important to include them in the study.

Banks in Ghana are either foreign banks or local banks. Based on the category they belong to, they serve different purposes and attend to different

types of SMEs. For this reason and for convenience sake, one (1) bank from each category was randomly selected to participate in this study. UniBank was selected to represent the Ghanaian banks and Stanbic bank the foreign banks. These two banks were chosen based on convenience and availability of respondents.

### **3.5.3 Group 3**

This group of participants was made up of entrepreneurs. These people are the owners/managers of the SMEs meaning that their opinions about the subject are crucial. A sample of thirty-four (34) entrepreneurs was drawn from the thousands of entrepreneurs in Ghana.

#### List of participants

- **Group 1:** Investment experts from GIPC - 3
- **Group 2:** Banks (2); S&L (1), Microfinance (1)
- **Group 3:** Entrepreneurs (34)

## **3.6 Data collection methods**

### **3.6.1 Groups 1&2: Interviews**

One-on-one interviews were used to obtain information from Groups 1&2 participants. This type of interview was chosen so that a conversation around the topic can be created. This enabled the participants to give more information, explanation and details about the research topic. The interviews lasted for about 30 minutes so the participants had ample time to discuss the issue. The interviewee was however free to shorten or extend the interview time.

The questions asked during the interview covered different areas of the study depending on whether the respondent was a GIPC agent or a representative of a financial institution. Appendixes 4 and 5 show the interview guides of the interviews with the GIPC agents and the financial institutions.

### **3.6.2 Group 3: Survey**

Questionnaires were used to gather information from participants in Group 3. A survey was chosen because of the large number of entrepreneurs that data needed to be gathered from. Appendix 6 shows a sample of the questionnaire that was sent out.

### **3.7 Data Analysis tools**

The study was qualitative in nature. The Qualitative Content Analysis (QCA) method was used to analyze the interviews. QCA is a "broad, general set of methods for analyzing the content of some qualitative material to build an argument. Its goal is to identify important aspects of the content, present them clearly and effectively in support of some argument that will persuade the reader and contribute to the field" (Steinhoff, 2004). This method was chosen because there was a need to focus on and understand the content of the conversations with the interviewees in order to make a case about Ghanaian SMEs access to credit and the feasibility of the crowdfund investment concept in the country. As far as the questionnaires were concerned, they were analyzed using both QCA and Microsoft Excel, which was useful in generating charts and graphs for a better visualization of the data.

### **3.8 Ethical consideration**

This research was approved by the Ashesi University Human Subjects committee. This means that the study was proven to cause no harm to participants. As such:

- No participant was forced into the research
- Participants were not identified by name in the work unless they required so
- Confidentiality was assured through consent forms that were given and explained to the participants

### **3.9 Limitations**

The main limitations of this study include:

- Most interviewees did not accept to be recorded. As such, not all information provided was captured
- Time and resource constraints, coupled with the unwillingness of financial institutions and entrepreneurs to partake in the study caused a lower response rate than anticipated. For example, 5 banks, 3 microfinance institutions and 40 entrepreneurs were originally targeted but we could not get the desired numbers.
- The low level of literacy of some respondents made the data collection process time-consuming
- Some information was not released because the respondents felt they were too confidential to disclose.

## **4. CHAPTER FOUR: RESULTS AND ANALYSIS**

### **4.1 The GIPC officials**

Top executives at the Ghana Investment Promotion Centre were interviewed in order to better understand the Ghanaian investment environment and determine whether crowdinvestment would be feasible in the country. The interviews focused on the financing options available to SMEs, their effectiveness in providing credit, the attractiveness of the Ghanaian SMEs and the policies that might enable or challenge the successful implementation of the crowdinvestment concept in Ghana.

### **4.2 The financial institutions**

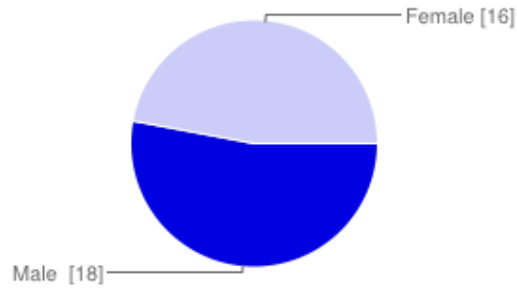
In order to better understand the financing options available to Ghanaian SMEs, the existing fund suppliers (banks and other financial institutions) were approached for information. The interviews involved top officials of the institutions who have extensive knowledge about the institutions policies regarding SME financing. These officials were from Unibank, Stanbic Bank, Advans Ghana Savings and Loans and Cash Plus Microfinance Ltd.

### **4.3 The entrepreneurs (SME owners)**

The entrepreneurs were approached to determine the challenges of their enterprises, their thoughts on the financial structures in existence and their efficacy in providing them with credit, and their potential adherence to the crowdinvestment concept in Ghana.

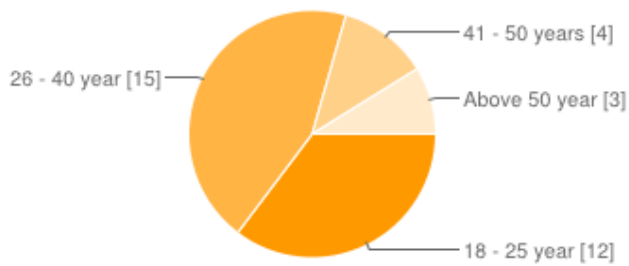
#### Basic demographics of the entrepreneurs

### Sex



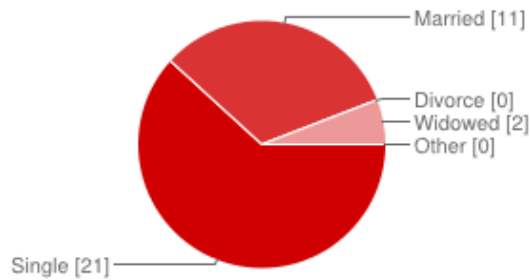
Male	18	53%
Female	16	47%

### Age



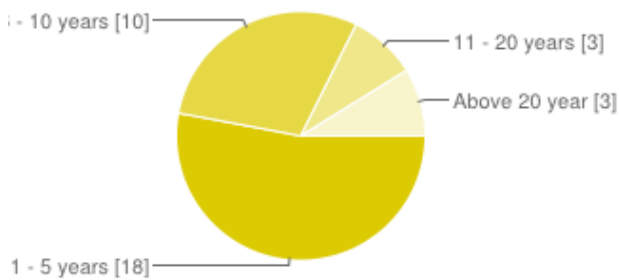
18 - 25 years	12	35%
26 - 40 years	15	44%
41 - 50 years	4	12%
Above 50 years	3	9%

### Marital Status



Single	21	62%
Married	11	32%
Divorce	0	0%
Widowed	2	6%
Other	0	0%

### Years of Experience in Entrepreneurship



1 - 5 years	18	53%
6 - 10 years	10	29%
11 - 20 years	3	9%
Above 20 years	3	9%

Figure 6 - Source: Field Data



Out of the 34 entrepreneurs surveyed, 53% were male and 47% were female. The majority of the respondents (44%) fell in the 26-40 years age bracket, followed by 35% in the 18-25years age bracket. This suggests that Ghanaian entrepreneurs are relatively young people. Most of these people (62%) are single; 11% of them were married and 6% widowed. 53% of these entrepreneurs have 5 or less years of experience in entrepreneurship and 29% have been entrepreneurs for 6 to 10 years.

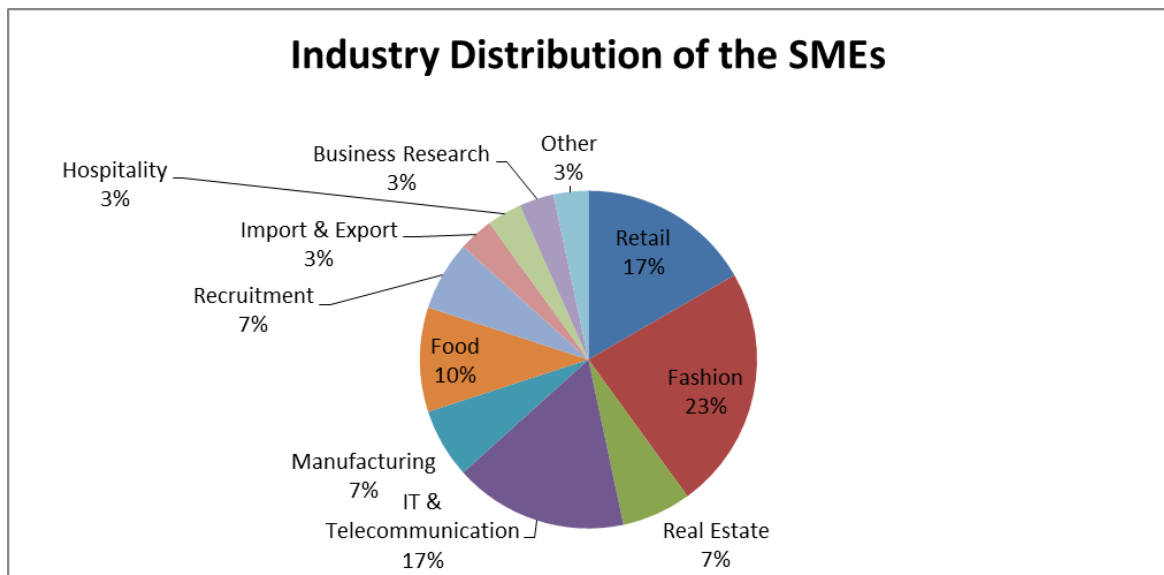


Figure 7 - Field Data

The majority of the SMEs surveyed (23%) was into Fashion; 17%, 17% and 10% of the SMEs were respectively in businesses related to retail, IT and Telecommunication, and Food. The SMEs in manufacturing (7%) were mostly making furniture, glass-doors and windows.

#### 4.4 Findings and analysis

The analysis of the primary data collected for this study is centered on addressing the objectives of the research.

## **Objective 1: To understand why capital for funding projects is so difficult to come by in Ghana**

A series of questions were asked to determine the reasons behind the hardship of businesses to getting funding in Ghana. These questions were directed to all three groups of people targeted by the study.

### ***4.4.1 Interview with the GIPC agents***

How vibrant is the Ghanaian private sector?

Two out of the three GIPC executives interviewed believed that the Ghanaian private sector is not vibrant enough. They thought that the sector can perform better because government has done its best to create the enabling environment for it to thrive. The third agent believed that the Ghanaian private sector was vibrant because of the presence of enthusiasm, the determination to succeed and the innovative thinking of the key players in the sector.

Major problems faced by Ghanaian SMEs

Access to credit was named to be the first biggest challenge faced by Ghanaian SMEs in the country. This is consistent with studies by Agbozo et al. (2012), Omidyar Network (2013), and Wolf (2004). The poor access to credit was said to be characterized by the predominant high cost of capital which discourages the SMEs to get loans from financial institutions. The other major problems mentioned by the agents were:

- Volatility of the Ghanaian Cedi
- Access to and size of the market
- Competition

- Unqualified labor market
- High cost of utilities
- Technology
- Poor attractiveness of the SMEs which leads their poor partnership with the investors

Financing options available to Ghanaian SMEs to get funds for their projects

In addition to the banks, venture capital and other financial institutions, the GIPC agents emphasized the government initiatives that were helping the Ghanaian SMEs. Government initiatives such as Maslog provide credit to Ghanaian SMEs. The Ministry of Trade also introduced EDIF, a fund for Ghanaian companies that are exporting.

The agents believed that the efforts to provide credit to the SMEs are not being felt because of the lack of attractiveness and good leadership in the SMEs.

According to the Principal Investment Promotion Officer and Head of Monitoring and Tracking Debt at the GIPC, financing has a lot to do with risk taking and the SMEs fail to provide their part of the risk sharing. This causes the financial institutions and government to have a hard time assisting them. This is consistent with the study by Kwakye (2010) which emphasized the perceived risky nature of SMEs as a factor that prevents them from getting capital.

The GIPC Director of Investor Services believes that Ghanaian SMEs do not get funding from financial institutions and government because of the way

they have set themselves up. Most of them are not registered, have poor bookkeeping and inappropriate management and practices.

The agents also believed that Ghana needed some structures and policies to boost the provision of credit. Investment banking for example needs to be properly established in the country. According to the GIPC Director of Investor Services, there has been evidence that the development of SMEs have helped entire nations to develop. In a country like Ghana where the SMEs form about 80% of the companies in the economy, it is important to support the SMEs. The issue however lies in making the SMEs more attractive to the investors so the latter feel more secured and confident to participate in the economy.

He also believes that the Ghanaian SMEs should cluster; this will allow agencies like the GIPC to better link them up with the right individuals and entities for investments opportunities.

#### Summary of GIPC agents' views on objective 1

According to the GIPC agents, the poor level of attractiveness of the SMEs represents the main reason why they tend not to get funding from financial institutions and even government. They also emphasized the high interest rates on loans charged by the financial institutions which discourage the SMEs from seeking loans.

#### **4.4.2 Interview with the financial institutions**

Factors assessed when giving out loans to SMEs

All the financial institutions approached offered loans to Ghanaian SMEs and had loan application approval rates of 50% and more. When asked about the elements that they assess before giving out the loans to the SMEs, the following were recurrent:

- How long have you been in business for?
- Have you been registered?
- What is the line of the business?
- What is the purpose of the loan?
- How long do you want the loan for?
- The capacity/character of the people involved in management
- It must be a distinct idea that can be funded
- There must be a good management team that is working on the project
- Cash flows of the firm

The representative from Cash Plus Microfinance Ltd. added that his institution also does on-field evaluation of the SMEs seeking loans. This allows them to know the firms better, understand their financial needs and check their readiness to pay back the loans.

The financial institutions also mentioned that they ask for securities before giving out the loans. Some of those securities are: vehicles, stocks, business

assets, household assets, cash collateral, and government contracts if the firm is working on a governmental project.

The Unibank representative specified that because the SMEs are part of a very special category of companies, his bank does its best to tailor the loan requirements to suit what the SMEs can provide. Due to the fact that Unibank is an SME bank<sup>1</sup>, it tries its best to help the SMEs manage themselves better and make themselves more attractive. This is done by organizing focus group training to provide the SMEs with capacity building and management or leadership training skills.

#### Amount of loan given out and Interests rates

The Ghanaian business environment gives the SMEs a wide range of financial institutions to turn to when it comes to financing. The interviews with officials from Unibank, Stanbic Bank, Advans Ghana Savings and Loans and Cash Plus Microfinance Ltd. suggested that the SMEs choose the institutions to go to depending on their own size as firms and their capital requirements. The banks seem to be dealing with better established and bigger SMEs while the microfinance institutions focus more on the micro and small SMEs. As for the Savings and Loans institutions, they seem to be serving the medium-sized SMEs. This is not to say that these institutions solely focus on their specialized categories of SMEs; they finance all types of SMEs.

From the information gathered from the various financial institutions, interest rates seem to vary according to the institutions' SME focus groups. In other

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<sup>1</sup> This means that the bank's loan portfolio is geared towards nurturing SMEs to become grown enterprises

words, there seems to be a positive relationship between the interest rate charged on loans and the size of the SME. As stated by Kwakye (2010), the high interest rates on loans to SMEs are due to the perceived risky nature of the SMEs. If the interest rates were ranked then the microfinance institutions offer the highest rates, followed by the savings and loans institutions and finally the banks. The cumbersome banking procedures denounced by Aryeetey (1998 qtd. in Abor, 2007) that are preventing SMEs to easily get access to credit through the banks can therefore be considered measures put in place to ensure repayment of loans by SMEs.

Regardless of the fact that SMEs are perceived to be risky, interest rates in Ghana are known to be generally too high for businesses. This therefore hinders borrowing which in turn lowers savings and causes the economy to be performing poorly.

#### Loan repayment abilities of the SMEs

The majority of the financial institutions qualified the loan repayment abilities of the Ghanaian SMEs as poor. However, most of them stated that they however achieve a fairly good loan repayment percentage thanks to the measures put in place by the institutions to ensure that the loans are paid back. Some of those measures include the setting up of strong loan recovery teams by banks and the payment of the loans directly to the banks by the SMEs' creditors.

The institutions pointed out a number of circumstances that prevent the SMEs from adequately repaying their loans. There are a number of cultural and subcultural issues both from the SMEs and the financial institutions:

*Factors concerning the SMEs:*

- The societal perception of the SME owners to be wealthy. This puts more burdens on the entrepreneurs who end up using the borrowed money to deal with family or non-business related issues. The funds therefore tend to not to be used for the intended purposes of the loans
- The SMEs perception and attitude towards loans. There is a culture of entitlement which makes wanting to borrow not because they truly need the money but because they feel entitled to it.
- The non-enabling business environment in terms of lack of infrastructure such as electricity, water, internet and roads.
- Poor government payment ability. There are usually delays in payment when the SMEs are contracted to work on governmental projects.
- The SMEs have poor record keeping abilities and poor structured accounting procedures to follow. This makes it difficult for them to distinguish between business and personal funds.
- The SMEs usually do not factor in the cost of borrowing
- The SMEs do not usually have adequate financial management teams and procedures
- Most of the SMEs are registered or operate as sole proprietorships and have no succession plans. This causes activities to be put on hold whenever the proprietor is unavailable



- The SMEs need to invest more in recruiting qualified people
- The proliferation of microfinance institutions in the country causes the SMEs to accumulate loans from various institutions which makes it more difficult for them to pay back
- The volatility of the macroeconomic environment puts burden on the SMEs

*Factors concerning the financial institutions:*

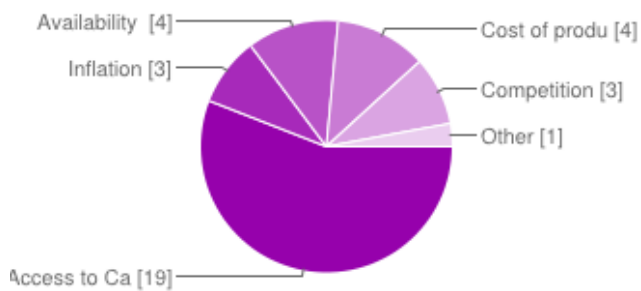
- Lack of adequate monitoring of the SMEs. This is characterized by a weak loans recovery team and measures
- Credit officers trying to meet their targets
- Poor structuring of the loans. For instance, there are short-term loans for instances that are given out to SMEs to finance their long term projects

Summary of financial institutions' views on objective 1

The financial institutions attributed the difficulty for SMEs to get funding to their lack of attractiveness and readiness characterized by their ability to pay back their loans and remain profitable. This makes them risky in the eyes of the financial institutions which end up raising their interest rates on loans to cover the extra risk being taken by financing the SMEs.

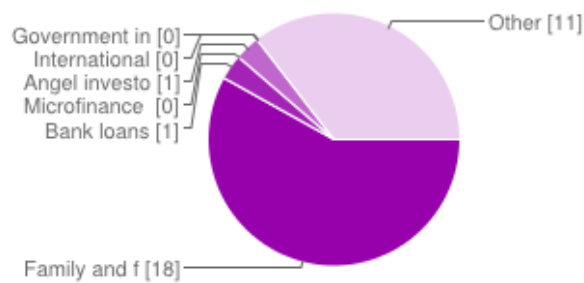
#### 4.4.3 Survey of the Entrepreneurs

##### - What is your biggest challenge as a firm?



Access to Capital	19	56%
Inflation	3	9%
Availability of skilled labor	4	12%
Cost of production	4	12%
Competition	3	9%
Other	1	3%

##### 11 - Where do you get most of your capital from?



Family and friends	18	58%
Bank loans	1	3%
Microfinance institutions	0	0%
Angel investors	1	3%
Government initiatives	0	0%
International organizations	0	0%
Other	11	35%

Figure 8 - Source: Field Data

Access to capital was identified by 59% of the entrepreneurs as their biggest challenge as a firm. This is consistent with studies by Agbozo et al. (2012), Omidyar Network (2013), and Wolf (2004). As a result, the entrepreneurs rely on their families and friends to finance their business as shown in figure 7, where 58% of the respondents stated that they get their funds from family and friends. The next biggest source for financing of the entrepreneurs (35%) is personal savings and plough-back capital captured under "other". This inadequate supply of credit to Ghanaian SMEs and the heavy reliance of these SMEs on themselves and their family and friends to finance their

businesses suggest that the existing financial structures are failing in their duties to provide the SMEs with credit to do business.

**How strongly do you agree with this statement? “*The current interest rates on loans are too high*”**

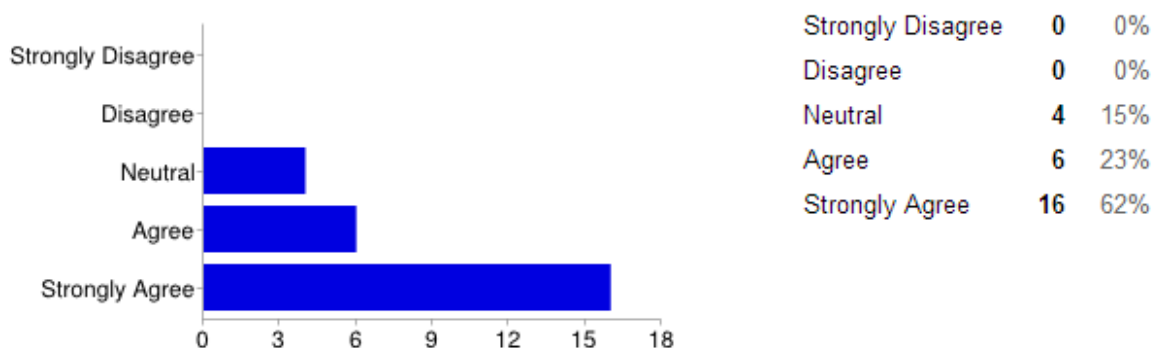


Figure 9 - Source: Field Data

The responses above show that the prevailing high interest rate on loans is the main reason behind the inadequate supply of credit to Ghanaian SMEs. When asked whether they thought the interest rates on loans are too high, 62% of the entrepreneurs strongly agreed, 23% agreed and 15% were neutral. These responses are interesting because none of the entrepreneurs disagreed or strongly disagreed. This reinforces the fact that interest rates on loans in Ghana constitute the main blockage to flow of credit to SMEs. They are therefore slowing down the growth of the SMEs and of the economy as a whole.

**Objective 2 and 3: To evaluate the concept of crowdfund investment and its applicability in Ghana and to investigate what investment policies and laws need to be maintained, revised or implemented for crowdfund investment to succeed in Ghana**

These questions were mainly directed at the GIPC agents since they are the people who forge and better understand the reasons behind the policies. The other respondents were the entrepreneurs for whom the platform would be built.

### **Enabling existing policies and factors that will help the Crowdinvestment concept in Ghana**

The GIPC promotes investments in the Ghanaian economy and therefore serves as a link between SMEs and investors. According to Head of Monitoring and Tracking Debt, the fact that the GIPC is established and working means that a concept like Crowdinvestment can also work in Ghana as it also aims at linking investors to SMEs.

Moreover, the agents believed that the legislation in place is enabling in the sense that investors' investments are guaranteed by the items under the GIPC Act 2013, Act 865. Foreign investors for example are guaranteed the repatriation of money, secure investments etc.

In addition, the interviewees mentioned some conditions in the country that might be favorable to a successful implementation of the Crowdinvestment concept in Ghana. Some of them comprise government support of SMEs through training and provision of facilities, globalization, the expanding Ghanaian economy, the stronger middle class and the prowess of technology.

#### ***4.4.4 Policies and factors that might challenge the Crowdinvestment concept in Ghana***

The problems with the SMEs:

According to the interviewees, the GIPC, after decades of dealing with the Ghanaian SMEs, has realized that the capacity of the SMEs does not measure up to the investors' expectations. This is because:

- Despite the work of institutions such as the NBSSI which aim at helping SMEs with business proposals and management skills, most SMEs do not have comprehensive business plans. This is because the SMEs have difficulties investing in the preparation of quality business plans.
- The SMEs do not make themselves attractive enough to have the capacity to negotiate with the investors

A successful implementation of the Crowdinvestment concept in Ghana can also be hindered by dishonest entrepreneurs who might embezzle investors' funds. The right measures therefore need to be put in place to ensure that fraudulent activities are prevented.

The problems with the investors

The Director of Legal and Secretary to the Board at GIPC indicated that the fact that the crowdinvestment concept allows the general public to be investors might cause some identification issues. There will, therefore, be restrictions based on inadequate identification of investors. Ghana emphasizes knowing the identity and profile of its investors, especially the foreign ones; this means that any investor who might want to invest through

a crowdfund investment platform in Ghana would need to be registered with and authorized by the Ghanaian authorities.

The foreign investors willing to do business in Ghana and get equity in the SMEs through the crowdfund investment concept must comply with the provisions in the Securities and Exchange Act and the Companies Code.

The problems with the policies

There are no policies that might be strictly against the concept. However, because the concept merges the financial sector and ICT, there will be a crucial need for newly laid down regulations. The government, through the central bank, will therefore, need to control the concept (the platforms) to determine who qualifies and check how accountable the system is and how comfortable it is for contributors.

Moreover, money laundering might constitute a threat to the successful implementation of the concept in Ghana. There should, therefore, be policies that regulate the concept and prevent money laundering on the platforms.

Investors' and SMEs' interest in the crowdfund investment concept in Ghana

The Head of Monitoring and Tracking Debt at the GIPC believed that the Ghanaian SMEs have been looking for a savior in terms of business financing. The banks would, however, only adopt the crowdfund investment concept only if they can understand the concept, buy into it and belong to it. This means that they have to be educated on the concept in a language that they understand and be provided with the tools to adequately navigate the platforms. Moreover, the Director of Investor Services indicated that the

SMEs will be motivated to use a crowdfund investment platform to get financing if there are policies put in place to encourage local consumption. This will assure them of the readiness of the domestic market that they can serve with the financing.

As far as the investors are concerned, the Head of Monitoring and Tracking Debt believes that Ghana is a good choice for the investors because of the very friendly investment regulatory framework. However, they will only participate in the crowdfund investment concept on the condition that the projects and the SMEs are attractive and viable and the crowdfund investment system has the right and required regulations to be trusted.

Would you be likely to use a crowdfund investment platform to raise funds?

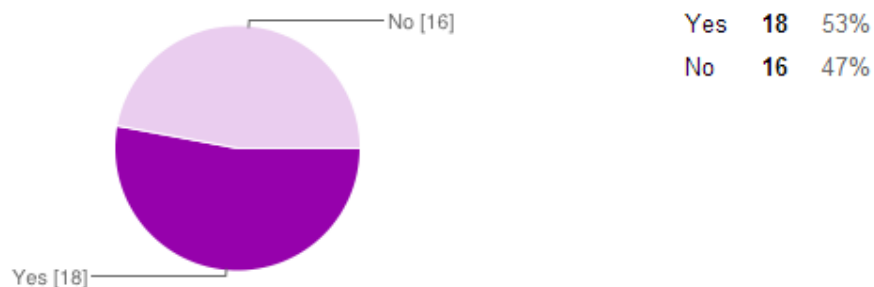


Figure 10 - Source: Field Data

Most entrepreneurs (53%) stated that they would be willing to use a crowdfund investment platform to raise funds if one was to be implemented in Ghana. However, a significant number of them (47%) would also not use a crowdfund investment platform. The main reasons behind that refusal were the lack of interest in ownership dilution, poor internet security, anonymity of investors and the lack of information about and understanding of the concept.

Would you find it difficult to give away equity?

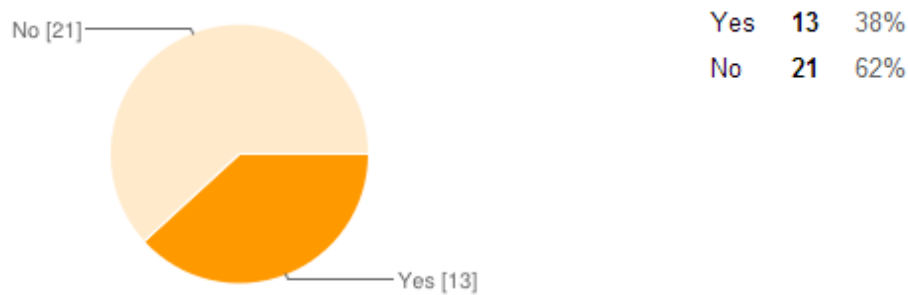


Figure 11 - Source: Field Data

Even though only 38% of the respondents stated that it would be difficult for them to give away equity, ownership dilution has been the major factor that the respondents recurrently mentioned as a challenge for the concept in Ghana. This means that Ghanaian SMEs are very conscious of their business partners and the contribution scheme that they choose to do business with those people.

Among the other challenges that the entrepreneurs thought the concept would face in Ghana, were:

- Lack of familiarity or knowledge of the concept which could bring about hesitation among Ghanaian investors. The concept will therefore need a lot of public education and evidence of success
- Lack of trust in the anonymous investor and entrepreneur. People in Africa prefer to build relationships with people they can see and relate to in person, so it might be challenging as an internet-based mechanism
- Internet insecurity and technological challenges such as difficulty in internet and electricity access



- Poor adoption of new products and resistance of the market to change

***4.4.5 Recommendations of the participants in regards to the factors (policies, institutions and practices) to be maintained, revised and newly introduced for the crowdfund concept to be successful in Ghana***

The factors that imperatively need to be considered for a successful implementation of a crowdfund platform in Ghana are also the ones that answer the research question of this study. The research suggested that there were factors, legal and institutional that needed to be maintained, revised or newly introduced for crowdfund to work in Ghana. From the findings of this study, those factors are as follows:

**FACTORS TO BE MAINTAINED**

**The Ghanaian investment and business environment:** The provisions in the GIPC Act 2013, (Act 865) and the Foreign Exchange Act, 2006 (Act 723) discussed earlier, make the Ghanaian investment environment attractive and favorable for investors to come in. These acts together with other supportive bylaws should be maintained for the success of crowdfund in Ghana.

**FACTORS TO BE REVISED**

**The attractiveness of the SMEs:**

- This issue of poor structuring, branding, management and leadership abilities of the SMEs has been recurrent in the interviews with the GIPC agents and the financial institutions. The SMEs therefore need to make themselves more attractive to investors and financial institutions

by better structuring their businesses, meeting all the legal requirements of being an enterprise in Ghana, hiring a qualified management team and having a strong understanding of the specifics of their projects as well as their feasibility and growth.

- While credit providers felt that Ghanaian SMEs were not attractive enough, the SMEs on the other hand, stated that the high interest rates on loans was the main reason why they usually do not have access to capital. It can therefore be argued that the prevailing high interest rate on loans constitutes the reason why Ghanaian SMEs cannot get capital to make themselves more attractive. The Bank of Ghana therefore needs to have better policies to control inflation which directly impacts the interest rates. Credit providers also need to review their interest rates so that the SMEs can get a chance to invest in polishing their images.

**Anonymity of investors on the platform:** Despite its favorable investment environment, Ghana does not allow random people to be investors. Indeed, whether on the Stock Exchange or through the GIPC or financial institutions, an investor doing or willing to do business in Ghana should be profiled. This ensures credibility and helps build strong relationships. However, similarly to the United States, it prevents the mass from being an investor. For a successful implementation of crowdfund investment in Ghana, this practice needs to change. Alternatively, the crowdfund investment platforms to be built need to have the ability to identify each and every one of its investors to conform to this requirement.

**New legal provisions:** Due to the concept's new nature especially in Ghana, room should be made in the investment laws and policies concerning money laundering and cyber criminality specifically to the platforms. In other words, the fact that the transactions and the deals will be closed online has brought a new dimension to money laundering. The legal and legislative frameworks as well as the platforms themselves, have to put the right measures in place to fight that crime and ensure that the money that is being brought into the Ghanaian economy is legal. As far as cyber criminality is concerned, it is already an issue in the country. This means that the platforms will need to put the right measures in place to identify its members and secure all transactions and information shared on the platform by both investors and SMEs.

#### NEW FACTORS TO BE INTRODUCED

**Regulations of the crowdfund investment platforms:** From what has been said above, it is clear that crowdfund investment platforms need to have their own rules and regulations in addition to the general ones provided in the nation's laws and policies. Not only do they need their own regulations but they also need organized and highly-qualified management, especially the IT teams. These regulations, measures and management should protect members of the platforms against frauds, malwares etc.

#### **Education of stakeholders:**

- There is a crucial need to understand the crowdfund investment concept. The SMEs, the investors and the authorities need to understand the

concept thoroughly to be able to accept it. Case studies and pilot projects therefore need to be developed.

- There is also a need to educate SMEs about the different financing options available to them. Most financial institutions offer loans (debt) which restrict the SMEs, in a way, to only that option of financing. Equity is therefore poorly explored by the SMEs when it comes to getting external funding options for their projects. The government should therefore make it easier and safer for SMEs to seek equity by establishing policies or laws that protect Ghanaian entrepreneurs from being kicked-out of their own businesses by too ambitious investors.

## **5. CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Summary and Conclusion**

This paper sought to understand the reasons behind the inadequate supply of credit to Ghanaian SMEs to finance their businesses. It also sought to evaluate the crowdfund concept and the legal, legislative and institutional pre-requisites for the concept to be successfully implemented in Ghana.

Access to capital was found in both literature and this study to be an imminent problem faced by Ghanaian SMEs. From the information gathered, the unattractiveness of the SMEs is the main reason why the financial institutions are reluctant to give them loans. The SMEs are said by the banks to be poorly established, structured and managed. This confirms their 'risky' nature found in literature, leading the financial institutions to increase the interest rates on the loans they give them.

This poor access to capital for Ghanaian SMEs leads to an urgent need to explore new and innovative ways to finance businesses in the country. The crowdfund concept is new to Ghanaian SMEs and policy makers and as such needs to be more understood. The Ghanaian investment and business environments are friendly enough to host the concept, but because of the lack of information, there would be resistance. The education of the SMEs, policy makers and the investors on the crowdfund concept becomes imperative.

There is also need for proper regulations and laws regarding the crowdfund investment concept. These regulations need to come from both the policy makers and the platforms themselves. These regulations are to ensure all parties involved in the concept (the government, SMEs, financial institutions and investors) of the credibility of the people and the activities on the platform.

In all, the research highlighted the credit gap in the Ghanaian economy and the need to explore more innovative ways to finance SMEs. Crowdfund investment is therefore a potential concept to explore in Ghana. However, the concept needs to be more integrated into the education of the SMEs and the investors as well as into the country's legal and legislative prescriptions.

## **5.2 Recommendations**

### **Attractiveness of SMEs**

- The fund providers complained about the relative unattractiveness of the Ghanaian SMEs. In an attempt to provide the SMEs with the tools and the guidance necessary to make themselves more marketable, the government and the private sector can help provide consultancy firms for Ghanaian SMEs. Not only should these consultancy firms be welcomed in the Ghanaian economy but there is also a need to educate the SMEs about the need for them to purchase the services offered by those firms. Moreover, as capital is the biggest challenge of most Ghanaian SMEs, these 'consultancy firms for SMEs' should be very strategic in the price ranges for their services. The Ghanaian

government and the institutions that have SMEs schemes (which offer credit or other financial assistance to SMEs), should help subsidize such a project.

- Only 3% of the SMEs surveyed identified competition as a challenge. This means that there is not enough competition between Ghanaian SMEs. This lack of competition can be argued to be contributing to the low level of attractiveness of the SMEs. Indeed, if the SMEs do not have any (many) other businesses threatening their survival, they will not be encouraged or urged to make themselves more attractive. The government should therefore reinforce competition laws such as antitrust laws to allow the SMEs to survive and grow.

**Inflation and exchange rate control:** The Ghanaian Cedi has been depreciating at a very fast rate against other currencies such as the US Dollar. This will negatively affect investors' perception of the economy thus drive investment away.

**Research and Pilot Project:** To help understand the crowdfund investment concept, the participants of this study suggested that research should be conducted and pilot projects developed. As the first Ghanaian crowdfund investment platform, SliceBiz could be used as a pilot project to evaluate how a crowdfund investment platform would respond to the country's regulatory framework.

**Supporting industries and infrastructures:** There is a need to develop better supporting industries and infrastructures. The banking sector for

example needs to be developed to accommodate the concept. There are infrastructural issues such as easy access to electricity, internet and roads that also need to be addressed for a successful implementation of the crowdfund concept in Ghana.

**Business ownership:** Even though only 38% of the SMEs surveyed in this study stated that they would have a problem giving away equity, ownership, structuring has been one of the biggest issues raised by the SMEs. It almost looked like Ghanaian entrepreneurs were scared of sharing ownership of their businesses with investors. There must, therefore, be laws and regulations that protect Ghanaian SMEs from hostile take-overs by their investors. These laws must also protect the investors against fraudulent and opportunistic entrepreneurs.

### **5.3 Further research**

- The relationship between the size of the Ghanaian SMEs and their perception of equity financing
- Assessing the attractiveness of Ghanaian SMEs to investors and fund providers
- Assessing the technological abilities of Ghanaian small enterprise owners
- Investigating ways to control inflation and the exchange rate in Ghana



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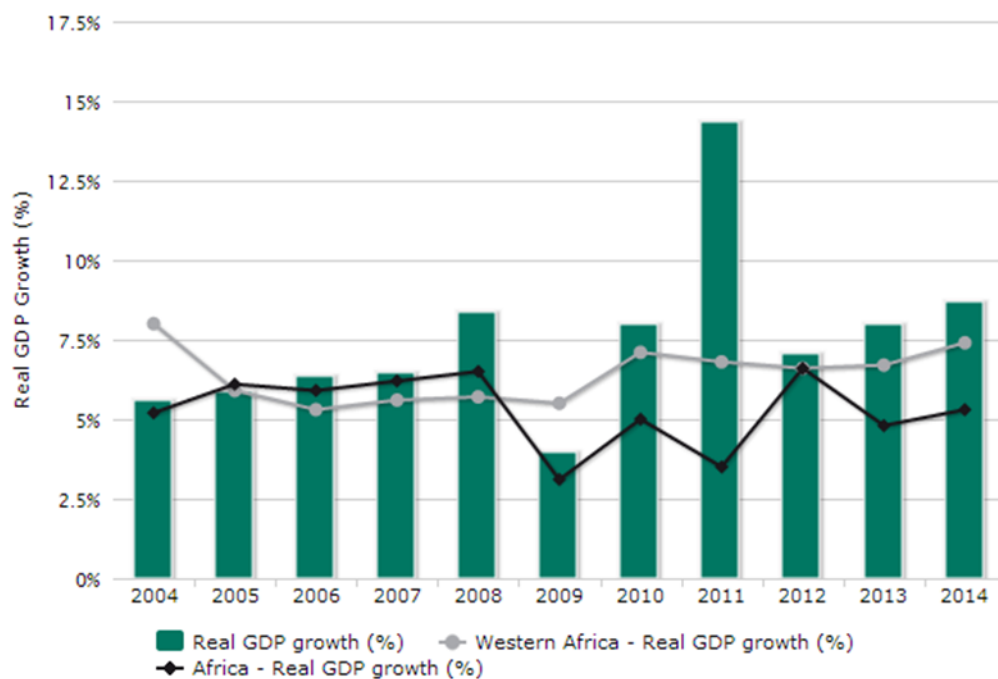
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## APPENDIX

### Appendix 1



Figures for 2012 are estimates; for 2013 and later are projections.

Appendix 1- source : African Economic Outlook

<http://www.africaneconomicoutlook.org/en/countries/west-africa/ghana/>

## Appendix 2

Donor	Title	Short description
CIDA	Private Sector Development Support	Assist MSMEs (deepening technological capacity)
DANIDA	Private Sector Programme	Business linkages between Ghana and Denmark
DANIDA	Business Sector Development	Lending to SMEs, front-runner legal reform (pilot)
GTZ	Promotion of Private Sector	Promotes German investments in Ghana
GTZ	Promotion of Small and Micro Enterprises	Assist MSEs (Credit Fund - Urban and Rural areas)
GTZ	Rural Financial Services Project	Capacity building to rural and community banks and informal financial sector; and to ARB Apex Bank
IFAD/AFD	Rural Enterprise Project	Enterprise development in rural areas
IFC	Africa Project Development Facility	Support the development of SMEs (training)
UNDP	African Management Services Company	Assist SMEs (training and secondment)
UNDP	EMPRETEC Ghana Foundation	Assist SMEs (entrepreneurship development)
UNDP	Micro Start Ghana Programme	Support MFIs build institutional capacity
UNDP	Promoting Private Sector Development	Capacity building of private sector interlocutors
UNIDO	Strengthening competitiveness of MSMEs	Strengthening capabilities of MSMEs

Appendix 2 - Source: Mensah, 2004

## Appendix 3

	Location	Capital raised so far through the platform	Fees	How investment is facilitated	Vetting/Due diligence by platform	Decision on how much equity to offer	Funding window	Post-Investment
CrowdCube	UK	£3.7m	For businesses: 5% of amount raised + £1750 legal fees if successful	Both investor and business become members of Crowdcube Ltd for the period of the raise	Vetting done before businesses accepted on platform	Entrepreneur decides. Can increase equity during funding window	60 days as standard	Business decides threshold for voting rights
Symbid	Netherlands	€<1m	For businesses: €250 up front for existing businesses (start-up ideas can place for free) + 5% of amount raised + legal fees - only payable if successful For investors: 2.5% of investment amount + transaction costs	Investment is via a co-operative established in the Netherlands	Perform due diligence once target raised	Entrepreneur decides. Can increase equity during funding window	Maximum of 1 year	Indirect voting rights for all investors via co-operative
My Micro Invest	Belgium	€500K from professional	For businesses: 12% of amount raised if successful	Investment through an investment vehicle	Board of professional investors do their own due diligence before investing.	Agreement reached after negotiation	1 month as standard	Voting rights for professional investors only
WiSeed	France	€2.5m	For businesses: 10% of amount raised if successful. For investors: 5% of amount invested if successful.	Investment through dedicated investment vehicle for each raise	Perform due diligence before raise	Negotiation between platform and business after due diligence is performed	3 months as standard	Platform manages voting rights
Innovestment	Germany	€0.5m	For businesses: 10% of amount raised if successful.	Investment through dedicated investment vehicle for each raise	Selection process with multiple stages and a board before business allowed on to platform	Uses auction to decide on valuation	30 days as standard	No voting rights for investors
Seedrs	UK	Launching in July 2012	For businesses: 7.5% of amount raised if successful. For investors: 7.5% of profit from investment	Seedrs hold shares on your behalf as a nominee manager	Approve disclosures as financial promotions beforehand and perform legal due diligence once target raised	Entrepreneur sets amount which cannot be altered	3 months as standard	Operate nominee model where they represent the interests of post investment
BankToThe Future	UK	Launching in July 2012	For businesses: 5% of amount raised + £1750 Company Secretarial Fee	Facilitates financial promotion via membership model. Working on next phase with FSA	Vetting performed before business allowed on to platform	Entrepreneur makes decision. BankToTheFuture provides training to assist them	Maximum of 90 days	Investors are collected into private group for updates. Entrepreneur sets minimum investment amount to qualify for voting rights
Crowd Mission	UK	Launching in September 2012	For businesses: 5% of amount raised	Both investor and business become members of CrowdMission for the period of the raise	Initial vetting undertaken before business accepted on to platform. Further vetting done if target is reached	Entrepreneur sets amount which cannot be altered	Still considering options	Still considering options

Appendix 3 – Collins et al. (2012)

## **Appendix 4**

### **Interview guide - GIPC agents**

- 1) Do you think the Ghanaian private sector is vibrant enough?
- 2) What are some of the major problems faced by SMEs in Ghana?
- 3) Do you think SMEs in Ghana are facing an imminent problem with capital to finance their projects?
- 4) What are the options available to Ghanaian SMEs to get funds for their projects?
- 5) Do you think those options are really bridging the financing gap? What else needs to be done?

Crowdinvestment is defined as “a method of financing whereby an entrepreneur sells equity or equity-like shares in a company to a group of [...] investors through an open call for funding on internet-based platforms” (Ahlers et al. 2012, qtd. in Stiernblad, 2013)

- 6) What are the existing investment policies that are favorable to such a concept?
- 7) What are the investment policies that might be against this concept?
- 8) What new investment policies do you think would be needed to make this concept work in Ghana?
- 9) Considering the Ghanaian investment environment and the investment policies and the possible amendments that need to be made to them, do you think Crowdinvestment will be feasible in Ghana?
- 10) Do you think that investors and SMEs will use crowdinvestment platforms if the concept is implemented in Ghana?



- 11) Do you think it is a good idea for Ghanaian SMEs to be giving away equity instead of seeking debt?
- 12) How easy will it be to foreign investors to use such a concept to invest in Ghana?
- 13) What other challenges can you foresee that might prevent such a concept from working in Ghana?

## **Appendix 5**

### **Interview guide – Financial Institutions**

- 1) What is your institution's name?
- 2) Does your institution offer loans to Ghanaian SMEs?
- 3) What is the SME loan application approval rate?
- 4) What are some of the elements you assess before giving loans to the SMEs?
- 5) Do you ask for security against loans granted to the Ghanaian SMEs?  
What are some of them?
- 6) What percentage of your loan portfolio is made up of SME loans
- 7) What is your current range of lending rates to Ghanaian SMEs?
- 8) How will you describe the loan repayment attitude of the Ghanaian SMEs that you finance?
- 9) What percentage of the SMEs is able to pay back their loans on time?
- 10) What in your opinion are the causes of the poor loan recovery performance by Ghanaian SMEs?
- 11) For a Ghanaian SME, do you have minimum and maximum on the loan you can give out? What are they?
- 12) Do you only give out loans to SMEs or you also contribute equity?

## Appendix 6

### Questionnaire for SME owners

#### SECTION A

Kindly tick where appropriate.

1) Sex	Male	
	Female	
	Other	
2) Age	18 - 25 years	
	26 - 40 years	
	41 - 50 years	
	Above 50 years	
3) Marital Status	Single	
	Married	
	Divorced	
	Widowed	
	Other	
4) Years of experience in Entrepreneurship	1 - 5 years	
	6 - 10 years	
	11 - 20 years	
	Above 20 years	

#### SECTION B

5) Name of Enterprise:.....

6) What does the business do?.....

7) How long have you been in business?	1 - 3 years	
	4 - 6 years	
	7 - 9 years	
	10 years and above	
8) What is your biggest challenge as a firm?	Access to Capital	
	Inflation	
	Availability of skilled labor	
	Cost of production	
	Competition	

Other, please specify .....

9) Kindly rank the following	Access to Capital	
	Inflation	

challenges in order of importance to your firm with 1 being the least and 5 being the most	Availability of skilled labor	
	Cost of production	
	Competition	

Other, Please specify .....

10) What are your other challenges?

.....  
.....

11) Where do you get most of your capital from?	Family and friends	
	Bank loans	
	Microfinance institutions	
	Angel investors	
	Government initiatives	
	International organizations	

Other, please specify.....

12) What are the current interest rates that you are being charged for borrowing money? .....

13) How strongly do you agree with this statement? <i>"The current interest rates on loans are too high"</i>	Strongly Disagree	
	Disagree	
	Neutral	
	Agree	
	Strongly Agree	

14) What interest rates will allow you to generate profit as well as pay back your loan conveniently? .....

15) How strongly do you agree with this statement? <i>"My firm badly needs capital to survive"</i>	Strongly Disagree	
	Disagree	
	Neutral	
	Agree	
	Strongly Agree	

16) What was your initial capital in GHS?.....

17) How much capital does your firm need to survive/grow/exp and	Less than GHS 5,000	
	GHS 5,000 - 10,000	
	GHS 10,000 - 15,000	
	GHS 15,000 - 20,000	
	GHS 20,000 - 25,000	
	Over GHS 25,000	
18) What do you need the money for?	Survive (Stay in business)	
	Grow (Increase production/sales)	
	Expand (Open new branches)	
	Export	

Other, please specify .....

19) What is the firm's annual profit/loss in GHS? Indicate loss with a negative sign please.....

20) Have you ever heard of the crowdfund investment or equity crowdfunding concept?	Yes	
	No	

Crowdfund investment is defined as "a method of financing whereby an entrepreneur sells equity or equity-like shares in a company to a group of [...] investors through an open call for funding on internet-based platforms" (Ahlers et al. 2012, qtd. in Stiernblad, 2013).

21) Based on the definition above of crowdfund investment, would you be likely to use a crowdfund investment platform to raise funds?	Yes	
	No	

Please give reasons:.....

**For this question, kindly tick all that applies.**

22) Suppose the right regulations are put in place, what technical challenges can make it difficult for you to use a crowdinvestment concept?	Access to electricity and internet	
	Knowledge of technology	
	Ability to write a good and convincing business plan	
	Platform registration fees	

Other, please specify.....

23) Would you find it difficult to give away equity?	Yes	
	No	

Please give reasons.....

24) What challenges do you think this concept will face in Ghana?.....  
 .....  
 .....

## Appendix 7

### Consent Form

Please consider this information carefully before deciding to participate in this research.

**Research Topic:** *The legal and institutional pre-requisites for a successful implementation of "Crowdinvestment" in Ghana*

**Purpose of the research:** The lack of financing for Ghanaian entrepreneurs is a real threat to economic growth and development of the country. This paper seeks to investigate the feasibility of the Crowdinvestment concept in Ghana by accessing policies and regulations regarding investment.

Our hope is that this information will provide the Ghanaian private sector with some information on a new and innovative source of financing that could boost the economy.

**What you will do in this research:** Our research method requires that you partake in a survey concerning your challenges as an SME as well as the Crowdinvestment concept as a possible source of financing in Ghana and the regulations that will be needed for the concept to work.

**Time required:** The questionnaire will take approximately 15 minutes to complete.

**Risks** There are no anticipated risks associated with participating in this study.

**Benefits:** At the end of the study, we will provide a thorough explanation of our findings at a presentation where you would be most welcomed. If you will want a copy of our findings as well, please insert your e-mail address here [\_\_\_\_\_]

**Confidentiality:** Your participation in this study will remain confidential, and your identity will not be stored with your data. Your responses will be assigned a code number, and the list connecting your name with this number will be kept with the faculty member under lock and key and destroyed immediately after the data collected has been analyzed.

**Participation and withdrawal:** Your participation in this study is completely voluntary, and you may refuse to participate or choose to withdraw at any time without penalty or loss of benefit. You may withdraw by informing the experimenter (me) that you no longer wish to participate and

no questions will be asked. You may also skip any question during the interview, but continue to participate in the rest of the study.

**Agreement:**

The nature and purpose of this research have been sufficiently explained and I agree to participate in this study.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_