

Equity Crowdfunding as an Alternative Source of Financing Entrepreneurship in the Greater Accra Region of Ghana

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Abstract

Entrepreneurship is globally seen as a tool for job creation and contributing to the stability of the economies of nations. This is why the governments of many nations including Ghana put up initiatives to promote entrepreneurial activities. This work sought to assess equity crowdfunding as an alternative source of generating fund for entrepreneurial projects in Ghana. A combination of qualitative and quantitative approaches were used in conducting this study in the Tema Municipality of the Greater Accra Region due to the intense commercial activity in that area. Out of a population of 10,000 entrepreneurs and investors, a sample size of 149 entrepreneurs in various industries and 118 investors as well as 90 respondents acting as both entrepreneurs and investors were chosen through purposive sampling method. Data was collected through the use of questionnaires and was analysed by way of descriptive statistics using tables and graphs. The results of the study showed that most entrepreneurs and investors had heard of equity crowdfunding but very few understood the operations of this type of funding. Also, most respondents saw one of the challenges in the adoption of crowdfunding in Ghana to be inadequate

understanding of it among entrepreneurs and investors. It is evident from the study that the level of awareness of equity crowdfunding in the entrepreneurship community in Ghana is low. The study showed that equity crowdfunding is capable of bridging the funding gap and therefore a suitable alternative in generating funds for entrepreneurship in Ghana. It is recommended that equity crowdfunding be included as a source of funding in entrepreneurship curriculum. Also, policies should be made by government to establish regulations that will protect all the parties involved in equity crowdfunding.

Keywords: Equity, Equity-Crowdfunding, Crowdfunding, Financing, Entrepreneurship, Ghana

Introduction

The most significant growth constraint for young and innovative ventures is access to finance (De Prijcker *et al.*, 2019; Manigart & Sapienza, 2017). New ventures and projects require resources to succeed, and one of the most difficult challenges is locating sources of funding that are not family, friends, or personal savings (Goli, 2014). Schwienbacher and Larralde (2010) identified the problem faced by entrepreneurs at the outset of their entrepreneurial ventures as how to secure external sources of funding in the absence of collateral, insufficient cash flows, and greater information asymmetry with investors. This is why Belleflamme, Lambert, and Schwienbacher (2013) argue that many entrepreneurial ventures go unfunded, whether through bank loans or equity capital, partly due to lack of sufficient value that can be pledged to investors and partly due to unsuccessful attempts to convince investors of the project/venture's success.

Since traditional financial institutions' positions are deteriorating, alternative financing is a means of avoiding funding sources such as banks, charitable institutions, or the state, where obtaining funds requires a lengthy preparatory process (Wierzbicka, 2018; Wachira, 2022). Alternative finance (AF) is a new financial market segment that aims to provide consumer loans, finance start-ups, and provide capital to the SME sector. The main ways that new technologies are spread are through internet platforms and social networks (Wierzbicka, 2018).

Alternative financing began with online crowdfunding platforms (Fukuhara, 2020), but has since expanded rapidly with the development of new online capital raising activities such as peer-to-peer lending and initial coin offerings (Yasar, 2021). Individuals, institutions, and professional investors come together on online crowdfunding platforms to fund creative projects, social projects, and businesses. Equity crowdfunding is a market where founders can get money from their family, friends, customers, and

current shareholders, as well as from large number of investors, in exchange for a share of the business (Ralcheva and Roosenboom, 2019; Wachira, 2022).

During the lockdowns, a number of equity crowdfunding platforms collaborated with governments, and a number of debt crowdfunding platforms provided the most crucial funding to small and medium-sized enterprises (Kraemer-Eis *et al.*, 2020). However, crowdfunding platforms, like the rest of the financial sector, may be negatively impacted by the uncertainty the pandemic has created, and investors may refrain from making new investments. Several equity crowdfunding platforms have already reported investment declines and losses (Mason, 2020). Conversely, social distancing and the shift to online communication during COVID-19 may increase interest in crowdfunding platforms relative to traditional channels.

The growth of equity crowdfunding (ECF) deserves special attention. Early-stage capital providers in Europe invested approximately 11 billion euros in 2017, according to industry observers. Equity crowdfunding already accounts for more than 5% of the market in Europe, with a volume of approximately EUR 630 million in 2017, and is expected to grow rapidly (European Business Angel Network, 2018). Indeed, according to industry research based on data collected from over a thousand platforms, global alternative finance volumes (including all crowdfunding models) reached USD 371 billion in 2017, a 42% increase over 2016 volumes (Ziegler *et al.*, 2021). Furthermore, global volumes increased 28% from USD 47 billion in 2016 to USD 60 billion in 2017, and 48% to USD 89 billion in 2018. (Ziegler *et al.*, 2021). According to Wachira (2022), the UK is currently the leader in equity based crowdfunding source of business funding with majority drawn from the real estate and SMEs industry with 11.4%. Crowdfunding activities in the Middle East and Africa remain domestic due to a lack of economic and infrastructure development, with no cross-border transactions, internationalization, or R&D investment, resulting in low volumes (Berndt and Mbassana, 2016).

Despite the number of years of growth and economic stability, the quality of economic growth, particularly in terms of employment, inequality, and general improvement in Ghanaians' livelihoods, has been a source of concern (Alagidede, 2013). According to a survey conducted by the Institute of Economic Affairs between November and December 2015, the biggest challenge facing the Ghanaian economy is unemployment. Both previous and current governments have proposed initiatives that promote entrepreneurship as an alternative source of employment.

According to data from the Registrar General Department in Ghana, 90% of registered businesses are micro, small, and medium enterprises (MSMEs). As a major source of income and employment, small and

medium-sized enterprises (SMEs) have been identified as the country's economic growth engine (Mensah, 2004). Despite the government's efforts to create a conducive environment for entrepreneurship in Ghana, Ghanaian business owners continue to struggle to launch or sustain growth. Inadequate financial systems pose the greatest obstacle.

According to a study done in 2005, the biggest problem for small and medium-sized businesses (SMEs) in Ghana is getting credit at a reasonable rate (Robson and Obeng, 2008). Banks, which should have been a source of funding for most businesses in Ghana, typically view start-up companies as high-risk ventures. The establishment of micro-finance institutions (MFIs) was intended to meet the financial needs of SMEs, but the majority of these organizations have proven ineffective. The government's effort to clean up the banking sector resulted in the closure of many MFIs, limiting the options for funding small businesses even further. Securing long-term financing in the form of equity capital in Ghana is nearly impossible for entrepreneurs. The few venture capital firms in Ghana are looking for start-ups that can break even in the shortest amount of time, which disqualifies the majority of the companies that need their help.

This study aims to investigate and capitalize on the availability of alternative sources of funding for entrepreneurship in Ghana. The research evaluates equity crowdfunding as a viable alternative for financing entrepreneurship in the country, with equity crowdfunding being the primary focus.

Problem Statement:

The frustration caused by unemployment in any country wreaks havoc on the economy and the social fabric is distorted (Mensah, 2004). As a result of the problem of unemployment, many universities have revised their curricula and made entrepreneurship a required course in all fields of study. Entrepreneurship has been viewed as a key driver of economic growth and stability, as well as a vital instrument for job creation (Mensah, 2004). This is why the Government of Ghana (GoG) has proposed a number of policies to encourage entrepreneurial endeavors in the country. For example, the most recent policy launched in 2017 is the National Entrepreneurship and Innovative Plan (NEIP), a 100 million dollar government fund established to support start-ups and small businesses in the nation.

Despite the government's efforts, the greatest obstacle to entrepreneurship in Ghana remains access to capital (Agyapong and Mordi, 2020). The various sources of startup and small business funding appear inadequate or inaccessible to the nation's entrepreneurs. Especially recently created ones which have no credit history or guarantees to offer as well as an insufficient cash fund to pay future debts (Ferreira and Felipe, 2020). Traditional banks require documentation and assurances that entrepreneurs

cannot provide and do not get funding (Robson and Obeng, 2008). The few venture capital firms in the country prioritize investments with quick returns, which disqualifies many entrepreneurs (Robson and Obeng, 2008). This has resulted in the demise of the majority of good ideas and the perpetuation of small businesses even after years of operation. The questions that arise are whether the necessary financial avenues to support entrepreneurship in the country are operating effectively and whether traditional financial sources are the only avenues for obtaining funds for entrepreneurial ventures in the country. What non-traditional sources exist in this nation to provide the necessary financial support for entrepreneurship?

Equity crowdfunding has become a new wave in global entrepreneurship financing, with many start-ups in Europe, America, and parts of Africa obtaining seed capital through this channel (Yasar, 2021; Blaseg, Cumming, and Koetter, 2021). Statista (2020) reported that in 2019, the global crowdfunding market was \$13.9 billion in value and forecasted to be tripled by 2026. Ziegler *et al.* (2018) reported that crowdfunding models volumes in Africa rose and regional perspective indicated 41% of these volumes in West Africa, Southern Africa recorded 28%, 24% in Eastern Africa, with North and Central Africa recording the remaining 7%. In Ghana, crowdfunding has become a daily topic for discussion among entrepreneurs since the Bank of Ghana has provided policy to support it. According to Bank of Bank (2021) Ghana exhibits one of the greatest potentials for crowdfunding growth because of Ghana's adoption of digital finance and mobile money.

Entrepreneurship has been proven to be an important tool in job creation and economic stability in Ghana, but it lacks the necessary financial resources to thrive (Robson and Obeng, 2008). As a result, questions such as: Are there innovative ways for entrepreneurs and investors to collaborate to address the issue of financial constraints in entrepreneurship? Can equity crowdfunding help the Ghanaian entrepreneurship community bridge this funding gap? The purpose of this study is to investigate the viability of equity crowdfunding as an alternative source of financing for entrepreneurship in Ghana.

Objectives of the study:

The main goal of this research is to explore the viability of equity crowdfunding as an alternative source of financing entrepreneurship in Ghana. To achieve the main goal, the various specific objectives were outlined;

1. To explore the knowledge base of Ghanaian entrepreneurs and investors on equity crowdfunding.

2. To determine whether equity crowdfunding can be a good alternative in bridging the financing gap in entrepreneurship in Ghana.
3. To identify the potential challenges to equity crowdfunding in the entrepreneurial setting in Ghana.

Research Questions:

The research is intended to answer the following questions:

1. What is the level of awareness to equity crowdfunding in Ghana?
2. Is equity crowdfunding a good alternative to bridge the financing gap in entrepreneurship in Ghana?
3. What are the potential challenges to equity crowdfunding in Ghana?

Literature Review

The Concept of Crowdfunding:

Although the concept of crowdfunding has been used numerous times throughout history, the term "crowdfunding" did not exist until recently. Many sources attribute the term's origin to the concept of crowdsourcing. According to Howe (2006) and Hermer (2011), crowdsourcing is the act of generating contributions to a project from a large number of people or outsourcing an institution's functions to an undefined large group of people who are not directly related to the institution. Crowdsourcing is primarily used to generate ideas and information.

Also, crowdfunding is also thought to have evolved from the concept of microcredit. Microcredit is a loan system that provides loans to entrepreneurs and business owners who do not meet the requirements for bank capital to start their ventures. Mohammed Yunus, who won the Nobel Peace Prize in 2006, was the first person to come up with the idea of microcredit (Yunus, 2007).

In modern times, crowdfunding is a method by which individuals or organizations obtain capital to fund their projects from a large group of people (the crowd) via an online platform (Mollick, 2013). A crowdfunding platform, Fundable, defines it as a method of raising capital through the combined efforts of friends, family, customers, and the general public. Kirby and Worner define crowdfunding as the use of small amounts of money from a large number of people or organizations to fund a project, a business or personal loan, or other needs through an online web-based platform (Kirby, 2014).

Crowdfunding as an Effective Means of Raising Funds:

In order to ascertain the viability of crowdfunding as a source of providing funding for entrepreneurship, it is necessary to determine the stability of the crowdfunding industry. The concept of crowdfunding is a

nascent concept in Ghana and much work has not been done to accurately measure the stability of this industry in the country (Owusua and Owusu-Ansah, 2020). However, secondary data exists on the performance of the industry in other regions of the world. Since the inception of crowdfunding as means of generating funds, the industry has seen an upward rise in the number of crowdfunding platforms and the amount of money raised each year.

The Massolution (2015) reports indicates an increasing growth in the crowdfunding industry, with a total number of 100 crowdfunding platforms in 2007, the industry registered an approximate number of 1250 platforms in 2014 with an increase in the number each year. The figure below shows the number of platforms each year from 2007 to 2014 and the percentage increase in the number each year. It can be inferred from the data below that the stability of the industry is unquestionable. The graphical data represented in figure one above also supports the stability of the industry in that there is a growing increase in the funding volume of the industry. The industry recorded an increase in the funding volume from \$2.7 billion in 2012 to \$34.4 billion in 2015 and an increase in the amount each year from 2012 to 2015. This indicates that more money is being generated by crowdfunding to finance projects and as such it is an effective means of raising capital.

Risks Involved in Equity Crowdfunding:

Literature reviewed already reveals many benefits and a lot of promise in equity crowdfunding as a financing source for entrepreneurship. However, there are challenges that have been outlined in other sources. Some of the risks listed as relating to equity crowdfunding are the risk of platform failure, risk of fraud, risk of default, illiquidity, lack of transparency and disclosure of risk (Kirby, 2014; Ferreira & Felipe, 2020). The operations of crowdfunding are highly dependent on the crowdfunding platforms as they serve as the grounds on which the process takes place. In the event of platform failure, the whole system will be put on halt, poor management of platform by platform owners will put investors and entrepreneurs at the risk of losing funds, because the operations of crowdfunding are based on the internet the risk of cyber-attack is another challenge that could cause platform failure (Shneor, Zhao and Flåten, 2020). The risk of fraud and default are some of the risks that investors of equity crowdfunding are bound to face. Illiquidity is another challenge as equity crowdfunded companies are usually start-ups and carries a lot of risks, selling of a stake in a company like that will pose a serious challenge ((Kirby, 2014). Venture capital firms are usually the ones interested in buying stakes in start-ups but because of the large number of investors, they usually do not engage in equity crowdfunded companies (Ari, Aladdasi & Koc, 2021).

Wilson and Testoni (2014) indicate that information asymmetry problems are common with start-up firms; this makes it riskier for investors who put their money in such firms. Most entrepreneurs do not disclose the risks and challenges encountered in the course of operations to investors; and usually crowdfunders are not professional financiers and so are not able to properly assess the risk involve in a venture before investing in them (Esmailpourmotlagh, 2018). The estimated default risk of equity crowdfunding according to Wilson and Testoni (2014) is 50%, their study reveals that the success rate of crowdfunded firms and return on investment has not been properly estimated. Another challenge associated with equity crowdfunding for entrepreneurs is the difficulty in managing investors due to the number of investors involved in funding the venture. Investors also faces the risk of having their shares in a business diluted as a result of the number of investors involved if proper follow ups are not made (Wilson, 2014).

Motivation to Choose Equity Crowdfunding:

Brown *et al.* (2017) presents lack of financial alternative as the motivation for most entrepreneurs to enter into equity crowdfunding campaigns. This platform presents the opportunity to access capital without going through the stressful requirements of other sources of funds. In order to escape the conditions attached to securing bank loans and the clauses attached to venture capital financing, entrepreneurs opt for equity crowdfunding (Esmailpourmotlagh, 2018). Hermer *et al.* (2011) states that companies are driven by the desire to generate funds to fill the funding gap encountered in the life cycle of firms.

Although generating capital is the primary incentive to crowdfund, Lukkarinen *et al.* (2016) suggests that companies enter into crowdfunding campaigns for other reasons like testing the adoption of the product/service on the market, establishing new business relationships, generating constructive feedback on their business model and product as well as market the products to the crowd. Lukkarinen *et al.* (2016) and Moritz (2014) confirms that factors like product testing on the market and access to “wisdom of the crowd” encourages firms seek funding through equity crowdfunding platforms. In order to gain control of the management and operations of their enterprises, entrepreneurs choose equity crowdfunding instead of funds from business angels and venture capital firm, since these sources play active roles in the management of the firms they invest in (Esmailpourmotlagh, 2018).

Theoretical Review:

Since the introduction of the concept of crowdfunding, numerous theories have been proposed to explain its various forms. Amongst these theories are:

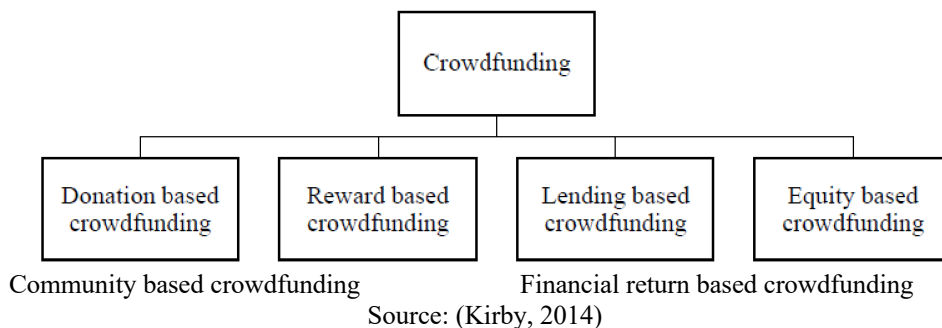
Donation Model - This model provides support to patients, as well as artistic projects, sporting events, cultural events, and social campaigns (Schwienbacher *et al.*, 2012; Kirby, 2014). In a traditional donation model, participants are not rewarded; in a modified (sponsor) model, they receive CDs or books for their support (Mollick, 2014). In this model, one can differentiate between the non-rewards model (non-rewards model) and the reward-based model (also known as a bonus model) (Wierzbicka, 2018; Shneor, Zhao, and Flten, 2020).

The Lending Model - consists of granting small loans between individuals, one of whom is interested in cash investments (lender, investor) and the other of whom is typically seeking short-term capital from outside sources (borrower, beneficiary) (Mollick, 2014; Kirby, 2014). Transactions can happen on websites without the help of financial institutions (Shneor, Zhao, and Flten, 2020).

Investment model (equity-based) - in this case, funds are transferred in exchange for the promise of a stake in the company or profits (Mollick, 2014). Furthermore, the beneficiaries and funders receive participation units in the share capital of the beneficiary company, currently only accredited investors, and debt, where the beneficiaries' financing is repayable, i.e., the beneficiary is required to return the funds provided by the funders (Kirby, 2014; Shneor, Zhao, and Flten, 2020).

Invoice trading model - A more recent addition to the crowdfunding models, this model is regarded as a "quick and easy way for small and medium-sized enterprises (SMEs) to raise short-term debt by pre-financing their outstanding invoices through individual or institutional investors" (Dorfleitner *et al.*, 2017). Such a short-term supply of financing, in which companies sell their accounts receivable at a discount in exchange for immediate cash, aids in the alleviation of cash-flow issues that frequently plague SMEs (Shneor, Zhao, and Flten, 2020). So, unlike other crowdfunding models, this one focuses more on managing cash flow, which is paid for by crowd investments.

Kirby and Worner (2014) classify crowdfunding into two models: community-based crowdfunding and crowdfunding for financial returns. Community-based crowdfunding does not guarantee financial returns to donors but is viewed as a charitable act, whereas financial return-based crowdfunding generates financial returns for investors.

Figure 1. Crowdfunding Classifications***Empirical Review:***

Though there has not been much research on the topic of crowdfunding in Ghana, researchers are interested in it because of the benefits it provides to entrepreneurs and investors.

Equity crowdfunding, according to Ralcheva and Roosenboom (2019), has emerged as a market for founders where they can raise money from their close network, including family, friends, customers, and current shareholders, as well as from a large number of investors in exchange for an equity share in the business. However, Berndt and Mbassana's (2016) exploratory study in equity crowdfunding revealed that there is little understanding of crowdfunding as a phenomenon and the specifics of how it works. Their participants expressed an interest in using crowdfunding, though clarification of the entrepreneurs' and investors' expectations would be required prior to its use.

Using a typology-based methodology, Owusua and Owusu-Ansah (2020) investigated "Understanding Crowdfunding Ecosystem as an Alternative Source of Entrepreneurial Finance for SMEs in Ghana." Four models of crowdfunding were identified by the study: peer-to-peer lending, equity, rewards, and donation. The study concluded that Small and Medium Enterprises (SMEs) in Ghana can benefit significantly from crowdfunding.

Using descriptive and comparative research methods in foreign countries and Poland, Wierzbicka (2018) emphasized the lack of knowledge regarding this type of institution and, consequently, the significance and role that social financing plays in the financial market.

Wachira (2022) explored what influences the amount of money raised which can either lead to the success or failure of equity-based crowdfunding using Crowdcube using Pearson correlations and multiple regression analysis. According to the findings, the number of investors, target amount, and pre-money valuation strongly and positively influence the success of equity-based crowdfunding campaigns. Also, equity, display of share price information, and online social media presence are other factors that influence the success of equity-based crowdfunding campaigns.

Djimesah et al. (2022) studied the influential factors of the Technology Acceptance Model (TAM) for crowdfunding stakeholders' behaviors and intention to use. A mixed-method approach using quantitative data of 538 respondents and a qualitative data collection process of interview and questionnaire in eight regional capitals of Ghana were adopted. According to the study, the ease of use influences perceived usefulness while the ease of use affects intention. However, the study reveals that perceived usefulness influences its intention.

In their paper, Blaseg, Cumming, and Koetter (2021) constructed a sample of equity crowdfunding and non-equity crowdfunding ventures that meet the organizational criteria for using crowdfunding in Germany. According to their findings, entrepreneurs who have access to other forms of equity are less likely to use equity crowdfunding, and entrepreneurs who use equity crowdfunding are more likely to fail.

Based on the studies reviewed, equity crowdfunding is very important in providing a major alternative for investors and entrepreneurs to raise funds for their ventures. It is also true that the subject is not well-liked by the majority, and there are risks threatening the expansion of this financing option. As a result, it is a topic worth researching for the benefit of both academia and industry.

Methodology

In this study, a mixed method approach was used. A combination of both quantitative and qualitative methods according to Creswell provides a better understanding of research problem than using one approach alone (Creswell, 2011). The type of data collection from the existing crowdfunding platforms in Ghana is qualitative and exploratory aimed at providing an accurate representation of the platforms' efforts in financing entrepreneurship.

In getting to understand the operations and results of the crowdfunding platforms in Ghana, purposive sampling method was adopted. A sample size of 357 respondents out of a population of 10,000 investors and entrepreneurs were chosen within the Tema Metropolis. The purposive sampling method was applied to solicit information from respondents who have knowledge on crowdfunding or alternative source of funding for entrepreneurs. The entrepreneurs were made up of those who are yet to start operating their ventures and those who are already in operation. There were 9 crowdfunding platform identified whose operations extended to Ghana.

Two different forms of research instrument were used in collecting data for the research study. A structured interview schedule was used to gather information from the crowdfunding platforms chosen for the study. The other instrument used for gathering data was questionnaire. The

crowdfunding platforms were contacted via email and the objectives of the study were explained to the platforms, and telephone information was requested for a telephone interview with representatives of the platforms.

Mainly, descriptive analysis was applied. This involved converting the raw data into a manageable form, developing summaries and applying statistical inferences and presented using longitudinal tables and bar and pie charts. The Google forms application tabulated the response from the questionnaires and converted it into a spreadsheet format.

Research Findings and Discussion

This section explains the analysis of the data, findings and discussion of this study as follows:

Background Information of Respondents:

The research was conducted to study the viability of equity crowdfunding as an alternative source of financing entrepreneurship in Ghana. Respondents were chosen at random within the Tema metropolis to answer questionnaires for the research. The table below shows a distribution of categories respondents belonged to; 41.7% (n=149) of respondents were entrepreneurs operating in varying industries, 33.1% (n=118) were investors and 25.2% (n=90) fell in both categories.

Entrepreneurs represent respondents who have started their own businesses or in the process of setting up. Investors represent respondents who are engaged in putting funds in ventures for future financial gain.

Table 1. Distribution of respondents

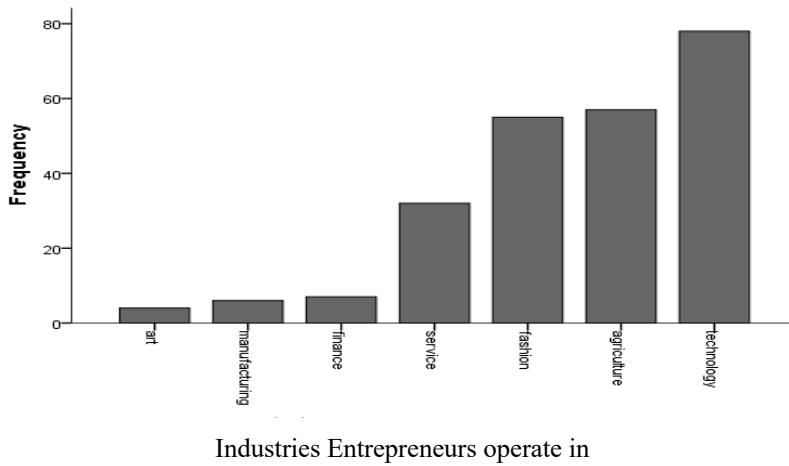
Categories	Frequency	Percentage
Entrepreneur	149	41.7%
Investor	118	33.1%
Both	90	25.2%
Total	357	100%

Source: Field Survey, 2021

Industries Entrepreneurs Operate:

Figure 2 provides the distribution of the various industries the entrepreneurs who participated in the survey operates in. In all, entrepreneurs were grouped into 7 different fields of operation, namely; IT, Agriculture, Finance, Service, Fashion, Art and Manufacturing. Majority of respondents 32.6% operated in the field of technology, 23.8% were into agriculture, 2.9% in finance, 13.4% operated in the service industry, 23.8% of entrepreneurs surveyed were operating in the fashion industry and 1.7% and 2.5% did business in the fields of art and manufacturing respectively.

Figure 2. Industry of Operation



Years in Entrepreneurship:

Entrepreneurs were further grouped according to years of being in business and table 2 provides a summary of the years respondents had spent in business. Years of operation were categorized into three; from zero to three years (0-3) which was 83.8% (n=299) of total entrepreneurs surveyed. This indicates that majority of entrepreneurs were still in the formative stage of the business; they had just started operations or yet to start. It could be inferred from the data that entrepreneurship is gradually becoming a career option for graduates in Ghana. This could be as a result of the inadequate job opportunities for the number graduating every year. It could also be in agreement to the findings of Owusu Ansah that interest in entrepreneurship is rising because universities in the country have added entrepreneurship to their curriculum. (Owusu Ansah, 2012) 12.6% (n=45) of respondents had been operating their ventures from four to seven years (4-7) and 3.6% (n= 13) had been in business from eight to ten years (8-10).

Table 2. Years in Entrepreneurship

Years	Frequency	Percentage
0 – 3	299	83.8%
4 – 7	45	12.6%
8 – 10	13	3.6%
Total	239	100%

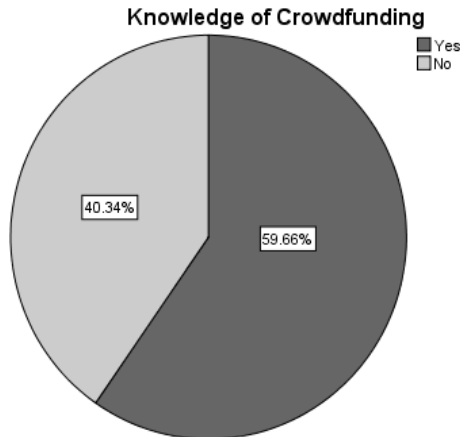
Source: Field Survey, 2021

Knowledge of Crowdfunding:

Respondents of the study were asked if they had heard anything about crowdfunding, to which they were required to respond Yes or No. Fig

5 below outlines the results. 59.7% of respondents had heard about crowdfunding and possessed some knowledge about the concept of crowdfunding. 40.3% had no idea what crowdfunding meant.

Figure 3. Knowledge of Crowdfunding, Source: Field Survey

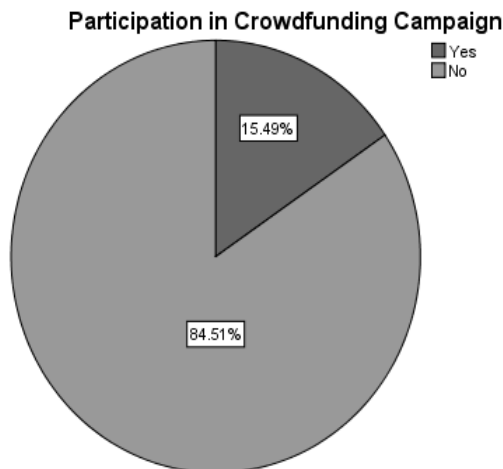


Source: Field Survey, 2021

Participation in Crowdfunded Project:

In order to explore the knowledge level of crowdfunding among the entrepreneurship community in Ghana, respondents who had heard about crowdfunding were further asked to indicate if they had participated in a crowd funded project before, either as an entrepreneur seeking funding or an investor providing funds. Fig 4 summarizes the response received from respondents. 15.5% of respondents affirmed they had been involved in a crowdfunding campaign while 84.5% of respondents had never been part of any crowdfunding campaign.

Figure 4. Participation in Crowdfunding Campaign

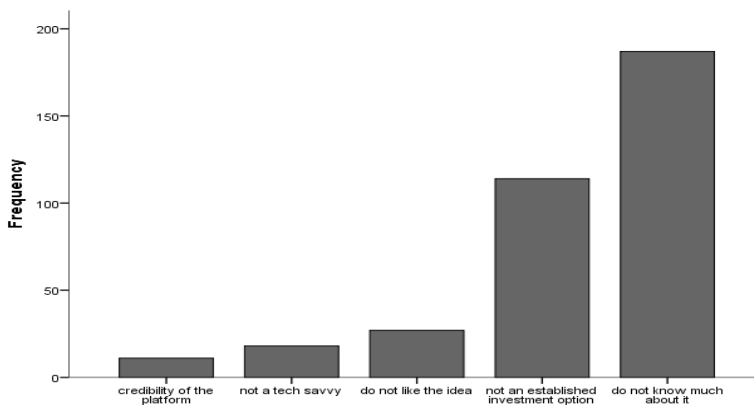


Source: Field Survey, 2021

Reasons for not considering Equity crowdfunding as an investment option:

When asked why they will not consider crowdfunding as an investment option, 31.9% of survey respondents said crowdfunding is not an established form of investment in Ghana. 52.4% of respondents confessed they do not have enough knowledge about the operations of equity crowdfunding and crowdfunding in general. This indicates that even though majority of respondents had heard about crowdfunding, a huge of percentage were oblivious to the details of its operations. 5.0% said IT literacy was their challenge, 7.6% just did not like the idea of funding entrepreneurship with equity crowdfunding and 3.1% cited the credibility of crowdfunding platform managers as the reason they will not opt for crowdfunding as an investment option.

Figure 5. Reasons for not Choosing Equity Crowdfunding



Source: Field Survey, 2021

Source of Starting Capital:

As shown in the table below majority of entrepreneurs who took part in the survey used personal savings as the source of their starting capital, 56.3% (n=201). Again, it is evident from the data that very few entrepreneurs start their businesses with capital obtained from formal banking institutions as stated in the report of the International Growth Centre in Ghana. In this case 4.2% (n=15) of respondents of the survey received their starting capital from banks. It is also seen in the data that next to personal savings, most Ghanaian entrepreneurs used money obtained from family and friends as starting capital, 36.7% (n=131) of respondents confirmed this in the survey. The remainder of respondents received assistance from venture capitalists and angel investors, which represents 2.8% (n=10) of entrepreneurs from the survey.

Table 3. Source of starting capital

Source	Frequency	Percent
Friends and Family	131	36.7%
Personal Savings	201	56.3%
Bank Loan	15	4.2%
Venture Capital	5	1.4%
Angel Investors	5	1.4%
Total	357	100%

Source: Field Survey, 2021

Requirement for Funding a Crowdfunded Project:

Respondents were asked to choose from a list of requirement they will consider if they are to invest in a crowdfunding project, in other words, what should an entrepreneur seeking funding via crowdfunding platform possess to merit their support? This is to determine which items entrepreneurs must show online contributors in order to gain their support. The options that were provided are as follows;

- Showing prospect of the business venture to investors
- The entrepreneur’s expertise in the proposed field of business
- Availability of suitable collateral
- Entrepreneur’s financial record
- Financial discipline of entrepreneur

The table 5 below provides summary of respondents who felt the requirements above are necessary and not necessary respectively. It is seen from the tables that availability of suitable collateral, which was the major reason why most respondents were denied access to capital was one of the least required factors to motivate an investor who wish to invest in a crowdfunding project. Bad financial record was another major reason why most entrepreneurs were denied access to capital. Entrepreneur’s financial record also recorded the least percentage in the category of requirements needed to motivate an investor to support an equity crowdfunding project.

Table 5. Requirement to invest in an equity crowdfunding project

Requirement	Frequencies	
	Necessary	Not Necessary
Prospects of the Venture	334	23
The entrepreneur’s expertise	322	35
Availability of suitable collateral	210	147

Entrepreneur's financial records	201	156
Financial discipline of entrepreneur	305	52

Source: Field Survey, 2021

Filling the Funding Gap in Entrepreneurship:

The survey respondents were asked to state if equity crowdfunding can bridge the funding gap in entrepreneurship in Ghana. They were required to respond Yes, No or Maybe. 54.1% (n=193) of respondents said that equity crowdfunding will be a suitable alternate in financing entrepreneurship in Ghana. 3.6% (n= 13) of respondents were not convinced that equity crowdfunding can bridge funding gap in entrepreneurship and 42.3% (n= 151) of respondents were not certain if it will be a good alternative source of financing entrepreneurship or not so they responded Maybe. The table below provide a summary of responses.

Table 6. Crowdfunding ability to bridge financial gap according to respondents

Response	Frequency	Percent
Yes	193	54.1%
No	13	3.6%
Maybe	151	42.3%
Total	357	100%

Source: Field Survey, 2021

Challenges to Equity Crowdfunding in Ghana:

As part of the objectives of the study, respondents were asked to give their opinion on what they think could be the potential challenges of equity crowdfunding in the country. In answering this, 39.5% (n=141) were of the view that the biggest challenge will adoption. Ghanaians might not openly accept it as a means of investment or accessing funding, this could result from the fact that equity crowdfunding is not an established form of investment in the country or majority of entrepreneurs and investor has little or no knowledge about it. 24.4% (n=87) of respondents said the only challenge they see is people's ability to use the technology owing to the fact that most Ghanaians have little IT literacy. 34.7% (n=124) of participants said regulatory issues will be the major challenge of equity crowdfunding in Ghana. It is evident in literature that the issue of regulations has been a challenge in other countries. 1.4% (n=5) of respondents said all the above mentioned challenges could prevent the successful operation of equity crowdfunding in Ghana. The table below has a summary of the responses received.

Table 7. Potential Challenges to equity Crowdfunding Adoption

Challenge	Frequency	Percent
Adoption	141	39.5%
IT literacy	87	24.4%
Regulatory Issues	124	34.7%
All the above	5	1.4%
Total	357	100%

Source: Field Survey, 2021

Other Perceived Challenges:

Respondents were given a list of other possible challenges and indicate whether they were MOST LIKELY, LIKELY and UNLIKELY. The table below provides a summary of the results obtained.

Table 8. Other Challenges Related to Equity Crowdfunding

Challenges	Frequencies		
	Most Likely	Likely	Unlikely
Projects from certain industries will get more attention than others	142	185	24
Only known brands will be funded	163	164	25
Unclear rules makes it inconvenient	182	141	29
Business idea might be stolen	151	163	36

Source: Field Survey, 2021

Conclusion

The research was conducted to assess equity crowdfunding as an alternative source of financing entrepreneurship in Ghana. The survey was conducted in the Tema Metropolis of the Greater Accra region. A total of 357 entrepreneurs and investors participated in the study.

The first objective sought to explore the level of knowledge Ghanaian entrepreneurs and investors possess on equity crowdfunding. It was discovered that although most respondents had heard about it, very few understood the operations of this phenomenon to exploit it as a funding source or investment avenue.

The second objective of the study was aimed at determining the viability of equity crowdfunding as an alternative source of financing entrepreneurship and whether it will be in the position to bridge the funding gap in the country. In pursuing this objective, it was observed that majority of entrepreneurs in Ghana start their ventures with funds that were either

secured from personal savings or family and friends. This is because of their inability to provide detailed financial records and the unavailability of suitable collateral to acquire loans from the formal banking sector. The study therefore shows that equity crowdfunding could bridge gap left by banks' tighter restrictions on entrepreneurs seeking funding.

The final objective of the research was to explore the possible challenges that could militate the successful implementation of equity crowdfunding as a source of financing entrepreneurship in the country. Adoption of equity crowdfunding as an alternative source of funding was the biggest challenge identified from the study because of the knowledge deficiency on the part of entrepreneurs and investors on the concept and operations of equity crowdfunding. The study further showed that the issue of regulation if not properly handled could cripple every benefit that could be generated from equity crowdfunding.

Recommendations

Based on the findings, the following recommendations were made;

The findings indicated that investors are not familiar with the operations of crowdfunding and do not even know how to adopt its concept and hence do not know how to take advantage of this fundraising opportunity. It is therefore recommended that government set up initiatives to educate the general entrepreneurship community in the country on the equity crowdfunding. These initiatives could be geared towards encouraging investors to set up local crowdfunding platforms to meet the funding needs of Ghanaian entrepreneurs.

The study showed that equity crowdfunding has the potential of being an alternative financial source. However, it was revealed that if the issue of regulation is not properly handled could cripple every benefit that could be generated from equity crowdfunding. Therefore, regulatory institutions should be equipped by the government with policies that will ensure a safe and fair playing field for all parties involved.

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Declaration for Human Participants:

This study has been approved by Kwame University of Science and Technology, Kumasi-Ghana and the principles of the Helsinki Declaration were followed.

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