# DEVELOPMENT OF SMES IN AFRICA: THE ROLE OF CROWDFUNDING

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## ABSTRACT

*The study examines the role crowd funding plays in the development of SMEs in Africa. The challenges confronted by SMEs in funding business is very obvious globally but more pronounced in Africa as traditional funding sources such as banks give preference to well established firms to the detriments of these SMEs. This challenge, combined with low level of technology, education and preference for foreign platforms account why SMEs in the continent cannot compete favorably. The advent of crowd funding addresses these gaps by decentralizing the sources of finance to fundraisers. The study which used exploratory research design discovered that the use of crowd funding as an alternative method of raising fund by SMEs in Africa is still at its nascent stage as it only represents less than 0.1% of the total worldwide crowd funding market with only 25 active platforms. The study finds out that SMEs serves as a backbone of economies and it is crowd funding maximally, the need for series of physical meetings and interactions between parties before funds is advanced will be reduced and the barriers place on funding by geographical location of SMEs will be eradicated. Furthermore, the practice of depending solely on a particular investor by SMEs will be forgotten. The study was concluded by recommending stakeholders' sensitization, increase awareness on the use of technology through education of SME owners. These, in addition to friendly but firm regulatory framework will go a long way to project crowd funding as an alternative method of funding and contribute positively to the development of SMEs in Africa and will also encourage preference for Africa crowd funding platforms.*

**Keywords:** CrowdFunding, Donor, Funding, Investor, Small and Medium Scale Enterprises.

## INTRODUCTION

The process of crowdfunding began with the development of a *"pitch"* that gives information that entrepreneurs wish to make available to potential funders. Following the global economic meltdown in 2008 and subsequent unstable economy, banks and other institutional lenders worldwide have been reluctant to grant small and medium scale enterprises (SMEs) enough capital to support their funding needs (Eldridge et al., 2021). This lack of funding by traditional financial institutions has created difficulties for SMEs seeking funding to attract external capital (Belleflamme et al., 2014), and then crowdfunding comes to mind. Crowdfunding can be described as a market-based financing technique where traditional financial intermediaries are bypassed when funds are raised from large numbers of individuals in small amounts whether to fund a business or any other needs. Crowdfunding as an alternative financing method has arrived to support SMEs and other businesses seeking external capital and pave way for development (Courtney et al., 2017). The crowdfunding market which involves



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using the crowd of investors to receive ideas and capital to develop corporate actions and thereby vindicating future earnings has displayed a rapid and growing volume of capital collected worldwide (Belleflamme et al., 2014; Stigenberger, 2016; Ingram & Teigland, 2013; Ahlers et al., 2015; Mollick, 2014).

SMEs are considered as backbone of economy and they play key roles for the growth and development of every country (Abbasi et al., 2017). Majority of firms worldwide are SMEs and according to Disse and Sommer (2020), SMEs employ more than half of the formal workforce worldwide and more than 60 per cent in low- and middle-income countries (LMIC) including Africa (Ayyagari et al., 2007). Besides the importance of SMEs in poverty reduction, increase in employment, innovation in technology and lifting up in social position, Eniola and Ektebang (2015) explained that standards can be improved and economies can be developed if the much needed attention is given to SMEs which have a prodigious potential for sustainable development.

Africa as a developing economies have the potential to drive growth by employing crowdfunding to leapfrog the traditional capital market structures and financial regulatory regimes of the developed world (World Bank, 2013). In the case of Sub-Saharan Africa, the World Bank estimates the market potential of crowdfunding to reach 2.5 billion by 2025 (Adekoya, 2019). Similarly, a report published by order of the UK Department for International Development concluded that crowdfunding can positively support development programmes through a number of applications. It can improve access to capital, help manage supply and demand, drive innovation and efficiency and fund new markets (Gajda & Walton, 2013). Crowdfunding does not only have the potential to mitigate funding gap in Africa financial organizations alone. It has also been proven in academics (Berndt, 2016) that despite challenges associated with crowdfunding, it has potential for assisting entrepreneurs within the African context. There is a great deal of potential for these new forms of finance to provide access to funding which will in turn promote economic development and financial inclusion in developing, emerging and developed countries alike (Africa, 2017). In Africa, the informal sector is where majority of the economic activities take place. More than 80% of the total workforce is engaged in this sector which SMEs belong to (Chuhan-Pole, 2014; Filmer & Fox, 2014). This high share of informality adversely affects the African economy as it is generally acknowledged that economic growth and development comes from highly productive enterprises that operate in the formal sector (Ayyagari et al., 2011).

Although crowdfunding has a lot of potentials for SMEs but empirical assessment of what the term means, its usage and the benefits it offers Africa are inadequate (Hiller, 2017). Not much research has been carried out in this area. Nevertheless, in order to understand if crowdfunding can live up to the promise it is given, the need to understand its usage cannot be over emphasized. The study aims at addressing this gap by providing empirical evidence on how crowdfunding can be used to develop SMEs in Africa. The results are used to provide practical advice to policymakers and other interested stakeholders. Although the study which employed exploratory research design reviewed three theories. Resource dependency theory (RDT), signaling theory and angel investor but the study is anchored on resource dependency theory.

## CONCEPTUAL REVIEW

Many SMEs in Africa cannot attain their full potential owing to institutional and market failure even as African countries try to boost economic activities of these SMEs. Of all the constrains faced by SMEs, access to finance ranked as the most binding hindrance to growing



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their business as almost half of the SMEs in Africa are experiencing financing gap (Disse & Sommer, 2020). Lack of access to finance which, according to Ahmed (2019), denies businesses the opportunities to initiate productive investments, create jobs and alleviate poverty is one of the major primary challenges to sustain businesses. The difficulty in securing loans from financial institutions is hindering SME growth (Saymeh & Sabha, 2014). This problem becomes worse when SMEs are not able to provide collateral for financial assistance (Hendratmi et al., 2019). Lack of access to finance led to the need to seek alternative platform that could be considered as a complement or a substitute of traditional and formal investment mechanisms (Wright et al., 2006).

Crowdfunding is a group behavior in which the public communicates through the internet and pools funds to support activities initiated by other organizations and individuals. As an innovative sustainable financing model, crowdfunding which has approximately 1250 active platforms across the world (Liang et al., 2020) plays a crucial role in the sustainable development of growing enterprises and has therefore become increasingly popular and attracted increased academic interest in recent years. Crowdfunding has been useful for financing unique projects that really get support from traditional sources of finance (Ordanini et al., 2011) Even political projects such as Barrack Obama's election campaign funds in 2008 came from small financial contributions (Eranti, 2014). Crowdfunding, in general, seeks out the small, private investor that supports a particular idea, often out of altruism or from having a particular interest (Silver et al., 2016). Crowdfunding also has the potential to drive poverty reduction in Africa and in many other continents in a number of ways, from efficiently mobilising and channeling savings towards growing companies in important industry sectors to reducing the vulnerability of some of the poorest people by matching individuals requiring finance to those with savings to invest or donate. Notwithstanding the aforesaid, Crowdfunding is not without drawbacks. Inadequate legal and regulatory frameworks, untested credit scoring models, limited access to technology and lack of awareness, the knowledge gap in the use of technology and trust are part of the challenges against crowdfunding in Africa.

Fatoki (2014) opines that new SMEs is vital to solving the problem of high rates of poverty and employments in South Africa when he conducted research on financing options for new small and medium enterprises in South Africa. The study suggested that government should provide enabling environment that will enhance the operation and management of crowdfunding as the failure rate of new SMEs is high due to lack of funding by banks. Zhao et al. (2017) in the study "determinants of backers funding intention in crowdfunding: social exchange theory and regulatory focus", concluded that crowdfunding had turned out to becoming a popular financing channel worldwide but rather the success rate of crowdfunding project is less than 50%. The study suggested that projects proponent should not only attract more visitors but to understand funding intention which leads to the success of the fundraising project. Golić (2014) on his part opined that crowdfunding provides as alternative sources of financing new SMEs that will enhance country's GDP. This position was also supported by Paschen (2017) when he worked on the topic choose wisely: Crowdfunding through the stages of the start-up life cycle.

Increase and improvement of financing provision through the crowdfunding according to Anthony and Harry (2015) is one of the ways of improving SMEs in Nigeria. This conclusion was reached on the study "SMEs firm performance financial innovation and challenges". The study further stated that SMEs have become a pivot force of sustain rapid and healthy development of Nigeria economy. This development according to the study conducted by Adekoya (2019) is increasing but at a decreasing rate due to lack of awareness and low level of



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technology among SMEs in Africa. The study also identified lack of understanding of the concept of crowdfunding amongst SMEs and entrepreneur and inability for the government to regulate the crowdfunding framework.

Soreh (2017) pointed out that crowdfunding is yet to be embraced by Nigerian entrepreneurs as a new innovation for sourcing finance because its awareness at 24% in a population of over 20m people is considered very low. The study accentuated that most of the respondents could not identify any crowdfunding platform operating in Nigeria. The study suggested that crowdfunding is a possibility in Nigeria if people become more positive regarding the concept and having attitudinal change toward it as a means of funding SMEs and new innovative ideas. This study which is supported by Adekoya (2019) concluded that crowdfunding awareness is germane to being accepted as sources of finance for financing creative ideas. An analysis of the effect of crowdfunding platforms in enhancing the financing sources for SMEs was conducted by Onyango (2018) in Kenya. The study which used primary and secondary data revealed that crowdfunding platforms can enhance the financing opportunities for the SMEs and could provide the much needed solution to narrowing their financing gap. This study aligns with the findings of Golić (2014); Fatoki (2014); Anthony and Harry (2015); Munyanyi and Mapfumo (2018).

The effects of access to loans on the growth of SMEs in Africa were researched by Fowowe (2017). The study examined 10,888 firms that were operating in 30 African countries with the objective of determining whether firms with access to finance experience growth faster than firms with credit constraints. The study concluded that firms that have access to fund grow faster. Domeher et al. (2017) examined the determinants of credit rationing experienced by SMEs in Ghana and that noted credit rationing exists in Ghanaian SMEs and credit rationing varies according to SMEs' organizational and owners' characteristics.

## CROWD FUNDING

Over the years, various definitions of crowdfunding have appeared in the literature. The first academic definition was offered by Schwienbacher and Larralde (2010) who built upon the definition of crowdsourcing provided by Kleemann et al. (2008). Definition is meant to isolate the phenomenon from the background by tracing its boundaries and distinguishing it from analogous phenomena. In addition, definitions highlight the most relevant constituent elements in every phenomenon. In search of a thorough and field-wide understanding of the concept we look at the key elements stemming collectively from the formal definitions found in the literature. That is the presence of the crowd, purpose, its existence as an alternative finance mechanism, the different types of crowdfunding, the array of project goals and its online nature. Explicitly, crowdfunding involves contributions from a large dispersed audience in the form of financial resources usually small in size. In exchange, the crowd may receive interest from lending, a share of equity and voting rights, some form of physical reward as a token of appreciation, or simply the satisfaction of donating. Accordingly, fundraisers can be entrepreneurs or people in need of money for personal reasons, such as health or education.

Crowdfunding according to Belleflamme et al. (2014) 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 rights. While Ordanini et al. (2011) viewed crowdfunding as an initiative undertaken to raise money for a new project proposed by someone, by collecting small to medium-size investments from several other people, Ahlers et al. (2015) opined that it is an umbrella term used to describe an increasingly widespread form of



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fundraising, typically via the internet, whereby groups of people pool money, usually (very) small individual contributions, to support a particular goal; but Colgren (2014) described crowdfunding as the convergence of social media, big data and cloud technologies to significantly revolutionize the means by which small and mid-sized entities (SMEs) and start-ups can access capital in a cost-effective manner. Other scholarly definitions include the process of fund raising from potential investors, donors or sponsors to finance creative ideas, start-up business or new ventures as a form of turning ideas into business reality (Adekoya, 2019). Mollick (2014) said it involves the efforts by entrepreneurial individuals and groups (cultural, social, and for-profit) to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries; Hossain and Oparaocha (2017) viewed crowdfunding as an internet based method of fund raising for creative ideas, projects or task in form of contribution or pledge of money by large pool of people within a limited time frame

The definitions above vary from scholars to scholars. However, all the researchers have a commonality; raising funds in small amounts, from many to many and the use of digital technology. The key disruptive effect of crowdfunding is that the intermediation by traditional financial institutions is reduced as funds are channelled directly from funders to fundraisers through a given platform (Terry et al., 2015).

## TAXONOMY OF CROWDFUNDING

Generally, the academic literature distinguishes between four types of crowdfunding with one differs from the other regarding the usage of the received contributions and incentives given to the funders (Ahlers et al., 2015; Gajda & Walton, 2013; Kuppuswamy & Bayus, 2018; Mollick, 2014). While donation-based and reward-based crowdfunding offer non-financial incentives, lending-based and equity-based crowdfunding offer financial incentives (Hemer, 2011; Mollick, 2014). Non-financial crowdfunding methods have historically been used by social ventures and are grounded in reward and donation based motives where the crowd of investors does not receive monetary returns. Financial crowdfunding methods and especially equity crowdfunding are based on financial motives and monetary return. This means that the companies seeking funding raises capital by attracting the crowd of investors and selling a fixed limit of equity or bond-like shares (Stigenberger, 2016).

Donations-based crowdfunding allows donors to send money to people or projects in need (beneficiaries) with no financial reward in exchange for their money. This form of crowdfunding is used primarily in the non-profit sector to support various causes (social, environmental, political and charitable). The platform which is commonly used among politicians derives its revenue stream primarily from fees collected from each donor. It is also the most used of all the models in Africa (Adekoya, 2019). The reward derivable is the satisfaction the donor gets in donating to a worthy cause. Examples of Donations-based crowdfunding include Just Giving (http://www.justgiving.com), Go Fund Me (http://www.gofundme.com)

Project funders in reward-based crowdfunding receive non-financial rewards in exchange for their funding (Kuppuswamy & Bayus, 2018; Mollick, 2014). For instance, funders might be credited in a movie, appear as a hero in a comic, visit a film set, receive a personal thank you call from the artist or meet the project founders. However, rewards can also take the popular form of pre-purchasing a product or service (Fleming & Sorenson, 2016; Gajda & Walton, 2013; Mollick, 2014). Like donation-based crowdfunding, reward-based projects do not offer funders' active participation in the project (Schwienbacher & Larralde, 2010). Example are Kicksterter



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(https: //www.kicksterter. com) and Indiegogo. (https://www.indiegogo.com).

Unlike donation and reward based discussed, equity based crowdfunding entails the campaigner inviting the general public to invest in a project or creative ideas in return for ownership interest. Donors get an equity ownership of interest in the company in return for their donation which enables them to participate in the sharing of future profit generated by the project. According to Soreh (2017) equity based crowdfunding is fast becoming a prominent means of financing SMEs in UK and US with a good legislation backing Example is Peer Realty (http://www.Peerrealty.com).

The last but not the least form of crowdfunding is the loan based or Peer to Peer lending (P2P). It is a form whereby the contributors see their fund as loan to attract interest payment at maturity or crowdfunders made contribution into a pool for SMEs to raise fund in form of debt finance. Massolution (2015) posits that in 2015, £25 billion was raised through crowrdfunding using debt contracts approach. The peer to peer lending is very common in countries where it is difficult to source bank loan to start a business. There are various lending club sites for loan based model of crowdfunding in developed countries where investors make returns to contributors in the form of interest, although it has a very high risk which is associated with the fund contributed. In Malaysia, there is B2BFinPal (http://www.b2bfinpal.com).

Although there are no agreed figures on the number crowdfunding platforms in Africa but scholars including (Adekoya, 2019) agreed that South Africa house most of the crowdfunding platforms in the continent, followed by Nigeria and Egypt. While reported 39 active crowdfunding platforms in Africa in 2014, Massolution (2015) reported 19 for same year. As at March 2017, Hiller (2017) estimated 25 active crowdfunding platforms in Africa. When these figures are compared with 338 platforms in china alone, then Africa still have a long way to go. African crowdfunding market, with a combined market size of only $12 million in 2014 is very small in size. Fund raised on African crowdfunding platforms represent less than 0.1% of the total worldwide crowdfunding market. Even with an expected growth to around $24 million for 2015, African crowdfunding platforms still remain at low levels (Massolution, 2015).

Consequently, there is limited number of participants on both the demand and supply side of African crowdfunding platfiorm thereby making it less attractive for Africans. Majority of African crowdfunding activity is not taking place domestically but on international crowdfunding platfiorm. Around $95 million has been raised by Africans through overseas platforms. AlliedCrowds (2016) estimated the total amount raised, including through foreign platforms, to be as high as around $180 million. Foreign crowdfunding platforms seem to promise higher investment amounts and success rates compared to domestic ones, due to a more sophisticated crowdfunding market and overall higher national income levels. Despite the fact that international donation-based crowdfunding is widely used by Africans, its main focus is on charity and to some extent, necessity-driven entrepreneurship. As such, it is inappropriate to capture opportunity-driven entrepreneurial intention. Also, foreign debt-based and equity-based crowdfunding is inaccessible for Africans because of legal restrictions.

While the use of crowdfunding by SMEs can result in great benefits for the campaigner. By exposing a product to the public, entrepreneurs are able to receive an extensive and varied set of feedback. Crowdfunding offers designers an alternative investment form. Campaigners can enjoy tremendous positive exposure to potential customers and future investors as crowdfunding favours those with innovative ideas as opposed to wealth. A campaign can be launched with minimal cost, no proof of sales and (except equity crowdfunding) release of equity. It is an exciting option available to entrepreneurs as it improves businesses' accessibility to capital



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markets thereby decreases costs of looking for investors and borrowers. Crowdfunding according to Kukurba and Waszkiewicz (2018) may also help in increasing the number of international transactions through implementation of legal regulations within African continent. Sub-Saharan Africa has seen steady growth over the past three years with the number of platforms doubling each year. Factors fuelling this growth may include a rise in the middle class, rapid adoption of mobile technology and real market need (World Bank, 2013).

The development of crowd funding has the potential to drive poverty reduction in Africa and in many other continents in a number of ways; from efficiently mobilising and channelling savings towards growing companies in important industry sectors to reducing the vulnerability of some of the poorest people by matching individuals requiring finance to those with savings to invest or donate (Hendratmi et al., 2019). Crowd funding models provide much-needed, new forms of financing for startups, SMEs, individual consumers, charities, social enterprises and various community-based projects. There is a great deal of potential for these new forms of finance to provide access to funding and thereby promote economic development and financial inclusion in developing, emerging and developed countries alike. Underdeveloped capital or credit markets are typical characteristics of emerging or developing countries such as those in Africa. This is particularly relevant to SMEs that lack access to finance. Therefore, where traditional paths to finance do not exist, new and innovative financial channels, such as crowd funding models are welcome additions.

Despite the huge benefits that crowd funding can provide, it is also confronted with some challenges that may deter potential young entrepreneurs interested in SMEs from making use of it for financing entrepreneurial projects (Bernardino & Santos, 2020). Challenges in crowd funding include fraud, failure and fulfilment challenges. As the market expands, more attempts to circumvent regulations, bypass policies and possibly defraud investors emerge; but the most noticeable risk in crowd funding according to World Bank (2013) are business failure and fulfilment challenges. Business failure could be as a result of poor management decisions, paucity of funds or inability to predict market demand accurately. When a company is not ready with the necessary logistics and manufacturing capacity to meet the demand generated by their campaign, this could give rise to fulfilment challenges. Many entrepreneurs lack understanding of how crowd funding works. There is little or no knowledge of this alternative source of finance to many entrepreneurs in Africa as a whole. This according to Adekoya (2019) is one of the reasons why the continent recorded the lowest revenue ($24.16 million) in the world.

Besides, lack of governments' regulation and monitoring has in no small ways increased the risk associated with crowd funding. Access to technology and reliable internet services are prerequisite to effective crowd funding. Many African countries are still lagging behind in this regard as the providers of these services, where available, charge exorbitant prices thereby making it accessible to only the few well to do in the society. The fundraiser also needs to perform a set of managerial tasks in the course of setting up the platform. To put a project in the Indiegogo platform for instance, entrepreneurs have to display a good knowledge of the requirements of the platform. He need to decide the length of the campaign and links the platform to social media. This according to Da Cruz (2017) could be a time-consuming apart from the technicalities that come with it. However, the transparency of the information displayed about the project increases the risk of copying, especially for projects in the commercial entrepreneurship domain, imitation which might reduce or eliminate their competitive advantage (Hommerová, 2020). Information asymmetry between the entrepreneurs and investors in a crowdfunding platform is another problem.



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## Challenges of SMEs in Africa

Before SMEs can contribute to economic development, they have to overcome some obstacles that are African-specific (Abor & Quartey, 2010; Allen et al., 2011; Arvanitis, 2015; Brixiova, 2010). According to Brink et al. (2003), the generally acknowledged obstacles can be categorized into managerial, environmental and financial ones. However, it should be noted that the extent of those obstacles differ across countries due to the prevailing institutional heterogeneity in Africa continent. The persistence finance gap in to SMEs in Africa is noticeable in addition to other challenges (Abor & Quartey, 2010; Agwu & Emeti, 2014; Brixiova, 2010; Okpara & Kabongo, 2009). This includes a lack of expertise in marketing, human resource management and financial planning (Brink et al., 2003). Adisa et al. (2014); (Nichter & Goldmark, 2009), opined that the major factor responsible for lack of management experience is the low levels of education that prevail in Africa. Although improvements have been recorded in educational sector in the continent but according to UNESCO Institute for Statistics (2016), only 69% of Africans complete primary education. Challenges also exist at higher education levels. 86% of African universities offer courses in entrepreneurship (Kabongo, 2008); however only 25% of African entrepreneurs think that these offerings are sufficient (Omidyar Network, 2013). Furthermore, most African entrepreneurs act as working proprietors as they cannot afford to hire external management expertise (Abor & Quartey, 2010; Adisa et al., 2014). African education systems prepare their workforce for employment in large establishment (Omidyar Network, 2013). Consequently, SMEs found it difficult to attract and retain managerial talent and skilled workers as they are in fierce competition with large enterprises (Abor & Quartey, 2010; Agwu & Emeti, 2014; Omidyar Network, 2013). Besides, regulatory constraints which includes high costs associated with formal registration of business, (Abor & Quartey, 2010; Kayanula & Quartey, 2000), unfavourable government policies (Nichter & Goldmark, 2009), double taxation, corruption and the complexity of legislation and penalties for noncompliance (Brink et al., 2003; Omidyar Network, 2013).

Access to infrastructure and human resources, regulatory constraints and corruption are environmental obstacle that African entrepreneurs are contending with. Despite the increased access to Information and Communications Technology (ICT) in recent years (Aker & Mbiti, 2010; Ewing et al., 2014) opined that many parts of the continent still suffer from a poor state of infrastructure (Akintoye et al., 2015; Okpara & Kabongo, 2009; Okpara & Wynn, 2007; Omidyar Network, 2013). The unreliable supply of electricity, the poor state of roads and railways as well as communication networks were noted as obstacles militating against the development of SMEs in Africa (Agwu & Emeti, 2014; Chuhan-Pole, 2014; Omidyar Network, 2013). Because of persistent electricity shortages in Africa, entrepreneurs need to purchase costly power generators to avoid a standstill of their operations (Chuhan-Pole, 2014; Omidyar Network, 2013).

Of all these challenges, the most prominent and noticeable for African entrepreneurs is the lack of funding sources for SMEs and early-stage ventures (Adebayo & Nassar, 2014; Adisa et al., 2014; Ayyagari et al., 2011; Ayyagari et al., 2012; Beck & Cull, 2014, Brink et al., 2003). While lack of access to finance is common with many SMEs around the world, it is more pronounced in Africa continent (Hiller, 2017) as it is estimated that around 84% of small and medium sized firms in Africa do not have access to sufficient funding, with an aggregated funding gap between $70 and $170 billion (Omidyar Network, 2013; Stein et al., 2013).



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## THEORETICAL CONSIDERATION

### Resource Dependence Theory

The need for organizations to collaborate with one another in inter-organizational relations becomes indispensable since no single entity possess all the resources required to perform its activities. Resource-dependence theory (RDT) which was formalized by Pfeffer and Salancik (1978) seeks to explain organizational and inter-organizational behaviour in terms of those critical resources that an organization must have in order to survive and function efficiently. Sufficient and sustainable funding is one of these indispensable resources. The financial institutions perform intermediations to provide the deficit unit with funds from the surplus side.

Therefore, organizations depend on exchange relations to achieve their goals (Klein & Pereira, 2016). When Inter-organizational relation increases, opportunities to develop new capabilities are likely to spring up so that both organizations benefit from the synergy created. This can also facilitate the launching of new products without requiring investment in a complete resource base (Ahuja, 2000), splitting the costs of risk sharing of activities with other companies (Sadowski & Duysters, 2008) and reliable knowledge and information become. Other benefit includes increasing the bargaining power of member organizations and targeting economies of scale (Balmann et al., 1996).

### Signalling

The concept of signalling theory was first studied in the context of job and product markets by Akerlof and Arrow and was developed into signal equilibrium theory by Spence (1973), which says a good firm can distinguish itself from a bad firm by sending a credible signal (information) about its quality to capital markets (Zhao et al., 2004). This theory has been supported by different scholars such as Brian et al. (2011); Akintoye and Niyonzima (2018). These scholars posit that, there is disparity between individuals and organizations where one part possesses more information access than others.

Because the quality of start-ups cannot often be observed directly, investors appraise the company based on observable attributes that are thought to co-vary with its underlying but unknown quality. Although not all the information provided by these fundraisers according to Ahlers et al. (2015) will ultimately be effective signals to help overcome the problem of information asymmetry but like Akintoye and Niyonzima (2018) opined, signalling theory application helps in information provision that reduces information asymmetry and provide firms' partners the capacity in making financial and economic decision. Observability which is the extent to which the signal is noticed and understood by investors and the cost of the signal which must be structured so that dishonest signals are not rewarded are major characteristics of effective signal. This cost in important so that the cost of producing the signal doesn't outweigh its benefits (Connelly et al., 2011).

Fundraisers are assumed to have better knowledge about the true quality of the company than the potential investors. However, because these investors are less likely to have experience evaluating investment opportunities, they rely on the signals. This theory is used in the study because the fundraiser owes investors the responsibility of providing information willingly to the advantage of all stakeholders including the general public.



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### Business Angels

Many SMEs companies cannot raise venture capital investment usually because they are simply too small to get attracted to venture capitalists, who typically have lower limits on investments of a million pounds or more. Institutional investors consider SMEs too risky to be granted credit facility. Angel investors who are usually individuals rather than funds or financial institutions provide an alternative. A business angel is described as a high net worth individual, acting alone or in a formal or informal form, who invests his or her own money directly in an unquoted business in which there is no family connection and who, after making the investment, generally takes an active involvement in the business (Mason & Harrison, 2008).

The term "angel" which is used to imply 'business angel' or an 'informal investor' was first adopted from the United States Broadway during the 1900s (Moses & Adebisi, 2013) when it was used to describe wealthy individuals who provided money for theatrical productions (Benjamin & Margulis, 1999). Scholars hold a level of commonality especially when it comes to funding my angels. They agreed in their simplest form that angels are weathy individual who provide capital for a business startup (Moses & Adebisi, 2013). A number of angel networks have been established in Africa as alternative methods of funding SMEs. They include the Cameroon Angels Network, Ghana Angels Investment Network, Lagos Angel Network, Silicon Cape, South African Angel Hub and Venture Capital for Africa (Lingelbach, 2016; World Bank, 2015). In an attempt to connect the various networks and promote angel investing, the African Business Angel Network (ABAN) was established in 2014 (World Bank, 2013).

### Theoretical Framework

Three theories have been reviewed and discussed in this work. However, this study is anchored on RDT not only because its interdependence and interrelationship is indispensable among SMEs in Africa but most importantly because most of these SMEs depend on external sources of finance which crowdfunding forms part of for survival. Firms have to obtain the resources they lack from other firms by establishing relationships with others (Schiele et al., 2015). This is a central proposition of the RDT, which was built on the notion that organizations' survival depends on their ability to acquire critical resources from the external environment (Pfeffer & Salancik, 1978).

## METHODOLOGY

The study employs exploratory research design. Not only because not too many studies have been conducted on the subject matter in Africa but for mixed results and the fact many of the scholars who have worked on the subject have not agreed at a particular conclusion. Therefore, a number of relevant materials were reviewed to reconcile opinions based of some fundamentals in SME financing and development.

## DISCUSSION OF FINDINGS

The use of Crowd funding as an alternative method of raising fund by SMEs has the potential to alleviate poverty in Africa and in many other continents of the world but findings have revealed that Africa compare to the developed world still has a long way to go. As at 2017, only 25 active crowd funding platforms in were in Africa with a combined market size of only



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$12 million. With South Africa having the highest followed by Nigeria and Egypt. When these figures are compared with 338 platforms in china alone, evidently African countries are yet to fully embrace the potentials in inherent crowd funding. Also, fund raised on African crowd funding platforms represent less than 0.1% of the total worldwide crowd funding market as many of African crowd funding activities are not taking place on the domestic platform; participants give preference to international crowd funding platforms. This resulted in the limited number of participants on both the demand and supply side of African crowd funding platform thereby making it less attractive for Africans.

The performance of SMEs in many African countries has not produced the expected impact on the development of the continent. This may not be unconnected to the numerous challenges facing the SMEs among which financed is taking at the top followed by lack of regulatory framework. According to Ekpenyong and Nyong (1992) there is wide consensus in Africa that government policies are skewed in favour of the formal sector to the detriment of the informal sector which SMEs belong.

Crowd funding is spreading to emerging market in the world with estimated US$96 billion by 2025 in crowd funding investments. The increase in social networks and websites visitation has contributed to the rising of this number. The sum of $16 billon and $35 billion were raised in 2014 and 2015 respectively when according to Adekoya (2019) some SMEs appraised the use of crowd funding as alternative source of finance for startup business worldwide. It has enhanced over 270,000 jobs and contributed $65 billion to world economy. The North America is the largest region in the world for crowd funding market with crowd funding revenue of $17.2 billion. This is followed by Asia with revenue of $10.54 billion. The Europe, South America, Oceanic and Africa had crowd funding revenue of $6.48 billion, $85.74 million, $68.8 million and $24.16 million respectively. The Chinese crowd funding market is present is the largest in the world with approximately 332 platforms as at 2016 (Adekoya, 2019). The first crowd funding platform in the world was established in China in July 2011. This is not surprising, knowing that China is the second largest economy in the world and has the largest internet user base. Besides, Chinese alternative finance market is largely unregulated.

While the crowd funding markets exhibit rapid growth in Europe and Asia, this new method of financing SME shows a very low growing rate due to lack of awareness and level of technology in Africa continent (Kazure & Abdullah, 2018). The gap in finance will only be bridged when there is enough awareness on the potentials that come with crowd funding.

Although many African governments including Nigeria over the years have become more interested in boosting activities in the SME. In Nigeria for instance, government set up the Bank of Industry (BOI) Intervention funds to aid the development of the country's industrial sector as well as intervene financially in developing sustainable enterprises. Agric Small Medium Enterprise Scheme (AGSMEIS) was created by the CBN in collaboration with the bankers' committee to support the Federal Government's effort for the promotion of agricultural businesses and SMEs. Development Bank of Nigeria Loans created by Federal Government of Nigeria in collaboration with some global development partners including World Bank and African Development Bank to address financing challenges faced by SMEs in Nigeria. Micro, Small and Medium Enterprises Development Fund (MSMEDF) launched by CBN in 2013 where SMEs can access loans from N500,000 to N50 million to fund their businesses and lastly CBN Creative Industry Fund created by CBN as part of its efforts to boost job creation, particularly amongst the youth in the country. One then wonders why these SMEs are still faced with these challenges in spite all these palliatives. The answer is simple: all these palliatives are from



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government or institutions of the government. Therefore, there is some level of 'man knows man' syndrome before the fund can be accesses. Crowd funding, as an alternative will address the challenges and bridge the gaps.

## IMPLICATIONS OF FINDINGS

The advent of crowd funding has a lot of implications to all stakeholders. Irrespective of the amount of fund an investor wants to raise, there is need for physical meeting and interactions before banks, business angels or any of the traditional lending institutions advances loans to investors. However, with the advent of crowd funding, these challenges are no more as internet has made things easier. Also, the challenges confronted by the entrepreneurs in the rural areas have also been addressed. The implication of this is that lack of physical infrastructure or accessibility to urban centres is no more a barrier to raising fund. Furthermore, the idea of depending solely on a particular investment manager, investor or loan officer is being addressed by the use of crowd funding. Instead the decision to grant credit, donate money, or invest in equity is divided between thousands of potential creditors or investors. In a way this is a true democratization of the financial system that we have not seen before. Together with the expansion of social media in different forms, this could potentially lead to a major change in the operation of financing for entrepreneurial ventures. At the very least, entrepreneurial ventures in some industries have more options available today than they had in the past.

The regulatory framework is a key enabler for the development of crowd funding platforms that imply a greater risk for investors than traditional funding. Thus designing and implementing effective regulation, which balances financial stability, investors' protection and the opening of new financing channels for SMEs, represents a crucial challenge for policy makers and regulatory authorities. The emergence of new financing models such as crowd funding may engage relatively inexperienced investors or in which the misalignment of incentives may place at risk the stability of the system, which is made more vulnerable to risk by an increased interconnectedness of financial markets.

It is also necessary to improve the quality of SMEs especially for the development of the riskier segment of the market. One of the impediments to the development of finance for young and small businesses is the lack of investor-ready companies. Besides, SMEs are generally ill-equipped to deal with investor due diligence requirements. Indeed, an increasing concern about the lack of entrepreneurial skills and capabilities and low quality of investment projects is driving more policy attention. This includes measures such as training and mentoring.

## SUMMARY AND RECOMMENDATIONS

There is need to sensitized all stakeholders on the need to embrace technology. This is the first step as no crowd funding platform will function effectively without technology. It is when this has been taken care of that the gospel of crowd funding as an alternative source of financing SMEs can be preached in Africa. Awareness which is very important to both the fund seekers and investors means adequate information and better understanding of the crowd funding concept, regulatory guide, process, benefit and risks associated with its implementation.

Since many entrepreneur in Africa have little or no knowledge of crowd funding, using it for funding SMEs and other creative ideas is at infancy, therefore proper and better understanding of crowd funding as alternative sources of finance will enhance start-up ventures



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and ideas being realised which ordinary would not have seen the light of the day. African countries should put in place friendly but firm regulatory framework in order to explore the benefit of crowd funding as an alternative method of financing SMEs. Developing the crowd funding market has the potentials to eradicate poverty in Nigeria by channelling fund from the surplus to the deficit unit. This poverty reduction can also be achieved by mobilising funds toward the growing SMEs. The various rules and regulations to be instituted by the regulators within African countries for crowd funding should protect all stakeholders and this can be achieved by disclosure requirements such as company's financial status, various risks associated with the proposed investments, names of directors and officer of the firm and the purpose of the funds to be raised. With these, the information gap will be bridge in the interest of all as the relationship will be more symbiotic.

Finally, it is not possible to capture all that has to do with crowd funding and SMEs in a purely qualitative approach as presented in this study. A quantitative research should also be conducted in conjunction to ensure difficult concepts are measured, figured and properly captured thereby resulting in a more reliable and comprehensive study.

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