

**MIDLANDS STATE UNIVERSITY**



**FACULTY OF COMMERCE**

**DEPARTMENT OF BANKING AND FINANCE**

**REGULATORY AND SMALL-TO-MEDIUM ENTERPRISES'  
PERCEPTIONS ON EQUITY CROWDFUNDING IN ZIMBABWE**

**BY**

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## **DEDICATION**

I dedicate this master-piece to my children Shekinah and Shane.

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## **ABSTRACT**

Equity crowd funding provides a novel opportunity for small and medium enterprise to initiate business enterprise without having to rely on traditional funding mechanisms, such as banks and angel investing and in return get a stake of ownership. The use of a critical mass leveraged by internet based platforms make the raising of funds quick and less costly for entrepreneurs. In previous years, small to medium enterprises were funded through banks, angel investors and private equity/venture capital. However, in post financial crisis most players in the financial sector shifted their investment strategies from maximizing profits to minimization of risks. Government and other state enterprise are finding it difficult to intermediate because of the unfavorable fiscus position. The birth of this conspicuous form of financial innovation is tipped to transform the global business environment. However in spite of its speedy growth little is known on how it is perceived by the policy makers and small to medium enterprises in particular. In the same vein there is an absence of a regulatory framework that governs the practice of equity crowd funding in Zimbabwe. In an endeavor to better comprehend this and other phenomenon, a qualitative research was carried out. The target sample consisted of SMEs and various stakeholders that are part of the financial law making process in Zimbabwe. The research utilizes primary data coupled with secondary information. We identify theories that augments the study and further explore into the opportunities and threats associated with equity crowd funding. The study also highlighted the key elements that drive the success of the model. The research proves that equity crowd funding can be a sustainable sources of funding in Zimbabwe. However, regulations will continue to underpin the development until a comprehensive regulatory framework is in place. Technology is outpacing both entrepreneurs and the regulator at a faster rate and will continue to do so unabated. The study recommends an urgent need for a standalone local regulatory framework, availability and sharing of data, educational program and a completely new behavioral finance mindset. Lastly, we also notify the imperative need of up to date crowd funding statistical data that will provide a benchmark for subsequent quantitative equity crowd funding researches.

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## **LIST OF ACRONYMS**

RBZ	Reserve Bank of Zimbabwe
SMEs	Small Medium Enterprises
GDP	Gross Domestic Product
SEC	Security Exchange Commission
FCA	Financial Conduct Authority
JOBS	Jump Start Our Business
BIS	Bank of International Settlements
ECF	Equity Crowdfunding
CDIA	Commonwealth Direct Investment Accounts
FinTech	Financial Technology
FSB	Financial Service Board
HNWI	High Net Worth Investors
VC	Venture Capitalist

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# CHAPTER 1: INTRODUCTION

## 1.1 Introduction

Bank advancing is the most widespread source of external finance for many SMEs and entrepreneurs, which are often greatly dependent on traditional debt to satisfy their start-up, cash flow and investment desires. While it is frequently used by small businesses, however, traditional bank finance creates challenges to SMEs, in particular to newer, innovative and rapid growing companies, with a higher risk-return profile (Cusmano, 2015). Access to funding for SMEs and the funding gap has remain unabated. The issue of access to finance for early-stage and small businesses has also been exacerbated by the post-2008 global recessions and the 'funding gap' very much remains (Harrison, 2013).

The small medium enterprises are affected most and hence the need of alternative to finance the SMEs. Another form of raising capital comes in the form of crowd funding. There are several forms of crowd funding namely; reward based, donation crowdfunding and equity based crowd funding. However, this research will consider equity crowd funding as a source of funding in Zimbabwe. Great stress hinges on the perspectives of policy makers and established SMEs towards this embryonic financing mechanism. This chapter will have a look on the backdrop of the study. The problem statement will be then painted in this chapter. The objectives to be achieved are stated in this chapter as well the research questions, which will help to fulfill the research goals. The significance of the study as well as the limitations that influence the outcome of this study is also highlighted in this chapter.

## 1.2 Background to the Study

Small and Medium Enterprises (SMEs) play a key role in most economies, mostly in rising nations. Formal SMEs contribute up to 60% of total employment and up to 40% of Gross Domestic Product (GDP) in promising economies. According to (World Bank, 2017), 600 million jobs will be required in the next 15 years to attract the growing universal workforce, mainly in Asia and Sub-Saharan Africa. In promising markets, most appropriate jobs are generated by SMEs, which also create 4 out of 5 new positions. However, access to finance remains a major constraint to SMEs growth.

SMEs are not bright to obtain bank loans compared to large firms; and they end up relying on inside funds, or cash from associates and relatives, to instigate and initially dash their

company. The financing breach is even larger when startups, SMEs and unofficial enterprises are taken into account. In general, approximately 70% of all micro, small and medium-sized enterprises (MSMEs) in emerging markets need access to credit. While the gap differs considerably region to region, it's predominantly wide in Africa and Asia (World Bank, 2017).

In Zimbabwe, like in most promising markets, SMEs are the backbone of the economy, but they face many difficulties mainly in terms of access to finance and skills development (World Bank, 2017). However, the order for capital to finance a project or venture worldwide by start-ups and SMEs has led to a new obvious form of financial innovation called crowd funding. This form of alternative finance equity crowd sourcing is centred on raising money from a huge mass and via web based platform called funding portal. Macaulay (2015), suggested that this financial innovation can transform the very nature of capitalism by noticeably lowering the cost and difficulty of raising funds. Financial innovation to SMEs is feasible since SMEs are flexible and innovative and can easily adapt not only to the changing production techniques but also to changes in market taste and preference (Reserve Bank of Zimbabwe, 2014).

One of the key features encapsulated in equity crowd funding is the skill to trade in the securities market. Many rising nations who adopted and perform the equity model of crowd funding have included SMEs exemptions from securities and registration placements. To sustain the growth of capital raised using equity crowd funding, changes in the domain of regulations is critical. Crescenzo (2016) also affirms that the ways in which equity crowd funding is regulated will affect its ability to supplement traditional sources of finance. Though we are now in the fourth industrial revolutions, there is no dogmatic compliment since most laws applying to equity crowd funding are emanating from the open laws of private equity. Conversely, in Zimbabwe and Africa the situation is even bad as no such regulation exists and equity crowd funding remains unregulated. Zimbabwe showed a marked improvement of 50.1% internet usage against a 51% global internet penetration (Miniwatts Marketing Group, 2017). Leveraging on internet innovations decrease the a scarcity of early-stage financing which in turn boost the ability of new ventures to develop their inventions and knowledge into practical commercial applications. (Lindstrom & Olofsson, 2010). The table below shows the level of internet and social media usage by country.

**Table 1.1: Ranking Of African Countries by Internet and Facebook Usage**

AFRICA 2017 POPULATION AND INTERNET USERS STATISTICS FOR 2017						
AFRICA	Population (2017)	Internet user 31-Dec-00	Internet User 30-Jun-17	Penetration (%) Population	Internet Growth 2000-2017	Facebook Subscriber 30-Jun-17
Nigeria	191835936	200000	91598757	47.70%	45699.40%	16000000
Egypt	95215102	450000	37333841	39.20%	8196.40%	33000000
Kenya	48466928	200000	43329434	89.40%	21564.70%	6200000
South Africa	55436360	2400000	29935634	54.00%	1147.30%	16000000
Morocco	35241418	100000	20535174	58.30%	20435.20%	12000000
Ethiopia	104344901	10000	16037811	15.40%	160278.10%	4500000
Tanzania	56877529	115000	7394079	13.00%	6329.60%	6100000
Ghana	28656723	30000	9935286	34.70%	33017.60%	4000000
Zimbabwe	16337760	50000	6722677	41.10%	13345.40%	850000
Cote d'Ivoire	23815886	40000	6318355	26.50%	15695.90%	2400000

Source: Internet User Statistics (2017)

The number of internet and Facebook user is quite significant. Amiri et al (2013)states that the growth of internet user is positively correlated to the Gross Domestic Product (GDP).Internet use has developed to cover nearly 91 percent of the population in the region, but traditional telephone use has dramatically declined to just over 44 percent(World Bank, 2017).

South Africa has a total of 18 crowd funding platforms. Eight of them are committed to equity crowd funding .However this is different to the 2 platforms that are present in Zimbabwe. None of the two platforms is loyal to equity crowd funding. Below is the table that illustrates the number of funding sites by country against the figure of projects funded:



**Table 1.1 Amount of Venture versus Platforms by Nation**

Country	Number Projects	Number of Platform
South Africa	4581	18
Kenya	165	2
Nigeria	102	9
Morocco	21	4
Egypt	23	5
Ivory Coast	19	1
Zimbabwe	17	2
Tunisia	8	2
Algeria	3	2

Source : Crowdfunding in Africa (2015:34)

In 2016 money raised through crowd funding reaches a total of 35.6 billion (Tania Ziegler, 2017). Africa raised a total of \$126.9 million in the same year. South Africa had the maximum in the region of a total of 30.8 million. The top funded project globally is equity projects in the type of real estates. In Zimbabwe the number raised were less than a million dollars. Although different forms of crowd funding such as prize and donations based crowd funding do exist. Equity crowd funding or investment crowd funding is the one that has become branch of the capital market. It allows broad groups of investors to finance start companies and undersized businesses in return for an ownership stake in the industry, normally through an internet platform. Investors give money to a business and obtain ownership of a small portion of that business. If the business thrives, then its value goes up, as well as the value of equity in that business.

Equity crowd funding departs from the models of traditional angel investors and venture capital firms because transactions are intermediated by online platform. Equity-based Investors receive a stake in the company and share the profits and risks. In 2015 regrettably Zimbabwe's two web platform recorded no capital raised via equity crowd funding (Crowdfunding in Africa, 2015). Money raised on crowd funding platforms is primarily directed to fund small and medium businesses (SMEs).

Equity crowd funding entails investment into a business enterprise and is frequently exposed to securities and financial regulations. These regulators can also play a key role in facilitating crowd funding market development (Cambridge Center for Alternative Finance,

2017). However, the lack of regulation limits the expansion of equity-based or debt-based crowd funding platforms in Africa, as it discourages potential investors to group their money in platforms in which they have no basic investors' protection rights and clear exit strategies (Crowdfunding in Africa, 2015).

The question become is equity crowd funding a harmful thing to the SMEs and to the financial systems? Should the policy maker sidestep securities and crowd funding policy reforms?

### **1.3 Problem Statement**

The current day business premises around entrepreneurship with many firms evolving into large companies from mere startups and SMEs. This necessitates an unprecedented boost in funds needed to sustain small businesses. Government and traditional financing system are failing to cope with the increase in funding gap. The former is broke and the latter is not attracted to SMEs because of the banks risk-averse behavior (Reserve Bank of Zimbabwe, 2014). Year 2007 marked the birth of equity crowd funding that swept across Europe, Asia and Africa. This device uses a web based approach of raising capital from a large group worldwide. However, the phenomenon has gained less footing regardless of a huge financial appetite mooted by Small Medium Enterprises in Zimbabwe. The low participation in terms of funding platforms, equity crowd funded project and investors induce the study to look at how is equity crowd funding perceived by the policy and law makers in Zimbabwe: How are the banks responding to the competition from these financial technology? Why does Zimbabwe lack crowd funding policies and regulations? Many researchers have been conducted on the study of equity crowd funding but no study looks on how the device is perceived by the policy makers and seasoned small medium enterprises in Zimbabwe.

### **1.4 Research Objectives**

The broad aim of this study is to analyze the perceptions of policy makers and SMEs on equity crowd funding as a source of alternative finance. Specifically the study seeks to satisfy the following research objectives:

- To explore the feasibility of using equity crowd funding as an alternative source of funding SMEs in Zimbabwe.
- To compare crowd funding to the traditional ways of funding.

- To explore a sustainable application of equity crowd funding as a source of financing SMEs
- To explore the regulatory challenges brought by equity crowd funding in Zimbabwe.

### **1.5 Research Questions**

The research will seek to answer the following questions.

- What are the perceptions of regulators and SMEs on Equity crowd funding in Zimbabwe?
- Can equity crowd funding be sustainably used as a source of funding for SMEs in Zimbabwe?
- How does equity crowd funding compare with traditional ways of funding in Zimbabwe?

### **1.6 Assumptions of the Study**

In the course of carrying out the study the following exact assumptions pertaining to the research were made, these are:

- Equity crowd funding is still new in Zimbabwe and data is available under restrictive circumstance.
- The SMEs act irrational in making investment decisions.

### **1.7 Significance of the Study**

The importance of the research stems from the fact that there is severe lack of funding for startup and small to medium businesses in Zimbabwe. This matter has become very topical as it is counterproductive to the business fraternity and overall development of the economy. However, financial innovations brought Equity crowd funding a new prominent investment model that is practiced across Europe and Africa. This tool proliferated by the internet can be a solution to ease financial tumor that is prevalent amongst the SMEs. On the other hand equity crowd funding is drive by data, this is vital in making quick financial decisions. The research hypothesizes that appropriate policy framework which encapsulate equity crowd funding and magnetize global investor thereby increasing the sums of money raised on funding portals. At the same time SMEs financial literacy and transform of behavioral perceptions on equity crowd funding can endorse efficiency in raising capital.

Also given the fact that, a persistent lack of funding for startup and small-medium enterprise eventually result in high level of unemployment and negative economic expansion. Should the lawmakers and SMEs fail to become religious on financial technology, chances are high that international investors' confidence in Zimbabwe as an investment hub will diminish and become under spot light. Also on the other hand the nation will not be clever to attract foreign direct investment. Equity crowd funding will give our economy a new look of trending from debt to equity

In view of the need to strengthen the supervisory systems in place, the research problem seeks to assist policy makers and regulatory authorities to identify potential intimidation and opportunities to equity crowd funding .This thereby deviseactions to resolve the problems in the soonest possible time. The study will also assist the traditional banks, regulators and small medium enterprise to construe dynamism of modern business thereby exploiting various strategies.

### **1.8 Scope of the Study**

The research is primarily focusing on equity crowd funding as a basis of alternative finance in Zimbabwe. It goes on to scrutinize the perceptions among various stakeholder particularly policy makers and established players in small to medium business on crowd funding. The research utilizes information from a survey of 100 SMEs and diverse civil groups that are involved in the crafting of national financial policies. The research goes on to assert the impact of policies on the acceptance or abandon of equity crowd funding.

### **1.9 Limitations of the study**

The research was carried under the limitations highlighted below:

The researcher had limitations in the number of questions answered .This is because different people had different views about equity crowd funding. It was noted that the respondents would leave some section unanswered because they showed some element of ignorant of the subject matter. In that regards the researcher had to administer lots of questionnaires to counteract the effect. The data collection process was not a smooth sail as some of the respondent failed to co-operate. Out of a total of 100 respondents 85% responded well and the other balance of 15% was compensated through the use of interviews

The main reasons for this emanated from confidentiality issues. Certain information was regarded as very sensitive and it was against company policy. However, the researcher probe

questions to different SMEs since the term confidential do not apply the same to all firms. The other limitation was the inability to access some targeted first tier respondents because most of them had busy schedules and may delegate to second or third tier respondents. Since the research was primarily for academic purpose, the time available may not be enough to exhaust the issues under study. This also applies to the limitation imposed by unavailability of information and communication technologies.

To mitigate the effects of the limitations given above the researcher issued out many questionnaires so as to get as enough completely filled in questionnaires as possible concerning the subject matter under investigation which assisted the researcher in drawing out a satisfactory analysis from the questionnaires. The researcher exploited the available networks so as to circumvent the direct access of confidential information from SMEs as well as regulatory authorities.

### **1.10 Definition of Terms**

In this research project, the words used are defined as delineated below

*Crowd funding*-is a method of raising capital to fund a project or a venture through small contributions from a large group of individuals, friends, family, customers, individual investors, among other people.

*Equity-Based Crowd funding*-investors receive a stake in the company. Equity-based crowd funding allows investors to become part-owners of the company raising money by trading capital for equity shares. Investors are entitled to receive financial return for their investment and a share of their profit (dividend and distribution).

*Small and Medium Enterprises*-are non-subsidary, independent firms which employ less than a given number of employees.

### **1.11 Organization of the study**

The study is structured into five chapters with each chapter systematically organized to meet the research objective. The previous chapter gives a synopsis of the background of the study and painted the problem statement. This was followed by the research objectives and question. Chapter two is on review of the literature conducted in regards to crowd funding. Emphasis is placed on equity crowd funding regarding regulations and how SMEs recognize

this financing mechanism. In order to bring the issue of discussion the study introduced various forms of crowd funding. The theories that form the basis of the model were painted. This is correct for the benefits and threats that come with equity crowd funding, crowd funding portals. Chapter three looks into the research methodology developed to land at the research questions. It also illustrates how the data is collected, sample and the instruments employed in order to explore relevant theme that addresses the research questions. Chapter four looks at the results obtained from the respondents pertaining to the study. The final chapter is about a summary of findings, recommendation and suggestions for further research.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter seeks to set out the review of the theoretical and empirical literature on the subject and highlights the key issues relevant to the study. The literature on equity crowd funding can be separated into three groups namely academic research, publications by market participants and studies carried out by central banks and players in the financial services sector. The researcher will look into the essential concepts of crowd funding, the platforms, regulatory setting, opportunities and threats posed by equity crowd funding. Moreover a comparison of crowd funding versus traditional financing method will be discussed and lastly its association with Islamic financing.

### **2.2 The Equity Crowd Funding Concept**

Crowd funding is a fresh internet-based system to raise capital - pool small amounts of money from individuals. The approach is attractive to entrepreneurs, because it not only allows raising capital for small businesses, which have very limited financing options, but also serves as a tool for testing marketability (Valanciene and Jegeleviciute, 2013). Though, crowd funding for equity is currently prohibited almost everywhere, though it would be helpful for entrepreneurs, investors and governments. Legal changes are now being made, so a big part of the available literature on crowd funding reveals attorney's point of view (Sullivan & Ma, 2012).

According to World Bank (2017), there is a big credit gap existing between the funds required by SMEs and the funds existing from various financial institutions. The number of MSMEs in the Middle Eastern and North African countries including unserved and underserved MSMEs is around 10 million.

Belleflamme (2014) further explains that much of the crowd is found through social networks such as Twitter, Facebook, LinkedIn and other crowd funding based platforms (Belleflamme et al 2014). The use of the internet allows broader contact and ability to communicate their message and obtain capital from the crowd all over the world or from people who an entrepreneur would have never had any way to communicate before. (Belleflamme et al, 2014). The population of internet user global reached an estimate of 3.2 billion. This figure reached 51% as of June 2017 (Miniwatts Marketing Group, 2017).

Crowd funding in South Africa raised a total of 14.5million between 2015 and the first quarter of 2016.This model accounted for 6% of the market activity (Allied Crowds, 2016).This is a major figure as compared to Zimbabwe. South Africa like many Africa nation has no explicit legislation on crowd funding. The statutes has not been tabled in the Parliament, individuals and organizations are providing crowd funding services as an investor, by engaging the Financial Services Board openly in order to ensure they stay contained by the existing regulations. Crowd funding companies who apply for licenses to the financial service board are being turned down as the activity is deemed to fall outside their jurisdiction.

The International Finance Corporation (2015) approximates that up to 84% of small and medium-sized firms in Sub Saharan-Africa take great effort to get the sufficient financing from banks and other financial institutions, which results in a credit financing breach of USD 140-170 billion.Capital raised by Africa-based crowd funding websites was mainly directed to fund startups and SMEs (\$17.7 million), real estate crowd invested projects (\$13.6 million), travel crowd funded trips (\$319,434), and to offer to shared causes and charity projects (\$307,860).

In the USA, the situation is changing very fast to the benefit of crowd funding. Crowd funding became active following the promulgation if the JOBS Act by Barack Obama in 2012.Title III of the Act is dedicate to crowdfunding. According to Ramsey (2012), as a result of JOBS Act, entrepreneurs can crowd fund their businesses using equities rather than goods in exchange for money. Attorneys Sullivan and Ma (2012) shortly describe the effects of JOBS Act – “it allows any Zuckenbergn wannabe with aplan to skirt securities laws to draw equity investors.” Entrepreneur can amass up to \$1 million from investors putting in no more than \$10 000 each, or no more than 10% of their income, whichever is less. In case audited financial statements are provided for investors, the amount increases to \$2 million.

Ramsey (2012) emphasizes that being capable to sell shares of their company without going through the expensive, time-consuming method of registering with the SEC is good news for entrepreneurs. However, currently crowd funding through equities is still considered illegal as there are no means to do it - SEC has not yet issued the rules governing equity crowd funding (Ramsey, 2012; Lynn, 2012). Despite that, the requirements by SEC were expected



to be written by 2013, and it looks promising that they will be proposed very soon and the new era of crowd funding will begin (Valanciene and Jegeleviciute, 2013).

The Financial Conduct Authority (FCA) is the regulating body which monitors and supervises crowd funding activities in the UK (Revenue and Custom, 2017). The FCA implemented crowd funding regulation with interim measures and prudential requirements to permit firms to become slowly compliant after a long consultation period. Many top platforms offer internal secondary markets to allow investors to sell on investments to other investors on their platform.

For equity crowd funding, there are also generous tax incentives enabling investors to offset their risk against risky early-stage company investments (Revenue and Custom, 2017).

Several equity based crowd funding investment lack adequate secondary markets to enable investors to exit. This will cause many investors to wait couple of years until they realise any returns while not being alert of the very high risk and potential loss of all capital.

The simple definition of equity is the amount of money raised by the firm that comes from the owners or (also known as the shareholders' investment) (Hillier et.al 2011). Proponents of equity crowdfunding argue that it is an alternative financing option that benefits all parties. This includes entrepreneurs that are not interested or able to access traditional bank, venture capital (VC) or business angel funding while also lowering barriers to entry for investors (Crowdfunding Hub, 2016). Likewise, for crowd funding projects, equity is given as reward in trade for the investment from individuals from the crowd. This gives the investor a sense of ownership in the crowd funding projects.

According to Hemer (2011), equity based crowd funding is one of the difficult branches of crowd funding (Hemer, 2011). He further defines equity based crowd funding as "Crowd funders invest equity, the reward are either in shares of the venture, dividends and / or voting rights" (Hemer, 2011). This is also in line with the definition of equity in return from investment from Belleflamme et.al (2014). However, one of the difficulties with equity based crowd funding is the failure to correctly asses the value of a company since a good valuation to one person can be seen as totally irrelevant and incorrect by others (Brodersson et al, 2014).

The agency theory which is concerned about the relationship between the principal and the agent is relevant to equity based crowd funding (Jensen et al, 1976). The agency theory views firms as a bundle of contracts where different agents will act opportunistically within efficient markets and therefore the agency costs should be minimized (Ross et al, 2002). In the case of equity based crowd funding, the agency theory can help us know how the goals of equity crowd funders or the individual investors align with the entrepreneurs. Due to the delegation of tasks and transfer of responsibility there are some agency dilemma in motivating one party due to the fact that both parties (the principal and the agent) have different interests and asymmetric information (Zhang, 2012)

In the case of crowd funding, individuals provide the firm with financial help. Crowdfunding normally takes place through social networks, online especially, with the entrepreneur detailing the business activities and objectives, in some cases in the form of a business plan, and requesting funding under specific terms and conditions (Cusmano, 2015). This represents the major innovation of crowd funding with respect to other forms of finance, as the entrepreneur does not desire an intermediary, such as a banking institution, to hunt for funding and can source directly the savings of a large audience.

Crowd funding is not only a mean to raise funds, but can also symbolize an important mechanism to share information with a huge public, increase awareness about projects and products, seek feedback to improve them, and get recognition which may help in future commercialization (Metzler, 2011)

### **2.3 Forms of Crowd funding**

Financial reward crowd-funding has three major business models: the client segregated account model, the notary model and the equity crowd-funding model. The main variation between the two peer-to-peer lending models, the client segregated account model and the notary model, is that in the later a bank originates the loan unlike the preceding where the platform originates the loan. The third model, equity crowd-funding, is different from peer-to-peer lending as it assign stock equity to investors, with the financial return coming in the appearance of dividends and/or capital growth.

In rising nations such as Zimbabwe the most prominent forms of crowd funding are reward-based and donations as there are no complex regulatory aspects that needs to be met.

Figure1 shows that donation-based crowd funding and reward-based crowd funding belongs to the main category of crowd funding. Debt/lending and equity based crowd funding forms are part of the subcategory - crowd investing.

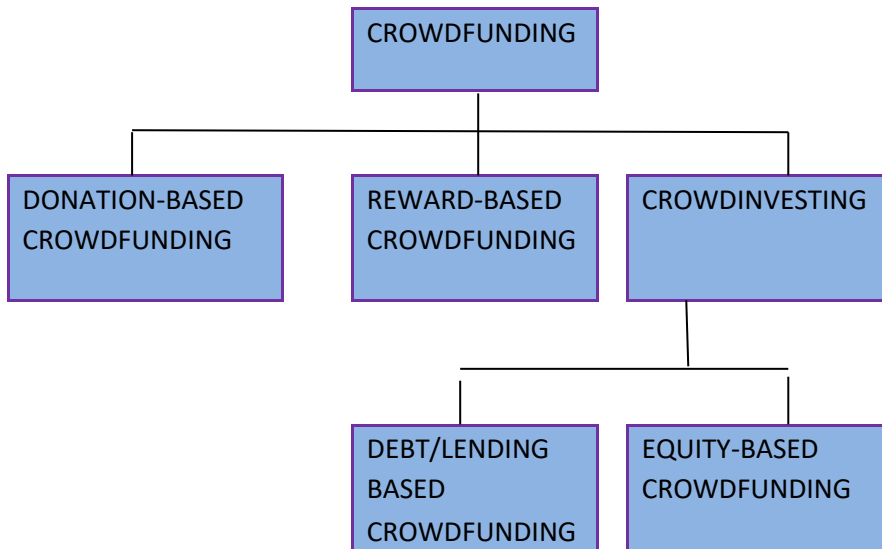


Figure 2.1 Forms of Crowd funding Arrangement

Source: Kirby and Worner (2014:8)

Equity crowd funding offers a return on investment in time if the business does well. The diagram below shows various forms of crowd funding together with their forms contribution, returns and motivation of the funders.

**Table 2.1 Structure of Contribution, Return and Motivation**

	Form of contribution	Form of return	Motivation of funder
Donation Crowd funding	Donation	Intangible benefits	Intrinsic and social motivation
Reward Crowdfunding	Donation/ Pre-purchase	Reward but also intangible	Combination of intrinsic and social motivation and desire for reward
Crowdfunded Lending	Loan	Repayment of loan with interest. Some	Combination of intrinsic,. social and financial

		socially motivated lending is interest free	motivation
Equity Crowdfunding	Investment	Return on investment if the business does well. Rewards also offered sometimes	Combination of intrinsic ,social and financial motivation

Source Wegner (2013:39)

### 2.3.1 Donation-based Crowd funding

The most ordinary division which draws investors who for instance would like to see a certain product reach the market and are thus willing to give up some of their own money to see that happen.

### 2.3.2 Reward-based Crowd funding

This is similar to the donation-based platforms but where the investor will get some sort of reward in exchange for the funding. The reward does not depend on the results obtained by the campaign, in fact, the economic value attributed to it is generally lower, and it can also be a simple thanksgiving or a concession on the purchase of the product. The utility obtained by the proponent is therefore closely linked to the feeling of social and actively participating in the implementation of a new project.(Molinaro, 2016) Examples of this can be pre-ordering privileges or limited edition products. The scope of the rewards usually varies along with the sum invested. This class includes projects related to art and politics.

One the fascinating feature of crowdfunding is the geographical dispersion of the investors. Agrawal et al (2011) carry out a study on the geography of crowdfunding to assess whether it affect investor participation, However they suggested that investors in reward crowd funding back the projects irrespective of the geographical location of the entrepreneurs.On the other hand Mollick (2014) studied equity crowd funding platform to investigate the characteristics of the success and failure of the projects. He stated Geographic factors influence the nature and success of crowdfunding.Moreover he noted that Successful crowdfunding are related to signals of quality of the proposed project (Mollick, 2014)

### **2.3.3 Lending/Debt-Based Crowd Funding**

It is simply a credit contract that is repaid with interest. This model could represent the development of microcredit. The platforms may take different forms in debt-based crowdfunding. Some platforms are middlemen while other is issuing the loans themselves. Usually this procedure occurs in case of loans to low-income people who do not have the requirements to access traditional financing channels(Molinaro, 2016).

### **2.3.4 Equity-Based Crowd Funding**

This kind of crowd funding turns the crowd into investors by issuing shares of the company to the funder in switch for a monetary contribution. Hence equity-based crowd funding portals provide the crowd with direct access to private equity. By investing on the web you purchase a title of ownership in a company where the administrative and financial rights come from. Through the investment, the crowd funders themselves become entrepreneurial members. It is an innovative mechanism that could revolutionize the cultural model of our entrepreneurial system(Molinaro, 2016). Among the models it is the one that collects higher amounts for each investment proposal, with an average value that is around 165,000. Many countries are taking action to draw up specific regulations able to approve the financial needs of those start-up realities as well as of the small - medium companies that have no access to any capitals through the traditional channels. Italy is one of the first countries that have disciplined the equity crowd funding(Molinaro, 2016).

## **2.4 Drivers of Equity Crowd Funding**

The success of equity crowd funding is centered on the following major drivers:

### **2.4.1 ICT Development**

Improved access to the Internet via mobile phones and other devices, user-generated web content, boom of online applications, increasing use of social networks, “Big Data” analytics,<sup>3</sup> and the financial technology evolution made crowd funding viable by reducing operational costs and increasing the potential reach of crowd funding platforms (Terry et al, 2015).With the development of Web 2.0, instead of passive review of website content, users are capable to take an active participation in creation, modification and transmission of information.Technological innovations are also made simple with the advent of state of Global Positioning satellite system.Lunenfeld (2007) notes that “Web 1.0 users’ characteristic

activity was surfing static Internet pages”, whereas Web 2.0, on the contrary, is built on the “architecture of participation(Chaffee and Rapp, 2012).

#### **2.4.2 Macro-economic Environment**

The financial crisis and the subsequent credit crunch presented a major challenge for the financial system (Terry et al, 2015). Banks and other financial intermediaries have tightened access to credit, especially for smaller loans because of cost efficiency concerns and for loans to clients who do not have sufficient collateral because of prudential considerations. This has created a new demand for capital (fundraisers). On the supply side (funders), the protracted low-interest rate environment, which diminished the returns on traditional saving products, has driven a “search for yield” (BIS, 2012) and pushed funders and retail savers to alternative forms of income generation

#### **2.4.3 Regulatory Arbitrage**

One clear motivation for intermediation outside of the traditional banking system is for private actors to evade regulation and taxes. Acharya, Schnabl, and Suarez (2011) stated that the incomplete nature of regulatory reforms leaves banks much more constrained than in advanced economies, this creates many favorable opportunities for non-bank channels to compete with banks through regulatory arbitrage. FSB (2014) also added that due to lack of regulations on shadow banking activities including simpler on-boarding procedures and favorable capital requirements, an increasing number of customers are finding value in this alternate banking system. Shadow banking, which has been outperforming the development of traditional banking systems, represents a real threat to conventional banking as it can undermine the stability of the financial system with risks being potentially transmitted to the regulated system.

Schwarcz (2012), was of the view that crowdfunding tend to be less regulated than traditional Banks, this inevitably means that regulatory arbitrage drives the demand for shadow banking to some extent. Therefore, increasing bank regulation will almost certainly increase alternative financing avenues in the form of crowdfunding. This was witnessed in Russia and India where the increase in formal banks regulation resulted in increase in demand for alternative financing, Bush (2013).

Crowd funding platforms have been benefitting from the regulatory changes that took place after the crisis (Terry et al, 2015).The more stringent regulatory requirements significantly increased banking costs of competing in certain markets. Because crowd funding is just starting to be regulated across the globe, many jurisdictions do not impose stringent regulations on crowd funding just yet (IOSCO 2015a). This approach gives the crowd funding industry advantage over its competitors, particularly incumbent financial service providers.

#### **2.4.4 Data Availability**

The government and all regulatory authorities, investors and other stakeholders in the financial sector require access to valuable and relevant statistical data on financial inclusion in the country(RBZ, 2016). Accurate, reliable and timely information is vital to effective decision-making in almost every aspect of human endeavor, whether it be undertaken by individuals, community organizations, businesses or governments.(Eslake, 2006)Data is critical for policy decision making, investment choice and business continuity decisions. The prospective growth of equity crowd funding is going to be driven by the accessibility of reliable timely data. However, since the practice is still new data is available at stringent circumstances especially in Zimbabwe.

The accessibility of information can influence the SMEs, investors and regulators to promote a collaborative approach in the implementation equity crowd funding. Data will be useful in identifying the extent or problems or the effectiveness of model designed in alleviating challenges to SMEs financing. This data has to be composed and assembled in a transparent, rigorous fashion, in accordance with established sampling and other statistical procedures and free of any suggestion of pre-determined bias. Information is a foundation of influence and power.

### **2.5 Theoretical Support and Challenges of Crowd funding**

The evolvments of crowdfunding have enabled various players to keep tab with the following strengths and weaknesses that might arise as results equity crowd funding.

#### **2.5.1 Moral Hazard and Adverse Selection**

The amount of investor's information available on the funding portals is limited.SMEsin this case are less regulated in comparison to the stock market or other venture business

negotiations. Schweinbacher et al. (2011) reiterate that equity crowd funding platforms tend to draw relatively unsophisticated investors incapable of evaluating information appropriately when compared to venture capitalists. He further pointed out that this lack of an educational competitive analysis or disclosure of potential dilution in the near or distant future will make it very difficult for any crowd, wise or unwise, to properly value or determine the potential success of a project.

Information asymmetry in equity crowd funding leads to the problem of adverse selection of projects. Adverse selection is “the process by which the price and quantity of goods or services in a given market is altered due to one party having information that the other party cannot have at a reasonable cost. In equity crowd funding, neither everyday investors nor start-up founders can correct the information imbalance that exists at a reasonable cost (Agrawal et al., 2016). In such scenarios high quality projects may be shunned while accepting low quality ones as described by George Akerlof on the story of bad lemons. The bad lemons problem emerges as an instance where high information asymmetry pushes high quality projects out of the market to the extent that only low quality projects, or “bad lemons” are left (Skoglund and Stiernblad, 2013).

While it is apparent that the funding portal should perform thorough screening operations, many are found to be merely functioning as market places that do not take this responsibility. This is so because everyday investors typically lack the time, money and expertise to inject themselves into the day-to-day management and oversight of the start-ups they fund (Catalini et al., 2016).

### **2.5.2 Agency and Signalling Theory**

In equity crowd funding the amount received by the entrepreneurs is more or less than expected (Collins and Pierrakis, 2012). This inability of the entrepreneurs to manage the amount received from the crowd creates the agency problem. On the other hand the splitting up of intermediation activity by the investors and SMEs across multiple crowd funding platforms has the potential to aggravate underlying agency problems. Most investors are limited to the holding of a specified number of shares within one firm. However, the probability of



the investor to invest in other equity crowd funding platform is very high. This is also the same with small firms who may not get all sufficient capital in the first round of investment.

In particular, it is typically costly to convey complete and accurate private information about the credit quality of a borrower between financial mediators and the transfer of credit risk without a complete transfer of this information creates agency problems leading to inefficient outcomes. Less funds stifles the project whilst excess leads to a waste or overly risky business decisions. This is strictly linked to the signalling theory. It is believed that market information is symmetric, denoting companies and investors have the equal information with respect to the company's prospect projects/investments. This assumption, however, is not realistic. When building capital decisions, a company's management ought to have more information than an investor.

### **2.5.3 Credit Rationing**

Equity crowd funding evolved out of the credit rationing. Freel(2007) describe credit rationing occurs when loan demand is greater than supply, resulting in a situation where some borrowers receive no loans or less than the amount applied for at the prevailing interest rate (Freel, 2007). The main obstacle in accessing funding has been thought of in terms of credit rationing behaviours of financial institutions. According to various researchers it has very adverse impact on previously disadvantaged groups who have partial access to resources (Mazanai et al, 2012). Most financial institutions limit funding to the Small Medium Enterprise in a way of safeguarding against the default risk. This has led to the players to seek various means of financing the SMEs.

Stiglitz and Weiss (1981) explored the options among diverse financing sources in terms of credit rationing as well as asymmetric information. Asymmetric information can lead to credit rationing conditions by altering the risk-return supply; this in turn inspires banks to reject capital for investments and produces departure between capital demand and supply (Alfo and Trovato, 2006). Constrained access to funding derived from financial institutions' credit rationing behaviour might not be competent because managers work under conditions of asymmetric information. This can result in less lucrative investments getting financed while more profitable investments are being left out and therefore resulting in moral hazard and adverse selection risks.

Fervent debate about reforming securities regulation has arisen from the emergence of equity crowd funding (also referred to as investment-based crowd funding, securities crowd funding or crowd investing), which describes a financial innovation in securities issuance that gives small entrepreneurs access to the general public (Ahlers et al., 2015; Vismara, 2016). While transaction costs made it unlikely in the past that small amounts would be offered to the general public, the Internet now provides opportunities to do so. Equity crowd funding has therefore become a viable alternative form of external finance for entrepreneurial firms in countries that permit the solicitation of the general public without the issuance of a costly prospectus. In this paper, we investigate the impact of securities regulation on equity crowd funding and whether securities regulation should promote equity crowd funding in order to offer alternative source of finance to entrepreneurial firm (Hornuf and Schwienbacher, 2016).

## **2.6 Crowdfunding implication to Traditional Banking**

Financial intermediation outside the formal banking system is not a new phenomenon in Zimbabwe though the country had a less developed financial services sector for long since post-independence. As early as 1990, before the formal banking system came to maturity, financial networks were in place, with credit intermediation services being provided based on collateral. Zimbabwe has been an important hub of those systematic structures outside the formal banking system that are designed to help circumvent regulations. The products and services offered by the alternative financing were mainly appreciated by households who are deprived of creditworthiness because they offer them an opportunity to access credit (Pozsar, 2010). Ricks (2010) argued that these individuals who are perceived to be unbanked by the formal banks are forced by their personal situation to take high-interest loans from other sources.

At the same time Banks willingness and ability of carrying risks has declined in the aftermath of the global financial crisis and has been further restricted by the tightened regulation imposed on banks after the crisis.

## **2.7 Crowd funding Platform**

In order to safeguard the interest of the investors and the issuers, funding portal should exercise intensive due diligence on prospective issuers and verify the proposition of the issuer. In Malaysia issuer disclose document which are verified for accuracy and made accessible to investors. However, crowd funding platforms founded in Africa operate and fund projects within their home countries. Since online crowd funding is a new alternative

form of fundraising in Africa, most crowdfunding platforms focus on gaining foothold and a significant market share within their home country, before planning any regional or Pan-African expansion(Crowdfunding in Africa, 2015).

The absence of regulation limits the expansion of equity-based or debt-based crowd funding platforms in Africa, as it deters potential investors to pool their money in platforms in which they have no basic investors' protection rights and clear exit strategies(Crowdfunding in Africa, 2015).The African Crowd funding Association (ACFA) was founded in 2015 to lobby actively on creating a legal framework .Equity crowd funding platforms raised \$13.9 million in 2015 from real estate platforms and business-focused platforms. Money raised on crowd funding platforms is primarily directed to fund small and medium businesses (SMEs). Access to finance remains the greatest challenge for many businesses in Africa.

## **2.8Equity Crowd funding versus Traditional Financing Methods**

Traditional finance granted by business angels, banks and venture capitalist usually involves only a little knowledgeable people or institutions rather than a large assembly of individuals. Unlike basing upon the internet, an equity crowd funding campaign can easily and quickly reach more potential investors than a traditional way does (Schwartz, 2013)This causes the risk and costs per investor in equity crowd funding projects to be lower than in traditional funding model(Ordanini et al, 2011).Registration for an equity crowd funding project on the internet is free and promoting it is not very costly.

Lehner (2013) describe the registration requirements and regulatory accompanying a public security offering as too onerous; Registration cost and compliance with security laws and regulation for public offering are too expensive and cumbersome for the Small Medium Entrepreneurs. Whilst performing due diligence extra cost are incurred in travelling, printing and many other types of expensive administrations.Equity crowd funding allows the issuer to avoid quarterly and annually obligation audited reports when the entrepreneur and investor to deal with each other on the internet(Schwartz, 2013).These benefits tend to prevents small business from raising capital through traditional sources.

The other limitation cited by Loucks (2013) is the high investment thresholds required by traditional finance, investment cost and the inability to diversify investment portfolio. Sorensen 2012 further illuminated that the benefits of an equity crowd funding model are not only the financial aspect but also contributions in production, promotion and distribution made by the crowd. Belleflamme et al (2014) indicate that it also helps entrepreneurs to collaborate with investors to undertake their entrepreneurial projects and manage new ventures. However, equity crowd funding projects per se contain high risks with the uncertainties of crowd funders about the project's legitimacy and development of products or services. They also have a high rate of failure and may face administrative and accounting challenges that require meticulous and laborious bookkeeping of a large number of shareholders(Sigar, 2012).

## **2.9Equity Crowd funding and Islamic Finance**

Crowdfunding as an alternative to financing Micro Entrepreneurs, Small Enterprises, and startups exhibits the rationale of promoting the core values of Islamic finance and thereby achieving its targets of socio-economic development in regions of shariahcompliance. According to World Bank (2015) there exist huge financial gap for SMEs and the funds available from institutional investors. Furthermore the unemployment rate for youth is pegged at 21% .Equity crowd funding is inclined to their commercial law which favor equity financing to debt financing. Debt that bears interest is considered riba (illegal) and financing through equity is halal.

Muslims represent about 23% of the global population (1.6 billion in 2010) and are expected to reach 30% with 2.2 billion adherents by 2030 (Population Reference Bureau, 2011).In Zimbabwe the Islam community constitutes about 1% of the population. Reserve Bank of Zimbabwe (2016) launched a financial inclusion strategy emphasizing on product, process and market innovations. Financial inclusion should be about not excluding individuals or institutions from accessing financial products due to their religious or cultural preferences. Therefore, Shariah-sensitive individuals or institutions should not be disadvantaged due to the fact that they are only willing to deal with Shariah-compliant funding alternatives.

**Table 2.2 Islamic Financing Options for SMEs**

Islamic Financing Options for SMEs						
Asset-Based			Equity-based			
Murabaha	Ijara	Salam	Musharaka	Diminishing Musharaka	Mudaraba	

Source: World Bank (2015:22)

Financing options in the Islamic community favors asset based and equity based financing options. Equity crowdfunding make it possible to use Musharaka and Murabada options.

### **2.10 Behavioral Finance and Equity Crowd funding**

The way in which the participants subscribe to the notion of equity crowdfunding is affected by the behavioral perception of individual firms in making investment decision. Looking at the bird point of view, equity crowd funding is attractive and a very brilliant concept that can turnaround the country’s economic fortunes. Equity crowd funding on both the SMEs and investor fosters a participatory element that is likened to illusion of control bias. Pompian (2006) describes illusion of control bias as the tendency of human beings to believe that they can control or at least influence outcome when in fact they cannot. This liberty unveiled to all parties on who to fund, where to get the funds and which platform to use instill some form of control to all parties.

In taking a closer look onto the SMEs in Zimbabwe, the researcher found that most investors and firms eventually suffer some form myopic loss aversion as they fear that they may waste time or lose their companies to some unscrupulous investors’ .Loss Aversion prevents people form unloading not profitable investments, even when they see no prospect of a turnaround (Pompian, 2006). Furthermore it may cloud SMEs from seeking funds through other means. Their analysis before investing is more descriptive in nature without getting knows the future outcome.

## **2.11 Equity Crowd funding and Financial Inclusion**

GPIF (2016) annotates that crowd funding may support financial inclusion as it can be a quick way to raise funds with potentially few regulatory requirements; it can be cost-efficient and can produce a good return for the lender; and its potential market reach is limited only by access barriers to the platform and regulatory restrictions where applicable. This statement compliments with the financial inclusion strategy launched by the RBZ in March 2016. According to Asutay (2012) the foundational philosophy of financial inclusion is anchored heavily on the economic and social development initiatives in the form of servicing the un-bankable groups such SMEs.

## **2.12 Legal Review of Existing Regulatory Landscape**

Equity crowd funding in the many nations was a basically unregulated and only common law ideology applied. This allowed market participants to undertake activities that may not have been permissible under other regulatory frameworks (Crowdfunding Hub, 2016). In 2015, the UK was the third largest market in the world for alternative finance, with \$4.2 billion raised that year (Cambridge, 2016).

In April 2014 FCA endorsed the new regulation on crowd funding platforms which requires them to be licensed and controlled by responsible parties. A screening process must also be in place to identify between sophisticated and non-sophisticated investors. The FCA has also devoted to carrying out a complete post-implementation evaluation of the crowd funding market and its regulatory framework beyond 2016 to see whether additional changes were required (Allied Crowds, 2016) Many leading platforms offer internal secondary markets to enable investors to sell on investments to other investors on their platform. However, no multi-platform secondary market currently exists.

The investors' that are considered "none sophisticated", a constraint is placed upon them regarding how much they are allowed to invest. In United Kingdom these investors are not permitted to invest more than 10% of their net invest assets through equity crowd funding. These same investors also appear under section Title iii which was promulgated in May 2016. The legality of crowd funding was resolved in 2012, and it took Securities and Exchange Commission (SEC) an additional four years to implement all the final rules under the Jumpstart Our Business Start-up (JOBS) Act (Cambridge Center for Alternative Finance,

2017). Other further restrictive were placed on the selling of securities, advertising and size of investment. All platforms which promote or sell a security are registered with the SEC and FINRA. As such, regulation for crowd funding is more similar to broker-deal rules, and focuses on securities sold on crowd funding platform.

In South Africa there is no explicit mention of crowd funding in legislation in South Africa, and at this stage, legislation has not been proposed in parliament. A person interested in offering crowd funding services, either by issuing opportunities or as an investor, should engage the Financial Services Board directly in order to ensure they stay within the existing regulations.(South Africa FSD, 2016),In Zimbabwe organisation that are applying for crowd funding but the Reserve Bank of Zimbabwe and Securities Commissions Of Zimbabwe stated that equity crowd funding fall outside their control.

In crowd investing investor protection regulation may be called upon to limit investments on equity crowdfunding platforms to professional clients, to investors with explicit competences, and to high net worth individuals (HNWIs). Such a strict regulation could lessen the number of feasible investors giving money to business projects and ideas via online platforms. Moreover, as Pierrakis and Collins (2013) recommend, regulation could be deemed as inconsistent with the fundamental principle of crowdfunding, which is the monetary contribution (if even very small) of the crowd, to the funding of projects and ideas via the internet. This crowd is largely comprised of non-professional investors wishing to contribute to the realization of a business idea that they trust in.

### **2.13 Threats and Opportunities of Equity Crowd funding**

The true adoption of crowd funding is achievable once the regulators and the SMEs understand the technique behind equity crowdfunding. In order to gauge the mechanism of the financial tech the study looks at the threats and opportunities presented in equity crowd funding to investors, SMEs, regulator and the issuers.

#### **2.13.1 Threats/Risk of Equity Crowd funding**

As equity crowd funding is still a relatively new form of alternative financing, the risks surrounding the professional liability of the platform are largely untested (Crowdfunding Hub, 2016). As with any emerging industry there are risks relating to failure, security, fraud, low quality investments and return of investment

- **Greater risk of failure**

The business model that is financed via equity crowd funding is at a greater risk of failing than the one capitalized through traditional means of SMEs financing or venture capital. This is so because crowd funded business lack the pre requisite knowledge and guidance associated with venture capitalist and various professionals, when the firm undergoes major challenges in its development phase. Metrick et al (2008) indicated that VC performs extensive due diligence by analyzing every aspect of the company. Without adequate monitoring of business plan and supporting structures the potential business can fail.

- **Complete fraud**

Equity crowd funding promotes the ease of doing business and bring convenience using internet. Matthias (2015) affirm that to efficiently interact with the crowd, with potential customers and supporters, entrepreneurs use different interactive communication methods such as Face book, Twitter or specialized blogs. However, these online forum and social media are prone to attract fraudsters .Fraudsters may set a dubious project to draw equity crowd funding from naïve investors. In that vein investors who have not performed necessary due diligence may end up losing their whole investment to counterfeit crowd funding schemes.

- **Risk of Return on Investment**

External investors back projects in equity crowd funding to receive a return on their investment (Signori & Vismara, 2015). However shares listed on the crowd funding platforms are not easy to trade. The UK Financial Conduct Authority (FCA) raises the concern that these estimates are based on “misleading or unrealistically optimistic impression of the investment( Financial Conduct Authority, 2015).More often equity may not ever accrue to the investors because management may deviate from the initial business blue print as it tries to scale up the operations.

This may lead to capital erosion rather than wealth creation. There could be a secreted opportunity cost devoted to equity crowdfunding because it ties wealth that could be deployed elsewhere to build returns. In Zimbabwe funding has been unveiled by internal investor who appreciate the economic terrain. Even so equity crowdfunding has not attracted



any investors in Zimbabwe because of the opaqueness of the crowdfunding regulatory framework.

- **Security of Crowdfunding Platforms**

Recently the world has seen an increase in the cyber crime. Symantec (2017) observed that strikes against businesses and nations hit the headlines with such regularity that we've become numb to the sheer volume and acceleration of cyber threats. Recently data repositories have become susceptible to cyber crime. The hackers have portrayed an alarming capability to break into invincible data. This year Zimbabwe academic institutions National University of Science and Technology (NUST) became prone to hacking and most of their files were encrypted. The prospect of similar risk exists for crowd funding and concerted efforts are needed to avoid these cyber threats.

- **Low Quality Investments**

With equity crowd funding there is a norm that the quality of investment may be lesser. This is because many would turn to the model after failing to draw financing from other convectional sources such as venture capitalist, traditional banks and angel investors. This will cause the equity crowd funded projects to likeordinary investment opportunities that have limited growth potential. This is made worse since equity crowd funding do not have institutional partners.VC acts as general partners and investors as the limited partners (Metrick & Yasuda, 2007), these limited partners could be institutional partners such as banks. In the same vein, the other main problems of equity based funding is the difference in the valuation of the company/ project due to the fact that the project is early in its development stage and entrepreneurs may have different perception or optimistic assumption about the future returns of the firm (Brodersson et al, 2014)

Equity crowd funding is not as simple as crowd funding siblings, investments made via equity crowd funding are highly regulated. At the same time the crowd funding portals offering these services will most likely face vast regulations as they evolve and get closer to the intermediated investment services of today. However, the laws and regulations which are country specific and naturally vary across borders determine the success of this campaign. Overarching the risk of equity crowd funding is the absence of correct legal and regulatory framework.

### **2.12.2 Opportunities of Equity Crowd funding**

Kirby et al (2014) observed that venture and seed capital requests are difficult to access in the present economic environment. However, crowd funding provides a low cost alternative to channeling savings to the real economy, usually at rates lower than those attainable through traditional funding avenues. A lower cost of funds is due to two reasons better matches, which means that the inventors are matched with those funders, who are actually enthusiastic to pay for the project and since the search transpires worldwide on a global scale, rather than a localized pool of prospective funders, there are no country barriers for the matches. Due to the lower cost of such capital, crowd funding offers an affordable and attractive fundraising decision to start-ups (Kirby and Worner, 2014). Furthermore, an increasing figure of funders rate the participation in a new venture's community of supporters, recognition for noticing innovations, early access to products or other non- financial rewards higher than a return of their investment (Gerber et al., 2012).

Secondly, crowdfunding is more commendable than traditional financing technique because provides access to more information in the initial phase of the project. The funding portals have moved to occupy the role of advising and acting as incubator .Thus during the funding stage, a lot of information, such as ideas for modifications and extensions from prospective users (innovative users) or interest from other investors is already available. This additional knowledge might boost up the eagerness to provide capital for a new project and consequently lowers the cost of capital.

Crowd funding is not just a means for raising capital, it allows new private company tech entrepreneurs to validate their thoughts, test markets, generate buzz around their brand and establish a marketing platform that resonates with their target market(Breido, 2014). This collective "wisdom of the crowd" would provide a good indication as to the acceptability of the product or service being offered by the start-up (Hu, 2015).Crowd funding paints a feasible and accurate picture of how a tech product or service will do in the real world. Investors and potential customers have immediate access to information and the business plan presented by the startup on the chosen portal. Feedback and questions are raised immediately, which provides new business owners with the ability to address any concerns early on, and tackle any outstanding issues that may arise throughout the crowd funding process(Breido, 2014).

Until lately, only successful and complicated investors had right of entry to investments in start-ups. By extending entrance to investments beyond such investors, referred to in securities regulation as “accredited investors”, crowd funding permits a wider community of investors to play a part in the success of start-ups. Such a diversity of investors will not only enable due diligence by the crowd, by which investors are able to piggyback on the efforts of some to ascertain information regarding the start-up in which they invest, but it also allows for wider decision-making and monitoring through the crowd (Schwartz, 2013)

### **2.13 Summary**

The chapter explored the equity crowd funding as an alternative form of SME financing. An instantaneous field of view was placed on regularizing equity crowd funding taking into cognizance entrepreneurs and various stakeholders’ perceptions. Both theoretical and empirical evidence was given to support the need of legal and regulatory frameworks on crowd funding. The general conclusion of this literature review proves that the absence of regulations stifles the growth of equity crowd funding in Zimbabwe. Furthermore the way it’s being perceived by the SMEs needs to be augmented. Equity crowd funding closes the financing gap that is left by the angel investors, traditional banks and venture capitalist. No obvious effects have been deduced although a combination of some inference seems consistent in some researches. This therefore gives the researcher the need to study equity crowd funding on regulatory and SMEs perspective and establish strategic response measure.

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This part of the thesis explains the tools applied in the study in order to answer the research questions and objectives stated in the introductory chapter. As shall be seen, the methodology is influenced by the purpose of this study and is based on an assessment of the optimal strategy for responding to the research questions. As such, the current chapter discusses the qualitative tools used to analyze data for the reason of answering the research questions and full filling the objectives. The section displays the sources of data employed in the study, the chosen samples with regards to the firms under study and the reasons why they were chosen. Criticism and strengths of the methods used will be presented as well as argumentation for its trust-worthiness, complemented by an analysis of the gathered facts.

### **3.2 Research Design**

The primary key to this research utilizes exploratory research design. This methodology provides a wave of magic wand to the research problem. The concept of equity crowd funding is still at its embryonic stage employing this design will bring a greater understanding to the study. Mark (2006), state that exploratory research design is carried out to diagnose a situation, screening an alternative and discover new ideas. This concurs with James (1997) who stated that exploratory research design tends to deal with latest problems on which slight or no previous research has been made. He further explained that exploratory research does not aim to provide final conclusive answer to the research problem but it merely explore the topic to get an varying levels of understanding that paves way for determining the research design, sampling tactic and data compilation method.

However, in some instances descriptive research design that is contextual related is also used to give a clearly spell out crucial concepts. Since the research looks at the regulatory and SMEs perceptions on the subject of equity crowdfunding, there is need to for an in-depth understanding of the subject matter as a result of utilizing the what, how, where and when questions associated with the research objectives. Anderson et al (2017) stated that descriptive research is used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation. This is particularly true as the financial tech is relatively new.

Few researches have been done on equity crowdfunding in Zimbabwe and the availability of data is one of the constraints. Adopting an exploratory strategy enables the research to be used as a precursor to more quantitative research designs with the general overview giving some valuable pointers as to what variables are worth testing quantitatively. The need to observe the behavior pertaining to the SMEs and regulators require the study that yield rich data so that detailed analysis and important recommendations can be drawn from there. This can be facilitated by approving a study that is both exploratory and descriptive in nature. The limitations however posed by this technique are that the data cannot be simulated. The information obtained is merely the perceptions which cannot be quantified using quantitative methods. Exploratory in the form case study was ideal in this research but the absence of successful equity crowd funding projects in Zimbabwe prompted the use of experience surveys and secondary data.

### **3.3 Research Population**

Respondent to this study emerged from population which consisted of the following groups of people. Investors, government enterprise, private firms, venture capital and private equity firms, crowd funding platforms and banks. Banks were part of the population since recently a number of banks especially in Europe have embraced crowd funding through owning crowd funding platforms (Crowdfunding Hub, 2016). In addition on a regulatory perspective, the central bank (RBZ) and Securities Exchange commission of Zimbabwe (SEC) were a target population owing to their fiduciary role in the alternative finance market. Some of the company identified the following firms to be closely involved in shaping the crowd funding regulations:

### **3.4 Research Sample**

This research is based on non-probability sampling, since the aim researcher's goal is to come up with an in-depth, idiographic understanding rather than more general, scientific understanding. Klawiter (1999) argued that researchers interested in contributing to our theoretical understanding of some phenomenon might also collect data from non-probability sample. However, a purposive sampling strategy was used to arrive at the desired sample size. The researcher started by drawing participants some of which are notable small medium enterprises in specific targeted sector. The sectors include mining, agriculture, construction, information and technology.

The other sectors include the banks, venture capital and private equity firms, lawyers, government ministry, regulators and various stakeholders. The sample size emanated from both the availability of data and the desired investigated outcome.

**Table 3.1: Summary of Collected Sample**

Participants	Group	Total Number
Regulators Crowdfunders, Institutions	Financial	
	Crowd funding platforms	2
	Crowd funding firms	2
	Venture/private equity firms	5
	Regulators (SECZ, RBZ, etc). Investors	6 5
SMEs	Mining	10
	Agriculture	10
	Construction	10
	ICT	10
	Manufacturing	10
	Transport	10
	Engineering	10
	Finance and Business	20
<b>Total Sample Size</b>		110

Source: Author

The sample indicated above was informed on the availability of participants that plays a critical role in the subject of crowd funding. A small sample was suffice because crowd funding is still novel and hence lacked more funding portal and investors that subscribe to it. The number of SMEs used were enough to allow the researcher to carry out the study within the stipulated time frame. According to Finscope (2015) there has been known to be over 50 000 SMEs in Zimbabwe registered by ZIMRA tax agencies.

### 3.5 Data Collection Methods and Instruments

The data collection for this research is to be collected using both primary and secondary method. Primary data utilizes questionnaires and semi-structured interviews. Secondary data will collected from equity crowd funding internet publication and various meta- data sources.

The availability of data under restrictive circumstances will compel the researcher to adopt interview and questionnaires. Crowd funding is a new concept that has been around for almost a decade and very few researches have been undertaken in this area. The use of multiple sources enables almost all the research questions highlighted in the first chapter to be answered. On the other hand the issues being explored require aspects of what the regulator and SMEs feel as well as what they think. This can only be necessitated when we consider a combination of both instruments. The instruments used in these researches are illustrated below:

### **3.5.1 Questionnaires**

The origin of the research stems from the research objectives illustrated in chapter one. In order to adequately address the regulators and entrepreneurs' opinion and experience on equity crowd funding the researcher drafted some questionnaires. A self-administered questionnaire was chosen as the most appropriate means of collecting data for this study because of the sensitive nature of the questions asked, where honest responses and participation is low when questions are asked face-to-face. These questionnaires included both the open ended and closed. Open ended questionnaires were used to discover the response that individual gives spontaneously and also to avoid the bias that may result from suggesting responses to individuals (Urša Reja et al, 2003). However in some instances open ended did not suffice as it results in missing data: the amount of missing data (either non-valid responses or skipping of the question) is larger for the open-ended question. This is a problem particular to self-administered questionnaires with no interviewer sensitive to inappropriate answering and question skipping questions.

Closed ended questionnaires were administered also in order to augment the weakness poised by using only the open ended.

### **3.5.2 Interviews**

The gathering of the empirical facts was made through semi-structured interviews in first hand, Saunder et al (2012) claimed that personal contact is very important in order to get an expanded answer rather than a sentence or two. Also it is easier for the researchers to elaborate on the points of interest (Denscombe, 2007). This personal contact can be argued to involve or exclude the use of telephone and Skype interviews (face-to-face).

In order to fulfill the research questions and get a reasonably large sample size, the authors chose to include these types of collection methods. In some cases this was the only way as the

respondent was travelling, lived abroad or did not have the time on his/her hands that an ordinary interview would require. The absence of the priority data base makes it difficult for the researcher to find the crowd funding players. Therefore the authors could not solely rely on face-to-face interviews, but had to utilize every communication channel necessary to obtain the necessary data to get the regulator and SMEs perspective on the subject matter.

### **3.5.3 Secondary Data**

Secondary data is categorized in three ways namely documentary; including magazines, surveys and multiple sources such as maps(Saunders; Lewis;Thornhill, 2007).The researcher assembled documentary and multiple sources of data and collected these facts using electronic sources such as Google scholar and other search engines. The data from electronic sources provided the researcher a superior foundation for laying the background and also making the research deeper. This additional assisted the researcher with the information desirable for outlining reference.

The researcher was in addition to journal articles and similar sources very reliant on one in particular, namely the Crowd funding in Africa Report (2014). The reason for this is due to the originality of equity crowd funding, and the tiny research has been conducted on the area under discussion. The Crowd funding Africa Report compiles the industry data in such an extensive way that the researcher in some cases could not find any other source for the statements made and data put forward within the report.

### **3.6 Data Validity and Reliability Test**

The validity of this research is concerned with the accuracy and the truthfulness of the research finding. This study demonstrates what actually exist and valid instruments were able to measure what was supposed to be measured.

Brink (1993) stated that one of the key factors affecting reliability and validity is error. He further illuminated that errors are inherent in all investigations and are inversely related to reliability and validity. To enhance the reliability and validity of the research, the researcher took an outsider stance and avoided being part of the participants.Leinger holds that researchers need to be trusted before they will be able to obtain any accurate reliable or credible data (Leininger 1991: 92).The status position can prevent the researcher from obtaining certain information and unless he is aware of this, invalid interpretation of the data may result.(Brink, 1993).



The truth of responses is a key concern when data are obtained through questionnaires and interviews. Bias introduced because of particular response example making things better or worse, awful or of pleasing the researcher was minimized by:

- 1 Making by making sure that participants are very clear on the nature of the research e.g. why the researcher is there, what he is studying, how he will collect data and what he will do with it
- 2 Building a trust-relationship with the subjects and staying in that setting for a long period of time.
- 3 Showing field notes to a second outside researcher.

The validity of the research was tested using a triangulation technique. Triangulation is a process of verification that enhances validity by incorporating several viewpoints and methods. In the social sciences, it refers to the combination of two or more theories, data sources, methods or investigators in one study of a single phenomenon to converge on a single construct, and can be employed in both quantitative (validation) and qualitative (inquiry) studies( Yeasmi et al, 2012).It is liken to the surveyors profession of establishing unknown coordinates from three or more known dimension.

The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable(Joppe, 2009).According to Norland (1990), explained reliability to indicate the accuracy or precision of the measuring instrument. The pilot test is used to test whether the questionnaires consistently measures what is supposed to be measured. The pilot test was carried using 20 out of sample data to gather a feel of responses.

### **3.7 Data Presentation and Analysis Plan**

The research considered questionnaires and semi-interview as that capture all that needs to be analyzed in the next chapter. The data consisting of the semi-structured interview is read very carefully and notes taken. The data is then indexed or coded through labeling words, phrase and sentences that the researcher sees necessary. The labels will be in the form of actions, activities or any point of interest that pertains to crowd funding. Techniques of coding are employed e.g. noticing something that has been repeated over and over again. The research will aim to observe conceptualization coded patterns.

Themes are then created from categories using important codes and the researcher will look at the connection between them. These connections and categories are the main result of the

study. Hence the researcher will be able to produce new knowledge from the perspective of the participants in this study. The researcher adopted did not adopt statistical inference in presenting the data. This is because the researcher's topic is still new and the need of in-depth understanding was of prime importance.

### **3.8 Summary**

The subjects reflected in this chapter comprise the research design used in the study and the balanced of choosing the design. It also discusses how research instruments were developed, methods of data collection, data presentation and analysis plan. The next chapter focuses on critical analysis, presentation, results and discussion of the research findings before drawing conclusions from the research.

## CHAPTER 4: DATA PRESENTATION AND ANALYSIS

### 4.1 Introduction

This chapter dwells on the results obtained from the field survey conducted. The results are presented and displayed it into usable format. The information was then analyzed followed by a chapter summary at the end.

### 4.2 Analysis of Response Rate

Out of a sample of 110 the numbers who of people who completed the survey were 90. This translated to a response rate of 82%. The response rate was so high because the researcher communicated in advance with respondents. The questionnaires were also administered to the specific targets so who have a huge bearing on the research matter. However; many were not able to complete the questionnaire in the 15 minutes stipulated time due to lack of knowledge in the discussed topic. This is particularly true for one of the small to medium enterprise firm that stated, **“Some of the research questions need a bit of time to research.”**

The researchers were willing but lacked general information on the subject. The majority of those that did not respond cited issues to do with time. One small medium scale miner said, **“I am an indigenous person, I got tied up the day I was suppose to submit the questionnaire.”**

### 4.3 Demographic Characteristics of Respondents

The surveyed sample indicated that 40 % of the total sample represents youth that are below 25 years. This was highest followed by the 26-35 years age group. The participation and awareness of equity crowd funding decrease as the age increase. At the age of 56+ we had 3 people who are aware of this innovation model. Equity crowd funding it's still new and it leverages on the technology. People in Zimbabwe that are above 46 years have been spared by the development of information and Technology. According to the internet statistics as at 31 December 2000, out of a population of 14 million Zimbabwe had a 50 000 internet users who did not even participated in social groups.

This technological gap left a void that is only being serviced by the younger age group. The other contributory factor to the increase in the number of youth subscribing to equity crowd funding is a result of the demographical trends in the developing countries. Marcus argued

that there population in less developed nations has a larger dependency age group. Bellaferme (2014) noted the same in his study of why there are a lot of unemployed youth globally.

**Figure 4.1 : Age against Number of People**

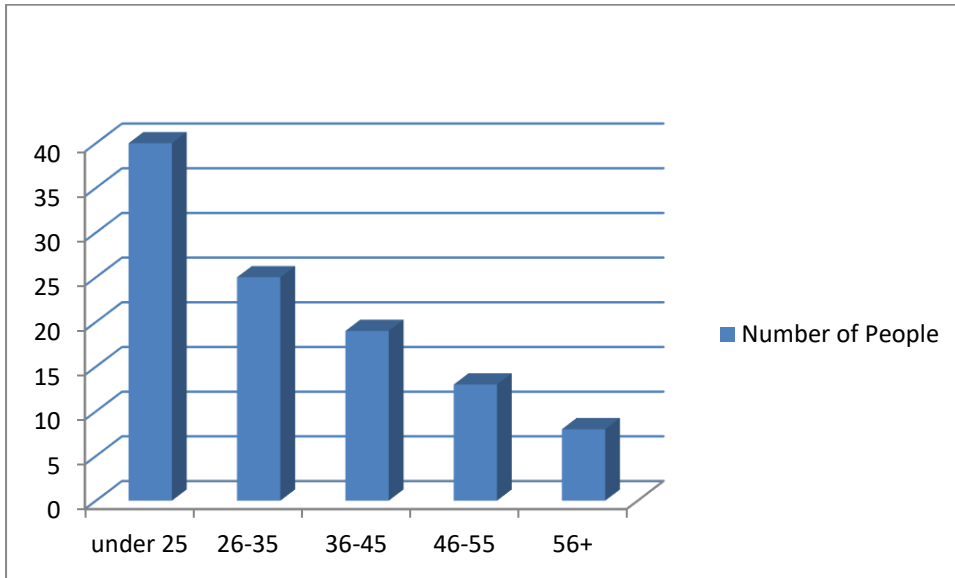


Figure 4.1: Age against Number of People

The research showed that there is an unprecedented level of competition exerted by crowdfunding players to the traditional banks. Though this is not much visible in Zimbabwe but in nearby South Africa and in Europe equity crowd funding has become a force to reckon. Below show some of the response from the managers pertaining to the level of threat experienced by most banks.

**Table 2 : Comparison of Crowdfunding and Traditional Banks Design Parameters**

Parameter	Bank	ECF
Regulations	Heavy because of deposit taking activities	Fit for purpose
Product	Complex	Simple
Technology	Very Legacy Based	Data driven
Decision Making	Complex	Data driven
Infrastructure	Buildings	No need for Branch network

Mindset	very long term	Need a PC and internet fore front
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Source: Author

#### 4.4 SMEs Perceptions to Equity Crowd funding

From the interview conducted it was established that almost all of the interviewees had previously heard about the term crowd funding. However many could not understand the models of crowd funding. Senior consultant at Ministry of Finance stated that,

**”We heard of crowd funding years ago but I don’t understand the various forms and even how they work”**

The examples relayed by those who knew crowd funding pertains to reward and donation based crowd funding. Several SMEs pointed out that crowd funding has been there for a long time but the idea of equity crowd funding was unique. Thames

Only a hand full of SMEs actually had a contact with the crowd funders whilst the rest read about them in newspapers and journal articles from across the globe. The players in the finance and business had an appreciation of equity crowd funding whilst the rest of the SMEs knew not the definition of equity crowd funding or had an in-depth understanding on mechanics and dynamics of equity crowd funding.

#### 4.5 SMEs approach towards Equity Crowd funding

Based on the conducted interview, all respondents perceive digitalization as one of the core feature in the potential development of the economy. The observation of banking professionals on the evolution of the industry was relatively unanimous. Each interviewee considered the adoption of digital solutions of essence in adapting to the disruption of the industry. Crowdfunding was generally perceived as single structure of modification to the disruption, rather than being an economically important move at this stage.

One director in a financial business mauded so many crowd funding models as very confusing. Most people who signed up for the questionnaires were finding it difficult to draw a line between various forms crowd funding models. However, Julie et al (2009) studied the role of community in crowd funding work in order to bring to clarity various types of crowd funding models.

Whilst summarizing the attitude, the general reaction the researcher acquired when carrying out the respective interviews was that most people were positive toward the primary principles behind equity crowd funding. One entrepreneur mentioned, **“it is helpful to the whole environment and society.”** That is, serving more entrepreneurial business enterprise reaching their full potential by tapping a previously unutilized source of capital (Hemer, 2011). However, serious concerns were raised about the actual process of raising capital through equity CFPs. SMEs who were more concerned of their investment had this to say, “Who will finance the future round of investments? And how? Ballaferme (2014) stated that in equity crowd funding the entrepreneur are willing to cede a smaller portion of the business to the investor. This would however, tends to be a big problem when the business needed future rounds of investment. The entrepreneur at this stage won’t be having enough money as compared to the investor. Most wanted to understand how there will finance the subsequent round of investment. In other words, the ideology can be hard to implement in practice without resistance, and this is according to the research an appropriate justification to why it is yet to be recognized as an essential and accepted means for raising capital. At present equity crowd funding has soaring potential. This concur with what the one of the associate or SMEs that, **“Growth is eminent and there are also greater employment opportunities to be created via equity crowd funding. The current figure is likely to double as currently SMEs employs more than 90% of the working group.”** The results showed that the feasibility of these initiatives mainly hinges on the regulatory framework that would have been put in place. The research goes on further to explore the regulatory perceptions towards equity crowd funding.

#### **4.6 Regulator Approach towards Equity Crowd funding**

According to Macus (2015) the role of regulators in the financial institution is of prime importance to the health of the system. The regulator allows that the systemic stability of the sector prevails amid the role played by the industry in the economy. The collapse of the financial sector has catastrophic consequences as still evidenced by the plethora of the 2008 global financial crisis. One of the chief instruments of the financial crisis was financial innovation. According to (Tendulkar, 2014), regulating crowd funding is a sensitive issues that is centered on ensuring investor protection, mitigation of risk, nurturing of industry and supporting growth.

#### **4.6.1 Investor Protection**

One of the principal duties of the regulators is to ensure that investor's money is kept safe. This is true since whenever there is investment, there is some form of risk and hence the need of investors rules to apply. One of the participants acknowledges the need protecting the investors, **“I feel the system has to be looked at the investor's point of view to see how safe his /her investment is with equity crowd funding?”**

The other regulators lamented the need of crowd funding insurance. He stated that for crowd funding to be operational it has to have a form of safeguarding the investor's funds through avenues that are available with the banks such as the Depositors Protection Scheme (DPC). However, **“insurance for equity crowd funding is difficult to enforce as the funds are raised through the internet and also none controls the internet.”** America International Group (2016) unveiled the world first crowd funding insurance to protect investors from investment risk.

#### **4.6.2 Mitigation of Risk**

The role of systemic financial regulator is to prevent the occurrence of financial crisis. The major concern of the risk from the regulators is the failure to meet the desired campaign goals or to produce favorable results in the eyes of the public. One asked whether the information is shared to the public. One major financial regulator in Zimbabwe pointed out that, **“There is a huge probability of abuse of funds from the owner of the crowd funding platform. In that vein there is a need of the regulations to control the operators.”** In that regard regulators have not been quick to put a pen on any financial regulatory reforms. The JOBS Act plan took almost a decade until in 2012 president Barack Obama gave it an accent. Even to this day there is no comprehensive crowd funding regulation as the regulator takes a cautious approach towards these instruments. Those who have legalized have done so in part.

This however is derailing growth the potential of equity crowd funding as the regulators are trying to fit crowd funding into the old financial system. Hence the need to separate the regulation as crowd funding is still evolving and that cannot be yoked by the ordinary private equity regulations.

#### **4.6.3 Nurturing the industry and Supporting Growth**

The study called for the need of the various stakeholders to promote the growth of crowd funding. Some say that the regulations put in place should nurture the industry as it formulate the backbone of future financing .The official at SECZ reiterated that, **“Growth is**

**eminent as long as various stakeholders work together for a common cause.** “This concurs with what was highlighted by Cusmano(2015) that success of equity crowd funding has more to do with perception than implementation.

#### **4.7 Sustainability of Equity Crowd Funding as a Source of Funding**

Sustainability may be defined as maintaining well-being over a long, perhaps even an indefinite period (Kuhlman and Farrington, 2010).In order to explore the sustainability of equity crowd funding as a source of funding in Zimbabwe the researcher looked into the opportunities and threats in equity crowd funding.

##### **4.7.1 Excess Leverage**

Equity Crowd funding provides some opportunities to balance our economy away from debt to equity. According to Steve (2015) debt financing take in the form of borrowing loans from banks, financial institutions or other firms to finance operations. This debt is paid later in time coupled with interest. On the other hand equity financing take a rather different approach of issuing shares to the investors in order to support operations. One manager of local banks lamented that, **“the level of treasury bills in the Zimbabwe is a time-bomb to the financial sectors as they currently sit at 1.2 billion.”**Zimbabwe is typically financed by debt and it owes multi-lateral institutions such World Bank and IMF a total of 1.7 billion of dollars to the multi-lateral institutions such as IMF and World Bank. In domestic market the government of Zimbabwe issued a total of 1.2 billion Treasury Bills to bridge the state funding gap and to clear some of its legacy debt. This has crowded out lending to the productive sector and also mainly to the small medium entrepreneurs.

He further highlighted that, **“Though this may not get rid of the problem of solvency and liquidity in our economy Equity crowd funding will give our economy a different attitude.”** Normally a leverage ratio of less than 1 signifies a low level of debt financing and ultimately less risk associated with the business. Equity crowd funding not only maintain marketing using the internet platforms but it promotes genuine ownership of a venture and not mere revenue right

##### **4.7.2 Employment Opportunities**

Crowd funding brings a new dimension to the economy by reducing the unemployment gap. The Global Employment Trends for Youth (2013) pointed out that many young people are working in low quality jobs that are insecure, poorly paid, with irregular hours and minimal



job satisfaction that do not make good use of their qualifications and skills. The research showed that the numbers of people who subscribe mostly to the phenomenon of equity crowd funding are aged below 35 years. These people are not going to get jobs from the public services since the public sector fiscus is not sustainable. One official from crowd funding operator said **“Equity crowd funding will benefit mainly youth who have never worked and those who ceased to work long time ago.”** This is possible because the public services are operating below its capacity due to fiscus deficit. He further explained that, **“large corporations are mainly concerned with cutting cost and not creating employment.”** African Development Bank (2011) mentioned that the he fiscal scenario is likely to remain unsustainable if public sector wage costs are not contained and indeed reversed to create fiscal space for urgent growth oriented investment programs and social projects.

#### **4.7.3 Financial inclusion**

During the research process the Muslim were intrigued by the idea of equity crowd funding. One Rabbi poised the statement following, **“equity crowd funding is in line with our culture and way of belief. There is no interest involved under equity financing and this is compliant with the shariah law. Our Islamic finance promotes ethics that are promoted by all religions as ethical standards.”** Their participation in the whole process is a first step toward the financial inclusion initiative launched by the government through RBZ.

The other noticeable thing in the research is the participation of women. There has seen a gender disproportion and most women were unbankable. Equity crowd funding has the potential to allow them to participate in entrepreneurship thereby becoming financial included. The researcher found out that there is a herding behavior amongst women in investment as was noted on response rate that constituted mainly females. Most investors were concerned about the dilution of their investment portfolio. A woman into agriculture uttered, **“I will tell some of my church members at a ladies meeting.”** This means that women who are willing to participate in income generating projects will channel their money into the financial sector.

### **4.8 Threats to Crowd funding**

#### **4.8.1 Information Sharing**

The lack of information in equity crowd funding from both practitioners and clients is a major drawback of the enhancement of equity crowd funding. One entrepreneur was quoted saying, **“I don’t have any information or knowledge about crowd funding.”**This is contrary to developed nations that are at the helm of informing people of the new initiatives. Sharing of information promote help to promote equity crowd funding to impress coverage and influence policy makers, correct misconception in the market and help demonstrate people motivation for participating in equity crowd funding. Therefore information sharing is essential to grow equity crowd funding in terms of providing educational material, case studies, to monitor incubators and most importantly contractual templates and operations manual to follow by smaller crowd funderswilling to offer crowd funding products. Information and knowledge sharing would also contribute to cross-border experience exchange and innovation triggered through discussions and elaborations.

#### **4.8.2 Unavailability of Data**

The research showed that the availability of current crowd funding data is posing a limit to equity crowd funding. Evidence from the research shows that the regulators new sketchy information about equity crowd funding and there has been no data to strengthen its existence. A CEO of a local crowd funding platform highlighted that, **“crowdfunding is data driven.”**Policy formulators interviewed require the practice to be well known by the public with the support of documents as proof for its existence in Zimbabwe. Meanwhile, policy makers and regulators side-step crafting of the law pending the need for complete and comprehensive models of crowd funding.

However, this is contrary to Boeshoff (2013), who state that crowd funding is technological driven and it will never realize its full potential. Most interviewee pointed out the absence of information on crowd funding. Zimbabwe has no database that allows the retrieval of documents and registry on the investors, intermediaries and the crowd funding issuers. **“The available information is available under restrictive circumstances.”**The lack of hard data on non-debt financing instruments represents an important limitation for the design, implementation and assessment of policies in this area (OECD, 2015).Lerner et al eluded that equity crowd funding is new and lack data.

#### **4.8.3 Educational Background**

The levels of education contribute to affect the growth of equity crowd funding. This is related to the signal theory. The players in the equity crowd funding act in a rational manner

as compared to other type of investors. For the study most of the CEO of the firms had a degree. This will allow them to be able to weight risk involved in crowd funding. Even, though wealth has a contribution that it makes to the selection of the investors. In UK the success of equity crowd funding is necessitated by the participation of both the credited and non-credited investors. They only are allowed to participate as investor's once they pass a test on risk. In UK individual's wealth is not a measure of risk.

#### **4.9 Traditional Financing and Equity Crowdfunding**

Traditional financing mechanism have sustained lots of small to medium enterprise firm. However the effect of global financial crisis Cause a change of approach from the way the traditional banks used to operate. Most financial institutions have become risk adverse and this follows the minimum capital adequacy required in terms of the Basel ii accord. In Zimbabwe the problem was not global financial crises but the dollarization of Zimbabwe economy. Many people lost their saving. Managing Director of an international bank has this to say, **“I believe that equity crowd funding will gain popularity because of the participatory element it has. This feeling of participation will resonate with someone who feels that their money were encrypted by pensioners into some opaque avenues they did not participate.”**

#### **4.10 Summary**

The chapter summarized all the results and some key concepts that have to do with the regulator perceptions and the feasibility of crowd funding. The results were presented using statistical techniques and further analyses were performed. The key issues were centered on the regulator and entrepreneur perceptions. Risk and opportunities to equity crowdfunding were explored in the domain of information sharing, unavailability of data, employment opportunities, excess leverage and financial inclusion.

## **CHAPTER 5: SUMMARY CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter covered the summary of the entire thesis, gave recommendations on the area of study and suggestions for future research based on the results obtained and conclusions. The recommendations, if adopted can help small medium enterprises, individuals, local banking institutions, regulatory authorities, academia and investors alike. It encompassed the design of the solution to identified problems in the market. All the preceding chapters had diverse goals which were all directed to the major objective of this study which was to provide a regulatory and small medium enterprise perspective towards equity crowd funding

### **5.2 Summary of the Study**

The study sought to explore the feasibility of crowd funding as an alternative sources of funding for SMEs in Zimbabwe. In exploring this path the researcher came up with various research questions and empirical study meant to give an insight on the subject matter. The instruments utilized for data collection produced a high response rate of 82 %.The results showed that the regulators and SMEs perceive equity crowd funding having a potential of giving our economy a new culture of moving from debt to equity and overall transforming the whole economy. It was also envisaged that equity crowd funding can provide a sustainable form of financing the SMEs owing to its simplicity business model in contrast the traditional financing methods. However the challenge still remain to the regulators as to how they can strike a balance in protecting investors and at the same time promoting the growth of SMEs in Zimbabwe.

However there are various factors that are causing crowd funding to suffer a still birth. The lagging behind of our technological infrastructure is the major drawback. On the other hand the society is willing to accept any alternative form of investment as long as it is convenient and user friendly.

### **5.3Conclusions**

The following conclusions emanated from the research:

- Equity crowd funding perception is still very low amongst most SMEs in Zimbabwe. Though it has far reaching consequences of transforming the economy, many small medium enterprises do not understand how it works. .However many found it as a very good way of financing their business after learning of its mechanics and dynamics. Many envisaged growth of their business as a well as ultimately the growth of the economy as a result easy access to funding.
- Entrepreneurs are more than willing to fully participate in something that they fully understand. Concerted efforts from crowd funding association will help promote equity crowd funding, to impress coverage and influence policy makers, correct misconceptions in the market and help demonstrate people motivation for participating in crowd funding
- On a regulators perspective, equity crowd funding is seen as a vital tool that needs to be dealt with great caution. Regulator sees the needs to strike a balance from all the parties involve and mainly to avoid issues to do with moral hazard and adverse selection. This is why the regulators are taking so long to come up with a proper regulatory framework.
- He research showed that equity crowd funding can be used sustainably as a source of funding for SMEs in Zimbabwe. However certain reforms have to take place. There is need for a competitive local crowd funding policies. Players in the industry need to keep pace with technology as well as become very innovative in creating new products.
- Comparing equity crowd funding with traditional way of financing SMEs, the study found out that so far equity crowd funding is not putting pressure on the local banks. However, most players in the traditional finance sector see it having a prospective of disrupting the financial sectors as what is currently happening around Europe and Asian countries. There is great threat of the unbundling of banks. Tens of thousands of bank employees spend their days concerned with credit risk, market risk, cyber security, and a plethora of other menaces. Yet these threats are trivial compared to the prospect of being rendered irrelevant by technology(Wilkinson, 2016).
- 
- Furthermore equity crowd funding is hanging by a thread of regulation. Once it is legalized chances are high that it will over fill the void that is left by the traditional financing mechanism.

- Equity crowd funding is causing a lot of challenges amongst the regulators. The research showed that the regulators are willing to put in place a legal framework that governs the practice of equity crowd funding in Zimbabwe. However, there are faced with the number of challenges such as issues to do with money laundering .This have been a greatest threat especially in Zimbabwe following massive externalization of foreign currency.
- The other challenges lie in the domain of Securities registration and placements. There are pondering whether equity crowd funding be regulated as a collective investment scheme, intermediary or as a banking activity.

#### **5.4. Recommendations**

The following recommendations emanated from the research finding.

##### **Regulators should do the following:**

Regulators such as government agencies interested in promoting crowd funding should create a complete local crowd funding policy that promote investors protections at the same time enabling the growth of the SMEs. At the same time the regulations should nurture the industry to ensure it accomplishes a sustainable growth.

One of the challenges that may cause equity crowd funding not to reach its full potential is fitting private equity legislation to it. Equity crowd funding is a new concept that is happening in the 4<sup>th</sup> industrial revolution, so fitting this laws of the 1<sup>st</sup> industrial revolution, tend to suppress its growth. So the regulation domain has to be at line with the technology.

There is need of ways to regulate the crowd funding platforms and measure to recoup the investor's money when the platform suddenly crumbles. There should be a crowd funding insurance to deal with cases of fraud such as AIG insurance that is based in USA.The regulators should support the development of a crowd funding industry association or think tank to facilitate the promotion of crowd funding within Zimbabwe as well as to look outside of Zimbabwe for both good practices and lessons learned from crowd funding “gone bad” and investigate revising how legal restrictions limit public advertisement of certain private shares

**Small Medium Enterprenuer should do the following:**

A greater awareness of the benefits of the model to entrepreneurs in addition to spreading success is critical in ensuring the survival and growth of equity crowd funding. Second, funding platform providers should focus on publicizing their role as an intermediary for large funds, facilitate intra-crowd funding communication, promote an equal opportunity crowd funding platform, deal with myths and cultural barriers, and increase market size and clarity.

Entrepreneurs should seek education and mentorship so that there are equipped with the financial aspect of the business. This includes sourcing help from crowd funding operators and venture capitalist. They may act initial as incubators until their business starts growing.

**5.4.3 Traditional Banks should do the following:**

Equity crowd funding is eminent, and there is going to be competition exerted from the financial technology firms. Unbundling of banks will continue to happen driven by technology. Banks should not look to equity crowd funding players as a source of amusement but rather as a source of financial courtship. Banks needs to engage with the FinTech, educate and then innovate.

**5.5 Suggestions for further studies.**

Future researcher in this area needs to empirically study equity crowd funding in Zimbabwe so that statistical conclusion can be drawn to facilitate the decision making process. In this study there was no ample time and hence the subsequent researcher should dedicate more time to see what exactly is obtained in financial industry pertaining to this new form of investment.

It would be interesting how crowdfunding would link with the cryptocurrency as the world migrates from analogue to digital process and product innovations. Lastly there is need for the researcher to look at how the traditional banks will react with the coming of the fin technology. Are they going to go it alone or collude as part of their strategic plans?

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## APPENDICES

### APPENDIX A: LETTER OF INTRODUCTION



#### **Topic: Regulatory and Small Medium Enterprise Perception on Equity Crowd Funding in Zimbabwe**

My name is Itai Mafunga. I am a student at Midlands State University studying towards a Masters in Banking Finance under the Faculty of Commerce and Department of Banking and Finance. I am carrying out a research on Equity Crowd funding .In order to make this research a success, I am kindly asking for your assistance by answering this questionnaire.

The information obtained from this research will be handled with strict confidentiality and will not be shared with anyone else outside this study. For any illumination regarding this research, please do not hesitate to get in touch with the researcher on the following contact details.

Email: [imafunga@gmail.com](mailto:imafunga@gmail.com)

Mobile phone: +263 717 923 417

Thank you in advance for your participation

Itai Mafunga

## APPENDIX B: QUESTIONNAIRE

### SECTION A

#### DEMOGRAPHIC INFORMATION

The section is asking your background information. Please indicate your answer by ticking (✓) on the appropriate box.

NB: Highlight the tick, copy it and paste in respective box for those ticking on the soft copy

A1 Please indicate your gender

Male	<input type="checkbox"/>	Female	<input type="checkbox"/>
------	--------------------------	--------	--------------------------

Please indicate your age category

>25	<input type="checkbox"/>	26-35	<input type="checkbox"/>	36-45	<input type="checkbox"/>	46-55	<input type="checkbox"/>	56 +	<input type="checkbox"/>
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Please indicate your religion.....

Please indicate your highest academic qualification

'O'and 'A' Level	<input type="checkbox"/>
Certificate	<input type="checkbox"/>
Diploma	<input type="checkbox"/>
Degree	<input type="checkbox"/>
Post graduate degree	<input type="checkbox"/>
Other (specify)	<input type="checkbox"/>

Please indicate the number of employees in your business, if any?

1-49	<input type="checkbox"/>	50-200	<input type="checkbox"/>	200+	<input type="checkbox"/>
------	--------------------------	--------	--------------------------	------	--------------------------

A6 Please indicate the type of industry that your business belongs

Agriculture	
Mining	
Manufacturing	
Construction	
Transport	
Engineering	
Finance and Business	
Information Communication and Technology	

Other specify.....

Please indicate the number of years that your organisation has been in business

5yrs or fewer		6 to 10yrs		11 to 20yrs		21yrs or more	
---------------	--	------------	--	-------------	--	---------------	--

1. To what extent do you agree that the major cause for low growth in equity crowdfunding is regulations?

Strongly agree

Agree

Not sure

Disagree

If in disagreement please provide alternative cause for low growth in crowdfunding

.....

.....

2. Is there any competition of equity crowdfunding and traditional bank?

Yes

No

3. How do you compare traditional banks to crowd funding under the following bank design parameters?

Parameter	Traditional Banks	Equity Crowdfunding
Regulations		
Technology		
Product		
Decision Making		

Mindset		
Infrastructure		



## **APPENDIX B: INTERVIEW FOR SMES AND REGULATORS**

- 1 What do you know about equity crowd funding?
- 2 What is your Attitude towards it?
- 3 Is equity crowd funding feasible as an alternative source of funding in Zimbabwe?
- 4 What remedial action is required for Zimbabwe SMEs to invest in equity crowd funding?
- 5 Can crowd funding be a good alternative for SME's compared to the traditional ways offunding?
- 6 What are regulatory challenges faced by equity crowd funding in Zimbabwe?
- 7 What are the risks of equity crowd funding. (E.g. issues with corporate governance, equity, exit routes)
- 7 What are the opportunities with crowd funding
- 8 Have regulators managed to respond adequately to equity crowd funding?
- 9 What is the future outlook for the industry?
- 10What is the best case scenario and what is the worst case scenario of mass crowd funding?

**Thank you**

Itai Mafunga

## APPENDIX C: NUMBER OF PROJECTS VERSUS PLATFORMS

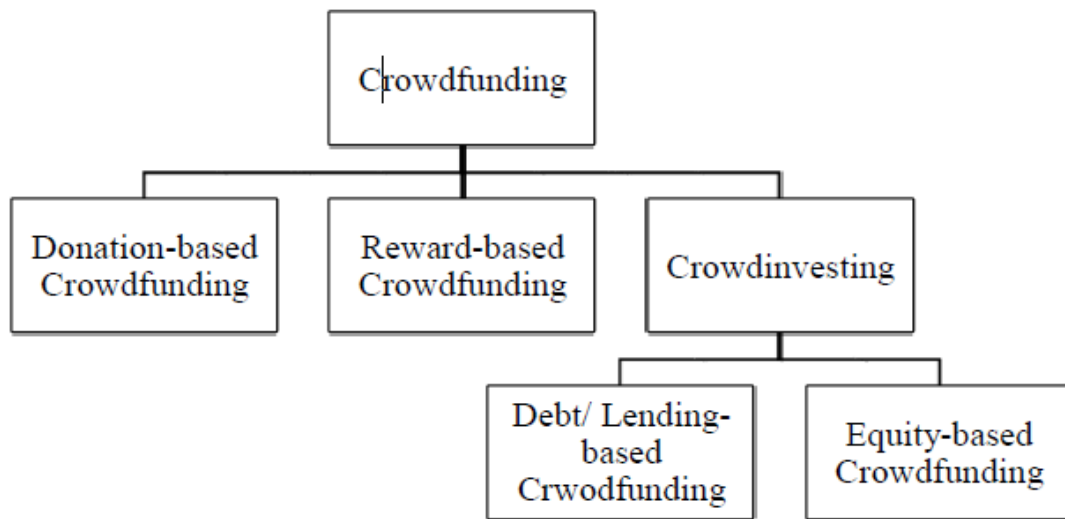
### Number of Projects versus Number of Platforms by Country

	<b>Country</b>	<b>Number Projects</b>	<b>Number Platforms</b>
1	South Africa	4,581	18
2	Kenya	165	2
3	Nigeria	102	9
4	Morocco	21	4
5	Egypt	23	5
6	Ivory Coast	19	1
7	Zimbabwe	17	2
8	Tunisia	8	2
9	Algeria	3	2

## APPENDIX D: FORMS OF CROWD FUNDING ARRANGEMENT

	Form of contribution	Form of return	Motivation of funder
<b>Donation Crowdfunding</b>	Donation	Intangible benefits	Intrinsic and social motivation.
<b>Reward Crowdfunding</b>	Donation/ Pre-purchase	Rewards but also intangible benefits.	Combination of intrinsic and social motivation and desire for reward.
<b>Crowdfunded Lending</b>	Loan	Repayment of loan with interest. Some socially motivated lending is interest free.	Combination of intrinsic, social and financial motivation.
<b>Equity Crowdfunding</b>	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.

APPENDIX E: CROWDFUNDING MODELS



## Internet Users Statistics for Africa

( Africa Internet Usage, 2017 Population Stats and Facebook Subscribers)

AFRICA 2017 POPULATION AND INTERNET USERS STATISTICS FOR 2017						
AFRICA	Population (2017 Est.)	Internet Users 31-Dec-2000	Internet Users 30-June-2017	Penetration (% Population)	Internet Growth % 2000 - 2017	Facebook subscribers 30-Jun-2017
<a href="#">Algeria</a>	41,063,753	50,000	18,580,000	45.2 %	37,060.0 %	18,000,000
<a href="#">Angola</a>	26,655,513	30,000	5,951,453	22.3 %	19,738.2 %	3,800,000
<a href="#">Benin</a>	11,458,611	15,000	1,375,033	12.0 %	9,066.9 %	800,000
<a href="#">Botswana</a>	2,343,981	15,000	923,528	39.4 %	6,056.9 %	690,000
<a href="#">Burkina Faso</a>	19,173,322	10,000	2,684,265	14.0 %	26,742.7 %	600,000
<a href="#">Burundi</a>	11,936,481	3,000	617,116	5.2 %	20,470.5 %	450,000
<a href="#">Cabo Verde</a>	533,468	8,000	256,972	48.2 %	3,112.2 %	210,000
<a href="#">Cameroon</a>	24,513,689	20,000	6,128,422	25.0 %	24,445.9 %	2,100,000
<a href="#">Central African Rep.</a>	5,098,826	1,500	246,432	4.8 %	16,328.8 %	66,000
<a href="#">Chad</a>	14,965,482	1,000	748,274	5.0 %	74,727.4 %	170,000
<a href="#">Comoros</a>	825,920	1,500	65,578	7.9%	4,271.9 %	60,000
<a href="#">Congo</a>	4,866,243	500	400,000	8.2 %	79,900.0 %	400,000
<a href="#">Congo. Dem. Rep.</a>	82,242,685	500	5,107,271	6.2 %	1,021,354.2 %	2,100,000
<a href="#">Cote d'Ivoire</a>	23,815,886	40,000	6,318,355	26.5 %	15,695.9 %	2,400,000
<a href="#">Djibouti</a>	911,382	1,400	180,000	19.8 %	12,757.1 %	180,000

<a href="#">Djibouti</a>	911,382	1,400	<b>180,000</b>	19.8 %	12,757.1 %	<b>180,000</b>
<a href="#">Egypt</a>	95,215,102	450,000	<b>37,333,841</b>	39.2 %	8,196.4 %	<b>33,000,000</b>
<a href="#">Equatorial Guinea</a>	894,464	500	<b>212,704</b>	23.8 %	42,440.8 %	<b>67,000</b>
<a href="#">Eritrea</a>	5,481,906	5,000	<b>71,000</b>	1.3 %	1,320.0 %	<b>63,000</b>
<a href="#">Ethiopia</a>	104,344,901	10,000	<b>16,037,811</b>	15.4 %	160,278.1 %	<b>4,500,000</b>
<a href="#">Gabon</a>	1,801,232	15,000	<b>865,492</b>	48.1 %	5,669.9 %	<b>470,000</b>
<a href="#">Gambia</a>	2,120,418	4,000	<b>392,277</b>	18.5 %	9,706.9 %	<b>220,000</b>
<a href="#">Ghana</a>	28,656,723	30,000	<b>9,935,286</b>	34.7 %	33,017.6 %	<b>4,000,000</b>
<a href="#">Guinea</a>	13,290,659	8,000	<b>1,302,485</b>	9.8 %	16,181.1 %	<b>950,000</b>
<a href="#">Guinea-Bissau</a>	1,932,871	1,500	<b>84,000</b>	4.3 %	5,500.0 %	<b>84,000</b>
<a href="#">Kenya</a>	48,466,928	200,000	<b>43,329,434</b>	89.4 %	21,564.7 %	<b>6,200,000</b>
<a href="#">Lesotho</a>	2,185,159	4,000	<b>597,860</b>	27.4 %	14,846.5 %	<b>290,000</b>
<a href="#">Liberia</a>	4,730,437	500	<b>395,063</b>	8.4 %	78,912.6 %	<b>330,000</b>
<a href="#">Libya</a>	6,408,742	10,000	<b>2,800,000</b>	43.7 %	27,900.0 %	<b>2,800,000</b>
<a href="#">Madagascar</a>	25,612,972	30,000	<b>1,300,000</b>	5.1 %	4,233.3 %	<b>1,300,000</b>
<a href="#">Malawi</a>	18,298,679	15,000	<b>1,758,503</b>	9.6 %	11,623.4 %	<b>720,000</b>
<a href="#">Mali</a>	18,689,966	18,800	<b>2,212,450</b>	11.8 %	11,668.4 %	<b>1,000,000</b>
<a href="#">Mauritania</a>	4,266,448	5,000	<b>770,000</b>	18.0 %	15,300.0 %	<b>770,000</b>
<a href="#">Mauritius</a>	1,281,353	87,000	<b>803,896</b>	62.7 %	824.0 %	<b>630,000</b>
<a href="#">Mayotte (FR)</a>	253,068	n/a	<b>107,940</b>	42.7 %	n/a	<b>56,000</b>
<a href="#">Morocco</a>	35,241,418	100,000	<b>20,535,174</b>	58.3 %	20,435.2 %	<b>12,000,000</b>
<a href="#">Mozambique</a>	29,537,914	30,000	<b>5,169,135</b>	17.5 %	17,130.5 %	<b>1,400,000</b>
<a href="#">Namibia</a>	2,568,569	30,000	<b>797,027</b>	31.0 %	2,556.8 %	<b>520,000</b>
<a href="#">Niger</a>	21,563,607	5,000	<b>931,548</b>	4.3 %	18,531.0 %	<b>280,000</b>
<a href="#">Nigeria</a>	191,835,936	200,000	<b>91,598,757</b>	47.7 %	45,699.4 %	<b>16,000,000</b>
<a href="#">Reunion (FR)</a>	873,356	130,000	<b>390,000</b>	44.7 %	200.0 %	<b>390,000</b>
<a href="#">Rwanda</a>	12,159,586	5,000	<b>3,724,678</b>	30.6 %	74,393.6 %	<b>490,000</b>
<a href="#">Saint Helena (UK)</a>	3,970	n/a	<b>2,000</b>	50.4 %	n/a	<b>2,000</b>
<a href="#">Sao Tome &amp; Principe</a>	198,481	6,500	<b>55,575</b>	28.0 %	755.0 %	<b>38,000</b>
<a href="#">Senegal</a>	16,054,275	40,000	<b>4,119,527</b>	25.7 %	10,198.8 %	<b>2,300,000</b>

<a href="#">Seychelles</a>	97,539	6,000	<b>55,119</b>	56.5 %	818.7 %	<b>48,000</b>
<a href="#">Sierra Leone</a>	6,732,899	5,000	<b>792,462</b>	11.8 %	15,749.2 %	<b>310,000</b>
<a href="#">Somalia</a>	11,391,962	200	<b>900,000</b>	7.9 %	449,900.0 %	<b>900,000</b>
<a href="#">South Africa</a>	55,436,360	2,400,000	<b>29,935,634</b>	54.0 %	1,147.3 %	<b>16,000,000</b>
<a href="#">South Sudan</a>	13,096,190	n/a	<b>2,179,963</b>	16.6 %	n/a	<b>180,000</b>
<a href="#">Sudan</a>	42,166,323	30,000	<b>11,806,570</b>	28.0 %	39,255.2 %	<b>3,000,000</b>
<a href="#">Swaziland</a>	1,320,356	10,000	<b>436,051</b>	33.0 %	4,260.5 %	<b>160,000</b>
<a href="#">Tanzania</a>	56,877,529	115,000	<b>7,394,079</b>	13.0 %	6,329.6 %	<b>6,100,000</b>
<a href="#">Togo</a>	7,691,915	100,000	<b>869,956</b>	13.0 %	770.0 %	<b>340,000</b>
<a href="#">Tunisia</a>	11,494,760	100,000	<b>5,848,534</b>	50.9 %	5,748.5 %	<b>5,800,000</b>
<a href="#">Uganda</a>	41,652,938	40,000	<b>19,000,000</b>	45.6 %	32,457.8 %	<b>2,200,000</b>
<a href="#">Western Sahara</a>	596,021	n/a	<b>27,000</b>	4.5 %	n/a	<b>23,000</b>
<a href="#">Zambia</a>	17,237,931	20,000	<b>5,192,284</b>	30.1 %	25,861.4 %	<b>1,400,000</b>
<a href="#">Zimbabwe</a>	16,337,760	50,000	<b>6,722,677</b>	41.1 %	13,345.4 %	<b>850,000</b>
<b>TOTAL AFRICA</b>	<b>1,246,504,865</b>	<b>4,514,400</b>	<b>388,376,491</b>	<b>31.2 %</b>	<b>8,503.1 %</b>	<b>160,207,000</b>
<a href="#">Rest of World</a>	6,272,524,105	83.4 %	<b>3,497,191,128</b>	55.8 %	90.0 %	<b>1,819,496,530</b>
<b>WORLD TOTAL</b>	<b>7,519,028,970</b>	<b>100.0 %</b>	<b>3,885,567,619</b>	<b>51.7 %</b>	<b>100.0 %</b>	<b>1,979,703,530</b>