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Development of Small and Medium Scale Enterprises (SMEs) in Africa Through Crowdfunding

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Abstract: The importance of SMEs having good access to cost-effective finances appears to be undeniably obvious for the development of SMEs in Africa, especially with the adverse effect of the aftermath of Corona Virus (COVID-19) pandemic. This paper was therefore necessitated by the need to evaluate the development of SMEs in Africa through crowdfunding. Employing theories and empirics, this paper researched the various sides of the discussion on SMEs' development through crowdfunding in Africa. The study had a relatively robust review of literature on the concepts, prospects, and challenges of crowdfunding in Africa. Descriptive and survey research designs were employed and data analysis was carried out using SPSS 20. A descriptive analysis of the statistical outcome was carried out on the various demographical information of respondents presenting them with the use of both easy and diagrams. Analysis of the T-test was used to also ascertain the influence of crowdfunding on the development of SMEs in Africa. Cronbach's alpha reliability test served as a tool to measure the instrument's reliability. Findings from this research revealed that lack of awareness of crowdfunding as an instrument of raising funds and the ease of access to crowdfunding platforms by SMEs in Africa form the major challenges for SMEs in Africa and these have a significant effect on their development. Recommendations proffered were that adequate regulations and policies that will create an enabling environment for investors or crowdfunders should be enacted.

Keywords: Africa, Awareness, COVID-19, Crowdfunding, Development, Small and Medium Enterprises

1. Introduction

1.1. Background

At no time has it been this glaring the need for SMEs to have access to a cost-effective source of finance than in this period of the post-Corona Virus (COVID-19) pandemic. It has now been known that almost everything appears to have been impacted upon by the pandemic. Even before the outbreak of this pandemic, SMEs have been faced with difficulty in accessing and obtaining finances that cost-effective. OECD stated that perfect world fact, entrepreneurs and SMEs would be able to access finances easily to enable the stimulation of innovation and subsequently drive Economic Growth (EG) and development [29]. But in reality, the situation is different because SMEs tend to experience difficulty in accessing finances as they show a level of risk and uncertainty which is seen in the lack of comprehensive plans for business and inadequate capital [18]. The inability of SMEs to access finances easily and at a reasonable cost tends to hinder their growth and development.

SMEs make up a large part of the economy needed towel-funded to enable them to operate optimally [13]. SMEs in the opinion of Eldridge, *et al*, typically represent a huge business part and they form an important part of any economy and present an integral means of EG and development making it needful to provide finances for these businesses [18]. Despite the fact that these SMEs are in small bits and are scattered all over the nations, they contribute a huge chunk to the economy of nations through employment and thereby the Gross Domestic Products (GDP) [14]. SMEs in Côte d'Ivoire massively contribute to both employment creation as well as resources financially to the economies of states and in 2015 alone, about 90%–98%, 18%–20% and 23% is SMEs' representation on the formal economy, GDP and jobs respectively [17]. To this end, the place of SMEs cannot be over emphasized and therefore needs to be well developed to ensure that it continues to contribute its quota optimally to the African economy.

Nwakoby, Ajike and Ezejiofor stated that SMEs are still the bedrock and a good component in the actualization of sustainable growth and development in any given economy as well as attaining industrial growth and development which will lead to diversification and expansion of industrial production [27]. SMEs are mainly seen as the life wire of the EG of any country and are important components that connect, strengthen and improve the development of the nations and mainly needs little capital to get it established but most of the times, it is often found difficult to raise for expansion purposes [2]. Crowdfunding being a source of finance to SMEs appears to be a good source that could be explored by SMEs for optimum growth and development.

Crowdfunding growth has been quite rapid with an estimated contribution of about US$2.7 and offering over a million different kinds of incentives as at 2012 and this has increased by more than 51% amounting to US$5.1 billion as at 2013, causing it to occupy a vital position as a source of funding for SMEs that should not to be ignored [12]. Hossain and Oparaocha stated that in 2015 there was an expectation that crowdfunding industry will raise $34.4 billion, which is twice that of 2014 and a five-fold increase on 2013 [23]. Surprisingly, in 2014, the growth rate leaped by 320% to get to $3.4 billion in Asia, becoming greater than that for Europe which is $3.26 billion [26]. There is therefore the need to explore the potency of crowdfunding in aiding the development of SMEs in Africa.

1.2. Statement of the Problem

SMEs is an important and necessary component of any given economy and especially the African economy and their role in such developing nations' economies cannot be over emphasized as it affects their growth and development. Despite its huge contributions, the SMEs, especially in Africa have been bedeviled with the problem of high interest rate of funds, inaccessibility of fund and these have led to the problem of inadequate funding [23]. The traditional sources of funding has in one way or the other posed a lot of concerns to SMEs and therefore needful for an alternative source of funding to be considered. Crowdfunding as another funding option could possess the needed rescue in terms of finance to SMEs and therefore needs to be explored to find out the challenges inhibiting it from playing its desired role of developing SMEs in Africa.

1.3. Objective of the Study

The study has the following specific objective:

To determine to what extent lack of awareness and ease of access of crowdfunding militate against the development of SMEs in Africa.

1.4. Research Question

The following research question was asked which reflect on the objectives of the study:

To what extent does lack of awareness and ease of access of crowdfunding militate against the development of SMEs in Africa?

2. Review of Extant Literature

Finance Act (2019) has defined Small companies as companies with not more 25 million naira turnover and Medium companies as those with over 25 million naira and less that 100 million naira turnover. By extension, SMEs are enterprises that contribute less than 100 million naira turnover in the Nigerian economy per annum. This is also in tandem with the threshold in most of other African's countries. The SMEs as a sector equally affects all other segments of the economy and in its growth as well as developmental process, lies the capacity to transform all other sectors and place them on the track of sustained growth [6]. Elhassan opined that the conviction that large industries are more important in both the economic and social activity remained unchallenged in economic thought up till the middle of 1970 and was changed with the work of Prof. Schumacher on 'Small's Beautiful' Economic growth [19].

Despite the fact that SMEs have shown to be of good significance in its contribution to the African economy, getting access to financing sources have been noticed as a significant limitation that is affecting the performance and development of SMEs in Africa and the alternative financing methods are determined by the firm's predispositions to each entrepreneur and as well as the options available such as venture capitals, individual investors and crowdfunding that are accessible to them [3, 25]. The financial crisis experienced in 2008/2009 has brought about strict bank credit policy which showcased the susceptibility of SMEs to changing conditions in banks' lending thereby leading to the need to increase the scope and access financing instruments by SMEs and business visionaries, with a specific objective of empowering the SMEs to keep on performing their function in employment, advancement and development, [1].

Also, Adeyele and Osemene stated that inadequate funding has been seen as one of the main limitations of SMEs in any part of the world [5]. Crowdfunding has come to the limelight for more than a decade now and have served as a source of fund to entrepreneurs. Crowdfunding has seen as an alternative possibility available to individuals to have access to funding by mobilizing it bit by bit. Crowdfunding is said to be the process whereby one party asks and gets money as well as other resources from many people so as to finance a project or projects, in exchange for return on investment which could be monetary or non-monetary [34]. "It is an alternative model of funding projects, where a large and dispersed audience participates through relatively small financial contributions, in an exchange for rewards that could be physical, financial or social and it is usually done through internet-based platforms that act as the bridge between fundraisers and funders" (Moleskiel & Alegre, 2018).

Globally, crowdfunding raised about $2.7 million in 2012 with North American platform accounting for about 95% including the Europeans' while leaving only 5% of the total market to be shared by the rest of the world of which South America and Africa have the largest in the financing gap raising only $800,000 and $65,000 respectively [31]. Crowdfunding is different from traditional sources of fund because it mainly attracts little investments from investors that are less sophisticated and involves the uncertainty that accompanies the virtual nature of the interaction medium. It is an innovative means for projects, entrepreneurs, organizations, and startups to raise capital for their causes from many individual donors or investors (UNDP, 2017).

2.1. Factors Militating Against the Development of SMEs Through Crowdfunding

Augustine opined that SMEs and start-up entrepreneurs are faced with various challenges in their quest to raise funds to start up their businesses from banks because of selective and stringent conditions attached to such loans [10]. Also, Sitharam and Hoque highlighted managerial competence, capability in technology as well as skills and access to getting finance as part of internal environment factors and competition, globalization, crime as well as corruption serve as external environmental factors that affect SMEs [32]. Sources of financing SMEs are but not limited to savings by the owner, relatives, friends, financial institutions, partners and stockholders but also the fear of losing the personal savings and pressure from the creditor often usually force the business owners and their managers to avoid the mismanagement of such companies.

In for instance Nigeria, a great number of owner-managers not only set up but they fund their enterprises from their savings thereby directly affecting the performance of these their business ventures [28, 17]. SMEs are still constrained with the challenges in managing their business such as poor quality of human resources, lack of access to market, limitation in technology and technological skills, lack of access to fund and hindrances encountered while trying to access the source of funding are part of the main problems facing them [15, 33]. Diabate, Allate, Wei and Yu stated that SMEs are the driving force of EG for most of the countries, and that issues that impact on the performance of SMEs in any country are not only those that enhance their profits but also those that relate to the country's growth and development matters like availability of technology availability and accessibility [16].

Mbatha and Ngibe opined that SMEs do encounter many difficulties which impact on their growth and existence negatively and that the review of literature showed that management of funds/profits, capital, leadership skills, material resources, government regulations, human capital, technology and environmental factors are part of them [24]. Abeh, opined that most of the countries in sub-Saharan African has inadequate basic ICT infrastructures which results to insufficient electricity to power up their ICT resources, poor facilities for Telecommunication and inadequate funds generally [2]. For Crowdfunding to succeed especially in Africa, it requires a reliable internet connection, and a working online payment systems to enable the funds to be transferred to them [21].

From this viewpoint, a working and an efficient online payment system will enable SMEs in Africa to access the platforms for crowdfunding and this also will help in providing the infrastructure for payments, as well as information concerning the creditworthiness of the SMEs [29]. The ability to secure a crowdinvestor is another important aspect of developing SMEs that needs to be considered. Elhassan stated that what is to be emphasized as it affects SMEs is that these SMEs on their own can survive for a good length of time even without making some profits but will easily fold up when faced with critical cash payment that cannot be deferred and therefore means that constant liquidity is of more importance to them than making profits or getting returns on their investments [19]. Windapo opined that one of the factors underlying the failure of SMEs is due to their limited resources and that access to finance is one of the biggest structural problems identified [35].

Finance is said to be the several actions taken with the intension to create, allocate and utilize these financial resources to enhance business activities and to cause an effective management of cash flows of these firms and that its importance in these business firms cannot be underestimated since a challenge caused by the system of funding in an enterprise negatively influences the liquidity of these enterprises and eventually the performance of such enterprises economically [8]. MSMEs are seen to be natural and informal thereby making it difficult to obtain finance from banks and other institutions that are formal in nature and this leaves them with only informal sources and these constitute a main source accounting for over 60% of owners' total capital [9]. Pekmezovic and Walker opined that a major factor enabling developing countries is the implementation of needed infrastructures such as technology to aid crowdfunding; also stating that the ability of developing countries to migrate to crowdfunding structures mainly depends on its capability to accept new technologies and the attendant methodologies for the formation of capital [31]. This is because crowdfunding can only work effectively with access to both a reliable broadband Internet and a mobile data networks.

2.2. Theoretical Review

Static Trade-off Theory

This theory (static trade-off) was developed from the works of Modigliani and Miller in the 1958. This is a theory that refers to how a company chooses to raise capital so as to create a balance between equity and debt finance putting the costs and benefits into consideration. This trade-off implies that there is in existence, a target leverage that maximizes the value of firms [36]. This is a capital structure theory that tries to create a balance between the costs of financial distress and the tax benefits from such capital structure [11]. The theory has the assumption that organizations select the method of resource allocation in their control by comparing the tax implications of debts with that of the costs of bankruptcy arising from such debt capital, thereby targeting an optimal debt ratio [4]. This theory is connected to this study because crowdfunding platforms offer both equity and debt capitals and it still needs the SMEs to make appropriate choice of which to go for and the balance too.

2.3. Empirical Review

Elhassan carried out a study that employed descriptive analytical approach in finding out the obstacles as well as the problems that face SMEs in the Kingdom of Saudi Arabia, and the findings revealed that there are many problems that face SMEs [19]. According the findings among the problems are lack of financing, available and capable employees, poor demand, obnoxious regulations of government and the other obstacles represented in fees. Diabete *et al* (2019) carried out a study and the results showed that lack of funding for Ivorian SMEs negatively influences their growth. A study on the effects of financial sources on SMEs' performance in Ado-Ekiti metropolis was carried out employing survey research design through the instrumentality of questionnaire and findings showed that there is a nexus between available sources of fund to owners of SMEs and the performance of their businesses and that the availability of sources of finance is germane to SMEs' performance [28].

Aladejebi carried a study to investigate the determinants of lending to SMEs by deposit banks in Nigeria and it was found that projected income criterion, type of business, profitability, government guarantee of the loan and the curriculum vitae of clients ranked accordingly are part of the factors that determine banks' lending to SMEs [7]. Also inadequate or no collateral, no viable reason for the loan, poor or unsatisfactory or no business plan at all, little or no proper keeping of records and no existing bank relationship all form part of the reasons why banks don't lend to SMEs. Awoyemi and Makanju carried out a study on the growth prospects as well as the challenges of financing MSMEs in Nigeria and employed descriptive analysis, and found that MSMEs' ability to grow and survive in Nigeria is still being affected by their inability to access finance as a result of high risk debtors who happen to be none credit worthy [9]. Again, the study's further findings show that financial support in the form of loans given by the financial institutions to MSMEs has been steadily declining over the years and this retards their growth prospects in Nigeria.

Another study was carried out on how SMEs access finance within the West African countries and findings revealed that access to fund is majorly determined by factors like ownership type, firm size, strength of legal rights, the depth of credit information and orientation of a firm on export as well as the top manager's experience [30]. Zirra and Charles conducted a study on the "impact of SMEs' financing on business growth in Nigeria" and found that ability to access fund was an essential condition for successful development of entrepreneurial endeavor but that the charged interest rate on loans to SMEs is often high and entrepreneurs' ability to borrow is often hindered [37]. The work of Eldridge, *et al* which examined the "impact of equity crowdfunding on innovation and growth opportunity within SMEs" showed that crowdfunding does not influence significantly innovation in small firms the same way it does not have an impact on small firms' growth opportunity with a correlation that is strong and has a positive impact on small firms' performance [18].

Fowowe carried out a study on the "effects of access to finance on the growth of firms in African countries" [20]. The outcome through the use of measures that are subjective show that the constraint to access fund negatively influences on a firm's growth while the objective measure shows that SMEs that no constraint to credit facilities revealed faster growth than those SMEs with constrained access to fund. Abeh evaluated the "different paradigms of challenges, prospects and government efforts towards SMEs in Delta State, Nigeria" [2]. Employing descriptive research design, the result of the study showed that lack of fund, managerial skills, political and religious, innovation, economic, social/cultural, poor state of infrastructure and environmental challenges are part of the main hindrances to the growth as well as the development of SMEs in Nigeria.

3. Methodology

Study Design

The research design adopted for the study is descriptive and cross-sectional survey for data gathering purpose and the population comprises of SMEs startups in Africa. To guarantee the construct validity of the research instrument, it was given to experts in SMEs for review to ensure that the items in the instrument are relevant to the underlying construct it indicates. These instruments (questionnaires) were distributed to the various entrepreneur in the SMEs sector within the African region and data were gathered from them for this study. T-test will be conducted to test the variables [22]. SPSS version 20.0 will be used for the purpose of analyzing the data. Cronbach-Alpha's test of reliability will be conducted to ensure the reliability of the test instrument.

4. Results and Discussion of Findings

4.1. Descriptive Analysis

The questionnaires were distributed online via Google Doc and a total of 117 questionnaires were returned. The categories of respondents based on countries of residence showed that *90.60%* reside in Nigeria, *3.4%* in Benin Republic, *2.6%* in South Africa, 1.7% reside in Ghana and Uganda each. Using the Bank of Industry's (BoI) classifications of SMEs, *6%* were involved in Agriculture, forestry and fishery, *15.4%* in communication, construction, manufacturing, mining, transportation, and utilities, *43.6%* were involved in finance, insurance, real estate, retail trade and wholesale trade, *18.8%* in services and *16.2%* in others.

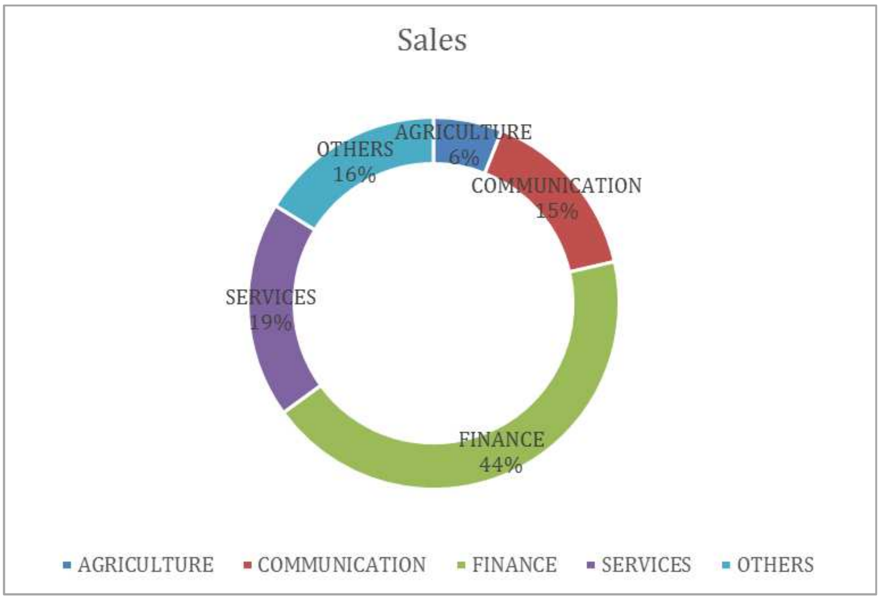

Figure 1. *BoI's classifications of SMEs.*

Information on respondent's age of business held that 0-4 years were *42.7%*, *28.2%* were 5-9 years, 10-14 years were *12.8%,* 15-19 years were *9.4%* while 20 years and above were *6.8%*. This indicated that majority of the respondents were in the early stage of their business life. Finally on this, looking at the source of startup capital, 6% were from loans from financial institutions, 77.8% came from personal savings, contribution from families and friends amounted to 16.2% while none came from crowdfunding. This is an indication that crowdfunding is yet to be an option of startup capital for the African SMEs owners. The design of the questionnaire for this study's was done by the researcher while it's validation was by experts in the SMEs industry.

The instrument is made up of two sections: section 1 containing the information on respondent's demographic data (Country of residence, nature of business, age of business and source of start-up capital) and section 2 was on awareness and ease of access of crowdfunding. Five-point Likert scale of 1, 2, 3, 4 and 5. The rating system adopted is as follows: 1=Strongly Agree (SA), 2=Agree (A), 3=Undecided (U), 4=Disagree (D), 5= Strongly Disagree (SD) was adopted. With the use of Cronbach's alpha for reliability test, the analysis outcome was 0.616. SPSS version '20' was employed to analyze the data and to answer the research questions. The mean results are between 'agree and disagree' and were rated on the basis of 0.00-0.99 (strongly agree); 1.00-1.99 (agree); 2.00-2.99 (undecided); 3.00-3.99 (disagree) and 4.00-4.99 (strongly disagree). The critical values are those at each tail-end of the curve which is = 0.05/2. Not forgetting that the t-test at $p < 0.05$ Level of Significance (LOS).

4.2. Empirical Analysis and Discussion

Research Question: To what extent does lack of awareness and ease of access of crowdfunding militate against the development of SMEs in Africa?

Table 1. *T-test analysis.*

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Full awareness of Crowdfunding in Africa	34.273	116	.000	3.564	3.36	3.77
Ease of Access of Crowdfunding	43.321	116	.000	3.752	3.58	3.92

Df=N-1; 95% Confidence Interval.

Research question 1 evaluated to what extent the lack of awareness and ease of access to crowdfunding militate against the development of SMEs in Africa. The results showed the degree that the respondents answered to the full awareness of crowdfunding platforms as alternative means of raising capital for SMEs in Africa as well as the ease of access. Table 1 revealed that all the respondents disagreed to the fact that SMEs are not fully aware of crowdfunding as an alternative means of raising capital in Africa and for those that are slightly aware, indicated that their firms have not found it easy to access its opportunities for their businesses. This is revealed in the means differences of 3.564 and 3.752

respectively from more analysis carried out using *t*-test, results showed that the *t*-test ranged from 34.272 to 43.321 at $p < .000$, 2-tailed. By implication, none of the respondents agreed that they are fully aware of crowdfunding as an alternative to raising business capital for SMEs in Africa. None also agreed to the fact that there it is easy to access crowdfunding opportunities for business finance in Africa. These findings are in line with [20, 30, 18, 9].

4.3. Implications of Findings

This study's findings have some implications for the various stakeholders in SMEs in Africa. These implications are follows:

Organized SME Associations and related Agencies: they are to adopt these findings and seek to educate and enlighten their members involved in this sector of the economy on the availability of crowdfunding as an alternative means of raising capital and the potentials embedded therein. They also need to seek out the best means of accessing these potentials for the development of their businesses.

Regulators and Standard setters: Those charged with regulation and standard setting can adopt these findings from the research to further look into the possibility of making laws and regulations that will bring about the awareness and accessibility of crowdfunding to SMEs in Africa.

Investors: The implication of this study's findings to the investors is that they should consider reaching out to SMEs in Africa deliberately to extend their funds to them as their contribution to SMEs' growth and development in Africa as this could also offer them a huge Return on Investment.

Further Researchers: To the researchers, this study's findings has implication is to serve as both a contribution to the existing body of knowledge and as a guide for further research work especially as it affects ways to ensure the majority of the SMEs are able to easily access the crowdfunding platforms and the opportunities it has to offer them here in Africa.

5. Conclusion and Recommendations

5.1. Conclusion

The study was on the development of SMEs in Africa through crowdfunding. The results show that majority of SMEs in Africa are not fully aware of the opportunities being offered through crowdfunding as an alternative to financing their enterprises and those that are aware find it difficult to access these platforms and the resources that they have to offer. To ensure the growth and development of SMEs in Africa, a campaign on education and enlightenment of members of SMEs by their various groups and organization is very paramount as well as the enactment of various enabling laws by the appropriate bodies will be very necessary.

5.2. Recommendations

The recommendations made using the findings and conclusion of the study are as follows:

1) Sufficient policies, rules and regulations should be enacted to ensure enabling environment for the enlightenment of SMEs on the potentials embedded in crowdfunding.
2) Deliberate and adequate action plans should be taken by various groups and associations to educate and enlighten their members on the availability of crowdfunding as an alternative finance source.
3) Further studies into ways of ensuring that SMEs in Africa get easy access funds from the crowdfunding platforms should be researched further.
4) Investors in crowdfunding should extend their investment to SMEs in Africa to assist in developing them.

5.3. Contribution to Knowledge

The following are the contributions to knowledge arising from this study:

Concept: The study was on development of SMEs in Africa through crowdfunding. The results show various variables that could contribute to the development of SMEs in Africa.

Theory: The study discovered that Static trade off theory is still relevant in the choice of capital to SMEs' in Africa.

Literature: The findings of the study highlights that SMEs should be enlightened on the potentials embedded in crowdfunding and on how to access such for the development of SMEs in Africa. It should as well serve as a reference point to other researchers and scholars.

Empirics: To empirics, this study contributes that SMEs in Africa will be better developed if they are fully aware and can easily access fund through the platforms.

Policies: There was an observation in the process of this study that most African countries has inadequate or no crowdfunding enabling laws and policies and contributes that policy makers should consider proper enactment of such laws and policies and the education and enlightenment of those involved in SME businesses in the continent. There is also the need to properly domesticate crowdfunding regulations from the developed nations to enable its efficient application in Africa.

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