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INTRODUCING A REGULATORY FRAMEWORK FOR INVESTMENT CROWDFUNDING IN GHANA:

*A SYSTEMS CHANGE
APPROACH*

Guidelines Launch and Technical Workshop

19 June 2024



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GLOSSARY

Accelerators	Specialized programs aimed at rapidly advancing startups by offering mentorship, funding and essential resources. They are often industry-specific with support tailored to meet the unique challenges and opportunities within each sector.
Angel investors	Individuals who invest their personal funds in early-stage startups or entrepreneurial ventures. They are pivotal in driving innovation and economic growth, offering vital financial support to young companies that might not yet appeal to traditional lenders or venture capitalists.
Blockchain-based technologies	Innovations that use the fundamental principles of blockchain to develop new functionalities and applications to address challenges and enhance existing systems across diverse fields.
Cooperative societies	Voluntary groups of individuals united to fulfil their shared economic, social and cultural needs. These organizations operate on principles of self-help, mutual benefit and democratic governance.
Crowdfunding intermediaries	Also known as crowdfunding platforms, crowdfunding intermediaries play a crucial role in connecting project creators (those seeking funding) with potential investors (those contributing funds). They act as a bridge between these two parties, facilitating the entire crowdfunding process.
Crowdfunding Intermediary Licence	An authorization granted by a regulatory authority, often a country's securities commission, enabling a platform to legally facilitate investment-based crowdfunding activities.
Crowdfunding platforms	Online marketplaces that connect project creators with potential investors. They act as intermediaries, facilitating the entire crowdfunding process for ventures seeking funding and individuals looking to support innovative ideas or businesses.
Donation crowdfunding	A model that allows individuals or organizations to raise funds for causes or projects through online platforms. Unlike other crowdfunding models such as investment crowdfunding, contributors do not receive a financial return or ownership stake in exchange for their donations.
Early-stage capital providers (ESCPs)	Financial institutions or individuals who invest in new businesses, typically startups or young companies with high growth potential and a high risk of failure.

Early-stage SME finance (eco)system	The interconnected network of institutions, regulations and processes that facilitate funding for new small- and medium-sized enterprises (SMEs).
Fund managers	Financial experts tasked with overseeing investment funds and making strategic investment decisions on behalf of the funds' investors with the aim of achieving the funds' investment objectives while effectively managing risk.
Incubators	Programs aimed at accelerating the growth and success of early-stage startups through a nurturing environment filled with resources, mentorship and guidance that help startups refine their business models, validate their ideas and gain market traction.
Investment crowdfunding	Also known as equity crowdfunding, investment crowdfunding is a method for startups and growing companies to raise capital from a large pool of individual investors through online platforms. Unlike traditional fundraising methods like loans or venture capital which originate from banks or high-net worth companies and individuals, investment crowdfunding allows anyone to invest in promising ventures and potentially share in their future successes.
Investment vehicles	Financial tools and products that allow individuals to invest their money and potentially grow their wealth. There are a wide variety of investment vehicles available on the market, which cater to different risk tolerances, investment goals and liquidity needs.
Investor syndicates	Groups of investors who join forces to pool their capital and co-invest in deals. Investor syndicates function like mini venture capital firms but with more flexibility and potentially lower barriers to entry for individual investors.
Leasing agreements	Also sometimes called rental agreements, leasing agreements are legally binding contracts between two parties.
Offtake agreements	Legally binding contracts between producers (sellers) and a buyers (offtakers) that specify the terms under which the buyers will purchase a portion of the producers' future output.
Payment systems	The entire network of institutions, instruments, rules and technologies that facilitate the transfer of monetary value between payers and payees [1, 2, 3]. Payment systems form the backbone of all economies, enabling businesses and individuals to exchange goods and services efficiently.

Peer-to-peer lending	A way for individuals and businesses to borrow and lend money directly with each other, bypassing traditional financial institutions like banks. Peer-to-peer leverages online platforms that connect borrowers with lenders and facilitate loan processes.
Physical assets and fractionalization	Fractionalization, when applied to physical assets, refers to the process of dividing ownership of a high-value asset into smaller, tradable units. This allows multiple investors to each own a portion of the asset and potentially benefit from its appreciation or generate income through its use.
Profit-sharing	A program offered by some employers that allows employees to share in the company's profits, essentially earning a bonus on top of their regular wages or salaries.
Regulatory sandbox	A programme allowing an exemption to the rules, temporarily permitting certain activities.
Revenue-sharing	A business model in which income generated from sales or activities is divided between two or more parties. Unlike profit-sharing, which distributes a portion of the company's profits (income after expenses), revenue-sharing focuses on the total revenue (income before expenses).
Rewards crowdfunding	Also known as seed crowdfunding or equity-less crowdfunding, rewards crowdfunding is a popular financing method for startups and creative projects, allowing individuals or companies to raise capital from a large number of people in exchange for rewards or perks, rather than offering ownership (equity) in the business.
Systems change approach	A way to tackle complex challenges that looks at the entire system, not just its individual parts. It focuses on understanding the interconnectedness of factors that contribute to a problem and aims to address the root causes, not just the symptoms.
Value chain	The entire process of creating and delivering a product or service to a customer, including the steps involved in adding value at each stage, from initial concept to final sale as well as after-sales service.

INTRODUCTION

With the rise of technology, entrepreneurs around the world, including in Ghana, have been increasingly using crowdfunding—sourcing small amounts of money from large numbers of people through digital platforms—to raise capital via their social networks. This novel approach to financing offers significant potential, especially for small and medium enterprises (SMEs) that often struggle to access appropriately-sized capital investments.

In Ghana, a country with a clear vision and proactive approach toward innovation policy, efforts to issue **specific regulatory frameworks for the crowdfunding sector have been underway since 2021**. First, the Bank of Ghana issued a Policy to guide the use of crowdfunding in the banking sector. In 2022, the Security and Exchange Commission (SEC) issued draft Guidelines for a model of crowdfunding known as “investment crowdfunding,” which involves raising business capital from the public using instruments such as debt and equity.

Under the Boosting Green Employment and Enterprise Opportunities in Ghana (GrEEEn), funded by the European Union Emergency Trust Fund (EUTF) for Africa, the United Nations Capital Development Fund (UNCDF) sought out opportunities to support the private sector in creating a more vibrant market for crowdfunding and to bridge the local SME financing gap. Upon exploring the Ghanaian SME ecosystem, UNCDF recognized that the promise offered by this technological and market-driven innovation could only be realized within a more mature and more conducive regulatory framework. As a result, UNCDF engaged with the sector’s regulators, the Bank of Ghana and the SEC **to inform the finalization and promote the adoption of the SEC’s investment crowdfunding Guidelines, thus protecting investors and fund recipients while enabling the private sector to build new financing models and crowd in capital to support excluded segments**.

To do this, UNCDF, in partnership with Lelapa African FinTech Advisory, leveraged its convening power and role as an ecosystem facilitator to hold consultations with the private sector and to incentivize public-private dialogues and peer-to-peer exchanges. **This participatory approach helped to strengthen the formulation of the Guidelines through discussion of best practices, ensure that they reflect the interests of all parties and the risks of the business environment, broaden the sense of ownership among stakeholders, and encourage uptake.**

This technical brief summarizes the activities, insights and lessons learned from UNCDF and Lelapa’s technical assistance. It also offers best practices for supporting regulators in designing inclusive regulatory frameworks that can pave the way for innovation in the SME finance space.

SETTING THE SCENE: HOW HAS THE REGULATION OF CROWDFUNDING UNFOLDED IN GHANA?

Given the comprehensive nature of crowdfunding, its regulation falls in part under the jurisdiction of the Bank of Ghana and in part under the SEC. The Bank of Ghana, whose regulatory jurisdiction covers the **donation- and reward-based models of crowdfunding**, issued a Policy to promote and guide crowdfunding

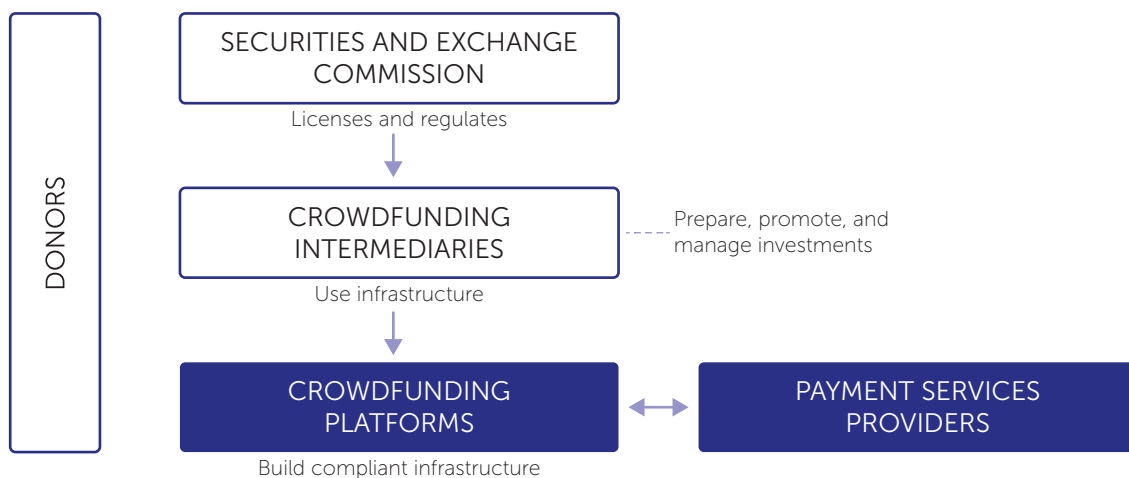
products and services for the banking sector in 2021.¹ Comparatively, the SEC’s jurisdiction covers **investment crowdfunding**, which involves raising funds from the public through equity, debt or peer-to-peer lending, or through a revenue-sharing agreement.

While the SEC shared the first ever **draft investment crowdfunding Guidelines** in April 2022, indicating which activities and licensing models would be permitted under upcoming regulations, investment crowdfunding remained formally unregulated. In the meantime, the SEC established a regulatory “sandbox,” a programme allowing an exemption to the rules, that temporarily permitted this activity. Through the sandbox, some businesses in Ghana have successfully channelled crowdfunded capital from individuals in the diaspora and at home into productive projects, particularly in the agricultural sector. Still, until a formal regulatory framework is in place, many entrepreneurs, businesses and investors are hesitant to engage with this model of capital investment and the potential power of crowdfunding as an investment tool remains limited.

SEEING THE FOREST FOR THE TREES: USING A SYSTEMS CHANGE APPROACH TO FINALIZE A REGULATORY FRAMEWORK THAT CROWDS IN PRIVATE CAPITAL AND INCENTIVIZES INVESTMENTS

It is well known and documented that start-ups and SMEs in African countries face myriad challenges—on both the supply/investment and the demand/entrepreneur sides—when raising capital. Investment crowdfunding is not a panacea that can solve all of these issues, but it can positively impact SMEs’ access to finance. To do so, **investment crowdfunding must be integrated into the SME finance ecosystem as a whole**. This requires that the crowdfunding value chain, which includes crowdfunding platforms, payments systems and other moving parts, forge partnerships with crowdfunding intermediaries, the organizations that are currently supporting entrepreneurs to become eligible to raise capital from investors.

Image | The investment crowdfunding value chain (simplified view)



¹ Bank of Ghana, notice no. GB/GOV/SEC/2021/01, Bank of Ghana Issues Policy on Crowdfunding.

Notably, this bottom-up, ecosystem-led approach often runs counter to the culture of regulatory authorities, which tend to be prescriptive, rules-based and lacking in the agility required to meet the needs of the rapidly evolving business models that characterise financial innovations today. Even when regulators can exempt innovative start-ups from certain rules using a sandbox, they risk focusing too narrowly on particular firms instead of seeing the needs of the broader systems in which those firms operate.

LESSON LEARNED/RECOMMENDATION

To change the system, it is essential that the regulatory design process account for the perspectives of all stakeholders, including early-stage capital providers, not just crowdfunding platforms.

Part of UNCDF's role in supporting the SEC with this regulatory design exercise was to initiate a **systems change approach**. This involved first understanding the early-stage finance landscape, including identifying and engaging the stakeholders within it, such as crowdfunding platforms, payments systems, accelerators, incubators, consultants, early-stage capital providers (ESCPs)² and the Bank of Ghana. It then involved working backwards, in partnership with these actors, to revise, finalize and roll out the Guidelines.

UNCDF implemented a phased, participatory and consultative process that included:

1. Leveraging UNCDF's network of providers to identify, interview and bring together the critical crowdfunding stakeholders for the consultations. This involved implementing a new round of private sector stakeholder engagements and conducting a value chain mapping exercise to illustrate the role of each stakeholder.
2. Assessing the draft Guidelines with the private sector to reveal gaps between the realities of the ecosystem and the provisions in the Guidelines and to ensure that all stakeholders' concerns were captured, best practices shared and smaller players' views represented.
3. Convening public and private dialogues to facilitate exchanges on the concerns of the private and public sectors and inform the policy process.
4. Providing the SEC with technical assistance in shaping investment crowdfunding Guidelines and ensuring adoption among interested parties. This included a benchmarking exercise identifying best practices and pitfalls of regulations in peer countries and advanced markets, several virtual and in-person capacity-building sessions, and a knowledge-sharing discussion with peer regulatory authorities.

This support was instrumental in shifting the SEC toward a more systems-oriented mindset and ensuring all relevant players were included in the policy-making process.

²Such as angel investors, syndicates or investor "clubs," and first-time and emerging fund managers

LISTENING TO THE MARKET: WHAT STAKEHOLDER CONSULTATIONS REVEALED ABOUT THE CURRENT STATE OF THE INVESTMENT CROWDFUNDING ECOSYSTEM

UNCDF and Lelapa's engagement with crowdfunding stakeholders offered several important insights that informed the finalization of the draft Guidelines.

For example, some **existing crowdfunding platforms** that currently operate in the donation and reward crowdfunding spaces are ready to enter the investment space, which they expect to be more lucrative than other forms of crowdfunding. However, given their limited internal legal and compliance capacity, they will require support to become compliant with the regulations. Likewise, despite having high-calibre "finance-first" and "tech-first" teams, existing crowdfunding platforms are currently operating primarily outside the SME finance ecosystem. They have limited relationships with others in the SME value chain, from fund managers to angel investors to other crowdfunding platforms, and a limited understanding of the economics of SME business models. There is a strong willingness among crowdfunding platforms to enter into the SME finance ecosystem through new partnerships, but to successfully do so, they must invest in understanding the SME context, including the types of legal business structures, current transaction behaviours and transaction costs.

While **start-up and SME accelerators and incubators** are viewed by other ecosystem actors as successful in creating vetted SME pipelines, graduates of such programs have had limited success raising capital. Investment crowdfunding may serve as a useful stepping stone for graduates of these programmes, particularly those who struggle to transition from solo entrepreneurship to structured companies. Likewise, investment crowdfunding may provide accelerators and incubators, which currently rely heavily on donor funding, with new revenue streams.

Finally, the stakeholder interviews revealed that the technical landscape for the investment crowdfunding value chain is highly favourable, in large part thanks to the enabling environment created by the Bank of Ghana's FinTech unit, the Ghana Card database and existing advanced payment services providers. While there are important technical differences between donation crowdfunding and investment crowdfunding that these players must overcome, the stakeholder engagement process revealed that the existing payment platforms are very willing and interested in closing these gaps.

FINALIZING THE INVESTMENT CROWDFUNDING GUIDELINES

The systems change approach-driven consultative review process led to the following changes to the investment crowdfunding Guidelines:

- 1**
WHILE THE DRAFT GUIDELINES PLANNED FOR THE SEC TO LICENSE CROWDFUNDING PLATFORMS, the updated policy involves licensing the *individuals who prepare start-ups and SMEs for investment* as **crowdfunding intermediaries**. This will leverage the skillsets of those most apt to reduce risks and drive value creation on behalf of retail investors.
- 2**
THE CROWDFUNDING PLATFORM is now viewed as the infrastructure that supports the activities of the crowdfunding intermediaries.
- 3**
TO ACCOMMODATE A BROADER RANGE OF CURRENT AND FUTURE CROWDFUNDING MODELS, NEW CONCEPTS AND TOOLS WERE ADDED TO THE GUIDELINES, such as investment vehicles, physical assets and fractionalization, cooperative societies and blockchain-based technologies.
- 4**
THE LIST OF PERMITTED INVESTMENT INSTRUMENTS WAS EXPANDED beyond classic debt and equity instruments to allow more flexible avenues for investing in start-ups and SMEs. For example, revenue-sharing, profit-sharing, offtake agreements and leasing agreements were added. This is important for both investors, who may prefer shorter investment periods, and entrepreneurs, who may prefer maintaining control of their businesses. It also allows for innovative and relevant applications of crowdfunding, such as the financing of agricultural equipment for farmer cooperatives or solar panels for rural energy production.
- 5**
ALL COMPLIANCE-RELATED COST BARRIERS FOR CROWDFUNDING INTERMEDIARIES WERE REMOVED, including minimum capital requirements and ongoing licensing costs. This was updated because most start-ups and SMEs have limited capacity in terms of investment readiness and due diligence and most of their investments are very small in size. It is crucial to eliminate all other transaction and compliance costs to keep such small investments economically viable.
- 6**
SINCE MANY OF THE INTERMEDIARIES WERE AGRI-BASED, specific guidance on crops, livestock, and other commodities were incorporated.

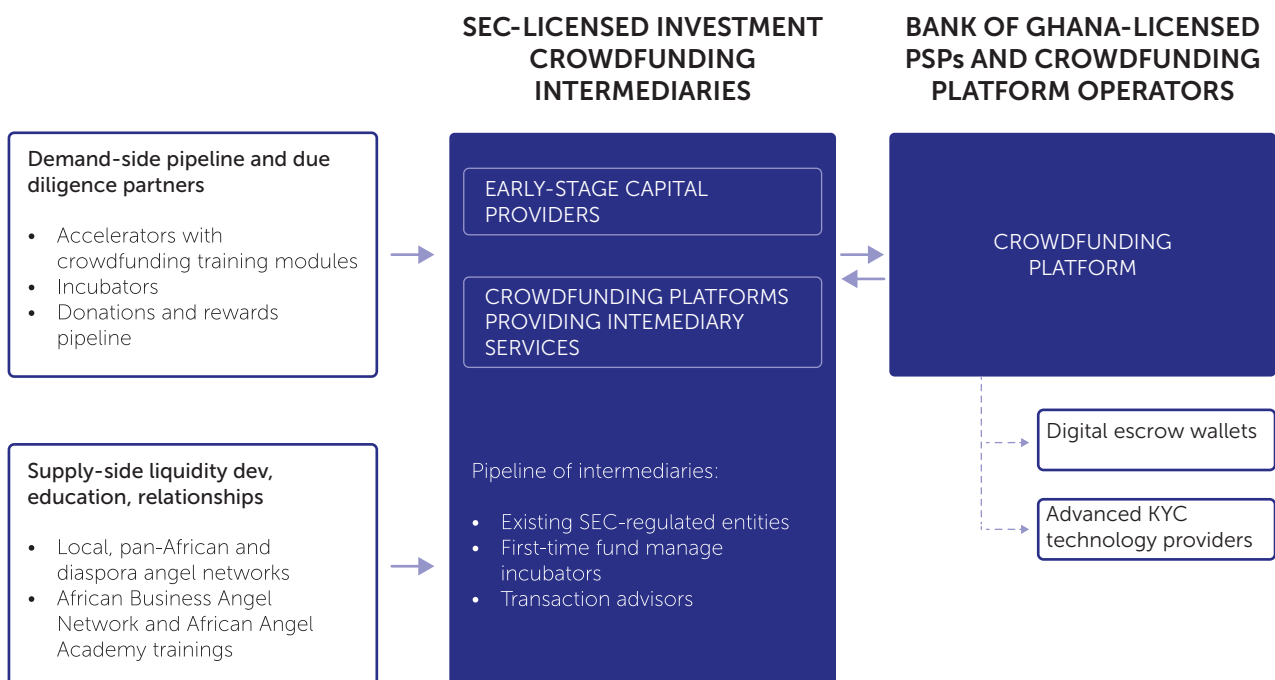
Creating a thriving investment crowdfunding ecosystem that targets the full value chain will require the involvement of many types of private and public sector actors, each playing distinct roles while operating in close partnership:

- Crowdfunding platform providers will build software that enables compliant investment transactions processed through payment service providers that are licensed by the Bank of Ghana.
- Angel investors, investor syndicates, first-time fund managers, emerging fund managers and SME advisors will apply to the SEC for a Crowdfunding Intermediary Licence.
- Licence applicants will partner with crowdfunding platform technology providers to process investments in compliance with the Guidelines.

LESSON LEARNED/RECOMMENDATION

While crowdfunding platforms can apply for Crowdfunding Intermediary Licences and crowdfunding intermediaries can build their own crowdfunding platforms, the crowdfunding sector is too big to be tackled alone. Partnerships between specialized entities that each leverage specific expertise are most likely to yield a sustainable value chain in the long run.

Image. The investment crowdfunding value chain (detailed view)



FROM REGULATIONS TO MARKET ADOPTION: NEXT STEPS

While the new Guidelines represent an essential step forward, creating a conducive regulatory environment for investment crowdfunding to occur, for investment crowdfunding to fulfil its potential to measurably improve access to capital for Ghanaian entrepreneurs and small business owners, the Guidelines must be operationalized. This requires ensuring that all of the actors within the investment crowdfunding ecosystem learn how to use them and supporting the SEC in identifying and processing high-quality licence applicants.

While these aspects were not included in the technical assistance that UNCDF provided to the SEC as of the end of Q1 2024, as part of its support, UNCDF and Lelapa identified the following key actions for the SEC to consider for a potential rollout phase:

- 1. The SEC and its partners must conduct awareness-building events** and campaigns tailored to entrepreneurs and both qualified and retail investors. They should **partner with industry bodies** such as Impact Investing Ghana and the Early-Stage Capital Providers Network of the Collaborative for Frontier Finance.
2. Accelerators, incubators and other **organizations supporting entrepreneurs should develop educational modules** on investment crowdfunding to broaden the potential entrepreneur base.
- 3. Angel investor educational programmes** such as the African Angel Academy should be supported to understand and integrate the Guidelines into their training. The formation of more angel syndicates in Ghana should be fostered.
4. Institutional investors including development finance institutions, foundations and philanthropists should study the Guidelines and **expand their set of eligible intermediaries to include crowdfunding intermediaries**, with the aim of deploying smaller investments than they typically make. These investments would be more appropriately sized for SMEs that may otherwise be deemed “unbankable” for being too small.
5. Where possible, **institutional investors should avoid requiring crowdfunding intermediaries to set up traditional fund structures**. This would slow down adoption, narrow the pipeline of deals deemed investable and increase overall transaction costs.
6. Fund manager support programmes should consider using this new channel as a method for **first-time fund managers to build their track records**.

CROWDFUNDING BEYOND GHANA: STEPS TO REACH INVESTORS ON THE CONTINENT AND IN THE DIASPORA

A missing ingredient necessary to unlock diaspora investment has been the lack of African regulatory frameworks that make it safe and practical for diaspora members to invest in SMEs back home. At the same time, diaspora investors have been largely unable to use investment crowdfunding regulations in their host countries due to high compliance costs. The Ghanaian SEC's investment crowdfunding Guidelines will enable **diaspora investors to invest in Ghana, through Ghanaian crowdfunding platforms, using licensed crowdfunding intermediaries as their "eyes on the ground"** to source, de-risk and monitor investments. It should be noted, however, that intermediaries licensed in Ghana are not permitted to market their offerings directly to diaspora individuals in the foreign country. To do this, they would require a licence granted by the regulator in that foreign country.

Scaling this approach up across the continent could offer significant opportunities but can ultimately only be achieved through the harmonisation of frameworks across African markets. Given the constrained resources of regulatory authorities, this work should be supported by donors. **A systems change approach that leverages pan-African networks of trust has the potential to yield meaningful market adoption and crowd in private, crowdfunded investment capital to entrepreneurs and SMEs across the continent.**

ABOUT LELAPA AFRICAN FINTECH ADVISORY

Lelapa is a Paris and Cape Town-based impact-oriented advisory company whose core goal is to change the early-stage finance system to work better for African entrepreneurs, particularly women. Lelapa is the foremost expert in securities-based crowdfunding regulations in Africa, having built the first cross-border equity crowdfunding platform in East Africa and established both the African Crowdfunding Association (ACfA) and the Women in African Investments (WAI) Group, an influential network of over 220 senior female investors that works to drive institutional capital to more women-led funds. Lelapa has raised over \$1 million from multilateral investment banks, development finance institutions and foundations for these initiatives. As part of its capital markets development work, Lelapa currently leads the harmonisation of crowdfunding regulations in East Africa in partnership with five East African Securities Regulatory Authorities (EASRA) member states.

Lelapa's previous consulting clients include FinDev Canada, UN Women, Small Foundation, Kenya Capital Markets Authority, FSD Kenya, the Rwanda Green Fund (FONERWA), the Millennium Challenge Corporation and Untapped Global. Lelapa consults on policy and regulations, FinTech, crowdfunding, gender lens investment and fund design. www.lelapa.co

ABOUT THE GrEEEn PROJECT

The Boosting Green Employment and Enterprise Opportunities in Ghana (GrEEEn) project is a four-year project from the European Union Emergency Trust Fund (EUTF) for Africa, the Embassy of the Kingdom of the Netherlands in Ghana, United Nations Capital Development Fund (UNCDF) and SNV Netherlands Development Organisation (SNV). The project works in Ashanti and Western Regions to create local financial ecosystems that facilitate the development of micro, small and medium enterprises; more green and climate resilient economies; and greater economic and employment opportunities for youth, women and returning migrants. GrEEEn addresses the root causes of irregular migration by working in regions of departure, transit and return. Discover more at <https://www.uncdf.org/green>

ABOUT SEC

The Securities and Exchange Commission (SEC) is the statutory body set up by the Securities Industry Act, 2016 (Act 929), as amended by the Securities Industry (Amendment) 2021 (Act 1062), with the object of regulating, innovating, and promoting the growth and development of an efficient, fair, and transparent securities market in which investors and the integrity of the market are protected.

ABOUT UNCDF

UNCDF mobilizes and catalyzes an increase in capital flows for SDG impactful investments to Member States, especially Least Developed Countries, contributing to sustainable economic growth and equitable prosperity.

In partnership with UN entities and development partners, UNCDF delivers scalable, blended finance solutions to drive systemic change, pave the way for commercial finance, and contribute to the SDGs. We support market development by enabling entities to access finance in high-risk environments by deploying financial instruments, mechanisms and advisory.



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