



PUBLIC

*FinTech and Innovation Office
Policy Brief
February 2021*



CROWDFUNDING POLICY

I. Introduction

Crowdfunding has evolved from the localised collection of funds to support business ventures or individuals in communities, to a global platform where funds are solicited through the internet and social media for a similar agenda of funding projects.

Locally known as “susu”, “nnoboa” or “ntoboa”, the concept of crowdfunding is not new to Ghana and has traditionally been used by families, groups or communities to mobilise money to provide for the needs of their members. Market women, fishmongers, farmers, traders, among other groups, have used this informal system for instance to raise funds for businesses, payment

for medical bills, funeral expenses and the education of their children.

In recent times, FinTech innovations in digital platforms and payments is revolutionising the crowdfunding system by extending the scope of fundable projects and the geographical coverage of service beyond national boundaries. High patronage of digital crowdfunding service has been observed among associations and corporate entities in order to raise money to fund development and humanitarian projects. This development holds potential for deepening financial intermediation and improving financial inclusion. As a result, it must be provided with conducive

regulatory environment for orderly development.

II. **Models of Crowdfunding**

Crowdfunding products in Ghana can be classified into four (4) main models as follows:

- a. Donation Crowd-funding
- b. Reward Crowd-funding
- c. Equity Crowd-funding
- d. Debt Crowd-funding/Peer-to-Peer lending

- **Donation Crowd-funding**

Under this model, donors are usually empathetic to the initiator's campaign and willingly give to the cause. Donors' satisfaction or reward is in the success of the campaign and expect nothing in return. Campaigns are usually for charity projects.

- **Rewards-based Crowdfunding**

With this model, contributors to a campaign are given non-financial rewards such as priority access to a successfully launched service or product or event. Registration on a reward-based crowdfunding

platform requires the "Know Your Customer" (KYC) information for both funders and fundraiser in the registration process. The fundraiser is also required to provide details such as the amount needed for a project to be advertised and any other project details as required by the platform.

- **Equity Crowd-funding**

This model is used to raise funds for start-up businesses. Investors receive equity in the entity raising the funds or a share in its revenue. Depending on the type of business and its funding requirements, restrictions may be imposed as to how much a funder can invest and how much a fundraiser can raise. Fundraisers would be required to disclose such information as may be deemed necessary to enable investors make informed decisions. The equity crowdfunding platform may or may not be actively involved in the promotion of the sale of shares.

- **Debt Crowdfunding (Peer-to-Peer lending)**

Debt crowdfunding platforms provide an ecosystem within which lenders and borrowers interact. Individuals are able to lend money to individuals or businesses. For this reason, it is also referred to as Peer-to-Peer lending. Lenders receive interest on loans and are paid the principal upon expiration of the loan or successful completion of the project for which the loan was obtained. This type of crowdfunding falls within the regulatory jurisdiction of both the Bank of Ghana and the Securities and Exchange Commission and would require regulatory approval from the two entities. Collaboration between the two regulators would facilitate approval and forestall the risk of regulatory arbitrage. Business loans, property loans and consumer loans are examples of this type of crowdfunding.

III. How Crowdfunding Works

All the crowdfunding models require both the fundraiser and the funder to do due diligence on the platform

before considering to raise funds or to fund a project on the platform. The funder has the obligation to further research on the fundraiser's profile. Due diligence entails a thorough research on the platform, fundraiser and project review, project platform reviews, project articles and studies, seminars and trade associations.

The fundraiser and funder sign up on the selected platform and agree to the terms and conditions on the platform after due diligence is done. It is required of the fundraiser to set the funding limits and define rewards (if applicable). The fundraiser also submits documentations to the platform and provides responses to the funders' questions. The funder on the other hand decides and confirms funding amount and further makes payment online into an escrow account.

After the target amount is reached, funds are transferred to the fundraiser minus fees and commissions charged by the platform while the funder receives any reward that is due

depending on the type of crowd-funding model. In the situation where the target is not attained, funds are returned to the funders.

IV. Basis for Regulation

Extensive financial sector regulatory reforms within the past ten (10) years has laid the foundation for safe and efficient delivery of digital financial services. Laws enacted as part of the reforms include Payment Systems and Services Act 2019 (Act 987), Data Protection Act 2012 (Act 843), Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930), Securities Industry Act, 2016 (Act 929), Anti-Money Laundering Act, 2008 (Act 749), Deposit Protection Act, 2016, (Act 931); and the Cybersecurity Act 2020. These laws collectively provide the legal basis for digital delivery of crowdfunding

product and service, on which Bank of Ghana's crowdfunding policy is anchored.

This policy will promote innovative digital crowdfunding solutions that comply with data protection and customer privacy regulations, good governance and accountability, relevant Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) norms, liquidation procedures and protection of contributors' interest.

V. License Policy

Donation and Reward Crowdfunding models require the ability to collect, hold and disburse payments. These activities are fully covered by the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930) and

the Payment Systems and Services Act 2019 (Act 987) and accordingly are in the regulatory domain of the Bank of Ghana. Application for approval to provide any of these services shall be sought from the Bank of Ghana.

Eligible financial institutions include banks, Specialised Deposit-Taking Institutions (SDIs), Dedicated Electronic Money Issuers (DEMI)s and Enhanced Payment Service Providers (EPSP). Dedicated Electronic Money Issuers (DEMI)s can provide these services under their license as defined in the Payment Systems and Settlement Act, 2019(Act 987) on account of they being issuers of wallet for money. Funds collected will reside in an electronic merchant wallet subject to the applicable

transaction limit. Merchant wallets created for crowdfunding shall be subjected to regular monitoring and reporting to ensure compliance of use with the intended purpose. Thus, the new merchant account categories and their corresponding minimum due diligence requirements stated in **NOTICE NO. BG/GOV/SEC/2020/15** dated **3rd December 2020** would apply.

With regards to the EPSPs, the support of a bank or Specialized Deposit-Taking Institution is needed in order to provide a custodial account for deposit to fully deliver the service.

The table below shows the licensing requirement for Donation and Reward crowd-funding.

ANNEX

Table 1 Proposed licensing policy for crowdfunding models

CROWD-FUNDING MODEL	REQUIREMENT	REGULATORY BODY
<ul style="list-style-type: none"> • Donation 	<ul style="list-style-type: none"> • Banks • SDIs • DEMIs • Enhanced PSP in partnership with a bank or an SDI 	Bank of Ghana
<ul style="list-style-type: none"> • Reward 	<ul style="list-style-type: none"> • Banks • SDIs • DEMIs • Enhanced PSP in partnership with a bank or an SDI 	Bank of Ghana