Equity Crowdfunding: Changing The Landscape Of The SME Finance Industry In MENA

Lower global oil prices and the resulting increase in unemployment coupled with lower rates of lending have triggered some governments in the region to look at alternative ways to support growth creation in the SME sector.

BY INGA STEVENS

Chris Thomas and Sam Quawasmi, co-founders and co-CEOs of Eureeca.

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Raising capital continues to be an obstacle for regional entrepreneurs, and is one of the primary challenges to a genuine explosion of entrepreneurial activity and the resulting increase in innovation. According to the World Bank, only 20% of small and medium enterprises (SMEs) in MENA have a loan or a line of credit, the lowest percentage of any region in the world; and the average share of SME lending on total loans is only 8% in MENA, which is the lowest ratio among all the regions.

In a resource-rich and innovation-hungry region, where SMEs are the main source of private sector jobs, technology in the form of alternative finance is changing the landscape of the SME finance industry. Of particular promise is equity crowdfunding.

According to the Massolution crowdfunding report 2015, the global crowdfunding industry reached $34.4 billion in 2015 (more than double the $16.2 billion in 2014) and analysts forecast the global crowdfunding market to grow at a CAGR of 26.87% during the period 2016-2020.

"With 90% of hires made after a company gains funding for their business, equity crowdfunding provides an accessible online platform for businesses to raise funds, thus directly impacting job creation and economies globally," says Sam Quawasmi, Co-Founder and Co-CEO of Eureeca, the first multi-regulated global equity crowdfunding platform, which is headquartered in Dubai with offices in Amsterdam, London and Kuala Lumpur and currently has over 12,000 active investors from

42 countries with an average investment size of $5,900.

The company, which offers an accessible digital platform for growth-oriented businesses looking for expansion capital by connecting them with strategic institutional and retail investors from across borders, is working alongside governments in the region to pioneer change in the way businesses get funded by creating an alternative method to raise finance.

Eureeca has been working closely with the Ministry of Economy in the U.A.E. and the relevant authorities in Saudi Arabia to help develop an appropriate regulatory framework to bring the equity financing process online. According to Quawasmi, "Lower global oil prices and the resulting increase in unemployment and lower rates of lending have triggered some governments in the region to look at alternative ways to support growth creation in the SME sector."

"Particularly in KSA, where more than half of the population is under the age of 25, equity crowdfunding could offer a solution to unemployment by providing a viable alternative to traditional banking models that are no longer catering to the financial needs of this dynamic, young population," he adds.

Eureeca is the first equity crowdfunding platform to be multi-regulated, having received licensing from the UK Financial Conduct Authority and the Securities Commission Malaysia in 2015, and recently the Netherlands Authority for the Financial Markets. "Through our licenses, we are able to offer high investor protection mechanisms through the application of stringent controls required by the terms of our licenses offering entrepreneurs and investors a stable and secure online marketplace for investment," says Quawasmi.

Recently, Eureeca inked an agreement with American International Group (AIG) to offer crowdfunding insurance exclusively on offers based in a diverse group of countries. The AIG insurance vehicle, called "Crowdfunding Fidelity", was developed specifically to protect investors on equity crowdfunding platforms against issuer fraud.

According to Chris Thomas, Co-Founder and Co-CEO of Eureeca, "As the crowdfunding industry continues to mature, we anticipate that third parties will continue to develop secondary products to make the space more robust, secure and effective. It will likely be the norm that platforms offer insurance policies."

Creating a digital ecosystem that facilitates online financing from a large pool of investors appears to offer a solution to many of the current funding problems for growth-oriented businesses in the region. With the internet bringing people and communities closer, people and companies are now more transparent about their businesses. Rather than treating this as a threat, many companies are using it as an opportunity to improve their businesses and strategies by putting it out to the crowd.

"Effectively the crowd helps to serve as a powerful tool to test, challenge and improve your business," Thomas explains. "The interaction with and experience of having the business validated by the crowd are invaluable for entrepreneurs regardless of them reaching their funding target. The "crowd" becomes the customers, ambassadors and early adopters—providing exactly the type of momentum a company needs to grow."

Discovering whether your business creates value is fundamental and harnessing the power of the "crowd" in equity crowdfunding is a key enabler to growth, Thomas explains. "For a startup to create value, it's not enough to see a gap in the market and steamroll into developing a solution. You need to understand whether that gap is sufficient enough not to be able to be filled by existing solutions. And not only does your proposition need longevity (a fad is not sustainable as a value proposition), but you need to see your product through your customer's eyes. Don't make too many assumptions on what they want and don't hesitate to invest in customer discovery. It is the only way to find value in your startup."

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Thomas also highlights the value of a well-crafted, clear and concise investor memorandum (IM) when considering equity crowdfunding. Not only is this type of financial disclosure a legal requirement in global equity crowdfunding, but also it can be icing on the cake if delivered after a smashing pitch. "Even in business, people make quick judgements. Make sure your first impression is the right one," he says.

On a global level, the crowdfunding industry is at a turning point. With the first deals funded by platforms now reaching the point in the cycle (3-5 years) where we would expect to be seeing returns and exits to the crowd, industry insiders are anticipating the emergence of transparent and quantifiable statistics about the industry.

"Up until now, we were operating in unknown territory and a lot of what we knew was based on forecasts of similar markets," says Quawasmi, who believes that the availability of substantiated insights, statistics and trends will mean it is highly probable that current investor behavior will adapt and change, and this will cement the pillars of equity crowdfunding as an asset class in its own right.

"Consumers will be more sophisticated and we forecast that the industry, as it matures and adapts to the macro environment in the next decade, will look entirely different," he adds. F