



March 2019

## Crowdfunding in the GCC

*A New and Faster  
Source of Funding*

### Research Highlights:

Crowdfunding is revolutionizing seed funding for start-ups and venture financing activities.

The report analyses if such an alternate funding can be a new financing cycle for the fast growing entrepreneurial start up communities in the GCC.



[www.e-marmore.com](http://www.e-marmore.com)



[enquiry@e-marmore.com](mailto:enquiry@e-marmore.com)

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# Executive Summary

Crowdfunding contrasts with traditional funding in the sense that while the latter involves large amounts from one, or a few sources, the former collates many small sums from a large group of individuals. The global crowdfunding market is expected to grow exponentially as several international vendors are facing stiff competition from regional platforms.

The global market is highly fragmented and only few players occupy majority of the market. In 2017, the global crowdfunding market was estimated to have grown by 17%<sup>1</sup>. In many parts of the globe, it is becoming mainstream means of funding but haven't overtaken the traditional channels of funding. Crowdfunding platforms render it possible for individuals and firms, of any size, to harness social networks for raising start-up capital for projects, which may otherwise fail due to funding deficits.

Currently, crowdfunding is largely centered in North America and Asia, which emerged as the top destinations for Crowdfunding, followed by Europe. The most active crowdfunding category is business and entrepreneurship where the funder has an active role to play. Further it was found that campaigns that raise almost 30% of their requirements during the first week are more likely to succeed. Additionally, crowdfunding globally has raised US\$ 34 Bn for 2017, with almost half of the funding raised from US and almost 1/3 raised from Asian regions followed by Europe with little less than 1/4 proportion in the total funding raised globally in 2017<sup>2</sup>.

UAE and Bahrain become the first two countries for announcing formal legislation for crowdfunding sector in the region. The regulation is expected to help the crowdfunding sector become formal by set out operational guidelines and standard procedures. This is expected to give a big push to the crowd funding mode of finance in the wider MENA region.

Furthermore, with the launch of laws relating to crowdfunding, UAE and Bahrain have sketched the outline for boosting Crowdfunding as a means for financing in the region. Until recently, Crowdfunding was not considered a formal means for financing and hence it was never streamlined with regulatory guidelines. This move is expected to float in other GCC countries, encourage entrepreneur activities and stand as a major support system for alternative finance domain. (Crowdfunding is part of alternative financing mode)

Moreover, the phenomenon cannot be divested from the wider MENA region, as crowdfunding, by nature, is immune not to borders. The internet has allowed investors and entrepreneurs seeking funds to come together in an environment of shared values and risk perceptions. Also, the concept of paying money into promising startups as a way of giving back to society is fast catching up in the GCC. Any regulations on crowdfunding have to pivot around vetting of platforms, profiles of individuals or entities asking for funds and the investors. The key principles of accountability, dependability, transparency and enforcement remain. Critics argue that existing legislation should acknowledge that crowdfunding is not in a defined form like a company shares or something, but rather a specific activity where most of the time the overall funding or crowdfunding revenues hardly hit above few millions dollars<sup>3</sup>.

<sup>1</sup> Technavio 2017 Report

<sup>3</sup> Cooperative City Magazine 2018

<sup>2</sup> Fundly Statistics, 2017

# Evolution of Crowdfunding and its Variants

Often, across many facets of life, individuals and companies can abandon projects due to lack of funding means. Many new interesting ideas may not excite investors and may die an early death. Crowdfunding is seen as a boon for many such individuals and ventures, due to the fact that money can be sourced directly from a community of willing givers<sup>4</sup>. The World Bank defines crowdfunding as “[...] a technology-enabled approach to raising funding online from multiple individuals to finance a project or business venture”.

Furthermore, Forbes defines Crowdfunding as “the practice of funding a project or venture by raising many small amounts of money from a large number of people typically via the internet”. It need not just be other organizations, but it can also be individuals, who can raise the funds. Crowdfunding channels the enthusiasm of digital social networks to raise finances and pool resources for supporting a project important to members of the social network.

**Table 2.1: Evolution of the Concept of Crowdfunding**

Time Period	Description
1990s–early 2000s	Internet enables the first online crowdfunding campaign.
Early 2000s	Internet-enabled giving goes mainstream.
Mid-2000s	The emergence of online micro lending sites, which enabled individuals to lend small amounts in support of projects in the developing world. Also, P2P lending started becoming popular.
2006–2010	Reward–based crowdfunding starts becoming popular. In this model, funders receive a reward for supporting a project, like being credited in a movie that they provided some funding for.
2018-2025	Application of blockchain technology for crowdfunding, Crowdfunding transforming into crowd investing offering a chance for funder and investor to back good investment opportunities. An attractive channel for funding for non-tech companies.

Source: Nesta and Marmore Research

Before deliberating on crowdfunding, it is essential to understand what the concept actually implies, as it is still nascent, but rapidly evolving. The term has quickly become an umbrella classification for a new wave of fund raising for startups. Yet, there is much confusion. For instance, most private equity offerings are still limited to only accredited investors. Thus, the question arises whether it is actually a spontaneous “crowd”. Moreover, the market views peer-to-peer (P2P) lending separately. To put ideas in much clearer perspective, it would be useful to look into the broad classifications of crowdfunding that currently exists.

<sup>4</sup>Wamda

**Table 2.2: Crowdfunding Classification**

Classification	Description
Donations-based	The funder donate funds with no expectation of getting a return or reward. Donations are typically for disaster support operations, disaster relief, famine, or any other natural disaster or medical care.
Rewards Based	The funder transfers funds or donates funds with an expectation of reward or return. Kickstarter, Indiegogo and All-or-nothing are the key international payers. This type of funding is commonly used for creative projects where mostly more the investor donates to the fund, greater the reward will be to the funder/investor.
Peer-to-peer lending	In this type of Crowdfunding, the funder/investor lends money to individual or companies in return for interest or some return. Backer in this type of financing mode are attracted to a return.
Equity-based Crowdfunding	The funder directly purchases equity in a company. This type of funding is highly dependent on regulatory frameworks.

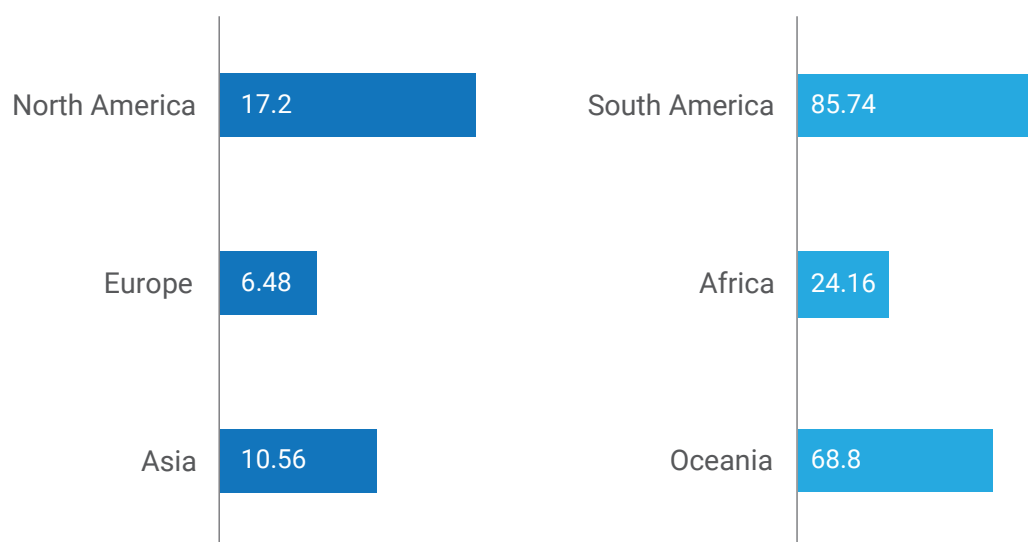
Source: United Nations Development Program (UNDP) 2017

The growing consensus is that crowdfunding will continue revolutionizing seed funding for startups and venture funding activities. Moreover, investing through crowdfunding (or crowd investing) is a tool for investors to scan the market for initiatives and projects that interest them, be it local or global.

# Current Status of the Global Crowdfunding Market

The charts below display funds globally raised by geography in 2017. Northern hemisphere including Asia (left hand side chart) in US\$ Bn and southern hemisphere (right hand side chart) shows amounts in US\$ Mn.

**Chart 3.1: Global Crowdfunding Revenues by Geography 2017**

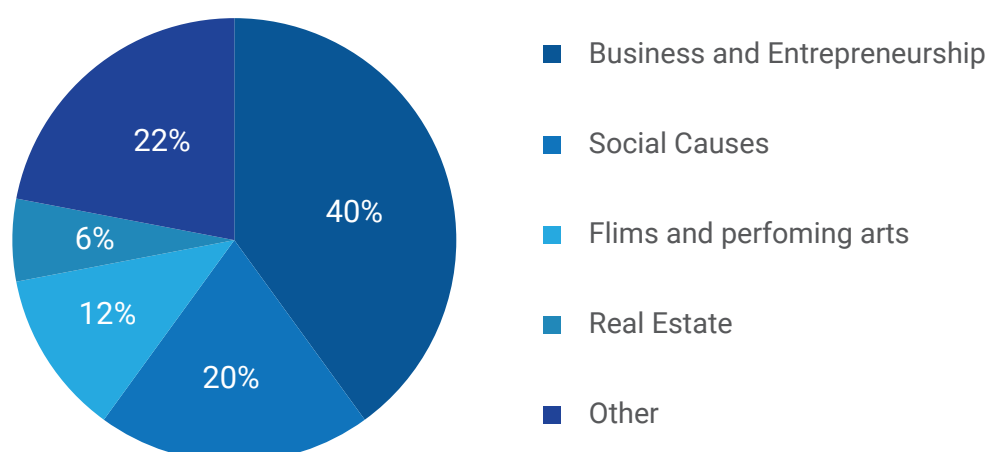


Source: Fundly 2017 statistics

According to Fundly 2017 global statistics, North America registered highest growth with crowdfunding revenues, reaching US\$ 17.2 bn followed by Asia with 10.56 Bn crowdfunding revenues, and lastly Europe at the third spot with US\$ 6.48 Bn. Crowdfunding Revenues from South America and Africa were largely well under US\$ 100 Mn. South America recorded crowdfunding of US\$ 85 Mn whereas Africa and Oceania registered crowdfunding revenues of US\$ 24 and US\$ 68 Mn for 2017 respectively.

**Chart 3.2: Global Crowdfunding by Sector 2016-17**

The below chart displays Crowdfunding by domain of activity for 2017 and its share in the global crowdfunding activities.



Source: UNDP, Financing solutions for sustainable development 2017

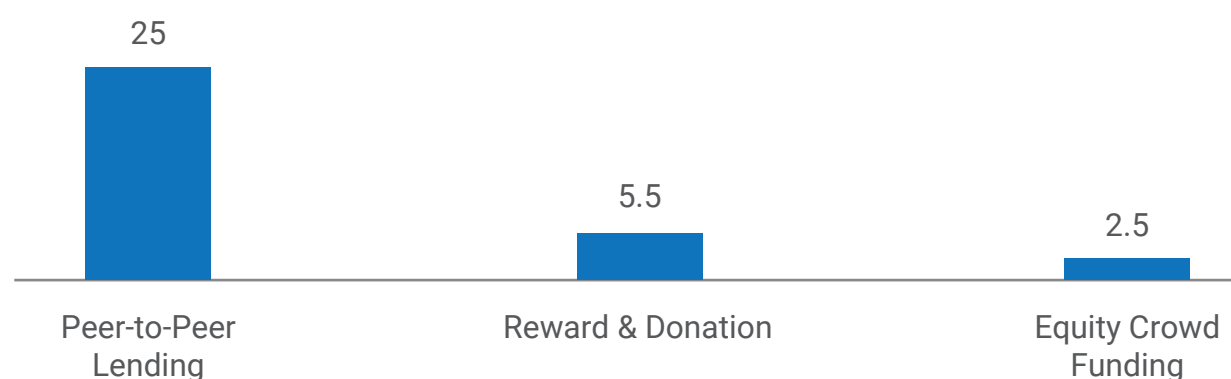


Across the globe, crowdfunding funders prefer funding business and allied activities followed by social causes. Arts and cinema, films takes up the third slot. According to Fundly, total amount of funds raised in 2017 were above US\$ 36 Bn. In 2018, the global Crowdfunding market is expected to skyrocket. Equity crowdfunding for the real estate is expected to be the most lucrative<sup>5</sup>. The below chart displays global funding by type of activities in crowdfunding platform. Globally peer-to-peer lending emerged as the top choice by funders followed by reward and donation (US\$ 5.5) and equity Crowdfunding (US\$ 2.5) for 2017.

Online campaigns to raise donations for medical care is another important domain of crowdfunding. A study published in the Journal of the American Medical Association (JAMA) reports more than 1000 campaigns that raised approximately \$6.8 million in medical crowdfunding during 2015-2017. There are four major crowdfunding sites, the most well-known being GoFundMe. However, it is found that in many cases, the money raised through these platforms are utilized for unconventional and alternate treatment which can pose danger to the patients. Patients use this money to pursue naturopathic or homeopathic treatments for cancer instead of the standard processes with the intention of bypassing doctors, hospitals, insurance companies etc. Although the crowdfunding sites gather community financial support for healthcare, there is a widespread notion that these funds are utilized for illegitimate and dubious cures.

The World Bank estimates that crowdfunding will reach \$90 billion by 2020, a level that could be seen by next year if annual growth continues. It's no surprise that crowdfunding and alternative finance continue to record massive growth each year<sup>6</sup>.

**Chart 3.3: Global Crowdfunding by Mode/Category 2017 in US\$ Bn**



Source: Fundly Global Statistics 2017

<sup>5</sup>Fundly Statistics 2017

<sup>6</sup>Crowd 101 Website



# Economics of Crowdfunding

Alternative financing (of which crowd funding is a part) emerged mostly as a result of failure of mainstream financing because of divergence of interests and needs of the modern business ventures and their approach to business thereof. The relationship between modern business practices and funding patterns seemed to be at loggerheads, (at times) leading the way for newer channels of funding. Additionally conventional funding sources are rigid and involves heightened scrutiny for granting finance thereby consuming a lot of time-leading the way up for the development of type of financing mechanism where financier can be investors. Essentially crowdfunding is viewed as another alternative or a mid-way path for securing finance.

From an economic perspective, crowdfunding acts as a substitute to main stream financing; fostered mainly due to ease of connectivity and affordability between funders and fund raisers. The burgeoning popularity of crowdfunding as source of financing globally is compared to substitution effect in economics. Whole gamut of crowdfunding activities are generally a substitute to traditional mode of financing and over the years it has become more popular than conventional channels.

The economic theory tell us that, as the prices rises, or income decreases, consumers will replace more expensive items with less costly goods<sup>7</sup>. In the context of crowdfunding, as the feasibility of conventional financing options dried out in the aftermath of the Great Recession of 2008, phenomenon of credit crunch gained momentum-created vacuum for credit and this is where substitute for main stream financing emerged gradually. Fund seekers were obliged to turn to alternative funding sources, one being crowdfunding. In economic sense, firstly, fund seekers deviated from conventional financing options and secondly private funders and investors tapped this opportunity to fund new and existing ventures. In effect alternative funding sector saw robust growth due to the fact that it was easier for connecting investors/funders and investee/fund seeker compared to models of traditional financing.

In comparison with conventional funding, crowdfunding allows investors and funders to be a part of business endeavor and this is one of the biggest incentives for crowd funders along with early access to new products and bright investment opportunities<sup>8</sup>. Both equity and non-equity based funders fund businesses that serve their motives and provide incentives (Financial; largely). At the broader level crowdfunding offers various incentives for fund seeker and investor alike.

Generally, crowdfunding is seen as a means of finance for startups; because during the early stages of venture, risks will be high and hence banks and commercial financing institutions shun away from extending credit. Investors and funders in their drive to fund promising and forthcoming ventures offer funds at low cost and more importantly at the ease of seeker (Basically a start-up). This tactical move offers incentives for fund seekers to obtain funds with low cost (of capital, mostly) and jump start their entrepreneurial ambitions, so both the sides (funder and fund seeker) play pivotal role in the whole mechanism.

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<sup>7</sup> Investopedia

<sup>8</sup> NBER-Simple economics of Crowdfunding

The cost of connecting is negligible in the domain of crowdfunding because internet acts as the sole incubator for dealings. Low costs communication facilitates better information gathering and progress monitoring for distant funders and also enables funders to participate in development of the idea<sup>9</sup>.

### **Cross-Sectional Analysis of Platforms**

According to recent international research into the popularity and functioning of mode/type of crowdfunding platform, funder prefers to be associated with larger campaigns and purposes. It can be said that funders generally have different tastes and interests. However, donation based funders have more systematically been associated with larger campaigns whereas reward-based largely rests upon funder's tastes and preferences. But it cannot be classified formally because in many instances it has been found that big ticket funders have expressed interest in small projects whereas in many other cases, funders have detached themselves from bigger campaigns.

It's a matter of options, size and nature of campaign, purpose of funding and investor/funder preferences. Moreover it has been found that funders in case of commercial projects tend to be more active where they have the opportunity to coordinate and participate in business decisions.

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<sup>9</sup> Ibid

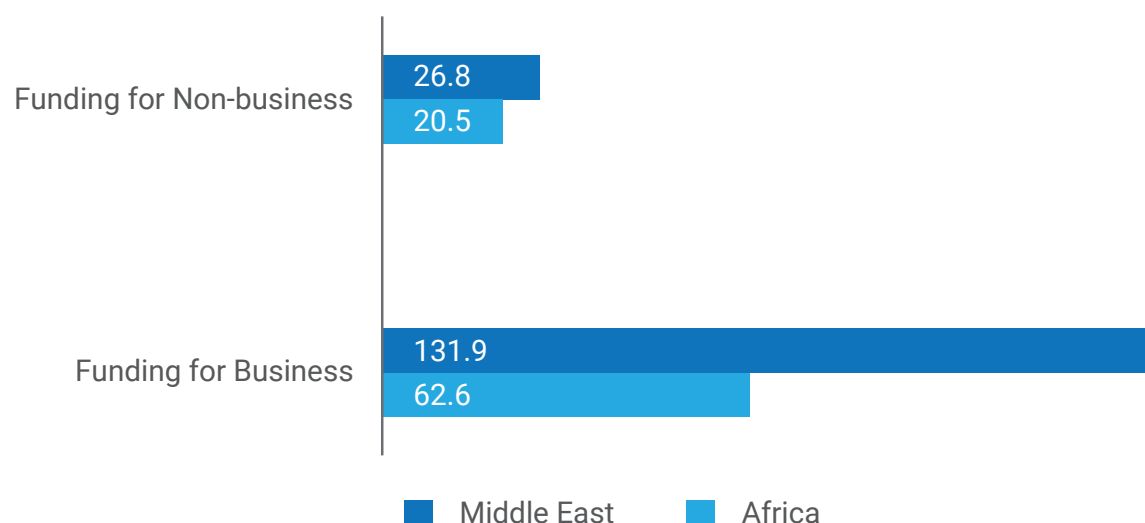
<sup>10</sup> Economics of crowdfunding platform-University of Mannheim, Aix-Marseille 2015

# Crowdfunding in the MENA region

The GCC's larger regional context is the Middle East and North Africa region (MENA). Thus, it would be useful to trace the patterns of crowdfunding in the region. A number of nations in the MENA region including Lebanon, Palestine, Jordan, Egypt, UAE and Bahrain etc., have demonstrated significant potential to raise funds on crowdfunding platforms.

According to the chart below, across the MENA region, business sector tend to dominate the crowdfunding trajectory. For the year 2017, the funding for business purposes were US\$ 131.9 Mn and US\$ 62.6 Mn for Middle East and Africa region, whereas funding for non-business activities was US\$ 26.8 Mn and US\$ 20.5 Mn for Middle East and Africa respectively.

**Chart 5.1: Business and Non Business Crowdfunding across MENA 2017**



Source: Cambridge University, Judge Business School report 2017

Furthermore, the below table shows the growing popularity and feasibility of different modes of crowdfunding in relation with sectors that are most attractive in a particular mode. According to the table, equity based mode is currently trending in the region especially in sectors such as technology, finance and internet and ecommerce. Similarly, donation based Crowdfunding is more or less inclined towards charity, education research and social causes. However, reward based Crowdfunding platform mostly serves artistic talent, social causes and technology.

**Table 5.1: Crowdfunding Channels by Mode for MENA region 2017**

Crowdfunding Model	Dominant Sector(s) First Band	Dominant Sector(s) Second Band	Dominant Sector(s) Third Band
Equity Based Crowdfunding	Technology	Finance	Internet & E-commerce
Donation-Based	Charity & Philanthropy	Education & research	Community & Social Causes
Reward-Based	Art, Music, & Design	Technology	Community and Social Causes
Real Estate Crowdfunding	Real estate & Housing	Construction	

Source: Cambridge University, Judge Business School report 2017

This is expected to support the development of local projects and businesses, especially in the context of less-than-conducive economic conditions for startups and new creative ventures across many of these locations. The crowdfunding phenomenon in the MENA region has taken inspiration from American crowdfunding platforms like Indiegogo and Kickstarter in order to bring funds to promising ideas. For example, Zoomaal, based out of Lebanon, allows people to post a "project" like an album, a book or an invention, into which interested individuals can then pledge money. The following table lists some famous and upcoming crowdfunding platforms in the MENA region (including the GCC).

**Table 5.2: Select Crowdfunding Platforms in the MENA Region**

Platform	Country of Origin
Zoomaal	Lebanon
Yomken	Egypt
AfkarMENA	Jordan
AqarFunder	Egypt
Tennra	Egypt
Shekra	Egypt
Beehive	UAE
Humming Crowd Realty	UAE
Eureeca	UAE
Durise	UAE
Smartcrowd	UAE
Aflamnah	UAE
Capitaworld	UAE

Platform	Country of Origin
Cotizi	Morocco
Invorout	UAE
Maliyya	UAE
Liwwa	UAE
Scopeer	KSA
Moneyfellows	Egypt
Pislice	UAE
Buckscapital FZC	UAE
Jaribha	Kuwait
Noor Financial Investment	Kuwait
Presella.com	Lebanon
Propnology Q8	Kuwait
Madad	Egypt
Chriky	Algeria
EstateUp	UAE
Sharquity	Egypt
Bidyatech	Bahrain

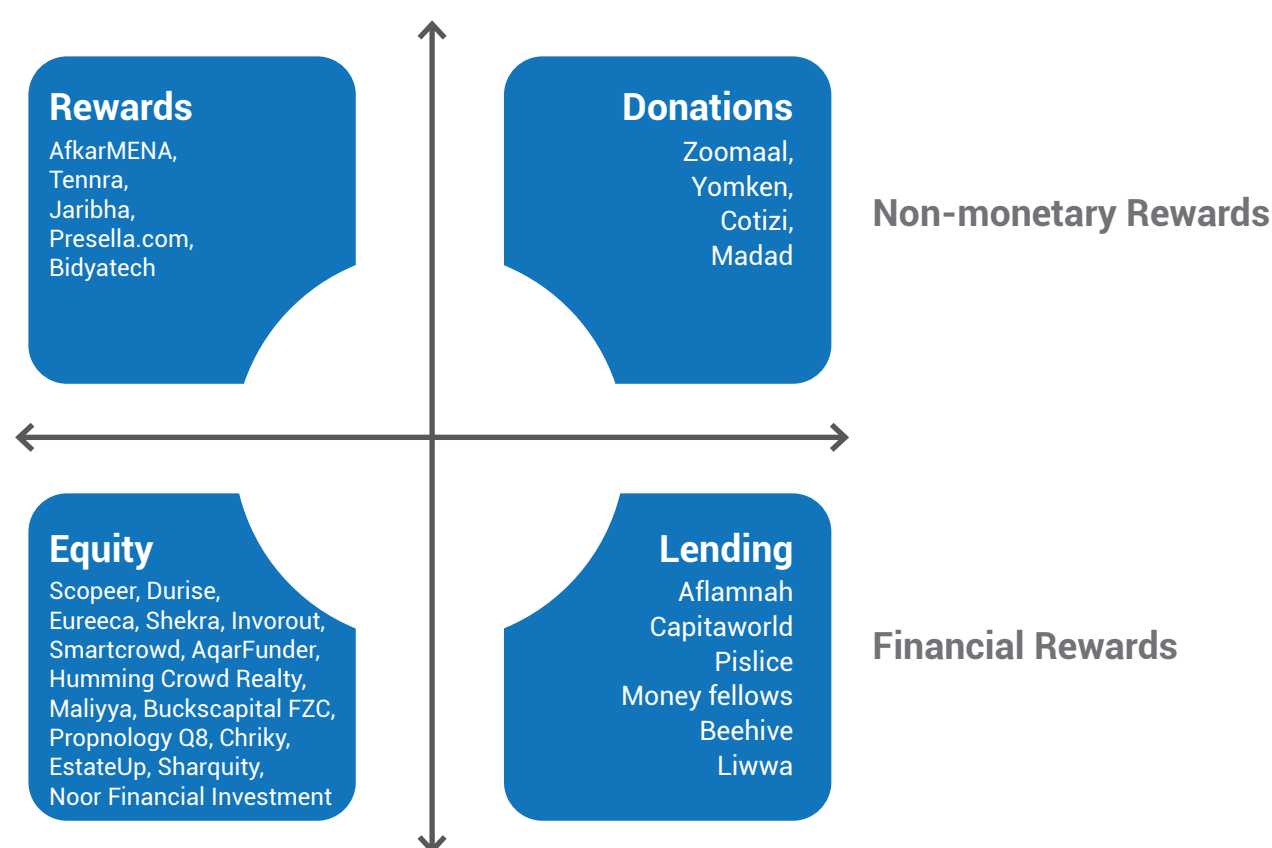
Source: Marmore Research, [arabcrowdfunding.com](http://arabcrowdfunding.com) , [www.crunchbase.com](http://www.crunchbase.com)

A crowdfunding model for SMEs that exchange equity for investments is likely to quickly spread across the MENA region, given the funding gap prevalent in the region. An example of this genre comes once again from Egypt, through a crowdfunding platform called Sharquity. The platform enables entrepreneurs to assemble the required funding needed for their ventures, by allowing investors to locate opportunities to take part in. Investments could start from as little as Egyptian Pound (E£) 500. In return, investors can get equity in the companies invested. Meanwhile, experts who offer their services to the company (like design, mentorship, etc.) can gain stocks.

# Some Platforms that Shaped the Crowdfunding Ecosystem in MENA

Raising capital is the primary hindrance to the growth of entrepreneurship in the MENA region. World Bank reports that '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'<sup>11</sup>. The region is resource rich with a knack for innovation, and technology assisted financing is increasingly shaping up the SME sector. In this context, the prospect of equity crowdfunding is noteworthy. Equity crowdfunding provides a platform for businesses to raise funds, thus contributing to job creation and economic prosperity.

**Chart 6.1: Leading Crowdfunding Platforms in MENA (category wise)**



Source: Marmore Research

Eureeca, the first multi-regulated global equity crowdfunding platform headquartered in Dubai provides a digital platform for growth-oriented businesses looking for expansion to raise capital by connecting them with strategic institutional and retail investors from across borders. Aflamnah, was launched in 2012 with the intention to help movie makers and has now expanded to crowdfunding for all creative projects. Yomken is an open innovation and crowdfunding platform that targets projects with a social cause. It connects students, researchers, designers and industries to develop innovative solutions. The resulting product will then be financed through crowdfunding.

<sup>11</sup> forbesmiddleeast.com

Tennra, the Egyptian crowdfunding site focuses on the crowd along with the project through gamification, wherein the essential elements of a game are used in the process of pledging money and receiving rewards. Tennra assesses the credibility of the project before hosting them on the platform and obtains 7% of successfully funded projects as part of their revenue stream. UNDP is utilizing Lebanon based Zoomal's platform to raise funds for its rural development projects.

Shekra, another Egyptian platform, apart from catering to funding requirements, also provides entrepreneurs with tips on how to pitch their ideas to investors, promoting their startups on social media and how to deal with technicalities related to agreements and other services.

Beehive, a peer-to-peer Sharia compliant lending network provides funds to already established small businesses that are looking to grow their operations.

Analyzing the trend in MENA region, it can be noted that crowdfunding is maturing in the region with more platform gaining traction. However, the lack of a regulatory framework serves as a hindrance for investors and potential contributors from adopting crowdfunding.



# Crowdfunding in the GCC

As the winds of change hits the GCC countries- fueled by regulatory and policy reform drive to boost non-oil economy and privatization, there is rapid growth in alternative funding sources like the crowdfunding. Over the past two years, the crowdfunding space in the Middle East has gained significant momentum and now boasts of several local players across the region, each with a strong backing and support from the local venture capital and entrepreneurship biosphere.

In August 2017, the Dubai Financial Services authority (DFSA), introduced region's first regulatory framework for loan and investment based crowdfunding platform<sup>12</sup>. The regulations are in line with DFSA's roadmap with creating an innovation-friendly ecosystem. Regulation intends to license, organize and protect the rights and obligations of all parties involved in specific crowdfunding activities.

However it must be noted that rather than attempting to squeeze crowdfunding into existing regulatory activities, the authorities set it out as a separate regulatory domain where they created regulated activities of operating a loan based crowdfunding platform and operating an investment based crowdfunding platform; which essentially includes the operation of an electronic platform that facilitates bringing people together based on their interests and preferences.

DFSA crowdfunding regulations have the ability to catalyze growth in the financial technology (FinTech) industry in the UAE and the region, by targeting the specific requirements of crowdfunding platforms. The creation of region's first formal regulatory framework for the development of Crowdfunding market, which represent an increasingly important source of funding in the UAE, have encouraged many SME's players. UAE being the hub of SME's and start-up is at the top rank in terms of crowdfunding activities followed by Saudi Arabia. Smart Crowd is a DFSA licensed platform providing crowdfunding services for real estate which enables fractional ownership of real estate. Investors have the option to buy stakes in a rental property for as low as \$1300, becoming co-owners.

Meanwhile, in Saudi Arabia, entities are funding entrepreneurs such as Saudi Credit and Savings Bank, by giving those loans with low interest. There are also different incubators like Bader ICT Incubator at King Abdul-Aziz City for Science and Technology, and Verso. However, we are yet to see a crowdfunding platform coming from within Saudi Arabia<sup>13</sup>.

Following UAE's initiative in Crowdfunding financing area, Bahrain followed suit. Bahrain in 2017 launched new regulations covering Crowdfunding activities. For the first time in Bahrain, the regulations allow SME sector to raise sharia-compliant financing through Crowdfunding. The key highlights of the regulations are as follows:

<sup>12</sup> Hogan Lovells

<sup>13</sup> Wamda Research

1. Minimum capital requirement for Crowdfunding operations is set at BHD 50,000.
2. Only person to business (P2B) lending is permitted.
3. Checking credit worthiness is the responsibility of the backer/funders.
4. Both domestic and foreign SMEs (operating in Bahrain) can raise funds.
5. Lenders and backer can lend up to 10% of their net assets to a single borrower<sup>14</sup>.

Bidayatech is a FinTech startup which function as a reward-based crowdfunding platform that caters to the technology sector. Based out of Bahrain, the platform will serve curated and vetted startups (seed and early stage) with a technology project, product, solution or service with a minimal viable product or project. The company targets the millennials of MENA region who are the most influent segment in the region. Bidayatech offers three types of campaign formats, namely All-or-nothing (goal must be reached in the duration of the campaign or nothing), 60%-or-nothing (goal must reach 60 or more in the duration of the campaign or nothing), Keep it all (raised fund are kept whether or not goal is reached).

It must be noted that series of reforms both at regulatory (such as FinTech sandboxes, bankruptcy law, mortgage law, borrowing regulation, capital market reforms) and policy level (Eg: such as massive economic diversification, rail development, SME development policies, labor market reforms, financial market reforms over borrowing and other) over the last 3 years has created a pro-business atmosphere in the Middle East. Also, donation and rewards based crowdfunding are quite well established and debt-based models are starting to make their mark. Over the years, the equity based crowdfunding has dominated the MENA region accounting for 67% of the total alternative finance channels<sup>15</sup>.

As mentioned earlier in the report, the alternative funding largely is a substitute for mainstream financing across the world and UAE is no exception. This because 50-70 percent of the small and medium size enterprises' application for funding gets rejected. Loans to SMEs in the UAE just account for 4%, much lesser than the MENA average of 9.3%<sup>16</sup>.

However, not all GCC countries have sunny days. Crowdfunding or even asking for donation publically sans administrative permit is an offense under Oman Penal Code and people could land up in jail as a penalty<sup>17</sup>. On the contrary, Kuwait operates in two way, friends-relatives channel and official platform for raising funds-Jaribha.

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<sup>14</sup> Central Bank of Bahrain-2018

<sup>15</sup> Cambridge University, Judge Business School report 2017

<sup>16</sup> UAE Government Portal-Crowdfunding

<sup>17</sup> Times of Oman-Crowdfunding in Oman 2018

Potential for funding through relatives, friends and social network is high in Kuwait and works well as developing platform for financing, although it involves personal elements and hardly can be regarded as a reliable mechanism in general<sup>18</sup>. Furthermore, in Saudi Arabia many platform operate but no formal regulations exist. Recently Scopeer launched its first web platform where Zoomaal and others function simultaneously<sup>19</sup>. The unwillingness and sense of reservation among the conventional funders has led the evolution of crowdfunding where the wisdom and ideas of the general public converge and lead to something that can't be replicated under the conventional system of lending.

However it must be noted that Middle Eastern project owners are micropreneuers, with high expectations and standards of transparency. The factor of disappointing backers and breaking their trust can be a source of huge discomfort for the fund seekers. One could argue that gaining the trust of an Arab consumer will take much more psychological pitch gymnastics, supported by an unusual amount of communication to raise awareness and transparency. Without such efforts, the Arab consumer may not reach that tipping point after which their suspicious attitude is overturned<sup>20</sup>.

However, many experts opine that crowdfunding would grow in the GCC region due to scarcity of venture capital and public offerings for entrepreneurs, and can act as a powerful financial tool. Also, firms like Eureeca, a UAE based crowd investing platform, provide opportunities for channeling investors' funds into promising ventures. Eureeca calls itself a crowd investing arena due to the fact that interested investors can view profiles of available projects to invest in. In turn for the investments, the investors will gain shares in the businesses into which they make their investments.

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<sup>18</sup> Kuwait Times- Tech Start Ups in Kuwait (paraphrased)

<sup>19</sup> Argaam- Scopeer Platform 2018

<sup>20</sup> Strategy & 2017

# Islamic Finance and Crowdfunding

Islamic Finance refers to financial activities undertaken in compliance with the Sharia or Islamic Law. It is an alternative way of financing based on ethical and socially responsible standards, which ensures fair distribution of benefits and obligations between all parties in any financial transaction<sup>21</sup>. The concept and structure of crowdfunding are in sync with Islamic Finance in terms of its participatory methods. Both Islamic Finance and crowdfunding considers the customers as investors and carries the potential to provide investment opportunities with higher returns. Sharia compliant crowdfunding invests in projects and products that are socially responsible in nature, shares the investment risks and is devoid of the interest structure.

Yomken, a product-based crowdfunding platform that opened in Egypt in 2012, defines itself as Sharia-friendly. It was launched with the aim to create a social impact and is based on three business models, namely, crowdfunding, open innovation, and Islamic Finance. Yomken offers products that are in the pre-commercialization process in its platform with the aim of linking people who require technical solutions with the people who possess or create them such as researchers, scientists, students or companies. It also partners with NGOs that work with entrepreneurs, SMEs and connect them to small businesses facing technical challenges and require creativity and expertise, and link them with the wisdom of the crowd. The website allows users to post the challenges and ideas of innovation for free, thus providing a competitive platform for contributors to come up with innovative plans. After the prototype is fully developed, production costs are evaluated based on which the target number of buyers is set. The product is then offered through the company's website on a crowdfunding basis. If the target number of buyers is reached, the prototype is fundraised, produced and delivered. Otherwise, the contributors can retrieve their initial funding amount. The key aspect of product-based crowdfunding is that the investor receives the product itself rather than the interest, thus fostering innovation. Investors willing to pay for a product can track the product all through its production process and also see how their money is spent through weekly updates on the project.

Islamic Finance includes several types of contracts and agreements according to the requirements, thus having many models of financing linked to crowdfunding. Examples include Mudarabah, Musharakah, Istisna, salam etc. Musharakah is the most prominent Islamic contacts used in equity crowdfunding. It refers to the type of partnership where a group of persons carry put a business by conferring both capital and labor and sharing profits and losses of the business. Debt crowdfunding shariah compliant is based on Murabaha and it connects companies that seek out for funding with investors. Sectors such as alcohol and pork products, gambling, biology and animal genetics (cloning) etc. are not compatible with sharia.

Crowdfunding is used to finance start-ups, small and medium enterprises, expansion projects and capital increase. It is built on the principle of social solidarity to finance an idea or a project, and the better utilization of financial resources. This is in line with the crux of Islamic finance, which is considered a revolution in the financing methods in the Islamic world.

<sup>18</sup> Abdullah S., *Islamic Banking and Interest. A Study of the Prohibition of Ribā and Its Contemporary Interpretation*, vol. v. 2, Studies in Islamic Law and Society (Leiden: Brill, 1999), 108

# FinTech Potential in the Middle East

Amid all regulatory chaos and operational setbacks in GCC region we noted so far, FinTech is a fresh ray of hope that could potentially transform the whole lending and funding equation in the Middle East and MENA possibly. Robust internet connectivity, rapid reform drive for creation of tech-friendly business, an appealing environment is certainly a big push for the FinTech sector and P2P lending.

Emergence of FinTech in the Middle East is no less than a boon especially in the context of alternative finance. Given the state of demography of the region, where 60% of the population is below the age of 30<sup>22</sup>, youth unemployment is notoriously high (30%<sup>23</sup>), creation of pro-FinTech environment and recognition of potential in FinTech by the government in GCC- undeniably promotes FinTech sector and app based lending in future. In this light it is just another rock bed for FinTech based lending to thrive in the region. Middle East is at the cross roads with a robust private sector and the spring board of technological growth led by private investments, opportunities regulatory framework.

However it must be noted that, crowdfunding is largely considered as a sub-category of FinTech. But there's no denial of the fact that crowdfunding existed even before FinTech evolved and the purpose served by FinTech was different from what crowd funding is for. But in recent years with unprecedented technological development and rapid 24 hours connectivity there is a convergence of both.

Currently lending and capital raising start-ups in the FinTech sector across the MENA region accounts for 34%<sup>24</sup> of all start-ups. However except UAE and Bahrain other GCC countries still lag behind in FinTech adaptation. Blossoming FinTech sector is no doubt the next digital revolution-an awkward disruption to the banking and financial sector. On account of increasing popularity and rushing adaptability, Saudi Arabia is currently in talks with UAE and Bahrain to establish coordinated approach to regulating and nurturing the sector<sup>25</sup>.

The UAE in particular is quickly emerging as the regional leader, driven by large pool of financially underserved individuals and businesses. Furthermore, Deloitte ranked Abu Dhabi as the top FinTech hub for the MENA region in its 2017 FinTech hubs report<sup>26</sup>. On the cost front, serving the customer in conventional physically established bank, it costs USD 6 whereas serving the same customer at an ATM costs about USD 2 and serving by FinTech costs around 30 cents (of a USD)<sup>27</sup>.

Empirical evidences suggest that P2P witnessed rapid growth where it was difficult to avail credit from conventional sources. But however, as crowd funding does not need any collateral and there's absence of credit assessment of funder seekers, crowdfunding may face regulatory shackles in future.

<sup>22</sup> AME Info-2018

<sup>23</sup> Ibid

<sup>24</sup> FinTech Middle East

<sup>25</sup> Tahawultech-GCC Trio in Talk 2018

<sup>26</sup> Ibid

<sup>27</sup> YouTube-Banking Sector in Kuwait in 2018 and beyond-Speech by MR Raghu, Head of Research and MD Marmore MENA

# Framing Crowdfunding Regulations: The Policy Approach

Currently, UAE and Bahrain have formal regulations overlooking and fostering the crowdfunding sector in the region. The GCC countries experiencing rapid pace of reforms aim to reshape the economic structure and promote private economy overriding the current oil dominant economic preposition. In line with the process of business and industry reinvigoration, the outcome of some of the measures both at the policy and regulatory level have started to show signs of maturity. In other words business promoting initiatives from the venues of policy and regulatory chambers have created an environment where young business and existing operations find it lucrative to grow further.

Hence the demand for credit has increased manifold but unfortunately the supply of credit in most of the GCC countries remained skeptical leading to increase in general interest towards crowdfunding as a means of financing. For example, UAE and Bahrain, the first GCC countries to launch FinTech regulatory sandboxes are also aiming to make their respective countries' financial hubs.

Governmental actions in promoting FinTech sector has largely coincided with announcement of Crowdfunding regulations in UAE and Bahrain, and this is expected to set forth healthy economies, driven by regulatory actions and expected to leverage finance for the FinTech sector. The fact is SME sector in all GCC countries has a lion share in making up the GDP but unfortunately there is lowest share in conventional lending operations like banking and thus efforts must converge for creating a flexible, responsive and agile financial funding channels in the GCC countries.

- The regulatory reforms must be in conjunction with the privatization plans and programs as it would help firms and organizations to move smoothly.
- Many other GCC countries haven't designed laws and regulations that would promote options for alternative financing like crowdfunding.
- Privatization of economies largely rests upon feasibility of credit availability and hence regulatory approach for promoting easy financing options must not be backtracked.
- Recognition of crowdfunding by the way of launching regulation would encourage entrepreneurship activity and hence Crowdfunding possibilities must be leveraged across the GCC countries.

- Taking steps to enhance corporate governance through mechanisms like divulging executive pay, conflict of interest policy, etc.
- Leveraging crowdfunding sector must not come at a cost of financial uncertainty and unwanted encouragement to economically undesirable projects might be countervailing. Hence regulators must be specific about the role and scope of crowdfunding to be extended. Sectors of business domains which are eligible for Crowdfunding must be clearly specified, directors of firms and organizations must be nationals (of respective GCC countries) and credit worthiness of those directors must be ascertained prior to approval of Crowdfunding operations.
- Complying with laws and regulations applicable to sales and marketing activity, and ensuring that all communications are fair, clear and not misleading, that risks and potential returns are presented in a balanced way and that investors and donors are treated fairly.
- Having proper grievance handling procedures in place, in case investors or donors are unhappy about any aspect of a member's service.



# Authors

## **M.R. Raghu CFA, FRM**

*Head of Research*

**+965 2224 8280**

***rmandagolathur@markaz.com***

## **Sudhakaran Jampala**

*Manager - Policy*

**+965 2224 8000 Ext: 4613**

***SJampala@markaz.com***

## **Anna Elias**

*Policy Analyst*

**+965 2224 8000 Ext: 4631**

***AElias@e-marmore.com***

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For further information, please contact 'Markaz' at P.O. Box 23444, Safat 13095, Kuwait; Email: [research@markaz.com](mailto:research@markaz.com) ; Tel: 00965 1804800; Fax: 00965 22450647.

# about marmore

## **Our vision**

To be the first choice for obtaining strategic intelligence on the MENA region.

## **Our mission**

Serving businesses and institutions with reliable information and intelligence about MENA, needed to catalyse growth, understand the larger environment and facilitate decision-making.

## **Our aim**

Advocate intellectual research on MENA economics, businesses and financial markets and provide customized, actionable solutions.

## **Our foundation**

- » A subsidiary of Markaz: Investment bank and asset management firm with 40+ years of history
- » Markaz research activities commenced in 2006
- » Marmore established in 2010 to intensify the research activities
- » Publishes research reports and provides consulting services

# published research

## **Industry research**

Marmore's industry reports provide information on industry structure, key players, market analysis, demand drivers, competitive analysis and regulatory requirements.

## **Economic research**

These reports are produced as thematic discussions based on current issues in the economy. The reports aid key stakeholders such as investors, businessmen, market participants, and policy makers in understanding the impact of a particular theme on the economy.

## **Infrastructure research**

Infrastructure research highlights bottlenecks in the sector and areas requiring urgent investments. Our infrastructure report analyses the link between economic development and infrastructure and showcases supply & demand challenges in the GCC and investment opportunities.

## **Capital market research**

Capital market reports provide an analysis of stock & bond markets in the MENA region including outlook. These reports are strategic in nature and provides investment perspective to readers.

## **Policy research**

Marmore has partnered with several leading thought leaders and institutions of repute to generate economic policy research studies in key areas like energy, labor, economic structure and public sector.

## **Periodic research**

Our periodic reports capture GCC stock markets' earnings, risk premium studies, and economic development & outlook.

## **Regulatory research**

Our regulatory research series is an effective consolidation, analysis and summary of key business, economic, and market regulations that impact business environment.

# consulting services

Marmore provides customized consulting services based on specific requirements of our clients. Marmore's bespoke consulting services marries the challenges of cost, time, scope and data availability to generate actionable outcomes that are specific to our clients' needs.

## **What type of consulting services we provide?**

- » Industry market assessment (market size, competitors, regulations)
- » White label reports (industry reports, company newsletters, periodic research)
- » Databases (competitors' information, target clients insights)
- » Company valuation (buy/sell side advisory)
- » Due diligence / Business evaluation
- » Feasibility studies (market and financial)
- » Business plans
- » C-Suite support to leaders with intellectual, industry related needs

## **How do we execute consulting engagement?**

Our seven step process to execute consulting engagements:

- » Step 1: Requirement and scope analysis
- » Step 2: Proposal submission
- » Step 3: Project initiation
- » Step 4: Fieldwork / research
- » Step 5: Analysis & reporting
- » Step 6: Review & approval
- » Step 7: Report submission / presentation

**RESEARCH  
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 [www.e-marmore.com](http://www.e-marmore.com)

 [enquiry@e-marmore.com](mailto:enquiry@e-marmore.com)