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Equity crowdfunding a real option

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The Small and Medium Enterprises Association of Malaysia is urging small businesses to consider equity crowdfunding platform as a way to raise capital now that SME bank loan approvals have shrunk, reports DAVID TAN.

SMALL and medium enterprises (SMEs) should consider turning to angel investors for funding through the equity crowdfunding (ECF) platform approved by the Securities Commission and

estimated to be worth about RM50mil.

Yeoh Seng Hooi, secretary of the Small & Medium Enterprises Association of Malaysia (SAMENTA), said in an interview that this was based on the fact that there were about 100 registered angel investors in the Malaysian Business Angels Network.

"SMEs should turn to crowdfunding to raise funds, as the approval of SME loans by banks has declined significantly," Yeoh revealed.

He pointed out that in January this year, the monthly application for working capital loans received by banks was RM17bil, compared to RM25bil in June 2015. This was according to the Bank Monthly Statistics released by Bank Negara.

It represents a significant drop of 32%.

"The amount of loans approved in January 2016 for working capital was RM4.3bil, compared to RM7.8bil in June 2015.

"SMEs, therefore, should consider crowdfunding as a complementary source to raise funds for their business," he added.

"The current ECF guidelines set by Securities Commission allow each angel investor to take up to RM500,000's worth of shares in a company that seek capital via the ECF platform. High net-worth individuals with RM3mil in assets come under the sophisticated individuals category and are eligible to take up as much shares as they want, as long as the amount subscribed to does not exceed RM3mil a year," Yeoh said.

The ECF platform allows retail investors to put up small amounts of capital, starting from RM5,000, if they don't want to take high risks.

"If you are a retail investor, meaning any public investor, you can subscribe up to RM5,000's worth of shares in a company," he explained.

According to Yeoh, it would be difficult during challenging times for SMEs to service their debts, as their margins would be squeezed and they had to deal with tight cash-flow.

"SMEs would also be constrained to come up with sufficient collateral to secure bank borrowings.

"Thus they should consider the equity market, especially since the Securities Commission has approved six licenses to equity crowdfunding companies to raise funds for SMEs since June 2015.

"SMEs can now use the platform to tap into the services to finance growth and expansion plans," he said.

In the current economic environment, raising large sums of capital from interested investors was a big ask, according to Yeoh.

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"But through ECF, SMEs would be able to raise up to RM3mil over a 12-month period. While financing of SMEs have traditionally been from the family, friends and associates, the pool of available funds from such sources may be limited.

"With ECF, you can tap the power of the crowd via the Internet platform where your pipeline of investors is not confined to the domestic scene," he pointed out.

According to Massolution, a crowdfunding industry research firm, global crowdfunding experienced accelerated growth in 2014, expanding by 167% to reach US\$16.2bil raised, up from US\$6.1bil in 2013.

"In 2015, the industry is set to more than double once again, on its way to raising US\$34.4bil.

"The strong growth in 2014 was due in part to the rise of Asia as a major crowdfunding region. Asian crowdfunding volumes grew by 320%, to US\$3.4bil raised.

"That puts the region slightly ahead of Europe's US\$3.26bil as the second-biggest by crowdfunding volume.

"North America continued to lead the world in crowdfunding volumes, growing by 145% and raising a total of US\$9.46bil," the report added.