



UAE APPROVES CROWDFUNDING ACTIVITY FOR PUBLIC AND PRIVATE SECTORS

The UAE Cabinet has approved crowdfunding activity for both the public and private sectors to assist small and medium-sized enterprises access funds to grow their business and finance new innovative business ideas. In 2020, the Central Bank of UAE launched a new [regulation on “Loan Based Crowdfunding”](#) which sought to establish an appropriate framework for loan-based crowdfunding businesses and create a balance between market development, risk mitigation, and consumer protection.

The Securities and Commodities Authority (SCA) will be responsible for the regulation governing the activities of crowdfunding platform operators. The new crowdfunding policy in the UAE covers all technical aspects associated with the regulation of crowdfunding platform operators. This includes definitions; scope of application; operator licensing requirements; operator obligations towards SCA and investors; financing applicant obligations; and the rights of the investor, the operator, and the financing applicant. The strategy also addresses supervision, inspections, and penalties.

What is crowdfunding?

Crowdfunding refers to the process of raising small amounts of capital from a large number of individuals to finance a new business venture. The two main forms of crowdfunding are crowd-sourced equity funding (CSEF) where the investors receive shares in a company in exchange for the fund they provided, and debt or peer-to-peer lending where the lenders provide loans to borrowers and expect it to be paid back with interest at an agreed rate, or a rate fixed by the crowdsourcing platform.

With the use of social media and crowdfunding websites, crowdfunding uses the easy accessibility of vast networks of people to bring investors and entrepreneurs together, thereby growing entrepreneurial activity by expanding the range of investors beyond the traditional circle of owners, relatives, and venture capitalists.



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The importance of crowdfunding to SMEs in the UAE

Crowdfunding is one of the best ways to support new innovative business ideas, and provide a means for young entrepreneurs and people to raise funds for their projects. Entrepreneurs have always faced the challenge of finding sources of funding. Khalifa Fund data indicates that conventional banks reject about 50 to 70 percent of SMEs' funding applications. SME's and start-ups often have limited assets or lack the correct documentation needed by conventional lenders to secure funding.

The UAE government continuously develops initiatives and programs to assist in the establishment of sources of funding for SMEs providing advanced services with transparency, flexibility, and ease to protect and enhance the business sector.

What are the platforms available for crowdfunding in UAE?

[Aflamnah](#), [Eureeca](#), [Beehive](#), [Yomken](#) and [Zoomaal](#) are some of the platforms available.

Other GCC countries implementing policies on crowdfunding

The Kingdom of Saudi Arabia updated its crowdfunding rules in January. The Saudi Central Bank set a minimum capital requirement of 5 million Saudi riyals (\$1.33m) for entities looking for a license for crowdfunding activities. Oman also approved the first license in March 2022 for a crowdfunding platform after the change of rules in November 2021. Bahrain has already considered crowdfunding as early as 2018 creating a legal framework for conventional and Shariah-compliant markets.

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