

THE FUTURE OF THE NEW ECONOMY – CROWDFUNDING



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Small- and medium-sized enterprises (SMEs) play a significant role in the success of Singapore's vibrant economy as generators of employment and income, and drivers of innovation and growth. SMEs make up 99% of Singapore's enterprises and account for nearly half of the country's GDP by employing 70% of Singapore's workforce.

However, due to stringent lending criteria set by conventional financial institutions, many SMEs face tight financing situations. According to a SME Development Survey findings released on 2 Nov 2016, 22 per cent of the 2,513 local enterprises polled said they face financing issues, a stark increase from 14 per cent in 2015. In fact, securing financing has been so challenging for these companies that it has emerged as one of their top cost concerns alongside manpower, materials and rents.

The funding situation is especially challenging for new start-ups or even mature SMEs which have yet to realise their profit potential. In cases of SMEs that have successfully obtained funding from conventional sources, the relatively long disbursement period could

result in a cash flow problem for the company or even the inability to seize an attractive investment at the critical time.

As such funding needs arise, there is a market emergence of a group of alternative financing companies, which utilises technology to help SMEs raise funds. The platform known as crowdfunding or crowdsourcing has helped Singapore SMEs raised more than \$234 million from the mass affluent market since its launch in 2013.4

Singapore's crowdfunding landscape has been steadily progressing and evolving over the years. Several players have emerged but a few prominent players dominate the scene.

New Union

One such leading platform is New Union, a home-grown P2P business lending platform that provides competitive financing enabled by technology. The New Union platform marries potential investors with business fund-seekers by facilitating fund-pooling to meet the funding needs of promising enterprises.

A SME can submit its funding application

online through the New Union platform, which will then process the application and present the funding request to its pool of investors. Interested investors can then indicate their interest via the platform. Once the funding is completed, the amount will be passed to the designated SME, which will make monthly repayments to the platform members.

Established in 2013, New Union started with a vision to connect local businesses. Today, it has become the only crowdfunding platform in Singapore with a wide regional presence beyond Singapore, spanning across Taiwan, China, Cambodia and Philippines. Collectively, New Union has facilitated over S\$2.4 billion worth of funds to help SMEs realise their full potential.

One of the companies that New Union has successfully helped fund is interior design firm, Mezzo Interior (MI). Established for less than 2 years without a proven track record, MI could not qualify for bank financing. New Union assessed MI's situation and concluded that given its business model and the founder's experience, the company was a viable business. In 2015, New Union raised S\$660,000 for MI. By end-2016, MI had successfully secured over S\$2 million of credit facility from banks at a competitive interest rate, marking its 'graduation' from the platform having gone from an 'unbankable' client to a bankable one.

JEDTrade

JEDTrade is a B2B trade optimisation tool that connects suppliers, buyers and lenders through its sophisticated digital trade platform. Leveraging on the smart data architecture infrastructure, the platform works to reinvent trade and create efficient working capital flow for businesses through facilitating dynamic discount practices between trade partners. Users have the flexibility to directly reach out to the platform's partner lenders to raise working capital.

Founded on a mission to create an inclusive trade and finance ecosystem that benefits all enterprises - big and small, the platform has successfully helped unlocked financial value from the supply chains of several businesses.

An instance of the platform being utilised can be seen in the case of a lead supplier of the wholesale food distribution industry. A poultry wholesaler with a downline network

of more than 1,000 buyers has more than S\$2 million in outstanding receivables and an average 60-90 days collection period at any one time. JEDTrade's supplier module can help the wholesaler source for the fastest and most economical way to advance cash flow from his trade buyers. This allows the wholesaler to solve his cash flow problem, while enabling his buyers to reap cost-savings from early payments made.

Fundnel

Singapore-based Fundnel is a collaborative private investment platform for accredited investors, which enables sophisticated investors to diversify their portfolio through participating in the progress of unlisted securities across various industries that are in the growth and pre-IPO stage.

Fundnel's unique investment advantage lies in its anchor placement approach where each investment project is structured to be backed by an established anchor. Additionally, each investment project is subjected to stringent due diligence and carefully screened to ensure that fund-seekers meet the minimum requirements set by the Fundnel Factor, a semi-automated deal-screening "black box" tool based on algorithm formulas.

Fundnel serves as an effective gatekeeper for its network of investors, conducting proprietary data-driven screening and evaluation process that runs each applying company through 130 quantitative data points. Information on investments in on-board companies is then managed via gated data rooms online to allow investors to assess potential investment opportunities.

Incorporated in 2015, Fundnel has grown steadily to boast of a regional footprint spanning Indonesia, Malaysia and recently Australia. To date, Fundnel has completed 19 transactions totalling US\$54 million, evaluating over 1,400 private companies in the process and amassing a network of over 7,000 investors.

As such alternative financing solutions become available through the rise of the fintech industry, SMEs can now access and weigh in on more financing options beyond the conventional avenue. An outcome depicted by the needs of the new economy as we transform into a smart nation.