



UDO UDOMA &
BELO-OSAGIE

CROWDFUNDING – Understanding its Impact and Regulations

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October 2021



OVERVIEW

- What is Crowdfunding?
- Types of Crowdfunding
- Why is Crowdfunding Important?
- Crowdfunding in Nigeria
 - Regulatory Landscape
 - Parties in a Crowdfunding Project
 - Buzz Words
- Looking into the Future

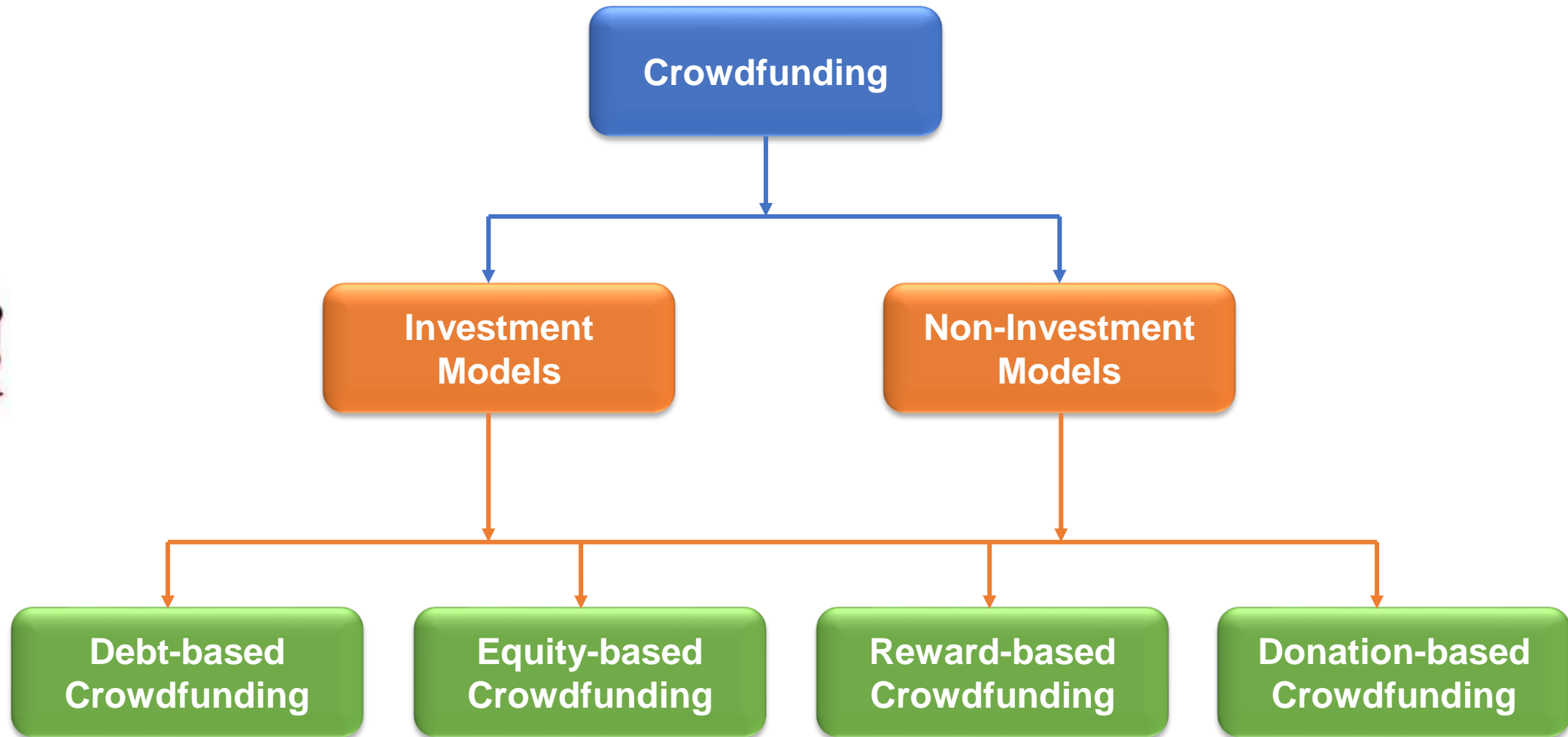


OVERVIEW

WHAT IS CROWDFUNDING?



TYPES OF CROWDFUNDING



“THE NEW WAY OF DOING SOMETHING OLD”



- Did you know?
 - In 1876, the Statue of Liberty was partly financed through crowdfunding.
 - The “New York World” raised over **US\$100,000** (one hundred thousand Dollars) in just **5 (five) months** from more than **160,000** (one hundred and sixty-thousand) donors, with more than **3/4** contributing less than US\$1 (one Dollar).

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THE UNFINISHED PEDESTAL.

WHAT SHALL BE DONE WITH THE GREAT BARTHOLDI STATUE?

Retrospect of the Work Done—Money Collected and Money Expended—How Congress Failed to Give \$100,000—Condition and Prospects of the Work on Bedloe's Island—The Necessity of Immediate Action—A Liberal Contribution from the Hotel Men.



In a few weeks the sum of \$250,000 to defray the cost of casting Mr. Bartholdi's statue, the design and modeling of which he contributed as his share. He began his work as far back as 1875, ten years ago, and the French people paid to cast \$200,000 long ago. The French government is now ready to carry out the work so far as that nation is concerned.

The American Committee was organized about three years ago and immediately began the work of soliciting contributions. It has supported the American people would respond in kind. They have done nothing of the kind. If the money had been subscribed at once the pedestal would have been completed long ago and would now be ready for the reception of the statue, which could be received and mounted before the end of the summer. A general committee was appointed with a membership of seven hundred. A dozen men were picked from Chicago, as many from St. Louis, several from Louisville, Cincinnati, Cleveland, Detroit, Milwaukee, Kansas City, St. Paul and other Western cities. Very few reports have been had from these places; in fact, nothing at all has been sent in by a majority of them. Over 90 per cent. of the money has been raised by citizens of New York and vicinity immediately in this vicinity. Up to the 10th of November last the subscription stood as follows:

In sums of \$100 and upward.....	\$14,613
In sums of \$50 to \$100.....	15,662
In sums of \$25 to \$50.....	1,551
In sums of \$10 to \$25.....	5,410
In sums of \$5 to \$10.....	2,312
In sums of \$1 to \$5.....	2,084
In sums of 50¢ to \$1.....	1,307
In sums less than \$1.....	58,236
Total.....	\$101,455.53

It will be seen at once that nearly all the money has been contributed in sums greater than \$100. As a regular subscription the number of contributors is...

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Works on It Among

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WHY IS CROWDFUNDING IMPORTANT?



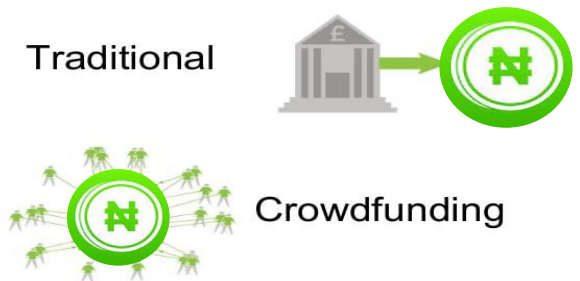
It provides an alternative option to traditional financing methods available to SMEs



The rise of technology through the internet and mobile access means that more people have access to crowdfunding



Allows private companies access the public market



CROWDFUNDING IN NIGERIA



1 Over US\$83.3 million raised in the African Crowdfunding Market. US\$8million from Nigeria



2 In 2019, Nigerian crowdfunding projects reported a 1% success rate



3 10 applications pending. Other companies in discussions with the SEC



CROWDFUNDING IN NIGERIA CONTD.

The Regulatory Landscape

- **Prior to 2021**
 - There were no specific rules in force that regulated crowdfunding.
 - The Companies and Allied Matters Act and Investment Securities Act have certain provisions that restricted crowdfunding in Nigeria.
 - This led to a statement on 15th August 2016 issued by the SEC where it noted that crowdfunding could not fully materialize in Nigeria due to restrictions in the CAMA and ISA.

“

We are aware of the growing interests among Nigerians to use Crowdfunding to raise funds. However, that cannot materialise now given the legal challenges as a result of the provisions in CAMA and ISA. But we are looking for ways to go about it so that companies will enjoy the benefits of Crowdfunding in the country as well” – SEC, 2016

”

CROWDFUNDING IN NIGERIA CONTD.

The Regulatory Landscape

- **Post January 2021**
 - The SEC's rules governing crowdfunding became effective in January 2021.
 - The rationale behind the rules is 'investor safety'.
 - The rules gave all existing participants a 90-day period to comply, this was later pushed by the SEC to 30th June 2021.



PARTIES TO A TYPICAL CROWDFUING PROJECT



CROWDFUNDING IN NIGERIA CONTD.

The Regulatory Landscape

- Scope - The rules apply to:
 - Investment based crowdfunding.
 - Crowdfunding Intermediaries operated, provided or maintained in Nigeria, or located outside Nigeria but targeting investors in Nigeria, or that have any component of its portal in Nigeria.
- Eligibility –
 - MSMEs incorporated in Nigeria with a minimum operating track record of 2 years.
 - Allows all categories of investors to participate subject to limits.
- Fundraising Limits –
 - Microenterprises can raise a maximum of NGN50m.
 - Small enterprises – NGN70m.
 - Medium Enterprises – NGN100m.
 - Retail investors are subject to an investment cap of 10% of annual income.
 - Commodity Investment Platforms can raise up to NGN100m.



CROWDFUNDING IN NIGERIA CONTD.

The Regulatory Landscape

The Crowdfunding Intermediary

- Registration:
 - NGN100m paid up share capital.
 - Fidelity insurance bond valued at 20% of the paid-up share capital.
 - Cash to assets ratio of 30:70 – cash / liquid assets to fixed & other assets.

- Obligations:
 - Due diligence
 - Monitoring and Reporting
 - Disclosure
 - Investor Education
 - Record Keeping



CROWDFUNDING IN NIGERIA CONTD.

The Regulatory Landscape

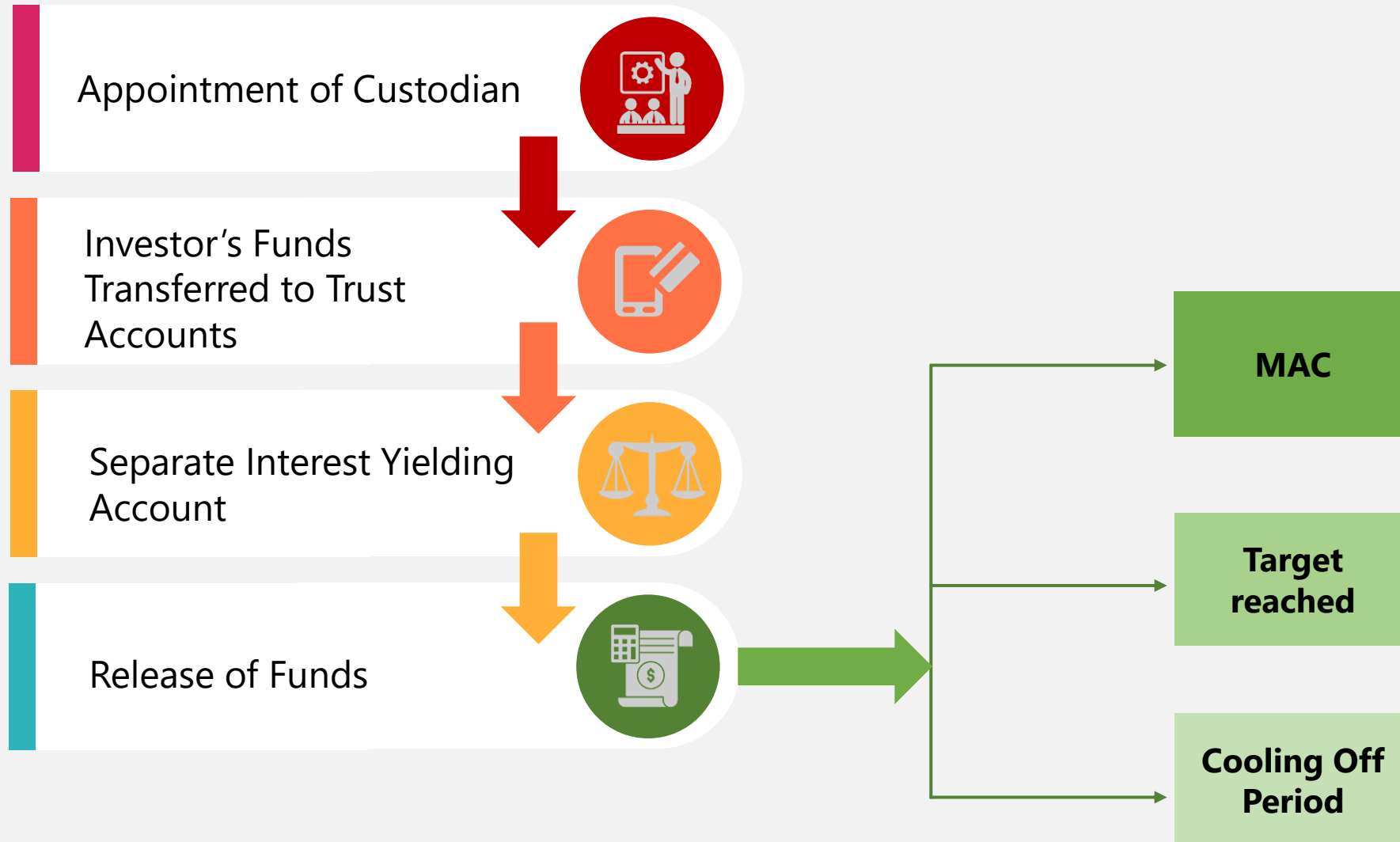
The Fundraiser

A Fundraiser is required to submit an offering document:

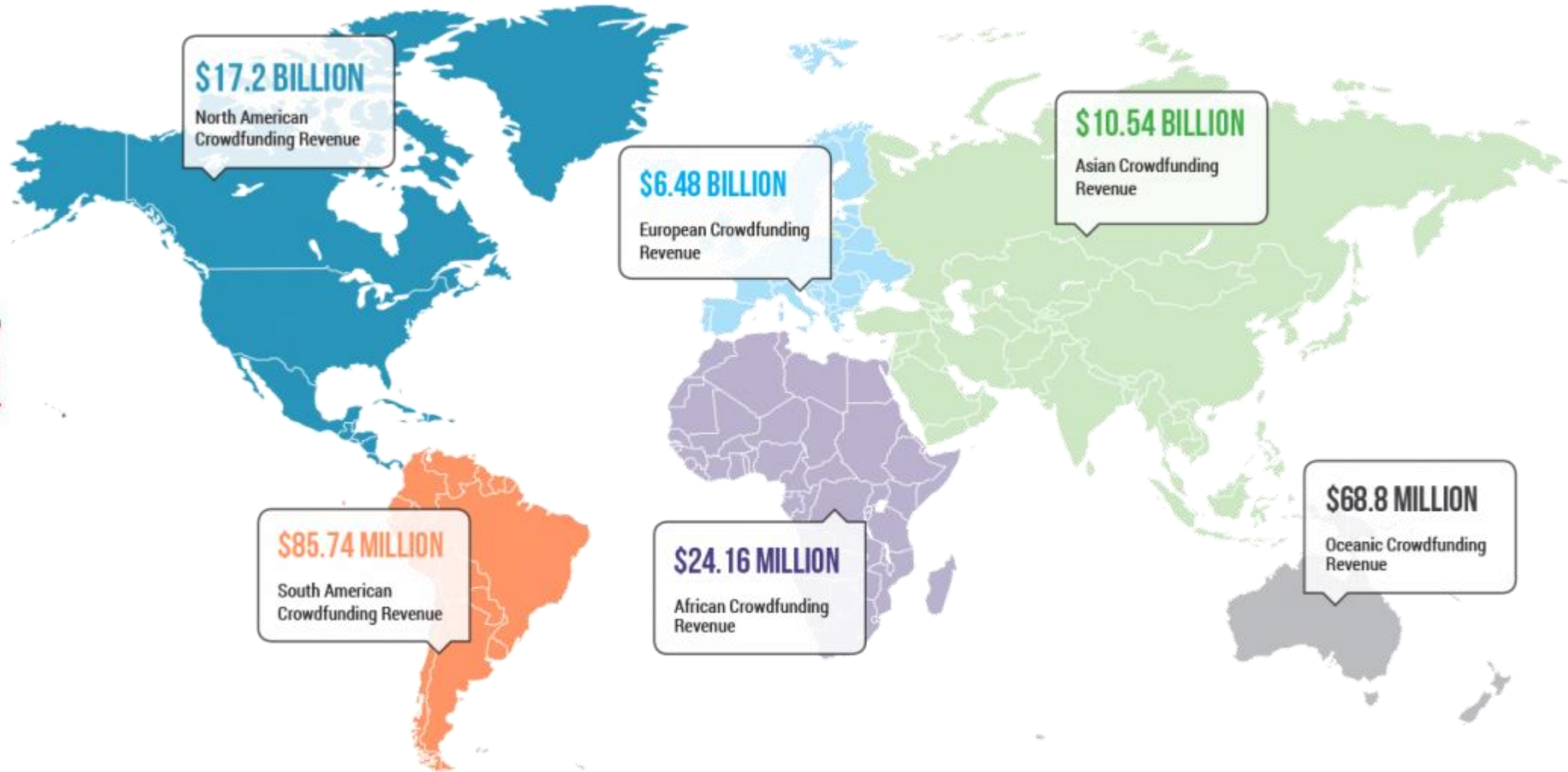
- Key information about the fundraiser
- Use of proceeds
- Nature of the existing business
- Business plan
- Details of the offer, return on investment, interest or profit sharing structure
- Financial information such as interim reports and accounts, a schedule of debt, bank reference, etc.
- 2 year audited financial statements
- Outline of investor's rights



FUNDS FLOW

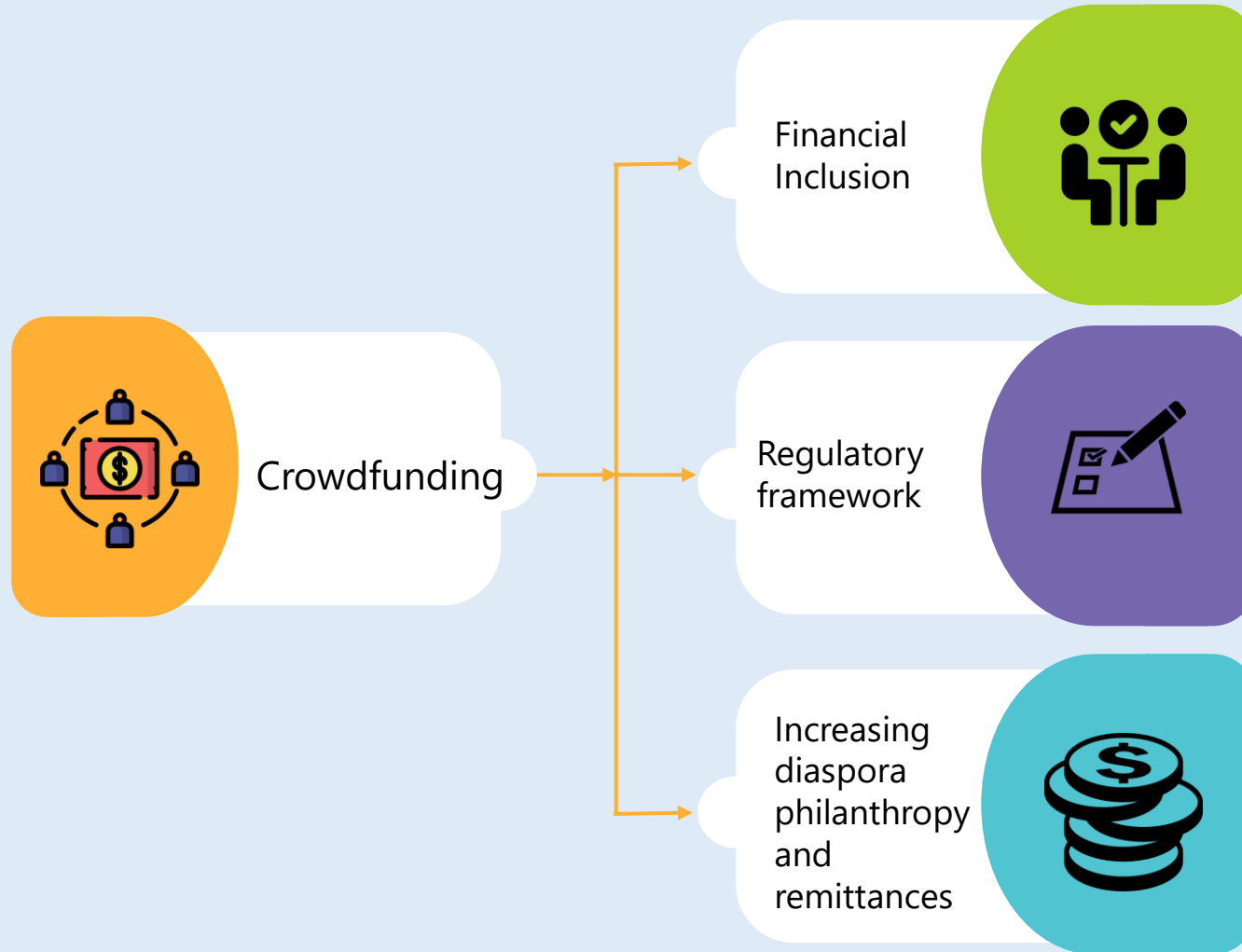


A GLOBAL VIEW



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LOOKING INTO THE FUTURE



BUZZ WORDS

Crowdfunding Portal
Cross Ownership

Family Member

Fundraiser
Funding round

Commodities Investment Platform

Tag Along Rights

Investor
Offering

Lock Up

Minimum Threshold
Target Threshold

Trust Account

Crowdfunding

Cooling off period MSMEs
Material Adverse Change

Operator

Crowdfunding Intermediary **Public Company by Default**

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THANK YOU