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UNIVERSITY OF
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The 2nd Annual Middle East & Africa Alternative Finance Industry Report

Supported by



June 2018

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Krishnamurthy Suresh

Krishnamurthy is an academic associate at the Indian Institute of Management Bangalore (IIMB), India. His research interest lies in the areas of small and medium enterprises (SME) financing, new and alternative financing models for startups and SMEs, regulatory framework. He is currently pursuing his Ph.D. from India and associated with the Cambridge Centre for Alternative Finance, UK as a research assistant. He is currently a visiting fellow (Pavate) at Cambridge Judge Business School

Kieran Garvey

Kieran is the Lead in Policy and Regulation at the CCAF. He is the co-author of thirteen global alternative finance industry reports as well as more specifically within regulation in East Africa. He is leading the Cambridge-World Bank 2017-2019 Regulator & Policymaker Surveys gathering data from 100+ central banks and securities organizations globally. Kieran is also leading an applied research project to use natural language processing and machine learning to efficiently conduct FinTech regulatory reviews with a focus on developing and emerging markets.

Philip Rowan

Philip is the International Engagement Lead at the CCAF. He was the former International Lead at the UK Financial Conduct Authority, one of the world's foremost financial services regulators on financial innovation. In this capacity, he closely supported and collaborated with dozens of financial services regulators and governments in their efforts to promote innovation in financial services, in both developing and developed markets. Philip has close working relationships with, and access to, hundreds of financial services regulators and standard-setting bodies around the world, including through developing and signing ten Co-operation Agreements with regulators globally.

Bryan Zhang

Bryan is the Executive Director and a Co-Founder of the Cambridge Centre for Alternative Finance. He has led and co-authored many of the most influential reports on the alternative finance industry since 2013.

Akachi Obijiaku

Akachi holds an MSc in Emerging Economies and International Development from King's College London and a 2017 Santander Fellow. Her master's thesis discussed Firm-Level Implications of Adopting Blockchain Technology in Africa. She currently works for EY and is studying towards her CIMA certification. Akachi is a research assistant at the Cambridge Centre for Alternative Finance, UK.

Rui Hao

Dr. Hao is currently working with Cambridge Centre for Alternative Finance as a Research Associate and Data Scientist. She focuses on the big data analysis, machine learning, database design, statistical modelling and all the technology driven projects. She has co-authored of several alternative finance industry reports. She holds an PhD in Engineering Department, University of Cambridge, and a BEng Honours first class degree from the University of Nottingham.

Fatimah Alqahtani

Fatimah is a PhD candidate at the University of Warwick, researching the possible roles of crowdfunding in the economic transformation of Saudi Arabia by focusing on crowdfunding platforms as reflective mediums. Fatimah's research interest focusses on the utilization of technology to facilitate the collective evolution of social systems. She works as a Lecturer in the College of Computer Science and Engineering at PSAU in Saudi Arabia.

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We are pleased to publish the new edition of the *Middle East and Africa Alternative Finance Industry Report*. The alternative finance markets in these two regions both grew in 2016, although at different paces and with varying patterns.

In Africa, the total online alternative finance market grew by 118% to reach \$181.56m in 2016. Donation-based crowdfunding was the largest alternative finance model in Africa. Nigeria, South Africa and Kenya were the top three national markets with \$35.82m, \$33.05m and \$12.74m recorded in 2016 respectively. In the Middle East, the overall online alternative finance market grew slower with a minor year-on-year increase of 12% to achieve \$177.3m in 2016. The most popular alternative finance model in the Middle East was equity-based crowdfunding, with Israel and UAE being the two largest markets. In Africa, funding channelled through online platforms came primarily outside of the Continent and provided by foreign donors and investors. In contrast, less than a quarter of the total funding in online alternative finance came from overseas, indicating the existence of a strong local market.

Across Africa and the Middle East, the institutionalization of the funding in online alternative finance demonstrated a maturing of the industry especially in balance sheet business lending and real estate crowdfunding market segments. In terms of gender dynamics, significant female market participation rates were found among fundraisers or borrowers, noticeably in donation-based crowdfunding, p2p consumer and business lending. This market trend indicates the potential role that financial innovation can play to further gender-based financial inclusion.

Regulation remains to be a significant barrier for the development of online alternative industry in both Africa and the Middle East. 34% of the surveyed platforms who were trading in Africa stated that specific regulation in alternative finance is needed, with a further 21% described alternative finance as illegal activity in their respective jurisdictions. In the Middle East, 67% of the surveyed platformed stated that specific regulation in alternative finance is needed. "Changes to regulation" were also cited by 41% of the platforms in Africa and 42% of surveyed platforms in the Middle East as being a "very high or high risk".

In the context of global online alternative finance market which exceeded \$300bn in 2016, the industries in Africa and the Middle East remain to be hugely under-developed. This state of markets signifies both challenges and opportunities, in market creation and development, technological advancement and regulatory innovation, capacity building and consumer education. We hope that this industry study and the empirical data it presents, can do its little part to help move the debate forward and inform evidence-based policymaking and regulation in these two populous and important regions.

Bryan Zhang

Executive Director and Co-Founder

Acknowledgments

We would like to thank all the platforms that have participated in our 2017 alternative finance industry survey! Without their cooperation, this study would not have been possible. We would also like to thank the research partners for their hard work and effort throughout our outreach process – in particular, we would like to thank Joe Huxley (FSD Africa), Kevin Allen and Elizabeth Howard (African Crowdfunding Association), Andrew Dix (Crowdfund Insider), Peter Renton (LendAcademy), Lars Kroijer (Allied Crowds), Rotem Shneur (University of Agder). We thank Shaktibhushan Shukla for his help in proofreading this report. We would also like to thank the CME Group Foundation for their continued support of our global alternative finance benchmarking initiative. Finally, we would also like to thank Kate Belger and Louise Smith of the CCAF for their continued support and help in producing this report.

Research Partners



Platforms



Platforms...continued

donate-ng



emerging crowd

EstateUp

eureeca.com



FUNDLY

globalgiving

GoFundAfrica

GreenVesting



headstart
משקיעים ביצירתיות

Jumpstarter
CROWDFUNDING SOUTH AFRICA

kiva

کمک

Lelapa fund
Home of African Investments

lendahand
mesofinance

lendwithcare.org
In association with The co-operative care

IIWVA

M-Changa

matontine

Mayfair&Morgan

OurCrowd

OVAMBA
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RainFin



Spirit in Action
Micro Grants Major Change

SSC
CONSULTING

TARYA

1%/club
Do-good crowdfunding

TRINE

WEALTH
MIGRATE

zozmaal
The leading crowdfunding platform of the Arab World

Introduction

This report, produced by the Cambridge Centre for Alternative Finance (CCAF), is the second annual alternative finance benchmarking study to systematically and comprehensively report the size and growth of the online alternative finance markets across Africa and the Middle East.

The new report, covering 53 countries across the region, details the types of online alternative finance (ranging from reward-based crowdfunding to equity-based crowdfunding and online microfinance to P2P Lending) that prevail in Africa and the Middle East. The data captured in this report illustrates industry volume in key markets, documents the growth of alternative funding for start-ups and SMEs, and analyses the latest market trends whilst exploring the changing regulatory landscape in Africa and the Middle East.

Methodology

Data Sources & Collection

The data reported in the following pages is based upon survey data collected from 64 online alternative finance platforms with operations across Africa and the Middle East. Platforms were invited to respond to the 2nd Annual Africa and the Middle East Alternative Finance Industry Benchmarking survey, distributed by the Cambridge Centre for Alternative Finance over a five-month period. This survey captured data from active alternative finance platforms with operations in the regions, though the platforms were not necessarily headquartered in Africa or the Middle East themselves. This is to say, the volume of fundraising campaigns that ran on international platforms for individuals or entities in Africa or the Middle East were included in this study. The platform list was compiled based upon the following sources:

- List of platforms from previous years
- List of platforms provided by research partners
- List of additional platforms based upon desk-top research, to include new platforms not identified in the previous sources.

To complement the survey data, web-scraping was also used to get the most up-to-date transaction volumes for the regions for a limited number of key platforms. This was carried out using widely available Python web-scraping libraries, devised within the research centre.

The survey consisted of 18 questions, gathering self-reported aggregate-level data relating to the 2016 calendar year. The survey was hosted by the Cambridge Centre for Alternative Finance and was distributed in English. The research team sent direct invitations to platforms, with assistance from research partners who assisted in outreach and survey distribution within their own networks. Participating platforms were asked to provide detailed statistical figures on funding activity that occurred on their platform, alongside additional qualitative data points related to platform structure, strategy and internationalization. Many of the questions in this survey were the same as in previous years, to ensure longitudinal analysis wherever possible. This related to total transaction volumes, number of funders and fundraisers among others. Platforms were also presented with a series of noncompulsory questions which built on key research themes identified in last year's report.

Once the data set was collected, any discrepancies such as mis-attributed volumes and anomalous figures were cross-checked through direct contact with the platforms. When broken down by country and model-type, the data-set covers funding raised from 53 countries in the regions across 10 online alternative finance models. The data sanitation and verification process occurred over a period of two months. For all averaged data points, the team applied weightings by transaction volume per respondents within a specific alternative finance model, with significant outliers removed. At completion of the analysis, the data was encrypted and stored securely at Judge Business School, University of Cambridge.

Total Market Volumes

In 2016, the total alternative finance market volume across the Middle East and Africa region grew to \$358.87m USD. This accounted for a 48% year-on-year increase when compared to 2015's total volume of \$242.03m USD, though the average annual growth rate did slow down when compared to the 2014-2015 rate. The African-based total volume accounted for 51% percent of the overall total volume, having grown sharply from 34% the preceding year. This near 50/50 split indicates the rapid development of the alternative finance market in Africa.

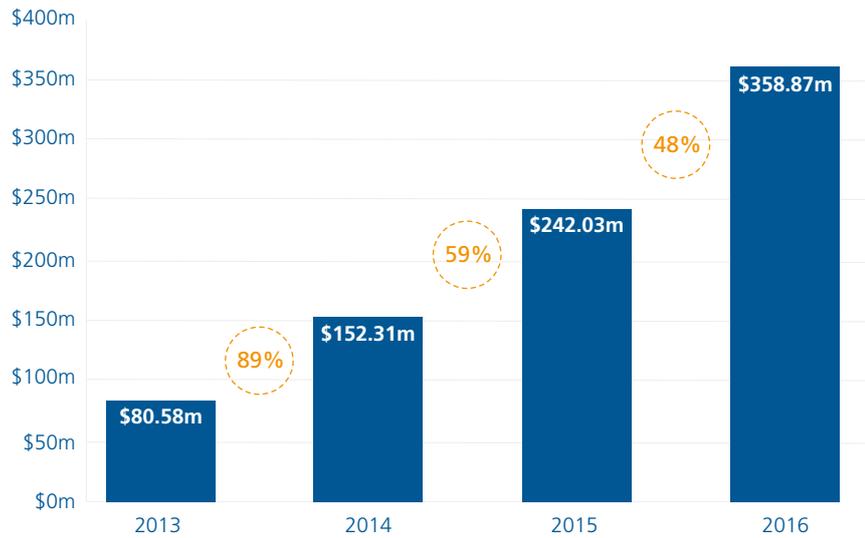


Figure 1: Total Online Alternative Finance Volume, Africa and the Middle East (2013-2016)

Internal and External Funding Sources

Online alternative finance platforms across Africa and the Middle East, as with much of the rest of the world, incorporated and began trading from around 2010 onwards. A large number of platforms operate domestically. However, there are also a substantial number of platforms headquartered outside of Africa and the Middle East, that provide funding to individual and business fundraisers in each of these regions, particularly in Africa. With respect to the funding volumes derived from alternative finance platforms outside of both Africa and the Middle East regions, a similar market structure existed in 2015. In the Middle East, 87% of total funding was raised through platforms headquartered in the region, totalling close to \$150m USD. Foreign platforms outside the Middle East raised over \$20m USD for the region - around 13% of the total market volume. In Africa, as had been identified in last year's study, most funding was raised via platforms based outside Africa equating to over \$130m USD which amounted to 88% of the total market. Close to \$17.5m USD was raised via platforms situated within Africa.

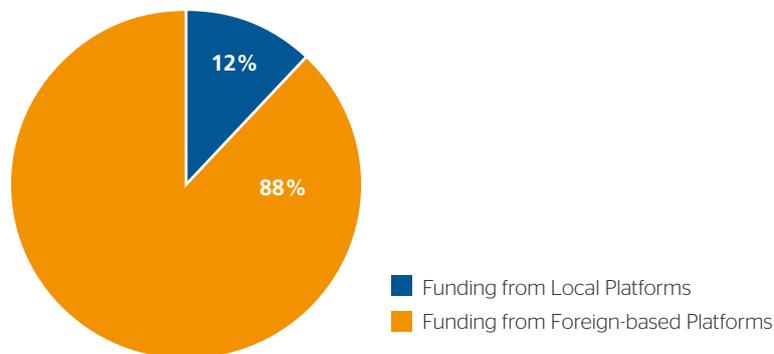


Figure 2: Funding from Internal vs External Sources - Africa

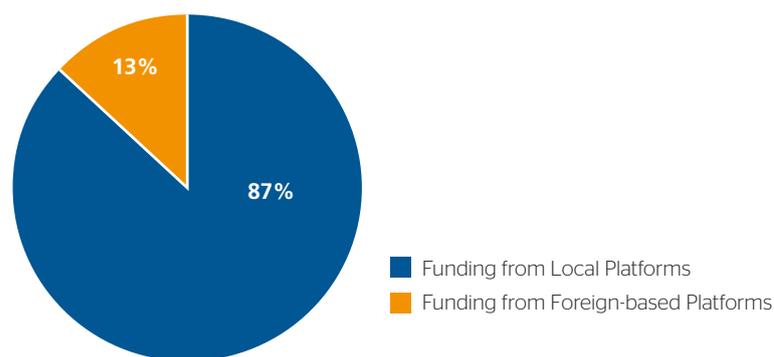


Figure 3: Funding from Internal vs. External Sources - the Middle East

Geographic Distribution of Online Alternative Finance Activity

Given the emphasis on foreign-led alternative finance, it is not surprising that only a finite number of 'home-grown' or local platforms exist. In terms of platform distribution, in the Middle East there were five native alternative finance platforms that participated in this study this year as well as an additional five platforms headquartered in the UAE. In Iran, there were 3 participating platforms while data was collected from a single platform in both Lebanon and Jordan.

With respect to platforms in Africa, there were five platforms that participated from South Africa and 3 each from Kenya and Morocco. Both Egypt and Nigeria had two participating platforms, with a single participating platform from a number of other countries including Rwanda, Ghana, Senegal, Tanzania, Uganda and Zimbabwe.

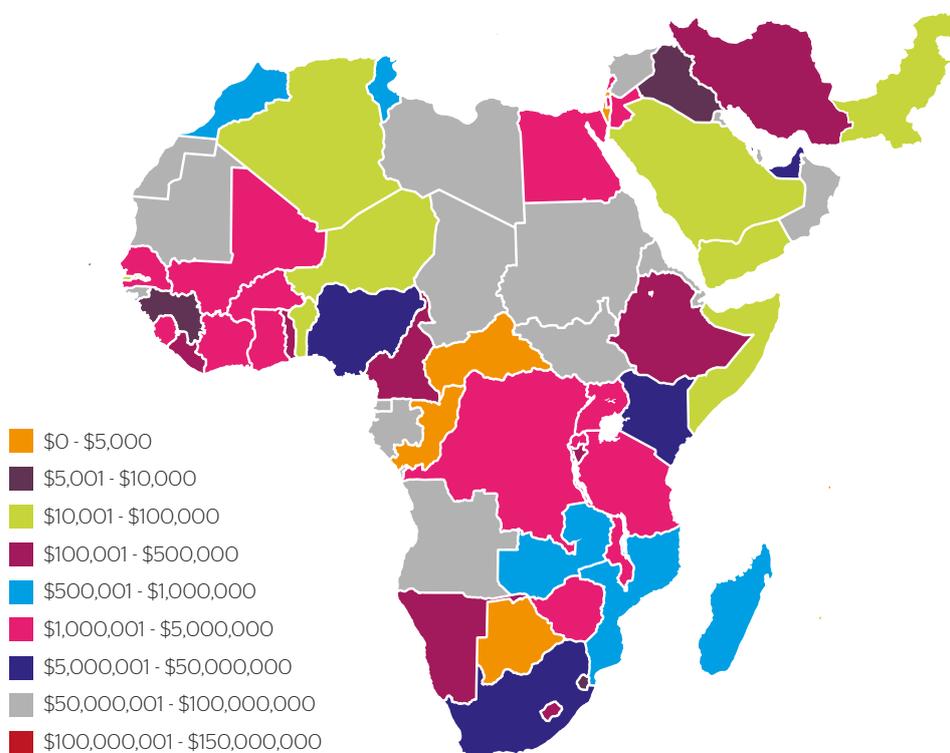


Figure 4: Geographic Distribution Volume (see Appendix A)

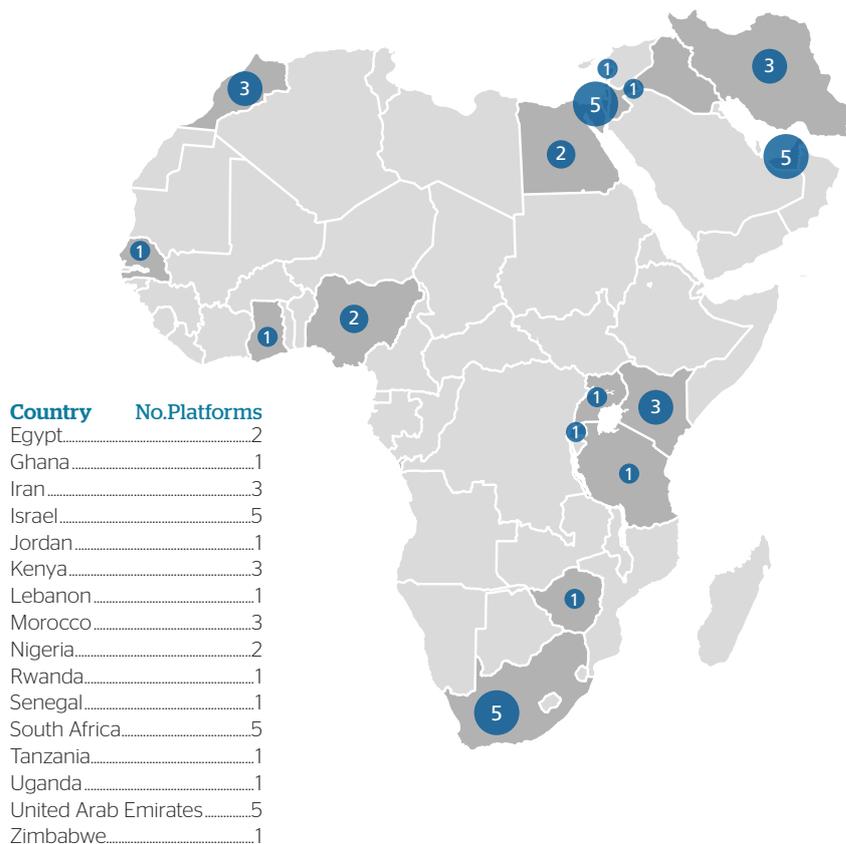


Figure 5: Platforms Headquartered within Africa

Geographic Distribution - Africa

Across Africa there were some substantial changes to the market landscape with a number of major changes to market composition and in key countries. Nigeria emerged as the largest African online alternative finance market in 2016 with over \$35m USD raised, which was close to 20% of the total market in Africa. South Africa was the second largest market with over \$33m USD raised which was over 18% of the total market volume, followed by Kenya with over \$12.5m. Therefore, Nigeria, South Africa and Kenya combined had close to 45% of the total market in Africa. Apart from the above, the Egypt, Cote d'Ivoire, Uganda, Tanzania, Senegal, Congo Dem. Rep., Mali and Ghana contributed more than 1% of the total volume in Africa.

Geographic Distribution - the Middle East

The online alternative finance market in the Middle East was led by Israel, which raised close to \$140m USD, equating to over 80% of the Middle Eastern market. The United Arab Emirates (UAE) came in second, with a total alternative finance volume of close to \$27m USD, around 16% of the total market. The other markets in the region are markedly smaller than these two leading countries. Lebanon, Palestine and Jordan were the only three other markets in the Middle East to raise over \$1m USD, with Lebanon accounting for \$4.48m USD, Palestine with \$4.31m and Jordan \$3.26m USD for 2016.

A Working Taxonomy

This report builds upon the working taxonomy developed by the CCAF over a number of years for its global alternative finance benchmarking research. This taxonomy has been consistently applied across Europe, the United Kingdom, the Asia-Pacific region and the Americas, to enable global and regional comparative analysis. This report presents data related to ten online alternative finance models. In general, online alternative finance activities can be broken down by investment based or non-investment based funding activities. Non-investment based models encompass donation-based and reward-based crowdfunding, as well as microfinance. While the microfinance models surveyed in this study return the principal capital lent to borrowers, they do not include an additional financial return to the investors. Therefore, the research team has deemed this as a 'nonfinancial return' activity and included it in non-investment activity.¹

Investment based models inherently provide a return to investors or lenders above and beyond principle funds provided, with an expectation of financial return. These models include equity-based crowdfunding, P2P lending models and all models related to property investment.

Model	Definition	2016 Vol.
Equity-based Crowdfunding	Individuals or institutional funders purchase equity issued by a company.	\$100.32m
Donation-based Crowdfunding	Donors provide funding to individuals, projects or companies based on philanthropic or civic motivations with no expectation of monetary or material return.	\$63.17m
Crowd-led Microfinance	Crowd-lenders provide Micro-loans to unbanked/below income borrowers via an online Microfinance platform, for zero or low-interest returns.	\$43.00m
P2P Consumer Lending	Individuals or institutional funders provide a loan to a consumer borrower.	\$33.00m
Real Estate Crowdfunding	Individuals or institutional funders provide equity or subordinated-debt financing for real estate.	\$32.30m
P2P Business Lending	Individuals or institutional funders provide a loan to a business borrower.	\$31.20m
Profit-Sharing	Individuals or institutions purchase securities from a company, such as shares or bonds, and share in the profits or royalties of the business.	\$25.00m
Reward-based Crowdfunding	Backers provide finance to individuals, projects or companies in exchange for non-monetary rewards or products.	\$18.00m
Balance Sheet Business Lending	The platform entity provides a loan directly to a business borrower.	\$8.20m
Invoice Trading	Individuals or institutional funders purchase invoices or receivable notes from a business at a discount.	\$3.86m

Prevailing Models & Growth across Africa and the Middle East

Equity-based Crowdfunding was the largest model across the regions, accounting for \$100.32m in 2016. Despite being the single largest model, equity-based crowdfunding shrank slightly against the previous year, declining by 9%. Donation-based Crowdfunding was the second largest model represented by the dataset, growing by 193% from \$21.54m in 2015 to \$63.17m in 2016. Crowd-led Microfinance² which saw a decline in the previous year, experienced a growth of mere 1% in 2016 with \$43m from \$42.72m in 2015. P2P Consumer Lending accounted for the most significant year-on-year growth, increasing by 229% from \$10.02m in 2015 to \$33m in 2016. Real Estate Crowdfunding also saw significant growth in 2016, increasing by 185% to \$32.3m. Volume attributed to P2P Business Lending also increased in 2016, albeit at a slower rate of 32% from \$23.65m to \$31.2m. The Reward-based Crowdfunding grew at 34% from \$13.46m in 2015 to \$18.m in 2016. The Profit-sharing model and Invoice Trading were recorded for the first time in the region, accounting for \$25m and \$3.86m respectively. Balance-sheet Business Lending declined by 5%, nearly replicating the 2015 volumes. This model accounted for \$8.2m in 2016.

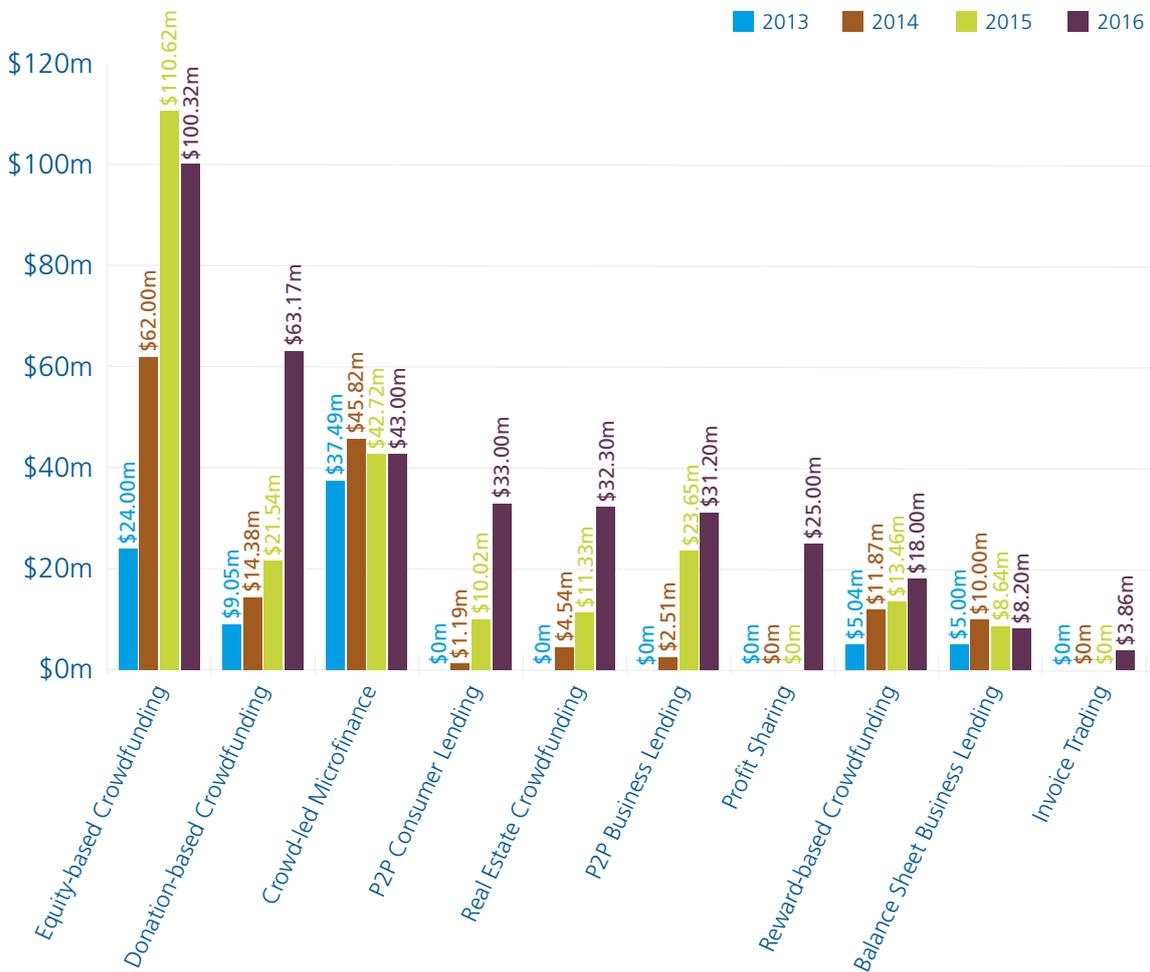


Figure 6: Online Alternative Finance Volume by Model in Africa and the Middle East (2013-2016)

Country Contributors by Key Models

When reviewing these models, it is useful to observe which countries are key volume-drivers across the region. Israel appears as the primary main volume driver for 3 of the models: Equity-based Crowdfunding, Reward-based Crowdfunding and P2P Consumer Lending. A variety of countries feature in the top three volume drivers across the models, though the United Arab Emirates features within the top 3 for three models, Kenya for three models and South Africa for three models.

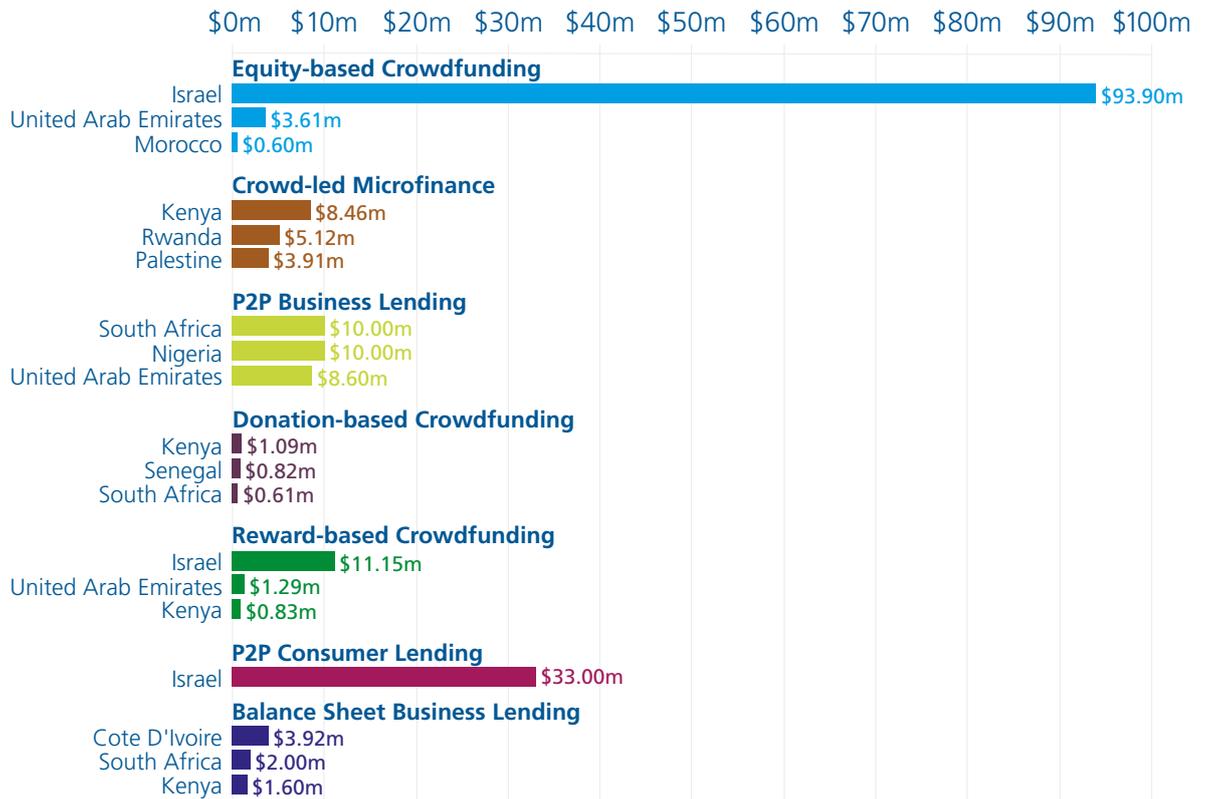


Figure 7: Top Countries by Model - 2016

Alternative Business Funding in Africa and the Middle East

The health and strength of the SME sector is often viewed as policy priority across the Middle East and Africa. Over recent years, online alternative finance has developed into a viable funding medium for entrepreneurs, start-ups, micro, small and medium sized businesses across the regions. In order to calculate the total online alternative funding attributed to business, the research team aggregated the 2016 volumes from the following models: P2P business lending, balance-sheet business lending, invoice trading, equity-based crowdfunding, debt-based securities, profit-sharing crowdfunding, alongside relevant volumes specifically attributed to businesses by platform's operating P2P Consumer and Property Lending, Real Estate Crowdfunding, Donation-based crowdfunding and the Reward-based Crowdfunding models. Additionally, 35% of web scraped reward-based crowdfunding volume was attributed to business funding. Fundraising from individuals or for creative or communal projects unrelated to a business were excluded from this figure.

In 2016, \$58.04m of funding went to African-based firms, accounting for 32% of all alternative finance generated in Africa. Over half (52%) of all business funding came from debt-based models, such as P2P Lending or Invoice Trading, while 45% came from equity-based activities. Only 3% of funding was realized from a non-investment model.

In the Middle East, \$117.39m was raised by businesses, accounting for approximately 70% of the total alternative finance volume in the region. Unlike Africa, only 12% of this came from debt-models. Given the strength of equity-based crowdfunding platforms in the region, it is not surprising that 83% of all business funding came from equity models, with a remaining 4% from non-investment models like Reward-based Crowdfunding.



Figure 8: Business Funding - Africa and the Middle East 2016

Institutionalization in the Region

A key finding in CCAF global alternative finance reports has been the role of institutional investment in online alternative finance models, with institutional investors activity increasing dramatically at a global level. In the 2016 survey, platforms were asked to identify the proportion of total volume that came directly from an institutional investor. The proportion of institutional-led investment (including pension funds, mutual funds, asset management firms, family offices and banks) presented significantly in a hand-full of key models.

This was the first year that the research team tracked institutionalization in Africa and the Middle East, and could only present the findings from key models due to insufficient data collection in other models. Due to the small data-set, the findings are presented for the combined regions rather than by Africa or the Middle East region individually. Nevertheless, it is valuable to begin recording the impact of institutional funding, as we expect this to increase in subsequent years. In the case of Balance Sheet Business Lending, 82% of this volume came from institution-led investment, while 43% of Real Estate Crowdfunding was driven by institutions. 33% of P2P Business Lending came from institutions and finally, 22% of Equity-based crowdfunding derived from institutional investors.

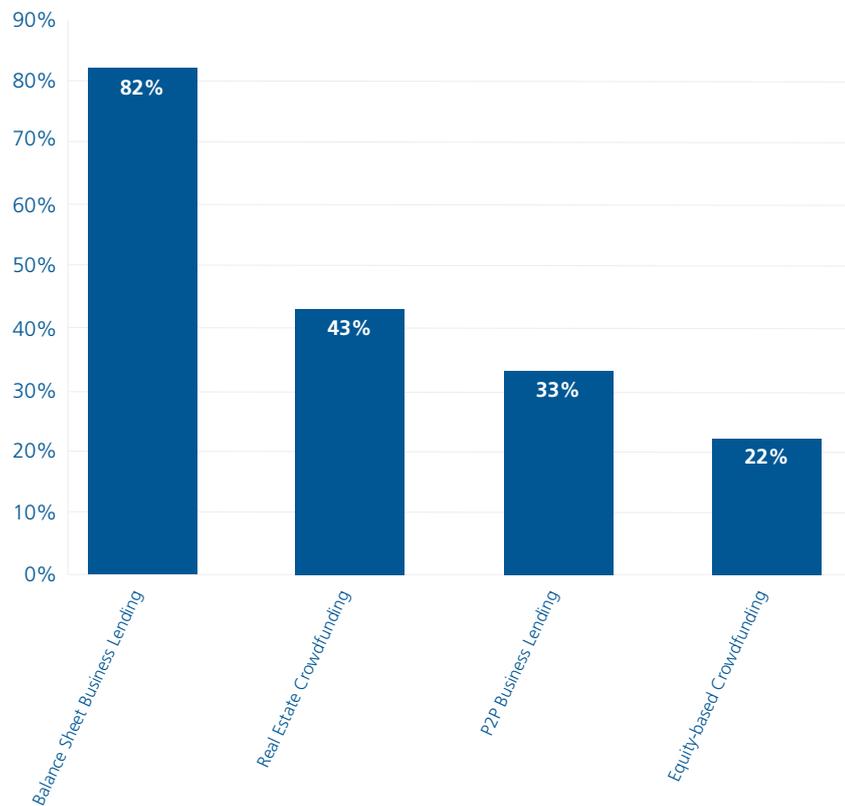


Figure 9: Institutional Funding - Africa and the Middle East 2016

Female Market Participation

Levels of female online alternative finance market participation across both Africa and the Middle East yield similar patterns to other regions previously surveyed by the research team. Non-investment models tended to present with significant levels of female participation. Donation-based crowdfunding in Africa and the Middle East had the highest levels of female market participation for fundraisers, accounting for 57%, with 16% of funders identifying as female. For Rewards-based crowdfunding, which typically has high levels of female participation, 27% of fundraisers and 33% of funders were women, as indicated by the combined regional data.

P2P Consumer Lending and P2P Business Lending both presented higher-than average³ female participation, with female fundraisers representing 45% and 43% of all activity respectively. In the case of P2P Consumer Lending, female lending accounted for 44% of active lenders, while it was 29% for P2P Business Lending. Real Estate Crowdfunding Lending denoted 24% of female fundraisers, and a more considerable 35% of female investment. Balance Sheet Business model saw female fundraisers of 24%, with only 8% of female funders.

Finally, Equity-based Crowdfunding denoted the least female market participation, with 8% of campaigns led by a female entrepreneur and 5% of female-led investment.

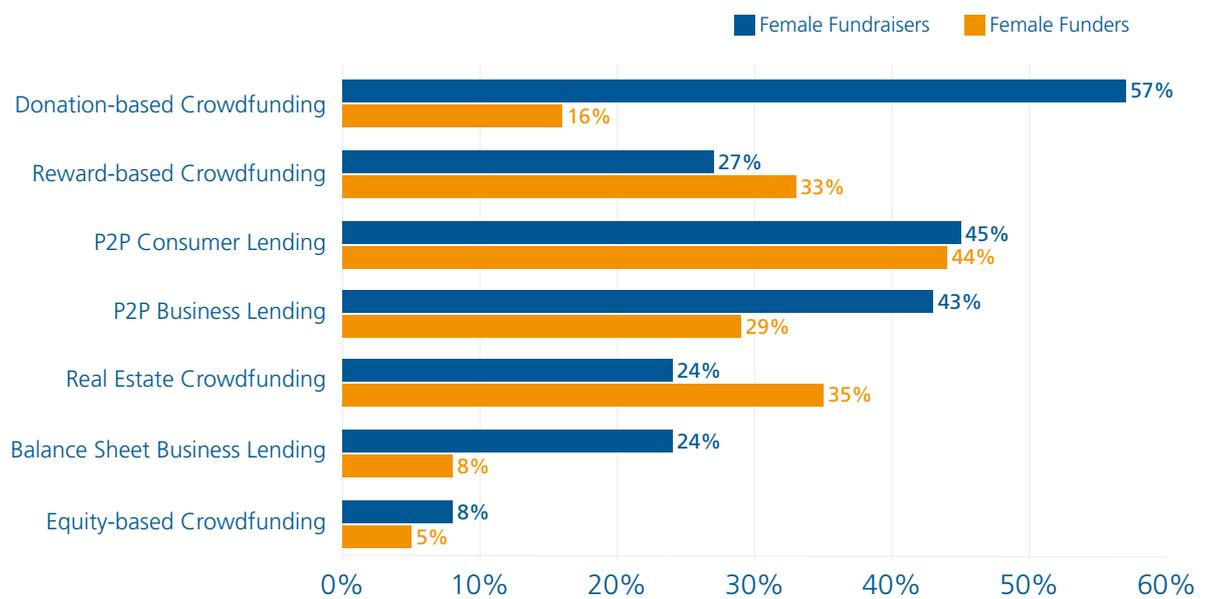


Figure 10: Female Participation by Model Type in Africa and the Middle East (2016)

Online Alternative Finance Volume in Africa

In 2016, the total volume for African-based online alternative finance was \$181.56 million, a 118% increase against the previous year. Of note, this is the first year that the African alternative finance marketplace has experienced triple-digit annual growth, suggesting that the region will continue to experience exponential growth. Despite this considerable growth, the majority (88%) of the volume was raised outside of Africa, from foreign-based platforms headquartered in the United States and Europe. Unlike other regions, where locally-based platforms drive volume, alternative finance to African fundraisers remains a prevalently foreign investment activity. In 2015, for instance, 89% of volumes raised came from abroad. Across the period of 2013-16, a total of \$370.56 million has been raised for projects, businesses and individuals in Africa.

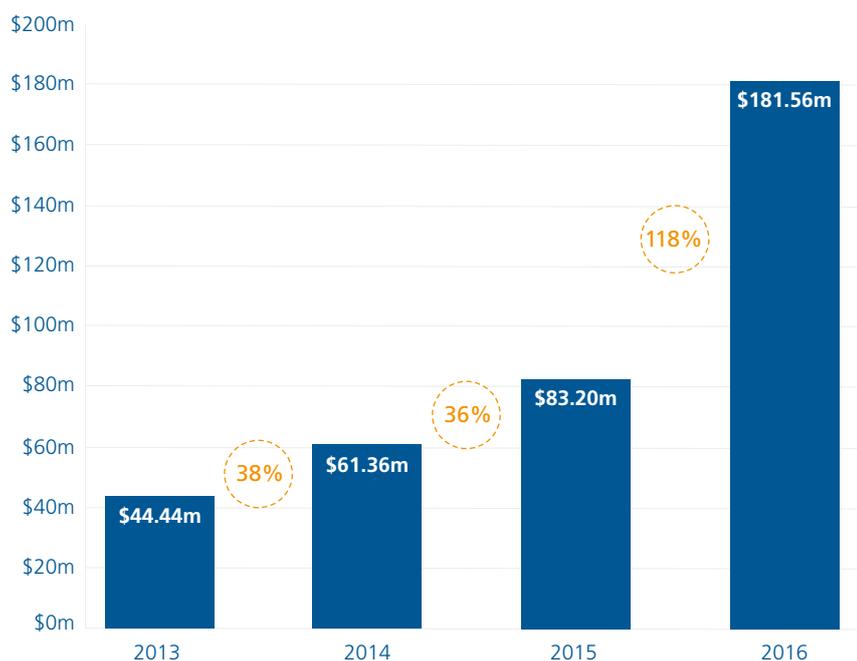


Figure 11: Total Online Alternative Finance Volume in Africa (2013-2016)

Alternative Finance Market by Model in Africa

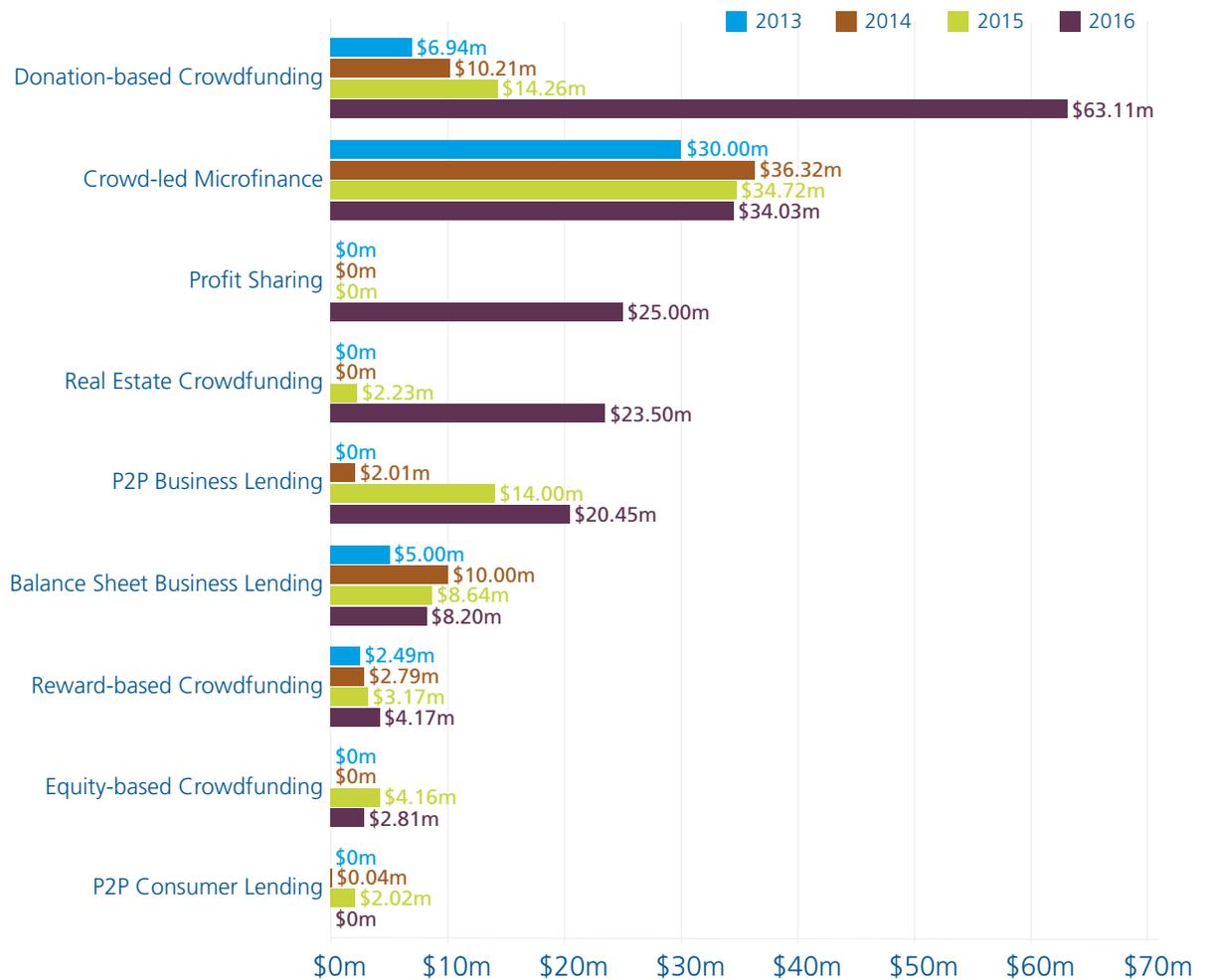


Figure 12: Online Alternative Finance by Model for Africa (2013-2016)

Of the total funds raised across Africa between 2013-16, a large proportion of the market volume (65.41%) came from non-financial return models. Donation-based Crowdfunding, as the prevailing model, accounted for close to 35% of the African alternative finance market volume in 2016, and over \$94 million over a four-year period. The model has seen a tremendous year-on-year growth of 343% for 2015-2016, with \$14.26 million in 2015 to \$63.11 million in 2016.

The Crowd-led Microfinance model is the second most prominent model in Africa for 2016, accounting for over \$34m. Yet, the model is the highest overall contributor, with \$135.07m over the four-year period, previously accounting for close to 60% of total volume in 2014 and 42% in 2015. In 2016, this model accounted for just over 18% for the year 2016. The Revenue-share model, introduced during this period, is the third largest model in Africa for 2016, accounting for \$25 million in the year alone, followed by Real estate crowdfunding model. This model has experienced rapid growth, starting from a modest \$2.23 million in 2015, to a sizable \$23.50 million in 2016, a 954% growth rate. The P2P Business Lending model raised nearly \$21 million in volume in 2016. Year-on-year, the model grew at a slower pace in 2015-16 (+46%) compared with the growth rate seen in 2014-15 (+597%).

Reward-based crowdfunding saw activity levels of almost \$12.62 million between 2013 to 2016, with an average annual growth rate of 19% across the period. Equity-based Crowdfunding experienced a year-on-year decline of 33% compared to 2015, with a decline in volumes from \$4.16 million in 2015 to \$2.81 million in 2016. Finally, in 2016 the Balance Sheet Business Lending model accounted for \$8.2m. Though the model accounts for \$31.84 million over the period of 2013-16, the model has diminished slightly year-on-year, having declined between 2014-2105 (by 14%) and 2015-2016 (by 5%).

As noted earlier, close to 35% of the 2016 African alternative finance volume is attributed to Donation-based crowdfunding. Non-financial return models still accounted for the majority proportion of market activity in Africa, with Donation-based crowdfunding, Reward-based crowdfunding and Crowd-led microfinance making up a combined 55.89% of all activity, despite the decline in the microfinance activity. Though relatively new to the scene, Revenue-sharing and Real Estate Crowdfunding contributed considerably, close to 27% of all activity in Africa. Debt-based models, including P2P Business Lending and P2P Consumer Lending, accounted for 15.81%, while Equity-based crowdfunding contributed close to 2% of the market share in 2016.

Regional Variations of Online Alternative Finance Activity in Africa

Given its vast size and diversity it is useful to review the alternative finance market activities in Africa by geographic region: East Africa, West Africa, Southern Africa, Central Africa and North Africa. By size, the West African region is the clear market leader, with a total market share of 41% in 2016. Southern Africa came in second with 28%, closely followed by East Africa with 24% of the total African market by volume, combinedly contributing 93% of the market share. While North Africa and Central Africa lag behind with 5% and 2% respectively for 2016.

Over the course of 2013-16, the regional market dynamics shifted substantially, particularly in 2016. Emerging as the prevailing regional leader, West Africa has experienced a year-on-year growth of nearly 150% during 2015-16, doubling its total market volume contribution. Similarly, Southern Africa also experienced a year-on-year growth of over 116% during 2015-16, contributing over twice of its total market volume in 2015. Interestingly, the major contributor of 2015, the East African region experienced a year-on-year decline in the growth by 13% during 2015-16.

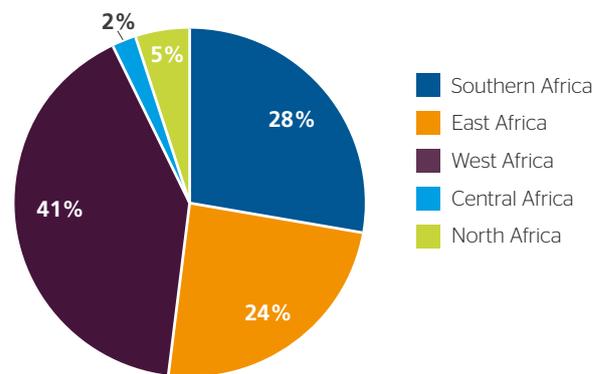


Figure 13: Proportion of Alternative Finance Volume by Region - Africa 2016

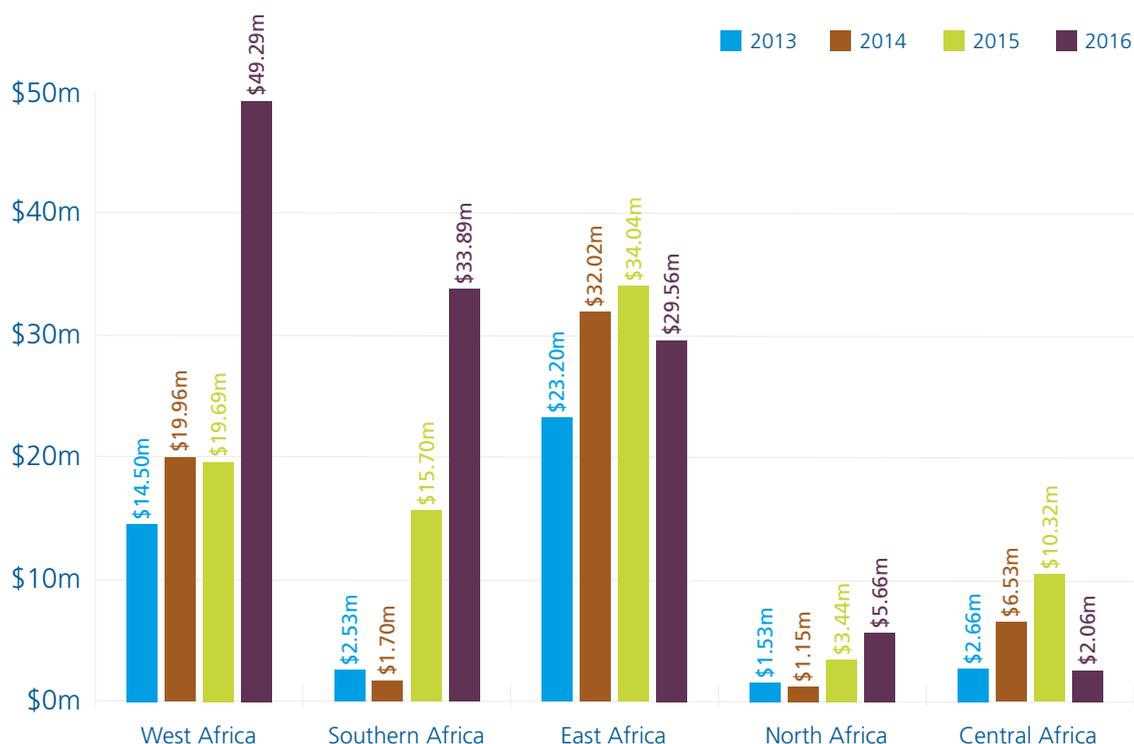


Figure 14: Total Online Alternative Finance Volume by Region, Africa (2013-2016)

On an overall basis, the North African region has seen a steady growth over the four-year period of 2013-2016, with an annual average growth rate of 79% over the years. While the market volumes in Central Africa declined nearly 75% during 2015-16, before showing a growth of 146% in 2013-14 and 58% in 2014-15.

A key distinction separating the African alternative finance market from the rest of the world is the dominance of non-investment based alternative finance models. It is worth noting, however, that though a high level of this non-investment based volume is derived from the Donation-based Crowdfunding model, the majority of it is raised by funders based outside of Africa.

Key Alternatives Finance Markets in Africa

The chart above maps out the online alternative finance market in Africa, by size, on a regional basis. While this is useful, it must be remembered that these figures are underpinned by regional market leaders that typically account for the majority of market activity. For East Africa, the market is dominated by Kenya and Uganda, while South Africa dominates the Southern African market. In West Africa, Nigeria and Cote D'Ivoire are the regional market leaders and Rwanda accounts for the principal share of Central Africa's alternative finance activity. The small amount of market activity in North Africa is largely accounted for by Egypt.

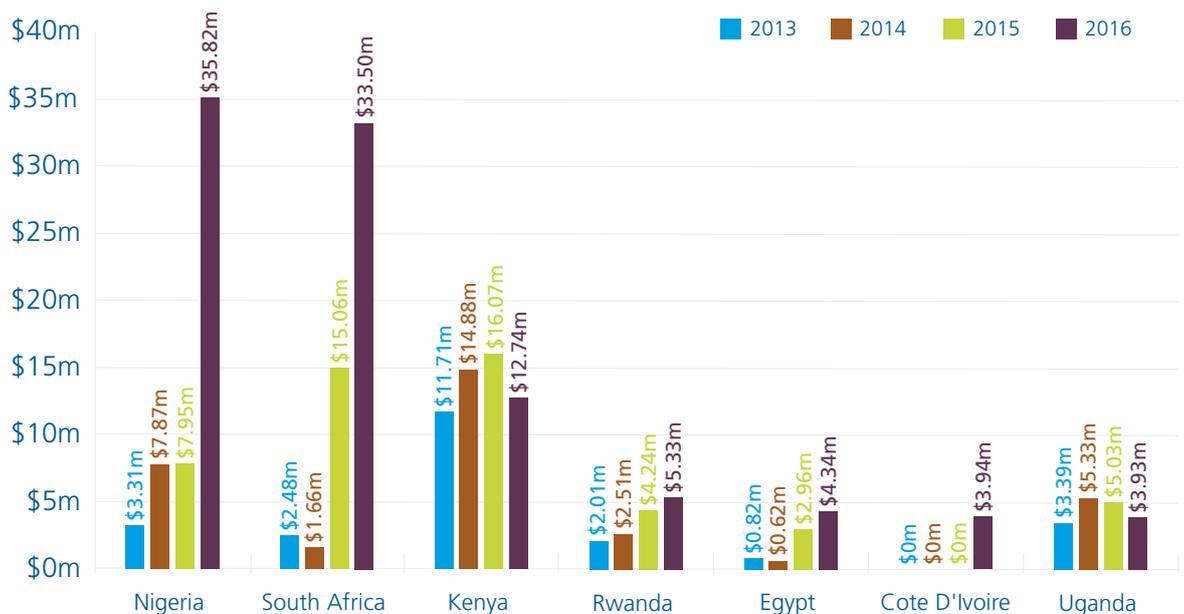


Figure 15: Top 7 Countries - Africa (2013-2016)

The online alternative market for Africa is completely dominated by Nigeria and South Africa during 2016. In Africa, Nigeria is the market leader for the continent in 2016, with over \$35 million being raised from 2013-16 via various online alternative finance models. Nigeria contributed nearly 20% of the total African online alternative finance market in 2016. The country experienced a remarkable year-on-year growth of 351% for 2015-16. The other leading market for the continent is South Africa which, in 2016, represented 18.45% of the total market volume in Africa, with over \$33 million being raised, with an annual average growth rate of nearly 300% over the four-year period of 2013-16. Kenya, though the former market leader in 2015, accounted for only 7.02% of the total market volume in Africa for 2016, compared to 19.3% the previous year. Over the period of 2013-2016, Kenya raised over \$55 million which is highest in the region, while it experienced a decline of 21% during 2015-16, dropping from \$16.07 million in 2015 to \$12.74 million in 2016. Nigeria, South Africa and Kenya combinedly contributed over 82% of the total volume of top 7 countries for the online alternative finance market in Africa for 2016.

Egypt raised over \$4 million in 2016, grew at a slower pace in 2015-16 (47%) compared with the growth rate seen in 2014-15 (379%). Rwanda, which accounted for \$14.09 million over the period of 2013-16, experienced an average growth of 40% over the four-year period. Similarly, Uganda which raised \$17.68 million over 2013-2016, experienced a decline of 22% and 6% during 2015-16 and 2014-15 respectively. Finally, Cote D'Ivoire raised nearly \$4 million during 2016.

African Regulatory Landscape

Last year's report noted that the regulatory and policy environment for alternative finance in Africa was at the earliest stages of development, while acknowledging that there had been a number of positive steps towards developing a regulatory response to the sector. It is pleasing to note that this trend has continued, just as in the Middle East. There remains no bespoke, tailor-made alternative finance regulation regime that has been enacted in Africa as has been the case in other more established markets. However existing, generic financial services regulation still likely apply to firms seeking to provide services that fall within the remit of these existing laws. There have however been a number of regulatory initiatives to support financial innovation more generally.

Regulatory Innovation

Again, in parallel to the Middle East, an increasing number of African regulators have sought to explore the role which they can play in facilitating the alternative finance and fintech sectors in their markets. This has most notably taken the form of exploring the development of regulatory sandboxes which, one might contend, are an evolution of the 'test and learn' approach which regulators in Kenya first adopted around a decade ago when mobile money burst onto the scene.⁴

This includes the Capital Markets Authority in Kenya, which has undertaken a detailed study on the policy framework for the implementation of a regulatory sandbox to support FinTech.⁵ The CMA has noted that crowdfunding business models could be one of those permitted to test under any regulatory sandbox framework they develop.

In Mauritius, a regulatory sandbox initiative was introduced under the Investment Promotion Act in 2016, with the Board of Investment issuing the first Regulatory Sandbox License to a crowdfunding platform in 2017. Other African markets understood to be scoping the potential for a regulatory sandbox include South Africa, Egypt, Uganda, Rwanda and Mozambique.

Regulatory consolidation has also been a feature in several African markets, with policymakers in both Kenya⁶ and South Africa⁷ exploring consolidating the, often large, numbers of existing sectoral regulators into just one or two cross-sectoral regulators. This has often been in the mold of recreating the 'Twin Peaks' model of separate prudential and conduct regulators, employed in the developed world.⁸

This can be seen as an overall positive development for the alternative finance industry, as it forces regulators to ensure that the overarching regulatory framework is coherent, consistent and proportionate. The creation of new regulators also often prompts a reconsideration of regulatory objectives and priorities, which in the modern digital age will likely consider alternative finance.

It is without a doubt that the regulatory landscape with respect to fintech and alternative finance in Africa will undergo significant scrutiny in the coming months and years, with a multitude of policymakers and regulators seeking to both increase their support for the sector, and ensure that they mitigate any new issues and risks. As in the case of the Middle East, this is often with a close eye on promoting financial inclusion and other, wider, social goals.

Existing African Regulations

Given the regulatory situation in Africa, we now turn to the survey responses of the platforms with regard to their perceptions of alternative finance regulation in Africa. As one might expect from the description above, the overall percentage of firms stating that alternative finance is not legal in their country has broadly remained constant from last year at 21%.

However, the percentage of firms who identified this as a problem has also increased markedly, from 18% who felt that specific regulation was needed in its absence, to 34% this year. This follows the case of the Middle East, with providers appreciating the benefits which regulation can bring. This is also reflected in the decrease in the share of providers stating that regulation is too strict for their platforms activities, from 18% last year to just 10% this year.

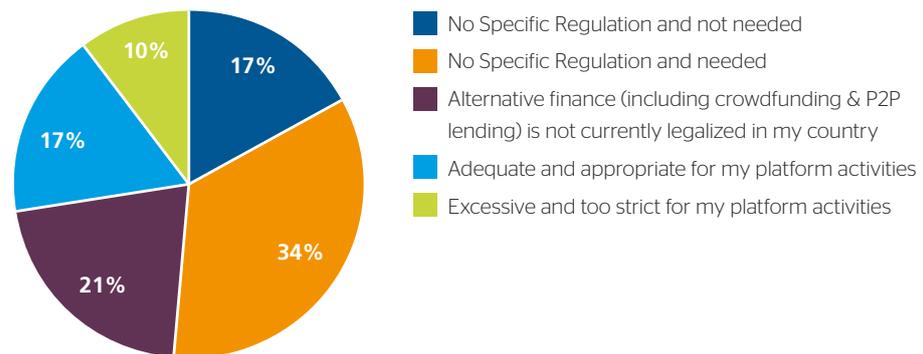


Figure 16: Platform Perception Towards Regulation - Africa

Online Alternative Finance Volume in the Middle East

In the Middle East, the online alternative finance industry continued to grow across the 11 countries covered in this study. The overall regional market volume showed a minor increase by 12% annually from \$158.8 m in 2015 to \$177.30m in 2016. Over the period 2013-2016, a total of \$463.22 million was raised by capital seekers across the Middle East. The majority of the funds (87%) were raised by the local platforms, representing a slight decrease from the previous year, when 93% of the volume was derived from local platforms. This slight shift indicates greater global interest in investing into firms or projects based in the Middle East, in particular from US based-platforms.

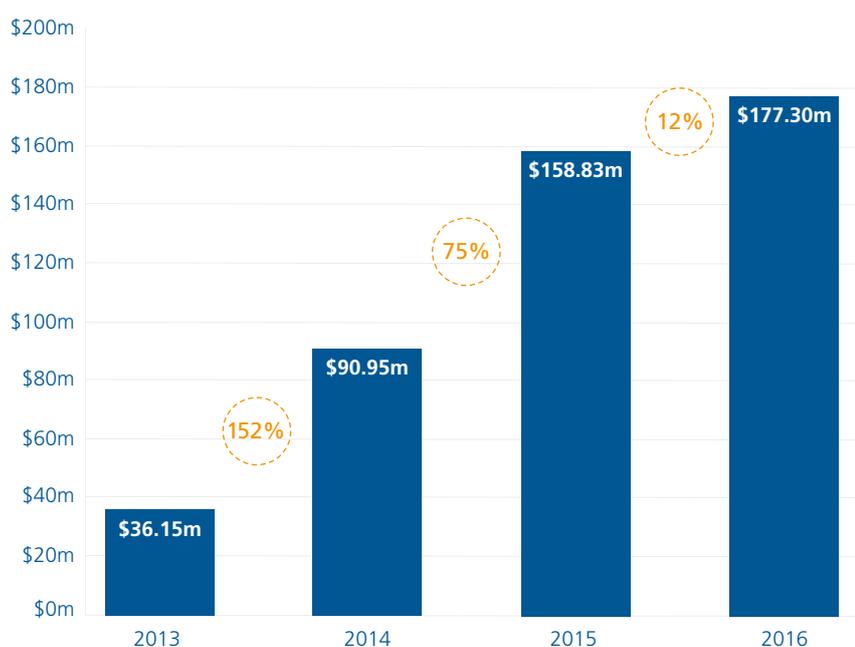


Figure 17: Total Online Alternative Finance Volume in the Middle East (2013-2016)

Alternative Finance Market by Model in the Middle East

Equity-based crowdfunding continued to dominate market activity in the Middle East, accounting for 55% of the total transaction volume in 2016, and over \$290 million over the four-year period. Though this model accounted for nearly 63% of the total volume of all models between 2013-16, the year-on-year volumes attributed to the model experienced a decline of 8% from 2015 to 2016.

Trailing behind the Equity-based Crowdfunding, the second largest model is that of P2P Consumer lending. This model accounted for the largest annual increase, having seen tremendous year-on-year growth of 313% for 2015-16, and 596% for 2014-15. The model has contributed over 18% (\$33.00 million) of 2016's total volume and over-all \$42.15 million over the four-year period.

Following P2P Consumer Lending, the Reward-based Crowdfunding and P2P Business Lending stands third and fourth largest models in the Middle East for 2016. In 2015, our research noted that both of these models had experienced rapid initial annual growth, at 256% and 1830% respectively. Yet, in 2016, this has leveled out considerably.

The Reward-based Crowdfunding model accounted for \$13.83m in 2016, achieving an annual growth rate of 34% from 2015 to 2016. This model represented 8% of the Middle East volume. The P2P Business Lending model grew by 11% annually, from \$9.65m in 2015 to \$10.75m in 2016 and accounted for 6% of the region's market volume.

The Crowd-led Microfinance model, which saw a decline in their activity during 2015, experienced a growth of 12% in 2016, contributing just over 5% of the total volume for both the periods of 2015 (\$8m) and 2016 (\$8.98m).

Invoice trading model, introduced during the period accounts for \$3.86 million, contributing over 2% to the 2016's total volume by model. Real Estate Crowdfunding and Donation-based crowdfunding have experienced a significant decline for 2016. Real Estate Crowdfunding saw a decline of 97% for 2015-16, dropping from \$9.10 million in 2015 to \$0.30 million in 2016, while Donation-based Crowdfunding declined (99%) from \$7.28 million in 2015 to \$ 0.07 million in 2016.

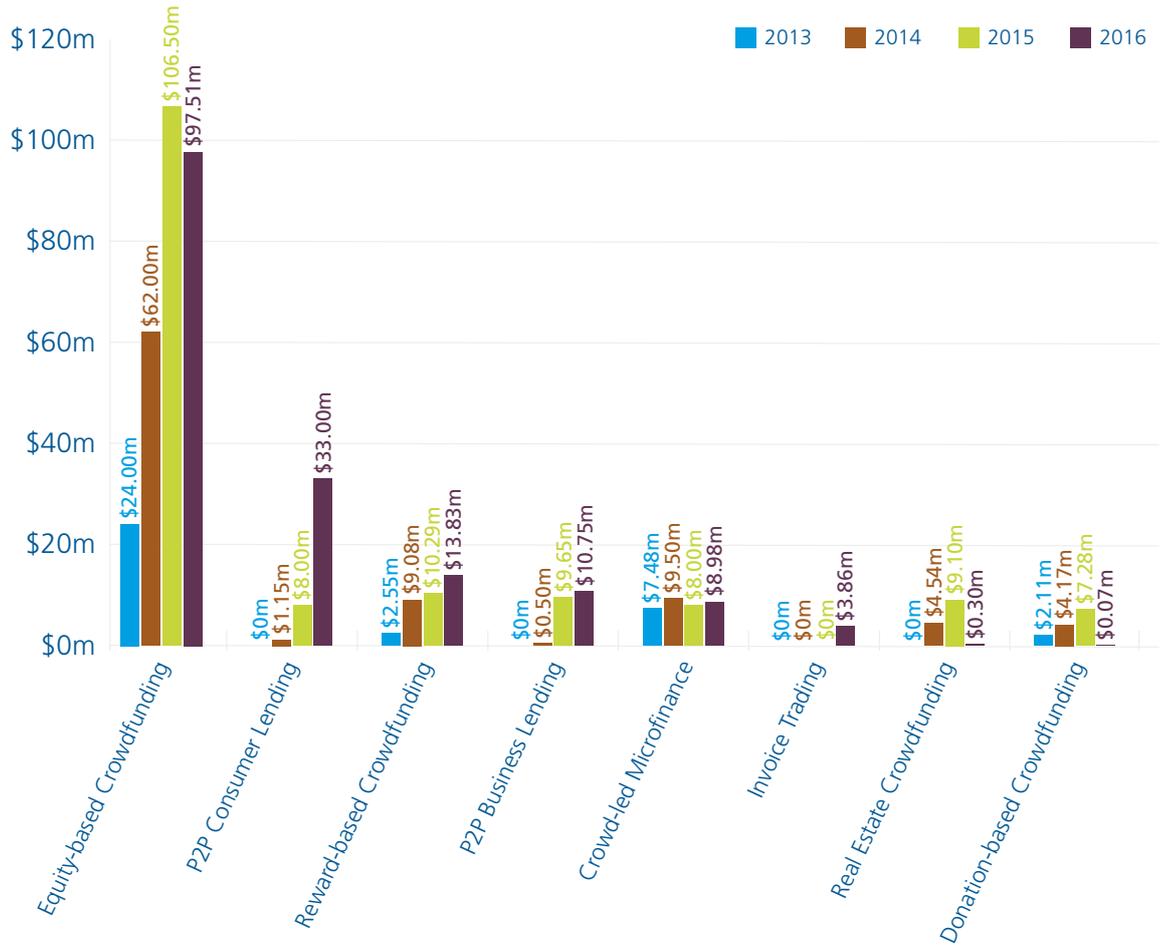


Figure 18: Online Alternative Finance by Model for the Middle East (2013-2016)

Key Alternatives Finance Markets in the Middle East

Israel is the clear market leader in the Middle East, with a total \$363.25 million raised over the period of 2013-16 via various online alternative finance models. The country contributed nearly 78% of total Middle East online alternative finance market volume during 2016, having grown at an annual average rate of 11%. The 2016 volume accounted for \$138.22 million.

Though the 2015-2016 growth rate has diminished against previous years (compared to the 69% and 169% in 2014-15 and 2013-14 respectively) Israel dominates the region in several key models, and it is expected that this country will continue to drive growth. As a reminder, Israel is the over-all regional leader in Equity-based Crowdfunding and P2P Consumer Lending. Interestingly, the country also leads the Rewards-based Crowdfunding model, especially as related to funding for SMEs.

The second market leader in the Middle East is the United Arab Emirates (UAE), accounting for 15% of the total market volume in 2016, having raised \$26.67 million. Over a four-year period between 2013-2016, nearly \$49 million was raised. Similar to Israel, the UAE has also experienced a slowing of the annual growth rate, from 241% in 2014-15 to 55% in 2015-16. The models most prevalent in the country are Equity-based Crowdfunding, P2P Business Lending and Reward-based Crowdfunding.

Lebanon was the third largest country by volume, accounting for \$4.48 million in 2016 (about 2.5% of the overall Middle Eastern market) and grew by 8% between 2015-2016. In close fourth place, Palestine accounted for \$4.31 million, having grown by 26% annually. Finally, Jordan and Iran both experienced a decline in the online alternative finance activities for 2015-16.

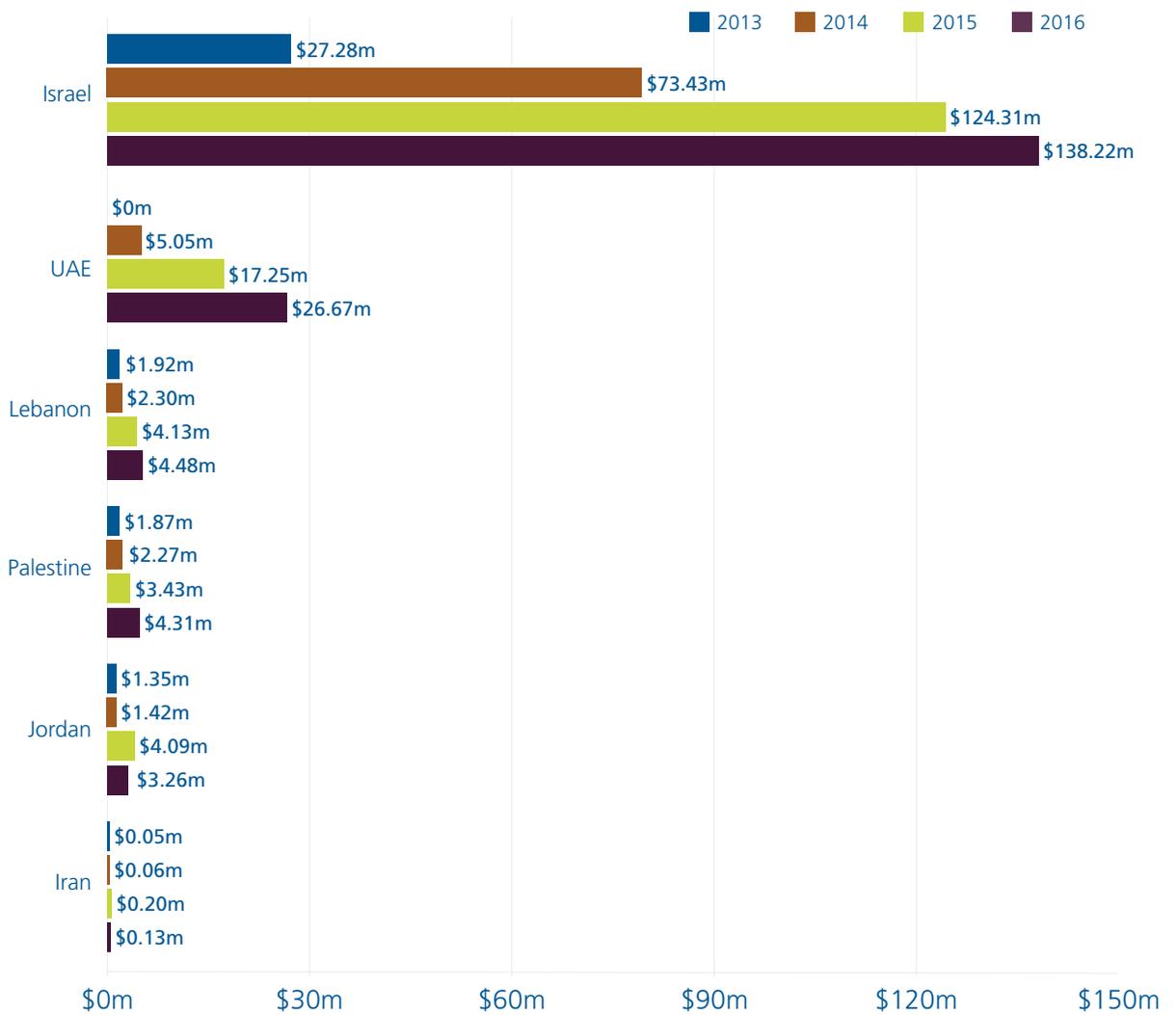


Figure 19: Top 6 Countries - the Middle East (2013-2016)

Middle Eastern Regulatory Landscape

The regulatory landscape on alternative finance in the Middle East has been changing dynamically over the last year. The driver for this has been countries efforts to support fintech more broadly, with many markets competing to be the regional and, in many cases, a global leader in this space.

Last year's report noted that the regulators of the two most prominent financial centers in the UAE had launched significant regulatory initiatives to support fintech and online alternative finance. Other markets have responded quickly through launching their own initiatives, or are planning to do so.

One notable area of focus across the board has been on alternative finance for financial inclusion purposes, with the UAE⁹, Qatar¹⁰ and Jordan¹¹ in particular explicitly articulating financial inclusion objectives and benefits as part of their reasons for supporting the alternative finance sector. This will continue to be a theme, given the numbers of financially excluded consumers in these markets and the opportunity for both social impact and commercials which they represent.

Regulatory Innovation

A key component of the acceleration of the alternative finance sector in the Middle East has been regulatory support, with regulators across the region launching a host of regulatory innovation initiatives. A common approach has been to launch 'regulatory sandboxes', which provide a framework and set of tools for financial services providers to test innovative products and business models on a limited scale. Last year's report highlighted that regulatory sandboxes are now live in the Abu Dhabi Global Market (ADGM), the Dubai International Financial Centre (DIFC) and in Bahrain. It is also understood that regulators in Saudi Arabia, Jordan, Egypt and Lebanon are also currently at least considering launching similar initiatives. Regulators in the Middle East seeking to support fintech and alternative finance are also increasingly aware of the wider role which they play in facilitating the development of the sector.

Bespoke Regulation

Together with Lebanon, the UAE and Bahrain are leading the way in the development of bespoke regulatory regimes for the crowdfunding sector. The DFSA and its legislative committee have recently developed a comprehensive crowdfunding framework for those firms operating in the DIFC. The rules include requirements around risk disclosures, business continuity plans and restrictions on targeting retail investors, and are rigorous. It may, therefore, be the case that regulatory sandbox environments continue to be attractive to those platforms wishing to test and scale their offerings.

In Bahrain, the Central Bank has implemented an ad hoc crowdfunding regulatory framework targeted at both conventional and Shari'a compliant platforms. This includes minimum capital requirements, maximum borrower amounts and lender exposures and, perhaps most importantly, restricting the platforms to expert and accredited investors. As in the case of the UAE, the Central Bank of Bahrain's regulatory sandbox may prove attractive to crowdfunders seeking to test their propositions under a more flexible regulatory framework.

In Lebanon, the Capital Markets Authority (CMA) offers a crowdfunding license to providers who meet the requirements for this, which include systems and controls, the prohibition of providing financial advice and those fundraising companies on their platforms provide comprehensive financial statements and other disclosures to investors.

While other markets in the Middle East may not have specific regulatory regimes for crowdfunding, several are expected to introduce legislation on this in the near future. This includes Jordan, Egypt and Saudi Arabia.

According to CCAF's survey, such regulation would be welcomed by the sector with 67% of respondents in the Middle East stating that there are no specific regulations in their sector and that these are needed.

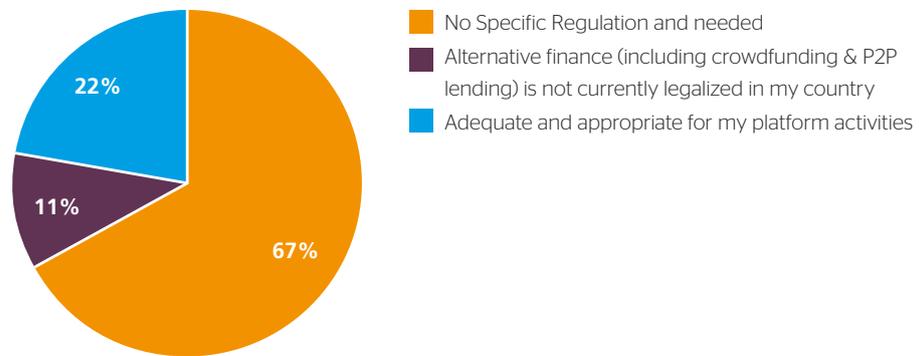


Figure 20: Platform Perception Towards Regulation - the Middle East

This marks a significant change from last year's report, where opinion was sharply divided over upcoming changes to the regulatory landscape. Last year just 19% of respondents felt that specific regulation was needed where it was currently absent, with the same share feeling that it was not needed where it was absent. Furthermore, the share of respondents who felt that regulation is adequate and appropriate has dropped from 24% to 22%. Perhaps most notably, the share of respondents who feel that regulation is excessive and too strict has fallen from 19% to zero. All of this indicates that the alternative finance sector is maturing in its approach to regulation and appreciating the benefits that regulation can bring to their business.

Alternative Finance Market Risks in Africa & the Middle East

Although the continued growth of the alternative finance sector in both Africa and the Middle East is exposed to a variety of risks, platforms in both regions perceive certain systemic risks to a similar degree. For instance, in both markets there are high perceived risks from changes to regulation (43% for Middle Eastern platforms and 41% for African platforms). This is in notable contrast with the high percentage of respondents who also felt that regulation was needed were currently absent (see previous/next section). This demonstrates there is both an appreciation that regulatory change is needed and that this engenders uncertainty.

Similarly, a notable increase in defaults is identified as a “very high” or “high” risk for 57% of respondents in the Middle East and 50% in Africa.

Differences in perceptions toward risk arise when reviewing other categories captured in the study. Similar to last year, fraud is again perceived as the greatest risk towards industry growth in Africa (57%), while just 28% of platforms in the Middle East view fraud as a high or very high risk. (down from 48% last year). Collapse due to malpractice is also consistently ranked as higher risk in Africa compared to the Middle East, with 52% of respondents identifying this as a “very high” or “high risk”, compared to just 29% in the Middle East.

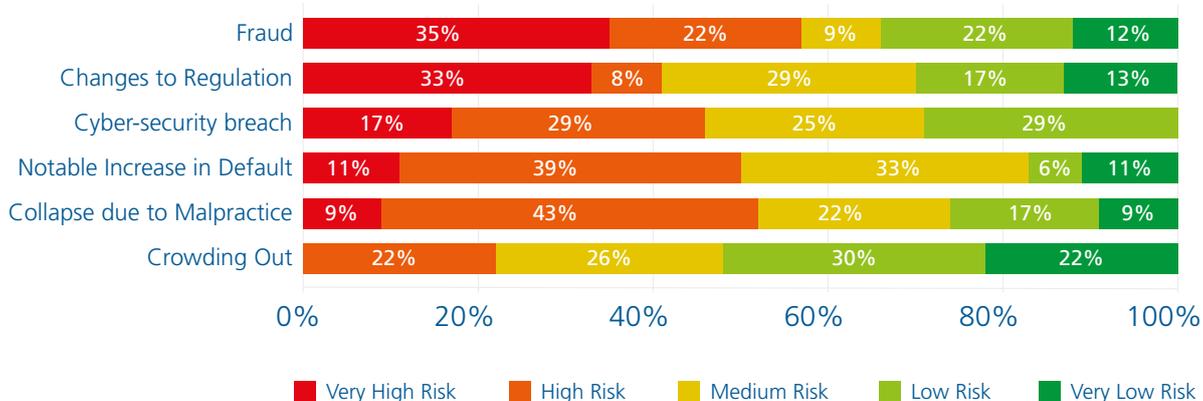


Figure 21: Platform Perception towards Key Risk Factors - Africa (2016)

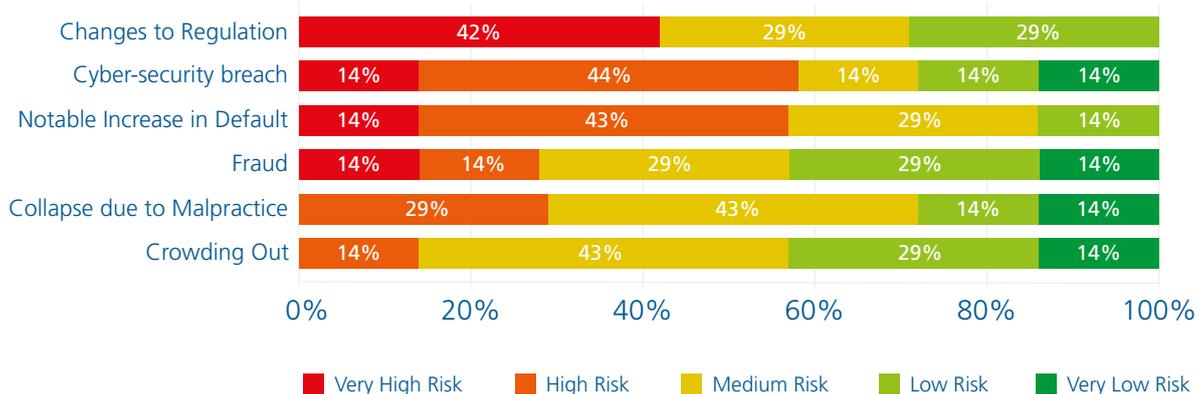


Figure 22: Platform Perception towards Key Risk Factors - the Middle East (2016)

Continued Digital Transformations in Finance in Africa and the Middle East

Institutional foot-dragging¹², cumbersome government policies and lack of start-up capital, as well as the fragmentation of markets¹³ and difficulty of doing cross-border business, might have all contributed to the relatively late adoption of financial technology (FinTech) in the Middle East and Africa (MEA). Despite that, entrepreneurs in the region are starting to take big risks to fuel innovation in the sector. With the current landscape of gradual economic recovery, FinTech firms are beginning to explore ways to influence consumer behaviour; and even though these kinds of service providers lack the scale and regulatory support that their traditional counterparts possess, they do wield significant influence and innovation agility - key components in dealing with unbanked populations and testing novel solutions and responsive products.

Disrupters in this space are using artificial intelligence, big data, and other revolutionary capabilities to spur financial inclusion and improve access to finance for those who will otherwise be left behind. For example, over the past year, peer-to-peer lending marketplaces, online microfinance, and alternative payment systems in Middle East & Africa have become more advanced, creating easily accessible financial products from customers and increasing transparency and cost competitiveness in the industry. The increasing connectivity, mobile penetration and growing economies of the Middle East and Africa hold vast opportunities for the development of alternative financial instruments, and the time for dynamic growth has arrived.

Resilience amidst adversity¹⁴, which has long characterized persons doing business in the harsh environment of Africa and the Middle East, may translate into economic growth if the necessary conditions and regulatory support are put in place.

The increasing significance of big data implies that there is ample opportunity for improved product delivery and inject confidence into the financial markets. For instance, such economies are still experiencing slow economic recovery from the collapse of the commodity boom¹⁵, and banks in emerging economies are often unwilling to lend because of insufficient credit worthiness information on individuals and businesses. However, advanced data analytics can now help credit reporting scoring. With less than 10% of people aged under 30¹⁶ residing outside emerging markets, and the Middle East & Africa region home to a fast-growing middle class, this kind of financial innovation is much needed.

Credit reporting and scoring is not the only area set for disruption; the application of blockchain technology in finance¹⁷ (as an alternative payments system) is also being trialed at various levels. The end goal with this is to reduce anti-money laundering (AML) compliance costs due to the high level of transparency offered on blockchains. While risks do exist in this uncharted territory, the motive is there, and testing & experimentation is fast-paced and adaptive. BitPesa is an example of a Kenyan international payment transfer company that is utilizing blockchain technology to bypass the legacy SWIFT transfer system that has traditionally been used by banks and large financial institutions.

The identity management properties of a blockchain will also prove particularly useful in addressing the unmet demand in financial services for women. Women in the Middle East & Africa (MEA) region, for instance, are less likely to possess identification documents: this makes it almost impossible to set up bank accounts or obtain loans. With blockchain technology, this systemic disadvantage against women can be tackled. Permanent digital records can be created for this demographic, thereby satisfying crucial Know-Your-Customer (KYC) rules that enable financial institutions to serve them fairly. As the financial services landscape becomes more competitive, start-ups and incumbents alike cannot risk ignoring the service gaps existing amongst underserved populations in these economies.

Nonetheless, political enablers have recently begun to appreciate the rise of financial technology and the urgent need for new business models. From within the Central Bank of Bahrain to the Dubai Financial Services Authority (DFSA), FinTech accelerators and regulatory sandboxes are springing up across the region, providing new and innovative ventures space to experiment with ideas. Certainly, more transnational collaborations¹⁸ in the region will strengthen the versatility and reach of FinTech instruments and applications, becoming more useful for customers in the long-run.

- ¹ It must be noted that these microfinance models often still have interest rates being charged to their respective borrowers through the microfinance platforms' lending partners.
- ² Derived from traditional micro-financing, specific Crowd-led microfinance platform volumes are included in this study due to the distinct online nature of these transactions. The microloans are provided by crowd lenders, via an online platform, and for zero or low-interest returns.
- ³ As compared to observed global female proportions of activity.
- ⁴ www.gpfi.org/sites/default/files/documents/Digital%20Financial%20Inclusion-CompleteReport-Final-A4.pdf
- ⁵ www.cma.or.ke/index.php/news-and-publications/press-center/353-stakeholders-consultative-paper-on-policy-framework-for-implementation-of-regulatory-sandbox-to-support-financial-technology-fintech-innovation-in-the-capital-markets-in-kenya
- ⁶ www.president.go.ke/2017/04/06/cabinet-approves-bill-to-merge-functions-of-financial-regulatory-bodies/
- ⁷ www.fsb.co.za/Departments/twinpeaks/Pages/What-is-Twin-Peaks.aspx
- ⁸ For example in the UK, the Netherlands and Australia.
- ⁹ www.difc.ae/files/3614/9734/3956/fintech-mena-unbundling-financial-services-industry.pdf
- ¹⁰ www.qfcra.com/en-us/publications/Documents/2nd_Strategic_plan_2017-2022_ENG.pdf
- ¹¹ www.cbj.gov.jo/EchoBusv3.0/SystemAssets/PDFs/AR/JANPDF/Executive%20Summary%20EN.pdf
- ¹² www.economist.com/finance-and-economics/2017/06/01/the-race-to-become-islamic-bankings-fintech-hub
- ¹³ www.ft.com/content/87d48142-53e5-11e6-9664-e0bdc13c3bef?mhq5j=e5
- ¹⁴ <http://uk.businessinsider.com/africa-financial-innovation-2016-7?r=US&IR=T>
- ¹⁵ https://hbr.org/2016/07/why-african-entrepreneurship-is-booming?referral=03759&cm_vc=rr_item_page.bottom
- ¹⁶ www.difc.ae/files/2415/0822/2591/Future_of_Finance_in_MEASA_report.PDF
- ¹⁷ www.pwc.com/m1/en/media-centre/2017/blockchain-can-transform-financial-services.html
- ¹⁸ <https://mg.co.za/article/2017-07-26-africa-is-fertile-ground-for-fintech>

Appendix A

Country	2016 Volume
Seychelles.....	\$1,661.97
Central African Republic.....	\$1,600.42
Congo Rep.....	\$3,670.28
Botswana.....	\$3,870.24
Guinea.....	\$5,188.74
Bahrain.....	\$5,684.56
Cabo Verde.....	\$6,724.84
Swaziland.....	\$7,356.05
Iraq.....	\$7,656.97
Benin.....	\$11,669.21
Niger.....	\$12,372.87
Pakistan.....	\$14,578.54
Mauritius.....	\$23,415.36
Gambia.....	\$23,990.86
Algeria.....	\$25,012.29
Saudi Arabia.....	\$30,000.00
Somalia.....	\$65,017.40
Yemen.....	\$83,100.00
Ethiopia.....	\$105,718.96
Iran.....	\$125,440.83
Namibia.....	\$162,173.59
Liberia.....	\$196,440.24
Lesotho.....	\$220,327.39
Cameroon.....	\$396,978.27
Togo.....	\$431,191.77
Burundi.....	\$468,344.10
Tunisia.....	\$563,017.25
Mozambique.....	\$606,981.55
Madagascar.....	\$685,288.49
Morocco.....	\$724,410.75
Zambia.....	\$851,031.92
Burkina Faso.....	\$1,042,851.07
Malawi.....	\$1,195,303.09
Sierra Leone.....	\$1,229,429.80
Zimbabwe.....	\$1,239,007.83
Ghana.....	\$2,083,935.23
Mali.....	\$2,177,487.44
Congo Dem. Rep.....	\$2,200,775.85
Senegal.....	\$2,318,411.89
Tanzania.....	\$2,319,099.67
Jordan.....	\$3,255,776.55
Uganda.....	\$3,927,499.33
Cote D'Ivoire.....	\$3,936,014.85
Palestine.....	\$4,306,357.88
Egypt.....	\$4,342,834.32
Lebanon.....	\$4,481,403.50
Rwanda.....	\$5,327,140.33
Kenya.....	\$12,743,576.82
United Arab Emirates.....	\$26,669,378.41
South Africa.....	\$33,498,625.76
Nigeria.....	\$35,819,262.24
All Other.....	\$60,558,277.00
Israel.....	\$138,223,367.43