

Alternative finance and business growth

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What is alternative finance?

Equity
crowdfunding

Debt
crowdfunding /
peer to peer

Examples:
Crowdcube,
Seedrs

Examples:
Funding Circle,
Ratesetter

2015: £2.8bn gross
lending on online
platforms

*British Business Bank, Small Business Finance
Markets, 2015-16*

Why look at alternative finance?

Question: **Can new sources of finance help fill the finance gap for SMEs?**

....Maybe

- Key structural problem – information asymmetry
- But, may help SMEs by expanding market

Implications for policymakers

What we did

Ideally want to look at whether alternative finance can help increase business growth

Focus on understanding characteristics of firms that use alternative finance to help develop an understanding of whether it fills gaps

- How do firms that use alternative finance differ from those that do not?
- To what extent does alternative finance compete with or complement traditional sources of finance?
- Are indicators of likely future business growth associated with use of alternative finance?

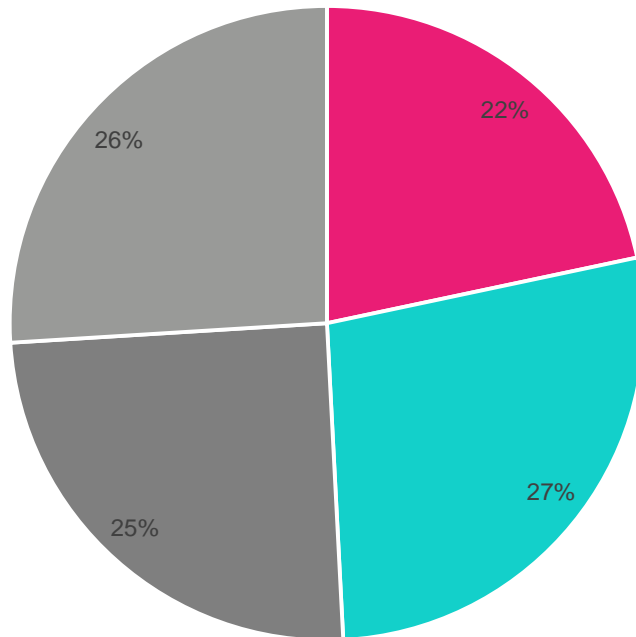
What we did

In most of what follows, we are comparing:

1. **Crowdfunded firms:** businesses that say they are currently using peer-to-peer lending or equity-based crowdfunding
2. **Non-crowdfunded firms:** businesses that say they are currently using finance, but are not using peer-to-peer lending or equity-based crowdfunding
3. **Non-finance using firms:** businesses that say they are not currently using finance
4. **All firms:** all firms included in the dataset

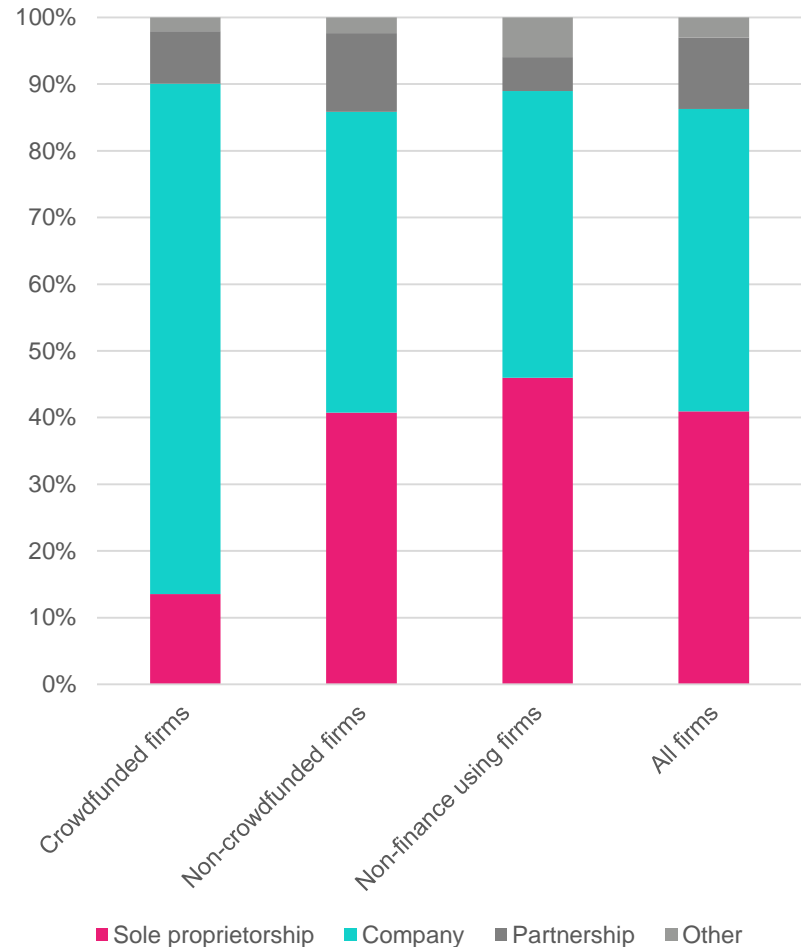
Business demographics

Breakdown of crowdfunded firms by sector

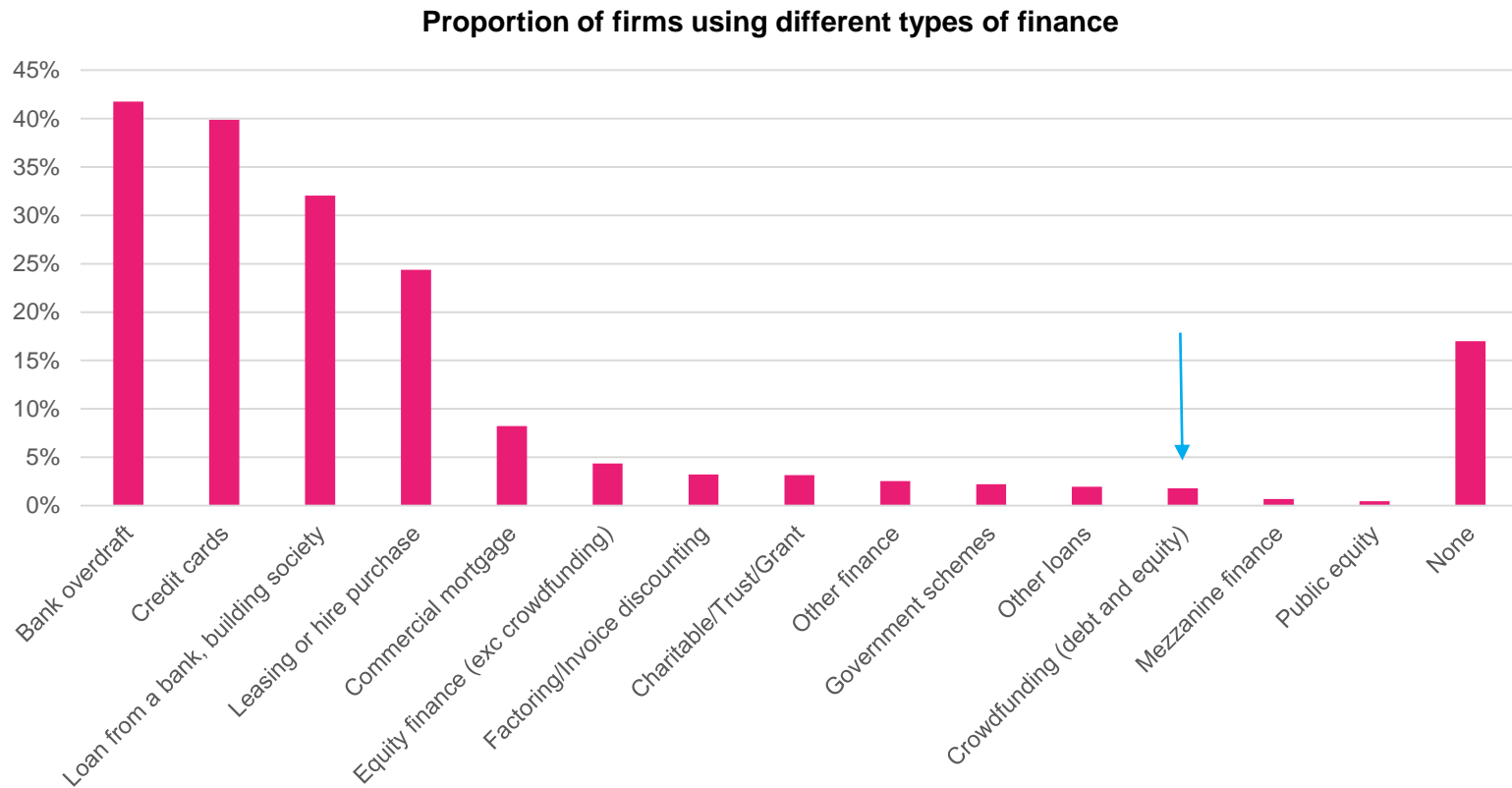


- ABCDEF - Production and construction
- GHI - Transport, retail and food service/ accommodation
- JKLMN - Business services
- PQRS - Other services

Breakdown of firms by legal structure

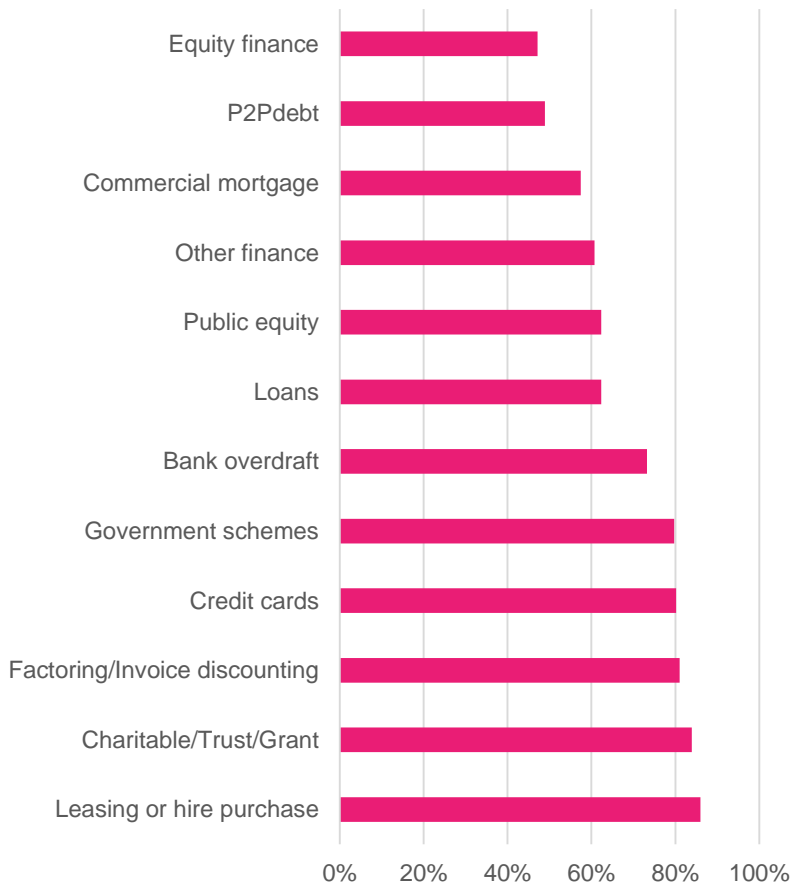


Does crowdfunding fill gaps in the market?

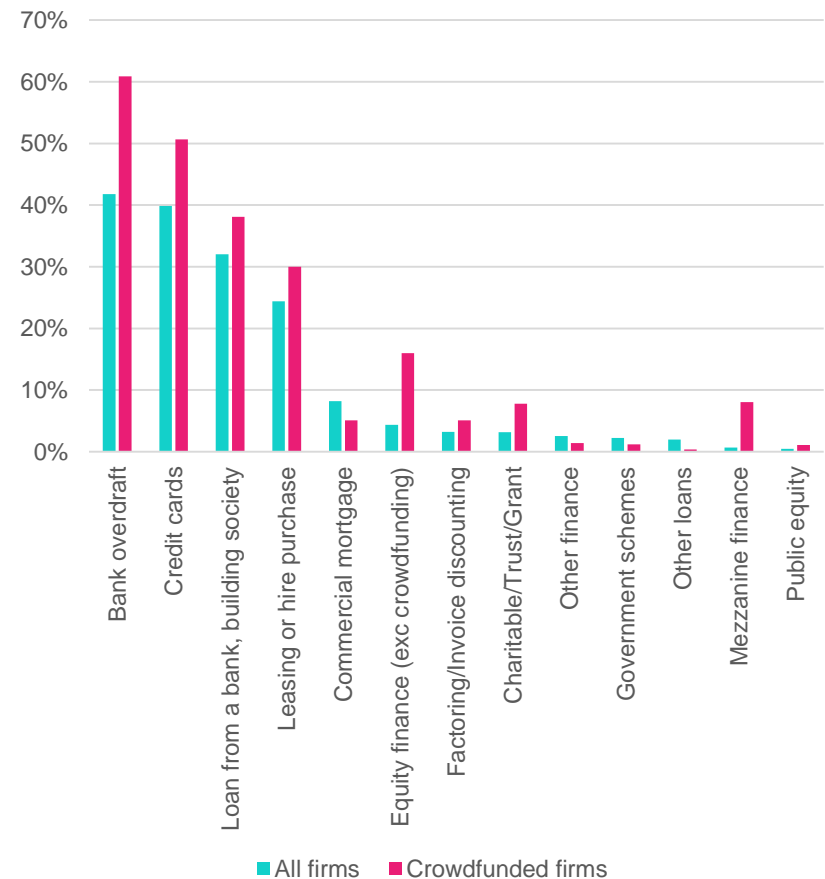


Does crowdfunding fill gaps in the market?

Success rates in obtaining different types of finance in previous 12 months

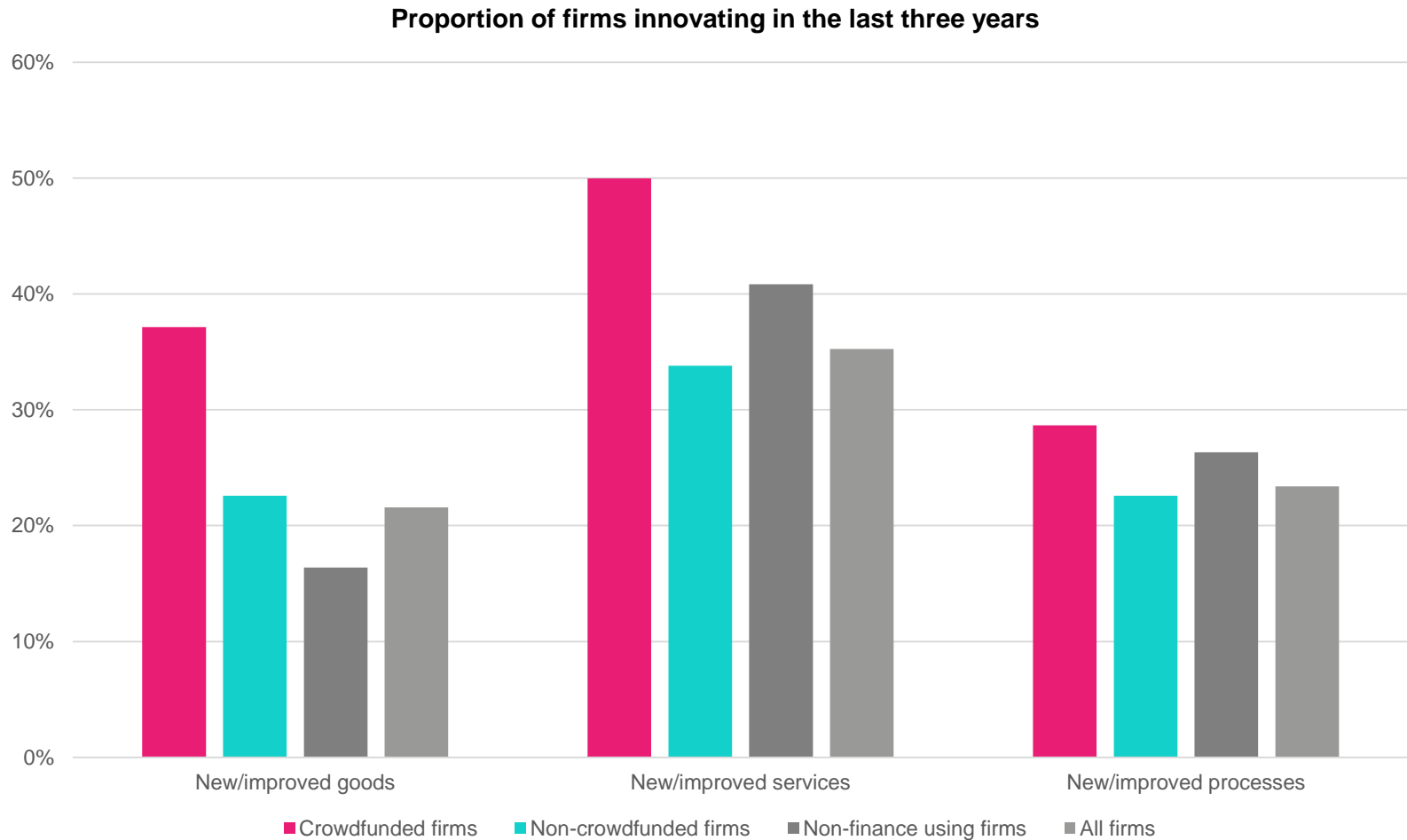


Proportion of all firms and crowdfunded firms using different types of finance



Note: debt P2P only

Crowdfunding and business growth indicators



Conclusions

Crowdfunded firms tend to be already well-served by the lending market.

Crowdfunding may be friendly towards specific types of investment, such as research and development spending.

Crowdfunding may be less accessible (or at least perceived to be less accessible) for certain groups of businesses compared to mainstream lending

What would be useful to explore next?

With my old SMF hat on...

- Tracking firms over time to explore whether crowdfunded firms grow more quickly
- Exploring dynamics of finance choices over time

With my new BIT hat on...

- How well the market is working in assessing the risk and return on investments
- How firms make decisions on access to finance and whether they make the right choices for them