

**W**ith the purpose of facilitating the transfer of best practices from more advanced to less advanced markets on **Alternative Financing**, Altfinator project has analysed best practices in the selected benchmark countries, such as UK, USA, the Netherlands and Estonia, and identified success factors which could influence the emergence of alternative financing in target countries from South and Eastern Europe, such as: Spain, Italy, Lithuania, Portugal, Slovakia, Hungary, Romania, Ukraine.

The collection and analysis of best practices was based on a methodology, which contained a mix of desk research, analysis of academic and business literature, and detailed, semi-structured expert interviews.

## SUCCESS FACTORS OF ALTERNATIVE FINANCING PROVIDERS IN BENCHMARK COUNTRIES



### UNITED KINGDOM

- An enabling regulation with a common law system;
- Long tradition of on-line transactions, e-commerce and online banking;
- Initiatives boosting the interaction between the investors and the SMEs;
- Professional conduct, due diligence and mentoring contributing to create trust.



### ESTONIA

- Low entry barriers for alternative financing providers (e-governance, less bureaucracy);
- No specific regulation for online platforms (besides existing regulations for e.g. credit providers);
- Low level of government intervention in online platforms;
- Tech-savvy IT nation contributes to the emergence of online platforms;
- Alternative finance platforms advertise themselves, thus there is no need for awareness raising initiatives;
- Supporting and transparent business environment, business culture and trustworthiness.



### THE NETHERLANDS

- Minor regulation to protect the investors;
- Low barriers to market entry;
- Traditional forms of financing (banks) were not properly available, this fostered the emergence of alternative financing solutions;
- No central coordination of alternative financing providers;
- Initiatives for awareness raising on alternative financing.



### USA

- An enabling regulation, moderating the risk of investors and SMEs;
- Low level of transaction costs;
- Network of investors, with personal contacts and high level of trust;
- Investor's high-level risk taking;
- Large single market for crowdfunding platforms;
- Open culture to use alternative financing.

## KEY SUCCESS FACTORS CLUSTERED INTO 4 CATEGORIES:

### Enabling regulation and the role of government

- The emergence of Alternative Financing can be strongly supported by a favourable legislative environment and supportive financial regulation.
- In order to build transparency and trust, the government has to ensure a stable legislative environment.
- Legislation might decrease the risk of investment both on the investor and the company's site.
- Providing the appropriate legislation on the provision and usage of alternative financing instruments is therefore crucial.

### Minimise transaction cost <sup>1</sup>

- Transaction cost can be considered as one of the most relevant market entry barriers of launching a crowdfunding portal.
- Managing investments through crowdfunding is also a determining factor in fostering the use of alternative finance.

### Attract deal flow of suitable prospects for alternative financing

- Finding and profiling potential companies to invest in is a crucial aspect of alternative financing platforms, which include: finding and selecting innovative companies, assess risk, and create their risk profile for their investors.
- The methods used to assess the risk and also the way that alternative financing providers connect the investors with the companies is a critical success factor.

### Increase knowledge and awareness raising

- Increasing the knowledge about available sources of alternative finance, sharing best practices and awareness raising initiatives about alternative financing, among SMEs and investors, has a direct effect on:
  - building trust towards alternative financing
  - improving the SMEs' competencies for accessing to alternative financing
  - easing the access to this type of financing.

<sup>1</sup> Transaction cost: the cost required to establish a company and the time and effort required to raise investment.

