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UNIVERSITY OF CAMBRIDGE

UNDERSTANDING ALTERNATIVE FINANCE

The UK Alternative Finance Industry Report 2014

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November 2014

Supported by

ACCA pwc

UNDERSTANDING ALTERNATIVE FINANCE

The UK Alternative Finance industry Report 2014

CONTENTS

Foreword

This project was jointly designed, delivered and authored by the University of Cambridge and Nesta

Nesta...

"There is a growing movement afoot to revolutionise banking, investing and giving by using technology to simplify the links between those who want to invest money and those who need it.

Crowdfunding and peer-to-peer finance are at the vanguard of this movement. Nesta has been an active supporter of a range of crowdfunding platforms and an advocate for and expert on the development of the alternative finance market. We are especially proud to be publishing this research, which constitutes the most detailed and extensive survey of the alternative finance sector yet undertaken anywhere in the world.

We believe the results will make essential reading for anyone interested in the future of finance, both in the UK and in the wider world."

Stian Westlake, Executive Director of Policy and Research, Nesta

UNIVERSITY OF CAMBRIDGE

"The UK alternative finance market is burgeoning and we need to develop a more nuanced understanding of its structural drivers, intrinsic characteristics, dynamics and diversity, challenges and opportunities. This report is an important first step to promote empirical research in this increasingly significant area of our economy."

Dr Mia Gray, Senior University Lecturer, University of Cambridge

This report has received valuable support from the Association of Chartered Certified Accountants (ACCA) and PricewaterhouseCoopers (PwC). ACCA funded and co-designed the national poll of SME awareness of alternative finance and PwC funded and co-designed the national poll of consumer awareness of alternative finance

"The alternative finance industry is quickly becoming an important part of the UK economy. The innovative, technology led approach has improved access to finance for SMEs and seems to be having a positive impact on social and charitable enterprises. We are therefore delighted to be supporting what in our view is the most comprehensive research on the industry to date."

Mark James and Fergus Lemon, PwC

"This report marks an important milestone in the lifecycle of the fintech industry. Alternative finance in the UK has finally come of age in 2014 – as a properly regulated market and a set of well-defined asset classes, drawing on the unique advantages of the UK as a global financial centre. But alternative finance is still set for substantial disruption, out of which a more concentrated, more networked and more mainstream industry will emerge. This study helps us understand that future a little better."

Manos Schizas, Senior Economic Analyst and Acting Head of SME Policy, ACCA

About the authors[1]

Peter Baeck is a researcher at Nesta, where he focuses on the role of digital technologies in public and social innovation.

Liam Collins is a researcher at Nesta where he focuses on innovation and economic growth. Liam is co-author of four Nesta reports on both P2P Lending and Crowdfunding.

Bryan Zhang is a PhD Researcher in Alternative Finance at the University of Cambridge. He is a co-author of three industry reports on crowdfunding and alternative finance.

1. For general purpose, please quote this report as (Nesta, 2014). For academic reference, please quote this report as (Zhang, Z., Collins, L., Baeck, P. 2014). Analyses contained in this report are partly based on ongoing academic research collaborations between Bryan Zhang, Mingfeng Lin (University of Arizona) and Mia Gray (Cambridge University).

We would like to acknowledge the generous support received from the UK Crowdfunding Association and the Peer-to-Peer Finance Association.

We would like thank the following platforms and people for sharing data and distributing surveys.

Building on this we are also thankful for the large number platforms who completed our tracking survey.

Introduction

The alternative finance market in the UK is expected to grow to £1.74 billion of funding provided in 2014. Alternative finance covers a variety of new financing models that have emerged outside of the traditional financial system, that connect fundraisers directly with funders often via online platforms or websites.

As highlighted in this report, the UK market is growing rapidly, and has more than doubled[2] in size year on year from £267 million in 2012 to £666 million in 2013 to £1.74 billion in 2014. In the process, it has given individuals more control over their money as well as new outlets to invest or donate it. At the same time entrepreneurs, SMEs, charities and community organisations are obtaining much–needed finance, which they in many cases, would not otherwise be able to secure. It is evident from our research that the alternative finance market is contributing to the growth and vitality of the UK economy as well as having a positive social impact on philanthropic giving and volunteering.

However, while the market is racing ahead, growing in the number of individuals and ventures funded, the amount of total finance raised, and the number of businesses operating in the alternative finance industry, research has lagged behind. Beyond the size and growth of the market, we actually know very little about alternative finance and the people who are using it to fund or fundraise for projects and ventures. Unanswered questions include:

- What type of people and organisations use the different alternative finance models?
- Why do people and organisations seeking money turn to alternative finance platforms?
- What makes the model attractive to people with money to donate, lend or invest?
- What is the socio–economic impact of alternative finance and how do organisations and businesses perform after fundraising on alternative finance platforms?
- How do people find out about various alternative finance models and what do they think of them having used them?

There exists lots of anecdotal stories from fundraisers and funders of projects and ventures, and some data from platforms that begins answering some of these questions, but none of them look at alternative finance holistically in the UK or try to systematically analyse trends and examine behaviour across multiple alternative financing models.

To address this shortcoming, Nesta and the University of Cambridge, supported by ACCA and PWC, have undertaken this extensive research, which is the largest study of the UK alternative finance industry to date. We hope that this unique study will shed light on the thriving alternative finance industry in the UK. Furthermore we hope that by studying one of the most dynamic, innovative and diverse markets of its kind in the world we can provide insights for individuals, businesses, governments and regulators both in and outside of the UK on the mechanisms, processes and impact of the alternative finance market.

This study uses extensive transaction data collected from alternative finance platforms as well surveys of their users, and we are very grateful to the UK alternative finance industry for their support. The *What we did box* explains in more detail how we undertook the study.

As noted earlier alternative finance is an umbrella term that covers a range of very different models from people lending money to each other or to businesses, to people donating to community projects and businesses trading their invoices. The distinctions between these models are important as they differ enormously in the types of people and organisations that use them, why they use them and the nature, form and amount of financial transactions that take place.

PEER-TO-PEER (P2P) BUSINESS LENDING

Debt-based transactions between individuals and existing businesses which are mostly SMEs with many individual lenders contributing to any one loan.

DONATION-BASED CROWDFUNDING

Individuals donate small amounts to meet the larger funding aim of a specific charitable project while receiving no financial or material return in exchange.

INVOICE TRADING

Firms sell their invoices at a discount to a pool of individual or institutional investors in order to receive funds immediately rather than waiting for invoices to be paid.

PEER-TO-PEER (P2P) CONSUMER LENDING

Individuals using an online platform to borrow from a number of individual lenders each lending a small amount; most are unsecured personal loans.

COMMUNITY SHARES

The term community shares refers to withdrawable share capital; a form of share capital unique to co-operative and community benefit society legislation. This type of share capital can only be issued by co-operative societies, community benefit societies and charitable community benefit societies.

EQUITY-BASED CROWDFUNDING

Sale of a stake in a business to a number of investors in return for investment, predominantly used by early-stage firms.

REWARD-BASED CROWDFUNDING

Individuals donate towards a specific project with the expectation of receiving a tangible (but non-financial) reward or product at a later date in exchange for their contribution.

PENSION-LED FUNDING

Mainly allows SME owners/directors to use their accumulated pension funds in order to invest in their own businesses. Intellectual properties are often used as collateral.

DEBT-BASED SECURITIES

Lenders receive a non-collateralized debt obligation typically paid back over an extended period of time. Similar in structure to purchasing a bond, but with different rights and obligations

44 facts about alternative finance in the UK

The information below contains highlights from the 2014 UK Alternative Finance Industry report produced by Nesta and the University of Cambridge.

The results are based on analysis of transaction data from alternative finance platforms, surveys of their users and commissioned national surveys of consumers and SMEs in the UK.

P2P BUSINESS LENDING

£73,222

Average amount borrowed

33% of borrowers believed they would been unlikely to get funds elsewhere

On average it takes 796 micro-transactions from individual lenders to fund one loan

63% of business saw a growth in profit with 53% seeing an increase in employment since securing funding

83% of lenders were men

P2P CONSUMER LENDING

£5,471

Average amount borrowed

54% have lent more than £5,000

Lenders primarily motivated by interest rate available

More than half of borrowers had been offered a loan from the bank but went with P2P Lending

46% used loan to purchase a vehicle

INVOICE TRADING

£56,075

Average amount raised

33% of businesses said it was unlikely that they would have received finance could they not have turned to an invoice trading provider

The average invoice finance auction only takes **8 hours**

Three in four users would use invoice trading in the future even if banks were to offer similar terms

EQUITY CROWDFUNDING

£199,095

Average amount raised

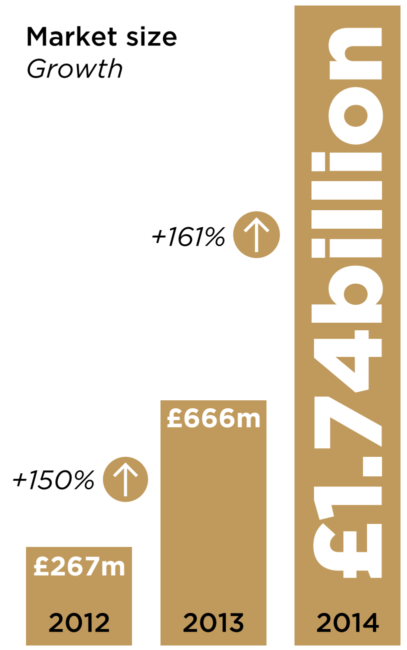
Two-thirds of investors have invested more than £1,000

38% of investors were professional investors or high net-worth individuals

Since securing funding 70% of businesses have increased turnover, 60% have increased employment

54% of businesses sought expansion capital, 46% sought seed or start-up capital

Market size
Growth



Breakdown of 2014 market by platform

P2P business lending	£749m
P2P consumer lending	£547m
Invoice trading	£270m
Equity crowdfunding	£84m
Community shares	34m
Rewards crowdfunding	£26m
Pension-led funding	£25m
Debt-based securities	£4.4m
Donation crowdfunding	£2.0m

Average growth rate 2012–2014

250%	P2P business lending
108%	P2P consumer lending
174%	Invoice trading
410%	Equity crowdfunding
95%	Community shares
206%	Rewards crowdfunding
5%	Pension-led funding
117%	Debt-based securities
77%	Donation crowdfunding

COMMUNITY SHARES

£174,286

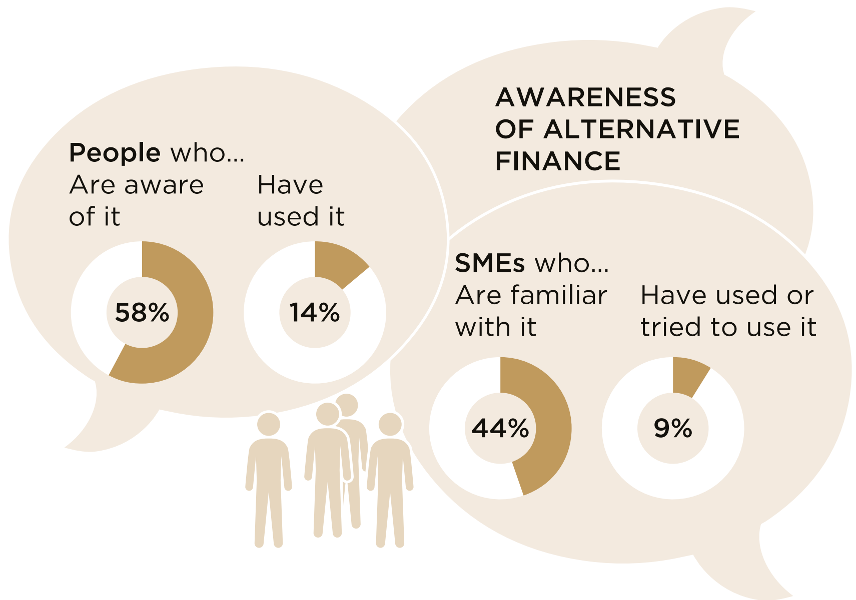
Average amount raised

The average investment in community shares is £368

38% of investors in community shares attended local shareholder meetings

32% of investors have offered to volunteer directly with the project they supported

The prospect of a finance return was only important or very important to 24% of investors



DONATION CROWDFUNDING

£6,102

Average amount raised

34% of fundraisers have seen an increase in volunteering after their campaign

27% of donors had offered to help or volunteer with the project they backed

46% of donors have funded projects that others in or outside their local area could use

DEBT-BASED SECURITIES

£730,000

Average amount raised

Average investment in debt-based securities is £1,243

On average it takes 587 funders to fund a renewable energy project through debt-based securities

The opportunity to make a positive social impact was an important factor in deciding to invest for 86% of investors

PENSION-LED FUNDING

£70,257

Average amount raised

Pension-led funding (PLF) users are mostly small businesses, 7% were sole traders while 60% had 5 or fewer employees

51% of PLF fundraisers thought that they would have been unlikely or very unlikely to secure funding elsewhere

43% have increased their employment after raising finance via PLF

REWARDS CROWDFUNDING

£3,766

Average amount raised

The majority of funders had spent less than £50 on supporting projects and mostly backed only a single project

53% said they would have been unlikely to get funded were it not for crowdfunding

72% of funders knew the person running the campaign they backed either personally or by reputation

This report is split into four main parts. In part one we look at findings from across the alternative finance industry, including the total size and growth of the market, as well as the significant differences between various alternative finance models. In part two we look at the general awareness of alternative finance in the UK amongst consumers and small and medium sized enterprises (SMEs). Part three looks in more detail at each alternative finance model from both funder and fundraiser perspectives. Finally, part four concludes the research and discusses the current as well as future development of alternative finance in the UK.

What we did – data sources and research methodology

To meet the multifaceted research objectives and ensure the consistency, rigour and validity of this comprehensive study, four stages of research activity were designed and carried out by researchers from March to September 2014.

Stage one involved collecting and analysing granular–level relational and transactional data directly from alternative finance platforms. Primary data totalling £1 billion in financing volume and one million in micro–transactions (e.g. from one lender to one borrower or from one donor to one project) were collected and then subsequently cleaned, anonymised, aggregated and analysed.

Stage two of the study consisted of designing and distributing model–specific questionnaires in order to survey both funders and fundraisers (i.e. users) of alternative finance in the UK. Surveys were distributed via 25 leading alternative financing platforms/providers as well as through public channels and social media. In total 15,658 users were surveyed.

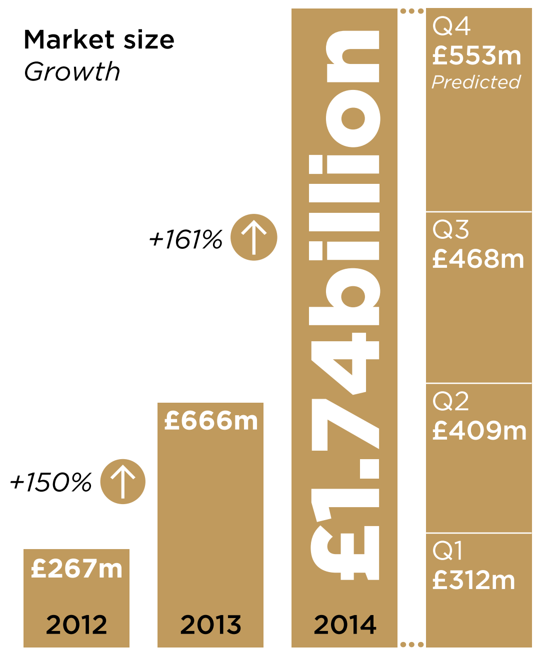
Stage three, which was conducted in association with the ACCA and PwC, included commissioning two external national surveys to understand the level of awareness as well as the nuances of perception about alternative finance among 2,007 consumers and 506 SMEs in the UK.

Finally, in stage four, an industry–wide tracking survey was designed and distributed mainly through the UK crowdfunding association (UKCFA) and P2P Finance Association (P2PFA) to gather latest industrial figures for the year 2014. Actual transactional figures were collected for Q1–Q3 and projected figures were estimated and compiled by alternative finance platforms for the 4th Quarter. These projections were primarily provided by the platforms, but in a minority of cases were calculated by the research team based on the platform's previous growth rate.

1. **Market Overview** – the alternative finance market continues to grow rapidly

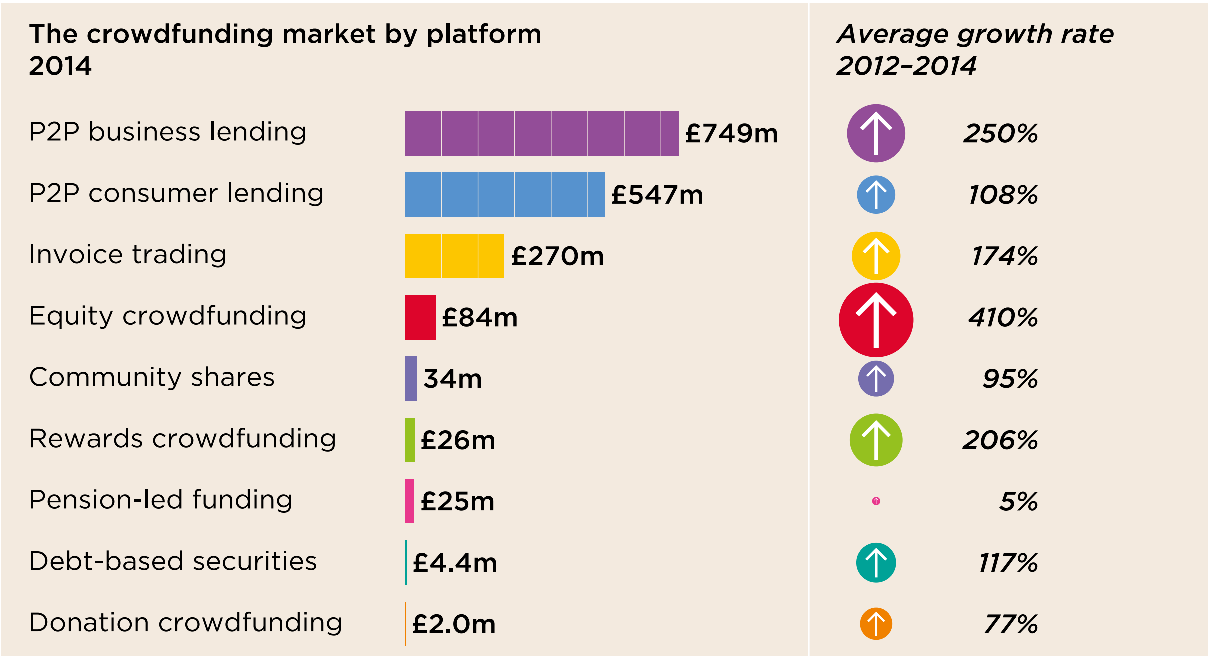
The state of the alternative finance market

In 2014, the total amount raised through various alternative finance models is on track to more than double compared to 2013. In the first three quarters of 2014, alternative finance platforms facilitated loans, investments and donations worth £1.2 billion, with platforms predicting[3] the amount to reach £1.74 billion by the end of the year.



As described earlier, alternative finance is an umbrella term covering a very diverse market containing different models. Looking across the different models of alternative finance, most grew substantially in 2014. On volume of funding facilitated, peer-to-peer (P2P) business lending and P2P consumer lending continue to dominate the market with £749 million and £547 million lent through those models respectively in 2014.

Invoice trading, is expected to grow to a £270 million sector by the end of the year, up by 179 per cent from 2013. Equity-based crowdfunding is on track to grow to £84 million – a 201 per cent increase from 2013, whilst reward and donation-based crowdfunding are expected to reach £24 million and £2 million in the same period. Finally, debt-based securities, pension-led funding and community shares are expected to register £4.4 million, £25 million and £34 million respectively by the end of 2014.



To put industry figures into context, in the first three quarters of 2014, the UK P2P consumer lending platforms had provided consumer credit to more than 62,000 individual borrowers in the UK. By the end of the year, it is expected that the UK alternative finance market will also provide over £1 billion worth of business finance to over 7,000 SMEs,[4] equivalent to 2.4 per cent of cross national bank lending to SMEs based on Bank of England's 2013 baseline figures (Trends in Lending, October 2014).

Market likely to continue its growth in 2015

Looking at growth figures from the past three years, we project that the UK alternative finance market will grow to around £4.4 billion in 2015[5] if current growth remain buoyant.

There are a number of factors that suggest growth will continue apace. Firstly, when asked, current users of UK alternative platforms indicate that they are very likely to use alternative finance models more in the future. More than half of P2P business lenders for example, plan to lend more in the coming year than last year. On the borrower side, 86 per cent say they would be 'likely' or 'very likely' to approach alternative finance platforms first in the future even if a bank were to offer funding on similar terms.

The second factor that indicates significant potential for future growth, is that awareness and usage of alternative finance in the UK is quite low. Forty-two per cent of individuals participating in a national survey were completely unaware of any type of alternative financing activities or platforms. Even more promising for the growth potential of the market is that just 14 per cent of the respondents in the same survey had used an alternative finance platform, leaving significant scope for expansion. Looking at potential fundraisers, there are also indications of the potential for future growth. While 44 per cent of SME's surveyed were familiar with some form of alternative finance, less than 10 per cent had approached an alternative platform to seek finance.

However, alternative finance platforms also have significant challenges ahead, as, despite the positive perceptions their users have of the industry, those who have not used it remain sceptical. Sixty per cent of surveyed consumers said they are ‘unlikely’ or ‘very unlikely’ to begin/continue using alternative finance platforms, citing concerns about perceived risks and a lack of information about those individuals and businesses that they would be funding. There was also a perception that their money would be safer with traditional financial institutions rather than with alternative finance providers.

Differences in size and usage of alternative finance models

The amounts raised and contributed by users differs significantly across models

The diverse nature of the alternative finance industry means that projects and businesses from a wide range of sectors are able to source funding for various purposes. Consequently, there are also significant variations in the usage and amounts raised by people and organisations through the different alternative finance models.

Those raising funds through reward-based crowdfunding are predominantly from the creative and social sectors and raise an average of £3,766 from 77 backers. Equity-based crowdfunding fundraisers come from a diverse range of sectors, from high-tech and healthcare to consumer products, and raise a much larger average amount of £199,095 from 125 investors. In invoice trading, the average invoice value is £56,075 and funded mostly by institutional investors and high net-worth individuals. P2P business borrowers tended to be from the manufacturing, professional business services, construction or retail sectors and on average borrowed £73,222 from 796 lenders. The average amount of funding secured by those using pension-led finance was £70,257.

	Average amount raised	Average number of funders
P2P Consumer Lending	£5,471	201
P2P Business Lending	£73,222	796
Equity Crowdfunding	£199,095	125
Rewards Crowdfunding	£3,766	77
Donation Crowdfunding	£6,102	55
Invoice Trading	£56,075	7
Pension-led Funding	£70,257	N/A
Debt-based Securities	£730,000	587
Community Shares	£174,286	474

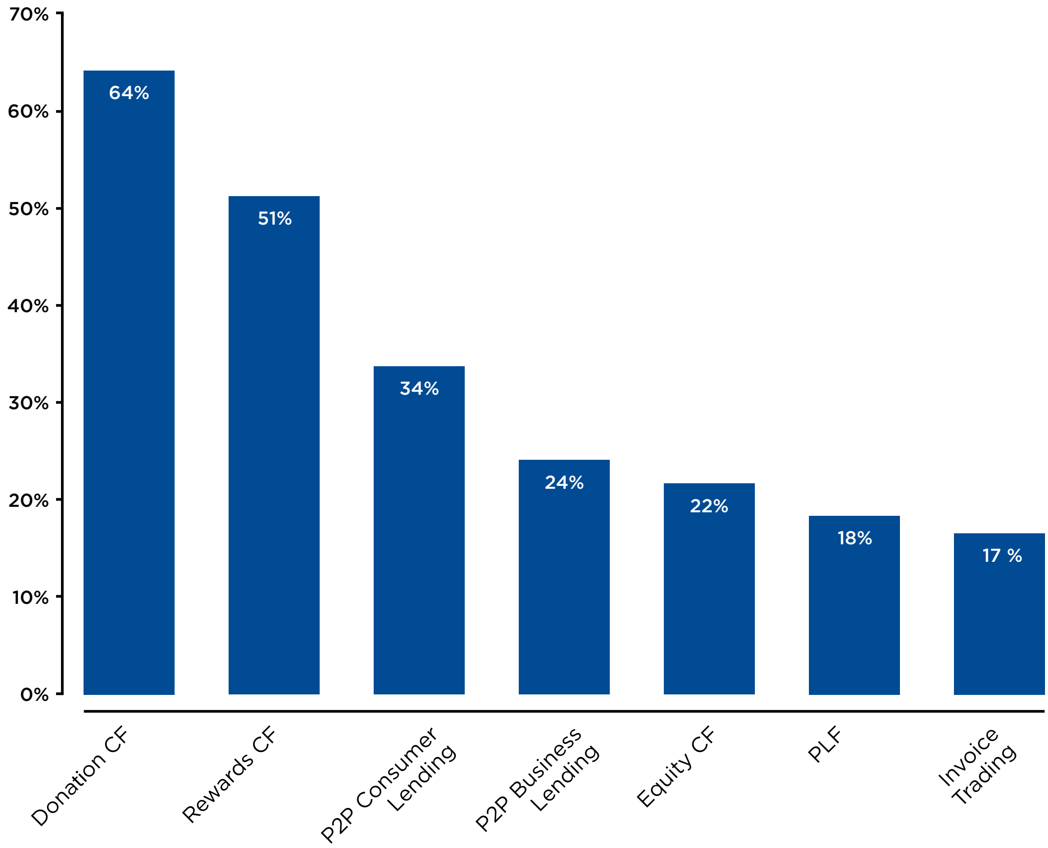
The amounts of money being lent or donated by individual funders through the different alternative finance models varied considerably too. Our findings show that 66 per cent of equity-crowdfunding funders, 72 per cent of P2P consumer lenders and 84 per cent of P2P business lenders respectively had put more than £1,000 through the platforms that they used. In contrast, just 3 per cent of funders on donation or reward-based crowdfunding platforms had pledged the same amount or more. In a similar vein, when asked about what the money they used to fund would have been used for otherwise, P2P lenders and equity investors had pretty even splits between savings and investment. In contrast, the majority of reward and donation-based crowdfunding backers stated the money would have been used for day-to-day spending or charitable giving.

Users of alternative finance are predominantly men, but women are the majority for reward and donation–based crowdfunding

It is evident that alternative finance is primarily utilised by men. Looking at those securing funds through P2P business lending and equity–based crowdfunding, around three–quarters of those who successfully raised finance were men.[6] This suggests alternative finance may facilitate the same gendered patterns of funding as seen in traditional finance models.[7] However, this is not the case for all types of alternative finance. Female fundraisers made up 51 per cent and 64 per cent of the survey respondents for reward and donation–based crowdfunding respectively. Again, these findings are in line to those found in elsewhere, that women are better represented in social enterprises than in mainstream businesses.[8]

The gender trends for funders follow a similar pattern. Just 14 per cent of equity crowdfunding investors and 17 per cent of P2P business lenders surveyed were women. While these figures are low, they compare favourably to other areas such as the male–dominated business angel population[9] or financial asset ownership by gender.[10]

Figure 1: **Percentage of alternative finance fundraisers that were women by model**



Users of alternative finance are well represented in all age groups

Users of alternative finance tend to be in the older age brackets. Almost three-quarters of all users surveyed were 45 or older, with almost a quarter over 65 years old. Conversely, funders of reward, donation and in particular equity-based crowdfunding tend to be younger than those using other models. For most models funders tended to be older than fundraisers.

Figure 2: **Age of funders across the different alternative finance models**

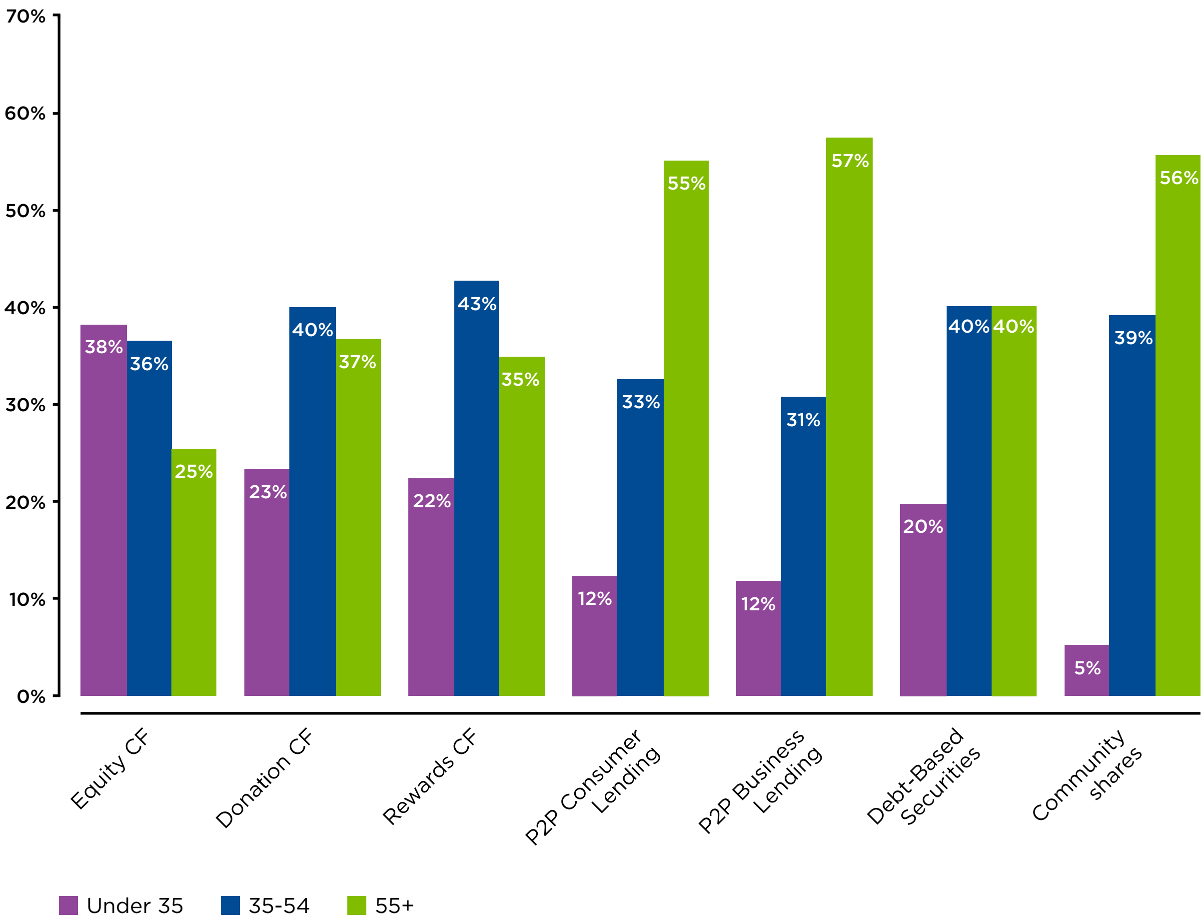
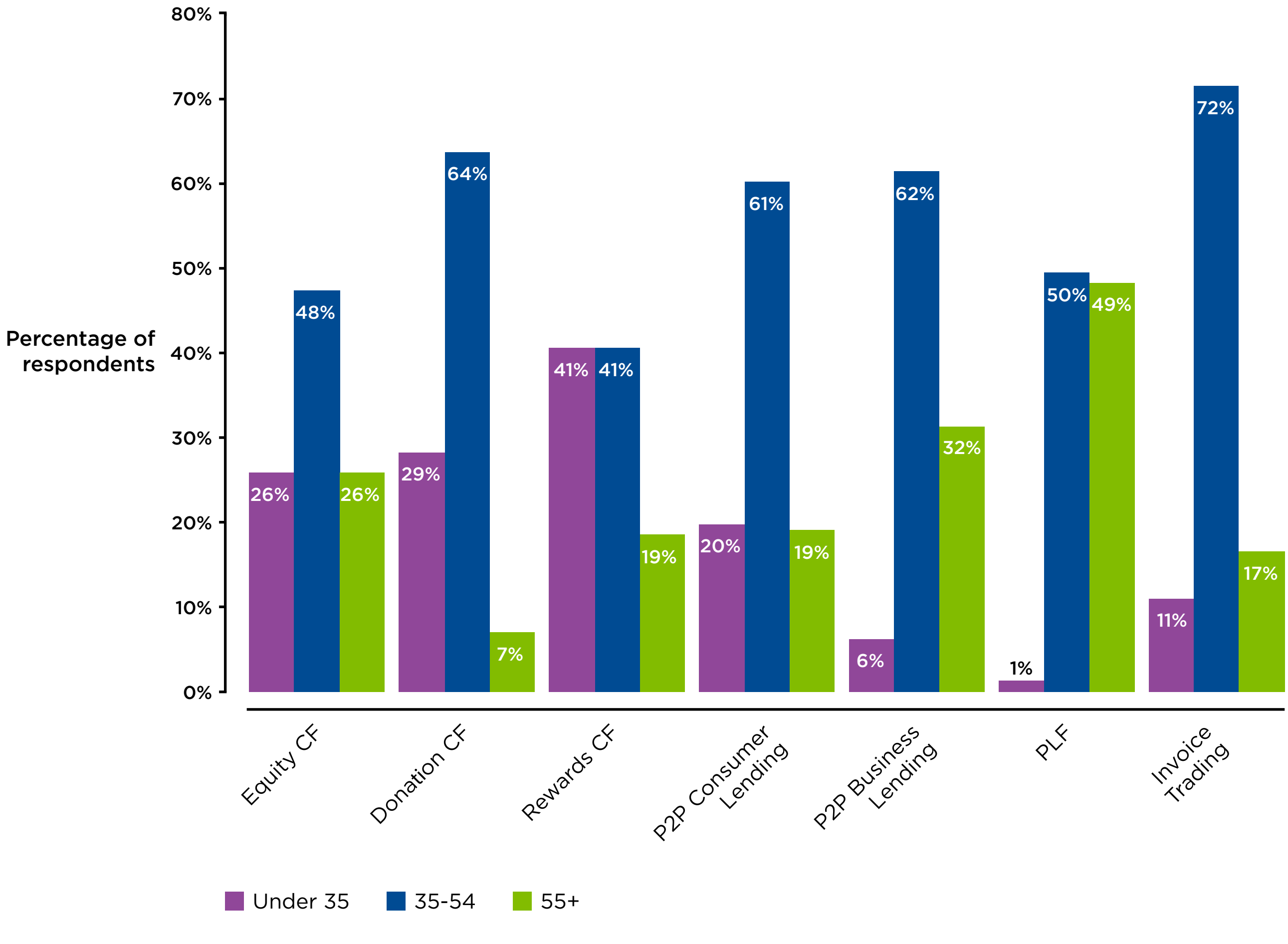


Figure 3: **Fundraiser age across the different alternative finance models**



The geography of alternative finance – London and the South East the most active regions

The funder and fundraisers of alternative finance came from all corners of the UK. Relative to population size we see that usage of alternative finance closely follows the population distribution.[11] Variations from this, are that slightly more individuals and businesses in the South East and South West use alternative finance platforms and slightly fewer in the East of England.

Looking at specific models and comparing the distribution of funders and fundraisers, we see that with some exceptions, the geographical distribution of funders closely mirrors the distribution of fundraisers. A notable exception was P2P consumer lending, where London and the South East had more lenders than borrowers, suggesting an outflow of money from these regions. The distribution of equity-based crowdfunding users illustrated that the South East had more investors than fundrasiers while the opposite is true for London. When it comes to reward-based crowdfunding, London also had more fundraisers than funders.

Figure 4: **Funder and fundraiser location by region – P2P Consumer Lending**

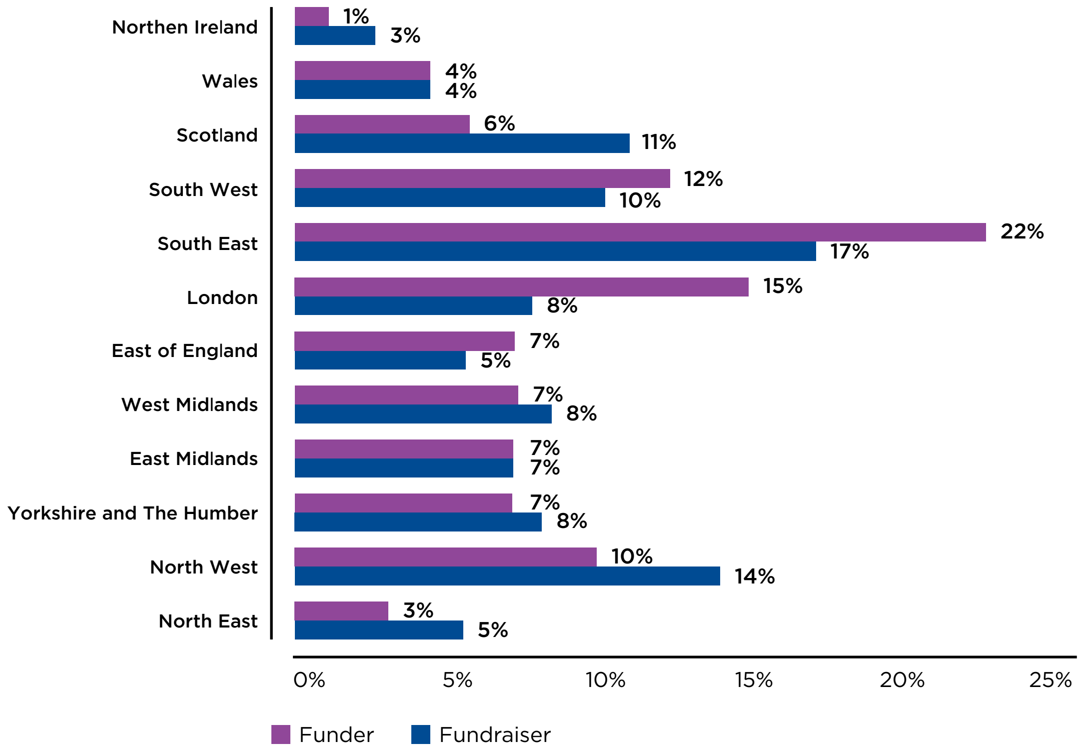


Figure 5: **Funder and fundraiser location by region – Equity-based Crowdfunding**

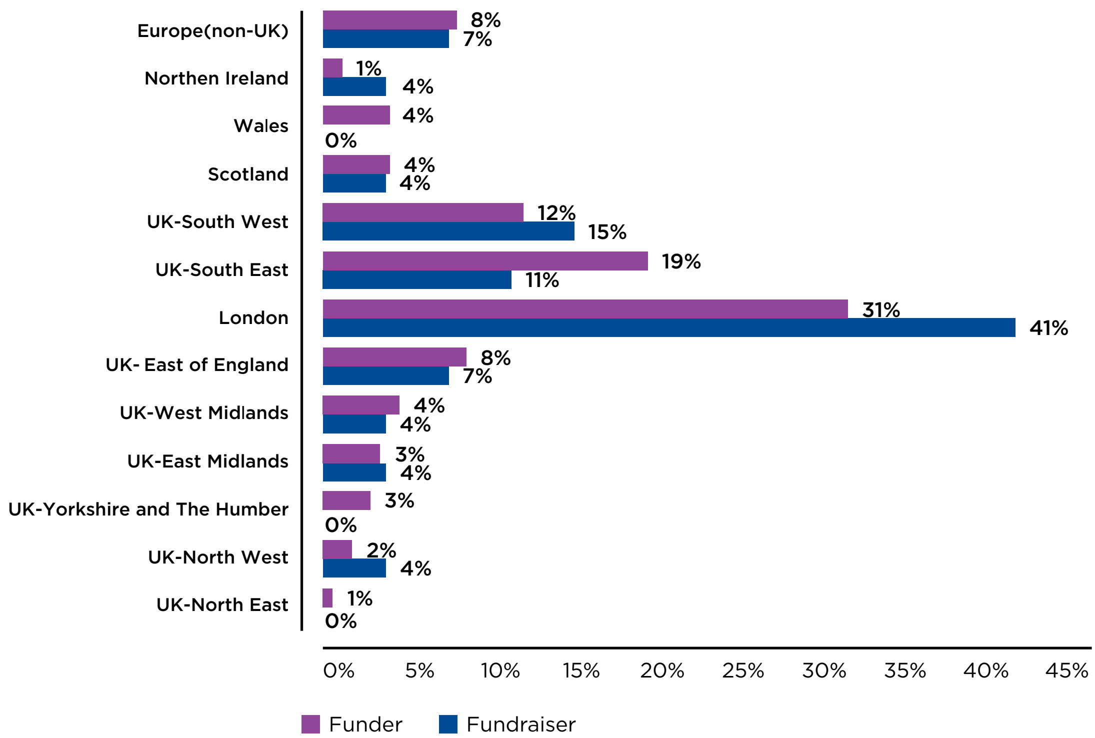
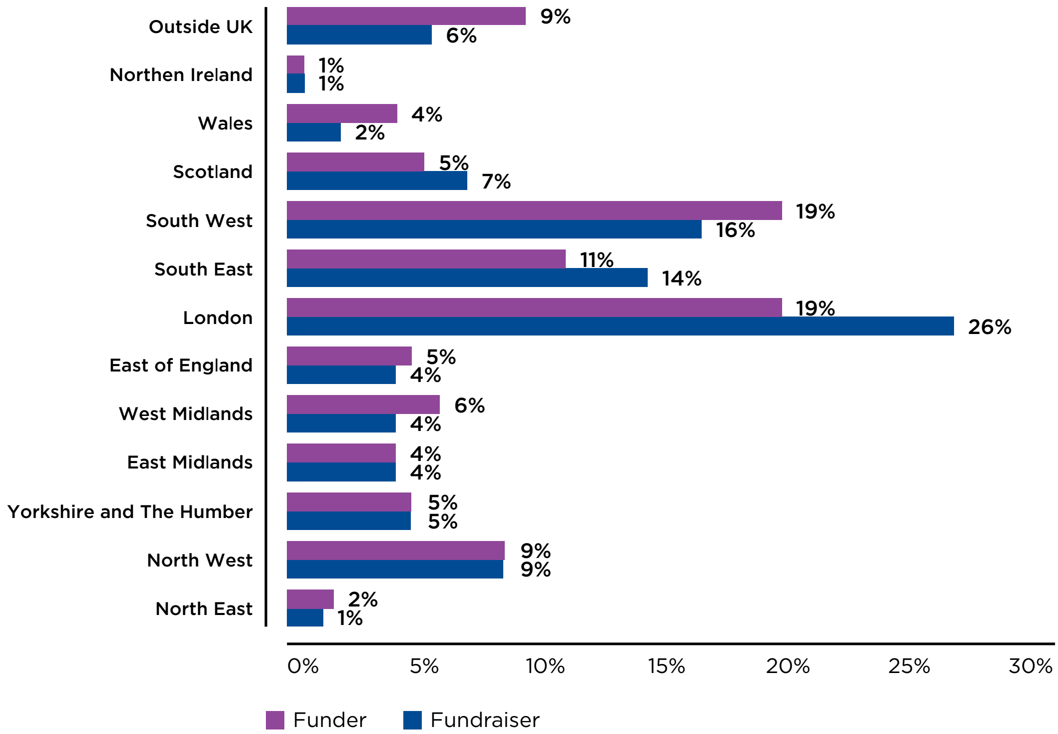


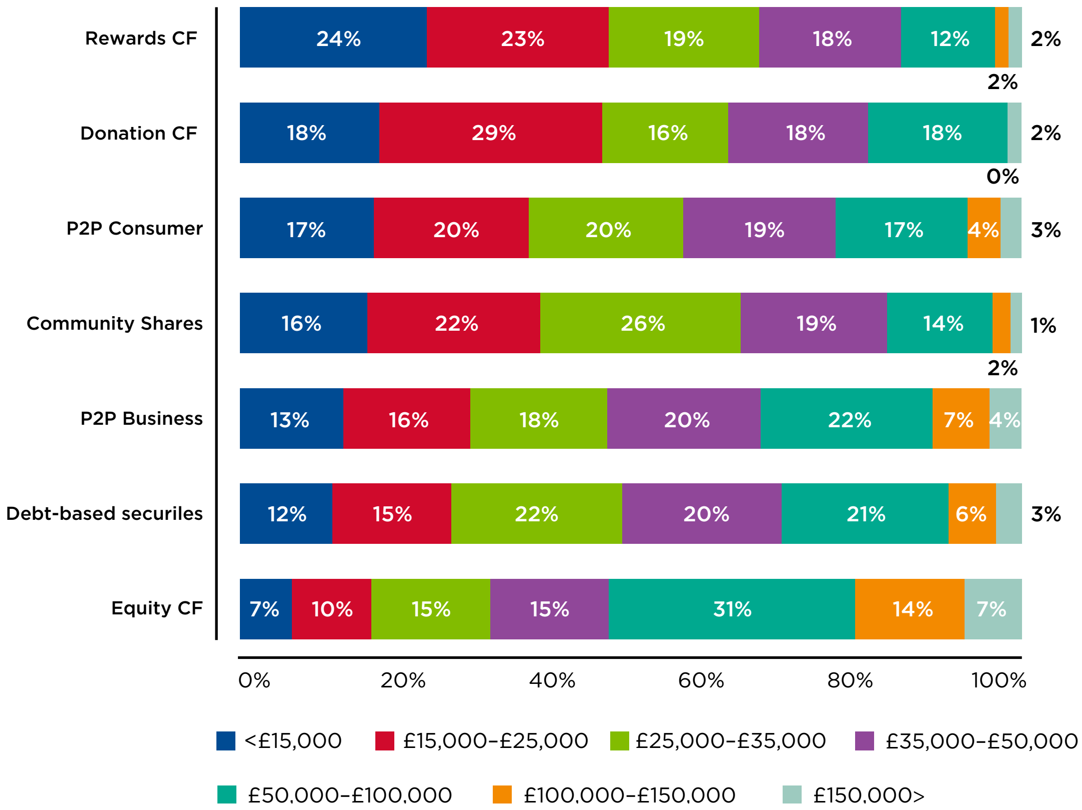
Figure 6: **Funder and Fundraiser Location by Region – Reward-based Crowdfunding**



Significant differences in users' income levels across different alternative finance models

Looking across the different alternative finance models, we see that the income levels of users differ quite noticeably. Those funding through debt-based securities, P2P business lending and in particular equity-based crowdfunding have the highest incomes. Fifty-two per cent of those investing through equity-based crowdfunding have an annual income of more than £50,000 with 21 per cent earning over £100,000. At the other end of the spectrum, those backing projects through reward and donation-based crowdfunding had the lowest incomes. In both models, 47 per cent of funders earned less than £25,000 per annum.

Figure 7: **Annual income of funders**



Different motivations driving usage of alternative finance

The motives behind fundraisers turning to alternative sources of finance also vary depending on the model. Those who fundraised through donation and reward-based crowdfunding valued most having more control over their projects. In contrast, P2P business lending borrowers and entrepreneurs that had fundraised via equity-based crowdfunding valued the speed at which they could access funding and how easy the platform was to use. For P2P consumer borrowers the primary motive was securing a more favourable interest rate as well as a higher quality of customer service. Those trading invoices through alternative finance platforms did so largely to source working capital; whilst those utilising pension-led finance valued the ability to invest their own pension into their businesses.

In a similar vein, the motivations for funding also differed significantly across the industry. Those in P2P lending and equity-based crowdfunding were primarily driven by the prospect of financial returns with less concern for backing local businesses or supporting social causes. In contrast those in reward and donation-based crowdfunding were highly motivated by fundraisers' ideas and the potential to make a positive difference with their money. For instance, the prospect of obtaining financial return was ‘important’ or ‘very important’ to 82 per cent of P2P business lenders and to 96 per cent of investors in equity-based crowdfunding, whereas this was only ‘important’ or ‘very important’ to 24 per cent of people who bought community shares. Survey responses from users of donation-based crowdfunding highlight how only 22 per cent of people have funded one or more projects that they would benefit from themselves, whereas 46 per cent have funded projects that others in or outside their local area could use.

The socio-economic impact of alternative finance

By the end of 2014, it is expected that the UK alternative finance market will have provided working, growth and expansion capital to an estimated 7,180 SMEs as well as crucial funding for hundreds of community and voluntary organisations across the country. By the end of the year, over 80,000 people will have acquired personal loans from P2P consumer lending platforms, of which many are sole-traders borrowing money for business purposes.[12]

The importance of the alternative finance market was also highlighted in the surveys of users of alternative finance platforms, where many fundraisers stated that they would have struggled to source funds otherwise. This is particularly true in donation-based crowdfunding where 64 per cent of those who raised money say it is ‘unlikely’ or ‘very unlikely’ they would have been able to access the funds they need if they could not have turned to alternative finance. Fifty-three per cent of those using reward-based crowdfunding thought it was ‘unlikely’ or ‘very unlikely’ that they would have been able to get funding elsewhere.

Impact on business growth

Since successfully raising finance, individuals and businesses have seen a variety of positive impacts. Three-quarters of those that received funding through reward or equity-based crowdfunding launched a new product or service after funding rounds. Seventy per cent of SME borrowers of P2P business lending have seen their turnover grow since secured funding with 63 per cent of them recording a growth in profit. A third of those who raised funds via P2P business lending or invoice trading, reported that they would have been ‘unlikely’ or ‘very unlikely’ to get funding elsewhere. Seventy-nine per cent of businesses had attempted to get a bank loan before turning to P2P business lending, with only 22 per cent being offered finance.

Increasing philanthropic giving and volunteering

Alternative finance models also facilitate significant giving to good causes predominantly through the reward, community shares and donation-based models as well as to renewable energy ventures through debt-based securities. For donations and reward-based crowdfunding just 23 per cent and 21 per cent stated the money they donated or pledged would otherwise be used for charitable giving, indicating that alternative finance is providing significant additional giving to social good projects. As well as the funds provided, crowdfunding is helping increase volunteering and social action. Our results show that 29 per cent of backers on donation-based crowdfunding platforms had also given advice and feedback to campaigns and 27 per cent had offered to help or volunteer with the project. Correspondingly, 34 per cent of fundraisers have seen an increase in volunteerism after they fundraised through donation-based crowdfunding.

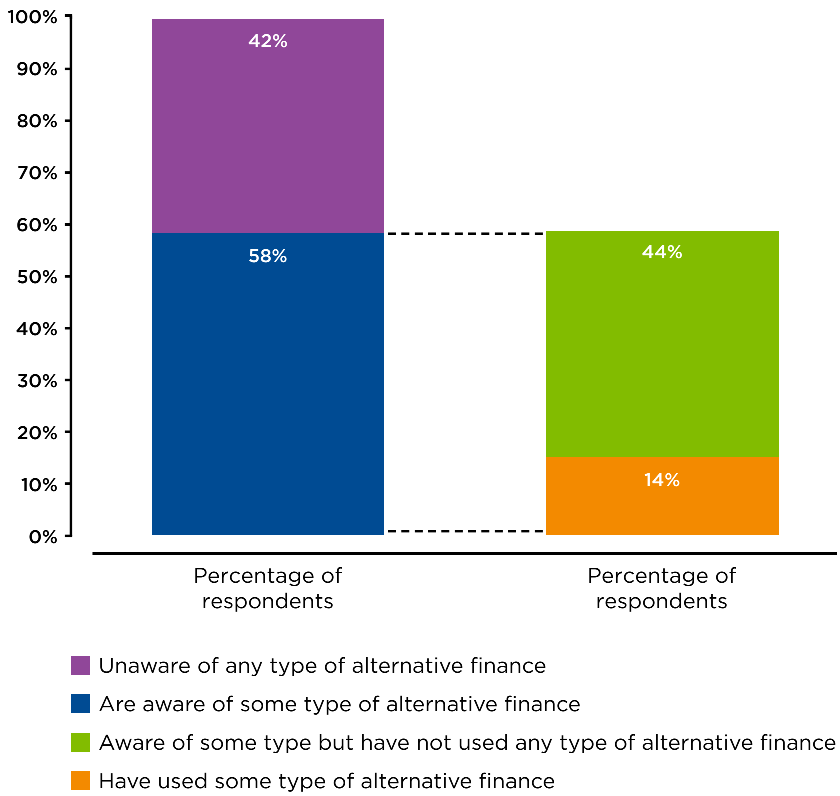
2. Awareness and Perceptions of Alternative Finance

Alternative finance is a relatively new phenomenon, with most providers less than a decade old. Yet its rapid growth has meant it is already providing significant amounts of capital to UK individuals and businesses. To examine whether this growth is driven by niche pockets of UK society, or if it is beginning to gain prominence more widely, we commissioned two national surveys to gauge awareness and usage amongst the consumer and business populations.

Consumer awareness of alternative finance

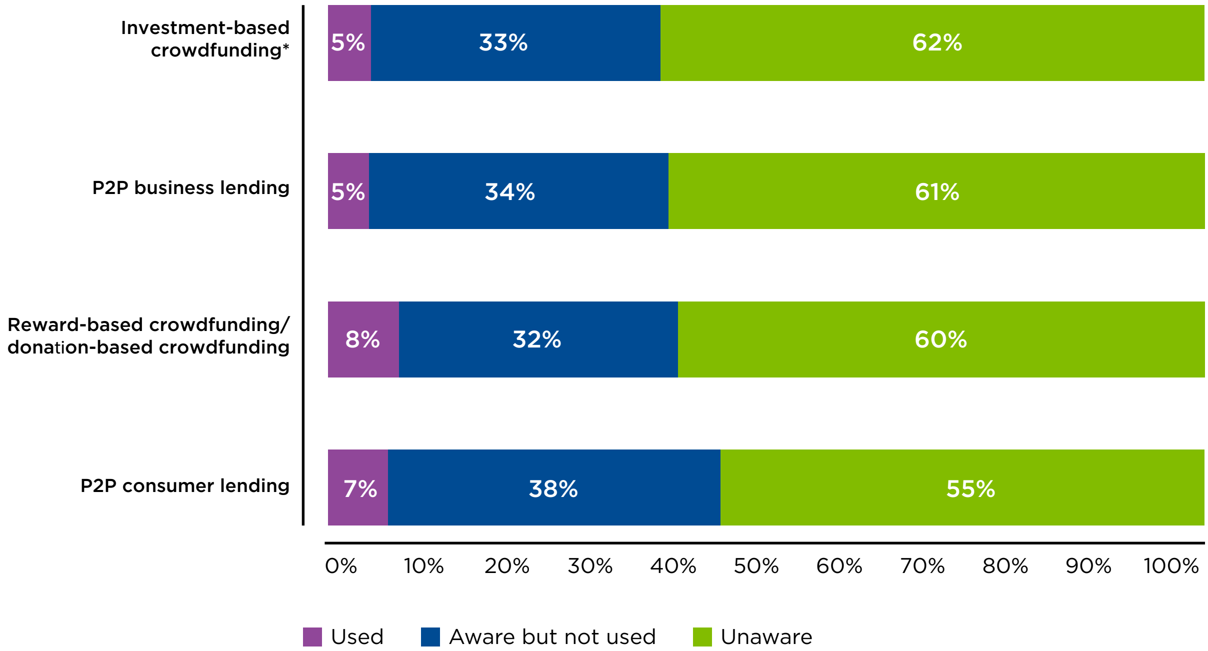
Awareness of some type of alternative finance among the over 2,000 individuals surveyed was relatively high. Fifty-eight per cent of those asked were aware of at least one type of alternative finance presented to them with 42 per cent completely unaware of any type. Yet usage of alternative finance remains quite low. Just 14 per cent of those surveyed (less than a quarter of those aware of alternative finance) had used any type.

Figure 8: **Awareness of alternative finance**



Looking across the different alternative finance models there is relatively little variation in the levels of awareness, yet it is not necessarily the same people who are aware of all models. Just 16 per cent of the total (or around a quarter of those aware of any model) were aware of all types of alternative finance presented to them. Fewer than 2 per cent had used all 4 types. There was slightly higher usage of donation or reward-based crowdfunding. P2P consumer lending also registered a higher level of awareness and usage.

Figure 9: **Awareness of different types of alternative finance**



* Equity-based crowdfunding and debt-based securities

When asked about future plans, 60 per cent of all respondents believed they were 'unlikely' or 'very unlikley' to begin/continue to using an alternative finance platform in the near future. These results were similar across the different alternative finance models. Of the 1,150+ respondents that were aware of alternative finance, flexibility (53 per cent) and speed (51 per cent) were the two features respondents associated most with alternative finance. However, 56 per cent also thought that alternative finance was risky.

Of the 875 respondents who were aware of alternative finance but had not used it, when asked what would make them more likely to invest/save through alternative finance platforms, the three most important factors were: if they could earn better returns (72 per cent), if it could give them a better sense of transparency and understanding of where their money goes (62 per cent) and if they could receive better guidance on how to use the different platforms (62 per cent). For those who were unaware, gaining better returns and having their money covered by a guarantee would encourage them to lend or invest.

Thirty–one per cent of all respondents think that alternative finance platforms are more risky than traditional finance providers and 23 per cent consider them to be less secure. However, alternative finance platforms fared much better than traditional finance providers across a number of other characteristics. Twenty–eight per cent of all respondents think that alternative finance platforms are more socially responsible, 25 per cent believe they are more flexible and 21 per cent believe they are easier to use.

Whilst the majority of respondents said they would not consider P2P or crowdfunded activities for other services or products, 18 per cent said that they would consider it for exchanging currency, 11 per cent for insurance and 10 per cent for mortgages – highlighting the potential for other P2P and crowdfunded activities.

SME familiarity of alternative finance

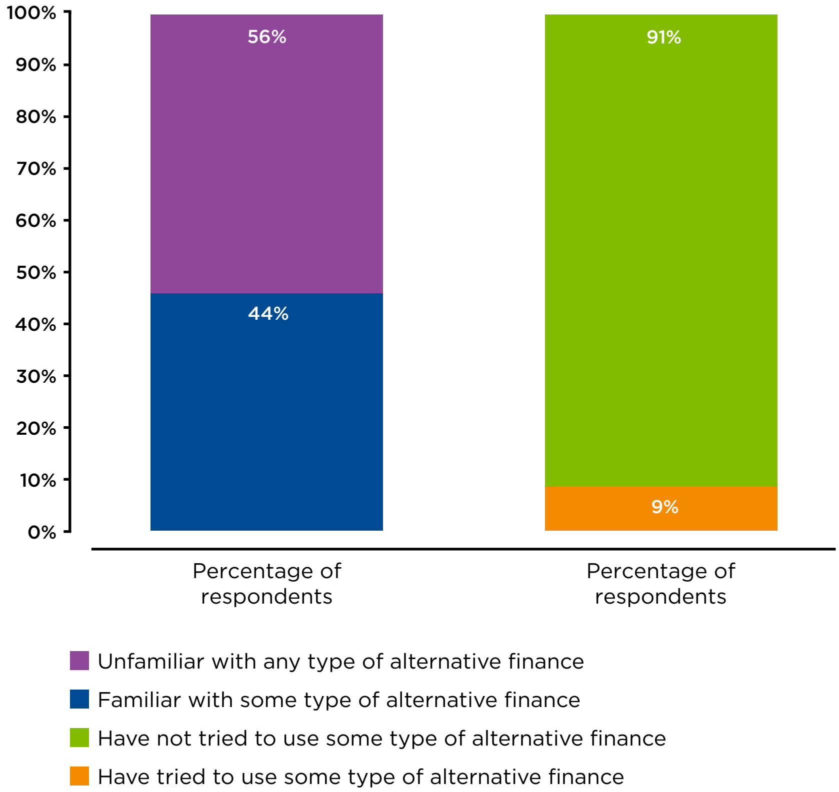
In addition to individuals, the other significant users of alternative finance platforms are SMEs. Specific alternative finance models such as P2P business lending, invoice trading, equity–based crowdfunding and pension–led funding deal almost exclusively with SMEs. In addition to this, reward–based crowdfunding and community shares are becoming increasingly important sources of funding for start–ups and community interest groups. In order to gauge the level of awareness and usage of alternative finance among the SME community, a national SME alternative finance survey was commissioned. The sample of 506 SMEs were gathered to be representative of the national SME population in terms of geographical spread, industry, size and turnover bands, with the exception of over–sampling businesses that have employees and under–sampled sole traders who would otherwise have dominated the sample. Wherever the sample did not accurately represent the SME population weights were applied in the analysis.

Many SMEs are familiar with alternative finance platforms but few have approached them

The SMEs surveyed were presented with descriptions of the different forms of alternative finance including the names of some of the most prominent alternative finance platforms in the market. Respondents were then asked about their familiarity with, and usage of, the respective models.

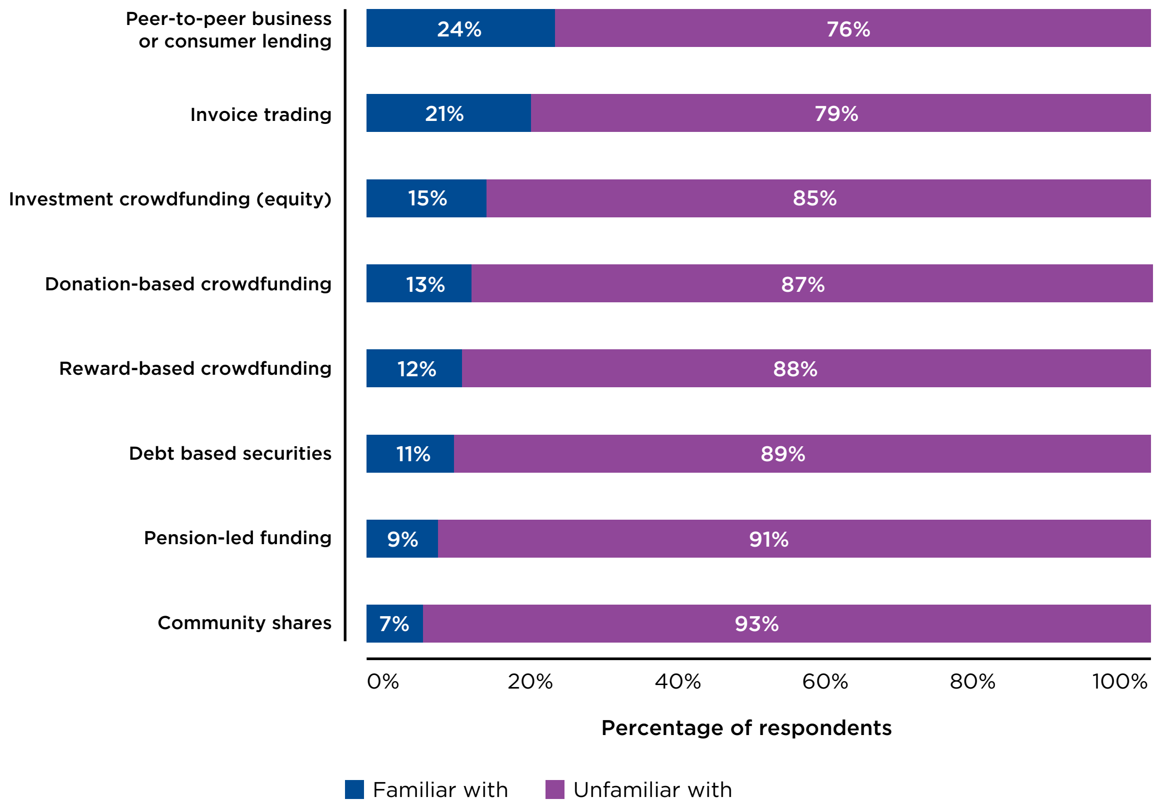
Forty–four per cent of those surveyed were familiar with at least one of the forms of alternative finance presented to them with 56 per cent unfamiliar with any. However, few had attempted to raise funds via an alternative finance platform. Just 9 per cent of those surveyed had approached an alternative finance provider. Those who were aware of, but had not used an alternative finance platform cited not needing external finance (77 per cent), not having a problem accessing finance from elsewhere (14 per cent) and not having enough knowledge about alternative finance platforms (9 per cent) as the reasons they had not used them.

Figure 10: **SME familiarity with alternative finance**



Across the different alternative finance models, SMEs were most familiar with P2P lending (almost a quarter for P2P consumer or business lending). While invoice trading also fared well (21 per cent), familiarity with community shares (7 per cent), pension–led funding (9 per cent) and debt–based securities (11 per cent) was noticeably less.

Figure 11: **SME familiarity with different models**

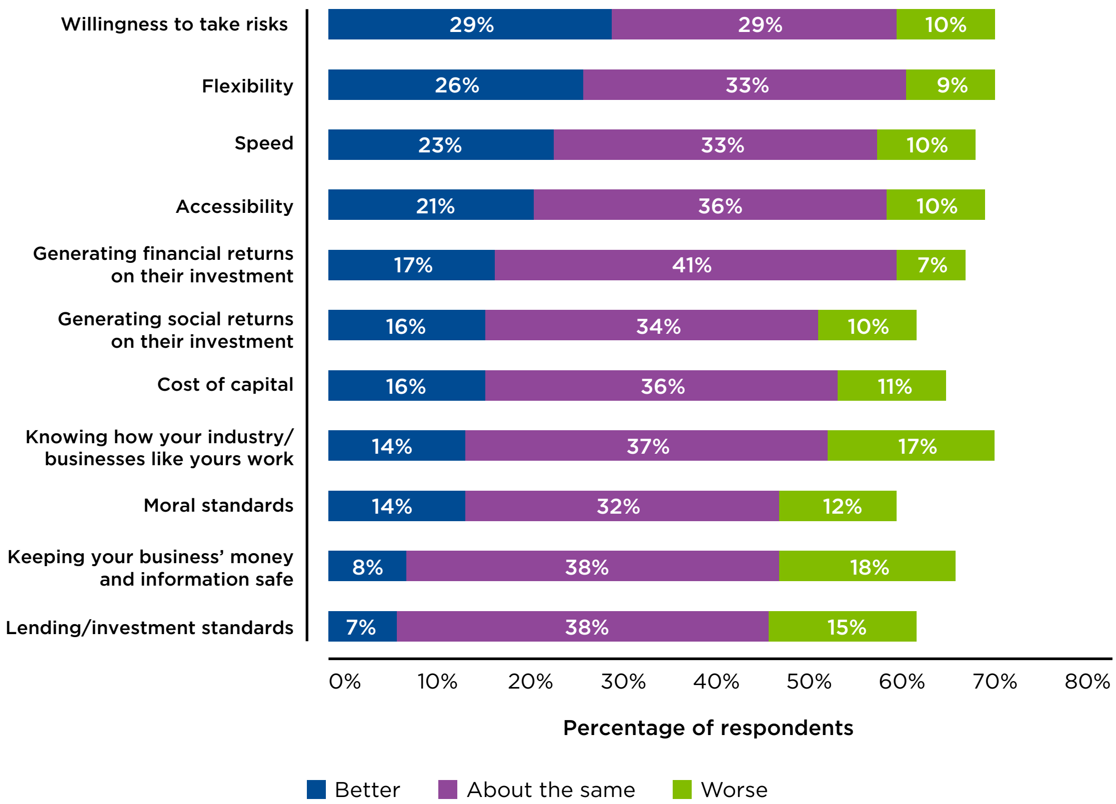


When asked which forms of alternative finance they would like to learn more about, reward–based crowdfunding was the most popular response with 11 per cent of those aware of the model interested in finding out more about it. To gain a better understanding of the channels through which SMEs are becoming aware of this type of funding, they were asked to identify from where they had received information about alternative finance. The most cited source of information was the media (48 per cent) with colleagues or professional networks (35 per cent) and professional advisors (21 per cent) also ranking highly. When comparing those who are, or plan to use alternative finance, to those not planning to use it, the former disproportionately became aware through channels such as online intermediaries and established finance providers, indicating that these are more effective or trusted channels.

Cost of finance and regulation are important factors for SMEs considering alternative finance

SMEs that were aware of alternative finance were presented with a number of hypothetical statements on what would make them more or less likely to use alternative finance platforms. The ones that were cited most as factors that would increase the likelihood of them using alternative finance were if they offered cheaper funding (46 per cent), if they were regulated (46 per cent) and if they were faster and less complex than traditional funders (40 per cent). The factors that would make them less likely were if they believed most platforms would not be around in 10 years (37 per cent) or if platforms had a reputation of funding applicants regardless of quality (32 per cent).

Figure 12: **UK alternative finance providers compared to the finance providers your business has worked with so far**



SMEs' perceptions of the UK alternative finance platforms in comparison to that of traditional funders were also explored in the survey. Alternative finance platforms were thought to be better than traditional providers when it came to their willingness to take risks (29 per cent of respondents), flexibility (26 per cent) and speed (23 per cent). They fared worse however when it came to whether they understood an SMEs' specific industry or business (17 per cent of respondents) and keeping money and information safe (18 per cent of respondents).

Of those SMEs planning to raise funds in the coming 12 months (27 per cent), slightly more (14 per cent) indicated that they would approach an alternative finance provider than those who said they would not (13 per cent). SME respondents would also consider using P2P or crowdsourced services for mortgages (13 per cent), insurance policies (12 per cent)or electronic invoicing (10 per cent) but were less willing to use such models for credit ratings (4 per cent) or currency exchange (5 per cent).

3. Size, growth and trends of different alternative finance models

P2P BUSINESS LENDING

£73,222

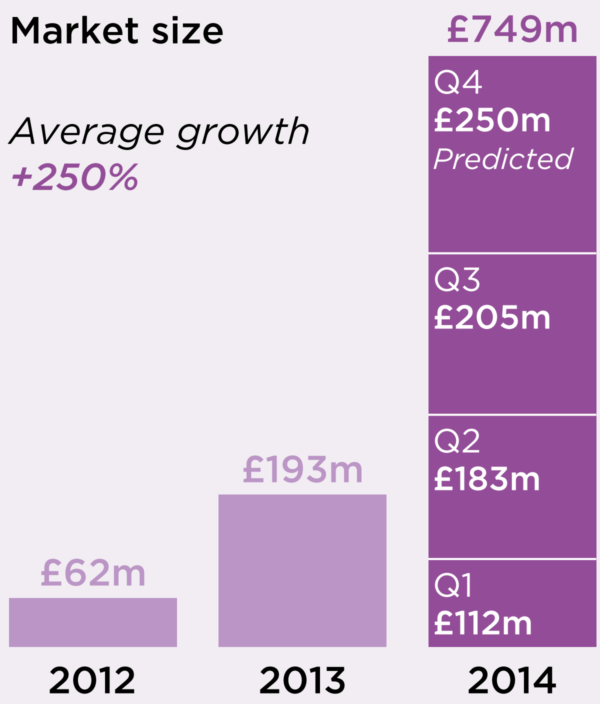
Average amount borrowed

33% of borrowers believed they would been unlikely to get funds elsewhere

On average it takes **796** micro-transactions from individual lenders to fund one loan

63% of business saw a growth in profit with **53%** seeing an increase in employment since securing funding

83% of lenders were men



The market has more than tripled in size since 2013

P2P business lending facilitates secured or non-secured business loans between individual lenders to mostly SMEs.

Over the last two years P2P business lending has experienced an impressive growth, with a 288 per cent increase from the £193 million in 2013 to a predicted £749 million in 2014. This growth can be largely attributed to the strong expansion of existing industrial players as well as the recent proliferation of this business model underpinned with the emergence of many new and diverse entrants into the market.

WHAT IS P2P BUSINESS LENDING?

Debt-based transactions between individuals and existing businesses – which are mostly SMEs with many individual lenders contributing to any one loan.

Lenders are creating large portfolios as lending is split among hundreds of borrowers

Analysis of primary transactional data from P2P business lending platforms worth £309 million covering over 3,000 loans and 3.18 million transactions from 2011–2013 illustrates that the average business interest rate paid is around 8.8 per cent. The average P2P business lending loan size is £73,222 and it takes approximately 796 transactions from individual lenders to the business borrower to fund a listed loan, with the average loan being just £91.95. P2P business lenders have, on average, a sizeable lending portfolio of £8,137 spread over a median of 52 business loans.

Manufacturing businesses using P2P borrowing most

Of 3,112 P2P business loans analysed, the top three most funded industrial sectors are manufacturing, professional and business services and retail.

P2P business borrowers by sector

Industrial Sectors	Count	% of total P2P business loans
Manufacturing	709	23%
Professional and Business Services	431	14%
Retail	424	14%
Construction	347	11%
Information and Communication	276	9%
Leisure & Hospitality	276	9%
Healthcare	219	7%
Wholesale	203	7%
Finance	124	4%
Transportation	103	3%

P2P lending for real estate finance also emerging

One of the fastest-growing markets within the P2P business lending model is secured lending for real estate mortgages and developments. For this particular section of the market, which was analysed separately, we found that the average business loan amount is considerable higher at £662,425 with an average loan term of 10 months.

In addition to looking at transactional data from platforms, we also surveyed 1,771 lenders and 323 business borrowers who have used P2P business lending, to attain further insights on their behaviour and views on alternative finance. The survey results mirror the findings from the platform data with 30 per cent having lent between £1,000 and £5,000 and 26 per cent having lent between £5,000 and £20,000. It is however interesting to note that almost 23 per cent have provided loans in the range from £20,000 to £100,000. Also corresponding to the findings from transactional data from platforms, our survey demonstrates that P2P business lenders do actively diversify their lending portfolios. One in four P2P business lenders has lent to more than 100 businesses, and 45 per cent have lent to between 20 and 100 businesses.

Lenders tend to be older males using money set aside for savings or investment

P2P business lending is primarily used by men who are 55 or older. Eighty–three per cent of surveyed lenders, and 74 per cent of borrowers were men. Fifty–seven per cent of lenders were 55 or older. They were also quite wealthy with a third having an annual income in excess of £50,000.

The majority of P2P business lenders learned about this alternative finance model through online advertising (28 per cent) and online intermediaries such as MoneySupermarket (25 per cent). When budgeting for lending through P2P business lending platforms, it is clear that the money primarily comes from lenders' investment budget (54 per cent) or their savings (45 per cent). Very few people (less than 2 per cent) have lent money they would otherwise use for day–to–day spending.

Lenders are primarily motivated by the financial return available

The main reason why people use P2P business lending to lend is to make a financial return on investment, with 82 per cent of respondents stating this as very important in their decision. Building on this, many also stated the service that P2P business lending offers, in terms of the ease of lending process (important or very important to 87 per cent), diversifying investment portfolios (important or very important to 88 per cent) and having control over where the lent money is going (important or very important to 81 per cent) were key to their decision to lend.

Unlike the donation and reward–based fundraising, the opportunity to use the P2P business lending model to support a specific sector or industry, supporting friends and family or supporting a social cause was of relatively low importance to the majority of lenders. Furthermore, it is interesting to observe that almost none of the P2P business lenders had personal connections to the businesses they lent to, with 97 per cent saying their first loan was to someone they didn't know.

Registered but inactive lenders concerned by business creditworthiness

We also asked those lenders who have set up accounts with P2P business lending platforms but have yet to make their first loan (5 per cent of all surveyed lenders) what would make them start lending. The key issue ranked important or very important by these potential lenders was uncertainty about the creditworthiness of business seeking loans (73 per cent of respondents). Uncertainty about how the model worked was not one of the more cited factors with 35 per cent saying this was 'important' or 'very important'. Inactive members highlighted more information about businesses seeking loans (13 per cent), greater tax incentives (31 per cent) and more information about risks associated with lending (11 per cent) as three key factors that would make them begin lending. Finally, 58 per cent of the surveyed inactive lenders indicated that they would start lending within the next 12 months.

Borrower seeking growth or working capital and value speed of service

Businesses seeking to borrow via P2P business lending most commonly seek a loan for expansion and/or growth capital (41 per cent) and working capital (34 per cent). SMEs borrowers often choose P2P business lending because the combination of the speed and ease of use of the model, rated important or very important by 94 per cent and 90 per cent of borrowers respectively. 91 per cent of borrowers highlight how they see P2P business lending as an easier way to get funded than traditional channels (e.g. bank) as a key factor in their decision to choose this lending model.

P2P business lending is funding many borrowers who would otherwise struggle

Responses show that borrowers in many instances have unsuccessfully sought funding from more traditional funders such as banks before attempting to borrow via P2P business lending platforms. 79 per cent of borrowers had attempted to get a bank loan before turning to P2P business Lending, with only 22 per cent of borrowers being offered a bank loan. 33 per cent thought it was unlikely or very unlikely that they would have been able to secure funding elsewhere had they not been successful in getting a loan through the P2P business lending platform, whereas 44 per cent of respondents thought they would have been likely or very likely to secure funding from other sources had they not used P2P business lending.

Businesses receiving loans reporting growth in term of job creation and turnover

Most business respondents have experienced positive growth since successfully securing a loan. 71 per cent of borrowers reported growth in turnover, 63 per cent experienced growth in profit with 53 per cent having increased their employment. The majority of the remaining respondents reported that their turnover, profit or employment levels had remained largely the same. Less than 5 per cent reported contraction under any metrics.

Growth of model likely to continue in 2015

The rapid growth of P2P business lending is illustrated not just by the increasing amount of money lent to businesses via the model in recent years, but also by the number of people and businesses who have only just started to use the platforms to lend and borrow. More than 69 per cent of P2P business lenders surveyed have begun using the model in just the last two years with half of these starting since the beginning of 2014. Similar trends exist on the borrower side with 48 per cent of the businesses responding to the survey having first borrowed in 2014 and 40 per cent in 2013.

Looking ahead, the majority of P2P business lenders expect to increase their lending in total and to more businesses, with 53 per cent of them expecting to lend more, and 38 per cent of them expecting to lend about the same. In addition, 65 per cent of lenders expect to lend more should their P2P lending qualify for the Individual Savings Account (ISA) scheme.

Ninety-four per cent of borrowers state that they will be likely or very likely to approach a P2P business lending platform first if they need finance in the future, and a significant 86 per cent would be likely or very likely to approach a P2P Lending platform even if a bank could offer similar terms. Ninety-seven per cent would be likely or very likely to recommend P2P business lending to other business that they know are seeking funding.

Current lenders' support for the P2P business lending model is emphasized by the fact that 59 per cent of lenders are very likely to recommend P2P business lending to others with money to lend, and 42 per cent of them are very likely to recommend P2P business lending to business looking to borrow money.

Newton Farm Foods

Newton Farm Foods is a family-run farm shop and café, frequented by locals and visitors to the village of Newton St. Loe in Somerset. Owner Celia uses produce from their award-winning farm to sell and cook in their café.

Although the main focus for Celia and her husband is farming, they have grown and developed their business from milking, to selling meats, to opening a small shop and café on their farm. Their business 'grew beyond belief', so Celia started looking for funding to extend the space and to include outdoor seating.

Having read our peer-to-peer business lender Funding Circle in the Sunday paper she decided in was an option that could work for her. Newton Farm Foods borrowed £60,000 from 915 people through Funding Circle to do this.

Potterspury Equine Centre

In March 2014, the Walker family borrowed £152,000 through Assetz Capital, a P2P lending platform that specialises in loans to SMEs and property developers, to purchase and develop a 8.5 acre equestrian centre in Potterspury, near Northampton. The project incorporated stables, paddocks and room for horses to exercise, as well as a small shop. Despite having a waiting list for the stables even before it was launched, Potterspury Equine Centre was unable to secure a traditional bank loan. 271 investors backed the project through an auction process, lending between £20–25,000 with expected returns of 12 per cent p/a gross.

Oyster World Games

In May 2014 Oysterworld a computer game development and publishing business based in Treforest, Wales successfully raised £300.000 on the Thincats P2P business lending platform to develop their business. This was a fixed rate auction and filled at 14 per cent by 152 lenders. Oysterworld had originally sought a bank loan but couldn't get it due to an existing charge over some of the company's assets even though this charge was due to time expire very shortly, which led the business to turn to P2P business lending.

Figure 13: **How much in total have you lent via this P2P business lending platform?**

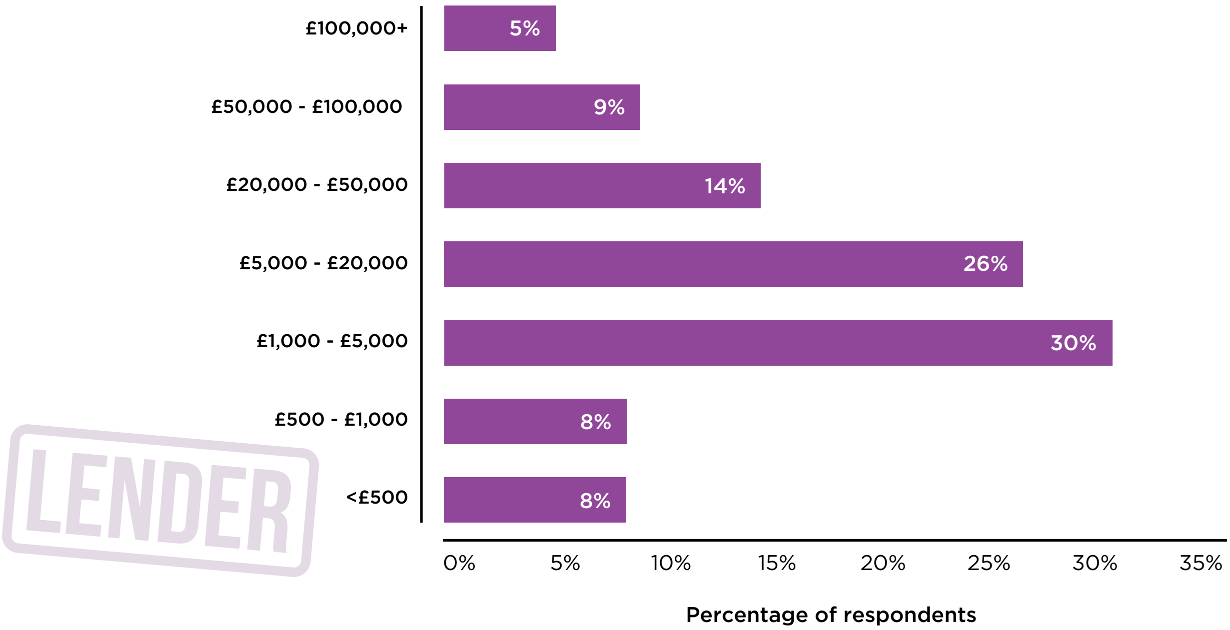


Figure 14: **When you budget for lending through P2P business lending, where does the money come from?**

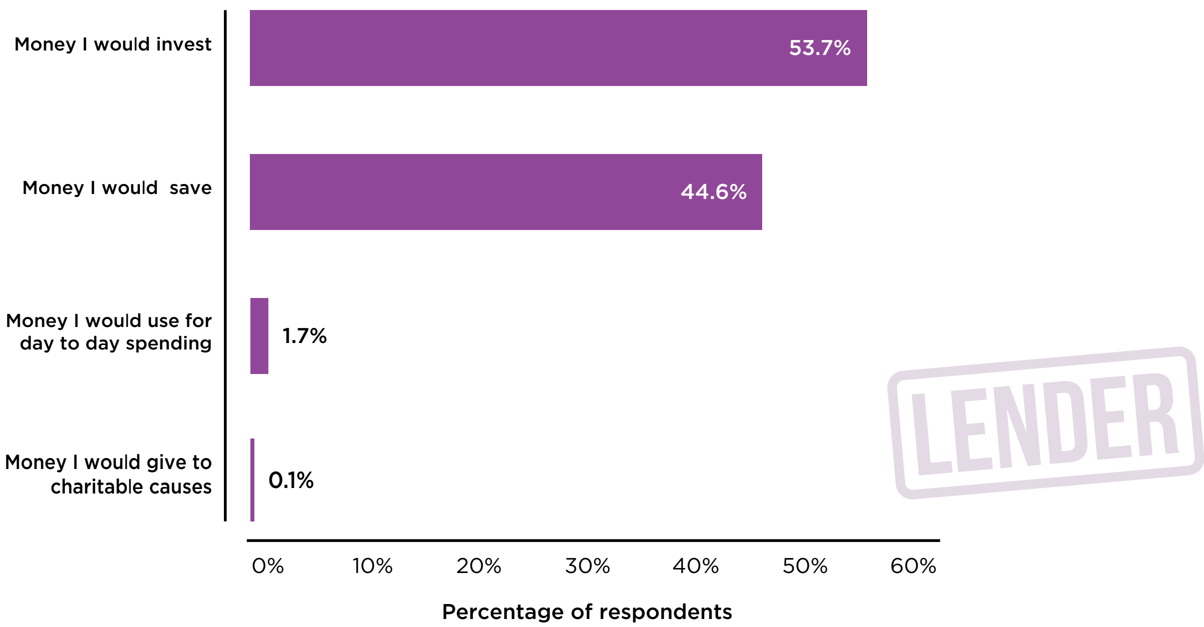


Figure 15: **How important are the following when making decisions about investing through P2P business lending rather than investing your money elsewhere?**

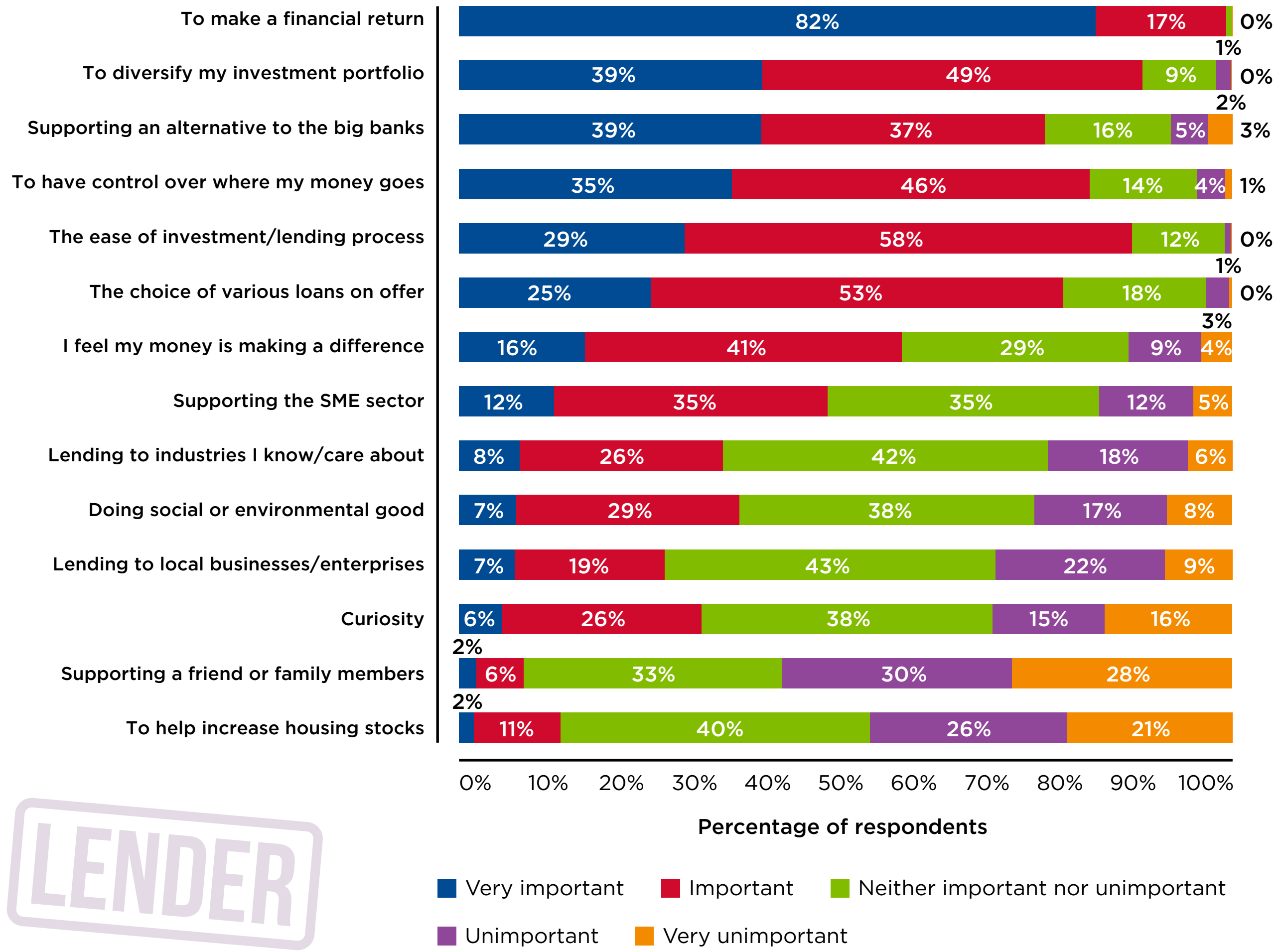


Figure 16: **When choosing between lending opportunities, how important are the following in positively influencing your lending decision?**

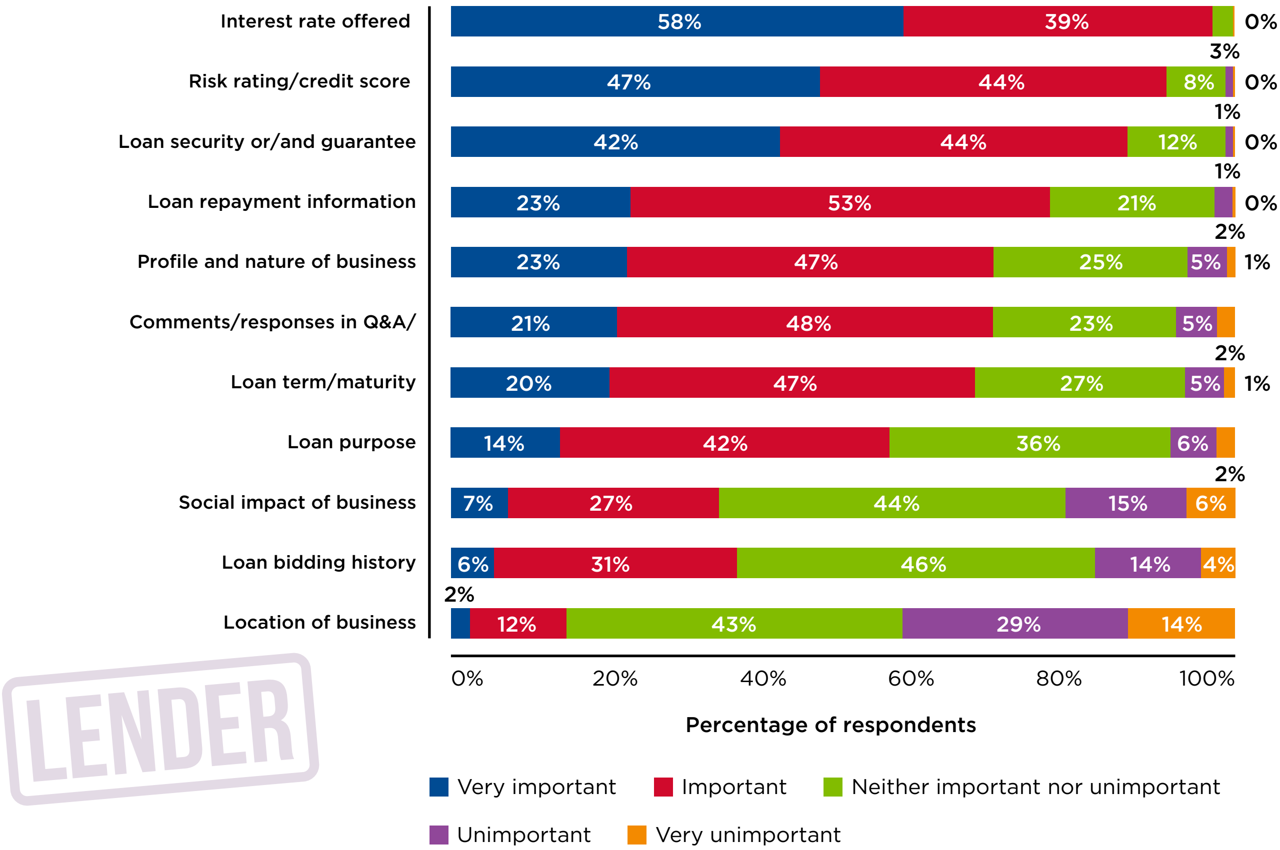


Figure 17: **How much do you plan to lend via the P2P business lending platform in the coming 12 months?**

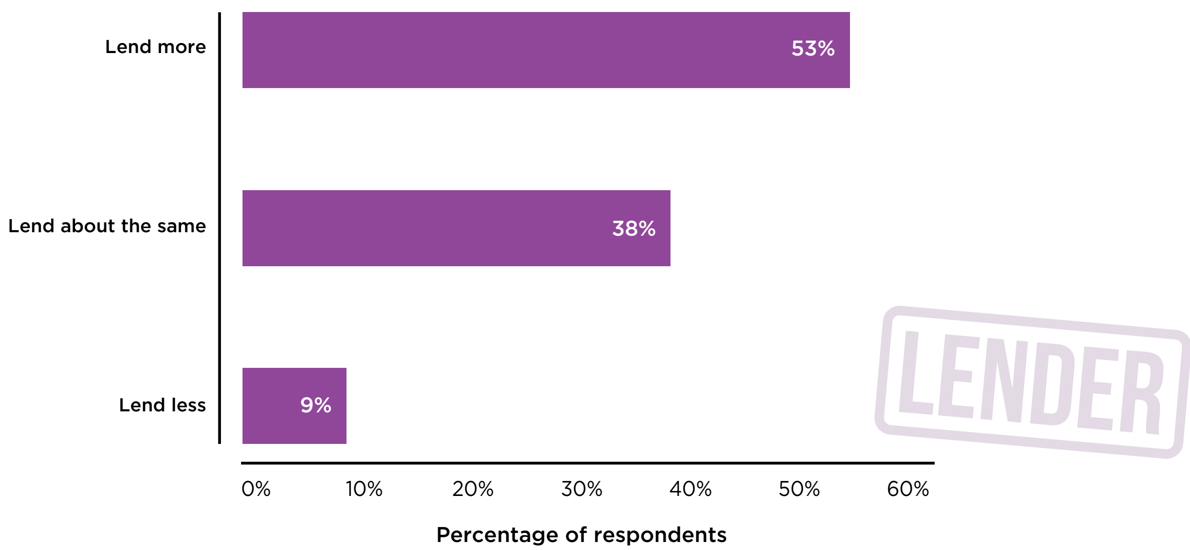


Figure 18: **Did you try to fundraise from the following sources before approaching P2P business lending and did you receive an offer of funding from them?**

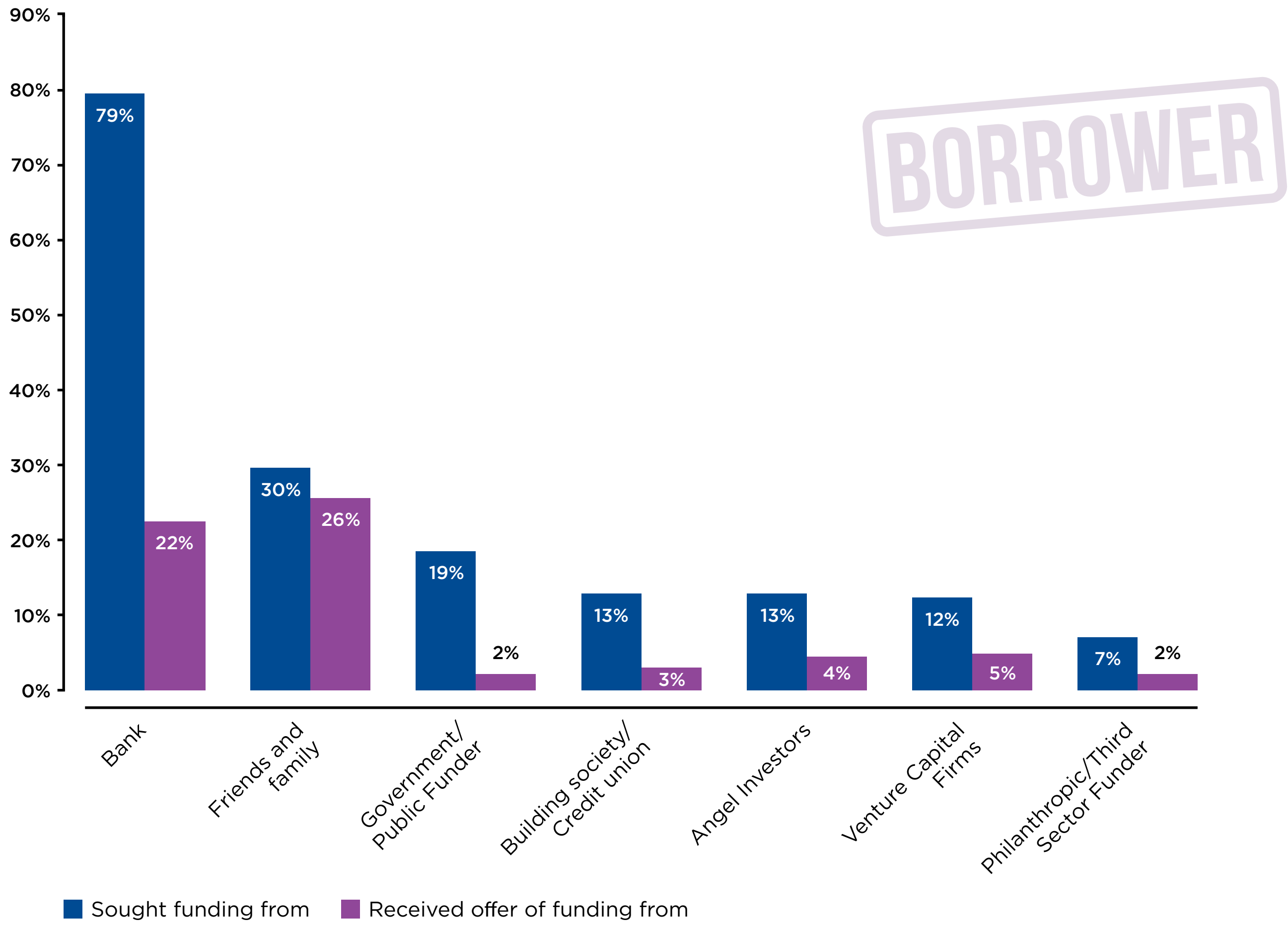


Figure 19: **What was your annual turnover in 2013?**

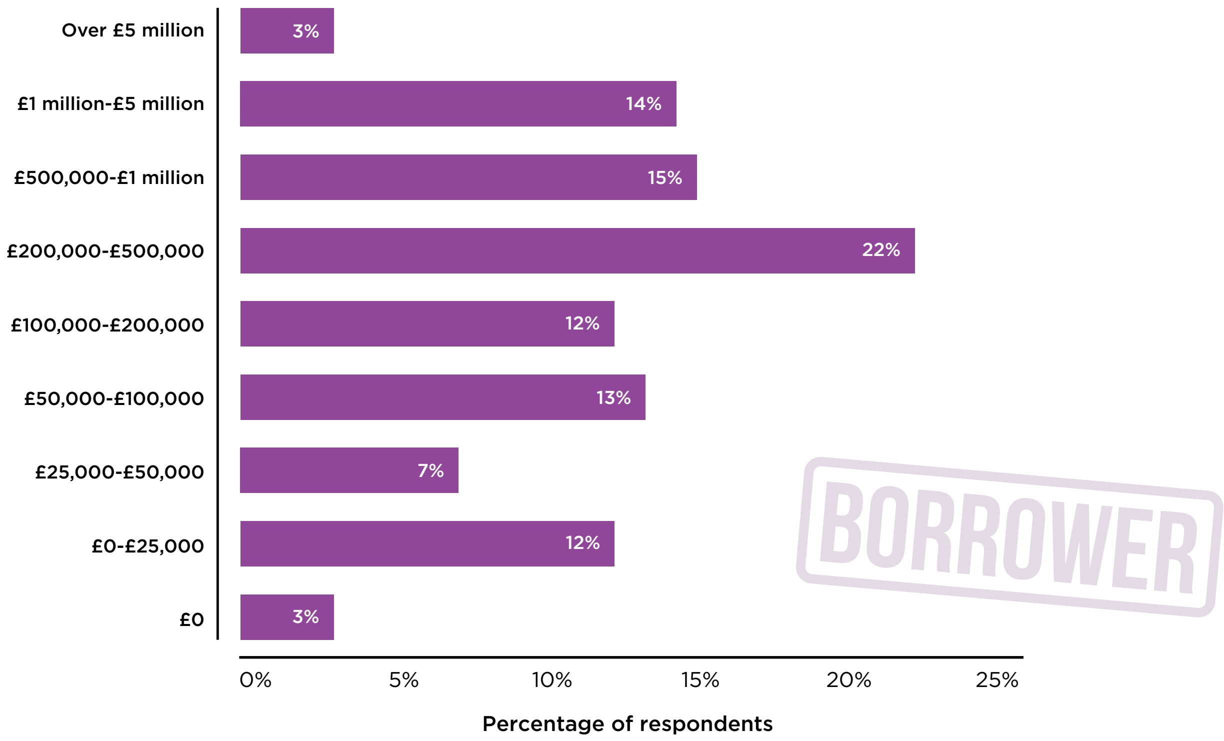


Figure 20: **How many years have you been trading?**

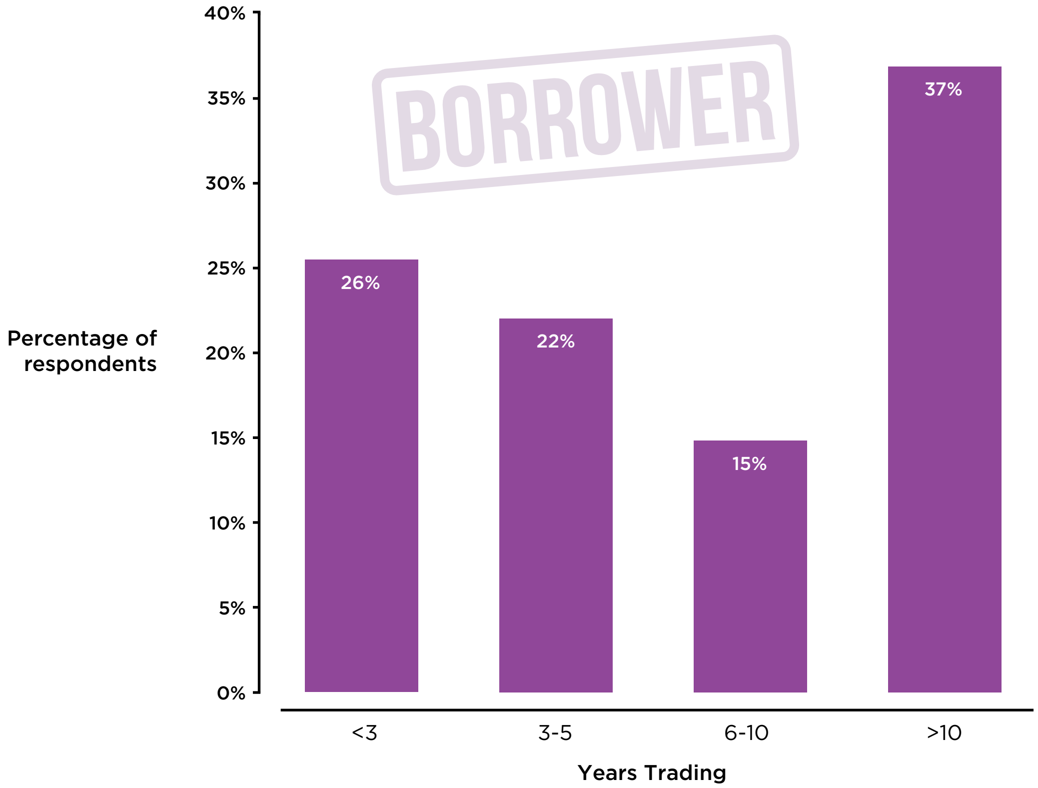


Figure 21: **What was your reason for borrowing on a P2P business lending platform?**

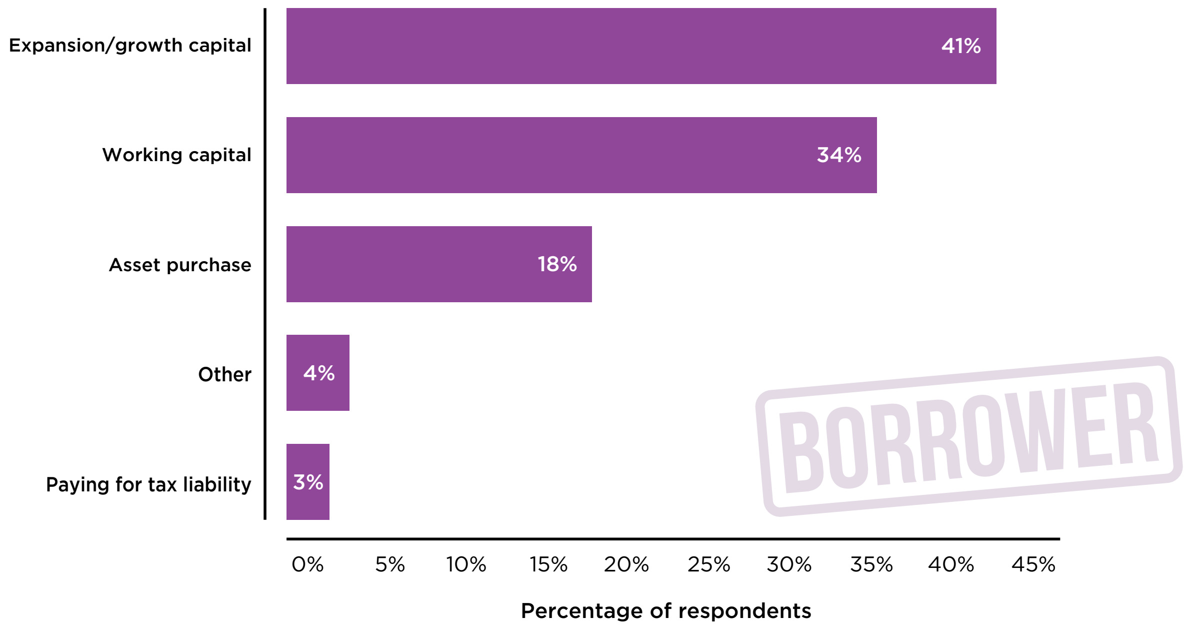


Figure 22: **How important were these factors in your decision to choose P2P business lending?**

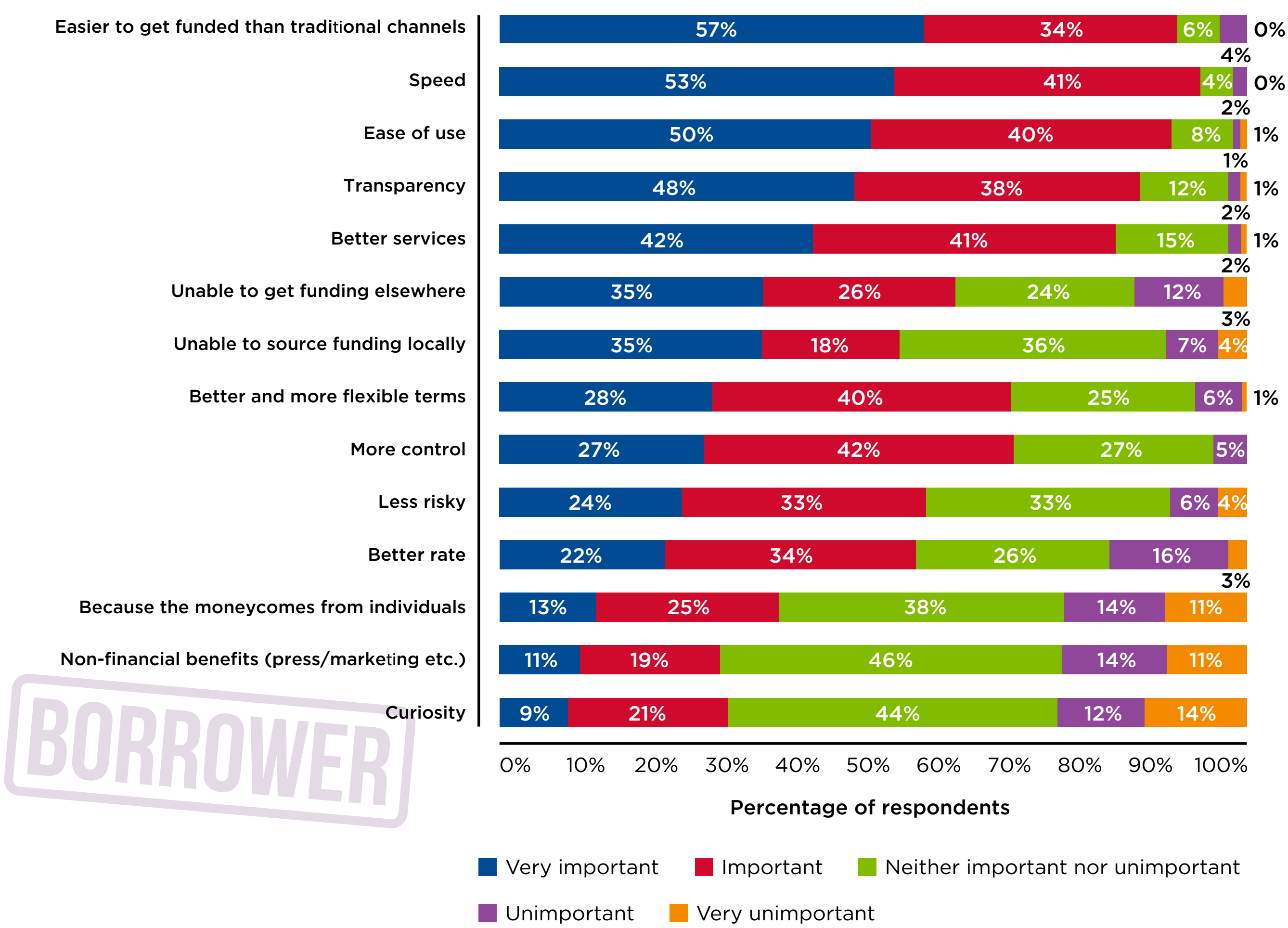


Figure 23: **What has happened since you secured finance through P2P Business lending?**

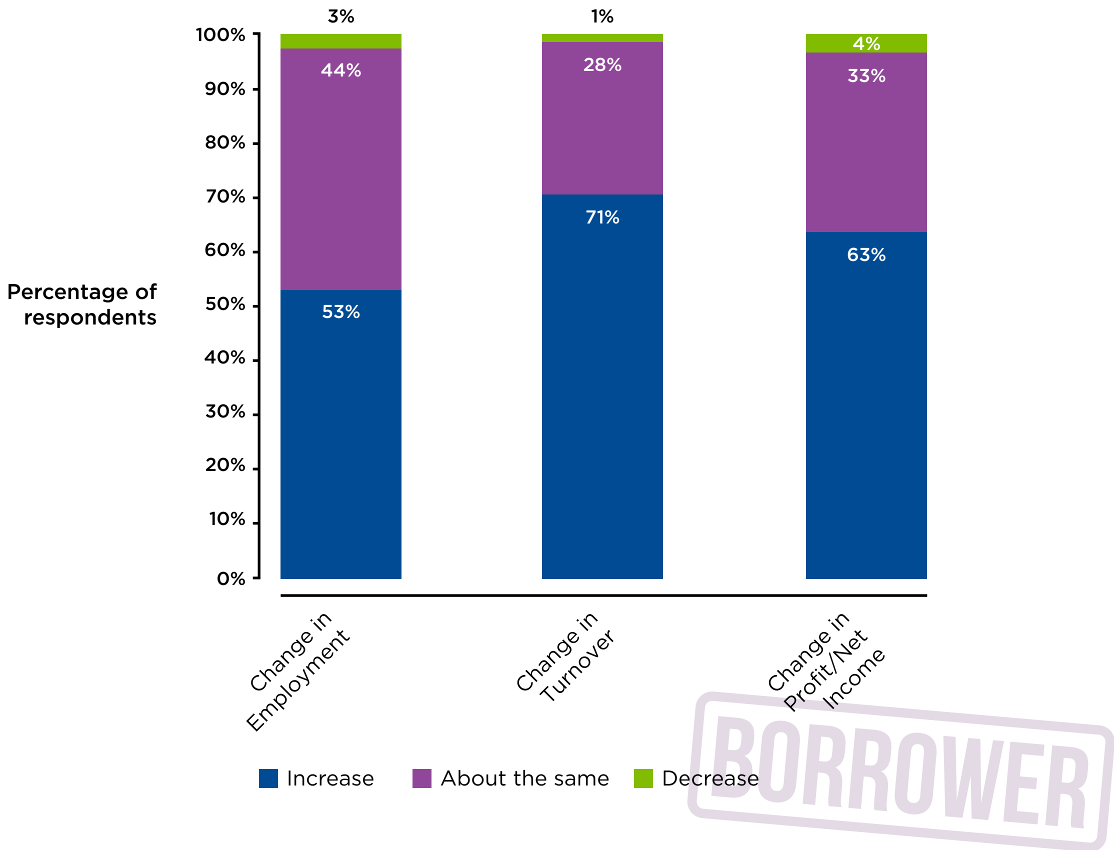
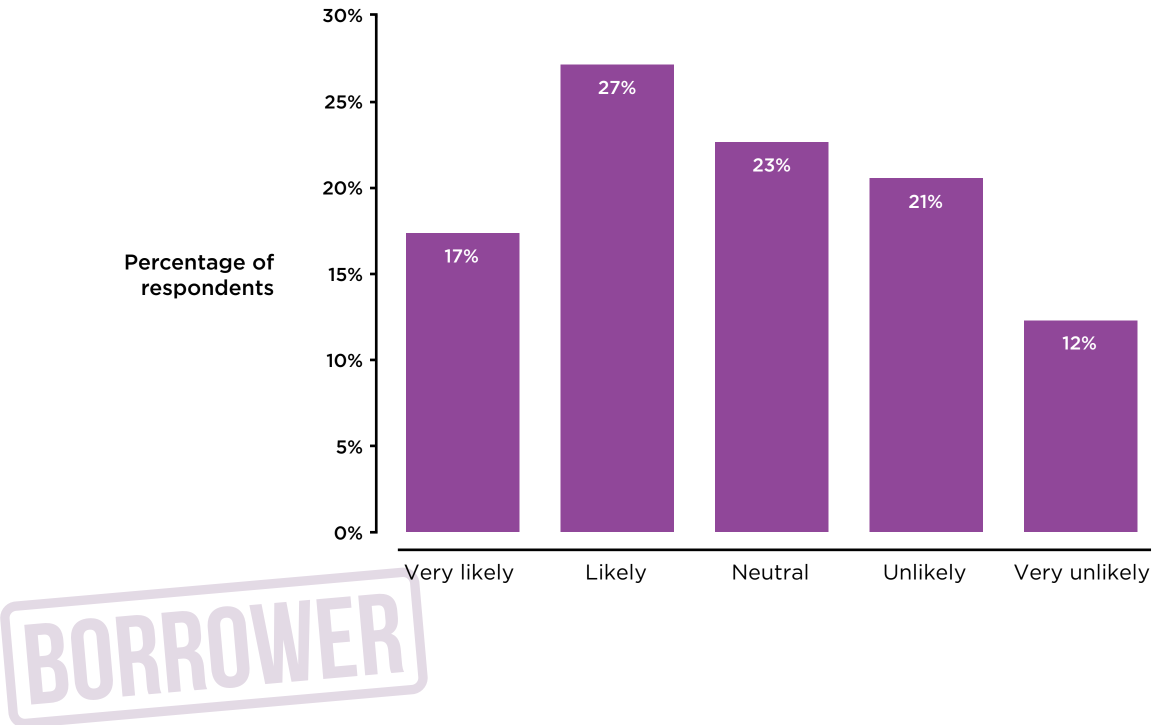


Figure 24: **How likely is it that you would have received finance elsewhere if you could not have gone to a P2P business lending platform?**



P2P CONSUMER LENDING

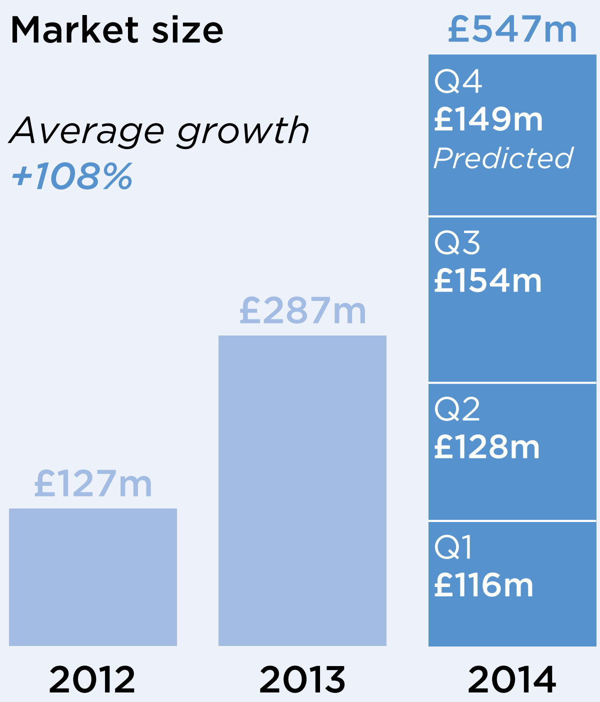
£5,471
Average amount borrowed

54% have lent more than £5,000

Lenders primarily motivated by **interest rate** available

More than half of borrowers had been offered a loan from the bank but went with P2P Lending

46% used loan to purchase a vehicle



P2P consumer lending market doubles in 2014

P2P consumer lending, whereby individuals can lend and borrow money to each other online, has evolved to become an important force in the UK consumer credit and lending space. This sector is expected to grow from £287 milion in 2013 to £547 milion by the end of 2014 with nearly 100 per cent year-on-year growth.

Rejection rates on platforms are high while default rates remain low

For the P2P consumer lending sector, analysis was conducted on a dataset provided by platforms, which consists of 105,464 individual loans representing 20.5 million transactions (from one unique lender to one unique borrower) and £577 milion worth of transactional volume. The average amount borrowed by individuals is £5,471 and the average lender portfolio size is £5,606. On average, it takes money from 201 individual lenders to fund one individual borrower's consumer loan with an average transaction value of just £27.10. However, it must be pointed out that the funding process on most of the P2P consumer lending platforms is highly automated with registered users normally only required to specify how much to lend or borrow and for what duration. Then based on algorithms and automated matching mechanisms, lenders' funds are divided and then channelled in smaller portions to fund a diversified loan portfolio at any given time. The majority of the borrowers had a A or A+ credit rating, which put them into the 'prime' or 'super-prime' borrower category, with the average rejection rate as high as 90 per cent (i.e. 9 out of 10 loan applications are rejected). This is one of the key factors to explain why the P2P consumer lending platforms have a very low average and weighted default rate of less than 1 per cent.

WHAT IS PEER-TO-PEER CONSUMER LENDING?

Individuals using an online platform to borrow from a number of individual lenders each lending a small amount; most are unsecured personal loans.

Users tend to be male and middle-aged

The average age for a borrower is 42 and approximately 80 per cent of borrowers are men. On the lender side, the average age is higher at 49 with 77 per cent of lenders being male. P2P consumer lending is also geographically sparse, with the postcode flow ratio of 0.81, which means both the lenders and borrowers are widely spread across the country.

Our survey of 6,392 borrowers and 4,259 lenders allowed us to find out more about the characteristics, behaviour and motivations of those using P2P consumer lending. A quarter of borrowers have an annual income of less than £25,000 and 18 per cent have an income of over £50,000. Lenders tended to be more present in the higher and lower income bands with 37 per cent of respondents earning less than £25,000 and 25 per cent earning more than £50,000. The main route by which P2P consumer lending users have heard about the model is through online advertising (43 per cent of borrowers and 27 per cent of lenders) and online intermediaries such as MoneySupermarket (42 per cent of borrowers and 33 per cent of lenders)

Lenders and borrowers primarily motivated by interest rate available

The key factor influencing people's decision to lend via a P2P consumer lending platform is the interest rate available on the loans they finance, with 78 per cent seeing this as a very important factor and 22 per cent as an important factor. Other factors deemed important or very important were 'the ability for lenders to choose how much to lend and for how long' (94 per cent) and 'the ease of use of the P2P consumer lending model' (89 per cent).

Borrowers primarily sought to fund the purchase of a vehicle (46 per cent), or the loan for home improvement (26 per cent) and debt consolidation (25 per cent). The primary factor influencing borrowers decision to seek a loan through P2P consumer lending was the opportunity to get a better interest rate, with 71 per cent of borrowers seeing this as a very important factor, followed by ease of use of the P2P consumer lending model (Important or very important to 90 per cent of borrowers) and the more flexible terms provided by the P2P consumer lending platforms (important or very important to 86 per cent).

More than half of the borrowers had been offered funding elsewhere

Interestingly, an inability to get funding elsewhere is not a common reason why borrowers sought a loan via a P2P consumer lending, with only 15 per cent of borrowers seeing this as a very important factor for their decision and 36 per cent seeing it as very unimportant. Of the borrowers who had sought a loan from a bank before approaching P2P consumer lending (59 per cent), the majority (over 90 per cent of them) were offered a bank loan. These findings are consistent with the strong credit profiles (i.e. prime or super-prime) of the borrowers revealed by the primary data. It is also worth highlighting that around 2-3 per cent of borrowers on P2P consumer lending platforms are borrowing for their businesses, mostly as sole-traders.

Three in four borrowers would approach P2P consumer lending first in the future

P2P consumer lending is likely to continue its rapid growth. This is evidenced by the fact that most users are recent joiners and more than half of borrowers have only started using the model within the last two years with 32 per cent beginning borrowing since the beginning of 2014. This trend is also true for lenders, where two thirds have begun lending in the last two years and 34 per cent since the beginning of 2014.

Reflecting on their experience with P2P consumer lending, 75 per cent of borrowers are very likely to approach P2P lending first if they were to borrow again in the future, and 54 per cent would be very likely to approach P2P consumer lending first even if a bank were to offer a loan on similar terms.

Lenders indicate the same support for P2P lending with 92 per cent of respondents saying they are likely or very likely to recommend P2P consumer lending to other people they know with money to lend, and 65 per cent are likely or very likely to recommend the model to people they know looking to borrow money. Finally, 64 per cent of lenders indicate they would lend more should P2P lending qualify for the ISA scheme.

Pizzarova

In 2013 Alex Corbett needed a loan to start a new gourmet fast food venture, focusing on making handmade sourdough pizzas in wood-fired ovens installed in the back of altered LandRovers. His aim was to serve night-time hot-spots and events around Somerset with pop-up restaurants. After some searching, Alex successfully sought a £60,000 loan via the Ratesetter P2P lending platform to start his business.

Andrew

In 2011 Andrew from Glasgow approached his bank for a personal loan which he needed to purchase a car as transportation for him and his young son. After the banks he approached offered him an interest rate of 18–19 per cent he went online to see what other funding options were available to him. Finding P2P lender Zopa, Andrew decided to give it a try and ended up receiving a £4,000 loan to buy and insure a black VW Polo, which he had approved at an interest rate below 10 per cent and in just three days.

Figure 25: **How much in total have you lent via this peer-to-peer lending platform?**

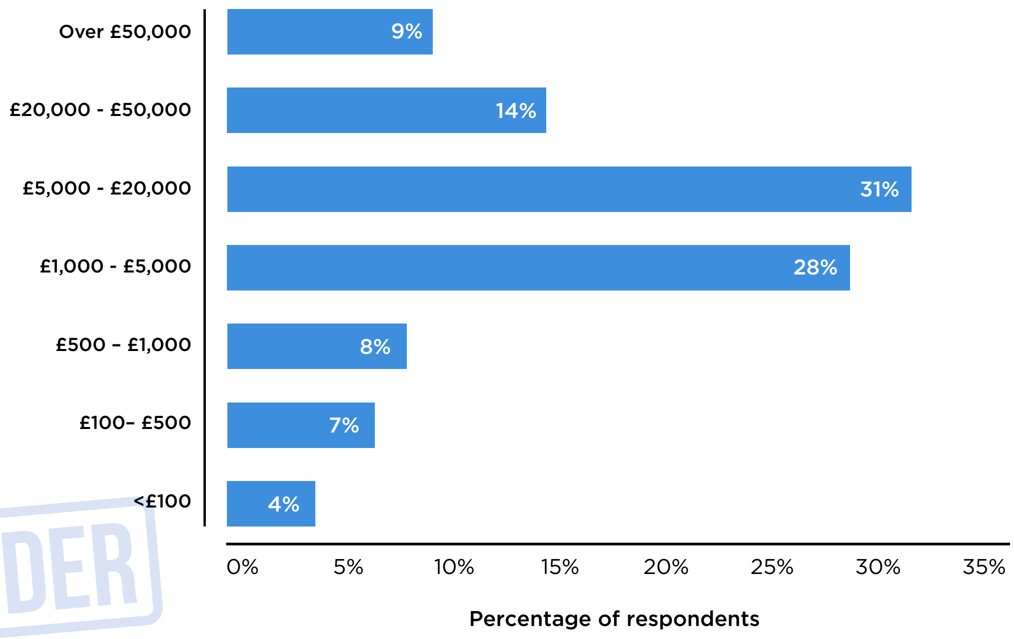


Figure 26: **When you budget for investing through a P2P lending platform, where does the money come from? (can select multiple)**

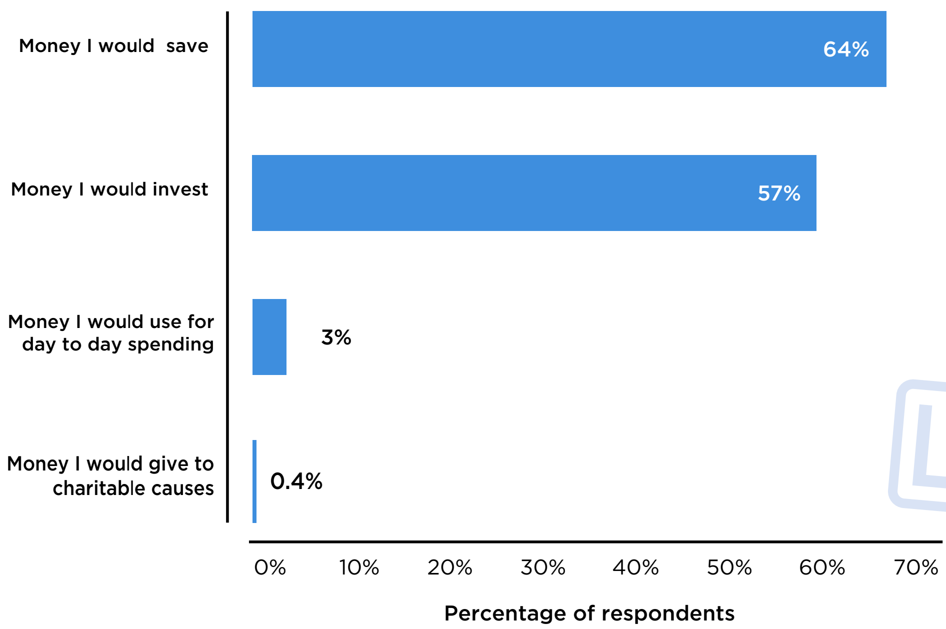


Figure 27: **How important are the following when making decisions about lending through a P2P platform rather than investing your money elsewhere?**

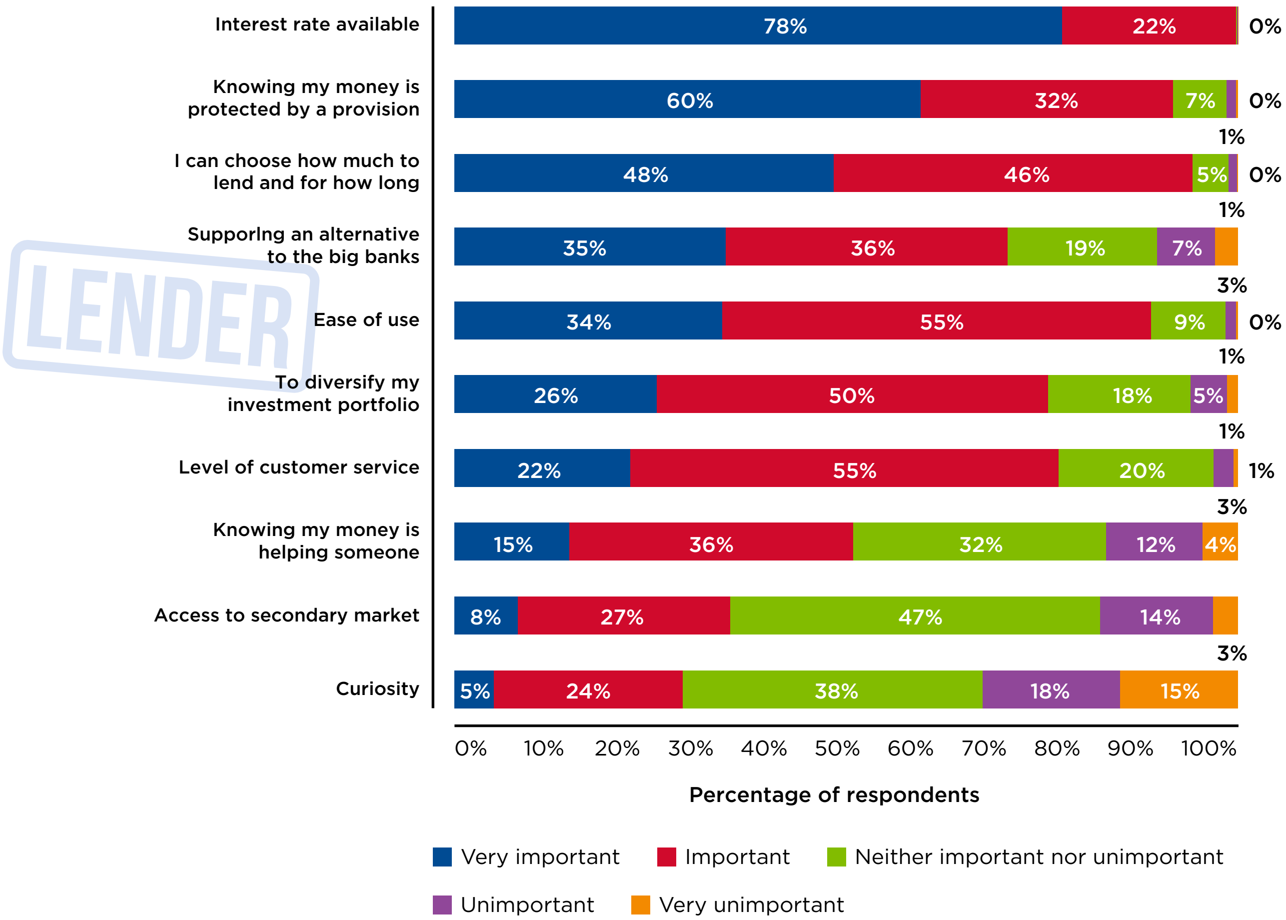


Figure 28: **What did you raise money through peer-to-peer consumer lending for?**

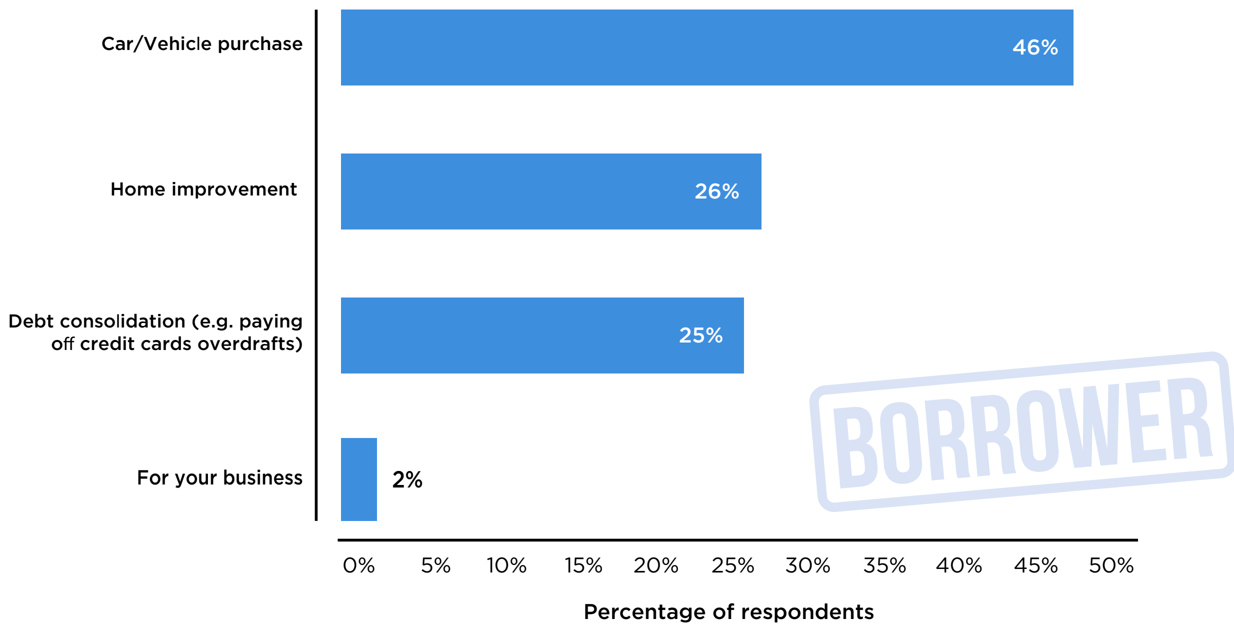


Figure 29: **How important were these factors in your decision to choose P2P consumer lending?**

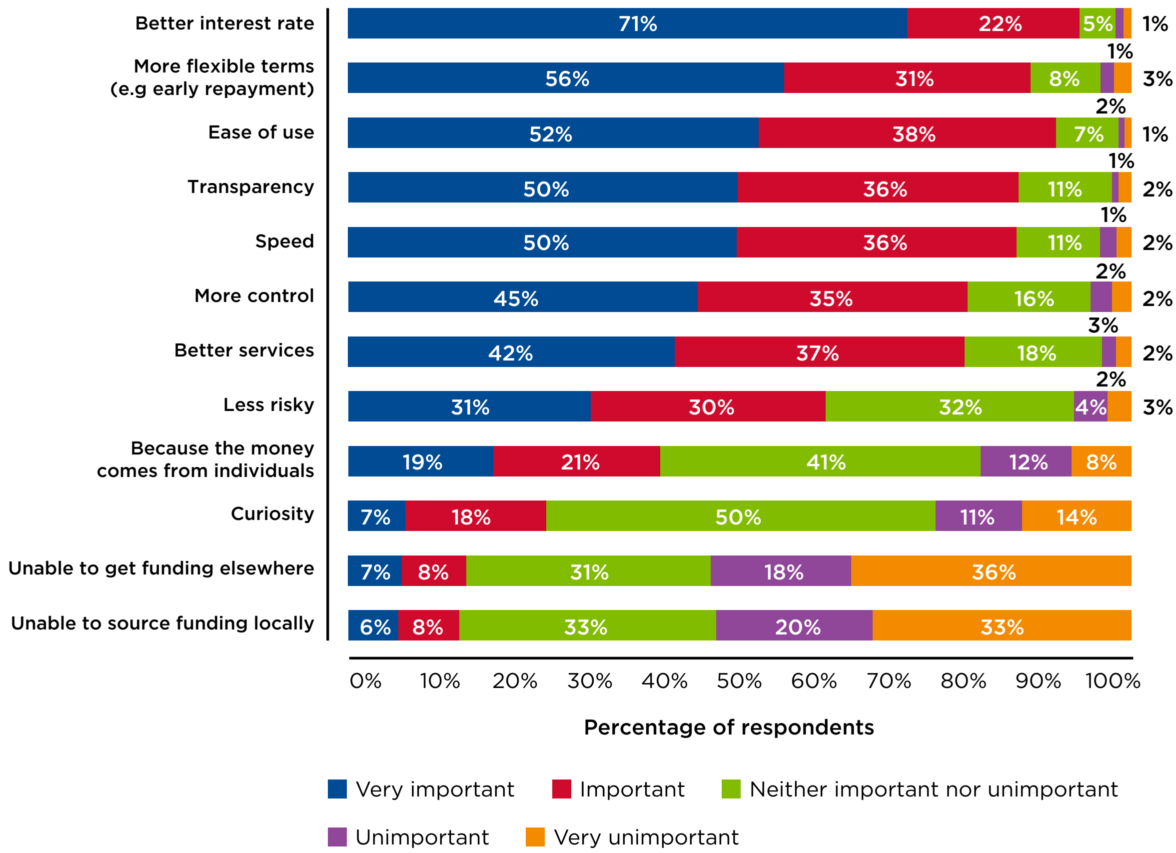
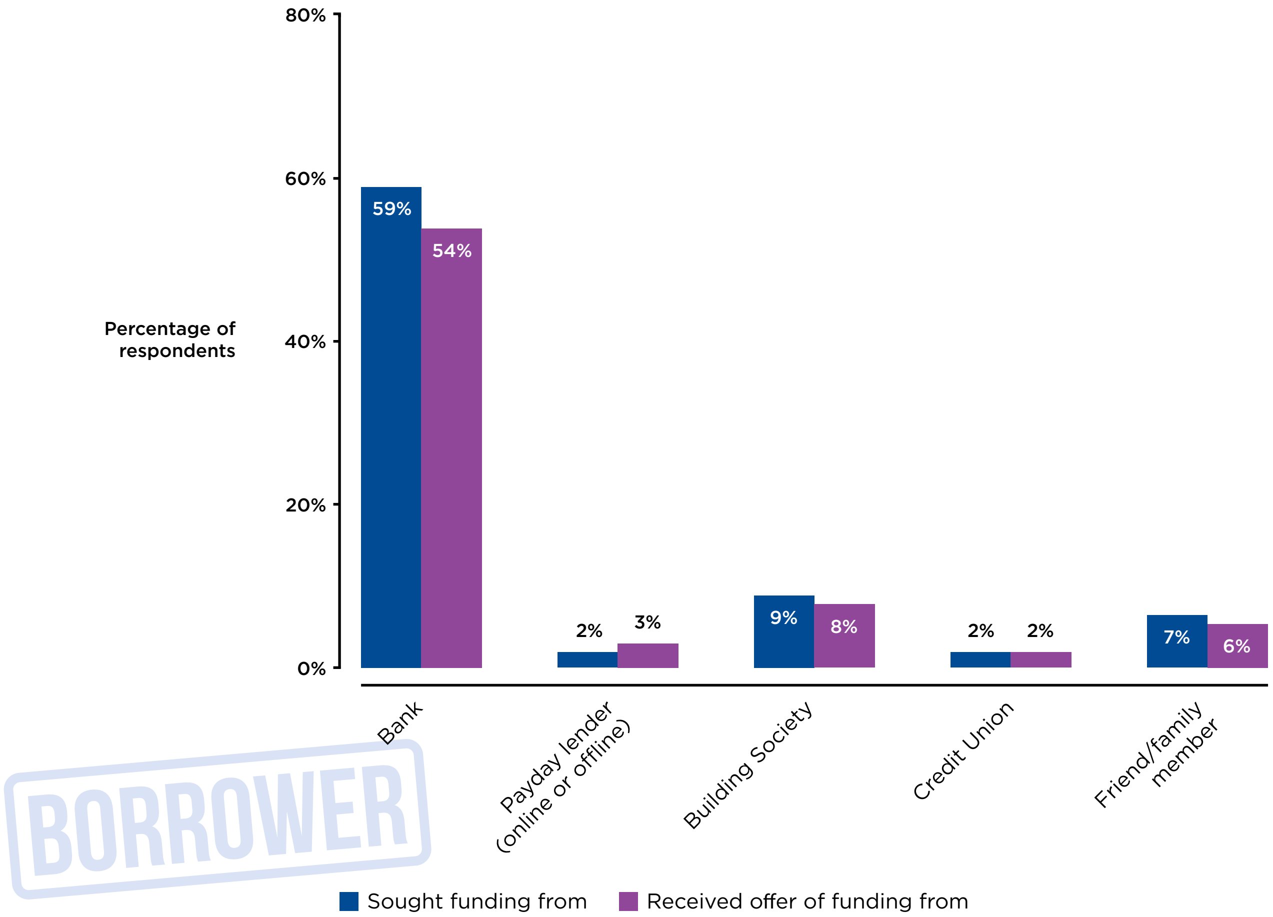


Figure 30: **Did you try to get the money from the following sources before approaching P2P lending, and did you receive an offer of funding from them?**



INVOICE TRADING

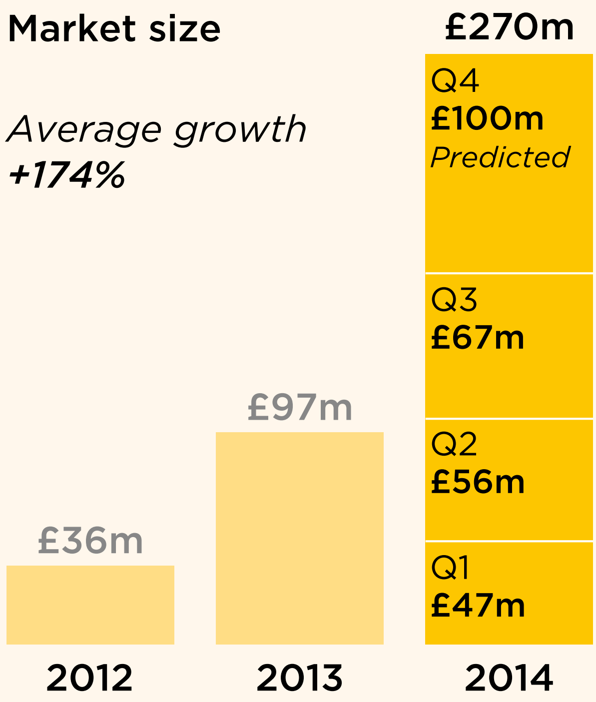
£56,075

Average amount raised

33% of businesses said it was unlikely that they would have received finance could they not have turned to an invoice trading provider

The average invoice finance auction only takes **8 hours**

Three in four users would use invoice trading in the future even if banks were to offer similar terms



Invoice trading grew by 179 per cent in 2014

Invoice trading provides fundraising opportunities for small and medium enterprises to trade their invoices or receivables at a discount in exchange for the speedy procurement of working capital. In 2013 the sector grew by around 169 per cent and in 2014 it saw a further growth by 179 per cent. The average invoice auction duration is just eight hours with the average traded invoice value being £56,075. In the majority of cases, a trade invoice only takes seven micro-transactions to complete, signifying the participation of high networth individuals and institutional investors in this model.

A relatively small sample of 24 businesses responded to our survey of users of invoice trading, therefore the results that follow should be interpreted with caution. The surveyed SME borrowers were spread across a diverse range of sectors with 'technology' and 'business services' being the most common. More than half of the respondents were based in London or the South East but there were respondents from almost all regions in the UK.

The businesses using the invoice trading platforms tended to be small with over 90 per cent of them having fewer than 50 employees. Yet these are not necessarily young businesses. Over 40 per cent have been in business for over ten years. A third were less than 5 years old and almost all had a turnover of more than £200,000 with half having a turnover of more than £1 milion.

WHAT IS INVOICE TRADING

Firms sell their invoices at a discount to a pool of individual or institutional investors in order to receive funds immediately rather than waiting for invoices to be paid.

Invoice trading is used to raise working capital

The vast majority (85 per cent) of businesses were trading invoices to secure working capital and 43 per cent of them had heard about invoice trading through online advertising. The speed of the process was what businesses valued the most (with 95 per cent stating it was a very important or important factor), with ease of use (81 per cent), transparency (85 per cent) and flexibility (85 per cent) also registering as either very important or important factors. Unsurprisingly given the reason for approaching invoice trading, the other important impact for SMEs was an improvement in cash flow, reported by 92 per cent of the respondents stating the effect. Almost all had approached banks beforehand with only a fifth receiving offers of funding from them. Over half saw it as 'unlikely' or 'very unlikely' that they would have received finance should they not have turned to an invoice trading platform.

Three in four would approach invoice trading before a bank in the future

Since receiving funding, 90 per cent of the respondents reported an increase in profit, 80 per cent of them saw an increase in turnover and 60 per cent recorded an increase in employment. Almost all plan to approach an invoice trading platform for funding in the future with three in four saying they would do so even if banks were to offer funding on similar terms. Eighty-six per cent are 'likely' or 'very likely' to recommend invoice trading to other businesses.

CADA

CADA Design is a London-based interior and graphic design company with a £3 million turnover. CADA has used the invoice trading platform MarketInvoice 20 times to convert over £441,000 worth of invoices into usable cashflow, paying an average 2–3 per cent per invoice cashed in. CADA has more than doubled their turnover, and gone from 18 to 30 staff in the past 18 months.

Figure 31: **What was your purpose(s) for trading invoice(s)? (can select multiple)**

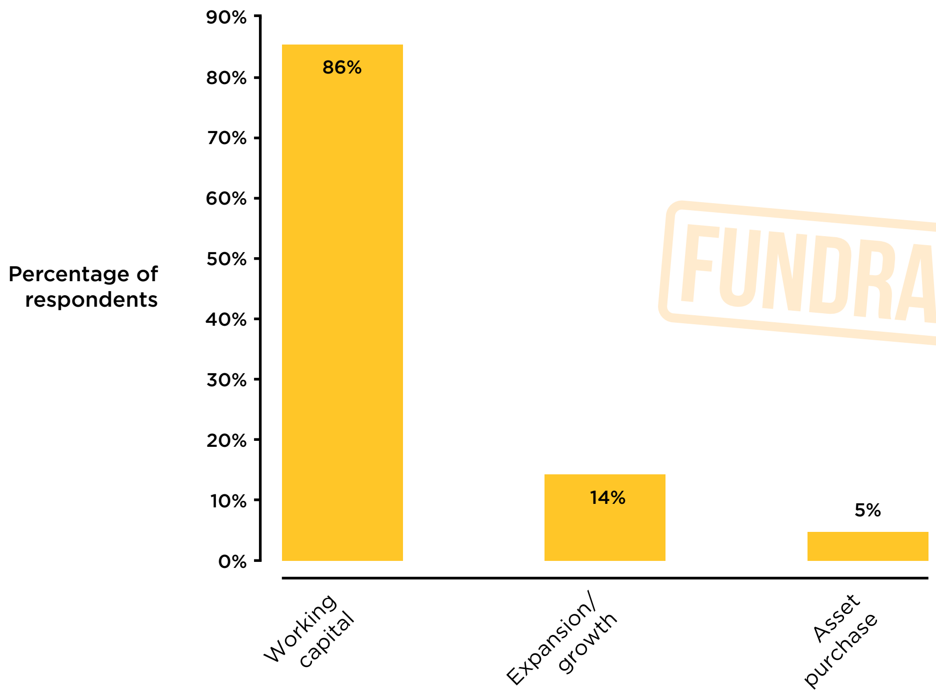


Figure 32: **How important were these factors in your decision to choose invoice trading?**

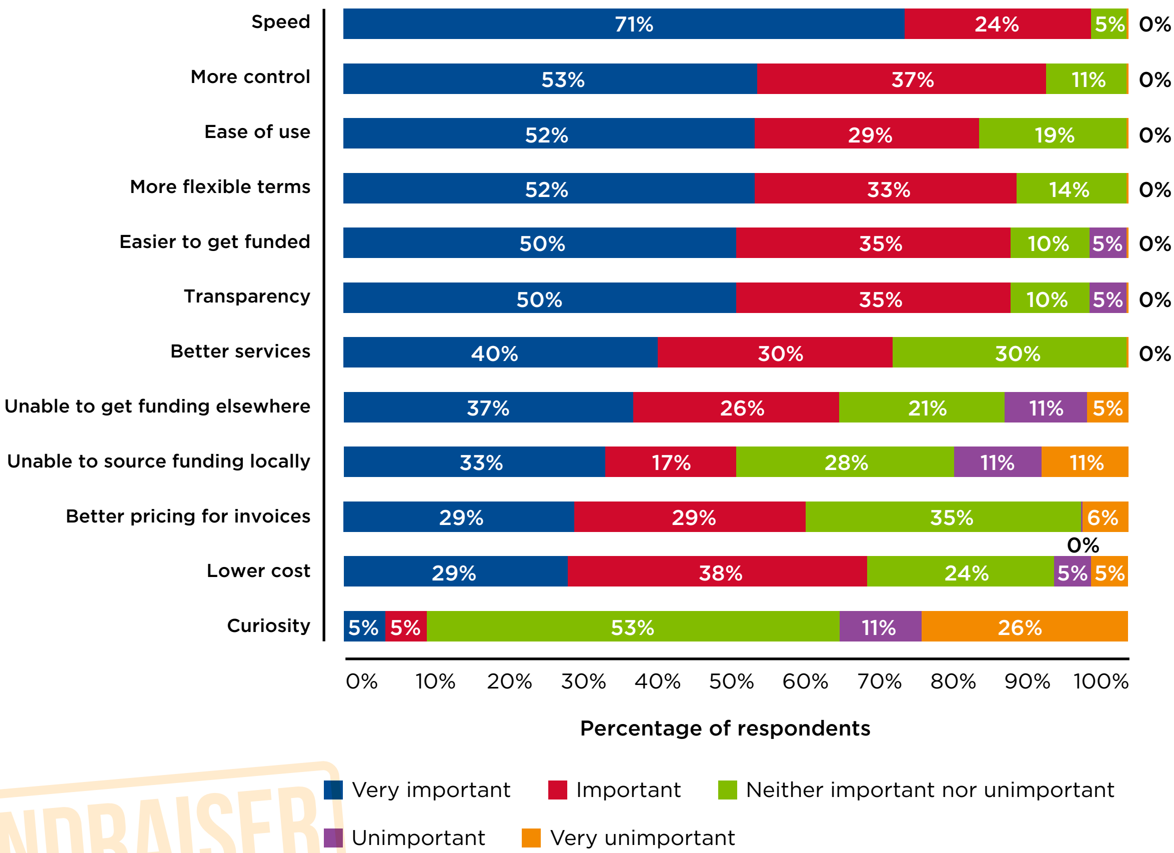


Figure 33: **How did you find out about online invoice trading?**

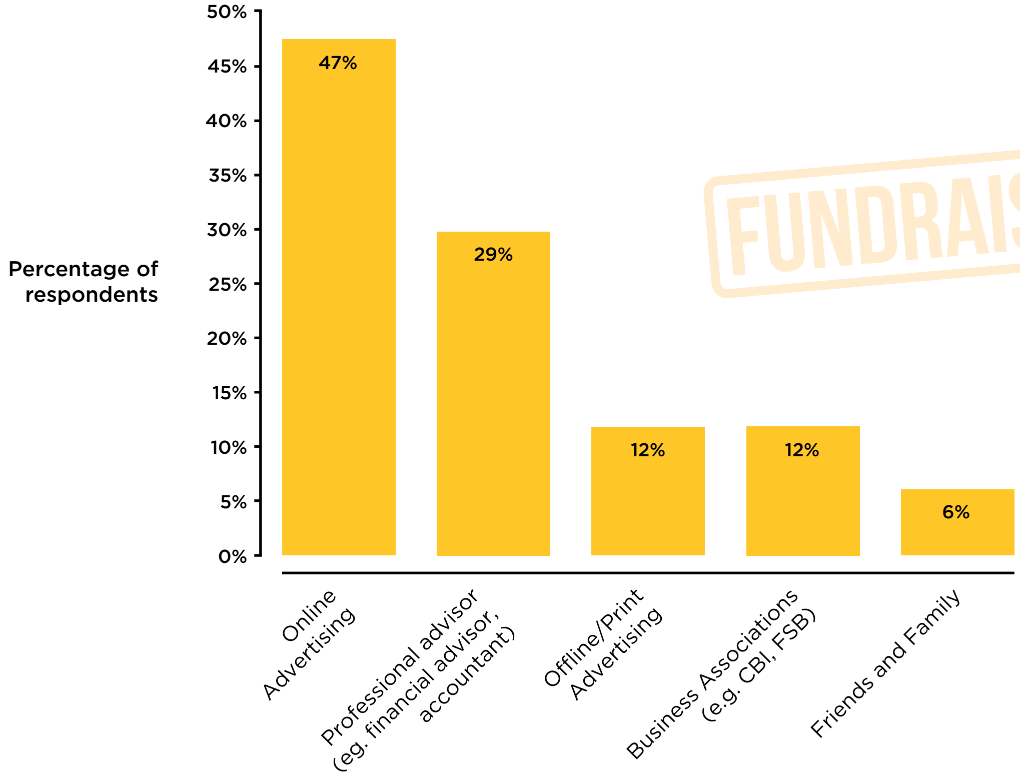


Figure 34: **How likely is it that you would have received finance elsewhere if you could not have gone to invoice trading?**

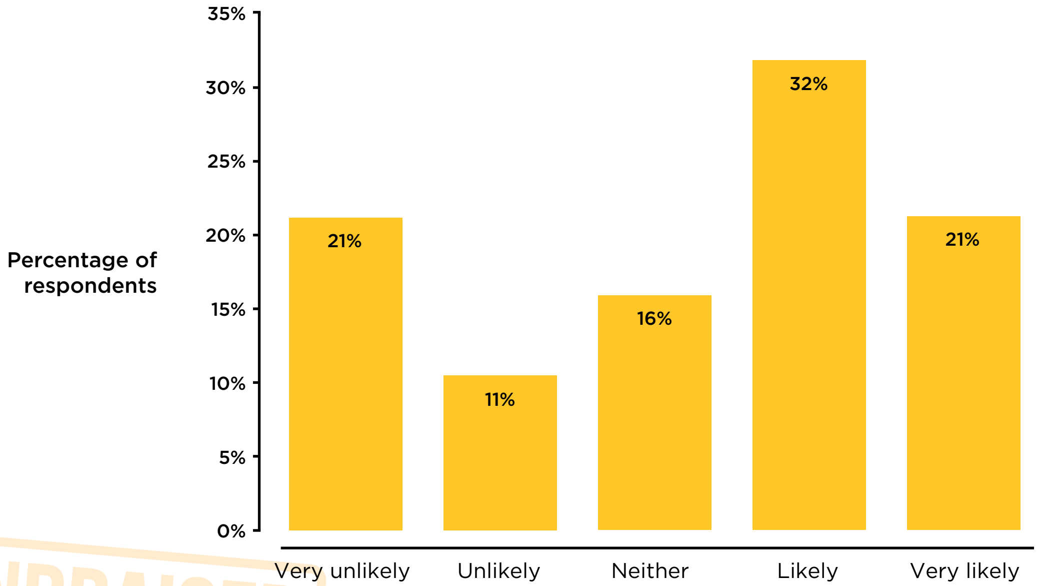


Figure 35: **What has happened since you secured finance through invoice trading?**

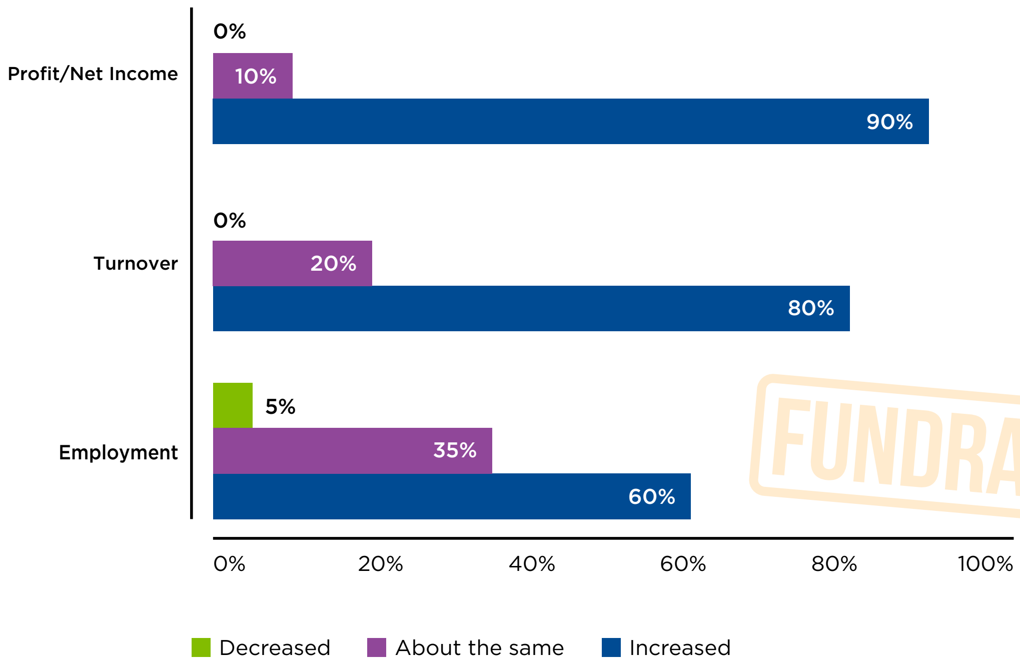
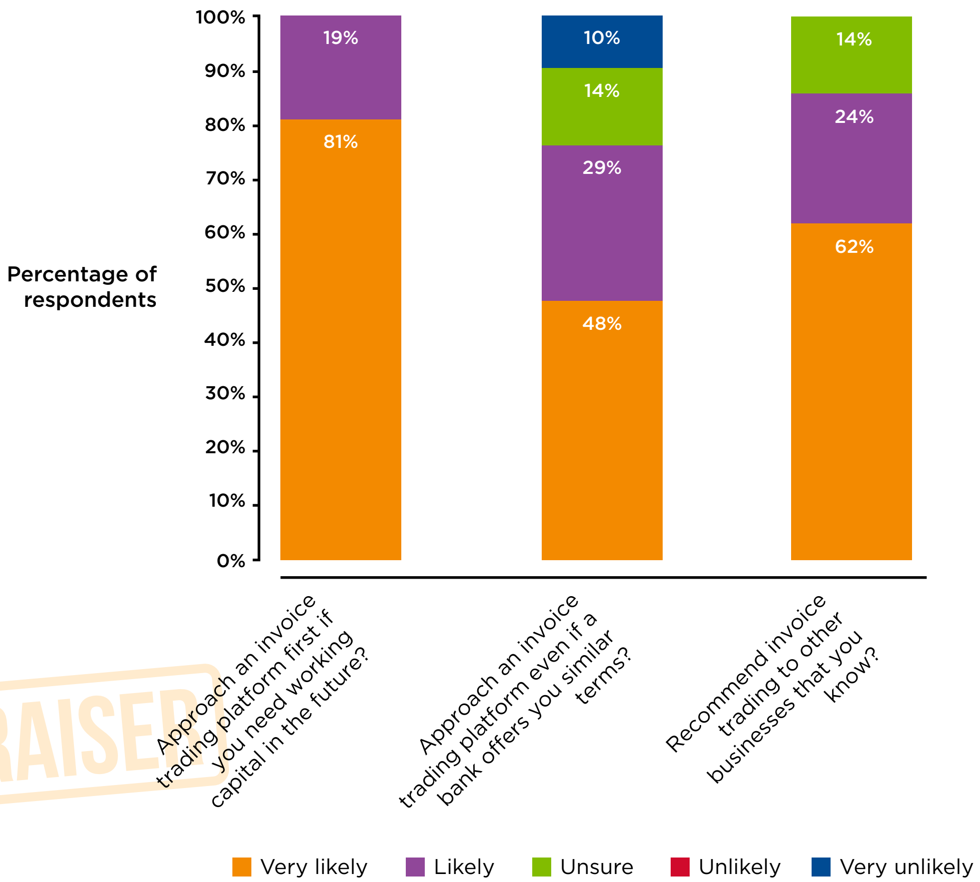


Figure 36: **How likely are you to do the following after your invoice trading experience?**



EQUITY CROWDFUNDING

£199,095

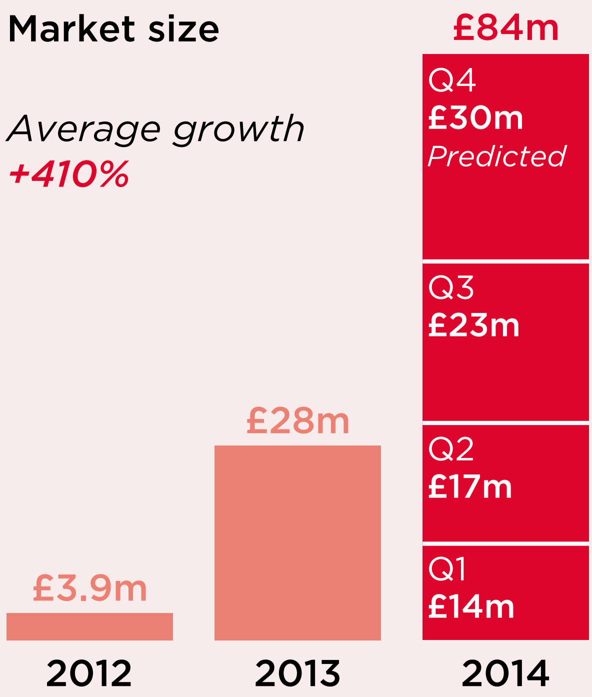
Average amount raised

Two-thirds of investors have invested more than £1,000

38% of investors were professional investors or high net-worth individuals

Since securing funding **70%** of businesses have increased turnover, **60%** have increased employment

54% of businesses sought expansion capital, **46%** sought seed or start-up capital



Equity-based crowdfunding grew by 201 per cent in 2014

Equity-based crowdfunding, whereby investors can diversify their portfolio and invest in both early-stage (e.g. pre-seed, seed and start-up) ventures as well as growth-stage companies, continues its rapid expansion with a 201 per cent year-on-year growth rate and facilitated £84 milion in predicted total transaction volume for 2014.

WHAT IS EQUITY-BASED CROWDFUNDING

Sale of a stake in a business to a number of investors in return for investment, predominantly used by early-stage firms

Analysis of a dataset gathered from equity-based crowdfunding platforms, covering £37.43 milion transactions from 2011 to the first quarter of 2014 and including 188 funded deals and 23,414 micro-transactions, shows that the average deal size of an equity-based crowdfunding campaign is £199,095. On average, it takes 125 investors to fund an equity deal with the average micro-transaction value being £1,599.

The average age of fundraisers is 43 and the average age of investors is 40. From the investor side, the average investment portfolio size is £5,414 with an average diversification rate of 2.48 (i.e. on average, one investor has invested in 2.48 equity-crowdfunding deals). Almost 95 per cent of the funded equity-based crowdfunding deals were eligible either for the EIS (Enterprise Investment Scheme) or the SEIS (Seed Enterprise Investment Scheme) schemes.

Sixty-two per cent of investors didn't have previous investment experience

Equity-based crowdfunding platforms are proving attractive for both retail investors who are new to venture capital investing, as well as for experienced investors. 62 per cent of the 290 investors surveyed described themselves as being retail investors with no previous investment experience. A sample of data from the platforms shows that the average portfolio size for certified high networth individuals and 'sophisticated investors' is over £8,000 in contrast to less than £4,000 for 'retail investors'.

The pitch and the team are what matters to investors not comments by other investors

Three-quarters of investors had invested in businesses run by entrepreneurs whom they had no previous knowledge about or connection to. The most common method of discovering investment opportunities was through browsing the equity-crowdfunding platform, with the least being offline promotion of the investment opportunities.

Investors primarily invest through equity-based crowdfunding platforms in the hope of making a financial return (very important to 61 per cent of investors). Portfolio diversification, the ease of the investment process and the added control over where their money goes was also seen as important or very important to more than 75 per cent of surveyed investors. Few investors came to the model to invest in a family member or a friend or to support a local business. Instead, investors are selecting specific investment opportunities on the crowdfunding platform, with the quality of the team(rated 'important' or 'very important' by 97 per cent of respondents) and the pitch (96 per cent) named as the most important factors. External endorsements and the views of other investors on forums were deemed less important. While 66 per cent of surveyed investors identified tax reliefs as an important factor, more than half stated that they would have invested even if the tax incentives were not present, with only a quarter saying they would not have.

While investors often read comments by other investors when making investment decisions, they rarely contribute comments or get in touch with other investors to discuss investment opportunities. The money they use to invest is money that would otherwise have (at least partly) been invested elsewhere (68 per cent of respondents) or saved (44 per cent of respondents).

Ventures seeking finance tended to find out about equity-based crowdfunding through online advertising or through the media and press. Over a third had sought funding from friends and family or business angels prior to approaching an equity-based crowdfunding platform.

Forty-seven per cent of successful fundraisers have increased their profit

For those who were successful in their attempt to fundraise, the biggest challenges with the process were developing a marketing strategy and a crowdfunding pitch. They reported that finding and working with an equity-based crowdfunding platform was not difficult.

Fundraisers found that funders added value beyond their financial contributions to the business through assisting with making connections to people in their networks (63 per cent of respondents) and providing market validation for the venture (60 per cent). Fundraisers believed that the most important routes to successfully sourcing funders was through their existing social networks and direct mailing.

Since securing funding, 47 per cent of fundraisers have increased profits, 70 per cent grew turnover and 60 per cent of them have taken on new employees. Three-quarters of the surveyed fundraisers have also launched a new product or service and two-thirds have attracted media coverage.

Those ventures that failed to reach their funding target identified that failure to generate momentum in the early stages of the campaign, insufficient support from the platform and not doing enough marketing as factors that led to their failure. Despite this, 80 per cent of them said they would be willing to try it again and half would recommend equity-based crowdfunding to others with the rest unsure.

Half of investors plan on investing more in 2015

Of the 196 active investors surveyed, 85 per cent had made their first investment since the beginning of 2013, with 36 per cent of investors becoming active in the last three months.

Around half of the investors surveyed plan to invest more in the coming year with around a third planning on investing the same amount. Eighty-one per cent of investors state they would recommend equity-based crowdfunding to someone they know, while 75 per cent say they would recommend a specific business seeking investment.

However, it is important to note that given the nature of investing in early-stage companies and the relative nascent state of equity-based crowdfunding model, that most equity crowdfunding investors are yet to see what returns their investments can bring.

All successful fundraisers would recommend equity-based crowdfunding to someone else seeking funding and 91 per cent of them state they would approach an equity crowdfunding platform first in the future if venture capital is needed.

Zero Carbon Food

Zero Carbon food grows fresh salads greens and micro-herbs in disused underground spaces. They set up their first farm twelve stories underground, in a former WW2 bomb shelter underneath Clapham in South London. The aim is to commercially supply restaurants and individuals with locally and sustainably-grown fresh food. In August 2014, they used Crowdcube, an equity-crowdfunding platform to raise £580,810 from 482 investors for 29,04 per cent equity, exceeding their initial £300,000 target. Zero Carbon Food have since expanded their range of greens, and commercialised their produce.

Josh Hallet CC BY-SA 2.0

NearDesk

NearDesk describes itself as the Oyster Card for desks, as the company lets users rent desk space at a growing number of different locations across the UK, including the opportunity for hourly rental of desk space. To grow the business, NearDesk sought to raise finance through Seedrs, an equity-based crowdfunding platform. In July 2014, NearDesk completed its equity-based crowdfunding round and raised £1 million by offering 22.56 per cent equity in its business.

Soshi Games

In January 2014, Soshi Games, a mobile game developer that combines expertise in consulting with creating digital games and apps for businesses, sought to raise capital through selling equity. The company managed to secure £285,000 of funding through Syndicate Room, an equity crowdfunding platform that allows its members access to investment opportunities that are backed by angel investors and venture capitalists. In the case of Soshi, the crowd invested alongside MidVen, an owner-managed VC firm that has invested in SMEs since 1990. Since raising finance Soshi has grown to a team of 11.

FUNDRAISERS

Figure 37: **Fundraising activity before crowdfunding**

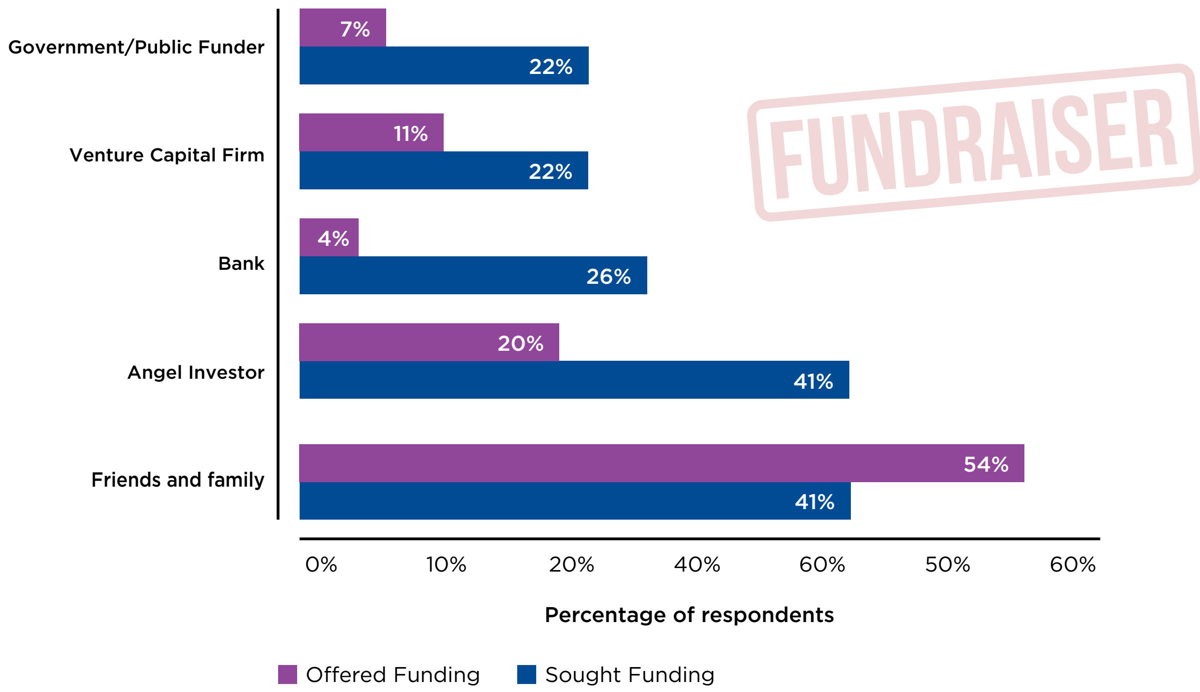
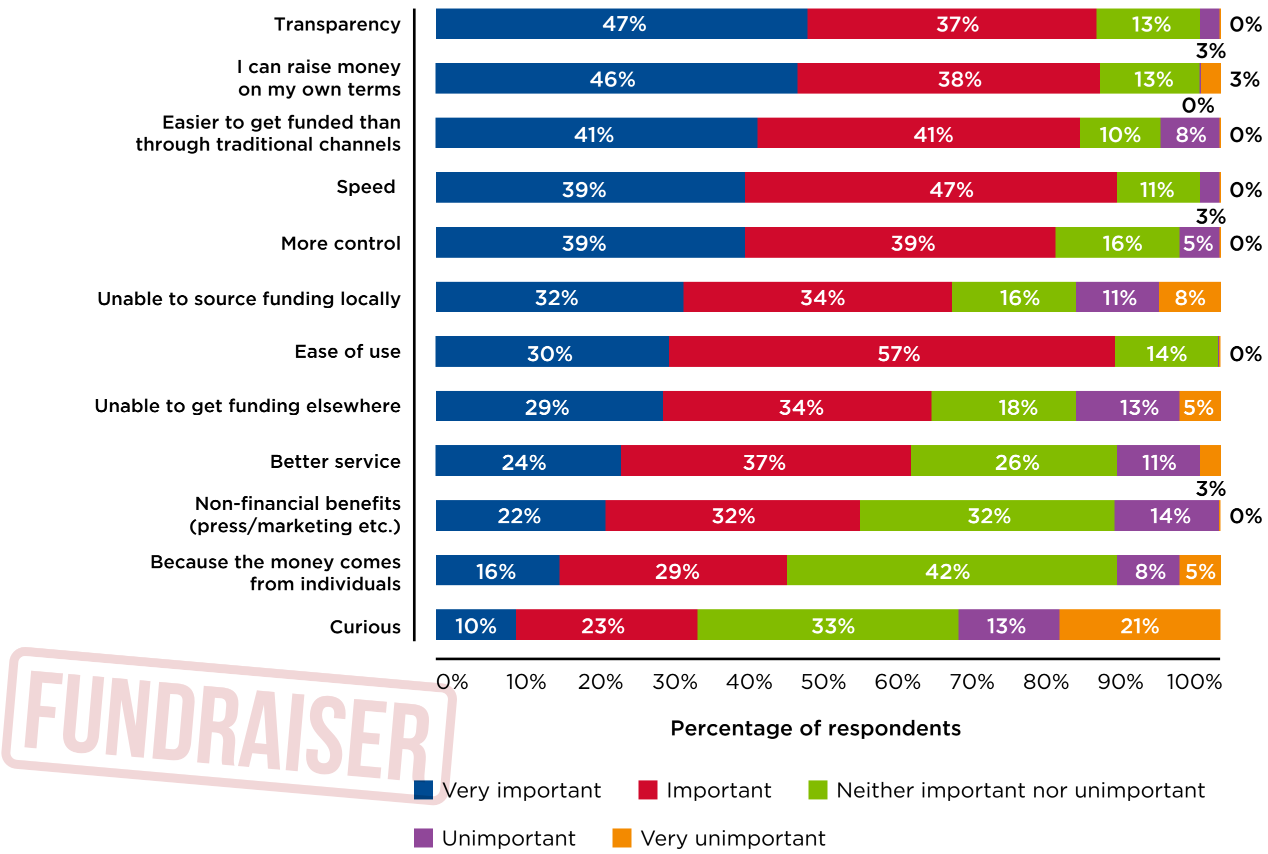


Figure 38: **Reasons for choosing equity-based crowdfunding**



UNSUCCESSFUL FUNDRAISERS

Figure 39: **Would you recommend equity-based crowdfunding to someone else?**

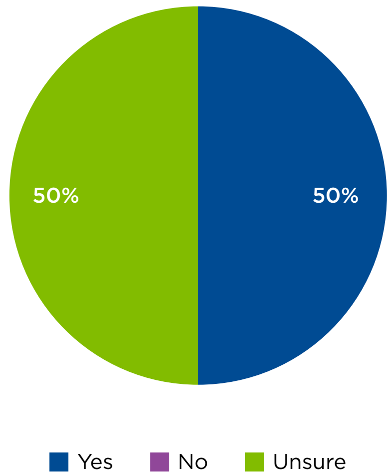
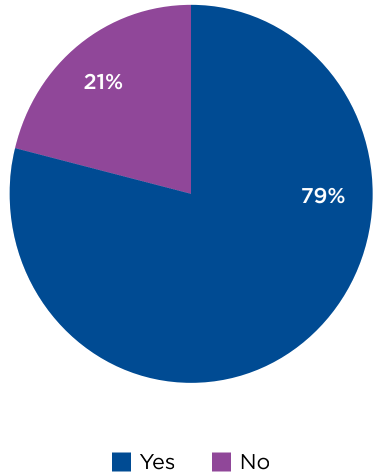


Figure 40: **Would you try it again in the future?**



SUCCESSFUL FUNDRAISERS

Figure 41: **Challenges in raising funds through equity-based crowdfunding**

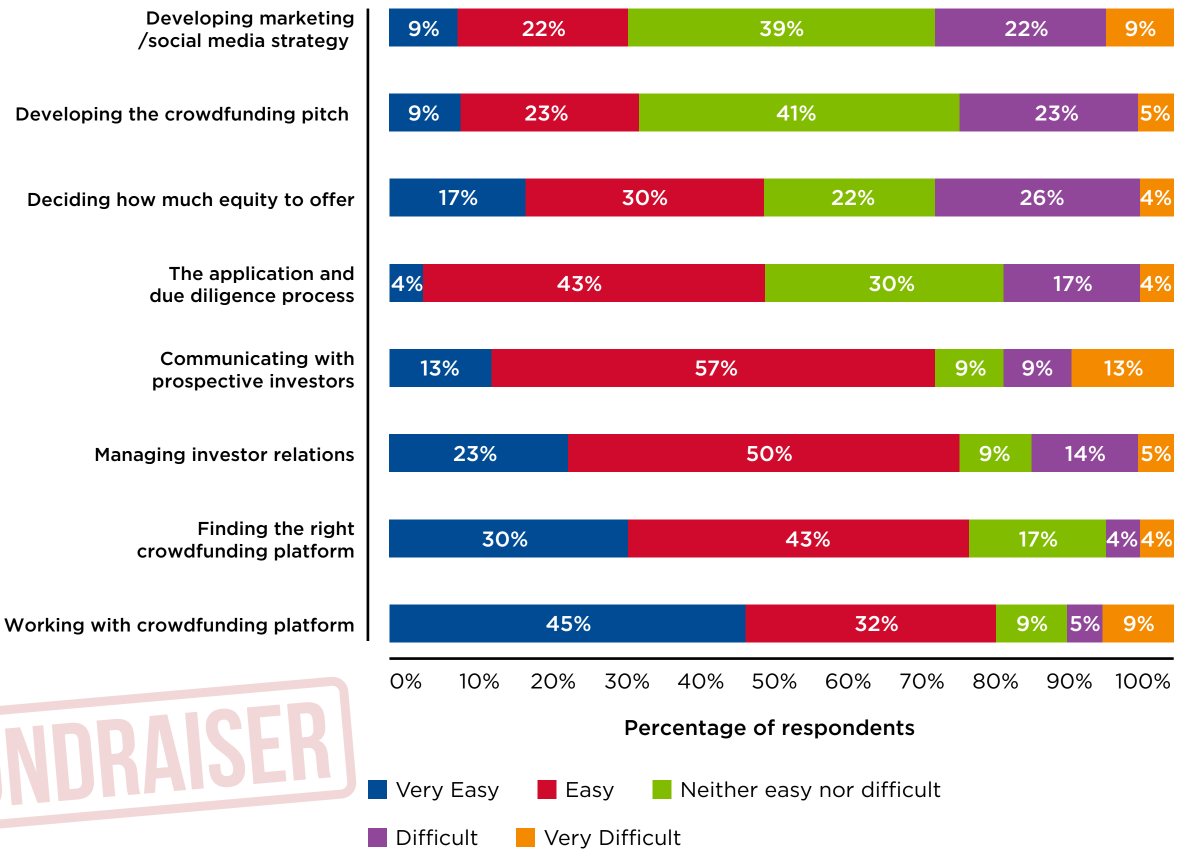


Figure 42: **Change since securing funding**

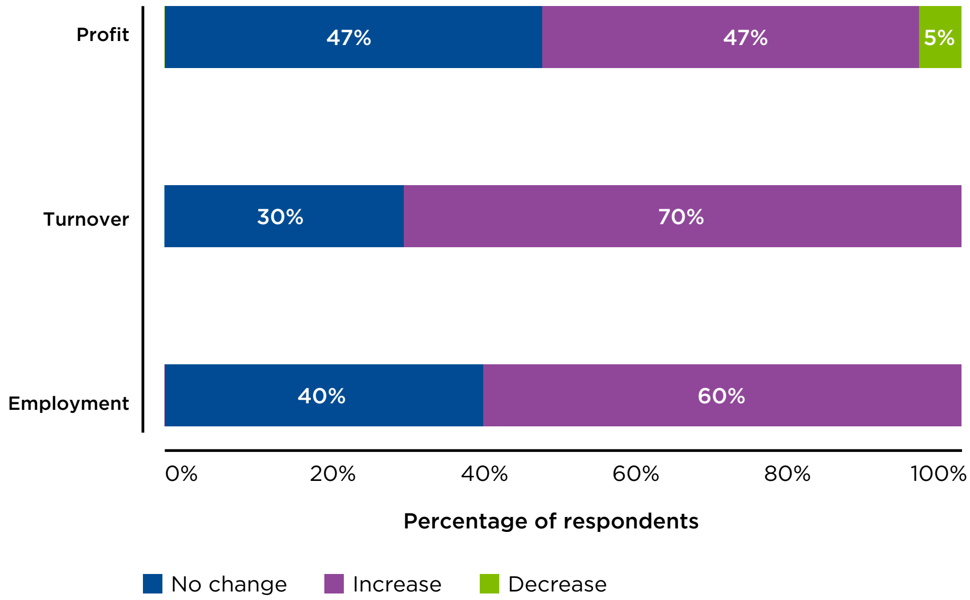
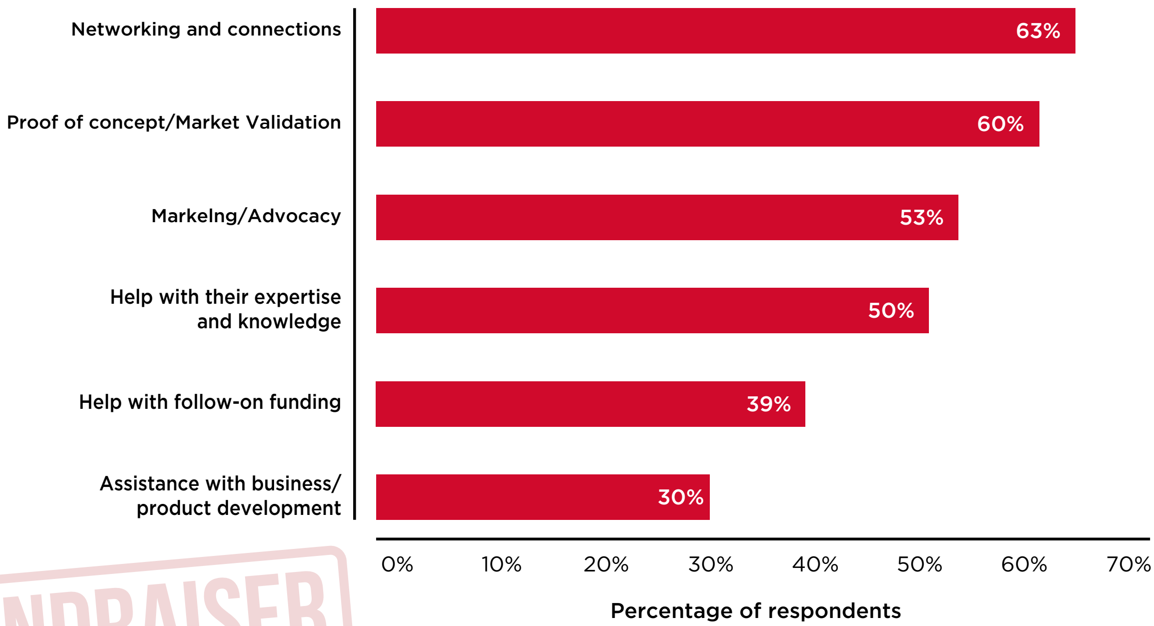


Figure 43: **Non-financial support received from funders**



INVESTOR

Figure 44: **Status of investors**

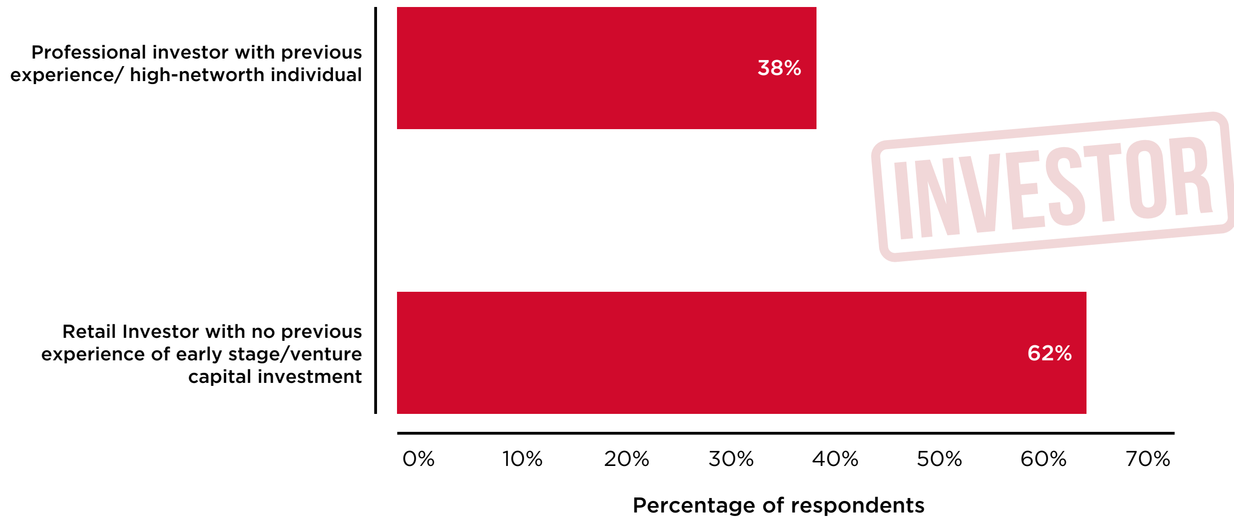


Figure 45: **How important are the following in your decision to invest in businesses through equity–based crowdfunding?**

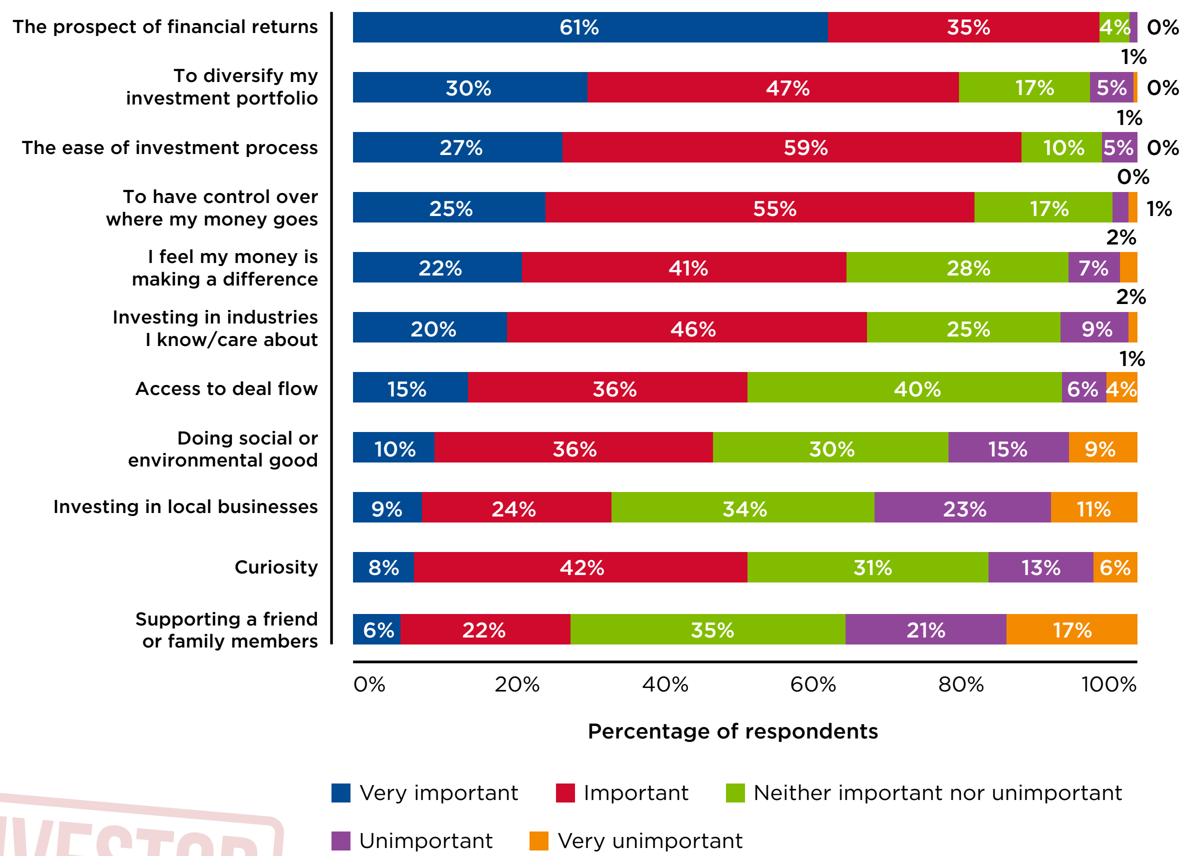


Figure 46: **Would you have invested through equity-based crowdfunding if tax incentives such as SEIS (Seed Enterprise Investment Scheme) and EIS (Enterprise Investment Scheme) were not present?**

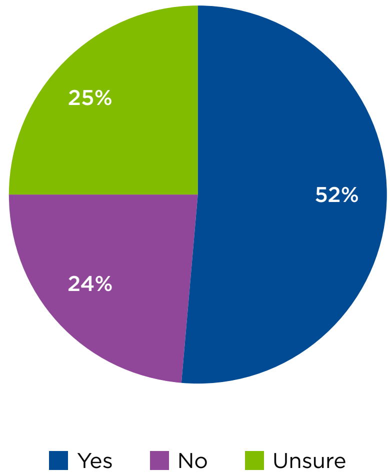
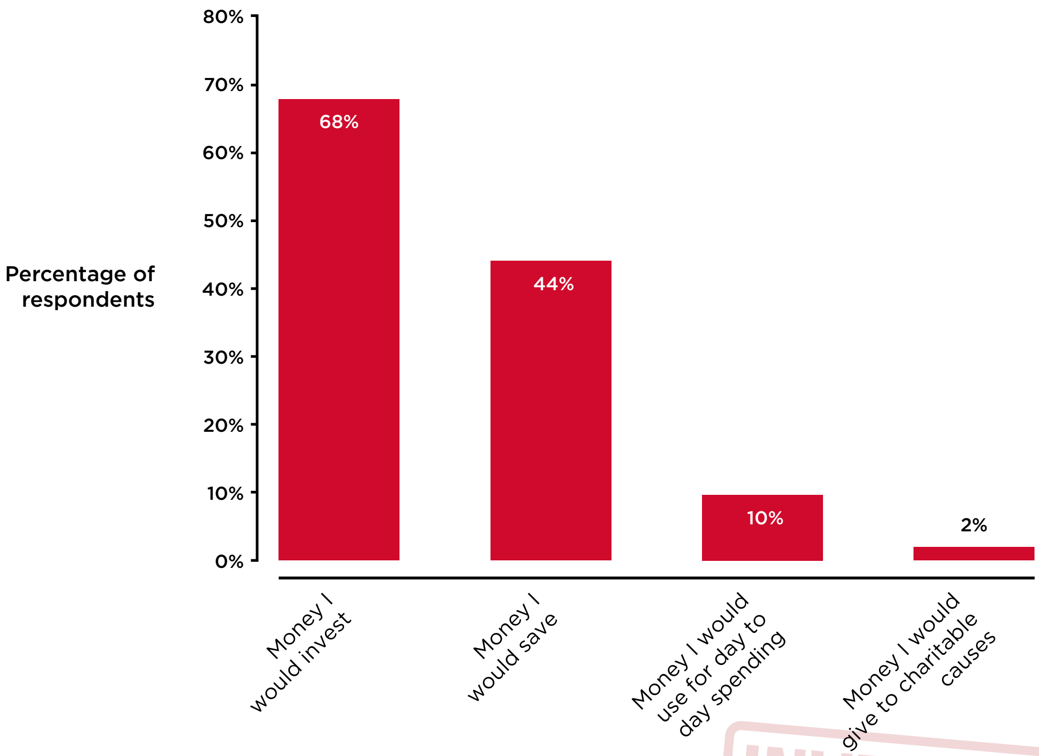
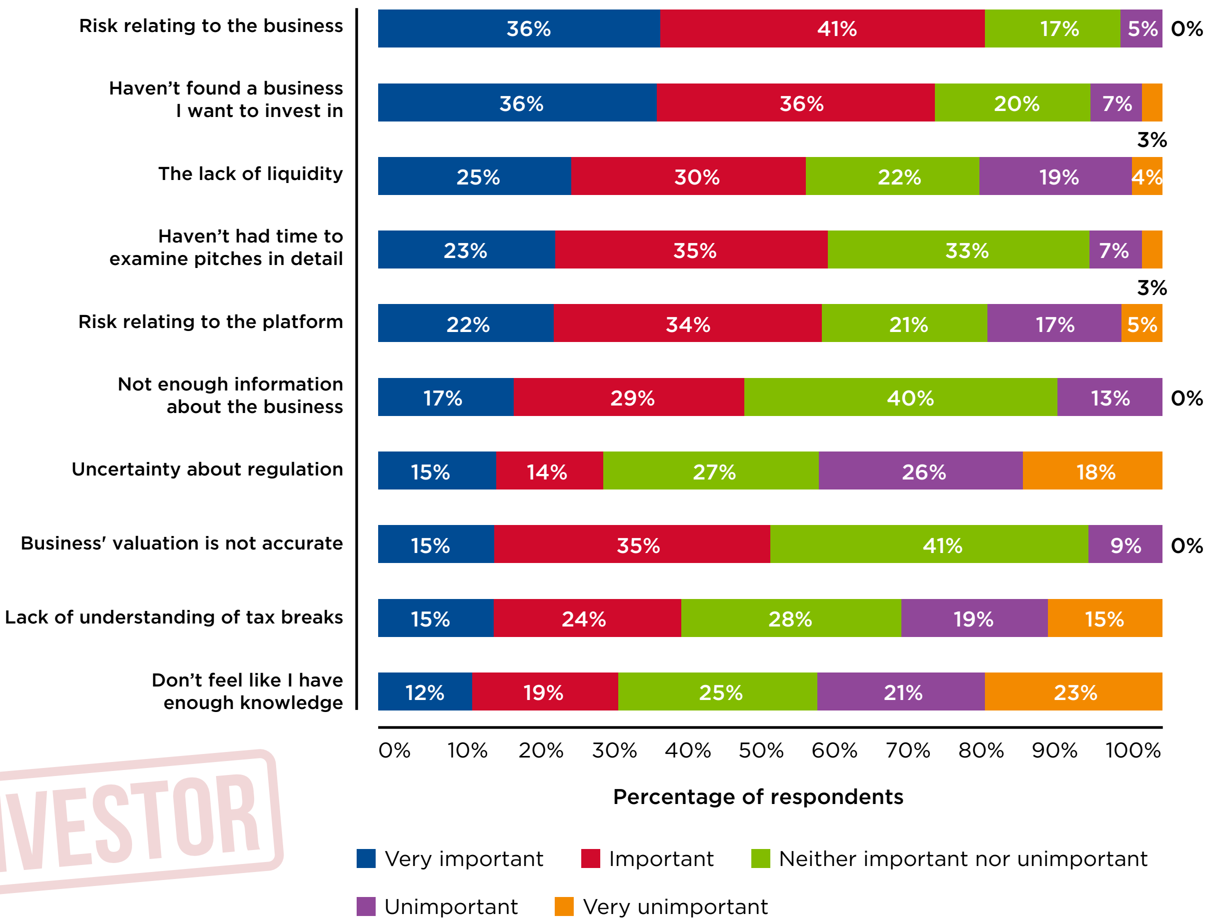


Figure 47: **When you budget for investing through equity-based crowdfunding, where does the money come from? (can select multiple)**



REGISTERED USERS YET TO BEGIN INVESTING

Figure 48: **How important were the following factors in keeping you from investing to date?**



INVESTOR

COMMUNITY SHARES

£174,286

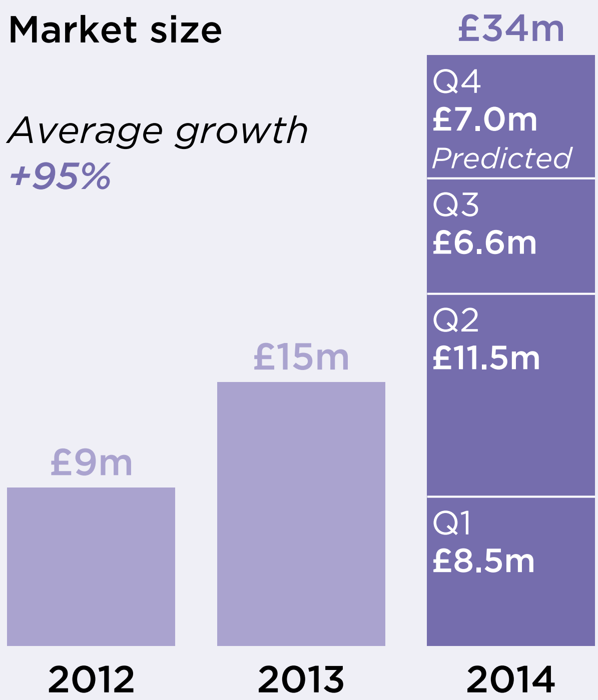
Average amount raised

The average investment in community shares is **£368**

38% of investors in community shares attended local shareholder meetings

32% of investors have offered to volunteer directly with the project they supported

The prospect of a finance return was only important or very important to **24%** of investors



Market for community shares worth £34 million.

In 2014 the community shares market grew by 124 per cent from £15 million in 2013 to £33.6 million this year. While the majority of community shares investing occur offline, the online offering of community shares is becoming increasingly important in this model of alternative finance. From analysis of the data we attained via online community shares platform, the average deal size is £174,286. On average, it takes 474 investors to fund a community shares offering with an average investment amount of £368.

> **WHAT ARE COMMUNITY SHARES?**
>
> The term community shares refers to withdrawable share capital; a form of share capital unique to co-operative and community benefit society legislation. This type of share capital can only be issued by co-operative societies, community benefit societies and charitable community benefit societies.

Three hundred and eighty investors of online community shares were surveyed to gain further insights on the model. The majority of activity in online community shares investing is in the South of the UK, with 55 per cent of all online community shares investors based in the South East, and 14 per cent based in London. They are also most prevalent in older age brackets with only 18 per cent of investors under 44 years old and 55 per cent being 55 or older. 39 per cent of investors have an annual income less than £25,000, and 26 per cent have an annual income between £25,000 and £35,000. 19 per cent of them earn between £35,000 and £50,000, with only 17 per cent of investors earning £50,000 or more. When asked how much they had invested in online community shares offering, respondents predominantly selected between £51 and £100 (36 per cent) and between £101 and £500 (40 per cent). Only 2 per cent of investors have contributed £50 or less and just 15 per cent had invested over £1000.

People invest in community shares to support a social or environmental cause

Forty–two per cent of investors in community shares made their first investment in a community project run by an organisation they knew. However, for a large proportion of investors (38 per cent), their first investment was in a community project run by someone they didn't know prior to the investment.

Seventy-eight per cent of investors surveyed had made just a single investment and 15 per cent of them invested in 2 or 3 community shares offerings. Very few (7 per cent) had bought community shares more than three times. The primary route through which funders are finding out about online community shares offering is media mentions (46 per cent or respondents), followed by social media (22 per cent) and offline promotion (18 per cent).

When deciding to invest through community shares, the factors identified as being most important are the social aims of the project receiving investment. More than 90 per cent of respondents reported 'doing social or environmental good', 'feeling their money is making a difference' and that 'the organisation or projects invested in will create a stronger community' as important or very important factors. The prospect of achieving financial returns was only important or very important to 24 per cent of investors. 68 per cent of respondents say they invested amounts that they felt they could afford to lose.

When asked about their connections to the project, 55 per cent of investors stated that they invested in a project they could access or use. 59 per cent of respondents invested in a project that others in or outside of their local community could also benefit from.

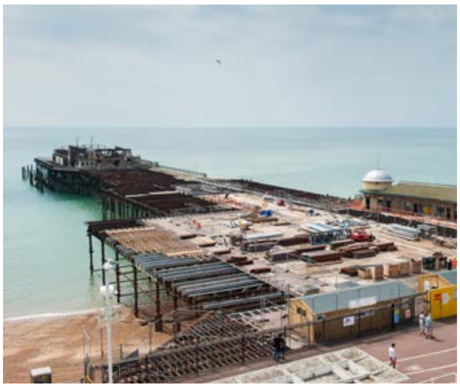
One in three offer to volunteer with the project they invested in

When asked where in their budget the money invested in community shares comes from, 58 per cent reported that it is money they would otherwise save with only 12 per cent used the money they would otherwise give to charitable causes.

In addition to the financial support, investors in community shares have offered a series of non–financial contributions to the projects they have invested in. 35 per cent have given feedback to fundraisers running the campaign and 32 per cent of them have offered to volunteer directly with the community project they funded. 38 per cent of respondents have attended shareholder meetings subsequently.

Seventy-five per cent of investors would recommend community shares

Looking ahead, 75 per cent of people who invested in online community shares offering would be likely or very likely to recommend this form of investing to people they know. 67 per cent of investors would be likely or very likely to invest more should they get a 30 per cent social investment tax relief on their investment in community shares.



Hastings Pier

In October 2013, the Hasting Pier Charity set out to raise £500,000 to bridge the funding gap in rebuilding the community's pier via the Microgenius online community shares platform. The total cost of the rebuild is £14 million, of which a large amount was secured from the Heritage Lottery Fund.

By the end of the campaign with Microgenius in April 2014, 3,057 people had bought community shares in the pier for a total of £562,560. The aim of the project was to increase the attractiveness of the region for tourism, and give the community a sense of ownership over the iconic monument. The pier is due to reopen in spring 2015, with funfairs, a circus, an open-air cinema and theatre, farmers' markets and a heritage centre among the plans for the attraction.

INVESTOR

Figure 49: **How important are the following in your decision to invest in organisations/projects through community shares crowdfunding?**

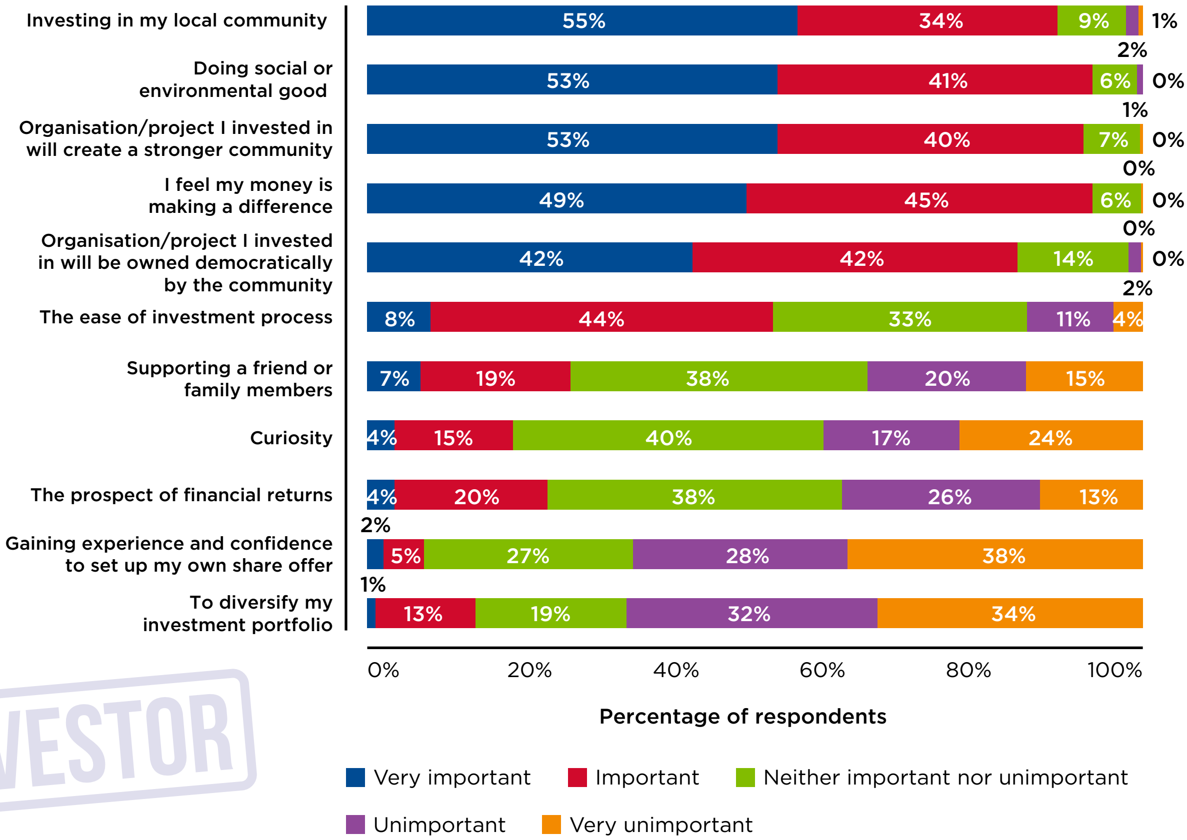


Figure 50: **Did you support community shares crowdfunding campaigns in any of the following ways beyond funding them?**

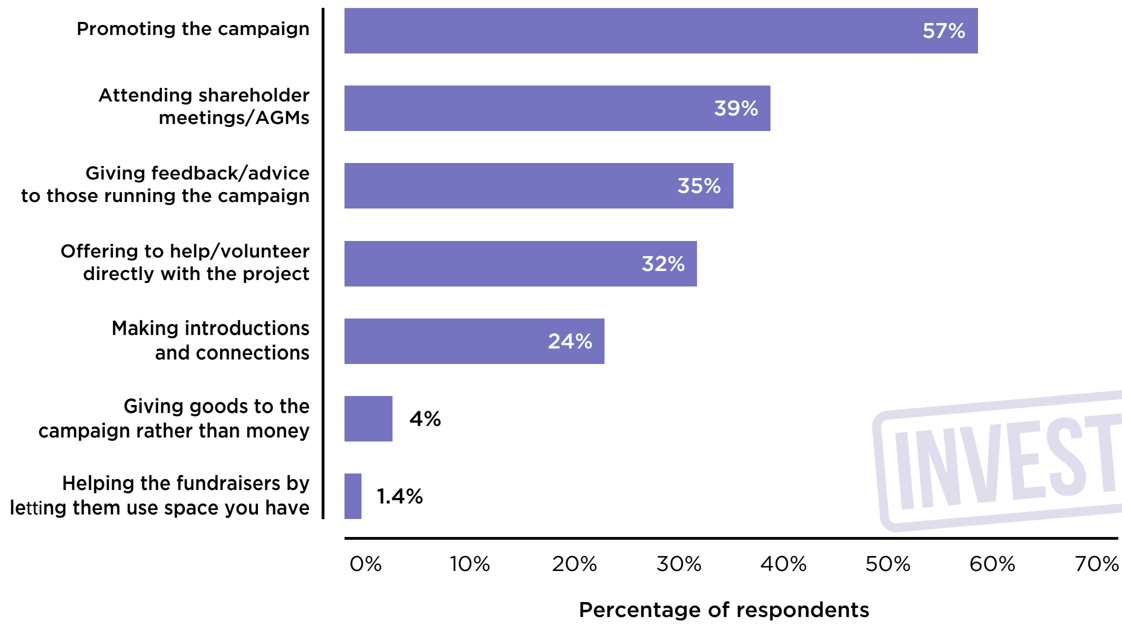
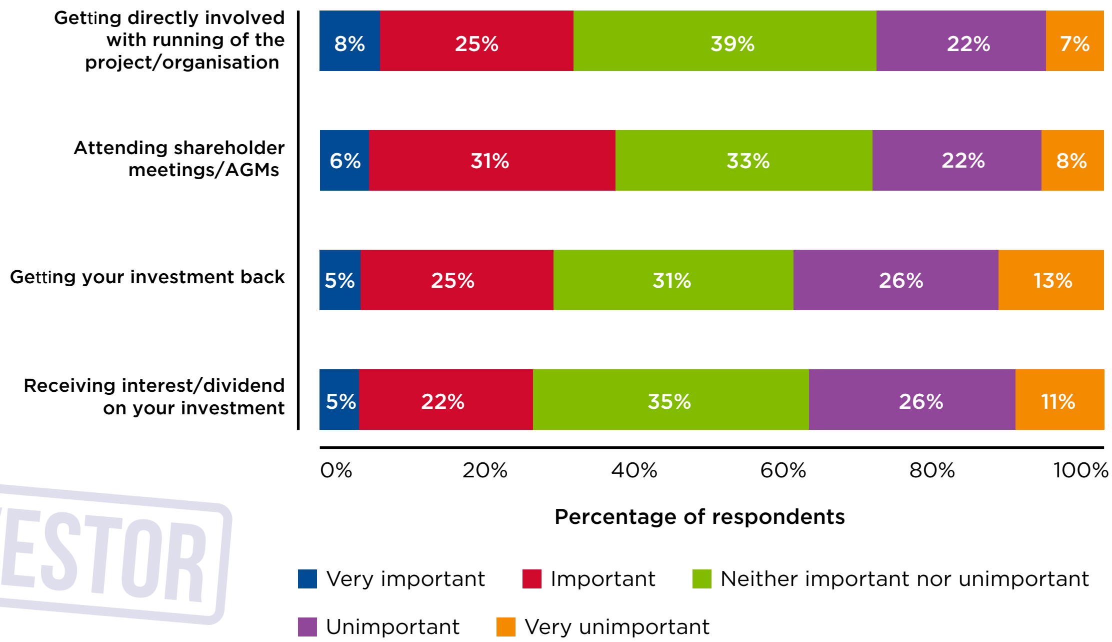


Figure 51: **As a funder/investor in community shares, how important are the following?**



PENSION-LED FUNDING

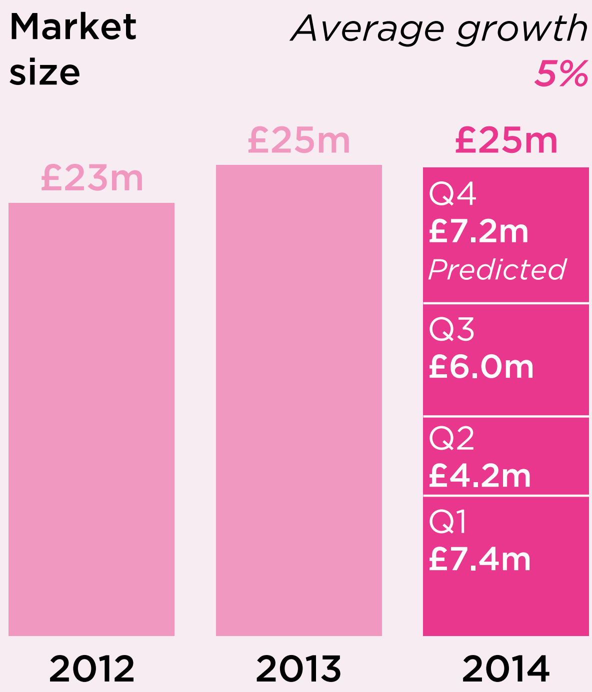
£70,257

Average amount raised

Pension-led funding (PLF) users are mostly small businesses, 7% were sole traders while 60% had 5 or fewer employees

51% of PLF fundraisers thought that they would have been unlikely or very unlikely to secure funding elsewhere

43% have increased their employment after raising finance via PLF



Pension led funding is now a £25 million market.

Pension-led funding (PLF) offers SME owners and directors the opportunity to re-channel, and re-invest their pension funds back into their own ventures and companies mostly as working or expansion capital through SIPP or SASS instruments.[13] PLF has supplied more than £25 million of finance to SMEs in 2014. Analysis of data from PLF providers show that the average amount raised through PLF is £70,257.

WHAT IS PENSION-LED FUNDING

Mainly allows SME owners/directors to use their accumulated pension funds in order to invest in their own businesses. Intellectual properties are often used as collateral.

Pension Led Funding is used primarily by small mature businesses

Seventy-four businesses responded to our survey of PLF users. The businesses seeking PLF came from a range of sectors with retail, construction, technology and manufacturing among the most prevalent. They are almost entirely small businesses. Seven per cent were sole traders with 60 per cent having five or fewer employees. Though small, many are not young. Almost half have been trading for more than 10 years with just eight per cent trading for less than three years. Three-quarters had begun using PLF in the last three years.

Users of PLF believed it was easier to access funds through the model than through traditional financing channels. They also value being able to utilise their pension funds (an ‘important’ or ‘very important’ factor in choosing PLF for 66 per cent of respondents) and having more control over their finances (73 per cent). More than half had approached a bank for funding before securing funds through PLF, with less than a third of those receiving an offer of funding from the bank.

When asked how they found out about PLF, the most common responses were professional advisor (40 per cent) and offline advertising (35 per cent). Whilst some respondents found it difficult to find the PLF provider (11 per cent) and to transfer their existing pension across (13 per cent), in general, most of the survey respondents found that PLF was easy to use.

Sixty-two per cent of businesses have seen their profit grow after securing finance through PLF

Just over half of the businesses surveyed believed it would have been 'unlikely' or 'very unlikely' that they would have secured the funds they needed from other sources, had they been unable to use PLF. Since obtaining funding, 62 per cent have seen their profit grow, 59 per cent have increased turnover and 43 per cent have employed more people. Other reported impacts since securing PLF include improved cash flow (53 per cent) and the launching of a new product or service (47 per cent).

Respondents' view of PLF was generally positive. 81 per cent say they would be 'likely' or 'very likely' to recommend PLF to a business they know. 79 per cent are 'likely' or 'very likely' to approach PLF for funds in the future with 66 per cent inclined to do so, even if a bank offered funds on similar terms.

Figure 52: **In which sector does your company/organisation operate?**

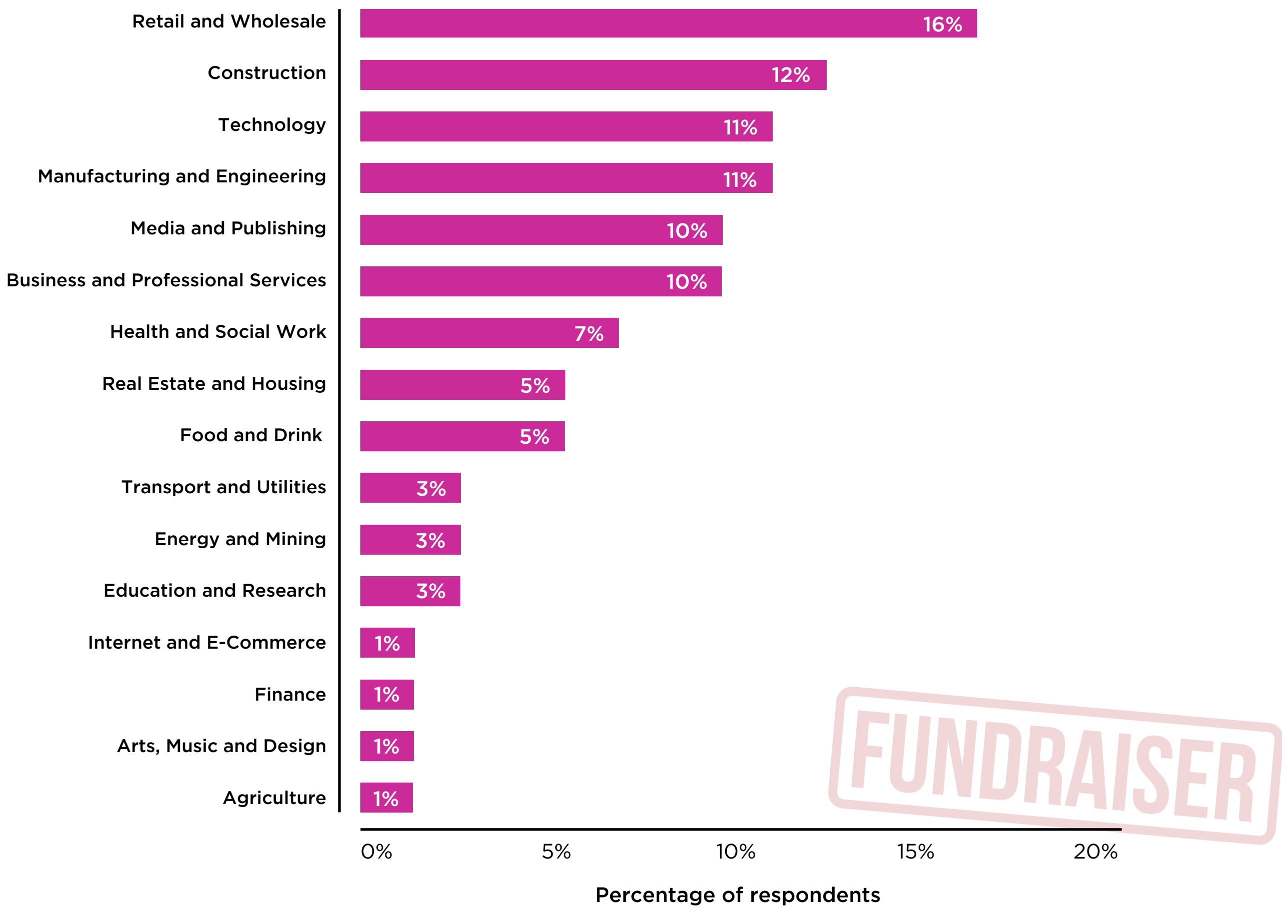


Figure 53: **How many years have you been trading?**

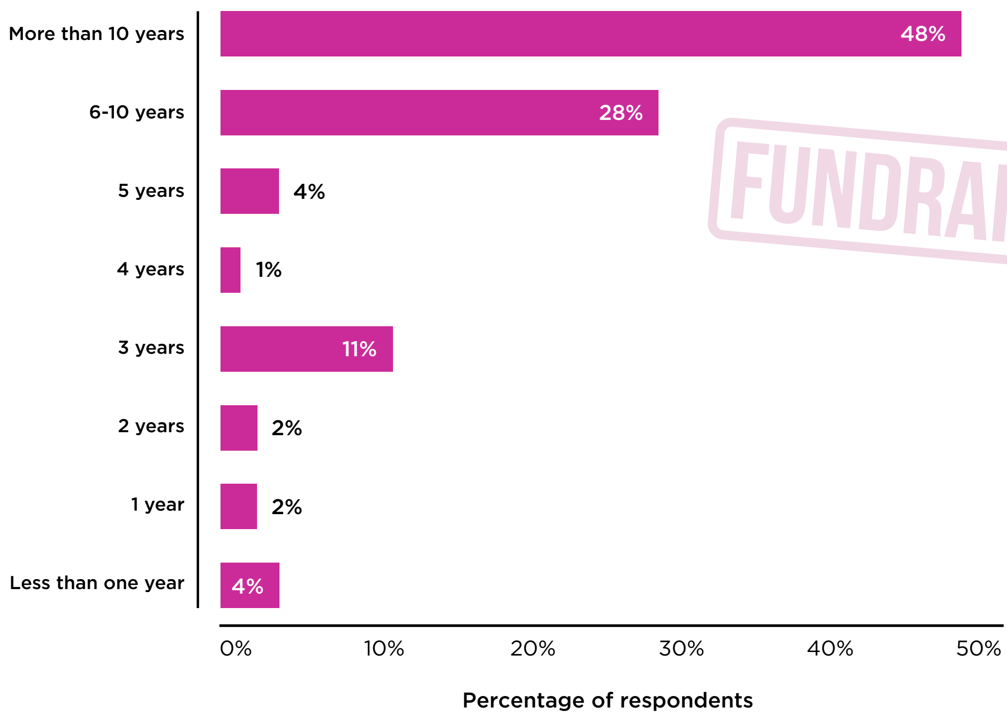


Figure 54: **What was your purpose(s) for raising capital through pension-led funding? (can select multiple)**

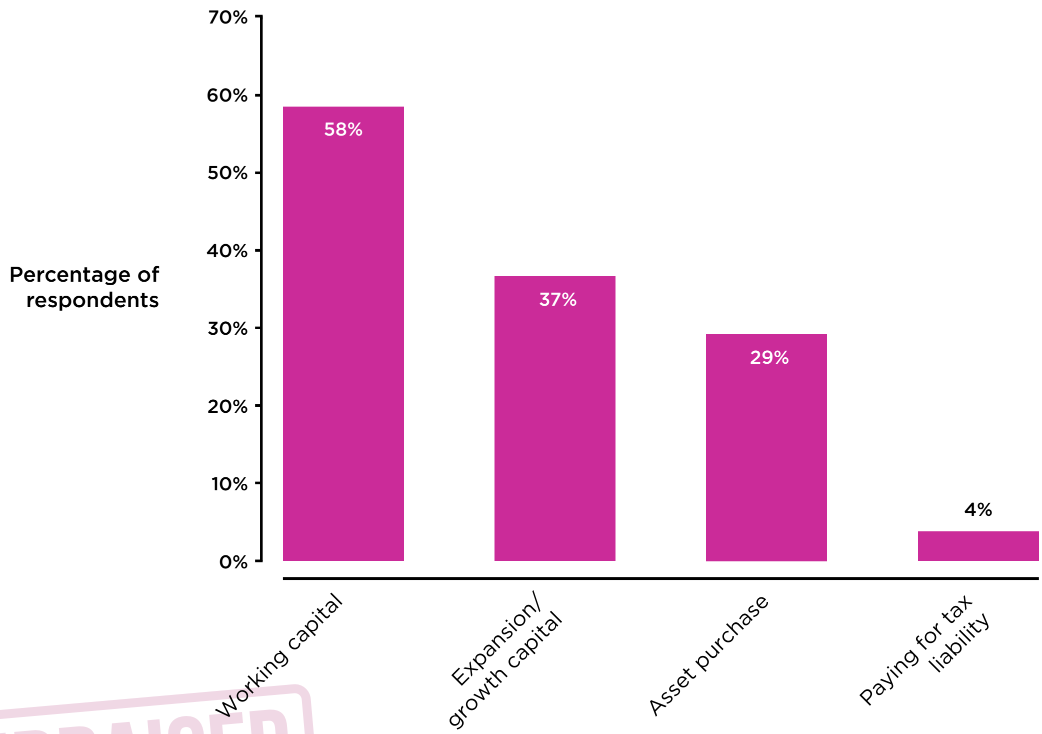


Figure 55: **How did you find out about pension-led funding?**

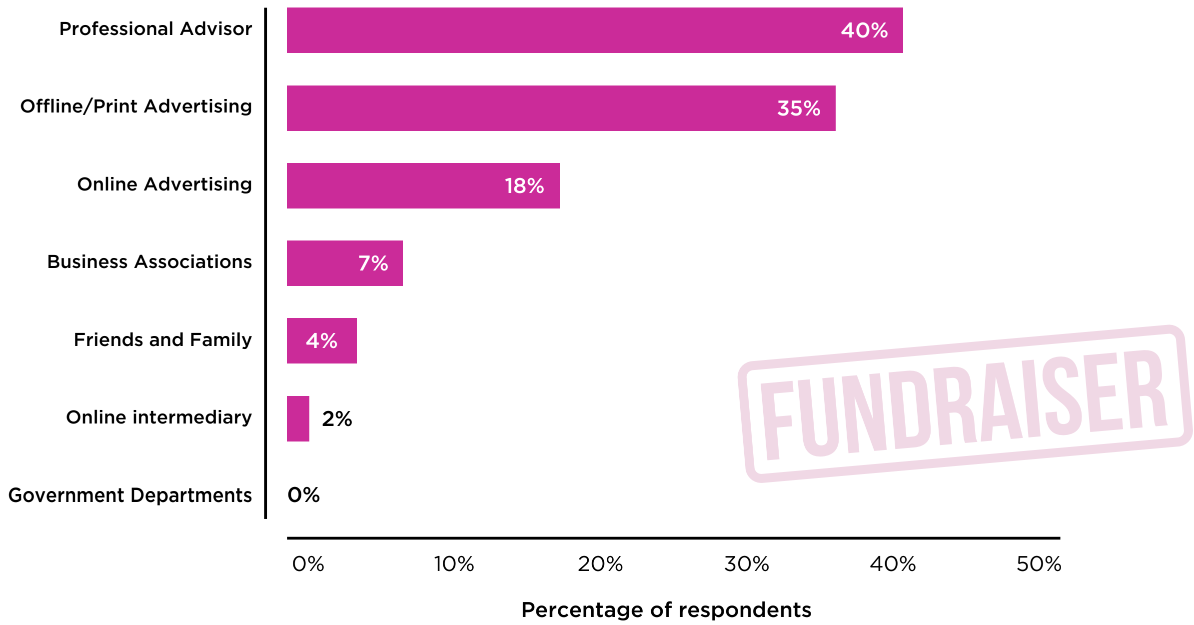


Figure 56: **How likely is it that you would have received finance elsewhere if you could not have gone to pension-led funding?**

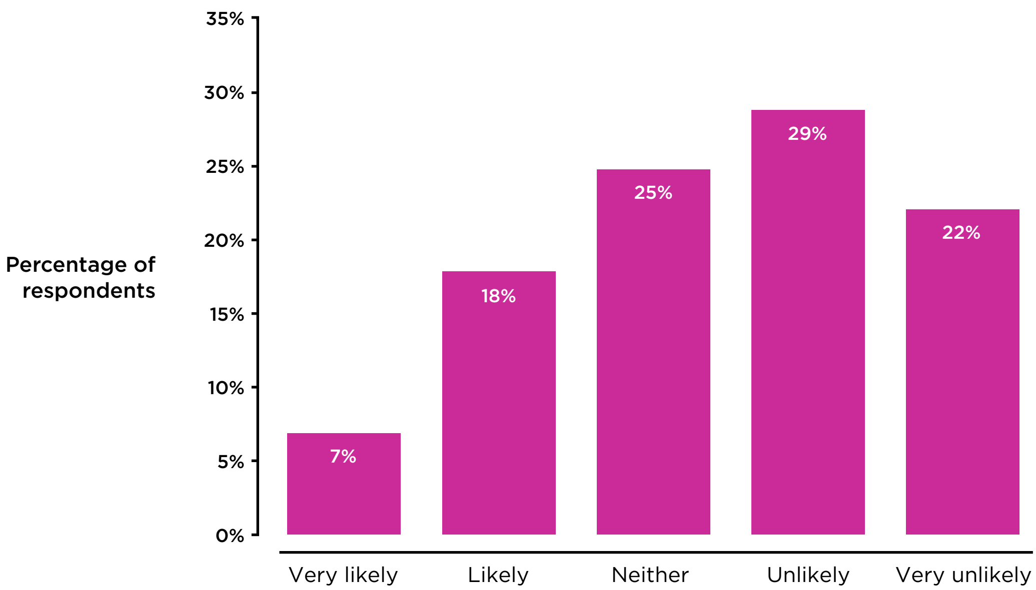
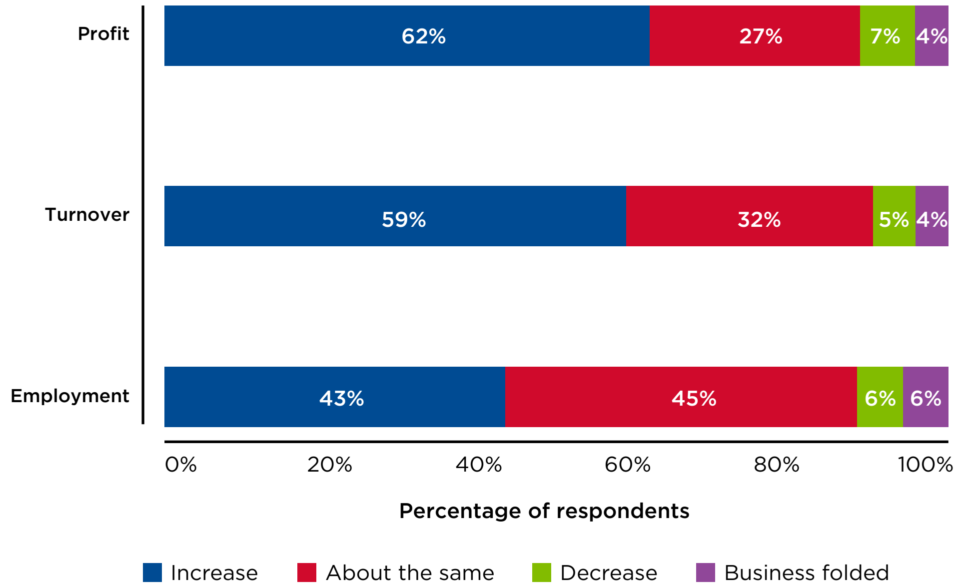


Figure 57: **Change since accessing funding**



REWARD-BASED CROWDFUNDING

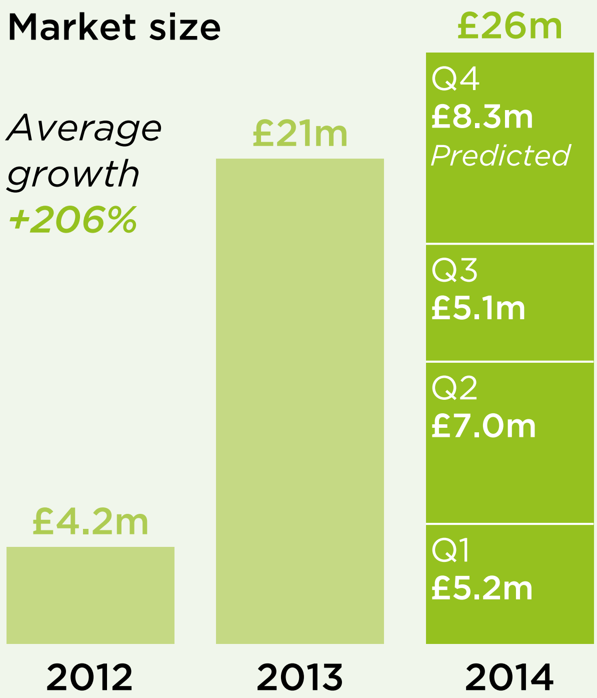
£3,766

Average amount raised

The majority of funders had spent **less than £50** on supporting projects and mostly backed only a single project

53% said they would have been unlikely to get funded were it not for crowdfunding

72% of funders knew the person running the campaign they backed either personally or by reputation



The reward-based crowdfunding market grew to £26 million in 2014

Reward-based crowdfunding is probably the model that has really captured the public's imagination and media's attention, and it is the type of alternative finance that registered the highest usage rate (eight per cent) in our national consumer poll among all surveyed models.

Reward-based crowdfunding has seen a steady increase of 17 per cent in 2014 from £20.5 million in 2013 to over £26 million in 2014. Analysis of transactional data worth over £30 million between 2010 and the first quarter of 2014 shows that the average size of the reward-based fundraising campaign is £3,766 with approximately 77 backers per campaign and an average donation of £48.92. The average crowdfunding success rate across seven surveyed reward-based crowdfunding platforms is around 35 per cent. On average, a successful campaign took 28 days to reach their funding target.

From the survey of 191 fundraisers and 1,128 backers who have used reward-based crowdfunding, it is clear that those seeking to fundraise in the UK through this model are predominantly those in the social sector or creative industries. They tend to be small operations, often individuals with little trading history and modest if any turnover. They had chosen reward-based crowdfunding as a potential source of finance to have more control over the project (important or very important for 78 per cent of respondents), raise funds on their own terms (66 per cent), to access the non-financial benefits that crowdfunding can provide (71 per cent) and for the transparency (71 per cent) and speed (68 per cent) of the funding process.

WHAT IS REWARD-BASED CROWDFUNDING?

Individuals donate towards a specific project with the expectation of receiving a tangible (but non-financial) reward or product at a later date in exchange for their contribution.

Most backers use reward–based crowdfunding to fund people they know

When choosing which campaigns to back, more than 60 per cent of backers valued the quality of the idea, the team and knowing their money was making a difference. Funders were also quite influenced by personal recommendations from people they knew.

Backers reported that the money they used to fund projects would otherwise have gone towards day–to–day spending, rather than savings or investment. Very few backers (less than 10 per cent of those surveyed) viewed their support as an investment, but rather as a chance to support worthwhile projects.

Aside from contributing funds, 70 per cent of backers also gave non–financial support, usually by promoting the crowdfunding campaign. Eighty per cent of backers would recommend reward–based crowdfunding or a specific crowdfunding campaign to someone they knew. Many of them (39 per cent) have also used other alternative finance platforms, usually other reward–based crowdfunding sites. Funders tended to have contributed small amounts (61 per cent of respondents had in total contributed less than £50 to projects) to projects and had backed only a single project. Those on reward–based crowdfunding platforms that focused on funding creativity tended to have contributed more and backed more projects. They generally found out about the campaign through social media or direct mailing. In many cases they also had some connection to, or knowledge of, the fundraiser prior to the crowdfunding campaign. Most backers gave funds to someone they knew at least by reputation, and only 28 per cent had backed someone they didn't know.

Social media and social networks are key to fundraising success

The principle difficulties fundraisers faced when sourcing funds were finding backers and developing campaign material. Corresponding to how backers reported finding out about fundraising campaigns, fundraisers listed social media and their existing social networks as the most effective routes to reaching potential backers, with offline promotion the least effective. Just over half of fundraisers stated they would have been 'unlikely' or 'very unlikely' to raise funds without crowdfunding, a further 21 per cent did not know if they would have been able to do so or not.

Three in four unsuccessful fundraisers would try it again

Those who failed to reach their crowdfunding target put their lack of success down to not getting their community or network sufficiently engaged with the project(rated an 'important' or 'very important' factor in their lack of success by 80 per cent of respondents), not generating enough momentum in the campaign's early stages (74 per cent) and trying to raise too much money (50 per cent). Despite this, three quarters of surveyed fundraisers would try it again or recommend this model to someone else seeking funds.

Twenty–nine per cent of fundraisers increased employment after raising finance through re-ward–based crowdfunding

Looking at the impact, 29 per cent of the fundraisers reported an increase in employment, 49 per cent an increase in turnover and 37 per cent a growth in profits since obtaining finance through reward–based crowdfunding. Two–thirds also reported having completed their project or launched a new product or service and getting more engagement from supporters. Related to this, three–quarters of fundraisers reported that they benefited from accessing the networks of their funders and around the same proportion said their backers provided assistance with marketing and advocacy of the project.

Ninety-two per cent of fundraisers would recommend the model to someone else seeking funds

The majority (70 per cent) of the successful fundraisers used the model for the first time since the beginning of 2013, providing further evidence to this being a very young market, with lots of people raising money for the first time in recent years. Successful fundraisers viewed reward-based crowdfunding quite positively and 92 per cent would recommend the model to someone else seeking funds. 81 per cent of them would approach reward-based crowdfunding again in the future should they need more finance.

Vote For policies

Vote for Policies, an innovative online voter-support service launched a crowdfunding campaign on Crowdfunder and raised £23,551 to pay for a state-of-the-art new website to help the British public decide who to vote for in the 2015 UK general election. Initially launched just before the 2010 UK general election by social change enthusiast Matt Chocqueel-Mangan, Vote for Policies was an unprecedented success, helping 280,000 voters decide their ballots. With over 850 backers funding the project, Vote for Policies now expects to encourage up to five million current and first time voters to re-engage with party politics in a positive and meaningful way.

School Farm Community Supported Agriculture (CSA)

The CSA is a non-profit organic community farm which grows organic vegetables using a no-dig method that is respectful of the soil. The operation is entirely paid for through local people subscribing in advance for each growing season, during which they will receive weekly vegetable boxes.

In February 2014, the farm used crowdfunding platform Buzzbank to raise £13,685 from 116 supporters. This was used to double their land and membership base. The funding also enabled the farm to expand its range of activities, including growing more organic and affordable food for members, as well as extend the farms outreach programs to disadvantaged groups in the local community

Figure 58: **How much money have you used to fund through the site?**

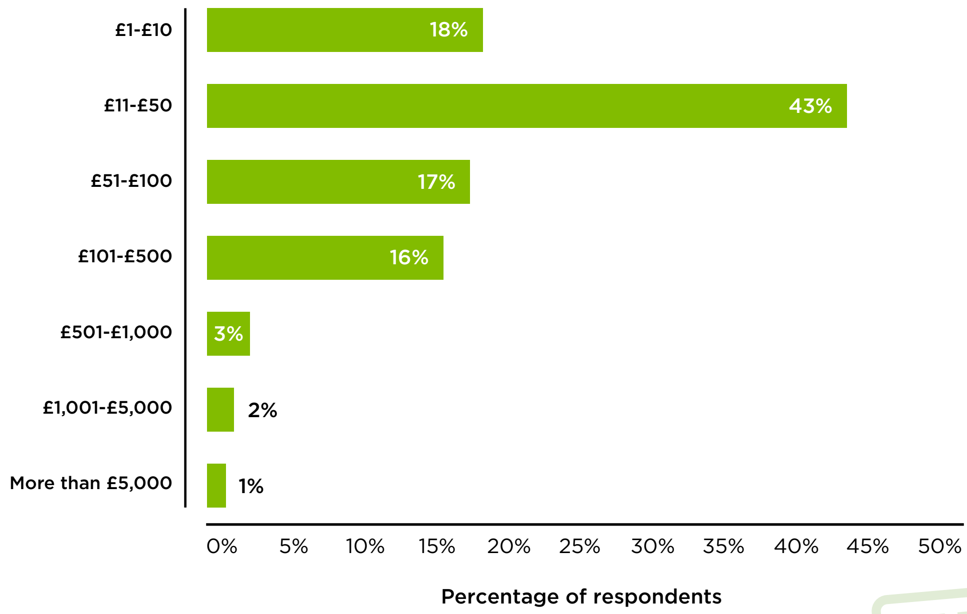


Figure 59: **Relationship to fundraiser**

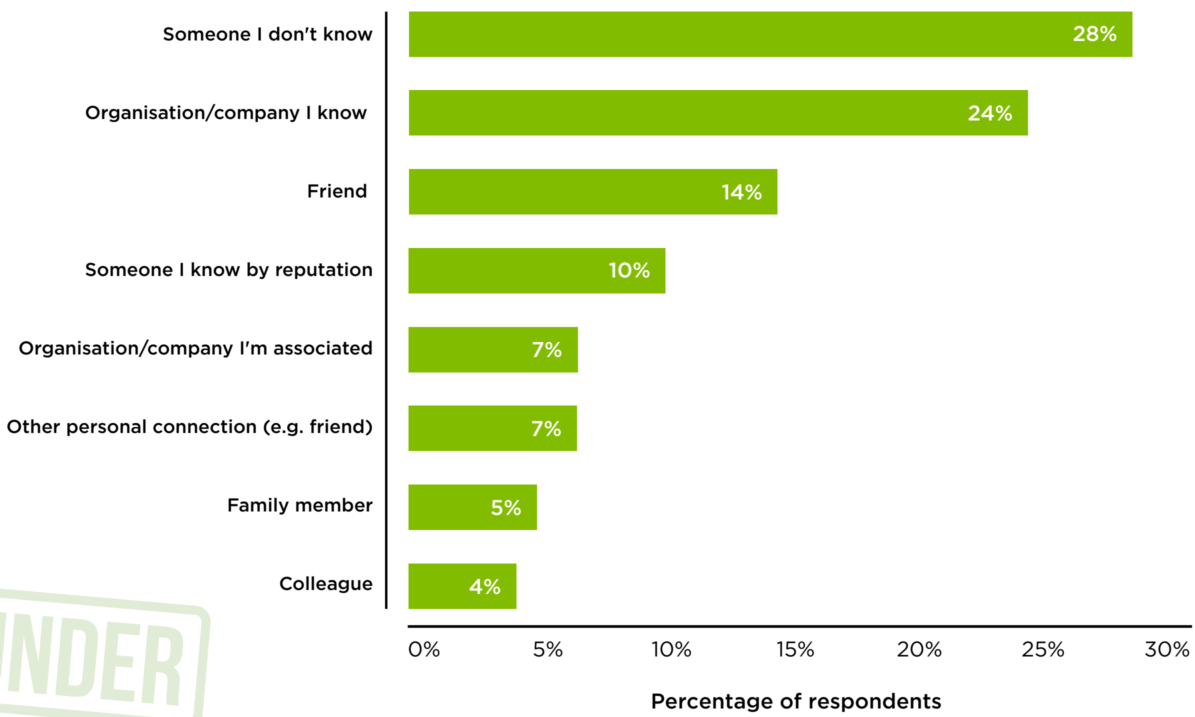


Figure 60: **Reasons for backing projects**

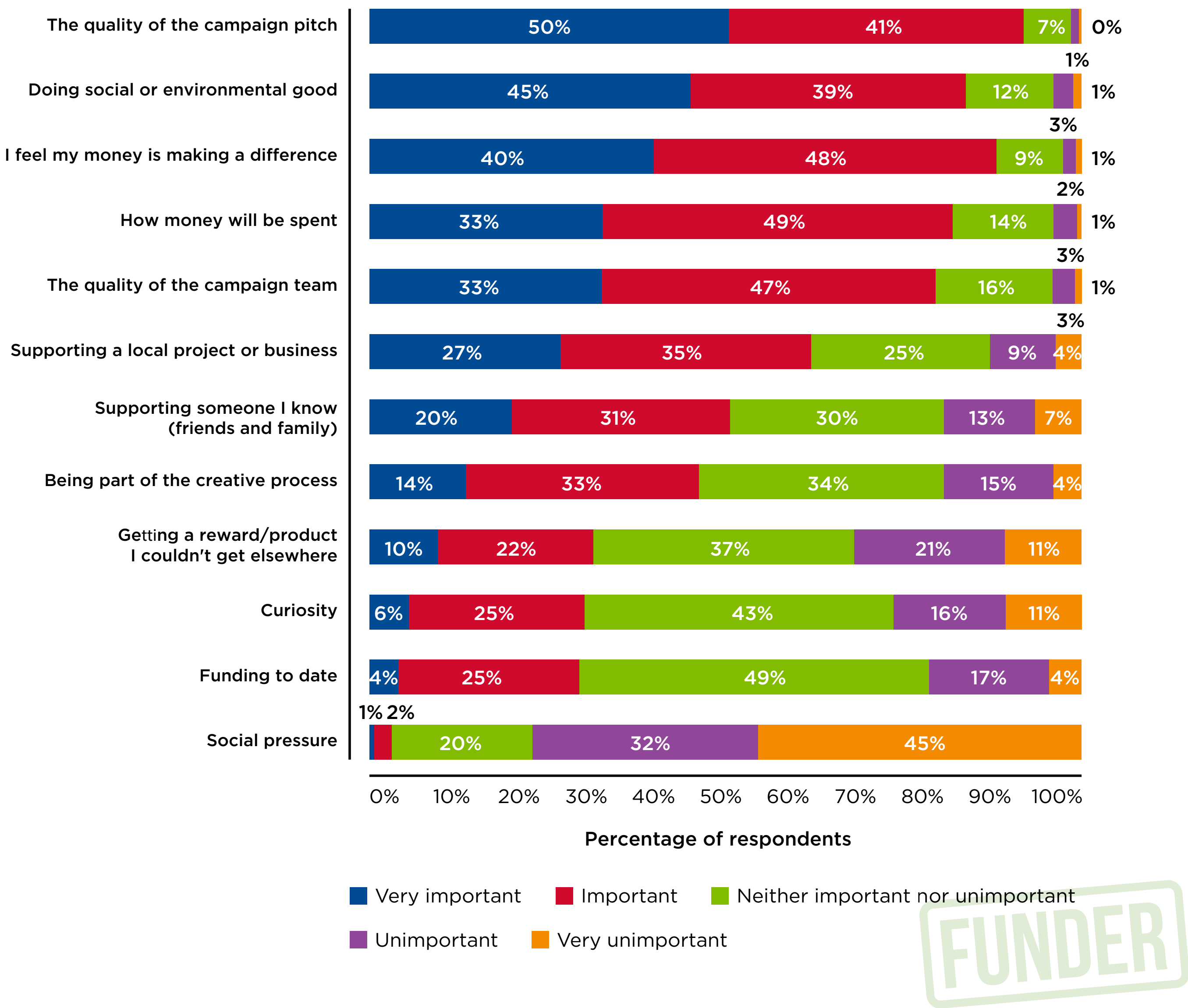
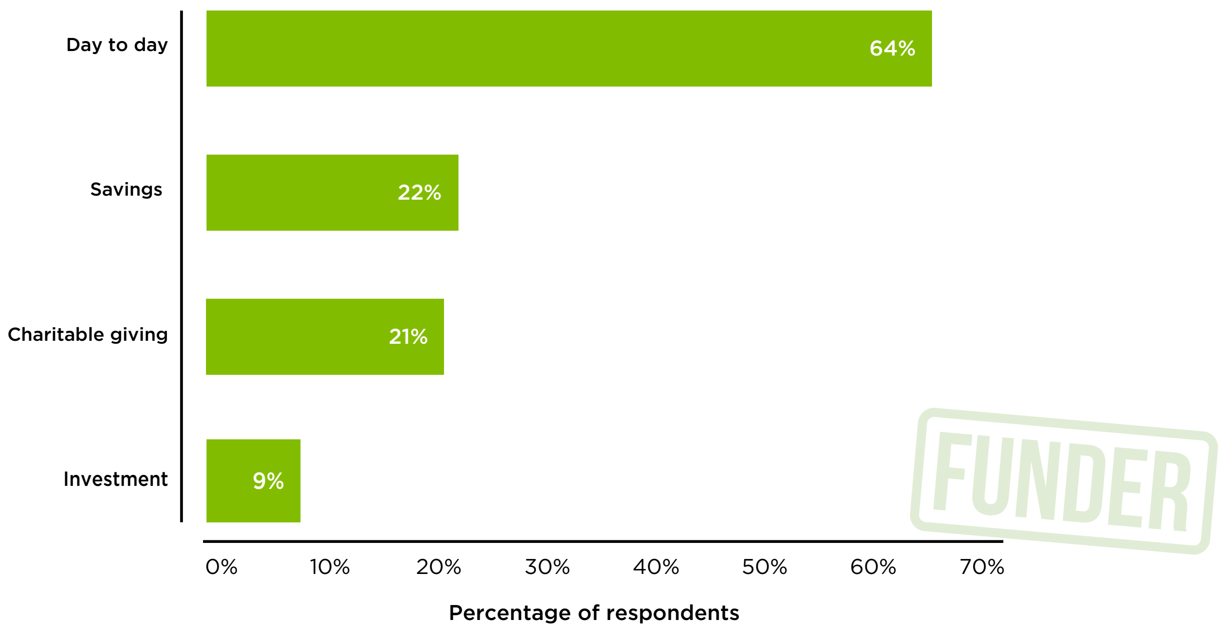


Figure 61: **What would you otherwise do with the money you use to back crowdfunding campaigns? (can select multiple)**



FUNDRAISERS

Figure 62: **Reasons for raising through reward-based crowdfunding**

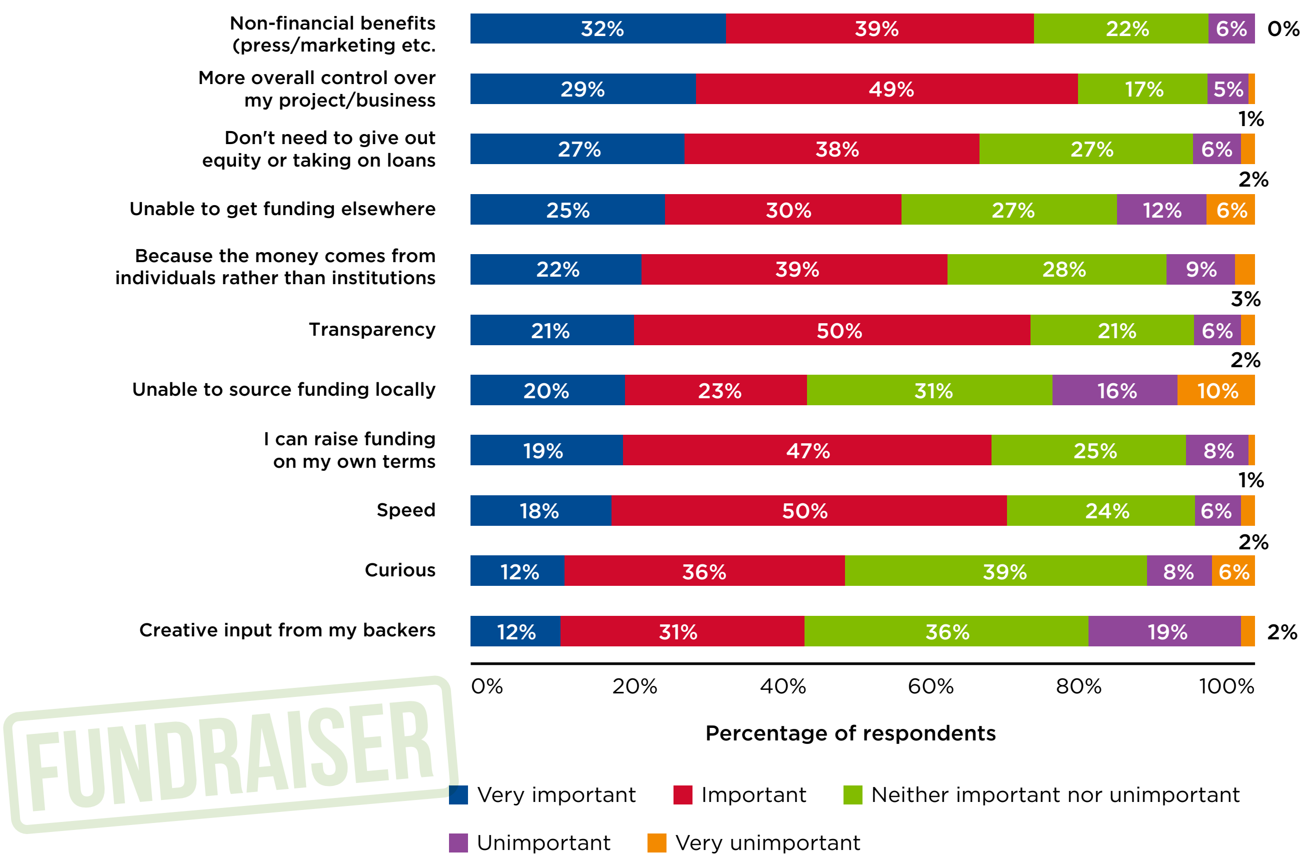


Figure 63: **How difficult were the following factors when raising finance?**

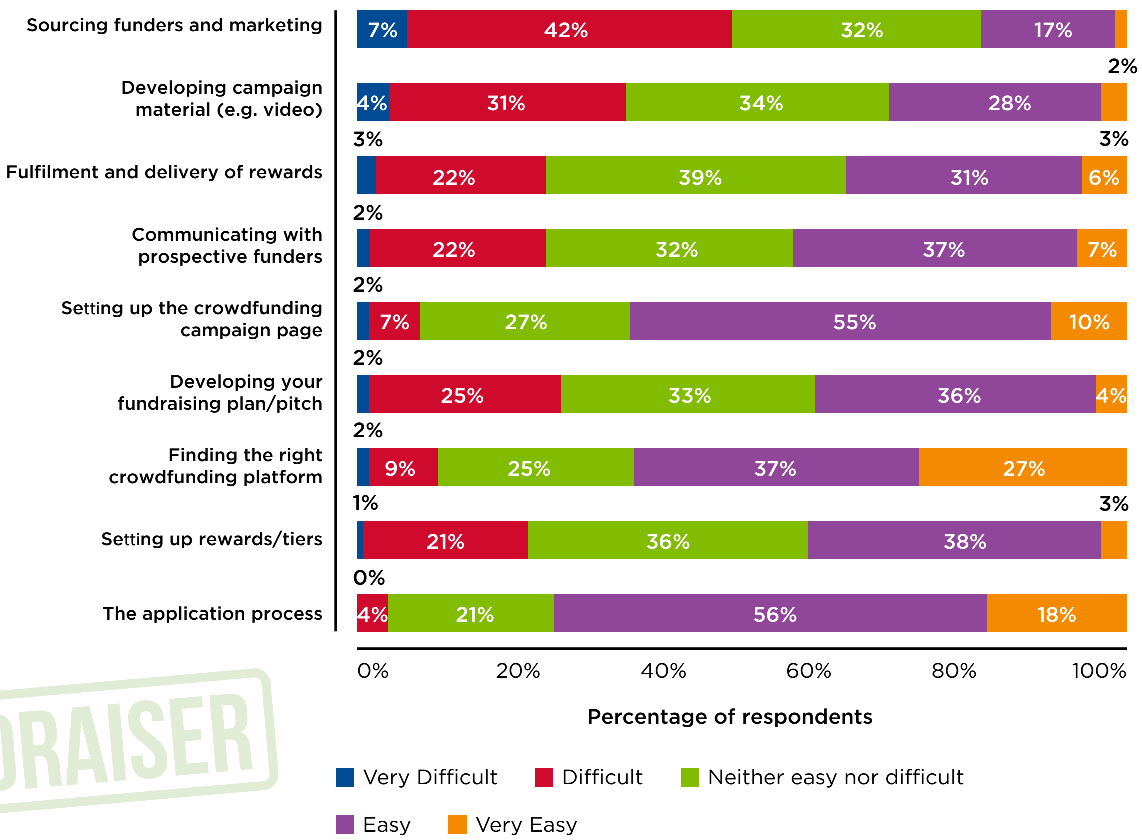


Figure 64: **How likely is it that you would have received funding without crowdfunding?**

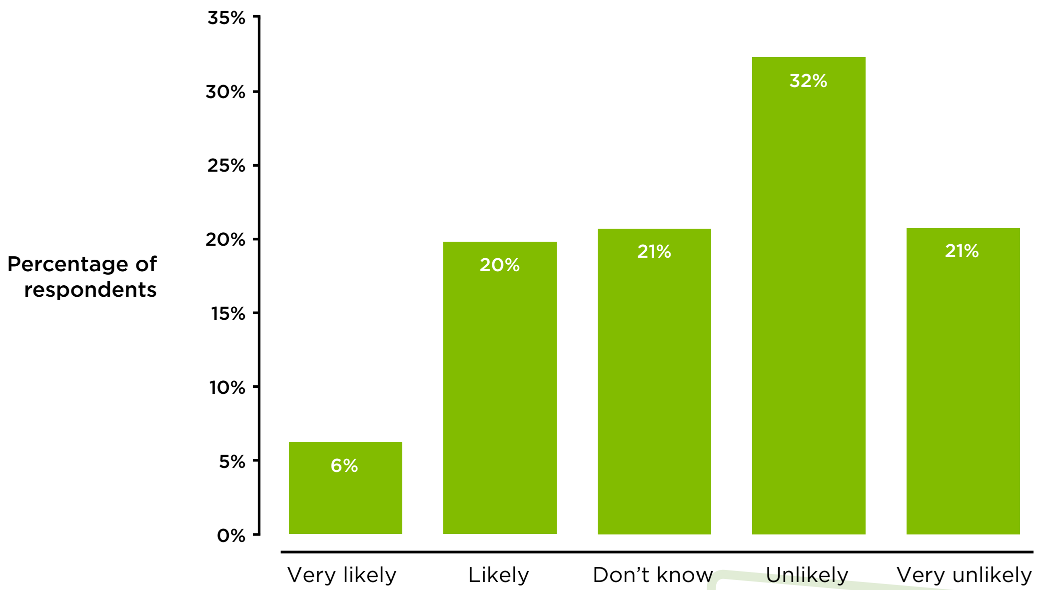


Figure 65: **Proportion of businesses seeing growth since raising crowdfunding**

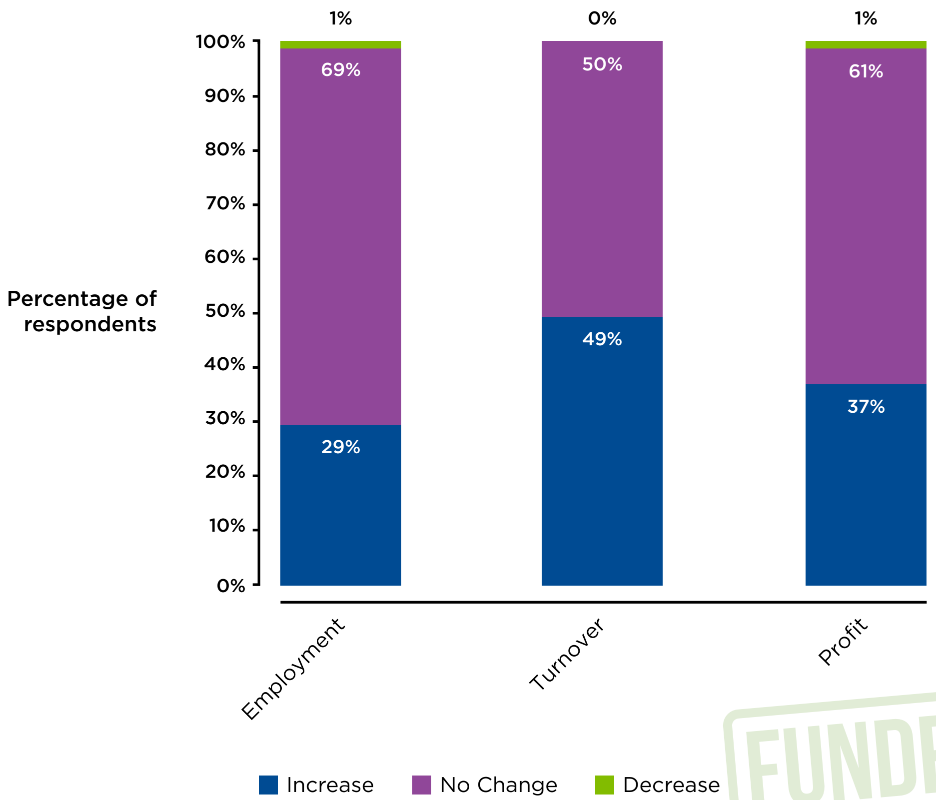
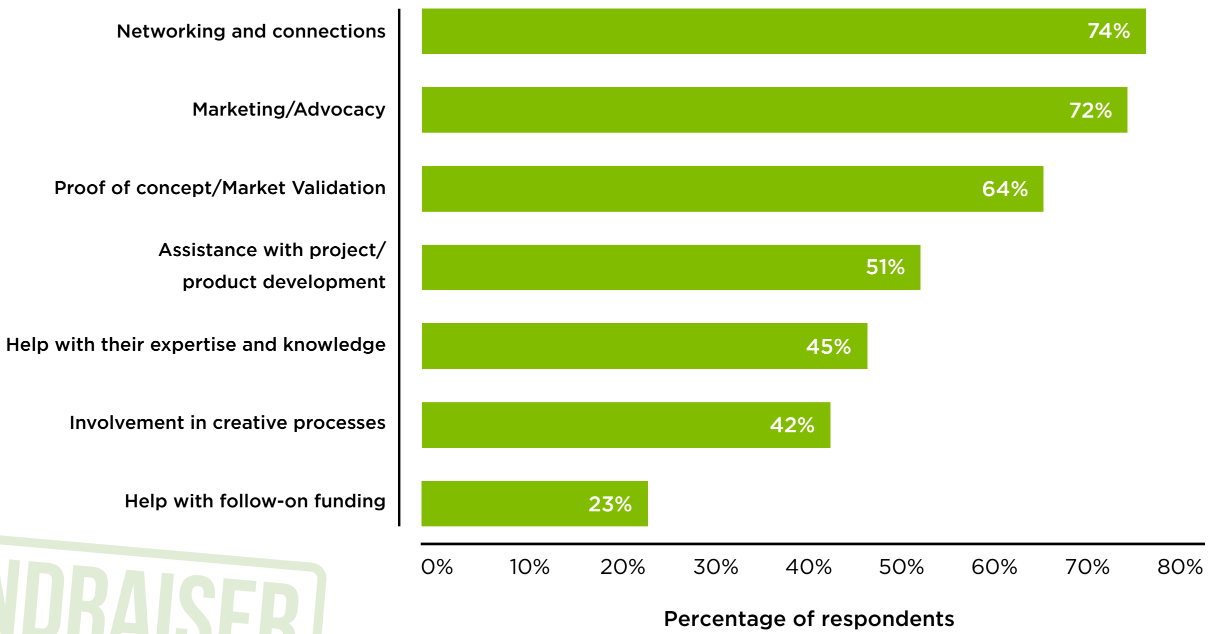


Figure 66: **Did you receive the following non-financial support from your funders?**



Having failed in your atempt to raise funds through rewards-based crowdfunding...

Figure 67: **Would you try it again in the future?**

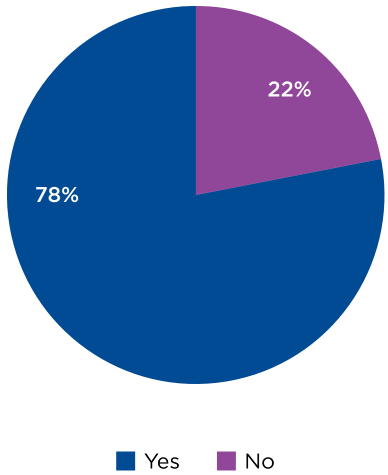
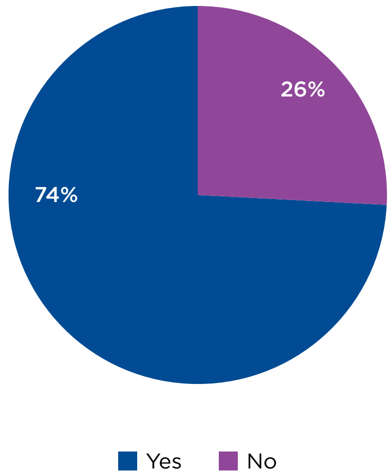


Figure 68: **How likely are you to recommend crowdfunding to someone else?**



DEBT-BASED SECURITIES

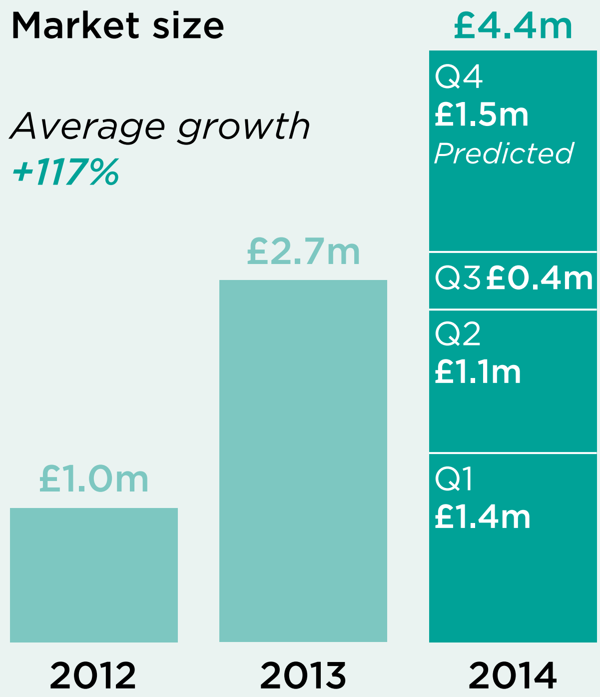
£730,000

Average amount raised

Average investment in debt-based securities is **£1,243**

On average it takes **587** funders to fund a renewable energy project through debt-based securities

The opportunity to make a positive social impact was an important factor in deciding to invest for **86%** of investors



The debt-based securities market grew by 63 per cent in 2014

Online debt-based securities in renewable energy projects grew by 63 per cent in 2014 to £4.4 million in total financing. The average deal size for debt-based securities is £730,000. On average, it takes 587 investors to fund a renewable energy project through debt-based securities with an average investment amount of £1,243.

The survey of 384 investors in debt-based securities shows that they in general invest relatively large amounts. Sixty-two per cent had invested more than £500 with 21 per cent having invested more than £5,000. They tended to invest in single or very few projects with a third having made only one investment and half less than three investments. This finding however must be reconciled by the fact that debt-based securities is a relatively new model of alternative finance and only a small amount of deals have been offered and funded to date.

WHAT ARE DEBT-BASED SECURITIES?

Lenders receive a non-collateralized debt obligation typically paid back over an extended period of time. Similar in structure to purchasing a bond, but with different rights and obligations.

The focus on renewable energy matters to investors, being local doesn't

Looking at motivations for investing in debt-based securities, the important or very important factor for investors was the opportunity to back green/renewable energy products (92 per cent) and to make a positive social impact (86 per cent). They cared less about whether the business behind the project was local or not. When asked what they would otherwise have done with the money they invested, a pretty even split responded that they would have either invested it elsewhere (62 per cent) or saved it (55 per cent).

Investing in debt-based securities on renewable projects was generally perceived to be a low risk investment option. When presented with a number of different investment options such as P2P lending, investing in start-ups or the stock markets, only bonds were perceived to be less risky by investors.

Funders found their way to investing in renewable projects through a number of channels. The most common of which was online advertising, which brought in a third of survey respondents, with offline advertising and word of mouth also proving important.

Forty-five per cent plan to invest more in 2015

Looking forward, 45 per cent of surveyed investors plan to put more funds through this model in the coming year with 37 per cent planning on investing a similar amount.

Resilient Energy Great Dunkilns

Using the Abundance Generation platform, Resilient Energy Great Dunkilns (REGD) reached its £1.4 milion investment target on the 1st of January 2013. The money raised was used to fund the first community scale wind turbine in the Forest of Dean. The wind turbine has been operational and generating electricity since October 2012. Investors of the debentures receive an estimated rate of return of 6.75 per cent–8.0 per cent (after fees) in two yearly payments across the 20-year lifespan of the project. On top of that, the partnership has vouched to donate an average £15,000–20,000 per year of operation for further community infrastructure development.

Figure 69: **How much have you invested in debt-based securities to date?**

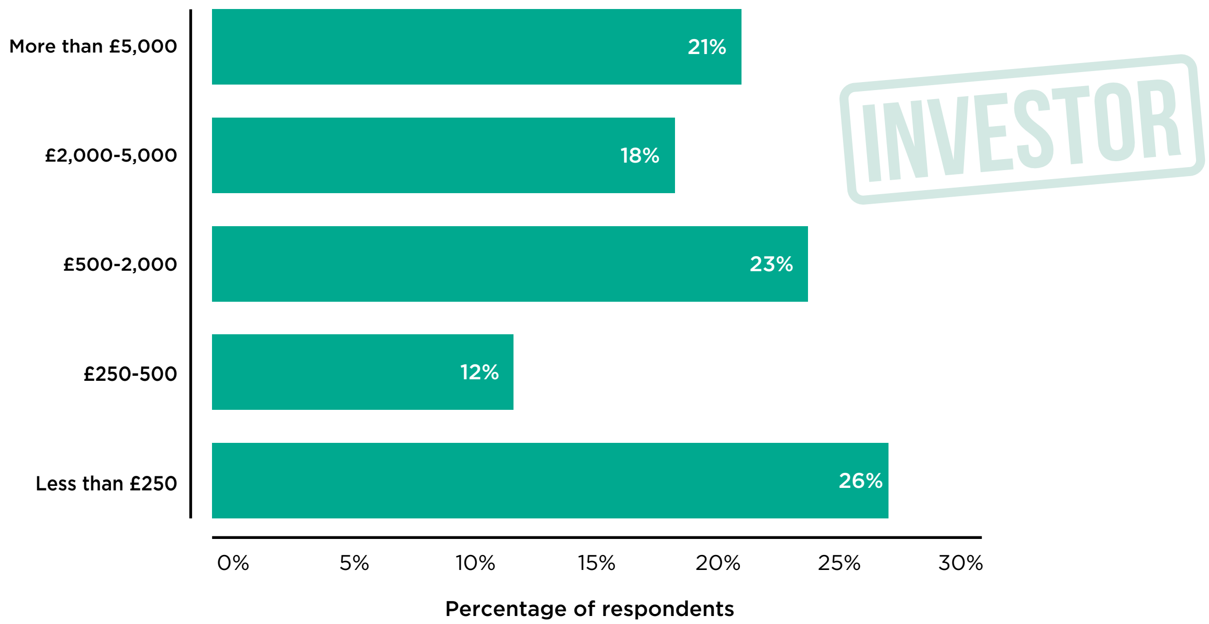


Figure 70: **When making decisions about investing in debt-based securities instead of other investment opportunities, how important are the following?**

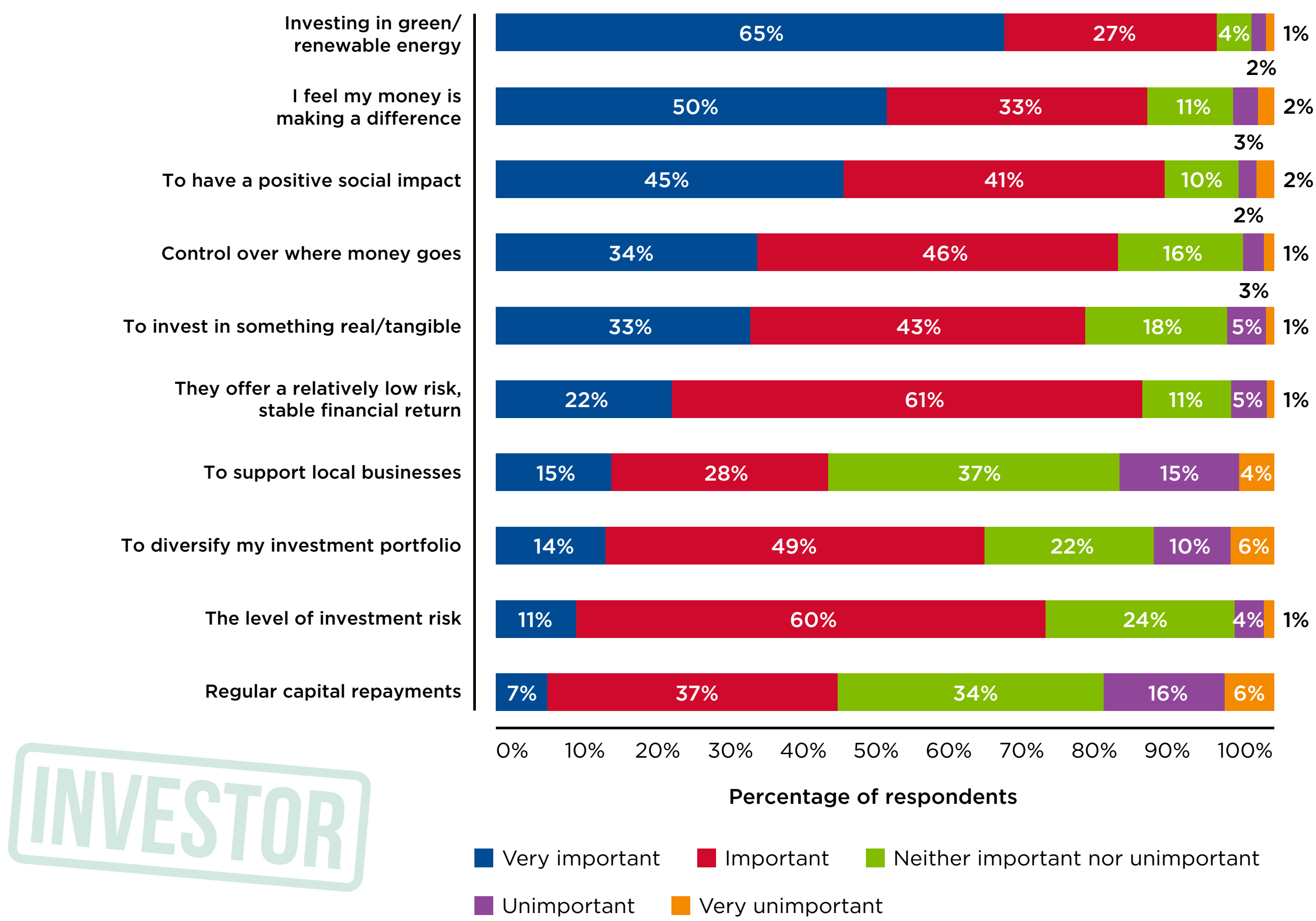


Figure 71: **When you budget for investing in debt-based securities, where does the money come from? (can select multiple)**

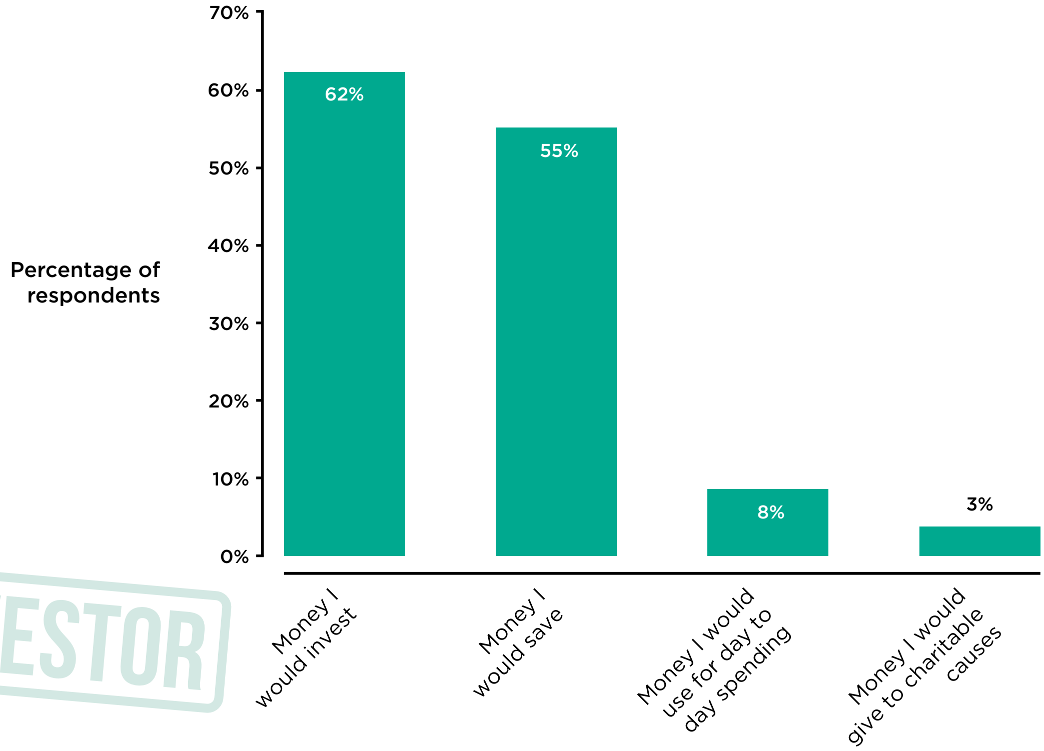


Figure 72: **How risky do you perceive this type of investing in comparison with the following?**

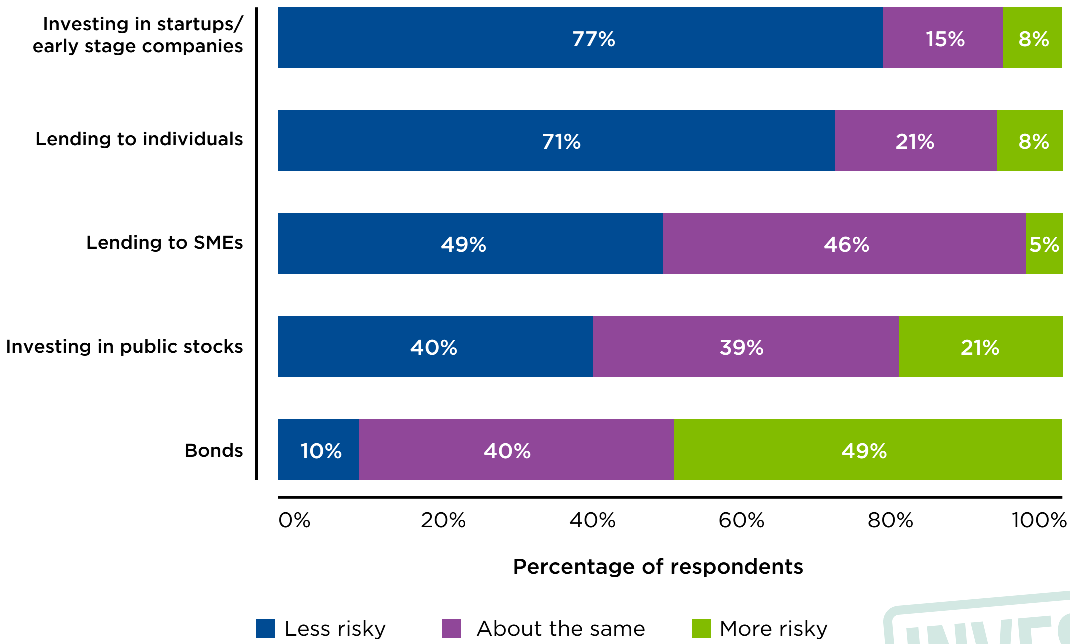
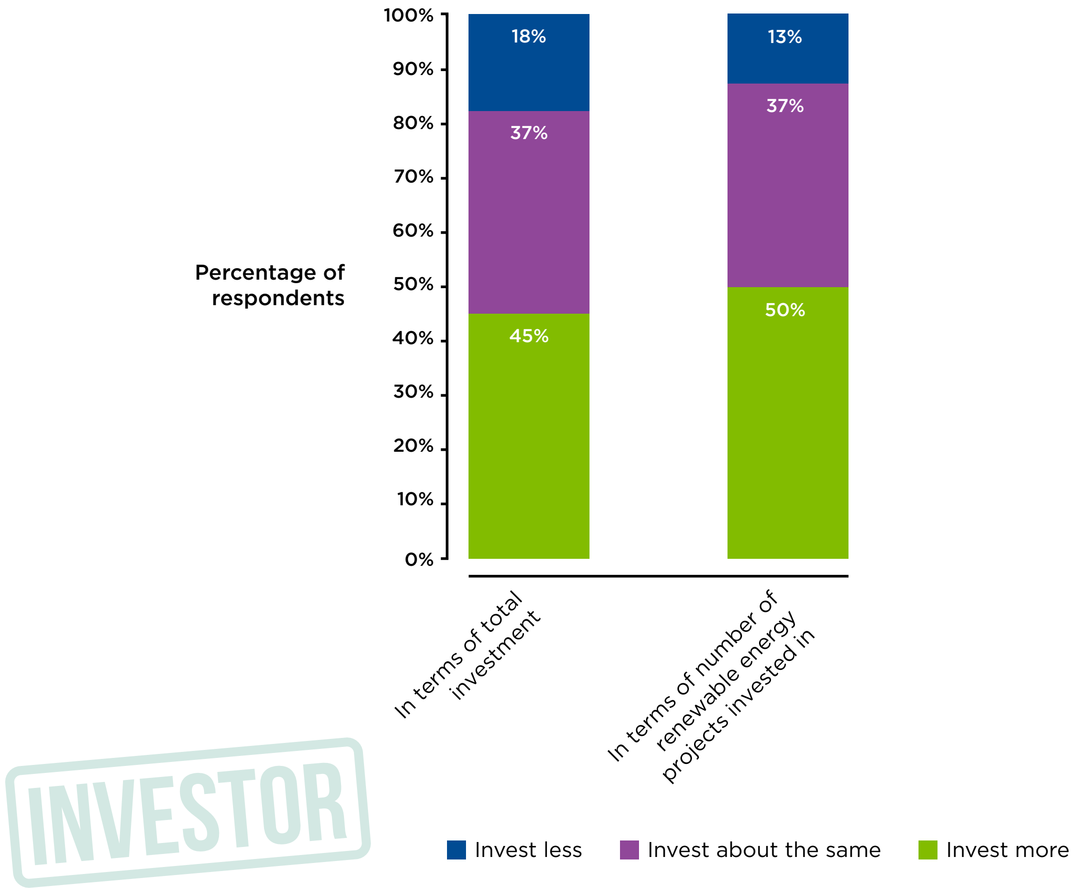


Figure 73: **To the best of your knowledge, how much do you plan to invest in debt-based securities in the coming 12 months?**



DONATION BASED CROWDFUNDING

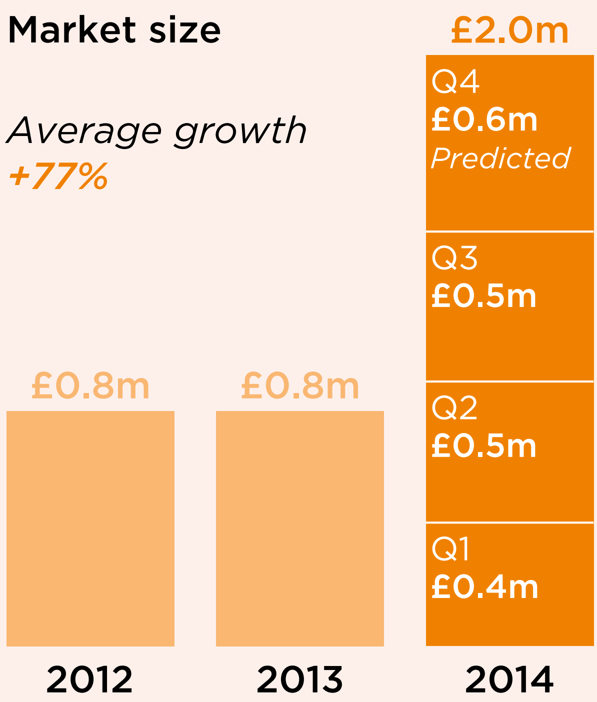
£6,102

Average amount raised

34% of fundraisers have seen an increase in volunteering after their campaign

27% of donors had offered to help or volunteer with the project they backed

46% of donors have funded projects that others in or outside their local area could use



Projects with a social or civic focus raised £2 million through donation-based crowdfunding in 2014

Donation-based crowdfunding allows fundraisers, primarily from social and cultural groups, creative enterprises and community-based organisations to directly make an on-line appeal for donations. Donation-based crowdfunding is disintermediating the existing charitable giving sector by connecting donors directly with fundraisers and beneficiaries, for often small-scale and local projects. This new model, which is less than two years old, has already contributed a considerable £2 million a year to good causes, social projects and community initiatives. Transaction data from platforms show that the average size of successfully funded projects is £6,102. The average donation for this form of crowdfunding is £110.54, reflecting the donations from larger philanthropic and corporate funders alongside individuals. The involvement of the former is particularly the case for larger-scale civic crowdfunding projects. On average, it takes 55 donors to fund a donation-based crowdfunding campaign.

Based on a relatively small survey sample of 72 backers and 32 fundraisers, who have used donation-based crowdfunding, it is clear that the amounts contributed by individuals through this model are relatively small. 75 per cent of surveyed respondents contributed between £1– £50 in total.

WHAT IS DONATION BASED CROWDFUNDING?

Individuals donate small amounts to meet the larger funding aim of a specific charitable project while receiving no financial or material return in exchange.

Seventy–seven per cent of donations are in addition to people's normal charitable giving

Personal connections play a strong role in matching backers and fundraisers within the donation–based crowdfunding model. 52 per cent of surveyed backers reported that the first introduction they had to this type of alternative finance came through recommendations made by a friend or family member or other first or second–degree social connections. Building on this, social media plays a strong role in getting backers to support donation–based crowdfunding campaigns, with 68 per cent of backers finding out about the first campaign they supported through this medium.

The social and communal nature of donation–based crowdfunding is, as expected, the primary draw for funders. Most funders felt it was important or very important to make a difference (95 per cent), support social and environmental goods (96 per cent) and to know how the money was being spent (90 per cent). Furthermore, it is interesting to observe that 77 per cent of donors stated that money they contributed to projects with a social purpose via crowdfunding is in addition to what they would otherwise give to charitable causes. This finding indicates the potential and capacity for donation–based crowdfunding to increase charitable giving.

It is also interesting to observe that only 22 per cent of people have funded one or more projects that they would benefit from themselves, whereas 46 per cent have funded projects that others in or outside their local area could use, revealing the altruistic nature of many donors.

Two thirds of fundraisers were unlikely to have received financing elsewhere

Just as it has the potential to increase giving, there are also indications that donation–based crowdfunding primarily brings finance to projects that would otherwise not get funded. Sixty–four per cent of the surveyed fundraisers who have used donation–based crowdfunding stated that it was 'unlikely' or 'very unlikely' that they would have been able to receive finance for their projects through other sources.

In addition to their financial support, donors have provided a range of other benefits and types of support for projects they funded. Ninety per cent helped with promoting the crowdfunding campaign, while 29 per cent of backers had given advice and feedback to project owners and 27 per cent had offered to help or volunteer with the project. This is backed by survey findings from fundraisers' perspectives, where 34 per cent of fundraisers have seen an increase in volunteers after they raised funding through donation–based crowdfunding.

Forty–seven per cent of fundraisers are very likely to turn to donation–based crowdfunding in the future

Looking ahead, 67 per cent of fundraisers reported that they are very likely to recommend donation–based crowdfunding to others seeking funding, and 47 per cent would be very likely to approach a donation–based crowdfunding platform if they need finance in the future. The same goes for backers, where 72 per cent were likely or very likely to recommend donation–based crowdfunding to people they know.

Lancaster Bulldogs

Shaun Gash wanted to help the Lancaster Bulldogs Wheelchair Basketball Club to repair, replace and buy more competition-standard wheelchairs. To do this he launched a fundraising campaign on YIMBY (Yes In My Back Yard), a donation based crowdfunding platform. After a 30-day campaign, he successfully raised £2,520. The new and refurbished chairs will allow the team to compete in the GBWBA National League, and help introduce more children and young people to wheelchair basketball. Each chair costs between £1,500-£3,000 and the club needs at least 4 new chairs. Thanks to the YIMBY campaign they raised a quarter of the total sum, and together with other fundraising activities they have reached a total of £9,627.27 to date

The Line – A Sculpture Walk for London

In March 2014, art dealer Megan Piper and urban regeneration expert Clive Dutton raised £142,585 from 198 backers on Spacehive, a donation-based crowdfunding platform, for the initial planning and organisation of The Line, a sculpture walk in East London. The proposed route for the Line will connect the Queen Elizabeth Olympic Park in Stratford and the O2 in North Greenwich. It will present existing and new works of art, and showcase views of the City's eastern landmarks, such as Victorian Gasholders and the world's largest tidal mill, all set amongst a diversity of river and marshland wildlife.

FUNDERS

Figure 74: **How much money have you used to fund through this donation–based crowdfunding platform?**

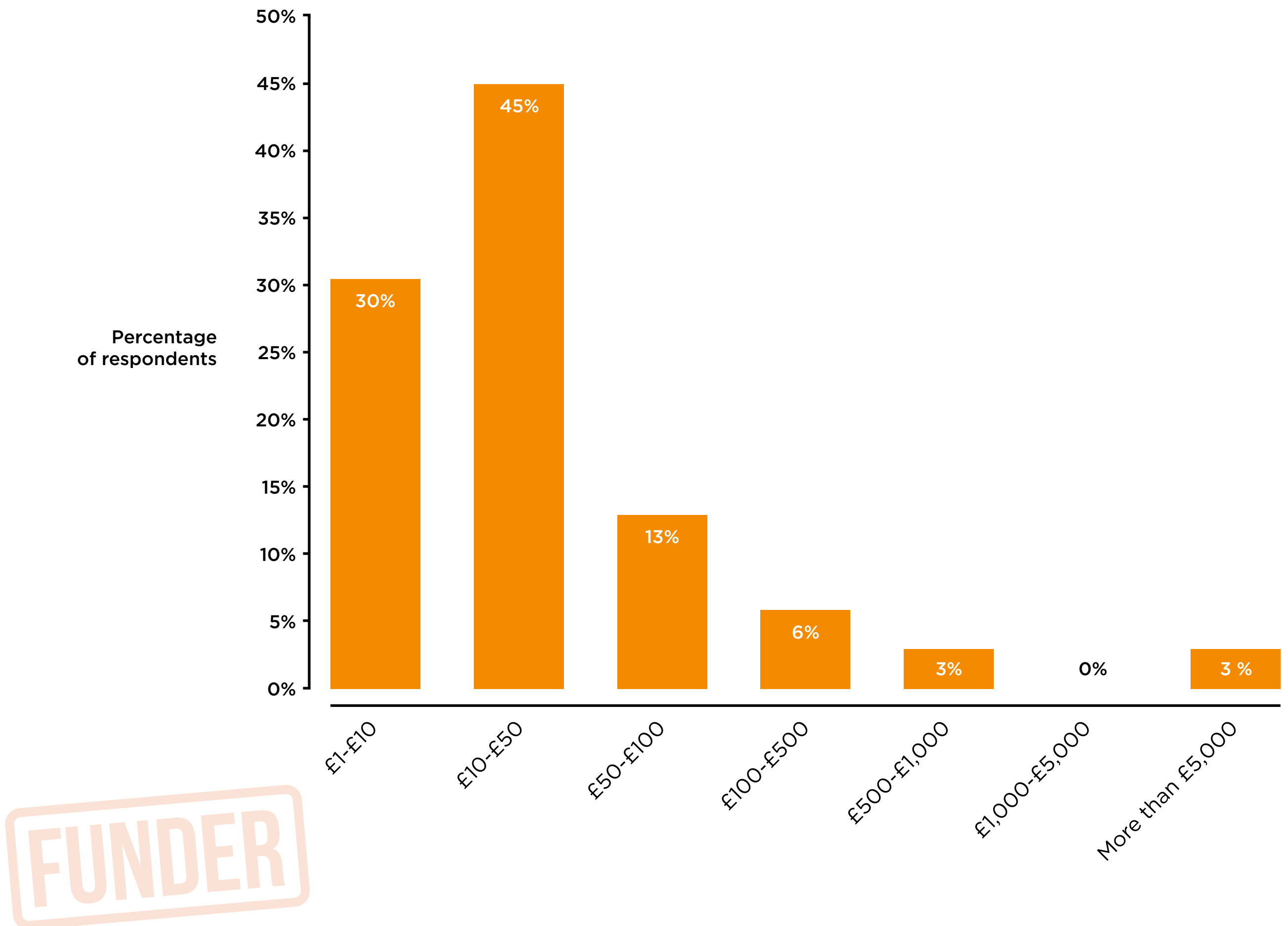


Figure 75: **When you budget for giving through donation–based crowdfunding, where does the money come from? (can select multiple)**

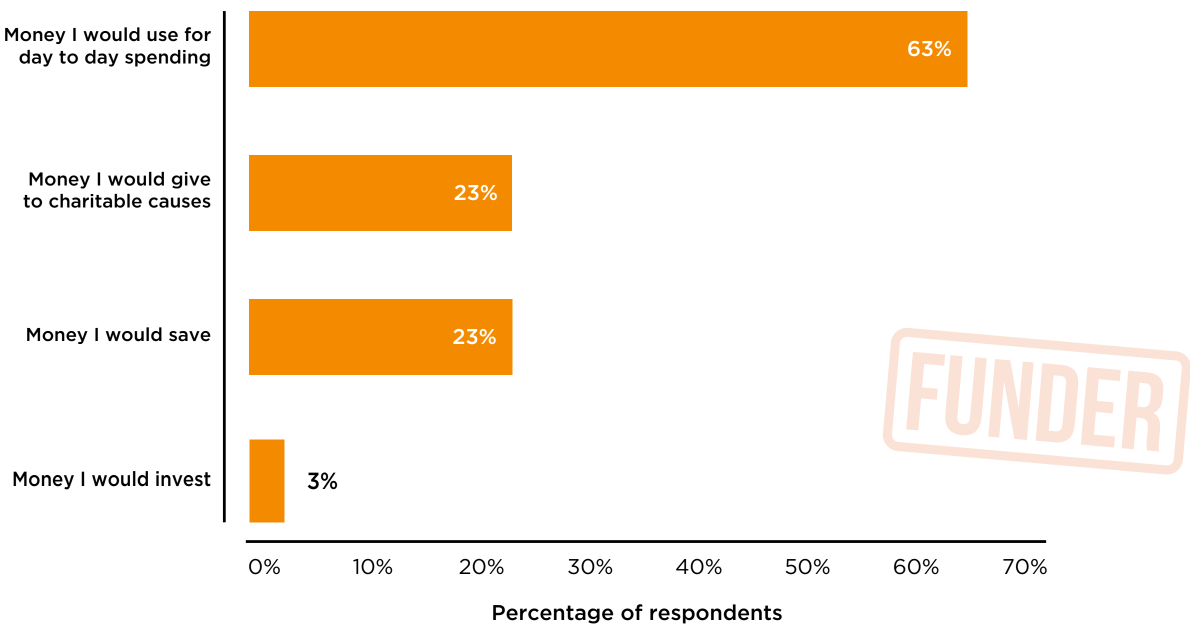


Figure 76: **Type of support funders have given to campaigns?**

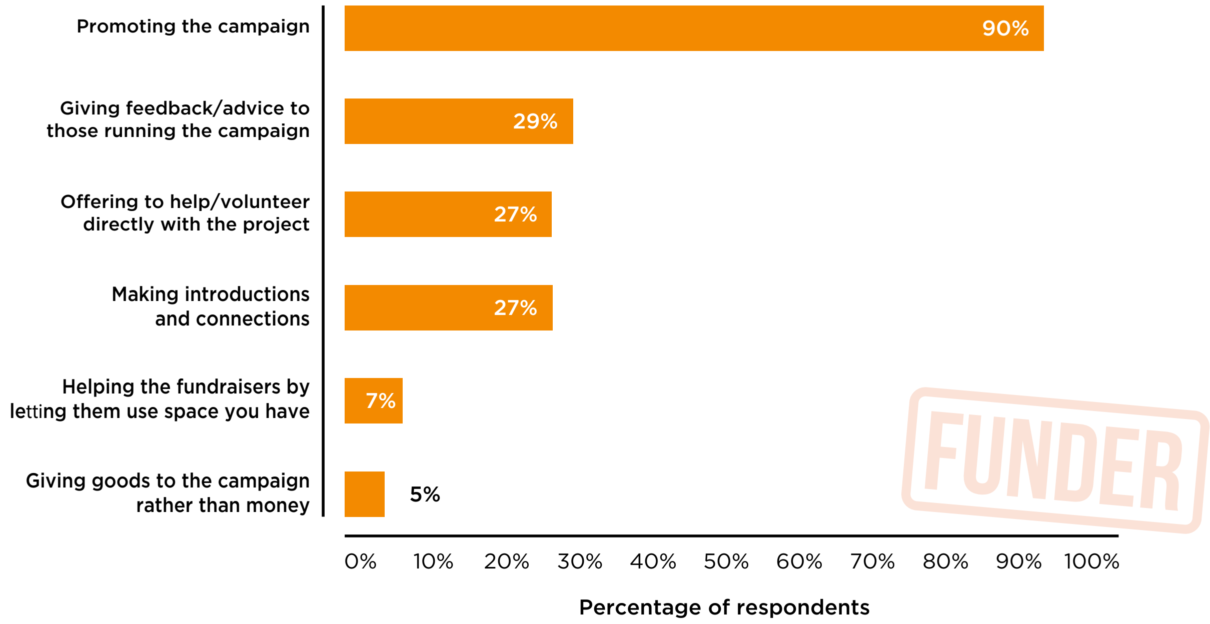
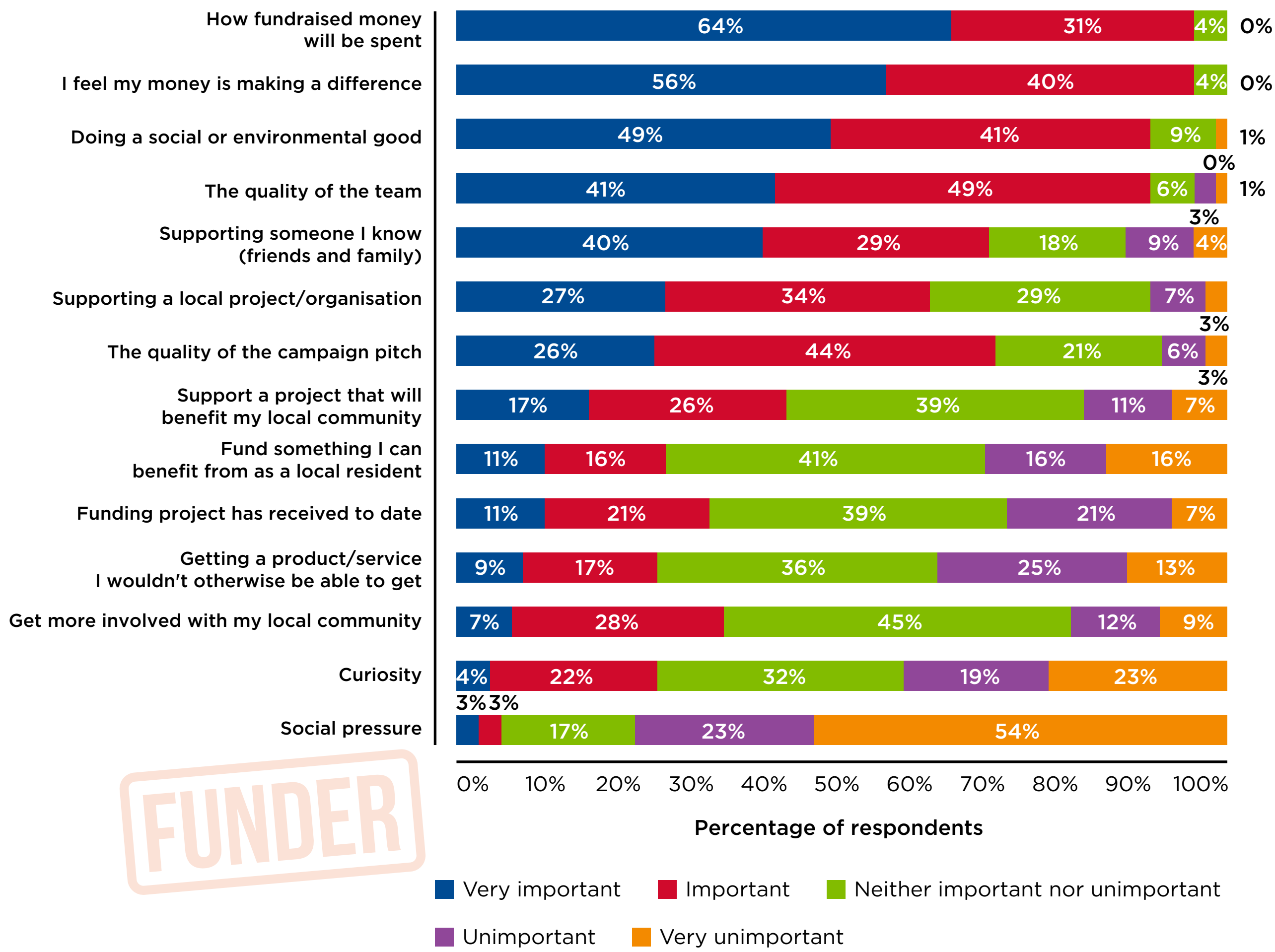


Figure 77: **When backing projects through a donation-based crowdfunding platform how important are the following for your decision to fund?**



FUNDRAISERS

Figure 78: **Why did you choose donation-based crowdfunding?**

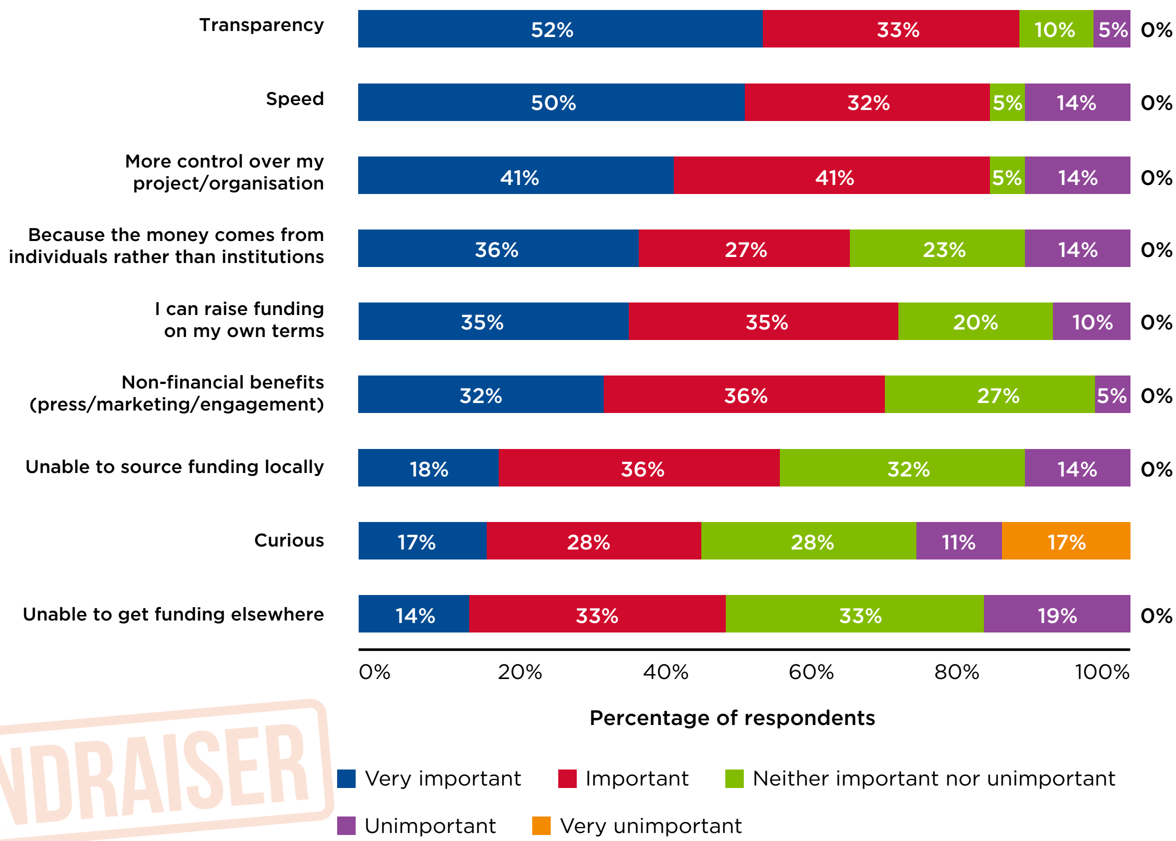


Figure 79: **How likely is it that you would have received finance elsewhere if you could not have gone to crowdfunding?**

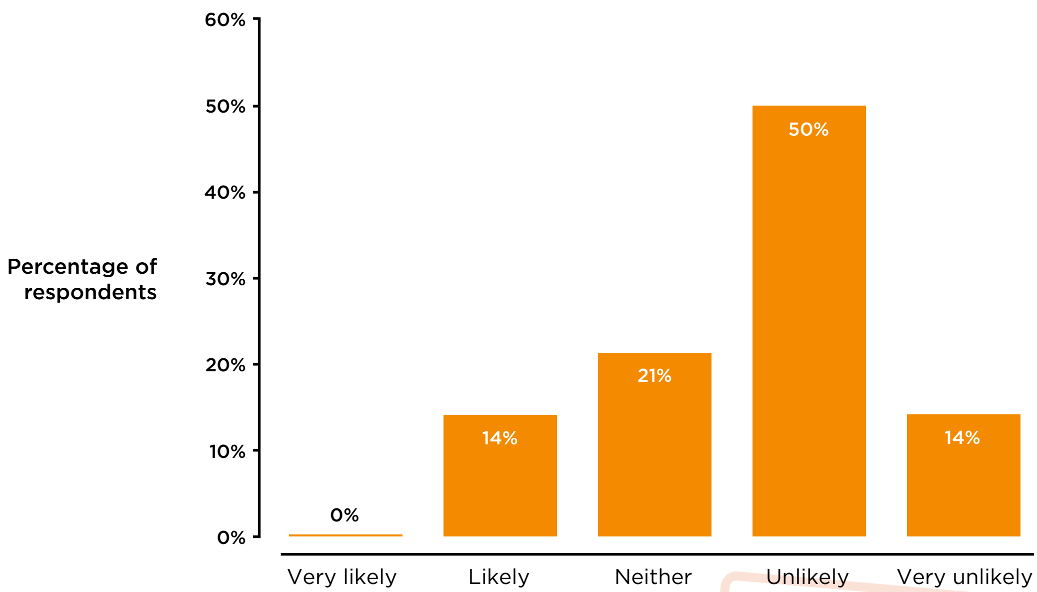
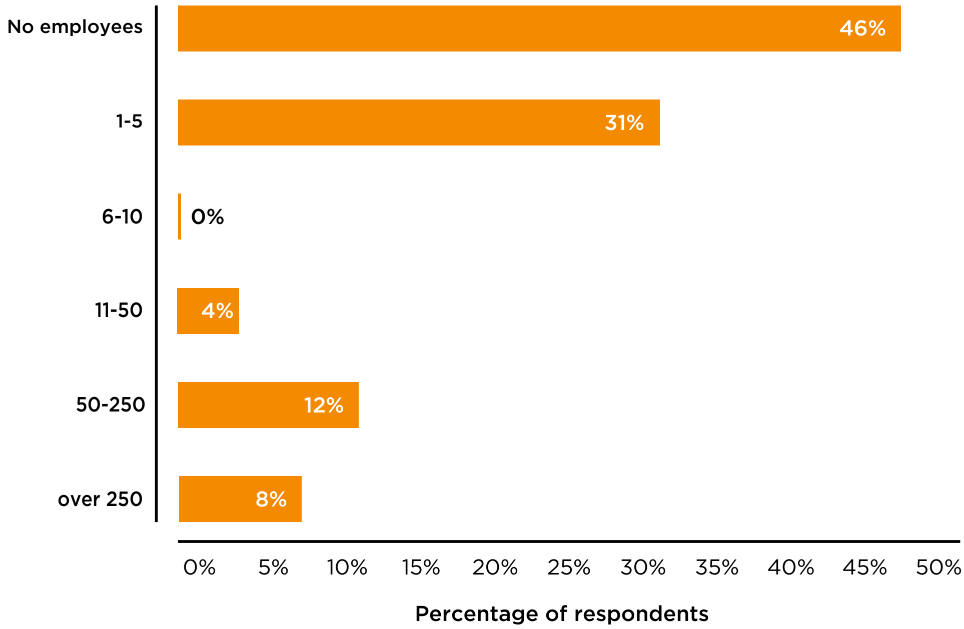


Figure 80: **What is your current number of employees?**



Conclusion

We hope that this report has shed light on what is a fast growing and highly diverse market, and one that is becoming an importance source of funding for individuals, businesses and organisations who often cannot struggle to access finance elsewhere. This research had reaffirmed the need to understand how the distinctive funding types within the market work, what their common characteristics are and how do they differ in the funding mechanisms they use, their processes and impact. On users, the research also highlights how imperative it is to appreciate their differentiated motivations to lend, invest, donate or raise funds and how they behave and interact in the context of the various alternative finance models.

Looking at the socio-economic impact, it has been interesting to observe how the organisations that have used alternative finance have generally performed well after fundraising, with the majority of them reporting increases in employment, volunteering, turnover or profit. In turn, it seems that at least in the short to medium term, alternative finance is channelling finance to organisations and projects worthy of funding.

Furthermore, by examining the level of awareness and usage by consumers and SMEs in a national context, it can be concluded that there is still significant potential for the alternative finance market to expand. However, in order to grow, the industry needs to continue innovating, educating users and addressing the various concerns consumers and SMEs have about alternative finance. Our findings indicate that in many cases, alternative finance is still predominately used by older men from higher income groups. While this mirrors patterns of investment that we see in traditional finance, this indicates an opportunity for alternative finance to expand to other demographics and parts of society, and engage more women, younger people and those from lower income groups who are often not sufficiently served by traditional institutions.

While this report has made an important first step in understanding many of the underlying dynamics and emerging trends within the alternative finance market, there are still a lot of unanswered questions and many aspects of the industry remain unexplored. Not least of these is how to define the boundary of a market currently being largely defined by the funding types and organisations that opt into the industry rather than any objective definition.

Another area for further exploration is that whilst this study demonstrates that businesses who have utilised alternative finance seem to perform well in the short term after fundraising, due to the nascent nature of the market, we haven't been able to track and document their longitudinal performances or impact. It will be very interesting, for instance, to record the trajectory of start-ups that have fundraised through equity-based and reward-based crowdfunding and follow them through their life cycles and major funding or exit events.

We also have little data on how alternative finance enables cross-border investment activities and funding outcomes. Given the amount of transnational financing flow already being facilitated on many platforms, there is a need to further the alternative finance research within a European and global context, and the role of UK based platforms in global alternative finance market. Building on this, much can be gained by studying how different alternative finance markets evolve in different economies and under varied regulatory frameworks.

It also would be interesting to study how inexperienced, professional and institutional funders interact with each other on various alternative finance platforms. Across the funding models and types of projects, from P2P business lending to donation-based campaigns for civic projects, we are seeing an increasing trend of large traditional funders co-funding or match-funding alongside individuals. We still know very little about how this works and how best to design the funding partnership between institutional and non-institutional investors to ensure both investor types, and those being funded, all benefit. We would like to see more experiments and research in this area.

Finally, we have seen a substantial number of people offering to contribute non-financial resources, from their time to goods, services or space along with their money on many socially-orientated or community-focused alternative finance platforms. We need to understand more about how these resources are contributed and utilised, and to what extent alternative financing activities can increase social action, foster community engagement and increase giving. We need to understand better how social enterprises, community organisations and voluntary groups can leverage alternative finance more effectively as part of their fundraising toolkit.

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Endnotes

1. For general purpose, please quote this report as (Nesta, 2014). For academic reference, please quote this report as (Zhang, Z., Collins, L., Baeck, P. 2014). Analyses contained in this report are partly based on ongoing academic research collaborations between Bryan Zhang, Mingfeng Lin (University of Arizona) and Mia Gray (Cambridge University).
2. The 2012 and 2013 figures have been adjusted from those published in the Rise of Future Finance (Nesta, 2012). This is due to the evolution of the definition used and funding types included. The alteration is primarily due to the exclusion of online fundraising such as people raising money when running marathons.
3. Actual transactional volume for Q1-Q3, and predictions for Q4 were collected via a UK-wide industry tracking survey. Q4 projections were capped at the sum of the previous two quarters wherever applicable. In a minority of instances where a platform did not fill out the tracking survey, volumes were sourced by extracting publicly available information from their sites.
4. This is based on the number of businesses that raised finance through P2P business lending, equity crowdfunding, community shares, debt based securities, invoice trading and pension led funding.
5. The prediction for 2015 is calculated by projecting forward by one year the average growth rate over the past 3 years.
6. Where possible the business owner was contacted to fill in the survey.
7. Marlow, S. and Patton, D. (2005) All Credit to Men? Entrepreneurship, Finance, and Gender. Entrepreneurship, Theory and Practice, 29(6) 717-35 Marlow, S. McAdam, M. (2012) Analyzing the Influence of Gender Upon High-Technology Venturing Within the Context of Business Incubation Entrepreneurship, Theory and Practice. 36(4) 655-76
8. http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf
9. http://www.gla.ac.uk/media/media_362647_en.pdf
10. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/270426/table_13-2.pdf
11. http://www.ons.gov.uk/ons/dcp171778_367167.pdf
12. From our survey of P2P consumer borrowers, 2.2% said they were borrowing for their business.
13. SASS stands for Small Self-Administrated Scheme and SIPP stands for Self-Invested Personal Pension, both are investment regulated pension schemes.

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