

# White Paper on Alternative Finance

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This project has received funding from the European Union's Horizon 2020 Research and Innovation programme under Grant Agreement No. 792040

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## Acknowledgement

The Altfinator Consortium especially thank and acknowledge the contribution to the Altfinator project for its Advisory Board Members, namely:

**Alex Gibb, Lithuania; Andrei Dudoiu, Romania; Gábor Mátrai, Hungary; Giusy Cannone, Italy; Henri Laupmaa, Estonia; Ivan Filus, Slovakia; Jesper Carvalho Andersen, Portugal; Lex van Teeffelen, The Netherlands; Olga Afanasyeva, Ukraine; Oriol Sans, Spain; Robert Pettigrew, UK; Tomas Matraia, Poland, Italy, Spain**

We also thank international financing experts to contribute to the research carried out in the frame of the Altfinator project, namely:

**Antal Károlyi, Hungary; Dara Westling, USA; Denis Loveridge, UK; Erik Stam, The Netherlands; Fons Huijgens, The Netherlands; Gábor Mátrai, Hungary; George Tilesch, USA; György Dede, Hungary; Henri Laupmaa, Estonia; János Pereczes, Hungary; Jarmo Liiver, Estonia; Lex van Teeffelen, The Netherlands; Mike Sigal, USA; Nóra Szeles, Hungary; Péter Fáykiss, Hungary; Radu Boanta, Romania; Socratis Ploussas, Greece; Thomas Auväärt, Estonia; Tomas Matraia, Poland, Italy, Spain; Trihn Ahn Tuan, Hungary**



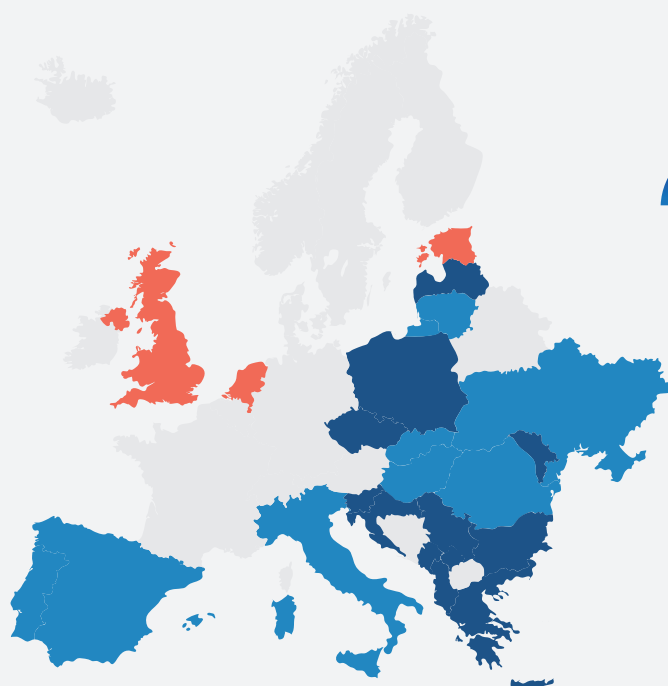
Altfinator: an “EU-validated knowledge base and brand in the field of Alternative Financing, which provides the methodology for raising awareness and increase the capacity of the AF ecosystem” Altfinator Strategy Update, 2019. Launched in May 2018 and funded within the Horizon2020 program Altfinator is a 24 months project involving 10 partners (leading researchers and experts on the field of alternative finance and key ecosystem stakeholders and consultants) representing 10 European countries and wide global network.

Altfinator project is brought to life to facilitate the improvement of innovative SMEs and grant them access to alternative financing through capacity building of the financial ecosystem and its participants in the countries where the potential for improvement is highest (focusing on Southern, Central, and Eastern Europe).

Globally and also within Europe, there are countries and regions where the use of alternative finance is widespread; first the Altfinator project studied those regions to uncover the success factors. Afterward, the alternative finance market of the target countries was analysed and mapped. Throughout the project duration, multiple capacity building activities have been implemented.

Focus areas of the Altfinator project are the Southern, Central, and Eastern European countries. To achieve maximum impact and efficiency of the capacity building activities, a specific approach has been developed and countries were divided into three categories: a.) best practice countries – this is where we learned (USA, UK, Netherlands, Estonia), b.) core countries – online and onsite (personal) activities concentrated mostly for these countries and c.) outreach countries – with online activities and some personal involvement.

**Altfinator:** an “EU-validated knowledge base and brand in the field of Alternative Financing, which provides the methodology for raising awareness and increase the capacity of the AF ecosystem” Altfinator Strategy Update, 2019



#### BEST PRACTICE COUNTRIES

USA, UK, the Netherlands, Estonia



#### OUTREACH COUNTRIES

Serbia, Moldova, Latvia, Greece, Slovenia, Croatia, Bulgaria, Check Republic, Albania, Poland



#### CORE COUNTRIES

Romania, Ukraine, Italy, Hungary, Portugal, Slovenia, Spain, Lithuania

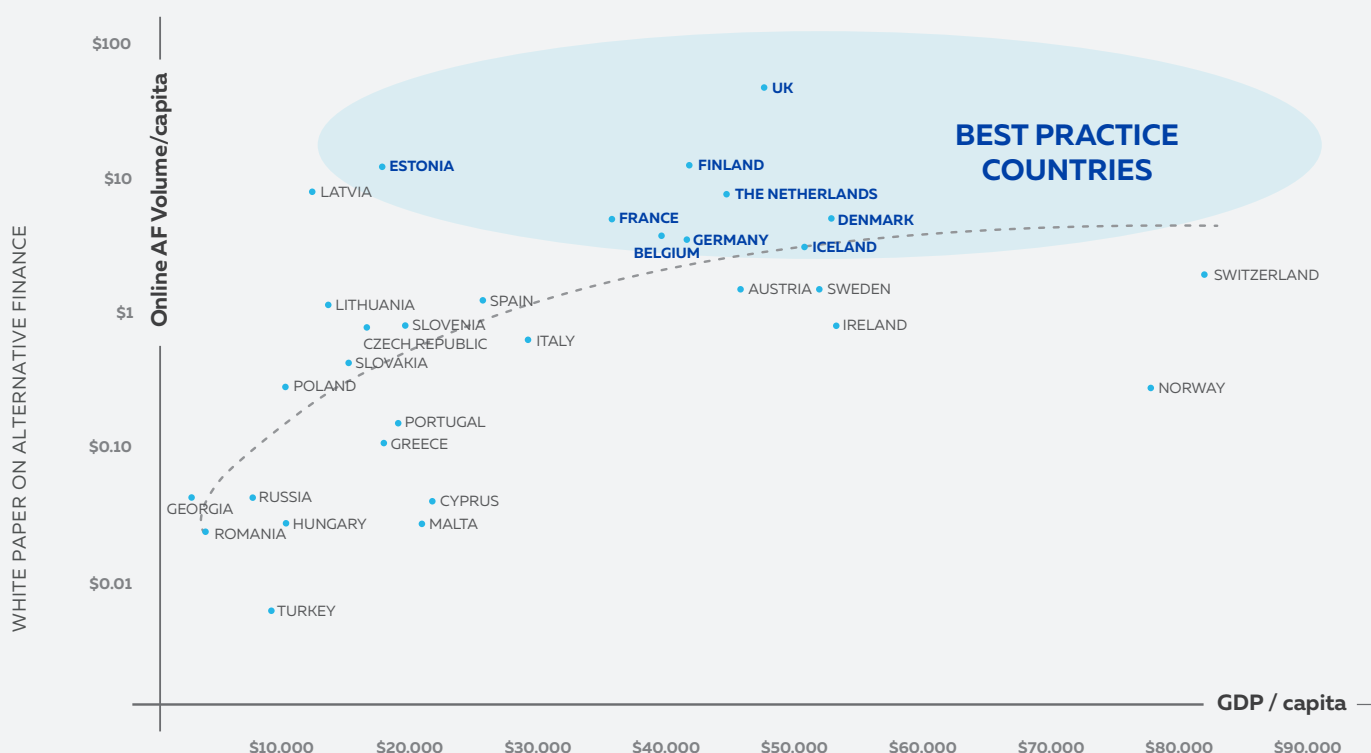
1. Figure: Altfinator best practice, core and target countries



## 2) Altfinator approach

Alternative financing (AF) for businesses across Europe has increased considerably in recent years, becoming an **important source of finance for entrepreneurs, start-ups and SMEs**. However, access to AF varies considerably across Europe with **Southern, Central and Eastern European regions lagging behind Northern and Western European regions in terms of AF volume** (total and per capita).

As Altfinator never aimed to re-invent the wheel; first we studied "Best practice countries" intending to learn from and transfer those lessons towards the less developed regions (Southern, Central, and Eastern European countries).



2. Figure: The approach of Altfinator

Throughout the project, the USA, UK, the Netherlands, and Estonia were analysed as best practice countries. The analysis included desk research and semi-structured interviews with selected key experts (minimum 3 persons / country).

Based on those findings, a capacity building strategy has been **designed, developed and implemented for the financial ecosystem and its participants** in Southern, Central and Eastern European countries to improve the provision and absorption of AF. We followed **three objectives**:

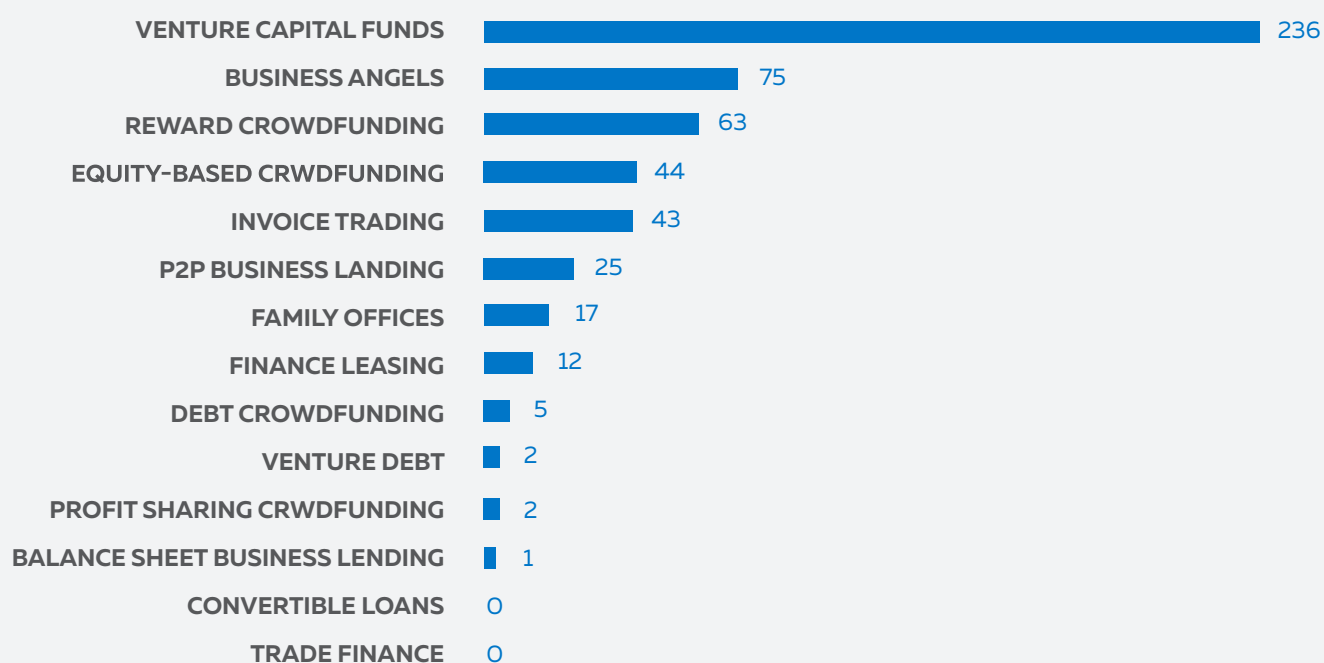
- focus on a long-term European strategy;
- generate an impact on country-level; and
- create a platform supporting the first two levels.

### 3 The alternative financing scene in Europe

There is a heterogenic market in terms of alternative financing in Europe. Alternative forms of financing have emerged during the last decade broadening the financing options, that are available to innovative SMEs. In Europe, the sector is characterised by an uneven distribution of activities across regions and countries. There is a gaping divide between Western and Northern European regions where AF is thriving and SMEs have multiple financing options, and South, Central and Eastern Europe where many barriers are still limiting AF activity and SMEs access to finance.<sup>1</sup>

#### Mapping of alternative financing providers

In terms of online platforms, the most popular type is reward crowdfunding followed by invoice trading and equity-based crowdfunding. **By far the most prevalent types of AF are traditional private equity instruments, VC funding and angel networks.**<sup>1</sup> Figure 3 presents the total number of providers by type of AF that were mapped in the target countries in 2018.<sup>2</sup> Balance sheet business lending, profit sharing crowdfunding, venture debt, debt crowdfunding and microfinance have extremely limited availability and no providers of trade finance were recorded.



3. Figure: Total number of providers per type of AF in target countries (Altfinator, 2018)

<sup>1</sup> According to the data, convertible loans and mezzanine finance are mostly used as an instrument by later stage investors such as VCs and family offices. Therefore, these instruments are not separately listed.

<sup>2</sup> Please note that in cases where one AF provider offers multiple types of AF, only one type of AF was recorded. Based on the available information, the primary service offering of the provider was determined to select the AF category.

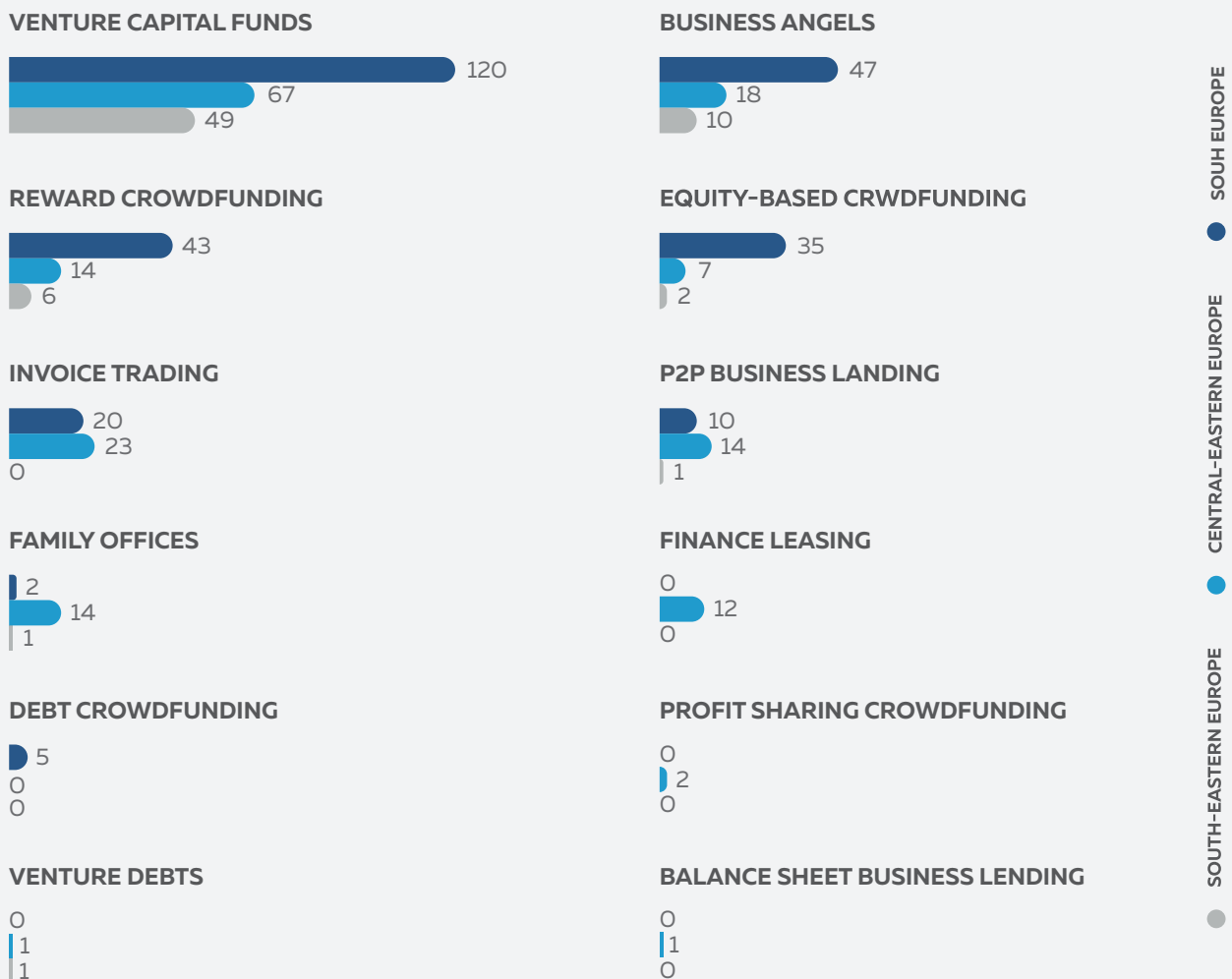
## Online AF platforms vs traditional AF providers

In the majority of the target countries, traditional types dominate. Hungary, Albania and Serbia record no online providers, and Bulgaria, Portugal, Moldova, Ukraine and Greece have a low percentage of online providers vis-à-vis traditional providers.

Only Italy and Czech Republic have more online providers [than traditional ones]. Approximately two-thirds of the total number of AF providers recorded in the target countries were for the traditional AF category.

## Number of platforms per Altfinator target regions

Figure 4 presents the aggregate number of AF instruments according to the target regions.<sup>3</sup> It shows that the South-Eastern countries are far behind other regions in all types of AF. Southern Europe is leading in the more common types of AF but has fewer providers than other regions in more innovative types such as invoice trading and P2P business lending. This region also records no finance leasing, profit sharing platform and balance sheet business lending. South-Eastern Europe is the only region without invoice trading platforms and it also has comparatively few reward crowdfunding platforms.



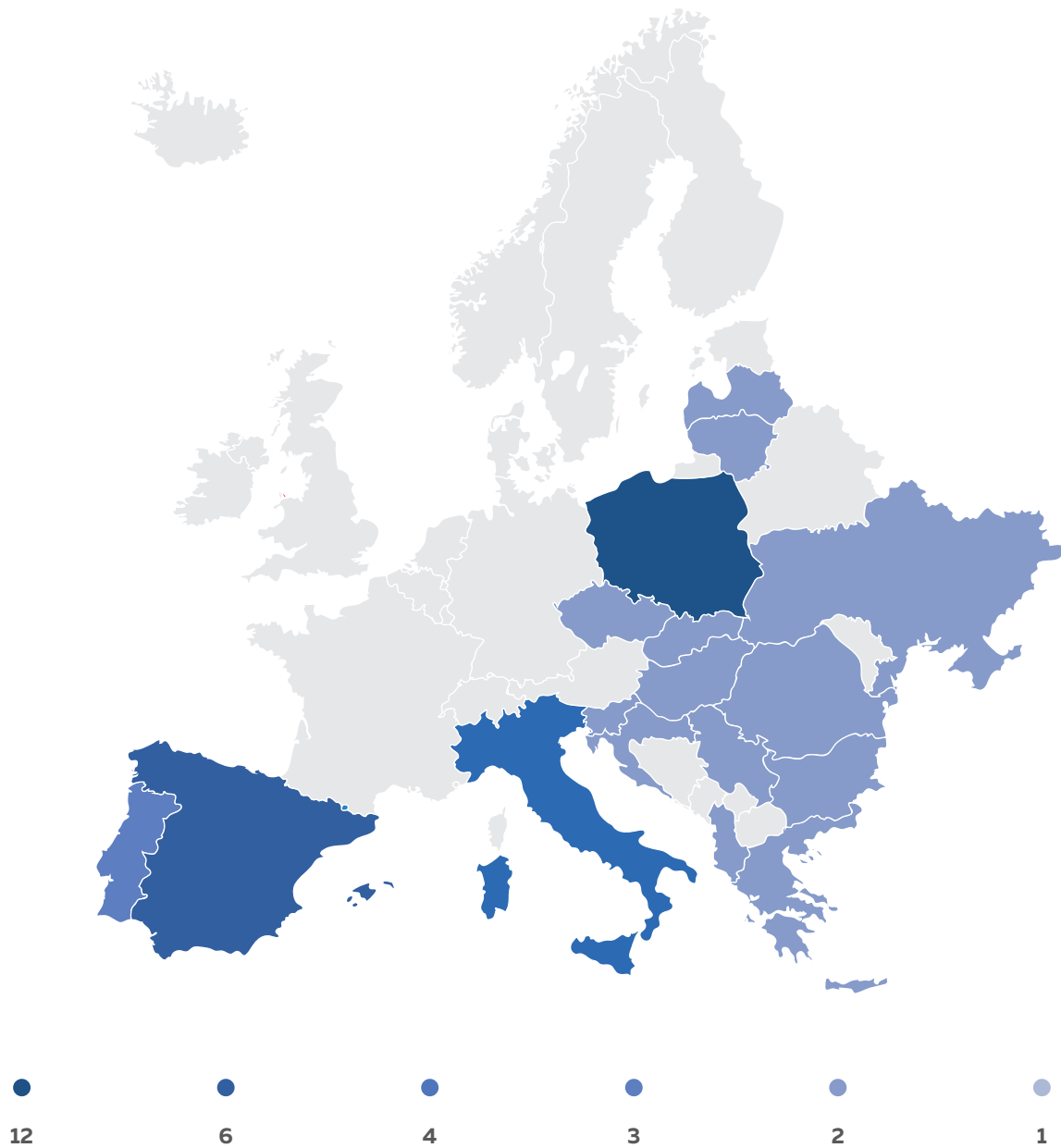
4. Figure: Number of AF providers per region (Altfinator, 2018)

<sup>3</sup> Central-Eastern Europe: Latvia, Lithuania, Poland, Hungary, Slovakia, Czech Republic, Slovakia; South Europe: Italy, Spain, Greece, Portugal; South-Eastern Europe: Serbia, Albania, Ukraine, Romania, Bulgaria, Croatia, Moldova

## Number of alternative financing association in Altfinator countries

The map below demonstrates the industry-led activity in the Altfinator target countries. **The most prevalent type of industry association is for business angels<sup>4</sup>, followed by venture capital associations.** Six industry associations have been created to support the crowdfunding industry in the target countries and one association for supporting factoring. **All target countries have at least one business angels' network.**

Only Romania, Albania and Moldova do not have any associations for venture capital. Poland, Spain and Italy have the most AF associations and also are the only ones with associations for crowdfunding.



5. Figure: Total number of AF associations per country (Altfinator, 2020)

<sup>4</sup> Business Angels Networks were mapped both as AF providers and AF industry associations.



## The gap in the european alternative financing market

We can see that there is a striking difference between South Europe and Central and Eastern Europe.

The main difference between best practice and target countries is clearly demonstrated within the data examined: The most significant difference is shown with the general number of reward crowdfunding, equity-based crowdfunding and invoice trading. The most common type of finance providers in Europe are business angels/angel networks and venture capital funds. Crowdfunding and factoring play a significantly lower role within the European region. As Spain proved a leader among the countries analysed, we observe an example from this country:

According to data provided by the Spanish Venture Capital Association, ASCRI, the Spanish venture capital ecosystem gathers 361 VC and Private Equity firms operating in Spain who manage an alternative finance volume of more than 27,5 billion euro. According to data provided by the Spanish Business Angel Association, AEBAN, there are at least 35 business angels' networks spread across Spanish regions that associate some 2.000 Spanish business angels who just in the last year invested 40 million euro in start-ups and SMEs. The volume of Spanish crowdfunding market (including equity-based, debt crowdfunding, invoice trading, reward-based crowdfunding) has kept steadily growing in the last four years. In 2018 it raised some 500 million euro, combining all type of crowdfunding (equity, debt, reward, invoice trading, etc.). The number of crowdfunding (CF) platforms operating in Spain (some 50 platforms) has remained constant along those years but with an approximate 20% rate of mortality and birth (10 platforms closed, and 9 platforms started in 2018). According to data provided by the Spanish Crowdlending Association (ACLE), crowdlending Spanish market volume has experienced in the last years an average annual growth of 30%. Spanish crowdlending volume reached 127 million euro in year 2018. Only during the first half of year 2019 it reached more than 70 million euro, which is more than all crowdlending raised in Spain during the whole year 2017.

5

„To define and classify the financial instruments (not necessarily in a legal way), multiple dimensions need to be taken into consideration and have to be analysed. Some of these dimensions include but are not limited to:

- Who is the financial provider and who is the one seeking financial aid
- Who is the financial provider (the bank, the state, private person)
- Why is the financing necessary (current asset, investment, project)
- What is the amount of the financing (micro, medium or large)
- For how long is the financing needed (long-, medium-, short- time)
- What is the "relationship" between the finance provider and the finance (loan, equity ownership, etc.)
- How much is the cost of the financial aid, and how and when is it due to being paid back? (interest, dividend, continuously, one-off)
- What is the guarantee behind the financing? (lien, full payment guarantee system, put options)
- How developed is the financial-, and the finance providing system? (legal regulations, competitive landscape)
- How fast and how "free of bureaucracy" can someone acquire financial aid? (assessment period, disbursement conditions, etc.)
- How developed is the technology behind the financing system, how able is it for innovation, how developed is the ecosystem?"

– **Gábor Mátrai, Economist, Board Member at DIGITALEUROPE and Board Member at the ICT Association of Hungary**

5 Source: Universo Crowdfunding annual reports.

## Main elements of the alternative financing scene



Traditional AF instruments are far more common than online platforms, approximately two-thirds of all recorded providers are Venture Capital (VC) funds, Business Angel networks (BA) and family offices.



The most prevalent types of AF are the traditional private equity instruments, namely VC and BA funds.



Convertible loans, mezzanine finance and venture debt are instruments that are mostly used by VC, BAs or family offices. There are very few providers that exclusively offer these instruments.



The most common type of online AF is reward crowdfunding followed by equity-based crowdfunding and invoice trading.



Balance sheet business lending, profit sharing crowdfunding, venture debt and debt crowdfunding have extremely limited availability.



No online AF platforms that specialise in trade finance were recorded.



All target countries have at least one industry-led association. The most common types are BA networks and VC associations.

## 4 Alternative finance best practices

When looking at countries, where a more advanced alternative finance culture has been sustained, we have identified patterns helping the advancement of these solutions. Throughout the project duration, the USA, the UK, the Netherlands, and Estonia were studied in detail, due to their cultural and economic proximity to the target countries (Central, Eastern, and Southern European regions). However, advancements in the field are not limited to these countries only.



### THE USA

The US market of alternative financing (including technology-enabled, online channels) is one of the world's most relevant in terms of volume. P2P Consumer Lending, with the largest share of \$21 billion in 2016 is the dominating segment, while Balance Sheet Business Lending is the second largest segment amounting up to \$6 billion in 2016 only.



### UK

Traditionally, the UK has been at the forefront of innovation policy and benefitted from. as well as nurtured, a rich and vibrant innovative SME sector, especially in the service sector and manufacturing. UK is currently responsible for approx. 70% of the alternative finance volume of Europe.



### THE NETHERLANDS

The Netherlands' strategy has been boosted largely by the minor regulations the country has introduced in recent years. These enabled the market entry barriers to remain low, enabling the launch of several crowdfunding platforms and strengthening the widespread penetration of alternative financing solutions. Due to the low entry barriers currently, more than 100 alternative financing providers exist in the country.



### ESTONIA

Estonia has long been known for being the most tech-savvy country out of the countries emerging from the former Soviet Block. The government has created an environment with low market entry barriers by introducing its e-governance system and having less bureaucracy compared to other regions.

	USA	UK	THE NETHERLANDS	ESTONIA
Enabling regulatory framework				
Advanced level of financial culture & awareness				
High level of trust				
Investor's risk taking ability				
Large single market				
Long tradition of online transactions				
Bank referral program				
Low market entry barriers				
eGovernment services				
	      	  	    	  

6. Figure: Key enablers of the Alternative Financing Ecosystem

Figure 6 above shows the key enablers for the creation of alternative financing in each country. It means, that these factors were dominant in the enabling environment, which led to the emergence of a stable alternative financing market. It does not mean, that these key enablers were not present in other countries, but in the given economic circumstances, they were the dominants. Seeing from the table above, it is clear that there is not one direct approach when adapting the alternative financial culture. A country can take small steps towards building out its own, personalized environment and business ideas and initiatives will follow, based on the given circumstances. This is

showcased by the different startups that emerged in different countries with different opportunities. These startups showcased above are country-specific success stories adapted to their environment. They cover gaps in financing solutions traditional banks are not able to cater for anymore. For example, the Netherlands could boost these types of alternatives easier, since the traditional forms of financing, such as banks, were not properly available for SMEs, therefore, the need for other solutions was already stronger than in other regions. The current crisis will only highlight this problem corporate institutes and lenders are facing.

## 5) Altfinator experience

Based on the 24-month project implementation, a detailed analysis was prepared on how to foster the European alternative financing scene by the Altfinator consortium. As a result of the analysis the following main pillars were identified:

- 1 Success of individual countries and ecosystems is usually based on **unique and specific** regulation, environment and ecosystem characteristics.
- 2 The identified countries and ecosystems are very **heterogenic** and there are no “golden bullets” valid for all of them. Therefore, simply repeating the success of Best Practice countries is not possible in target countries, as they have different economic and legislative characteristics, and different level of innovation (based on GII - Global Innovation Indexes).
- 3 Best Practice elements and initiatives can be identified also **in the target countries** of the Altfinator project.
- 4 Regulation has core importance in the enabling environment in order to pursue the emergence of best practices. Therefore, a major improvement could be reached by a **unified European regulation** on alternative financing.
- 5 **Cross-border initiatives** are in their infancies, confirmed by the fact, that the AF providers have to align their operations to the regulations of each country. Besides regulation, entering a new market (country) might raise several other concerns, e.g. it is hard to find innovative companies in a new country, and building trust between the investors and the companies might take much more effort, than in the home country.
- 6 Emergence of new AF providers in the target countries is generally hindered by the higher **country risk** – the same project for example in Germany or in Hungary has different financial costs simply due to the country risk profile. As AF providers need significant financing (or play a key role in establishing financial transactions) this generates an automatic issue with the competitiveness of AF providers.

## The key areas of solutions to foster the growth of AF ecosystems in the target countries are:



### Regulation and role of government

- Regulatory framework specific to AF is either missing or inadequate
- Strengthen the rule of law
- Introduce tax incentives investors and/or innovative SMEs
- Reduce bureaucratic burden
- Set up or extend institutional business support and/or co-investment funds



### Risk aversion and lack of trust

- Improve transparency and clear standards of AF platforms
- Facilitate collaboration between AF and traditional providers and among AF
- Improve transparency and data about SMEs



### Lack of knowledge, awareness and education

- Strengthen entrepreneurial and/or investment culture
- Raise awareness and availability of information about AF
- Improve business skills and financial literacy of SMEs
- Improve public and/or private business support and/or educational initiatives
- Educate investors to find and interact with innovative SMEs



Based on these three pillars Altfinator aimed to engage country level communities. Those communities included AF providers, regulators (like ministries, national banks, stock exchanges), **multipliers** (associations, chamber of commerce), **traditional players** (banks), **accelerators and incubators**. The objective was to build trust, create awareness and bring regulatory best practices towards each country and discuss how to customize and implement those actions on country level. Closing the alternative financing gap between the best practice and target/outreach countries, - validated by the detailed research of Altfinator -, was the focus of the project.

## 6 Altfinator resources

**One of the major achievements of the Altfinator project was to create a knowledge base, so called Altfinator information hub, including:**

### **Platform for promoting community events and news across Europe**

The purpose of the Altfinator web platform is to provide one access point to all necessary information about the project, its activities and achievements. It can be considered as an information hub due to its three-fold features.

### **Alternative finance providers' database with a glossary and an interactive map**

The so-called matchmaking tool on Altfinator.eu was created to help SMEs and startups discover the landscape of alternative financing opportunities near them.

### **Credit data providers overview**

The list of credit data providers is made available by Altfinator online which can be easily used as a shortcut to tracking SMEs' readiness, availability and maturity for financial cooperation.

### **Online courses (MOOCs) on alternative finance terms and webinars about crowdfunding instruments**

The course introduces the key models and approaches to raise finance from sources alternative to traditional bank lending. These alternatives include crowdfunding, invoice trading, venture capital, business angels, and fintech platforms.

### **Country briefs - SWOT analysis on alternative financing, regulatory frameworks, and the gender lens**

An analysis of financial ecosystems in the countries involved addresses the strengths, weaknesses, opportunities and threats of alternative finance in Spain, Italy, Lithuania, Portugal, Slovakia, Hungary, Romania, and Ukraine.

### **Vision outlook on Fintech services**

The vision outlook document explains the fintech revolution, recent trends in the field and emerging innovative financial applications available for alternative financing providers, SMEs and investors.

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## Investor manual and factsheets on alternative finance

Altfinator produced a one-pager infographic that describes which form of alternative finance is best for each business according to the current stage of venture's development and the cash-flow needed.

## Finance providers' best practice case report and SME success stories

Two infographics summarize the key success factors of alternative finance providers and the best practices applied in UK, USA, Estonia, and the Netherlands.

## Web documentary and promotional video

Altfinator's web documentary showcases in one video all the resources and tools developed in the project aiming to improve the knowledge about alternative finance and facilitate the access to such a financing instrument.



**The critical reason of the alternative financing gap is the lack of awareness about alternative financing, which was targeted by events of high attendance rate from the target audience:**

- Nearly 30 project events organised (round-tables, workshops, trainings)
- Participation of Altfinator experts to nearly 80 external events all over Europe
- Presentation of ALTFinator in Start-up Europe events and EU Presidency conferences
- Webinars and free online learning courses (MOOCs) provided to 1724 participants

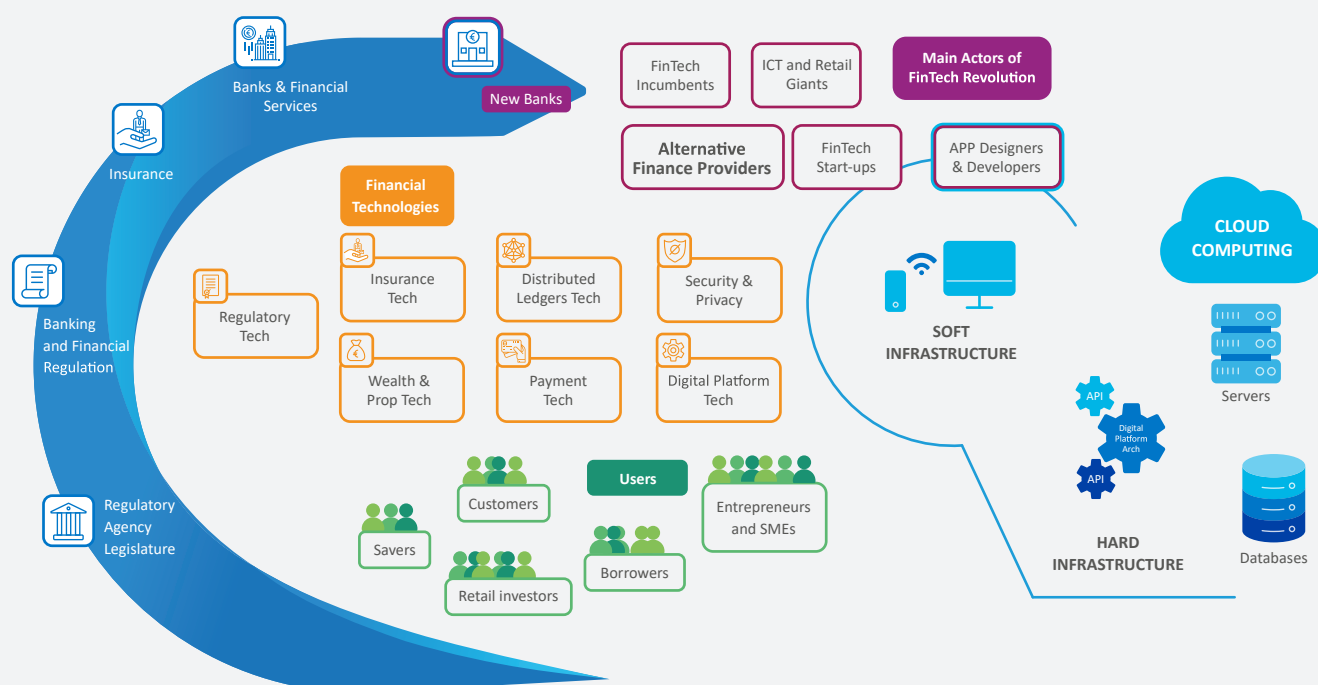


## 7) The future of fintech in Europe

Recent trends in FinTech are set to progress further on the back of positive performance. The FinTech sector is reaching a stage of maturity: not many radically new technologies are emerging from the 'ideation' pipeline and FinTech that are currently populating the ecosystem are consolidating into financial technological solutions, finding their right dimensions in the ecosystem. As figure 2 describes, there are seven technology areas relevant to FinTech and alternative financing. The trend shows the immense tendency of traditional financing providers turning towards alternative financing options and vice versa.

*“Regions, not notoriously known for innovation, are experiencing high growth... wildcards, such as the current crisis - can accelerate this growth.”*

*- Dimitri Gagliardi, Senior Research Fellow at Manchester Institute of Innovation Research - the University of Manchester, UK*



7. Figure: The main elements of the FinTech Ecosystem (Altfinator Fintech Outlook Report, 2019)

In the midst of the current Covid-19, the use of FinTech apps is growing at spectacular rates. Forbes (30/3/2020) reports a growth in use of FinTech apps in Europe by over 70%. This growth is driven by isolation, social distancing and lockdowns applied worldwide and is following the measures initiated in China from the beginning of 2020. Moreover, whilst some of the FinTech unicorns are hit by the pandemic (Monzo and Starling, for example, furlough some employees) there are provisions to launch operation in new markets – Monzo already deployed operations in the US and Revolut is preparing to launch in the US (24 March, 2020). More can be read from the Fintech Vision Outlook made available on [www.altfinator.eu](http://www.altfinator.eu)

Moreover, national and regional monetary policies, put in place to inject liquidity in the economies highly affected by the Covid-19 containment measures, are opening up opportunities for Alternative Finance providers. AF providers may act more efficiently and effectively to transfer liquidity into the economy relatively to the traditional banking system and therefore use this opportunity to grow further.

## 8 Conclusion and recommendations

### Why alternative financing is important?

- 1 Alternative finance brings new funds to the market – advanced countries proved that alternative finance creates funding opportunities mostly for projects, which could not get funding through traditional channels (so, it expands the market, especially by securing more funding for small businesses).
- 2 Alternative finance can scale – as those new models are supported with digital technologies, it is easy to support many thousands of stakeholders. Alternative finance can help to spread financial risks, which creates another opportunity for small businesses.
- 3 Alternative finance encourages lower transaction costs – as more decisions are based on data, as Alternative finance providers use digital technologies, they can operate at lower transaction costs (after reaching a minimum efficient scale).

After studying best practice countries and running a 24 months capacity building campaign in Southern, Central and Eastern European countries, we believe in the importance of **connecting players from existing network, creating collaboration mechanisms between them, to overcome the gaps and to foster the spread of alternative finance**. As a first step, Europe should be targeted with centrally coordinated actions, reaching out to the relevant actors, raise awareness, building trust and overcome regulatory barriers. This, however, can only start from the ground and so grassroots level cooperation should be encouraged.

**COVID-19 has created a new opportunity for AF.** COVID-19 specific platforms are emerging and their campaigns are successful. We expect that some of those platforms will survive after the crisis and will increase the number of local providers as the local ecosystem is introduced to alternatives and starts to see their value. This special situation forces to innovate the existing financial strategies of small enterprises.

*“Especially now, during this COVID-19 crisis, SMEs have very big problems getting additional grants, loans through banks”*

**– Ronald Kleverlaan, Chairman Stichting MKB Financing & Director European Centre for Alternative Finance at Utrecht University, The Netherlands**

## Recommendations

### How should we tackle these opportunities?

The recommendations, based on the Altfinator project have the main focus to increase the capacity of alternative financing providers, as well as to support the SMEs on receiving additional sources of finance. The main recommendation is built on the **major achievement** of the Altfinator project, as **national level Altfinator Hubs were set up in each target country** as a result of the Altfinator project. These already existing organisations, national level Altfinator Hubs can be strengthened further by creating the **European Network of Altfinator Hubs**, in which **additional countries can be involved** on a long run. This way, **the already existing Altfinator Hubs could reach out to additional countries** in their region and assist in setting up a new hub, and **transfer the know-how created** in the frame of the Altfinator project by creating cross-border investments.

## Recommendation 1

### The Altfinator Hub Network – The way forward

Altfinator Hubs are virtual “single points of access” in each core country participating in the Altfinator project. One of the core tasks of Altfinator Hubs is the engagement of stakeholders. The participants in the activities of the Altfinator Hubs are the key stakeholders of the project, including policy makers, regulators, investors, educators, and key commercial partners.

These local hubs can test the local market and create awareness by organising relevant events and workshops; but should also create (in)formal relationships between stakeholders such as national regulators and policy makers, multipliers and other industry players. If no association is formed yet, these Hubs can also (co-)launch a new Alternative Financing association in the given country, which provides a strong position to lobby and negotiate with regulators and policy makers. In that way, the Altfinator Hub is a general model that can be customized to fit the needs of each country. As some countries already progressed to establish Altfinator Hubs, they can be used as role models for the other countries.

Altfinator project partner representatives from Hungary, Germany, The Netherlands and Spain **confirmed their intention** in further developing the concept of the Altfinator Hub network. Representatives from Italy, Ukraine, Norway and Portugal confirmed, that they **expect to join** the network and actively participate from 2021. Other representatives offered their support to setup a network in their own countries. The Kick-off of the Altfinator Hub Network was held in April, 2020, in the frame of the Altfinator Final Event. Participants from over 18 countries showed interest in setting up one of these Hubs, the largest alternative financing hub in Europe.

The key takeaway from the successful external and internal webinars organized for women founders and co-founders confirmed, that there is a growing need for supporting the skills of women (through training, mentoring, best practices, alternative financing tools and access to European and global networks and practitioners, webinars, one-on-one meetings, investor meetings). The Altfinator Hub Network is going to focus on the gender dimension of Alternative Financing and linking the individual country level Hubs and the Altfinator Hub Network to the leading European initiatives for financing womens' start-ups and innovation.

**Focus on the gender dimension of alternative financing and linking of ALTFinator to the leading European initiatives for financing womens start-ups in STEM:** The Altfinator Hub network, will support women's STEM startups through access to alternative financing, skills and networks with new, innovative ways.

## Recommendation 2

### Connecting with and utilising the benefits of existing European networks

There are several well-connected networks fostering the innovation of SMEs in Europe. Using their added value in terms of networking, competence, and national/regional level presence is straightforward. The next step is to integrate the approach of Altfinator to already existing networks and create a well-structured mechanism. The key added value is to link up with an already existing network is to mobilise the connections of the network and reaching out to the local stakeholders through personal connections. Through connecting the Altfinator Hub Network with an already existing and well performing European network, the main stakeholders can be reached out, and mobilised to intensify cross-border investment. Strengthening the Altfinator Hub Network, by connecting with other, already existing European Networks will foster the cross-border collaboration and investment. As an example, one of the relevant, existing European networks, is the Digital Innovation Hub Network.

#### Connecting with the Digital Innovation Hub Network

The DIH network, consisting of more than 400 members, is active at the regional and national ecosystem, and has a physical presence in European regions providing activities and services for the digital transformation of SMEs and Midcaps.

Based on these attributes of the DIH network, connecting the DIH network **to the Alternative Financing ecosystem** could lead to an increased take up of Alternative Financing. Widening the service and added value of the DIH network can be utilised in the following ways:

- DIHs (operating in European regions) providing **financial advisory services** would extend their offer to informing SMEs about the availability of alternative financing;
- DIHs **reaching out to DIH** regions and connecting SMEs with remote AF providers, Altfinator Hubs;
- Creating **cross-border investments** across Europe: through the DIH network, reaching out to a high number of SMEs that can be connected to the Altfinator Hub network, which would link them with alternative financing providers and potential investors;
- DIH networks might help to reach out intensively to the outreach countries (defined in the Altfinator project) and support the emergence of alternative financing in outreach countries.

## Recommendation 3

### Creating centrally managed financial incentives and foster co-investment

Establishing financial models **to foster the emergence of alternative financing transactions** is a straightforward approach.

EU funds might **support SMEs**, who are using alternative financing sources to finance their innovation activities, with funding. The possible model is about providing a significant percentage (e.g. initially 30%) of funding for an innovation project, in case an SME proves, that the rest of the funding (in this case 70%) is covered by alternative sources of finance. The percentage of funding and the limits of the amount of funding might depend on the type of innovation, that the SME intends to launch, and also on the type of alternative financing source, which might provide the remaining amount. The most important thing is to find the appropriate rate of co-financing, which fosters co-investment and cross-border investment.

Supporting the **providers of alternative financing, and emerging fintech platforms might be supported** by co-investment mechanisms targeting cross-border engagement. Besides co-investment, any initiative to decrease the risk of investing through these platforms. e.g. due diligence, or have the EU involved in validating the projects before investment might lead to a higher level of trust in investment.

In order to reduce risk aversion, approaching the support of co-investment could be fostered by enlarging the InnovFin SME Guarantee Facility offer, i.e. **make it available not only for traditional bank loans but also for crowdlending operations**. Therefore, the **enlargement of the current European Investment Fund co-investment mechanisms/offer to Venture Capital firms can be achieved, in order to** include and offer this co-investment scheme to equity crowdfunding platforms.

## Recommendation 4

### Increase the role of traditional financial providers

**Our current challenge of overcoming COVID-19**, also provide an opportunity for alternative financing to prosper. The even more intense digitization and possible changes in legislation enable platforms of alternative financing to emerge and strengthen. The lack of availability of traditional sources of finance, the high rate of unemployment, and SMEs facing challenges of liquidity also create the demand for alternative financing sources.

Overall, COVID-19 creates the demand and calls for a more enabling legislative and economic environment for the alternative financing options to emerge, which should be exploited on European level. In Altfinator's experience and knowledge, this can and should be addressed with connecting existing networks, proposing central financial incentives to the ecosystem, and taking up the Altfinator hub strategies that propose an extensive support network for European countries of all maturity levels.

*"The Altfinator Project is great for start-ups... and it is start-up time. Many students of mine currently looking for employment, aren't looking for corporate jobs, but to start their own start-up."*

– Trinh Ahn Tuan, Associate Professor at Corvinus University, Corvinus Fintech Center, Hungary



As a result of the current economic effects derived from Covid-19, **SMEs requesting bank loans is going to grow dramatically**, and banks will unfortunately increase the number of loans rejected despite all public guarantee schemes adopted to support bank loans availability, so **such a referral mechanism to crowdlending platforms will be even more needed now**. Introducing the referral mechanism of the British Business Bank, to other European countries might support SMEs in getting loans through P2P lending platforms.

This could gain bank loan for SMEs, as quite often bank loans are not granted because the applying SMEs are not able to provide further guarantees (i.e. additional guarantees than those already provided for other bank loans granted), or because the additional loan requested by a SME already exceeded the bank risk threshold. In these situations, **banks could cooperate with crowdlending platforms by setting up referral mechanism** towards those platforms and recommending those platforms to **SMEs that reach the threshold of bank finance**. In those cases, a referral system, like it already happens in the UK, would be an excellent mechanism where **crowdlending platforms would supplement rather than compete with bank financing**.

## Recommendation 5

### Regulatory recommendations

The ecosystem of each European country is totally heterogenous in terms of alternative financing. Therefore, based on the lessons learned in Altfinator, it is not advisable to translate the best practices and apply them in the target countries; however, a specialised, targeted approach is necessary in each country. In order to create an **enabling financial and legislative environment**, it is necessary to develop the financing culture and increase the acceptance of the alternative financing forms within the society. The major obstacle in using alternative financing in most of the countries is the **lack of, or the not enabling regulation for alternative financing**.

The network of Altfinator Hubs could approach this problem by **fostering cross-border cooperation and translate and apply national level initiatives** (like Sandboxes) to other countries, aligning it to the local circumstances. On a long run, a **unified, central European regulation** on Alternative Financing could lead to a favourable legislative environment both on national and on European level.

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