

Special Report Entrepreneurship

Crowdfunding rides to the rescue of many SMEs

Value of funds raised online looks set to double again, as banks retrench



BrewDog broke equity crowdfunding records in the UK by raising £5m in the first three weeks of its fundraising round, using its own platform — Equity for Punks © Bloomberg

Emma Dunkley FEBRUARY 9 2016

The retrenchment of banks from riskier forms of finance — such as to new companies — following the financial crisis has helped raise the status of crowdfunding platforms such as Kickstarter in the US and Seedrs in the UK.

Jeff Lynn, founder of Seedrs, says: “Crowdfunding has fuelled a tremendous transformation in the way SMEs [small and medium-sized enterprises] think about finance.”

Nesta, an innovation charity that provides research on the start-up funding industry, says crowdfunding offers “an opportunity to bypass traditional funding streams such as grant applications or bank loans”.

Crowdfunding falls into three broad categories. The simplest sees investors hand over cash in return for goods and services.

The second is debt crowdfunding, which allows investors to lend money that, in theory, they receive back with interest. Finally, in equity crowdfunding investors buy shares that they hope will be worth more in the future.

Figures show that the value of crowdfunding expanded globally by 167 per cent to \$16.2bn in 2014, up from \$6.1bn raised in 2013. In 2015, the industry is on track to more than double once again, according to a [report by Massolution](#), a US research firm.

“UK really leads the world on crowdfunding,” says Mr Lynn.

Craig Asano, founder of the National Crowdfunding Association of Canada, says the concept is struggling to get off the ground in many countries, including Canada, due to slower adoption rates and regulatory constraints.

However, investing in early stage ventures, especially as an equity investor, is high risk. Many start-ups eventually fail, often meaning investors will not be able to get their money back.

In the UK, one in five companies that raised money on equity crowdfunding platforms between 2011 and 2013 has since gone bust, according to a [study by AltFi Data and law firm Nabarro](#).

But investors with an appetite for risk can gain high returns. Limited data are available, but Bill Morrow, co-founder of Angels Den, which describes itself as an angel-led crowdfunding platform, says investors can triple their original investment.

Last year, [the independent brewer BrewDog](#) broke equity crowdfunding records in the UK by raising £5m in the first three weeks of its fundraising round, using its own platform — Equity for Punks.

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