Lecture 1

INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Class: FY BSc

Subject : Business Finance 1

Subject Code:

Chapter:

Chapter Name: Alternative sources of finance

Today’s Agenda

1. Shadow banking
2. Project financing
3. Crowd funding
4. Microfinance
5. Venture capital
6. Angel investing

1 Shadow banking

Shadow banks are non-bank financial institutions that carry out banking activity outside the regulated system.

Advantages	Disadvantages
• It reduces the dependency on traditional banks as a source of credit. There is only one huge advantage to having the shadow banking system i.e. no regulation.	• Shadow banks are not backed by the central bank. they do not have any kind of backup that would save them from trouble if the depositors suddenly wanted to withdraw their cash.

2 Project financing

Project financing is used in financing large infrastructure projects, often involving public private partnerships where the size of the capital required for the project is very large, often amounting to hundreds of millions of pounds.

The main features of project finance are:

- formation of a new legal entity as a Special Purpose Vehicle
- non-recourse method of financing
- off-balance-sheet financing.

3 Crowd funding

Crowdfunding enables a large number of participants, individuals or businesses, to support a business, project, campaign or an individual.

Some of the types are discussed below:

- Donation-based crowdfunding: In donating to a charity there are no financial rewards and donors derive satisfaction from helping the charitable cause.
- Pre-payment or reward-based crowdfunding: In return for giving money, participants are rewarded by receiving a service or a product such as concert tickets or a new computer game.
- Loan-based crowdfunding also known as ‘peer-to-peer lending’: Investors receive interest on the money they lend and their capital is repaid over time.
- Investment-based crowdfunding: Investors buy shares and benefit if the business succeeds.

4 Microfinance

Microfinance refers to the financial services provided to low-income individuals or groups who are typically excluded from traditional banking.

Non Collateral Loan	High-Interest Rates
Quick Loan Facility	Over Indebtedness
Comprehensive and Low Income Financial System	Harsh Repayment Method
Building Local Financial Institutions	

5 Venture capital

Venture capital (VC) is a form of private equity and a type of financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential.

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Help gain business expertise	Reduction of ownership stake
Business owners do not have to repay	Give rise to a conflict of interest
Helps in making valuable connections	Receiving approval can be time consuming
Helps to raise additional capital	Availing a VC can be challenging

6 Angel investing

Angel investing is a form of early-stage investment where High Net Worth Individuals provide funding to startups in exchange for a stake in the company.

Funding and Financial Assistance	Loss of Control
Business Expertise	Pressure to Perform
Networking and Connections	Reduced Profit Share
Credibility and Validation	Limited Resources
	Legal and Regulatory Requirements