



Log in | Register | My account

Newsletters | RSS | Subscribe | Classifieds

Thursday September 30th 2010

Search

Home | World | Business & Finance | Science & Technology | Economics | Culture | Site Index | Print Edition

Financing small business

The mother of invention

New sources of finance aim to compensate for the inertia of big banks

Sep 30th 2010

SCOTMAS, a family-owned company based in Scotland, is the kind of business on which Britain's economic recovery might depend. It exports water-treatment chemicals and equipment, competing with giants such as Siemens and GE. In August it wanted to bid to run a water-disinfection project in Dubai, but its bank, Royal Bank of Scotland, said it would take eight to ten weeks to approve the £30,000 of funding it needed to secure in advance. Happily for Scotmas, there was an alternative: a new financing platform called Funding Circle, which found it the money within two weeks.

Funding Circle matches businesses seeking cash with individuals or funds that want to lend it. Its website owes something to the online auction house eBay, and to Zopa, a person-to-person lending platform set up in 2005. An established company registers its needs and invites bids. The more interest there is, the lower its financing costs. Scotmas managed to raise £30,000 for three years at 7.8%. Indigo Clothing, a London-based T-shirt printing agency, recently used Funding Circle to raise £20,000 at 7.6%. It took all of two hours to put in the application, says Alex Walker, its boss; the money was secured within seven days. Funding Circle has raised over £500,000 for 18 companies since August, says Samir Desai, one of its founders.

It is one of a number of operators that are emerging to help small companies hitherto dependent on a handful of big—and, recently, stingy—banks. Around 90% of all banking services to small and medium-size companies are provided by Britain's five biggest banks, according to Mintel, a market-research firm. Anecdotal evidence suggests they are starving many small companies of capital. Lending to British companies by the dominant high street banks has been declining across the board since early 2009 (see chart).



Other new, niche providers include Fundingstore.com, an online financial dating agency that hopes to go live soon, which will allow lenders to browse lists of companies seeking loans. Most such firms currently go to their accountant or house bank, says Nick Montague, Fundingstore's chief executive. He hopes that all kinds of funders, including government agencies and venture capitalists, will use the site. Meanwhile Jono Shorrock, a former banker, has begun raising capital for his British Enterprise Bank, which will be aimed purely at funding small business.

Should the big banks be shaking in their boots? Probably not. But these alternatives may encourage them to sharpen up their act.

Britain

Recommend | E-mail | Share | Print | Reprints & permissions

Readers' comments

The Economist welcomes your views.

Be the first to comment

Want more? Subscribe to The Economist and get the week's most relevant news and analysis.

Be the first to comment | Recommend | E-mail | Share | Print | Reprints & permissions

Advertisement

Most commented | Most recommended

- China's spat with Japan: Out but not over
 - Europe's economies: Turbocharged Germany
 - Turkey's referendum: Erdogan wins again
 - Lexington: The perils of constitution-worship
 - France's poor image: France v the world
 - China and Japan: Getting their goat
 - The future of contrition: Our neglected moral defects
 - Banyan: The games people play (or not)
 - Religion in America: The religion quiz
 - Israeli settlements: Settling in
- Over the past five days

Advertisement

Latest blog posts - All times are GMT

Lula's legacy, Venezuela's resurgent opposition and Mexico's bigger-than-you-thought economy
From **Americas view** - 9 mins ago

Business and development
From **Schumpeter's notebook** - 28 mins ago

The week ahead
From **Multimedia** - 32 mins ago

Just why is Ed Miliband talking about work-life balance, and chain stores?
From **Bagehot's notebook** - 45 mins ago

Currency war. What is it good for?
From **Buttonwood's notebook** - 1 hour 2 mins ago

The campaign heats up
From **Americas view** - 1 hour 12 mins ago

An uneasy split
From **Newsbook** - 1 hour 52 mins ago

More from our blogs »

Products & events

Stay informed today and every day

Subscribe to The Economist's free e-mail newsletters and alerts.

Get e-mail newsletters

Subscribe to *The Economist's* latest article postings on Twitter

[Follow *The Economist* on Twitter](#)

See a selection of *The Economist's* articles, events, topical videos and debates on Facebook.

[Follow *The Economist* on Facebook](#)

Advertisement

Economist Intelligence Unit

**120,000 DECISION-MAKERS
HAVE ALREADY JOINED
OUR OPINION LEADERS'
PANEL TO SHARE THEIR
VIEWS AND INSIGHTS.**

**BUT WE WANT YOUR
OPINIONS TOO.**

CLICK HERE »

Classified ads

[About *The Economist* online](#)
[About *The Economist*](#)
[Media directory](#)
[Staff books](#)
[Career opportunities](#)
[Contact us](#)
[Subscribe](#)
[\[+\] Site feedback](#)

Copyright © The Economist Newspaper Limited 2010. All rights reserved.
 [Advertising info](#)
[Legal disclaimer](#)
[Accessibility](#)
[Privacy policy](#)
[Terms & Conditions](#)
[Help](#)