New Forms Of Finance

Introduction

There are more than 582 million entrepreneurs in the world, according to the latest Global Entrepreneurship Monitor report (2017). This figure shows the ever-growing influence of entrepreneurship on the marketplace in economies worldwide. Entrepreneurs can, however, be classified into two categories which are entrepreneurs and social entrepreneurs. The former are business people who set up and run their own enterprise in hopes of making profits, whilst the latter are those who establish and work in their company with the aim of making social changes. Both require and involve innovation and high economic risks which implies that funding these ventures is not an easy task. Traditional financial institutions, such as banks, frequently reject to loan start-up owners the capital they need to either get started with or grow their business due to inconsistent cash flow, insufficient collateral or credit, or weakening industry. Yet entrepreneurs can resort to microfinance and its alternative methods of finance. Also known as microcredit, this financial service provides economic resources e.g. loans and insurance to entrepreneurs and small businesses unable to access traditional funding services. This paper will first explore the new forms of finance available to entrepreneurs and social entrepreneurs with a critical exposure of their applicability and suitability to various enterprises. Second, it will describe, analyze and evaluate the government-backed subsidies available to entrepreneurs in France.

New forms of finance

1. Crowdfunding

Entrepreneurs are offered the critical financial resources they require through this method where a large number of individuals make relatively small monetary contributions, typically online so no standard financial intermediaries are required nor involved. It also provides nonmonetary services such as ‘crowd tests’ where business ideas are introduced to potential financiers who may or may not invest in the projects, depending on the ventures’ credibility (Zetzsche and Preiner, 2018).

Thus, crowdfunding is a determining feature for various concerns e.g. problem-solution validation, product validation, and market validation. It is indeed utilized, respectively, as a means to see if the venture will gather a solid customer base, to better understand consumers’ preferences via their feedback, and to let unentertaining ventures fail before going to market with few collateral damages (Paschen, 2017).

Its applicability and suitability are, however, spoiled by a major drawback which is that all entrepreneurs cannot benefit from the same support. Using Churchill and Lewis’ (1983) business life cycle framework, three phases are to be distinguished: the pre-startup stage, the startup stage, and the growth stage. These require donation crowdfunding, lending crowdfunding, and equity crowdfunding, respectively (Paschen, 2017).

2. Factoring

Also known as invoice trading, this short-term supply of financing is a fast and relatively easy way for companies to sell their accounts receivable at a discount in exchange for immediate cash. (Dorfleitner, Rad and Weber, 2017) The Factoring Agreement involves three contributors: the small business that sells its accounts receivable from a trading transaction is called the client, the parties that have debts to the clients are the customers and the company that buys the client's accounts is the factoring company, thus becoming the mediator between the client and the customers (Mahmudah, Susilowati, and Yunanto, 2018).

Although factoring provides abundant cash flow within the SME, hence improving the company's liquidity, entrepreneurs must face high factoring costs and risks e.g. the customers' non-payment which makes these transactions hazardous.

Its applicability and suitability are nevertheless limited to entrepreneurs facing temporary cash flow problems as it isn't a long-term solution to raise funds. Moreover, factoring benefits companies with huge profit margins exclusively.

3. Venture Capital

People or companies that invest money in new businesses with high-risk rates in hopes of seeing a fairly quick return on investment are called venture capitalists (Sullivan, 2017).

They are at the core of the entrepreneurial ecosystem as they provide funds, knowledge, strategies, and networks to young entrepreneurs (Devigne et al., 2018).

Yet, these partnerships function on a race against time model since venture capitalists exit the business on a stipulated timeframe. This doesn't allow much scope for failure and it considerably shortens the commercialization span of these new ventures by boosting their productivity which results in bringing more products and services to market faster.

Its applicability and suitability are non-compatible to ventures that require more time to achieve a certain level of liquidity, as well as to entrepreneurs who want full control of their business. Venture capitalists indeed demand to have a say in the way business is made, relying on the fact that they have legal parts on the company's ownership (Dutta and Folta, 2016).

4. Business Angels

These are high net worth individuals who invest their own money in small unlisted companies, with no family connection, typically assuming a minority equity stake (Mason, 2008). Their investments are usually in the range of £90k to £270k which makes them key actors in the entrepreneurial ecosystem, considering their ability to fill the funding gap between the demand and supply for early-stage equity capital (Bonini et al., 2018).

Business angels display many advantages compared to other forms of credit-financing such as not requiring monthly interests as opposed to other types of loans, as well as making ventures remain longer in business, grow faster, and generate more profits.

Its applicability and suitability are, however, limited as business angels are usually hard to convince and decline the majority of the investment opportunities on the market. The reasons

are either professional i.e. the business is not believable and straightforward enough, or personal i.e. the entrepreneur and his team are not considered trustworthy (Crick and Crick, 2018). Furthermore, this method doesn't suit entrepreneurs who expect to be the only economic beneficiary since business angels also receive a share of the profits when the business is sold.

5. Government subsidies

These are benefits granted to entrepreneurs or businesses either in the form of cash payments or tax reductions. These valuable incentives usually support sectors that struggle against the international competition (Investopedia, 2018).

However, these funds are gathered by governments through higher taxes imposed on the people. This virtuous circle indeed allows consumers to fully enjoy the services and goods that the government subsidizes (Corporate Finance Institute, n.d.).

Its applicability and suitability are nonetheless confined to certain sectors of a state's economy. Some governments favor the innovative industry, at the age of tech-driven societies, others put the agricultural industry-first e.g. farming, fishing since they are considered to be weakening sectors (Corporate Finance Institute, n.d.).

Government-backed subsidies in France

As previously mentioned, government-backed subsidies consist of the money paid by the state to aid businesses and industries supply goods and services at reduced prices. These are particularly common in France where there are currently over 10,000 startups as part of an ever-growing entrepreneurial enthusiasm, especially amongst young people (EACEA National Policies Platform - European Commission, 2018) (See Appendix 1). In response to this, the French government has taken the initiative and introduced measures to facilitate R&D projects as well as access to capital. French President Emmanuel Macron's vision also aligns with this economic movement as he 'wants France to be a start-up nation. A nation that thinks and moves like a start-up'.

I. Support for innovation and R&D projects

France displays a propitious ecosystem for innovation capacity improvement as its authorities have created and launched state funding tools for R&D operations within the EU framework which are managed by the affected ministries i.e. Ministry of Finance, Ministry of Industry, and Ministry of Research (Businessfrance.fr, 2017). Entrepreneurs can also seek assistance through France's research institutes and innovation clusters. Furthermore, there are a number of existing government-backed aids for R&D operations such as:

- The National Research Agency (Agence Nationale de la recherche) supports basic, applied research on the basis of calls for proposals. It welcomes both private and public partnerships, provided that it releases research results to businesses in the case of public alliances.
- The French Environment and Energy Management Agency (ADEME) which operates on the basis of calls for proposals offers two schemes: repayable advances i.e. loans with a

government inventive in the project's success, and subsidies which are exclusive to SMEs and research bodies.
- grants, interest-free loans and advances, and interest subsidies at rates below the bond market average from local authorities.

In addition to these funding tools, entrepreneurs also benefit from the French government's National Investment Programme which has a total worth of £30bn and is controlled by different boards including France's public investment bank (Bpifrance) and the French Environment and Energy Management Agency.

II. Types of state subsidies

- Bpifrance

As mentioned above, this government-backed agency, launched in 2012, provides funds to entrepreneurs and assists ventures of all sizes i.e. from micro-businesses of up to 10 employees, SMEs of up to 250 employees, mid-caps of up to 5000 employees to large firms of more than 5000 employees.

Its goals are to drive ventures towards their growth, prepare them for tomorrow's competitiveness, and develop an entrepreneurship-friendly ecosystem (Bpifrance.com, n.d.).

It is subsidized by two major bodies which are the French state (50%) and the Deposit and Consignments Fund – French public sector financial institution under the control of the Parliament – (50%). With 48 regional offices and 2,5000 employees, Bpifrance has reportedly financed 74 000 businesses in 2016 thanks to its extensive funds (see Appendix 2).

Bpifrance offers a wide range of funding services from loans to equity capital and export finance, depending on the venture's stage: it assists businesses in their pre-startup period with initial investment requirements e.g. seed funding and guarantees, supports SMEs to expand nationally through growth capital, leveraged build-ups, and co-financing, it boosts the international expansion of mid-size companies via export credits, and finally, it helps large enterprises reach their goals and stabilize their capital via business transfers (Businessfrance.fr, 2017).

- La French Tech

Launched in 2013, that being barely a year after Bpifrance, this French Government initiative's aim is to promote the rise of startups in order to create more jobs and increase the country's economic value. Moreover, it is an attribution allocated to French cities acknowledged for their start-up-friendly ecosystem; there are 13 French Tech centers as of today's date (Gouvernement.fr, n.d.).

Since its creation, La French Tech has launched a number of initiatives aimed at various business people such as owners of well-established large companies i.e. +100% in turnover per year, to whom it awards the French Tech Pass. Prize winners benefit from free tailored aid through both major public and private economic players e.g. Coface – France's export credit agency and AFIC – French Venture Capital and Private Equity Association, respectively.

Foreign entrepreneurs, as for them, are rewarded with the French Tech Ticket welcome pack which includes a £40,000 grant, master classes in business strategies, one year housing in one of France's 41 business incubators as well as a residence permit.

III. Limitations

- Bpifrance

Despite its numerous positive achievements, the government-backed project still has some faults such as the fact that it reportedly overlooks the Alsace region and on the contrary, the Aquitaine, Nord-Pas-de-Calais, and Rhône-Alpes regions are particularly taken care of. Besides, most key actions are centralized, and major decisions are made in Paris, in the Île-de-France region as it arguably represents 30% of France's GDP.

In addition to the regional discrimination, Bpifrance shamelessly states to favor three sectors in particular: the biotechnology industry, the digital industry, and the ecotechnologies industry in which they invested £675 million in 2013.

Furthermore, Bpifrance has been found guilty of rejecting to assist an unstable venture involving significant monetary loss. It has indeed refused to back up Altia – a Finnish alcoholic beverage company – in 2014 due to it undergoing receivership. The estimated potential loss for Bpifrance reportedly came to £16 million, which represents an insignificant part of the public bank's generated profits which peaked at £270 million in the first term of 2014.

- La French Tech

In spite of its attractive awards, the French Government's initiative is far from being flawless. First comes the questionable usefulness of the creation of the label 'French Tech Centre' which has caused public outrage. Many indeed claimed that it was only a biased medium for elected representatives seeking some reputation peak as the elections drew near.

Additionally, La French Tech doesn't actually guarantee a return on investment or any type of support to entrepreneurs and companies who have failed. Besides, SME owners in France who have been unsuccessful in business are not entitled to receive unemployment benefits. Thus, this negligence clashes with one of the French Tech's principles which is to encourage young people to dive into high-risk ventures.

Lastly, gender parity is a ground principle that is not put into practice within the pseudo-feminist government scheme, with only 21% of females currently employed at La French Tech. In 2015, the Secretary of State in charge of the digital industry, Axelle Lemaire, tweeted '#Iamfeminist when I attend board meetings exclusively made up of men' which underpins how much women are under-represented in the entrepreneurial ecosystem in France. Furthermore, a French start-up accelerator called Le Camping recently released a report in which it painted the archetype of the French entrepreneur and it unsurprisingly turned out to be a young and fairly educated male i.e. under 30, postgraduate.

Conclusions

In its first part, this paper discussed five alternative forms of finance i.e. non-traditional financing solutions, such as banks, available to both entrepreneurs and social entrepreneurs. For each financing method, it introduced a brief definition, its advantages and disadvantages, benefits and/or faults followed up by a critical exposure of its applicability and suitability to various enterprises, all supported by up-to-date evidence e.g. documents, reports, and figures. This thoroughly conducted research led to the acknowledgment that although these alternative financing methods still have grey areas like they only being applicable to either pre-startup stage projects or ventures that have been on market for some time already or they requiring the business owners to give up part of their business ownership to the external source of funds (individuals or organizations), they surely give a helping hand to entrepreneurs as the latter ultimately find their groove.

In its in-depth analysis, this paper examined the government-backed subsidies in France. Facing an ever-growing entrepreneurial eagerness, especially amongst the younger generation i.e. people under 30, the French Government resolved to bolster this enthusiasm and implemented various financial and business strategy support mainly administered by the affected Ministries. The state grants are typical of fair amounts and relatively easy to access, however some deficiencies are to be noted. For instance, Bpifrance promotes three sectors in particular and concentrates most of its activity in Paris, leaving the other regions out whilst La French Tech doesn’t guarantee assistance to ventures that fail and currently only employ 21% of females.