

Alternative Financing Models: the Case of Estonia Introduction

Alternative financing has covered a variety of new financing models that have emerged outside of the traditional financial system. In recent years, the market of alternative financing grew out and transformed all over the world.

Estonia is considered to be the continental Europe's leader of the penetration of alternative financing over the population. Estonia takes the 2nd place in Europe (after the UK) by the alternative financing volume per capita. (Ziegler et al., 2018)

Meanwhile, there is an assumption, that the role of the alternative financing is overestimated due to significant volume of banks' funds in it, in the case of Estonia. (Bank of Estonia, 2020)
Furthermore, the legislative base of alternative financing still lacks of certainty, in Europe. As a result, the statistical records are influenced strongly by the lack, because there is no data bases on the alternative financing providers in many European countries.

Estonia has a slightly different position in the field of alternative financing regulation.

There are 3 types of licenses for the participants of financial market of Estonia, viz.:

- 1) for acting as a financial institution. Issuer – Finance Intelligence Unit – FIU.
- 2) for creditors and credit intermediaries (this license assumes to render financing/crediting services for private persons as well). Issuer – Financial Supervisory Authority – FSA.
- 3) for credit institutions (banks). Issuer – FSA.

The lists of 1) and 2) licenses were used to identify the alternative financing providers and to analyse their activity (services, legal forms, origin of funds).

In addition, the definition of alternative financing itself becomes the challenge because of a broad range of interpretations. The issue of terminology of the phenomenon could effect the structure and the statistic data as well.

Therefore, much uncertainty still exists about structure of the alternative financing, as there have been only few studies which shed light on the structure and models of the alternative financing in the Baltic Region (Latvia, Lithuania, Estonia), on the whole, (Sadzius, Sadzius, 2018), and no studies on Estonia, from the angle of legal forms and licensed activities of the phenomenon.

The above mentioned issues defined the goal and the tasks of the research.

Research goal

The **goal** of the research is to reveal and analyse actual models of the alternative financing in Estonia.

To achieve the goal, the following **tasks** was advanced:

- 1) to conduct through the terminology of alternative financing;
- 2) to give a brief insight into legislative requirements for financial sector of Estonia;
- 3) to justify the use of the list of issued licenses in the context of the research;
- 4) to reveal the alternative financing types by three elements, viz., possessors of funds, originators of fund raising, addressees of financing;
- 5) to analyse the main revealed models of the alternative financing in Estonia.

Main method

Generally accepted **methods** of economic research were applied. For instance,

- 1) qualitative to gain insights whether the use of Data base of FIU licenses is substantiated for the research;
- 2) monographic descriptive to group and systemise the data of the phenomenon by its features and parameters;
- 3) analysis and synthesis to study the elements of the phenomenon and synthesise coherency or formulate regularities.

The research is conducted in the form of review with primary **data** being gathered via multiple sources, viz.:

- The Estonian Data base of FIU licenses for acting «as a financial institution» (287 entities);
- The Estonian Data base of FSA licenses for acting «as a creditor or a credit intermediary» (52 entities);
- Web-pages of financing providers with FIU licenses (66 entities);
- Web-pages of financing providers with FSA licenses (52 entities);
- In-depth interviews with 12 members of the board of FIU licensed financing providers.

Keywords

Alternative financing, FIU license, structure of financial sector

Main results

Definition

The first core issue of the research was alternative financing definitions review.

Most of the reviewed definitions describes the phenomenon from the point of financing distribution channels outside traditional (banking and capital markets) regulation. (European Central Bank, 2012), (Adrian, Ashcraft, 2012), (Schueffel, 2017)

Summary of the definitions could be suggested as follows:

alternative financing is another (alternative, outside of banking regulation) financing distribution channel.

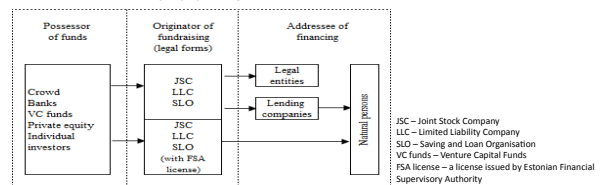
The definitions do not include the elements of the financing process:

- financing origin (possessor of funds);
- originator of fund raising (financing organisation);
- addressee of financing.

Interaction between the elements of financing

In the research, the types of elements of the financing process, viz., "possessors of funds", "originators of fundraising" and "addressees of financing" were revealed and systemised. The interaction between the revealed types of elements are presented in Table 1.
In the section of "possessors of funds", crowd, Venture Capital funds, private equity, individual investors and banks were identified. The section of "originators of fundraising" shows the legal form of them, viz., Joint Stock Companies, Limited Liability Companies, and Saving and Loan Organisations. The results of the table show, that only the providers (fundraising originators) with FSA license have rights to finance natural persons.

Table 1. Summarised scheme of major financing models, revealed in Estonia



Source: developed by the author

Table 1 is a generalized scheme of the financing process in Estonia. Some examples of the revealed models of financing are presented in Table 2.

Table 2. Examples of the revealed financing models

Title of the model (self-name)	Possessor of funds	Fundraising originator		Addressee of financing		Examples of providers
		Legal form	License type	Legal form	Purpose of financing	
Crowdfunding	Crowd	LLC	FIU	Legal entities	mortgage loan	Est@taguru
	Crowd	LLC	FIU	Lending companies	working capital	Mintos
Crowdfunding	Crowd	LLC	FIU	Legal entities	investments	Fundwise
	VC Funds	LLC	FIA	Legal entities	investments	Baltcap
	Cooperative members	SLO	FIU	Cooperative members (own)	consumption	Erial
	Cooperative members	SLO	FSA	Private persons, Legal entities	loans, consumption	Kreditex
	Shareholders	JSC	FSA	Legal entities, Private persons,	consumption, loans	Finora Capital
	Bank	JSC	FSA	Legal entities, Private persons,	consumption, loans	LHV Finance
	Bank	LLC	FSA	Legal entities, Private persons,	mortgage loan, lease	Citadele Leasing & Factoring

Source: developed by the author

Main conclusion

Most of the actual definitions determine alternative financing as channels for financing distributing outside bank regulation. The definitions do not specify the origin of funds provided for the distribution via alternative channels.

Some of the revealed financing models, actual in Estonia, contain bank funds in the elements "possessor of funds".

Most of the revealed models acts with FSA license, which means that they render their services both for legal entities and natural persons, in the main, in the field of consumption credits, mortgage loans and leases.

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