

Annex J

SME LOAN AND EQUITY FUNDING

Aim

To provide access to finance, create new financial instruments where appropriate and encourage private sector investment to ensure that all indigenous SMEs with the potential for growth are able to fund that investment so as to enable them to increase competitiveness, provide employment opportunities and grow locally.

Rationale

Both existing and new SMEs have traditionally been faced with a wide range of potential funding sources in both the public and private sector. Over the last 20 years or so the public sector providers, both national and local, have increased in number.

The public sector provision is experiencing further changes with the establishment of the Enterprise Fund which includes initiatives such as Regional Venture Funds. There is also the UK High Technology Fund, the Phoenix Fund and the Enterprise Grant Scheme. All these schemes are aimed at helping to meet the perceived shortfall in the provision of appropriate and effective financial support for SMEs. However there is still a need for local initiatives in the form of soft loan schemes and grants which fill gaps and support investments which would not otherwise be economically viable and will help to develop a critical mass of economic activity.

There is still a large emphasis on grant support, which has often led to the establishment of a series of small, very local, grant schemes. In part this grant dependency has discouraged risk taking and has tended to lead to the attraction and encouragement of low growth business.

Venture capital and loan funds are subject to Commission eligibility rule number 8, (see Annex C). In essence, these forms of finance must be invested in activities that are judged to be potentially economically viable. Funds should not be used to acquire majority stakes in SMEs. Also, investments made by funds are subject to the rules on State aid, (see [Annex A](#)).

Strategy

Venture finance for SMEs should be targeted on those businesses with the potential for growth, or have potential as a quality start-up businesses, or in support of attracting innovative or key sector businesses to the locality, but where existing conventional lending or funding sources are not able to help.

Financial instruments that conflict with or duplicate existing and emerging private and public funding streams (many of which are referred to above) will not be supported. Support will only be provided towards projects that clearly demonstrate they will exploit gaps in the existing provision and are able to reinforce other aspects of the strategy.

Any forms of support, either existing or new, will need to provide additionality, value for money, professional management, adequate staffing and demonstrate that it will meet a clear gap in the financial support market place. The Small Business Service has a key role with the Regional Venture Funds initiative and, as a result, loan and equity support schemes will not be supported if they do not fit with this initiative.

Resources should be concentrated on:

- Filling gaps in the existing and emerging national and regional provision
- Loan and equity schemes
- Grant schemes whose criteria and management arrangements demonstrate that they conform to the strategy of substantially increasing value added and jobs created.
- Start-up enterprises, potential high growth businesses or other market sectors not currently adequately addressed such as technology-based enterprises.
- Schemes that link specifically with the SBS provision or other elements of the programme.
- Innovative funding mechanisms not currently available in the area and particularly those initiatives that provide money and management support.
- Support for schemes which support niche activities and economically excluded groups.

Implementing Bodies

Implementing bodies in this Measure include the Small Business Service and its accredited delivery agents and contractors, HEI/FEIs, Local Authorities and private sector companies.

Activities

- Creation of new financial instruments that eliminate gaps in the current regimes.
- Development of financial support mechanisms which improve coherence and consistency in assessment and due diligence and alignment with national schemes such as Regional Selective Assistance and Enterprise Grant Schemes as well as strengthening the interrelationship and access to local schemes.
- Develop and support schemes which address the funding needs of SMEs throughout their life cycle
- Develop and support schemes that provide financial support for the development of existing businesses or attraction of new ones in the high growth sectors.
- Develop and support schemes that provide financial support for business start-ups, particularly in new technology sectors or spin-outs from the HEI/FEIs.
- Develop and support schemes which address specific sector needs in new technology, opportunities arising from developments in environmental technologies.
- Develop and support schemes which assist in overcoming barriers by women and other economically excluded groups in developing existing businesses or in the setting-up of new businesses which align with the overall strategy.

Final Beneficiaries

The Small Business Service and its accredited delivery agents and contractors, HEI/FEIs, Local Authorities and private sector companies.