

Investment Framework for Venture Capital and Loan Funds

1. Introduction

Generic Purpose of Investment Frameworks

- 1.1 The NWOP Programme Monitoring Committee has agreed to the development of a series of Investment Frameworks. The purposes of these are to:
- Develop further the context for each of the action areas within the NWOP and focus on specific investments which the ERDF Programme will support
 - Encourage all project sponsors to seek guidance from the relevant policy leads and/or the European Programme Team before embarking on the development of a project idea
 - Provide guidance for projects sponsors when developing their ideas and projects in relation to the NWOP
 - Set out what outputs and results are expected to be delivered.
- 1.2 All Investment Frameworks (IFs) have been developed with input from regional and local stakeholders across the region during late 2007. The IFs will be subject to a monitoring and evaluation process to ensure that they continue to be fit for purpose and aligned with the NWOP and relevant regional and sub regional strategies. The NWOP Programme Executive will be able to provide further guidance in relation to the IFs.

Specific Purpose of this Investment Framework

- 1.3 This Investment Framework is designed to guide the use of the resources under the NWOP that have been indicatively allocated to venture capital and loan activity and related advice, investor readiness support and money with management through the following Priorities and Action Areas:

Priority 1 Stimulating Enterprise and Supporting Growth in Target and Markets:

- Action Area 1.1 - Developing high value new enterprise
- Action Area 1.2 - Developing higher added-value activity in target regional sectors

Priority 2 Stimulating Enterprise & Supporting Successful Businesses:

- Action Area 2.1 - Exploiting the science and R&D base of the region
- Action Area 2.2 - Encouraging innovation to improve productivity in all companies

Priority 4: Building Sustainable Communities:

- Action Area 4.1 - Stimulate enterprise in disadvantaged communities and under-represented groups.

- 1.4 At present the ERDF resources earmarked for the Priority One and Two Venture Capital and Loan Fund (VCLF) activity amounts to around €102m over the life of the programme (excluding AA4.1) comprising around £28m in the Merseyside phasing-in area and £41m in the rest of North West. The assumption is that no more than 25% of Priorities One and Two will be set aside for a VCLF type instruments, although in practice this figure may change over the lifetime of the programme, subject to progress in this and other aspects of Priorities One and Two. A further £1.6m of ERDF has been provisionally allocated for a small loans fund in Action Area 4.1

- 1.5 In addition, an Access to Finance Advisory Service has been proposed, which will operate as an integrated part of Business Link Northwest and the Information, Diagnostic and Brokerage (IDB) portfolio. It will address the needs of all businesses providing structured finance self-assessment and assisted diagnosis to help businesses with detailed business finance support. The Service will enhance the survival and growth prospects of both new and existing businesses, with the potential for high growth companies and priority sectors in Action Area 1.1, 1.2 and 2.2. There is need for an additional ERDF contribution to co-finance this service.
- 1.6 This Investment Framework supports interventions which will provide SMEs with high quality advice and related support in accessing business finance (including investor readiness support), as well as access to finance through publicly supported equity and loans funds and related business support (in particular money with management assistance). The specific purpose of the public sector providing this assistance through the North West Operational Programme is to address perceived market failures, in particular the gap in the provision of relatively small amounts of business finance to particular classes of SME.
- 1.7 In addition, the Access to Finance Service, VCLF and Small Business Loans Fund are an important feature of the overarching strategy of the Structural Funds due to their value in stimulating the growth of the SME base. This is achieved through stimulating enterprise activity, the growth of higher value SMEs and exploiting business development opportunities arising through the region's science and innovation base. There is an especially strong imperative to support enterprise in general in many areas of the UK where there is a need to restructure the economic base and address economic disparities.
- 1.8 Given the mix of financial instruments proposed (see below), especially the emphasis on business start-up, expansion and on-going growth, the interventions will be instrumental in generating both additional GVA and job creation. The focus of activities funded through Priorities One and Two in particular within this Investment Framework should be on supporting entrepreneurs and businesses which demonstrate a reasonable potential to achieve GVA and employment growth:
- 1.9 The Investment Framework is expected to support a range of financial instruments, as well as initial advisory and business support services:
- **Venture Capital and Loan Fund**, covering a number of finance types with distinct purposes:
 - **Seed Capital Fund** with a focus on providing pre-start-up and development finance to pre start-ups seeking to test and prove concepts and start-ups seeking to introduce new products, processes and services;
 - **Loan Fund** with a focus on the provision of debt finance to established businesses, with an emphasis on businesses with the potential for employment and turnover growth;
 - **Venture Capital Fund** with a focus on the provision of venture and mezzanine finance to established businesses with an emphasis on expansion, as well as early stage companies seeking to grow quickly. Within the VCLF, **Money with Management support** would be offered as an integral part of the loan and equity arrangements.

- **Access to Finance Service** providing a bespoke advisory service to SMEs covering the different forms of finance available, support to become 'investment ready' and introductions to finance providers.
- **Small Loans Fund** targeted at deprived communities and socio-economic groups which are under represented in terms of their participation in enterprise activity.

2. Partner Engagement

2.1 The framework was developed by the NWDA, building on the wider regional strategy for finance for businesses and the principles of Business Support Simplification. Comments have been provided on the draft framework during the consultation period from a small number of partners (mainly Manchester Enterprise, The Mersey Partnership, Lancashire Economic Partnership and the NWUA). These comments have been considered in finalising this Investment Framework.

3. Linkages to Other Strategies

3.1 The so-called *finance gap* has been identified through a wealth of national research to exist in particular where businesses are seeking relatively modest investment (in contrast to the larger deals which private sector funding institutions seek to participate in) or in instances where the businesses are unable to provide the necessary financial collateral sought by the private sector lenders. At the root of this market failure is the information costs faced by the providers of finance to SMEs in making informed decisions about the risks and rewards available from particular classes of investment. This is at the root of DBERR's access to finance strategy and the range of initiatives which support publicly backed financial instruments across England (such as the Small Firms Loan Guarantee, Regional Venture Capital Funds, Enterprise Challenge Funds, etc).

3.2 Improving access to finance for SMEs has also been identified by the Regional Economic Strategy (Actions 5 and 6) as one of the key barriers to their formation and subsequent growth. The inability to access the right financial package at an appropriate cost at the right time is a constraint for many SMEs in the region, as well as the region's desire to foster a more enterprising, competitive and innovative economy. The specific RES objective is to "**improve the availability of business finance**" with two supporting actions:

- Action 5 - *Target the existing investment readiness, business angel activity and portfolio of seed and venture capital funds at growth potential companies and ensure ongoing finance availability (up to £500,000); and*
- Action 6 - *Address key business finance gaps in the provision of small loans to micro-businesses and £0.5-£2million loans and equity for other businesses.*

3.3 The NWDA's Finance for Business Strategy also recognises the access to finance issues faced by SMEs. It sets out a series of recommends to address the three aspects of provision – namely demand, supply and intermediation services. A key recommendation to address supply-side issues is to the creation of capital and loan instruments to address the finance gap for a range of investments classes in support of the region's economic, business development, sectoral and innovation strategies.

4. Key Principles to Support Project Prioritisation

4.1 There are a number of important principles which will inform project development and how the resources allocated under this Investment Framework will be used:

- The delivery of financial instruments through a single branded region-wide VCLF, providing a range of distinct funds (Seed, Loan and Venture Capital). This fund will offer a range of finance to cater for SMEs in different stages of the business lifecycle (pre-start-up, start-up, growth and expansion) and hence varying requirements for levels and types of finance. Whilst the VCLF will be administered by NWDA, the distinct funds could be delivered through a range of fund managers operating across the region as a whole (see Section 7).
- The Access to Finance service will be a regional service available across the North West, providing common high quality advice, brokerage and consultancy services. Although all the services may not necessarily be delivered by Business Link, they will be integrated and ideally collocated with it. SMEs will access the available ERDF backed venture capital and loan funds through this service.
- Those aspects of this Investment Framework which fall within the scope of the Business Support Simplification Programme will accord closely with its priorities and principles. In practical terms this means:
 - Business Link North West is the primary access channel for these services: all services will be maximise access through Business Link's brokerage service to ensure an efficient and effective customer journey.
 - Any Information, Diagnostic and Brokerage (IDB) service, including the highly specialised, will either be delivered through Business Link North West, or with their agreement by other delivery organisations
 - Marketing of the services will need to be co-ordinated by and compatible with BLNW's own marketing programme so confusion, duplication and waste are all minimised.
 - Where a range of providers is involved, there will be a regional approach to branding across each service/strand.
 - Services will be located in one (or more) of the approved business support products: they will support the stated objective of that product(s) and be under-pinned by an appropriate market failure assessment.
 - All services will be based on a clear and convincing rationale, with supporting evidence on effectiveness and business demand: BLNW will help ensure services respond to identified needs.
 - NWDA will coordinate business support to ensure on-going consistency with BSSP and promote fit to regional economic strategic priorities.
 - Legacy schemes which are not consistent with the portfolio but which cannot be immediately terminated for wider strategic reasons will cease as soon as is reasonably practicable.

4.2 The activity supported under this Investment Framework sits within the national Business Support Simplification Framework and relates to Access to Finance theme and its related activities:

- **Financial awareness and capability** – *providing SMEs with the skills and expertise to secure private sector funding;*
- **Debt finance** – *security and loan finance for SMEs with viable business plans;*
- **Innovation finance** – *help to develop and commercially exploit innovative ideas;*
- **Equity finance** – *equity financing for high growth SME businesses.*

4.3 The national summary of these products is included as Appendices A to D.

5. Investment Framework Targets

5.1 The main objective of this Action Area of the NWOP is to improve regional GVA and to support employment creation in the target sectors. The key desired outcome is to increase the contribution that, high growth potential start-ups and SMEs and the target sectors make to regional GVA and employment and to raise the performance of the businesses.

5.2 The indicative outputs, results and impacts which are anticipated to arise through the equity and loan provision under Actions Areas 1.1, 1.2, 2.1, 2.2 and 4.1 and that will be used to measure progress are as follows¹:

Outputs, Results and Impacts (excluding the Access to Finance Service)
<p>Outputs</p> <p>Number of businesses assisted to improve their performance (No) Number of businesses assisted to improve their performance that are SMEs (No) Number of businesses assisted to improve their performance via financial support (No)* Private sector investment levered £m</p> <p>Others:</p> <p>Number of social enterprises assisted Number of investments with SMEs made through the VCLF (split by small loans, loans and equity)* Value of investments made with SMEs (by type of investment and stage of development)*</p>
<p>Results</p> <p>Gross jobs created (No) GVA created No. of new Businesses Created Number of businesses with improved performance Reduction in annual CO² emissions from Programme interventions (tonnes pa).</p>
<p>Impacts</p> <p>Net additional GVA overall in region (£m) Net additional employment overall in region (No) Net change in overall CO² emissions (tonnes pa)*</p> <p>[Note these impact indicators are programme-wide impact indicators, the contribution of all Investment Frameworks to these overall targets will need to be measured]</p>
<p>Note: indicators with an asterisk are those not covered by the national CLG/RDA indicators framework</p>

¹ Unless otherwise stated the indicators all are consistent with the national set of indicators and definitions produced by CLG and the RDAs

6. Investment Framework Approach

6.1 As highlighted above, the proposed strands of support under this Investment Framework are:

- An Access to Finance Advisory Service operating across the region;
- A single branded region-wide VCLF operating across Priorities One and Two, with a range of distinct funds (Seed, Loan and Venture Capital), including 'money with management' assistance where appropriate;
- Support to extend existing North West Small Business loan fund targeted at disadvantaged groups and spatial areas (under Priority Four).

Financial Allocations

6.2 There is a provisional ERDF allocation of £68.7m for VCLF activity under Action Areas 1.1, 1.2, 2.1 and 2.2. This will be matched at source or at the point of investment by the private sector.

6.3 The indicative allocation between Action Areas has been determined on the basis of the nature of the action area objectives, the forms of finance required and the potential demand from SMEs. In practice the resources are split equally between Priorities One and Two. Action Area 2.1, with its focus on exploiting the science and R&D base of the region, accounts for £20m ERDF. Whilst this is relatively high given the focus of the action area, it should be judged in the context of the under-provision of public sector backed funds historically for this type of science and technology orientated early stage activity, as well as the potential to stimulate demand for follow-on investments in future years of the Fund.

6.4 As noted above, an Access to Finance advisory service is proposed, which will operate as part of Business Link.

Table 6-1: NWOP ERDF Investment Framework for VCLF

VCLF Activity (excluding Access to Finance Service) £ millions	Share of AA/Priority Totals	Merseyside	Rest of the North West	Total
		£millions	£millions	£millions
AA1-1 Developing high value new enterprise	25%	3.4	5.2	8.6
AA1-2 Developing higher added-value activity in target regional sectors	34%	10.1	15.7	25.8
Total Priority One	25%	13.5	20.9	34.4
AA2-1 Exploiting the science and R&D base of the region	27%	8.1	12.1	20.2
AA2-2 Encouraging innovation to improve productivity in all companies	29%	6.1	8.1	14.1
Total Priority Two	25%	14.1	20.2	34.4
AA4-1 Stimulate enterprise in disadvantaged communities and under-represented groups	15%	0.8	0.8	1.6
Total Priority Four	2%	0.8	0.8	1.6
Total All Priorities	14%	28.4 (40%)	41.9 (60%)	70.3 (100%)
Note: based on assumed exchange rate of €1.4845 to £1.00; totals may not sum due to rounding				

Interventions and Activities

6.5 The focus of each strand of activity is summarised below:

Access to Finance Service

- Marketing of the regional Access to Finance service would be undertaken centrally via Business Link;
- SMEs with a perceived need for financial advice would be channelled through to the specialist Finance Brokers within Business Link;
- The provision of a high quality financial advice service, comprising diagnostics, investors readiness and sign-posting;
- Access to the most relevant private or publicly supported finance providers or other forms of business support.

Venture Capital Loan Fund

To create adequate supply of finance to meet existing demand from and stimulate and speed up the development of additional innovative high growth businesses; focusing on seed finance, R&D, innovation and expansion finance.

Seed Capital

- **Focus:** provision of seed finance to pre start-ups seeking to test and prove concepts and start-ups seeking to introduce new products, processes and services.
- **Rationale:** these existing or potential businesses typically lack the track record to secure the necessary development finance or may be operating in a particularly high risk area.
- **Fund:** £27.5m fund, matched by private sector.
- **SME lifecycle focus:** pre start-ups and innovative/high growth start-ups.
- **Finance type:** primarily debt finance, but with potential for equity investments including through follow-up/next stage investments.
- **Size and range of investments:** £10k to a maximum of £500k, with the larger investments being accounted for by follow-on investment made during the investment period of the fund. The initial investments are expected to be between 50-100% of the investment values for pre start-up and 50-70% for next stage or follow-on investments.
- **Risk profile:** high.
- **Outcomes and impacts:** whilst both GVA and employment growth will be key outcomes, the emphasis on start-ups and early growth will result in less prospect of new employment and GVA growth in the early years of the investments. Follow-on investments will offer stronger prospects of turnover and job growth.

Loan

- **Focus:** provision of debt finance to established businesses, with an emphasis on businesses with the potential for employment and turnover growth.
- **Fund:** £20m fund, matched by private sector

- **SME lifecycle focus:** start-ups and trading businesses.
- **Finance type:** debt finance.
- **Size and range of investments:** £30k to £250k, typically between 50-70% for overall package.
- **Risk profile:** medium to low.
- **Outcomes and Impacts:** whilst both GVA and employment growth will be key outcomes, the emphasis on start-ups and early growth will lead to a comparatively stronger focus on employment creation.

Venture Capital

- **Focus:** provision of equity and mezzanine finance to established businesses with an emphasis on expansion, as well as early stage companies seeking risk capital to enable them to grow quickly.
- **Rationale:** the provision of venture capital through equity investments is intended to address the financial needs of SMEs which aren't met by debt or other forms of financing (either due to a higher requirement for external finance or more typically higher risks) and where the sums are too small to interest private sector venture capitalists.
- **Fund:** £21.2m fund, matched by private sector
- **SME lifecycle focus:** early stage businesses with prospects of rapid growth through to established businesses with major expansion and high growth aspirations (there will be the need to be mindful of the potential overall with the follow-on investments anticipated through the Seed Fund)
- **Finance type:** equity finance.
- **Size and range of investments:** £50k to £3m, although deals below £300k are likely to be few in number. An ERDF backed fund's investment is likely to be in the range of 5%-50% for overall package (it should be noted that the CLG/SBS sponsored VCLF evaluation questioned involvement of publicly backed funds where providing less than 10% of value of investment framework.
- **Risk profile:** medium to high.
- **Outcomes and Impacts:** whilst both GVA and employment growth will be key outcomes, the emphasis on capital led growth may well result in a comparatively stronger focus on GVA creation.

North West Small Loans Fund

- **Focus:** the provision of small amounts of debt finance as a means of stimulating enterprise in disadvantaged communities and amongst under-represented groups.
- **Rationale:** start-ups and micro enterprises face significant difficulties in accessing finance due to a limited trading history and a lack of collateral. The perceived risks to lenders can be greater, perceived or actual, amongst businesses in deprived areas and amongst groups with lower levels of participation in enterprise.

- **Funding:** ERDF would be used to enhance an existing £5m loan fund. The potential ERDF contribution is around £1.6m that would be matched by private sector.
- **SME lifecycle focus:** start-ups and micro businesses, including social enterprises.
- **Finance type:** debt finance.
- **Size and range of investments:** £3k to £30k, representing an average of 50% of the loan package/investment value.
- **Risk profile:** medium to high.
- **Outcomes and Impacts:** employment and turnover growth.

Key Design Principles

6.6 The key design principles are set out below for the VCLF activity funded through Priorities One and Two, as well as the Small Loans Fund supported through Action Area 4.1.

Priority One and Two VCLF Activity

- The provision of a regional **Access to Finance service** available throughout the region, providing targeted advice to businesses on the different forms of finance available, sign-posting to providers of finance and providing investor readiness support. This support would target SMEs identified in the Priority 1 and 2 action areas and would be integrated in Business Link. Whilst access to this service will be available to all pre start-ups, start-ups and existing SMEs, access to ERDF supported funds will depend on meeting eligibility criteria.
- The introduction of a single branded VCLF operating across Priorities One and Two, with a range of distinct funds (Seed, Loan and Venture Capital) providing specific finance offers to cater for SMEs in different stages of the business lifecycle (pre-start-up, start-up, growth and expansion) and hence varying requirements for levels and types of finance.
- The types of financial instruments available will closely reflect the strategic priorities of the NWOP and the specific business development action areas within priorities one and two. The specific SME focus is:
 - AA 1.1 - high growth/value potential starter-ups and micro-businesses;
 - AA 1.2 - high value SMEs in NWDA's target sectors;
 - AA 2.1 - near market technologies, including the commercialisation of R&D;
 - AA 2.2 - SMEs which have growth potential through innovating in terms of products or processes.
- The provision of additional business support (known as Money with Management) as an integral part of the finance package, with the aim of: (i) enhancing the key business functions or related activities which are critical to the success of the proposed investment through mentoring (including the use of non executive directors) and possibly other forms of business support; and (ii) reducing business attrition and increasing loan repayment rates and the value of equity realisations. This could consist of mentoring support or non-executive directors, provided as part of the finance package and funded through the management fees.
- The investment period will run from 2008 to 2015, with the funds being wound up by 2018. Legacy returns would be available for re-investment through successor funds post-2018. The

forecast of the value of legacy returns is £240m, which is equivalent to a 100% return on the value of investments. On the basis of the returns secured by the current VCLFs, this will be challenging to achieve.

- The fund (seed, loan and venture capital), to be matched by the private sector (eg. banks, institutional investors, business angels, etc).
- The ERDF grant will be drawn down in advance from the programme and this would, under the rules of the Programme be treated as defrayed expenditure at this point. The grant will accrue interest which will be used to cover fund management fees during the investment period and up to the close of the fund in 2018.

Priority Four: Small Loans Funds

- The precise details of the Small Loan Fund are currently being developed in more detail. It is intended that the ERDF is used to support the extension of an existing Small Loans Fund. This is a successor fund to the original Phoenix Fund, which has £5 million committed from NWDA and DTI for the period 2007 to 2010.
- The Fund will provide small amounts of debt funding to start-ups and small viable existing SMEs (including social enterprises), with an emphasis on start-ups which can survive and subsequently grow, as well as existing small businesses with the prospects for employment and turnover growth.
- There is the intention for the fund to be focused on deprived communities of place and interest.

7. Procurement Method for the Investment Framework

7.1 The intention is for a single region-wide Access to Finance Service and VCLF covering the whole of the North West. Whilst there has been separate access to finance arrangements in Merseyside in the previous programme period, the plan for the current period is for a unified approach across the region.

7.2 Although the detailed plans for procurement have not been finalised, the outline strategy is based upon:

- The administration of the Access to Finance Service, the VCLF and the Small Loan Fund by NWDA.
- Non competitive selection for the money in this investment framework. NWDA will procure through the OJEU tendering process for the VCLF element. It is proposed Access to Finance and Small Business Loan are added to existing projects.
- The delivery of the Access to Finance Service would be delivered by Business Link.

8. Spatial Level of Delivery

8.1 The Access to Finance Service, Small Business Loan and the VCLF will operate as region-wide services, with common branding and delivery mechanisms throughout the North West. Whilst it is possible that particular funds within the overall VCLF could be contracted separately for sub-regions, this is not a favoured approach due to the economies of scale associated with the delivery of these funds.

Merseyside

- 8.2 As noted above, ERDF for venture capital and loan fund activity has been ring fenced for Merseyside. The activity undertaken through the access to finance service and the funds will need to be carefully monitored to ensure actual project spend demonstrates the geographical ring fencing of ERDF.

9. Financial Context

- 9.1 The NWOP has a total allocation of approximately €755m or around £521m. This is split between Merseyside as a 'phasing in' area (approximately €308m or £210m) and the rest of the NW region (€448m or £308m). The NWOP also fixes an allocation for each priority, including Technical Assistance, which cannot be changed. The NWOP is subject to a fixed financial profile and strict spend targets which must be met.
- 9.2 The NWOP overall and priority level intervention rate is set at 50%, but this is likely to vary according to individual projects. Match funding is expected to come from a variety of sources, both public and private, depending on the action area.

Sources of Match Funding

- 9.3 Matched funding would be secured from the private sector through co-investment with the public sector at the point of investments in SMEs. There may be the possibility to supplement the ERDF with legacy returns which are secured from the current public sector backed funds (due to cease investment at the end of 2008 and close in 2013, with returns realised up to this point). This would increase the overall value of the VCLF funds
- 9.4 The source of matched funding for the Access to Finance Service will be from the public sector with committed resources from NWDA.
- 9.5 In terms of the Small Loan Fund under AA4.1, the matched funding is from the private sector.

10. Guidance Documentation, Including Cross Cutting Themes

- 10.1 The NWOP has two agreed cross cutting themes: environmental sustainability and equality & diversity. The intention is to mainstream the delivery of the themes, building on best practice. The cross cutting themes should not be seen as an add-on, and be used in the design and the delivery of each project. All projects funded by ERDF will be expected to deliver against Cross-Cutting Theme (CCT) related outputs and results, some of which have been embedded into the NWOP.

Environmental Sustainability Cross Cutting Theme

- 10.2 The NWOP aims to grow the economy of the region providing for more value added activities and securing current and additional jobs. The inclusion of the Environmental Sustainability CCT in the programme is central to ensuring that negative environmental impacts are minimised, or mitigated, and that positive impacts are maximised.
Key messages of the CCT are to improve:
- energy efficiency and related carbon mitigation measures;
 - air and water quality;
 - protection of the local environment (green spaces, biodiversity, quality of life);

- resource efficiency to minimise waste and encourage recycling;
 - sustainable transport; and
 - sustainable construction.
- 10.3 All potential projects will be evaluated via the appraisal process to determine the perceived benefit to the region against both the Action Area objectives and consistency with the messages of the CCT. Projects will be supported that can demonstrate they have taken all practicable measures to reduce or eliminate negative environmental impacts arising as a result of the project and measures to enhance positive environmental impacts. Projects, which can demonstrate a positive contribution to environmental sustainability under the themes above, are more likely to be successful on application for funding.
- 10.4 To ensure delivery of the Environmental Sustainability CCT, all project applicants will be contractually required to:
- Complete an environmental assessment at the Development and Appraisal stage. This will include evidence of the existence of a Green Transport Policy and a Sustainable Procurement Policy/Plan/Strategy as well as evidence of implementation of both within the applicant organisation
 - All business assist projects will be contractually required to refer companies that they have assisted (that meet the requirements of agreed criteria) to Enworks and collect evidence that the business assisted has contacted Enworks.
 - All appropriate infrastructure projects will be required to comply with the NWDA Sustainable Buildings Policy.
- 10.5 As well as the initial assessment of project benefits as highlighted, a specific global target to support a 25% reduction in additional CO₂ emissions generated by the NWOP has been defined. Therefore, the Carbon emissions of all projects will be monitored and aggregated up so that the impact of the programme as a whole can be measured.
- 10.6 The following set of six generic indicators has also been established to track delivery of the cross Cutting Theme throughout the life of each project:
- Energy (tonnes CO₂)
 - New Green Infrastructure Created / Ha
 - % of projects with Green Travel Plans and evidence of implementation and practice change
 - % of Projects with Sustainable Procurement Policies / Plans / Strategy evidence of implementation and practice change
 - Number of new environmental products supported
 - Number of Environmental Business supported

10.7 Not all of indicators may be applicable to each project and at the evaluation stage the relevant indicators will be chosen for the project. However for this Investment Framework this may include incorporating the following into the project design:

- Development of new environmental product / business stream
- Use of low carbon technologies
- Use of renewable resources

Equality & Diversity Cross Cutting Theme

10.8 The diversity of the Northwest's people and communities is an economic as well as cultural and social asset. In spite of the great strides made some equality groups are still subject to discrimination and experience exclusion from the benefits of economic growth. This is reflected in low levels of skills, educational attainment, employment and entrepreneurship among certain communities in the Northwest. This is an economic as well as social concern as poverty and lack of opportunity inhibits the region's potential growth and threatens community and social cohesion.

10.9 Promoting Equality and Diversity plays a fundamental role across the programme's priority and action areas. The guiding principle is that all policies, programmes and projects should be designed, developed and monitored with the diversity of the region in mind, and should proactively tackle barriers to economic participation and success.

10.10 The programme will also actively promote Equality and Diversity amongst all the agencies it works with in order to encourage wider engagement with the principles of equality and diversity beyond the programme itself.

10.11 The key messages of the Equality and Diversity CCT are to ensure that all potential projects:

- are designed and delivered in a way that promotes equality and diversity with specific indicators and measurable targets set.
- recognise the business case for promoting equality and diversity not only in terms of social and economic impact, but also how it can help to increase the number of businesses.
- reflect current and likely future changes in legislation.
- make equality and diversity integral to the project throughout its life cycle.
- take responsibility for having access to expertise and resources designed to further the programme's equality objectives.
- have robust monitoring and evaluation processes that include assessing the Programme's key Equality and Diversity objectives.

10.12 Using the current evidence base and taking into account relevant legislative requirements, the following Equality and Diversity strands have been identified as constituting priorities with regard to the NWOP and to which all potential projects will be expected to have established key performance targets against²:

² Although not identified as part of the priority groups for which we will be collating monitoring information on; we would encourage projects and programmes where appropriate and applicable to take into consideration the needs of Lesbian, Gay, Bisexual and Transgender people as well as faith and religious communities. However currently the priority within the programme in relation to the collection of monitoring data will be Race, Age, Gender and Disability. We will not therefore be expecting monitoring data for the other two strands.

- Gender
- Race and ethnicity
- Age
- Disability

10.13 Not all of the above equality strands may be relevant or applicable to each project and at the appraisal/evaluation stage the relevant indicators will be chosen for the project. However for this Investment Framework this may include incorporating the following principles into the project design:

- Demonstration of how equality and diversity are integral to the design of the project.
- Demonstrate how the project will, where relevant, meet the needs of women, black and minority ethnic (BME) communities, disabled people and people aged 50 and over.
- A clear understanding of the needs of the targeted group(s), the barriers that they face and how the project links into established best practice with regard to promoting equality and diversity.
- Ensuring that the management body for the project are sensitive to the needs of the targeted group(s) and that it ensures the accessibility of the project to disabled people, older people, women and the ethnic communities that they are targeting.
- How the project will be monitored, reviewed and evaluated to ensure that it promotes equality and diversity.
- Demonstrate that the applicant has in place steps to address any negative impact identified as a consequence of conducting an Equality Impact Assessment.

11. Compliance

11.1 All projects being taken forward within this Investment Framework will be required to comply with EU and national rules such as state aids, public procurement and publicity underpinning any ERDF application. The implementing provisions of the NWOP sets out a number of such compliance issues. The ERDF offer letter will specify the detail. Additional advice and guidance will be available from relevant experts within the NWDA - please contact the European Programme Team in the Agency.

12. Evaluation and Monitoring for Investment Frameworks

- 12.1 All the Investment Frameworks will be evaluated during 2009-10 to ensure that learning and best practice can be identified. This will allow the PMC to change, amend and update all or any of the Investment Framework to fit with delivery of the NWOP, EU and government policy at the mid term. If there are significant policy changes in an area covered by the Investment Framework which requires an earlier review and evaluation, this will be carried out by the European Programme Team and then brought forward for approval by the PMC.
- 12.2 The NWDA Policy Lead for the Investment Framework is David read. Further information is available from the NWDA ERDF Programme Executive 01925 400 121 or www.erdfnw.co.uk

28 February 2008

Financial awareness and capability - Providing enterprises with the skills and expertise to secure private secure funding

Purpose

1. Increase levels of businesses accessing the most appropriate finance for their business.

How will this be achieved?

2. By:
 - providing enterprises with the relevant skills to transform their business propositions into investable opportunities; and
 - assisting enterprises in the introduction and interaction with potential investors where a business seeking finance understands the expectations of investors and can present a proposition which can attract investment.

Why offer public sector support?

3. To ensure that many more enterprises are able to take advantage of the increased supply of finance, it is important that they have the skills to develop appropriate funding strategies, understand what investors look for in an investment proposition and present robust investment propositions.
4. This lack of skills can impede the start-up of potentially viable businesses, and for existing businesses, constrain their growth potential or cause businesses to be undercapitalised, affecting their chances of survival. The intervention would address the failure of government to provide adequate awareness of the alternative sources of finance and the requirements to apply successfully for the best type of finance. The intervention will improve small businesses access to finance, and enable additional business formation and growth to be realised, that would otherwise be forgone.

What will be offered?

5. Support comprises a combination of specialist information and expertise, comprising:
 - the provision of in-depth advice and specialist support, combining finance readiness (as a means of straightforward financial advice/business planning for enterprises, including debt finance) and investment readiness (a more intensive service largely focussed on equity options).
 - mentoring and intermediation, helping to introduce enterprises/entrepreneurs to appropriate financiers.
6. As a range (and by no means exhaustive), financial and investment readiness can be seen as:
 - adopting appropriate funding strategies;
 - understanding the expectations and requirements of investors;
 - transforming a business proposal into an attractive investment opportunity;
 - accessing finance providers to present investment propositions, in particular, accessing providers of modest amounts of equity based risk finance that are not part of the 'everyday' financing landscape of enterprises.

Who will be eligible?

7. Eligibility criteria are to be determined.

Appendix A Debt finance - Security and loan finance for SMEs with viable business plans

Purpose

1. To extend the availability of debt finance for SMEs that have viable business propositions but lack the necessary track record or collateral to obtain a loan.

How will this be achieved

2. By a dual approach of: (1) Guarantees; and (2) loan provision for SMEs – particularly, less well-established enterprises and those underserved by mainstream providers.

Why offer public sector support?

3. There is a need to reduce the barriers to access to finance for SMEs that have viable business proposals, but cannot secure a conventional commercial loan.
4. Finance providers often have little information about the entrepreneur, or about the business proposal being championed and have difficulty in distinguishing between high risk and low risk proposals. To mitigate this, borrowers are often required to provide collateral as security for loan finance. Research has shown that mainstream banks perceive the transaction costs of serving some viable business propositions (i.e. time to assess prospective clients, approve them and provide support) as too high relative to the returns. Businesses and entrepreneurs who cannot provide collateral, or demonstrate a track record, can be locked out of the loan market.

What will be offered?

5. Enabling the provision of loans up to £250,000 for those businesses with a viable commercial proposition. This will cover debt finance at an appropriate, risk-priced interest rate which reflects the nature of the borrowing enterprises.
6. Drawing on the pre-existing SFLG framework, the intervention includes offering partial Government underwriting of loans from lenders.

Who is Eligible?

7. This intervention will be aimed at SMEs – notably, start-ups and young businesses as they find it proportionately more difficult to raise finance than established businesses. It is these groups that are most likely to find it most difficult to provide collateral as security for loan finance.
 - SME definition applies for eligibility (<250 employees and an annual turnover of less than £5.6m).
 - most sectors of business are eligible other than those where there is no provision for State Aid.
 - primarily start-ups and SMEs under five years old.

Appendix B Innovation finance - Finance to assist a business to develop and exploit new ideas

Purpose

1. To stimulate productivity, environmental sustainability and economic competitiveness through increased UK innovation (i.e. exploitation of 'new' ideas) within businesses; and to encourage businesses to innovate and realise the benefits of innovation for the business, and more widely for the economy and the environment.

How will this be achieved?

2. By providing financial assistance to increase businesses ability to engage in a range of early-stage research and development (R&D) activities in potentially important fields, but where there are significant risks and uncertainties around the expected results and ability to secure commercial benefits.

Why offer public sector support?

3. Government funding can act to extend the UK's portfolio of research or development projects by supporting firms directly with promising lines of development, which have fallen at the risk aversion or due diligence hurdles in private capital markets, and where the problem is not rectified by the debt and risk finance interventions. That is, the state takes on a limited risk pooling function to increase the share of national resources devoted to innovation progress, but distributed across a wide range of relatively small firms, increasing the spread of opportunities "sampled".

What will be offered?

4. Grants / loans will be available for single UK-based businesses (mainly SMEs) who are unable to bear the full cost and to secure sufficient finance to develop technology based product, process, or service innovations. Grants / loans will assist with the cost of:
 - research and development by the business, including obtaining intellectual property rights, 'proof of concept', market research, and capital expenditure linked to prototyping and large scale demonstrators;
 - using third parties, such as consultants, patent agents to undertake the above activities;
 - demonstration projects involving the early adoption of new technologies with a potentially significant environmental benefit, such as to promote low-carbon energy technologies and the better use of energy.

Who will be eligible?

5. Grants / loans would be given to UK-based pre start, start ups and SMEs engaging in Research and development projects in technologies or applications of national or regional importance.
6. Although grants / loans are available mainly to SMEs, larger companies with environmental demonstration projects are also eligible. Assistance will be provided as a grant / loan to reduce administration costs and allow businesses to pursue projects that have the most benefit to the economy and the environment.

Appendix C Risk capital- Equity financing for high growth SME businesses

Purpose

1. To reduce the equity gap, in particular, increased levels of:
 - private sector investment in the equity gap
 - skilled investment professionals operating within the equity gap; and
 - high growth business start-ups within the economy.

How will this be achieved?

2. By improving high growth SME access to private sector finance by levering in public sector capital, where risk is shared.

Why offer public sector support?

3. The market does not currently provide an efficient level of equity-based finance to smaller businesses seeking only modest amounts of capital. This represents a barrier to successful investment, innovation and growth in SMEs with significant growth potential that hinders improved levels of enterprise and productivity growth in the UK.
4. An equity gap arises because the costs of making equity investments do not vary proportionately with the size of investment being made, and can be prohibitively high in the case of smaller investments. The relative costs of assessing potential high growth projects can be significant when the costs of identifying potential investees, evaluating the prospects, ensuring suitability for investment, and subsequent performance monitoring are taken into account. There is thus a co-ordination failure until such time as venture capital firms have entered the market and these costs to SMEs are reduced.
5. Evidence indicates that this "equity gap" is estimated to be particularly acute for investments between £250,000 and £2million.
6. A partnership approach would provide an opportunity for fund managers to gain expertise and develop innovative methods for assessing applications and managing portfolios of investments where there is currently a funding gap. This should help to reduce the market failure in the longer run by changing market knowledge and behaviour and demonstrating commercial returns.

What will be offered?

7. Provision of commercially viable equity funds by investing a combination of private and public money in small high-growth businesses that are seeking up to £2million in equity finance.

Who will be eligible?

8. The specified provision is up to £2m risk capital as this is currently where evidence³ (see [Note 1](#)) indicates that the equity gap has the greatest impact for businesses wishing to attract initial investment. This represents a particular barrier to successful investment, innovation and growth in SMEs, hence the specifications stipulation on SME business size.

³ [Bridging the Finance Gap: next steps in improving access to growth capital for small businesses](#), HM Treasury/Small Business Service, 2003

Investment Framework for support for Venture Capital and Loan Funds

9. Only schemes where there is a mix of public and private partnership should be allowed. Private sector funds to constitute at least 33% of the total fund and be genuinely at risk – subordination should not allow private investors to ignore the need to invest wisely.