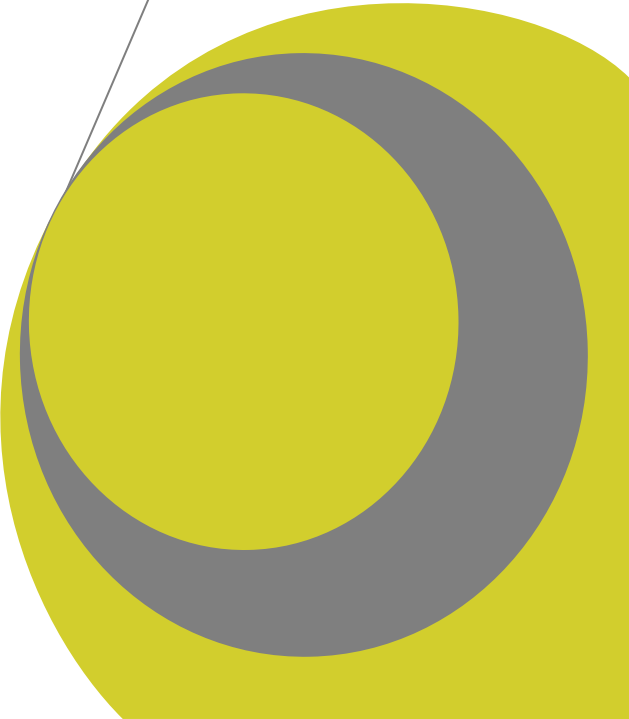


**NI SMALL BUSINESS LOAN FUND & THE GROWTH LOAN FUND
JOINT EVALUATION – FINAL**



**VERSION 1.0
05th July 2016**



NI SMALL BUSINESS LOAN FUND & THE GROWTH LOAN FUND

JOINT EVALUATION

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List of Abbreviations

Abbreviation	Definition
APR	Annual Percentage Rate
BBB	British Business Bank
BVCA	British Private Equity & Venture Capital Association
CCF	Coastal Community Fund
CFD	Corporate Finance Division
DARD	Department of Agriculture and Rural Development
DBIS	Department for Business, Innovation and Skills
DEL	Department for Employment and Learning
DETI	Department of Enterprise, Trade and Investment
DJEI	Department of Jobs, Enterprise and Innovation
EA	Economic Appraisal
EAH	Economic Advisory Group
EAM	Economic Appraisal Methodology
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
EDO	External Delivery Organisation
EFG	Enterprise Finance Guarantee
EIB	European Investment Bank
EIF	European Investment Fund
ENI	Enterprise Northern Ireland
ERDF	European Regional Development Fund
EU	European Union
FCA	Financial Conduct Authority
FLS	Funding for Lending Scheme
FSA	Financial Services Authority
FT	Full-time
FTE	Full Time Employees
GEM	Global Entrepreneurship Monitor
GB	Great Britain
GBER	General Block Exemption Regulation 2008
GLF	Growth Loan Fund
GP	General Partner
GVA	Gross Value Added
HM	Her Majesty's
IBOR	Inter Bank Offered Rate
IC	Investment Committee
Invest NI	Invest Northern Ireland
IRR	Internal Rate of Return
JEREMIE	Joint European Resources for Micro to Medium Enterprises
KPI	Key Performance Indicator
LEA	Local Enterprise Agency
LPA	Limited Partnership Agreement
MBI	Management Buy-In
MBO	Management Buy-Out
MIS	Management Information System
MSA	Management Services Agreement
NB	Nota Bene meaning 'Note Well'
NEET	Individual not in Employment, Education or Training
NI	Northern Ireland
NIGEAE	Northern Ireland Guide to Expenditure Appraisal and Evaluation
NILGOSC	Northern Ireland Local Government Officers Superannuation Committee
NISBLF	Northern Ireland Small Business Loan Fund
NISP	Northern Ireland Science Park
NISPO	Northern Ireland Spin Out Fund
NRA	Neighbourhood Renewal Area
PSA	Public Service Agreement
PT	Part-time
R&D	Research and Development
RDP	Rural Development Programme

Abbreviation	Definition
ROI	Republic of Ireland
RoI	Return on Investment
RSI	Regional Start Initiative
SEE	Social Economy Enterprise
SFF	Social Finance Foundation
SME/ SMME	Small and Medium Sized Enterprises
SoS	Supply of Services
SUL	Start Up Loans
UCI	Ulster Community Investment
UCIP	Ulster Community Investment Plc
UCIT	Ulster Community Investment Trust
UK	United Kingdom
VAT	Value Added Tax
VC	Venture Capital
VFM	Value-for-Money
WhiteRock	WhiteRock Capital Partners LLP
WPQ	Written Parliamentary Question

EXECUTIVE SUMMARY

Introduction

Invest NI has commissioned Cogent Management Consulting LLP ('Cogent') to undertake an independent evaluation of the Northern Ireland Small Business Loan Fund ('NISBLF') and the Growth Loan Fund ('GLF'). Both Funds are considered to form integral aspects of Invest NI's Access to Finance Strategy, which promotes a continuum of funding and a deal flow chain for businesses across Northern Ireland. The evaluation of both Funds primarily covers the period of operation of the Funds to July 2015 i.e.:

1. For the GLF, this relates to the 39-month period May 2012 to July 2015; and
2. For the NISBLF, this relates to the 30-month period February 2013 to July 2015.

This report presents the evaluation of both Funds, taking account of the inter-relationships and linkages between the Funds, where appropriate.

The NI Small Business Loan Fund

The NISBLF was launched during February 2013 in response to market failure in the provision of unsecured debt funding to start-up and established micro enterprises, SMEs and social enterprises. Key parameters of the fund include:

Investment Focus	Generalist fund with exclusions for coal, steel, shipbuilding, enterprises in difficulty and primary agricultural producers. Businesses must be substantially based in NI.
Sectorial Guidelines	<ul style="list-style-type: none"> • No more than 10% of the Fund to be lent to enterprises in the retail sector. • No more than 30% of the Fund to be lent to enterprises in any one sector. • At least 5% of the Fund to be lent to individuals not in Employment, Education or Training (NEETs) and those living within Neighbourhood Renewal Areas (NRAs). • The Fund Manager has the objective to build a balanced investment portfolio with a blended spread of risk.
Investment Period	5 years
Fund Life	10 years
Loans sanctioned by	Fund Manager [UCIP]
Invest NI investment	£5m
Interest Rate charged	Typically 6% to 10% flat fixed rate
Loan Period	Typically 3-5 years
Loan Range	£1k - £50k
Additional Aspects	<ul style="list-style-type: none"> • Maximum loan amount of £15k to start-up enterprises (with potential for follow-on lending up to the maximum of £50k); • Mentoring support on financial management and business related issues available from business development officers for loan applicants up to £15k. It was considered that the majority of loans of up to £15,000 were likely to be issued to small start-up businesses and micro-businesses at the early stages of their life, and who might typically require tailored advice to facilitate their growth; • Evidence of decline from private banking sector to be provided in support of all loan applications; and • Where applicable, a letter of commitment should be obtained to ensure bank facilities / directors' loans were not reduced following successful drawdown of a loan from the fund.

Following a competitive tendering process, Ulster Community Investment (UCI), a Financial Conduct Authority (FCA) registered Fund Manager, were appointed to manage the Fund. UCI is a subsidiary of Ulster Community Investment Trust (UCIT) Ltd, a well-known social finance provider operating in both Northern Ireland and Ireland. UCI have sub-contracted (by way of a formal legal contract) delivery of certain aspects of the contract to Enterprise Northern Ireland (ENI).

The Growth Loan Fund

The GLF was launched during May 2012, and sought to address market failure in the provision of mezzanine funding. Its key purpose was to provide liquidity to SMEs in Northern Ireland demonstrating sales and profitability growth, or growth potential through the establishment of a £50m fund which would be financed by £25m from Invest NI (provided on a subordinated basis) alongside £25m private sector leverage. Following a period of consultation and negotiation, the Northern Ireland Local Government Officers Superannuation Committee (NILGOSC) was identified as the private sector investor.

Key parameters of the fund include:

Investment Capital & Focus	Generalist, with normal State Aid exclusions (steel, mining, primary agriculture etc.). Portfolio Companies must be SMEs resident within Northern Ireland with their operations substantially based in Northern Ireland.
Target Companies	Growth potential, innovative, small and medium sized companies. However, Schedule 2 of the LPA (Key Investment Criteria 3 and respectively) introduced the following: <ul style="list-style-type: none"> • A substantial proportion of Portfolio Companies should operate in the manufacturing (including development and design for manufacture), engineering or tradable services sectors. • Loans will typically be provided to finance working capital, capital expenditure, research and development and marketing costs.
Investment Range	The Economic Appraisal and Invest NI's Casework Papers established that the anticipated investment range would be: £50k - c£500k deal size. However, Schedule 2 of the LPA (Key Investment Criterion 9) introduced the following: <ul style="list-style-type: none"> • The Partnership will not invest into other loan and/or venture capital investment funds and will not: <ul style="list-style-type: none"> - invest more than €1.5 million in any 12 month period in any single Portfolio Company and its Associates; - invest an amount in excess of 4% of the Total Commitments in any single Portfolio Company and its Associates without the prior written consent of the Advisory Board; or - invest more than £500,000 or less than £50,000 in any single Portfolio Company and its Associates unless prior consultation with the Board of Advisors has taken place; or - invest more than £15 million in any one year unless prior consultation with the Board of Advisors has taken place.
Structure	Limited partnership and governed by a LPA
Investment Period	5 years
Fund Period	10 years
Target number of loans	Originally 65 per year, reduced to 50 per year at the August 2013 Advisory Board meeting and subsequently reduced (at the June 2015 Advisory Board meeting) to 30 loans per annum at an average value of £333k for the 2015/16 financial year.
Loans sanctioned by	Fund manager
Invest NI Investment	£25m
Private Finance Required	£25m
Interest Rate Charged	8% - 12% subject to negotiation.
Profit Share Charged	Subject to negotiation
Return to Private Investor	7%
Management Fees	£6,740,588 (as per the Limited Partnership Agreement with WhiteRock)
Management	FSA approved Fund Manager. Appointed by tender process following completion of approvals process.
Additional Aspects	Invest NI investment to rank behind the private investment

Following a competitive tendering process WhiteRock Capital Partners LLP ('WhiteRock'), an FCA registered Fund Manager, was appointed to manage the Fund.

Key Findings - The NI Small Business Loan Fund

Our key findings relating to the operations, activity and financial performance of the NISBLF include:

- A strong and experienced management team has been put in place by both UCI and ENI. The Fund is well governed and managed, with credible and auditable accountability chains and a robust investment process. A series of appropriate (in our view) 'risk mitigation' strategies have been developed and are implemented for the management and operation of the NISBLF.
- Comprehensive and appropriate promotional activity is undertaken on an ongoing basis;
- Across the lifetime of the Fund to November 2015, 433 applications with a combined potential value of £9.9m were made to the Fund. However, half (50% or 216 applications) of the total applications received were during the 14-month period of Year 1, which it was suggested should not be considered representative of typical demand for the Fund. It was suggested that in the period before the Loan Fund's launch, there had been a series of miscommunications within the NI marketplace as to the purpose of the loan fund, who would be eligible etc. In the EDO's opinion, this led, during Year 1, to a large quantity of both enquiries and applications to the Fund that were not considered to be either eligible or of a sufficient quality to progress.
- During the 34-month period to November 2015, 185 loans (93%) of 199 approved had been disbursed. The loans were disbursed to 177 unique businesses, indicating a small level of repeat activity. The total funds disbursed were £3.9m, equating to an average loan disbursed of £21,118 across the three-years.
- Of 199 loans approved during the 34-month period, February 2012 to November 2015, two-fifths (40%, N=199) were to start-up businesses. However, as the Fund has progressed there has been a shift away from this business base. Discussion with the Fund Manager suggest that, to a large extent, this movement has been influenced by the introduction of the British Business Bank -sponsored Start-Up Loans scheme administered through Enterprise NI.
- As at November 2015, 31 of the 185 loans disbursed were in arrears. The Fund Managers have created a provision of £323,031 for funds in arrears based on ongoing review (and their interpretation) of the likelihood of recoverability of each loan in arrears. This value is made up of £295,143 of capital provisions and £27,870 of interest provisions. At November 2015, the capital provisions equate to 7.5% of total capital funds disbursed. Seven of the loans have been provided for at 100% and have been treated as in default. The actual debtor balances estimated to be written off as defaults as at November 2015 was £157,664.
- Our Terms of Reference required consideration of the projected outturns and impacts of those loans disbursed as of July 2015. However, given uncertainties in relation to future levels of loans entering default positions, we have had to utilise a variety of scenarios (specifically allowing for default scenarios of 7.5%, 15% and 23%).
- On the basis of the scenarios modelled, it is estimated that the net financial cost to Invest NI associated with the £3.398m loans issued to July 2015 could range from £0.67m to £1.29m when repayments as well as all other costs (e.g. management costs) are accounted for.

Key Findings - The Growth Loan Fund

Our key findings relating to the operations, activity and financial performance of the GLF include:

- A strong and experienced management team has been put in place by WhiteRock Capital Partners. The Fund is well governed and managed, with credible and auditable accountability chains and a robust investment process. A series of appropriate (in our view) 'risk mitigation' strategies have been developed and are implemented for the management and operation of the GLF.
- Comprehensive and appropriate promotional activity is undertaken on an ongoing basis;
- Between May 2012 and November 2015 (a 43-month period), the GLF received a total of 480 enquiries. Similar to the NISBLF, there was an uneven distribution relating to enquiries, which the GLF's Fund

Manager also attributes to a series of miscommunications within the NI marketplace as to the purpose of the loan fund, who would be eligible etc.

- During the 43-month period to November 2015, 131 GLF loans were approved. The average value of loans approved through the GLF has increased across the period, from an average of £230,833 during Year 1 to £485,294 during Year 4.
- 76 loans were disbursed during the 43-month period to November which is equal to 58% (N=131) of the total loans approved. The total funds disbursed were £23.4m, equating to an average loan disbursed of £307,697 across the 43-month period. The 76 loans were disbursed to 68 unique businesses.
- At September 2015, there were formal provisions placed against the loans made to one quarter (25%, N=68) of the unique GLF recipients. These provisions equated to £788,000 in value which was 3% of the total funds disbursed. In addition, five loans had been written-off the GLF loan book equating to £986,000 (4% of the total funds disbursed). The Fund Manager calculates the default value as the sum of the total provisions plus the total loans written off. As such, the default rate as at September 2015 was 8%. The Fund Manager has indicated through discussions that they expect the default rate to increase throughout the lifetime of the loans and that the current level of 8% is primarily due to timing effects.
- Similar to our activity under the NISBLF, we had to utilise a series of scenarios (specifically 8%, 12.5% and 20% default rate scenarios) to account for uncertainty in the eventual level of defaults when projecting the outturns and impacts of those loans disbursed as of July 2015.
- The net financial income/cost to Invest NI associated with GLF issued up to July 2015 is estimated to range between a net income position of £1.41m under an 8% default scenario to a net cost position of £1.68m under a 20% default scenario. The substantial variation in financial returns illustrate the importance of appropriate fund management to minimise defaults.

Applicants' Satisfaction With, and Views of, the Funds

Key findings relating to applicants' and recipients' satisfaction with, and views of, the NISBLF and GLF, include:

- The most common reason why applicants applied to both Loan Funds was because other potential funders had previously turned their applications down (82% NISBLF and 48% GLF).
- Over two-fifths (44%, N=48) of GLF recipients indicated that they preferred to take repayable investment, rather than to accept other forms of investment such as an equity investment (and therein dilute ownership and control of the business).
- NISBLF and GLF recipients expressed satisfaction with all aspects of the lending process including the guidance and communication from the Fund Manager both during and following the application process, the level of detail required by the Fund Manager and the length of time taken to process their application.
- Whilst the majority of businesses indicated that they were satisfied with the interest rates (particularly in light of the loan being unsecured) and repayment terms that were applied to their NISBLF and GLF loans, a number of businesses expressed some dissatisfaction with these aspects. In particular, a number of businesses expressed a preference for greater flexibility in the duration of the loan terms under GLF, reduced penalties for early repayment and greater flexibility with respect to repayment start-dates.

Stakeholders' Views of the Funds

- Stakeholders were uniformly in agreement that there is a continuing need for the public sector to support the provision of risk capital to SMEs in NI. The fact that both Funds have been active, despite charging interest rates above typical market rates, was suggested by many stakeholders to be reflective of an active demand for the Funds.
- Both the NISBLF and GLF (as finance products) and their respective EDO's management of those products are highly regarded;
- Stakeholders were uniformly of the view that both Funds are complementary to the wider finance market (both public and private) in NI and do not duplicate or displace other activity.

Conclusions

Our key conclusions relating to the Funds include:

1. Overarching Conclusion

Access to finance for SMEs is key to the recovery and long term growth of the NI economy. The principal providers of external finance within NI are the four main banks. Accordingly, the financial crisis was bound to have an impact on SME finance, as a consequence of the impact upon bank's appetite/capacity for lending, the partial nationalisation of some banks, higher bank funding costs and the subsequent recession.

In this context, key questions that arise in relation to the introduction of the NISBLF and the GLF are whether the funds:

1. Helped improved access to finance for viable SMEs?
2. Whether the extra access to finance had a positive impact on recipients' performance?
3. Whether or not the two schemes have adversely affected the marketplace (e.g. through poor loan monitoring, and subsequent high default rates. That is, the default rate is one of the conventional indicators of a loan scheme's performance. A high default rate raises concerns about whether there are inefficiencies in the scheme that favour poor credit propositions but equally important it might be a signal that a subsidised scheme leads to more risk taking both on the part of businesses and the EDO (the moral hazard argument).

In relation to each, we consider that our evaluation has provided evidence that both the NISBLF and the GLF have had a positive impact, in that:

- Both funds helped to improve access to finance for viable and creditworthy businesses during a period of constrained private sector finance;
- The receipt of support through both funds has had a considerable (actual and projected) impact on the respective funds' recipients' businesses;
- Both funds appear to be managed by their respective EDOs in a very professional manner, with each loan application subject to rigorous assessment. The processes employed have helped ensure that the current (at January 2016) levels of default are reasonable given their respective target audiences, and available benchmarks.

2. Market Failure & Future Demand

We are of the view that market failure continues to exist in relation to the provision of debt and mezzanine finance within NI. However, whilst it exists, there is some evidence (e.g. EAG's research) to indicate that it may not be at the level (either in terms of number or value of loans disbursed, rather than approved) that existed when both the NISBLF and GLF were approved. The key question therefore, in the Evaluation Team's view, becomes one relating to the scale of demand, rather than the need for either fund.

We consider that in a growing (albeit slowly) economy, evidence of a supply constraint will inevitably diminish. Furthermore, we consider that the EAG's research points towards a position where the scale of demand (in terms of number of loans disbursed) may be modest, and may suggest a position where syndicate deals, rather than standalone investments, may become more prevalent. Indeed, the stakeholder consultation findings have emphasised the complementary nature of the GLF in terms of providing unsecured mezzanine finance to address funding gaps in syndicated deals.

In relation to both Funds, we further consider that, all or other things being equal or held constant, the recent profile of demand for both loans funds may provide the best indication of likely future demand;

albeit we recognise the concerns (see Section 5.2) of some strategic stakeholders relating to future levels of demand for the GLF.

However, it should be recognised that the previous conclusion has been made in the context of ‘all or other things being equal or held constant’. It may well be the case that any material change to the supply of debt finance to SMEs or change to the content or offering of either fund will have a material impact upon levels of demand.

Ultimately, therefore, should Economic Appraisals or other forms of approvals be required for either fund in the future, we consider that particular focus should be placed upon demand analysis (in the context of potential changing loan fund parameters), and all inherent risks fully documented.

3. Duplication and Complementarity

Analysis of the other access to finance products and initiatives offered in NI (both publicly-backed and those operated by the private sector) suggests that the NISBLF and GLF seek to address a unique market failure in the provision of risk debt capital to SMEs of up to £500,000 and have a minimal risk of duplicating other support. Indeed, the stakeholder consultation findings have emphasised the complementary nature of the GLF in terms of providing unsecured mezzanine finance to address funding gaps in syndicated deals.

4. Contribution to a Continuum of Finance

Both the NISBLF and the GLF are successfully operating as part of an overall continuum of access to finance for businesses with no distortion of the marketplace apparent. Both also have been evidenced to complement Invest NI’s portfolio of support for business, and also wider finance offerings available within the marketplace, including those offered by the private sector.

In particular, stakeholders highlighted through consultation that, going forward, there may be an increasing role for the GLF to provide a risk-component of funding to syndicated lending along with other funders such as banks, equity, venture capital, crowd-funding etc.

5. Achievement of objectives

Across both loans funds, almost all aims and objectives have been achieved, with the exception of the number of loans disbursed.

6. Impact of the NISBLF

Across the population of businesses that received a NISBLF up to July 2015, we estimate that:

- There have been actual reported sales increases of c£26.5m during the 35-month period up to December 2015. Depending on the growth projection and default scenario modelled, total sales increases are estimated to range between £68.9m and £157.2m by 2018/19, of which 15% are anticipated to be in export markets;
- Allowing for deadweight of 40.4% and potential displacement of 22.4% it is estimated that 3.7m of net additional GVA has been created during the period to December 2015. Depending on which growth projection and default scenario is modelled , it is estimated that:
 - Under the ambitious growth scenario, between £18.8m and £21.8m of net additional GVA will be created by those same NISBLF recipients during the 6-year period 2014/19;
 - Under the prudent growth scenario, between £9.6m and £10.7m of net additional GVA will be created.

- It is estimated that for every £1 of investment up to July 2015 (£3,709,547) there was circa £0.99 of net additional GVA generated to December 2015.
- Depending on which growth projection and default scenario is modelled , it is estimated that:
 - Under the ambitious scenario, a net additional GVA return on investment of between £4.20 and £4.71 for every £1 invested will be achieved by the end of the 6-year period 2014/19;
 - Under the prudent scenario, a net additional GVA return on investment of between £2.14 and £2.32 for every £1 invested will be achieved by NISBLF recipients.
- It is estimated that 144 net additional FTE jobs or 259 net additional FTE job years were created by NISBLF recipients during the 35-month period to December 2015.
- Depending upon which growth and default rate scenario is considered, it is estimated that:
 - Under the ambitious growth scenario, a total of between 1,309 and 1,516 net additional FTE job years will be created by NISBLF recipients during the 6-year period 2014/19;
 - Under the prudent scenario, between 619 and 691 net additional FTE job years will be created by NISBLF recipients under the same period.
- Other key benefits or unexpected impacts/benefits achieved cited by recipients as a result of received a NISBLF loan include:
 - An impact on their business' survival (48% of respondents, N=63);
 - Safeguarding employment (33%, N=63);
 - Their business becoming more competitive (32%, N=63); and
 - The introduction of new products or processes the business (48%, N=63).

7. Impact of the GLF

Across the population of businesses that received a GLF loan up to July 2015, it is estimated that:

- There has been actual sales increase of c£291.4m during the 44-month period to December 2015. Depending upon which default scenario is modelled, sales are forecast to increase to between £880.3m and £1,023.5m by 2018/19, of which 32% is anticipated to be in export markets;
- Allowing for deadweight of 43.6% and potential displacement of 9%, and utilising three default scenarios, it is estimated that:
 - £44.7m of net additional GVA has been generated during the 44-month period to December 2015;
 - Depending on the default scenario modelled, it is estimated that, in total, between £134.9m and £156.9m of net additional GVA will be created by those same GLF recipients during the 7-year period 2013/19.
- It is estimated that for every £1 of investment up to 2015/16 (ranging from £26,097,572 to £26,667,359 depending on the default scenario modelled) there has been between £1.68 and £1.71 of net additional GVA generated to December 2015;
- Subsequently, depending upon which scenario relating to the likely level of defaults is considered, it is estimated that a net additional GVA return on investment of between £4.37 and £4.87 for every £1 invested will be achieved by the end of the 7-year period 2013/19.
- It is estimated that 301 net additional FTE jobs or 498 net additional FTE job years have been created by GLF recipients during the 44 month period to December 2015;
- Depending on the default scenario is modelled, it is estimated that, in total, between 1,504 and 1,642 net additional FTE job years will be created by GLF recipients during the 7-year period 2013/19.
- Other key benefits or unexpected impacts/benefits achieved cited by recipients as a result of received a GLF loan include:

- Their business becoming more competitive (40% of respondents, N=41);
- Facilitated entry into new geographic markets (38% of respondents, N=41);
- The introduction of new products or processes the business (35%, N=41);
- Safeguarding employment (33%, N=41).

8. Loan Fund Features

In relation to the NISBLF, our analysis of feedback from loan fund recipients, strategic stakeholders, the EDO, Invest NI and our own review of the Fund alongside benchmark products suggests that little, if any change, is required for the NISBLF. Its operation, structure and composition appears to be fit for purpose, and all signals indicate that the loan fund would continue to operate successfully without any material change.

One change that could be considered for the NISBLF would be to increase the cap on its lending ceiling to c£100,000 (in our view, likely to apply to only a small number of loans on an annual basis). Whilst the GLF can offer loans between £50,000 and £100,000, few of its loans (either approved or disbursed) are in that space. Some strategic stakeholders were of the view that there may be more commonality between the types of businesses that are seeking loans in that range and those that typically seek a NISBLF loan, rather than those that are increasingly seeking GLF loans (where the average value of loans disbursed is increasing). Discussion with the GLF's EDO indicates that the quantum of work and due diligence associated with such loans is greater than many loans of larger values, as a result of weaker management teams and/or processes. It could be argued that the NISBLF Fund Manager has greater experience of working with such businesses. However, it is likely that a more rigorous assessment may need to be introduced into the NISBLF for loans of this type/level.

In relation to the GLF, we consider that whilst broadly operating in an appropriate manner (including its growing role in syndicated deals), a number of changes could be considered in relation to its structure and mechanics. These include:

- A review of the interest rates applied, with a view to their being reduced, but maintaining a margin above any prevailing market rates. Feedback from some stakeholders had indicated that the interest rate/APR applied may be greater than what would currently be expected in the marketplace.
- Allow greater flexibility relating to the structure of individual deals, such as in relation to:
 - The loan terms;
 - The ability to make bullet repayments;
 - The ability to reinvest recouped monies etc.

We note that the introduction of such flexibility might alleviate, to some extent, the risk relating to demand for this fund declining below a point where a private sector investor may no longer see the fund as an attractive proposition.

- Given its evident success (certainly at January 2016) and the likely returns to the private sector, consideration should be given to Invest NI contributing a smaller proportion of any future GLF than its present 50% stake.

Recommendations

As illustrated throughout this report, both the NISBLF and the GLF have arguably been operating with considerable success, albeit some small changes in both may enhance their management, administration and operations further. For this reason, the Evaluation Team has made only a small number of recommendations. Please note that our recommendations are made in the context of any potential future iteration of the Funds, unless otherwise stated, given that both are presently subject to legally binding contracts with their respective Fund Managers, and in the case of the GLF, with a private sector investor.

Our recommendations are as follows:

Recommendations Applicable to both Funds

1. In the context of continuing market failure, Invest NI should continue to support measures that facilitate access to debt finance for suitable businesses.
2. Aims, objectives and targets should be reconsidered and be more specific to the individual funds. Given the variability that might exist in relation to a fund such as the GLF, the specific targets should be recast upon the acceptance and agreement of any tender submission. The types of specific targets that we consider should be adopted for each fund include:

NISBLF	<ol style="list-style-type: none"> 1. The total quantity of capital that will be disbursed (including any recycled element) over the loan fund period; 2. The maximum allowable levels of default; 3. The anticipated monies that would be returned to Invest NI.
GLF	<ol style="list-style-type: none"> 1. The total quantity of capital that will be disbursed over the loan fund period; 2. The minimum number of loans that should be disbursed per annum (NB If the targets are set as a range, this would be the lower end of the range); 3. The maximum allowable levels of default; 4. The anticipated monies that would be returned to Invest NI and other investors.

Recommendations Specifically Applicable to the NISBLF

3. We consider that within the remaining NISBLF contract period, some targeted promotional activity should be undertaken:
 - i. In those council areas where activity levels are below what should be expected given the quantum of businesses located therein.
 - ii. Amongst banks across NI, to ensure that their staff that engage with small businesses are aware of the loan fund, and when it might be appropriate to refer their clients/businesses to it.
4. Whilst loan applicants complete 'Equal Opportunities Monitoring Forms', which are then held on file, no aggregated analysis of their content is undertaken. It would be beneficial for the captured equality data to be analysed appropriately, and thus provide specific assurance that there are no particular issues in relation to uptake.
5. One change that could be considered for the NISBLF would be to increase the cap on its lending ceiling to c£100,000 (in our view, likely to apply to only a small number of loans on an annual basis). However, it is likely that a more rigorous assessment may need to be introduced into the NISBLF for loans of this type/level.

Recommendations Specifically Applicable to the GLF

6. The GLF evidently has potential to provide strong financial returns, not only to the private sector investor, but also to Invest NI, if default rates are managed appropriately. In this context, and in the creation of a context in which Invest NI could use such information to promote the strength of the GLF to the financial investment marketplace, consideration should be given to Invest NI investing a lesser proportion than its existing 50% stake in any future iteration of the GLF. This could be achieved by encouraging tenderers to feature investment as part of their submission or seeking partners that will invest more than the existing 50% position. In either case, Invest NI would need to be mindful of the revised 2014 GBER that caps subordination at 25%. Robust financial analysis and scenario planning would need to be undertaken to assess the likely outturns under different levels of private sector investment;
7. Invest NI should take steps to encourage further mezzanine funders to consider being active within the NI marketplace. Again, the success of the GLF should provide a suitable launchpad for such communication;
8. Given that the marketplace is becoming, albeit perhaps slowly, more buoyant, and traditional lenders are becoming more active, the GLF's role in syndicated deals should be encouraged and showcased to other suitable players in the 'access to finance' marketplace;
9. A number of changes that could be considered within the Economic Appraisal for any future iteration of the GLF's structure and mechanics include:
 - i. Review the interest rates applied, with a view to them being reduced, but maintaining a margin above any prevailing market rates. Feedback from some stakeholders had indicated that the interest rate/APR applied may be greater than what would currently be expected in the marketplace.
 - ii. Allow greater flexibility relating to the structure of individual deals, such as in relation to:
 - Allow recipients to make 'bullet repayments';
 - Allow the Fund to recycle loan monies which are repaid ahead of term, albeit on the condition that the recycled loan was fully repayable within the 10-year term; and related to this suggestion
 - Allow the Fund to offer loan terms of less than 60-months, which it was suggested would broaden the target market.
 - iii. Fund size and loan amounts. Whilst the number of GLF loans disbursed has not been in line with targets, the average size of GLF disbursed has increased. Augmenting the mechanics/structure of the loan fund could affect the number and average size of loans disbursed and also the scale of loan fund needed (in relation to this a target range for the number of loans disbursed may be more appropriate than a singular target). Furthermore, we have recommended reviewing the monetary range within which the NISBLF operates. Should any change be made within that loan fund, there may be a natural requirement to reconsider the range within which the GLF operates.

1. INTRODUCTION AND BACKGROUND

1.1 Introduction

Invest NI has commissioned Cogent Management Consulting LLP ('Cogent') to undertake an independent evaluation of the Northern Ireland Small Business Loan Fund ('NISBLF') and the Growth Loan Fund ('GLF'). The evaluation primarily covers the period of operation of each Fund to July 2015¹. This report presents the evaluation of both Funds, taking account of the inter-relationships and linkages between the Funds, where appropriate.

Both Funds are considered to form integral aspects of Invest NI's Access to Finance Strategy, which promotes a continuum of funding and a deal flow chain for businesses across Northern Ireland.

This section of the report considers the background to the Funds and the overall objectives of the Evaluation.

1.2 The NI Small Business Loan Fund

1.2.1 Background & Introduction

The NISBLF was launched during February 2013 in response to market failure² in the provision of unsecured debt funding to start-up and established micro enterprises, SMEs³ and social enterprises. To address the market failure, the Economic Appraisal⁴ that was conducted for the NISBLF recommended the implementation of a loan fund with the primary objective to provide (typically) unsecured loans to such businesses, in the start-up and growth phase of development.

The Economic Appraisal recommended the establishment of a £5m revolving loan fund, which would offer loans in the range £1,000 to £50,000⁵, but with a cap of £15,000 for start-up enterprises.

The Economic Appraisal anticipated that the lifespan of the Fund would be 10-years, with the Fund making loans for the first five years and collecting repayment of the debt through to Year 10. Given its revolving nature, it was further anticipated that repayments and interest earned in the first five years of the fund would be on-lent within the first five years of the fund. As a result, it was envisaged that the c£5m of funding provided by Invest NI would generate lending of between £7m and £8m over the fund life.

The Economic Appraisal established that the proposed NISBLF would:

- Operate as part of an overall initiative to provide a continuum of access to finance for businesses;
- Complement Invest NI's portfolio of support for business;
- Support (up to £50,000) a range of businesses, including:

¹ However, where appropriate monitoring available has been made available, the Evaluation has considered activity under both funds to November 2015 (i.e. the time that analysis work was being undertaken).

² Market failure in this area had been identified in the 2008 European Investment Fund Interim Report for Northern Ireland entitled 'SME Financing Gap'. An Economic Appraisal (EA) completed in December 2011 corroborated this finding, concluding that the degree of failure had been further exacerbated by the prevailing financial crisis at that time. The Economic Appraisal found that the level of market failure was greatest in relation to higher growth and higher risk businesses, particularly those with limited access to security, and concluded that this failure was likely to exist for at least the following 5 years.

³ Small and Medium Sized Enterprises

⁴ ASM, December 2011.

⁵ The minimum loan size was set at £1,000 on the basis that it was considered highly unlikely that applicants would seek to secure a loan for less than £1,000 in order to facilitate business start-up or growth. The Economic Appraisal stated that this was evidenced by the profile of the loan amounts issued by the ENI Loan Fund historically.

- Those with the potential for high growth and high valued added activities;
 - Those providing local services and products with limited growth prospects;
 - Individual entrepreneurs seeking to become economically active, perhaps becoming self-employed for the first time, by starting a new business or sustaining an existing micro-enterprise; and
 - Social enterprises.
- Contribute to government objectives to raise economic activity rates particularly amongst disadvantaged individuals, including those that are socially disadvantaged, economically disadvantaged or geographically remote.
 - Be managed by Invest NI’s Corporate Finance Division (CFD) with a strategic input from the Regional Economic Development Division.

It was anticipated that the NISBLF would:

- Help bridge a gap, for those who could demonstrate a viable business proposal, where other funding options had been exhausted, and would sit alongside other funding sources such as the promoter’s own funds, bank funding or credit unions;
- Be high risk in nature, as traditional bank funding would not have been available or would have been fully exhausted.

Key parameters⁶ of the fund include:

Investment Focus	Generalist fund with exclusions for coal, steel, shipbuilding, enterprises in difficulty and primary agricultural producers. Businesses must be substantially based in NI.
Sectorial Guidelines	<ul style="list-style-type: none"> • No more than 10% of the Fund to be lent to enterprises in the retail sector. • No more than 30% of the Fund to be lent to enterprises in any one sector. • At least 5% of the Fund to be lent to individuals not in Employment, Education or Training (NEETs) and those living within Neighbourhood Renewal Areas (NRAs). • The Fund Manager has the objective to build a balanced investment portfolio with a blended spread of risk.
Investment Period	5 years
Fund Life	10 years
Loans sanctioned by	Fund Manager [UCIP]
Invest NI investment	£5m
Interest Rate charged	Typically 6% to 10% flat fixed rate
Loan Period	Typically 3-5 years
Loan Range	£1k - £50k ⁷
Additional Aspects	<ul style="list-style-type: none"> • Maximum loan amount of £15k to start-up enterprises (with potential for follow-on lending up to the maximum of £50k); • Mentoring support on financial management and business related issues available from business development officers for loan applicants up to £15k. It was considered that the majority of loans of up to £15,000 were likely to be issued to small start-up businesses and micro-businesses at the early stages of their life, and who might typically require tailored advice to facilitate their growth; • Evidence of decline from private banking sector to be provided in support of all loan applications; and • Where applicable, a letter of commitment should be obtained to ensure bank facilities / directors’ loans were not reduced following successful drawdown of a loan from the fund.

⁶ Source: NISBLF Operations Manual (8th January 2015 version).

⁷ The Economic Appraisal for the Fund estimated that the average loan size would be £22,000.

Ultimately, the NISBLF was intended to be a short-term funding measure, to help businesses get started⁸ and to develop a profitable trading history prior to obtaining mainstream finance, and is also there to help fund existing businesses with the costs associated with growing and expanding the business. The loans may support working capital or be of a fixed capital nature. The Loan Fund is neither a lender of last resort nor is to be used to fund trading losses.

1.2.2 Need for the Fund

The Economic Appraisal determined a need for the Small Business Loan Fund on the basis of a number of factors, including:

- Northern Ireland’s economy was disproportionately reliant on small businesses compared with the rest of the UK, with 95% of the business base (of a suggested 126,640 enterprises⁹) being categorised as micro-enterprises. The Economic Appraisal suggested that for such businesses, sustained, profitable growth was predicated on having access to capital;
- A feature of the economic downturn had been a lack of availability of bank finance for SMEs;
- The European Investment Fund (EIF) had concluded (2008) that there was a market failure in Northern Ireland relating to debt finance and microfinance;
- The Global Entrepreneurship Monitor (GEM) through a series of annual surveys had consistently identified access to finance as an inhibitor of entrepreneurial activity;
- A strategic context (including Invest NI’s Corporate Plan 2008-2011) which had pointed to the need for active finance markets to stimulate economic development, particularly in the early stage, knowledge-based industries; and
- Its ability to link with the ‘Growth Loan Fund’ in order to contribute to the creation of a ‘continuum of funding’.

1.2.3 Outcomes, Objectives, Targets and KPIs¹⁰

The Evaluation Team notes that the NISBLF Economic Appraisal and subsequent Invest NI Casework Papers contain a large degree of variability (both within and between documents) in terms of the definition of anticipated outcomes, objectives targets and KPIs for the Fund. The Evaluation Team’s understanding¹¹ of the Economic Appraisal’s anticipated outcomes, objectives and targets for the Fund are as follows:

Outcomes	<ul style="list-style-type: none"> • Increase employment and reduce economic inactivity¹²; • Promote entrepreneurship in order to support business growth¹³; • Create a funding continuum in order to provide access to capital¹⁴; • Facilitate skills development in order to grow the local economy¹⁵; and • Assist in promoting the social economy¹⁶.
Objectives	<ul style="list-style-type: none"> • Lending is made available to SMMEs and social enterprises across all sectors¹⁷ over the five year lending period; • Ensure that the fund is set up and operated in compliance with all relevant EU State Aid regulations;

⁸ It is noted that the NISBLF Operations Manual (8th January 2015 version) suggests that the Loan Fund should only be used to help businesses get started “in a minority of cases”.

⁹ NB It is understood that at the start of 2015, Northern Ireland had circa 117,000 businesses, of which 33,000 were employers. Source: Business Statistics Briefing Paper, House of Commons Library, Number 06152, 7 December 2015.

¹⁰ Key Performance Indicators

¹¹ As they are presented differently in different sections of the Economic Appraisal

¹² As reflected in the Department of Enterprise and Investment’s (DETI’s) Public Service Agreement (PSA) 3.

¹³ As reflected in the Department of Enterprise and Investment’s (DETI’s) Public Service Agreement (PSA) 3.

¹⁴ NB This was anticipated to fit within Invest NI’s Access to Finance strategy which incorporated a ‘Fund of Funds’ approach.

¹⁵As reflected in the Invest NI Corporate Plan 2008-2011.

¹⁶ As reflected within Government objectives (“positive impact on social economy”).

¹⁷ With the exception of coal, steel, shipbuilding, and/or enterprises in difficulty.

	<ul style="list-style-type: none"> • Utilise 100% of the loan fund (excluding fund management fees) for lending to SMMEs and social enterprises; • Ensure that all lending takes place within five years of the set-up of the fund; • Ensure that the loan fund is promoted to individuals Not in Employment, Education or Training (NEETs) and those living within Neighbourhood Renewal Areas (NRAs); • Ensure that the fund manager is registered with the Financial Services Authority (FSA) and that the fund meets FSA corporate governance standards including appointment of a risk committee and a chief risk officer; and • Ensure that the loan fund complies with all equality considerations as detailed in Invest NI’s Equality Scheme.
Targets	<ul style="list-style-type: none"> • To issue c132 loans per annum over the five-year period of the Fund¹⁸; • To lend at least 5% of the Fund over the five year period to individuals not in Employment, Education or Training (“NEETs”) and those living within Neighbourhood Renewal Areas (NRAs); • To create/sustain 226 jobs over the five year period of the Fund; and • Generate an additional discounted GVA over a 10 year period of £10.3 million.

The variability in terminology and definition of NISBLF objectives and targets was discussed, and acknowledged by Invest NI, who advised that for the purposes of this evaluation, the KPIs that were outlined within the Limited Partnership Agreement¹⁹ (and any later amendments, where identified) should be used when considering the Fund Manager’s performance, but that they should not be considered to have displaced the overall aims and objectives of the Fund, as established within its various approval documentation. The LPA’s five KPIs are set out below:

1. To complete at least 132 investments per annum for the first five years of the term.
2. To operate in the deal size range of a minimum of £1,000 and a maximum of £50,000. To make average investments from the Partnership Funding of £13,000 per deal per annum.
3. To make investments applying interest rates that reflect the risk involved in each case, but in order to adhere to State Aid rules, the interest rate margin must be at least the levels prescribed in the EU Journal (in addition to the reference rate based on 1 year IBOR²⁰ of 1.5%) but with the option to charge higher interest rate if the Manager deems this to be appropriate.
4. To make investments over the first five years of the Term and no less than £1.2m and no more than £2m per annum.
5. To achieve a default rate of less than 23%, as calculated on the last day of each Accounting Period during the Term (defined as the ‘Relevant Date’ in the LPA).

NB Invest NI undertook an internal ‘Early Stage Review’ of the NIBSLF during February 2014. In relation to the Fund’s KPIs, the Review concluded that *“the one KPI that is not going to be achieved is the number of investments to be made. Whilst the target was set at 132, the actual number of loans made to the end of February totalled 56”*²¹. The Review therefore made the following recommendation, which the Evaluation Team has been advised was accepted, *“reflecting the changing conditions since development of the fund in 2012, it is recommended that the target number of loans be amended to an annual target of 75-90 instead of 132. With an average loan size of £20k, 75 loans*

¹⁸ NB Invest NI’s Casework Papers for the NISBLF feature a target of 144 loans per annum. However, it is understood that this was an error resulting from incorrect data being transposed from the EA to the Casework Papers (relating to Option 2, as opposed to the EA’s Preferred Option, Option 4). Whilst the target of 144 is technically the target that was approved within the Casework Exercise, it is understood that this target was never adopted in practice.

¹⁹ The NISBLF is constituted as a limited partnership and governed by a Limited Partnership Agreement (LPA). The LPA (and a Management Services Agreement (MSA) included therein) serves as the legally binding agreement for the Fund and stipulates the legally binding commitments for all partners.

²⁰ Inter-Bank Offered Rate

²¹ The Review suggested that the lower number of loans reflected a number of conditions including: set-up time following launch of the fund; education of the market as to what the NISBLF is for (and importantly, what it is not appropriate for) had absorbed a lot of resource; the introduction of the Start-Up Loans Scheme in Northern Ireland in Autumn 2013 was suggested as having had an impact on the number of start-up loans being issued by NISBLF; and the quality of the applications being received at that stage.

would amount to annual lending of £1.5m. If the average loan size continues to rise, a £25k average loan size would result in almost £1.9m of lending”.

1.2.4 External Delivery Organisation & Internal Management

As previously noted, the NISBLF is governed by a LPA. In accordance with British Private Equity & Venture Capital Association (BVCA) guidance, the Fund has a Board of Advisers that represents the interests of the Limited Partners.

Following a competitive tendering process, Ulster Community Investment (UCI), a Financial Conduct Authority (FCA)²² registered Fund Manager, were appointed to manage the Fund. UCI is a subsidiary of Ulster Community Investment Trust (UCIT) Ltd, a well-known social finance provider operating in both Northern Ireland and Ireland.

As the appointed manager, UCI have responsibility for all aspects of the Fund including:

- The establishment of a 10-year limited partnership (subject to extension in accordance with the LPA constituting the limited partnership) as the funding vehicle;
- The lending/investment cycle including identifying, making, managing and realising investments. Individual lending/investment decisions and funding structures are the sole discretion of the Fund Manager (subject to compliance with the Investment Policy and legal requirements outlined within the LPA);
- Managing the Fund on a fully commercial basis with interest rates on Loans/Investments to be priced to reflect risk and at a level above the typical rates charged by the local banking sector for senior secured finance; and
- Monitoring/reporting on the fund as required by the limited partners at intervals as set out in the LPA.

UCI have sub-contracted (by way of a formal legal contract) delivery of certain aspects of the contract to Enterprise Northern Ireland (ENI). UCI manage this sub-contracting arrangement directly with ENI. Ultimately however, the legal obligation for delivery of the contract lies with UCI who remain accountable to Invest NI for all aspects of its delivery. Appendix III provides a summary of the roles and responsibilities of UCI and ENI in the management and delivery of the NISBLF.

Within Invest NI, the NISBLF is managed by a Programme Manager with responsibility for review of all monthly and quarterly management information and regular contact (both by telephone and face to face) with UCI. Management information on loan activity is provided to the Programme Manager on a monthly basis. A more comprehensive quarterly report is also provided which forms the basis of a formal quarterly monitoring meeting with UCI. Advisory Board meetings are held twice yearly and draft and final audited accounts are provided at year-end.

²² NB the Financial Conduct Authority (FCA) replaced its predecessor, the Financial Services Authority (FSA), during 2013.

1.3 The Growth Loan Fund

1.3.1 Background & Introduction

The GLF was launched during May 2012, in response to market failure²³ in the provision of mezzanine funding²⁴. To address the market failure, the Economic Appraisal²⁵ that was conducted for the GLF recommended the implementation of a loan fund with the primary objective of providing liquidity, via mezzanine loan finance, to SMEs in Northern Ireland demonstrating sales and profitability growth, or growth potential.

The Economic Appraisal concluded that the preferred approach was to establish a £50m fund which would be financed by £25m from Invest NI (provided on a subordinated basis) alongside £25m private sector leverage²⁶. The appraisal identified the optimal operational range for the Fund as being £50,000 to £500,000. The LPA later indicated that there would be an ability to further extend this upper limit up to €1.5m by exception²⁷.

The fund has an operational period of 10 years which is split into a 5 year investment period and a 5 year realisation period. Investment is targeted to take place on a pro rata basis over the investment period at £10m per annum.

Following a period of consultation and negotiation, the Northern Ireland Local Government Officers Superannuation Committee (NILGOSC) was identified as the private sector investor.

Key parameters²⁸ of the fund include:

Investment Capital & Focus	Generalist, with normal State Aid exclusions (steel, mining, primary agriculture etc.). Portfolio Companies must be SMEs resident within Northern Ireland with their operations substantially based in Northern Ireland.
Target Companies	<p>Growth potential, innovative, small and medium sized companies. However, Schedule 2 of the LPA (Key Investment Criteria 3 and respectively) introduced the following:</p> <ul style="list-style-type: none"> • A substantial proportion of Portfolio Companies should operate in the manufacturing (including development and design for manufacture), engineering or tradable services sectors. • Loans will typically be provided to finance working capital, capital expenditure, research and development and marketing costs.

²³ Market failure in this area had been identified in the 2008 European Investment Fund Interim Report for Northern Ireland entitled ‘SME Financing Gap’. An Economic Appraisal (EA) completed in August 2010 corroborated this finding, concluding that the degree of failure had been further exacerbated by the prevailing financial crisis at that time. The Economic Appraisal stated that the level of market failure was greatest in relation to higher growth and higher risk businesses, particularly those with limited access to security, and concluded that this failure was likely to exist for at least the following 5 years (2015+).

²⁴ Mezzanine finance is defined as a type of external loan funding which “fits” between standard bank lending and equity investment. It is generally in the form of repayable debt capital but with options to convert to equity.

²⁵ ASM, August 2010.

²⁶ Whilst it is recognised that the General Partner (NI Growth Loan Fund Limited) invests at least 0.5% of the total commitments committed by other Investors (as per the LPA), for the purposes of this Evaluation, and given the materiality of this investment, it has been assumed that the other investors (i.e. Invest NI and NILGOSC) have invested on a 50:50 basis.

²⁷ The upper limit of €1.5m is a state aid exemption that forms part of the EU General Block Exemption Regulation (which governs the fund). Discussion with Invest NI indicates it was not included as a static number as it is subject to exchange rate shifts, and so was subject to a separate notification. A Ministerial Submission from Invest NI to the DETI Minister was approved following the Invest NI internal approvals process which confirmed that “loans in excess of £500,000 can only be made following a consultation process”.

²⁸ Source: GLF Economic Appraisal, unless otherwise stated.

Investment Range	The Economic Appraisal and Invest NI’s Casework Papers established that the anticipated investment range would be: £50k - c£500k deal size. However, Schedule 2 of the LPA (Key Investment Criterion 9) introduced the following: <ul style="list-style-type: none"> • The Partnership will not invest into other loan and/or venture capital investment funds and will not: <ul style="list-style-type: none"> - invest more than €1.5 million in any 12 month period in any single Portfolio Company and its Associates; - invest an amount in excess of 4% of the Total Commitments in any single Portfolio Company and its Associates without the prior written consent of the Advisory Board; or - invest more than £500,000 or less than £50,000 in any single Portfolio Company and its Associates unless prior consultation with the Board of Advisors has taken place; or - invest more than £15 million in any one year unless prior consultation with the Board of Advisors has taken place.
Structure	Limited partnership and governed by a LPA
Investment Period	5 years
Fund Period	10 years
Target number of loans	Originally 65 per year, reduced to 50 per year at the August 2013 Advisory Board meeting and subsequently reduced (at the June 2015 Advisory Board meeting) to 30 loans per annum at an average value of £333k for the 2015/16 financial year ²⁹ .
Loans sanctioned by	Fund manager
Invest NI Investment	£25m
Private Finance Required	£25m
Interest Rate Charged	8% - 12% subject to negotiation ³⁰ .
Profit Share Charged	Subject to negotiation ³¹
Return to Private Investor	7% ³²
Management Fees	£6,740,588 (as per the Limited Partnership Agreement with WhiteRock)
Management	FSA approved Fund Manager. Appointed by tender process following completion of approvals process.
Additional Aspects	Invest NI investment to rank behind the private investment

²⁹ The Evaluation Team notes that during consultation, the Fund Manager indicated their view that the current target is appropriate for the marketplace, and demand going forward would be circa 30-35 loans per annum at an average loan size of £300k - £350k.

³⁰ Discussions with Invest NI and review of WhiteRock monitoring materials indicate that the interest rate is typically circa 8%, but is subject to commercial decisions and negotiation with the recipient businesses.

³¹ Whilst the Economic Appraisal did not include a reference to a profit share component to the GLF, in practice, WhiteRock has advised through discussions that investors are also often entitled to a share of investee’s EBITDA. In line with State Aid Guidance (European Commission (2014) ‘Communication from the Commission: Guidelines on State Aid to Promote Risk Finance Investments’), the profit share component is typically equal to or higher than the interest payable on the capita in order to ensure that the return for the investors is predominantly based on the profits or losses of the investee entity.

³² Discussions with Invest NI indicate that NILGOSC, the private investor, negotiated a return of 7%.

1.3.2 Outcomes, Objectives and KPIs

The Economic Appraisal (and later amendments, where relevant) identified the following anticipated outcomes, objectives and KPIs for the Fund:

Outcomes	<ul style="list-style-type: none"> • Improve NI’s manufacturing and private services productivity in line with PSA 1 in the PfG as measured by Gross Value Added (GVA) per employee (improve productivity); • Increase employment in line with PSA 3 (increase employment); • Promote an increased level of innovation and R&D activity within Northern Ireland businesses and encourage and support Northern Ireland businesses in building the capacity to take forward innovative ideas into new products, services and processes in line with the Regional Innovation Strategy for Northern Ireland (increase innovation and R&D); • Leverage private sector investment in order to maximise the impact of public sector inputs (leverage private investment); and • Create a “funding continuum” in order to provide access to capital (create funding continuum).
Objectives	<ul style="list-style-type: none"> • 100% of lending is made to SMEs in the manufacturing and tradable services sectors (based on the current definitions used by Invest NI) and who are not in contravention of any ERDF related exclusions; • Ensure that the fund is set up and run in compliance with all EU State Aid regulations currently in force; • Ensure that the private sector contribution is at least 50% of capital to the loan fund; • Utilise 100% of the loan fund for lending to SMEs (other than any requirement to hold back funds to ensure minimum cash balances); • Ensure that all lending takes place within five years of the set-up of the fund; • Ensure that the fund manager is registered with the Financial Services Authority and that the fund meets FSA corporate governance standards including appointment of a risk committee and a chief risk officer; and • Ensure that the loan fund complies with all equality considerations as detailed in Invest NI’s Equality Scheme.

Similar to the NISBLF, the GLF is constituted as a limited partnership and governed by a Limited Partnership Agreement (LPA). The LPA (and a Management Agreement included therein) serves as the legally binding agreement for the Fund and stipulates the legally binding commitments for all partners. According to Invest NI’s Terms of Reference, the original KPIs for the GLF as per the LPA (May 2012) were as follows³³:

1. To complete 65 Investments per annum for the first five years of the Term (NB this target was reduced to 30 for the 2015/16 year);
2. To operate in the deal size range of a minimum of £50,000 and a maximum of £500,000;
3. To make an average Investment from the Partnership Funding of £150,000 per deal;
4. To make Investments at interest rates that reflect the risk involved in each Investment, but that are at an appropriate premium above the interest rates applicable to the typical rates charged by the local banking sector for senior secured finance;
5. To invest £50 million over the first five years of the Term and no less than £8 million and no more than £15 million per annum; and
6. To achieve a Default Rate of less than 12.5%.

It should be noted that two of the KPIs were changed during the period under review:

- The KPI to complete 65 investments per annum in the first five years of the Term was amended to 50 investments per annum during August 2013 and further revised downwards (at the June 2015 Advisory Board meeting) to 30 investments per annum from the 2015/16 financial year to the end of the investment term.

³³ Appendix IV outlines the Key Investment Criteria and Portfolio Management Criteria for the GLF as per the Limited Partnership Agreement.

- Similarly, the KPI to make an average investment of £150,000 per deal was amended to £200,000 per deal during August 2013 and revised upwards (at the June 2015 Advisory Board meeting) to an average investment value of £333,000 per deal from the 2015/16 financial year to the end of the investment term.

It is understood that the decision to amend both KPIs was taken as a result of ongoing reviews of actual activity and performance of the Fund as it rolled out, and the Fund Manager’s assessment of the marketplace, whereby it was considered that the trend for fewer (in number), but larger (in investment size) deals was likely to continue.

1.3.3 Legal Structure / External Delivery Organisation

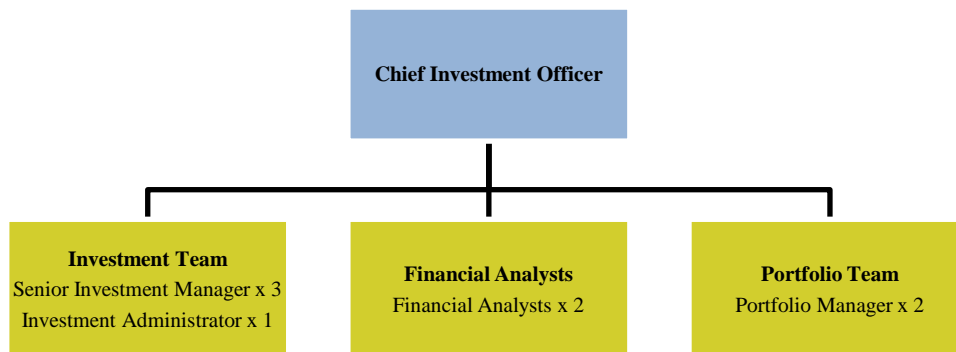
In accordance with BVCA guidance, the GLF has a Board of Advisers that represents the interests of the Limited Partners (Invest NI and NILGOSC).

Following a competitive tendering process WhiteRock Capital Partners LLP (‘WhiteRock’), an FCA registered Fund Manager, was appointed to manage the Fund. At the time of the contract’s initiation³⁴, WhiteRock was owned equally by three consortium partners, Braveheart Investment Group plc in Perth, NEL Fund Managers Ltd in Newcastle and Clarendon Fund Managers Ltd in Belfast. As manager, WhiteRock has responsibility for all aspects of the Fund including:

- The establishment of a 10-year limited partnership (subject to extension in accordance with the LPA constituting the limited partnership) as the funding vehicle;
- The lending/investment cycle including identifying, making, managing and realising investments. Individual lending/investment decisions and funding structures are the sole discretion of the Fund Manager (subject to compliance with the Investment Policy and legal requirements outlined within the LPA);
- Managing the Fund on a fully commercial basis with interest rates on Loans/Investments to be priced to reflect risk and at a level above the typical rates charged by the local banking sector for senior secured finance;
- Monitoring/reporting on the fund as required by the limited partners at intervals as set out in the LPA.

WhiteRock employs a total of nine professionals to administer the GLF, each of whom have relevant experience in the Finance and Banking sectors, as set out below.

Figure 1.1: Organisational Structure of WhiteRock Capital Partners LLP



All decisions in relation to funding are approved by an Investment Committee which is made up of representatives from the three parent companies of WhiteRock and two non-executive directors who have extensive relevant experience in the Banking and Finance sector.

³⁴ During January 2016, it was announced that the senior investment team at WhiteRock Capital Partners had acquired Scottish investment group Braveheart’s stake in the company in a management buyout. Media reports indicated that the WhiteRock ownership change was fully endorsed by both Invest NI and NILGOSC.

1.4 Terms of Reference

As discussed, the evaluation of both Funds primarily covers the period of operation of the Funds to July 2015³⁵ i.e.:

1. For the GLF, this relates to the 39-month period May 2012 to July 2015; and
2. For the NISBLF, this relates to the 30-month period February 2013 to July 2015.

It should be noted that where more recent fund activity data was available to the Evaluation Team (i.e. up to November 2015, and just before our data analysis was undertaken), it has been presented within the report, so as to allow a fuller representation of actual performance (and trends) to be presented. However, per the Terms of Reference, the impact assessment is confined only to those recipients that received loans during our review period i.e. up to July 2015.

According to the Terms of Reference, the Evaluation must be undertaken in line with National and regional requirements. It must be compliant with Central Government guidance including:

- The Green Book: Appraisal and Evaluation in Central Government, HM Treasury 2003;
- The Northern Ireland Guide to Expenditure Appraisal and Evaluation (NIGEAE), Current Edition, Department of Finance and Personnel;
- The Magenta Book: Guidance for Evaluation; and
- Invest NI Economic Appraisal Methodology (EAM) guidance.

The objectives of the evaluation are set out in Appendix I.

1.5 Methodology

In conducting the evaluation, Cogent employed a methodology that included:

- A robust desk-based analysis of pertinent materials relating to the NISBLF and GLF during the period under review including the original Economic Appraisals and Casework approvals, early-stage reviews, the LPAs, monitoring reports and meeting minutes, the DETI External Delivery Organisation (EDO) Inspection Reports and marketing materials.
- A series of face-to-face and telephone consultations with the Fund Managers (Ulster Community Investment Trust (UCI), Enterprise NI (ENI) and WhiteRock Capital Partners (WhiteRock));
- Telephone and face-to-face consultations with:
 - DETI;
 - Invest NI;
 - InterTradeIreland;
 - British Business Bank;
 - Bank of Ireland;
 - Ulster Bank;
 - Private sector members of DETI's Access to Finance Working Group;
 - Advisory Board members of each Fund; and
 - PwC Corporate Finance and Horwood Neill Holmes LLP (as potential/actual referrers to the Funds).

NB A number of further stakeholders suggested by Invest NI were contacted both by e-mail and by telephone. However, two suggested that they did not feel adequately informed to discuss either loan fund, whilst the remainder did not respond to the e-mails sent or telephone messages.

³⁵ Albeit where more recent loan activity-related data was available after July 2015 (i.e. up to November 2015), it is presented throughout the report.

- Telephone consultations with funds and representatives of private investors/angels including:
 - Techstart NI Manager – Pentech Ventures LLP;
 - Co-Fund NI Manager – Clarendon Fund Managers;
 - Development Fund Managers – Crescent Capital and Kernel Capital; and
 - NILGOSC.

- Telephone consultations with funders/ fund managers for a range of benchmark funds including:
 - Start-Up Loans NI Delivery Agent – Enterprise NI;
 - North East Micro-Loan Fund – Rivers Capital Partners;
 - Scottish Local Authority Loan Fund/ East of Scotland Investment Fund/ West of Scotland Loan Fund – West of Scotland Loan Fund Ltd and City of Edinburgh Council;
 - Microenterprise Loan Fund (Republic of Ireland) – Microenterprise Ireland;
 - North East Growth Fund – NEL Fund Managers;
 - Scottish Loan Fund – Maven Capital Partners;
 - Welsh Assembly Government; and
 - Scottish Government.

- Telephone surveys with applicants (both recipients and non-recipients) of each fund, combined with a shorter online survey focused only on aspects of satisfaction with the funds, which was issued only to recipients that did not participate in the telephone survey. A summary of the survey samples and reliability is provided below with further specific details provided at Appendix II.

Table 1.1: NISBLF Survey Samples and Reliability				
	Recipients		Withdrawn	Rejected
	Satisfaction	Impact		
Population	140	140	28	202
Sample	75	65	15	35
Confidence interval at 95% confidence level	+/- 7.74	+/- 8.93	+/- 17.56	+/- 15.10

Table 1.2: GLF Survey Samples and Reliability				
	Recipients		Withdrawn³⁶	Rejected³⁷
	Satisfaction	Impact		
Population	62	62	40	29
Sample	50	47	27	16
Confidence interval at 95% confidence level	+/- 6.15	+/- 7.09	+/- 10.89	+/- 16.69

³⁶ The Fund Manager noted that contact details were provided for businesses whose applications may have been withdrawn by the customer pre or post investment committee.

³⁷ The Fund Manager noted that those that are considered rejected are generally those that the investment manager has decided not to take forward to investment committee.

2. NISBLF - FUND IMPLEMENTATION, ACTIVITY & FINANCES

2.1 Introduction

Section 2 considers the governance and management arrangements employed for the NISBLF, as well as details of how the fund was promoted and resulting loan activity undertaken. The section also considers the finances for the Fund proposed at the outset and the actual costs incurred and income generated to date.

2.2 NISBLF Governance, Management and Reporting

The Loan Fund has been established using a Limited Partnership structure between UCI GP and Invest NI. The Limited Partnership, NI Small Business Loan Fund LP, has a ten years term (subject to extension in accordance with the Limited Partnership Agreement (“LPA”) dated 7 January 2013) with an effective date in February 2013.

Invest NI is the major investor (£5million) in the Loan Fund, and is the Limited Partner. The General Partner is UCI GP (a subsidiary of UCIT) with a minority investment (£25,000).

The Ulster Community Investment Trust (UCIT) is a group of businesses operating on a not for profit basis to provide loans and investment, primarily to third sector organisations in Ireland. The main purpose of the group is to stimulate economic regeneration, particularly in the most disadvantaged communities across the island of Ireland. The structure of the group is explained as follows:

Ulster Community Investment Trust Limited (“UCIT”)	A registered Industrial and Provident Society, limited by shares, which operates on a not for profit basis. UCIT currently operates under this legal structure.
UCIT (Ireland) Limited	A Private Company Limited by Shares, is registered in the Republic of Ireland, but is a wholly owned subsidiary of UCIT Limited, which delivers its services in the Republic of Ireland under this legal structure.
Ulster Community Investment Plc (“UCIP”)	A Public Limited Company, limited by shares and wholly owned by UCIT. This structure enables private investment to be channelled into the economy in Northern Ireland. It is the management vehicle (fund manager) for the NI Small Business Loan Fund.
UCI GP	UCI GP has been incorporated to act as the legal General Partner to Invest NI, within the Limited Partnership. Its sole shareholder is UCIP.
UCI Foundation	The foundation has been established to enable charitable donations from the UK and abroad to be accepted and used to support the activities of UCIT Limited. UCI Foundation is a company limited by guarantee and is wholly owned by UCIT.

UCIP³⁸ is responsible for managing the fund under a Management Services Agreement (MSA) dated 7 January 2013, with a number of operational functions (from loan enquiry stage, through to disbursement, and ongoing monitoring) being subcontracted to Enterprise NI (ENI) under a Supply of Services Agreement (SoS) dated 7 January 2013. The SoS is supported by an Operations Manual setting out the key responsibilities of each party in the operation of NISBLF.

The NISBLF is delivered and administered by a dedicated ENI team based in ENI Head Office in Limavady. All administrative processes relating to the Loan Fund e.g. handling of enquiries, assessment of applications, drafting and distribution of loan offers, initial risk assessment of loans, credit control and reporting are undertaken by the team based in Limavady.

UCIP has final sanction over all offers and controls disbursement of all loans.

The Board of UCI PLC meet on a quarterly basis and attend quarterly meetings with Invest NI to discuss the Fund. In addition, an Advisory Board which has been established for the Fund meets on a

³⁸ UCIP is authorised by the FCA; the fund is licensed by the FCA to engage in consumer credit

six monthly basis in accordance with the terms of the LPA. The Advisory Board reviews the progress of the Fund including performance against KPIs, drawdown of loans awarded, governance and compliance and marketing and communications. The functions of the Advisory Board are as follows:

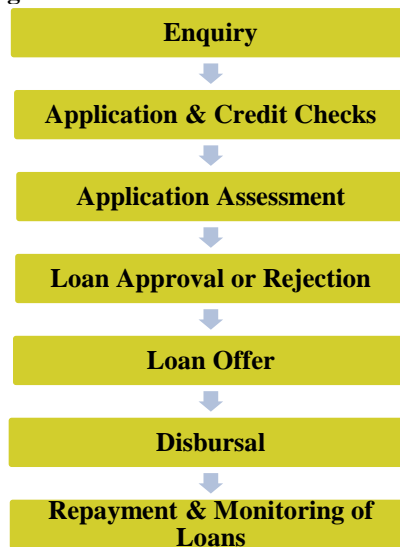
- To be consulted by the Fund Manager on local market developments and to provide technical and market advice;
- To review any potential conflicts of interest in respect of the Limited Partnership (between Invest NI and UCI GP Ltd.);
- To review any question of whether an investment falls within the Investment Policy of the Partnership;
- To review with the Fund Manager the progress of the Partnership in achieving its objectives; and
- To review the general policies and guidelines of the Partnership.

ENI is required to collect details on all prospective Loan Fund applicants and track their progress through each phase of the application process with a view to providing agreed monitoring information. In order to achieve this, client records are maintained via a bespoke computerised Management Information System (MIS) specifically designed for the NISBLF along with hard-copy back-up.

2.3 NISBLF Investment Process

The NISBLF investment process encompasses several stages as shown below, with further details on each stage attached as Appendix V.

Figure 2.1: NISBLF Investment Process



We note that a series of robust (in our view) ‘risk mitigation’ strategies have been developed and are implemented for the management and operation of the NISBLF. These are detailed in Appendix VI. We understand that UCI staff review the risk register on a quarterly basis and score the risks in terms of probability of occurrence and extent of impact if the risk materialised. On an annual basis, this risk register is reviewed by the UCI Plc Board, who make recommendations for any actions required to address prominent risks.

2.4 NISBLF Independent Review of Governance

During April 2015, DETI commissioned an independent consultancy practice to undertake an inspection visit of the NISBLF External Delivery Organisation (‘EDO’). The purpose of the review was to:

- Provide assurance that the funds issued to the EDO have been used in accordance with the purpose intended;

- Review and inspect procedures and arrangements in relation to the following eight key areas:
 - Financial Controls;
 - Management of public assets and dispersal of public money;
 - Financial Reporting & MIS;
 - IT systems;
 - Related Parties;
 - Corporate Governance; and
 - Compliance with funding agreement & proper use of funds;
 - Information Security.

In relation to each area, the report provided a risk grading / prioritisation of issues (see Appendix VII for details of the grading system). Positively, for the NISBLF and the procedures put in place by UCI GP, the Review concluded:

“On the basis of our inspection and review, we have identified no issues relating to the internal control environment at NI Small Business Loan Fund LP...As a result of control issues identified, we consider NI Small Business Loan Fund LP to have established substantial risk management, control and governance arrangements”.

2.5 NISBLF Marketing and Promotion

Our review of materials provided and discussion with the EDO indicate that both UCI GP and ENI have actively promoted the NISBLF since its launch. Key activities undertaken have included (NB further details are provided in Appendix VIII):

- A series of staggered (to manage enquiries and demand within the resources allocated to the Fund) direct mail shots have been issued to businesses across NI that have been identified as being between 1 and 7 years old and with turnover of between £90k and £1m on a quarterly basis. These mail shots include an overview of the fund and contact details for queries.
- The Fund Managers regularly use Twitter to notify businesses about the NISBLF and to provide case studies relating to activity to date.
- E-Zines are distributed to all businesses that made an enquiry to the Fund, but did not proceed to apply.
- Newspapers and radio broadcasts have been utilised to advertise the Fund.
- During each quarterly reporting period, representatives of UCIT and/or ENI meet with organisations such as local Councils, Invest NI’s Regional Offices, InterTradeIreland, banks and other finance providers in order to raise awareness of the NISBLF and its potential linkages with their ongoing work.

In many cases, individuals and businesses seeking a NISBLF loan have been referred from elsewhere. A frequent source of referrals has been from other teams within Enterprise NI (such as those responsible for the Regional Start Initiative, the Exploring Enterprise 3 Programme and the Start-Up Loans) and its membership (i.e. the network of Local Enterprise Agencies (LEAs)). Data provided by Enterprise NI illustrates that by October 2014, one third (33%) of all NISBLF recipients and one quarter (25%) of the total value of investments had arisen as result of referrals from one of these two sources³⁹.

Table 2.1: NISBLF Portfolio Analysis (October 2014)⁴⁰						
	Total Portfolio		ENI/LEA Referrals		ENI/LEA Referrals as % of Total Portfolio	
	No.	Value	No.	Value	No.	Value
Start-up	48	£625,509	23	£296,000	48%	47%
Existing	57	£1,655,925	12	£268,800	21%	16%
Total	105	£2,281,434	35	£564,800	33%	25%

³⁹ At this time there were a total of 105 client businesses, of which 35 had been referred from ENI or LEAs. These referrals resulted in investments of £565k of a total of £2.3m.

⁴⁰ NB this report was prepared by ENI in response to a specific request from Invest NI during late 2014. Discussion with ENI indicates that it is not a standard aspect of their reporting requirements and so it was not available for more recent periods of time.

2.6 NISBLF Enquiries, Applications, Loans Approved and Loans Disbursed

The table below provides an overview of NISBLF activity from inception through to November 2015.

Table 2.2: Overview of NISBLF Activity																
Period	Enquiries		Applications		Approvals		Withdrawn Post Approval		Approved but not disbursed		Disbursals		Completed		Ratios	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	Enqs: Apps	Appls: Approvals
Feb-Mar 2013	261	£6,047,572	30	£731,000	0	£0	0	£0	0	£0	0	£0	0	£0	8.7	N/A
Apr-Jun 2013	286	£5,310,100	72	£1,668,550	19	£398,500	1	£8,500	0	£0	12	£277,000	0	£0	4.0	3.8
Jul-Sept 2013	191	£3,177,800	30	£629,500	14	£182,000	1	£10,000	0	£0	14	£225,000	0	£0	6.4	2.1
Oct-Dec 2013	210	£4,248,500	48	£1,028,800	14	£272,707	0	£0	0	£0	16	£227,707	1	£10,000	4.4	3.4
Jan-Mar 2014	227	£3,898,800	36	£641,000	18	£443,009	1	£14,500	0	£0	18	£455,509	0	£0	6.3	2.0
Year 1 (14 months: Feb 13 – Mar 14)	1,175	£22,682,772	216	£4,698,850	65	£1,296,216	3	£33,000	0	£0	60	£1,185,216	1	£10,000	5.4	3.3
Apr-Jun 2014	244	£3,914,290	37	£948,000	21	£409,000	2	£76,000	0	£0	14	£266,000	0	£0	6.6	1.8
Jul-Sept 2014	204	£3,574,670	41	£1,030,000	19	£465,217	0	£0	0	£0	21	£475,417	1	£9,583	5.0	2.2
Oct-Dec 2014	164	£2,596,269	30	£778,999	23	£504,000	0	£0	0	£0	25	£598,800	2	£20,625	5.5	1.3
Jan-Mar 2015	214	£2,854,746	29	£573,500	17	£350,000	0	£0	0	£0	16	£273,000	1	£9,167	7.4	1.7
Year 2 (12 months: Apr 14 – Mar 15)	826	£12,939,975	137	£3,330,499	80	£1,728,217	2	£76,000	0	£0	76	£1,613,217	4	£39,375	6.0	1.7
Apr-Jun 2015	161	£2,309,250	36	£798,250	17	£358,000	0	£0	0	£0	18	£436,000	1	£1,333	4.5	2.1
July 2015	44	£698,500	9	£330,000	8	£245,000	0	£0	0	£0	5	£164,000	0	£0	4.9	1.1
Sub-Total (30 months Feb 13 - July 15)	2,206	£38,630,497	398	£9,157,599	170	£3,627,433	5	£109,000	0	£0	159	£3,398,433	6	£50,708	5.5	2.3
Jul-Sept 2015	162	£2,373,999	29	£785,500	21	£586,500	1	£20,000	3	£96,000	18	£454,500	3	£29,350	5.6	1.4
Oct-Nov 2015	115	£1,651,865	15	£270,265	16	£235,250	0	£0	5	£65,000	13	£225,250	1	£10,750	7.7	0.9
Year 3 (8 months: Apr to Nov 15)	438	£6,335,114	80	£1,854,015	54	£1,179,750	1	£20,000	8	£161,000	49	£1,115,750	5	£41,433	5.5	1.5
Grand Total (34 months Feb 13 – Nov 15)	2,439	£41,957,861	433	£9,883,364	199	£4,204,183	6	£129,000	8	£161,000	185	£3,914,183	10	£90,808	5.6	2.2

NISBLF approvals, up to November 2015, are summarised below:

Table 2.3: Summary of NISBLF Approvals					
	Number	Value	Mean	Median	Range
Year 1 (14 months)	65	£1,296,216	£19,942	£15,000	£3k-£50k
Year 2 (12 months)	80	£1,728,217	£21,603	£15,000	£5k-£50k
Year 3 (8 months)	54	£1,179,750	£21,847	£15,000	£4k-£50k
Total	199	£4,204,183	£21,127	£15,000	£3k-£50k

Key points arising from the previous analysis include:

<p>Enquiries</p>	<ul style="list-style-type: none"> • Between February 2013 and November 2015 (a 34-month period), the NISBLF received a total of 2,349 enquiries equating to a total value of £42m. However, the distribution of enquiries is not uniform: <ul style="list-style-type: none"> - Almost half (48%) of the 2,349 enquiries were made in the 14-month period of Year 1 (the period from February 2013 to March 2014). This equates to an average of c84 enquiries per month; - During the 12-month period of Year 2 (April 2014 to March 2015), 826 enquiries were received i.e. an average of 69 enquiries per month; - During the 8-month period of Year 3 (April 2015 to November 2015), the average number of enquiries per month has declined further to c55 enquiries per month. • Therefore, as the NISBLF has been rolled out over the 34-month period to November 2015, the average number of enquiries has been subject to a substantial decline of c35% when Year 3 is compared with Year 1. <p>The Evaluation Team discussed this trend with both UCIT and ENI, who were both of the opinion that Year 1 should not be considered representative of typical demand for the Fund. It was suggested that in the period before the Loan Fund's launch, there had been a series of miscommunications within the NI marketplace as to the purpose of the loan fund, who would be eligible etc. In the EDO's opinion, this led, during Year 1, to a large quantity of both enquiries and applications to the Fund that were not considered to be either eligible or of a sufficient quality to progress.</p> <p>The EDO considers that enquiry/application/approval activity during Years 2 and 3 would be more reflective of potential future levels of activity.</p>
<p>Applications</p>	<ul style="list-style-type: none"> • Across the lifetime of the Fund to November 2015, 433 applications with a combined potential value of £9.9m were made to the Fund. • Again, mirroring activity relating to enquires, half (50% or 216 applications) of the total applications received were during the 14-month period of Year 1. • A consistent feature of activity during each year is that it takes an average of 5 or 6 enquiries to generate one application.
<p>Approvals</p>	<ul style="list-style-type: none"> • During the 34-month period, February 2013 and November 2015, 199 loans were approved, equating to a total value of £4.2m (average value of £21,127 per loan). The 199 loan approvals were made to 191 unique businesses. • Reflecting the feedback received from the EDO relating to the suitability and quality of enquiries and applications received during Year 1, we note that only 1 in every 3.3 applications received was approved during the 14-month period of Year 1. However, this has improved to 1 in every 1.5 applications received during the 8-month period of Year 3 to November 2015.
<p>Withdrawals and Approved but Not Disbursed</p>	<ul style="list-style-type: none"> • Six businesses withdrew their applications to the NISBLF following loan approval (3 during Year 1 and 3 during Year 3). • At the time of our analysis (November 2015), 8 loans had been approved but had not yet been disbursed. All had been approved since July 2015.
<p>Disbursals</p>	<ul style="list-style-type: none"> • During the 34-month period to November 2015, 185 loans (93%) of the 199 approved had been disbursed. The loans were disbursed to 177 unique businesses, indicating a small level of repeat activity; • The total funds disbursed were £3.9m, equating to an average loan disbursed of £21,118 across the three-years.
<p>Completed Loans</p>	<ul style="list-style-type: none"> • At November 2015, 10 of the 185 loans disbursed had been fully repaid. The 10 completed loans had a combined value of £90,808. • The Fund Manager has advised that 8 of the completed loans relate to businesses which have been since approved follow-on loans. These businesses are understood to have paid a settlement figure to 'close-out' on their first loan, but continue to repay a further second loan disbursed through the NISBLF. • The remaining two businesses negotiated with the Fund Managers to settle their loans early and exit the Fund. In both cases, the Fund Manager agreed that the business would simply pay the remaining capital outstanding in a lump sum in order to complete the loan arrangement, without any further early repayment fees.

The table below profiles NISBLF loans approved by sector and status of business (i.e. start-up or existing business).

Sector	Year 1 (14 months)			Year 2 (12 months)			Year 3 (8 months)			Total			Overall %
	Start-up	Existing	Total	Start-up	Existing	Total	Start-up	Existing	Total	Start-up	Existing	Total	
Wholesale and Retail Trade, Repair of motor vehicles and motorcycles (G)	-	1	1	1	2	3	-	1	1	1	4	5	2.5%
Wholesale and retail trade and repair of motor vehicles and motorcycles (G45)	-	2	2	2	1	3	-	8	8	2	11	13	6.5%
Wholesale and retail trade except of motor vehicles and motorcycles (G46)	5	5	10	4	9	13	2	2	4	11	16	27	13.6%
Retail trade, except of motor vehicles and motorcycles (G47)	5	8	13	7	12	19	2	11	13	14	31	45	22.6%
Total Wholesale and Retail (G)	5	8	13	7	12	19	2	11	13	14	31	45	22.6%
Manufacturing (C)	4	7	11	10	3	13	2	10	12	16	20	36	18.1%
Accommodation and Food Service Activities (I)	12	4	16	5	1	6	1	6	7	18	11	29	14.6%
Information and communication (J)	3	2	5	2	9	11	-	1	1	5	12	17	8.5%
Arts, entertainment and recreation (R)	5	2	7	7	1	8	-	-	-	12	3	15	7.5%
Construction (F)	-	1	1	-	3	3	1	7	8	1	11	12	6.0%
Administrative and support service activities (N)	1	3	4	3	4	7	-	1	1	4	8	12	6.0%
Other service activities (S)	4	-	4	1	3	4	1	2	3	6	5	11	5.5%
Professional, Scientific and technical activities (M)	-	1	1	-	5	5	-	2	2	-	8	8	4.0%
Transportation and Storage (H)	-	1	1	1	-	1	1	2	3	2	3	5	2.5%
Water supply, sewerage, waste management and remediation activities (E)	-	2	2	-	1	1	-	1	1	-	4	4	2.0%
Agriculture, Forestry and Fishing (A)	-	-	-	1	-	1	-	1	1	1	1	2	1.0%
Financial and Insurance activities (K)	-	-	-	-	-	-	-	1	1	-	1	1	0.5%
Education (P)	-	-	-	-	-	-	-	1	1	-	1	1	0.5%
Human health and social work activities (Q)	-	-	-	-	1	1	-	-	-	-	1	1	0.5%
Activities of extraterritorial organisations and bodies (U)	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Activities of households as employers (T)	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Electricity, Gas, steam and air conditioning supply (D)	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Public Admin and defence, compulsory social security (O)	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Real Estate Activities (L)	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Total	34	31	65	37	43	80	8	46	54	79	120	199	100.0%
%	52%	48%	100%	46%	54%	100%	15%	85%	100%	40%	60%	100%	

Of 199 loans approved during the 34-month period, February 2012 and November 2015:

- Two-fifths (40%, N=199) were to start-up businesses. Discussion with ENI indicates that any business with less than 2 years' accounts records keeping/trading history is designated as a 'start-up' business. The remaining 60% (N=199) of approvals were to existing businesses.
- During Year 1, over half (52%, N=65) of the loans were approved for start-ups. However, during the first 8 months of Year 3, only 15% of loans approved were to businesses designated as being 'start-ups'. Discussion with the Fund Manager suggest that, to a large extent, this movement has been influenced by the introduction of the British Business Bank-sponsored Start-Up Loans scheme administered through Enterprise NI.
- In relation to sector activity, almost one quarter (23%, N=199) of loans were approved to businesses operating in the Wholesale and Retail Trade sector.
- Further disaggregation suggests that 14% of all loans approved (N=199) were to businesses operating in the retail sector. These approvals equate to £591,000 of funds, or 14% of the total funds approved to date (£4,204,183).
- Other key sectors represented across the approvals include:
 - Manufacturing (18%, N=199);
 - Accommodation and Food Service Activities (15%, N=199); and
 - Information and Communication (9%, N=199).

The table below provides details of the number of individuals/businesses that had a NISBLF approved (for the 32-month period up to September 2015) and who have been categorised as being:

- NEET (not in employment, education or training);
- NRA (living in a neighbourhood renewal areas; or
- SEE (a social economy enterprise).

	Year 1 (14 months)			Year 2 (12 months)			Year 3 (6 months ⁴¹)			Total		
	Start-up	Existin g	Total	Start-up	Existin g	Total	Start-up	Existin g	Total	Start-up	Existin g	Total
NEETS	1	-	1	0	0	0	0	0	0	1	0	1
NRA	5	4	9	7	12	19	0	3	3	12	19	31
SEE	1	1	2	2	1	3	0	0	0	3	2	5

As illustrated, during the 32-months to September 2015:

- Just one loan approved was to an individual/business classified as being NEET;
- 31 individuals/businesses (12 start-ups and 19 existing businesses) that had a NISBLF approved were located within a NRA.
- In total, almost one fifth (17%, N=183) of loans approved between February 2012 and September 2015 were made to individuals/businesses which were either NEETS or located in NRAs. It should be noted that these approvals equated to £720,009 of value, which is 18% of the total loans approved by September 2015 (£3,968,933).
- In total, five SEE businesses were approved for loans.

The Fund Manager's records indicate that the £3,968,933 of loans approved up to and including September 2015 had helped to leverage a further £733,832 of monies from elsewhere. Sources included bank finance (£511,000), DARD (£88,832), investment from friends and family (£55,000), Invest NI (£42,000) and Creative Skillset (£37,000).

Year 1 (14 months)			Year 2 (12 months)			Year 3 (6 months)			Total		
Start-up	Existing	Total	Start-up	Existing	Total	Start-up	Existing	Total	Start-up	Existing	Total
372,000	6,000	378,000	131,000	224,832	355,832	0	0	0	503,000	230,832	733,832

⁴¹ Data only available up to September 2015 (latest quarterly report) at the time of analysis.

The following table provides a breakdown of activity to November 2015 by Council area:

Table 2.7: NISBLF Activity by Council Area (at November 2015)

Council Area		Enquiries			Applications				Approvals				Disbursed (inc. Completed)		Ratios	
Council	Council Area's Share of NI businesses ⁴²	Start-up business	Existing business	Total	Total applications	Rejected	Withdrawn pre assessment	Applications assessed / in assessment	No.	% of No.	£	% of £	No.	£	Enq: Appl	Appl: Appr
Antrim and Newtownabbey	5.5%	85	31	116	17	9	1	7	7	3.5%	£119,000	2.8%	7	£119,000	6.8	2.4
Ards and North Down BC	6.5%	95	72	167	25	14	0	11	10	5.0%	£171,207	4.1%	10	£171,207	6.7	2.5
Armagh City, Banbridge and Craigavon	11.7%	151	124	275	55	25	3	27	26	13.1%	£679,000	16.2%	25	£670,500	5.0	2.1
Belfast	13.6%	251	155	406	75	34	3	38	36	18.1%	£812,509	19.3%	33	£747,009	5.4	2.1
Causeway Coast and Glens	8.3%	129	88	217	31	16	0	15	15	7.5%	£301,500	7.2%	12	£226,500	7.0	2.1
Derry and Strabane	6.8%	115	70	185	25	7	5	13	13	6.5%	£188,500	4.5%	13	£188,500	7.4	1.9
Fermanagh and Omagh	10.9%	94	72	166	35	17	4	14	13	6.5%	£274,000	6.5%	12	£264,000	4.7	2.7
Lisburn and Castlereagh BC	6.5%	113	89	202	38	15	6	17	16	8.0%	£278,050	6.6%	16	£278,050	5.3	2.4
Mid and East Antrim BC	6.8%	70	57	127	18	9	0	9	9	4.5%	£185,500	4.4%	9	£185,500	7.1	2.0
Mid-Ulster District	12.0%	108	91	199	45	20	0	25	25	12.6%	£477,417	11.4%	23	£431,417	4.4	1.8
Newry, Mourne and Down	11.4%	146	123	269	63	30	2	31	27	13.6%	£682,500	16.2%	24	£612,500	4.3	2.3
Not Known	-	62	48	110	6	4	0	2	2	1.0%	£35,000	0.8%	1	£20,000	-	-
Total	100%	1,419	1,020	2,439	433	200	24	209	199	100.0%	£4,204,183	100.0%	185	£3,914,183	5.6	2.2

Points to note include:

- Businesses based in the Belfast City Council area are particularly over-represented in terms of the number of loans approved (+4.5%) and the value of loans approved (+5.7%) compared with their actual share of the number of businesses within the NI marketplace. Businesses based with the Newry, Mourne and Down and Armagh City, Banbridge and Craigavon Councils area are also overrepresented on both measures;
- Businesses based in the Fermanagh and Omagh, Mid and East Antrim and Antrim and Newtownabbey Council areas are under-represented in terms of the number of loans approved and the value of loans approved compared with their representation in the NI marketplace;
- Businesses based in the Derry and Strabane Council area made considerably more enquiries (7.4) for every loan application made than the NI average (5.6), although businesses in this area have a strong conversion (1.9:1) of applications to loans approved;
- Businesses based in the Fermanagh and Omagh area have a relatively poor conversion rate (2.7:1) of applications to loans approved, with an enquiry to application ratio of 4.7:1, suggesting that earlier scrutiny could be implemented.

⁴² Source: Northern Ireland Statistics and Research Agency (NISRA) (2014) 'VAT and or PAYE Registered Businesses Operating in Northern Ireland (administrative geographies)'

The following tables provide a breakdown of the loans in arrears and the risk status assigned to these loans at the outset:

Year loan disbursed	No. of loans	Value of loans (capital)	Value of interest	Total to be repaid (at the outset)	Amount in arrears			Average months in arrears	Payments made			Total outstanding (including arrears)			Capital Balance Provisions	Interest Balance Provisions	Total Debtor Balance Provisions	Value in Default
					Capital	Interest	Total		Capital	Interest	Total	Capital	Interest	Total				
Year 1 (14 months)	19	£421,009	£135,557	£556,566	£90,736	£28,509	£119,245	12.24	£85,019	£26,833	£111,852	£335,990	£108,724	£444,714	£231,551	£24,815	£256,366	£122,627
Year 2 (12 months)	9	£158,000	£48,300	£206,300	£10,383	£3,099	£13,482	5.0	£29,059	£8,780	£37,838	£128,491	£39,520	£168,011	£56,092	£2,726	£58,818	£35,037
Year 3 (8 months)	3	£64,167	£17,558	£81,725	£2,639	£616	£3,255	2.0	£7,916	£1,846	£9,762	£56,251	£15,713	£71,964	£7,500	£329	£7,829	£0
Total	31	£643,176	£201,415	£844,591	£103,758	£32,224	£135,982	8.8	£121,994	£37,459	£159,453	£521,182	£163,957	£685,139	£295,143	£27,870	£323,013	£157,664

Perceived risk level (at application stage)	No. of loans in arrears	% of loan in arrears	No. of loans in default	% of loan in default
High	4	13%	1	14%
Medium	5	16%	2	29%
Low	22	71%	4	57%
Total	31	100%	7	100%

In relation to the above the following points should be noted:

- As at November 2015 there were 31 loans in arrears (within 31 unique businesses)⁴³, equating to £135,982 of payments in arrears. At November 2015, there had been £159,453 of payments on these loans and £685,139 of payments remained outstanding.
- The Fund Managers have created a provision of £323,031 for funds in arrears based on ongoing review (and their interpretation) of the likelihood of recoverability of each loan in arrears. This value is made up of £295,143 of capital provisions and £27,870 of interest provisions. At November 2015, the capital provisions equate to 7.5% of total capital funds disbursed.
- Seven of the loans have been provided for at 100%⁴⁴ and have been treated as in default. The actual debtor balances estimated to be written off as defaults as at November 2015 was £157,664.
- Over three fifths (71%, N=31) of those loans which are in arrears and over half (57%) of those loans which are categorised as being in default were classified as 'low risk' at the time of application.

⁴³ Based on 185 loans disbursed as at November 2015, this represented 17% of the total number of loans disbursed.

⁴⁴ A 100% provision is applied where the business is either in formal insolvency (Liquidation, Administration, Receivership, Administrative Receivership or Personal Bankruptcy), has ceased trading, is unable to be contacted after sustained effort, believes that failure is imminent and/or is unwilling or unable to make any further payments.

2.7 NISBLF Finances

This Section considers the projected and actual financial performance of the NISBLF.

2.7.1 Projected Finances (per Economic Appraisal)

Appendix IX outlines key aspects of the original NISBLF financial projections, as presented within the Economic Appraisal (EA). Key points to note, from the Evaluation Team’s perspective, include:

- The EA anticipated that Invest NI would introduce £5m of revolving loan fund capital;
- Over a 5-year period the loan fund would generate sufficient cash returns to facilitate a further £3,775,000 of loan fund advances (i.e. a total of £8,775,000 would be lent to businesses);
- A compound default rate of 23% would be experienced, with £6,762,000 of capital repayments received (against an outlay of £8,775,000) and a further £3,044,000 in interest payments i.e. over the 10-year projected life of the loan fund, it would generate £9,806,000 of capital and interest repayments;
- A further £130,000 would be generated through charging applicants ‘loan administration fees. Total monies receivable from (and the subsequent financial cost to) NI businesses over the 10 year period were therefore projected to be £9,936,000; whilst a further £71,000 would be generated through interest receivable (presumably as a result of a treasury function within which the loan fund would be held);
- £2,280,000 would be distributed as payment to the EDO;
- £3,963,000 would be returned to Invest NI at the end of the 10-year period, against its £5m capital injection.

The movement of monies over the 10-year period is summarised as follows:

Table 2.10: Summary of Projected Funds Received as Income from Lending Activities	
Capital repaid	£6.762m
Interest repaid	£3.044m
Admin fees	£0.130m
Interest earned	£0.082m
Total income	£10.018m

Table 2.11: Summary of Utilisation of Projected Funds Received as Income from Lending Activities	
For recycling	£3.775m
Management fees	£2.280m
Returned to Invest NI	£3.963m ⁴⁵
Total utilised	£10.018m

2.7.2 Actual and Projected Financial Costs and Incomes Associated with the NISBLF

Invest NI is the sole provider of funding for the NI Small Business Loan Fund LP (other than a small £25,000 commitment from UCIT under the terms of the LPA). Under the terms of the LPA, funds allocated to the NI Small Business Loan Fund LP (for the purpose of making investments) are drawn down quarterly in advance on receipt of a drawdown notice. It is stipulated in the LPA that drawdowns for any one calendar year cannot exceed £2m.

This section summarises the actual full financial costs and incomes relating to those loans disbursed up to, and including, July 2015⁴⁶, and also the projected position relating to those same loans under a number of possible default scenarios. Whilst detailed assumptions underpinning this section are

⁴⁵ The EA depicted this as £3.892m repaid to Invest NI, with a surplus of £71k. The surplus was effectively a working capital movement and would be repaid to Invest NI as well, leading to a total repayment of £3.963m.

⁴⁶ All costs are inclusive of VAT where relevant.

attached as Appendix X and full calculations are attached as Appendix XIX, at a high level the following points should be noted:

- Financial activity associated with the NISBLF consists of two stages of monetary flows, including:
 - Distribution of loan finance (which has been introduced by the public sector partner (Invest NI) to NI private sector businesses; and
 - Repayment of the loans (inclusive of capital and interest) by NI private sector businesses with the resulting income to the Fund distributed as fees and bonuses to the Fund Manager and capital repayments and returns to the public sector partner (following the investment period). The distributions between partners are made in line with the terms of the LPA.
- Between February 2013 and July 2015 (i.e. the 30-month period under review), £3,398,433 of finance (introduced by Invest NI) was distributed to NI private sector businesses through the NISBLF.
- Income to the Fund through loan repayments and interest is net of income from those businesses which default upon their NISBLF loans. At November 2015, the level of default was 7.5%. However, to account for potential future default positions relating to loans issued during the review period, but not yet fully repaid, three scenarios have been applied:
 - A 7.5% default rate based on the actual default rate as at November 2015⁴⁷;
 - A 23% rate, which is the maximum default rate allowable under the terms of the LPA. This rate is broadly in line with the default range of 22% to 25% considered within the Economic Appraisal; and
 - A 15% rate, which assumes a 'mid-point' default position between the first two rates.
- There are additional costs which are borne by Invest NI in delivering the NISBLF which include internal Invest NI staff time, legal fees and evaluation costs.

⁴⁷ The Evaluation Team has utilised the November 2015 rate as this represents the most recent available information.

The table below summarises the full actual financial costs and incomes arising from the NISBLF during the period under review, and also a projected position allowing for the 7.5%, 15% and 23% default rate scenarios (with detailed assumptions and calculations attached in Appendices X and XIX).

Income/ (Costs) Associated with Loan Activity		Actual to July 2015	7.5% Default (£)		15% Default (£)		23% Default (£)	
			Projected (Aug 2015 to Mar 2023) ⁴⁸	Total Actual and Projected	Projected (Aug 2015 to Mar 2023)	Total Actual and Projected	Projected (Aug 2015 to Mar 2023)	Total Actual and Projected
Cost of Loans Disbursed	Finance introduced to the Fund by Invest NI and Disbursed to NI Private Sector Businesses	(£3,398,433)	(£0)	(£3,398,433)	(£0)	(£3,398,433)	(£0)	(£3,398,433)
Income to Fund – Comprising Capital Repayments and Interest (Net of Defaults) Borne by Private Sector	Capital Repayments	£591,474	£2,552,076	£3,143,550	£2,297,194	£2,888,668	£2,025,319	£2,616,793
	Interest	£189,367	£796,146	£985,513	£716,240	£905,607	£631,006	£820,373
	Sub-Total	£780,841	£3,348,222	£4,129,063	£3,013,434	£3,794,275	£2,656,325	£3,437,166
Distribution of Fund Income to EDO	Fund Management Fees	(£399,764)	(£680,192)	(£1,079,956)	(£680,192)	(£1,079,956)	(£680,192)	(£1,079,956)
	Fund Management Bonus	(£0)	(£74,630)	(£74,630)	(£23,419)	(£23,419)	(£0)	(£0)
	Sub-Total	(£399,764)	(£754,822)	(£1,154,586)	(£703,611)	(£1,103,375)	(£680,192)	(£1,079,956)
Funds Available for Recycling and/ or Ultimately for Distribution to Invest NI		£381,077	£2,593,400	£2,974,477	£2,309,823	£2,690,900	£1,976,133	£2,357,210
Additional Invest NI Costs								
Invest NI Staff Costs		(£82,987)	(£126,852)	(£209,839)	(£126,852)	(£209,839)	(£126,852)	(£209,839)
Legal Costs		(£13,860)	(£0)	(£13,860)	(£0)	(£13,860)	(£0)	(£13,860)
Interim Evaluation		(£24,900)	(£0)	(£24,900)	(£0)	(£24,900)	(£0)	(£24,900)
Sub-total		(£121,747)	(£126,852)	(£248,599)	(£126,852)	(£248,599)	(£126,852)	(£248,599)
Financial Income/ (Cost) to Invest NI (i.e. Funds Available for Recycling/Retention, minus Invest NI investment and Invest NI costs)		(£3,139,103)	£2,466,548	(£672,555)	£2,182,972	(£956,131)	£1,849,281	(£1,289,822)

As can be seen from the table above, the projected net financial cost to Invest NI associated with the NISBLF loans issued to July 2015 is estimated to range from £0.67m to £1.29m depending on which default scenario is realised. It should be noted however that this analysis presents only the financial costs (and/or benefits) associated with the NISBLF. The assessment of net economic impacts (i.e. where GVA and employment impacts are compared to economic costs) is set out within Section 6.

The Economic Appraisal provides a projected analysis for the entire 10-year life of the loan fund and is not presented in a manner that allows us to compare only with those loans issued during its first 30 months of operation.

⁴⁸ It should be noted that only the Fund Management Bonus is projected to be payable in March 2023, with the remainder of all costs and incomes associated with the loan activity up to July 2015 having ceased by June 2020 (i.e. 60 month maximum repayment period).

2.8 NISBLF Equality

As part of each application to the NISBLF, the application form requires applicants to provide information relating to their:

- Age;
- Marital status;
- Current employment status;
- Whether they are in receipt of benefits;
- Whether they have children/dependents.

In addition, as part of each application to the NISBLF, the applicant is required to complete an ‘Equal Opportunities Monitoring Form’. This form captures information relating to the applicant’s:

- Nationality;
- Ethnic origin;
- Whether the applicant has a disability⁴⁹;
- Their community background⁵⁰.

Discussion with ENI indicates however, that whilst the completed ‘Equal Opportunities Monitoring Forms’ are held on file, no aggregated analysis of their content is undertaken.

Whilst it evidently would be beneficial for the captured equality data to be analysed appropriately, and thus provide specific assurance that there are no particular issues in relation to uptake, the Evaluation Team notes that the Fund is publicised widely and across all areas of NI, which perhaps limits the potential for some groups to be excluded from accessing it.

⁴⁹ Defined as a physical or mental impairment which has a substantial and long-term adverse effect on his/her ability to carry out normal day-to day activities.

⁵⁰ Regardless of whether they actually practice a particular religion, most people in Northern Ireland are perceived to be members of either the Protestant or Roman Catholic communities. This aspect of the form captures whether the applicant is a member of one of those two communities, or a member of neither community.

3. GLF - FUND IMPLEMENTATION, ACTIVITY & FINANCES

3.1 Introduction

Section 3 considers the governance and management arrangements employed for the GLF, as well as details of how the fund was promoted and resulting loan activity undertaken. The section also considers the finances for the Fund proposed at the outset and the actual costs incurred and income generated to date.

3.2 GLF Governance, Management and Reporting

The GLF has been established using a Limited Partnership structure between WhiteRock Capital Partners, NILGOSC and Invest NI. The Limited Partnership, NI Growth Loan Fund General Partner Limited, has a ten year term (subject to extension in accordance with the Limited Partnership Agreement (“LPA”)) with an effective date in May 2012.

The GLF is governed by an Advisory Board which meets on a quarterly basis to oversee the Fund and includes representation from the owners of WhiteRock (i.e. Braveheart Investment Group, NEL Fund Managers and Clarendon Fund Managers), Invest NI, NILGOSC and independent Board members. Key areas for discussion by the Advisory Board include:

- Engagement with Invest NI;
- Corporate governance and compliance;
- Staff recruitments;
- Operations and marketing;
- Loan enquiries and loan approvals;
- Performance against KPIs;
- Pipeline;
- Portfolio Management; and
- Agreement of the latest quarterly report and management accounts.

As Fund Manager for the GLF, WhiteRock is responsible for all operational aspects of the lending/ investment cycle including seeking out, securing, managing and realising all investments across the 10-year period.

Upon approval of a loan, the Fund Manager issues a facility letter and heads of terms to investee businesses which set out the terms and conditions upon which the loan is predicated. These include:

Value of the Loan	It is noted that a GLF loan may be drawn down by an investee business in one or more tranches following signing of a facility letter (subject to agreement with the Fund Manager). The loans are repayable in 60 equal monthly instalments.
Early Repayment	In the event that a business repays the loan earlier than 60 months, then the business is charged a prepayment penalty equivalent to the lesser of six months interest or the remaining interest outstanding on the loan.
Interest Rate Payable	<p>The interest rate charged is subject to a fixed rate over and above the prevailing UK reference rate which is amended annually by the European Commission. An interest rate floor is also applied to ensure that a minimum level of interest will be generated by the Fund across the repayment period.</p> <p>The total interest charged by the Fund Manager is calculated based on the assessed risk level of the investee company. The GLF Fund Manager seeks to achieve an internal rate of return (IRR) across the entire portfolio which has been predetermined based on the previous experience of the owners (i.e. Clarendon Fund Managers, NEL Finance and Braveheart Investment Group).</p>

Profit Share	In addition to interest upon the loan, the investors are also entitled to a share of the investee’s EBITDA as set out in the annual statutory accounts for the five-year repayment period. In line with State Aid Guidance ⁵¹ the profit share component is typically equal to or higher than the interest payable on the capita in order to ensure that the return for the investors is predominantly based on the profits or losses of the investee entity.
Defaults	Default rates payable at 3% over the interest charged on the loan.
Fees	Arrangement fees payable at circa 1.5% and financial due diligence fees of 1.0% of the capital value (excluding VAT) and any other fees (e.g. legal or professional fees) payable.
Share Options	Investee businesses grant an option for GLF to subscribe, at par, to a number of Ordinary Shares; par value being equivalent to the outstanding value of any loan and/or profit share at the end of the 60 month repayment term.
State Aid	<p>There are limitations and restrictions imposed in order to comply with State Aid guidance including that the business cannot operate in restricted sectors or utilise the loan to fund export-related activities.</p> <p>The GLF pro-forma ‘Facility Letter’ indicates that export-related activities are those “<i>excluded from the general scope of the GBER including the establishment of a distribution network and current expenditure linked to export</i>”. BIS’ ‘The State Aid Guide, Guidance for State Aid Practitioners, BIS, June 2011’ defines export-related activities as follows: “<i>Export-related activities towards third countries or Member States (namely aid directly linked to the quantities exported, to the establishment and operation of a distribution network or to other current expenditure linked to the export activity)</i>. Note: it does apply to the costs of participating in trade fairs or studies or consultancy services needed for the launch of a new or existing product on a new market”. Discussion with Invest NI indicates that the Commission is supportive of intra EU trade on a fair and competitive basis. We understand that Invest NI typically applies the guidance as follows:</p> <ul style="list-style-type: none"> - Aid directly related to the quantities exported: Invest NI cannot offer or pay assistance as a function of per unit or volume sold in export markets, or level of services provided there e.g. Invest NI does not tie payment of grant to levels of export sales achieved. - The establishment and operation of a distribution network or to other current expenditure linked to the export activity - for example, Invest NI would not support a request to establish (lease, office equipment etc.) and staff of a German office for an NI exporter. - Participating in trade fairs or studies or consultancy services needed for the launch of a new or existing product on a new market: The Commission allows support to go so far but no further. In the case of the German example, Invest NI might support the export market visits, in market research, Consultancy advice, trade show attendance, even specialist legal / technical advice for a specific sector that led to the exporter setting up their German office, but not any activity following that.

Investee businesses are required to provide the following information to the Fund Manager to enable oversight and portfolio management:

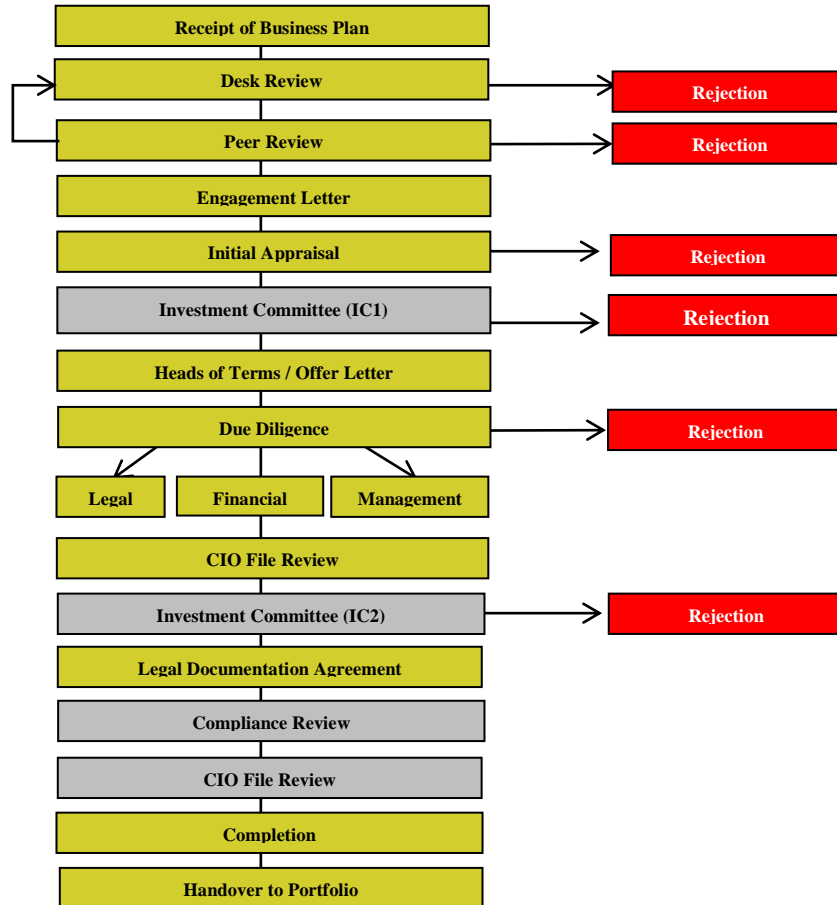
- At least two months before the commencement of a new financial year, the business is required to prepare and deliver a budget for the next financial year which has been approved by the Board of Directors. The budget must include monthly projections for profit and loss accounts, cash flow statements and balance sheets and a comparison to the investee’s actual performance for the current financial year, as well as a capital expenditure budget and KPIs.
- Minutes of each meeting of the investee’s Board or committee of Directors.
- Monthly accounts and reports including profit and loss and cashflow for that period as compared with the financial performance for the previous year;
- Annual report giving the number of employees for that year; and
- Annual statutory accounts.

⁵¹ European Commission (2014) ‘Communication from the Commission: Guidelines on State Aid to Promote Risk Finance Investments’

3.3 GLF Investment Process

The GLF process encompasses a number of stages as shown below with further details provided on each stage in Appendix XI.

Figure 3.1: GLF Investment Process



We have reviewed the Fund Manager’s operating manuals for the GLF and recognise that a series of steps are taken to manage risks at each stage of the application and assessment process. These include a desk review of the business plan (and/or any other information submitted by the business) in order to fully understand the business in terms of its management, market, product/ service, intellectual property and finances, followed by a peer review by the Investment Team. Applications are reviewed on two separate occasions by the GLF Investment Committee in order to classify the level of risk associated with the business and to determine areas where further due diligence is required in order to mitigate against the risks where possible.

3.4 GLF Independent Review of Governance

During April 2015, DETI commissioned an independent consultancy practice to undertake an inspection visit of the GLF External Delivery Organisation (‘EDO’). The purpose of the review was to:

- Provide assurance that the funds issued to the EDO have been used in accordance with the purpose intended;
- Review and inspect procedures and arrangements in relation to the following eight key areas:
 - Financial Controls;
 - Management of public assets and dispersal of public money;
 - Financial Reporting & MIS;
 - IT systems;
 - Related Parties;
 - Corporate Governance; and
 - Compliance with funding agreement & proper use of funds;
 - Information Security.

In relation to each area, the report provided a risk grading / prioritisation of issues (see Appendix VII for details of the grading system). The report’s ‘overall internal audit opinion’ in respect of the control environment at WhiteRock Capital Partners was as follows: *“On the basis of our inspection and review, we have identified a number of issues relating to the internal control environment at WhiteRock Capital Partners. As a result of control issues identified, we consider WhiteRock Capital Partners to have established ‘Satisfactory’ risk management, control and governance arrangements”.*

The 3 issues identified by the Internal Audit Team are summarised below:

Table 3.1: Governance Issues Identified by the Audit Team		
Area	Priority Level	Issue Narrative Per Inspection Report
Corporate Governance	2	Managing the risk of Fraud - The Review noted that whilst the EDO had in place an Anti-Bribery and Corruption Policy (which considers compliance with the UK Bribery Act) no formal guidance was in place in respect of the ongoing management of the risk of fraud, including processes in place to investigate and report suspected frauds.
Corporate Governance	3	Code of Conduct for Board Members - The Review noted that the organisation did not have a comprehensive code of conduct in place, in line with the requirements of the Combined Code on Corporate Governance (July 2003). Furthermore, whilst it was acknowledged that conflicts of interest were a standard agenda item at each Board meeting, formal declarations of interest were not completed on an annual basis.
Information Security	2	Information Management - The Review noted that there were no formal arrangements in place in respect of the handling or misuse of personal and sensitive information.

The Evaluation Team’s discussions with WhiteRock indicate that each issue identified within the Inspection Report has subsequently been addressed and is no longer an issue, respectively as follows:

- A Fraud Policy and Response Plan was developed and implemented to address the provisions of the Fraud Act 2006.
- A code of conduct for Board members incorporating the ‘Seven Principles of Public Life’ was introduced. The document provides guidance to members in relation to conflicts of interest and includes a requirement for formal declarations of interest to be made on an annual basis and as and when they arise.
- Formal arrangements for the investigation and reporting of incidents resulting in fraud or misuse of information were introduced.

3.5 GLF Marketing and Promotion

Our review of materials provided and discussion with the EDO indicate that WhiteRock has actively promoted the GLF since its launch. Key activities undertaken have included (NB further details are provided in Appendix XII):

- The fund website is regularly updated to provide improved navigation, news feed and social media links;
- The Fund Managers engage with Invest NI staff (including Client Executives and representatives from the Corporate Finance and Growth and Scaling Divisions) on a regular basis (i.e. at least once per quarter) in order to raise awareness of the Fund and the potential opportunities for clients to access the funding;
- WhiteRock attend (and on a number of occasions have been successful in winning awards at) annual award ceremonies including the Insider Media Dealmaker Awards and the NI Chamber of Commerce Awards.
- The Fund Manager regularly (i.e. at least on a quarterly basis) utilise press and radio coverage through channels/ publications such as Insider Media, BBC News, Belfast Telegraph, Newsletter, Irish News, BBC Radio, Londonderry Sentinel, UTV Business interview, Ulster Business, Business First, Chamber of Commerce etc. These typically include case studies of specific deals approved and underway to raise awareness of the potential benefits of the GLF for businesses.
- On a regular basis the Fund Manager meets with potential referral organisations such as banks, accountancy practices, solicitor practices and other funding bodies to identify potential clients. The Fund Manager also meets regularly with a wide range of other stakeholders to promote the Fund and discuss issues in relation to Access to Finance in NI. These include:
 - Government Ministers (Minister of Finance, Minister of Enterprise, Trade and Investment);
 - British Business Bank;
 - InterTradeIreland;
 - Chartered Accountants Ireland; and
 - Confederation of British Industry.
- Newsletters are issued to 300 businesses and 100 Members of the Legislative Assembly across NI constituencies on at least a quarterly basis informing them of current GLF activities and performance; and
- Deal sheets are prepared on each quarter which provide details of 15 new deals for discussion at networking meetings.

3.6 GLF Enquiries, Loans Approved and Loans Disbursed

The following table provides an overview of GLF activity from inception through to November 2015. Key points arising from this analysis include:

Enquiries	<ul style="list-style-type: none"> • Between May 2012 and November 2015 (a 43-month period), the GLF received a total of 480 enquiries. However, the distribution of enquiries is not uniform: <ul style="list-style-type: none"> - Over two fifths (197 enquiries, 41%, N=480) of enquiries were received during Year 1 (assumed to be the 11-month period from May 2012 to March 2013). This equates to an average of c18 enquiries per month; - During the 12-month period of Year 2 (April 2013 to March 2014), 122 enquiries were received i.e. an average of 10 per month; - This reduced to 92 enquiries during Year 3 (April 2014 to March 2015) i.e. an average of 8 enquiries per month; and - 69 enquiries during the 8 months of Year 4 (April 2015 to November 2015) i.e. an average of c9 enquiries per month. • Therefore, as the GLF has been rolled out over the 43-month period to November 2015, the average number of enquiries has been subject to a substantial decline of c50% when Year 4 is compared with Year 1. <p>The Evaluation Team discussed this trend with WhiteRock, who was of the opinion that Year 1 should not be considered representative of typical demand for the Fund. It was suggested that in the period before the Loan Fund’s launch, there had been a series of miscommunications within the NI marketplace, leading to confusion amongst many businesses and stakeholders as to the</p>
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	<p>purpose of the loan fund, who would be eligible etc. In the EDO's opinion, this led, during Year 1, to a large quantity of both enquiries and applications to the Fund that were not considered to be either eligible or of a sufficient quality to progress. The EDO's feedback is perhaps supported (albeit other factors may be at play) by the fact that for every 6.6 enquiries received during Year 1, only 1 loan was approved; whereas by Year 3 this had decreased to 2.2 enquiries for every loan approved.</p> <p>Other points to note include:</p> <ul style="list-style-type: none"> • One quarter (25%, N=480) of all enquiries submitted to the GLF were withdrawn following submission. Withdrawn enquiries equated to a total value of £25.9m across the 43-month period or an average value of £213,694 for each enquiry. • Almost one third (29%, N=480) of all enquiries across the 43-month period were rejected. Key reasons for rejection of enquiries were that the business was early stage or a start-up, the loan was not affordable for the business and/ or that the sectoral focus of the business/project was ineligible for the GLF. • Of 132 enquiries that proceeded to Investment Committee assessment, only one was rejected, with the remaining 131 being approved for GLF loans.
<p>Approvals</p>	<ul style="list-style-type: none"> • During the 43-month period to November 2015, 131 GLF loans were approved, equating to a total value of £44.1m (or an average value of £336,489 per loan). • The 131 approvals were made to 116 unique businesses. • The loans approved ranged in value from £50,000 to £1,250,000. In line with the conditions of the LPA, the Fund Manager has confirmed that any investments that were in excess of £500,000 of value were discussed in consultation with the Board of Advisors. • The average value of loans approved through the GLF has broadly increased across the period to November 2015, from an average of £230,833 during Year 1 to £485,294 during Year 4. The Fund Manager has advised through consultation that the increase in average deal size has been a function of the demand from the marketplace. It was the view of the Fund Manager that borrower confidence has been increasing across the period under review which has resulted in more established businesses with higher growth trajectories applying to the GLF (and other funders) for larger sums of money than was the case at the commencement of the Fund. This has also resulted in more syndicated deals being achieved as the Fund has progressed. <p>It was also the view of the Fund Manager that in many cases the larger loans offer a lower credit risk to the overall Fund as the businesses in receipt of the larger loans are often more established with stronger management teams than the businesses which apply for smaller value loans.</p>

Table 3.2: Overview of GLF Activity

	Enquiries					Loans Approved						Disbursals		Ratio Enqu: Approval		
	Total No. Received	Enquiries Withdrawn		Enquiries Rejected		IC1 Approvals		Withdrawals		Net Approvals (i.e. Not Lost)		Approved but Not Disbursed				
		No.	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.		Value	
May - June 2012	44	16	£3,247,000	16	£2,420,000	0	£0	0	£0	0	£0	0	£0	0	£0	
July - Sept 2012	71	30	£7,180,000	21	£3,130,000	7	£1,825,000	3	£450,000	4	£1,375,000	0	£0	1	£425,000	
Oct - Dec 2012	36	16	£2,080,000	11	£2,015,000	10	£2,250,000	3	£750,000	7	£1,500,000	0	£0	4	£750,000	
Jan - Mar 2013	46	16	£2,570,000	13	£1,620,000	13	£2,850,000	5	£1,025,000	8	£1,825,000	0	£0	6	£1,700,000	
Year 1 (11 months)	197	78	£15,077,000	61	£9,185,000	30	£6,925,000	11	£2,225,000	19	£4,700,000	0	£0	11	£2,875,000	6.6
Apr-Jun 2013	20	6	£2,200,000	6	£1,300,000	11	£3,175,000	3	£700,000	8	£2,475,000	0	£0	5	£1,225,000	
Jul-Sept 2013	39	1	£30,000	12	£1,325,000	10	£2,925,000	1	£100,000	9	£2,825,000	2	£1,000,000	10	£3,300,000	
Oct-Dec 2013	34	11	£2,250,000	7	£1,285,000	13	£4,670,000	3	£1,500,000	10	£3,170,000	0	£0	8	£1,695,000	
Jan-Mar 2014	29	4	£200,000	12	£1,640,000	9	£4,300,000	3	£1,600,000	6	£2,700,000	2	£700,000	10	£4,275,000	
Year 2 (12 months)	122	22	£4,680,000	37	£5,550,000	43	£15,070,000	10	£3,900,000	33	£11,170,000	4	£1,700,000	33	£10,495,000	2.8
Apr-Jun 2014	22	4	£990,000	4	£485,000	13	£3,520,000	4	£1,020,000	9	£2,500,000	1	£200,000	6	£1,225,000	
Jul-Sept 2014	18	1	£100,000	5	£955,000	8	£3,400,000	1	£250,000	7	£3,150,000	0	£0	3	£225,000	
Oct-Dec 2014	20	4	£1,950,000	6	£1,080,000	12	£4,665,000	3	£750,000	9	£3,915,000	4	£2,575,000	8	£4,340,000	
Jan-Mar 2015	32	4	£850,000	8	£880,000	8	£2,250,000	0	£0	8	£2,250,000	4	£1,225,000	8	£2,100,000	
Year 3 (12 months)	92	13	£3,890,000	23	£3,400,000	41	£13,835,000	8	£2,020,000	33	£11,815,000	9	£4,000,000	25	£7,890,000	2.2
Apr-Jun 2015	24	6	£1,900,000	10	£2,425,000	6	£1,750,000	1	£400,000	5	£1,350,000	5	£1,350,000	2	£600,000	
July 2015	8	2	£310,000	1	£250,000	2	£1,500,000	0	£0	2	£1,500,000	3	£1,625,000	0	£0	
Sub-Total (39 months May 12 - July 15)	443	121	£25,857,000	132	£20,810,000	122	£39,080,000	30	£8,545,000	92	£30,535,000	21	£8,675,000	71	£21,860,000	3.7
Jul-Sept 2015	16	2	£310,000	4	£1,200,000	7	£3,600,000	1	£200,000	6	£3,900,000	4	£3,000,000	2	£325,000	
Oct-Nov 2015	29	0	£0	6	£1,045,000	4	£2,900,000	0	£0	4	£2,400,000	2	£1,900,000	3	£1,200,000	
Year 4 (8 months)	69	8	£2,210,000	20	£4,670,000	17	£8,250,000	2	£600,000	15	£7,650,000	11	£6,250,000	7	£2,125,000	4.1
Grand Total (43 months May 12 - Nov 15)	480⁵²	121	£25,857,000	141	£22,805,000	131	£44,080,000	31	£8,745,000	100	£35,335,000	24	£11,950,000	76	£23,385,000	3.7

The table below summarises the loan approvals at Investment Committee 1 (IC1) stage up to November 2015:

Table 3.3: Summary of IC1 Approvals							
	No.	Value	Mean (incl. outliers)	Mean (excl. outliers)	Median (incl. outliers)	Median (excl. outliers)	Range
Year 1 (11 months)	30	£6,925,000	£230,833	£230,833	£200,000	£200,000	£50,000 - £500,000
Year 2 (12 months)	43	£15,070,000	£350,465	£306,585	£300,000	£250,000	£20,000 ⁵³ - £1,250,000
Year 3 (12 months)	41	£13,835,000	£337,439	£285,132	£290,000	£250,000	£70,000 - £1,000,000
Year 4 (8 months)	17	£8,250,000	£485,294	£485,294	£450,000	£450,000	£100,000 - £1,000,000
Total	131	£44,080,000	£336,489	£322,326	£250,000	£250,000	£20,000 - £1,250,000

⁵²It should be noted that a breakdown of the 87 enquiries which are in the Investment Pipeline (top 20 pipeline cases and 67 other pipeline cases) was not made available to the Evaluation Team.

⁵³Please note that this was a follow-on investment.

Further key points arising from the previous analysis include:

Withdrawals and Approved but Not Disbursed	<ul style="list-style-type: none"> The monitoring materials collated by WhiteRock indicate that almost half (48%, N=31) of the 31 loans withdrawn (up to November 2015) were withdrawn as a result of the business securing funding elsewhere (e.g. banks, shareholder funding etc.). Other reasons noted by WhiteRock included that the business could not meet the terms in the offer (16%, N=31) and that the investee felt that the loan was too expensive (10%, N=31). The Fund Manager has also advised that in some cases applicant businesses withdrew their applications due to the duration of the repayment terms offered (i.e. 5-years). At the time of the most recent reporting (November 2015), there were 24 loans which had been approved but not yet disbursed, equating to a total investment value of £12.0m (27% of the total value of loans approved and 34% of the net approvals i.e. those which have not been withdrawn). This includes four deals which were approved in Year 2, nine deals which were approved in Year 3 and 11 deals which were approved in Year 4 (see Section 3.6.3 for more detail). Almost half (46%, N=24) of these loans are currently in the financial due diligence stage of the process.
Disbursals	<ul style="list-style-type: none"> 76 loans were disbursed during the 43-month period to November which is equal to 58% (N=131) of the total loans approved at IC1. The total funds disbursed were £23.4m equating to an average loan disbursed of £307,697 across the 43-month period. The 76 loans were disbursed to 68 unique businesses.

3.6.1 Sectoral Profile of GLF Loans Approved

The GLF’s Investment Policy (included as part of the original LPA), stipulates that a “*substantial proportion*” of GLF portfolio businesses should operate in the manufacturing (including development and design for manufacture), engineering or tradable services sectors. As can be seen from the analysis below, almost half (45%, N=129) of all loans approved by September 2015⁵⁴ were in manufacturing sectors, with one quarter (25%, N=129) relating to the manufacturing of consumer products and a further fifth (20%, N=129) relating to the manufacturing of industrial products.

Sector	N=	%
Manufacturing - Consumer products	33	25%
Manufacturing - Industrial products	26	20%
Software/ Hardware Telecommunications	23	18%
Industrial Services	17	13%
Art/ Leisure/ Tourism	14	11%
Distribution	11	9%
Consumer Services	5	4%
Total Loans Approved	129	100%

A further 18% (N=129) of loans approved were to telecoms businesses and 13% (N=129) to industrial services. Therefore, the main sectors supported through the loans approved to date align with the Investment Policy.

⁵⁴ Please note that this was the most recent data made available to the Evaluation Team.

3.6.2 Geographical Profile of GLF Loans Approved

Almost two fifths (38%, N=129) of all GLF loans approved up to September 2015⁵⁵ were to businesses located in Belfast. A further quarter (23%, N=129) of businesses receiving loan approvals were located elsewhere in County Antrim. Just 2% of loans approved (129) were based in County Fermanagh⁵⁶.

Location	N=	Percentage (%)
Belfast	49	38%
Antrim	30	23%
Down	19	15%
Armagh	14	11%
Derry	9	7%
Tyrone	5	4%
Fermanagh	3	2%
Total Loans Approved	129	100

3.6.3 Time to Drawdown Loans

The table below illustrates that the average time taken following approval for a GLF loan to be drawn down has been 99.4 days (c.3.3 months) across the 43-month period to November 2015. However, there is some indication that as time has progressed, more time is being taken before the GLF loans are being drawn down. That is, on average loans were disbursed within 94.7 days during Year 1, but this has increased to 110.6 days during Year 3⁵⁷.

Year in which Loan was Approved	Average Days
Year 1 (11 months – May 12 – Mar 13)	94.7
Year 2 (12 months – Apr 13 – Mar 14)	100.9
Year 3 (12 months – Apr 14 – Mar 15)	110.6
Year 4 (8 months April to November 2015)	44.5
Total (43 months)	99.4 Days

Discussions with the Fund Manager have indicated that the delays between IC1 and approval and draw-down relate to a number of factors including:

- Delays in clients providing information needed for due diligence visits, legal reviews by client solicitors and delays in obtaining Keyman Insurance.
- The time required by other funders to complete their due diligence and processes in a syndicated loan. The Fund Manager indicates that as the funding period has continued there have been more opportunities for syndicated loans with other funders (and particularly banks) which have resulted in some delays whereby the other funders require additional analysis and/ or processes to be implemented prior to approving their funding which delays the drawdown of the loan approved through GLF. Specifically, the Fund Manager notes that banks are reporting 3-6 month delays from loan approval to drawdown and that bank consent to loan takes time and requires bank credit committee approval.
- Delays in the business signing and returning the loan offer and commencing draw-down. The Fund Manager suggests that in some cases the business delays in drawing-down the loan until their project is fully ready to invest in the anticipated project as repayments commence immediately upon drawdown.

⁵⁵ Please note that this was the most recent data made available to the Evaluation Team.

⁵⁶ NB The EDO monitors loan activity by County and Belfast, rather than by individual Council area as per NISBLF.

⁵⁷ It should be noted that four of the loans approved between July and September 2015 were drawn down prior to November 2015 which represented an average of 44.5 days. However given that 13 of the 17 loans approved between April and November 2015 had not been drawn down by November, it is not yet possible to definitively conclude on the average number of days taken for this cohort.

3.6.4 Provisions and GLF Loans Written Off

At September 2015⁵⁸, there were formal provisions placed against the loans made to one quarter (25%, N=68) of the unique GLF recipients. These provisions equated to £788,000 in value which was 3% of the total funds disbursed. In addition, five loans had been written-off the GLF loan book equating to £986,000 (4% of the total funds disbursed).

The Fund Manager calculates the default value as the sum of the total provisions plus the total loans written off. As such, the default rate as at September 2015 was 8%⁵⁹. The Fund Manager has indicated through discussions that they expect the default rate to increase throughout the lifetime of the loans and that the current level of 8% is primarily due to timing effects.

Table 3.7: Summary of Provisions and GLF Loans Written Off (as at September 2015)

Year Loan Approved	No. of Disbursals	Value of Disbursals (£)	Provisions				Defaults						
			No. of Loans Provided for	Value of Total Loans	Formal Provision	Provisions as % of Total Loan Value	No. of Loans Written Off	Value of Total Loans	Capital Repaid	Write-off Amount	Defaults as % of Total Loan Value	Defaults and Provisions	Defaults and Provisions as % of Total Loan Value ⁶⁰
Year 1	11	£2,875,000	6	£1,650,000	£298,000	10%	4	£620,000	£109,000	£511,000	18%	£809,000	28%
Year 2	33	£10,495,000	7	£1,575,000	£397,000	4%	1	£750,000	£275,000	£475,000	5%	£872,000	8%
Year 3	25	£7,890,000	4	£1,450,000	£93,000	1%	0	£0	£0	£0	0%	£93,000	1%
Year 4	7	£2,125,000	0	£0	£0	0%	0	£0	£0	£0	0%	£0	0%
Total	76	£23,385,000	17⁶¹	£4,675,000	£788,000	3%	5	£1,370,000	£384,000	£986,000⁶²	4%	£1,774,000	8%

⁵⁸ Representing the most recent quarterly portfolio review undertaken prior to the Evaluation analysis.

⁵⁹ We note that this compares with the 22%-25% default rate projected within the GLF Economic Appraisal.

⁶⁰ Figures do not sum due to rounding.

⁶¹ Discussion with the Fund Manager indicates that the number of businesses/ loans which are deemed to be in provisions is fluid and can move from quarter to quarter.

⁶² The Evaluation team understands that this relates to five businesses including three businesses in liquidation, one business in administration and with the fifth business the Fund Managers have been unable to contact the owners.

3.7 GLF Finances

This Section considers the projected and actual financial performance of the GLF.

3.7.1 Finances Projected in the Economic Appraisal

Appendix XIII outlines key aspects of the original GLF financial projections, as presented within the Economic Appraisal (EA). Key points to note, from the Evaluation Team’s perspective, include:

- The EA anticipated that Invest NI would introduce £25m of loan fund capital, which would be matched by a further £25m from the private sector;
- Capital funding was assumed to be drawn-down evenly across the 5-year investment period;
- The EA assumed that income would be derived from interest charged and arrangement fees. The assumed interest rate was 9%;
- A default rate of 12.5% was assumed, but some repayment (an average of two years) would be made on loans that eventually defaulted prior to default;
- The interest rate charged on private sector funds was assumed to be 7%;
- It was assumed that fund management fees would be borne out of the cashflow of the fund and would not be funded separately. £8,750,000 would be distributed as payment to the EDO;
- £20,909,000 would be returned to Invest NI at the end of the 10-year period.

3.7.2 Financial Costs and Incomes Associated with the GLF

This section summarises the full financial costs and incomes relating to those loans disbursed up to and including July 2015⁶³. Whilst detailed assumptions and calculations underpinning this analysis are attached as Appendices XIV and XIX, at a high level the following points should be noted:

- Financial activity associated with the GLF consists of two stages of monetary flows, including:
 - Distribution of loan finance (which has been introduced by the public sector partner (Invest NI) and the private sector partner (NILGOSC)) to NI private sector businesses; and
 - Repayment of the loans (inclusive of capital, interest, profit share and fees) by NI private sector businesses with the resulting income to the Fund distributed⁶⁴ as:
 - Fees and bonuses to the Fund Manager;
 - Capital repayments and preferred returns to the private sector partner; and
 - Capital repayments and returns to the public sector partner.
- Between May 2012 and July 2015 (i.e. the 39-month period under review), £21,860,000 of finance was distributed to NI private sector businesses through the GLF. This finance was introduced by Invest NI and the private sector partner on a 50:50 basis.
- Income to the Fund through loan repayments is net of repayments from those businesses which default upon their loans. At September 2015, the level of default was 8%. However, to account for potential future default positions relating to loans issued during the review period, but not yet fully repaid, three scenarios have been applied:
 - An 8% default rate based on the actual default rate as at September 2015⁶⁵;
 - A 12.5% rate, which is the maximum default rate allowable under the terms of the LPA. This rate is in line with the default rate considered within the Economic Appraisal; and
 - A 20% rate which has been considered at the request of Invest NI. Whilst this is 7.5 percentage points greater than the maximum default rate allowable under the terms of the LPA, it is in line with the sensitised default rate as per the original Economic Appraisal for the GLF and broadly in line with the default rate reported by NEL Fund Managers for the North East Growth Fund (as per Section 9).
- There are additional costs which are borne by Invest NI in delivering the GLF which include internal Invest NI staff time and evaluation costs.

⁶³ All costs are inclusive of VAT where relevant.

⁶⁴ In line with the terms of the LPA.

⁶⁵ The Evaluation Team has utilised the September 2015 rate as this represents the most recent portfolio review prior to the evaluation analysis being undertaken.

The table below summarises the financial position as at July 2015⁶⁶:

Table 3.8: Income/ (Costs) Associated with the GLF as at July 2015					
			8% Default (£)	12.5% Default (£)	20% Default (£)
Cost of Loans Disbursed	Finance introduced by Invest NI		(£10,930,000)	(£10,930,000)	(£10,930,000)
	Finance introduced by Private Sector Partners		(£10,930,000)	(£10,930,000)	(£10,930,000)
	Sub-Total		(£21,860,000)	(£21,860,000)	(£21,860,000)
Income to Fund (Net of Defaults) Borne by Private Sector	Capital		£7,458,098	£7,093,299	£6,485,303
	Interest		£2,797,864	£2,661,012	£2,432,926
	% of EBITDA		£1,570,508	£1,493,690	£1,365,659
	Fees		£297,650	£297,650	£297,650
	Sub-Total		£12,124,120	£11,545,651	£10,581,538
Distribution of Fund Income to EDO, Private Sector Partner and Invest NI			(£12,124,120)	(£11,545,651)	(£10,581,538)
Additional Invest NI Costs					
Invest NI Staff Costs			(£116,437)	(£116,437)	(£116,437)
Interim Evaluation			(£24,900)	(£24,900)	(£24,900)
Sub-total			(£141,337)	(£141,337)	(£141,337)

It should be noted that the financial position as at July 2015 has been estimated using Invest NI’s interest repayment model based on mechanisms used within the EDO’s model. The model assumes that the level of defaults (i.e. 8%, 12.5% or 20%) is realised immediately upon loan disbursement. Therefore the ‘actual’ position as at July 2015 varies across the scenarios.

Whilst this evidently does not reflect a fully accurate depiction, discussion and agreement with Invest NI indicates that the resultant financial position (assumed actual position plus projected outturn) under each of the default scenarios should be considered to represent ‘best estimate projections only’ and, ultimately, the likelihood of a divergence in projected outcomes should be understood. That is, at any point in time, any projected position relating to the GLF could be influenced by a large number of complex factors (and not only the level and timing of defaults), which interact with one another in different manners and so create a myriad of potential outturns that affect the quantum, and timing, of cash flow movements. Such factors include the following:

- **Default rates** – Variation in default rates impacts upon the returns to the Fund and distributions to each of the partners (as illustrated from the scenarios within this section);
- **Timings between drawdown of capital investment and distribution of loans** – Drawdowns of funding from the public and private sector partners are undertaken on a quarterly basis by the Fund Manager based on loans approved which are anticipated to be disbursed. However, where there are delays between loan approval and loan disbursement, additional interest is earned by the private sector, which correspondingly results in a decrease in Invest NI’s return and the bonus payable to the Fund Manager.
- **Timing of receipt of profit share** – Delays in receipt of profit share from investee businesses results in delays in distributing preferred returns to the private sector partner. This ultimately generates more interest for the private partner to increase its return on its investment, and decrease the return to Invest NI (and the corresponding bonus paid to the Fund Manager).
- **Liquidity of profit share** – The facility letter for GLF loans stipulates that the borrower grants the lender an option to subscribe at par (i.e. on a £1 = £1 basis) for a number of ordinary shares in the business. In the event that a proportion of profit share repayments are converted to share capital, this will impact upon the liquidity of the returns, and the timings of when these shares may result in cash distributions to Invest NI.

In relation to such factors and permutations, Appendix XIX presents a number of scenarios for illustration purposes which demonstrate the variation in returns to each partner resulting from some potential changes in these factors.

⁶⁶ A detailed breakdown of the actual financial costs and incomes is included in Appendix XIV.

In the context of such potential variation, the subsequent composite cash flow model that was developed is considered by Invest NI to be based upon a set of robust assumptions that reflect the most accurate and complete set of information available at the time of writing.

The table overleaf summarises the full financial costs and incomes (including both the actual and anticipated outturns) arising from the GLF during the period under review for the three default rate scenarios.

Table 3.9: Income/ (Costs) Associated with the GLF

Income/ (Costs) Associated with Loan Activity			Total Actual and Projected (May 2012 – March 2022)		
			8% Default (£)	12.5% Default (£)	20% Default (£)
Cost of Loans Disbursed	Finance introduced by Invest NI		(£10,930,000)	(£10,930,000)	(£10,930,000)
	Finance introduced by Private Sector Partners		(£10,930,000)	(£10,930,000)	(£10,930,000)
	Sub-Total		(£21,860,000)	(£21,860,000)	(£21,860,000)
Income to Fund (Net of Defaults) Borne by Private Sector	Capital		£20,111,200	£19,127,500	£17,488,001
	Interest		£4,890,044	£4,650,857	£4,252,213
	% of EBITDA		£4,890,044	£4,650,857	£4,252,212
	Fees		£297,650	£297,650	£297,650
Sub-Total		£30,188,938	£28,726,864	£26,290,076	
Distribution of Fund Income to EDO and Private Sector Partner	Fund Management	Fees	(£3,505,138)	(£3,505,138)	(£3,505,138)
		First Bonus Share	(£1,090,880)	(£818,568)	(£361,217)
		Second Bonus Share	(£352,226)	(£127,569)	(£0)
		Sub-Total	(£4,948,244)	(£4,451,275)	(£3,866,355)
	Private Sector Partner	Capital Repayments	(£10,930,000)	(£10,930,000)	(£10,930,000)
	Preferred Returns	(£1,720,198)	(£1,814,196)	(£1,990,840)	
	Sub-Total	(£12,650,198)	(£12,744,196)	(£12,920,840)	
Distribution of Fund Income to Invest NI	Capital Repayments		(£10,930,000)	(£10,930,000)	(£9,502,880)
	Returns		(£1,660,496)	(£601,395)	(£0)
	Sub-Total		(£12,590,496)	(£11,531,395)	(£9,502,880)
Additional Invest NI Costs					
Invest NI Staff Costs			(£226,785)	(£226,785)	(£226,785)
Interim Evaluation			(£24,900)	(£24,900)	(£24,900)
Sub-total			(£251,685)	(£251,685)	(£251,685)
Financial Income/ (Cost) to Private Sector Partner (i.e. Capital repayments & preferred returns, minus Private Sector Partners' investment)			£1,720,198	£1,814,196	£1,990,840
Financial Income/(Cost) to Invest NI (i.e. Capital repayments & returns, minus Invest NI investment and Invest NI costs)			£1,408,811	£349,710	(£1,678,805)

The table below summarises how the net return⁶⁷ to the GLF would be distributed under each scenario (excluding additional Invest NI costs):

Table 3.10: Summary of Distribution of Net Returns Associated with the GLF				
		8% Default (£)	12.5% Default (£)	20% Default (£)
Finance Introduced		£21,860,000	£21,860,000	£21,860,000
Returns to Fund		£30,188,938	£28,726,864	£26,290,076
Net Return		£8,328,938	£6,866,864	£4,430,076
Net Return distributed as:				
	Fund Management	£4,948,244	£4,451,274	£3,866,355
	Private Sector Partner	£1,720,198	£1,814,195	£1,990,840
	Invest NI	£1,660,496	£601,395	(£1,427,119)
	Total	£8,328,938	£6,866,864	£4,430,076

Key points to note in relation to the preceding analysis include:

- This analysis presents only the financial costs (and/or benefits) associated with the GLF. The assessment of net economic impacts (i.e. where GVA and employment impacts are compared to economic costs) is set out within Section 7.
- The net financial income/cost to Invest NI associated with GLF issued up to July 2015 is estimated to range between a net income position of £1.66m under an 8% default scenario to a net cost position of £1.43m under a 20% default scenario (excluding additional Invest NI costs). The substantial variation in financial returns illustrate the importance of appropriate fund management to minimise defaults. Albeit, it should be recognised that whilst the fund management fees are fixed under each scenario (and are distributed from the cash available within the Fund prior to any returns to the public and private sector partners), as the default rate increases, the bonus payment that the Fund Manager will receive reduces. There is therefore a clear financial incentive for the Fund Manager to invest in viable business propositions.
- Under each scenario the private sector investor is projected to make a positive net financial return on its investment. It should be noted that the preferred returns payable to the private investor increase as default rates increase on the basis that the increased defaults result in delays in the Fund generating sufficient cash surpluses to make distributions to the partners. The preferred returns are calculated at 7% of the private investor’s outstanding investment, so the time delays in repaying capital to the private sector partner increased the outstanding investment and therefore the returns on this outstanding investment. Therefore the cash available for distribution to Invest NI reduces as default rates increase, not only due to lower overall income to the Fund available for distribution, but also due to Invest NI’s subordinated position when compared with the private investor which will be taking greater returns from the Fund.
- Invest NI is estimated to make a positive financial return under the 8% and 12.5% default scenarios (notwithstanding the other influencing factors referenced above under 3.7.2). However, if a 20% default rate is realised then Invest NI is not forecast to be repaid its full capital investment. Albeit, whilst there is a risk that the GLF could result in a net financial loss to Invest NI this should be considered within the context of the GVA and employment benefits to the wider NI economy (discussed in Section 7).

⁶⁷ NB This analysis excludes Invest NI’s staff and administration costs which sit outside the direct operation of the fund’s incomes and costs.

3.8 GLF Equality

The terms and conditions provided with each GLF loan offer stipulates that all investments under the Fund must:

“Comply with the relevant statutory and regulatory provisions from time to time in force in NI imposing obligations on the borrower, its offices and employees in relation to discrimination on any ground, whether that of religious belief, political opinion, race or ethnic origin, marital status, age, sexual orientation, gender, disability, full or part time status and having dependants, including without limitation the Non-Discrimination Legislation”.

Whilst this suggests that the recipients of the Fund should be compliant with equality legislation, it does not necessarily indicate that the Fund is compliant. However, we note that the Fund is publicised widely and across all areas of NI and operates with legal requirements, which limits the potential for some eligible businesses to be excluded from accessing it.

4. APPLICANTS’ SATISFACTION WITH, AND VIEWS OF, THE FUNDS

Section 4 provides a detailed analysis of the key findings emerging from the primary research with applicants and recipients of the NISBLF and GLF, in terms of their satisfaction with, and views of the Funds.

4.1 NISBLF Applicant Profile

Almost three quarters (74%, N=73) of NISBLF recipients were running a business on a full-time basis and almost one fifth (19%, N=73) were employed on either a full-time (12%) or a part-time (7%) basis prior to receiving a Small Business Loan.

Following receipt of the loan, almost all (88%, N=73) recipients reported that they were now running a business full-time and only one in ten (10%, N=73) recipients were now employed either full-time (7%) or part-time (3%).

Table 4.1: NISBLF Recipient Employment Status (N=73)⁶⁸		
	% of Businesses	
	Before Receiving the Small Business Loan⁶⁹	Now⁷⁰
Running your own business on a full-time basis	74%	88%
Employed (full time)	12%	7%
Employed (part time)	7%	3%
Unemployed	5%	0%
Running your own business on a part-time basis	5%	5%
Inactive (e.g. sick, or people looking after family)	1%	0%
You were/are on a Training Programme	0%	0%
You were/are a student	0%	0%
Other	0%	0%

The majority (85%, N=64⁷¹) of recipients reported that they were already trading (i.e. selling their products and services) when they received their NISBLF loan and a small proportion (13%, N=64) were ready to start the business but had not actually started trading as shown below:

Table 4.2: Stage of Development of Business at Receipt of Small Business Loan (N=64)		
	No.	%
You were already trading (i.e. selling your products or services)	55	85%
You were ready to start the business, but had not actually started trading	8	13%
You were ‘Test Trading’ on DEL’s Step to Work Programme	1	2%
Other	0	0%
Total	64	100%

Almost all (98%, N=55) of those businesses which were already trading at the time they received their NISBLF loan have continued to trade since receiving the loan with just one respondent stating that their business has subsequently ceased trading (albeit, for reasons of sensitivity, businesses that had loans in arrears were not included in the survey). Encouragingly, all (100%, N=9) of the recipients who were ready to start their business but had not actually started trading or were ‘Test Trading’ at the time of receiving the NISBLF loan are now operating a trading business.

⁶⁸ Two NISBLF respondents did not complete this survey question.

⁶⁹ Percentages do not sum to 100% as four of the 73 respondents to this question selected two responses.

⁷⁰ Percentages do not sum to 100% as two of the 73 respondents to this question selected two responses.

⁷¹ The 10 online survey respondents and one telephone survey respondent did not complete this question.

Table 4.3: Progress of the Proposed Business Since Receipt of the Small Business Loan (N=64⁷²)

	No.	%
The business is continuing to trade	54	84%
The business started and is continuing to trade	9	14%
The business started, but has since ceased trading	1	2%
The business started and has since ceased trading, but you have since established an alternative business (i.e. one that was not the focus of your Small Business Loan application)	0	0%
You are continuing to develop the business, but it is not yet trading	0	0%
You did not start a business	0	0%
Other	0	0%
Total	64	100%

The one respondent whose business has ceased trading since receiving the NISBLF loan confirmed that they would consider starting a business at some stage in the future.

“Since my business has ceased trading, I am now employed full time. I am currently repaying the Small Business Loan, but would definitely wish to ‘try again’ in starting a new business in the future”.

NISBLF Recipient

4.2 Awareness of the Loan Funds

The table below indicates the manner in which NISBLF and GLF recipients first became aware of the Funds:

Table 4.4: Manner in which Awareness of the Loan Fund was Raised (N=109)⁷³

	NISBLF %	GLF %	Both Funds %
Through an Economic Development Agency (e.g. Invest NI, InterTradeIreland, a LEA etc.)	25%	36%	29% ⁷⁴
Peer/ Colleague/ Friend	21%	13%	16%
Through the Business’ accountant	5%	24%	13%
An Internet Search	14%	4%	10%
Directly through a representative of the Loan Fund Manager	10%	-	6%
Leaflet/ Flyer received	5%	4%	5%
Through a publication (e.g. a newspaper)	2%	7%	4%
Mass media (e.g. TV)	2%	4%	3%
Email received	3%	-	2%
Through the Business’ bank	-	4%	2%
Social media (e.g. Facebook)	2%	-	1%
Through the Business’ solicitor	-	2%	1%
Through another Provider of Finance for Businesses (e.g. the Halo Business Angel Network, Co-Fund NI, Development Funds, Tech-Start NI etc.).	2% ⁷⁵	-	1%
Through Participation on a Business Support Programme (e.g. Propel, NISP Connect)	2% ⁷⁶	-	1%
A Representative from the Prince’s Trust	2%	-	1%
Cannot Recall/Not Sure	5%	2%	5%
Total	63	46	109

⁷² The 10 online survey respondents and one telephone survey respondent did not complete this question.

⁷³ 12 of the NISBLF (2 telephone and 10 online) and 4 of the GLF respondents did not complete this question.

⁷⁴ 10 of the 16 NISBLF recipients and all of the 16 GLF recipients which stated that they became aware of the Fund through an Economic Development Agency stated that the Agency was Invest NI.

⁷⁵ 1 of the 63 NISBLF recipients was made aware of the Fund by WhiteRock as they had initially approached the GLF.

⁷⁶ 1 of the 63 NISBLF recipients had participated on the Propel Programme.

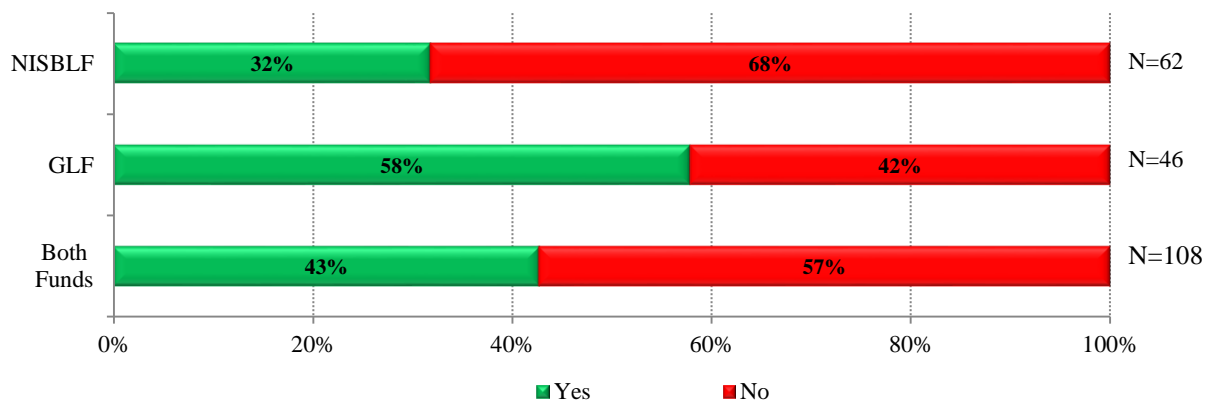
Almost one third (29%, N=109) of all NISBLF and GLF recipients surveyed first became aware of the Fund through an economic development agency such as Invest NI, InterTradeIreland or a Local Enterprise Agency.

Over one fifth (21%, N=63) of NISBLF recipients became aware of the Fund through Peers/Colleagues and Friends whereas just over one tenth (13%, N=46) of GLF recipients were made aware through this manner. In contrast, almost one quarter (24%, N=46) of GLF recipients were made aware of the Fund through their Accountant as compared with just 5% (N=63) of NISBLF recipients. This may be partially attributable to the size of NISBLF businesses compared with GLF businesses, the level of accounting services required and the lower proportion of NISBLF recipients (versus GLF recipients) who utilise an accountant regularly.

SBLF Recipients	<p><i>“Workspace (the LEA) recommended that I should approach the NI Small Business Loan Fund.”</i></p> <p><i>“I was referred to the NISBLF after being involved with the Propel programme.”</i></p> <p><i>“I approached WhiteRock Capital Partners for a Loan and they referred me to the Small Business Loan Fund instead”.</i></p>
GLF Recipients	<p><i>“I read about the Growth Loan Fund in the Ulster Business magazine.”</i></p> <p><i>“Invest NI told me about the existence of the Growth Loan Fund”</i></p>

Overall, over two fifths (43%, N=108⁷⁷) of all Fund recipients surveyed considered that the promotion of loan finance such as the NISBLF and GLF could be improved so as to allow more businesses to start-up or grow. In particular, almost three fifths (58%, N=46) of GLF recipients stated that promotion could be improved as compared with under one third (32%, N=62) of NISBLF recipients.

Figure 4.1: Could the promotion of loan finance such as the NISBLF/ GLF be improved so as to allow more businesses to start-up or grow?



SBLF Recipients	<p><i>“I feel that the NISBLF could be advertised more in print, TV and online media. Internet is important but there should also be promotion through offline channels such as newspapers for small businesses which are not fully operational online”.</i></p> <p><i>“Loan finance is not well-understood so greater advertising and promotion through all channels would be beneficial to enable small businesses to better understand their options”.</i></p> <p><i>“Small businesses would benefit from receiving email correspondence with detailed information about the Fund to raise awareness of uses and eligibility”.</i></p>
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⁷⁷ 12 NISBLF (10 online and 2 telephone) respondents and 4 GLF respondents did not answer this question.

	<i>“I became aware of the NISBLF because I was already on a mailing list, so there may be a need to reach out to businesses which are not yet connected with other business development channels”.</i>
GLF Recipients	<p><i>“Often banks are the first (or only) choice when seeking finance. Therefore there is a need to reach out to wider audiences to promote other funding options such as the GLF”.</i></p> <p><i>“It would be beneficial to place more advertisements in newspapers and online channels”.</i></p> <p><i>“There should be more advertising directly to potential businesses through email and traditional mail”.</i></p> <p><i>“I became aware of the GLF through my Accountant so there is definitely room for improvement to support more businesses”.</i></p> <p><i>“Promotion of the GLF should be more targeted towards small businesses to enable them to fund their expansion plans”.</i></p> <p><i>“Greater use of advertisements in business magazines and newspapers would be useful.”</i></p>

4.3 Purpose of the Finance Raised

Recipients were asked to identify what the purpose of the finance raised through the NISBLF/ GLF was for their business development:

- Over two thirds of all recipients (69%, N=109) stated that the loan raised enabled them to finance working capital requirements. This proportion was broadly equal for both NISBLF recipients (69%, N=64) and for GLF recipients (67%, N=45).
- Over four fifths (84%, N=45) of GLF recipients used their loan for general business expansion, whereas this purpose was only relevant to three fifths (58%, N=64) of NISBLF recipients.
- As anticipated, only NISBLF recipients used the funding to start a business (14%, N=64).

	NISBLF %	GLF %	Both Funds %
To finance working capital requirements	69%	67%	69%
General business expansion	58%	84%	68%
To develop and launch a new product	6%	16%	10%
To start the business	14%	-	8%
To enter a new geographic market	2%	13%	6%
To develop and launch a new service	3%	7%	5%
To develop and launch a new process	2%	4%	3%
To undertake R&D activity	2%	-	1%
Marketing activities	2%	-	1%
Establishment of a website	2%	-	1%
Total	64	45	109

It should be noted that over three fifths (63%, N=200) of all applicants (recipients, businesses which withdrew their applications and those which had their application rejected for the Funds) identified that the finance raised through the NISBLF/ GLF was for general business expansion and almost three fifths (59%, N=200) stated that the loan was required to finance working capital requirements.

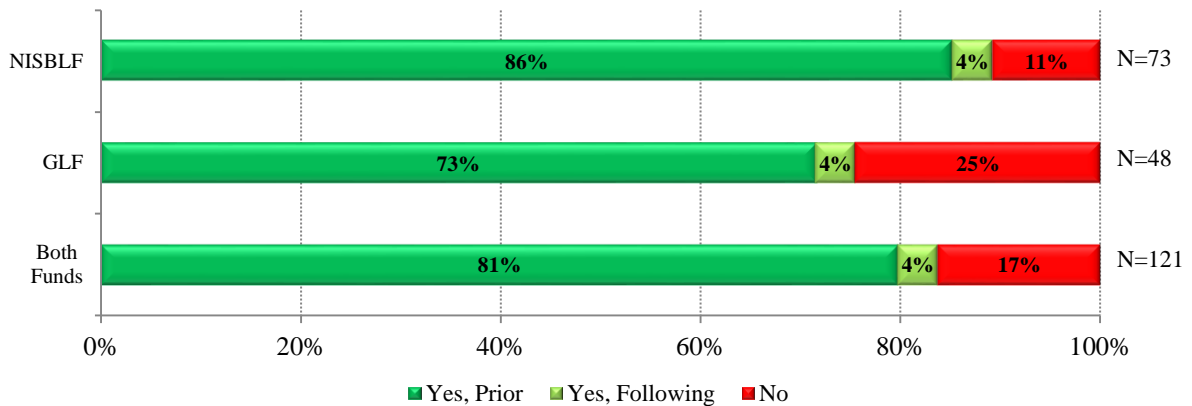
⁷⁸ 11 of the NISBLF (10 online and 1 telephone) recipients and 5 GLF (3 online and 2 telephone) recipients did not complete this question.

⁷⁹ Percentages for the NISBLF and GLF do not sum to 100% as businesses could select multiple responses.

4.4 Finance Sought Prior to the Loan Funds

Four fifths (81%, N=121⁸⁰) of fund recipients had applied for or sought to raise the necessary finance to implement the proposed activities from elsewhere prior to applying for the NISBLF/ GLF.

Figure 4.2: Prior to applying for, or following your application to the NISBLF/ GLF, did you apply for or seek to raise the necessary finance to implement the project through any other sources?



A small proportion (4%, N=121) of total recipients had applied for or sought funding following receipt of their loans through the NISBLF/ GLF.

The table overleaf provides a breakdown of the sources of finance which were sought prior to and/ or following receipt of NISBLF/GLF loans⁸¹, along with the proportion of applications which were successful and the value of finance secured, where relevant⁸². As illustrated in the table, the majority (97%, N=101) of recipients of both the NISBLF and GLF sought finance from their own bank (i.e. the bank where their business account was) but less than one fifth (18%, N=36) of GLF recipients that applied and one tenth (10%, N=65) of NISBLF recipients that applied were successful in securing funding through this means. Similarly, almost one third (31%, N=101) of all recipient businesses sought debt finance from a bank other than their own.

Across all applicant groups (recipients, businesses which withdrew their application and businesses which had their application rejected by the Fund):

- Three quarters (76%, N=209) of respondents suggested that they had applied for/ sought out other funding in order to implement the activities that were the subject of the NISBLF/GLF application;
- 11% (N=209) indicated that following their application to the NISBLF/GLF they had applied for/ sought out other funding in order to implement the activities that were the subject of the NISBLF/GLF application.

Of note, most of the 23 businesses that had applied for/ sought out other funding in order to implement the activities that were the subject of the NISBLF/GLF application after their NISBLF/GLF application had been submitted were those that either withdrew their application to those funds or that had received an offer, but had not yet drawn it down. Furthermore, within this cohort, 13 of the 23 businesses were GLF applicants that had subsequently withdrew their application. This finding supports the feedback received from the GLF EDO that many applicants had used an offer from the GLF to negotiate a better deal with an alternative finance provider (including the applicant’s own bank).

⁸⁰ Two NISBLF and 2 GLF recipients did not complete this question.

⁸¹ It should be noted that eight of the NISBLF respondents and 12 of the GLF respondents to the previous question did not apply for other funding and therefore were not eligible for this question.

⁸² All (100%, N=107) of the NISBLF and GLF recipients confirmed that the funding secured from the Invest NI-supported Loan Funds and any other funding they secured through the other means listed above represented the total funding package for the project supported through their NISBLF/ GLF Project.

Table 4.6: Sources of Finance Sought⁸³

Type	Source	NISBLF						GLF					
		No. Who Applied	Secured Before or After NISBLF?		Total No. Success	% Success	Funds Secured (£)	No. Who Applied	Secured Before or After GLF?		No. Success	% Success	Funds Secured (£)
			Before	After					Before	After			
Debt	A loan from your Bank (where your business account is)	63	4	2	6	10%	£85,000	35	4	2	6	18%	837,000 ⁸⁴
	A loan from another Bank (other than the one where your business account is)	20	1	1	2	10%	Unable to quantify	11	0	0	0	0%	0
	Through another Provider of Finance – the NISBLF	0	0	0	0	0	0	1	0	0	0	0%	0
	Sub-total	83	5	3	8	10%	£85,000	46	4	2	6	13%	£837,000
Equity	A Venture Capital (VC) Fund	1	0	0	0	0%	0	5	1	0	1	20%	1,000,000
	Other Business Angels	1	0	0	0	0%	0	2	0	0	0	0%	0
	A Crowd Funding Platform (e.g. Seedrs, Crowdcube) (Businesses did not specify which Platform)	2	0	0	0	0%	0	1	0	0	0	0%	0
	The Halo Business Angel Network	1	0	0	0	0%	0	1	0	0	0	0%	0
	Other Equity Investors	-	-	-	-	-	0	1	0	0	0	0%	0
	Sub-total	5	0	0	0	0%	£0	10	1	0	1	10%	£1,000,000
Other	Invest NI	7	3	1	4	57%	£40,000 ⁸⁵	4	3	0	3	75%	390,000
	The Business' Own Internal Finances/ Cash	4	2	1	3	75%	£300,000 ⁸⁶	5	4	0	4	80%	810,000
	Through another Provider of Finance for Businesses (e.g. Co-Fund NI, Development Funds, TechStart NI etc.).	0	0	0	0	0	0	1 ⁸⁷ (unwilling to specify)	0	0	0	0%	0
	Through another Provider of Finance – Coastal Community Funds (CCF)	1	1	0	1	100%	£35,000	0	0	0	0	0%	0
	Through another Provider of Finance – Rural Development Programme (RDP)	1	1	0	1	100%	£20,000	0	0	0	0	0%	0
	Through another Provider of Finance – Northern Ireland Spin-Out Funds (NISPO)	1	1	0	0	0%	-	0	0	0	0	0%	0
	Friends and Family	3	2	1	3	100%	£18,000 ⁸⁸	1	0	0	0	0%	0
	Another Public Sector Body	0	0	0	0	0	0	1 ⁸⁹	0	0	0	0%	0
	Credit Union	1	1	0	1	100%	Unable to quantify	0	0	0	0	0%	0
	Other ⁹⁰	-	-	-	-	-	-	1	0	0	0	0%	0
Sub-total	18	10	3	13	72%	£413,000	14	5	2	7	50%	£1,200,000	
Number of Responses	106	15	6	21	20%	£498,000	70			14	20%	£3,037,000	
Number of Recipients				65						36			

⁸³ Percentages for the NISBLF and GLF do not sum to 100% as businesses could select multiple responses.

⁸⁴ Based on 5 of the 6 recipients as one recipient was unable to quantify.

⁸⁵ Based on 3 of the 4 recipients as one recipient was unable to quantify.

⁸⁶ Based on 2 of the 3 recipients as one recipient was unable to quantify.

⁸⁷ This recipient did not specify which provider of finance.

⁸⁸ Based on 2 of the 3 recipients as one recipient was unable to quantify.

⁸⁹ The recipient did not specify which public body.

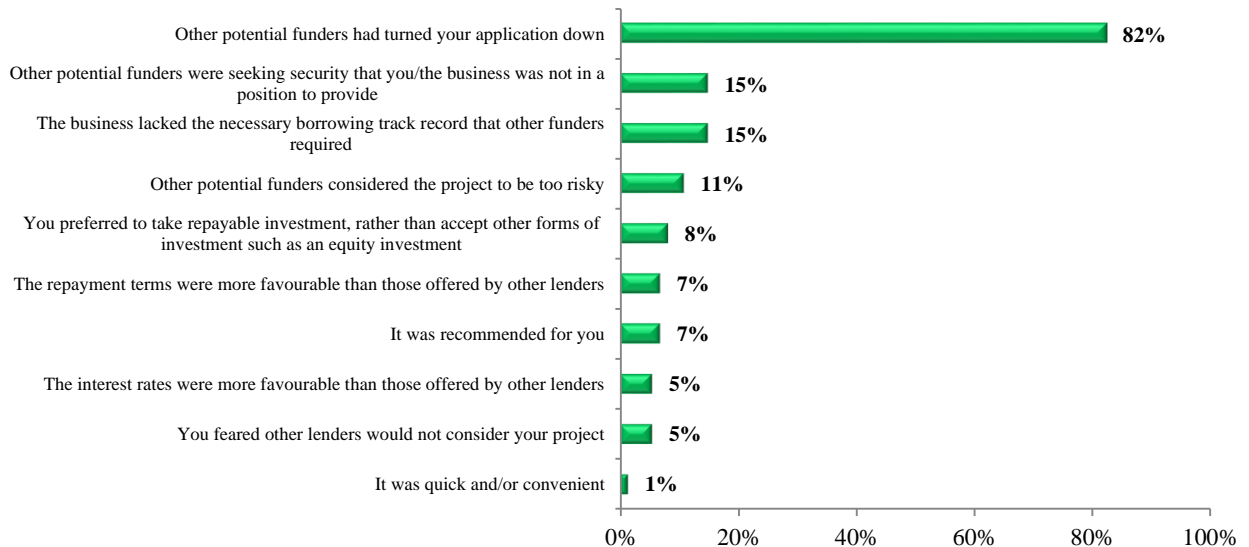
⁹⁰ It should be noted that this recipient was not willing to state what other source of finance the business had sought.

4.5 Factors that Motivated Loan Applications

4.5.1 NISBLF

The factors which motivated NISBLF recipients to apply for the Fund are summarised below:

Figure 4.3: What factors motivated you/ your business to apply to the NISBLF? (N=74)⁹¹



Of note:

- Over four fifths (82%, N=74⁹²) of NISBLF recipients indicated that they had applied for the Fund because other potential funders had previously turned their application down.
- 15% (N=74) stated that other potential funders had sought security that the business was not in a position to provide; and
- 15% stated that the business lacked the necessary borrowing track record required by other funders.

These findings suggest that the NISBLF provides an alternative source of finance when more traditional sources (such as bank lending) are not available or have been fully exhausted.

It is also notable that a small proportion (5%, N=74) of recipients suggested that they had not approached other lenders before applying to the NISBLF⁹³, but instead had anticipated that they would be unsuccessful.

Similar to those businesses that successfully received a NISBLF loan, over half of businesses which withdrew their applications (57%, N=14) and businesses which were rejected (56%, N=34) for the NISBLF were motivated to apply because other funders had turned their application down (see Appendix XV).

⁹¹ Please note that recipients could give multiple answers to this question.

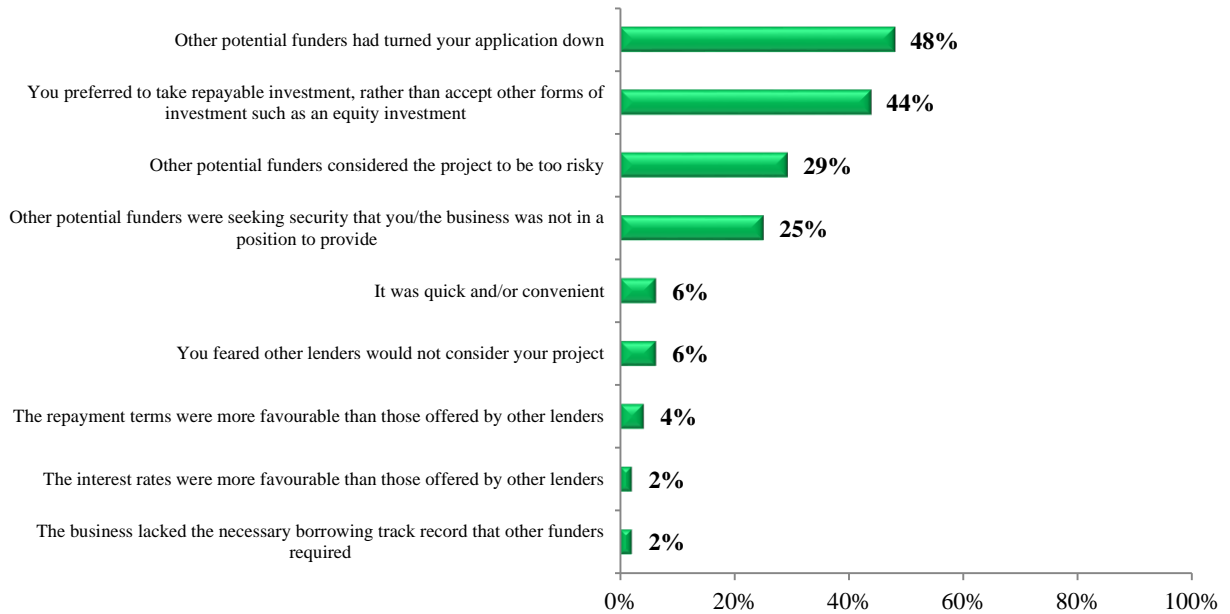
⁹² One telephone respondent did not complete this question.

⁹³ Despite evidence of being declined a loan from the private banking sector being a requirement of the Fund.

4.5.2 GLF

The factors which motivated GLF recipients to apply for the Fund, are summarised below:

Figure 4.4: What factors motivated you/ your business to apply to the GLF? (N=48)⁹⁴



Key points to note include:

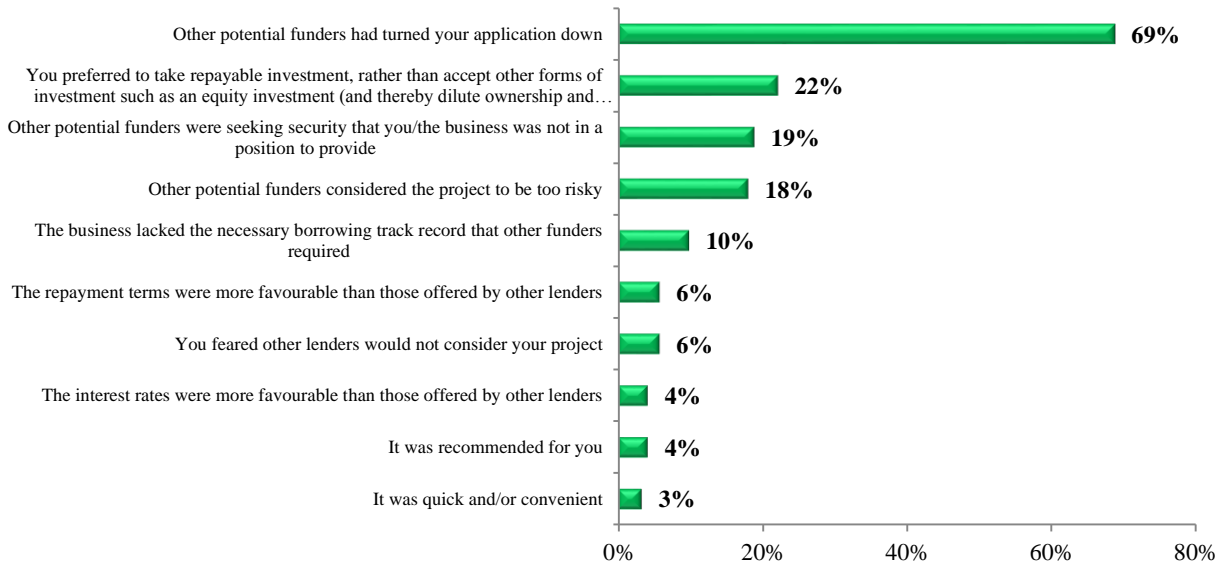
- Almost half (48%, N=48) of businesses that successfully received a GLF loan were motivated to apply to the Fund because the other potential funders had turned their application down. This finding was shared by two-thirds (67%, N=15) of businesses that had their GLF application rejected and a third (31%, N=26) of businesses which withdrew their application.
- Over two-fifths (44%, N=48) of GLF recipients indicated that they preferred to take repayable investment, rather than to accept other forms of investment such as an equity investment (and therein dilute ownership and control of the business). Therefore, unlike NISBLF (where over four fifths of recipients were motivated to apply because other funds had turned their application down) it appears that a sizeable proportion of GLF recipients considered that they had other funding options available to them (e.g. equity investments), but chose the GLF as an alternative.
- The preference to take repayable investment, rather than to accept other forms of investment was a motivating factor for a third (31%, N=26) of applicants that had withdrawn their applications, but was not a factor for any of the businesses where the application was rejected (see Appendix XV).

⁹⁴ Please note that recipients could give multiple answers to this question.

4.5.3 Both Funds

Looking across both Funds, over two-thirds (69%, N=122) of all recipients were motivated to apply to the respective Fund on the basis that other potential funders had turned their applications down.

Figure 4.5: What factors motivated you/ your business to apply to the NISBLF/ GLF? (N=122)⁹⁵



It is noted that across all applicants (including both recipients and those businesses that had either withdrawn their application or had their application rejected), the most commonly cited factor that had motivated their application to either the NISBLF or GLF was as a result of other potential funders turning their application down (61%, N=211⁹⁶).

4.6 Reasons for Withdrawal of Loan Applications

As discussed, as part of the survey exercise, the Evaluation Team undertook surveys not only with recipients of the two funds, but also businesses that had applied to the funds but had withdrawn their application after receiving an offer of funding or those that had received an offer but had not yet drawn down their loan, as follows:

	NISBLF	GLF
You were offered a loan but have not yet drawn down the loan monies	-	-
You were offered a loan but do not intend to draw down the loan monies	60%	100%
You withdrew your application before it was assessed	40%	-
N=	15	27

Key reasons as to why applicants suggested they had withdrawn their applications included:

- The business decided not to proceed with the activities proposed in their application for business reasons unrelated to the terms and conditions of the loan (26%, N=38⁹⁷);
- The loan was too expensive (24%, N=38);

⁹⁵ Please note that recipients could give multiple answers to this question.

⁹⁶ See Appendix XV

⁹⁷ Four businesses (2 NISBLF recipients and 2 GLF recipients) did not provide reasons as to why they withdrew their applications.

- Following the application process the business was able to source funding from elsewhere (e.g. a bank or through their internal finances) (24%, N=38); and/or
- The terms and conditions of the loan were considered to be too restrictive (11%, N=38).

<p>NISBLF Withdrawn Applicants</p>	<p><i>“Our client base reduced so we decided not to go ahead with the project”.</i></p> <p><i>“The business I were going to buy ceased operations so I no longer required a loan”.</i></p> <p><i>“The Fund Manager wished to assess the trading history of our previous businesses, but we did not believe that was relevant so we decided to withdraw”.</i></p> <p><i>“The interest repayments were too high”.</i></p> <p><i>“Ultimately, the business was able to take ahead the proposed activities without a loan”.</i></p> <p><i>“I was unwilling to provide a personal guarantee”.</i></p>
<p>GLF Withdrawn Applicants</p>	<p><i>“The property deal we sought funding for fell through so we no longer required the loan”.</i></p> <p><i>“We felt that the interest rates were too high and the market for our business also started to contract so we did not want to risk expanding at the time”.</i></p> <p><i>“There were numerous costs including a due diligence fee as well as profit sharing costs in addition to the interest charged so the offer was too expensive for us”.</i></p> <p><i>“The GLF loan is over a long period of time and we needed a more short term option”.</i></p> <p><i>“It was agreed with the Fund Manager that the loan should be postponed due to our sales position not being close enough to the projections”.</i></p> <p><i>“We were able to secure alternative funding from elsewhere at a lower cost”.</i></p>

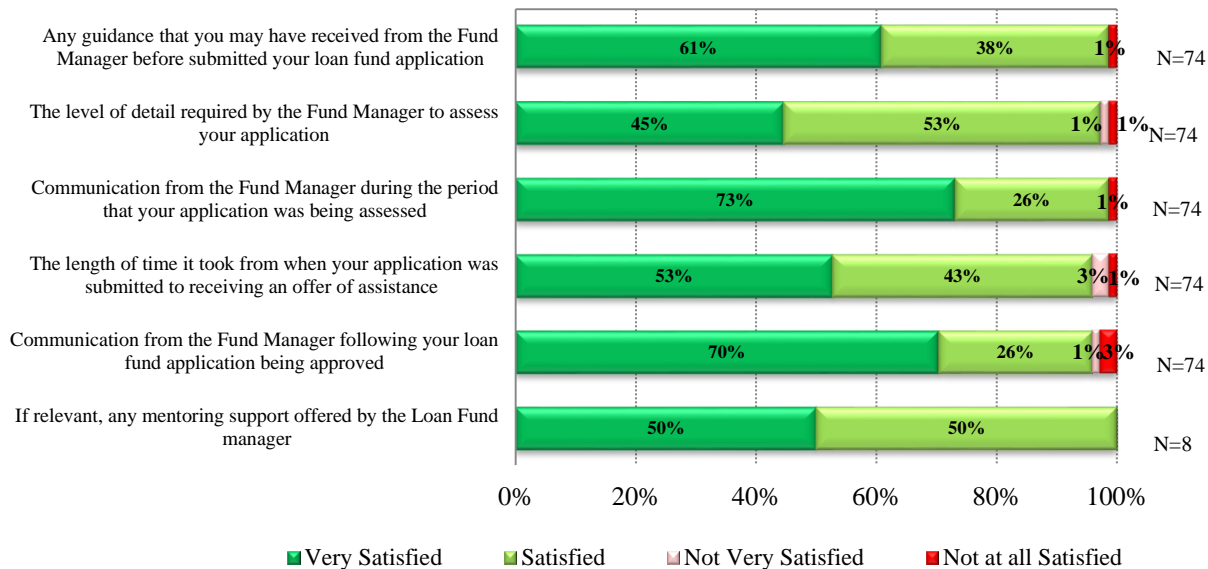
4.7 Satisfaction with the Loan Content and Support

4.7.1 NISBLF

NISBLF Process

Encouragingly, the majority (90%+, N=74) of NISBLF recipients expressed a high level of satisfaction with the support provided through the NISBLF process.

Figure 4.6: To what extent were you satisfied with the following aspects of the NISBLF process? (Recipients)



More specifically:

- Nearly all (99%, N=74) NISBLF recipients expressed satisfaction with any guidance that they had received before submitting their loan application (Business Plan) and with the communication from the Fund Manager during the period that their application was being assessed;
- Nearly all (98%, N=74) were also satisfied with the level of detail required by the Fund Manager to assess their application;
- The majority (96%, N=74) of NISBLF recipients indicated that they were satisfied with the length of time it took from when their application was submitted to receiving an offer of assistance and with the communications from the Fund Manager following their loan fund application being approved; and
- All (100%, N=8) of those recipients which were offered mentoring support by the Loan Fund manager were satisfied with this support.

Guidance Offered	<p><i>"The guidance offered by the Fund Manager was excellent. We were able to talk through all aspects of my business plans".</i></p> <p><i>"The Fund Manager was very easy to work with and offered good advice."</i></p>
Level of Detail Required	<p><i>"I felt that the level of detail required was appropriate and was less than might typically be required by a bank".</i></p> <p><i>"The level of detail required was fully explained to me so the process was transparent".</i></p>

Communication with the Fund Manager	<p><i>“The communication was excellent; I was always kept up to date with the progress of my application and they replied to every query and email promptly”.</i></p> <p><i>“The communication from the Fund Manager was very good. I felt that they understood my business and where I wanted to take it.”</i></p> <p><i>“The Fund Manager had good business acumen and obviously had a background in business”.</i></p> <p><i>“Following approval of my loan I told the Fund Manager that I could not start the business until January and could not afford repayments straight away, but they did not listen and I had to start repayments immediately, which put me in a tricky situation.”</i></p>
Length of Time to Process Application	<p><i>“I had no issues with the length of time between submitting my application and receiving my offer. I was told how long it would be, and that is how long it took”.</i></p> <p><i>“The length of time between submitting my application and receiving my offer took a bit longer than I had expected.”</i></p>
Mentoring Support	<p><i>“The mentoring support provided was great. As a start-up business it was very beneficial to receive specific advice and guidance on topics.”</i></p>

As might be expected, levels of satisfaction were lower amongst businesses which withdrew their applications and whose applications were rejected than amongst receipts.

Figure 4.7: To what extent were you satisfied with the following aspects of the NISBLF process? (Withdrawn Applicants)

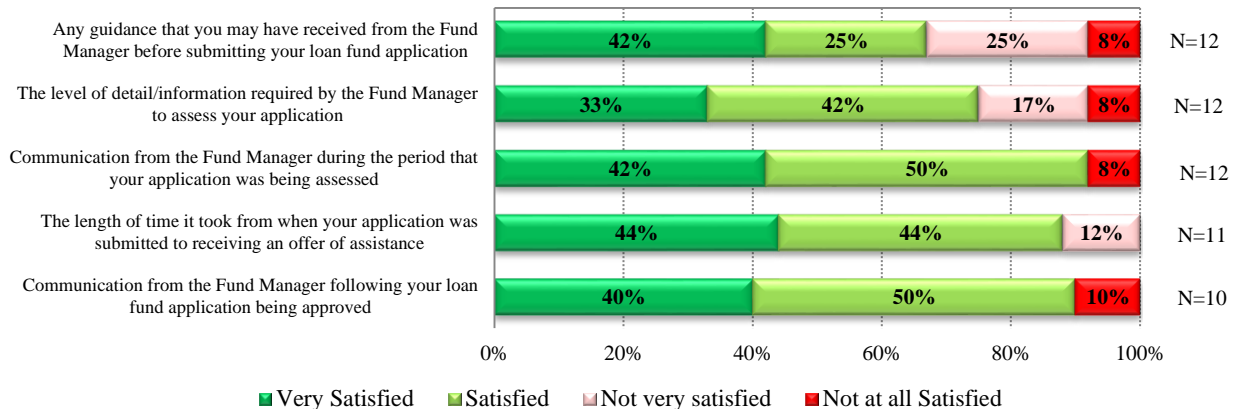
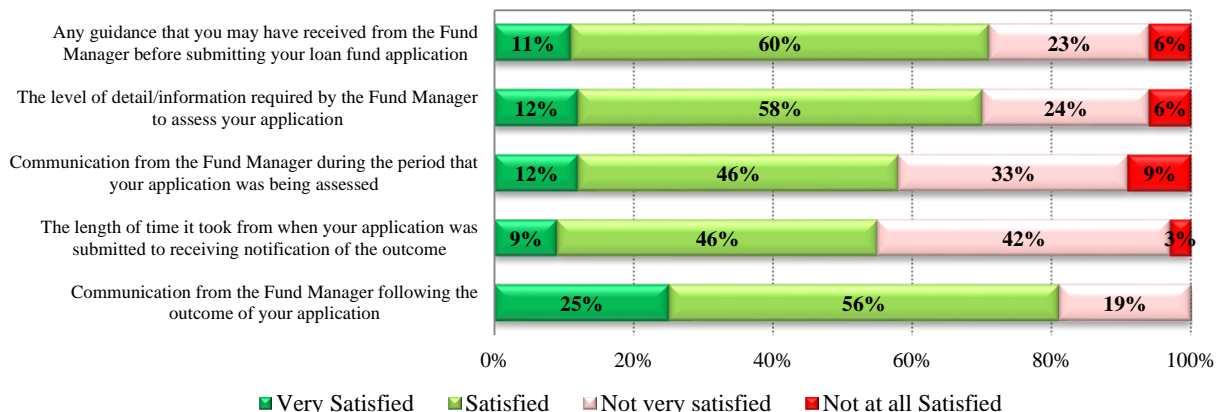


Figure 4.8: To what extent were you satisfied with the following aspects of the NISBLF process? (Rejected Applicants) (n=35)



Key points in relation to the previous analysis include:

- Over two thirds (67%, N=12) of withdrawn applicants and almost three quarters (71%, N=34) of rejected applicants were satisfied with the guidance that they received from the Fund Manager before submitting their loan application. However, a third (33%, N=12) of withdrawn applicants and 29% (N=34) of rejected applicants indicated that they were dissatisfied with the guidance received.
- Three quarters (75%, N=12) of withdrawn applications and almost three quarters (70%, N=35) of rejected applicants to the NISBLF expressed satisfaction with the level of detail/ information required to assess their application. However, almost one third (30%, N=35) of rejected applicants were not satisfied with this aspect of the process.
- Almost all (92%, N=12) withdrawn applicants were satisfied with the communication with the Fund Manager during the period that their application was being assessed, but less than three fifths (58%, N=35) of rejected applicants expressed satisfaction in this regard.
- Similarly, over four fifths (88%, N=11) of withdrawn applicants were satisfied with the length of time it took from when their application was submitted to receiving an offer of assistance, but almost half (45%, N=35) of rejected applicant expressed dissatisfaction on this aspect of the process.
- Positively, over four fifths (90%, N=10) of withdrawn applicants were satisfied with the communication from the Fund Manager following the approval of the application and almost four fifths (81%, N=35) were satisfied with the communication from the Fund Manager following the outcome of their application.

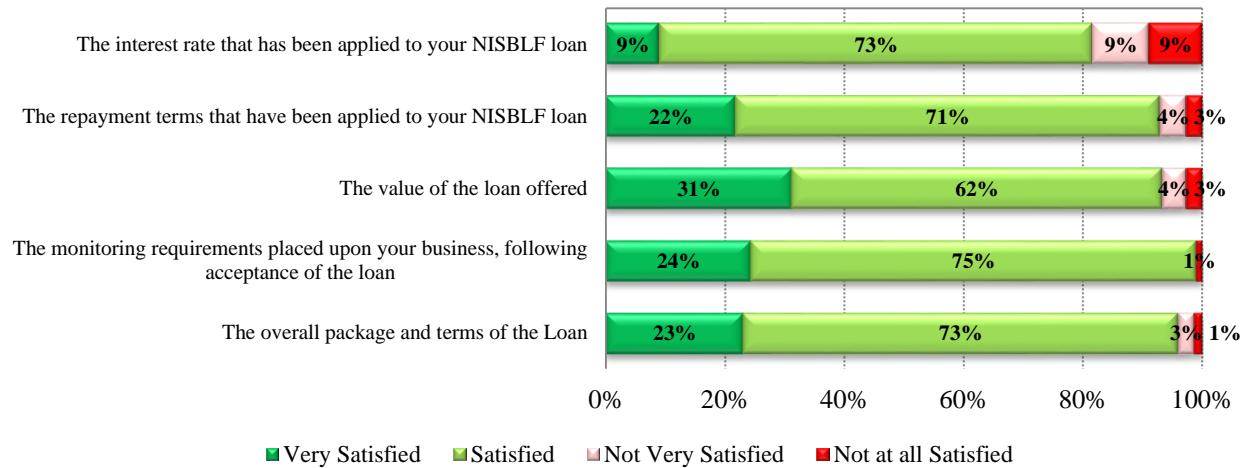
Specific comments made by NISBLF withdrawn and rejected applicants included:

<p>Guidance Offered</p>	<p><i>“The guidance provided was very helpful and made the application process simple”</i></p> <p><i>“I only met with the Fund Manager once and did not feel they were particularly interested”.</i></p> <p><i>“I do not feel that I was given sufficient guidance about the interest rates and repayment terms”.</i></p> <p><i>“If we had been told at the outset that we needed to provide personal guarantees, then we would not have applied”.</i></p>
<p>Level of Detail Required</p>	<p><i>“The level of detail required for the NISBLF was fine”.</i></p> <p><i>“The Fund asked for more detail than the bank requires, but it is understandable given that the loan is unsecured”.</i></p> <p><i>“A lot of information was needed, which was quite time-consuming”.</i></p>
<p>Communication with the Fund Manager</p>	<p><i>“I felt that the communication with the Fund Manager was good throughout and my application was well-handled”.</i></p> <p><i>“I was always kept up to date and pointed in the right direction”.</i></p> <p><i>“The communication was very professional”.</i></p> <p><i>“The communication was not all that great. We would have preferred to have been told at the outset that our business was too risky to avail of a loan”.</i></p> <p><i>“I had to follow-up with the Fund Manager frequently to get answers on how my application was progressing”.</i></p>
<p>Length of Time to Process Application</p>	<p><i>“I was advised how long the application would take to process and that was accurate to what actually happened”.</i></p> <p><i>“I was informed quite quickly about the outcome”.</i></p> <p><i>“It would have been beneficial if I had been notified sooner”.</i></p>

Terms and Conditions of the NISBLF

The majority (80%+, N=74) of NISBLF recipients expressed a high level of satisfaction with the terms and conditions of the NISBLF.

Figure 4.9: To what extent were you satisfied with the following aspects of the NISBLF terms and conditions? (N=74⁹⁸)



In particular:

- Almost all (99%, N=74) NISBLF recipients were satisfied with the monitoring requirements placed upon their business following acceptance of the loan;
- The majority also expressed satisfaction with the value of the loan offered (93%, N=74) and the overall package and terms of the loan (96%, N=74).
- Whilst the majority of recipients were satisfied with the repayment terms that were applied to their NISBLF loan (93%, N=74), a small number (5%, N=74) expressed some dissatisfaction that they were not fully aware of the opportunity to, and implications of, repaying their loan early. It is understood that the terms and conditions for the NISBLF state that early repayments may result in an interest rebate at the discretion of the Fund Manager, so it may be beneficial for the potential implications of early loan settlement to be more fully communicated to investee businesses at the outset and throughout⁹⁹.
- Over four fifths (82%, N=74) of NISBLF recipients were satisfied with the interest rate that was applied to their loan.

Interest Applied	Rate
	<p><i>“The interest rate is relatively high but it is understandable given the level of risk involved.”</i></p> <p><i>“The interest rate is higher than I would have liked, but that is understandable for it being unsecured.”</i></p> <p><i>“It was the best option for us, so we accepted the cost of the high interest rate.”</i></p> <p><i>“I felt that the interest rates were still lower than those charged by the bank”.</i></p> <p><i>“I was not satisfied that the interest rate was advertised as unsecured but I was required to provide a personal guarantee”.</i></p>

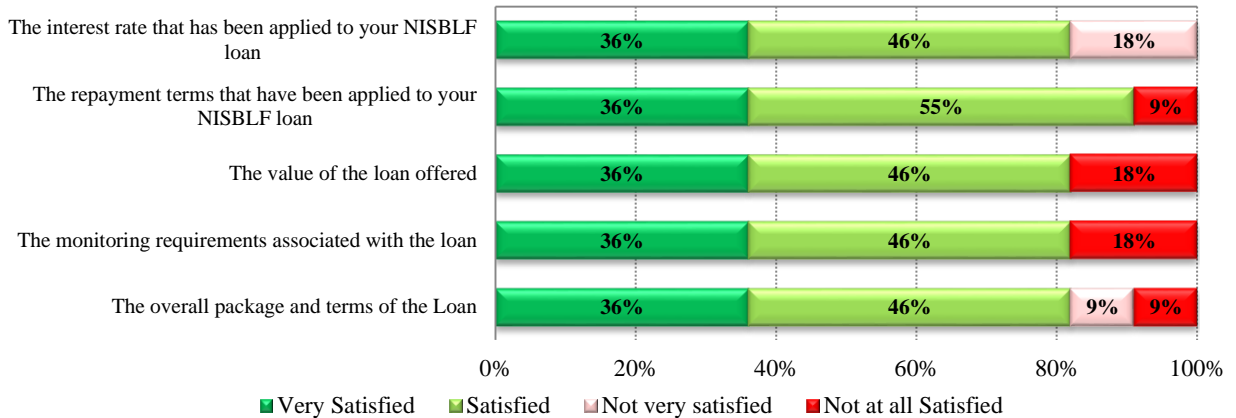
⁹⁸ One NISBLF respondent did not complete this question.

⁹⁹ The EDO has confirmed that to date neither of the 2 businesses which repaid their loan early and exited the NISBLF received an interest rebate, but they were only charged the outstanding capital balance (and no future interest) in order to settle the loan.

	<i>"The interest rate is quite expensive and preventative to the growth of small businesses".</i>
Repayment Terms	<i>"The repayment terms are manageable and we knew we could repay the loan in the required timeframe".</i> <i>"The repayment terms would be improved if the repayments started a few months after receiving the loan".</i> <i>"Five years is quite a long duration to have to pay a high interest rate and I was not fully aware that there was an option and incentive (in terms of interest rebate) to pay the loan back early".</i> <i>"I still have to pay it back even though my business has ceased trading which is difficult".</i>
Value of the Loan	<i>"I was satisfied with the loan amount received although if there was more than a £50,000 limit that would be beneficial".</i> <i>"I was fully content with the value of loan offered".</i>
Monitoring Requirements	<i>"The monitoring requirements are minimal and I am happy enough to supply any information required."</i>
Overall Package	<i>"I was very satisfied with the overall package offered through the NISBLF".</i>

The chart below shows the levels of satisfaction with the terms and conditions of the NISBLF expressed by those businesses which withdrew their applications.

Figure 4.10: To what extent were you satisfied with the following aspects of the NISBLF terms and conditions? (N=11)



Despite the fact that they had withdrawn their NISBLF application, this cohort of applicants were broadly satisfied with the terms and conditions of the Fund including the:

- Interest rate that was applied (82%, N=11);
- Repayment terms (91%, N=11);
- Value of the loan offered (82%, N=11);
- Monitoring requirements associated with the loan (82%, N=11); and
- Overall package and terms of the loan (82%, N=11).

Interest Rate Applied	<i>"If I had proceeded with the Loan, the interest rate would have been very fair".</i> <i>"The interest rate being charged was expensive".</i>
Repayment Terms	<i>"The repayment terms appeared to be fine for my needs".</i>

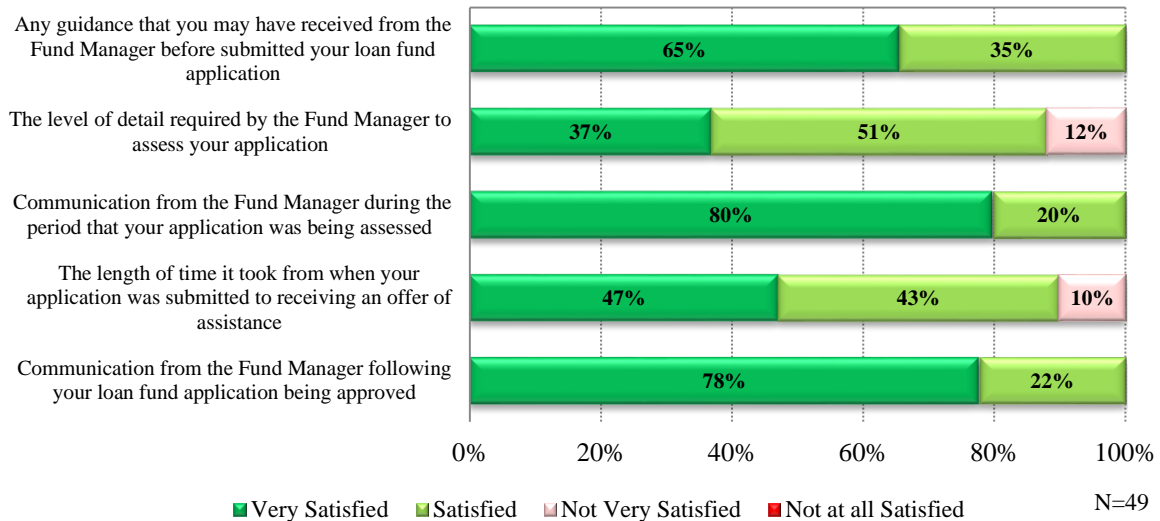
Value of the Loan	<p><i>“The loan value offered was excellent”.</i></p> <p><i>“I did not feel that I was offered enough finance through the Fund”.</i></p>
Monitoring Requirements	<p><i>“The monitoring requirements were too much hassle”.</i></p>
Overall Package	<p><i>“The whole package offered through the NISBLF was appealing but I ended up not needing it”.</i></p> <p><i>“I cannot fault the NISBLF. I felt that the whole package was very competitive”.</i></p>

4.7.2 GLF

GLF Process

Over four fifths (80%, N=49¹⁰⁰) of GLF recipients expressed high levels of satisfaction with the support provided through the GLF.

Figure 4.11: To what extent were you satisfied with the following aspects of the GLF process? (N=49¹⁰¹)



Specifically:

- All (100%, N=49) GLF recipients were satisfied with the guidance that they had received from the Fund Manager before they submitted their loan application and the communication from the Fund Manager (both during the period that their application was being assessed and following their loan fund application being approved).
- The majority were satisfied with the level of detail required by the Fund Manager to assess their application (88%, N=49) and with the length of time it took from when their application was submitted to receiving an offer of assistance (90%, N=49).

¹⁰⁰ Please note that one recipient had two separate approvals for two separate projects so they only completed the satisfaction questions on one occasion.

¹⁰¹ One GLF respondent did not complete this question.

Guidance Offered	<p><i>“The guidance provided was excellent. The team ‘held my hand’ throughout the whole process and made everything as easy as possible”.</i></p> <p><i>“The whole team was very professional and helpful throughout.”</i></p> <p><i>“WhiteRock did a great job managing this fund and offering support.”</i></p>
Level of Detail Required	<p><i>“There was a lot of detail required and administration to complete, but I understand why it was required for a loan of this nature”.</i></p> <p><i>“There was nothing that WhiteRock asked for that we had not been asked for before from a bank”.</i></p> <p><i>It was an extensive amount of information required, but it was expected”.</i></p> <p><i>“The amount of information needed was substantial, they reviewed our whole business”.</i></p>
Communication with the Fund Manager	<p><i>“The communication was excellent, mainly because it was face to face”.</i></p> <p><i>“We had a good relationship with the Fund Manager. They were very open and communicated frequently and were pro-active in progressing our application”.</i></p> <p><i>“The team were all very approachable and gave excellent advice”.</i></p> <p><i>“After our loan was approved we developed a good working relationship and we were straight-talking with each other”.</i></p>
Length of Time to Process Application	<p><i>“The length of time between submission and receiving my offer of assistance was quick compared to other sources of finance”.</i></p> <p><i>“I was surprised at just how quickly I received my offer”.</i></p> <p><i>“It was fairly prompt, I did not have to wait that long”.</i></p> <p><i>“I would have been satisfied with whatever time period was required, because I needed the finance”.</i></p> <p><i>“The length of time between submitting my application and receiving my offer took a lot longer than I anticipated”.</i></p> <p><i>“I was told the whole process could be done in a few months, but it actually took over a year”.</i></p>

The charts below present the levels of satisfaction expressed by businesses which withdrew their applications to the GLF or had their applications rejected for the Fund in relation to the GLF process.

Figure 4.12: To what extent were you satisfied with the following aspects of the GLF process? (Withdrawn Applicants)

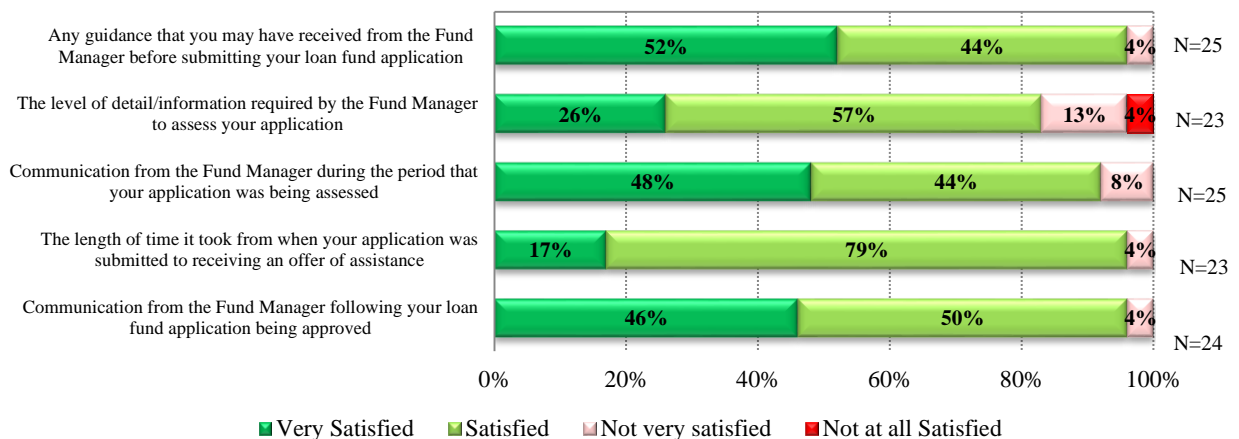
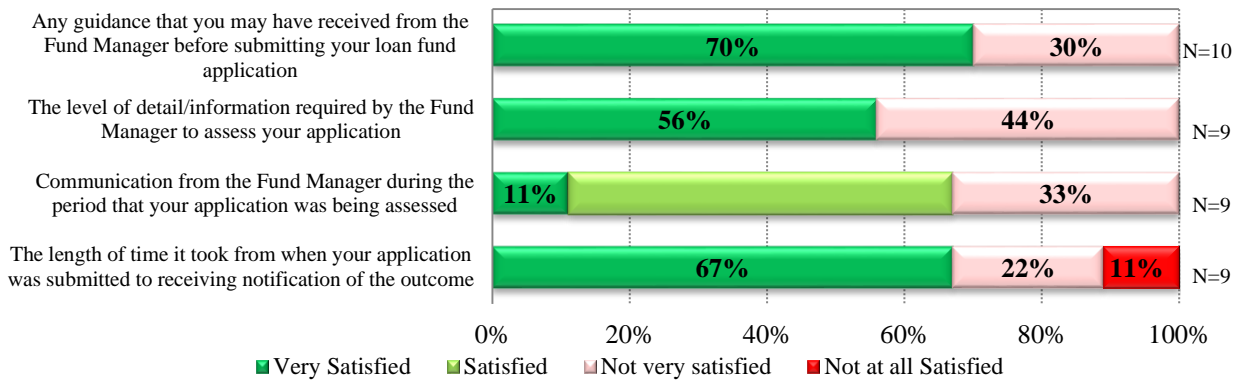


Figure 4.13: To what extent were you satisfied with the following aspects of the GLF process? (Rejected Applicants)



Key points in relation to the previous analysis include:

- Businesses which withdrew their applications to the GLF showed high levels of satisfaction across all aspects of the GLF process including the guidance they received from the Fund Manager before submitting their loan fund application (96%, N=25), communication from the Fund Manager during the period that their application was being assessed (92%, N=25) and the length of time between submitting their application and receiving an offer of assistance (96%, N=23).
- The businesses which were rejected by the GLF showed lower levels of satisfaction with the GLF process than recipients and withdrawn applicants, such as:
 - Over two fifths (44%, N=9) of rejected applicants to the GLF expressed dissatisfaction with the level of detail/information required by the Fund Manager to assess their application.
 - One third (33%, N=9) were not satisfied with the communication from the Fund Manager during the period that their application was being assessed and the length of time it took from when their application was submitted to receiving notification of the outcome.

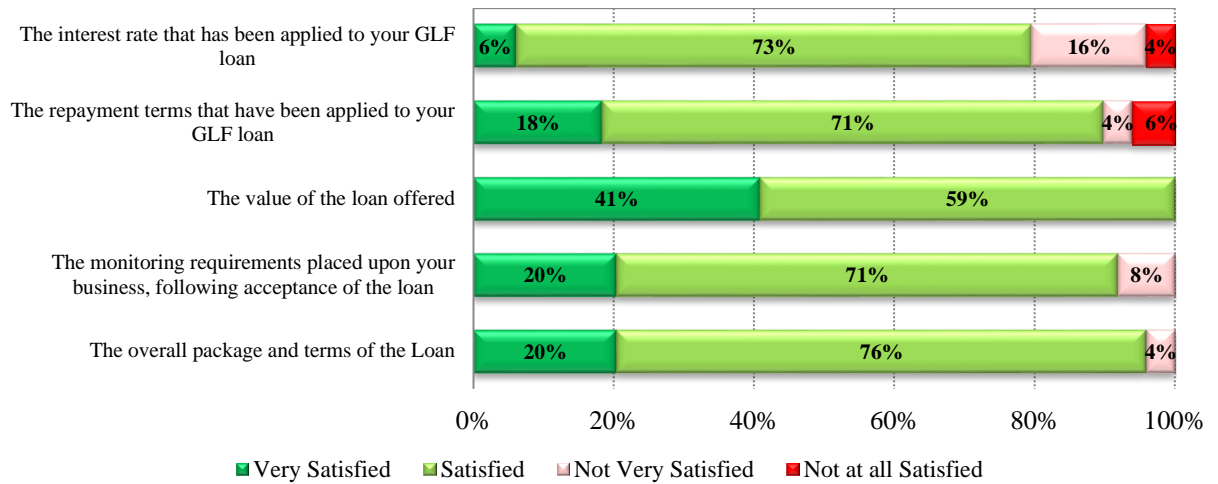
Specific comments made by withdrawn and rejected applicants to the GLF included:

Guidance Offered	<p><i>"We had detailed discussions and I found them easy to work with".</i></p> <p><i>"The guidance provided by the Fund Manager was fine. They provided us with straightforward direction on how to complete the application form".</i></p> <p><i>"I did not feel that we received very much guidance from the Fund Manager".</i></p>
Level of Detail Required	<p><i>"The level of detail required was fine and I understood the need for it".</i></p> <p><i>"It was totally excessive and made the application overly complicated".</i></p> <p><i>"There was too much scrutiny put on the business and we did not feel that it was all necessary".</i></p>
Communication with the Fund Manager	<p><i>"Communication was excellent and the staff were very helpful and professional".</i></p> <p><i>"It took a while to get a response to our queries. I did not feel that we were adequately kept up to date on the progress of our application".</i></p>
Length of Time to Process Application	<p><i>"We were informed promptly about the outcome of our application".</i></p> <p><i>"The Fund Manager was upfront about the rejection of my application so I suppose I am satisfied as I could be given the circumstances".</i></p> <p><i>"The process was slow".</i></p>

Terms and Conditions of the GLF

Over four fifths (80%+, N=49) of GLF recipients indicated that they were satisfied with the terms and conditions associated with the Fund.

Figure 4.14: To what extent were you satisfied with the following aspects of the GLF terms and conditions? (N=49)



Specifically, the consultation exercise highlighted the following key findings:

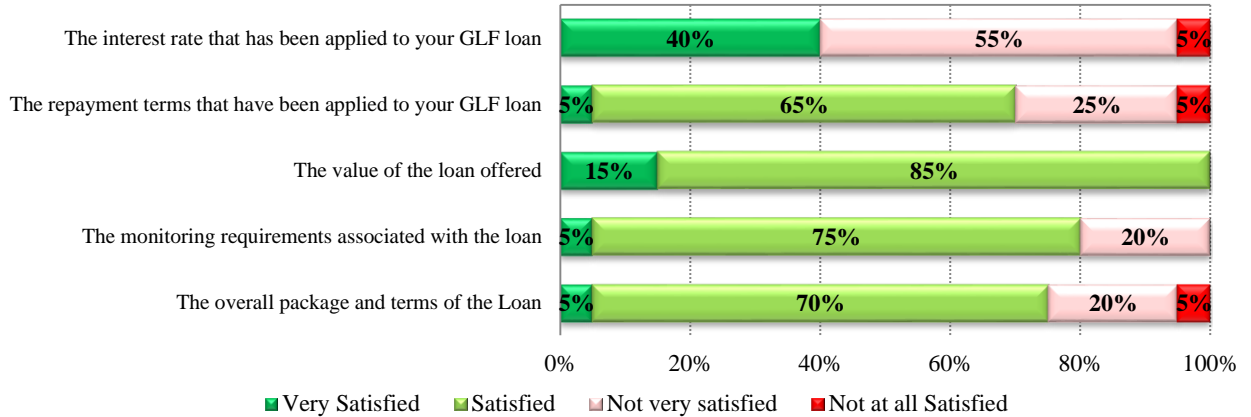
- All (100%, N=49) GLF recipients were satisfied with the value of the loan offered;
- Almost all (96%, N=49) were satisfied with the overall package and terms of the loan;
- The majority (92%, N=49) were satisfied with the monitoring requirements placed upon their business following acceptance of the loan;
- The majority (90%, N=49) of GLF recipients expressed satisfaction with the repayment terms that have been applied to their loan; and
- Four fifths (80%, N=49) were satisfied with the interest rate that has been applied to their loan.

Interest Applied	Rate
<p><i>“We were very happy with the interest rate because it was competitive”.</i></p> <p><i>“The loan was unsecured, so the interest rate was acceptable given the risk involved. I needed the loan so losing a bit off my margins was necessary to achieve the plans for my business”.</i></p> <p><i>“Under the circumstances the interest rate is reasonable. The loan is unsecured, and finance was not available anywhere else. Of course, I would have preferred a lower interest rate”.</i></p> <p><i>“The interest rate was reasonable for an unsecured loan.”</i></p> <p><i>“The interest rate was much too high for a small business to manage”.</i></p> <p><i>“The interest rate is expensive and there were a lot of conditions placed upon the business. We were requested to change banks to save some money but because the bank knew we had to change we did not save that much money”.</i></p>	

<p>Repayment Terms</p>	<p><i>"The repayment terms are good. My loan is repayable over five years which I think is an appropriate length of time".</i></p> <p><i>"All the repayment terms were clearly explained upfront".</i></p> <p><i>"The repayment terms are slightly too short for my business needs. I would have preferred to pay it back over a 7 to 10 year period".</i></p> <p><i>"I would have preferred a 3 year repayment term".</i></p> <p><i>"I was not happy that there was a penalty applied for early repayment of loans in terms of an interest penalty and the profit share element".</i></p> <p><i>"We had to start paying back immediately, it would have been better if we could have delayed the repayments for a while so the project would have had a chance to get started".</i></p>
<p>Value of the Loan</p>	<p><i>"We were very happy with the value of the loan that we received through GLF".</i></p> <p><i>"Whilst we did not receive as high a loan as we initially asked for, the value approved was acceptable".</i></p>
<p>Monitoring Requirements</p>	<p><i>"The monitoring requirements help our business to stay on-top of our accounts and have ultimately helped our business".</i></p> <p><i>"The monitoring requirements were not a problem. We already did monthly reports."</i></p> <p><i>"The monitoring requirements were quite extensive, but it is good for a business to complete monthly reports in any case".</i></p> <p><i>"I would prefer quarterly reporting to monthly reporting as the monthly reports are quite draining on my time".</i></p> <p><i>"The monitoring requirements were excessive, but I understand the need for them".</i></p>
<p>Overall Package</p>	<p><i>"I could not fault anything about the process or terms of the GLF. It was great for my business".</i></p> <p><i>"I am broadly happy, but it would be improved if interest was not only offered on a straight-line basis but instead charged for a short period and also a bullet payment at the end, which would help many small businesses to get on top of their payments".</i></p> <p><i>"It is slightly more expensive than I would like but we were outlined the cost at the outset and we accepted it".</i></p> <p><i>"In hindsight I would have thought more about the terms and conditions before agreeing. The profit sharing element is calculated based on forecasted turnover and not what is actually generated across the five-year period".</i></p>

The chart below shows the levels of satisfaction with the terms and conditions of the GLF expressed by those businesses which withdrew their applications.

Figure 4.15: To what extent were you satisfied with the following aspects of the GLF terms and conditions? (Withdrawn Applicants -N=20)



The GLF applicants who withdrew their applications reported varying levels of satisfaction across the different aspects of the terms and conditions of the Fund, as follows:

- All (100%, N=20) were satisfied with the value of the loan offered, four fifths (80%, N=20) were satisfied with the monitoring requirements and three quarters (75%, N=20) were satisfied with the overall package and terms of the loan.
- However, almost one third (30%, N=20) expressed dissatisfaction with the repayment terms that were applied to their loan and three fifths (60%, N=20) expressed dissatisfaction with the interest rate applied to their loan approval.

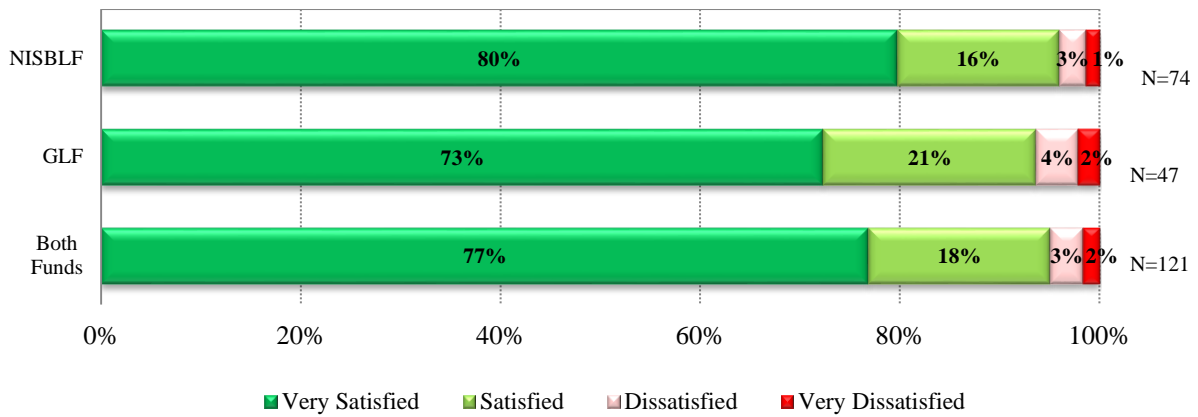
Comments from GLF applicants who withdrew their applications included:

Interest Rate Applied	<p><i>"Considering the circumstances, I felt that the interest rate was acceptable".</i></p> <p><i>"The interest rate charged was fine, but the profit sharing element was not".</i></p> <p><i>"The rate of interest was far too expensive when compared to bank rates".</i></p>
Repayment Terms	<p><i>"The repayment terms were fine for my business".</i></p> <p><i>"We felt that the 5-year repayment period was too long for a small business to profile".</i></p> <p><i>"The terms of the GLF were quite restrictive in terms of repayment period and the profit sharing component".</i></p>
Value of the Loan	<p><i>"We were happy with the value offered as it was the same as what we requested".</i></p>
Monitoring Requirements	<p><i>"The monitoring requirements appeared to be quite onerous".</i></p>
Overall Package	<p><i>"The overall package was good despite the high interest rate".</i></p>

4.8 Overall Satisfaction with the Loan Funds

Building on the high levels of satisfaction reported by loan recipients in relation to the individual areas of support that were delivered through the NISBLF and GLF, the majority of recipients (95% - N=121¹⁰²) indicated that they were very satisfied (77%) or satisfied (18%) with the support provided through the Loan Funds.

Figure 4.16: Overall, how satisfied are you with the support provided through the NISBLF/ GLF?



Four fifths (80%, N=74) of NISBLF recipients were very satisfied with the overall support provided and a further 16% indicated that they were satisfied. Similarly, almost three quarters (73%, N=47) of GLF recipients stated that they were very satisfied with the support received through the Fund.

Feedback from the loan recipients included the following:

NISBLF Recipients	<p><i>“The NISBLF was there at a time that I needed financial support”.</i></p> <p><i>“The Fund Manager was responsive and helpful throughout and was always on the ball”.</i></p> <p><i>“The support and communication we received was really excellent”.</i></p> <p><i>“The speed, simplicity and people involved in the NISBLF all make it a great support programme for small businesses”.</i></p> <p><i>“It was a very smooth and easy process”.</i></p> <p><i>“I was very satisfied with the support in the lead-up to the loan application and any questions after that were answered in full quickly by the team”.</i></p> <p><i>“It allowed us to increase our stock range and survive the market downturn. It came at a crucial time for us”.</i></p> <p><i>“In the absence of the NISBLF, it is unlikely that this project could have gone ahead”.</i></p> <p><i>“My business would not still be operational if I had not received this loan”.</i></p> <p><i>“It was really our only option, but it was a good one”.</i></p> <p><i>“I would have liked to been approved a bigger loan”.</i></p> <p><i>“Overall I am satisfied but the interest rate is too high for my business”.</i></p>
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¹⁰² One online NISBLF recipient and 3 GLF recipients did not complete this question.

	<i>"The NISBLF is beneficial in providing funds where they are necessary, however I feel that charging 8% interest per annum to new start-up businesses which have no other choices, is taking advantage".</i>
GLF Recipients	<p><i>"The expertise and support provided by the Fund Manager was excellent".</i></p> <p><i>"The Fund Manager visits my business every quarter to discuss progress and performance and that support is really beneficial".</i></p> <p><i>"The GLF was very straightforward".</i></p> <p><i>"I found the application process and the due diligence process was greatly assisted by the excellent GLF staff that dealt with us".</i></p> <p><i>"The overall support was fantastic and they were very pro-active in progressing the application".</i></p> <p><i>"Whilst the loan was useful, the interest charged and the level of detail required when applying meant that I was not fully satisfied".</i></p> <p><i>"I am happy that there is a fund available similar to GLF, but I am not happy with the terms and conditions attached".</i></p>

Similarly, almost three quarters (74%, N=35) of NISBLF/ GLF applicants which withdrew their application to either the NISBLF or GLF indicated that they were satisfied on an overall basis with the support provided through the Fund.

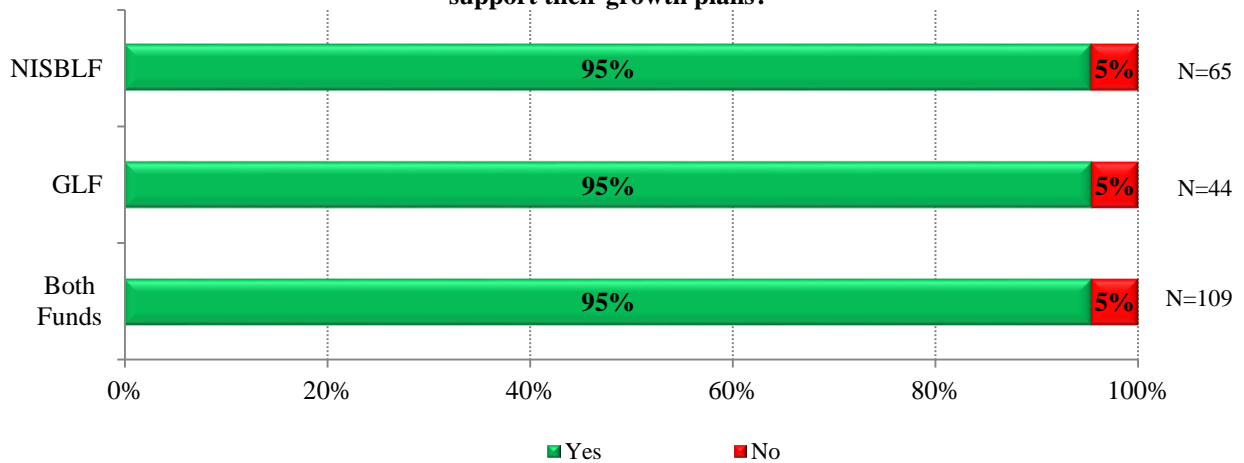
NISBLF Withdrawn Applicants	<p><i>"I am very happy with the support that was offered and provided. They were very professional, and the fund manager made a huge effort throughout".</i></p> <p><i>"Overall the NISBLF was offering a great package, but my business was not in the position to accept the loan at that time".</i></p> <p><i>"It was a good experience but we were ultimately not able to pay the interest rates and went with an offer from our bank instead".</i></p> <p><i>"We decided to withdraw because the interest rate was too high and the Fund Managers required too much monitoring information from us".</i></p>
GLF Withdrawn Applicants	<p><i>"The Fund Managers were very professional and supportive throughout but the package just did not work out for us this time".</i></p> <p><i>"The GLF seemed like a great product, but we didn't need the loan in the end".</i></p> <p><i>"The Fund would be improved if it was made more straightforward and less expensive".</i></p>

However, almost two thirds (63%, N=46) of businesses which were rejected for the Loan Funds expressed overall dissatisfaction with the Funds.

NISBLF Rejected Applicants	<p><i>"I was disappointed with the outcome but the support was adequate otherwise".</i></p> <p><i>"My application was refused and I am still struggling to progress by business".</i></p> <p><i>"The reason why my application was rejected was never made clear, despite attempting to get answers on a number of occasions".</i></p> <p><i>"The people involved did not seem to understand my business".</i></p>
GLF Rejected Applicants	<p><i>"This Fund is supposed to help small businesses, but it did not help mine".</i></p> <p><i>"I am as satisfied as I can be with the limited support that I received in making my application".</i></p>

The majority (95%, N=109) of NISBLF and GLF recipients confirmed that they would recommend the Loan Fund to other businesses who are in need of finance to support their growth plans. These proportions were equal across the NISBLF recipients (95%, N=65) and the GLF recipients (95%, N=43).

Figure 4.17: Would you recommend the NISBLF/ GLF to other businesses which are in need of finance to support their growth plans?



Specific comments included:

NISBLF Recipients	<p><i>“The NISBLF helped me to grow my business, so it could also help others”.</i></p> <p><i>“I found the NISBLF easy to deal with, the application was simple, the loan is unsecured and the repayment terms are reasonable. Therefore I would recommend it”.</i></p> <p><i>“I have already recommended the fund to other businesses”.</i></p> <p><i>“The NISBLF is a good option for people who have ideas and wish to start a business”.</i></p> <p><i>“It is a good option for small local businesses as it provides finance when other providers may turn you down”.</i></p> <p><i>“The fund exists to help viable businesses struggling in the economy to makes changes and stay afloat. I would definitely recommend it”.</i></p> <p><i>“Whilst it depends on the nature and needs of the business, I feel the fund could be useful to others”.</i></p> <p><i>“For businesses which are struggling to secure traditional funding, the NISBLF is definitely a potential option”.</i></p> <p><i>“I would not recommend the Fund as it takes too long for a loan to get approved”.</i></p> <p><i>“I would not recommend it because the interest rates are too high to help small businesses to grow”.</i></p>
GLF Recipients	<p><i>“Yes I would recommend it because the monitoring process actually helps to promote accountability in the business by looking over accounts regularly and keeping on top of everything”.</i></p> <p><i>“The GLF is attractive because it is unsecured lending, and the Fund Managers also ‘buy into’ you as a person as well as the business”.</i></p> <p><i>“This is a good option for businesses with growth potential that need small levels of funding”.</i></p>

	<p><i>"Yes, I have already recommended the Fund".</i></p> <p><i>"This is a good option as it is funding which does not dilute the business".</i></p> <p><i>"The benefit of the Fund is that it gives you the opportunity to look at your business and analyse it in-depth and especially the opportunity for future growth plans".</i></p> <p><i>"In some cases this may be the only (or the only appropriate) option for a business so they should definitely be aware of it".</i></p> <p><i>"Whilst I would recommend the GLF, I would let the businesses know that it may be more expensive than alternatives".</i></p> <p><i>"I would not recommend the Fund under the current Fund Managers as I found the process too complicated and restrictive".</i></p> <p><i>"I would only recommend this to a business if they had exhausted other options because it is expensive".</i></p>
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Over three quarters (77%, N=35) of NISBLF/ GLF which withdrew their applications indicated that they would recommend the Fund to other businesses in need of finance to support their growth plan. Specific comments included:

NISBLF Withdrawn Applicants	<p><i>"I would recommend the Fund because it was a good process to be in, just not suitable for us at that point".</i></p> <p><i>"I can see how the NISBLF would work well for other businesses".</i></p>
GLF Withdrawn Applicants	<p><i>"We would definitely recommend the GLF as encourage businesses to consider it as a potential funding option".</i></p> <p><i>"The GLF fills a gap in the market to offer risk capital without diluting the business".</i></p> <p><i>"Whilst I would recommend it, I would tell them to be cautious about the costs involved".</i></p> <p><i>"Only as a last resort".</i></p>

In contrast, just under two thirds (64%, N=47) of businesses which were rejected for the NISBLF/ GLF said that they would not recommend the Fund to other businesses.

NISBLF Rejected Applicants	<p><i>"The NISBLF is a good concept, but it is a waste of business time if you apply and get rejected so I could not really recommend it to businesses in my industry".</i></p> <p><i>"The Fund might work better for other businesses than it did for mine, so I would maybe recommend it under the right circumstances".</i></p>
GLF Rejected Applicants	<p><i>"I would not want other businesses to know that I was unsuccessful in my application so I would not recommend the GLF".</i></p> <p><i>"The Fund definitely provides a potential. I would not reapply again myself, but that would not stop me from recommending it to others".</i></p>

Businesses which either withdrew their application or had their application rejected for the NISBLF/ GLF were asked whether they envisage that they would make any future applications to the Fund.

Two fifths (40%, N=82) of these applicants stated that they would not apply to the NISBLF/ GLF again in the future.

Table 4.8: Repeat Applications to the NISBLF/ GLF						
	Withdrawn		Rejected		Total	
	No.	%	No.	%	No.	%
Yes	22	59%	27	60%	49	60%
No	15	41%	18	40%	33	40%
Total	37	100%	45	100%	82	100%

Circa two fifths of withdrawn/ rejected applicants to both the NISBLF (38%, N=47) and the GLF (43%, N=35) stated that they did not envisage making any future applications to the Fund in question. Specific reasons stated by consultees included:

NISBLF Withdrawn and Rejected Applicants	<i>"I have already been rejected for the Fund, so I do not feel any motivation to reapply".</i>
	<i>"I felt that the business was turned down for non-substantial reasons so I would not feel it was worthwhile to apply again".</i>
	<i>"We thought that the offer was quite expensive so we will continue to look elsewhere in future".</i>
GLF Withdrawn and Rejected Applicants	<i>"I did not feel that the GLF understood my sector well enough".</i>
	<i>"The business is in a position where we do not require a loan".</i>
	<i>"The due diligence and level of information required was too extensive for my business".</i>

4.9 Recommendations for Improvement

A sample of the final comments and recommendations suggested by consultees are included in the table below:

NISBLF Recipients	<i>"I would have liked to have been offered some mentoring support, and maybe to get some information on grant support that would be available to me".</i>
	<i>"The Fund Manager needs to listen more carefully. I was not able to meet my repayments for two months until I started my business but the loan was started anyway".</i>
	<i>"I would like to be able to apply for another loan while repaying the one I have now".</i>
	<i>"It might be beneficial if the Fund implemented a variable interest rate instead of only a fixed rate".</i>
	<i>"The Fund would be better if there was a faster turnaround of loans".</i>
	<i>"I would prefer if the interest rate were lower and the value of the maximum investment was higher".</i>
	<i>"The NISBLF should be promoted more widely to ensure that all small businesses are aware of the support available to them".</i>
	<i>"Greater follow-on investment opportunities should be provided for businesses that prove themselves to be viable, growing and successful".</i>

<p>NISBLF Withdrawn Applicants</p>	<p><i>“The interest rate should be lowered”.</i></p> <p><i>“It would be good to have more face to face consultations in the very early stages. Meeting in person as soon as possible would allow for a better relationship to be formed, especially if you do end up drawing-down a loan”.</i></p> <p><i>“The loan would be better if it could be repaid over more than 5 years”.</i></p>
<p>NISBLF Rejected Applicants</p>	<p><i>“The Fund would be improved if businesses were notified more quickly about the outcome of their applications”.</i></p> <p><i>“The Fund Manager should offer better clarification as to the reasons behind the rejection of applications”.</i></p> <p><i>“The Fund should be publicised more widely”.</i></p> <p><i>“At the outset it would be helpful if they advised whether you were considered to be high risk so you could decide whether to invest resources in applying at all”.</i></p>
<p>GLF Recipients</p>	<p><i>“The interest rate and profit share component should be reduced”.</i></p> <p><i>“The length of time between submitting the application and receiving the offer of assistance could be shortened”.</i></p> <p><i>“Better promotion of the GLF is needed to access all potential recipients”.</i></p> <p><i>“It would be helpful if more information was provided about the criteria to qualify for a loan”.</i></p> <p><i>“The application and approvals process could be stream-lined to get the approvals faster”.</i></p> <p><i>“I would appreciate greater flexibility in commencement of repayments following loan draw-down to allow the project to start generating income”.</i></p> <p><i>“The Fund could consider offering an ‘interest only’ repayment period”.</i></p>
<p>GLF Withdrawn Applicants</p>	<p><i>“The GLF would be better if it was less restrictive in terms of fees, rates and repayment periods”.</i></p> <p><i>“The Fund is generally pretty good although it would be better if the interest rates were lowered”.</i></p>
<p>GLF Rejected Applicants</p>	<p><i>“The criteria for eligibility and likelihood of success should be stipulated more clearly to stop people applying if they are unlikely to be successful”.</i></p>

4.10 Summary Conclusions

The preceding analysis suggests that:

- On an overall basis, recipient businesses were satisfied with the support provided through, and the terms of conditions of both, the NISBLF and GLF. Similarly, businesses which applied to the Funds but subsequently withdrew their applications were satisfied with the Loan Funds on an overall basis, but levels of satisfaction were (perhaps understandably) lower amongst businesses which were rejected following submission of an application.
- Businesses primarily became aware of the loan funds through recommendations and word-of-mouth including through economic development agencies, peers and professional advisers, but over two fifths of NISBLF and GLF recipient businesses indicated that the promotion of debt finance in NI could be improved.
- Over three fifths (63%, N=200) of all applicants (recipients, businesses which withdrew their applications and those which had their application rejected for the Fund) identified that the finance raised through the Loan Funds was for general business expansion. Other uses of the loans

amongst recipients were to finance working capital requirements (69%, N=109) and to develop and launch new products (10%, N=109).

- The survey analysis evidenced that over four fifths of recipient businesses had applied for or sought to raise the necessary finance to implement their project through other sources prior to accessing the Loan Funds with a greater proportion of NISBLF recipients (86%, N=73) having sought/ applied for funding elsewhere, than GLF recipients (73%, N=48). In almost three fifths (59%, N=106) of cases, the business had previously applied for a loan from the Bank where their business account is held. However, only 10% (N=63) of these bank applications proved to be successful.
- Allied to the previous point, the most common reason why all applicants applied to the Loan Funds was because other potential funders had previously turned their applications down.
- NISBLF and GLF recipients expressed satisfaction with all aspects of the lending process including the guidance and communication from the Fund Manager both during and following the application process, the level of detail required by the Fund Manager and the length of time taken to process their application. Businesses which were rejected for the Funds showed lower levels of satisfaction on these aspects and particularly in terms of the length of time it took from submission of their application to receiving notification of the outcome of their application.
- Whilst the majority of businesses indicated that they were satisfied with the interest rates (particularly in light of the loan being unsecured) and repayment terms that were applied to their NISBLF and GLF loans, a number of businesses expressed some dissatisfaction with these aspects. In particular, a number of businesses expressed a preference for greater flexibility in the duration of the loan terms under GLF, reduced penalties for early repayment and greater flexibility with respect to repayment start-dates.
- Positively, almost all (95%, N=109) recipients of loans through the NISBLF and GLF would recommend the Funds to other businesses that are in need of finance to support their growth plans.

5. STAKEHOLDER FEEDBACK

5.1 Introduction

The feedback received from a wide range of stakeholders relating to the following factors is summarised below:

- The need and demand for the NISBLF and/or GLF;
- The effectiveness of the management and delivery of the Funds; and
- The operational fit and levels of complementarity of the Funds within the wider NI marketplace.

It should be noted that many stakeholders were not in a position to offer detailed insight into some aspects of these topics due to them not being overly familiar with the detailed operations of one or both Funds, and spoke instead from a broader perspective relating to the views on the need for the support of risk capital within NI, or how such products fit, or might fit, within the marketplace.

5.2 Views on the Need and Demand for the Funds

5.2.1 Need for Support relating to Risk Finance

Stakeholders were uniformly in agreement that there is a **continuing need** for the public sector to support the provision of risk capital to SMEs in NI. Influencing factors cited included:

- Northern Ireland’s business base’s (historic) dependency on grant funding and low interest debt finance and its lack of appetite (at least prior to 2008) for risk capital.
- The legacy of the economic downturn, when it was suggested that the traditional finance providers such as banks became more risk adverse and tightened controls on lending.
- A lack of awareness and/or understanding amongst NI’s SMEs of risk capital (and particularly mezzanine funding).

The fact that both Funds have been active, despite charging interest rates above typical market rates, was suggested by many stakeholders to be reflective of an active demand for the Funds.

5.2.2 Need for the NISBLF

Stakeholders were broadly of the view that there was a continuing need for the NISBLF (or similar smaller-scale debt capital product). Feedback received suggests that:

- **NISBLF continues to fill a gap in the market for smaller-scale debt capital.** It was suggested that whilst banks appeared to be increasing their lending to businesses (including those that might represent a typical NISBLF applicant), levels of lending had yet to return to pre-downturn levels. In addition, it was the view of some stakeholders that, even in the absence of the economic downturn, there is always a cohort of viable businesses that find it difficult to access bank finance for a variety of reasons (e.g. those without adequate security or trading history).
- Indeed, such views were supported by consultees from the banking sector, who suggested that whilst start-ups and existing SMEs are an important part of their business, they had referred businesses to the NISBLF. Such situations, for example, arose when a business may have reasonable potential but did not have adequate security to access bank finance. In relation to such activity, it was suggested that **more could be done to generate awareness of, and educate bank staff** about, the Fund and to encourage referrals.
- Those consultees that considered themselves in a position to comment, suggested that levels of demand for the NISBLF should be viewed positively, and **similar levels of demand should be anticipated** for the future.

5.2.3 Need for the GLF

Some stakeholders admitted that they had initial reservations as to whether the NI marketplace was mature enough to support a mezzanine loan fund, but the majority agreed that the relatively steady demand for GLF loans has served as evidence of both latent demand and a need for the GLF. Feedback received suggests that:

- The GLF model is well regarded and considered to be innovative within the NI market.
- Some stakeholders were of the view that NI would **benefit from further mezzanine finance providers being active** in the marketplace, albeit there was some reservation as to whether the NI market is sufficiently mature to pay the risk premiums which would be required by private mezzanine providers similar to those present within other regions of the UK.
- Encouragingly, some stakeholders considered that the presence of the GLF was playing **an important role in educating NI businesses** as to the role and costs associated with risk capital. It was suggested that over time, this would make the NI market more attractive to private providers.
- A small number of consultees close to the Fund suggested that the current KPI target of 30 investments per annum is a reasonable reflection of demand in the marketplace, and that the current activity/demand profile suggests that the NI market consists of **a smaller number of businesses seeking larger sized loans** (than was anticipated at the outset). Indeed, one consultee suggested that larger and more established SMEs are now applying to the Fund which lowers the overall risk profile¹⁰³.
- Unlike the market for smaller loans (such as those under £50k, and offered by NISBLF), consultees were generally of the view that the banking sector has shown more willingness to lend larger values to more established businesses similar to those seeking GLF funding. However, a number of consultees suggested that, at present, banks are often unwilling/unable to provide the entire loan value requested by businesses to achieve their growth plans (for example, where the business/project is considered to be higher risk). In turn, it was suggested that the GLF is playing **an important role in providing the ‘risk-component’ within a syndicated lending package**, alongside other funders such as banks, equity, venture capital, crowd-funding etc.
- It was suggested that for historic and cultural reasons, NI business owners are reluctant to dilute ownership in their businesses, which was suggested to make the GLF a more attractive form of finance than equity finance even if a significant premium is required in interest rates.

However, it should be noted that a small number of strategic stakeholders suggested that whilst the GLF has served a valuable purpose (e.g. by bridging the gap where the banking sectors considers a deal may be too risky), the level of demand for it going forward may not be at the level that has been experienced to date. A view was posited that Northern Ireland has only a finite number of businesses that would likely ever avail of a fund such as the GLF, and many of these may already have accessed it. We further note that, should such a risk be realised, it would inevitably have implications for the level of financial returns that a private sector investor might achieve.

¹⁰³ This view is supported by lower interest rates being charged in Years 3 and 4 than in Years 1 and 2, which perhaps, in part, suggests that recipient businesses in recent years are considered to be at lower risk of default.

5.3 Management and Delivery of the Funds

Across both Funds, stakeholders were complimentary about their management and delivery.

5.3.1 Management and Delivery of the NISBLF

Stakeholders were of the view that the NISBLF has been managed and delivered effectively. Specific feedback is detailed below:

- Consultees were broadly in agreement that **the current investment range of £1,000 to £50,000 is appropriate** and also that **the interest rates charged are largely appropriate** (compared with traditional lenders) given the additional risk associated with unsecured lending.
- Some stakeholders suggested that there should be **scope to increase the NISBLF's upper limit** to c£100,000 (as loans in the range £50,000-£100,000) were considered difficult for the GLF, but it was caveated that some additional layers of scrutiny may be required for loans of that scale.
- One consultee questioned the use of **personal guarantees** for some NISBLF loans. Whilst the consultee acknowledged that personal guarantees may encourage individuals/businesses to fully consider the implications of defaulting on their loan, he/she suggested that personal guarantees might inhibit some viable businesses from applying and additionally might be off-putting to other investors considering the business during the investment or repayment period. The consultee further noted that the interest rates applied to the loans already include a premium to the investors, and that the risk level should be accounted for in the returns rather than through additional guarantees. As such the consultee recommended that 'softer' agreements than personal guarantees should be used to provide security and assurance to the NISBLF Fund Manager.
- UCIT's and ENI's knowledge and experience of working with **social economy enterprises** was suggested to provide the NISBLF with **a unique selling point**.

5.3.2 Management and Delivery of the GLF

The stakeholder consultees were generally¹⁰⁴ **very positive about how the GLF has been managed and delivered**, and the role of the EDO therein. Key positives were suggested to include the EDO's role relating to:

- The promotion of the Fund and mezzanine finance in general (to both the business-base and referral organisations)¹⁰⁵; and
- The assessment and selection of loans, and subsequent portfolio management.

Other feedback included:

- The advice and guidance provided by WhiteRock to businesses has served to **increase recipient businesses' professionalism**. It was suggested for example, that recipients had introduced financial management and governance processes, so as to align with the Fund's monitoring requirements, and that this in turn had made them more suitable for consideration for later-stage funding¹⁰⁶.
- Mixed feedback was received in relation to the **GLF's typical investment range**. Whilst all stakeholders considered the loans in the range £50,000 to £500,000 were appropriate for the GLF, some considered that where traditional lenders had decided that the business was too risky to lend to, then £500,000 should represent the upper limit or 'cap' on unsecured lending. In contrast, other consultees were of the view that GLF should have the flexibility to be able to offer loans of circa £1m to £1.5m, where suitable viable investment opportunities arise.
- One consultee suggested that the **risks associated with larger deals** (those over £500k) could be managed if the Fund Manager had an option (although not necessarily a requirement) to sit on the Board of Directors

¹⁰⁴ With levels of knowledge varying depending on stakeholders' level of engagement with the Fund.

¹⁰⁵ Indeed, one consultee stated that "*no one else could possibly have done more than WhiteRock*" in terms of educating the marketplace about mezzanine debt.

¹⁰⁶ NB This aligns with the feedback from the GLF recipient survey where a number of businesses indicated that the management and monitoring processes required through the Fund had improved their overall business.

for these businesses. It was suggested that this would offer the Fund Managers the opportunity to achieve strategic, as well as financial, oversight of the business' progress throughout the repayment period¹⁰⁷.

- Most stakeholders, but not all, were in agreement that **the interest rates charged on a GLF loan are reasonable** and reflective of the additional risks associated with unsecured lending when compared with traditional bank lending.
- One stakeholder voiced some concern that **the mezzanine structure of the loan may be overly complex for some businesses**, which in turn might present risks relating to the loan's repayment and the business' ongoing growth (and access to other finance) throughout the repayment period. Indeed, this individual suggested that they were familiar with at least one GLF recipient business that did not appear to fully understand the terms and costs of their GLF loan. Whilst the consultee was in no doubt that the Fund Manager would have informed the company about the loan's the terms and conditions, they recommended that the Fund Manager should review the presentation of key terms and conditions included within all recipient documentation to ensure that there is absolute clarity amongst recipients prior to draw-down.
- Suggested improvements/changes to the GLF included:
 - Allow the Fund to **recycle loan monies** which are repaid ahead of term, albeit on the condition that the recycled loan was fully repayable within the 10-year term; and related to this suggestion
 - Allow the Fund to **offer loan terms of less than 60-months**, which it was suggested would broaden the target market.

5.4 Operational Fit and Complementarity

Stakeholders were uniformly of the view that **both Funds are complementary** to the wider finance market (both public and private) in NI **and do not duplicate or displace other activity**.

5.4.1 Operational Fit of the NISBLF

The NISBLF was considered to be unique within NI in terms of the types of businesses served and the level of funding offered. Specific feedback included:

- Whilst similar in some respects, it was suggested that NISBLF and the Start-Up Loans (SUL) delivered by British Business Bank and administered by ENI in NI differ from one another and are complimentary; insofar as:
 - The Start-Up Loans is more focused on start-up businesses arising from the Regional Start Initiative¹⁰⁸; whereas the NISBLF was suggested to have increasingly focused on the provision of finance to existing businesses (and particularly across Years 2 and 3 of the Fund, as demonstrated in Section 2) that cannot access funding from elsewhere.
 - Indeed, it is understood that both Funds, after an initial period of ascertaining the relative merits of the other, have found an equilibrium in the marketplace, with both now proactively referring businesses that might be considered more suitable to the other offering (e.g. loans under £10k and/or start-up businesses are directed to the SUL and loans over £10k and/or established businesses are directed to the NISBLF).
- One consultee suggested that the two main competitors to the NISBLF were likely to be banks and crowd funders, but considered that the actual level of duplication between the three would be limited for the following reasons:
 - The types of businesses which typically seek out NISBLF funding (e.g. retail businesses and businesses which do not have a strong export focus) are often refused funding by banks; and
 - The investors and investees involved in crowd-funding initiatives in NI are often unsophisticated, with investment decisions made on a looser set of criteria than is the case with NISBLF. Whilst recognising its growing popularity, it was suggested that such an investment vehicle did not present a sustainable alternative for many businesses.

¹⁰⁷ Albeit, this same consultee suggested that the Fund Manager's portfolio managers already have greater oversight of the operations and performance of recipient businesses than traditional lenders would as a result of their portfolio being smaller.

¹⁰⁸ Consultation with the SUL Fund Manager indicated that 95% of Start-Up Loans applicants have previously participated in the RSI.

5.4.2 Operational Fit of the GLF

The GLF was broadly considered to provide a good fit within Invest NI's 'Access to Finance' portfolio and within the broader marketplace. Specific feedback included:

- There is little risk of the GLF duplicating bank activity as businesses will always, where possible, choose the less costly bank lending rather than paying the interest premium required by the GLF.
- Stakeholders considered that there is generally **little potential for overlap in the businesses that might seek GLF or equity finance** (e.g. TechStart NI given the similar investment range). Specifically, it was suggested that:
 - Equity funders are less interested in the current stability of cashflows (or indeed whether the business is necessarily already trading for profits) and more interested in whether the business offers a potential high growth trajectory, with strong export potential.
 - In contrast, a business' ability to repay the loan is the key requirement for the GLF, so steady growth (without necessarily huge rises in profits or export sales) is most important when assessing a GLF application. Furthermore, the stakeholders noted, that many businesses in NI will choose debt finance over equity finance as they would rather pay a premium on interest than dilute ownership of the business through equity.
- However, it was suggested that in some cases where the business has both the cashflow to meet repayments and high growth potential, there are opportunities for syndicated deals to be undertaken with both secured and unsecured debt as well as equity finance.
- Indeed, consultees were of the view that the providers of different types of finance have increasingly been **working closer together to identify possible syndication opportunities** for the benefit of all parties involved. In such cases, the GLF was suggested as complementing other finance by providing finance where there would otherwise be a funding gap. Consultees noted that, in particular, the GLF has:
 - Already syndicated on deals along with Crescent Capital;
 - Has negotiated with Kernel Capital (although, as of yet, has not completed a syndicated investment¹⁰⁹); and
 - Worked closely with many banks including Danske Bank with which it has undertaken syndicated investments.
- In terms of creating and **contributing to a continuum of finance**, consultees suggested that GLF could both provide and receive a pipeline of investible propositions for and from other finance products, as follows:
 - Small-scale equity investments (e.g. less than £250k) could potentially develop a business to the extent that it would be stable enough to proceed to access a larger scale unsecured loan through the GLF. However, it was suggested that it was, to date, too early to see this relationship in practice.
 - Similarly, the consultees believed that in time some businesses which have received GLF loans would be of sufficient scale and maturity to consider accessing larger-scale follow-on investments through equity, or would have sufficient trading history and repayment track record to access secured debt.
- However, it should be noted that one consultee was of the view that there is a risk that the EDO (being a commercial entity in its (their) own right)) might ultimately seek to retain their 'star' businesses by offering them the range of finance options available to them, rather than referring them onto other funds, where it might be more appropriate to do so, if considered objectively.

¹⁰⁹ It should be noted that Kernel Capital was positive about the prospects for syndication in the future.

5.5 Summary Conclusions

Key conclusions arising from our series of consultations with stakeholders include:

- Both the NISBLF and GLF (as finance products) and their respective EDO's management of those products are highly regarded;
- A continuing need is suggested to exist for both, alongside an associated need for government intervention in their provision.
- Current (as of November 2015) levels of demand are considered to be reflective of a realistic level of demand for both Funds; and
- Both Funds are complementary to other risk capital (both public and private) and finance products available in the NI marketplace.
- GLF's role is changing to an extent, with an increasing role in syndicated deals.

6. IMPACT OF THE NISBLF

Section 6 considers the impact of the NI Small Business Loan Fund.

6.1 Influence on Undertaking Activities (Activity Deadweight)

6.1.1 Recipients' Views on NISBLF's Influence

The net impact (i.e. it's additionality) of the NISBLF relating to businesses' decision to engage in the business development activities discussed at Section 4.3, or where relevant, to undertake those activities to a similar scale and/or within a similar timescale, can only be measured after making allowances for what would have happened in the absence of receiving the loan. That is, an allowance must be made for deadweight. 'Deadweight' refers to activity that would have occurred without the intervention i.e. receipt of the NISBLF loan.

Appendix XIX provides a detailed overview of the Evaluation Team's deadweight/additionality calculations. However, in summary, we have calculated levels of activity deadweight using a 'participant self-assessment' methodology. The methodology utilises a series of questions¹¹⁰ within the participant survey and assigns weightings (agreed in conjunction with DETI's Economist Team) to the individual responses.

The questions sought to ascertain respondents' views on the impact that the receipt of the NISBLF loan had on their decision to take forward the business development activities. Options included:

- Whether they would have taken forward the activities at all;
- Whether they would have taken forward the activities but on a reduced scale;
- Whether they would have taken forward the activities, but at a later date;
- Whether they would have taken forward the activities but on a reduced scale and at a later date; and
- Whether they would have taken forward the activities at the same scale and within the timescale regardless of receiving the NISBLF loan.

Depending on the response provided, a level of additionality/deadweight was applied. For example, a respondent who indicated that they definitely would not have taken forward the business development activities in the absence of the NISBLF loan would have been assigned a level of 100% additionality (i.e. full additionality). Conversely, a respondent who indicated that they definitely would have taken forward the activities within the same timescale regardless of the receipt of the loan would have been assigned a level of 100% deadweight (i.e. no additionality). Other responses were given a weighting somewhere between these two extremes (i.e. a level of partial additionality/deadweight).

The outcomes of the analysis are provided below:

Table 6.1: Programme Additionality/deadweight (N=64)	
Deadweight	Additionality
53.6%	46.4%

"Had we not received the loan, it would have delayed the introduction of our new service, because it would have taken longer to raise the necessary finance."

"I think I would have been able to find other sources of finance fairly quickly."

"I would have had to accrue the necessary capital to pay for the project."

¹¹⁰ In-line with DETI guidance, these questions focused on identifying the likelihood that the individual would have undertaken the business development activities, what scale of activities would have been undertaken in the absence of support (if relevant) and how much later would the activities would been undertaken (if relevant).

“There was no alternative source of finance available to me.”

“It would take time to find the additional finance required.”

“It would have taken a bit of time to find the finance. At the time that I applied, I did not think that banks were lending, but they were.”

“It would have taken longer to raise the finance and it would also have been difficult to do the activities to the same scale.”

“I would have had to save up the money myself.”

“The SBLF was our last option; there was no finance available elsewhere.”

“We could have undertaken some of the activity, as we could afford to order some additional stock, but not the amount we had planned.”

“We would have had to work with our suppliers more and negotiate, although I do not think that I would have bought everything that I did.”

NISBLF Loan Recipients

Whilst the level of deadweight associated with the activity undertaken utilising the NISBLF loan appears somewhat high at 53.6%, it is the Evaluation Team’s view that this should perhaps not be unexpected. We note the following:

- Positively, none of the 64 respondents to this question reported that they would *“definitely have undertaken the activities anyway (to the same extent and within the same time period) in the absence of the support received through the NISBLF”* i.e. no response represented full deadweight;
- Many (perhaps all) of the loans received through the NISBLF might be considered to be reasonably small in value. Our analysis of individual responses received indicates that respondents considered that they could have financed the project from their own business’ finances. However, it would have taken some time (anywhere from 6 months or more) to accumulate the necessary reserves. The merit of the NISBLF is that it helps ensure that the business development activities occur in a more timely manner; and
- The NISBLF Economic Appraisal’s Preferred Option was selected on the assumption that deadweight of c50% might be evident at the individual project level. The Economic Appraisal stated that *“based on guidance from Invest NI economists, we have applied a 50% additionality coefficient which, in the absence of any previous evaluation on a loan fund of this nature, is based on actual performance achieved by projects as reported in BIS and SFA evaluations”*. Whilst this level of deadweight was applied to the EA’s projected impact analysis, no narrative is provided as to the specific sources of the deadweight values¹¹¹, or whether they related to deadweight associated with activity or impacts.

¹¹¹ That is, the actual programmes or projects that are the basis for the suggested level of additionality. Given the substantial differences that are found in terms of the level of additionality achieved across different types of economic development projects such clarity would typically be required so as to provide comfort that an appropriate ‘like for like’ has been used.

6.1.2 Progress Made in the Absence of the NISBLF

The surveys undertaken with businesses which withdrew their NISBLF applications, or had been rejected, sought to determine the extent to which progress was made by these businesses towards their plans in the absence of receipt of loans through the Fund.

Table 6.2: In the absence of receiving a NI Small Business Loan, which one of the following statements best describes what happened to your proposed plans for how you were going to use the Loan monies? (N=49)

	Withdrawn		Rejected		Both	
	N=	%	N=	%	N=	%
None of the proposed activity was undertaken	8	53%	11	32%	19	39%
Some of the proposed activity was undertaken, but to a lesser extent (i.e. reduced scale)	2	13%	6	18%	8	16%
Some of the proposed activity was undertaken, but at a later date than was originally planned	1	7%	11	32%	12	25%
Some of the proposed activity was undertaken, but to a lesser extent and at a later date than was originally planned	1	7%	1	3%	2	4%
All of the proposed activity was undertaken to the same extent and to the original timeframe as originally planned	3	20%	5	15%	8	16%
N=	15	100%	34	100%	49	100%

The table above indicates that almost two fifths (39%, N=49) of those businesses which either withdrew their application or had their application rejected for the NISBLF did not subsequently undertake any of the activity proposed in their applications.

Specific explanations as to why no activity was undertaken included the following:

NISBLF Withdrawn Applicants	<p><i>“I withdrew my application because I felt that the interest rates were too high but without a loan I had no finance to undertake any project activity”.</i></p> <p><i>“I took forward a different type of project from the one which I had applied for the NISBLF”.</i></p> <p><i>“Our business was already growing so we decided not to take forward those particular activities”.</i></p>
NISBLF Rejected Applicants	<p><i>“I could not secure finance elsewhere to undertake any of the activities proposed”.</i></p> <p><i>“Without the NISBLF Loan I was unable to start my business”.</i></p>

Over two fifths (45%, N=49) of applicants who either withdrew their application or were rejected for a loan indicated that in the absence of receiving a NISBLF loan they have undertaken **some, but not all**, of the activity proposed but either to a lesser extent or at a later stage, or in some cases both to a lesser extent and at a later stage.

Businesses which undertook some, but not all, of the proposed activities made the following comments:

Withdrawn Applicants	<p><i>"We were able to self-finance a portion of the activity".</i></p> <p><i>"A private investor helped us to complete the project but the funding took longer to secure so there were delays in delivery".</i></p>
Rejected Applicants	<p><i>"In the absence of the loan we could not afford to take forward all of the activities but we completed a portion".</i></p> <p><i>"It took some time to find an alternative source of finance which resulted in project delays".</i></p> <p><i>"I was able to secure funding from elsewhere, but it took some time".</i></p>

Less than one fifth (16%, N=49) of the rejected/ withdrawn businesses undertook all the activity they had proposed in the absence of the NISBLF loan. Businesses that had completed all the proposed activities provided the following rationale:

Withdrawn Applicants	<p><i>"We took out a new credit card and took the activity forward as planned".</i></p> <p><i>"A bank provided us with a loan and we proceeded as proposed".</i></p>
Rejected Applicants	<p><i>"I was able to get the finance I needed elsewhere and continue with my project as I originally planned".</i></p> <p><i>"We got support through the Credit Union instead which enabled us to undertake all of the proposed activity".</i></p> <p><i>"I negotiated with my suppliers for better terms and was therefore able to proceed as planned without the loan".</i></p>

Two thirds (67%, N=30) of those businesses which proceeded to undertake either all or some of the proposed activity in the absence of the NISBLF did so independently, with the remaining third (33%, N=30) securing support from elsewhere to enable them to achieve their plans.

	Withdrawn		Rejected		Total	
	No.	%	No.	%	No.	%
Independently	5	71%	15	65%	20	67%
Support from Elsewhere	2	29%	8	35%	10	33%
Total	7	100%	23	100%	30	100%

Sources of other support cited by consultees included family and friends, banks, Invest NI, credit unions and private investors.

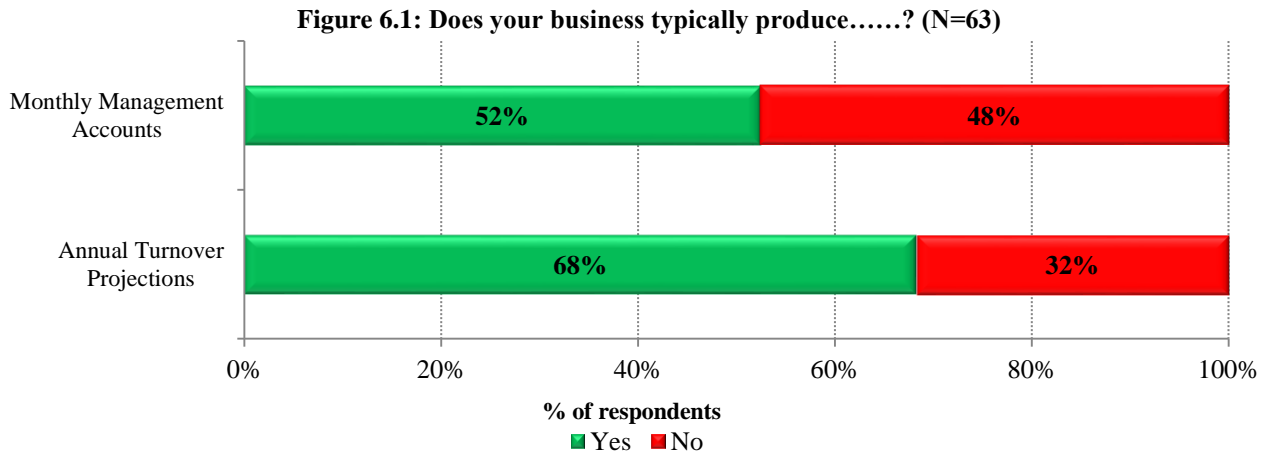
6.2 Gross Impact on Business Turnover & Jobs

6.2.1 Introduction

The Evaluation Team notes that an aspect of the evaluation required us to ascertain NISBLF recipients' views on both any impact of the loan to date upon their business' turnover and jobs, and also their views on its likely impact in coming years. This requirement was discussed with the NISBLF Fund Managers, who voiced some concern as to respondents' ability to provide reasonable or realistic projections of their businesses' future performance. They noted that as part of the NISBLF loan fund application process, applicants are not required to provide projections of future business performance on these metrics.

To this end, and in order to provide a gauge of respondents' business acumen and practices, we asked respondents whether their business typically produces annual turnover projections or monthly management accounts. Our analysis indicates that:

- Only half (52%, N=63) of respondents typically produce monthly management accounts; whilst
- Two-thirds (68%, N=63) indicate that they typically produce annual turnover projections.



These findings indicate that the Loan Fund Manager's concerns have some legitimacy and some caution should subsequently be taken when interpreting respondents' views on their future business performance.

6.2.2 Baseline Job Creation Projections (Per Applications)

Applicants to the NISBLF provide projections for the number of full-time and part-time jobs which they anticipate will be created and safeguarded (within 12 months) as a result of undertaking the project that is under consideration with the application¹¹². The table below outlines the jobs which were projected to be created between February 2013 and September 2015¹¹³ by loan applications approved within that period¹¹⁴.

Table 6.4: Applicant's Anticipated Gross Outcomes (within 12 months)												
	Year 1 (14 months)			Year 2 (12 months)			Year 3 (6 months) ¹¹⁵			Total		
	Start-up	Existing	Total	Start-up	Existing	Total	Start-up	Existing	Total	Start-up	Existing	Total
No. of Loans Approved	34	31	65	37	43	80	6	32	38	77	106	183
Jobs created FT	78	47	125	56	87	143	6	46	52	140	180	320
Jobs created PT	84	40	124	34	21	55	5	14	19	123	75	198
Total Jobs created (FTEs)	120	67	187	73	97.5	170.5	8.5	53	61.5	201.5	217.5	419
Average Jobs created (FTEs)	3.5	2.2	2.9	2.0	2.3	2.1	1.4	1.7	1.6	2.6	2.1	2.3
Jobs safeguarded FT	37	122	159	82	276	358	8	214	222	127	612	739
Jobs safeguarded PT	16	57	73	61	77	138	3	56	59	80	190	270
Total Jobs safeguarded (FTEs)	45	150.5	195.5	112.5	314.5	427	9.5	242	251.5	167	707	874
Average Jobs safeguarded (FTEs)	1.3	4.9	3.0	3.3	7.3	5.3	1.6	7.6	5.7	2.2	6.7	4.8

Key findings in relation to the analysis of 183 NISBLF loans approved during the period February 2013-September 2015 include:

- It was anticipated that 419 FTE jobs would be created, equating to 2.3 per loan approved; and
- It was anticipated that 874 FTE jobs would be safeguarded, equating to 4.8 per loan approved.

¹¹² Whilst the application form is not explicit that any job creation projections are made on the basis of receiving the loan, discussions with the EDO indicated the view that this is inferred. The EDO noted that, in the majority of cases, applicants have been unable to avail of necessary finance to undertake the activity proposed in the absence of a loan so the job projections will generally be dependent on successful receipt of a NISBLF loan.

¹¹³ NB This data was provided as part of a quarterly reporting format and was not disaggregated by individual months. Therefore, the data featured incorporates full data for the quarter July-September 2015.

¹¹⁴ It should be noted that the EDO emphasised during discussions that it does not overly rely on these projections when determining which businesses should be approved for loans. Instead, the EDO places its focus upon its assessment of the recipient businesses' ability to repay the NISBLF loan.

¹¹⁵ At the time of analysis, data was available in relation to job projections up to and including September 2015.

6.2.3 Actual and Anticipated Impacts - Methodology

In order to determine the actual and anticipated impact of the NISBLF on recipients' businesses, the Evaluation Team agreed the following methodology with Invest NI's Economist Team:

- A baseline position would be retrieved for each of the 65 recipients surveyed;
- It was recognised that the fact that businesses can receive loans at any point in a year would complicate analysis. It was therefore agreed that we would take a mid-year point in each financial year (i.e. the end of September), and apply the following rules:
 - If the recipient received a loan pre-October, we would take that financial year as their Year 1.
 - Alternatively, if they received the loan after October in any year, we would take the following financial year as their Year 1.
 - It was recognised that some benefits would be missed (up to 6 months of the 'pre-Octobers'), but some will be greater than actual (i.e. the 'post Septembers' would begin measurement 6 months after receipt of loan and so would have had more time to accrue impact. The Evaluation Team is of the view that on the whole, the differences were likely to largely balance out.
- Depending upon when the recipient received their NISBLF loan, the business' actual gross level of turnover and jobs (both full-time and part-time) would be retrieved for each financial year up to and including 2015/16. In the event that the business was a start-up, then the baseline position for turnover and jobs equals zero.
- At the request of Invest NI, anticipated impacts have been considered only over a 3-year period i.e. projections, where available from the respondents, were only to be retrieved for the 3 financial years 2016/19. This decision was influenced by a view amongst Invest NI and the Evaluation Team that projections were likely to become more tenuous beyond a three-year period.
- However, following the implementation of the survey (and per the earlier concern of the EDO), it became evident that many of the NISBLF recipients were not in a position to provide projections of anticipated turnover or jobs (or were only able to do so for 1 or 2 years of the suggested 3 year projection period), and further that much of the projections received appeared to be considerably ambitious in the context of the known historic performance of individual businesses. As a result, there were gaps and seeming discrepancies in the anticipated turnover impacts cited by recipient businesses. Consequently, given the relatively small sample sizes in any given cohort of loan recipients (e.g. of 26 businesses surveyed that received a loan between October 2013 and September 2014, only 9 provided projections for 3 years and of those it could be argued that the scale of the suggested anticipated growth might be somewhat unrealistic given historic performance), it was agreed with Invest NI that it would not be appropriate to utilise such projections to gross up for the broader population of businesses that received a loan. Therefore, the anticipated impacts (both turnover and employment) reported through the survey process have not been profiled in further analysis.

- As an alternative means of accounting for projected attributable growth in turnover across three-years into the future, the Evaluation Team has applied two different scenarios:

'Ambitious Scenario'	<p>We have utilised the gross baseline turnover/ employment numbers as provided by recipient businesses through the survey process and calculated the rate of growth between baseline and one year after receipt of a NISBLF loan. NISBLF recipients reported an average growth rate of 23.1% between baseline turnover and Year 1 turnover, and of 29.3% between baseline job numbers and Year 1 job numbers.</p> <p>Similarly, we have utilised the gross levels of turnover/ jobs as at one year after baseline and calculated the rate of growth achieved between these levels and two years after receipt of a NISBLF loan. NISBLF recipients reported an average growth rate of 19.7% between Year 1 turnover and Year 2 turnover, and of 33.6% between Year 1 job numbers and Year 2 job numbers.</p> <p>In order to be prudent, we have applied the lower annual growth rates in each case (i.e. annual turnover increases of 19.7% and annual job increases of 29.3%) to the three years from 2016/17 to 2018/19. This is referred to as the 'ambitious' scenario and the results are taken forward in the following subsections;</p>
'Prudent Scenario'	<p>We have taken the actual turnover/ jobs for 2015/16 and assumed that these are held constant over the 3 years 2016/17 to 2018/19. This is referred to as the 'prudent' scenario and the results are taken forward in the following subsections.</p>

- It is assumed that the level of deadweight and displacement attributable to actual impacts is also attributable to projected impacts.
- By way of calculating the gross GVA impacts associated with the NISBLF, the Evaluation Team applied the current average NI sectoral GVA (of 30.0%¹¹⁶) to the calculated increases in turnover that were potentially derived by businesses receiving investment during the period under review.
- Specific points to note relating to the survey responses include:

<ul style="list-style-type: none"> In a number of cases businesses were unable to quantify or unwilling to disclose turnover and/or job numbers for a particular year. As such, average changes in turnover and employment have been calculated utilising only those businesses within the overall sample which provided values for any given year. One business recipient advised through consultation that their business had ceased trading. Whilst this business was maintained within the overall sample, it was classified as having 'no impacts' arising from the Fund. Based on the proportion of loans with no impacts within the survey sample (i.e. 1 of 65), it has been estimated that two of the 159 loans disbursed by July 2015 would have resulted in no impacts by December 2015 that they had no impacts. Two businesses reported actual growth at rates which represented statistical outliers when compared with the other businesses within the cohort in question¹¹⁷. These loans have been excluded from the grossing-up of impacts and 'added-back' in before totalling the actual impacts achieved. However, to take account of the potential for these two businesses to default, it has been assumed that the actual and anticipated impacts reported by these outlying businesses are reduced in line with the three default scenarios detailed below.

- As previously noted in Section 2, three 'default' scenarios (7.5%, 15%, and 23%) have been considered within the Evaluation in relation to those businesses which default on their NISBLF loan. The level of default is considered to have a material impact on the number of businesses that are projected to achieve impacts. Discussions with the EDO indicate that the default rates are determined based upon the value of the loan portfolio which it is considered unlikely will be repaid. As such, 7.5% of the total loans disbursed as at July 2015 (£3,398,433) would equate to £254,882, 15% would equate to £509,765 and 23% would equate to £781,640. Based on the average loan value of £22,212 (£3,398,433 across 159 loans), the Evaluation Team has estimated

¹¹⁶ Source: Northern Ireland Annual Business Inquiry 2014 (December 2015).

¹¹⁷ <http://www.miniwebtool.com/outlier-calculator/>

that 11 NISBLF loans would default under the 7.5% scenario, 23 loans would default under the 15% scenario and 35 loans would default under the 23% scenario.

- The gross and net turnover and employment impacts for 2015/16 have been presented exclusive of those loans which are assumed to have defaulted at a rate of 7.5% on the basis that this was the actual default rate as at November 2015. It is recognised that there will have been a period of ‘ramp-up’ to a 7.5% level of default and that there is typically a lag-time between disbursement and default. However, discussions with the EDO and Invest NI highlighted that it would be difficult to determine the precise period when each default occurs. As such, it has been assumed that there are no defaults prior to 2015/16 by which stage a default level of 7.5% applies.
- The subsequent analysis may not be reflective of the full actual and anticipated economic benefits of the loan fund at December 2015¹¹⁸. That is, depending upon when a business received their loan, there may be 7 years’ of data relating to turnover and jobs for some respondents, but only 4 years for others.
- It was unclear what was anticipated to be the typical ‘economic life’ of any benefits derived as a result of the receipt of a loan. For example, some loans are repaid over a 5-year period, perhaps suggesting that the economic life is 5 years. However, as noted, for some recipients, we have retrieved 7 years’ data relating to turnover and jobs, whilst for others we have retrieved only 4 years (perhaps indicating an economic life of potential benefits of those respective durations). On balance, it might be considered that allowing additional years’ impacts to be included for some respondents balances out others having only a truncated number of years’ impacts included.

In any eventuality and despite some potential deficiencies relating to access to data concerning the full economic benefits of the loan fund, our analysis does provide a strong indication of:

1. The actual impact of the NISBLF up to 2015/16; and
2. The potential anticipated impacts up to 2018/19 (for those that received a loan up to and including July 2015) on the basis that the average actual rate of growth reported by businesses continues to be achieved going forward.

Our findings are subsequently couched in those terms.

6.2.4 Loan Recipients’ Export Activity

The survey for NISBLF recipients sought to assess whether recipient businesses were trading outside Northern Ireland before (where relevant) receiving the NISBLF support, and whether it was doing so now.

Table 6.5: Trading Profile Before and After Loan Funding Support¹¹⁹

Trading Outside NI?	All Respondents		Only Those Respondents that were Trading at time of receiving Loan	
	% Before	% Now	% Before	% Now
Yes, to ROI	40%	54%	45%	60%
Yes, to GB (England, Scotland or Wales)	40%	48%	45%	53%
Yes, outside ROI and GB	16%	17%	18%	20%
No	37%	38%	42%	31%
No, as business has not commenced trading	13%	0%	-	-
N=	63	63	55	55

¹¹⁸ That is, when recipients were surveyed.

¹¹⁹ Percentages do not sum to 100% as recipients selected multiple responses where relevant.

Key findings include:

- Prior to receiving the loan, half (50%, N=63) of NISBLF recipients did not trade outside NI. Following the receipt of the loan, this has reduced to 38% (N=63) of loan recipients;
- The proportion of NISBLF recipient businesses that are trading in:
 - The Republic of Ireland has increased from 40% prior to receiving the loan, to 54% now;
 - Great Britain has increased from 40% prior to receiving the loan, to 48% now;
 - Outside GB and the ROI has increased from 16% prior to receiving the loan, to 17% now.
- Looking specifically at only those businesses which were trading at the time of receiving their loan (N=55), it can be seen that the proportion of businesses which were not trading outside NI decreased from over two fifths (42%, N=55) prior to receiving the loan to under one third (31%, N=55) following receipt of the NISBLF loan.

6.2.5 Gross Turnover & Export Sales – Actual & Anticipated

NISBLF survey recipients were asked to determine the proportion of their reported increase in turnover was generated in NI, GB and other markets. They indicated that on average 70% of any additional turnover has been generated within the NI market. The balance was reported to be within the GB market (15%) or within markets outside the UK (also 15%, such markets will include the Republic of Ireland).

The table below summarises our analysis of gross turnover (by jurisdiction), both realised up to December 2015 or anticipated up to 2018/19, under the two growth rate scenarios (i.e. ambitious and prudent) and three projected default scenarios (i.e. 7.5%, 15% and 23%):

Table 6.6: Additional Turnover by Geographical Area

	Average %	Actual Impacts				Anticipated Impact				Grand Total – Actual plus Anticipated	
		13/14	14/15	15/16	Total	16/17	17/18	18/19	Total		
Analysis of actual plus 'Ambitious' projections	Additional Sales within NI	70%	£1,050,322	£5,567,155	£11,848,023	£18,465,500	£19,992,941	£29,745,127	£41,421,750	£91,159,817	£109,625,317
	Additional Sales within GB	15%	£225,739	£1,196,513	£2,546,420	£3,968,672	£4,296,955	£6,392,930	£8,902,512	£19,592,398	£23,561,070
	Additional Sales to Other Markets	15%	£229,689	£1,217,447	£2,590,972	£4,038,108	£4,372,134	£6,504,780	£9,058,270	£19,935,184	£23,973,292
	Total (Net of Defaults at 7.5%)	100%	£1,505,750	£7,981,115	£16,985,415	£26,472,280	£28,662,030	£42,642,837	£59,382,532	£130,687,400	£157,159,680
	Additional Sales within NI	70%	£1,050,322	£5,567,155	£11,848,023	£18,465,500	£18,330,187	£27,270,347	£37,974,704	£83,575,239	£102,040,739
	Additional Sales within GB	15%	£225,739	£1,196,513	£2,546,420	£3,968,672	£3,939,590	£5,861,042	£8,161,661	£17,962,293	£21,930,965
	Additional Sales to Other Markets	15%	£229,689	£1,217,447	£2,590,972	£4,038,108	£4,008,517	£5,963,586	£8,304,457	£18,276,559	£22,314,667
	Total (Net of Defaults at 15% on Anticipated)	100%	£1,505,750	£7,981,115	£16,985,415	£26,472,280	£26,278,294	£39,094,975	£54,440,822	£119,814,091	£146,286,371
	Additional Sales within NI	70%	£1,050,322	£5,567,155	£11,848,023	£18,465,500	£16,659,454	£24,786,013	£34,516,218	£75,961,685	£94,427,185
	Additional Sales within GB	15%	£225,739	£1,196,513	£2,546,420	£3,968,672	£3,580,510	£5,327,100	£7,418,351	£16,325,960	£20,294,632
Additional Sales to Other Markets	15%	£229,689	£1,217,447	£2,590,972	£4,038,108	£3,643,154	£5,420,302	£7,548,141	£16,611,598	£20,649,705	
Total (Net of Defaults at 23% on Anticipated)	100%	£1,505,750	£7,981,115	£16,985,415	£26,472,280	£23,883,118	£35,533,415	£49,482,710	£108,899,243	£135,371,523	
Analysis of actual plus 'Prudent' projections	Additional Sales within NI	70%	£1,050,322	£5,567,155	£11,848,023	£18,465,500	£11,848,023	£11,848,023	£11,848,023	£35,544,069	£54,009,570
	Additional Sales within GB	15%	£225,739	£1,196,513	£2,546,420	£3,968,672	£2,546,420	£2,546,420	£2,546,420	£7,639,260	£11,607,932
	Additional Sales to Other Markets	15%	£229,689	£1,217,447	£2,590,972	£4,038,108	£2,590,972	£2,590,972	£2,590,972	£7,772,916	£11,811,023
	Total (Net of Defaults at 7.5%)	100%	£1,505,750	£7,981,115	£16,985,415	£26,472,280	£16,985,415	£16,985,415	£16,985,415	£50,956,245	£77,428,525
	Additional Sales within NI	70%	£1,050,322	£5,567,155	£11,848,023	£18,465,500	£10,863,465	£10,863,465	£10,863,465	£32,590,395	£51,055,895
	Additional Sales within GB	15%	£225,739	£1,196,513	£2,546,420	£3,968,672	£2,334,815	£2,334,815	£2,334,815	£7,004,446	£10,973,118
	Additional Sales to Other Markets	15%	£229,689	£1,217,447	£2,590,972	£4,038,108	£2,375,665	£2,375,665	£2,375,665	£7,126,995	£11,165,102
	Total (Net of Defaults at 15% on Anticipated)	100%	£1,505,750	£7,981,115	£16,985,415	£26,472,280	£15,573,945	£15,573,945	£15,573,945	£46,721,835	£73,194,115
	Additional Sales within NI	70%	£1,050,322	£5,567,155	£11,848,023	£18,465,500	£9,873,353	£9,872,242	£9,872,242	£29,617,836	£48,083,336
	Additional Sales within GB	15%	£225,739	£1,196,513	£2,546,420	£3,968,672	£2,122,017	£2,121,778	£2,121,778	£6,365,573	£10,334,245
Additional Sales to Other Markets	15%	£229,689	£1,217,447	£2,590,972	£4,038,108	£2,159,143	£2,158,900	£2,158,900	£6,476,944	£10,515,052	
Total (Net of Defaults at 23% on Anticipated)	100%	£1,505,750	£7,981,115	£16,985,415	£26,472,280	£14,154,513	£14,152,920	£14,152,920	£42,460,353	£68,932,633	

Key points to note include:

- It is estimated that £26.5m of gross sales has been created during the 35-month period up to December 2015 by those NISBLF recipients that received a loan to July 2015, of which £4.0m were in export markets.
- Depending upon which scenario relating to projected growth of recipients and likely level of defaults is considered, it is estimated that:
 - Under the ambitious scenario, a total of between £135.4m and £157.2m of gross turnover will be generated by those same NISBLF recipients during the 6-year period 2014/19;
 - Under the prudent scenario, between £68.9m and £77.4m of gross turnover will be generated over the same period.

6.2.6 Gross Turnover & GVA Impacts – Actual & Anticipated

The table below sets out estimates of gross turnover and GVA realised up to December 2015 and anticipated up to 2018/19, under the two growth rate scenarios (i.e. ambitious and prudent) and three projected default scenarios (i.e. 7.5%, 15% and 23%):

Table 6.7: Actual and Anticipated Gross GVA Impacts											
		Actual Impacts				Anticipated Impact				Grand Total – Actual plus Anticipated	
		13/14	14/15	15/16	Total	16/17	17/18	18/19	Total		
Sample (N=)		11	37	65	-	65	65	65	-	-	
Outliers		1	2	2	-	2	2	2	-	-	
Sample with impacts excl. outliers (N=)		10	35	63	-	63	63	63	-	-	
Sample providing values excl. outliers (N=)		9	25	40	-	40	40	40	-	-	
Total Unique Loans excl. outliers (N=)		24	90	157	-	157	157	157	-	-	
Total Unique Loans excl. outliers with impacts (N=)		23	86	155	-	155	155	155	-	-	
Total Unique Loans excluding outliers with impacts and defaults at 7.5% (N=)		23	86	144	-	144	144	144	-	-	
Total Loans excluding outliers with impacts and defaults at 7.5% actual and 15% anticipated (N=)		23	86	144	-	132	132	132	-	-	
Total Loans excluding outliers with impacts and defaults at 7.5% actual and 23% anticipated (N=)		23	86	144	-	120	120	120	-	-	
Analysis of actual plus 'Ambitious' projections	7.5% Defaults	Total Change in Turnover	£1,505,750	£7,981,115	£16,985,415	£26,472,280	£28,662,030	£42,642,837	£59,382,532	£130,687,400	£157,159,680
		Gross Change in GVA	£451,725	£2,394,335	£5,095,625	£7,941,684	£8,598,609	£12,792,851	£17,814,760	£39,206,220	£47,147,904
	15% Defaults	Total Change in Turnover	£1,505,750	£7,981,115	£16,985,415	£26,472,280	£26,278,294	£39,094,975	£54,440,822	£119,814,091	£146,286,371
		Gross Change in GVA	£451,725	£2,394,335	£5,095,625	£7,941,684	£7,883,488	£11,728,493	£16,332,247	£35,944,227	£43,885,911
	23% Defaults	Total Change in Turnover	£1,505,750	£7,981,115	£16,985,415	£26,472,280	£23,883,118	£35,533,415	£49,482,710	£108,899,243	£135,371,523
		Gross Change in GVA	£451,725	£2,394,335	£5,095,625	£7,941,684	£7,164,935	£10,660,024	£14,844,813	£32,669,773	£40,611,457
Analysis of actual plus 'Prudent' projections	7.5% Defaults	Total Change in Turnover	£1,505,750	£7,981,115	£16,985,415	£26,472,280	£16,985,415	£16,985,415	£16,985,415	£50,956,245	£77,428,525
		Gross Change in GVA	£451,725	£2,394,335	£5,095,625	£7,941,684	£5,095,625	£5,095,625	£5,095,625	£15,286,874	£23,228,558
	15% Defaults	Total Change in Turnover	£1,505,750	£7,981,115	£16,985,415	£26,472,280	£15,573,945	£15,573,945	£15,573,945	£46,721,835	£73,194,115
		Gross Change in GVA	£451,725	£2,394,335	£5,095,625	£7,941,684	£4,672,184	£4,672,184	£4,672,184	£14,016,551	£21,958,235
	23% Defaults	Total Change in Turnover	£1,505,750	£7,981,115	£16,985,415	£26,472,280	£14,154,513	£14,152,920	£14,152,920	£42,460,353	£68,932,633
		Gross Change in GVA	£451,725	£2,394,335	£5,095,625	£7,941,684	£4,246,354	£4,245,876	£4,245,876	£12,738,106	£20,679,790

Key points to note include:

- It is estimated that that £7.9m of gross GVA has been created by Feb 2013 to July 2015 NISBLF recipients during the 35-month period to December 2015;
- Depending on the growth potential and default scenarios modelled, it is further estimated that that:
 - Under the ambitious scenario, a total of between £40.6m and £47.1m of gross GVA will be created during the 6-year period 2014/19; or
 - Under the prudent scenario, between £20.7m and £23.2m of gross GVA will be created over this period.

6.2.7 Gross FTE Jobs and Job Years – Actual & Anticipated

The table below sets out estimates of gross FTE job years created, both realised up to December 2015 and anticipated up to 2018/19, under the same range of scenarios as before:

Table 6.8: Actual and Anticipated Gross FTE Job Years and Jobs											
			Actual Impacts				Anticipated Impact				Grand Total FTE Job Years
			13/14	14/15	15/16	Total FTE Job Years	16/17	17/18	18/19	Total FTE Job Years	
Sample (N=)			11	37	65	-	65	65	65	-	-
Sample with impacts (N=)			10	36	64	-	64	64	64	-	-
Sample providing values (N=)			10	32	56	-	56	56	56	-	-
Total Loans (N=)			26	92	159	-	159	159	159	-	-
Total Loans, with impacts (N=)			24	90	157	-	157	157	157	-	-
Total Loans, with impacts excl. defaults at 7.5% (N=)			24	90	146	-	146	146	146	-	-
Total Loans, with impacts excl. defaults at 7.5% actual and 15% anticipated (N=)			24	90	146	-	134	134	134	-	-
Total Loans, with impacts excl. defaults at 7.5% actual and 23% anticipated (N=)			24	90	146	-	122	122	122	-	-
Analysis of actual plus 'Ambitious' projections	Gross FTE Job Years	7.5% Defaults	36	214	311	561	557	874	1,285	2,716	3,277
		15% Defaults	36	214	311	561	511	803	1,180	2,494	3,055
		23% Defaults	36	214	311	561	465	731	1,074	2,270	2,831
Analysis of actual plus 'Prudent' projections	Gross FTE Job Years	7.5% Defaults	36	214	311	561	311	311	311	933	1,494
		15% Defaults	36	214	311	561	285	285	285	855	1,416
		23% Defaults	36	214	311	561	260	260	260	780	1,341

Key points to note include:

- It is estimated that 561 gross FTE job years (or 311 gross FTE jobs) were created by NISBLF recipients during the 35-month period to December 2015;
- Depending upon the projected growth and default rate scenarios modelled it is further estimated that:
 - Under the ambitious scenario, a total of between 2,831 and 3,277 gross FTE job years will be created by recipients during the 6-year period 2014/19; or
 - During the same period of time, between 1,341 and 1,494 gross FTE job years will be created by NISBLF recipients under the prudent scenario.

Whilst the above analysis does not take account of safeguarded jobs, it is noted that one third (33%, N=63) of recipient businesses surveyed reported that the NISBLF support had led to employment being safeguarded/ retained within their business (Section 6.7).

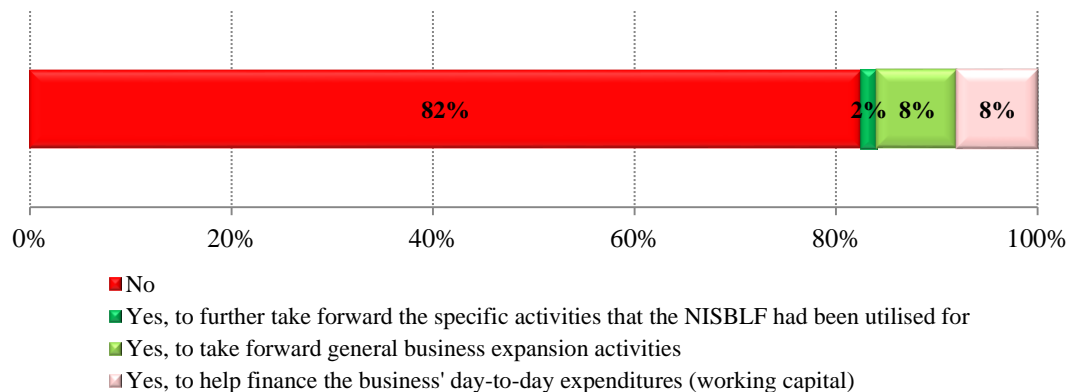
The 311 gross FTE jobs created is lower than the 419 gross FTE jobs projected within the baseline application forms (Section 6.2.2). However, as previously noted, the EDO emphasised during discussions that it does not overly rely on these projections when determining which businesses should be approved for loans. Discussion with the EDO indicates their view that applicants often exaggerate the likely number of jobs that might be created. In part out of optimism and in part out of a mistaken belief that it might increase their chances of securing a loan. Instead, the EDO places its focus upon the assessment of the recipient businesses' ability to repay the NISBLF loan.

6.3 Additional Business Finance and/or Support Secured

6.3.1 Finance Secured

Almost one fifth (18%, N=63¹²⁰) of NISBLF recipients had received further financial investment since receiving the NISBLF loan (and any other finance that had been used at the same time towards the same business expenditures as the NISBLF).

Figure 6.2: Since receiving the NISBLF loan (and the other finance discussed earlier that were used towards the same business expenditures as the NISBLF), has your business received any further investment? (N=63)



Of the 11 NISBLF recipients that received further financial support since receiving a loan from the NISBLF, 7 indicated that they had received support from Invest NI. Two suggested that they had received support from their bank.

Table 6.9: Subsequent Sources of Finance Secured by NISBLF Recipients (N=11)

Sources of Finance	No. Receiving Support	% Receiving Support	Total Value £	Average Value £
Invest NI	7	64%	£139,500	£19,929
Your Bank (where your business account is)	2	18%	£62,000	£31,000
Another public sector body ¹²¹	2	18%	£35,500	£17,750
Through another provider of finance for businesses ¹²²	1	9%	£200,000	£200,000
The Halo Business Angel Network	-	-	-	-
Other business angels	1	9%	£100,000	£100,000
Friends and Family	-	-	-	-
A crowd funding platform	-	-	-	-
A Venture Capital (VC) Fund	-	-	-	-
Other Banks (other than the one your business banks with)	-	-	-	-
Total	11	100%	£537,000	£48,818

¹²⁰ Two telephone survey respondents did not complete this aspect of the survey. This question was not posed to the online survey respondents.

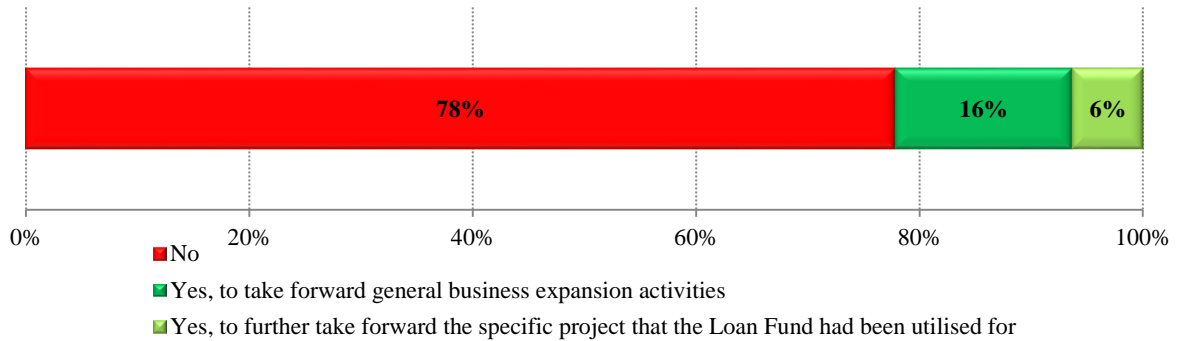
¹²¹ The consultees indicated that they had received support from GROW South Antrim and the Big Lottery Fund.

¹²² The consultee did not state which provider.

6.3.2 Non-Financial Support Received

Over a fifth (22%, N=63¹²³) of NISBLF recipients had received non-financial support since receiving the NISBLF loan (from either a public sector source such as Invest NI or from the private sector).

Figure 6.3: Since receiving the NISBLF loan, has your business received any further non-financial support (from either a public sector source such as Invest NI or from the private sector)? (N=63)



Examples of supported received cited by respondents include:

- Participation on programmes organised by Invest NI;
- Participation on programmes organised by their local council;
- Alchemy business support;
- InterTradeIreland workshops;
- Advice from a financial advisor.

6.4 Influence on Business Impacts (Impact Additionality/Deadweight)

The net impact of the NISBLF support (i.e. it’s additionality) on recipient businesses’ turnover, employment or other outturns can only be measured after making allowances for what would have happened in the absence of the intervention. That is, the impact must allow for deadweight. ‘Deadweight’ refers to outcomes that would have occurred without the intervention.

Please note that given that most evaluations are undertaken some time after an activity is implemented, the Evaluation Team does not consider it appropriate to apply ‘activity additionality’ to impact measures. The reason being that, in the intervening period any variety of factors (and support interventions) may have had an impact on a business. Therefore, an impact additionality measure was used to ascertain the level of deadweight/additionality relating to business outturns.

The analysis of individual survey responses and application of the same ‘participant self-assessment’ methodology used to assess ‘activity additionality’, results in the following levels of ‘impact deadweight and additionality’¹²⁴:

Table 6.10: Impact Additionality/deadweight (N=63) ¹²⁵	
Deadweight	Additionality
40.4%	59.6%

The Evaluation Team notes that the level of ‘impact additionality’ (59.6%) is noticeably greater than the level of ‘activity additionality’ (46.4%) indicating that respondents recognise the importance of

¹²³ Two telephone survey respondents did not complete this aspect of the survey. This question was not posed to the online survey respondents.

¹²⁴ See Appendix XIX for further details.

¹²⁵ Feedback provided by those businesses that engaged in the telephone consultations.

being able to undertake their business development activities sooner or to a greater extent than would have been the case in the absence of the loan.

6.5 Displacement

The Evaluation Team has also considered the potential displacement that might be created by a business receiving a NISBLF loan. To assess this, we have again utilised a series of questions¹²⁶; the answers to which are assigned a ‘displacement factor’ in both the NI market and the GB market.

We have calculated displacement (see Appendix XIX) based on two factors:

1. The proportion of the businesses that participants compete with that are based in NI/GB, keeping in mind the markets which their company sells into; and
2. Whether, in the recipient’s area of business, market conditions have improved over the period since receiving the loan.

On an overall level, the Evaluation Team’s analysis suggests that that the displacement factor at the NI level is 22.4%; whilst at the GB level it is 15%¹²⁷.

6.5.1 Net Additional Turnover & GVA Impacts – Actual & Anticipated

The table below summarises our analysis of net additional¹²⁸ turnover and GVA created, both realised up to December 2015 or anticipated up to 2018/19, under the two growth rate scenarios (i.e. ambitious and prudent) and three projected default scenarios (i.e. 7.5%, 15% and 23%):

Key points to note include:

- We estimate that £3.7m of net additional GVA has been created by those NISBLF recipients that received a loan during the period February 2013 and July 2015, during the 35-month period to 2015/16;
- Depending upon which scenario relating to projected growth of recipients and likely level of defaults is considered, we estimate that:
 - Under the ambitious scenario, a total of between £18.8m and £21.8m of net additional GVA will be created by those same NISBLF recipients during the 6-year period 2014/19; or
 - During the same period of time, between £9.6m and £10.7m of net additional GVA will be created under the prudent scenario.

¹²⁶ Developed in conjunction with DETI’s Economists.

¹²⁷ Reflecting the fact that a greater proportion of recipients’ competitors are based in NI than in GB.

¹²⁸ i.e. net of deadweight and displacement

Table 6.11: Net Additional Turnover and GVA Impacts

			Actual Impacts				Anticipated Impact				Grand Total – Actual plus Anticipated
			13/14	14/15	15/16	Total	16/17	17/18	18/19	Total	
Analysis of actual plus 'Ambitious' projections	Excl. 7.5% Defaults (Actual and Anticipated)	Gross Change in GVA	£451,725	£2,394,335	£5,095,625	£7,941,684	£8,598,609	£12,792,851	£17,814,760	£39,206,220	£47,147,904
		GVA Value that is Deadweight (40.4%)	£182,667	£968,214	£2,060,553	£3,211,434	£3,477,079	£5,173,134	£7,203,878	£15,854,092	£19,065,526
		GVA Value that is Additional (59.6%)	£269,058	£1,426,121	£3,035,071	£4,730,250	£5,121,530	£7,619,717	£10,610,881	£23,352,128	£28,082,378
		GVA Value displaced from elsewhere in NI (22.4%)	£60,147	£318,803	£678,477	£1,057,427	£1,144,896	£1,703,354	£2,372,016	£5,220,266	£6,277,693
	Net Additional Change in GVA		£208,911	£1,107,318	£2,356,594	£3,672,823	£3,976,634	£5,916,363	£8,238,865	£18,131,862	£21,804,685
	Excl. 7.5% Actual and 15% Anticipated Defaults	Gross Change in GVA	£451,725	£2,394,335	£5,095,625	£7,941,684	£7,883,488	£11,728,493	£16,332,247	£35,944,227	£43,885,911
		GVA Value that is Deadweight (40.4%)	£182,667	£968,214	£2,060,553	£3,211,434	£3,187,901	£4,742,732	£6,604,384	£14,535,017	£17,746,451
		GVA Value that is Additional (59.6%)	£269,058	£1,426,121	£3,035,071	£4,730,250	£4,695,587	£6,985,760	£9,727,862	£21,409,210	£26,139,460
		GVA Value displaced from elsewhere in NI (22.4%)	£60,147	£318,803	£678,477	£1,057,427	£1,049,678	£1,561,636	£2,174,621	£4,785,935	£5,843,362
	Net Additional Change in GVA		£208,911	£1,107,318	£2,356,594	£3,672,823	£3,645,909	£5,424,124	£7,553,241	£16,623,275	£20,296,098
	Excl. 7.5% Actual and 23% Anticipated Defaults	Gross Change in GVA	£451,725	£2,394,335	£5,095,625	£7,941,684	£7,164,935	£10,660,024	£14,844,813	£32,669,773	£40,611,457
		GVA Value that is Deadweight (40.4%)	£182,667	£968,214	£2,060,553	£3,211,434	£2,897,335	£4,310,668	£6,002,900	£13,210,903	£16,422,337
GVA Value that is Additional (59.6%)		£269,058	£1,426,121	£3,035,071	£4,730,250	£4,267,601	£6,349,356	£8,841,913	£19,458,870	£24,189,120	
GVA Value displaced from elsewhere in NI (22.4%)		£60,147	£318,803	£678,477	£1,057,427	£954,004	£1,419,371	£1,976,571	£4,349,945	£5,407,372	
Net Additional Change in GVA		£208,911	£1,107,318	£2,356,594	£3,672,823	£3,313,597	£4,929,985	£6,865,342	£15,108,924	£18,781,748	
Analysis of actual plus 'Prudent' projections	Excl. 7.5% Defaults (Actual and Anticipated)	Gross Change in GVA	£451,725	£2,394,335	£5,095,625	£7,941,684	£5,095,625	£5,095,625	£5,095,625	£15,286,874	£23,228,558
		GVA Value that is Deadweight (40.4%)	£182,667	£968,214	£2,060,553	£3,211,434	£2,060,553	£2,060,553	£2,060,553	£6,181,659	£9,393,093
		GVA Value that is Additional (59.6%)	£269,058	£1,426,121	£3,035,071	£4,730,250	£3,035,071	£3,035,071	£3,035,071	£9,105,214	£13,835,464
		GVA Value displaced from elsewhere in NI (22.4%)	£60,147	£318,803	£678,477	£1,057,427	£678,477	£678,477	£678,477	£2,035,431	£3,092,858
	Net Additional Change in GVA		£208,911	£1,107,318	£2,356,594	£3,672,823	£2,356,594	£2,356,594	£2,356,594	£7,069,783	£10,742,607
	Excl. 7.5% Actual and 15% Anticipated Defaults	Gross Change in GVA	£451,725	£2,394,335	£5,095,625	£7,941,684	£4,672,184	£4,672,184	£4,672,184	£14,016,551	£21,958,235
		GVA Value that is Deadweight (40.4%)	£182,667	£968,214	£2,060,553	£3,211,434	£1,889,323	£1,889,323	£1,889,323	£5,667,970	£8,879,404
		GVA Value that is Additional (59.6%)	£269,058	£1,426,121	£3,035,071	£4,730,250	£2,782,860	£2,782,860	£2,782,860	£8,348,581	£13,078,831
		GVA Value displaced from elsewhere in NI (22.4%)	£60,147	£318,803	£678,477	£1,057,427	£622,096	£622,096	£622,096	£1,866,289	£2,923,715
	Net Additional Change in GVA		£208,911	£1,107,318	£2,356,594	£3,672,823	£2,160,764	£2,160,764	£2,160,764	£6,482,292	£10,155,115
	Excl. 7.5% Actual and 23% Anticipated Defaults	Gross Change in GVA	£451,725	£2,394,335	£5,095,625	£7,941,684	£4,246,354	£4,245,876	£4,245,876	£12,738,106	£20,679,790
		GVA Value that is Deadweight (40.4%)	£182,667	£968,214	£2,060,553	£3,211,434	£1,717,128	£1,716,934	£1,716,934	£5,150,996	£8,362,430
GVA Value that is Additional (59.6%)		£269,058	£1,426,121	£3,035,071	£4,730,250	£2,529,226	£2,528,942	£2,528,942	£7,587,109	£12,317,359	
GVA Value displaced from elsewhere in NI (22.4%)		£60,147	£318,803	£678,477	£1,057,427	£565,397	£565,334	£565,334	£1,696,065	£2,753,492	
Net Additional Change in GVA		£208,911	£1,107,318	£2,356,594	£3,672,823	£1,963,829	£1,963,608	£1,963,608	£5,891,044	£9,563,867	

6.5.2 Net Additional FTE Jobs & Job Years – Actual & Anticipated

The table below summarises our analysis of net additional FTE job years created, both realised up to December 2015 or anticipated up to 2018/19, under the same range of scenarios as before:

Table 6.12: Net additional FTE Job Years (Actual and Anticipated)											
			Actual Impacts				Anticipated Impacts				Grand Total Job Years
			13/14	14/15	15/16	Total Job Years	16/17	17/18	18/19	Total Job Years	
Analysis of actual plus 'Ambitious' projections	Excl. 7.5% Defaults and Anticipated	Gross FTE Job Years Created	36	214	311	561	557	874	1,285	2,716	3,277
		FTE Job Years that are Deadweight (40.4%)	15	86	126	227	225	354	520	1,098	1,325
		FTE Job Years that are Additional (59.6%)	21	127	185	334	332	521	766	1,618	1,952
		FTE Job Years displaced from elsewhere in NI (22.4%)	5	28	41	75	74	116	171	362	436
		Net Additional FTE Job Years	17	99	144	259	257	404	594	1,256	1,516
	Excl. 7.5% Actual and 15% Anticipated Defaults	Gross FTE Jobs Created	36	214	311	561	511	803	1,180	2,494	3,055
		FTE Job Years that are Deadweight (40.4%)	15	86	126	227	207	325	477	1,008	1,235
		FTE Job Years that are Additional (59.6%)	21	127	185	334	304	478	703	1,485	1,819
		FTE Job Years displaced from elsewhere in NI (22.4%)	5	28	41	75	68	107	157	332	407
		Net Additional FTE Job Years	17	99	144	259	236	371	546	1,153	1,412
	Excl. 7.5% Actual and 23% Anticipated Defaults	Gross FTE Jobs Created	36	214	311	561	465	731	1,074	2,270	2,831
		FTE Job Years that are Deadweight (40.4%)	15	86	126	227	188	295	434	918	1,145
		FTE Job Years that are Additional (59.6%)	21	127	185	334	277	435	640	1,352	1,686
		FTE Job Years displaced from elsewhere in NI (22.4%)	5	28	41	75	62	97	143	302	377
		Net Additional FTE Job Years	17	99	144	259	215	338	497	1,050	1,309
Analysis of actual plus 'Prudent' projections	Excl. 7.5% Defaults and Anticipated	Gross FTE Jobs Created	36	214	311	561	311	311	311	933	1,494
		FTE Job Years that are Deadweight (40.4%)	15	86	126	227	126	126	126	378	605
		FTE Job Years that are Additional (59.6%)	21	127	185	334	185	185	185	555	889
		FTE Job Years displaced from elsewhere in NI (22.4%)	5	28	41	75	41	41	41	123	198
		Net Additional FTE Job Years	17	99	144	259	144	144	144	432	691
	Excl. 7.5% Actual and 15% Anticipated Defaults	Gross FTE Jobs Created	36	214	311	561	285	285	285	855	1,416
		FTE Job Years that are Deadweight (40.4%)	15	86	126	227	115	115	115	345	572
		FTE Job Years that are Additional (59.6%)	21	127	185	334	170	170	170	510	844
		FTE Job Years displaced from elsewhere in NI (22.4%)	5	28	41	75	38	38	38	114	189
		Net Additional FTE Job Years	17	99	144	259	132	132	132	396	655
	Excl. 7.5% Actual and 23% Anticipated Defaults	Gross FTE Jobs Created	36	214	311	561	260	260	260	780	1,341
		FTE Job Years that are Deadweight (40.4%)	15	86	126	227	105	105	105	315	542
		FTE Job Years that are Additional (59.6%)	21	127	185	334	155	155	155	465	799
		FTE Job Years displaced from elsewhere in NI (22.4%)	5	28	41	75	35	35	35	105	180
		Net Additional FTE Job Years	17	99	144	259	120	120	120	360	619

Key points to note in relation to the previous analysis include:

- It is estimated that 144 net additional FTE jobs or 259 net additional FTE job years were created by NISBLF recipients during the 35 month period to December 2015;
- Depending upon which scenario relating to projected growth of recipients and likely level of defaults is considered, it is estimated that:
 - Under the ambitious scenario, a total of between 1,309 and 1,516 net additional FTE job years will be created by NISBLF recipients during the 6-year period 2014/19; or
 - During the same period of time, between 619 and 691 net additional FTE job years will be created by NISBLF recipients under the prudent scenario.

6.6 GVA Return-on-Investment

The table below summarises the GVA return on investment, both realised up to 2015/16 and anticipated up to 2018/19, under the two growth rate scenarios (i.e. ambitious and prudent) and three projected default scenarios (i.e. 7.5%, 15% and 23%):

Table 6.13: NISBLF Return on Investment						
Scenarios	Anticipated Default Rate		Total Actual (£) ¹²⁹	Actual Return on Investment	Total (Actual and Anticipated) (£) ¹³⁰	Return on Investment
'Ambitious' Scenarios	7.5%	Net Additional GVA	£3,672,823	£1: £0.99	£21,804,685	£1: £4.71
		Full Economic Cost	£3,709,547		£4,632,545	
	15%	Net Additional GVA	£3,672,823		£20,296,098	£1: £4.46
		Full Economic Cost	£3,709,547		£4,552,639	
	23%	Net Additional GVA	£3,672,823		£18,781,748	£1: £4.20
		Full Economic Cost	£3,709,547		£4,467,405	
'Prudent' Scenarios	7.5%	Net Additional GVA	£3,672,823	£1: £0.99	£10,742,607	£1: £2.32
		Full Economic Cost	£3,709,547		£4,632,545	
	15%	Net Additional GVA	£3,672,823		£10,155,115	£1: £2.23
		Full Economic Cost	£3,709,547		£4,552,639	
	23%	Net Additional GVA	£3,672,823		£9,563,867	£1: £2.14
		Full Economic Cost	£3,709,547		£4,467,405	

¹²⁹ The full economic cost as at July 2015 was £3,709,547 (consisting of £591,474 of capital repayments made by private sector businesses, £2,806,959 of capital investment made by Invest NI that has yet to be recouped, plus £189,367 of interest payments made by private sector businesses, plus £121,747 of additional Invest NI costs).

¹³⁰ The total projected economic cost associated with the NISBLF at March 2023 under each scenario (per Section 2.7) consists of capital repayments made by private sector businesses, plus the capital investment made by Invest NI that is not recouped from private sector businesses (i.e. the value of the capital defaulted upon. Essentially these monies represent an opportunity cost to the economy, wherein Invest NI has made an investment in some businesses, but with no economic return), plus actual and anticipated interest payments (£985,513 with a 7.5% default rate, £905,607 with a 15% rate and £820,373 with a 23% rate) and £248,599 of additional costs to Invest NI.

- It is estimated that for every £1 of investment up to July 2015 (£3,709,547) there was circa £0.99 of net additional GVA generated during the 35 month period to December 2015.
- Depending upon which growth and default scenario is modelled, it is estimated that:
 - Under the ambitious scenario, a net additional GVA return on investment of between £4.20 and £4.71 for every £1 invested will be achieved by the end of the 6-year period 2014/19;
 - Under the more prudent scenario a net additional GVA return on investment of between £2.14 and £2.32 for every £1 invested is estimated to be achieved by NISBLF recipients.

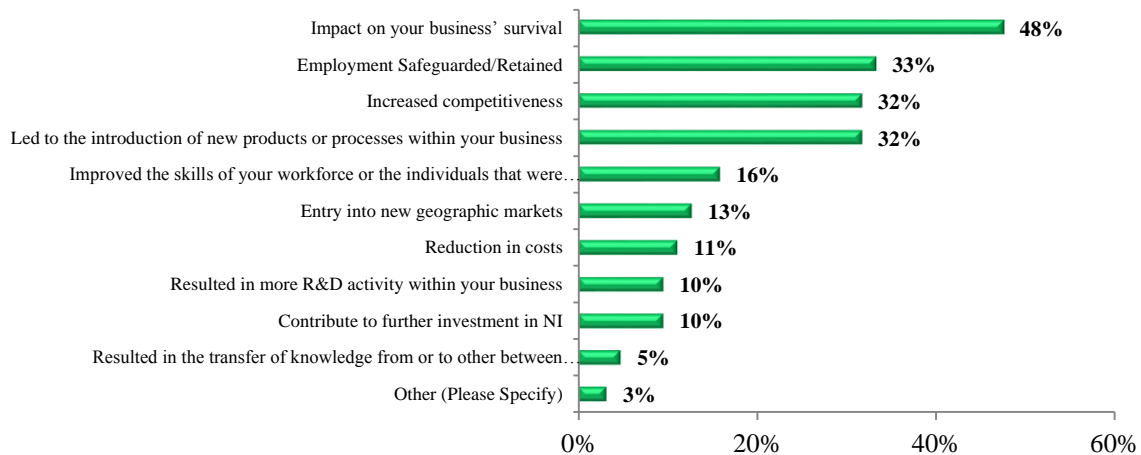
The suggested range of NISBLF return-on-investment under the prudent projections is lower than that anticipated for the GLF (i.e. between £1: £4.37 and £1: £4.87 as per Section 7.6). However, it should be recognised that the two funds cater for very different types of businesses (with those catered for by the NISBLF more likely to be smaller and less established with perhaps less growth potential). In the Evaluation Team’s view the projected return on investment, under all scenarios, should be considered positively.

In addition, we note that, at least a proportion of the funds invested in the NISBLF up to and including July 2015 will be recycled into additional loans across the investment period. Therefore there is potential for additional GVA impacts to be leveraged without significant additional investment from the public sector, thereby resulting in a higher return-on-investment associated with the Fund.

6.7 Other or Unexpected Benefits Achieved

All (100%, N=63) of the NISBLF recipients that responded to this question indicated that receipt of NISBLF support had led to other benefits or unexpected impacts/benefits for them or their business, other than those relating to turnover or jobs discussed previously.

Figure 6.4: Did the receipt of NISBLF support lead to any other benefits or unexpected impacts/benefits for you or your business that have not already been discussed? ¹³¹ (N=63)



The types of benefits cited by respondents included:

- An impact on their business’ survival (48% of respondents, N=63);
- Safeguarding employment (33%, N=63);
- Their business becoming more competitive (32%, N=63); and
- The introduction of new products or processes the business (48%, N=63).

¹³¹ Two telephone survey respondents did not complete this aspect of the survey. This question was not posed to the online survey respondents.

It should be noted that almost two thirds (63%, N=30) of the recipients which indicated that the NISBLF had an impact on the survival of their business were existing businesses, with just over one third (37%, N=30) being start-up businesses. This was in line with the proportion of our survey sample which were start-up versus existing businesses thereby suggesting that the Fund was equally likely to impact on the survival of start-up businesses as existing businesses.

7. IMPACT OF THE GLF

Section 7 considers the impact of the Growth Loan Fund.

7.1 Influence on Undertaking Activities (Activity Deadweight)

7.1.1 Recipients' Views on GLF's Influence

The net impact (i.e. its additionality) of the GLF relating to businesses' decision to engage in the business development activities discussed at Section 4.3, or where relevant, to undertake those activities to a similar scale and/or within a similar timescale, can only be measured after making allowances for what would have happened in the absence of receiving the loan. That is, an allowance must be made for deadweight. 'Deadweight' refers to activity that would have occurred without the intervention i.e. receipt of the GLF loan.

Appendix XIX provides a detailed overview of the Evaluation Team's deadweight/additionality calculations. However, in summary, we have calculated levels of activity deadweight using a 'participant self-assessment' methodology. The methodology utilises a series of questions¹³² within the participant survey and assigns weightings (agreed in conjunction with DETI's Economist Team) to the individual responses.

The questions sought to ascertain respondents' views on the impact that the receipt of the GLF loan had on their decision to take forward the business development activities. Options included:

- Whether they would have taken forward the activities at all;
- Whether they would have taken forward the activities but on a reduced scale;
- Whether they would have taken forward the activities, but at a later date;
- Whether they would have taken forward the activities but on a reduced scale and at a later date; and
- Whether they would have taken forward the activities at the same scale and within the timescale regardless of receiving the GLF loan.

Depending on the response provided, a level of additionality/deadweight was applied. For example, a respondent who indicated that they definitely would not have taken forward the business development activities in the absence of the GLF loan would have been assigned a level of 100% additionality (i.e. full additionality). Conversely, a respondent who indicated that they definitely would have taken forward the activities within the same timescale regardless of the receipt of the loan would have been assigned a level of 100% deadweight (i.e. no additionality). Other responses were given a weighting somewhere between these two extremes (i.e. a level of partial additionality/deadweight).

The outcomes of the analysis are provided below:

Table 7.1: Programme Additionality/deadweight (N=47)	
Deadweight	Additionality
47.9%	52.1%

Specific comments included:

- "I could not have raised the necessary finance/ capital required. The GLF was the last option open to my business".*
- "We would have had to attempt to raise the money elsewhere through other external sources or through capital accumulation but it would have taken a lot longer to achieve our aims".*

¹³² In-line with DETI guidance, these questions focused on identifying the likelihood that the individual would have undertaken the business development activities, what scale of activities would have been undertaken in the absence of support (if relevant) and how much later would the activities would be undertaken (if relevant).

“The business needed the funds secured in order to expand the business but did not have sufficient trading history to secure finance from elsewhere. In the absence of the GLF we would have waited a few years to build up trading history before reapplying to other sources”.

“In the absence of the GLF loan I might not have been able to secure the other sources of finance which we needed along with the mezzanine loan to undertake the project”.

“The business would not have proceeded with the activities because any other sources of finance would have needed security which we didn’t have, or to dilute the shareholding which we were not willing to do”.

“Without the GLF loan the project activities would not have happened and we would have had to reduce employee numbers, instead of achieving the growth trajectory we are now experiencing”.

“The business could have used internal capital to undertake some of the project activities, but not all”.

GLF Recipients

Similarly to NISBLF, the level of deadweight associated with the activity undertaken utilising the GLF loan appears somewhat high at 47.9%. However, it is the Evaluation Team’s view that this should perhaps not be unexpected. We note the following:

- Positively, none of the 47 respondents to this question reported that they would *“definitely have undertaken the activities anyway (to the same extent and within the same time period) in the absence of the support received through the GLF”* i.e. no response represented full deadweight;
- Our analysis of individual responses received indicates that many respondents considered that they could have financed the project from other sources in the absence of receiving a loan through the GLF. However, it would have taken some time (anywhere from 6 months or more) to secure alternative accumulate the necessary additional finance. Alternatively, many businesses indicated that they had the internal reserves to undertake part of the project activities but not all. The benefit of the GLF to many recipient businesses is therefore enabling all the business development activities to occur in a timelier manner.

7.1.2 Progress Made in Absence of GLF

The surveys undertaken with businesses which withdrew their applications to the GLF sought to determine the extent to which progress was made by these businesses towards their plans in the absence of receipt of loans through the Fund.

Table 7.2: In the absence of receiving a Growth Loan, which one of the following statements best describes what happened your proposed plans for how you were going to use the Loan monies?

	Withdrawn		Rejected		Both	
	N=	%	N=	%	N=	%
None of the proposed activity was undertaken	10	37%	3	27%	13	34%
Some of the proposed activity was undertaken, but to a lesser extent (i.e. reduced scale)	3	11%	3	27%	6	16%
Some of the proposed activity was undertaken, but at a later date than was originally planned	1	4%	1	9%	2	5%
Some of the proposed activity was undertaken, but to a lesser extent and at a later date than was originally planned	1	4%	0	0%	1	3%
All of the proposed activity was undertaken to the same extent and to the original timeframe as originally planned	12	44%	4	37%	16	42%
N=	27	100%	11	100%	38	

The table above illustrates that over one third (34%, N=38) of those businesses which either withdrew their application or had their application rejected for the GLF did not subsequently undertake any of the activity proposed in their applications. Specific explanations as to why none of the proposed activity was undertaken included the following:

GLF Withdrawn Applicants	<p><i>"There was a contraction in the market and we did not want to risk expanding at the time".</i></p> <p><i>"The deal we were proposing fell through and therefore we were unable to expand the business as planned".</i></p> <p><i>"The contract we were hoping to secure did not arise and so we did not require the money any more".</i></p> <p><i>"We could not secure the remainder of the funding required to take forward the project so the whole thing collapsed".</i></p>
GLF Rejected Applicants	<p><i>"In the absence of the finance needed we were unable to proceed with any of the proposed activities".</i></p> <p><i>"Our company went into liquidation so we were obviously unable to expand".</i></p>

Just under one quarter (24%, N=38) of applicants who either withdrew their application or were rejected for a loan indicated that in the absence of receiving a Growth Loan they have undertaken **some, but not all** of the activity proposed but either to a lesser extent or at a later stage, or in some cases both to a lesser extent and at a later stage.

Businesses which undertook some of the proposed activities made the following comments:

GLF Withdrawn Applicants	<p><i>"We got finance from elsewhere in order to undertake some of the activities".</i></p> <p><i>"The project was self-financed so it took a bit longer, but it was more affordable for us".</i></p>
GLF Rejected Applicants	<p><i>"We raised finance from other sources and were able to proceed, but it took slightly longer than we hoped".</i></p> <p><i>"We sold some of the business to fund a proportion of the activities".</i></p>

Over two fifths (42%, N=38) of the rejected/ withdrawn businesses undertook **all** the activity they had proposed in the absence of the GLF loan. A higher proportion of those businesses which withdrew their applications (44%, N=27) went on to undertake all their proposed activity than the proportion of those where the application was rejected (37%, N=11). The businesses which continued to complete all the proposed activities provided the following rationale:

GLF Withdrawn Applicants	<p><i>"We used invoice discounting to proceed with our plans".</i></p> <p><i>"The business got another investor who offered the amount we needed and we have expanded in line with our proposed project".</i></p>
GLF Rejected Applicants	<p><i>"We raised finance elsewhere to complete the project as planned"</i></p>

Over four fifths (84%, N=25) of those businesses which proceeded to undertake either all or some of the proposed activity in the absence of the GLF did so independently, with the remaining businesses (16%, N=25) securing support from elsewhere to enable them to achieve their plans.

	Withdrawn		Rejected		Total	
	No.	%	No.	%	No.	%
Independently	15	88%	6	75%	21	84%
Support from Elsewhere	2	12%	2	25%	4	16%
Total	17	100%	8	100%	25	100%

The businesses that had been rejected for a GLF loan but secured support from elsewhere indicated that they had received support from a bank or from private equity investment. The businesses which withdrew from the Fund indicated that they received funding from debt financing businesses, venture capital and bank finance.

7.2 Gross Impact on Business Turnover & Jobs

7.2.1 Baseline Projections (Per Applications)

Applicants to the GLF provide projected turnover and employment for up to seven years (that is, different businesses may variously have chosen to provide turnover projections for between two and seven years and a job projection figure for anywhere between one and seven years) following the receipt of the loan through the Fund as part of the assessment process¹³³. The following table summarises the baseline projections as collated within the Fund Manager's monitoring materials for all the loans disbursed up and including November 2015:

	No. of Years After Loan				Total
	1	2	3	4	
39 months to July 2015					
No. of Business Providing Projections	64	64	41	31	
Total Additional Turnover Reported in Projections	£86,329,614	£157,838,504	£163,008,473	£157,342,306	£564,518,898
Average Additional Turnover Reported in Projections	£1,348,900	£2,466,227	£3,975,816	£5,075,558	
Total Projected Additional Turnover (64 unique businesses)	£86,329,614	£157,838,504	£254,452,251	£324,835,730	£823,456,099
43 months to November 2015					
No. of Additional Unique Businesses Providing Projections up to Nov	4	4	2	0	
Total Additional Turnover Reported in Projections (Aug – November)	£3,122,339	£5,027,897	£3,894,240	£0	£12,044,476
Average Additional Turnover Reported in Projections	£780,585	£1,256,974	£1,947,120	£0	
Total Projected Additional Turnover Aug - Nov	£3,122,339	£5,027,897	£7,788,480	£0	£12,044,476
Total Projected Additional Turnover (68 unique businesses)	£89,451,953	£162,866,401	£262,240,731	£324,835,730	£835,500,575

Recipient businesses anticipated that they would generate £89.5m of additional turnover in the first year after receiving their loan through the GLF, which equates to an average of £1,315,470 per each unique business which drew-down a loan.

Within four years from baseline year, the 68 businesses projected that they would generate an additional £324.8m of annual turnover as compared with the baseline position. This equates to an average of £4,776,996 per annum for each recipient business. In total, the 68 businesses projected that they would experience cumulative additional turnover of £835.5m across the first four years following draw-down of a GLF loan.

In addition to the above, the 68 recipient businesses projected that an additional 473 jobs would be created within (a maximum of) seven-years of drawing down the loan.

¹³³ It should be noted that the EDO emphasised during discussions that it does not overly rely on the applicant's job projections when determining which businesses should be approved for loans. Instead, the EDO places its focus upon its assessment of the recipient businesses' ability to repay the GLF loan.

7.2.2 Economic Metrics (Per Fund Manager's Monitoring)

The GLF Fund Manager collates data and reports to Invest NI on an annual basis on the financial and economic performance of the portfolio of investee businesses. The table below shows the baseline position for recipient businesses as at the most recent audited accounts prior to draw-down of the GLF loan.

Table 7.5: Economic Position of GLF Recipient Businesses as at Baseline and end of Year 3											
Baseline Economic Position						Economic Position as at 31 st March 2015					
Year of Disbursal	No. of Unique Businesses	Turnover	EBITDA	Wages and Salary Costs	No. of Employees ¹³⁴	Average time from Baseline (months)	Turnover	EBITDA	Wages and Salary Costs	No. of Employees	No. of Safeguarded Employees
Year 1	10	£18,677,000	£1,058,000	£4,980,000	197	29	£37,734,000	£2,650,000	£6,738,000	268	198
Year 2	26	£96,332,000	£5,516,000	£21,289,000	865	23	£128,362,000	£8,010,000	£22,568,000	969	227
Year 3	23	£37,409,000	£2,496,000	£9,973,000	477	12	£43,586,000	£2,806,000	£11,316,000	530	30
Total	59¹³⁵	£152,418,000	£9,070,000	£36,242,000	1,539	21	£209,682,000	£13,466,000	£40,622,000	1,767	455

The baseline data collated by the Fund Manager indicated that 59 unique recipient businesses (which were not in default of their loans) had turnover of £152.4m, EBITDA of £9.1m, wages and salary costs of £36.2m and a total of 1,539 employees prior to receipt of their loans through the GLF.

By the end of Year 3, the 59 recipient businesses were reporting total turnover of £209.7m, EBITDA of £13.5m, wages and salary costs of £40.6m and indicated that there were 1,767 employees including 455 employees safeguarded as a result of the GLF loan.

The table below summarises the changes in each metric across the recipient businesses at the end of Year 3 as compared with the baseline position:

Table 7.6: Changes in Economic Metrics between Baseline and end of Year 3 of the Fund						
Year of Disbursal	Turnover	EBITDA	Wages and Salary Costs	GVA ¹³⁶	No. of Employees	No. of Jobs Safeguarded
Year 1	£19,057,000	£1,592,000	£1,758,000	£3,350,000	71	198
Year 2	£32,030,000	£2,494,000	£1,279,000	£3,773,000	104	227
Year 3	£6,177,000	£310,000	£1,343,000	£1,653,000	53	30
Total	£57,264,000	£4,396,000	£4,380,000	£8,776,000	228	455

¹³⁴ The data did not breakdown the employee numbers into full-time and part-time to provide FTEs.

¹³⁵ At the time of year-end reporting data was collated for 69 deals which had been disbursed to 64 unique businesses. A further four businesses were excluded from the economic analysis on the basis that their loans were in default.

¹³⁶ Based on EBITDA plus wages and salary costs

Key findings in relation to the previous table include:

- It was estimated that there was £57.3m of additional turnover generated in the 59 recipient businesses which equates to an average of £970,576 per business (N=59).
- Additional EBITDA of £4.4m and additional wages and salary costs of £4.4m were generated across the recipient businesses which was estimated to equate to £8.8m of GVA (an average of £148,746 per business).
- The businesses reported that there were an additional 228 employees following receipt of the loans (3.9 employees per business) and that there were 455 safeguarded jobs as a result of the loan activities (7.7 per business).

7.2.3 Other Funding Leveraged (Per Fund Manager's Monitoring)

Prior to receipt of the GLF loan the investee businesses provided details to the Fund Manager of any other funding leveraged by the business in relation to growth plans. Similarly, ongoing management reports provided to the Fund Manager following receipt of the loan include details of funding leveraged by the business since receipt of the loan. The table below summarises the total funding (both public and private) leveraged by recipient businesses prior to, and following, receipt of a GLF loan based on monitoring materials provided by the Fund Manager.

	Source	Year 1 (£)		Year 2 (£)		Year 3 (£)		Year 4 (£)		Total (£)	
		No. of Investments	Value (£)	No. of Investments	Value (£)	No. of Investments	Value (£)	No. of Investments	Value (£)	No. of Investments	Value (£)
Pre-GLF Leverage	Invest NI Grant	3	£750,000	8	£930,000	5	£631,000	2	£190,000	18	£2,501,000
	Bank Debt	1	£500,000	4	£1,014,000	10	£4,564,000	1	£770,000	16	£6,848,000
	Promoter Equity	1	£250,000	4	£415,000	4	£960,000	0	£0	9	£1,625,000
	Other Equity	0	£0	2	£220,000	1	£1,650,000	1	£15,000	4	£1,885,000
	Sub-total	5	£1,500,000	18	£2,579,000	20	£7,805,000	4	£975,000	47	£12,859,000
Post- GLF Leverage	Invest NI Grant	1	£42,000	1	£385,000	0	£0	0	£0	2	£427,000
	Bank Debt	3	£365,000	4	£1,950,000	0	£0	0	£0	7	£2,315,000
	Promoter Equity	2	£2,775,000	3	£1,765,000	2	£495,000	0	£0	7	£5,035,000
	Other Equity	0	£0	2	£1,000,000	0	£0	0	£0	2	£1,000,000
	Third Party Loans	0	£0	4	£410,000	3	£1,125,000	0	£0	7	£1,535,000
	Sub-total	6	£3,182,000	14	£5,510,000	5	£1,620,000	0	£0	25	£10,312,000
Total Funds Leveraged		11	£4,682,000	32	£8,089,000	25	£9,425,000	4	£975,000	72	£23,171,000
Private Sector Funds Leveraged		7	£3,890,000	23	£6,774,000	23	£8,794,000	2	£785,000	52	£20,243,000

¹³⁷ Please note that any one business could receive multiple sources of finance resulting in 72 sources of finance secured across 43 unique businesses which leveraged funds.

Key points in relation to the previous analysis include:

- In total, £23.2m of funding (outside of the GLF loan) was reported as being secured by 43 businesses, representing almost two thirds (63%, N=68) of the unique businesses which had disbursed GLF loans by November 2015. Based on total funds drawn-down of £23,385,000 (as per Section 2), there has therefore been £0.99 of further funding drawn-down from elsewhere for every £1 invested through the GLF by November 2015.
- The leveraged funding included £12.9m of funding prior to draw-down of the GLF including £2.5m (19%) of Invest NI grants, £6.9m (53%) of bank debt, £1.6m (13%) of promoter equity and £1.9m (15%) of other equity. Therefore over half of all the funding leveraged by GLF recipient businesses prior to drawdown of a GLF loan was senior debt through traditional bank lending.
- The total leveraged funding also included £10.3m of funding following draw-down of the GLF loan including £427k (4%) of Invest NI grants, £2.3m (22%) of bank debt, £5.0m (49%) of promoter equity, £1m (10%) of other equity and £1.5m (15%) of third party loans.
- Excluding any Invest NI grant funding secured¹³⁸, it can be seen from the previous table that a total of £20,243,000 of private sector funding has been leveraged by recipient businesses to date including £10,358,000 prior to securing the GLF grant and a further £9,885,000 of private sector leverage following receipt of the GLF loan.

7.2.4 Actual and Anticipated Impacts - Methodology

In order to determine the actual and anticipated impact of the GLF on recipients' businesses, the Evaluation Team agreed the following methodology with Invest NI's Economist Team:

- A baseline position would be retrieved for each of the recipients surveyed. Three of the 47 recipients surveyed had loans approved by July 2015 but did not draw down their loans fully until after this time. These businesses would be excluded from the analysis.
- It was recognised that the fact that businesses can receive loans at any point in a year would complicate analysis. It was therefore agreed that we would take a mid-year point in each financial year (i.e. the end of September), and apply the following rules:
 - If the recipient received a loan pre-October, we would take that financial year as their Year 1.
 - Alternatively, if they received the loan after October in any year, we would take the following financial year as their Year 1.
 - It was recognised that some benefits would be missed (up to 6 months of the 'pre-Octobers'), but some will be greater than actual (i.e. the post Septembers would begin measurement 6 months after receipt of loan and so would have had more time to accrue impact. The Evaluation Team is of the view that on the whole, the differences were likely to largely balance out.
- Depending upon when the recipient received their GLF loan, the business' actual gross level of turnover and jobs (both full-time and part-time) would be retrieved for each financial year up to and including 2015/16.
- At the request of Invest NI, anticipated impacts have been considered only over a 3-year period i.e. projections, where available from the respondents, were only to be retrieved for the 3 financial years 2016/19. This decision was influenced by a view amongst Invest NI and the Evaluation Team that projections were likely to become more tenuous beyond a three-year period.
- Whilst projections, where available, were subsequently sought for the three financial years 2016/19 from respondents, there were notable gaps and a high proportion of results which presented as statistical outliers within the projections for the third financial year (i.e. 2018/19). As such it was agreed with Invest NI that the projections for this year would be excluded from the succeeding analysis. Given that the projections for the previous two years (i.e. 2016/17 and

¹³⁸ NB This analysis relates to non-GLF monies. Therefore, it does not consider the element of the GLF loan that represents 'private sector leverage' i.e. the monies introduced to GLF from NILGOSC.

2017/18) were considered to be reasonably prudent, it was agreed that the Evaluation Team would apply a straight-line position for the third year based on the second year of projections.

- It is assumed that the level of deadweight and displacement attributable to actual impacts is also attributable to projected impacts.
- To calculate gross GVA impacts associated with the GLF, the Evaluation Team applied the current average NI sectoral GVA (of 30.0%¹³⁹) to the increases in turnover reported by businesses.
- Specific points to note relating to the survey responses include:

- In a number of cases businesses were unable to quantify or unwilling to disclose turnover and/or job numbers for a particular year. As such, average changes in turnover and employment have been calculated utilising only those businesses within the overall sample which provided values for any given year.
- Three businesses reported turnover figures which represented statistical outliers when compared with the other businesses within the cohort in question¹⁴⁰. These businesses have been excluded from the grossing-up of impacts and ‘added-back’ in before totalling the actual impacts achieved. However, to take account of the potential for these three loans to default, it has been assumed that the actual and anticipated impacts reported by these outlying businesses are reduced in line with the three default scenarios detailed below.

- In relation to the GLF’s projected performance, we have allowed for a number of scenarios in relation to loans in default, or that may move into that position:
 - An 8% default level, which was the actual position at November 2015;
 - A 12.5% default position, which is the maximum allowable under the GLA’s LPA; and
 - A 20% default position, requested by the Invest NI Evaluation Steering Committee.
- Discussions with the EDO indicate that the default rates are determined based upon the value of the loan portfolio which it is considered unlikely will be repaid. At November 2015, 8% (£1,748,800) of the loans disbursed as at July 2015 (£21,860,000) were considered to be default.
 - Based on the average loan value of £341,562, the Evaluation Team has estimated that 5 loans would default under the 8% scenario.
 - At a 12.5% default level (or £2,732,500), we estimate that 8 loans would default.
 - At a 20% default level (£4,372,000), we estimate that 13 loans would default.
- The gross and net turnover and employment impacts for 2015/16 have been presented exclusive of those loans which are assumed to have defaulted at a rate of 8% on the basis that this was the actual default rate as at September 2015. It is recognised that there will have been a period of ‘ramp-up’ to a level of defaults of 8% and that there is typically a lag-time between disbursement and default. However, discussions with the EDO and Invest NI highlighted that it would be difficult to determine the precise period when each default occurs. As such, it has been assumed that there are no defaults prior to 2015/16 by which stage a default level of 8% applies.
- The subsequent analysis may not be reflective of the full actual and anticipated economic benefits of the loan fund at December 2015¹⁴¹. That is, depending upon when a business received their loan, we may have retrieved 8 years’ data relating to turnover and jobs for some respondents, but only 4 years for others.
- It was unclear what was anticipated to be the typical ‘economic life’ of any benefits derived as a result of the receipt of a loan. For example, loans are repaid over a 5-year period, perhaps suggesting that the economic life is 5 years. However, as noted, for some recipients, we have retrieved 8 years’ data relating to turnover and jobs, whilst for others we have retrieved only 4 years (perhaps indicating an economic life of potential benefits of those respective durations). On

¹³⁹ Source: Northern Ireland Annual Business Inquiry 2014 (December 2015).

¹⁴⁰ <http://www.miniwebtool.com/outlier-calculator/>

¹⁴¹ That is, when recipients were surveyed.

balance, it might be considered that allowing additional years’ impacts to be included for some respondents balances out others having only a truncated number of years’ impacts included.

In any eventuality and despite some potential deficiencies relating to access to data concerning the full economic benefits of the loan fund, our analysis does provide a strong indication of:

1. The actual impact of the GLF up to December 2015; and
2. The potential anticipated impacts up to 2018/19 (for those that received a loan up to and including July 2015) on the basis that the turnover and jobs achieved by 2017/18 are maintained through to 2018/19.

Our findings are subsequently couched in those terms.

7.2.5 Export Activity

The survey for GLF recipients sought to assess whether recipient businesses were trading outside Northern Ireland before (where relevant) receiving the GLF support, and whether they were doing so now.

Trading Outside NI?	% Before	% Now
Yes, to ROI	82%	84%
Yes, to GB (England, Scotland or Wales)	70%	91%
Yes, outside ROI and GB	45%	66%
No	9%	0%
Total	44	44

Key findings include:

- Prior to receiving the loan, only 9% (N=44) of GLF recipients did not trade outside NI. Following the receipt of the loan, this has reduced to 0% (N=44) of loan recipients;
- The proportion of GLF recipient businesses that are trading in:
 - The Republic of Ireland has increased from 82% prior to receiving the loan, to 84% now;
 - Great Britain has increased from 70% prior to receiving the loan, to 91% now;
 - Outside GB and the Republic of Ireland has increased from 45% prior to receiving the loan, to 66% now.

7.2.6 Gross Turnover & Export Sales – Actual & Anticipated

GLF survey recipients were asked to determine the proportion of their reported increase in turnover was generated in NI, GB and other markets. They indicated that on average 25% of any additional turnover has been generated within the NI market. The balance was reported to be within the GB market (43%) or within markets outside the UK (32%, such markets will include the Republic of Ireland).

The table below summarises our analysis of gross turnover (by jurisdiction), both realised up to December 2015 or anticipated up to 2018/19, under the three projected default scenarios (i.e. 8%, 12.5% and 20%).

¹⁴² Percentages do not sum to 100% as recipients selected multiple responses where relevant.

Table 7.9: Additional Turnover by Geographical Area											
	Actual Impacts						Recipients' Views on Anticipated Impact (16/18) and projected for 18/19				Grand Total – Actual plus Anticipated
	Average %	12/13	13/14	14/15	15/16	Total	16/17	17/18	18/19	Total	
Additional Sales within NI	25%	£292,841	£5,158,084	£23,210,898	£43,529,927	£72,191,750	£52,575,413	£64,402,359	£64,402,359	£181,380,130	£253,571,880
Additional Sales within GB	43%	£510,624	£8,994,117	£40,472,686	£75,902,839	£125,880,266	£91,675,392	£112,297,957	£112,297,957	£316,271,306	£442,151,572
Additional Sales to Other Markets	32%	£378,536	£6,667,514	£30,003,189	£56,268,250	£93,317,489	£67,960,751	£83,248,659	£83,248,659	£234,458,069	£327,775,558
Total Net of Defaults at 8% Actual and Anticipated	100%	£1,182,000	£20,819,714	£93,686,774	£175,701,016	£291,389,504	£212,211,556	£259,948,975	£259,948,975	£732,109,506	£1,023,499,009
Additional Sales within NI	25%	£292,841	£5,158,084	£23,210,898	£43,529,927	£72,191,750	£46,176,932	£56,599,721	£56,599,721	£159,376,374	£231,568,123
Additional Sales within GB	43%	£510,624	£8,994,117	£40,472,686	£75,902,839	£125,880,266	£80,518,405	£98,692,550	£98,692,550	£277,903,506	£403,783,771
Additional Sales to Other Markets	32%	£378,536	£6,667,514	£30,003,189	£56,268,250	£93,317,489	£59,689,859	£73,162,707	£73,162,707	£206,015,272	£299,332,761
Total Net of Defaults at 8% Actual and 12.5% Anticipated	100%	£1,182,000	£20,819,714	£93,686,774	£175,701,016	£291,389,504	£186,385,196	£228,454,978	£228,454,978	£643,295,152	£934,684,656
Additional Sales within NI	25%	£292,841	£5,158,084	£23,210,898	£43,529,927	£72,191,750	£42,268,466	£51,819,075	£51,819,075	£145,906,616	£218,098,366
Additional Sales within GB	43%	£510,624	£8,994,117	£40,472,686	£75,902,839	£125,880,266	£73,703,238	£90,356,571	£90,356,571	£254,416,380	£380,296,646
Additional Sales to Other Markets	32%	£378,536	£6,667,514	£30,003,189	£56,268,250	£93,317,489	£54,637,643	£66,983,083	£66,983,083	£188,603,810	£281,921,298
Total Net of Defaults at 8% Actual and 20% Anticipated	100%	£1,182,000	£20,819,714	£93,686,774	£175,701,016	£291,389,504	£170,609,346	£209,158,730	£209,158,730	£588,926,806	£880,316,310

Key points to note include:

- It is estimated that £291.4m of gross turnover has been created by those GLF recipients that received a loan during the period May 2012 and July 2015, during the 44-month period to December 2015;
- Depending on the default rate scenario modelled, it is estimated that between £880.3m and £1,023.5m of gross turnover will be created by those same GLF recipients during the 7-year period 2013/19.

7.2.7 Gross Turnover & GVA Impacts – Actual and Anticipated

The table below summarises our analysis of gross turnover and GVA created, both realised up to December 2015 or anticipated up to 2018/19, under the three projected default scenarios (i.e. 8%, 12.5% and 20%):

Table 7.10: Actual and Anticipated GVA Impacts											
	Actual Impacts					Recipients' Views on Anticipated Impact (16/18) and projected for 18/19				Grand Total – Actual plus Recipients' Anticipated	
	12/13	13/14	14/15	15/16	Total	16/17	17/18	18/19	Total		
Sample (N=)		13	31	47	-	47	47	47			
Sample with impacts (N=)		13	31	44	-	44	44	44	-	-	
Outliers	0	1	3	3	-	3	3	3	-	-	
Sample with impacts excl. outliers (N=)	1	12	28	41	-	41	41	41	-	-	
Sample with impacts providing values excl. outliers (N=)	1	8	20	31	-	26	24	24	-	-	
Total Loans excl. outliers (N=)	1	25	50	68	-	68	68	68	-	-	
Total Loans excluding outliers with impacts and defaults at 8% (N=)	1	25	50	63	-	63	63	63	-	-	
Total Loans, excluding outliers with impacts and defaults at 8% actual and 12.5% anticipated (N=)	1	25	50	63	-	60	60	60	-	-	
Total Loans excluding outliers with impacts and defaults at 8% actual and 20% anticipated (N=)	1	25	50	63	-	55	55	55	-	-	
8% Defaults (Actual and Anticipated)	Total Change in Turnover	£1,182,000	£20,819,714	£93,686,774	£175,701,016	£291,389,504	£212,211,556	£259,948,975	£259,948,975	£732,109,506	£1,023,499,009
	Gross Change in GVA	£354,600	£6,245,914	£28,106,032	£52,710,305	£87,416,851	£63,663,467	£77,984,693	£77,984,693	£219,632,852	£307,049,703
8% Actual and 12.5% Anticipated Defaults	Total Change in Turnover	£1,182,000	£20,819,714	£93,686,774	£175,701,016	£291,389,504	£186,385,196	£228,454,978	£228,454,978	£643,295,152	£934,684,656
	Gross Change in GVA	£354,600	£6,245,914	£28,106,032	£52,710,305	£87,416,851	£55,915,559	£68,536,493	£68,536,493	£192,988,546	£280,405,397
8% Actual and 20% Anticipated Defaults	Total Change in Turnover	£1,182,000	£20,819,714	£93,686,774	£175,701,016	£291,389,504	£170,609,346	£209,158,730	£209,158,730	£588,926,806	£880,316,310
	Gross Change in GVA	£354,600	£6,245,914	£28,106,032	£52,710,305	£87,416,851	£51,182,804	£62,747,619	£62,747,619	£176,678,042	£264,094,893

Key points to note include:

- it is estimated that £87.4m of gross GVA has been created by those GLF recipients that received a loan during the period May 2012 and July 2015, during the 44-month year period to December 2015;
- Depending upon which default scenario is considered, it is estimated that a total of between £264.1m and £307.0m of gross GVA will be created by those same GLF recipients during the 7-year period 2013/19.

7.2.8 Gross FTE Jobs and Job Years – Actual and Anticipated

The table below summarises our analysis of gross FTE job years created, realised up to December 2015 and anticipated up to 2018/19, under the same range of default scenarios:

Table 7.11: Gross FTE Jobs – Actual and Anticipated											
	Actual Impacts					Recipients' Views on Anticipated Impact (16/18) and projected for 18/19				Grand Total FTE Job Years – Actual plus Recipients' Anticipated	
	12/13	13/14	14/15	15/16	Total FTE Job Years	16/17	17/18	18/19	Total FTE Job Years		
Sample (N=)	1	13	31	44	-	44	44	44	-	-	
Sample with impacts (N=)	1	13	31	44	-	44	44	44	-	-	
Sample providing values (N=)	1	11	27	40	-	34	24	14	-	-	
Total Loans (N=)	1	26	53	71	-	71	71	71	-	-	
Total Loans, with impacts (N=)	1	26	53	71	-	71	71	71	-	-	
Total Loans with impacts excl. defaults at 8% (N=)	1	26	53	66	-	66	66	66	-	-	
Total Loans with impacts excl. defaults at 8% actual and 12.5% anticipated (N=)	1	26	53	66	-	63	63	63	-	-	
Total Loans with impacts excl. defaults at 8% actual and 20% anticipated (N=)	1	26	53	66	-	58	58	58	-	-	
Gross FTE Job Years	8% Defaults	0	30	357	588	975	704	768	768	2,240	3,215
	12.5% Defaults	0	30	357	588	975	672	733	733	2,138	3,113
	20% Defaults	0	30	357	588	975	619	675	675	1,969	2,944

Key points to note include:

- It is estimated that 975 gross FTE job years (or 588 gross FTE jobs) were created by GLF recipients during the 44 month period to December 2015;
- Depending on the default scenario modelled, it is estimated that, in total, between 2,944 and 3,215 gross FTE job years will be created by GLF recipients during the 7-year period 2013/19.

Whilst the previous analysis does not take account of safeguarded jobs, it is noted that one third (33%, N=41) of recipient businesses surveyed reported that the GLF support had led to employment being safeguarded/ retained within their business (Section 7.8).

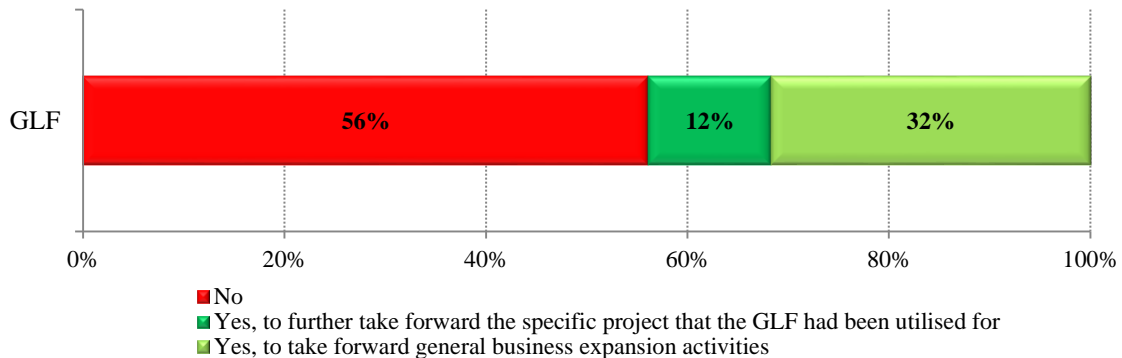
The 588 gross FTE jobs created is greater than the 473 gross FTE jobs projected within the application forms (Section 7.2.1). As noted, the GLF recipients variously projected employment growth anywhere between 1 and 7 years after receiving their loan, so it is difficult to draw any conclusion between the two figures, as for many businesses, at the time of the survey, they have had more time (up to 44 months in some cases) to create jobs than they projected in their applications (in many cases between 12 and 36 months). Furthermore, we note that the EDO emphasised during discussions that it places little reliance on the applicants' employment projections when determining which businesses should be approved for loans. Instead, the EDO places its focus upon the assessment of the recipient business' ability to repay the GLF loan.

7.3 Additional Business Finance and/or Support Secured

7.3.1 Finance Secured

Over two-fifths (44%, N=41¹⁴³) of GLF recipients had received further financial investment since receiving the GLF loan (and any other finance that had been used at the same time towards the same business expenditures as the GLF).

Figure 7.1: Since receiving the GLF loan (and the other finance discussed earlier that were used towards the same business expenditures as the GLF), has your business received any further investment? (N=41)



Of the 18 GLF recipients that received further financial support since receiving a loan from the GLF, over half (56%, N=18) indicated that they had received support from Invest NI equating to a total value of £655,345 of funding (£65,535 on average). Other sources of funding secured included finance from internal shareholders and their bank.

Table 7.12: Subsequent Sources of Finance Secured by GLF Recipients (N=18)

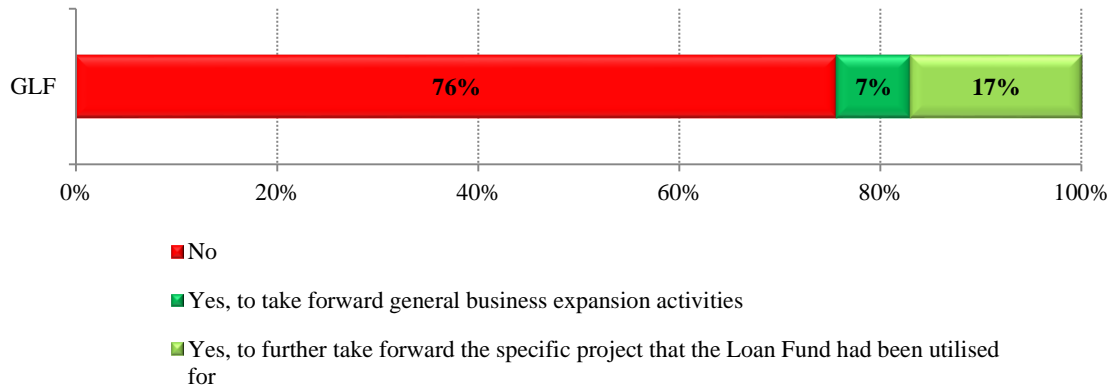
Sources of Finance	No. Receiving Support	% Receiving Support	Total Value (£)	Average Value (£)
Invest NI	10	56%	£655,345	£65,535
Finance from Internal Shareholders	2	11%	£304,000	£152,000
Your Bank (where your business account is)	2	11%	£150,000	£75,000
A Venture Capital (VC) Fund	1	5.5%	£600,000	£600,000
Friends and Family	1	5.5%	£350,000	£350,000
Through another provider of finance for businesses	1	5.5%	£100,000	£100,000
A crowd funding platform	1	5.5%	£65,000	£65,000
Another public sector body (please specify)	-	-	-	-
The Halo Business Angel Network	-	-	-	-
Other business angels	-	-	-	-
Other Banks (other than the one your business banks with)	-	-	-	-
Total	18	100%	£2,224,345	£123,575

¹⁴³ Three telephone survey respondents had not received any tangible business impacts and did not complete this aspect of the survey. 2 further respondents only partially completed the survey and did not complete this aspect of the survey. This question was not posed to the online survey respondents.

7.3.2 Non-Financial Support Received

A quarter (24%, N=41¹⁴⁴) of GLF recipients had received non-financial support since receiving the GLF loan (from either a public sector source such as Invest NI or from the private sector).

Figure 7.2: Since receiving the GLF loan, has your business received any further non-financial support (from either a public sector source such as Invest NI or from the private sector)? (N=41)



Examples of supported received cited by respondents include:

- Participation on programmes organised by Invest NI; and
- Participation on programmes organised by their local council.

7.4 Influence on Business Impacts (Impact Additionality/ Deadweight)

The net impact of the GLF support (i.e. its additionality) on recipient businesses’ turnover, employment or other outturns can only be measured after making allowances for what would have happened in the absence of the intervention. That is, the impact must allow for deadweight. ‘Deadweight’ refers to outcomes that would have occurred without the intervention.

Please note that given that most evaluations are undertaken some time after an activity is implemented, the Evaluation Team does not consider it appropriate to apply ‘activity additionality’ to impact measures. The reason being that, in the intervening period any variety of factors (and support interventions) may have had an impact on a business. Therefore, an impact additionality measure was used to ascertain the level of deadweight/additionality relating to business outturns.

The analysis of individual survey responses and application of the same ‘participant self-assessment’ methodology used to assess ‘activity additionality’, results in the following levels of ‘impact deadweight and additionality’¹⁴⁵:

Table 7.13: Impact Additionality/deadweight (N=41) ¹⁴⁶	
Deadweight	Additionality
43.6%	56.4%

The Evaluation Team notes that the level of ‘impact additionality’ (56.4%) is greater than the level of ‘activity additionality’ (52.1%) indicating that respondents recognise the importance of being able to undertake their business development activities sooner or to a greater extent than would have been the case in the absence of the loan.

¹⁴⁴ Three telephone survey respondents had not received any tangible business impacts and did not complete this aspect of the survey. 2 further respondents only partially completed the survey and did not complete this aspect of the survey. This question was not posed to the online survey respondents.

¹⁴⁵ See Appendix XIX for further details.

¹⁴⁶ Feedback provided by those businesses that engaged in the telephone consultations.

7.5 Displacement

The Evaluation Team has also considered the potential displacement that might be created by a business receiving a GLF loan. To assess this, we have again utilised a series of questions¹⁴⁷; the answers to which are assigned a ‘displacement factor’ in both the NI market and the GB market.

We have calculated displacement (see Appendix XIX) based on two factors:

1. The proportion of the businesses that participants compete with that are based in NI/GB, keeping in mind the markets which their company sells into; and
2. Whether, in the recipient’s area of business, market conditions have improved over the period since receiving the loan.

On an overall level, the Evaluation Team’s analysis suggests that that the displacement factor at the NI level is 9%; whilst at the GB level it is 18%.

7.5.1 Net Additional Turnover & GVA Impacts – Actual and Anticipated

The table below sets out estimates of net additional¹⁴⁸ turnover and GVA created, both realised up to December 2015 and anticipated up to 2018/19, under the three projected default scenarios (i.e. 8%, 12.5% and 20%):

Key points to note include:

- It is estimated that £44.7m of net additional GVA has been created during the 4 year period to 2015/16 by those GLF recipients that received a loan between May 2012 and July 2015;
- Depending on the default scenario modelled, it is estimated that, in total, between £135.0m and £156.9m of net additional GVA will be created by those same GLF recipients during the 7-year period 2013/19.

¹⁴⁷ Developed in conjunction with DETI’s Economists.

¹⁴⁸ i.e. net of deadweight and displacement

Table 7.14: Net Additional Turnover – Actual and Anticipated

		Actual Impacts					Recipients' Views on Anticipated Impact (16/18) and projected for 18/19				Grand Total – Actual plus Recipients' Anticipated
		12/13	13/14	14/15	15/16	Total	16/17	17/18	18/19	Total	
Excl. 8% Defaults (Actual and Anticipated)	Gross Change in GVA	£354,600	£6,245,914	£28,106,032	£52,710,305	£87,416,851	£63,663,467	£77,984,693	£77,984,693	£219,632,852	£307,049,703
	GVA Value that is Deadweight (43.6%)	£154,736	£2,725,522	£12,264,594	£23,001,129	£38,145,981	£27,780,747	£34,030,082	£34,030,082	£95,840,910	£133,986,892
	GVA Value that is Additional (56.4%)	£199,864	£3,520,393	£15,841,438	£29,709,176	£49,270,870	£35,882,720	£43,954,611	£43,954,611	£123,791,941	£173,062,811
	GVA Value displaced from elsewhere in NI (9%)	£18,668	£328,813	£1,479,629	£2,774,909	£4,602,019	£3,351,534	£4,105,468	£4,105,468	£11,562,469	£16,164,489
	Net Additional Change in GVA net of defaults	£181,196	£3,191,579	£14,361,809	£26,934,266	£44,668,851	£32,531,186	£39,849,143	£39,849,143	£112,229,472	£156,898,323
Excl. 8% Actual and 12.5% Anticipated Defaults	Gross Change in GVA	£354,600	£6,245,914	£28,106,032	£52,710,305	£87,416,851	£55,915,559	£68,536,493	£68,536,493	£192,988,546	£280,405,397
	GVA Value that is Deadweight (43.6%)	£154,736	£2,725,522	£12,264,594	£23,001,129	£38,145,981	£24,399,802	£29,907,183	£29,907,183	£84,214,168	£122,360,149
	GVA Value that is Additional (56.4%)	£199,864	£3,520,393	£15,841,438	£29,709,176	£49,270,870	£31,515,757	£38,629,310	£38,629,310	£108,774,377	£158,045,247
	GVA Value displaced from elsewhere in NI (9%)	£18,668	£328,813	£1,479,629	£2,774,909	£4,602,019	£2,943,649	£3,608,072	£3,608,072	£10,159,792	£14,761,812
	Net Additional Change in GVA net of defaults	£181,196	£3,191,579	£14,361,809	£26,934,266	£44,668,851	£28,572,108	£35,021,238	£35,021,238	£98,614,585	£143,283,436
Excl. 8% Actual and 20% Anticipated Defaults	Gross Change in GVA	£354,600	£6,245,914	£28,106,032	£52,710,305	£87,416,851	£51,182,804	£62,747,619	£62,747,619	£176,678,042	£264,094,893
	GVA Value that is Deadweight (43.6%)	£154,736	£2,725,522	£12,264,594	£23,001,129	£38,145,981	£22,334,576	£27,381,099	£27,381,099	£77,096,774	£115,242,755
	GVA Value that is Additional (56.4%)	£199,864	£3,520,393	£15,841,438	£29,709,176	£49,270,870	£28,848,228	£35,366,520	£35,366,520	£99,581,268	£148,852,138
	GVA Value displaced from elsewhere in NI (9%)	£18,668	£328,813	£1,479,629	£2,774,909	£4,602,019	£2,694,495	£3,303,319	£3,303,319	£9,301,133	£13,903,153
	Net Additional Change in GVA net of defaults	£181,196	£3,191,579	£14,361,809	£26,934,266	£44,668,851	£26,153,733	£32,063,200	£32,063,200	£90,280,134	£134,948,985

7.5.2 Net FTE Jobs and Job Years – Actual and Anticipated

The table below summarises our analysis of net additional FTE job years created, both realised up to December 2015 or anticipated up to 2018/19, under the same range of scenarios as before:

Table 7.15: Net FTE Jobs – Actual and Anticipated											
		Actual Impacts					Recipients' Views on Anticipated Impact				Grand Total FTE Job Years– Actual plus Recipients' Anticipated
		12/13	13/14	14/15	15/16	Total FTE Job Years	16/17	17/18	18/19	Total FTE Job Years	
Excl. 8% Defaults (Actual and Anticipated)	Gross FTE Jobs Created	0	30	357	588	975	704	768	768	2,240	3,215
	FTE Job Years that are Deadweight (40.4%)	0	13	156	257	426	307	335	335	977	1,403
	FTE Job Years that are Additional (56.4%)	0	17	201	332	550	397	433	433	1,263	1,813
	FTE Job Years displaced from elsewhere in NI (9.3%)	0	2	19	31	51	37	40	40	117	168
	Net Additional FTE Job Years	0	15	182	301	498	360	392	392	1,144	1,642
Excl. 8% Actual and 12.5% Anticipated Defaults	Gross FTE Jobs Created	0	30	357	588	975	672	733	733	2,138	3,113
	FTE Job Years that are Deadweight (40.4%)	0	13	156	257	426	293	320	320	933	1,359
	FTE Job Years that are Additional (56.4%)	0	17	201	332	550	379	413	413	1,205	1,755
	FTE Job Years displaced from elsewhere in NI (9.3%)	0	2	19	31	51	35	39	39	113	164
	Net Additional FTE Job Years	0	15	182	301	498	344	375	375	1,094	1,592
Excl. 8% Actual and 20% Anticipated Defaults	Gross FTE Jobs Created	0	30	357	588	975	619	675	675	1,969	2,944
	FTE Job Years that are Deadweight (40.4%)	0	13	156	257	426	270	294	294	858	1,284
	FTE Job Years that are Additional (56.4%)	0	17	201	332	550	349	380	380	1,109	1,659
	FTE Job Years displaced from elsewhere in NI (9.3%)	0	2	19	31	51	33	36	36	105	156
	Net Additional FTE Job Years	0	15	182	301	498	316	345	345	1,006	1,504

Key points to note include:

- It is estimated that 301 net additional FTE jobs or 498 net additional FTE job years were created by GLF recipients during the 44-month period up to December 2015;
- Depending upon which default scenario is considered, it is estimated that, in total, between 1,504 and 1,642 net additional FTE job years will be created by GLF recipients during the 7-year period 2013/19.

7.6 GVA Return-on-Investment

The table below summarises the actual GVA return on investment, realised up to December 2015 and the anticipated levels at 2018/19, under the three projected default scenarios (i.e. 8%, 12.5% and 20%).

Table 7.16: GLF Return on Investment					
Default Rate		Total Actual (£) ¹⁴⁹	Actual Return on Investment	Total (Actual and Anticipated) (£) ¹⁵⁰	Return on Investment
8%	Net Additional GVA	£44,668,851	£1: £1.68	£156,898,323	£1: £4.87
	Full Economic Cost	£26,667,359		£32,189,423	
12.5%	Net Additional GVA	£44,668,851	£1: £1.69	£143,283,436	£1: £4.52
	Full Economic Cost	£26,453,689		£31,711,049	
20%	Net Additional GVA	£44,668,851	£1: £1.71	£134,948,985	£1: £4.37
	Full Economic Cost	£26,097,572		£30,913,759	

Key points to note include:

- It is estimated that for every £1 of investment up to July 2015 (ranging from £26,097,572 to £26,667,359 across the three default scenarios) there has been between £1.68 and £1.71 of net additional GVA generated during the 44 month period to December 2015.
- Whilst it may appear somewhat counterintuitive, the projections for the ‘actual’ positions suggest that as the level of default increases, the economic return on investment also increases. However, this is a result of utilising two distinct methodologies for estimating costs and economic impacts, which slightly skews results initially but will provide more accurate projections as time progresses. That is, as noted in Section 3.7, Invest NI’s interest repayment model assumes that the level of defaults (i.e. 8%, 12.5% or 20%) is realised immediately upon loan disbursement. Therefore the ‘actual’ cost position as at July 2015 varies across the varying default scenarios. Conversely, as per Section 7.2.4, the actual net GVA impacts have been presented only allowing for the 8% of loans that had actually defaulted at September 2015. Therefore, as a result of marrying up two different methodologies, the results present actual economic impact with only 8% of loans defaulting from an economic benefit perspective, whilst costs for two of the three default scenarios assume higher levels of default than was actually the case at September 2015. This results in costs to private sector businesses being lower than would be the case if there was a lower level of default. However, this is purely a timing issue related to the methodological approach adopted, which is rectified once full anticipated costs and benefits up to 2022 are also taken into account.
- Subsequently, depending upon which scenario relating to the likely level of defaults is considered, it is estimated that a net additional GVA return on investment of between £4.37 and £4.87 for every £1 invested will be achieved by the end of the 7-year period 2013/19.

This projected return-on-investment is higher than the level anticipated for the NISBLF and is likely (in the Evaluation Team’s view) reflective of a number of factors including that the GLF has had more time to generate impacts, the fact that the two funds cater for very different types of businesses (with those catered for by the GLF more likely to be larger and more established with perhaps more growth potential).

¹⁴⁹ The estimated full economic cost as at July 2015 ranges from £26,097,572 (under the 20% default scenario) to £26,667,359 under the 8% default scenario. Per Table 3.8, it consists of capital repayments made by private sector businesses, the balancing capital investment figure made by Invest NI/NILGOSC that has yet to be recouped, plus interest payments, profit share and fees made by private sector businesses, plus £141,337 of additional Invest NI costs).

¹⁵⁰ The projected full economic cost at March 2022 associated with the GLF consists of capital repayments made by private sector businesses, plus the capital investment made by Invest NI/NILGOSC that is not recouped from private sector businesses (i.e. the value of the capital defaulted upon. Essentially these monies represent an opportunity cost to the economy, wherein Invest NI/NILGOSC have made an investment in some businesses, but with no economic return), plus actual and anticipated interest payments, profit share and fees and £251,685 of additional costs to Invest NI.

We note that Cogent recently evaluated the Viridian Growth Fund (VGF) which was a venture capital fund funded by DETI between 2001 and 2013. This evaluation determined that the return-on-investment of the (VGF) was between £1: £5.55 and £1: £5.62, suggesting some comparability in returns of Access to Finance initiatives focused on more growth oriented businesses in NI.

It should be noted that in addition to the GVA returns leveraged by the investment in the GLF, there will also be positive financial returns for the fund manager and the private sector investor (albeit borne by the NI-based private sector recipient businesses, and therefore deriving no additional economic benefit to the NI economy). In the event that either the 8% or 12.5% default rates are achieved then it is anticipated that positive financial returns will also be generated by Invest NI, however if a 20% default rate is realised than Invest NI will ultimately make a negative return on its investment in the Fund.

7.7 Productivity

The Economic Appraisal for the GLF included an outcome target for the Fund to improve NI’s productivity as measured by GVA per employee. The table below presents the GVA per employee as per the baseline position for each business surveyed, the actual position as at 2015/16 and the anticipated position in the 2016/17 to 2018/19.

Metric	Baseline Position	Actual (2015/16)	Projected (2016/17)	Projected (2017/18)	Projected (2018/19)
Turnover	£101,076,000	£211,550,000	£257,086,897	£306,396,667	£306,396,667
GVA %	30%				
GVA	£30,322,800	£63,465,000	£77,126,069	£91,919,000	£91,919,000
FTE Employees	805	1,052	1,189	1,231	1,231
Productivity (GVA per Employee)	£37,669	£60,311	£64,866	£74,698	£74,698

It can be seen from the table above that the actual productivity has increased amongst the recipient businesses from the baseline position of £37,669 to £60,311 of GVA per employee. The productivity level in 2015/16 was:

- 10% higher than the benchmark for the manufacturing sector;
- 55% higher than the benchmark for private services; and
- 52% higher than the benchmark across all private sector businesses.

Based on the projections for turnover and employee numbers the productivity is estimated to be £74,698 per employee by 2018/19 which is 23% above the manufacturing benchmark and 75% above the private sector benchmark for this year thereby suggesting that these businesses have the potential to improve NI’s productivity and reduce the gap between the region and the remainder of the UK.

	2015/16	2018/19
Productivity - Manufacturing (£)	£54,583	£60,530
Productivity - Private Services (£)	£38,769	£41,408
Productivity - Private Sector (£)	£39,769	£42,644

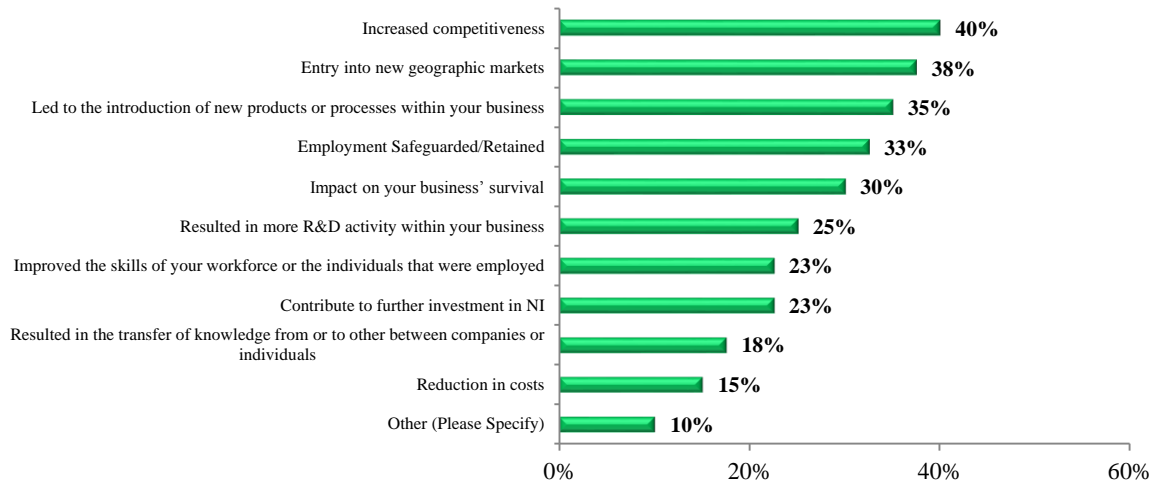
Whilst the Evaluation Team recognises that the anticipated productivity levels for the GLF are ambitious, the recipient businesses for the Fund are generally well-established businesses which have a growth trajectory which outstrips average levels across NI. On this bases, the projections are considered to be reasonable.

¹⁵¹ Oxford Economics on behalf of Invest NI (2014) ‘Gross Value Added Per Employee’.

7.8 Other or Unexpected Benefits Achieved

All (100%, N=41) of the GLF recipients that responded to this question indicated that receipt of GLF support had led to other benefits or unexpected impacts/benefits for them or their business, other than those relating to turnover or jobs discussed previously.

Figure 7.3: Did the receipt of GLF support lead to any other benefits or unexpected impacts/benefits for you or your business that have not already been discussed? ¹⁵² (N=41)



The types of benefits cited by respondents included:

- Their business becoming more competitive (40% of respondents, N=41);
- Facilitated entry into new geographic markets (38% of respondents, N=41);
- The introduction of new products or processes the business (35%, N=41);
- Safeguarding employment (33%, N=41).

¹⁵² Three telephone survey respondents had not received any tangible business impacts and did not complete this aspect of the survey. 2 further respondents only partially completed the survey and did not complete this aspect of the survey. This question was not posed to the online survey respondents.

8. ACHIEVEMENT OF OBJECTIVES

8.1 Introduction

Section 8 provides an assessment of the performance of each Fund against the objectives identified at the outset.

8.2 Achievement of the NISBLF Objectives

The Economic Appraisal (and later amendments, where identified) identified the following anticipated outcomes, objectives and KPIs for the NISBLF:

Table 8.1: Achievement of NISBLF Outcomes, Objectives and Targets (as per Economic Appraisal)			
Indicator		Achieved?	Commentary
Outcomes	Increase employment and reduce economic inactivity ¹⁵³	✓	<p>It is estimated that 144 net additional FTE jobs or 259 net additional job years have been created as a result of the NISBLF activity up to July 2015. In relation to projected net additional FTE Job Years:</p> <ul style="list-style-type: none"> Under the ‘ambitious scenario’ and utilising the actual growth rates reported by recipients to date it is anticipated that <u>at least</u> a further 1,050 net additional FTE Job Years will be created between 2016/17 and 2018/19. In total, this would result in the creation of <u>at least</u> 1,309 net additional FTE Job Years across the six-year period considered; Under the ‘prudent scenario’ and utilising the growth figures reported during 2015/16, it is anticipated that <u>at least</u> a further 360 net additional FTE Job Years will be created between 2016/17 and 2018/19. In total, this would result in the creation of <u>at least</u> 619 net additional FTE Job Years across the six-year period considered. <p>As such, the activity of the Fund up to and including July 2015 has increased employment.</p> <p>However, based upon available information, it cannot be determined whether these jobs (or a portion of them) have been taken by those who were previously economically inactive.</p>

¹⁵³ As reflected in the Department of Enterprise and Investment’s (DETI’s) Public Service Agreement (PSA) 3.

Table 8.1: Achievement of NISBLF Outcomes, Objectives and Targets (as per Economic Appraisal)

Indicator	Achieved?	Commentary
Promote entrepreneurship in order to support business growth ¹⁵⁴	✓	Between February 2013 and November 2015, 79 NISBLF loans were approved to start-up businesses representing 40% of the total number of loans approved through the Fund to this time (N=199). Therefore the NISBLF has provided unsecured loan finance to promote entrepreneurship in order to support business growth amongst start-ups.
Create a funding continuum in order to provide access to capital ¹⁵⁵	✓	Consultation with stakeholders has indicated that the NISBLF has provided an alternative source of finance to complement the existing range of options for businesses in NI. Start-ups and existing small businesses can avail of between £1,000 to £50,000 to develop the business and achieve growth potential. Whilst it is too early in many cases to assess what funding businesses continue onto following repayment of the NISBLF loans, consultations with other providers of finance indicate that they envisage that the NISBLF will provide a pipeline of demand for larger-scale and/or mainstream funding in future.
Facilitate skills development in order to grow the local economy ¹⁵⁶	✓	Almost one fifth (16%, N=63) of recipient businesses indicated that the receipt of NISBLF support led to improved skills of their workforce and/ or the individuals that were employed. Therefore, in some cases the Fund has facilitated skills development in order to grow the local economy in line with the original outcome target.
Assist in promoting the social economy ¹⁵⁷ .	✓	Five of the 170 businesses approved for loans by September 2015 were social economy businesses. Discussions with the EDO have indicated that whilst assisting with promoting the social economy is a proposed outcome of the NISBLF, marketing and promotional activities are directed at all eligible sectors (including, but not particularly targeting) social economic enterprises and all businesses are subject to the same application and assessment processes with no preference made for social economy enterprises. Therefore the number of businesses supported is a function of the demand and supply of viable opportunities arising from the social economy sector.
Objectives	✓	Lending is made available to SMEs and social enterprises across all sectors ¹⁵⁸ over the five year lending period. Between February 2013 and November 2015 the NISBLF approved £4.2m of loans to 199 SMEs including five social enterprise businesses. The Fund was open to all sectors with the exception of the excluded sectors (coal, steel, shipbuilding, enterprises in difficulty and primary agricultural producers). Almost one quarter (23%, N=199) of loans approved were to businesses in the wholesale and retail sectors (including 14% (N=199) of approvals to retail businesses) and almost one fifth (18%, N=199) of loans were approved to manufacturing businesses. 15 sectors were represented in total across the portfolio of businesses indicating that lending has been made available to businesses across a wide range of sectors.

¹⁵⁴ As reflected in the Department of Enterprise and Investment’s (DETI’s) Public Service Agreement (PSA) 3.

¹⁵⁵ NB This was anticipated to fit within Invest NI’s Access to Finance strategy which incorporated a ‘Fund of Funds’ approach.

¹⁵⁶ As reflected in the Invest NI Corporate plan 2008-2011.

¹⁵⁷ As reflected within Government objectives (“positive impact on social economy”).

¹⁵⁸ With the exception of the exclusions for coal, steel, shipbuilding, enterprises in difficulty and primary agricultural producers.

Table 8.1: Achievement of NISBLF Outcomes, Objectives and Targets (as per Economic Appraisal)

Indicator	Achieved?	Commentary
Utilise 100% of the loan fund (excluding fund management fees) for lending to SMEs and social enterprises.	✓	All of the loans approved and disbursed within the period under review were provided to SMEs and social enterprises.
Ensure that all lending takes place within five years of the set-up of the fund.	N/A	<p>The NISBLF has been in operation for less than three-years (February 2013 to January 2016, at the time of reporting) so it is not possible to definitively conclude whether all of the £5m funds will be disbursed by February 2018.</p> <p>However, in November 2015, after 34 months of activity (representing 57% of the 60-month lending period), £3.9m of funds had been disbursed through the NISBLF representing 78% of the total £5m invested by Invest NI. Therefore, based on the evidenced demand to date, it is likely that all £5m will be disbursed within five years of the set-up of the fund. The EDO has confirmed through consultation that it envisages between £7m and £8m of loans being disbursed through the Fund within the five-year lending period.</p>
Ensure that the loan fund is promoted to individuals not in Employment, Education or Training (NEETs) and those living within Neighbourhood Renewal Areas (NRAs).	✓	As at September 2015 (the most recent data available to the Evaluation Team at the time of analysis), 31 loans had been approved to individuals living within Neighbourhood Renewal Areas and one loan had been approved to an individual not in Employment, Education or Training. Discussions with the Fund Manager indicate that it is a continued focus to promote the NISBLF to NEETs and those living within NRAs in order to comply with this objective.
<ul style="list-style-type: none"> • Ensure that the fund is set up and operated in compliance with all EU State Aid regulations currently in force. • Ensure that the fund manager is registered with the Financial Services Authority and that the fund meets FSA corporate governance standards including appointment of a risk committee and a chief risk officer. • Ensure that the loan fund complies with all equality considerations as detailed in Invest NI's Equality Scheme. 	✓	<p>The NISBLF Fund Managers ensured that the set-up and ongoing operation of the Fund is in compliance with:</p> <ul style="list-style-type: none"> • All EU State Aid regulations currently in force; • FSA corporate governance standards; and • All equality considerations as detailed in Invest NI's Equality Scheme.

Table 8.1: Achievement of NISBLF Outcomes, Objectives and Targets (as per Economic Appraisal)

Indicator	Achieved?	Commentary
Targets	Partially	From April 2013 (when the first loan was disbursed) to March 2014 there was a total of 60 loans disbursed which was below the existing target of 132 loans issued per annum and below the revised target of 75-90 loans per annum. However, in Year 2 (April 2014 to March 2015), 76 loans were disbursed which is in line with the revised target which came into effect in February 2014. As at November 2015, there had been 49 loans disbursed across the eight months of Year 3. If this current rate continued then 74 loans would be disbursed in Year 3 which is just below the revised target.
	✓	As previously stated, as at September 2015 (the most recent data available to the Evaluation Team at the time of analysis), 31 loans had been approved to individuals living within NRAs and one loan had been approved to a NEET individual equating to a total value of £664,509 which was 17% of the total value of loans approved to that point (£3,968,933). Therefore this target has been exceeded to date.

¹⁵⁹ NB Invest NI’s Casework Papers for the NISBLF feature a target of 144 loans per annum. However, it is understood that this was an error resulting from incorrect data being transposed from the EA to the Casework Papers (relating to Option 2, as opposed to the EA’s Preferred Option, Option 4). Whilst the target of 144 is technically the target that was approved within the Casework Exercise, it is understood that this target was never adopted in practice.

¹⁶⁰ NB Invest NI undertook an internal ‘Early Stage Review’ of the NIBSLF during February 2014. In relation to KPIs, the Review concluded that *“the one KPI that is not going to be achieved is the number of investments to be made. Whilst the target was set at 132, the actual number of loans made to the end of February totalled 56”*¹⁶⁰. The Review therefore made the following recommendation, which the Evaluation Team has been advised was accepted, *“Reflecting the changing conditions since development of the fund in 2012, it is recommended that the target number of loans be amended to an annual target of 75-90 instead of 132. With an average loan size of £20k, 75 loans would amount to annual lending of £1.5m. If the average loan size continues to rise, a £25k average loan size would result in almost £1.9m of lending”*.

Table 8.1: Achievement of NISBLF Outcomes, Objectives and Targets (as per Economic Appraisal)

Indicator		Achieved?	Commentary
	<ul style="list-style-type: none"> To create/sustain 226 jobs over the five year period of the Fund. 	✓	<p>It is estimated that, as of December 2015, the NISBLF had created 144 net additional jobs (equating to 259 net additional FTE job years) of employment to date as a result of the loans approved up to and including July 2015.</p> <p>Under the range of scenarios considered, we estimate that between 0 (Prudent Projections, allowing for eventual default position of 23%) and 450 new net additional jobs (Ambitious Projections, allowing for eventual default position of 7.5%) will be created within three years for those loans funded up to July 2015. Under these scenarios, this would equate to between 360 and 1,256 net additional FTE job years of employment.</p> <p>In addition, we note that whilst this analysis does not take account of safeguarded jobs, one third (33%, N=63) of NISBLF recipient businesses surveyed reported that the NISBLF support had led to employment being safeguarded/ retained within their business. Our analysis indicates that the businesses that received NISBLF loans up to July 2015 had baseline employment of 538 jobs¹⁶¹. If it is assumed that a third of these jobs were safeguarded, this equates to 178 jobs safeguarded.</p> <p>These results indicate that the NISBLF has already exceeded this target within 35 months (up to December 2015) rather than the 5-year investment period as proposed at the outset.</p>

¹⁶¹ NB – The baseline employment of the 65 businesses surveyed at the time they received their loan was 220 jobs (i.e. 3.4 jobs per loan). When this level is grossed up across the total number of loans disbursed (159 loans), this equates to baseline employment of 538 jobs.

Schedule 2 of the LPA for the Fund detailed the following KPIs to be achieved through the NISBLF:

Table 8.2: Achievement of NISBLF KPIs (as per LPA)		
Indicator	Achieved?	Commentary
1. To complete at least 132 investments per annum for the first five years of the term.	Partially	See revised EA target above (i.e. to issue 75-90 investments per annum).
2. To operate in the deal size range of a minimum of £1,000 and a maximum of £50,000. To make an average investment from the Partnership Funding of £13,000 per deal per annum. Invest NI has advised that following the Early Stage Review during February 2014, this KPI was revised to an average investment range of between £15,000 and £25,000 per deal per annum.	✓	<p>As shown in Section 2 of this report, the actual investments made through the NISBLF ranged from £3,000 to £50,000. Therefore the minimum and maximum investments were in line with the KPIs.</p> <p>As at November 2015, the 185 loans disbursed had an average value of £21,158. Therefore the average loan value (for both approvals and disbursements) was higher than the average value required under the original KPI, but is in line with the revised average range of £15,000 to £25,000. On an annual basis, the average value of loans disbursed was £19,754 in Year 1 (February 2013 to March 2014), £21,227 for Year 2 (April 2014 to March 2015) and £22,770 for Year 3 (8 months from April 2015 to November 2015). Therefore this KPI was achieved on an annualised basis.</p>
3. To make Investments applying interest rates that reflect the risk involved in each case, but in order to adhere to State Aid rules, the interest rate margin must be at least the levels prescribed in the EU Journal from time to time, the those currently applying being as summarised below (this is in addition to the reference rate based on 1year IBOR of 1.5%) but with the option to charge higher interest rate if the Manager deems this to be appropriate. Based on a satisfactory risk category the loan margin must be at least 4.0% (plus 1.5% IBOR). In the event that the loan is rated as 'weak' then the loan margin should be at least 6.5% (plus 1.5%) and 10.0% (plus 1.5% IBOR where the risk rating is 'bad'.	✓	In line with the State Aid guidance, the lowest interest rate charged to any business under the NISBLF was 6% which is higher than the required minimum level of 4.0% plus 1.5% IBOR. Depending on the assessed risk level of the business, recipient businesses were charged anywhere between 6% and 11% interest on the loans.
4. To make Investments over the first five years of the Term and no less than £1.2 million and no more than £2 million per annum.	✓	On average, £1,381,441 was disbursed per annum across the 34-month period from February 2013 to November 2015 which is within the KPI range of £1.2m to £2m per annum. Whilst it is not possible at this time to definitively conclude that investments will be made over the first five years of the term as the investment period is not yet complete, the activity up to November 2015 was in line with the KPI range.
5. To achieve a Default Rate of less than 23%.	✓	As at November 2015, the default rate on the NISBLF portfolio was 7.5% which is considerably (67%) lower than the (maximum) KPI rate of 23%. Discussions with the Fund Manager indicate that the default rate is likely to rise over time as businesses progress their investment plans, albeit the EDO is confident that the default rate will not rise above the KPI level of 23%.

8.3 Achievement of the GLF Objectives

The Economic Appraisal (and later amendments, where identified) identified the following anticipated outcomes, objectives and KPIs for the GLF:

Table 8.3 Achievement of GLF Outcomes, Objectives and Targets (as per Economic Appraisal)			
	Indicator	Achieved	Commentary
Outcomes	Improve Northern Ireland’s manufacturing and private services productivity in line with PSA 1 in the PfG as measured by Gross Value Added (GVA) per employee (improve productivity);	✓	We estimate that the actual productivity of GLF businesses which received loans up to July 2015 was £60,311 which was 55% higher than the benchmark for all private sector businesses and 60% higher than the productivity at the baseline thereby suggesting that these businesses have the potential to improve NI’s productivity and reduce the gap between the region and the remainder of the UK..
	Increase employment in line with PSA 3 (increase employment);	✓	It is estimated that the GLF has created 498 net additional FTE job years of employment to December 2015 as a result of the loans approved up to and including July 2015. It is projected that at least a further 1,006 net additional FTE job years of employment will be created (assuming that a 20% default rate was realised) by these loans over the next three years resulting in increased employment as a result of the Fund.
	Promote an increased level of innovation and R&D activity within Northern Ireland businesses and encourage and support Northern Ireland businesses in building the capacity to take forward innovative ideas into new products, services and processes in line with the Regional Innovation Strategy for Northern Ireland (increase innovation and R&D);	✓	Over one third (35%, N=41) of GLF recipients indicated that the receipt of the GLF support had led to the introduction of new products or processes within the business; whilst one quarter (25%, N=41) of recipients stated that the support resulted in more R&D activity within the business. Therefore, we consider that the Fund has led to the promotion of an increased level of innovation and R&D activity within NI businesses in line with the Regional Innovation Strategy for NI.
	Leverage private sector investment in order to maximise the impact of public sector inputs (leverage private investment); and	✓	The GLF leveraged £25m of funding from the private sector to match the £25m invested by Invest NI. In addition, monitoring materials provided by WhiteRock Capital Partners indicate that £12.8m of private sector investment was leveraged by recipient businesses prior to the receipt of GLF investment in relation to the activities for which the loan was approved and a further £10.3m of private sector investment was secured following receipt of the GLF loans, leading to total private sector leverage of £48.1m associated with the Fund.

Table 8.3 Achievement of GLF Outcomes, Objectives and Targets (as per Economic Appraisal)

	Indicator	Achieved	Commentary
	Create a “funding continuum” in order to provide access to capital (create funding continuum).	✓	Consultation with stakeholders has indicated that the GLF has provided an alternative source of finance, which complements the existing range of options for businesses in NI. In particular, the Fund has invested in a number of syndicated deals with other sources as finance such as traditional bank loans, equity finance and crowd-funding. Whilst it is too early in many cases to assess what funding businesses continue onto following repayment of the GLF loans, consultations with other providers of finance indicate that they envisage that the GLF will provide a pipeline of demand for follow-on investment in the future.
Objectives	100% of lending is made to SMEs in the manufacturing and tradeable services sectors (based on the current definitions used by Invest NI) and who are not in contravention of any ERDF related exclusions;	✓	All of the loans approved (N=131) and disbursed (N=76) between May 2012 and November 2015 were to SMEs in eligible sectors.
	Ensure that the private sector contribution is at least 50% of capital to the loan fund;	✓	The GLF consists of £25m of Invest NI funding and £25m of private sector match funding.
	Utilise 100% of the loan fund for lending to SMEs (other than any requirement to hold back funds to ensure minimum cash balances);	✓	As stated above, 100% of the loan fund has been utilised (to date) for lending to SMEs.
	Ensure that all lending takes place within five years of the set-up of the fund;	N/A	<p>The GLF has been in operation for less than four years (May 2012 to January 2016, at the time of reporting) so it is not possible to definitively conclude whether all of the £50m funds will be disbursed by May 2017.</p> <p>However, in November 2015 after 43 months of activity (representing 72% of the 60-month lending period), £23.4m of funds had been disbursed through the GLF representing 47% of the total £50m invested by Invest NI and NIGOSC. Therefore there is some uncertainty as to whether all the Funds will be fully invested by the end of the 60-month lending period. It is important to note however, that as at November 2015 there were £12.0m of approved loans in the process of disbursement which would bring the total funds disbursed to £35.4m representing 70% of the total investable funds.</p>

Table 8.3 Achievement of GLF Outcomes, Objectives and Targets (as per Economic Appraisal)

Indicator	Achieved	Commentary
<ul style="list-style-type: none"> • Ensure that the fund is set up and run in compliance with all EU State Aid regulations currently in force; • Ensure that the fund manager is registered with the Financial Services Authority and that the fund meets FSA corporate governance standards including appointment of a risk committee and a chief risk officer; and • Ensure that the loan fund complies with all equality considerations as detailed in Invest NI's Equality Scheme. 	<p>✓</p>	<p>The GLF Fund Managers ensured that the set-up and that the ongoing operation of the Fund is in compliance with:</p> <ul style="list-style-type: none"> • All EU State Aid regulations currently in force; • FSA corporate governance standards; and • All equality considerations as detailed in Invest NI's Equality Scheme.

The LPA for the GLF detailed the following KPIs to be achieved through the Fund:

Table 8.4 Achievement of GLF KPIs (as per LPA)		
Indicator	Achieved	Commentary
<p>KPIs</p> <p>To complete 65 Investments per annum for the first five years of the Term.</p> <p>As previously noted (Section 1.3), this KPI was amended to 50 investments per annum in August 2013 and it was subsequently agreed at the Advisory Board meeting in June 2015 to further revise this target downwards to 30 investments per annum from the start of the 2015/16 financial year to the end of the investment term.</p>	Partially	<p>Across the 43-month period from May 2012 to November 2015 there were 131 loans approved and 76 loans disbursed through the GLF, equating to an average of 36 loans approved and 21 loans disbursed per annum. The number of investments completed per annum between May 2012 and November 2015 has therefore been lower than the original target of 65 per annum; the revised target of 50 per annum and the current target of 30 loans annum.</p> <p>We have suggested that this target may have partially been achieved on the basis that 33 loans were disbursed during Year 2 (April 2013 to March 2014), and so the current target of 30 loans annum was exceeded. However, we note that only 25 loans were disbursed during Year 3 (April 2014 to March 2015). Nonetheless, the Evaluation Team considers that the revised target of 30 loans per annum may be achievable going forward, particularly if there is greater conversion from loans approved to loans disbursed.</p>
To operate in the deal size range of a minimum of £50,000 and a maximum of £500,000 ¹⁶² ;	✓	The actual investments made through the GLF have ranged from £50,000 to £1,250,000. In the small number of cases (9%, N=131) where loan approvals have been made in excess of £500,000, these opportunities have been discussed in consultation with the Board of Advisors in line with the terms of the LPA.
<p>To make an average Investment from the Partnership Funding of £150,000 per deal.</p> <p>As previously noted (Section 1.3), this KPI was amended to £200,000 per deal in August 2013 and it was subsequently agreed at the Advisory Board meeting in June 2015 to further amend this target to an average investment value of £333,333 per deal from the 2015/16 financial year to the end of the investment term.</p>	✓	As at November 2015, the 131 loans approved had an average value of £336,489 and the 76 loans disbursed had an average value of £307,697. Therefore the average loan value for approvals was higher than the £200,000 value required by the KPI which was in place for the majority of the period under review (i.e. August 2013 to November 2015).
To make Investments at interest rates that reflect the risk involved in each Investment, but that are at an appropriate premium above the interest rates applicable to the typical rates charged by the local banking sector for senior secured finance;	✓	<p>The interest rates charged to each recipient company has been determined based on the Fund Manager's due diligence and assessment of the risk involved in each investment but the rates ensure that a premium is added versus the rate charged by the local banking sector for senior lending.</p> <p>Specifically the rates varied from 5.12% (plus IBOR) for the least risky investment to 7.51%</p>

¹⁶² With investments outside this range allowable if prior consultation with the Board of Advisors has taken place.

Table 8.4 Achievement of GLF KPIs (as per LPA)

Indicator		Achieved	Commentary
			(plus IBOR) for the most risky investment which resulted in full interest of between 6.0% and 8.74% on each investment. Consultation with the banking sector suggests that on the occasions where businesses similar to those that received GLF funding would be successful in securing traditional bank loans, they would typically be charged around 4-5% interest. As such, even the lowest interest rates charged by WhiteRock (for the least risky investments) are likely to be in excess of what would be charged by the local banking sector.
	NB the following target contained two separate elements which we have addressed individually: 1. To invest no less than £8 million and no more than £15 million per annum.	×	On average, £12.3m of loans were approved and £6.5m of funds were disbursed per annum across the 43-month period from May 2012 to November 2015. Therefore, the GLF has been successful in approving sufficient loan value per annum to achieve the KPI, but not in terms of actual disbursement of funds to date. It is recognised that there was a lag time at the outset of the Fund as the Fund Managers had to develop a pipeline and educate the market which resulted in only £2.9m of loans being disbursed, whereas £10.5m of loans were disbursed in Year 2 once the market was more fully aware of the offering. Therefore it seems reasonable that this target may be achieved going forward, particularly if there is a greater conversion from loans approved to loans disbursed.
	2. To invest £50 million over the first five years of the Term.	N/A	It is not possible to definitively conclude whether £50m of investments will be made over the first five years of the term as the investment period is not yet, at the time of writing, complete.
	To achieve a Default Rate of less than 12.5%.	✓	As at November 2015, the default rate on the GLF portfolio was 8% which is lower than the maximum KPI rate of 12.5%. Discussions with the Fund Manager indicate that the default rate is likely to rise over time as businesses progress their investment plans but the Fund Manager will seek to maintain a default rate of less than 12.5%.

9. NEED & DEMAND

9.1 Introduction

Policy makers have generally argued that the failure of firms to find finance for growth is a consequence of market failure both on the demand and the supply side. On the demand side it has been argued that firms lack the capacity to locate suitable financial support; and on the supply side it has been argued that the structuring and incentives of the financial sector and indeed recent history of economic decline have led to under provision of the finance to those who might be able to use it effectively. A recent NESTA Working Paper suggests two main forms of argument to explain why such problems exist and why a public policy solution should be found.

1. The first is market failure, which provides the essential justifications; whilst the second is
2. The institutions of finance themselves and the associated details of financing decisions (in particular the granting of loans).

Both are discussed further within Appendix XVI, but in summary we note that the supply of bank credit (be it overdrafts or term loans) to SMEs has distinct characteristics compared to larger businesses¹⁶³. First, lending to SMEs is generally riskier as they are often young businesses, they often have less collateral available for security and they are less likely to have pricing power in their product markets. At a time when capital preservation is key, banks may be more reluctant to accept credit risk. Second, SMEs are often more opaque than larger firms because they have lower reporting requirements, have less need for formal reporting structures and are subject to less outside monitoring by equity investors. This creates some important information issues. Third, the collateral or assets used to secure loans are likely to be less liquid as they are more firm-specific and even location-specific and involve incomplete contracts. These difficulties mean that the cost of bankruptcy (such as specific and not easily marketable assets) and loss on asset disposal may be greater for smaller than larger firms.

Asymmetries of information are substantial for SMEs - the lender faces a problem of screening and monitoring borrowers. First, the lender needs to choose borrowers of high credit quality before the loan is granted, to minimise losses due to default, when it may not be possible to distinguish good and bad risks. This raises the problem of adverse selection. Second, the lender must monitor the borrower after the loan is granted, to ensure that the borrower is not acting contrary to the lender's interests. For example, the borrower might divert the funds to high-risk activities that reduce the probability that the loan will be repaid: the problem of moral hazard. As screening and monitoring are costly to the lender, the price of credit (including both the interest rate and non-price terms) will tend to be higher, i.e. there will be increased price rationing of credit, for SMEs where information and incentive problems are greater.

The profit maximising lender may even seek to impose quantitative restrictions on the amount of debt the borrower can obtain, so-called "equilibrium quantity rationing of credit", because higher interest rates may give a further stimulus to adverse selection and risk taking¹⁶⁴. The key is that the interest rate offered to borrowers influences the riskiness of loans in two main ways. First, borrowers willing to pay high interest rates may, on average, be higher risks. They may be willing to borrow at high rates because the probability that they will repay is lower than average. This is again the problem of adverse selection. Second, as the interest rate increases, borrowers who were previously 'good risks' may undertake projects with lower probabilities of success but higher returns when successful—the problem of moral hazard, that the incentives of higher interest rates lead borrowers to undertake riskier actions.

However, while public intervention in private markets for capital and loans may lead to or improve economic efficiency by addressing market failures, it remains the case that public involvement may

¹⁶³ Evaluating Changes in Bank Lending to UK SMEs over 2001-12 – Ongoing Tight Credit?, DBIS, April 2013

¹⁶⁴ Evaluating Changes in Bank Lending to UK SMEs over 2001-12 – Ongoing Tight Credit?, DBIS, April 2013

lead to inefficiencies. In their analysis of the structures and institutions of lending Berger and Udell¹⁶⁵ note the generally inferior role of publicly owned financial institutions, which may fail to exercise sufficient discipline over the financial investments they make (mainly through lending) to small firms. Such inefficiencies that occur when public vehicles are involved in the provision of finance to firms lead to a variety of problems: publicly owned institutions may also provide relatively weak monitoring of borrowers and or refrain from aggressive collection procedures as a part of their mandates to subsidise chosen borrowers or because of the lack of market discipline.

A key question therefore to consider when determining the need and demand for the NISBLF and the GLF is whether Invest NI’s funded loan schemes are effective instruments for promoting lending to SMEs. That is, there may be a danger that they, in part, remove some SMEs from the banking system.

This section considers, where available, pertinent information relating to the general need and demand for debt finance within NI, and subsequently, the specific need and demand for both the NISBLF and the GLF.

9.2 The NI Marketplace

9.2.1 EAG Research

In 2012, the Economic Advisory Group (EAG) undertook a review of access to finance for businesses within Northern Ireland. The review considered the availability of finance to NI SMEs, the level of uptake and the potential reasons for deficiencies in the market. Subsequently, during 2014, EAG considered it appropriate to re-run the survey to gauge the extent to which conditions in relation to access to finance had changed. In addition, it was intended that the 2014 update¹⁶⁶ would seek to address issues being taken forward by the Access to Finance Implementation Panel, which was set up following the recommendations contained within EAG’s March 2013 report.

This 2014 report presented analyses of data on SMEs’ business performance, reliance on external finance, demand for bank loan finance and success rates, as well as collating data on the level of discouraged borrowers, informal applications and extent to which property debt was impacting of SMEs’ ability to raise new finance. Key findings contained within that report and which we consider have a bearing on the need and demand for both the NISBLF and GLF include:

- Between 2012 and 2014, there was a **substantial increase in the proportion of SMEs that reported that they were ‘growing’** (40% compared with 16% in 2012) and a decrease in the proportion that described themselves as ‘reducing/survival at all costs/winding down’ (13% compared with 45%). This applied to all categories of SMEs (i.e. micro businesses, small firms and medium sized firm).
- Almost half (48%) of SMEs expected future sales levels to increase, compared with about a third (34%) during 2012;
- Despite, many more SMEs reporting that they were growing, ‘access to finance’ was **ranked only 11th of 13 potential current issues** for respondents’ businesses, with only 12% of SMEs considering it to be a significant issue in 2014¹⁶⁷. More prevalent issues for NI SMEs included:

- The rising costs of ‘other’ overheads;	- New competitors;
- Rising energy costs;	- Reduction in demand;
- Cash flow;	- Difficulties recruiting;
- Late payments from customers;	- Keeping up with innovations;
- Discounting by competitors;	- Business and consumer confidence.

¹⁶⁵ More Complete Conceptual Framework for SME Finance, World Bank Conference on Small and Medium Enterprises: Overcoming Growth Constraints World Bank, Berger, A.N.; Udell, G.F, 2004

¹⁶⁶ Business Access to Finance 2014, Economic Research, DETI, March 2015.

¹⁶⁷ This category was not on the 2012 survey, so no comparison is possible. However, the report notes that ‘access to finance’ was first included on the list of issues on InterTradeIreland’s Business Monitor survey in Quarter 2 2013. At this time, approximately 20% of SMEs in Northern Ireland indicated that it was a significant issue for their business.

- In 2014, just over half (51%) of NI SMEs had at least one external finance product in place, a fall of 7 percentage points (from 58%) since 2012. The proportion of businesses with no external finance in place had increased across all groups (micro businesses, small firms and medium sized firms), but particularly in the medium-sized group where the proportion almost doubled over the two-year period (from 20% with no external finance in 2012 to 39% in 2014).
- Overdrafts, commercial loans and credit cards were the three most common products in both 2012 and 2014. The proportion of SMEs using such financial products fell over the two year period for all the most common products. In 2014, overdraft facilities were in place for 38% of SMEs (compared with 42% during 2012), some **14% had commercial/other loans in place** (compared with 21% during 2012), and 15% had credit cards (compared with 19% during 2012).
- The 2014 survey found that **demand for loan finance was low** with around 4% (N=994) of SMEs (down from 7% during 2012) actively seeking loan finance from any source (not just banks), though this increased to 12% for medium sized enterprises. Demand for loan finance had fallen for all groups over the two year period.
- Of the 4% of SMEs that sought loan finance during 2014¹⁶⁸, the survey found:
 - Evidence that SMEs were making more than one request for loan finance during the year, particularly for the larger SMEs. Whilst only 20% of micro businesses had made more than one application over the previous 12 months, 38% of small firms and half of medium businesses did so.
 - **Most of the loans sought were relatively small in value** with around 60% of SMEs applying for £50,000 or less. Loan values tend to increase with the size of business. For example, around 6% of loans to micro businesses were for £250,000 or more compared to some 60% for medium sized businesses.
 - Around two-fifths of all loan requests by SMEs for finance were to buy equipment or plant, a further fifth was to ‘maintain the business as a going concern’ and **just over 11% applied for a loan to ‘grow their domestic activities’**.
- Further questions were then asked to those SMEs who had specifically applied to banks for loan finance (rather than internal or other sources). Key findings include (though it should be borne in mind the low numbers being analysed):
 - Virtually all SMEs (98%, N=19) who applied for a bank loan in 2014 **were either wholly or partially successful**. The remainder were unsuccessful or awaiting the outcome of the application.
 - Before proceeding with formal bank loan applications, there is evidence that SMEs are ‘testing the water’ and seeking from financial institutions early indications of the likelihood of getting finance. In applying for a bank loan, just under one third (29%) of SMEs made an informal approach but did not proceed with a formal application, which is slightly higher than the corresponding figure for 2012 (21%). Similar to 2012, a further one third (32%) made an informal request for a bank loan and then went on to submit a formal application. The remainder (44% in 2012 and 39% in 2014) submitted a formal application without seeking any assurance on the likelihood that the application would be approved.
 - 9 out of every 10 bank loan applications received a final decision within 4 weeks from the date of their formal application. Indeed, all applications from micro businesses in 2014 received a final decision within 4 weeks. The proportion receiving a final decision within 4 weeks was much lower (around 50%) for the small and medium groups in 2014 which perhaps reflected the higher value of loans being requested from these groups and the subsequent increased level of scrutiny involved.
 - In terms of any criteria or conditions that were attached to their bank finance requests:

¹⁶⁸ NB The report urges caution to be exercised in relation to this analysis, as the numbers being analysed in this section were small.

- Just over one third (35%) of all requests were subject to loan application fees;
 - 17% attracted facility or other fees;
 - A further 28% of all requests required one or a combination of collateral, personal guarantees or some other bank condition;
 - The remainder (21%) of bank finance requests were not subject to any criteria or conditions.
- **Discouraged Borrowers** - Almost 5% of SMEs¹⁶⁹ had considered applying for bank loan finance in 2014 but chose not to. Some 16% of these decided not to apply because they thought the bank would reject their application. 18% cited the ‘cost of obtaining finance being too high’ as a reason for not applying, however only 12% cited ‘uncertainty about the economic climate’ as a reason for not proceeding with an application (down from 23% in 2012).
 - Three fifths of ‘discouraged borrowers’ described themselves as stable or ‘reducing/survival at all costs/winding down’, with about two fifths of describing their business as ‘growing’.
 - Almost two thirds (64%, N=1,006) of the total SMEs respondents stated that their relationship with their bank was either quite or very good, with a further 29% choosing the ‘neither good nor poor’ option. The proportion of firms who reported a very good or quite good relationship increased with size (63% for micro, 72% for small and 82% for medium businesses).
 - **Property Debt** - About 5% of SMEs purchased property since 2005 that was financed by bank debt. This figure increased to around one fifth if only medium sized enterprises are considered. Those SMEs who had purchased property since 2005 which was financed by bank debt are twice as likely to have sought loan finance in 2014 – approximately 8.5% of those with property debt since 2005 applied for loan finance in 2014 compared to 4% of SMEs who had no such property debt.
 - **SME Approach to Finding Finance** - Almost half of SMEs do not shop around for the best deal and tend to stay with their current bank/finance provider. Interestingly, this proportion remained similar across the three business size groups.
 - Other factors influencing demand for finance:
 - **Terms and Conditions of Finance** - Over half (55%) of SMEs believe that bank terms, conditions and information requirements are more onerous now than was previously the case, though this is greatly down from over 80% who agreed to the same statement in the 2012 survey.
 - **Perceptions of Bank Lending** - Some 40% (N=1,006) of SMEs agreed that banks are currently lending to viable businesses, a large increase from 28% in 2012. As in the 2012 survey, views vary by business size with larger businesses more likely to agree that banks are lending (39% for micro, 49% for small and 64% for medium in 2014).
 - There was evidence that views on conditions of finance and bank lending differed depending on whether SMEs described themselves as ‘growing’, ‘stable’ or ‘reducing/survival/winding down’. For example, almost half of SMEs who described themselves as ‘growing’ agreed that banks are currently lending to viable businesses compared to less than a fifth of SMEs who were ‘reducing/survival/winding down’.
 - Looking to 2015:
 - Around 9% of all SMEs indicated that they were likely to need new finance in 2015 with about two fifths of these indicating they would be seeking a commercial loan and around one third stating they would require an overdraft. Larger businesses indicated that they are more likely to need finance: around one in twelve micro businesses, one in seven small and one in four medium businesses stated they were likely to seek finance in 2015.

¹⁶⁹ NB The report indicates that caution to be exercised in relation to this analysis, as the numbers being analysed in this section were small. It is not clear within the report which subset of respondents were asked this question.

- For all SME groups, seeking finance to ‘grow the domestic market’ was the most common reason given (just over a third for all groups) with around a quarter in each SME group requiring finance in future to ‘maintain the business as a going concern/fund working capital’.

The Evaluation Team notes the following implications that can be ascertained from the Economic Advisory Group’s research:

Table 9.1 Implications of the EAG’s Research	
Factors to Consider	No. of Businesses
The number of businesses in NI is	117,000
If only 9% of all SMEs (c10,530) are likely to need new finance in a given year and only 40% of those are likely to seek a commercial loan, this equates to a potential annual commercial loan market of	4,212
However, if virtually all SMEs (98%) who apply for a bank loan are either wholly or partially successful , this may reduce the potential target audience for both NISBLF and GLF to:	84

Whilst this analysis may represent an oversimplification of matters, it does suggest that some caution is required when considering the potential demand for both funds. Indeed, during the most recent full financial year of activity (2014/15), a total of 101 loans were disbursed¹⁷⁰ across both funds (76 NISBLF loans and 25 GLF loans).

However, it is important to note that the Economic Advisory Group’s research does not disaggregate those SMEs that applied for a bank loan and were wholly successful from those that were partially successful. The proportion (or a portion therein) of SMEs that fall into the ‘partially successful’ cohort may well underpin the requirement for a mezzanine offering and be reflective of the recent deal syndication reported by the GLF Loan Fund Manager.

9.2.2 Other Offerings

A variety of offerings and initiatives operating within the NI debt finance market may also have an impact upon the need and demand for NISBLF and GLF support. These include¹⁷¹:

Table 9.2 Other Offerings which may influence Need and Demand	
Scheme	Detail
The Funding for Lending Scheme	<p>The Bank of England and HM Treasury launched the Funding for Lending Scheme (FLS) in July 2012; the scheme is designed to encourage banks and building societies to boost their lending within the UK, which it does by providing funding to banks and building societies for an extended period, with both the price and quantity of funding provided linked to their lending performance.</p> <p>In April 2013 the scheme was extended to allow participants to borrow from the FLS until January 2015, since further extended until January 2018, with incentives to boost lending favouring small and medium sized enterprises (SMEs). The Bank of England and HM Treasury announced changes to the terms of the FLS Extension in December 2014 to focus it on business lending, by removing the direct incentives to expand household lending in 2016.</p> <p>Whilst we understand that (within NI) the Ulster Bank and the Bank of Ireland (and the Progressive Building Society) have signed up for the FLS, First Trust Bank and Danske Bank have not.</p> <p>In relation to Northern Ireland, the UK Parliament’s Northern Ireland Affairs Select Committee considers that the Funding for Lending Scheme will facilitate more funding being made available to what might be considered borderline borrowing requests¹⁷².</p>

¹⁷⁰ The NISBLF received 137 applications during 2014/15.

¹⁷¹ Source: <http://www.publications.parliament.uk/pa/cm201415/cmselect/cmniaf/178/17808.htm#note58>

Scheme	Detail
Enterprise Finance Guarantee Scheme	<p>The Enterprise Finance Guarantee (EFG) is a loan guarantee scheme to facilitate lending to viable small and medium-sized businesses that have been turned down for a normal commercial loan due to a lack of security or a proven track record. In instances such as this, EFG may be an option, but will only be considered when the lender is satisfied the business in question could afford the loan repayments. This will have been determined by the lender during the original loan application.</p> <p>In response to a Written Parliamentary Question (WPQ), the Secretary of State for Northern Ireland, Rt Hon Theresa Villiers MP, said that the EFG <i>"delivered increased funding of £5.1 million in 2013-14, bringing the total Northern Ireland Funding from the scheme to £36.1 million."</i>¹⁷³</p>
The British Business Bank	<p>The British Business Bank (BBB) aims to make finance markets for smaller businesses work better, enabling the sector to grow. It operates a £300 million Investment Programme.</p> <p>During 2015, the Joint Ministerial Task Force on banking and access to finance in Northern Ireland, reviewed the Business Bank's interventions and the impact they were having in NI, and noted that <i>"the programmes now managed by the British Business bank have facilitated more than £40 million of lending and investment to businesses in Northern Ireland—and the rate of lending is increasing"</i>.¹⁷⁴</p>

Whilst it is not possible, based upon the information available to both Invest NI and the Evaluation Team, to directly relate the existence of these initiatives within NI to demand for the NISBLF and GLF during the review period, the Evaluation Team notes that demand (in terms of number of loans disbursed) was less than anticipated for both funds during the review period. We therefore consider that it would be prudent for Invest NI to be mindful of their existence when considering the need and demand for both funds in future years.

9.3 NISBLF & GLF Demand

If we consider that activity to date provides a reasonable indicator of demand for both funds, we can see that **demand for the NISBLF ranges from 65-75 loans per annum**, equating to £1.4m-£1.6m of loan disbursed.

Period	No.	Value
Year 1 (14 months: Feb 13 – Mar 14)	60	£1,185,216
Year 2 (12 months: Apr 14 – Mar 15)	76	£1,613,217
Year 3 (8 months: Apr to Nov 15)	49	£1,115,750
Grand Total (34 months Feb 13 – Nov 15)	185	£3,914,183
Average Per Annum (since February 2013)	65	£1,381,476
Average Per Annum (since April 2014)	75	£1,637,380

¹⁷² It is noted that discussion with Invest NI indicates that the scheme has not had a material impact within NI and that the activity of both NISBLF and GLF under the Evaluation period has occurred in parallel to the offering of this scheme. With the scheme not employed across all primary lenders in NI, it was also recognised that there are a cohort of SMEs unable to access the offering in NI.

¹⁷³ It is noted that discussion with Invest NI indicates the view that the presence of the EFG during the review period did not influence demand for the NISBLF or the GLF.

¹⁷⁴ It is noted that this comment was made by the Rt Hon Theresa Villiers MP, Secretary of State for Northern Ireland on 2nd February 2015, following after the Joint Ministerial Task Force on banking and access to finance in Northern Ireland's meeting at the Northern Ireland Office's London headquarters. However, the press release provides no further information to support the figures cited. Nor does it indicate what period of time it relates to, or the specific interventions that it relates to. No further information was available to the Evaluation Team.

Over the five year investment period of the fund, it is therefore estimated that the total number of loans and value of funds invested could range from 325-375 and £6.9m-£8.2m respectively.

The demand for the GLF ranges from 19-21 loans per annum, equating to £6m-£6.5m of loans disbursed. If approvals are considered, this increased to 28-29 loans per annum or between £9.9m and £11.7m of monetary value.

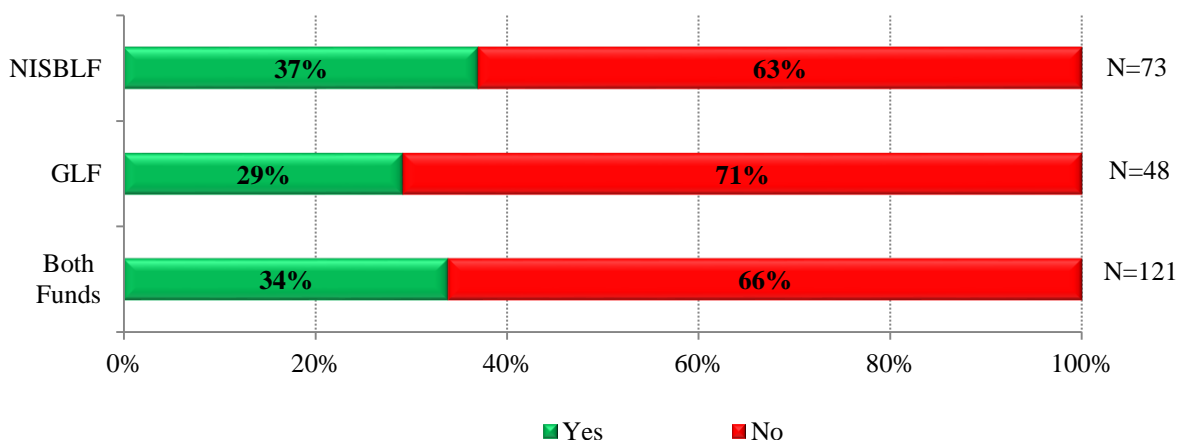
Table 9.4 GLF Loans Disbursed				
Period	Net IC1 Approvals (i.e. Not Lost)		Disbursal	
	No.	Value	No.	Value
Year 1 (11 months)	19	£4,700,000	11	£2,875,000
Year 2 (12 months)	33	£11,170,000	33	£10,495,000
Year 3 (12 months)	33	£11,815,000	25	£7,890,000
Year 4 (8 months)	15	£7,650,000	7	£2,125,000
Grand Total (43 months May 12 – Nov 15)	100	£35,335,000	76	£23,385,000
Average Per Annum (since May 2012)	28	£9,860,930	21	£6,526,047
Average Per Annum (since April 2014)	29	£11,679,000	19	£6,009,000

Over the five year investment period of the fund, it is therefore estimated that the total number of loans and value of funds invested could range from 105-140 and £32.6m-£49.3m respectively, depending on whether performance is considered on loans disbursed since May 2012 or loans approved.

9.4 Recipients' Views on Access to Finance for Small Businesses

Whilst the views of NISBLF and GLF recipients may be considered to be somewhat biased (as by virtue of accessing either fund, it is perhaps implied that they could not access the requisite funds elsewhere), we note that on the whole, two thirds (66%, N=121) of the Loan Fund recipients do not consider that there are adequate sources of finances available to small businesses in NI. Amongst GLF recipients, almost three quarters (71%, N=48) consider that the sources of finance are inadequate, as compared with almost two thirds (63%, N=73) of NISBLF recipients.

Figure 9.1: In general, do you consider that there are adequate sources of finance available to small businesses in NI?¹⁷⁵



¹⁷⁵ Two NISBLF and two GLF recipients did not complete this question.

Recipient businesses suggested that the following gaps exist in the NI provision of finance:

<p>NISBLF Recipients</p>	<p><i>“It would be beneficial if banks and other lenders were less risk adverse in order to support small businesses”.</i></p> <p><i>“In our experience, many sources of finance for small business are focused on businesses with export potential”.</i></p> <p><i>“Certain sectors such as retail and travel and tourism are not eligible for some traditional funding sources”.</i></p> <p><i>“Small businesses have limited information and transparency on what sources of finance are available in NI”.</i></p> <p><i>“Levels of security required such as personal guarantees are inhibitive to business borrowing”.</i></p>
<p>GLF Recipients</p>	<p><i>“Funders are inherently risk adverse so there are definitely gaps in the finance provision for small businesses”.</i></p> <p><i>“Often banks are the only option considered by businesses when seeking finance and they remain risk adverse”.</i></p> <p><i>“Many of the funding sources available do not provide small enough investment ranges to be suitable for small businesses”.</i></p> <p><i>“Finance is often geared towards start-ups or niche businesses and established SMEs can ‘fall into a gap’”.</i></p>

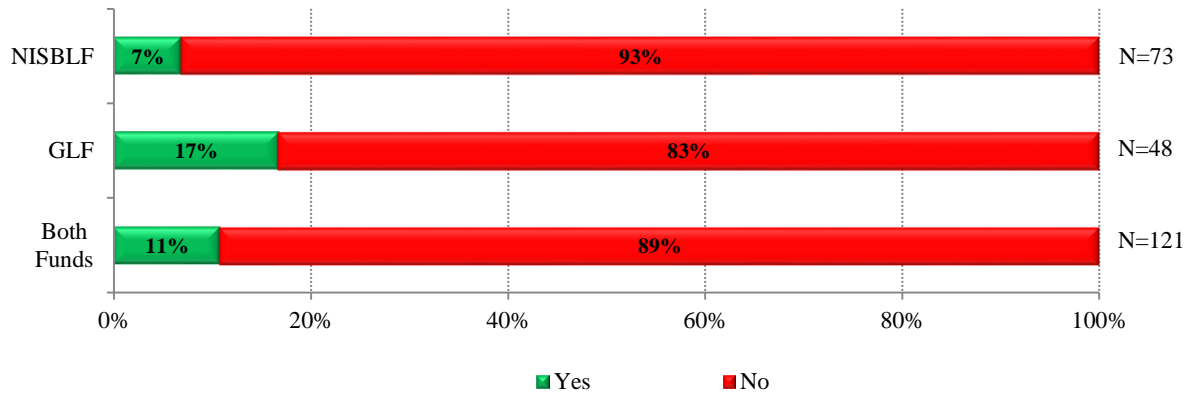
Looking across all applicant groups (businesses which received loans, businesses whose applications were rejected and businesses who withdrew their application), almost three quarters (72%, N=201) of all applicants suggested that the sources of finance available for small businesses in NI are not adequate. Specific comments from non-recipients included:

<p>NISBLF Withdrawn and Rejected Applicants</p>	<p><i>“Banks do not do enough to help small businesses. It is very difficult to borrow less than £50,000”.</i></p> <p><i>“It is hard for small businesses to secure funding that is not equity-related”.</i></p> <p><i>“There is a shortage of finance throughout NI for small businesses as they are not seen as important enough for financial returns”.</i></p> <p><i>“My business undertakes a lot of R&D so the EBITDA is lowered and the business appears to be less attractive to lenders”.</i></p>
<p>GLF Withdrawn and Rejected Applicants</p>	<p><i>“It is difficult to secure finance for less than £1m. Banks do not seem fully supportive of small businesses”.</i></p> <p><i>“Our business has found that most sources of finance are geared more towards start-ups than existing businesses”.</i></p> <p><i>“NI needs to further develop the venture capital networks to offer businesses with more options”.</i></p>

9.5 Duplication and Complementarity

In relation to the specific need for NISBLF or GLF support amongst recipients, we note that just one in ten (11%, N=121) of the recipients of the NISBLF and GLF believed that in the absence of the respective Loan Fund they would have been able to raise the same level of finance elsewhere.

Figure 9.2: In the absence of the NISBLF/ GLF would you/ your business have been able to raise the same level of finance elsewhere?



Those recipients who indicated that they could have raised the same level of finance elsewhere made the following suggestions as to possible sources:

SBLF Recipients¹⁷⁶	<p><i>“I do not feel that we made the best possible attempt to approach our bank for finance. If we approached the bank with all our paperwork in order, I believe that we would have been successful in raising the finance required”.</i></p> <p><i>“We probably could have tried the banks for the same level of finance.”</i></p> <p><i>“In the absence of the NISBLF, we would have approached a range of banks and venture capitalists. We did not approach these sources at the time, but looking back, perhaps we should have”.</i></p>
GLF Recipients	<p><i>“I believe that we could have secured equity, potentially through a venture capital fund, but we would have had to dilute the company which were reluctant to do”.</i></p> <p><i>“In the event that the GLF was not available we would have tried to raise the finance required through crowd-funding”.</i></p> <p><i>“We could potentially have secured bank debt but the Board of Directors was reluctant to put down the security required for a bank loan”.</i></p>

Half (50%, N=10) of the NISBLF recipients which had started a business with the support of the Fund (see Section 3.1) had received support from other sources to help start their business, as shown below:

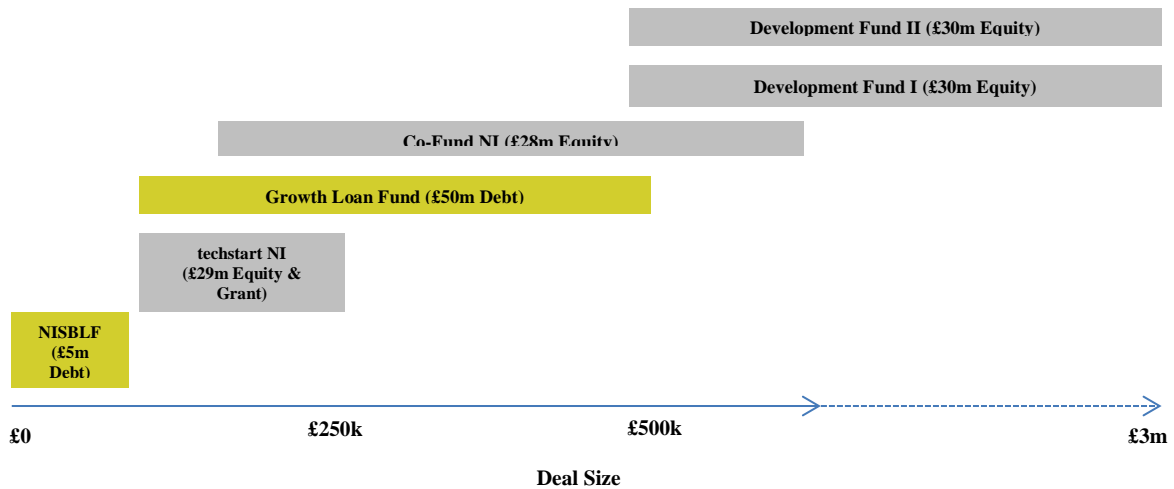
¹⁷⁶ As illustrated in the individual feedback provided by NISBLF recipients, a number of respondents suggested that they considered that in the absence of the NISBLF, they “may have been able to raise the same level of finance from a bank, or other source”. We note that discussion with Invest NI suggests that the feedback from recipients is somewhat confusing as borrowers have to provide evidence, as a pre-requisite condition, to the NISBLF Fund Manager that they have been turned down for funding from a bank. In addition, it was suggested that approaching a venture capitalist would likely be unrealistic for many NISBLF recipients, particularly given the scale of funding sought (i.e. £50,000 or less), so the response that references approaching a venture capitalist may reflect the somewhat unsophisticated market that the NISBLF operates within. The Evaluation Team, notes that the respondent that mentioned accessing VC monies was an export-focused software businesses, with existing strategic relationships with businesses such as IBM and other USA based software businesses.

Table 9.5: Other Sources of Support for Starting a Business (N=5)		
Support from other Sources	No	%
Invest NI's Regional Start Initiative	2	40%
The Prince's Trust Business Enterprise Programme	1	20%
DEL's Step to Work Programme	1	20%
Any other (please specify)	1	20%
N=	5	100%

It was the view of the recipients and stakeholder consultees, and shared by the Evaluation Team, that the NISBLF and GLF play an important role in promoting a continuum of funds and creating a deal flow chain for start-up and existing growth businesses in NI. In doing so, it was suggested that the NISBLF and GLF complement the other key financial initiatives currently being delivered through the Invest NI Access to Finance Strategy.

In particular, the Development Fund Managers noted that in some cases, where a business has both stable cashflows to meet loan repayments as well as high growth potential, there are opportunities for syndicated deals to be undertaken with both secured and unsecured debt as well as equity finance through the Development Funds. Whilst only a small number of these deals have been secured to date, the consultees emphasised that greater cooperation and inter-working between the delivery agents for the Access to Finance initiatives has been undertaken more recently and therefore the initiatives should demonstrate greater complementarity going forward.

Figure 9.3: Support provided through Invest NI's Access to Finance Strategy



In addition to the support provided through Invest NI's Access to Finance initiative, the NISBLF and GLF also complement a range of other sources of finance and initiatives that seek to support the continuum of funds for start-up and existing growth businesses including:

Table 9.6: Other Initiatives/ Funds Supporting Start-up and Early Growth Businesses

Initiative (Provider)	Programme overview								
Start-Up Loans (Start-up Loans Company across UK and ENI in NI)	<p>The Start-Up Loans is a UK-wide initiative funded by the Department for Business, Innovation and Skills (BIS) through the British Business Bank and managed by the Start-Up Loans Company. ENI acts as the primary delivery agent for the initiative within NI. Start-Up Loans provides unsecured debt funding of up to £10,000 to start-up businesses and in NI it is primarily focused on businesses coming through the Regional Start Initiative (RSI) with 95% of applicants to the Fund having completed an RSI business plan. Existing business applicants to the Start-Up Loans are deemed ineligible and are referred to the NISBLF so there is no risk of duplication for existing businesses (i.e. those with 2-years or more trading history).</p> <p>Whilst both funds are open to start-up business applicants, the delivery agents for the Start-Up Loans and NISBLF (i.e. ENI in both cases) work in close collaboration to refer businesses to the more suitable offering on a case-by-case basis. For example, the Start-Up Loans in NI provides lower value loans (i.e. a maximum of £10,000) and focuses on mentoring support. Therefore, this fund is deemed to be more suitable for more embryonic start-up businesses which require greater advice and guidance and lower levels of capital. Alternatively, the NISBLF considers only start-ups which are deemed to have the maturity and experience to be able to repay larger loans for more significant growth plans (i.e. up to £15,000 of investment). ENI advised through consultation that there has been minimal (if any) duplication between the Start-Up Loans and the NISBLF during the period under review but that it remains a priority to work in close collaboration across the two funds to mitigate against duplication risks going forward. ENI has an ongoing role to ensure that the risk of duplication between the two funds is mitigated against and that the SUL and the NISBLF provide a complementary offering to start-ups and SMEs in NI.</p> <p>Recent correspondence from ENI has highlighted that on a UK-wide level the Start Up Loan Company is proposing to extend the qualifying trading period from 2 years to 5 years. This would result in greater potential for duplication with the NISBLF as the SUL would have greater opportunities to lend to established businesses, particularly as the Fund has the ability to lend up to £25,000 to each business (although in practice the NI fund has imposed a cap of £10,000 to date).</p>								
Private Bank Lending to SMEs	<p>The banking sector in NI offers loans (usually on a secured basis) to SMEs, often at lower interest rates than those charged under the NISBLF and GLF. For instance, the following products are currently (as at January 2016) advertised across the banks located within NI:</p> <table border="1" data-bbox="369 758 2083 1029"> <tbody> <tr> <td data-bbox="369 758 526 805">Ulster Bank</td> <td data-bbox="526 758 2083 805">Ulster Bank offers business loans from £1,000 to £250,000 across repayment terms of up to 15 years. Based on a 60 month repayment period, loans of £15,000 or £50,000 (similar to the NISBLF) or £250,000 (similar to the GLF) are subject to variable interest rates of 5.5% on a secured basis or 8.5% on an unsecured basis.</td> </tr> <tr> <td data-bbox="369 805 526 901">Danske Bank</td> <td data-bbox="526 805 2083 901">Danske Bank offers fixed interest loans on capital expenditure of between £25,000 and £250,000 across a repayment period linked to the life of the asset (up to 25 years). Alternatively variable interest loans are offered of between £1,000 and £250,000. In both cases security is often required. Danske Bank is a provider of the Enterprise Finance Guarantee (EFG) and offers loans guaranteed by the Government to businesses which might not qualify for their conventional lending products, at a premium of 2% of the value of the capital outstanding per annum (over and above other charges).</td> </tr> <tr> <td data-bbox="369 901 526 981">Bank of Ireland</td> <td data-bbox="526 901 2083 981">Bank of Ireland offers variable rate loans (or occasionally fixed rates if terms and conditions are met) to businesses for purchase of capital equipment repayable over up to 10 years. Consultation with representatives from the bank suggested that interest of around 4-6% per annum is typically payable on these loans on a secured basis. The Bank of Ireland offers up to £50,000 on an unsecured basis to start ups and small businesses. Bank of Ireland NI is also a provider of the EFG on the same terms as Danske Bank.</td> </tr> <tr> <td data-bbox="369 981 526 1029">First Trust</td> <td data-bbox="526 981 2083 1029">The First Trust offers an initiative called the 'Business Growth Fund', which includes loans, asset finance and invoice finance products for SMEs in NI. Loans of over £150,000 are available with no arrangement fee on borrowings of up to £1m (or £5,000 for loans over £1m).</td> </tr> </tbody> </table> <p>Whilst there is a range of debt products offered by banks to SMEs within NI, almost all (97%, N=101) of both NISBLF and GLF recipients surveyed as part of this Evaluation confirmed that they had sought funding from their business' bank prior to applying to the Loan Funds but just over one tenth (12%, N=101) of businesses were successful in securing bank funding. Furthermore, over two thirds (69%, N=122) of NISBLF and GLF recipients reported that they were motivated to apply for the funds because other potential funders had turned their application down. As such, it appears that, despite the range of products advertised by the private banking sector, there is a gap in the provision of risk capital to SMEs in NI (particularly on an unsecured basis). Therefore the NISBLF and GLF are complementing, rather than duplicating, the existing private sector provision in NI. Allied to this, consultation with representatives from banks highlighted that the GLF (given the quantum of funding offered) has played a pivotal role in providing syndicated mezzanine finance on a number of recent deals where there would have been a funding shortfall with bank funding alone. This emphasises the complementary nature of the available initiatives/ products.</p>	Ulster Bank	Ulster Bank offers business loans from £1,000 to £250,000 across repayment terms of up to 15 years. Based on a 60 month repayment period, loans of £15,000 or £50,000 (similar to the NISBLF) or £250,000 (similar to the GLF) are subject to variable interest rates of 5.5% on a secured basis or 8.5% on an unsecured basis.	Danske Bank	Danske Bank offers fixed interest loans on capital expenditure of between £25,000 and £250,000 across a repayment period linked to the life of the asset (up to 25 years). Alternatively variable interest loans are offered of between £1,000 and £250,000. In both cases security is often required. 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Loans of over £150,000 are available with no arrangement fee on borrowings of up to £1m (or £5,000 for loans over £1m).
Ulster Bank	Ulster Bank offers business loans from £1,000 to £250,000 across repayment terms of up to 15 years. Based on a 60 month repayment period, loans of £15,000 or £50,000 (similar to the NISBLF) or £250,000 (similar to the GLF) are subject to variable interest rates of 5.5% on a secured basis or 8.5% on an unsecured basis.								
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Private Mezzanine Funds	<p>There are a number of private funders which operate on a UK-wide basis (i.e. including NI) offering mezzanine debt to high-potential SMES including Chenavari and Beechbrook Capital. Typically these products are significantly larger than the loans offered through the Invest NI-backed Loan Funds (e.g. over £2m of lending) and require baseline turnover of more than £10m which would not be suitable for most applicant businesses to the GLF. Therefore, there remains a gap in the provision of mezzanine debt finance of up to £500k for smaller, existing businesses within NI who would be unlikely to be successful in applications to the private mezzanine funds and the risk of duplication is minimal.</p>								
Crowd-Funding	<p>Crowdfunding is a way of raising finance by asking a large number of people each for a small amount of money. Crowd-funding platforms (e.g. Seedrs, Crowdcube, CoFunder etc.) operate in NI and seek to match lenders with businesses. Whilst there may be an extent of overlap in the businesses which could seek funding through the NISBLF/ GLF and those which could seek crowd-funding, consultations with key stakeholders highlight that often investees involved in crowd-funding initiatives in NI are unsophisticated and therefore this may not present a sustainable alternative to unsecured debt through publicly-backed funds in the long-term.</p>								

9.6 Summary Conclusions

Undoubtedly, in the Evaluation Team's view, market failure continues to exist in relation to the provision of debt and mezzanine finance within NI. Our analysis of the other access to finance products and initiatives offered in NI (both publicly-backed and those operated by the private sector) suggests that the NISBLF and GLF seek to address unique gaps in the marketplace relating to the provision of risk debt capital to SMEs of up to £500,000 and have a minimal risk of duplicating other support.

However, whilst it exists, there is some evidence (e.g. EAG's research) to indicate that it may not be at the level (either in terms of number or value of loans disbursed, rather than approved) that existed when both the NISBLF and GLF were approved. The key question therefore, in the Evaluation Team's view, becomes one relating to the scale of demand, rather than the need for either fund.

We consider that the EAG's research points towards a position where the scale of demand (in terms of number of loans disbursed) may be modest, and may suggest a position where syndicate deals may become more prevalent, rather than standalone investments. Indeed, the stakeholder consultation findings have emphasised the complementary nature of the GLF in terms of providing unsecured mezzanine finance to address funding gaps in syndicated deals.

We further consider that, all or other things being equal or held constant, the recent profile of demand for both loans funds may provide the best indication of likely future demand. This conclusion was supported for both the NISBLF and the GLF by our consultations with the majority of strategic stakeholders. However, in the interests of prudence, we are minded to again note the caution urged (see Section 5.2) by a small number of strategic stakeholders who suggested that the level of demand for the GLF going forward may not be at the level that has been experienced to date. The view was posited that Northern Ireland has only a finite number of businesses that would likely ever avail of a fund such as the GLF, and many of these may already have accessed it. We note that should such a risk be realised, it would inevitably have implications for the level of financial returns that a private sector investor might achieve.

However, it should be recognised that the previous conclusion has been made in the context of 'all or other things being equal or held constant'. It may well be the case that any material change to the content or offering of either fund will have a material impact upon levels of demand.

Ultimately, therefore, should Economic Appraisals or other forms of approvals be required for either fund in the future, we consider that particular focus should be placed upon demand analysis (in the context of potential changing loan fund parameters), and all inherent risks fully documented.

10. BENCHMARKING

10.1 Introduction

Public Sector measures to provide firms with access to finance can take many forms. Key amongst these are support for the provision of venture capital (equity) and debt finance. Typically, these types of measures are not considered as substitutes in that they are intended for and are normally used by firms at different stages of their development:

- Equity finance (particularly venture capital) is usually associated with businesses which have great potential for growth but which are high risk. Such businesses may be at an early stage and lack cash flow and security in order to obtain debt finance.
- Debt finance is a widely used and relatively inexpensive way through which a firm can raise finance. It tends to be utilised by lower risk businesses. Loans and overdrafts are the most common forms of debt finance.

In relation to debt finance for SMEs, the two key mechanisms by which many governments and Regional Development Agencies seek to stimulate access to finance through loan activity is through:

1. Loan guarantee programmes, which aim to improve levels of bank lending to SMEs; and/or
2. Publicly backed loan funds (such as the NISBLF or the GLF).

Whilst loan guarantee schemes are a less direct mechanism for supporting loan finance activity than Invest NI’s chosen mechanisms, the NISBLF and the GLF, they offer some useful indicators from a benchmarking perspective. These include target audiences, investment ranges, interest rates and default rates. For this reason, we have included some within our benchmarking analysis in this section, but have primarily focused on identifying suitable publicly backed loan funds provided in Great Britain and the Republic of Ireland from which to draw comparison with the NISBLF and the GLF where possible.

However, in considering the benchmarking analysis it is important to recognise that publicly-backed loan funds do not operate in isolation and that in any given region (e.g. NI) there are likely to be a myriad of sources of funding/ access to finance initiatives operating, including (but not necessarily limited to) senior debt lending, equity providers, venture capitalists/ business angels, crowd funders etc.

As such, a publicly-backed loan fund will only ever serve to fill a specific need within the wider marketplace and the activities of the fund will be subject to a range of external demand and supply factors including:

Levels of Bank Lending to SMEs	<p>A key factor which impacts on the activities of a publicly-backed loan fund is the levels of bank (or other) lending to SMEs which exist in a given region. Whilst traditional lenders publicise lending to SMEs, it may be the case that banks/ lenders in certain regions are less risk adverse in supplying finance to viable start-ups and established businesses. Given that senior debt is less costly than the risk capital provided through a publicly-backed loan fund, a more active banking sector is going to have a negative impact on the demand for risk capital.</p> <p>By way of example, consultations with benchmark organisations have indicated that Scotland has an array of sources of micro-finance to start-ups and established businesses including a highly active credit union sector. Therefore, there may be fewer businesses (on a relative basis) within Scotland that seek more costly risk capital through a publicly-backed loan fund, than there would be in NI where fewer alternatives are available. This could only be concluded upon through undertaking a full market research study.</p>
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<p>Levels of Uptake of Start-Up Loans and the Enterprise Finance Guarantee</p>	<p>Start-Up Loans and the Enterprise Finance Guarantee (EFG) are supported by the UK Government in all regions of GB and NI but consultations have indicated that there are substantial differences in the levels of uptake across regions. Discussions with the primary SUL Delivery Agent in NI indicate that NI only accounts for 1% of all SUL loans disbursed and a recent evaluation of the EFG¹⁷⁷ suggested that NI has the lowest number of EFG backed loans per 10,000 businesses (5.6) of any region in the UK.</p> <p>Therefore in comparing the NISBLF and GLF with funds in other regions it is important to note that levels of activity will be influenced by the prevalence of other publicly-backed initiatives such as the SUL and the EFG within each region.</p>
<p>Appetite in the marketplace for risk capital</p>	<p>It is widely recognised that businesses within NI have historically been dependent upon grant funding and traditional bank lending to finance growth plans. Risk capital (and particularly mezzanine finance) therefore represents a new alternative for many businesses.</p> <p>The EDOs for the NISBLF and the GLF have emphasised that significant resources were required at the outset of the Funds to raise awareness and build pipeline due to the immaturity/lack of experience in the marketplace in relation to risk capital as an alternative to traditional bank lending. Conversely, the business community within benchmark regions may well show greater maturity towards, and appetite for, publicly-backed loan funds as they have a better understanding of the implications on terms and conditions of the higher risks involved in lending on an unsecured basis.</p> <p>For example, a Fund Manager in the North East of England emphasised that businesses within the North East are relatively well-accustomed to mezzanine finance and have an understanding of the costs associated with finance of this nature, whereas in NI businesses often have expectations of interest rates and lending terms which are closely aligned with traditional bank lending that they are used to.</p> <p>These attitudinal differences could potentially result in higher fund management fees for lower levels of activity in NI where the fund manager is required to invest more time and resources in awareness raising activities prior to generating suitable pipeline.</p>
<p>Demand for repayable debt funding amongst SMEs versus equity</p>	<p>The levels of activity and corresponding impacts arising from repayable loan funds are highly dependent on the balance of demand amongst the business base for debt finance versus equity finance. Stakeholders consulted through the Evaluation process were of a view that some businesses in NI will always prefer to take debt finance (even if they have to pay a premium) rather than to ‘give-up’ a share of the business in equity. In contrast, the business base within other benchmark regions may show a greater affinity for equity as a source of finance which would ultimately impact on the levels of activity for a particular loan fund. Anecdotal evidence suggests that Scotland, for instance, has a particularly active equity market which may impact on demand for mezzanine debt.</p>
<p>Levels of Cooperation in the Marketplace</p>	<p>As previously noted, the GLF is increasingly fulfilling a role in the provision of syndicated risk capital in deals along with traditional lenders and other funders (such as equity funders, crowd funders etc.). The levels of activity demonstrated in any specific region are therefore subject to levels of engagement and cooperation between different funders and referral organisations in ‘bringing together’ viable propositions for syndicated lending.</p>

On the basis of the above, it is not possible to conclusively benchmark the NISBLF and GLF with any individual funds in other regions, without fully assessing the demand and supply factors throughout the entire marketplace as part of a wider market research study. Furthermore, Invest NI and UCIT/ ENI and WhiteRock have emphasised the uniqueness of the two loan funds and their positions within the Invest NI Access to Finance initiative.

Therefore, the Evaluation Team recognises that the succeeding analysis (and the overview of each Fund attached as Appendix XVII) cannot provide a definitive comparison of the NISBLF and GLF with loan funds elsewhere. However, as agreed with Invest NI we have considered a range of key metrics across a range of funds which are broadly comparable to provide an indication of some areas of commonality and key differences in the structure and activity of loan funds delivered elsewhere as compared with the NISBLF and GLF¹⁷⁸.

¹⁷⁷ Department for Business, Innovation and Skills (BIS) (2013) ‘Economic Evaluation of the Enterprise Finance Guarantee (EFG) Scheme’

¹⁷⁸ It should be noted that in a number of cases information was not available or benchmarking consultees were unwilling to provide commercially sensitive information (e.g. fund management fees and default rates). Information has been provided where available, and where information was not available it has been noted in the following tables.

Table 10.1: Benchmarking Summary (NISBLF)

	Loan Funds						Loan Guarantee Schemes	
	NI	UK-Wide	NE of England	Scotland	Republic of Ireland	Wales	UK-Wide	Republic of Ireland
	NISBLF	Start Up Loans	Micro-Loan Fund	Local Authority Loan Fund ¹⁷⁹	Microenterprise Loan Fund	Welsh Micro Loan Fund	EFG	SME Credit Guarantee Scheme
Funder	Invest NI	DBIS (and administered by the BBB)	ERDF, BIS and EIB under a JEREMIE Initiative	ERDF, Banks and Local Authorities	SFF, DJEI and EIF ¹⁸⁰	Welsh Assembly Government	DBIS (and administered by BBB)	Department of Finance
Fund / Scheme Manager	UCI	Start Up Loans Company	North East Finance manages the JEREMIE	Local Authorities	Microfinance Ireland	Finance Wales	British Business Bank	Department of Finance
Fund / Scheme Delivery Agent	Enterprise NI	Enterprise NI (primary delivery agent within NI)	River Capital Partners	Business Loans Scotland Ltd.	Microfinance Ireland	Finance Wales	Traditional Lenders	AIB and Bank of Ireland
Size of Fund/ Scheme	£5m	£330m across UK – NI does not have a predetermined sum but has delivery targets of 170 loans per annum.	£6.5m (as part of £125m suite of seven funds under a JEREMIE)	£18m (£5.4m - local authorities, £5.4m - banks and £7.2m ERDF)	€25m to date	£6m since 2013 (another £6m confirmed)	£3.3bn between 2009 and 2015 (figures for 2016 not available)	N/A
Composition of Fund (% Publicly-Backed where applicable)	100% public	100% public	100% not-for-profit (ERDF and EIB)	70% public, 30% private	40% public (€10m) 60% bank loan (€15m) Also supported by an EIB Progress Microfinance Guarantee	100% public	N/A (Loans provided by private banks and guaranteed by public sector)	N/A (Loans provided by private banks and guaranteed by public sector)
Fund Management Costs as a % of funds under management	24% of £9.9m ¹⁸¹	The primary Delivery Agent was unable to provide figures, but advised that fees are linked to number of loans disbursed, number of businesses which avail of mentoring and duration of mentoring availed of.	The Fund Manager was unwilling to comment on fund management fees.	Fund Management (and any other operating costs) equate to c. 3% of the 6% interest received on each loan.	Operating costs of c€1m per annum against total fund of €25m – 17% across five years (£5m over €30m of funds plus fund management).	Annual Accounts of Finance Wales (2014/15) show total annual staff costs of £6.8m for total funds of £539.5m but the staff costs cannot be attributed to any one fund within the suite.	N/A – 42 approved lenders receive a guarantee upon loans but are not employed to manage the Scheme.	N/A

¹⁷⁹ It should be noted that this Fund has not yet commenced but it is the indicators below are anticipated by the Scottish Local Authorities based on recent experience of the West of Scotland Loan Fund (WSLF) and East Scotland Investment Fund (ESIF).

¹⁸⁰ Social Finance Foundation, Department of Jobs, Enterprise and Innovation and European Investment Fund

¹⁸¹ In the event that the funds are recycled to enable £7.5m to be lent across the five-year period (as per the projections of the EDO), then the fund management would equate to 24% of £9.9m (£5m of funds plus £2.5m of funds recycled plus £2.4m of fund management fees).

Table 10.1: Benchmarking Summary (NISBLF)

	Loan Funds						Loan Guarantee Schemes	
	NI	UK-Wide	NE of England	Scotland	Republic of Ireland	Wales	UK-Wide	Republic of Ireland
	NISBLF	Start Up Loans	Micro-Loan Fund	Local Authority Loan Fund ¹⁷⁹	Microenterprise Loan Fund	Welsh Micro Loan Fund	EFG	SME Credit Guarantee Scheme
Investment Period	5 years (Feb 2013- Feb 2018)	Launched in NI in 2013 – Currently anticipated to invest until 2019	6 years (2011 to Dec 2016 at present)	Anticipated to be 3 years (June 2016 – May 2019)	5 years (Oct 2012 – Sept 2017)	4.5 years (Jan 2013 – Apr 2016)	Launched in 2009 and no set end-date.	Launched in October 2012 and no set end-date.
Investment Range	£1k - £15k for start-up and up to £50k for existing SMEs	Up to £10,000 in NI (but £25,000 allowable across UK)	£1k - £25k and £50k in exceptional circumstances	£10,000 to £100k	€2,000 - €25,000	£1,000 - £50,000	£1k - £1.2m	€10k - €1m
Secured or Unsecured	Unsecured ¹⁸²	Unsecured	Unsecured	Usually secured	Unsecured	Both – interest rate is affected by level of security provided.	Usually secured	Usually secured
Interest Rates (Typical)	6%-11% fixed rate (average of 6.9% on loans up to November 2015)	6% Fixed Rate	7% fixed rate up to £5k and 9% fixed rate up to £25k	6% fixed rate	Desktop and primary research indicated APR below.	Between 5% and 12% with an average of c. 8%	Interest rate/ fee charged by bank + 2% to Government	Interest rate/ fee charged by bank + 2% to Government
APR	APR of 15% - 19% for start-up and 8% to 10% for existing	6.2% APR	Unknown	Unknown	8.8% APR (or 7.8% for Local Enterprise Office clients)	c. 11%	Up to lenders	Up to lenders
Arrangement Fees	No	No	1% on loans over £25k	No	No	Yes average of 1.3%	Yes, in line with commercial terms (average of 2% of loan value)	Yes, in line with commercial terms.
Monitoring Fees	No	No	No	No	No	No	No	No
Early Settlement Fees	No but the fund manager has discretion to give an interest rebate.	No	No	No	No	No	In line with commercial terms.	In line with commercial terms.
Loan Repayment Period	1-5 years	1-5 years	3 years	Up to 5 years.	3 years for working capital, 5 years for capital expenditure. Average loan term of 39 months.	1-5 years	3 months to 10 years	Varies across loans
Typical Target Audiences	<ul style="list-style-type: none"> Start-up businesses Existing SMEs NEETs Individuals in NRAs SEEs 	<ul style="list-style-type: none"> Start-up businesses NEETs Individuals in NRAs 	<ul style="list-style-type: none"> Start-up/ existing businesses; Individuals in disadvantaged areas; Sole traders, partnerships and SEEs 	<ul style="list-style-type: none"> Both start-up and existing businesses 	<ul style="list-style-type: none"> Microbusinesses across all eligible sectors 	<ul style="list-style-type: none"> Microbusinesses across all eligible sectors 	<ul style="list-style-type: none"> SMEs across all sectors 	<ul style="list-style-type: none"> SMEs across all sectors

¹⁸² Although personal guarantees may be sought for individual businesses

Table 10.1: Benchmarking Summary (NISBLF)

	Loan Funds						Loan Guarantee Schemes	
	NI	UK-Wide	NE of England	Scotland	Republic of Ireland	Wales	UK-Wide	Republic of Ireland
	NISBLF	Start Up Loans	Micro-Loan Fund	Local Authority Loan Fund ¹⁷⁹	Microenterprise Loan Fund	Welsh Micro Loan Fund	EFG	SME Credit Guarantee Scheme
Annual No. of Loans Disbursed	65	167 (361 loans across 27 months Oct 13 – Dec 15)	88 (476 loans across 5 years to date)	Anticipated to be 150 per annum.	191	50 (based on 200 over 4 years)	3,640 per annum (based on 17,290 loaned across the UK between April 2008 and November 2013) Four banks in NI ¹⁸³ disbursed 150 loans across this period equating to 32 loans per annum.	66 loans per annum (193 loans over 35 months)
Total Business Base¹⁸⁴	c. 117,000	All UK c. 5.4m NI – c. 117,000	c. 135,000	c. 340,000	c. 186,000 ¹⁸⁵	c. 213,000	All UK c. 5.4m	c. 186,000 ¹⁸⁶
Average Value of Loans Disbursed	£21,158	c. £5,500	£11,000	Anticipated to be between £25,000 - £40,000	€15,400	c. £20k (£1m across 50 loans per annum)	£99,500	€157,000
Average Investment Per Annum	£1.4m	£2.4m between Oct 13 and Jan 16 i.e. £1.1m per annum	£1m (£5m across 5 years)	Anticipated to be £6m per annum.	€2.9m	£1m	£366m per annum (based on £1.74bn loaned across the UK between April 2008 and November 2013) The four main banks in NI disbursed £22.88m in loans across this period equating to £4.8m per annum.	€10.4m (based on €30.4m across 35 months)
Default Rates – No.	4% (7 businesses currently in default)	28%	32% as at 2014	Fund has not yet commenced.	6% of businesses have defaulted to date	19% of loan value provided for across all Finance Wales loans (but cannot disaggregate by Fund).	19% (4,495 of 23,348 businesses)	As at September 2015, one guarantee had been claimed from 193 approved loans.
Default Rates - Value	7.5%	ENI records default rates on number of loans for SUL.	Unknown		Bad debts provision of 34% which reduces to 18% with Progress Guarantee.			

¹⁸³ Bank of Ireland, First Trust, Northern Bank and Ulster Bank

¹⁸⁴ Department for Business, Innovation and Skills (2015) 'Business Population Estimate for the UK and Regions 2015: Statistical Release'

¹⁸⁵ Central Statistics Office (2014) 'Business Demography 2012'

¹⁸⁶ Central Statistics Office (2014) 'Business Demography 2012'

Table 10.2: Benchmarking Summary (GLF)				
	NI GLF	North East of England Growth Fund	Scotland Scottish Loan Fund	Wales Welsh SME Investment Fund and Welsh Capital Growth Fund
Type of Intervention	Loan Fund (Mezzanine)	Loan Fund	Loan Fund (Mezzanine)	Loan Funds
Funder	Invest NI and NILGOSC	ERDF, DBIS and EIB under a JEREMIE Initiative	ERDF and Scottish Government and banks/pension funds	SME Investment Fund – Welsh Government and Barclays Bank Capital Growth Fund – Welsh Government
Fund / Scheme Manager	WhiteRock Capital	North East Finance manages the JEREMIE Initiative	Scottish Enterprise	Finance Wales
Fund / Scheme Delivery Agent	WhiteRock Capital	NEL Fund Managers	Maven Capital Partners	Finance Wales
Size of Fund/ Scheme	£50m (including £25m of Invest NI funding)	£30m	£113m	SME Investment Fund – £40m Capital Growth Fund – £20m
Composition of Fund (% Publicly-Backed where applicable)	50% public, 50% private	100% not-for-profit (ERDF and EIB)	50% public sector (Scottish Enterprise and ERDF) and 50% private sector (across 4 high-street banks and 2 pension funds)	SME Investment Fund – Public and Private but it was not possible to disaggregate the proportions. Capital Growth Fund – 100% public
Fund Management Costs as a % of funds under management	13.5% of £50.0m ¹⁸⁷	The Fund Manager did not wish to disclose fund management fees.	1.3% of funds committed per annum across first five years and 0.75% of disbursed loan portfolio per annum across years 6-10.	The Annual Accounts of Finance Wales (2014/15) show total annual staff costs of £6.8m for total funds of £539.5m but the staff costs cannot be attributed to any one fund within the suite.
Investment Period	5 years (May 2012 – April 2017)	7 years (Jan 2010 to Dec 2016 at present)	6 years (Feb 2011 – Jan 2017) (extended from 5 years due to Year 1 ramp-up)	SME Investment Fund – 5 years 2012-2016 Capital Growth Fund – 5 years 2014-2018
Mezzanine Available?	Yes	Yes	Yes	Yes
Investment Range	£50k - £500k	£50k - £400k	£250k - £5m	SME Investment Fund and Capital Growth Fund – £50k - £2m in any deal, £5m in any company (including follow-on deals)
Secured or Unsecured	Unsecured	Unsecured	Typically secured	Both – interest rate is affected by level of security provided.
Interest Rates (Typical)	6% - 9% fixed rate	Typically 10% fixed rate	8% - 10% fixed rate	SME Investment Fund - c. 8% fixed rate and 10% APR Capital Growth Fund – c. 8% fixed rate
Profit Share?	Yes at least equal to interest	Yes – 1-5% of net profits	No but a Redemption Fee is charged to bring income up to required IRR.	It is not clear what, if any, profit share is charged under these loans.
Arrangement Fees	1.5% of capital	1-2% of capital	c. 1% - 2%	c.1.5% of capital.
Other Fees	<ul style="list-style-type: none"> Financial Due Diligence (FDD) – 1% of capital 	<ul style="list-style-type: none"> Withdrawal fee – 1-2% of capital FDD fee of 1-2% of capital 	<ul style="list-style-type: none"> Monitoring fee of c. £8 - £10k p/a FDD and legal fees - £5k - £10k per business 	Monitoring fees – average of 0.5% and financial due diligence fees c. 1% of capital
Early Settlement Fees	Six months interest charged	Yes but common (c. 20%) of businesses to exit early.	No. The Redemption Fee increases over time so as to encourage businesses to repay early. 10 of 29 investee businesses repaid early.	It is not clear what, if any, early settlement fees are charged under these loans.
Can Funds be Recycled?	No	Yes	No	SME Investment Fund - Yes Capital Growth Fund – Yes

¹⁸⁷ £6.74m of fund management fees to come from £50m fund.

Table 10.2: Benchmarking Summary (GLF)				
	NI GLF	North East of England Growth Fund	Scotland Scottish Loan Fund	Wales Welsh SME Investment Fund and Welsh Capital Growth Fund
Loan Repayment Period	5 years	Flexible but usually 2-5 years	3 to 7 years including flexibility for capital repayment holidays with average duration of 5 years.	SME Investment Fund – 1-5 years Capital Growth Fund – up to 18 months
Restrictions on Investment Policy	<ul style="list-style-type: none"> Provide grant finance or 'soft' loans Provide start-up capital for new companies Fund MBO/MBI or merger/acquisition transaction funding to effect change in ownership Provide funding to refinance existing bank debt. Lend to EU restricted sectors. 	<p>Similarly to GLF the North East Growth Fund cannot:</p> <ul style="list-style-type: none"> Fund MBO/MBI or merger/acquisition transaction funding to effect change in ownership Provide funding to refinance existing bank debt Lending to EU restricted sectors <p>The Fund technically can provide start-up capital but rarely does as other funds serve this purpose.</p>	<p>Fund Manager emphasised that flexibility was a key strength. Whilst the Fund cannot provide cash for MBO/MBI, it will fund mergers/ acquisitions and can be utilised to refinance existing bank debt.</p> <p>EU excluded sectors are not eligible.</p>	<p>Similarly to GLF Finance Wales cannot lend to EU restricted sectors. Business succession funding (for mergers and acquisitions, MBO/ MBI etc.) is available through the range of funds delivered by Finance Wales.</p>
Typical Target Audiences	<ul style="list-style-type: none"> Established businesses in manufacturing, engineering and tradable services sectors. 	<ul style="list-style-type: none"> Manufacturing and professional services sectors Experienced management teams 	<ul style="list-style-type: none"> Export-focused established SMEs Annual turnover of at least £1m in the preceding 12 months of trading 	<ul style="list-style-type: none"> SMEs with significant growth potential
Annual No. of Loans Disbursed	22	24	6 per annum (29 across 5 years)	SME Investment Fund – It was not clear the number or average value of loans disbursed. Capital Growth Fund – 18 (90 over 5 years)
Total Business Base¹⁸⁸	c. 117,000	c. 135,000	c. 340,000	c. 213,000
Average Value of Loans Disbursed	£307,697	£212k per business	£2m	SME Investment Fund – It was not clear the number or average value of loans disbursed. Capital Growth Fund – £220k
Average Investment per annum	£6.5m	£5m	£12m	SME Investment Fund – £5m per annum Capital Growth Fund – £4m per annum
Default Rates – No.	7% (5 of 76 businesses)	The North East Growth Fund primarily measures defaults based on value, rather than number of loans.	1 of 29 businesses to date	19% of loan value provided for across all Finance Wales loans (but cannot disaggregate by Fund).
Default Rates – Value.	8%	19%	5%	

¹⁸⁸ Department for Business, Innovation and Skills (2015) 'Business Population Estimate for the UK and Regions 2015: Statistical Release'

10.2 Benchmarking Summary

10.2.1 NISBLF Benchmark Findings

The previous analysis showed that each of the regions considered (North East of England, Scotland, Wales and ROI) has operated a publicly-backed loan fund across the period under review which is comparable with the NISBLF in terms of offering loans of between £1,000 and c. £25,000 to start-up and existing businesses which cannot access funding from traditional lenders. This suggests that there was market failure relating to debt finance for such businesses throughout NI and the benchmark regions within this particular investment range.

Key points to note in relation to the previous analysis of NISBLF benchmarks include:

Size of the Funds	<p>The size of the NISBLF (£5m) is comparable with the size of the Welsh Micro-Loan Fund (£5m across 2012-2016) but is much smaller than the total value of the Microenterprise Loan Fund in ROI (€25m). It is recognised however that in NI the SUL and the NISBLF both seek to offer loans to microenterprises and SMEs, whereas the Microenterprise Loan Fund is the only publicly-backed loan fund in the Republic of Ireland, and therefore the need and demand might be expected to be greater. Similarly, the NISBLF is smaller than the proposed Scottish Local Authority Business Loan Fund (SLABLF) (c. £6m per annum). However discussions with the Fund Manager for the SLABLF have emphasised that loan funds for SMEs are well-established in Scotland and therefore levels of demand for a larger fund have been evidenced.</p> <p>Discussions with the primary NI Delivery Agent for the SUL highlighted that there is not a set quantum of funding available for the SUL in NI, but the Delivery Agents are encouraged to maximise opportunities where possible and their fees are linked to levels of activity.</p>
Composition of the Funds	<p>Similar to the NISBLF, a number of the benchmark loan funds (e.g. the SUL, the North East Micro-Loan Fund and the Welsh Micro-Loan Fund) are fully funded through the public sector which may be reflective of the high risk nature of such embryonic businesses. However, the SLABLF and the Microenterprise Loan Fund have been successful in securing bank lending to part-finance the funds. In the event that there was a future NISBLF (or equivalent), there could therefore be potential for the fund manager to investigate opportunities to leverage private sector investment in the fund through the public funds committed. Any future Economic Appraisal of the NISBLF should test the appetite for such investment amongst the private sector; albeit the Evaluation Team notes that the circumstances relating to how the private sector became involved in the specific benchmark funds may be market specific e.g. the influence of the ROI Government following their support to the banking sector during the recession.</p> <p>The West of Scotland Loan Fund and the East of Scotland Investment Fund (which predate the SLABLF) require match funding from the private sector on a deal-by-deal basis, but this has not been replicated going into the SLABLF or for any of the other benchmark funds. Therefore it appears that requirement for private sector match on a deal-by-deal basis may not be appropriate for any future NISBLF.</p>
Fund Management	<p>Benchmarking consultees were typically either unwilling or unable to provide details on fund management fees thereby making it difficult to compare the cost effectiveness of the NISBLF fund management fees with other funds.</p>
Loan Size Range	<p>The NISBLF offers a more flexible investment range (i.e. £1,000 to £50,000) than the majority of the benchmark funds considered (e.g. the SUL in NI offers up to £10,000, the North East Micro-Loan Fund typically offers up to £25,000 and the Microenterprise Loan Fund in ROI offers up to €25,000). Discussions with the fund managers/ delivery agents for the benchmark funds suggest that restrictions applied on the investment range are typically a function of either adherence to EU guidelines (such as support to microenterprises, rather than SMEs) and/or actions to mitigate against risk of duplication with other offerings in the marketplace (such as other funds within the North East JEREMIE).</p> <p>It is interesting to note that the proposed SLABLF will be structured with the flexibility to lend up to £100,000 to any one business. If there was sufficient demand from viable businesses for loans over £50,000, there may be potential therefore for any future NISBLF to consider providing flexibility to provide increased loan values (e.g. up to £100,000).</p>

Loan Repayment Periods	<p>The flexibility offered by the NISBLF in terms of repayment period (i.e. anywhere between one and five years) is common across a number of the benchmarks considered (e.g. SUL and Welsh Micro-Loan Fund. The precursors to the SLABLF (i.e. the West of Scotland Loan Fund and the East of Scotland Investment Fund) provided flexibility for up to seven years for loan repayment, but the proposed SLABLF is going to require repayment over a maximum of five years. Therefore it appears that the loan repayment periods offered through the NISBLF have been broadly appropriate and in line with the opportunities offered elsewhere.</p>
Security Required	<p>The benchmark loan funds typically lend on an unsecured basis (although personal guarantees from Director may be required in some cases). Where security is provided (e.g. some occasions through the SLABLF and the Welsh Micro Loan Fund) this is reflected in a lower interest rate charged to the business.</p>
Interest Rates	<p>The interest rates typically charged through the NISBLF (between 6% and 11% fixed rate, and an average rate of 6.9% fixed rate on the loans approved up to November 2015) are broadly in line with the interest rates charged by benchmark funds. Of note:</p> <ul style="list-style-type: none"> • The 6% fixed rate interest on SUL loans is determined at a UK level. Whilst this is lower than the average interest rate charged through the NISBLF, the primary SUL NI Delivery Agent noted that the interest rate charged (i.e. 6%) is not fully reflective of the risk associated with many of the recipient businesses, which ultimately leads to the higher default rates realised under the SUL than under the NISBLF. • The North East Micro-Loan Fund charges 9% fixed rate interest, but consultation with a North East-based Fund Manager has suggested that there is a greater maturity in the North East market in terms of expectations and willingness to pay interest rates than in NI. Therefore applying a higher rate to all NISBLF recipient businesses could impact on demand. <p>As such, it would appear that the interest rate range charged under the NISBLF is reasonable for a loan fund of this kind in terms of both balancing the risky nature of the businesses (and managing the risk of defaults from the outset) and the need to stimulate demand from the target business base.</p>
Other Fees	<p>No. arrangement fees, monitoring fees or early settlement fees are charged under the NISBLF but it is noted that the Welsh Micro-Loan Fund and the North East Micro-Loan Fund charge arrangement fees under certain conditions. Whilst there could therefore be potential for any future NISBLF to incorporate a fee component to provide greater coverage for management costs (and reduce the burden to the public sector), the benchmark consultees noted that the businesses within NI may well be less accustomed to risk capital and have lower expectations in relation to the costs associated with funds of this nature. Therefore there is potential that incorporating arrangement fees into any future NISBLF could have a detrimental impact on demand for the funds.</p>
Levels of Activity	<p>On average 65 NISBLF loans have been disbursed per annum (based on 185 loans across 34-months up to November 2015). This equates to 5.5 loans for every 10,000 businesses and is lower than the proportions for the SUL NI (14.2 per 10,000 businesses in NI), the North East Micro-Loan Fund (6.5 per 10,000 businesses in the North East) and the Microenterprise Loan Fund (10.3 per 10,000 businesses in the Republic of Ireland). The proportion is, however, higher than for the Welsh Micro-Loan Fund (2.34 loans for 10,000 businesses).</p> <p>As previously noted, it is not possible to definitively conclude on the different levels of activity for two loan funds without fully assessing the demand and supply factors which are at play throughout each marketplace. However, at a high level it would appear that there is greater demand amongst NI businesses for the smaller (sub-£10k) start-up loans offered through the SUL than for the NISBLF loans. Notwithstanding this point, the levels of demand shown for the NISBLF are substantial enough that there does appear to be a need for intervention in this finance range.</p> <p>It is also important to note that the average value of the loans disbursed through the NISBLF (£21,158) was amongst the highest of the benchmarks considered and therefore whilst the number of loans was lower than other benchmarks, the actual value of loans disbursed (£1.4m per annum) was higher than that issued under the SUL NI or the North East Micro-Loan Fund.</p>

Levels of Default	<p>Whilst there are differences in the means of measuring default rates (e.g. whether defaults are recorded based on proportion of the number of loans disbursed or proportion of the value of loans disbursed), it can be seen that the 7.5% default rate recorded by the NISBLF as at November 2015 is amongst the lowest rate of defaults of any of the benchmarks considered. For instance, 28% of the SUL NI loans (by number) are reported to have defaulted and 19% of the value of all loans disbursed by Finance Wales are in default. The 2014/15 Annual Report for the Microenterprise Loan Fund (ROI) shows a bad debts provision of 34% of total loan value, albeit this provision reduces to 19% once the EC Progress Guarantee is applied.</p> <p>The benchmarking data suggests that the level of defaults realised to date through the NISBLF (7.5%) may rise over time as there is typically a lag-time following receipt of a loan before businesses default on repayments. Across all EFG loans (17,290) there was a default rate of 19% of loan value which suggests that for higher-risk lending, a default rate of c. 20% is to be expected. Therefore with effective portfolio management and risk procedures it is reasonable to assume that the default rate for the NISBLF across the 10-year period could be maintained within the maximum allowable limit of 23%.</p>
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10.2.2 GLF Benchmark Findings

The previous analysis showed that each of the regions considered (North East of England, Scotland and Wales) has operated a publicly-backed loan fund across the period under review which is broadly comparable with the GLF in terms of offering loans of a comparable range (i.e. within the £50,000 to £500,000 range) to established businesses which cannot access funding from traditional lenders. This suggests that there was an evidenced market failure for these businesses throughout NI and the benchmark regions within this particular investment range.

Key points to note in relation to the previous analysis of GLF benchmarks include:

Size of the Funds	<p>The GLF is a larger fund (i.e. £50m) than the North East Growth Fund (£30m) and the Welsh SME Investment Fund (£40m) but is significantly smaller than the Scottish Loan Fund (£113m). Discussions with the Fund Manager for the Scottish Loan Fund have suggested that the fund was too large for the actual demand from the marketplace and that c. £60m of loans have actually been disbursed. Therefore at a high level the size of the GLF is broadly in line with the size of a number of other similar loan funds in other regions, however (as previously noted) it is not possible to determine the optimal size of any fund in the absence of assessing the demand and supply for all funding provision within that region.</p>
Composition of the Funds	<p>Similarly to the GLF, the Scottish Loan Fund and the Welsh SME Investment Fund consist of both public and private sector funding. The Scottish Loan Fund has utilised the public sector funding to leverage 50% of its capital from the private sector including funding from four high-street banks and two pension funds. The Welsh SME Investment Fund has also leveraged private finance from a bank (although details were not available on the proportion of the total fund which was funded from the private sector). The composition of these benchmark funds may indicate that there could be potential for any future GLF to seek additional private sector finance through bank lending, thereby reducing the burden on the public sector.</p>
Fund Management	<p>The North East Growth Fund and the Scottish Loan Fund are delivered by external fund managers, appointed through public procurement (as per GLF). Whilst the fund manager for the North East Growth Fund was unwilling to disclose the basis for their fees, the fund manager for the Scottish Loan Fund noted that their fees equate to the 1.3% of the funds committed per annum during the investment period and then 0.75% of the funds to be managed throughout the realisation phase. Each of these fund managers receives their fees out of the Fund itself.</p> <p>The Welsh Funds (SME Investment Fund and Welsh Capital Growth Fund) are delivered by Finance Wales as part of a wider portfolio of publicly-backed loan funds. It has not been possible to disaggregate the fund management costs specifically associated with the benchmark funds.</p>

<p>Loan Range</p>	<p>The North East Growth Fund covers a similar investment range to the GLF (£50,000 to £400,000). Discussions with the fund manager for the North East Growth Fund indicated that the range is capped at £400,000 so as to not duplicate other funds within the North East JEREMIE. The Welsh Funds offer a much wider investment range than that offered through the GLF (i.e. £50,000 to £2m) which provides greater flexibility to applicant businesses depending on their specific needs. Any future GLF may potentially consider extending the investment range over and above the current level of £500k (or €1.5m under exceptional circumstances) in order to address a broader range of needs. Whilst there is inherently a greater risk associated with larger loans (as a greater quantum of funds can potentially be defaulted upon), discussions with the GLF fund manager and benchmark fund managers have suggested that this additional risk is at least partly offset by the enhanced management teams and governance processes which are typically in place for businesses seeking larger loans.</p> <p>Whilst the investment range for the Scottish Loan Fund overlaps with the GLF (between £250,000 and £500,000) it is noted that the minimum level of investment (£250,000) and the maximum level of investment (£5m) are both higher than for the GLF. The fund manager for the Scottish Loan Fund has indicated that there are other initiatives in place for smaller loans (such as the West of Scotland Loan Fund) and that the gap in the market for mezzanine finance was at the higher end of the lending range. Indeed, the average value of loans disbursed under this fund (£2m) is higher than the maximum loan allowable under the GLF (even under exceptional circumstances). Therefore it appears to be addressing a somewhat different need within the Scottish market than the GLF serves in NI.</p> <p>It is important to note that representatives from the Scottish Government indicated through consultation that there is no longer deemed to be a market failure in Scotland in the provision of mezzanine finance in the range considered through the Scottish Loan Fund as this range is considered to be fully served by the private sector in Scotland. Therefore the Scottish Government is focusing its investment going forward on the provision of debt finance (up to £100,000) in SMEs. The research undertaken through this Evaluation indicates that a market failure continues to exist which underpins the need for the GLF in NI, although this would be tested further through an Economic Appraisal for a future fund.</p>
<p>Loan Repayment Periods</p>	<p>With the exception of the Welsh Capital Growth Fund which is a short-term loan initiative requiring repayment within 18 months, none of the other benchmark funds have a fixed repayment period across all loans as per the GLF and instead offer flexibility based on the specific needs of the applicant business. Consultations with the benchmark fund managers highlighted that this flexibility is a key strength of their fund. As such, any future GLF could potentially include greater flexibility in terms of repayment period to ensure to support viable businesses who require shorter or longer loan repayment periods.</p> <p>The Scottish Loan Fund also offers flexibility in terms of capital repayment holidays (i.e. only interest is paid for a specified period of time). However the North East Growth Fund does not offer capital repayment holidays and discussions with the North East Growth Fund fund manager highlighted that their previous experience is that capital repayment holidays can ultimately result in higher default rates as businesses may not fully effectively manage cashflow throughout and are unable to meet higher capital repayments once the repayment holiday is over. Therefore whilst greater flexibility in repayment terms may increase demand for any future GLF, it is important that the revised terms and considered in the context of the increased risks of default.</p>
<p>Security Required</p>	<p>Each of the benchmark loan funds has the ability to lend on an unsecured basis although the Scottish Loan Fund typically seeks security for its mezzanine finance. Where security is this is reflected in a lower interest rate charged to the business.</p>
<p>Interest Rates</p>	<p>The interest rates typically charged through the GLF (between 6% and 9% fixed rate, and an average rate of 7.95% fixed rate on the loans approved up to November 2015) are broadly in line with the interest rates charged by benchmark funds and reflect the balance between the risks associated with mezzanine finance and the need to stimulate demand from the target business base.</p>

<p>Other Fees</p>	<p>The GLF and North East Loan Fund both charge recipient businesses a share of profits (estimated to be between 1% and 5% of net profits as per the annual accounts) in order to achieve the required IRR on each loan approved. The Scottish Loan Fund does not charge profit share on an annualised basis, but it does charge a Redemption Fee upon exit which similarly seeks to raise the return on each loan to the required IRR. It was noted that the Redemption Fee increases over time which acts as an incentive for recipient businesses to settle their loans prior to the agreed repayment period (thereby reducing the risk of default across the portfolio).</p> <p>Each of the benchmark funds charges arrangement fees (c. 1% to 2% of capital employed) and this is considered to be an industry standard, therefore is likely to continue in the event that there is a future GLF. The Scottish Loan Fund (estimated to be £8,000 to £10,000 per business per annum) and the Welsh SME Investment Fund and Welsh Capital Growth Fund (estimated to be c. 0.5% of capital) charge monitoring fees. This may be reflective of the higher average value of loans disbursed through these funds and the need for greater monitoring and strategic oversight. The Scottish Loan Fund manager highlighted that they take Board observer rights for each loan approved. Whilst this does not give the fund managers voting rights at Board meetings, it means that they can routinely monitor the strategic direction of their investments. Discussions with the GLF fund manager have suggested that whilst this could be considered for any future GLF it would not necessarily be essential for each loan issued, and rather could be granted for the larger and/or more complex investments.</p> <p>Each of the benchmark funds passes the costs of financial and/ or legal due diligence onto the applicant business, and in the event that a business withdraws its application following initial assessment (but prior to due diligence), the North East Growth Fund charges a withdrawal fee of c. 1% to 2% of capital sought to recoup the costs invested in assessing the application to that point.</p> <p>It should be noted that the range (and quantum) of fees payable by investee businesses on their loans through the Scottish Loan Fund is considered (by both the Fund Manager and the Scottish Government) to have inhibited businesses from applying for loans at the smaller end of the investment range, and therefore is not fully considered to have addressed the needs identified at the outset. Therefore it is important to ensure that there is transparency from the outset about all fees and charges which would be payable by investee businesses.</p>
<p>Recycling of Funds</p>	<p>The North East Loan Fund and the Welsh Funds can be recycled, but similarly to the GLF the Scottish Loan Fund cannot. The fund manager for the North East Growth Fund noted that around 20% of loans are repaid early which is beneficial as the capital can be reinvested, whereas the fund manager for the Scottish Loan Fund noted that 9 of the 29 loans disbursed through the fund have been settled early but that these funds cannot be reinvested.</p> <p>Setting loans early is a positive sign as it indicates that the business has exceeded their growth projections and/or has proven itself to be lower risk and has been able to secure senior debt at a lower cost from another lender in order to refinance the project. Therefore it would be logical that any future GLF should incorporate flexible mechanisms to incentivise early repayment where possible and to allow the fund manager to recycle these funds for other loans.</p>

<p>Restrictions on Investment Policy</p>	<p>Each of the benchmark funds are subject to State Aid rules on lending and therefore there is commonality in some of the restrictions on lending (e.g. inability to lend to EU excluded sectors such as retails and gambling).</p> <p>Neither of the GLF or the North East Growth Fund are allowed to provide capital for MBO/ MBI or mergers and acquisitions. The Scottish Loan Fund does has the flexibility to provide funding for mergers and acquisitions and notes that this flexibility is a key strength of the fund, but similarly to the GLF it cannot provide cash for MBO/MBI activity (although it can provide post-transaction funding). The Welsh Funds form part of a wider portfolio of funds and across this portfolio businesses can access finance for succession through MBO/ MBI, mergers and acquisitions.</p> <p>Whilst the Scottish Loan Fund technically can provide funding to refinance existing bank debt, the fund manager noted that this is rarely the case as the cost of borrowing through the Loan Fund tends to be greater than for existing bank debt.</p> <p>On an overarching level it appears that greater flexibility will always be beneficial in terms of achieving economic impacts, although any future GLF would have to comply with State Aid regulations and therefore is always likely to employ restrictions on its lending policy.</p>
<p>Levels of Activity</p>	<p>On average 22 GLF loans have been disbursed per annum (based on 76 loans across 43-months up to November 2015). This equates to 1.9 loans for every 10,000 businesses and is higher than the proportions for the North East Growth Fund (1.8 per 10,000 businesses in the North East), the Scottish Loan Fund (0.8 per 10,000 businesses in Scotland) and the Welsh Capital Growth Fund (0.9 per 10,000 businesses in Wales).</p> <p>As previously noted, it is not possible to definitively conclude on the different levels of activity for two loan funds without fully assessing the demand and supply factors which are at play throughout each marketplace. However, at a high level it would appear that there is relatively strong demand amongst NI businesses for the loans offered through the GLF.</p> <p>It is, however, important to note that the average loan size disbursed through the GLF (£307,697) is much lower than for the Scottish Loan Fund (£2m). It is possible that there is lower critical mass for these substantial loans amongst the SME business base than for the smaller loans offered through the GLF.</p>
<p>Levels of Default</p>	<p>Whilst there are differences in the means of measuring default rates (e.g. whether defaults are recorded based on proportion of the number of loans disbursed or proportion of the value of loans disbursed), it can be seen that the 8% default rate recorded by the GLF as at November 2015 is lower than the default rate for the North East Growth Fund and the Welsh portfolio of funds (albeit the default rate for each individual fund was not available).</p> <p>The benchmarking data suggests that the level of defaults realised to date through the GLF (8%) may rise over time as there is typically a lag-time following receipt of a loan before businesses default on repayments. Indeed, there is potential for the default rate realised under the GLF to exceed the 12.5% limit stipulated within the LPA based on the trends shown across benchmark funds.</p>

10.3 Summary Conclusions

The Evaluation Team considers that caution should be taken when seeking to elicit lessons for NI in relation to the scale and performance of loan funds elsewhere, as the scale of market failure and need and demand within one region is unlikely (in our view) to be replicated exactly in another. A considerable number of factors influence this conclusion, including:

- The number, scale and sector profile of businesses in a given region;
- The role of the banking sector in a given region, and its appetite for lending. Our consultation with stakeholders suggests that it should not be considered that the banking sector is homogenous, and that even some banking groups will behave differently in different regions. The number of active banks in a region also has an impact;
- The existence of similar debt/mezzanine finance products in a given region.

Ultimately, full market/regional studies would be required to fully compare and contrast the performance of the NISBLF and GLF with similar products elsewhere, but such depth analysis is beyond the scope of this project.

However, what is clear from our benchmarking review is the following:

- The NISBLF and GLF do exhibit many areas of commonality with other loan funds throughout the UK and the Republic of Ireland, which suggest that similar market failures relating to debt and mezzanine finance exist elsewhere for certain cohorts of businesses. This perhaps provides further evidence of a continuing need for government intervention to provide access to finance to businesses that cannot access traditional debt.
- Key associated themes that emerge include:
 - The need for flexibility in loan fund offerings order to both meet market need and to stimulate demand;
 - The need for robust risk management processes to mitigate against defaults where possible.

Such findings are important, for example, in the context of the GLF where our consultations with strategic stakeholders suggested that any future GLF might benefit from offering greater flexibility in terms of repayment periods and/or flexibility in terms (such as capital repayment holidays). However, such changes, if made, would require close fund management throughout to ensure that such changes did not lead to higher levels of default.

11. VALUE-FOR-MONEY

This section provides a summary of key value-for-money indicators for each fund:

11.1 NISBLF

Based on the preceding analysis, it is the Evaluation Team’s view that the **NISBLF delivered value-for-money during the period under review**. More specifically, this view is based on each of the following inter-related factors.

Table 11.1: Summary of Value for Money for the NISBLF

VFM Indicator	Conclusion
Strategic Fit	<p>At the time of the approval of the NISBLF, a need was determined for Government to provide access to risk capital for existing SMEs in NI. Specifically, along with a reduction in lending by traditional funders such as the banking community, there was a gap in the continuum of the supply of debt finance of up to £50k for start-ups and existing early growth businesses. This gap had arisen due to (amongst other things) key structural market failures (including asymmetric information, risk aversion and market power), the downturn in the economy which affected the availability of finance and structural issues associated with the NI Economy.</p> <p>There was (at the time of approval), and continues to be, clear alignment between the aims and objectives of the NISBLF and the strategic imperatives of the NI Government (including with DETI and Invest NI’s Corporate Plans and the Invest NI Access to Finance Strategy). Specifically, in line with Government’s strategic focus, the activities supported by the NISBLF offers the potential to grow the private sector by facilitating the provision of investment and expertise to start-up and early growth businesses. In doing so, the NISBLF contributes to <i>“helping eliminate the real and perceived barriers to growth”</i>.</p>
Need & Market Failure	<p>Allied to the above, the Evaluation Team considers that the NISBLF has been successful in contributing to addressing the market failure in relation to the provision of debt finance to SMEs in NI.</p> <p>Whilst some market failure continues to exist in relation to the provision of debt and mezzanine finance within NI, there is some evidence (e.g. EAG’s research) to indicate that it may not be at the level (either in terms of number or value of loans) that was anticipated when the NISBLF was approved.</p> <p>Should Economic Appraisals or other forms of approvals be required for either fund in the future, we consider that particular focus should be placed upon demand analysis, and all inherent risks fully documented.</p>
Additionality	<p>Whilst the level of deadweight associated with the activity undertaken utilising the NISBLF loan appears somewhat high at 53.6%, it is the Evaluation Team’s view that this should perhaps not be unexpected. We note the following:</p> <ul style="list-style-type: none"> • Positively, none of the 64 respondents to this question reported that they would <i>“definitely have undertaken the activities anyway (to the same extent and within the same time period) in the absence of the support received through the NISBLF”</i> i.e. no response represented full deadweight; • Many (perhaps all) of the loans received through the NISBLF might be considered to be reasonably small in value. Our analysis of individual responses received indicates that respondents considered that they could have financed the project from their own business’ finances. However, it would have taken some time (anywhere from 6 months or more) to accumulate the necessary reserves. The merit of the NISBLF is that it helps ensure that the business development activities occur in a more timely manner; and • The NISBLF Economic Appraisal’s Preferred Option was selected on the assumption that deadweight of c50% might be evident at the individual project level. The Economic Appraisal stated that <i>“based on guidance from Invest NI economists, we have applied a 50% additionality coefficient which, in the absence of any previous evaluation on a loan fund of this nature, is based on actual performance achieved by</i>

Table 11.1: Summary of Value for Money for the NISBLF

VFM Indicator	Conclusion								
	<p><i>projects as reported in BIS and SFA evaluations</i>". Whilst this level of deadweight was applied to the EA's projected impact analysis, no narrative is provided as to the specific sources of the deadweight values, or whether they related to deadweight associated with activity or impacts.</p> <p>As such, the level of activity additionality (46.4%) should be viewed positively. Furthermore, the level of impact (59.6%) additionality indicates that the NISBLF enabled businesses to realise benefits from the growth activities that they have implemented.</p>								
Duplication and complementarity	The Evaluation Team concludes that the risk of the NISBLF duplicating other support was minimal. This is supported by the feedback from recipients of support; the majority (93%, N=73) of whom suggested that, in the absence of the NISBLF, they would not have been able to get similar support elsewhere.								
Economy Efficiency and Effectiveness	<table border="1"> <thead> <tr> <th>Indicator</th> <th>Evaluation Team's Commentary</th> </tr> </thead> <tbody> <tr> <td>Economy measures are concerned with showing that the appropriate inputs (i.e. the resources used in carrying out the project) have been obtained at least cost</td> <td> <p>As detailed in Section 1, Invest NI commissioned an economic appraisal for the NISBLF. The outcomes of the appraisal process suggested that the level of funding committed by Invest NI (i.e. £5m) represented the least cost necessary to deliver the forecasted activity levels.</p> <p>The contract for management of the NISBLF was publicly tendered and a scoring exercise was utilised to identify the most economically advantageous tender. As such, the Evaluation Team's is content that Invest NI has made appropriate effort to ensure that inputs have been obtained at least cost to NI.</p> </td> </tr> <tr> <td>Efficiency relates to measures that are concerned with achieving the maximum output from a given set of inputs</td> <td> <p>Each individual loan approved through the NISBLF was subject to a stringent application and appraisal process. These processes sought to ensure that the overall Fund would be utilised for the maximum possible benefit to NI.</p> <p>The Economic Appraisal for the NISBLF estimated that the £5m investment would generate circa £10.3m of GVA impacts, thereby resulting in a return of £2.05 for every £1 invested.</p> <p>The monetary analysis undertaken as part of this Evaluation estimates that the loans disbursed up to and including July 2015 has resulted in actual net additional GVA of £3.7m and will ultimately result in <u>at least</u> £9.6m of net additional GVA across the six-years under review when both actual and the most prudent anticipated impacts are considered (assuming a 23% default rate).</p> <p>As such, the NISBLF activity up to July 2015 is estimated to have resulted in a return of at least £2.14 for every £1 of full economic cost. Therefore the NISBLF is considered to have delivered maximum GVA outputs from the inputs and therefore has offered cost efficiency.</p> </td> </tr> <tr> <td>Effectiveness measures are concerned with showing the extent to which aims, objectives and targets of the project are being achieved</td> <td>At this stage, the majority of objectives for the NISBLF have either been achieved or are likely to be achieved by the end of the five-year investment period. Thus the effectiveness measure of VFM was achieved</td> </tr> </tbody> </table>	Indicator	Evaluation Team's Commentary	Economy measures are concerned with showing that the appropriate inputs (i.e. the resources used in carrying out the project) have been obtained at least cost	<p>As detailed in Section 1, Invest NI commissioned an economic appraisal for the NISBLF. The outcomes of the appraisal process suggested that the level of funding committed by Invest NI (i.e. £5m) represented the least cost necessary to deliver the forecasted activity levels.</p> <p>The contract for management of the NISBLF was publicly tendered and a scoring exercise was utilised to identify the most economically advantageous tender. As such, the Evaluation Team's is content that Invest NI has made appropriate effort to ensure that inputs have been obtained at least cost to NI.</p>	Efficiency relates to measures that are concerned with achieving the maximum output from a given set of inputs	<p>Each individual loan approved through the NISBLF was subject to a stringent application and appraisal process. These processes sought to ensure that the overall Fund would be utilised for the maximum possible benefit to NI.</p> <p>The Economic Appraisal for the NISBLF estimated that the £5m investment would generate circa £10.3m of GVA impacts, thereby resulting in a return of £2.05 for every £1 invested.</p> <p>The monetary analysis undertaken as part of this Evaluation estimates that the loans disbursed up to and including July 2015 has resulted in actual net additional GVA of £3.7m and will ultimately result in <u>at least</u> £9.6m of net additional GVA across the six-years under review when both actual and the most prudent anticipated impacts are considered (assuming a 23% default rate).</p> <p>As such, the NISBLF activity up to July 2015 is estimated to have resulted in a return of at least £2.14 for every £1 of full economic cost. Therefore the NISBLF is considered to have delivered maximum GVA outputs from the inputs and therefore has offered cost efficiency.</p>	Effectiveness measures are concerned with showing the extent to which aims, objectives and targets of the project are being achieved	At this stage, the majority of objectives for the NISBLF have either been achieved or are likely to be achieved by the end of the five-year investment period. Thus the effectiveness measure of VFM was achieved
	Indicator	Evaluation Team's Commentary							
	Economy measures are concerned with showing that the appropriate inputs (i.e. the resources used in carrying out the project) have been obtained at least cost	<p>As detailed in Section 1, Invest NI commissioned an economic appraisal for the NISBLF. The outcomes of the appraisal process suggested that the level of funding committed by Invest NI (i.e. £5m) represented the least cost necessary to deliver the forecasted activity levels.</p> <p>The contract for management of the NISBLF was publicly tendered and a scoring exercise was utilised to identify the most economically advantageous tender. As such, the Evaluation Team's is content that Invest NI has made appropriate effort to ensure that inputs have been obtained at least cost to NI.</p>							
	Efficiency relates to measures that are concerned with achieving the maximum output from a given set of inputs	<p>Each individual loan approved through the NISBLF was subject to a stringent application and appraisal process. These processes sought to ensure that the overall Fund would be utilised for the maximum possible benefit to NI.</p> <p>The Economic Appraisal for the NISBLF estimated that the £5m investment would generate circa £10.3m of GVA impacts, thereby resulting in a return of £2.05 for every £1 invested.</p> <p>The monetary analysis undertaken as part of this Evaluation estimates that the loans disbursed up to and including July 2015 has resulted in actual net additional GVA of £3.7m and will ultimately result in <u>at least</u> £9.6m of net additional GVA across the six-years under review when both actual and the most prudent anticipated impacts are considered (assuming a 23% default rate).</p> <p>As such, the NISBLF activity up to July 2015 is estimated to have resulted in a return of at least £2.14 for every £1 of full economic cost. Therefore the NISBLF is considered to have delivered maximum GVA outputs from the inputs and therefore has offered cost efficiency.</p>							
Effectiveness measures are concerned with showing the extent to which aims, objectives and targets of the project are being achieved	At this stage, the majority of objectives for the NISBLF have either been achieved or are likely to be achieved by the end of the five-year investment period. Thus the effectiveness measure of VFM was achieved								
Cost effectiveness	Given the level of net additional GVA (i.e. £3,672,803) achieved up to December 2015 and the full economic costs (£3,709,547) across the same period, the GVA return-on-investment is £0.99 for every £1 invested ¹⁸⁹ .								

¹⁸⁹ Return-on-investment is based on actual outcomes derived to date i.e. excludes outturns anticipated to be derived by businesses in the future.

Table 11.1: Summary of Value for Money for the NISBLF	
VFM Indicator	Conclusion
	<p>However this represents only an intermediate position of the ultimate impact of the loans disbursed up to and including July 2015. In agreement with Invest NI, in order to calculate a GVA return-on-investment figure for a six –year period the Evaluation Team has added the actual net additional GVA (£3,672,823) to the ‘anticipated’ net additional GVA.</p> <p>The 6-year GVA return on investment is estimated to be at least £2.14 for every £1 invested.</p>
Economic Efficiency test results	<p>From a monetary perspective the analysis suggests that the NISBLF has <u>directly</u>:</p> <ul style="list-style-type: none"> Contributed £3.7m in net additional GVA to the NI economy and has the potential to generate <u>at least</u> a further £5.9m between 2016/17 and 2018/19 (if the 23% default rate is realised under the prudent scenario), thereby resulting in total estimated net GVA of £9.6m across the seven-years considered; Created 259 FTE job years across the three years to 2015/16 with potential for <u>at least</u> 360 further FTE Job years to be generated between 2016/17 and 2018/19 (if the 23% default rate is realised under the prudent scenario). This equates to a total of 619 net FTE jobs years across the six-year period. <p>The feedback from businesses also indicates that the support has assisted them to realise a number of non-monetary benefits including (but not limited to) improved business survival rates, safeguarded employment, increased competitiveness and the introduction of new products or processes into the businesses.</p>

11.2 GLF

Based on the preceding analysis, it is the Evaluation Team’s view that the **GLF delivered value-for-money during the period under review**. More specifically, this view is based on each of the following inter-related factors.

Table 11.2: Summary of Value for Money for the GLF	
VFM Indicator	Conclusion
Strategic Fit	<p>At the time of the approval of the GLF there was a need for Government to provide access to risk capital for existing SMEs in NI. Specifically, along with a reduction in lending by traditional funders such as the banking community, there was a gap in the continuum of the supply of debt and mezzanine finance for deals up to £1m for early growth businesses. This gap had arisen due to (amongst other things) key structural market failures (including asymmetric information, risk aversion and market power), the downturn in the economy which affected the availability of finance and structural issues associated with the NI Economy.</p> <p>There was (at the time of approval), and continues to be, clear alignment between the aims and objectives of the GLF and the strategic imperatives of the NI Government (including with DETI and Invest NI’s Corporate Plans and the Invest NI Access to Finance Strategy). Specifically, in line with Government’s strategic focus, the activities supported by the GLF offers the potential to grow the private sector by facilitating the provision of investment and expertise to start-up and early growth businesses. In doing so, the GLF contributes to <i>“helping eliminate the real and perceived barriers to growth”</i>.</p>

Table 11.2: Summary of Value for Money for the GLF

VFM Indicator	Conclusion
Need & Market Failure	<p>Allied to the above, the Evaluation Team considers that the GLF has been successful in contributing to addressing the market failure in relation to the provision of debt finance to SMEs in NI.</p> <p>Whilst some market failure continues to exist in relation to the provision of debt and mezzanine finance within NI, there is some evidence (e.g. EAG’s research) to indicate that it may not be at the level (either in terms of number or value of loans) that was anticipated when the GLF was approved.</p> <p>Our consultations with some strategic stakeholders also suggested that whilst the GLF has served a valuable purpose (e.g. by bridging the gap where the banking sectors considers a deal may be too risky), the level of demand for it going forward may not be at the level that has been experienced to date. A view was posited that NI has only a finite number of businesses that would likely ever avail of a fund such as the GLF, and many of these may already have accessed it. If such a risk is realised, it would inevitably have implications for the level of financial returns that a private sector investor might achieve.</p> <p>Should Economic Appraisals or other forms of approvals be required for either fund in the future, we consider that particular focus should be placed upon demand analysis, and all inherent risks fully documented.</p>
Additionality	<p>Similarly to the NISBLF, whilst the level of deadweight associated with the activity undertaken utilising the GLF loan appears somewhat high at 47.9%, it is the Evaluation Team’s view that this should perhaps not be unexpected. We note the following:</p> <ul style="list-style-type: none"> Positively, none of the 47 respondents to this question reported that they would “definitely have undertaken the activities anyway (to the same extent and within the same time period) in the absence of the support received through the GLF” i.e. no response represented full deadweight; Our analysis of individual responses received indicates that many respondents considered that they could have financed the project from other sources in the absence of receiving a loan through the GLF. However, it would have taken some time (anywhere from 6 months or more) to secure alternative accumulate the necessary additional finance. Alternatively, many businesses indicated that they had the internal reserves to undertake part of the project activities but not all. The benefit of the GLF to many recipient businesses is therefore enabling all the business development activities to occur in a timelier manner. <p>As such, the level of activity additionality (52.1%) should be viewed positively. Furthermore, the level of impact (56.4%) additionality indicates that the GLF enabled businesses to realise benefits from the growth activities that they have implemented.</p>
Duplication and complementarity	<p>The Evaluation Team concludes that the risk of the GLF duplicating other support was minimal. This is supported by the feedback from recipients of support; the majority (83%, N=48) of whom suggested that, in the absence of the GLF, they would not have been able to get similar support elsewhere. Indeed, it is the Evaluation Team view’s view that the GLF offered potential for complementarity with other sources of finance such as venture capital, crowd funding and traditional bank debt through syndicated deals during the period under review.</p>

Table 11.2: Summary of Value for Money for the GLF

VFM Indicator	Conclusion	
Economy Efficiency and Effectiveness	Indicator	Evaluation Team's Commentary
	Economy measures are concerned with showing that the appropriate inputs (i.e. the resources used in carrying out the project) have been obtained at least cost	<p>As detailed in Section 1, Invest NI commissioned an economic appraisal for the GLF. This outcomes of the appraisal process suggested that the level of funding committed by Invest NI and NILGOSC (i.e. £50m) represented the least cost necessary to deliver the forecasted activity levels.</p> <p>The contract for management of the GLF was publicly tendered and a scoring exercise was utilised to identify the most economically advantageous tender. As such, the Evaluation Team's is content that Invest NI has made appropriate effort to ensure that inputs have been obtained at least cost to NI.</p>
	Efficiency relates to measures that are concerned with achieving the maximum output from a given set of inputs	<p>Each individual loan approved through the GLF was subject to a stringent application and appraisal process. These processes sought to ensure that the overall Fund would be utilised for the maximum possible benefit to NI.</p> <p>The Economic Appraisal for the GLF did not calculate estimated economic benefits on the basis that (page 95) "<i>given the nature of the wider benefits (e.g. improved GVA, increased employment, increased innovation etc.), it is not possible to quantify these until the fund is operational as this will vary for each respective business. On this basis we are not in a position to establish a cost/output ratio at this stage</i>".</p> <p>Therefore it is not possible to compare whether the actual outputs are in line with those anticipated at the outset of the Fund. However, the monetary analysis undertaken as part of this Evaluation estimates that the loans disbursed up to July 2015 have resulted in actual net additional GVA of £44.7m and will ultimately result in <u>at least</u> £134.9m of net additional GVA across the seven-years under review (if a 20% default rate is realised) when actual and anticipated impacts are considered.</p> <p>The GLF activity up to July 2015 is estimated to result in a GVA return of at least £1.68 for every £1 of economic cost.</p> <p>In addition to the GVA leveraged by the investment in the GLF, there will also be positive financial returns to the fund manager and the private sector investor (albeit borne by the private sector recipient businesses). In the event that either the 8% or 12.5% default rates are achieved then it is anticipated that positive financial returns will also be generated by Invest NI.</p> <p>Therefore the GLF is considered to have delivered maximum GVA outputs from the inputs and therefore has offered cost efficiency.</p>
Effectiveness measures are concerned with showing the extent to which aims, objectives and targets of the project are being achieved	<p>At this stage, the majority of objectives for the GLF have either been achieved or are likely to be achieved by the end of the five-year investment period. Thus the effectiveness measure of VFM was achieved</p>	

Table 11.2: Summary of Value for Money for the GLF

VFM Indicator	Conclusion
Cost effectiveness	<p>Given the level of net additional GVA (i.e. £44,668,851) achieved up to December 2015 and the full economic costs (ranging from £26,097,572 to £26,667,359 across the three scenarios) across the same period, the GVA return-on-investment is at least £1.68 for every £1 invested¹⁹⁰.</p> <p>However this represents only an intermediate position of the ultimate impact of the loans disbursed up to and including July 2015. In agreement with Invest NI, in order to calculate a GVA return-on-investment figure for a seven –year period the Evaluation Team has added the actual net additional GVA (£44,668,851) to the ‘anticipated’ net additional GVA (£112,229,472 if an 8% default rate is achieved, £98,614,585 if a 12.5% default rate is achieved or £90,280,134 if a 20% default rate is realised), which equates to a total of £156,898,323 if an 8% default rate is achieved, £143,283,436 if a 12.5% default rate is achieved or £134,948,985 if a 20% default rate is realised.</p> <p>The full economic costs range from between £30,913,759 and £32,189,423 depending on which default rate is realised. As such, the 7-year GVA return on investment is estimated to be between £4.37 and £4.87 for every £1 invested.</p>
Economic Efficiency test results	<p>From a monetary perspective the analysis suggests that the GLF has <u>directly</u>:</p> <ul style="list-style-type: none"> • Contributed £44.7m in net additional GVA to the NI economy and has the potential to generate <u>at least</u> a further £90.3m between 2016/17 and 2018/19 (if the 20% default rate is realised), thereby resulting in total estimated net GVA of £134.9m across the seven-years considered; • Created 498 FTE job years across the 44-months to December 2015 with potential for <u>at least</u> 1,006 further FTE Job years to be generated between 2016/17 and 2018/19 (if the 20% default rate is realised). This equates to a total of 1,504 net FTE jobs years across the seven-year period. <p>The feedback from businesses also indicates that the support has assisted them to realise a number of non-monetary benefits including (but not limited to) increased competitiveness, entry into new geographic markets, introduction of new products or processes into the businesses and safeguarded employment.</p>

¹⁹⁰ Return-on-investment is based on actual outcomes derived to date i.e. excludes outturns anticipated to be derived by businesses in the future.

12. CONCLUSIONS & RECOMMENDATIONS

This Section details the Evaluations Team’s key conclusions and recommendations relating to each Fund.

12.1 Conclusions

12.1.1 Overarching Conclusion

Access to finance for SMEs is key to the recovery and long term growth of the NI economy. The principal providers of external finance within NI are the four main banks. Accordingly, the financial crisis was bound to have an impact on SME finance, as a consequence of the impact upon bank’s appetite/capacity for lending, the partial nationalisation of some banks, higher bank funding costs and the subsequent recession.

In this context, key questions that arise in relation to the introduction of the NISBLF and the GLF are whether the funds:

1. Helped improved access to finance for viable SMEs?
2. Whether the extra access to finance had a positive impact on recipients’ performance?
3. Whether or not the two schemes have adversely affected the marketplace (e.g. through poor loan monitoring, and subsequent high default rates. That is, the default rate is one of the conventional indicators of a loan scheme’s performance. A high default rate raises concerns about whether there are inefficiencies in the scheme that favour poor credit propositions but equally important it might be a signal that a subsidised scheme leads to more risk taking both on the part of businesses and the EDO (the moral hazard argument).

In relation to each, we consider that our evaluation has provided evidence that both the NISBLF and the GLF have had a positive impact, in that:

- Both funds helped to improve access to finance for viable and creditworthy businesses during a period of constrained private sector finance;
- The receipt of support through both funds has had a considerable (actual and projected) impact on the respective funds’ recipients’ businesses;
- Both funds appear to be managed by their respective EDOs in a very professional manner, with each loan application subject to rigorous assessment. The processes employed have helped ensure that the current (at January 2016) levels of default are reasonable given their respective target audiences, and available benchmarks.

12.1.2 Market Failure & Future Demand

We are of the view that market failure continues to exist in relation to the provision of debt and mezzanine finance within NI. However, whilst it exists, there is some evidence (e.g. EAG’s research) to indicate that it may not be at the level (either in terms of number or value of loans disbursed, rather than approved) that existed when both the NISBLF and GLF were approved. The key question therefore, in the Evaluation Team’s view, becomes one relating to the scale of demand, rather than the need for either fund.

We consider that in a growing (albeit slowly) economy, evidence of a supply constraint will inevitably diminish. Furthermore, we consider that the EAG’s research points towards a position where the scale of demand (in terms of number of loans disbursed) may be modest, and may suggest a position where syndicate deals, rather than standalone investments, may become more prevalent. Indeed, the stakeholder consultation findings have emphasised the complementary nature of the GLF in terms of providing unsecured mezzanine finance to address funding gaps in syndicated deals.

In relation to both Funds, we further consider that, all or other things being equal or held constant, the recent profile of demand for both loans funds may provide the best indication of likely future demand; albeit we recognise the concerns (see Section 5.2) of some strategic stakeholders relating to future levels of demand for the GLF.

However, it should be recognised that the previous conclusion has been made in the context of ‘all or other things being equal or held constant’. It may well be the case that any material change to the supply of debt finance to SMEs or change to the content or offering of either fund will have a material impact upon levels of demand.

Ultimately, therefore, should Economic Appraisals or other forms of approvals be required for either fund in the future, we consider that particular focus should be placed upon demand analysis (in the context of potential changing loan fund parameters), and all inherent risks fully documented.

12.1.3 Duplication and Complementarity

Analysis of the other access to finance products and initiatives offered in NI (both publicly-backed and those operated by the private sector) suggests that the NISBLF and GLF seek to address a unique market failure in the provision of risk debt capital to SMEs of up to £500,000 and have a minimal risk of duplicating other support. Indeed, the stakeholder consultation findings have emphasised the complementary nature of the GLF in terms of providing unsecured mezzanine finance to address funding gaps in syndicated deals.

12.1.4 Contribution to a Continuum of Finance

Both the NISBLF and the GLF are successfully operating as part of an overall continuum of access to finance for businesses with no distortion of the marketplace apparent. Both also have been evidenced to complement Invest NI’s portfolio of support for business, and also wider finance offerings available within the marketplace, including those offered by the private sector.

In particular, stakeholders highlighted through consultation that, going forward, there may be an increasing role for the GLF to provide a risk-component of funding to syndicated lending along with other funders such as banks, equity, venture capital, crowd-funding etc.

12.1.5 Fund Governance, Management and Reporting

Both DETI-commissioned reviews of the governance of the NISBLF and the GLF and our own review of materials and discussions with the respective EDOs indicate that both employ robust governance (e.g. from loan enquiry stage, assessment stage, through to disbursement, and ongoing monitoring) and management structures.

Our review of NISBLF loans in arrears and in default (see Table 2.9, Section 2.9) perhaps indicates that some loan applications may have been attributed a greater level of risk at the assessment stage, but even allowing for this little mitigation was perhaps available to the EDOs to reduce the level of default.

12.1.6 Fund Marketing and Promotion

Our review of materials provided and discussion with the respective EDOs indicate that both funds are promoted extensively and in a well-structured and targeted manner. In the absence of much larger budgets dedicated to marketing, we consider that the promotion of both funds is reasonably effective.

However, we note that businesses based in some council areas (e.g. the Belfast City Council area) are particularly over-represented in terms of the number of NISBLF loans approved, whilst those in others (e.g. the Fermanagh and Omagh area) are under-represented. This perhaps indicates a need for some specific focus to be placed on raising awareness amongst business in under-represented areas.

12.1.7 Fund Activity

Both funds experienced large numbers of enquiries upon launch. However, our discussions with both EDOs suggests a view that each fund’s respective Year 1s should not be considered representative of typical demand for the Fund. It was suggested that in the period before each Loan Fund’s launch, there had been a series of miscommunications within the NI marketplace as to the purpose of the loan fund, who would be eligible etc. In both EDOs’ opinion, this led, during Year 1, to a large quantity of both enquiries and applications to the Funds that were not considered to be either eligible or of a sufficient quality to progress. Both EDOs consider that more recent enquiry/application/approval activity is be more reflective of potential future levels of activity.

In terms of loans disbursed:

- For NISBLF, during the 34-month period to November 2015, 185 loans (93%) of the 199 approved had been disbursed. The loans were disbursed to 177 unique businesses, indicating a small level of repeat activity. The total funds disbursed were £3.9m, equating to an average loan disbursed of £21,118 across the three-years;
- For GLF, 76 loans were disbursed during the 43-month period to November which is equal to 58% (N=131) of the total loans approved at IC1. The total funds disbursed were £23.4m equating to an average loan disbursed of £307,697 across the 43-month period. The 76 loans were disbursed to 68 unique businesses.

12.1.8 Achievement of objectives

Across both loans funds, almost all aims and objectives have been achieved, with the exception of the number of loans disbursed.

12.1.9 Financial Net Cost of the Funds

Determining the financial cost of each of the two funds at an interim juncture is both complex and in all likelihood inexact. The key reason for this for both funds is that the ultimate level and timings of any default on loans disbursed cannot be known until the full investment period of those loans disbursed has lapsed. In addition, in specific relation to the GLF, the level of default realised has a material impact upon the monies returned to the private sector investor (NILGOSC). The tables below illustrate the potential financial cost of each fund to Invest NI under a range of default scenarios (selected as being pertinent to the individual funds).

For the NISBLF, depending on whether a default rate of 7.5%, 15% or 23% is realised for those loans disbursed up to July 2015, we estimate that the financial cost to Invest NI could range from between £0.67m and £1.29m.

Table 12.1: Income/ (Costs) Associated with the NISBLF				
Income and Cost Categories		7.5% Default (£)	15% Default (£)	23% Default (£)
Invest NI Investment		£3,398,433	£3,398,433	£3,398,433
Invest NI Costs	Invest NI Staff Costs	£209,839	£209,839	£209,839
	Legal Costs	£13,860	£13,860	£13,860
	Interim Evaluation	£24,900	£24,900	£24,900
Fund Management	Fund Management Fees	£1,079,956	£1,079,956	£1,079,956
	Fund Management Bonus	£74,630	£23,419	£0
Projected Funds Available for Recycling and/ or Ultimately for Distribution to Invest NI		£2,974,477	£2,690,900	£2,357,210
Direct Cost to Invest NI (i.e. Invest NI investment, plus Invest NI costs, minus funds available for recycling)		(£672,555)	(£956,131)	(£1,289,822)

For the GLF, depending on whether a default rate of 8%, 12.5% or 20% is realised for those loans disbursed up to July 2015, we estimate that Invest NI could make a return in excess of its investment of between £0.6m and £1.7m under the 8%-12.5% default scenarios. In a situation where default increase to 20%, the analysis indicates that there may be a resulting net financial cost to Invest NI of £1.4m.

Table 12.2: Summary of Distribution of Net Returns Associated with the GLF

		8% Default (£)	12.5% Default (£)	20% Default (£)
Finance Introduced	Invest NI	(£10,930,000)	(£10,930,000)	(£10,930,000)
	Private Sector Partner	(£10,930,000)	(£10,930,000)	(£10,930,000)
	Sub-Total	(£21,860,000)	(£21,860,000)	(£21,860,000)
Returns to Fund		£30,188,938	£28,726,865	£26,290,075
Net Return		£8,328,938	£6,866,865	£4,430,075
Net Return distributed as:	Fund Management	£4,948,244	£4,451,275	£3,866,355
	Private Sector Partner	£1,720,198	£1,814,196	£1,990,840
	Invest NI	£1,660,496	£601,395	(£1,427,120)
	Total	£8,328,938	£6,866,866	£4,430,075

As discussed within Section 3.7, whilst this evidently does not reflect a fully accurate depiction of the ‘actual’ position, discussion and agreement with Invest NI indicates that the resultant final financial position (assumed actual position plus projected outturn) under each of the default scenarios should be considered to represent ‘best estimate projections only’ and, ultimately, the likelihood of a divergence in projected outcomes should be understood. That is, at any point in time, any projected position relating to the GLF could be influenced by a large number of complex factors (and not only the level and timing of defaults), which interact with one another in different manners and so create a myriad of potential outturns that affect the quantum, and timing, of cash flow movements. Such factors include the following:

- **Default rates** – Variation in default rates impacts upon the returns to the Fund and distributions to each of the partners (as illustrated from the scenarios within this section);
- **Timings between drawdown of capital investment and distribution of loans** – Drawdowns of funding from the public and private sector partners are undertaken on a quarterly basis by the Fund Manager based on loans approved which are anticipated to be disbursed. However, where there are delays between loan approval and loan disbursement, additional interest is earned by the private sector, which correspondingly results in a decrease in Invest NI’s return and the bonus payable to the Fund Manager.
- **Timing of receipt of profit share** – Delays in receipt of profit share from investee businesses results in delays in distributing preferred returns to the private sector partner. This ultimately generates more interest for the private partner to increase its return on its investment, and decrease the return to Invest NI (and the corresponding bonus paid to the Fund Manager).
- **Liquidity of profit share** – The facility letter for GLF loans stipulates that the borrower grants the lender an option to subscribe at par (i.e. on a £1 = £1 basis) for a number of ordinary shares in the business. In the event that a proportion of profit share repayments are converted to share capital, this will impact upon the liquidity of the returns, and the timings of when these shares may result in cash distributions to Invest NI.

12.1.10 Applicants’ Satisfaction With, and Views of, the Funds

Key points to note include:

- On an overall basis, recipient businesses were satisfied with the support provided through, and the terms of conditions of, the NISBLF and GLF.
- NISBLF and GLF recipients expressed satisfaction with all aspects of the lending process including the guidance and communication from the Fund Manager both during and following the application process, the level of detail required by the Fund Manager and the length of time taken to process their application.

- Whilst the majority of businesses indicated that they were satisfied with the interest rates (particularly in light of the loan being unsecured) and repayment terms that were applied to their NISBLF and GLF loans, a number of businesses expressed some dissatisfaction with these aspects. In particular, a number of businesses expressed a preference for greater flexibility in the duration of the loan terms under GLF, repayment start dates and reduced penalties for early repayment.
- Positively, almost all (95%, N=109) recipients of loans through the NISBLF and GLF would recommend the Funds to other businesses.

12.1.11 Impact of the NISBLF

Across the population of businesses that received a NISBLF up to July 2015, we estimate that:

- There has been actual sales increase of c£26.5m during the 35-month period up to December 2015. However, depending upon which projection and default scenario is utilised it is forecast to increase to between £68.9m and £157.2m by 2018/19, of which 15% is anticipated to be in export markets;
- Allowing for deadweight of 40.4% and potential displacement of 22.4%, we estimate that:
 - £3.7m of net additional GVA has been created across the 35-month period to December 2015. However, depending upon which projection and default scenario is utilised it is forecast to increase to between £9.6m and £21.8m by 2018/19.
 - 144 net additional FTE jobs or 259 net additional jobs years (when the period of time by which each job has been in existence is considered) have been created as a result of the NISBLF activity up to 2015/16. However, depending upon which projection and default scenario is utilised it is forecast to increase to between 619 and 1,516 net additional FTE Job Years across the six-year period to 2018/19.
- We estimate that for every £1 of investment up to July 2015 (£3,709,547) there was £0.99 of net additional GVA generated. Depending upon which scenario related to projected growth of recipients and likely level of defaults is considered, it is estimated that:
 - Under the ambitious scenario, a net additional GVA return on investment of between £4.20 and £4.71 for every £1 invested will be achieved by the end of the 6-year period 2014/19; or
 - During the same period of time, a net additional GVA return on investment of between £2.14 and £2.32 for every £1 invested will be achieved by NISBLF recipients under the prudent scenario.
- Other key benefits or unexpected impacts/benefits achieved cited by recipients as a result of received a NISBLF loan include:
 - An impact on their business' survival (48% of respondents, N=63);
 - Safeguarding employment (33%, N=63);
 - Their business becoming more competitive (32%, N=63); and
 - The introduction of new products or processes the business (48%, N=63).

12.1.12 Impact of the GLF

Across the population of businesses that received a GLF up to July 2015, we estimate that:

- There has been actual sales increase of c£291.4m up to December 2015. However, depending upon which default scenario is utilised it is forecast to increase to between £880.3m and £1.023.5m by 2018/19, of which 32% is anticipated to be in export markets;
- Allowing for deadweight of 43.6% and potential displacement of 9%, we estimate that the GLF has created:

- £44.7m of net additional GVA has been created across the 44-month period to December 2015. However, depending upon which default scenario is utilised it is forecast to increase to between £134.9m and £156.9m by 2018/19.
- 301 net additional FTE jobs or 498 net additional jobs years (when the period of time by which each job has been in existence is considered) have been created as a result of the GLF activity up to December 2015. However, depending upon which default scenario is utilised it is forecast to increase to between 1,504 and 1,642 net additional FTE Job Years across the seven-year period to 2018/19.
- We estimate that for every £1 of investment up to July 2015 (ranging from £26,097,572 to £26,667,359 depending which default scenario is realised) there was between £1.68 and £1.71 of net additional GVA generated during the 44-month period to December 2015. Depending upon which projected default scenario is considered, we estimate that a net additional GVA return on investment of between £4.37 and £4.87 for every £1 invested will be achieved by the end of the 7-year period 2013/19.
- Other key benefits or unexpected impacts/benefits achieved cited by recipients as a result of received a GLF loan include:
 - Their business becoming more competitive (40% of respondents, N=41);
 - Facilitated entry into new geographic markets (38% of respondents, N=41);
 - The introduction of new products or processes the business (35%, N=41);
 - Safeguarding employment (33%, N=41).

12.1.13 Wider Impacts

The NISBLF, in particular, has supported a diverse portfolio of businesses including many operated by individuals that were previously economically inactive, and has thus contributed to government objectives to raise economic activity rates particularly amongst economically disadvantaged individuals or those that reside in NRAs.

12.1.14 Loan Fund Features

In relation to the NISBLF, our analysis of feedback from loan fund recipients, strategic stakeholders, the EDO, Invest NI and our own review of the Fund alongside benchmark products suggests that little, if any change, is required for the NISBLF. Its operation, structure and composition appears to be fit for purpose, and all signals indicate that the loan fund would continue to operate successfully without any material change.

One change that could be considered for the NISBLF would be to increase the cap on its lending ceiling to c£100,000 (in our view, likely to apply to only a small number of loans on an annual basis). Whilst the GLF can offer loans between £50,000 and £100,000, few of its loans (either approved or disbursed) are in that space. Some strategic stakeholders were of the view that there may be more commonality between the types of businesses that are seeking loans in that range and those that typically seek a NISBLF loan, rather than those that are increasingly seeking GLF loans (where the average value of loans disbursed is increasing). Discussion with the GLF's EDO indicates that such the quantum of work and due diligence associated with such loans is greater than many loans of larger values, as a result of weaker management teams and/or processes. It could be argued that the NISBLF Fund Manager has greater experience of working with such businesses. However, it is likely that a more rigorous assessment may need to be introduced into the NISBLF for loans for loans of this type/level.

In relation to the GLF, we consider that whilst broadly operating in an appropriate manner (including its growing role in syndicated deals), a number of changes could be considered in relation to its structure and mechanics. These include:

- A review of the interest rates applied, with a view to their being reduced, but maintaining a margin above any prevailing market rates. Feedback from some stakeholders had indicated that the interest rate/APR applied may be greater than what would currently be expected in the marketplace.
- Allow greater flexibility relating to the structure of individual deals, such as in relation to:
 - The loan terms;
 - The ability to make bullet repayments;
 - The ability to reinvest recouped monies etc.

We note that the introduction of such flexibility might alleviate, to some extent, the risk relating to demand for this fund declining below a point where a private sector investor may no longer see the fund as an attractive proposition.

- Given its evident success (certainly at January 2016) and the likely returns to the private sector, consideration should be given to Invest NI contributing a smaller proportion of any future GLF than its present 50% stake.

12.2 Recommendations

As illustrated throughout this report, both the NISBLF and the GLF have arguably been operating with considerable success, albeit some small changes in both may enhance their management, administration and operations further. For this reason, the Evaluation Team has made only a small number of recommendations. Please note that our recommendations are made in the context of any potential future iteration of the Funds, unless otherwise stated, given that both are presently subject to legally binding contracts with their respective Fund Managers, and in the case of the GLF, with a private sector investor.

Our recommendations are as follows:

Recommendations Applicable to both Funds

1. In the context of continuing market failure, Invest NI should continue to support measures that facilitate access to debt finance for suitable businesses.
2. Aims, objectives and targets should be reconsidered and be more specific to the individual funds. Given the variability that might exist in relation to a fund such as the GLF, the specific targets should be recast upon the acceptance and agreement of any tender submission. The types of specific targets that we consider should be adopted for each fund include;

NISBLF	<ol style="list-style-type: none"> 1. The total quantity of capital that will be disbursed (including any recycled element) over the loan fund period; 2. The maximum allowable levels of default; 3. The anticipated monies that would be returned to Invest NI.
GLF	<ol style="list-style-type: none"> 4. The total quantity of capital that will be disbursed over the loan fund period; 5. The minimum number of loans that should be disbursed per annum (NB If the targets are set as a range, this would be the lower end of the range); 6. The maximum allowable levels of default; 7. The anticipated monies that would be returned to Invest NI and other investors.

Recommendations Specifically Applicable to the NISBLF

3. We consider that within the remaining NISBLF contract period, some targeted promotional activity should be undertaken:
 - i. In those council areas where activity levels are below what should be expected given the quantum of businesses located therein.
 - ii. Amongst banks across NI, to ensure that their staff that engage with small businesses are aware of the loan fund, and when it might be appropriate to refer their clients/businesses to it.
4. Whilst loan applicants complete 'Equal Opportunities Monitoring Forms', which are then held on file, no aggregated analysis of their content is undertaken. It would be beneficial for the captured equality data to be analysed appropriately, and thus provide specific assurance that there are no particular issues in relation to uptake.
5. One change that could be considered for the NISBLF would be to increase the cap on its lending ceiling to c£100,000 (in our view, likely to apply to only a small number of loans on an annual basis). However, it is likely that a more rigorous assessment may need to be introduced into the NISBLF for loans of this type/level.

Recommendations Specifically Applicable to the GLF

6. The GLF evidently has potential to provide strong financial returns, not only to the private sector investor, but also to Invest NI, if default rates are managed appropriately. In this context, and in the creation of a context in which Invest NI could use such information to promote the strength of the GLF to the financial investment marketplace, consideration should be given to Invest NI investing a lesser proportion than its existing 50% stake in any future iteration of the GLF. This could be achieved by encouraging tenderers to feature investment as part of their submission or seeking partners that will invest more than the existing 50% position. In either case, Invest NI would need to be mindful of the revised 2014 GBER that caps subordination at 25%. Robust financial analysis and scenario planning would need to be undertaken to assess the likely outturns under different levels of private sector investment;
7. Invest NI should take steps to encourage further mezzanine funders to consider being active within the NI marketplace. Again, the success of the GLF should provide a suitable launchpad for such communication;
8. Given that the marketplace is becoming, albeit perhaps slowly, more buoyant, and traditional lenders are becoming more active, the GLF's role in syndicated deals should be encouraged and showcased to other suitable players in the 'access to finance' marketplace;
9. A number of changes that could be considered within the Economic Appraisal for any future iteration of the GLF's structure and mechanics include:
 - i. Review the interest rates applied, with a view to them being reduced, but maintaining a margin above any prevailing market rates. Feedback from some stakeholders had indicated that the interest rate/APR applied may be greater than what would currently be expected in the marketplace¹⁹¹.
 - ii. Allow greater flexibility relating to the structure of individual deals, such as in relation to:
 - Allow recipients to make 'bullet repayments';

¹⁹¹ The Evaluation Team recognises that the interest rate applied is influenced by a large number of factors. The GLF currently has a cost of private funds of 7%. If a new iteration targets <50% subordination, this may have resulting impacts on the future cost of funds, and potential private sector partners would need to be able to take sufficient comfort from the performance of the current GLF. The potential influence of these interrelated factors should be examined in any future Economic Appraisal, with a view to creating a Terms of Reference that would seek to secure the best possible return for the public monies invested, and to reduce the extent of market failure.

- Allow the Fund to recycle loan monies which are repaid ahead of term, albeit on the condition that the recycled loan was fully repayable within the 10-year term; and related to this suggestion
 - Allow the Fund to offer loan terms of less than 60-months, which it was suggested would broaden the target market.
- iii. Fund size and loan amounts. Whilst the number of GLF loans disbursed has not been in line with targets, the average size of GLF disbursed has increased. Augmenting the mechanics/structure of the loan fund could affect the number and average size of loans disbursed and also the scale of loan fund needed (in relation to this a target range for the number of loans disbursed may be more appropriate than a singular target). Furthermore, we have recommended reviewing the monetary range within which the NISBLF operates. Should any change be made within that loan fund, there may be a natural requirement to reconsider the range within which the GLF operates.