Cornwall and Isles of Scilly Investment Fund - Early Assessment Report

RESEARCH REPORT

A report from SQW Ltd

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Contents

Executive Summary

SQW, supported by the Centre for Enterprise and Economic Development Research (CEEDR) at Middlesex University, Belmana and BMG Research, has been commissioned by the British Business Bank (the Bank) to evaluate the Investment Funds across the Northern Powerhouse, Midlands Engine, and Cornwall and Isles of Scilly. This report covers the early assessment of the Cornwall and Isles of Scilly (CIoSIF) which took place between January and March 2020.

The focus of this **early assessment** is on the processes (i.e. the customer journey, how effectively the Fund is being delivered, and how this can be improved), as well as emerging intermediate outputs/outcomes for participating businesses, and the impact on the wider finance ecosystem[1]. The evidence presented draws on an analysis of monitoring and contextual data, in-depth consultations with management, governance, delivery partners and external stakeholders, surveys with beneficiaries and non-beneficiaries[2], and a case study with one business.

An interim evaluation of CIoSIF is planned for 2022/2023, where the emphasis will be on net impacts achieved (for beneficiaries and the wider ecosystem) and value for money.

Introducing the Cornwall and Isles of Scilly Investment Fund

The CIoSIF was formally launched in June 2018, in response to well-documented and longstanding challenges around access to finance (see box below) and Gross Value Added (GVA) per capita, productivity[3] and enterprise rates in the Cornwall and Isles of Scilly (CIoS) geography that are consistently below the UK average.

Supply- and demand-side market failures

Across the CIoS geography, there are various supply and demand-side challenges that combine to create a “thin market” for finance. On the supply-side, a number of challenges are faced across the CIoS geography. For debt finance, there is a funding gap for early stage SMEs that lack collateral or a track record, making it difficult to access finance to scale-up. The CIoS area has a particularly weak private sector funding landscape, with an under-developed equity ecosystem and network of providers/advisors. The geography also suffers from a lack of understanding and awareness of potential equity investment opportunities. Past regionally focused equity funds have performed poorly owing to key issues such as fund structure, fund management agreements and objectives of the funds. On the demand-side, information failures mean that SMEs lack

[1] It follows the development of a detailed methodology paper and logic models for the Funds, which has been peer reviewed
[2] Unsuccessful and withdrawn applicants
[3] GVA per hour worked

awareness of potential funding sources, ways to access finance and their likely success, and poor investment readiness inhibit SMEs from presenting their propositions to best effect.

These challenges were reflected in statistics at the time CIoS was developed (and in most recent data), underpinning its rationale:

- Analysis by Blue Sky (2016) on access to finance needs of businesses in the CIoS geography identified a gap in start-up, early stage and development capital[4].
- A PwC (2014) report on financial instruments for SMEs identified c.200-600 high growth businesses had been unable to obtain finance from traditional sources; demand from these high growth businesses[5] was estimated to be in the region of £15-30 million. The report identified potential demand in the CIoS area from all areas (high growth, micro, equity and mezzanine amongst others) to be approximately £61-91million over a seven-year ERDF funding period (2014-2020)[6].
- The Bank's Small Business Equity Tracker 2015-16 showed that 8% of the UK's high growth firms were located in South West, whilst the percentage of UK deals completed in that area was 5%[7]. The latest data shows a similar story, in that 8% of the UK's high growth firms were located in South West, but the region accounted for 4% of UK equity deals only[8].
- The proportion of Growth Accelerator clients (April 2012 to March 2015) reporting finance as a barrier to growth in the CIoS LEP area was considerably higher than the English average and is highest out of all LEP areas[9].
- Evidence suggests the value of equity investment in CIoS is significantly lower than would be expected for the size of the economy and the proportion of high growth businesses in the area. Approximately 1% of all UK private sector businesses are located in CIoS, whereas only 0.1% of UK equity investments by value occur in the geography[10].
- There are no fund managers with a Head office located in Cornwall. Evidence suggests fund managers tend to make more investments closer to their office location, which is likely to constrain the amount of equity finance available to

[4]https://www.cioslep.com/assets/file/Cornwall%20and%20Isles%20of%20Scilly%20LEP%20Investment%20Strategy%20for%20Financial%20Instruments.pdf

[5] High growth businesses are defined here as those with 20%+ annual growth over 3 years.

[6]https://www.cioslep.com/assets/file/EU%20Investment%20Strategy/CIoS%20FI%20PWC%20FINAL%20REPORT.pdf

[7] https://www.british-business-bank.co.uk/wp-content/uploads/2015/03/050315-Equity-tracker-FINAL.pdf

[8] https://www.british-business-bank.co.uk/wp-content/uploads/2019/06/Small-Business-Equity-Tracker-2019.pdf

[9] Note, not representative of the wider business population.
http://www.enterpriseresearch.ac.uk/wp-content/uploads/2015/06/2015-UK-Growth-Dashboard-Report.pdf

[10] BBB analysis sourced from CIoS Business Case (2017)

businesses in Cornwall, especially given relatively wide dispersion of businesses across the region (limited regional clustering) and poor transport links[11].

The Fund is designed to increase the supply of debt and equity finance to SMEs located in the CIoSIF area, enable recipient businesses to grow and innovate, and create sustainable financial ecosystems across the area. CIoSIF draws on funding from the Bank and European Structural and Investment Funds (ESIF)/European Regional Development Funds (ERDF) committed by each LEP in addition to public/private match funding to the sum of £40 million. The CIoSIF is overseen by the Bank in close partnership with the LEP, and delivered through a contracted fund manager who is tasked with targeting funding towards 'innovative companies which are likely to deliver the most spillover benefits to the wider Cornwall area'. It offers two types of finance:

- **debt finance** (loans from £25,000-£1 million), and
- **early-stage and later-stage equity** (from £50,000-£2 million).

There will be a 5-year investment period, followed by a 3-year realisation and repayment period (with the option to extend to 5 years). In addition, the fund manager can provide "non-financial" support to a small number of potential applicants, comprising up to 12 hours of advice to assist in the development of business plans or strategy.

Findings

Rationale and design

The early evidence from the stakeholder consultations and business surveys indicates that **the original rationale for CIoSIF was robust and remains relevant.** Banks are perceived as risk averse, especially for businesses lacking a track record and/or collateral. Equity markets are particularly weak, with few active VCs and angel investors based in, or investing in, Cornwall. Geographical remoteness – and the associated lack of critical mass of opportunities - is a major barrier to the supply of equity in Cornwall. There are also considerable challenges on the demand-side, with a perceived lack of appetite for external/private investment, driven in part by lack of ambition and confidence to grow amongst many businesses, and a lack of awareness and understanding of external finance options.

In response to these challenges, the CIoSIF increases the supply of finance for viable SMEs with growth potential across a range of early to established businesses in the form of debt and equity. This should stimulate private investment locally, whereby investors would be more likely to invest if CIoSIF shares the risk and/or demonstrates the potential growth opportunities in the area.

[11] Figures from Preqin based on Head Office address, sourced from CIoS Business Case

The feedback from consultees was very supportive of the Fund's design and its contribution to meeting objectives.

- CIoSIF has a good balance between loans and equity at present. The number of debt investments was higher, but demand for equity was considered to be growing strongly.
- The geographical focus was deemed critical by all consultees, as opposed to a national programme, given the peripheral location and distance from urban centres of many parts of Cornwall and the Isles of Scilly. The Fund was a proactive way of levelling up access to finance nationally.
- Providing well networked and connected fund managers locally is seen by stakeholders as an important characteristic of the Fund, to ensure the Fund addresses the needs of local SMEs and levers local and/or national finance.
- The long-term approach adopted by CIoSIF was seen as a key strength of the programme by stakeholders. Consultees stressed the importance of the long-term sustainability of the Fund. Without this, the experience and capacity built up could ebb away again before it is able to build momentum.

Objectives

The ultimate objective for the regional programmes is to increase economic growth in line with the Government's wider objective for all business support and access to finance programmes. The Fund aims to achieve this by improving access to finance enabling businesses to start up, invest and grow more rapidly. Logic models in Annex A set out the ways in which the Funds are expected to generate outcomes and impacts. This section considers the evidence in relation to the main outcome indicators.

Increasing the supply of finance to viable businesses that would otherwise have problems raising finance

The first investment by CIoSIF was in December 2018. One year later, by the end of December 2019, the CIoSIF fund manager had received a total of 440 enquiries and 53 applications from SMEs. From these, CIoSIF made 17 investments with a total value of £3.68 million. The level of demand has been relatively consistent, with a good distribution of cumulative enquiries across debt and equity. However, these figures were lower than the interim targets (see below).

The CIoSIF funding was considered additional, in some form, by six of the eight survey respondents. In most cases the funding has accelerated access to finance. There was no notable difference in additionality between finance type, although the survey sample was small. CIoISF has played an important role in enabling businesses to secure match/co-funding. Six of the eight beneficiaries interviewed had received other funding alongside CIoSIF and all considered the Fund to have helped in securing it.

Improving the performance of recipient businesses, particularly in terms of research/innovation, competitiveness and productivity (ESIF and HM Government objectives)

The early evidence is encouraging in terms of the Fund's influence on R&D investment, new product development and skills development, all of which will improve productivity. For example:

- All but one of the businesses reported raising skills levels in their workforces
- Five businesses have made additional investment in R&D (four of these were equity businesses)
- Six businesses have developed new products and services
- Four businesses have introduced more efficient processes.

These outcomes are also having a positive impact on the economic performance of the businesses involved:

- The Fund has increased employment in all eight of the businesses surveyed. Across the eight firms who reported additional employment, a total of 42 additional jobs were reported (15 through debt and 27 equity).
- It is creating high quality jobs. The profile of wages matches the pattern of UK income, with a quarter of the jobs created paying wages or salaries in the top quartile of income, and half paid more than the UK median income (£23,200).
- There are significant effects on productivity and sales, driven by the outcomes above, while the effect on profitability is lower.

Six of the eight survey respondents reported outcome additionality, of which half stated that outcomes have been accelerated and half argued that outcomes would not have happened at all without CIoSIF.

Increasing awareness of finance options amongst SMEs in target area, and greater confidence in their ability to raise private finance

Participation in CIoSIF has a strong positive effect on businesses' confidence both for debt and equity beneficiaries (85% reported that the funding has led to greater confidence in their ability to raise funding from private sector sources in the future) – an important part of changing attitudes and developing the market.

Consultees felt that it was too early to judge whether CIoSIF has impacted upon the wider finance ecosystem. However, early signs are encouraging, with some evidence of improved financial knowledge and awareness amongst businesses (especially in relation to equity), and activities to strengthen financial networks, raise awareness of investment opportunities in Cornwall, and improve intermediaries' knowledge of alternative sources of finance to better advise their businesses. Looking forward, consultees believed the Fund has scope to attract new finance providers into Cornwall and the Isles of Scilly in the longer-term.

What is working well and what could be improved?

Setting up and delivering the Funds has worked well, particularly given the range of partners and the uncertain landscape for investing. An early change in the fund management team was also considered to have had a beneficial effect. The main findings are:

- **Businesses' feedback on their customer journey was very positive**, particularly in relation to marketing and promotion of the Fund, and communication with the fund manager throughout the process. There appears to be good awareness of the Fund amongst intermediaries and the wider business base.
- **The fund manager adds considerable value** in ensuring the right type of finance is secured by business, assessing (and where necessary challenging) business plans and assumptions, encouraging businesses to reflect and refine/strengthen their proposals and ensure CIoSIF finance is invested appropriately. An early change in the fund manager team has helped add value. They are considered to be well networked and have played an important role in sourcing other private sector co-funding. The fund manager tracks progress closely once finance is awarded, providing support and signposting where needed to ensure growth plans are realised. They are actively involved in equity investments through their role as board observer and providing support to strengthen business/financial management.
- **Management and governance processes appear to be working well**. Representation on the Advisory Board was considered appropriate, although there is scope for more collaborative dialogue with the fund manager. The Fund is overseen by the British Business Bank, with a locally-based relationship manager based in Cornwall. Views on the visibility of the Bank locally were mixed, with some consultees suggesting they could take a more prominent role in promotion.

Feedback on the delivery of CIoSIF has also been positive. However, there were a number of implementation challenges identified in the consultations:

- Several external stakeholders would like the fund manager to adopt **greater risk appetite**. Balancing the original rationale to finance high risk propositions with the need to provide a return on the investments (and a bank of "success stories") is an inherent challenge with a programme of this kind. Among some stakeholders, there was a view that the Fund could take more risk.
- There is a perceived **gap in proof of concept and commercialisation finance for pre-revenue/start-up businesses**. This was particularly important given Cornwall's growing sectoral strengths in digital/software, marine, cleantech and renewables which would benefit from a local seed, hands-on VC presence.
- **The debt fund is considered to be expensive**, which has deterred some potential applicants. Whilst CIoSIF is designed to be a gap fund of last resort with small businesses having been turned down by a commercial lender, some consultees felt debt funding was more likely to be used for later-stage growth/scale-up, which some consultees felt may accelerate funding rather than

it being entirely additional. Several stakeholders would like to see more flexibility in the interest rate structure.

There were also 3 “generic challenges” set by the environment in which CIoSIF operates:

- The most significant challenge raised by all the consultees is the limited **financial knowledge and awareness across the business base**, which requires substantial “education of the market”. It also requires intermediaries to help change perceptions amongst businesses. Because of these demand-side issues, stakeholders expressed concern that the low up-take of CIoSIF to date under-represents the actual requirements for finance in the area.
- **The availability of smaller-scale grants** (over many years) is also believed to have reduced demand for smaller debt, which has impacted on the performance of CIoSIF.
- **The importance of building SME leadership capacity** was also noted. This relates to the issues raised above about local business ambition and business skills, which need to be addressed alongside the increase in the supply of finance through the Fund.

Final reflections

At the time of the evaluation, it has only been one year since the first CIoSIF investment and too early to draw clear conclusions. In that time the Fund has provided finance to 17 businesses and provided informal support to develop investment propositions to many more businesses by this stage. It had also successfully engaged with the LEP and intermediaries and built good awareness across Cornwall and the Isles of Scilly.

The design and delivery of the Fund were generally seen as appropriate given the scale and nature of the challenge the Fund is seeking to address, particularly in terms of its geographical focus. At this stage it is too early to assess the portfolio of investments but there was feedback that the Fund should be prepared to raise its risk profile and to invest in businesses that would not otherwise find funding.

Whilst CIoSIF focuses on addressing supply-side issues, the evaluation also highlighted considerable demand-side challenges relating to financial knowledge and levels of awareness of external funding. For the Fund to maximise its potential there needs to be the ambition to drive demand for finance. It also needs the business leadership skills to translate this finance into growth, productivity and income for the region. These factors will impact on the performance of the Fund over its lifetime.

Despite these challenges, the evaluation points to strong evidence on the benefits for those involved. It has enabled businesses to invest in activities that will directly improve their productivity: skills, R&D, new products, services and processes. This has now started to translate into additional sales and good quality employment. Without the Funds, most businesses report that projects would have been delayed or not happened at all, which is a significant achievement in a context of considerable investment uncertainty.

The interim evaluation will provide further evidence of the Funds' progress and performance in 2022/23 with new surveys and a clearer picture of how CIoSIF has influenced businesses and the wider finance eco-system.

1. Introduction

SQW, supported by the Centre for Enterprise and Economic Development Research (CEEDR) at Middlesex University, Belmana and BMG Research, has been commissioned by the British Business Bank (the Bank) to evaluate the Investment Funds across the Northern Powerhouse, Midlands Engine, and Cornwall and Isles of Scilly. This report covers the early assessment of the Cornwall and Isles of Scilly Investment Fund (CIoSIF) which took place between January and March 2020.

- the focus of this **early assessment** is on the processes (i.e. the customer journey, how effectively the Funds are being delivered, and how this can be improved), as well as emerging intermediate outputs/outcomes for participating businesses, and the impact on the wider finance ecosystem
- an **interim evaluation** of CIoSIF is planned for 2022/2023. The emphasis of this stage will be on net impacts achieved (for beneficiaries and the wider ecosystem) and value for money.

Programme overview

The CIoSIF originated with the Cornwall's Devolution Deal agreed with the Government in July 2015 and was formally launched in June 2018, with first investments made in December 2018. The Fund is designed to increase the supply of debt and equity finance to SMEs located in the Cornwall and Isles of Scilly (CIoS) area, enable recipient businesses to grow and innovate, and create sustainable financial ecosystems across the CIoS region.

CIoSIF has a total Fund value of £40 million. This draws on £32 million funding from European Regional Development Funds (ERDF) in addition to European Structural Investment Fund (ESIF) LEP allocation match funding to the sum of £8 million. The CIoSIF is a "fund of funds", overseen by the Bank in close partnership with the LEP, and delivered through a contracted fund manager who is tasked with targeting funding towards 'innovative companies which are likely to deliver the most spillover benefits to the wider Cornwall area'[12]. The appointed fund manager is FSE Group. FSE provides debt and equity funding solutions for SMEs predominately across the Midlands and the South. Although FSE had no experience of managing a fund in the region prior to CIoSIF, they are working in partnership with the South West Investment Group (SWIG), who have an established presence in the region with a long history of managing debt funds in the CIoS area. SWIG is delivering the smaller business loans (up to £200-£250k) as part of the debt finance allocation.

In the CIoSIF area the Fund offers:

- **debt finance** (loans from £25,000-£1 million), and
- **early-stage and later-stage equity** (from £50,000-£2 million).

[12] CIoSIF Business Case

There will be a 5-year investment period, followed by a 3-year realisation and repayment period (with the option to extend to 5 years). In addition, the fund manager can provide “non-financial” support to a small number of potential applicants comprising up to 12 hours of advice to assist in the development of business plans or strategy.

Rationale and context

The table below provides an overview of the finance challenges faced across Cornwall and the Isles of Scilly that informed the rationale for CIoSIF.

	Challenges across the CIoS area
Economic context	• GVA per capita, productivity[13] and enterprise rates consistently below the UK average – long term challenges • Higher than UK average proportion of high growth firms, but the stock of high growth firms is relatively small • Access to finance identified as a significant barrier to business development and growth in the regions
Existence of market failures at the regional level	Supply-side market failures: • Information failures: o Lack of awareness of potential investment opportunities outside of London and the South East. This leads to a weak private sector finance landscape, with local, regional and devolved Government funds disproportionately represented o Due diligence costs comparatively high for smaller equity deals. o Relative lack of collateral or track record amongst some SMEs may impact on viability of attaining finance • Private sector investors cannot capture market and knowledge spill overs – social benefit is greater than private – leading to overall under-investment • Externality effects lead to strong clusters in London and the South East which restrict clusters developing in other parts of the country. Demand-side market failures: • Information failures: SMEs lack awareness of potential funding sources and ways to access finance, and their likely success • Investment readiness: SMEs not able to present propositions to best effect

[13] GVA per hour worked

	Supply-side and demand-side factors combine to form issues of a 'thin market' where markets work less effectively due to smaller number of providers and current deal activity. Lower business density and poorer transport infrastructure, combined with lower awareness of complex debt and equity investments, which then increase the transaction costs of undertaking deals in these areas.
Specific debt and equity issues	Debt issues: • These failures lead to a microfinance funding gap for early stage SMEs in the CIoS area, without collateral or track record • These information failures also lead to established companies not being able to raise finance to scale-up Equity issues: • Demand and supply-side asymmetries, leading to equity funding gap for businesses looking for relatively small amounts of finance • Under-representation of equity investments and relatively underdeveloped equity ecosystem • Less developed networks of equity finance providers and advisors • Particularly weak private sector equity funding landscape, leading to greater reliance on debt finance than businesses in London/the South East and lack of awareness of equity finance

Programme objectives

The ultimate objective for the Fund is to increase economic growth in line with the Government's wider objective for all business support and access to finance programmes. Economic growth is not a specific target for the Bank but an outcome from the Bank meeting its own objectives of increasing external finance where markets don't work well. The regional funds (including CIoSIF) contribute to the Bank's objectives by addressing the specific market issues and market failures that affect debt and equity markets in these areas (as described above).

Each type of finance is expected to deliver a different route to the overall objective of economic growth:

- **Early and later stage debt finance** is aimed at supporting both young business and more established businesses that may be capital constrained from mainstream lenders due to a lack of collateral, lack of credit history/trading history and/or being outside of a bank's defined assessment categories to scale up and to grow. The businesses will contribute to economic growth by increasing GVA, employing more people and by improving productivity.
- **Early and later stage equity finance** provides access to capital for innovative High Growth Firms (HGFs) that are too high risk to be supported by debt finance

due to their risk profile, lack of collateral and unstable cashflows. Equity finance provides access to capital in order to fund growth, but also brings significant additional management capability through investors knowledge, experience and connections. The focus is on business growth and GVA (via sales, productivity and employment and productivity), and wider economic benefits through potential innovation spill over effects and creation of new products and services (dynamic efficiency).

The Investment Funds have also been designed to maximise net additional outcomes and impacts through:

- **Minimising deadweight in the finance** provided and outcomes achieved, leading to:
    - Finance additionality – the businesses would not have secured finance without the Fund
    - Outcome additionality – the outcomes achieved by the business would not have been possible without the Fund, or they have been brought about more quickly, to a larger scale and/or better quality.
- **Minimising displacement of outcomes** from elsewhere within the target geography, and ideally, minimising displacement from elsewhere in the UK into the target area, leading to net additional growth to UK Plc (via ‘new’ growth, exports and/or inward investment).
- **Minimising substitution** within the businesses supported, by encouraging businesses to utilise finance to grow/improve their business (now/in future), rather than using the finance to substitute another activity already taking place (with no net gain overall).
- **Minimising leakage** of benefits outside of the target geographies.

Evaluation objectives and methodology

Evaluation questions

This early assessment primarily focuses on the context and rationale, processes and delivery, outputs and finance additionality, and emerging evidence on outcomes for businesses (achieved and future) and wider effects on the finance ecosystem. Given the timeframe for the Fund and the lag between funding and any impacts, there is inevitably limited evidence on impact at the early assessment stage. However, the focus will shift towards impacts between the early assessment and interim evaluation.

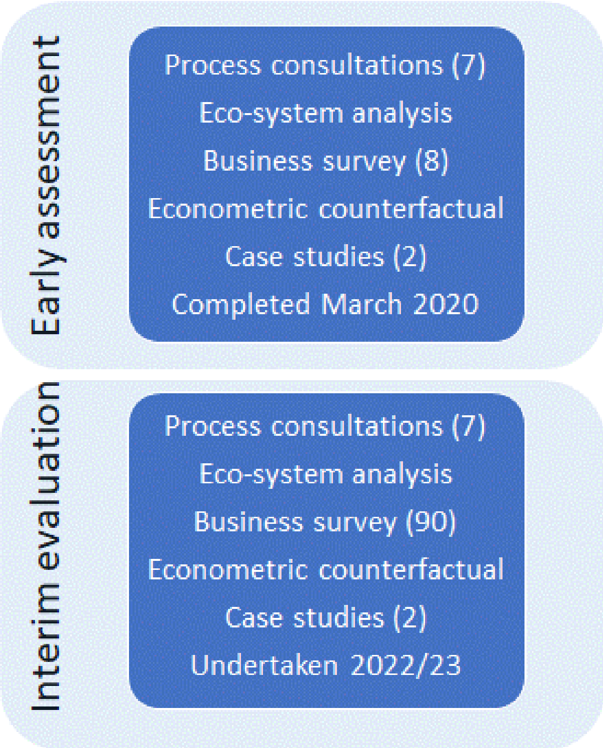
Specifically, for this early assessment, the focus is on:

- **processes of funding delivery** (on the supply side) and the relevance, ease of access and effectiveness of delivery (on the business demand side). This will cover the customer journey (including marketing and alternative sources of funding considered), as well as management, governance, delivery and monitoring arrangements, how effectively these are being delivered, what is working well (or not) and why, lessons and good practice, and how processes could be improved.
- **the additionality of the funding** (i.e. how the Fund has enabled businesses to secure finance and how they are using it) and any emerging intermediate outputs/outcomes for beneficiary businesses achieved to date and/or expected in future as a result of the Fund support (noting it is unlikely that there will be significant changes in individual business performance within the first year).
- **emerging impacts on wider eco-system**, including views on funding gaps and changes in the regional context, the role of the Fund, lessons from delivery to date, and views on the efficacy of this regional approach.

Overall approach

The overarching approach to the evaluation draws on mixed methods to collect data, in order to test progress and performance against the logic model and theory of change and logic models established in Annex A. Figure 1-1 shows the main strands of the evaluation and their timing, for CIoSIF. It also shows (in brackets) the target number of interviews for each element.

Figure 1-1: Summary of main strands of research and timing



Source: SQW

Approach to this early assessment

The evaluation has sought to reconcile the different data collected through the various sources and tools outlined below.

Data analysis

We have analysed monitoring data on implementation of the Fund to characterise the profile of applicant firms, alongside initial analysis by Belmana.

Consultations

In-depth consultations were held with 8 representatives from the following organisations to discuss CIoSIF's design/model, position and value within its SME target market, the effectiveness of delivery to date and how it could be improved, and initial impacts of the scheme, both on the SMEs involved and the wider economy:

- The Bank and representatives from the CIoSIF governing boards including the Advisory Board which includes LEP members.
- The fund manager delivering CIoSIF
- Wider stakeholders, including the Cornwall Chamber of Commerce, Oxford Innovation and local business support/access to finance providers and intermediaries.

Beneficiary business survey

A telephone survey with beneficiary businesses was undertaken by BMG. The interviews focused on businesses' rationale for seeking CIoSIF and other finance options considered, feedback on their CIoSIF experience, outcomes observed to date (compared to what might have happened otherwise) and future expected impacts.

All beneficiaries were invited to participate in the survey. A total of eight interviews were completed. This is a response rate of 50% and represents 50% of the CIoSIF beneficiary population. All four equity cases were interviewed, and four out of 13 debt cases were interviewed. Equity cases were over-represented compared to the population of deals, and equity respondents were more likely to be young businesses compared to debt respondents (further detail is presented in Annex B). Coverage of gross investment amount was high (70%) because all equity cases were surveyed, and equity deals tend to be larger than debt investments.

Throughout the analysis, debt and equity responses were disaggregated where appropriate. Of the four firms with CIoSIF equity deals, two had not yet made any commercial sales at the time of the interview.

Table 1.1: Type of finance based on beneficiary survey responses (8) and population (17)

	Survey (Number of achieved interviews)		Total CIoSIF population (ie exited and live) by end Dec 2019	
	Number	%	Number	%
Debt	4	50%	13	76%
Equity	4	50%	4	24%
Total Debt and Equity Base	**8**	**100%**	**17**[14]	**100%**
Gross Investment Amount	£2.58m	70%	£3.68m	70%

Source: SQW analysis of CIoSIF survey and the Bank's monitoring data

Non-beneficiary survey

A telephone survey was also completed with six non-beneficiaries. Although the original target was 10 interviews, the fund manager was only able to provide the names of eight (compared to a non-beneficiary population of 18)[15]. Overall, a 75% response rate from

[14] Note, up to end December 2019, there had been 17 instances of investment support to 16 unique businesses

[15] It was not possible to achieve this target because only 8 contacts were provided due to GDPR/consent issues

the eight contacts provided by the fund manager was achieved, which represented 33% of the CIoSIF non-beneficiary population.

Non-beneficiaries were those businesses that had applied for CIoSIF funding and were rejected or withdrew from the Fund before receiving funding. These 'near miss' examples of applicants provide a form of counterfactual. However, given the small sample size, comparison between beneficiary and non-beneficiaries cohorts is qualitative.

Interviews focused on businesses' rationale for seeking CIoSIF and other finance options considered, feedback on their CIoSIF experience, and progress made in securing finance and business growth since outcomes observed to date (compared to what might have happened otherwise) and future expected impacts.

Case studies

One case study was undertaken with a beneficiary[16] to provide in-depth qualitative evidence of funding additionality, performance changes, and the factors that have contributed to these changes. The case study is intended to be illustrative rather than representative.

Plans for the interim evaluation

During the interim impact evaluation, in addition to the tasks above, two additional workstreams will also be undertaken:

- **Baseline update** on the contextual conditions and change since CIoSIF was launched, to inform our assessment of CIoSIF's impact upon the wider finance eco-system.
- **Data-linking and econometric analysis** to assess the changes in performance of CIoSIF beneficiaries and unsuccessful applicants against matched counterfactual groups. This involves Propensity Score Matching, linking into the ONS Business Structure Database and other databases, and econometric analysis to inform our assessment of *net* additional impact on jobs and turnover for beneficiary businesses.

Also, given that the Fund receives European funding, the evaluation must adhere to the **EU's summative assessment guidance[17]** and good practice set out in the Magenta Book[18]. This applies to the interim evaluation where there will be greater focus on outcomes, impact and value for money[19].

[16] It was original anticipated that two case studies would be undertaken for this assessment, however due to Covid-19 this was not possible.

[17] https://www.gov.uk/government/publications/evaluation-of-the-european-regional-development-fund-2014-to-2020

[18] https://www.gov.uk/government/publications/the-magenta-book

[19] Summative assessments are required at the end of the grant period

Report structure

This report is structured as follows:

- **Section 2** provides an overview of the Fund to date, the effectiveness of delivery processes and how these could be improved
- **Section 3** presents evidence on outcomes observed to date, including finance additionality and business level benefits
- **Section 4** outlines emerging impacts for businesses and the wider finance ecosystem
- **Section 5** presents conclusions and recommendations, and plans for the next phase of the evaluation

The report is supported by two in-depth annexes: **Annex A** provides the logic models for the Funds; **Annex B** presents further details on the surveys undertaken.

2. Assessment of delivery

Key messages

- By the end of December 2019, CIoSIF had received 440 enquiries and 53 applications, from which 17 investments were awarded to the sum of £3.68 million. **The figures were below interim targets[20].** In part this reflected the need to raise awareness of the fund in its first year, the degree of support required to help businesses develop investable propositions, and wider economic uncertainty.
- The level of demand has been relatively consistent, with a good distribution of cumulative enquiries across debt and equity.
- **The original rationale for CIoSIF was robust and remains highly relevant**. This was supported by the stakeholders, through their own experience and through the business survey.
- CIoSIF has a good balance between loans and equity at present. The geographical focus was deemed critical by all consultees, particularly in terms of equity finance, given the peripheral location and distance from urban centres of many parts of Cornwall and the Isles of Scilly. The long-term approach adopted by CIoSIF was also seen as a key strength of the programme by stakeholders.
- **Businesses feedback on their customer journey was very positive**, particularly in relation to marketing and their communication with the fund manager throughout the process.
- **The fund manager adds considerable value** in ensuring the right type of finance is secured by business, assessing (and where necessary challenging) business plans and assumptions, encouraging businesses to reflect and refine/strengthen their proposals and ensure CIoSIF finance is invested appropriately.
- **Management and governance processes appear to be working well**.
- Stakeholders would like to see **greater tailoring and flexibility** of the fund to reflect local circumstances/needs and improve scope for additionality. This included greater risk appetite, financial support for pre-revenue / start-up businesses (especially for equity, and in Cornwall's growing key sectors such as digital, clean tech, marine and renewables), and greater flexibility in the debt fund interest rates.
- **There are well recognised generic challenges**, including financial knowledge and awareness, and leadership skills, across the business base.

[20] As set out in the agreed ERDF Plan

Programme portfolio

Scale, nature and geography of applications and awards

CIoSIF was launched in June 2018 with the first investments made in December 2018. By the end of December 2019, CIoSIF had received 440 enquiries[21]. Of these:

- 53 (12% of enquiries) reached application stage
- 17 investments were made (32% of applications)

By the end of December 2019, **the value of investments was £3.68m**, which was below the cumulative target of deploying £5.69 million by 35%. Both the equity and debt funds are behind on deployment (see Table 2.1). The Fund has **provided finance to 16 SMEs[22],** below the ERDF target of 42 by the end of December 2019. This means the average investment is £230,000 per SME. By finance type, the average debt investment is £142,300 per SME, while for equity it is £493,500 per SME.

There was some frustration amongst consultees regarding the lag time between announcing the Fund and it becoming operational. However, this also created some pent up demand and the Fund was able to unlock good opportunities from the start. Although interest in debt finance was initially greater, momentum is now building in the demand for equity with £1.97m invested as of December 2019, slightly above the value of debt investment at the same point. The flow of enquiries has been fairly consistent each quarter and (at the time of the evaluation) was expected to continue. Moreover, as we discuss in more detail below, the fund manager has invested considerable time working with businesses to develop their propositions, and many of these were expected to come forward for investment in the near future.

[21] Figures exclude enquiries for non-financial support

[22] Some SMEs have received more than one investment, ie follow on or tranched funding.

Table 2.1: Investments and value to end of December 2019

	Number of investments to date	Number of SMEs invested in to date	Target number of SMEs invested in to date	Total investment value	Target (% of target to date)
Total, of which:	**17**	**16**	**42**	**£3.68m**	£5.69m (▼ 65%)
...debt	13	12	7.5	£1.71m	£2.36m (▼ 84%)
...equity	4	4	34.5	£1.97m	£3.33m (▼51%)

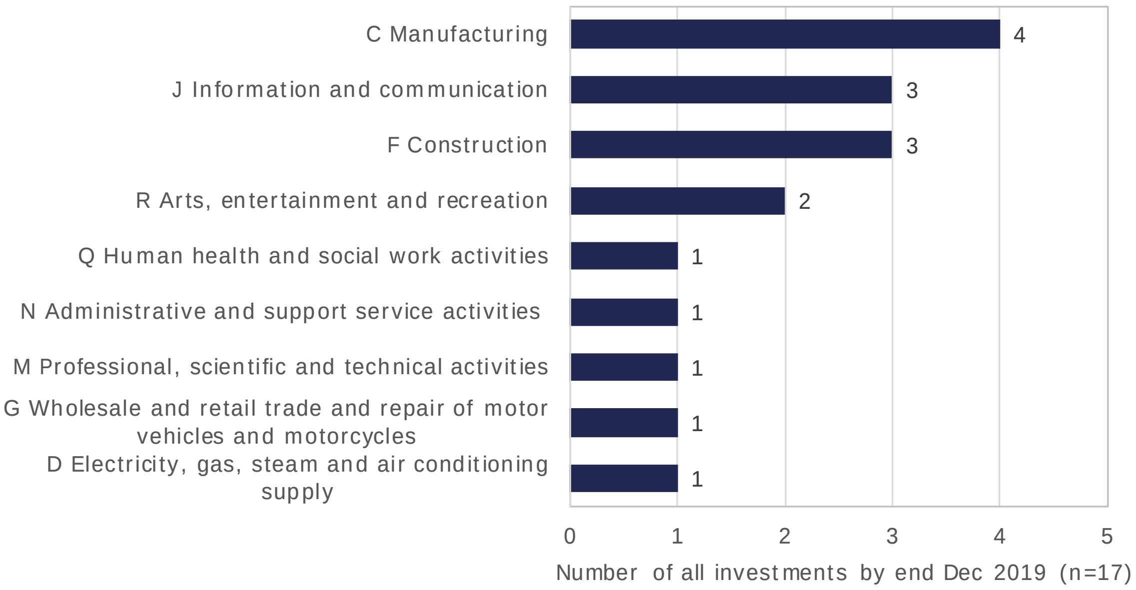
Source: analysis of monitoring data provided to SQW by the Bank

Business characteristics

Based on the Standard Industrial Classifications (SIC) provided in monitoring data, the top sectors supported by CIoSIF to date are: **manufacturing (4), information and communication (3) and construction (3).** In comparison, the top sectors across the overall CIoS business population are agriculture, forestry and fishery (18%), construction (14%), professional, scientific and technical activities (10%), and accommodation and food services (10%)[23].Whilst the sectors supported by CIoSIF to date are different to the overall CIoS business population, the finding should be treated with caution given the very small sample size.

[23] Nomis, UK Business Counts 2019

Figure 2.1: SIC Classification of SMEs in receipt of CIoSIF investments/loans



Source: SQW analysis of CIoSIF monitoring data provided to SQW by the Bank

In terms of investment stage, the Bank's monitoring data shows that:

- one SME is a "start-up" (prior to the first commercial sale)
- two are "early stage" SMEs (operating in any market for less than 7 years)
- nine are "expansion" SMEs (new markets or products)
- five are "growth" SMEs[24] (companies with strong growth prospects that are not classed as start-ups, early-stage or expansion companies).

Across both equity and debt, **investments are most common amongst expanding SMEs**, however, there is also a substantial proportion of debt deals amongst growing SMEs. Monitoring data on the size of SMEs at the time they were awarded CIoSIF suggests that the **majority of businesses supported to date are micro** (1-9 employees, n=9), rather than small (10-49 employees, n=3) or medium-sized (50-249, n=1). This reflects the overall CIoSIF business population in which 88% of businesses are micro[25].

Exporting

The business survey provided limited evidence on the extent to which CIoSIF businesses are exporters. In the sample, only one business was an exporter[26] (an equity beneficiary), exporting less than a quarter of their turnover. Given the small sample size it is not possible to draw conclusions on the extent to which business who receive CIoISF investment are more or less likely to be exporters that the overall SME

[24] No definition of growth is provided in the MI data.
[25] Nomis, UK Business Counts 2019
[26] Out of the six respondents who have had a full financial year

population. Also, some businesses were pre-revenue, so by definition would not be exporting at the time of interview.

Performance against ERDF output targets

At the end of December 2019, there was good performance in terms of the number of new jobs created across both debt and equity. The forecast number of jobs associated with the 17 investments is 141 (against a lifetime target of 314 to 2023)[27]. However, the Fund was behind the ERDF target for the number of businesses assisted with finance. This was largely attributed to the scale of the challenge in raising awareness of the programme over the first year and the support required to help businesses develop investable propositions, in addition to economic uncertainty at the time.

Non-financial business support (i.e. the 12 hours of business advice described in Section 1) was also below target, along with the indicator for support to new SMEs[28]. Both are particularly important given the findings (below) around poor levels of investment readiness in Cornwall and the Isles of Scilly and an enterprise start-up rate that is lower than English average. That said, we understand there have been some delays in gathering the paperwork required in order to claim non-financial assists, while some of the new SMEs have been signposted to the Start Up Loans programme (also delivered by the fund manager SWIG). Performance against the target for private sector leverage is also behind plan for both debt and equity, reflecting under-performance in the number of investments made to date.

[27] Forecast jobs are the number of new, paid, full time equivalent (FTE) jobs expected to be created due to the support under the ERDF project at the time of application/investment. Lifetime target sourced from full term MHCLG Contract to December 2023.

[28] This indicator covers enterprises that were not trading and registered at Companies House for less than 12 months before assistance provided, or a Business locating to the agreed geographic area for the first time to start trading.

Table 2.4: Output performance by end December 2019[29] towards End of Investment Window Targets (December 2023)

Output categories	Achieved at end Dec 2019	Target[30] (and % of target) at end Dec 2019
C1: SME assist	16	42 (▼38%)
C3: SME assist (financial support)	16 (17 instances of support to 16 unique businesses)	42 (▼38%)
C4: SME assist (non-financial)	0	4 (▼ 0%)
C5: new SME assists	3	6 (▼ 50%)
C7: private sector leverage (£m)	£2.4m	£7.09m (▼ 34%)
C8: new jobs	58	54 (▲107%)
C28: new products/service to market	1	No target to date (▲lifetime target is 4)
C29: new products/services to the company	1	No target to date (▲lifetime target is 20)

Source: SQW analysis of CIoSIF monitoring data provided by the Bank

Process evaluation: delivery and implementation

The following section presents feedback from stakeholders and businesses consulted on the design, delivery, management and governance of CIoSIF to date, and highlights the factors that have helped or hindered successful implementation.

Programme design, rationale and fit

In terms of the design of CIoSIF, consultees were in general agreement that the original rationale and objectives for CIoSIF were robust and remain highly relevant.

- For debt, stakeholders commented on perceived risk aversion amongst banks, especially for businesses lacking a track record and/or collateral and described how Cornwall is often "last on the list" once private providers have "saturated" the rest of the country.
- The supply of equity finance was also limited, with few active VCs and angel investors based in, or investing in, Cornwall. In this context, stakeholders

[29] Outputs achieved are 100% attributable to ERDF. Data not tracked on intensity of support (beyond C4 outputs)

[30] This is the projected work in progress target rather than the final programme target.

argued the overall objectives of the fund are to provide gap funding to viable SMEs with growth potential across a range of early to established businesses in the form of debt and equity. This would, in turn, stimulate private investment locally, whereby investors would be more likely to invest if CIoSIF shares the risk. There is also an expectation that the Fund will provide at least a modest return (at least break-even) and to create jobs and sales.

There are also considerable challenges on the demand-side. Whilst consultees noted that strong business cases in Cornwall were able to access finance elsewhere (e.g. Bristol and London), more often business appetite for external/private investment was very weak. This was attributed to a lack of ambition and/or confidence amongst businesses to scale up, and a lack of awareness and understanding of external finance options. According to one consultee, there was a tendency for businesses to focus on "local market opportunities rather than raising horizons to consider the bigger picture" and felt that "equity became synonymous with watering down rather than scaling up expectations". Another consultee noted how young businesses in the area were not surrounded by peers looking to scale, raise significant finance and exit, and therefore CIoSIF had a role to play in establishing Cornwall as a vibrant hub of early stage businesses successfully securing investment and growing.

CIoSIF has a good balance between loans and equity at present. As noted in the figures above, the number of debt investments was higher, but demand for equity was considered to be growing strongly. It was understood there was the ability to shift the balance in future if necessary, and this flexibility was an important feature of the Fund.

The geographical focus was viewed as critical by all consultees (as opposed to a national programme), given the peripheral location and distance from urban centres of many parts of Cornwall and the Isles of Scilly. Consultees described how businesses in the area have struggled to compete in national and international investment programmes. The Fund was a proactive way of levelling up access to finance nationally.

Providing well networked and connected fund managers locally is seen by stakeholders as an important characteristic of the Fund, to ensure the Fund addresses the needs of local SMEs and levers local finance. An early change in the fund manager team was also considered to have been beneficial to the Fund.

The Fund also needs to be linked to London to encourage inward investment to Cornwall and at earlier stages of financing, if possible. One consultee argued that the latter could not happen without a local presence. Geographical remoteness – and the associated lack of critical mass of opportunities - is a major barrier to the supply of equity. As one consultee argued, it is difficult to "get angel investors excited by one or two propositions".

The long-term approach adopted by CIoSIF was seen as a key strength of the programme by stakeholders. With its five-year initial investment period and a portfolio period for a further three years (which can be extended up to five years), consultees felt that CIoSIF provides an appropriate length of time to invest optimally in SMEs, with the opportunity for follow-on investment. Without this long-term sustainability, the experience and capacity built up could ebb away again before it is able to build momentum.

Use of CIoSIF

As noted above, the purpose of CIoSIF is to provide finance for investment in business improvement. All eight firms (four debt and four equity) intended to use some of the **investment for working capital to grow or expand the business**. Investment in growth and productivity improvements (e.g. new products, service and processes) is lower, but this is a small sample.

Table 2.5: Intended use for CIoSIF finance, based on beneficiary survey responses (n=8)

	Debt	Equity
Working capital, i.e. to grow or expand the business	4	4
Staff recruitment, training or development	0	2
Investment in new or significantly improved goods or services	0	1
Investment in new or significantly improved processes	1	0
Marketing	1	1
Buying, renting, leasing or improving buildings or land	2	2
Acquisition of capital equipment or vehicles	2	1
Starting up business	1	0
Any other type of investment	0	1
Total (n)	**4**	**4**

Source: SQW survey base=8

Effectiveness of delivery and the customer journey

Overall, the Fund scores highly against most aspects of delivery so far (see Table 2.6 below). Marketing and promotion of the Fund, along with communication with the fund manager throughout the process were rated good or very good. Feedback on time between application and decision, the application process and terms and conditions were more mixed.

Table 2.6: Beneficiary feedback on elements of delivery so far, rated on a scale of 1 to 5, where 1 is very poor and 5 is very good (n=8)

	Score out of 5				
	1	2	3	4	5
Marketing and promotion of the Fund	0	0	1	4	3
Time between application and decision	1	0	2	1	4
The application process relative to other finance providers	1	0	2	3	2
The terms and conditions offered relative to other finance providers in the market offering similar products	1	1	1	3	2
Communication with the fund manager throughout	0	0	1	2	5
Ongoing support and advice since finance awarded from the fund manager	0	1	1	2	4

Source: SQW survey base =8

Marketing and promotion

Consultees believed that awareness of CIoSIF was growing amongst SMEs in the area, and this is supported by the survey feedback, where marketing and promotion of the fund was rated highly. SWIG, in particular, was highlighted as having strong local knowledge, presence and networks, which has been an important factor in delivery to date. Word of mouth amongst businesses has also been valuable in generating interest. The fund manager has also worked hard to raise awareness amongst intermediaries.

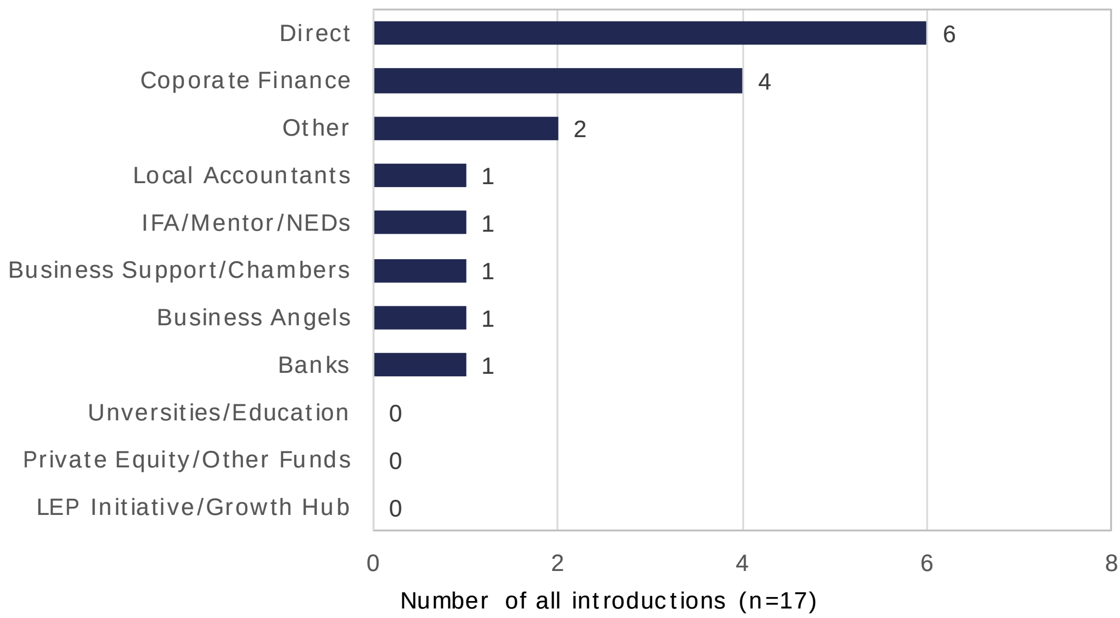
Alongside Cornwall's Access to Finance programme, intermediaries are an important source of viable opportunities (compared to direct marketing to business, which one consultee argued, tends to generate a volume of inappropriate enquiries). As illustrated in Figure 2.2, 10 out of the 17 businesses were introduced to the Fund directly or through corporate finance. Given that most established SMEs would go to their bank first for finance[31], the level of referrals from banks (1) is low.

[31] See Owen et al 2017 Longitudinal Small Business Survey (LSBS) report and also Owen et al 2018 Institute for Small Business and Entrepreneurship (ISBE) paper on regional finance, and BEIS LSBS employer SME reports

Relationships with the Growth Hub were thought to be good, but no referrals have been received to date (as illustrated below). This was attributed, in part, to the expectations that Cornwall's Access to Finance programme was more likely to refer into CIoSIF than the Growth Hub directly.

Some consultees would like to see greater visibility across the community of the fund manager and more regular engagement in local events. A small number of stakeholders also called for greater involvement by the Bank in high-level marketing and raising the profile of the Fund; it could do more to help "demystify" finance. It was also argued by one that the branding (CIoSIF) could be difficult for businesses to remember.

Figure 2.2: Monitoring data on introducer type (n=17)



Source: analysis of CIoSIF monitoring data provided by the Bank

Application process and negotiation

The monitoring data to the end of December 2019 shows none of the businesses had formally received/claimed non-financial support. However, one of the beneficiaries did report receiving this from the CIoSIF fund manager prior or during their application. In this case, the support was rated highly (5 out of 5) by the beneficiary.

As expected, the survey suggests that access to debt finance has been faster than equity, with all four debt applications completed within 6 months. Two of the equity deals were completed within 6 months and two between seven months and a year.

There were some aspects of the application process that respondents felt could be improved. They mentioned having more transparent terms and conditions upfront, streamlining the process, and ensuring that the Fund is accessible to young start-ups with no experience of fund raising. We return to this issue below.

Beyond the ERDF output targets for 12-hour business assists, the fund manager has provided informal non-financial support to all businesses involved. In some instances, guiding some businesses to a position where they can invest can be a long process.

This support can include assessing (and where necessary challenging) business plans and assumptions, encouraging businesses to reflect and refine (or strengthen) their proposals and ensure CIoSIF finance is invested appropriately (both for the business and in line with CIoSIF's goals). They also provide advice and guidance to ensure the right type of finance is pursued by the business. For example, some businesses approach CIoSIF for equity but cannot propose a sensible valuation (some of these cases have therefore opted for debt, with a view to increasing revenue and then securing equity in future). This support was commended by some consultees, where the fund manager was described as "very knowledgeable", well networked (with links to match funding opportunities) and provided "very honest appraisals of businesses".

Case study example

This start-up business established in 2018, received an £80k debt investment from CIoSIF in several tranches over 2019. Prior to securing CIoSIF finance, the business had been unable to secure finance from alternative finance providers including the bank (loan/overdraft) due to a lack of collateral and a local ERDF-funded innovation programme was unsuitable. Therefore, it was unlikely that the business would have been able to secure similar finance, within the same timescale, from another source. In the absence of CIoSIF, the business could have self-financed activity, in part via income from other part-time employment, but project progress would have taken longer.

The business was satisfied with the overall quality of the CIoSIF customer journey. The application was considered proportion to the amount of finance and the Fund Manager *"was very helpful"* and supportive throughout the process. The timeliness of the process was also fairly efficient with the whole process from first contact to receiving the finance taking approximately three months. Furthermore, since receiving the finance, the business has found it easy to communicate with and access ongoing support from the Fund Manager. The Fund Manager has also been flexible when the business has faced challenges servicing loan repayments.

However, the business identified several areas the process could be improved: first, the marketing of CIoISF because the business first heard out about the Fund through word of mouth, but without this contact the business was unsure whether they would have become aware of the Fund; second, greater transparency from the outset regarding T&Cs of the funding, particularly in relation to interest rates.

The CIoSIF finance has solely been used to fund work on one project, which has involved purchasing construction materials/equipment, hiring employees, and design and marketing. The main outcomes to date have been an increase of three FTE employees and upskilling of the workforce through sharing skills and knowledge.

CIoSIF investment has accelerated outcomes for the business, because without the finance, it is likely to have taken three years to have realised what the business/project has achieved over a 12-month period.

Fund manager involvement following finance award

Feedback on the involvement and support provided by fund managers has been positive. As shown above, seven of the beneficiaries surveyed rated communication with the fund manager throughout as good/very good, and six rated ongoing support and advice similarly. For equity, there was evidence of the added value of fund manager involvement. All survey respondents (four) said the fund manager was an observer on their board. Of these, one said this had led to major improvements in the management performance of the business, two thought the fund manager had made moderate improvements, and a further one thought there had been no difference.

For debt investments, the fund manager reviews progress monthly. If payments are missed or the business is struggling, the fund manager is on hand to provide advice, guidance and signposting. For equity investments, the fund manager tracks progress through its role as a board observer. However, they also provide much wider support, for example, by advising the management team and (in some instances) putting in place financial directors to "instil a corporate culture", and signposting to their own NED networks and contacts.

Governance, management and monitoring arrangements

The Funds are managed and distributed on the ground by the fund manager (FSE and SWIG), and this is overseen by the British Business Bank. In addition, the Bank provides a locally-based relationship manager to support the fund manager. The strategic direction and performance of the Fund is governed by an Advisory Board, which is chaired by a LEP Board member and includes private sector representatives.

Overall, consultees felt that management and governance processes appear to be working well. Representation on the Advisory Board was considered appropriate, although there is scope for the Board to engage in two-way dialogue with, and add greater value to, the fund manager's role. There were mixed views on the Bank's involvement with the CIoSIF – some consultees felt the Bank had a good presence locally, and others argued the Bank's involvement was relatively "light touch" and asked for greater clarity on the role and purpose of the Bank's local representative.

Consultees felt the monitoring data was broadly appropriate and useful, but could be more timely. As with the North and Midlands Investment Funds, there was also some frustration with the lack of clarity on ERDF eligibility criteria from the Bank, leaving the fund manager to take decisions (and carry the associated risk of doing so) [32].

Implementation challenges

Feedback on the delivery of CIoSIF has been positive. However, there were a number of implementation challenges identified in the consultations:

- Several external stakeholders would like the fund manager to adopt **greater risk appetite**. This is an inherent challenge with the Fund, demonstrating it is funding propositions that cannot secure finance elsewhere with the need to

[32] Guidance for the ERDF 2014 – 2020 programme is provided by MHCLG and the auditors are from the MHCLG Internal Audit team and the Government Internal Audit Agency

generate a positive return and generate success stories to boost business and investor confidence in the area. It is very early to assess this, but some consultees felt that the fund had been targeted at the most commercially viable businesses which were more likely to provide a return, and rejected riskier propositions. This raised questions around additionality and whether these businesses could, potentially, have sourced finance from elsewhere. This is explored further in the next Section.

An issue identified by most consultees (and some businesses, as noted above) was the **gap in finance for pre-revenue/start-up businesses, especially for equity**. Some consultees highlighted the lack of a Proof of Concept fund. This was particularly important in Cornwall, a "digital hotspot", with growing software companies that were often pre-revenue for long development periods (e.g. while they build tech platforms). The marine, cleantech and renewables sectors were also highlighted as in need of R&D/commercialisation funding locally. One consultee argued, "there are plenty of exciting innovative IT and renewables starts-ups and early stage businesses that would benefit from local seed – hands on - VC presence".

One of the consultees felt that the fund should focus more on stimulating and helping these kinds of early stage businesses to become commercially attractive to the private sector and argued that this could be factored in to the assessment process. Targeting earlier stage innovators through proof of concept up to early trading could offer substantial additionality for the fund. This could also have a demonstrator effect on stimulating entrepreneurial activity and on Cornwall's finance ecosystems in the longer term.

- **The debt fund is perceived as expensive**. The rationale for above market interest rates is logical, to ensure CIoSIF is a funder of last resort. However, it has deterred some interest, even though the Fund offers wider benefits (such as limited guarantees, fund manager support). One stakeholder has "had to do a lot of work to dispel people's immediate reactions to the fund". There were also concerns about the implications for additionality – as one consultee argued, debt at this interest rate is most likely to be used for later-stage growth/scale-up, which is most likely to accelerate funding rather than being entirely additional. Whilst some of these businesses may have been able to secure finance elsewhere on more favourable terms, MEIF has accelerated access to finance. As above, several stakeholders would like to see more flexibility in the interest rate structure.

Environment challenges

There were also 3 "generic challenges" set by the environment in which CIoSIF operates:

- The most significant challenge raised by all the consultees is **financial knowledge and awareness across the business base**. A long-standing grants culture with large-scale ERDF funding has meant that businesses traditionally will take grants rather than offer equity, and this has hindered the development of the market and dissuaded potential investors. This issue underpins the original rationale for CIoSIF but will require substantial "education of the market". It also emphasises the importance of raising awareness of CIoSIF amongst intermediaries, and the roles of the fund manager and the Bank in changing perceptions across the wider business community.

- Because of this, stakeholders felt that the low up-take of CIoSIF to date under-represents the actual requirements for finance in the area. There is a dedicated Access to Finance programme in Cornwall which is helping to address this issue, for example, by assisting with financial planning and signposting to appropriate forms of finance. The two programmes are complementary and a Memorandum of Understanding is in place to encourage collaboration and referrals. However, they did not operate in parallel initially, because of the delays in launching CIoSIF.
- The availability of smaller-scale grants is also believed to have reduced demand for smaller debt, which has impacted on the performance of CIoSIF. However, consultees also felt that Cornwall has seen an increasing appetite for debt from more mature businesses in recent years as businesses recognise the advantages compared to grants (which focus on job creation, can be a slower process with more paperwork).
- Two consultees also commented on the importance of building SME leadership capacity. This relates to the issues raised above about local business ambition and business skills, which need to be addressed alongside increasing the supply of finance through the Fund. The Access to Finance programme has recently established a grant fund for Non-Executive Directors (NEDs) to address the issue that early stage firms often do not invest in NEDs. There may be scope to more explicit align CIoSIF with this scheme.

3. Assessment of outcomes to date

This Section is divided into 2 parts:

- First, we present evidence on finance additionality (i.e. would similar finance have been secured in the absence of ClOSIF) and leverage.
- Second, we describe the business outcomes that have resulted from the ClOSIF investment, and the extent to which these are additional.

Key messages

- **Funding was considered additional, in some form, across six of the eight survey respondents.**
    - There was no notable difference between finance type, although the survey sample was small.
- **ClOISF finance was also a major influence in securing additional funding.** Six of the cases in the survey secured other funding alongside ClOSIF.
- **ClOISF has had a strong positive effect on businesses' confidence** in their ability to raise funding from the private sector in future – an important part of changing attitudes and developing the market.
- **There have been a range of outcomes from accessing the finance and most contribute to improving productivity**:
    - seven businesses reported increasing skills in their workforces
    - five had made additional investment in R&D (one debt business, four equity businesses)
    - six had developed new products and services (three debt businesses, three equity businesses)
    - four had introduced more efficient processes (two debt businesses, two equity businesses).
- **A high level of additionality among survey respondents** – three businesses stated that these outcomes would not have happened at all without ClOSIF, while outcomes had been accelerated in three cases.

Finance additionality

A key question for this early assessment of CIoSIF is the extent to which the Fund is providing finance to businesses which would not have been secured anyway, testing the rationale set out in Section 1.

Findings from the beneficiary survey are encouraging: funding was considered additional, in some form, across six of the eight respondents. Most reported partial additionality (where CIoSIF has accelerated the supply of finance). There was no notable difference between finance type.

- One business (debt) reported full additionality (i.e. they definitely would not have secured finance in the absence of CIoSIF)
- Five respondents reported partial additionality, whereby they thought finance would have been secured at a later date (four) and/or at a smaller scale (one). This was equally evident across both debt and equity investments. In these cases respondents thought it would have taken up to six months longer to secure finance
- In two cases the businesses reported that they would have secured finance anyway, at the same speed and scale (one case each for debt and equity).

These findings were generally reflected in the stakeholder interviews, where consultees argued that businesses would not have secured finance at all, or that it would have taken longer, in the absence of CIoSIF. As discussed above, some consultees argued that the way in which they considered the Fund was positioned (with a lower risk profile than they expected) would be more likely to accelerate investments rather than being wholly additional. This is reflected in the equity responses to the question which show that all these cases believe they would have been able to raise at least some of the finance.

Whilst the survey sample is too small to differentiate between finance type, consultees felt that the additionality for equity finance was likely to be higher, given the significant market failures/barriers in Cornwall prior to the Fund.

Table 3.1: In the absence of the funding from CIoSIF, do businesses think they would have been able to obtain similar finance elsewhere?

	Debt	Equity	Total
Would have secured finance anyway – in same time and scale	1	1	2
Would have taken longer	2	2	4
Would have been less	0	1	1
Would have taken longer and been less	0	0	0
Probably would not have secured	0	0	0
Definitely would not have secured	1	0	1
Total	4	4	8

Source: SQW survey of beneficiary businesses base = 8

The CIoSIF survey evidence shows that six (of the eight) respondents considered alternative sources of finance at the time they applied to CIoSIF, but of these, **only one actually applied**. This respondent was offered the full amount. The reasons given by the respondents for choosing CIoSIF rather than other sources were unique in each case but included: good understanding of business needs, the geographical focus of the Fund, the lower guarantees required, or the only option of securing finance.

Non-beneficiary progress

As part of the survey with non-beneficiaries (i.e. those who were unsuccessful or withdrew from the application process), respondents were asked whether they had been able to secure finance anyway. The findings are shown in the following box.

Non-beneficiary survey

- Three respondents (out of six) had their application rejected by CIoSIF. The reasons given were an insufficient business record, too early, and the company valuation being too high. One respondent turned down their CIoSIF offer because the finance was too expensive.
- Two respondents (out of four that answered the question) have gone on to secure finance anyway. This was in the form of equity finance in one case and a loan in

the other. These were both at the same scale as their CIoSIF application and on better terms. Both respondents had been rejected by CIoSIF.

- Of those that secured finance anyway, both are using the finance for the same types of activities proposed in the CIoSIF application.
- **Not securing CIoSIF finance has delayed the planned activities of all the businesses (including those who secured alternative finance).** For example, two non-beneficiaries had planned to invest in working capital, and without CIoSIF, both businesses have delayed plans.
- Not securing CIoSIF has also impacted negatively on business development for five out of six respondents, by **slowing/holding back growth or putting business survival at risk.**

Leverage

The beneficiary survey found that six of the eight businesses had secured other funding alongside CIoSIF. This was higher for equity cases (four) compared with debt (two). Leverage included both equity finance and bank funding.

The results show that the **CIoSIF finance has had an influence on securing this additional funding**. All six respondents thought that to some extent it contributed to raising additional funding. Two (one equity and one debt) stated that this additional funding was entirely because of CIoSIF. Three respondents thought it contributed to a “considerable” or “large extent” and the remaining debt case thought it had contributed to a “small” extent.

These findings were supported by the stakeholder evidence, where consultees considered the fund manager to have played an important role in providing match funding (e.g. via SWIG), making introductions to corporate investors and angels, and/or encouraging bank co-financing.

Confidence in raising future finance and awareness of finance types

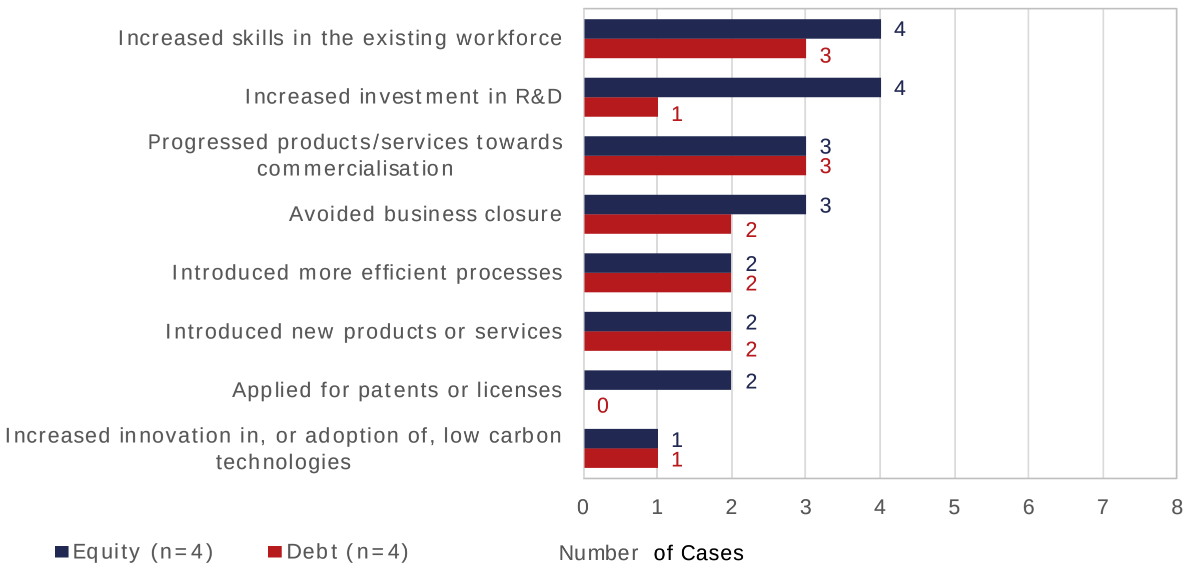
Participating in the Fund has also had a **strong positive effect on businesses’ confidence** in raising finance in future. Six out of eight respondents reported increased confidence in raising finance from private sector sources. All the equity respondents had gained confidence and half (two) of debt respondents.

Again, this evidence was supported by the strategic stakeholders consulted as part of the evaluation. One argued that there has been a “noticeable improvement in confidence” in the business community due the existence of a dedicated fund for CIOS. They have observed small business owners speaking more knowledgably about equity/business support etc., which should have a positive impact on the wider finance ecosystem in longer term.

Business level outcomes arising from CIoSIF

Businesses were asked to report on the types of outcomes they have experienced as a result of receiving the finance. The results are summarised in Figure 3.1. Overall, the survey suggests that the Fund is **performing well against outcomes linked to productivity** (such as skills) **and against wider innovation outcomes** (linked to new product development and commercialisation, and for equity respondents, increased investment in R&D). In the sub-sections that follow, we discuss the key outcomes observed to date in more detail. Caution should be exercised in interpreting the findings given the small sample size.

Figure 3.1: Outcomes achieved as a result of receiving CIoSIF finance



Source: SQW survey of beneficiary businesses base = 8

Skills development

In the survey, **seven businesses reported increasing skills in their workforces, with the remaining debt beneficiary expecting to in the future.** These businesses were asked whether this had led, or would lead, to any new qualifications, either academic, vocational or company-specific. The most commonly cited was company-specific skills (four out of eight) spread equally across both debt and equity.

Most of these businesses have developed **technical and specialist skills** that are industry specific. These spanned a wide range of activities, from *"process engineering" and "electrical skills",* through to *"software development".* Skills have been developed through hiring new employees with the required skillsets and upskilling the existing workforce through training.

Innovation

The CIoSIF finance has led to additional investment in R&D, especially for equity cases (four) but also for debt (two). The six businesses reporting this outcome estimated an aggregate increase of £1.4 million. Furthermore, six businesses *expected* R&D spending to increase over the next three years and this was estimated as an additional investment of £2.8 million.

The majority of investments (six cases) have also helped businesses to progress products/services towards commercialisation. Linked to this, four of the cases have **introduced new products and services**. The majority of these new products and services are new to the market (in five cases) rather than just new to the business (one). A further two respondents *expect* to introduce new products and services in the future. Examples of the new products/services included booking or marketing software, a healthcare product and specialist manufacturing services.

Stakeholders also commented on the way in which CIoSIF was supporting innovators in IT (for example, in the provision of mobile broadband for rural “notspots”), a software B2B service company, and a biotech company with scope for large-scale exports. In some cases, they believed that CIoSIF finance had enabled these businesses to enter new markets before competitors.

Improved processes

Across the sample, CIoISF investment has led to (or is expected to lead to) **improved processes for seven** of the businesses. Within the cases reporting these improvements, this has resulted in:

- Reduced costs for four
- Improved the quality of their output for seven
- Saved time for five.

The findings were very similar for both debt and equity respondents and suggest that CIoSIF is contributing to improvements in productivity.

Avoided business closure

Across the survey sample, five businesses (three equity and two debt) stated that CIoSIF had prevented the business from closing. One respondent (equity) said the business would have closed already, another said it would have closed in the next 12 months, and two (debt) did not specify timings, but considered the investment to have reduced the likelihood of the business closing.

Outcome additionality

As part of the survey, beneficiaries were asked whether they would have been able to achieve the same outcomes (described above) in the absence of CIoSIF. Overall:

- there is no deadweight in the sample
- three respondents stated that the outcomes would not have happened at all (i.e. full additionality)

- three respondents stated that CIoSIF has played a key role in accelerating outcomes.

Table 3.8: Would the same outcomes have been achieved without access to CIoSIF?

	Debt	Equity	All
The benefits would have happened anyway, over the same time period and at the same scale, without (fund manager)	0	0	0
The benefits would have happened anyway, but they would have taken longer to achieve	1	2	3
The benefits would have happened anyway, but at a smaller scale	1	0	1
None of these benefits would have happened	1	2	3
Base	3	4	7

Source: SQW survey of beneficiary businesses base = 8

4. Assessment of emerging impacts

Key messages

- **The Fund has increased employment in all eight of the businesses surveyed.**
- **There are significant effects on productivity and sales**, while the effect on profitability is lower. No businesses reported an impact on exporting.
- Across the eight firms who reported additional employment, a total of 42 additional jobs where reported (15 through debt and 27 equity).
- **The profile of wages matches the pattern of UK income, with a quarter of the jobs created paying wages or salaries in the top quartile of income, and half paid more than the UK median income (£23,200).[33].**
- **Five businesses reported that their turnover was higher as a result of accessing finance through CIoSIF**. They estimated a combined increase of £600,000.
- Only 13% of sales are made to customers within the Cornwall and Isles of Scilly, and the remaining 87% in the rest of the UK.
- Consultees felt that it was too early to judge whether CIoSIF had impacted upon the wider finance ecosystem. However, early signs are encouraging, with some evidence of improved financial knowledge and awareness amongst businesses (especially in relation to equity), and activities to strengthen financial networks and raise awareness of investment opportunities in Cornwall.

Emerging and expected impacts

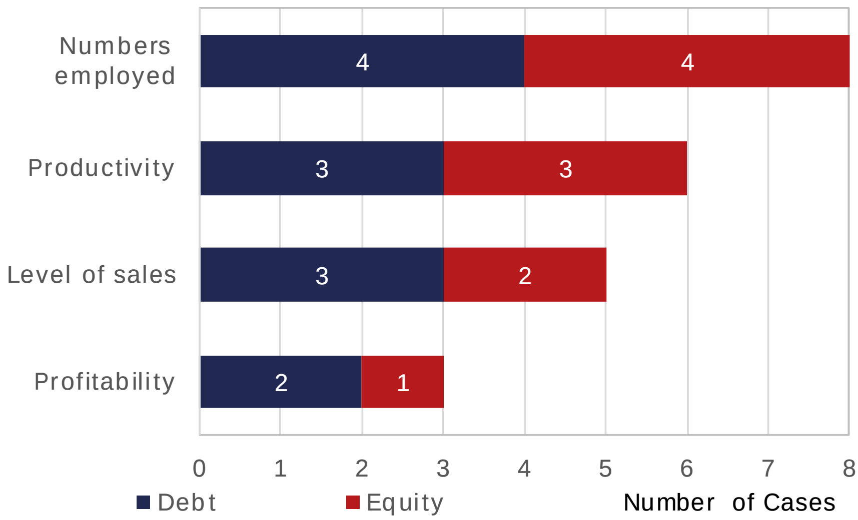
Business employment and turnover growth

In addition to the qualitative outcomes described above, beneficiaries were also asked whether CIoSIF investment had impacted upon business performance to date (Figure 4.1).

[33] Survey of Personal Incomes, HMRC 2016, Table 3a Percentile points from 1 to 99 for total income before tax (taxpayers only)

The Fund has **increased employment for all businesses surveyed.** Most respondents also reported productivity benefits and increased sales. This reflects the improvements to processes and upskilling the workforce. The figures for profitability are lower. No businesses reported increasing export levels, however, only one of the businesses is currently an exporter.

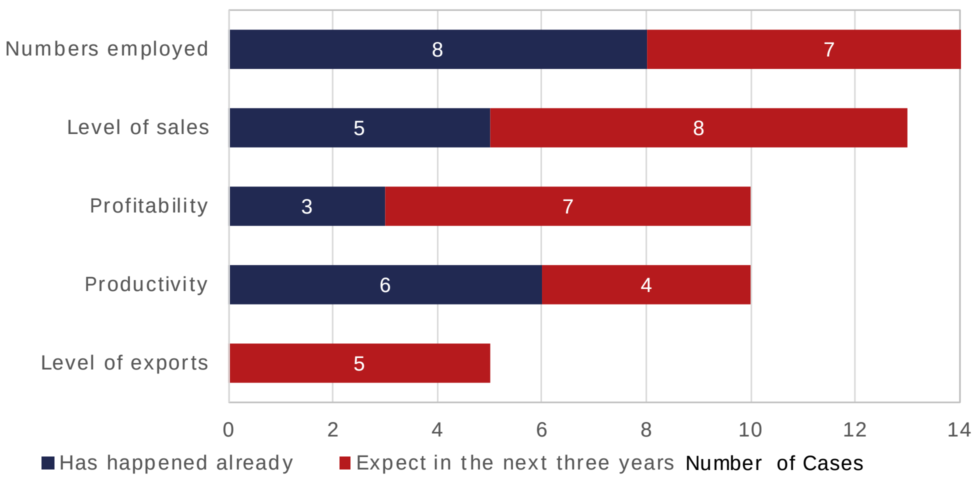
Figure 4.1: As a result of the finance you have received, has there been any change to your business performance?



Source: SQW survey of beneficiary businesses base = 8

The results can be extended to show the proportion that are *expecting changes in the next 3 years.* In most cases, there are further benefits expected in the future (Figure 4.2). This reflects the relatively early nature of most investments at the time of the survey. All the businesses expect the funding to help generate higher sales (eight cases), profits (seven) and exports (five) over the next three years. In seven cases, they expect further increases in employment. This demonstrates how many businesses who have already benefited from MEIF expect further benefits in future.

Figure 4.2: Changes to your business performance to date and in the next 3 years



Source: SQW survey of beneficiary businesses base = 8

Number of jobs created

The survey asked businesses to report the number and types of jobs that had been created. Across the sample, all eight firms reported higher employment as a result of funding from CIoSIF. **These eight firms reported a total of 42 jobs created (15 through debt and 27 equity).**

- Mean employment has increased from eight (debt) and six (equity) employees at the application stage, to 13 (debt) and 13 (equity) employees at the time of the survey.
- Similarly, median employment has increased from four (debt) and six (equity) employees at the application stage, to nine (debt) and 13 (equity) at the time of the survey.

The majority of these jobs have been created in Cornwall (90%) and highlight the contribution the Fund is making to local employment and economic growth.

Quality of jobs

The survey also asked businesses to report the types of jobs that had been created. While the majority are in production, administration and logistic functions (such as process, plant and machine operatives), there were a number of 'other' jobs (11) (see Table 4.2).

Table 4.2: Types of additional jobs generated by CIoSIF investments

Type of jobs	Number of jobs
Directors and Senior Official	4
Research and Development	8
Sales and Customer Service functions	4
Production, administration and logistic functions e.g. Process, Plant and Machine Operatives	15
Other	11
Base (all reporting additional employment)	42

Source: SQW survey of beneficiary businesses base = 42 jobs

A quarter were jobs that were paid more than £35,600[34] a year, while a half paid less than the UK median income (£23,200)[35]. In comparison, the median

[34] Survey of Personal Incomes, HMRC 2016, Table 3a Percentile points from 1 to 99 for total income before tax (taxpayers only)

[35] Median value from Survey of Personal Incomes, HMRC 2016

income for Cornwall is £21,000. The profile of wages is therefore close to the overall pattern of UK income, and slightly better than the profile in Cornwall (see Table 4.3 below). Stakeholders also felt that CIoSIF had an important role to play in supporting the creation of "better paid jobs with 21st Century skillsets" particularly in digital and technology sectors, leading to improved productivity per worker in the area.

Table 4.3: Income levels from the additional jobs supported

	Debt (n=4 respondents)		Equity (n=4 respondents)		Total (n=8 respondents)	
Jobs with salaries or wages (before tax) of…	Count	%	Count	%	Count	%
less than £23,200 a year	11	73%	10	37%	21	50%
more than £36,500 a year	4	27%	7	26%	11	26%
Total jobs	15	-	17	-	32	-

Source: SQW survey of beneficiary businesses base = 42 jobs (note, some jobs have a salary between £23,200 and £36,500 a year)

Turnover

CIoSIF finance has boosted turnover in five of the beneficiaries surveyed (three debt cases and two equity cases). **These firms estimated a combined increase of £600,000 since the investment.**

Table 4.4: Changes to turnover as a result of receiving CIoSIF funding

	Debt (n=4)	Equity (n=4)	Total (n=8)
Higher because of funding from CIoSIF	3	2	5
Lower because of funding from CIoSIF	0	0	0
The same- funding made no difference to sales	0	2	2
Don't know	1	0	1

Source: SQW survey of beneficiary businesses base = 8

All eight businesses surveyed thought that the funding through CIoISF would lead to an increase in their sales over the next three years. Of these, six provided quantified estimates with an **aggregate total of £21 million.**

Customers and displacement

Displacement occurs when an intervention leads to one company benefiting at the expense of a competitor elsewhere in the target area. For example, if the finance helped one firm grow, but this was perfectly offset by a decline in another, there would be no overall gain. In practice this concept does not easily reflect changes in quality or innovation and should be treated with caution. Export sales and new products are usually less likely to cause displacement among local businesses.

Of the five businesses that provided details of the distribution of customers, none of the value of all sales was made outside the UK (Table 4.5). The majority (87%) of sales were made to customers in the rest of the UK, outside the CIoS area, whilst a small proportion of aggregated sales were made to customers within the CIoS area. However, the figures are skewed by one business with a significantly higher turnover, whose sales were all in the rest of the UK.

Table 4.5: Proportion of sales by market

Customer area	Aggregated % of sales
In the In the Cornwall and Isles of Scilly area	13%
In the rest of the UK, but outside the Cornwall and Isles of Scilly area	87%
Elsewhere in the EU	0%
In countries outside of the EU	0%
Base	5

Source: SQW survey of beneficiary businesses base = 5. Of the remaining 3 surveyed businesses: one was pre-revenue, one had not completed a full financial year, and one answered don't know to the question.

Emerging impacts on the wider Ecosystem

Consultees felt that it was too early to determine whether CIoSIF had impacted on the wider finance ecosystem across Cornwall and the Isles of Scilly. The evaluation is only one year into a ten-year programme. Developing an ecosystem is a long-game and driven by success stories (Lerner, 2010; Hwang and Horowitt, 2012), and investment exits can take a long time to appear (Owen and Mason, 2019).

That said, some of the early signs are encouraging.

- On the demand-side, consultees argued the Fund was already helping to improve financial knowledge across businesses, leading to a "growing acceptance" of equity. However, consultees also stressed the "engrained mentality of businesses" and that "decades of under-investment" mean it will take time to change. This emphasises the importance of effective marketing and non-financial support to complement the finance available.
- There is evidence to show how the Fund is helping to strengthen financial networks and raise awareness of investment opportunities in Cornwall (in

addition to increasing the supply of finance in the absolute sense). For example, the fund manager is hosting angel investor and intermediary events, designed to create a "joined up community". Anecdotal evidence suggests these events have attracted more and different investors than would otherwise have been the case without CIoSIF. The Bank also sponsored a small business awards event promoted the fund to a wide audience.

- The fund manager has also seen a growing confidence in the intermediary sector regarding equity deals (in one example a local lawyer commented that they had learned a great deal in their initial engagement with CIoSIF and would be able to progress equity deals more quickly in future). This will also encourage the fund manager to engage with local intermediaries more in future.

Looking forward, consultees believed the fund has the scope to attract new finance providers into Cornwall and the Isles of Scilly in the longer-term. However, to date the emphasis has been on individual investments. To achieve a more strategic shift in investor perceptions the Fund needs to build a critical mass of successful investments/exits.

5. Conclusions

This final Section presents our conclusions, including an assessment of progress against CIoSIF's stated objectives, and challenges that the Bank may wish to reflect on as the Funds progress.

Validity of Fund's rationale

The early evidence from the stakeholder consultations and business surveys indicates that **the original rationale for CIoSIF was robust and remains relevant.** Banks are perceived as risk averse, especially for businesses lacking a track record and/or collateral. Equity markets are particularly weak, with few active VCs and angel investors based in, or investing in, Cornwall. Geographical remoteness – and the associated lack of critical mass of opportunities - is a major barrier to the supply of equity in Cornwall. There are also considerable challenges on the demand-side, with a perceived lack of appetite for external/private investment, driven in part by lack of ambition and confidence to grow amongst many businesses, and a lack of awareness and understanding of external finance options.

In response to these challenges, the CIoSIF increases the supply of finance for viable SMEs with growth potential across a range of early to established businesses in the form of debt and equity. This should stimulate private investment locally, whereby investors would be more likely to invest if CIoSIF shares the risk and/or demonstrates the potential growth opportunities in the area.

Validity of Fund design in meeting objectives

The feedback from consultees was very supportive of the Fund's design and its contribution to meeting objectives.

- CIoSIF has a good balance between loans and equity at present. As noted in the figures above, the number of debt investments was higher, but demand for equity was considered to be growing strongly.
- The geographical focus was deemed critical by all consultees, as opposed to a national programme, given the peripheral location and distance from urban centres of many parts of Cornwall and the Isles of Scilly. The Fund was a proactive way of levelling up access to finance nationally.
- Providing well networked and connected fund managers locally is seen by stakeholders as an important characteristic of the Fund, to ensure the Fund addresses the needs of local SMEs and levers local and/or national finance.
- The long-term approach adopted by CIoSIF was seen as a key strength of the programme by stakeholders. Consultees stressed the importance of the long-term sustainability of the Fund. Without this, the experience and capacity built up could ebb away again before it is able to build momentum.

Objectives

The ultimate objective for the regional programmes is to increase economic growth in line with the Government's wider objective for all business support and access to finance programmes. The Fund aims to achieve this by improving access to finance enabling businesses to start up, invest and grow more rapidly. Logic models in Annex A set out the ways in which the Funds are expected to generate outcomes and impacts. This section considers the evidence in relation to the main outcome indicators.

Increasing the supply of finance to viable businesses that would otherwise have problems raising finance

The first investment by CIoSIF was in December 2018. One year later, by the end of December 2019, the CIoSIF fund manager had received a total of 440 enquiries and 53 applications from SMEs. From these, CIoSIF made 17 investments with a total value of £3.68 million. The level of demand has been relatively consistent, with a good distribution of cumulative enquiries across debt and equity. However, these figures were lower than the interim targets (see below).

The CIoSIF funding was considered additional, in some form, by six of the eight survey respondents. In most cases the funding has accelerated access to finance. There was no notable difference in additionality between finance type, although the survey sample was small. CIoISF has played an important role in enabling businesses to secure match/co-funding. Six of the eight beneficiaries interviewed had received other funding alongside CIoSIF and all considered the Fund to have helped in securing it.

Improving performance of recipient businesses, particularly in terms of research/innovation, competitiveness and productivity (ESIF and HM Government objectives)

The early evidence is encouraging in terms of the Fund's influence on R&D investment, new product development and skills development, all of which will improve productivity. For example:

- All but one of the businesses reported raising skills levels in their workforces
- Five businesses have made additional investment in R&D (four of these were equity businesses)
- Six businesses have developed new products and services
- Four businesses have introduced more efficient processes.

These outcomes are also having a positive impact on the economic performance of the businesses involved:

- The Fund has increased employment in all eight of the businesses surveyed. Across the eight firms who reported additional employment, a total of 42 additional jobs where reported (15 through debt and 27 equity).
- It is creating high quality jobs. The profile of wages matches the pattern of UK income, with a quarter of the jobs created paying wages or salaries in the top quartile of income, and half paid more than the UK median income (£23,200).

- There are significant effects on productivity and sales, driven by the outcomes above, while the effect on profitability is lower.

Six of the eight survey respondents reported outcome additionality, of which half stated that outcomes have been accelerated and half argued that outcomes would not have happened at all without CIoSIF.

Increasing awareness of finance options amongst SMEs in target area, and greater confidence in their ability to raise private finance

Participation in CIoSIF has a strong positive effect on businesses' confidence both for debt and equity beneficiaries (85% reported that the funding has led to greater confidence in their ability to raise funding from private sector sources in the future) – an important part of changing attitudes and developing the market.

Consultees felt that it was too early to judge whether CIoSIF has impacted upon the wider finance ecosystem. However, early signs are encouraging, with some evidence of improved financial knowledge and awareness amongst businesses (especially in relation to equity), and activities to strengthen financial networks, raise awareness of investment opportunities in Cornwall, and improve intermediaries' knowledge of alternative sources of finance to better advise their businesses. Looking forward, consultees believed the Fund has scope to attract new finance providers into Cornwall and the Isles of Scilly in the longer-term.

What is working well and what could be improved?

Setting up and delivering the Funds has worked well, particularly given the range of partners and the uncertain landscape for investing. An early change in the fund management team was also considered to have had a beneficial effect. The main findings are:

- **Businesses' feedback on their customer journey was very positive**, particularly in relation to marketing and promotion of the Fund, and communication with the fund manager throughout the process. There appears to be good awareness of the Fund amongst intermediaries and the wider business base.
- **The fund manager adds considerable value** in ensuring the right type of finance is secured by business, assessing (and where necessary challenging) business plans and assumptions, encouraging businesses to reflect and refine/strengthen their proposals and ensure CIoSIF finance is invested appropriately. An early change in the fund manager team has helped add value. They are considered to be well networked and have played an important role in sourcing other private sector co-funding. The fund manager tracks progress closely once finance is awarded, providing support and signposting where needed to ensure growth plans are realised. They are actively involved in equity investments through their role as board observer and providing support to strengthen business/financial management.
- **Management and governance processes appear to be working well**. Representation on the Advisory Board was considered appropriate, although

there is scope for more collaborative dialogue with the fund manager. The Fund is overseen by the British Business Bank, with a locally-based relationship manager based in Cornwall. Views on the visibility of the Bank locally were mixed, with some consultees suggesting a more prominent role in promotion.

Implementation challenges

Feedback on the delivery of CIoSIF has also been positive. However, there were a number of implementation challenges identified in the consultations:

- Several external stakeholders would like the fund manager to adopt **greater risk appetite**. Balancing the original rationale to finance high risk propositions with the need to provide a return on the investments (and a bank of "success stories") is an inherent challenge with a programme of this kind. Among some stakeholders, there was a view that the Fund could take more risk.
- There is a perceived **gap in proof of concept and commercialisation finance for pre-revenue/start-up businesses**. This was particularly important given Cornwall's growing sectoral strengths in digital/software, marine, cleantech and renewables which would benefit from a local seed, hands-on VC presence.
- **The debt fund is considered to be expensive**, which has deterred some potential applicants. Whilst CIoSIF is designed to be a funder of last resort, some consultees felt debt funding was more likely to be used for later-stage growth/scale-up, which some consultees felt may accelerate funding rather than it being entirely additional. Several stakeholders would like to see more flexibility in the interest rate structure.

Environment challenges

There were also 3 "generic challenges" set by the environment in which CIoSIF operates:

- The most significant challenge raised by all the consultees is the limited **financial knowledge and awareness across the business base**, which requires substantial "education of the market". It also requires intermediaries to help change perceptions amongst businesses. Because of these demand-side issues, stakeholders expressed concern that the low up-take of CIoSIF to date under-represents the actual requirements for finance in the area.
- **The availability of smaller-scale grants** (over many years) is also believed to have reduced demand for smaller debt, which has impacted on the performance of CIoSIF.
- **The importance of building SME leadership capacity** was also noted. This relates to the issues raised above about local business ambition and business skills, which need to be addressed alongside the increase in the supply of finance through the Fund.

Implications for the CIoSIF interim assessment

Generally, the evaluation process has worked well and produced evidence on the performance of the Funds. There has been a considerable effort to develop and agree the methodology paper and logic models, which has been peer reviewed by the BEIS Evaluation panel. This forms the basis for the wider evaluation of the Bank's Regional

Funds. One of the main issues in undertaking the evaluation has been around the number of businesses supported to date and therefore the low sample size for the surveys. As a result, it has been difficult to generalise from the survey findings or disaggregate results by type of finance. By the time of the interim assessment the Fund is expected to have supported many more businesses, so this should be less of an issue. Going forward, it would be helpful for the Fund application forms include permission for business contact details to be used for the purposes of evaluation, to avoid the need to request consent at the time of the evaluation (which typically limits the pool of businesses available for non-beneficiary interviews).

Final reflections

At the time of the evaluation, it has only been one year since the first CIoSIF investment and too early to draw clear conclusions. In that time the Fund has provided finance to 17 businesses and provided informal support to develop investment propositions to many more businesses by this stage. It had also successfully engaged with the LEP and intermediaries and building good awareness across Cornwall and the Isles of Scilly.

The design and delivery of the Fund were generally seen as appropriate given the scale and nature of the challenge the Fund is seeking to address, particularly in terms of its geographical focus. At this stage it is too early to assess the portfolio of investments but there was feedback that the Fund should be prepared to raise its risk profile and to invest in businesses that would not otherwise find funding.

Whilst CIoSIF focuses on addressing supply-side issues, the evaluation also highlighted considerable demand-side challenges relating to financial knowledge and levels of awareness of external funding. For the Fund to maximise its potential there needs to be the ambition to drive demand for finance. It also needs the business leadership skills to translate this finance into growth, productivity and income for the region. These factors will impact on the performance of the Fund over its lifetime.

Despite these challenges, the evaluation points to strong evidence on the benefits for those involved. It has enabled businesses to invest in activities that will directly improve their productivity: skills, R&D, new products, services and processes. This has now started to translate into additional sales and good quality employment. Without the Funds, most businesses report that projects would have been delayed or not happened at all, which is a significant achievement in a context of considerable economic uncertainty.

The interim evaluation will provide further evidence of the Funds' progress and performance in 2022/23 with new surveys and a clearer picture of how CIoSIF has influenced businesses and the wider finance eco-system.

Annex A

Regional Programmes Overall Objectives

The higher-level regional programmes logic model provides reference to how the programmes will work overall. This logic model specifies how the performance of the geographic programmes will be assessed against key performance metrics. The objectives are specified within a hierarchy in order to identify the impact pathway as outlined in the 'theory of change', and who is responsible for meeting each objective. The regional programmes contribute to meeting the Bank's own objectives[36], wider Government objectives and in line with the programme using ERDF funding, ERDF reporting measures.

The ultimate objective for the regional programmes is to increase economic growth in line with HMG's wider objective for all business support and access to finance programmes. Economic growth is not a specific target for the Bank but an outcome from the Bank meeting its own objectives of increasing external finance where markets don't work well. Economic growth has a significant time lag and will only emerge after several years, and can only be measured indirectly, using an economic evaluation. The intermediate objectives are the steps along the way that contribute to achieving the ultimate objective and will be measured by programme MI systems and economic evaluations throughout of the life of the programme. The immediate and intermediate objectives contain the core targets set to fund managers to deliver the programme and for the Bank, who has responsibility for managing the regional programmes.

Performance metrics are broken down into objectives and aspirations:

- **Objectives: Measures that determine the success of the programme. These must be met for the programme to be judged to be successful**
- **Aspirations: Measures that are desirable but are not under the direct influence of the programme, eg positive spill-over effects. Failure to achieve an aspiration does not imply the programme has been unsuccessful.**

Colours are used to distinguish between objectives and ambitions within the overall logic model, with blue text being an object, whilst red text signals an aspiration.

The specific ERDF output indicators are included within the logic model in line with the Bank's obligation to report on ERDF reporting requirements[37]. The geographic programmes

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[36] The regional programmes all contribute to the following Bank objectives:

- Increase the supply of finance available to smaller businesses where markets don't work well
- Reduce imbalances in access to finance for smaller businesses across the UK

[37] ERDF is focused on supporting growth in local areas, overcoming market failure and addressing key bottlenecks in specific sectors and geographies. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/719940/ESIF-GN-1-002_ERDF_Output_Indicators_Definition_Guidance_v6.pdf

contribute to meeting ERDF objectives set out in 2014-2020 European Growth Programme document.

CIoSIF and the other regional programmes will specifically target and address the following priority areas (ESIF Operational Programme Priority Axis) as specified by the 2014-2020 European Growth programme:

- **Priority Access 1– Promoting Research and Innovation**
- **Priority Access 3– Enhancing the Competitiveness of SMEs**
- **Priority Access 4– Supporting the shift towards a low Carbon Economy in All Sectors**

Measuring the success in achieving immediate and intermediate output measures enable some assessment to be made of efficiency in delivery and which can also aid in the assessment of whether the programme is on track to achieving its ultimate objective.

The higher-level programme level logic model specifies the key performance measures used to assess the overall success of the regional programmes. The logic models for the individual finance types (micro-finance, debt, equity and proof of concept equity) included in this report provides greater detail on the mechanisms by which the regional programme works for each type of finance, <u>but they should not be used to measure the performance of the programme overall</u>.

Figure A-1: Regional Programmes Higher Level Logic Model: Key Performance Measures (Objectives and Aspirations)

INPUTS	IMMEDIATE OUTPUTS	INDICATOR	INTERMEDIATE OUTCOMES	INDICATORS	ULTIMATE HMG OUTCOME	INDICATOR
EIB loan (NPIF and MEIF) ERDF allocation The Bank's matching loan BEIS/HMT grant funding (the Bank's running costs) Plus: The Bank's organisational resource and Fund manager resource	**Supply of finance** Increased debt and equity finance available to SMEs in the target areas Increase the fund manager operating resources within the target area	**Supply of finance** Total number and value of investments made by fund for each type of finance: Programme successfully established with fund managers appointed.	**Supply of finance** Increase the supply of finance to viable businesses that would otherwise have problems raising finance	**Supply of finance** Finance flows to SMEs in target area narrowed compared to London Leverage additional private sector funding at time of funding and future funding rounds: C7: Private investment matching public support to enterprises (Private Sector Leverage) Increased awareness of equity and alternative sources of finance amongst SMEs in target area [measured through the Bank's Business Finance Survey]	To contribute to long term economic growth of target areas through additional economic output or improvements in aggregate productivity of businesses funded (not at the expense of other geographic areas)	The NPV of additional GVA generated by recipient businesses in the target area over the life of the fund should be greater than the economic cost of delivering the fund. Ie economic cost benefit analysis is positive in target area [This will only be measured at the interim and final economic evaluation stage]
	Business Level Businesses use funding to fund growth, innovation or move to low carbon in line with ERDF Priority Axis[38]	**Business Level** The following business indicators are recorded against one of the following 3 Priority Axis: C1: Number of enterprises receiving support (C3 + C4)	**Business Level** Increase performance of recipient businesses Finance enables investment by businesses in R&D, product development	**Business Level** Additional employment increase since receiving funding C8: Employment increase in supported enterprises Propensity to create high quality jobs Finance used to support innovation:		

[38] Each loan, equity investment or non-financial assistance undertaken is recorded against one of the three Priority Axis categories. There are no specific targets for Priority Axis 4. Supporting Low carbon sectors and projects is a by-product of increasing the supply of finance to SMEs.

		C3 Number of enterprises receiving financial support (loans and investments) C4: Number of enterprises receiving non–financial support (12-hour support) C5: Number of new enterprises supported	Increase innovation in, and adoption of, low carbon technologies	C28: Number of enterprises supported to introduce new to the market products C29: Number of enterprises supported to introduce new to the firm products Additional turnover increase since receiving funding Productivity Increase since receiving funding Propensity to export Increase number of high growth businesses in target area		
	Exchequer Related Fund managers selected are best able to cost effectively operate the fund to meet policy objectives Effective management of Portfolio in line with best practice High quality and timely monitoring information reported	**Exchequer Related** Correct and transparent fund application and selection procedures are followed Reporting undertaken to agreed Bank/ MHCLG timescales Write-offs and financial returns in line with expectations Annual operating costs agreed with stakeholders	**Exchequer Related** The target financial performance for geographic funds is comparable to other funds of similar type.	**Exchequer Related** The target financial performance for the funds meets the targets set by Fund managers in their original proposals to the Bank.		

Debt finance

Smaller loans from £25k (CIoSIF)

The CIoSIF debt allocation is not split into separate early-stage/later-stage debt funds, but the commentary below tries to distinguish between the different rationales for the provision of both smaller and larger debt investments.

Rationale: Market Failure

There are several well-established market failures affecting the supply and demand for microfinance for start-ups and smaller businesses leading it to be underprovided in the market.

Supply-side:

- Information asymmetries between financial institutions and small businesses on the potential viability of the loan applicant lead to a debt funding gap for businesses seeking microfinance. There are high transactions costs to lenders (relative to the loan amount sought) associated with generating and appraising deal flow and providing lending and aftercare support, which can make it financially unviable for commercial providers to deliver small loan finance.
- There may also be wider social externalities arising from microfinance, where the social returns from small loan finance exceed the private returns available to lenders.

Demand-side market failures and barriers:

- Information gaps:
    - Information failure on the part of potential loan applicants who are unaware of the financing options available and/or have negative perceptions of mainstream finance providers (e.g. banks).
    - Investment readiness – Entrepreneurs and small business owners may be unable to present their lending opportunities to best effect, which is particularly acute for businesses likely to be seeking microfinance; they are also more likely to lack financial/business management/planning skills typically required to secure commercial finance.

Figure A-2: Logic model – Smaller loans in ClOSIF

Delivery		Benefits		
Inputs	**Activities**	**Outputs**	**Intermediate outcomes**	**Final outcomes/impacts**

Overall funding of:
• £20.2m* committed to date in NPIF (sourced from CLG/BIS legacy, ESIF, EIB, and the Bank)
• £30m committed in MEIF (sourced from ESIF, EIB, ERDF legacy)
• £18.5 committed in ClOSIF (total debt fund) (sourced from ERDF)
	Fund manager activities:
	• Awareness raising of loans and marketing and promotion of microfinance (esp. to start-ups/young SMEs)
	• Pre-application and application support
	• Provision of microfinance loans
	  o £25k-£100k in NPIF
	  o £25k-150k in MEIF
	• Mentoring of applicants
	• Monitoring of activities
	• Technical and credit assessment of applications
	• Contracting between providers and successful applicants
	• Loan book management
	• Monitoring of loans
		Enquiries/applications – conversion rates
		
		Number and value of microfinance loans (£), gross
		
		ERDF outputs:
		• C1 – Number of enterprises receiving support
		• C3 – Number of enterprises receiving financial support other than grants
		• C4 – Number of enterprises receiving non-financial support
		• C5 – Number of new enterprises supported
		• C7 – Private investment matching public support to enterprises (non-grants), equivalent to private sector leverage
			For business beneficiaries:
			
			Additionality of finance secured (full and partial)
			
			Leading to additional investment in:
			• business start up
			• expansion
			• internationalisation
			
			• Leading to additional:
			  • new firm start-up and survival
			  • new products/services (C28/29) and processes
			  • new jobs created (MI data/ERDF output - C8)
			  • leverage of co-investment and follow-on funding.
				For business beneficiaries
				
				• Business growth:
				  • Impact on turnover and employment, including new and high quality jobs created
				
				For the regions
				• Economic growth in target area as measured by increases in business GVA

			For Eco-system: • Increase in the number of alternative sources of finance amongst SMEs in target areas.	For Eco-system: • A better functioning and sustainable finance ecosystem in target areas.
Plus: • The Bank organisational resource • Fund Manager organisational resource ** Note: only 75% of available funding has been committed to date*	The Bank activities: • Procurement of fund managers • Marketing and awareness raising of programme brand • Website creation & management • High level monitoring • Overarching fund of fund management	Geographical spread of lending across LEP areas	For the Bank: • Interim repayments on loans (MI data)	For the Bank: • Meet expected level of write offs and financial return
Lending: 2017-2021 Portfolio management up to 2026		Intermediate outcomes potentially from 2-3 years after lending through to 5-10 years after lending Final outcomes: 5-10 years (+) after lending		

Source: SQW, drawing on documentation and scoping consultations with the Bank

Debt: Later stage loans, up to £1m (CIoSIF)

Rationale: Market Failure

Market failures exist in the supply of and demand for debt finance, which can prevent some viable businesses from raising finance. A lack of access to debt finance can be a barrier to growth potential SMEs.

Supply-side market failures and barriers:

- Information asymmetries between financial institutions and small businesses lead to a debt funding gap for businesses looking to grow. To avoid the costs associated with gathering this information, lenders often require borrowers to provide evidence of a financial track record and/or collateral to act as security for the loan. Therefore, a market failure exists because the financial institution's decision to lend is based on collateral and track record, rather than the economic viability of the business. This is particularly the case for new, innovative or creative businesses activities which do not have a proven track record or enough collateral to use as security or fit outside of bank's existing lending criteria (and which require further verification).

Demand-side market failures and barriers:

- Information gaps:
    - SMEs do not fully understand the benefits of accessing finance for growth (preferring to grow from retained profits)
    - Unable to present investment opportunities to best effect. These issues are particularly acute for smaller growth businesses with limited financial/business management/planning skills required to secure commercial finance.

Figure A-3: Logic model – Debt: later stage loans (CIoSIF)

Delivery		Benefits		
Inputs	**Activities**	**Outputs**	**Intermediate outcomes**	**Final outcomes/impacts**
Overall funding of: • £153.8m* committed to date in NPIF (sourced from CLG/BIS legacy, ESIF, EIB, and the Bank) • £90.91m committed in MEIF (sourced from ESIF, EIB, ERDF legacy) • £18.5 committed in CIoSIF (total debt fund) (sourced from ERDF)	Fund manager activities: • Awareness raising of loans and marketing and promotion of later stage debt for growth (targeting established SMEs with high growth potential) • Pre-application and application support • Provision of later stage loans o £100k-£750k in NPIF o £100k-£750k in MEIF • Mentoring of applicants • Monitoring of activities • Technical and credit assessment of applications • Contracting between providers and successful applicants • Loans and guarantee book management • Monitoring of loans	Enquiries/applications – conversion rates Number and value of later stage loans (£), gross ERDF outputs: • C1 – Number of enterprises receiving support • C3 – Number of enterprises receiving financial support other than grants • C4 – Number of enterprises receiving non-financial support • C5 – Number of new enterprises supported • C7 – Private investment matching public support to enterprises (non-grants), equivalent to private sector leverage	For business beneficiaries: Additionality of finance secured (full and partial) Leading to additional: • expansion • investment in skills, R&D, production and process development • internationalisation • Leading to additional: • new products/services (C28/29) and processes • new jobs created (MI data/ERDF output - C8) • exporting • leverage of co-investment and follow-on funding.	For business beneficiaries: • Business growth: • Impact on turnover and employment, including new and high quality jobs created • Efficiency/productivity/probability • Additional scale up businesses For the regions • Economic growth in target area as measured by increases in business GVA • Number of high growth businesses • Supply chain impacts and knowledge spillovers from R&D activity • Reduce regional economic performance gap with London
Plus: • The Bank organisational resource • Fund Manager organisational resource ** Note: only 75% of available funding has been committed to date*	The Bank activities: • Procurement of fund managers • Marketing and awareness raising of programme brand • Website creation & management • High level monitoring • Overarching fund of fund management	Geographical spread of lending across LEP areas	For Eco-system: • Increased awareness of alternative sources of finance amongst SMEs in target areas For the Bank: • Interim repayments on loans (MI data)	For Eco-system: • A better functioning and sustainable finance ecosystem in the regions For the Bank: • Meet expected level of write offs and financial return
Lending: 2017-2021 Portfolio management up to 2026		Intermediate outcomes potentially from 2-3 years after lending through to 5-10 years after lending Final outcomes: 5-10 years (+) after lending		

Source: SQW, drawing on documentation and scoping consultations with the Bank

Early stage and later stage equity, £50k-£2m (CIoSIF)

Rationale: Market Failure

Access to equity finance for innovative high growth potential SMEs varies greatly across the country with evidence that this is a result of both supply and demand failures, and their interaction causing a thin market. Specifically:

Supply-side market failures and barriers:

- Imperfect information – Assessing the quality of SME proposals and associated risks is difficult and leads the investor to incur transaction costs of undertaking due diligence. These transaction costs are generally fixed and do not greatly vary with the size of the equity deal. Transaction costs are therefore higher as a proportion of smaller deals. These due diligence costs are proportionally higher when fund managers are based in different geographies from where their investments are located due to additional time and travel costs.
- Strong network externalities lead to clusters[39] of equity activity concentrated in London and the South East, which makes it difficult for them to develop elsewhere. Although clusters of deals activity are developing in the NPIF, MEIF, and CIoSIF areas, it is still relatively low which makes it more difficult for markets to function.
- Private investors cannot capture the positive spill over effects (externalities), eg innovation and knowledge transfer that are associated with young innovative companies. If left to the private sector, these are underprovided by the market.

Demand-side market failures and barriers:

- Information gaps:
    - SMEs do not fully understand the benefits of using equity to unlock growth (preferring to grow from retained profits)
    - Unaware of how/where to access equity or the likely success of securing it
    - Unable to present investment opportunities to best effect [issues particularly acute for smaller growth businesses with limited financial/business management/planning skills required to secure commercial finance].

This leads to underinvestment in potential high growth SMEs, holding back their growth and the economic performance of the region.

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[39] Equity deals tend to be grouped into geographic clusters where innovative companies, skilled labour and equity investors locate close together. SBFM 2016/17 showed this was also the case for the US where 60% of all US VC deals (78% by investment value) in 2015 were made in just three states (California, New York and Massachusetts)

Figure A-4: Logic model – Early stage and later stage equity, £50k-£2m (CIoSIF)

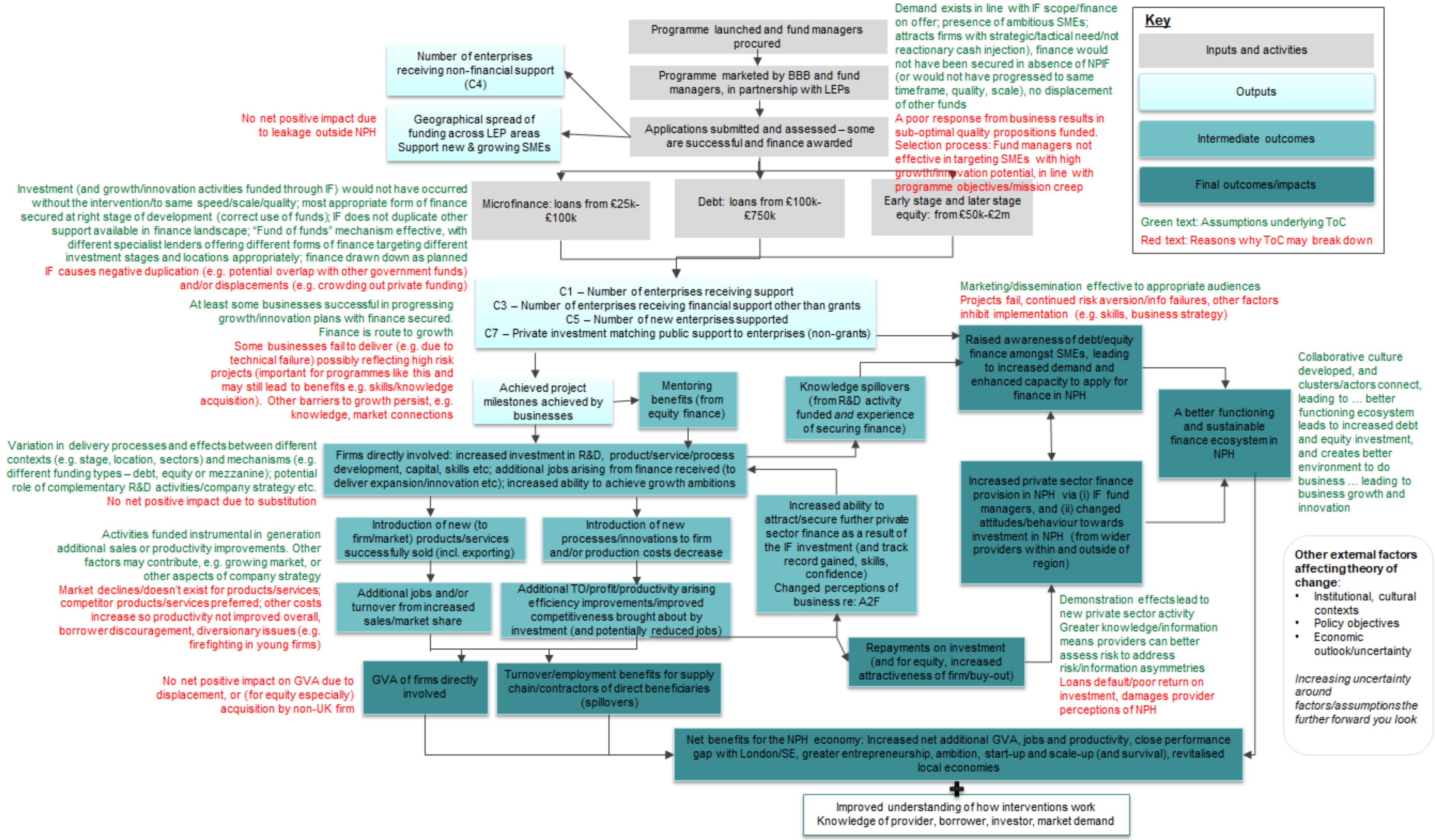
Delivery		Benefits		
Inputs	**Activities**	**Outputs**	**Intermediate outcomes**	**Final outcomes/impacts**

Overall funding of:
• £116.75m committed to date in NPIF (sourced from CLG/BIS legacy, ESIF, EIB, and the Bank)
• £69m committed in MEIF (sourced from ESIF, EIB, ERDF legacy)
• £18.5m committed in CIoSIF (sourced from ERDF)
 	
Plus
• The Bank organisational resource
• Fund Manager organisational resource
 	
** Note: only 75% of available funding has been committed to date*
	Fund manager activities:
	• Awareness raising and promotion of equity investment among SMEs, intermediaries and investors (esp. high growth potential)
	• Pre-application and application support
	• Provision of equity investment
	  o £50k-2m in NPIF
	  o To £2m in MEIF
	• Mentoring of potential investees
	• Monitoring of equity landscape
	• Technical and credit assessment of potential investments
	• Contracting between investors and successful SMEs
	• Investment book management
	• Monitoring of equity investments
	• Mentoring of investee businesses
		Enquiries/applications – conversion rates
		
		Number and value of equity investments (£), gross
		
		ERDF outputs:
		• C1 – Number of enterprises receiving support
		• C3 – Number of enterprises receiving financial support other than grants
		• C4 – Number of enterprises receiving non-financial support
		• C5 – Number of new enterprises supported
		• C7 – Private investment matching public support to enterprises (non-grants), equivalent to private sector leverage
		
		Geographical spread of funding across LEP areas
			For business beneficiaries:
			
			Additionality of finance secured (full and partial)
			
			Leading to additional:
			• expansion
			• investment in skills, R&D, production and process development
			• development and application of low carbon technologies
			• internationalisation
			• management capability
			
			Leading to additional:
			• New products/services (C28/29) and processes
			• TRL progression towards commercialisation, IP etc
			• New jobs created (MI data/ERDF output - C8)
			• Exporting
			• Leverage of follow-on and co-investment funding.
				For business beneficiaries:
				
				• Business growth:
				  • Impact on turnover and employment, including new and high quality jobs created
				  • Productivity
				  • Profitability/firm value
				
				For the regions:
				• Economic growth in target area as measured by increases in business GVA
				• Number of high growth businesses
				• knowledge spillovers from R&D activity
				• Reduce regional economic performance gap with London

			For Eco-system: • Increased awareness of equity finance amongst SMEs in target areas • Overall growth in follow-on and co-investment funding	For Eco-system: • A better functioning and sustainable finance ecosystem in the regions
	The Bank activities: • Procurement of fund managers • Marketing and awareness raising of programme brand • Website creation & management • High level monitoring • Overarching fund of fund management		For the Bank: • Value of equity (MI data)	For the Bank: • Meet expected level of write offs and financial return
Lending: 2017-2021 Portfolio management up to 2026		Intermediate outcomes potentially from 2-3 years after lending through to 5-10 years after lending Final outcomes: 5-10 years (+) after lending		

Source: SQW, drawing on documentation and scoping consultations with the Bank

Figure A-5: Theory of Change



Source: SQW, drawing on documentation and scoping consultations with the Bank

Logic model clarifications

Fund type focus	Outcome indicators	Source / description
For businesses		
All	Additionality of finance secured	Measured through business survey (what proportion would have been secured from other sources)
All	R&D, product development and testing, market testing	From business survey – Has the funding led to new R&D investment, new product development and/or testing
All	Management capability	From business survey – impact on perceived management capabilities
PoC	New prototypes, demonstrators	From business survey – has the firm developed new prototypes or demonstrators
Early stage debt, equity and PoC	TRL progression towards commercialisation, IP, licensing	From business survey record new IP and progress through TRLs
All	New products/services (C28/29) and processes	From business survey – new products/services or processes
All	New jobs created (MI data/ERDF output - C8)	From business survey – has funding led to increase in employment
All	Exporting	From business survey – has funding led to new exports
All	Leverage of follow-on and co-investment funding	From business survey and FMs – has funding led to further follow on investment (report value and type)
Microfinance	Number of new firm start-ups	From business survey – has funding enabled start up
All debt	Number of firms surviving	From business survey – has funding enabled survival
Microfinance	Investment in start ups	From business survey and FM feedback
All debt	Working capital	From business survey – has funding been used for working capital

Fund type focus	Outcome indicators	Source / description
All	Expansion projects, premises, assets, etc.	From business survey – has funding been used for expansion projects
All	Investing in new skills	From business survey – has funding been used for training
For Eco-system		
Equity, PoC	Greater awareness of equity among SMEs, providers and intermediaries	Consultations with FMs and other stakeholders – has the Funds activities changed willingness to consider offering and selling equity more widely
Later stage debt	Greater awareness of later stage debt among SMEs, providers and intermediaries	Consultations with FMs and other stakeholders – has the Funds activities changed willingness to consider offering and taking on later stage debt
Microfinance	Greater awareness of microfinance debt among SMEs, providers and intermediaries	Consultations with FMs and other stakeholders – has the Funds activities changed willingness to consider offering microfinance debt
All	Increase in the number of investors and value of investments for each type of finance	Data from the Bank together with feedback from FMs and stakeholders on number and value of investments made compared with pre-Fund
All	Reduced funding gap for potential high growth firms	Data from the Bank's surveys, consultations with FMs and other stakeholders
Equity	Stronger demand from firms for equity investment	Consultations with FMs and other stakeholders – has the Fund changed demand for equity deals. Also, data from the Bank/Beauhurst on number of deals
All	Increased diversity of funding options for SMEs	Data from the Bank's surveys, consultations with FMs and other stakeholders on whether range of options has developed over time
All	Better investment cases put forward by SMEs	Consultations with FMs and other stakeholders on quality of cases

Fund type focus	Outcome indicators	Source / description
All	For the Bank's Value of equity (MI data)	Value of equity from the Bank's monitoring data
Business growth		
All	Impact on GVA/ turnover/employment, including high(er) quality jobs	Business survey and econometrics to determine change in GVA, turnover and employment attributable to the funding Use data from business survey to evidence types of jobs created
Not priority for microfinance and PoC	Impact on productivity	Use econometrics to determine changes in ratio of GVA to employment among beneficiary firms
At regional level		
All	GVA, jobs and productivity	ONS data for areas
All	Number of new, start up businesses	BEIS business data
All	Number of scale up businesses	ONS
All	Supply chain impacts and knowledge spillovers from R&D activity	Use data from business survey to determine whether spillovers within the region are likely (not quantified)
All	Narrow regional performance gap with London and SE	Compare ONS data
All	Narrow finance gaps with London and South East	Data from the Bank's surveys
All	A better functioning and sustainable finance ecosystem in the regions with:	Data from the Bank's surveys, consultations with FMs and other stakeholders -
Equity	Meet target return for the Bank and fund managers	From the Bank's Monitoring data

Fund type focus	Outcome indicators	Source / description
All debt	Interim repayments on loans (MI data)	From the Bank's Monitoring data

Annex B

Beneficiary survey – additional information

Age sample structure based on beneficiary survey responses (n=8)

Age of business	Survey sample: Debt	Survey sample: Equity	Survey sample: Total
1 to 5 years	0	2	2
6 to 9 years	3	2	5
10 years or more	1	0	1
Base	4	4	8

Source: SQW survey base = 8

Non-beneficiary survey – additional information

There were more non-beneficiary respondents seeking equity, than those seeking debt, which meant that equity respondents were over-represented.

	Survey respondents (n=6)		Sample available for survey (n=8)		Overall population (n=18)	
	Count	%	Count	%	Count	%
Equity finance	4	67%	6	75%	7	33%
Debt finance	2	33%	2	25%	11	61%
Total	**6**	**100%**	**8**	**100%**	**18**	**100%**

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