Cornwall and Isles of Scilly Investment Fund – Interim Evaluation Report

Research report
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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 interim evaluation of the Cornwall and Isles of Scilly Investment Fund (CIOSIF) which took place between April 2022 and August 2022.

Evaluation scope, objectives and approach

This evaluation focuses on the £40m CIOSIF, which was formally launched in June 2018, with first investments made in December 2018, with an investment period to 2023. In the 2021 Spending Review, the Government announced a further £200m to establish a regional investment fund covering the South West of England, building on CIOSIF. The lessons identified in this evaluation may be helpful to inform the design of this expanded programme and other regional finance interventions.

This interim evaluation report builds on the early assessment of CIOSIF, which was completed in March 2020. The interim evaluation explores the effectiveness of delivery processes, performance against targets (spend and outputs) and learning around what is working well (or not) and why. It also revisits evidence on the relevance of, and demand for, the intervention, alongside finance additionality. As the interim evaluation took place when the Fund had only been operational for three years (two of which were significantly disrupted by the Covid-19 pandemic), the emphasis in this report is on emerging outcomes and overall performance. Given the small number of SMEs supported to date, it has not been possible to undertake econometric analysis of net impact or quantitatively assess value for money.

The evaluation has involved analysis of the Bank's monitoring data and wider secondary contextual datasets. We have also held in-depth consultations with six individuals from the CIOSIF Advisory Board, Fund Manager and wider stakeholders. We also undertook telephone surveys with 21 of the 43 SMEs supported by the Fund, which was followed by five in-depth case studies with firms. The findings have been presented to and discussed with the Bank, the CIOSIF Advisory Group, BEIS and HMT.

Key findings

Context

The CIOS geography has faced well-documented and long-term economic challenges, with Gross Value Added (GVA) per capita, productivity and enterprise rates that are consistently below the UK average, and a low proportion of high growth and scale-up businesses. In terms of the local finance ecosystem, the CIOS geography suffered from a less developed networks of equity finance providers and advisors, and a lack of awareness of potential investment opportunities from investors in London and the South East (i.e., information failures). This led to a weak private sector finance landscape with local, regional and devolved Government funds disproportionately represented. On the demand side, information failures and investment readiness were also issues. SMEs lacked awareness of potential funding sources (especially equity) and ways to access finance, struggled to present their propositions to best effect, and, in the case of debt, lacked sufficient collateral or track record to secure finance. These supply-side and demand-side factors combined to create a very 'thin' finance market when the CIOSIF was introduced. The consultee and case study evidence corroborated many of these challenges.

Inputs, activities and outputs

CIOSIF had invested just over £12m between December 2018 and March 2022, which was around half of the anticipated expenditure over this period. Investments have been more weighted towards equity than debt (65% and 35% respectively) compared to expectations of an even split. Both equity and debt funds were behind deployment targets with debt further behind (32% of target) than equity (68%). The Fund experienced a challenging start, both in terms of CIOS "starting from a low base" (i.e. SME attitudes/experience of external, non-grant funding and investment readiness) and operationally with changes in key personnel in 2019. Just as the Fund was starting to build momentum, the Covid-19 pandemic hit. The influx of emergency debt funding, which the Fund Manager was not accredited to distribute, led to a shortfall in demand for CIOSIF debt finance. These contextual factors have impacted on deployment to date, especially of debt. However, the Fund has reportedly seen demand return and now has a strong pipeline of investable opportunities.

CIOSIF finance had been deployed via 54 investments across 43 SMEs by March 2022. The average investment per SME was higher than expected. Qualitative feedback suggests that CIOSIF was relevant to meet business needs and that the original rationale for the Fund remains valid, especially for equity and small business loans. Survey evidence suggests the vast majority of SMEs surveyed have used at least some CIOSIF funding as working capital during the pandemic alongside investing in both staff recruitment and development and R&D activities. The majority of respondents had spent most of their CIOSIF finance at the time of interview, although the Covid-19 pandemic had led to some changes in how funding has been used (for a third of survey respondents) and/or delayed investment (for a quarter of respondents).

Reflecting the shortfall in deployment and demand for debt, the number of businesses supported was only 30% of target. Despite this, the Fund was exceeding targets for jobs created and private sector leverage by March 2022. The Fund has generated nearly £30m in private sector leverage from a combination of investors who were already active and new to the area, although around two-thirds of this came from one investment.

Finance additionality

Overall, the programme has performed well in terms of finance additionality: over half of survey respondents said they probably or definitely would not have accessed finance without CIOSIF (13 out of 21), and a further four SMEs would not have accessed finance as quickly and/or to the same scale. That said, there is some evidence of deadweight; six respondents said they would have secured finance in the absence of CIOSIF, five of whom received equity funding. It is important to note that these findings are self-reported and based on a small sample, although stakeholders consulted were less optimistic than SMEs about their ability to secure finance elsewhere, which strengthens the evidence around finance additionality further.

The evaluation has also tested the extent to which SMEs considered alternative finance at the point they applied for CIOSIF. Only seven out of 21 respondents sought and secured other offers for finance at the time of their first application (which corroborates findings above that six respondents said they could have secured finance anyway). For the remainder, around half had explored alternative finance but were unsuccessful with the reasons given aligning closely with the rationale for CIOSIF (i.e. risk and insufficient track record).

Wider activities and processes

Fund Manager provides wider support before, during and after investment. This includes support to develop investable propositions (which for some SMEs has been substantive support), participation in board meetings, additional support to struggling SMEs during the pandemic and providing introductions to their networks of other investors. These activities are not captured effectively in current metrics for non-financial support. The support provided was very highly valued by SMEs. The survey results indicate high levels of satisfaction with communications and support from the Fund Manager, as well as the application process. Furthermore, the Fund Manager's involvement at a Board level has made a substantial difference to most businesses. In addition to the finance itself, this wider support appears to be key to realising outcomes and impacts in the SMEs supported.

The Fund Manager also plays an important role in enabling the local finance landscape to function more effectively. Again, this is not captured in the monitoring metrics, but for CIOS has been a key benefit of the Fund. The Fund Manager has been very proactive and visible in the local community, which has helped to change perceptions of external finance amongst the business base, raise awareness of the Fund, and encourage intermediaries to refer into the programme. There is also emerging evidence to suggest that CIOSIF has helped to establish a pipeline of investment propositions in the region and the Fund Manager has become a helpful central point of contact for investors based outside of CIOS to enquire about investment opportunities. The presence and profile of the Bank has also improved as a result of the Fund.

The Fund Manager being locally based, visible and having strong connections to local networks were all considered critical by consultees in generating the benefits described above.

Outcomes and impacts

Firms

Overall, the evidence gathered for this interim evaluation suggest CIOSIF has had a positive impact across the businesses supported. It is important to note that survey evidence is based on a relatively small sample and self-reported, but the findings are encouraging nonetheless.

CIOSIF has played an important role in helping some SMEs to secure wider finance. In the survey, nearly half of respondents had secured follow-on finance (excluding CIOSIF follow-on) and almost all of these were equity recipients and argued that CIOSIF had a large or moderate influence on their ability to secure the finance. The Fund had provided a valuable stepping stone and greater credibility in subsequent discussions with other investors. For the large majority of survey respondents, the Fund has increased their awareness of sources of private finance and confidence in their ability to secure it.

CIOSIF has generated a range of benefits for the SMEs supported. Almost all SMEs surveyed had become more resilient, which has been particularly important given the challenging economic context in which the Fund has operated. Over half of survey respondents also argued that CIOSIF has prevented business closure. The finance has enabled a large majority of SMEs surveyed to strengthen their skills base, improve efficiency and become more innovative through investment in R&D and the commercialisation of new products and services. All of these are key drivers of economic growth.

Nearly half of respondents have also used CIOSIF finance to reduce their environmental impact. These outcomes are leading to improved business performance: the majority of survey respondents have observed either a positive impact on employment (including well paid jobs) and/or sales. However, impacts on exports are more limited, in part reflecting the fact many supported SMEs served UK markets and difficulties in trading internationally due to the pandemic.

Early findings on outcome additionality are encouraging: one third of respondents said they would not have achieved these outcomes at all without CIOSIF funding and a further third said the finance has accelerated outcomes. However, the evidence is self-reported and, as explained in the introduction, the number of SMEs supported to date is too small to undertake econometric analysis to compare their performance with a counterfactual. A comparison of the costs and benefits to date would therefore not be robust at this stage and a more reliable value for money assessment will be done in the final evaluation.

Commercial performance

It is too early to fully assess the commercial performance of the Fund. Repayments and arrears are minimal to date. The latter is encouraging given the economic context in which the Fund has operated. Whilst the level of write-offs were expected to rise given the ongoing economic instability, consultees did not express any major concerns about the Fund's future financial performance at the time of the evaluation.

Influence on the wider finance ecosystem

It is still too early to fully assess the impact of CIOSIF in improving the wider finance ecosystem at this stage, but emerging evidence suggests the Fund has already played an important role on both the demand and supply side. CIOSIF has increased the supply of funding available in the region, especially in terms of equity finance, which was a key goal at the outset. The Fund Manager would not be active in the region at all without CIOSIF and, as noted above, the Fund has levered a substantial amount of match funding. The Fund Manager has played a key role in facilitating and strengthening networks across the finance ecosystem, through extensive and regular engagement with key stakeholders and intermediaries. There is emerging evidence to suggest the Fund is beginning to change perceptions around the investment propositions in CIOS, both from angel investors located within and investors based outside of the region. On the demand-side, the Fund has also played a role in "educating the market" and changing SME perceptions of external finance, especially in relation to equity finance. These are critical legacy effects in places such as CIOS. It is too early to expect these outcomes to be self-sustaining, but the Fund has been able to make a notable difference in a relatively short space of time.

Overall assessment

Overall, CIOSIF has performed relatively well given the circumstances and the relatively early stage in the Fund's lifetime in which the evaluation has been undertaken. The finance has been targeted towards SMEs, many of whom would not have secured finance at all or as quickly in the absence of the Fund. The number of SMEs supported was lower than expected. However, the survey results show that, in these cases, the Fund has generated positive outcomes as intended, through both the finance and wider support. There is also emerging feedback to suggest the Fund Manager has helped to strengthen the local finance ecosystem both on the demand-side (through raising awareness and changing attitudes towards external, repayable finance) and on the supply-side (via its own investments and leveraging investment from others). We do, however, need to be realistic about the extent to which we can expect observe system-wide impacts after only about three years of operation.

Combined, the evidence gathered for the evaluation shows the Fund has delivered against its original objective to generate economic growth via increasing the supply of finance in the region and it has made progress towards tackling the original market failures it was designed to address.

The key challenges for the Fund have been the number of SMEs supported and scale of finance deployed – both much lower than had been anticipated by this stage. Two key factors played into this: first, the Fund was introduced into an area that was "starting from a low base" with longstanding and persistent challenges in relation to access to finance meaning it has taken longer to change perceptions and develop investable propositions; and second, the extremely challenging context for a large proportion of the Fund's lifetime, and the associated influx of emergency funding which the CIOSIF Fund Manager was not accredited to deliver. Arguably, even though outcomes are positive for those supported to date, the scale of impacts could obviously have been much greater by this point if more businesses had received finance.

Drawing on the evidence gathered and lessons learned in this evaluation, the British Business Bank should consider the following lessons and reflections to inform the design of future policy:

- The benefits from having a locally-based Fund Manager who understands the local business base and intermediary networks and plays a key role in the wider ecosystem to raise awareness, change perceptions and strengthen networks as a necessary foundation on which supply-side interventions such as CIOSIF can build.
- An understanding that local contexts may influence demand and the degree of wide wrap around support needed from Fund Managers, and ensuring that the Fund's objectives, resources and performance metrics are appropriate in this context. The time and resources required for business support (and wider ecosystem functions) should not be under-estimated, especially in places with limited experience of tapping into external or private sector finance.
- The need for greater transparency on the anticipated target market, investment strategy and risk profile of Funds that are designed to address both market gaps and operate on a commercial basis.
- Whether the balance between equity and debt investment remains appropriate, particularly given the stronger performance of equity to date. Consultees also reported an ongoing gap in equity for earlier stage SMEs that would benefit from local investor presence.
- Whether there is scope for closer strategic alignment between the Fund and locally important sectors and priorities.

A final evaluation of CIOSIF is planned to take place 10-12 years after the first investments, at which point a comprehensive assessment of long-term impacts will be possible, both through primary and econometric research. It will be important to gather further evidence on spillover/multiplier benefits and wider market impacts, for example through more extensive consultation/survey work with wider market stakeholders, intermediaries and non-CIOSIF investors.

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 interim evaluation of the Cornwall and Isles of Scilly Investment Fund (CIOSIF) which took place between March 2022 and July 2022.

Evaluation scope, objectives and research questions

This evaluation focuses on the £40m Cornwall and Isles of Scilly Investment Fund which was formally launched in June 2018 with an investment period to 2023. This interim evaluation report builds on the early assessment of CIOSIF which was completed between January and March 2020. The interim evaluation explores the effectiveness of delivery processes, performance against targets (spend and outputs) and learning around what is working well (or not) and why. It also revisits evidence on the relevance of, and demand for, the intervention, alongside finance additionality. However, given the timing of this phase approximately three and a half years after the initial investment, the emphasis in this phase is on net outcomes and impacts and an overall assessment of performance and value for money.

The research questions for the interim evaluation are summarised below. To note, the rationale, design and delivery questions were explored in more detail in the early assessment and were therefore covered in less depth in this phase; whereas the remaining questions were higher priorities in this phase, as set out below.

Table 1.1: Evaluation questions

Topic	Key Evaluation Questions	Prioritisation
Context, rationale and design	• What is the scale, nature and geography of applications and awards, and is this in line with expectations? • Are the Investment Funds relevant to meet business needs?	Lighter touch
Delivery	• How effectively have the IFs been aligned with the wider finance ecosystem offer? • How is the additionality of IF investment ensured? • How effectively and efficiently are the programmes being delivered, managed and governed? How could this be improved?	Lighter touch
Inputs, outputs and finance additionality	• How are the IFs performing against input and output targets? What are the reasons for under/over-performance? • To what extent is the funding additional and addressing the market failures? • What other sources of finance do applicants consider? • To what extent would applicants be able to secure other forms of finance?	Priority

	• What do SMEs use IF finance for?	
Outcomes and impacts	• What outcomes have been achieved for businesses involved in the programme and to what extent are these additional? • To what extent has the IF levered follow-on investment? • What is the distribution of outcomes and impacts? • How are outcomes/impacts delivered, how does this compare to assumptions in the ToC, and what can we learn about what works in terms of pathways to impact? • What is the contribution and relative importance of the IFs in enabling outcomes/impacts, compared to other internal/external factors? • What are the future expected outcomes/impacts? • To what extent have IFs been a commercial success at both the business and programme levels? • What are the levels of repayment and arrears and what drives arrears amongst SMEs? • To what extent are IFs adding value at the sub-national level in improving the wider finance ecosystem, addressing the finance gap and stimulating the supply and demand side of the market?	Priority
Overall assessment	• To what extent are IFs achieving their objectives and addressing market failures?	Priority

Source: SQW

Evaluation methodology

Overall approach

The overall approach to the evaluation is theory-based. The overarching approach to the evaluation draws on mixed methods to collect data in order to test progress and performance against the logic models and theory of change set out in Annex A. Figure 1.1 shows the main strands of the evaluation.

Figure 1.1: Summary of main strands of research

Data analysis	Consultations	Primary research with beneficiaries
• Programme monitoring data • Review of Quarterly Reports • Secondary contextual data	• Fund Manager • Governance representatives • External stakeholders	• Beneficiary survey • In-depth case studies

Approach to this interim evaluation

This section sets out the research tasks that were undertaken in the interim evaluation. In addition to the workstreams below, emerging findings were discussed at a workshop with the Bank and then presented to the CIOSIF Advisory Board, BEIS and HMT. The draft report was subsequently reviewed by the Bank, HMT and Cabinet Office, and subject to the BEIS Peer Review process.

Data analysis

Monitoring data has been analysed to characterise the profile of applicant firms and assess spend and output performance against targets. In addition, analysis of secondary data has been updated to track changes since CIOSIF was launched and provide an overview of contextual conditions that form the backdrop to CIOSIF performance over this period.

Consultations

In-depth consultations were held with six individuals from the organisations outlined below. These interviews covered 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 outcomes/impacts of the Fund, both on the SMEs involved and the wider economy:

- Representatives from the CIOSIF Advisory Board including LEP members.
- The Fund Manager delivering CIOSIF.
- Wider stakeholders including local business support/access to finance providers and intermediaries.
- A workshop was also held with representatives from the Bank to present, test and calibrate emerging findings as part of the reporting process.

Business survey

A telephone survey was completed with 21 SME beneficiaries between April and May 2022. The interviews focused on finance additionality, follow-on finance and outcomes and impacts arising as a result of CIOSIF support, and the extent to which this was additional.

A census approach was adopted to maximise the response rate from a of 32 SMEs. Overall, the survey was completed with **66% of all beneficiary contacts** made available to SQW by the Fund Manager at the time of the evaluation[1], and 95% of SMEs that were contactable during the survey period (i.e., answered the phone).

The survey covered half of all CIOSIF awards (27) and two-thirds of the finance invested (£8m) at the time of the survey. This covered 73% of all equity investments and 29% of all loans (by number of awards). Because we adopted a census approach to maximise the number of responses, there are some differences between the survey respondents and CIOSIF population. The survey responses were over-represented in terms of equity awards and under-represented for loans[2] with the average investment amount amongst respondents higher than the programme as a whole[3]. Based on our evaluations of the Bank's other Regional Investment Funds (NPIF and MEIF), this may mean that outcomes observed in the survey results are slightly more positive than for the population as a whole. The survey covers a substantial proportion of the population which provides reassurance in relation to the validity of the results. Respondents were predominantly in manufacturing, wholesale and ICT and,

[1] Contact data was provided by the Fund Manager for 32 SMEs, out of the 43 SMEs that had received CIOSIF finance at the time the evaluation survey was conducted.

[2] 70% of awards covered by the survey were equity, compared to 48% in the population; 30% of awards covered by the survey were loans, compared to 52% across the population.

[3] The average investment amount across survey respondents was £297k compared to a programme average of £225k

to a lesser extent, professional, scientific and technical sectors; this broadly reflected the population The number of awards received[4] and timing of support[5] broadly mirrored the population.

Table 1.2: Awards coverage in survey, compared to population

	Survey[6]	Survey[7]	Population (to end of March 2022)	Population (to end of March 2022)
	Number of awards	%	Total number of awards	%
Number of debt awards	8	30	28	52
Number of equity awards	19	70	26	48
Total number of awards	27		54	

Source: SQW analysis of CIOSIF survey

Case studies

The five case studies provide in-depth qualitative evidence of progression, outcomes and impacts, additionality, and contribution of the Fund. They are intended to be illustrative rather than representative and have been selected in discussion with the Bank to provide a range of experiences in terms of finance type, finance additionality and leverage, outcomes observed, location, and sector.

Table 1.3: Introduction to the case studies

Firm name	Description
Codices	A technology company founded in 2018 as a spinout from Falmouth University's Launchpad Incubator scheme. Now based in Penryn, it develops technologies that enable online broadcasters to monetise, manage and produce live interactive gameshows. It received two CIOSIF equity finance deals in 2019 and 2022, both valued at £250k. These were used to develop a new product and provide working capital for staff recruitment, training and marketing. Investments were also made in equipment to improve internal processes.
Bosena	An independent film production company based in Penzance. It was founded in 2019 and currently has two employees. It received £40k debt finance from CIOSIF in 2021, which was used as working capital to finance costs of producing a film that was delayed due to Covid-19. It was also used for business development activities including sales and PR activities.

[4] Most respondents had received one CIOSIF award (76%)
[5] 43% of respondents had received their first CIOIF investment in 2021 or 22, compared to 40% of the population
[6] In the survey population there were 13 firms in receipt of equity finance from CIOSIF and 8 in receipt of debt finance from CIOSIF

[7] In the survey population there were 13 firms in receipt of equity finance from CIOSIF and 8 in receipt of debt finance from CIOSIF

Logan Electronics	A manufacturer of electronic cables and wiring assemblies for large scale manufacturing businesses. It has 25 employees and operates from Redruth serving clients across the UK. It was founded in 1988 and after an ownership change in 2017 began developing new products and services. In 2022, £250k of equity finance from CIOSIF was used to increase production capacity during a surge in demand for new services after pandemic restrictions. It also part-funded an upgrade to a larger, more efficient premises.
Triskel Marine	An analytics business that provides marine data management and processing services including delivering real-time updates on energy consumption of engines used in the marine industry. It was founded in 2003 and in 2018 underwent an MBO led by one of the founders and a partner. In 2021 it received £350k of debt finance from CIOSIF drawn down in two tranches. This was used as working capital to purchase new materials to increase supplies of its product in turn growing sales.
Wildanet	An independent broadband provider focused on providing superfast and reliable connections to rural Cornwall. It was established in 2017 and based in Liskeard. It secured two equity finance deals from CIOSIF of £750k (2019) and £600k (2020), which were used to support business growth (by financing an expansion of Wildanet's broadband network), invest in assets and employ new staff.

Context and limitations

The CIOSIF became operational after the Bank's two other Regional Investment Funds (NPIF and MEIF). By the time of the evaluation in 2022, the Fund had been operational for approximately three years but two of those years were significantly disrupted by the Covid-19 pandemic. Three-fifths of SMEs supported (71% survey respondents) received their first CIOSIF investment in 2020 or later. As a result most investments were made during very difficult trading conditions associated with Covid-19 and limited time has elapsed to generate benefits. As set out in the CIOSIF logic model, the programme's intended intermediate outcomes (e.g. new jobs, firm survival, new products/services, and follow-on funding) were expected from 2-3 years after the CIOSIF investment through to 5-10 years after investment. Final outcomes (e.g. firm growth and diversity of funding options across the wider market) were expected 5-10 years after investment. We therefore need to be realistic about the extent to which it is possible to observe/evidence some outcomes/impacts at this stage. The evidence presented in this report is therefore likely to understate the ultimate impacts of the programme.

Due to the ongoing uncertainty relating to Covid-19 recovery/future outbreaks and wider macro-economic challenges at the time of the fieldwork (notably rising costs and inflationary pressures), the decision was made in discussion with the Bank that SMEs participating in the survey would not be asked to quantify future anticipated impacts of CIOSIF.

From a methodological perspective, there were too few cases to undertake robust statistical or econometric analysis of impact or value-for-money, as carried out in the NPIF and MEIF evaluations. Hence the approach for the interim evaluation has been largely based on self-reported survey evidence, stakeholder consultations and case studies. A survey of non-beneficiaries was undertaken as part of SQW's early assessment of the Fund, but it was agreed with the Bank not to survey non-beneficiaries at this interim stage.

Report structure

This report is structured as follows:

- Section 2 provides an overview of CIOSIF, including rationale, market context and objectives, and summarises the contextual conditions and key changes since the Fund was introduced
- Section 3 provides an overview of the Fund to date, the inputs and activities delivered, characteristics of the funded firms, and feedback on the process
- Section 4 presents evidence on finance additionality, including alternative sources of finance considered
- Section 5 presents evidence on firm-level outcomes and impacts observed to date
- Section 6 outlines wider emerging impacts for the Fund Manager and wider finance ecosystem
- Section 7 presents a summary and conclusions from the interim evaluation.

The report is supported by four annexes: Annex A provides the logic model for the Fund; Annex B presents further details on the survey undertaken; and Annex C presents the case studies.

2. CIOSIF and the finance context

This Section provides an overview of the CIOSIF programme and its rationale and objectives at the time it was introduced. Also included is a reflection on how the finance market has shifted since it began which gives important context when testing how CIOSIF has been delivered and performed over this period.

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 draws on funding from European Regional Development Funds (ERDF), European Structural Investment Fund (ESIF) and LEP funding to the sum of £8 million. The CIOSIF is a "fund of funds", overseen by the Bank in close partnership with the Local Enterprise Partnerships (LEPs), and delivered in each region by a contracted Fund Manager (FSE) who is tasked with targeting funding towards 'innovative companies which are likely to deliver the most spillover benefits to the wider Cornwall area'.

In the CIOSIF area the Fund offers:

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

The Fund is nearing the end of its 5-year investment period, which will then be followed by a 5-year realisation and repayment period. 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 CIOS geography has faced well-documented and long-term economic challenges, with Gross Value Added (GVA) per capita, productivity and enterprise rates that are consistently below the UK average, and a low proportion of high growth and scale-up businesses. CIOSIF was developed in response to evidence that access to finance was a significant barrier to business development and growth in the CIOS area.

On the supply side for equity the CIOS geography suffered from a less developed networks of equity finance providers and advisors and a lack of awareness of potential investment opportunities from investors in London and the South East (i.e., information failures). This led to a weak private sector finance landscape with local, regional and devolved Government funds disproportionately represented. Travel costs (including time) were higher for investors coming to/travelling across the CIOS geography. Due diligence costs were comparatively high for (typically) smaller equity deals in the region. Banks and other mainstream finance providers were not always meeting the demand for loans for start-up companies due to lack of collateral, credit history and/or trading history, and the low margins associated with low value loans. Even established businesses were struggling to secure mainstream debt finance due to similar issues as well as often being outside of a bank's defined assessment categories to scale up and to grow. Across both types of finance there was also a wider externality rationale for CIOSIF, whereby private sector investors do not capture market and knowledge spillovers leading to overall under-investment.

On the demand side, information failures and investment readiness were also issues. SMEs lacked awareness of potential funding sources (especially equity) and ways to access finance, struggled to present their propositions to best effect, and, in the case of debt, lacked sufficient collateral or track record to secure finance.

These supply-side and demand-side factors combined to create a very 'thin' finance market at the time CIOSIF was introduced whereby markets worked less effectively due to smaller number of providers and deal activity. The equity ecosystem in the CIOS area was particularly underdeveloped at the time.

The consultee and case study evidence corroborated many of these challenges. On the supply-side, consultees commented on the thin finance market in CIOS, with a historic gap in equity finance (particularly <£1m) across the region. In relation to the mainstream banks it was noted that corporate debt finance has reduced and lending is "wholly inappropriate" for many of the region's firms, such as those in the visitor economy, because debt arrangements are not suited to irregular revenue and cash requirements. There were mixed views on whether supply has shifted since the Fund was launched: some consultees thought Covid-19 had "opened up the market" (e.g., due to remote working), resulting in the region having access to the global VC market, whilst feedback from others suggested there has been no notable changes to supply overtime. On the demand-side, consultees frequently commented on the low levels of investment readiness across the region, alongside the "culture of independence" in CIOS, leading to a lack of demand for external finance (particularly equity).

The case studies also illustrated the challenge faced by early stage firms without a track record in securing external finance. For example:

- As an early-stage firm, Wildanet, were faced with a lack of early growth finance options within the region had a limited track record, which made it difficult to find finance to accelerate the expansion of their broadband network. The amount of time and resources it takes to secure external capital were also cited as a challenge.
- Codices also encountered similar challenges as an early-stage technology company, with a limited track record in securing finance and a lack of early growth finance options in the region. In addition, their business model relied on capital investment upfront, which was deemed a high-risk proposal by other finance providers.

"I was impressed with how forward thinking CIOSIF are - we are a very atypical company in Cornwall and sometimes people are too scared, so I was very happy that we went out with a big vision and CIOSIF were happy to sort it. The fact they are willing to take proper risks is a good thing as they could just go safe, but they don't."

- Logan Electronics noted the sparse number of providers operating in the county and claimed that without the scheme it “would have been virtually impossible to raise this amount of finance locally”.
- Triskel Marine had struggled to secure bank finance because, as an early stage R&D company with little regular income, their lack of track record made them ineligible for bank finance.

Programme objectives

The main objective for the Fund was to increase economic growth by ensuring a healthy supply of and access to finance for scale-up and potential growth of SMEs in the CIOS area. Each type of finance was expected to deliver a different route to this overall goal:

- Early stage debt was designed to support the growth, quality (through higher financial capital) and survival of young businesses in the region.
- Later stage debt finance was aimed at more established businesses that may be capital constrained to support business growth through facilitating expansion plans, funding the development of new products and enabling entry into new markets.
- Early and later stage equity finance was designed to support innovative firms that were too high risk to be supported by debt finance, lacked collateral and had unstable cashflows. Equity finance provided access to capital in order to fund growth, but also provides significant additional management capability through investors knowledge, experience and connections.

The Investment Funds have also been designed to maximise net additional outcomes and impacts by minimising deadweight and maximising additionality in the finance provided and outcomes achieved. To ensure that CIOSIF focused on market gaps where SMEs struggle to obtain similar finance from traditional sources, SMEs were required to demonstrate to Fund Managers that they were unable to obtain the requested finance through mainstream/commercial investors/lenders. The Funds also sought to minimise displacement within the CIOS geography (and ideally the UK) through ‘new’ growth and exports, and minimise substitution within the firm[8] and leakage of benefits outside of the target geographies.

In addition to business growth objectives, the programme was also expected to deliver a series of longer-term policy objectives to create a better functioning and sustainable finance ecosystem across the CIOS area:

- On the supply side, this included increasing the number private finance providers (and associated value of investment), increasing the diversity of funding options for SMEs and increasing the capacity/skills/understanding of fund managers in the CIOS geography.
- On the demand side, the programme also sought to raise awareness of finance amongst SMEs and intermediaries across the region.

At an operational level, the programme was also intended to meet target financial returns for the Bank and the Fund Manager, including through interim repayments on loans.

Please turn to Annex A for detailed logic models for each type of finance, and a theory of change for the programme as a whole.

[8] i.e. 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).

Contextual conditions

Demand side indicators: the CIOS business base vis-à-vis the UK as a whole

The region[9] covered by CIOSIF was home to just over 22,000 firms in 2020, which represented 1% of all firms in the UK. Since CIOSIF was launched in 2018, annual growth in the number of firms in the region has increased at a compound annual growth rate (CAGR) of 1.9%, similar to the six year period prior to 2018 (CAGR of 1.7%). Since 2018, growth in the number of firms in the region has exceeded the UK average growth (CAGR of 1.5%)[10].

There are relatively few high growth firms[11] in CIOS (90 in 2020), but the proportion of high growth firms in CIOS is broadly in line with the UK average (0.5% and 0.4% of all active enterprises respectively, 2015-20). According to the UK Innovation survey, nearly half of CIOS firms were collaborating within business groups, which was in line with the UK average (2016-18). However, the region has a below average proportion of firms that are 'innovation active' (34% compared to 38% UK average), and falls within the lowest 20% of LEPs[12] for this measure.

Evidence suggests the value of equity investment in CIOS is considerably lower than would be expected for the size of the economy. Despite the region hosting 1% of the UK's firms the mean annual value of equity investment in the region over the last decade was just 0.2% of the UK total.[13] Moreover, out of all LEP regions, CIOS has the highest relative share of micro businesses and lowest share of large businesses; smaller firms are considerably more likely to face barriers to accessing finance such as reduced awareness, ability to provide security and lack of track record.[14] These issues are further compounded by national trends of low levels of SME confidence, falling business investment and recessionary periods due to Covid-19 (and Brexit), as reported in the British Business Bank's Small business finance markets 2020/21.

Supply side indicators: the finance landscape in CIOS vis-à-vis the UK as a whole

At the time CIOSIF was introduced, there were reportedly significant gaps in the region's start-up, early stage and development capital offers, and an absence of private sector fund managers with a head office in Cornwall[15]. Supply-side issues in the region are persistent and longstanding. Over the last decade, the wider South West has hosted only 3% of the UK's equity investors (2011 – 2021 Q1) which means there are very few investors within the ideal two hours travel time of companies in CIOS.[16] The Levelling Up White Paper reiterated the disproportionate challenges faced by SMEs outside of the Greater South East in accessing financial capital, and the implications of this for private sector growth and productivity, jobs and living standards more broadly.

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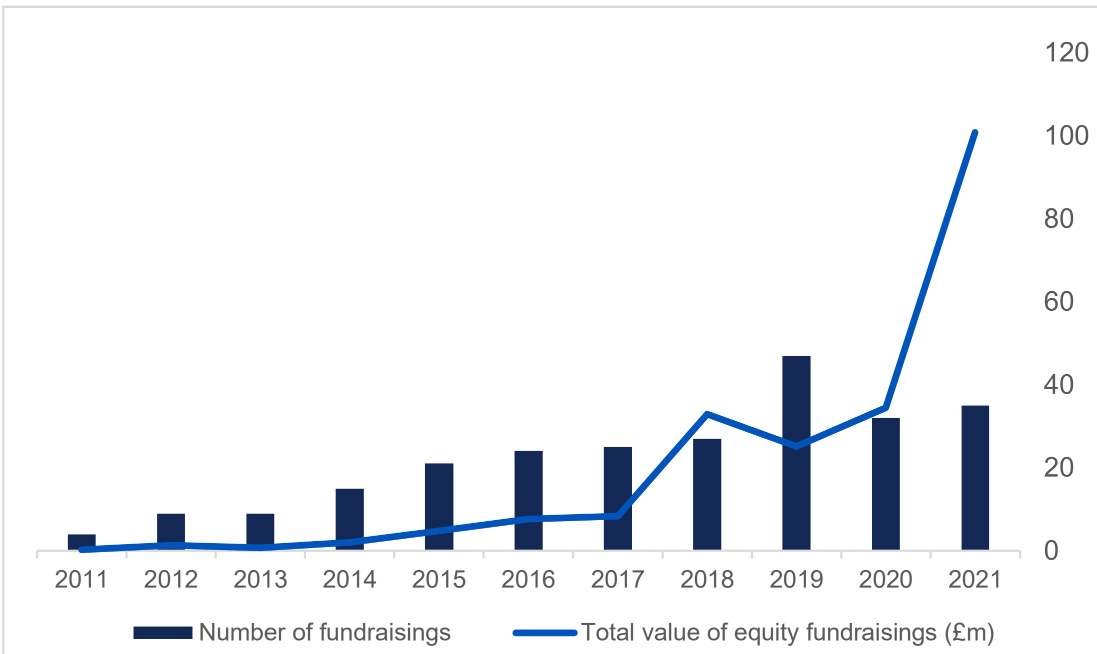
[9] The region refers to area covered by the Cornwall and Isles of Scilly LEP.
[10] ONS Business Demography (2020): Active Enterprises
[11] The ONS defines high growth firms as those with average annualised growth greater than 20% per annum over a three year period, measured by either number of employees or turnover.
[12] BEIS analysis of innovation activities by UK businesses, from UK innovation survey (UKIS). Innovation active is when a business engages in any of the following activities: a. The introduction of a new or significantly improved product (good or service) or process; b. Engagement in innovation projects not yet complete, scaled back, or abandoned; or c. New and significantly improved forms of organisation, business structures or practices, and marketing concepts or strategies.
[13] Analysis of ONS Business Demography and Beauhurst data (2011 – 2021)
[14] British Business Bank (2022): Small Business Finance Markets Report
[15] Analysis sourced from the CIOSIF business case.
[16] British Business Bank: Regions and Nations Tracker: Small Business Finance Markets 2021

Data from Beauhurst shows that SMEs in the CIOS region secured just under £195m in announced equity finance deals between 2018 and 2021, equivalent to 1.6% of the UK total over that time period. Half of this total was underpinned by three major deals valued between £20m to £51m. This included the £51m of private investment made into Wildanet in 2021, which followed from the CIOSIF equity investment the business had previously received (see case study in Annex C for more detail). Otherwise the remaining individual deals were below the value of £10m. The region's annual share of all UK equity investments had been increasing in the six years prior to the launch of CIOSIF, from 0.01% (2011) to 0.1% (2017) but remained very low. However, since the Fund launched in 2018, there has been a notable uplift in the number and value of equity investments being made in the region, as shown by Figure 2.1. By 2021, CIOS' share of all UK equity investment (0.56%) was five times greater than that in 2017[17]. Since 2018, CIOSIF accounts for nearly one-fifth of all equity invested.

Figure 2.1: Number and value of equity deals secured by SMEs in the CIOS region (2011-2021)



Source: SQW analysis of Beauhurst data. Announced and unannounced deals

Detailed data on micro and larger scale debt finance at the CIOS level is limited. Evidence from UK Finance on the number of new SME loans and overdrafts approved in 2020 suggests the South West region secured only 8% of the UK total[18], but data is not available at the CIOS level.

[17] The Beauhurst database tracks all firms that have an equity investment. Data includes all announced and unannounced deals.

[18] British Business Bank (2021) Regions and Nations Tracker: Small Business Finance Markets 2021

3. Assessment of inputs and activities

This Section presents an analysis of CIOSIF investments and outputs (compared to targets) and the characteristics supported, drawing on an analysis the Bank's monitoring data. We also provide feedback on delivery processes to date, informed by qualitative evidence from the consultations and findings from the beneficiary survey.

Inputs

Financial expenditure

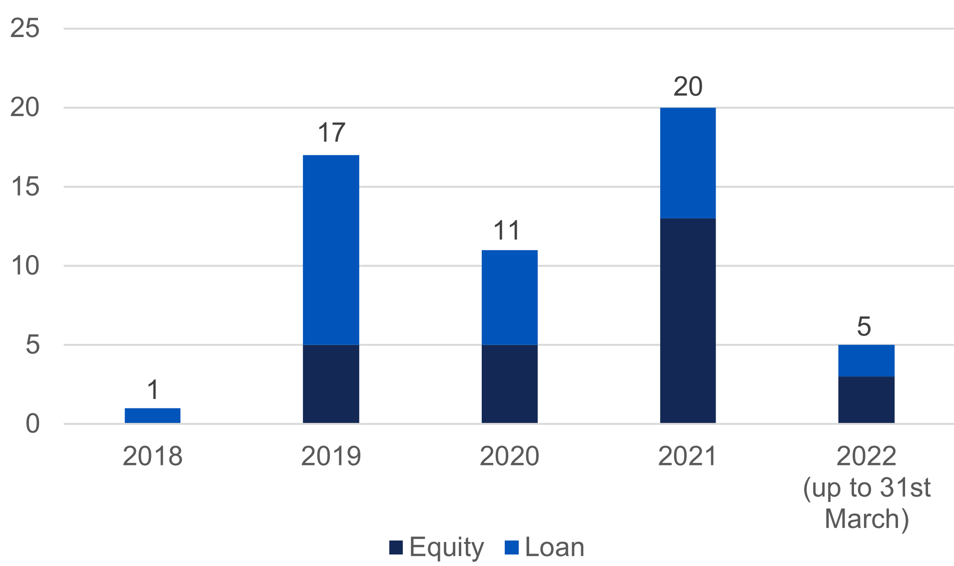
Originally, £37.74m was allocated to CIOSIF, with the invested capital intended to be split 50:50 across loans and equity.

By the end of March 2022, the CIOSIF had received 857 enquiries. Of these:

- 137 (16% of enquiries) reached application stage
- 54 investments were made (39% of applications)

As illustrated below, three-fifths of investments have been made in 2020 onwards, and the number of equity investments in 2021 was particularly strong. Note, 2022 data only covers the first quarter.

Figure 3.1: Number of investments per year (June 2018 - March 2022) (n=54)



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

The total value of investments was £12.15m by March 2022, which was below the cumulative plan of deploying £24.56m by the end of March 2022 (i.e., 51% below target[19]). Of this, 65% was equity finance and 35% was debt.

Table 3.1: Investments and value to End of March 2022 (n=54)

	Number of investments to date	Total investment value (£m)
Total, of which:	54	12.1
…equity	26	7.9
…debt	28	4.2

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

Each fund has a different contracted target "plan" for the investment value and number of SMEs supported each quarter and for the Fund's lifetime (see Table 3.2). Both the equity and debt funds were below their target investment value by the end of March 2022. CIOSIF deployment has been below expectations for most of the Fund's operational period. After a slow start, the Covid-19 pandemic further worsened deployment against plan, with the debt pipeline most affected.

- **The amount invested in equity (£7.9m) was 68% of target by March 2022**. This was somewhat behind target, but the amount invested has increased steadily throughout the Covid-19 pandemic.
- **For debt, deployment (£4.2m) was significantly behind plan, at 32% of target by March 2022**. The amount loaned has remained relatively constant each quarter, but the latest Quarterly Report notes that *"there was a noticeable uptick in the Debt fund activity"* in the quarter ending 31st March 2022, with £1.2m loaned during that period.

Table 3.2: Investments and value to end of March 2022 (n=54)

Fund	Fund Manager	No. of loans/ investments	Actual amount loaned/ invested	Target (% of target to date)
Equity	FSE Group	26	£7.93m	£11.58m (▼68%)
Debt	FSE Group	28	£4.22m	£12.98 (▼32%)
Total		**54**	**£12.15m**	**£24.56m (▼49%)**

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

Qualitative feedback also highlighted the challenges of Covid-19 for the Fund. Consultees explained that the emergency finance, including CBILS and BBLS, "killed" the small end of the debt market (<£50k) as firms could secure more attractive funding (i.e. terms and conditions) quicker through the emergency funding schemes. The larger debt market was also impacted. This growing competition in the debt market was exacerbated by the Fund Manager not being accredited to deliver emergency

[19] All targets sourced from the CIOSIF Quarterly Report in March 2022

funding which could have been used alongside CIOSIF. Following a small initial decline in demand for equity - owing to the economic uncertainty caused by the pandemic - the equity fund was less affected overall.

Besides the pandemic, consultees cited a range of other factors that have influenced deployment. The Fund has received c.850 enquiries but converting enquiries into investments has proved challenging. As we discuss further below, low levels of investment readiness in the region has meant a substantial amount of support and time has been needed to bring them forward for CIOSIF investment. Many SMEs were deemed to be too early-stage, risky and/or are ineligible for support (usually due to location), did not meet the Fund Manager's quality threshold or were reportedly deterred by the Fund's interest rate. As a result, only 6% of enquires have been converted into investments.

As a result of slower than anticipated deployment and time limits on spending the Fund's ERDF contribution, **a process to reduce the size of the Fund by £8m** (drawing from the ERDF/LEP commitment) was ongoing at the time of writing. Deployment targets will be revised down accordingly.

Looking forward, feedback from the consultees suggests that demand is expected to increase and there is evidence that demand for growth finance is returning. Revised targets should therefore be met. Demand is expected to be particularly strong for equity and larger debt finance as businesses seek to grow and adjust/refinance Covid-19 emergency loans. As noted in the latest Quarterly Report *"there appears to be a healthy appetite for equity finance in Cornwall and the Isles of Scilly."* Furthermore, the Fund Manager noted that there is a strong pipeline of deals in the system as very early-stage companies that the Fund has been engaging with for several years are now investor ready. Given the reduced size of the Fund and the need to ringfence sufficient follow-on funding for the existing portfolio, CIOSIF's future investments are expected to become increasingly responsive and demand led, rather than the Fund Manager proactively seeking wider investment opportunities.

The Fund has provided finance to **43 SMEs**[20], which was considerably behind the target of 142 by the end of March 2022 (30%). This is discussed further in the outputs section below. Of these SMEs, 76% have received only one CIOSIF award. A further 19% have received two awards and 5% three awards; these include firms that have received follow-on investment from CIOSIF. **The average investment per SME was £0.28m,** which was higher than expected (£0.17m). Both debt and equity recipients have required more finance than expected and the skew towards equity investment (where the average investment per equity investment is much higher) has inflated the average investment per SME.

- The average investment per SME for equity was £0.47m (vs plan of £0.45m)
- For debt, the average investment per SME was £0.17m (vs a plan of £0.11m).

Data from the British Business Bank indicate that the costs of delivering the CIOSIF programme have been around £750,000[21] to date.

Non-financial inputs

In addition to the investments, **the British Business Bank and FSE have undertaken a range of wider activities to promote the Fund.** For example, the Bank's UK Network relationship manager has continued to promote the Fund by attending or presenting at various regional access to finance and business events. As a result, the majority of consultees thought that the Bank's presence and awareness of the region has improved, which without the Fund may not have happened. The Fund

[20] Some SMEs have received more than one investment. All investments were in Cornwall, with the exception of one in Exeter

[21] Data on management and staff costs from BBB

Manager has also undertaken extensive awareness raising and marketing activities, including hosting seminars/webinars with firms and attendance at a wide range of events such as Cornwall Festival of Business.

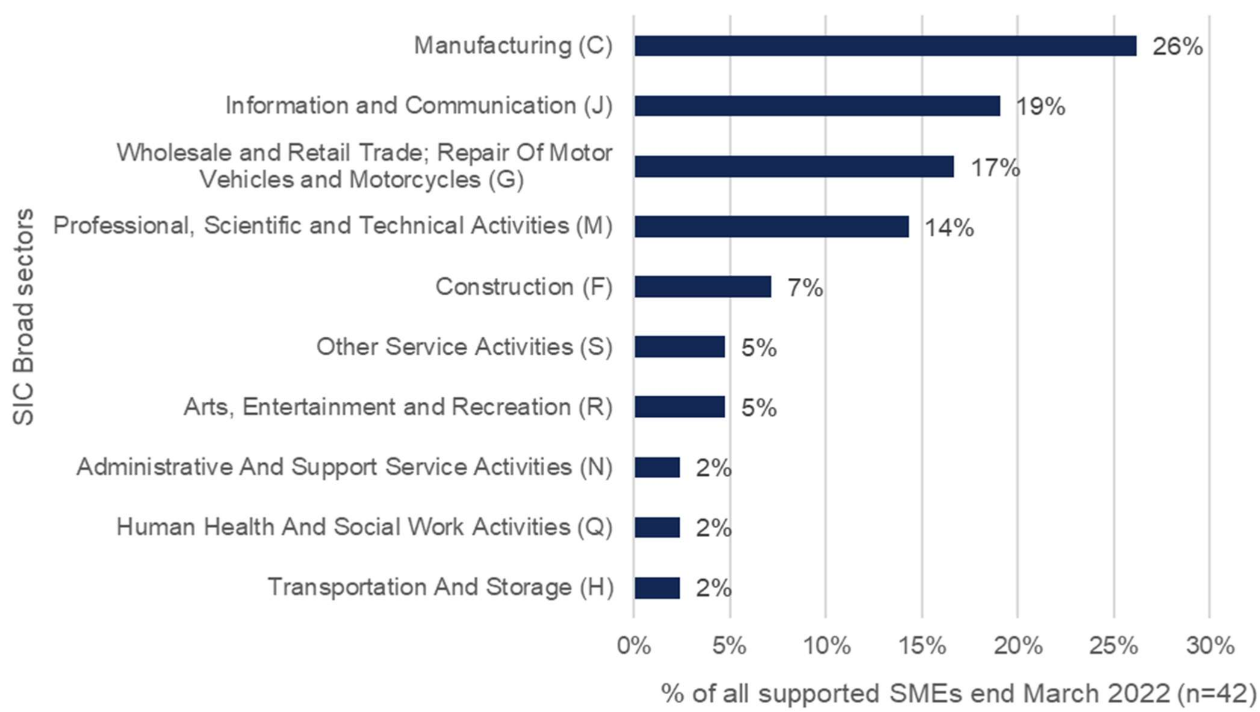
The Fund Manager also provides wider, non-financial support to SMEs. Qualitative feedback suggests the Fund Manager supports firms both pre- and post-investment, for example, by ensuring firms have strong investment propositions, by introducing firms to their networks of other investors and contacts and supporting investees during the pandemic (for example by offering repayment holidays).

Characterising firms supported

Based on the Standard Industrial Classifications (SIC) provided in monitoring data, the top three sectors supported by CIOSIF to data are: **manufacturing (26%), information and communication (19%), and wholesale and retail trade (17%).** These sectors are prevalent across both debt and equity, with two main differences:

- The proportion of SMEs that are in the information and communication sector is higher for the equity fund compared to the debt fund (35% and 12% of SMEs respectively).
- The share of SMEs that are in the wholesale and retail trade sector is higher for the debt fund compared to the equity fund (19% and 12% of SMEs respectively).

Figure 3.2: SIC Classification of SMEs in receipt of CIOSIF investments/loans (n=42)



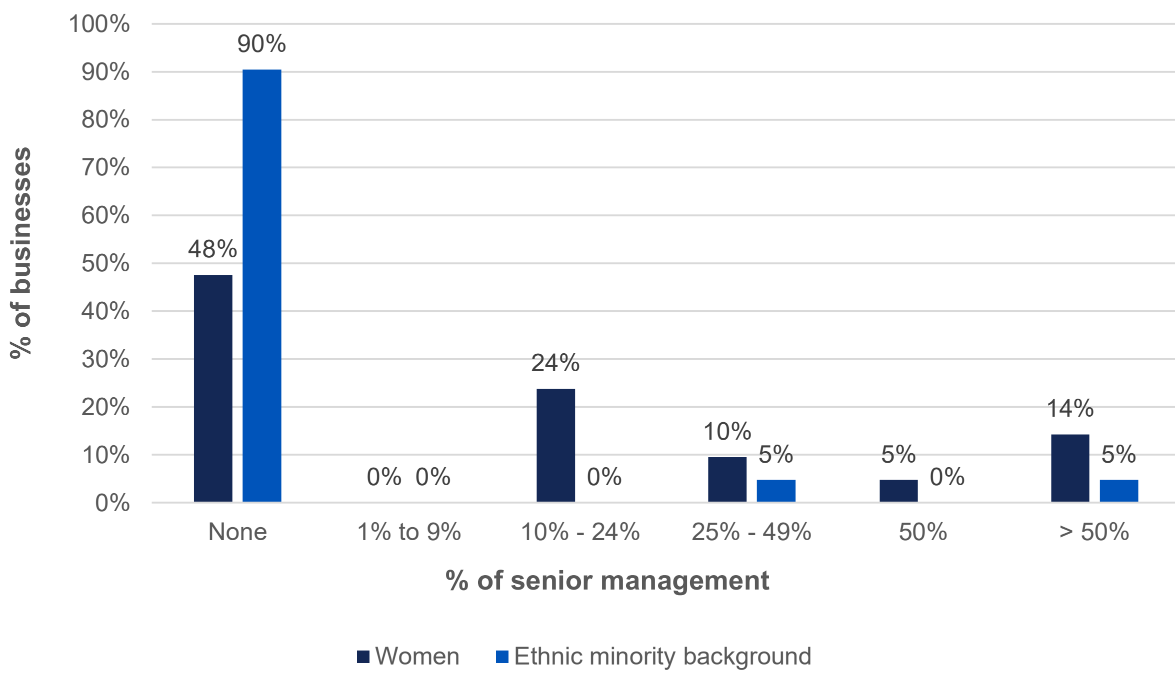
Source: SQW analysis of CIOSIF monitoring data provided to SQW by the Bank

Gender and ethnicity

The business survey asked, “thinking about the senior management team of your business, approximately what percentage of your senior management team are women and what percentage are from an ethnic minority background”. The results are shown in Figure 3.3.

In total, 52% of CIOSIF funded businesses reported having women in the senior management team. Of these, 14% of management teams had a majority of women, and a further 5% had an equal number of men and women. The CIOSIF survey found that 90% of businesses had senior management teams with no one from an ethnic minority background, while one firm had over half of senior management team members from ethnic minority groups. Although not a direct comparison, the BEIS Longitudinal Small Business Survey (2020) found 5% of SMEs with employees were ethnic minority group led and 16% of SME employers were women-led[22].

Figure 3.3: Percentage of senior management team that are women and percentage from an ethnic minority background – survey results (n=21)



Activities

The survey asked firms what they had used their CIOSIF finance for, which is an important determinant of the types of outcomes the programme is likely to achieve. As illustrated in Figure 3.4 below, **over 90% of respondents have used CIOSIF finance for working capital.** This was similar for both equity and debt recipients, and in part reflected that over two-thirds of survey respondents received investment during the pandemic and therefore working capital was required to ensure resilience during the

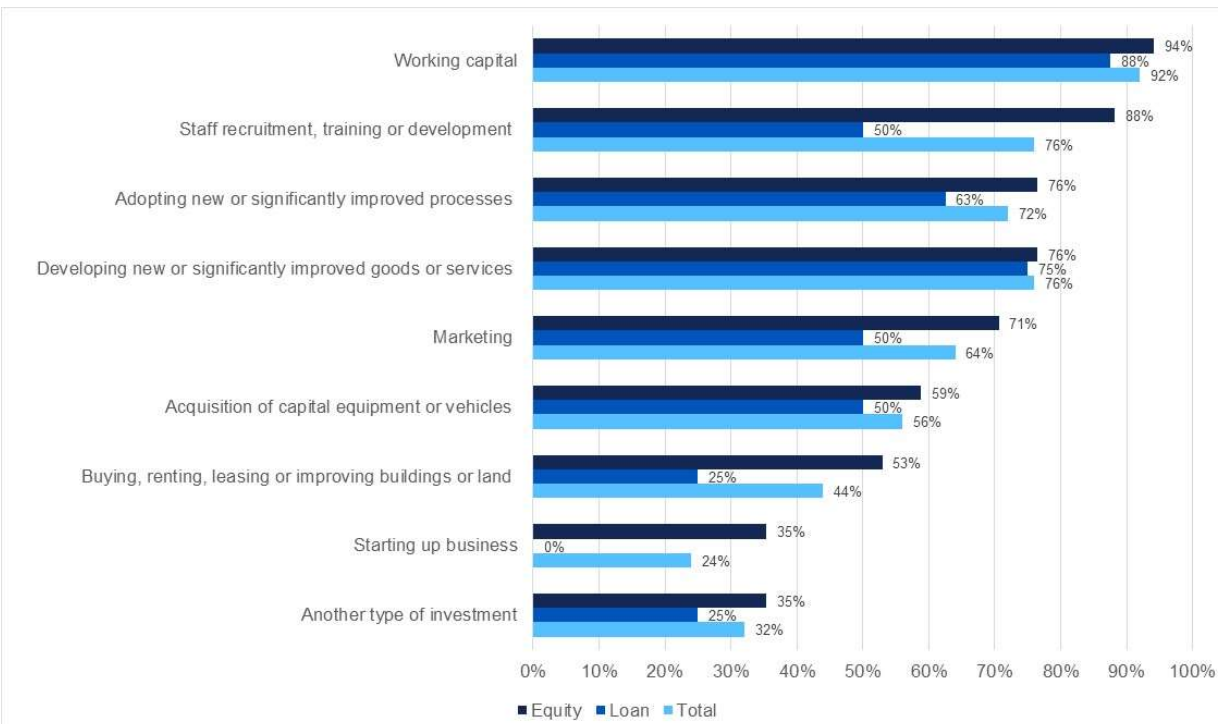
[22] Note that the BEIS definition of being a minority ethnic group led business also includes whether the business is controlled by a person from an ethnic minority background and not just the proportion of the management team. There is a similar definition for women led businesses. These results only cover presence within the management team.

pandemic. The proportion of finance used for this purpose varies widely: for example, a quarter had spent under 20% of CIOSIF finance on working capital, whereas one-fifth had spent over 80% on it. These findings align with the qualitative feedback which suggested recent demand for CIOSIF finance has placed greater emphasis on survival and recovery from Covid-19 than growth.

In addition to working capital, the main uses of CIOSIF finance amongst survey respondents have **included staff recruitment and development (76%), and the adoption of new or significantly improved goods/services (76%) and processes (72%).** Equity recipients were more likely to use CIOSIF finance for staff recruitment and training, marketing, innovation purposes and starting up business, although use of CIOSIF for all these purposes (except starting up business) was still strong amongst debt recipients.

At the time of the survey, **nearly three-quarters of firms had spent over 80% of their CIOSIF funding.** Given the timing of when most investments were awarded (i.e. during the pandemic), it is not unexpected that most firms spent the funding quickly. A third of businesses (36%) had changed the purpose of their use of the finance since their original application, and a quarter (24%) had delayed their CIOSIF-supported investment. In most cases, the changes and/or delays were due to Covid-19.

Figure 3.4: Use of CIOSIF finance – survey results (n=25 CIOSIF awards)



The case studies illustrate further how CIOSIF finance has supported businesses. For example:

- Two equity investments from CIOSIF supported the expansion of Wildanet's broadband network across Cornwall. Most of the finance was used to purchase network equipment/assets and employ additional staff. It also supported wider activities such as marketing and promotion.
- Logan Electronics has used CIOSIF equity investment to increase capacity quickly in response to rapid and unanticipated increases in demand, and sustain a higher level of activity in future. The finance was used to develop the company's full-service manufacturing process, purchase new

equipment and move to larger premises. These investments have facilitated a step-change in the firm's production capacity and ability to service new, larger contracts.

- Triskel Marine have invested the CIOSIF funding to purchase of stock components for their main product Integrel to support the expansion of company sales.

Output performance

As noted above, **the Fund had provided finance to 43 SMEs by the end of March 2022, which was only 30% of the ERDF target** according to monitoring data. Performance can largely be explained by the underperformance on debt deployment, which was expected to account for the large majority of businesses assisted by that point but had only achieved 22% of target. As explained above, Covid-19 emergency funding had a substantial impact on demand for CIOSIF debt finance. The equity fund had performed better, achieving 76% of its target for the number of SMEs supported with finance.

Despite this, the monitoring data shows **the Fund's performance in terms of private sector leverage and jobs created was considerably ahead of plan by March 2022**. The Fund had generated nearly £30m in private sector leverage, although approximately two-thirds of this was generated by one investment. Qualitative feedback identified that private sector leverage has been secured from a mix of investors who are already active in, and new to, Cornwall. In Section 5 we discuss further the role of CIOSIF in securing this investment. According to monitoring data, the Fund had also delivered 232 jobs (gross) by the end of March 2022, which represents 74% of the Fund's lifetime target for jobs. It has also safeguarded a further 322 jobs. If the current portfolio achieves the number of jobs created that were forecast at the point of investment, the Fund will comfortably exceed its lifetime target. **The Fund had also met its target for SME assist**[23].

By the end of March 2022, the fund had not recorded any non-financial support outputs (i.e., 12 hours of business support). It is important to note that if a firm receives 12 hours of business support and then goes on to secure CIOSIF finance, they cannot be claimed as a non-financial assist output. The qualitative feedback suggests that FSE are providing a substantial amount of non-financial support to SMEs in practice, especially to support them to become investment ready, but this often does not meet the 12 hours threshold and therefore cannot be claimed. There also appear to be ongoing reporting issues, as noted in our Early Assessment, where paperwork for those reaching 12 hours of support had not been gathered and therefore could not be claimed.

The focus of investments against ERDF Priority Axes (PA) is also recorded In the monitoring data, which shows that three-quarters of investments are focused on PA3 "*enhancing the competitiveness of SMEs*". Within PA3, the majority of investments are "*supporting the capacity of SMEs to grow in regional, national and international markets and to engage in innovative processes*" (93% of investments), with the remaining investments "*supporting the creation of advanced capacities for product and service development*".

[23] A new business is one which has been registered at Companies House or HMRC for less than 12 months before assistance is provided; or is a business locating in the England programme area for the first time, to start trading.

Table 3.4: Output performance to end of March 2022 (full Fund data)

Output categories	Achieved at end March 2022	Target (and % of target) at end March 2022
C1: SME assist	43	146 (▼29%)
C3: SME assist (financial support)	43	142 (▼30%)
C4: SME assist (non-financial)	0	9 (▼0%)
C5: new SME assists	6	6 (▶100%)
C7: private sector leverage (£m)	£29.86m	£23.32m (▲128%)
C8: new jobs	232	188 (▲123%)
C28: new products/service to market	1	0 (n/a)
C29: new products/services to the company	1	0 (n/a)

Source: analysis of data provided to SQW by the Bank / Quarterly report

Financial performance

By the end of March 2022, **repayments were minimal** at <1% of the £12.15m invested.

There were **no equity exits** in the monitoring data to March 2022. However, qualitative feedback suggests that there is one partial exit is taking place and two others in discussion from investments made early in the Fund's lifetime. FSE typically consider exits from at least three years post-investment, so these findings are not unexpected.

Across the portfolio, **the number of investments in arrears was minimal at the end of March 2022** and had declined since the previous quarter. By end of March 2022, the Fund had recorded no write offs / losses. Qualitative feedback suggests the default rate is lower than expected, which may in part be attributed to the availability of the Covid-19 emergency funding and support from the Fund Manager during the pandemic (for example, offering repayment holidays). The possibility of businesses failing/struggling over the next two years was mentioned by a number of consultees, as firms seek to recover from the pandemic against a backdrop of economic instability. However, at the time of the evaluation, consultees did not express any major concerns about the Fund's financial performance in future.

Process feedback

As noted in Section 2, CIOSIF was launched in June 2018 with the first investments made in December 2018. The Fund had a challenging start. It took longer than expected to become operational (a source of frustration amongst consultees in our Early Assessment) and then faced a change in FSE's manager of the Fund in 2019. Alongside this, consultees highlighted how the Fund was working in a region that was "starting from a low base" in terms of SMEs awareness and attitudes towards non-grant funding. Just as CIOSIF began to build momentum and had "rebooted" its marketing efforts, the Covid-19 pandemic hit the UK. As noted above, FSE was not accredited to deliver Covid-19 emergency funding programmes and saw a substantial shortfall in demand for debt finance. As a result, South West Investment Group's (SWIG) sub-contract to deliver small debt finance for CIOSIF was terminated in December 2021 and FSE took on this responsibility in-house. This challenging operational environment across most of CIOSIF's lifetime is important to bear in mind when considering the process findings below.

Overall feedback on CIOSIF's implementation was positive, and a consistent view that "given the circumstances" CIOSIF has "done a good job". As one consultee argued, CIOSIF is "great for the region and with a few tweaks could drive powerful change". In the paragraphs that follow we highlight strengths and improvements made by the Fund to date, and points to consider looking forward to improve the Fund's impact and relevance further.

Strengths and improvements

At the time of our Early Assessment in late 2019/early 2020, interest in CIOSIF's debt finance was initially greater. However, momentum was building in the demand for equity at the time. FSE had invested considerable time to help SMEs develop their propositions, and many of those were expected to come forward for investment (notably equity) in the near future. As illustrated in the data above, many of those pipeline opportunities had come to fruition by March 2022 and the balance had shifted towards equity investment. Consultees recognised the challenging context in which CIOSIF has operated but acknowledged **the Fund has improved considerably over time and has now established a relatively strong pipeline**. According to consultees, the considerable upturn in equity investments - and continued demand for debt, albeit at lower levels than expected – can be attributed to the following:

- **Strong communications**: Reflecting the local context, the Fund Manager has invested a significant amount of time and effort in raising awareness and changing perceptions around external, non-grant finance. Most consultees highlighted FSE's strength in this respect, including during Covid-19, which has led to good awareness of the Fund amongst businesses and intermediaries across the area. That said, two consultees suggested that marketing could be strengthened further.
- **Very proactive networking and stakeholder engagement**: Most consultees also felt that FSE was well networked and connected locally, proactively engaged in the local ecosystem, and had strong local knowledge and profile. The FSE team was described as "very well tapped into the local market" which was "hugely beneficial" for the Fund. As a consequence, the stakeholders consulted were promoting CIOSIF on FSE's behalf and making referrals to the Fund, and observing other stakeholders doing the same (e.g. banks). This was corroborated by monitoring data, where over half of enquiries are from external stakeholders (including 17% from business support providers/Chambers, 11% from the LEP/Growth Hub and 10% from Corporate Finance). One external stakeholder also argued that without good local networks and knowledge, key opportunities in a region such as CIOS would "remain hidden" from a national/centrally managed fund or even one in Bristol. FSE's strong local networks have also benefited its portfolio companies, for example by connecting SMEs to professional services in the area (arguably helping to boost potential multiplier effects locally).

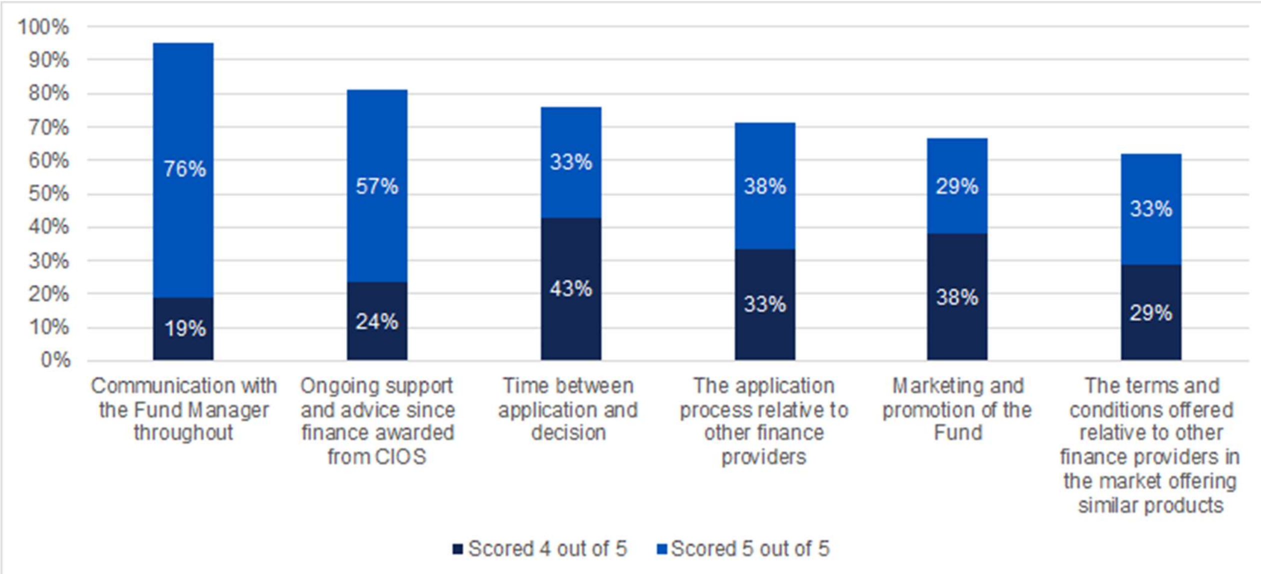
- **Geographical focus and local Fund Manager presence**: This continues to be viewed as critical by consultees (as opposed to a national programme) given Cornwall's peripheral location and distinctive economy. SMEs in the area have historically found it difficult to compete in national and international investment programmes, especially where firms lack the scale/capacity to bid successfully into larger-scale programmes. Consultees argued that local knowledge means the Fund Manager is better able assess investment propositions appropriately. A locally-based Fund Manager has also played an important role in raising the profile of investment opportunities in the region which has levered both match and follow-on funding into CIOS. This is discussed further in Section 7.
- **Improved British Business Bank presence**: Most consultees agreed that the Bank's presence and profile in the region has improved in recent years, through their promotion of the Fund and wider engagement with stakeholders (for example, participation in the LEP's Covid-19 Economic Recovery Group, and sponsorship of the Chamber Innovation Investment Network and Cornwall Lender's Forum). Consultees felt that this has helped to raise the profile of the Fund and the region, and improved the Bank's understanding of local issues.

Above and beyond the debt and equity finance itself, there was **very positive feedback on the wider support from FSE** from consultees and beneficiaries. Stakeholders commented on how experienced and knowledgeable the FSE team are, and the value of wrap around support to firms in CIOS, especially for equity recipients. This included spending time with SMEs before investment, to help them organise finances and produce strong investment proposals, as well as after investment, for example in using their networks to bring in or signpost to other funders. Stakeholders have also observed FSE signposting unsupported applicants who are not suitable for CIOSIF to other programmes, e.g. to Innovate UK, accelerator programmes, aerospace programmes, EU grants etc, which has supported access to finance in a broader sense across the region.

For portfolio firms, FSE typically participate in Board meetings. Feedback from stakeholders suggests this has been "incredibly useful" in terms of advisory inputs, providing market insight that firms couldn't get elsewhere and recruiting Non-Executive Directors with relevant experience where necessary. These findings were corroborated by the beneficiary survey: three quarters of survey respondents said FSE acts as a board observer or advisor to the business (67%, 14 out of 21), and the large majority of those said FSE had made a substantial difference to the management or performance of the business. Furthermore, nearly half of those respondents said they had made major improvements as a result of Board input from FSE.

More broadly, beneficiaries rated the delivery of CIOSIF highly in the survey, especially in terms of communication, support and advice from the Fund Manager throughout the process (see Figure 3-5). The survey results also indicate high levels of satisfaction with the application process and time between application and the decision. However, the terms and conditions offered relative to other finance providers in the market scored lower. This aligns with feedback from one consultee who argued CIOISIF's terms can deter firms and match funders. Specifically, CIOSIF's requirement for consent in decision making was perceived to be a "very strong clause" which can deter other investors.

Figure 3.5: Beneficiary ratings of CIOSIF delivery on a scale of one to five, where one is very poor and five is very good – survey results (n=21)



These positive findings were closely aligned with the case study feedback, for example:

- Wildanet's relationship with the Fund Manager has been very positive to date. FSE acts as a board observer, and their inputs were considered to be "very structured", "considered", and overall, very helpful by the business. FSE is well networked across Cornwall, so have also introduced Wildanet to new contacts.
- At Codices, FSE acts as a board observer, and the fact that they "offer their opinion on strategies and challenge well" is considered helpful in the running of the business. Furthermore, FSE supports in reviewing the company's accounts and finances each month and has introduced Codices to new contacts.
- Through the wider support offer of CIOSIF, Logan Electronics' management team have gained a number of new connections and introductions within the investment community that are expected to prove beneficial in the future when seeking to access more finance.

Points to consider for the remainder of CIOSIF's lifetime

Three main points were raised through consultations and case studies which the Bank may want to consider over the remainder of CIOSIF's lifetime:

- **Risk appetite**: In the Early Assessment, several external stakeholders wanted to see FSE adopt a greater appetite for risk. Since then, stakeholders have observed improvement over time, especially with FSE taking more risk in their equity investments. This was also illustrated in the case studies (e.g. Codices). However, several consultees felt that CIOSIF remains too risk averse to fully address market gaps, with potential implications for the level of additionality achieved by the Fund. During delivery, SMEs self-certify that attempts have been made to secure bank loans. Beyond this, risk and additionality are assessed on a case by case basis by the Fund Manager. Their depth of knowledge about each potential investee and local context was identified as *"invaluable"* in this process. That said, more transparency/communication on CIOSIF's target market segment and risk profile may have been helpful.

- **Clarity on investment criteria:** Linked to the point above, two consultees called for greater clarity and transparency in CIOSIF's criteria for investment. These consultees had both made referrals to the Fund which were perceived to align closely with the purpose of the Fund, but were rejected and the reasons were unclear. They also noted inconsistency in investment priorities between FSE team members and over time.
- **Capacity, especially in relation to debt finance:** As noted above, SWIG were originally responsible for the delivery of small debt finance for CIOSIF. In our Early Assessment, consultees highlighted SWIG's longstanding local presence, knowledge and networks which had supported early delivery. Due to the influx of Covid-19 emergency funding and drop in demand for smaller debt, SWIG's contract was terminated. Whilst FSE had developed good local networks by that point, the main concern amongst consultees was capacity. SWIG had two full-time members of staff dedicated to small debt provision (alongside one team member at FSE responsible for larger debt). FSE took responsibility for all debt in-house, but only have one full-time debt manager. Two external stakeholders commented on how "incredibly stretched" FSE were in terms of debt and suggested the timescale for responding to enquiries was too slow (which could have knock-on implications for how attractive the Fund is to SMEs[24]). Even though debt deployment targets will be revised down to reflect the forthcoming budget readjustment (noted above), the Bank will need to ensure that capacity is sufficient to deliver against targets looking forward.

Points to consider in future policy design

The evaluation has also highlighted useful lessons from the CIOSIF experience that might be useful for policymakers looking forward.

- **How local context influences demands on the Fund**: All consultees noted the very challenging context in which CIOSIF was introduced and has operated in terms of the general financial awareness/capabilities and ambition of the general business base in the region. This reflected a long-standing grants culture (notably large-scale ERDF funding) and an aversion to external finance, especially equity. CIOSIF was originally intended to primarily be a supply-side intervention, but encouraging engagement with this offer has required a substantial "education of the market". As noted above, CIOSIF has worked hard to raise awareness and change perceptions, alongside Cornwall's dedicated Access to Finance programme more recently and the work of other stakeholders. It has taken a considerable amount of time and resource to change perceptions in the area and build a pipeline of investable opportunities. One consultee felt that CIOSIF could have been more ambitious in terms of its role in educating the market. Reflecting on the CIOSIF experience, programme design in future could consider:
  - **Ensuring the Fund's objectives and remit clearly articulate a Fund's role in this respect**, which might differ from place to place to reflect local conditions. This would help manage expectations amongst local stakeholders, clarify how the Fund aligns with other support in this

[24] As noted in the Early Assessment, CIOS had seen an increasing appetite for debt as businesses recognise the advantages compared to grants (which can be a slower process with more paperwork).

space, and ensure that resources are sufficient and proportionate within the Fund to undertake the market building activities required to ensure the Fund's finance is deployed.

  - **Ensuring sufficient capacity within the Fund Manager organisation** (and appropriate resources) to establish the pipeline of opportunities. This is important in order to reach SME assist targets in areas starting from a low base.
  - **Ensuring that metrics appropriately reflect the activities/resources invested in developing the market.** CIOSIF's output target of nine 'non-financial support' outputs over the duration of the programme seems inconsequential given the scale of the challenge in CIOS, and does not reflect the substantial support provided to SMEs over a long period of time before they are ready for investment. Deployment targets should also account for the time this might take in different places.

- **The importance of local Fund Manager presence**: Linked to the point above, the CIOSIF experience has demonstrated the importance of a locally embedded and networked Fund Manager with good local knowledge and connections, to better understand local market/opportunities, connect the ecosystem locally, and act as a central point of contact for external stakeholders (private investment).
- **The balance between debt and equity**: The evidence above suggests ongoing supply side challenges for equity in CIOS but growing appetite from SMEs for this type of finance. Looking forward, consultees were keen to see equity provision increase. Regarding debt, consultees found it too early to comment on the level of future demand – whilst firms might be better capitalised in short/medium term because of Covid-19 funding, consultees still expected the gap in debt funding to remain.
- **The availability of finance for earlier stage SMEs**: In the Early Assessment, most consultees and some businesses in the survey and case studies noted a gap in finance for pre-revenue/start-up businesses, especially for equity to undertake Proof of Concept R&D and commercialise new products. This was considered particularly important in Cornwall with its expertise in marine, cleantech and renewables sectors and growth in software companies. As one consultee argued at the time, "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". Since then, FSE has invested at earlier stages than originally expected, although primarily to firms who have a saleable product and are close to first sales. However, most of stakeholders consulted for this interim evaluation argued that the Fund should have a greater focus on higher risk, early-stage/pre-revenue, and include provision for smaller equity deals with lower fees that are more appropriate for these types of SMEs.
- **Targeting and strategic alignment**: There were mixed views amongst consultees about the extent to which the Fund has reached key sectors in CIOS. Some consultees argued that the Fund had been well-targeted across a good mix of businesses that reflected the local economy and strategic priorities, including marine, renewables, food and drink, health technologies and wider high tech businesses. Whilst it is important to acknowledge that this Fund was sector agnostic and demand led, some consultees felt there was a missed opportunity to more closely align the Fund with local priorities and engage with sector specific bodies. Looking forward, the Bank may want to consider whether Regional Funds can be more explicitly aligned with and target local priority

sectors/technologies (and associated supply chains) in order to maximise the Fund's contribution to local strategic objectives.

4. Finance additionality

Self-reported finance additionality

Finance additionality is the extent to which CIOSIF is providing finance to businesses which would not have been secured anyway and is a key element of the evidence base to test the rationale for CIOSIF set out above. In interpreting the results below, it is important to reiterate the findings are based on the survey responses from a relatively small number of the Fund beneficiaries.

Overall, the survey results were positive in terms of finance additionality across the Fund as a whole, as shown in Table 4.1. There is some evidence of deadweight, with 24% of respondents reporting that they would have secured the finance anyway, in the same time and on the same scale. This was largely driven by a small number of equity recipients who felt their proposition was sufficiently strong to attract other investors.

Over half of respondents reported full additionality (52%), i.e. they probably or definitely would not have secured any finance in the absence of CIOSIF. The remaining four respondents reported partial additionality, whereby they thought finance would have been secured at a later date (two) and at a smaller scale (two). In these cases, most respondents thought it would have taken up to six months longer to secure finance and they would have been able to raise between 50% and 75% of the investment.

The results also indicate variations in additionality between the different types of finance, although there should be some caution in interpretation here due to small sample sizes. Full additionality appears to be higher and deadweight is lower for debt compared to equity. This may reflect the context in which most CIOSIF investments were made and corroborates stakeholder feedback that, whilst many SMEs opted for Covid-19 emergency loans over CIOSIF, the Fund did support SMEs that could not access Covid-19 emergency loans (or loans from other sources). Stakeholder consultees were less optimistic than the businesses surveyed about SMEs' ability to secure finance elsewhere in the absence of CIOSIF, especially for equity. Most consultees thought that a significant proportion of equity and debt investments were likely to be either fully or at least partially additional. Reasons included the lack of comparable equity investors in the region, the lack of awareness of external finance among SMEs meaning firms were reliant on family/friends and profits, and the risk aversion and retreat of mainstream banks from the market. Consultees felt that these issues were significantly constraining or delaying growth.

Table 4.1: Finance additionality – survey results (n=25 CIOSIF awards)

	Debt	Debt	Equity	Equity	CIOSIF Total	CIOSIF Total
	Cases	%	Cases	%	Cases	%
Would have secured finance anyway – in same time and scale	**1**	**13%**	**5**	**29%**	**6**	**24%**
Would have taken longer	0	0%	2	12%	2	8%
Would have been less	0	0%	0	0%	0	0%
Would have taken longer and been less	0	0%	2	12%	2	8%
Probably would not have secured	**3**	**38%**	**4**	**24%**	**7**	**28%**
Definitely would not have secured	**4**	**50%**	**2**	**12%**	**6**	**24%**
Don't know	0	0%	2	12%	2	8%
Total	8		17		25	

Source: SQW analysis of survey results

The case studies provide further insight on importance of timely access to finance:

- For Bosena, it was very unlikely that the firm would have secured funds from elsewhere at all, because the firm's needs were either misaligned with other finance available or it was deemed too small with insufficient track record for investors (reinforcing the rationale for CIOSIF). The scale and timing of CIOSIF funding was critical – by uplifting the firm's capacity and capability at a critical point in the production process, the CIOSIF finance enabled a better quality production overall, which in turn has increased the scale of revenue generated.
- For Triskel Marine, they may have sourced finance at a later date in the absence of CIOSIF funding, but business growth would have been hindered by lack of stock. For this company, the timing of the CIOSIF debt finance was very helpful to the speed and scale of growth achieved by the company.
- Whilst Wildanet believed they may have been able to access finance from elsewhere, the process would have bene more challenging and taken longer, and therefore diverted attention away from other business development activities. CIOSIF finance has afforded the firm capacity to both expand its broadband network and seek follow-on investment in a short space of time.

Alternative finance considered

As part of the survey, beneficiaries were also asked whether they considered alternative finance at the time they first applied to CIOSIF. Again, this provides useful evidence to test the rationale for CIOSIF, in terms of whether SMEs can find alternatives in the market and/or CIOSIF displaces other finance available.

Overall, the survey found approximately three-quarters of respondents did explore alternative sources of finance (see Figure 4.1). This included loans (including non-Covid-19 loans from a bank or other financial institution), venture capital/private equity, and investment from business angels[25]. This is perhaps higher than we might expect given reported low levels of awareness/investment readiness in the region but may partially reflect the prevalence of Covid-19 related funding at the time. Of these:

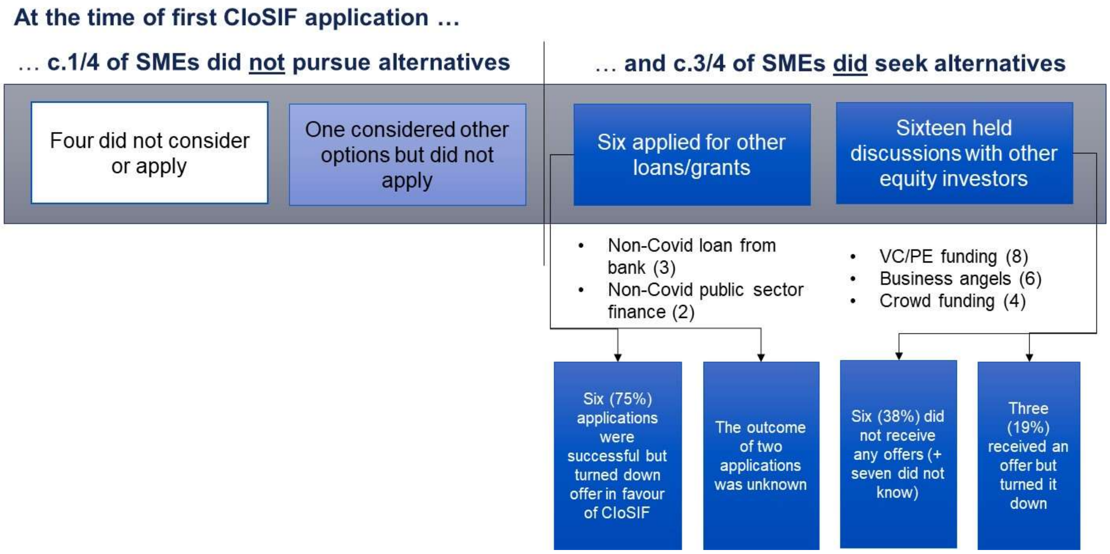
- six considered other loans/grants and most of those received offers (75%) but turned down the offers in favour of CIOSIF.

[25] Note, respondents could select multiple sources of alternative finance sought, including loans/grants and equity.

- 16 respondents discussed/sought equity from other investors but only three received an offer. The reasons for rejection aligned closely with the rationale for CIOSIF, such as risk and insufficient business record.

Overall, only **seven out of all 21 respondents sought *and* secured other offers for debt and/or equity finance** at the time of their first CIOSIF application. This corroborates findings above, where six respondents felt they could get the same finance anyway without CIOSIF in the same time and scale.

Figure 4.1: Alternative finance considered at the time of first CIOSIF application – survey results (n=21)



Source: SQW analysis of survey results. Note: some firms applied (and were successful in receiving offers) for debt and equity investment; these options are not mutually exclusive.

The most common reason for choosing CIOSIF was expertise and support from the Fund Manager (29% of respondents)[26]. This demonstrates the importance of the wrap around support and guidance from the local Fund Manager in addition to the finance itself, and corroborates feedback in Section 3. Other reasons included the scale of finance offered by CIOSIF (24%) and speed at which CIOSIF finance was put in place (19%).

[26] N=21

5. Assessment of firm-level outcomes and impacts

In this Section, we present results from the beneficiary survey on the follow-on finance secured, outcomes and impacts generated as a result of CIOSIF support, and the extent to which these are additional. This is supported by qualitative evidence from the consultations and case studies.

It is important to reiterate that responses to the telephone survey with 21 SME beneficiaries were over-represented in terms of equity awards and under-represented for loans, and the average investment amount amongst respondents was higher than the programme as a whole (see Section 1 for details). The sector distribution, number of awards received and timing of support broadly mirrored the population. The majority of respondents received CIOSIF investment from 2020 onwards. These factors should be considered when interpreting the findings below. Where appropriate, we have split responses between debt and equity, although this should be treated with caution due to low numbers.

Follow-on finance

The Fund is now providing follow-on funding to portfolio SMEs. The amount of follow-on to date is slightly lower than anticipated, but consultees argued that the combination of Covid-19 emergency funding and slower growth than expected due to Covid-19 has delayed the need for firms to fundraise.

Beneficiaries are also raising wider external finance. In the survey, **just under half of respondents had secured follow-on finance since their first CIOSIF investment (9 out of 21, 43%)**, excluding any follow-on from CIOSIF itself. This is encouraging, especially given the relatively limited time since most respondents received their first CIOSIF investment, but may reflect the over-representation of equity recipients in the sample. Almost all of SMEs in receipt of follow-on were equity recipients (7 out of 9). This included equity from other sources, bank loan or other public sector finance. **In total, these nine SMEs had secured nearly £3.5m in follow-on finance** at the time of interview. This equated to c.£368k on average per firm, but the range was very wide (from £17k to £1m). Almost all follow-on was non-Covid related funding (99.5%).

Of the nine firms who had secured follow-on finance, **almost all said that CIOSIF had a ‘large’ or ‘moderate’ influence on their ability to secure follow-on finance** (7 out of 9). The remaining two respondents had received debt finance, and one of these said CIOSIF had a ‘small’ influence on securing follow on and the other said it had no influence. Stakeholder feedback was consistently positive about CIOSIF’s role in enabling SMEs to secure further finance. The Fund was described as a “valuable stepping stone” and “hugely beneficial” in terms of levering other funding, both in terms of its role as a cornerstone fund to lever co-investment alongside the initial CIOSIF award and in helping to secure subsequent investment. Consultees argued that SMEs can go to market with “conviction” if they have a sizeable cheque from CIOSIF already, and it is particularly helpful to know that CIOSIF can follow on invest (and is well resourced to do so).

Several consultees recalled Wildanet as a successful example of where CIOSIF was influential in the business progressing to further VC funding. After two CIOSIF equity investments, Wildanet recently secured an additional £51m from Gresham House (not disclosed at the time of the survey) to continue the roll out of its broadband network. According to the business, CIOSIF influenced the firm’s ability to secure this follow-on finance because (a) it afforded members of its management team the “breathing space” to focus solely on securing external investment, which took several months of intense engagement and negotiations with investors, and (b) CIOSIF's prior investment provided additional reassurance for Gresham House that Wildanet was a sound investment. The Codices case study also illustrates how the credibility and due diligence of CIOSIF has helped to lever further finance:

> *"The fact that they are going to invest shows they have done due diligence which gives you credibility with other investors. If they are going to put in £150k then it helps to be able to push things with other investors too."*

Crucially, there was no evidence from consultees that CIOSIF has had an adverse effect on business ability to lever additional finance.

Firm-level outcomes

Figure 5.1 shows the outcomes observed to date and expected in the next three years by survey respondents, testing the extent to which CIOSIF is delivering against intended outcomes set out in the programme's original logic model.

Almost all respondents said that **CIOSIF had made their business more resilient** (90%). This is particularly important in the context of Covid-19, supporting firms during difficult trading conditions and ensuring that capacity for future growth is not lost.

CIOSIF has also led to a range of skills, efficiency and innovation outcomes which are crucial to underpin productivity improvements and economic growth in the region. We observe a similar pattern of outcomes expected in the next three years, as illustrated in Figure 5.1, with CIOSIF's role in avoiding business closure and reducing environmental impacts becoming more important in future. Whilst we need to be cautious given the low sample size, Figure 5.2 suggests that these outcomes are evident across both equity and debt recipients. The over-representation of equity recipients in the survey does not appear to skew the overall programme level results, with the exception of R&D investment and skills development where equity recipients were much more likely to report those outcomes.

Figure 5.1: Outcomes observed to date and expected in the next three years, as a direct result of receiving the finance from CIOSIF – survey results (n=21)

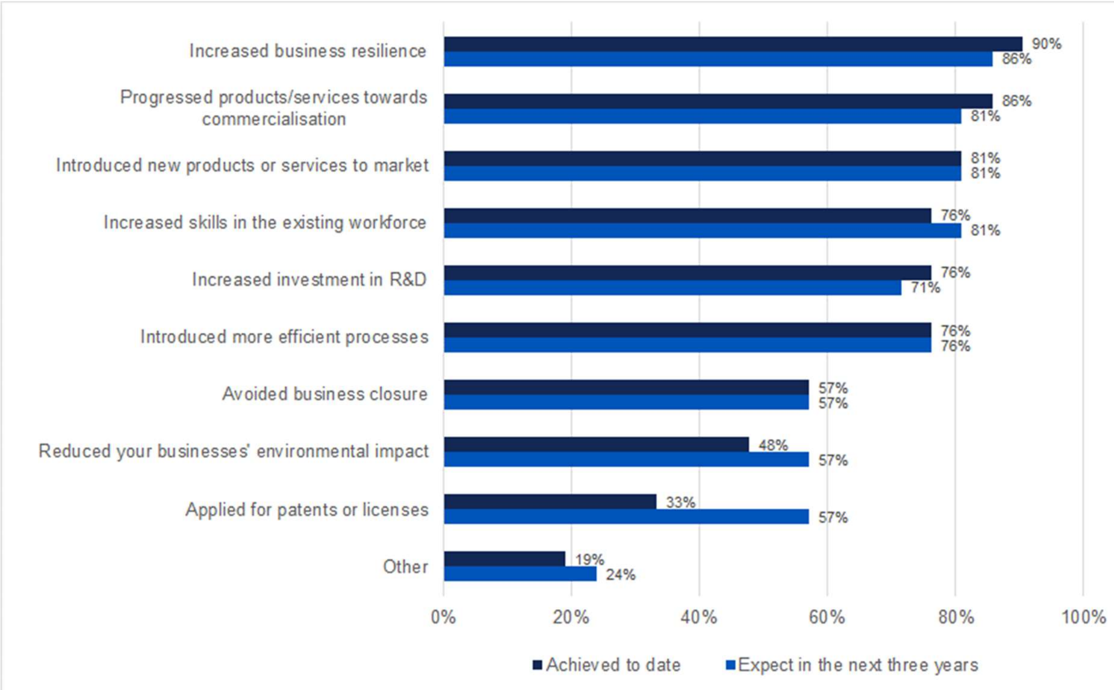
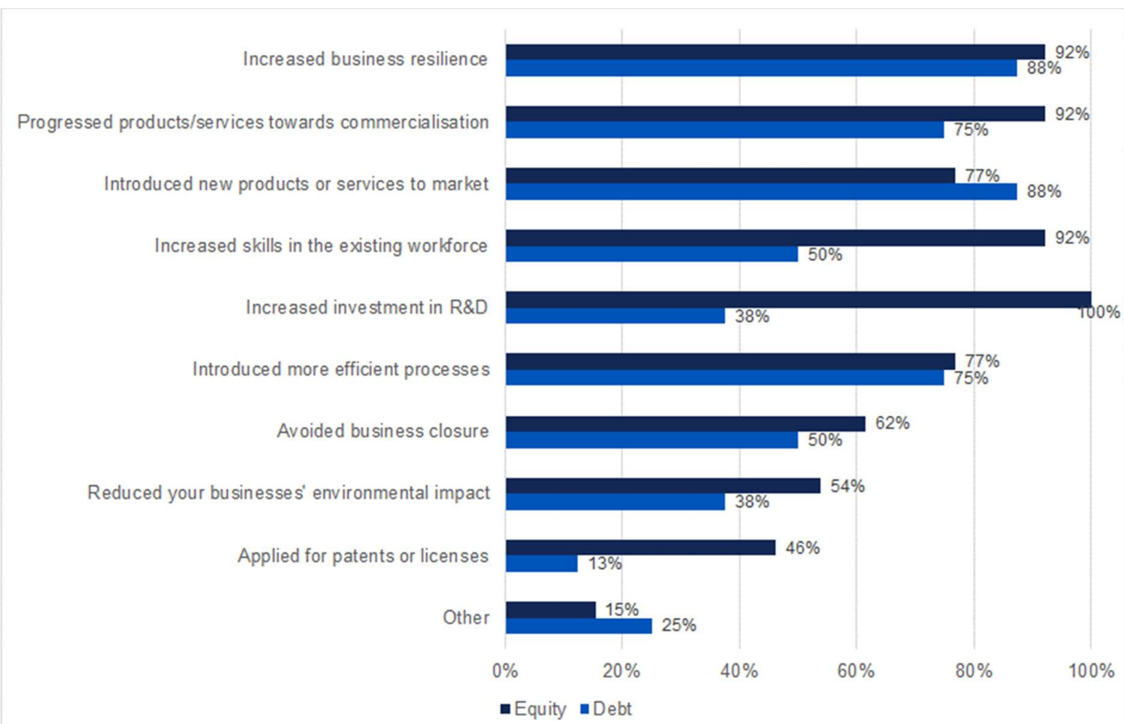


Figure 5.2: Outcomes observed to date cut by equity and debt recipients – survey results (n=21; 13 equity and 8 debt)



These outcomes are explored in more detail in the paragraphs that follow.

Innovation outcomes

As illustrated above, three quarters of survey respondents had increased their investment in R&D as a result of CIOSIF funding. All of this cohort could quantify this, which amounted to **£3.87m additional investment in R&D**. This equates to an average of £242k per SME. The large majority of this additional investment was by equity recipients.

There is also strong evidence to show how CIOSIF is helping SMEs to progress and commercialise new products/services in high value sectors. This includes software, hardware, medical and material technologies, cleantech and life sciences. Four fifths of respondents had introduced new product/service innovations to the market as a result of CIOSIF funding, and the large majority of these (84%) said “at least some [products/services] were new to the market”. Through their adoption, these new products and services are also expected to deliver wider social and environmental benefits more broadly (see Table 5.1). Whilst it is important to recognise these anticipated impacts are self-reported by survey respondents, it does illustrate how CIOSIF is making a contribution to sustainability and (to a lesser extent) health agendas. This was supported by consultees, who highlighted several businesses in the CIOSIF that had developed sustainable/low carbon products (e.g. eco-friendly packaging, environmentally sustainable homeware products, and software platforms to help retailers reduce waste) and illustrated by our case studies. For example:

- Triskel Marine Ltd develops marine engineering products and services, which includes developing an efficient system for diesel engine spare energy storage (their main product) which offers 25-30% improvement in the efficiency of diesel engines for yachts and 50% for power boats. This offers a huge reduction of carbon footprint and excellent EPC ratings for boats.

Table 5.1: Social benefits expected from the adoption of new products or services developed as a result of CIOSIF – survey results (n=18)

	% of firms who have introduced new products/services
Will reduce carbon emissions	50%
Will have environmental benefits more broadly	56%
Will improve health or delivery of health services	39%

Skills

According to the survey, 83 people had improved their skills due to the CIOSIF investment (across 16 firms observing this outcome). The skills developed are wide ranging, as illustrated in the case studies, from management skills (e.g. Bosena) and technical skills (e.g. Triskel Marine) through to legal knowledge (e.g Codices to bring in external consultants to train team members in legal issues).

More efficient processes

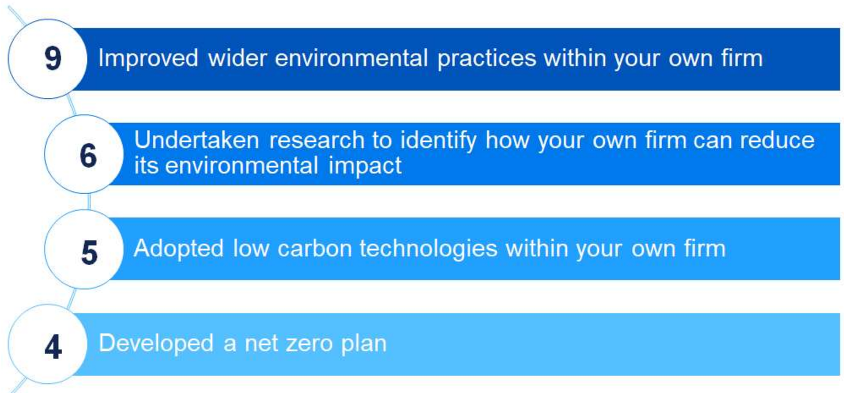
CIOSIF finance had helped 16 out of 21 survey respondents (76%) to introduce more efficient processes within their firms. For most of these firms, this has been achieved through improved quality and saved time and (to a lesser extent) reduced costs. For example, Codices has used CIOSIF to introduce new and more efficient processes, including improved product management and contracting processes and new HR systems. Similarly, Bosena used funding to upgrade IT systems which has improved organisation efficiencies.

Reduced environmental impact

The survey also explored whether CIOSIF funding had helped them to reduce their own environmental impact. Nearly half of respondents (10 out of 21) had observed this benefit, mostly through using the finance to improve environmental practices within the firm (see Figure 5.3). Other survey respondents had invested in research to identify how they would reduce their environmental impact, adopt low carbon technologies or develop a net zero plan.

The Logan Electronics case study provides an example of how these benefits have been achieved: in this case, CIOSIF investment has enabled the firm to move to new, larger-scale premises which have renewable energy sources built in.

Figure 5.3: Reduced environmental impacts of CIOSIF investment – survey results (n=10)



Wider outcomes

As part of the survey, firms were also asked if CIOSIF has influenced the location of their business. The findings are encouraging: nine (43%) said CIOSIF support has encouraged them to stay in the region and four (19%) said it had helped to attract them to the region. Feedback from consultees on the role of CIOSIF in anchoring firms in the region was more mixed. Some felt the Fund was an important part of the region's offer, but others argued that more could have been done to promote CIOSIF to SMEs outside of the region and (with a greater appetite for risk) support local SMEs to remain in the region.

The survey evidence also shows how **CIOSIF has strengthened access to finance capabilities** amongst the SMEs supported. The large majority of respondents (90%) said CIOSIF had given them greater confidence in their ability to raise finance from private sector sources in future (19 out of 21). Just over half of respondents also said that CIOSIF had raised their awareness of private sector sources of finance available in the market (11 out of 21). The case studies illustrated this further. For example, in the case of Codices, the CIOSIF Fund Manager's support to develop pitching skills was particularly valuable:

"The pitching process is quite key, when you go out to people and say you need x amount of money you need to build up a certain amount of confidence

to do that and CIOSIF were the first to say yes and helped me know that I was doing it right, building up confidence"

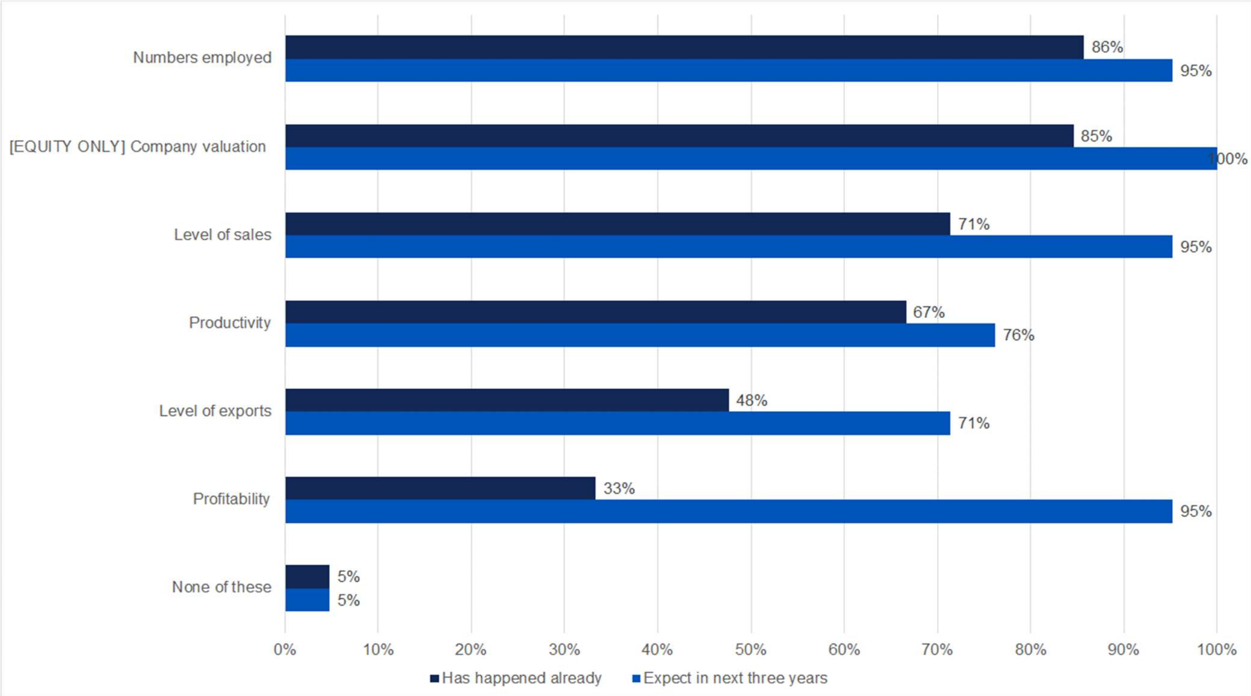
Consultees also believed the Fund had improved SMEs' confidence in securing external finance – and their confidence in the business more generally.

Finally, the Wildanet case study illustrates how CIOSIF investment, and the associated business growth, has benefited the wider local community. In this case, CIOSIF funding has given the business the capacity to engage in wider activities in the community: "*having the comfort of funding has allowed us to give back to the community*". This has included helping to tackle digital exclusion locally by connecting village and church halls to the internet for free.

Firm-level impacts

Figure 5.4 presents survey results on the impact of CIOSIF on firm performance to date and expected in the next three years. Overall, **86% of respondents reported an impact on employment, 71% had observed an impact on sales and 67% had improved productivity[27] to date, but fewer had experienced profitability benefits (33%).** Among equity recipients, 85% reported an increase in valuation. The number that expected to see improvements in these measures over the next 3 years was considerably higher. Even within a relatively small sample, the results point towards early employment benefits with sales, productivity and profitability effects taking longer to materialise.

Figure 5.4: Impacts observed to date and expected in the next three years, as a direct result of receiving finance from CIOSIF – survey results (n=21)



[27] We can be 95% confident that the proportion of all SMEs supported that have observed an increase in productivity is between 52.1% and 81.3%

Number and type of jobs created

As noted above, 86% of survey respondents reported an impact on employment[28]. Across the survey sample[29], an **estimated 70 (gross) were created as a result of securing the CIOSIF finance**.

The survey demonstrates how **equity investment in particular has led to employment opportunities in senior occupations and high value jobs.** One-third of jobs created through equity investment are in the top quartile of average earnings in the UK[30] and in director/senior official or R&D roles. **Debt finance is also leading to high value jobs:** the survey also found that nearly one-quarter of jobs created through loans are in the top quartile of average earnings in the UK.

Table 5.2: Role and salaries of jobs created due to CIOSIF investment – survey results (n=19)

	Equity	Debt	Total
Total jobs across survey sample	52	18	70
Role of jobs created			
Directors and Senior Official	15%	6%	9
Sales and Customer Service functions	29%	39%	22
Research and Development	17%	0%	9
Production – administration and logistic functions e.g. Process, Plant and Machine Operatives/Service operatives	35%	39%	25
Other	4%	17%	5
Salaries of jobs created			
Salaries or wages of less than £25,000 a year (before tax) – i.e. median nationally	23%	50%	21
Salaries or wages of more than £37,800 a year (before tax) – i.e. upper quartile nationally	33%	22%	21

The case studies provide further insight in the types of jobs created through CIOSIF investment. For example:

- The initial CIOSIF equity investment has been instrumental in facilitating the expansion of Wildanet's broadband network across Cornwall which has enabled the firm to increase its employment by 15 employees (from 10 staff pre-investment, to 25 by the end of 2020). The funding from CIOSIF, and the subsequent follow-on finance, has enabled the company to hire a team of very experienced and diverse individuals with valuable experience in telecommunications / broadband.
- For Triskel Marine, the outcomes of CIOSIF debt funding have been considerable, and the performance of the business has already improved in terms of employment, turnover and profitability.

[28] Based on the sample size, we can be 95% confident that the proportion of all SMEs supported that have observed an increase in employment is between 75% and 100%.
[29] All 18 firms observing an impact on employment were able to quantify this
[30] Survey of Personal Incomes, HMRC 2018-19 (published 2021), Percentile points from 1 to 99 for total income before tax (taxpayers only)

Employment was around 8-10 staff at the time of CIOSIF funding in the Autumn of 2021 and the company now has 20 staff. Jobs have been created in high skilled positions – engineers, technicians, marketing and procurement staff - and all staff recruited are on over £40k salaries which is well above the average wage for the region. The CIOSIF funding gave them the confidence to recruit key staff, which have been recruited locally and nationally.

Sales and exports

Three quarters of survey respondents (15 of the 21 businesses) reported that the CIOSIF finance had an impact on their sales[31]. The total, **cumulative estimate of gross new sales resulting from the finance was £3.8 million in the sample** (gross, since the funding was received).

The distribution of *additional* sales generated as a result of CIOSIF varies across the sample. Additional sales generated in one firm accounts for nearly one quarter of the total and four account for two thirds of the total.

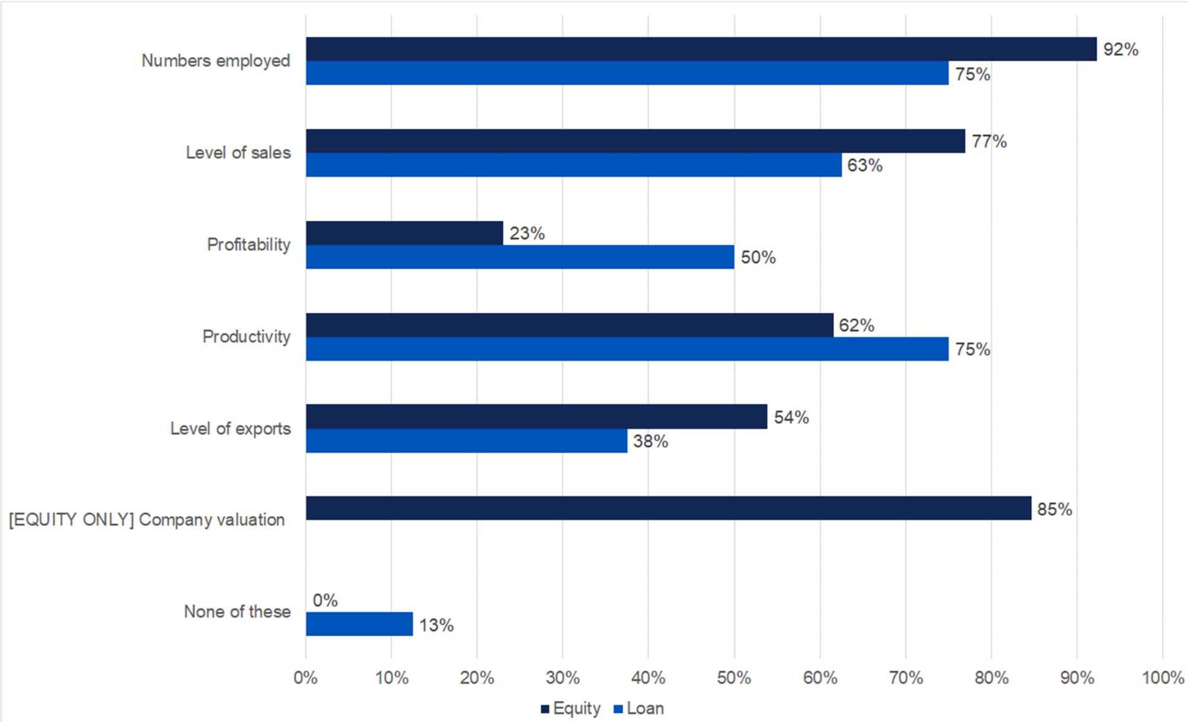
Impacts on exports appear to be weaker, in part reflecting the fact that firms surveyed served largely UK-based markets (according to the survey, overall, only 11% of respondents' turnover was generated overseas). It is worth noting this is in the context of Brexit and Covid-19. A quarter of all sales, by value, in the sample were made within Cornwall and the Scilly Isles and 64% made in the UK.

Impacts by type of finance

When the results are split by type of finance, the survey shows that firms in receipt of equity are more likely to observe an increase in employment, sales and exports but are less likely to experience an increase in profitability and productivity. The findings reflect the stage of development of these firms and the objectives of the finance. Debt is more likely to be used to improve processes and productivity, while equity is more likely to be related to funding new projects and commercialisation of new activities.

[31] Based on the sample size, we can be 95% confident that the proportion of all SMEs supported that have observed an increase in the level of sales is between 57% and 86%.

Figure 5.5: Impacts observed to date cut by equity and debt recipients – survey results (n=21; 13 equity and 8 debt)



Self-reported outcome additionality

The survey explored the extent to which the benefits observed above are additional, i.e., would not have been achieved at all, or not as quickly or to the same scale in the absence of CIOSIF investment. It is important to emphasise that this is self-reported and retrospective evidence, based on responses from SMEs in our survey and therefore may include some optimism bias. Nonetheless, it is useful to inform our assessment of the counterfactual and in reviewing the potential impacts of the Fund.

Overall, the evidence on outcome additionality is very positive: across the survey sample as a whole, one third of respondents said that outcomes were fully additional and would not have been achieved *at all* without the CIOSIF finance (see Table 5.3). CIOSIF has also accelerated outcomes, with just over one third stating that outcomes would have taken longer to achieve without CIOSIF. This suggests that, even though some firms thought they could have secured alternative finance at a later date (as discussed in Section 4), the implications in terms of delaying impacts are much greater.

These findings were corroborated by the consultations and case studies (see above). One external consultee argued that wider support from the Fund Manager, as well as the finance itself, played a key role in helping SMEs to realise outcomes.

Deadweight is very low: only one respondent thought the benefits would have happened anyway, over the same time period and at the same scale, without CIOSIF investment.

Table 5.3: Would the benefits experienced have been achieved without CIOSIF finance - survey results (n=21)

	Debt	Debt	Equity	Equity	CIOSIF total	CIOSIF total
	Cases	**%**	**Cases**	**%**	**Cases**	**%**
The benefits would have happened anyway, over the same time period and at the same scale, without NPIF	0	0%	1	8%	1	5%
The benefits would have happened anyway, but they would have taken longer to achieve	3	38%	5	38%	8	38%
The benefits would have happened anyway, but on a smaller scale	3	38%	3	23%	6	29%
None of these benefits would have happened	3	38%	4	31%	7	33%
Don't know	0	0%	0	0%	0	0%
Total	**8**		**13**		**21**	

Note: Partial additionality options are not mutually exclusive

Estimated impacts

At this stage there are too few cases to produce a robust statistical or econometric analysis, as was done for MEIF or NPIF. However, we can comment more generally on the results from the survey.

The results are very likely to have been affected by Covid which impacted on business supply and demand through two of the three years during which the Fund has been operating. For the businesses funded later, the results should be seen against a backdrop of very little economic growth.

We would also stress here that many of the businesses are smaller and at an earlier stage of development than those supported through the other regional Investment Funds and have had less experience of using finance. This is likely to make rapid growth less likely in the short term.

Across the 21 businesses interviewed respondents reported an aggregate additional turnover of £1.6 million. In other words, of the £3.8 million increases, 42% was reported to be additional (as a result of the Fund). This is an average of £75,500 per business. A similar calculation using the estimates of the additional jobs created gives an average of 1.9 jobs per business.

Business in the survey also reported that on average 45% of these additional sales would have been displaced (these additional sales would have been made by other UK firms if they had not received the CIOS funding). This reduces the net additional turnover (at a UK level to just under £900,000 within the sample). We would expect turnover and GVA to continue to grow over the next few years and for the impact estimates to be larger in the final evaluation.

The figures are self-reported and, as explained in the introduction, the number of SMEs supported to date is too small to undertake econometric analysis to compare their performance with a counterfactual. A comparison of the costs and benefits to date is therefore not be considered robust at this stage. A more reliable value for money assessment will be done in the final evaluation.

6. Wider outcomes and impacts

Outcomes and impacts for Fund Manager

As part of CIOSIF's wider policy objective to strengthen the finance ecosystem, the Fund was expected to increase the capacity, skills, understanding and experience of the Fund Manager in the region, in addition to direct benefits for the firms supported.

Emerging evidence is encouraging. Prior to CIOSIF, the Fund Manager had not operated in the area and argued that, in the absence of the Fund, they would not be active in the area at all. The programme has therefore generated additional finance in CIOS that is unlikely to have been invested otherwise from a Fund perspective. Delivering the Fund on behalf of the Bank and the range of opportunities that have come forward for investment has also shifted the Fund Manager's attitudes towards investment rural and remote locations. The Fund has also encouraged the Fund Manager to take more risk than they would have done previously. As a consequence of their CIOSIF experience, the Fund Manager intends to maintain their base in CIOS in future and raise further funds to deploy in the area. These findings were corroborated by external stakeholders, who argued that the Fund Manager has strengthened their understanding of the region and shifted their approach (for example, towards risk) reflecting the context in which investment is being deployed.

Impacts on the wider finance ecosystem

Supply side

As noted in the introduction, the programme was designed to encourage a better functioning and sustainable finance ecosystem in CIOSIF over the longer-term (i.e., at least 5-10+ years after investment). Given the evaluation is taking place only 3.5 years since the first investment, it is difficult to fully assess the impact of CIOSIF on the wider finance market at this stage. Also, the finance market has been flooded with Covid-19 emergency finance over nearly two-thirds of CIOSIF's lifetime.

Despite this, **emerging evidence suggests that the Fund has already had an important influence on the finance ecosystem on the supply side**. This is evident in a number of ways:

- In absolute terms, CIOSIF has **increased the supply of funding** available in the region, which was a key goal at the outset. As noted above, the Fund has levered a substantial amount of match funding, and Fund Manager would not be active in the region at all without CIOSIF. For this region, the Fund has made a critical difference to the supply of equity. Prior to CIOSIF, there were no equity funds based in CIOS and very little inward equity investment. As one external consultee argued, "*it's a Catch 22 situation; deals were not being done as no one knew about equity, but because no one knew about equity no investors came to the region*". The presence of a locally-based fund has not only increased the supply of equity in CIOS but, as we discuss further below, also prompted greater investment interest from elsewhere and changed attitudes within the region.
- Consultees were consistently positive on the difference that FSE have made to the **strength of relationships between key actors** in the ecosystem. It was argued that CIOS started from a "low base" in terms of intermediary knowledge (as well as business knowledge) of equity in particular. According to external consultees, the Fund Manager has invested a considerable amount of time in

"wide ranging and inclusive engagement" across regional stakeholders and intermediaries, including local angels, universities, the Chamber, accountants and consultants to raise awareness and strengthen networks. The Fund Manager has also established strong working relationships with key intermediaries who now regularly refer into the Fund. Some external stakeholders consulted now also feel better connected with the Bank as a result of CIOSIF, suggesting the Fund has been a useful mechanism to better connect local and national finance ecosystems.

- There is also evidence (albeit limited at this stage) that the Fund has **influenced the behaviours and confidence of some intermediaries**. For example, by the Fund and Bank sponsoring local stakeholder finance events, it has encouraged the stakeholder to be more ambitious in promoting finance to local businesses.
- As we discuss further in Sections 2 and 3, Cornwall's sparse and remote geography mean it lacks a critical mass of investment opportunities and therefore typically struggles to attract private investors. There is emerging evidence to suggest the Fund – and the "noise" created around it – has **attracted the attention of investors outside of the region and is beginning to change perceptions around the investment propositions in CIOS**. According to two consultees, the locally-based Fund Manager is seen as an important point of contact and source of pipeline propositions for external investors. For example, a VC in London who has invested in a CIOSIF-backed SME now keeps in touch with FSE regarding other potential opportunities. There has been some feedback to suggest that some propositions are too early/small at the point of CIOSIF investment, but consultees argued that the Fund is a "stepping stone", helping to grow SMEs to a more attractive size for external VCs. That said, consultees generally considered CIOSIF to be one factor amongst others (e.g. the growth of emerging sectors such as clean energy in Cornwall and hosting key events such as the G7) that have influenced external perceptions of the region. Three consultees also noted how CIOSIF has **encouraged greater awareness of local opportunities and willingness to invest amongst angels** based in the region, which has led to co-financing alongside angels in a small number of cases.

These outcomes cannot be quantified, and therefore are not captured in the performance metrics outlined in Section 3. They are, nonetheless, critical legacy effects in places such as CIOS. It is too early to expect these outcomes to be self-sustaining, but the evidence indicates that the Fund has been able to make a notable difference in a relatively short space of time.

Demand side

On the demand side, CIOSIF was intended to raise the awareness of the availability and use of loans/equity amongst SMEs and intermediaries in the region.

Overall, the qualitative feedback from consultees suggests that **the Fund has changed perceptions of external finance amongst SMEs, especially in relation to equity finance**. Consultees described how, prior to CIOSIF, there were longstanding and entrenched views amongst the business base that they would not be able to secure equity finance or they would be "ripped off" by investors. Internal and external consultees have observed a significant change in the awareness of, attitudes towards and demand for equity over recent years. It has reportedly "taken a long time to change negative perceptions towards equity and get firms to see that equity investors can be trustworthy". The Fund has played an important role in "educating the market" on the value of equity – and as a result, the Fund has seen a growing number of SMEs coming forward for support. According to consultees, the Fund Manager's local presence, visibility on the ground and proactive engagement has been key to shifting perceptions, alongside the wider investment readiness support provided by the Fund Manager to develop the pipeline. The longer-term nature of the Fund has also been important, given the time it has taken for SMEs to become investment ready in the region. That said, there was agreement amongst consultees that there is still some way to go in changing SME attitudes towards external finance.

7. Summary of findings and conclusions

Key messages

Context

The CIOS geography has faced well-documented and long-term economic challenges, with Gross Value Added (GVA) per capita, productivity and enterprise rates that are consistently below the UK average, and a low proportion of high growth and scale-up businesses. In terms of the local finance ecosystem, the CIOS geography suffered from a less developed networks of equity finance providers and advisors, and a lack of awareness of potential investment opportunities from investors in London and the South East (i.e., information failures). This led to a weak private sector finance landscape with local, regional and devolved Government funds disproportionately represented. On the demand side, information failures and investment readiness were also issues. SMEs lacked awareness of potential funding sources (especially equity) and ways to access finance, struggled to present their propositions to best effect, and, in the case of debt, lacked sufficient collateral or track record to secure finance. These supply-side and demand-side factors combined to create a very ‘thin’ finance market when the CIOSIF was introduced. The consultee and case study evidence corroborated many of these challenges.

Inputs, activities and outputs

CIOSIF invested just over £12m between December 2018 and March 2022, which was around half of the anticipated expenditure over this period. Investments have been more weighted towards equity than debt (65% and 35% respectively) compared to expectations of an even split. Both equity and debt funds were behind deployment targets, but debt was further behind (32% of target) than equity (68%). The Fund experienced a challenging start, both in terms of CIOS “starting from a low base” (i.e. SME attitudes/experience of external, non-grant funding and investment readiness) and operationally with changes in key personnel in 2019. Just as the Fund was starting to build momentum, the Covid-19 pandemic hit. The influx of emergency debt funding, which the Fund Manager was not accredited to distribute, led to a shortfall in demand for CIOSIF debt finance. These contextual factors have impacted on deployment to date, especially of debt. However, the Fund has reportedly seen demand return and now has a strong pipeline of investable opportunities.

CIOSIF finance had been deployed via 54 investments across 43 SMEs by March 2022. The average investment per SME was also higher than expected. Qualitative feedback suggests that the funding was relevant to meet business needs, and that the original rationale for the Fund remains valid, especially for equity and small business loans. Survey evidence suggests the large majority of SMEs surveyed have used at least some CIOSIF funding as working capital during the pandemic, alongside investing in staff recruitment and development and R&D activities. The majority of respondents had spent most of their CIOSIF finance at the time of interview, although the Covid-19 pandemic had led to some changes in how funding has been used (for a third of survey respondents) and/or delayed investment (for a quarter of respondents).

Reflecting the shortfall in deployment and demand for debt, the number of businesses supported was only 30% of target. Despite this, the Fund was exceeding targets for jobs created or and private sector leverage by March 2022. The Fund has generated nearly £30m in private sector leverage from a combination of investors who were already active and new to the area, although around two-thirds of this came from one investment.

Finance additionality

Overall, the programme has performed well in terms of finance additionality: over half of survey respondents said they probably or definitely would not have accessed finance without CIOSIF (13 out of 21), and a further four SMEs would not have accessed finance as quickly and/or to the same scale. That said, there is some evidence of deadweight, with six respondents reporting that they would have secured finance anyway in the absence of CIOSIF (five of whom received equity funding). It is important to note that these findings are self-reported and that the stakeholders consulted were less convinced that the SMEs would be able to secure finance elsewhere.

The evaluation has also tested the extent to which SMEs considered alternative finance at the point they applied for CIOSIF. Only seven out of 21 respondents sought and secured other offers for finance at the time of their first application (which corroborates findings above that six respondents said they could have secured finance anyway). For the remainder, around half had explored alternative finance but were unsuccessful, and the reasons given align closely with the rationale for CIOSIF (i.e. risk and insufficient track record).

Wider activities and processes

Fund Manager provides wider support before, during and after investment. This includes support to develop investable propositions (which for some SMEs has been substantive support), participation in board meetings, additional support to struggling SMEs during the pandemic and providing introductions to their networks of other investors. These activities are not captured effectively in current metrics for non-financial support. The support provided was very highly valued by SMEs. The survey results indicate high levels of satisfaction with communications and support from the Fund Manager, as well as the application process. Furthermore, the Fund Manager's involvement at a Board level has made a substantial difference to most businesses. In addition to the finance itself, this wider support appears to be key to realising outcomes and impacts in the SMEs supported.

The Fund Manager is also playing an important role in enabling the local finance landscape to function more effectively. Again, this is not captured in the monitoring metrics, but for CIOS has been a key benefit of the Fund. The Fund Manager has been very proactive and visible in the local community, which has helped to change perceptions of external finance amongst the business base, raise awareness of the Fund, and encourage intermediaries to refer into the programme. There is also emerging evidence to suggest that CIOSIF has helped to establish a pipeline of investment propositions in the region and the Fund Manager has become a helpful central point of contact for investors based outside of CIOS to enquire about investment opportunities. The presence and profile of the Bank has also improved as a result of the Fund.

The geographical focus and locally-based Fund Manager who understands the distinctive local economy, is very visible on the ground and has strong local networks were considered critical by consultees in generating the benefits above.

Outcomes and impacts

Firms

Overall, the survey respondents reported that CIOSIF has had a positive impact across the businesses it supported. It had played an important role in helping to secure wider finance. Nearly half of respondents had secured follow-on finance (excluding CIOSIF follow-on) and almost all of these were equity recipients. Almost all of the SMEs argued that CIOSIF had a large or moderate influence in their ability to secure this finance, acting as a valuable stepping-stone and providing greater credibility in subsequent discussions with other investors. For the large majority of survey respondents, the Fund has also increased their awareness of sources of private finance and confidence in their ability to secure it.

CIOSIF generated a range of benefits for the SMEs supported. Almost all those surveyed had become more resilient, which has been particularly important given the challenging economic context in which the Fund has operated. Over half of survey respondents also thought that CIOSIF has prevented business closure. The finance has enabled the large majority of those surveyed to strengthen their skills base, improve efficiency and become more innovative by investing more in R&D and commercialising new products/services, all of which are key drivers of economic growth. Nearly half of respondents have also used CIOSIF finance to reduce their environmental impact. These outcomes are leading to improved business performance: the majority of survey respondents observed an impact on employment (including well paid jobs) and/or sales. However, impacts on exports was more limited, in part reflecting the fact that many of the supported SMEs served UK markets, and the difficulties in trading internationally due to the pandemic.

Early findings on outcome additionality are encouraging: a third of respondents said they would not have achieved these outcomes without CIOSIF funding and a further third said the finance accelerated the outcomes. There should, however, be some caution in these findings. The evidence is self-reported and, as explained in the introduction, the number of SMEs supported to date is too small to undertake econometric analysis to compare their performance with a counterfactual.

Commercial performance

It is too early to fully assess the commercial performance of the Fund. Repayments and arrears are minimal to date. By the end of March 2022, repayments represented <1% of total investment and discussions regarding a small number of potential exits from equity investments were underway. The number of investments in arrears was also minimal, which is encouraging given the economic context in which the Fund has operated. Whilst the level of write-offs was expected to rise given the ongoing economic instability, consultees did not express any major concerns about the Fund's future financial performance at the time of the evaluation.

Influence on the wider finance ecosystem

It is still too early to fully assess the impact of CIOSIF in improving the wider finance ecosystem at this stage, but emerging evidence suggests the Fund has already played an important role on both the demand and supply side. CIOSIF has increased the supply of funding available in the region, especially in terms of equity finance, which was a key goal at the outset. The Fund Manager would not be active in the region at all without CIOSIF and, as noted above, the Fund has levered a substantial amount of match funding. The Fund Manager has played a key role in facilitating and strengthening networks across the finance ecosystem, through extensive and regular engagement with key stakeholders and intermediaries. There is emerging evidence to suggest the Fund is beginning to change perceptions around the investment propositions in CIOS, both from angel investors located within and investors based outside of the region. On the demand-side, the Fund has also played a role in "educating the market" and changing SME perceptions of external finance, especially in relation to equity finance. These are critical legacy effects in places such as CIOS. It is too early to expect these outcomes to be self-sustaining, but the Fund has been able to make a notable difference in a relatively short space of time.

Overall assessment

Overall, CIOSIF has performed relatively well given the circumstances and the relatively early stage at which the evaluation has been undertaken. The finance has been targeted towards SMEs, many of whom would not have secured finance at all or as quickly in the absence of the Fund. The number of SMEs supported was lower than expected. However, across the SMEs that CIOSIF has supported, there is consistent evidence to suggest the Fund has generated positive outcomes as intended, through both the finance and the wider support. There is also emerging feedback to suggest the Fund Manager has helped to strengthen the local finance ecosystem both on the demand-side (through raising awareness and changing attitudes towards external, repayable finance) and on the supply-side (via its own investments and leveraging investment from others). We do, however, need to be realistic about the extent to which we can expect to observe system-wide impacts after only three years of operation.

Combined, the evidence gathered for the evaluation shows the Fund has delivered against its original objective to generate economic growth via increasing the supply of finance in the region and made progress towards tackling the market failures it was designed to address.

The key challenge for this Fund has been the number of SMEs supported and scale of finance deployed – both of which have been much lower than anticipated by this stage. Two key factors have played into this: first, the Fund was introduced into an area that was "starting from a low base" with longstanding and persistent challenges in relation to access to finance, and so it has taken longer than expected to change perceptions and develop investable propositions; and second, the extremely challenging context for a large proportion of the Fund's lifetime, and the associated influx of emergency funding which the CIOSIF Fund Manager was not accredited to deliver. Arguably, even though outcomes are positive for those supported to date, the scale of impacts could have been much greater by this point if more businesses had received finance.

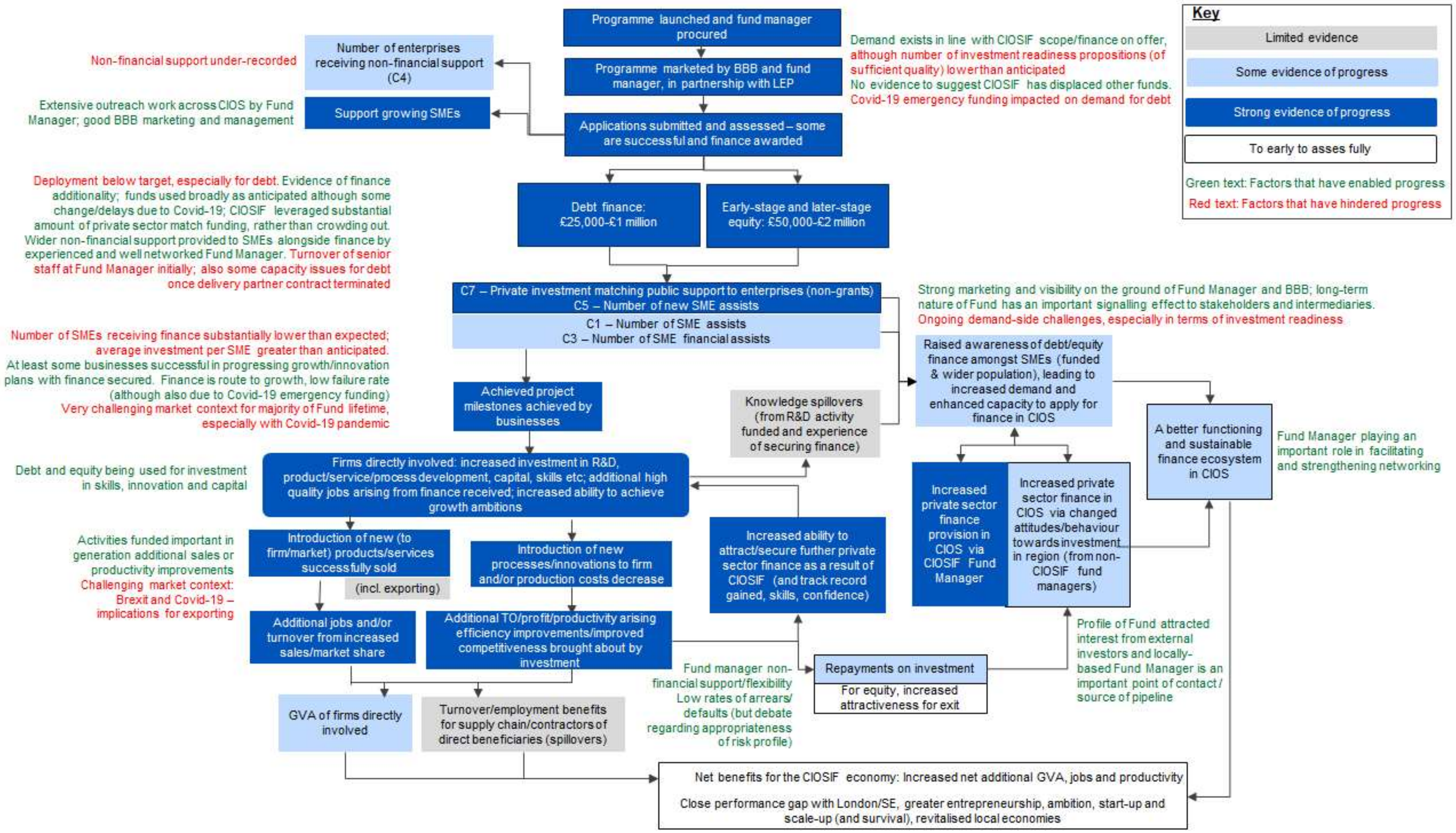
Drawing on the evidence gathered, and lessons learned in this evaluation, the British Business Bank should consider the following lessons and reflections to help to inform the design of future policy:

- The benefits from having a locally-based Fund Manager who understands the local business base and intermediary networks and plays a key role in the wider ecosystem to raise awareness, change perceptions and strengthen networks as a necessary foundation on which supply-side interventions such as CIOSIF can build.
- Linked to the point above, future interventions need to recognise how local contexts may influence demand and the degree of wide wrap around support needed from Fund Managers, and ensure that the Fund's objectives, resources and performance metrics are appropriate in this context. The time and resources required for business support (and wider ecosystem functions) should not be under-estimated, especially in places with very limited prior experience of tapping into external/private sector finance.

- The need for greater transparency on the anticipated target market, investment strategy and risk profile of Funds that are designed to address market gaps but also operate on a commercial basis.
- Whether the balance between equity and debt investment remains appropriate, particularly given the stronger performance of equity to date. Consultees also reported an ongoing gap in equity for earlier stage SMEs that would benefit from local investor presence.
- Finally, whether there is scope for closer strategic alignment between the Fund and locally important sectors and priorities.

A final evaluation of CIOSIF is planned to take place 10-12 years after the first investments, at which stage a comprehensive assessment of long-term impacts will be possible, both through econometric and primary research. It will also be important to gather further evidence on spillover/multiplier benefits and wider market impacts, for example through more extensive consultation/survey work with wider market stakeholders, intermediaries and non-CIOSIF investors.

Figure 7.1: Theory of change, in practice



Annex A Logic Models

Debt

Inputs	Activities	Outputs	Intermediate outcomes	Final outcomes/impacts
Overall funding of: • £40m committed to CIOSIF with the expectation of £20m in debt finance (sourced from ERDF, ESIF and LEP) Plus: • The Bank organisational resource • Fund Manager organisational resource	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 debt finance o £25,000 - £1m • 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 Geographical spread of lending 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 • 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
	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 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: 2018 – 2023 Portfolio management up to 2028		Intermediate outcomes potentially from 2-3 years after lending through to 5-10 years after lending Final outcomes: 5-10 years (+) after lending		

Equity

Inputs	Activities	Outputs	Intermediate outcomes	Final outcomes/impacts
Overall funding of: • £40m committed to CIOSIF with the expectation of £20m in early and late stage equity investment (sourced from ERDF, ESIF and LEP) Plus • The Bank organisational resource • Fund Manager organisational resource	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 early and later-stage equity investment o £50k-2m • 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: 2018-2023 Portfolio management up to 2028		Intermediate outcomes potentially from 2-3 years after lending through to 5-10 years after lending Final outcomes: 5-10 years (+) after lending		

Annex B Survey Respondent Profile

Further information on the survey

This section includes the results of analysis completed to test the representativeness of the survey sample against the total CIOSIF population. These checks have been completed for: sector, firms in receipt of multiple CIOSIF awards, and timing of support (Tables B-1 to B-6).

Table B-1: Sector

	Survey	%	Total population	%
(A) - AGRICULTURE, FORESTRY AND FISHING	0	0%	0	0%
(B) - MINING AND QUARRYING	0	0%	0	0%
(C) - MANUFACTURING	6	22%	13	24%
(D) - ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	0	0%	0	0%
(E) - WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	0	0%	0	0%
(F) - CONSTRUCTION	0	0%	3	6%
(G) - WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	7	26%	9	17%
(H) - TRANSPORTATION AND STORAGE	1	4%	1	2%
(I) - ACCOMMODATION AND FOOD SERVICE ACTIVITIES	0	0%	0	0%
(J) - INFORMATION AND COMMUNICATION	10	37%	13	24%
(K) - FINANCIAL AND INSURANCE ACTIVITIES	0	0%	0	0%
(L) - REAL ESTATE ACTIVITIES	0	0%	0	0%
(M) - PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	2	7%	8	15%
(N) - ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	0	0%	1	2%
(P) - EDUCATION	0	0%	0	0%
(Q) - HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	0	0%	1	2%
(R) - ARTS, ENTERTAINMENT AND RECREATION	0	0%	3	6%

(S) - OTHER SERVICE ACTIVITIES	1	4%	2	4%
Total number of awards	**27**		**54**	

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

Table B-2: Number of CIOSIF awards

	Survey	**%**	**Total population**	**%**
One award	16	76%	32	76%
Multiple awards	5	24%	10	24%
Total number of businesses	**21**		**42**	

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

Table B-3: Year of first investment

	Survey	%	Total population	%
2018	0	0%	1	2%
2019	6	29%	16	38%
2020	6	29%	8	19%
2021	9	43%	14	33%
2022	0	0%	3	7%
Total number of businesses	**21**		**42**	

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

Annex C Case Studies

Case study 1: Codices

Introduction and context

Established in 2018, Codices is a technology company from the Falmouth University Launchpad Incubator scheme. The company develops tools to enable online broadcasters to easily make, manage and monetise live interactive gameshows. Their first product, Quiz Kit, allows people to create and host their own live interactive gameshows on Twitch, with audiences playing in real-time as the contestants In 2022, Codices will launch Moar, the first platform dedicated to the creation, distribution and community development of live interactive shows. The company is at the venture stage of evolution, and currently employs ten full time members of staff.

Prior to applying for CIOSIF, Codices had secured £150k of grant funding to develop the idea. However, the firm required funding to further develop their products. Codices successfully secured two equity finance deals through CIOSIF: £250k in July 2019 and £250k in February 2022. This case study is based on the survey response and a follow-up, in depth interview with the Managing Director of the company.

Business challenges and opportunities

At the time of seeking CIOSIF, the business was seeking capital to **further develop their product, improve business operations and grow their customer base**. As an early-stage technology company, they were faced with a limited track record in securing finance and a lack of early growth finance options in the region. Furthermore, as their business model requires them to initially focus on getting users in before the revenue generating comes, this relies on capital upfront, which was seen as a high-risk proposal by other finance providers.

Finance additionality and wider finance package

In 2019, CIOSIF initially took a £250k equity stake in the business, which was part of a total £633k equity fundraising round with Haatch Ventures. Following this, in 2022 CIOSIF invested £250k follow-on funding into Codices as part of a further £667k equity fundraising round with other investors, allowing the firm to continue operating and developing the new product.

In the absence of CIOSIF, **Codices probably would not have been able to secure finance from another source.** The firm noted that "*it is really hard to raise money generally speaking*", and so the fact the CIOSIF funding says they can match an amount helps with conversations with other investors. The credibility of CIOSIF and due diligence completed was also noted as beneficial:

> *"The fact that they are going to invest shows they have done due diligence which gives you credibility with other investors. If they are going to put in £150k then it helps to be able to push things with other investors too."*

Implementation to date

The CIOSIF finance has supported **Codices to continue operating and develop their new product, Moar.** As the funding from CIOSIF represents such a large proportion of the finance raised, it has supported a wide range of activities alongside working capital. The largest amount of finance was used for staff recruitment, training and development and product development with other activities supported including marketing, the acquisition of equipment, IT infrastructure costs, and adopting new or improved processes.

"The other big thing is we launched Quiz Kit and then stopped focusing on that to build Moar last year so basically, we don't do any revenue. It gives us the time now, as we are launching new live stream platform to get things ready. It is funding the big, long no revenue period; the money is keeping us going. Testing adverts, things with marketing. It is doing the functions that the business would do if it was generating revenue."

One challenge in implementing planned activities noted was around hiring and retaining new talent to the company. However, the funding from CIOSIF is reported to have **allowed for flexibility and improved ability to hire new employees**.

The relationship with the Fund Manager has been very positive to date. FSE acts as a board observer, and the fact that they "*offer their opinion on strategies and challenge well*" is considered helpful in the running of the business. Furthermore, FSE supports in reviewing the company's accounts and finances each month and has introduced Codices to new contacts.

Outcomes and impacts to date

The CIOSIF investments have generated the following key outcomes and impacts for the business:

- **Introduced new and more efficient processes**, including a new sprint structure to deliver deliverables weekly, and improved project management processes, HR systems and contracting processes
- **Progressed the development of the new product and developing new marketing materials**, including getting the product ready for launch in 2022 and testing adverts materials
- **Increased skills in the existing workforce**, through increased resources to bring in external consultants to train team members, e.g., lawyers have come in to help the company understand terms of service
- **Improved productivity through developing the existing product**, with the finance providing the opportunity "*to go back and reformat and structure Quiz Kit to make it so that things were easier to maintain*", substantially reducing maintenance work required
- **Increased business resilience,** as a result of the funding supporting the company to maintain operations and grow its user base
- **Invested an extra £620k in R&D** as a result of the CIOSIF finance using a combination of funding from CIOSIF, other existing investors and angel investors
- **Raised awareness and confidence in raising private finance in future,** through supporting them with confidence in their pitching process

"The pitching process is quite key, when you go out to people and say you need x amount of money you need to build up a certain amount of confidence to do that and CIOSIF were the first to say yes and helped me know that I was doing it right, building up confidence"

Apart from CIOSIF, a number of other key factors have influenced the business' ability to achieve the benefits outlined above. Namely, the **motivation, knowledge and existing expertise within the team** has driven forward growth. In addition, due to the nature of the company's product and remote operations, i.e., a digital online business, **Covid-19 has had a positive impact on company growth, with usage having increased.** Despite these other factors, the finance and support provided by CIOSIF was identified as a key factor which has contributed to the outcomes achieved.

In the survey, the consultee stated that **none of the benefits would have happened** in the absence of CIOSIF finance. The consultee explained that the money is what was needed to support the development of the product and growth of the company.

Future outcomes, development and finance needs

In the future, the firm expects outcomes to include:

- **Employment growth:** 15 jobs created, plus seven jobs safeguarded in the next three years
- **Increased turnover:** with the launch of the new product towards the end of 2022, the consultee expected turnover to be £15k this year and then increase to £900k next year
- **Increased exports:** the new product will have an initial focus on the UK and then expand to the US and Australia, followed by new markets including France, Turkey, Germany and South Korea

Going forward, Codices will focus on completing the development of the new product, Moar, to deliver the first platform dedicated to the creation, distribution and community development of live interactive shows. The consultee explained that the product will be launched in 2022, with an evidence-plan in terms of strategy, whereby they can determine what works and identify any improvements that need to be made. The ambition is to grow the platform to the size of the likes of TikTok, YouTube or Twitch. To further the company's growth plan, the firm plans to seek further external finance and is currently starting on a third fundraising round.

Conclusions and lessons learned

This case study highlights the role of CIOSIF in supporting an **innovative business with high growth potential, enabling the firm to continue operating and develop their new product**. CIOSIF has supported the company to develop its processes and products, improve productivity and grow its R&D investment. Importantly, the Fund has played a role in supporting the firm to sustain and grow employment and enhance training provision and skills. The consultee noted how impressed they were with CIOSIF and the importance of the fact they are not risk averse:

"I was impressed with how forward thinking CIOSIF are, we are a very atypical company in Cornwall and sometimes people are too scared, so I was very happy that we went out with a big vision and CIOSIF were happy to sort it. The fact they are willing to take proper risks is a good thing as they could just go safe, but they don't."

Case Study 2 Bosena

Introduction and context

Bosena is an independent film production company founded in 2019, operating from Penzance, Cornwall. The company's activities build directly on the Owner's 20-year career in the film and screen industry, most of which has been in Cornwall. Bosena has a deep-rooted Cornish identity, and focuses on producing films linked to Cornwall's history, environment and people. Bosena can be involved in several different feature films, narratives or documentaries at one time, and whilst the firm employs two staff members, it regularly works in partnership with external partners, including other businesses, freelancers or sole traders. Bosena's core revenue generating activities are split across three stages of the production process:

- Development (i.e. working with writers and filmmakers to develop an outline or treatment for a story or script, which is then sold initially as a development product to financiers, and subsequently as a production product)
- Production (i.e. working to plan, manage and deliver the film-making process including pre-production, filming on location or in a studio and post production, which is largely funded by external financiers, with Bosena retaining a fee from the production budget.)
- Licencing (i.e. once a film is complete Bosena licenses the product to international distributors, usually through a sales agency and then holds a percentage share of the revenue fees earned).

In October 2021, Bosena received a £40k debt finance loan from the Cornwall and Isles of Scilly Investment Fund (CIOSIF), delivered by FSE Fund Managers. This was used for supporting a number of short and long-term activities, including **providing working capital** for a key film project, **business development** and **strategic planning**. This case study will explore Bosena's rationale for accessing finance and the impact it has had since. It was written following an in-depth consultation with the company's Owner and Founder, in June 2022.

Business challenges and opportunities

Bosena's receipt of debt finance came at an early stage in the business' journey, being that the firm was founded only two years prior. Bosena successfully launched with several projects that followed from the Owner's previous work, however as the Covid-19 pandemic started in early 2020 the company had just begun its first large-scale multi-year project; a high profile feature film funded by several eminent film financiers. Due to the lockdown restrictions, the production was delayed and extended by almost one year, with a new completion date set for March 2021.

"I've been a Producer in Cornwall's film industry for two decades, working either in other companies or as a freelancer. I also set up another community interest company in the mid 2000's, so the experience and network I have led to important leads for Bosena's first years."

The Owner acknowledged Bosena needed an alternative source of cashflow during the film's production, as the **company lacked sufficient cash reserves** to cover the extended costs of the project and to complete business development activities, which were recognised as being equally important to sustaining growth. This was compounded by the payment structure of the film, as a significant proportion of it's revenue would not be generated until it was complete.

"The reason for seeking finance was to plug a short term gap in our cashflow, but also to support the continuous growth of the company during our crucial first few years!"

This was noted to be a challenging period of Bosena's journey, as **without external finance activities would have had to be restructured towards cost cutting measures**. This would mean focusing on producing the film only and stopping business development, which would have prevented Bosena building a long-term pipeline of work and increase risk of closure.

Finance additionality and the wider finance package

Throughout the first half of 2021 multiple sources of finance were considered. A commercial bank loan was ruled out due to the inability to access sufficient collateral. The firm itself could not be used as it was too early in the business's life to gain a formal valuation, and the Owner was also unable to use personal assets. The company considered private equity investment but on reflection considered itself to be too small and not have a long enough track record. An application was made to Creative UK's Growth Finance fund, but was unsuccessful as, again, the firm's turnover at the time was not high enough. Also the loans were to a minimum value of £100k, which was greater than Bosena needed and posed a risk of over-commitment, which could challenge payback processes.

"We didn't have a lot of choices, but after finding CIOSIF it felt really well suited for Bosena"

The Owner then identified CIOSIF through their own research. After an initial discussion with FSE Fund Managers, the scheme proved to be a perfect fit. The loan sizes were sufficient for the firm's cashflow requirements and the application process was relatively straight-forward and not overly time intensive. The Owner was also drawn to the ongoing support that would be provided by FSE, especially during the application process. The company successfully received an offer for the full £40k loan applied for, which the Owner believed was **very unlikely to have been received from elsewhere**, due to other options either being mis-aligned in scale or form, or the company being ineligible.

Implementation to date

Firstly, the loan provided **working capital** for the delivery of the ongoing feature film, covering the cost of various production activities including script development, partnership management, and day-to-day operational costs on-set. Once the film was complete but prior to being sold, it also covered the costs of Bosena contacting sales agencies and distributors, and some legal activities required to make deals.

Secondarily, the loan also financed **staff wages** and **short-term consultancy support** needed to deliver wider activities that would not have been afforded or prioritised otherwise, which included:

- **Financing an increase in employment** of the Owner from 0.6 to 0.8 full time equivalent hours, with extra time being used for additional business development activities such as networking with new clients and partners, pitching and producing pilots for new projects.
- **Safeguarding employment** of Bosena's Marketing Producer, who leads on marketing the business itself and its films once complete.
- **Financing a PR consultant** to support sales processes once the film project was complete, which added significant capacity to Bosena's operations in the short term and accelerated the film's market release.

Receiving the debt finance did not lead to any substitution from other potentially more efficient or impactful activities for Bosena. The loan actually enabled the firm to increase the resource it initially intended to allocate to the film project, which led to a better quality production and increased the scale of revenue generated. Therefore, **by directly uplifting the firm's capacity and capability at a critical period, the finance has led to optimal performance.**

Outcomes and impacts to date

In terms of the outcomes of these activities, Bosena has been successful in delivering the core project whilst also generating three further project wins, meaning the finance has supported the **development of new products, building of the business' pipeline, enhanced resilience** and **led to improved profile in the market.** Other outcomes include:

- **Avoiding business closure**, as without the finance the business would have faced risks of not having enough cash to fund activities past the film, and had this not been successful closure would have been likely.
- **Support for commercialisation and the release of a new product to the market,** with the loan supporting a range of sales activities when the film was complete.
- **Developing the capacity and capability of the workforce**, with the Owner's management capabilities being improved, as well as the skills of the Marketing Producer due to new experiences via experiences developed due to the loan.
- **Introduction of more efficient processes**, including reduced environmental impacts, as Bosena used the funding to upgrade IT equipment, which enabled remote working processes to be implemented.

"A key benefit of receiving the CIOSIF *is that it has helped facilitate my focus to where it needed to be in the business"*

Future outcomes, development and finance needs

At the time of interview, the loan was entirely spent and all activities were completed as planned. The Owner was in the process of establishing an advisory board for Bosena, with a view to supporting well formed financial management processes, inspired after following the requirements of the CIOSIF application and having to provide a financial plan for spending the loan. This is expected to enable the firm to be better placed to apply for and invest more finance in the future.

"I have become more structured in my approach to managing the business now, and would be very confident in applying for finance again in order to support continued growth"

The Owner has ambitions to continue to grow the business quickly, with a key priority being to maintain the scale and pace of the increased pipeline of work. If this is sustained into the next year, the Owner plans to recruit two new staff to assist with production. Accessing more finance is also expected to form a key part of Bosena's growth, with the Owner currently considering options for accessing larger loans or equity investment.

Conclusions and lessons learned

This case study demonstrates the efficacy of the CIOSIF in supporting an early-stage micro-business to sustain operations within a period of variable cashflow. The fund has successfully intervened in the market whereby the private sector offer was poorly aligned to the business' need, and provided suitable amounts of finance and well-matched payback terms. Ultimately, the fund provides a unique offer to firms in Cornwall and the Scilly Isles, and in Bosena's case, it was the most accessible source of debt finance.

> *"The first years of starting a small business is extremely challenging, as you have to take several financial risks, so receiving investment from the* CIOSIF *is a perfect route to supporting that stage".*

The Owner recognised the importance of the CIOSIF for the Cornish economy and the impact it can have on businesses in creative industries in particular, which mostly consists of micro-businesses which regularly face cashflow challenges. It was noted that the CIOSIF loan will have been a key facilitator in the long-term growth of Bosena, and has benefitted the Cornish screen industry, as the activities completed have and will continue to enable Bosena to continue collaborating with other local firms.

Case Study 3: Logan Electronics

Introduction and context

Logan Electronics are a manufacturer of electronic cable and wiring assemblies, and services business customers in aerospace, automotive, marine and energy industries. The company has been based in Cornwall since 1988 with its current site in Redruth, and has 25 employees. 20% of it's customers are in Cornwall and the remaining 80% are spread across the rest of the UK. Following the Founder's retirement in 2017, Logan Electronics was acquired by a new management team, who have since implemented a strategy to transform the company's model. Prior to the takeover, Logan Electronics operated on a sub-contractor basis, by selling labour and facilities required to produce their customer's products, often legacy products, whilst customers provided design plans and materials. Whilst the company still offers a sub-contract manufacturing service, this is now supported by an independent design consultation service, procurement and manufacturing processes.

In March 2022, the business received a £250k equity finance investment from the Cornwall and Isles of Scilly Investment Fund (CIOSIF), alongside £250k of private matched investment. This was required to support a rapid growth phase the business was experiencing due to surges in short-term demand after pandemic restrictions ended in 2021, with the finance **providing working capital reserves during a growth phase** and **part-funding an upgrade in premises**. The case study explores the rationale behind the decision to access investment, how the finance was implemented and the impact it has had. It was written following a consultation with the firm's part-owner in June 2022.

Business challenges and opportunities

Since 2017, the Owners had been making internal investments in capacity, skills, expertise and equipment in order to complete the transition to the new business model. However, part-way through this process the coronavirus pandemic hit, which led to significant fluctuations in the business' activity and created a challenging climate for strategic planning. The business initially faced a rapid decline in demand, which, combined with intermittent lockdown restrictions, led to revenues dropping and the business reaching a peak furlough rate of 50% of all staff in 2020/21. Like many other manufacturers, Logan Electronics moved into a crisis-management approach, and implementing its long-term strategy became a lower priority.

However, as markets re-opened during the latter half of 2021, the business experienced rapid unanticipated increases in demand, with customers requesting not only the previously common smaller scale requests for sub-contractor services, but also a number of full-scale orders under the new service line, which were much larger contracts in scale of output and time. Having secured several long-term contracts, the growth of Logan Electronics post-2021 was imminent, but the firm faced several limiting factors to delivering the contracts. The company needed to **increase its working capital reserves** and **needed a larger production and storage space** to be able to sustainably handle increasing volumes of work. This was further compounded by the need to stockpile resources in response to supply chain issues faced during the pandemic. Due to the longer delivery times required for the new contracts, it would not have been possible for the business to generate enough profit internally to fund these investments, so seeking external finance became the only viable option.

Finance additionality and the wider package

The management team projected a need for finance to the scale of several hundreds of thousands of pounds. The scale of finance required combined with the management's reluctance to use personal guarantees due to issues around equally sharing risk led to a preference for equity investment over debt finance. Having greater flexibility in terms of payback periods via equity investment was also preferable to the restrictive tenures often required by debt finance.

One of the Owners became familiar with CIOSIF after using the scheme for a different business they are partnered in. However, the management team did look elsewhere prior to applying, including an application to a venture capital firm - which was unsuccessful as the scale of investment sought was smaller than the VC's typically offered. The VC also had no appetite for investing in manufacturing businesses, and preferred to invest in Software as a Service (SaaS) enterprises. The management team also had several conversations with individual private equity investors, however they were declined as the investors were not willing to make investments at that time due to turbulent market conditions. Logan Electronics' did receive a successful response to a commercial bank loan application, but combined with the reasons above and the fact that it was a lower amount offered via equity investment from CIOSIF, it was turned down.

"Taking equity investment from CIOSIF *was perfect for our needs as it enabled us to access external funds that we could re-invest the majority of in the short-term, whilst benefits could continued to be achieved over the long-term"*

After successfully applying for and receiving investment from CIOSIF, the additionality of accessing the fund was reported to be high, particularly in terms of scale, as **the firm would have been unlikely to receive investment from any other sources at the same amount**, especially considering CIOSIF required private match-funding, meaning the total investment received was doubled. The Owners had believed the options for accessing private equity investments in Cornwall were limited, and believed that CIOSIF is an ideal solution for local businesses looking to grow rapidly, and without the scheme it *"would have been virtually impossible to raise this amount of finance locally".*

Implementation to date

Key areas of implementation have been in providing **working capital,** covering costs of additional materials purchased as part of the stockpiling process and enabling the full-service manufacturing process to be delivered continually. The firm has also **purchased a range of new equipment,** including plant tools for goods handling and new manufacturing machinery both of which have facilitated a further step-change in the firm's production capacity, and directly increased the firm's ability to service the new, larger contracts. Finally, the investment has **supported costs of moving premises**, with the business moving from their previous Truro production centre to a new 5,000sqft purpose-build manufacturing unit in Redruth, which is larger in size, has a higher build quality and offers improved road access for the increased volumes of transportation. This has bolstered the company's volume of resources for future contracts, sustainably increased production capacity, enabled the firm to move closer in proximity to a larger pool of potential employees and protect itself against rising transportation costs.

Outcomes and impacts to date

The outcomes of these investments have allowed the business to serve the new contracts that were secured, leading to impacts of **growth in turnover, employment** and **profitability**. The firm is

overcoming an anticipated risk of failing to deliver against contracts due to being over-committed, which could have led to a loss of long-term customers, negative market profile and even closure. It has also **increased the firm's resilience** to a number of supply chain disruptions and increasing costs that were faced as a result of Covid-19 and the Russia-Ukraine crisis. It has also supported the business **to further increase capacity**, and will enable the achievement of the long-term growth strategy that is being implemented. Wider impacts include:

- As a result of servicing new contracts, Logan Electronics has a projected an increase in employment of five full time equivalent roles.
- An overall uplift in productivity as a result of time savings to the scale of 300 to 400% in certain parts of the manufacturing process due to the new machinery replacing previously manual processes.
- Improved procurement capabilities and the ability to make cost savings due to having an enhanced scale of purchasing, with the company now negotiating better prices from suppliers.
- Through the wider support offer of CIOSIF, the management team have been able to gain a number of new connections and introductions within the investment community that are likely to prove beneficial in the future when seeking to access more finance.
- Improved working conditions and environmental efficiencies as a result of moving to the new premises, which has renewable energy sources in-built and more sustainable fittings.

"Without CIOSIF *we would have been at the brink of being over-capacity during this growth period, which could have actually led to the business reducing in size"*

Future outcomes, development and finance needs

Following from the success of this equity investment, Logan Electronics are now working towards another period of even greater growth and have high confidence in the long-term scale of demand for their services. This will be enabled by further investments in expanding the new Redruth premises, increasing production capacity and increasing the size of the workforce. Accessing more finance will be integral to this process, as it will enable another step-change in capacity and allow a further acceleration in the company's growth. The business has recently secured investment from a private investor, who has relevant experience managing high growth manufacturing businesses. Following this investment, the Owner is expecting a further doubling of turnover.

"We have an ongoing goal to continue growing as a business, and we are confident that in a couple of years time we will look even more different to our current state"

Conclusions and lessons learned

The Owner reflected on the overall process from application to receiving the investment, stating it was effective, however did make one suggestion that the CIOSIF could improve the method of accessing a private sector match-funder. The Owner found this was a very time-intensive process and it was suggested that networks of suitable investors or alternative peer-to-peer investment platforms could be created by the Fund, which could be accessed by beneficiaries to improve the likelihood of finding potential match funders quickly. However, it was clear that the overall size of investment and long-term repayment structures were well aligned to the company's need, and the benefits of accessing equity investment through CIOSIF outweighed the costs of the application process.

Overall this case study demonstrates the impact a CIOSIF equity investment can make for a business that is on the brink of expansion, but faces constraints to capacity due to a lack of internal finance required to invest in ensuring it has capacity to deliver ongoing work. The equity finance from CIOSIF has been integral to the company's long-term growth process by enabling an increase in output and productivity, with the success of the entire process now providing the validation the firm needed to gain approval for larger amounts of private investment into the future.

Case Study 4: Triskel Marine

Introduction and context

Based in Hayle, Cornwall, Triskel Marine Ltd (TML) started in marine data management. Originally founded in 2003 by marine data researchers with an interest in sailing, the company developed out of the idea that inboard diesel engines are inefficient and could provide energy to other on-board services, rather than require a separate generator for these.

Substantial assistance was received from EU funding grants, totalling close to £10m. This R&D funding, combined with small revenue from their other marine engineering products and services (e.g. hardware and software solutions for remote monitoring buoys, for systems deployed for many months without external support) helped the company survive. Around 2018, the company secured substantial US VC investment to develop their main product - 'Integrel'. This is an efficient system for diesel engine spare energy storage and received several awards at the world's largest ocean engineering event in Amsterdam, 2018, leading to initial commercialisation. Integrel's innovative solution is designed as a replacement for onboard generators by attaching to a current inboard engine to provide additional generator power from the propulsion system. In essence they make traditional engines more efficient through battery energy storage – generated in normal use, which can be used later (instead of via an additional diesel powered generator) in operating electrical systems on board e.g. lights, winches, bow thrusters etc.. This has considerably better carbon credentials and lower environmental impact.

Triskel Marine received a total of £350k from the CIOSIF in the form of a loan from September 2021 (in two tranches). This provided working capital for long term stock purchase to assist commercial development. It was subsequently supplemented by Funding Circle (FC) in the form of a £100k Covid Bounce Back Loan.

Business challenges and opportunities

The Covid-19 pandemic period created huge delays in stock supply for the company's Integrel system components. By Autumn 2021, it was clear that the best strategy was to buy substantial stock so that they could keep trading. Otherwise, they faced long months of delays – perhaps 6-12 months (40-50 weeks) for stock availability/delivery. They calculated that £500k was required to obtain sufficient stock purchase to allow the company to proceed with their market growth plans.

In September 2021 they applied to FSE for CIOSIF funding. Without trading track record, bank funding was not available (they were trading, but not that much). FSE offered £350k with an initial tranche of £250k and further £100k a few months later. Meanwhile, their annual financial return in October showed sufficient trade to trigger a Funding Circle (FC) Covid Bounce Back Loan. The management team also invested £50k to reach the £500k required for stock purchase. All of this funding has now been spent on stock.

Finance additionality and wider finance package

At the initial time of the CIOSIF loan, this lending represented 100% additionality. There was no other funding available. As an early-stage R&D company, with little regular income demonstrated in their trading track record, they were not eligible for bank finance. Subsequently Funding Circle (FC) offered a Covid Bounce Back Loan (BBL). This became available due to the company's annual financial reporting meeting FC's lending requirements (this was due to timing, rather than as a result of the FSE loan – therefore, there was no attributable leverage as such). It only took a couple of months to get all of the required funding in place and the process of lending was reported to be extremely good by the consultee.

If the lending had not been available the business would have survived but growth would have been slowed by lack of stock and this could have halved the performance of the business. Funding would have come, but maybe less and taken longer – maybe 6 months to a year longer. Thus, the timing of the CIOSIF debt finance was very helpful to the speed and scale of growth achieved by the company.

Implementation to date

All of the £500k raised in the Autumn 2021 funding round, including the £350k of CIOSIF funding has been invested in the purchase of stock components for Integrel to support the expansion of company sales.

Outcomes and impacts to date

The CIOSIF loan was the first and most substantive (70%) part of the investment round for stock purchase. The outcomes of the CIOSIF funding have been considerable. The performance of the business has really taken-off in terms of employment, turnover and profitability.

Employment was around 8-10 staff at the time of CIOSIF funding in the Autumn of 2021 and the company now has 20 staff (including 7 engineers, 5 software technicians, plus sales and marketing and procurement staff). Job creation has been for high skilled people and all staff recruited are on over £40k salaries – engineers, technicians, marketing and procurement staff. Triskel Marine have created three jobs in last six months which are considered as directly attributable to the debt funding from CIOSIF – and the resultant growth of the business. The current employment wages for 20 staff are £0.75m; representing an average wage of £37,500, which is well above the average wage for the region (£28,800).

Sales turnover has also risen sharply; from £755k (selling 20 units) in 2020 to £1.6m (50 units) in 2021 and currently on target for £2.1m (70+ units) this year.

CIOSIF funding gave them the confidence to recruit key staff. Recruits have come from Scotland and the Midlands as well as locally. It is difficult to find local staff with the right skills level, but "Cornwall sells itself to key skilled people in the rest of the UK." That said, recruitment is difficult at present and they are still trying to recruit for two more engineers.

The consultee explained that company performance is simply down to having the stock to service customer demand in a globally hungry market for their products. Their Integrel products are highly innovative and they have no direct competitors – certainly not in Cornwall. Virtually all of their sales are exports (95%+).

Their operations are impacting on low carbon. Integrel offers 25-30% improvement in the efficiency of diesel engines for yachts and 50% for power boats. They are eliminating a third diesel generator for non propeller operations for electrical supply. They offer a huge reduction of carbon footprint for yachts and an excellent EPC rating – also with great capacity for E-Drive from their more recent innovations.

Overall, the CIOSIF funding has contributed to safeguarding jobs, circa 8-10 FTEs at the time of funding. The funding has contributed to job growth. They are currently at 20 FTEs and are looking to employ another two engineering/tech staff. The funding has also contributed to increase turnover and profit and enabled 25-50% more growth. Funding was highly additional at the time, with no other lender available for such an early commercialising R&D business. However, the CIOSIF funding was expensive. The company would have secured at least some external funding from elsewhere, but perhaps a year later and the business growth and progression would have been far slower without the CIOSIF loan.

Future outcomes, development and finance needs

More funding will be required to fully commercialise and scale up into global markets. Internal market scale-up will be expensive. It requires expanded sales teams, procurement specialists and on-site supplier services for installation globally. At the time of writing, Triskel Marine are raising a £3m equity funding round, and have attracted some HNW investor interest from their client base, which includes some of the World's wealthiest yacht owners. Equity funding is preferred over debt finance because the company are still an early-stage business. Bank lending would involve some form of mezzanine funding which is unattractive to the company. The additional non-financial skills that equity investors can bring is also highly valued by the company, including opening up international markets and contacts for sales.

The current investment round will put the business into a different scale of operation. Annual sales are forecast to rise to 300 plus units, as opposed to organic growth (from the company's internal profit reinvestment) that could achieve perhaps 100 units per year. Thus, external investment of £3m could represent approximately a 3x growth rate in company turnover in the next couple of years, or 7-8x the alternative organic growth rate.

Conclusions

Overall, the consultee is extremely happy with the process and service received from the CIOSIF fund manager. It was noted that the CIOSIF loan was very expensive, but as a 'lender of last resort' this was not unexpected.

Case Study 5: Wildanet

Introduction and context

Established in 2017, Wildanet is an independent broadband provider based in Cornwall. The business seeks to fill a gap in the provision of superfast and reliable broadband in 'hard-to-reach rural areas' of Cornwall and the South West, serving domestic, corporate and community customers.

At the time of applying for CIOSIF, the firm had already completed a successful proof of concept project in Gweek, commenced the roll out of a wireless broadband network and secured a small customer base. Wildanet had raised £400k equity investment from family and friends to fund initial network development and hired several employees. However, the firm required external finance to accelerate the expansion of their broadband network. Wildanet successfully secured two equity finance deals through CIOSIF: £750k in January 2019 and £600k during 2020.

Business challenges and opportunities

At the time of approaching CIOSIF, the business was seeking to **accelerate the expansion of their broadband network / assets,** employ additional staff and increase their customer base. As an early-stage firm, they were faced with a lack of early growth finance options within the region and limited track record. The amount of time and resource it takes to secure external capital was also cited as a challenge. The firm attended a Mylor Ventures Angel Network event at Cornwall Innovation Centre, where they were given the opportunity to pitch their proposition to investors including FSE. This initiated conversations between the firm and the CIOSIF Fund Manager.

Finance additionality and wider finance package

In 2019, CIOSIF took a £750k equity stake in the business, which was match-funded by the FSE Angel network, private investors and Crowdcube as part of a £1.5m package. The following year, CIOSIF invested a further £600k into Wildanet, allowing the firm to further accelerate its growth strategy.

In the absence of CIOSIF, **Wildanet probably would have been able to secure finance from another source.** However, the process would have been more challenging, taken longer, and thus diverted attention away from other business activities.

Implementation to date

Both investments from CIOSIF supported the expansion of **Wildanet's broadband network across Cornwall.** Most of the finance was used to purchase network equipment/assets and employ additional staff. It also supported wider activities such as marketing and promotion. No challenges to implementing planned activities were identified.

The relationship with the Fund Manager has been very positive to date. FSE acts as a board observer, and their inputs are considered "very structured", "considered", and overall, very helpful. Furthermore, FSE is well networked across Cornwall, so have introduced Wildanet to new contacts.

Following CIOSIF, **Wildanet secured an additional £51m from the Gresham House via their British Strategic Investment Infrastructure Fund** in December 2020. This will enable the firm to continue the roll out of its broadband network, using both fibre to the premise (FTTP) and wireless, across Cornwall, as well as expand into neighbouring counties. CIOSIF influenced the firm's ability to secure this follow-on finance, because it afforded members of its management team the "breathing space" to focus solely on securing external investment, which took several months of intense engagement and negotiations with investors. CIOSIF's prior investment provided additional reassurance for Gresham House that investing in Wildanet was a sound investment.

Outcomes and impacts to date

The initial CIOSIF investment has been instrumental in facilitating the **expansion of Wildanet's broadband network** across Cornwall and enabled the firm to increase its **employment by 15 employees** (from 10 staff pre-investment, to 25 by the end of 2020). It now has in excess of 100 members of staff in Cornwall. The funding from CIOSIF and the subsequent follow-on finance, has enabled the company to hire a team of very experienced and diverse individuals with valuable experience in telecommunications / broadband. Turnover has increased by over 15 times since the involvement of CIOSIF.

Another key benefit of CIOSIF is that the funding has afforded the business the capacity to engage in wider activities in the community: *"having the comfort of funding has allowed us to give back to the community"*. For example, the firm has sought to tackle digital exclusion locally by connecting village and church halls to the internet for free. Local residents can use the internet for free (e.g. for homework, job searching) at one of these "digital community hubs", on a device funded by Cornwall Council.

Apart from CIOSIF, several other key factors have influenced the business' ability to achieve the benefits described above. First, given the nature of the business' operations, i.e. internet provider, the **COVID-19 pandemic had a positive impact on demand for broadband due to the shift to remote working.** Second, **the knowledge/experience of the team** has been important in facilitating successful growth (for example, the founder has a background in telecoms). Third, there is strong investor interest in the sector at present (due to the potential for large returns) which has helped the firm to secure substantial follow-on finance. Despite these other factors, CIOSIF was identified as a key factor that contributed to the outcomes achieved.

Future outcomes, development and finance needs

Looking forward, Wildanet expects to provide employment for an additional 100 people either directly or indirectly by the end of 2022 as it seeks to extend its network further. Its network now covers a large proportion of Cornwall, and the firm plans to roll out its network into Devon and Dorset. The firm operates in a highly competitive market, so the aim is to expand the business' network at pace before the market consolidates. They are also working towards the creation of new products/services, such as those related to 'smart homes'. Depending on the rate of growth, the firm may need to raise further investment over the coming years, but no specific sources have been discussed at present.

Conclusions and lessons learned

This case study demonstrates CIOSIF's contribution to supporting an **early-stage company in a growing and strategically important sector to realise its growth strategy at pace**. CIOSIF has supported the firm to invest heavily into expansion of its broadband network, grow its employment and increase its customer base. Crucially, the Fund played **an important role in the firm securing significant follow-on investment of £51m** which will fund the continued expansion of the business.

More widely, the CIOSIF funding has indirectly supported important social outcomes, particularly in relation to Wildanet's work on tackling digital exclusion in the region.

In terms of key lessons that should inform future policy design, the feedback highlighted two key points. First, there remains a gap in the provision of early-stage finance for start-ups to test business ideas, and second, only SMEs are only eligible for CIOSIF funding but even once firms have developed into 'large' firms, funding to support activities such as investment in product/service R&D would be helpful to support the future growth and competitiveness of firms.

Legal notices

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