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### Invest Northern Ireland



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# Northern Ireland Context

**The ERDF element of Northern Ireland's Operational Programme 'Investment for Growth and Jobs 2014 to 2020' (IGJ) is focused on 3 Thematic Objectives**

1. Strengthening research, technological development and innovation
2. Enhancing the competitiveness of SMEs
3. Supporting the shift towards a low-carbon economy

# Investment for Growth and Jobs Programme 2014 - 2020



# Invest NI Activity

- €415M allocation of ERDF and Match Funding for 2014-2020, to support projects under the following schemes:

## Priority 1: Strengthening Research, Technological Development and Innovation

- Grant for Research and Development (to Business)
- Design Development

## Priority 2: Enhancing the Competitiveness of SMEs

- *Access to Finance [Financial Instruments] – €152M ERDF and Match  
£70M approx. ERDF support  
37% of Invest NI's ERDF activity  
30% of overall ERDF Programme*
- SME support
- Local Economic Development

# ERDF ex ante assessment (1)

- RSM McClure Watters were engaged by the ERDF Managing Authority in December 2013 to undertake an Ex-Ante Assessment of Financial Instruments that would be required for N Ireland
- The external Consultants delivered their Ex-Ante assessment in March 2014
- The Ex-Ante concluded that Invest NI's Financial Instruments offering, via its Access to Finance continuum of support for equity and loans, was in line with the areas of market failure identified by the Consultants for NI SMEs that have growth and export potential

# ERDF ex ante assessment (2)

- The report also endorsed the scope of the Invest NI funds as they:
  - provide value add being additional to baseline supports;
  - provide the mechanism for leveraging and accessing private sector investment and sharing risks with the private sector;
  - provide the opportunity to build awareness and capacity of local companies to access alternative forms of finance;
  - complement existing grants for research and development, particularly at a seed / early stage of business life
- The report recommended that ERDF funding should be used to support all these initiatives and at a level of up to £154m ERDF for the period 2014-2023.

# ERDF designated to Equity Funds (1)

- The RSM McClure Watters Ex Ante Assessment recommended the following ERDF (Public) and Private sector match for the period 2014-2023 for the Equity Funds:

	ERDF		Other Public		Private		Total
<b>techstart University Fund I</b>	£2.2m	60%	£1.4m	40%	£0.0m	-	<b>£3.6m</b>
<b>techstart University Fund II</b>	£1.4m	60%	£1.0m	40%	£0.0m	-	<b>£2.4m</b>
<b>techstart Equity Fund I</b>	£13.8m	60%	£2.3m	10%	£6.9m	30%	<b>£23.1m</b>
<b>techstart Equity Fund II</b>	£9.2m	60%	£1.5m	10%	£4.6m	30%	<b>£15.3m</b>
<b>Co-Fund I</b>	£8.0m	47%	£0.0m	-	£9.0m	53%	<b>£17.0m</b>
<b>Co-Fund II</b>	£15.9m	46%	£0.0m	-	£18.3m	54%	<b>£34.2m</b>
<b>Development Funds I</b>	£26.0m	50%	£0.0m	-	£26.0m	50%	<b>£52.0m</b>
<b>Development Funds II</b>	£20.0m	50%	£0.0m	-	£20.0m	50%	<b>£40.0m</b>
	<b>£96.5m</b>	<b>51%</b>	<b>£6.2m</b>	<b>3%</b>	<b>£84.8m</b>	<b>45%</b>	<b>£187.6m</b>

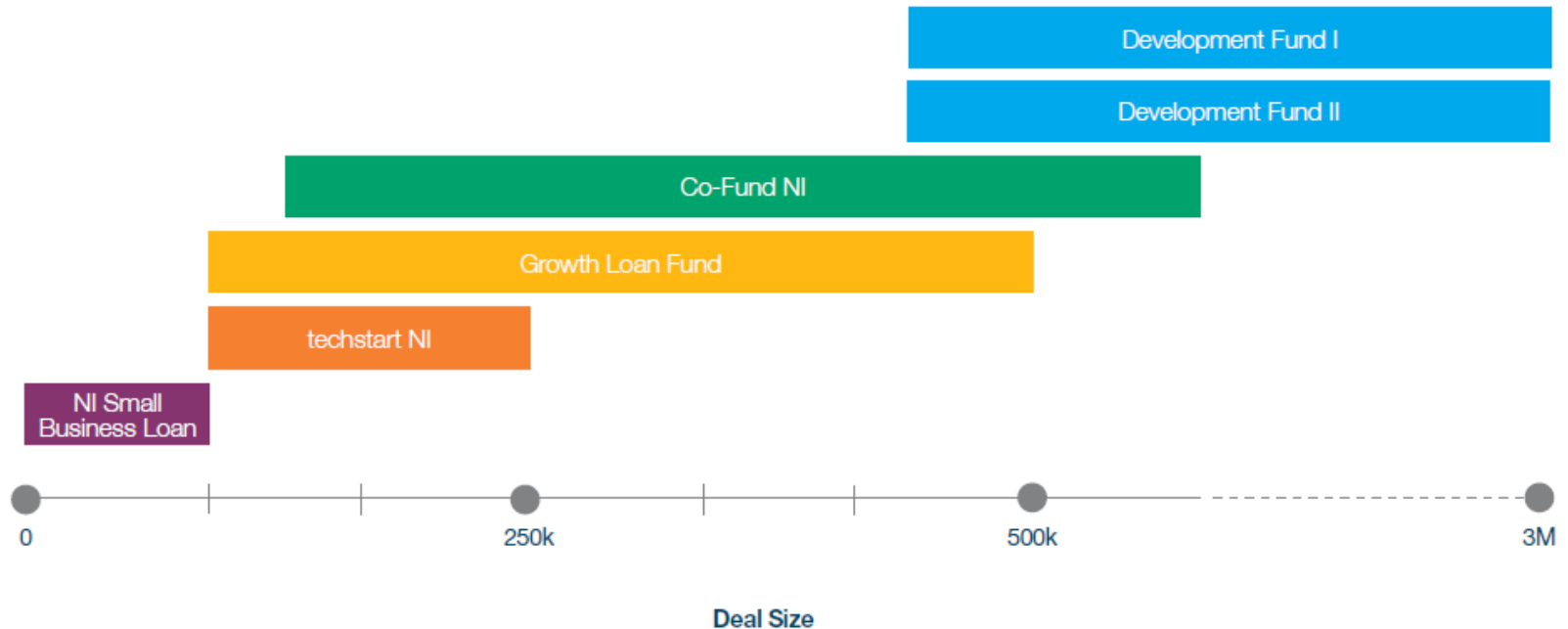
# ERDF designated to Equity Funds (2)

- With competing priorities for ERDF support, and concentration of NI Operational Programme on only 3 thematic objectives, was clear that ERDF funds would not be available to meet the identified funding requirement in full.
- Anticipated ERDF funding from IGJ Programme for Financial Instruments will be circa £70m to 2023
- Decision made by Invest NI to use ERDF to support equity Funds only, with loans being funded from other 'bid for' public resources
- Any shortfall in funding requirement for equity Funds to come from recycled ERDF, other public contribution, enhanced private leverage



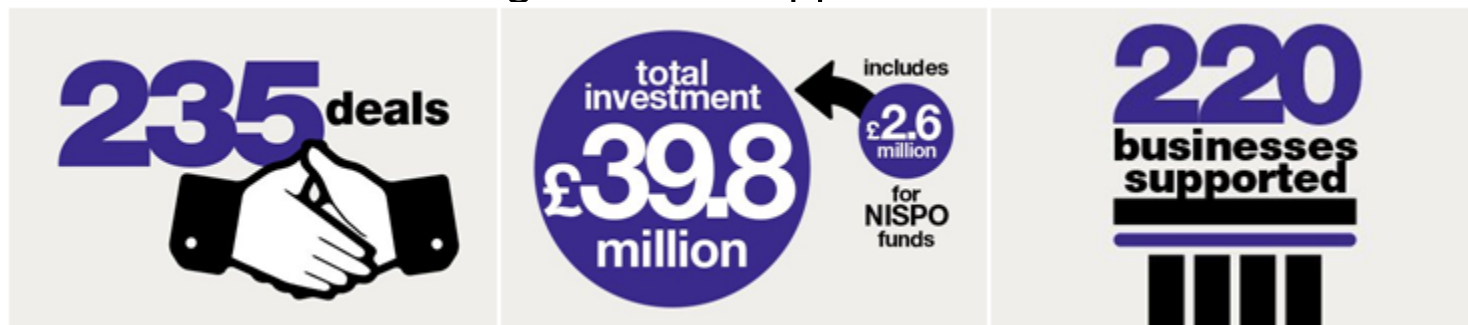
# Access to Finance Solutions

A Risk Capital funding continuum – from £1k start up capital to £3m development capital. **CURRENT FUNDS.**



# Performance for FY 2014/15

- In 2010 Invest NI embarked on creating a suite of funds which now **totals more than £170 million of public and private funding to help SMEs with high growth potential** to forge ahead and drive rapid growth within their business.
- These funds are a **mix of loans and equity finance** and are helping to fill the funding gap created by a tightening of bank lending.
- **In N Ireland we have only been able to do this with part financing from the European Regional Development Fund in supporting our equity Funds.**
- 2014/15 summarized below is first full year that all elements of our Access to Finance initiatives including the ERDF supported elements have been available:





- **£5m fund** was launched in February 2013 and is administered by **Ulster Community Investment Plc (UCI)**.
- Fund is aimed at Micro, SMEs and social enterprises and provides loans of between **£1k and £50k** on a typically unsecured basis, at commercial interest rates.
- Start-ups are also able to avail of business mentoring support.
- Performance for FY 2014/15  
**£1.7m across 80 deals**

### Selection of Investee Companies



- **£50m fund** was launched in June 2012 and is administered by **WhiteRock Capital Partners LLP**.
- Fund targets deal sizes of **£50k-£500k** with key emphasis on supporting SMEs that can demonstrate growth and export potential.
- Loans are typically unsecured with commercial pricing representing a blend of margin and profit share.
- Performance for FY 2014/15  
**£18.8m across 36 deals**

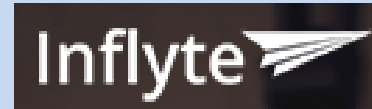
### Selection of Investee Companies



# techstart<sup>NI</sup>

- Fund was launched in July 2014 and is administered by **Pentech Ventures LLP**.
- It represents an integrated suite of funds and support for entrepreneurs, seed and early stage SMEs and university spin-outs:
  - a) **£17m SME Equity Fund** which provides seed capital investments of **£50k-£250k**.
  - b) **Two £1.5m university funds** (£3m) each providing capital to university spin-outs via investments of **£50k-£250k**.
  - c) **£3.6m Proof of Concept Grant** Fund provides **grants of up to £25k** to help commercialise technology innovation.

## Selection of Investee Companies



- d) **Investment Awareness Programme** which provides mentoring/workshop support to help prepare entrepreneurs for the issues that will face them in establishing a high growth business.

- Performance for FY 2014/15  
**£3.3m across 79 deals**

- **£28m fund** was launched in June 2011 and is administered by **Clarendon Fund Managers**
- Fund **co-invests alongside business angels** and other private investors with view to encouraging angel development and accelerating syndication.
- **The angels / private investors lead the deal and set the terms** with typical deal size between £150k and £1m
- Performance for FY 2014/15  
**£9.2m across 24 deals**

### Selection of Investee Companies



# Development Funds

- **£60m fund** was launched in October 2013 and is administered by **Kernel Capital (£30m)** and **Crescent Capital (£30m)**.
- Completes the dealflow chain given the equity gap in venture capital in N Ireland.
- Performance for FY 2014/15  
**£4.2m across 6 deals**

## Selection of Investee Companies





# Some thoughts to consider (1)

- A properly procured ex-ante assessment is essential
- Use that ex-ante assessment as the basis of the Fund(s) to establish
- Decide structure: Fund of Funds or Individual Funds? We chose an individual Funds management structure
- Identify appropriate Thematic Objective(s) of Operational Programme to utilise ESIF support
- Having properly procured Fund Manager(s) is essential
- Have Funding Agreements that are all embracing, look ahead
- Monitor and report as defined in EC Regulations; understand what data is required and who is responsible for providing it



# Some thoughts to consider (2)

- All supported expenditure must be backed up by documentary evidence for vouching and approving the audit trail in line with stated conditions of support
- Failure to comply with these conditions can result in an irregularity (i.e. a payment to the Intermediate Body and therefore to a Fund / beneficiary being disallowed)
- It could also result in ESIF payments for the Fund being frozen by the Commission or clawback being initiated
- The Commission could also apply a financial correction to the whole of the Operational Programme and not just the Fund element.

# Avoiding Non-Compliance

- Have strong risk awareness and good Management processes established
- Get your Procurement right!
- Have strong financial controls in place
- Ensure comprehensive training and guidance documentation is provided to everyone involved
- Carry out regular Management Verification activity



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# THANK YOU

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