



# Overview of financial instruments in the UK 2007-13 and 2014-20

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## Background

- Whilst the UK has significant experience of setting up and implementing a variety of financial instruments, a new type of structure was developed with EIB Group and implemented in the 2007-2013 period.
- Secured EIB lending to the regional structure to boost the critical mass of capital alongside allocated ERDF funding.
- These ‘leveraged’ JEREMIE Holding Funds were implemented in Wales, the North West, the North East and the Yorkshire & Humberside region.
- Evaluations of the JEREMIE funds and lessons learnt have helped in the ex-ante assessments and proposed structure of FIs for 2014-20.



## England JEREMIEs (2007-13)

Each of the three northern regions established a ‘*fund of funds*’ to deliver a mix of loan and equity finance to SMEs:

- Finance Yorkshire: a £90m Holding Fund managed by Finance Yorkshire Limited (FY) which is being invested via three sub-funds;
- North East Finance: a £125m Holding Fund managed by North East Finance (NEF) which is being invested via seven sub-funds; and
- The North West Fund: a £155m Holding Fund managed by North West Business Finance Limited (NWBF) which is being invested via six sub-funds.



## JEREMIEs

Seen as being important for the regions for a number of key reasons:

- the scope to establish large funds to meet the substantial finance gaps identified;
- the availability of a substantial source of pre-match funding for the JEREMIE projects provided by the EIB;
- the scope to adopt a more integrated and coherent approach to the provision of public sector backed SME finance;
- the flexibility of the fund of funds model to tailor finance to the needs of SMEs in the regions;
- and the scope to re-size the sub-funds to reflect changing demand and economic circumstances.



## Progress in the set-up and design of FIs in 2014-20

- DCLG looking to support FIs on ERDF programmes
- EIB study in support of the ex-ante assessment for the deployment of EU resources - structured as 2 stage process:
  - Block 1 – Market Analysis
    - National, regional and local context
    - Demand and supply of finance to start-up and SMEs
    - Lessons learnt for delivery and management
  - Block 2 - Proposed Investment Strategy
    - Proposed Investment Strategy
    - Lessons learnt – past experience
    - Value added of the FIs



## Fund Design

- **State Aid** - new GBER provides greater scope and flexibility for the ERDF backed FIs to invest with SMEs, including larger amounts of finance, larger enterprises and economic areas with differing economic needs; however, the seven year rule reduces the scope for risk capital investment with more mature SMEs.
- **Private Sector Provision** – stimulate more active private sector investors, including angels and venture capitalists.
- **Legacy Returns** – to be recycled into future SME focused FIs and continue to support additional and on-going investment with SMEs .



## Proposed Investment Strategy 2014-20

- Establish Fund of Fund Structure
- Secure EIB loan facility to match ERDF
- Portfolio of 4 funds:
  - Micro-finance: provision of small business loans
  - Debt: provision of business loans
  - Early Stage Technology: provision of equity funding
  - Equity: Provision of equity / growth capital
- Diversified investment strategy
- Predictable reflows from the underlying financial instruments in order to service the debt element
- Management fees and similar costs need to be covered by sources of funding outside of the structure



## Managing delivery of Financial Instrument's

- **Need for flexibility** – FoF provides flexibility to move resources between sub funds in response to changes in market need and opportunity.
- **Brand identity** – benefits of developing a strong brand and co-ordinated marketing for public sector backed finance.
- **Procuring Fund Managers** – securing FM's who have the appropriate expertise and will deliver high quality fund management services.
- **Performance Monitoring** – measurable, relevant and specific performance indicators for FIs, covering investment, financial and economic performance – relevant to debt and equity instruments.



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**Thank you**

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