Northern Powerhouse Investment Fund - Early Assessment Report

RESEARCH REPORT

A report from SQW Ltd

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Executive Summary

SQW, supported by the Centre for Enterprise and Economic Development Research (CEEDR) at Middlesex University, Belmana and BMG Research, has been commissioned by the British Business Bank (the Bank) to evaluate the Investment Funds across the Northern Powerhouse, Midlands Engine, and Cornwall and Isles of Scilly. This report covers the early assessment of the Northern Powerhouse Investment Fund (NPIF) which took place between November 2018 and March 2019.

NPIF is only two years into a 10-year programme, but to date it has been very successful. The number and value of lending and equity deals are ahead of target[1] and the finance has been distributed widely across the NPIF areas. It has successfully engaged with the Local Enterprise Partnerships (LEPs) and other partners and built confidence in accessing finance.

The finance has enabled a wide variety of businesses to invest in activities that will directly improve their productivity through new skills, Research and Development (R&D), products, services and processes. This has now started to translate into additional sales, good quality employment and exports. Without the Funds, most businesses report that projects would have been delayed, delivered on a smaller scale, or not happened at all. This has also been achieved over a period of investment uncertainty.

The focus of this **early assessment** is on the processes (ie the customer journey, how effectively the Fund is being delivered, and how this can be improved), as well as emerging intermediate outputs/outcomes for participating businesses, and the impact on the wider finance ecosystem[2]. The evidence presented draws on an analysis of monitoring and contextual data, in-depth consultations with management, governance, delivery partners and external stakeholders, surveys with beneficiaries and non-beneficiaries[3], and case studies with five businesses.

An interim evaluation of NPIF is planned for October 2020-March 2021, where the emphasis will be on net impacts achieved (for beneficiaries and the wider ecosystem) and value for money.

1 As set out in the Bank's quarterly model for NPIF investment

2 It follows the development of a detailed methodology paper and logic models for the Funds, which has been peer reviewed

3 Unsuccessful and withdrawn applicants

Introducing the Northern Powerhouse Investment Fund

The NPIF was formally launched in February 2017, in response to well-documented and longstanding challenges around access to finance (see box below) and Gross Value Added (GVA) per capita, productivity[4] and enterprise rates in the North of England that are consistently below the UK average.

Supply- and demand-side market failures

Across the North, there are various supply and demand-side challenges that combine to create a "thin market" for finance. On the supply-side, a number of challenges are faced across the North. For debt finance, there is a funding gap for early stage SMEs that lack collateral or a track record, often compounded by relatively low housing wealth in some parts of the North (and therefore the availability of collateral), making it difficult to access finance to scale-up. The North has a particularly weak private sector funding landscape, with an under-developed equity ecosystem and network of providers/advisors. The North also suffers from a lack of awareness of potential investment opportunities outside of London and the South East. On the demand-side, information failures mean that SMEs lack awareness of potential funding sources, ways to access finance and their likely success, and poor investment readiness inhibit SMEs from presenting their propositions to best effect.

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

- The Bank's Small Business Finance Markets Report in 2015-16 found the share of bank lending going to SMEs in the North West lagged that of the business population in that region[5]. The latest 2018-19 report shows this remains an issue and is now also the case in Yorkshire and the Humber[6].
- The Bank's Equity Tracker data showed that 13% of equity investments by number and 7% by value went to the North in 2015, which was substantially lower than both its share of the wider business population (20%) and that of high growth businesses (21%)[7]. The latest data for 2018 tells a similar story[8]. Moreover, in the lead up to NPIF being introduced, the number of equity deals in Northern regions (2011-15) increased at half the rate of the UK as a whole (96% vs 219%).

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[4] GVA per hour worked

[5] https://www.british-business-bank.co.uk/wp-content/uploads/2016/02/british-business-bank-small-business-finance-markets-report-2015-16.pdf

[6] https://www.british-business-bank.co.uk/wp-content/uploads/2019/02/British_Business_Bank_Small-Business-Finance-Report-2019_v3.pdf

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

[8] https://www.british-business-bank.co.uk/wp-content/uploads/2018/07/Equity-Tracker-Report-2018.pdf

- The Bank's Business Finance Survey in 2018 found that 67% of SMEs in the North were aware of venture capitalists (cf 74% in London), and only 38% of SMEs in the North were aware of business angels as a form of raising external finance (cf 47% in London).
- Of 372 active fund managers in the UK, only 18 currently have their headquarters located in the North[9] (although larger fund managers may have regional offices). Recent analysis of PitchBook shows the number of venture capitalist (VC) fund managers with a fund office in one of the three regions forming the NPIF area has increased from 2017 so that there are now six fund managers with a presence in Yorkshire and the Humber, six in the North East and 21 in the North West in 2019.

The Fund is designed to increase the supply of debt and equity finance to SMEs located in the NPIF[10] area, enable recipient businesses to grow and innovate, and create sustainable financial ecosystems across the three areas. NPIF draws on funding from the European Investment Bank (EIB), the Bank and European Structural and Investment Funds (ESIF)/European Regional Development Funds (ERDF) committed by each LEP to the sum of £400 million. The NPIF is a "fund of funds", overseen by the Bank in close partnership with the LEPs, and delivered in each region by a series of contracted fund managers who are tasked with targeting funding towards 'ambitious SMEs'. It offers three types of finance:

- **microfinance** (loans from £25,000-£100,000)
- **debt finance** (loans from £100,000-£750,000), and
- **early-stage and later-stage equity** (from £50,000-£2 million).

There will be a five-year investment period, followed by a five-year realisation and repayment period. In addition, the fund managers can provide "non-financial" support to a small number of potential applicants, comprising up to 12 hours of advice to assist in the development of business plans or strategy.

Findings

Rationale and design

By the end of December 2018, the NPIF fund managers had received 3,764 enquiries and 820 applications from SMEs. From these, NPIF made 419 investments with a total value of £86 million. **The figures exceed the targets, which is a notable achievement during a period of investment uncertainty.** Demand has continued to be strong and the distribution of applications and investments across the LEPs broadly reflects the share of ERDF eligible businesses.

[9] Figures from Preqin based on Head Office address
[10] The North Eastern LEP is not part of the NPIF – it has a separate fund of £120 million

The early evidence from the various strands of the evaluation indicates that **the original rationale for NPIF was robust and remains highly relevant.** This was supported by the stakeholders, through their own experience and backed up by the evidence in the business survey. Longstanding challenges relating to the supply of finance across the North continue, alongside considerable diversity in the scale and nature of issues *within* the geography. In this context, stakeholders argued that banks remain risk averse, especially for businesses lacking a track record and/or collateral, and equity markets across the North remain particularly weak. While NPIF has helped improve access to finance on the supply-side, securing external funding continues to be a key issue reported by SMEs. However, a range of demand-side issues also contribute to this (in addition to some supply side challenges). The demand-side issues include the absence of a fit-for-purpose business plan, management capabilities, attitudes towards change and risk, and awareness of financing options beyond their main bank. NPIF is seen to fill a gap on the supply side, and some of the local finance Funds that are available do not offer the scale offered by NPIF.

The feedback from consultees was very supportive of the Fund's design and its contribution to meeting objectives. **The key difference to previous Funds is the scale** – by pooling LEP, EU and the Bank's funding, NPIF was able to lever a substantial amount of funding from the EIB. Consultees argued this has given NPIF sufficient "critical mass" to be competitive, credible and offer value for money.

Securing collaboration and consensus in the design of NPIF across 10 of the North's LEPs, alongside pooling financial contributions, has been a major achievement. Moreover, because all partners involved in delivery (including the Bank, LEPs, EIB and fund managers) have contributed financially, they all carry risk and responsibility to deliver a successful Fund.

NPIF was considered to strike a balance between scale (and associated leverage) and flexibility to respond to local contexts. Sub-regional coverage by fund managers with local networks and knowledge and involvement of LEPs means that the offer can be differentiated effectively in response to local needs.

NPIF also has a good balance between loans and equity: with a 60:40 balance respectively. This should enable more rapid repayment of the EIB loan in the medium term (because loans will be paid back more quickly than returns from equity), but still facilitate longer term equity and patient finance across the North.

Meeting business objectives

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

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

At the end of December 2018, the Fund was ahead of the projected ERDF interim target for the number of businesses assisted. The funding was considered additional, in some form, by nearly four-fifths of survey respondents and was particularly strong for equity cases, where 60% would not have secured finance without it. Moreover, the Fund has enabled businesses to lever further private sector investment. The beneficiary survey found that 36% of debt, and 60% of equity, respondents had secured additional finance and, in most cases, NPIF had a moderate or major influence in securing this.

Increase performance of recipient businesses, particularly in terms of research/innovation, competitiveness and supporting a shift towards a low carbon economy (ESIF objectives)

There have been a range of outcomes resulting from accessing this finance. The survey provides early evidence that firms receiving finance through NPIF are improving their performance. Much of this is new investment related to raising productivity, including R&D, new products and processes and skills development:

- 70% of the businesses reported increased skills in their workforces, especially in terms of technical and specialist, management and financial skills.
- Additional investment in R&D, especially for equity (80%) but also debt (43%).
- The introduction of a significant number of new products and services. This was significantly higher for businesses involved in equity deals (75%), but also high (49%) for businesses receiving debt finance.
- Of these, the majority of new products and services are new to market (89% and 58% respectively) rather than just new to the firm.
- However, progress against low carbon aims is less evident in the survey (11% reported this an outcome among debt cases and 25% for equity).

Participation has also had a **very strong positive effect on businesses' confidence** both for debt and equity beneficiaries (85% reported that the funding has led to greater confidence in their ability to raise funding from private sector sources in the future).

- **The Funds have increased employment in three quarters of the businesses** (72% for debt investments, and 80% for equity) and there are significant effects on sales, profitability and productivity (the effect on exporting is slightly lower, particularly among debt cases). These businesses also expect impacts in the future, which can be tested in the interim evaluation.
- Within the 41 firms in the survey sample that provided estimates of additional employment, there were almost 300 jobs.

- **These are relatively well-paid good quality jobs for skilled staff.** A third of these jobs (33%) paid wages or salaries in the top quartile of income in the UK (£35,600) while 17% paid less than the UK median income (£23,200)[11].
- **More than 60% of businesses reported that their turnover was higher as a result of accessing finance through NPIF**. Almost half (45%) of the sales are made to customers within the Northern Powerhouse area, 42% in the rest of the UK, with 13% exported.

There is a high level of outcome additionality, particularly among equity cases (67% would not have happened at all without NPIF). In debt cases, NPIF is more likely to accelerate projects or increase their scale.

Overall, consultees felt that it was too early to judge whether NPIF had impacted on the wider finance ecosystem. NPIF has provided a more co-ordinated and joined-up offer and in this sense strengthened the ecosystem, but there was no evidence yet that the Funds had encouraged other finance providers to operate in the North.

Increased awareness of equity and alternative sources of finance amongst SMEs in target area

While consultees generally felt that this had been good, businesses in the beneficiary survey - and case studies - were less positive. NPIF relies on awareness being driven through a wide range of partners, and this will inevitably take time. Although views varied around levels of awareness across the geographies, we would expect this to rise as more businesses and intermediaries are engaged.

Part of the challenge is encouraging businesses to think about how they can use external finance to grow, and then to consider how they can secure it. **This requires both an awareness of the Funds, but also the confidence and ambition to use them**. Being *aware* of the Funds and seeing the *potential of accessing* them are slightly different things.

[11] Survey of Personal Incomes, HMRC 2016, Table 3a Percentile points from 1 to 99 for total income before tax (taxpayers only) https://www.gov.uk/government/statistics/percentile-points-from-1-to-99-for-total-income-before-and-after-tax#history

Implementation - what works and challenges

Setting up and delivering the Funds has worked well, particularly given the range of partners and the uncertain landscape for investing. The main findings are:

- **Consultees felt that the Fund was well managed by the Bank**. It has promoted cross-regional collaboration and engagement: as one consultee argued, the Bank is "animating the network". The Bank's local presence has been important, alongside their significant experience of delivery networks, both national debt and equity funds. Some stakeholders were keen to see more data sharing on businesses receiving investment and learning about what works, particularly with external partners and intermediaries to help them better promote the Fund.
- **Governance arrangements are also working effectively** and have improved during the first two years. The Funds are overseen by a Strategic Oversight Board (SOB) representing the participating LEPs and Government, which is supported by two Regional Advisory Boards (RABs) which focus on operational performance. Representation on the two boards is appropriate, with complementary skills and experience and the functions of the two boards are distinct.
- **There are good levels of LEP engagement with, and ownership of, the Fund**, both through the governance structures and on the ground with fund managers. There is also evidence of some LEPs sharing best practice around access to finance through the NPIF structures, but scope to utilise some LEP networks more effectively to generate demand.
- **Businesses feedback on their customer journey was very positive**, particularly in relation to their communication with the fund managers, the ease of the application process and quick decisions. Some beneficiaries have received non-financial support, such as business planning, strategy development and cash flow advice, and this was very positively received. Feedback on marketing and promotion suggested more could be done to raise awareness through all partners, although this will take time.
- **The added value of fund manager involvement to ensure growth plans are realised** was recognised by businesses and stakeholders, with most fund managers providing strong local knowledge, access to networks and more regular dialogue to businesses in need (and for equity beneficiaries, closer engagement with business management).

While feedback on the delivery of NPIF is very positive, consultees raised three main areas to consider:

- Several external stakeholders identified that fund managers had a different approach to risk, and that they would like to see **a greater risk appetite**. This is an inherent challenge with the Fund: levels of risk will inevitably vary across the North, reflecting the types of businesses supported and local contexts, but the overarching rationale for NPIF is to provide finance to higher risk propositions that cannot secure finance from private sector sources. At the same time, the

Fund also needs to generate a positive return (overall) and repay the EIB and Bank's loan.

- **Further strengthening the relationships between fund managers and LEPs/Growth Hubs**. There is scope to make better use of LEP/Growth Hub networks and businesses access, and encourage signposting from NPIF back into Growth Hubs (where appropriate) to address other business growth barriers such as skills etc.
- **Investment readiness on the demand-side remains a major challenge across the North**. It was originally envisaged that NPIF would address supply-side finance challenges, and LEP's would cultivate demand and provide investment readiness support (reflecting local need/contexts) alongside private sector financial and professional services. However, provision and capacity to address the demand-side issues is variable and fragmented across the North.

There have also been three overarching "generic challenges" set by environment in which NPIF operates:

- **Some parts of the North continue to struggle with low demand, reflecting different local contexts, cultures and attitudes towards enterprise, and appetite for equity**. Arguably this reiterates the rationale for NPIF and reflects the demand-side challenges described above. However, at this stage of the Fund, there is a question around whether more could be done to support businesses in those areas within the constraints of the requirements of the NPIF funders.
- **Clarity and a central source of guidance around NPIF eligibility criteria** and EU funding rules would have been helpful for fund managers in terms of day-to-day implementation.
- **Balancing short-term priorities and longer-term goals of the Fund**. This was discussed by some consultees who felt that the Fund has been focused on short-term ERDF deployment and output targets (ie number of businesses supported), relative to investments that offered longer-term commercial return and/or higher levels of additionality.

Final reflections

NPIF is only two years into a 10-year programme, but to date it has been very successful. The number and value of lending and equity deals are ahead of target[12] and the finance has been distributed widely across the areas. It has successfully engaged with the LEPs and other partners and is building awareness.

The finance has enabled a wide variety of businesses to invest in activities that will directly improve their productivity: skills, R&D, new products, services and processes. This has now started to translate into additional sales, good quality employment and exports. Without the Funds, most businesses report that projects would have been delayed, delivered on a smaller scale, or not happened at all. This has also been achieved over a period of investment uncertainty.

Looking forward, there is an opportunity to strengthen the Funds further. The NPIF model provides a platform through which partners (the Bank, LEPs, Growth Hubs, fund managers) can continue to develop a stronger, more integrated service offer and referral mechanisms (both into the Fund, and from NPIF to wider LEP business support).

The interim evaluation will provide further evidence of the Funds' progress and performance in 2021/22 with new surveys and a clearer picture of how NPIF has influenced businesses and the wider finance eco-system.

[12] As set out in the Bank's quarterly model for NPIF investment

1. Introduction

SQW, supported by the Centre for Enterprise and Economic Development Research (CEEDR) at Middlesex University, Belmana and BMG Research, has been commissioned by the British Business Bank (the Bank) to evaluate the Investment Funds across the Northern Powerhouse, Midlands Engine, and Cornwall and Isles of Scilly. This report covers the early assessment of the Northern Powerhouse Investment Fund (NPIF) which took place between November 2018 and March 2019.

- The focus of this **early assessment** is on the processes (ie the customer journey, how effectively the Funds are being delivered, and how this can be improved), as well as emerging intermediate outputs/outcomes for participating businesses, and the impact on the wider finance ecosystem.
- An **interim evaluation** of NPIF is planned for October 2020-March 2021. The emphasis of this stage will be on net impacts achieved (for beneficiaries and the wider ecosystem) and value for money.

Programme overview

The NPIF was first announced at Autumn Statement 2015 and was formally launched in February 2017, with first investments made in April 2017. The Fund is designed to increase the supply of debt and equity finance to SMEs located in the NPIF[13] area, enable recipient businesses to grow and innovate, and create sustainable financial ecosystems across the North.

NPIF draws on funding from the European Investment Bank (EIB), the Bank and European Structural and Investment Funds (ESIF)/European Regional Development Funds (ERDF) committed by each Local Enterprise Partnership (LEP) to the sum of £400 million. The NPIF 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 series of contracted fund managers who are tasked with targeting funding towards 'ambitious SMEs'.

In the NPIF area the Fund offers:

- **microfinance** (loans from £25,000-£100,000),
- **debt finance** (loans from £100,000-£750,000), and
- **early-stage and later-stage equity** (from £50,000-£2 million).

[13] The North Eastern LEP is not part of the NPIF – it has a separate fund of £120 million

There will be a five-year investment period, followed by a five-year realisation and repayment period. In addition, the fund managers can provide "non-financial" support to a small number of potential applicants comprising up to 12 hours of advice to assist in the development of business plans or strategy.

Rationale and context

The table below provides an overview of the finance challenges faced across the North of England that informed the rationale for NPIF.

	Challenges across the NPIF area
Economic context	• GVA per capita, productivity[14] and enterprise rates consistently below the UK average – long term challenges • Lower proportion of high growth and scale-up businesses compared to London • Access to finance identified as a significant barrier to business development and growth in the regions

Existence of market failures at the regional level	Supply-side market failures:
	• Information failures:
	    o Lack of awareness of potential investment opportunities outside of London and the South East. This leads to a weak private sector finance landscape, with local, regional and devolved Government funds disproportionately represented
	    o Due diligence costs comparatively high for smaller equity deals. Travel costs (including time) higher for peripheral regions
	    o Relatively low housing wealth in some regions may impact on availability of collateral for accessing debt finance
	• Private sector investors cannot capture market and knowledge spill overs – social benefit is greater than private – leading to overall under-investment
	• Existing externality effects leads to strong clusters in London and the South East which restrict clusters developing in other parts of the country.
	Demand-side market failures:
	• Information failures: SMEs lack awareness of potential funding sources and ways to access finance, and their likely success

[14] GVA per hour worked

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

Programme objectives

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

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

- **Microfinance** will contribute to supporting an increased number and quality (through higher financial capital) of young businesses by providing loans between £25,000 and £100,000. Banks and other mainstream finance providers do not always meet the demand for loans for start-up companies due to lack of collateral, credit history and/or trading history amongst applicants, and the low margins associated with low value loans. Micro finance will support growth in the number of young businesses and their survival, which will contribute to local economic growth through the additional GVA and employment by utilising under and unused resources (capital and labour).

- **Later stage debt finance** is aimed at supporting more established businesses that may be capital constrained from mainstream finance lenders due to a lack of collateral, lack of credit history and/or being outside of a bank's defined assessment categories to scale up and to grow. Later stage debt finance supports business growth through facilitating expansion plans, funding the development of new products and enabling entry into new markets. The businesses will contribute to economic growth by increasing GVA, employing more people and by improving productivity.
- **Early and later stage equity finance** provides access to capital for innovative High Growth Firms (HGFs) that are too high risk to be supported by debt finance due to their risk profile, lack of collateral and unstable cashflows. Equity finance provides access to capital in order to fund growth, but also brings significant additional management capability through investors knowledge, experience and connections. The focus is on business growth and GVA (via sales, productivity and employment and productivity), and wider economic benefits through potential innovation spill over effects and creation of new products and services (dynamic efficiency).

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

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

Evaluation objectives and methodology

Evaluation questions

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

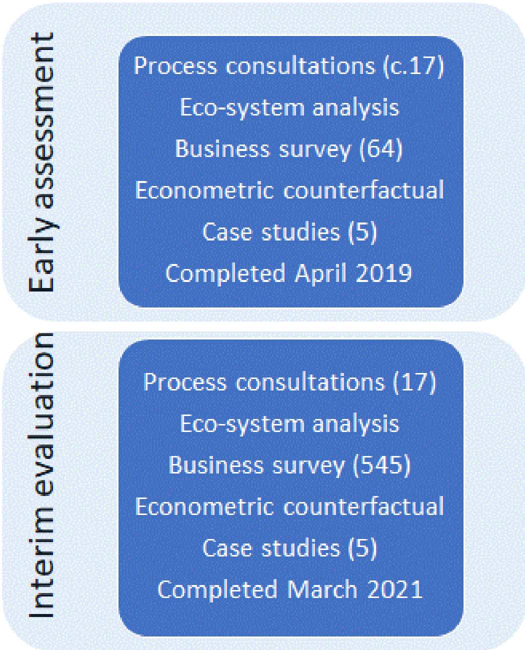
Specifically, for this early assessment, the focus is on:

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

Overall approach

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

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



Source: SQW

Approach to this early assessment

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

Data analysis

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

Consultations

In-depth consultations were held with 25 representatives from the following organisations to discuss NPIF's design/model, position and value within its SME target market, the effectiveness of delivery to date and how it could be improved, and initial impacts of the scheme, both on the SMEs involved and the wider economy:

- The Bank and representatives from the NPIF governing boards including the Strategic Oversight Board (SOB) and Regional Advisory Board (RABs), which includes LEP members.
- Funders, including the Department for Business, Energy and Industrial Strategy (BEIS), the Ministry of Housing, Communities and Local Government (MHCLG), and the EIB.
- All fund managers involved in the delivery of NPIF.
- Wider stakeholders, including UK Research and Innovation and the Federation of Small Businesses, and local business support/access to finance providers and intermediaries.

Business survey

A telephone survey was undertaken by BMG, targeting 64 interviews with NPIF beneficiaries. The interviews focused on businesses' rationale for seeking NPIF and other finance options considered, feedback on their NPIF experience, outcomes observed to date (compared to what might have happened otherwise) and future expected impacts.

Overall, the target number of interviews was met, with 67 of the 232 contacts provided by fund managers. This is a 29% response rate and represents 16% of the NPIF beneficiary population and 17% of NPIF investments[15]. Equity cases were slightly over-represented compared to the background population of deals and more likely to be young businesses compared to debt respondents. Throughout the analysis, debt and equity responses were disaggregated where appropriate. Of the 20 firms with NPIF equity deals, eight (40%) had not yet made any commercial sales at the time of the interview.

Table 1.1: Type of finance based on beneficiary survey responses (67) and population (419)

	Survey (Number of achieved interviews)		Total NPIF population (ie exited and live) by end Dec 2018	
	Number	%	Number	%
Debt	47	70%	341	81%
Equity	20	30%	78	19%
Total Debt and Equity Base	**67**	**100%**	**419**	**100%**
Gross Investment Amount	£14.2m	16%	£86.0m	17%

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

The survey respondents were broadly representative of the population and achieved a good spread across the NPIF geography, as illustrated below (further detail is presented in Annex B). The main differences are over-sampling from the Yorkshire & Humber and Tees Valley Equity Fund and North West Microfinance. Beneficiaries from the Yorkshire & Humber and Tees Valley Microfinance Fund were not included in the survey because of a pause in its operation.

[15] Business contact data was provided to SQW by the fund managers, and due to GDPR/consent issues, data available from some funds was very limited.

Table 1.2: Geographical sample structure based on beneficiary survey responses (n=67) and population (419)

	Survey achieved interview sample		Overall NPIF company population (ie live and exited deals) by end Dec 2018	
	Count	%	Count	%
Cumbria and Tees Valley Debt	9	13%	50	12%
North West Debt	12	18%	90	21%
North West Equity	7	10%	35	8%
North West Microfinance	12	18%	53	13%
Yorkshire & Humber and Tees Valley Equity	13	19%	44	11%
Yorkshire & Humber and Tees Valley Microfinance	0	0%	76	18%
Yorkshire and Humber Debt	14	21%	71	17%
Base	67	100%	419	100%

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

Non-beneficiary survey

A telephone survey was also completed with 16 non-beneficiaries (compared to a target of 20 interviews[16]). Non-beneficiaries were those businesses that had applied for NPIF funding and were rejected or withdrew from the Fund before receiving funding. These 'near miss' examples of applicants provide a form of counterfactual. However, given the small sample size, comparison between beneficiary and non-beneficiaries cohorts is qualitative. Interviews focused on businesses' rationale for seeking NPIF and other finance options considered, feedback on their NPIF experience, and progress made in securing finance and business growth since outcomes observed to date (compared to what might have happened otherwise) and future expected impacts. Overall, a 25% response rate from the 64 contacts provided by fund managers was achieved, which represented 14% of the NPIF beneficiary population.

Case studies

The case studies provide in-depth qualitative evidence of funding additionality, performance changes, and the factors that have contributed to these changes. 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 debt/equity, finance additionality and leverage, outcomes observed, location and sector.

[16] Again, due to GDPR/consent issues, data available for this survey was very limited

Plans for the interim evaluation

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

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

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

Report structure

This report is structured as follows:

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

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

[17] https://www.gov.uk/government/publications/evaluation-of-the-european-regional-development-fund-2014-to-2020
[18] https://www.gov.uk/government/publications/the-magenta-book
[19] Summative assessments are required at the end of the grant period

2. Assessment of delivery

Key messages

- By the end of December 2018, the NPIF had received 3,764 enquiries and 820 applications, from which 419 investments were awarded to the sum of £86 million. **The figures exceed interim targets[20], which is a notable achievement during a period of investment uncertainty**.
- Demand has continued to be strong and the distribution of applications and investments across the LEPs broadly reflects the share of ERDF eligible businesses.
- **The original rationale for NPIF was robust and remains highly relevant**. This was supported by the stakeholders, through their own experience and through the business survey.
- **NPIF was considered to strike a balance between scale (and associated leverage) and flexibility** to respond to local contexts.
- NPIF was also considered to offer a good balance between loans and equity
- **Businesses feedback on their customer journey was very positive**, particularly in relation to their communication with the Fund Managers.
- Consultees generally felt that **the Fund was well managed by the Bank.**
- Feedback on marketing and promotion suggested more could be done to raise awareness through all partners, although this will take time.
- **Governance arrangements also appear to be working effectively** and have been improved during the first two years of the Fund.
- There is a **good level of LEP engagement with, and ownership of, the Fund**, both through the governance structures and with fund managers.
- There are well recognised generic challenges. Some parts of the North continue to struggle with low demand, reflecting local contexts, cultures and attitudes towards enterprise, and appetite for equity (which supports the rationale).
- Feedback from stakeholders raised several points:
    - There had been a need for more clarity around NPIF eligibility criteria and EU funding rules
    - Several external stakeholders identified that fund managers had a different approach to risk, and would like to see **greater risk appetite**
    - Some **competition between fund managers** (including competing on the basis of risk tolerance rather than price)

[20] As set out in the Bank's quarterly model for NPIF investment

Programme portfolio

Scale, nature and geography of applications and awards

NPIF was launched in February 2017 with the first investments made in March 2017. By the end of December 2018, the NPIF had received 3,764 enquiries[21]. Of these:

- 820 (22% of enquiries) reached application stage
- 419 investments were made (51% of applications)[22]

By the end of December 2018, **the value of investments was £86.02m**, which exceeded the cumulative plan of deploying £78.25 million by 10%. The Fund has **provided finance to 358 SMEs[23],** exceeding the ERDF target of 273 by the end of December 2018. This means the average investment is £298,000 per SME, slightly higher than anticipated (at £290,000).

Consultees, including external stakeholders, commended the Fund for becoming operational and making investments quickly following its launch. Demand was high from the start, partly benefiting from pent up demand and momentum established through earlier Funds, particularly the preceding Joint European Resources for Micro to Medium Enterprises (JEREMIE) funds. However, as discussed below, the quality of demand and investment readiness has been variable across the North. Consultees were confident that demand would continue at a similar level, notwithstanding current uncertainty in the economic climate which may impact on investment decisions.

Table 2.1: Investments and value to End of December 2018

	Number of investments to date	Total investment value
Total, of which:	**419**	**£86.02m**
…loans	341	£52.88m
…equity	66	£31.06m
…quasi-equity	12	£2.08K

Source: analysis of data provided to SQW by the Bank

[21] Figures exclude enquiries for non-financial support
[22] According to the Bank's monitoring data, the main reasons for declined applications were deal quality and/or risk as opposed to eligibility across debt and equity
[23] Some SMEs have received more than one investment

Investments have been made across each of the 10 LEP areas involved in NPIF, and across each of the funds involved, as illustrated below. Most funds were exceeding their quarterly target investment value by the end of December 2018. Two were slightly below their target, in part reflecting thinner markets and riskier propositions but were now experiencing growing numbers of enquiries and applications. Moreover, **the distribution of applications and investments across the LEPs broadly reflects the share of ERDF eligible businesses** in each LEP area. By this point, all LEP areas had completed deals in excess of 35% of their LEP ESIF contributions (and around 35% of the investment period has elapsed), with some receiving the equivalent of three-quarters or more of their original ESIF allocation already. Areas performing particularly well on this measure include York, North Yorkshire and East Riding, Leeds City Region, Cumbria and Greater Manchester.

Table 2.2: Investments and value to End of December 2018

Fund	Fund manager	Geographical coverage	No. of loans/ invest ments	Actual amount loaned/ invested	Target (% of target to date)
NW Microfinance	GCBF and MSIF	North West	53	£2.8m	£2.00m (▲140%)
YHTV Microfinance	BEF/FFE	Yorks/Humber, Tees Valley	76	£2.51m	£2.00m (▲125%)
NW Debt	FW Capital	North West excl. Cumbria	90	£20.95m	£14.41m (▲145%)
TVC Debt	FW Capital	TV and Cumbria	50	£13.71m	£14.41m (▼95%)
Y&H Debt	Mercia	Yorks/Humber	71	£12.67m	£14.41m (▼88%)
NW Equity	Maven	North West	35	£15.48m	£15.52m (▲100%)
YHTV Equity	Mercia	Yorks/Humber, Tees Valley	44	£17.91m	£15.52m (▲115%)
Total			419	£86.02m	£78.25m (▲110%)

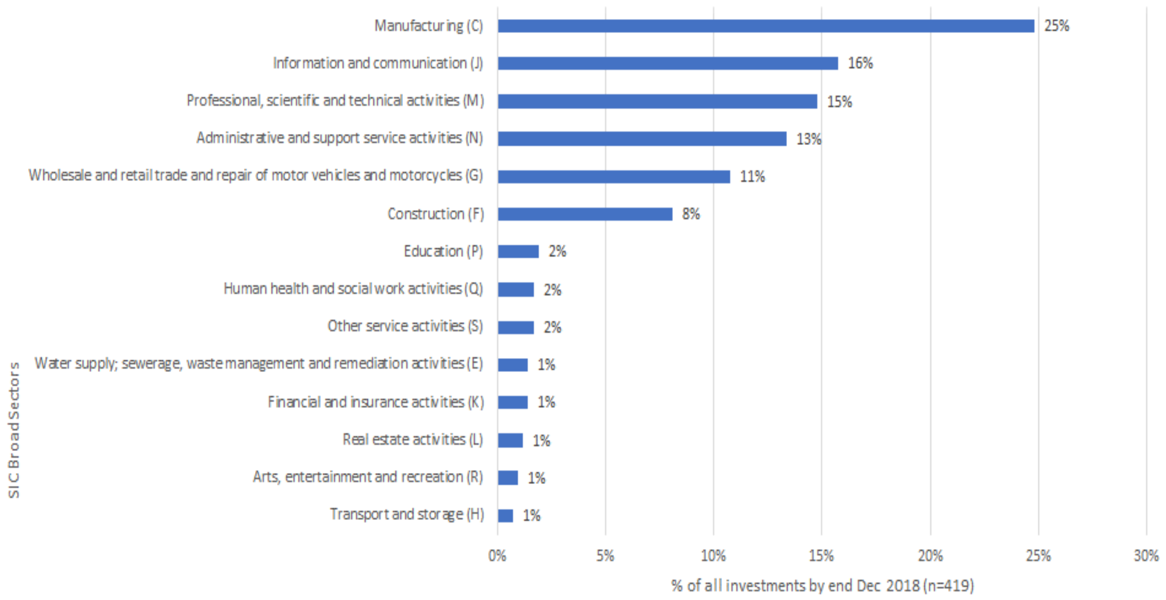
Source: SQW analysis of NPIF monitoring data provided to SQW by the Bank

Business characteristics

Based on the Standard Industrial Classifications (SIC) provided in monitoring data, the top five sectors supported by NPIF to date are: **manufacturing (25% of SMEs), information and communication (16%), professional, scientific and technical activities (15%), administrative and support services (13%) and wholesale trade and vehicle repair (11%).** In comparison, the top sectors across the overall NPIF business population are professional, scientific and technical activities (15%), construction (12%), retail (9%), business administration and support (8%) and accommodation and food services (7%)[24]. These sectors are prevalent (but differ) across the different types of finance, with three exceptions:

- The proportion of SMEs that are in the information and communication sector is particularly high for equity funds (for example, 45% and 30% of North West and Yorkshire/Humber/Tees Valley equity funds)
- The share of SMEs that are in the professional, scientific and technical sector is also high for equity funds (for example, 20% and 32% of North West and Yorkshire/Humber/Tees Valley equity funds)
- Whereas only one of the 78 equity/quasi-equity deals done to date are in the wholesale trade and vehicle repair sector.

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



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

[24] Nomis, UK Business Counts 2018

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

- 10% of SMEs are "start-ups"
- 27% are "early stage" SMEs
- 34% are "expansion" SMEs[25]
- 30% are "growth" SMEs.

In general, **equity finance investments are predominately comprised of early stage SMEs, whereas debt deals are more common amongst expanding SMEs**. Across the other two investment stages, of start-up and growth, investments are distributed across the individual funds.

Monitoring data on the size of SMEs at the time they were awarded NPIF does not have full coverage [26], but suggests that the **majority of businesses supported to date are micro** (1-9 employees, 44%) **or small** (10-49 employees, 35%) rather than medium-sized (50-249, 8%).

As noted in the introduction, Belmana will be undertaking data-linking and econometric analysis in the interim impact evaluation to assess the changes in performance of NPIF beneficiaries and unsuccessful applicants against matched counterfactual groups. During the early assessment, Belmana set up this analysis for 203 beneficiaries and 94 unsuccessful applicants up to the end of the 2017/18 financial year (the latest data release by ONS Business Structure Database), in preparation for the subsequent econometric analysis for the interim evaluation. As part of this, data gathered shows that the NPIF recipient businesses were **younger and smaller, grow faster and tend to be in high-tech, knowledge intensive and higher-paying industries,** compared to other businesses in the UK and Northern Powerhouse geography on average.

Exporting

The business survey provided some evidence of the extent to which NPIF businesses are exporters. In the sample, 36% of firms with debt and 50% of equity firms export. This compares with a national figure of 20%[27] for all SMEs. The businesses that receive NPIF are much more likely to be exporters than the overall business population (which may reflect the sectoral spread of beneficiaries and the propensity of those sectors to export[28]). This also increases the likelihood that any new sales that are enabled through the Funds are exported.

[25] Defined as 'Start-Up' (Prior to the first commercial sale); 'Early Stage' (Operating in any market for less than seven years); 'Expansion' (New Markets or Products). No definition of growth is provided in the MI data.
[26] Data is not available for 13% of SMEs supported
[27] BEIS Longitudinal Small Business Survey 2017: SME Employers (Businesses with 1-249 Employees)
https://www.gov.uk/government/statistics/small-business-survey-2017-businesses-with-employees
[28] For example see: ONS, 2018, UK trade in goods and productivity: new findings (https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/articles/uktradeingoodsandproductivitynewfindings/2018-07-06) or BEIS, 2018, Longitudinal Small Business Survey 2017: SME employers which shows that by sector, exporters were most likely in manufacturing (44%), information/ communication (43%), and professional/scientific (30%), followed by retail/wholesale (28%)

Table 2.3: The proportion of turnover generated by exports among businesses in the survey

	Debt (n=47)		Equity (n=20)		Total (n=67)	
	Count	%	Count	%	Count	%
0%	30	64%	10	50%	40	60%
1% - 25%	13	28%	4	20%	17	25%
26% - 50%	2	4%	3	15%	5	7%
51% - 75%	1	2%	3	15%	4	6%
76% - 99%	0	0%	0	0%	0	0%
100%	1	2%	0	0%	1	1%

Source: SQW survey of beneficiary businesses base = 67

Performance against ERDF output targets

At the end of December 2018, the Fund was ahead of the ERDF target for the number of businesses assisted with finance, and this was leading to good performance in terms of jobs and innovation outputs to date (both for new to market and new to company products/services). The forecast number of jobs associated with the 419 investments is 3,523 (against a lifetime target of 5,187 to 2023) which should provide a substantial buffer during the remainder of the Fund[29].

The focus of investments against ERDF Priority Axes (PA) is also recorded in the monitoring data, which shows the majority of investments are focused on PA3 "*enhancing the competitiveness of SMEs*" (93% of SMEs assisted by NPIF). 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*"[30] (three fifths of SMEs supported), and "*supporting the creation of advanced capacities for product and service development*" (one-fifth of SMEs).

There is room for improvement in terms of performance against non-financial business support (ie the 12 hours of business advice described in Section 1) and support to new SMEs targets[31]. The former is particularly important given findings (below) around poor

[29] Forecast jobs are the number of new, paid, full time equivalent (FTE) jobs expected to be created due to the support under the ERDF project at the time of application/investment. Lifetime target sourced from full term MHCLG Contract to December 2023.
[30] ERDF Priority Axis 3, Investment Priority 3d
https://assets.publishing.service.gov.uk/media/565dc94040f0b62ad1000002/GLLEP_PA3_Call_Template_-_November_2015_v2.pdf
[31] This indicator covers enterprises that were not trading and registered at Companies House for less than 12 months before assistance provided, or a Business locating to the agreed geographic area for the first time to start trading.

levels of investment readiness in some parts of the North. The Bank and governance boards have encouraged greater activity in this area, and fund managers are confident in reaching targets[32]. In different parts of the North, securing private sector match for debt finance has also been a challenge, largely reflecting the lack of investment finance available (and therefore the rationale for NPIF in the first place). Equity funds are also slightly behind target for private sector match, but it is anticipated that follow-on investments will raise considerable leverage to more than meet the target.

Table 2.4: Output performance by end December 2018[33] towards End of Investment Window Targets (December 2023)

Output categories	Achieved at end Dec 2018	Target[34] (and % of target) at end Dec 2018
C1: SME assist	534	502 (▲106%)
C3: SME assist (financial support)	358 (419 instances of support to 358 unique businesses)	273 (▲133%)
C4: SME assist (non-financial)	176	229 (▼ 77%)
C5: new SME assists	57	100 (▼ 58%)
C7: private sector leverage (£m)	£79.06m	104 (▼ 76%)
C8: new jobs	869	834 (▲105%)
C28: new products/service to market	79	No target to date (▲lifetime target is 29)
C29: new products/services to the company	101	13 (▲766%)

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

Process evaluation: delivery and implementation

The following paragraphs present feedback from stakeholders and businesses consulted on the design, delivery, management and governance of NPIF to date, and highlight key factors that have helped and hindered successful implementation.

[32] RAB and SOB Quarterly Report to December 2018
[33] Outputs achieved are 100% attributable to ERDF. Data not tracked on intensity of support (beyond C4 outputs)
[34] This is the projected work in progress target rather than the final programme target.

Programme design, rationale and fit

In terms of the design of NPIF, consultees were in general agreement that:

- **The original rationale for NPIF was robust and remains highly relevant**: There is a longstanding and well-documented history of challenges relating to the supply of finance across the North, although considerable diversity in the scale and nature of issues *within* the geography.[35] In this context, stakeholders on the ground argued that banks remain risk averse, especially for businesses lacking a track record and/or collateral, and equity markets across the North remain particularly weak. Access to finance continues to be a key issue reported by SMEs, but a range of demand-side issues also contribute to this (in addition to supply side challenges) including the absence of a fit-for-purpose business plan, attitudes towards change and risk, and awareness of financing options beyond the bank. NPIF is seen to fill a gap on the supply side, and whilst some local finance Funds are available (eg Lancashire's Rosebud Fund, and the Teesside SSI steelworks closure fund), these are small in comparison to NPIF.
- **NPIF strikes a balance between scale (and associated leverage) and flexibility to respond to local contexts**: The key difference to previous Funds is the scale – by pooling LEP, EU and the Bank's funding, NPIF was able to lever a substantial amount of funding from the EIB. As two consultees argued, NPIF has enough "critical mass" to be competitive, credible and offer value for money. Securing collaboration and consensus in the design of NPIF across 10 of the North's LEPs (alongside their financial contributions) has been a major achievement. Moreover, because all partners involved in delivery (including the Bank, LEPs, EIB and fund managers) have contributed financially, they all carry risk and responsibility to deliver a successful Fund. At the same time, sub-regional coverage by fund managers with local networks and knowledge, and close involvement of LEPs (through representation on governance boards and engagement with fund managers), means that the offer can be differentiated effectively in response to local needs.
- **NPIF also has a good balance between loans and equity**: with a 60:40 balance respectively, this should enable more rapid repayment of the EIB loan in the medium term, but still facilitate longer term equity and patient finance across the North.
- **The overarching aim of NPIF is business growth and competitiveness**: most consultees recognised this as the main goal of NPIF, although there were a range of views on where NPIF should focus attention to achieve this and potential tensions in where the priorities lie. For example, some argued that NPIF have been predominantly focused on

[35] The Northern Powerhouse Investment Fund ex-ante assessment contains more information on the historic performance of the three regions forming NPIF areas and their particular challenges: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/582608/Northern_Powerhouse_Investment_Fund_Ex-ante_Assessment.zip

jobs, driven by EU targets, and should have a broader remit around productivity (a key priority of the Northern Powerhouse agenda, but not seen as a key aim by fund managers). There is also a need to modernise and improve productivity in large, well-established firms, which may not necessarily lead to job creation in the short term. There are also potential tensions between the priority to "spread" finance more widely across the North (including into areas experiencing more entrenched market failures, and therefore higher risk) and the need to generate a positive return on investment in order to repay loans/create a legacy for the North.

Use of NPIF

As noted above, the purpose of NPIF is to provide finance for investment in business improvement. It is encouraging to see a **high proportion of firms investing in growth *and* productivity improvements** through training, new products, services and processes – particularly for equity finance, but also for debt. In addition, half of the equity investments were to start a business, so performance in this area could be higher than the monitoring data above indicates.

Table 2.5: Intended use for NPIF finance, based on beneficiary survey responses (n=67)

	Debt	Equity
Working capital, ie to grow or expand the business	79%	90%
Staff recruitment, training or development	53%	90%
Investment in new or significantly improved goods or services	49%	75%
Investment in new or significantly improved processes	38%	60%
Marketing	38%	80%
Buying, renting, leasing or improving buildings or land	34%	25%
Acquisition of capital equipment or vehicles	32%	25%
Starting up business	13%	50%
Any other type of investment	6%	20%
Don't know	0%	0%
Refused	0%	0%
Total (n)	**47**	**20**

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

Case study example

The new business was incorporated in June 2018 and was pre-trading with the concept for a new product, when they first approached the fund manager. The business has three full-time (FT) employees, and seven in the subcontractor developing the product. The initial round of funding was close to £500,000 combining the NPIF application and funding from a high net worth (HNW) investor who would not invest without other funds coming into the round.

The manager had prior industry knowledge, but no experience of fundraising for a new tech business. They had searched local seed venture capitalists (VCs) to develop a transport-related App and probably contacted eight to 10 equity investors, with a couple of seed VCs interested, but the proof of concept (PoC) was not developed sufficiently. They found NPIF through an online search and a discussion with a colleague recommended it. The fund manager *"was not interested at first. The idea was not well enough presented. I engaged a corporate finance consultant and that made the difference."* They helped prepare the business plan, financials and *"…sharpened the tools for the application."*. They also helped with negotiations and the corporate legal advice that they received was crucial to negotiations and agreeing terms and conditions (T&Cs). They spent about £7,000 on corporate finance advisors and another £7,000 on legal advice (covering costs of both funding sources) – all of which was considered money well spent.

"NPIF provided timely funding and full support to achieve the business requirements in an appropriate timescale" – avoiding delays and maintaining primacy in the sector. The finance was additional in the sense that without it there would have been no external funding at that time.

Although the aims of NPIF are clear, the programme could be better promoted. "*Knowing they are there helps, and it took a little while to find, so it could be better promoted".* The application process was reasonably clear, but it would be better to have more up-front information on T&Cs and why they exist. This would help to explain why certain requirements are in place. "*The entrepreneur needs to understand why the T&Cs are there and more up-front information about the timescales and T&Cs could have saved time and unnecessary problems in the negotiation stage. It was surprising that the whole process from start of contact with the fund through to funding took 9 months."*

The NPIF finance was required for staffing and legal advice but mostly for R&D to develop and test the App. They also required working capital, given that this is a pre-trading, tech start-up business. Everything is on track and they have progressed the product to a stage where it is ready for live testing. NPIF funds have enabled the whole business to progress on time and achieve the first major milestone; reaching live testing.

The funding has already resulted in staff skills development (including an academic qualification), greater commercial and finance management skills, progressing R&D (including raising R&D spend from £5,000 in the previous year to £75,000 thus far) and intellectual property (IP) protection, and progression of new more efficient services towards commercialisation.

It was also recognised that business planning and strategy support from the NPIF fund manager during the application process was very helpful. *"They are available any time we require assistance."* The fund manager has been very active in improving the operation of the business. *"The main thing was they identified a weakness in the management team and they brought in a technical advisor as a Non-Executive Director (NED)".*

The business feels more confident in obtaining future finance and will be seeking expansion finance in about 18 months' time. This will probably be in the form of a £500,000 loan. Overall, they were *"extremely pleased with the funding and non-financial support and would "strongly recommend this to other young tech businesses."*

Effectiveness of delivery and the customer journey

Overall, the Fund delivery scores highly against most aspects of delivery so far (see Table 2.6 below). Communication with the fund manager throughout the process, along with the time between application and decision, scored highly. Feedback on marketing and promotion scores lower, although this is a more subjective measure depending on how they first became aware of the Fund.

Table 2.6: Beneficiary feedback on elements of delivery so far, rated on a scale of 1 to 5, where 1 is very poor and 5 is very good (n=67)

	Score out of 5					
	1	2	3	4	5	Don't know/not applicable
Marketing and promotion of the Fund	1%	10%	25%	30%	21%	11%
Time between application and decision	4%	7%	13%	31%	43%	0%
The application process relative to other finance providers	0%	3%	16%	31%	42%	7%
The terms and conditions offered relative to other finance providers in the market offering similar products	3%	7%	16%	39%	27%	7%
Communication with the fund manager throughout	1%	4%	7%	13%	72%	1%
Ongoing support and advice since finance awarded from the fund manager	3%	4%	18%	22%	48%	4%

Source: SQW survey base =67

Marketing and promotion

As noted above, marketing and promotion was rated as weaker by beneficiaries (and a higher share of respondents stated "don't know"). This is corroborated by feedback from fund managers and external stakeholders, where the overarching message was that NPIF was "reasonably well known and gaining awareness" but "could be better".

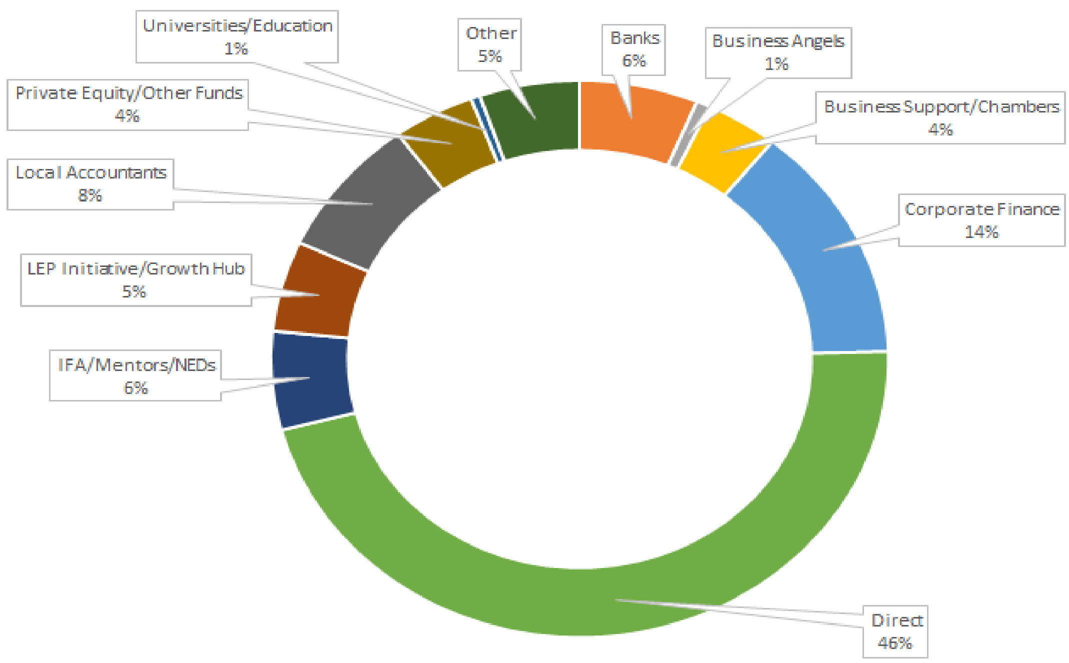
On the whole, consultees felt that NPIF was communicated and marketed effectively, and wider cognisance of the "Northern Powerhouse" brand has been helpful. However, there was a concern that multiple NPIF/fund manager/LEP brands are confusing to SMEs. Consultees also argued that NPIF needs to widen its geographical reach *within* LEPs (especially rural and peripheral areas). Fund managers have been more proactive on this front recently, but more work needs to be done.

Direct approaches from, or prior relationships with, fund managers have played an important role in stimulating uptake (as demonstrated in the survey and monitoring data). This has included extensive face-to-face engagement with business membership organisations (eg joint events hosted with the Chambers of Commerce) and attendance at business fairs. The Bank's own marketing has also been important in raising the profile of NPIF. It was originally anticipated that LEPs would also play a central role in promoting NPIF (in addition to enabling the demand side), and some proactive LEPs have been influential in raising awareness in their own areas. However, LEPs/Growth Hubs account for only 5% of all introductions to the Fund, suggesting more could be done. Furthermore, a number of consultees argued this was a missed opportunity for LEPs to encourage uptake in their local priority sectors.

Intermediaries also play a key role in raising awareness of the Fund. Whilst consultees felt that there was a reasonably good awareness of NPIF amongst the North's intermediaries and wider investor networks, monitoring data suggests that there is scope to improve this further. As illustrated in Figure 2.2, just under a third of businesses were introduced to the Fund by banks, local accountants, business support/chambers or corporate finance. Given that most established SMEs would go to their bank first for finance[36], the level of referrals from banks (6%) is also low.

Fund managers have intensified efforts with financial intermediary networks to raise the profile of NPIF, and this is expected to encourage more referrals from the private sector in the future.

Figure 2.2: Monitoring data on introducer type (n=419)



Source: analysis of NPIF monitoring data provided by the Bank

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

Application process and negotiation

Just over a quarter of beneficiaries surveyed (28%) had received **non-financial support from the NPIF fund manager prior or during their application.** This predominantly focused on business planning, strategy development and cash flow advice. As noted above, fund managers are tasked with delivering against ERDF output targets for 12-hour business assists, but beyond this formal activity, fund managers play an important role in assessing (and where necessary challenging) business plans and assumptions, encouraging businesses to reflect and refine/strengthen their proposals and ensure NPIF finance is invested appropriately (both for the business and in line with NPIF's goals). Over half of the respondents that had received this type of support rated it five out of five in terms of usefulness, and a further third rated it four out of five.

Table 2.7: Beneficiaries in receipt of Non-financial support, based on survey responses (n=67)

	Debt	Equity	All cases
Yes	14	5	19
No	33	15	48
Base	47	20	67

Source: SQW survey of beneficiary businesses base = 67

Table 2.8: Satisfaction with Non-financial support, rated on a scale of 1 to 5, where 1 is very poor and 5 is very good (n=67)

	Debt	Equity	All cases
1	0	0	0
2	0	0	0
3	3	0	3
4	5	1	6
5 - Very useful	6	4	10
Base	14	5	19

Source: SQW survey of beneficiary businesses base = 67

As expected, access to debt finance has been faster than equity, with 43% of debt applications completed within two months and 83% within six months, whereas 60% of equity finance was secured within six months. There were, however, some aspects of the application process that respondents felt could be improved, particularly in terms of having more transparent terms and conditions upfront and being more open to negotiation when discussing deals.

Table 2.9: Time taken from first looking for finance to securing NPIF, based on beneficiary survey responses (n=67)

	Debt	Equity
Up to a month	17%	0%
1 to 2 months	26%	5%
3 to 6 months	40%	55%
7 months to 1 year	13%	35%
More than 1 year but less than 2 years	2%	0%
Don't know	2%	5%
Base	47	20

Source: SQW survey of beneficiary businesses base = 67

Fund manager involvement following finance award

On the whole, **feedback on the involvement and support provided by fund managers has been positive.** As shown above, 85% of the beneficiaries surveyed rated communication with the fund manager throughout as good/very good, and 70% rated ongoing support and advice since finance awarded from the fund manager similarly.

In addition to tracking progress, fund managers provide signposting to other specialist services/business support and access to networks/markets, host events to bring businesses together with intermediaries and banks and provide more general management/financial advice. Most fund managers described their typical involvement with businesses as "light touch" after an award has been made, but they maintain an "open line" where needed by businesses. If businesses are struggling, many fund managers provide more regular dialogue and support, including face-to-face advice to ensure their investments keep on track.

For equity, there was evidence of the **added value of fund manager involvement.** Almost all survey respondents (19 out of 20) said the fund manager is an observer on their board. Of these, 11 said this had made moderate improvements to the management performance of the business, and a further two thought the fund manager had made major improvements.

External consultees also commented on the **high quality of fund managers** involved in the Fund (described as "experts in their field") and, in most cases, their **strong local knowledge, presence and networks** has been an important factor in the successful delivery of NPIF. There is a strong sense that many of the fund managers "get to know" the businesses and are therefore better able to advise the business appropriately. Most fund managers are also well-known and embedded in local support infrastructure, which helps to raise awareness of NPIF and provide routes to other support. **Where fund**

managers are new to an area and not seen as being "entrenched" in the community, delivery has been more of a challenge and it has taken longer to establish relationships on the ground.

The wider role of fund managers – both in terms of proactively raising awareness of NPIF across a wide geography and providing non-financial support - does have resource implications. Most fund managers comprise relatively small teams, and some reported **capacity issues** in meeting these needs.

Governance, management and monitoring arrangements

The Funds are managed by the Bank on a day-to-day basis, working in close partnerships with LEPs. Monies are then allocated to underlying 'sub-funds' delivered by the fund managers. The Funds are overseen by a SOB representing the participating LEPs and Government, which is supported by two RABs[37] focusing on operational performance. In addition, the Bank provides two regional relationship managers to support the fund managers and LEPs.

Consultees generally felt that **the Fund was well managed by the Bank**. It has promoted cross-regional collaboration and engagement: as one consultee argued, the Bank is "animating the network". The Bank's local presence has been important – both through its head office in Sheffield and regional managers on the ground – alongside their significant experience of delivery networks, both national debt and equity funds. There was considered to be more scope to share intelligence on the businesses supported and learning about what works with external partners and intermediaries, to help them promote the Funds.

Governance arrangements also appear to be working effectively and have been improved during the first two years of the Fund. Representation on the two boards is appropriate, with complementary skills and experience from board members involved. The functions of the two boards are distinct: the SOB has provided a clear oversight role, whereas the RABs support the Bank in managing operational delivery and regular engagement with the fund managers.

There is a **good level of LEP engagement with, and ownership of, the Fund**, both through the governance structures and on the ground with fund managers. There is also evidence of LEPs sharing best practice around access to finance through the NPIF structures. That said, some consultees felt that the networks of LEPs on the RABs could be better utilised to add value to the fund managers' activities, particularly in terms of generating demand (as discussed above).

[37] One for the North West and one for Yorkshire, Humberside and Tees Valley

Implementation challenges

On the whole, feedback on the delivery of NPIF is very positive. However, there have been three key challenges in implementation to date:

- Several external stakeholders identified that fund managers had a different approach to risk, and that they would like to see **greater risk appetite**. This is an inherent challenge with the Fund: levels of risk will inevitably vary across the North, reflecting the types of businesses supported and local contexts, but the overarching rationale for NPIF is to provide finance to higher risk propositions that cannot secure finance from private sector sources. At the same time, the Fund also needs to generate a positive return (overall) and repay the EIB and Bank's loan.
- **Further strengthening the relationships between fund managers and LEPs/Growth Hubs**. There is scope to make better use of LEP/Growth Hub networks and businesses access, and encourage signposting from NPIF back into Growth Hubs (where appropriate) to address other business growth barriers such as skills etc.

Investment readiness on the demand-side remains a major challenge across the North. NPIF was designed to address market gaps in the supply of finance, and that local LEPs would cultivate demand and provide investment readiness support (reflecting local need/contexts) alongside private sector financial and professional services. However, provision and capacity to address the issue is variable and fragmented across the North. Fund managers typically operate across a designated area but can make a small number of deals outside of their target geography. Several stakeholders mentioned some issues with this approach and stressed a desire for the Bank to play a greater role in the demand-side.

Environment challenges

There were also three "generic challenges" set by the environment in which NPIF operates:

- **Some parts of the North continue to struggle with low demand, reflecting different local contexts, cultures and attitudes towards enterprise, and appetite for equity**. Arguably this reiterates the rationale for NPIF and reflects the demand-side challenges described above. However, at this stage of the Fund, there is a question around whether more could be done to support businesses in those areas within the constraints of the requirements of the NPIF funders.
- **Clarity and a central source of guidance around NPIF eligibility criteria** and EU funding rules would have been helpful for fund managers in terms of day-to-day implementation.
- **Balancing short-term priorities and longer-term goals of the Fund**. This was discussed by some consultees who felt that the Fund has been focused on short-term ERDF deployment and output targets (ie number of businesses supported), and that this was difficult to balance with investments that offered longer-term commercial return and/or higher levels of additionality.

3. Assessment of outcomes to date

This Section is divided into two parts:

- First, we present evidence on finance additionality (ie would not have been secured in the absence of NPIF) and leverage.
- Second, we describe the business outcomes achieved to date as a result of NPIF investment, and the extent to which these are additional.

Key messages

- **Funding was considered additional, in some form, across nearly four-fifths of survey respondents.**
    - It was particularly strong for equity cases where 60% would not have secured finance anyway.
    - 10% of cases claim they were offered the same amount from an alternative source.
- **NPIF finance was also major influence in securing additional funding**. 43% of the cases in the survey secured other funding alongside NPIF and for most (71%) of these NPIF contributed at least to a moderate extent.
- **NPIF has had a very strong positive effect on businesses' confidence in their ability to raise funding from the private sector in future** – an important part of changing attitudes and developing the market.
- **There have been a range of outcomes from accessing the finance, and most contribute to improving productivity**:
    - 70% of the debt businesses reported increased skills in their workforces
    - additional investment in R&D (43% for debt, 80% equity businesses)
    - more efficient processes (60% for debt, 65% equity businesses)
    - development of new products and services (49% for debt, 75% equity businesses).
- **A high level of additionality among equity cases** (67% would not have happened at all without NPIF), while debt cases were more likely to accelerate projects or increase their scale.

Finance additionality

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

Findings from the beneficiary survey are encouraging: funding was considered additional, in some form, across nearly four-fifths of survey respondents. However, there are some key differences between debt and equity investments:

- **Full additionality is higher for equity investments (60% probably/definitely would not have secured finance anyway) compared to debt (30%),** reinforcing the point made earlier around the particularly acute market failures for equity in the North.
- Partial additionality, whereby finance would have been secured at a later date and/or at a smaller scale, is more evident for debt compared to equity investments (39% vs 25% respectively). Across both debt and equity, most respondents thought it would have taken up to six months longer to secure finance[38].
- Deadweight (ie businesses would have secured finance anyway, at the same speed and scale) is higher for debt investments (at 28%) compared to equity cases (10%).

The level of full additionality achieved by NPIF (60% for equity and 30% for debt) is notably higher than benchmarks from similar programmes. For example, other evaluation evidence[39] found that the proportion of respondents that definitely/probably would *not* have raised finance from other sources is as follows:

- 6% (1 out of 16 recipients) for the UK Innovation Investment Fund (UKIIF)[40]
- 16% (2 out of 12 respondents) for the Enterprise Capital Funds (ECF)[41]
- 22% (3 out of 15 respondents) for the Angel Co-investment Fund (ACF)[42]

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[38] Feedback was very variable on the scale of finance that could have been secured without NPIF
[39] Reported in Owen R, North D and Mac an Bhaird C (2019) The role of government venture capital funds: Recent lessons from the U.K. experience, in Strategic Change. 2018;1–14. Note, the three programmes were for finance additionality qualitatively at comparable early stages of delivery, and therefore are similar to NPIF and the current phase of evaluation. As the comparator programmes were at early stages of delivery, response numbers are relatively low. That said, results are quite consistent for ECF and ACF (less so for UKIIF because this has some more established business cases and greater emphasis on scale and timing).
[40] UKIIF (£330 million, including £150 million UK government from 2009 - to date) is a fund of funds targeting VC at key long horizon sectors, including health and some infrastructure (eg energy/low carbon) venture projects from early to later stage development.
[41] In further detail, ECFs (£840 million UK government funding, 2006-to date) are the main public co-financing scheme with private VCs to encourage early stage investing, including seed investment (eg Passion Capital) and specialist early stage and sector investment (eg Oxford Technology Management Fund for medical sector) typically ranging between £50,000 and £2 million.
[42] The ACF (£100 million since 2011) is directly managed by the Bank and match funds up to 49% (from £100,000 up to £1 million) business angel syndicate funding rounds in early stage ventures.

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

	Debt		Equity		NPIF total	
	Cases	%	Cases	%	Cases	%
Would have secured finance anyway – in same time and scale	13	28%	2	10%	15	22%
Would have taken longer	8	17%	1	5%	7	10%
Would have been less	6	13%	0	0%	5	7%
Would have taken longer and been less	4	9%	4	20%	8	12%
Probably would not have secured	14	30%	8	40%	22	33%
Definitely would not have secured	0	0%	4	20%	4	6%
Don't know	2	4%	1	5%	6	9%
Total	47	100%	20	100%	67	100%

Source: SQW survey of beneficiary businesses base = 67

The NPIF survey evidence shows that 70% of respondents considered alternative sources of finance at the time they applied to NPIF, but **only about one-third of all respondents actually applied to alternative sources of finance** (n=67) (Table 3.2). This may point towards investment readiness issues as discussed above. For debt, where beneficiaries had applied, this was mainly a loan from a bank, building society or other financial institution) and for equity this included other equity investors (VC and business angels) and banks.

Table 3.2: Beneficiaries that considered and applied for other forms of funding, at the time of their NPIF application

	Debt	Equity	**All**
All that *considered* alternatives	32	15	47
All that *applied* for other finance	15	6	21

Source: SQW survey of beneficiary businesses base = 67

Of those who applied for other finance:

- **around half were offered the full or lower amount** of finance from an alternative source (10 out of 21, of whom seven were offered the full amount, and three were offered a lower amount).
- **and half of applications were rejected** (11 out of 21), most often because of insufficient business record, too early stage, lack of security and poor credit ratings.

The main reasons cited for choosing NPIF rather than other sources were as follows:

- NPIF offered competitive rates/terms and conditions (n=17)
- An existing relationship/previous investment from the fund manager (n=11)
- Reputation, credibility, knowledge/expertise, local presence and additional support from the fund manager (n=22)[43]
- Good fit between NPIF objectives and business goals, and good understanding of business needs (n=12). For example, as one beneficiary argued, the fund manager "*seem[ed] to understand our business and what we want to achieve*".
- The ease of the application/process (n=5).

However, only 5 explicitly stated that finance from the fund manager was the only finance option available.

Non-beneficiary progress

As part of the survey with non-beneficiaries (ie those who were unsuccessful or withdrew from the application process), respondents were asked whether they have been able to secure finance anyway, to inform our qualitative assessment of the counterfactual. The findings, shown in the following box, should be treated with caution given the very small sample size.

Non-beneficiary survey

- Just over half of respondents turned down their NPIF offer (nine out of 16), and the reasons included strict terms and high costs. A quarter were rejected by NPIF (four out of 16).
- **Just over half have gone on to secure finance anyway** (seven out of 13 that answered the question), including from other equity and internal sources, and most at the same scale as their NPIF application and on better terms. Of these, two-thirds had turned down the NPIF offer, and one-third had been rejected.
- Of those that secured finance anyway, four are using the finance for entirely the same types of activities as proposed in the NPIF application, and the remainder are implementing activities in part.
- **Not securing NPIF finance has had an impact on the activities undertaken by businesses, particularly in terms of innovation**. For example, nine non-

[43] Quality of fit and investor support are important additionality factors – likely to lead to a more successful outcome for the business and economy (see Owen et al, 2019)

beneficiaries had planned to invest in new processes, and without NPIF, four of these have delayed, reduced the scale or cancelled plans. Similarly, 10 businesses had planned to invest in new products/services, but five have delayed, reduced the scale or cancelled plans.

- Not securing NPIF has also impacted negatively on business development for 10 out of 16 respondents, either by **slowing/holding back growth or putting business survival at risk.**

Leverage

The beneficiary survey also found that a significant number of businesses had secured other funding alongside NPIF (29 out of 67). This tended to be higher for equity cases (60%) compared with debt (36%). Leverage included both equity finance and bank funding.

Crucially, the results show that the **NPIF finance had a major influence on securing this additional funding** (see Table 3.3). In the equity cases, 75% of respondents thought it contributed to raising the additional funding to a "considerable" or "large" extent (and only 8% felt it had not contributed). For debt, 71% thought it had contributed at least to a moderate extent.

This finding was corroborated through consultations with fund managers, who argued that NPIF enabled co-investment and access to other finance from a range of other sources (such as the Enterprise Investment Scheme). NPIF was seen to give businesses "credibility" in the wider finance market place.

Table 3.3: Did you also secure funding from elsewhere for these activities?

	Debt		Equity	
Yes	17	36%	12	60%
No	30	64%	8	40%
Base	47		20	

Source: SQW survey of beneficiary businesses base = 67

Table 3.4: To what extent did the funding contribute to bringing in this additional funding?

	Debt	Equity
Entirely	6%	0%
To a considerable extent	18%	50%
To a large extent	12%	25%
To a moderate extent	35%	8%
To a small extent	6%	8%
Not at all	18%	8%
Don't know	6%	0%
Base	47	20

Source: SQW survey of beneficiary businesses base = 67

Case study example

This small, young business was awarded a £80,000 microfinance loan in 2017 to finance the purchase of manufacturing equipment to develop medical products. Prior to this, the business was home-based, and the design and manufacture of an initial, basic prototype had been self-financed. In 2016, the business was looking to expand into manufacturing premises. A mortgage was secured from the bank for the premises, but the bank lacked the appetite to also provide finance for equipment given the early stage of the business and perceived risk. The NPIF microfinance investment was an important stepping stone for the business – it provided rapid access to finance that enabled the business to increase the capacity and quality of its manufacturing activities (through the purchase of higher tech equipment). In turn, this has de-risked the proposition and helped the business to lever additional/follow-on investment, including a £500,000 equity investment via NPIF in 2018 to expand the business' marketing and commercial functions in order to grow UK and international sales, which then enabled the business to secure £160,000 in asset finance from the bank to bring 3D printing capabilities in-house in 2018. In this context, the credibility of the NPIF brand is perceived to be helpful in attracting other finance.

As a result of the NPIF investments, the business has been able to introduce more efficient and better-quality manufacturing processes, expand the team (both in terms of manufacturing production and sales), improve technical and business development skills, and increase sales (including exports). In future, there is scope for substantial spillover benefits for the healthcare sector. NPIF was described as "one piece in the jigsaw" that has allowed the business to improve/expand its product range and reach the market, alongside other investment from private and public sources. In the absence of NPIF, outcomes would have been smaller in scale and taken longer.

Confidence in raising future finance and awareness of finance types

Participation has also had a **very strong positive effect on businesses' confidence** both for debt and equity beneficiaries (85% reported that the funding has led to greater confidence in their ability to raise funding from private sector sources in the future). Again, this evidence was supported by fund managers and strategic stakeholders consulted as part of the evaluation.

Table 3.5: Do you feel that funding has led to greater confidence in your ability to raise funding from private sector sources in the future?

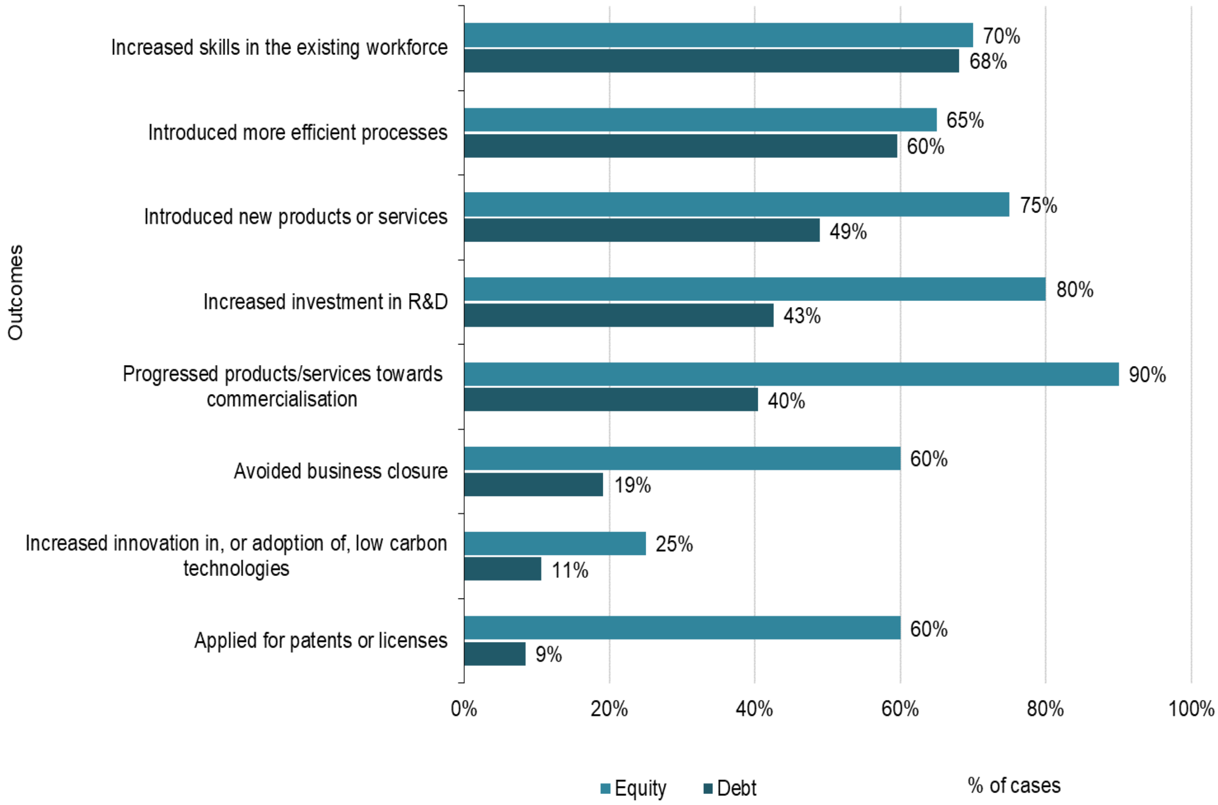
	Debt	Equity	All
Yes	85%	85%	85%
No	11%	10%	10%
Don’t know	2%	5%	3%
Refused	2%	0%	1%
Base	47	20	67

Source: SQW survey of beneficiary businesses base = 67

Business level outcomes arising from NPIF

Businesses were asked to report on the types of outcomes they have experienced as a result of receiving the finance. The results are summarised in Figure 3.1. Overall, the Fund is **performing well against outcomes linked to productivity** (such as skills and process improvements) **and equity investments are also performing particularly strongly against wider innovation outcomes** (linked to new product development, R&D and commercialisation). In the sub-sections that follow, we discuss the key outcomes observed to date in more detail.

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



Source: SQW survey of beneficiary businesses base = 67

Skills development

In both debt and equity cases, **around 70% of the businesses reported increased skills in their workforces.** These businesses were asked whether this had, or would, lead to any new qualifications, either academic, vocational or company-specific (Table 3.6). For businesses taking debt, there was a high proportion where the funding had led to vocational qualifications (63%), whereas for equity investments, 41% had gained company specific qualifications.

Table 3.6: Qualifications

	Debt (n=35)		Equity (n=17)		Total	
	Count	%	Count	%	Count	%
Academic	8	23%	2	12%	10	19%
Vocational	22	63%	2	12%	24	46%
Company-specific	15	43%	7	41%	22	42%
Other	4	11%	3	18%	7	13%
Don't know	0	0%	4	24%	4	8%
Refused	0	0%	0	0%	0	0%
Base	35		17		52	

Source: SQW survey of beneficiary businesses base = 52

Most of these businesses have developed **technical and specialist knowledge and skills** (35 out of 46 observing skills benefits) that are industry specific and spanned a wide range of activities, from *"fork lift training" and "letting and management",* through to "*electrical design*", "*manufacturing skills"*, "*software development"* and knowledge of the "*medical device process".* Businesses have often developed these types of skills by **recruiting new employees** who were highly skilled and/or completed training when they started their new role. In addition, three of the beneficiaries reported that they have employed and trained apprentices.

Other examples of skills development included:

- **Improved HR and administration capacity** (10 out of 46) by training existing staff (for example, software training, completion of a HR qualification) and hiring additional staff (for example, one beneficiary has "*brought in a HR team and learning development team*").
- **Improved marketing and sales skills** (10) which has involved upskilling existing marketing and sales staff and hiring additional staff.
- **Training on new technology and/or equipment** which businesses have invested in (5).
- **Improved management skills and capacity** (6), for example: "*directors are going through ongoing mentoring coaching through external HR".*
- **Improved commercial and financial skills/planning** (4), including "*skills for accounting to improve knowledge of accounting and business plans"* and completion of "*a payroll management qualification".*

Innovation

The NPIF finance has also led to additional investment in R&D, especially for equity (80%) but also debt (43%). Of the 36 businesses reporting this outcome, 31 were able to estimate the scale of this additional investment – at an aggregate increase of £3.1 million. Furthermore, 42 businesses[44] *expected* R&D spending to increase over the next 3 years and, of those that were able to quantify it (35), this was estimated as a total of £11 million in additional expenditure.

The majority of equity investments (90% of respondents) have also enabled businesses to progress products/services towards commercialisation (and 40% for debt cases). Linked to this, the proportion of cases that had **introduced new products and services was significantly higher for businesses involved in equity deals** (75%) than for businesses receiving debt finance (49%), although both reflect considerable new innovative activity stimulated by NPIF. A further 17% of debt respondents and 20% of equity respondents expect to introduce new products and services in future

Table 3.7 provides details of the proportion of new products and services that are new to the market, or just new to that business. For equity and debt, **the majority of new products and services that are new to market were** 89% and 58% respectively.

Table 3.7: Proportion of products or services innovations that are *new to the market*, and/or new to the business, based on survey responses

	Debt (n=31)		Equity (n=19)		Total (n=50)	
	Count	%	Count	%	Count	%
At least some new to the market	18	58%	17	89%	35	70%
All just new to the business	13	42%	2	11%	15	30%
Base (all innovation)	31		19		50	

Source: SQW survey of beneficiary businesses base = 50

Examples of products/services taken to market as a result of NPIF investment included:

- **Digital or communication software** (n=17), examples included: mobile apps; promotion and a payment platform; a new transaction tracking technology for retail; and a wearable device which allows users to log their emotional wellbeing.
- **New engineering and architectural solutions** (n=9) such as "new architectural door products", a *"new type of fire rated roll shutter",* and *"large architecture equipment".*

[44] Including the 36 respondents who have already increased their investment in R&D as a result of NPIF

- **Health/med tech devices and products** (n=4) such as products for use in NHS settings including A&E, outpatients and GP surgeries.
- **Products/services for the energy sector** (n=4), such as *"equipment for both the oil and gas and offshore renewable sectors"*;
- **Food and drink sector products**, such as new *"process controls on [their] food processor equipment".*

Case study example

Since the NPIF investment, the business has employed an additional three FT employees (one in R&D, one in sales/customer services, and a security manager), supported apprentices, and they have recently hired a business development manager on a six-month trial. Turnover has also increased since the business secured investment, increasing from £435,000 prior to the investment, to £845,000 in the latest financial year. Turnover is expected to continue growing, with a turnover of £1.5 million projected for the current financial year. Overall, the NPIF finance has provided stability and helped to generate confidence within the business.

The investment has resulted in direct investment in R&D activities, and the end product will be taken to market shortly. The current plan is to hire out the product in the UK, but to sell to European customers. However, plans to export are largely on hold until Brexit is resolved. The business is currently developing a marketing campaign and existing clients have already shown interest in the new product.

The new product uses low carbon technologies. The business has applied for a trademark and is currently exploring IP protection, although they do not expect to apply for a patent because it is difficult to protect a product of this type.

There is also evidence to suggest the product has generated supply chain benefits locally and looking forward has the potential to generate further spill overs across the North. All the technology is from within the region. Without the NPIF finance they would not have achieved these outcomes.

In the longer term, it is likely that the business will require future finance to fund development, but in the short term the intention is to grow organically and leverage additional finance from manufacturing its new product. The business is more confident about raising finance in the future and, as a result of NPIF, felt they would be in a stronger position to secure follow-on finance.

Improved processes

Across the sample, NPIF investment **led to improved processes for 61%** of survey respondents. Within the cases reporting these improvements, this led to:

- Reduced costs for 90%
- Improved the quality of their output for 88%
- Saved time for 92%.

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

Avoided business closure

Avoiding business closure was notably higher amongst equity respondents, possibly reflecting the "all or nothing" approach to these deals. Of the 12 equity recipients who argued that NPIF had prevented closure, seven said the business would have closed already and five said it would have closed in the next 12 months.

Outcome additionality

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

- the level of deadweight is low.
- full additionality is particularly high for equity beneficiaries: two thirds of the outcomes would not have happened at all.
- for debt, NPIF has played a key role in accelerating outcomes: in around half of cases the outcomes would have taken longer.

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

	Debt	Equity	All
The benefits would have happened anyway, over the same time period and at the same scale, without (fund manager)	10%	6%	9%
The benefits would have happened anyway, but they would have taken longer to achieve	46%	22%	39%
The benefits would have happened anyway, but at a smaller scale	15%	6%	12%
None of these benefits would have happened	23%	67%	37%
Don't know	5%	0%	4%

Source: SQW survey of beneficiary businesses base = 67

4. Assessment of emerging impacts

Key messages

- **The Funds have increased employment in three quarters of the businesses** (72% for debt investments, and 80% for equity).
- **There are significant effects on sales, profitability and productivity**, while the effect on exporting is slightly lower, particularly among debt cases.
- 41 firms provided estimates of additional employment. They reported a total of 298 additional jobs (208 through debt and 90 equity).
- **A third of these jobs (33%) paid wages or salaries in the top quartile of income while 17% paid less than the UK median income (£23,200)[45].**
- **More than 60% of businesses reported that their turnover was higher as a result of accessing finance through NPIF**. Across the 28 businesses that quantified the impact, they estimated a combined increase of £11 million.
- Almost half (45%) of sales are made to customers within the Northern Powerhouse area, 42% in the rest of the UK, with 13% exported.
- On the whole, consultees felt that it was too early to judge whether NPIF had impacted upon the wider finance ecosystem. NPIF has provided a more co-ordinated and joined up offer, and in this sense strengthened the ecosystem, but there was no evidence yet that the Funds had encouraged other finance providers to operate in the North.

Emerging and expected impacts

Business employment and turnover growth

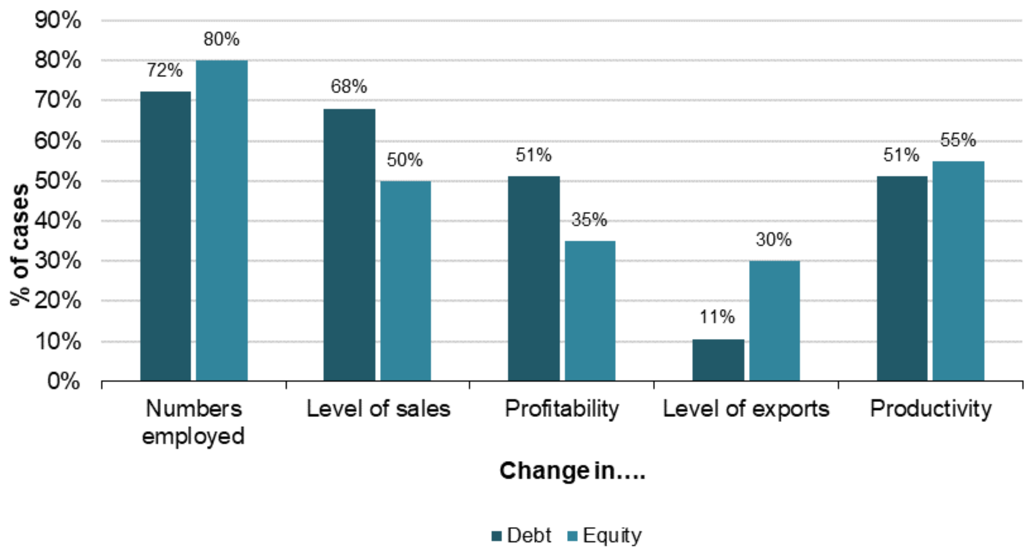
In addition to the qualitative outcomes described above, beneficiaries were also asked whether NPIF investment had impacted upon business performance to date (Figure 4.1).

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

The Fund has increased employment in the majority of businesses involved (72% for debt investments, and 80% for equity). The figures for turnover were slightly lower (68% and 50%) and for exporting (11% and 30%). Typically, half of the businesses reported improvements in productivity, to date.

These are significant changes in performance enabled by NPIF. The fact that more businesses reported increases in employment than in other measures is likely to reflect some of the earlier stage investments, which take longer to feed through to sales and productivity. The difference in the impact on exports between debt and equity is also interesting, perhaps illustrating that the businesses selling equity are more likely to have a more international outlook[46].

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

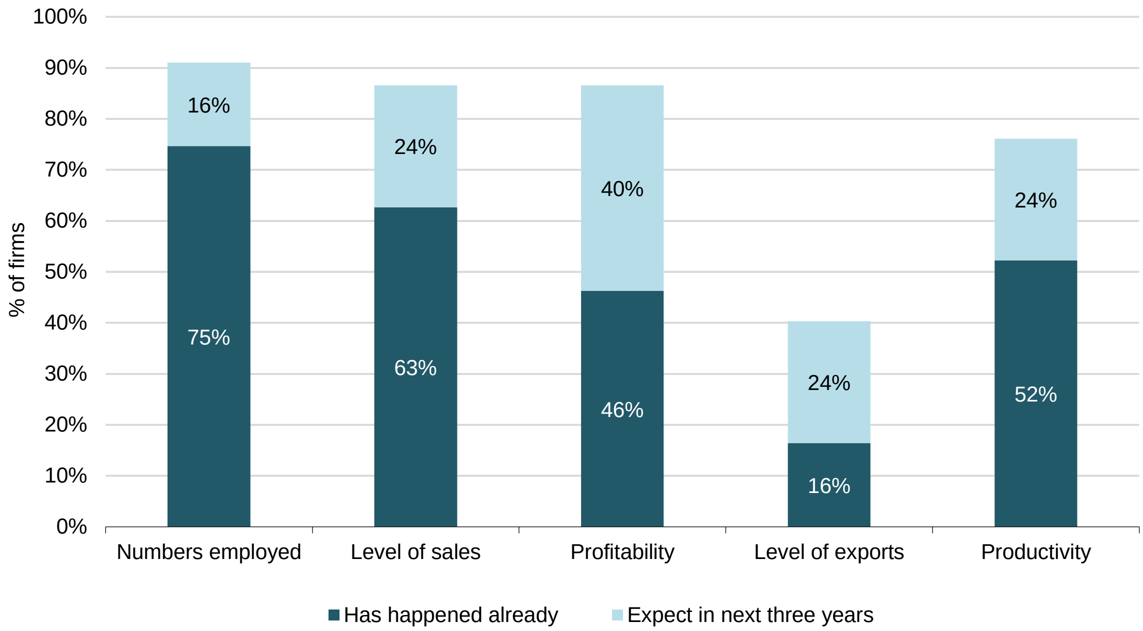


Source: SQW survey of beneficiary businesses base = 67

The results can be extended to show the proportion that are *expecting changes in the next three years.* For employment and sales, a large proportion of the impacts have happened already, while for profitability, exports and productivity, there are more benefits expected in the future (Figure 4.2).

[46] Sector does not appear to explain this: debt beneficiaries are most likely to be in manufacturing (41%) followed by professional/scientific/technical (18%) and ICT (18%), whereas equity beneficiaries are more likely to be in ICT (36%) followed by professional/scientific/technical (18%), admin/support services (18%) and manufacturing (18%)

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



Source: SQW survey of beneficiary businesses base = 67

Number of jobs created

The survey asked businesses to report the number and types of jobs that had been created as a result of receiving NPIF funding. The results show a positive impact on employment. In total, 51 of the firms have increased employment to date (76%). **The 41 firms that provided estimates of additional employment had reported a total of 298 jobs (208 through debt and 90 equity).** Mean employment has increased from 30 (debt) and two (equity) employees at the application stage, to 36 (debt) and seven (equity) employees at the time of the survey. Similarly, median employment has increased from 10 (debt) and two (equity) employees at the application stage, to 14 (debt) and six (equity) at the time of the survey.

Table 4.1: Changes to employment as a result of receiving NPIF funding

	Debt (n=47)		Equity (n=20)		Total (n=67)	
	Count	%	Count	%	Count	%
Higher because of funding from NPIF	32	68%	19	95%	51	76%
Lower because of funding from NPIF	0	0%	0	0%	0	0%
The same- funding made no difference to sales	12	26%	1	5%	13	19%
Don't know	3	6%	0	0%	3	4%

Source: SQW survey of beneficiary businesses base = 67

Quality of jobs

The survey also asked businesses to report the types of jobs that had been created as a result of receiving NPIF funding. While the majority are in production, administration and logistic functions (such as process, plant and machine operatives), there were a number of R&D jobs (13%) (see Table 4.2).

Table 4.2: Types of additional jobs generated by NPIF investments

Type of jobs	Number of jobs
Directors and Senior Official	11
Research and Development	38
Sales and Customer Service functions	75
Production, administration and logistic functions e.g. Process, Plant and Machine Operatives	143
Other	29
Base (all reporting additional employment)	298

Source: SQW survey of beneficiary businesses base = 298 jobs

One third of the jobs created paid wages or salaries in the top quartile of income (ie above £35,600[47]). Equity beneficiaries were even more likely to create high paid jobs in this bracket (76% equity compared to 47% debt).

Less than a fifth were jobs that paid below the UK median income of £23,200. The median values for the regions in the North of England are slightly lower (£21,500 in the North East and Yorkshire and Humber, and £21,900 in the North West. It suggests that these jobs created by NPIF funding are contributing to increasing the wages in these areas. This is also likely to mean that the jobs being supported are higher productivity (GVA per head) than the median.

Table 4.3: Income levels from the additional jobs supported

	Debt (n=47)		Equity (n=20)		Total (n=67)	
Jobs with salaries or wages (before tax) of…	Count	%	Count	%	Count	%
less than £23,200 a year	35	17%	17	19%	52	17%
more than £36,500 a year	63	30%	36	40%	99	33%
All jobs	208		90		298	

Source: SQW survey of beneficiary businesses base = 298 jobs

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

Case study example

This pre-revenue company developing innovative medical devices received a £500,000 equity investment through NPIF in 2018. Prior to this, the business had received SPARK Impact funding in 2014 to develop one of the portfolio devices, followed by a £136,000 SMART grant from Innovate UK in 2015 to progress other technologies. The NPIF equity investment provided match funding for a second Innovate UK grant, and was used to develop a new product (and associated intellectual property and regulatory clearances for the technologies), staff recruitment and training, and marketing. The funding allowed the business to progress these activities more quickly than would otherwise be the case and, in doing so, played an important role in levering additional funds from Innovate UK. The business already had an investor network in place, but felt that the NPIF endorsement added credibility to the business and has therefore resulted in a greater ability to raise further funds in the future.

The business has already experienced a number of direct benefits as a result of the NPIF funding, mainly relating to recruitment of a new member of staff and upskilling, and increased investment in R&D and product development (and specifically improving the quality of products). The NPIF funding freed up internal capacity: "we don't have to focus on fundraising and are able to entirely fix our efforts on the project in hand" and it was felt that the business now "works better as a team" which has raised overall productivity. The developed devices are expected to be commercialised in the next couple of years, resulting in increased sales, profitability and exports, plus an additional ten FT jobs (two thirds in R&D, remainder in business development).

The business believed that the outcomes would have happened anyway, primarily because of management commitment and the value of the business plan – "it is quite an attractive project we are working on." However, without the funding it would have taken six months to one year longer to achieve. The funding from NPIF gave the business further assurance that the existing business plan was heading in the right direction. Further, it was recognised that the high profile of the funding adds credibility to the business and helps with marketing activities. NPIF was therefore recognised as an important factor alongside others.

Turnover

NPIF finance has boosted turnover for 63% of beneficiaries surveyed (68% for debt and 50% of equity cases). **Mean turnover has increased from £3.03 million (debt) and £150,000 (equity) at the application stage, to £3.25 million (debt) and £661,000 (equity) employees at the time of the survey.** Similarly, median turnover has increased from £900,000 (debt) and £70,000 (equity) at the application stage, to £1.33 million (debt) and £300,000 (equity) at the time of the survey.

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

	Debt (n=47)		Equity (n=20)		Total (n=67)	
	Count	%	Count	%	Count	%
Higher because of funding from NPIF	28	60%	14	70%	42	63%
Lower because of funding from NPIF	1	2%	0	0%	1	1%
The same- funding made no difference to sales	16	34%	4	20%	20	30%
Don't know	2	4%	2	1 0%	4	6%

Source: SQW survey of beneficiary businesses base = 67

Across the 28 cases that quantified the impact of NPIF on turnover, firms estimated a combined increase of £11 million. The scale of impact varies across the sample, with a third of these firms estimating an impact of between £100,000 and £500,000 and four cases estimating over a £1 million.

Only 17 of the 42 respondents who reported an increase in turnover were able to comment on the proportion of the additional turnover that had come from exports. Of these 17, **three quarters said some or all of the increase was accounted for by exports**.

Within the sample, 55 (82%) of the businesses thought that the funding through NPIF would lead to an increase in their sales over the next three years. Of these, 26 provided quantified estimates with an aggregate total of £88 million.

Case study example

The firm had already experienced a number of direct benefits as a result of the funding. These mainly relate to personnel, including the recruitment of 14 FT employees (across engineering, finance, project management, business development and administration) and upskilling the workforce (through academic qualifications). It has also experienced an increase in sales (from no sales to over £1 million by December 2018), and a resulting increase in profitability.

Building on its success so far, the business is projected to keep growing. By the end of 2019, another three or four employees are likely to be recruited and they are also exploring ways to make its current services more efficient (through reducing costs and improving quality) and expanding the offering. Further investment in this area – estimated to require £30,000 per year over the next three years – will most likely be financed internally using operating profit. The business also plans to internationalise further and expand beyond the markets currently covered in Europe, Africa, North and South America and the Middle East.

Outcome additionality is high. The firm was confident that none of the outcomes would have happened in the absence of NPIF because the delay associated with searching for alternative investment would have considerably hampered progress – *"the risk goes up and the potential for success plummets."* Relative to other factors NPIF was critical: *"you take that piece of the jigsaw away and whichever way you look at it, without the funding none of that happens."*

Participation in the programme has also given the firm confidence to approach other investors in the future, particularly in the private sector: *"using NPIF is a bit of a promotional thing – if you get people like that investing in you, it gives you credence in the business world."* It is anticipated that in three years, the business will be self-sustaining and is therefore unlikely to need further investment. In five years, however, it is hoping to move into its own premises which is likely to require additional funds.

Customers and displacement

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

Although a reasonably high number of firms do some exporting (40% of the sample), this represents a smaller value proportion of all sales. Of the 45 businesses that provided details of the distribution of customers, around 13% of the value of all sales was made outside the UK (Table 4.5). Almost half of the sales are made to customers within the Northern Powerhouse area.

Table 4.5: Income levels from the additional jobs supported

Customer area	Aggregated % of sales
In the Northern Powerhouse area (North West, Yorkshire & Humber, Tees Valley)	45%
In the rest of the UK, but outside the Northern Powerhouse area (North West, Yorkshire & Humber, Tees Valley)	42%
Elsewhere in the EU	6%
In countries outside of the EU	7%
Base	45

Source: SQW survey of beneficiary businesses base = 45

Businesses were asked whether, if you were to cease trading tomorrow, would competitors take up your current sales over the next year. Among the businesses receiving debt finance, two-thirds considered that all their sales would be replaced by competitors. This was just one-third for equity businesses, which reflects the higher levels of innovation among the equity cases identified earlier.

Emerging impacts on the wider Ecosystem

On the whole, consultees felt that it was too early to tell whether NPIF had impacted upon the wider finance ecosystem across the North. This is supported by the literature which shows that developing an ecosystem is a long-game and driven by success stories (Lerner, 2010; Hwang and Horowitt, 2012), while major investment exits can take a long time to appear (Owen and Mason, 2019).

However, the presence of NPIF itself has helped to increase the supply of finance (including fund manager presence across the North), provided a more co-ordinated and joined-up offer, and strengthened the ecosystem (for example, through the networking activities of fund managers and LEPs). There was no evidence that NPIF specifically had encouraged other finance providers to operate in the North to date – although this may happen in future, particularly if NPIF demonstrates success and a financial return from its investments. On the demand-side, consultees thought NPIF had stimulated interest in finance and was helping to build businesses' experience in financial markets, but there are still considerable challenges to overcome in this respect (as discussed in Section 2).

5. Conclusions

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

Validity of Fund's rationale

The early evidence from the various strands of the evaluation indicates that **the original rationale for NPIF was robust and remains highly relevant.** This was supported by the stakeholders, through their own experience and backed up by the evidence in the business survey. There is a longstanding and well-documented history of challenges relating to the supply of finance across the North, alongside considerable diversity in the scale and nature of issues *within* the geography. In this context, stakeholders argued that banks remain risk averse, especially for businesses lacking a track record and/or collateral, and equity markets across the North remain particularly weak. While NPIF has helped improve access to finance on the supply-side, securing external funding continues to be a key issue reported by SMEs. However, a range of demand-side issues also contribute to this. These include the absence of a fit-for-purpose business plan, management capabilities, attitudes towards change and risk, and awareness of financing options beyond their main bank. NPIF is seen to fill a gap on the supply side, and some of the local finance Funds that are available do not offer the scale offered by NPIF.

Validity of Fund design in meeting objectives

The feedback from consultees was very supportive of the Fund's design and its contribution to meeting objectives. **The key difference to previous Funds is the scale** – by pooling LEP EU and the Bank's funding, NPIF was able to lever a substantial amount of funding from the EIB. Consultees argued this has given NPIF sufficient "critical mass" to be competitive, credible and offer value for money.

Securing collaboration and consensus in the design of NPIF across 10 of the North's LEPs, alongside pooling their financial resources, has been a major achievement. Moreover, because all partners involved in delivery (including the Bank, LEPs, EIB and fund managers) have contributed financially, they all carry risk and responsibility to deliver a successful Fund.

NPIF was considered to strike a balance between scale (and associated leverage) and flexibility to respond to local contexts. Sub-regional coverage by fund managers with local networks and knowledge and involvement of LEPs means that the offer can be differentiated effectively in response to local needs.

NPIF also has a good balance between loans and equity: with a 60:40 balance respectively. This should enable more rapid repayment of the EIB loan in the medium term (because loans will be paid back more quickly than returns from equity), but still facilitate longer term equity and patient finance across the North.

Objectives

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

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

At the end of December 2018, the Fund was ahead of projected ERDF target for the number of businesses assisted. The funding was considered additional, in some form, by nearly four-fifths of survey respondents and was particularly strong for equity cases, where 60% would not have secured finance without it. Moreover, the Fund has enabled businesses to lever further private sector investment. The beneficiary survey found that 36% of debt, and 60% of equity, respondents had secured additional finance and, in most cases, NPIF had a moderate or major influence in securing this.

Increase performance of recipient businesses, particularly in terms of research/innovation, competitiveness and supporting a shift towards a low carbon economy (ESIF objectives)

There have been a range of outcomes from accessing the finance, and most contribute to improving productivity. The business survey provides early evidence that firms receiving finance through NPIF are improving performance. Much of this new investment was related to activities that would improve productivity; R&D, new product development and skills development:

- 70% of the businesses reported increased skills in their workforces, especially in terms of technical and specialist, management and financial skills.
- Additional investment in R&D, especially for equity (80%) but also debt (43%).
- Introduction of a significant number of new products and services. This was significantly higher for businesses involved in equity deals (75%), but also high (49%) for businesses receiving debt finance.
- Of these, the majority of new products and services are new to market (89% and 58% respectively) rather than just new to the firm.
- However, progress against low carbon aims is less evident in the survey (11% reported this an outcome among debt cases and 25% for equity).

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

- The Funds have increased employment in three quarters of the businesses (72% for debt investments, and 80% for equity) and there are significant effects on sales, profitability and productivity, while the effect on exporting is slightly lower, particularly among debt cases. These businesses also expect impacts in the future, which can be tested in the interim evaluation

- Within the 41 firms in the sample that provided estimates of additional employment, there were almost 300 jobs.
- These are relatively well-paid good quality jobs for skilled staff. A third of these jobs (33%) paid wages or salaries in the top quartile of income in the UK (£35,600) while 17% paid less than the UK median income (£23,200)[48].
- More than 60% of businesses reported that their turnover was higher as a result of accessing finance through NPIF. Almost half (45%) of the sales are made to customers within the Northern Powerhouse area, 42% in the rest of the UK, with 13% exported.

There is a high level of outcome additionality particularly among equity cases (67% would not have happened at all without NPIF), while in debt cases NPIF is more likely to accelerate projects or increase their scale.

Increased awareness of equity and alternative sources of finance amongst SMEs in target area.

Views on the extent to which NPIF has helped raise awareness of the availability and use of debt and equity among SMEs and intermediaries, on balance, were positive – although it is still early days. While consultees generally felt that this had been good, businesses, through the beneficiary survey and in the case studies, tended to indicate they felt it was not as well known. NPIF relies on awareness being driven through a wide range of partners, and this will inevitably take time. Although views varied around levels of awareness across the geographies, we would expect this to rise as more businesses and intermediaries are engaged.

Part of the challenge is encouraging businesses to think about how they can use external finance to grow, and then to consider how they can secure it. **This requires both an awareness of the Funds, but also the confidence and ambition to use them**. Being *aware* of the Funds and seeing the *potential of accessing* them are slightly different things.

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

What is working well and what could be improved?

Setting up and delivering the Funds has worked well, particularly given the range of partners and the uncertain landscape for investing. The main findings are:

- **All the consultees felt that the Fund was well managed by the Bank**. It has promoted cross-regional collaboration and engagement: as one consultee argued, the Bank is "animating the network". The Bank's local presence has been important, alongside their significant experience of delivery networks, both national debt and equity funds. Some stakeholders were keen to see more data sharing on businesses receiving investment and learning about what works, particularly with external partners and intermediaries to help them better promote the Fund.
- **Governance arrangements are also working effectively** and have been improved during the first 2 years. The Funds are overseen by a SOB representing the participating LEPs and Government, which is supported by two RABs which focus on operational performance. Representation on the two boards is appropriate, with complementary skills and experience and the functions of the two boards are distinct.
- **There are good levels of LEP engagement with, and ownership of, the Fund**, both through the governance structures and on the ground with fund managers. There is also evidence of some LEPs sharing best practice around access to finance through the NPIF structures, but scope to utilise some LEP networks more effectively to generate demand.
- **Businesses feedback on their customer journey was very positive**, particularly in relation to their communication with the fund managers, the ease of the application process and quick decisions. Some beneficiaries have received non-financial support, such as business planning, strategy development and cash flow advice, and this was very positively received. Feedback on marketing and promotion suggested more could be done to raise awareness through all partners, although this will take time.
- **The added value of fund manager involvement to ensure growth plans are realised** was recognised by businesses and stakeholders, with most fund managers providing strong local knowledge, access to networks and more regular dialogue to businesses in need (and for equity beneficiaries, closer engagement with business management).

Implementation challenges

While feedback on the delivery of NPIF is very positive, consultees raised several areas to consider:

- Several external stakeholders identified that fund managers had a different approach to risk, and that they would like to see **greater risk appetite**. This is an inherent challenge with the Fund: levels of risk will inevitably vary across the North, reflecting the types of businesses supported and local contexts, but the overarching rationale for NPIF is to provide finance to higher risk propositions that cannot secure finance from private sector sources. At the same time, the

Fund also needs to generate a positive return (overall) and repay the EIB and Bank's loan.

- **Further strengthening relationships between fund managers and LEPs/Growth Hubs**. There is scope to make better use of LEP/Growth Hub networks and businesses access and encourage signposting from NPIF back into Growth Hubs (where appropriate) to address other business growth barriers such as skills etc.
- **Investment readiness on the demand-side remains a major challenge across the North**. It was originally envisaged that NPIF would address supply-side finance challenges, and LEP's would cultivate demand and provide investment readiness support (reflecting local need/contexts) alongside private sector financial and professional services, but provision and capacity to address the issue is variable and fragmented across the North.

Environment challenges

There have also been three overarching "generic challenges" set by environment in which NPIF operates:

- **Some parts of the North continue to struggle with low demand, reflecting different local contexts, cultures and attitudes towards enterprise, and appetite for equity**. Arguably this reiterates the rationale for NPIF and reflects the demand-side challenges described above. However, at this stage of the Fund, there is a question around whether more could be done to support businesses in those areas within the constraints of the requirements of the NPIF funders.
- **Clarity and a central source of guidance around NPIF eligibility criteria** and EU funding rules would have been helpful for fund managers in terms of day-to-day implementation.
- **Balancing short-term priorities and longer-term goals of the Fund**. This was discussed by some consultees who felt that the Fund has been focused on short-term ERDF deployment and output targets (ie number of businesses supported), relative to investments that offered longer term commercial return and/or higher levels of additionality.

Implications for the NPIF interim assessment and the early assessment of MEIF and CIoSIF

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

One of the main issues in undertaking the evaluation has been around accessing contact data for firms in order to carry out the business survey. Agreements are made between the fund manager and the businesses, and contact details are held separately by each of the fund managers rather than centrally by the Bank. This has made accessing business data inconsistent and time consuming. We would suggest that common approaches to managing this data would make future evaluation work more consistent and robust.

We also suggest including additional questions around the low carbon outcomes such as removing waste, increasing recycling and adopting circular economy solutions.

Final reflections

NPIF is only two years in to a 10-year programme, but to date it has been very successful. The number and value of lending and equity deals are ahead of target[49] and the finance has been distributed proportionately across the areas. It has successfully engaged with the LEPs and other partners and is building awareness.

The finance has enabled a wide variety of businesses to invest in activities that will directly improve their productivity: skills, R&D, new products, services and processes. This has now started to translate into additional sales, good quality employment and exports. Without the Funds, most businesses report that projects would have been delayed, delivered on a smaller scale, or not happened at all. This has also been achieved over a period of investment uncertainty.

Looking forward, there is an opportunity to strengthen the Funds further. The NPIF model provides a platform through which partners (the Bank, LEPs, Growth Hubs, fund managers) can continue to develop a stronger more integrated service offer and referral mechanisms.

The interim evaluation will provide further evidence of the Funds' progress and performance in 2021/22 with new surveys and a clearer picture of how NPIF has influenced businesses and the wider finance eco-system.

[49] As outlined in the Bank's quarterly model for NPIF investment.

Annex A

Regional Programmes Overall Objectives

The higher-level regional programmes logic model provides reference to how the programmes will work overall. This logic model specifies how the performance of the geographic programmes will be assessed against key performance metrics. The objectives are specified within a hierarchy in order to identify the impact pathway as outlined in the 'theory of change', and who is responsible for meeting each objective. The regional programmes contribute to meeting the Bank's own objectives[50], wider Government objectives and in line with the programme using ERDF funding, ERDF reporting measures.

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

Performance metrics are broken down into objectives and aspirations:

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

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

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

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

The specific ERDF output indicators are included within the logic model in line with the Bank's obligation to report on ERDF reporting requirements[51]. The geographic programmes contribute to meeting ERDF objectives set out in 2014-2020 European Growth Programme document.

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

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

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

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

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

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

INPUTS	IMMEDIATE OUTPUTS	INDICATOR	INTERMEDIATE OUTCOMES	INDICATORS	ULTIMATE HMG OUTCOME	INDICATOR
EIB loan ERDF allocation The Bank's matching loan BEIS/HMT grant funding (the Bank's running costs) Plus: The Bank's organisational resource and Fund manager resource	**Supply of finance** Increased debt and equity finance available to SMEs in the target areas Increase the fund manager operating resources within the target area	**Supply of finance** Total number and value of investments made by fund for each type of finance: Programme successfully established with fund managers appointed.	**Supply of finance** Increase the supply of finance to viable businesses that would otherwise have problems raising finance	**Supply of finance** Finance flows to SMEs in target area narrowed compared to London Leverage additional private sector funding at time of funding and future funding rounds: C7: Private investment matching public support to enterprises (Private Sector Leverage) Increased awareness of equity and alternative sources of finance amongst SMEs in target area [measured through the Bank's Business Finance Survey]	To contribute to long term economic growth of target areas through additional economic output or improvements in aggregate productivity of businesses funded (not at the expense of other geographic areas)	The NPV of additional GVA generated by recipient businesses in the target area over the life of the fund should be greater than the economic cost of delivering the fund. Ie economic cost benefit analysis is positive in target area [This will only be measured at the interim and final economic evaluation stage]
	Business Level Businesses use funding to fund growth, innovation or move to low carbon in line with ERDF Priority Axis[52]	**Business Level** The following business indicators are recorded against one of the following 3 Priority Axis: C1: Number of enterprises receiving support (C3 + C4)	**Business Level** Increase performance of recipient businesses Finance enables investment by businesses in R&D, product development	**Business Level** Additional employment increase since receiving funding C8: Employment increase in supported enterprises Propensity to create high quality jobs Finance used to support innovation:		

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

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

Microfinance loans: £25k-£100k in NPIF

Rationale: Market Failure

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

Supply-side:

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

Demand-side market failures and barriers:

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

Figure A-2: Logic model – Microfinance loans: £25k-£100k in NPIF

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

Overall funding of:
• £20.2m* committed to date in NPIF (sourced from CLG/BIS legacy, ESIF, EIB, and the Bank)
• £30m committed in MEIF (sourced from ESIF, EIB, ERDF legacy)
• TBC in CIoSIF (sourced from ERDF)
 	
Plus:
• The Bank organisational resource
• Fund Manager organisational resource
 	
** Note: only 75% of available funding has been committed to date*
	Fund manager activities:
	• Awareness raising of loans and marketing and promotion of microfinance (esp. to start-ups/young SMEs)
	• Pre-application and application support
	• Provision of microfinance loans
	  o £25k-£100k in NPIF
	  o £25k-150k in MEIF
	• Mentoring of applicants
	• Monitoring of activities
	• Technical and credit assessment of applications
	• Contracting between providers and successful applicants
	• Loan book management
	• Monitoring of loans
	
	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
		Enquiries/applications – conversion rates
		
		Number and value of microfinance loans (£), gross
		
		ERDF outputs:
		• C1 – Number of enterprises receiving support
		• C3 – Number of enterprises receiving financial support other than grants
		• C4 – Number of enterprises receiving non-financial support
		• C5 – Number of new enterprises supported
		• C7 – Private investment matching public support to enterprises (non-grants), equivalent to private sector leverage
		
		Geographical spread of lending across LEP areas
			For business beneficiaries:
			
			Additionality of finance secured (full and partial)
			
			Leading to additional investment in:
			• business start up
			• expansion
			• internationalisation
			
			• Leading to additional:
			  • new firm start-up and survival
			  • new products/services (C28/29) and processes
			  • new jobs created (MI data/ERDF output - C8)
			  • leverage of co-investment and follow-on funding.
				For business beneficiaries
				
				• Business growth:
				  • Impact on turnover and employment, including new and high quality jobs created
				
				For the regions
				• Economic growth in target area as measured by increases in business GVA

			For Eco-system: • Increase in the number of alternative sources of finance amongst SMEs in target areas. For the Bank: • Interim repayments on loans (MI data)	For Eco-system: • A better functioning and sustainable finance ecosystem in target areas. For the Bank: • Meet expected level of write offs and financial return
Lending: 2017-2021 Portfolio management up to 2026		Intermediate outcomes potentially from 2-3 years after lending through to 5-10 years after lending Final outcomes: 5-10 years (+) after lending		

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

Debt: Later stage loans from £100k-£750k (NPIF)

Rationale: Market Failure

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

Supply-side market failures and barriers:

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

Demand-side market failures and barriers:

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

Figure A-3: Logic model – Debt: later stage loans from £100k-£750k (NPIF)

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

Overall funding of:
• £153.8m* committed to date in NPIF (sourced from CLG/BIS legacy, ESIF, EIB, and the Bank)
• £90.91m committed in MEIF (sourced from ESIF, EIB, ERDF legacy)
• TBC in CIoSIF (sourced from ERDF)
 	
Plus:
• The Bank organisational resource
• Fund Manager organisational resource
 	
** Note: only 75% of available funding has been committed to date*
	Fund manager activities:
	• Awareness raising of loans and marketing and promotion of later stage debt for growth (targeting established SMEs with high growth potential)
	• Pre-application and application support
	• Provision of later stage loans
	  o £100k-£750k in NPIF
	  o £100k-£750k in MEIF
	• Mentoring of applicants
	• Monitoring of activities
	• Technical and credit assessment of applications
	• Contracting between providers and successful applicants
	• Loans and guarantee book management
	• Monitoring of loans
	
	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
		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

			For Eco-system: • Increased awareness of alternative sources of finance amongst SMEs in target areas	For Eco-system: • A better functioning and sustainable finance ecosystem in the regions
			For the Bank: • Interim repayments on loans (MI data)	For the Bank: • Meet expected level of write offs and financial return
Lending: 2017-2021 Portfolio management up to 2026		Intermediate outcomes potentially from 2-3 years after lending through to 5-10 years after lending Final outcomes: 5-10 years (+) after lending		

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

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

Rationale: Market Failure

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

Supply-side market failures and barriers:

- Imperfect information – Assessing the quality of SME proposals and associated risks is difficult and leads the investor to incur transaction costs of undertaking due diligence. These transaction costs are generally fixed and do not greatly vary with the size of the equity deal. Transaction costs are therefore higher as a proportion of smaller deals. These due diligence costs are proportionally higher when fund managers are based in different geographies from where their investments are located due to additional time and travel costs.
- Strong network externalities lead to clusters[53] of equity activity concentrated in London and the South East, which makes it difficult for them to develop elsewhere. Although clusters of deals activity are developing in the NPIF and MEIF areas, it is still relatively low which makes it more difficult for markets to function.
- Private investors cannot capture the positive spill over effects (externalities), eg innovation and knowledge transfer that are associated with young innovative companies. If left to the private sector, these are underprovided by the market.

Demand-side market failures and barriers:

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

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

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

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

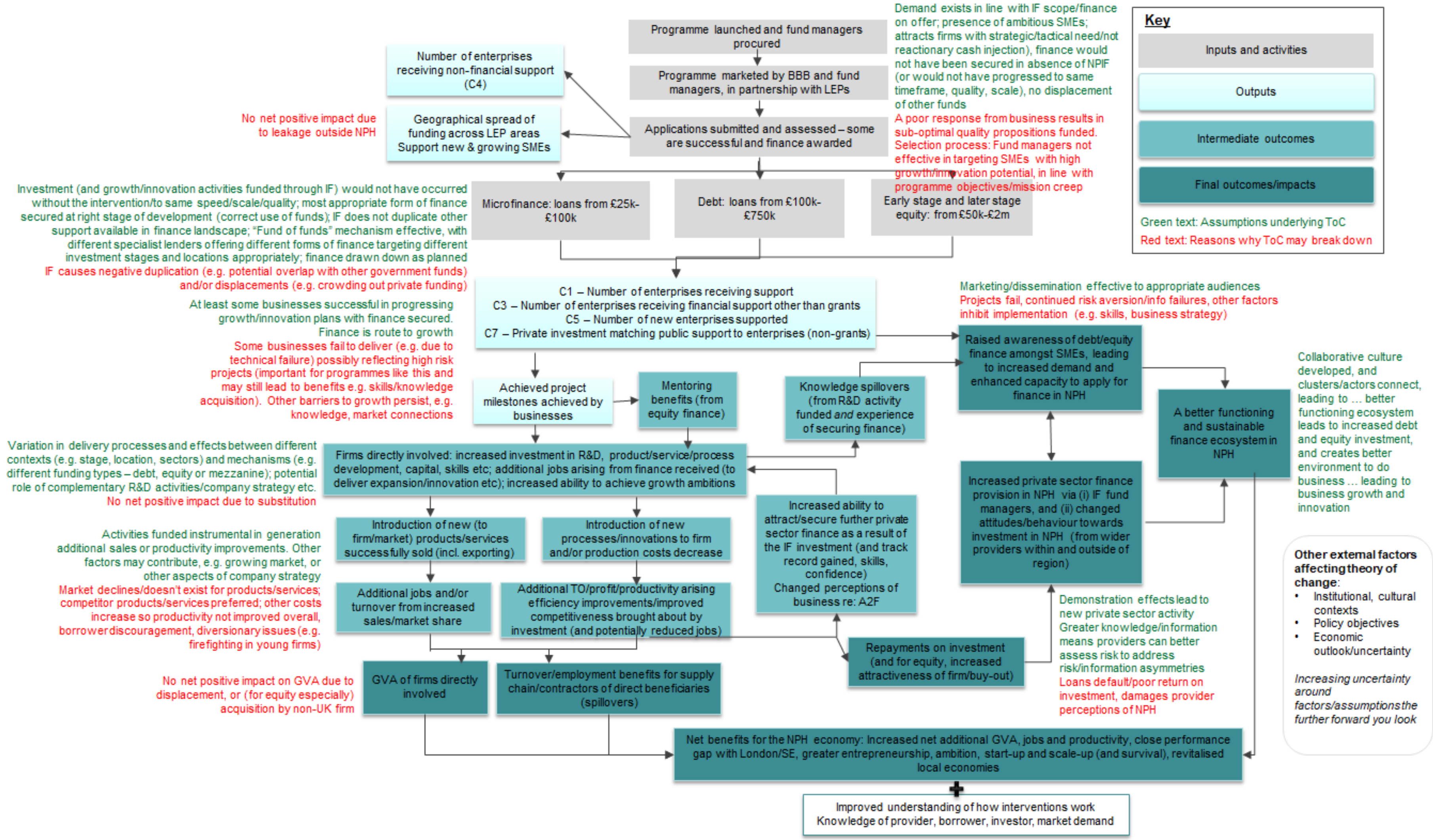
Delivery		Benefits		
Inputs	**Activities**	**Outputs**	**Intermediate outcomes**	**Final outcomes/impacts**

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

			For Eco-system: • Increased awareness of equity finance amongst SMEs in target areas • Overall growth in follow-on and co-investment funding	For Eco-system: • A better functioning and sustainable finance ecosystem in the regions
** Note: only 75% of available funding has been committed to date*	The Bank activities: • Procurement of fund managers • Marketing and awareness raising of programme brand • Website creation & management • High level monitoring • Overarching fund of fund management		For the Bank: • Value of equity (MI data)	For the Bank: • Meet expected level of write offs and financial return
Lending: 2017-2021 Portfolio management up to 2026		Intermediate outcomes potentially from 2-3 years after lending through to 5-10 years after lending Final outcomes: 5-10 years (+) after lending		

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

Figure A-5: Theory of Change



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

Logic model clarifications

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

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

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

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

Annex B

Beneficiary survey – additional information

Age sample structure based on beneficiary survey responses (n=67)

Age of business	Survey sample: Debt	Survey sample: Equity	Survey sample: Total
1 to 5 years	32%	65%	42%
6 to 9 years	30%	20%	27%
10 years or more	36%	15%	30%
Don’t know	2%	0%	1%
Base	47	20	67

Source: SQW survey base = 67

Non-beneficiary survey – additional information

Non-beneficiary respondents were split equally between those who were seeking equity finance, and those seeking debt, which meant that equity respondents were over-represented. However, there was coverage from the North West and Yorkshire and Humber in the sample.

	Survey respondents (n=16)		Sample available for survey (n=64)		Overall population (n=117)	
	Count	%	Count	%	Count	%
Equity finance	8	50%	20	31%	25	21%
Debt finance	8	50%	36	56%	92	79%
Total	**16**	**100%**	**64**	**100%**	**117**	**100%**

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