

THE SOUTH EAST FUNDING ESCALATOR BRIDGING MEZZANINE DEBT FUND

Background

1. Finance South East was established jointly by SEEDA and the Business Link Providers in 2002 to help businesses gain access to funding at the various stages in their growth cycle. In 2006 FSE established an FSA-accredited subsidiary to enable it to play a fuller role in fund management alongside the other services it delivers in collaboration with partners. Board approval was given 30th January 2007 for £5.65mn investment between 2007 and 2011 for the Innovation Funding Escalator. The vision was to create a seamless regional funding escalator backing SME business ideas from conception through to commercialisation and growth. The objective was to address the fragmentation in the funding on offer to support innovative new business ideas. The South East Funding Escalator's aim is to simplify and rationalise the funding available for business growth in the region by creating an integrated and seamless progressive funding path.

The principles addressed were:

- To assist with the growth of SMEs
 - Simplify the customer journey to access business funding.
 - Provide business funding at all stages of their growth from early stage to growth.
 - Investment should be accompanied by hands-on support and partnership working
 - The Funds must be compliant with the Business Support Simplification Programme
 - Appoint one fund manager, FSE, to manage all of the investments and be accountable for delivering the outcomes as well as the outputs.
 - Place all SEEDA's investment funding in larger, less segregated pots of funding
2. The underlying premise behind SEEDA's intentions were to provide leadership through creating bigger funds which are open to all potential entrepreneurs and SMEs but with less criteria to fulfil (but no less stringent in terms of processes and procedures to access the funds).

Progress To Date

3. The Funding Escalator is fully established and open to accept applications from SMEs. There are currently three strands of growth funding on the escalator:-
 - Commercialisation Fund (Proof of Concept) - is solely funded by SEEDA (£3m.);
 - Accelerator Fund (loan investment) - co-funded by BERR and Clydesdale Bank (£10m.); and
 - The SEED Fund (equity investment) – co-funded by SEEDA, a consortium of the region's universities and a commercial investor Prologis (£5m.).

Bridging Mezzanine Debt Fund

4. SEEDA, working with Finance South East, has been actively considering an appropriate response to the current market failure and address the problems businesses are currently facing in obtaining credit through banks and other traditional routes. Therefore SEEDA has been developing proposals for a Fund that could make assistance available to businesses rapidly but was consistent with the recently announced portfolio of products under the Business Support Simplification Programme and with the principles of the Funding Escalator. The outcome has been the 'Bridging Mezzanine Debt Fund'.
5. The Bridging Mezzanine Debt Fund (BMDF) will be part of the Funding Escalator. It is directed at fully established, viable and growing SMEs. Key elements of the BMDF are:-
 - Unsecured loan up to £148,000
 - Up to one year term, which can be extended on request
 - No capital repayments or interest payments until maturity
 - Rolled up interest so payment is at maturity
 - No notice to repay loan as other funding becomes available
 - No arrangement fees
6. These elements ensure that the Fund does not compete with the commercial sector whilst also being attractive to viable businesses because of the 'rolled up' interest and unsecured status of the Funding. One company has secured funding from the BMDF and two other companies are close to agreement at the time of writing this paper.
7. It is SEEDA's intention to invest, initially, up to £1m. in the BMDF drawing on the funding already approved under the Funding Escalator (FSE endorse this approach and there is sufficient funding to enable this approach). This will ensure that FSE can meet the immediate demand for these Funds. SEEDA will be keeping funding levels under review (taking account of demand for the Fund and the prevailing market conditions) and have committed, in principle, to invest an initial amount of £1m., but have kept open the possibility of additional funding up to a maximum of £3m.

National Transition Loan Fund

8. The Pre-Budget Report on 24 November announced that RDAs would be launching Transition Loan Funds. SEEDA were heavily involved in the development and positioning of the Transition Loan Funds within the overall package of Finance measures. The BMDF forms SEEDA's element of the Transition Loan Fund announced in the PBR.
9. SEEDA will be keeping the level of funding in the Funding Escalator under review (the Commercialisation Fund launched earlier this year is attracting businesses). It is likely that there will a need to put forward a proposal to increase the total funds invested in the Funding Escalator by a further £2m.

Communications Issues

10. We are promoting the Fund through Business Link and partners such as Sector Consortia, Enterprise Hubs and known clients of Finance South East. We will consider the need for further promotion in the light of take up of the Fund (as mentioned one deal has been completed and two further deals are close to agreement).

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