Evaluation of the West of Scotland Loan Fund & East of Scotland Investment Fund

Report for WSLF Management Services Ltd
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1. Introduction

1.1 Background

The West of Scotland Loan Fund (WSLF) and the East of Scotland Investment Fund (ESIF)[1] provide debt funding to small businesses across much of Scotland. The Funds are specifically designed to address the market failure in the provision of amounts at the lower end of the debt capital market and to work with public and private sector partners in ensuring that economic growth is not constrained by lack of access to finance.

The current Funds are supported by the current European Regional Development Fund (ERDF) which is soon to be superseded by a new ERDF Programme.

At this point, the Funds partners, together with Scottish Government are keen to see a Scotland-wide Fund established as a key part of the new ERDF Programme and an application is in the process of being developed.

As part of the wider ex-ante assessment, a formal ex-post evaluation is required to help inform consideration of a future Fund and of any ERDF investment.

1.2 Access to Finance

Access to, and availability of, finance is recognised by Government[2] as fundamental to ensuring businesses reach their growth potential and for supporting new business starts.

However, following the start of the recession and its associated financial crisis in 2008, the availability of finance for SME lending was seriously curtailed as banks began the process of strengthening their balance sheets, de-leveraging and de-risking and introducing a more onerous lending and investment regime[3]. Indeed, recent regional data published by the British Bankers Association (BBA)[4] shows that there was a net negative £1,740 million bank lending to SMEs in Scotland.

[1] Where appropriate these are referred to as the "Funds"
[2] SME Access to External Finance 2013: BIS
[3] Net lending to SMEs by banks continues to be negative through to 2014
[4] http://www.bba.org.uk/statistics/article/geographical-spread-of-sme-borrowing/small-business/

The issue of access to finance has also been identified in the developing ERDF Operational Programme which recognises access to finance as a key driver of growth and one which there is still apparent market failure to justify intervention.

Over many years a range of different public sector interventions have been designed to address the problem and bring about market correction.

In Scotland, the Scottish Investment Bank (SIB) primarily provide equity funding and later stage lending through the Scottish loan fund. As such they are complementary, but operate in different market segments. WSLF and ESIF are among those that have ERDF support for lending. There are also smaller funds covering South of Scotland and Ayrshire.

1.3 Funds Overview

The WSLF offers existing businesses loans of up to £100,000 and up to £30,000 for new businesses or businesses that have been trading for less than two years. It comprises a consortium of 12 West of Scotland Local Authorities[5] and was incorporated as a company limited by guarantee in June 1996, registered and based in Kilmarnock, East Ayrshire.

The ESIF is made up of a consortium of ten Local authorities[6] from the East of Scotland. This Fund was modelled on the West of Scotland and offers loans of up £100,000 to new and existing businesses with potential for growth.

Strategic management of the Fund rests with the board of directors, which is made up of a representative from each local authority, usually an elected member or another senior official. The everyday running of the Fund in undertaken by four permanent members of staff who are responsible for the overall delivery of the strategy, reporting to the board of directors, maintaining databases to track lenders and the day to day management of the Fund.

Applications and decisions on loans are made by the relevant local authority's economic development team, with assistance from the Loan Fund Officer if necessary.

[5] Argyll & Bute, East Ayrshire, East Dunbartonshire, East Renfrewshire, Glasgow, Inverclyde, North Ayrshire, North Lanarkshire, Renfrewshire, South Ayrshire, South Lanarkshire and West Dunbartonshire.

[6] Angus, Dundee, Edinburgh, Falkirk, Fife, Midlothian, Moray, Perth & Kinross, Stirling and West Lothian

1.4 Research Objectives

The overarching objectives are to undertake to an evaluation of the Funds as part of the preparation for the creation of a Scotland-wide loan fund providing commercial loans up to £100K targeted at SMEs.

Detailed objectives include to:

- provide an overview of the debt finance market in Scotland;
- assess market failure in the SME debt market in Scotland;
- evaluate the economic impact of each fund at both a local and national level;
- evaluate the impact of WSLF and ESIF finance on and service received by existing clients and those who have repaid their loans;
- assess the effectiveness of WSLF and ESIF in terms of providing gap funding and allowing projects to proceed; and
- identify clear learning opportunities from current operations that will improve future service delivery.

Finally, it is worth highlighting that there is a clear focus on the future and on learning from experience to help in the design and delivery of a future Scotland-wide Fund.

1.5 Research Method

The evaluation has reviewed the period from April 2009 to November 2014 and included the following tasks:

- review of Fund performance management data;
- review of Fund performance against objectives and targets;
- consultation with 20 key stakeholders;
- detailed interviews with 50 supported businesses;
- telephone interviews with 100 supported businesses;
- online survey of all supported businesses;
- economic impact assessment; and

- strategy development workshop.

We acknowledge the support we have received from all involved with the Funds without whom we would have been unable to produce this report.

1.6 Report Format

The report is designed to address the research objectives and is structured as follows:

- Chapter 2: provides a brief overview of the current access to finance market;
- Chapter 3: provides a brief review of the performance of the Funds;
- Chapter 4: sets out an analysis of the primary research and the views and opinions of the supported businesses;
- Chapter 5: provides an overview of the stakeholders review;
- Chapter 6: sets out the economic impact assessment;
- Chapter 7: sets out our conclusions and recommendations.

Appendices provide additional research information.

2. Access to Finance

2.1 Introduction

This Chapter presents a brief overview of the current SME Funding environment and the continuing market failure which creates the need for public sector intervention.

In particular, it makes reference to and is informed by two recent reports, including the Business Case to Support Creation of Scottish Local Authority Loan Fund[7] and the ERDF Ex-ante Assessment of Financial Instruments[8].

It is not intended to repeat the findings in any detail but instead to focus on some key conclusions.

2.2 Market Failure

A continuing market failure has been identified in the research and this is supported by primary research conducted as part of this evaluation.

It is not intended to provide a detailed market failure analysis, although a short reference is made to some relevant research by way of illustration.

- "*a structural market failure exists in the provision of debt finance to SMEs due to asymmetric information between the lender and the business*[7]*".*
- *"[Financial Engineering Initiatives] FEIs are felt to address existing market failures in obtaining access to finance*[8]*.*
- *"there are market failures, which can lead to potentially viable businesses being unable to access the finance they require and providing the rationale for government intervention*[9]*"*

[7] Business Case to Support Creation of Scottish Local Authority Loan Fund, EKOS 2014
[8] Financial Instruments: A Stock-taking Exercise in Preparation for the 2014-2020 Programming Period EIB 2014
[9] ERDF Ex-ante Assessment of Financial Instruments; Scottish Government, Feb 2015

- *"economic literature often discusses that in terms of access to finance for SMEs a market imperfection/ failure is present as a fundamental structural issue*[10]

The manifestation of this market failure does impact on "*both the supply and demand of SME finance, which can lead to potentially viable businesses not being able to access the finance they require and this provides the rationale for government intervention"*.[11]

Market failure is mostly seen as due to asymmetric information between the lender and the business where it is difficult for the lender to distinguish between high and low risk entrepreneurs without incurring significant costs. To avoid the costs associated with gathering this information, lenders often require borrowers to provide evidence of a financial track record and/or collateral as security for the finance.

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 means, some businesses with viable business propositions that lack a track record or collateral are prevented from raising the finance they require to grow.

2.3 Access to Finance

The analysis set out in the referenced research has clearly shown that SME access to finance has been and continues to be a constraint on SME start-up and growth.

The most recent data[11] highlights that net lending to small and medium-sized UK businesses continues to be negative throughout 2013 and 2014. However, it does also highlight there are particular challenges for small businesses, where credit conditions remain tight.

Also while there are some signs that banks are (in some way) lending to SMEs, it does not appear to have returned to previous levels and also that their lending approach is likely to be onerous in terms of security, terms and pricing.

[10] Guidelines for SME Access to Finance Market Assessments EIF 2014
[11] Ibid 9

It is also important to reflect on the supply side of the market which includes the following.

• Banks/mainstream finance providers	**• Angel and individual investors**
• Venture capital sources	**• Internal capital sources**
• Government-backed schemes	**• New internet based sources**
• Other regional initiatives	**• Informal sources credit cards/ FF**
• Invoice finance	**• Asset-backed finance**

The previous option appraisal provided a more detailed assessment of the supply side of the market and concluded that despite the size of the market, there were still clear funding gaps. This is considered in more detail below.

2.4 Assessing the SME Funding Gap

The ex-ante assessment[12] estimates that the proportion of "financially viable" SMEs that faced problems accessing bank financing is around 4,500 with an estimated financing gap of £470 million.

The option appraisal estimated the number of SMEs unable to access funding with viable projects at 4,000 and a funding gap of £800 million, based on an interpretation of wider national data.

Crucially, it is important to note that this is the total gap for all SMEs and not simply those that would normally come within the scope of the WSLF/ESIF market.

It is therefore clear that any future Scotland wide loan fund would be able to sit comfortably within the above parameters and alongside other Financial Instruments such as Scottish Investment Bank.

[12] Ibid 9

3. Funds' Performance

3.1 Introduction

This Chapter presents an analysis of the Funds' performance over the period 2009 to September 2014. It based primarily on data provided by WSLF and is sourced from annual reports and annual accounts.

In considering performance, we have three key sources to review:

- forecast data provided by WSLF MS;
- ERDF monitoring reports;
- data reported by individual companies.

The targets were based on an analysis of past performance and evidence from evaluation studies.

3.2 Overview

WSLF received £6 million from the European Regional Development Fund (ERDF) and along with match funding of £9 million, created a fund of £15 million to be invested during the period 2009 – 2015.

- West of Scotland Loan Fund £4.5 million;
- Barclays Bank plc £4.5 million; and
- European Regional Development Fund £6.0 million.

ESIF received £1.781 million from the European Regional Development Fund (ERDF) and along with match funding of £1.5 million, creating a fund of £5 million to be invested during the period 2010 – 2015.

- East of Scotland Investment Fund Member Authorities £1.7 million;
- Royal Bank of Scotland plc £1.5 million; and
- European Regional Development Fund £1.78 million.

These council funds included the £177k from Stirling Council which was not a party to the original award and monies received from loan repayments]

3.3 Fund Targets[13]

The targets and their forecast performance for each of the Funds are detailed as follows. These data are taken for the WSLF forecast data and have not been subject to verification.

Table 3.1: WSLF Performance against Targets

Targets	Target	Actual	%
Total value of loans to be invested	15,000,000	12,070,425	80.5%
Average loan value	25,000	30,558	122.2%
Total no. of businesses receiving financial assistance	600	395	65.8%
No. of new businesses receiving financial assistance	240	158	65.8%
No. of existing businesses receiving financial assistance	360	237	65.8%

Source: WSLF/ESIF Annual Reports 2013/14

Table 3.2: ESIF Performance against Targets

Targets	Target	Actual	%
Total value of loans to be invested £(m)[14]	4,500,000	3,633,500	80.7%
Average loan value	15,000	39,929	266.2%
Total no. of businesses receiving financial assistance	300	91	30.3%
No. of new businesses receiving financial assistance	90	27	30.3%
No. of existing businesses receiving financial assistance	210	64	30.3%

Source: WSLF Monitoring Data

Table 3.3 provides a more considered analysis of the performance against key business plan targets.

The forecast assessment is based on two key facts – new investments being made till Q 3 2015 and the timing of undertaking formal monitoring assessments.

[13] It should be noted that the assessment is taken at September 2014 with the Funds having a further 6 months to deliver

[14] Note: £500k was allocated to overheads form the total Fund of £5 million

Table 3.3: WSLF/ESIF Performance against forecast[15]

WSLF		ESIF	
Under Perform	*Likely to be met*	*Under Perform*	*Likely to be met*
• Business supported • Job creation	• Value of investment • Private sector leverage	• Business supported • Job creation	• Value of investment • Private sector leverage

Table 3.4 provides a review of performance against formal ERDF targets. These data are taken from the ERDF Monitoring Reports produced in November 2014.

Table 3.4: Performance against ERDF Targets (at Nov 2014)

	WEST			EAST		
Outputs	Target	Actual	%	Target	Actual	%
Enterprises receiving fin. support	600	395	66	300	91	30
Results						
Increase in turnover (£m)	54	76	140	24	17	70
No of new bus starts	240	111	46	90	21	23
No of gross jobs	2,400	966	40	210	253	120

Source: WSLF Monitoring Data /ERDF Monitoring reports

The data show that overall, there has been mixed performance with some targets being exceeded while most others fall (in some cases) well short. In terms of the formal ERDF targets[16], the data show that:

- the programme fell short in terms of number of businesses receiving financial support, although this can in part be explained by the larger than forecast average loan value;
- it performed relatively well in terms of jobs created (in the west) – albeit still off target, particularly in the East;
- it performed poorly in terms of new starts supported, although this is generally seen as one aspect that is less controllable as the fund is demand led;
- it performed relatively well against forecast increase in business sales in the west but again, not the East.

[15] Based on forecast data only

[16] Taken from the ERDF applications but note time lag form investment to monitoring

While the overall Programmes have some time remaining to invest, we believe it will be unlikely that they will catch up on all performance targets by the end of the investment period.

We would highlight that this is likely in part to reflect that the ERDF output performance assume a more or less immediate correlation between an investment and the job growth. This may well not be the case, with a significant lag for momentum and customer base to be built up.

The next section provides details of the financial performance at Authority level.

3.4 Fund Investment Performance

Table 3.5 West of Scotland Loan Fund (2010 – 2014)

Council	Total Budget to 2014 (£m)	% of Total	Spend to Date (£m)	% Target Spend	% Dif
Argyll and Bute	235,822	1.57%	0	0.00%	
East Ayrshire	1,734,871	11.57%	871,875	7.22%	-50%
East Dunbartonshire	185,384	1.24%	321,900	2.67%	74%
East Renfrewshire	98,037	0.65%	111,000	0.92%	13%
Glasgow	2,827,118	18.85%	3,387,700	28.07%	20%
Inverclyde	281,383	1.88%	229,250	1.90%	-19%
North Ayrshire	2,330,148	15.53%	1,592,700	13.20%	-32%
North Lanarkshire	2,469,793	16.47%	1,652,500	13.69%	-33%
Renfrewshire	969,442	6.46%	888,000	7.36%	-8%
South Ayrshire	970,543	6.47%	589,500	4.88%	-39%
South Lanarkshire	2,478,129	16.52%	2,075,000	17.19%	-16%
West Dunbartonshire	419,330	2.80%	351,000	2.91%	-16%
Total	15,000,000	100.00%	12,070,425	100%	-20%

Source: WSLFM Monitoring Data to Sept 2014

Table 3.6 East of Scotland Investment Fund (2010 – 2014)

Council	Total Budget to 2014 (£m)	% of Total	Spend to Date (£'000s)	% Target Spend	% Dif
Angus	125,015	2.78%	55,000	1.51%	-56%
Dundee City	325,037	7.22%	132,000	3.63%	-59%
City of Edinburgh	360,041	8.00%	484,000	13.32%	34%
Falkirk	312,537	6.95%	250,000	6.88%	-20%
Fife	750,087	16.67%	675,000	18.58%	-10%
Midlothian	750,087	16.67%	551,500	15.18%	-26%
Moray	200,022	4.44%	193,000	5.31%	-4%
Perth & Kinross	500,057	11.11%	330,000	9.08%	-34%
Stirling	177,000	3.93%	165,000	4.54%	-7%
West Lothian	1,000,117	22.22%	798,000	21.96%	-20%
Total	4,500,000	100.00%	3,633,500	100.00%	-19%

Source: WSLFM Monitoring Data

The data show that:

- West of Scotland Loan Fund:
  - to date (Sept 2014) the Fund has invested at 80% of budget;
  - Glasgow and Lanarkshire have the highest spend against target;
  - East Renfrewshire and South Ayrshire have the lowest levels of investment against target;
  - Glasgow and Lanarkshire account for around 60% of all investment;
  - Ayrshire and Lanarkshire have invested below target levels.
- East of Scotland Investment Fund:
  - to date (Sept 2014) the Fund has invested at 80% of budget;
  - West Lothian, Fife and Mid-Lothian have the highest budget allocation and the highest investment levels;
  - Edinburgh, Moray, Fife and Stirling have the highest spend against target;
  - Angus, Dundee and Perth and Kinross have the lowest levels of investment against target;

3.5 Local Authority Review

Tables 3.6 and 3.7 over presents data on the forecast performance of the Funds in more detail and at individual LA level. This shows that:

WSLF

- the majority of loans were issued in Glasgow, North Ayrshire and Lanarkshire reflecting their share of total budgets;
- the smallest participants were East Dumbarton and Renfrewshire again reflecting input budgets
- additional public sector investment accounted for a further 50% of investment value;
- average loan values were consistently around £30,000;
- average (headline) cost per job was just over £5,000 (gross) although there were significant variations across Authorities;
- private sector leverage was £31 million and accounted for 63% of total investment package;
- main sector for investment were manufacturing, tourism and ICT;
- the largest private investment came for South Lanarkshire followed by Glasgow – accounting for almost half of all leverage.

ESIF

- the majority of loans were issued in West and Mid Lothian, Edinburgh and Fife reflecting their share of total budgets;
- the smallest participants were Angus and Dundee again reflecting input budgets
- additional public sector investment accounted for a further 50% of investment value;
- average loan values were around £48,000 with some large variations (Dundee average £66,000);

- average (headline) cost per job was just over £6,000 (gross) although there were significant variations across Authorities (Edinburgh £17,000);
- private sector leverage was around £14 million and accounted for 68% of total investment package;
- main sector for investment were manufacturing and ICT/ computing;
- the largest private investment came from West Lothian, Edinburgh and Falkirk.

The additional data is presented in the main tables, below.

3.6 Conclusions

The performance monitoring data has been obtained from two main sources – forecasting data provided by WSLF and the individual ERDF monitoring reports.

The actual data as reported by investee companies is considered in Chapter 5.

Notwithstanding the remaining investment period, the data tend to show that the two Funds are likely to fall well short in their performance against targets.

In particular, the number of enterprises supported and the jobs targets must be seen as disappointing in light of the Funds (and the funders) overarching objectives.

Interestingly, the forecast performance data presents a much better picture and if the Funds are able to meet this then it would be appropriate to consider the Funds a success.

However, the more crucial economic impact assessment is considered in Chapter 6 and this will provide a more detailed consideration of the real value of the Funds in terms of net impacts and value for money.

Table 3.3 WSLF Loan Analysis 2009-2014

LA	No Loans	WSLF Inv (£M)	Other Public £M)	Private (£M)	Total Package (£M)	Forecast Jobs	Forecast TO (£M)	Start Up	Leverage	Key Sectors
East Ayrshire	27	£0.87	£0.58	£2.88	£4.33	277	£8.8	8	1: 5	• Manf 10 • Tourism 5
East Dumbarton	7	£0.27	£0.065	£0.39	£0.72	37	£2.26	2	1: 3	• Tourism 1 • ICT 1
East Renfrew	4	£0.11	£0.35	£0.64	£1.1	6	£0.62	3	1:10	• NA
Glasgow	114	£3.29	£1.79	£6.98	£12.0	546	£42.6	39	1: 4	• Manf 25 • Tourism 5 • ICT 9
Inverclyde	11	£0.23	£0.07	£0.64	£0.94	66	£2.4	3	1: 4	• Manf 3 • Tourism 3 • Con 9
North Ayrshire	54	£1.50	£0.41	£2.83	£4.98	254	£17.0	13	1:3	• Manf 19 • ICT 6
North Lan	48	£1.57	£1.00	£5.48	£8.10	276	£28.8	17	1: 5	• Manf 10 • Con 6
Renfrew	25	£0.79	£0.16	£1.39	£2.34	103	£8.2	6	1: 3	• Manf 8 • ICT 3 • Con 3
South Ayrshire	20	£0.53	£0.49	£1.87	£2.94	115	£8.5	3	1: 6	• Man 10
South Lanarks	59	£2.00	£1.13	£7.70	£10.84	489	£33.0	13	1: 5	• Manf 6 • Con 5
West Dumbarton	12	£0.30	£0.14	£1.03	£1.47	107	£2.00	3	1: 5	• Man 7

Source: WSLF Monitoring Data

Table 3.4: ESIF Loan Analysis

LA	No Loans	WSLF Inv (£'000k)	Other Public (£'000k)	Private (£'000k)	Total Package (£'000k)	Forecast Jobs	Forecast TO (£M)	Start Up	Leverage	Key Sectors
Angus	2	55		107	162	15	0.67	2	1: 3	• Manf 1
Dundee	2	132	156	307	595	23	0.87	0	1.5	• Bus Ser 1
Falkirk	3	150	946	2,120	3,210	26	7.3	1	1: 21	• Man 1 • Env 1
Fife	15	560	270	1,890	2,720	106	5.10	4	1: 5	• Manf 4 • ICT 2
Mid Lothian	15	551	150	1,910	2,610	167	5.61	7	1: 5	• Manf 2 • Tourism 3
Moray	4	193	251	1,400	1,840	65	5.4	3	1: 10	• Manf 4
Perth and Kinross	7	330		536	866	42	0.70	1	1: 3	• Manf 4
Stirling	4	165		435	600	29	1.15		1: 4	• ICT 2
Edinburgh	13	1,190	220	2,150	3,480	69	3..2		1: 5	• Man 6 • ICT 6
West Lothian	19	753	170	2,740	3,670	135	11.3	1	1: 5	• Manf 6 • ICT 4 • Tec 4

Source: WSLF Monitoring Data

4. Stakeholder Inputs

4.1 Introduction

This Chapter presents a summary of the discussions held with a representative sample of Fund partners and stakeholders.

The interviews were based upon a set of lines of enquiry agreed with the client but were conducted in a free form manner to encourage engagement and disclosure of ideas and experience particular to the individual interviewee.

Details of this along with the full list of consultees is provided in the appendix.

Overall, there is a strong consensus that the Funds are an appropriate and effective approach to addressing the access to finance requirements of SMEs. They are generally well liked both by the Local Authorities and (by repute) the local SME base who have fed back positive comments to individual authorities.

The evaluation was also seen as a good opportunity to "sell" the (economic) benefits to all LAs of engaging with a future Scotland-wide Fund.

One aspect which was highlighted was that the Funds were a good example, of LAs working together as a collective and that this track record should bode well for the introduction of a Scottish-wide Fund.

4.2 Current Funding Environment

There was a general view that while banks claimed to be "open for business" their experience was that there had been no significant change in lending policy or funding availability in recent years, although this is largely anecdotal.

It was also recognised that the demand for lending had also been weak, reflecting perhaps the wider economic conditions. This lack of demand was apparent in terms of other funding sources available in some Council areas.

It is not clear if this reflects suppressed demand or a general lack of ambition to seeking funding with businesses simply unwilling to take on the risk and burden of debt, preferring to grow their businesses slowly and organically.

There appear to be some signs of an improving market, both in terms of the supply side and the demand side, although it is generally believed that even if the flow of bank funding increases, the conditions attached and security required, to its availability make it an unattractive option for many businesses.

4.3 Fund Ethos

In the past, and almost certainly prior to 2008, the Funds were perceived to be either by reputation or by policy “lenders of last resort”. The WSLF was only open to those who could demonstrate that they had been unsuccessful in their attempts to get funding from other sources, and in particular mainstream banking. This led to reported situations of companies applying to a bank and asking for a letter of rejection in order that they could present it as evidence to the relevant loan fund as part of their application.

Based on the current environment it is suggested that positioning of the Fund as a “fund of last resort” is no longer appropriate. Indeed the attitude taken by the interviewees was very much that this was a fund to help businesses that were viable, but which under the current availability of mainstream banking were unable to secure funding. Effectively, the funds are there for the last resort to obtain funding given that it is not available for mainstream lending.

This however is quite a different category to that prior to 2008, where a “fund of last resort” was effectively a label that the companies applying were “desperate” or of exceptionally high risk.

It is suggested that the definition be changed to ensure that the fund is targeting companies that are viable but who are unable to obtain funding because of a lack of characteristics other than financial viability.

In particular this would relate to a lack of credit history or a lack of security acceptable to a mainstream bank.

4.4 Demand-side Factors

Marketing

There was a general view that the marketing of the fund, and the stimulation of demand is variable across the different LAs. Some clearly do very little or no marketing and others do sporadic "blitzes". It is suggested that with the advent of a Scotland-wide Fund a common marketing policy be developed and possibly delivered from the central administration.

However, any marketing has to be seen the light of two crucial factors:

- total level of available resources; and
- the companies which the LAs are targeting for growth.

It would clearly be inappropriate to undertake a mass marketing campaign and then be unable to deliver against generated demand.

In addition, widening access to the fund may result in significant additional assessment resources being required or result in an increase in bad debt ratio.

It is therefore suggested that there will be benefits in agreeing a consistent national marketing plan developed, agreed and delivered in relation to any new Fund but delivered to reflect local requirements.

Fund Targeting

In terms of targeting, there has been limited attempts to adopt a formal approach to date and while many of the LAs deliver the Fund through their Business Gateway structures, it tends to generally sit as a stand-alone product as opposed to a part of mainstream business or sector targeting.

There are clear discussions to be had around how any future Funds sits alongside the business development growth priorities of the LAs and how, if at all, it should (or should not) be targeted. For example, should the fund be marketed generally to all businesses or should there be an emphasis on marketing at those companies that are already "account managed" or are otherwise seen as "priority" on the basis that the most effective application of funding is likely to be when combined with other advice and assistance.

When assessing an application it may well be that it would be appropriate to score a company that is receiving, or is willing to engage with account management and other assistance more highly than a company that wishes only to receive the cash.

Application Process

The application process was reported by many as bureaucratic and slow and this was seen as having a real impact on demand with some reporting that businesses were avoiding the Fund due to its reputation.

The interviews provided a number of anecdotes of applications that took significant time to complete and highlighted the negative impact this was having on the image of the Funds.

The councils felt that there was considerable opportunity for improvement in processing, several pointing to the significantly more automated processes being used by the Start-Up Loan Fund.

However, we would highlight that it can be difficult to distinguish between what is appropriate due diligence and what is simply unnecessary paperwork. It may also be the case that the Fund management need to explain the application process in more detail to both their partners and the individual business applicants to ensure they are aware of what will be required and the likely timescales involved.

Nevertheless, it would seem fitting that the application process should be reviewed as part of the development of the new Scotland-wide Fund.

Interest Rates and Specification

Interviews in the East commented that businesses felt that the 6% interest rate was "high", and that this was deterring new applications.

However, while there was a perception amongst businesses that this was high, the issue may really be one of explaining that a 6% interest rate reflects the nature of the risk and the nature of the lending.

As such there may be an issue around ensuring that the "sales pitch" is full understood and that the Fund promoters are able to explain their pricing approach.

In relation to the above, the flexibility of the Funds was seen as one of the key success factors in terms of length of loan, interest rate holiday, flexible repayments etc. and to some degree can be seen to “off-set” the interest rates.

Interesting, there was no real discussion of interest rates in the West where it is currently 5%. We return to this issue later in the report.

Personal Guarantees

The interviewees were content that directors of companies were being required to provide personal guarantees. The consensus was that this ensured a realisation that this was not a grant and that repayment was expected.

There is however a potential moral obligation on the Fund to ensure that there is a reasonable expectation that the businesses can indeed repay the loans, to minimise the risk of personal guarantees being called up. Businesses in difficulty may well be desperate enough to obtain short-term funding to sign up guarantees in what are in practice in appropriate circumstances.

This again perhaps goes to the issue of “fund of last resort” and the nature of companies that should be being supported through the fund. The fund should not feel obliged to provide loan funding to companies where the likelihood of repayment is low even if there are a significant number of jobs at risk.

Access to Finance Support

Provision of access to finance or investor readiness support is not part of the current Funds formal offer.

It is however, provided on a discretionary basis by some individual LAs, normally through the Business Gateway service. It is recognised that while pre and post support can be an important factor, it is also resource intensive and must be seen within this wider funding environment.

While much of the arguments for intervention in finance markets is based around market failures in the supply side, it is recognised that market failure can also occur on the demand side.

Investor ready is both a:

Knowledge Gap – what funding is appropriate, where to find it, characteristics of funding providers, nature and implications of investment agreements, and

Skills Gap – how to prepare a business plan appropriate for the funding type (Bank, Venture capital), how to contact funders, how to "pitch".

These gaps exist within the advisory community (lawyers, accountants, technology transfer managers and business advisors) as much as within the entrepreneurial community. This is particularly the case where there is a limited investor community with which the advisors can interact

For example, SMEs may not fully understand the potential benefits to their business of raising finance or their likely chance of success in gaining finance, which ultimately means they do not apply for finance. This may restrict the growth of businesses.

4.5 Supply Side Factors

Match Funding

There was a general recognition that the requirement for match funding could have the effect of deterring applicants. There was some difference of opinion however as to whether this was a critical factor or not. Some felt that it was deterring viable businesses, and that reducing the match funding to say 25% would allow more viable applicants to come forward.

Others felt that the matching helped to identify viable businesses as against those that were in serious distress, and given the overall level of funding that was actually available to be drawn down was not really an issue. Some were taking comfort from the 50/50 requirement in terms of it being a form of filter or due diligence check, and suggested that it helped to drive sustainability within the business is taking the cash.

It was commented that the fund management had been very usefully flexible regarding what constituted the required 50% match funding.

Clearing Banks

The overarching rationale for the Funds are that they are there to address market failure and not to displace the activity of the private sector (banks).

Prior to 2008 there appears to have been a very strong relationship between the funds and the mainstream Banks. The banks would appear to have frequently been the providers of the 50% match funding.

Post 2008, this relationship, reflecting the general decline in the availability of bank funding to SMEs, has all but disappeared.

There is a recognition that consideration should be given as to how to best re-engage with the mainstream banking sector. For example, it may be that the banks would be willing to assist the fund in the development of more effective screening processes. Closer cooperation either at a local or central level may well enable the banks to build confidence in the nature of the companies that are clients of the fund, encouraging them either to provide the necessary match funding or indeed to adopt them as clients once the fund has been repaid its own loans.

It was also highlighted that there is a need to monitor bank activity in that if they do return to invest in SMEs, the Fund has a clear operating regime and does not seek to compete or duplicate.

Scottish Investment Bank

There is a consensus that currently, the Funds operate in a space which is distinct and different from the Scottish Investment Bank (SIB) and that there is not overlaps or duplication.

There does not appear to have been any regular “traffic” between the two loan funds and the largely equity funds managed by SIB. One reason for this may be that the target loan size set for the two loan funds (at £25,000 and £15,000 for the West and the East) may be considered too small to be of significant value to companies that have already raised equity funding.

If a new national loan fund is clearly positioned with a targeted higher level of lending more interaction may result.

Similar to the above and in looking to the future, there is a recognition that there is a need for a clear approach as to how a future Scotland-wide Fund engages with SIB as part of the continuum of funding available to SMEs.

4.6 Fund Management and Delivery

Governance

There was a strong view that the current governance arrangements were appropriate and that all partners “slept easy” with regard to their fiduciary duties.

The quality and quantity of information being provided by the Fund Management was rated as good and robust, although there was some commentary that perhaps the volume of data precluded proper questioning and interrogation.

The main issues regarding governance were seen as in the future with a Scotland-wide fund and 32 Local authorities. It was recognised that this may be complex as a board of 32 was not realistic and some form of regional approach will be required but again this raises issues of transparency and control.

Training/Supporting Documentation

There were mixed comments in relation to the training available from the fund and the fund documentation. Overall it was felt that there should be more training sessions where the individuals from each council were brought together for joint sessions where they can share experiences and knowledge, and that the overall training and support documentation should be brought up to date.

One interviewee commented that the documentation seemed to change fairly frequently resulting in delays to the processing of applications.

Investment Panel

This approach appears to work well at present although given the above comments will require consideration in terms of future structures.

There were a few comments regarding the skills and experience of investment panels and the need to ensure appropriate levels.

In this regard there may be an opportunity to integrate training as per the above.

Set Up for Delivery

There was a strong consensus among the LAs that their initial engagement with their respective Funds took some time to get up and running and fully functional.

It is believed that this could also be the case with LAs who are new to the Fund and that there will require to be a bedding in time before the Fund becomes fully function in these new areas.

Monitoring Economic Impact

There was mixed knowledge from the interviewees regarding the economic impact (output) achieved as a result of providing the funding.

This lack of knowledge stemmed from a number of factors including that not all of the companies were account managed by the council, some being account managed instead by for example Scottish enterprise account managers, and perhaps a general lack of reporting and data gathering.

It is suggested that the level of data reporting in terms of economic impact be reviewed to ensure that this data is available both at a central and a local council level. This will assist in both the assessment of the impact of the fund generally and unable local councils to promote the fund more effectively both internally and with potential clients.

4.7 Alternative Funding Sources

Crowdfunding

The interviewees were asked about alternative lending opportunities, including peer-to-peer lending on crowdfunding sites. Whilst this is reported as having increased at a UK level substantially in recent years all of the interviewees reported that its use within their region was at best minimal.

They all reported that the availability of such funding was being “advertised and promoted” by account managers and Chambers of Commerce. They were not able to identify specific reasons as to why take up appeared to be so low in comparison to other parts of the UK.

Other Sources of Funding

The responses of each interviewee need to be considered against the specific backdrop of their immediate lending environment. For example for some authorities, the Funds are now effectively the only source of lending available outside of mainstream banking. However, some other LAs have access to other sources.

Both Falkirk Council and Dundee Council have access to alternative funding for amounts up to £25,000.

Falkirk Council have access to the local British Petroleum (BP) fund while Dundee have access to the Dunlop fund and a number of others. West Lothian Council has access to a specific £29 million grant fund established for the council area by the Scottish government in response to the closing of Halls of Broxburn two years ago. This fund is specifically targeted at offering grant funding to businesses of all sizes to create a targeted 3,000 new jobs. The availability of these other sources of funding will affect the perceived attractiveness of lending from the two loan funds under consideration.

Start Up Loan Company (SULCO)

Start Up Loans is a government funded scheme to provide advice, business loans and mentoring to start-up businesses. Start Up Loans are available to businesses yet to launch or those that have been trading for up to 12 months, although in certain circumstances this may be extended to 24 months.

Every loan application is considered according to the needs of the individual business, with an average loan size of around £6,000 [per founder]. As such it operates at a level generally below that of the Funds but still as part of the continuum of SME funding.

4.8 Some Issues for Consideration

This section identifies a range of issues raised through the consultations and highlighted for consideration.

Application Process

The application process was unanimously described as overly complex and in many cases too long.

A thorough review of the process and the needs of each step should be undertaken and where possible this should be automated and placed online. Reference was made to the Start-Up Loan Fund and the BP loan fund as being examples of more automated and streamlined systems.

One particular issue which could be considered is the reported overemphasis on financial analysis. Reference was made to the crunching of numbers and ratio analysis being prioritised over fundamental business analysis. The question was asked as to what was the relevance of crunching ratio analysis when the validity of the underlying forecasts was not truly being tested.

Opportunity to develop and provide a quicker response to loan applications should also be undertaken as a priority with a view to having a "time indicator" as a key performance target in the future.

Bad Debt

The interviewees with the larger portfolios were content with the present arrangements whereby their own in-house legal departments are responsible for follow-up and recovery. Smaller councils with smaller loan books and therefore less experience may have more difficulty in effectively following up bad debt.

There would appear to be an opportunity for councils to share resources in order to increase efficiency and cut cost. Indeed it would appear that this already happens in some areas.

One specific issue to be considered relates to the "fine line" between a fully commercial approach and one that is able to reflect local circumstances and priorities – who/how is this determined?

We would suggest that there is no right answer and that decisions should be based on a joint discussions between the Fund Managers and the individual Authorities and that appropriate protocols will require to be developed and agreed.

Addressing long term Market Failure

One of the reasons that companies are likely to be turned down for mainstream banking funding is a lack of credit history.

The Scottish government European Structural and Investment Funds Ex Anti-Assessment of Financial Instruments, reported that Scottish SMEs face more difficulties as a result of credit history compared to the UK (15% of Scottish SMEs that applied versus 7% for the UK).

It is suggested that a specific policy of the fund should be to assist such companies in developing the credit history of an appropriate quality to then enable them to engage with mainstream banking. In effect the fund would encourage its clients to "graduate" to mainstream banking.

The fund should therefore engage with mainstream bankers to ascertain whether it would be possible to use a credit history developed within the fund as a mechanism of increasing the probability of the companies obtaining mainstream banking in the future.

The loans should be structured in a manner that helps to build confidence by the banks in a company's future ability to pay. This would include for example looking at the commercial nature of the terms of the loan including length of loan and interest rate. The fund client should also be encouraged to maintain the same level of discipline in terms of banking covenants ratios as would be expected by mainstream banker in order that they can demonstrate a history of having complied.

It may be that an appropriate key performance indicator for the fund would be a record of the number of clients that it has managed to graduate to mainstream banking. A further benefit of this would be to demonstrate to the mainstream Banks that the nature of the companies being reviewed are perhaps not as risky or difficult to deal with as presently perceived and represent a commercial opportunity for the private sector in the future, thereby potentially reducing the need for the public sector fund in the future.

Target Companies

A fundamental issue for consideration – is the new Fund general or targeted?

It is suggested that there should be very clear guidance as to the nature of companies that should be receiving support under the loan fund. Specifically this should not be seen as a funding of last resort or a fund for businesses in distress.

The fund should avoid a "substitution effect" where SMEs that would have exited the market in the absence of the public sector funding are artificially retained. Such funding both waste scarce public resources and distorts market selection process that harms the positive spillover effects of new business formation.

Rather it should be targeted at companies which have the capability or possibility of making a disproportionate positive impact on the Scottish economy. These will be growth orientated businesses and companies with significant prospects for export.

There are companies that are viable but are unable to access mainstream banking and other sources of funding not because of financial shortfall but other technical reasons, such as a lack of credit history or a lack of security acceptable to mainstream banking. The fund should also target high growth potential companies who for whatever reason do not wish to take third party equity investment where an appropriate level of risk and return can be obtained by the fund.

Appropriate guidance should be provided by the fund to the local delivery councils regarding the nature of companies that should be supported.

It is noted that some councils have a very broad range of companies, for example ranging from stonemasons to high-tech laser companies.

While economic development target should not override the fundamentals of a viable commercial loan decision it may be appropriate for some economic development criteria, in particular for example a minimum of national impact, or a minimum level of expected future growth, to be included as an additional hurdle to obtaining lending support.

Innovative, high growth orientated firms are likely to contribute a disproportionately higher amount of employment growth than traditional companies.

They are also likely to have high levels of productivity and efficiency, resulting overall in a disproportionately high contribution to economic growth. The should be the primary target companies for the loan fund going forward.

Highly innovative firms are by their nature likely to find access to funding more difficult than more traditional businesses. While innovative firms display a high demand for funding, they are less likely to receive it. One study found that 44% of innovative firms who tried to obtain finance found it difficult to do so compared to 33% of other firms. This is likely to be due to the perceived inherently riskier nature of innovative SMEs who are less likely to have a credit track record, are likely to lack tangible assets to use as collateral, and will be considered to be more risky simply because of their innovative nature.

The fund should ensure that it has the necessary skills in-house to properly assess the appropriateness of such innovative companies to receive loan funding. While it is desirable to maintain local decision-making wherever possible it may be that some form of central panel of specific expertise in relation to innovative firms would be appropriate to provide support when necessary.

Access to Finance Business Support

Generally, investor support interventions (in principle) are seen as key to successfully improving the skills within SMEs and in levering in new investment and should be seen as a demand side intervention to sit alongside the supply side ones.

A new national fund should not be introduced in isolation from the other necessary business support activities which will help to make it more effective.

As highlighted earlier, there is no consistent approach to access to finance support (pre and post investment) and it is left to individual LAs to determine their own approach.

The development of a new Fund together with that of a new Business Gateway model should provide the necessary impetus to review current practice and develop an approach that supports the new Scotland-wide Loan Fund.

A suitable resource allocation needs to be considered in terms of other business support services, including those necessary to make applicants “investor ready” and to support them post investment.

There may also be an opportunity to consider how, if at all, the fund should provide specific guidance regarding the level of additional support, over and above the provision of funding, that should be a condition of the provision of funding.

The provision of additional support in terms of management skills and broader advice is particularly relevant for SMEs who are embarking on innovation and commercialisation projects which may introduce them to risks they have not previously dealt with whether in terms of product or process development or their introduction to new markets.

Ensuring adequate additional advice support is available, and indeed making it a condition of the loan, will both increase the likelihood of loan repayment and perhaps more critically increase the leveraged effect of efficiently investing the new funds.

Fund Pricing

Lending through the fund should be provided on a fully commercial basis and decision-makers should be appropriately trained to make lending decisions on this basis. The fund should provide clear guidelines as the basis upon which lending will be provided and these should be applied consistently on a national basis.

An appropriate commercial interest rate should be charged. This interest rate should be structured to cover at a minimum the likely bad debts incurred by the fund and the cost of operating the fund together with an allowance for inflation in order to attempt to make the fund evergreen.

The interest rate charged should be appropriate for a viable growth orientated business going forward.

The interest rate should not subsidise an unviable business. While the fund's main objective should not be to maximise profit there should be an objective of sustainability over time.

"Sustainability" will need to be defined in the establishment of the fund "maintenance of capital, rate of return, return on capital, cost income ratio) and the time period to be taken to achieve it needs to be set out at the start.

It has been noted that the 6% interest rate charged by the East of Scotland is considered “high” by applicants. It is interesting to note however that the median value of SME facilities (new loans, new and renewed overdrafts) provided by the four major UK lenders, suggests an over-base interest rate of between 4.5% and 5% for smaller SMEs (the likely target market for a fund lending up to £100,000). Bearing in mind that the objective of the new fund is to fill a market gap considered too risky by mainstream banking at the present time, an apparent additional 1% does not seem at all unreasonable.

Fund Performance Measurement

There is always a temptation to measure the impact of a public sector fund primarily by the amount and volume of funding it has processed. The performance of the fund should however be more closely related to the overall objectives of the fund, namely economic impact.

The main focus should not be on the number and value of investments but on the return from that investments in terms of the number of jobs created, or other economic impacts. Fund performance measurement should relate primarily to outcomes achieved rather than the inputs of the fund itself.

This will require a level of data collection and future research to gather information at a company level on a consistent basis. Appropriate process and budget for this activity should be built into the funds business plan. The analysis should be constructed in a manner that attempts to distinguish the tangible progress attributed to the provision of funding by the fund from that which the SME would have generated without the funds support.

Working with Mainstream Banks

The fund should be encouraged at the central and local level to work as closely as possible with mainstream banking. The sources of funding should not be perceived by either party to be in competition with one another.

As suggested earlier the fund has the opportunity to work with the banks to move companies into mainstream banking having provided them with the opportunity to prove their viability and develop a credit history.

The opportunity should be taken to try and rebuild the relationship that previously existed where the banks were a prime source of the necessary match funding.

This would both increase the number of companies that were able to obtain necessary match funding and therefore access the fund, and also increase the likelihood that such companies would be able to graduate to mainstream banking as their primary source of future funding.

Effort should be made to change the perception of public sector loan funds as a "lender of last resort" to one where the public sector is seen to be acting in collaboration with the private sector to improve the access to finance for high growth potential viable businesses.

Cooperation with mainstream banking may also allow for opportunities in terms of spreading of best practice in relation to reducing the administrative burden of decision-making that appears to exist within the existing fund processes.

5. Beneficiary Survey

5.1 Introduction

This Chapter sets out the results of a survey of individual SMEs who have been supported by a loan from either WSLF or ESIF over the evaluation period.

It provides a detailed analysis of their responses to the qualitative and quantitative questions in the survey although it should be noted that Chapter 6 presents the economic impact assessment.

5.2 Sample Overview

Data on supported companies was provided by WSLF and filtering to remove those who had ceased trading and had more than one instance of support produced the following sample of **307** unique records who were available for contact:

- WSLF [231] and ESIF [76].

Due to the relatively small number of available contacts to target interviews a formal sample frame was not considered appropriate and the interviewers worked from the lists as available to complete the agreed quotas.

The beneficiary survey comprised the following:

- EKOS telephone interviews [21 completed];
- Research Resources telephone interviews [100 completed]; and
- on-line survey [27 completed]

On that basis we have completed 148 interviews and based on a confidence level of 95% the confidence interval is plus or minus 6% which is in line with good practice.

The interviews were all conducted with either owners or director-level staff.

5.3 Company Background Details

Loan Details

The companies interviewed sourced their loans as follows: WSLF [80%] and ESIF [20%} which is roughly in line with the overall respective Funds values.

The value of the loans were as follows with an average of £37,800:

- less than £20,000 – 16;
- £20,000 - £50,000 – 118; and
- over £50,000 – 9.

The most common loan amount was £50,000 (48 companies) which may reflect the nominal "local" ceiling level as opposed to actual reflective demand.

Although higher amounts are available from the funds these require additional special permissions and approval at board level. Some of the interviewees had indicated a reluctance to take on this additional layer of approval given their opinion that the process was already time-consuming and complex to get loans of up to £50,000.

Business Location

The location of the businesses interviewed is shown in Table 5.1. The data show that the highest representation was generally among those Authorities who had the largest investment "pot" – Glasgow, North Ayrshire and North and South Lanarkshire.

Table 5.1: Business Location

Local Authority	Number	Local Authority	Number
East Ayrshire	8	Angus	0
East Dunbartonshire	5	Dundee	2
East Renfrewshire	1	Edinburgh	7
Glasgow	30	Falkirk	2
Inverclyde	4	Fife	6
North Ayrshire	13	Mid Lothian	3
North Lanarkshire	18	Moray	2
Renfrewshire	8	Perth and Kinross	1
South Ayrshire	7	Stirling	1
South Lanarkshire	20	West Lothian	6
West Dunbartonshire	4		

Business Sector

The biggest sectors by representation were manufacturing, business and professional services, advanced engineering, food and drink and construction. Crucially, over half of the supported companies operate in the Government defined, key sectors and highlights the support which the Funds offer to priority targets.

Table 5.2: Business Sectors

Sector	Number	%
Advanced other engineering	9	9%
Business and professional services	10	10%
Construction	8	8%
Creative digital and ICT	6	6%
Education/ training	5	5%
Energy and environment	3	3%
Food and drink	7	7%
Health and care	4	4%
Leisure /tourism	2	2%
Manufacturing	24	24%
Wholesale	4	4%
Transport/logistics	4	4%
Other	19	14%

Legal Status

The legal status of the companies is highlighted in Table 5.3 overleaf. This shows that the vast majority of respondents were from private limited companies.

Table 5.3: Business Legal Status

Legal Status	Number
Private limited company	139
Partnership/Limited Liability Partnership	6
Sole Trader/Community Interest Company/Other	2

Trading History

The trading history of the respondents is detailed at Table 5.4. This shows that the majority have been in businesses for over five years with only 4 recent starts.

Table 5.4:Trading History

Trading History	Number
Start Up (less than 12 months)	4
Between 1 and 5 years	42
Over 5 years	102

Company Characteristics

The special characteristics of the interviewed companies is detailed at Table 5.5 below. This shows that 15% were classed as women owned but only 2 were owned by BME, with one each owned by a disabled person or social enterprise groups.

One company had two special characteristics in that it was owned by a woman who was also disabled.

The vast majority (84%) were white male owned businesses.

Table 5.5: Special Characteristics

Characteristics	Number
Women owned	22
BME owned	2
Owned by disabled person	1
Social enterprise	1
None of the above	82

This may be worth consideration in light of the Scottish Governments new Economic Strategy.

5.4 Pre-Loan Issues

Sources of Finance

Companies were asked about their awareness levels prior to seeking support and this is detailed in Table 5.6. In general companies were more aware of sources of private sector finance than that available from the public sector, with 83% of companies being aware to fully aware of private sector finance sources compared to only 72% for public sector sources.

Table 5.6 Awareness

Awareness Levels	Private Sector	Public Sector
Not at all aware	13	18
Very little awareness	12	23
Aware	22	33
Reasonably aware	34	27
Fully aware	66	46

Sources of Information

Companies used various and sometimes multiple sources to find information about finance options and these are detailed in Table 5.7. Of those responding, nearly 50% used Business Gateway with approximately 30% each using either their accountant and or bank for information. Of the *other* sources used, SE or Account Managed by SE was mentioned by 10% of companies.

Table 5.7 Sources of Information

Source	Number
Business Gateway	72
Accountant	45
Bank	43
Business advisor	24
Other	41
Other internet site	11

First Referral to the Fund

The business first found out about the Fund mainly by being referred by an external organisation. This is detailed below in Table 5.8. Not surprisingly, the largest number of referrals came from Business Gateway, followed by companies' accountants, then the Local Councils.

Table 5.8 Referred by

Source	Number
Business Gateway	53
Accountant	19
Local Council	10
Business networks/contacts	8
Bank or Building Society	4
Referred by another organisation	5
Other	5

Marketing of the Fund

The fund appeared to be relatively well marketed in that 51% of those responding advised that they were either satisfied or very satisfied with the marketing/publicity of the Fund, with only 30% being dissatisfied.

Fund Website

Applicants were asked about their experience of using the Fund website to obtain information prior to applying for funding. 78% of respondents who could remember using the website either found it very easy or easy to navigate, with the remaining 22% either finding it a little or very difficult.

This varied slightly between the two Funds (75% for WSLF and 88% for ESIF), so perhaps lessons can be learned.

5.5 Applying to the Funds

Online Application

An application for funding to WSLF can only be undertaken online, so applicants were asked about their experience of completing and submitting the application. Of those that recalled the experience or were responsible for the application, only 30% were able to undertake this task without any support, with 17% having to seek further clarification before completing and submitting the application.

The remaining 52% had to obtain support to complete the application.

It was muted by only one applicant that no consideration was taken into the technical ability (and age) of those applying to the fund and that although he had offered to send information by post, he was advised that the Fund would not accept information in this format.

Terms and Conditions and Information Requirements

Applicants were asked about the level of information on terms and conditions that was provided/available to them online.

81% were either very satisfied or satisfied with this, however only 54% were either very satisfied or satisfied with the level of information required to support the application, some advising that it was onerous, that a "one size fits all" approach was not appropriate and that company size and previous trading history should be taken into account.

Future Applications

56% and 9% respectively of all respondents advised that in the case of future applications to the Fund, they would definitely or may seek support in completing an application with 33% advising they would complete without assistance, with the remaining 1% being unsure. East of Scotland applicants were more likely to seek support, with a total of 75% advising they would definitely or may seek support. This is slightly surprising considering that these applications are in paper format rather than online.

In general, however the majority of applicants were either satisfied or very satisfied with the online application (WSLF) (62%) and the application (ESIF) (58%).

Provision of additional support/ advice may therefore be worth future consideration.

Support from LA Account Manager

There were very high levels of satisfaction with the Local Authority account manager's handling of applications (84% very satisfied/satisfied) and the support provided through the loan process (92% very satisfied/quite satisfied).

The main reason given for being dissatisfied was that the loan process took too long to complete. Other reasons muted were that there were internal changes/change of personnel within the Fund and this led to confusion/uncertainty, no one point of contact until the end of the process, changing goalposts, and the requirement for personal guarantees (which may be a possible miscommunication by the Fund?).

One applicant also stated that having applied in two different LA areas, that he found Glasgow to be very risk averse compared to South Ayrshire.

Application Approval Times

Only 60% of applicants advised that they were either very satisfied or satisfied about the length of time taken by the Fund to make a decision, which matches closely (61% overall) to those applicants responding that the application took between 0-3 months to be approved.

Approved times are detailed below in Table 5.9.

Table 5.9 Application Processing Time

No of Months	WSLF	ESIF
0-3 months	64%	48%
3-6 months	25%	33%
6-12 months	10%	19%
>12 months	2%	0%

From our sample, it appears that ESIF processing times are generally slower than those of WSLF.

5.6 Other Sources of Finance Considered

Companies were asked about other funding providers they had approached prior to applying to the Fund and these are detailed below in Table 5.10 below.

Table 5.10 Other Funding Providers

Funder[17]	WSLF	ESIF
Bank/Building Society Loan	52	18
Bank Overdraft	33	10
Venture Capital	3	0
Business Angel	9	1
Government Grant	18	2
Government Loan	3	0
Government Loan Guarantee	3	1
Friends and Family	9	3
Other	23	2

There were varying levels of success by the Funder approached and this is detailed in Table 5.11 below.

[17] Base 111 (multiple responses)

Table 5.11 Application Success – Other Funders

Funder	Successful	Unsuccessful
Bank/Building Society	41%	59%
Bank Overdraft	63%	37%
Venture Capital	100%	0%
Business Angel	86%	14%
Government Grant	89%	11%
Government Loan	100%	0%
Government Loan Guarantee	0%	100%
Friends and Family	100%	0%
Other	87%	13%

Approval rates by other funders approached between the two Fund operational areas were similar in all cases with the exception of:

- Bank/Building Society Loan - 46% successful / 54% unsuccessful for WSLF area, and 28% successful / 72% unsuccessful (ESIF); and

- Bank Overdraft (74% successful / 37% unsuccessful (WSLF), and 30% successful and 70% unsuccessful for ESIF).

This shows a significant East-West difference, and may indicate a greater unwillingness by the Banks to fund or give facilities to businesses based in the East.

Of those companies responding who were successful in obtaining alternative and/or complimentary funding, the amounts ranged from £5k to £2M,

The range and average amount approved by Fund area and source of funding is detailed overleaf in Table 5.12.

Table 5.12 Range and Average Amount Approved

Funder	Range	WSLF	Range	ESIF
Bank/Building Society	£8k-£900k	£77k[18]	£50k-90k	£69k
Bank Overdraft	£5k-£2M	£65k[19]	£5k-£75k	£40k
Venture Capital	£300k	£300k	N/A	N/A
Business Angel	£20k-£100k	£48k	£150k	£150k
Government Grant	£2k-£200k	£81k	£3k-£100k	£52k
Government Loan	£15k	£15k	N/A	N/A
Government Loan Guarantee	N/A	N/A	N/A	N/A
Friends and Family	£5k-£300k	£31k[20]	£5k-£150k	£117k
Other	£5K-£350K	£22k[21]	£38k-£846k	£442k

There does not appear to be any pattern regarding values of other sources of finance which were unsuccessful and which were all within the ranges above, with the exception of the following:

- Government Grant not approved of £250k.

Reasons for being unsuccessful are multiple and various. We have detailed responses in Table 5.13, together with *Other* reasons in the appendices.

Table 5.13 Reasons Other Funding Not Approved

Reasons Not Approved[22]	No
Did not have a track record of borrowing and repayment	12
Did not have enough business experience	2
Lacked Collateral	6
Had repayment problems in the past	1
Business proposition was deemed unviable	2
Other	27
No reason given by lender/investor	4

18 Three outliers removed of £400k, £570k and £900k
19 Three outliers removed of £350k, £500k and £2M
20 Two outliers removed of £200k and £300k
21 Three outliers removed of £100k, £115k, £350k
22 Multiple response

5.7 Total Project Costs

Total project costs varied significantly across projects from £5k to £2.3M, as did the combination of funding used for individual projects.

Total project costs of the sample were £25.5M. Of those companies who provided a breakdown, as can be seen in Table 5.14 below, the majority of funding came from *Other Private sector funding* (this includes bank loans/overdrafts) (41%) , followed by *Own business funds* (28%), then *WSLF/ESIF* Funds (22%), then *Other public sector* (10%).

Table 5.14 Funding breakdown

	Total	WSLF	ESIF
Own business funds	£7M	£5.4M	£1.6M
WSLF/ESIF FUNDS	£5.4M	£4.1M	£1.3M
Other public sector	£2.5M	£1.3M	£1.2M
Other private sector	£10.2M	£8.7M	£1.5M

Looking more closely at the figures above, it appears that the approval of *Other Public Sector* funding is spread evenly East-West, despite the sample being that much smaller for the ESIF area as opposed to the WSLF.

Within the WSLF operating area, the largest amount of project funding comes from *Other private sector* (45%), however this sector only accounts for about a quarter of the total ESIF project funding.

5.8 The Loan

Loan Purpose

Companies used the loan for various purposes, as detailed in Table 5.15 below. The majority of applicants used the loan for working capital, followed by company expansion, start-up and equipment purchase in both Fund operating areas.

Table 5.15 Purpose of Fund Loan

Loan Purpose[23]	No
Start-up	23
Property purchase/expansion	12
Property refurbishment	12
Equipment purchase/other capital costs	22
Company expansion	27
Working Capital	42
Maintain company on a steady state	3
Company Survival	4
Other	17

Loan Amount, Terms and Repayment

The majority of applicants within both operational areas were either very satisfied or satisfied with the amount of loan approved (80% WSLF/76% ESIF), but were less satisfied with the interest rate (50% WSLF/48% ESIF) and the repayment terms (62% WSLF/59% ESIF).[24]

Of those interviewed, 21% had already repaid their loans in full, with 76% being on track with the repayment schedule. Only 2% of the total were behind in their repayments, however if this was split by operational area, this equated to only 1% for WSLF and 7% for ESIF. In numbers terms, though this was not significant and only equated to 2 companies being behind. One company paid their loan earlier than scheduled.

Of those companies who are still repaying their loans (116 no), only one expects not to pay on time and in full (due to seasonality of the business and the Euro rate), and one stated that they would repay in full, but were unsure if it would be on time.

Please note: the survey sample did not included any companies who had defaulted or generated bad debt and as such the sample is heavily biased. We know there is an overall high bad debt rate at around 25%.

[23] Multiple Responses
[24] It is difficult to ever find anyone who is happy with their interest rate!

Customer Services

Customer services at the Funds scored less well than the LA advisor who was responsible for the pre-loan process, coming in at 62% and 66% (WSLF/ESIF).

However, this could reflect the interaction company has with the fund as opposed to the local authority adviser. It may be that the nature of the interaction, i.e. following up payment or demanding information post investment, puts the fund manager in a less attractive light than the very helpful local authority adviser who is getting than the money in the first place.

5.9 Other Support Provided

As well as providing application support, there was also other types of support available to the applicants from the LA advisor. Table 5.16 below details applicants' uptake of this support:

Table 5.16 Other Support Offered to Applicants

Service Provided[25]	WSLF	ESIF
Signposting to other business advice and support providers	37	12
Business planning advice	19	11
In-depth one-to-one business mentoring support	19	9
Advice on how to obtain finance from a bank/BS	4	1
Other	6	2
None	58	10

Considering the sample of 118 companies within the WSLF operating area, of significance is the number of applicants who were either not offered or did not take up the offer of additional and complementary support ie one in two, whereas in the ESIF operating area, this was only one in three.

Of those companies who did receive support, over 80% of these in both operational areas found the support provided by the LA advisor either very helpful or helpful.

[25] Multiple responses

Table 5.17 below details the other business advice and support providers to which companies were signposted, and which applicants remembered. The types of assistance received are detailed in the Appendix.

Companies who were signposted to other business advice and support providers were either very satisfied or satisfied with the support received (74%). No significant difference in satisfaction levels was evidenced between WSLF/ESIF operating areas.

Table 5.17 Other Support Providers

Organisation[26]	No
Business Gateway	23
Scottish Enterprise	13
Chamber of Commerce	4
Local Authority	4
SDI	2
Bank (unspecified), Cazbro Coaching, GO Group, GSK Scheme, Grant for Business, Purvis Accounting, Routes to Work, SDS, Scottish Co-investment Fund, Scottish Seed Fund, Steps into Work	1 mention each

5.10 Overall Support

When applicants were asked about all the support received from the Fund, they were in general satisfied, with 24% advising that their expectations had been exceeded, 69% advising that they had been met and 7% advising that the Fund had fell short of their expectations.

Table 5.18 Overall Support

Level of Expectation	Total	WSLF	ESIF
Exceeded	36	30	6
Met	102	82	20
Fell Short	10	7	3

[26] Multiple responses

When applicants were asked about all the support received from the Fund, they were in general satisfied, with 24% advising that their expectations had been exceeded, 69% advising that they had been met and 7% advising that the Fund had fell short of their expectations.

5.11 Suggested Fund Improvements

These are detailed in Appendix 1.

5.12 Key Outcomes

Positive Business Outcomes

When asked about business outcomes achieved as a direct result of the support received from the Fund, of those indicating that there had been an impact, a major impact was indicated by companies for the following:

- remaining in business 63%;
- expanding and growing 75%;
- entering new markets 69%;
- developing/diversifying new products/processes 70%;
- increasing productivity and output 66%;
- investment readiness 44%.

Table 5.20 Impacts on Business

Positive Contributions to	Major Impact	Minor Impact
Remaining in business	26	15
Expanding and growing	30	10
Entering new markets	20	9
Developing/diversifying new products/processes	21	9
Increasing productivity/output	21	11
Investment readiness	13	14
Other	4	0

The other major impacts included:

- reduced dependency on bank;
- element of security knowing that company is backed by Fund;
- opportunity to reinvest back into the business;
- the Fund helped company source new bulk manufacture and open new markets.

Positive Personal Outcomes

Survey respondents were also asked about personal outcomes achieved as a result of the support received from the Fund (either wholly or partly attributable to the Fund). The results are shown below in Table 5.20.

Table 5.20 Personal Impacts

Personal outcomes achieved[27]	WSLF	ESIF
Greater confidence in future growth/survival	88	24
Greater financial know-how	64	14
Greater understanding of public sector support available	74	16
Greater understanding of private sector support available	60	9

5.13 On-going Requirements for Funding

A total of 15 companies indicated that they have already sought further finance following their application to the Fund, with a further 79 advising that they plan to seek further finance. Forty-one companies have no plans to seek a loan, and 13 are unsure.

Of those responding to the likely levels of future finance required[28], the majority (48%) indicated that they would require loans >£100k, with a further 27% indicating that they would require between £25k-£50k.

27 Base 134
28 Base 86

Table 5.21 Loan Amount

Loan amount required	WSLF	ESIF
< £10k	2	0
£10k-£25k	6	0
£25k-£50k	21	2
£50k-£100k	11	3
> £100k	30	11

The likely sources of future finance are indicated in Table 5.22 below.

Table 5.22 Sources of Finance in the Future

Source	No
WSLF/ESIF	109
Bank/Building Society Loan	70
Bank overdraft	41
Venture Capital	26
Business Angel	19
Government Grant	54
Friends and Family	8
Other	7

The split between future applications to the Fund are 17 ESIF and 92 WSLF.

Individuals were asked about their experience of the Fund, and whether or not this had any impact on their skills, ability or confidence to secure future funding. Thirty-five percent indicated that there had been a major positive impact, with a further 34% indicating that there had been some impact.

31% indicated that their experience with the Fund had no impact and as such was non additional.

6. Economic Impact Assessment

6.1 Introduction

This section looks at the economic impacts generated through the project. It presents the technical Economic Impact Assessment (EIA) and reports the quantitative impacts that have resulted from supported beneficiaries to date and over the next three years.

The EIA is based on the feedback provided by 148 respondents to the online and telephone survey. In order to calculate the overall impact of the project, the survey sought beneficiaries' views on impacts created/safeguarded to date and expected in the future.

Please note that beneficiaries were asked to attribute impacts that have arisen as a direct result of loan funding made available through WSLF and ESIF.

Please note that turnover data gathered through the surveys was insufficient to base a robust impact assessment, therefore we have considered the economic impacts in terms of employment and Gross Value Added (GVA) only. In assessing GVA we have assumed a composite figure of 80% of Scottish average to reflect the nature of supported businesses.

6.2 Wider Economic Benefits

The survey collected data about general business performance which provides a wider economic context for the evaluation.

- the business are growing
  - employment at time of loan 2,365
  - employment in three years' time 4,160
- turnover profile
  - at time of loan £160 million
  - in three years' time £425 million
- employment profile
  - 70% local employment (within 5 miles)

    - 30% recruited from unemployed
    - 30% of employment young people (under 25)
- international profile
    - 45% of business sell outside Scotland
    - 25% of businesses sell outside UK

It can therefore be seen that the Fund has supported businesses which have generated some wider economic benefits.

6.3 Gross Attributable Impacts

The gross impacts generated through the Project are based on direct feedback from beneficiaries regarding the employment impacts created to date and what they estimate will be the future effects. Gross impacts are considered as Full Time Equivalent (FTE) jobs, and GVA.

The gross impacts reported by the beneficiaries are reported in **Table 6.1**.

Table 6.1 Gross Attributable Impacts of Project

	Jobs Created	Safeguarded
Employment	648	1,056
GVA (£'m)	26	42

Note: GVA rounded to nearest £0.1m

The data show that the interviewed businesses have created or safeguarded 1,700 jobs which has generated around £68 million of GVA.

6.4 Net Impacts

The net impact of the project is the difference between what would have happened anyway in the absence of the project (i.e. the reference case) and the benefits achieved by the project (i.e. the intervention case), adjusted for displacement, leakage, deadweight, and multiplier effects.

This is illustrated in **Figure 6.1** and **Table 6.2**.

Figure 6.1: Assessing Additionality

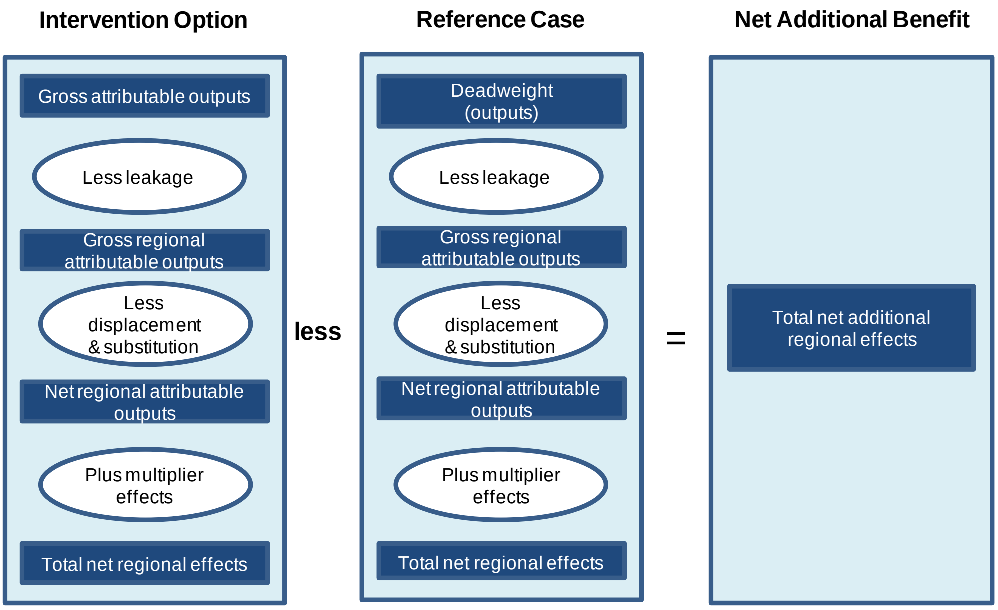

Table 7.2: Additionality Factors

The Intervention Option is the level of gross directly attributable outputs and outcomes generated through the intervention, i.e. impacts that would not have happened in the absence of the intervention.
The Reference Case is the level of forecast outputs and outcomes that would be secured if the individual business did not participate in the project.
Deadweight – The proportion of total outputs/outcomes that would have been secured anyway. This considers the counterfactual i.e. what would have happened in the absence of the support.
Leakage is the proportion of outputs that benefit those outside the projects geographical target area
Displacement is the number or proportion of outputs/outcomes that reduce outputs/outcomes elsewhere across the economy. These effects can occur in product markets (e.g. amongst non-assisted business competing in the same market) or in factor markets (e.g. in the labour market).
Multipliers are further economic activity (e.g. FTE jobs, expenditure or income) associated with additional income to those employed by the project (income multipliers); with local supplier purchases (supplier multipliers) and with longer term development effects (dynamic effects e.g. induced inward migration).

Table 6.2 Net Attributable Impacts of Project

	Created	Safeguarded
Employment	187	367
GVA (£'m)	7.5	14.7

Note: GVA rounded to nearest £0.1m

If we consider the overall additionality i.e. set the net impacts against the gross impacts, the net to gross impact ratio is 30% which implies 70% is non additional and is accounted for mainly through deadweight and displacement.

6.5 Overall Project Impacts

In order to calculate the overall impact of the Project it is necessary to 'gross up' the results to reflect the entire population that received support. We have based our grossing up figures on the outputs delivered as detailed in **Table 3.1.**

This shows a forecast of 486 businesses supported which provided a multiplier ratio of 3.25.

The grossed up economic impacts are reported in **Table 6.3**.

Table 6.3 **Grossed up Economic Impacts**

	Created	Safeguarded	Total
Employment	608	1,193	1,801
GVA (£'m)	24.4	47.8	72.2

Note: GVA rounded to nearest £0.1m

The data show that the businesses supported through the Funds have created or safeguarded 1,800 jobs which has generated around £72 million of GVA.

Impact Sensitivity

As highlighted above, the impact assessment data is based on direct feedback from a sample of beneficiaries. It is therefore important that we build in an element of sensitivity to our economic model to consider the wider range of economic impacts.

Based on the sample size set against the total population of supported businesses, we have used a confidence interval of 95% which generates a confidence level of +/- 6%.

This means that we can be 95% certain that if we surveyed the entire sample of businesses supported through the Funds, the responses would be the same as those received through the survey with a margin of error of +/- 6%.

Table 6.4: Sensitivity Analysis

Jobs Created		Jobs Safeguarded	
Low	High	Low	High
572	644	1,121	1,264
GVA Created		**GVA Safeguarded**	
Low	High	Low	High
23	25.8	45	47.8

Table 6.4 presents the sensitivity analysis which shows the likely range within which the impacts are likely to have occurred.

6.6 Value for Money

The value for money assessment is based on the cost per job and Return on Investment (RoI). Cost per job is calculated on the basis of the total programme costs divided by net job and RoI by the three year persistence GVA as a proportion of total programme costs.

There are however a number of issues for consideration in terms of both the numerator and the denominator.

- the costs of the Programme can be considered at both gross and net levels to reflect the repayments made to the Funds. In this instance we have assumed 25% bad debt and 5% management costs;
- the jobs can be seen as only new or include jobs safeguarded.

In order to present a full understanding, we have considered all options in our analysis which provides a robust assessment of the Fund performance.

Assessment 1: Full Programme Costs

- Cost per net job: £26,800 (new only)
- Cost per net job: £9,000 (including safeguarded)
- RoI 1: 4.5 (every £ invested generates £4.5)

Assessment 2: Net Cost Recovery

- Cost per net job: £8,000 (new only)
- Cost per net job: £2,700 (including safeguarded)
- RoI 1: 15 (every £ invested generates £15)

The data show some significant variations depending on the assumptions being used. The most “conservative” assessment shows a net cost per job of £26,800 and an RoI of 4.5, which while not great value for money is within the norm for such activities.

If however, the net costs are included, then the value for money is significant, which in itself underscores the need to secure long term sustainability in a future Fund – the more investment that is paid back the more that can be invested and the higher the future economic returns.

7. Conclusions

7.1 Introduction

This Chapter presents our overall conclusions of the evaluation and provides a review of each of the objectives set out in the brief.

It also identifies a number of issues for consideration in relation to a future LA-wide loan fund.

7.2 Evaluation Objectives

This section provides an overview of our assessment against each of the evaluation objectives:

- provide an overview of the debt finance market in Scotland:
  - net lending to SMEs continues to be negative with particular challenges for the very small businesses where credit conditions remain tight.
  - while there are some signs that banks are lending their approach is often seen as onerous in terms of requirements for security, loan terms and pricing.
  - the ex-ante assessment estimates that the proportion of "financially viable" SMEs that faced problems accessing bank financing is around 4,500 with an estimated financing gap of £470 million.
- assess market failure in the SME debt market in Scotland
  - the ex-ante assessment concluded that "there are market failures, which can lead to potentially viable businesses being unable to access the finance they require and providing the rationale for government intervention"
  - this can lead to potentially viable businesses not being able to access the finance they require based on collateral and track record, rather than the economic viability of the business/project

    - some businesses with viable business propositions that lack a track record or collateral are therefore prevented from raising the finance they require to grow
    - a key issue is that the majority of businesses would seek further loans from the Fund as opposed to seeking private sector funding which does suggest that there may be only limited progress in addressing market failure
- evaluate the economic impact of each fund at both a local and national level
    - the economic impact assessment shows that the businesses supported through the Funds have created or safeguarded 1,800 jobs which has generated around £72 million of GVA.
    - this is almost in line with forecast job creation figures in Chapter 3
    - private sector leverage is assessed at around £80 million which is above stated targets
- evaluate the impact of WSLF and ESIF finance on and service received by existing clients and those who have repaid their loans
    - generally, the Funds have had a range of positive impacts on the supported companies in terms of both business and personal benefits
    - almost all companies with outstanding loans are on course to fully pay of investments
- assess the effectiveness of WSLF and ESIF in terms of providing gap funding and allowing projects to proceed
    - 50% of companies reported that project would not proceed without support
    - there were very high levels of satisfaction with the Local Authority account manager's handling of applications (84% very satisfied/satisfied) and the support provided through the loan process (92% very satisfied/quite satisfied).
    - around 60% of businesses who had approached their banks had been refused support for a variety of reasons

7.3 Issues for Consideration

This section highlights some five key issues which have been identified through the research and which should be addressed in terms of the (developing) LA-wide Fund and which should ensure a more effective and efficient approach.

These are in addition to the issues set out in Chapter 4.

Sustainability

The first key issue is around the longer term sustainability of a new fund – an evergreen fund. This must be seen as an absolute priority as the number of times the Fund can be recycled will have a direct effect on its overall impact – the more sustainable to the Fund the greater the impacts.

There are a number of aspects to be considered that will directly affect sustainability, these are:

- levels of bad debt;
- interest rates;
- management costs; and
- other Fund income

This is largely a balancing act and will require some up front modelling as well as some consideration around income generation [this is discussed in more detail later].

The challenge will be to develop a model that is sustainable in the longer term by balancing the different aspects set out above. This should be a key early task.

A Commercial Model

There are a number of aspects that relate to the "commercial" nature of a future Fund, including the issue of income generation.

The issue of Fund pricing (interest rates) was considered earlier in the report. While ideally, there would be flexibility over interest rates with them fully reflecting the risk/ return nature of the individual loans, it is recognised that this is not practical within a future set up with 32 Local Authorities operating largely independently.

It would therefore seem appropriate to have a standard rate that all can sign-up to and which can generate sufficient interest payments to support the sustainability of the Fund.

Other areas where the Fund should consider charging, in line with practice from private sector funders could include: arrangement fees; and monitoring fees. In addition, there seems to be a strong case for a chargeable in-house legal service as discussed in the next section.

It is therefore recommended that a Future Fund review opportunities for income generation (or cost recovery) with a view to supporting long term sustainability.

Strategic Fit

The new Fund is seeking to obtain ERDF support from the new Scotland ERDF Programme. As such it will be important that it is able to fully reflect the policy framework and offer clear contribution to the strategic objectives.

In terms of the new Programme, we would highlight a strongly consistent policy framework with a clear direction of travel around **higher value growth** achieved through innovation, internationalisation and productivity improvement.

There is a strong and consistent policy focus around:

- business growth and competitiveness;
- innovation, internationalisation and productivity;
- key sectors;
- companies of scale;
- high value jobs;
- supporting economic and business infrastructure ;
- skills and workforce development; and
- low carbon/renewables

It will be important that any new Fund is able to show how it will address these priorities and not simply “leave to chance”. This should also include reflecting on how best to integrate with the Business Gateway service.

Operational Issues

While the response from both stakeholders and investee companies was largely positive, the one issue that was raised as requiring to be addressed was the time taken from application to issue of cheque.

The main factor impacting upon this appears to be related to legal paper work which in some cases can cause the application to be drawn out over many months. This should be seen as totally unacceptable.

A potential solution would be that the Fund has its own direct or indirect legal team funded by a charge made on individual loans (circa £300). This should be able to speed up the process and ensure greater consistency across the Country.

Other operational issues for consideration should include:

- reviewing the current operational protocols and agreeing a common and consistent approach across all Authorities;
- development of new memorandum of understanding between LAs and the new Fund around roles and responsibilities and operating and reporting practices;
- consideration of training for (particularly new) LA or Business Gateway staff who deal with or advise on loan applications;
- review provision of investment readiness support and aftercare in conjunction with the LAs and Business Gateway;
- marketing the programme on a consistent and national basis as part of wider environment with perhaps a marketing function based in the new Fund.

One particular challenge will be to support those new to the Fund to get up and running and address operational issues.

A Funding Network

It is important to recognise that the new Fund will not exist in isolation but be part of a wider Funding architecture which will include:

- the main clearing banks;
- Scottish Investment Bank;
- business angels and related;
- other Funds being developed in the new ERDF Programme;
- public sector funders such as Green Bank; SULCO etc;
- new peer to peer funding sources;

It will be crucial that there is a joined up approach taken across these organisations with the focus on the needs of the SME.

We strongly recommend that the new Fund develop an approach to working with and engaging across the wider access to finance market for example, possible secondments, memorandum of understanding, syndication opportunities etc.

The key issue is that taken as a whole, there should be no shortage in or availability of finance to support SMEs – the key issue is to make the best of what is available in the supply side to map against the demand side.

Appendix 1: Other Comments

For small businesses there's too much jumping through accounting hoops to satisfy accountants.

Making companies more aware of the funding that's available.

The support from our Account Manager was very good and his advice was also very good but the timescale to actually receive the funding was very long.

I would use the fund again as it was very straightforward although the interest rate was higher than the banks.

We are a growing, cash hungry business and any government/public support is greatly appreciated.

I was very impressed. It was a pretty smooth process.

I hope they give to businesses who have already started and need further investment to build the company rather than just start-ups.

There should be more on offer for businesses that require support.

The fund is good. I do need help again and will try WSLF first.

More awareness of support. Not well known unless you are signposted to it.

Do more to promote the fund and make the public aware of it (found out through accountant).

It all went well. It progressed quickly and efficiently and Gary who dealt with it went above and beyond for us.

We need to buy a building so it could be a large loan we need for that. With the business expanding we need bigger premises.

When we started we thought we needed a business address for funding and start-up funding but now I have heard we didn't need it. I believe we could have got funding for the rent. We didn't know that either. Maybe make more information available to start-up businesses so they will know these things.

It's 5 years since I applied and got this loan so it's quite far back to remember anything.

There has to be a better understanding from West of Scotland Loan Fund as to the needs of the business. West of Scotland Loan Fund didn't have that understanding. We needed short term cash flow funding and they just didn't help. We have had to have a lawyer dealing with this for 2 years now and I dread to think what the costs will be for us.

I expect to have my fund cleared by March 2016 and may look into another loan through West of Scotland Loan Fund.

West of Scotland Loan Fund helps small businesses like mine. It is a good thing that it is government funded as banks don't give you money easily. They are not accessible to small businesses.

I would like more information on funding types that are available.

I would just like to thank them for everything.

The fund is a great product. The gap it plugs is really important for small growing businesses.

Need to do more to promote the fund that is available for start-up.

I understand why there was so much information needed from us but it was a mountain of work for us to get this.

Their portal on the website needs to be sorted out. It's great to have the fund available.

I was very impressed with it. It was a pleasant, seamless experience. It's very good for filling a void left by banks.

Continue to support small businesses.

I think it should be marketed more as not a lot of people are aware of the fund. There is also the issue of people perceiving lots of paperwork attached to it, which they don't have time for.

They should stop talking amongst themselves about where the money is going. They have no experience of running a business. They should be having discussions with business people who know about this.

I couldn't have achieved what I have without this funding. It was a management buyout so I could never have done that without WSLF.

The security you need to get a start-up loan is difficult, as no-one wants to put up their home as security.

I think there should be a central database that lists funding available to small businesses. It's very difficult and time consuming to find information.

Only that it is a great fund to have available and for SME's and small businesses.

It has been a great help to us. We wouldn't be in the position we are now without this funding.

The impact it's had on us has been very positive and it's to draw attention to that. To the individual business it's been very positive.

WSLF really helped us with our cash flow - BG haven't helped us/touched base since we've grown - we've created some very highly skilled staff and recruited high-level employees but don't receive support anymore - this is disappointing but is more of a comment on BG than the WSLF.

The reluctance of the banks to lend is very important. Consideration should be given to increasing the amount of the loans available without putting the public purse at risk, perhaps up to £200k.

Look at the growth of the company.

Accessing bank finance was very difficult and was not forthcoming.

Access to finance for SMEs has become harder. Our track record now makes a huge difference - the difficult climate has sorted out companies capable of growing and has taught businesses to manage finances more carefully. Public sector can get good returns by playing a role in access to finance. Find start-ups get a lot of help, and key sectors, but often difficult to persuade them to support 'boring' manufacturing.

Wasn't aware it was possible to go back to WoSLF for further finance. Would like follow on for working capital as the major investment has used up reserves. WoSLF did a review with company recently and this was raised but they didn't offer further support. Sometimes banks play games and it is useful to have public funds like WoSLF to counter them.

Have heard business people say this is difficult to access - don't know how well publicised. We were helped by being pre-screened by SE - if didn't have that backing might be more difficult.

Be more competitive with rates. Quicker decision making - give advisors more autonomy.

Generally WoSLF stands out as being very supportive of companies. Council has also been very supportive.

More consistency of approach across LA areas. Experience was very different in Glasgow and Ayrshire.

Heartfelt thanks to WoSLF, they do a fantastic job. We dealt with them at a difficult period when restructuring finance for company and they helped us to get the company on a secure footing.

Great fund - under-utilised. We offered to make some publicity but our offer wasn't taken up.

Had been round 7-8 banks and UK steel and hadn't been able to accept their terms - WoSLF provided a lifeline when we really needed working capital.

I am finding that Scotland is still buoyant and is still, in my de tor of care, growing

Our business is complex and the security was always going to be complicated, this costs too much to pull together and had an impact on the benefits of the loan, nevertheless it was a positive experience in the end.

Appreciate being left alone to proceed with loan rather than being pestered about it.

We have recently borrowed money from Scottish Loan Fund for acquisition of a company which has been hugely successful and which has led to jobs growth in Scotland.

Appendix 2: Suggested Improvements to the Fund

Make loan rates more flexible. Periodic reviews of improved value.

It was all very good, just speed up the length of time to process the loan.

More marketing should be done. Businesses don't know about this.

Timescale should be reduced.

Someone who used to be with WSLF left after telling me to go ahead and buy stuff because the funding was available. Turned out that it wasn't. Make sure funding is available before telling businesses to go ahead with purchases.

The fund should be marketed better and people should be made aware of it.

Let people know it's out there.

More marketing.

It needs more marketing, people are not aware of it.

The decision making process could be a bit quicker.

Make the application easier.

Information should be more easily accessible.

More marketing. Not a lot of people know about it.

Greater transparency. More awareness of support.

Provide greater amounts of money.

Make the application process easier and quicker. It took 12 months to get £10,000 from WSLF but only 4 weeks from initial call to money in my account from the bank. More transparent information on process and timescales.

Make it an easier and quicker process.

Just look into cutting down the process. Paper work.

More face to face contact to discuss funding and viability of new business ventures.

I found the application process very difficult and without support we may have given up on the fund. I would need help again unless it was somehow simplified.

There is a vital funding gap in the market for small businesses. I think the fund should be marketed more. There should be more awareness of it. I think they should keep it going.

Again the only area is the personal liability. It is pretty onerous but the fund definitely saved us.

Lower the interest rate for start-up businesses.

They need to engage more with organisations such as "Entrepreneurial Spark". Business Gateway advisors should have a tool kit for start-ups and SMEs and West of Scotland Loan Fund should be in that tool kit. e.g. Leaflets with sources of help should be handed out to businesses.

Simplify the application process. Reduce the amount of information required.

Make it less tiresome in terms of paperwork required.

Speed up the process.

More publicity about the loan fund itself.

It would make it easier if financial accounting information required was simplified. It's very difficult for layperson to understand. I had to employ someone with financial know-how to do this for me. It would be good to have some sort of online progress chart, so that people know what stage their application is at.

More marketing. It's great for businesses but they don't seem to know about it.

Think more about the customer. In this day and age, and with the technology we have, the process should not be so long. I was told it would take about 2 months when in fact it was nearer 9 months.

Small businesses need a lot of support no matter what their business is. I think they should open the business funding support to more sectors. It should be based on the size of business more than what they do.

Speed up the process; it has an effect on cash flow.

Better marketing to let people know about it.

I found it difficult with fitting into the criteria so be bigger and have better flexibility with criteria.

Simplify the process. It's very paper heavy. It focuses more on security and risk rather than business plans.

I think they should publicise more. It's very valuable to small businesses considering how banks treat them.

AS mentioned before, need to make more people aware of the Fund - not just those who work in the financial sector

Better communication between WSLF and applicants - given the types of businesses they're trying to attract, many must be put off by the whole application process.

Hands-on support from the BG advisor (Robert) was invaluable - couldn't have got through this process without him.

Make decisions quicker. Take a more sensible line re due diligence - make less onerous. Small companies' management time is important. This took weeks of his time.

Reactivity - not very nimble - ponderous process.

Increase size of funding available. The fund should build relationships with the banks/twist arm of banks to match fund/leverage money.

The Fund is adequate and serves its purpose. There is a rumour that it may become Scotland wide - important not to lose personal touch, with people closer to Directors than the money markets.

Finding match funding for micro and/or small businesses in very difficult - suggests increasing limits to 85% funded by Fund with 15% from applicant up to £100k. Continuing to support micro/small business at an early stage is very important as otherwise opportunity to innovate will be lost.

Increase ceiling to £250,000

Let the decision making be quick and not be hindered by the legal system who hold up hard working advisors

Other than having some flexibility for delivery of certain information such as registration and certificates that are not immediately made available

Speed of completion would be helpful, especially when delay affects cash flow and therefore the stability of the

Make loan cost variable so can go down and up.   Take more of a risk and don't constrain start-ups to 2 year refund periods.

The process takes too long for companies between the online application to receiving the funds. Anything that could be done to quicken up this process would be beneficial to companies in the future.

Quicker payment as the expansions plans which we quickly employed causes financial stress as the payment took longer than expected o be aid.