ACCESS TO FINANCE UPDATE

SEPTEMBER 2015

Contents

Executive Summary

Introduction (Chapter 1)

The EAG undertook a review of Access to Finance in March 2013, which had been extensively raised as a key issue facing local businesses at the time. The purpose of this report is to provide an update on the current situation around access to finance for SMEs in Northern Ireland. It considers progress against each of the 13 recommendations made in the EAG Report, along with a broader review of new evidence available in relation to both bank finance and other types of finance for early stage and growth businesses.

Implementing the EAG Access to Finance Recommendations (Chapter 2)

The EAG access to finance recommendations have been taken forward by government alongside two main organisations – an Access to Finance Implementation Panel and a Joint Ministerial Taskforce on Banking and Finance – which were both set up following the publication of the 2013 EAG Report. The Group is pleased to report that, compared with March 2013, there is now:

- A range of training and support programmes in place for local banking staff considering applications from SMEs;
- Greater use of the appeals process by local SMEs;
- Agreed proposals for an NI Banking Committee to represent the local banking sector;
- Detailed BBA lending data for Northern Ireland;
- Financial advice being provided to SMEs from banks and business bodies;
- Activities to promote national incentives in Northern Ireland, and greater uptake of these supports to boost lending to local SMEs;
- A roadmap for the development of early stage and growth finance in Northern Ireland;
- Greater oversight and planning of Invest NI's access to finance interventions; and
- Additional early stage funding available from Invest NI.

Despite the progress made, there are a couple of issues that have not been resolved. Firstly, a re-established NI Banking Committee, which would represent the local sector and fully complete a number of the recommendations, is not yet up and running, albeit proposals do appear to be at an advanced stage. Secondly, despite significant efforts to introduce a scheme to address the property debt overhang issue, an intervention was ultimately not put in place when the issue was at its peak.

Bank Finance (Chapter 3)

An update of the previous Access to Finance Survey has been carried out by DETI Analytical Services Unit to help inform this report. The results would suggest that, in the main, businesses are in much better shape financially than even a couple of years ago and that bank lending has largely returned to its pre-downturn level, with almost all viable businesses who seek finance able to access it.

The new BBA data on bank lending supports the findings of the survey. Approval rates are running at very high levels and much more lending is now being given to local SMEs than at any point over the past five or so years. However, there are still signs that businesses believe access to finance is an issue and more support could be provided by government.

Early Stage and Growth Finance (Chapter 4)

In response to one of the EAG recommendations, research has been carried out by SQW Ltd for DETI looking at the long term development of early stage and growth finance in Northern Ireland. This type of finance is very important for high growth potential businesses which are unlikely to be able to secure traditional bank loans.

The research finds that the Northern Ireland market for early stage and growth finance remains relatively small and faces a number of considerable challenges. However, there have been recognised improvements in the availability and supply of finance, largely driven by public intervention, and there is considerable optimism amongst stakeholders about the future development of the market so long as Northern Ireland is ambitious in taking this forward.

Addressing the issues identified in the local market is a long-term game and needs to be tied into the development of the wider entrepreneurship and innovation ecosystem. The SQW report outlines a number of recommendations and actions which can help to further develop the availability of early stage and growth finance locally.

Way Forward (Chapter 5)

Whilst the availability of finance for SMEs is now clearly in a much better position than it has been for some time, there are still some areas outstanding where further activity is needed. The EAG therefore makes four recommendations:

Recommendation 1: The local banking sector and the Implementation Panel should work to implement the proposal for an NI Banking Committee as soon as is possible.

Recommendation 2: Government should continue to monitor whether property debt is limiting the ability of viable businesses to access finance and consider intervention if deemed necessary.

Recommendation 3: With the Implementation Panel preparing their final report, and the issues that the Joint Ministerial Taskforce were set up to look at now appearing to be largely addressed, DETI and DFP should maintain ongoing engagement with banks, businesses and the UK government to monitor the finance situation and ensure any particular issues are identified and acted upon. In addition it would seem appropriate to repeat the Access to Finance Survey after, perhaps, a two or three year interval.

Recommendation 4: DETI should develop and implement an action plan, involving other key stakeholders such as Invest NI, the NI Science Park and InterTradeIreland, to take forward the SQW recommendations in relation to early stage and growth finance. This needs to be acknowledged as a priority within the department and appropriate resources devoted to it to ensure that actions deliver the results with the ambition that the SQW report outlines.

1. Context

1.1 Background

The Economic Advisory Group (EAG) was established in 2010 to provide independent economic advice on the Northern Ireland economy to the Minister of the Department of Enterprise, Trade and Investment (DETI). It is Chaired by Ellvena Graham, former Head of Ulster Bank in Northern Ireland and Managing Director of SME Banking across the Island of Ireland, and has a further nine members drawn from business and academia[1].

The EAG undertook a review of Access to Finance (referred to hereafter as "the EAG Report") which was published in March 2013[2]. At the time, access to finance had been extensively raised as a key issue facing local businesses. The purpose of the review was to consider the availability of finance to Small and Medium Enterprises (SMEs) in Northern Ireland (NI) and establish what support was available, the level of uptake of this and potential reasons for any deficiencies in the market.

The final report identified issues relating to both the demand for and supply of finance in Northern Ireland. It identified structural market failures affecting the supply of debt finance to SMEs, mainly relating to information failures which had been exacerbated by the uncertain economic conditions at the time. Particular issues raised were:

- **SMEs** did not fully understand the potential benefits of raising finance, were not fully aware of the products available and lacked the skills to present themselves as investable opportunities. There was a perception amongst businesses that the market was failing despite the best efforts of banks to advertise their willingness to lend;
- **Banks** were moving from a property-based lending approach to one based on the ability of businesses to generate returns. The cost of borrowing had risen as banks sought to rebuild their balance sheet and improve liquidity, with businesses struggling to adapt to this new approach;
- The **property debt overhang** was leading to viable trading businesses with property exposure struggling to raise finance; and
- There was an under supply of **early-stage growth finance** in non-traditional finance types such as equity and venture capital to young, high-growth potential businesses.

The review included a total of 13 recommendations, aimed at banks, business organisations and government, which were intended to improve the finance situation for local SMEs. Progress against each of these recommendations is considered in Chapter 2.

1.2 Types of Finance

The EAG Report mainly focussed on traditional bank lending, although some reference was made to other types of finance such for early-stage growth businesses. Whilst both of these types of finance are covered under the broad "access to finance" heading, in reality they are different by nature and need to be considered as such. A brief synopsis of differences between the two types of finance are considered in Table 1 below.

[1] See http://eagni.com/members/ for more information

[2] http://eagni.com/wp-content/uploads/2015/06/Review-of-access-to-finance-for-Northern-Ireland-Businesses-2013.pdf

Table 1: Differences between Bank Finance and Early Stage & Growth Finance

	Bank Finance	Early Stage & Growth Finance
Risk	Typically lower risk to businesses in established markets	Much higher risk to younger businesses in new and emerging markets with the expectation that many will fail
Criteria	Based on the ability of the business to repay	About "picking a winner" and identifying growth opportunities
Type	Traditional loans	Loans alongside non-traditional finance such as equity, angel investments, mezzanine etc
Demands	Owner retains control of the business	Owners often have to dilute control of their businesses and give up shares to investors

Bank finance is clearly going to be the most appropriate type of finance for most local SMEs and issues in the banking system can have wide-reaching economic consequences as a result. Early stage & growth finance is only appropriate for a small number of businesses, but these are the businesses with the highest growth potential that will struggle to raise finance from banks. This type of finance is closely related to the knowledge economy, which is shown to directly support almost 36,000 jobs in the economy and offers much higher wages and productivity than the local economy as a whole[3]. This report will aim to cover both bank finance (in Chapter 3) and early stage & growth finance (in Chapter 4) to provide a more complete picture of the current access to finance situation.

1.3 Relevant Organisations

Compared to when the EAG Report was first published, there are now a greater number of groups and organisations with a direct interest in Northern Ireland access to finance issues. Setting aside existing government organisations and the banks themselves, these include:

- The **Access to Finance Implementation Panel** was set up in response to the EAG Report to progress the finance issues raised in the report. The Implementation Panel is Chaired by Professor Russel Griggs OBE, Independent Reviewer of the Banking Appeals Taskforce and is supported by a secretariat from the DFP. Further details can be found in **Annex A**;
- The **Joint Ministerial Taskforce on Banking and Access to Finance** was established as part of the Economic Pact and met for the first time in October 2013[4]. Its overall aim is to examine whether tailored support is required for local banks and how to maximise access to finance opportunities for local businesses (see **Annex B** for further details). It is Chaired by the Secretary of State for Northern Ireland and is made up of Ministers from both the UK Government and NI Executive;
- The **British Business Bank (BBB)** is an economic development bank established by the UK Government in November 2014[5]. Its aim is to increase the supply of credit to SMEs as well as providing business advice services. It does not lend directly itself, but rather works with a range of partners to increase access to finance. This is a national organisation but a number of its initiatives are available in Northern Ireland;

[3] http://nispconnect.org/ni-knowledge-economy-confirmed-as-second-fastest-growing-in-uk-but-fast-growth-is-showing-signs-of-slowing/
[4] https://www.gov.uk/government/news/ministerial-task-force-on-banking-and-finance-meets-for-first-time
[5] http://british-business-bank.co.uk/

- The **British Bankers' Association (BBA)** is the leading trade association for the UK banking sector[6]. It not only provides services for its members (such as training and events) but leads on facilitating stakeholder discussions about strategic issues in the banking sector. There is a BBA Northern Ireland sub-committee, but it has had a very limited role to date;
- The **Northern Ireland Banking Committee** is a proposed new committee which would bring together the local banking sector and facilitate broader discussions between stakeholders on key issues. This would effectively replace the Northern Ireland sub-committee of the BBA and ensure appropriate representation was in place for the local banking sector. It has not yet been established; and
- **Better Business Finance** was set up by Barclays, HSBC, RBS, Lloyds and Santander in 2011 and is managed by the BBA in collaboration with its business and finance partners[7]. It provides a source of information on support available to businesses and entrepreneurs looking to develop and grow.

1.4 Economic Context

This access to finance update takes place at a time when the economy is in a much stronger position than it has been for some time. Table 2 highlights that UK economic growth, as measured by Gross Domestic Product (GDP), has been strong in recent years. Despite a slowdown in 2012, growth in GDP picked up in 2013 and, in particular, in 2014 with growth of 3.0%, the highest annual rate since 2006. The outlook for the UK economy is positive, with the IMF[8] forecasting that the UK economy will grow by 2.4% in 2015 and 2.2% in 2016.

Table 2: UK & NI Annual Growth Rates

	2007	2008	2009	2010	2011	2012	2013	2014
UK	2.6%	-0.3%	-4.3%	1.9%	1.6%	0.7%	1.7%	3.0%
NI	0.7%	-2.1%	-3.4%	-1.7%	-1.9%	-1.4%	0.1%	1.1%

Source: ONS Preliminary Estimate of GDP and NISRA NI Composite Economic Index

As shown in Figure 1, the local economy began contracting at the start of 2007 and reached its low point in Q4 2012, just before the previous EAG Report was published. Since then, the economy has grown by a total of 3.6%, with much of this coming since the beginning of 2014. It is also evident, however, that the pace of the local recovery has not matched elsewhere.

The economic recovery in Northern Ireland is more evident when looking at indicators other than output. For example, there have been an additional 27,700 employee jobs since March 2012[9], alongside a reduction in the number of unemployment benefit claimants of 21,200 since February 2013[10]. The latest unemployment rate of 6.5% is also now significantly below the ROI (9.8%) and EU28 averages (9.6%)[11].

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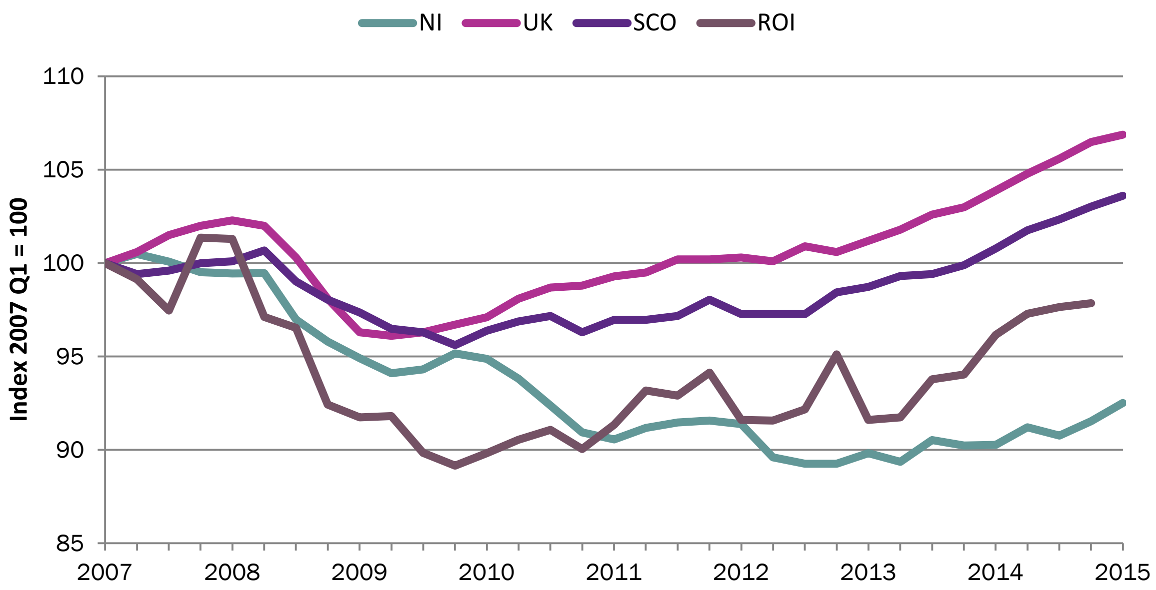
[6] https://www.bba.org.uk/
[7] http://www.betterbusinessfinance.co.uk/
[8] http://www.imf.org/external/pubs/ft/weo/2015/update/02/pdf/0715.pdf
[9] Source: NISRA Quarterly Employment Survey
[10] Source: NISRA Claimant Count Statistics
[11] Source: NISRA Labour Force Survey

This positive performance of the wider economy is happening alongside a strengthening in the balance sheets of local banks who have been returning to profitability in 2014 and 2015. Focussing on the four major local banks, positive financial returns have recently been posted for Ulster Bank[12], Danske Bank[13], Bank of Ireland[14] and AIB (the parent company of First Trust)[15].

Figure 1: Comparison of NI Economic Activity with GDP Measures



Source: NISRA NI Composite Economic Index

1.5 Purpose of this Report

The overall aim of this report is to provide an update on the current situation around access to finance for SMEs in Northern Ireland. A comprehensive review of initiatives in place to improve the access to finance situation for SMEs has already been carried out both in the EAG Report and the InterTradeIreland Access to Finance Report in December 2013[16] and will not be replicated here.

This report is structured as follows:

- **Chapter 2** will provide an update on progress against the EAG recommendations;
- **Chapter 3** will assess new information on both the demand and supply of bank finance;
- **Chapter 4** will focus on the development of early stage and growth finance; and
- **Chapter 5** will summarise the overall findings and outline a way forward.

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12 http://group.ulsterbank.com/media/press-releases/northern-ireland/2015/30-07-15.ashx

13 http://www.danskebank.co.uk/en-gb/About-the-bank/Media-and-Press/Press-releases/2015/Pages/Financial-results-for-6-months-to-end-June-2015.aspx

14 https://www.bankofireland.com/fs/doc/wysiwyg/boi-interim-report-2015.pdf

15 http://group.aib.ie/content/dam/aib/group/Docs/Press%20Releases/2015/aib-announces-2015-half-yearly-financial-results.pdf

16 http://www.intertradeireland.com/media/AccesstoFinancereportFINAL10.01.14.pdf

2. Implementation of the EAG Access to Finance Recommendations

2.1 Introduction

Following the publication of the EAG Review, responsibility for delivering the recommendations was passed on to DETI and the Department of Finance and Personnel (DFP). The EAG has not been involved first-hand in the delivery of the recommendations, and this update on progress has been informed by reviewing material from and consulting with DETI, DFP, Invest NI and the Northern Ireland Office (NIO).

This chapter not only considers whether the recommendations have been actioned, reviewing each recommendation as either achieved (green), partly achieved (amber) or not yet achieved (red), but also looks at what extent there is evidence that they are having some sort of demonstrable impact against the original purpose of the recommendation.

2.2 Access to Finance Implementation Panel

	Recommendation	Status
1.	We recommend that an independent implementation panel should be appointed by government to take forward the recommendations listed in this report. We suggest that this would involve a small group of experienced individuals tasked with facilitating action.	● (green)

The EAG made one overarching recommendation which it believed to be a priority action and one that was important in driving forward the implementation of the recommendations. An independent Access to Finance Implementation Panel (hereafter referred to as "the Panel") was subsequently established in October 2013 to oversee implementation of the recommendations[17].

We understand that, at an early stage, the Panel took a decision to focus its efforts on the EAG banking recommendations, although it continues to monitor progress against the others as well. Since its inception, it has consulted with senior management of local banks, representatives for the Northern Ireland business community and government officials to gather evidence on access to finance issues and to test ideas and solutions[18]. There has been one output of the Panel to date – an interim report submitted to the DETI and DFP Ministers in June 2014 – and it is currently working to produce a Final Report in Autumn 2015.

The EAG welcomes the establishment of the Access to Finance Implementation Panel. It will be important to see the Final Report of the Panel which is currently being developed to understand if it deems there to be ongoing issues that still need to be resolved.

[17] http://www.northernireland.gov.uk/news-dfp-311013-hamilton-and-foster

[18] The Panel met with Danske Bank (13/1/14), Ulster Bank (7/2/14), Bank of Ireland (11/4/14), Barclays (16/5/14) and First Trust (31/7/14) as part of its initial evidence gathering phase. Further roundtable meetings with all five local banks were held on 6/10/14 and 9/2/15 to discuss the formation of the NI Banking Committee. The Panel held a roundtable meeting with business bodies on 7/2/14 and also met with the Chartered Accountants Ireland (Ulster Society) on 2/4/2015 to discuss what role they might play in assisting the NI Banking Committee with the educational piece. The Chair of the Implementation Panel met the EAG Chair on 2/7/2015.

2.3 Recommendations for Banks

	Recommendation	Status
2.	We recommend that banks review the level of training provided to staff dealing with applications for business finance. This should include the development of a more detailed understanding of the financing needs of businesses on a sectoral basis.	●

The EAG raised issues around the need to build greater business knowledge and understanding amongst banks, particularly around risk assessment and cash flow requirements. The Panel has met with the four main local banks to review the level of training provided to bank staff dealing with applications for business finance.

The Panel found that all four local banks appeared to have training programmes in place, including a mix of formal and/or informal training, in some cases accredited by organisations such as the Institute of Financial Services (IoFS) and Institute of Banking (IoB). The banks also agreed to look at several areas for improvement as part of the work of the proposed NI Banking Committee to develop and strengthen training on generic issues.

In addition, the IoB now operates a total of 27 programmes in Northern Ireland ranging from foundation certificates through to postgraduate qualifications and covering a broad range of areas[19]. Particularly relevant for business applications is an SME Credit Qualification on offer and a newly introduced Professional Certificate in Personal and Business Credit accredited by University College Dublin (UCD). Information was requested from the IoB with regards uptake of these programmes but was not forthcoming in time for this review.

The EAG welcomes the commitment of local banks to training and development of its staff and, in particular, the introduction of the Professional Certificate in Personal and Business Credit. There now appears to be a wider range of training in place for banking staff, although ideally evidence should be gathered on the uptake of IoB programmes and feedback sought from businesses on whether they feel that the knowledge and understanding of banks has improved. It is noted that the development of further training is linked to the proposed NI Banking Committee which is not yet in place.

	Recommendation	Status
3.	We recommend that banks should work with the Independent Reviewer for the UK Banking Appeals Taskforce to strengthen and publicise the credit appeals process in Northern Ireland. Business organisations should also play a role in publicising the process.	●

The Independent Reviewer, responsible for dealing with systems for appeals by businesses whose loan applications had been declined by UK banks, reported to the EAG in 2013 that unsuccessful SME applicants in Northern Ireland made very limited use of the appeals processes compared with other UK regions.

Professor Griggs is both the Chair of the Implementation Panel and the Independent Reviewer for the UK Banking Appeals Taskforce, meaning he has been directly involved in delivering against this recommendation in both roles. Initial meetings with the four main local banks found that they appeared to be promoting the appeals process through written communication to SME customers and on bank website and published literature.

Subsequent meetings with local banks at the end of 2014 allowed Professor Griggs to review their current appeals processes in more detail, identifying actions that would make their systems more

[19] http://www.iob.ie/?q=node/89

robust. Further meetings early in 2015 found that good progress was being made by the banks against these actions.

There is now evidence that these actions are delivering greater use of the appeals process locally. The UK Banking Appeals Taskforce highlights that whilst just 1.2% of UK total appeals came from Northern Ireland over the period 2011/12 to 2012/13[20], this has improved to 1.7% during 2013/14 to 2014/15[21]. Whilst use of the appeals process does appear to have increased, evidence gathered from the latest Access to Finance Survey suggests that the work to publicise the process will need to continue with typically only one in four of businesses, regardless of type, having awareness of the appeals process.

Overall the EAG can clearly see a lot of positive developments here, particularly through the work of Professor Griggs in engaging directly with local banks, which is feeding through into increased use of the appeals process in Northern Ireland.

	Recommendation	Status
4.	We recommend that the British Banking Association and all banks with a presence in Northern Ireland should consider how communication between banks and the business community can be improved. This includes the role of the Business Banking Roundtable.	●

Evidence suggested to the EAG that there were communication issues between banks and the SME business community which impacted negatively on the lending environment. A need to build a better understanding of these issues was identified to address this concern.

The BBA leads on cross stakeholder discussion for the UK banking sector, but the Panel had concerns that the London based organisation could not do this effectively recognising the specific structure and challenges of Northern Ireland, as its contacts tend to be with the UK Government in Westminster.

The Panel's Interim Report recommended that Northern Ireland needs its own banking group or association that can help deal with local issues as well as advising the UK Government on specific needs. It proposed that the Northern Ireland sub-committee of the BBA could be used as a vehicle for a new NI Banking Committee, with a local Chair in place who would drive it and ensure its voice is heard on key issues.

The Panel subsequently met with the local banks in October 2014 and secured agreement to establish this NI Banking Committee, with a further meeting in February 2015 aimed at implementing this. The BBA has recently tabled proposals that would see the establishment of a Northern Ireland Banking Committee led by a non executive chair, and these proposals have received the support of five Northern Ireland based banks[22]. While the welcome re-established NI Banking Committee may now be in sight it is not yet operational and, at this stage, we cannot be absolutely certain of the extent to which the BBA proposals have met the expectations of the Panel.

The EAG welcomes the Implementation Panel's proposal for a re-established NI Banking Committee, and the work by local banks and the BBA to deliver upon this initiative. The EAG would urge the local banking sector to implement, as soon as possible, a re-established NI Banking Committee and fulfil the recommendation of the Independent Panel.

[20] http://betterbusinessfinance.co.uk/images/pdfs/Annual_Report_Master_2013.pdf
[21] http://betterbusinessfinance.co.uk/images/pdfs/Annual_Report_2015_(Year_4)_FINAL.pdf
[22] The five banks are Bank of Ireland, Barclays, Danske, First Trust & Ulster Bank.

	Recommendation	Status
5.	We recommend that the British Banking Association and all banks with a presence in Northern Ireland work together to provide data on the scale of lending to Northern Ireland businesses at an aggregate and a sectoral level. This will help to inform future economic policy development and help banks communicate to business the nature of the local lending environment.	●

Regional lending data was not published for Northern Ireland to allow an understanding of the changing demand for business finance on both an aggregate and sectoral basis. The Joint Ministerial Taskforce worked with the BBA to secure the first publication of the BBA's lending data for Northern Ireland[23]. This was secured for the "Building a Prosperous and United Community: One Year On" Economic Pact update in July 2014[24].

From this point, the Joint Ministerial Taskforce and the BBA have continued to work together to encourage further, more granular data for bank lending in Northern Ireland. Information is now available from the BBA for both household and business deposits and borrowing in Northern Ireland from 2010 Q4 onwards. The reports have a particular focus on SME lending, including information on both applications and approvals by sector. Most recently, lending data has been made available on a postcode basis across Northern Ireland. This report considers this new data source further in Chapter 3.

The EAG welcomes the publication of this data and notes the work of the BBA and Joint Ministerial Taskforce to produce and publish it. This provides a robust resource to track SME lending in Northern Ireland. It is important that all stakeholders, including DETI and DFP, are aware of this new source data and fully utilise it to gain maximum value, while efforts to maximise the granularity of lending data should continue where that is possible.

2.4 Recommendations for Business Organisations

	Recommendation	Status
6.	We recommend that the accountancy bodies, with the support of the representative business bodies, should organise a series of seminars to advise businesses on how to manage their finances through difficult trading periods.	●

An opportunity to develop initiatives that help support and simplify the way in which businesses deal with finance issues was identified by the EAG. The Panel has met with the Chartered Institute of Accountants Ireland Ulster Society, most recently in April 2015, and considered options that could be explored to provide advice to businesses. A number of opportunities have been identified to deliver training and road show events to the SME community, with one such event scheduled for November 2015[25], although further progress on this has been put on hold until the new NI Banking Committee is established.

More widely, the Panel found that banks do appear to already be providing information and advice to business customers through guides on their websites, road show events, business roundtable events and business breakfasts. It has emerged that one area to develop further is an agreed set of guidance on information that SMEs need to supply when applying for finance, and this is something which is intended to be considered as part of the NI Banking Committee when established.

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[23] https://www.bba.org.uk/news/statistics/northern-ireland-banking/

[24] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/326375/BUILDING_A_PROSPEROUS_AND_UNITED_COMMUNITY_-_ONE_YEAR_ON.pdf

[25] http://ulster.charteredaccountants.ie/en/Events/Funding-for-the-Future-Conference-10th-Nov-2015/

The EAG notes that there is advice being provided and welcomes events such as the one being organised for November. However, it is difficult to see real progress being made in this area until the NI Banking Committee is up and running, and this reiterates the need for the local banking sector to make progress on implementing the Panel's proposals that have been agreed.

2.5 Recommendations for Government

	Recommendation	Status
7.	We recommend that DETI / DFP, in consultation with banks, should review with BIS and Capital for Enterprise how the Enterprise Finance Guarantee should be strengthened to encourage greater take up in Northern Ireland. We recommend that DFP should consider with the Bank of England the ability of all banks to fully access the benefits of the funding for Lending Scheme and how this can be improved.	

National initiatives, such as the Enterprise Finance Guarantee (EFG) and the Bank of England Funding for Lending Scheme (FLS), were not found to be working effectively in Northern Ireland. The Joint Ministerial Taskforce has been considering the operation and effectiveness of national initiatives intended to promote access to finance and therefore has progressed this recommendation through meetings between Ministers and work taken forward by UK and Northern Ireland government officials. This has borne significant improvements, with the Economic Pact Update highlighting that over £40m of finance having now been provided through BBB-run programmes.

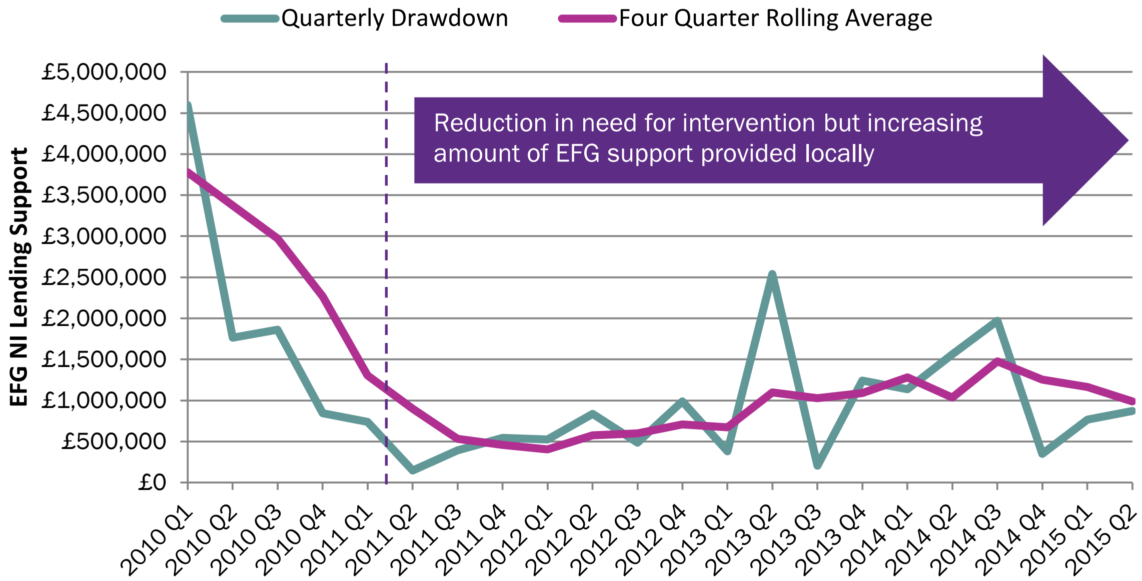
The EFG is a guarantee scheme which began in January 2009 to facilitate lending to viable businesses that have been turned down for a loan or other form of debt finance due to inadequate security or a proven track record. It is administered by the BBB, which decided not to expand the EFG scheme in Northern Ireland but instead focus on other programmes that were not previously available locally, such as the Investment Programmes and Wholesale Guarantees. For example, the Investment Programmes did not give any assistance to Northern Ireland at the time of the EAG Report but most recently provided support of £715k in Q2 2015 to boost local lending.

Information has been provided to the EAG with regards to the amount of lending drawn down under the EFG programme in Northern Ireland. Figure 2 presents both the actual quarterly data, which is quite volatile and subject to spikes due to larger one-off deals, alongside a rolling four quarter average which is more useful in considering the overall trend. This highlights that drawdown in Northern Ireland fell significantly in 2011 and 2012 but subsequently improved in 2013 and 2014.

The data from 2012 onwards is showing an increase in support to Northern Ireland despite improvements in the economic conditions and the return of bank lending to stronger levels. The latest data shows that £989k of EFG support was drawn down on average over the four quarters to Q2 2015, more than double the average of £402k over the four quarters to Q1 2012. This suggests that the work to improve Northern Ireland's access to national finance initiatives has been working, with greater support feeding through despite less need for it now.

EFG drawdown levels are still well below 2010, but this may be related to the extent of market failure that still remains rather than a constraint in local lenders being able to access it. SMEs are now largely able to access the funding they need from their banks; it is therefore likely that there is simply less need for this kind of support (although clearly there is still some need given that each quarter generally shows £1million plus of support for Northern Ireland).

Figure 2: Enterprise Finance Guarantee Lending Drawdown in Northern Ireland



Source: British Business Bank

As noted above, the BBB opted to extend its programmes available to Northern Ireland rather than just boosting the EFG. Table 3 provides an assessment of the extent to which the broader suite of BBB programmes have supported lending in Northern Ireland. This highlights that support of £14m was equivalent to 1.5% of total UK support provided by the BBB in 2014/15.

Table 3: BBB Programme Support in Northern Ireland, 2014/15

	NI Support (£m)	UK Support (£m)	NI as % of UK
Enterprise Finance Guarantee	5	272	1.8%
Start-up Loans	1	63	1.6%
Investment Programmes	7	459	1.5%
Equity Finance	1	126	0.8%
TOTAL	**14**	**920**	**1.5%**

Source: British Business Bank

The EAG recommendation also referenced the FLS, which allows banks and building societies to borrow money to fund lending to businesses. Previously banks could not use the scheme to fund SME lending, but the scheme has now been extended until January 2016 and incentives have now been put in place to boost lending to SMEs. Of the four main local banks, only Ulster Bank (RBS) accesses the scheme, with Santander, Nationwide Building Society and Progressive Building Society also being recipients, although no specific information is available on lending to their operations in Northern Ireland. Given the limited access to the FLS from local banks, it is unlikely that the scheme is supporting a significant amount of lending for SMEs in Northern Ireland.

The EAG considers that, looking at the broader uptake of BBB programmes, the work of the Joint Ministerial Taskforce has increased the ability of Northern Ireland to access national support programmes. Given the fact that both economic and lending conditions have significantly improved, it is likely that there is less need for local banks and building societies to utilise these supports, although DETI should continue to monitor available information on uptake of BBB programmes in Northern Ireland.

	Recommendation	Status
8.	We recommend that DETI / Invest NI should monitor the implementation of the Access to Finance Strategy, including an ongoing assessment of the interaction between the Funds as well as the funding outcomes for those successful and unsuccessful in securing finance. The Access to Finance Strategy should be delivered in a way that ensures there are no gaps in the funding continuum. It is important that the aggregate impact of the strategy is assessed.	

Whilst the Invest NI Access to Finance Strategy was seen as a positive step in providing alternative funding options to businesses seeking to grow, it was deemed to be too early to evaluate the success of the interventions back in March 2013.

Invest NI has subsequently established an Access to Finance Working Group, comprised of four of its Board members and an independent expert, to oversee the implementation of the Access to Finance Strategy and review ongoing performance of the funds. A schedule outlining when all evaluations and appraisals of funds need to commence has been developed by Invest NI's Corporate Finance team and shared with the Access to Finance Working Group. This should ensure that follow-on funds can be launched on a timely basis and there are no gaps in the funding continuum.

An evaluation of the Fund of Funds[26] was completed in Spring 2014 and an action plan, based on its recommendations, has been developed and presented to the Access to Finance Working Group. Progress against the action plan is monitored by the working group.

The EAG endorses the establishment of Invest NI's Access to Finance Working Group and welcomes the role it fulfils. However, information does not appear to be readily available outside of this group to allow external review of the ongoing performance of funds, and it is not clear what the funds are delivering in terms of economic outcomes (such as sales, exports, GVA and jobs). We believe that implementing the SQW recommendations would allow the performance of the funds to be better evaluated in the context of the wider finance and entrepreneurial ecosystem.

	Recommendation	Status
9.	We recommend that DETI should commission further research on the future strategy for Venture Capital / Equity Finance in Northern Ireland. It is important that this work is undertaken by someone with the appropriate technical expertise.	

Wider issues on Venture Capital provision were identified that needed to be considered further. DETI appointed SQW Consulting to take forward this research in March 2014, which included support from Professors Robert Baldock and Colin Mason to ensure appropriate technical expertise. A final report was completed in March 2015, and EAG has reviewed the findings of this work. A summary of the research is presented in Chapter 4, and the full report is available on the DETI website.

The EAG endorses the findings and recommendations of the SQW report. We view this as a key priority in developing access to finance for businesses going forward, and DETI should develop and implement an action plan that involves other key stakeholders such as Invest NI, the Northern Ireland Science Park and InterTradeIreland. This must be supported by sufficient resources to ensure the recommendations are taken forward with the ambition that SQW have outlined.

[26] http://secure.investni.com/static/library/invest-ni/documents/fund-of-funds-interim-evaluation.pdf

	Recommendation	Status
10.	We recommend that Invest NI should increase the funding in the 'proof of concept' early stage funds, also ensuring there are sufficient funds for the follow on stages of commercialisation and growth.	🟢

A need for additional funds to enable entrepreneurs to develop products at the pre-commercial stage was identified. Invest NI has subsequently extended its funding for the NISPO[27] programme which provided additional funding for Proof of Concept (PoC) grants and seed funding. In addition, a further fund (techstart NI) was launched in July 2014 and is significantly larger than under NISPO and its extension. Follow-on funding for commercialisation and growth is now provided by the Growth Loan Fund, Co-Fund NI and the Development Funds. The Development Funds were announced in October 2013 and provide two £30m funds offering development capital, compared with just one fund at £22.5m previously. In addition, the Co-Fund NI has been extended from £7.2m to £12.5m due to strong demand.

The EAG welcomes the additional funding that has been put in place by Invest NI, and notes from the SQW research that the availability of government support in Northern Ireland for early stage and growth finance is now recognised as a key strength against international exemplars. It is important that increasing demand for this type of finance continues to be met going forward.

	Recommendation	Status
11.	We recommend that DFP and DETI should liaise with banks to understand the extent of property debt exposure among sound trading businesses, their approach to dealing with the issue and the implications for those businesses and the wider economy going forward. The departments should also be cognisant of the actions being taken in other jurisdictions to address the problem.	🔴

The high level of property debt in what might otherwise be sound trading businesses was found to be behind many of the problems of access to bank finance in Northern Ireland. There was never a concrete indication to quantify the size and scale of the problem, but it was perceived as a significant issue anecdotally.

The EAG is aware that a lot of efforts have taken place to develop some form of support. The Interim Report of the Panel offered a proposal for an initiative which would allow short-term property loans in viable businesses to be restructured into a longer-term lending instrument. The view of the Panel was that the role of Government should be to encourage banks to restructure debt and refinance companies to a greater degree without direct financial intervention.

A separate proposal was made by WhiteRock Capital Partners to the BBB's Investment Programme in June 2014 in relation to a potential fund to address property overhang. This fund would, in effect, create a secondary market for loans to viable businesses to decouple 'core' trading debt from 'non-core' property debt. The Secretary of State met with banks in Summer 2014 to establish the need and demand for this, and Invest NI and BBB went through formal approval procedures to move this on to a point to which it could be implemented. The Panel therefore did not progress their proposal in the expectation that this proposal would be taken forward.

The Group understands that this proposal is no longer being taken forward due to a lack of appetite in the commercial sector to make the project viable. Whilst there was significant anecdotal evidence underpinning the need for this in the past, the fact that SMEs are now securing the loans they need and that banks do not see a commercial need for it suggests that the issue is no longer as pressing.

[27] NISPO is the Northern Ireland Spin Out Programme.

The EAG has not been presented with robust evidence regarding whether this remains a restrictive issue for local SMEs, other than the wider trends in terms of finance success rates. Available information from the access to finance survey (considered in Chapter 3) suggested that around 5% of SMEs in 2014 had purchased property since 2005 financed by bank debt, which is lower than the 8% reported in 2012. This figure increases to almost one-fifth (18%) if only medium sized enterprises are considered. However, no medium-sized business missed repayments on their property debts compared with 10% of small firms and 18% of micro businesses. This suggests that medium-sized companies have greater property debts than other sizes of businesses, but are also much more able to service these debts than smaller firms.

The EAG recognises that significant efforts were made to implement a property overhang scheme but, ultimately, nothing was put in place when the issue was at its peak. Engagement with banks has suggested that viable businesses are no longer constrained by property debt to the same extent as before and the available data would support that lending conditions are now much better; it may therefore be that government intervention is now not needed to the same extent as before although the EAG cannot conclude on this either way. This is an issue which should continue to be monitored closely by government to better understand whether any future intervention is needed.

	Recommendation	Status
12.	We recommend that DFP should discuss with Better Business Finance how awareness and uptake of their national initiatives can be improved to ensure better alignment with the needs of local businesses in Northern Ireland.	🔴

The EAG noted that a number of national initiatives to improve levels of bank lending were being coordinated by BBF, although there was not much uptake or awareness in Northern Ireland. Whilst there has been a significant amount of focus put on promoting and extending national programmes to local banks since the EAG report, this appears to have been largely focussed on government initiatives rather than private sector ones such as BBF. The EAG has not been presented with any information to suggest that this recommendation has been actioned.

The EAG considers that, whilst little progress was made on this specific recommendation, the wider efforts to promote national government initiatives have largely addressed this issue. Given that the BBF is supported by the BBA, this is another area where the establishment of the proposed NI Banking Committee should help to promote local interests.

	Recommendation	Status
13.	We recommend that DFP and DETI engage with those responsible for developing proposals for a new business bank to support the proposals and to ensure that its design is appropriate and relevant to the needs of small businesses in Northern Ireland.	🟢

The EAG was aware of proposals to establish a new 'Business Bank' in the UK geared towards lending to small businesses. The British Business Bank has subsequently been established and there has been ongoing engagement between DETI, Invest NI, DFP and the BBB to ensure its programmes operate effectively in Northern Ireland.

BBB has held two events in Northern Ireland to promote their initiatives. The most recent 'Funding for the Future' road show was held in Belfast during February 2015 to raise awareness of the finance options available for local SMEs and showcase BBB funding programmes. The event also helped to facilitate discussion between government, business representatives and financial intermediaries on the opportunities for local SMEs. Events such as these will have helped to ensure that the programmes can be accessed in Northern Ireland and, as already shown, uptake of BBB support in Northern Ireland is now improved.

DETI and Invest NI continue to participate in BBB and devolved administrations quarterly meetings, and are well positioned to identify opportunities for joint working and to promote BBB programmes and initiatives in Northern Ireland where appropriate.

The EAG welcomes the engagement that has taken place to date, led by the Joint Ministerial Taskforce, and the efforts to promote BBB programmes in Northern Ireland through the two events held to date. This has helped to ensure that national support for SMEs to access finance is feeding through into the local economy, with some £40m evident in the Economic Pact Update.

2.6 Conclusions

The EAG recommendations have been taken forward by a combination of the Implementation Panel, the Joint Ministerial Taskforce, DETI, Invest NI, DFP and the NIO. The report has provided direction to these organisations to improve the access to finance situation for local businesses.

The Group are pleased to report that, compared with March 2013 when the previous report was published, there is now:

- A range of training and support programmes in place for local banking staff considering applications from SMEs;
- Greater use of the appeals process by local SMEs;
- Agreed proposals for an NI Banking Committee to represent the local banking sector;
- Detailed BBA lending data for Northern Ireland;
- Financial advice being provided to SMEs from banks and business bodies;
- Activities to promote national incentives in Northern Ireland, and greater uptake of these supports to boost lending to local SMEs;
- A roadmap for the development of early stage and growth finance in Northern Ireland;
- Greater oversight and planning of Invest NI's access to finance interventions; and
- Additional early stage funding available from Invest NI.

The EAG considers that these achievements represent a strong positive outcome from the EAG Report. However, there remains two areas where the Group believes further action is needed:

i. With proposals now seemingly at an advanced stage, the EAG would urge the local banking sector to press forward and implement, as soon as possible, a re-established NI Banking Committee and fulfil the recommendation of the Implementation Panel.

ii. Despite ongoing engagement regarding measures to address the extent of property overhang, and significant efforts to implement a proposal to intervene, an intervention was ultimately not put in place when the issue was at its peak. The EAG would advise that government needs to monitor this situation closely to understand if property debt remains a constraint on the ability of viable businesses to access finance.

3. Bank Finance

3.1 Introduction

Structure of the NI Banking Sector

Northern Ireland is unique in that it has its own local banks who account for the majority of the banking business and, whilst they may be part of larger banks that operate elsewhere, they still operate very much in a local manner. The four major banks (Danske, Bank of Ireland, First Trust and Ulster Bank) have the majority of SME and business activity in Northern Ireland, although other providers are active as well. Particular characteristics of the local banking sector include:

- UK government schemes were designed to work with large UK banks and so may not always fit with the needs and size of the local banks, and the typically smaller size of SMEs here. In addition, a number of national support schemes require individual banks to buy into them, and the small size of lending transactions on the loan books of local banks can make that very difficult;
- Banking is a reserved matter and the Northern Ireland Executive is ultimately limited in what it can do. There is a general feeling that the needs and differences of Northern Ireland are not being taken into account. There is also a lack of push for special initiatives for Northern Ireland from Westminster Government Departments as there is currently no coherent local banking voice making the case;
- The smaller size of the local banking sector can provide an opportunity for greater contact between banks and SMEs. The somewhat 'provincial' banking system in Northern Ireland means that it may be easier to establish a better conversation between banks and SMEs, and SMEs are also likely to be more loyal; and
- Some banks do not see Northern Ireland as a market of opportunity, implying that they do not see it as a market where profitable business lending can be acquired. However, there are growth sectors and opportunities in the local market, and the issue is as much a lack of understanding around the potential benefits from expanding in Northern Ireland.

The previous chapter has highlighted the progress made to date on some of these issues. However, they continue to underpin both the demand and supply of bank finance considered here.

Information Sources

The EAG Report included a survey of demand for finance from SMEs in 2012, which followed on from a previous survey carried out by NISRA for 2010 and 2007. This survey has been repeated again in 2014 by DETI Analytical Services Unit to provided updated results for this report. The full findings are available on the DETI website[28] and so are not repeated at length here.

The 2014 access to finance survey (referred to hereafter as "the survey") replicated the methodology of previous surveys. The quantitative evidence was gathered in an independent survey of just over 1,000 SMEs undertaken by Perceptive Insight as part of the InterTradeIreland Quarterly Business Monitor. The focus was exclusively on SMEs (i.e. employees with less than 250 employees) and all

[28] http://www.detini.gov.uk/business_access_to_finance_2014.pdf

results have been weighted to be representative of the business structure in the overall economy. Further details on sample sizes and methodology can be found in the full DETI report.

The new BBA lending data for Northern Ireland also provide a complementary measure which is considered alongside the survey. These data allow us to quantifiably measure the level of finance being provided to SMEs by Bank of Ireland, Danske Bank, First Trust Bank and Ulster Bank, as well as the SME customer business of Barclays, HSBC, RBS and Santander.

3.2 Demand for Finance

Business Context

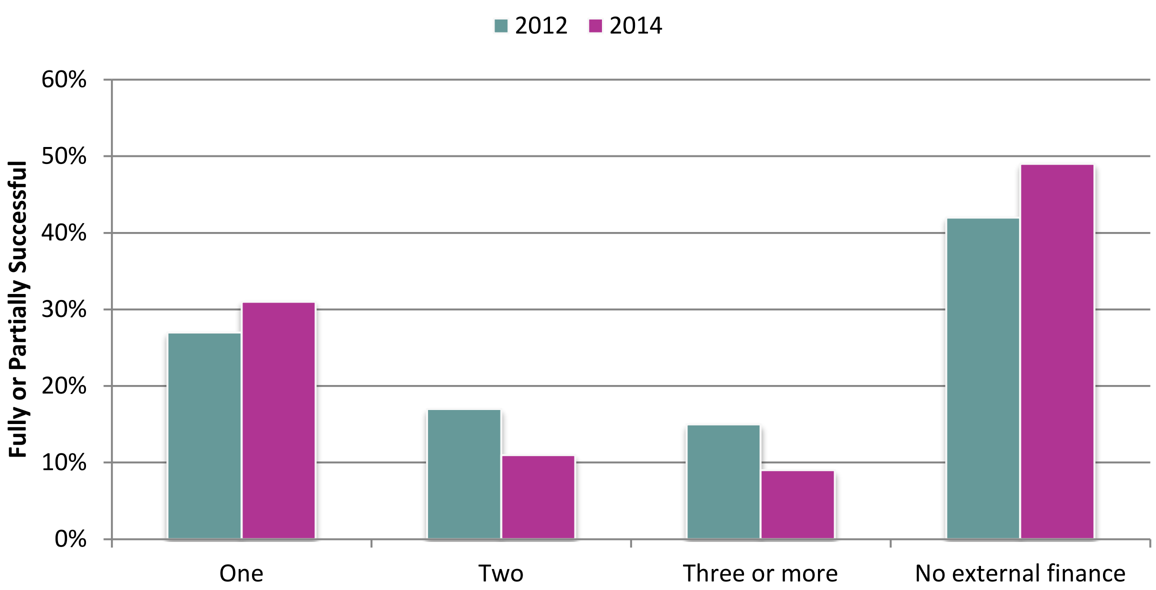
The first chapter of this report has highlighted the significant improvements in economic performance observed over the past couple of years and the survey reinforces this view. A much higher proportion of firms in the survey reported that they were growing in 2014 (40%) than in 2012 (16%). In contrast, just 13% of firms described themselves as reducing/surviving at all costs in 2014 against 45% in 2012.

This is supported by firms' expectation of future sales. Almost one half (48%) of businesses in 2014 were expecting their sales to increase compared with 34% in 2012. Conversely, just 8% of SMEs in 2014 expected sales to fall against a figure of 24% two years earlier. The overall picture here is of a much improved business environment.

Existing Finance in Place

Just over half (51%) of local SMEs had at least one financial product in place in 2014, a fall from 58% in 2012. Micro businesses were least likely to have finance in place (50%) compared with small (66%) or medium (61%) companies, while exporters (61%) were also more likely than non-exporters (48%) to have finance in place. As shown in Figure 3, companies have generally been reducing the number of financial products they have in place.

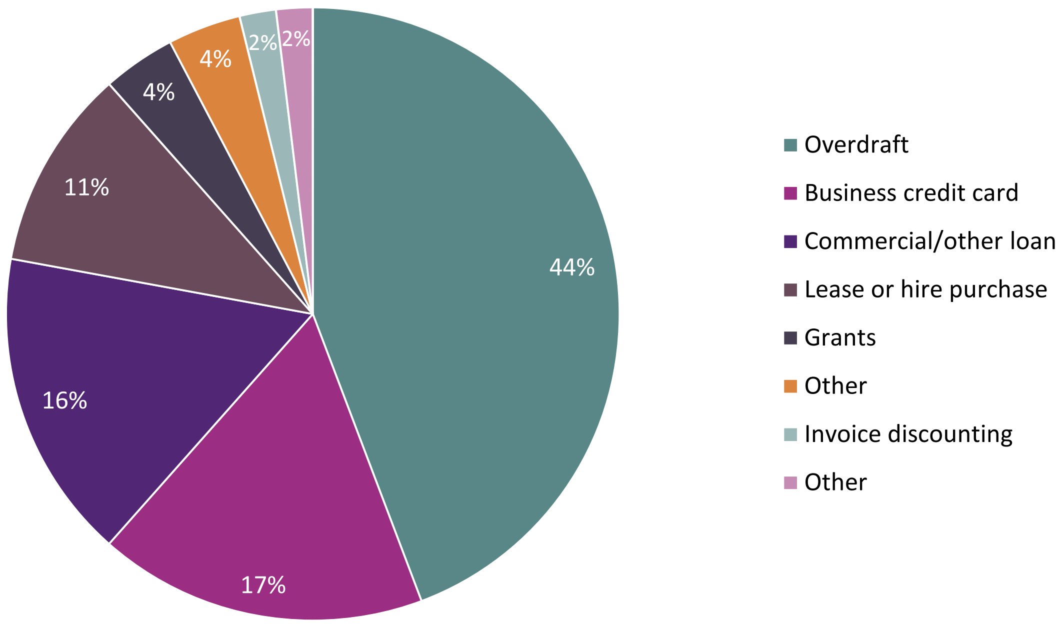
Figure 3: Number of Lending Products in Place



Sources: DETI Business Access to Finance

Information was also provided on the type of financial product that local SMEs have in place. Figure 5 highlights that firms with external finance in place mostly used an overdraft, followed by business credit cards and commercial/other loans. Compared with 2012, only grants and invoice discounting showed small increases in 2014, with reductions evident across all other types of finance.

Figure 5: Types of Finance in Place (as percentage of total finance in place)



Sources: DETI Business Access to Finance

Demand for New Financial Products

The proportion of businesses seeking new loans in 2014 was low at just 4%, almost half of the demand figure in the 2012 survey. Table 4 highlights that demand for loans was greater for larger SMEs although, compared with two years earlier, demand had still fallen across all groups.

Table 4: Proportion of SMEs Applying for Loans

	Total	Micro	Small	Medium
2014	4%	4%	8%	11%
2012	7%	6%	13%	14%

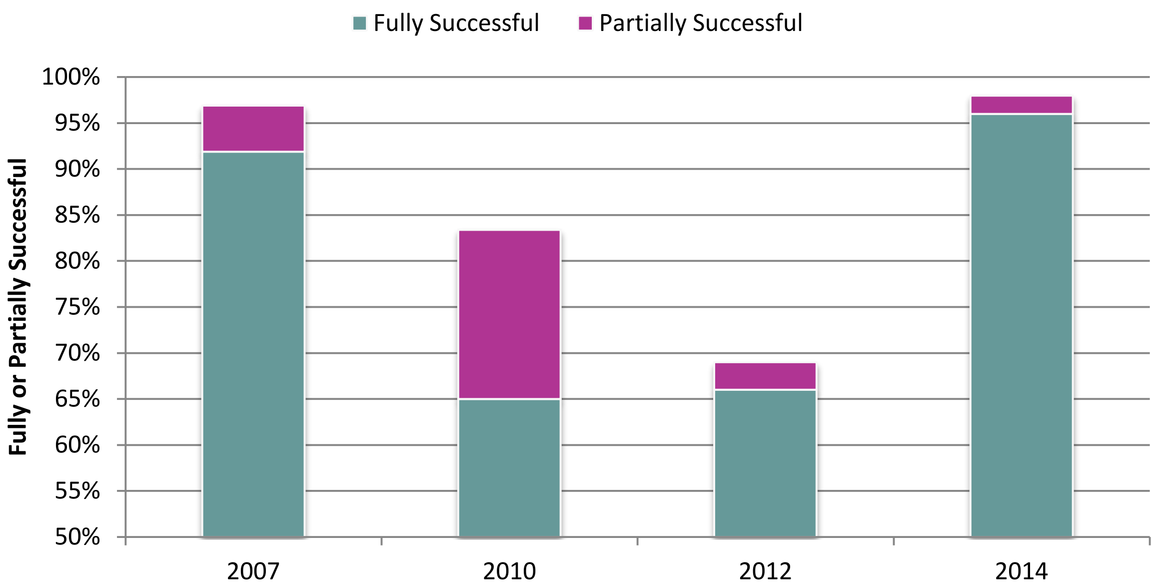
Source: DETI Business Access to Finance

Information on the number of applications made show that, compared with micro businesses (20%), small (38%) firms were more likely to have made more than one loan application in 2014, with 60% of medium firms looking for a loan of £250,000 or more compared with just 6% of micro businesses. Looking ahead to 2015, almost one in ten SMEs (9%) indicated that they were likely to need new finance; this varied from one in 12 micro businesses to one in four medium-sized companies. In summary, size matters when it comes to both the propensity and scale of business demand for finance. The survey also heard from the 5% of SMEs which thought about applying for finance in 2014 but chose not to. 16% of these businesses did not apply for finance as they though the bank would reject their application, and 18% believed the cost of finance was too high.

Success of Bank Loan Applications

Virtually all SMEs (98%) who applied for a bank loan in 2014 were either wholly or partially successful. Figure 6 highlights that this represents a significant improvement on the 69% of SMEs that were either wholly or partially successful back in 2012. Indeed, this success rate is slightly higher than even the 2007 rate of 97%. There is a clear message that local viable SMEs who want a bank loan are now able to get it.

Figure 6: Success Rate of Bank Loan Applications



Sources: DETI Business Access to Finance, EAG Access to Finance Review, NISRA Access to Finance Survey

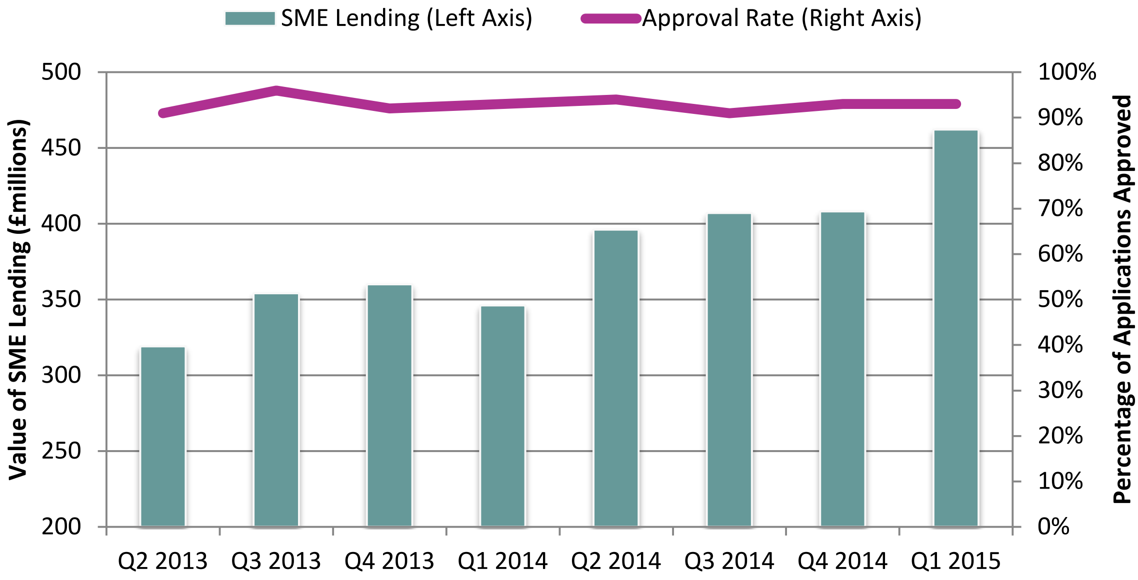
3.3 Supply of Finance

Bank Lending to SMEs

Figure 7 presents an overview of both the value of SME lending by banks and the approval rate of applications. In terms of lending, there is a clear upward trend in recent quarters. Indeed, the £462m of approved SME loans in Q1 2015 is by far the highest quarterly figure since the series began in Q4 2010. Looking back on 2014, a total of £1.56bn of loans were provided to local SMEs over the year. In terms of approvals, SMEs made 16,735 applications for bank loans in 2014 with 15,492 of these being approved – an overall rate of 93% for the year.

Looking back over a longer term (not shown in the chart), the number of applications were much higher back in 2011 and 2012 (often over 6,000 each quarter) than from 2013 onwards (closer to 4,000 each quarter) but the value of loans was much lower (around £250m each quarter) than at present (around £400m each quarter). SME demand for finance is therefore reducing as the economy improves, potentially suggesting that a number of businesses seeking finance were doing so for survival rather than growth, whilst the supply of finance is improving.

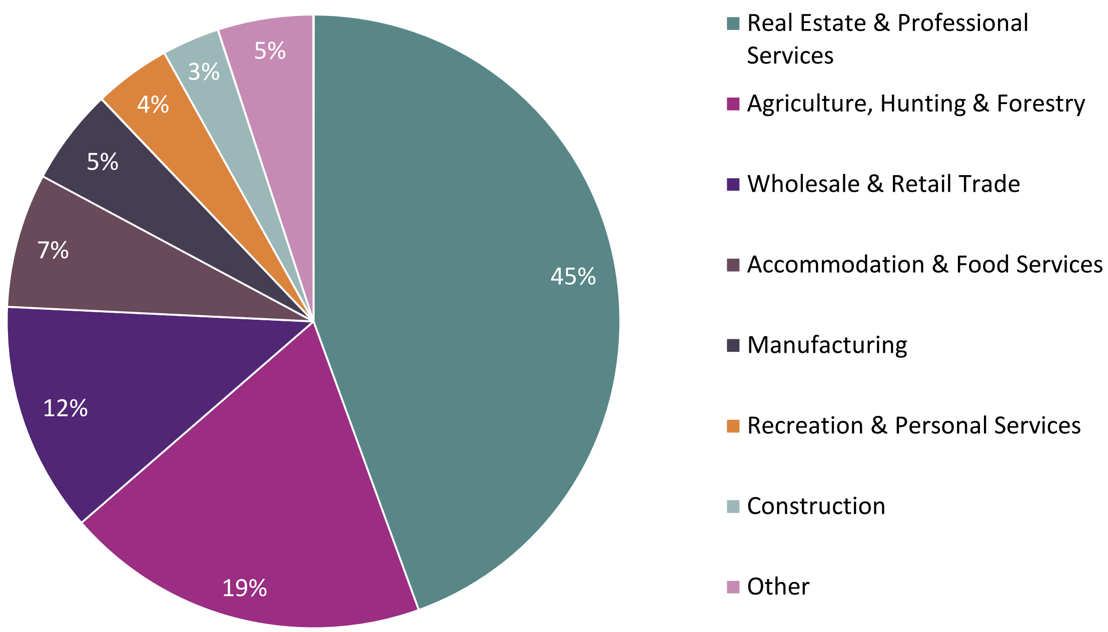
Figure 7: SME Bank Lending in Northern Ireland



Source: BBA Bank Activity in Northern Ireland Q1 2015

The BBA data provides a breakdown of lending by sector (shown in Figure 8). The data for the latest quarter highlights that a disproportionately large share of lending is going to just two sectors, with real estate & professional services and agriculture combined accounting for almost two-thirds of the value of lending to local SMEs. In comparison, sectors such as manufacturing and construction are receiving a relatively small proportion of SME bank lending, although this may be partly explained by the existence of a number of large firms in manufacturing which would not be included here.

Figure 8: SME Bank Lending by Sector (proportion of value of lending in Q1 2015)



Source: BBA Bank Activity in Northern Ireland Q1 2015

The BBA has recently begun providing a breakdown of outstanding SME lending (covering loans and overdrafts) by postcode which allows for a geographic split. In contrast to the data above, which shows new bank lending, this is about the stock of SME debt across Northern Ireland. This highlights that, in Q3 2014, there was a total of £7.4bn of SME loan and overdraft debt outstanding.

Of the £6.8bn which can be assigned a postcode, Table 5 shows that the largest level of outstanding SME debt is in areas which will tend to have larger real estate & professional services (Belfast, Causeway Coast & Glens) and agriculture (Mid Ulster, Armagh, Banbridge & Craigavon) sectors. It may also reflect the reliance on SMEs, as debt by large firms is not included here.

Table 5: Split of SME Loans and Overdrafts Outstanding by Local Government District (Q3 2014)

Local Government District	Value	Proportion	% of NI Firms in District
Belfast	£1,386,570,431	20%	13%
Mid Ulster	£831,292,170	12%	12%
Armagh, Banbridge & Craigavon	£776,691,968	11%	11%
Causeway Coast and Glens	£635,133,534	9%	8%
Newry, Mourne & Down	£586,431,457	9%	11%
Fermanagh and Omagh	£578,060,140	8%	11%
Antrim and Newtownabbey	£500,114,168	7%	5%
Lisburn and Castlereagh	£447,696,734	7%	6%
North Down and Ards	£402,351,256	6%	6%
Derry and Strabane	£386,828,703	6%	7%
Mid and East Antrim	£298,506,264	4%	7%
TOTAL KNOWN	**£6,829,676,824**	**100%**	**97%**

Sources: BBA NI Postcode Lending Dataset, NISRA Central Postcode Directory, DETI Analytical Services, NISRA IDBR

Notes: Postcodes have been mapped across to Local Government District (LGD) using the NISRA postcode directory. Some postcodes are split across multiple LGDs and, in these cases, the LGD with the most postcode occurrences for each has been selected. IDBR Data is 2014, while some businesses cannot be assigned to a District Council Area.

The 'New Normal' in Bank Lending

Whilst the evidence shows that businesses who seek bank finance have been able to get it, it is interesting to assess business perceptions of bank lending (see Table 6). Compared with 2012, more SMEs agree that banks are lending to viable business and the current position is a return to normal lending, whilst fewer disagree that bank terms are more onerous than previously.

Table 6: SME Views on Bank Lending

	Agree		Disagree		Don't Know	
	2014	2012	2014	2012	2014	2012
Banks are currently lending to viable businesses	40%	27%	28%	52%	32%	22%
Current position is a return to normal lending	23%	15%	49%	69%	29%	16%
Bank terms more onerous than previously the case	55%	81%	19%	9%	26%	10%

Source: DETI Business Access to Finance

Within a much improved overall picture variations do exist and many businesses, often smaller or weaker firms, still retain negative perceptions of bank lending despite the high success rates in actually obtaining finance. The Interim Report of the Implementation Panel highlighted that since the 2008 financial crisis, banks throughout the UK and elsewhere have fundamentally reviewed how they deal with and assess customers, and banks are now judging customers based on whether:

i. The SME can generate the free cash to afford to pay back the increased or new credit they are asking for in time and at a price which the bank needs to satisfy the new regulatory strictures that have been placed on it; and

ii. It believes that the owner of the SME has the ability to meet the targets they have set for themselves.

Whilst security is still important for certain types of borrowing, it is now more about planning for if things go wrong. This is now what is being called the "new norm" in lending, which is in reality a return to the risk-based banking that was in place before the mid-1990s. However, this brings challenges for all parts of the lending system and requires lending promoters to re-educate themselves and customers. The Panel found that, whilst medium and large companies have adapted to this new approach, small and micro businesses will need help as they do not look for new lending regularly and will not have the internal financially-trained resources to keep pace with the changes. The same goes for small accountants who support and advise small and micro businesses. The relatively high proportion of SMEs which do not believe that the current position is back to normal lending may be struggling to adapt to this new norm.

Government Support

Despite the strongly positive results from both the demand survey and SME lending data, businesses are still reporting that access to finance is causing them issues. For example, 32% of business in Northern Ireland that are either stable or growing reported that finance was the main barrier restricting the further growth of their business in the InterTradeIreland Quarterly Business Monitor Q2 2015; the corresponding figure for the Republic of Ireland was lower at 27%. So whilst the situation is clearly much improved, there are still issues which support the need for government intervention.

SMEs were asked in the survey to provide their views regarding the existing support available to them from government to overcome these finance issues (see Table 7). Views were generally mixed regarding the suitability and availability of information on existing finance support schemes, although SMEs were strongly in favour of a one-stop-shop for this kind of advice and information.

Table 7: SME Views on Government Support

	Strongly Agree; Agree	Neither Agree nor Disagree; Not Sure	Disagree; Strongly Disagree
Government support schemes that are currently available are suited to my business needs	24%	45%	32%
I find it easy to access and get information on the government support schemes that are available	30%	42%	29%
It would be useful to have a one stop shop where I could get support and advice on finance options and business support services available to me	73%	20%	7%

Source: DETI Business Access to Finance

3.4 Conclusions

The Access to Finance Survey conducted by DETI ASU for the EAG provides a useful source of information on the current situation facing local SMEs. The results would suggest that, in the main, businesses are in much better shape financially than even a couple of years ago and that bank lending has largely returned to its pre-downturn level, with almost all viable businesses who seek finance able to access it. As ever, underneath the headline results the experience of business can often vary, for example, with business size or growth prospects.

The new BBA data on bank lending supports the overall findings of the survey. Approval rates are running at very high levels and much more lending is now being given to local SMEs than at any point over the past five or so years. However, there are still signs that businesses believe access to finance is an issue and more support could be provided by government. This is something that government needs to continue to monitor and identify opportunities to address any blockages in parts of the banking system that may not still be working optimally. With this in mind it would seem appropriate that the latest Access to Finance Survey, conducted by DETI ASU, ought to be undertaken again after, perhaps, a two or three year interval.

4. Early Stage and Growth Finance

4.1 Introduction

Structure of NI Equity Finance Market

Access to equity finance for start-up and scale businesses has long been identified as a key policy issue; this is not a unique issue for Northern Ireland but local challenges mean that these issues are more pronounced than elsewhere. These include:

- There is an ongoing aversion to equity as a source of finance across local businesses, partly reflecting the high proportion of family-owned businesses as well as an over-reliance on bank finance and government grants;
- The relatively small size of the private sector and volume of potential opportunities for investment in Northern Ireland means that it is not attractive to external investors at scale;
- Northern Ireland suffers from its relative distance from the main networks of venture capital in the UK in London and the Greater South East;
- A perceived lack of entrepreneurship development means that there are not enough entrepreneurial role models in Northern Ireland, and there is also the need for a better relationship between the research base and the early stage and growth finance market;
- Insufficient skills and knowledge amongst those seeking finance is evident, with the need to develop quality investment propositions and wider business development skills such as management, leadership and marketing;
- Demand-side information failures, with entrepreneurs citing the need for more coherent and less fragmented provision of information on the sources of finance available;
- The quality of the advisor network to businesses (e.g. accountants, financial advisors, lawyers) is perceived to be weak, with greater knowledge of VC as a financing option and linkages to venture capitalists needed; and
- The scope and sophistication of the investor community results in limited competition between funds for investment, and generally few links to and knowledge of funds outside Northern Ireland.

The challenges are not limited to the provision of finance per se and relate to the broader innovation and entrepreneurial ecosystem in place in the economy. Early stage and growth finance therefore cannot be looked at in isolation, and is closely linked to wider policies relating to knowledge infrastructure (such as universities, colleges, research institutes), the business environment, people/talent and the linkages between them.

SQW Research

In response to the EAG recommendation, DETI appointed SQW Ltd, alongside academics from Glasgow University and Middlesex University, to take forward research which would provide guidance on the development of early stage and growth finance in Northern Ireland given these particular local challenges. The EAG have considered the final report and, whilst this update will give a high-level summary of the key points from the work, it should be considered in its entirety to fully appreciate the points being made here[29].

The methodology of the research covered a detailed review of existing evidence on the local market, primary research including consultations and survey work, comparator reviews of best practice and a synthesis of these into key lessons and recommendations. The research focussed on early stage and growth finance, and did not cover later stage private equity investment. The types of finance looked at were:

- **Angel investment**, where affluent individuals will make private investments in start-ups usually in return for an equity stake. Angel investors can operate individually or pool together investments into angel networks and groups;
- **Venture Capital (VC)** is money provided to early-stage businesses in return for an equity share in the business. VC is administered by formal funds, which can be backed by either the private sector or the public sector;
- **Mezzanine finance** is a hybrid finance, where debt capital can be converted into ownership and equity if the loan is not repaid to the lender on time and in full; and
- **Public loans** are provided by government to early stage businesses which lack the track record to secure standard loans from banks.

Existing Supply

A key challenge for the research was to estimate the level of early stage and growth finance in Northern Ireland. There is no official or comprehensive source of official data available for this type of finance, with a number of unofficial sources each giving a different estimate. Table 8 suggests that, over the period 2005-13, there have been an average of 11 investments each year at a scale of around £4million per annum. The scale of the market has been relatively stable during this time, neither decreasing nor increasing.

Table 8: Scale of NI Venture Capital Market, 2005-13

Source	Ave No of Investments p.a.	Ave Value of Investments p.a.
BVCA	19	£5.4m
VentureSource	9	£4.2m
Beauhurst (2012/13)	-	£3.2m
Median	**11**	**£4.2m**

Source: DETI Future of Early Stage and Growth Finance in Northern Ireland

Analysis of the data demonstrated two key points:

- The **average size of VC investment** (at £0.4m) was less than half the UK average (of £0.97m) and below all other regions other than Wales and the North East; and
- The **location of VC investment** in Northern Ireland was heavily skewed towards local and GB investors. 57% of the £84m of total VC investment during 2005-13 came from Northern

[29] Final report available at http://www.detini.gov.uk/index/what-we-do/deti-stats-index/economic-research.htm

Ireland, with a further 18% from GB. Just 11% of VC investment was from investors in the EU, ROI, US or elsewhere[30].

Whilst these data provide an interesting insight into the level of private VC investment, they exclude a wide range of other types of equity finance, including those provided by government. There has been a marked improvement in recent years in the supply of early stage and growth finance through the suite of interventions under Invest NI's £170m Access to Finance Strategy[31]. This improvement in the supply-side was noted explicitly by stakeholders, consultees and survey respondents in the research.

Including these interventions, alongside other finance initiatives run by InterTradeIreland and the NI Science Park such as Halo, SQW suggest that the total annual supply of equity finance for early stage and growth businesses in Northern Ireland in recent years has been in the range of **£10-11m**.

Future Demand

In order to assess how the provision of early stage and growth finance should develop in the future, evidence was needed on the likely scale of demand for this type of finance from growth businesses. A targeted survey of early-stage growth businesses produced 72 respondents, of which 55 (76%) stated that they would be seeking finance during the next three years. The survey results were grossed up to the scale of the business base likely to be seeking early stage and growth finance in the coming years using two perspectives:

- Based on the assumption that 1% of SMEs in relevant sectors seek equity finance, as evidenced in research from Northern Ireland and the UK more widely; and
- Based on the assumption that 30% of knowledge-based new business start-ups seek equity finance.

The analysis indicated a potential upper- estimate of the annual demand for equity finance of around £21million per annum in the coming years. Table 9 suggests that the majority of this demand is for venture capital investment, followed by business angel investment. Whilst the scale of angel investment is therefore relatively modest, they play a vital role at the seed stage of future investment opportunities.

Table 9: Potential Annual Demand by Type of Investment (2014-17)

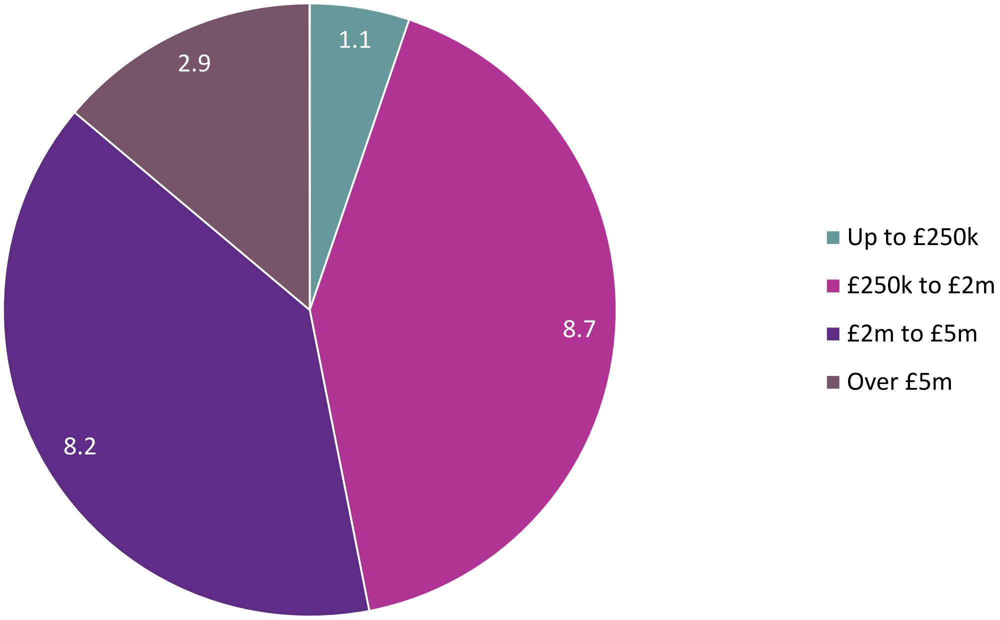
Type of Investment	Value
Venture capital	£17.7m
Business angels	£2.7m
Other	£0.5m
TOTAL	**£21m**

Source: DETI Future of Early Stage and Growth Finance in Northern Ireland

A breakdown of the scale of investment needed is shown in Figure 9. This highlights that the majority of potential investable annual demand is expected to be in the £0.25m to £2m, and the £2m to £5m, ranges. Government intervention at present tends to be limited to deals of no more than £2m.

[30] Note that the location of £12million of investment was not known so these percentages will not add up to 100%.
[31] http://www.investni.com/support-for-business/funding-for-business/access-to-finance-strategy.html

Figure 9: Potential Annual Demand by Scale of Investment, £millions (2014-17)



Source: DETI Future of Early Stage and Growth Finance in Northern Ireland

This analysis suggests that there will be strong demand for equity finance over the next few years. However, an estimate of the scale of equity finance demand over the longer term to support the Innovation Strategy to 2025 was required. Based on the survey results, the experience of other regions and the targets outlined by both NISP Connect and the Innovation Strategy, SQW estimate that the demand for equity finance is likely to be in the range of **£25m to £30m per annum by 2025.**

Government Support

The survey of entrepreneurs and growth businesses captured views on the areas of support that were needed to support the availability of finance. Table 10 suggests that businesses need a more coherent and less fragmented provision of information on what finance is available, alongside improvements in the scale, breadth and sophistication of the local investment community, as well as Northern Ireland being more open to and connected with elsewhere.

Table 10: Areas of Support Needed

Support	Respondents
Better understanding of different types of finance available	35
Better understanding on what growth funders will look for in business plans/applications	22
Improving your wider personal investment-readiness skills	23
Wider help with developing the resilience of the business	22
Follow-on support after successful/unsuccessful finance applications	24
Better understanding of the downside of taking new external finance, as well as the benefits	21
Better understanding of the time associated with accessing external finance	20
Other	9

Source: DETI Future of Early Stage and Growth Finance in Northern Ireland

4.2 Review of Best Practice

The six comparators chosen for the study were Estonia, Finland, New Zealand, North East England, Nova Scotia and the Republic of Ireland. These all share similar structural challenges as Northern Ireland, with a small domestic market and issues of peripherality to deal with, and are all at different stages in their market development. SQW identified seven key themes that were evident in the comparators which are important for developing the early stage and growth finance market locally. A review of the current Northern Ireland position against each of these is shown in Table 11.

Of the seven themes, NI was ranked 'green' against just one – a functioning finance pipeline. This recognises the significant progress that has taken place in ensuring this type of finance is available for companies by Invest NI, InterTradeIreland, the NI Science Park and others in recent years. However, it also highlights that there are a range of areas where improvements are still needed. The implication of this is that supporting funds, without accompanying wider development, is insufficient.

Table 11: Northern Ireland Performance against Best Practice

Best Practice	NI Position
International mindset and actions	🟡
Focussed demand-side stimulation	🟡
Regional, rather than local, funding models	🔴
Exit-centric approach to market development	🟡
Functioning finance pipeline	🟢
Effective business angels networks	🟡
Dedicated institutions and agencies in immature markets	🟡

Source: DETI Future of Early Stage and Growth Finance in Northern Ireland

SQW conclude that, overall, while there is a recognition among stakeholders of the considerable investment and activity in this space in recent years, the policy and strategic landscape has been less well developed, both on the early stage and finance market itself, and how this interacts with wider policy agendas. Addressing this 'policy gap' is important.

4.3 Recommendations

SQW suggest that the future development of early stage and growth finance in Northern Ireland should be based around five key guiding principles. These are:

i. A connected, integrated and influencing policy and market approach;

ii. Internationally networked and engaged;

iii. Committed to sustained, but sustainable, market growth;

iv. Private-sector led, but public sector enabled; and

v. Savvy about market/technology change and risk.

Consistent with these principles, SQW have made a number of strategic recommendations and actions as follows:

Recommendations	Actions
Strategic Recommendation 1: **Develop the policy and performance management framework for early stage and growth finance in Northern Ireland, providing a clear commitment to the development of the market, and understanding of its role in the wider entrepreneurial ecosystem.**	DETI should lead on and publish a formal policy statement on early stage and growth finance, identifying roles and responsibilities for delivery, strategic objectives and role in the delivery of the Economic Strategy and Innovation Strategy.
	Design and implement an integrated monitoring and evaluation framework for all publicly-backed early stage and growth finance interventions in Northern Ireland.
Strategic Recommendation 2: **Enhance Northern Ireland's relationships and links with external sources of 'smart' venture capital finance, expertise and networks, driving up the competitiveness and extending the reach of the local market.**	Scope the potential for the development of public-sector backed cross-regional funds with partners in UK, Republic of Ireland, and the EU.
	Develop cross-referral protocols between fund managers and funds in Northern Ireland and the rest of the UK and the Republic of Ireland.
	Undertake an initial market testing exercise to scope the development of a fund with international fund managers, with local public sector backing.
	In advance of the development of a Northern Ireland accelerator, establish reciprocal relations with targeted overseas accelerators, and provide support to enable Northern Ireland entrepreneurs to participate in these overseas programmes while the local accelerator is developed (for which a Manager has been appointed).
	Scope and establish a co-ordinated programme of engagement in international networks, events and forums focused on venture capital.
Strategic Recommendation 3: **Improve the quality and accessibility of information and evidence available to those seeking and providing investment in early stage and growth finance in Northern Ireland .**	Support comprehensive reporting on investment activity through the establishment of a bespoke Northern Ireland 'equity finance monitor'.
	Undertake an annual demand survey of growth-oriented firms/entrepreneurs to provide live data on expected demand, and experiences of seeking finance in the past year.
	Develop Invest NI's' Access-to-Finance' web presence.
Strategic Recommendation 4: **Enhance the capacity and sophistication of the early stage and growth finance market in Northern Ireland.**	Establish an Equity Finance 'Panel' for Northern Ireland to provide industry expertise and experience focused specifically on equity finance issues.
	Deliver a focused capacity and skills development programme for business and financial advisors working with SMEs and early-stage/growing firms across Northern Ireland.
Strategic Recommendation 5: **Promote improved linkages within the Northern Ireland early stage and growth finance community, to address on-going co-ordination failures.**	Resource a dedicated 'NI Finance Animateur' role with responsibility to foster enhanced relationships across the market
	Review the processes in place to maximise the flow of demand from relevant Invest NI programmes to early stage and growth finance interventions.

Source: DETI Future of Early Stage and Growth Finance in Northern Ireland

4.4 Conclusions

The Northern Ireland market for early stage and growth finance remains relatively small and faces a number of considerable challenges. However, there has been recognised improvements in the availability and supply of finance, largely driven by public intervention, and there is considerable optimism amongst stakeholders about the future development of the market so long as Northern Ireland is ambitious in taking this forward.

Addressing the issues identified in the local market is a long-term game and needs to be tied into the development of the wider entrepreneurship and innovation ecosystem. The SQW report outlines a number of recommendations and actions which can help to further develop the availability of early stage and growth finance locally, and the EAG would support these recommendations and urge DETI to begin to develop an action plan involving other key stakeholders such as Invest NI, the NI Science Park and InterTradeIreland. DETI should acknowledge this as a priority and ensure sufficient resources are dedicated to deliver the recommendations in line with SQW's ambition.

5. Summary and Way Forward

5.1 Summary

The EAG Report has acted as a stimulus for much broader activity in relation to access to finance, and have been taken forward by a combination of the Implementation Panel, the Joint Ministerial Taskforce, DETI, Invest NI, DFP and the NIO. The Group are pleased to report that, compared with March 2013 when the previous report was published, there is now:

- A range of training and support programmes in place for local banking staff considering applications from SMEs;
- Greater use of the appeals process by local SMEs;
- Agreed proposals for an NI Banking Committee to represent the local banking sector;
- Detailed BBA lending data for Northern Ireland;
- Financial advice being provided to SMEs from banks and business bodies;
- Activities to promote national incentives in Northern Ireland, and greater uptake of these supports to boost lending to local SMEs;
- A roadmap for the development of early stage and growth finance in Northern Ireland;
- Greater oversight and planning of Invest NI's access to finance interventions; and
- Additional early stage funding available from Invest NI.

Both the Access to Finance Survey and the BBA lending data would suggest that SMEs are in much better shape financially than even a couple of years ago and that bank lending has largely returned to its pre-downturn level, with almost all viable businesses who seek finance able to access it. However, there are still signs that businesses believe that access to finance is an issue and more support could be provided by government.

With bank lending no longer constraining SME growth to the same extent as before, attention now needs to turn to supporting our highest growth potential businesses that will not typically be able to raise finance from traditional means. The Northern Ireland market for early stage and growth finance remains relatively small and faces a number of considerable challenges. However, there has been recognised improvements in the availability and supply of finance in recent years, largely driven by public intervention, and there is considerable optimism amongst stakeholders about the future development of the market so long as Northern Ireland is ambitious in taking this forward.

5.2 Way Forward

Whilst the availability of finance for SMEs is now clearly in a much better position than it has been for some time, there are still some areas outstanding where further activity is needed. The EAG therefore makes four recommendations:

Recommendation 1: The local banking sector and the Implementation Panel should work to implement the proposal for an NI Banking Committee as soon as is possible.

Recommendation 2: Government should continue to monitor whether property debt is limiting the ability of viable businesses to access finance and consider intervention if deemed necessary.

Recommendation 3: With the Implementation Panel preparing their final report, and the issues that the Joint Ministerial Taskforce were set up to look at now appearing to be largely addressed, DETI and DFP should maintain ongoing engagement with banks, businesses and the UK government to monitor the finance situation and ensure any particular issues are identified and acted upon. In addition it would seem appropriate to repeat the Access to Finance Survey after, perhaps, a two or three year interval.

Recommendation 4*:* DETI should develop and implement an action plan, involving other key stakeholders such as Invest NI, the NI Science Park and InterTradeIreland, to take forward the SQW recommendations in relation to early stage and growth finance. This needs to be acknowledged as a priority within the department and appropriate resources devoted to it to ensure that actions deliver the results with the ambition that the SQW report outlines.

Annex A: Access to Finance Implementation Panel

The Access to Finance Implementation Panel was set up to work with government, banks and business bodies to progress issues associated with Access to Finance for Northern Ireland businesses. In particular, the Panel was be tasked with providing strategic oversight of Access to Finance drawing on best practice nationally and internationally.

Specific objectives of the Panel are to:

- Advise Ministers on what more may be needed to ensure sufficient Access to Finance is available at reasonable terms for businesses in Northern Ireland;
- Act as a central liaison point for government, banks and business bodies on Access to Finance issues;
- Agree, and oversee implementation of, a Ministerial action plan and other actions considered necessary to address the issue of Access to Finance for Northern Ireland businesses;
- Commission further research on Access to Finance issues where appropriate;
- Provide advice and report on progress to the Ministers for Finance and Personnel and Enterprise, Trade and Investment; and
- Publish an annual report on progress towards implementation of the Panel's agreed action plan.

The Panel's membership is comprised as follows:

- **Professor Russel Griggs**, Chair of the Implementation Panel and Independent Reviewers of the Banking Appeals Taskforce;
- **John Trethowan**, Head of the Credit Review Office and Chairman of the Progressive Building Society; and
- **Ann McGregor**, Chief Executive of the Northern Ireland Chamber for Commerce and Industry.

Annex B: Joint Ministerial Taskforce on Banking and Finance

The Joint Ministerial Task Force on Banking and Access to Finance was established as part the Economic Pact to promote lending and help Northern Ireland businesses access the finance they need to grow and expand.

The full list of objectives of the Taskforce are to:

- Ensure that Northern Ireland is taken into account as the Government considers the way forward on banking issues more generally;
- Redouble efforts to promote lending to businesses by banks and other finance providers;
- Examine whether tailored support is required for Northern Ireland's banks and how we can maximise support for businesses in Northern Ireland;
- Examine how best to engage with the Irish Government to make sure that their support for the Irish banking system takes full account of the operation of Irish-owned banks in Northern Ireland;
- Introduce new mechanisms to ensure that UK-wide banking and access to finance measures implemented by the Government have the maximum possible impact in Northern Ireland, including by monitoring progress against the commitments relating to specific banking/finance schemes highlighted in the Building a Prosperous and United Community package; and
- Consider how the Government and Executive can best respond to the issues highlighted in the Access to Finance report recently published by the Executive's independent Economic Advisory Group, and any relevant recommendations following from the Northern Ireland Affairs Committee's inquiry into the structure of banking in NI.

At its time of establishment, the Joint Ministerial Taskforce was made up of:

- **Teresa Villiers MP,** Secretary of State
- **Matt Hancock MP,** UK Business Minister
- **Sajid Javid MP,** UK Treasury Minister
- **Simon Hamilton MLA,** NI Finance Minister
- **Arlene Foster MLA,** NI Enterprise Minister