

USE OF GRANTS TO FUND BUSINESS EXPANSION

The task of finding funding to support the establishment and growth of Small to Medium sized Enterprises (SMEs) is one of the hardest tasks that I have ever been involved with. So many worthwhile cases, put up by really dedicated and very knowledgeable people, just cannot get the requisite funding for one reason or another. But if it is so tough why have I chosen to become engaged in this arena?

It is because it is the most rewarding areas that I have worked in, using to the full my years of experience of SME funding.

The successful strategy that I have developed is based on:

- Writing a business plan focused on the funder's priorities

Thus the Business Plan contains, not what the owner wants, but what the fund provider wants to see in terms of

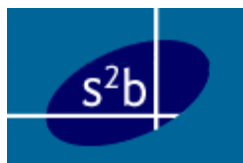
- The Money required
- What it will be used for
- That it is based on a solid business model
- The return on Capital
- The exit route and final payback
- Developing the MD's presentational skills to banks and equity funds.

I have found that an invaluable support to this strategy is the acquisition of grants. These support fund raising in several ways:

- They are an excellent source of money
- They demonstrate that due diligence has been successfully completed by a government agency
- They leverage other investments
- They reduce the risk to other investors
- Grant agencies typically require best practice in companies receiving grants

I have also developed an approach which rates the various sources of funding and seeks to make equity funding the last port of call. This is largely because it is the hardest funding to locate, and it is generally the most expensive.

There are, of course, situations where equity finance is the only suitable form of funding and there is no option. However the difficulty in raising Equity can be seen from the statistics, which indicate that less than 1% of Business Plans seeking Equity Finance end up being funded.



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In 2004/2005 in England they helped to create 108,833 jobs as a result of their activities including the Grants, and created 7,538 new enterprises, investing some £754 million in the process.

So grants are real, they do exist and they are being awarded to those cases that are professionally presented and which line up with the objectives behind the Grant Assistance; which is to increase the Intellectual Reservoir in the UK, and through that to improve our employment capability, with increased job opportunities and generally improve the economic well being of the whole country and especially economically deprived areas

The Grants vary in the amount of Matching Funding required; **Selective Finance for Investment (SFI) Grants** vary according to the classification for the Post code where the investment will take place, Tier 3, 2, and 1, with the Grant varying from 0% to 15% to 35%

These SFI Grants are available to companies of any size looking to invest in new plant and machinery, relocate to a new location, where the net outcome is beneficial for the company's profit performance, productivity and its impact on the employment of additional people in the area.

The key determinant is the classification of the location of the business and this is post code specific. Every Post Code in the Assisted Areas is classified as to Tier 1, 2 or 3.

Research and Development Grants

Available to SMEs with R&D projects.

Research Grants will meet up to 60% of the cost of the research; Development Grants leading to the prototype product or process will offer 35% of the related costs, up to £200,000, whilst the small company or individual wanting to start a new business based on a new product may just need a Micro Grant which pays out 50% of the costs up to £20,000 award.

Special Development Projects can qualify for grants of up to £500,000 where the outcome is considered to be of sufficient global significance and have a major impact on the performance of UK PLC.

As with all quests for funding the planning has to begin well in advance of the need; money cannot be magicked up within a few days!!

People who have their own money to invest will want to protect it, quite naturally and will examine the proposition in depth seeking to find the holes in the business case before investing, and to make sure that they can work with the SME team, and this usually takes a good number of weeks to satisfy the Funder.

So it is with Grants. The money is coming from Public Funds, in other words, it is coming from you and me, through our taxes, and it has to be applied in a deliberate and beneficial way to those cases which will show the best return. Therefore the process can seem long and arduous, but it need not be. The awarding body simply has to make sure that they have fully explored the case and have ensured that there is matching funding and that the concept is viable and with a high probability of succeeding.

Now for the appropriate business activity there are ways to improve the likelihood of getting funding and that is to seek support from the Government, via the Grants System

Public funding of activities, deemed to be in the national interest, is now really big business, and to reinforce that point let me ask three questions:

- How many grants and financial programs are available to available to UK organisations? (4500)
- What is the value of grants and financial programs available to UK organisations (£50bn)
- What is the amount of unallocated funds available for good causes (£2.7bn)

Source j4b

Don't worry I am not about to discuss all 4,500 individual grants, but I will later use two invaluable grants for business development to illustrate how grants can be used to support funding.

A basic principle of the Grant Award Concept is that it is not a panacea for a funds shortage; it is a helping hand and can under certain circumstances be as much as 65% of the funds required, but as a helping hand it is invaluable to those companies who arrange themselves and their businesses to obtain a grant offer.

It is a badge of achievement and a significant achievement for any SME to be awarded a Grant since the due diligence involved before Public money is invested is both extensive and intensive. The award gives other funders a degree of confidence in the proposal before them that inclines them very heavily in the borrowers favour, and certainly more so than if no grant has been awarded.

ASSISTED AREAS

These are EU designated geographic areas that are grant rich and have access to business development grants not available outside these areas.

The rules changed from January 1st 2007 and the European Commission Guidelines published last December specified that the proportion of the UK population covered by Assisted Areas for 2007-2013 would be reduced from the 30.9% currently covered to 23.9%, a probable reduction of 23% in the funding available to Assisted Areas.

The Government has said

'Assisted Area status gives us flexibility to support investment, job creation and retention propositions in the more disadvantaged areas of the UK. This helps us tackle regional disparities in the economic performance and to promote social cohesion across the UK. In England we will be working with the Regional Development Agencies to recommend that those areas losing Assisted Areas status in 2007-2013 to be recommended for Tier 3 coverage. This will offer SFIE to small and medium sized enterprises under the new European Commission SME Block Exemption. (Margaret Hodge)

In the year 2004/2005 Regional Selective Assistance was taken up by 393 firms representing and Investment of public funds of £195 million and Selective Finance for Investment in England paid out £36 million to 219 companies, with 50% of applicants being awarded.

The Grants are administered by the Regional Development Authorities and their record is really quite impressive;

If the case is not well presented it may be dismissed at an early stage, and the speed of response to any questions raised is equally important, as long delays in response give rise to the view that the applicant is complacent and not treating the application sufficiently seriously, and that can jeopardise the outcome.

With the Grant awarded the willingness of banks, and other funders, to advance the matching funding is greatly improved, and for the SME and other funder the gearing resulting from the Grant is significant.

Grants therefore bring with them more than just an inflow of money, they bring a degree of credibility which is very useful to the company in its efforts to obtain further funding, and of course a useful increase in the gearing of the other funders capital.

The author, Bob Watson is a Fellow of the IIB, and has been assisting SMEs obtain funding for the past 10 years, following his career in Business which saw him run several Large Businesses as Managing Director, and also start up several enterprises of his own, having had to seek the requisite funding. He has therefore had experience of what the SME Managing Director has to go through in order to get funding

Should you want to learn more about Grants and the possibility of getting a Grant for your particular project the author can be contacted on 01753 882 001 or by email at bobwatson@support2business.co.uk Website: www.support2business.co.uk