

Roger Wood, director of Birmingham-based venture capital company Midven, offers some funding alternatives for smaller businesses with ambitious growth plans facing the 'funding gap'.

Figures from Aldermore reveal that lending from banks under the government's small business lending scheme, the Enterprise Finance Guarantee (EFG), has fallen by a further 31 per cent. The lowest quarterly result since the scheme was launched; the figures were down from £144m in the third quarter of 2010 to £99m in the fourth quarter of 2010.

Setting aside the reasons for the fall, alternative options for funding for small businesses are becoming increasingly important. In the West Midlands especially, smaller businesses and those developing new technologies are important to the growth prospects of the region.

Most companies at some stage will require investment to fund their start-up, for research and development, to enable growth, or as part of a restructuring package. Historically, this funding has come from traditional bank funding such as overdraft, government backed schemes such as the EFG predecessor scheme (the Small Firm Loan Guarantee Scheme), but additional sources are available.

Grants can be an effective first call as they fund product development or market research bringing companies closer to being investment ready. It is encouraging therefore that the Government has introduced a new Grant for Research and Development scheme, which came into effect from 4th April 2011. This could play an important role alongside the improved R&D tax credit scheme announced in the Budget.

Following this the most likely source of finance for early stage or smaller ventures is equity based investment. This is traditionally sourced from business angels for earlier stage businesses, however, the West Midlands benefits from a number of venture capital funds focused on this stage. In the current economic environment venture capital is more comfortable with risk and looks beyond the basic facts and figures of existing profitability and cashflow.

Two such funds, managed by Midven and focused on investing amounts of less than £500,000, have only been operational for around a year and as such still have significant levels of funds actively seeking new investment opportunities.

The £8m Early Advantage Fund, is an initiative designed to bridge the funding gap by offering publicly funded investment from £25,000 up to £400,000 to eligible companies. It invests in genuinely early stage businesses in the West Midlands with considerable growth potential. The fund works closely with

business angels as each pound of investment requires matching with a pound of private investment.

The £18m Exceed Partnership seeks to make initial investments of up to £500,000 and does not require any element of matched funding. This fund is focused more on SMEs that may have secured initial customers but still face significant commercial risks and need development capital to grow.

These are just two examples of alternative funding available for SMEs in the West Midlands. So despite the negative headlines and statistics funding is available for smaller companies and when combined with advice on how to develop their business, many companies grow exponentially and create significant numbers of new job following investment, which can only be good news for the regional economy.

Editors Notes

Midven Limited is a privately owned specialist venture capital company with a successful track record of investing in small and medium-sized enterprises in the Midlands. Midven manages five funds representing £61m under management. The funds have invested in a wide variety of sectors, including software, biotechnology, healthcare, engineering, manufacturing and distribution. For further information visit www.midven.co.uk.

The Early Advantage fund is an £8m fund launched in December 2009, funded by Advantage West Midlands and the European Regional Development Fund. The fund targets investments alongside side business angels, generally in early stage and technology propositions with exciting growth prospects.

The £18.4m Exceed Fund was established in December 2009 to invest in high growth businesses in the West Midlands. It became operational in March 2010 when LDC became an investor in the Fund. The Exceed Fund can invest up to £750,000 in a range of sectors to support expansion and development. Managed By Midven, its investors include Lloyds Development Capital, Advantage West Midlands and the European Regional Development Fund.