



Report to:	Development Committee
Subject:	Update on Microfinance Work
Date:	10 January 2012
Reporting Officer:	John McGrillen, Director of Development, ext 3470
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1	Relevant Background Information
1.1	Businesses – and small businesses in particular – have indicated that they are struggling to access finance or that the terms of their original credit agreements with their lending institutions have been significantly altered, meaning that access to credit is increasingly difficult.
1.2	This has had an impact on economic growth, with successive growth forecasts being downgraded and the Chancellor proposing a revised package of support to stimulate growth, as part of his Autumn statement. A central pillar of this package is a range of “credit easing” schemes including a loan fund of up to £20billion.
1.3	Elected Members have identified the shortage of investment finance as a key inhibitor to growth and have asked officers to investigate the potential for a micro finance initiative to stimulate business start up and growth.

2	Key Issues
2.1	Traditionally, the Council’s business support programmes consist of a range of direct support interventions (workshops; 1-2-1 mentoring; mystery shopping exercises etc.). These are sometimes supplemented by a small grant element (up to £500) to be used towards an agreed development action, as identified by their mentor. Given feedback from companies, we are also exploring the potential for product development support – i.e. accessing R&D or specific innovation support to allow a company to test out a new product, moving it through from concept stage. This is likely to involve slightly larger amounts of money (up to £4,000) but, again, will be issued on agreement of specific actions

	to be undertaken.
2.2	<p>Currently, the Council does not provide loan finance for companies. There is a range of financing options available to companies, ranging from bank lending to venture capital. All of these are predicated on a strong business case being presented and this, itself, is subject to significantly more scrutiny than may have been the case in the past. We are currently undertaking a “Business of Finance” programme – involving 12 local businesses and social enterprises. This programme aims to help participating businesses:</p> <ul style="list-style-type: none"> - Understand more clearly the financial position of their business through an assessment of their current financial health. - Master financial tools to improve the financial performance of the business in the short to medium term. - Learn how to develop and implement an improved ongoing approach to financial management within the business. - Master financial analysis to support business decision making. - Understand the requirements of external funders and being better positioned to access external funding.
2.3	<p>In recognition of the difficulties experienced by those wishing to start up a business, Invest NI has re-introduced the grant element to the mainstream start up programme – the Enterprise Development Programme (EDP). This is available only for specific target groups, namely those living in Neighbourhood Renewal Areas (£1,000 grant available) and those not in employment, education or training (NEETs) (£1,500 grant available). For both groups, the grant amount is only paid out once the company is established.</p>
2.4	<p>Invest NI also announced a new Growth Loan Fund at the end of November 2011. Under this fund, £50million will be made available to support business growth – particularly for small businesses. Loans will be made to businesses that can demonstrate sales and profitability growth, or strong growth potential. Businesses that currently export and wish to further expand sales in international markets will be a key target of the Fund, as they have the potential to contribute most to Northern Ireland’s economic growth. The Fund will provide loans, primarily unsecured in nature, of between £50,000 and £500,000 to businesses in the manufacturing or tradable services sectors.</p>
2.5	<p>In early December 2011, Invest NI announced that they will launch a new £5m loan fund aimed at assisting micro-businesses. Under this scheme, loans of up to £5,000 will be made available to eligible companies. The scheme is expected to be launched in spring 2012.</p>
2.6	<p>These schemes are part of Invest NI’s Access to Capital strategy. As part of this work, they are seeking to create a “continuum of support” meaning that depending on the stage of the development of the business, some business support mechanism is in place to enable viable projects to draw down support to underpin their growth plans.</p>
2.7	<p>The European Commission announced in 2010 that it intended to launch a micro credit initiative called “Progress”. It suggested that the loans would be likely to average around €8,000 and would be provided primarily to those in the service sector. As yet, no operator has been identified for this scheme in Northern Ireland.</p>
2.8	<p>The social economy has a relatively strong and well-developed financing</p>

	<p>infrastructure, largely managed by UCIT Ulster Community Investment Trust (UCIT) and Unltd. Both organisations provide financial assistance to social economy businesses (UCIT) and individuals (Unltd), alongside business mentoring and business development support.</p> <p>An illustration of available support mechanisms is provided in Appendix 1.</p>
2.9	<p>As part of the work involved in developing the Investment Package, Members asked that further work be carried out to consider the potential of Council involvement in a micro-finance initiative. Based on previous experience of these schemes across the world, there are a number of issues which would be important for the Council to consider before agreeing to become engaged in such an initiative. These include:</p> <ul style="list-style-type: none"> - Need to consider the legality of Council as a lender (see details of guidance from legal services below) - Need to consider whether a separate body would be required to administer and manage the scheme – if so, how would this be appointed? (also see guidance from legal services) - There is a significant level of risk associated with loans of this nature – is the Council prepared to take the risk? - Research suggests that a loan on its own is not sufficient – need to consider how it could be packaged together with other support (mentoring etc.) - Need to consider what we expect to achieve from the investment – more start ups?; more start-ups in disadvantaged areas?; more growth of existing businesses? The specifics of the scheme will dictate how it runs and will have an impact on investment/return ratios etc.
2.10	<p>Advice from Legal Services suggests that, whilst a council is empowered to incur expenditure with the purpose of promoting the economic development of its district, the legislation does not make any reference to the potential for providing loan funding as an eligible activity. However, whilst a council may be precluded from giving loans, it would not be precluded from giving funds to an appropriate organisation that could administer a loan scheme. Therefore, in terms of administration and other legal complexities around contracts and recovery, an arms length arrangement would be the best vehicle, if the Council wanted to progress with such a scheme.</p>

3	Resource Implications
3.1	<p><u>Financial</u> No specific financial implications at this stage.</p>

4	Equality and Good Relations Considerations
4.1	<p>There are no specific equality and good relations considerations attached to this report.</p>

5	Recommendations
5.1	<p>Members are asked to:</p> <ul style="list-style-type: none"> - Note the issues around the provision of micro finance support - Note the range of existing loan and investment support - Consider whether any additional engagement from Belfast City Council is required in this field.

6	Decision Tracking
<p>If the recommendations are agreed, the outcomes of the report will be fed back to the Committee in May 2012.</p> <p>Timeframe: May 2012 Reporting Officer: Shirley McCay</p>	

7	Key to Abbreviations
<p>EDP - Enterprise Development Programme NEETs - not in employment, education or training UCIT - Ulster Community Investment Trust</p>	

8	Documents Attached
<p>Appendix 1: Overview of existing provision.</p>	