

This document details how Invest Northern Ireland's Development Fund will operate as a risk capital scheme under the European Commission's General Block Exemption Regulation.

1. Member State

United Kingdom

2. Region

Northern Ireland

3. Title of Scheme

Invest NI Development Fund

4. UK Legal Basis

The relevant legal powers under which support will be provided under this Scheme are contained in:

The Industrial Development (Northern Ireland) Order 1982

The Industrial Development (Northern Ireland) Act 2002

The European Communities Act (1972)¹.

5. EC Legal Basis

All aid provided under this Scheme will be within the limits and conditions set out in Article 29 of the Commission Regulation (EC) 800/2008 (General Block Exemption Regulation)².

6. Nature of State Aid

Risk capital for the seed, start-up and expansion phases of SMEs located in Northern Ireland.

7. Definitions

The definitions in Articles 2 and 29 of Commission Regulation (EC) 800/2008 (General Block Exemption Regulation) and the definitions in paragraph 2.2 of the Community Guidelines on State Aid to promote Risk Capital (2006/C 194/02) apply to this scheme.

¹ <http://www.legislation.gov.uk/ukpga/1972/68/section/2>

² <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:214:0003:0047:EN:PDF>

8. Objective of the Scheme

The objective of the scheme is to address the lack of seed, start-up and expansion risk capital funding for SME companies located in Northern Ireland (an assisted area), which have high growth potential but which find it difficult to access capital markets.

9. Estimated Annual Scheme Expenditure

	Public Sector	Private Sector	Total
Financial Year	£m	£m	£m
2011/12	1	2	3
2012/13	1.5	3	4.5
2013/14	1.5	3	4.5
2014/15	1.5	3	4.5
2015/16	1.5	3	4.5
2016/17	1	2	3
2017/18	1	2	3
2018/19	0.5	1	1.5
2019/20	0.5	1	1.5
2020/21	0	0	0
2021/22	0	0	0
Total	10.0	20.0	30.0

In the event that £20m private sector funding cannot be raised by the Fund Manager within 9 months of the tender being awarded, up to a further £5m may be made available from the public sector to allow the £30m fund to close.

10. Maximum Aid Intensity

The Development Fund may provide investment tranches not exceeding €1.5 million (approx £1.3 million) per target SME over each period of 12 months.

11. Target Date of Implementation

January 2012

12. Government body authorised to implement the scheme

The Government Body authorised to implement the scheme is Invest Northern Ireland.

In accordance with the requirements of Article 29 (2) and (8) the fund will be managed on a commercial basis, by an experienced, commercial Fund Manager.

13. Scope of Scheme

The Fund will be open to SME companies located in Northern Ireland which are in the early stage or expansion phase, which are focussed on technology and knowledge based industries and which can demonstrate high growth potential.

As required in recitals (8) to (16) of the General Block Exemption Regulation (GBER), the Development Fund:

- will not result in export aid or aid favouring domestic over imported products. The Development Fund will not be used to finance the establishment and operation of a distribution network in other countries. However, as permitted in the GBER, investment tranches from the Development Fund Aid may be used towards the cost of participating in trade fairs, or of studies or consultancy services needed for the launch of a new or existing product on a new market;
- will not exclude any sectors. It is noted that the GBER specifically allows risk capital in the fisheries and aquaculture sector;
- recognises that special rules apply to the agricultural sector and will only allow investment tranches to be made to the extent that aid are not covered by Commission Regulation (EC) No 1857/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to State aid to small and medium-sized enterprises active in the production of agricultural products and amending Regulation (EC) No 70/2001;
- recognises that certain conditions apply to projects involving the processing and marketing of agricultural products, as detailed in recital (12) of the GBER;
- will not provide any aid to the coal sector;
- will not provide any aid to the steel and shipbuilding sectors;
- will not provide aid to any SME undertakings in difficulty as defined by the simplified definition outlined in recital (15) of the GBER;
- will not provide any aid to an undertaking that is the subject of an outstanding recovery order following a previous Commission decision declaring an aid illegal and incompatible with the common market; and
- aid contingent upon the use of domestic over imported goods.

14. Duration of Fund

Aid under this scheme may be granted until 10 years from the appointment of the Fund Manager, with the option to extend the period of the limited partnership agreement for a further two years to allow for realising investments.

15. Form of Aid

All aid awarded under this Scheme will be risk capital and will adhere to the conditions set out in Article 29 of the General Block Exemption Regulation. Aid will be awarded by way of investment in the SME in the form of equity or quasi-equity, including, but not limited to shares, debentures, loan stock or other securities.

16. Eligible Activities

The Development Fund may provide risk capital aid for all activities, with the exceptions of those listed at point 13, but will be primarily focussed on technology and knowledge based industries.

17. Incentive Effects

Aid in the form of risk capital in favour of SMEs that meets the conditions laid down in the GBER, notably with respect to the size of the investment tranches per target enterprise, the degree of involvement of private investors, the size of the company and the business stage financed, ensures that the risk capital measure will have an incentive effect.

The investee company and the fund manager must demonstrate that the investment has the potential to result in improved economic benefit.

18. Cumulation

The Development Fund will respect the cumulation conditions detailed in Article 7 of the GBER and, in particular, the condition at Article 7(5)(a) that where a target undertaking has received capital under a risk capital measure under Article 29 of the GBER and subsequently applies, during the first three years after the first risk capital investment, for aid within the scope of the GBER (e.g. Selective Financial Assistance or Business Improvement Through Training), the relevant aid thresholds or maximum eligible amounts under GBER shall be reduced by 20 % because the target undertakings are located in an assisted area (i.e. Northern Ireland). In such cases the reduction shall not exceed the total amount of risk capital received. The reduction shall not apply to aid for research, development and innovation exempted under Articles 31 to 37 of the GBER.

19. Participation

The Development Fund is open to companies which are in the early stage or expansion phase and which are focussed on technology and knowledge based industries. It will invest in companies from across NI which can demonstrate high growth potential.

The Fund will be established under a limited partnership agreement which is the legal binding agreement which sets out the rights and responsibilities of the limited partners and the General partner (representing the fund manager). It also contains the Investment policy to which the manager must adhere. The private and public sector investors, through the partnership vehicle will pay management and establishment fees and will invest in SMEs.

The Manager will invest in companies which can demonstrate unique features, early sales or customer traction, experienced management, a scalable business model and growth prospects.

The Fund cannot invest in:

- tranches of finance whether wholly or partly financed through State aid, exceeding €1.5m per target SME over each period of 12 months;
- more than 32 deals in 20 companies;
- companies funded by the manager in other funds run by the manager;
- sectors excluded from aid under the GBER; or
- companies which are not substantially based in NI.

20. European Commission Notification Thresholds

In accordance with Article 29 of the GBER the Development Fund may not invest in more than the sterling equivalent of €1.5m per target SME over any period of 12 months.

21. Monitoring and Reporting Requirements

The commitment of funds from the public sector to the Development Fund is conditional on the necessary private sector funding being secured. Thereafter, the performance of the Fund will be monitored by the Corporate Finance, Appraisal and Advisory Division of Invest NI. The principal terms and conditions of investment are set out in the Limited Partnership Agreement and the Management Services Contract. These are extensive legal documents which set out in detail the legally binding relationship between Invest NI and Crescent Capital NI Ltd as the General Partner, and Fund Manager.

Invest NI will be represented on the Advisory Committee. It is the role of the Advisory Committee to ensure that the Fund is operating in line with the Investment Policy and within the parameters set in the LPA, Management Contract and the fulfils the conditions of the GBER.

Performance indicators will be developed from the conditions of the legal agreements and the tender documents. Monitoring will be on a quarterly basis by an Invest NI representative. Formal independent evaluations will be carried out and copied to the approving bodies at the end of year three, seven and at final closure stage or at any other point in time that Invest NI considers that there might be cause to do so. On completion of the Fund an independent Post Project Evaluation will be carried out.

Records will be kept for 10 year from the date of the last award of aid under the Scheme. Records will be sufficiently detailed to establish that the conditions of the Scheme are met, to include confirmation of SME status and eligibility of supported costs.

An annual report on the expenditure under this Scheme will be provided to the Commission.

22. Name and Address of Granting Authority

**Invest Northern Ireland
Bedford Square
Bedford Street
Belfast
BT2 7ES**