

T: 0300 244 4000
E: scottish.ministers@gov.scot

Joan McAlpine MSP
Convenor
Culture, Tourism, Europe and External Relations
Committee
The Scottish Parliament
Edinburgh
EH99 1SP

24 October 2017

Dear Joan

During my session with the Committee on 28 September, I undertook to write to you on three matters: the level of commitment and absorption of European Structural Funding, future Regional Policy and how SMEs access the SME Holding Fund. This will require three letters, with the one on European Structural Funding being sent around the end of 2017 and the one on Regional Policy during December. I am pleased to be able to address the question of how the SME Holding Fund operates that Dean Lockhart raised below.

The SME Holding Fund is managed by a small team in Scottish Government. Its aim is to increase the supply of finance available to Scottish SMEs, by providing £50 million European Regional Development Fund (ERDF) grant to a range of public and private sector delivery agents. The SME Holding Fund does not provide funding directly to SMEs. Instead, it provides grant support to four delivery agents appointed as part of a public procurement process, who then provide microfinance, debt and equity support to SMEs. Companies apply directly to the respective delivery agents for investment support. Each of the delivery agents apply their own selection criteria (published on their respective websites - see links below) since they each provide finance to a specific cohort of SMEs (e.g. start-ups, growth, exporting, innovative). The SME Holding Fund also provides grant support to LINC Scotland, the Trade Body for Scotland's business angels, in order to increase the number of active business angels and syndicates in Scotland, who will invest in young, innovative Scottish companies.

The four appointed delivery agents are:

DSL (www.dsl-businessfinance.co.uk) which provides loans of up to £25,000 to businesses with less than 10 staff;

Business Loans Scotland which acts as a local authority hub providing loans of £25,000 to £100,000 in SMEs;

Scottish Enterprise (www.scottish-enterprise.com/about-us/what-we-do/investment/sib) which provides equity finance of up to £2 million in deals of up to £10 million in young, innovative SMEs.

LINC Scotland (www.lincscot.co.uk) which develops and grows business angel syndicates who invest in young, innovative SMEs.

SMEs can access details through the individual delivery agents, each of whom targets a different cohort of SMEs and delivers a specific form of finance to meet their business need. Both Enterprise Agencies and Business Gateway are fully aware of the different delivery agents currently supported under the SME Holding Fund and would refer interested SMEs directly to the delivery agent best suited to their specific needs.

The Fund's £50 million ERDF is matched 60:40 by the four delivery agents, bringing an additional £75 million; this will be combined with additional private sector leverage so that **at least £350 million** will have been invested in Scotland's SMEs to fund their growth and exporting ambitions in the period to 31st December 2018.

The SME Holding Fund was originally capitalised at £40 million, and this was recently extended to £50 million through an additional £10 million allocated to the fund under the auspices of the Scottish Growth Scheme. This is the 2nd tranche of funding under the Scottish Growth Scheme, and will be primarily aimed at young, high growth, technology-based Scottish companies.

To date, the SME Holding Fund's delivery agents have invested £175 million into 290 Scottish companies.

I hope this is helpful.



Keith Brown