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**Theme:** *Access to finance and funding*  
**Project title:** *London Co-Investment Fund*

City: London, UK

Target group: High growth businesses in London operating in the digital, science or technology sectors



**Context, issue(s) to tackle**

In 2013, the Greater London Authority (GLA) commissioned research to assess the scale and nature of any SME finance gap in London and use up to £25 million (€33 million) to take appropriate measures to help address any gap. This research aimed to address potential market failures, where SMEs may be denied equity funding from finance providers.

The independent research found:

- a worsening SME finance funding gap since 2008
- a large SME finance gap, including an annual equity gap of around £350 million (€461 million) rising to around £1.8 billion (€2.4 billion) by 2016
- five suitable areas for SME finance intervention, with addressing the £250,000-£2 million (€330,000-€2.6 million) equity gap the highest priority for any London scheme
- the estimated finance gap in relation to angel and venture capital funding to be around £343 million (€452 million)
- over the five-year period, the estimated aggregate SME finance gap in London to be over £7 billion (€9.2 billion)

**Objectives**

The London Co-Investment Fund (LCIF) is a £25 million (€33 million) scheme set up by the London Enterprise Panel (LEP) to address current SME finance gaps.

Together with ten co-investment partners, the LCIF has committed to invest over £80 million (€105 million) between 2014 and 2017 in over 150 science, technology or digital companies based in London that are demonstrably committed to creating jobs in the city.

The scheme will leverage equity funding into early-stage growth firms as they emerge from private accelerators, incubators and support programmes. Its primary aims are to:

- target investment to early-stage SMEs requiring £200,000-£750,000 (€263,000-€988,000), highlighted as a significant structural equity gap by the GLA's research and a critical point when funds are required
- target finance to 210 SMEs with growth potential in high-value digital, science and technology sectors as they emerge from private accelerators, incubators and support programmes
- generate approximately 2,650 jobs and some £130 million (€171 million) gross value added (GVA) from investments in SMEs
- leverage at least £2.9 (€3.8) private investment for every £1 (€1.3) of public investment into SMEs



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- bring to the marketplace an innovative co-investment fund model, which complements rather than competes with other public initiatives and learns lessons from previous SME finance funds

### *Date of achievement - stages of design, development and implementation*

July 2013: GLA commissioned research on SME finance in London. The aim of the study was to review supply and demand for different types of finance and then identify the size, scale and type of funding gaps. The study considered whether there was evidence to justify a new publicly-backed finance initiative for SMEs in London

November 2013: The LEP authorised an investment of £25 million (€33 million) for SME finance towards addressing the equity finance gap in the market

December 2013: Procurement for fund managers commenced

September-November 2014: Commercial negotiations on the structure of the fund concluded

December 2014: Launch of the LCIF

January 2015: First investment made

### *Key steps and activities*

The LCIF is managed by Funding London, a public-private partnership created to help bridge the funding gap for early-stage businesses in London. The initiative was originated by, and developed in partnership with, Capital Enterprise (the membership body for universities, accelerators and incubators that support entrepreneurs in London). Capital Enterprise's ongoing role will be to lead on the promotion of the London Co-Investment Fund and to develop and run a pipeline of investment-ready tech businesses that will be referred to the fund's selected co-investment partners.

The responsibility of delivery falls on a co-investment fund modelled on the Scottish Co-Investment Fund operating since 2003. In short:

- the GLA will provide an existing £25 million (€33 million) fund for investment purposes and certain related overheads
- a consortium of investment partners from the business angel and venture capital community is sourced
- the fund will draw down funds to invest in suitable SME opportunities alongside the leveraged private investment they have generated
- the fund will operate in a way designed to enable repayment of the GLA's £25 million (€33 million) to the organisation

LCIF will co-invest in seed rounds between £250,000-£1 million (€330,000-€1.3 million) that are led by one of the chosen co-investment partners.

### *Budget and its origin*

The London Co-Investment Fund is supported by £25 million (€33 million) from the LEP (originally a grant from the government) and a provisional £60 million (€79 million) from a number of private sector partners.

The LCIF was launched in December 2014 to target investments in high-growth SMEs in London's strategic science, digital and technology sectors as defined in the London Plan, thereby addressing the funding issues faced by early-stage SMEs with high growth prospects.

Investment decisions are made in partnership with ten co-investment partners that include a consortium of investors from the business angel and venture capital community and one of the



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leading crowd-funding platforms in the UK, Crowdcube. The funding model was purposely designed in such a way that would minimise operational costs, maximise private investment and enable more efficient allocations of funding. The LCIF will invest £23 million (€30 million) into 156 high-growth businesses over the next three years, lever in £2.9 (€3.8) of private sector investment for every £1 (€1.3) invested, create 2,653 jobs and generate £130 million (€171 million) of GVA per annum by year eight of the fund.

### *Results and impact*

To date, the LCIF has made 23 investments totalling £3.5 million (€4.6 million), which has leveraged in £16 million (€21 million) from the private sector, providing a co-investment multiple of 4.2x against a target of 2.9x. Thirty-three jobs have been created and sustained for six months.

### *Transferability tips for cities willing to implement a similar scheme*

- get early advice on state aid
- organise market warming events to test the market appetite
- use the city's considerable brand to leverage
- choose investment partners carefully to ensure alignment of interests

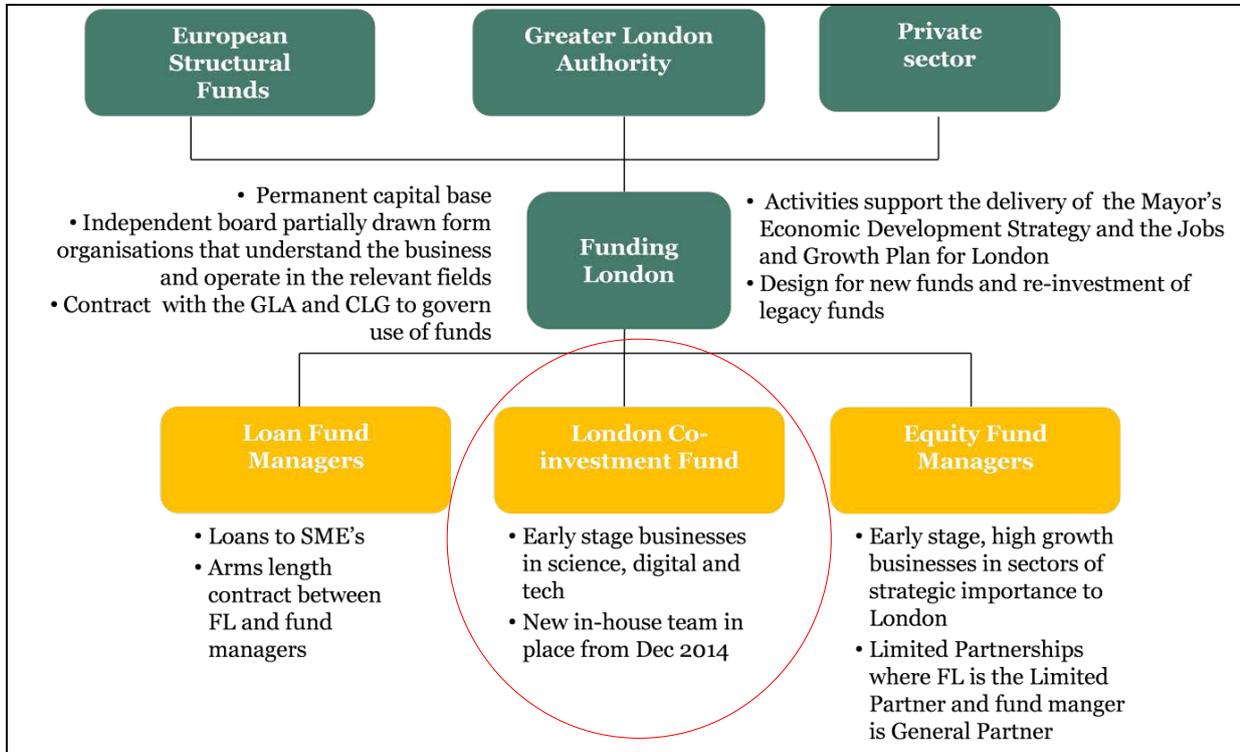
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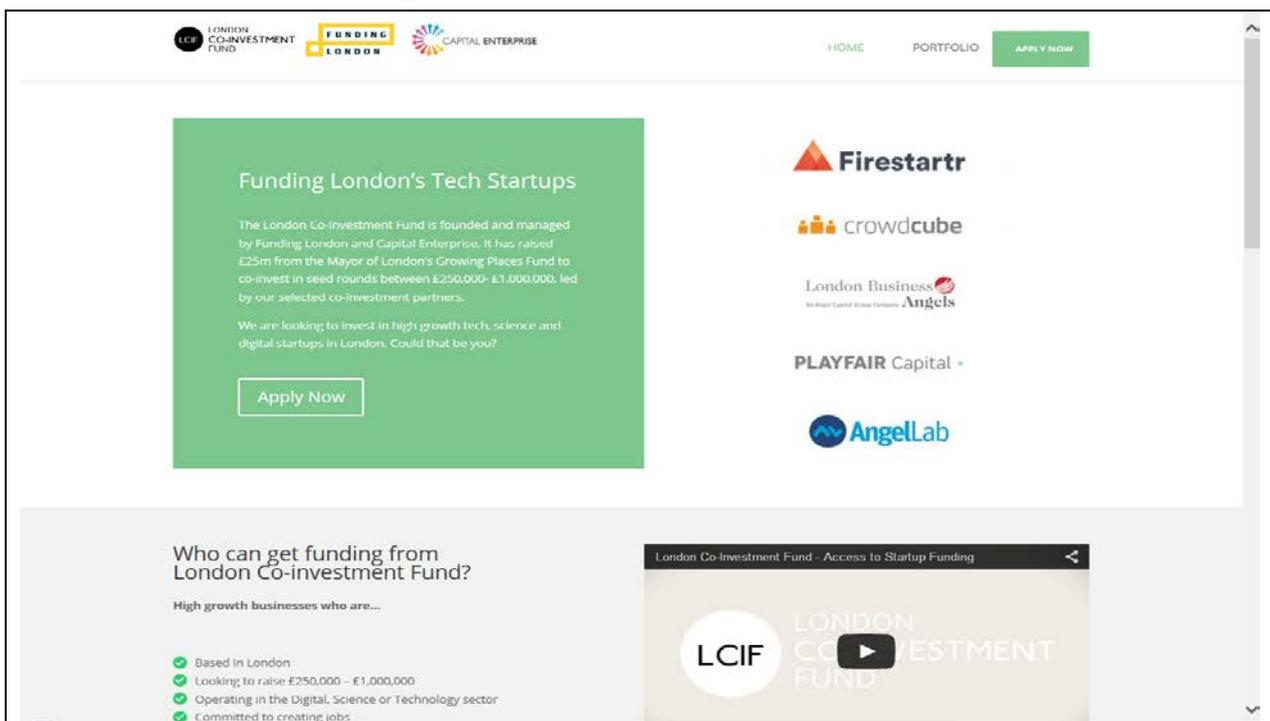
### *Website, social media*

Website: [lcif.co](http://lcif.co)  
Twitter: <https://twitter.com/fundinglondon>

Pictures



Picture 1: The LCIF in London



Picture 2: Screen capture of LCIF website at [lcif.co](http://lcif.co)