Sources of Finance

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Despite the UK having a well-developed environmental goods and services market, start-up businesses and those lacking a track record often face difficulties in accessing finance. Technology firms trying to raise finance for funding of demonstration plants have historically faced the greatest number of barriers. Firms operating in the waste sector where processing plants are often seen as too risky to fund due to uncertainties over the proposed technology, markets for outputs and recovered products and the regulatory permits/compliance system, face particular problems.

With the Stern Report on the Economics of Climate Change confirming that investment that takes place in the next 10-20 years will have a profound effect on the climate, it is imperative that adequate support for environmental technologies and services is provided.

To achieve this support for research and development into, and the commercialisation of, environmental goods and services is crucial. A list of the types of finance currently available follows. In practice, most businesses will access a combination of debt and equity finance and make use of grants where they are available.

Equity Finance

Some equity finance is often appropriate for technology and innovation-driven start-ups. Sources of equity finance include:

Private Investors or Business Angels – high net worth individuals either operating alone or in syndicates who typically invest between £10,000 and £100,000 per deal.

Private Equity Firms - these firms look at larger deals around £500,000 - £1M in businesses with an established track record.

Regional Venture Capital Funds – run by the nine English Regional Development Agencies. All RVCFs have similar rules:

- They must invest in SMEs in their region;
- They must be the first institutional investor;
- Their initial investments are limited initially to £250,000.

Corporate Venturing – this is where a large company invests in a smaller venture by providing, for example, finance, skills, knowledge, access to established marketing and distribution channels or complementary technologies.

Venture Capital Firms (VCs) – VCs generally look to invest in ventures with proven technology and establishes there is a market for the product or service. Many VCs are reluctant to invest sums of less than £1M because of the high fixed transaction costs, shortage of available exit routes and perceived higher risk of investing in early-stage companies.

Venture Capital Trusts (VCTs) – VCTs are quoted limited companies whose purpose is to invest shareholders' funds in smaller unquoted trading companies. Most VCTs are run by investment managers and raise their funds from private investors.

Community Development Venture Fund (CDVF) – the CDVF aims to increase private investment in enterprises in disadvantaged communities. They source funds from the private sector with the government matching their investment. Typical deal sizes range from £100,000 - £2M.

Incubators – incubators look to provide finance, advice and support to SMEs and other organisations such as universities, science parks, R&D laboratories, commercial clusters and social regeneration projects.

Enterprise Capital Funds – based on the US idea of Small Business Investment Companies, the government is looking to introduce a mix of public and private funding specifically targeted at UK businesses seeking investments of £250,000 - £2M.

Stock Markets – junior stock markets such as AIM and the Plus market are available, however the costs are possibly too high for many SMEs.

Debt Finance – Debt finance involves a loan which the investor secures against assets owned by the business with a regular schedule of interest and capital repayments. Typically this type of finance suits businesses with a stable cash flow. Types of debt finance include:

Bank Debt – bank loans are often the first choice for new businesses and in order to obtain a loan or overdraft of any significant size, personal guarantees are often mandatory.

Loans – loans are generally suitable for paying for assets and start-up capital. The terms and price of loans vary from provider to provider.

Small Firms Loan Guarantee Scheme – this scheme is a joint venture between the DTI and a number of participating lenders whereby the government guarantees 75 per cent of a bank loan with the remaining risk taken on by the bank. The scheme covers loans of up to £250,000 with terms of up to 10 years and is available to UK businesses with an annual turnover of up to £5.6M and which are up to five years old.

Local Investment Funds – loans are made to social and community enterprises of between £25,000 and £250,000 for projects and organisations across England.

Grants and Awards

The main advantage of grants is cheap financing. For the environmental sector, the government offers the following grants for R&D funding:

Grant for R&D – this grant is administrated through the nine English Regional Development Agencies and aims to help start-ups and SMEs carry out R&D work on technologically innovative products and processes. Grants between £20,000 - £500,000 over a 6- to 36-month period are available. Often conditions are attached to grants, for example, a prohibition on trading outside the European Economic Area for a defined period.

DTI's Collaborative R&D Grant – this grant is designed to help reduce the burden associated with bringing research to market. Projects must involve two or more collaborators, at least one of which is from a business. The level of grant support ranges between 25 per cent and 75 per cent of the R&D costs. As part of the 2007 Budget, the government announced that it would make a further £100M available under this scheme.