

**PROGRAMME: ENTERPRISE FINANCE GUARANTEE SCHEME (EFG)**

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**1. SUMMARY OF GOOD PRACTICE**

▪ **Overview & Aims**

The Enterprise Finance Guarantee (EFG) is a loan guarantee scheme aimed at encouraging lending to viable SMEs. Introduced in January 2009 in response to the credit crunch the EFG was set up to replace the previous Small Firms Loan Guarantee Scheme and address market failure in the provision of debt finance; **helping those businesses lacking the adequate security or proven financial track record needed to obtain normal commercial loans.**

Providing approved lenders with a 75% government backed guarantee of the value of each individual loan approved and proposed by the lender, the EFG aims to facilitate lending that would not otherwise take place.

Open to most sectors, lending decisions based on standard commercial lending criteria are made by the lender with government providing a guarantee, playing no role in the loan decision process itself.

▪ **Key Resources**

– **Programme Partners**

Led by the Department for Business Innovation and Skills (BIS) the scheme is administered by a managing agency with 43 commercial lenders including main 'High Street Banks' who account for 90% of the Guarantees, acting as approved agents for the scheme.

– **Funding: Funding Body & SME Contribution**

Funded by a State budget of £33.7M (2011), loans are subject to an Annual Claim Limit. Business costs include an annual premium of 2% over the standard interest rate towards the cost of providing the guarantee or facility limit in addition to the normal costs and fees charged by the lender.

▪ **Eligibility Criteria**

EFG is open to UK SMEs in most sectors with an annual turnover of < £41M who are unable to provide any/sufficient additional security to lenders (normal De Minimis rules apply). Agricultural, fisheries, coal, transport and forestry sectors are excluded from the scheme.

▪ **Terms Conditions**

EFG loans range from a minimum of £1,000 to a maximum of £1M with normal repayment terms ranging from 3 months to 10 years.

The EFG scheme can be used to:

- ✓ Finance new term loans (unsecured and partially secured), for working capital or investment purposes e.g. R & D
- ✓ Refinance existing loan terms, where the loan is at risk due to deteriorating value of security or where for cash flow reasons the borrower is struggling to meet existing loan repayments
- ✓ Convert part of, or all of, an existing utilised overdraft to a term loan, to release capacity in the overdraft to meet working capital requirements
- ✓ Provide a guarantee on invoice finance facilities to support an agreed additional advance on a SME's debtor book to supplement the invoice finance facility on commercial terms already in place (available for terms up to three years)
- ✓ Finance an overdraft guarantee, providing a guarantee on new or increased overdraft borrowing where the SME is viable but has inadequate security to meet a lender's normal requirements for the level of overdraft requested (available for terms up to two years).

## 2. IMPLEMENTATION

### ▪ Key Steps - How it Works.

Management and day to day operational activities associated with the EFG scheme are resourced by a managing agency employing six staff:

<b>STEP 1</b>	Businesses seeking debt finance can approach one or more of the participating lenders, primarily commercial banks, approved to participate in the scheme
<b>STEP 2</b>	Lenders assess loan applications against the standard lending assessment necessary for a commercial loan. Applicants provide all the information normally required
<b>STEP 3</b>	If the lender considers the business is viable (able to meet the monthly loan repayments and repay the loan in full), but lacking the necessary security needed to meet normal lending requirements, the lender considers an EFG option
<b>STEP 4</b>	If considered appropriate the lender records details of the borrower, confirming their eligibility and loan facility required via a secure Web Portal
<b>STEP 5</b>	The loan application goes through the Lender's normal credit sanctioning process. Eligibility for EFG is confirmed only once the proposal has been credit sanctioned and funds agreed by the managing agency. The government plays no role in the loan decision process itself

- EFG can only be used to support **businesses considered able to repay their loan in full**, the scheme cannot be used to provide a temporary fix for unviable businesses
- As in standard commercial practice **lenders** are entitled to take security and/or personal guarantees, ensuring a personal commitment to repayment from the business, (but under EFG guidelines not a charge over a principal private residence). This also ensures a three-way risk sharing between borrower, lender and the government
- **The borrower is responsible for repayment of the total (i.e. 100%) EFG facility**, not just the 25% outside the coverage of the of the government guarantee

- **Lenders** are obliged to follow their standard commercial recovery procedure and if necessary realisation of security where defaults occur **before** making a claim against the government guarantee
- The guarantee provides **protection to the lender** in the event of default by the borrower, (it is not insurance for the borrower in the event of their inability to repay the loan).

▪ **Key Stats**

20,000 loans have been offered and **17,500 loans** representing a **total loan value of £1.8Bn**, accounting for 2% of the commercial loan market place, have been drawn down since the programme started in 2009. Evaluation of data relating to the 2009 cohort of 6,724 businesses assessed in 2012, (two to three years after receipt of loans) is as follows:

KEY MEASURE	ESTIMATED TOTAL	PER BUSINESS
Number of Jobs Created	6500 Jobs	0.96 Jobs
Nos of Jobs Saved	12,400 Jobs	1.84 Jobs
Net Additional Sales Created	£1344M	£200K
Net Additional Gross Value Added (jobs created)	£567M	£84K
Net Additional Gross Value Added (jobs saved)	£704M	£105K
Net Additional Labour Productivity	£332M	£49K
Net Exporting	£460M	£290K
Net Economic Benefit Total/Per Exchequer £	£1,092M/£33.50	£162K

Current default rates are 28%, lower than the previous scheme, but higher than other standard commercial loans. 63% of applications take longer than 1 month to process; difficulty of the application process is medium to high. Associated administrative costs are £800K (£938K).

**3. KEY LEARNING POINTS & OPPORTUNITIES**

Survey results published in February 2013 report the scheme is addressing market failure and is an important source of funding for businesses otherwise refused finance. EFG borrowers have fared well in terms of employment and sales growth compared to non-borrowers with sales in 2009-12 from EFG businesses growing by 33% and employment by 21%. Overall, the scheme has provided a net benefit and net economic gain of £1.1Bn to the UK economy.

- **What worked well**

The BIS premium (2%) appears to be set at the right level with 4 out of 10 businesses reporting that they would have been deterred from drawing down the loan if it had been raised to 3%. The changes to eligibility from the predecessor scheme have enabled improved access from a wider range of businesses to the scheme, e.g. new businesses started by young people.

- **Challenges/Weaknesses**

Originally an issue in 2009, the time taken to process guarantees has now improved. Policy changes introduced in 2010 set a 20 day target to process applications.

Banks still apply their standard credit rating/scoring process to the decision process, so there is no change to Banking systems for this scheme.

There is no data available on how many people were put off from applying for the loans, or of those offered, why 2,500 loans were not taken up.



- **Transferability**

- Opportunities: Viewed as a simple National scheme, available to most SMEs viewed as relatively simple to introduce. Provides quick support to SMEs with a simple process of evaluating projects
- Threats: Needs ongoing state/central bank involvement.

**FURTHER INFORMATION:**

<http://www.youtube.com/watch?v=ecVh-oMOvzU>

<http://www.wsxenterprise.co.uk/>

<https://www.gov.uk/government/organisations/department-for-business-innovation-skills>