

Evaluation of the Enterprise Finance Guarantee (EFG)



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Who are we?

The UK's economic development bank, a plc – 100% owned by UK Government

Working with 100+ delivery partners



Aims to improve finance markets for smaller businesses, so they work more effectively and dynamically



In turn, this will help businesses prosper and build economic activity in the UK



plc since 1 November 2014



Where Does Guarantee and Wholesale Solutions Fit?

We deliver for...

Government (through BBB service arm)

Our task is to...

Tackle SME Access to Finance Market Failures

Broaden Supply and Choice

Generate Economic Impact

Our toolkit:

Guarantees

Our Interventions:



Guarantee and Wholesale Solutions
Delivers all 3 of BBB's Guarantee Products including Enable and Growth Loans

Our Partners:

Invoice Finance

Challenger Banks

Debt Funds

High Street Banks

Responsible Finance

Asset Finance

All about... EFG (BBB's 'flagship' access to debt finance intervention)



EFG: helps a lender extend support on term loans, invoice finance, revolving credit and asset finance transactions, where a viable SME has inadequate security to meet normal requirements

BBB's Volume Debt Product

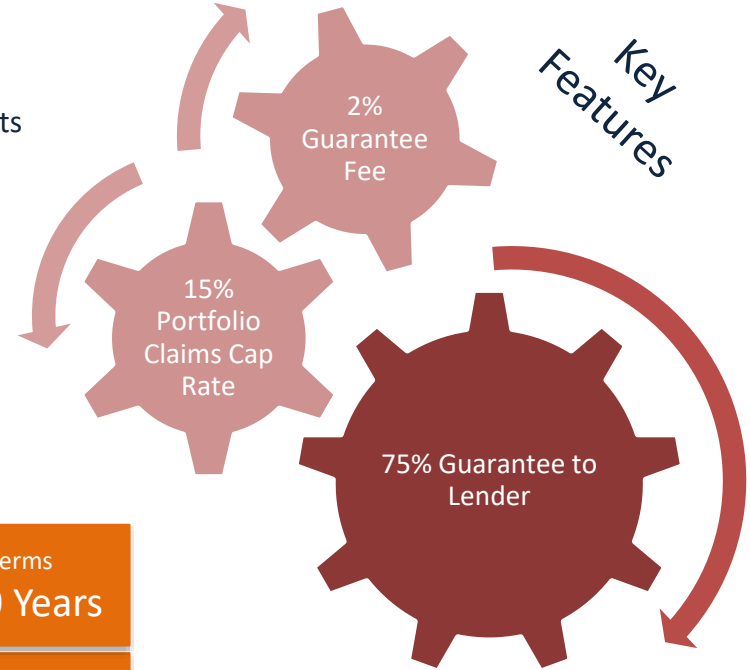
Providers	Over 40
Since 2009	>£3bn
Stock	£650m
Forecast Lending	£230m

Efficient and Effective

Economic Benefit 2010 - 2013
T/O growth faster Employment growth faster
Highly cost efficient

Flexible

Facility Terms Up to 10 Years
Scope £1k - £1.2m



EFG: Why it works

Good for lenders...

- Does not compete with market – all lending additional
- Transfers some of the risk of unsecured exposures
- Allows them to say “yes” where otherwise they’d say “no”
- Helps them to retain customers they might otherwise have lost

BUT

- No capital relief
- Some sector exclusions due to State aid restrictions

Good for SMEs...

- Provides access to finance they might not otherwise have secured
- Helps businesses to stay strong, enabling continued growth and development

Good for the Taxpayer...

- Fee income reduces costs
- Cap limits the downside risk and encourages better lender behaviour
- Proven to provide economic benefit to UK plc



Good for BBB?

Established volume product – contributes to lending stock and flow targets
Proven in the market and understood by lenders
Now simplified, enabling lenders to engage more effectively

Three core areas of work are: market analysis, appraisal and evaluation



Market Analysis: Assessment of SME finance markets, emerging trends

Publications:

- Small Business Finance Markets
- Equity Tracker
- Diverse Finance Markets

Survey work:

- BBB Finance Survey
- SME Finance Monitor

Research projects:

- Trade credit
- Women in Venture Capital



Appraisal: Ex ante economic appraisal of new products, VfM analysis and writing business cases

Examples of work:

- Economic case for Autumn Budget bids
- Market failure and gap analysis for new products going to Product Development Committee



Evaluation: Ex post assessment of products including:

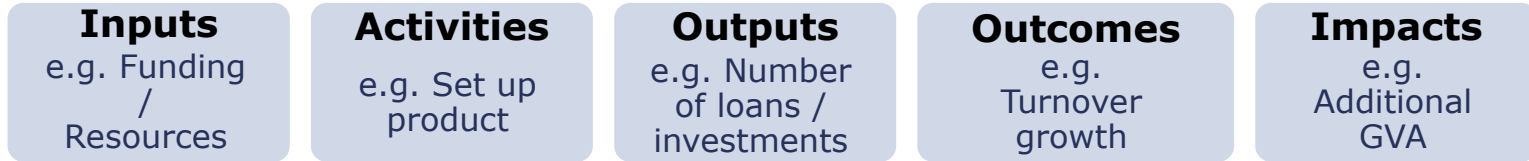
- Strategic and Operational Performance
- VfM and
- Development of evaluation methodology

Published work:

- Start Up Loans
- Enterprise Finance Guarantee

Evaluation: measure benefits, identify improvements

Logic Model: identifies changes expected from the intervention and when they may occur



Typical evaluation schedule

Stage:	Focus of Evaluation
Early Assessment (12 months+)	<ul style="list-style-type: none">• Typically a process evaluation.• Tends to focus on short term outputs vs expectations / targets.• An early view on finance additionality can be sought.
Interim Assessment (mid-facility life)	<ul style="list-style-type: none">• Provides an interim assessment of economic impact.• An initial view on the change in business performance can be identified as well as obtaining better information on additionality. Long term impact based on forecast data.
Final Assessment (end-facility)	<ul style="list-style-type: none">• Provides a final assessment of additional Gross Value Added (GVA) generated by the product.• Actual data used to determine additionality and business performance over the life of the facilities outstanding.

Calculation of benefits to SMEs

Economic Benefits:

Additional turnover at SMEs, as a result of BBB finance, converted into Gross Value Added in the economy

Elements to additionality:

1. Finance - Would SME have received finance without BBB involvement?
2. Attribution - Is the turnover growth attributable to the finance received?
3. Displacement – Is economic activity elsewhere displaced by the growth of the SME?

Gross Value Added

- What is the net impact of the additional turnover on the economy?

Evaluation of the Enterprise Finance Guarantee scheme

Evaluation methodology:

1. Use a cohort of business that received a loan under the EFG scheme
2. Propensity score matching method to identify a comparable of businesses from the general business population
3. Data link to business database to identify financial performance of loan recipients (quantitative) and supplement with additional (qualitative) survey work
4. Identify statistically significant differences in performance

Results (independently peer reviewed and verified):

1. EFG delivers excellent value for money:
Benefit-to-Cost ratios ranged from 7 (2010 cohort) to 11 (2012 cohort)
2. EFG loan recipients showed rapid turnover and employment growth, respectively 7.3% p.a. and 6.6% p.a. faster than the matched comparison group
3. EFG-supported loans to SMEs across 2010/11 to 2012/13 generated £415m of economic benefits, compared to £82m economic costs.
4. EFG beneficiary firms (66%) were more likely to have introduced new or improved products and services than non-beneficiaries (47%).

EFG: Reviews and Evaluations

EFG Scheme Strategic and Operational Design Review 2015/16:

<https://british-business-bank.co.uk/research/6895-2/>

Economic Impact Evaluation of the Enterprise Finance Guarantee 2017:

<https://british-business-bank.co.uk/wp-content/uploads/2017/11/Economic-impact-evaluation-of-the-Enterprise-Finance-Guarantee-scheme-November-2017-s.pdf>

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