

Enterprise Finance Guarantee (EFG) Business Sectors and Purposes

The Enterprise Finance Guarantee (EFG) is subject to sector restrictions arising from the EU de minimis State Aid rules, the Industrial Development Act 1982 (which provides the statutory basis for EFG) and also other national policy decisions.

All individual decisions on the use of EFG, including confirming eligibility under the sector and other eligibility criteria, are made by the participating lenders based on the information provided by potential borrowers. After making the commercial decision to lend according to their own criteria, all lenders use a web portal provided by BIS to administer the eligibility criteria.

Neither BIS nor Capital for Enterprise Ltd (CfEL) can advise on individual eligibility queries. Businesses should approach an EFG accredited lender to determine eligibility. Sector eligibility of individual is determined by the business activity for which finance is required, and is defined using the Standard Industrial Classification (SIC) coding system. An overview of the main sector restrictions is provided below.

Since the start of the EFG in January 2009, and in light of changes to the de minimis rules, certain sector restrictions have been lifted to ensure that EFG is available to as many viable businesses as possible. These are listed below along with those sectors where partial or full restrictions remain.

Overview of restrictions lifted

Authors, music composers and certain other own-account artists

Automotive

Betting and gambling

Commission Agents

Medical and health services (Private & Independent Sector)

Owning and dealing in real estate

Postal and courier services (except the Post Office)

Professional sports players and sporting organisations

Shipbuilders

Synthetic fibres

Steel

Ticket agents

Tied public houses

Veterinary Services

In addition, there is no specific restriction preventing EFG lending to charities.

Overview of remaining restrictions and the operation of the de minimis limit

The following restrictions, described in more detail below, arise from the EU de minimis regulations:

- Aid for Export
- Using EFG funding abroad
- Preferential use of domestic over imported goods
- Agriculture (including horticulture)
- Coal
- Fisheries
- Forestry
- Transport

For eligible cases, as the EFG guarantee has made the difference between failure and success in accessing finance, there is deemed to have been assistance from the Government to the business, generally referred to as “State Aid”. Like most of forms of SME assistance, EFG operates under the de minimis rules which specify that the maximum assistance which may be provided to any SME in any rolling three-year period is €200,000 in grant aid or €1.5 million worth of guaranteed lending, although lower thresholds apply in certain sectors.

To enable for the de minimis aid received via each EFG loan to be easily aggregated on a ‘like for like’ basis with the value of any other such assistance an SME may have received, a ‘grant equivalent’ figure is calculated for the benefit arising from each guaranteed loan. The ‘grant equivalent’ figure is calculated individually taking into account of the loan value, loan term, repayments profile and a risk factor informed by the overall performance of the EFG-backed facilities, although in most cases the ‘grant equivalent’ will not exceed 20% of the value of the loan.

In some cases, especially where the borrower has had previous de minimis aid from other sources within the preceding three years, the value of the guaranteed lending permissible from a state aid

perspective may be less than either the EFG maximum of £1 million or the borrower's desired amount. Similarly, receiving an EFG-backed loan will limit the value of other de minimis aid that the borrower may receive over the next three years. In the event that a business knowingly makes a false declaration of previous de minimis aid the guarantee could be withdrawn from the lender which in turn could lead to the lender seeking immediate repayment from the borrower.

The Industrial Development Act 1982 precludes the use of EFG to assist or acquire Banks and Insurance companies.

The remaining restrictions exist for national policy reasons, primarily where the state is already the main provider of, or source of funding for, these activities, where the activity adds little or no value to the business, or where activities of a similar type are also restricted.

Aid for Export, using EFG funding abroad, and the preferential use of domestic over imported goods

- Aid to export-related activities towards third countries or Member States, namely aid directly linked to the quantities exported, to the establishment and operation of a distribution network or to other current expenditure linked to export activity is ineligible for EFG.
- Aid that is contingent upon the use of domestic over imported goods is also ineligible for EFG.
- However, this restriction relates primarily to the purpose for which the loan is sought rather than the activities of the business, therefore companies that happen to export as part of their business may be eligible for EFG.

Agriculture (including Horticulture)

1) Activities related to primary agricultural production are eligible for EFG but with a maximum 'grant equivalent' value of €7,500, assessed individually but generally equating to a maximum loan value of £50,000

Exception:

- When the amount of aid is fixed on the basis of the price or quantity of products put on the market.

2) Loans for the processing and marketing of agricultural products (beyond simply preparation for sale and packaging) are eligible for EFG.

Exceptions:

- When the amount of the aid is fixed on the basis of the price or quantity of such products purchased from primary producers or put on the market by the undertakings concerned
- When the aid is conditional on being partly or entirely passed on to primary producers.

Banking, finance and associated services

- Any activity that involves a decision on and/or granting of finance to clients, such as banks, deposit takers and building societies; companies involved in granting loans, mortgages, hire purchase or credit services; mortgage brokers that are attached to banks; venture capitalists; seed corn finance companies and stockbrokers is not eligible for EFG.
- Accountants, auditors, management service companies such as bookkeeping firms, tax advisers, management consultants, business advisers and companies that provide services to small firms on financial matters without actually supplying funds, including financial advisors and mortgage brokers, who are independent of banks and insurance companies, are eligible for EFG.

Business, employer & professional, religious and political membership organisations and trade unions

- Activities of business, employer & professional, religious and political membership organisations and trade unions are not eligible for EFG.

Coal

- This sector is specifically excluded from the de minimis rules and is therefore ineligible for EFG.

Education

- Formal education is excluded.
- Businesses offering courses that lead to vocational qualifications and skills (i.e. those skills and qualifications directly usable in a job) are eligible, as are nursery schools, day schools and playgroups for young children and sports coaching.

Extraterritorial organisations and bodies

- Activities of extraterritorial organisations and bodies are not eligible for EFG.

Fisheries

- Activities related to the production, processing and marketing of fisheries products are eligible for EFG but with a maximum 'grant equivalent' value of €30,000, assessed individually but generally equating to a maximum loan value of around £200,000.

Exceptions – when the aid:

- Amount is fixed on the basis of price or quantity of products put on the market.
- Increases fishing capacity, expressed in terms of tonnage or power, unless it concerns aid for modernisation and improving safety standards.
- Is for the purchase or construction of fishing vessels

Forestry

- Forestry, as defined by EU guidelines, is the production of standing timber as well as the extraction and gathering of wild growing forest materials including products which undergo little processing, such as wood for fuel and industrial use
- Activities aimed at directly contributing to maintaining and restoring the ecological, protective and recreational function of forests, biodiversity and healthy forest ecosystem may now be eligible for EFG subject to the relevant EU guidelines.

Insurance and associated services

- Insurance companies and any companies attached to insurance companies are not eligible for EFG.
- Insurance agents and brokers that do not provide insurance themselves and that are independent of insurance companies are eligible for EFG.

The Post Office (Royal Mail)

- The Post Office Ltd is a wholly owned subsidiary of the Royal Mail, which is publicly owned, and therefore is not eligible for EFG. Therefore those Post Offices branches which are directly managed by the Post Office Ltd are not eligible for EFG.
- However, those branches which are managed on an agency or franchise basis may be eligible for an EFG backed loan, subject to satisfying an approved EFG lender's commercial criteria as per any other EFG loan.

Public administration, national defence and compulsory social security

- All publicly owned bodies and companies are ineligible for EFG.

Transport

- Rail, water and air transport are eligible for EFG.
- Road transport sector is eligible, but with restrictions:
 - The road freight and passenger sector is eligible but with a maximum 'grant equivalent' threshold of €100,000, assessed individually but generally equating to a maximum loan value of around £650,000.
 - The acquisition of road freight transport vehicles by businesses undertaking road freight transport for hire or reward is excluded

Other restrictions

Share Purchase & Management Buy Outs (MBOs)

- Transfer of Ownership - Provided that the lender, purchaser and vendor are all agreed that the most appropriate way to effect the transfer of a business is by the sale and purchase of shares in the business being transferred then the purchaser may borrow the necessary funds via an EFG loan.
- The speculative purchase of shares or the purchase of shares which does not add value to the business itself (e.g. a business borrowing in order to buy back the shares of an existing shareholder who wishes to exit the business – which would effectively constitute EFG being used to fund a cash payment to an individual), is not eligible for EFG
- Management Buy-Outs (MBOs) - MBOs (irrespective of structure) are an eligible activity, subject to the lenders satisfying themselves on viability and all other current EFG eligibility criteria. EFG-backed finance should only ever be provided by the Lender to a business as part of an MBO transaction. EFG loans directly to individuals are not eligible.