



Enterprise Finance Guarantee

Business Sectors and Purposes

NOVEMBER 2014

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 British Business Bank 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

Restrictions have been lifted in full or in part from:

- 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 the trading arms of charities or social enterprises.

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
- Transport

For eligible cases, as the EFG guarantee has made the difference between failure and success in accessing finance, the business is deemed to have been assisted by the Government, having received a "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.

To enable for the de minimis aid received via each EFG facility 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 based on the loan term and value.

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 scheme maximum 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)

Activities related to primary agricultural production are eligible for EFG but with a maximum permissible aid value of €15,000.

However, if the amount of aid is linked to the basis of the price or quantity of products put on the market then EFG may not be used.

Loans for the processing and marketing of agricultural products (beyond simply preparation for sale and packaging) are not subject to this lower maximum, although EFG may not be used if either:

- 1) 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; or
- 2) the provision of 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 independent financial advisors and mortgage brokers not tied to specific 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 and Aquaculture

Activities related to the production, processing and marketing of fisheries products are eligible for EFG but with a maximum permissible aid value of €30,000.

However, if the amount of aid is linked to the basis of the price or quantity of products put on the market then EFG may not be used.

Nor may it be used to assist the purchase or construction of fishing vessels or to increase the fishing capacity, expressed in terms of tonnage or power, of existing vessels, although vessel modernisation from the perspective of improving safety standards or environmental compliance is permissible.

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.

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:
Activities related to road transport are eligible for EFG but with a maximum permissible aid value of €100,000, but with the exception that the acquisition of road freight transport vehicles by businesses undertaking road freight transport for hire or reward is excluded.

Share Purchase

Transfer of Ownership - Provided that the transaction will provide a business benefit and 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 purchasing business may borrow the necessary funds to acquire the shares via an EFG-backed loan. EFG loans made not be made to individuals in a personal capacity for the purpose of acquiring or buying into a business.

The speculative purchase of shares or the purchase of shares in a transaction which does not add value is not eligible.

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