

# Growth Loans Pilot

## Questions & Answers

Version 2 (Published 1 May 2015)

**Q1: What promotion or marketing will be conducted by British Business Bank to promote the services of the successful Applicants?**

A: BBFL will announce successful Applicants via a press release and also by listing them as partner organisations on the British Business Bank's website. Direct marketing of an Applicant's own growth loans product to qualifying businesses is the sole responsibility of each successful Applicant.

**Q2: What will the British Business Bank be doing to develop the growth finance market more broadly, e.g. to build awareness and understanding among smaller businesses of growth loans and how to access them?**

A: As part of the overall Growth Loans programme BBB will undertake a communications campaign to increase the profile, and SME understanding, of the options for financing growth. It is expected that this will benefit SMEs, advisors, successful Applicants and other providers of growth finance.

**Q3: What will the deal allocation protocol be when a smaller business approaches the British Business Bank directly seeking a growth loan?**

A: Any SMEs which approach BBB directly will be signposted to the list of Growth Loans pilot partner organisations on the BBB website. This will enable them to make an informed decision about which partner(s) to contact. BBB will not refer any enquiries from SMEs directly to specific partners or make any recommendations to SMEs.

**Q4: Are there any sectoral restrictions?**

A: The Growth Loans pilot may not be able to facilitate the provision of Growth Loans to SMEs in the following restricted sectors:

- synthetic fibres and yarns;
- motor vehicles;
- shipbuilding;
- coal;
- steel;
- transport; and



- production of agricultural and fisheries products.

In addition, the provision of support for exporting may not be permitted.

Applicants whose lending/investment strategy specifically targets sectors listed above or export-orientated businesses should contact BBFL to discuss this further in advance of submitting a proposal.

**Q5: How is the Guarantee Fee paid and on what profile?**

A: The Guarantee Fee will be collected by Direct Debit. BBFL will work with successful Applicants to put in place the necessary arrangements for collection.

It is expected that payment of the Guarantee Fee to BBFL will be structured such that it mirrors the return profile agreed between the successful Applicant and the borrowing business.

**Q6: How will the British Business Bank ensure that intermediaries are not receiving aid by participating in this proposal?**

A: The British Business Bank will work with its legal advisers and Applicants to ensure that proposals that are progressed are compliant with the State aid requirements applicable both to intermediaries and end beneficiaries (i.e. growing smaller businesses). In particular this will include selecting intermediaries through an open, transparent and non-discriminatory call (the Growth Loans Pilot Request for Proposals) and ensuring that intermediaries are managed on a commercial basis. Intermediaries may also be required to demonstrate that advantage is being passed to the final beneficiaries, for example in the form of higher volumes of financing being provided. Each proposal will be assessed individually and we will discuss specific requirements with individual Applicants.

**Q7: Will the British Business Bank consider making a capital investment into a fund incorporating both equity and debt within its capital structure? If so, what is the required equity to debt ratio?**

A: The British Business Bank is willing to consider proposals for funds incorporating equity and debt. However, proposals in which BBFL capital is subordinated behind the other investors will not be supported.

There is no prescribed split where a fund incorporates both equity investment and debt within its structure. However, BBB would require the structure to be commercial and appropriately reflect the respective risk appetite and reward expectations of each type of investor. When formulating a proposal incorporating BBFL's participation as a debt provider to a fund, a practical starting point would be to identify the level of equity cushion required by the



other prospective debt provider(s) (alongside which BBFL would participate in the fund) to make the proposition commercially attractive to them.

**Q8: Can investment raised from another public sector source be used as match funding if it is to be invested on fully commercial terms?**

A: Although accepting that other public sector bodies could invest on a commercial basis, that does not alter the fact that the capital remains public sector investment and therefore could not be matched by BBB, this applies to proposals for investment on both a pari passu or unmatched basis.

Whilst such public sector capital cannot be included in the calculation of how much BBFL could invest in a fund it could act as a 'top-up' to increase the overall scale of a fund, in which BBFL is participating alongside one or more private investors.

**Q9: Would local government pension fund investment qualify as private sector?**

A: Investment from a local government pension scheme will usually qualify as private sector investment, subject to satisfactory evidence that it is being invested on an arms-length basis with an expectation of commercial returns. BBFL may therefore be able to invest alongside such investment on either pari passu or unmatched terms, in the ratios set out in the Request for Proposals.

**Q10: Is BBB able to make available the calculations behind the estimation that 16,000 companies with characteristics indicating they may be potentially suitable for a growth loan and how demand for growth loans was estimated at £60 and £260M for loans less than £2M and £5M respectively?**

A: Details of how the [growth loans market gap](#) figures were estimated, including the key data sources and assumptions used, are available in a separate document.

**Q11: Some of our capital which we intend to use to make Growth Loans is traceable to a grant previously received from a public body. We have fully discharged our obligations to that body and they have advised that we may consider those funds as "washed through" and thus as our capital. May we treat that capital as private sector for Growth Loans purposes?**

A: Applicants' proposals for raising private sector investment will be considered early in the application process on a case by case basis.



If the Applicant has any queries regarding the current status of any funds originally provided by a public body then the Applicant should seek any necessary clarification from the body concerned.

**Q12: May Growth Loans be used to finance merger and acquisition / business transfer transactions?**

A: Proposals should demonstrate a clear intent to provide growth loans in order to support business expansion and development.

If an Applicant wishes to include M&A / business transfer transactions within the scope of their Growth Loans product then it is for the Applicant to make the case accordingly.

However, it is unlikely that a Growth Loans product focused solely in this area would be supported. In addition, in order to comply with State aid regulations, the structure of such transactions may require that the growth loan is matched by at least an equivalent amount of new shareholder capital.

**Q13: Are there any restrictions on the fund structure? How would the British Business Bank's contribution be invested in a Growth Loan Fund?**

A: It is for the Applicant to propose what they consider to be the most appropriate fund structure. However, funds should be located in the UK or another EU jurisdiction and the structure must be one which is acceptable to both BBFL and the private investors. Proposals in which BBFL capital is subordinated behind the other investors will not be supported.

**Q14: Are there any geographical restrictions on successful Applicants lending activity, or can they target growth SMEs throughout the UK?**

A: The Growth Loans pilot programme is a UK-wide initiative. It is for the Applicant to specify the intended geographic coverage of their proposed lending activity. There is no explicit requirement to serve the entire UK or for there to be sub-national funds collectively covering all parts of the UK.

Proposals with a specific regional focus are therefore acceptable, providing the Applicant is able to demonstrate credible demand for growth loans from eligible SMEs in the market they intend to serve.

**\*\*\* ENDS \*\*\***

