

Institution: University of Derby		
Unit of Assessment: 17		
Title of case study: Let's Do Business Group (LDBG) – Local SME Financing		
Period when the underpinning research was undertaken: May 2019–December 2020		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Professor Marc Cowling	College Head of Research & Innovation	April 2019–present
Dr Simon Peter Nadeem	Lecturer in Operations/Supply Chain Management	February 2019–present
Dr Polina Baranova	Senior Lecturer Strategic Management	September 2009–present
Professor Carley Foster	Professor of Services Marketing/Head of Centre for Business Improvement	September 2016–present
Period when the claimed impact occurred: May 2019–December 2020		
Is this case study continued from a case study submitted in 2014? No		
1. Summary of the impact (indicative maximum 100 words)		
<p>Access to finance and managerial capability are critical factors for SME survival. This is typically addressed through publicly funded provision of separate finance and training support programmes. Located in a deprived area, LDBG provides GBP1,500,000 of funding and advice and training support to 465 SMEs p.a. Based on a formal evaluation, our research impacted in reshaping LDBG's business model in two new ways: (1) <u>Differentiation</u> of a suite of financial products designed to support businesses through the key growth stages in their evolution; (2) An <u>integrated</u> portfolio combining both finance and managerial capability support to maximise absorption capability.</p>		
2. Underpinning research (indicative maximum 500 words)		
<p>Cowling's regular interaction with UK government policymakers over 30 years has provided unique insights into the UK government agenda in respect of SME financing and the shift towards local, place-based funding. This is underpinned by a strong research base that utilises survey evidence from tens of thousands of UK SMEs. The specific research project for LDBG [G3.1] involved: (i) a new survey administered to 380 recipients of LDBG grants and loans over the last two years; and (ii) the design of a new local funding model.</p> <p>This research has enhanced our understanding of how smaller businesses interact with financiers. It is capital market rationing that underpins public intervention in capital markets and this is where the LDBG loan and grant finance offer to local small businesses seeks to fill a market gap. The key findings from our research are:</p> <ul style="list-style-type: none"> - Whilst 'safer' and less ambitious projects are more likely to be funded, problems remain around the valuation of collateral [3.1]. Many younger and micro businesses lack assets to 		

securitise lending against [3.2]. This formed the basis for the development of a local funding escalator for micro business that was Strand 2 of our LDBG research project.

- A significant minority of small businesses choose to exclude themselves from the loan market. Our research has shown that more than half of discouraged borrowers would have got a loan had they applied [3.3]. Further research focusing on the UK under-investment problem identified a substantial proportion of SMEs that were at COVID-19 risk of failure due to a lack of liquidity [3.4]. These findings suggest that a distrust of banks has created a space for new providers offering loans on a local basis.
- Banks interest rate offer is important in shaping ability to service the capital and interest repayments. This is important for younger and smaller businesses who have limited collateral and irregular cash-flows. Our research shows that higher interest rates are levied on smaller firms and on loans issued for working capital purposes, which imposes a 'double' penalty on younger and smaller businesses. Businesses that have reached a maximum debt capacity based on collateralized assets face higher interest rates. In this respect a new LDBG loan fund would lower the average interest rate on total borrowing. This is critical in increasing their ability to finance new projects with positive returns.
- Access to financing is conditional on the local environment. This underpins the policy relevance of financing in local ecosystems, especially in lagging regions. Our research found that proximity between borrower and lender alleviates credit constraints. The clustering of investment opportunities and specialist investors in 'core regions' more than in 'peripheral regions' reinforces credit constraints in spatially remote regions [3.2]. As the LDBG offer is place specific (i.e. Sussex), their funding offer is a local one that is configured to address the particular finance constraints of local businesses who are primarily young and small. The first strand of the LDBG research focuses explicitly on evaluating their current funding offer and its appropriateness for the local small business community.

3. References to the research (indicative maximum of six references)

Peer-reviewed journal articles

University of Derby researchers are indicated by black, underlined text:

[3.1] Cowling, M., Marlow, S., and Liu, W. (2020) 'Gender and bank lending after the global financial crisis: are women entrepreneurs' safer bets?', *Small Business Economics*, 55, 853-880. DOI: <https://doi.org/10.1007/s11187-019-00168-3>

[3.2] Ughetto, E., Cowling, M., and Lee, N. (2019) 'Regional and spatial issues in the financing of small and medium-sized enterprises and new ventures', *Regional Studies*, 53(5), 617-619. DOI: <https://doi.org/10.1080/00343404.2019.1601174>

[3.3] Cowling, M., Nadeem, S., Foster, C., and Baranova, P. (2020) 'Can local finance add value to local small business?', *International Review of Entrepreneurship*, 18(1), 133-152.

[3.4] Cowling, M., Brown, R., and Rocha, A. (2020) 'Did you save some cash for a rainy COVID-19 day? The crisis and SMEs', *International Small Business Journal*, 38(7), 593-604. DOI: <https://doi.org/10.1177%2F0266242620945102>

Funding

[G3.1] Let's Do Business Group (Cowling) (2019/20 – GBP15,000) – an evaluation of Let's Do Business Group (ERDF funded) investment programmes.

4. Details of the impact (indicative maximum 750 words)

The LDBG provide finance to around 385 local businesses per annum in the Sussex area. They also provide capability enhancing support to a further 80 business per annum. LDBG are expanding their scope to reach more businesses and this research was commissioned to provide answers to two basic questions: *Is what we offer relevant and useful to local businesses? And, can we improve and enhance our offer going forward?* Thus, even at current support levels the impacts outlined have the potential to have a positive impact on some 450 local businesses each year with the potential to expand their support offer in the future [5.1].

The LDBG (ERDF funded) investment programmes providing total loan and grant capital of GBP1,500,000 to 385 SMEs in Sussex were evaluated in 2019–20 [3.4, 5.1]. The evaluation was conducted in parallel with the co-design of a new local funding model that seeks to address problems around track-record, collateral, and managerial capability that represent a barrier to raising external capital for these firms. Both strands of research build upon three decades of academic and policy related research conducted by Cowling. In particular, his recent work on the UKs regional finance problem [3.2] and his wider body of academic work on borrower discouragement [3.3], gender and collateral [3.1], and loan guarantee schemes [3.4]. The core findings and recommendations of the LDBG evaluation were presented at a conference on 'Accessing Investment Funds for Regional Innovation and Growth' held at the University of Derby (2020), which was attended by senior officials from the British Business Bank, Innovate UK, BFG, Midlands Engine, and representatives of local finance and SME support agencies [5.4, 5.5].

This research underpinned the development of the research framework for the LDBG project, (2019-ongoing). The key research findings from the evaluation of LDBG funding recipients are supporting the continual development of the group's finance offer to local businesses. These research projects and the associated publications have generated an in-depth understanding of how public policy and intermediaries can support capital constrained SMEs to overcome these barriers and enhance their survival and growth prospects [5.5]. The specific findings from our research activities impacted on how LDBG's offer to local businesses as follows:

LDBG Direct Impacts:**IMPACT 1: LDBG are designing and testing a differentiated portfolio approach to funding -**

The research found evidence to support the development of a differentiated funding offer based on a business's growth needs. For example, 27% of businesses surveyed indicated a desire to pursue a more expansionist growth strategy. However, accelerated and more expansive growth typically requires a longer time-scale of integrated support with the potential for multiple funding rounds. Equally, start-up costs differ from innovation or new product development investment. Therefore, matching financial packages with the emergent business growth stages allows for a highly targeted support offer [5.2, 5.4, 5.5].

IMPACT 2: LDGB are implementing an integrated package of funding and advisory support that addresses financial and human capital deficiencies -

The research identified concern around managerial capabilities and that these capabilities impacted on the ability to make effective use of financial investment. Hence, combining financial provision with an integrated advisory programme in order to maximise the absorption capability of any investment funding [5.2, 5.5].

IMPACT 3: LDBG are now able to identify the full local economic impacts of their activities

- Thorough economic evaluation is necessary to provide a clear understanding of the impact of publicly supported interventions. This is not typically conducted, particularly at the local level, hence we do not know 'what works' and what doesn't. Our evaluation identified impacts of support at the business level through growth in employment, sales, and value added, but more importantly in respect of the local economic multiplier which was estimated to contribute around GBP16,000,000 in additional consumer expenditure from the additional 1,003 jobs created for local workers [5.2].

Wider Impacts:

IMPACT 4: Input into the design of an evaluation template for European Commission (EC) and European Investment Bank (EIB) SME finance interventions. The European Commission 'Support to SME Initiative evaluation in the Member States (2019CE16BAT136)', provides a common methodological approach that helps Member States to evaluate the effectiveness, efficiency and impact of SMEi3. This should ensure robust and comparable evaluations, in line with the Common Provision Regulation. The LDBG Evaluation was discussed with the project team at an EC seminar (March 2020) cited in the final report under this project as an example of how small local interventions could be robustly evaluated [5.3, 5.6].

5. Sources to corroborate the impact (indicative maximum of 10 references)

[5.1] The Let's Do Business evaluation report which details the research undertaken with funding recipients from the LDB Loan and Grant Funds (31 January 2020).

[5.2] A statement from the Chief Executive of the Let's Do Business Group (2 July 2020).

[5.3] A statement from the Director of the European Studies and Evaluation t33 Srl – Principal Consultant on DG Regio Project – Evaluation Framework for SME Programmes (26 August 2020).

[5.4] A statement from a BGF Investor (22 May 2020).

[5.5] A statement from the Director of Investment, British Business Bank (13 March 2020).

[5.6] [text removed for publication]