A shake-up of the Small Firms Loan Guarantee scheme offers fresh hope to fledgling firms that would otherwise struggle to obtain growth finance, says Mark Crossfield of M3 Corporate Finance.

Access to growth finance is crucial to business success and yet many smaller firms fail to secure the funding they need to expand.

This is because they don't have sufficient collateral with which to obtain a loan and so lack the security that lenders require. It's a catch-22 situation that many new and even established businesses face.

But changes to the Small Firms Loan Guarantee (SFLG) scheme, which came into effect on December 1, offer a solution to start-ups and young businesses that have tried and failed to get a conventional loan.

The Government scheme was set up to help small and medium-sized enterprises (SMEs) with viable business propositions gain access to debt finance. It offers a guarantee to the lender covering 75 per cent of the loan amount, for which the borrower pays a two per cent premium on the outstanding balance of the loan.

Changes to the scheme now limit availability of SFLG to SMEs that have been trading for less than five years and raises the turnover limit for all eligible businesses from up to £3 million - depending on what sector the business operated in - to £5.6 million for all qualifying business sectors. The maximum loan available has also been increased to £250,000 for new and existing businesses.

The changes are good news for fledgling firms, which should examine the eligibility criteria straightaway, to see if they qualify for a loan. The new scheme is a great deal more flexible and focuses help in an area of the market often starved of investment. It now helps larger businesses that would not have qualified before and start-ups that want to borrow more than £100,000.

The SFLG is just one of a number of finance options open to growing businesses with little or no assets to offer as security. In certain circumstances it can also be used for funding an acquisition or management buy-out.

Other forms worth considering in addition to the traditional secured loans on property and fixed assets are:

- Payroll finance – this is a new option which provides firms with nine weeks' credit to pay staff and is unsecured.
- Private equity from business angels - this is likely to take time to arrange, but valuable at the smaller end of the market where venture capitalists don't want to invest so readily.
- Working capital products such as stock, debtor and cash flow finance. Some specialists fund contractual work, and cash flow where this is more reliable and predictable.
- Specialised trade and stock finance for acquiring stock from abroad.

For more information about raising growth or acquisition finance please contact M3 Corporate Finance on 0845 2700345 or email info@m3cf.co.uk