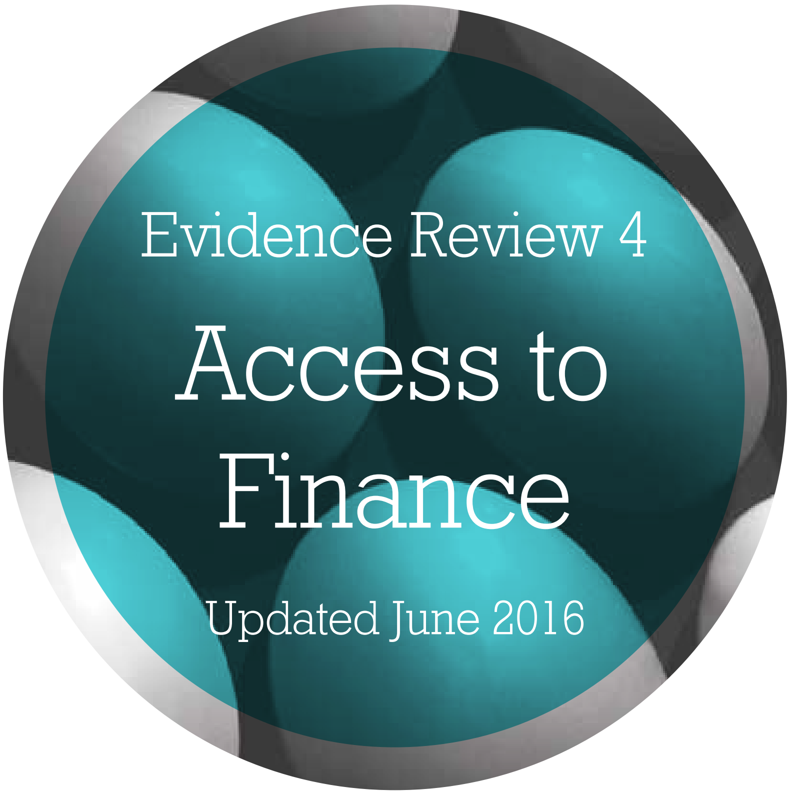
what works centre for
local economic growth



Evidence Review 4

Access to Finance

Updated June 2016

Executive Summary

This report presents findings from a systematic review of evaluations of policies designed to improve access to finance for businesses, with the goal of improving business growth and other outcomes. It is the fourth of a series of reviews that will be produced by the What Works Centre for Local Economic Growth.

The review considered almost **1,450 policy evaluations** and evidence reviews from the UK and other OECD countries.

It found **27 impact evaluations** that met the Centre's minimum standards. This is a smaller evidence base than for our first and third reviews (on employment training and the impact of culture and sports projects) although a little larger than for our second review (on business support). It is a very small base relative to that available for some other policy areas (e.g. medicine, aspects of international development, education and social policy).

Helping businesses access finance can have two kinds of effects on firm outcomes. There may be immediate effects on improved access to finance (credit availability, cost of borrowing, etc.). In turn, these need to translate into improved firm performance (captured by employment, productivity and so on) if the programme is to have an impact on local economic growth. Even if these positive effects occur at the firm level, however, access to finance could have an adverse impact on local economic growth if it helps weaker firms survive.

Overall, of the 27 evaluations reviewed, **17 found positive impacts on at least one firm outcome**. Seven evaluations found mixed results (at best providing only weak evidence of positive effects, at worst a mix of positive and negative effects). Two evaluations found that the programme didn't work (had no effect) and one found that the programme might be harmful.

Approach

The Centre seeks to establish causal impact – an estimate of the difference that can be expected between the outcome for firms in the programme and the average outcome they would have experienced without the programme (see Figure 1). Our methodology for producing our reviews is outlined in Figure 2.

Figure 1: Evaluating impact

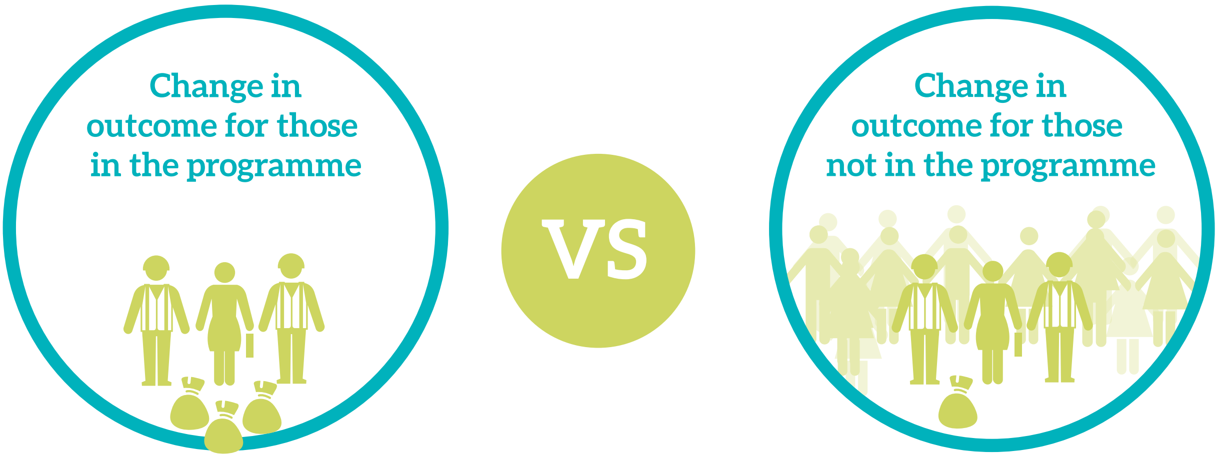
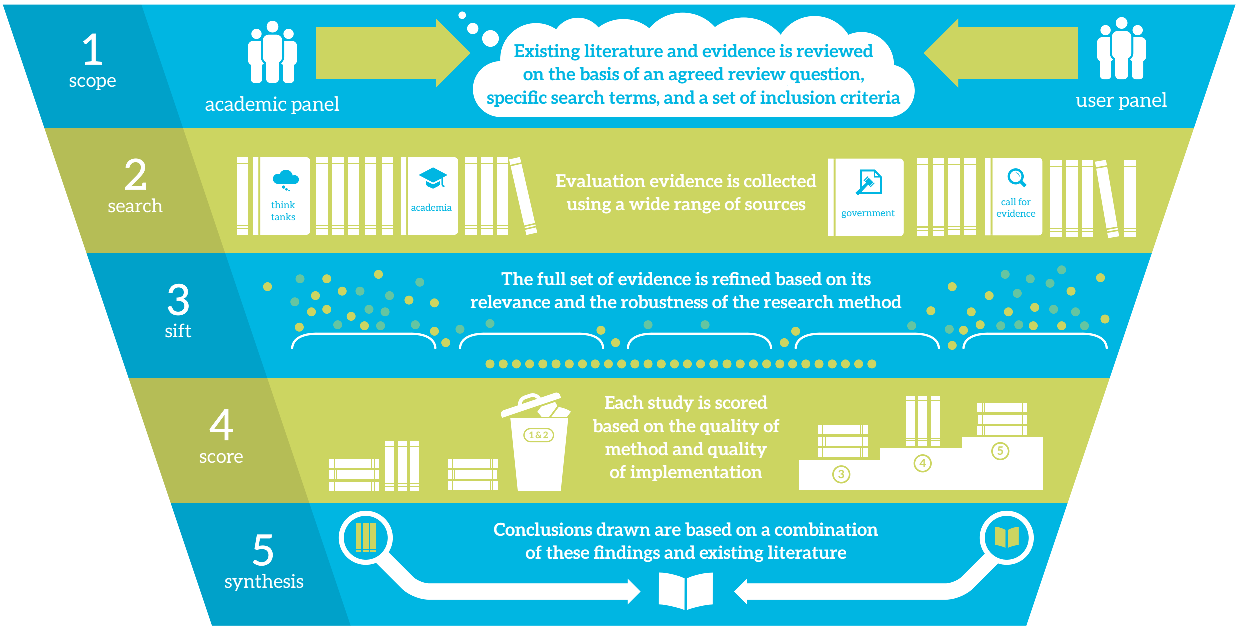


Figure 2: Methodology



Summary of findings

Helping businesses access finance can have two kinds of effects on firm outcomes. There may be immediate effects on improved access to finance (credit availability, cost of borrowing, etc.). In turn, these need to translate into improved firm performance (captured by employment, productivity and so on) if the programme is to have an impact on local economic growth. Even if these positive effects occur at the firm level, however, access to finance could have an adverse impact on local economic growth if it helps weaker firms survive.

What the evidence shows

- Access to finance programmes had a positive impact on at least one firm outcome (e.g. credit, employment, sales) in 17 out of 27 evaluations.
- Programmes have a positive effect on firm access to debt finance either in terms of the availability of credit or the cost of borrowing (or both). The impact on access to equity finance is mixed (and available evidence limited).
- The impact of policies on investment and assets is mixed.
- There is some evidence that loan guarantees may increase default risk.
- Access to finance had a positive impact on at least one aspect of firm performance (e.g. employment and sales) in 14 out of 17 evaluations.
- However, these overall patterns hide much more mixed results for specific aspects of firm performance, with only half the evaluations typically recording a positive effect when looking at a specific aspect of firm performance (e.g. employment).

Where the evidence is inconclusive

- There is no evidence that programmes targeted at Small and Medium Sized Enterprises are more or less effective than non-targeted programmes. Other targeted programmes (taken as a group) appear to perform slightly less well.
- The overall results for loan guarantees and alternative investment mechanisms are broadly similar. Loan guarantee schemes introduced in response to economic crisis perform somewhat worse than long term development schemes.
- The overall results for public, private or hybrid programmes are broadly similar.

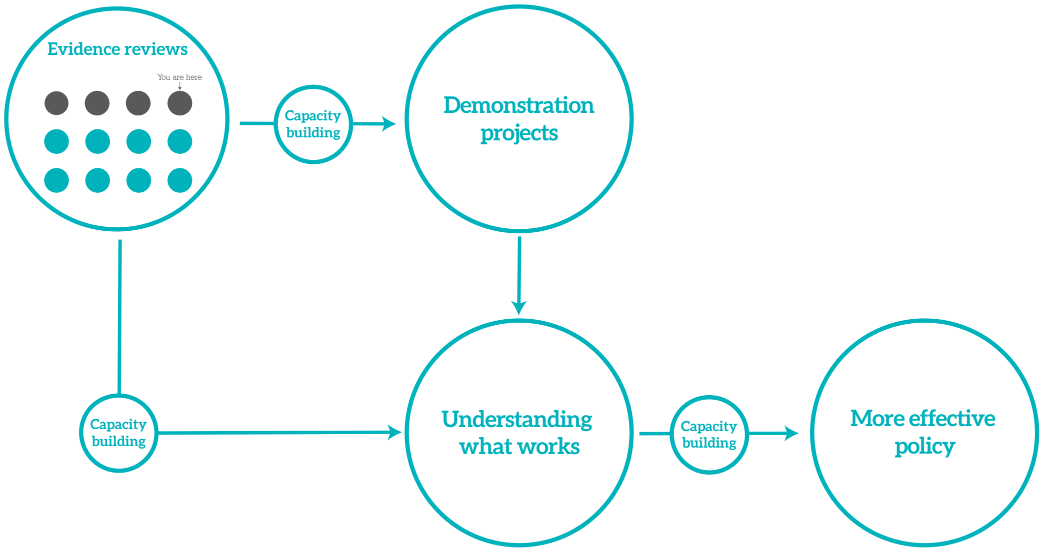
Where there is a lack of evidence

- We found very few studies that look at the impact of schemes on both access to finance (direct effect of the scheme) and on the subsequent performance of firms (indirect effects of the scheme).
- While most programmes appear to improve access to finance, there is much weaker evidence that this leads to improved firm performance. This makes it much harder to assess whether access to finance interventions really improve the wider economic outcomes (e.g. productivity, employment) that policymakers care about.
- As with other reviews, we found very few studies that gathered (or had access to) information on scheme costs. As a result, we have very little evidence on the value for money of different interventions.

How to use these reviews

The Centre's evidence reviews consider a specific type of evidence – impact evaluation – that seeks to understand the causal effect of policy interventions and to establish their cost-effectiveness. In the longer term, the Centre will produce a range of evidence reviews that will help local decision makers decide the broad policy areas on which to spend limited resources. Figure 3 illustrates how the reviews relate to the other work streams of the Centre.

Figure 3: What Works Centre work programme



Supporting and complementing local knowledge

In our employment training and business advice reviews, we set out a number of 'Best Bets' which outlined what tends to work in those two policy fields based on the best available impact evaluations. These best bets might be in terms of the intended outcomes (e.g business advice programmes show better results for sales than for productivity or employment) or in terms of policy design features (e.g. on the job training is more effective than class-room based training). These 'Best Bets' do not generally address the specifics of 'what works where' or 'what will work for a particular individual'. But they do provide an important complement, rather than a substitute, for local, on-the-ground knowledge.

As should be clear from our summary above, despite the availability of relatively high quality evaluations, the evidence provides no such guidance for access to finance programmes. Impacts across key outcomes such as employment, profit and sales are generally similar with around 50% of programmes having a positive impact on any given outcome. Overall programme impacts do not differ much between targeted and non-targeted programmes, between loan guarantee and alternative finance vehicles or between private, public and hybrid programmes. In short, the available evaluation evidence provides little guidance to local policymakers on the detail of policy design in this area.

Providing general guidance on what works

Despite their continued popularity with policy makers we have very limited evidence that access to finance interventions improve firm performance. Note that we have good in-principle reasons to think these programmes may improve growth across the local economy – but the evidence suggests that such impacts are not consistently achieved in practice.

This also suggests that direct programme outputs (e.g. loans made or guaranteed) are unlikely to be good indicators of programme impact on wider local economic growth. Similarly, sustainability of a programme may provide a useful indicator that there has been no increase in default risk, but this is no guarantee of an impact on the local economy further down the line.

In short, standard monitoring of performance indicators appears to provide no guidance to policy effectiveness in terms of improving local economic growth. More evidence is needed to understand whether access to finance improves firm performance and thus whether the large amount of money committed to such programmes is justified.

Filling the Evidence Gaps

This review has not found answers to many of the questions that will be foremost in policy makers' minds. This makes it much harder to assess whether access to finance interventions really perform against the economic performance measures policymakers care about.

These gaps highlight the need for improved evaluation and greater experimentation, specifically experiments that focus on:

- setting out and evaluating whether access to finance models improve both access to finance and firm performance.
- identifying how different types of access to finance programmes contribute to better or worse firm and economy outcomes; and,
- the value for money of different access to finance approaches.

Addressing these gaps requires evaluation to be embedded in the access to finance policy design process, and thinking differently about the access to finance policy cycle as a whole.

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