

British Business Bank Response to the Trade Credit Enterprise Finance Guarantee (TCEFG) Evaluation Report

Overview

The British Business Bank (BBB) welcomes the findings of SQW's evaluation of the Trade Credit Enterprise Finance Guarantee (TCEFG) pilot. The Bank recognises that independent evaluations are an important component of assessing effectiveness of programmes, and is committed to ensuring that the findings of such exercises are both used within the Bank to inform future provision and are disseminated more widely to interested parties across the SME finance stakeholder community.

Information gathered and analysed during BBB's own investigations into the effectiveness of the TCEFG pilot are largely consistent with the findings of this evaluation.

In accordance with the principle of ensuring that all BBB products are evidence-based and operate in a cost-effective way, **the Bank has decided to close the pilot at the end of March 2015 and not to introduce a direct successor scheme.**

BBB Response

The British Business Bank will close the pilot to new business from 31st March 2015 as planned and does not intend to introduce a direct replacement. The BBB has communicated this decision to all partner organisations and is working with them to ensure an orderly close. In making its decision, the BBB noted that:

- Although trade credit is an important source of external finance for smaller business, especially for working capital purposes, the evaluation has found that the TCEFG pilot has **had limited economic impact**. This in turn suggests that continuing the pilot would offer poor value for money overall and therefore that it would not be justifiable to continue the pilot in its current design.
- The pilot has revealed **greater relevance and impact on smaller and more localised suppliers** than on large national chains, and that the former have expressed greater interest in the possibility of continuing support. While this in itself has not been the deciding factor, it is not **cost effective for the BBB to operate a delivery model** involving the participation of a large number of smaller suppliers each using the guarantee to facilitate relatively low value transactions. Despite considerable exploration of possible channels, it has not proved possible to identify a cost-effective delivery model.
- Experience gained during the pilot suggests that demand for guarantee support for the provision of trade credit facilities appears to be **predominantly sector-specific in the construction sector**. It should be noted that BIS has previously commissioned research¹

¹ Trade Credit in the UK Construction Industry: An Empirical Analysis of Construction Contractor Financial Positioning and Performance, BIS Research Paper No. 118, July 2013 – Graham Ive and Alex Murray, Bartlett School of Construction and Project Management, UCL



into trade credit practices in the construction sector and continues to monitor developments. BBB does not generally initiate or operate sector-specific interventions.

- There is a **need to ensure that interventions do not lead to the displacement of commercial products from the market**. Since the financial crisis there has been an increased range and availability of credit insurance solutions which, in many cases, are likely to provide appropriate cover to trade credit providers for which the concept of TCEFG may also have been suited.

Specific Recommendations

SQW has made a number of specific recommendations in the evaluation report. The BBB wishes to respond to each recommendation in turn:

- **Recommendation 1: At the close of the pilot scheme in March 2015 ... it should not be rolled-out more widely. The evaluation indicates that continuing the scheme as it is currently designed is not a viable option.**

Response: Agreed.

The delivery mechanism adopted for the pilot was always a compromise between rapid implementation to meet the well documented wider funding conditions at the time and being a feasible delivery model involving sufficient BBB oversight. It was always acknowledged that different delivery mechanism would need to be examined if there were ever to be a wider roll-out of the pilot.

- **Recommendation 2: The British Business Bank should undertake a formal options appraisal and market assessment to determine if and how a re-cast TCEFG scheme should be progressed.**

Response: Agreed.

In parallel with the latter stages of the publication of the evaluation BBB undertook an internal assessment and reached the same conclusion that the current pilot delivery mechanism was not appropriate for a wider roll-out. Despite considerable exploration of possible channels within the same internal exercise, it has not proved possible to identify a cost-effective delivery model.

- **Recommendations 3 to 8: These were six specific recommendations focused on the presentation and operation of the pilot from the perspective of highlighting issues to be considered in the design of a successor scheme.**

Response: These recommendations are now hypothetical as British Business Bank has made the decision to close the pilot as planned without a direct replacement.

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