

24<sup>th</sup> September 2020

## **BExA response to the International Trade Committee inquiry examining the work of UK Export Finance**

<https://committees.parliament.uk/work/491/uk-export-finance/>

### **Overview of BExA**

1. The British Exporters Association (BExA) is an independent national trade association representing the interests of the UK's exporters. Our membership is drawn from across the exporting community, including capital goods manufacturers and international traders (large corporates, MSBs, SMEs and Micro exporters), and their bank, credit insurance and other service providers. BExA seeks to promote the interests of its members and all UK exporters, with a particular focus on trade finance and export credit insurance.

### **Summary**

2. BExA is proud to work with UK Export Finance (UKEF) to improve its products and services for the benefit of UK exporters. Over the past decade BExA has seen UKEF develop into one of the worlds' leading Export Credit Agencies (ECAs) through adopting an open and collaborative culture. UKEF's willingness to listen to BExA as representatives of the users of its products in order to improve and expand on them has paid dividends for its global standing.
3. There is still work to be done, as we highlight in the following response, but on the whole the UK is fortunate to have UKEF as its Export Credit Agency and BExA looks forward to working with UKEF as it fine-tunes and develops its offerings for the benefit of all UK exporters.

### **Operation**

#### **How comprehensive is UKEF's product offering - and how attractive are particular products when compared with private sector options?**

4. It is important to stress that UKEF and other OECD Export Credit Agencies are designed to support exporters by complementing the private sector options and not by competing with them. We look to UKEF to provide financing support to exporters in tandem with the UK's excellent financial services sector. UKEF is there to fill the gaps that the private market cannot fill to ensure that no viable UK export fails for lack of support/finance. This can be for challenging destination jurisdictions where banking cover is scarce, for large transactions to help diversify funding risks, and for small transactions where financing margins are too slim for the private sector. UKEF support is needed even more in times of crisis where financial institutions' appetites are severely restricted, such as now.
5. BExA has for the past decade compiled an annual UKEF benchmarking paper that assesses UKEF's product range and performance against that of its peers. The 11<sup>th</sup> benchmarking paper will be released later this year but last years' 10<sup>th</sup> annual benchmarking paper can be downloaded from the BExA website [here](#).

6. To summarise the paper very briefly, UKEF has an excellent and broad product range, scoring 9/10 (for available products) on a consistent basis over recent years. The UKEF team has consistently strived to innovate and add new products to match exporters' needs. The new Export Development Guarantee (EDG) and the smaller, but still in development, General Export Facility (GEF) have the potential to be game changing financial products for existing exporters and crucial for those businesses embarking on exporting.
7. UKEF is rightly seen as one of the world's leading export credit agencies. The UKEF (medium and long-term) guarantee product is attractive to exporters, overseas buyers and financiers alike thanks to (i) the nature of the guarantee (First demand guarantee from the UK), (ii) the percentage of the cover (100%) and (iii) the requirement of a 20% minimum UK Content.
8. The missing mark out of ten is down to a lack of tender to contract foreign exchange rate cover. This is a product that will firmly benefit SME exporters and would-be exporters who have consistently commented that foreign exchange rate risk is the major concern for them when exporting and some say, pertinently, is the reason why they do not export.
9. Other areas of improvement that UKEF could consider or develop as extensions to existing products include:
  - a. Direct lending. This hugely important product needs to remain funded and available. The recent increases to the limits made by the Chancellor are welcomed. The scheme is popular for developing markets as it provides customers with access to CIRR fixed rate financing. For larger development projects in these markets the financing is often a combination of direct lending and buyer credit support. The two products attract two different funding costs and therefore we have long asked for CIRR rate funding to be made available on the buyer credit tranche where a direct lending tranche is involved.
  - b. OECD guidelines allow member ECAs to finance up to 85% of an exporter's contract value. This can make projects challenging in developing markets and 100% financing would prove beneficial to UK-based project developers. This is an OECD matter and any change requires consensus from the other member ECAs. The problem has been raised by UKEF and other ECAs however reception of this proposal has been muted by their peers.
  - c. Letters of Credit (LC) remain an important payment protection instrument for many exporters. UKEF had a specific product that covered LCs but removed it recently due to little use and similar coverage being available under other products. We would recommend that in the current environment, UKEF considers introducing LC refinancing facilities and also ensures that the LC is recognised as a valid payment instrument under the Supplier Credit facility.
  - d. As alluded to above, the EDG and GEF are hugely important products for the UK exporter community. BExA is very supportive of the launch of these products and recommends that UKEF also offers them on a Revolving Credit basis to maximise their usefulness and flexibility.
  - e. BExA has also long championed a joined-up approach to export support and closer ties between UKEF and Aid support (previously DfID) to provide concessional lending products for development-based projects in markets subject to sustainable lending constraints.
  - f. In light of the upcoming IBOR transition to ARR, guidance and information is sought on the impact of changes to ECA products and what support might be available for SMEs to avoid potential additional costs or delays.

#### **How suitable is UKEF's process for assessing applications for support?**

10. Generally, UKEF has a very pragmatic and pro-active approach, finding solutions to support as many UK exporters as possible by identifying the maximum amount of UK content in any export contract. However, in some instances, customer service unfortunately continues to be a barrier – timescales

are not quick enough to be of real commercial value to UK exporters. Delays with legal documentation remain a concern.

11. From a large exporter and bank perspective, information requirements under the application process are reasonable and in-line with other ECAs. However timeliness is one area UKEF should focus on to really set themselves apart from the norm and give a huge boost to both (i) the confidence of UK exporters in using UKEF and (ii) UKEF's perception by overseas buyers.
12. UKEF's process for assessing applications is considered opaque and can be a turn off for potential buyers. A simple service level agreement to turn around X% of applications within Y days and transparency over which gates an application needs to pass through and when would give exporters and buyers alike the confidence to navigate the application process.
13. BExA is supportive of UKEF's approach of supporting UK operations, and therefore UK jobs, in the whole supply chain of any contract, at any level of contractor or sub-contractors.

**Do particular sectors, types of projects, or projects involving certain export destinations receive more UKEF support than others?**

14. We would like to be able to say that all sectors and export destinations receive the same level of support from UKEF however the practical realities of UK trade mean this isn't possible. One area where UKEF support is useful to all is in the short-term product space where products are available for all destinations and all sizes of exporter such as Bond Support. In addition, the Export Insurance Policy is flexible to be able to provide protection for all types of exporters and can provide global cover subject to EU restriction.
15. The long-term products by their nature are better suited to capital goods acquisitions or large development/infrastructure type projects. Therefore, by the nature of the UK's export specialisms, we see UKEF support appears skewed towards these market sectors. For example, one area where UKEF is particularly strong is in supporting the Civil Aerospace sector in financing new and more fuel-efficient aircraft to airlines around the world, thereby supporting the extensive UK aerospace supply chain. This is an area where the UK has world-class capabilities.

**Are UKEF's performance targets suitable? Is UKEF's current financial allocation from HM Treasury and risk appetite appropriate to allow it to meet these targets?**

16. On the whole UKEF's performance targets are suitable in their aim however they are a little lacking in specifics. This is likely intentional as demand for UKEF products and services are still subject to external market demand, but we would like to see real growth in the number of companies supported. It would make a real difference if UKEF could be set, and meet, a suitable time-based service level, as suggested above.
17. UKEF's overall financial allocation of £50bn is currently appropriate for its transaction pipeline. There are some pinch points appearing on individual country limits, such as Ghana, that are causing issues with support for some projects. These need to be addressed in order to continue to deliver UKEF's mission of no export failing for lack of finance.

**How can UKEF continue to support economic recovery from the COVID-19 pandemic?**

18. The pandemic has had an enormous impact on business in the UK and around the globe, leading many exporters to reduce headcounts and also to companies suffering multiple credit rating downgrades. For UK exporters, UKEF's new EDG and GEF products provide an essential route to working capital finance to provide liquidity to work through the crisis.
19. BExA asks that UKEF continue to take a through-the-cycle view of credit when considering new transactions. This long-term view is essential to getting projects moving forward in this difficult period. We also request that UKEF considers small value projects of lower than usual credit quality to help SME exporters get trading again.
20. Brokers and insurers are reporting an increase in enquiries since the start of lockdown as world economies have suffered. At the same time, single risk insurers are making a 'flight to quality' and

continuing to cover top tier policyholders but there is reluctance to take on new SME policyholders, or non-investment grade obligor risks or contracts with unusual structures. We have an urgent need for UKEF to enter the London Market and provide capacity for syndicated risks of all sizes where appetites are limited.

## Engagement

**How user-friendly are UKEF products for its range of customers, including small and medium enterprises?**

**How well does UKEF communicate its offering to new and existing customers?**

21. ECA products are generally complex instruments that require an understanding of financial and legal principles. This is not an issue for the banks and large exporters who employ specialists to manage transactions; however for SMEs without the resources to do this it often falls to someone to fit this in alongside their other duties. The complexities of the products and application process could therefore be off-putting for a large proportion of SME exporters.
22. UKEF has recognised this and sought help from the UK's banks to put in place a bank delegated authority process for its Working Capital and Bond Support schemes. The intention is to allow SMEs access to these schemes via their local bank relationship management contacts rather than applying to UKEF directly. Unfortunately this hasn't yet made the process simple enough and work is underway to refine the product further. In theory, once working effectively, this process has the potential to significantly increase the number of SMEs accessing and using UKEF products.
23. There is one further issue with the bank delegated model in that it places a significant reliance on the banks to (i) ensure their regional business relationship managers are aware and familiar with the product and (ii) promote this product to their SME customers. There is a conflict of interest for the relationship manager here in recommending a product that will reduce the banks margin at a local level but reducing risk and exposure at a wider level.
24. The new UKEF led UK Trade & Export Finance forum is a valuable event in the calendar that allows UKEF to promote its products and support to UK exporters. The event has been London centric to date and could benefit from additional regional events when the current environment permits it.

**How does UKEF engage with DIT, the British Business Bank and private sector partners to ensure the requirements of businesses exporting overseas are met?**

25. BExA has long campaigned for a joined up approach to export from UK Government. This entails UKEF working closely with not just the DIT and BBB but also with the FCDO and overseas aid support (previously DfID) to ensure that the capabilities of UK plc are promoted and utilised overseas.
26. UKEF has historically been underrepresented overseas and DIT predecessors in post had been poorly informed on the services UKEF offer and in some cases even who UKEF were. Thankfully this has largely been addressed and all DIT embassy staff are trained on UKEF products; UKEF has also set up a network of overseas champions to promote UKEF and UK industries overseas.
27. UKEF would benefit from partnering with the BBB to provide an agency service to manage direct funding loans for SMEs and smaller transactions that do not make financial sense for the traditional export finance banks.
28. A closer working relationship with the FCDO (DfID) and a concessional lending product would also provide UK exporters a valuable product in accessing infrastructure projects in sustainable lending constrained markets.
29. In terms of private sector partners, we at BExA share our annual benchmarking paper with UKEF. This provides a means to evaluate UKEF against its peers and to understand where we, as UK exporters and their service providers, see gaps in the UKEF product range and areas of improvement needed for delivery processes. UKEF is open to dialogue and generally receptive to suggestions, however change does take time to implement.

**To what extent does UKEF draw on external expertise and knowledge in the design and review of its products?**

30. We know that UKEF uses the BExA benchmarking papers to review its products and uses our suggestions to develop them further. UKEF also draws on the expertise of the financial and legal sector in the design and review of its products such as the Export Credit Working Group of UK Finance.
31. UKEF does not generally seek the views of exporters or trade associations in the actual design of products, such as the bank delegation model or the EDG and GEF, preferring instead to confer with the financial institutions that will provide the funding. We recommend that BExA is also involved in the design of new products as we may be able to highlight potential commercial issues that may have been missed by the financial and legal experts.

**What could UKEF learn from other successful export credit agencies around the world?**

32. We believe that UKEF already strives to consistently improve its products and services to maintain its current position as one of the worlds' best ECAs. BExA will continue to push UKEF to provide the products and service that UK exporters need, however it would be prudent for UKEF to maintain a watchful eye on its role and how it competes with other countries' ECAs as they react to diminishing private sector appetites.

For and on behalf of the British Exporters Association



Marcus Dolman  
Co Chairman – Large Exporters



Geoffrey de Mowbray  
Co Chairman – SME & Micro Exporters