

International Trade Select Committee inquiry on UK Export Finance

Federation of Small Businesses (FSB) written evidence 25 September 2020

1. The Federation of Small Businesses (FSB) is the UK's leading business organisation representing small businesses. Established over 45 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that is led by our members, for our members.
2. FSB welcomes the opportunity to respond to the International Trade Select Committee's inquiry into UK Export Finance. We would be happy to provide further detail on any of the issues raised in this response.

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

3. Smaller exporters report a lack of access to export financing as a key challenge when looking to internationalise. In this space, UK Export Finance (UKEF) is a significant potential source of finance, however many FSB members have reported being left disappointed in the support, or lack of, that they have received from UKEF.
4. Whilst there is significant potential for export finance to increase the number of small firms participating in international trade, small and micro-businesses generally fall foul of the high requirements needed to meet government-backed bank delegation schemes and trade finance mechanisms, meaning they are unable to obtain the finance needed to start or grow their export business. Moreover, security requirements, based on the probability of default, can rule out many younger businesses from accessing traditional debt finance offered by the private sector.
5. With regards to UKEF's products, many rely on the work being underwritten by banks which has led to small loans being declined. UKEF itself has identified a lack of commercial appetite in the banks and other financial services providers it works with to support exporters.¹ More generally, banks can be reluctant to lend to smaller firms due to the compliance costs, regulatory burdens, and due diligence involved making these transactions less commercially viable. This in turn affects UKEF's offering.
6. UKEF is expected to bring forward new schemes for SMEs imminently, but due to the issues noted above these schemes will have to be designed carefully in order to deliver for smaller businesses. In particular, FSB would encourage UKEF to simplify the application process for any future scheme and to improve the timescale of any application process, with existing application processes often felt by members to be quite slow.
7. Wider private sector options are limited, in line with the general availability of finance for smaller firms. According to FSB's 2018 report *Going for Growth*, 42 per cent of all small business owners in the UK say that credit availability is very poor (19%) or quite poor (23%). Just 24 per cent feel credit is readily available.²

¹ NAO, 'Department for International Trade and UK Export Finance: Support for exports', 15 July 2020, p.43.

² FSB, *Going for Growth: Helping small firms flourish through access to finance*, November 2018, p. 11.

These numbers improved between 2012 and 2016, but have weakened in the two years in the run up to the report's publication.

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?

8. In general, FSB feels that UKEF's performance targets as set out in its 2020-24 Business Plan are suitable. In particular, the combination of value of business underwritten with a target regarding number of companies supported is sensible. However, FSB would welcome an additional target of number of micro and small businesses supported. We feel this would help target support at those firms that need help the most.
9. On this point, FSB would draw attention to UKEF's performance for number of companies supported, as well as a revision of this target downwards for 2020-21. In its July 2020 report, 'Department for International Trade and UK Export Finance: Support for exports', the National Audit Office (NAO) reported that UKEF supported £4.4 billion of export contracts in 2019-20, against a target to support £5 billion. The NAO additionally reported that UKEF fell short of its target to directly support 500 customers, supporting 199 in 2019-20.³ For 2020-21, UKEF has set itself the aspiration of supporting 270 companies, a 46 per cent decrease. FSB is concerned that a lower target for number of companies supported will lead to support being aimed at larger firms who can more easily help meet the target for overall value of business underwritten.

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

10. FSB has welcomed UKEF's actions throughout the Covid-19 pandemic to introduce or expand measures to support UK exporters. This included the expansion of the UKEF Export Insurance Policy (EXIP) to cover transactions with the EU, Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland and the USA.

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?

11. Based on member feedback, FSB believes that UKEF application processes would benefit from shorter turnaround times and simpler requirements for smaller businesses. In particular, existing application processes are often felt by members to be quite slow. Ideally, smaller firms would benefit from an export finance equivalent of a Bounce Back Loan, with a quick and simple approval process or tax relief for money spent on export activities.
12. In terms of communication of offering, there is a general lack of awareness of the existence of UKEF's products, or indeed of UKEF itself, amongst the UK SME population. In UKEF's own 2019 survey of SMEs, only 26% of businesses surveyed had heard of UKEF, and 61% of this figure were not aware of what the agency did.⁴
13. This lack of awareness is reinforced by FSB's own research on the number of smaller exporters accessing UKEF's services. In FSB's 2016 report *Destination Export*, we found that around half (48 per cent) of all smaller exports had

³ NAO, 'Department for International Trade and UK Export Finance: Support for exports', 15 July 2020, p. 43.

⁴ *Ibid.*, p. 44.

accessed some form of export support, but only two per cent of smaller exporters had accessed UKEF products or services as a form of support.⁵ There is clearly a need to both communicate UKEF's services more effectively to smaller businesses and to make them more accessible.

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

14. While the user-friendliness of the products offered by UKEF could be improved, as noted above, FSB feels that the range of products offered by UKEF is nevertheless comprehensive and comparable with products offered by other export agencies around the world.
15. One area in which UKEF could learn from other export credit agencies is through creating greater synergies between export finance and innovation funding. At present, smaller firms can easily access innovation funding, but are often unsuccessful in accessing further funds to support commercialisation or internationalisation of their products or services. Other countries, such as the Netherlands, have combined their innovation and trade agencies for this reason. In the Netherlands this takes the form of the Netherlands Enterprise Agency (RVO). UKEF could consider how best to create similar linkages between innovation funding and export finance within the current structures and remits in place in the UK.

⁵ FSB, *Destination Export: The small business export landscape*, 2016, p. 42.