

# UK EXPORT FINANCE

## CBI SUBMISSION TO THE INTERNATIONAL TRADE SELECT COMMITTEE INQUIRY 25 SEPTEMBER 2020

1. Founded by Royal Charter in 1965, the CBI is a non-profit business organisation that speaks on behalf of 190,000 UK businesses of all sizes and from across all sectors, employing nearly 7 million people between them, about one third of the private sector workforce. This number is made up of both direct members and trade association members. The CBI is a confederation and both classes of membership are equally important.
2. The CBI's mission is to promote the conditions in which businesses of all sizes and sectors in the UK can compete and prosper for the benefit of all. With 13 offices around the UK (including in Scotland, Wales, and Northern Ireland) and representation in Brussels, Washington, Beijing and New Delhi, the CBI communicates the British business voice around the world.
3. The CBI receives its formal mandate from 9 Regional Councils, 3 National Councils from Scotland, Wales, and Northern Ireland plus 16 sector-based Standing Committees. These bodies are made up of members in that region, nation or sector who serve a term of office. Each quarter this formal engagement process across the CBI Council reaches over 1,000 senior business leaders across 700 of our members who have a direct say in CBI positions. Over 80% of the businesses represented on the CBI Council are outside of the FTSE350 as the CBI represents a wide range of sizes and sectors from the UK business community.

### Executive Summary

4. CBI members welcome the changes in UKEF services in recent years and UKEF's response to the Pandemic. UKEF faces a moment of opportunity, as the UK approaches the end of Brexit transition and the importance of exports grow as way of helping the UK to exit the crisis and level up prosperity in the UK.
5. CBI members would like to see
  - a. continued simplification of UKEF processes by bringing in a wider range of banks and continuing the shift to digital.
  - b. an uplift in communication to
    - i. break down the lingering perceptions at home that UKEF is more suited to larger companies.
    - ii. improve the uptake of the offer across the UK, levelling up the economy whilst targeting high potential new exporters.
    - iii. champion the UK's place in global supply chains with more marketing effort abroad.
  - c. stronger synergies between the UK's wider trade strategy and the work of UKEF so that export credit supports DIT's market access and trade deals and UKEF has explicit regional targets linked to the levelling up agenda.
6. Business organisations and trade associations are a key partner in that communication effort. CBI members welcome contacts with UKEF in recent months and are ready to work with UKEF to facilitate greater outreach.

## Operation

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

7. CBI members welcome UKEF's continuing efforts to widen its product offering including increases in 2020 in the Direct Lending Facility from £5N to £8BN and the new General Export Facility (GEF) which will provide working capital for exporters without tying support to a specific export contract. Members are waiting to see how the GEF works in practice and the effect on applications of criteria specifying that at least 20% of turnover has been made up of UK export sales in any one of the last 3 years or 5% of turnover has been made up of UK export sales in each of the last three years. If GEF proves successful, some thought needs to be given to how working capital support might be provided to new exporters.
8. Member feedback indicates that UKEF is seen to be an option when wholly private sector solutions are not available. While the option of UKEF support is very much welcomed, a wholly private sector solution is preferred as involving less time and cost. One CBI member who said they would have lost export orders had it not been for UKEF in the past, commented: 'we were very grateful for their support at the time. [...] Now we have more headroom in our bank facilities it is not really appropriate for us due to the time taken to get things in place and the fact there is an extra cost to cover our normal bank funding'.
9. Members working in the financial services sector argue that UKEF should be more open to working with non-banking sources of finance including inventory, asset-based and invoicing finance, especially given pressures on working capital in the crisis and recovery periods.
10. There is also an aspiration from smaller companies for a much simpler, accessible service which can be 'bolted on' rather than accessed through the banks. One member commented:
  - a. 'it would be much better if it offered a very simple support that could be bolted on, that banks/insurers use, so we do not have to reduce credit terms or stop selling to certain territories or customers. [...] A quick system of checking credit or being able to access it for certain deals via a simple portal would be great'.
11. CBI recognizes the constraints under which UKEF works, and it is natural that businesses may not always understand those constraints or prioritise them. However, simplification and standardisation of product remains a business aspiration.

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

12. CBI members appreciate recent improvements in UKEF processes, and recognize, in the words of one member, that applications have been 'significantly streamlined from the days of face to face interviews at Canary Wharf'. Another member identified the delegation of

much of the risk assessment to five major banks, a faster response to those non-delegated assessments being made by UKEF and a 'possibly less risk-averse approach by UKEF'.

13. There is still, however, a perception among SMEs that UKEF is slow to take decisions and a general request for a less bureaucratic process. While this evidence is anecdotal, and may be unfair, CBI recommends that UKEF continues to step up its communications to dispel a perception which is probably dissuading businesses from using UKEF's products.
14. There is also a hope from CBI members that the merger of DfID and FCO might allow for a faster and more business-friendly process for assessing export credit applications which are tied to development goals or funding. CBI members have provided previous examples of DfID humanitarian and value for money checks slowing down and ultimately preventing UK exports. Commitment in the latest UK Export Finance Business Plan to provide UKEF support alongside ODA are therefore welcome.
15. Members also raised two other concerns about processes. They were
  - a. "Difficulties working with UK banks, including the need to change banks to complete UKEF transactions or to educate UK banks about UKEF's processes."
  - b. "Sensitivities around compliance – particularly in areas such as defence."
16. While the compliance issues are outside of UKEF control, there is probably a case for UKEF educating a wider range of banks about its services to deepen the pool of available partners.

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

17. CBI has no hard data on this and would point the committee to the sectoral and geographical breakdown in the UKEF annual report. It may, however, be worth sharing anecdotal reaction from members to this question.
  - a. There is a perception amongst Members in fast moving consumer goods (FMCG) that UK Export Finance is not for their sector. While there is an awareness that UKEF's thresholds has come down, one member commented that 'coverage is too expensive and would only be available for customers where the brands were already confident that the goods would be paid for'.
  - b. There is a perception amongst SMEs in FMCG that export credit is more suitable for larger companies.
  - c. Companies in the engineering supply chain were more positive and more familiar with UKEF products and were encouraged by UKEF response to recent customer feedback including in simplifying process for SMEs.
  - d. One or two large and global CBI members said they were looking at UKEF services but were not yet familiar with UKEF's work.
18. UKEF's annual report for 2019-20 shows that "77% of the companies that it directly supported this year were small and medium sized enterprises (SMEs)". However you choose to read these figures – which measure successful rather than total applications – there is still a way to go for UKEF to convince more companies that their services are available.

19. At the other end of the spectrum, the unfamiliarity of one or two larger CBI members with UKEF suggests there is also a communications job to reach out to larger companies who might be in UKEF's words 'super-buyers' in the global value chain and valuable partners for UK export promotion.
20. The questions about the range of companies and sectors served is a part of a bigger challenge: the need for UKEF to scale up its offer on a sustainable and risk-managed basis as the UK seeks to export more to recover from Covid, level up the UK and take advantage of post-Brexit opportunities.
21. UKEF's annual report for 2019-20 records that UKEF supported 339 companies in 2019 and connected more than 500 suppliers with international opportunities. Based on a DIT estimate that 236,000 UK companies export, this would suggest that UKEF's active customer base is about 0.33% of all UK exporters.<sup>1</sup> This rough indicator needs caveats: the role of UKEF is to step in only when required; most exporters do not need UKEF support; demand for UKEF services depends also on the number of viable export contracts won by UK firms. However, the figure does suggest that UKEF remains a niche product which could be better marketed and better aligned to a wider strategy to increase UK exports.
22. Regional take up could also be improved. UKEF's own figures show that the proportion of companies benefiting from UKEF trade finance or insurance (which is used for short-term smaller contracts and therefore more likely to be used by SMEs) is skewed towards Southern England - which accounts for 49% of all customers.<sup>2</sup> It is welcome that additional funding in the 2020 Budget has provided UKEF 'with the necessary resources to enhance our support to businesses in the North East of England and Scotland'.<sup>3</sup> As part of DIT's wider efforts to use trade to level up across the UK, UKEF could develop levelling up targets to ensure that there is greater take up of trade finance across the UK.

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

23. One CBI member questioned the overall UKEF business model and queried whether the requirement of 'no long-term net cost to taxpayers' and to return profits to government might constrain the support available to business, particularly when other sources of emergency government support during the Pandemic face no such constraints. No CBI member who replied raised UKEF performance targets, however.
24. Analysis of UKEF's figures would suggest that the issue is not extra financial allocation but whether existing headroom is being fully used and how far UKEF is being incentivised to use it. UKEF's 2019-2020 report notes that
  - a. "The highest recorded maximum exposure in the year was £31.7BN, against a maximum permissible level of £50BN."
  - b. "UKEF's 99.1 percentile of the portfolio loss distribution did not exceed £2.5 Billion against a maximum permissible level of £5BN."

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<sup>1</sup> <https://www.gov.uk/government/news/236000-uk-businesses-making-the-most-of-overseas-opportunities>. UK Export Finance Annual Report and Accounts 2019-20, p.8.

<sup>2</sup> UK Export Finance Annual Report and Accounts 2019-20, p.47. The figures are: 49% Southern England, 22% Midlands, 14% Northern England, 6% Scotland, 5% Wales and Northern Ireland.

<sup>3</sup> UK Export Finance Business Plan 2020-24 p.12.

25. It would be also be useful if UKEF could develop a wider range of performance targets, including stronger regional metrics to demonstrate that it is raising export performance across the UK.

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

26. Business welcomes the readiness of UKEF to play, like other export agencies, a counter-cyclical role in the crisis and would like to hear more about plans to put in a place 'a temporary refinement of its standard risk management framework'. Business welcomed the announcement in April that UKEF would expand its Export Insurance Policy to cover markets previously considered as too low risk (EU, US, Aus, Can) which are critical for UK exports, following adjustments in EU state aid rules.
27. CBI Members also welcome the announcement on 4 June that Government would provide guarantees of up to £10 billion to Trade Credit Insurance schemes for business-to-business transactions for 9 months backdated to April 1. There is strong agreement across member firms that this support should be continued into 2021 to ensure that finance continues to flow smoothly through domestic and global supply chains in the winter period of continued uncertainty.
28. CBI wants to see greater use of export credit post Brexit and post Covid as part of the UK's efforts to trade its way of the crisis and enhance the UK's standing as a global trading nation. This will require a whole of government approach. As a key trade promotion tool, Export Credit should be included in the UK's Integrated Review as a part of a comprehensive approach to the UK's foreign engagement. UKEF support could also be a useful tool in foreign policy as foreign companies can also utilise UKEF support if a significant proportion of the exports are from UK based companies.
29. UKEF needs to be central to DIT's new export strategy as part of an approach bringing together trade policy, trade promotion and efforts to level up the UK. UKEF support should be highlighted in export campaigns, linked to DIT's market access work and future trade deals so that efforts to break down barriers in markets are followed up by targeted promotion of export opportunities across the UK.
30. UKEF's stated intention is to 'focus on sectors and countries where UKEF support will have biggest benefit'. With one or two exceptions e.g. recent announcements on low carbon there is no explicit strategy in this area – perhaps reflecting the tension between the reactive nature of UKEF's work and government's wider ambitions. CBI would welcome greater clarification of what these sectors and countries might be in future business plans and how they are linked to DIT's target markets for export promotion or trade policy priorities.
31. CBI members would also welcome greater clarity and consultation on UKEF's future intentions regarding oil and gas projects. CBI welcomes priority given to green growth and UKEF should provide a greater focus on clean energy and sustainability projects linked to increasing green finance.
32. CBI members in the banking sector have queried whether wider constraints on bank lending are putting a brake on export finance. They supported a recent statement by the B20 group of business associations to bring forward the Basel 3 reduction in risk rates for MSME exposures down from 100% to a range of 75%-85%.

## 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?

33. CBI welcomes recent UKEF comms initiatives including the 'Exporters' Edge' Great marketing campaign, enhanced digital offer and supplier fairs. CBI members appreciate UKEF personal interactions with CBI members including recent discussions with the CBI Construction and SME Councils.
34. However, feedback from CBI members indicates a perception that UKEF could do more to explain what it does. One Trade Association commented to CBI that they had asked for a text from UKEF 'that explained in laymen's terms what the service is, how to access it, what is covered and how to apply for it. The answer when it comes back is that they cannot answer these questions – each case is looked at individually only after a company has been knocked back by private cover agencies'. There is a risk of business and UKEF talking past each other: UKEF understandably unwilling to simplify complex products while overstretched businesses need a simpler sales pitch to encourage first engagement.
35. Trade Associations are critical part of the CBI's membership and play a key role in promoting UKEF's products. CBI welcomes Louis Taylor's recent comments about the value of working with trade associations in his evidence to the Public Accounts committee. We would urge continuing UKEF engagement with trade associations and expanding this engagement to include a wider range of trade associations.

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

36. UKEF should develop extensive collaboration with the British Business Bank, who as the government's economic development bank have the overall responsibility to make finance markets work better so smaller businesses across the UK can prosper and grow. It is critical that this collaboration seeks to avoid duplication on export finance and aims to signpost businesses to where the most relevant support lies.

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

37. CBI members have not made any comment on what UKEF could learn from its peers but have commented positively about UKEF's work in partnership with other export credit agencies, including in foreign currencies. One example cited was the 2017 agreement between the UK and Turkish ECAs, which has facilitated co-working in challenging markets like Iraq. CBI members would like this co-operation to go further and have suggested the Central Asian and South Caucasus region would be a natural focus because of the £9BN funding available.
38. CBI welcomes UKEF's commitment to benchmarking including through the British Exporters Association Benchmarking exercise. The increase in score from 4 out of 10 in 2010 to 9 out of 10 in the last 5 years is clearly welcome.

39. Two areas where UKEF might learn from peers are scale of support and international marketing effort. Given Minister's welcome ambition for the UK to become an 'exporting powerhouse', Germany would be an obvious comparator.<sup>4</sup> In 2019-20 the maximum liability for UKEF new business was £4.423BN; Germany's was 7BN Euro (£6.4BN) which roughly approximates to the size of the two economies. However, Germany's statutory cover limit for export credit guarantees was raised from 148 billion euros to 160 billion euros (£146BN) in 2019; the UK cover was £50BN, around a third of the size – when the UK's GDP is approximately 70% of Germany's.
40. The German practice of running export credit support events in market (e.g. an export finance conference in Tashkent in 2019 following economic reforms in Uzbekistan) might also be something to learn from, as would the emphasis that the French credit agency BPI France places on international missions and coaching for entrepreneurs.<sup>5</sup> CBI welcomes regional UKEF offerings such in South East Asia and elsewhere and would encourage further outposts within key embassies to support uptake aligned to the Integrated Review. This global marketing effort will become more important as the UK seeks to increase its place in global supply chains and target an export-led recovery from Covid.

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<sup>4</sup> Graham Stuart, UK Minister for Exports. UK Export Finance Business Plan 2020-24, p.1.

<sup>5</sup> <https://www.bpifrance.com/Coach-for-entrepreneurs>