

Oral Evidence Supplement:
Five areas for improving SME export support.

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Following our written and oral evidence on how the UK compares with other countries in its export support assistance and how it can improve its support to SMEs, we summarise our supplementary recommendations into the following five areas:

1. A hybrid model to intensify collaboration between the government and the private sector:

Whole of Government 2.0

- a. Our recommendation for a **proactive hybrid** model is based on the Whole of Government (WOG) approach (including all the departments in the export function) and beyond. A hybrid model will intensify collaboration between the public and private sectors, based on the success of the German model.
- b. The governance of this structure will be independent from the participating departments with a degree of autonomy and centralised accountability as in Australian Austrade and ability to hang on to staff.
- c. This model will intensify collaboration with investors and banks to provide favourable loans and investments. For instance, in Germany the KfW IPEX-Bank, a state-owned bank with 100% government ownership, takes the leading role in financing long-term investment by SMEs and providing export credit insurance. The UKEF must intensify its collaboration with banks and alternative lenders.

Note: the WOG seems to be weakened in the latest 2021 Export Strategy Made in the UK Sold to the World. The linkage between the government and private sector also appears weaker. The strategy does not mention collaboration with private sectors.

2. **One stop shop** model should be established with stability being maintained:

- a. Create a one-stop shop that is **stable** and easily accessible drawing on the successful experience of the Australian (Austrade) and German models, with the latter led by the Chamber of Commerce and adopting a three-pillar approach.
- b. The Government should keep all export resources in one consistent place and keep enhancing the quality of the service and the information it can provide rather than changing the names.
- c. This single access point will provide links to market information, training, networks, consultation and financial support (For instance the Austrade website provides short (15'') videos showing the types of support Australian SMEs can access through their main website which is more enlightening than our several pages of export strategy).
- d. The shop will deploy experts both across the country and globally similarly to Austrade.

3. Proactive support to **SME digitalisation: Empower SMEs** to become independent exporters:

- a. Proactively develop SME capabilities in digitalisation by setting up a national network of digital clinic offices/services.
- b. Adopt the German model which implemented a combination of regional centres of excellence in all parts of Germany and specific thematic centres and delivers a wide range of support for all sorts of sectors and corporate needs.

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- c. Germany has set up 26 Mittelstand 4.0 Centres of Excellence to support SMEs in their digitalisation and become competitive and ready to catch up with large corporations and access global value chains.
- d. The German Centres of Excellence serve as companies' regional point of contact for all matters digital – irrespective of whether executives would like to learn more about digital manufacturing, security-related aspects of new technologies, or whether they would like to test a new technology.
- e. Workshops, training sessions, practical tests, webinars and surgeries: all of the services offered by the centres of excellence are impartial, easy to understand and designed specifically with small and medium-sized enterprises in mind. The Federal Ministry for Economic Affairs and Energy ensures the services can be used free of charge.
- f. A key asset of the centres is the fact that all learning and demonstration are modelled upon real companies. This means that company executives can gain a realistic impression of how digital technologies could transform their operations.
- g. In addition to the regional Centres of Excellence, there are also dedicated centres for “Digital Crafts”, “eStandards”, “IT industry”, “Communications”, Planning and Construction”, “Textiles Network”, “Usability” and, since July 2019, “Trade”.
- h. Intensify collaboration with the Department for Science, Innovation and Technology Secretary to jointly:
 - i. Help maximise UK Horizon Europe funding to support eligible businesses in the UK and support.
 - ii. support SMEs in their application for ESG accreditation Environmental, Social and Governance criteria to support exports on clean energy and other environmentally friendly technologies.
- i. Enhance representation of technological expertise in diplomatic missions.

Note: In the latest export strategy: Made in the UK sold to the World, a strategic objective of supporting SMEs to digitalise is missing! This is a strategic objective in all leading exporting countries.

4. Access to UK export must be **stable and consistent** so that it is easier for SMEs to utilize the help provided by the Government:

- a. Stability and consistency are key as SMEs do not have the resources/knowledge to track and trace the frequently changing policies and strategies provided by the Government.
- b. With a consistent, well-informed one-stop shop SMEs interested in exporting will know where to find info and help in real-time.
- c. Consistency and stability of staff are also essential to construct and maintain networks in the targeted markets, to understand business and legal frameworks, business norms and interactions and build capital. Such consistency can support long-term and consistent WOG.

5. Annual reporting on the **effectiveness and “value for money”** of export support:

- a. Annual systematic reporting based on recent data should be published so that value for money can be evaluated.
- b. The report should include both cost/budget and the achievements on annual basis. Without sufficient information provided by the government, it is hard to rigorously evaluate value for money.
- c. The website of Austrade provides access to their annual reports for the past five years. These reports illustrate how their workforce is distributed worldwide. The annual report

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even reveals the remuneration that each member on their Audit and Risk Committee obtains.

- d. Need to introduce more specific goals and indicators to assess the effectiveness of export support. Greece introduced standardisation and ISO 9000 to assess the extent to which planned activities are realized and planned results are achieved.
- e. According to the 2021 Export Strategy, the capacity of private sector in export promotion is not fully utilised, reducing value for money invested by the government.
- f. Note: The most important finding from our research is that Export Promotion Support increases the extensive margin support and is much more cost effective and beneficial to focus on those firms not currently exporting (extensive margin) and lacking the expertise but are considering to do so, than on firms already exporting. This finding is consistent throughout the economic studies we reviewed and was reaffirmed by the qualitative studies showing a greater impact on SMEs with no prior exporting experience or even lack of willingness to export (please see our literature review tables in the written evidence submission).

Highlights from our written evidence submission that relate to the discussion in the oral evidence session

On Export Promotion Assistance (EPA)

- Regional trade promotion offices boost trade even more than National diplomats overseas (Spain).
- A study on Korean export promotion, in line with findings from Japan, found that opening an EPA office in a country has similar effects to a free trade agreement.
- A 10% increase in EPA budget increased exports by 2.45-6.34%.
- Diplomatic representation does not increase trade so much within the OECD but is important for developing countries (the Netherlands, a study on trade posts and missions).
- EPA offices help firms enter and survive in export markets. But there is little effect on intensive margin (7 Latin American studies).
- Export promotion increases extensive margin among differentiated products (Costa Rican exporters 2010).
- Export support has a stronger effect on smaller firms.
- Flanders' export promotion programme increases firms' propensity to export outside the EU (Flemish export support, 2016) which is relevant in the UK post-Brexit.
- Export promotion increases number of products traded and number of transactions per product (not average value per transaction) (Spain 2011).
- Export assistance needed by (and must be directed to) firms at the early stages of internationalisation rather than stage 2 or 3.
- It is difficult to derive accurately the optimal marginal gain from export support in different circumstances.