

BIS SELECT COMMITTEE INQUIRY INTO EXPORTS AND THE ROLE OF UKTI

SUBMISSION OF EVIDENCE FROM THE RT HON LORD MAUDE OF HORSHAM, MINISTER FOR TRADE AND INVESTMENT ON BEHALF OF HER MAJESTY'S GOVERNMENT

Background

1. Increasing exports is a key factor in the Government's long-term economic plan. Since 2010 exports have increased from £444.4bn to £513.5bn¹. World trade is slowing and all developed economies (except the USA) are experiencing falling market share. Achieving our objectives will depend not just on improved UK performance, but also on external factors such as the strength of recovery in the US and EU, the economic situation in emerging markets, and the exchange rate.
2. This Government has two stated 2020 manifesto objectives on exports. The first is to increase the number of exporting businesses by 100,000 from 188,000 in 2010 to 288,000 by 2020. By 2014 this had already increased to 221,300. This target should be achievable. The second is to increase exports by value from £513.5 billion in 2014 to £1 trillion by 2020. This second target is stretching. It would require an annual growth rate of nearly 12%. This compares with an annual growth of 1.1%² since 2011, and at a time when world trade is slowing. The Office for Budget Responsibility (OBR) project that UK exports will rise to around £650 billion by 2020; which would in itself entail strong growth of 4% a year. Increasing exports is a challenge which we take very seriously and which is being driven through the Exports Implementation Task Force.

The Role of Government, including UKTI, in Exports

3. Clearly many of the macroeconomic factors affecting exports are out of our hands, but government can create the best conditions for growth in the UK and ensure that there is effective support for British businesses looking to export. And, as an open economy in an increasingly interconnected world, we need strong and sustainable global growth. Increased prosperity abroad can be expected to boost exports and improve the returns on our investments abroad. This benefits the UK, contributing to our economic stability and growth.

¹ Updated on 10th December 2015 based on ONS trade data

² Updated on 10th December 2015 based on ONS trade data

4. There are many ways in which we can – and do – make a difference to exports:
 - We can work within the European Union to encourage it to negotiate and implement more (and more quickly) Free Trade Agreements that open overseas markets.
 - We can negotiate specific market access issues and help improve the business environment in target markets. We can ensure that British exporters are primed to seize export opportunities, including those created through the new Prosperity Fund's activities to promote inclusive growth and sustainable development in emerging markets as well as through our science and innovation partnerships. We can push for further measures to increase opportunities for UK business in the EU. This includes completing the single market in goods and services, building a digital single market for Europe, creating a Capital Markets Union and reducing the burden of EU regulation on business.
 - We can make the process of exporting cheaper and easier, through our work on trade facilitation, like 'One Government at the Border', and improving trade infrastructure. This includes better regulation, especially export licensing (covering the activities of DEFRA, Home Office, BIS, Arts Council England, HSE, and the Rural Payments Agency).
 - We can make the UK a more attractive environment for inward investment, which can sometimes be a driver for exports.
 - On large projects where the customer is a foreign government or heavily influenced by a government, there is a clear role for government in backing and supporting a UK proposition.
 - For smaller businesses and newer exporters we can and should ensure that they have access to good and timely market information, advice and assistance, both in the UK and abroad. This does not have to be provided by the government.
 - Finally, we can provide direct practical and financial support for businesses to help them to get started as exporters, manage down the risks and manage up the returns.
5. The role of UKTI in supporting exports has hitherto focused on providing access, support and advisory services to business; UKTI has more than doubled the number of businesses it supports in the last five years, but this has not by itself delivered the increase in exports we are seeking. We set out in this evidence the support we currently provide to help businesses – including SMEs – to export, but we acknowledge that if we are to move the needle significantly on exports, we need to do things very differently.
6. We need to work with business to tackle the low propensity of British businesses to export; the low value of exports per exporter; and the tendency of exporters to cease exporting as around half (of goods) exporters give up within six years. We need, in short, a whole-of-government approach to exports. This evidence therefore also outlines the Government's plans for changing its approach and increasing the effectiveness of our support for exports, including how we will measure our performance. Further detail on implementation will be available in the coming months.

Summary of Evidence

7. This evidence is aligned with the Committee's Scope of Inquiry, and structured by reference to the questions asked. It is worth noting that the Government has been considering very similar questions since May, and has already begun to implement changes. These plans are discussed in the course of this evidence with varying levels of detail according to the maturity of the change.
8. The first section outlines the policies that the Government currently has in place to support exports; it notes the need for change in some key areas, including through an increased and coordinated focus on the Government's export targets. The second section sets out the challenges faced by UKTI and the new operating model to help deliver a step-change in UK export performance. The third section discusses the activities UKTI does and can deploy to increase exports, including presenting some of the customer insight and competitor approaches gathered that underpin the Government's latest thinking in this area. The final section outlines what UK Export Finance (UKEF) is doing to help promote and provide better access to finance for exporters.
9. The scale of change underway across government in support of exports demonstrates both the seriousness with which this Government is approaching the exports agenda, and also its view that more can and should be done. We welcome views from the BIS Select Committee as we set about implementing the strategy outlined in this document.

Question One: What policies are required to help meet the Government’s headline targets of £1 trillion exports and 100,000 more companies exporting by 2020? In particular, what further support should be provided to help SMEs meet their export potential?

10. We need a range of policies to help deliver a step change in government support for exports over this Parliament. This section provides information on the government’s approach to date, including an appraisal of the limitations of the approach that has been taken. It then talks about the changes this Government is making to help drive up the number of exporters and the total value of exports.

HMG’s Current Policies to Support Exports

11. Getting the **domestic business environment** right is paramount to helping drive up the number and value of UK exports. Research suggests that more productive and innovative companies have a higher propensity to export, and in turn become more productive and innovative as exports enable firms ‘to achieve a level of growth not otherwise attainable, increasing their share in the economy, strengthening innovation, and driving up average productivity growth’.³ The Productivity Plan ‘Fixing the Foundations’ (July 2015) sets out an ambitious vision for where this Government wants the UK to be by 2020 and the pro-productivity agenda needed to deliver it. Central to this effort, BIS will continue to drive innovation, rolling out further deregulation, promoting competition, and ensuring that businesses have the technology and skills necessary to compete in domestic and international markets.

12. Harnessing **government-to-government negotiations** in support of exports is an important policy instrument. This includes concluding negotiations of ambitious EU Free Trade Agreements (FTAs) and focusing on ensuring that they are effectively implemented. Planned FTAs such as those with the US, Japan and Canada will set high standards for trade (including in environmental protection, labour and product safety) and deliver significant economic benefit to the UK. The EU is an important vehicle for taking forward trade negotiations, but there are others such as the World Trade Organisation (WTO). The WTO is focused on delivering the Information Technology Agreement and Trade in Services Agreement, which will help to create a fairer environment for global trade and reflect its changing nature. Government also needs to think laterally about how wider multi and bilateral negotiations might reflect our export ambitions, which means, for example, factoring trade into sector-specific negotiations.

13. **Securing Finance** is an important factor for companies looking to export and UKEF is working closely with UKTI, the British Business Bank and private sector banks to increase awareness – among small businesses in particular – of the options available to them. UKEF is also working to simplify and digitise processes to make it even easier for SMEs to access government support. (More detail on financial assistance is provided under question four.)

³ BIS Economics Paper No. 13: International Trade and Investment – the Economic Rationale for Government Support (May 2011)

14. We believe that the policies outlined above are the right ones and this Government will continue to pursue them. The Exports Implementation Taskforce (XITF) will monitor the progress and relevance of all export policies over this Parliament. Enhancing and re-focusing the direct support for exports, which is delivered primarily by UKTI and discussed in more detail below, is where the most change is needed.

UKTI's Current Support for Exports

15. UKTI's focus to date has been on providing access, support and advice to business in England, across our overseas network, and importantly in partnership with other public and private organisations. The XITF has recognised in its discussions on exports that while there are many positive aspects of the support UKTI has provided over recent years, there are a number of limitations to the approach, which are discussed throughout this section.

Domestic Services

16. Services to support businesses in the English regions are delivered through a network of International Trade Advisers (ITAs) who offer impartial advice and guidance to help companies grow their business in international markets. The services they provide are designed to help develop firms' capacity to undertake international trade and to help them access overseas markets and business opportunities.

17. The support provided by ITAs is targeted at three key customer segments:

- Support for **first time exporters** includes training, action planning and ongoing support to help businesses succeed in overseas markets. A lot of capacity building work is aimed at first time exporters and UKTI's regional teams deploy an online tool, **Export Savvy**, to guide clients through a variety of learning modules;
- Tailored support to help **high growth SMEs** export; and,
- A focus on **medium sized businesses** (defined as companies with a turnover of between £25m and £250m and high growth companies over £10m) providing support with, for example, the development of export strategies and guidance on routes to market through an account managed relationship with a UKTI ITA..

18. As part of the 1999 devolution settlements, HMG and the Devolved Administrations (DAs) have concurrent powers to promote international trade and investment. The DAs all have their own organisations to advise and guide companies within their territories. UKTI works in partnership with those organisations in the DAs to help promote the UK's exporting capability and companies in those parts of the UK generally use UKTI's overseas network when developing international business opportunities.

19. While the domestic support offering is comprehensive, it is also resource-intensive and expensive to deliver. As UKTI currently does not have a capability to triage businesses seeking support, the face-to-face time ITAs provide is not as efficiently focused on the export targets as it might be. The face-to-face advisory model limits the total number of potential exporters that UKTI is able to support. Furthermore, much of the business support offered could be provided by experts operating in the private sector. Digital solutions under development to help resolve some of these issues are discussed below.

Overseas Services

20. UKTI's global network is housed in Embassies, High Commissions and Consulates in 102 countries around the world and provides a chargeable, tailored service, called the Overseas Market Introduction Service (OMIS). OMIS covers market and industry information, introductions to potential clients and in-market events such as product launches. OMIS can be accessed by companies through an on-line portal.
21. UKTI also organises trade missions and market visits to help UK companies visit and research overseas markets, meet and develop new customers and source business partners. UKTI Webinars, on-line 'live' presentations delivered by experts from across the globe, provide additional market information and insights on opportunities to a broad audience across many physical locations.
22. UKTI Overseas also identifies High Value Opportunities (HVOs), see paragraph 34.
23. UKTI's overseas network provides important, valued interventions to some of our customers; however, operating on a similar advisory model to domestic services, it is resource-intensive. Some of the business support provided could be replicated by experts operating in the private sector (see information on the 'Overseas Business Network' below) or digital services. The network is also very large, and further efficiencies could be delivered through a prioritisation of resource on markets with the greatest opportunity, and/or providing regional coverage from some of our larger platforms. We are currently considering all of these options in the context of the recent Spending Review settlement.

Partnerships

24. In the UK, UKTI works with the major UK banks and 'Big Four' professional services firms via its 'Global Commercial Partnerships' programme. The objective of this programme is to leverage the reach and expertise of these private sector organisations to increase UK exports and attract inward investment. This includes commitments from some of the major banks to support a target number of businesses to export and partners' active involvement in the Exporting is GREAT campaign.
25. Overseas, the UKTI network is supported in the provision of business support services by the 'Overseas Business Network' (OBNs) – private sector organisations that include British Chambers of Commerce (BCC) overseas. OBNs provide support to companies that need advice or assistance exporting, where the value comes in having an in-market contact as opposed to that contact being necessarily from government. UKTI is working with the BCC to grow the capability of British Chambers overseas.
26. Developing partnerships helps ensure UKTI resource is deployed more efficiently where HMG can add real and specific value.

Exhibitions, Events and Conferences

27. UKTI provides **grant support for eligible (usually less internationally experienced) SMEs** that wish to use overseas exhibitions to market their products or services, and acquire market knowledge and experience. This funding can provide both individual grants for eligible companies, and a more enhanced UK presence at overseas exhibitions, events and conferences – thereby helping to promote UK business more generally. UKTI also organises, and supports partners to organise, a range of events in the UK and overseas that enable companies to network with potential customers and commercial partners. This work has a direct, positive impact on exports and is something this Government is keen to continue to support.

Digital Services

28. UKTI's website on www.gov.uk provides a source of up-to-date country, sector, event and contact information as well as information about tendering for Aid Funded Business opportunities published by development banks and other development agencies. It enables businesses to access the services outlined above as well as linking to the Export Opportunities available on the new Exporting is GREAT website (see below).

29. UKTI's e-Exporting Programme assists companies to increase their on-line exporting. It is working closely with the world's major e-marketplaces in order to allow UK consumer goods companies to market themselves and e-export efficiently through these channels.

30. UKTI's digital offering is nascent, but developing. Enhancing online services can substantially reduce costs while dramatically increasing the number of potential exporters supported, and will therefore form an important part of helping the Government achieve its export targets.

Marketing: Exporting is GREAT

31. The five-year "Exporting is GREAT" (EIG) campaign was launched in early November. EIG is designed to encourage more UK **SMEs** to export their goods and services overseas, helping them access global export opportunities more easily. It aims directly to challenge the misperception held by many UK SMEs (70%) that their product/ service is not suitable for export⁴. This is a new initiative, and will be a priority campaign for this Government.

32. A core part of the initiative is the new website www.exportingisgreat.gov.uk, which enables ambitious UK businesses to register their interest in real-time global export opportunities, as well as access expert advice, trade services, training and events. 1,900 export opportunities have been published so far on the site, organised by sector and market, which are easily accessible. Around 1,000 more opportunities will be uploaded each month. The site will develop in response to user feedback, showcasing more

⁴ To understand better which UK companies have a propensity to export, UKTI and BIS jointly commissioned research agency TNS to deliver the 'Great Insights Business Segmentation'. The research enabled BIS and UKTI to identify which segments of the business community were most likely to contribute to growth and the economy, including which would be 'easier', and which would be harder, to convert. The research sampled 1,500 SMEs with employees; a booster sample of 250 higher growth SMEs with employees; and 150 MSBs. It revealed:

- Over 70% of businesses believe that their product/service is not suitable for export
- The highest priority for all SMEs in next 2-3 years is to find new customers
- The highest priority for all SMEs in terms of export advice and support is to have potential client contacts.

opportunities and content relevant to first-time exporters, which will be generated in collaboration with our commercial partners.

33. The year-long EIG Roadshow will also travel the length and breadth of the country - giving face-to-face assistance to **first-time exporters** and using the latest technology from our partner, Microsoft, to connect these businesses with live export opportunities. An estimated 500,000 potential exporters will engage with this 'Export Hub' at events. To raise awareness and drive activity, EIG is supported by a unique and ambitious multi-channel campaign, with content across digital, social, print, radio, and TV.
34. Finally, all EIG activity is reinforced through strong **commercial partnerships**. Working with UKTI, these businesses will extend and sustain the programme's reach and momentum, inspiring and attracting more first-exporters to get involved. Crucially, they will increase the supply of available export opportunities, provide offers and discounted services to SMEs and reinforce the information, guidance and services available to help UK businesses strengthen their capabilities to export successfully. The campaign already has over 30 launch partners including Barclays Bank, BT, CBI, Grant Thornton, HSBC, Microsoft and Shell.
35. A rigorous and comprehensive framework to monitor and evaluate the EIG campaign is in place to assess its impact on exporting and value to the taxpayer, and to ensure continuous improvement over the five-year campaign. Since EIG launched in November, there have been over 1.3 million views of the EIG films online, in excess of 220,000 visits to the EIG website, more than 4,750 applications for export opportunities (approximately 40% from new exporters), over 8,600 downloads of the EIG Exporting Guide and more than 12,800 mentions of #ExportingisGREAT on social media.⁵

The High Value Opportunities (HVO) Programme

36. UKTI's HVO programme helps support companies to win contracts within some of the largest global procurement projects, including smaller companies as part of the UK supply chain. It deploys a variety of specialists – from technical to business development professionals with access to in-market buyers – to open opportunities and support UK suppliers to succeed.
37. The HVO contract is currently incentivised and focused on the largest procurement projects with accessible value to UK companies. While this undoubtedly brings business benefits, opportunities have not been assessed based on their ability to deliver *export* value for the UK. The definition of what constitutes a 'high value opportunity' also varies significantly, with some focused on a specific project while others simply refer to a broad business sector without specific opportunities being targeted. The need to re-focus resource on the Government's export objectives is a key challenge for UKTI, as discussed under question two below.

⁵ Data provided as at 9th December 2015.

Export-Oriented Foreign Direct Investment (FDI)

38. UKTI targets inward investors likely to contribute to UK exports either directly or through the development of supply chains and their export potential. Since this policy began in early 2014, UKTI and its partners have supported approximately 2300 FDI projects, of which over 300 were export-oriented (subject to end-of-year verification). Over 50% of foreign-owned firms in the UK are exporters. Foreign-owned firms are six times more likely to export than UK-owned firms (ONS). This activity also supports progress towards the 2020 investment target to achieve £1.5 trillion in inward FDI stock.

Achieving Greater Focus in Government's Support for Exports

39. The set of export support offerings described above is not sufficiently well joined-up inside UKTI, from UK to posts or across government. We need services to be more closely focused on the export targets, driven by increased efficiency and focused on where government can add most value. Describing and focusing government actions in this way has led to an emerging vision of how to focus our support for exports set out below.
40. To drive up the **number** of exporters, the Government has launched a five-year 'Exporting is GREAT' campaign (discussed above) to lead businesses to the right advice and support. UKTI currently provides advice directly, but increasingly it will shift to a role that signposts support from the private sector via a digital platform, which will also provide access to a joined up HMG toolkit on exports. This Government intends to reduce the range and complexity of services it provides itself, catalysing a private market that meets exporter needs, and providing access to useful data (and insights) that will help ensure exporters get the right support at the right time and the lowest cost. It aims to redirect funds thus released to provide export grants directly to businesses, so that they can purchase advice and services from their provider of choice. This Government aims to make the UK the easiest country in the world to trade from, with and through.
41. To drive up the **value** of exports, we will focus attention (and resource) on those markets with the biggest opportunities for sectors in which the UK is or can be a strong competitor and where government can add most value. Our overseas posts will help to improve access (including through working to improve the business environment) and build demand in these markets for UK solutions. In parallel, UKTI sector staff will embed within the relevant government departments that have the principal engagement with business sectors. They will deploy their sector expertise to develop the export-readiness of relevant UK businesses to meet this demand, including through sector councils; and where appropriate convene consortia/missions to win the business (more detail on this structural change is provided under question two).
42. Finally, our work overseas, including that supported by the Prosperity Fund, will help promote economic reform in emerging and developing countries, removing barriers to trade, building strong institutions, and supporting sustainable growth that in turn will generate opportunities for international business including for UK trade and investment. The Government should ensure that British businesses are poised to seize these new opportunities and help build the pipeline for exports beyond 2020, including by working

with business to stimulate the creation of new capacity in order that the UK economy can fully benefit from these opportunities.

Conclusion

43. A range of policies is required to help meet the Government's exports targets, but they need to be aligned and focused to deliver maximum impact on the UK economy. The government's offer to business on exports has strengths, but it has been disjointed. We need a more cohesive offering to business, which will require changes to how support is delivered in practice. The Government's plan for how to implement a new, whole-of-government approach to exports is discussed under question two of this evidence, while what more UKTI and UKEF could do is discussed respectively under questions three and four.

Question Two: Is UK Trade and Investment (UKTI) fit for purpose? Are the indicators used to measure its performance the right ones? How could UKTI be better held to account?

44. We emphasise that it cannot be for UKTI alone to deliver government support for exporters. In the UK, the government's principal engagement with business sectors rests with mainstream Whitehall departments, and Ministers in those departments will be tasked with leading each sector's export drive. Arm's length bodies such as Visit Britain and the British Council have an important role in promoting UK exports, as do mainstream FCO personnel, especially in posts where there is no UKTI presence. In addition, it is perfectly consistent with DfID's development aid mission for its staff to provide intelligence and insight to support UK businesses in the markets where DfID operates.
45. However, UKTI is the principal face of government export support. It faces a range of challenges. This section first outlines what those challenges are and then describes the newly-agreed operating model that the Government will implement to help address these challenges.

UKTI's Challenges

46. Since May the government has examined what it needs to do to drive a step change in UK export performance. The following challenges stand out:
- UKTI has not historically been exclusively focused on the key objectives of job-creating investment and exports (in part the result of the metrics used) – indeed, businesses expect UKTI to provide support and advice regardless of the size and nature of the opportunity;
 - Staff are driven by numerical targets and metrics that are not related to the export targets the organisation is charged with delivering; for example, metrics that record activity (service deliveries) and outputs (business wins) rather than outcomes, with no read-across to macro export targets;
 - UKTI employs more people than other countries' export promotion agencies, but deploys less resource on practical support for exporters (such as interim export managers);
 - UKTI's UK-based sector experts are disconnected from the Whitehall departments from which HMG's business engagement for the sector is led; and poorly connected to the overseas posts with the greatest sector opportunities
 - UKTI is dependent for delivery on numerous contracts, sometimes poorly written and has needed to upgrade its commercial and contract management capability;
 - There is a lack of joined up forecasting of 'demand' (from overseas posts) with 'supply' (export ready businesses in the UK, from sector teams); a failure to use demand to drive capacity building and a failure to ensure resourcing follows forecasts.

- The indicators UKTI has used to measure its performance have not been adequately focused on the outcomes UKTI is looking to achieve. For example, the "Business Wins" metric does not measure the **export** value of a deal; it measures the **total** value of the deal to the company involved. This maps poorly to the true value of exports for the UK. For example, for a big infrastructure or healthcare project, much of the deal value, whether construction materials or labour, ends up being sourced locally rather than being exported from the UK. On the volume side, UKTI has historically measured the number of companies it has supported as opposed to the number of companies it has helped to export, which again means the metric cannot be mapped to the Government's macro targets for exports. Work is currently underway to resolve this.

47. To tackle these challenges, we have been developing a new operating model for UKTI and HMG provided-export support.

A New Operating Model for UKTI: Implementing a Whole-of-Government Approach

48. Under this new model, UKTI will be the central driver of a whole-of-government approach to exports, overseeing and co-ordinating performance on behalf of the XITF. Key elements of the new operating model include:

- **Accountability and Delivery:** Sector Ministers, based in departments across Whitehall⁶, will oversee the development and be accountable for the delivery of sector export business plans. FCO Heads of Missions will, likewise, oversee the development and be accountable for the delivery of market export business plans. UKTI HQ will monitor progress, and Sector Ministers and Heads of Missions will report on progress directly to the XITF. The work on integrating sector teams into departments is already underway with the UKTI food and drink sector team moving to Defra on 1 January 2016 **to create the Great British Food Unit** – the first joint unit under phase 1.
- **Business Planning and Resource Allocation:** UKTI will introduce a rolling (and hence iterative), multi-year business planning process from the start of 2016/17 to ensure resources are targeted at the priority opportunities. Assessments of priority will consider, among other things, the forecast value of export potential, the need/ability for HMG to add value to exports and historic performance. This business planning process will seek to reconcile sector and market forecasts and provide resources and budget to Whitehall Departments and overseas posts on the basis of agreed export campaign plans. This approach will better enable government to develop sensible, cross-Whitehall campaign plans and provide greater clarity and confidence to sector teams and posts. It will also allow for flexibility, so that

⁶ The defence and security sectors will continue to be supported by UKTI's Defence & Security Organisation sponsored by BIS as the relevant sector and Defence Growth Partnership lead. MOD will assume leadership of certain strategic export campaigns and the Secretary of State for Defence will continue to oversee exports in this sector as the chair of the Defence and Security Export Ministerial Working Group.

resources can be withdrawn from a sector that is under-delivering and reallocated to enhance support for bigger or more likely opportunities.

- **Performance Measurements:** UKTI will discontinue activity-based metrics and focus instead on measuring the volume and value of exports delivered. Robust and reliable metrics need to be developed in close consultation with policy departments, thereby allowing departments to assess their own performance against any agreed targets. UKTI HQ, reporting to XITF, will monitor performance against these targets.
- **Cross-sector Support:** UKTI will continue to provide cross-sector support, such as:
 - Programme management for cross-cutting programmes, like Smart Cities;
 - Access to volume (on-demand) export opportunities, via a digital self-service platforms and partners;
 - GREAT marketing, events, communications and PR support;
 - Strategic relationship and account management;
 - Cross-sector co-ordination of formal Ministerial dialogues; and,
 - Enhanced support for outbound and inbound trade missions and fairs, ministerial visits, Trade Envoys and Business Ambassadors.

UKTI will be held to account for this activity by the XITF.

49. Combined, these changes will help drive efficiency and focus in a whole-of-government approach to exports, ensuring domestic policy levers are more accessible to help support exports, and resources are deployed where they can add most value.

UKTI's Spending Review

50. The Spending Review (SR) provided an opportunity for UKTI to set out the longer-term funding that is needed to deliver the step change required in export performance. It was prepared in the context of the work on the new whole-of-government strategy and reform of UKTI.
51. HMT commissioned UKTI, along with other unprotected departments, to model two scenarios of 25% and 40% savings at a steady pace over the next 4 years. The scale of the export challenge meant UKTI was encouraged to be transformative in its approach, focusing on how to maximise impact against the targets as efficiently as possible, rather than making marginal changes to existing delivery models or top slicing.
52. The UKTI settlement reached requires the Department to make 14% savings across the SR period. This is a welcome settlement that balances the importance of the export agenda with the financial pressures felt across the whole of government. As part of this settlement, HMT have recognised the importance of the exports agenda by agreeing that £175m from within the reduced budget between 2016-17 and 2019-20 should be reinvested in priority areas. This will allow UKTI to deliver the transformation needed,

including delivering the organisational change outlined above, building digital capabilities, and to capitalise on opportunities that will flow from the new strategy.

Conclusion

53. This Government is committed to improving the support it provides to British business in support of exports and has recognised, through the establishment of the XITF and its subsequent work, the need to transform our approach to exports. We are clear that in order to be fully fit for purpose UKTI requires transformational change. These changes are now in train to re-focus UKTI's export promotion activity on the Government's targets, devolve responsibility for delivering export support for business sectors to other Whitehall departments and move towards a priority-driven resourcing model. The XITF will monitor progress on these changes as they roll out over the coming months.

Question Three: What UKTI activities are most effective at increasing exports? What more could it do?

54. A blend of activities is needed to support a step-change increase in UK exports. This section outlines the limitations of existing measures to answer the question of what UKTI activities are most effective at increasing exports, but goes on to discuss information and insights gathered on what more government could do to support business and an overview of some of the new activities under development.

Which activities are most effective?

55. Historically, UKTI's main source of evidence on the effectiveness of its activities has come from the Performance and Impact Monitoring Survey (PIMS). PIMS focuses on UKTI's impact on general business performance, considering the additional sales achieved as a result of government intervention as opposed to exports (additional sales may include overseas direct investment and domestic sales as well as exports). As discussed above (paragraph 33), UKTI will be re-focusing its metrics on the impact it has on the volume and value of exports, which will ensure we are able to more directly answer the question of 'What UKTI activities are most effective at increasing exports?' in the future.

56. PIMS data does, nonetheless, provide some insights into which UKTI activities its customers find most useful and lead them to report positive financial benefits. The below table, taken from the last published year of PIMS results (2013/14) demonstrates that over 60% of businesses going on Tradeshows and Missions report positive financial benefits as a result of the support provided by UKTI. However, there is a notable gap between performance against the qualitative measures, which are broadly positive, and the measure of positive financial benefit, which for all activities other than "tradeshows and missions" were rated as positive by fewer than 50% of companies surveyed.

Table 2: PIMS results (2013/14) by service

	UK-based Advisory Services	Overseas Network Services	Events	Tradeshows & Missions	Website Business Opportunities	DSO Support
Quality Rating (A09)	88%	78%	79%	74%	59%	83%
Overall Satisfaction (B10)	81%	74%	74%	83%	61%	83%
Significant Business Benefit (A06)	75%	64%	69%	88%	62%	79%
% reporting positive financial benefit	48%	31%	36%	63%	30%	35%

What more can be done?

57. We have given considerable thought to what more we can do to increase exports in terms of direct support for businesses. In addition to reviewing the offerings of other Trade Promotion Organisations, we have considered suggestions from the Cole Commission, the International Trade Centre and the Boston Consulting Group. We welcome any further suggestions.

58. To answer this question, UKTI has also been talking to businesses to ensure any future changes are focused on their needs. In July 2015, UKTI ran a customer insight exercise called 'Export Jam' in which it met with 320 SMEs from across England to gather their views on what they want from the Government to help them on their journey into and through exporting. Five over-arching themes came out of this work about what Government can do better to help UK exporters:

- Help businesses to help themselves.
- Design services around businesses' needs.
- Present a single, coherent face for all Government services.
- Be a source of deep expertise.
- Provide introductions overseas that only Government can provide (commercial diplomacy).

59. The combination of insights gathered from these external sources and customers have helped focus this Government's initial thinking on the changes needed to its services for exporters. The following is a non-exhaustive list of the new activities under development:

- **Digitised Volume Services:** To expand the reach and impact of our volume services, UKTI is focusing on transforming its digital offering. The 'Exporting is GREAT' campaign (discussed under question one) is one part of this offering, but UKTI is also developing a single, digital platform that will signpost customers to the exporting information, support and advice they may need from Government and private sector partners. Digitised Volume Services will help businesses to help themselves by making information more accessible.
- **New Practical and Financial Support for Businesses:** Learning from competitor countries' export promotion agencies, UKTI is developing on a small scale some direct practical support services and products to see what might work in the UK. UKTI will pilot these services and products to ensure they adequately reflect businesses' needs. These will include (but are not limited to):
 - A new export voucher scheme to allow businesses to buy support from a provider of their choice, learning from UK schemes, and international examples. The voucher could be used for a range of purposes, including advice but also financial support for overseas market missions;
 - Providing support for businesses to employ temporary export managers, drawing on different international approaches, including Italy, Finland and France;
 - Underwriting the export development costs for new exporters, developing proposals based on the French 'Prospecting Insurance' model; and,
 - Testing ways to help small firms to create critical mass through aggregating groups of businesses - starting with the retail sector, by looking at ways to support SMEs to get their goods onto the shelves of overseas retailers.
- **Sector-led campaigns:** UKTI's sector teams bring together the best of public and private sector experience to develop targeted export campaigns, shaped with industry input, to connect international demand to a UK supply of goods and services. Importantly, the campaign approach also ensures that commercial diplomacy can be deployed in support of specific export opportunities with a high value to the UK. The planned integration of UKTI's sector teams into other Government Departments (outlined under question two) during early 2016 will augment this approach. With Sector Ministers accountable for the export performance of industries, sector-led campaigns will become increasingly joined up with domestic policy and the deep expertise our customers are seeking, maximising the chances of export success.
- **Developing the Export Support Market:** Where export services can be provided by the private sector, with no or little government-specific additionality, the government should support and foster an invigorated private sector export support marketplace. Transition from a government-heavy approach to a private sector export services market will be unambiguous but phased.

Conclusion

60. UKTI is currently not very good at measuring which of its activities are most effective at increasing exports. In addition to addressing this measurement problem, UKTI and the XITF have gathered information from a range of sources about the sorts of activities that do and could help deliver the step change needed to reach the Government's export targets. UKTI will now begin piloting some of the more innovative of these ideas, focusing its attention on adding value to businesses, while helping to develop a private sector market.

Question Four: What more can other bodies, such as the banks and UK Export Finance, do to provide financial assistance to companies seeking to export?

61. Financing can be an important factor in exporting, but in spite of the highly developed financial services sector in the UK, awareness of export financing solutions and options amongst smaller businesses is low. Based on UKEF's experience to date, raising awareness of the financial assistance available from both the private and public sector is the key obstacle to ensuring UK businesses are not deterred from exporting due to financial risk. This section outlines UKEF's role in providing financial assistance to exporters, including detailing its recent performance. It then discusses in detail efforts to raise awareness of financial assistance available among exporters and issues around accessing that assistance.

UKEF's Role

62. UK Export Finance's (UKEF's) statutory role is to support exports. It does so by assuming financial risks, e.g. providing insurance to exporters against overseas buyers failing to pay them for supplies, which results in a risk transfer from the private to the public sector i.e. the taxpayer. UKEF looks to help make exports happen that for whatever reason are at risk of failing due to a lack of appropriate finance or insurance. Its products and services are outlined at: <http://www.gov.uk/guidance/export-finance-and-insurance-an-overview>

63. In fulfilling its role, UKEF:

- complements the private market but does not compete with it, i.e. responds to demand not being met from elsewhere;
- is asked to assume risks the commercial market will not accept, i.e. support export transactions involving higher risk for reasons including maturity, jurisdiction and/or credit quality;
- operates under the 'Consent' of HM Treasury. It must: (a) meet minimum credit risk standards; (b) price for risk; and (c) recover its costs. UKEF's running costs are therefore funded out of the premiums it charges;
- operates under international agreements that regulate the activities of ECAs, principally those of the EU and OECD; and,
- manages a portfolio of around £20 billion of risk.

64. UKEF does not look to increase its own market share for its own sake but aims to assist British exporters' pursuit of *their* market share.

65. Without UKEF support many of the exporters directly supported in 2014/15 would not have been able to go ahead with those orders, and many more UK companies also benefit indirectly through supply chains.

Overall performance since 2010/11

66. As detailed in the table below, business volumes typically range between £2bn and £3bn per annum. There has been a steady rise in the numbers of companies directly supported over the last five years, up to 160 in 2014/15 from just 10 in 2009/10. This is due to the broadening of UKEF's mandate in 2011 to support not just capital goods exports, but also consumer and light manufactured goods. In conjunction with this, new products designed to assist mainly smaller exporters were introduced.

67. UKEF's impact also extends beyond the companies that benefit directly from its support. For example, when guaranteeing the sale of an Airbus aircraft with Rolls Royce engines, UKEF indirectly supports some 3,900 UK companies in the supply chain. UKEF research estimated that, on average, 27 UK firms indirectly benefited for every exporter directly supported by UKEF.

68. UKEF is a demand-led organisation in that demand for its support will be dependent principally on i) the success of UK exporters in winning overseas orders and ii) the appetite of the private market for risk. UKEF cannot compete with the market in the provision of finance or insurance in support of exports, and UKEF inevitably works very closely with the banking and insurance market, with its regional Export Finance Advisers referring companies to market sources of support where appropriate. UKEF also works closely with UKTI, the British Business Bank (BBB) and others in government, to ensure that the needs of businesses requiring help with exporting are correctly diagnosed and referred to appropriate forms of support.

Table 3: UKEF Five year overall business performance

	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
Business issued	£2,730m	£2,272m	£4,295m*	£2,318m	£2,924m	£2,206m
Guarantees issued	588	619	368	204	192	198
Premium income	£104m	£120m	£133m	£85m	£96m	£58m
Amounts at risk	£18,672m	£17,195m	£18,142m	£14,280m	£13,616m	£11,799m
Net operating income	£129m	£50m	£135m	£147m	£204m	£272m
Companies supported	160**	130	84	33	18	10
SMEs supported	129	92	48	15	5	1
Destination countries	72	71	58	42	32	30

* Includes support of £2bn for a single large defence export contract.

**UKEF assisted a further 66 UK-based companies to find private market sources of export financing and insurance support.

Awareness raising and business development

69. UKEF has stepped up its marketing activity over the past 12 months, as part of the Exporting is GREAT campaign, reaching out directly to exporters and potential exporters, and to key intermediaries such as banks and brokers. UKEF wants to ensure that exporters do not lose overseas opportunities because they, or their financial advisors, are unaware of UKEF and how its support could help them. UKEF has begun comprehensive education sessions and these will be systematically rolled out across the banking community, to turn customer-facing bank staff into UKEF advocates. UKEF meets regularly with the banks both individually and through the British Bankers Association (BBA) to discuss areas of mutual interest.
70. UKEF is also engaged with the BBB to ensure that each other's products are complementary and fill gaps in the provision of support where this is unavailable from the private market. This includes:
- Working with the BBB on product parameters, product refinement and product development. New product initiatives are being developed including widening the scope of UKEF's export working capital facility to allow support for more general export related lending (including to export supply chains) and support for supply chain finance schemes. The BBB is also looking at opportunities for enhancing its own SME-focussed products so that support for bank lending for export related activities can be provided.
 - Encouraging greater engagement by banks, including further training sessions for banks on UKEF products;
 - Developing a simple, informative on-line experience for SMEs to access the most suitable government support; and
 - Ensuring on-going collaboration and co-ordination.
71. UKEF has also sought to step up its marketing efforts abroad to make overseas buyers and project sponsors aware of how finance packages backed by UKEF can help boost the competitiveness of sourcing from the UK. As well as directly talking to decision makers overseas, UKEF is working closely with locally based UKTI staff to raise their awareness of how finance can play an early and important role in procurement, and to spot earlier, and a greater number of, opportunities where UKEF support might assist a UK exporter in winning an order.

Ease of Access

72. UKEF is working to make processes and procedures quicker and easier to understand for smaller exporters. UKEF has already implemented a number of process improvements accelerating response times (and hence customer service) for SMEs. These include a "fast track" (under 48 hour) approval process in addition to the over 30 per-cent improvement in overall response times. Work has also begun on digitising the current paper based application form and this combined with "Bank Delegation" – a project to reduce duplication in terms of customer and credit due diligence – is expected to provide further benefits. A wider digitisation programme to support the modernisation and streamlining of processes to make it more user-friendly and accessible is also underway, aligning what UKEF does with partners and the wider digital transformation of export related trade services.

73. The government consulted earlier in the year on changes to UKEF's anti-corruption declarations that were designed to make these less complex, more understandable and better suited to SMEs. Responses to the consultation are currently being considered.

Conclusion

74. As well as by providing direct support, UKEF can help exporters find the financial assistance that they need by working with partners to further raise awareness of the products and services available. By combining improvements in the areas of responsiveness, less burdensome processes and education amongst exporters and financial intermediaries, UKEF will also continue to ensure that it is relevant to, and useable by, the widest possible range of companies involved in exports who cannot access market support.