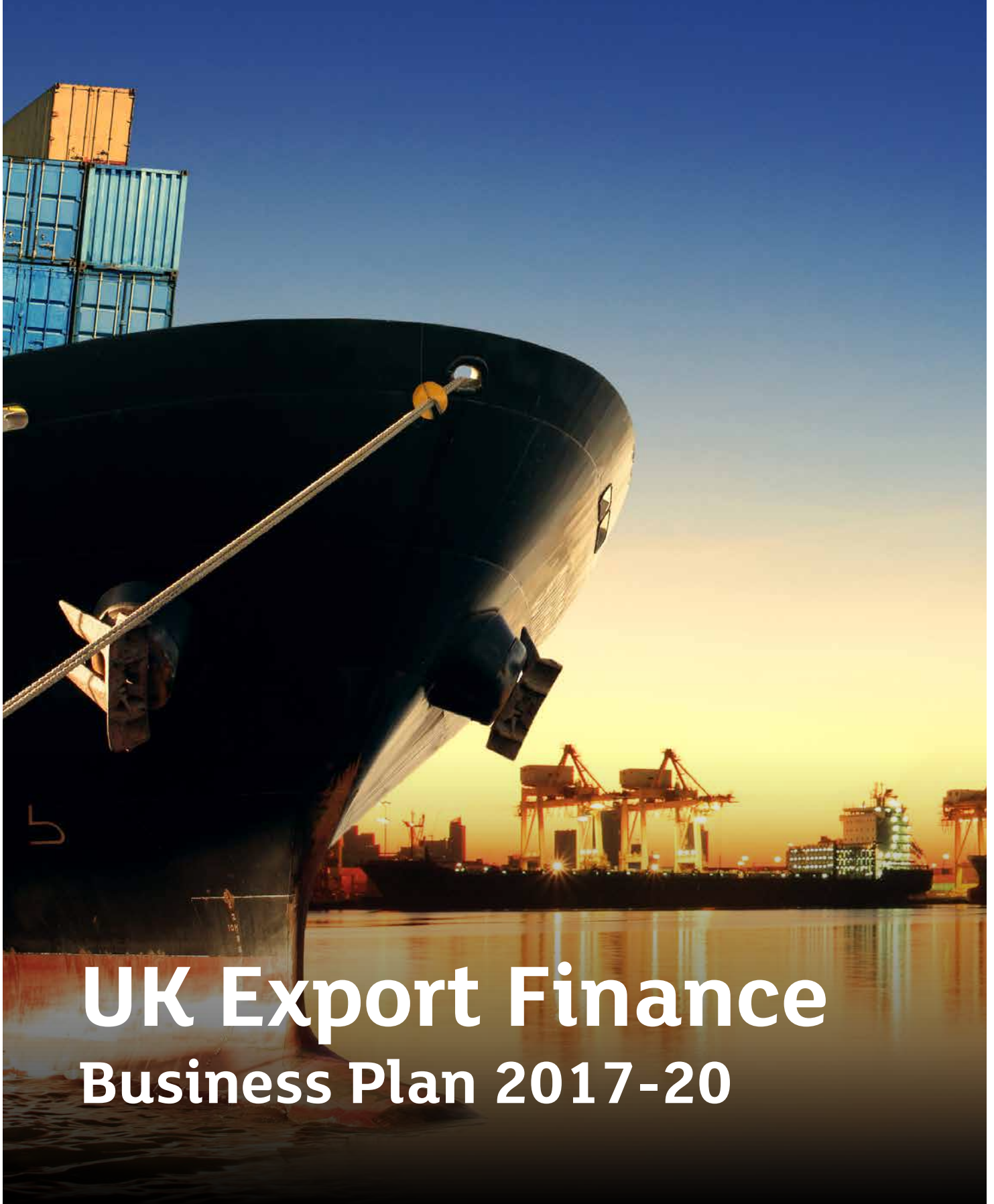




UK Export
Finance



UK Export Finance Business Plan 2017-20

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Our commitments at a glance

This document sets out the opportunities for UKEF in the next period, and the direction we have set to take advantage of them. Further opportunities will be identified and exploited throughout the life of the plan. At the beginning of the period, the following concrete commitments have been made:



By 2020 UKEF will



Be a more **scalable organisation**, able to support higher volumes of business efficiently and effectively, in particular on the short-term trade finance side



Be a more **customer-centric organisation**, easier for customers to deal with, offering improved response times, quicker decision-taking and improved case-processing



Make **meaningful contact** with more exporters and other stakeholders, resulting in increased numbers of exporters accessing support



Use digital as a primary means for **managing relationships** with a wider range of stakeholders



Be smarter in our decision-taking, **using data and market intelligence** to guide our interventions



Be a **great place to work**, with all staff engaged in delivering our mission and clear about the value of their contribution



Collaborate generously with colleagues in the Department for International Trade, other government departments and other partners, combining our efforts to maximise the benefit to exporters



Continue to be **disciplined in our use of resources**, and in risk management, in order to operate within the terms of our Spending Review 2015 settlement and Treasury consent, and at no net cost to the taxpayer



Our checklist

- ✓ 'Bank delegation' model to improve access to selected short-term trade finance products
- ✓ Digital 'portal' allowing banks and exporters to apply for short-term products online
- ✓ Digitised workflow capability to process requests for support more quickly and efficiently
- ✓ Widened eligibility for the Export Working Capital Scheme
- ✓ A refreshed Overseas Investment Insurance product
- ✓ A wholesale product review to test UKEF's proposition against evolving customer needs
- ✓ 20 finance specialists based in key overseas markets
- ✓ A "Team UK" approach: an expression of interest for each relevant High Value Campaign (HVC), so consortia of UK exporters can galvanise with a concrete expectation of financing
- ✓ Exploitation of new digital capability to increase the volume and relevance of marketing activity
- ✓ An enhanced approach to risk management following the doubling of risk appetite and market limits
- ✓ A more flexible approach to deployment of staff resources to match shifting patterns of demand and support effective staff development

Who we are, and what we do

UK Export Finance (UKEF) is the UK's export credit agency and a government department, with a statutory mandate established in the Export and Investment Guarantees Act 1991. We report to the Secretary of State for International Trade and work alongside the Department for International Trade as an integral part of its strategy and operations. However, we remain a separate government department for governance and accounting purposes, operating under the consent of HM Treasury, due to UKEF's significant capacity to take on financial risk.

Our mission

To ensure that no viable UK export fails for lack of finance or insurance, while operating at no net cost to the taxpayer. We help UK companies:

- **win** export contracts by providing attractive financing terms to their buyers
- **fulfil** contracts by supporting working capital loans and contract bonds
- **get paid** by providing insurance against buyer default

How we do it

We provide insurance, guarantees or finance ourselves, where the private sector won't, backed by the strength of the government's balance sheet. We also help companies access private sector support and often encourage private sector support.

We seek to complement, not compete with, the private sector and work with around 70 private credit insurers and lenders. We help to make exports happen which might otherwise not, and thereby support UK exporters and their supply chains. In this way, we provide security of support through economic cycles and market disruptions.

UKEF can support exports for any size of company and across all sectors, from capital goods to services and intangibles such as intellectual property.

Our mandate

With a statutory mandate to support exports and overseas investments, we operate under the consent of HM Treasury (HMT), which sets financial objectives we must achieve. We aim to operate at no long-term net cost to the taxpayer, charging a risk premium at market rates for the risks we take on, which should cover our losses from claims, as well as our costs. Other financial parameters within which we work include an exposure cap and a portfolio risk appetite limit.

We also operate within international agreements which inform the terms under which export credit agencies (ECAs) can support exports and thereby seek to create a level playing field. These agreements emanate principally from the Organisation for Economic Co-operation and Development (OECD) and World Trade Organisation (WTO).

Key facts



Total capacity¹ to support exports of **£50 billion**



Risk appetite limit² increased to **£5 billion** from **£2.5 billion** in Autumn Statement 2016



Maximum country limit³ of **£5 billion**, doubled from **£2.5 billion** in Autumn Statement 2016



UKEF can guarantee financing in **40** local currencies



£3 billion available to lend directly to overseas buyers of UK exports



Export Finance Managers based across the UK supporting exporters in every country and region



We work in partnership with around **80 banks, brokers** and other **providers** to supply export finance and insurance that complements their commercial business



As the world's first export credit agency, we've been supporting UK exports for nearly **100 years**



A multi-award-winning export credit agency

1. UKEF's total capacity, or maximum commitment, is a cap on the maximum amount of nominal credit risk exposure that the department may incur. 2. UKEF's risk appetite limit is a measure of risk based on an assessment of future losses. 3. UKEF's country limit is a limit on the exposure that UKEF can incur to an individual market.



Image: the Chernobyl New Safe Confinement Site, which will use fire dampers provided by Welsh SME Flamgard Calidair with UKEF support.

Minister's introduction

I am delighted to introduce UKEF's new Business Plan for the period 2017-20. It reflects the scale of ambition that this government has for the department, and the important role it must play in supporting our international trade agenda.

The UK is open for business and in UKEF we have an export credit agency that reflects this: innovative, customer-focused and on the front foot.

It now needs a profile to match its capabilities. UKEF is known and appreciated by a growing number of exporters which have benefited from its support. However, levels of awareness among businesses generally are too low when you consider the nature and scale of UKEF's potential to benefit the UK economy – real pounds-and-pence financing capacity to support up to £50 billion of exports to over 200 global markets.



The creation of the Department for International Trade brought international trade promotion, trade policy, the GREAT campaign and export financing together. This enhancement and elevation of the government's trade agenda supports UKEF's growing profile and potential impact. While UKEF remains subject to the same robust risk management and governance arrangements as before under the stewardship of its new Chair Noel Harwerth, and with the appointment of two equally experienced non-executive directors, it is now strategically aligned with the Department for International Trade, with integration of its senior leadership and support functions.

The Chancellor's 2016 Autumn Statement further underlined the government's commitment to boosting exports from all parts of the United Kingdom. UKEF's total capacity to support exports remains £50 billion; within this, its risk appetite limit was doubled to up to £5 billion, meaning British exporters and would-be exporters can be confident that support will be available when it is needed.

With this plan, UKEF takes its development to the next stage, building on the qualities and principles established by the last plan: agility, competitiveness, customer focus and being a great place to work. In line with the Government Transformation Strategy published in February 2017, it will further harness the latest technology and the talents of its people to extend and deepen its relationships with all its customers, and to ensure it meets the demands of exporters with the right products and services delivered in the right way and at the right time.

This government is committed to building a global, outward-looking Britain with a strong economy, and to do so we are putting UKEF at the heart of trade promotion.

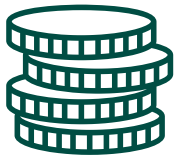
Rt Hon Greg Hands MP, Minister of State for Trade and Investment

Chief Executive's foreword

This new Business Plan for UKEF is my first as Chief Executive, and I present it with great pride.

UKEF does not need a radical new path. This plan instead calls for acceleration, increasing the pace of transformation and the scale of our activity, and reflecting an increased level of ambition. Ambition for UK exports, for UK exporters, for UK jobs; and for the communities served by the benefits of global trade with the UK.

The department has already made considerable progress towards realising this ambition. We have expanded our product range and reached out more systematically to exporters. Our success is underlined by our results.



In the last five years, UKEF has provided **£14 billion** in support for UK exports



In the 2016/17 financial year, nearly **80%** were SMEs

None of this would be possible without the hard work and dedication of UKEF's staff. Our people are our most valuable asset, and a priority for the next period will be to provide them with the opportunity to develop their careers and their potential within UKEF.

Our success has not gone unrecognised, with UKEF now a regular recipient of industry awards. And the British Exporters Association's (BExA) annual benchmarking of UKEF's product range rates us 9 out of 10, significantly above the EU ECA average, and up from a below-average 5 out of 10 in 2010. By continuing to engage closely with critical friends like BExA when developing products and services, we maximise our chances of achieving our goal of being the world's best ECA.

Now acceleration is needed to ensure UK exporters can take full advantage of the global opportunities out there for British goods and services.

UKEF will provide risk capacity and innovative products to give UK exporters certainty of support in the event of market volatility, and a competitive edge to help exploit the demand for UK goods and services.

BExA's benchmarking of UKEF's product suite

Products	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Short-term insurance	●	✓	✓	✓	✓	✓
Direct lending	●	●	●	✓	✓	✓
Bond support scheme	●	✓	✓	✓	✓	✓
Working capital facility	●	✓	✓	✓	✓	✓
Export credit schemes	✓	✓	✓	✓	✓	✓
Fixed rate financing (CIRR)	✓	●	●	●	✓	✓
Investment insurance	✓	✓	✓	✓	✓	✓
Unfair calling insurance	✓	✓	✓	✓	✓	✓
Letter of credit guarantee	✓	✓	✓	✓	✓	✓
Foreign exchange risk cover	●	●	●	●	●	●

Year	UKEF score (out of 10)	EU export credit agencies' average (out of 10)
2010-11	7.5	5.0
2011-12	7.5	7.0
2012-13	7.5	8.0
2013-14	7.5	8.5
2014-15	7.5	9.0
2015-16	7.5	10.0

We will harness all the tools and resources available to us – including our people, our risk appetite and risk management capability, our technology, our market insights and intelligence, and of course our partners – to ensure that we deliver the right products with greater pace and efficiency, and to more customers than ever before.

We will lead with finance, helping UK exporters **win** new business, **fulfil** larger contracts and **get paid** securely when they trade.

Alongside our colleagues across the Department for International Trade, we will work every day to shrink barriers to trade and nurture the growth of exports.

Louis Taylor, Chief Executive

Delivering our spending review commitments

UKEF's vision and mission from our last Plan remain as relevant today as in 2014: we remain committed to being agile and adaptable, customer-focused, innovative, competitive and a great place to work.

Since the development of the last Business Plan UKEF, like all other departments, concluded its 2015 Spending Review (SR15). This committed us to cost savings of 15% by 2020, but these can be reinvested to support measures to transform the business and drive efficiency. These transformative measures, set out in a Business Transformation Plan, are:

- **Technology change**, to improve the reliability and capability of our IT systems, including the exploitation of Management Information (MI) and a move towards a "digital-by-design" approach;
- **Service redesign**, including more effective collaboration with commercial and government delivery partners, and improvements to product access for customers and processing by UKEF; and

- **Organisation and workforce change**, including introducing a new operating model for UKEF's Business Group to achieve more efficient use of our talent across sectors and products right through the cycle, and the introduction of an enhanced Business Development function.

While UKEF remains a demand-led organisation, this Plan positions us to achieve significant year-on-year increases in the number of exporters supported, large and small, and in the overall aggregate value of business underwritten or assisted. This will be done by increasing the scale and quality of our business development in close partnership with other parts of the Department for International Trade, and increasing the relevance of our products. It will also be achieved by transforming our operations in order to transact in a more efficient manner.

The Business Plan 2017-20



Image: Renewable energy is a priority sector for UKEF, which has recruited specialists in renewable energy projects to its underwriting team.

Focusing on our customers and developing business opportunities

In order to ensure no viable export fails for lack of finance or insurance, it is essential that the widest range of UKEF's potential customers and partners are aware of our existence and proposition. Only then can we be confident that we are successfully closing the gap between commercial market capacity and the financing needs of UK companies with viable export opportunities.

Furthermore, UKEF's role is not limited to meeting existing demand. We also have a role in identifying additional opportunities for UK exporters, where the potential involvement of UKEF can drive overseas procurement decisions in favour of the UK.

Working with colleagues across the Department for International Trade, we will do this by raising awareness among overseas buyers about the benefits of securing efficient and flexible financing solutions from UKEF when they buy from the UK, and by connecting UK companies with those export opportunities.

Focusing on our customers

The Government Transformation Strategy for 2017-20 sets out a commitment to transforming the relationship between citizens and state, and providing a better experience when interacting with government services.

UKEF is taking up this challenge. We have recognised that the manner in which we provide our support is just as important as the support itself.

It is now a truism that putting the customer first creates competitive advantage and improves organisational performance. So, through the period of this Business Plan, we will take steps to put the customer at the heart of everything we do, to ensure we are providing the right support, at the right time and in the right way.

Business development

Following a recalibration of our Business Development and Marketing function, focus is now on establishing, developing and following-through on relationships in each of the four key categories of customer that we believe will drive business volumes and value. The first two are direct users of our products and services:



Exporters and potential exporters



Overseas buyers

The second two are advocates and delivery partners, helping us to reach, influence and support those direct users:



Banks, brokers and multilateral financial institutions



Trade associations, representative groups and professional intermediaries

The UK focus

Business development activities in the UK are primarily aimed at increasing awareness and uptake of UKEF's short-term trade finance products, which are of particular benefit to SMEs.

We will build on our work to date and use a combination of means to reach UK exporters when they are most receptive to our message and proposition, including:

- Maintaining UKEF's offer as a core part of the Government's trade and investment GREAT campaigns, including Exporting is GREAT;
- Collaborating closely, providing training and feedback, with Department for International Trade colleagues across the UK so that they can successfully identify exporters' financing needs and signpost these needs to UKEF;

- Making the most effective use of all available data and insight to reach businesses that may benefit from our support; and
- Developing relationships with trade associations and membership groups that share our commitment to increasing the UK's export activity.

Underpinning these activities is our domestic customer-facing network of Export Finance Managers (EFMs) who cover every region of the UK. Through the provision of tailored information, including relevant prospects from Department for International Trade-led campaigns, and with the support of marketing initiatives, we will increase the efficiency and effectiveness of EFMs, connecting them with more exporters and potential exporters.

We know that for many businesses, the UK Government is not a natural first point of contact for export finance information or support. This is where our second group of 'customers' plays a vital role. There are thousands of bank relationship managers across the country, all supporting UK business.

Meanwhile, the trade associations, membership bodies and professional intermediaries are natural contact points for UK businesses across sectors and regions. Through these relationships we already reach many more companies than we could hope to alone. We will take additional steps, including through increased use of improved technology and application of data, to extend these partnerships.

The international focus

UKEF has expertise and relationships in a wide range of sectors and international markets, and will use these to address global opportunities for UK exporters. While remaining demand-led, UKEF will apply its insights and experience to target priority opportunities. In developing priorities we will work closely with other parts of the Department for International Trade to coordinate efforts and maximise our collective impact where our priorities align.

The current list of priority markets is contained in Annex B. We will keep these priorities under review, aligning them with those of other parts of the Department for International Trade, throughout the life of this plan, reflecting changing market needs in doing so. The same approach will also apply to prioritising sectors. The current assessment of priority sectors is contained in Annex C.

While we have priority countries and sectors, we will remain opportunistic and respond to all UK exporters' needs.



Image: A recent UKEF supplier fair in partnership with the Energy Industries Council and NOF Energy to explore opportunities worth \$250 million with projects in Iraq

Generous collaboration across the Department for International Trade

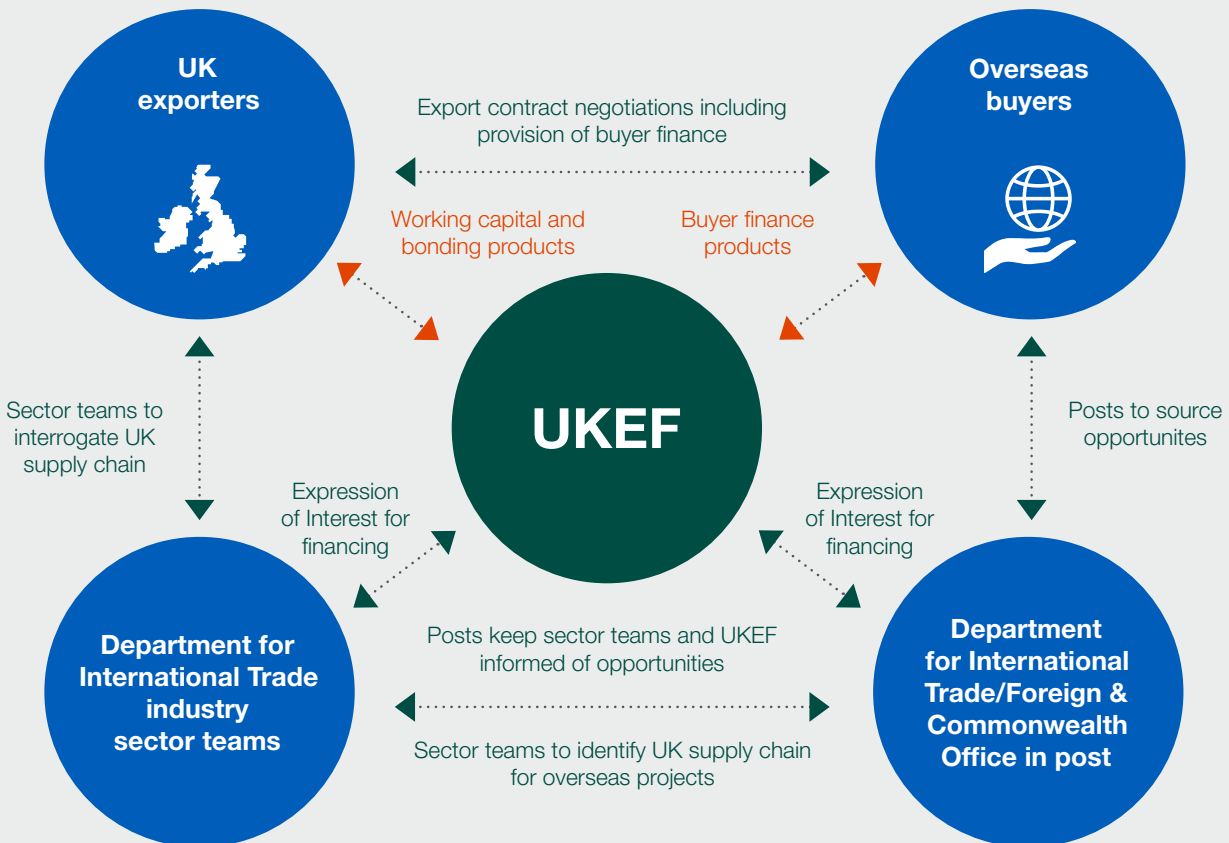
There is recognition of the value that can be achieved by UKEF and other parts of the Department for International Trade through collaboration, to achieve better outcomes more efficiently. The Department for International Trade has an on-the-ground presence in 108 markets, as well as across regions of the UK. Through closer collaboration and an integrated offering, we can serve UK exporters far better.

UKEF is therefore working closely with other parts of the Department for International Trade across a range of activities, including the review of the role and composition of the Department for International Trade's overseas network and its links to headquarters. We also intend to embed finance specialists in overseas regions such as the Middle East and South East Asia to support the capture of opportunities, as well as rolling out accredited export finance training for the

Department for International Trade staff in-market to increase their effectiveness.

We will ensure that leads identified are always real and tangible, and represent relevant export or investment opportunities for UK companies. UKEF will work with colleagues across the Department for International Trade to identify relevant High Value Campaigns for UK exporters, and for each one we can, if appropriate, issue a formal Expression of Interest to provide or guarantee finance, in order to incentivise the maximum possible procurement of UK goods and services. This will be a tangible example of UKEF leading with finance as part of a "Team UK" approach to addressing export opportunities.

Progress is at an early stage to explore the full range of opportunities presented by the creation of the Department for International Trade. These may be magnified further by growing digital and data-management capabilities within both organisations. Through the activities identified here, and the further opportunities that may arise, we aim to foster links between the conversation held by a regional EFM with a small business in the UK supply chain, and a multi-billion pound export opportunity identified in an overseas market.



We can help UK-based exporters of all sizes, in all sectors, export to over **200** countries

Image: UKEF has provided support for Burntisland Fabrications Ltd, a Fife-based manufacturer of steel fabrications for the oil and gas and renewable energy sectors, for a £100 million contract

Developing digital services to meet our customers' needs

To increase customer awareness of UKEF services, make services available online and improve our operational effectiveness, UKEF is implementing a Digital Programme of coordinated design and delivery of new digital solutions.

User-centred service design and delivery

The purpose of all new services in government is to meet the needs of the user. UKEF's digital capability fully supports this principle.

Customer insight and user research will form the foundation for all service design and delivery in UKEF. By taking a needs-based approach, we can ensure 'real life' benefits are delivered earlier, and further data-driven iterations will refine the outcome to meet genuine need for current and potential customers, increasing adoption and return on our digital investment.

In the past, our application processes and related services have appeared to meet the needs of our processes rather than our customers. This will change.

UKEF is introducing digital services that put the customer first. We will use customer experience research to ensure our developments deliver early value to our current and potential users, and will continuously evolve to meet their needs today and in the future.

Strong foundations

While ambitious in its overall scope, the programme requires strong foundations. Poor reliability of basic IT or unwieldy corporate records systems, for example, can inhibit the effective functioning of the organisation, reduce productivity and adversely affect staff engagement. We will ensure we get the basics right.

During the previous period, we made changes to our technical infrastructure and support arrangements, providing the foundation for delivering future digital services. During this period, we will support greater awareness of UKEF services through our online presence. We will improve guidance and navigation to our increasing range of online transactional services.

Better, simpler, faster: the case for digital in UKEF

Investing in digital will:

- enhance information, content and service experience that can be personalised and is highly relevant to user needs
- improve our understanding of how customers interact with UKEF and help us develop our service offerings and improve their service experience
- introduce real-time process automation, self-service, and more consistent customer journeys regardless of channel
- enable data-driven and accelerated decision-making

Investment in digital tools and technology fosters innovation. As our business evolves, so our customers' user journeys will evolve. A strong digital capability means we can anticipate changes and innovate at speed to meet changing customer needs.

The potential game changers

Over the next 18 months, we are introducing a number of important enhancements to our capability.

Bank Delegation

A fundamental change to the way our short-term trade finance products are delivered, this approach is being introduced in 2017 for the Export Working Capital Scheme and Bond Support products.

For the first time, approved partner banks, which risk-share with UKEF, will be able to put the department on risk directly if certain criteria are met, without having first to submit a transaction to UKEF for separate review.

Introducing this streamlined transaction process and removing duplication of underwriting and due-diligence, this highly scalable model will promote greater take-up of UKEF's support, particularly by smaller exporters.

Digital Portal

The implementation of the Bank Delegation model is the first deployment of a new 'Digital Portal', providing a more efficient way for customers to interface with UKEF services. Initially the Portal will allow partner banks to submit underwritten Export Working Capital and Bond Support transactions.

During 2017, UKEF will extend the scope of the Portal to the Export Insurance Policy to allow exporters and brokers the ability to apply for support online, through a personalised account, for the first time.

Digital Workflow

Behind the scenes we are also enhancing our case management, workflow and customer relationship management systems and integrating these with our core banking and underwriting systems.

Looking ahead

Together, Portal, Digital Workflow and UKEF's customer relationship management capabilities will have a major impact on our ability to deliver our support to more customers more efficiently. By expanding Portal and Workflow systems to take on more products, and adopting a highly customised approach to customer engagement, we will be able to transact more business without a commensurate increase in resource costs, which is critical to UKEF meeting agreed SR15 targets.

The primary benefits will be for our short-term trade finance customers. However, improvements to the application and case management processes have the potential to deliver improved speed and convenience across our entire customer base for all of our services and products.



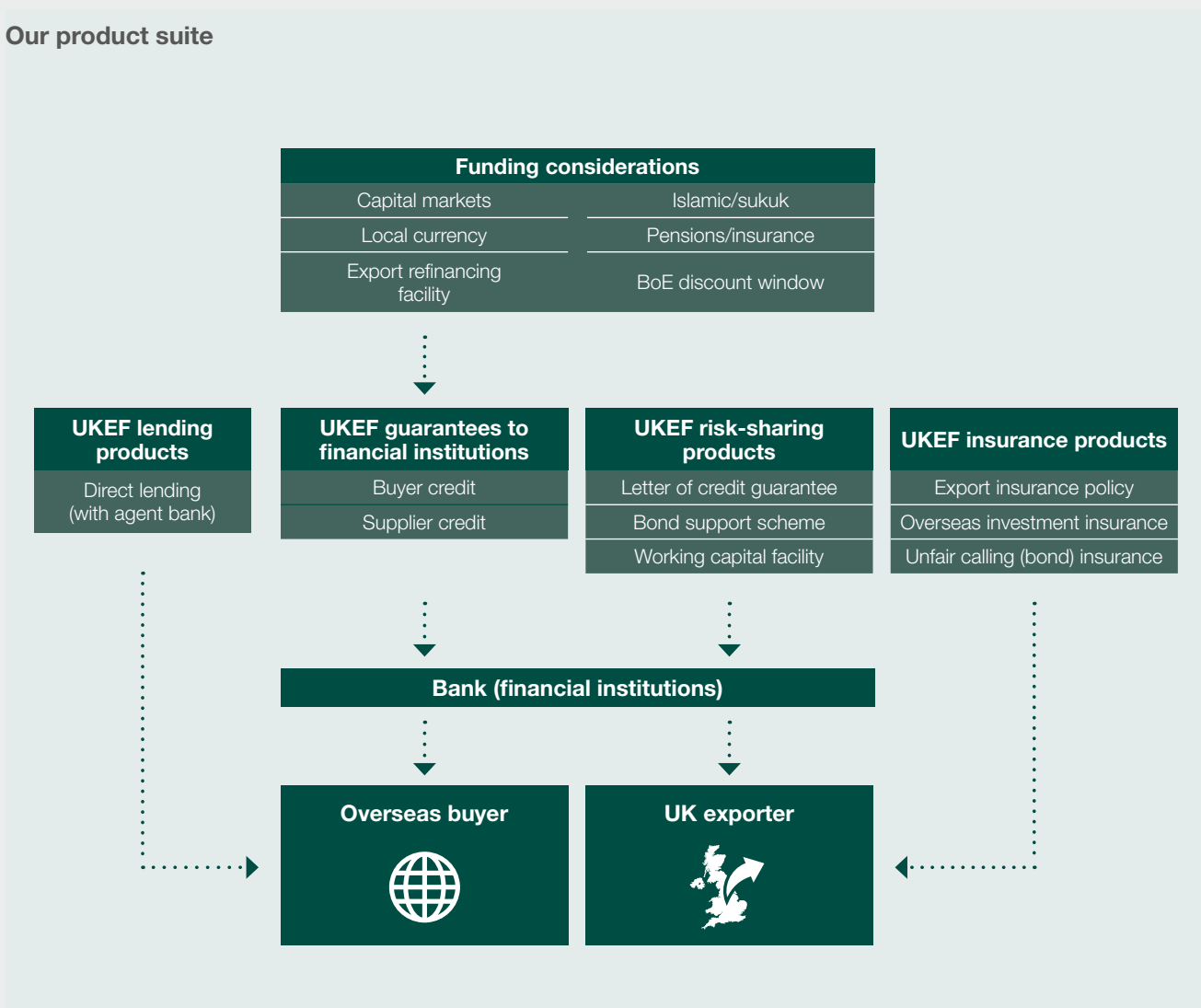
Consistent with the Cabinet Office Government Transformation Plan published in February 2017, our enhanced digital capability helps put the customer at the heart of everything we do.

The right products: an evidence-based approach

While UKEF already has an innovative and highly competitive product range, we cannot be complacent.

UKEF's strategy is to remain agile and adaptable, responding to emerging needs and opportunities across our products and markets. Through our dedicated Product Development Team, we will evolve our product range in a manner which is customer-centric and evidence-based.

Our product suite



Product review

The team will review the product range annually, engaging with major external stakeholders including BExA. This will entail looking with fresh eyes at the needs of exporters, and assessing the nature of any gaps in the scope and delivery of our products. It will also consider how we can use the scope of our revised governing legislation to better support and strengthen the UK supply chain.

In advance of the product review, the following enhancements to the product suite are already underway:

Export Working Capital Scheme

- Following recent amendments to UKEF's governing legislation, for the first time UK companies in the first tier of the export supply chain will be able to access UKEF's working capital product in the same way as direct exporters.
- Doing so will significantly increase the number of companies eligible for UKEF support, primarily benefiting Small or Medium Enterprises (SME), which are less likely to export directly and for whom accessing working capital can be more challenging. This will help to increase the depth and resilience of the UK export supply chain.

Overseas Investment Insurance

- With its Overseas Investment Insurance (OII) product, UKEF provides political risk insurance cover to help UK companies contemplating Overseas Direct Investment (ODI) opportunities do so with confidence, knowing that they can focus on the commercial risks.
- UKEF will make improvements to the scope of OII to match new industry norms, with the potential to stimulate take-up by supplementing private market capacity.

As well as this structured approach to product development, UKEF will remain open to innovations for specific transactions, so that UK exporters retain a competitive advantage. For example, the award-winning 2015 pre-funded Islamic sukuk transaction, supporting almost \$1bn of aircraft deliveries to Emirates, came about because the airline sought diversified funding and sukuk investors sought high-quality issuers – UKEF was able to match them up and structure an attractive transaction. Similarly, in 2017 UKEF supported a ground-breaking transaction in Ghana to alleviate power generation shortages, which employed a 'reserve-based' lending/project finance hybrid security structure. There will be more such opportunities to innovate in the future.



Image: UKEF provided US \$400 million to support a GE Oil & Gas contract with the Offshore Cape Three Points oil and gas project in Ghana, supporting an innovative hybrid project finance and reserve-based lending structure, GE Oil & Gas has sites in Aberdeen and Naissea.



Managing and pricing risk, to retain confidence

With £20bn at risk and a portfolio limit of £50bn including £3bn of Direct Lending capacity, credit risk management has always been at the heart of UKEF's capabilities, balancing the interests of both exporters and taxpayers.

UKEF takes decisions about incurring and pricing risk within a framework agreed with HMT and UK Government Investments, which sets financial objectives the department must meet. Compliance with the framework is closely monitored, including by UKEF's Credit Committee, whose voting members have extensive experience in the financial services sector.

Because the 2016 Autumn Statement announcements gave UKEF significant additional capacity to support UK exporters, UKEF has worked with HMT to strengthen further the risk management framework. In particular, the remit of UKEF's Audit and Risk Committees creates enhanced independent scrutiny of UKEF's risk management activities, supported by the recent appointment of a new non-executive director with particular expertise in risk management.

The capacity of UKEF's dedicated Credit Risk Group will continue to be strengthened throughout the period of the Plan to meet future challenges. These challenges include the anticipated increase in requests for local currency guarantees and project finance transactions, as well as implementing an Active Portfolio Management programme, which will help to manage concentration risk.

Our organisation and our people

Our people are key to delivering the ambitions set out in this Business Plan.

We have embarked on a transformation programme to ensure we have the organisational structure, people skills and leadership ability required to deliver the priorities set out in our Message House (see back cover).

Our Business Group was restructured to create increased operational flexibility by ensuring a broader sharing of skills and experience among the team. Similarly Credit Risk Group is adopting a flexible approach for risk assessment across products, markets and sectors. Specialist expertise is required to ensure effective leadership of transactions. But by promoting a diversity of skills and experience within deal teams we can adjust swiftly to changing patterns of demand through the business cycle, while allowing staff to build wider experience.

Further changes to our middle office, back office and support functions will drive efficiency and help mitigate operational risk while ensuring scalability and robustness in processes.

Our approach to learning and development for staff is designed to ensure that we continue to develop our staff to equip them with the specialist technical skills required to deliver our mandate, supported by the core skills needed to be better managers and leaders. For instance, in support of our digital services, we have undertaken an audit of existing capability and implemented a targeted learning and development programme to develop the required skills. Increased collaboration with other parts of the Department for International Trade and wider Civil Service is further strengthening our development offering.

We have implemented a new approach to talent management and succession planning which has identified key roles and assesses the readiness of existing staff to fill them. We also have ambitious resourcing plans in place to ensure we have the capacity to deliver increased business levels across a broader product range.

All our people ambitions are underpinned by making UKEF a great place to work and having a highly engaged workforce. Our 2016 staff engagement score was our best to date and we aspire to have the most engaged workforce in the Civil Service.





The international dimension

The terms of UKEF's support are subject to a variety of international obligations resulting from the UK's membership of the World Trade Organisation (WTO), OECD and EU.

We will continue to be an active voice in multilateral negotiations, aiming to level the playing field for UK exporters by pressing for improvements to international agreements where this aligns with the government's international policies.

We will remain rigorous in meeting our international obligations. Recognising the ethical, reputational and credit risks associated with transactions that are tainted with bribery and corruption, we will continue to argue at the OECD for a tightening of the standards employed by ECAs.

In 2016 we adopted the Equator Principles, a best-practice risk management framework adopted by financial institutions for assessing and managing environmental and social risk in projects. We will continue to fulfill our obligations under the OECD Common Approaches, and work within the group to build consensus and ensure relevant rules and guidelines are up-to-date with best practice.

UKEF will be engaged with the rest of government in preparing for the UK's exit from the EU and working to support the goals set out by the Prime Minister in her Lancaster House Speech (17 January 2017), in particular to provide as much certainty as possible to UKEF's customers.

Following the UK's decision to leave the European Union, considerable trade opportunities exist and we will engage with the new opportunities that emerge as the government positions the UK as a confident, outward-facing trading nation with strong relationships right across the globe.

UKEF Chief Economist's outlook

Recent developments in the global economy, including subdued growth, a loss of momentum in advanced economies and suppressed commodity prices, have again underlined the need for UKEF to be responsive and adaptable. Emerging markets, in particular net commodity importers, remain the top performers, with estimated growth around 4.1%, as compared to 1.6% in the US and 1.7% in the Eurozone.

Looking forward, the modest pickup in emerging market activity projected by the International Monetary Fund (IMF) for 2017, in conjunction with the predicted end of deep recessions in Brazil and Russia, is a positive backdrop for UKEF at the start of this planning period, as the majority of its support relates to exports to emerging markets. Emerging markets and developing economies continue to account for 75% of global growth, and over the next 10-15 years the EU predicts that 90% of world demand will come from outside Europe.

There has been some recovery in the oil market since it hit historic lows in the first quarter of 2016, and it is plausible that prices will continue to show some recovery, particularly with OPEC joining with key non-OPEC oil producers to constrain oil production. The expected modest improvement in commodity prices and linked upturn in trade volumes in 2017 will support UKEF's business volumes, with those infrastructure projects temporarily put on hold likely to be reactivated. Any remaining weakness in prices will drive oil-dependent economies to seek alternative sources of financing to address infrastructure gaps, with ECA finance expected to be an attractive option.

Strong growth in the US in 2015 saw the Federal Reserve increase interest rates for the first time since 2006. This triggered capital outflows from emerging markets in 2015 and early 2016. Although outflows have since moderated, a strengthening US economy combined with progressively higher interest rates may see capital flow back to the US from key emerging economies. In the event of increased financial volatility and rapid exchange rate adjustments, the need for ECA financing will rise in unison, but is also likely to trigger a higher incidence of distressed borrowers.

The overall global economic picture is on balance positive, but with a relatively high degree of uncertainty. UKEF's role is to provide certainty of support to exporters and their overseas buyers in a changeable market. This global economic outlook makes UKEF's support more relevant than ever.



Paul Radford, UKEF Chief Economist

Annex A: testing our readiness

UKEF's mission is good for all economic weathers. We therefore need to ensure we are able to support UK exporters in any economic climate, rather than planning to meet a singular set of forecast circumstances.

To test this, we have developed three stylised hypothetical scenarios to gauge our ability to respond.

Scenario 1: World economy re-enters “goldilocks” period

The world re-enters a period of sustainable above-average growth, stable inflation, positive interest rates and buoyant world trade. Commodity prices increase at rates in line with historical trends and emerging market risk premiums remain moderate.

Implications

UKEF would likely see a downturn in new medium/long-term business, due to increased availability of commercial finance and risk appetite. Premium income and claims rates would both fall. Opportunities for UK companies may emerge in growing frontier markets. Demand for short-term products may increase as UK SMEs take advantage of increased opportunities for global trade.

UKEF response

With cover available in a wide range of emerging frontier markets, and local currency financing available to buyers in many of these, UKEF can help exporters enter frontier markets. We would allocate marketing and business development resource to raise awareness of UKEF support and drive opportunities outside traditional markets and sectors.

More expansive private risk appetite would present reinsurance opportunities to address concentration risks in the portfolio, potentially creating additional appetite to support UK exports in high demand markets.

Following the introduction of Bank Delegation and the Digital Portal, UKEF could respond positively to increased demand for short-term products.

Scenario 2: Global slowdown

Advanced economies, including the UK, experience a sustained slowdown, while a world recession sees emerging markets and developing economies also recording below-trend growth. The Eurozone in particular is weakened, suffering deflation and the possibility of a sovereign debt crisis. Oil and commodity prices fall further. Export opportunities for UK companies decline.

Implications

Lower business confidence and increased global risk aversion, allied to serious shortfalls in private risk taking capacity, triggers higher demand for UKEF support, although tempered by fewer export opportunities.

Some exporters with a heavy reliance on EU buyers, especially SMEs, will find it harder to access trade finance support from commercial providers.

UKEF response

UKEF's readiness to deploy its support would bolster confidence and help UK exporters pivot away from declining advanced economies to pursue opportunities in emerging markets. The ability to help exporters win contracts by providing guaranteed finance to overseas buyers in a range of currencies, as well as the availability of direct lending, would be particularly valuable.

Higher premium income and increased incidence of claims would impact UKEF's cash flow position, but as a long-term player we are well placed to offer support through the cycle.

The Bank Delegation model and Digital Portal will together increase the speed and convenience with which exporters can access UKEF's trade finance schemes. Maintaining credit facilities for SMEs at reasonable cost would bolster exporter and bank confidence during difficult times.

Scenario 3: Bank stress

A period of significantly reduced liquidity results from a banking stress event. This occurs against the background of the continued introduction of Basel III/IV, as banks look to de-leverage and de-risk to meet more onerous capital adequacy requirements.

Implications

This results in a reduction in the availability of bank funding to lend into medium/long-term export credit-backed transactions, and increases the cost of those transactions. Banks may also seek to offload UKEF-backed facilities to raise liquidity.

UKEF response

UKEF's flexible guarantee product can support a wide range of alternative liquidity sources, including non-bank financial institutions, corporate treasuries and debt capital market (DCM) investors. Because the guarantee can support a 'pre-funded' and 'instant' bond format for DCM transactions, all of these options can be supported without the need for bank lending at any stage.

Second, UKEF has pre-approved a wide range of local currencies to finance export contracts. As well as the benefit to overseas buyers, this means UKEF can work with local banks right across the world, which may be insulated from the stress event.

Third, UKEF also has a Direct Lending capability, meaning that where alternative sources of liquidity are not available, we can lend our own funds into a transaction.

Finally, the Export Refinancing Facility provides an undertaking to the lending bank that UKEF will purchase the export loan by a given time, and an undertaking to the borrower that we will provide a repayment guarantee for bonds issued to refinance the loan. In the context of a bank stress event, the benefit is that lending banks have a shorter-term funding commitment and can adjust their loan pricing accordingly.

Annex B: priority markets

UKEF prioritises markets for business development and marketing activities based on the following considerations:

- Is the macroeconomic and political environment conducive to UKEF support?
- Is there a strong historic and/or future UKEF deal pipeline?
- Is the host government strategy/buyer market attractive for UK exports?
- Do domestic financial regulations and circumstances create a need for UKEF products?
- Is there a close alignment with the wider Department for International Trade’s campaign strategies and/or has the country been identified by the Department for International Trade/Foreign & Commonwealth Office as a “Future Market”?
- Does the Department for International Trade have a developed overseas network with which UKEF has, or is looking to build, a relationship?

UKEF will review priorities throughout the life of the Plan to ensure continued relevance. Below are the current top 20 priority markets. Where UKEF’s priorities align with those of other parts of the Department for International Trade, we will collaborate to maximise results.

To clarify the prioritisation, neither the US nor China are priority markets for UKEF, although we are able to address any requests for support in both markets. The US is a G7 economy with a deep and liquid financial services sector, able to provide finance in most situations. For UK trade with China, we can support working capital for smaller UK exporters to fulfil contracts in China, but infrastructure and large capital projects are generally state-led, and UKEF assistance is not required. Similar rationales apply to other G7 countries.



Annex C: priority sectors

As part of the wider cross-government export drive, 13 core sectors have been identified, of which those that are shaded in blue have been identified as particular priorities for increased UKEF involvement. Again, these will be subject to ongoing review to reflect changes over the life of the plan.



Advanced manufacturing



Aerospace



Automotive



Bio-economy
(agritech and chemicals)



Education



Healthcare
and life sciences



Food and drink



Creative industries, sports
economy and retail



Technology
and smart cities



Defence and security



Energy (nuclear, oil & gas
and renewables)



Financial services



Infrastructure

UK Export Finance Message House

The last Business Plan for 2014-17 set out a clear strategy for UKEF, reflecting the lessons of the period when the department rose to the challenges of the global financial crisis. It recognised that, rather than attempting to predict the future with precision, UKEF needs to be agile and customer-focused, able to respond quickly to changing patterns of demand through the economic cycle.

We have since identified a vision and a mission, and alongside this have developed five priorities to which departmental and individual objectives are aligned. The vision, mission, strategy and priorities are set out in our Message House below. This Business Plan sets out how we will fulfil these.

