National Audit Office

Report
by the Comptroller
and Auditor General

Department for International Trade, UK Export Finance

Department for International Trade and UK Export Finance: Support for exports

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Key facts

35%	£24.4bn	£4.4bn
government's ambition for the level of exports as a percentage of GDP. UK exports were 31.7% of GDP in 2019	value of exports supported by the Department for International Trade (DIT) in 2019-20 against an internal target of £20.91 billion	value of contracts supported with export finance provided by UK Export Finance (UKEF) in 2019-20 against a target of £5 billion

£701.2 billion	of goods and services exported by the UK in 2019
6th	UK's position compared with the rest of the world by value of exports in 2018 as estimated by the United Nations Conference on Trade and Development
£500,000	business turnover threshold above which DIT plans to provide bespoke export support. DIT estimates that around 230,000 UK businesses have a viable product or service to export and a turnover above £500,000
339	number of customers UKEF supported in 2019-20; 199 directly and a further 140 customers benefited as suppliers to UKEF-supported projects
9/10	British Exporters Association rating for UKEF's product range in 2019

Summary

1 In 2019, the United Kingdom exported £701.2 billion of goods and services to overseas countries. Growing UK exports is an important element of the government's industrial strategy through which it aims to boost productivity and growth by helping businesses create better, higher-paying jobs and by investing in skills and infrastructure. The government's 2017 industrial strategy white paper highlighted that businesses which export account for 60% of the UK's annual productivity growth, deliver stronger employment growth and pay higher wages than those that do not.[1]

2 In 2018, the government published its export strategy setting out how the government will support businesses of all sizes to make the most of opportunities presented by markets around the world. It also emphasised that supporting exports is a vital part of government's strategy for a global Britain following the UK's exit from the EU.[2] In particular, the export strategy announced a new national ambition to raise exports as a proportion of GDP from 30% to 35%.

3 Both the industrial strategy and the export strategy recognise that the UK faces challenges in growing exports. The UK is the sixth largest exporter in the world, behind China, the United States, Germany, Japan and France. The UK is the second-largest services exporter in the world and the tenth-largest goods exporter.

4 The Department for International Trade (DIT) was established in 2016 in response to the UK's decision to leave the EU. Following the UK's exit from the EU, the UK is in charge of its own international trade policy for the first time in 40 years. DIT has taken over trade functions from predecessor departments and taken competencies back from the EU. DIT has primary responsibility for delivering the UK's independent trade policy, including maintaining trade access to international markets, supporting and strengthening the multilateral trading system and creating new trading opportunities.

5 To support exports, DIT has around 275 UK-based international trade advisers who provide information, advice and support to businesses across England, as well as an overseas network of more than 1,400 staff who promote UK business interests in overseas markets. Their work includes export promotion such as supporting businesses to attend tradeshows and working with overseas governments to resolve market access barriers that prevent UK businesses from selling goods and services overseas.

1 HM Government, *Industrial Strategy, Building a Britain fit for the future*, November 2017.
2 HM Government, *Export Strategy: Supporting and connecting businesses to grow on the world stage*, August 2018.

6 DIT also works closely with UK Export Finance (UKEF) – the UK's official export credit agency.[3] UKEF is a ministerial government department with a statutory mandate to support UK exports and investments. UKEF helps UK companies to win contracts by providing attractive financing terms to their overseas buyers, to fulfil contracts by supporting working capital loans and to get paid by insuring against buyer default. UKEF aims to complement, not compete with, the commercial sector to ensure that no viable UK export fails for lack of finance or insurance. Consequently, it often supports businesses in challenging markets.

7 DIT also works with other departments that play a role in supporting exports, including the Department for Business, Energy & Industrial Strategy (BEIS), the Foreign & Commonwealth Office (FCO), the Department for International Development (DFID) and the Ministry of Defence (MoD). DIT also coordinates with the devolved administrations, which have their own structures for supporting exports.[4]

8 The National Audit Office (NAO) previously examined government support for exports in 2013.[5] At that time, the FCO and UK Trade & Investments (UKTI) were responsible for export support, and there was an ambition to increase UK exports to £1 trillion by 2020. We concluded that achieving this ambition would require FCO and UKTI to make their current activities to support exports more closely coordinated and supported by tough, measurable milestones.

Scope of this report

9 This report examines DIT and UKEF's progress to date and performance against their overall export support objectives. Specifically, we have assessed:

- whether DIT and UKEF have set a strategic direction and are clear about what they want to achieve (Part One);
- whether DIT and UKEF have resourced and prioritised the activities that will have the greatest impact on export growth, supported by a good understanding of the export capability of UK industry, an effective overseas network that can identify and support export opportunities and a tailored approach to reducing barriers to exporting (Part Two); and
- whether there is good performance information to demonstrate that DIT and UKEF are achieving desired outcomes and making a difference (Part Three).

3 UKEF is the export credit agency for the whole of the United Kingdom. Export credit functions have not been devolved to the Scottish and Welsh administrations and are part of reserved matters under the devolution legislation relating to Northern Ireland.
4 Economic development is a devolved function. Coordination between DIT and devolved administrations takes place under the 2013 Memorandum of Understanding between HM Government and the Devolved Administrations.
5 Comptroller and Auditor General, *Supporting UK exporters overseas*, Session 2013-14, HC 732, National Audit Office, October 2013.

10 The report covers a broad range of DIT and UKEF's activities to support exports including export promotion in the UK and overseas, activity to tackle market access barriers and export finance. The report covers the UK government's work with overseas governments to resolve specific market access barriers but does not examine the government's preparations to negotiate free trade agreements, which we reported on in May 2019.[6] We have not examined government's activities to promote inward investment although we recognise the strong relationship with supporting exports, with many of DIT's staff involved in both activities. We recognise that government's support for exports interplays with other areas of policy such as national security and climate change. This report does not directly cover these areas.

11 We carried out most of our fieldwork for this report between November 2019 and February 2020, before the global COVID-19 outbreak. We have not examined DIT and UKEF's immediate response to supporting UK exporters in the wake of the outbreak, which has included extending the guidance and financial support available to businesses trading internationally. However, the findings and recommendations in this report will help DIT and UKEF play a key role in getting the UK economy back on its feet, by supporting UK exports and driving new economic growth as part of a long-term export strategy.

Key findings

Government strategy for supporting exports

12 The government has set out an initial strategy for increasing exports but will need to keep it updated to ensure it supports long-term value for money. The 2018 export strategy builds on government's industrial strategy to identify the practical barriers that prevent businesses from meeting their full export potential. Barriers include: access to finance and cover for the financial risks of exporting; limited networks and contacts; market access barriers; lack of capacity; capability and knowledge of exporting; and limited global awareness of the UK's strengths. DIT intends to focus on around 230,000 businesses that have greatest potential to generate high-value exports, specifically those with a viable service or product to export and a turnover above £500,000. DIT is aiming to refresh the export strategy to reflect trade policy following the UK's exit from the EU, and the government's long-term economic response to the COVID-19 outbreak (paragraphs 1.11 to 1.13 and 1.18).

6 Comptroller and Auditor General, *Preparing for trade negotiations*, Session 2017–2019, HC 2143, National Audit Office, May 2019.

13 **The strategy includes an ambition to increase exports to 35% of GDP, but without analysis to understand how stretching it will be or a timescale for its achievement.** The 2018 export strategy included an ambition to increase exports from 30% to 35% of GDP. However, it is not clear how achievable the objective is because it is not based on a strategic analysis of the export opportunity in overseas markets for UK businesses. DIT has also not assessed to what degree its interventions will contribute to government's ambition to grow exports to 35% of GDP, and to what extent other factors will contribute, such as independent efforts by UK industry or activities by other departments and devolved administrations. Achievement of the ambition is dependent on economic factors such as fluctuations in GDP, and the impact of the COVID-19 pandemic. The lack of a timeframe for achieving this policy objective makes it difficult to hold DIT accountable for its progress (paragraphs 1.14 to 1.17).

Resourcing and prioritising activities to support exports

Prioritising support for UK companies

14 **DIT is making early progress in addressing a gap in the data it has on UK exporters.** DIT needs good data to identify which UK businesses already export, and which have potential to export with DIT's support. Although it uses survey data to estimate the number of exporters, it lacks data on how many of the 5.9 million businesses in the UK export at all, or could potentially become exporters. There are gaps in the data available on businesses that export services – exports of services are estimated to account for 47% of all exports by value. DIT has made provision in the forthcoming Trade Bill to address this data gap by enabling data-sharing between DIT and HM Revenue & Customs. Addressing this data gap will help DIT to identify UK exporters and will help DIT to understand the extent to which new potential exporters can be identified, but it may take time for DIT to establish effective processes for transferring and analysing the data (paragraphs 2.4 to 2.7).

15 **DIT's insight into exporters in different sectors of the UK economy is variable.** DIT needs a good understanding of the export capability of UK industry so that it can identify which businesses would benefit from support and prioritise its efforts. It has established six overarching sector clusters comprising teams which are responsible for providing sector-specific support to UK businesses and for working with overseas posts. For some well-established sectors, such as aerospace, DIT has good information on UK exporters. However, in emerging sectors such as renewable energy, where UK supply chains are less developed and less well understood, DIT is still developing its understanding of which UK businesses are ready to export. Sector teams within BEIS and DIT work together but there is scope for a better joint understanding of how to exploit the opportunities for UK businesses in overseas markets (paragraphs 2.11 to 2.14).

16 **DIT's digital services do not yet provide the export support that some businesses need.** To make the best use of limited resources, DIT plans to target its bespoke support at larger businesses and to direct smaller businesses to digital services on its website. Survey data DIT collected between July 2018 and June 2019 suggest that some digital services on DIT's website are not meeting businesses' needs. While 62% of DIT's clients reported that DIT's webinars programme was good at meeting their needs, under half of clients reported that services to help businesses identify export opportunities were good at meeting their needs. Since June 2019, DIT has delivered new digital services and is continuing to develop sector- and market-specific guidance and a service to help businesses create an export plan, aiming to have a pilot service in place by April 2021. It is also developing an evaluation strategy to help it understand the costs of its digital services, which will complement ongoing research on user needs, the development of more robust performance metrics and the use of data science to inform decision-making (paragraphs 2.18 to 2.21).

Capacity and capability of the overseas network

17 **DIT is building an evidence-based analysis of the opportunities for businesses in overseas markets to inform decisions on the staff and skills it needs.** However, to get the most from its resources, DIT needs to further improve its understanding of where its interventions can secure the greatest opportunities for UK businesses, while also contributing to UK government foreign policy, security and development objectives. DIT has reshaped its areas of focus within individual regions, such as in Europe where it has prioritised key markets and changed just under 20% of roles. DIT is reviewing the resources it requires to meet its priorities across the Department to inform the next spending review, and its work on a new export strategy. This work will cover resource allocation to each overseas region, based on an analysis of market opportunity and where there are opportunities for economic growth within UK regions (paragraphs 2.22 to 2.26).

18 **There is scope for UKEF and DIT to work more closely together overseas to avoid missing opportunities for UK exports.** At May 2020, UKEF had eight country heads located overseas but in most countries, it relies on DIT staff to help identify potential customers. DIT has more than 1,400 staff overseas but those who are not finance experts may not have the technical skills to promote export finance. UKEF is concerned that it may consequently have missed opportunities to use export finance to support UK exports in some markets. For example, UKEF supported exports to 72 countries in 2018-19, but 80% of the value of these exports was concentrated in five of these countries. To address this issue, UKEF aims to increase the number of UKEF country heads overseas to 19 by July 2020 and has introduced training for DIT staff. At March 2020, 503 DIT staff had enrolled, of which 149 staff had completed the training. UKEF and DIT have discussed developing a Memorandum of Understanding to support closer working but as at April 2020 it had not been signed (paragraphs 2.24 and 2.27 to 2.31).

Reducing barriers to export

19 **DIT has developed systematic approaches for identifying market access barriers but has recorded more barriers than it has the capacity to resolve.** Market access barriers may restrict businesses' ability to trade in some overseas markets. In February 2019, DIT created an online database so that DIT staff in the UK and overseas can record market access barriers. DIT is using this insight alongside intelligence gathered from its network and other government departments to identify, prioritise and tackle market access barriers. In 2019-20, DIT recorded 1,238 barriers. It completed economic impact assessments on 465 barriers to help it prioritise which to tackle and had fully or partially resolved 175 (paragraphs 2.35 to 2.38).

20 **UKEF is expanding the support it offers to reduce export finance barriers for smaller businesses.** DIT and UKEF have identified access to finance as a barrier to trade for some businesses. UKEF is developing products such as the new General Export Facility (due in 2020) to support the working capital requirements of exporting companies. This is intended to help smaller businesses and those with shorter manufacturing cycles. In 2019, the British Exporters Association rated UKEF nine out of ten for its product range. We heard from stakeholders that UKEF application processes would benefit from shorter turnaround times and simpler requirements for smaller businesses. To speed up application processes, UKEF has delegated greater authority to five banks who can apply for some of UKEF's products so they can get immediate cover, and it has streamlined its eligibility criteria for applicants. However, UKEF does not conduct a customer survey, which could help it better understand the specific needs of smaller businesses (paragraphs 2.39 to 2.41 and 3.15).

Measuring performance and knowing what works

21 **In 2019-20, UKEF operated within all its financial limits and controls, but narrowly missed its target on the value of export contracts it aimed to support.** HM Treasury sets UKEF financial limits and controls to provide assurance that it does not expose the taxpayer to excessive risk, and UKEF met these objectives in 2019-20. UKEF supported £4.4 billion of export contracts in 2019-20, against a target to support £5 billion. It fell short of its target to directly support 500 customers, supporting 199 in 2019-20. A further 140 customers benefited as suppliers to UKEF-supported projects (paragraphs 3.5 to 3.8).

22 **DIT has met its target for the value of exports it supports but, in isolation, its export wins measure may not encourage longer-term export growth.** DIT measures its annual export performance mainly through its 'export wins' measure, which reflects the value of the exports it has supported. In 2019-20, DIT achieved £24.4 billion export wins against an internal target of £20.91 billion. The export wins measure is a useful tool for incentivising staff because it enables DIT to set sector and regional targets, align activities across its UK and overseas network, and track trends in performance over time. However, setting annual export wins targets has limitations because it focuses efforts on short-term export support rather than longer-term activities that are needed to grow exports. DIT also monitors exports as a percentage of GDP. UK exports were 31.7% of GDP in 2019, against the ambition of 35%. However, the relationship between achieving export wins targets and growing exports to 35% of GDP is not clear (paragraphs 3.2 to 3.4 and 3.11 to 3.14).

23 **DIT has made progress in developing its approach to performance measurement but needs to go further to assess the impact of some of its longer-term export support activities.** DIT has developed a monitoring and evaluation framework for its export promotion activities, including annual client surveys; bespoke evaluations and a value-for-money model to assist it in assessing the cost–benefit of its services. However, DIT recognises that it needs to do more to assess and measure the impact of some of its longer-term export support activity. For example, DIT has made progress in monitoring how many market access barriers it resolves but has further to go to assess the impact of this work and how to prioritise it accordingly (paragraphs 2.38, 3.12 to 3.14 and 3.16 to 3.19).

Conclusion

24 DIT and UKEF will play a key role in taking forward the UK's international trade policy as the UK leaves the EU. Since its formation, DIT has taken over trade functions from predecessor departments as well as from the EU. It has made a good start in developing a strategy and the operating arrangements it needs to support export growth, and UKEF has expanded its offer of export finance to support UK businesses while remaining within the financial limits and controls it is set by HM Treasury.

25 However, both DIT and UKEF face significant challenges and will need to work together to strengthen their approach to ensure that they achieve value for money over time. It is not clear whether DIT is focusing its efforts and resources in the regions and sectors where there are the greatest opportunities to support UK businesses. DIT has developed a framework for measuring its performance, but it is not clear how direct the link is between DIT's performance and the government's 35% of GDP export growth ambition, which can be influenced by a number of factors, some of which are outside of government's control.

Recommendations

26 In 2020, DIT and UKEF aim to publish a refreshed export strategy. The Departments intend for this to build on the 2018 strategy, and to position it more clearly in the economic and trade policy context following the UK's exit from the EU and the government's long-term economic response to the COVID-19 outbreak. These recommendations are intended to support DIT and UKEF as they develop and implement the refreshed strategy.

a **DIT should develop its existing performance measurement framework further, building on the principles of good performance measurement so that its performance measures reflect the long-term nature of its policy objectives.** For example, this could be a balanced scorecard of measures that includes a longer-term export wins target alongside interim milestones for tracking progress and other indicators that incentivise opening up new markets and removing market access barriers to support long-term growth in UK exports.

b **DIT should press ahead with its plans to address gaps in its data and information on UK exporters.** DIT should ensure that it also has a clear plan for how it uses data on exporters to build evidence on where it should focus its efforts.

c **DIT, BEIS and UKEF should work closely to ensure that UK industry is ready to exploit emerging opportunities in overseas markets.** This should include a robust sector-based analysis of opportunity for UK export growth in overseas markets and UK businesses' capacity to deliver. As government develops its long-term economic response to the COVID-19 outbreak, DIT, BEIS and UKEF should work together to ensure that strategies for boosting UK productivity and growth take account of regional and sector trade plans.

d **DIT should carry out a systematic review of where to prioritise its resources**. It should do this by continuing to develop its analysis of which of its activities offer the best return, to take account of different markets and sectors. It should ensure that decision-making about where to use its resources is based on evidence of what works, and where government can make the most difference in its support.

e **UKEF should aim to develop a better understanding of what export finance support businesses need and the challenges they have accessing it.** Monitoring whether export finance meets businesses' needs (for example, through a client survey) would help UKEF assess what progress it is making to provide more accessible support.

f **DIT and UKEF should agree a strategic Memorandum of Understanding to improve joint-working and report annually on progress**. DIT and UKEF must work together effectively to support exports. Agreeing a Memorandum of Understanding on how they will work together and reporting on progress will support effective collaboration.