

Government urged not to restrict lending to exporters

The British Exporters Association (BExA) has called on the UK government to commit to the future of the Direct Lending facility delivered by UK Export Finance (UKEF) – the UK’s export credit agency and a department of the UK government – to help support the growth of British exports to new markets.

Speaking at the launch of its 9th annual benchmarking report ‘UK Export Finance – Strategy and reality’ – held in London on 10 October 2018, BExA’s Co-Chairman Marcus Dolman said: “BExA views UKEF’s Direct Lending facility for UK exporters as a competitive advantage in some jurisdictions and a competitive necessity in others. We cannot allow this key product to fall by the wayside.”

The benchmarking report, published by BExA, helps measure the UKEF’s effectiveness against its global peers as a prime driver of British exports. “We started this benchmarking report nine years ago,” said Susan Ross, Vice-President for BExA and an Account Director within Aon’s Credit Solutions, “realising that countries that have a successful export credit agency normally punch above their weight in ranking terms for global exports.”

As well as focusing on direct lending, the report carries a number of recommendations designed to support UK exporting including the need to educate the banking community on the availability of a fixed rate for bank-funded medium and long term credits; creating a framework for UK exporters so they can easily get involved in DFID development projects; the offer of more access to finance for SMEs who continue to struggle with their traditional banking relationships when it comes to exporting; and whole government support across all its ministerial departments. “BExA has long campaigned for a whole government approach to exports and we’re pleased to see that this is a core concept of the [Government’s] Export Strategy,” said Dolman.

A solid year for exports

This latest benchmarking report shows that 2017-2018 was another solid financial year, with UKEF providing support for 190 exporters – 77% of which are SMEs – selling to over 75 countries, although there has been no real growth in the number of exporters or the volumes exported. The product range offered by UKEF has gone from five to nine products since 2010 which compares favourably against its European credit agency counterparts. UKEF now offers products ranging from short term insurance, to direct lending, a bond support scheme, and letter of credit guarantee scheme. The recently implemented changes to the Direct Lending product however have raised concerns that this product could disappear.

The Young Exporter of the Year award goes to...

The launch of the report was also an opportunity to announce the GTR BExA Young Exporter of the Year Award which went to Jonathan Moyce, the owner of Loving Pets, a company that designs and exports products for pets. Alessia Borrini from NMS Infrastructure – a business specialising in fully-funded infrastructure projects in Sub-Saharan Africa – took home the runner-up award.

Presenting the award to the winner, Geoff de Mowbray said: “Jonathan brought together all the key elements of what we look for in a winner: he started his own business, designs his own products, and has grown his business exponentially since he founded it in 2014 – always with a clear focus on exports. The company currently exports to 11 countries and stocks with multi-national vendors. Jonathan is a true export entrepreneur.”



Winner of the Young Exporter Award, Jonathan Moyce, with BExA Co-Chairman, Marcus Dolman.

Support needed for Direct Lending

Direct Lending funds capital projects where commercial funding is not suitable, offering 85% of the export contract value for projects that meet a minimum 20% UK content requirement. According to the benchmarking report, the Direct Lending facility is being rationed as it nears its original £3bn limit, with a political problem in the accounting treatment of the drawn facility even after it has been sold down under a UKEF guarantee. BExA urges the Government to review the accounting policy and to increase the £3bn limit for a facility that is particularly valuable for SMEs. “The Direct Lending facility is arguably more important for SMEs than it is for larger businesses,” said Geoff de Mowbray, Co-Chairman for BExA. “It helps make them competitive and compensates for where there are failures in the market from banks not lending.” Whether for small or large businesses, BExA’s position is clear. “We call on Her Majesty’s Treasury to commit to the future of this valuable product through short term increases in facility size and a long-term commitment to retain the capability,” said Dolman.

Access to finance is a recurring theme in the report as businesses struggle to access finance through their usual banking relationships. The report details several UKEF initiatives including the implementation of bank delegation for Bond Support and Working Capital guarantees with five domestic UK retail banks. “Bond Support is really valuable for an exporter, large or small, that has to provide bank issued performance bonds or guarantees on its contracts. I’ve got clients who use the facility – it’s vital because it enables them to extend their borrowing,” said Aon’s Ross. While positive that UKEF delegated authority should make financing more accessible for exporters, BExA expresses concerns that there is no noticeable increase in take-up by SMEs.

Managing exchange rate risk

Another exposure for SMEs in particular is in exchange rate risk. Bibby Financial Services’ recent Trading Places Report highlights that 67% of UK SME exporters have experienced negative foreign exchange fluctuations averaging £70,000. “While foreign exchange services are widely available in the private market, a lot of small businesses don’t have the sophistication of a treasury team that many larger exporters do and where they really get caught out is in areas like margin calls. I’m hoping that a lot of SMEs and medium sized businesses are winning export deals based on the weakness of sterling, but my concern is that will be a short lived event once sterling strengthens,” said de Mowbray.

The report adds that foreign exchange fluctuation cover is available for a number of countries to their exporters and calls on UKEF to work with the private market to cover SME foreign exchange risk in tradeable currency pairs, without restrictive security requirements. A further recommendation from the report covers the linkage of aid to trade which, Ross believes, could provide opportunities for UK businesses. “Because of the aid for trade scandal in the 1990s, the UK has been reluctant even to alert UK exporters to aid funded projects.

Our bribery law is now one of the tightest in the world so, while we have a reputation for high quality goods and services, why can’t we encourage UK exporters to bid for UK aid projects?” Current UK policy is reflected in the benchmarking report’s country comparison of tied versus un-tied aid during 2017 which reveals the US, for example, has nearly US\$10bn in tied aid, while the UK has nothing.

Susan Ross, Vice-President for BExA and an Account Director within Aon’s Credit Solutions

Susan Ross has had a long involvement in BExA, chairing it 2009-12, and as a Vice President thereafter.

“The original benchmarking report was produced to support our Manifesto for Export for the 2010 election when we were working to turn heads in Westminster to encourage better support for export as a means to encourage the creation of sustainable jobs. Over the years, DIT and UKEF have chipped away at our recommendations as have the FCO and there is a much better understanding of the value of export to our economy. Aon clients have benefitted indirectly through being able to arrange competitive export finance for their products, being able to export to politically risky destinations. Our engineering clients have access to support for issuing contract bonds and guarantees where Aon is arranging the credit insurance.”



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Dealing with Brexit

When it comes to Brexit, BExA uses the report to urge the UK and EU to reach an agreement, arguing that although financial services enable physical products to be exported on competitive credit terms, it is an area that ‘seems to have been largely ignored in Brexit negotiations.’ Although the report emphasises that Brexit remains the single most important issue affecting the UK’s ability to trade overseas in both goods and services, and that increasing bureaucracy and complexity is in no one’s interests, BExA’s Dolman concluded: “Brexit has had the positive consequences, albeit unintended, of making sure UK businesses review and understand their supply chains and cross-border movements, and to look to new export markets, exploring the art of the possible. We will continue to work with Department for International Trade and UKEF to ensure those businesses have the tools they need to succeed.”



From left to right:

Lord Mayor Locum Tenens, Alderman Sir David Wootton, Jonathon Moyce, Marcus Dolman, Geoff de Mowbray, Alessia Borrini and BExA President, Baroness Symons.

For a copy of the full UKEF benchmarking report go to [‘Strategy and reality’](#).
For further information on BExA [visit their website](#)

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