BRITISH EXPORTERS ASSOCIATION

BExA

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Concessional Export Finance Consultation

https://www.gov.uk/government/consultations/concessional-finance-consultation

An Opportunity to level the playing field for UK exporters

Overview of BExA

The British Exporters Association (BExA) is an independent national trade association representing the interests of the export community. Our membership is drawn from across the exporting community, including capital goods manufacturers and international traders (large corporates, MSBs, SMEs and Micro exporters), and their bank, credit insurance and other service providers. BExA seeks to promote the interests of its members and all UK exporters, with a particular focus on trade finance and export credit insurance.

Executive Summary

BExA is responding to the UK Government's Concessional Finance Consultation. BExA believes that the overall development outcome for low-income developing countries (LIDCs) would be improved by introducing concessional export credit, focussing the destination country on the financial aspects of projects. Concessional finance facilities should be delivered through UK Export Finance, the Government Export Credit Agency (UKEF), and each such facility, because both the aid and UKEF are backed by UK taxpayers, should support UK industry where our products and services are suitable for the solution.

Other OECD countries provide a significant proportion of their total overseas aid on a tied basis. Without such support, UK exporters have to compete from a position of considerable disadvantage – particularly in high growth low income countries.
BExA believe that if the Concessional Export Credit Facility ("CECF") is established carefully with a significant tied aid component allocated to UK exporters it will:

- Produce better development outcomes
- Provide a catalyst for UK exporters to establish an overseas presence and increase UK exports into high growth markets
- Increase the efficiency of UK aid spending
- Increase the soft power of the UK's aid spending
- Promote the export of British standards and values into developing markets
- Be seen by taxpayers as a good use of DfID's budget

BExA response to UKEF consultation on Concessional Export Credit Finance facility

Q1. Is a Concessional Export Credit Facility (CECF) likely to have a favourable development impact?

a. What design factors / criteria would the facility need to have to ensure development impact?

BExA feels that CEDF would very probably have a significantly favourable developmental impact. The focus of DfID appears to have been on 'soft' programmes, which, whilst of undoubted value, don't generally produce ongoing benefits for the recipient country. The use of concessional finance can advance or permit major infrastructure programmes that can have immediate economic, health and social benefits for the occupants of the recipient country.

DfID's robust analysis of value for money and confirmation that the programme is developmentally sound would provide comfort to taxpayers that development aid funds were being effectively targeted.

Q2. (if developed) What size, structure and delivery mechanism should be used for the CECF?

a. What countries and sectors should the CECF focus on?

There is little point in launching this as a pilot which will have no measurable impact, therefore the allocation of funds should be significant. There is a huge need for concessional funding and a significant portion of the DfID budget could be used for this scheme. Whilst a target of c. £2.5bn could be considered to be large, BExA feels that it would have a significant developmental benefit.

The facility should be delivered via UKEF, with DfID's approval (in respect of VFM and anticipated development effectiveness) a pre-requisite. A portion of the scheme should be available on a tied basis so that where UK solutions are suitable, UK exporters are able to compete on an equal footing with competitors from other countries. At present, UKEF requires that the exporters it supports should be carrying on business in the UK and each supported contract should include a minimum 20% UK content. We propose this should continue with CECF.

Whilst the majority of recipient countries are in Africa, we see no reason to exclude any LIDCs from the target grouping. Significant opportunities and requirements for economic development exist in the Middle East, Asia Pacific and Latin America. We are aware of Lower Middle Income Countries (LMIC), in both Asia and Africa, benefiting from concessional finance supplied by other European countries.

Q3. Are there any design safeguards for the CECF we should be aware of? How can the CECF be best designed to maximise its developmental and value for money impact?

Verification methodologies exist within the current community, as used by, eg., KfW and OeKB, which are based on the five key criteria laid down by the Development Assistance Committee (DAC). KfW's analysis indicates that more than 80% of the projects it recently supported through tied aid have been successful. If that model was to be followed, BExA would anticipate similar levels of success.

Whether the scheme includes UK content or is delivered entirely on an untied basis, there needs to be a robust vetting system to ensure that tenders are fully transparent and fair. A robust value for money (VFM) check will be needed for all support. The VFM check should be undertaken by a reputable and credible entity appointed by DfID/UKEF. In addition to the VFM, there will be a requirement for certification in relation to compliance with the Bribery Act, and BExA proposes that UK health and safety and environmental standards should apply to all participants in the project. This will help promote high standards including within LIDCs.

Q4. Can you cite any examples of projects that might benefit from accessing such a facility?

As a trade association, BExA does not have direct knowledge of specific projects. However our members have informed us that there have been numerous occasions where they have not won aid-funded opportunities for LIDCs where competitors have access to tied support from their respective countries.

Q5. Do you have any concerns about the concept of an untied concessional export credit facility?

BExA considers that a significant portion of the scheme should be available on a tied basis. This will provide UK exporters with access to new markets on an equal footing with overseas competitors who are able to access tied funding. This will also contribute to the Government aim of developing critical infrastructure whilst helping to address the UK's National Export Challenge.

BExA is concerned that the currently proposed method of requesting support, i.e. through a request from the recipient's country's Ministry of Finance, coupled with a requirement to tender, may make the facility unattractive. Many projects require a significant period of development through planning, with engineering and financial feasibility studies. These are typically undertaken by UK exporters working closely with potential customers. A tender process would potentially invalidate this work, making it less likely that a developmentally sound project would be explored in the first place. In many cases, customer preference is for a simple, negotiated, process without the additional administrative burden of tendering.

The provision of concessional support can cut across the presumption within the recipient country's procurement rules of a tender requirement. Other OECD countries (together with China) are aware of this and use their own provision of tied aid to gain a competitive advantage, thus tilting the playing field in their favour.

Whilst it is commonly supposed that HMG is not permitted under English law to offer tied aid, the International Development Act 2002 does not preclude, or even mention, tied aid, per se. It permits the Secretary of State to "provide any person or body with development assistance if he is satisfied that the provision of the assistance is likely to contribute to a reduction in poverty". There is merely a requirement for the Secretary of State to report annually to Parliament on "what progress has been made in promoting untied aid" (International Development (Reporting and Transparency) Act 2006, ss. 4.1(d))

BExA feel that, with appropriate safeguards in respect of VFM and verification of developmental benefit, a system which provides for tied aid can be made to work effectively.

Q6. Are there better ways of improving LIDCs access to concessional finance for critical infrastructure than developing the CECF?

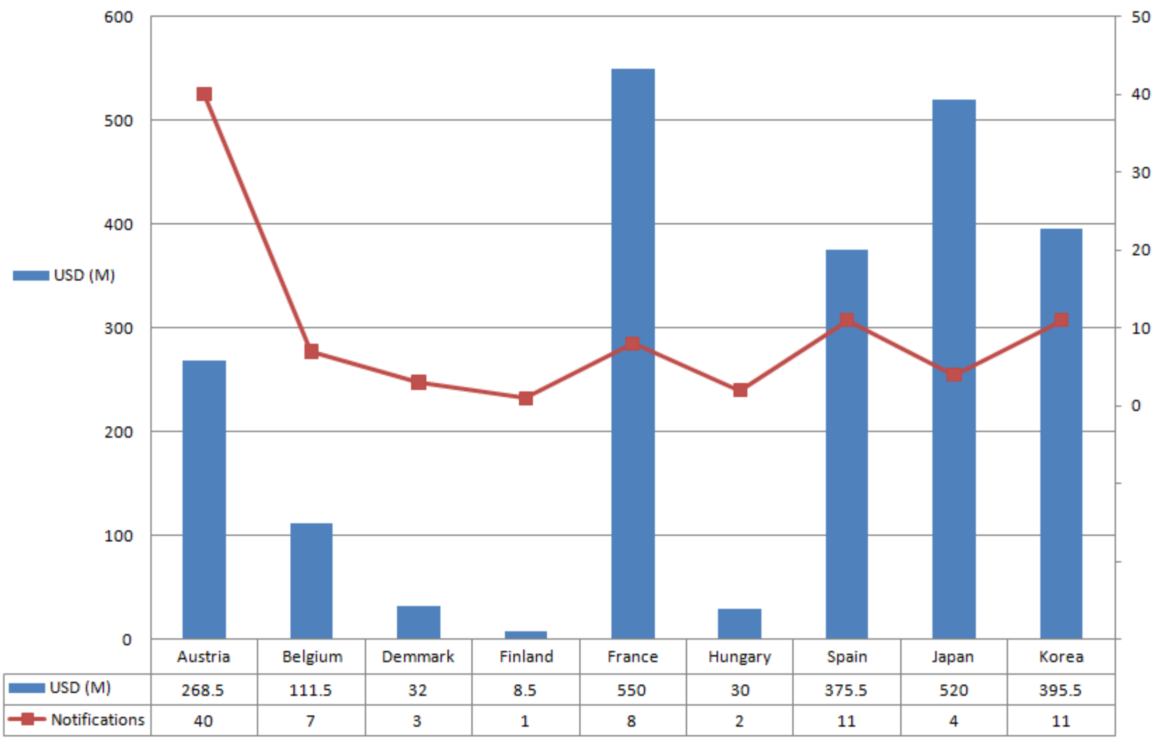
a. Can you point to any similar concessional export finance facility (domestic or international, current or past) from which we could learn best practice?

Other OECD countries including the USA, France, Germany, Japan and Korea offer tied support and support their exporters (see graph below and the OECD table reproduced at Appendix A). According to these OECD figures, the average percentage of tied aid offered by the 23 listed OECD countries that do so is 19% of total bilateral aid offered. BExA believes that the UK should follow this approach. A further example is China, which is outside of the OECD, and which provided $16bn of tied aid in 2013, 57% of which went to African countries.

BExA recommends that any new CECF facility is ‘marketed’ effectively, and that resources are applied to increasing awareness amongst recipient country ministries and customers and exporters, plus bringing exporters and UKEF together at an early stage so that the feasibility of support is understood by all parties well in advance of detailed commercial negotiations.

By developing the CECF as a facility that is available for exporters to offer, in principle, to customers on a tied basis stands the best chance of hitting the Government’s twin aims of supporting an increase in exports and improving the development outcomes in the LIDCs.

2013 tied aid notifications (OECD nations)



Appendix A
Tying Status of ODA by Individual DAC Member countries, 2013[1]

Bilateral commitments (excluding administrative costs and in-donor refugee costs) USD million

	Untied	Partially Untied	Tied	Not reported	Total
Australia	3 542	-	-	27	3 569
Austria	251	-	316	-	567
Belgium	1 139	-	22	-	1 161
Canada	2 758	-	211	-	2 969
Czech Republic	18	0	26	-	44
Denmark	1 858	-	63	-	1 921
Finland	588	-	94	76	758
France	7 220	-	700	60	7 981
Germany	10 720	-	2 665	-	13 385
Greece	0	-	14	1	15
Iceland	27	-	-	-	27
Ireland	506	-	-	-	506
Italy	414	-	59	0	474
Japan	16 873	112	1 872	2 183	21 041
Korea	1 177	8	984	0	2 169
Luxembourg	271	-	5	4	280
Netherlands	2 600	38	51	-	2 689
New Zealand	267	1	36	-	304
Norway	4 058	-	-	-	4 058
Poland	138	-	-	1	140
Portugal	91	-	213	-	305
Slovak Republic	2	0	4	5	11
Slovenia	..	..	..	14	14
Spain	671	0	118	-	789
Sweden	2 780	10	168	-	2 957
Switzerland	2 831	-	151	10	2 991
United Kingdom	6 062	-	-	-	6 062
United States	18 626	-	6 909	-	25 536
TOTAL DAC	**85 489**	**170**	**14 682**	**2 382**	**102 723**

Source: OECD

[1] http://www.oecd.org/dac/stats/statisticsonresourceflowstodevelopingcountries.htm table 24