



Economic Intelligence Wales

Export Finance in Wales

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Contents

| | |
|--|----|
| Executive Summary | 3 |
| 1 Introduction | 5 |
| 2 SME exporting: benefits, challenges, and assistance | 5 |
| 3 Welsh exporting activity | 12 |
| 4 Export finance survey | 18 |
| 5 Conclusions | 29 |
| 6 Future steps and actions | 29 |
| Appendices | 33 |

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Executive Summary

This is the first in a series of bespoke reports produced by Cardiff Business School for Economic Intelligence Wales. The report is focused on Welsh supply and demand for export finance amongst small and medium sized enterprises (SMEs). The report examines the role of export finance for SMEs, and includes the findings from an *Export Finance Survey* of over 500 Welsh SMEs undertaken in November/December 2018, exploring SME export activity, intentions, finance needs and exporting constraints. The report makes a series of recommendations in respect of export finance products to Welsh SMEs. The key points from the research and the *Export Finance Survey* are summarised below.

The ONS Longitudinal *Small Business Survey* revealed that, in 2016, 14% of Welsh SMEs exported goods and/or services, whilst the *Export Finance Survey* suggested that around 11% of Welsh SMEs considered themselves as exporters.

Over the latest period, Wales has exported £16.5 billion in goods and £5.6 billion in services. This is particularly significant given the size of population. Machinery and transport makes up £8.5 billion of goods exports and Insurance and pension services make up £1.4 billion of services exports. The *Export Finance Survey* suggests that over one third of manufacturing SMEs export.

There are a number of benefits and challenges to exporting that are commonly identified by SMEs in export finance research. These include micro level barriers, internally focussed issues which include lack of capital, and macro level barriers, which are external factors such as competition in overseas markets.

Finance is one of the most cited barriers to SME exporting activity in research. The *Export Finance Survey* found that a third of SME exporters and SMEs considering exporting see finance as a barrier. However, many SMEs are simply unaware of export finance services. Lack of knowledge of export finance products and other export support services particularly impacts first time exporters.

Exporting SME respondents to the *Export Finance Survey* served around 30 separate markets, including the UAE and China. The two most common export markets for Welsh SMEs were France, with 48% exporting here, and the USA, with 35% exporting here. For the majority of exporting SMEs, export sales represented a small share of total revenue.

For SME exporters, barriers to increasing overseas trade included transportation costs, the levels of overseas competition, poor knowledge of overseas markets, foreign exchange risk and lack of finance to help with exporting.

Less than one quarter of exporting SMEs had sought export advice. Over 85% of SMEs that currently exported did not use any specific export finance products. Of those current exporters who had never used export finance products, nearly three quarters did not know there was finance available to assist exporting activity. Of SMEs not currently using export finance, around 30% were interested in export finance products, including working capital loans, bond support for overseas contracts, insurances/guarantees to cover non-payment risks and foreign exchange support to guard against currency fluctuations.

The *Export Finance Survey* included SMEs considering exporting and firms that indirectly exported through sales to UK firms that were part of global value chains. Of these firms just 4% reported that they had looked for or received advice in relation to exporting activity. In this group 76% were not aware that there were financial products available to help with exporting, and of those who were aware of these products, none had ever applied for this support. In this group general levels of interest in different types of support were slightly higher than for the exporting sample with 45% interested in loans to cover working capital, 48% interested in bond support for overseas contracts, 53% in insurance products and 43% in foreign exchange support.

Of the SME exporters responding to the Survey, 7% expect overseas sales to increase following Brexit, 38% expect overseas sales to stay the same, with 28% expecting exports to fall. However, 27% of respondents did not know what the impact of Brexit would be on their exports.

The Survey included a large number of non-exporting SMEs (369 firms), of which just over two thirds reported that exporting was not relevant to the sector or goods/services produced, with other firms reporting a focus on domestic markets.

Future steps and actions

The next steps suggested in this report focus on export finance issues and suggestions for further research.

- The report reveals a gap in export finance products for Welsh SMEs. The Development Bank of Wales is in a strong position to explore this as an area of future provision, particularly where the market currently does not offer sufficiently tailored finance products to smaller firms.
- Any export finance products working in tandem with existing export support programmes should be accompanied by structured awareness raising among SMEs. The paucity of SME knowledge about the availability of services was a key *Survey* finding.
- Export finance for first time Welsh SME exporters should be considered.
- Some of the new services being offered by UK Export Finance (UKEF) in terms of supporting UK-UK transactions, via Tier 1 suppliers to major firms, should be promoted to these firms.
- Any new products or other interventions need to be carefully targeted to be most effective.

Data gaps and further research

Key issues in respect of data and further research considered in the report included:

- A more timely and detailed account of regional exports of services.
- Exports from Wales by firm size and other characteristics (sector and ownership).
- Scale and characteristics of Welsh Tier 1 suppliers to UK exporters.
- Further research on SMEs exporting through digital platforms.

1. Introduction

Over 99% of businesses in Wales can be categorised as SMEs. In 2018 there were 257,500 SMEs in Wales¹. SMEs are more prevalent in industries with lower barriers to entry such as financial and business services, and wholesale, retail, transport, hotels and communications. However, these sectors have opportunities to sell overseas, or sometimes sell to UK firms which subsequently export.

Exporting is an integral part of Welsh economic activity. This report focuses on specific export support provisions for Welsh SMEs, whilst also acknowledging the wider environment in which they operate.

The report first considers the benefits and barriers to exporting, and the supply of export finance products and related export support services to Welsh firms. The report then examines recent trends in Welsh overseas exporting activity.

The report goes on to examine the findings from the *Export Finance Survey*² of exporting activity among Welsh SMEs. The survey covered themes such as general business activity, exporting intentions, exporting significance, overseas sales destinations and obstacles to SME exporting. Export finance and advice levered by Welsh SMEs, gaps in provision, awareness of export finance products and issues of process in gaining assistance were also surveyed.

Finally, the evidence from the context chapters and survey findings are drawn together into a series of conclusions and recommendations, with these set in the context of the more uncertain trading conditions occurring through the EU transition process.

2. SME exporting: benefits, challenges, and assistance

Wales is a small open economy dependent on national and international trade. By venturing into foreign markets, businesses open themselves up to millions of potential new customers, some of whom may be more receptive to a product or service than local customers. This section explores the benefits and barriers to exporting activity, then examines the assistance available to help SMEs grow overseas sales. This section informed the *Export Finance Survey* of SMEs examined in Section 4 of the report.

2.1. Benefits of exporting

Organisations which export report a range of benefits, as outlined in Figure 1³. International sales can work to reduce risk for exporters which have customers across a number of overseas markets and the same is true on a more macro-scale for the Welsh economy. Exporting to a wider range of countries could work to 'protect' the Welsh economy, making it less vulnerable to disruptions in any one market, and indeed less prone to UK macro-economic variations.

¹ Welsh Government (2018). *Size Analysis of Active Businesses in Wales 2018*. [online] Available at: <https://gov.wales/docs/statistics/2018/181129-size-analysis-welsh-business-2018-en.pdf>

² The survey was undertaken by Beaufort Research on behalf of Economic Intelligence Wales.

³ Exportsavvy.co.uk. 2018. Why Export? [online] Available at: <https://www.exportsavvy.co.uk/savvyacademy/why-export>
Love, J.H. and Roper, S., 2015. SME innovation, exporting and growth: A review of existing evidence. *International Small Business Journal*, 33(1), pp. 28-48.

For businesses which sell seasonal products or services, exporting to countries with contrasting seasons can increase profits during what otherwise might be the ‘off-season’. For example, different patterns of international demand are important for some parts of food exporting.

2.2. Barriers to exporting

Although there are numerous benefits associated with exporting, there are also a number of challenges and barriers. Export research identifies micro level barriers, in terms of firm and people/resources factors. These tend to be referred to as internal barriers. Alongside this are more macro level barriers which are external to the organisation, and often out of the organisation’s control. Figure 2⁴ highlights the key barriers faced by exporters.

Internal barriers are generally deficiencies of the organisation. If organisations lack specific structure, skills, resources and knowledge they are less likely to export.

Dean et al. (2000)⁵ developed a framework which disaggregated export barriers into six categories: internal resource problems, procedural and distribution difficulties, knowledge and experience problems, foreign market factors, legal and political, and management. Dean et al. use these categories to analyse the research on perceived barriers to exporting for SMEs.

Figure 1: Benefits of exporting



Figure 2: Categorisation of export barriers

| Internal barriers (micro level) | External barriers (macro level) |
|--|--|
| <ul style="list-style-type: none"> •Selecting reliable distributors. •Lack of negotiating power. •Little understanding of target market and challenges. •Poor organisation of exports department. •Inability to access information. •Short international experience. •Inability to achieve competitive advantage in foreign markets. •Lack of capital and resources. | <ul style="list-style-type: none"> •Lack of proper trade institutions. •Lack of incentives and protection from the state. •Political instability. •Legal and political problems. •Demand insufficiency. •Adaption problem in market entry. |

⁴ Paul, J., Parthasarathy, S. and Gupta, P., 2017. Exporting challenges of SMEs: A review and future research agenda. *Journal of World Business*, 52(3), pp.327-342

⁵ Dean, D.L., Mengüç, B. and Myers, C.P., 2000. Revisiting Firm Characteristics, Strategy, and Export Performance Relationship: A Survey of the Literature and an Investigation of New Zealand Small Manufacturing Firms. *Industrial Marketing Management*, 29(5), pp.461-477.

A summary of the results from the review of research on SME export barriers is shown in Figure 3 (see also Appendix A). This review used the categories from Dean et al. as a guide to code the barriers found in each piece of research examined. Figure 3 shows the number of articles reviewed which found each barrier to be of importance.

Figure 3: Frequency table counting the occurrence of various export barriers in reviewed research

| | | | |
|---|----|--|----|
| Internal Resource problems | | Foreign market factors | |
| Financing exports (working capital) | 30 | Competition in overseas markets | 33 |
| Lack of skill/flexible labour | 21 | Providing after sales service | 13 |
| High transportation costs | 19 | Adapting products to overseas | 10 |
| Insufficient productive capacity | 13 | Quality Assurance Requirements | 10 |
| Interest rates and inflation | 9 | Product usage differences | 5 |
| High value of domestic currency | 5 | Technically inferior products | 4 |
| High costs of overseas travel | 5 | Competition from Local Firms | 2 |
| High cost of labour | 5 | Legal and Political | |
| Cost of market development | 2 | Foreign govt. restrictions/regulations | 23 |
| Procedural and Distribution Difficulties | | Foreign tariff barriers | 21 |
| Minimising foreign exchange risk | 23 | Lack of home government support | 19 |
| Handling export documentation | 21 | Foreign non-tariff barriers | 18 |
| Locating distributors overseas | 19 | Unfamiliarity with foreign laws | 5 |
| Pricing and promotion in foreign languages | 17 | Inconsistent govt. export policy | 3 |
| Shipping and distribution overseas | 15 | Management Considerations | |
| Collecting and transferring funds | 13 | High risks in selling abroad | 16 |
| Knowledge and Experience Problems | | Domestic market focus | 9 |
| Language and cultural barriers | 25 | Lack of management time | 9 |
| Identifying foreign market | 19 | Low cost/benefit expectations | 8 |
| Knowing foreign business practices | 13 | Lack of export commitment | 5 |
| Knowing how to market overseas | 10 | Low aspirations for export development | 5 |
| Knowing export procedures | 10 | Lack of management effort | 2 |
| Lack of overseas market experience | 8 | Low perceived profitability | 1 |

The export barrier most often referred to is competition in overseas markets, an external barrier, with financing exports being the most common internal barrier. Internal resource problems and procedural and distribution difficulties are the most cited categories of export barriers. Overall, internal barriers are more often perceived to be an issue than external barriers. Internal barriers are easier to address than external barriers. They are therefore the target of many export assistance schemes.

Figure 3 shows that a number of prominent barriers are risks which are unique to exporting. These risks are experienced by both the exporters and their foreign customers. An exporter's payment may be from a country where there is political unrest or poorer quality institutions. Volatility in foreign exchange markets can affect the sterling returns from sales. Customers on the other hand may worry about the quality of the goods they import.

2.3. Export finance in Wales

Export finance refers to the financial products which enable foreign transactions, and the development of trust between exporters and their customers by reducing risk. Insurance and guarantee products are used to reduce risk and enable the transactions. Export finance also includes credit products that can be used as working capital to increase production to meet a large international order. Government organisations may also wish to give credit to an international customer on the condition they use British contractors for a project.

Figure 4 shows the avenues through which Welsh SMEs may obtain export finance. Welsh SMEs have access to export finance via EU and UK governments, and the Development Bank of Wales (in terms of general finance that may be used to support exporting), as well as private sector organisations such as banks and specialist trade credit providers and insurers. UK Export Finance (UKEF) offer the most comprehensive range of export finance products, most of which can be distilled into: credit for British exporters, credit for British export customers and, insurance for British exporters.

Export finance provision

Export finance is provided by both the public and private sector. In addition to the financial products available to facilitate exporting activities, other, auxiliary services exist to provide signposting, information and support to exporters.

In 2017-18 UKEF supported £64m of Welsh overseas exports contracts involving 58 individual transactions (one firm could make more than one application) mainly in South Wales. For the UK as a whole, UKEF supported £2.1 billion of exports⁶. The main products offered by UKEF, in order of uptake, are performance bond guarantees, then export credit insurance, and then export working capital support.

The extent to which UKEF products are accessible to SMEs is unclear (see Section 4 for the Survey findings). The Cole Commission (2015) found that SMEs felt the assessment process to obtain finance via UKEF was burdensome. Furthermore they reported that support was often denied based on the organisation's lack of export experience, or because the value of the deal they were entering was too low⁷. A benchmarking report by the British Exporters Association⁸ states that 79% of companies supported by UKEF in 2016 were SMEs. The UKEF's support to UK SMEs (3% of external funds in 2015-16 and just 1% in 2016-17) is much smaller than credit agencies in other countries, such as the USA and Germany⁹. The number of SMEs financed is predicted to increase with the October 2017 UKEF announcement of a partnership with five high street banks to improve SME lending.

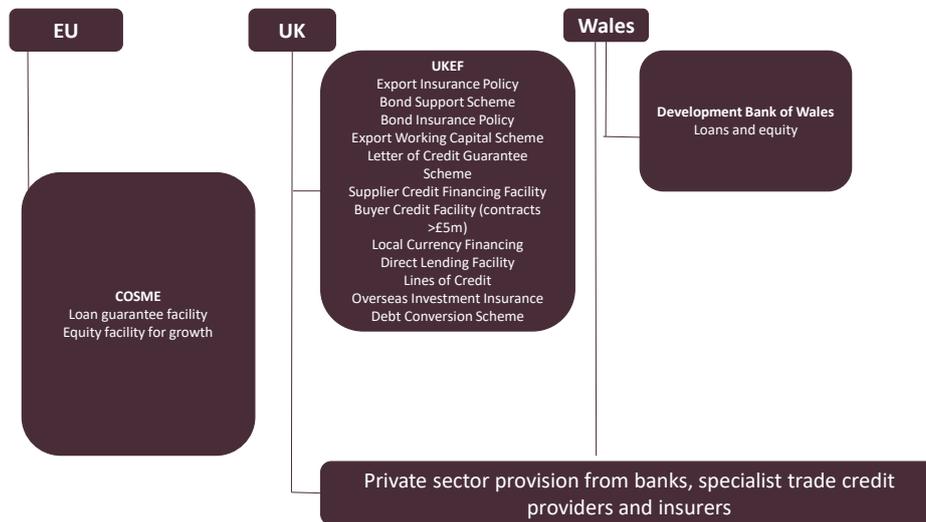
⁶ Insider Media 2018. Welsh exporters secure £64m in sales. Available at: https://www.insidermedia.com/insider/wales/welsh-exporters-secure-64m-in-sales?utm_source=newport_gwent_newsletter&utm_campaign=newport_gwent_news_tracker&utm_medium=business_article

⁷ The Cole Commission 2015. *The Cole Commission on Exports - An Action Plan from business*. Available at: <https://www.policyforum.labour.org.uk/uploads/editor/files/ColePlan11-23166.pdf>

⁸ British Exporters Association 2017. *UK Export Finance Export is not the new black*. Available at: <http://www.bexa.co.uk/wp-content/uploads/BExA-ECA-benchmarking-paper-2017-final.pdf>

⁹ British Exporters Association 2013. *Inquiry into the Welsh Government's approach to the promotion of trade and inward investment. Evidence from British Exporters Association*. Available at: <http://www.senedd.assembly.wales/documents/s23259/TII%209%20-%20British%20Exporters%20Association.pdf>

Figure 4: Export Finance Products Provision for Welsh SMEs - Summary



There are a number of factors to consider in respect of UKEF provision in Wales. The organisation’s resources are limited in Wales, but they work closely with Welsh Government, and the processes through which SMEs can gain access to UKEF support have been improved.

Importantly for Wales, UKEF now offers support for UK-UK transactions which support exports. This is targeted at Tier 1 suppliers to major international groups. Wales contains a large number of such firms in the supply chain to the automotive and electronic engineering sectors in particular which could benefit from this support.

Ultimately, however, the activities of UKEF in Wales are partly determined by the willingness of the main banks to refer trade finance cases across to UKEF. This could be impacted by banks being wary of referring cases from smaller firms which may not succeed in getting through initial screening processes.

UKEF Digital Portal

The specialised UKEF portal, operating through five major banks, means that in instances where credit lines are less than £2m, banks undertake the initial screening process, and then subject to this, UKEF automatically confirms the assistance.

General export assistance is an important element of Welsh Government support to firms, but this does not include export finance products, with Welsh Government signposting to export finance products and providers (see below). *Prosperity for All: Economic Action Plan* (May 2018) created the new Economy Futures Fund, which consolidates a number of pre-existing funding routes for Welsh business. In order to qualify for assistance, firms must demonstrate that they contribute to at least one of the ‘calls to action’ areas. One of these calls to action is ‘exports and trade’.

Moreover, the final section of the Plan focuses on promoting and protecting Wales' place in the world, including in relation to trade and investment. The Plan prioritises exports and trade detailing that the Welsh Government will promote exporting through a new marketing campaign, share best practice, and provide access to key export information. Together with its partners, the Welsh Government will also provide tailored support for market entry, including identifying and making introductions to potential customers.

On a local level, Welsh Government and Business Wales already provides signposting to UKEF services and vice versa, in addition to providing non-financial assistance such as advice on how to classify goods for export and information on customer selection. The Welsh Government International Trade Development Programme is available to all Welsh businesses free of charge and provides one-to-one support on a variety of export related topics such as tax, pricing and market selection. There is also support for overseas visits and attendance at trade shows.

The private sector also plays a significant role in export finance. UKEF's most popular product is the Bond Support Scheme which can result in UKEF guaranteeing 60-80% of a bond on a contract, with a commercial bank covering the remaining 20-40%. Private British bank Bibby specialises in export finance, and all major UK banks including HSBC, Natwest and Barclays have export finance products available to businesses.

Although there are financial products and services designed especially for exporting, SMEs can also opt to fund their exporting ventures with non export-specific financial products such as overdrafts, loans, venture capital and crowdfunding platforms. Economic Intelligence Wales highlighted in its first quarterly report that in 2017, 41% of Welsh SMEs made use of such general finance provisions, compared to 37% in England and 36% in Scotland¹⁰.

While Welsh SMEs have access to a variety of products and services across local, national, and international levels to support export activity, a key issue is awareness of these services. Moreover, not all export assistance is equal in terms of its effectiveness. For example, funding for trade shows is shown to be less likely to have an impact on export sales either directly or indirectly. The most significant impact has been demonstrated for exporter committees. Exporter committees are groups of firms with common international objectives. Encouraging networking and knowledge sharing between exporters is effective and increases the performance of exporters¹¹.

2.4. Export services provision compared

Figure 5 compares the identified provision of popular export finance products and related services in Wales to three other countries: Scotland, Brazil and Norway. Each country has a slightly different portfolio of products and services, with Scotland appearing to have the most comprehensive offering.

¹⁰ Economic Intelligence Wales (2018). Quarterly Report, June 2018. Available at:

<https://developmentbank.wales/sites/default/files/2018-06/EIW%20report%20template%20report%20and%20dashboard%20FINAL%20ENG.pdf>.

¹¹ Alvarez, R., 2004. Sources of export success in small-and medium-sized enterprises: the impact of public programs. *International Business Review*, 13(3), pp.383-400

Gencturk, E.F. and Kotabe, M., 2001. The effect of export assistance program usage on export performance: A contingency explanation. *Journal of International Marketing*, 9(2), pp. 51-72

Figure 5: Export assistance comparison by country

| Service | Wales | Scotland | Brazil | Norway |
|-------------------------------------|-------|----------|--------|--------|
| Export Credit Insurance | ✓ | ✓ | ✓ | ✓ |
| Bond Guarantee | ✓ | ✓ | ✓ | ✓ |
| Foreign currency support | ✓ | ✓ | | |
| Trade show/mission assistance | ✓ | ✓ | | ✓ |
| Assistance for first time exporters | ✓ | ✓ | ✓ | ✓ |
| Online education service | ✓ | ✓✓ | | ✓ |

Norway as the nearest non-EU country does not have access to the EU level of export finance provisions, instead all provisions exist at a national level. Provisions are split between Export Credit Norway and the Norwegian Export Credit Guarantee Agency. They provide a wide range of export finance products. However, they seem to lack any specific foreign currency support.

Brazil was chosen as a BRICS comparator. BRICS is an association of countries with emerging economies Brazil, Russia, India, China and South Africa. Brazil has its own national development bank, Banco Nacional de Desenvolvimento Econômico e Social, which does provide export finance, particularly export credit facilities. Brazil lacks foreign currency support, however this kind of product might be less important for Brazilian SMEs as the low value of their domestic currency facilitates exporting.

As a devolved nation Scotland has access to the same export finance provisions as Wales. The Scottish Government supports exports through Scottish Enterprise and Scottish Development International. Most of the services available through Scottish Enterprise and Scottish Development International are informational, focussed on helping organisations plan exporting activities and apply for export finance at the UK level. SMEs have free access to ExportSavvy which is a comprehensive online resource which has 42 modules covering issues relating to logistics, finance, culture, and international law.

However, the 'Make it to Market' grant, from £2,000 to £5,000, can be used to cover up to 70% of the cost of exporting a new product or service. The grant is only available to SMEs and unlike credit products does not need to be paid back. As it is difficult for small first time exporters to gain approval for UKEF products, the 'Make it to Market' grant fills a need within the market.

Wales and a number of other countries have initiatives which help managers of SMEs develop knowledge and skills such as understanding who their customers are, identifying routes to market and establishing financial resources. Similar programs exist in Brazil, Norway and the Netherlands. Norway's 'Export Start' provides first time exporters with up to 100 hours of one-to-one counselling tailored to the needs of the SME. The Netherlands' 'Prepare2Start' programme helps first time exporters create an exporting plan. The programme (although not strictly export finance) then contributes to the cost of realising the plan.

3. Welsh exporting activity

Wales is embedded in the global economy with customers and business partners all over the world. In 2017 the value of Welsh goods exports reached over £16.5 billion – an impressive figure given the size of Wales’ population, and represents a £1.8 billion increase on 2016. The value of goods exports for the year ending September 2018 reached £16.9 billion, a 3% rise (up £0.5 billion) compared with the same period in the previous year¹².

3.1. Welsh goods exporters

The number of Welsh businesses taking advantage of the opportunities presented in EU and global markets is slowly increasing. Figure 6 demonstrates how, in every year since 2014, more Welsh businesses have exported goods. The majority of Welsh exporters sold goods to EU countries. Additionally, the number of businesses exporting goods to non-EU countries is growing at a slower rate than those exporting goods to the EU, exemplifying a strong reliance on the EU market.

The focus of Figure 6 is on goods exporters, and excludes the many firms which export services. Moreover, this data does not provide information on the specific count of SMEs exporting from Wales. Results from the ONS Longitudinal *Small Business Survey*¹³ revealed that in 2016, just 14% of Welsh SMEs exported goods and/or services. Existing research by the Federation of Small Businesses¹⁴ suggests that around one fifth of Welsh SMEs export, although this is based on a smaller survey sample than the ONS *Small Business Survey*.

Export Surveys

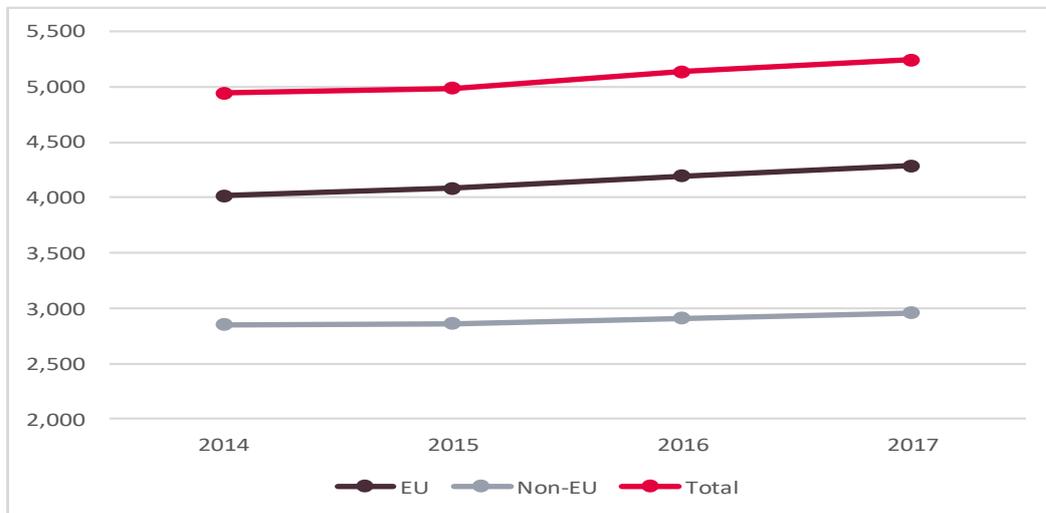
Surveys may underestimate export activity. Firms using a digital sales platform may not always be fully aware they are selling overseas, and may not appreciate the effect of overseas sales in maintaining their profitability.

¹² Welsh Government (2018). Welsh exports. Available at: <https://gov.wales/statistics-and-research/welsh-exports/?lang=en>

¹³ Department of Business, Energy & Industrial Strategy (2017). *Longitudinal Small Business Survey Year 2 (2016)*. [online] London. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/624580/small-business-survey-2016-sme-employers.pdf

¹⁴ Federation of Small Businesses (2016). *Destination Export*. [online] p.28. Available at: <https://www.fsb.org.uk/docs/default-source/Publications/reports/fsb-destination-export-report-2016.pdf>

Figure 6: Count of exporters of goods in Wales 2014-2017

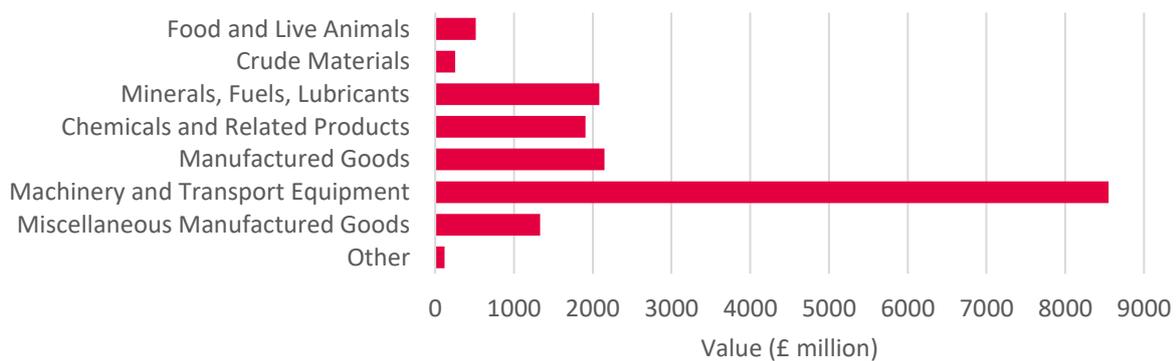


Data for 2017 is provisional. The counts for businesses exporting to the EU and non-EU countries do not sum to the total business counts. Businesses that are active in both EU and non-EU markets are counted once only in the total. Source: HMRC

3.2. The value of goods exports from Wales

For Wales a historical strength in exports of primary materials has now been replaced by sectors such as machinery and transport, chemicals, and more latterly services¹⁵. Figure 7 highlights the substantial value of machinery and transport exports, compared with other industries, making up to £8.5 billion in the last 12 months (a more detailed table of this data can be found in Appendix B). However, the value of Welsh exports are subject to some annual fluctuations caused by factors such as the strength of sterling, and individual plant shutdowns.

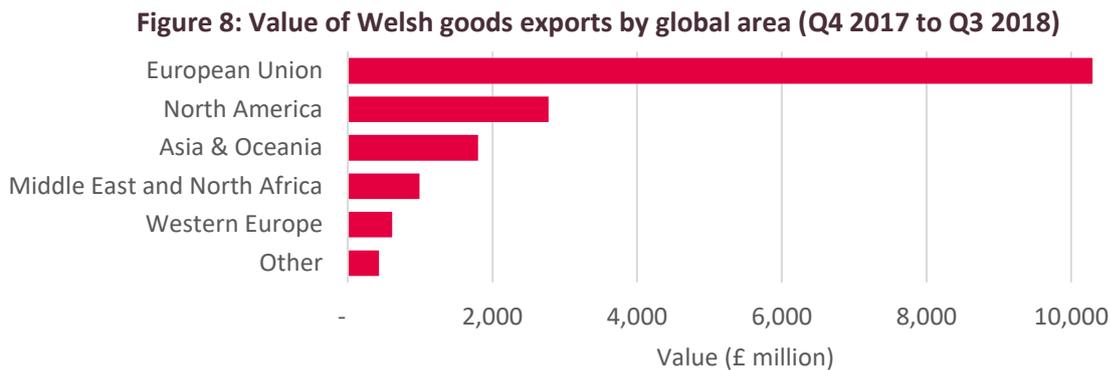
Figure 7: Value of Welsh goods exports by industry (Q4 2017- Q3 2018)



¹⁵ StatsWales.gov 2018. Value of exports by area and product (£m). Available at: <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Exports/exports-by-area-product>

3.3. The destination of goods exports from Wales

The European Union is by far the largest customer for Welsh goods exports, accounting for 60% of the total Welsh goods exports market. The EU accounts for around 50% of the UK's total goods export market. Figure 8 shows the geographical markets for Welsh goods exports during the year to September 2018.



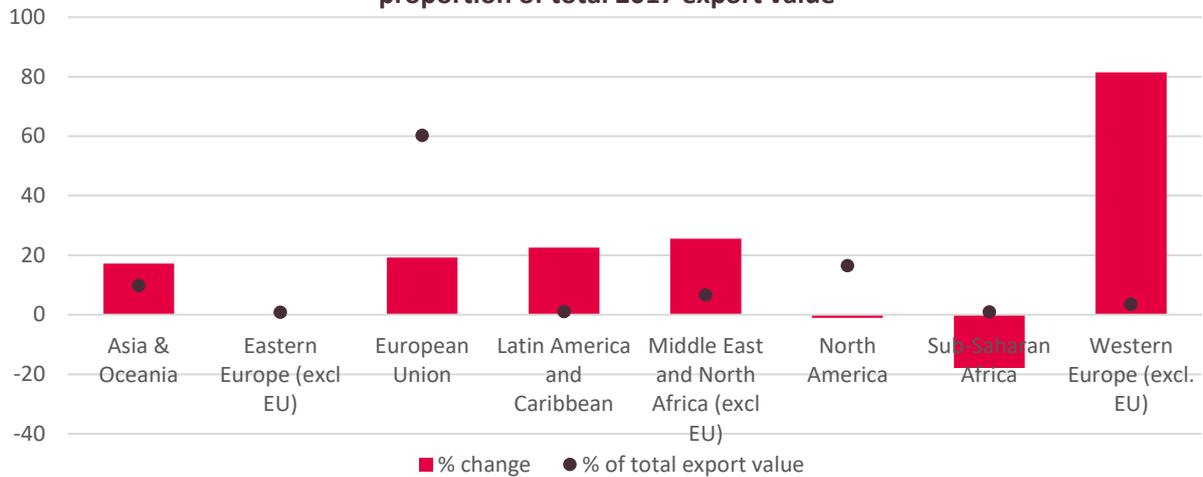
Source: HMRC. Other=Latin American and Caribbean, Eastern Europe and Sub-Saharan Africa

The strong reliance on the EU as an export destination presents a challenge for all Welsh companies to develop new markets in economies outside of the EU. Figure 7 showed that over three quarters of Welsh goods exports came from three industries: Machinery & transport, Chemicals and Manufactured goods. The Welsh Government's Trade Policy report¹⁶ showed that these same sectors in Wales could be among those worst affected by the EU transition process. These industries were deemed to be either high or medium-high risk in terms of the impact tariffs could have on exporting activities.

Reduced exports in Wales' prominent exporting sectors could severely impact on overall Welsh manufacturing productivity and employment. Adding to EU transition risks in these sectors were factors including the age of sector assets in Wales and the likelihood Welsh activity in the sector could be displaced overseas. Furthermore, any decrease in activity in these sectors could have a significant impact on the regional economy through supply chain multiplier effects.

¹⁶ Welsh Government 2018. *Trade Policy: the issues for Wales*. Available at: <https://beta.gov.wales/sites/default/files/2018-01/180202-trade-policy-the-issues-for-wales.PDF>

Figure 9: Change to the value of Welsh goods exports 2014 - 2017 and proportion of total 2017 export value



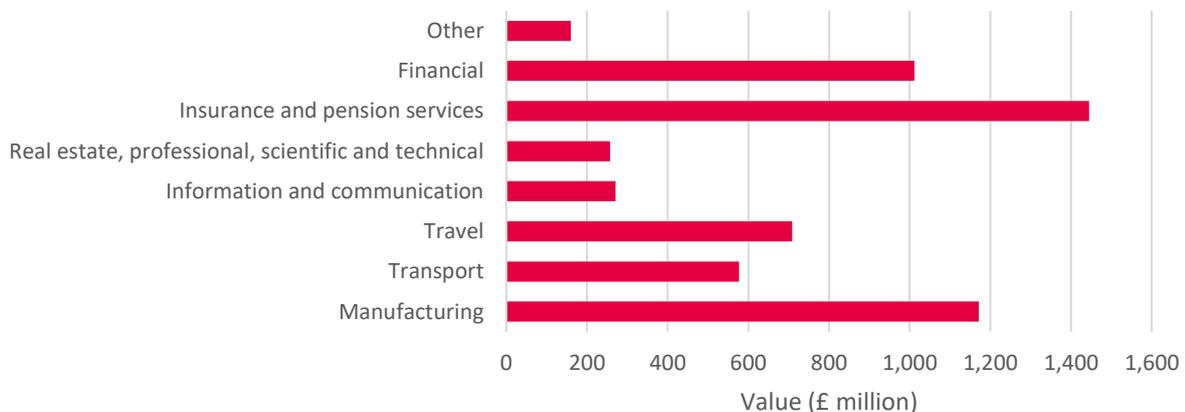
Source: HMRC

There has been some growth in the value of exports to non-EU countries, as shown in Figure 9, although smaller markets could be affected by single large contracts, or currency variations. Although Western Europe (excluding the EU) has the largest proportional increase, the geographic areas with the most potential are Asia and Oceania, Latin America and Caribbean, and the Middle East and North Africa, as these are markets with larger populations, and in some cases faster growing populations.

3.4. Exports of services

In contrast to exports of goods, the distribution of services exports is slightly more even across sectors, as shown in Figure 10 (see also more detailed data in Appendix C). As the ONS data on service export value is experimental, it is not regularly updated, with the latest figures relating to 2016. The data shows that Insurance and pension services, Manufacturing services and Financial services bring in the greatest value to the Welsh economy from service exports.

Figure 10: Value of Welsh services exports 2016



Other=primary utilities, construction, wholesale and motor trades, retail (excluding motor trades), administrative and support services, public admin, health and education, arts and recreation and other services. Source: ONS.

3.5. Large firm role in Welsh export activity

Of the £16.5bn exports of goods during the 2017-18 financial year, 70% could be identified and associated with large firms, leaving £5bn as unidentified. Some of this will be linked with large firm exporters that have not been located through company searches, but a proportion will be accounted for by SME exporters, with the majority more likely to be from medium as opposed to micro or small firms.

Information on the value of Welsh services exports is less reliable and detailed, with the latest data (available for 2016) suggesting a value of £5.6bn (see Appendix C). Only a very limited number of service sector large firm exporters were identified on the FAME database (see below), with a much higher chance of companies in this sector being registered and headquartered outside Wales. As a consequence, it is not possible to provide an indication of the likely number of SME exporters of services.

Figure 11: Potential significance of Welsh SME exporters by sector

| Sector | Selected large exporters | SME exporter density | Notes |
|---|---|----------------------|---|
| Food and beverages | Finsbury Food Group, O.P. Chocolate Ltd, Halo Foods Ltd | High | Some large firm exporters in sector, but those reporting exports account for a small share of total exports. |
| Crude Materials | Kronospan | High | Limited information but expected to be SME exporters. |
| Mineral Fuels | Valero | Low | Sector activity dominated by one firm. |
| Chemicals, Pharmaceuticals, Plastics | Dow Corning, Ipsen Biopharm, Norgine, Penn Pharmaceuticals, Fibrax, Plastipak UK. | Low | Low in Chemicals but larger numbers of SMEs exporters in pharmaceuticals and plastics. |
| Manufactured goods | Tata Steel, Celsa Steel, Carpenter and Paterson, Intertissue, Seda UK Ltd. | Medium | Exports dominated by large firms in part of the sector, but possible SME export presence in other parts of this diverse sector, such as metal, paper and rubber products. |
| Machinery, Transport and Misc. Manufacturing (excl. furniture) | Airbus, GE Aircraft Engine Services ¹⁷ , IQE, Newport Wafer FAB, Panasonic Manufacturing, Yuasa Battery Europe, Calsonic Kansei Europe | Medium | Exports dominated by large firms in part of the sector, but possible SME presence in other parts of this diverse sector, such as machinery and telecoms & equipment. |
| Furniture | Bisley Office Equipment, Orangebox Group. | Medium | Some large firm exporters in sector, but those reporting export data account for a relatively small share of total exports. |

¹⁷ The primary SIC code for this company is in manufacturing. However, the 'product' for this company may be classified as manufacturing services in the trade statistics. As exports are large for this sector this will impact on the potential value of SME exports in both goods and services.

Figure 11 provides a more detailed indication of the extent to which large firms dominate Welsh goods exports by sector, and therefore suggests the possible scale of SMEs involvement in exporting activity. Key sources informing Figure 11 are the FAME Companies House information database, and HMRC regional trade data. The allocations of companies to sectors, and the suggestions on the potential activity of SME exporters in terms of value are only indicative because of a series of data problems (see later conclusions, section 6).

The sectors with a low number of SME exporters are Mineral fuels, and Chemicals and pharmaceuticals, although in the latter case there are some potential SME exporters in the pharmaceutical and plastics components of this sector. In contrast, some large firm exporters were identified in Food and beverages, but these only represent a small share of total exports for the sector.

Machinery, transport and miscellaneous manufacturing (SITC 7 and 8, excluding furniture) is by far the most significant sector in terms of export value. These sectors have been merged for Figure 11 due to the difficulties in allocating companies to the commodity (SITC) sectors. While large firms dominate the sector, there is still a residual which cannot be identified and which could therefore be accounted for by SME exporters. A similar conclusion applies to Manufactured goods, which includes firms such as Tata and Celsa. This sector is also very diverse, and significant large firm exporters could not be identified for all parts of the sector, particularly for metal, paper and rubber products.

Firms in the Furniture sector were more easily matched to the SITC code, and while there is a large firm presence in the data, the available information suggests this is relatively low, with some possibility of SME exporter activity.

Crude materials is another sector which is likely to have a high number of SME exporters. For example, UK Mineral Products Association membership in Wales is known to include some indigenous SMEs¹⁸ and this is a sector in both the UK and Wales where there is some export propensity in goods such as sand, industrial lime, gravel and marine aggregates¹⁹.

¹⁸ Mineral Products Association (2016). The Mineral Products Industry at a Glance. Available at: https://mineralproducts.org/documents/Mineral_Products_Industry_At_A_Glance_2016.pdf

¹⁹ Mineral Products Association (2015). The Economic Significance of the Mineral Products Industry to the Welsh Economy. Available at: https://www.mineralproducts.org/documents/MPA_Report_Final_Dec_2015.pdf

4. Export finance survey

This section of the report examines the findings from the *Export Finance Survey*. The Survey was completed by Beaufort Research on behalf of EIW. The *Export Finance Survey* formed part of their *Business Omnibus Survey* and with this being representative of all SME business establishments in Wales.

Telephone interviews were undertaken with 503 Welsh SMEs during the period 2nd November - 5th December 2018. The sample of businesses was selected randomly by market location. Businesses within different defined industry groups and Welsh regions were then randomly sampled until quota targets were met.

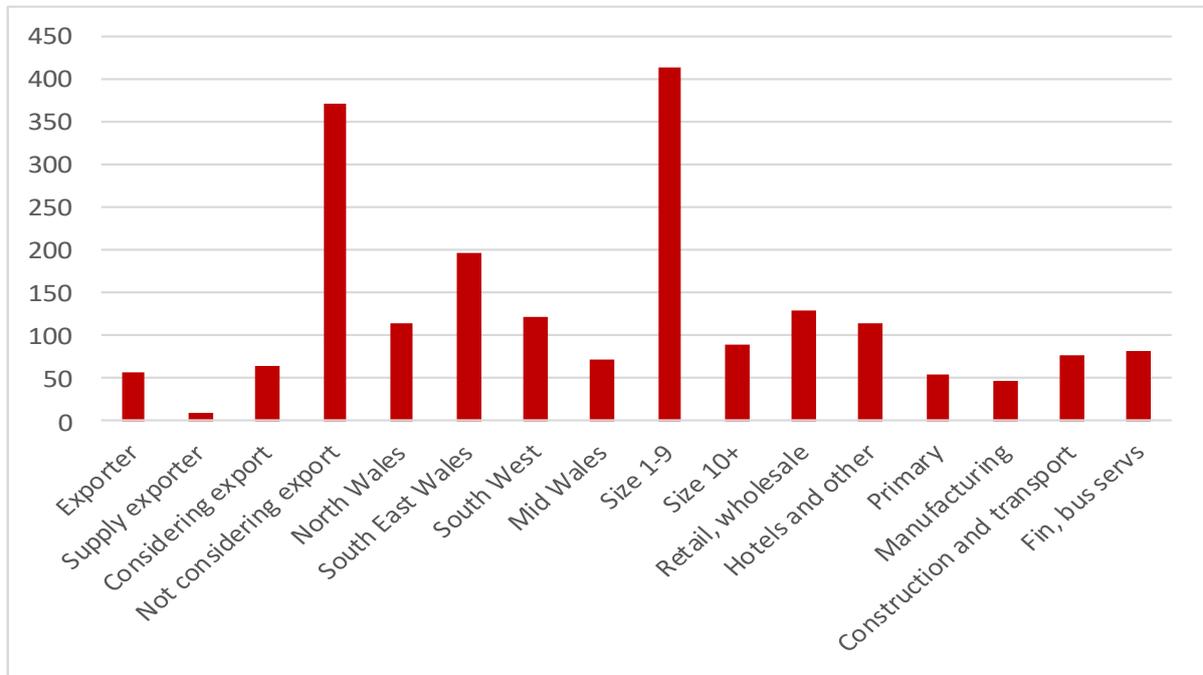
The Survey was designed to ensure that different groups of SMEs were covered. These groups were SMEs that self-identified as exporters, indirect exporters (either selling to consolidators who then exported goods, or firms that were part of supply chains to UK firms that subsequently exported), firms that were considering exporting, and then those not considering exporting or which produced goods not suitable for export. The themes covered in the survey included:

- Business basics including size, sector, location
- The significance of exporting activity to firms
- Exporting intentions
- Export destinations
- Obstacles to exporting activity
- The expected impacts of Brexit on exporting activity
- The extent to which firms received/sought export advice/ finance
- Firm views of gaps in provision of financial and non-financial assistance to exporting
- How firms financed exporting and general business activity.

The Survey found that 56 (11.1%) SMEs considered themselves to be exporters (although 4 SMEs were not exporting at time of survey), 11 firms were supply exporters, 64 (12.7%) were considering exporting, and 372 SMEs (74%) who were not considering exporting, or for whom the issue was irrelevant given their business situation.

Of the 64 SMEs classified as ‘considerers’ these were further subdivided into 12 firms who would definitely like to export, 19 which would possibly like to export, and 33 ‘at least’ considering exporting. The sample also included firms from different parts of Wales, different industries, and with two different size classes considered (i.e. those firms with 1-9 employees and those with 10 or more). A summary of the sample is provided in Figure 12.

Figure 12: Export Survey Sample Summary (n=503)



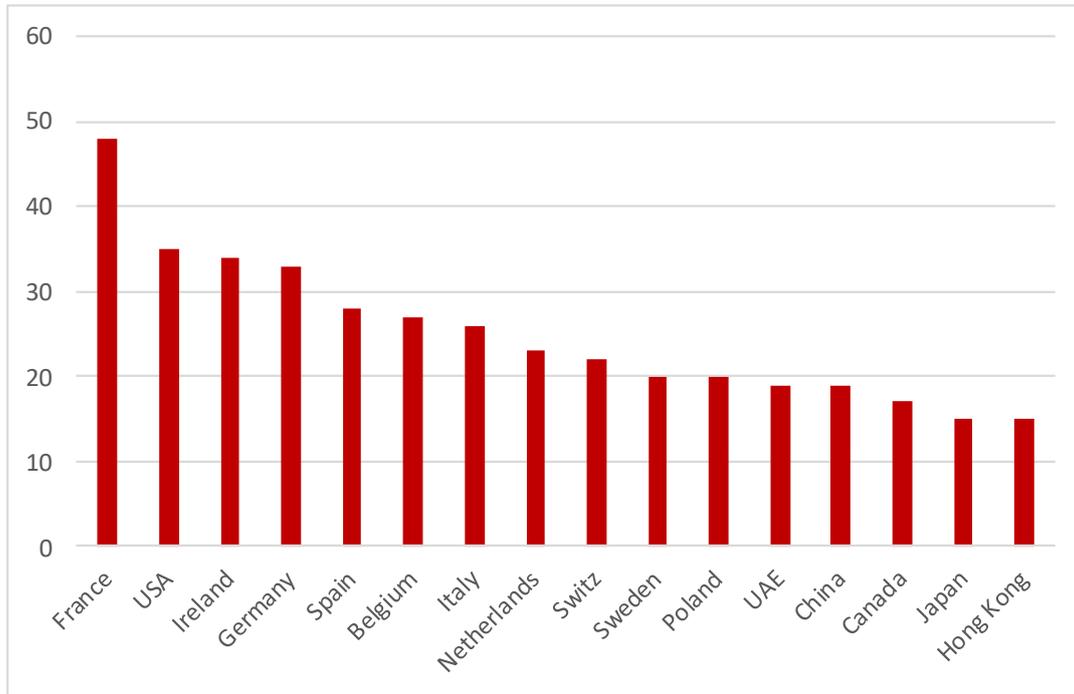
Of the SMEs that exported, just 7.4% (4 firms) sold goods and services by Amazon or EBay or similar. There is a potential issue here as there is expectation that some of the SMEs included in the ‘not considering exporting – not relevant’ group are possibly engaged in overseas sales through digital platforms and are not aware of this less obvious exporting activity. This could be an issue for further research and follow-up.

The Survey also considered a sub-sample of SMEs engaged in ‘indirect’ exporting. Wales has SMEs that form part of the value chain of firms that do subsequently export. Of the 11 SMEs in the ‘supply exporter’ category 4 were involved in financial and business services, 3 in wholesale and retail, 2 in construction and 2 in primary production. Of the 11 supply exporters just 2 were more than 50% dependent on sales to businesses who subsequently exported outside of the UK.

4.1. Exporter destinations, significance and barriers

Of the total 503 survey respondents, 56 SMEs reported that they were exporters. These 56 SMEs were involved in a very wide range of overseas markets. Figure 16 shows the destinations served by at least 10 of the SMEs in the sample of 56, although around 30 separate destinations were mentioned by respondents. Figure 13 reveals that French markets were served by 48% of the exporter respondents, the USA by 35%, Republic of Ireland by 34% and Germany by 33%. Interestingly 19% of the respondents served markets in the UAE and China.

Figure 13: % of Exporter Sample Selling to Different National Markets (n=56)

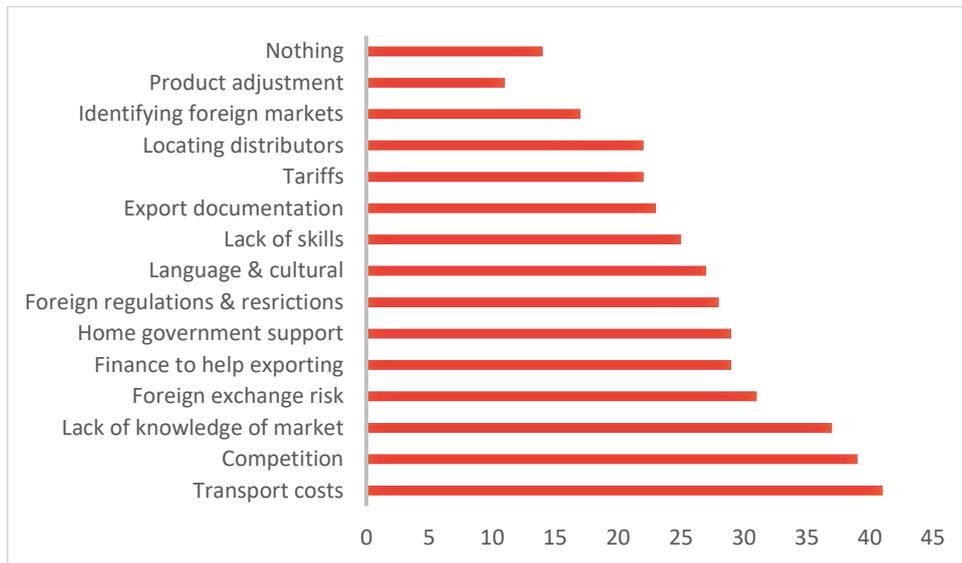


Dependence on export sales varied across the 56 respondents. In 41% (23 out of 56 firms) of cases overseas sales were only between 0.1 and 10% of total revenue, with 20% (11/56) of SMEs responding that overseas sales accounted for between 11 and 20% of their revenue. In just 11% (6/56) of cases did overseas sales account for more than 41% of total sales.

The 56 exporting SMEs were asked to comment on what they perceived to be the barriers to their businesses increasing the level of exporting. Figure 14 summarises the main responses. The most common barrier was transportation costs which was mentioned by 41% (23 of 56 firms) of the exporter group (a third of the SMEs that responded that this was a barrier were in manufacturing). This was followed by the level of competition faced in overseas markets, mentioned by 39% (22/56) of the exporter group, with lack of knowledge of overseas markets a barrier for 37% (21/56) of the SMEs.

There were a number of areas where the UK government and other stakeholders already offer support and where responding SMEs perceived barriers. For example, 31% (17/56) cited exchange risks, 29% (16/56) cited getting help with export costs, and 29% (16/56) revealing that just getting government help was a problem. Several of these factors are interlinked, with the earlier mentioned factor, lack of information about foreign markets.

Figure 14: Export barriers (% of exporters group citing factor as a barrier, n=56)



The Survey asked exporter respondents specifically on whether the UK leaving the European Union would impact the level of exports. 7% (4/56) of SME exporters responding to the Survey expect overseas sales to increase following Brexit, 38% (21/56) expect overseas sales to stay the same, with 28% (16/56) expecting exports to fall. There was clearly a great deal of uncertainty in answering this question with 27% (15/56) of exporter respondents being either don't know or not sure.

Given the large numbers of SMEs citing barriers to their exporting activity, use of external assistance was surveyed along with their views on the process. Just 23% of exporters (13 SMEs) had sought export advice, excluding financial support. Although the sample of SMEs actually seeking assistance was small, some 8 of the 13 had either sought or received export advice online, with 7 having received help to cover costs to attend overseas trade missions/shows. Other categories of help were received from lawyers and accountants, from business support agencies or from friends or colleagues.

Export Support Requirements

The vast majority of those exporters receiving non-financial help and assistance (85%) were able to report that the help received fully or partially met their requirements.

In terms of the actual sources of assistance and advice, 47% (6 firms) cited Welsh Government, 40% (5 firms) Business Wales (although there is some likely conflation), and 32% (4 firms) cited Chambers of Commerce. Just two firms directly cited the UK Department of International Trade as a source. Although the sample size is fairly small, the small overall proportion of the exporter community who have actively sought assistance and advice is an important finding from the Survey.

4.2. SMEs considering exporting

There were 436 SMEs not currently exporting. Of this 436, 64 (14.7%) were considering exporting with this further broken down to 12 firms who would definitely like to export, 19 who would possibly like to export, with the remaining 33 in the category of at least considering exporting. The 'considerer' group is an important one in terms of the appropriate direction of export assistance.

SMEs in each of the considerer sets were asked (with no prompts) why they had responded positively in terms of considering overseas sales activity. Of the 12 SMEs who would definitely like to export, 8 said that they were looking to expand sales and business, and 2 stating that they were already looking into exporting. Of the two remaining SMEs, one stated that they already had some experience of overseas trading and the other stating that overseas sales were particularly suited to their commodity group.

A group of 19 SME classified themselves as 'would possibly like to export in the future'. In 8 cases (41%) it was to expand business/increase sales, 3 stated exporting depended on costs and markets, 2 showed that this was something 'for the future'. The largest group in the 'considerers' was 33 SMEs who 'would at least consider exporting in the future'. Of these 33, 13 (40%) stated that they had responded in this way because it was to expand business/increase sales, 7 stated this was something 'for the future', with a further 4 showing it was suitable for their commodity, and another 4 showing it was something they were considering should business conditions change.

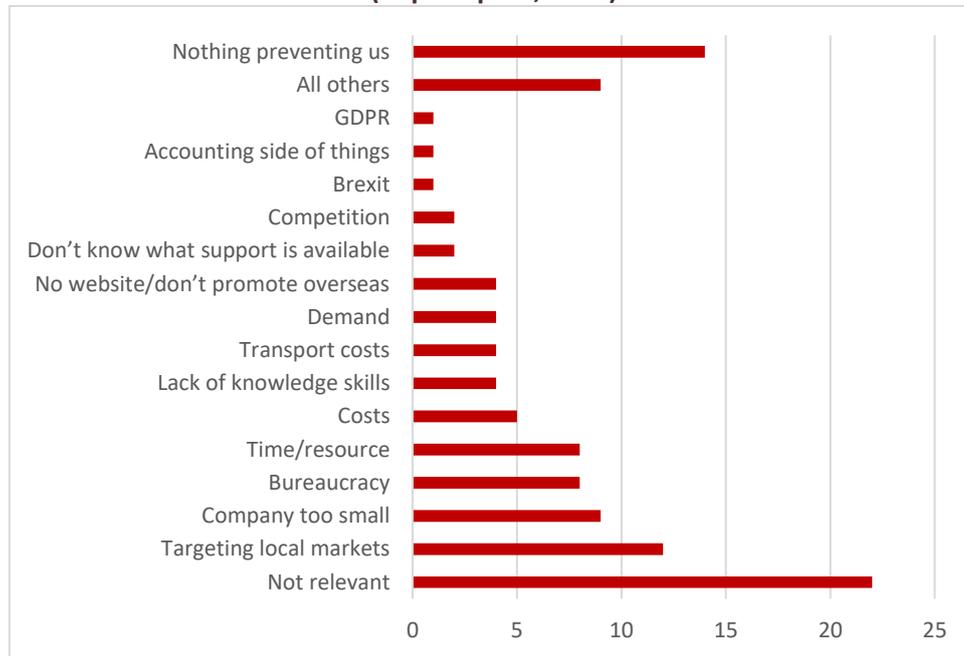
Among the 75 SMEs considering exporting (i.e. the 64 considerers and 11 supply exporter SMEs who were also considering directly exporting to some degree) 18% reported that their businesses had engaged in exporting in the past. When asked why overseas activity had ceased, 44% of the SMEs noted that their export activity was sporadic and/or linked to just a few contracts. Other reasons given by SMEs were loss of clients, external competition, and the strength of sterling.

The reasons provided by the considering exporting group²⁰ for not currently engaging in export activity were quite diverse. Some 22% (16 of 75 responding firms) of SMEs cited that exporting was not relevant at this moment, with 12% (9 firms) citing that they were targeting activity locally, or simply that they believed their firms were too small to engage in export activity (9% (7 firms) of this group of SMEs). Other explanations included levels of red tape and resource constraints.

Figure 15 shows that very few SMEs cited issues in respect of not knowing what support was available. For many SMEs considering exporting, reasons for not exporting were linked to a focus on domestic markets. Some 14% of the considering export group (11 of 75 firms) believed there was nothing preventing them exporting at the current time.

²⁰ Unprompted responses and still including responses from the supplier exporter group who would consider directly exporting in the future.

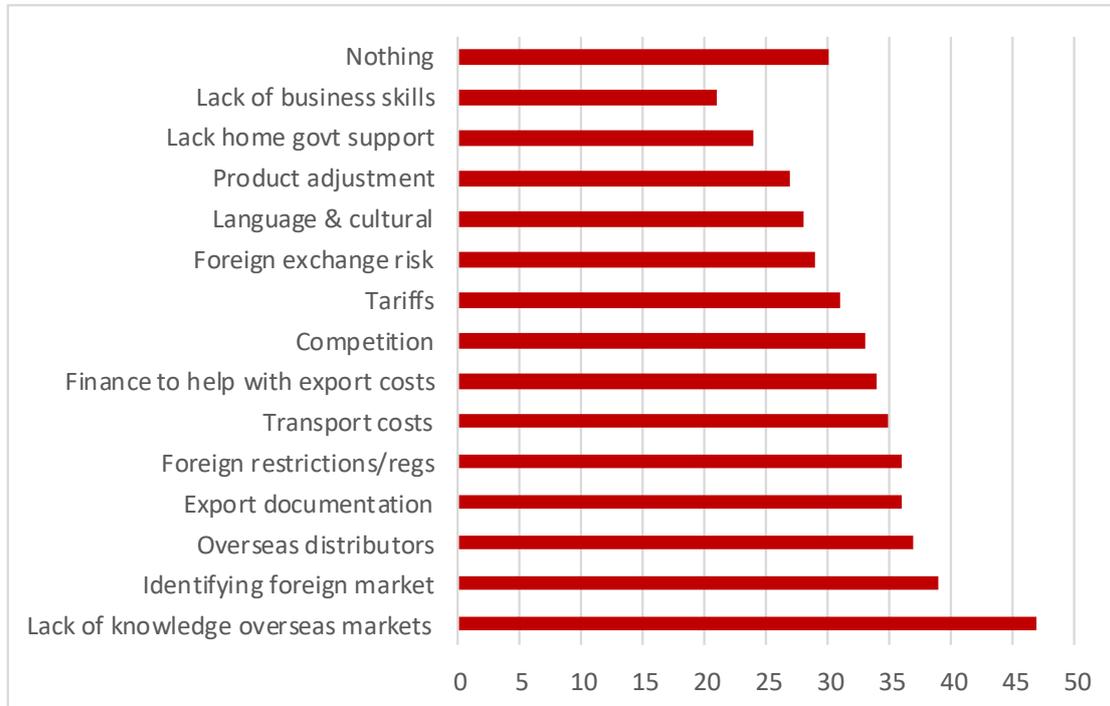
Figure 15: Considering Export/Supply Export Group: % Firms citing export barriers (unprompted, n=75)



Those considering exporting were prompted to consider how far a number of factors were barriers to their businesses exporting. The findings are shown in Figure 16. Nearly half of the respondents (47%, 35 of 75 firms) cited lack of knowledge of overseas markets, with 39% (29 of 75 firms) citing problems in identifying foreign markets. Critically, many of the SMEs perceived barriers in areas where assistance seems to be available i.e. market information, export documentation, foreign government regulations etc.

Just over one third of the responding SMEs directly cited getting finance to help with export costs. However, when prompted, 30% (22/75) of the firms cited that there was nothing currently stopping them exporting. There were no perceived barriers for 72% (8 of 11 firms) of the smaller supplier exporter group.

Figure 16: Considering Export/Supply Export Group: % Firms citing export barriers (prompted, n=75)



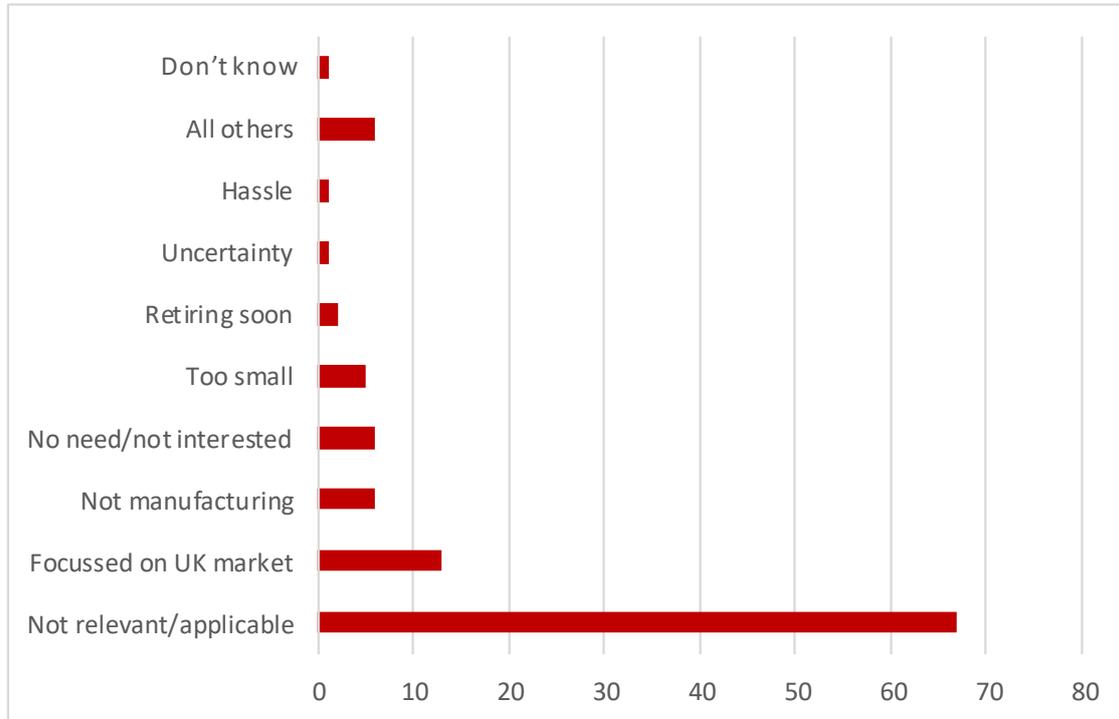
A key finding from the *Export Finance Survey* was that among those considering exporting, just three SMEs admitted to ever having looked for or received advice in relation to exporting activity.

When asked where they would look for information and advice about exporting 22% of SMEs considering exporting would use the internet/Google, while 19% (14 of 72 respondents) revealed that would seek help from Welsh Government/Business Wales. Just over one fifth (22%, 16/72) of firms reported that they either did not know or were unsure where to look for export information and advice.

4.3. SMEs not considering exporting

There were a total of 369 SMEs in the survey who responded that they were not considering exporting in the future. Figure 17 provides a breakdown of why they made this response. In just over two thirds of cases the SME stated that exporting was either not relevant/not applicable to the sector/service or goods produced. A further 47 SMEs responded that they were focused on domestic markets, with 23 stating they did not manufacture but were services firms. Other responses included: not interested/no need (6% of the 369 responding SMEs); being too small (5%), retirement (2%), uncertainty and exporting being 'too much hassle' (1% each).

Figure 17: Not Considering Export Group: % Firms citing reasons (prompted, n=369)

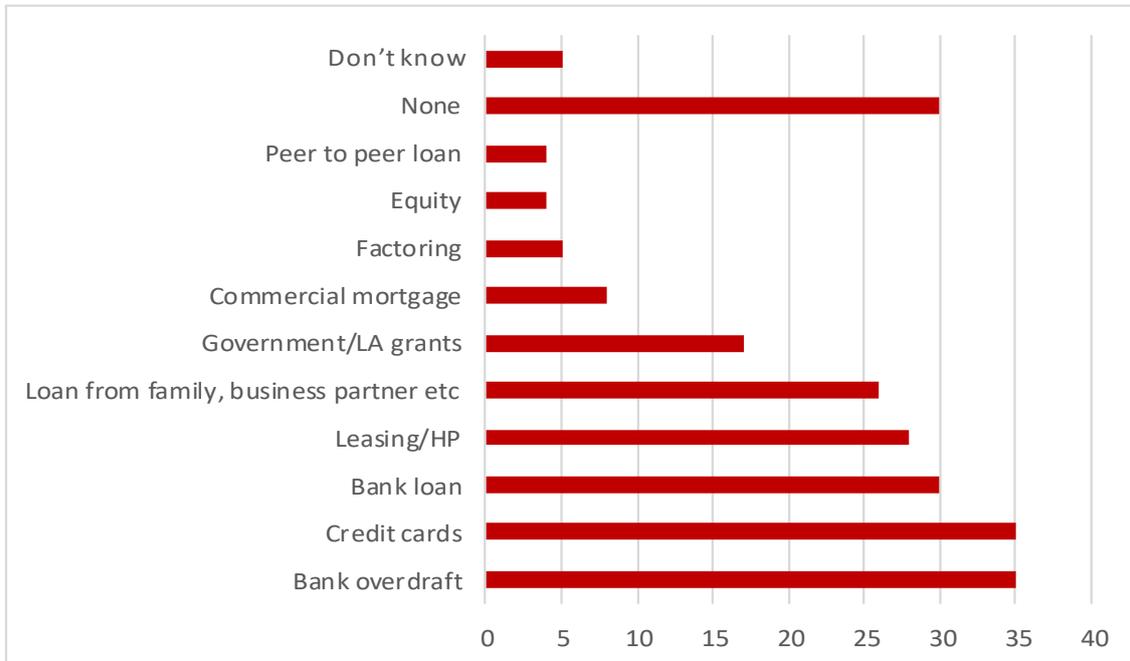


4.4. General finance

To better examine how different groups of SMEs engaged with export finance options, the Survey explored how these SMEs engage more generally with external finance. A low engagement with general finance products may have some links with lower engagement with export finance products.

Figure 18 examines use of different finance sources among the group of 131 exporters, supply exporters and export considerers. Overall 35% of this group used overdraft facilities and/or credit cards, 30% employed loan finance, with 28% using leasing or hire purchase. There is some variation in finance sources across the different groups. For example, the supply exporter group feature higher levels of bank overdraft use, while the exporter group make more use of credit card facilities. Some 30% of the 131 (40 firms) reported that they used no sources of finance.

Figure 18: Exporters, supply exporters and export considerers group: % firms citing different sources of finance (n=131)



4.5. Export finance – exporter group

The second part of the Survey was focused on issues surrounding export finance to firms.

Among the exporter group of 56 SMEs, just 7 reported that they used some types of export finance products. Four of the 7 SMEs were using foreign exchange support, 2 were using loans to cover working capital costs of an export contract; one of the 7 used bond support, and one used insurance or guarantees to cover non-payment risk. However, 85% of firms used none of this specific export finance support. Of the 49 firms who did not currently use export finance (including 1 don't know), just 3 had used in the past, and of these 3 firms they had ceased to use the finance either through simple lack of a supplier contract, had cleared the loan or for cash flow reasons.

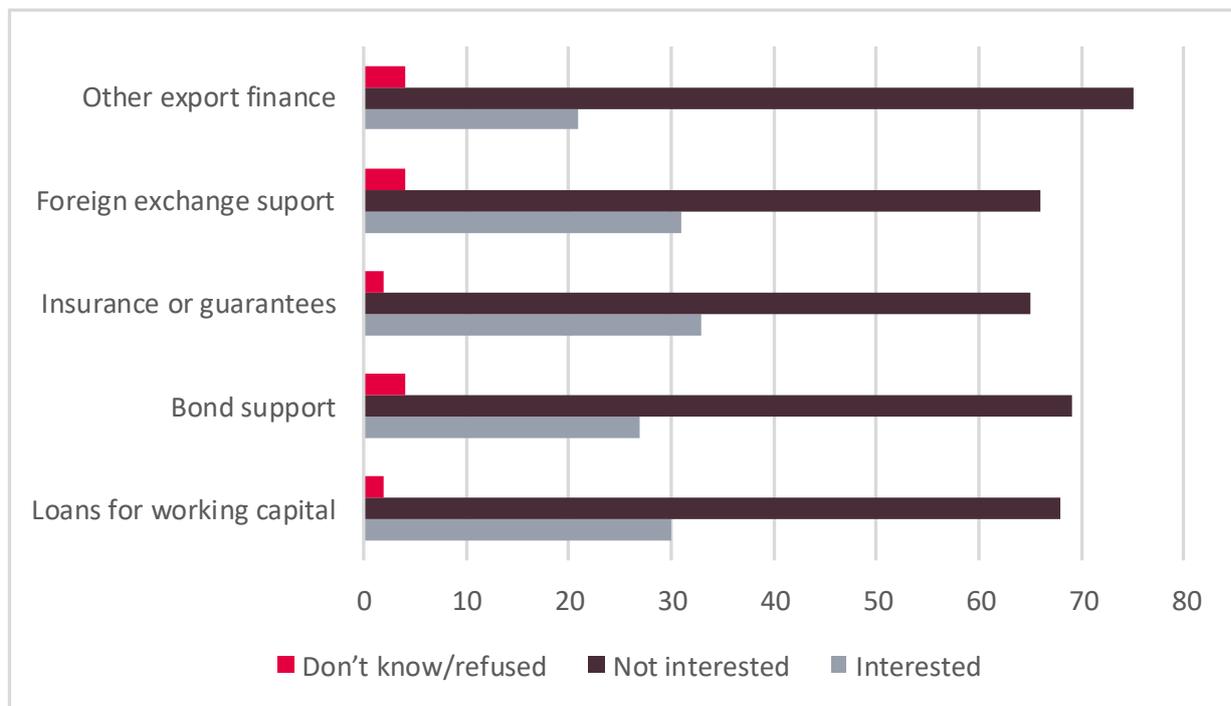
Of the small number of exporters in the sample who used export finance (7), in three cases it came from banks, and in two cases from other financial institutions. Two SMEs did not know the source of the financing. Of these 7 exporters, 6 were aware of sources of finance including banks with 3 aware of sources in terms of UK Export Finance and Development Bank of Wales.

Five of those who used export finance stated that the process of applying for export finance was either very or fairly easy and 5 were satisfied by the time it took to apply. Just 2 SMEs agreed that without the finance provided they would not have been able to export, with 3 SMEs revealing that the finance had made little difference to their exporting capabilities. However 3 SMEs argued that it was likely they would continue to require export finance (i.e. loans to cover working capital, and bond support).

The Survey revealed that of those in the exporting group who had never used export finance, either currently or in the past (45 SMEs), some 74% (33 SMEs) did not know that there was finance available to assist in exporting activity. Of 11 SMEs who were aware of export provision but had never used it, 5 were aware of export finance in the form of either foreign exchange support, or insurance/guarantees, with 4 aware of bond support and working capital loans. Of these 11 SMEs none had ever applied for finance to help with exporting.

Figure 19 shows the level of interest in different export finance products for 48 exporters who were not currently using export finance. Just 30% of this group of SMEs were interested in loans to cover working capital, 27% in bond support for overseas contracts, 33% insurances or guarantees to cover non-payment risks, and 32% interested in foreign exchange support to guard against currency fluctuations.

Figure 19: Exporters not currently using export finance: % showing interest/non-interest in different export finance products (n=48)

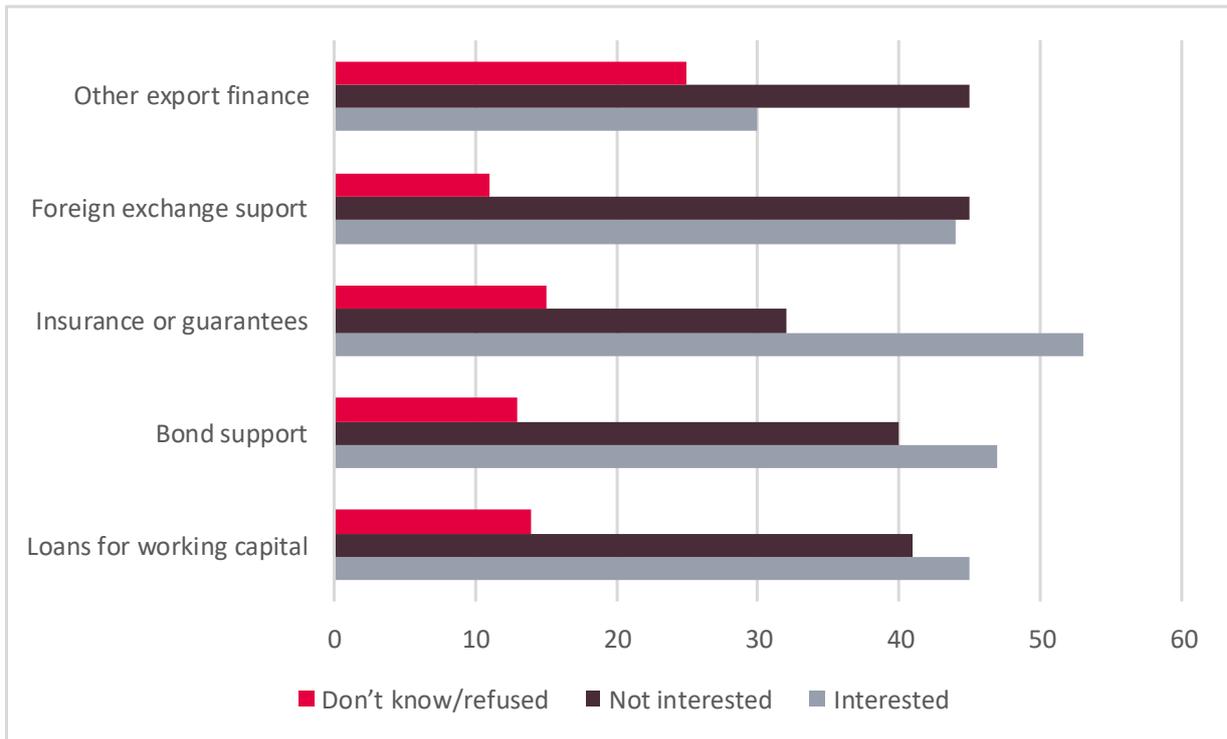


4.6. Export finance – supply exporter and export considerer group

Of the 75 SMEs in this group, 76% were not aware that there were financial products available to assist with exporting. Of the 14 SMEs who were aware of export finance none had ever applied for finance to help with exporting. However, 10 were aware of the existence of loans to cover working capital requirements of an export contract, 7 were aware of insurance and guarantees to cover non-payment, 6 were aware of bond support and a further 6 were aware of foreign exchange supports.

Figure 20 shows the levels of interest in applying for export finance assistance in the future for the 75 SMEs in the supply exporter and export considerer group. Figure 20 reveals that 45% of this group of SMEs were interested in loans to cover working capital, 48% in bond support for overseas contracts, 53% in insurances or guarantees to cover non-payment risks, and 43% interested in foreign exchange support to guard against currency fluctuations.

Figure 20: Supply exporter and export considerer group: % showing interest/non interest in different export finance products (n=75)



5. Conclusions

This report has drawn upon existing research and a specific survey of SMEs on export finance to investigate the current landscape of exporting, as well as the products and services which support exporting in Wales. This report has emphasised the strong reliance Welsh exporters have on EU customers. More research is required to examine the exporting trends of Welsh SMEs in particular, with much of the current official statistical base relating to trends in exports among relatively few large Welsh manufacturing firms.

The value of Welsh exports has increased in recent years, with exports to EU markets experiencing the largest increase. Exports to the EU represent 60% of Wales' total export value. Leaving the EU could clearly have a detrimental effect on such exports. The *Export Finance Survey* revealed that 45% of SME exporters either expected overseas sales to increase or remain the same. However, much of the debate on the effect of EU transition has been around large firms in Wales, and their exporting activity.

SMEs may face greater or more unique risks in overseas sales, and may then require particular export advice and specific export finance products. The report shows that very large numbers of Welsh SMEs do not export, but the *Export Finance Survey* shows that of those firms that do export, few had sought and used export advice.

Financing exports continues to be perceived as a barrier. For one third of SMEs exporting, or considering exporting, access to finance is a barrier. Welsh SMEs have access to export finance from a variety of providers which should mitigate this problem. However, the *Survey* showed awareness is low amongst exporters and those SMEs considering exporting, but with some interest from these SMEs in a range of export finance products and support services.

6. Future steps and actions

The findings of this report point to a series of actions and further research points which are outlined below.

6.1. Product gaps in export finance

The *Export Finance Survey* showed that financing to assist SME exporting and foreign exchange risk were identified as barriers for around 30% of SME exporters participating in the *Survey*. While there are export finance products available which work to support Welsh exports both the *Export Finance Survey*, and the review material in this report, suggests that there is a need for more targeted export finance product provision to Wales' smaller firms. Of equal concern was that the *Survey* also revealed a low level of awareness of the export finance products that are available, and a paucity in the utilisation of products.

The report also identifies a gap in the delivery of export finance products offered by UKEF. There is a requirement to provide export finance products for SMEs which cannot meet the turnover/contract value thresholds required by UKEF. It is clear that while there have been recent improvements to the process, UKEF's export finance products are difficult to access for Welsh SMEs. Indeed even with larger SMEs, access to UKEF provision is partly dependent on the banks having the risk appetite and expertise to identify the SME applications for export finance products that will require referral to UKEF.

However, the *Survey* revealed an interest by the exporter respondent group in specific export finance products. While the current EU transition climate might lead policymakers to justifiably focus on the exports of larger Welsh firms, there is still a need to encourage SME exporting to improve long run Welsh economic prospects. Here the review shows that while there appears to be ample provision in terms of more general export support services, this is perhaps not replicated in the case of export finance products.

6.2. Dedicated finance products for first time SME exporters

The conclusions above are particularly acute in respect of SMEs that are first time exporters. Indeed the more general provision of export support services to first time exporters might be hindered simply because of problems for interventions to identify potential future exporters. More specifically in respect of export finance products, first time SME exporters often do not have the experience to obtain funding from UKEF, may have more general problems in accessing credit insurance, and will face difficulties in making cases to their banks for trade-related finance. Here there could be value in interventions to support new SME exporters through the UKEF process, but more importantly, in light of the above export finance products specifically aimed at new smaller exporters.

6.3. Role of the Development Bank of Wales

The conclusions in 6.1 and 6.2 above show that the Development Bank of Wales is well placed to meet the evolving demands for export finance through the development of specific finance products for smaller firms. The Development Bank of Wales is also well placed to work with existing stakeholders such as UKEF to improve the level of provision, and indeed the awareness of the provision of export finance.

6.4. Increasing awareness of export finance products and related export support services

Lack of awareness is one of the important barriers to SMEs seeking export finance, and this problem is expected to be more acute the smaller the firm involved.

While the *Export Finance Survey* revealed demands for export finance products among Welsh SMEs, it is important to recognise that the provision of such products was not necessarily perceived as the most significant barrier to overseas sales growth. In future interventions to support SME exporters, it is recommended that any moves to develop export finance products for Welsh SMEs working in tandem with existing export support services is accompanied by structured awareness raising among SMEs. As highlighted earlier, the paucity of SME knowledge about the availability of services and products was a key *Survey* finding.

Exporting has been linked with productivity gains. This and the other benefits of exporting should be promoted amongst Welsh SMEs. These benefits, and the sharing of best practice and experience, could be facilitated through the establishment of exporter committees, which are groups of firms with common international objectives (including those currently considering exporting or with exporting potential). There may be greater value in using SMEs themselves to raise awareness about the advantages associated with export finance products, as networking and knowledge sharing between exporters has been shown to increase exporter performance.

6.5. SMEs linked to larger international firms

SMEs may gain exporting opportunities through their business linkages with larger firms. For example, where small Welsh construction engineering firms successfully collaborate with multinational engineering firms, this can lead directly to opportunities overseas. Becoming a successful part of the value chain to large Welsh (or other firms) can be a means of gaining recognition, and potentially gaining new contracts. Moreover, working with larger firms may overcome some of the uncertainty of selling overseas.

The *Export Finance Survey* revealed a willingness from Tier 1 suppliers to engage in exporting directly. This seems to be a group that would particularly benefit from export finance products, and would potentially have the scale to more easily enter new overseas markets. In this respect new services being offered by UKEF in terms of supporting UK-UK transactions (via Tier 1 suppliers to major firms) that support overseas sales are very welcome, and raising awareness of this service is a priority.

6.6. Micro-Small-Medium firms

Analysing SMEs as a homogenous group is particularly unhelpful when considering export finance products and more general export support services. Much of the reviewed research fails to differentiate between the export, and export finance problems of micro versus small versus medium sized firms. There is some expectation that these needs will vary by firm size (and other characteristics), with the micro firms requiring different types of help as compared to more established small and medium sized firms. This is a persistent problem in SME research as a 'small' firm employing 40-50 people can already be a multinational enterprise. The provision of export finance products to address market failure might need to differentiate the needs of micro- from other sizes of firms. Any interventions therefore need to be carefully targeted to be most effective.

6.7. Data gaps

Whilst there currently exists a range of data sources and surveys, reconciling incomplete information, which use different classification systems, is challenging and imprecise. Further research is needed to more fully understand the exporting activities of Welsh SMEs and hence the specific target markets for interventions. The main data gaps are summarised below.

Exports of services. The most recent data for Wales relates to 2016, and this is experimental. Whilst services exports are less significant in value than exports of goods, a more timely and detailed account of these exports will help to establish target markets for financial products to assist in exporting, as many Welsh SMEs are involved in services sector activities.

Overseas exports from Wales by firm size. This is not straightforward, and would require a matching of HMRC trade data recorded by product to company data and the number of employees. However, information on the value of exports from large firms and SMEs would be highly policy relevant, even if only at a broad industry level at this time of EU transition.

Firm/ownership characteristics and exporting behaviour. The *Export Finance Survey* showed that many SMEs considered that exporting was not relevant to their firm/sector, and/or that they have a focus on domestic markets. Research could investigate the demographics of SME ownership and exporting activity. This would further the understanding of the connections between SME exporting behaviours and these characteristics.

The scale and firm characteristics of Welsh Tier 1 suppliers to UK exporters. This is a major data gap which has wide ranging policy relevance. The *Export Finance Survey* showed that these firms have a willingness to directly export, and could therefore be targeted for financial and other export support. Better information on this group also tallies with the general need for better quality information on UK inter-regional trade.

SME exporting via digital platforms. The level of SME exporting might be under-reported with SMEs perhaps exporting through digital platforms, but not realising their products and services are going overseas. It is recommended that further work should investigate the extent to which this could be examined with ONS partners, and firms such as Amazon, to identify the likely scale of this type of activity, and any particular exporting constraints.

Appendix B: Value of Goods Exports from Wales by SITC Section, 2013-2018Q3, £m

| SITC Group | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 (Q1-Q3) * | % Growth 2013-2017 |
|------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|--------------------|
| 0 Food and Live Animals | 368 | 375 | 364 | 402 | 497 | 380 | 35 |
| 1 Beverages and Tobacco | 29 | 33 | 39 | 32 | 29 | 19 | 0 |
| 2 Crude Materials | 258 | 221 | 212 | 183 | 219 | 194 | -15 |
| 3 Mineral Fuels | 5,056 | 2,722 | 1,548 | 1,330 | 1,613 | 1,692 | -68 |
| 4 Animal and Vegetable Oils | 2 | 1 | 2 | 2 | 2 | 3 | 0 |
| 5 Chemicals | 1,576 | 1,604 | 1,480 | 1,697 | 1,936 | 1,438 | 23 |
| 6 Manufactured Goods | 2,321 | 2,232 | 1,890 | 1,772 | 2,041 | 1,633 | -12 |
| 7 Machinery and Transport | 6,011 | 5,862 | 6,612 | 7,924 | 8,744 | 6,417 | 45 |
| 8 Miscellaneous Manufactures | 939 | 1,034 | 1,005 | 1,201 | 1,313 | 977 | 40 |
| 9 Other commodities nes | 50 | 52 | 102 | 87 | 84 | 69 | 68 |
| Total Exports | 16,610 | 14,136 | 13,254 | 14,630 | 16,479 | 12,820 | -1 |

*Provisional data subject to update
Source: HMRC

Appendix C: Value of service exports from Wales by functional category, 2011 to 2016, £m

| Functional category | Value of service exports | | | | | |
|--|--------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Primary and utilities (agriculture, mining, utilities) | 8 | .. | 19 | 19 | 18 | 28 |
| Manufacturing | 684 | 958 | 909 | 1,151 | 1,037 | 1,171 |
| Transport | 572 | 469 | 588 | 377 | 429 | 577 |
| Travel | 411 | 447 | 448 | 483 | 561 | 709 |
| Construction | 30 | 16 | 12 | 28 | 10 | 13 |
| Wholesale and motor trades | 62 | 67 | 91 | 47 | 29 | 27 |
| Retail (excluding motor trades) | 25 | 27 | 28 | 30 | 22 | 19 |
| Information and communication | 193 | 202 | 158 | 318 | 268 | 271 |
| Real estate, professional, scientific and technical | 150 | 158 | 260 | 205 | 209 | 257 |
| Insurance and pension services | 838 | 1,113 | 1,194 | 1,162 | 937 | 1,445 |
| Financial | 859 | 958 | 930 | 829 | 946 | 1,012 |
| Administrative and support services | 30 | 30 | 62 | 35 | 54 | 62 |
| Public admin, health and education; arts, entertainment and recreation; other services | 1 | .. | 2 | 6 | 6 | 11 |
| Total in all categories | 3,862 | 4,475 | 4,700 | 4,689 | 4,527 | 5,604 |

Source: ONS