Scottish Chambers of Commerce (SCC) welcomes the opportunity to contribute to the Economy, Energy and Tourism Committee’s consideration of the Scottish Government’s Draft Budget 2015-16, focusing on the “increase exports” national indicator in the National Performance Framework:

SCC takes the position that all forms of intervention by Scottish Government should be based upon the existence of identifiable and measurable market failure.

Based on data provided by The Global Connections Survey and The Office for National Statistics, SCC has calculated that between 2006 and 2011, the value of Scottish exports rose more slowly than inflation, demonstrating that the value of Scottish exports declined in real terms over this period. Although there was a marked increase in the value of Scottish exports in 2012 (from £23.9bn - £26bn), this figure is still only 5% higher in real terms than the value of Scottish exports in 2006.

The results of the SCC Quarterly Business Survey (QBS) for Q2 2014 found that 75% of businesses surveyed within the Financial & Business Services sector currently do not export. Additionally, the Scotland’s Global Connections Survey 2012 reveals that Scotland’s manufacturing exports outweigh our service exports by a ratio of around 2:1 and that manufactured exports were growing at a faster rate than service exports. This evidence may indicate a need for Government led support to be allocated in the 2015-2016 budget to focus on the service sector.

It is clear then that businesses in Scotland are under-performing in terms of exporting, but whether or not this can be classified as market failure is another matter. Through its direct connection with businesses, SCC is in a unique position to identify the demands and needs of businesses aiming to export, and what, if any, are the market failures inhibiting their exporting activity.

Through engagement with the membership of the chamber network SCC has identified several sources of market failure that act as a disincentive to businesses seeking to export. An inability to access finance, a lack of overseas market knowledge and contacts, and aversion to risk have been identified as the major challenges facing businesses aiming to export. Through holding a series of engagement events with mentors and mentees of Business Mentoring Scotland (BMS), SCC has gathered evidence that also highlights that a deep attitudinal change is required in order to substantially increase the number of businesses willing and able to export. Mentors’ and business alike reported that an aversion to risk and the cultural stigma of failure discourages many businesses from taking the steps required to export their goods/services.

SCC is of the view that Scottish Government spend can increase the exporting activity of businesses in Scotland through a number of channels, including continued and increased investment in BMS – a project currently funded by both Scottish Enterprise and the European Regional Directive Fund (ERDF). SCC welcome the planned £63.9m increase between 2014-2015 and 2015-2016 in the allocated
budget of enterprise agencies and look forward to continued engagement with the enterprise agencies in delivering growth tools such as BMS.

BMS matches growing businesses with a business mentor drawn from its pool of 1000+ talented and experienced business leaders, and delivers improvements to business performance through a combination of increasing innovation, efficiency, sales revenue, and export revenue, among other measurable impacts. SCC can provide many examples of businesses having been mentored going on to grow and expand into international markets, with business leaders acknowledging the impact of mentoring in affecting this change. For example, TRAC Oil and Gas, an Aberdeen based engineering support services firm and mentored through BMS won the MentorsMe Excellence in Export Award in 2013. Duncan Alexander of EMM Corp - another Aberdeen based rigging and lifting management services company also attributes his business’ improvements in performance and export activity to his experience of being mentored:

“Turnover increased from £22.3m to £25m and is now up to £28.7m. The doors that were previously closed are now open and we have won significant new business. John’s mentoring definitely helped to create the spike in our business performance. The information on marketing to networks/contacts and how to overcome barriers was important. We were able to reach the right people with key information which is an approach that works well, especially in many overseas markets.”

SCC believe that BMS can positively influence the previously outlined required attitudinal change, evidenced by feedback from mentored businesses that demonstrates mentoring leads to an increase in entrepreneurial related skills and knowledge of mentees.

SCC welcomes the Scottish Government’s commitment to helping exporting and growth businesses through the 2015-2016 draft budget. It notes however that in order to apply for funding through the Scottish Investment Bank’s Co-Investment Fund, businesses must come from an “approved sector” - with no details provided of what sectors are defined as “approved”. Although SCC recognises the need to prioritise sectors where Scotland has a comparative advantage and that contribute higher added value to the Scottish economy, it would be useful to make it clearer which sectors are classed as priority sectors, for both businesses looking for funding and also stakeholders assessing the prudence of Government decisions. SCC also notes that businesses must secure funding from an associated partner before receiving public sector funds. SCC would question this use of the budget as addressing market failure if businesses must first obtain finance through the private sector and meet the associated lending criteria anyway, before receiving additional public sector money. Are procedures in place that ensure businesses that otherwise would be unable to secure funding are prioritised, and/or that Co-Investment Fund partners are actually lending to businesses that would normally have been excluded from obtaining finance through standard private sector practices? If the answer to these questions is no, then SCC challenge whether market failure is being addressed by this intervention and the appropriateness of using public sector funds in this way. SCC would argue this practice does not encourage lending to businesses as risk is still borne by the Co-Investment Fund partner, and may in fact increase market inefficiency through crowding out private sector investment by
encouraging the fund partner to lend lower amounts to less favourable investment opportunities in the knowledge it can be matched by the fund.

SCC appreciate that Scottish Development International (SDI) has been active in attempting to encourage international businesses to do business in Scotland, and in facilitating outward trade events involving Scottish businesses. However, originating from within its chamber network, SCC has been advised of several identified weaknesses of the current approach. Among the criticisms include that outward trade visits while well organised and informative, have not led to an increase in exporting trade for many participants – surely the fundamental objective of this form of funding. Businesses have at times been sent to trade events that are inappropriate for stimulating new trade and/or ill-suited to their needs, resulting in no discernable increase in exporting activity. Chamber of Commerce led missions, both inward and outward, focus heavily on delivering business-to-business contacts that meet the needs of businesses from both nations.

SCC would encourage further collaboration between Government and the private sector to carry out trade missions, in particular in conjunction with the chamber network in Scotland, the staff and members of which have access to an unrivalled bank of international contacts and country and market specific knowledge. SCC believe that funding within the 2015-2016 budget that enables chambers of commerce – already highly experienced in organising, implementing and evaluating international (both inward and outward) trade missions – to further aid businesses in Scotland to export, would significantly contribute to the Scottish Government’s target to increase the total value of Scottish exports to £35.85bn by 2017 (an increase of 50% from the baseline of £23.9bn in 2011).

Scottish Chambers of Commerce
July 2014