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THE ROLE OF EXPORT CREDIT AGENCIES IN THE STATE’S TRADE POLICY FINANCIAL INSTRUMENTS SYSTEM

Abstract. In the current context export crediting, insurance and guarantee of export credits as state stimulation financial methods of export production have become an organic part of the states’ foreign trade policy realization mechanism. Providing state guarantees for an export credit is in many cases a primary condition for obtaining it. Therefore, the importance of state insurance in foreign trade is constantly growing, which, in turn, increases the reliability and efficiency of export operations. Export credit agencies are a highly effective institutional mechanism of state promoting policy.

The main advantages and disadvantages of export credit agencies are analyzed. Models of export financing are offered and the cost with the involvement of the export credit agency is indicated. Taking into account foreign experience, the main factors hindering the process of forming an effective system of state financial support for exports are identified and the feasibility of creating a specialized institution to support export activities in Ukraine is justified. After all, with the development of market relations and integration into the European economic space, characterized by the intensity of foreign trade, which is manifested in increasing the number and volume of export and import operations, there is a need to identify and study new economic mechanisms of financial support.

Keywords: export credit agencies, banking credit, export credit, state trade policy, export stimulation, promoting policy.

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РОЛЬ ЕКСПОРТНИХ КРЕДИТНИХ АГЕНТСТВ В СИСТЕМЕ ФІНАНСОВИХ ІНСТРУМЕНТІВ ТОРГОВОЇ ПОЛІТИКИ ДЕРЖАВИ

Аннотация. В нинішніх умовах експортне кредитування, страхування та гарантія експортних кредитів як фінансові методи державного стимулювання експорту продукції стали органічною частиною механізму реалізації зовнішньоторговельної політики держави. Надання державних гарантій по експортним кредитам у багатьох випадках є основною умовою його отримання. Тому значення державного страхування у зовнішній торгівлі постійно зростає, що, в свою чергу, підвищує надійність і ефективність експортних операцій. Експортно-кредитні агентства є високоефективним інституціональним механізмом державної політики сприяння.

Як висновок нашої роботи, проаналізовано основні переваги експортних кредитних агентств.
Formulation of the problem. The dynamic economic development of any country is possible only with its active economic activity in foreign markets. One of the important factors of economic development is efficient exports, the strategic role of which is that it, based on the realization of competitive advantages, expands the boundaries of trade, provides additional income, and increase national income. For companies that are morally and technically ready to export, the last hurdle is the lack of money. International financial institutions do not always want to invest in companies for fear of regulatory risks, local banks, in turn, suffer from a lack of funds or offer financing on extremely unfavorable terms - short-term lending and high-interest rates. In this regard, we consider the key solution to this problem to finance exports through export credit agencies. The relevance of the study is due to the need to increase the competitiveness of domestic goods for further integration into the world economy.

The analysis of researches and publications. Despite some novelty in the activities of export credit agencies, in recent decades there have been a number of works on the functioning of this type of economic entity. The vast majority of this applies to Western classics of economic thought, in particular, K. Wright [2], R. Short [1], but it is also impossible to miss the contribution of Ukrainian classics, in particular - V. Lomiychuk [7], J. Belinska [4], V. Sidyachenko [9]. However, despite the significant degree of research of the problem, we consider the definition of the features and role of the export credit agency as a specialized institution of financial support for exports as well as the analysis of the benefits of activities based on foreign experience to be insufficiently covered.

The purpose of the work. The purpose of the article is to clarify the essence and main functions of export credit agencies as a financial mechanism for export promotion, as well as to determine on the basis of foreign experience the basic principles of integration of export credit agencies into the state export promotion system in Ukraine.

Presentation of the main research material. State lending to exporters is a mechanism for regulating foreign trade, which provides financial incentives for the development of exports of domestic producers. Such a mechanism of state encouragement of export production and export under modern conditions has become an organic part of the mechanism of state foreign trade policy implementation. An important place in lending to exporters belongs to direct government lending to international trade transactions, as well as various means of supporting private lending.

Given the trends in world trade, methods of stimulating exports do not remain unchanged and are constantly improving, focusing on market self-regulation. The peculiarity of the formation of the modern export promotion policy is that it involves the simultaneous use of measures aimed at encouraging the development of exports at all stages.

Within export financing, the most common practice is to provide export credits, often through government or semi-government organizations, as well as through guarantees and sureties from governments. Export credits are often seen as a hidden export subsidy aimed at financially stimulating the exports of domestic producers.

The essence of export lending is to provide temporary use of the exporter to the funds with the condition of their return within a clearly defined period at a certain percentage, provided by the terms of lending and incentives. Interest rates on export credits are generally lower than market rates, as the export credit system is subsidized by the state. Export credit can often take the form of dumping, which can lead to anti-dumping processes.

Among the main forms of state participation in export crediting are:
- granting direct export credits;
- refinancing of export credits provided by commercial banks;
- use of aid funds to improve the conditions of crediting export agreements;
- payment of budget subsidies in order to maintain preferential interest rates on export credits;
- insurance of export credits by providing state guarantees for them.
The effectiveness of the use of export crediting as a financial method of regulating foreign trade directly depends on the functioning of the system of bank lending for export activities. Moreover, all structural elements should function in ensuring the maximum efficiency of proper credit support of exporters in the bank lending system: the institution entrusted with the functions of organizing export crediting, commercial banks, private and state insurance companies.

With the active use of financial methods and mechanisms to regulate foreign trade and financial support from the government, the development of export crediting in many countries is stimulated by other methods of encouragement, such as lowering or freezing interest rates on export credits below domestic rates. In addition, the loan term is extended, penalty rates for late payment are reduced, the share of financing at the expense of a soft loan is increased, and the procedure for obtaining it is facilitated and simplified.

The main credit and financial instruments for export promotion include credits to exporters, insurance, and export credit guarantees. The state can credit exports through the creation of budget funds, the funds of which through specialized government or semi-government agencies - the so-called Export Credit Agencies (ECA) are transferred to domestic exporters.

Export credit agencies are individual insurance agencies, banks, or departments of ministries that implement state policy to support exports by insuring export political and commercial risks and providing guarantees to ensure competitive conditions for the promotion of products/services of their companies in international markets and stimulate and provide guarantees investment abroad [10]. Today, ESAs operate in more than 100 countries. The most famous ECAs in the world are the French agency COFACE and the German insurance company Euler Hermes, as well as the Export-Import Bank in the USA and Control Bank in Austria. Financing provided by an export credit agency can be both short-term and long-term (in some countries the loan period can be up to 15 years), and usually covers from 85% to 100% of the transaction value. The cost of ECA funding is calculated using six key elements and averages 8-10% per annum.

![Diagram](image)

**Fig.1. Cost of crediting with participation of ECA.**

*Source: [4]*

Systematization of world scientific and practical achievements in the field of ESA research has allowed us to identify the following institutional forms:

1) ECA as a government agency within the government department;
Among OECD countries, only the United Kingdom and Switzerland use this ECA model. In some developing countries, export credit services are provided through a central bank or ministries of trade or industry, a corporation, or a state-owned agency.

2) ECA as a private institution acting as a government agent;

In some countries, the government enters into an agreement with a private company, such as COFACE in France, Euler Hermes in Germany, ATRADIUS in the Netherlands. The selected company conducts an initial risk analysis and proposes to the government certain export support strategies. When a private company is an agent of the government, all risks are borne by the state.

3) ECA as a purely private company.

As a rule, their resource base is formed at the expense of own means, attracted means, and means of the state budgets. The main products of ECA, distributed in the world financial markets are: the provision of export credit for the purchase of goods will serve as foreign partners, financing of investment projects abroad, export guarantee insurance and export credits, insurance of private investments abroad.

**EXPORT CREDIT AGENCIES**

<table>
<thead>
<tr>
<th>Private</th>
<th>State</th>
<th>Mixed</th>
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| Euler Hermes, Germany| Export-import bank (Eximbank), USA
Japanese insurance company Export and Investment (NEXI) Export Credits Guarantee Department (ECGD), United Kingdom Chinese export insurance Sinosure Agency| Seguradora Brasileira de Crédito à Exportação S.A. (SBCE), Brazil Compañía Española de Seguros de Crédito a la Exportación (CESCE), Spain Swedish Export Credit Corporation (SEK), Sweden Export Credit Guarantee Company of Egypt (ECGE), Egypt |

**Fig.2. Type and examples of the export credit agencies.**
*Source:*[5]

There are two main models of export financing with the involvement of an export credit agency:

1. Direct lending.

In this case, the supplier or the buyer applies to ECA, which operates in his country, with a request to provide financing for the purchase of equipment. After that, the buyer of the equipment enters into a loan agreement with a credit export agency, which pays money to the supplier of goods in accordance with the terms of the agreement. Then the buyer returns the money to ECA in accordance with the terms of the loan agreement.

2. Provision of financial guarantees.

In such a situation, ECAs provide financial guarantees to local credit and financial institutions (banks, credit unions) that can finance the acquisition of fixed or production assets by the exporter. In this case, ECA's financial guarantees cover from 75% to 95% of the total amount of the concluded export contract.

Their usage reduces the risks for the bank providing the financing, and also helps the recipient of financing to enter into an agreement with the bank on more favorable terms. The buyer returns the money
directly to the bank that provided the financing. Thus, unlike the first model, ECA is not a direct creditor, but a guarantor of the agreement.

The role played by ECAs in the development of international trade around the world is constantly growing, as evidenced by the active growth of profits and scale of leading ECAs. Thus, Euler Hermes (EH) covers risk management processes on five continents. ECA has branches and representatives in 54 countries. Today, credit risk insurance agreements cover the supply of goods and services to 245 countries. The company has more than 6,000 employees, serving about 52,000 customers. The company’s net profit is constantly growing and currently reaches about 500 million euros per year, and equity - 2.5 billion euros. The successful experience of foreign ECAs clearly shows that they are not an "expensive" tool to promote exports, which requires constant financial injections. On the contrary, they can be quite self-sustaining and even profitable.

Fig.3. The way export credit agencies work.
Source: [1]

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A common feature of all ECAs is that they are guided by international rules and principles, the main of which are enshrined in the so-called Consensus (recommendations on the granting / insurance of export credits officially supported by the state) of member countries of the Organization for Economic Cooperation and Development (OECD), also treaties of understanding of the Berne Union. It should be noted that the
Berne Union was established in 1934 to provide professional support for international trade, and one of its priorities was to develop and apply agreed terms of lending and insurance for international trade. Thus, the relevant international rules of state support for export credit and insurance based on budgetary funds are officially recognized (WTO). ECA is a perfectly legal form of export support, which, unlike direct export subsidies, will not meet resistance from the international community and will damage the country's image in the international arena.

Attracting financing for exports through ECA is beneficial for both large corporations and companies in the small and medium business sector. Among the main advantages of such financing are:
1) Low-interest rates. As a rule, ECA loan rates are much lower than the rates of commercial banks.
2) Export credit agencies help importers circumvent the restrictions in national private credit and financing markets.
3) Exporters, in turn, receive money for the goods without delay, which has a positive effect on their working capital.
4) ECAs finance any type of export, even one that is difficult to obtain funding from private financial institutions.
5) Reputational risks are reduced.

Attracting financing through ECA will simplify export-import trade relations for both sellers and buyers.

Unfortunately, Ukraine lags behind many countries in terms of state support for exports. The system of export credit insurance with state support is not used actively enough. Such underdevelopment of the state support system for Ukrainian exports will have a negative impact on the level of protection of domestic exporters and may lead to a decrease in their financial stability and solvency.

The main factors hindering the process of forming an effective system of state financial support in Ukraine are the following: imperfect legal and regulatory framework; the need for a profit account; the complexity of the loan transaction; the need to pay insurance premiums at the expense of profits; the complexity of the loan transaction; the need for additional warranty instruments, which are also issued in English on the basis of foreign legislation; duration of the procedure[9].

Overcoming these obstacles should be carried out on the basis of objective changes in the geo-economic and geopolitical situation with the intensification of European integration processes, as well as in accordance with international legal norms and trade rules.

The creation of ECA should be a priority for the government today. The emergence of an export credit agency will be the strongest stimulus for the development of Ukraine's export activities, and, consequently, the growth of our economy, and also plays a significant role in increasing the confidence of foreign businesses and investors in Ukrainian companies.

The priority measure of state support of the country's export potential should be the adoption of the relevant and more important active and valid Law of Ukraine "On State Financial Support of Export Activities" and the creation of export credit agencies.

The next place should be occupied by financial and institutional support, in particular:
1) Development of a mechanism for involving branches, branches and subsidiaries of Ukrainian banks abroad in the system of state guarantees, which will allow more active use of external financial resources for Ukrainian exporting companies.
2) Return of interest rate or its share to Ukrainian exporters of industrial and agricultural products.
3) Improvement of the institutional base.
4) Increasing the size of state guarantees while reducing the state's share in project financing, active involvement of external investors for financing under state guarantees.

**Conclusions from the research.** Export credit agencies (ECAs) were originally government agencies charged with supporting the development of exports through the provision of export financing, as well as various types of risk insurance or guarantees, intended to mitigate risk and thereby encourage the pursuit of opportunities in international commerce. ECAs are acknowledged to be important contributors, often highly expert, to the enabling of international trade. ECAs are a key resource to gather information on countries, industries, markets of opportunities as well as challenges around the world. The role of ECAs, and the respective services offered, help companies grow their sales volume on the international market while
making sure to manage the risks it takes when entering the international market. Furthermore, ECAs provide opportunities to collaborate with market players and to facilitate growth in exports.

In view of the above, we consider it necessary to urgently revise the law on the establishment of ECA in Ukraine. Revision and amendment of the basic law will increase the annual volume of Ukrainian exports of goods (works, services). According to expert estimates, on average, ECA's activities can provide an additional 12% increase in the country's exports, and one additional dollar of the ECA budget - about $302 of additional exports. Ensuring the stable operation of export producers will help attract additional investment in the real sector of the economy. The introduction of the law will create conditions for the intensification of export activities of domestic enterprises, which will lead to GDP growth, the number of jobs (for example, the results of the German ECA "Euler Hermes" created 240 thousand working places) and income, as well as budget revenues basic taxes and fees.

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