

Export Finance: Chances and options for a new start

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Summary

- With the February 2021 reform, the export promotion system of Belarus has been cautiously opened
- This is a first reform measure after some years. However, the strong and partly monopolistic position of Development Bank of Belarus still persists to a large extent
- Areas of state supported operations for commercial banks have widened but not sufficiently enough (e.g. low limit of max. 3 m USD, no financing of export leasing, no bank-to-bank loans)
- Limitation of industries' access to state supported export finance continue to exist, requiring bureaucratic procedure for exports of “not-listed” goods
- Reforms enter into force on 4 May 2021 but in parts only for period 2021-2022
- More courageous reforms need to follow in order to strengthen Belarus' export competitiveness on world markets

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1. Introduction

Background

- Belarus has not yet sufficiently diversified structure of exports of goods and services
- A highly developed export finance system is crucial for strong export growth
- Without such a system competitiveness on global export markets is unachievable
- Medium and long term export finance has been de facto monopolized at Development Bank of Belarus (DBRB) until 2021
- This has prevented competition among banks and export opportunities remained unused

2. The situation before the February 2021 reform (1)

I. Legal framework

- Presidential Decree No. 534 of 25.08.2006: Objective: Establishing a comprehensive system of export promotion in Belarus
- Presidential Decree No. 78 of 23.02.2016: Making DBRB the sole channel for medium and long term (MLT) export loans with subsidised interest rate (CIRR-rate) in foreign currencies to non-residents
- Government Regulation No. 279 of 06.04.2016: Approval of a list of branches of the industry, which are eligible for export loans

2. The situation before the February 2021 reform (2)

II. The structure of Export Finance in Belarus

- Short term export finance: Mainly supplier credits, but also open for financing of DBRB and banks
- MLT export finance with state support: Open exclusively for DBRB
- MLT export leasing with state support: open exclusively for DBRB (Promagroleasing)
- MLT export finance and export leasing without state support: Open for banks

III. Interest subsidisation exclusively for DBRB's MLT export loans and export leasing

IV. Mandatory risk insurance with Beleximgarant for MLT export loans and export leasing with state support

2. The situation before the February 2021 reform (3)

V. The specific role of Eximgarant of Belarus

- DBRB's MLT export loans must be insured against commercial and political risks by Beleximgarant
- Beleximgarant offers a wide spectrum of products
- Beleximgarant is a member of Berne Union „Prague Club“, the global Union of Credit and Investment Insurers, London
- Beleximgarant follows international best practice in underwriting commercial and political risks
- OECD-Rules („OECD-Consensus“) are voluntarily followed, e.g. in the areas of country risk rating and premia calculation

3. Weaknesses of Belarus' pre 2021 export finance system (1)

I. Monopolistic structure of provision of export finance

- De facto state monopoly for DBRB in MLT export finance („buyer credits“) leads to:
 - Risk of directed lending to non-resident customers of Belarusian SOEs instead of sound commercial lending
 - Export opportunities reduced by restriction to individual sectors of the economy (“goods in the list”). Bureaucratic administrative procedure for other goods
 - No competition between banks
 - Commercial banks lose export finance know-how
 - High likeliness of unsound cost increases

3. Weaknesses of Belarus' pre 2021 export finance system (2)

II. The perspective of commercial banks

- Arbitrary exclusion from classical role as financiers of MLT export transactions and MLT export leasing
- No access to subsidised interest rates (CIRR financing) to the disadvantage of commercial banks' customers
- MLT export finance not subsidised by the state is legally not prohibited but financially unattractive due to high costs
- Loss of experience and know-how
- No ability of building up a country-wide community of export finance specialists

3. Weaknesses of Belarus' pre 2021 export finance system (3)

III. The perspective of potential exporters

- Very restricted access to MLT export finance for the vast majority of Belarus' sectors of the economy
- Monopolistic structure of provision of export finance (buyer credits)
 - High risk of directed lending to SOEs instead of sound commercial lending (especially to SMEs)
 - Risk of more bureaucratic procedures compared to commercial banks' lending
 - Risk of non-competitive higher administrative costs

3. Weaknesses of Belarus' pre 2021 export finance system (4)

IV. The perspective of DBRB

- Export finance not a classical task for a development bank
- Risk of more bureaucratic procedures than necessary
- Difficult staff management

V. The perspective of Beleximgarant

- Dependence on one single customer in the area of MLT (buyer credit) cover
- Business opportunities remain untapped

3. Weaknesses of Belarus' pre 2021 export finance system (5)

VI. Summary of weaknesses

- No competition
- Arbitrary exclusion of many sectors of the economy from export finance (exceptions only possible with bureaucratic administrative procedure)
- No building up and transfer of export finance know-how
- Resources of commercial banks and Beleximgarant wasted
- Reduced efficiency
- Higher costs

4. Main features of the 2021 reform (1)

- **Presidential Decree No. 39 dated 04.02.2021 significantly reforms state export promotion system of Belarus:**
 - Presidential Decree No. 534 dated 25.08.2006 newly published with comprehensive modernisation. However: Limited validity for 2021-2022 only!
 - De-facto monopoly of DBRB for state supported MLT export financing partially lifted, thus opening up new opportunities for commercial banks
 - Pre-export financing opened for DBRB and commercial banks
 - Export credit insurance business for Beleximgarant widened
 - Export credit insurance business opened for new players from commercial insurance industry
 - Reform enters into force on 04.05.2021

4. Main features of the 2021 reform (2)

- New rules for **pre export (pre-shipment) export related credits** with state support to residents of Belarus by DBRB and commercial banks:
 - Pre export finance for domestic borrowers opened up for DBRB and commercial banks for max. 180 days of production plus time needed for execution of export contract; limited to max. USD 3 m per borrower
 - Eligible export goods (services, works) not limited to those „mentioned in the list“, but including „others“ as well
 - In short term (ST) transactions whole amount of order value may be financed
 - List of eligible banks must be approved by Cabinet of Ministers

4. Main features of the 2021 reform (3)

- New rules for **ST and MLT export credits to non-residents of Belarus by commercial banks** („buyer credits“):
 - Export credits to non-resident borrowers opened up for commercial banks for max. USD 3 m per borrower, e.g. for light and food industry
 - No permission for export credits to foreign banks (bank-to-bank buyer credits)
 - Eligible export goods (services, works) not limited to those „mentioned in the list“, but including „others“ as well
 - In MLT transactions max. 85 percent of order value may be financed
 - List of eligible banks must be approved by Cabinet of Ministers

4. Main features of the 2021 reform (4)

- New rules for **export credits given by DBRB:**
 - Financial credits to resident leasing companies for the purchase of Belarusian goods for future exports
 - Export credits to non-resident borrowers, including banks, with no financial limitation
 - Minimum threshold for DBRB export financing of USD 200 thsd abolished
 - Credit amount may include taxes, transportation fees, insurance premium etc.
 - Eligible export goods (services, works) not limited to those „mentioned in the list“, but including „others“ as well
 - In MLT transactions max. 85 percent of order value may be financed
 - Discounting foreign bank's letters of credit (L/C) and up to 100 % L/C post-financing for L/C issuing foreign bank/foreign buyer
 - List of eligible banks must be approved by Cabinet of Ministers

4. Main features of the 2021 reform (5)

- **Compensation of financial losses:**
 - State supported export credits (including export leasing and export factoring) will receive a partial interest compensation if ...
 - ... respective financial means allocated in the state budget,
 - ... an approval of the Ministry of Finance is obtained for compensation amounts up to USD 500 thsd,
 - ... an approval of the Cabinet of Ministers obtained for compensation amounts higher than USD 500 thsd.
 - Interest losses compensation paid out by Ministry of Finance on monthly basis

5. Assessment of Belarus' 2021 export finance reform (1)

I. General comments

- First significant package of reform measures after several years
- Reform focuses mainly on practical and operational improvements of Belarus' export finance system, but partly with validity for 2021/2022 only
- Recommendations for reform from the German Economic Team (GET) partially adopted (e.g. reduction of minimum credit amount, re-introduction of working capital lines, opening of MLT to commercial banks)
- List of industrial branches, which are eligible for export loans continues to be in force. Exceptions are possible, but the procedure for non-listed goods to get state supported export finance is very bureaucratic
- Reform is not embedded in a comprehensive national export strategy. A national export strategy should consist of three closely interlinked pillars: (1) Information, (2) Finance, (3) Insurance

5. Assessment of Belarus' 2021 export finance reform (2)

II. Areas in which improvements have been achieved

- 2021-2022: State supported pre export finance by commercial banks
- 2021-2022: State supported export financing for non-residents (excluding foreign banks) by commercial banks
- DBRB:
 - L/C post-financing
 - Discounting of L/C
 - 2021-2022: Export factoring
 - Abolishment of minimum threshold of USD 200 thsd
- Commercial export credit insurance

5. Assessment of Belarus' 2021 export finance reform (3)

III. Role of commercial banks

- Role of commercial banks in export finance has been cautiously widened
- Limitations, however, continue to exist for commercial banks:
 - Maximum amount of USD 3 m per borrower
 - No state supported financing of resident leasing companies by commercial banks
 - No bank-to-bank buyer credits
- Bureaucratic approval procedure persists for financing of goods „not mentioned in the list“

5. Assessment of Belarus' 2021 export finance reform (4)

IV. Role of DBRB

- DBRB maintains de-facto monopoly in MLT export finance (for larger transactions) and as financier of leasing companies for export leasing
- DBRB's monopolistic position makes constructive competition with commercial banks impossible
- The function of a Development Bank as financier of commercial export transactions is questionable
- Another role(s) for DBRB could be considered:
 - Refinancier of commercial banks' export loans
 - Syndication of export loans with commercial banks
 - Regulatory body for state export credit interest support

6. Comparison with other countries: Peer review (1)

- All neighbouring countries of Belarus have more or less **diversified export finance systems**
- In particular Russia, Ukraine and Poland as neighbouring countries and most important export destinations must be taken into view:
 - None of these countries (except Belarus) has established legal boundaries against commercial banks offering export finance products
 - All countries (except Belarus) have more than one bank involved in MLT export finance; the biggest number of export finance banks exists in Russia (>10), followed by Poland (>5)
 - Russia and Ukraine have state owned Eximbanks, Poland and Belarus have not. Ukreximbank and Roseximbank do not hold a monopolistic position

6. Comparison with other countries: Peer review (2)

- All neighbouring countries of Belarus have **comprehensive export promotion systems**, usually consisting of export information sources, export financing and export credit insurance
 - Russia has the most comprehensive system with Russian Export Center, followed by Poland (KUBE, BGK, Bank Pekao a.o.) with mature but separate institutions. The Ukrainian export promotion system is still fragmentary and in evolution
 - Neither Belarus, nor Ukraine have developed a dedicated community of export finance experts, forming an informal network bringing together experts from industry, banks, ECA and research institutions

6. Comparison with other countries: Peer review (3)

- The ECA plays the leading role for the success of an export promotion system. With a **modern and broadly diversified product offer** ECAs can trigger additional export business, make financing available, secure jobs in the industry and support GDP growth:
 - All ECAs are following international best practice rules agreed upon within OECD („Consensus“)
 - KUKE and EXIAR are mature and very experienced ECAs; EKA of Ukraine is very young, undercapitalised and not competitive; Beleximgarant is well experienced but unable to fully develop its opportunities due to persisting restrictions in export finance

6. Comparison with other countries: Peer review (4)

- **Missing or underdeveloped elements of modern export promotion or export finance systems:**
 - None of the countries seems to have a comprehensive national export strategy
 - None of the countries seems to have defined objectives and limits of national export support embedded in a national export strategy
 - Only Poland and Russia have well established and mature private domestic and export credit insurers (Euler Hermes, Coface, Atradius, Ingosstrakh and others) operative in their markets

7. Conclusions (1)

A more comprehensive approach is required

- A comprehensive and concise export strategy is missing in Belarus
- The export of Belarus is not yet sufficiently diversified. It is characterised by automotive and commodities, and dominated by Russia as main trading partner. The service sector of the economy is growing above average. For this branch of the economy and the private sector in general, state support is less accessible than for SOEs
- Belarus' export promotion system shows weaknesses and shortcomings. In situations of crises like the current COVID-19 pandemic such weaknesses become particularly disruptive

7. Conclusions (2)

The roles of all market participants should be further shaped

- The de facto state monopoly of the DBRB in MLT export finance, even in its softer form after the 2021 reform, should be seriously questioned
- The role of DBRB could be changed from a monopolistic lender to a refinancier and/or regulator for state interest subsidisation
- The commercial banks must strengthen and modernise their trade and export finance business (e.g. offer specific pre-export and export credit products for SME and digitised small ticket products)
- Private commercial credit insurance should be welcomed and developed into a relevant instrument for export promotion

7. Conclusions (3)

The way forward

- The 2021 reform can only be a first step with more courageous reforms to follow. Reform measures should have a longer time perspective than only 2021/2022
- Only with decisive political and regulatory actions significant improvements in the area of export finance can be achieved
- A specific focus should be on export growth in general and particularly in non-traditional sectors of the economy
- The list of industry branches open for state supported export finance should be abolished and state supported export finance opened for all branches and goods
- Only with a broadening and flexibilisation, with more cooperation and permeability of all institutions involved, can a community of export financing experts emerge

7. Conclusions (4)

Final remarks

- The objective of the proposals made in this briefing clearly is to improve Belarus' competitive position on global export markets. **The reforms made are a first and important step into the right direction.** Further reforms recommended here can be even more successful if overcome restrictions for private commercial companies and commercial banks are lifted entirely.
- The legislative approach to strengthen export performance in Belarus is to use Presidential Decrees (e.g. Nos. 534, 39) as instruments of legislation. It is highly recommended to change this system and use much more flexible and adaptative procedures in order to be able to quickly respond to changes in global export markets.

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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