

# Export finance conditions in Ukraine: Results from an enterprise survey

- Summary of results -

**Hans Janus, Garry Poluschkin and Robert Kirchner**

Berlin, Kyiv April 2021

# Executive Summary

---

- The export finance environment is of key importance for improving trade opportunities for companies in Ukraine.
- We assess the current state of affairs based on a survey that we conducted among Ukrainian enterprises.

## Our survey shows the following findings:

- The major obstacles for export transactions are lack of export finance, payment risks of potential buyers and lack of export experience.
- Exporters' experience with bank export finance products is still extremely limited.
- Ukrainian exporters are frequently confronted with the request for the provision of contract bonds as additional security. This demonstrates a lack of confidence on the side of foreign buyers and is an additional burden for the exporters.
- Securities from the foreign buyer for exports from Ukraine are difficult to obtain for exporters. Most exporters use retention of title, if any security at all.
- The possibility to insure exports against non-payment risks is available only to a limited extent and the majority of exporters is unfamiliar with this instrument.

## Policy implications:

- Further strengthening of the export finance know-how as well as fostering and extending export credit insurance is of importance

# Structure

---

1. Introduction
2. Methodological approach: Firm survey
3. Results of the data analysis
  1. Obstacles for export business
  2. Use of export financing instruments by banks and major obstacles
  3. Financing of export production (pre-export / pre-shipment financing)
  4. Payment terms in export finance and contract guarantees
  5. Guarantees in favour of foreign customers
  6. Securities for Ukrainian exporters
  7. Credit insurance
4. Summary and policy implications

# 1. Introduction

---

## Background:

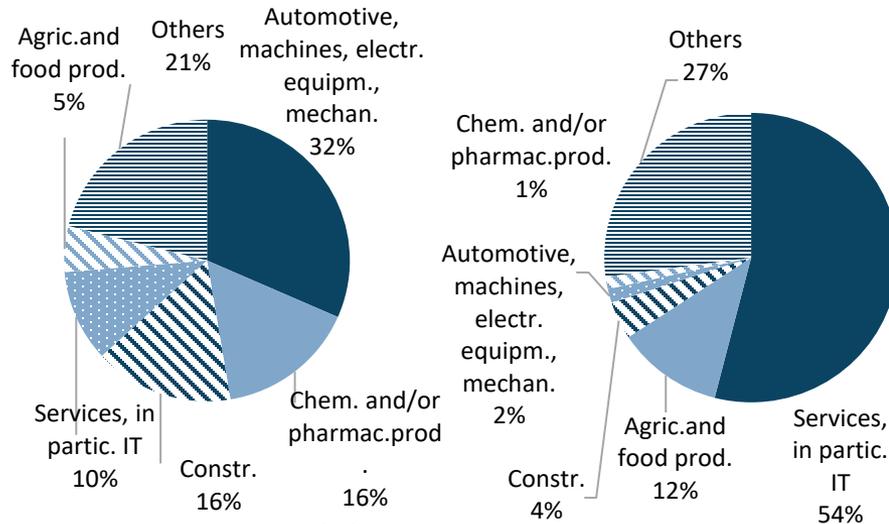
- **Export finance products** are crucial for exporters' international competitiveness
- Other major elements of a comprehensive export strategy: **provision of information needed for access to foreign markets** and **protection against commercial and political non-payment risks**
- Exporters have to provide competitive offers including credits and bank guarantees
- Funding by a bank can become expensive or unavailable
- This policy briefing summarizes the results displayed in PP/01/2021

## Purpose of this policy briefing:

- Summarizing of results of an online enterprise questionnaire on conditions and obstacles of export finance
- Results are discussed to provide implications for Ukraine's export finance policy

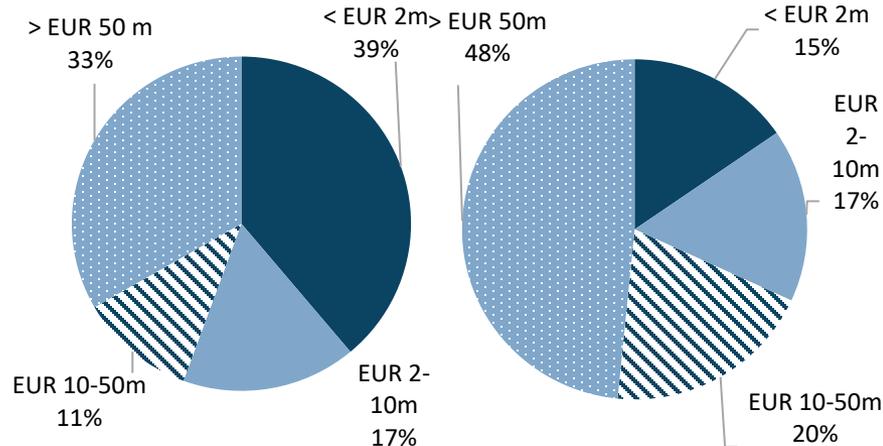
## 2. Methodological approach: Firm survey

### Sectoral comparison: sample vs. the total economy



Source: Own questionnaire and Ukrstat, 2019

### Turnover comparison: sample vs. the total economy



Own questionnaire and Ukrstat, 2019

© Berlin Economics

### Approach:

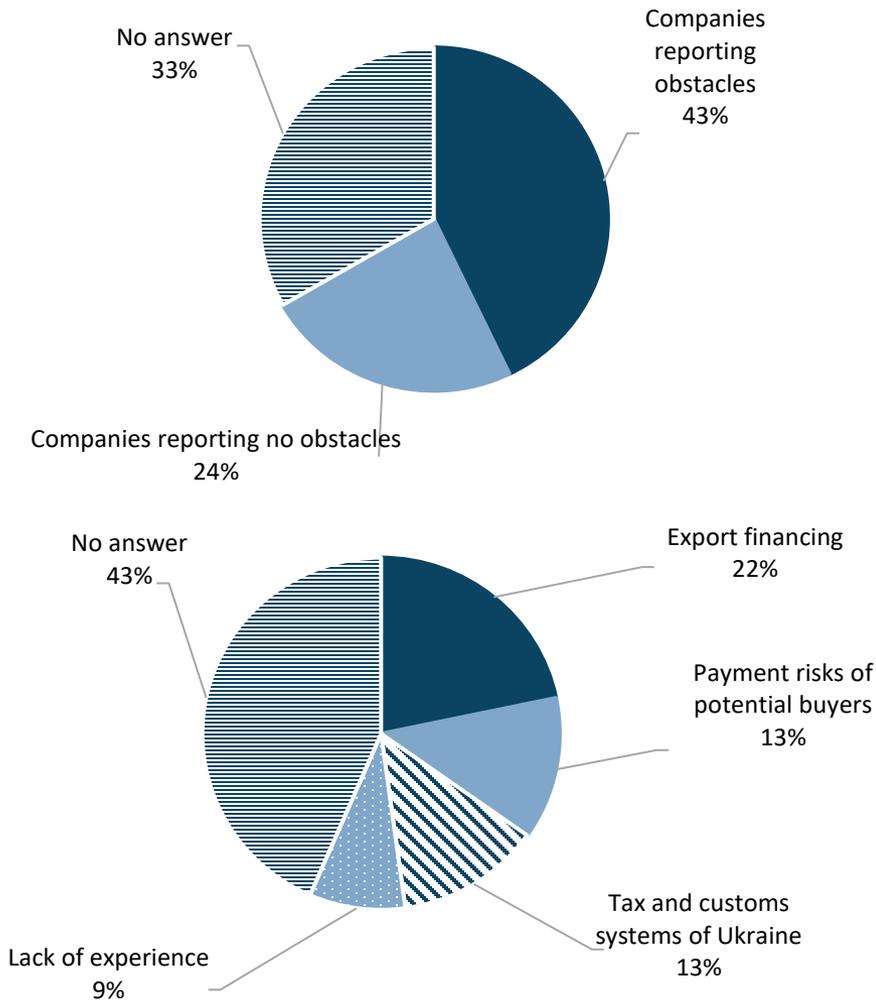
- Survey sent out by the
  - German-Ukrainian Chamber of Industry and Commerce
  - Ukrainian Chamber of Commerce and Industry
- Non-exporting companies included in the sample to discover obstacles of finance withholding them from exporting

### Characteristics of the sample:

- Overproportion of companies related to German businesses
- Over-representation of sectors including automotive, machines, electronic equipment and mechanisms; underrepresentation of service sector
- Over-representations of companies with annual turnover of less than EUR 2 m in 2019; underrepresentation of large companies

# 3.1 Obstacles for export business

## Companies facing obstacles in export transactions

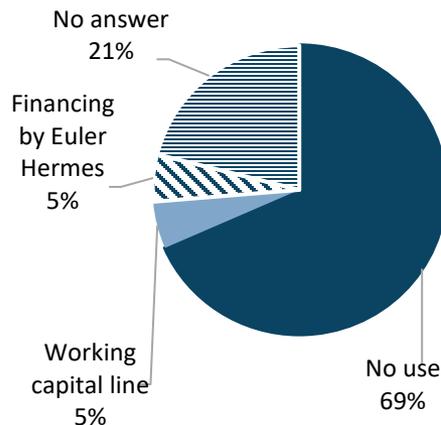
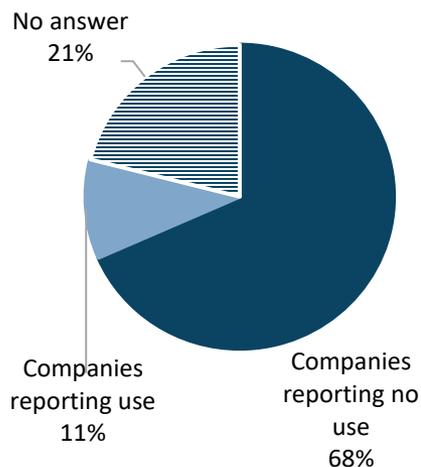


Source: Own questionnaire; note: no answers may refer to non-exporting companies

- 43% of companies report obstacles
- Major obstacles reported:
  - Payment risks of potential buyers
  - Tax and customs systems
  - Lack of experience
- Low level of information may be the real problem behind lack of experience and too high payment risks of potential buyers
- Problems with the tax and customs system can have various reasons, for example corruption etc.
- Very limited knowledge on export risk management is obvious

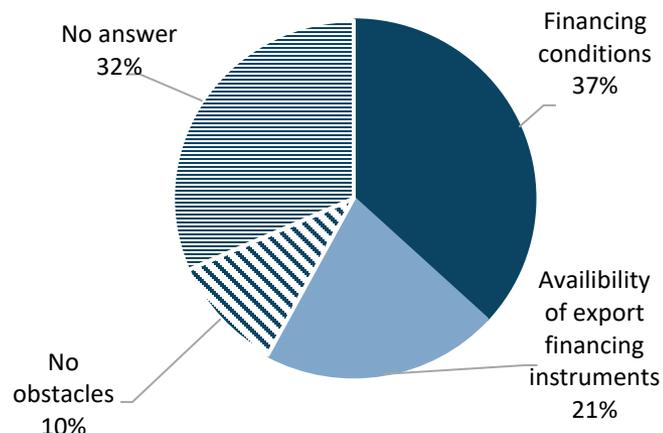
## 3.2 Use of export financing instruments by banks and major obstacles

### Bank export financing instruments



Source. Own questionnaire; note: no answers may refer to non-exporting companies

### Obstacles in the use of bank export financing instruments



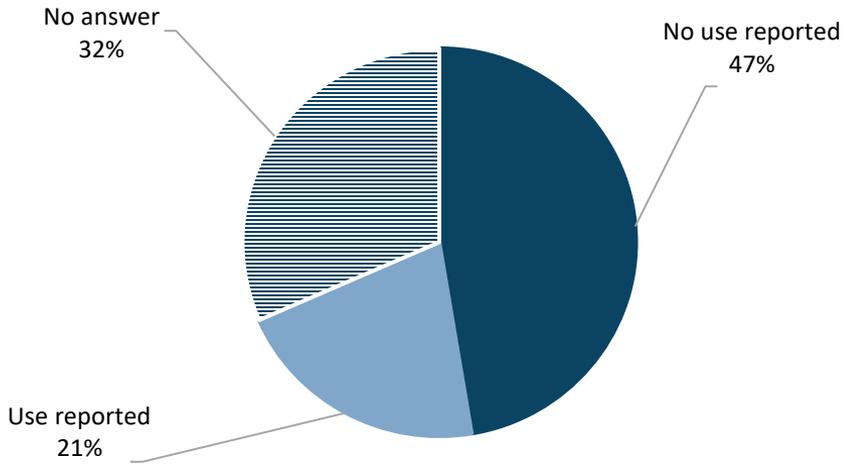
Source: Own questionnaire; note: no answers may refer to non-exporting companies

### Results:

- Role banks play seems to be low
  - Only 11% of the companies confirm to have used bank export financing instruments yet
  - All other regular instruments of post-shipment bank export finance have not been mentioned at all
- Mentioning of Euler-Hermes likely refers to bank financed imports to Ukraine with credit insurance provided by Euler Hermes
- 58% state the importance of financing conditions and the availability of export financing instruments
  - Disadvantage in achieving exporters' international competitiveness
  - Export development restricted

# 3.3 Financing of export production (pre-export / pre-shipment financing)

Financing in the pre-export phase



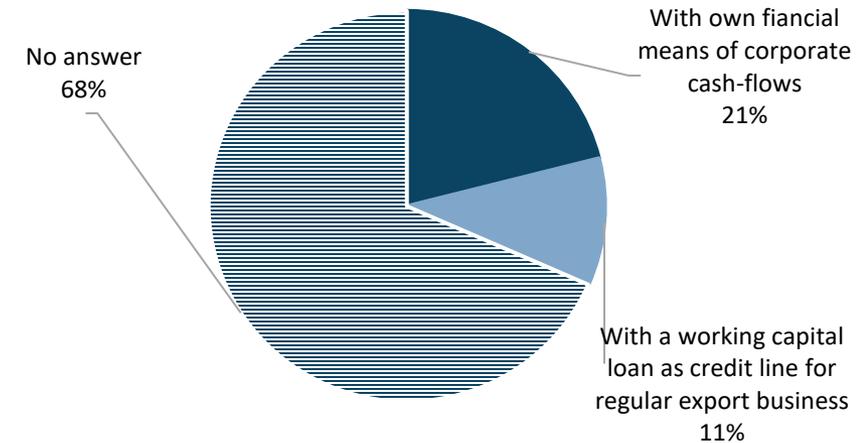
**Background:**

- External financing of export production supports enterprises to have a sufficient level of liquidity for production
- Even if corporate cash-flow is used as means of financing, in many cases this is not sufficient for the development of an export production in a larger dimension

**Results:**

- 11% report about a working capital line of a bank for the purpose of financing the regular export business
- Other respondents report to have used corporate cash-flow for financing the pre-export phase
- 47% mention that financing of export production in a pre-export or pre-shipment phase is not used at all.

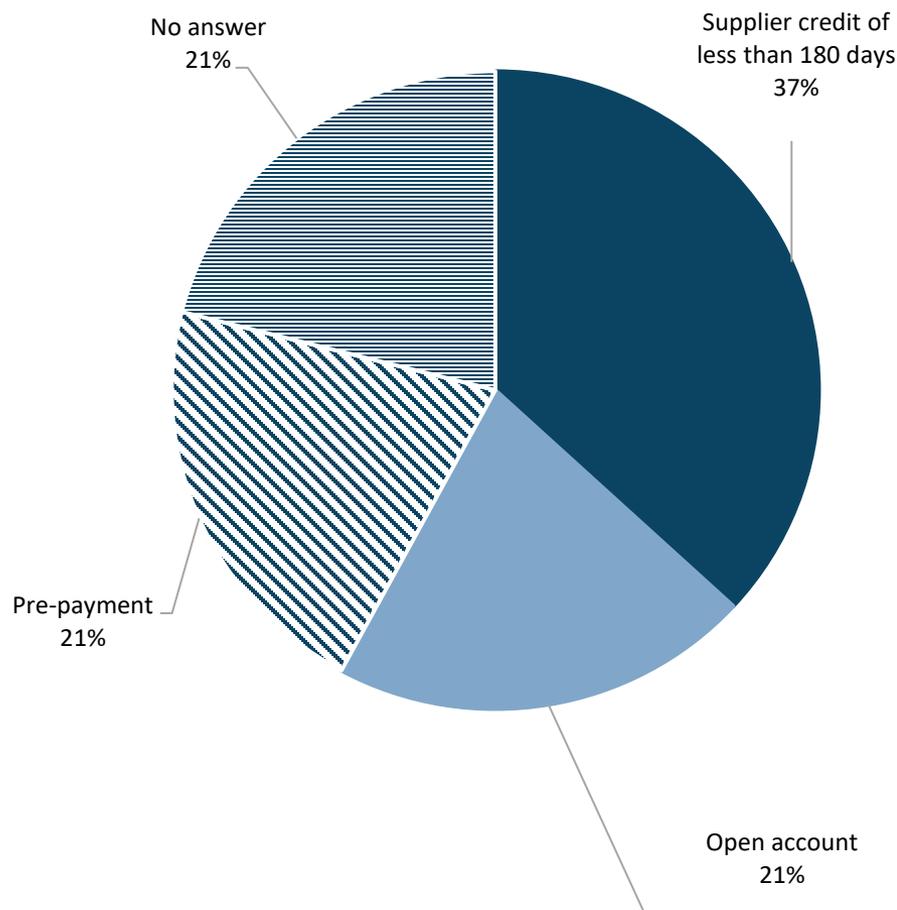
➤ Frequently export transactions cannot be realised because of a lack of finance for the production phase



Source: Own questionnaire; note: no answers may refer to non-exporting companies

## 3.4 Payment terms in export finance and contract guarantees

### Payment terms in export finance



Source: Own questionnaire; note: no answers may refer to non-exporting companies

### Background:

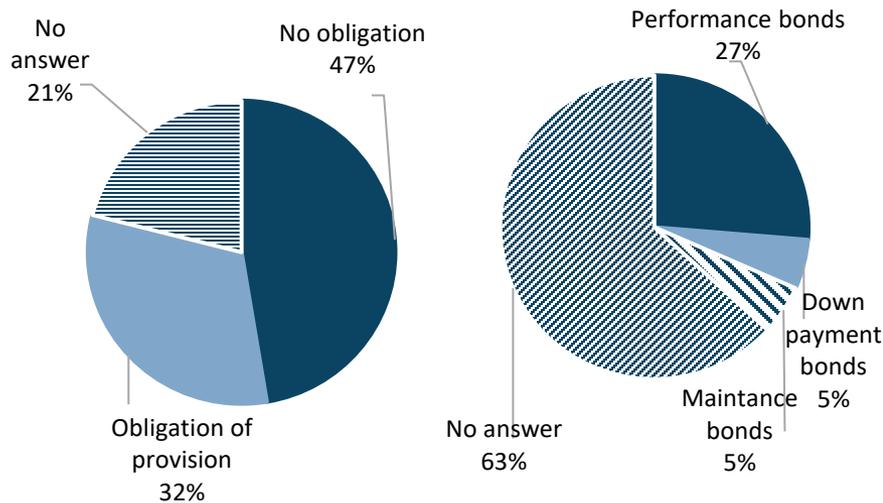
- Usually, the payment terms in international export finance are categorised as
  - short-term (up to 360 days)
  - medium-term (up to five years)
  - long-term (more than five years).
- The availability of medium-term or long-term export finance is an indication of the level of maturity of the export finance market of a country.

### Results:

- None of the companies report the use of supplier credit for more than 180 days.
- Those exporters who cannot negotiate delivery on pre-payment terms, offer maximum 180 days of credit
- Their balance sheets most probably are not strong enough to absorb longer durations of credit
- Clear disadvantage in comparison with competitors from other countries which can offer longer terms as supplier credits or buyers credits offered by banks.

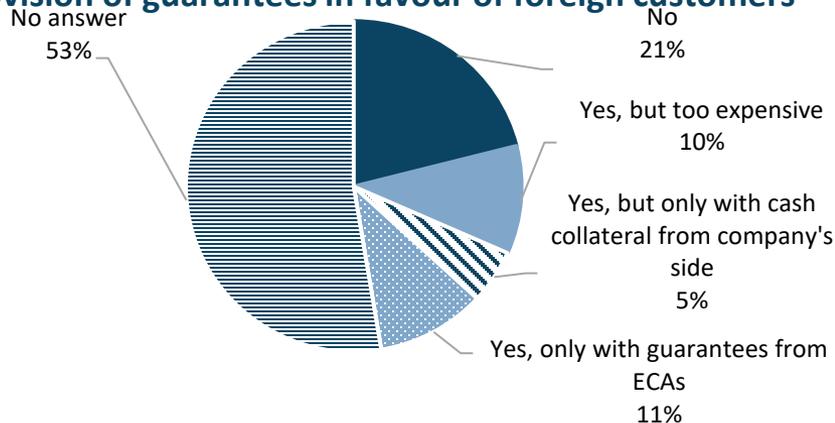
# 3.5 Guarantees in favour of foreign customers

## Provision of guarantees in favour of foreign customers



- 47% respond about no obligation
- 32% mention obligation of whom performance bonds as obligation is mentioned the most
- Answers reflect lack of confidence of the foreign buyer in the performance ability and discipline of the Ukrainian supplier
- 21% state that banks do not provide such guarantees and 15% more characterise the guarantees issued by banks as “too expensive” or available only “with cash collateral

## Provision of guarantees in favour of foreign customers

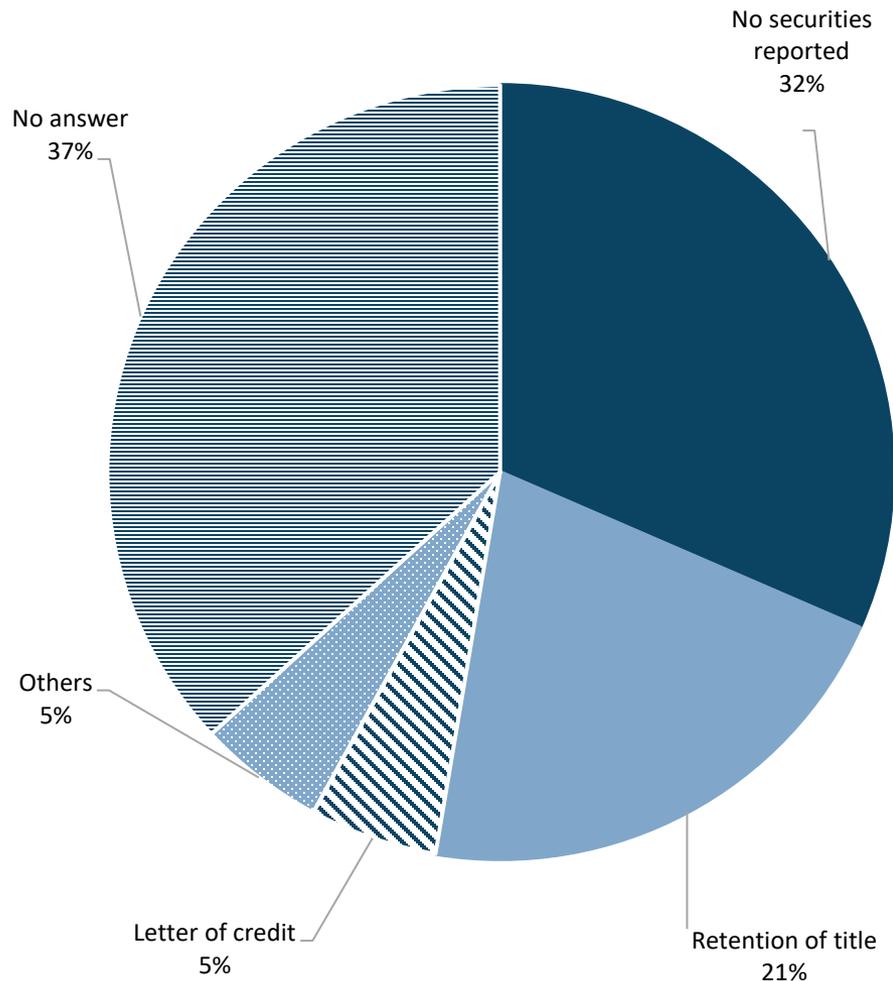


- The guarantee forms most mentioned are performance bonds, down payment bonds and maintenance bonds
- Provision of guarantees is conducted with cash collateral from company’s side or other kind of guarantees.

Source: Own questionnaire; note: no answers may refer to non-exporting companies

# 3.6 Securities for Ukrainian exporters

## Securities for exporters



Source: Own questionnaire; note: no answers may refer to non-exporting companies

© Berlin Economics

## Background:

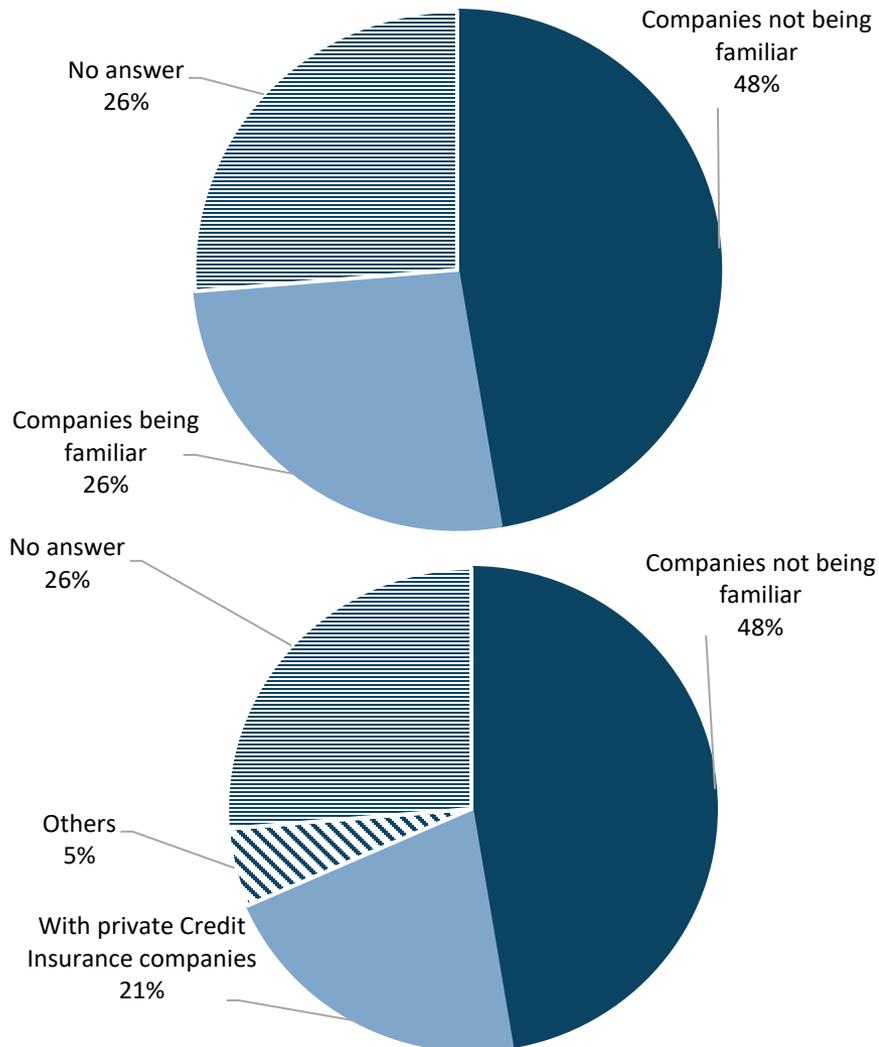
- The lack of information on the potential customer makes the transaction more risky than other transactions
- The financial position of the potential buyer may prove to be so weak that the debtor cannot pay the amounts due as contractually agreed upon
- Contractual securities can lift this insecurity from the supplier

## Results:

- Almost a third of companies do not report any kind of securities
- Further 31% report securities, such as retention of title, letter of credit or other kind of securities.
- The answers given in line with international practice as suppliers of raw materials etc.(short-term trading) do not have a bargaining power for hard guarantees in the form of bank guarantees or letters of credit.
- In many cases no securities are available at all.

## 3.7 Credit insurance

### Use of credit insurance



Source: Own questionnaire; note: no answers may refer to non-exporting companies

### Background:

- If the supplier does not obtain securities from the buyer, he can conclude an export credit insurance contract covering the non-payment of the foreign buyer due to commercial reasons,
- Official Ukrainian Export Credit Agency (EKA) currently being built up; not yet fully operative

### Results:

- Almost half of the respondents are not familiar with export credit insurance, 26% respondents confirm their knowledge about credit insurance.
- 80% of the companies reported being familiar with credit insurance use private credit insurance provided by Euler Hermes, Coface or Atradius.
- Private insurance companies in principle active in Ukraine, but with significant limitations

## 4. Summary and policy implications

---

### Summary

- Survey highlights shortcomings of Ukraine's export performance
- Biggest deficiencies in the areas of export finance and risk protection
- Insufficient information on potential foreign buyers and their creditworthiness obstacle of export activities – especially for smaller companies
- Most exporters use open account or short-term supplier credit up to 180 days as repayment terms
- A well-functioning export credit insurance system would be, however, the trigger for more affordable export financing by banks.
- Most frequently agreed security: retention of title

### Policy implications

- Strengthening the institutional framework for financing of export transactions by banks and the development of the Export Credit Agency into a real export promotion institution should be objectives of primary importance
- An institutionalised cooperation between EPO, practitioners of export finance and EKA is recommended.

# 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.

## CONTACT

**Garry Poluschkin**, Project Manager Ukraine  
[poluschkin@berlin-economics.com](mailto:poluschkin@berlin-economics.com)

German Economic Team

c/o BE Berlin Economics GmbH

Schillerstraße 59

10627 Berlin

Tel: +49 30 / 20 61 34 64 0

[info@german-economic-team.com](mailto:info@german-economic-team.com)

[www.german-economic-team.com](http://www.german-economic-team.com)

Implemented by

