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Developing medium and long-term finance in Ukraine: The role of the export credit agency

by Hans Janus

Berlin, June 2021

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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Executive Summary

Access to medium/long-term (MLT) export finance is of particular importance for the international competitiveness of Ukrainian exporters, especially for the producers of manufactured goods. The results of our recent enterprise survey have shown that MLT export finance is unavailable for most of Ukraine's exporters as well as export credit guarantees. Ukraine's Export Credit Agency (ECA) has not yet become fully operative. Products for medium/long-term export credit guarantees are not yet established.

The major problem for the Ukrainian ECA is the corporation's low capitalisation and the absence of any additional state guarantee for ECA's operations. Under these circumstances the National Bank of Ukraine (NBU) cannot accept ECA's guarantees as fully-fledged credit collaterals.

If the buyer's credit guarantee would be accepted by NBU as credit collateral, banks would benefit from lower capital costs under Basel III or comparable Ukrainian banking supervisory regulations. The political and commercial risks would be transferred for the covered portion of the export loan (usually 95%) to the ECA which could serve as risk transfer counterparty for the financing bank.

For the guaranteed portion of the export credit a so-called "nil-risk-weighting" could become applicable for the financing bank if the credit is both denominated and funded in UAH. For credits in other currencies the sovereign risk rating of Ukraine would apply for the bank's weighting of the credit risk exposure. In most cases this will be less expensive than the political and commercial risk weight of the foreign borrower. Export finance thus becomes cheaper and more attractive for banks involved.
ECA's buyer's credit guarantees, accepted by NBU, can pave the way to cheaper bank finance and improve the competitiveness of Ukrainian exporters on the world market. To achieve this, Cabinet of Ministers, ECA, NBU, state-owned and commercial banks must develop a sustainable solution for the acceptance of ECA buyer's credit guarantees as valid collaterals allowing the lowest possible risk-weighting for the financing bank.

Confidence in a state supported export credit guarantee scheme requires, however, not only a solidly financed ECA, but also the full faith of the state. ECA's liabilities should be recognized as liabilities of the Ukrainian government. The ECA must apply a prudent and sound underwriting policy. A first-class panel of reinsurers is important as a means of risk mitigation for the ECA. Clear and transparent regulation and external financial control strengthen confidence in the reliability of ECA's operations.

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1 Introduction

Ukraine's Export Credit Agency (ECA)[1] has not yet become fully operative. A low capitalisation of the state-owned export credit insurance corporation and other shortcomings have prevented the ECA from playing a major role in Ukraine's export promotion. A survey conducted by the German Economic Team (GET) showed that export-oriented companies are facing a deficit in export finance products from the banking industry and are unfamiliar with options of export credit insurance[2].

In particular, the area of medium and long-term (MLT) export finance is underdeveloped in Ukraine, mainly triggered by high costs of funding, challenges of risk assessment of foreign markets and borrowers and, not the least, by unavailability of corresponding export credit insurance products from the ECA.

Especially for exports of manufactured goods and exports in more risky markets official support has proven indispensable. A competitive position in such markets is heavily dependent on competitive financing and insurance structures. This effect has become much stronger in past years since globalisation has increased competition, made products more exchangeable and has given importers or project sponsors a much stronger position: For continuing to be competitive, exporters must offer not only excellent products and reliable services, but a competitive financing package as well.

Next to the funding costs of a bank active in export financing the costs of capital are of pivotal importance. After the global financial crisis of 2007-2009 minimum capital requirements for banks have been strongly increased, most significantly by the introduction of Capital Requirement Directive (CRD) IV and Capital Requirement Regulation (CRR). The National Bank of Ukraine (NBU) accepts as benchmark the set of international standards and recommendations from the European Banking Authority and the Basel Committee on Banking Supervision. Ukraine is on its way to bring the national regulations in line with the respective EU legislation as required by the Association Agreement. Under these conditions a guarantee issued by an ECA with state support can be a decisive instrument for the bank to offload the credit risk to the ECA, to reduce the capital to be allocated to the export lending and thus reduce the costs for the export financing.

The next section covers medium and long-term finance. Then, commercial banks' risk valuation will be discussed including risk assessment under Basel III conditions, credit risk mitigations, capital requirements for ECA covered loans and the role of the NBU. Section 4 considers the regulation aspect of ECA's operations. The last section concludes.

2 Medium and long-term export finance

For exporting companies, mainly exporters of manufactured goods, it is of high importance to offer longer repayment terms for reasons of their international competitiveness. The maximum repayment

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[1] Eksportno-kreditne Agenstvo, Private Joint Stock Company Export Credit Agency, founded based on the Law of Ukraine "On Providing for Large-Scale Export Expansion of Goods (Works, Services) Originating in Ukraine through Insurance, Guarantees and Cheapening of Export Credits" (Vidomosti Verkhovnoi Rady Ukrainy 2017, No. 4, p. 43), in the following: ECA Law.

[2] *H. Janus, G. Poluschkin, R. Kirchner*, Export finance conditions in Ukraine: Results from an enterprise survey, GET Ukraine, Policy Paper No. 1/2021.

terms for "high income OECD countries" and "all other countries" are defined[3] in the OECD Arrangement on officially supported export credits ("Consensus")[4]. The OECD consensus is applicable for exports with two years of repayment or more. The repayment terms usually are up to 5 years (medium term) or up to 10 years (long term) and, in specific cases, even longer. Hardly any exporter is in the position to offer such repayment terms based on the own balance sheet in the form of a medium and long-term (MLT) supplier credit. Bank financing through a buyer's credit is the appropriate form to finance exports of manufactured goods.

The financing bank assesses the inherent risk of the transaction. The risk is a combination of a potential political risk in the buyer's country and the credit risk of the buyer. The buyer's credit can also show up as a bank-to-bank loan with four parties involved, namely exporter, exporter's bank, importer and importer's bank. The buyer's credit is being disbursed to the exporter who thus gets fully paid at an early stage, usually at delivery or commissioning. The MLT repayment obligation is with the foreign buyer or his bank respectively.

Due to regulatory requirements, the bank is obligated to allocate a certain amount of capital to the risks of the transaction. After the global financial crisis of 2007-2009 the rules for minimum capital requirements for banks have been drastically sharpened by the recommendations of the Basel Committee on Banking Supervision which were transformed into EU law through the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR). The NBU also follows the Basel III recommendations.

For the financing bank's risk weighting the availability or absence of guarantees plays an important role. It is a natural function of ECAs to cover the payment risks of export loans and thus reduce the bank's own risk and consequently the costs of export finance. However, this is not an unconditional consequence. The quality of an ECA cover must comply with the CRR conditions. This compliance is a problem for the Ukrainian ECA.

2.1 ECA's insufficient role as risk off-taker for banks

The Ukrainian ECA is not yet in the position to operate as risk transfer counterparty for banks in MLT export loans. A buyer's credit product for MLT export loans has not been developed yet and until now the ECA is still not able to cover buyer's credits. The reasons for this are manifold:

- The low capitalisation of the ECA is insufficient for MLT export guarantees;
- The ECA is state-owned but registered as a joint stock company and thus has by law a limited liability only;
- There is no additional sovereign guarantee for its operations in place;
- Banks would not trust in the value of an ECA MLT guarantee product, if any;
- The NBU does not recognise ECA export guarantees as a fully valuable loan collateral.

[3] According to Art. 11 par. 9 ECA Law Ukraine follows voluntarily the rules and regulations of the OECD Consensus.

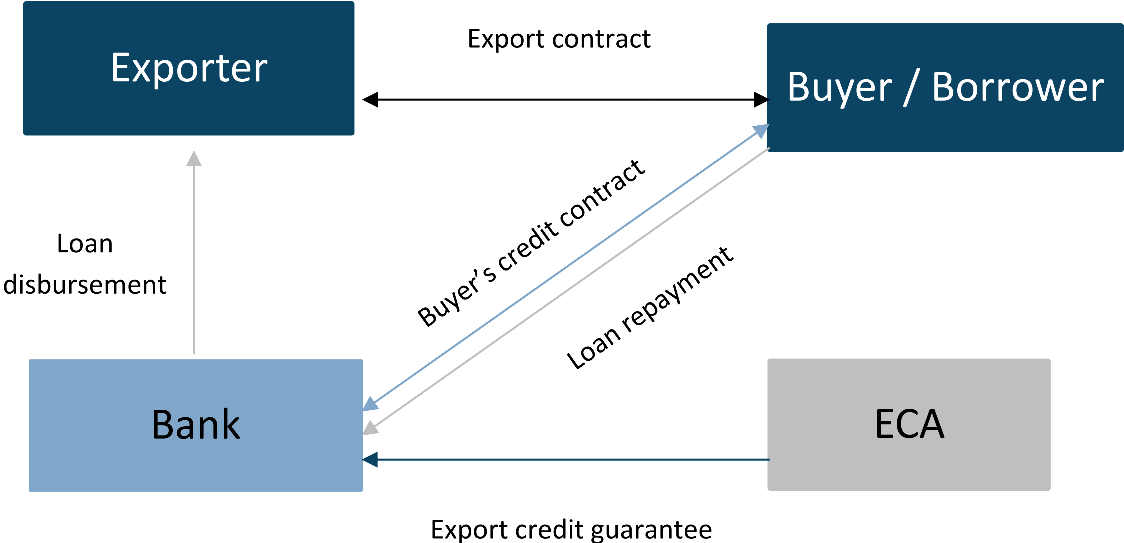
[4] https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=tad/pg(2020)1 (current version of April 2021 not yet published).

The share capital of the ECA is intended to increase from UAH 200 m to UAH 2.0 bn[5]. This is an important step forward which would allow careful activities towards MLT cover.

2.2 Minimum standards for an ECA's buyer's credit guarantee

The main objectives of Ukraine's ECA law are an expansion of exports, an increase in competitiveness of Ukrainian exporters and a reduction of costs for export loans. These objectives can only be achieved with banks which regard export financing as an attractive, innovative and profitable business and an ECA export guarantee product supporting the banks' loan exposure by an efficient risk transfer. It goes without saying that the ECA must apply a prudent and sound underwriting policy.

Figure 1: Buyer's credit



Source: Own illustration.

Only with a selective and cautious risk-taking policy the ECA can safeguard its operations and achieve breaking-even as it is required under the WTO's Agreement on subsidies and countervailing measures[6].

2.2.1 ECA's buyer's credit product features

Most important for a buyer's credit product is the proximity to an unconditional first demand bank guarantee. By nature, the ECA cover is something less than such a guarantee, but it must be a strong and valid collateral. The buyer's credit cover is not a mass product (one size fits all) but a tailor-made

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[5] Draft law No. 3793, first reading in Verkhovna Rada in February 2021, and authorisation for Government in budget 2021 to issue bonds worth 1.8 bn UAH for this purpose.

[6] See WTO Agreement on Subsidies and Countervailing Measures Art. 3 par. 1 a) in connection with Annex 1 Illustrative list of export subsidies, lit j) and k).

cover for a single and unique transaction based on an individual risk assessment. This brings the product closer to a guarantee than to an insurance product[7]. However, certain conditions remain to be fulfilled to trigger the ECA's payment obligation. These conditions are fixed in the General Terms and Conditions (GTC) or, if necessary, in additional specific conditions.

The more conditions may prevent the ECA to pay a claim, the lower is the cover's value for the financing bank. Therefore, a fine balance is needed between the bank's need for a strong collateral with as less (sometimes regarded as unpredictable) conditions precedent as possible and the ECA's justified need for a due diligence of its payment obligation[8]. A high percentage of cover, a fast indemnification procedure and a rapid payment of the indemnification are important quality elements of a buyer's credit cover.

2.2.2 ECA's risk assessment procedure

An ECA has to carry out a Know-Your-Customer (KYC) check which is a central part of compliance management. The respective legal acts are in place. Ukraine has adopted the law "On Preventing and Counteracting to Legalization (Laundering) of the Proceeds of Crime, Terrorism Financing, and Financing Proliferation of Weapons of Mass Destruction"[9], so-called Anti-Money Laundering (AML) law and the law "On Combatting Terrorism"[10], so called Counter Terrorist Financing (CTF) law[11]. In the case of a buyer's credit the KYC check, which includes the identification of the ultimate beneficial owner (UBO), usually has to cover the Ukrainian bank, the exporter and the foreign borrower.

The core function of an ECA is underwriting. Sound underwriting is the responsibility and objective of export credit guarantees. The underwriting serves many functions, e.g. risk assessment, premium calculation, portfolio management etc. According to the Berne Union's Guiding Principles for the MLT business sound underwriting requires a careful review and management of the risks to be undertaken and the promotion of export credit and investment insurance terms that reflect sound business practices[12]. The overarching principle is to generate adequate revenues to sustain long-term operations reflective of the risks undertaken[13].

The country risk assessment process is following in most ECAs, including Ukraine's ECA, the rules set by OECD. The country risk category reflects the political and economic risk situation of the buyer's country. OECD has established a grading system with eight country risk categories. Category 1 is the

[7] Sometimes characterised as a guarantee-similar legal instrument "sui generis".

[8] Euler Hermes (Germany), for example, recently introduced in its GTC the bank's right to request an indemnification of the whole loan amount including future maturities in a lump sum if the borrower is in default and an acceleration clause in the loan contract has become effective. This increases the value of the risk protection for the bank involved.

[9] Law No. 361-IX, 06.12.2019.

[10] Law No. 638-IV, 20.03.2003 with later amendments.

[11] See also Art. 20 of the Association Agreement between the European Union and its Member States and Ukraine.,.

[12] Berne Union Guiding Principles, adopted 01.11.2006.

[13] Berne Union Guiding Principles, adopted 01.11.2006.

best risk and category 7 the worst. An additional category 0 is relevant for OECD high income countries and Euro countries, using the premium rate for category 1 countries accompanied and if necessary adjusted by a so-called market test in order to avoid market distortions[14].

The buyer risk categories range from better than sovereign (SOV+) through sovereign (SOV) which is identical with the best commercial buyer grading (CC0) down to the worst buyer risk classification (CC5). These eight buyer risk categories reflect the probabilities of default used by external rating agencies. The combination of country and buyer risk leads to a matrix which demonstrates that in an excellently rated country the foreign buyer's credit risk category can be lower, whereas vice versa in a badly rated country the buyer's credit risk category must be extraordinarily good.

The final premium calculation is based on country risk category, buyer risk category, credit enhancements, if any, e.g. legally valid collaterals, and the risk horizon.

3 Commercial banks' risk valuation

The enterprise survey, we conducted on export finance conditions in Ukraine showed that export finance is not yet a well-developed area of business for Ukrainian commercial banks. Subsequent interviews with representatives of relevant Ukrainian institutions have clearly confirmed this view. The area of major concerns has been defined by most of the interviewees as MLT financing for exports of manufactured goods. For micro small and medium enterprises (MSMEs) several support programmes are in place and large corporates, especially in the area of agricultural and commodities' exports, can find suitable offers by banks. For the shortcomings in export finance various reasons were mentioned:

- Exporter's general lack of working capital.
- Lack of export experience in many companies.
- Non-performing loans remain on a high level.
- Very cautious lending policy by banks.
- ECA share capital far too low to be accepted as risk transfer counterparty.
- ECA buyer's credit cover not yet available.
- Missing recognition of ECA cover by NBU as valid collateral resulting in a nil risk-weight exposure.
- Difficulty to arrange affordable refinancing with matching maturities.

Obviously, the problems exist on both the demand and the supply side. Training activities require the participation of banks and ECA and possibly other institutions like the Chamber of commerce and industry. But they are in a very initial phase yet.

[14] For details see OECD Consensus, par. 21 – 30 and Annexes IX – XIII.

3.1 Risk assessment under Basel III conditions

The introduction of CRD IV[15] and CRR[16] in EU countries and all other countries following the recommendations of the Basel Committee on Banking Supervision sharply increases the corporate governance and the capital requirements for banks and reduces the balance sheet capacity. A bank's risk weighted assets (RWA) consist mainly of credit risk, market risk and operational risk. Different weights are assigned to the different types of risks. All the on-balance or off-balance sheet assets, weighted with their different weights, form the bank's RWA which must be in correlation with the bank's regulatory capital (tier-1, additional tier-1 and tier-2 capital).

Capital requirements for credit risks are to be calculated using the standardised or the internal ratings-based approaches. It may be assumed that for Ukrainian banks only the standardised approach will be relevant. Each exposure must be assigned according to Art. 112 CRR to one of the exposure classes from exposures to central governments or central banks, to exposures to public sector entities, exposures to [bank or financial] institutions, exposures to corporates, retail exposures etc. with different risk weightings based on a nominated External Credit Assessment Institution's (ECAI) credit quality assessment (CRR Art. 114-134, 135-136).

For export credits and their assignment to the exposure class "Exposures to central governments or central banks" according to Art. 137 CRR the OECD country grading may be used under the condition that the respective ECA either is an OECD Consensus participant or without being Consensus participant subscribes to the OECD Consensus methodology. In this situation, which most probably will be the case for Ukraine, the risk weighting for banks' export loans to central governments or central banks will be as follows (see also chapter 2.2.2 above):

Table 1: Risk weighting for banks' exposures to central governments or central banks

MEIP*	0	1	2	3	4	5	6	7
Risk weight	0 %	0 %	20 %	50 %	100 %	100 %	100 %	150 %

Source: Own illustration based on Art. 137 CRR, * Minimum Export Insurance Premium

Conclusion 1:

Each bank applying the Basel III regulations has to allocate a certain amount of its capital to an exposure from an export credit. The weighting of each single exposure und thus the cost of capital is dependent on the political and commercial risk of the transaction: the higher the risk, the higher the cost of capital.

3.2 Credit risk mitigation through guarantees

Export loans can have various types of risk mitigation. If the foreign borrower's creditworthiness is not sufficiently good the lending institution can request additional securities from the borrower.

[15] EU Capital Requirements Directive No. 36/2013.

[16] EU Capital Requirements Regulation No. 575/2013.

Furthermore, the banking institution can apply for an export credit guarantee of the ECA in the exporter's country. Such guarantees are suitable to reduce the credit risk and are under certain conditions acknowledged under CRR as reducing the risk weight assigned to the exposure. Next to the credit risk protection the main benefit of ECA export guarantees thus is the reduction of the capital costs of export loans. The condition is, however, that the banking supervisory authority accepts the guarantee as fully valuable.

ECA export credit guarantees are not generally accepted under CRR, but only under certain conditions. The guarantee must be according to Art. 213 CRR direct, clearly defined and inconvertible and it may not contain any clauses which are outside the direct control of the lender and, finally, the guarantee must be legally enforceable in all jurisdictions. Additional conditions in Art. 215 require e.g. that the payment obligation by the guarantor shall not be subject to the lending institution first having to pursue the obligor.

Export credit guarantees issued by ECAs usually are not unconditional first demand guarantees but are guarantee-type securities which hardly allow the ECA to deny or delay the indemnification payment. The track record of ECAs clearly proves that buyer's credit guarantees provide the policy holders the highest amount of security possible[17]. Most of the ECAs have established clauses in their GTC which reduce the period for assessment of indemnification requests to one month and the payment of the indemnification then has to follow within a very short period of usually one week thereafter. If the claim assessment needs longer time, the policy holder shall receive a preliminary and conditional indemnification upfront. Recently for example, in response to the new Art. 47 c) par. 4 CRR a right of the policy holder to request indemnification in one lump sum including future maturities for non-performing loans has been introduced in the GTC for buyer's credits in Germany, if an acceleration clause within the loan agreement becomes effective[18].

Since in Ukraine the GTC for buyer's credit cover have not yet been introduced, it will be advisable and necessary to make sure the GTC comply with requests of banking supervision to recognise the cover as risk reducing. Otherwise export credit cover cannot support bank lending for export purposes.

Conclusion 2:

ECA buyer's credit guarantees would be a strong instrument for risk mitigation. They must be close to an unconditional first demand bank guarantee. Otherwise the risk mitigation effect and the reduction of capital costs cannot be seen as granted.

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[17] International Chamber of Commerce (ICC) Banking Commission, 2013 Global Risks Trade Finance Report, p. 26-30; Berne Union Yearbook 2020, Berne Union Data Snapshot 2020 H1, p. VI, 32-35. See also: *K.-C. Tan*, The ICC Trade Register: An empirically authoritative model for trade risk, Berne Union, Insight into the next 20 years of export credit, 2014, p. 55-57.

[18] According to Art. 47 c par. 4 CRR non-performing exposures which are ECA-covered have not to be deducted from the bank's tier 1 capital during years 1 to 7, but must be fully deducted (100 %) after year 7 of being declared non-performing.

3.3 Capital requirements for ECA covered loans

Coming from Basel I and Basel II regulations, where most ECA covered loans benefited from a zero weighting, the new Basel III rules for MLT bank export financing have been highly controversial[19]. The major concern was that the "leverage ratio" does not consider the quality of the loans and of guarantees, if any. The close link between export finance and the real economy results in very low risk profiles. In the case of an ECA covered loan the extraordinarily high recovery ratio tends to be disregarded. This could overstate the default risk of ECA covered export loans, increase the capital costs for such loans and reduce the attractiveness of export finance compared to other areas of bank activities[20].

Conclusion 3:

Basel III is being criticised until today because of a too negative view on ECA covered export financing. The close link between export finance and the real economy results in very low risk profiles.

3.4 The role of the NBU

Confirmed by the interviews carried out, the dominant shortcoming of ECA products is the absence of recognition of ECA export credit guarantees as fully valid credit collaterals by the NBU. The absence of recognition is already the case for the products offered by ECA, in particular, the working capital guarantee, but it will become much more relevant when MLT cover will be provided by ECA.

3.4.1 Reasons for the NBU not to accept ECA guarantees

For the time being the reluctance of NBU to accept ECA guarantees is understandable. The main reasons are:

- ECA's extremely low capital of UAH 200 m.
- No additional (very high/unlimited) sovereign guarantee.
- No protection against potential insolvency.
- No first-class reinsurance panel established yet.

Taking these points into consideration, another position of NBU is hardly possible.

[19] *H. Janus*, Finanzkrisen und Basel III, Grundlegende Veränderungen der vom Bund gedeckten Exportfinanzierung, ZfgK Zeitschrift für das gesamte Kreditwesen, 2013, p. 528-530.

[20] *H. d'Ambrières*, In for the long haul: Export finance and financial regulation, Berne Union Yearbook 2018, p. 110-113.

3.4.2 Reasons for the NBU to change their position

The standards CRE20[21] and CRE22[22] within the Basel Framework will have to be applied by Ukrainian banks for the calculation of their RWA. Decisive is whether and to which degree NBU acknowledges such weightings and, in particular, the quality of an ECA export credit guarantee as collateral.

According to current information the share capital of ECA is in the process of being increased to UAH 2.0 bn. This is a significant step for strengthening ECA's capital base. Since ECA remains legally a commercial company which theoretically can go bankrupt, the capital increase as such, most probably, is insufficient for ECA to receive a credit rating equal to that of its sovereign (and capital owner) Ukraine. Even with that increase in capital it cannot be seen as granted that commercial banks can allocate a zero weighting to ECA guaranteed loans, even if the loan is denominated in UAH[23].

There are, however, strong arguments for a more positive assessment of ECA's export credit guarantees as valid collaterals:

- The sole shareholder of ECA is the Ukrainian Cabinet of Ministers. The state's share of capital may not fall below 50 % plus one share (Art. 2 ECA law).
- Additional state guarantees to secure the ECA's honoring of its debt obligations are foreseen in the law (Art. 3, 7, 11 ECA law).
- The share capital of ECA shall be increased from UAH 200 m UAH (Art. 2 ECA law) to UAH 2.0 bn already in 2021.
- The key objectives of ECA are defined by the law and make ECA a state (policy) corporation for export promotion (Art. 3, 4 ECA law).
- A strong and first-class reinsurance panel could drastically reduce the portfolio and single transaction risks of ECA and increase its capacity for the issue of new export credit guarantees.
- A supervisory board with renowned experts including independent directors has been established.

Conclusion 4:

ECA buyer's credit guarantees should be acknowledged by NBU as valuable credit collaterals. Otherwise, they would be more or less worthless. Financial, statutory and operational improvements are recommended.

4 Regulation of ECA's operations

A key to upgrade ECA's operations could be the strengthening of its regulation. Currently the ECA law mainly defines which regulatory authorities are not responsible for ECA: ECA neither needs an

[21] CRE 20: Calculation of RWA for credit risk. Standardised approach: Individual exposures. Version effective as of 15.12.2019.

[22] CRE 22: Calculation of RWA for credit risk. Standardised approach: credit risk mitigation. Version effective as of 15.12.2019, see point 22.32.

[23] See Art. 114 par. 4 CRR and CRE20, points 20.4 and 20.5.

insurance licence, nor are its operations regulated by the insurance or the banking supervision (Art. 9 ECA law). ECA has a "special status" according to Art. 9 ECA law. This, in principle, is not unusual for European ECAs. However, the law does not clearly describe by whom and in which manner the operations of ECA are supervised. This, of course, is a natural task of the shareholder, the Cabinet of Ministers, to be represented by the Ministry of Economic Development, Trade and Agriculture. According to Art. 9 par. 5 No. 5 of ECA law, rules approved by the Cabinet of Ministers of Ukraine specify the procedure and forms of control over the ECA activities. These rules, which seem not to be published yet, should clearly elaborate the process of regulation over ECA's activities.

However, due to the proximity to insurance and banking business and the fact that ECA is critically dependent on state funding, the importance of external financial control must not be neglected. Therefore, the Accounting Chambers or comparable state institutions for independent external public financial control function as controlling bodies in many countries.

Conclusion 5:

Clear and transparent regulation and external financial control strengthen confidence in the reliability of Ukrainian ECA's operations.

5 Conclusion

Ukraine's ECA is on the verge of becoming an important player for Ukraine's export promotion. We had analysed reasons and obstacles why this has not been possible until now. New and enhanced political efforts are needed to bring ECA into the position foreseen for it in the ECA law. Legislative measures are currently in the process of being decided in the Verkhovna Rada. Only with a strong ECA having the full support of the government the ambitious objectives of the ECA law can be achieved.

We make the following recommendations:

- The share capital of ECA must be significantly increased.
- It is recommended that the Ukrainian state should maintain full ownership, at least for the period until ECA's operations are fully developed.
- The ECA law should make sure that ECA represents the full faith and strength of the sovereign, i.e. ECA's liabilities should be recognized as liabilities of the Ukrainian government.
- Clear and transparent regulation and external financial control strengthen confidence in the reliability of Ukrainian ECA's operations.
- ECA should develop a MLT buyer's credit product with features allowing the lowest possible capital allocation for banks.
- The credit risk assessment process should be done by both, the financing bank and ECA individually. Sound underwriting and cautious risk taking must be applied.
- ECA should try to set-up a first-class panel of reinsurers.
- Cabinet of Ministers, ECA, NBU, state-owned and commercial banks must develop a sustainable solution for the acceptance of ECA export credit guarantees as valid collaterals allowing the lowest possible risk-weighting for the financing bank.

It is not yet recommended to establish a commercial interest reference rate (CIRR) financing mechanism in Ukraine, although this is clearly addressed in the ECA law. We have presented a Policy

Briefing on “Interest support in Ukraine” [24]. As pointed out in that document, CIRR-based interest support needs a strong commitment by the state for this type of financing support. CIRR financing needs a prudent administration, requires state funding with substantial amounts and should only be introduced when the ECA has reached a well-developed and mature status.

[24] *H. Janus/G. Poluschkin*, Interest support for Ukraine, GET Ukraine, Policy Briefing No. 6/2020.