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German Economic Team

NEWSLETTER

UKRAINE

Export finance in Ukraine: reforms are needed

State export support is a key instrument for strengthening a country's exports and improving exporters' competiteveness in global markets and value chains. Export promotion can be split into three categories: information provision, export finance as well as protection against political and commercial risks. Ideally, these three elements are part of one unique state export promotion strategy. Such a strategy ranges from supporting trade fair participation and provision of country risk assessments to information on market structures and conditions for market access. In addition, financing of export production as well as short-, medium, and long-term export financing, backed by state or private credit insurance, is of importance.

The German Economic Team has been advising the Ukrainian government on export promotion for many years, in particular in the development of a state export credit agency. To assess the main challenges for exporting enterprises in Ukraine, a survey has been conducted in cooperation with the German-Ukrainian Chamber for Industry and Commerce as well as the Ukrainian Chamber for Industry and Commerce. The results show considerable obstacles in the area of export financing, which coincide with a low level of knowledge about export finance opportunities and about forms of possible support. The newly establised Ukrainian Export Credit Agency turns out to be particularly weak and not fully operational due to legal restrictions.

Enterprise survey

The German Economic Team developed a survey to assess the experience of Ukrainian enterprises with export finance. This survey was sent out by the German-Ukrainian Chamber for Industry and Commerce as well as the Ukrainian Chamber for Industry and Commerce to its member enterprises. In the first part of the survey, we asked the companies about their characteristics, such as, annual turnover, sectors, export share, trade destinations and group affiliation. The second part focused on questions regarding the experience with export finance instruments, obstacles, availability of bank guarantees as well as the level of knowledge about protection through export credit insurance. The responses were clear enough to allow for unambiguous conclusions about the current state of export support in Ukraine, although the number of respondents was not sufficient for the survey to be considered truly representative. Firstly, the sample of sectors did not correspond exactly to the structure of the Ukrainian economy, and secondly, there was an over-reprensentation of companies that have close supply or purchasing relationships with Germany.

Sectoral distribution of respondent enterprises

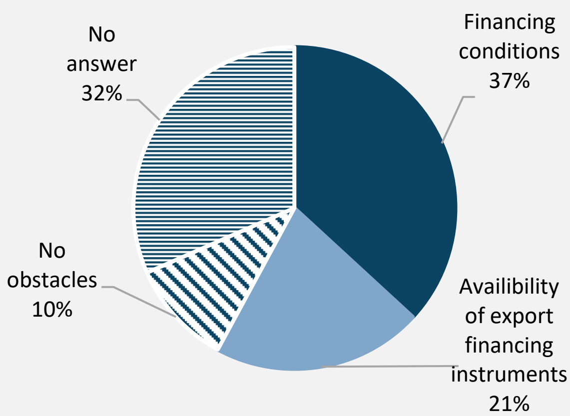
	Overall economy	Survey
Service sector	54%	11%
Agriculture and food production	12%	5%
Construction	4%	16%
Automotive and electric machinery	2%	32%
Chemical and/or pharmaceutical production	1%	16%
Others	27%	21%

Source: own survey and Ukrstat, 2019

Low level of experience with export finance

With regard to the questions on challenges to their export actvities, companies gave various answers. Some of the companies reported not doing any export business, others did not answer the question about obstacles (32%). More than half of all respondents (58%) reported obstacles to export business and only a small proportion did not see any obstacles (10%). Among those who mentioned obstacles, there was a high proportion of companies that gave no answer or described their own export experience as too insignificant (52%). The remaining answers were dominated by deficits in export financing (22%) and the payment risk of potential foreign customers (13%). Problems with taxes and customs were also named (13%). Export financing by banks thus plays a noticeably minor role.

Obstacles in the use of bank export financing



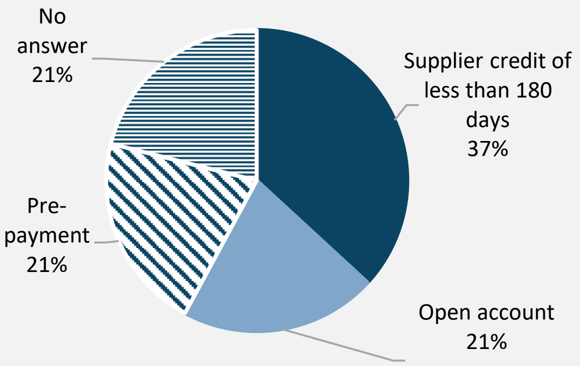
Source: own survey; note: no answer may refer to non-exporting companies

The only conventional export financing product mentioned by the respondents was "working capital" in the form of credit lines for export production. Other export financing products such as export factoring, forfaiting, buyer credits and confirmation of letters of credit were not mentioned, but could certainly be used in individual cases. The main reasons for not using bank products for export financing were, in some cases, the lack of availability of such products, and, predominantly, their high cost~~s~~.

Own cash flow is the basis

The limited availability of export financing through banks and its high cost limit the companies' options accordingly. 58% of respondents deliver on an open account basis or they agree on credit terms of up to 180 days.

Payment terms in export finance



Source: own questionnaire; note: no answer may refer to non-exporting companies

None of the companies reported longer credit periods. This means that even export goods that could tolerate longer repayment terms are supplied on short-term credit terms. The exporting company's own cash flow is thus, in practise, the only possibility of export financing. Only very few companies have a market position that allows them to enforce advance payment as a condition of payment.

Managing of export risks

For the surveyed exporters, it is hardly possible to obtain collateral for their deliveries in the form of letters of credit or guarantees. One third of respondents reported delivering without collateral, 20% agree on a retention of title, 5% receive a letter of credit and another 5% mentioned "other securities". Conversely, the exporter often has to provide collateral in the form of performance bonds, apparently even for short-term export transactions (26%), which are described as "too expensive" or have to be backed by a cash collateral.

Export credit insurance largely unknown

Only a quarter of respondents have any familiarity with export credit insurance. Of these, 21% said they know about private credit insurance, while 5% named "others" than private insurers. This could refer to the only very recently established Ukrainian state export credit agency (EKA). In earlier studies, however, the German Economic Team found this institution to be undercapitalised and restricted in its operations. Ukraine's parliament is currently debating a draft law (No. 3793) that is intended to remedy the deficits identified and provide the EKA with significantly more room for manoeuvre.

Conclusion and outlook

Ukrainian companies are largely on their own when it comes to export financing. The state export credit agency is not yet fully established in the market and is hardly in a position to provide significant support due to its undercapitalisation. This also severely restricts what banks can offer in the field of export financing, as they cannot transfer any of the risk to the export credit agency. In order to strengthen the competitiveness of Ukrainian exporters, there is a need for an efficient export credit agency, a banking sector that recognises export financing as an important field of business and close interlinkages between all those involved in export. There is still considerable need for action in this regard.

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