

Small Ticket Export Finance: A challenging innovation

Hans Janus / Dmitry Chervyakov

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1. Introduction

Background:

- Availability of export finance is of high importance for improving a country's export performance
- Small export loans are in many countries the Achilles heel of export finance since it is hardly possible for banks to manage small export loans in an economically viable and self-supporting manner
- Modern concepts for small export loans (“small tickets”) can significantly strengthen the offer of small export loans and improve the export performance

Purposes of this Policy Briefing

- Analysing DBRB's offer of small export loans based on international experience and best practice
- Improving the efficiency of DBRB's offer of small export loans

2. Characteristics of Small Tickets

Customers of small ticket export loans

- Small ticket loans are needed for MLT exports of capital goods by
 - established or new exporters with a regular need for export loans in the size of small tickets
 - large exporters for occasional smaller transactions

What are “small tickets”?

- Loans to non-residents for financing the purchase of national exports of goods and/or services
- Small tickets are loans of USD 1 – 5 m, sometimes up to USD 10 m
- Repayment terms usually 3 – 5 years depending on the usual average life of the goods delivered
- Standardised loan documentation and guarantee requirements
- Mandatory Export Credit Agency cover

3. Legal basis for export finance in Belarus

1. Presidential Decree No. 534 dated 25. August 2006 (with last amendments dated 19. December 2019) “On the promotion of exports of goods (works, services)”
2. Presidential Decree No. 78 dated 23. February 2016 “On actions to increase the efficiency of social and economic complex of the Republic of Belarus”
3. Resolution of the Council of Ministers of the Republic of Belarus No. 279 dated 06. April 2016 “On the procedure of providing export loans by Development Bank of Belarus to leasing companies resident in Belarus and Organizations non-residents in Belarus”
4. Presidential Decree No. 261 dated 21. June 2011 „On the establishment of OAO Development Bank of the Republic of Belarus“ (with last amendments dated 19. December 2019 through Presidential Decree No. 467):
 - **New: Reduction of minimum loan amount from USD 1 m to USD 200,000**

4. Why small tickets ?

- Exporters in most cases cannot offer medium/long term (MLT) supplier credits since their balance sheets are not strong enough to allow granting MLT supplier credits
- The foreign buyer often cannot finance from his cash-flow or get MLT credit in his country for the purchase and import of capital goods
- For being internationally competitive the exporters must offer an attractive financing package as well
- For smaller transactions there is an obvious shortage of financing offers by export financing banks
- The problem of absence of export finance for small transactions is acknowledged everywhere. Modern small-ticket-solutions are rare and need to be brought to market maturity yet
- Development Bank of Belarus has introduced a small-ticket-solution. Well managed this new product can become an important support tool for Belarusian exports

5. Challenges of small export loans

Many countries face the challenges of small export loans. The problems are more or less the same in all countries. Banks refrain from granting small export loans because it is extremely difficult to offer such loans on a self financing basis. Common experience is the following:

1. Allocation of staff and lending capacity for small export loans must be economically sound
 2. Administrative overheads are in the same range as for larger transactions
 3. Banks tend to offer small loans only exceptionally and only for their very best clients
 4. Hardly ever for amounts below 1 million USD and very rarely for amounts below 2 million USD
- SME – and sometimes even large corporates with well established bank relationships – face significant problems to get financing for small export transactions

6. Limited alternatives to small export loans

The exporter has only very few alternatives to small export loans in the form of buyers credits:

- Prepayment: Nice, but normally not to get. No need for export credits
- MLT supplier credit: Most companies cannot afford on-balance-sheet financing of their foreign buyers
- Irrevocable letters of credit (L/C): Mainly short term financing instruments which foreign buyers try to avoid because of administrative and cost burden
- Post-export-financing through documentary credit purchase commitments: For MLT transactions usually not available, expensive
- Post-export-financing through forfaiting: Only possible if a liquid forfaiting market exists, expensive

7. How to make small tickets feasible

General approaches used to improve small ticket export loans:

1. Reduce and standardise loan documentation (avoid tailor making)
 2. Standardise security requirements (if securities should be needed)
 3. Standardise legal opinions (if needed)
 4. Pre-approve limited number of export destinations
 5. Digitise loan application and approval process
 6. Digitise Know-your-customer (KYC) and Anti-Money-Laundering (AML) processes
 7. Shift credit risk to ECA through mandatory ECA cover
 8. Digitise co-operation with ECA
- Keep internal process costs as low as possible. Only a highly standardised, digitised and lean credit and risk management process will lead to an economically viable small-ticket solution!

8. “Small ticket” as a specific product line

“Small ticket” can be developed into a specific product line:

- Strategic objectives (beyond economical viability):
 1. Improving export performance in general
 2. Support for SME
 3. Support for newly established export companies, including start-ups
 4. Support for small and large exporters in strengthening their customer relationship
 5. Support for regular and constant small size export transactions with one (or a few) pre-approved foreign buyer(s)
- Framework should be reconsidered, e.g. USD 200,000 to USD 2.5 m
- Develop cross-selling approaches with small ticket customers

9. Marketing of a small ticket solution (1/2)

1. Creating a specific website for online application of small tickets
2. Using the close link with BelEximgarant for joint KYC and AML assessment and joint marketing
3. Advertising the following features:
 - Financing of ECA BelEximgarant's full premium amount
 - Availability in various currencies (EUR, USD, others)
 - Attractive interest rates based on OECD CIRR
 - No additional fees (or very transparent fee structure)
4. Offering small tickets for companies of all branches of the industry and not only for products and branches listed in the Annex to Regulation No. 279 of 06.04.2016 approved by Counsel of Ministers

9. Marketing of a small ticket solution (2/2)

5. Offering small tickets also for export of services (and non-material goods)
 6. Using commercial banks as intermediaries for small ticket
 7. Permitting commercial banks to give small ticket export loans with optional refinancing by Development Bank
 8. Workshops with Chambers of Commerce and Industry and industry associations
 9. Specific support for first time users
 10. Specific support for start ups
- Example for existing small ticket express solution: AKA European Export & Trade Bank, Germany, see: www.smatix.de

10. Small tickets in times of Corona (1/2)

An external shock situation like **Covid-19 pandemic** is a clear indication for the need of state supported export finance and credit insurance. The international risk environment increases substantially and foreign trade must be strengthened to **prevent market disruptions** and to **revitalise global supply chains**. State supported export finance and credit insurance serve as an important tool for strengthening the export industry.

What can export financing banks do in these times?

- Boosting working capital programmes
- Speeding-up credit decisions
- Accepting higher risk levels
- Accepting longer credit periods
- Focusing on SME customers
- Defining specific conditions for medical supplies and related industries

10. Small tickets in times of Corona (2/2)

Minimising defaults can also be a relevant measure in crisis situations:

- Borrowers in financial difficulties can be granted extensions of repayment terms under eased conditions
- (Partial) waivers of interests or fees

Crisis response measures only during times of crises: All specific measures to combat a crisis like Covid-19 pandemic should be clearly limited in time. Since nobody knows the duration of the current crisis, an end date should be fixed with a prolongation option. The return to normality should be prepared.

11. Conclusions and Recommendations

1. A small ticket solution is an excellent tool for developing the export performance, supporting SME and modernising the export finance lines of products
2. The big challenge is to arrange small export loans in an economically sound and self-financing manner
3. A suitable solution would be the comprehensive digitalisation of the administrative processes including a digital link to BelEximgarant as Belarus' official ECA
4. Digitalisation requires fully standardised credit documentation and risk and collateral management processes
5. Cross-selling efforts can stabilize the economic viability of small tickets
6. During Covid-19 pandemic small tickets can be used to support ailing export companies or branches of the industry
7. Generally it should be analysed whether the market for export loans, including small tickets, should be opened for all interested commercial banks with possible refinancing options by Development Bank of Belarus

12. Annex. International framework for official financial support

12.1: WTO, ASCM (1/3)

World Trade Organisation (WTO), Agreement on Subsidies and Countervailing Measures (ASCM)

- Prohibited are: “subsidies contingent, in law or in fact, whether solely or as one of several other conditions, upon export performance, including those illustrated in Annex 1” (Art 3 par. 1 lit. a) ASCM)
- Annex 1 to the ASCM Agreement: **Illustrative list of prohibited Export Subsidies** offers **two permitted exceptions** from the general prohibition of export subsidies:
 - a) For **Export Credit Agency (ECA) support** in the form of “**pure cover**”:
 - “lit. j): The provision by governments (or special institutions controlled by governments) of **export credit guarantee or insurance programmes**, of insurance or guarantee programmes against increases in the cost of exported products or of exchange risk programmes, **at premium rates which are inadequate to cover the long-term operating costs and losses of the programmes.**”

12.1: WTO, ASCM (2/3)

b) For official finance support through **direct lending** and/or **interest support**:

- “lit. k): The grant by governments (or special institutions controlled by and/or acting under the authority of governments) of **export credits at rates below those which they actually have to pay for the funds so employed** (or would have to pay if they borrowed on international capital markets in order to obtain funds of the same maturity and other credit terms and denominated in the same currency as the export credit), or the **payment** by them **of all or part of the costs incurred by exporters or financial institutions in obtaining credits**, in so far as they are used to secure a material advantage in the field of export credit terms.”

12.1: WTO, ASCM (3/3)

b) For official finance support through **direct lending** and/or **interest support**:

➤ “lit. k) (continuation):

Provided, however, that if a Member is a party to an international undertaking on official export credits to which at least twelve original Members to this Agreement are parties as of 1 January 1979 (or a successor undertaking which has been adopted by those original Members)*, or if in practice a Member **applies the interest rates provisions of the relevant undertaking, an export credit practice which is in conformity with those provisions shall not be considered an export subsidy prohibited by this Agreement.**”

* OECD Arrangement on officially supported Export Credits (“Consensus”)

12.2: OECD Consensus

OECD Arrangement on officially supported export credits (“Consensus”)

- First issued 1963, current version: January 2020
- Participants: Australia, Canada, EU, Japan, Korea, New Zealand, Norway, Switzerland, Turkey, and USA
- Many non-Participant countries follow the OECD export credit discipline de facto or de jure
- OECD Consensus rules are **international best practice** for officially supported export credits

12.3: OECD rules for CIRR based interest support (1/2)

1. Definition of CIRR (Commercial Interest Reference Rate)

The CIRR rate is a fixed interest rate that the OECD sets for its member states on a monthly basis for a limited number of currencies as a minimum reference rate for officially supported financing of capital goods exports and related services. CIRR financing is not classified as a prohibited export subsidy and thus not in conflict with WTO/OECD rules.

2. Basic features

- Risk based interest rates (plus fees) – Art. 19 b), 21
- Referenced to funding cost of fixed interest rate finance in the domestic market of the currency concerned for first class foreign borrowers – Art. 19 a)
- Switching variable funding rates into long term stable fixed lending rates
- Shifting risk of interest rate fluctuations to the government
- CIRR rates shall not distort domestic competition conditions

12.3: OECD rules for CIRR based interest support (2/2)

3. CIRR methodology (Consensus Art. 19 and Annex XVI)
 - CIRR rates are fixed once per month and valid until the next fixing
 - The CIRR rate (“base rate”) is increased by 100 basis points (“contract CIRR”)
 - During contract negotiation the interest rate can be “reserved” for a period of no longer than 120 days; If the CIRR rate shall be reserved already at the time of the offer for the commercial contract, an additional margin of 20 basis points shall be added to the relevant CIRR (“offer CIRR”)
 - It is not permitted to offer either CIRR or floating interest rate whatever is lower
 - In a case of a voluntary early repayment the borrower has to compensate the breakage costs

About the German Economic Team



The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework. As part of the project we also work in other countries on selected topics.

In a continuous dialogue with high-level decision makers of the project countries, we identify current problems in economic policy and then provide concrete policy recommendations based on independent analysis.

In addition, GET supports German institutions in the political, administrative and business sectors with its know-how and detailed knowledge of the region's economies.

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CONTACT

Dmitry Chervyakov, Project Manager Belarus
chervyakov@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
www.german-economic-team.com
Twitter: @BerlinEconomics
Facebook: @BE.Berlin.Economics

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