Economics

The Role of Export Credit Agencies in Trade Financing

Agnieszka Dorożyńska
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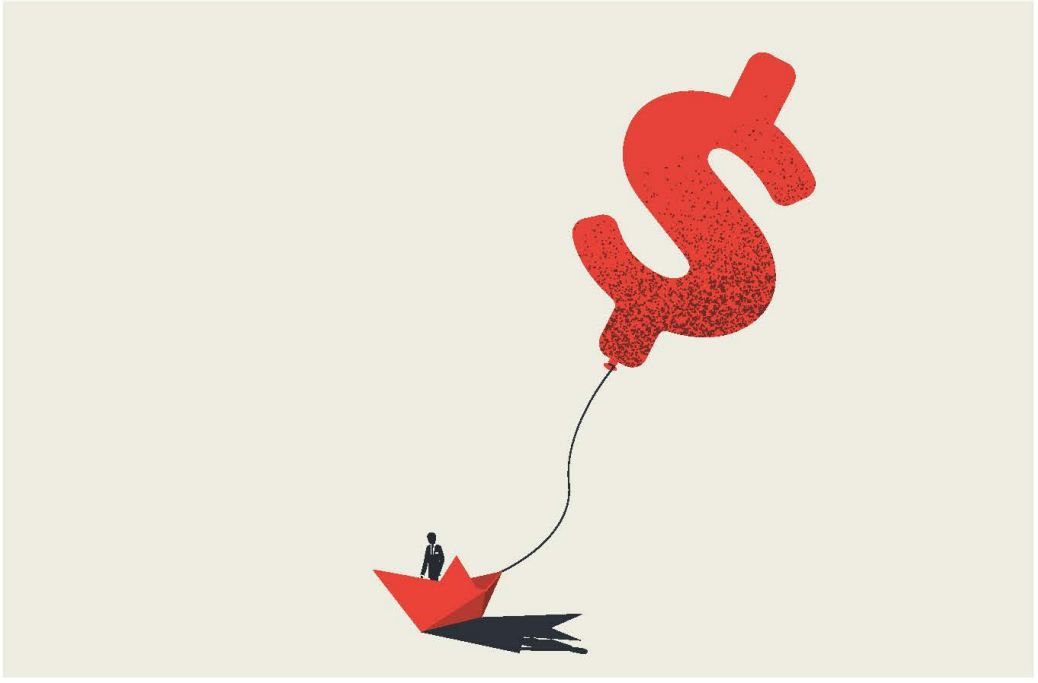

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List of abbreviations

ADB	–	The Asian Development Bank
AfDB	–	African Development Bank
ASU	–	Aircraft Sector Understanding
Berne Union	–	The International Union of Credit Insurers
CIRR	–	Commercial Interest Reference Rate
D/C	–	documentary collection
DFI	–	development finance institution
DRS	–	Differentiated Rate System
ECAs	–	export credit agencies
EEC	–	the European Economic Community
EMU	–	Economic and Monetary Union
ICC	–	International Chamber of Commerce
IFC	–	International Finance Corporation
IMF	–	International Monetary Found
IMU	–	interest rate make-up mechanism
IWG	–	International Working Group
L/C	–	Letters of Credit
MLT	–	Medium-Long Term
MPR	–	minimum premium rate
ODA	–	official development assistance
OECD	–	Organisation for Economic Cooperation and Development
SCF	–	supply chain finance
SSU	–	Ship Sector Understanding
ST	–	short term
UMM	–	Uniform Moving Matrix
UNESCAP	–	United Nations Economic and Social Commission for Asia and the Pacific
WTO	–	Word Trade Organization

Preface

In light of global crises affecting international trade, such as those triggered by the COVID-19 pandemic or the war in Ukraine, the demand for financial support and collateral for international trade transactions is growing. Export credit agencies (ECAs) can again play a meaningful role in this process as evidence shows that their importance is correlated with the occurrence of global crises. Therefore, the principal goal of the monograph consists in assessing the functioning of ECAs in the context of the challenges of the 21st century.

The book consists of three chapters.

The first one explains how international trade transactions are financed. A review of the existing studies has helped to assess the attractiveness of these products. It also enabled us to identify the most relevant factors determining the choice of specific support instruments. We do not abstract from the impact of technological change or entrepreneurs' expectations of transaction financing mechanisms. Hence, the first chapter concludes with a comparison of traditional and so-called "modern" instruments.

In the second chapter, we focused on discussing the organisational and functional structure of export credit agencies and on the long-term and complex process of harmonising the rules for ECAs' support to domestic exporters. The diversity of solutions, the non-binding nature of the OECD Arrangement, combined with the increasing difficulties of companies in sourcing and securing international transactions, contribute to the growing competition between agencies.

The aim of the third chapter is to assess the functioning of ECAs, above all against the backdrop of their stated objectives and operating strategies. The development of export credit agencies suggests, on the one hand, their striving to ensure similar conditions for competing on international markets by harmonising support rules and, on the other hand, to offer solutions to achieve competitive advantage in financing export transactions.

In this book we have used the annual reports of the Berne Union, the IMF, the OECD, as well as the EXIM Bank, which contain data on activities performed by ECAs. The development of the latter and evaluation of their performance are presented for the turn of the 20th and 21st centuries.

The publication is addressed to economists, international business representatives and students. It may also be of interest to practitioners dealing with international trade, financing of transactions – managers, experts, and employees of government agencies which offer support to exporters.

We would like to express our sincere gratitude to Reviewers, Professor Krystyna Żołądkiewicz from the University of Gdańsk and Professor Rafał Śliwiński from the Poznan University of Economics and Business, for their insightful comments and suggestions. They helped us in refining the final text and eliminating a number of shortcomings of the original version. Any errors that remain are the authors' sole responsibility.

Chapter I

Theoretical foundations of trade finance

1.1. Introduction

International trade, one of the oldest and simplest forms of economic cooperation between countries, by most economic theories is viewed as an activity bringing benefits to the economy. It impacts the GDP and its structure, generates specialisations, promotes and facilitates technological progress, improves competitiveness, productivity and the quality of products, and reduces costs. When goods are exchanged in international market which brings together the buyers and the sellers new growth opportunities emerge.

Today, hardly any company can operate successfully without having at least indirect business contacts abroad. For business internationalisation, transaction financing is crucial. The aim of this chapter is to discuss mechanisms and products of foreign trade financing against the backdrop of changes observed in the economy, technology development and the growing expectations of enterprises in ensuring quick and secure contract settlements. A review of previous research results on the attractiveness of traditional instruments used by companies will help to identify factors determining the choice of particular mechanisms. Due to the increasingly important role played by IT solutions, also in financing foreign trade transactions, the chapter concludes with a comparison of traditional vs. modern instruments.

1.2. Trade finance and international trade growth

Contemporary economic system is increasingly tending towards tighter economic ties, deeper interdependence and intensified trade relations between entrepreneurs and economies. In addition, factors such as, e.g., economic

specialisation, the free movement of capital, goods and services, and the liberalisation of barriers have contributed to increasing levels of international trade.

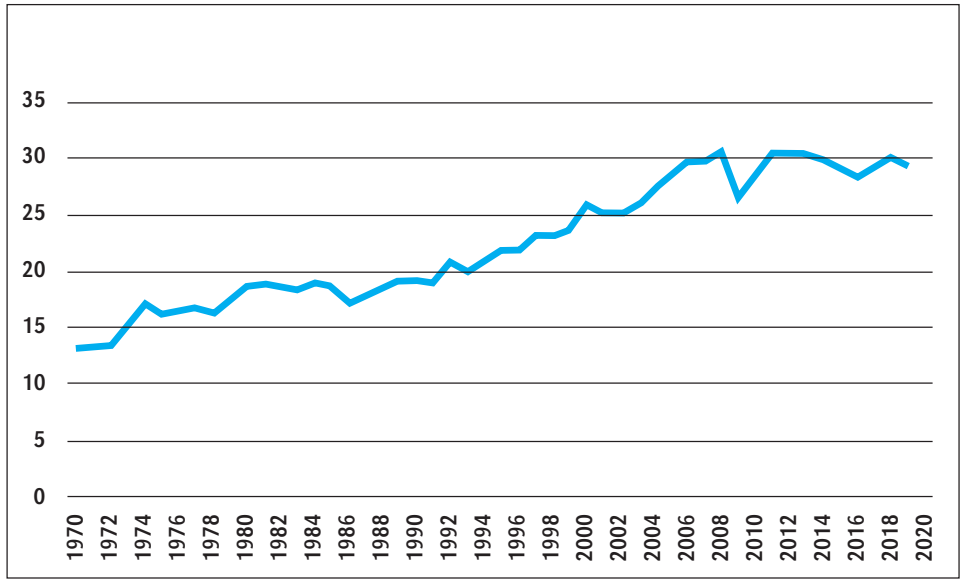

Figure 1.1. Exports as share of GDP over the period 1970–2020 (in %)
Source: own compilation based on https://data.worldbank.org/ (accessed: June 2022).

The above-presented figure shows that the growth of exports over the last five decades has been significant. Exports of goods and services (as % of GDP) have doubled, which can certainly be attributed to the integration processes, increasing economic dependencies between countries, specialisation of products, as well as the development of innovations in the area of transaction financing.

From the figure 1.1. we can also easily see a significant decline in world trade which occurred in 2009. Data published by the WTO inform that at that time the volume of world trade decreased by 12%. However, exports of goods in North America and Europe plunged 15%, much more than in South America (8%) or Asia (–11%) (WTO, 2010). The decline was much deeper than in the 1930s in the times of the Great Depression, in 1965 (–7%), 1982 (–2%), or in 2001 (–0.2%). This time, the main reason was the 2007–2008 crisis of the global financial system. Economic downturn brought about by COVID-19 had a devastating effect on international trade in 2020, which witnessed some of the biggest reductions in trade and output volumes since World War II. That could be largely attributed to efforts intended to prevent the spread of the COVID-19 pandemic when countries around the world were adopting various restrictive measures which, in turn, exerted negative impact on international trade in goods in 2020.

Following deep recession in 2020, in 2021 international trade began to steadily recover after trade rebound reported for China, Europe and in the US. Overall, the world trade over global output ratio (an indicator commonly used to determine globalization trends) decreased from 28% in 2019 to about 25% in 2020, to increase to almost 30% in 2021 (United Nations, 2022).

Developments in trade finance appear to have followed what was observed in merchandise trade and in the supply of credit to the real economy. In 2020, shrinking volumes of goods and services exchanged in international markets and restricted supply from credit providers led to significant reductions in short-term trade finance. The latter was partly compensated by medium-term trade finance as governments decided to ensure additional support by offering credit insurance and guarantees. In spite of all disturbances, in 2020 risk entailed by trade finance remained at relatively low levels. The volumes of global trade recovered in 2021, however, trade finance continued to be rather unpredictable and volatile as a consequence of supply chain disruptions and skyrocketing prices of commodities, manufacturing, shipping and labour. Forecasts for 2022 suggest that the expansion of trade will continue although at a slower rate and similar trends are expected in trade finance. Bottlenecks caused by global supply chain disruptions should be resolved helping to keep up the pace of trade recovery (ICC, 2022).

Financial crises and rapid downturn in international trade have drawn attention to how trade is financed because vast majority of concluded transactions (80–90%) are linked with some kind of credit, insurance or guarantee. Therefore, trade finance is often called the lifeblood of trade, but it also contributes to trade development by supporting it (UNESCAP, ADB, 2019; ADB, 2019; WTO, 2016). Trade finance is critical as a tool that allows to reduce the risks associated with imports/ exports of goods and services (ICC, 2017).

Be it in developed or developing countries, manufacturers and traders in export/import business seek to ensure the availability of trade finance and insurance tools which help them to enter foreign markets and successfully integrate in world trade. Therefore, a mechanism leading to the use of deposits and savings in an efficient manner, one of which may be a secure and highly collateralized credit system such as trade finance, is the basis for trade to occur (Auboin, 2009).

One of the reasons why global trade thrived in the early 21st century (at least until 2008) was the expansion of the long- and short-term sources of its funding. For decades trade finance has helped in developing international trade and has become the key catalyst for its expansion. Global trade flows have tripled since 2000 from more than 6 to more than 18 trillion USD in 2019, however, the pattern of global trade flows remained almost unchanged with devel-

oped and select emerging economies playing the major role (WTO, 2020). For example, Africa's rates of trade growth are one of the lowest compared to other regions of the world, which means direct support, trade finance including, is necessary to change this picture (AfDB, African Export-Import Bank, 2020).

Financial crises, in particular the Asian and Latin American crises of the 1990s, economic downturn of 2008–2009, or the crisis triggered by the pandemic, have revealed that the business of financing trade can be subject to serious disruptions, through the transmission of distortions in segments of the financial industry. Although there are commercial risks involved in short-term financing, for example, when an exporter cannot protect itself against not being paid for goods if an importer becomes insolvent, together with other risks (relating to transport, exchange rate fluctuations, or political situation), the operation is seen as relatively safe due to its short maturity dates.

One of the first institutions to highlight the key role of trade finance as a factor indicating significant declines in international trade was the WTO. In research carried out in 2009 Auboin demonstrated that 10–15% of the drop in international trade flows could have been caused by a decrease in trade finance. Studies show that the level of exports is highly dependent on the external financing capacity of companies. It appears that firms characterised by a stronger reliance on external finance, report lower exports. In addition, limited availability of financial instruments and financial crises undermine exports when firms strongly rely on external finance (Vaubourg, 2016). Chor and Manova (2012) identified a link between imports from the US and credit terms and conditions offered during the latest financial crisis. The results of studies have confirmed that exports to the US from economies which offer more stringent credit terms and conditions for export transactions were smaller. The paper by Amiti and Weinstein (2011) highlights a relationship between how much companies export and the performance of institutions from which they receive finance. The authors claim and provide evidence showing that the financial standing of banks which supply finance impacts exports much more strongly than domestic sales, meaning there are differences in how financial upheavals impact exports and domestic sales.

Trade finance provides not only liquidity but also security for the global movement of goods and services. Methods and instruments for financing transactions involving banks will be presented in the following sections of this publication. These are relatively well known and used, e.g. documentary letters of credit, which banks exchange on behalf of their clients and which represent a commitment to pay for exports or imports following the presentation of specific documents connected with the supply of goods (shipping and insurance documentation or commercial invoices). Instruments offered by the banks include

short-term or long-term credit, discount L/C or the provision to the exporter of an advance guarantee, to ensure, e.g., that the working capital of a company is sufficient to continue its operations in the period before shipping the goods or between the shipment and the receipt of the goods from the importer (pre- and post-shipment financing). There are other forms of letters of credit, such as supplier credit, bills of exchange or promissory notes, which do not necessarily involve a bank intermediary. Transaction financing mechanisms using modern IT solutions are becoming increasingly important. Special role is also played by ECAs and private insurers proving insurance and reinsurance against all kinds of risks, including non-payment, losses in transport, political risks and currency risks.

1.3. Financing export/import transactions

Trade finance, broadly defined, can be described as any arrangement for financing aspects of commercial transactions between companies. In line with this definition, an ordinary trade credit is an example of trade finance. In practice, businesses rely primarily on inter-firm trade credit, as a result of which the exporter directly finances a given commercial transaction (open account method) or the importer makes a pre-payment (cash in advance/pre-payment method).

Defined in a narrow way, trade finance consists in the financing of international trade transactions by financial intermediaries. The latter have a wide array of trade finance services on offer (direct loans and overdraft facilities) for companies seeking to receive working capital. Financial intermediaries are also ready to provide specific trade finance products designed to protect exporters against their importers' default risk, such as the letter of credit (L/C) and documentary collections (Accominotti, Ugolini, 2019). The IMF, Bankers Association on Finance, and Trade International Financial Services Authority conducted a survey which has demonstrated that L/Cs are the most commonly used in international trade finance (ca. 47% of transactions) compared to open account transactions (26%) and cash–in-advance transactions (27%) (IMF-BAFT/IFSA, 2011). Entrepreneurs are increasingly recognising the benefits and engaging in internationalisation of their business activities. However, operating on the international market requires companies to make large investments of both a strategic, personnel and financial nature (Daszkiewicz, Wach 2013, p. 39). In addition, to a large extent, the internationalisation of enterprises' activities is also determined by a number of external factors (e.g. the country's pro-export policy, available information, financial and insurance instruments, competition on foreign markets).

In addition to the classic factors of competition on the international market, which include price, quality, delivery date and payment terms, the method of financing transactions is also an extremely important factor. The intensifying competition on the global market often forces exporters to defer payment terms to their foreign partners. By using trade finance mechanisms and tools businesses get what they need to allow for the movement of goods and services, especially those intended to ensure liquidity and security (Auboin, Meier-Ewert, 2008). Crediting customers makes it possible to increase the number of customers and to retain the existing ones, and the offer of financing is also relevant as a component of international marketing in the strengthening of the market position of a business. According to Rutkowski, one of the two functions of deferred payment (trade credit) is the marketing function (Rutkowski 2003, p. 417). Thus, the manner as well as the sources of financing of international transactions are important factors conditioning the conclusion of a contract. Exact figures showing the scale of trade finance are not available, however, it is expected that between 80 to 90% of global trade relies on its solutions for short-term transactions (mainly deferred terms of payment, insurance, and guarantees) (WTO, 2009). Nowadays, businesses engaged in export/import transactions have different ways to finance their activities.

Although, as already mentioned even as much as 80% of trade is financed by credit or credit insurance, trade finance instruments are not available equally to regions and countries. Limited or no access to trade finance seriously impedes the exchange of goods and services especially, although not exclusively, in developing economies. In addition, small and medium-sized enterprises (SMEs) are faced with serious obstacles in getting access to affordable financing. Almost 60% of trade finance requests made by SMEs are rejected compared to only 7% rejection rate for multinational firms. To complete the picture, SMEs represent only 15% of the total trade finance portfolio of banks (WTO, 2019). Thus, attractive financing conditions become particularly important in trade with developing countries (Bielawska, 2006, p. 100). They are also important for SMEs as access to external sources of financing contributes to the strengthening of their competitive position and the development of opportunities for expansion into foreign markets. In the past SMEs focused their activities primarily on their domestic markets, today they are vital elements of fractured supply chains. Sourcing strategies pursued by large multinational companies in the global market have assigned new roles to SMEs in international trade where they act as third-party suppliers, producers, and distributors (Lotte van Wersch, 2019).

In general, several criteria can be distinguished to classify export transaction financing. The table below shows the types of transaction financing, taking into account the different criteria.

Table 1.1. Classification of export/import transaction financing

Criterion	Types of financing
Stages of transaction financing	– financing the manufacturing process – financing the settlement process
Recipient of funding	– exporter – loan for the supplier – importer – loan for the buyer
Sources of finance	Internal – own resources
	External: – private funds – public funds
Financing entity	– banks (domestic, foreign) – export credit agencies – non-financial institutions
Financing period	– short-term – medium-term – long-term

Source: own compilation.

Two stages can be distinguished in financing export transactions. The first stage relates to the financing of the production cycle, i.e. the costs associated with the manufacture of the object of the contract. The second stage is linked with the settlement cycle, i.e. the period from the moment the goods are dispatched until the payment for the delivery is received. The financing of these stages usually requires the involvement of external sources in the form of a bank loan or an advance from the business partner. As a rule, there is some correlation between the size of funding required and the type of goods involved in the contract. When investment goods are exported, which usually need a longer production cycle, the demand for external sources of financing is significantly greater than when we are dealing with consumer goods, for which the contract value is lower and the production and settlement cycles are significantly shorter. In such cases, the exporter's own funds with advance payment from the buyer,

or possibly supplemented by a short-term bank loan, are sufficient to finance export transactions for consumer goods. Exports of capital goods, on the other hand, take place within the framework of medium- to long-term credit transactions, which, of course, may include trade credits but these will generally be refinanced by banks in the case of supplier credit or bank loans to the foreign buyer (so-called buyer credit) (Treder, 2003).

Transaction financing includes a wide range of financial instruments that companies are eager to use to bridge the gap in financing the trade cycle between paying suppliers and buyers. Suppliers need funding provided on time to pay for material and labour. Thus, in this case trade finance becomes an intermediary in managing payment and supply risks by offering accelerated receivables to suppliers and extended credit to the buyers. Typically, exporters extend trade credit to their foreign counterparties and then refinance it with financial institutions. Financial institutions involved in this process include large national and international banks whose structures include sections specialised in trade finance, as well as local commercial banks. Export credit agencies or non-bank lenders also play an important role.

1.3.1. Trade finance products

There are several methods of payment in international trade. Most often, a commercial transaction takes place between two parties:

- an exporter, who wants to receive payment for his goods or services
- an importer, who wants to make sure that he pays for the right quality and quantity of goods.

The responsibility to settle the obligations arising from the sales contract rests on the buyer. Two aspects leading to the creation of a credit situation are delivery and payment as in international trade delivery and payment obligations are not simultaneous. Instruments important for trade finance include the introduction of a third party into the transaction to reduce payment and delivery risks. These tools are there to make sure that the parties settle their receivables within a predictable timeframe and in accordance with the contract.

Trade finance transactions may involve, among others:

- banks (importer, exporter, intermediary),
- trade finance companies (banks, factors),
- importers, exporters and their sub-suppliers and subcontractors,
- insurance companies (national, international),
- export credit agencies.

We can distinguish three main payment methods:

1) cash – in – advance,
2) bank trade finance,
3) open account.

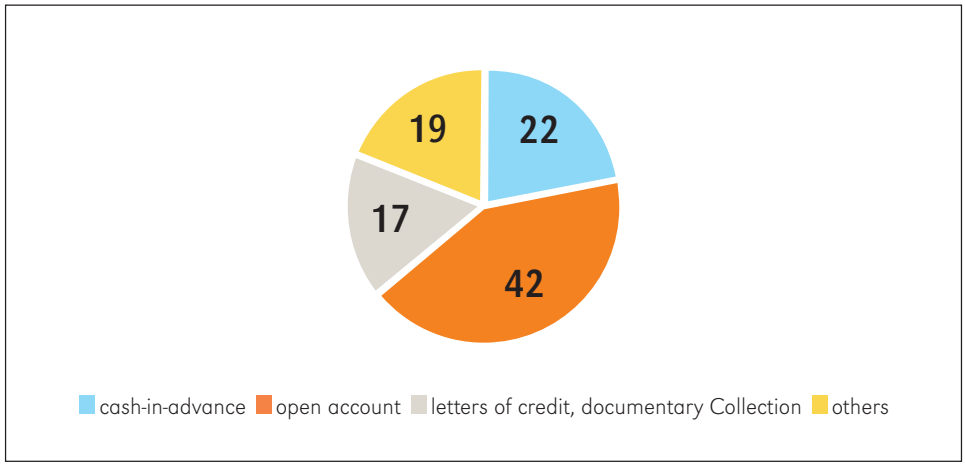

Figure 1.2. Methods of payment used in trade finance (%)
Source: Franzetti C., (2021).

A significant proportion of trade finance (over 60%) takes place through open-account exchange between companies. Under such arrangements, trade finance takes the form of a credit that firms in a supply chain extend to each other. However, banks also have a key role to play in trade finance by providing credit or guarantees as well as by setting up and managing payment mechanisms between the parties. The list of products offered by banks includes, e.g., letters of credit, in which parties to the transaction (importer and exporter) entrust the settling of transactions to their respective banks in order to reduce the risk of each party. Bank intermediated trade finance products account for around 30% (fig. 1.2).

Ad 1. Cash-in-advance: The seller receives the payment before the ownership of the goods passes from the seller to the buyer. This payment term provides the seller with security and upfront working capital which he can use to manufacture and ship the goods. Cash in advance arrangements are most secure for the seller. At the same time, cash-in-advance is the least attractive from the buyer's perspective, as it may create cash flow disturbances. In international transactions buyers may also have doubts whether they will actually receive the goods since under these circumstances they bear all the risk. The solution is most frequently used when the exporter is not sure whether the importer will pay for ordered goods or services (this often happens for the first transaction between the parties) or where the lack of stability (economic and political) in the country where the importer is based may result in difficulties to obtain payment. Cash-in-advance options available to exporters that are used the most frequently in international sales are wire transfers and credit cards.

Ad 2. Bank-intermediated trade finance is a solution that allows importers/exporters to shift some of the risks (relating to, e.g., non-payment or non-performance) to banks. There are also bank financing solutions under which the exporter is paid even before the importer is required to make the payment. Apart from banks, trade finance markets also comprise insurance companies and other non-bank financial institutions operating in a manner similar to banks.

Banks may play roles over and beyond simply providing the channel by which money is transferred from importer to exporter. For example, the exporter's bank may also send the documents awarding the ownership title to the goods (e.g., shipping documents) to a bank in the importing country stipulating that these should only be released to the importer when the importer hands over the money to pay for the goods. Other frequently used payment methods are, for example, documentary letter of credit or documentary collection.

Typically, the letter of credit (L/C) (fig. 1.3) is offered by a bank. It is the oldest and the simplest instrument that caters for exporters' needs relating to the working capital and default insurance.

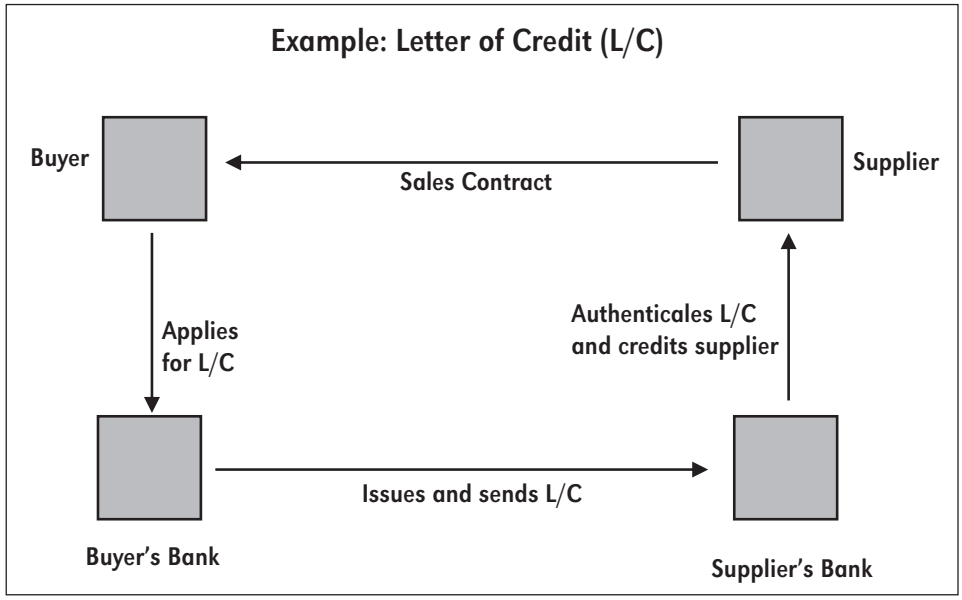

Figure 1.3. Letters of Credit (L/Cs)
Source: own compilation based on Lotte van Wersch, (2019).

A letter of credit (or documentary credit) is an instrument which provides an exporter with a guarantee of receiving a payment from the importer for goods that have been shipped. For the payment to happen, a set of documents providing evidence of such shipment must be presented. The bank of the buyer (importer) guarantees the payment to the seller (exporter) irrespective of whether

the buyer actually pays for his order. As the risk of non-payment by the bank which issues the L/C still remains, the L/C is often "confirmed", which means that the exporter's bank also guarantees the payment.

By using a documentary collection (D/C) mechanism, the exporter entrusts its bank (remitting bank) with the collection of the payment for goods or services sold to the importer. The remitting bank sends the documents needed by the buyer (invoice, certificate of origin, insurance certificate, and a packing list) to the importer's bank (collecting bank) stating that they can be released to the buyer for payment. Banks engaged in the process receive the payment from the importer in exchange for documents (collecting bank) and remit it to the exporter (remitting bank). D/Cs consist in using a bill of exchange (a draft) calling upon the importer to pay the face amount at sight (document against payment) or on a specified date (document against acceptance). In addition, there is a collection letter which specifies what documents are required to transfer the title to the goods to the importer. Despite the fact that banks act as facilitators for their clients, there is no verification mechanism built-in in the process and recourse possibilities in the event of non-payment are rather limited. This method of payment is recommended when exporter and importer enjoy an established and ongoing trade relationship marked with trust. Under such circumstances, this method can contribute to simplifying export transactions, offering faster payment, and reducing costs compared to a L/C, which usually is also a more expensive instrument (fig. 1.4).

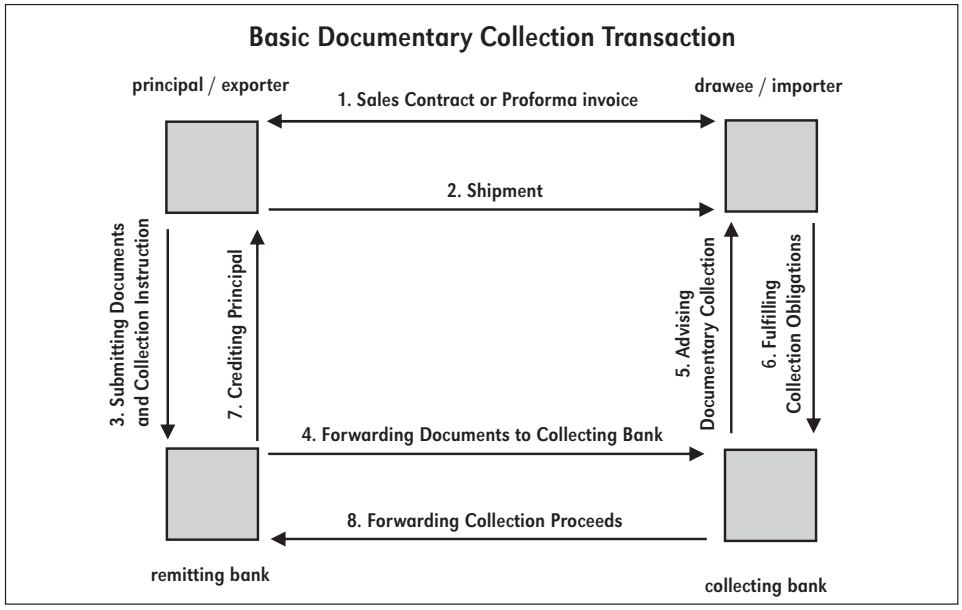

Figure 1.4. Transaction settlement using documentary collection arrangement
Source: own compilation based on Lotte van Wersch, (2019).

Ad 3. Open account trading is considered to be the main alternative to traditional bank trade finance. Most writings devoted to trade credit seek to explain why firms decide to avail themselves of trade credit financing if they can use financial intermediation of specialised banks. Existing theories argue that the advantage of suppliers over the banks lies in a better assessment of borrowers' creditworthiness, but also in monitoring borrowers' revenue, better ability to enforce the repayment of credit, renegotiate debt or take care of inventory repossessed upon borrower's default. (Chod, Lyandres, Yang, 2019).

In open account trading, direct responsibility for the obligation to pay for the transaction falls upon the buyer (fig. 1.5).

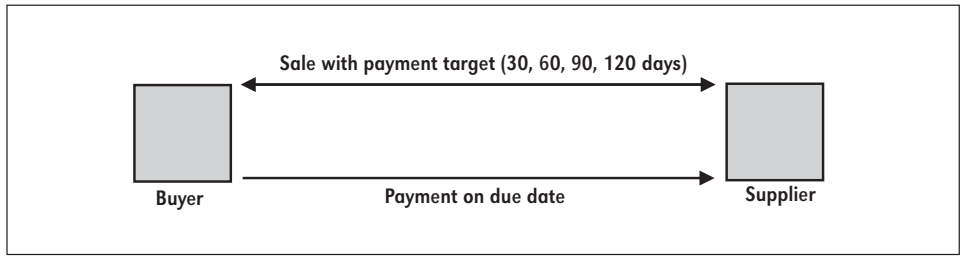

Figure. 1.5. Open account trading
Source: Lotte van Wersch C., (2019).

This solution is applied in inter-firm financing and may be the source of as much as 70–90% of trade finance. An open account transaction takes place when the shipment and delivery of goods have taken place before the payment is due, that is in 30, 60 or up to 120 days. Trade credit can be granted in the form of (Treder, 2003):

– open account credit,
– export bill discounting.

For suppliers this option is the least secure as they not only bear the risk of non-payment but often have to ensure the liquidity of the transaction. Importantly, such settlement is not secured by anything. This form of credit is usually applicable in fixed deliveries between partners who rely on established relationships, trust, and for low-risk markets.

A more common form of trade credit is bill of exchange credit. It consists of the exporter supplying goods and, through banks, providing the importer with export documents in exchange for the importer securing payment. The attached bill of exchange acts as security for the seller against the risk of not receiving payment. An acceptance on a bill of exchange by a bank, whose client is the person on whom the trata is drawn, in practice implies the granting of acceptance

credit by that bank. Since banks only give acceptance to reliable customers, so bank acceptances are considered to be very safe and reliable instruments. In the case of a promissory note, it is common practice for the bank whose client is the issuer of the note to make the acceptance. Payment can then be made by documentary collection or a documentary L/C. Such a mechanism allows payment to be deferred over time while protecting it against the risk of non-payment. Loans secured with bills of exchange are short-term loans, usually the maturity of this instrument does not exceed 180 days. The exporter can discount the bill of exchange before its maturity date, thus obtaining a discount credit from the bank. There are estimates suggesting that open account trading is currently used much more frequently than L/C.

In international trade there is also consignment, a form of open account in which the exporter receives the payment only after an independent foreign distributor has sold the goods to the final customer. Such a transaction relies on a contractual arrangement between a foreign distributor (who manages and sells goods received from the exporter) and an exporter who remains the owner of the goods until they are sold. Obviously, exporting on consignment entails many risks to the exporter having no guarantee of payment in a situation where in practice goods remain in the hands of an independent foreign distributor. This arrangement is usually recommended only for partners having a long-term relationship based on mutual trust or when dealing with reputable distributors and providers. Due to the scale of risk faced by exporters, the latter should take sufficient care to provide insurance that covers the goods starting from transit until they are sold to the end customer and mitigates any damages resulting from the non-payment by the buyer.

1.3.2. Trade finance optimisation in international trade

Trade finance optimisation involves the selection of sources of finance that are viable in terms of availability to the company and the diversification of financial instruments, taking into account the requirements or specificities of the export/import market and the interests of the parties to the transaction. The use of optimal financial instruments for a transaction provides security against export risks in the broadest sense. International market activities are subject to greater commercial, political, financial and currency risks than operations on domestic markets.

In view of the risks involved and their level of acceptability by the exporter and importer in settling international trade transactions, we can identify preferred products of each partner (fig. 1.6).

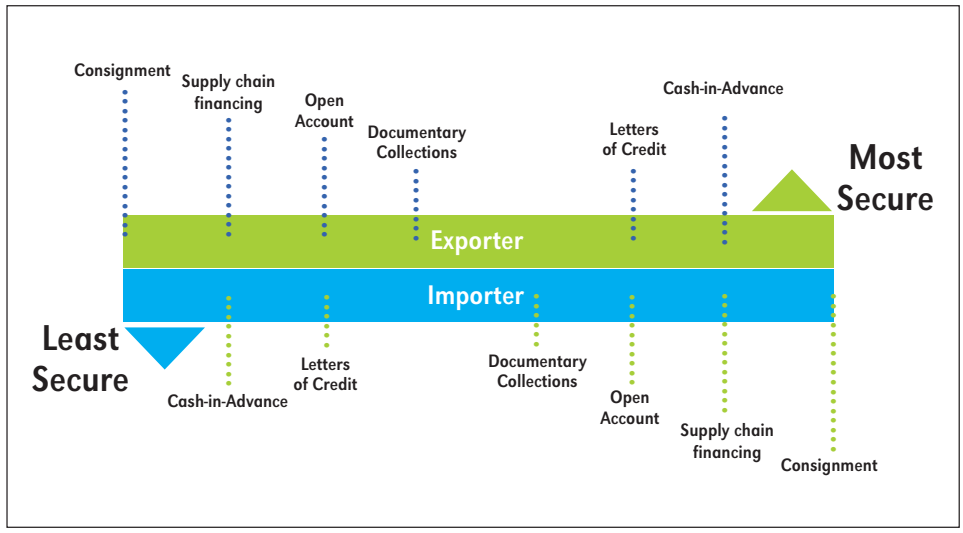

Figure 1.6. Payment risk diagram
Source: own compilation based on https://www.trade.gov/methods-payment (accessed: June 2022).

In general, the determinants of optimal export financing can be classified into two groups:

1) internal/domestic determinants,
2) external/international determinants (especially of the importing country).

The first group includes factors related to:

– the product – type and specificity of the product, its individualisation, market and price competitiveness, the market for the product and its characteristics;
– the exporter's company – financial standing, commercial policy and strategy, commercial brand and prestige;
– the economic situation, including, in addition to the economic situation, the situation on the credit market,
– national export support policy – measures to stimulate exports and export production, including treaty policy, domestic and foreign credit policy, tax policy, opportunities and constraints on state export financing arising from international agreements and membership in international organisations such as OECD, WTO, etc.

The second group includes factors such as:

– specificity of the importing country – formal and legal import regulations, economic and political situation, exchange rate stability, location and infrastructural conditions with regard to logistical issues of delivery organisation and execution;

– characteristics of the recipient/contractual partner – financial standing, reliability, position and prestige, attitude to ethics and good business customs, relations with foreign partners, as well as the specificity and terms of the transaction.

A number of external and internal determinants, such as, e.g., formal aspects, competitive position, knowledge about export/import market and its specificity are reasons why open account financing is the solution underlying the largest share of transactions in global trade. An open account transaction is a sale where credit is extended directly by the exporter to the importer, usually on some pre-determined terms (e.g., payment due 60 days from the delivery), although arrangements adopted for open account payments are very diverse. Deferral of payment or providing financing that helps the buyer in meeting its payment obligations take place more frequently than one could expect. Exporters not only supply importers with working capital but are ready to take on the risk of non-payment while goods are transferred from the seller to the buyer in exchange for an obligation to pay at a later date. Contractual provisions define the conditions for granting trade credit to the foreign partner, particularly with regard to the choice of credit method as well as the security of receipt of payment, due to the higher level of risk. The importer settles with the exporter consecutively after the deliveries have been received. This financing of trade may come in different forms, with or without the participation of financial institutions. Results of studies for Turkey, Chile, and Colombia confirm that open account financing is used in ca. 80% of reported transactions (Ahn, Khandelwal, Wei, 2011) and (Demir, Javorcik, 2018).

By examining internal and external determinants we can decide under which circumstances the payment made before the goods are shipped is seen as the most secure method of doing business for the exporters. There are several reasons that explain why firms, especially exporting ones, opt for cash – in – advance (table 1.2).

Table 1.2. Arguments for choosing cash-in-advance: exporter and importer perspective

Argument	Seller	Buyer
Transaction warranty	– for manufacturers of specialised goods, prepayment protects investment ventures from non-payment caused by customer bankruptcy, which could occur after production has already started;	– highlights buyer's credibility if information asymmetry matters; – weak bargaining power; – signals the ability to fulfil the contract and thus in many instances cash-in-advance enhances the

Table 1.2. (cont.)

Argument	Seller	Buyer
	– uncertainty about the buyer's credibility, this risk increases especially in international markets.	probability of signing a contract.
The relative bargaining power between exporter and importer dictated by the intensity of competition and the type of products traded in a given market.	– exporters whose bargaining power is higher may require their customers to pay in advance, especially when contracts cover goods for which elasticity of demand is lower or when importers depend highly on their products.	– in highly competitive market conditions, smaller sellers offer longer credit periods to large and trustworthy importers.
Pre-payment as reverse trade credit.	– exporters whose financial performance is poor, seek to finance production with advance payments received from their better performing buyers (importers).	– if importers have information advantage over traditional lenders in funding exporters (in particular among partners operating in similar lines of business); – buyers may consider the relationship to be much more valuable than it would appear to banks, especially when goods traded between the parties are very specific and finding an alternative seller is far from easy; – the switching of costs by the seller may be viewed as beneficial by buyers wishing to maintain the long-established relationship and ready to sponsor their business partners with prepayments. In some cases, prepayments for specialized products may be the effect of sellers' market power. Customers who depend on the seller may decide that prepayment which supports the operations of their supplier facing temporary financial problems is an optimum solution.

Source: compiled based on Ngoc Thang Doan, Thi Kim Chi Vu, Thi Cam Thuy Nguyen, Thi Hong Hai Nguyen, Kieu Trang Nguyen (2020).

Research findings suggest that prepayments made by importers to exporters are indeed beneficial if the latter are SMEs as larger firms do not appear to draw meaningful benefits from additional cash in advance. That was evidenced by research findings obtained by (Eck, Engemann, Schnitzer, 2015) who found out that SMEs whose cash-in-advance share was by 1% higher enjoyed a 15% higher probability to export.

According to estimates presented in 2017 by Niepman and Schmidt-Eisenlohr, almost 13% of global trade is financed through L/Cs complemented by an additional 1.8% financed with documentary collections. The researchers also demonstrated that L/Cs are used more frequently when high value payment guarantees are at stake (e.g., when goods are imported to a low income country). However, attention needs to be paid to the fact that L/Cs or guarantees may be little or not at all attractive in case of low-value transactions as the operational costs they entail is relatively high. Usually, for traditional trade finance arrangements the cost-to-income ratio ranges between 50 and 60%. It means that half or more of the price charged to clients for trade finance is consumed by operational expenses before covering the costs of risk, liquidity and capital (OECD, 2020, p. 7).

The above discussed disadvantages may be the reason why long before the financial crisis, buyers and suppliers have turned towards "open account" financing which does not need any active intermediation. Being one of the most advantageous solutions to the importer in terms of cash flow and cost, open account financing continues to entail the highest risk for the exporter. Opting for open account terms of payment stems from the pressure exerted by the buyers on exporters in highly competitive foreign markets as the extension of credit by the seller to the buyer is more common abroad. Exporting companies not willing to extend credit to importers may lose a transaction to their competitors. Besides, open account terms offered by exporters can still be competitive, yet they may help to mitigate non-payment risk by using appropriate trade finance techniques. Also, exporters who are ready to offer open account terms, may receive extra protection from export credit insurance. Intentions behind using open account include increasing sales in order to launch new production lines or to expand the existing ones and circumstances when the exporter wants to test a new product in the market or a new market abroad (Seyoum, 2021).

When doing business in high-risk destinations, L/Cs are the principal instruments to mitigate the risks involved in international trade (Lotte van Wersch, 2019, p. 11). Letters of credit also solve the working capital-related issues. In countries where financial cost of working capital is low, L/C is a more favourable instrument for business partners than cash-in-advance or open account. If the main goal is maximising exporter profits, a transaction should be financed

by the party based in the country with lower costs of financing and weaker enforcement of contracts. Similar financing costs can be ensured when exports to a country where enforcement performance is poor take place through cash--in-advance arrangement, while countries with efficient law enforcement should be supplied through the open account solution. In cases when trade occurs between two firms in countries with poor contract enforcement performance, the best solution is bank finance (L/C) as it resolves commitment problems on both sides. (Schmidt-Eisenlohr, 2013).

Advantages and disadvantages of consignment payment to exporters and importers are presented in the table below.

Table 1.3. Pros and cons of transaction settlement using consignment payment

Transaction partner	Enabling factors	Barriers
Importer	1. Payment takes place after goods have been sold to the final recipient. 2. Goods are received quickly.	1. May require managing large inventories.
Exporter	1. Lower costs of storage. 2. Easier inventory manage ment. 3. Improved competitive position.	1. Delays in payment/ risk of non-payment. No guaran tee of receiving payment until the transaction is completed. This ties up limited credit facilities often leading to liquidity problems for many exporters. 2. Lack of access to and management of merchan dise.

Source: Consignment Payment Method in International Trade – Pros And Cons, https://www.toskglobal.com/2021/02/19/consignment-payment-method-in-international-trade-pros-and-cons/ (accessed: June 2022).

Barriers such as the ones presented in the table can be overcome by using consignment sales in dealings with overseas customers with extremely good credit ratings who the exporter knows well. Other cases when consignment is the best option include situations of increasing demand for a product for which a proportioned stock is required to meet such need (Katzman, 2011) or when a seller wishes to test new products in the market or to test the market in a new country. Besides, consignment improves the competitiveness of exporters by ensuring better availability and faster delivery of goods. Finally, selling on con-

signment surely helps exporters reduce storage costs and improve inventory management process.

In 2009 the IMF carried out a survey which revealed that importer finance (cash in advance) is selected in 19–22% of international trade transactions while exporter finance (open account) accounts for 42–48% of such transactions and bank intermediation (L/C and documentary collection) for the rest. These results suggest that foreign buyers exploit intense competition in export markets to exert pressure on exporters to offer open account terms under the threat of losing sales to their competitors if they do not want to opt for this solution. On the other hand, exporters need to carry out an in-depth analysis of their export markets and the creditworthiness of their foreign buyers to be sure that they will be paid in full and on time. The risk of non-payment associated with open account payment terms can be significantly mitigated by the use of trade finance techniques offered in the form of international factoring or export credit insurance (Trade Finance Guide, 2012).

1.4. New solutions in transaction financing: supply chain finance

For a long time already, international trade has been financed through instruments collectively referred to as 'traditional' trade finance (such as documentary credits). The processing of trade and export finance necessitates multiple intermediaries between the importer and the exporter. It also entails a substantial amount of work on the side of banks as they must collect and assess a lot of documents before credit application is approved. The process is also affected by regulatory and legal conditions. To banks, the complexity of regulatory framework and high fixed cost of a transaction seriously undermine incentives to provide credit to SMEs because only big transactions are profitable from their viewpoint.

For a couple of decades banks and high-tech companies have been trying to digitalize trade finance process, but most transactions are still carried out using paper documentation. However, nowadays attempts are being made to deploy better technology. It gives hope for the emergence of global networks offering easier, faster and more efficient digital transactions to all participants of international trade.

Moreover, past few years have witnessed a decisive and clear shift away from well-known mechanisms relying on the preference of importers and exporters to trade on an 'open account' basis, whereby goods are shipped and delivered before the due date.

Rapid growth of online business-to-business transactions has been observed since the 1990s. One of the challenges in the aforementioned growth of online transactions consists in the absence of a payment mechanism for foreign transactions of significant value. Payment processes available in the trade sector have not evolved and remain to be labour and document intensive. Yet, there are innovative online platforms offering payment and financing services which are beginning to revolutionise international trade. They provide an e-commerce infrastructure that is used by exporters and importers to conclude, execute and settle transactions securely online.

Business platforms have certain advantages over traditional payment methods. First, they reduce the amount of paperwork and offer enhanced visibility to exporters and importers who must comply with often complex financing and documentary requirements that increase the cost of goods by 4–6%. Estimates show that over 70% of documents need to be corrected which delays the payment. Online platforms store the documents in electronic formats ensuring participants online insight and the possibility to make corrections. Second, online platforms reduce costs as they require less investment on hardware and are less costly than L/Cs even though they offer a range of services (e.g., documentation, payment). Third, online platforms give access to service providers offering extra services, such as logistics or export financing.

However, it should be noted that the above benefits can be effectively and fully exploited when all parties involved in international trade and their service providers belong to the same platform (Seuoum, 2021).

1.4.1. Characteristics and role of supply chain finance in transaction financing

Technology advancement and growing expectations of parties to commercial transactions as to the fast, flexible and safe settlement of costs have made supply chain financing (SCF) a popular source of funding in international trade. The Global SCF Forum[1] defines SCF as the "*use of financing and risk mitigation practices and techniques to optimize the management of working capital and liquidity invested in supply chain processes and transactions.*"

Supply chain financing is usually used in open account transaction mechanisms where the shipment and delivery of goods occur before the payment is due. It connects exporters and importers with financing institutions. SCF solutions are instruments which enable the largest partner within a supply chain to

1 The main partners in the Global SCF Forum are The International Chamber of Commerce (ICC) Banking Commission, BAFT, the Euro Banking Association (EBA), Factors Chain International (FCI), and the International Trade and Forfaiting Association (ITFA).

make its superior credit rating available to its lower-rated suppliers as a result of which they can get access to financing at rates more favourable than they would have obtained otherwise. Thus lower-rated business partners benefit from longer (if they are buyers) or shorter (if they are sellers) payment terms, which improves working capital positions for both. These new solutions are available either from SCF providers (Fintechs) or directly from banks having SCF in their service portfolio.

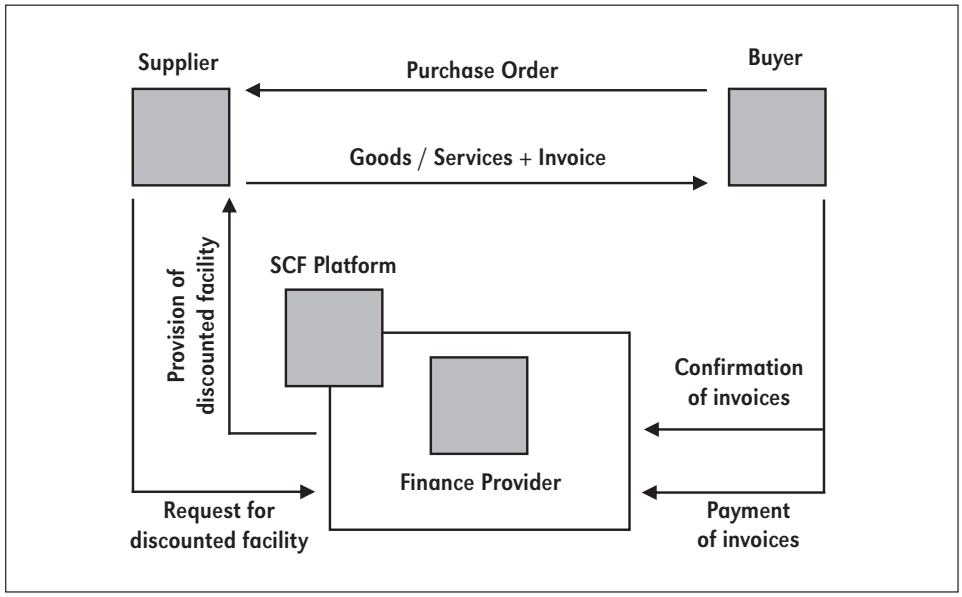

Figure 1.7. Supply chain financing
Source: Lotte van Wersch, (2019).

As shown in the figure above, supply chain financing is usually initiated by the buyer, whose higher credit rating gives access to better terms offered by banks and specialised service providers. These better terms, in turn, help to lower financing costs and improve efficiency. What is vital, however, is the unleashing of the working capital tied in subsequent tiers of the supply chain (forwarding, intermediaries and other parties involved).

The key features describe SCF as a transaction-oriented (rather than collateral) system of open account trading with relationships taking place between buyers and sellers. SCF enables dynamic pricing of uncommitted and short-term revolving grants while loans that are unsecured are accompanied by flows of real time data which helps in monitoring the transactions. Data which inform about actual performance of a supply chain come from real-time credit models (IFC, 2014).

Researchers have put forward a series of different definitions of supply chain finance in an attempt to capture the idea behind it. By referring to the management of financial flows one of them defines SCF as a "*network of organizations and banks that coordinate the flow of money and financial transactions via financial processes and shared information systems in order to support and enable the flow of goods and services between trading partners in a product supply chain*" (Blackman et al., 2013). Another speaks of optimising "working capital management, cost and transactional efficiency" along the supply chain. According to Bryant and Camerinelli SCF consists in "*using financial instruments, practices, and technologies to optimize the management of working capital, liquidity, and risk tied up in supply chain processes for collaborating business partners*" (Bryant, Camerinelli, Euro Bank Association, 2013).

SCF made available by the banking sector or in general by financial institutions significantly contributes to economic development because of its role in enhancing trade. It is a relevant economic instrument whose role is to make the exchange of goods at national and international level easier. In this function, SCF offers consumers as well as economic operators better access to commodities, raw materials, and capital equipment. Today, this rather well-established system (operating for more than seven decades) is subject to digital transformation and innovation. There are platforms which by using specially developed software and technology solutions and in cooperation with banks are able to provide instant rates and terms satisfactory to both parties.

Table 1.4. Benefits to SCF users

Benefits to importers	Benefits to exporters	Benefits to banks
1. Their balance sheet remains healthy. 2. They enjoy good relationships with suppliers. 3. SCF gives a procom petitive push and favours having diverse suppliers. 4. Importers (buyers) can reduce costs by making purchases in bulk. 5. Importers can establish relationships with complex end-to-end supply chains. 6. SCF does not prevent importers from taking loans from banks or having an overdraft.	1. Exporters (suppliers) are usually paid before the usual 30-day credit terms. 2. Financial risk is low supply chain financier provides insurance coverage. 3. No extra costs to exporters. 4. Exporters are left with cashflow that allows them to engage in numerous deals simultaneously. 5. SCF provides liquidity but also reduces financing costs.	1. SCF allows all types of finance providers acquiring assets at a discount. These assets can be sold to investors and/or bring them profit when full amount of the receivables has been collected. 2. Bank-led platforms strengthen their connection with clients, which gives the bank a competitive advantage.

Source: own compilation

To international trade and all actors engaged in it, supply chain finance is a source of potential solutions developed over time with a view to meet the needs of different markets and client segments.

From the viewpoint of the stage of transaction settlement we can identify pre-shipment finance, in-transit finance, and post-shipment finance (Lima Zhao, Arnd Huchzermeier, 2018).

Pre-shipment finance is granted to the supplier (exporter) based on a buyer's purchase order to provide it with working capital sufficient to make the necessary purchases (e.g., raw materials), carry out production processes (e.g., convert semi-finished goods into finished goods) and cover personnel and management costs. Since the loan from a financial institution is made available to the supplier at an early stage of the execution of the buyer's order, the credit risk is rather high and usually translates into high interest rate, which, however, can sometimes be reduced.

In-transit finance takes place when a bank or other financial institutions extends a loan to the borrower based on the quantity and/or quality of products or inventory that is either being transported or subject to other logistics processes. In this case, the interest rate is slightly lower compared to pre-shipment finance as the goods are already available and can serve as a collateral.

Post-shipment finance is in fact a borrowing limit pre-set by a financier that can be drawn on repeatedly by the borrower. The limit is decided based on borrower's accounts receivable that are usually discounted. In this case invoices or shipping documents can become the collateral so the risk for the financing institution is rather low, hence the interest rate is much more favourable.

At different stages of financing we can distinguish the following products included in the table below.

Table 1.5. Selected SCF products at different stages of financing

	Financier	Beneficiary	Description
Pre-shipment			
Early payment discount	Bank	Supplier and buyer	An early payment discount can be granted to buyers who pay their invoices before they are due. Typically the discount is calculated as a percentage of the value of the purchased goods (or services).
Purchase orders finance	Bank	Supplier	Financing on the basis of purchase orders that allows an injection of finance into a growing company (based on the purchase order, bank buys receivables from the supplier before actual shipment takes place).

Table 1.5. (cont.)

	Financier	Beneficiary	Description
In-transit			
Warehouse receipt financing	Bank	Supplier	A warehouse receipt financing system is a mechanism that allows using commodities as collateral to secure loans.
Inventory pledge finance	Bank	Buyer	A borrower uses its inventory to obtain funding from a bank. Goods used as collateral must be stored securely, usually they are deposited in a third-party warehouse managed by a collateral manager.
Post-shipment			
Dynamic discounting	Supplier	Buyer	Buyer receives discount from a supplier depending on the length of time needed to receive payment. Dynamic discounting reduces the cost of goods sold and boosts buyer's profitability. The solution allows suppliers to receive early payment in return for a discount on their invoices. It is referred to as "dynamic" because the discounts depend on when suppliers get paid. In general, we can say that the earlier the payment, the greater the discount.
Factoring	Bank	Supplier	A financial service involving the purchase by a factoring company (factor) from a company (factoree) of outstanding receivables from the sale of goods or services. Factoring is a form of short-term financing for companies providing so-called trade credit, i.e. applying deferred payment terms to their contractors.
Reverse factoring	Bank	Supplier	Reverse factoring involves the factor financing the customer's liabilities to its suppliers. The factor assumes the rights of the owner of the receivables. By making a payment for the client's debt to the supplier, the factor becomes its creditor. The factor acquires rights to the repaid receivable up to the amount of the payment made. As soon as the factor assumes the rights of the creditor, the client becomes obliged to settle the debt for the account of the factor.
Forfaiting	Bank	Importer	Forfaiting is a method of financing where medium to long-term future payment obligations are acquired by a financial institution at a discount in return for a financing charge. When these obligations become mature, the buyer pays the face value to the financial institution.

Source: own compilation based on Zhao, Huchzermeier, (2018).

As a rule, supply chain finance schemes are launched when either buyers/suppliers or specialized institutions of the banking sector want to offer financial assistance to suppliers/buyers suffering from working capital shortages. That means that the setting up of SCF schemes as well as the selection of SCF instruments are dictated by working capital positions in the supply chain.

Whether the selected SCF instruments achieve what is expected of them or not critically depends on how potential benefits are distributed across businesses within the supply chain. Experience demonstrates that modern SCF instruments put in place at an early stage offer the biggest gains to buyers placing relatively big orders, offering longer payment terms but, above all, enjoying higher credit ratings. Besides, goals relating to working capital need to be identified to encourage collaboration and ensure cross-functional coordination within the supply chain. SCF is a concept that brings together a variety of traditional and digital instruments, techniques, and IT solutions, as well as completely new services. Therefore the team dealing with SCF needs to closely cooperate with managers of a number of departments in a company (procurement, operations, IT, legal, treasury, and finance) (Zhao, Huchzermeier, 2018).

In summary, we can conclude that all the above-discussed, even very sophisticated finance solutions designed either for trade transactions or the supply chain come as a combination of four the following elements: ensuring secure and timely payment, effective risk mitigation, provision of financing and liquidity, and smooth flow of transactional and financial data.

Risk that accompanies all parties involved in the payment settlement process is an immanent feature of any transaction in international trade. Yet, its degree is different for different stages of the supply chain cycle. Transactions occurring within the supply chain exhibit different visibility and cash flow patterns. Banks often make the financing of the supply chain dependent on access to information and the visibility of relations between trading partners.

For banks/financial institutions, SCF-related risk depends on the stage of a transaction. It is the highest when a financial institution provides financing against purchase orders (PO), i.e., at a stage when goods have not been delivered yet to the supplier from whom the bank can pledge the collateral. Under such circumstances, the bank faces two types of risks:

1) performance risk (which materialises when the supplier is unable to deliver goods in the right quantity and of appropriate quality),
2) fraud risk (when the supplier does not make the payment because the transaction was not genuine).

Unfortunately, both these risks are high at this stage which is why the bank is usually ready to lend between 30 and 40% of the total value of purchase orders.

For the bank, financing provided against an unapproved invoice is less risky than PO financing. This is because in the first case the bank has recourse to suppliers, as buyers have not approved the invoices for payment at maturity. Under such circumstances only fraud risk applies making the overall risk lower (the deal is genuine and the probability that the buyer will pay is greater compared to the stage of filing purchase orders). For these reasons, at this stage banks are usually ready to lend 50–60% of the invoice amount.

An approved invoice is viewed by the banks as the least risky SCF product, as they have recourse to the big buyer (i.e., the party legally bound to pay) and at this stage the goods have already been delivered. Hence, banks can purchase receivables from the supplier. At this stage, both risks (performance risk and fraud risk) are very low due to a good credit rating and strong financial standing of the big buyer (IFC, 2014).

1.4.2. Growth of supply chain finance market

The period between 2010 and 2014 witnessed a meaningful growth of the SCF market and similar trend is expected to return after the years of stabilisation (fig. 1.8).

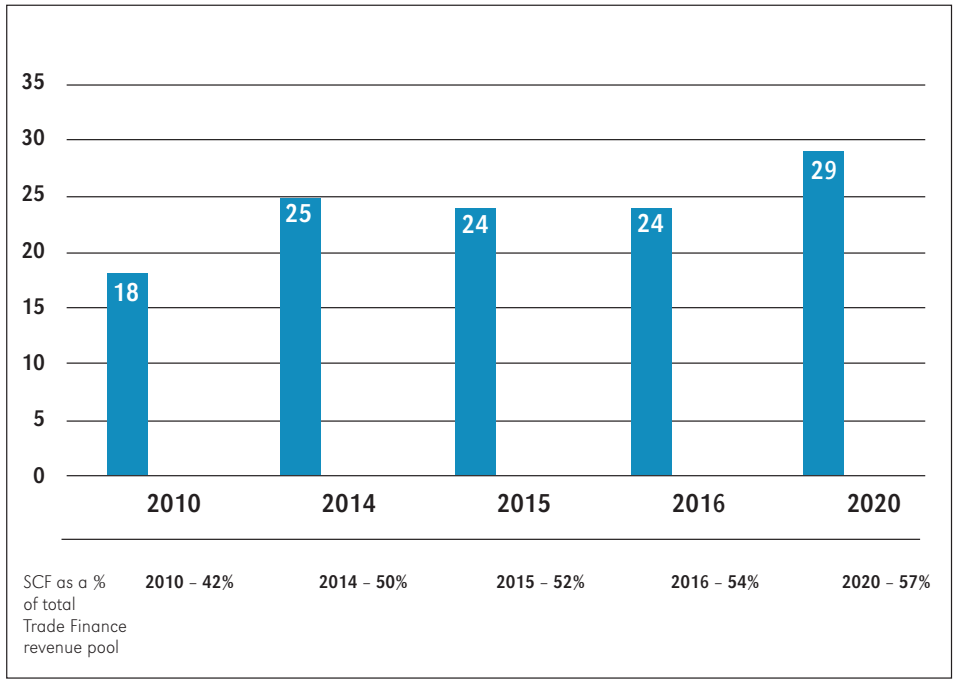

Figure 1.8. Global SCF revenue pools (billions of USD)
Source: based on Sommer, O'Kelly, (2017).

International trade is clearly making a shift towards 'open account' terms, i.e., shipping goods before payment is due with suppliers assuming their customers' credit risk. By definition, open account transactions give up solutions built-in traditional trade finance products (such as performance guarantee, L/C, documentary collections, etc.) and designed to mitigate risk. This is because they rely on long-term trading relationships and the transparency across global supply chains. One could say that SCF has outperformed the traditional trade finance market representing more than 50% of the overall trade finance revenue pool.

Yet, trade finance solutions are still needed as they help in bridging the gap between the time when suppliers would like to be paid (at the time of shipment) and the time when buyers would like to make the payment (30, 60 or 90 days after delivery). This need has been increasingly more catered for by SCF accounting for almost half of the trade finance market.

Increased demand for SCF might have been adequately met by multinational banks, which have a long backtrack history of dealing on the traditional trade finance market and, according to McKinsey & Company, in 2005 managed 95% of SCF schemes. But post-crisis regulatory requirements have increased the costs of trade finance and banks adopted an 'originate and distribute' model. In addition, they have withdrawn from relationships, mainly with SMEs, whose revenues are not sufficient to offset rising compliance costs.

According to the Asian Development Bank, in 2017 trade financing gap reached USD 1.5 trillion equivalent of 10% of global merchandise trade volumes. Almost three-quarters of total documentary import and export trade transactions originate or arrive in Asia. The largest issuer of import L/Cs is South Korea, followed by Bangladesh and China and Hong Kong the largest markets for advising export letters of credit. (ADB, 2019).

If trade and supply chains were taken together, financing would reap huge benefits from emerging technologies. As demonstrated by the study carried out by the International Chamber of Commerce in 2020 (ICC, 2020), global demand for supply chain finance remains strong. For banks, key growth priorities are SCF and digital trade, with, respectively, 86% and 84% of respondents calling them an 'immediate or near-future priority.' However, global and non-global banks remain divided over their supply chain finance offerings and investments in digitalisation. Almost 64% of global banks included in the survey currently offer SCF platforms (compared to just 13% of local banks and 38% of regional banks). Similarly, digital strategy is reported by 83% of global banks and by only 46% of local banks, which is indicative of a growing gap between players of different scale and reach (ICC, 2020).

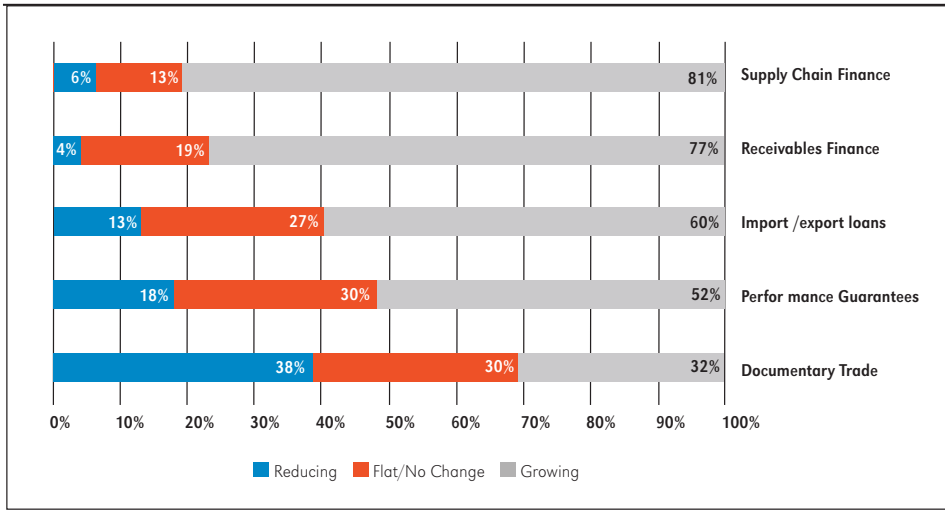

Figure 1.9. Demand for trade finance products. Responses of financial institutions and corporates surveyed in 2019
Source: ICC, BCG Group, (2019, p. 4).

As revealed by the above figure, demand for trade finance products is changing. Over 80% of respondents believed supply chain finance and receivables finance were the fastest growing trade products while 38% of respondents expected that demand for documentary trade will continue to decline. Nevertheless, there will still be place for documentary trade in foreseeable future. One should not see open account trade as a like-for-like alternative. SMEs and other businesses whose supply chains are less established will still resort to this form of risk mitigation in international trade transactions, particularly in times of uncertainty. According to estimates presented by Bain & Company, every year demand is expanding by 5–15% in North and South America and in Western Europe. Asia reports 10–25% growth, in particular in food and retailing. Yet, as noted above, much of that demand remains unmet or underserved (World Economic Forum, 2018). Banks and non-banks' readiness to innovate in the trade finance area is stimulated by the willingness with which traders embrace new products (ICC, 2019).

A question arises as to how SCF differs from more traditional trade finance. Noteworthy, instruments of the latter are long-established and include L/Cs, bank guarantees and documentary collections, all of which are applied more often when trading partners know little or nothing about themselves. For decades banks have been making efforts to eliminate inefficiencies by transforming trade and supply chain finance. In traditional trade finance, the cost-to-income ratio in most cases ranges between 50 and 60%, which shows that more than

half of the price charged by banks for trade finance needs to cover operational expenses even before covering the costs of risk, liquidity and capital. L/Cs and guarantees are particularly unattractive if we are dealing with small-ticket transactions and/or SMEs as operational costs are relatively high here.

In turn, supply chain finance comprises more recently developed financing and risk mitigation techniques and instruments. Its potential uses include open account trade taking place between the buyer and seller who have done business with each other before. Fintechs are (non-bank) institutions which deploy digital technologies to provide trade finance. They also render certain services similar to traditional banking activities. Fintechs are not covered by bank regulations regarding transparency, consumer protection, or capital requirements. In developing countries they are sources of financial support to SMEs specializing in risk assessment and evaluation models not typically serviced by banks. Fintech companies active in trade finance focus on cost-reduction (through, e.g., automation) and address their services to mid-tier, non-listed companies. Established customers and large multinational companies are targeted by large financial institutions (Lotte van Wersch, 2019). Infrastructure provided by Fintechs connects different players in the trade ecosystem. Not long ago, a notable feature of trade finance was the use of paper documentation. Blockchain and smart contracts are viewed as a "game changer technology" with a potential to transform processes involved in trade finance.

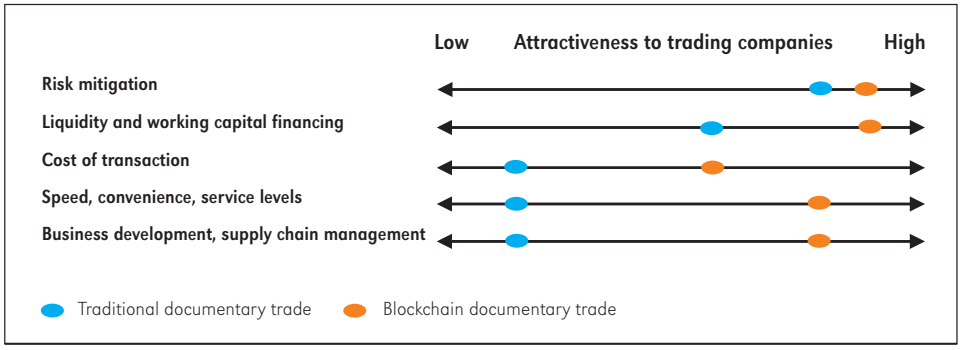

Figure 1.10. Traditional vs blockchain documentary trade
Source: Bain & Company, (2018).

As shown in the above diagram, blockchain documentary trade offers several advantages compared to traditional processes, such as, lower costs of processing (for banks), faster decision making about financing, and more trade financing available due to the bridging of the gap between perceived and actual risk. It also frees-up working capital and ensures sharing of benefits between

a buyer and a seller, speeds up supply chain decisions for clients and allows participants to see all steps from the submission of purchase order to payment.

In summary, the role played by international trade as well as global value chains has been pivotal for the wealth of nations but also for the reduction of geopolitical tensions. The fact that production is distributed across diverse regions of the world has triggered globalization and led to a step-by-step reduction of the gap between the developed and developing world. International trade has made the world more balanced and inclusive. On top of that, technologies (the Internet of things (IoT), blockchain, and artificial intelligence) have significantly contributed to the growth of international trade.

Digitalization and advanced technologies have brought about significant reductions in time needed for processing and costs of the movements of goods between the countries. Doing away with paper-based documents and switching to electronic formats combined with other smart tools and technologies have helped to reduce barriers to trade, particularly SMEs and companies based in higher-risk developing countries. Trade finance and supply chain finance act as important facilitators of international trade.

One needs to bear in mind, however, that due to relatively high operational costs, financial instruments, such as L/Cs and guarantees, are unattractive for small-ticket transactions. Distributed ledger and other technological innovations carry promises of ground-breaking advances in cost reduction emerging in trade and supply chain finance. Also renowned vendors have many off-the-shelf, innovative trade finance solutions to offer. The ongoing shift to open account trade model, in connection with more and more omnipresent digitisation and bank/investor push for using technologies such as blockchain, have stimulated the wave of a new generation of innovation filled with multiple digital ecosystems. These ecosystems are often developed by consortia bringing together partners or sponsors whose aim is to establish digital platforms that would connect entities within the broader trade finance network and facilitate the flow of data between them.

Chapter II

Organisational and functional structure of export credit agencies (ECAs)

2.1. Introduction

The trade finance industry remains under strong influence of changes taking place in international trade and the availability of financial resources. Provided other factors remain unchanged, less trade activity means the size of potential business in need of finance is shrinking. At the same time, increases in the perceived trade-related risk may trigger increased demand for instruments that serve to mitigate risk (e.g., credit insurance or guarantees). Faced with the financial crises the private sector operating in the context of a tightening lending environment is more and more looking to governments to keep channels open for financing and protect supply chains so that they remain intact.

Traders seek for alternative (non-private) sources of short - term trade financing while for projects requiring medium or long-term financing they turn to officially supported export credits. The tendency of commercial lenders to choose low-risk undertakings limited the availability of trade finance for businesses involved in export activities but it may have encouraged a small shift toward government-backed loans. In seeking to cater for these concerns, governments expect their export credit agencies (ECA), to bridge the financing gaps. Moreover, the governments, also through their ECAs, have made efforts to put in place a range of measures designed to support trade, such as support programmes intended to boost their working capital or new facilities (e.g., export credit insurance or guarantees), increasing flexibility with regard to repayment schemes, interest rate, fees, claims, improved processes including a fast-track policy approval, as well as contactless application extended deadlines and timeframe for notification and filing claims.

This chapter aims to discuss the organisational and functional structure of export credit agencies. The presented solutions adopted in different countries, the programmes and the process of harmonisation of the rules of official export credit support over several decades indicate, on the one hand, their increasing level of harmonisation in terms of their programme offer within the adopted OECD Consensus principles and, on the other hand, the growing competition between agencies, in particular those not covered by the OECD Consensus rules.

2.2. Organisational structure of ECAs

According to the definition, export credit agency is a body established to provide financing and support to export activities by granting credit and credit guarantees to exporters and commercial banks, offering insurance to commercial banks and exporters, as well as assuming risks coupled with a given transaction.

An ECA, whose role consists in acting as an intermediary between the government and exporters can be a private or government entity dealing with the provision of export credits. Export credits are tools intended to support exporters in selling goods and services in international markets. The fundamental purpose underlaying the concept of ECAs consists in ensuring higher volumes of exports from domestic producers of goods and services. The goal is achieved by making overseas markets more accessible for such products Export is important for the economic growth and development of any country because trade deficit may have adversely affect the country's economy. Therefore, governments use ECAs to support domestic industries engaged in exports.

ECAs perform three basic functions. First, they assist exporters to successfully face their overseas competitors benefiting from officially supported export credits. When governments of other countries subsidise their exporters by offering them financing at a fixed interest rate below the market price, exporters are often unable to offer financing that would match those subsidised rates. It is worth stressing that ECAs do not compete with private financial institutions as they take on risks higher than those acceptable to private lenders, their objective is to assist their domestic lenders in competing at international markets. Secondly, export credit agencies make financing available to foreign importers when private financial institutions could not finance export sales, even if all risks involved were removed. Last but not least, the third, probably the most relevant function, links to the fact that exporters and their banks face a range of uncertainties and risks. Acting in this function, export credit agencies remove or

reduce these uncertainties and risks, or at least shift them away from exporters and their banks. Risk limiting function provided the real background for the development of export credit agencies. Two of the principal mechanisms by which they do this are supplier credit and buyer credit.

Defining a typical export credit agency is far from easy. ECAs come in different sizes, their organisational structures and activities vary a lot from one case to another. Hence, we can define them through organisational functions that they perform.

ECAs may take diverse legal formats, from an agency established and run by the government, through a public corporation, to a private company (operating on own account or in cooperation with the government). Government-operated agencies are mainly meant to financially support export orders to countries seen as risky in political or economic terms. Private ECAs, be it banks, insurance or financial institutions render services on their own account. There are ECAs which specialise in short-term transactions only, others service medium- and long-term ones. Official support to the export of goods or services offered by ECAs may take the form of export credit guarantees or insurance extended to cover export transactions. It may also consist in financing export transactions (by providing, e.g., interest rate support). Hence, depending on their area of specialisation, some ECAs are called insurers and others eximbanks. Eximbanks play different roles in different economies (in India their activities focus on financing imports). Sometimes ECAs do not go beyond providing export credit insurance, in other cases they offer investment insurance, however, most bigger agencies have both types of services on offer. Wishing to protect their clients against political and/or trade risk, ECAs may also offer insurance coverage for bank and trade credits. As conditions on which export credits are available from ECAs are clearly favourable, they often served financing or insuring transactions that are too risky/costly to be handled by the private sector.

When building an export support system countries have adopted different solutions with regard to the number, operating structure and role played by ECAs. There are countries where agencies concentrate exclusively on the export credit guarantee business. The export financial support mechanism largely serves the private sector. However, countries such as South Korea, China, Hungary, and Japan whose economies are mainly export-driven have extended the system of official export credit support with the direct credit schemes. In these countries there are two separate institutions dealing with direct export credit and export credit guarantee business. Solutions in individual countries are presented in the table below.

Table 2.1. Export credit agencies and their functions in selected countries

Function	Examples of solutions applied in different countries
Export credit guarantee only (agencies offering insurance for export credits).	Netherlands (Atradius), New Zealand (ECO), Denmark (EKF), Luxembourg (ODD), Belgium (ONDD), Spain (CESCE), Iceland, United Kingdom (ECGD), Austria (OeKB), Italy (SACE), France (Bpifrance).
Insurance and financing functions offered by one and the same institution.	USA (EXIMBank), Canada (EDC), Turkey (Turk Eximbank), Australia (EFIC).
Insurance and financing functions offered by two different institutions.	Japan (JBIC and NEXI)), Hungary (Hungarian Export-Import Bank and MEHIB), Germany (Euler Hermes and KfW), Poland (KUKE and BGK*).

*BGK – although the Bank's activities in providing financial support to domestic exporters are not included in OECD statistics, BGK should be counted as an export credit agency because, alongside with KUKE, which provides export credit insurance, BGK provides domestic exporters with financial support in accordance with the rules of the OECD Consensus (within the framework of the DOKE Programme: interest-rate support for export credits).
Source: own compilation

Considering the above, one could say that there is nothing like a single model that would be typical of an export credit agency. How an ECA is structured, its legal form, available capital and schemes depend on the particular circumstances and economic performance of a given country. Therefore trying to replicate a solution that has successfully proven itself in one country under specific economic circumstances and in a specific timeframe in another country can often be detrimental or even dangerous to this other country.

2.3. Programmes offered by export credit agencies

Export credit agencies can support exports directly or indirectly. Direct agency involvement consists in providing export credits to finance export transactions. Indirect agency involvement entails supporting the private sector participating in export financing. Their activities focus on providing guarantees, insurance, subsidising export credit interest rates.

The reason for the involvement of government agencies is the market failures of the private export credit sector. Certain profitable transactions exceed the insurance capacity of the private sector. Government agencies, unlike the private sector, also have access to information, especially regarding political risk

(sovereign risk).[2] Moreover, when difficulties in servicing domestic debt arise, the export credit agencies cooperate with the Paris Club by adjusting repayment terms to the capacity of the indebted countries (Kuhn, 1995). The export credit agency programmes are designed to meet the needs of exporters by also taking into account, inter alia, the financial position of the parties to the contract, the type of goods and services exported, and the production cycle.

Principal types of credits, borrowings, guarantees, and insurance offered by export credit agencies include:

A. Pre-shipment insurance

This type of insurance is not among the most commonly used instruments in most countries. It is rarely used because exporters are rather little familiar with the product, conditions for providing it are very restrictive, its cost is relatively high and its duration is usually short. Nevertheless, in recent years, many export credit insurance agencies have encountered an increasing demand for pre-shipment risk insurance, used in particular to protect export sales to Eastern European and Central Asian countries. Goods that are often covered by this insurance include those with a long-term production cycle, of significant value, intended for markets in countries with high political risk. The insurance period is usually less than 180 days but can be extended to 1 year.

B. Short term post-shipment insurance

It is the most popular and widely used form of export credit insurance accounting for the majority of ECAs' business portfolio. It is offered in the form of a global or revolving insurance policy valid for 1 year. Short-term insurance is provided to exporters rather than to their banks. Exporters, however, assign policies to their banks. Only a small number of agencies offer separate forms of short-term insurance directly to banks. Most insurers cover between 80% and 90% of the short-term credit that finances an export contract. In some industrial countries, government insurance agencies offer special solutions designed to promote exports which cover between 95% and 100%[3] of credit. Premiums on short-term insurance are usually relatively low (rarely exceeding 1% of the contract value). Many agencies have a fixed single premium for risk insurance. The premiums of other insurers vary depending on the type of form of payment (e.g., letter of credit, open account) and the term of payment (e.g. 90 days, 180 days). Exporters who cooperate with the insurer and meet their payment obli-

2 This is the synonym of political risk concerning above all payment default or activities of the host government.

3 This format of mobilising businesses to engage in exports is challenged by ECAs management bodies as they infringe fundamental rules of insurance business.

gations can expect lower than standard interest rates. They use this instrument when carrying out export transactions to developing countries in order to insure exported goods against the materialisation of political risks. All goods can be covered by this insurance. However, in most countries, credit risk insurance covers materials, parts, components, semi-finished goods and consumer goods.

C. Medium- to long-term post shipment insurance

The involvement of ECAs in the financing and insurance of medium- and long-term transactions differs significantly from short-term transactions. The longer time horizon implies a higher degree of risk underlying a given transaction (e.g. construction of a power plant may take 5 years while the repayment of credit drawn to finance this investment 10 years, so the agencies, when insuring a given credit, take into account the risk of this transaction for about 15 years). Export credit agencies often engage in insuring several transactions where the size of the risk or the value of the contract is significantly greater than the agency's annual premium income. Insurance premiums for medium and long-term transactions paid by exporters are higher compared to short-term transactions. In some cases, they can amount to 10 per cent or more of the value of the investment. Many agencies set maximum payment terms for medium-term transactions using the contract price of the exported goods as a basis (longer terms for larger transactions). Payment terms for long-term transactions of OECD countries are regulated by the OECD Consensus. The medium and long-term insurance activities of the agencies are very similar. Private insurance agencies are limited in their ability to extend payment periods, so most long-term insurance is provided by public agencies. For medium or long-term insurance, agencies ask for a minimum cash payment of 15% from the purchaser, so the financed proportion does not exceed 85% and is covered between 80% and 90%. Occasionally some agencies (e.g. EX-IM Bank, ECDG), with the exception of supplier credit, offer 100% coverage of the investment cost less the aforementioned down payment (under OECD regulations it is not eligible for ECAs support) (Malcolm, 1999).

D. Overseas investment insurance

This type of insurance covers foreign direct investment against risks of political nature (e.g. nationalisation, expropriation, blockade of investment, war, revolution). The investor is also exposed to economic risk which may prevent the investment project from being completed. Insurance policies can cover one, two or all categories of risk and many agencies allocate insurance premiums according to the type of risk insured. There are also agencies that do not allow the selection of risk categories to be insured and set an overall insurance rate.

E. Inflation risk insurance

This insurance was used extensively by French ECAs in the 1970s and 1980s. In the next few decades, its importance has diminished due to more effective inflation control in all countries (both industrialised and developing ones). On the other hand, the rising levels of inflation recently observed in many countries around the world may contribute to an enhanced use of this instrument.

F. Exchange rate risk insurance

This insurance is intended to protect the exporter against the risk of exchange rate fluctuations. Insurance period is usually up to 1 year, but in some cases it can last up to 5 years. Exchange rates are subject to constant fluctuations, influenced by economic, political as well as speculative factors. The insurance premium depends on the duration of the insurance and the currency. If the currency of the exporter's country appreciates against the foreign currency (the relative price of the country's exports increases), so the payment received for the delivered goods is less than expected. The insurer then pays the claim. On the other hand, when the currency of the exporter's country depreciates against the foreign contract currency, many insurers claim a share of the profit from the exporter.

G. Trade fair insurance

Many agencies offer such policies to encourage exporters to participate in trade fairs, exhibitions or trade missions. The insurance policy covers the costs of sending goods and people attending the trade fair as well as expenses related to advertising, promotion and other elements of international marketing. In some cases, the agencies do not require repayment of the entire loan or credit and cover the difference from the previously agreed payment. Most such hidden subsidies are gradually being eliminated by ECAs.

H. Unfair calling insurance

Many ECAs issue policies to indemnify the exporter against losses arising from improper calls on the standby letters of credit or guarantees provided (e.g. performance bonds or advance refund guarantees). This type of insurance usually applies to contracts where the government is on the buyer's side. The term of this insurance is the same as the validity period of the letter of credit or guarantee plus an additional period to take into account the possibility of delays. Most insurance policies are issued for periods shorter than 1 year, but for larger investments for approximately 3 years. Premiums are generally much lower compared to standard forms of export credit insurance.

Apart from a wide range of insurance instruments, ECAs also carry out guarantee activities, whereby they provide insurance guarantees. Guarantees can secure the fulfilment of various obligations becoming an effective instrument of export promotion. Insurance guarantees relate to contracts concluded by a country's exporters with foreign private parties. They consist of a guarantee to the exporter of the receipt of its receivables from export, in case of the debtor insolvency (bankruptcy, settlement proceedings) or because of difficulties in interstate payment transactions, administrative or statutory reasons (political risks). The guarantor undertakes to provide compensation, creating the possibility of full loss coverage. Export credit guarantees are closely 'related' to export credit insurance. The features that distinguish credit insurance from an insurance guarantee are contained in table 2.2.

Table 2.2. Features distinguishing credit insurance from an insurance guarantee

Criterion	Credit insurance	Insurance guarantee
Purpose of the agreement	Credit provider is insured against payment default by its borrowers.	The obligor insures the beneficiary against its insolvency.
Parties to this contractual relationship	Two parties: • policyholder (credit provider), • insurance company.	Three parties: • obligor (debtor), • guarantor (insurance company), • beneficiary (credit provider).
Scope of coverage	Some of credit risk is transferred to the insurance company. The insurer covers a specific proportion of the loss (it rarely amounts to 100%).	The obligor carries the whole risk. The guarantor pays an amount up to the guarantee sum equal to 100% of the credit provider's loss (no deductible).
Cost of service	Premium is calculated based on the assessment of risk of credit provider, borrowers, industry, and the country.	The fee is the cost of the enhancement of creditor's credibility service calculated on the basis of a single risk analysis (the risk of the obligor).
Type of insurer's commitment	Always conditional. Damages are paid when the credit provider complies with obligations specified in the insurance contract.	Conditional or unconditional. The guarantor's obligation is abstract and self-executing. The nature of the insurance company's obligation must be set out in the guarantee document.

Criterion	Credit insurance	Insurance guarantee
Nature of relationship between the parties	Close cooperation between the parties.	No cooperation between the credit provider and the insurance company.

Source: own compilation based on Kukiełka (1994, p. 25).

I. Bid bonds

Granted by banks, which are used by the exporter taking part in the tendering process. Tenders are announced for the purchase of machinery and equipment in which public authorities, international organisations (e.g. the World Bank) play a significant role. The deposit is usually between 1–5% of the value of the tender offer. These guarantees protect the interests of the tender organiser, who is exposed to the risk that the winning bidder (exporter) will not fulfil its obligation to sign the contract within a strictly specified period of time.

J. Performance bonds

These guarantees are given to the importer by the exporter to guarantee proper performance of the contract (e.g. quantity and quality of goods exported). The cost of such a guarantee is approximately 10% of the contract value.

K. Advance payment bonds

A guarantee used by the exporter (usually for higher-value contracts) to guarantee the completion of an investment or delivery of ordered goods or services. Exporter receives an advance payment of between 15% and 20% of the contract value. The importer often requires the exporter to instruct his bank to open an advance payment guarantee should the exporter fail to perform the contract and refuse to return the advance payment (with interest). Then the bank, as guarantor, pays the amount of the guarantee to the beneficiary. These guarantees are widely used in most industrialised countries. However, many exporters in less developed countries do not make full use of this instrument as a means to increase exports.

L. Credit guarantee

Among the credit guarantees, a distinction should be made between:

1) pre-shipment credit guarantees.

These are granted to commercial banks to encourage them to finance the export activities of enterprises. The guarantees secure the repayment of a loan

granted for the production of exported goods. In developing countries, any company, regardless of size, can benefit from these guarantees. In industrialised countries, by contrast, the possibility of using them is limited and intended only for companies in the SME sector. It should be remembered that guarantees covering the effects of production risks only protect the lender or borrower against the exporter's default. These guarantees cover loans with a maximum maturity of 180–365 days covering 85% to 90% of the loan amount. The fees[4] for the guarantees are usually lower than those for guarantees securing the effects of credit risk.

2) post-shipment credit guarantee.

These include short- medium- and long-term loans, borrowings but are usually limited to the latter two categories. The principal of the guarantee (obligor) is the foreign buyer-importer. These guarantees are provided directly to the financing banks in order to secure the repayment of the loan/borrowing granted to the exporters. For medium and long-term guarantees, an advance payment by the importer of at least 15 per cent is usually required. Sometimes, a guarantor can issue a guarantee that covers 100% of the amount of the loan, especially in the case of long-term transactions where the principal of the guarantee is a public buyer.

The agency's guarantees increase the creditworthiness of mainly new and smaller exporters, thus enabling them to access export financing schemes provided by commercial banks.

The above-mentioned insurance and guarantee toolkit of the agency is also complemented by financial instruments. These include buyer and supplier credit.

M. Buyer credit

A buyer credit is a credit that a supplier country's financing institution provides directly to a foreign importer to pay for goods or services in cash. It is a medium- to long-term credit used for larger investment projects. The loan/borrowing funds (representing a maximum of 85% of the contract price – a 15% down payment is required) go directly to the exporter's account, and it is the importer's responsibility to repay the loan/borrowing taken out. Beneficiaries of buyer loans can be foreign public institutions and private importers (with guarantees from government agencies).

4 The fee for requesting a contract for granting a guarantee is called a premium by insurers (it is not subject to the provisions of the Civil Code on insurance contracts). It is a commission for the insurer's performance in issuing a guarantee in favour of a named beneficiary, securing the performance of the principal's obligation.

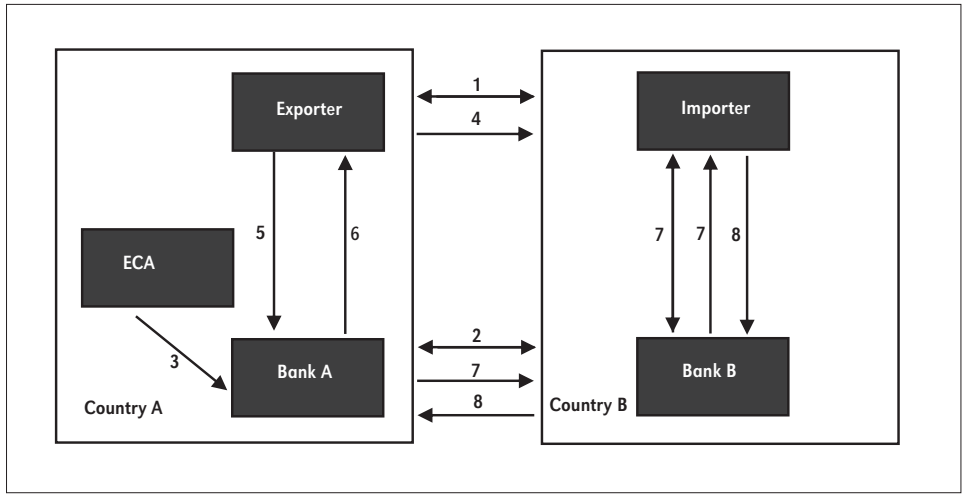

Figure 2.1. Financing mechanism for buyer credit
Source: based on Malcolm (1999, p. 11).

Figure 2.1. explains the mechanism of transaction financing with buyer credit including the following steps:

1. A commercial contract concluded between an exporter and importer for the supply of goods or services;
2. A separate parallel credit agreement concluded between banks A and B;
3. ECA insures the credit granted by bank A;
4. Delivery of goods and services;
5. Presentation of documents confirming the delivery;
6. Payment for the delivered goods and services;
7. The bank extends credit to the importer requesting a guarantee of repayment because it is the importer's bank B, not the importer, that is liable for the repayment of credit to the exporter's bank A;
8. Loan repayment by the importer and a subsequent repayment of the loan by the importer's bank B;

N. Supplier credit

The traditional and simplest form of export credit is supplier credit. It is a credit extended by an exporter to a foreign buyer for a period of between 60 days and six years. Its mechanism rests on two types of credit. The first relates to credit granted in the form of deferred payment by the exporter to the importer and the second is a bank credit granted to the exporter to finance the deferred payment. The risk of supplier credit is borne by the exporter rather than the bank, so the exporter transfers the risk to the export credit insurance agency

in order to protect itself against the consequences of the risk materialising. Therefore, the term supplier credit insurance is encountered in the literature, which more accurately depicts the essence of the functioning of this instrument.

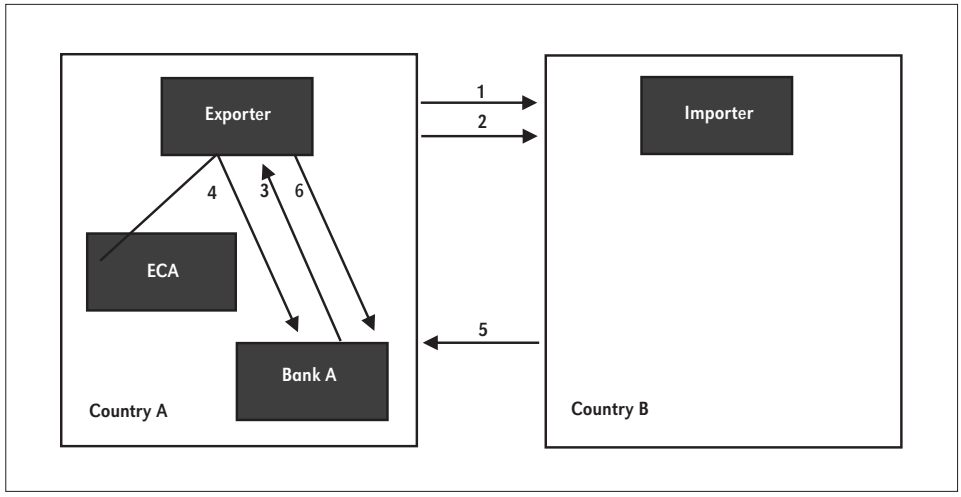

Figure 2.2. Financing mechanism for supplier credit
Source: based on S. Malcolm, (1999, p. 9).

Figure 2.2. depicts the mechanism of export transaction financing with supplier credit where the sequence of steps to be taken is the following:

1. Shipment of goods and services,
2. Deferred payment,
3. Granting of credit,
4. Credit insurance,
5. Payment by the importer for goods and services purchased
6. Credit repayment.

In certain circumstances, bank A based in the exporter's country prefers taking out an insurance policy directly from the export credit agency for various reasons (e.g. to avoid the consequences of the risk of cancellation of the policy due to the exporter's failure to meet the required conditions). Supplier credit is usually used to finance transactions in short-term credit (up to 360 days).

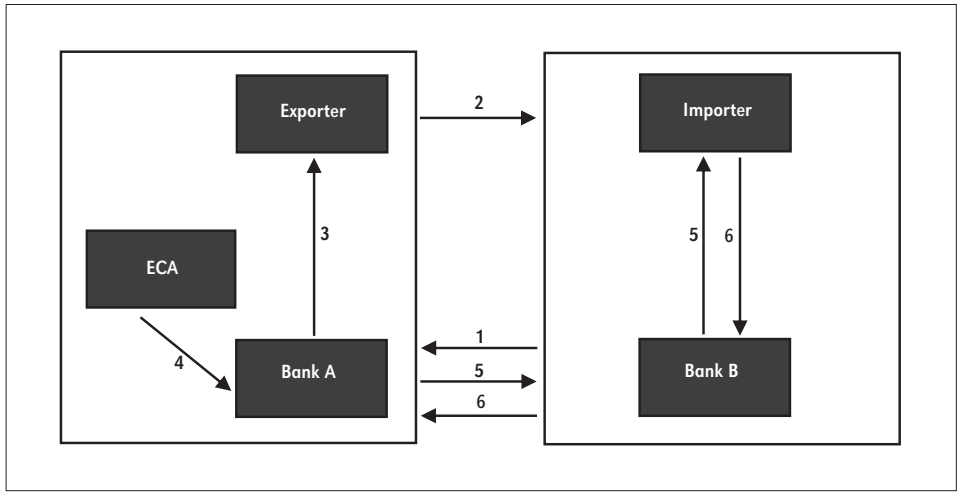

Figure 2.3. Financing mechanism for supplier credit with an option of direct purchase of insurance from the export credit agency
Source: based on S. Malcolm, (1999, p. 9)

The course of financing a transaction with a supplier's credit when the bank is the direct beneficiary of the insurance taken out with the ECA is shown in figure 2.3, according to the following sequence of actions:

1. Information on the opening of the letter of credit,
2. Shipment of goods and services and deferral of payment,
3. Granting of credit,
4. Credit insurance,
5. Sending of documents,
6. Credit repayment.

O. Tied loans

Tied credits are so-called sovereign credits, provided as economic aid to developing countries. They are used only to finance purchases in the lending country, but are not export credits (Lipinska, 1975). The lending country subsidises the cost of the credit to the foreign buyer by extending the payment period or reducing the interest rate on credits, or by combining a standard export credit with a borrowing or grant provided on preferential terms (so-called mixed credits). The support provided for tied credits is carried out by a national public export credit agency and, in the case of mixed credits, it may also be a private export credit agency. In the implementation of mixed credits, two separate contracts are signed (one for the provision of an export credit and the other for a loan or grant granted on preferential terms). Tied loans are used for transactions with a public debtor in developing countries (e.g. China, India, Indonesia).

2.4. Harmonisation of the rules governing the official support to export credits

Harmonisation of rules that govern officially supported export credits has been carried out within the following organisations: The International Union of Credit Insurers (the so-called Berne Union), the European Community and the Organisation for Economic Co-operation and Development (OECD).

Offering attractive financing terms for export transactions is an important factor in determining the competitive position of exporters in the international market. Involvement of government resources in the export credit process expands a country's export opportunities and strengthens its competitive position. Export credits can receive official support in the form of direct export credit financing/refinancing, interest rate support (in which case the government sets a fixed interest rate for export credits), export credit insurance and guarantees, and financial aid in the form of loans and grants. The use of official export credit support, which depends on the degree of government involvement and competition in foreign trade, influences the differences in credit terms between countries. The extension of the crediting period, the use of a preferential discount rate for export credit financing, and the setting of attractively priced fees and insurance premiums paid to export credit insurance agencies have led to distortions in the terms and conditions of trade finance and excessive competitive pressures in this area.

Faced with this situation, governments could choose between three options:

1) to make a unilateral decision to stop intervening in the export credit scheme,
2) to continue the policy of granting official export support selectively, only in areas which require it,
3) to seek, through international agreements, the possibility of coordinating the export support rules followed by national governments.

In many countries, governments have been forced to temporarily suspend interventions due to budget constraints or the insolvency of export credit insurance agencies. In view of this, most governments have decided that they will seek to reduce official support for export credits by pursuing options 2 and 3.

2.4.1. International debate

By creating preferential conditions for exporters from a given country, State aid may distort competition. To be able to promote the growth of international trade in line with competition rules, harmonised rules for export support have been drafted (Marciniak-Neider, 2004).

The international debate on the harmonisation of financing and insurance terms for export credits has been undertaken on several occasions. In the 1970s, specific export credit rules took shape at a much faster pace. The export credit schemes of many countries became extremely expensive. This was the result of, or also coincided with, a prolonged period of economic recession in developed countries following the oil price surges of 1973 and 1974. The capital goods sector suffered from continued overcapacity. In all countries, the success of the industry and its workers was becoming dependent on the signing and execution of the export contract.

On the other hand, in all countries, the pressure to reduce budgetary expenditure increased seriously. Ministries of Finance opposed supporting and maintaining the costly export credit system. In contrast, the objective of the Ministry of Foreign Trade was to effectively motivate exporters towards fulfilling more export contracts. The internal contradiction between the interests of the different policies was not conducive to reaching an international agreement quickly and efficiently. International agreement on the rules governing export credit schemes was slow and occasional discussions were not always successful. Numerous international organisations have been involved in the process of harmonising export credit rules. As already mentioned the most important ones include: Berne Union, OECD and also the European Commission of the Economic Community. Insurance and reinsurance companies affiliated to the Berne Union started work to establish uniform rules for insurance business as early as 1934.

However, this work covered issues relating to insurance technicalities. It was not until after the Second World War that issues relating to the length of insured credit became the subject of consideration. The Berne Union was the first forum in which the associated countries decided in 1953 to shorten the period of insured export credits. This applied to credits for capital goods and the upper limit of the insurance period was 5 years. There was also an obligation to exchange information on the credits granted. Due to the fact that the Berne Union is not a body whose provisions were binding on the countries, the estab-lished rules were gradually discontinued at the end of the 1950s and from 1961 onwards were only applied to supplier credits. The Prague Club was formed in the early 1990s to support the development of new ECAs in Central and East European countries that were too small to become members of the Berne Union (Jian-Ye Wang, Mansilla et al., 2005).

The Union currently brings together some 51 major ECAS and insurance companies from 42 countries. It should be noted that the institutions are its members and not the governments of the countries. The Union has accepted the main rules of export credit and insurance for foreign investments and has adopted a number of agreements in which its members participate.

2.4.2. European Union's role in working out homogenous terms for granting export credits

It seemed that the countries of the European Economic Community (EEC) had a good chance of harmonising the rules governing export credit schemes, as Article 112 of the Treaty of Rome of 1957 already provided for the development of uniform rules for the granting of financial assistance by the member states to third countries. The same Article 112 obliged the member states to gradually harmonise their export credit schemes in order to ensure equal conditions of competition for Community enterprises (Lipińska, 1975).

The harmonisation of export support rules by the Community countries was to be completed by 1970. However, the EEC's interventionist activities in the regulation of export credit rules produced mixed results. Initially, export credits were considered vital components of the common trade policy and in the early 1960s the Council of Ministers set up a coordinating group to monitor this issue. Within two years, it succeeded in developing a consultation procedure for the granting of export credits with a maturity exceeding 5 years. By 1973, the Commission had prepared draft regulations giving it the right to veto export credits to industrialised countries and the bloc of socialist countries with a maturity of more than 5 years (Bowen, Knight, Mills, 1986).

One Commission initiative that failed to materialise was the attempt to set up a European Export Bank. The aim of this bank was to offer favourable conditions for European consortia to carry out export transactions. The lack of support from certain countries and the doubts of many influential as well as leading exporters and banks about the efficiency and effectiveness of such an institution contributed to the failure of this project. However, the idea of creating a common institution that would offer facilities to Community exporters for medium and long-term transactions also had its supporters in the early 1990s. They argued that this was the only way to ensure a level playing field among Community exporters and to eliminate distortions in the terms offered.

Proponents of such an arrangement also believed that only the operation of such an institution would enable Community exporters to withstand competition from Japanese and American exporters supported by their governments.

Opponents of this concept, on the other hand, justified their position by the fact that agencies in European Community countries treat goods and services from other countries in the same way. In addition, they stressed that in the case of short-term credit, many agencies have significantly liberalised their guidelines for the coverage of goods and services originating from outside the country. Moreover, an increasing cooperation in the reinsurance and co-insurance activities undertaken between agencies of Community countries has been

observed (Malcolm, 1991). Given these factors, according to opponents of the concept, the rationale for a European Export Bank does not exist.

The process towards achieving uniform rules was a period of heated debate. Between 1970 and 1982, the discussion at the OECD was interrupted twice because of efforts by the EEC Commission to keep individual member states out of the process and represent them in the negotiations. However, member states were keen to retain their right to decide and impact the shaping of export credit rules. The EEC member states considered their own systems to be the best developed and supportive of national interests and the significant differences in individual systems that existed, made the process of harmonising export credit rules much more difficult. The European Commission defended its position in the OECD-led discussions by pressing for the elimination of export credit subsidies in trade between EEC member states. In September 1976, EEC governments were asked to reaffirm their adherence to Article 92 of the Treaty of Rome, which prohibits interest rate subsidies to promote trade between member states. All EEC countries made this confirmation with the exception of the UK and France. In justifying their stance, these countries pointed to the need for this form of support for domestic exporters in order to maintain a competitive position outside the EEC. However, the European Community had been represented by the European Commission at the OECD since 1977. Such a solution was not universally accepted by non-European Community countries because of the time it took the Commission to reach a common position and speak with one voice on behalf of all the member states (Bowen, Knight, Mills, 1986).

Official export credit support in the EU countries is governed by a number of agreements and acts. The "Community" export credit system is formally based primarily on directives, which are incorporated into the legislation of individual member states by means of internal regulations. The most important basis for this system is the Council Directive 98/29/EC of 7 May1998 on harmonisation of the main provisions concerning export credit insurance for transactions with medium and long term cover.[5] These transactions play a significant role in international trade, especially with developing countries, favouring their integration into the world economy. The implementation of this directive will secure conditions for market competition between the member states. This directive covers export transactions involving goods and services originating in the EU member states. Support is paid (directly or indirectly) to the account of one or more member states with a period of risk (commercial, political, production and credit) of at least two years.

5 Council Directive 98/29/EC of 7.05.1998, (OJ L 148/98).

However, the 'Community' export credit system is rooted in the regulations developed within the OECD to which the export support rules of developed countries have been subjected. The Community is a party to the Consensus, which entered into force in 1978 and was incorporated into Community law by the Council Decision of 4 April 1978, Decision No. 93/112/EEC[6] and further amendments contained in Decision No. 97/530/EC.[7] Council Decision of 22 December 2000 No. 2001/76/EC replacing the Council Decision of 4 April 1978 on the application of certain guidelines in the field of officially supported export credits. Thus, consequently, the Decision of 22 December 2000 repealed Decisions No. 93/112/EEC and 97/530/EC. The provisions of the Council on specific issues of the operation of the system are as follows:

1. Council Decision No. 2002/634/EC of 22 July 2002 amending Decision 2001/76/EC in respect of export credits for ships,
2. Council Directive No. 98/29/EC of 7 May 1998 on harmonisation of the main provisions concerning export credit insurance for medium- and long-term cover. The directive distinguished between two types of export credit: supplier credit and buyer credit, and the division of risks according to the following criteria: commercial risk and political risk, and production risk and credit risk.
3. Council Decision No. 2001/77/EC of 22 December 2000 on the application of principles of a framework agreement on project finance in the field of officially supported export credits,
4. Council Decision No. 76/641/EEC of 27 July 1976 amending Decision No. 73/391/EEC of 3 December 1973 on consultation and information procedures in matters of credit insurance, credit guarantees and financial credits.

In the 1990s, the conditions for insuring short-term loans financing export transactions changed. Firstly, their share in the structure of insurance portfolios of agencies increased significantly, secondly, private sector activity in this area increased to a large extent and part of the activities of official agencies were privatised. Because of the potential for state interference and the distortion of competitive conditions between different export credit agencies, the European Commission, as a body concerned with market competitiveness, has taken steps to define acceptable state aid for short-term export credit insurance[8]. It is worth

6 Official Journal L 44, 22.2.1993, p. 1.
7 Official Journal L 216, 8.8.1997, p. 77.
8 It is worth adding that in the European Commission report of May 2005, there was a proposal limiting the activities of official ECAs and thus extending the possibility for the private sector to provide export credit insurance. At present, official agencies can provide insurance for credits with a repayment period of at least 2 years, whereas according to the proposed amendment, this would be for credits with a repayment period of at least 3 years, (European Commission, 2005, p. 7).

mentioning that in the European Commission's report of May 2005 there was a proposal limiting the activities of official export credit agencies and thus extending the possibility of private sector export credit insurance activities.

The scope of interference was defined in the following Communication:

1) 2001/C217/02 Communication of the Commission to the Member States amending the Commission Communication 97/C281/03 pursuant to Art. 93 (1) EC of the EC Treaty applying Art. 92 and 93 of the Treaty to short-term export credit insurance. The amendment meant that political risk insurance was included in the list of marketable risks in EU member states and OECD. Insurance of marketable risks is not supported by public funds and is the object of private institutions only.[9]
2) Regulation (EU) No. 1233/2011 of the European Parliament and of the Council of 16 November 2011 on the application of certain guideline in the field of officially supported export credits and repealing Council decisions 2001/76/EC and 2001/77/EC stipulates that the European Commission:
   – has had the power, since 9 December 2011, to use delegated acts, under certain conditions, to incorporate directly into EU law any changes to the OECD Arrangement;
   – produces an annual review for the European Parliament on the information it receives in the national annual activity reports;
   – has provided the European Parliament, since 2011, with an annual report on its international negotiations to establish global standards on officially supported export credits.

The Regulation highlights the contribution of ECAs into the development of global trade by supporting exports and investment by companies in addition to financing and insurance provided by the private sector.

The European Commission oversees the compliance with the Community rules on the involvement of public funds in each country's export support scheme. The Community uses a consultation and mutual information procedure for measures taken concerning the export support regime, which rests totally in the hands of the member states. Given the increased competition on world markets and wishing to avoid competitive disadvantages for EU businesses, the Commission task consists in supporting the efforts of the OECD aimed to engage countries that do not participate in the Consensus by using bilateral and multilateral negotiations towards the establishment of global standards for officially supported export credits.

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9 Marketable risk includes: commercial risk of a debtor from a country listed in the annex to the Communication listing the list of marketable risk countries, political risk of a debtor from a country listed in the annex. Non-marketable risks include: commercial and political risks of a debtor from a country not listed in the annex and catastrophic risks.

In the latest Communication of 15 March 2022 the EU Council approved the conclusions on export credits.

Table 2.3. The EU Council's conclusions on export credits

EU Council recognised and highlighted the significant role of officially supported export credits:
1) in maintaining the industrial competitiveness of Europe at the global level, as such credits support EU-based companies when they compete for contracts and projects outside the EU, thus securing economic growth, as well as jobs also for SMEs, across the European Union; 2) in promoting and supporting a shift in investment models towards climate-neutral and climate-resilient projects.
EU Council positively assessed the following action plans relating to officially supported export credits:
1) to develop a EU strategy devoted to financing exports, trade and investment from public resources; 2) to take the lead and involve major providers of official financing in drafting a set of principles for public financing of exports for the global level; 3) to develop a strategy for using export financing to mobilise capital for the green transition; 4) the Commission's commitment of 2021 to "explore options for developing an EU export credit strategy", which will include an EU Export Credit Facility and greater coordination of EU financing tools.
EU Council calls for:
1) including financial mechanisms in the OECD Consensus to encourage the carrying out of environmentally sustainable projects; for example, lower advances, longer maturities or specific risk-based premium adjustments; 2) launching discussions with participants to the OECD Consensus that would lead to an agreement to put an end to making officially supported export credits available for projects in the fossil fuel energy sector.
EU Council notices the following threats:
1) The OECD Consensus is increasingly under threat due to funding provided by non-OECD countries that are not bound by the Consensus. Competition from outside of the OECD Consensus is increasing and poses a challenge not only to the EU and its Member States, but also to all OECD countries. For many years, the International Working Group for Export Credits has been unable to agree on common financial principles for officially supported export credits and that negotiations have been suspended pending the consensus on the basic elements of possible such principles. 2) The "OECD Arrangement" and the Regulation (EU) No 1233/2011 have not been updated enough to take account of the evolution of global value chains and international competition from non-OECD countries.

Source: own compilation based on the Press Communication of 15 March 2022 of the EU Council, www.consilium.europa.eu/pl/press (accessed: June 2022).

European Union participation and cooperation with the OECD in the development of uniform rules for the granting of export credits has significantly reduced the costs of export credit subsidies in Europe and contributes to levelling the playing field for trade at the global level. Implementation of the provisions of the OECD Consensus into EU law has further given them a legally binding character, as the guidelines of the OECD Consensus are only of a *Gentlemen's Agreement* nature.

Harmonisation of rules followed when granting official export credits within the EEC/EU was important due to several factors among which the following can be mentioned:

– export policies could be implemented on the basis of harmonised guidelines and competition between Community companies was not distorted,
– harmonisation enhanced cooperation between credit insurers acting on behalf of the government,
– harmonised rules applied to support for exporters as well as mutual cooperation have been, and continue to be, decisive for the competitive position of Community exporters on third-country markets,
– harmonisation has induced the convergence of the various systems used by the Community members,
– efforts are being made to reduce official export credit support for projects not conducive to green transition.

The Community has no specific policy of either direct or indirect export support, that is why this area remains the competence of the member states. The steps taken towards harmonisation of applied instruments concerned export credit insurance and credit guarantees, which were treated as a form of direct export support (Kawecka-Wyrzykowska, Synowiec, 2004).

2.4.3. OECD role in harmonising competition conditions for officially supported export credits

The progress that has been made on international agreement on export credit rules has been primarily due to the efforts of the OECD. While the GATT performed regulatory and control functions in the application of tariff and non-tariff barriers and influenced the elimination of trade distortions, the organisation failed to clarify the rules for export credit schemes. It is worth noting at this point, however, that the WTO Agreement on Subsidies and Countervailing Measures (Kawecka-Wyrzykowska, Synowiec, 2004), which was worked out, defined for the first time a subsidy as the granting of a financial contribution by a government which will benefit the recipient of the aid, and addressed the issue of export credits. Export credits are included in the list of export subsidies in Annex 1 of the Agreement. The Subsidies Code specifies which subsidies are

allowed and which are prohibited. Point (j) states that government export credit insurance and guarantee schemes should not be provided at rates that are insufficient to cover the long-term running costs and losses that these schemes entail. This means that the programmes have to be profitable. If insurance is provided at rates lower than those prevailing on the private market, it may be considered an export subsidy. Point (k) prohibits governments from providing export credits below the cost they actually have to pay for the funds so committed. Thus, official support for export credits in accordance with the Consensus principles means that providing export credits at a fixed CIRR is not considered an export subsidy. Subsidies as defined under (k) are allowed (Evans, 2003).

The minor role of the GATT/WTO in harmonising the competition rules for officially supported export credits was mainly due to the fact that the OECD was responsible for this issue. Works within the OECD on the harmonisation of export credit rules began in 1963, when the Trade Committee set up a standing working group on export credits, export credit guarantees and insurance. From the mid-1960s onwards, discussions were held on the terms and conditions of shipbuilding finance. In 1969, an agreement was signed between 13 countries stipulating that the maximum credit period would be 8 years, with a minimum interest rate of 6% and a minimum down payment of 20%. By 1971, the first formal agreement on general terms and conditions for export credits was tentatively prepared and supported by six EEC member states and the United Kingdom. Japan, which at the time was experiencing a significant trade balance surplus, was also prepared to accept the agreed terms. The US, on the other hand, strongly opposed joining the agreement, wishing to retain the right to decide on export credit rules. The agreement was signed in two parts and came into force in July 1972. The two parts covered officially supported export credits with a repayment period greater than five years.

The first agreement established an information exchange system and was signed by all members of the export credit group. According to the agreement, each signatory could request detailed information on the terms and conditions of export credits granted to another country.

The second agreement established a consultation procedure for terms and conditions taking place prior to the conclusion of a transaction and was signed by all members except Australia, Greece, Japan, Portugal and the US. Members were required to give notice of the proposed terms and conditions and the other members had a fixed period within which to comment on them before making a formal offer. This only applied to offers targeting developed countries (Bowen, Knight, Mills, 1986).

In the 1970s, the role of exports increased significantly. The threefold increase in oil prices in OPEC countries in 1973-74 adversely affected the

economic development of Western Europe (in 1974–75 GDP growth was 1–2% below zero) (Bożyk, 2004). In oil-importing countries, import costs rose and surpluses in the balance of trade and payments were replaced by deficits. This has led to steps being taken to increase exports. Major exporting countries intensified their support for private exporters. Export credit agencies became involved in assisting through the use of subsidies. Officially supported export credits were generally characterised by fixed interest rates lower than those offered on the capital market for comparable loan repayment periods. Moreover, the looming economic recession, rising inflation in many industrialised countries contributed to increasing competition on the international market.

The first OECD Council was held just after the oil price rise of 1973 and at the next meeting in May 1974 the problem of export financing reappeared on the agenda. Ministers declared that their intention was to stop the growing competition for officially supported export credits. At the same time, however, the American position was quite the opposite, for offering attractive credit rates had become the main objective and element of the competitive struggle in the USA. The extended credit terms, which were prepared by the US Eximbank and were intended to help US exporters stand up to highly subsidised foreign competitors, were heavily criticised by other countries that opposed the credit extensions. The Gentlemen's Agreement was reached at the annual meeting of the International Monetary Fund in Washington in September 1974. The parties to this Agreement were France, the United Kingdom, Germany, Italy, Japan and the USA. Canada joined at a later date. The countries agreed not to support interest rates by setting a floor of 7.5% for loans with maturities of more than 5 years. Further efforts were made to make the Agreement more comprehensive and to regulate further aspects of export financing. To this end, a meeting was held in Brussels in May 1975, but no agreement was possible at the time due to opposition from France and Japan. A year later, the European Commission succeeded in taking the subject matter out of the control of the member states and France's position changed. This was followed by the United States and the prospect of reaching a common agreement became real. The terms were set in February 1976 and formal declarations expressing the intention to abide by the principles were made by the seven countries in July 1976. These declarations have since been referred to as the Consensus (Bowen, Knight, Mills, 1986).

The Consensus sets out the conditions for granting government-backed export credits:

- minimum down payment,
- minimum interest rate for loans,
- maximum repayment period of credits.

If a country offered credit on terms that did not comply with the guidelines, or provided mixed credits in which the grant was less than 25 per cent, prior notification to countries-parties to the Consensus was required (in line with the obligation to exchange information) so that other countries could offer similar terms. The aim of the Consensus was to reduce the budgetary burden resulting from interest rate subsidies in general and to reduce the competitive struggle (Bednarczyk, 2000). Indeed, it was estimated that in 1976, support for export transactions in the form of interest rate subsidies cost OECD countries more than USD 2 billion (Bowen, Knight, Mills, 1986).

The discussion continued in December 1977 between the 20 countries that later joined the Consensus. The EEC countries and especially France were opposed to further changes. Japan remained neutral and the US strongly supported the initiative to regulate export credit rules. By February 1978, the US had relaxed its requirements and no longer demanded that mixed credits be regulated. In April 1978, a new agreement entitled The Arrangement on Guidelines for Officially Supported Export Credits[10] was reached. It was signed by all 22 OECD countries in May 1978 with the exception of Turkey and Iceland, which did not have export credit schemes in place. Thus, the efforts and work undertaken to regulate the terms and conditions of export credits and to reduce distorting factors led to the agreements contained in the Consensus. It is worth noting that it is not an OECD act and the adoption of the Guidelines is voluntary. It establishes certain international standards for the duration of loans with minimum interest rates for loans earmarked for all countries based on GDP per capita and repayment period. The conditions set by the 1978 Consensus are shown in table 2.4.

Table 2.4. Terms for granting export credits specified in the OECD Consensus of 1978

Terms	For relatively rich countries*	For intermediate countries	For relatively poor countries
Minimum down payment	15%	15%	15%
Minimum interest rates for credits between 2 and 5 years	7.75%	7.5%	7.25%

10 Agreement of 1978 referred to as the Consensus with further amendments in this work is also called the OECD Agreement.

Terms	For relatively rich countries*	For intermediate countries	For relatively poor countries
Minimum interest rate for credits longer than 5 years	8%	7.75%	7.75%
Maximum credit repayment term	5 years (up to 8 years with a prior notification to the member states)	8.5 year	10 years

*Relatively rich countries include all OECD members with the exception of Greece, Portugal, Spain, and Turkey and all rich oil producing countries (whose income comes mainly from the production and exports of oil) with the exception of Iran and Venezuela.
Intermediate countries are all those excluded from the first group together with countries of Eastern Europe.
The remaining countries belong to the group of relatively poor countries.
Source: Bowen, Knight, Mills D, (1986).

The Consensus covered all transactions except those involving military equipment, agricultural products, aircraft, nuclear power plants and ships, for which separate regulations were provided. The participants in the Arrangement saw it as a form of compromise between French interests seeking to limit the duration of credit and US interests seeking to eliminate export credit interest rate subsidies. An important feature of the 1978 Arrangement was that the level of interest rate subsidy allowed was higher for exporting companies in countries with higher market interest rates. For example, in France in 1979 the market interest rate was 13% and in the USA it was 10%. The minimum interest rate for loans over 5 years set by the Consensus was 8%. Hence, the difference between the market interest rate and the minimum interest rate for export credits, representing the amount of subsidy provided, was greater in France than in the US. There were also countries (e.g. Switzerland, in 1979 the market interest rate was above 3%) whose market interest rate was lower than the agreed minimum interest rate in the Arrangement of 1978. In other words, the system at the time discriminated against countries with lower interest rates. The Arrangement of 1978 favoured countries such as France, which had high interest rates and a large share of trade with developing countries, because interest rates were set in nominal terms and interest rates were lower for transactions with developing countries (8% for relatively rich countries and 7.75% for relatively poor countries) (Becker, McClenahan, 2003).

The operation of the Consensus was criticised by the US for not following the rules and offering more favourable terms than agreed in the Arrangement. France, Japan and other participants in the Arrangement of 1978 showed reluctance to adapt to the minimum thresholds set and also failed to take into account the differences in interest rate levels attributed to different countries.

In the 1980s, the issue of export credits continued to be widely discussed. Government support for exports through various types of instruments at the disposal of export credit agencies was considered not only in the context of withstanding foreign competition but also in a broader scope that included macroeconomic aspects and problems faced by industrialised countries. The main reason for OECD countries to revisit the issue of export credits was the rising cost of supported export credit programmes. For already in the 1970s, export conditions and opportunities had deteriorated considerably and the agency's financial sources earmarked for the promotion of domestic exports were used to the maximum. By 1982, two years of discussion involved exporters, representatives of governments, financial institutions and the OECD. The debate revolved around two themes. The first concerned the insurance business of export credit agencies, the second the real cost of export credit subsidies. Details of the role of export financing and international trade were also discussed. However, the main issue was the high cost of export credit support due to the deterioration of the financial position of almost all agencies which was caused by the economic crisis in the early 1980s as well as the growing external debt of developing countries. The total value of indemnities paid annually by all agencies from OECD countries was estimated at USD 2.7 billion in 1979/81. This figure rose to USD 4 billion in 1982 and was already over USD 5 billion in 1983. In contrast, the income generated from insurance premiums collected declined (in 1979/81 it was estimated at USD 1.7 billion, in 1982 at USD 2 billion and in 1983 it was already around USD 1.6 billion) as a result of the reduction in imports by developing countries, especially of investment goods, which accounted for a large proportion of the insurance business.

As far as interest rate arrangements are concerned, these remained unchanged until 1980, although between the arrangements of 1978 and 1980, market interest rates in many industrialised countries increased and there was considerable variation between countries. For example, from the beginning of 1979 to the end of 1980, interest rates in France rose from 12% to 14%, in the UK and the USA from 9% to 12% (Bowen, Knight, Mills, 1986). Due to increasing competition, the minimum interest rate set in the Consensus, was becoming the maximum interest rate, which meant an increase in the expenditure to maintain a fixed interest rate on export credits. In most industrialised countries, interest rates on official export credits (i.e. credits financed, guaranteed or insured by the state) were much lower than the level of current interest rates. Thus, the cost of export credits obtained on the private market was higher. The largest difference in interest rates for official and private market export credits occurred in France, the United Kingdom, Japan and Germany, while the smallest difference and the lowest rate of export financing with preferential interest rates were reported for the USA, as shown in table 2.5.

Table 2.5. Effective interest rates of official export credits and interest rates for 3–6 month credits in the period 1978–1979

Country	Interest rate for official export credits*	Interest rate for export credits on the private market	Proportion of exports financed with export credits offered on preferential rates in total exports*	
			1978	1979
Japan	8.0	10.75	35%	45%
United Kingdom	8.3	14.6	35%	33%
FRG	8.4	9.1–12.4	29%	31%
France	8.6	13.35–18.45	12%	12%
	10.7	11.7	6%	7%

*estimates relate to exports to developing countries and were prepared by the General Accounting Office.
Source: based on Drabowski, Sokołowska, Zabielski (1981).

Exporters in strong currency countries (Germany, Japan, Switzerland) were able to offer interest rates well below the Consensus interest rate. Thus, only the two exporting countries (West Germany and Japan) that had domestic interest rates at (or below) the Consensus interest rate at the time did not suffer the consequences of increasing interest rate subsidies. Thus, the existing differences in interest rates, inflation and exchange rates made it difficult to establish international credit standards and conditions (Cizauksas, 1980).

In July 1980, the minimum interest rate was increased slightly (0.25 percentage points for the poorest countries, 0.75 percentage points for other countries). For the revised guidelines for interest rates see table 2.6.

Table 2.6. Interest rates in 1980 for export credits depending on the affluence of countries

GDP per capita	2–5 years	More than 5 years
Below USD 1000	7.5%	7.75%
USD 1000–3000	8%	8.5%
More than USD 3000	8.5%	8.75%

Source: based on Bowen, Knight, Mills, (1986); Cizauksas, (1980).

However, it should be noted that the cost of officially supported export credits tended to be higher than that indicated in table 2.6. This is mainly due to the commissions and fees charged by official export credit agencies.

Differences in interest rates and exchange rates have been sought to be eliminated not only by developing international standards. Many countries started to insure export credits denominated in other currencies. On a larger scale, this type of solution started to be applied by the ECGD agency in 1977 when export credit insurance and financial subsidies were available for English export credits denominated in Eurocurrencies, especially Eurodollars for which interest rates were much lower than for pound sterling. These changes initiated by the oldest and most innovative official export credit agency had important implications for the future of national export credit systems. Export financing in Eurocurrencies blurred the distinction between export credits and Eurocurrency credits, which were not usually linked to trade finance. For the UK, therefore, a source of financing for domestic exporters emerged and significantly reduced the budgetary burden of the subsidies in place.

Following the English example, France has prepared to insure export credits denominated in euro-currencies and dollars. Canada introduced export credit insurance denominated in different currencies. Italy not only insured export credits in foreign currencies, but also, like the UK, subsidised credit interest rates.

The 1980s showed significant progress towards reducing or eliminating export credit interest rate subsidies initiated in the late 1970s. Export credit interest rates are among the most controversial issues of officially supported export transactions. In addition, the Arrangement of 1978 required the unanimous agreement of all associate members to change the mechanism for setting minimum credit interest rates. This caused the negotiations to be prolonged considerably and, consequently, made it impossible to carry out a regular revision of this mechanism, so that the interest rates set in the Arrangement followed the evolution of market interest rates, which also showed significant divergences for individual OECD currencies (Tambe, Zhu, 1993).

The issue of export credit interest rates was addressed during the second review of the Arrangement in 1979 and at that time a report on the interest rate structure and its implications for export credits and the possibility of reducing subsidies was commissioned to Axel Wallen (then Director of the Swedish export credit agency (EKN). His report and a proposal for the construction of a mechanism to change export credit interest rates were available already in 1980 but were not approved until 1983.

The purpose of the Wallen Report was to analyse the institutional, economic and financial foundation of export credit financing and to explore alternatives to the existing system. The report was the first such thorough analysis. It was also important because of the proposals to change the existing structure of export credits. The report comprised two parts. The first was an analysis of export credit interest rates against the background of the economic develop-

ment of the 1970s. The second part contained recommendations for changes to the Consensus to reduce subsidised interest rates. The Wallen Report contained two alternatives for changing the export credit interest rate structure: the Uniform Moving Matrix (UMM) and the Differentiated Rate System (DRS).

The new UMM single floating interest rate regime, came into effect in October 1983. The new mechanism changed interest rates regularly, every 6 months, based on fluctuations in market interest rates. It applied to all currencies used by the participants in the OECD Arrangement for export credits. However, during the period when minimum interest rates in OECD countries increased significantly in 1981–82, market interest rates began to fall. Countries that had hitherto been opposed to the automatic adjustment of OECD minimum interest rates through the use of the UMM began to find them increasingly attractive. In addition, the Arrangement of 1982 introduced a favourable solution for countries whose market interest rates were below the minimum interest rate set by the system. These countries were allowed to lend on the basis of a benchmark CIRR. In effect, the new system allowed countries with high interest rates to continue to reduce their subsidies. In contrast, countries with low market interest rates used CIRRs that were close to the market rate without the use of subsidies (Becker, McClenahan, 2003).

Changes introduced by the Arrangement of 1982 and the adoption of the UMM reduced the use of subsidies reducing the burden on the budget. The OECD estimated that by 1985 about 80% of the subsidies used by export credit agencies had been eliminated which also meant a significant reduction in competition between agencies in the field of officially supported export credits.[11] Due to the multiplicity of potential scenarios, next steps towards changing the system for adjusting minimum interest rates were not taken until 1987. In July 1987, the members of the Consensus agreed that the interest rates for export credits granted to relatively rich countries (category I) would be determined on the basis of CIRR.[12] On the other hand, the minimum interest rate for export credits to countries in categories II and III was increased by 50 basis points in order to reduce the subsidies.

Since 1989, OECD members have been negotiating on the following issues:

– the setting of a minimum level of aid to be granted,

– the clear separation between preferential and commercial financing of transactions,

– interest rates for officially supported export credits.

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11 Over the period 1982–87 official support to export credits granted by ECAs dropped by 43% (for credits over 1 year) and by two thirds for long-term credits (longer than 5 years)

12 Minimum interest rate laid down in the Consensus for export credits was below the UMM and CIRR rates.

After two years of negotiations, countries agreed to modify the earlier arrangements contained in the last Agreement of 1982. In December 1991, the so-called Helsinki Package was adopted in which, inter alia, export credits could be granted at the CIRR for Category I and II countries. The minimum interest rate for loans to Category III countries was also raised by 30 basis points. Thus, subsidies through the UMM mechanism, which was provided for relatively poorer countries, were reduced. At that time, Category II countries received a significant share of officially supported export credits (54% of all medium and long-term export credits recorded by the OECD). Subsequently, in 1994, the so-called Schaerer Package was agreed at the OECD level (entered into force in 1995), which introduced CIRRs as universal rates and eliminated the UMM mechanism.

Members of the Consensus who offer official financial support using direct credit financing, refinancing or interest rate support may apply minimum CIRRs. These are determined on the basis of the interest rate on government bonds increased by 100 basis points. The CIRRs for the currencies of the Consensus countries are announced monthly by the OECD Secretariat.

The way in which the CIRR is determined depends on the choice of one of two systems based on interest rates for the national currency (Dorożyńska, Dorożyński 2016):

1. Three-tier system CIRR has separate rates depending on the length of repayment.
   – yield on 3-year government bonds (for credits with a repayment term of 2 to 5 years);
   – yield on 5-year government bonds (for credits with a repayment term of between 5 and 8.5 years);
   – yield on 7-year government bonds (for credits with a repayment term of more than 8.5 years);
2. The single-tier system - all repayment terms receive the same interest rate (yield on 5-year government bonds for any repayment term for export credits).

The first solution is used for currencies such as the US dollar, the Canadian dollar, the euro and the British pound, among others. The second solution, regarding the determination of the CIRR, applies to other currencies. The rules on CIRRs are widely accepted and applied by members of the OECD Arrangement. In general, they should not benefit or disadvantage individual countries. However, there is some scope for subsidy through an interest rate make-up mechanism (IMU).

Almost half of the OECD Arrangement members provide interest rate support under the IMU mechanism through banks. Among the export credit agen-

cies of the G7 countries, this arrangement is also used in France, Italy, and in the UK. In contrast, Canada, Japan, and very rarely Germany, support interest rates on export credits directly. IMU is a scheme in which the government supports commercial banks that provide export credits at a fixed CIRR. The scheme relies on mutual settlements between the commercial banks and the official export credit agency. As a reminder, commercial banks provide export credits under the terms and conditions of the OECD Consensus, so, inter alia, at fixed CIRR rates. If the market cost of money for a commercial bank plus the agreed bank margin is higher than the agreed CIRR, then the bank is compensated from budgetary funds. If, on the other hand, the cost of money for a commercial bank, determined by the floating interest rates LIBOR (for transactions settled in US dollars) or EURIBOR (for transactions settled in euro) with a bank margin, is lower than the CIRR, then the commercial bank transfers the surplus to the agency. The spread between margins varies from 40 to 90 basis points. However, there are no agreed rules on the level of spread that governments can offer to their CIRR lending/borrowing banks. Generally, support through the IMU mechanism is offered to cover administrative costs, but in some schemes it is used to ensure that a certain spread is realised by the commercial lender (Exim Bank Report, 2003). It is a certain degree of freedom in setting the margin that provides the opportunity for the subsidy.

We need to bear in mind that from 15 July 2023, new rules on the CIRR will enter into force and replace the previous ones. They will apply to all sectors except the Ship Sector Understanding SSU and the Aircraft Sector Understanding (ASU).

Relevant provisions include (OECD, 2021; Dorożyńska, Dorożyński, 2016):

– CIRR rates shall be calculated monthly and will take effect on the 15th day of each month;

– CIRR base rates are computed using government bond yields;

– the margin shall be calculated on a quarterly basis (respectively on 15 January, 15 April, 15 July and 15 October of each year) according to the five-year swap spread yields (difference between the five-year government bond rate and the five-year swap rate);

– the margin shall be computed using the following formula: 0.5* (three-month average of daily five-year swap spread yields) + 80 basis points. The result shall be rounded to the nearest basis point and capped at a maximum of 120 basis points and floored at a minimum of 80 basis points;

– the three-month average of the daily five-year swap spreads to be used shall be obtained by calculating the arithmetic mean of the daily five-year swap spread of the last three calendar months in the relevant currencies;

– in the event where the five-year swap spread is not available in the market for a given currency, the margin shall be set at 100 bps;
– where official financing support is provided for floating rate loans, banks and other financing institutions shall not be allowed to offer the option of the lower of either the CIRR (at time of the original contract) or the short--term market rate throughout the life of the loan.

Over the past years, it can be observed that the degree of use of fixed interest rates in export credit schemes has decreased significantly. The results of a survey in Report TXF Research 2021, specifically focusing on the ECA landscape, indicate that 36% of the respondents had accessed a direct loan over the past two years with a CIRR mechanism, primarily because they could either not access commercial bank lending at all, or could only do so at a very high price. In 1997, 53% more of the agency's long-term financial support was realised on the basis of fixed-rate loans (including both direct financing and the IMU interest rate stabilisation mechanism). In recent years it was observed that only 10 or 11 countries have put in place the CIRR scheme, and the scheme itself differs in each country (Wragg, 2019). The CIRR mechanism is no longer correlated to the funding costs of a bank for long-term financing. The CIRR has lost its role as a benchmark for financing costs to emerging market borrowers. One of the major problems is that the CIRR is no longer that appealing to commercial banks. Increasingly more often only a handful of countries can afford benefiting of the support based on this mechanism. This decrease is also certainly related to the lower variable rates found in the market compared to fixed CIRRs and also to the fact that since the establishment of the Economic and Monetary Union (EMU), interest rates in EU member states are almost uniform.

In the case of rising interest rates, fixed CIRRs may be more attractive, which will certainly increase the popularity of the mechanism in the coming years due to the global economic and political situation.

To summarise the most relevant Consensus guidelines that are currently (2021) required it is important to point out that:

1. Terms and conditions of the OECD Arrangement may be applied to official support granted to the export of goods and/or services by the government or on its behalf with an export credit maturity of more than two years.
2. Official support may be granted as: export credit guarantee or insurance (pure cover), official financial support (direct credit/financing and refinancing, or interest rate support, and a combination of the two above forms).
3. Credits relating to export transactions involving military equipment and agricultural commodities are excluded from the Consensus.

4. Official support shall not be provided if there is clear evidence that the contract has been structured with a purchaser in a country which is not the final destination of the goods, primarily with the aim of obtaining more favourable repayment terms.

Arrangement contains stricter conditions for export credits receiving official support. These include (Dorożyńska, Dorożyński, 2016):

1. Advance payment made by a foreign purchaser amounting to at least 15% of the export contract value at or before the starting point of credit.[13] Advance payment can only be officially supported by insurance or a pre-credit risk guarantee. For the assessment of down payments, the export contract value may be reduced proportionally if the transaction includes goods and services from a third country which are not officially supported. Financing/insurance of 100% of the premium is permissible.

2. The maximum duration of the credit depends on the affluence of the borrowing countries. The list of countries in Categories I and II is determined according to the World Bank classification, based on the GNI per capita criterion:[14]

– for countries in Category I, the maximum repayment term for credits is 8.5 years,

– for countries in Category II, the maximum credit period is 10 years,

– for non-nuclear power plants[15] (NPPs), the maximum credit term is 12 years.

3. The Participants may provide official support for local costs, under the following conditions:

a. The maximum amount of official support for local costs shall not exceed:

– For Category I countries, 40% of the export contract value.

– For category II countries, 50% of the export contract value.

b. Official support for local costs shall not be provided on terms more favourable/less restrictive than those agreed for the related exports.

4. The principal sum of an export credit should be repaid in equal instalments, payable every six months. The payment of the first instalment

13 The starting point of credit is understood as (1) the date when the buyer accepted the goods (e.g., parts and components, machinery and equipment) (2) the date when the client's invoice has been submitted (for services related with the supply of parts, machinery and equipment), (3) the date when the buyer takes physical possession of goods (for the supplies of capital goods for complete plants and factories), and (4) the when an investment project has been completed.

14 The classification of countries into categories (Category I includes richer countries and Category II includes countries with lower GNI) can be found on the website, www.oecd.org/ech/xcred (accessed: January 2022).

15 Non-nuclear power plants are defined as complete power stations (or parts thereof) that are not powered by nuclear energy.

should not exceed six months from the starting point of credit. Interest due after the starting point of credit shall not be capitalised.

5. The participants in the Arrangement shall agree on a minimum premium rate (MPR) not lower than that set out in the Arrangement, taking into account whether the purchaser/borrower is a private or public entity.

MPR is determined by the following factors:

1) the applicable country risk classification;[16]
2) the time at risk;
3) the selected buyer risk category of the obligor;
4) the percentage of political and commercial risk cover and quality of official export credit product provided;[17]
5) any country risk mitigation technique applied; and
6) any buyer risk credit enhancements that have been applied.

6. Financing is subject to at least a minimum interest rate (CIRR), which is set in the Agreement.

In addition, it should be noted that cooperation at the OECD level in harmonising the rules for the provision of official support has contributed to the inclusion of further issues in the framework of the OECD Agreement.

The table below presents issues regulated and unregulated within the OECD.

Table 2.7. OECD Agreement: regulated and unregulated issues as at 2000 and 2022

Regulated (as at 2000)	**Unregulated (as at 2000)**
– minimum interest rates, – repayment term and instalments, – special sectors—large civilian aircraft, nuclear power plants, and ships, – tied aid for commercially viable projects, – tied aid for commercially nonviable projects, – risk premiums.	– untied aid, – market windows, – domestic-content requirements, – project financing, – foreign policy and human rights standards, – environmental and social standards.

16 Countries have been classified into seven categories. Countries in Category 1 represent the lowest degree of risk and respectively countries in Category 7 represent the highest degree of risk.

17 The quality of product that is officially supported is crucial for whether insurance protection will cover the claims waiting period. Products can fall into one of the three categories:

a) below the quality of a standard product meaning the insurance does not cover interest in the claims waiting period (they can be insured with appropriate premium surcharge),
b) standard product meaning insurance covers interest in the claims waiting period without premium surcharge,
c) above standard products, for which there are guarantees.

Table 2.7. OECD Agreement: regulated and unregulated issues as at 2000 and 2022

Regulated (as at 2022)	Unregulated (as at 2022)
– untied aid (Agreement on Untied ODA Credits Transparency), – domestic-content requirements, – project financing risk standards – foreign policy and human rights standards, – environmental and social standards.	– market windows, – investment insurance.

Source: own compilation based on Evans, Oye, (2001).

In summary, for over five decades the OECD has made a significant contribution to reduce subsidies used to achieve competitive advantage. Moreover, the benefits have not been achieved through a treaty in force between governments, but through the Arrangement, which has the character of a Gentlemen's Agreement. The Agreement has been successful in eliminating disguised forms of protectionist trade practices, reducing the budgetary outlay incurred as a result. It has also levelled the playing field for global trade and a stronger and more efficient global economy by forcing transparency in the operation of export credit systems (Summers, 2001). The key to the success of the OECD regulatory framework on export credits lies in the continuous adaptation of the rules and their being consistent with stakeholder interests (Drysdale, 2015). Rules worked out in the Agreement have successfully met the demands of the world of politics and civil society to address sustainability issues and the latest global challenge posed by the climate change (Sřndergaard-Jensen, 2019). The objective of the OECD Arrangement is to promote free market trade and also to set the framework for efforts to support exporters in the international market. The process of harmonising the rules for export credit support within the OECD on the one hand and encouraging other market participants to join the Arrangement on the other is not yet complete. The challenge of ensuring a level playing field is of particular importance with the emergence of new players (China, Russia) or other fast developing countries as leading global exporters, especially when they have already established their own ECAs there is an urgent need to put in place rules and regulations describing global standards for financial terms.

The agreed terms and conditions for official support for export credits within the framework of the agreements concluded by the institutions and organisations responsible for the regulatory harmonisation process determine the level of subsidies that country governments may offer for trade promotion

or development assistance to the poorest countries. They also ensure that official support for export transactions is implemented in a way that minimises trade distortions. An important aspect in this area is the clear separation between credits of a commercial nature and ODA provided. In practice, it is difficult to distinguish between ODA offered and officially supported export credits. Indeed, governments combine export credits with grants to create so-called mixed credits.[18]

18 Notably, however, the level of export credit subsidies provided is small compared to ODA, which can be up to 100%.

Chapter III

Global assessment of export credit agencies performance

3.1. Introduction

Official support to companies' export activities represents an important component of transaction financing. As suggested by the second chapter, the involvement of public funds is particularly important in the face of emerging economic crises or increasing competition between export credit agencies. Although, on the one hand, their activities in the field of official export support have been framed by specific terms and conditions (OECD Arrangement), obviously not all agencies have joined the Arrangement and are therefore not obliged to apply uniform guidelines.

The aim of the chapter is to assess the performance of export credit agencies over the course of the 20th and 21st centuries in the context of their objectives and operating strategies. The development of export credit agencies shows, on the one hand, their striving to provide a level playing field for domestic exporters on international markets by harmonising the rules for providing official support and, on the other hand, to offer solutions designed to achieve competitive advantage at the level of transaction financing.

3.2. Global development of export credit agencies

Throughout the first half of the 20th century, almost all ECAs were run by governments. It was only in the second half of the 20th century that the proportion of private and public-private agencies offering export development schemes increased significantly. The market for short-term insurance or short-term financing is dominated by private agencies (ca. 80% of overall business), ECAs finance (or underwrite) most of medium to long-term commitments.

Today, the diversity of agencies' organisational typologies as well as their degree of independence reflect the involvement of governments in supporting export development. The relationships taking place between ECAs and governments vary and are often complex. Of course, the degree of independence of an agency depends very much on whether it is a private or public entity. However, all agencies that operate on the basis of financial support from the government are accountable to the government and implement policies in accordance with the regulations adopted for official export support. In general, ECAs acted as "a lender of last resort" or as an "insurer of last resort", operating only in cases of market failure when the private financial or insurance sector does not want to get engaged (e.g. Becker, McClenahan, 2003).

The first government institution of its kind was established in the UK in 1919, with the aim of implementing a scheme to reduce unemployment and to rebuild and mobilise the country's export potential after the devastation of war. Apart from export credit insurance, the British government established a trade finance scheme which offered export financing at a preferential rate (1% above the Bank of England rate or a minimum of 8%) for up to six years.

However, the first export credit insurance schemes were offered in 1906 by a private company Federal of Switzerland. Successful results achieved by schemes in the UK and in Switzerland made them models on which other countries modelled their solutions when they realised how effective and necessary government trade support was, on the one hand, and the desire to provide domestic exporters with a level playing field on the other. Sooner or later, insurance and guarantee schemes were launched in Belgium (1921), Denmark (1922), the Netherlands (1923), Finland (1925), Germany (1926), Austria and Italy (1927), France and Spain (1928), and Norway (1929) (Dorożyńska, Dorożyński, 2016).

The main reason why these schemes were introduced was to strengthen the export position of the countries, revitalise industries destroyed after the First World War and also to foster trade links between Western European countries and the Soviet Union. Also the break out of the economic crisis in 1929 favoured the establishment of institutions officially supporting export credits, providing guarantees and insurance. This was one of the methods used to guarantee the continuation of trade flows, which had an impact on output and jobs. Thus, in the 1930s Japan (1930), Czechoslovakia, Latvia, Poland (1931), Sweden (1933), the US (1934), and Ireland (1935) launched similar schemes. It is noteworthy that for the first thirty years of its operations the EX-IM Bank (USA) offered only direct, official lending schemes without guarantees or insurance. Institutions in other countries developed and focused their activities on the provision of guarantees and insurance and on the refinancing of commercial bank borrowings/credits to reduce interest rates. Until the mid-1930s, most export credit

agencies focused their operations on providing export credit insurance to the Soviet Union. One could say that the USA and other developed countries have been the primary sources of world trade flows and ECA financing.

The scale of agency operations in the 1920s and 1930s was small and the World War II prevented the development of new export credit agencies. Between 1939 and 1945, the existing agencies allocated their financing to activities that would help win the war. After the end of World War II, the former Axis countries embarked on rebuilding their domestic economies and reactivating trade relations with foreign countries. As a result, the late 1940s and early 1950s witnessed Japan, Germany, Italy and Austria introducing full packages of new financial and insurance schemes (Dorożyńska, Dorożyński, 2016).

Next, in the 1960s export credit, guarantee and insurance schemes were launched in developing countries (Argentina, Bolivia, Brazil, Greece, Hong Kong, Korea, Pakistan, Peru and Portugal) to provide impetus for boosting employment, economic growth and exports, strengthening the competitive position on the international market and improving the balance of payments.

The third wave of new agencies emerging in developing countries came in the 1970s and stemmed from the concern that the lack of an adequate export support infrastructure would prevent them from achieving a competitive position not only vis-ŕ-vis the OECD countries but also in relation to other developing countries. In the 1980s, a new group of countries emerged (Egypt, Indonesia, Tunisia, Turkey) where export credit agencies were developing. Many of the systems adopted in these countries in the earlier years have already changed.

To a large extent, the scale of the agencies' activities is determined by their financial standing. Until the debt crisis, the revenues of ECAs from collected premiums and interest-bearing reserves were at a sufficiently high level, in case compensation had to be paid. The financial standing of most operating agencies deteriorated significantly in the early 1980s. As commercial financial markets became more robust in 1980s, the role and significance of ECAs began to decline (Wang et al., 2005). The surpluses and reserves developed in earlier years were exhausted and the agencies' operations were sustained by government subsidies. The direct dependence of individual agencies on budget support, and the political and economic changes taking place in the 1980s, became the key factors shaping the policies and directions of the agencies during this period. It is worth emphasising the importance of three additional factors determining the strategies of individual agencies: the first related to the creation of the single European market and, within it, the unification of export support rules; the second to the radical political and economic changes in the countries of Eastern Europe and the former USSR; and the third to the efforts of members of the

OECD Arrangement of 1978 to minimise trade distortions associated with the use of tied aid funds and officially supported export credits.

Despite the increase in the use of export credits that occurred in the late 1980s and lasted until the mid-1990s, the financial standing, as measured by cash flow (the sum of income from premiums collected and recovery activities less the amount of compensation paid), of many agencies remained weak. Governments responded differently to the agencies' persistent deficits. Some countries have chosen to separate the business into two accounts: current and past. This was the solution adopted in the UK for ECGD. Each agency activity account had financial objectives. Account number 1, which covered most of the guarantees issued up to April 1991, was to manage the portfolio of receivables and payables in a way that minimised taxpayers' costs. The purpose of account number 2, which covered only guarantees granted from April 1991 onwards, was to build up and maintain an adequate amount of reserves to ensure the level of profitability that the Ministry required. Other agencies used their risk estimation procedures to set the level of provisioning contributions to protect the agencies against potential losses. Even if the agencies did not formally separate their activities into two separate accounts (old and new), in many cases they restructured their risk estimation systems, tightened their insurance policies and developed new risk assessment and management methods to facilitate export transactions.

Significant deficit that affected many export credit agencies in the early 1990s was expected to inhibit the creation of new agencies. Meanwhile surprisingly the 1990s saw the largest number of them established, mainly in the countries of the former Soviet Union, but also in Central and Eastern Europe (Czech Republic, Hungary, Lithuania, Poland, Russia, Slovakia, Slovenia). In Kazakhstan and Ukraine, previously established banks handling foreign trade transactions have introduced standard export credit agency schemes into their offerings. In Africa, the development of the activities of national ECAs has been supported by the initiative to establish a regional export-import bank, while in Asia (both China and Thailand) export-import banks have been established to strengthen and develop their dynamic export industries.

On the other hand, many of the existing agencies have changed their schemes to become more autonomous, offer a wider range of services and have more financial resources at their disposal. Among the measures implemented to increase the activity of the agencies are:

1) development of export promotion instruments including comprehensive techniques for insurance and financing of export transactions,

2) improving information systems, risk assessment procedures that take into account country risk and the possibilities of hedging against its consequences,

3) offering special facilities to exporting enterprises that have no experience in foreign trade.

In many cases, the activities of the agencies in the field of export credits, insurance or guarantees have been merged into a single institution dealing with the comprehensive handling of ongoing trade transactions. In parallel to organisational and institutional changes there were initiatives to reduce the cost as well as to ensure greater transparency in their operation. With the new procedures and systems in place, many governments began to pursue a more aggressive export promotion policy, often seeing it as a tool to stimulate economic growth during the recession of the early 1990s.

The financial position of the agencies improved in the second half of the 1990s, due to a higher level of insurance premiums collected, a lower indemnity payment rate and an improved recovery rate on indemnities paid (surplus of 6.1 billion USD), but deteriorated significantly in 1998 and 1999 (surplus of only 3.6 billion USD in 1999). This decline was mainly due to the low level of recoveries from foreign borrowers, which were paid by the agencies as compensation to exporters or banks, and the increasing volume of indemnities paid. The value of new commitments, according to the Berne Union, fell by 20 per cent in 1998 and by 16 per cent in 1999 to around 67 billion USD.

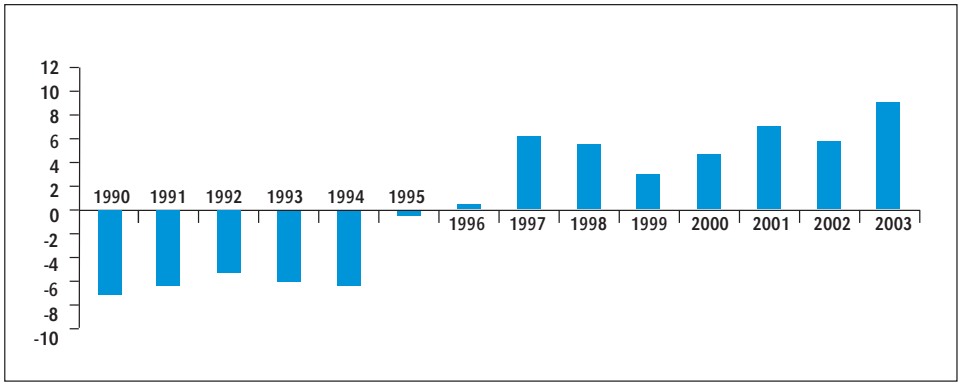

Figure 3.1. Annual financial results of export credit agencies-members of the Berne Union over the period 1990–2003 (in billions of USD)
Source: based on Berne Union Yearbook, (2003, pp. 140–145); Berne Union Yearbook, (2005, p. 155)

The financial position of most agencies improved significantly between 2000 and 2003 (realised surplus of around 9 billion USD in 2003). This is mainly due to an increase in recoveries (in 2001 the repayment of debts of Nigeria, Russia and other countries in the context of the debt restructuring carried out by the Paris Club).

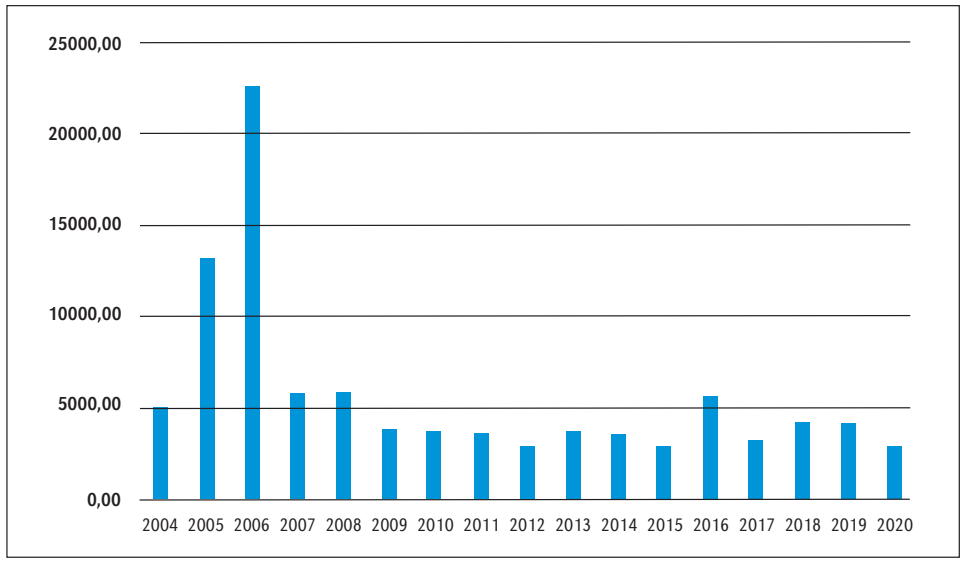

Figure 3.2. Net operating cash flow (in SDR millions)
Source: OECD, (2022).

As can be seen from the data in figure 3.2, the upward trend continued in subsequent years, with a sharp and significant improvement in the financial result of export credit agencies recorded in 2005–2006. This result was influenced mainly by the high recovery rate (mainly of agencies of EU countries, i.e. Germany, France, Spain and the UK and Japan, for agencies operating in non-EU countries). ECA's financial position has fairly stabilised after the decline in 2007. The number of official ECAs is increasing, by ca. 35% – from 85 to more than 115 – between 2015 and 2022 (Lawrence, Archor, 2022). Several countries, such as Serbia, Sudan in 2005, Estonia in 2009 or Armenia in 2013 have established their ECAs. The existing agencies also changed either their ownership structures or names. In Russia, an Export Insurance Agency of Russia (EXIAR) was established in 2011 as the successor for the Russian Export-Import Insurance Company that had existed since 1996. In France COFACE was the export credit agency since its foundation in 1946. In 2015 the management of French state export guarantees was transferred from the Coface Group to Bpifrance Assurance Export.

Most export credit agencies based in industrialised countries have been in operation for more than 50 years. And more than half agencies in developing countries have been gaining experience in export credit finance underwriting and insurance for at least 20 years. The difference between industrialised and developing countries, when it comes to the activities of ECAs, which was huge

in the early years, is gradually disappearing. Industrialised countries have gradually withdrawn from extending credit to high-risk markets, while developing countries have been willing to take these risks while trying not to jeopardise their financial position. It is also worth noting that their mercantilist approach is relevant particularly during financial crises. When the 2008 financial crisis broke out, ECAs supplied the necessary liquidity to keep the international trading system in operation as commercial banks retreated from their position of the main suppliers of export finance (Chauffour, Saborowski 2010; Auboin, 2009). Official export credit agencies were critical 'shock absorbers', supporting the survival of the international trading system (Irwin, O'Rourke, 2013).

3.3. Export credit agencies goals in the context of adopted organisational and functional solutions

Most industrialised economies have at least one ECA. The common goal of ECAs is to offer export facilities and promote domestic exports based on principles worked out within the OECD Consensus. Their services focus on facilitating domestic companies doing business in less developed countries and emerging economies.

Regardless of the systemic arrangements adopted in each country, export credit agencies operating around the world share common economic and financial objectives. Among the main economic objectives are (Gianturco, 2001; Dorożyńska, Dorożyński, 2016):

1) to develop exports of private sector goods and services,
2) to help finance exports irrespective of the size and country of destination,
3) to complement the activities of merchant banks rather than compete with them,
4) to improve the balance of trade and increase employment,
5) to help export start-ups diversify their products and foreign markets,
6) to improve the qualifications and skills of exporters in finance and risk management when providing credit to foreign buyers,
7) to expand knowledge of export credit issues among banks,
8) to encourage cooperation of domestic insurance companies,
9) to support exports deemed important in terms of importance to the country's economy,
10) to face foreign competition from officially supported export credit agencies,

The main financial objectives of ECAs include (Gianturco, 2001; Dorożyńska, Dorożyński, 2016):

1) to conduct profitable business,
2) to support only transactions with credible payment security,
3) to raise capital from domestic and foreign sources to finance domestic exports,
4) to set credit interest rates and other fees at a level that ensures that costs are covered,
5) to undertake investments with maximum returns in line with cash flow and payment security guidelines,
6) to ensure that adequate financial resources are available to make timely payments required for the execution of credit, guarantee or insurance contracts,
7) to enter into co-insurance and reinsurance agreements to limit excessive losses,
8) to be guided by sound risk-sharing principles and to maintain a balanced portfolio,
9) to maintain an adequate ratio of capital and reserves to current and emergency liabilities.

Official export credit agencies also share a number of common features in terms of export transaction handling techniques. These include similar criteria for deciding about the scope and form of support to be provided, the classification of risks and the extent to which they are covered, insurance techniques, the bonus system and interest rates as well as methods for estimating, managing and sharing risks.

It is not by accident that ECAs share the same features. The procedures, conditions and objectives of financing, insurance and export credit guarantees have been harmonised through the systematic and rapid exchange of information, as well as international cooperation and agreements reached within the Berne Union and the OECD. It is thanks to international arrangements that the parameters have been defined according to which agencies that belong to specific structures should pursue their objectives. This arrangement was introduced to prevent guarantees from being used as a disguised trade policy tool to increase a country's own exports at the expense of others. It can be said that since the 1970s, control of official financing, set restrictions and transaction monitoring have largely been achieved.

3.4. Competitiveness of export credit agencies

Differences among ECAs' schemes and policies may open up doors for competition if ECAs have greater implementation flexibility. For example, many ECAs have eased or removed domestic content requirements, partly as a result of more globalized input sourcing.

Under the OECD Arrangement, participants compete in the market within the margin of flexibility permitted under the Arrangement, such as domestic content requirements and risk appetite (Dawar, 2020). Participant ECAs lower the minimum domestic content required of an export contract and shift towards more risky markets. Many OECD participant ECAs adopt a 'whole of government' approach by expanding export support schemes beyond the scope of the rules stipulated in the OECD Arrangement, including investment insurance and market window arrangements. The flexibility of untied financing helps buyers in mitigating some of the financial conditions and due diligence burdens required by tied financing.

In addition, while the Arrangement leaves some room for manoeuvre and allows its Participants to adopt more competitive schemes, a significant body of export credit support mechanisms emerged that also lies outside of the OECD Arrangement's scope but is used by its Participants. Consequently, the OECD Arrangement's influence over ECAs is shrinking in relative terms exactly at a time when governments are increasingly seeking to stimulate domestic growth through exports (Dawar, 2020).

Moreover, with the change in world trade patterns, the new active players in export financing appeared, such as China, India, Brazil and Turkey, who are not members to the Arrangement and therefore do not have to abide by these guidelines. These countries represent a large and rapidly growing proportion of trade flows and guarantee issuance. Especially, what China's ECA is doing raises competitiveness concerns because of its size, financing tactics applied, transparency-related issues, staying outside of the OECD Arrangement and possible violation of the WTO export subsidy rules. Efforts launched in 2012 among the United States, China, and others to develop new export credit rules were interrupted in 2020 by differences over core aspects, e.g., transparency of financing terms. (Shayerah, Akhtar, 2022).

Figure 3.3 sets out the value of the most active ECAs in 2017 (before the pandemic crisis) and in 2021. The largest provider, China is not Participant to the OECD Arrangement. China was the world's largest provider of Medium-Long Term (MLT) export credits at 36.3 billion USD in 2017 and 11 billion in 2021.

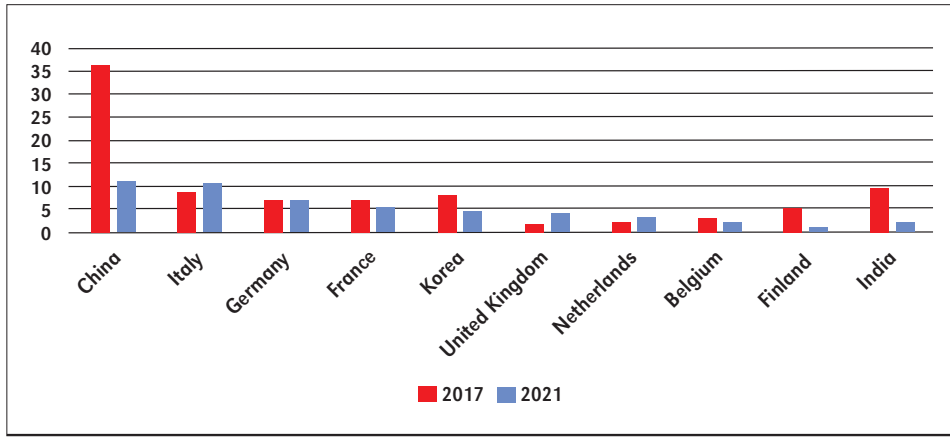

Figure 3.3. Countries with the biggest New Major Official Medium- and Long-Term Export Credit Volumes in 2017 and 2021 (in billions USD)
Source: based on EXIM Bank, (2022).

As shown in figure 3.3, the biggest decline in medium- and long-term export credits was experienced mainly by China. EXIM research shows that in 2020, China's MLT official export credit support appeared to decrease from just over 33 billion USD in 2019 to about 18 billion USD in 2020, but its volumes remain significantly higher than those reported by all other major providers. The decline reflected either (or both) a logical consequence of a COVID-driven drop in project completion and a strategic reset of Chinese objectives for ECAs in response to claims and criticisms (EXIM Bank 2022).

According to EXIM, this was China's first decrease in official export credit support since 2015. However, despite this decline, the country's official MLT export credit volumes continued to top the list of official MLT export credit providers.

Reported drop is primarily due to the fact that world GDP growth in 2020 was the lowest recorded over the past 40 years (a decline by 3.26 percent) and world trade growth was the second-lowest recorded (a decline by 8.91 percent). As the COVID-19 pandemic spread across the globe followed by a chain reaction of closures of economies and production, supply chains and cross-border trade got seriously affected. Yet, already in 2021 world trade growth recovered to 10.13 percent, the highest rate since 2010. It would seem that this rapid rebound after 2020 will also stimulate and increase the ECAs' activity when it comes to the volume of medium and long-term export credits granted. However, total official export credit volumes provided by OECD and non-OECD ECAs appear to have decreased from 2020 volumes, even though several ECAs deployed COVID-19 response measures that were not included in official export credit volumes (fig. 3.4).

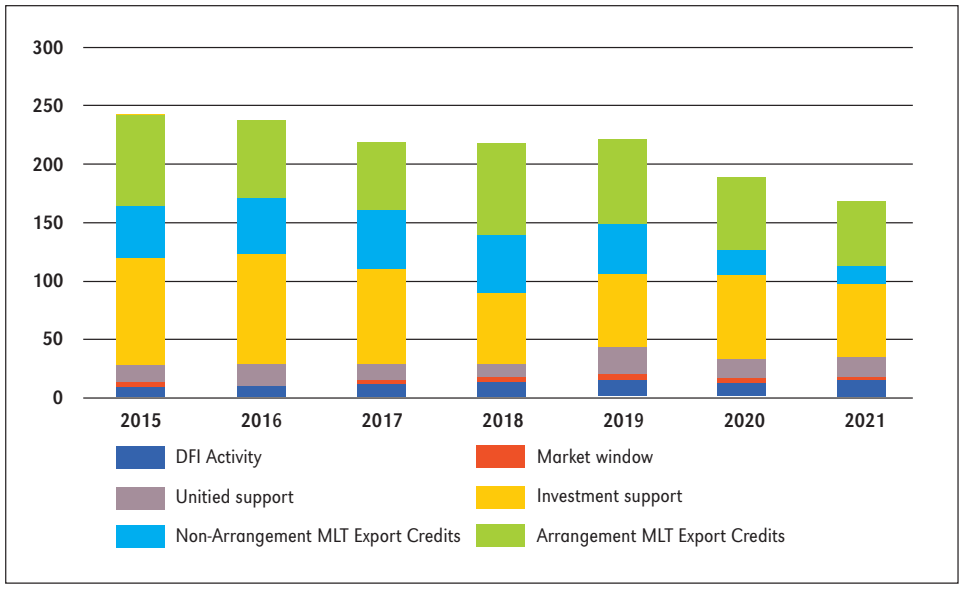

Figure 3.4. Grand Total of Official MLT Export and Trade-related MLT Activity from OECD and non-OECD Countries over the period 2015–2021 (in billions USD)
Source: based on EXIM Bank, (2022).

Figure 3.4 indicates that trade-related support, which covers investment support, untied support, market windows,[19] and DFI[20] activity, decreased from 2020, primarily due to a significant decrease in investment support. In contrast, untied support increased in 2021 while DFI and market window activity were both stable. Besides, as shown by the figure above, OECD Arrangement-covered MLT activity dropped by 1.4 percentage point to about 31% of total activity, with a commensurate gain in market window, including through development finance institutions (DFI) between 2015 and 2021. Remarkably, the biggest drop was reported for the share of Non-Arrangement MLT Export Credits (by almost 10 percentage points over this period). Apart from that, export credits and trade-related financing do not go hand in hand, while MLT trade-related financing has remained more-or-less consistent since 2015, MLT export credits have declined by over 50% within the same time period.

19 A market window program is an officially backed financing program where prices are calculated on market terms which is not subject to Arrangement disciplines.
20 Development finance, provided by bilateral development finance institutions (DFIs), encourages private sector operators to do business in foreign developing markets for developmental purposes. Development finance is untied but many DFIs have "national interest" mandates similar to those of many ECAs, or initiatives aimed at supporting domestic exporters.

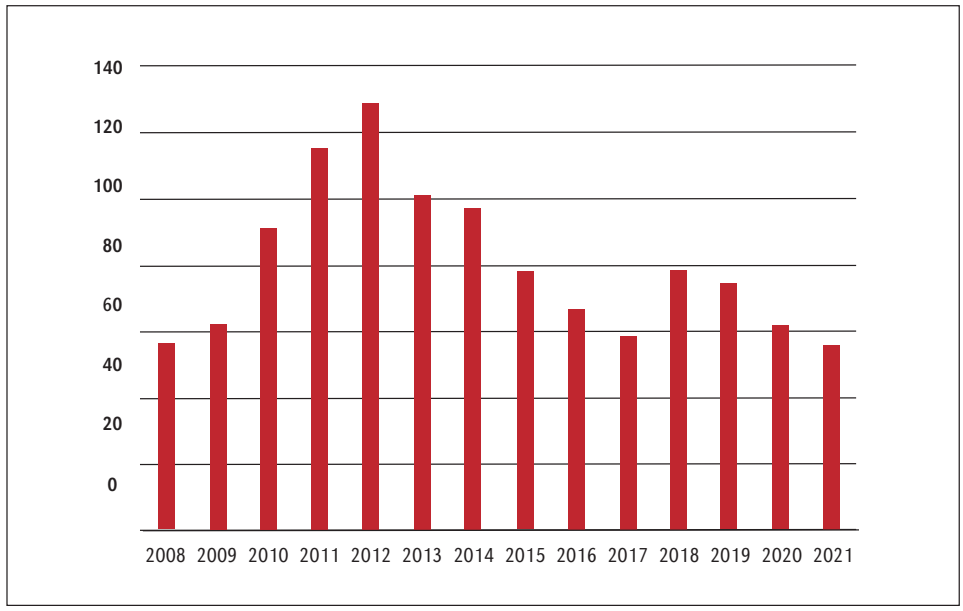

Figure 3.5. Changes in MLT export credit activity over the period 2008–2021 (in billions USD)
Source: based on EXIM Bank, (2022).

In 2021, OECD Arrangement activity represented a downward trend (as seen in figure 3.5) in principle from 2012 with some slight increases in 2018 and 2019. The 2021 numbers were driven by significantly decreased support provided by major economies, including France and Germany, while most other countries, also the United States, stayed steady, and two countries (Italy and the Netherlands) increased official MLT export credit volumes.

Data presented on the figure below show that the competitiveness of agencies operating, outside the OECD framework is higher compared to agencies operating within the OECD framework.

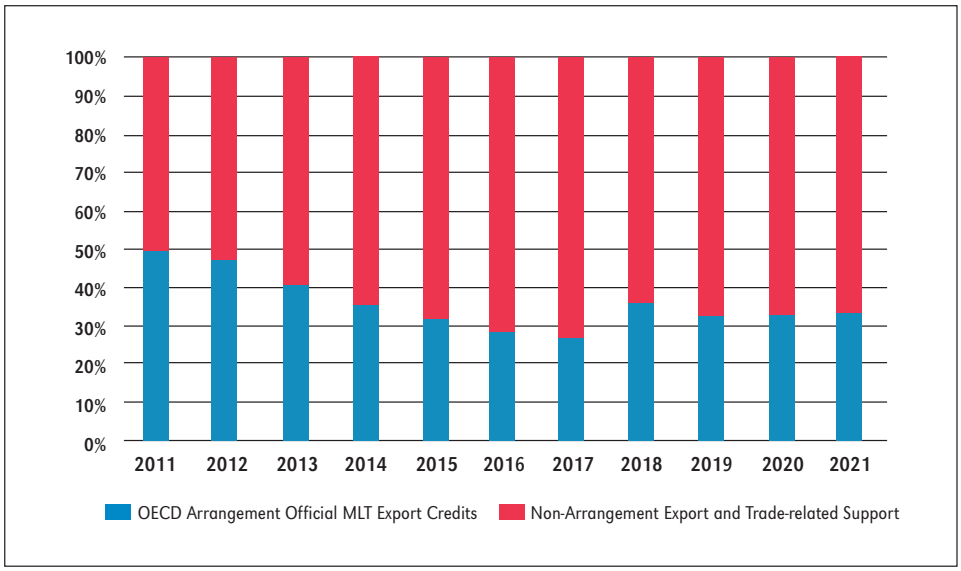

Figure 3.6. OECD Arrangement Official MLT Export Credits vs. Non-Arrangement Export and Trade-related Support over the period 2011–2021 (in %)
Source: based on EXIM Bank, (2022).

OECD Arrangement-covered activity accounted for approximately 33 percent of total export and trade-related financing in 2021 – more or less the same share as in 2019 and 2020. Moreover, since 2012, the proportion of Non-Arrangement Export and Trade-related Support increased steadily until 2017, reaching 73%. Due to the pandemic and a significant decrease in agency activities in China, this share decreased to 67% in 2021.

Official support from export credit agencies in terms of insurance plays an important role. The assumption of risk associated with trade credit significantly increases the possibilities for export financing, especially from private sources. Guarantees from special institutions that commercial banks receive provide exporters with easier access to bank credit. Export credit insurance, on the other hand, entails the possibility of obtaining financing at a preferential interest rate. Of course, the export credit insurance industry remains under significant influence of factors affecting the underlying environment for international trade. Under the same circumstances, less trade translates into less potential business to cover, although at the same time an increase in the perceived risk of trade can stimulate demand for instruments, such as credit insurance, which mitigate risk.

New export credit insurance business increased by 1.5% in 2020, despite the effects of the COVID-19 pandemic. This was the result of an increase by 3% for short-term export credit, driven by a steep increase of 9% in ECAs' new short term commitments. Over the same period, new short-term commitments of private insurers fell slightly by 1%. Meanwhile, new medium long term commitments fell by 22% in 2020 with private and public credit insurers seeing similar levels of drops in new commitments: –18% and –22%, respectively (figure 3.7).

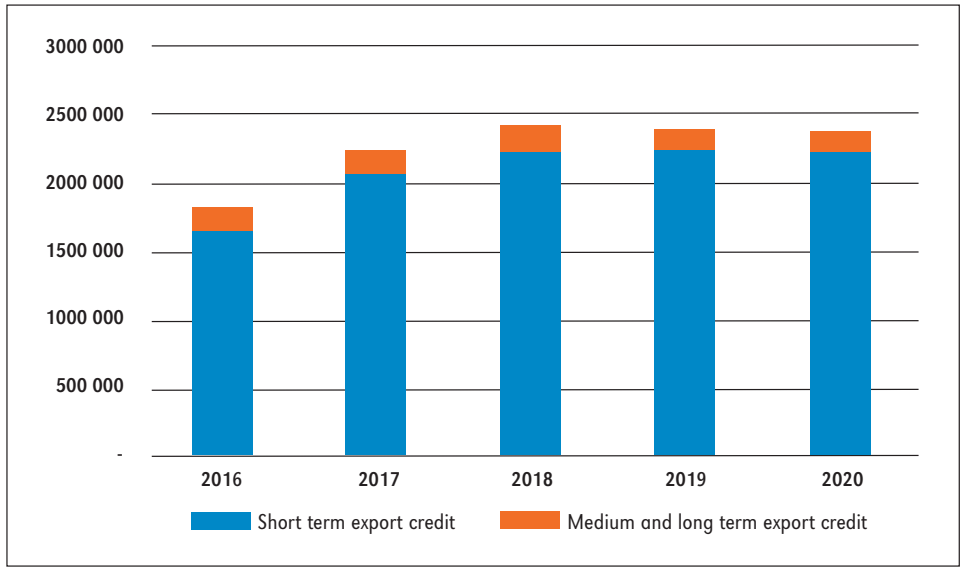

Figure 3.7. Short term, medium and long term export credit between 2016 and 2020 (in millions of USD)
The data in the figure relates to overall business provided by the export credit and investment insurers of the Berne Union.
Source: based on Berne Union (2020); Berne Union, (2021).

The COVID-19 pandemic delayed or put many larger projects and investments on hold leading to a noticeable drop in new MLT commitments compared to ST business. This is, however, not a one way relationship and it is estimated that between 80 and 90% of all trade relies upon some form of financing instrument (including export credit insurance). Strong demand for ST export credit insurance, and the increase in turnover covered allowed Berne Union Members to increase their share of global exports covered up to a record level of 13.6% in 2020 (figure 3.8).

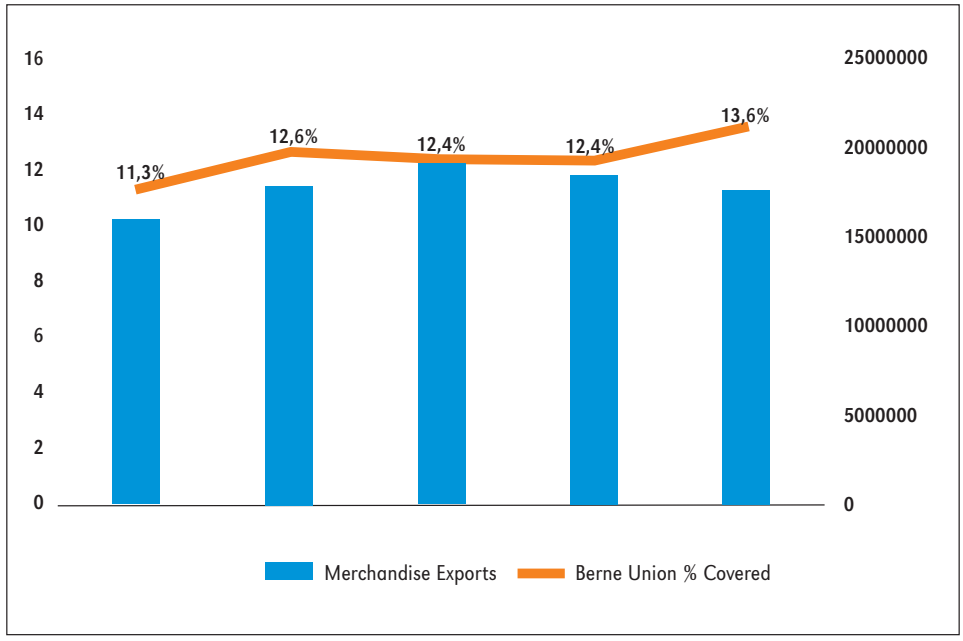

Figure 3.8. World merchandise Exports (in millions of USD) and Berne Union % covered over the period 2016–2020
Source: based on Berne Union (2020); Berne Union, (2021).

This growth in export credit insurance that took place despite the fall in merchandise trade is indicative of increased risk perception in the times of the pandemic. It also reveals the underlining important stabilising and countercyclical effect of credit insurance in times of turmoil, and the role of public insurers in supporting this.

Participants to the OECD Arrangement are confronted with a strategic dilemma of unequal global competitive conditions. The expansion of non-Arrangement activities increases the pressure on the Participants to create their own OECD Arrangement countervailing measures. These, however, further jeopardize the level playing field for competition and stir up export subsidy race. Figure 3.9 sets out the distinction between the three operating models of ECA. It indicates that only a minority of seven ECAs have not expanded their Non-Arrangement activities (e.g., agencies from France, the UK or USA).

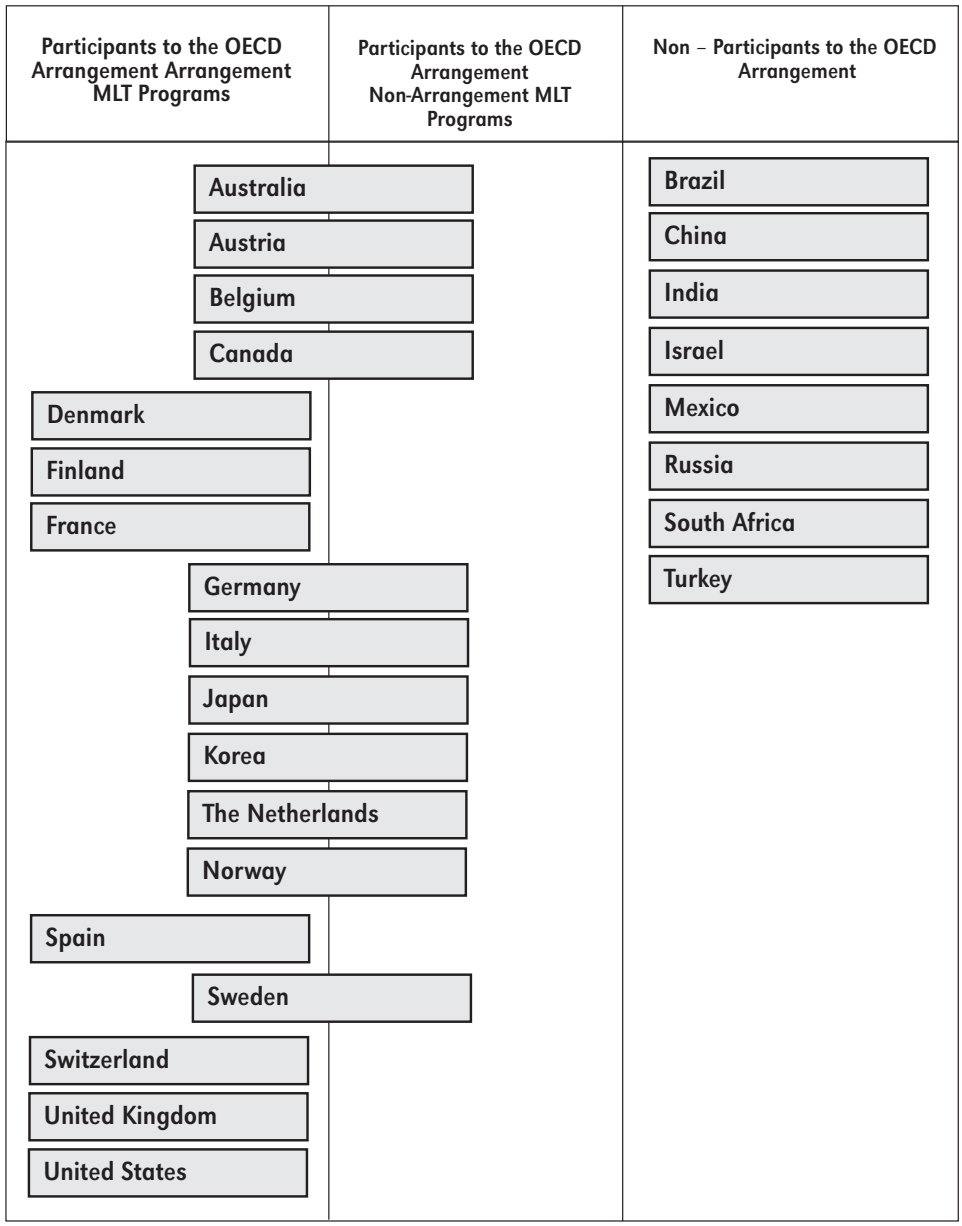

Figure 3.9. ECAs solutions under the OECD Arrangement and outside of the Arrangement
Source: Dawar, (2020, p. 12).

The implications of the expansion of non-Arrangement export credit support schemes go beyond offering a level playing field and impact the regulatory framework for export credit support and the compatibility of some of these new schemes with the obligations under the WTO framework.

Data needed to assess whether ECAs stick to the rules of the Arrangement are, on the one hand, difficult to obtain and, on the other hand, based on self--reporting. For OECD participants, even where OECD terms and conditions remain applicable, it is not self-evident that participant ECAs do comply with them. The aforesaid is particularly true with respect to matching, a deterrent mechanism that permits OECD participants to match the terms of offer of another ECA, be it a participant to the Arrangement or operating outside of its terms. However, non-participants can obtain information only on a reciprocal basis from individual participants on specific export credit offers. Consequently, the final terms and conditions of a matched offer, or the extent to which matching takes place between both participants and non-participants cannot be evaluated.

The Participants to OECD Arrangement operate in a highly aggressive and little regulated environment. In order to secure export contracts, both domestic industry and OECD ECAs seek to increase their competitiveness while abiding by the rules of the trading system. Otherwise they risk contributing to the disruption of the level playing field and hindering sustainable development as apart from subsidy control, the Common Approaches and other non-economic legal frameworks are applicable. In this non-transparent context ensuring compliance is surely a challenge in the search for more export opportunities. Striving for achieving trade surpluses and growth after World War II ultimately led to the dilemma of the 1970s: put in place disciplinary measures or continue the race to the bottom. A similar scramble for economic global positioning is taking place today, in particular in the times of expected recession.

A question also arises whether regulations concerning the official support for export are effective in providing a level playing field for exporters in the trading environment. Doubts with regard to the effectiveness and activities of ECAs are growing, particularly when looking at the increasing official export credit support activity of non-OECD members. As shown by data presented in Figure 6, governments of countries that do not apply the OECD Arrangement rules are aggressively using their ECAs to support national exports in the short-, medium- and long-term. That may undermine international competitiveness of exporters from industrialised countries when it comes to transaction financing/insurance, in particular when short-term credits are supported by the private sector.

The OECD Arrangement is soft law instrument that does not create enforceable rights and duties. Yet despite its shortcomings on the enforcement side, the soft law approach has played a positive role in international negotiations between diverse parties seeking to respond to complex cross--border export credit support issues that challenge domestic sovereignty.

Export credit agencies have their advantages and disadvantages:

Table 3.1. Advantages and disadvantages of ECAs' activities

Advantages	Disadvantage
– Protect against risks. – Give access to bank finance. – Give access to information about foreign markets. – Offer facilities that increase exporters' competitiveness in foreign markets. – Give access to higher risk markets. – OECD Arrangement activity levels the playing field for competition, especially mitigates credit risk and keeps trade finance markets in developing countries from drying, e.g., in particular in the times of financial crises.	– Encourage exporters to assume bad credit risks. – Substitute for foreign aid. – Distort trade. – Encourage uncompetitive export habits. – Fuel growing mercantilist tendencies in countries. – Officially ECAs may discourage private banks to develop export related financial products.

Source: Malcolm, (1999), Dorożyńska, Dorożyński, (2016).

There are some arguments in favour of ECAs (Gianturco, 2000; Dorożyńska, Dorożyński, 2016):

1. ECAs are intended to alleviate and make up for capital and money market imperfections,
2. Their schemes respond to capital market constraints in the field of short- and long-term support,
3. ECAs indirectly impact remuneration, output, employment, industry or revenue from taxes,
4. ECAs assist start-ups and small enterprises, help in launching new products and promote transactions in new markets. Nevertheless, their operations depend on the mission of a respective agency, the overriding principle of non-competing with the private sector and acting as the lender of the last resort,
5. ECAs deliver aid schemes to developing countries;
6. Each agency is obliged to offer terms that comply with terms offered by other national ECAs, i.e., financing and insurance terms should ensure a comparable competitive position to all exporters. Competitiveness argument would not be a rightful justification for the operations of an ECA if all countries simultaneously agreed to eliminate official support to export through schemes/instruments offered by export credit agencies.

7. ECAs are seen to be legitimate and even encouraged, particularly during financial crises.

One could say that ECAs are institutions that - under the right circumstances, rules, and appropriate discipline – may help compensate for market failures in the effective provision of export credits as well as insurance and guarantees. This is especially true in the times of crisis. However, if ECAs are to be effective, some stringent conditions have to be met with regard to the economic environment, institutional design, and governance structure. These pre-requirements make ECAs a solution for more mature economies rather than for low-income countries that still have to cope with basic development challenges (Chauffour, Saborowski, Soylemezoglu, 2010).

In conclusion, ECAs have remained critical cogs in industrial strategies to secure new export opportunities. But rather than focus on observing previously accepted principles for export support, ECAs toolkits have become increasingly bigger (EXIM Bank, 2018, pp. 24–37). These market shifts have shaken the carefully balanced legal framework that previously controlled vast majority of official export credit support. Whenever competition among exporters relies on the most favourable officially supported financial terms and conditions rather than on the price or quality of goods they offer, export credit race to the bottom is triggered with all its significant budgetary and societal implications. Increasing competition from China and other non-OECD exporting nations are among the major challenges to the adjustment of export credit regulations to changes taking place in trade. In the face of ongoing changes, we can see that ECAs appear to be rethinking their approach to official export finance.

The major areas of evolution include (EXIM Bank, 2022):

– the accession of China to talks on global export credit regulation in the International Working Group on Export Credits (IWG) with the aim of creating a new global agreement on export credits. Efforts of the United States, China, and other countries launched in 2012 with a view to develop new export credit rules were interrupted in 2020, due to differences on core issues, e.g., transparency of financing terms. Only half of the countries were committed to a common set of restrictive rules which combined with the absence of common will turned out to be major obstacles to reaching an agreement (Sřndergaard-Jensen, 2019);

– increased support for climate-friendly projects based on national policies and global efforts to promote climate finance. Many ECAs have emphasized their intention to expand support for clean energy projects and provide only transition support to less climate friendly industries.

The above considerations show that Participants to the OECD Arrangement are faced with a difficult tactical choice of either taking a strong pro-competi-

tion position both domestically, as well as internationally (within the framework of the WTO, OECD and the IWG) or developing their own non-Arrangement type export credit schemes. Clearly the first option is much more preferred as it opens up new paths towards economic efficiency, long-term competitiveness and sustainable development, even though it could potentially reduce the role of ECAs.

Moreover, the currently observed slowdown in export growth and emergence of export credit support schemes outside of the OECD Arrangement urgently call for much tighter cooperation among ECA governments, whose collective interest lies in preventing raging publicly-funded and untransparent subsidy wars in export credit terms and conditions with all their negative consequences experienced at economic, political, environmental, and social levels. On top of that, some efforts are necessary to eliminate potential moral hazards and prevent using ECA financing as a vehicle for distortionary subsidies. (Wang, Mansilla, Kikuchi, Choudhury, 2005).

Conclusion

The main research objective of the monograph was to assess the global performance of export credit agencies in the context of challenges of the 21st century. Special attention has been paid to global crises affecting international trade as a result of shocks caused by, among others, the COVID-19 pandemic and the war in Ukraine. The analysis of how operating conditions of export credit agencies have been harmonised and the impact of the process on the competitive position of these agencies makes an important contribution to the research on public support for exports.

We started with the discussion of mechanisms and products for financing transactions in international trade. A review of research allowed for an assessment of the attractiveness of these products. It also helped to identify the major factors determining the choice of specific support instruments. Next, we presented globally applied solutions regarding the organisational and functional structure of export credit agencies, as well as the harmonisation of rules governing the support provided by these agencies to domestic exporters. Finally, by looking at the objectives and strategies pursued by agencies respecting the principles of the OECD Arrangement and those which have chosen not to abide by it, we assessed the performance of ECAs between 1990 and 2020.

Literature review and examination of statistical data allow us to draw the following conclusions:

1. Export credit agencies have a positive impact on the exporting activities of companies, in terms of access to finance and securing transactions especially in the times of crisis. Official support granted by ECAs in the form of financial and insurance instruments fills the gap emerging in the private banking and insurance sector when interest rates on export credits are increasing together with the inflation rate, as well as commercial and political risks. It is under these specific circumstances occurring in international markets that official export credit agencies deliver on their mission.

2. Harmonisation of rules governing the granting of officially supported export credits by export credit agencies, primarily within the OECD, seems economically sound and positively impacts the competitive conditions in international markets. As shown by the analysis of data included in this publication, the absence of regulations in the area in question has led to the so called

subsidy race where domestic exporters are offered increasingly more attractive funding and insurance terms. Undoubtedly, official support to export credits distorts competition and, like any other form of State aid, requires entities who offer it to abide by the rules. Such conduct is beneficial for both those who grant the support and those who receive it.

3. However, data show that most of the support provided (67% in 2021) falls outside of the official OECD regulatory regime. This trend has continued for more than 10 years mainly due to the operations of agencies based in China and India. With these circumstances in mind, exporters who use instruments offered by ECAs surely enjoy competitive advantage in third country markets. The only solution that would contribute to decreasing ECAs' activities outside the official OECD regulatory framework and thus reduce market distortions in this area is to engage as many countries as possible in the continued alignment of export credit terms and conditions.

4. The voluntary nature of the OECD Arrangement on Officially Supported Export Credits and the lack of regulatory framework for cases when the guidelines of the Arrangement are not adhered to are the main sources of its weakness. However, it is also worth pointing out that since the 1970s the number of countries joining the Arrangement has been increasing. Perhaps a way to reduce the shortcomings of the OECD Arrangement in its current format would be to adopt these regulations under the WTO framework, which is there to promote and ensure a level playing field for competition.

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A characteristic feature of the modern global economy is the deepening economic interdependence and increasingly closer business-to-business trade relations. The growth of international trade has been significantly supported by transaction financing mechanisms. Extensive use of traditional as well as innovative trade finance instruments, both long and short-term ones, was one of the reasons why world trade experienced a rather rapid expansion in the first decade of the 21st century. Export credit agencies have played a meaningful role in the financing international transactions. The aim of this monograph is to assess the operations of export credit agencies in the face of changes occurring in the international market.

The book is available only as an e-book

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