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Organisation of Structured Export Financing by Commercial Banks in Russian Federation

Paper within:	Bachelor thesis in Business Administration
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Bachelor Thesis in Business Administration

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Abstract

This paper tries to define the concept of Export Finance and establish if the Export Financing is cost-effective way to raise capital and how is it organized in the Russian Federation. In order to do so, several methods have been used: the related literature has been studied, numerical analysis of economic-efficience of export financing has been prepared based on the real example and three interviews with experts in Export Finance have been conducted. The findings suggests that Export Financing is an attractive way of financing in a current economic environment and there is no credible alternative to it on the Russian market. Moreover, the analysis show that despite of the number of advantages, that Export Financing have, there are still some gaps in Export Financing, but in general, Export Finance area is developing and becoming more and more popular among russian importers and exporters

Table of Content

Appendices

Figures

Tables

1 Introduction

This chapter starts with a background of the problem, followed by a problem discussion and purpose of the thesis. It also contains paragraphs dedicated to delimitations, perspective of the study and main definitions used in the thesis.

As a main component of banking business, trade finance is is very sensitive to any changes in the global economic environment. With difficult market conditions and arrival of Basel III, export finance has to struggle and adapt to a new change. Export finance is becoming one of a key players in the growth strategy of many banks and agencies as they have identified advantages and opportunities for both of them by working together. (Euromoney, 2013) As for export credit agencies (ECAs), researchers claim that they are trying to provide a sustainable growth of their home market by providing a more diverse and forehanded support than in the past. Based on the current economic environment ECAs are also playing a major role in a trade finance all over the world. Considering the wealth of opportunities and instruments offered by ECAs nowadays, banks and borrowers will benefit of cooperating with them.

Recently ECAs were unattractive due to the complexity of a task and time-consuming processes needed to complete a deal. ECA was considered as a last option for funding from all possibilities in the market and was used only in a case when all other options were rejected. However, nowadays ECAs seem to be an invaluable and necessary source of getting financing and a tool providing safety transactions in an international environment (Euromoney, 2013).

In general, there are a variety of facts emphasizing development of an export finance market, aimed at avoiding usual and established schemes and seeking to expand the boundaries of international business. New markets are developing as well as traditional ones, many projects are already exists or are only in the development stage. There are still many unresolved issues, ranging from the organization of trade finance to the provision of funding on an unsecured basis. Thus, in the context of a changing international trade market, information on the latest trends in the development of export-import relations is essential, as well as those issues that are currently engaged in international organizations and financial institutions. (Lobanova, 2005)

1.1 Background

Countries engage in international trade for two basic reasons; both of them contribute to their gains from trade. First one, countries trade due to the difference between each other, because countries can benefit from differences by doing things in which they do relatively well. The second reason is that countries trade in order to achieve economies of scale in production, in other words' country would benefit if it produces only a limited range of goods, so it can produce those goods at a larger scale and hence more efficient. (Krugman P. , 2012) Therefore, the first step of understanding Export Finance we need to understand a basic trade concepts and effects of trade.

The first international trade theory was mercantilism. Mercantilists believed that wealth that people have is fixed at any given moment and therefore the welfare of the country is only possible by redistributing existing wealth, i.e. at the expense of other countries. (Man, Serra, Monchrestien) Mercantilists believed, that foreign trade should be focused on getting the gold, cause in the case of simple commodity exchange ordinary goods being used cease to exist, whereas gold is accumulating in the country and can be re-used for international exchange.

The classic theory of absolute advantages, developed by Scottish economist and philosopher Adam Smith, is a fundamental theory explaining a concept of international trade. Adam Smith substantiates a thesis according to which the basis for the development of international trade is the difference in the absolute costs of the production of goods in different countries: some countries can produce goods more efficiently than others. (Smith, 1776)

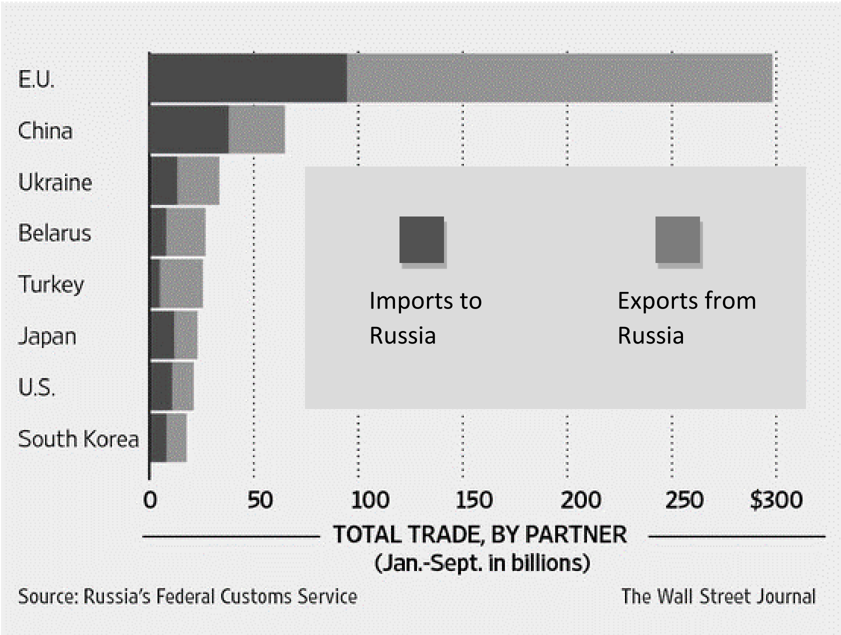
Another fundamental theory is a theory of comparative advantage developed by David Ricardo in the early 19^{th} century. In his book "The principles of Political Economy and Taxation" proved that interstate specialization is beneficial not only in those cases when a country has an absolute advantage in the production of that good. According to Ricardo, it is enough for that country to export those goods with a comparative advantage, in other words the country has to export only those products, where the ratio of its costs to the costs of other countries would be more favorable than for other commodities.

A major breakthrough in the theory of international trade was made in the first quarter of XX century by Swedish economists Eli Hecksher and Bertil Ohlin at the Stockholm school of economics. Economists argue that the unequal relative security of productive resources generates a difference in the relative prices of commodities, which, in turn, creates the preconditions for the emergence and development of international trade. (Feenstra, 2004) The main principles of their theory were: first of all there is a tendency to export those goods that use excess of the factors of production and import those goods use the countries' scarce factors, secondly, there is a trend of alignment of "factor prices" in international trade, and thirdly, the export of goods may be replaced by the movement of factors of production across national borders.

The study of American economist Leontief has questioned the theory of Hecksher and Ohlin, his theory emphasized that the US economy has specialized in labor-intensive rather than capital intensive lines of production. The essence of Leontief paradox was that the capital-labor ratio embodied in the US exports is smaller than the capital-labor ratio embodied in the US import. (Kwok, 2005)

The financing of trade and investment has been identified as one of the most challenging issues faced by enterprises in a modern economic environment. The Russian practice of export financing is not as developed as in Europe, but nevertheless, a clear understanding of a problem exists. Thus, Russian Premier Minister Dmitry Medvedev called modernization of the economy matter of survival for Russia and believes that we Russia cannot delay any longer. "We must begin modernization and technological upgrade of the entire manufacturing sector. This is a question of survival of our country in the modern world." (Medvedev, 2013) At the Council meeting on the development of Russian financial market on February 9, 2010 the President said that Russia is interested in long-term investments and its task is to stimulate long-term domestic and foreign investment. The president put attention to the fact that an important requirement for the financial market, as well as for development of the real economy, is ensuring the flow of innovation, modernization of the economy and the growth of efficiency of the economy. He said that the Russian financial market should maximally promote and foster economic integration with CIS and other international structures in which Russia participates. The importance of Russian trade can be seen in the Figure 1 that shows Russia's major trade partners and its total trade amounts in 2012 (FederalCustomsService, 2014).

Figure 1. Russia's major trade partners, Jan-Sep. 2012



Currently, the market situation is fluid and engaging, as the financial crisis has forced many western banks to take a cautious position in terms of long-term financing of Russian counterparties, both banks and companies. However, most banks continue to operate under the previous conditions and effectively implementing various loan schemes of trade transactions and trade financing. Therefore, the first thing in the investigation of trade finance is to explain a definition of trade finance, which is important to understand in this thesis.

Trade finance refers to the financing of imports and exports by the sources of interbank's credits, attracted by foreign banks with use of financial instruments, such as letters of credit or guarantees.

1.2 Problem discussion

An investment activity of domestic enterprises is one of the major factors in the development and stability of the national economy. In strategic aspect, an increasing of investments, especially investments in a fixed capital, is a key element in determining the possibility of solving the whole range of problems of economic development.

Domestic practice of trade finance organization lags behind the requirements of a modern economy. There are a limited number of large banks in Russia with international accepted credit ratings that are engaged in international trade finance. For the development of the practice of Russian banks in this direction, it is of great importance not only studying an international experience, modern tools and mechanisms for trade finance, but also a clear understanding that a use of trade finance is profitable for both banks and its customers. This leads into the first research question:

What are the benefits of export finance for both banks and borrowers and is it an effective option to raise capital in the Russian Federation?

Export Finance, as an element of the investigation is not studied enough and causes a lot of practical issues. This happens for various reasons, including a lack of clear understanding of functioning of forms and mechanisms for attracting and providing trade finance, ignorance of counterparties and sources of funding, lack of experience in structuring trade transactions involving Export Finance and as a consequence, the lack of understanding of the effectiveness of the tools associated with financing among industrial managers and bank managers. Second question I want to answer is:

What are the typical models of Export Financing in the Russian Federation and how does it have to be structured?

1.3 Purpose

The purpose of this thesis is to identify an Export Financing as a powerful competitive tool for executing strategic transactions and to ensure cost-effectiveness of long-term lending of foreign trade operations.

1.4 Delimitation

The author of the thesis has chosen to limit the comparability of types of financing to national loan and post-export ECA-covered financing because other forms of attracting capital, such as listing of the stocks or other securities on the stock exchange list is a long-term, time-consuming, costly, and in the majority of cases associated with changing the type of company to a public one, which is also a long and time-consuming process. Therefore, those ways of raising capital are available only to a narrow range of organizations, which are able to manage with strict listing requirements.

Second limitations of the thesis linked to chosen respondents for the interview. Organization of financing is a narrow scope of a business and it is important to collect information only from those persons directly linked to an export financing activities. That is why an expert sampling was chosen in order to get reliable and truthful information from the main parties involved in an Export Finance activity.

1.5 Perspective

The bachelor thesis provides a theoretical methodology and practical recommendations of applying Export Finance instruments collected from reliable secondary sources as well as from experienced professionals in the study area. The practical significance of the results of the thesis research is that the methodology and findings can be used by industrial enterprises, trading companies, banks and government agencies and others to accelerate the modernization and increase efficiency in international trade and production activities. Furthermore, it is the author's intention and hope that this thesis can be used as a sort of guidance for how to structure Export Finance in a modern economic environment. Theoretical propositions of the thesis are used in the practical work of the International Bank of St. Petersburg, as well as in conducting studies on finance, monetary circulation and credit, insurance, etc. in the St. Petersburg State University of Economics.

1.6 Definitions

It is essentially important to define exactly what an Export Finance is in order to be able to further study and research the subject of export financing. Comprehensive literature studies have resulted that there is no clear definition of Export Finance. On the contrary, different authors, researchers and banks use their own definition and impression of Export Financing. Those expressions are all relevant and have a right to exist, but I will try to develop my own definition, which would fully define a term of Export Finance.

Structured Export Finance is a broad term used to describe a sector in finance, defined as a set of measurements of financial engineering aimed on securitization of safety, profitability, repayment of the capital through the assurance of a certificate of ownership of the current assets or future cash flows, secured by the assets of a business. Term "structured" comes from word "structure" meaning that this financing consists of different structures and more complicated than an usual bank loan. Usually export finance instruments are used in the countries where long-term borrowing without risk may be difficult or costly and where projects involve exports from multiple countries. Therefore, the term of Export Finance can be defined as:

Export Finance- is a long-term financing of exports of capital goods, and related services, in order to obtain cost-effective financing and mitigate risk through use of both the credit and capital markets, directed to the non-OECD or emerging countries.

This definition is inspired by impressions and definitions by world leading investment banks such as JP Morgan, BNP Paribas and others, which the banks believe quite well summarize the essence of the term of Export Finance. It is necessary to understand that Export financing is quite broad term and it includes both import and export financing. Furthermore, there is an importance in this thesis to identify a term of Export Credit Agencies, since ECA plays a major role in Export Finance transactions by taking exporter's risks, conducting of due diligence investigations and providing guarantees or insurance coverage from exporter's domestic enterprises or financial institutions. (Afanasyev, 2005) Therefore, according to Broek Export Credit Agency could be defined as:

Export Credit Agencies (ECAs) - are publicly-backed government or semi-government agencies which give financial guarantees to companies operating abroad- they are the single largest source of support for private companies seeking to reduce the risks of their export finance operating activities. (Broek, 2003)

1.7 Disposition

Chapter one describes the background and problem definition that leads reader towards the purpose of the thesis and it's delimitations. Perspective of the thesis is identified and definitions are explained in the end of the chapter.

Chapter two presents theories that have been used to analyze the empirical findings. These theories include general theories related to Export Financing and methodology of Export Financing in Russian Federation

Chapter three explains how the investigation has been carried out. It explains the methodological considerations, how data collection analysis was done, which method of research was used, how respondent for the interview were chosen, how questions for the interviews were chosen and how empirical data was analyzed to create conclusions.

Chapter four presents the empirical findings from the numerical analysis of the cost-effectiveness of Export Financing and from interviews.

Chapter five presents the analysis of the empirical findings based on the theories from chapter two.

Chapter six presents the conclusions that have been made throughout the investigation the Export Financing in Russian Federation.

2 Frame of reference

This chapter starts with theoretical fundamentals of Export Financing, containing trends and challenges of financing foreign trade in Russia, history of ECA, Export Financing regulations, ECA risks, and relevant publications. Second part of this chapter includes a methodology of Export Financing in Russia: participants of Export Financing, characteristics of long-term financing covered by ECA, typical models and structures of Export Financing, benefits of Export Financing and Due Diligence of Export Financing transactions.

2.1 Theoretical fundamentals of Export Financing

2.1.1 Trends and challenges of financing foreign trade in Russia

Geographic, climatic, demographic and other differences between the countries led to emergence of international trade, which eventually became the cause of international division of labor in the industrial era. Formation of the USSR, industrialization, collectivization and other dramatic events of the mid-20th century brought our country to a position of the world leader in industrial production, which resulted in changes in structure of imports and exports. Eventually, after 80th years economic experiments, Russia has become not only the largest importer of agricultural products and exporter of minerals, primarily oil and gas, but also an exporter of manufactured goods and weapons. (Logvinova, 2008)

Disintegration of USSR into 15 independent countries, the complete disintegration of the CMEA (The Council for Mutual Economic Assistance*)* and the adoption of a number of its countries as members of European Union has formed a completely new economic and geopolitical situation in which Russian economy is developing during the last 20 years.

Recession in the Russian economy of the late 20th century, which was initially triggered by a sharp fall in revenues from energy exports, has led to a decline in the investments in fixed assets of Russian companies. Currently, the wear and tear of fixed assets, primarily machinery is 80-90%. At the same time a large number of manufacturers of industrial equipment, vehicles, etc appeared abroad, and acquiring products became an import. It should be noted that the already lopsided economy of the USSR with a predominance of heavy industry and the almost complete absence of the service sector and weak sector of consumer goods production and trade, became even more crooked. There are virtually no whole industries in the modern Russian economy that existed in the Soviet Union; the need for products is replenished by imports. (Logvinova, 2008)

Among the major import commodity groups, I can mention transport and transportation equipment (74%), food products (6%), metal products (5%) and textile products (5%). Among exports the largest share is oil and gas (81 %), metal products (11%) and minerals (2 %). As can be seen from the analysis of the commodity structure of imports and exports in January - December 2013 (Table 1, 2) Russia practically financed imports of machinery, equipment and vehicles by revenues from oil and gas exports (Federal Customs Service, 2014).

The structure of Russian exports and imports by major commodity groups is shown in the Figure 2 and Figure 3 below:

Figure 2, Russian Import Structure

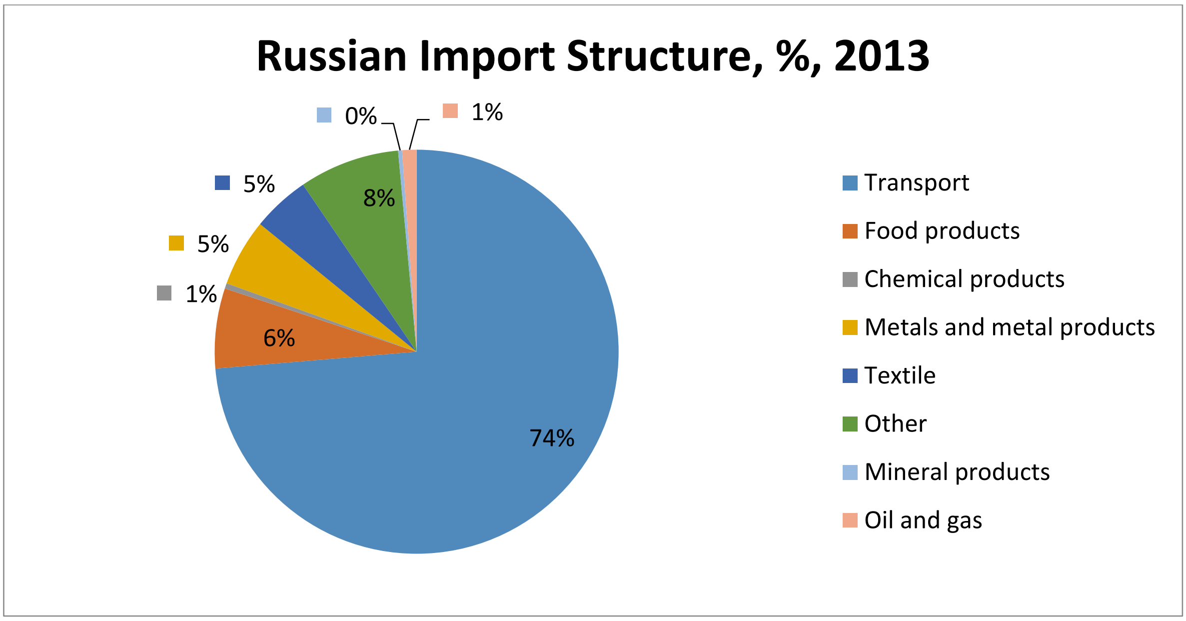
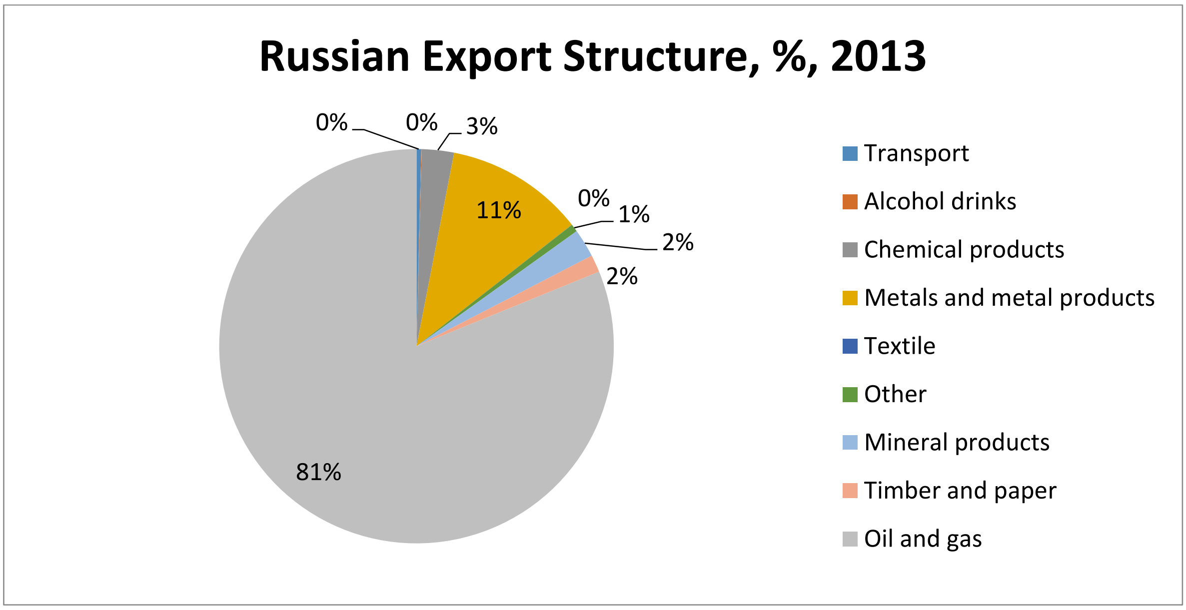


Figure 3, Russian Export Structure



It seems that this situation in an import and export structure would cause a rise in investments not only in mining, but also in engineering, modernization and development of existing industries. However, this does not happen, or it happens so slowly that it does not meet modern civilizational challenges that Russia society facing in a modern environment.

It was widely spread a thought, that in order to accelerate a Russian development, diversify it and get rid of structural imbalances in the economy it is necessary to expand exports of high technology and modern engineering products. However, in order to do so, Russia has to begin to produce such products. But how?

There are a relatively limited number of large banks in Russian Federation that are engaged in international trade finance. For further development of the practice of Russian banks in this direction it is of great importance to understand the benefits of using trade finance for both banks and their customers. Trade financing (Trade finance) - funding, which mainly used in the form of lending to foreign trade customers operations at the expense of international banks loans using primarily such documents as letters of credit and guarantees.

In Russia, the share of letters of credit in the area of trade finance is very significant. It is facilitated by features of the national legislation of the country and currency. Due to limitation of turnover of bills and promissory notes denominated in foreign currency by Russian Federation legislation these type of documents is not used. Instead of these documents LC is used; LC mechanism is universal and it has a lot of different opportunities to describe the mode of financing and accounting, which allows implementing it the complex trade finance schemes. Nevertheless, bank guarantees, due to its ease of understanding and habit, are the most popular instrument by Russian participants of trade finance. (Fomichev, 2005)

2.1.2 History of ECA and the modern international system of export credit

First export credit program was created in Switzerland by the private insurance company Federal, in 1906. However, the official "date of birth" of export credit practices considered to be 1919, when the concept was taken up by the British Empire which established the first state system of assisting exporters (Export Credits Guarantee Department, ECGD). The British system became a benchmark and with more or less success was copied by other countries. The main motive of the British program was to create a tool to struggle with the crisis, unemployment and business recovery, destroyed in the First World War. Parallel with the program of export credit insurance British government launched a program of direct lending of commercial transactions (trade finance), by which exporters and buyers of British goods could get a six-year loan at a discounted rate. (Krauss, 2011)

Success of Swiss and British programs feat other countries to follow similar steps. Export credit insurance system appeared in Belgium (1921), Denmark (1922), the Netherlands (1923), Finland (1925), Germany (1926), Austria and Italy (1927), France and Spain (1928) and in Norway (1929) , etc.

The global economic crisis in 1929 led to an increase in state support for exports in this period. In 1934 - the U.S. Eximbank was established, and at the same time the U.S. government chose to provide export credits to exporters at concessional rates instead of insurance. The final chord in the establishment of national systems of export support was the establishment in 1934 of the Berne Union (International Union of Credit and Investment Insurers) with the goal of establishing cooperation between the national insurers, exchange of information on the purchasers, markets and harmonization of common terms and conditions of insurance. End of

World War II and the recovery period, as in the case with the First World War, was a period of active revival of export support programs. In the late 1940s and early 1950s, export insurance agencies and export-import banks were recreated in Japan, Germany, Italy and Austria. (Krauss, 2011)

Existing demand in developing economies to imports of basic industries from developed market economies has found its expression in the emergence of a financial product, which, in its general form, is called Export Finance, which was formed within the Organization for European Economic Co-operation (OEEC), which coordinated the American and Canadian aid to victims from the second World War, to the victims from European countries under the Marshall Plan in the framework of the so-called "European recovery Program" (European Recovery Program). In the later stages of its existence, it takes active measures to stimulate economic cooperation among member countries through trade liberalization and the creation of a system of multilateral settlements. Activities of the organization to restore convertibility led to the creation in 1950 of the European Payments Union and in the conclusion of the European Monetary Agreement in 1956. Within its framework, the Code of trade liberalization was adopted in 1950, which has significantly reduced quantitative restrictions on the trade between member countries. (Shreper, 1995)

When the Marshall aid was completed, western countries have come to the conclusion that the accumulated potential of OEEC is wise to continue to use in the future in order to search for solutions for common problems of the participating countries and in 1961 the OEEC was transformed into the Organization for Economic Co-operation and Development (OECD), which currently consists of 30 countries: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Slovakia, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

Main motive of the development of Export Finance principles was the stimulation of national exports by overcoming the country, especially political risks, as the main obstacles to the provision of credit. In most countries, this role has been taken by the governments, forming special state institutions called Export Credit Agencies (ECAs). The primary role of such agencies was taking risks of exporters, conducting due diligence of foreign partners and providing guarantees or insurance coverage from the part of the exporter's to domestic enterprises or financial institutions. (Krauss, 2011)

Export credit agencies (ECAs) is a govermnet tool which is supporting the country's exports as well as strengthening the position of national economies on the foreign markets. The key specialization of (ECAs) throughout the history of their existence was supply of equipment and technology to the countries conducting an accelerated industrialization. From the outset, despite the differences, the meaning of the activities of all ECA is to issue guarantees or issue insurances to funding banks and taking on a number of specific commercial and political risks. Without (ECAs) with those risks an international lending is very difficult and in some cases is not even possible. (Broek, 2003)

Currently, export credit agencies (ECAs) are established in all developed and many developing countries, caused by the increasing of international competition, especially in markets technically complex and capital-intensive products, trade expansion of costly equipment and vehicles, consolidation and extension of deadlines for implementation of investment projects. Many kinds of expensive technological equipment such as aircraft and cargo commercial ships exists nowadays only with the support of ECA .

2.1.3 Government regulation of export credit activities

International trade is one of the main components of the Russian economy. Export share is 25-30% of Russian GDP and consists of more than 60% of traditional commodities: energy, metals and products of their first conversion. (Federal Customs Service, 2013) At the present stage, the most important task of our country is a deep modernization of almost all enterprises in the basic industries and creation from scratch many new high-tech industries, which will be able to produce competitive products. Lack of production of modern industrial equipment in Russia often makes import the only way for enterprises to acquire such equipment. At the same time, lack of long-term credit resources in the Russian banking system and their high cost, in turn due to high inflation rate, posing use of international trade finance instruments outside of a competition. Consequently, the most important task of the government is the organization of financing, both imports and exports. (Utkin, 1998)

Government regulation of foreign trade activity in the Russian Federation is carried out in order to ensure favorable conditions for this type of activity, as well as to protect the economic and political interests of Russia.

The main regulatory document defining the basis for the government regulation of foreign trade activity - and in particular export transactions - is the Federal Law of 8 December 2003 № 164-FZ "On the Fundamentals of Government Regulation of Foreign Trade". According to Article 3 of Law 164-FZ government regulation of foreign trade is based on the Constitution and other federal laws and other normative legal acts of the Russian Federation, as well as the generally recognized principles and norms of international law and international treaties of the Russian Federation. (Efimova, 2001)

Regulation of foreign trade in terms of goods is carried out by establishing export and import duties (customs tariff regulation) needed for the protection of the domestic market of the Russian Federation and to promote progressive structural changes in the economy. Those methods of regulation are called tariff methods. They are based on the Customs Code, the Law of the Russian Federation on May 21, 1993 № 5003-1 "On Customs Tariff" and other regulations, approved by the legislature. Customs Code is created in accordance with the customs policy of the government. Customs regulations define general tasks and functions of the customs authorities, the order of development, adoption and use of tariffs, conditions for exemption from the payment of fees, penalties for violation of customs regulations, and the grievance procedure. Customs formalities are the most effective methods of regulation of foreign trade among all other methods. (Efimova, 2001)

Nowadays, there can be also identified seven main groups relating to non-tariff methods: price controlling, financial measures, quantitative methods of control, automatic licensing, monopolistic measures, technical barriers, and para-tariff methods (VAT and excises).

Modern integrated system of boosting sales of goods on the world market include economic incentives for exports, administrative measures to influence the export and use of moral incentives for exporters. Economic instruments - credit and financial instruments play major role in this system. (Utkin, 1998)

Loan funds are mainly used in two ways: by providing export credit on more favorable terms compared to the conditions prevailing in the domestic or international market, and insurance of export activities. (Vikremereitn, 1995)

The active role of the government in the provision of long-term and medium-term loans is explained because commercial banks are reluctant to finance investments associated with great risk. (Utkin, 1998)

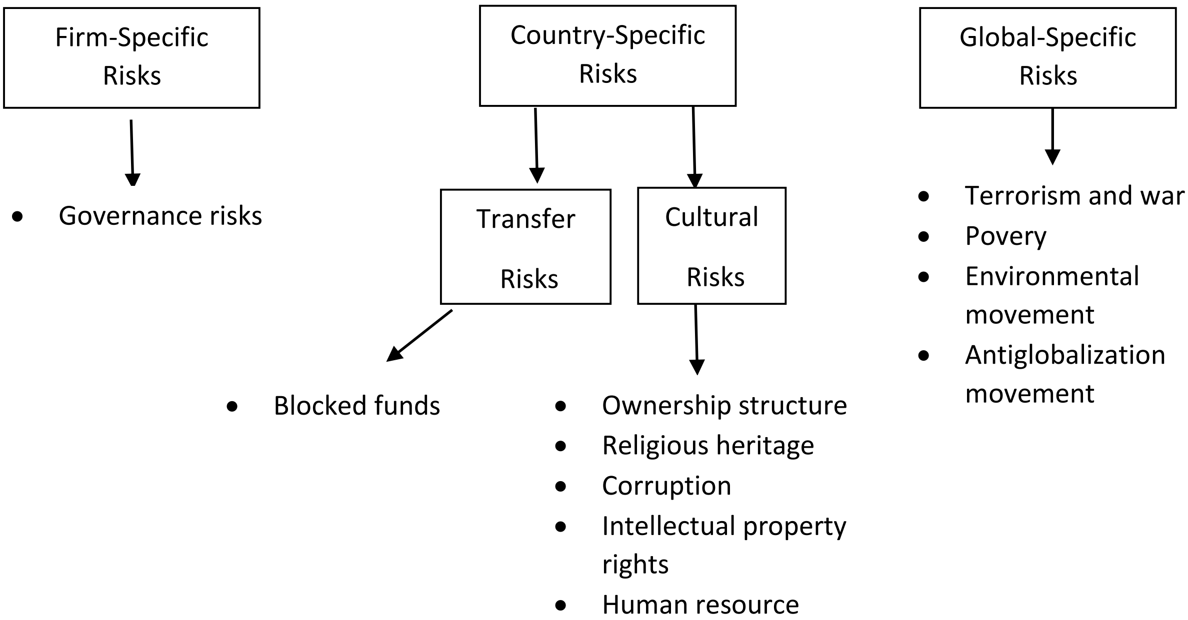
Important financial instruments of boosting exports are tax breaks and subsidies. Such assistance substantially increases the competitiveness of goods and stimulate commercial and sometimes production activities. (Utkin, 1998)

2.1.4 ECA risks

International trade, as well as international investments in the real sector of the economy lead to certain risks and have a need in financing and related financial services. ECA implement insurance/guarantee of exports and export credits, direct export credits and insurance of private investment abroad, providing consultancy services to exporters. The main purpose of the ECA - protection of exporters and investors, as well as financing banks from losses due to various kinds of risks associated with the implementation of export sales and promotion of products of national companies in foreign markets. (Afanasyev, 2005) While providing an insurance coverage should be provided in the particular terms and conditions, including the size of the insurance premium and the total risk limit, providing competitive insurance services compared to similar services leading by competitors, as well as the competitiveness of commercial offers by national companies under the terms of their participation in international transactions/ projects. Thus, the Export Credit involves two main types of risks - commercial and political. (Krugman P. , 2012)

Political risks in international trade, in reality have its own specifics, depending on their country of origin, so at the same time it is also called country risks. The classification of political risks is shown in the Figure 4 below this paragraph. (Eiteman, 2010) Political risk reflects the critical situation due to the actions of public authorities in the importing country (for example, cancellation of licenses, restrictions on export and import, confiscation of goods, prohibition of sales, etc.), which could negatively impact the international economic and trade relationships, delays in payments due to lack of the convertible currency, a moratorium on debt service, as well as other measures leading to the loss of ownership or property income. In other words, the country risk is a failure to pay the debts caused by the insolvency, which was the result of errors in the government's management, but if the insolvency was caused by mismanagement at the firm level – it is considered a commercial risk. Civil riots, armed conflicts, acts of terrorism also types of risks that can be identified as country/political risks. (Eiteman, 2010)

Figure 4. Classification of Political Risks

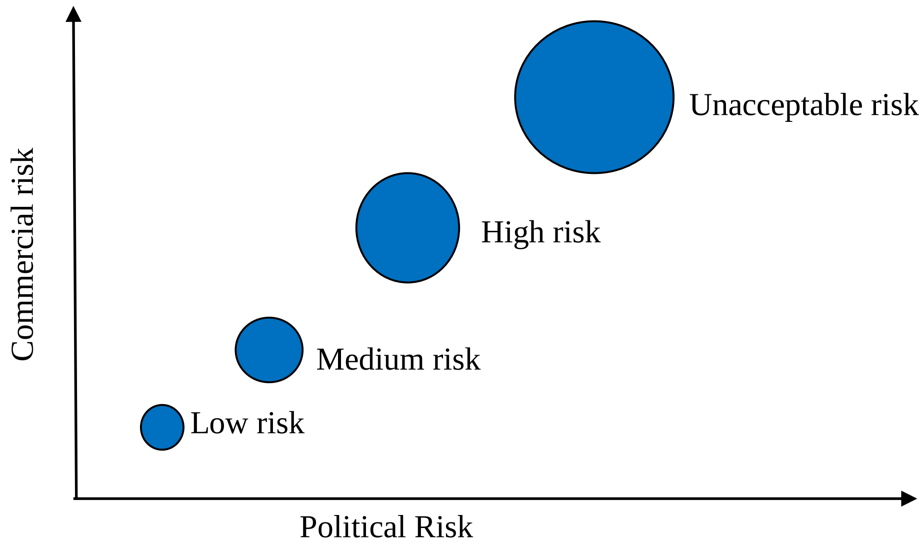


Commercial risk covered by the ECA: economic insolvency (bankruptcy), legally confirmed in the buyer's country by binding documents of the insolvency. Insolvency occurs in a situation where the counterparty does not pay the invoice after the expiry of commercial credit provided by the contract, or authorized documents of insolvency (bankruptcy) are not received by the importer, or in situation of unauthorized buyer's failure to take the product or the risk of unilateral termination of the sales contract. Thus, the commercial risk or the risk of default is associated with the inability of the company to fulfill its payment obligations. (Eiteman, 2010)

Currency risk is directly linked to the general economic and political risks. Despite the fact that the financing services of foreign trade are usually offered by reputable banks, in a situation of general financial and economic crisis banking activities may encounter obstacles created by the government, for example a currency devaluation. Any foreign trade operation associated with the obligation to make a payment in foreign currency creates a dependence on exchange rate fluctuations. Despite of the fact that abrupt changes in exchange rates (that are typical for the transition period) greatly increase the risk of loss, they may, in some cases, create an additional revenue for market participants. (Afanasyev, 2005) Risk of limiting the transfer of funds from one country to another is also related to the inability of the private borrowers or counterparties to accomplish payments in foreign currency due to exchange restrictions imposed by the government or the central bank.

Given the above, ECA provide protection from different types of risks, easy access to finance exports, portfolio management and risk management activities associated with the exporter. Acting under these conditions, the ECA must comply with the balance of risks, the dynamics of which is presented in the Figure 5 below. (Afanasyev, 2005)

Figure 5. Risk balance of export finance



Banking risks are mainly caused by the necessity of dealing with financial institutions that have financial issues, and likely will not be able to meet its financial obligations. In countries with transitional economies with a lack of experience in the field of public regulations, a large number of private banks emerged, which in some cases led to a weakening of banking supervision and bank failures that were providing export financing services. Therefore, the notion of bank risk also includes the abuse of international credit in relation to export financing, because the export-import operations are supported by the banks.

Based on the foregoing, the specific risks of banks in transactions of export financing, depending on the specific types of commercial transactions and the use of trade finance instruments, which is insured by the exporter's bank, providing export credit to a foreign buyer, can be classified as follows (Broek, 2003):

1. The risk of loan default, provided by exporter's bank to a foreign buyer (importer) or an importer's bank in order to finance the exporter's supply.

2. The risk of the bank loss confirming the irrevocable letter of credit, because of the complete or partial non-payment on the letter of credit.

3. The risk of the bank loss providing credit for the production of the exporter of goods (works, services) intended for export.

4. The risk of loan default for pre-export financing of production of goods (works, services) for export from the risk of default of the export contract.

5. Risk of misuse of a bank guarantee by a foreign buyer or its bank.

6. Investment risk - restriction or loss of income from foreign investments because of obstruction of its transfer to the exporting country due to political reasons.

2.1.5 Theoretical basis of Export Financing

International economic relations and, in particular, international trade is constantly and rapidly growing industry that requires a solid theoretical framework for the establishment and improvement of practical financial products and instruments. (Fomichev, 2005)

Export financing is a synthetic discipline that combines foreign trade, credit and insurance of financial risks. The theoretical basis of export credit with government support originates in the "General Theory of Employment, Interest and Money", later called "Keynesian" where Keyns raises the question of government guarantees, as well as the probability of financial risks in international trade. (Feenstra, 2004)

At the same time, with the development of international trade, its laws also undergo a comprehensive analysis that leads to the emergence in the 19th century, and the development in the first half of the 20th century, theories of international trade in the works of Ricardo, and after that in works of the Heckscher-Ohlin, Rybczynski and Leontiev. In the second half of the 20th century there was a further development of trade theories in the writings of the "new Keynesian" J. Stiglitz, L. Sammers and P. Krugman and they actually spawned a new trade theory and new economic geography. (Feenstra, 2004)

P. Krugman argues free trade and the reduction of tariff and non-tariff barriers in international trade as an instrument of trade policy in developed and developing countries and demonstrates that the effect of export growth reduces poverty and unemployment. He also justifies the importance of government support of exports; one of the tools of this support is export financing (Krugman, 1986).

In recent years there were prepared and released a large number of surveys, studies and articles on issues of international trade, export credit insurance, trade and export finance in the countries with economies in transition and developing countries, financing of exports of countries with economies in transition, the legal issues of trade finance by the World Bank, the International Monetary Fund, the World Trade Organization, the Organization for Economic Cooperation and Development, the UN and UNCTAD.

Thus, the research of the Center of International Trade at the United Nations determined that an additional percentage of export growth is associated with an increase in gross domestic product (GDP) by 0.15%, and an additional percentage of foreign trade quota (ie, the ratio of exports plus imports to GDP) associated with an increase in productivity per worker in the long run.

Steadily increasing of the volume of international trade at the present stage determines the development and evolution of trade finance industry. Over the past two decades there have seen a steady growth in trade finance - an average of 11% per year, with 9% growth in international trade (UN, 2004).

Relationship between the level of world trade and global poverty has also been proved by the Institute for International Economics. On the basis of the general equilibrium model (General Equilibrium Model) there is shown that free trade for 15 years could lead to increased productivity and investment, thereby reducing the number of poor in the world by 500 million and income growth in developing countries by 200 billion USA dollars (Subramaniam, 2001).

Analysis of forms and methods of government support for exports as well was discussed in Russian scientific literature. Thus, Dyumulena study shows the basic forms and methods of tariff and non-tariff regulation of foreign trade. Policies of stimulating exports, usually is only a phase of trade policy in certain socio-economic and political conditions (Dyumulen, 2011).

Export promotion is closely linked to the import policy. A number of activities in the field of import regulation may have a direct effect on the price and quality of manufactured export goods through reduction of import duties, the abolition of quantitative restrictions on imports. World experience shows that export stimulation occurs in two main ways: through the creation of a favorable macroeconomic environment and the creation of the producers and exporters the necessary incentives to export. (Dyumulen, 2011)

Measures to promote exports are taken on the national level, including: export subsidies, tax and customs privileges, the exchange rate, as well as export credits sold through banks and export insurance, which is implemented through the provision of state guarantees for export credits. Export guarantees are given to banks that are providing export credits. One of the mechanisms of state financial support of export activities is to promote exports through financing involving export credit agencies. (Dyumulen, 2011)

Government schemes that provide export credit insurance make the foreign trade simpler as insurance and financial markets offer only limited possibilities to hedge default. However, it remains unclear whether OECD countries benefit of that, putting at risk their public finances, accumulating commercial loans with a state guarantee, directing export to the markets of low and middle-income countries. State export insurance program give a possibility to overcome poor macroeconomic policies or political instability, but not eliminate weak legal institutions. (UN, 2004) This suggests that, rather than to maintain the share of state ownership in the ECA, the state could support such a mode of international trade, which would work directly against political and commercial instability.

Is there is a need for the creation of the ECA? Government intervention in the financial markets can be justified when there are significant and persistent threats to the functioning of the market mechanism. It should also be carefully discussed when choosing the legal form of ECA, so that it fits its business model. In addition, at least two related quality characteristics are desirable in order to achieve a well-functioning institution. First, the ECA must be endowed with operational independence. Otherwise, it will be difficult to achieve positive results in the absence of operational independence and without legal support. Secondly, strong governance structure and the presence of a sufficiently large capital that it can act independently and has an ability to have quite strong operational impact on the market to achieve its goals. Moreover, these were just prerequisites, which are unlikely to be met in many low-income countries. (Afanasyev, 2005)

Thus, foreign trade financing is an essential element of foreign economic policy of the government, which plays a key role in increasing trade flows and overcome the consequences of the economic and financial crises. Currently, there is a change in approaches to the trade finance in countries with economies in transition: from relationships between exporters, importers and financial intermediaries to conducting purposeful government policy. (Utkin, 1998) The most important factor in the sustainability of their growth becomes a degree of perception by regulatory agencies and financial intermediaries' needs of national producers.

2.2 Methodology of Export Finance structuring in Russian Federation

2.2.1 Participants of Export Finance

In trade finance private sector is represented by commercial banks, suppliers, customers, private insurers, reinsurers, non-bank financial institutions and capital markets, etc., and the main state support agents are represented by export credit agencies (ECAs) and international banks of development (EBRD, IFC and others) (Yescombe, 2008). In the traditional system of export financing, commercial banks play a central role, not only to make payments from the importer to the exporter, but also by providing lending, often secured only by the rights on financed goods. In this framework, banks have certain risks, while ECA are officially involved only when the risk of default for the private financial sector is disproportionately high. Market participants in the Russian export financing are classified in the Table 1 below. (Vikremereitn, 1995)

Table 1. Market participants in the Russian Export Financing.

	Participants of the trade finance market			Position in the market
1	Importers	Russian legal entities	Blue chips	Financed by international financial institutes and by russian national banks
			Nationwide companies	Finance by russian national and commercial banks with export finance instruments
			Regional companies	Financed by russian comercial banks using its trade finance instruments or by direct investments
2	Importer's banks	Russian financial institutes	National banks	Unlimited access to government and international trade
			«Top-tier» commercial banks	They have high international rankings and play an active role in trade finance relationships
			«second-tier» commercial banks	They have lower international rankings and are limited in terms of trade finance resources
3	Exporters	Foreign legal entities	Transaction participants	Provide direct trade financing or documents of trade financing deals to banks and ECAs

<table>
<tr><td>4</td><td>ECA</td><td rowspan="3">International financial institutes</td><td>Export Credit Agencies</td><td>Take risks of exporters and exporter’s banks</td></tr>
<tr><td>5</td><td>Banks of development</td><td>EBRD, IFC and others</td><td>Provide financing to banks and companies that participate in their programmes, depending on the significance of a transaction</td></tr>
<tr><td rowspan="3">6</td><td rowspan="3">Exporter’s banks</td><td>Univeral banks</td><td>Those banks are very welcome in russian market due to the fact that they offer wide range of trade finance products and services</td></tr>
<tr><td colspan="2">Foreign regional banks</td><td>Provide financing in particular regions or areas of business, covered by ECA</td></tr>
<tr><td colspan="2">Forfaiting companies</td><td>Organizing secondary market</td></tr>
</table>

Lending and trade finance transactions is a key issue today. In connection with the financial crisis situation on the interbank market, especially in terms of attracting of capital is very unstable. Western banks have significantly reduced the limits on the provision of resources to Russian counterparties. Only "blue chips" retained an access to the market. However, even this situation allows banks to continue to operate effectively under various schemes of foreign trade export credit and trade financing. (Utkin, 1998)

As a rule, banks that are offering their services to foreign trade participants become an important link in international trade themselves. To do this, banks create specialized departments of foreign trade activities, which aim to provide a large range of service related to structured export finance. To achieve these objectives, banks negotiate contracts on correspondent relationships with other banks abroad and open correspondent accounts; open offices abroad; acquire ownership in foreign banks, etc. The success of the participants at the doing a deal of international trade transactions is largely dependent on the banking component. Foreign economic activity of commercial banks is implemented by a variety of methods and tools that are conformed by exporter and importer during arranging a trade contract. There is a great importance not only in creating documents and chosen form of payment, but an opportunity for the exporter or importer to obtain financing, especially if the subject of the transaction is costly investment goods (machinery, equipment, industrial complexes, etc.). Lenders and borrowers in international trade transactions (trade finance) can be represented not only by businesses, but also by credit institutions as well as government agencies, regional governments and other organizations. (Dyumulen, 2011)

The final borrowers of funds in the implementation of foreign trade (trade finance) are exporters and importers. In Russia, especially in the second-tier banks and regional banks, credit and financing importers are much more common than the financing of exporters. (Efimova, 2001)

2.2.2 Main characteristics of long-term financing covered by ECA

Currently there are three models of institutional organization of the system of export support: insurance; guarantee and/or funding and mixed system. A mixed model became the most widespread nowadays, because it combines insurance and financing at the same time, both for individual transactions and in the portfolio as a whole. All three legal forms of ECA come from these models (Aksenov, 2012):

- State government departments. State support for exports is available in the form of special export credit programs through central banks or ministries of finance or industry.

- State Export-Import banks or International banks of development, such as EBRD, IFC, etc.

- Insurance companies that have an exclusive agreements with the state. As an example, Coface in France, Euler Hermes in Germany and Atradius in the Netherlands.

Classical European model focuses on insurance coverage of export operations. American, by contrast, involves primarily the guarantee and credit support (US EximBank, CCC, OPIC). The main functions of Export Credit Agencies, regardless of the legal form and the particular form of provision (guarantee or insurance) are (Aksenov, 2012):

1. Short-term insurance (maturity up to 2 years) of export credits from commercial and political risk. Insured is Exporter (supplier) of goods (works, services), or the exporter's bank extending credit to a foreign buyer - importer.

2. Long-term insurance (with maturities from 2 to 15 years) of export credits from commercial and political risk in terms of the OECD Consensus. Insured is Exporter (supplier) of goods (works, services), or the exporter's bank extending credit to a foreign buyer - Importer.

3. Insurance of foreign investments, related to export industries and technologies, from the risk of loss of income from investments abroad because of obstruction of their transfer to the exporting country, as well as gratuitous alienation of investments due to political reasons. Investor is insured.

All banks financing international trade work exclusively with documentary credits: UCP 500 or regulated UCP 600, documentary collection, regulated URC 522, as well as in accordance with international rules of export credits with state support, better known as the OECD Consensus (Balabanov, 2007). In accordance with the Rules of the OECD loans are provided with maturities from 2 to 7 years, the size of the loan - up to 85 % of the export contract, the interest rate - based on floating interest rates (LIBOR, EURIBOR, etc.) , the insured person is the exporter’s bank, the first payment is at least 15 % of the contract value, contract is paid as a separate payment order or letter of credit opened by the borrower, funding is available in EUR or USD, minimum loan amount of EUR 250 000 (or the equivalent amount in USD), interest is paid once in a six months on the outstanding loan amount, repayment of the loan is done by equal semi-annual fractions. In some cases, there is the possibility of short-term financing of 15% of advance payment by issuing a documentary credit with deferred payment for the importer's bank. (Balabanov, 2007)

The cost of financing for the client-importer will consist of a floating market rate for the relevant currency (for example, LIBOR or EURIBOR), insurance premium of ECA directly dependent upon a term of financing, foreign financing bank commissions and margin of the importer's bank. As a result, the cost of financing is significantly lower than the level prevailing in the Russian market, and most importantly, possible financing terms offered are far superior comparing to ones offered in the Russian Federation. (Balabanov, 2007)

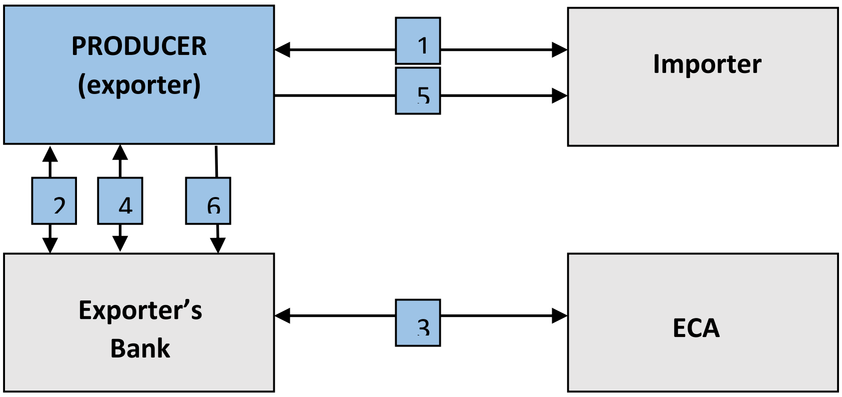
2.2.3 Typical models and structures of Export Financing

The main financial products of Export Credit Agencies are Pre-Export Finance (Pre-export finance). Direct export credit to the exporter (Exporter's credit) - allows the seller to finance receivables of foreign buyer (importer). Direct export credit to the buyer (Buyer's credit) - allows financing importers. Indirect credit the importer, special case (Buyer's credit), where the recipient of the loan is the bank of foreign importer. Investment Loan (Investment Credit) - allows the national investor to attract a long-term credit facilities to implement investment abroad. Exporter's bank refinancing loan - allows the provide facilities to the exporter's bank which will be used to provide credit on favorable terms to the exporter. Importer's bank refinancing loan - allows to provide facilities to the importer's bank that will be used to provide loans on favorable terms to the importer. Purchase of receivables under letters of credit and other related financial services (Bank Guarantees, Documentary settlements, etc.) (GazpromBank, 2010)

Not all of these types of financial instruments are equally widespread in Russian Federation. In general each export credit is quite complex multilateral deal that calls for a negotiations, preparation, approval and signing a number of agreements between the seller's and the buyer's banks, not mentioning the prerequisites that are applied to the market participants of international trade finance (GazpromBank, 2010). Let us consider several options for export financing with the greatest demand on the Russian market in more detail. In the following sections for the easier understanding of the models the author has decided to present the two most popular models of Export Financing that are used in Russian Federations: Pre-Export Finance and Buyers Credit. The rest will be presented in Appendix 1.

2.2.3.1 Pre-Export Finance

Credit for Pre-export Financing enables Russian producer or exporter to finance costs connected with realization of deliveries for foreign buyer (importer) and includes following costs: Purchase of raw material and other components for export production, purchase of material in store, overhead costs, personal costs, such as wages, insurance costs, costs related to acquisition of investment assets for export production (GazpromBank, 2010). Pre-export financing deal structure is shown in figure below.



Legend:

1. Export contract for the delivery of goods and/or services
2. Credit agreement
3. Insurance policy covering credit risks
4. Credit disbursement upon documents certifying production expenditures
5. Delivery of goods and/or services after production completion
6. Credit repayment

Basic characteristics of Short-term Credit are repayment term up to two years and credit amount up to 85% of export contract amount. In the case of Long-term Credit, according to OECD rules, repayment term more than two years and credit amount up to 75% of export contract. In both cases interest rate is based on market interest rates (LIBOR, EUROLIBOR etc.).

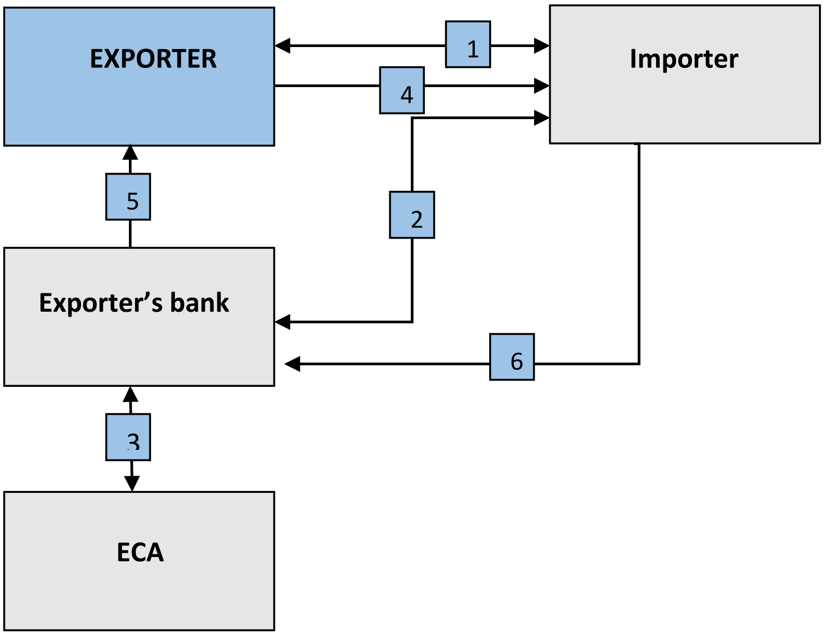
Structuring the transaction of pre-export financing involves: Export Contract, the subject of which is the delivery of goods and/or services, the Loan Agreement between the Bank of exporters and manufacturers, export credit insurance or contract of guarantee between the financing bank and ECA. The bank and ECA control the mortgage payments on the basis of documents certifying production expenditure, delivery of goods and/or services after the end of production, payments for goods delivered and pre-export loan repayment (GazpromBank, 2010).

This tool is most relevant for exporters, whose specificity requires pre-export financing of complex technical products with long manufacturing cycle (GazpromBank, 2010).

2.2.3.2 Direct Export Credit to the buyer (Buyers Credit)

Buyers Credit enables large-scale deliveries to foreign buyers (importers). The structure of a typical transaction of Buyer's Credit consists of Export Contract, the subject of which is the supply of goods and/or services, the Loan Agreement between the Importer and exporter's bank or a third bank, providing financing and export credit insurance (insurance can be replaced by some form of collateral) . Repayment of the export credit is made directly to the exporter’s account. Exporter’s bank is responsible for control over the supply of goods and/or services, the provision of documents and repayment of the loan provided by the exporter's bank (GazpromBank, 2010).

This type of loan is most often used by large Russian companies - "blue chips" that have international credit ratings, credit history in foreign banks, leading financial statements according to international standards (IAS), or having a positive history of international public debt (Eurobonds , etc.). Structure of the transaction “buyer credit” is shown in the figure below.



Legend:

1. Export contract for delivery of goods and/or services
2. Credit agreement
3. Insurance policy covering credit risks
4. Delivery of goods and/or services
5. Credit disbursement on the exporter’s account
6. Credit repayment

Buyer's Credit Transactions are subject to the guarantee/credit insurance by ECA provided by the exporter's bank to foreign borrowers (public or private financial institutions or companies) to finance the payment for goods/services of exporters. The purpose of this loan is to finance a specific, predetermined export transaction or several transactions, such a loan can also be unbound, in other words it can be earmarked for the financing of the export flow of the certain foreign borrower, while the supplier is determined after providing insurance coverage.

Buyer credit can be formed on the principles of structured finance or project finance, the latter representing direct lending of the borrower (borrower's bank) with the purpose of realization of the investment project without recourse or limited recourse, with the provision of credit obligations as a cash income arising from the operation of this project, as well as assets related to the project.

2.2.3.7 Other forms of Export Financing

Purchase of accounts receivable under the letters of credit. Purchasing of future accounts receivable under the letters of credit without sanctions is one of the options of forfeiting. The purchase of receivables with recourse enables a significant reduction in the need for tying funds to cover significant receivables from customers. Purchase occurs without sanctions (regression) in relation to the one who sells the receivable. Purchase is agreed by providing a letter of credit form that reports the existence of an irrevocable letter of credit with deferred payment period or acceptance of a promissory note that has been issued or accepted by qualified bank. Conclusion of the purchase contract receivables can be negotiated even before the occurrence of accounts receivable of the letter of credit. The purchase itself always occurs after the occurrence of the accounts receivable. In that case, insurance of export credit risks is usually not used (GazpromBank, 2010).

Purchase of insured export accounts receivable. It is a purchase of future accounts receivable insured without sanctions that involves the purchase (concession) of not yet payable accounts receivable of export contract, which insured against the risk of non-payment of accounts receivable as a result of territorial (political) or unsecured market commercial risks. This acquisition takes place without recourse against the exporter who sells the receivable. Purchased receivables must be insured. Credit risk in the amount of insurance is transferred to the insurer (in the amount of 85 % of exports), while the remaining uninsured part (which is a complicity of the insured- bank-customer) is covered by exporter (GazpromBank, 2010).

Purchased receivables must be linked to the export of goods or services solely by the companies of one country. The exporter must also fulfill its obligations; he has to provide a proof of the funding - to prove the fact of export contract has to be attached. The purchase of the receivables then carried out through the provision of export bills. This document confirming the fact of the export of goods or services and is accepted (signed) by the exporter (GazpromBank, 2010).

Exporter has the following advantages of financing accounts receivable based on their purchase by export bank: by the sale of accounts receivable exporter removes receivables from its balance sheet and thereby improves its liquidity and frees a limit of participation in the bank; in the case of insurance, the exporter, in the amount of insurance compensation (up to 90 % of export value), gets rid of all the risks of its export operations; accounts receivables are purchased at a predetermined discount (Balabanov, 2007).

2.3.4 Benefits of Export Financing

In a global crisis conditions export financing is becoming increasingly popular banking product, which is a unique tool for medium-term and long-term financing of export. On the one hand, successful business today than ever needs long and relatively inexpensive borrowing for further development. On the other hand - lack of working capital, difficulties in obtaining loans from banks. That is why the relevance of trade financing instruments currently increases by many times (Afanasyev, 2005). According Afanasyev advantages and disadvantages are presented in the Table 2 below.

Table 2. Advantages and Disadvantages of Export Financing

Advantages:	Disadvantages:
For Exporter: May offer long-term deferred payment; Avoiding discounts for the prepayment as a price is higher with the postponement; ECA analyzes the buyer's solvency, its business reputation, etc.; The exporter receives guarantee by the government on the export contract; Insurance premiums are expensed; The exporter receives preferential financing of insured export contracts. For importers and importer's bank : Prepayment avoiding; Ability balance the risks of the parties; Greater security of international settlements; The possibility of exchange of commercial documents through banks; A wide range of trade finance instruments and methods of their application, the possibility of selecting the optimal conditions for the payment of any transaction; The possibility of deferred payment and possibility to increase terms of financing; Ability to finance the deal involving less expensive funds from abroad, working capital savings;	Long-term coordination and decision-making process, because of the large number of participants; Complexity of the procedure. Not all importers or exporters, especially the first time, feel confident; Restrictions on the minimum size of transaction; Adoption of the currency risk by an importer in an uncertain exchange rate; Requirement for a high proportion of national content in exported products.

An ideal tool for project financing; Increasing the share of long- term liabilities.	

2.3.5 Due Diligence of Export Finance transactions

Trade finance operations is an integral part of a portfolio of banking products offered to the corporate customers.

Banks use various schemes of financing of foreign economic activity in accordance with the Civil Code of the Russian Federation; Tax Code of the Russian Federation; Federal Law "On Banks and Banking Activity"; Federal Law "On Accounting"; Regulation "On the rules of accounting in credit institutions located in the territory of the Russian Federation"; Uniform Customs and Practice for Documentary Credits; International business customs; Accounting policies adopted in the Bank (Balabanov, 2007).

Bank employees perform structuring of transactions and prepare contractual basis of the deal, undertake prompt actions to perform agreed-upon procedures (Due Diligence) and to open the required limits for foreign loans (Balabanov, 2007).

The most commonly used types of commercial finance are (Afanasyev, 2005):

- Financing using documentary credit with deferred payment (deferred payment LC) - can be organized in a short time, at a low cost, but it is suitable mainly for organizing short-term financing;

- Post-import financing - credit with payment upon presentation of documents (at sight LC) with taking a loan for up to 2 years;

- Long-term structured export financing involving interbank loan covered by ECA (letter of credit with payment upon presentation of documents) with the conclusion of the loan agreement on 85% of the contract and an advance payment in the amount of not less than 15% of the contract.

The methodology of export finance structuring by an importer's bank is presented in the Table 3 below (GazpromBank, 2010):

Table 3, Due Diligence of export finance transactions

1	Actions by participants	Importer's bank procedure
2	Receipt of the application from the importer to organize export financing	Open an account of the importer in the bank, project of the contract and other documents for negotiating
3	Searching for a financing bank and ECA according to a country of the exporter	Contacting with an exporter's bank and submission of the documents needed for a deal, coordination of the terms of the contract with an exporter, its bank and ECA.

4	Receipt an offer from exporter's bank	Calculation of the cost of the loan prepared by an exporter's bank
5	Signing an agreement with an exporter's bank on export credit financing	Translation, coordination, signing, sending originals to an exporter's bank. Opening a special corresponding account in the exporter's bank.
6	Payment terms coordination and signing a contract by an importer	Credit committee approval. Registration of the contract.
7	Preparation and signing a pledge agreement with an importer	Credit committee approval.
8	Signing of the letter of credit for 85% of the contract	Opening a passport of the deal in the currency control department
9	Signing of the Treaty of Guarantee between the importer and the exporter's bank.	Translation, coordination, signing, sending originals to an exporter's bank.
10	Exporter's bank sign a contract with ECA	Providing coverage to exporter's bank in the form of the guarantee or insurance
11	Prepayment of 15% of the contract value or the importer's bank issuing an additional letter of credit	An additional letter of credit is exhibited at sight under a contract with the importer.
12	Prepayment of 85% of the contract value	A letter of credit is exhibited under a contract with the importer.
13	Delivery of the goods/service	Provision of the delivery documents to the importer's bank
15	Provision of the shipment documents to the exporter's bank	Checking the documents according to the contract of a letter of credit
16	Financing by exporter's bank	Importer's bank is forming covering according to separate credit agreement
17		Interest on the loan agreement is accrued and paid for a period
18		Interest on the separate loan agreement is accrued for a period
19	Importer is repaying its obligations to importer's bank according to repayment schedule	Repayment (full/part) of the export credit. Interest is added to a total debt
20	Importer's bank is repaying its obligations to exporter's bank according to repayment schedule	Repayment (full/part) of the export credit. Interest, commission and other income is added to a total debt

3 The Methodology

This chapter explains how the investigation has been carried out. It explains the methodological considerations, how data collection analysis was done, which method of research was used, how respondent for the interview were chosen, how questions for the interviews were chosen and how empirical data was analyzed to create conclusions

3.1 Methodological considerations

According to Williamson (2002) the research method is what provides a design for understanding research, which is underpinned by theoretical explanation of its value and use. Data collection techniques are part of the method. In order to write a good thesis it has reflect on the choice of method. It is important to distinguish two major approaches: qualitative and quantitative.

Qualitative approach is a holistic approach that involves discovery, and it also can be described as an unfolding model occurs in a natural setting that enables the researcher to develop a level of detail from high involvement in actual experiences. (Creswell J. W., 1994) There are many different methods for conducting a qualitative research; however, some authors such as Leedy and Ormrod suggest the following: Grounded theory, case studies, content analysis, ethnography method and phenomenological method. Each method meets different needs; further, in this chapter I will identify methods used in this thesis.

Quantitative research is defined as the general approach the researcher takes in carrying out the research project. (Leedy, 2001) In order to support or refute "alternate knowledge claims" it is important to collect information so it can be quantified and subjected to statistical treatment. (Creswell J. , 2003) Quantitative research also involves data collection that is typically numeric and the researcher use mathematical models in order to conduct a data analysis. There are three historical trends referring to quantitative research, which include design, test, measurement procedures and statistical analysis.

The author of this thesis has chosen to do a mixed research. It is usual for business research to mix methods of data collection and analysis in order to enrich and confirm the picture of a problem. The mixed method approach is an extension of qualitative and quantitative approaches, rather than a replacement of them and it will still be useful and important. (Johnson R. B. & Onwuengbuzie, 2004) The goal of this method is to base a research on strengths of quantitative and qualitative methods and minimize their weaknesses. By having the ability to combine data collection and analysis from both methods I will be able to reach a purpose of this thesis, to develop a scientific theory and practical recommendations in order to improve existing forms and methods of Export Finance and ensure cost-effectiveness of long-term lending of foreign trade operations.

3.2 Data collection analysis

The author of this thesis has used both types of data: primary and secondary. Primary research is a research based on scientific method, which was developed in 19th century by John Stuart Mill. Application of this method allows us to investigate and learn more about world and observable phenomena; moreover, the gathered data has to be observable, replicable and measurable. (Driscoll, 2011) The goal of this method is to minimize my own biases in the thesis, in other words to collect information that is not based on previous samples, and investigate something new that can be confirmed by reliable sources. (Driscoll, 2011) Secondary research is a term used for already existing information. This data can be found in books, online sources, published researches, statistics and other sources. The advantage of secondary data collection method is that the collected data is low-cost. (Curwin, 2002) Secondary data was used in order to provide a background of the problem and to provide a theoretical understanding of the term Export Financing.

3.2.1 Primary data

Primary data will be collected through the face-to face interviews with three different highly reliable respondents, whom I found suitable for obtaining primary data. The advantage of face-to face interview is that it allows using non-verbal communication and you are able to ask follow-up questions; moreover interviewers are able to say much more in face-to face interview rather than in Skype interview or by telephone. (Driscoll, 2011)

One typology that is usually used to differentiate the types of interviews categories interviews as follows: structured interviews, semi-structured interviews and unstructured or in-depth interviews. (Saunders, 2009) Structured interviews use questionnaires based on identical set of questions, where you read questions exactly as written and in the same tone of voice and tone in order not to indicate any bias, without any possibility of asking any additional questions. Semi-structured interview is non-standardized and referred to an interview, where a researcher has a list of topics, themes and possible questions that has to be covered, and by comparison to structured interviews the order of question may be varied. Lastly, unstructured interviews are those, which are considered as informal; there is no predetermined list of questions and the advantage of this type of interview is an ability to talk freely about events, beliefs, behaviors in relation to the topic area. (Saunders, 2009)

In this thesis, semi-structured type of interviews was used. The reason of choosing that type of interviews is that this method gives possibility to adjust to selected interviewers in relation to the research topic and have a possibility to ask additional questions that may be required to explore in more detail a research topic.

3.2.2 Secondary data

Theoretical and methodological basis of the thesis consists of investigations of foreign and local experts dedicated to Export Financing as well as to issues of public participation in the organization and regulation of Export Financing. Information base of the research will consist of regulatory and guidance materials on the regulation of foreign economic activity, as well as information, statistics and reporting data from the World Bank, The World Trade Organization, The Organization for Economic Cooperation and Development, The Ministry of Economy of Russian Federation and The Customs Service of Russian Federation etc. Furthermore, in the process of investigation the author of the thesis relied on the researches of Krugman, Eiteman, Balabanov, Afanasiev, Shreper, Feenstra; in foreign editions the most essential monograph referring to the process of creation of ECA and its activities considered in the investigation made by Stephens M. “The Changing Role of Export Credit Agencies” in 1999, IMF, London. In addition, the study used statistical, information and reference material regulatory produced by “Hermes”, The Economic Development Ministry, etc.

3.2.3 Sampling and selection of respondents

The choice of the method of sampling was based on the purpose and limitations of the research. In this thesis, expert sampling was used in order to identify proper respondents for the interview. Expert sampling is a type of non-probability sampling. The difference between probability and non-probability sampling is that non-probability sampling does not include random selection. Expert sampling involves finding and working with those persons that are have a demonstrable experience and expertise in a certain area. (Trochim, 2007) Moreover, there are 2 reasons of choosing this sampling method, first of all it would be the best way to elicit the views of expertise persons and secondly, expert sampling may provide an evidence for validity of another approach used in this thesis.

There are two major parties involved in a process of Export Financing, including a bank and a borrower. Therefore, in order to gain an objective knowledge in relation to the topic area it is necessary to interview respondent from both parties, moreover to strengthen the information gained from first two respondents, I included in the research a third respondent who represents an independent expert in export financing. The reason for choosing those respondents is an ability to investigate a topic from different perspectives, support a study with expert opinions and answer on study questions stated in the problem discussion paragraph.

Representative of the bank’s side is an Advisor to the Chairman of the Managing Board of Gazprombank Mikhail Kuznetsov, who has a well-known experience and in investment banking for more than 10 years. He is a person that is able to give a highly reliable and professional point of view on a research topic from bank perspective. Representative from a borrower’s side is a top-manager of a manufactory that recycles industrial batteries and produces lead in several countries in Europe region. The reason of choosing that person, who asked to keep him anonymous, is that he has a huge experience in acquiring manufactory equipment from foreign countries using Export Financing tools. Finally, an independent expert is represented by financial consultant Alexander Ageev that has experience in consulting a top management board of the biggest Russian producer and supplier in the area of power generation, electric-power transmission and electrical energy distribution. That person has a great experience in finance consulting, buy out and transactions support, export finance and stock trading. Contacts of the respondents are presented in the end of this part.

The author of this thesis believe that the decision to use those respondents as sample is in line with a purpose and aim of the study and suitable for the finding of relevant data.

Contacts:

1) Mikhail Kuznetsov: kuzne@yahoo.com
2) Ageev Alexander: a.v.ageev@inbox.ru
3) Respondent 1: prefered to stay anonymous

3.3 Conducting the interviews

The aim with conducting interviews was to seek further knowledge about the concept of Export Financing in Russian Federation by different point of views. A comprehensive literature study was conducted before the interviews to ensure the understanding of the Export Financing. Each interview lasted about one hour, but in order to increase readability and to make the study more informative the author has decided not to include the whole interview in the Empirical Findings chapter, but only to pay attention on the most important aspects of the interviews. The author of the thesis did not ask yes/no questions in order to have a dialog with respondents and let them talk more about their experience and knowledge. By this, the author was able to get as much necessary information as possible from the interviews. The guide of the interviews is presented in Appendix 2.

The choice of questions and topics that were discussed with interviewers is not random. Questions for the each interview were chosen in accordance with specialty of a particular respondent. Therefore, questions that were asked to Mikhail Kuznetsov, who has approximately 30 years of experience in export financing from the bank's perspective, were aimed to answer the following tasks: to discover the main trends of export financing in Russian Federation, to identify the most popular instruments that are used in Russia and problems that Russian private banks face with those instruments, and the most important task was to define benefits of Export Financing and forecast the development of the trade finance and documentary transactions of Russian market for the next few years. The choice of questions to Alexander Ageev was defined by his specialty as well; therefore, the goal of that interview was to get general understanding of trends and characteristics of Russian Export Finance market from an independent point of view. Finally, the last interview, was aimed to collect information from a client's perspective, is it beneficial for a Russian business to use export finance instruments in Russia and how the deal is structured in a current economic situation.

Depending on the given answers, the author followed up with additional questions in order to make more a structured conversation. This approach is called semi-structured interview and it was discussed in more detail in chapter 3.2.1.

3.4 Approach

The author of this thesis will as stated above use both approaches quantitative and qualitative. Qualitative approach will be applied using face-to face interviews and will be strengthen by the theory gathered from secondary sources such as books, articles, online sources, practical recommendations of the banks and government organizations documents and proposals. Quantitative approach will be done by evaluating of economic efficiency of export financing comparing with other sources of funding. To solve the problems in the paper several types of tools will be used, such as econometric techniques and methods of numerical analysis. To achieve the goal of the thesis the author had to implement the following tasks:

- Analyze of occurrence and development of export credit agencies in Russian Federation and summarize the trends in the organization of Export Finance in Russia and identify country export credit arrangements
- Analyze of theoretical and methodological approaches to the study of problems and essence of Export Finance in Russian Federation
- Calculate the economic efficiency of Export Financing instruments
- Conduct and analyze interviews with experts in the Trade Finance area

3.5 Quality of investigation

Reliability and validity are tools of an essentially positivist epistemology. (Winter, 2000) Reliability and validity are two factors that have to be considered while designing a study, analyzing results and judging the quality of the study. That is why the understanding of these concepts is essentially important in order to prepare a qualified research

3.5.1 Reliability

Reliability, according to (Joppe, 2000), is defined as the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if results of a study can be done under a same or similar technique, then the research data and results are considered to be reliable.

This research has a good reliability, because all the empirical findings the author got would be the same if someone else would do the same investigation by a similar methodology. And there are several reasons for that. One of those is that in order to increase a quality of the interviews and reduce a misunderstanding they were recorded. It enabled the author to concentrate on the interview and represent gathered information with a high level of accuracy. Moreover, the interview guide was constructed according to extended literature studying such as articles from business journals, books and researches related to methodologies and techniques of an interviewing. This measure enables the author to have a better interaction with respondents and look more credible and professional in the eyes of respondents. Furthermore, the interviews were conducted with highly experienced professionals in the studying area; therefore, results from the interviews could be taken for granted. Finally, theoretical framework of the thesis, which is used in order to strengthen results, is based on the methodologies and practical mechanisms of an existing bank as well as on the theoretical knowledge gained from well-known researchers and authors studying the Export Financing.

3.5.2 Validity

Validity refers to the extent to which our test or other measuring device is truly measuring what we intended it to measure and how truthful the research results are. (Joppe, 2000)

In order to increase validity of the research several measures have been taken. First of all the calculations which were done as a quantitative part of the research are reliable and valid due to the fact that formulas that were used are used as practical formulas of an existing banks, International Bank of Saint-Petersburg and Gazprom Bank. These banks apply same methods of calculations in its activities as the methods used in the thesis. The only error that may occur is the day to day changing of the rate of exchange and different rates of the organizations involved in the process of export financing. Therefore, it is important for users of that research to consider that adjustment while using the study. Another measure, which has been applied, is that respondents, which were chosen, are current employers of successful organizations with more than 10 years of experience in the studying area. It enables readers to believe and rely on their knowledge and consider gathered information as a reliable source of information.

4 Empirical findings

This chapter is divided into two parts. The first part presents the empirical data that have been collected through the numerical analysis of effectiveness of export financing and the second one presents the empirical data that have been collected through interviews with an advisor to the Chairman of the Managing Board of Gazprombank Mikhail Kuznetsov, financial consultant Alexander Ageev and CEO of the constructing company respondent 1. To enhance readability, the author has decided to divide each interview to a separate section and in order to make it easier for understanding and more informative the author has decided to use the most relevant parts of the interviews in the empirical findings. Interview questions follows the same structure as the interview guide in Appendix 2.

4.1 Evaluation of the cost-effectiveness of export-finance tools in a Russian commercial bank

Approximate cost of a credit covered by ECA for importer will be calculated in this chapter. Example of the transaction was provided by the International Bank of Saint Petersburg.

Description of the credit

Buyer:	Importer X, Russian Federation	
Seller:	Exporter Y, Germany	
Goods:	Delivery and installation of machinery (PT1-1250 II) for production of plane-parts	
Contract value:	EUR 1,200,000.00	
Delivery Date:	Approx. 12 months upon coming into force of the export contract	
Commissioning Date:	Approx. 2 months upon delivery	
Payment conditions:	15%	Down payment
	85%	Pro rata deliveries/ services rendered to be financed within a buyer’s credit under the coverage of Euler Hermes Kreditversicherungs-AG (‘Hermes’), the Export Credit Agency of the Federal Republic of Germany. With a repayment tenor of 5 years.
Borrower:	International Bank of Saint-Petersburg public limited company, Saint-Petersburg	
Lender:	Unicredit Bank AG (HVB), Munich, Germany	
Loan amount:	EUR 1 020 000,00 , i.e. 85% of the supply value	
Collateral:	Guarantee issued by the Federal Republic of Germany represented by Hermes covering at least 95% commercial and politic risk.	
Disbursement:	According to Hermes rules and the stipulations of the Supply Contract, disbursements will be made pro rata deliveries made/services rendered against presentation of delivery/service	

	documents under an irrevocable unconfirmed letter of credit opened by your bank advised by and payable at Unicredit Bank AG (HVB), Munich, Germany.
Repayment term:	According to the Hermes rules, in up to 10 equal, consecutive, semi-annual instalments, the first of which falling due 6 (six) months after the starting point, i.e. commissioning date.
Interest Rate:	(a) floating rate on the basis of 6-month-EURIBOR plus margin of 1.90% p.a. (b) after full draw-down of the loan a fixed rate on the costs then prevailing in the capital markets calculated on the loan period plus a margin of 1.90% p.a..
Commitment Fee:	1.00 % p.a. on the amounts not yet disbursed and still available
Management Fee:	EUR 15,000.00 paid together with the first interest payment.
Costs in connection with the insurance cover:	There are two possibilities for payment of the costs in connection with the Hermes insurance cover:
	(a) The fee of approx. 4.90% of the loan amount will be payable before the first utilization of the loan by the Borrower respectively the Buyer. The respective clause will be inserted in the Standard Loan Agreement.
	(b) Up to 100% of the costs in connection with the Hermes insurance cover can be financed as a separate tranche under the loan. In this case, the premium amounts to approx. EUR 53,000.00.

The cost of long-term financing covered by ECA - P_{EF} - consists of the following five components (example is a real contract of one of the clients of the International Bank of Saint-Petersburg, April 2010):

1) $\mathbf{P_{ECA}}$ - ECA premium - an amount that is paid to ECA for the risk that ECA takes away from the exporter.
2) $\mathbf{P_{F}}$ - Funding costs, including the cost of resources to the exporter's bank and the exporter's bank margin,
3) $\mathbf{R_{BI}}$ – Importer’s bank margin
4) $\mathbf{P_{M}}$ – Management fee- exporter’s bank commission for the organization of the transaction and the exporter’s bank margin.
5) $\mathbf{R_{C}}$ - Commitment fee, i.e. fee for the undrawn portion of the loan In practice, it is used relatively rare :

$$P_{EF} = P_{ECA} + P_{F} + P_{BI} + P_{M} + P_{C}$$

Calculation of the costs were prepared according to the description of the above contract in Excel and the results are presented in the following paragraph:

1) P_{ECA} = ECA premium rate = $(K_1 * T_L + K_2)$ = 4.90%, where K_1 and K_2 – coefficients,

which characterize a level of country risk and category of a borrower, and T_L – loan term, this rate was calculated and provided by Hermes.

P_{ECA} = ECA premium- $V_L*(K_1*T_L + K_2)$ – Hermes covering cost, where V_L – loan amount

In our case this value is calculated by Hermes = EUR 53,000.00

2) $P_F = \sum_{1-10}^{i} (V_L - (V_L/10)*i)(R_L + R_{BE})$ = EUR 29,019.00,

   Where R_{L}- Euro LIBOR or 6M EURIBOR rate on the date of contract = 0,945%,

   R_{BE} - Exporter's bank margin = 1,90%, total amount of EUR 29,019.00 was calculated in Excel

3) R_{BI} = importer's bank margin, margin of the International Bank of Saint-Petersburg, approx. 2% p.a. plus costs of the service of the importer's bank.

   $P_{BI} = V_L*R_{BI}*5$ = EUR 113,944.80, that amount was calculated in Excel

4) P_M = management fee = EUR 15,000.00 - fixed

5) P_C = Commitment Fee = 1% p.a.(in our case commitment fee is not included in the client's interest rate

Therefore, the cost of export financing for a client of the commercial bank is equal to:
P_{EF} = EUR 157,963.84
And the weighted interest rate for the client is equal to 5,39%.

	Contract value	EUR 1 200 000,00			
	Loan amount-85%	EUR 1 020 000,00			
	ECA premium	EUR 53 000,00			
	Management Fee	EUR 15 000,00			
period	**Outstanding amount**	**Loan payments**	**Interest payments**	**Sum**
	1 073 000,00			
1	965 700,00	107 300,00	40 993,43	148 293,43
2	858 400,00	107 300,00	23 394,08	130 694,08
3	751 100,00	107 300,00	20 794,74	128 094,74
4	643 800,00	107 300,00	18 195,40	125 495,40
5	536 500,00	107 300,00	15 596,06	122 896,06

6	429 200,00	107 300,00	12 996,71	120 296,71
7	321 900,00	107 300,00	10 397,37	117 697,37
8	214 600,00	107 300,00	7 798,03	115 098,03
9	107 300,00	107 300,00	5 198,69	112 498,69
10	0	107 300,00	2 599,34	109 899,34
				1 230 963,84
Effective rate:				**5,39%**

Evaluation of the economic effectiveness of using export financing tools can be presented by comparison the cost of export financing with a cost of a another credit with comparable parameters (loan amount, amount of down payment, credit terms and others). The comparison of the export credit with another comparable credit is presented in the following table (interest rate for a credit, which is used in calculations, is a minimum interest rate for a comparable credit that was available for a client in the same period):

Options	Costs	Sum, Euro
1. 100% loan payment for the good	Interest amount **Effective rate: 8 %**	**224,400.00**
2. Import letter of credit covered by ECA, financed by exporter's bank	$P_{EF} = P_{ECA} + P_F + P_{BI} + P_M + P_C$ **Effective rate: 5,39%**	**157 963,84**
Economic effectiveness		**66 436,16**

4.2.1 Interview with an advisor to the Chairman of the Managing Board of Gazprombank Mikhail Kuznetsov

That interview was conducted with Mikhail Kuznetsov, who devoted 30 years of his life to export financing and related areas. Mikhail Kuznetsov is a PhD Candidate in Economics and has experience and knowledge from the biggest private banks in Russian Federation. The goal of that interview was to get information about Export Financing in Russia from a Russian private bank point of view and to answer the following tasks: to discover the main trends of export financing in Russian Federation, to identify the most popular instruments that are used in Russia and problems that Russian private banks face with those instruments, and the most important task was to define benefits of Export Financing and forecast the development of the trade finance and documentary transactions of Russian market for the next few years.

"Growth of foreign trade turnover in 2013 positively affected the increase in trade finance. Financial institutions cleared balances and began to increase lending. The demand from corporate customers has significantly increased during last few years. The cost of trade finance products decreased and we again added such financing instruments, such as pre-export financing, that were unavailable for use in times of crisis" (Kuznetsov, 2014).

"In 2013, the dominant role in the development of the market of trade and export finance played government banks, because the government-owned banks, as opposed to private, had a sufficient increase in credit lines from foreign banks. State banks, acting as institutions of national economic development, actively offered its corporate clients the entire product range of trade finance instruments, supporting and helping local exporters to import the new high-tech equipment, providing funding for the long term" (Kuznetsov, 2014).

"I would also like to add that, in contrast to previous periods, Russian banks have been paying more attention to trade finance, and many have put this kind of business in a separate direction" (Kuznetsov, 2014).

What difficulties do you face by offering those financial instruments of trade finance in Russian Federation?

"As for the negative trends application of new principles of Basel III suggests a new risk assessment by western banks, including off-balance sheet. Consequently, it is necessary to restructure transactions and to create new products. On the one hand it is quite difficult, but on the other hand it is a challenge to do something new" (Kuznetsov, 2014).

"In more general, I wouldn't say that there are some serious problems we face in Russia, it's more about limitations we have. Mainly state-owned banks can attract funding in Russia. For private banks and private corporations, it is harder to attract funding. It is just a question of priorities, as well as supply and demand. However, this is a problem not only Russia, but also in other countries, Germany, Great Britain and other European countries face similar limitations. If you will take a look at the biggest banks in the world you will find out that 7 out of 10 biggest banks are Chinese and such banks as UBS and some American banks that were leading banks before crisis left their positions and are still struggling with crisis consequences. If the bank is not large enough it can't attract export financing" (Kuznetsov, 2014).

What kinds of trade finance products do you think are the most perspective in Russian Federation?

"Russia - is an export - oriented country. Large exports - this is the basis for increasing the pre-export financing. Nowadays, this product is not particularly developed among Russian banks. Taking into account the export orientation of our economy, ease of implementation and structuring of the transaction, as well as the obvious economic benefits that customers receive from the use of this tool, pre-export financing will be more and more popular" (Kuznetsov, 2014).

Moreover, the economy is slowly recovering from the crisis and coming back to a pre-crisis turnover. We see that the companies will soon be ready to make significant capital expenditures. A large number of new projects include the import of various equipment from abroad. Accordingly, it gives impetus to the development of post-import transactions and financing covered by export agencies. We often see that corporate clients have resorted to the "advance" form of transactions in foreign trade contracts with their foreign exporters, which suggests the risk exporter's obligations. Moreover, trade financing with an advance payment will be more expensive than the use of letters of credit. Use of letters of credit reduce the cost of financing and reduce the risks of all parties of the transaction." (Kuznetsov, 2014).

"We also see a great potential in funding under the coverage of export credit agencies, which allows to increase financing terms up to 18 years. This tool is indispensable for financing of productive assets or the construction of new production lines. The organization of this type of financing is very significant. Growth of trade finance will help to increase the penetration of trade finance to businesses, as well as growth in trade turnover" (Kuznetsov, 2014).

Russian business, is it familiar with trade finance instruments that are offered by Russian banks?

"Professional community, of course, familiar with the products, tools that are offered. However, I believe that one of the main tasks of Russian banks, as I mentioned before, is to adapt and offer new products, meeting or even anticipating customer expectations. What can I say? For example, we all know that in November 2011 EXIAR (Russian export agency) was created, whose main objective is to support Russian exporters, mainly machinery and technical products and highly processed products, such as launching satellites, or pipelines and so on. We are one of the main partners of the respected EXIAR offering our Russian customers the new products together with this agency, which did not exist before. What it gives us really? This agency helps us to insure the risks of supply in those countries that have increased political, economic and currency risks, and so on. With the help of an insurance company EXIAR we can consider these deals and we are already active in developing this business. Moreover, I would like to say that the uniqueness of the agency is that it does not compete with private insurance companies, and it was created exclusively as a state institution to support Russian exporters" (Kuznetsov, 2014).

Is it really so beneficial to use export financing instruments in Russian Federation?

“The interest of the exporter is to obtain an advance payment for the goods, and the importer’s risk is the possible failure of the exporter supply and appropriation of the money. Similarly, if the exporter provide a trade credit to the importer, importer may refuse to pay or unreasonably detain payment. Therefore, there is a need to attract intermediaries, in the export-import operations, who usually performs financial institution - bank and/or insurance company of the exporter. Broadly speaking, export financing can be defined as a set of insurance, financial or guarantee arrangements which allow to make the delivery, minimizing export-import risks on both sides. Increasing interest in this type of funding is due to the fact that other forms of fundraising, such as IPO, Eurobond issue or syndicated loans became less available and more expensive in post-crisis period. At the same time, export financing may also attract companies with average turnovers that do not have enough capital to use expensive types of fundraising” (Kuznetsov, 2014).

“The main advantage for the importer is a cost of the financing, because it is much lower than the cost of direct loan. Moreover, export financing contributes to the long-term development of the enterprise and to an increase of its competitiveness. As for a bank, export financing instruments allow the bank to earn 1,5% as a margin and revenue from the organizing of the transactions, the positive moment is that a Russian bank is secured from the risk” (Kuznetsov, 2014).

Can you give a forecast of the development of the trade finance and documentary transactions of Russian market for the next few years?

“In general, I can see a variety of evidence that proves that export financing market is developing and it is aimed at avoiding the usual-established schemes, seeking to expand the boundaries of international business. New exporters/importers markets, such as Russia, are developing, as well as traditional markets for export financing. Many projects already exist or are only in the development stage. I am sure that trade finance market will be actively developed during next few years; funding levels will recover to pre-crisis level and surpass it. Companies will be actively use different financial instruments, including pre-export, however, the post-import financing under the coverage of export credit agencies will prevail. I think before the end of 2014 the market significantly surpass pre-crisis period, 5-10%” (Kuznetsov, 2014).

4.2.2 Interview with a financial consultant Alexander Ageev.

The interview was conducted with Alexander Ageev, who is a high-level professional in finance consultancy. He has been working as Director of the trade department in one of the banks in Saint-Petersburg and as a Financial Consultant of the CEO of biggest electricity equipment producer in Russian Federation. The goal of the interview was to get an objective view on the whole Export Financing sphere in Russian Federation, the development of Export Financing in Russia, main instruments that ate used and theirs efficiency, as well as the perspective and trends of Trade Finance in Russia in the upcoming year.

Can you briefly characterize the export in Russian Federation, is level of export is falling? And how do you think Russia has to support our business in that case?

“Main trading partner of Russia for many years now is Europe. However, if you ask ordinary Europeans what sells our country, the answer is likely to be the same: oil, gas and other natural resources, someone might remember a Kalashnikov rifle. However, if we are talking about export performance as a whole, we cannot say that it falls. Moreover, if we are talking about engineering exports or exports associated with high technology, it even has a tendency to increase. If we are talking about such industries as metallurgy, coal exports, these sectors are experiencing hard times nowadays. I would not say that Russian exports reduced somehow globally. Such a phase characterized the 90s, when the Russian raw exports decreased significantly. Right now, we can rather say that it does not grow rapidly enough” (Ageev, 2014).

“Within the framework of export financing, Russia can support our exporters with a range of financial products. The main financial product is financing the buyer of Russian industrial products abroad. For example, take some of the Russian manufacturer of vehicles, machinery or equipment, which sells its product in a foreign country. Therefore, our lender in this situation will be a foreign company, in other words - the buyer. Moreover, I can say that documentary operations also play significant role, because sometimes exporters do not even need a pure form in lending - buyers can fully pay for their own contracts. However, there are several types of guarantees that are often needed to Russian exporters abroad. For example, such types of guarantees, as a guarantee of contractual obligations, the guarantee refund” (Ageev, 2014).

What can you say about the emergence of Russian Credit Agency?

“With the emergence of Russia's own export insurance agency created by analogy with the world's leading ECA, for the first time exporters get a marketing tool to promote their sales abroad and strengthening active position in core markets. At the same time, the emergence of EXIAR formed a need to develop a new infrastructure that ensure the generation of export-oriented projects and linking the commercial and financial aspects of the export transactions. I personally believe that the emergence of Russian Credit Agency will help our national banks, such as SBERBANK, not only to consolidate the leadership in the area of export financing in Russia, but also to compete with major western banks. Additionally, I can say that nowadays Russian banks finance only 10% of the Russian export, while the remaining 90% are financed by western competitors” (Ageev, 2014).

Who can use this instrument in Russia?

“No surprises - state banks have the greatest opportunity to work with export credit agencies today. Many Russian banks say they have credit lines from export credit agencies, but in reality, they are somewhat disingenuous. Today unlimited access to ECA guarantees have only Sberbank and VTB. Here they really ' Unlimited ', and everyone else gets guarantees only for specific projects. Moreover, every Russian commercial bank has to be checked by ECA - for the first time formally, and informally in all subsequent ones, that is, it is checked whenever he develops new contracts” (Ageev, 2014).

“In recent times there are proposals to Russian importers to work with ECA through banks neighbouring countries - the Baltic States and Kazakhstan. Active neighbours for some Russian banks could result in loss of large corporate customers. There is a fact that the Baltic and Kazakh banks have two important competitive advantages in working with ECA. First, some export agencies kept pretty tense attitude toward Russia in general, and to the Russian banks in particular. If the European export credit agencies, especially German, French, Austrian, most adequately respond to the favourable macroeconomic changes in Russia, the agency of some other countries are more restrained towards Russian banks. The most conservative export agencies are in Scandinavia - time they offer is shorter, comparing with the German Hermes, and generally, they are not very willing to work with Russia. Secondly, our neighbours, who have a higher credit rating of a country, can raise funds and guarantees of export agencies on more favourable terms than Russian banks” (Ageev, 2014).

How useful is that instrument for Russian companies?

“Loans guaranteed by export credit agencies - this is a very attractive financing and there is no credible alternative to it. Despite the fact that there are a number of additional costs, such as the base rate at LIBOR, margin of the financing bank, insurance premium of export agency and Russian bank guarantee I can identify three advantages of using that instrument. First, for Russian borrower such funding is in average of 2-3% cheaper than a usual Russian bank’s loan. Second advantage is a reduction of the risks. A third advantage is a little more difficult to formalize, but it is also essential. Customers using trade finance, in particular guarantees and letters of credit obtain in the eyes of its suppliers an additional "weight" and the status of "advanced" buyers, suppliers begin to treat them with more respect, including them in a variety of programs in order to provide additional discounts” (Ageev, 2014).

“In addition, sustainability is also an advantage - the use of export financing allows you to get a loan for seven or eight years on terms that are attractive to the Russian borrower. It allows to perform a long-term projects that can’t be payback in a short time” (Ageev, 2014).

Entry into WTO, what can we expect from that, is there a possibility that some industries may disappear?

Entry into the WTO implies a ban on subsidizing certain industries within the country that we now have actively used. However, on the other hand, entry into the WTO, in terms of export support, enables government to support export more systematically. Moreover, export support - this is a stimulus for domestic competition. That is, roughly speaking, under certain internal prohibitions we get some external tools, which we did not have access to before. Entry into the WTO would certainly create new opportunities for Russian trade relations and the whole banking system.

What perspective and trends do you see in the export financing in the following year?

"According to what I mentioned in the beginning of the conversation, I can be sure that Russian export operations and the level of export will gradually increase during following years. According to the export financing operations, the current situation make it possible of the developing of the export finance tool. For example, under conditions of increased volatility of the Russian ruble Russian banks can offer their customers a range of financial markets tools, giving the opportunity to protect operating and investment activities of company from the risks of negative changes of conjuncture of capital markets, foreign exchange and commodity markets. For instance, if a company-client has a business in Russia and import equipment, it is obvious that it gets revenue in rubles, but they have costs in foreign currency. Currency fluctuations may negatively affect a company's performance. One of the basic instrument that can be offered for a company is a purchase of currency option. This instrument can be compared with an insurance – it allows to buy a certain amount of currency in a specific time in future at a rate approved at the moment of transaction. Such transactions are available not only for a huge corporate clients of the capital region of the Russia. Those instruments became available in all regions" (Ageev, 2014).

4.2.3 Interview with Respondent 1, CEO of the constructing company that used project-financing tools in Russian Federation.

The interview was conducted with a CEO of one constructing company in Russian Federation, who has experience in Export Financing in two relatively big investment projects, one project in Estonia and the second one in Russia. The goal of the interview was to get an information about Export Financing in Russia from a client of a bank point of view and to answer the following tasks: to identify efficiency of the Export Financing in Russia, difficulties a potential client may face during use of Export Financing tools and measures that have to be undertaken in order to increase the infrastructure, popularity and convenience of Export Financing in Russia.

What kind of financing tool did you use and what was the object of financing?

"The funding were raised in order to finance import of Italian and Estonian equipment. There was very complicated scheme of financing. First of all, the main aim of those transaction was an import of Italian equipment, approximately $10 million. We have a contract with an exporter and with our local bank, which in turn has a contract with exporter's bank. Finally, exporter's bank has a contract directly with an exporter and ECA SACE (Italy). There was two letters of credit opened, one on the Italian equipment and one on the Estonian" (Respondent 1, 2014).

How did you chose a structure of financing of your project?

"When we were deciding the structure of financing, we were relied on a previous experience and knowledge of our management in familiar investment projects. In the process of the purchase of equipment and deciding the structure of financing the determining factors for us were the economic feasibility of the use of certain techniques, as well as the possibility of financing as long as possible at the lowest rate. From the many options, we have chosen to finance the purchase of the equipment imported from the Italy to Russia under the guarantee of the Italian Export Agency SACE" (Respondent 1, 2014).

What were the terms of a contract and were they advantageous for you comparing with other sources of financing?

"Yes, you are right. Our management have already had experience in using those tools in a previous project. The terms were appropriate for us; long-term financing, rather small interest rate, comparing with a normal loans in the banks, and a responsibility to repay a debt after 6 months after launch of the production line" (Respondent 1, 2014).

What advantages and disadvantageous have you faced with this type of financing?

"An important disadvantage of this type of financing is the complexity of registration of the credit transaction. Since the loan documentation between banks is in English and it is not subject to Russian law, it is sometimes necessary to attract Western law firms, which bring additional costs for participants of the transaction. We also had to spend more time on the examination and approval of the loan documentation, as credit agreements are more complex than standard contracts for short-term loans. Thus, for the issue of such a transaction took around 2-3 months. Despite of that, I cannot say that the procedure of financing was that difficult. Documents that we have presented to the bank virtually were not different comparing to a standard package of the documents for an investment project. So, I can say that it is a question of the loan amount, let's say if it's less than $3 million, than there is no sense to use export financing" (Respondent 1, 2014).

“On the other hand, despite the fact that the procedure for attracting long-term financial resources under the coverage of national insurance agency is lasting longer than other credit instruments, the advantages of this type of financing are undeniable. First, it is the presence of a grace period of up to six months as I mentioned before, and instalment of the loan to 8.5-10 years. Second, the cost of resources is lower than the normal bank loan. Third, there is no need for distractions of the own working capital. Then, an opportunity to optimize cash flows due to the presence of the payment schedule agreed in advance. In addition, structured in such a way deal, with the help of qualified bank’s professionals, help to minimize costs and risks, which ultimately increases the efficiency of transactions” (Respondent 1, 2014).

How can you evaluate the effectiveness of this particular structure of financing?

“We appreciate the use of this financing tool as a positive and generally successful. It was a successful experience for the first project as well as for the one we have discussed before, which allowed us to use this tool in purchasing foreign equipment. Moreover, it was under the cover of national financing export credit agency. I think this financial tool is the most appropriate tool for businesses whose activities are related to the acquisition of machinery and equipment of foreign manufacture. I must say that this type of financing is suitable for any company that can prove its own creditworthiness for the duration of funding” (Respondent 1, 2014).

How do you think what kinds of measures can improve the infrastructure of trade finance in Russian Federation?

Nowadays, there is a big gap in Russian legislation related to trade operations. Therefore, in order to implement a trade finance more successfully in domestic market the appropriate amendments to the existing Russian legislation must be done. Those amendments to Russian legislation, in case of its successful adoption, will open rather good prospects for the successful development of trade financing in the Russian Federation. Given a sufficiently large investment potential of Russia, trade financing will open new horizons for increasing the rate of economic development of Russia, which will provide a significant GDP growth, increased living standards and provide the country with new work places.

5 Analysis

In this chapter, the empirical findings are analyzed according a theoretical knowledge given in the frame of reference chapter. As described in the methodology both types of gathered data (quantitative and qualitative) is used in order to fulfill the purpose of the thesis. The author have aimed to identify if there are there any similarities in the thoughts of respondents about a trade finance effectiveness and to strengthen the expected result the author numerically analyzed an effectiveness of trade finance transaction.

The success of participants of international transactions depends on the ability of exporter and importer to be financed, especially if the subject of the deal is expensive investment goods (machinery, equipment etc.). Thereby the purpose of the thesis was to prove that in the difficult macroeconomic environment the trade finance instruments could be a comparable alternative to a usual bank loan or even more efficient and beneficial for a company that is looking for funding.

5.1 Evaluation of the cost-effectiveness of export-finance tools in a Russian commercial bank

The first part of the empirical findings is a numerical analysis of the effectiveness of trade finance instrument. The author's goal was to calculate the costs for such type of transaction and in order to make it relevant the author compared that cost with a cost for a usual bank loan. As we can see from the table in the previous chapter, the cost of trade finance is much lower and hence, the company is able to save a big amount of money.

Structure of the Russian importer's costs of the export finance long-term loan:

• The amount of funds raised from a foreign bank. This typically includes a floating rate based on the LIBOR or in EURIBOR depending on the currency of the loan, approximately 1% and the margin of a foreign bank that is approximately 1,5-2%;

• Margin of the importer's bank that is usually around 2%;

• Commission to the foreign bank for the organization of the deal and for providing a loan – management fees. Fees are paid once prior to funding and is 1-1.5 % of the amount of funding;

• In addition, when applying ECA coverage an importer has to pay premiums which are often passed on to the importer. The insurance premium is 4-6 % of the loan amount and it is also paid prior to funding and its size depends on several factors, namely on the level of country risk, the amount of loan and its duration. The insurance premium can be financed within the framework of single tranche under the same conditions and at the same time as the main credit. Thus, the effective rate for attracting importer be 7-10 % per annum.

Those calculations justify the author's expectations and prove the assumption that trade financing is more effective and cheaper method of financing than a comparable bank loan. Moreover, the calculations were done according to a methodology provided from the

International Bank of Saint Petersburg that is used in a day-to-day life of the bank. Through this part of empirical findings, we are able to see what kinds of costs are included in an export contract and how those costs are calculated. The cost of trade finance transaction consists of rate of LIBOR, ECA premium, margin of the exporter's and importer's bank and commitment fee. The final cost depends on the risk of the transaction. Finally, the cost of such transaction is much lower than with average bank loan.

It is important to state that the key rate for attracting credit for the private bank from the central bank in Russian Federation is 7,50% on the 30.04.2012, and average loan rate in Russian Federation is around 12%, while an average effective rate for export finance transaction is 7%. The advantage of using instruments of trade financing is obvious.

5.2 Interview analysis

The second part of the empirical findings represents a qualitative research based on the interviews with experts in trade finance. The answers of respondents give us an opportunity to see a full picture from different perspectives. The aim was to take a look on the Export Financing in Russian Federation from different points of views and the aim was completely reached by the author.

The main clients of Export Financing in Russian Federation are companies related to the following areas: engineering, metallurgy, transport, agriculture and trade. Significant transaction volumes fall mainly on traditional trading partners of Russia (France, Germany, Netherlands, Italy), as well as individual countries of the clients.

The demand for banking services, such as export financing increases every year and 80% of all international transactions in the world are conducted by schemes and methods of trade finance. On the one hand, export finance carries a favourable and attractive conditions plus contractual risk reduction. On the other hand, businesses often face with the growing need to attract low-cost loans for modernization of its own production facilities, equipment (which is usually acquired abroad) and release of export products.

Afanasyev stated in his study both advantages and disadvantages of export financing and therefore all of respondents were asked a question that was aimed to answer the question of the efficiency of those instruments.

It is not surprising that during an investigation the negative side of export financing was also identified. Despite of the fact that was given in the theoretical part by different authors that export financing is the most advantageous tool of raising a capital, because of the lowest interest rate of the loan, ease of use and risk coverage, that was also proven by the respondents of the interviews, the time that can take such transaction might be lasting longer than a usual bank loan and not all the companies can use those instruments. For example, Mikhail Kuznetsov said that one of his export finance deals were lasting for two years until all the issues were regulated and the transaction was signed, but the average loan structuring lasts around 2-4 months.

According to Afanasyev there are bank restrictions on the amount of the export finance transaction and that was proved by one of the respondents, Respondent 1 stated that export financing is available only to companies that are looking for a huge amount of money, more than $ 3 million; otherwise, it will not be beneficial. Not all the companies can attract such financing, even if it is a big company, the reason for that that banks have a set of requirements for a client. The most important one is that a client has to prove that it is able to meet its day-to-day obligations with that potential loan by providing detailed business plan and cash flow statement to the bank.

The most popular export instrument is a loan covered by ECA and other documentary instruments, such as letter of credit. This model was illustrated and discussed in theoretical framework chapter. The reason for that is that such tools give an opportunity to get more favourable terms of financing, increase duration of the contract, reduce risks and costs.

Krugman mentioned in his researches that in order to enter a new market or occupy a new niche a company has to have a sufficient capital or has a possibility to easily raise capital by borrowers, for example by using trade finance instruments. All of the respondents provided the author with an information that export financing is in fact the most effective tool if the company wants to enter a new market, increase its sales abroad and compete with foreign competitors as well if the company want to import an expensive good from abroad.

What is extremely interesting is that respondents provided an information about a current stage of development of export financing in Russia as well as their expectations about the future of export financing. Export financing emerged rather recently in Russia and right now it is on its development stage. Lack of practical experience in this area makes it important to form an effective analysis and project financing mechanism for the successful implementation of it in large investment projects. It is required transform some of the approaches in accordance to a foreign practices and to adapt them to a modern Russian conditions, the hallmark of which is the instability and imperfection. The experts believe that export financing will grow during the following years, and consequently the whole infrastructure of export financing, banking system, financial instruments will be developing and growing as well. Amounts of export and imports will grow with a number of clients.

Documentary settlements are particularly relevant for organizations that are beginning to work with new counterparties, as they provide an opportunity to hedge against business partners' instability. For example, documentary operations, which are commonly used in international payments, recently became popular in Russia. In global crisis environment, trade finance is becoming increasingly popular banking product, providing real support to enterprises. On the one hand, successful business have a need of long and relatively inexpensive borrowing for further development now. On the other hand - payment defaults, shortage of working capital, difficulties in obtaining loans from banks. That is why the relevance of trade financing instruments currently increases by many times. All of the above indicates the need to improve access of Russian banks to the international export financing, which will lead to rapid modernization of industries in our country, the growth of long-term lending, lower interest rates, which will create a benefit for the whole Russian banking system.

6 Conclusions

This chapter summarize the conclusions and answers the purpose of the thesis.

To enhance the understanding of the conclusions, the author has decided to start this chapter by repeating the purpose of the thesis:

The purpose of this thesis is to identify an Export Financing as a powerful competitive tool for executing strategic transactions and to ensure cost-effectiveness of long-term lending of foreign trade operations.

Trade Finance is a set of methods, tools and mechanisms for financing foreign trade customers by attracting funds on foreign financial markets. Banks are playing a central role in such transactions. However, funding may be granted with a third party, such as Export Credit Agency, international trading companies, and specialized non-bank financial institutions.

Trade finance mechanisms at the present stage are quite diverse. All of them all based on the scheme of working with documentary credit. Depending on the timing and financing purposes, contract value, amount of own resources some of the new participants, such as ECAs, forfeiting companies can be included in the structure of financing or some of other instruments, such as bank guarantee or discounting can be provided to a client. The advantage of the tools of the foreign trade financing is that it increases competitiveness – nowadays payment conditions are used as instruments of competition in contract negotiations. Moreover, it is important to note, that there are three main advantages that make trade finance instruments the most attractive instruments of funding.

First of all, using funding under the guarantee of ECA enables businesses to obtain funds for the long-term – five to ten years, which significantly reduces the financial burden of the business, for instance the terms of the loan contract in Russian banks are lasting three to four years. Secondly, funding under the guarantee of ECAs is in one of the cheapest way of financing for a long-term, this instrument reduces the cost of financing compare to the cost of usual bank loan. For comparison, an average interest rate for the loans raised on a Russian market is 12% and with trade finance instruments, this rate is between 6-8%. Finally, export financing is extremely powerful tool because the risk between the importer and exporter is minimized; moreover, the country risk or risk of default of importer and/or exporter is also reduced by the ECA's coverage.

Nevertheless, nowadays, there is no comprehensive system of export financing with a wide range of tools, infrastructure, significant government support and servicing of credit institutions in Russia, but there is an evidence of the development of that industry, such as occurrence of the national Export Agency and adaptation of European systems of trade finance. In the future, the Russian practice is likely to come into the line with the world, and short-term export credit will be predominantly in the form of commercial loans and medium - and long-term - in the form of a bank loan.

Crisis of 2008 and the next four years has shown how important is the role of export financing in the global market. Export financing was the only instrument that remained stable, however, the number of banks offering such loans decreased. An access to a wide range of financing mechanisms and instruments that provide reliable and attractive loan terms for clients may contribute not only to a development of trade operations of Russian Federation, but also to increased exports and to the growth of national income.

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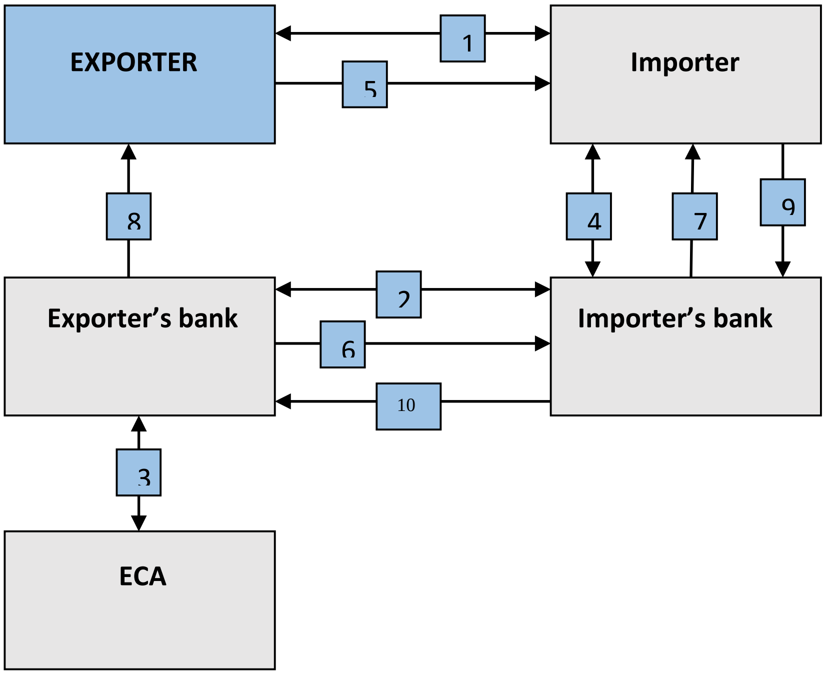
Appendix 1 Export Finance models

1. Indirect Buyer's credit to the importer

This is a target loan to the importer's bank.



Legend:

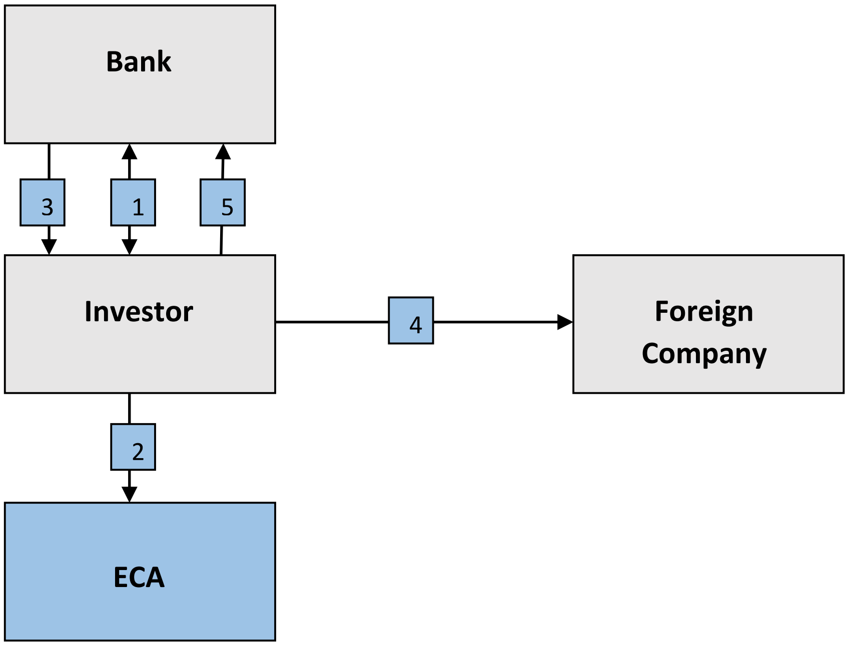
1. Export contract for delivery of goods and/or services
2. Credit agreement
3. Insurance policy covering credit risks
4. Credit agreement
5. Delivery of goods and/or services
6. Buyer's credit through importer's bank
7. Credit from means obtained from exporter's bank
8. Disbursement of buyer's credit to importer
9. Importer's repayment of credit to his domestic bank
10. Importer's bank repayment of buyer's credit to exporter's bank

The structure of the transaction consists of the Export Contract, the subject of which is the delivery of goods and/or services, Interbank loan agreement between the Bank and the Exporter's Bank, Importer Agreement insurance from export credit risks between the ECA and the exporter's bank, the Credit agreement between the importer and the importer's Bank. Thus, the provision of export credit by the Importer's Bank to the Importer is obtained from the funds of the exporter's bank, and the loan funds are paid directly to the exporter's bank account upon the documents of the shipment of goods. Subsequently Importer repays the loan to his local bank and the importer's bank repays its loan to the exporter's bank (GazpromBank, 2010).

This type of loan is most prevalent in international banking practice, including Russia.

2. Investment credit to the importer/exporter

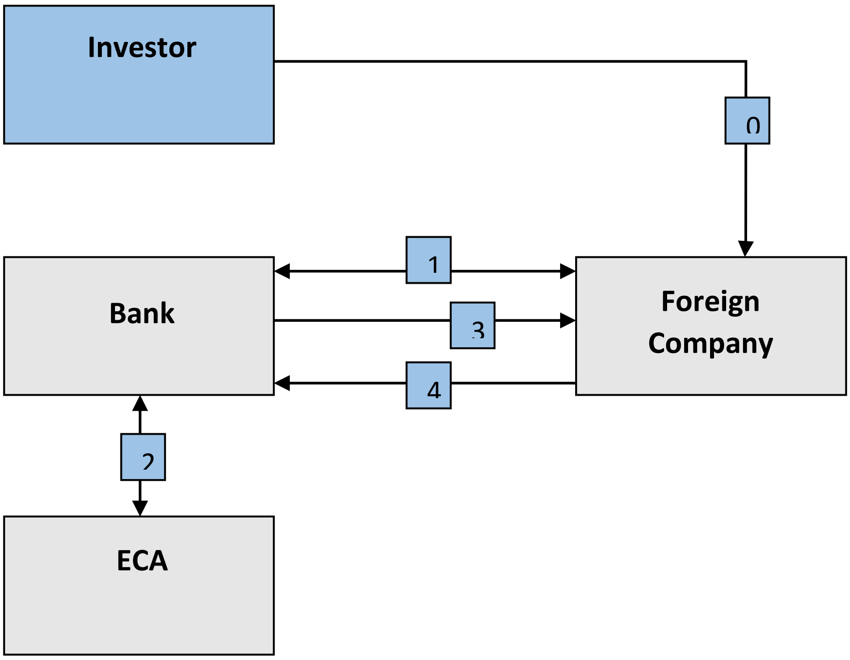
Structure of the direct investment credit to the exporter is shown on the figure below.



Legend:

1. Credit agreement after negotiating of investment plan and form of investment
2. Insurance policy covering credit risks
3. Investment credit
4. Utilizing of funds from investment credit according with investment plan authorized by the bank
5. Credit repayment from revenues generated by executed investment

Structure of the direct investment credit to the importer is shown on the figure below.



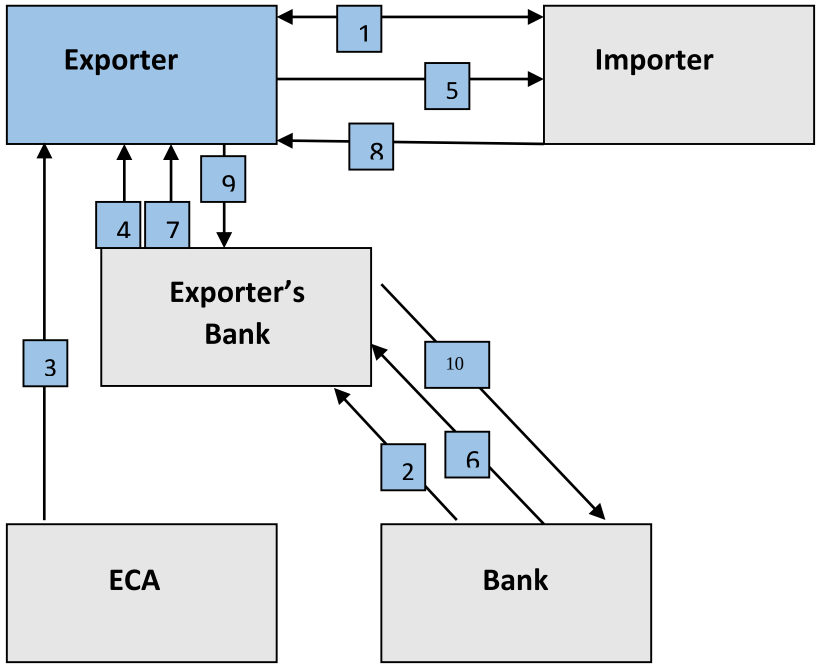
Legend:

3. Coparticipation of investor in foreign company.
4. Credit agreement after negotiating of investment plan and form of investment
5. Insurance policy covering credit risks
6. Investment credit according with investment plan authorized by the bank
7. Credit repayment from revenues generated by executed investment

Basic characteristics: allows the investor to attract long-term credit facilities to implement investment abroad related to the export from the exporter's country, the possibility of financing start up or to expand a business entity of the foreign equity with participation of investor, floating rates based on LIBOR or EURIBOR or fixed rate CIRR.

3. Refinancing of supplier's export credit

This type of credit allows to provide funds to the exporter's bank which the bank will direct to the exporter as a loan under more favorable terms.

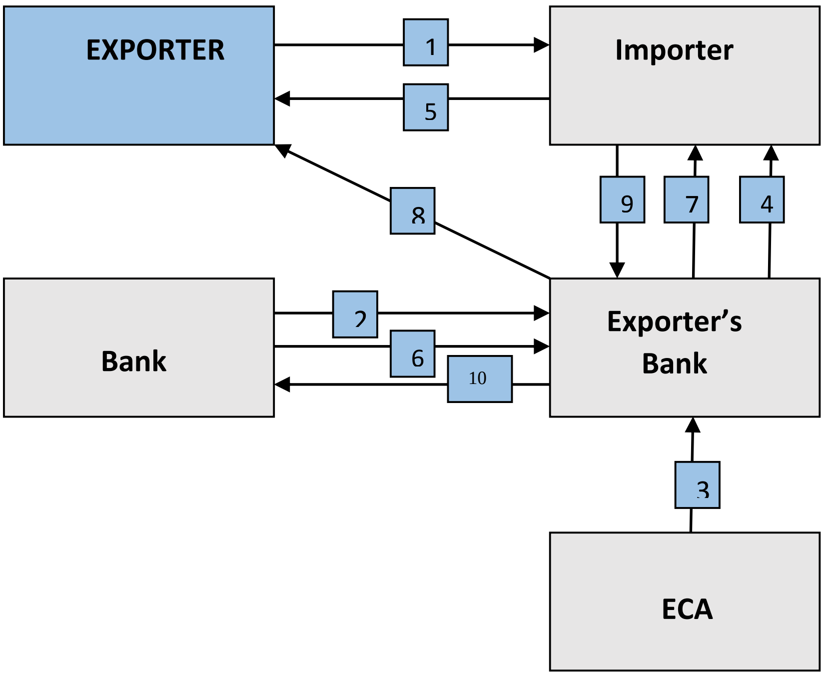


Legend:

1. Export contract for delivery of goods and/or services
2. Interbank loan agreement
3. Insurance policy covering credit risks
4. Credit agreement between exporter's bank and exporter
5. Delivery of goods and/or services
6. Refinancing loan granted to the exporter's bank
7. Provision of a credit to the exporter from a funds raised by the exporter's bank
8. Repayment of the export credit by importer
9. Repayment of a credit by exporter to his exporter's bank
10. Exporter's bank repaying refinancing loan to the bank

4. Refinancing of buyer's export credit

This type of credit allows to provide funds to the exporter's bank that the bank will direct to a foreign importer under more favorable terms.



Legend:

1. Export contract for the delivery of goods and/or services
2. Credit agreement on the refinancing loan for the exporter's bank under OECD rules
3. Insurance policy covering credit risks
4. Credit agreement between the exporter's bank and the importer
5. Delivery of goods and/or services
6. Refinancing loan granted to the exporter's bank
7. Provision of a credit to the importer from the funds obtained from the exporter's bank
8. Amount drawn under buyer's credit paid direct in favour of the exporter
9. Buyer repaying the export credit to the exporter's bank
10. Exporter's bank repaying the refinancing loan to the bank

Appendix 2 Interview questions

Interview 1, Mikhail Kuznetsov:

1) *How has the market of trade finance and documentary operations changed over the past few years? What trends can you identify for the coming year?*
2) *What difficulties do you face by offering those financial instruments of trade finance in Russian Federation?*
3) *What kinds of trade finance products do you think are the most perspective in Russian Federation?*
4) *Russian business, is it familiar with trade finance instruments that are offered by Russian banks?*
5) *Is it really so beneficial to use export financing instruments in Russian Federation?*
6) *Can you give a forecast of the development of the trade finance and documentary transactions Russian market for the next few years?*

Interview 2, Alexander Ageev:

1) *Can you briefly characterize the export in Russian Federation, is level of export is falling? And how do you think Russia has to support our business in that case?*
2) *What can you say about the emergence of Russian Credit Agency?*
3) *Who can use this instrument in Russia?*
4) *How useful is that instrument for Russian companies?*
5) *Entry into WTO, what can we expect from that, is there a possibility that some industries may disappear?*
6) *What perspective and trends do you see in the export financing in the following year?*

Interview 3, Respondent 1:

1) *What kind of financing tool did you use and what was the object of financing?*
2) *How did you chose a structure of financing of your project?*
3) *What were the terms of a contract and were they advantageous for you comparing with other sources of financing?*
4) *What advantages and disadvantageous have you faced with this type of financing?*
5) *How can you evaluate the effectiveness of this particular structure of financing?*
6) *How do you think what kinds of measures can improve the infrastructure of trade finance in Russian Federation?*