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## THE MODERN METHODS AND INSTRUMENTS OF FINANCING THE DEVELOPMENT OF EXPORT POTENTIAL OF UKRAINE

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### Havrylchenko O. V. The Modern Methods and Instruments of Financing the Development of Export Potential of Ukraine

The article is aimed at studying the modern effective instruments of export financing, determining the possibilities of their use by Ukrainian enterprises in order to increase their competitiveness in the world market. According to the results of theoretical researches the basic methods of financing of exports in the context of short-term, medium and long-term financing are generalized. The analysis and assessment of the export potential of Ukraine were carried out on the basis of the World Bank data. The author considers activity of the Export-credit agency, opportunities for Ukrainian exporters to use such export financing instruments as letter of credit, factoring, «green basket» method. The main problems of the current Ukrainian exports development are determined. The necessity of creation of the institutional basis for implementation of the State support for introduction of financial instruments of export development is substantiated that will ensure further development, increase and build-up of national economic potential in both traditional and new sales markets.

**Keywords:** financial instruments, financial potential, letter of credit, factoring, «green basket» method, Export-credit agency.

**Fig.:** 5. **Bibl.:** 13.

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### Гаврильченко О. В. Сучасні методи та інструменти фінансування розвитку експортного потенціалу України

Мета статті полягає у вивченні сучасних дієвих інструментів фінансування експорту та визначенні можливостей їх використання українськими підприємствами з метою підвищення їх конкурентоспроможності на світовому ринку. За результатами теоретичних досліджень узагальнено основні методи фінансування експорту в розрізі короткострокового, середньострокового та довгострокового видів фінансування. На підставі даних Світового банку проведено аналіз та оцінку експортного потенціалу України. Розглянуто діяльність Експортно-кредитного агентства; можливості використання українськими експортерами таких інструментів фінансування експорту, як акредитив, факторинг, метод «зеленої корзини». Визначено основні проблемами розвитку сучасного українського експорту. Обґрунтовано необхідність створення інституційної основи для запровадження державної підтримки запровадження фінансових інструментів розвитку експорту, що забезпечить подальший розвиток і нарощування вітчизняного економічного потенціалу та закріплення на традиційних і нових ринках збуту.

**Ключові слова:** фінансові інструменти, фінансовий потенціал, акредитив, факторинг, метод «зеленої корзини», Експортно-кредитне агентство.

**Рис.:** 5. **Бібл.:** 13.

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### Гаврильченко Е. В. Современные методы и инструменты финансирования развития экспортного потенциала Украины

Цель статьи заключается в изучении современных действенных инструментов финансирования экспорта и определении возможностей их использования украинскими предприятиями с целью повышения их конкурентоспособности на мировом рынке. По результатам теоретических исследований обобщены основные методы финансирования экспорта в разрезе краткосрочного, среднесрочного и долгосрочного видов финансирования. На основании данных Всемирного банка проведены анализ и оценка экспортного потенциала Украины. Рассмотрена деятельность Экспортно-кредитного агентства; возможности использования украинскими экспортерами таких инструментов финансирования экспорта, как акредитив, факторинг, метод «зеленой корзины». Определены основные проблемы развития современного украинского экспорта. Обоснована необходимость создания институциональной основы для внедрения государственной поддержки внедрения финансовых инструментов развития экспорта, что обеспечит дальнейшее развитие и наращивание отечественного экономического потенциала и закрещения на традиционных и новых рынках сбыта.

**Ключевые слова:** финансовые инструменты, финансовый потенциал, акредитив, факторинг, метод «зеленой корзины», Экспортно-кредитное агентство.

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Ukraine has always had a high export potential, the full realization of which requires a comprehensive study and implementation of modern financial instruments of export promotion. The use of effective methods of export financing is the key to a successful entry of Ukraine into the world system of economic relations.

Such foreign and domestic economists as D. Hoppen, J. Engelhard, D. Ernst, D. Lefevre, Yu. Verlanov, O. Derevianko, L. Kutidze, M. Zhuk, B. Kalashnykov, I. Tyvonchuk, and others made a great contribution to studying issues of export financing. However, given the trends in world trade, mechanisms and instruments of export financing do not remain unchanged and are constantly being improved with regard to market self-regulation, which necessitates further research in this direction.

The aim of the article is to consider modern, efficient export financing instruments, determine the possibilities for their use by Ukrainian enterprises for the purpose of increasing their competitiveness in the global market.

In recent years, positive trends in the development of Ukrainian exports have been observed. According to the National Bank of Ukraine, in January-August 2018, the volume of exports grew by 11.6% compared with the corresponding period last year (to USD 28.2 billion) [1]. The growth rates of Ukrainian exports in the context of countries-exporters are presented in Fig. 1.

During the period under study, exports to the EU countries increased the most (by USD 1.6 billion or by 17.7%). Moreover, exports to Asian countries grew by USD 842 million (by 10.4%). However, there is a drop in exports to Russia – by USD 206 million (by 9.1%) [1].

Ukraine has always had a high export potential, the development of which is associated with implementing modern methods and instruments of export financing in domestic practice.

The carried out analysis of economic literature allows to identify financial and functional methods of export promotion (Fig. 2) [2; 3, p. 56].

Taking into account the mechanism of implementing financial methods, in view of their semantic content they should be considered financial ones. As regards functional methods, it is worth noting that they are implemented upon condition of state support and applied to enterprises that are characterized by an underdeveloped infrastructure, but have the potential and ability to export.

In the practice of industrialized countries of the world, an export promotion policy is formed on the basis of financial methods, which necessitates their detailed study.

Export financing can be carried out by conventional and non-conventional methods and provided by banks, non-banking institutions or government organizations. Different methods of export financing are presented in Fig. 3 [2–5].

According to the World Bank's Special Focus Note on international trade, Ukraine has tremendous potential to boost exports of higher-value added products, but this potential has not yet been realized [6].

Ukraine has a strategically important geographical location at the crossroads between Europe and Asia, the largest areas of fertile agricultural land in Europe, large population with high level of education. In 2015 it signed the Association Agreement with the EU, which provides for the creation of the Deep and Comprehensive Free Trade Area (DCFTA). These resources open up tremendous opportunities for Ukraine to increase the export volumes of various higher-value added products.

International practice has shown that in order to maintain high rates of economic growth over a long period, it is necessary to ensure a rapid development of sectors producing higher-value added goods and services.

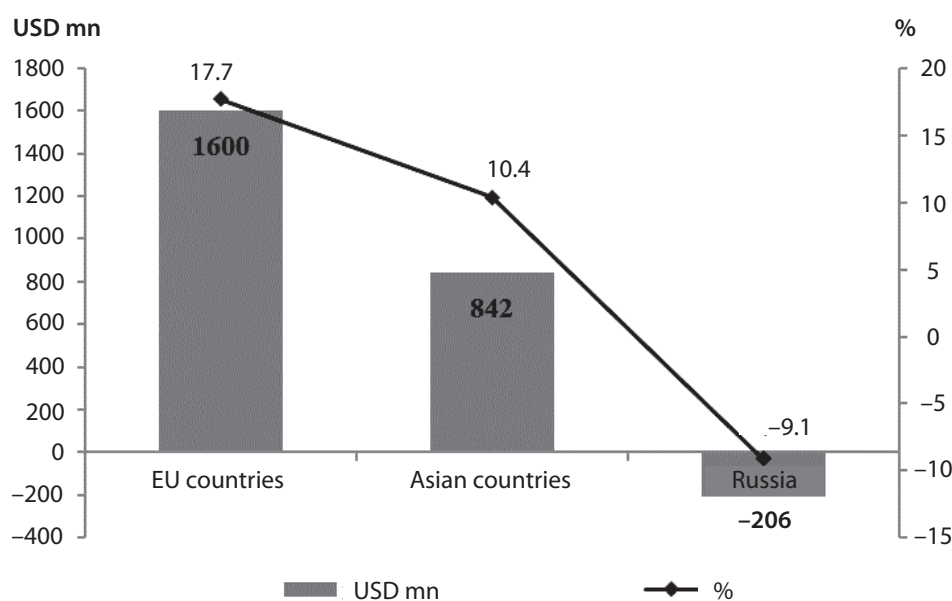
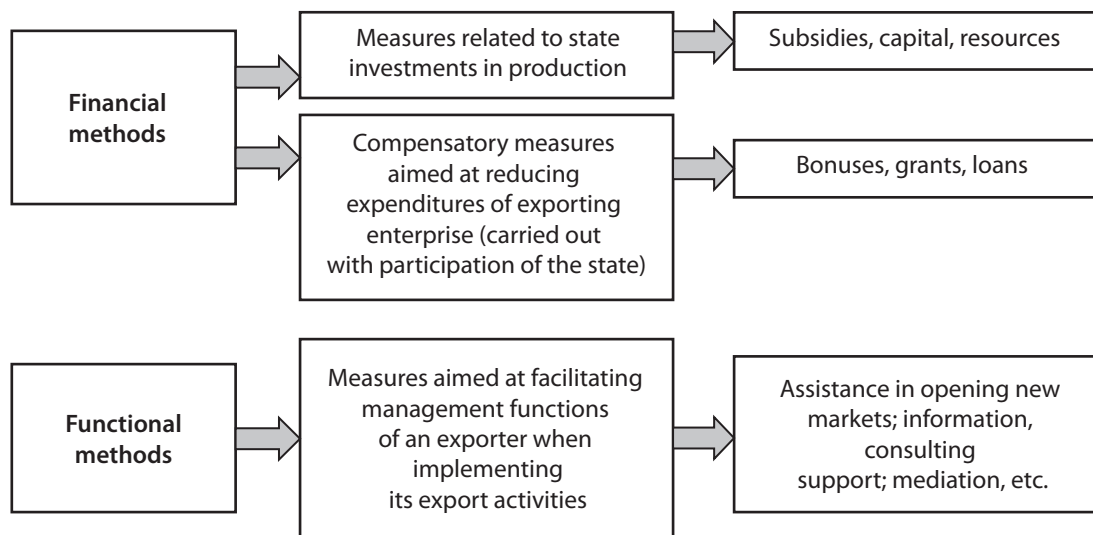
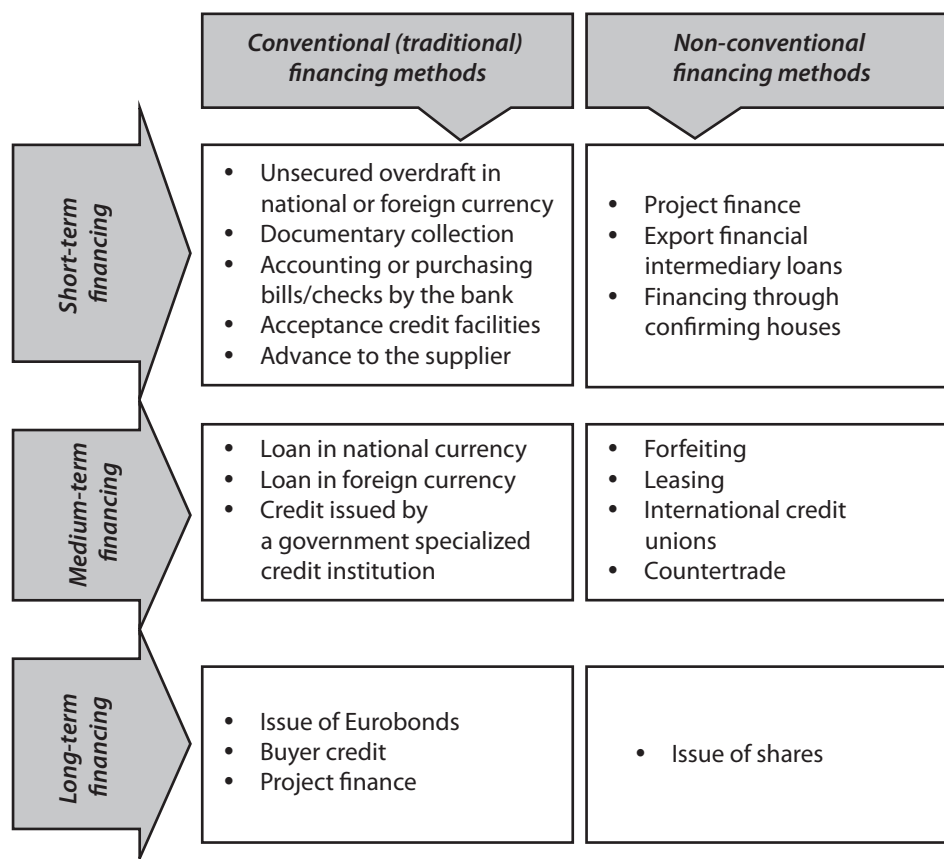


Fig. 1. Growth rates of Ukrainian exports in the context of countries-exporters, in nominal terms (January – August 2018)



**Fig. 2. Financial and functional methods of export promotion**

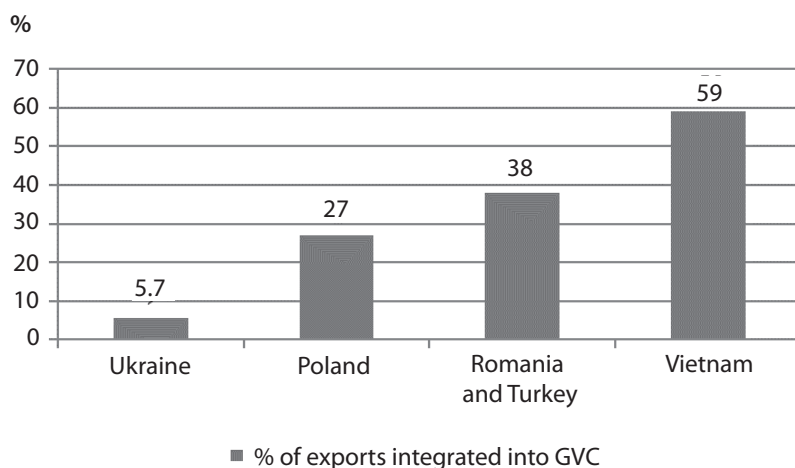


**Fig. 3. Basic methods of export financing**

However, over the past decade, Ukraine's share in world exports has slightly decreased: from 0.35 % in 2008 and 0.34% in 2013 to 0.28% in 2017. In the same year the total cost of goods and services exported from Ukraine amounted to 48% of GDP, but benefits associated with trade openness, in particular, the spillover of technology and knowledge, are still very limited [6]. Despite the re-orientation of Ukraine's trade from the CIS countries to the rest of the global market, a high level of concentration of metal or agricultural products remains in the struc-

ture of the export market of the country. In 2017 iron and steel products – cast iron and steel – dominated the exports from Ukraine, as they accounted for 20% of the total exports; the second place was taken by grain, which accounted for 15% of the total exports.

The structure of exports from Ukraine is dominated by metals and grain, while the share of exports integrated into global value chains (GVC) remains low, at 5.7%, compared with 27% in Poland, 38% in Romania and Turkey and 59% in Vietnam [6] (Fig. 4).



**Fig. 4. Share of exports integrated into global value chains in the overall structure of exports**

The increase in exports with more value added and exports integrated into the GVC will contribute to the realization of all advantages of Ukraine from its participation in the free trade area with the EU. Ukraine demonstrated the presence of a corresponding hidden potential when the export volumes of automotive ignition cables increased from USD 21 million in 2000 to USD 1217 million last year, which has brought them to one of the top places among the products exported from Ukraine in terms of growth rates [7].

In order to facilitate the transition of Ukraine from export of raw material to export of goods and services with value added, in accordance with Articles 2 and 5 of the Law of Ukraine on Provision of Extensive Expansion of Export of Goods (Works, Services) Originated from Ukraine by Means of Insuring, Guaranteeing and Reducing the Cost of Lending, the Cabinet of Ministers of Ukraine, at the initiative of the Ministry of Economic Development, decided to establish the Export Credit Agency and approved its constituent documents.

According to the First Vice Prime Minister of Ukraine Stepan Kubiv, the Export Credit Agency will provide insurance, reinsurance and grant guarantees under contracts that ensure the development of exports; participate in the implementation of programs of partial compensation of the interest rate on export loans and provide advice to exporters [8].

The creation of the Export Credit Agency is a consistent step to launch a system of state support and promote Ukrainian exporters, which will protect Ukrainian exporters from risks related to non-payment, financial losses, and funding.

One of the ways of export financing is international marketing within the boundaries of a country with the focus on individual industries – the World Trade Organization's (WTO) Green Box. This organization restricts agricultural policies of its members by distributing various activities in three "boxes": the Amber, Green, and Blue one. This is a special program that would represent

a country at international platforms. There is such a program in Ukraine, however, these are only first steps, and so far it is not perfect.

The Amber Box measures are associated with an increase in production volumes and are a subject for tough negotiations with the WTO. These are various kinds of benefits, subsidies, interventions, etc.

The Blue Box presents restrictions of agricultural activity (for example, subsidies for farmers to reduce milk production) [9].

The Green Box measures do not directly affect increase or decrease in production and trade. These include the development of veterinary medicine, construction of infrastructure, etc. Measures of this category are allowed in the framework of the WTO (of course, provided that the country proves that these or other actions have no direct effect on exports and production) [9].

The Green Box method can be considered as indirect export financing. In case of promoting the development of this direction by the state, exporting enterprises will be able to save money on cultivating their image abroad, since the task has already been performed by its sales representatives.

Effective instruments for export financing are documentary credits and factoring.

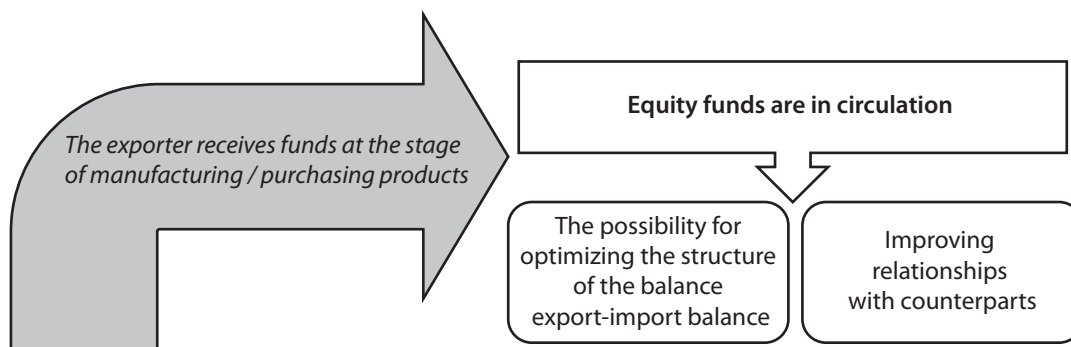
An export documentary credit is a documentary credit opened by a foreign issuing bank in favor of a beneficiary located in the territory of Ukraine [10].

Today in Ukraine there is a banking practice of financing customers' export contracts, the form of payment by which is an irrevocable documentary credit. In particular, the services of pre- and post-export financing are provided by JSC "UkrSotsbank", as evidenced by the data on its official website [11].

Pre-export financing is provided to a client-exporter either in the form of a loan for the production or purchase of goods to be exported or release by order of the exporter of uncovered instruments (documentary credit, guarantee). The form of payment under an export



contract, as a rule, should be an irrevocable documentary credit opened in favor of the Ukrainian exporter and confirmed by the bank [11]. The main advantages of pre-export financing can be displayed schematically as follows (Fig. 5).



**Fig. 5. Advantages of pre-export financing of exporting enterprises**

Post-export financing is provided in the form of payment by Ukrspotsbank for documents under an export documentary credit with the payment deferred until the maturity of the documentary credit. The foreign bank issuing the documentary credit makes the payment under the documentary credit within the period specified by the conditions of the documentary credit. The form of payment under the export contract must be an irrevocable documentary credit with deferred payment option, opened in favor of the Ukrainian exporter and confirmed by Ukrspotsbank [11].

In general, an export documentary credit provides significant advantages to exporters. First, it is an opportunity to improve their financial status due to the accelerated turnover of funds. Secondly, granting deferred payment to customers provides exporters a competitive edge and contributes to increase in the number of their foreign counterparts.

The services of issuing an export documentary credit today are provided by a restricted number of Ukrainian banks, which explains the small number of exporting enterprises that use this financial instrument.

Another obstacle to using an export documentary credit is the “crooked” structure of domestic business units, formed due to their attempts to escape from high taxes by entangling the structure of income and foreign economic operations in the groups of limited liability companies and private enterprises.

Export factoring is advance of funds to exporting manufacturers by a factoring company (commercial banks and their subsidiary factoring companies or branches) against future export earnings with the simultaneous provision of guarantees of currency and credit risks [12]. Under the export transaction, the seller has the right to demand from the buyer payment of a certain amount specified in the contract. But they can sell this right to a factoring company, for example, 70% of the

debt. Thus, the exporter receives cash immediately, and the importer can make the payment within a specified period [9].

The main obstacle to the use of factoring is the reluctance of Ukrainian exporters to prepare their reports

in accordance with international standards and submit them for analysis. As in the case of export documentary credit, a small number of exporting enterprises use this service.

Ukraine also needs an efficient and competitive logistics system, which will contribute to export promotion and the integration of the country into the global economy. This requires improving management and administration of public property, more efficient use of the potential of river transport, reforming the rail transportation system, and solving problems associated with inefficient use of storage facilities [13].

At present, such a system does not exist. The volume of freight transport relative to GDP in Ukraine is significantly higher than that in other European countries due to its low population density, geographical features, and production structure (dominated by products of the metallurgical industry, heavy industry, and agriculture). For example, a high level of logistic costs on grain export is explained by the incomplete use of the potential of river transport, inefficient rail transportation, large share of road transport, deficiencies of storage facilities and a high level of port charges. The problems of Ukraine in the field of logistics are reflected in its low ranking in the Logistics Indicators Index. The key factors that dictate a high level of logistics costs include:

- ✦ lack of transparency in regulation of state property and its non-optimal management, which creates obstacles to private investment;
- ✦ incomplete use of the potential of river transport;
- ✦ insufficient investment in rail transport;
- ✦ inefficient warehouse management;
- ✦ excessive use of road transport.

## CONCLUSIONS

In general, despite certain state efforts aimed at export promotion (in particular, the creation of the Export

Credit Agency), the problems of modern development of Ukrainian exports remain unresolved. The creation of conditions for introducing effective methods and instruments of export financing (export documentary credits, factoring, the Green Box method) in domestic practice and expanding the possibilities of their using will allow reducing the cost of export commodities, increasing their competitiveness in the world market, and contribute to the development of Ukraine's export potential. ■

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