

Creation of ECA in the Republic of Uzbekistan: Opportunities and Benefits

Timur Rakhimov

General Manager, Export Risks Insurance Department, Uzbekinvest EIIC JSC, Tashkent,
Uzbekistan, rakhimov.timur@uzbekinvest.uz

Annotation: This article analyzes international experience of export credit insurance development and uncover opportunities and benefits of export credit agency (ECA)'s creation in Uzbekistan. Object of research is the international system of state stimulation of foreign economic activities via export credit insurance schemes and their implementation in the Republic of Uzbekistan. Conclusion includes economic benefits of ECA creation, its promotional effect in development of export-oriented enterprises' foreign economic activities and growth of the national export of the republic as a whole.

Key words: export insurance, export credit agency (ECA), export finance, system of state foreign economic activities stimulation.



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Introduction

Broadening of economic freedoms for legal entities and entrepreneurs in all economic spheres, foreign economic activity stimulation and export potential realization are one of the essential conditions for economic development in any developing country.

Expansion of the export potential of legal entities, including medium and small enterprises, as well as improvement of national enterprises' competitiveness in the foreign markets are one of the most priority directions of present economic policy of the Republic of Uzbekistan. But practical realization of this direction is held back by a number of problems one of which is limited use of existing world practice sources, tools and schemes of export insurance as well as lack of specialized institutes (ECAs) aimed at their realization.

In present conditions, when we see the trend of competition getting tougher in the foreign import markets the key factor in provision of efficient export promotion becomes flexible and reasonable legal acts and creation of new financial structures serving as the guarantor under export operations. All this makes it necessary to implement a whole range of measures intended to promote national exporters of capital, goods and services, to develop export finance and to provide reliable extra guarantees.

Principles of export insurance and finance development

Export is considered as one of the leading factors of any country's economic development. Its development as well as the support of export-oriented production are one of the basic elements of economic development models of many countries owing to which most of them have reached high level of economic development though possessing limited natural resources.

Frequently, when exporting goods and services abroad exporters face the problems with payment for their goods in part of their timely and guaranteed fulfillment. Any exporter is interested in prompt payment (or prepayment) for shipped export goods bearing the least risk. This factor is of particular importance for small and private entrepreneurs for whom running working capital represents survival element in competing environment.

There is a number of tools in international trade allowing to efficiently decide such issues for enterprises, exporters and importers by risk minimization or allocation and short-term financing of the parties including implementation and use of export finance tools. Direct supplier's credit, guarantees, factoring and insurance may be considered among the most commonly used export finance tools.

Availability of export finance and insurance tools is of great importance for small and private enterprises who are willing to enter overseas markets but do not have adequate reputation abroad and enough facilities for independent financing or credit attraction for exporting their products. On the other side, export insurance and finance system shall substantially facilitate realization of objectives of expanding high value added goods export.

Insurance of export contracts concluded with foreign partners allows exporters and their banks to take the risks related to foreign trade, preventing possible catastrophic losses and providing more favorable schemes and payment terms for the buyer. Also, export contract insurance helps in obtaining access to bank financing and allows to avoid such negative factors as non-fulfillment of payment obligations, bankruptcy, refusal to accept shipped goods and lack of foreign exchange.

The key institutional element of the exporter's financial support mechanism are export credit agencies or export-import banks (or other institutions or structures carrying out ECA or eximbank functions) working as state credit organizations. ECA might use benefits arising from application of national and special regulating provisions on insurance and finance of the exporters or export product buyers directly or via commercial banks, reasonable external risks distribution and growth of exporter's competitiveness.

The state has always actively supported the foreign economic expansion of the national companies. Since export credit is one of the important factors in increasing the competitiveness of national producers of goods and services abroad, the state takes significant part in its stimulation. State stimulation of the national exports, considering the specifics of export lending operations, from the very beginning was carried out in two main forms:

- in the form of direct financial support for export, expressed in direct provision of export credits at the expense of the state budget, or the provision of subsidies to commercial banks to reduce export credit rates to a level lower than the level of national market rates;
- in the form of providing guarantees for export credits to exporters and banks, i.e. insurance of these risks by the state against the default risk.

In this regard, export credit insurance is carried out, as a rule, by the specialized institutions and companies, which are usually owned by the state or in which the state has a control share, which makes it possible to cover losses from insurance operations at the state budget expense. Such organizations are called export credit agencies (ECAs). Thus, indirect state subsidizing of exports is carried out. ECAs play a major role in world trade. The export credit guarantees they offer

lower the risk of private lending. ECAs are therefore becoming leading players in international project financing and exports. ECAs such as Ex-Im Bank help fill the funding gap that private-sector lenders create with their inability or unwillingness to provide financing. They help all products and services compete on a global scale.

At present, all developed countries have state credit risk insurance companies, many of which have export credit insurance systems. These are UK Export Finance in the UK, US Export-Import Bank, SACE in Italy, EDC in Canada, NEXI in Japan, SINOSURE in China, Ksure in Korea and many others. Developing countries have also understood the importance of this way of stimulating exports and have export credit agencies that are fully supported by the state.

According to the Berne Union, which brings together state-supported export credit and investment insurers, its members annually provide insurance for approximately 13% of the value of total global cross-border trade worth of USD 2.5 trillion¹. The role and support of exporters by the ECA has especially increased during COVID-19 pandemic, when supply chains have disrupted, borders have been closed and companies around the world have reduced or stopped their activities.

Taking into account the importance of increasing the volume of goods and services export into the foreign markets as well as the role of export credit insurance in efficient foreign trade promotion, there is a need for state support for export insurance development in the Republic of Uzbekistan, creation of specialized export credit agency defining its main strategic activity directions as provision of guarantee and insurance cover for the national exporters and commercial banks participating in export finance.

Problems in export insurance field

The principal issue when offering export contract insurance products is reluctance of the exporters to sell on trade credit terms as a result of the following reasons:

- a) convenience of trade on prepayment or letter of credit terms without concerns of nonpayment possibility under the contract;
- b) lack of working capital due to which it is more profitable for the exporters to trade on prepayment terms which finances operating expenses for export production;
- c) existence of penalty provisions which are imposed in case of the currency non-receipt under the contract do punish the exporter by 100 percent from the amount due.

The working capital shortage by exporting enterprises could be solved by the use of mechanisms of export contracts factoring or working capital pre-export finance by the commercial banks secured by the insurance company's policy.

Commercial banks do not want to provide factoring or working capital pre-shipment finance to exporters under the export contract stipulating for trade credit terms even secured by the insurance policy. Commercial banks prefer to accept for security only collateral, third parties' warranties and insurance policy against the borrower's non-payment of the credit. Moreover, banks do not have a practice of financing foreign enterprises- buyers of Uzbek export products - as a result of their conservative credit policy and lack of experience in carrying out such operations.

Solutions and export insurance further development

A breakthrough in the development of export-oriented production in Uzbekistan could be the creation of a state system for export credit insurance. In Uzbekistan, the functions specific to ECA are currently carried out by Uzbekinvest EIIC JSC.

¹ <https://www.berneunion.org/>

In order to drastically increase the volume of exports of goods and services, expand the range of export-oriented products and increase foreign exchange earnings, a National Export Support System was created in 2018 coordinated by the Ministry of Investments, Industry and Foreign Trade of the Republic of Uzbekistan². Uzbekinvest Export-Import Insurance Company was entrusted with the function of insuring export credits and operations.

One of the main tasks of the National Export Support System is "the introduction of mechanisms for pre-export and export financing, insurance of export credits and risks, taking into account the experience of foreign countries that have successfully introduced modern mechanisms for financial support and insurance of domestic exports."

State support comes into force only if the total amount of insurance indemnity under all export contracts and loans insurance agreements for the financial year exceeds 10 percent of equity of Uzbekinvest EIIC JSC. The company's losses in the amount exceeding 10 percent of its equity are compensated at the expense of the State Budget of the Republic of Uzbekistan by increasing its authorized capital. Thus, Uzbekinvest insures foreign trade contracts against political and commercial risks on the commercial basis, which limits the scope and sphere of insurance mechanisms application.

In this regard, it is necessary to adopt separate Law "On Export Credit Insurance" which will define the body authorized to provide insurance protection to the national exporters on behalf and under the 100% guarantee of the government of Uzbekistan (ECA) and stipulate for the order of insurance at the state budget expense. ECAs usually belong to the state or state has control shareholding which allows covering the losses from insurance operations from the state budget.

State will take active part in regulation of the agency's activities including regulation of insurance rates: set own tariffs and terms for insurance of shipments and financing of the goods of certain industry into certain country. Such practice gives an opportunity for soft regulation of export flows without excessive administrative pressure on the agency and national producers.

Conclusion

In Uzbekistan, ECA functions are carried out by different bodies: Ministry of Finance issues sovereign guarantees, Uzbekinvest insures foreign trade contracts against political and commercial risks, some commercial banks provide export credits (National Bank of Uzbekistan, Asaka Bank, Uzpromstroybank, and other commercial banks).

Benefits of establishing specialized ECA in Uzbekistan as well as introduction of state backed export finance and insurance schemes are as follows:

- Saving time for payment receipt for the shipped goods or provided services and redirecting these amounts into production of new goods (along with deciding the problem of export proceeds receipt in set deadline);
- expansion of goods and services export produced by the national exporters, increase of small and private enterprises' share in the country's foreign trade activities;
- increase of attractiveness and competitiveness of the national producers for importers as a result of the possibility to trade on credit terms and favorable credits for Uzbek goods purchase;
- lowering the payment risks by the importers since the risks related to payment are taken by ECA;
- access to ECA's information and expertise;

² <https://lex.uz/ru/docs/4116009>

- access to credit for production of the export-oriented products – pre-shipment financing and factoring;
- support of large state projects;
- formation of zero reserves by banks for financing provided to exporters since ECAs policies are considered as the state guarantee by the Central Bank.

Creation of ECA will allow to increase volumes and types of exported goods and services and raise the share of ready goods in country's export and by this way creating new workplaces, surging incomes and as a result of this rising population welfare in Uzbekistan through development of new methods and tools of export finance as well as institutional basis for foreign trade support.

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