Exportní financování jako klíčový faktor v mezinárodním stavebnictví

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Abstrakt

Situace ve stavebnictví v České republice, stejně jako v dalších evropských zemích, je silně ovlivněna současnými ekonomickými podmínkami a důsledky evropské dluhové krize. Odkládání investic a zavádění úsporných opatření má negativní dopad na celkovou stavební produkci, některé západní země již navíc dosáhly uspokojivého stavu veřejné infrastruktury se snižujícím potenciálem pro další růst.

Ekonomiky východních zemí však nadále zůstávají podinvestovány, zejména výstavba veřejné infrastruktury tak představuje velký potenciál pro zkušené české stavební firmy, které drží potřebné know-how a technologie. Aby tyto společnosti uspěly v mezinárodním konkurenčním prostředí, jsou exportéři nuceni přicházet s řešeními šitými na míru s vysokou přidanou hodnotou. Dodávka projektů a stavebních celků včetně projektového financování se ukazuje jako klíčový faktor úspěchu v mezinárodních tendrech. Díky vládnímu programu na podporu a financování exportu, je zde několik domácích firem, které působí na východních trzích a úspěšně si počínají ve vysoce konkurenčním mezinárodním prostředí. Cílem této práce je vyvinout tzv. „best practice'' model exportního financování v mezinárodním stavebnictví.

Export financing as a key driver in international construction

Abstract

Construction market situation in the Czech Republic, as well as in other European countries, is strongly affected by current economic conditions and consequences of European debt crises. Limited investments and cost cutting tendencies have a negative impact on overall production of domestic construction; moreover some of the western countries have already reached satisfactory level of infrastructure development with lowering potential for further growth.

The markets of eastern Europe are suffering from neglected public infrastructure and thus represent a huge potential for experienced Czech firms which are possessing necessary know-how and technologies. In order to withstand the pressure resulting from increasing market competition, exporting firms are forced to come out with tailor made solutions and high level of value-added. Delivering project construction together with secured project financing proved to be the key success factor in East-European environment. Due to the government export financing program, there are several firms which have been active in these prospective eastern markets and succeeded at highly competitive international bids. The aim of this research is to work out a best practice model of export financing in international construction. As a research methodology case study method was selected.

Market situation

European Union

Latest development in construction sector forces construction firms to search for new ways and strategic alternatives in order to sustain their annual turnover, production capacities and specialization. Domestic construction production index (see Figure 1 bellow) demonstrates continuing poor market conditions without significant signs of recovery with slightly negative outlook. The sector production in 2012 came bellow the performance of 2005. Due to plunging domestic economy reporting minor GDP growth, cost cutting attitude of the Czech government and shortage of stimulating factors, there is a high level of uncertainty about further development within of construction sector.

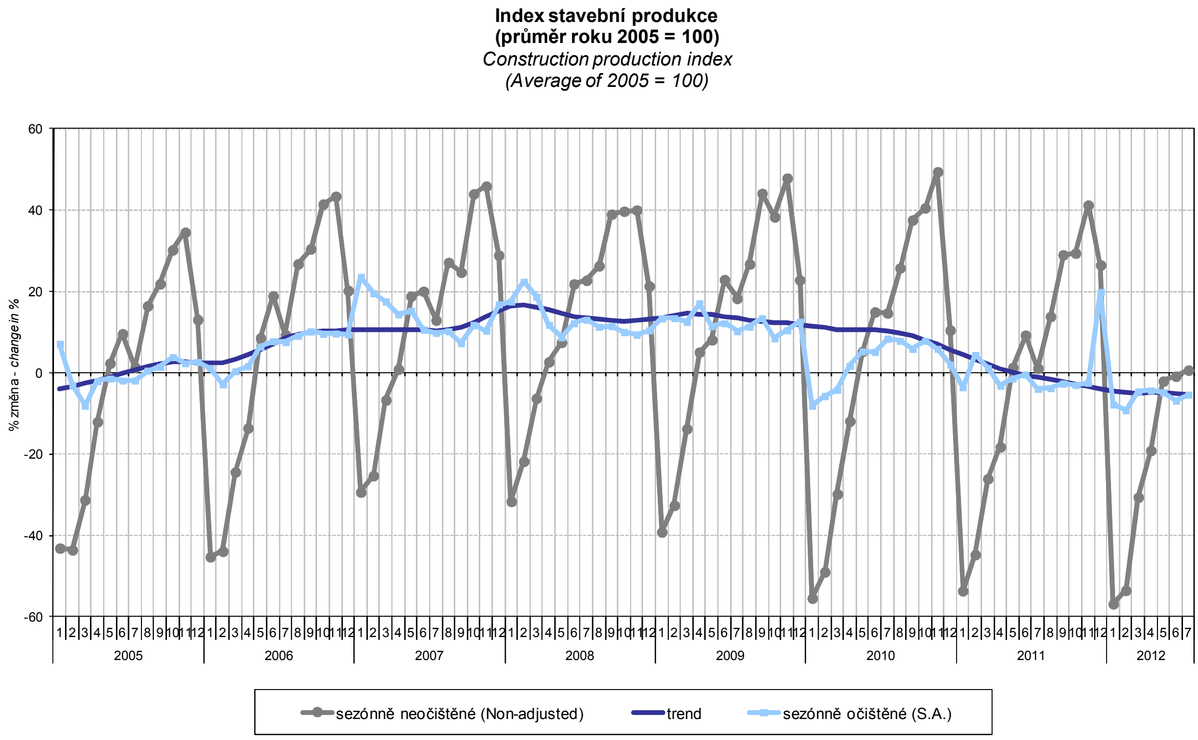

Figure 1. Czech construction production index 2005- 2012, Source: Czech Statistical office

In reaction to economic situation in the region of European Union with negative impact on overall construction sector domestic engineering firms should focus their activities and look for new opportunities in eastern markets. Based on historical connections and market knowledge, negligible language and cultural barriers, do the Czech firms have excellent reputation on the market of Russian Federation. Russia continuously reports steady economic growth represented by GDP index (see Figure 2. bellow). As of 2010 the country overcome GDP of year 2000 by 60 %, while EU average remains on the level of 115 % its 2000 GDP performance.

EU countries are suffering from current debt crises, subsidizing national deficits of PIIGS countries whereas Russian federation massively invests into neglected public infrastructure, in particular into strategic sectors of transportation, power engineering and mining. These are the sectors where the Czech engineering firms have traditionally held unique technological know-how. In addition to that, they have necessary experience and large numbers of reference projects ranging from ordinary construction works to deliveries of extensive technological units.

Russian Federation

The Russian federation has a strong and emerging market offering an extensive potential, promising high returns on investments, but also considerable risks and obstacles. After the political situation was stabilized and legal environment partially improved, foreign investors started to enter and invest in the Russian market. The Russian federation has attained political and economic stability. The country is set to experience another years of rapid economic growth on the back of high energy prices, foreign investments and increasing domestic demand. Russian's focus is now on using the oil windfall to build and modernize infrastructure and create an environment conducive to business.

Apart from that, the overall environment remains risky, containing lots of barriers to entry. Project financing, legislation and corruption still remain substantial problems. Despite the world trend, interest rates of investment loans remain high; there is a lack of financial institutions willing to provide capital coverage even for domestic projects. Such a situation is challenging for those engineering firms securing project deliveries as well as project financing, which can result into competitive advantage for the Czech contractors due to which they can penetrate to eastern emerging markets.

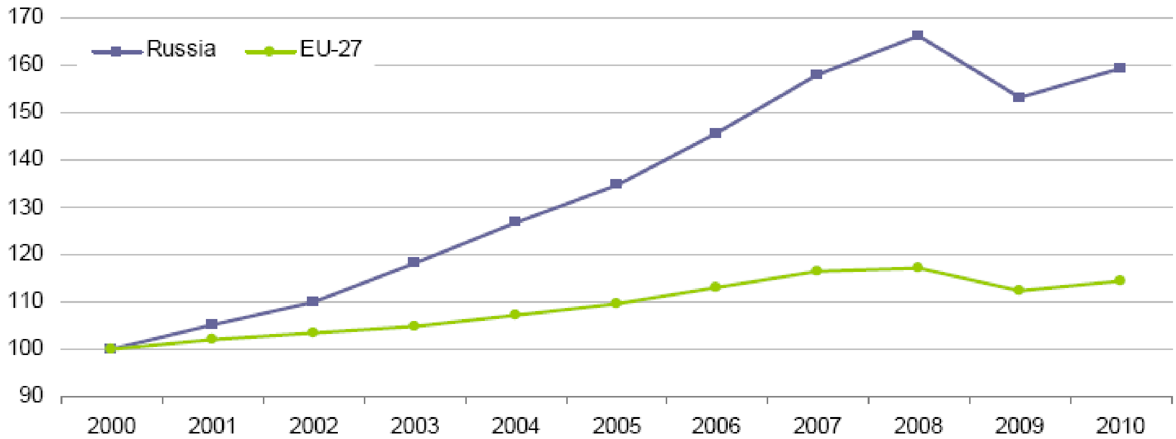

Figure 2: GDP indexed development 2000-2010 (2000=100), Source: Eurostat

CEB - Government Export Credit Agency

National export credit programs are offered by the governments of most industrial nations as a means of facilitating exports and stimulating their own national economies. The official domestic agency is the Czech Export Bank (hereinafter only "CEB")

CEB is a specialized state owned banking institution for the state support of export. It was set up in 1995 and is one of the main pillars of the government's pro-export oriented policy. The objective of CEB is to provide state support for exports through the provision and financing of export credits and other services connected with exporting. CEB thus supplements the services offered by the domestic banking system by financing export operations that require long-term financing at interest rates and in volumes that are not available to exporters on the banking market under the current domestic conditions. CEB primarily supports projects linked to countries with high territorial risk with high demand for Czech products or services. Export financing credits with maturities exceeding 2 years are preferred. This allows Czech exporters to compete on international markets under conditions comparable to those enjoyed by their main foreign competitors.

The recipient of supported financing may be an exporter (i.e. a legal entity with registered offices in the Czech Republic, or in exceptional cases a natural person with permanent residency in the Czech Republic), or their foreign customer.

EGAP – Credit insurance company

EGAP is a credit insurance corporation insuring credits connected with exports of goods and services from the Czech Republic against political and commercial risks uninsurable by commercial insurance. EGAP insures in particular bank loans due in over 2 years, intended to finance export of energy, machinery and technological systems, investment projects, transport constructions, usually to countries where political, economic and legal environment increases the risk of default. Company complements the range of commercial credit insurance products and fills the gap on the market. EGAP acts as a standard export credit insurance company in the role of a government tool to support national exports. The corporation provides insurance services to all exporters of Czech goods, services and investments, irrespective of their size, legal form and volume of insured exports. EGAP was found in 1992 as a joint stock company fully owned by the state.

Case studies

For this academic research appropriate case studies related to export financing were selected

Case study 1

Project:	Combined cycle power plant 60 MW, Krasavino (see Figure 7.)
Territory:	Russian Federation
Contract price:	EUR 78 810 000

Exporter:	PSG International, a.s.
Importer:	GEP Vologdaoblkommunenergo (recipient of credit)
Financing bank:	Czech Export Bank a.s.
Insurance company:	EGAP
Importer's bank:	Vneshtorgbank
Term of delivery:	2006 – 2010 (full operation)

<u>Structure of financing:</u>

Exporting buyer's credit:	EUR 66 988 500 (85 % of contract volume)
Tenor:	12 years (10+2)
Advance payment credit:	EUR 9 457 200 (12% of contract volume)
Tenor:	2 years

Characteristics of financing: Buyer's credit with signs of project financing – the whole project is assessed and evaluated according to the risk related to importer itself, not the stand alone project only.

Case study 1. -Export financing model:

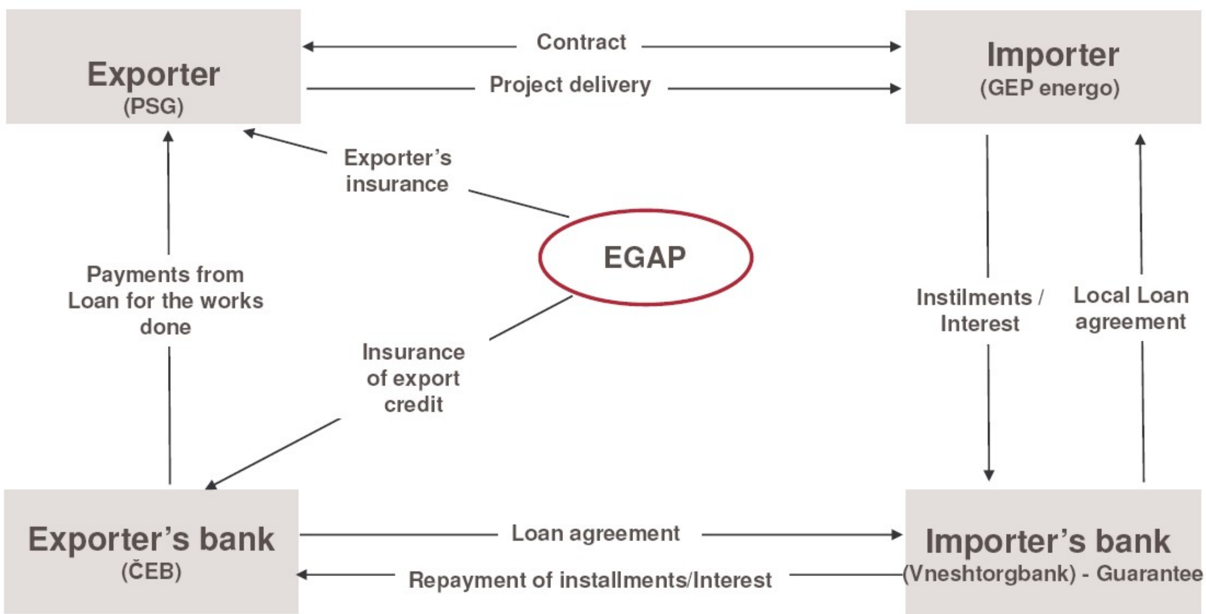

Figure 4. Inter- banking Buyer's Credit with EGAP insurance

Case study 2

Project: Combined cycle power plant – Kurganskaja TEC 229,5 MW (see Figure 8.)

Territory: Russian Federation

Contract price: EUR 241 059 000

Exporter: PSG International, a.s.
Importer: Kurganskaja TEC, Russian Federation (recipient of credit)
Insurance company: EGAP
Financing bank: Czech Export Bank a.s. + Raiffeisenbank a.s.
Term of delivery: 2009 – 2011 (full operation as of 11/2011)

<u>Structure of financing:</u>
Exporting buyer's credit: EUR 204 900 000 (85 % of contract volume)
(there of EUR 50 Mil. from Raiffeisenbank)
Drawing period: 38 months
Tenor: 144 months incl. 6 months grace period

Advance payment credit: EUR 9 457 200 (12%)
Tenor: 2 years

Characteristics of export financing: Buyer's credit with signs of project financing – the whole project is assessed and evaluated according to the risk related to importer itself, not the stand alone project only.

Case study 2 - Export financing model:

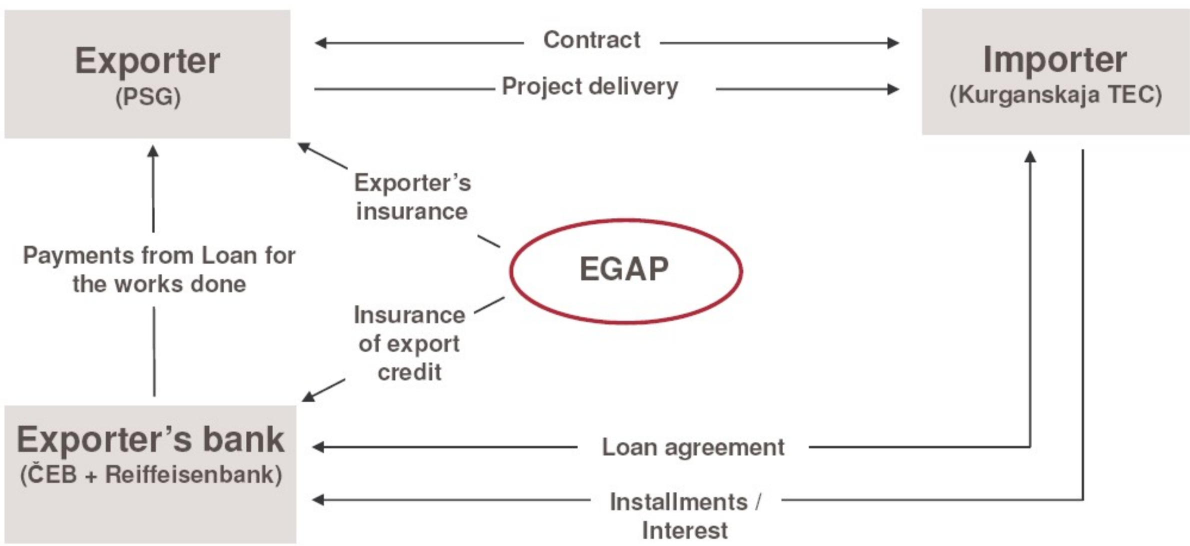

Figure 5. Buyer's credit with EGAP insurance

Case study 3

Project: Construction and delivery of mining hoist machinery – LLC EuroChem – Volgakaliy (see Figure 9.)

Territory: Russian Federation, Volgograd Region

Contract price: EUR 38 603 000

Exporter: I N C O engineering, s. r. o.

Importer: EuroChem-Volgakaliy, Limited Liability Company (recipient of credit)

Insurance company: EGAP
Financing bank: ING Bank N.V (50 %); Commerzbank AG (50 %)
Importer's bank: Sberbank
Term of delivery: 2010 – 2013

<u>Structure of financing:</u>
Exporting buyer's credit: EUR 36 719 505 EUR
Consisting of EUR 32 812 550 (85 % of contract volume) + Insurance fee of 3 906 955 EUR

Drawing time: 08/2010 – 02/2013
Tenor: 10 years
Payback frequency: 20 semi-annual installments (08/2013 – 02/2023)

Characteristics of financing: Buyer's credit with signs of project financing – the whole project is assessed and evaluated according to the risk related to importer itself, not the stand alone project only.

Case study 3 - Export financing model:

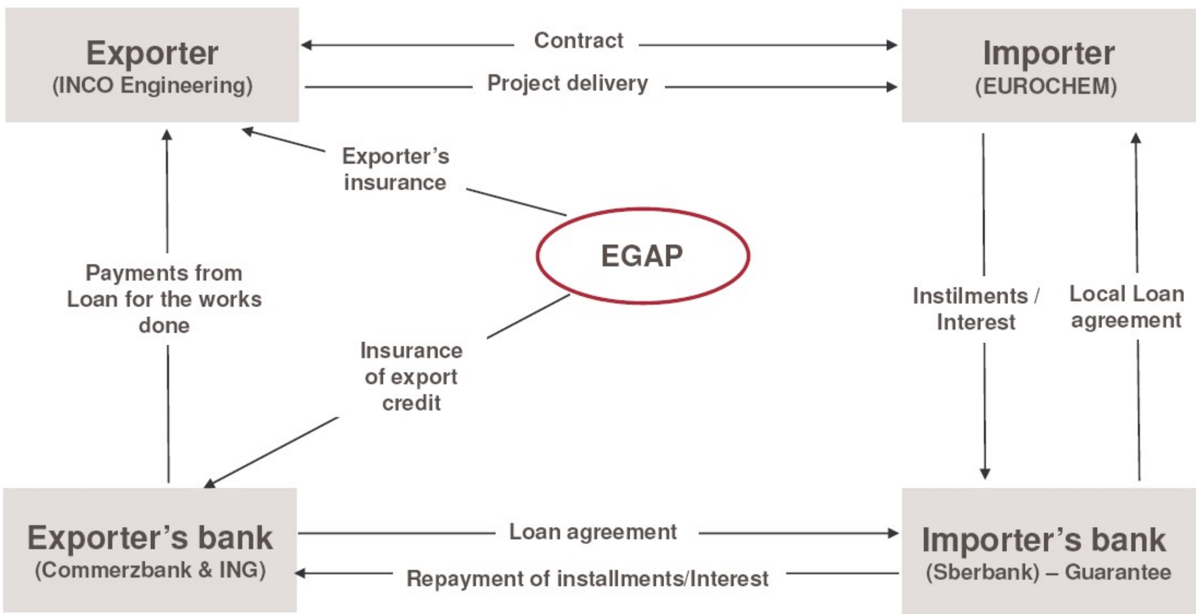

Figure 6. Inter- banking Buyer's Credit with EGAP insurance

Photos of selected projects

Figure 7. Combined cycle power plant - Krasavino 60 MW, Source: www.psg.eu

Figure 8. Combined cycle power plant – Kurganskaja TEC 229,5 MW, Source: www.psg.eu

Figure 7. Direct Current 5500 kW engine which is a part of INCO delivery,
Source: www.incoengineering.cz

Buyer's credit characteristics:

- Buyer's credit is designed for companies exporting its production abroad (respectively for foreign investors)
- Credit for specific purposes provided by exporter's bank to foreign client / debtor (debtor can be represented by buyer's bank or by foreign buyer himself)
- the credit is usually provided up to 85 % of contract value (condition of EGAP), remaining volume of 15 % is covered by buyer via 15 % advanced payment
- Preferably designed for exporting of goods and services originated from the Czech Republic (share of Czech producers on exported goods/services has to be at least 50 %)
- The credit can be drawn after the delivery of ordered goods or services via direct payments to exporter's account.
- Conditions of credit provision and repayment structure are defined in appropriate loan agreement
- Provided credit is insured by EGAP up to 95 % of credit volume, exporter's bank risk participation usually equals to 5 % thereof half is this share is transmitted to exporter.
- Exporter has to be the Czech legal entity or natural person
- Exporter can be also based on International joint venture (IJV) with the Czech leading JV entity
- Project has to contain significant share of goods and services of the Czech origin.
- Consumer goods and agricultural commodities are not eligible for export financing
- Insurance of buyer's credit by EGAP covers credit risk resulting from loan repayment via receivables from the credit provided; protects financing bank against the risk

resulting from unsettled receivables from foreign investor or his bank due to territorial risks.

Before the credit drawing, the following contracts have to be signed:

- Commercial contract between exporter and foreign buyer
- Collateral agreement between foreign buyer and his guarantor
- Loan agreement between exporting bank and foreign buyer / importer's bank
- Realization agreement about project financing between exporting bank and exporter (to fulfill exporters liabilities towards exporting bank)
- Insurance agreement between exporting bank (policy holder) and EGAP (insurer)

Hypothesys:

Based on literature review, current state of knowledge and case studies presented, the following hypotheses were formulated:

- H1: Securing project financing is a crucial competitive advantage when penetrating developing eastern markets

- H2: Formation of Joint Venture is not suitable strategic alternative for export financing concept

Conclusion:

Application of export financing concept and partnering with government agencies proved to be crucial competitive advantage. Possession of technologies and sufficient extend of reference projects and lowest price bid doesn't necessarily have to lead to success in tender. For deliveries to developing countries or countries with high territorial risks securing project financing proves to a critical issue requirement.

Some countries are still suffering from unclear legal framework, poor economic environment and consequently from lack of trust of local banks towards potential lenders.

Based on above mentioned case studies we identified the following critical success factors for successful execution of export financing concept:

- Existing framework agreement between domestic financing bank and a foreign bank regarding the provision of mid- to long-term loans granted by the bank of the foreign buyer

- Hedging of creditor's interest and repayment receivables against the foreign borrower by means of export credit insurance

- Importer's high credibility, steady market position and proven track record

- Importer's abilities for project executions, successful reference projects

- Cooperation with experienced banking institutions and government agencies with appropriate market knowledge and business contacts in targeted destination
- high level of project analysis performed
- mutual consent of politicians (political coverage)
- strategic character of the project
- political willingness to support export financing to particular destination (availability of EGAP insurance and bank credit limits)

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