SZENT ISTVÁN UNIVERSITY

THESIS OF DOCTORAL DISSERTATION (Ph.D.)

OPPORTUNITIES OF SPECIAL EXPORT FINANCING METHODS' DEVELOPMENT, TAKING INTO THE CONSIDERATION THE SPECIFICS OF THE AGRICULTURAL SECTOR

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1. THE PREMISES OF THE WORK, OBJECTIVES SET

1.1 The timeliness and significance of the topic

Till the 90's the agricultural sector filled in a significant role both in the production of the Hungarian GDP and in the Hungarian export, however following the change of regime we could witness a dynamic space loss. Although the share of the agriculture in exports both towards European Union and the rest of the world, the balance of the agricultural foreign trade - even if in a continuously decreasing rate - steadily contributes to the improvement of the trade balance. It can be established as a fact, that the agricultural foreign trade plays a significant role in the sales of the agricultural products. In case of many products only those can count on success on the EU's, struggling with overproduction or other markets, who is fully compliant with stringent quality criteria and carriage and **financial conditions** posed by the continuously concentrating manufacturing and trade. In my opinion today not only the products themselves, but their associated funding is also competing with each other on the international markets.

All mentioned above make my dissertation's theme timely, and it was only confirmed by the effects of the economic and financial crisis of 2008. Even before the crisis those had the best chance of placing their product on the foreign markets, which provided their importer with favorable payment terms, especially **deferred payment**. Due to the economical, financial crisis the payment deadlines were extended, the risk of the influence of equivalent increased, which increased exporters' financing needs.

In broader sense the dissertation can be placed in the general framework of corporate finance, can be placed in trade financing and within in the export financing, focusing on the financing of the agricultural goods' export and not losing sight of the nature of agricultural financing. In my dissertation I wish to provide a comprehensive picture of the state of domestic export financing, showing what sorts of financing are available to the exporters. My research proves my suggestion, that besides the general production financing **(global financing)**, unconventional funding methods in exports financing (transaction financing) could also be successfully applied in Hungary. These special credit facilities mean the solution for the liquidity problems and emerging risks on international markets, arising for the exporter, originating from the deferred payment claim from the buyer's party.

1.2 Thesis objectives

One of the objectives of my research is to introduce the domestic export financing, evaluation of each export financing institutions and their functioning, and of the diverse export financing methods. **Another, at the same time key objective** is to prove that besides the usual means of financing which are those unconventional financing arrangements that should be used more often and whose spread should be promoted during Hungarian agricultural and food industry products' exports. These arrangements sill novel in Hungary not only complement the existing ones, but may be the solution in cases when the traditional bank loans and credits are not available anymore. **Through specific transactions**, furthermore with the help of a comparative analysis with other conventional credits, I am attempting to prove that with the usage of these innovative solutions, the placement of Hungarian agricultural goods on the foreign markets could be more effective.

The hypotheses of the research:

- H1: Today not only the goods themselves, but their associated financing also competes with each other on the international markets.
- H2: Among the export financing arrangements, the conventional ones dominate in Hungary, the unconventional financing methods are less used, which can be one of the explanatory factors of the contraction of exports.
- H3: The unconventional methods may also help when the traditional lending methods are not an option.

2. MATERIAL AND METHODS

In order to proof, incidentally to refute the hypotheses formulated at the beginning of my research, furthermore to reach the objectives, I carried out gathering and analysis of various databases and other information. For these I chose the most appropriate methods.

While I gathered the primary datas through personal, informal interviews, the source of the secondary data- and information base were the following:

- **international and Hungarian specialized literature**
- **domestic and international laws related to the topic**
- **international conventions (Convention Providing a Uniform Law For Bills of Exchange and Promissory** Notes **(1930), UCP 600 (2007), UNIDROIT(1997))**
- **EU accession-related documents and their meanings (AVOP, NVT, ÚMVP)**
- **KSH, AKI databases, studies**

In the chapter of processing of the specialized literature I have mapped and processed the domestic and the international specialized literature related to the topic, and with the help of the domestic databases available I am going to introduce

- **the EU post-development of the Hungarian agricultural foreign trade**
- **within the corporate finance, the agricultural financing and the export financing**
- **the most important export financing participants**
- **the applied export financing arrangements**

These chapters of the dissertation are written in a **descriptive way**, which is indispensable in order to introduce the present structure, nevertheless the conclusions made based on this descriptive method create the basis for application of the additional methods.

Besides the descriptive method used **during the specialized literature process and synthesis**, during analyzing the special export financing arrangement with the help of the **SWOT-method** the application advantages of the particular arrangements are analyzed, while also highlighting the weaknesses.

The reason I used the other research method, the informal interview, conversation based on personal relations was on one hand to ground the setting up of my hypotheses, on the other hand to gather the appropriate information with the help of the qualitative data collection during the reports to prove the assumptions of the dissertation. During the **depth interviews** I tried to feature more of every group of export financing agents (except for the importers), naturally most were among the exporters. The research covered 3 topics, the development of the questions and topics is my own work. My goal was to gather qualitative and quantitative information, partly based on pre-set questions and with the help of the interview sketch. The depth interviews were carried out in frame of personal meetings, the questions, as appropriate was developed separately for each group.

3. THE RESULTS

I concluded that the **export financing facilities** are, in fact, no other, than **bridges, which overlap the financing gap - at times rather big - between order and the payment**. Since the products and services most frequently compete on the supply markets, the payment in advance is counted as rare, so the **funding of the transactions**, also supported by the depth interviews, mostly falls on the transporter, namely **on the exporter**.

During the processing of the specialized literature and the running of the depth interviews I have experienced some conceptual and procedural problems connected to the facilities that were subject to analysis. Answers, given during the depth interviews in particular confirmed the low level of knowledge of the export financing and its special facilities (forfeiting, export factoring, structured transactions, buyer and seller credits). It was mostly agricultural exporters' specific that they saw some of the facilities, as for example forfeiting or factoring as a way to get rid of bad debts. One of the results of my research is **the clarifying, systematizing of the concepts**, furthermore the introduction of their co-operation through concrete practical examples.

3.1 **Forfaiting:** Since in case of forfeiting following the fulfillment the exporter sells the financial assets towards the buyer without counterclaim, it grants him several advantages: getting rid of the buyer's non-payment risk, liquidity, equity endowment, balance sheet structure improve due to the regressive custom, so the seller's getting more eligible for the banks. In most cases the forfaiters insist on some kind of banker's guarantee while purchasing assets. **While analyzing** these I have found out that the strongest forms proved to be bill of exchange and letter of credit, while the bank guarantee grants the least safety. **By developing a new facility and its presentation in practice in a specific transaction** I have proved, that it is possible to forfait even **without banker guarantee with an equal payment security**, when targeting cost saving. According to my studies the low utilization of this relatively simple mode, demanding lower transaction costs depends solely on low activity of domestic exporters and their banks. From the depth interviews with the exporters, it became clear, that the exporters don't get specifically interested in the importers' local bank relations, so they cannot learn if they are possibly the same bank group's clients. Conscious mapping of the foreign clients' bank relations may result in access to information, that in given case can allow a simple sale of accounts receivables. The forfaiter bank is also interested in such constructions, since it makes it possible to finance the exporter's client without using the existing credit line. One of the important results of the research is that the exporter and his bank should **consciously seek for these opportunities**.

I have formulated **when and in which cases is it worth for an agricultural exporter to use forfeiting**, with the help of the SWOT-analysis I have accounted for the construction's strengths, weaknesses, opportunities and also the hazards found during application:

1.table: SWOT-analysis of forfaiting

	Strengths	Weaknesses
exporter	improved cash flow clearing of the balance of sheets collateral not needed less administration no default and exchange rate risks costs incorporated in price predictable cash-flow no need for an internal customer limit	part of the costs is not always enforceable banker's guarantee clause option
importer	beneficiary of deferred payment cheaper financing options than self-funding fixed-rate loan	exchange rate risk provision of banker's guarantee
both	simple documentation	incidental banker's guarantee is cost increasing
	Opportunities	**Threats**
exporter	market making, maintaining market increase in export volume exploitation of increase of liquidity in other areas revenues can be increased with rising export improving balance improves bank ratings	fraud attempts in documentations
importer	involvement of new sources of financing in the absence if internal limit, bigger volume from the exporter	in default case stronger forfeiter instead of the exporter

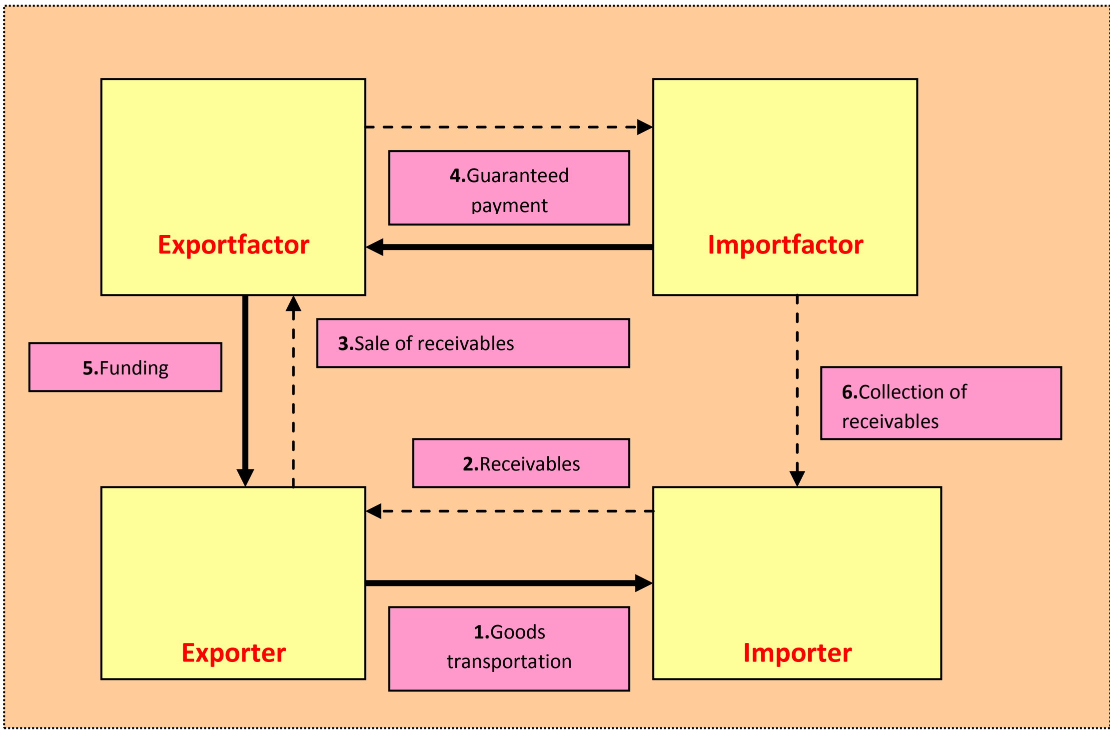
Source: own compilation

The financing solution used during the **forfaiting transaction** analyzed in the dissertation had the following **results compared to the usual solutions:**

- although not the case, but even if there was an opportunity for the exporter's existing credit line's expansion (e.g. current account credit), it would have meant a **credit procedure**, with its every **administrative bother** and not least a possible depositing of **exposed property items for collateral**.
- although the current account credit could have provided a solution for the financing needs of the time between the delivery and the payment due in 90 days, the **importer's non-payment risk** wouldn't have disappeared. In this case not only the **value of the lost goods** would have appeared as a loss, but the exporter should have **paid the loan with interest** rates back to the financing bank.
- the forfaiting, similar to the current account credit was also able to solve the **exporter's spot payment towards the subcontractors** (wine producers): the financing bank has informed the subcontractors through a short statement, that according to the forfaiting general contract with the exporter, it will buy the receivables towards the importer generated in the next year. In this statement the bank has also undertook to pay out the bought demands' buying price, so that the subcontracted receivables towards the exporter are immediately cleared, on the exporter's pre-order basis. Thanks to the examination of documents the Hungarian bank was able to immediately discount and pay out of the subcontractors based on the received documents, so those let the cargo go and got the equivalent directly from the bank.
- analyzing the cost side I have come to the conclusion, that the forfeiting has not proved more expansive, than the all-time most expansive, short-term current account credit providing free use. The discount **did not mean significantly higher financing cost**, not even mentioning, that the seller was able to charge the buyer with a part of it, built into the export price.

The tested sample proved, that when the traditional solutions don't help, other alternative solutions also exist. In our case with the help of forfeiting and it's innovative form it was possible to maintain the export market, since the Hungarian exporter was able to provide a better, longer with 30 days, respite of payment grant than the Bulgarian competition. It is true that it means plus costs, but at the same time he kept his market, moreover he shared the costs with his partner by imperceptibly raising the export prices, which made it possible to charge the buyer with half of the forfeiting expenses.

3.2 **Export factoring:** **Factoring** is an assignment of the current deposits disposing with respite of payment, stated in the trade agreement between the seller and the buyer, for equivalent towards the third party (the factor). We can talk about the *international factoring* in case of factoring receivables, when the transporter's and the buyer's headquarters are in different states, in case of the *export factoring* the exporter grants the deferred payment receivables resultant from the foreign-trade contract, besides the import factor guarantee derived from the buyer's country. Export factoring service is a very popular, spread in Western-Europe treatment of the international payment turnover. Export factoring is not a simple service, but an aggregate name for more services, that allow the exporter to get all the banking techniques needed for handling his foreign customer base (financing, insurance, payment enforcement, registering), which are needed for uninterrupted running of the export turnover. The construction's operation is illustrated on the 1. figure:



1. figure: Functional scheme of export factoring

Source: own compilation

Companies from different, including agricultural sectors can use factoring, an extremely versatile financial service to finance their further turnover growth by realizing open receivables. This financial construction helps the small and medium-sized companies in achieving the needed liquidity, reaching the opportunity of discount from their suppliers, not even mentioning, that it makes eliminating the non-payment risk meant by the buyers possible. Not the last aspect is that the companies can significantly correct their balance sheet structure with the asset sales.

The depth interviews with the exporters made it clear, that the agricultural exporters compared to the other branches know the factoring less, they rather connect it with **getting rid of the bad debts**. This also explains the agriculture's low participation in factoring:

2.table: Hungarian factoring turnover by sector, in percentage

	2007	**2008**	**2009**	**2010**
Agriculture	**6**	**4**	**3**	**2**
Industry	26	25	32	34
Building industry	13	10	8	7
Trade	39	42	35	34
Services	9	12	9	12
Others	7	7	13	11

Source: Hungarian Factoring Association

The sectorial distribution of the factoring turnover shows, that exactly **the agricultural sector takes the least part of the factoring market**, despite that special programs are also helping it's use in the sector. The depth interviews point out one of the reasons: this construction and **the export factoring within is little known among the exporters.**

The increasing total volume of Hungarian factoring that can still be observed in the last six-seven years can be traced back to multiple causes: the factoring's notoriety without doubt grew in particular sectors, the state has also developed a couple of programs supporting this activity (e.g. Lánchíd Factoring Program), but the activity of the factoring companies has also increased, although not to the extent needed for a bigger market breakthrough. Obviously the banks' willingness to include factoring as an obvious and necessary additional funding into the range of traditional financing products is insufficient. While analyzing specialized literature I have stated, that the factoring receivables' ratio within GDP is significantly higher in European Union, then in Hungary, while the EU Western-European average is 15%, the domestic one hardly exceeds the 3%.

During the research I have found that factoring is a financing product that is beneficiary for those small and medium-sized companies that have a relatively large-volume short-term receivables base originating from shipment and providing services. **Ergo most of the companies belonging to the domestic agricultural sector could be an excellent subject for factoring.**

I find it an important result of the thesis to formulate that the low bank lending willingness, seen due to many different reasons, especially the economic crisis, stimulate the Hungarian companies to look for other liquidity increasing tools besides the traditional bank financing. **In case of the agricultural companies this demand occurs exponentially, since access to the bank financing has always been harder for them due to the special sector-specific risks, or because of the insufficient collateral. The search for the alternative solutions- besides the factoring such are forfaiting and leasing-in their cases is even more urgent.**

The observable growing interest towards the factoring should also urge to be cautious. The company must take care, that there is a number of services offered as factoring on the market. Products that do not meet the criteria of the factoring. Factoring is a financial product that requires an experienced financier who above having all the qualities needed in the financial sector can imagine himself into the company's place. Nevertheless it also means that before a factoring transaction a factor rigorously tests the potential client and the client's buyer to receive an accurate picture of the expected risks. This solvency inspection of the supplier and his buyer should be obvious, which eventually is also in the transporter‘s interest, since the test's results serve as a basis for the establishment of financial costs and limits.

Factoring makes it possible to sell open receivables- featured in the balance sheet as "dead capital"- and thereby to positively influence the company's liquidity position. This means decisive advantage not only for the company selling the requisitions, but also for the prevailing funding bank, since this maneuver not only improves the company's balance sheet structure, but also its' general economic situation and it's getting an ever "better subject" for placing other bank loan products out.

According to my research, the usage of factoring is recommended to the following agricultural exporters (although not only them):

- those enterprises, that are in a regular business relationship with customers with foreign headquarters and would like to make the buyers' payment more safe
- those who are looking for a quick financial solution to ward off the lack of money resulting from the deferred payment

I found that the export factoring offers the exporter the following advantages:

1. He has an opportunity to get financing up to the value of the receivables offered by him in an extremely short amount of time and with minimum of administration and without offering collateral security. The rate of the financing may be among 80-100% of the amount of the receivables.
2. Even 90% or 100% of the receivables can be guaranteed, namely the exporter may feel safe in case of his partners' incidental non-payment, since according to his decision the export factor carries out 90% or 100% of his demands.
3. Analyzing factoring companies' offers one could find, that those frequently guarantee free debt management and also collection on the exporter's behalf. With other words they collect the exporter's receivables with the involvement of the organization acting in the given country (import factor, insurer), in case of the buyer's non-payment they provide the necessary legal proceedings for him as a part of the service, in many cases without particular charge.
4. The factor records all the exporter's receivables for him (the deferred credits and amounts overdue too), and informs him (e.g. in form of an e-mail) about them regularly-even daily if requested- free of charge.
5. Factoring provides accounting advantages for the exporter, since the beneficiary can write the receivables out of his books. This significantly improves his gearing ratio and the assts' circulation velocity. In total the creditworthiness and the balance sheet structure can improve in extremely high degree.
6. The liquid security may grow, since he can map new export relations, and he should only watch the profit margin and can totally forget the buyer's risk, namely he can feel free to take on new relations, new buyers, since he can do so with total liquidity safety with the help of the factoring service.

The depth interviews also proved, that because of the lengthening payment periods liquidity crisis developed among the companies, but the financial construction that can be used against it, the factoring is only used by few entrepreneurs compared to the opportunities in Hungary. **The domestic spread of the factoring is lagging far behind the European level, that of the export factoring even more.** In my opinion the multi-player nature of the construction and the higher costs that result from this have prevented the construction' spread in Hungary so far, although it1s also not incidental that not every factoring company deals with export factoring, furthermore those that do, usually not since the beginning of their agency.

I believe that factoring and the export factoring within will be even more important in the future. In my opinion the crisis erupted in 2008 and as its consequence the lengthening payment periods and the decreasing payment morals give a further momentum to the factoring's Hungarian evolution. Since the commercial banks have severely restrained their lending activity, the companies are forced to finance themselves with their suppliers, which expand the possibilities of the factor companies, since the suppliers are forced to look for alternative solutions.

In the export factoring transaction examined, the construction meant the solution for the exporter's financing need originating from the deferred payment. Since the exporting company did not get an offer with any additional methods to the traditional ones from its bank, it has decided by the export factoring. The foreign owner instead of increasing working-capital limit “headed” the Hungarian company towards factoring, since

- the primary aspect was **to meet the financing need** originated from the deferred payment, which was perfectly suited by the export factoring, since the **80% of the income became instant**

- although in this case there would have been an opportunity, **the bank procedure** originating from the raise in the available working-capital limit **did not occur**, there was no need to **bother with the collateral and insurance questions** (mother home Comfort Letter, or other real estate collateral) associated with the increase.

- although the exporter himself didn’t fear the buyer’s non-payment, nevertheless the payment guarantee insured by the export factor allowed the receivables to be **written out of the books**. The factoring receivables disappeared from the customer items, **the supplier credit suffered degradation**, by so the balance sheet total decreased, and **the company’s competitive positions also improved**, since they could agree on favorable payment conditions for the foreign buyer.

- with the help of factoring it became possible to improve the company’s liquidity **without borrowing**, the **acceleration of the cash flow** has also resulted in **improvement of the company’s liquidity**, and thereby received benefits in case of their other purchases (e.g. primary commodities). But the **decreasing outstanding debt**, the **growing circulation velocity**, better planning of the incomes also meant the decrease of the bank financing costs in the longer-term.

- in case of export factoring’s construction there is no need to use a banking guarantee, a letter of credit or **any other guarantee.**

- unlike other conventional financing methods the export factoring guaranteed **the recording and the collection of the claims**, and so discharged the exporter from the needed administrative tasks and helped to make the use of labor more efficient.

3.3. **Structured transactions:** The structured trade-financing is a method of funding whereby the funders transmit the necessary capital for the transaction from the outside, while to secure the funding instead of traditional collateral affecting the borrower they concentrate on transaction’s cash-flow and structure. In case of these transactions the participants jointly with the sponsoring financial institution shape the structure of the commercial transaction to as far as possible **minimize the transaction risks for the investor**. The target is, that in case of a participant involving a higher risk a lower, for example only settlement risk would appear, which may be further decreased with the involvement of appropriate institutions (e.g. insurers). In some cases financing bank-owned trading companies participate in the transaction as a trustee. This doesn’t appear as a payment risk for the bank because of the ownership concentration. After analyzing these transactions it can be stated that in case of this buildup, in given phases the bank consciously assumes the risk that **the transaction’s only cover is the good itself.**

Based on my research I came to the conclusion that the Hungarian banks are willing to avoid the cargo cover at all costs. Their western European counterparts providing structured export financing on the other hand are aware of the value of the goods, since in many cases those are stock commodities commanding certificates of origin and quality certificates, furthermore eventually the banks’ own trading companies are also able to sell those on the market. **So a western European or an American commercial bank besides the post-financing would grant a grain-growing farmer an export pre-financing loan, which is covered with the claim to be disposed**. It is clear that the financing requirement is solved with transaction financing instead of the general funding solutions familiar in Hungary. Risks originating from weather are also often covered by the insurer belonging to the funding bank (the closing happens at the bank), furthermore the bank can supervise the trade agreement between the farmer and the limit commanding trader, previously tested at the bank. In this case a range of further covers (quality assurance, transport insurance) guarantees the run-in of the throughout bank-owned goods. The funding bank strictly speaking runs only the **farmer's "fulfillment" risk**, thus whether the farmer is capable of producing the signed on grain volume in appropriate quality. **To estimate this is easier than judging the farmer's credit worthiness.**

Mitigation of the default risk into documentation risk is also a usual thing, since these banks rely on their own, very well-prepared documentary professionals, who ascertain whether the transaction and the cargo are alright by examining international documents accompanying the goods. If necessary, they also involve documents based on international agreements (L/C, bank guarantees, bills of delivery, quality certificates).

The fact that this financing form has not spread in Hungary can be traced back to the following reasons:

1. They are primarily used in case of high value or commodity-type of cargo transactions. Even if these are produced, manufactured and then exported in Hungary, then almost only in case of enterprises in foreign, typically **multinational companies' ownership**. In these cases the structured financing itself is carried out by the **mother company**, including its' own (foreign) bank.

2. The participating companies are usually famed enterprises with serious past, well-known in a given sector, unfortunately **there aren't many** of these among the Hungarian companies yet.

3. In my experience the **Hungarian banks are not ready** to provide this type of financing yet. Although we may find structural trade-financing among the products of some of the bigger domestic commercial banks, it is mostly rud down by "Mehib Zrt.", possibly other credit insurers' guarantee constructions. Some of them deal with financing against warrants, which is one of the easiest forms of the structured financing. However according to my investigations several domestic banks do not consider this a structured product.

4. And finally, last but not least the **domestic bank specialists' relevant experience** in financing such transactions is also **missing.**

After conducting the SWOT-analysis, I summarized the results in the 3. table:

3.table: SWOT-analysis of structured export financing:

	Strengths	Weaknesses
exporter	improved cash-flow export's counterclaim is 100% fundable clearing of balance of sheets collateral not needed pre-financing option less administration no default and exchange rate risks costs incorporated in price predictable cash-flow	part of the costs is not always enforceable many participants, depending on the structure long preparation because of the tailor-made nature high documentation demand
importer	beneficiary of deferred payment cheaper financing options than self-funding	
both	product price fixating option	complex documentation
	Opportunities	**Threats**
exporter	market making, maintaining market increase in export volume exploitation of increase of liquidity in other areas revenues can be increased with rising export improving balance improves bank ratings	more different default risks because of the multi-player nature
importer	involvement of new sources of financing in the absence of internal limit, bigger volume from the exporter	
both	more turnover	documentation risk

Source: own compilation

As appropriate the comparison of the table is expedient with the SWOT-analysis of the forfeiting, as the forfaiting appears the most in financing the structured transactions:

- among the **strengths** and **opportunities** I would highlight the pre-financing popping up,

- while among the **weaknesses**, the bigger participant number resulting from the transaction's more complex structure (credit insurers, quality certification institutions, transporters, possibly merchant banking firms), which beyond increase in costs, also requires a longer preparation.

- the **traps** also reflect the multi .player nature of the construction, compared to the forfeiting more players also mean more default risk, if someone is not performing properly, even the export transaction may be interrupted.

The tested transaction is an excellent example to prove that some **alternative methods are able to meet the financial needs occurring in different phases of a commercial transaction.** We find ourselves confronted with the lack of application opportunities of the ordinary methods here too: it was **not possible to grant further working-capital loan for the exporter**, beyond the existing one.

The structured export financing

- solved not only **post-**, but also the **pre-financing** questions. The export factoring could have done the same, since the export factor usually also takes on payment guarantee, however forfaiting' advantage is the full (100%) receivables discounting. In case of factoring only 80% of it is advanced, so in the analyzed transaction the profit was realized quicker.

- the working-capital loan is also capable of pre- and post-financing (in case it was possible to increase the framework), however should have reckoned with the **credit procedure** attached and an **additional coverage for the increase and with involving guarantee**.

- in case of working-capital loan the duration term should have covered the 60 days of manufacturing and 90 days of deferred payment period. In this case however the following risk would have remained: **non-payment risk** meant by the importer, furthermore the importer's incidental **risk of cancellation** from the commercial transaction.

- structured, it was not the case, since forfeiting guaranteed the exporter a **sure, moreover prompt payment**, while the Letter of Credit as a banker's **guarantee secured the entire production period**. The bank granted the pre-financing only following the opening of the Letter of Credit, wherewith the production could start, **the irrevocable L/C** in turn guaranteed, that following the opening the buyer can no longer withdraw from the transaction.

- with the help of structured financing (as well as with export factoring) the claim could have been written out of the books, while it wouldn't be so in case of a working-capital loan.

- the only **disadvantage** of the chosen structured solution compared to all others is the **opening of the L/C** from behalf of the importer, which appeared as an **additional expense** in the transaction, but it was compensated in the form of discount. Luckily the profitability of the transaction gave an opportunity for this.

3.4. **Other, state-supported commercial loan types:** A state is in many ways capable of supporting, and compared to its potential supports the given country's exporting.

Here I would like to emphasize two funding methods (**buyers and suppliers credits**), which can appear highly applicable in case of Hungarian agricultural goods' export in case of not so called "commodity" products, that is large mass, homogeneous goods, primarily changing hands on commodity futures exchanges (e.g. grain, sunflower seeds, industrial plants etc.), but complex agricultural production systems that include not only the specific mode of production but the seeds, machinery and equipment, even the end product processing. Hungary commands a number of such advanced systems that (mainly) eastern countries with a less developed agriculture then Hungary have a great demand for. Since the acquisition of such systems, primarily because of the high-value machinery and equipment means an enormous financial burden for the buyer, it is indispensably necessary to provide a *long-term financing* attached to the system, with the length adjusted to the system's payback time. In case of a maze system or a pig rig it can be as much as 10 years. Not even mentioning that in this case we are talking about **importers**, whose risks are **non-marketable**, a not state-owned export insurer or commercial bank **wouldn't accept** those.

In these cases there is a need for, and in a number of countries there are found state-owned, specialized institutions available for the exporters with **long-term**, often preferential **financing** slightly better than the market price. This type of funding is the Eximbank Zrt. **supplier's and buyer's credits**, both based on the export **insurance** by Mehib Zrt.

My studies have shown that high-value machinery, equipment and complex agricultural systems are **almost impossible to sell on the foreign markets without financing attached**. In case of such exporting in the western direction (e.g. EU) the buyers don't require funding from their suppliers, since they can get financing easier and even more importantly cheaper in place. In case of Hungary's exports to the east or to the developing countries the situation is radically different: the local customers' decisions are often motivated by the funding opportunities. Their possibilities of obtaining this funding and more specifically long-term loans are very limited even compared to Hungary's, not to mention the observable differences in the funding costs. The main problems are the political and economic risks specific for these countries, which top the buyer's payment risk. These risks affecting both the buyer and the country cannot be taken by a Hungarian exporter, thus require the state's assistance since the private credit insurers cannot underwrite a reinsurance on these on insurance market and so are forced to rule out the underwriting of the credit insurance. The state has to help its exporters and take off their shoulders' these non-marketable risks. **Mehib Zrt. granting an absolute guarantee to the exporters plays a key role** here, providing them with a countervalue in case of proper fulfillment. This makes the Hungarian exporter capable of arranging a supplier's credit, or securing a buyer's credit opportunity on the behalf of the foreign partner through one's commercial bank. Both constructions' attractiveness is enhanced by the **Eximbank Zrt.'s favorable interest rate refinancing activity**, which can be resorted by the contributing homeland commercial bank, thus reducing the amount of the funding cost settled on the goods.

According to my investigation, which of the two constructions do the exporter and importer **choose** is influenced by a number of things. It occurred among the transactions that the buyer's country insisted on buyer's credit because of the state order. One of the solutions was for the Hungarian bank to conclude the contract with the buyer's bank, by so providing state control over the transaction through the local bank, but there also were examples for the importer to sign the buyer's credit contract with the Hungarian bank as if to demonstrate the state buyer's "international creditworthiness". The latter can also be demonstrated with the help of supplier's credit, which I have encountered in case of Russian transactions in the last couple of years: Russians not only stressed the buyer's creditworthiness in front of the whole world, but also spared themselves the signing a plus and complicated loan contract. It was important for them, that although the given importer's long-term liability grew, the credits of the region or the local government owning him did not grow because of the transaction.

The buyer's and supplier's credits are such specific- funding of relatively large amount, 2-12-yer-return projects' implementation-financing solutions developed to the needs, that they are hard to compare with other methods, since **these two credit products' replacement in my conclusion is virtually impossible**. They cannot be considered project loans, since contrary to the latter in these cases the Hungarian commercial bank and Eximbank are financing such projects materialized abroad in Hungarian main enterprise, where a foreign customer is participating. In case of project loans we never meet a customer. In these transactions the borrower is always a project company created for one given project, which in addition is not able to perform the lead contractor's, in case of en export transaction exporter's functions. What further differentiates funding, based on the project risks from other transactions financed with buyer's or supplier's loans is that besides the rights based on the cash-flow generated by the project and on the project's assets/incomes, the guarantees independent from the project's risks- sovereign guarantee, absolute guarantee, absolute guarantee-are not available for the arranged loan's repayment. In case of buyer's and supplier's credits the exporter receives the equivalent of the exported good or service from the customer, which is independent from the risks based on the completed project's working cash-flow. From the exporter's point of view these projects are not regarded as investment, so cannot be replaced with investment loans.

In my opinion one should rather examine for what reasons is buyer's credit used instead of the supplier's credit and vice versa during such export transaction.

Based on the transactions examined during my research I have made the following **conclusions:**

Considering the argumentation for the application of the **buyer's credit**:

- if the procurer (the importer) wants to see the financing costs clearly and separated
- if the procurer (the importer) wants to compare the financing linked to the transaction separately (a number of domestic commercial banks may compete for financing of the same transaction, at times causing significant differences among the credit's other costs)
- In case of the buyer's credit form, when not the importer but his bank signs the buyer's credit with the exporter's bank (naturally the loan is "labeled", can only be used to finance the given export transaction), more favorable conditions can be used, as if the importer company itself would negotiate with the financing bank.

Considering the argumentation for the application of the **supplier's credit:**

- if the importer for some reason doesn't want to sign a loan agreement connected to the transaction. I have met cases like these when the customers were foreign local governments and they didn't want to or had no opportunity to broaden their existing loan portfolio with new credits. In case of the supplier's loan the exporter only provides his foreign buyers with an option of deferred payment, the terms implicating on the interest rates and the duration periods don't even appear in the trade contract.
- if the buyer is reluctant of the procedure of signing a mostly quite complicated loan agreement with the foreign bank. In addition to the language difficulties this could hide some further risks (e.g. documentation risk).
- in case of the supplier's credit, which forms a part of the export contract as an already mentioned form of deferred payment, the importer didn't have to sign other agreement, making the documentation related to the transaction easier and cheaper for him.

The following conclusions are valid for both financing constructions:

- the participation of the Mehib/Eximbank prescribing the carrying out of the appropriate Hungarian ratio (25-50%) during the export transaction. This entirely legitimate governmental claim proves to be a difficult condition to meet in a number of cases: For example the 50% Hungarian origin expected in case of machinery and equipment is not easy because of the significant import content.
- the Mehib insurance naturally accounts for the importer's and his country's risk, which in a number of cases analyzed by me meant, that the premium was just behind the measure of the profit that can be realized by the exporter.
- the analyzed transactions were almost exclusively local government orders from the importer's part, the foreign corporate order is almost negligible, since these mean unacceptable risk for the Mehib, so there is a use of the involvement of other bank guarantees, possibly of a state guarantee form the importer's country. Experiences have shown that in many cases this is non-executable and means extremely high additional expenses.

3.5 **Results of the depth interviews:** It seems clear both from the questionnaire and from the conversations with the companies' representatives, that the exporters often get confronted with the foreign buyers' deferred payment demand. **Nearly three-quarters** of the interviewed indicated, that **the importers specifically require** this kind of payment discount and its provision is one of the conditions of a successful transaction. It is also clear from the response that from the point of market making and market maintaining this form of providing supplier's credit is also of significant importance, as far as they know their concurrence also actively uses it.

Answers given to the questions about the frequency of the deferred payment prove that there is a sharp competition among the exporters on the international market, in terms of rivalry the agricultural markets do not differ from other sectors' international markets. However it can also be read out of the answers that providing deferred payment means more trouble for the agricultural exporters. According to the answers it can be stated, that **providing the opportunity of the**

deferred payment is of crucial importance in terms of market making and maintaining, without it the chance of the successful transactions' opportunity significantly decreases.

Compared to other sectors, **the agricultural exporters know less** about the special export financing constructions suitable to manage the problems originating from the deferred payment. That is why only few use them, and only few among them use the option of loan insurance too. According to the targeted questions asked during the depth interviews I have concluded, that interview partners representing companies manufacturing and exporting agricultural and food industry products, compared to other sectors' exporters are less informed on the field of trade skills and financial knowledge. Among them more have the impression that the different methods of purchasing receivables is no other but a way to get rid of amount overdue and stuck claims. According to the answers it can be stated, that the exporters have extremely incomplete knowledge of the trade financing opportunities, however the importance of the role of the commercial banks providing these has also became visible. They are those, who should increase their marketing activity in this direction, but those institutions and trading houses planned on the governmental level, that can help the small and medium-sized companies in terms of entering foreign market may also get an important role.

I got significant results when I asked about **the exporters' material openness**. More than 80% would sell their export demands, if they had the opportunity, since they are very worried about the risks of open shipment. The same ratio claimed that they believed that beyond longer deferred payment, they have an opportunity to increase the export price. Besides adequate information there is no rejection from the exporters' part, most of them are recipient towards the financing solutions and overcoming obscurity.

In terms of the financing I have stated from the answers, that primarily the financial institutions belonging to foreign banking groups are the more active in trade financing, they are those, who - starting out from their mother bank experiences - which can increase the spread of the special financing constructions. Eximbank's role is inevitable, its' importance as a favorable refinancing source in cases of long-term transactions is unquestionable according to the most of the questioned banks.

The wider application of the trade financing products is beneficiary not only for the exporting companies, but the funding financial institutions also profit from it: on one hand they get new clients, on the other- as already mentioned previously- because of the liquidity increasing, balance clearing and equity increasing effects of these financing methods, the bank ratings of the clients improves. This allows for the bank to sell them further loans, which has a revenue-increasing effect on the bank.

The credit insurance has a great potential in Hungary, its degree of acquaintance is low among the exporters. The state, through the Mehib, may take off the exporters' shoulders those risks that are unacceptable for the private insurers. So the risks burdening the state budget could be decreased by a wider usage of the portfolio insurance, so the state wouldn't have unbearable burden put on it. As I see it this already existing insurance form's further development and spread should be boosted.

4. NEW AND NOVEL SCIENTIFIC RESULTS

1. Based on my own export financing experience and research I have concluded that the **awareness of the special export financing constructions is lower among the agricultural exporters in comparison with other sectors' exporters**. It also explains the **low representation** of the agricultural and food industry companies among the borrowers of export credit and among the recipients of the export credit insurance's methods. Most of the exporters and agricultural exporters see the particular special financing methods, primarily forfaiting and factoring as **a way to get rid of bad debts**, use them in lack of trust in the buyer's willingness to pay. Nevertheless the research results have also shown that in case of appropriate enquiring the exporters are **ready to use these new constructions** that are why the wider spread of the knowledge is needed.

2. Since it was proved during my research that the export financing concepts are not explained in a uniform way, **the terminological clarification of particular concepts on the same basis and the clarification of the differences between similar ones can be considered as the dissertation's new result.** This is indispensable for the constructions to get known and for the apperception of their real advantages and disadvantages.

3. In most cases the loans arranged with the aim of **export pre-financing are not separated from the general working-capital loans in Hungary**. I collected the most important reasons found during the research and standing in the doors of the wider spread of the transaction financing, such as: few commercial banks have a particular finance area yet; only few area-specialist; the companies themselves do not know the constructions; more intensive marketing activity is needed from the government, bank and chamber side.

4. I proved through concrete, and completed transactions that the unconventional methods as forfaiting, export-factoring, buyer's and supplier's credits are not only able to supplement the already used methods, but can provide a solution in cases when the usual methods can't help. **The most significant new result of this research, proved during the analyzed transactions, is that the unconventional financing methods belonging to the transaction financing were able to provide with a solution for the arising funding needs even in cases where there was no other visible solution among the general financing.** During the export transactions analyzed in the research it also became evident, that the export transaction itself could only happen because of these constructions.

5. CONSLUSIONS AND RECOMMANDATIONS

During my research I have come to the conclusion, that although the Hungarian agricultural sector has an ever decreasing role both in the domestic GDP's production, and in Hungarian export, the potential remaining for long decades significantly exceeds the domestic demands and one should prepare for the maintaining **need for the excess's placing on foreign markets in the future**.

Based on the results of the research proposals can be formulated, directed to the participants separately:

Financiers:

- the **export financing** that completes, but is not an integral part of the general bank financing, or the agricultural financing within, **must be operated separately**. The particular constructions are built up with such different logic, that this kind of lending activity cannot be pursued with the usual approach.
- such **risks must be identified**, ranked, assigned to each participant, that do not occur in case of simple, ordinary landing transaction.
- the commercial banks must separate the trade financing and export financing within into **separate institutional units**. It can be observed in Hungary, that finance activity worth mentioning is taking place, and is institutionally separate. There are such Hungarian banks, where documentary area is dealing with the export financing.
- **training of banking professionals** working in this area is also important. The in-depth knowledge of the foreign trade skills is indispensable, it is best if it goes with foreign trade experience.
- the financing banks should be pursued rigorously to **turn towards** the transaction financing instead of **global financing**. The global financing means the crediting of the given agricultural company, independently from the goals of the loan. And then the loan institution analyzes the economic situation (liquidity indebtedness, profitability, market outlooks, evolution of previous bank relations, etc.) of the company, while giving credit to the whole enterprise. On the contrary during the transaction financing the financial institution is funding a well-defined transaction, during which not only the company's general economic characteristics, the **transaction characteristics** also have a significant role.
- the factoring companies and factoring banks must boost the **export factoring's propaganda**, since its development falls significantly short of that of the domestic factoring in Hungary. This construction still underdeveloped in Hungary may solve the more significant financial needs of Hungarian agricultural export towards the EU.

State institutions:

- the **awareness** of the export promoting institutions', primarily **Mehib and Eximbank's activity** among the exporters should be boosted.
- the same must be also done **among the Hungarian foreign trade diplomats**. In my experience these important institutions aren't known among them, the offered products, so when we try to draw attention to our agricultural products, they can't use the opportunities of the financing opportunities related to the export.
- my experience is that because of the strong competition the export supporting institutions of particular countries **manage some of the OECD requirements and standards looser**, by so helping their own producers on the export markets. e.g. not taking the national origin content's question too strictly, or see the domestic producer's foreign, but 100%-owned affiliate as an exporter. Hungarian institutions should proceed similarly.

- the state should **increase the resources** involved in the interest rate equalization compared to the opportunities, since currently because of the insufficient resources there is a "ranking" among particular transactions.
- although there is an ever increasing need, Eximbank was yet not able to solve providing refinancing not only in USD or EUR, in case of export towards countries where the market's size and weight demands the **application of local currency** (e.g. rubel).

Exporters:

- the Hungarian exporters should manage an account in such domestic banks, that are **members of an international banking group**, where there are affiliate banks within the net in the countries where the export is directed. Then it's more likely the Hungarian bank's trade financing (often using the expression of trade financing) area is also functioning, and it's more likely to solve the financing within the banking group.
- the exporter should pay attention on **being informed on the financing opportunities** of the deferred payment, so that if the importer comes up with such claims during the negotiations, he would be able to respond immediately. The financing **bank should be included in the negotiation process** without thinking, in my experience it multiplies the chance of successful contracting.
- in case of the need for deferred payment the exporter should make efforts **to include banker's guarantee** from the importer's side. It is rewarding even if this would result in decreasing the exported goods' price, compensating the additional costs generated on the importer's side, since there will be a bigger chance of selling the receivables, thus immediately realizing the profits.
- in case they want to sign an export contract that **excludes the potential asset-sale** resulting arising from the deferred payment, they should be prepared for the likelihood that the importer won't fully meet the payment deadline.
- the most appropriate is if the exporter has an **export pricelist , that already includes the costs of bank financing arising from deferred payment**. This preparatory work is worth to be done with the help of his bank.

6. PUBLICATIONS ON THE TOPIC OF THE DISSERTATION

Scientific publications (books, passage in a book, research reports)

Scientific passages in books issued in Hungarian

1. **Tégla Imre** (2005): Alternatív finanszírozási módok az agrárkereskedelemben, Gazdálkodás, 2005/3. szám, p. 47.

2. **Tégla Imre** (2009): Kereskedelem-finanszírozási lehetőségek a fejlődő magyar-orosz gazdasági kapcsolatokban, Gazdálkodás, 2009/5. szám, p. 492.

3. **Tégla Imre** (2011): Speciális exportfinanszírozási módok alkalmazásának lehetőségei a magyar agrárexportban, Gazdálkodás, (issuance expected in August 2011)

Scientific articles issued in foreign language

4. **I.Tégla** (2005): Factoring, a tool of trade financing, Gazdálkodás, 2005/12, Special edition No.12, p. 113.

5. **Tégla** (2011): Opportunities of application of special export-financing methods in Hungarian agricultural export. 10th International Symposium, Economy & Business, Burgas, 2011, Bulgaria (issuance expected in September 2011)

Lectures performed and published in conferences

In Hungarian

6. **Tégla I.** (2003): Forfaiting a magyar agrárexport finanszírozásának egyik eszköze. „Doktoranduszok a számvitel és a pénzügy területén", scientific conference, Szent István Egyetem, Gödöllő, 2003. p. 136-142.

7. **Tégla I.** (2003): Forfaiting – a kihasználatlan exportfinanszírozási konstrukciók egyike. Erdei Ferenc II. Scientific Conference, Kecskemét, p. 49-54.

8. **Tégla I.** (2003): Halasztott fizetésből eredő kockázatok kezelése néhány speciális exportfinanszírozási konstrukcióban. Erdei Ferenc 2nd Scientific Conference, Kecskemét, 2003. p. 135-140.

In foreign language

9. **I. Tégla** (2004): Faktoring and its spread, International Agricultural Scientific Days, Károly Róbert Főiskola, Gyöngyös, 2004. p.129-133.

10. **I. Tégla** (2004): Factoring und seine wirkung auf das Kundenrating. Internationale Agrarökonomische Tagen, Károly Róbert Institut, Gyöngyös, 2004. p.232-237.