

Can Export Credit Agencies Help Fund Capital Intensive Projects in Emerging Industrializing Economies? Lessons and Applicability in Vietnam

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Abstract

Export growth is now seen by most governments as a key to economic growth and recent growth in emerging East Asia has been export led. The so-called Export Credit Agencies (ECAs) played a critical role in cushioning the downturn in cross border trade to emerging market economies during the global economic and financial crisis that hit in the fall of 2008. This crisis is considered by many to be one of the greatest economic challenges since the Great Depression of the 1930s. In addition to facilitating cross border trade during times of crisis ECAs can also help companies in emerging countries access long term funding and potentially at a lower interest rate than they could locally. This can help companies modernize their processing lines, especially those engaged in capital intensive activities, and enable emerging economies in transition to increase the value added of their industries and boost export earnings. This article discusses the role of ECAs in facilitating cross border trade to emerging markets as well as the economic rationale for the existence of such agencies. It also demonstrates how selected risk mitigation instruments of ECAs, namely: (i) buyer credit guarantee, (ii) supplier credit guarantees and (iii) export loans have been applied in practice. Finally, real cases are presented that highlight how companies have used the service of ECAs, for example, to obtain better terms, including larger loan allocation, and longer term loans at lower interest rates.

Keywords: Cross border trade, emerging markets, financial crisis, export credit agencies (ECAs), commercial and non-commercial risks, and risk mitigation instruments.

1. Introduction

The recent global economic and financial crisis resulted in a sharp fall in international trade in the second half of 2008 and early 2009. In fact, this crisis is considered by many to be one of the greatest challenges since the Great Depression of the 1930s. According to a recent IMF working paper, export credit agencies (ECAs) played an important role in cushioning this severe downturn. The same IMF paper argued that ECAs “may also have played an important signaling role by reassuring the private sector that official institutions stand ready to back up at difficult times.” (Asmundson et al., 2011, p.33).

In addition to facilitating cross border trade during times of crisis, ECAs can also help companies in emerging countries access long term funding at lower interest rates than they could access locally. This can help companies modernize their processing lines, especially processing companies engaged in exporting that uses capital intensive equipment that often requires longer repayment periods. This can also be important for emerging economies in transition that need to increase the value added of their industries to upgrade from low or middle income to high income status. In fact export growth is seen by most governments as a key to economic growth and recent growth in emerging East Asia has primarily been export led.

This article will discuss how export credit agencies can facilitate cross border trade and help contribute to the industrialization of emerging economies. Examples are given to show how various companies have used the instruments of ECAs in emerging markets and

a brief case study in the fisheries sectors in Vietnam is presented. Vietnamese companies may learn from these lessons and consider the applicability of ECA tools in their strategic decisions to upgrade their processing lines.

The discussion in the article will be structured as follows: First, introduction and methodology. Second, ECA’s formation and some basic definitions of commercial and non-commercial/political risks will be introduced. Third, the role of ECAs during times of crisis will be briefly discussed. Fourth, the economic justification for ECAs and some theoretical considerations will be considered. Fifth, some risk mitigation instruments offered by ECAs will be introduced. Sixth, cases that demonstrate the application of ECA’s risk mitigation instruments will be summarized. This section also includes discussion about the findings from a primary research conducted by the authors in co-operation with a large Icelandic company, Marel, in Vietnam. Marel is engaged in manufacturing food processing equipment and has production facilities in a number of countries in Europe, America and Asia. This example demonstrates how Vietnamese food processing companies could benefit from the services of ECAs when upgrading their processing lines and increasing their value added and export earnings. Seventh, conclusions and discussion on the need for future research.

The methodology used in the article is the case study method. Compared to other research methods, a case study enables the researcher to examine the issues at hand more in-depth. According to Yin (Yin, 2009: 101-102) there are six sources of evidence that are most commonly used in doing case studies.

These are: documentation, archival records, interviews, direct observations, participant-observation, and physical artifacts. Each of these sources has advantages and disadvantages and according to Yin one should “note that no single source has a complete advantage over all the others. In fact, the various sources are highly complementary, and a good case study will therefore want to use as many sources as possible” (Yin, 2009: 101).

Among the sources of evidence used for the analysis in this article are interviews with four of the largest fish processors in Vietnam and ECAs in Denmark, the Netherlands, Singapore and Sweden. Documentation/secondary data, including reports and scholarly literature are also used. Direct observation also plays a role in this article as the authors draw on a field visit to four of the largest fish processors in Vietnam in November 2011. Other cases from Vietnam, Jordan and Ukraine that are secondary information from the Danish ECA, EKF, are presented to illustrate how the instruments of ECAs have been applied in real world situations. Case studies do not present results that can be evaluated on the basis of statistical significance and one should be careful in generalizing findings of one case study to another case or other situations. However, some lessons from the study on Vietnam can have a wider relevance than for Vietnam only. This is especially true for emerging market countries with large processing industries, requiring capital intensive processing lines to increase the value added in their processing. This is also true for companies in emerging markets that have limited access to long term funds and often face high and fluctuating real interest rates that

complicate investment decisions and result in sub optimal processing solutions.

2. The formation of Export Credit Agencies (ECAs), and some definitions of commercial and non-commercial risks

What is an ECA and why were they established? On the website of the OECD one can find the following statement “Governments provide official export credits through Export Credit Agencies (ECAs) in support of national exporters competing for overseas sales. ECAs provide credits to foreign buyers either directly or via private financial institutions benefiting from their insurance or guarantee cover. ECAs can be government institutions or private companies operating on behalf of the government” (OECD n.d.).

When private companies engage in cross border trade to emerging markets, the risks they face is a key concern. Managing those risks will be one of the primary objectives of the company. Not only small and medium sized companies need to evaluate and assess the risks with which they are faced with care, but also large corporations with stronger financial capabilities need to protect their businesses from risks. In order to meet this existing demand the political and commercial risk insurance industry has been formed. The leading association in this industry is the Berne Union (founded 1934) with 73 members, including mainly ECAs, multilaterals, and private insurers (MIGA 2010). ECAs are either public-sector institutions in their respective countries, established to provide support for the exports of that country, or private-sector companies that act as a channel for government support for exports from the country con-

cerned (Yescombe, 2002).

ECAs thus facilitate cross border trade by providing insurance or guarantees against commercial and non-commercial/political risks. But what are those risks? MIGA, one of five institutions of the World Bank Group, defines political/non-commercial risk as “the probability of disruption of the operations of MNEs by political forces or events, whether they occur in host countries, the home country, or result from changes in the international environment. In host countries, political risk is largely determined by uncertainty over the actions of governments and political institutions, but also of minority groups, such as separatist movements. In home countries, political risk may stem from political actions directly aimed at investment destinations, such as sanctions, or from policies that restrict outward investment” (MIGA, 2009: 28). The Oxford Handbook of international Business defines political risk as “the probability of disruption to an MNE’s operations from political forces or events and their correlates. It involves governmental or societal actions, originating either within or outside the host country, and negatively affecting foreign companies’ operations and investments. Political risk reflects the degree of uncertainty associated with the pattern of decisions made by the political institutions such as governmental and legislative agencies”¹ (Luo, 2009: 2).

Commercial risk is defined by the OECD (in the context of export credits) as “the risk of nonpayment by a non-sovereign or private sector buyer or borrower in his or her domestic currency arising from default, insolvency, and/or a failure to take up goods that have been

shipped according to the supply contract” (OECD, 2003).

For the purpose of this article we will be concerned with commercial and non-commercial risks faced by exporters who wish to engage in cross border trade with emerging market economies, such as Vietnam. Emerging economies are often undergoing a political and economic transition which makes private sector engagement more challenging than when exporting to high income developed economies.

Companies entering emerging markets can expect to face higher market barriers and more political uncertainties than those entering developed high income countries. At the same time the returns in emerging markets can be high and a proper balance between risks and returns are a key issue for the private sector.

3. Export Credit Agencies during times of crisis

In an increasingly globalized world, continued economic growth depends much on openness of economies and trade among nations. The global economic and financial crisis that hit in 2008 severely affected world trade flows. A recent IMF Working Paper referred to above, shows that exports of advanced, emerging, and developing nations were all growing strongly through mid-2008 but then dropped sharply in the second half of 2008 and 2009 (Asmundson, et al., 2011). According to the IMF working paper the prompt action by the G-20 and ECAs likely helped keep trade flowing during the worst of the disruptions (Asmundson, et al., 2011). A recent column published by two World Bank staff members, titled “Export credit agencies to the rescue of

trade finance” argues that export credit agencies played a key role in stabilizing the trade finance market. They also refer to surveys that have detected an increased need for more guarantees and insurance to facilitate the release of trade finance funds (Chauffour and Saborowski, 2010). Furthermore, according to Steve Tvardek at the OECD, when discussing trade flows in the aftermath of the economic and financial crisis that started in the fall of 2008, “ECAs not only became more important than ever as a source of trade finance, they actually became one of the principal policy tools governments used to cushion the real economy from the chaos in the markets” (Tvardek, 2011: 1). The demand for the services of many ECAs increased during the crisis. For example according to EKN, the Swedish Export Credit Agency, the volume of guarantees issued increased from more than SEK 20 billion in 2007 to more than SEK 115 billion in 2010 (EKN, 2010). This evidence unequivocally illustrates that risk mitigation instruments are in high demand in a high income country like Sweden.

4. Export Credit Agencies, economic justifications and some theoretical considerations

According to Raoul Ascari² the rationale for establishing an ECA has never been spelled out in a definite way. Furthermore, he states that the “economic literature on this line of research has almost disappeared over the last two decades” (Ascari, 2007: 3). Ascari, however, refers to the World Bank Research Observer from 1989 that lists some rationales behind export credit. These are: domestic distortions, capital market failures³; risk uncer-

tainty and incomplete insurance markets; moral hazard⁴, and adverse selection⁵. As Ascari points out, moral hazard and adverse selection may raise premiums above the threshold at which exporters are willing to buy insurance (Ascari, 2007: 3). Other rationales for export credit and insurance are: industrial policies; export externalities; employment and balance of payments, and matching other countries programs (For detail, see Fitzgerald and Monson, 1989; Ascari, 2007).

A recent EFIC report argues that some ECAs constitute industrial policy institutions that contribute to explicit government policy objectives, including expanding exports from strategic sectors (For example, resource and energy security, job-creation or other industry sectors). According to EFIC this applies to some Asian institutions like JBIC and NEXI of Japan, Kexim and K-Sure of Korea and CHEXIM and Sinosure of China (EFIC n.d.).

According to a report published by the WTO in 1999, aggravated asymmetric information⁶ in cross border trade, and the inability or unwillingness of private commercial banks to take on economic/commercial risks and political/non-commercial risks is often seen as an economic justification in trade financing (Finger and Schuknecht, 1999). This is especially true for large and long-term trade contracts to countries with less developed financial systems. Obviously asymmetric information can be significantly larger in international trade, as compared with domestic trade. This is because information about foreign companies (e.g. importers) is often more limited or less familiar to the supplier or exporter and his bank than in the case of domestic clients. This

problem relates to commercial risks. Another problem associated with distant markets has to do with policy changes which make transfer of foreign exchange difficult or impossible, thereby preventing the importer/purchaser from making a payment to the exporter/supplier. This problem relates to non-commercial risks.

ECAs from developed countries can help in this process if they guarantee exports to emerging markets and by doing so reduce the needs for domestic financing. ECAs can provide cover for both commercial and non-commercial risks. In fact most developed countries have ECAs that help promote exports. As Finger and Schuknecht point out ECAs provide trade related financing through three main instruments: (i) credits for trade transactions which would be difficult, or more costly to finance via commercial lending, (ii) guarantees for repayment of credits which help exporters receive more favorable lending terms from their local or international banks, (iii) insurance for exporters against commercial and non-commercial/political risk (Finger and Schuknecht, 1999: 9).

5. ECAs' risk mitigation instruments

In general, ECAs will charge a premium to those companies who use their products. According to MIGA the "OECD country ratings are designed to set guidelines to price the default risk on export credit and to set minimum premium rates charged by participating ECAs" (MIGA, 2010: 63). The ratings known as the Knaepen Package which came into effect in 1999, is a system for assessing country credit risk and classifying countries into eight risk categories, from 0 to 7 (OECD n.d).

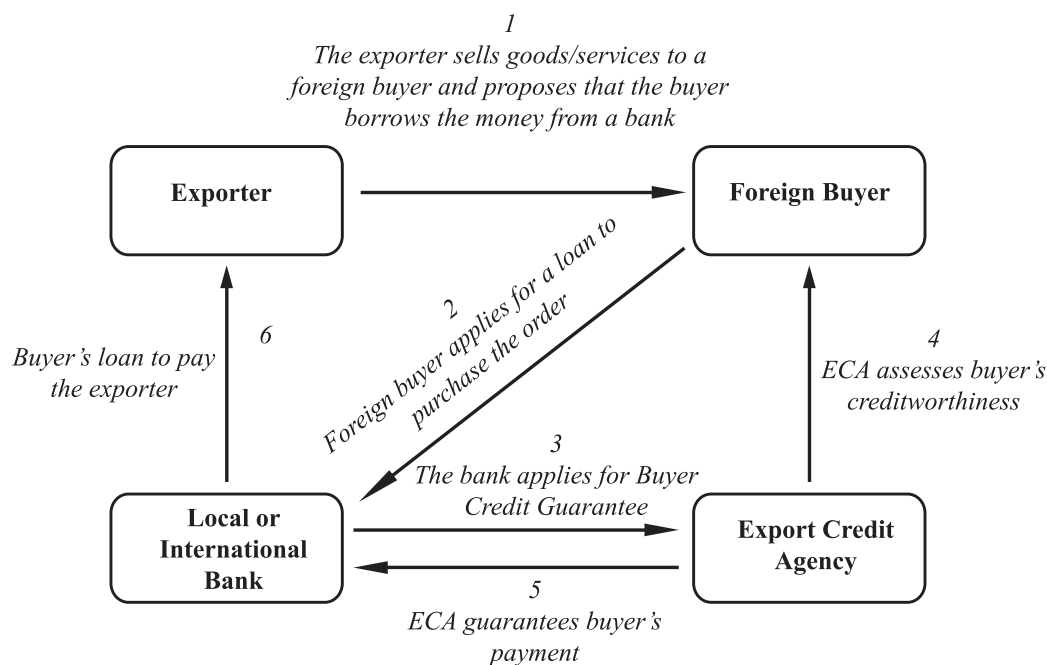
Basically, ECAs will assess political risk and commercial risk when they issue guarantees to exporters or foreign buyers. ECAs use country ratings by OECD as a platform to assess political risk or country risk while commercial risk is assessed based on each individual corporation's information such as operation and background information, financial and audited annual reports, project feasibility studies, etc. Companies that are eligible to use products or services provided by an ECA must have their operations relevant to the national interest of the country where the ECA is located. In other words, the companies must contribute to the national economic development of that country in a direct or indirect way. For instance, a company must have production facilities located in the home country of the ECA. The ECA can also support a home company that has production facilities in a host country.

There are various products or risk mitigation instruments offered by ECAs. The products that this article focuses on are: (i) Buyer Credit Guarantees, (ii) Supplier Credit Guarantees and (iii) Export Loans. The authors of this article chose those three products based on their research of a large European company, Marel, in connection with its business expansion in Vietnam. These products seem to be suitable for risk mitigation when companies export goods or services to their buyers in emerging markets. However, companies need to find what product suits them best on a case-by-case basis.

5.1. A Buyer Credit Guarantee

A Buyer Credit Guarantee is basically a guarantee issued by an ECA to a bank that lends money to a foreign importer to pay for an

Figure 1: Model of Buyer Credit Guarantee of the Danish ECA – EKF



order of goods or services from an exporter in the country where this ECA is located (see Figure 1). In emerging market countries, both local and international banks are cautious when deciding to lend capital to companies. A field research⁷ among the largest fishery processors (ranked by VASEP⁸) in Vietnam, conducted by the authors in November 2011, found that when companies applied for medium or long-term loans (up to 5 years) to invest in their processing equipment, they usually only got 50 to 55 per cent of the amount requested. If a company had good working experience and good relations with a local bank, and the feasibility study of their project was highly assessed, the amount of the loan could be increased to 70 per cent of the total

loan requested. The companies had to use their own funds for the rest of the investment. Some processors said that they found difficulty obtaining any medium or long term loan if the size of the loan was up to several million US dollars. This has been one of the companies' main constraints and it prevents companies from investing in comprehensive and modern processing lines. Often they end up buying piecemeal solutions that are unlikely to result in the highest value added in that industry.

A Buyer Credit Guarantee can help foreign buyers in emerging markets to obtain larger loans from international banks with longer lending terms and at more favourable interest rates. This can also be done through a local bank but it would normally take more time as

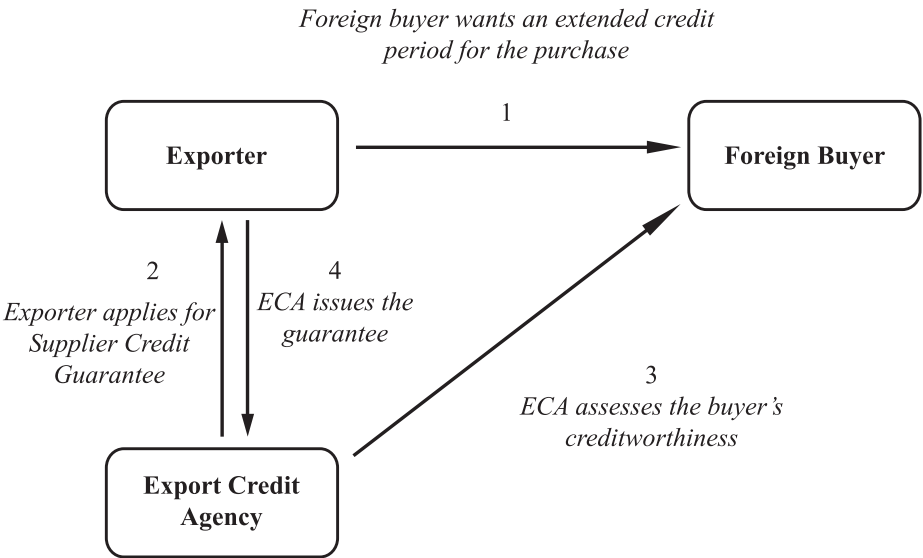
the ECA is more likely to know the international banks. The bank will then be covered from buyer's default in repayment due to either commercial or non-commercial risks.

5.2. A Supplier Credit Guarantee

A Supplier Credit Guarantee is a guarantee issued by an ECA to the supplier or the exporter and this exporter can then grant the foreign buyer extended credit on amounts payable for the order. The supplier or the exporter will be protected against the risk of not being paid by the buyer or the importer due to political or commercial risks. The exporter can take advantage of supplier credit guarantee to lend to the foreign buyers in an emerging market where an extended credit period may be the key incentive for the buyers to select the

most competitive supplier over the others. Supplier Credit Guarantee helps the buyer or the importer repay the order over a longer period (see Figure 2). This can be very advantageous for a buyer who may have a limited cash flow and has difficulty in accessing funds. During a research conducted by the authors of this article among the 20 largest Vietnamese fishery processors in August 2011, a questionnaire was sent out. All of those who answered indicated that they had to pay the supplier within 3 to 6 months after the equipment had been fully installed and checked. This short-term repayment period for the equipment from the supplier was one of their main constraints, especially for companies who lack working capital and have difficulty in obtaining loans. The field research conducted by the authors in

Figure 2: Model of Supplier Credit Guarantee of the Danish ECA – EKF



November 2011 found that these companies had not been offered an extended credit period from any supplier. They had to apply for loans from local banks with high interest rates. Most loans lent to them were both short-term loans (less than 12 months) and the amount allocated was far lower than the amount they requested. This constraint appears to be one of the reasons why Vietnamese fisheries processors could not purchase sophisticated processing equipment from European manufacturers on a large scale. Comprehensive processing lines are not affordable for these processors.

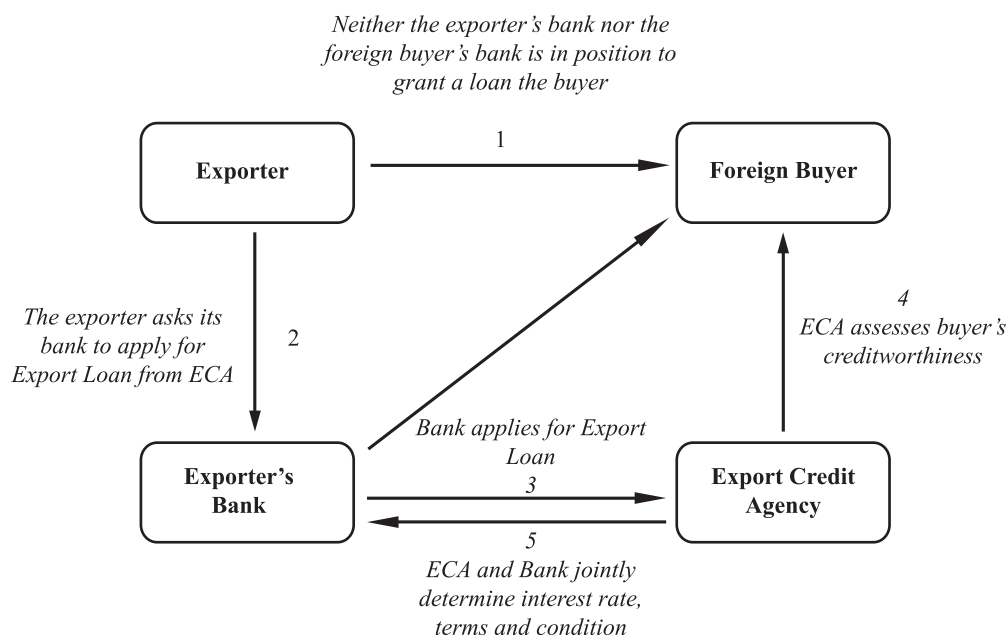
They only purchased a small part of the equipment needed from these manufactures and the rest of the processing lines were locally made or imported from more affordable Asian manufacturers like China. This suggests

that if buyers from an emerging market like Vietnam were offered an extended credit period, it might affect their investment decision which means that they would perhaps invest in more sophisticated processing equipment on a larger scale. Some of the processors in Vietnam indicated that if they were granted a longer repayment period from the supplier and at reasonable cost they would consider to invest and modernize their processing lines more comprehensively. See figure 2 for the description of how Supplier Credit Guarantee works.

5.3. An export loan

An export loan is a lending scheme to help the exporter's foreign buyer when this buyer is unable to secure credit facilities from banks for purchasing products and services from the

Figure 3: Model of Export Loan of the Danish ECA – EKF



exporter (see Figure 3). In the case of EKF, the Danish Export Credit Agency, they would facilitate the export loan through a bank, and the loan would be based on the bank's lending terms. It depends on each individual ECA whether or not they offer the export loan product and how long the lending term will be. But this product is very important during a financial crisis when banks are unable to provide loans to companies. The EKF offers export loans as a result of the crisis and application for an export loan from EKF can be made until end of 2015.

However, the associated costs and premium for this Export Loan scheme is not necessarily cheaper than other traditional lending schemes because the export loan is granted jointly by a bank (usually the exporter's bank) and an ECA to the foreign buyer on a commercial basis and market conditions. An export loan can be even more expensive but it also can be critically important in international trade, especially during times of financial crisis where many banks are unable to provide funds to companies. The next section will illustrate how this product is applied in a case in Jordan.

6. The application of ECAs' risk mitigation instruments in real world situations and applicability in Vietnam.

Continuous opening up of emerging market economies provides companies with many new opportunities, but at the same time it involves international business risks. This section discusses some success stories of companies who used products of the Danish Export Credit Agency, EKF when engaging in cross border trade.

It should be noted that the costs of using

ECAs' instruments must be done on a case-by-case basis for each company and every case. Whether or not a company will benefit from using ECA instruments depends on many factors; e.g. country risks, industry risks, companies' profitability and financial structure, project feasibility study etc. Financial data from companies that have used the instruments of ECAs is often difficult to obtain. ECAs also normally would not make financial data public unless the participating companies agree. Following are selected cases attempting to illustrate the applicability of ECAs' instruments in emerging markets, including in Vietnam.

6.1. Olam International Limited and the use of Buyer Credit Guarantee from Danish ECA - EKF – for a manufacturing facility in Vietnam (2009)

Olam is a leading global supply chain manager and processor of agricultural products and food ingredients. With direct sourcing and processing in most major producing countries for various products, with the headquarters in Singapore, Olam has built a global leadership position in many businesses, including cocoa, coffee, cashew, sesame, rice, cotton and wood products. Olam operates an integrated supply chain for 20 products in 65 countries, delivering these products to over 11,000 customers worldwide (Olam, 2011).

The challenge

In the year 2009, Olam was looking to invest in equipment for its new coffee manufacturing facility in Vietnam. Olam chose a Danish company, namely GEA Process Engineering A/S, as the supplier. Unfortunately, the global economic and finan-

cial crisis made it difficult for Olam to secure the financing it needed to buy the equipment. At the same time, Olam's bank was reluctant to secure long term financing. "Owing to the lack of liquidity in the financial market in February 2009 it would in all probability have been impossible to secure financing with a repayment term beyond 2-3 years for Olam," says Antero Ranta from Olam's bank, ANZ Structured Asset and Export Finance, in Singapore

The process

Thanks to the long standing working relations between GEA and EKF, GEA proposed that EKF be involved in the process of procuring financing for Olam's project in Vietnam. "I was convinced that EKF would be able to assist in putting the financing in place. For our part, it was all plain sailing, as, right from the start, our customer and ANZ were keen to take over and deal with EKF directly," says Jesper Duckert, Project Finance Manager, GEA Process Engineering A/S. In order to implement the financing negotiations, EKF decided to send its representatives to Vietnam and had a meeting with representatives from Olam and ANZ Structured Asset. After the visit to Vietnam, EKF had a better basis for assessing the actual credit risk entailed by the project.

The solution

After the meeting and negotiation EKF came up with a detailed assessment of the project and was able to offer a buyer credit guarantee. This guarantee meant that EKF assumed a share of the risk of extending a loan to Olam, and therefore, ANZ could secure financing for Olam as they needed. "With an export credit guarantee from EKF we were able to offer

Olam a loan with a repayment term of 8.5 years," says Antero Ranta from ANZ Structured Asset and Export Finance in Singapore. "In spite of the financial crisis we were able to secure long-term financing for our activities on a growth market," says Arun Sharma, Senior Vice President, Coffee Division, Olam (EKF, 2009a).

6.2. A Jordanian company, namely Modern Cement & Mining Company, and the use of Export Loan and Buyer Credit Guarantee from Danish ECA – EKF (period of credit: 2010 to 2017)

The challenge

In July 2008 the Jordanian company Modern Cement & Mining Company chose a Danish company namely FLSmidth as an equipment supplier for its new cement plant in the south of Amman. The first deliveries were already paid for by the Jordanian company, but the main part of the order was to be financed by a local bank. However, due to the global economic and financial crisis, the bank turned down applications for new loans. This threatened the progress of the construction and the order of FLSmidth. FLSmidth decided to contact EKF in the spring of 2009 because FLSmidth had previously been assisted by EKF with guarantees for financing solutions.

The process

EKF had meetings with a number of international and local banks who expressed their interest in taking on the risks of the project provided that EKF would guarantee most of the loans. Furthermore, through the export lending scheme EKF was able to offer a loan to the buyer of FLSmidth services. Then EKF

quickly endorsed the project. “EKF’s endorsement was conditional on the approval of the risks and terms in the transaction, its environmental impact and the extent of the Danish economic interest in the transaction – aspects which all needed further examination and subsequent negotiation with the parties involved” (EKF, 2010).

The solution

Finally the solution came into place in May 2010. “Half of the FLSmidth contract was financed with equity from the owners of the cement plant while the other half was financed with loans. More than half of the debt financing came from the Danish export lending scheme administered by EKF, while the remainder was provided by a group of local banks” (EKF, 2010). HSBC London arranged the EKF financing. HSBC London was also acting as agent bank on behalf of EKF. Thanks to EKF’s loan and guarantee, the construction of the cement plant in Jordan could continue as planned. (EKF, 2010).

6.3. Grain and seed exporter Nibulon Company in Ukraine used EKF’s Buyer Credit Guarantee to borrow money from a European Bank at a far lower interest rate than in Ukraine

The challenge

In 2009, a Danish company, Cimbria Unigrain received the first of two large orders worth EUR 20 million from Nibulon, Ukraine’s largest grain and seed exporter and a high-growth company. This order consisted of eight silo facilities for storing, drying and loading grain and seed. And Nibulon used this equipment to extend and standardize its stor-

age and transportation facilities by the rivers of Ukraine and the Black Sea. However, the Ukrainian buyer’s constraint was that they had to borrow at a high interest rate in Ukraine to pay Cimbria Unigrain. And this might have created uncertainty regarding the order from the Danish manufacturer.

The process

Cimbria contacted EKF and EKF agreed to assess the viability of the export order and work on the financing options via a guarantee from EKF. “Even allowing for the premium payable to EKF, Nibulon is making a big saving,” says Sales Director Henning Roslev Bukh. He adds that Nibulon regards Cimbria Unigrain and EKF as important and regular business partners.

The solution

Finally EKF offered a buyer credit guarantee to Nibulon. This meant that Nibulon was able to secure a loan from a western European Bank at a far lower interest rate than in Ukraine. “Nibulon is very pleased that it was possible to arrange a Danish guarantee for this order. We might well have got the order anyway, as Nibulon has ordered from us for many years and is very satisfied with our products. Nibulon could perhaps have financed the purchase with equity, but it is often cheaper to borrow the money than to use equity, and equity is greatly needed in a growth-oriented company such as Nibulon,” says Henning Roslev Bukh. And in 2010, Nibulon made another order for eight silo facilities – and once again, EKF provided a guarantee for the buyer’s payments. Thanks to this order Cimbria Unigrain has hired 30 employees in 2010 (EKF, 2009b).

6.4. Marel's expansion in Vietnam

Marel is among the leading manufactures internationally in food processing equipment and solutions. Marel is headquartered in Iceland⁹ and has production facilities for processing lines for fish, poultry, and meat in a number of European countries, as well as in America and in Asia. An exporting company like Marel constantly needs to enter new markets and work with new clients. Marel is ambitious to expand their business in emerging markets where food processing industry is becoming more important such as in emerging East Asia, including China, Thailand and Vietnam. However, the purchasing volume of buyers from these markets remains low, especially in Vietnam. A research conducted by the authors in cooperation with Marel, mentioned above, among largest pangasius processors in Vietnam, found that Vietnamese buyers bought some limited processing equipment rather than investing in comprehensive processing lines. During in-depth interviews with 4 of the largest Vietnamese processors, the authors were told that most of the equipment made by European manufacturers is very sophisticated and advanced, however, this equipment is too expensive for them to purchase on a large scale. Instead, they needed to select just some equipment which is most critical for them. The remaining equipment they bought from more affordable manufacturers in neighboring Asian countries and some other equipment is locally made. When asked, these processors said they were aware of the fact that having advanced equipment in their processing lines could enable them to export more of their products to high income markets like USA, Europe and

Japan. The critical issue is lack of funding which prevents them from investing in capital intensive and more comprehensive processing lines. The issues here include the low amount of loan allocation from local banks, limited availability and accessibility to long term loans, especially in foreign currency, including USD, high interest rates, short repayment periods to the equipment suppliers etc.

At the same time, the authors visited and interviewed some ECAs in Europe, such as EKF (Denmark), EKN (Sweden) and Atradius (Netherlands), and ECICS in Asia (Singapore). In response to the question what products offered by ECAs they thought would be most suitable for Marel and its buyers in Vietnam given the constraints mentioned above, these ECAs thought that two products should be suitable. These were: Buyer Credit Guarantee and Supplier Credit Guarantee (described above). The recommended products of ECAs could help Marel achieve its goal, which is to expand its business in Vietnam and the Vietnamese processors to purchase processing lines that would enable them to increase further the value added of their production. However, the ECAs also said that in order to be supported by ECAs' instruments, the Vietnamese buyers needed to fulfil requirements in terms of being able to provide sufficient and transparent information about their companies, especially financial information, including audited annual reports. The readiness and good "home-work" of Vietnamese buyers would help the process of ECAs in assessing their creditworthiness and making decisions on their requests quicker. Most of the Vietnamese fishery processors now are work-

ing with local banks, both state owned and private, however, ECAs indicate that if foreign buyers work with international banks it will normally make the process faster because ECAs have more working experience with large international banks than local banks in a specific country.

For ECAs and the lending bank firm, past performance is thus a critical element of consideration when determining creditworthiness and is a primary indicator of future repayment potential. Further research needs to be done to assess if this approach results in strong risk aversion that favours past performance over the processor's future potential.

7. Conclusions

Export growth is seen by most governments as a key to economic growth and recent growth in emerging East Asia has been export led. The so called Export Credit Agencies (ECAs) played an important role in cushioning the downturn in cross border trade during the economic and financial crisis that started in the fall of 2008. This article discussed the role of ECAs in facilitating cross border trade to emerging markets during times of crisis as well as the economic rationale for the existence of such agencies.

Continuous opening up of emerging market economies provides companies with many new trade opportunities, but at the same time it involves international business risks. When companies engage in cross border trade they are likely to face higher risks than in domestic markets. These risks can be political and commercial risks and the level of risk is also different in different markets. In order to cover the existing demand and to promote the export of

their home products, ECAs worldwide provide various risks mitigation instruments for cross border trade. Through the research done by the authors and the cases described in this article, we can see that there are real possibilities for companies to have risks covered and thus enhance their business development, especially when they tap into emerging markets.

In addition to facilitating cross border trade, ECAs can also help companies in emerging countries access long term funding at lower interest rates than they could access locally. These can both be done, because an ECA guarantee reduces the risk for the lending bank, and because borrowing in foreign currencies can lower the interest rates. Borrowing in foreign currencies can be especially feasible for companies who receive income in the same foreign currency. Access to longer term loans at lower costs can help companies modernize their processing lines, especially those engaged in capital intensive activities, and enable economies in transition to increase the value added of their industries and increase their export revenues.

Companies who want to use the services of ECAs need to enable them to assess their creditworthiness. This is especially true for the foreign buyers. Therefore, in response to this issue, foreign buyers should provide full and transparent financial information to help the process move faster, including audited annual reports. The availability of audited financial statements according to international standards helps reduce the information asymmetry that exist between the ECA, the foreign exporting company and foreign bank on one hand, and the local company and the local bank on the

other hand.

Currently ECAs often prefer working with international banks that they know and with whom they already have a business relationship, so it could be advantageous for buyers in emerging markets to seek loans from international banks or international financial institutions such as the Asian Development Bank and the International Finance Corporation of the World Bank Group, etc.

The products offered by ECAs show that the risks associated with political and commercial risks in emerging markets can be managed, and the cases discussed in this article are tangible evidence of recent success during a global economic and financial crisis. Those transactions would hardly have taken place unless the parties involved considered them mutually beneficial. Nevertheless, more research needs to be done to assess the costs of using the services of the ECAs on one hand and the benefits of longer term loans, possibly with lower interest rates, on the other hand. This can, however, be difficult as ECAs, banks and companies

engaged in cross border trade often are reluctant to share data on those transactions.

It is understandable that the ECAs and the lending banks consider firms' past performance as a critical element of consideration when determining creditworthiness, and as a primary indicator of future repayment potential. Further research needs to be done to assess if this approach results in strong risk aversion that favours past performance but ignores the processors future potential.

Although this article mainly focuses on Vietnam, some lessons from the study can have a wider relevance than for Vietnam only. This is especially true for emerging market countries with large processing industries, requiring capital intensive processing lines to increase the value added in their processing and to boost export revenues. This is also true for companies in emerging markets that have limited access to long term funds and often face high and fluctuating real interest rates that complicate investment decisions and result in sub optimal processing solutions.

Notes:

1. Different conceptualization of political risk can lead to different data sources, analytical tools, and interpretation of results (Luo 2009).
2. At the time of writing his paper (2007) Raoul Ascari was the CFO of SACE. Currently he is the Chief Operating Officer of SAGE. In an email to the authors dated February 22, 2012 Ascari confirmed with the authors of this article that according to his knowledge this gap in the literature still exists.
3. Incomplete information on export risk can, for example, cause lenders to charge higher rates or to demand more collateral.
4. Moral hazard is a problem created by asymmetric information after the transaction occurs. This occurs when the borrower engages in activities that are undesirable for the lender in the sense that they make it less likely that the borrower can pay back the loan. In the case of ECAs moral hazard would exist if the insured exporter has an incentive to change its behavior once it has the insurance. The exporter would sell to a riskier importer and transfer higher risk than he would want to bear in the absence of insurance.
5. Adverse selection is the problem created by asymmetric information before the transaction takes place.

This occurs, for example, when the borrower who is least likely to produce a desirable outcome most actively seeks a loan and thus is most likely to get the loan. Exporters would have an incentive to insure only high-risk sales but not those that are considered low risk.

6. This implies that one party does not have enough information about the other party to make decisions. For example, the borrower who takes a loan often has better information on the potential returns on an investment project than the lender has.
7. In co-operation with Marel Food Systems, the authors selected, visited and interviewed 4 of the largest Vietnamese pangasius processors in order to understand their difficulties and constraints in modernizing their processing lines. Export value of these processors on a yearly basis varied from USD 17 million to USD 61.7 million in 2010 (according to statistics from VASEP sent via email July 22, 2011). These companies are thus an important source of foreign exchange for Vietnam.
8. Vietnam Association of Seafood Exporters and Producers (VASEP) is a non-governmental organization, established on June 12th 1998, based on the principles of volunteering, autonomy and equality. VASEP members include leading Vietnamese seafood producers and exporters and companies providing service to the seafood sector.
9. Iceland has an ECA called TRÚ. This agency has so far been inactive and has never processed a transaction. Since Marel has production facilities in several countries the company can use the services of the ECAs in those countries. Iceland, like several small states, also has limited membership in international financial institutions (IFIs) and is not a member of the regional development banks (see, for example, Hilmarsson, 2011). This limits the access of Icelandic companies to the risk mitigation instruments of IFIs. For more detail about the application of IFI risk mitigation instruments in emerging market economies see, for example Hilmarsson 2012.

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