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Financial Support for Polish Businesses Abroad

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Financial support from public funds is aimed at increasing the competitiveness of exporters and investors. Financing the activity of businesses abroad is a tool for a country in its rivalry on international markets. To increase the chances of Polish companies to win foreign contracts, the state system of support for such businesses should include higher spending, improvement of existing instruments and broadening of their scope, and increased recognition among entrepreneurs.

Export Credit Agencies. Public financial support for companies active abroad is provided by Export Credit Agencies (ECAs). These are public or private institutions that act on behalf of the state. They have at their disposal such instruments as credits, guarantees or insurance on foreign transactions. Despite their popularity (there were more than 80 ECAs in almost 70 countries in 2015), an assessment of their activity gives an ambiguous result. They seem to be effective in export support: available research suggests an increase of 3.3 p.p. after the ECA's first three years, by 2.8 p.p. in the 3-7 year period, and by 2.7 p.p. after at least seven years. Nevertheless, there are objections to the side effects of an ECA, including additional debt in poor countries and limits on private-sector activity. However, the aim of the ECAs is not to replace commercial banks but to provide financial support when the private sector's is insufficient. They are useful for long-term projects (such as infrastructure), countering an economic slowdown, and in competing on markets with a high level of economic or political risk. The last point is especially relevant to Poland, which strives to have a more significant presence on rapidly developing but also demanding non-European markets.

ECAs not only employ manifold instruments but also vary in organizational forms. One agency can be responsible for granting credit as well as insurance (such as the U.S. EXIM Bank or Turkey's Türk Eximbank) while another may be two separate bodies (as in Czech Republic and China). Moreover, private entities can be involved in the whole process as in Germany and France, where Euler Hermes and Coface, respectively, have goals commissioned by the government. Then there are ECAs that use state budget financing (most agencies) and others that hinge on self-financing, such as Export Development Canada. Some ECAs finance not only exports but also imports when it is crucial to the national interest, for instance, Japan Bank for International Cooperation (JBIC) finances the import of natural resources to Japan.

Financial Competition. The significance of ECAs has grown after 2008. Amid the global financial crisis, they played an important role in stabilising a world trade system facing a shortage of private-sector lending. In 2015 along, the eight largest ECAs provided short-term support (for up to two years) of $680 billion, or more than the nominal GDP of Poland. China led with more than $360 billion, ahead of South Korea (more than $130 billion) and Canada (more than $60 billion). In terms of medium- and long-term instruments (more than two years), OECD and BRICS members provided financing worth about $250 billion total. China also was a significant actor in this area, with more than $100 billion in support.

For many years, OECD countries played a leading role in financing export and foreign investment. Its members follow non-binding rules established in 1978 regarding medium- and long-term credits that stipulate the allowed interest and repayment period. These rules are meant to prevent excessive competition among the ECAs. However, in the last dozen or so years, two main trends in export financing have become visible. The first is countries that are not members of OECD, especially China, have gained a stronger position in global exports and investment financing. These countries can fix more favourable conditions of financial support than the OECD members and which makes their companies more competitive. Second is that more funds are allocated through instruments that do not fall within the

OECD rules, such as investment financing, and so are used as well by members of the organization. In total, financing within OECD rules represented around 50% of measured support in 2011, but shrunk to around a third by 2015. It is worth mentioning that OECD rules do not apply to short-term credit, for which repayment conditions can be more flexible.

Poland's System of Support. Poland's answer to strong international competition is a modification of its system of export and investment support. The key role will be played by the newly established Polish Development Fund (PFR), which is supervised by the Ministry of Economic Development. PFR is a capital group that includes not only the Polish Investment and Trade Agency (PAIH), responsible for merit-based support for Polish exporters and investors, but also financial institutions—the State Development Bank of Poland (BGK) and Export Credit Insurance Corporation (KUKE). BGK offers support for goods with a Polish component and depending on the credit can be a minimum of 30-40% of net contract revenue. Among the short-term instruments offered by BGK, credit is very common, such as a documentary letter of credit for postfinancing, while among its long-term tools is direct credit for an importer to purchase investment goods and services. KUKE insures the credit given by BGK, including for companies from countries with higher trade risk, such as those in Asia or Africa. Despite increased interest in BGK and KUKE services, entrepreneurs have expressed reservations about using the agencies, such as their preference for relative low-risk transactions and high fees for such things as insurance for non-European markets.

PFR plans to allocate about 60 billion PLN (around $16 billion) to finance overseas activity of Polish businesses over the next couple of years. These funds will be distributed by BGK, KUKE and commercial banks. Funding mechanisms should include direct financing, including credit (about 36 billion PLN), insurance, and factoring (9.6 billion PLN), guarantees (8.2 billion PLN), accounting limits on letters of credit (3.5 billion PLN) as well as funds for the Polish International Development Fund (FEZ), which aims to co-finance foreign investment in Polish enterprises (1.5 billion PLN). Until now, support for Polish companies abroad has been much lower, around 4.3 billion PLN (about $1.15 billion) in 2015, out of which BGK provided credit worth around 1.3 billion PLN (about $350 million) and KUKE insured trade turnover worth about 3 billion PLN (around $800 million).

Best Practices. Financial support should be an important part of building up the international competitiveness of Polish companies, especially on distant and difficult non-European markets. PFR's plans to increase public financing for Polish exports and foreign investment is the right answer to world trends in this area. However, its instruments should be enhanced based on the results of pilot programmes, for example, on insuring bonds that secure the execution of an export contract (similar to one used by UK Export Finance). It is worth considering stronger engagement in areas where OECD rules do not apply such as higher investment financing for projects where Polish companies have shares or serve the national interest (China, Japan and South Korea are high spenders in this area). To do this, the existing FEZ can be used. Moreover, it is possible to provide support not tied directly to the purchase of Polish goods, such as through credit for foreign partners that may affect their decisions to buy Polish products or services (Canada uses such a programme). It is also important to lower the fees for services to attract companies to use them and more often.

Entrepreneurs interested in using financial support to enhance their exports or investments should receive clear and coherent information on the topic. An electronic guide with details about what BGK and KUKE offer as well as on other sources of financing (including EU funds) can be helpful. It also is valuable to establish an evaluation committee, including external experts, to assess the effectiveness of the financial support for exports and investment and their impact on economic policy goals, such as job creation (a similar mechanism is used by the Japanese JBIC). Moreover, an e-magazine about BGK, KUKE and PAIH covering the activity of these institutions and export opportunities (modelled on the Japanese *JBIC Today*), which can complement their newsletters and economic services, can be created. The e-magazine could be promoted to chambers of commerce and business associations throughout Poland.