Financing the Commerce - Creating Capacities and Diversifying the Offer within the National Financial Field

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Abstract:
Romania has always aimed for creating a friendly financial sector for the exporters, which has to be able to contribute to an increased national competitiveness. In order to have a relevant strategic answer for this sector, the main objectives, such as increasing the budget resources to finance the exports and activities that have been carried out for these, the easier access to credits for the export, structured dialogue and a better communication and cooperation between banks, insurance companies and exporters or increased management ability of the risk have to be carried out within strategic sectors. The Romanian vision on financing the Romanian exports is represented by the contribution for an increased national competitiveness. The globalization process of the world economy has strengthened the competition of the international trade, especially on diversifying the financial facilities and payments. Within this context, successful promotion of the Romanian exports has depended not only on quality, price, delivery conditions and warranties, but also on a competitive financial offer, in order to credit the importers.

Keywords: financial sector, national competitiveness, international trade, strategic policy

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1. Introduction
Considering a theoretical approach, the financing represents all mechanism, techniques or instruments, by which an entity or company can be provided with necessary money means, so as to accomplish certain economical-social activities, in particular of business. If within the structure of a process the element of extraneity is used, one might think of international financing; it is enough that any part involved, meaning the seller or the buyer, and respectively one of the banks (or insurance companies) to be foreign part, so as to conclude an international trade transaction. Financing the external trade operation, according to G. Albaum, is directly and strongly related to means by which the price of export of goods or services was established; in this way, negotiating of prices of export/import should not be approached isolated; the banks involved within external operations will also report to the clause of deeds prices, the means of financing and the means of payment.

Generally, the financing of a company’s business (on the internal market) can be performed of two main categories of sources: those own, respectively those established for or resulted from the economic activity of it and those attracted, respectively the loans taken so as to carry out or develop the business; in the latter situation, the financing is established according to a crediting relation (the appealing to bank institutions on the internal market is also almost compulsory). The general principles that guide the decision of financing are the same for the international and intern environments; it is about the financing cost and implicitly, about the risks assumed. Though, the international financing can be distinguished by a series of elements that increase the level of complexity; the geographical distance, the time period, the currency risks and many other aspects that are related to general risks within an international trade transaction and which will mark the operation of financing. As a matter of fact, it is not unusual that in such situations, the
seller/exporter to take care of financing for the buyer, as component part of the seller’s responsibility on ensuring the success of an operation.

Financing the international transaction involves the use of two or more national currencies. As a result, a critical factor on the international financing decision is the rate of exchange, respectively the level/variations of national currency, expressed into other currencies. Subsequently, the necessity of taking into consideration the currency risk and, implicitly the use of different clauses or methods of covering the risks will result. Nowadays, we assist to a situation that was unconceivable half century ago, meaning an unprecedented globalization to financial markets; any operator on external markets can and is tempted to procure necessary funds from tens of available international sources. What is the most favorable source of international financing? How are the risks associated to an external credit determined or estimated? What alternative sources of financing can be accessed? The computers, satellite communications, wireless telephones, electronic mail and faxes connect directly the creditors and debtors from the entire world, according to Richard Lipsey; various funds are transferred to a market until its daily closing, and then these funds are automatically directed to another market; the funds are freely moving from London to New York, from Tokyo and back to London, by a single daily rotation; the exporters and importers are allowed with almost unlimited access to funds in foreign currency, or even in a higher degree than funds in own currency.

Regarded from another point of view, financing the external trade activates is analyzed from two perspectives:

- a monetary-banking point of view, which includes the amounts of money in different currencies, with which banks are contributing to carry out the external operations;
- a larger point of view, which includes all the means of assuring the payment modalities, in international transactions.

Considering both perspectives, financing the external trade of a country can take place of:

- internal sources: by which the export is financed upon basis of credits and subventions, which on their turn are basing upon export incomings and services performances;
- external sources: the import is mainly financed, upon basis of certain funds allocated as credits by other states, international financing institutions (FMI-International Monetary Fund, World’s Bank, etc.) or other foreign particular banks.

On financing the external trade, many types of credit techniques and credit categories are applied. Concisely, the credits of the external trade can be classified, in accordance to many criteria, meaning:

1. according to the object of credit:
   - trade credits, which are usually provider’s credits, given in order to finance the export of merchandise, cars, equipments, etc.;
   - bank or financial credits, which are usually buyer’s credits, given in order to carry out some imports.
2. depending upon participants:
   - governmental credits, practiced between states (by means of the banks);
   - bank credits, to which only the bank and its customer participate;
   - credits given by the international financial institutions (World’s Bank, BIRD-International Bank for Reconstruction and Development, etc.);
   - euro-credits, given in euro-currencies by bank consortium to public or private customers.
3. according to credit duration:
   - short term credits: 0-2 years;
   - mean term credits: 2-5 years;
   - long term credits: 5-10 years or more.
4. depending upon the modality of offering the credits:

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current account credits, given by the trade banks to customers (are completed by the repayment credits);
- discount credits, resulted by discounting the rates appeared within international transactions.

5. depending on reimbursement warranty:
- secured credits;
- not-secured credits.

6. considering the cost of giving:
- credits with fixed instalment rate;
- credits with variable instalment rate.

2. Financing techniques on short term

Short term financing has as aim the assurance of certain payment means, for the producer using export or the exporter that sold the merchandise by credit, following to recover from the importer the export counter value within a certain period of time, up to one year, one year and a half.

The short term credits can have a pre-financing character of the operations, being connected to the activity of production-export for the bank’s customer. Other credits are strictly connected by an export operation and can be given to the export producers or to trade companies with exporting and importing activities.

Pre-financing credits

The current financing of the production activity for the export can be accomplished, as any other business, of the own funds of the producing company (self-financing) or by calling the bank advance payment (the advance payments and credits on current account). An enterprise that has a regular turnover from exports can follow the pre-financing of its activities by many methods:
- a pre-financing by advance payments achieved from its importers (customers);
- a pre-financing by a document credit started by the importer (a credit of red clauses type, or that of revolving, etc.);
- a pre-financing by credits of treasury, mobilised near the central bank, by means of trade banks.

The specialised pre-financing credits have become particular by the fact that their offering is related to the manufacturing and preparing for the export of a product strictly determined. Such credits are given for high value products, with a long cycle of manufacturing. There are cases when specialised credits of pre-financing are offered to certain producers-exporters with continuous and high flow of exports. Often, offering the credit is conditioned by the increase of the export, so that, the producers-exporters cannot benefit of these credits, unless if the value of exported products reaches a minimal value level pre-established by the banks.

The part of the specialised pre-financing credits consists on covering the necessary of liquidities to the producer, when the advance payment received from buyer on signing the contract is not covering enough or when problems of covering the outgoings appear during manufacturing. The measure of the credit is established upon basis of a monthly plan of financing, where will be noted all advance payments received from the exporter on signing the contract and during the manufacturing time, as well as production outgoings of the export product. The pre-financing credit can reach to 100% from the monthly overdraft, such determined, and its duration will correspond to that of the overdraft.

The pre-financing credits with the established percentage are similar with the specialised credits, and the interest percentages are applied by irrevocable mean, during the entire pre-financing time, no matter the ulterior fluctuations of the basic bank percentages. For the exporters, this type of pre-financing credit is more favourable than the other, because this procedure allows to include within selling prices certain fix financial costs, no matter the variation of basic bank percentage.

The prospecting credits have as aim the facilitation of activities, in order to discover new outlet markets by the exporters. The credit can cover the integral value of the prospecting budget, and its duration is up to one year.
The export credits:
The advance payment on merchandise documents. To some countries, the banks offer to exporters certain credits upon basis of documents, which attest the existence of merchandises prepared for the export. The value of the credit is proportional to the merchandise thus forfeit, but does not exceeds the value of 80% of their value. Usually, such credits are given to exporters that deliver high quantities. A particular form of this type of credit is the credit based on warrant. The exporting company, upon basis of forfeit merchandise offers to the bank a paper (warrant) that represent an ownership title over the merchandise and is negotiable; as matter of fact, the trade banks can discount the title to the central bank.

The advance payment in currency is, in the same measure, a short term financing technique and a method of protection against the currency risk. In essence, it’s about giving a loan in currency by a bank to the exporting company, upon basis of outstanding debt of it towards the customer from abroad, a not-valuable claim in home currency.

The bank advance payment by claims transfer. To some countries, the banks give facilities under the form of payment advance to exporters in order to reunify the funds advanced by these by merchandise delivering on short term credits, by transferring the claims owned by the foreign exporters.

The transfer is accomplished by a financial document of transferring. Upon its basis, one might beneficiate of an advanced payment under the form of short term credit, until cashing the claims from the importers. The advance payment does not exceed usually, 70% of the invoices value. Giving the credit assumes from the bank a fund analysis of the exporter’s solvency.

The discount credit represents one of the most used techniques on short term financing for the exports. Usually, the credit selling is accompanied by the issuing of a credit title – draft, note of hand – by which the importer is obliged to pay, on falling due, the counter value of the merchandises.

Discounting represents a form of mobilising the short term credits and consists on selling a credit title to a bank before falling due. The aim of discount is that the beneficiary of a draft or of a note of hand to transform the claim had over a third party into a liquid amount, without waiting the falling due. The discount credit is used by the exporter that sells by short term credit and is financed by discounting.

The acceptance credit represented another method used frequently on financing the exports on short term, mainly similar to the technique of discounting credits. This type of credit can be given in the favour of the exporter or of the importer.

The acceptance credit in favour of the exporter:
Considering the situation where the contract partner, from different reasons, does not accept the utilisation of credit titles, the exporter has the possibility of taking a draft over its bank (named also bleu draft, in accordance to the colour that is distinguishable from the other drafts). The trade bank accepts the draft (bank accept) for a falling due that does not exceed usually 180 days. Depending upon the legislation of different countries, the acceptance credit can be achieved, mainly, in two ways:
✧ either that the accepting bank by itself rediscounts the title to the central bank or to the institution of financing the exports, and upon this basic, the credit is offered to the exporter;
✧ either the exporter, upon basis of the bank accept received, discounts the draft to another bank.
In this situation, the bank of the exporter, although not financing the operation, will facilitate by signature the date of the draft, so that the exporter, by using its standing, to carry out the financing to another bank.
Offering the acceptance by the banks is made upon basis of checking the trade and financial documents, which attest that exporter, within a certain given time interval (maximum 180 days) follows to cash the counter value of the exports. In the situation when the payment of merchandise takes place earlier, the bank is blocking the amounts within an “covering account” until the falling due of the draft. The cost of the acceptance credit includes the tax of discounting and an acceptance commission.

*The acceptance credit offered to the importer:*
Appears when the accepting bank, in accordance to the conditions stipulated within the credit convention, accepts drafts taking over it in favour of importer and intended to pay to exporter, which is its customer. In this situation, the exporter is paid on sight, and the importer remains debtor towards the bank, therefore supporting the cost of acceptance credit.

### 3. Financing techniques on mean and long term
Mean and short term financing is specific to the exports of high value, to complex exports, and also to certain forms of industrial cooperation. It can be accomplished by the classical techniques of crediting: the provider credit and the buyer credit, or by modern techniques, such as the consortium credit and the co-financing.

*The provider credit*
The provider credit represents a banking credit given to the exporter (also its name coming from it), when this consents to its partner a payment adjournment for the merchandise delivered abroad. Practically, the operation assumes two different crediting relationship:

- a merchandise credit, given by the exporter to the importer, by accepting the payment to a certain delivery term;
- a money credit, given by the exporter to the importer, for financing the export operation.

The trade banks, on their turn, have the possibility of re-financing themselves, of reunifying the funds given under the form of credit to the exporters, from the central bank or an institution specialised on financing the exports from their country.

The provider credit represents a mean or long term credit, basing upon the consideration that although the value of the delivered merchandise is high, the financial resources of the exporter allow its selling by credit. The provider credit does not exceed usually the 80-90% of the merchandise value, the difference being given by the importer under the form of advance payment or of the delivering payment.

*The buyer credit*
The buyer credit represents a direct financing given to the importer, by a bank of the exporter’s country, in order to allow to the buyer the possibility of paying immediately the counter value of the merchandise. The buyer credits are usually given by the banks or institutions specialised on financing the exports from the exporter’s country; in this way, a credit convention is carried out, between the importer (or its bank) and the bank of the exporter.

If in the situation of provider credit, the exporter needs to preoccupy of cashing its drafts from a bank, within the buyer credit, the exporter is completely free of the requirements of mobilisation of funds, being paid on site by the importer.

The value of the credit is situated usually between 75-90% of the merchandise value, the difference being supported under the form of advance payment or payment at delivering, by the importer. By using this type of credit, the provider is integrally paid on merchandise delivering.

*Other types of credits*
The *consortium credit* represents a loan given by a group of banks, constituted within a temporary grouping, without judicial personality, named consortium, to a beneficiary from a third country.
The consortium is formed of a main bank (lead manager) and other few banks participating from different countries, which are obliged on associate a number of third banks to giving the credit. This form of crediting has known a special increase in the second half of the eight decade, by starting important loans on the market of euro-quotations, in favour of the third beneficiaries, usually of certain governments or governmental agencies.

Within the conditions of instability emphasized for the financial market, specific techniques of giving the credit were imposed, which aim especially towards the damping of instalment risk for the rate of interest. Therefore, the **revolving credit** has been developed, which allows the mobilisation of a loan on mean term by means of certain credits, on short term, which can be renewed. The most frequent technique is that of credits with the non-resident instalment of the rate of interest (named **roll-over**), which assumes giving a loan on mean or long term, with the rate of interest periodically reviewed, generally on three months, in order to take into consideration the rate of interest on short term.

**Co-financing** represents a relatively recent technique, related to the increasing requirement for financing new economical span projects and of the necessity of assuring a superior warranty to the creditors. It represents a form of financial support accomplished by participation of World’s Bank, together with public credit bodies, credit institutions for the exports or banks, on giving the loans to the member states.

Initially, the co-financing operations included two separate loans, performed in parallel, one from the bank, and the other, from the trade bank. After that, the co-financing projects have starter to involve more and more the bank, by direct participation to trade banks loans, either by a financial contribution, either by offering a warranty for a part of the loan. Within co-financing, a mixed financing can be accomplished, when funds are assured by parties for the economical project assembly, or a parallel financing, when the World Bank and the other creditors are financing different goods and services to different parts of the project.

The advantage of co-financing is the fact that, by the “public” part (credits of the BIRD or of other public bodies on very long term – of over 20 years – and having a reduced rate of interest), to assure to the exporters the achievement of certain financing on inferior cost related to the market. They are usually used to favour the exports from the countries in course of developing.

After a concisely analysis of the main financing techniques, presenting the strategic consideration no.12 is also imposed, from the National Strategy of Export of Romania: creating capacities and diversifying the offer within the financial national sector.

The process of strengthening the national currency has proven a certain lack of communication and coordination between the National Bank of Romania and the companies of the exporters’ community. On one hand, the exporters accused the shock too fast and too steep of the currency appreciation and the high exposal to this type of monetary politics. On the other hand, the bank professionals have accused the incapacity of the exporters on controlling the risks as concerns the currency exchange or of choosing other sources of competitiveness, other that incomings on exchange rate. The recent debates concerning the problems of rate of exchange have shown the fragility of connections between banks and exporters. The most of sampling made by the working groups within the National Strategy of Export have indicated the general conclusion of the business community, according to which the bank sector is not adapting adequately to the financing trade needs of the exporters, the aspirant exporters and the potential exporters. This fact is not encouraging the enterprising spirit, the development of the enterprises and the access of the exporters on financing the export production.

The Romanian companies need, in order to dispose of a larger market, strong financial support, budgetary schemes approved by the Government, in accordance to international practice and bank instruments, used by the National Bank of Romania, and by the trade banks. The diagram of
governmental financing existing in order to support the exports was adopted by the Ordinance of Government no.120/2002 and includes instruments being under the management of EXIMBANK, such as: the fund of warranty for the export credits and the fund of assuring and reassuring the credits of export. The budgetary funds allocated EXIMBANK in order to support and promote the exports have been increasing from year to year, as following: 1680.0 milliards ROL in 2003, 2970.0 milliards ROL in 2004, 3430.0 milliards ROL in 2005.

What has to be also mentioned is that the trade banks, in cooperation with EXIMBANK, are offering bank products in order to support the exports. The bank system plays an important role on financing the export production and of the exports, following the expansion and diversification of bank services in accordance to the bank politics, the strategies of companies of improving the business environment, as well as connecting the bank activities to the international practice, in generally, and to those of EU, in particular. The banks have to improve their activity, innovating more and more, creating better products and not only the bank credits, and while the market will be saturated, both as network and as products, the banks will have to analyse seriously the costs. The costs politics will signify a better volume of bank operations, a better productivity and a greater efficiency of the bank services.

The complete liberalisation of the financial market will increase the pressure of foreign competitors, fact which will determine the Romanian banks to reduce the credits' rates of interest and to compensate this, by increasing the volume of financial transactions. The evaluation of main features for the bank Romanian system represents the starting point in order to identify the ways of development and improving the financing of the external trade, especially of exports financing, the key of supporting the Romanian economic development.

On financial point of view, the following constraints have to be mentioned:
- the not adequate access to financing for the internal companies;
- relatively high costs of transport, due to not enough infrastructure;
- not enough promoting of financial products, addressed to SMEs, of “mutual diagrams” type, on risk capital;
- foreign investments, not enough to this sector, considered as being a major source of managerial know-how, technology transfer and access to the foreign markets;
- the lack of strong investments within private sector;
- the weak incomings of the people, which prefer low price products, of bad quality;
- the high costs of the consultancy, for the risk management, for the financial management, for the exports management, issuing of business schedule;
- the high prices of financing, due to increased rates of interest practiced by the trade banks, comparing to those practiced in other countries.

The strategic answer should based upon the relevant strategies, those realistic, issued in partnership between banks, exporters and bank associations, the public sector, companies and other interested entities. Without partnership and a structured balanced dialogue, as well as correspondences between initiatives, the objectives of national competitiveness will not be accomplished.

4. Conclusion
As conclusion, Romania aims towards creating a financial friendly sector, for the exporters and able to contribute to a national increased competitiveness, by means of the next objectives:
- the increase of budgetary resources for financing the promoting and support of exports;
- easily access to credits for the export;
- structural dialogue, better communication and cooperation between banks, companies or insurances and exporters;
- increased capacity of risk management.
The main activities will be carried out in the view of: facilitating the access to credits and new financial instruments within the production of furniture, IT, textile materials for the export; financing diagrams for producing/acquisition of raw materials for the wine industry or in order to support the audio-visual production; much easier access to European funds; rural micro-financing diagrams; offer of bank credits specialised for the wine producers, organic farms, handicraft and rural tourism; creating of a warranty fund of the agricultural credits; developing the financial markets, etc.

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