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UDK: 336.717
Original scientific paper
DOI: 10.5937/ptp2101013V
Received: January 28th 2021
Approved on: February 18th 2021
Pages: 13–24

THE ANALYSIS OF THE STRUCTURED FINANCIAL TRANSACTIONS AS ALTERNATIVE SOURCES OF FINANCING

ABSTRACT: It is undeniable that global financial institutions are facing the major changes taken place during the last few years. Starting with the continuous tightening of both legal and financial regulations, preparation for the introduction of Basel 3, consolidation of the industry itself, the introduction of new information and communication technologies, enhanced safeguards to prevent money laundering, globalization of financial functions and capital markets, the traditional structure of the financial services industry has suffered many changes. Technological changes have reduced the transaction costs and accelerated the transfer of knowledge between the countries all over the world. There have emerged the modern forms of financial instruments crossing the barriers of national markets. Complex financial transactions unite all participants in the global market and, at the same time, they form the relative prices of all goods, services and capital. This paper aims to analyze the mechanism of realization of the structured financial transactions of banks and specialized institutions as alternative sources of financing in the global financial market.

Keywords: *banks, specialized financial institutions, buyer's credit, supplier's credit, guarantee.*

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1. Introduction

The very process of globalization of the world economy encourages banks and specialized financial institutions to better position themselves on the global market. As an integral part of the process of globalization of the world economy, trade, investments and financial flows are globalized. “The financial system is a set of institutions and instruments through which the collection, concentration, transfers and allocation of financial resources is performed”(Dušanić, 2003, p.15). In the last decade, the banking sector of the Republic of Serbia has faced many challenges. Some of the factors that threatened to threaten the stability of banks in Serbia were the insufficiently fast transformation and recovery of the economy, the global economic crisis and global political instability. In the Republic of Serrbia, “at the end of 2017, the ten biggest banks held around 78.4% of the total assets, with only six banks holding a share over 5% (Comunale, Geis, Gkrintzalis, Moder, Polgár, Quaglietti & Savelin, 2019, p.62)”. The banking sector has managed to maintained stability in Serbia during the economic crisis in the year 2008. On the other hand, the Republic of Serbia is in the process of adopting comprehensive reforms based on achieving the compatibility of the acquis communautaire with the European Union and other international standards(Vapa Tankosić, 2009a). Companies that wish to export to the European market will be faced with new requirements and risks that they do not have on the domestic market. Their customers will also demand protection that will protect their interests and investments. Most transactions involving global trade arrangements are a combination of a wide range of services that primarily protect the client from risk, providing adequate performance in the form of timely delivery, fulfillment of financial obligations and execution of payments(Vapa Tankosić, & Soleša, 2016). It is expected that the deep integration of international trade chains, which refers to macroeconomic policies that promote productive efficiency and competitiveness, will contribute to the development of comparative advantages(Vapa Tankosić, Redžepagić & Stojsavljević, 2013). For this purpose, the definition of research subject has its starting point in the modern conditions of global dynamic business with a growing level of competitive requirements that impose the need to analyze complex models of financial transaction support. The technique of structured transactions of banks and specialized financial institutions on the international financial markets, as an alternative method of export financing, is becoming increasingly important. Accordingly, this paper aims to analyze the structured financial transactions of commercial banks and specialized financial institutions in the international financial market.

2. Literature Review

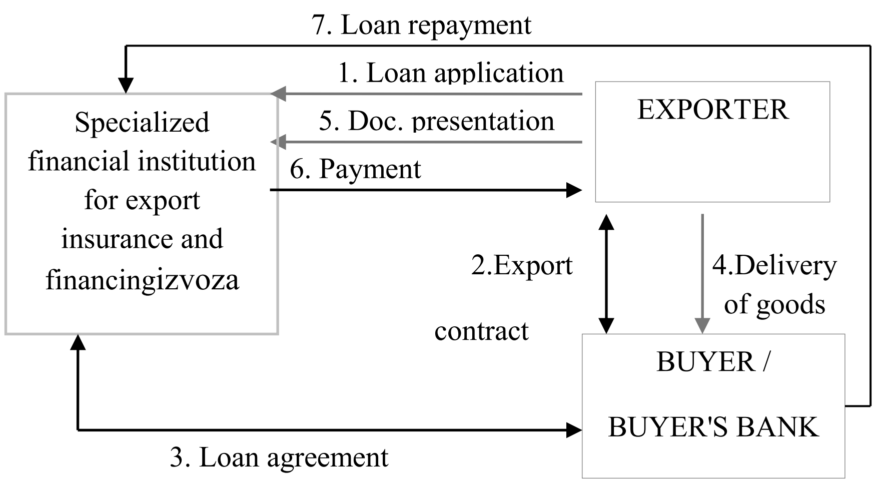
Nowadays, financial institutions are aware that the traditional structure of the financial services industry itself has undergone many changes. In response to the 2008 crisis, the international research community investigated patterns of trade declineof which are potential causes: (1) declining global demand; (2) limited access to trade finance; (3) spreading the crisis through credit channels; and (4) the rise of protectionism (Park, Nayyar & Low, 2013, p. 199). The experience of the Swedish National Trade Committeeindicates that a successful trade finance process requires a strong political will, a clear strategic plan, close cooperation with the business community and a well-funded and long-term technical assistance program(Hellqvist, 2003). The history of financial innovation shows that the management of extraordinary risks associated with long-distance trade has led to the emergence of new financial instruments (Fingerand & Schuknech, 1999). Moravcsik (1989) emphasizes that trade credits are the financial lubricant of international trade. On the other hand, insurance of export claims can cover commercial risk, political risk, which includes currency non-convertibility and transfer restrictions, expropriation, which can cause non-payment by importers. "Various financial institutions in export financing have an impact on two main dimensions in the country in which it is located. First, it changes the structure of the financial sector and influences the behavior of other financial institutions (financial sector dimension). Second, it changes the incentive framework in the real sector (the real sector dimension)"(Chauffour, Saborowski & Soylemezoglu, 2010, p. 11). In an effort to increase the competitiveness of their economies, most countries at the state level have established specialized business financial institutions for export insurance and financing (Export credit agencies "ECAs")(Gianturco, 2001). Today's members of the Berne Union, the ECAs, have a mission to provide appropriate support to exports and thus contribute to its growth (MIGA, 2010). These specialized financial institutions act as a channel of state support for exports from the country in question(Yescombe, 2002). In our country, in order to encourage and improve exports and develop economic relations with foreign countries, a specialized agency AOFI was established in 2005 (Law on the Export and Export Finance Agency of the Republic of Serbia, 2005). However, as readily responding to fluctuations in global markets, commercial banks and financial institutions for export insurance and financing must also have an active "market player" approach rather than a "last resort insurer"(Vapa Tankosić, 2010). Changes in the global economic and financial environment and the growing role of the private sector in the economy are among the factors that call for a change in the business model of financial institutions for insurance and exports. Their competition is increasing every day, especially in the field of short-term receivables insurance and lending, where the private sector is increasingly active. These forms of trade finance are largely dominated by private banks, which account for 80 percent of the trade finance market. However, other actors, such as specialized financial institutions, regional development banks, multilateral financial institutions, suppliers and customers, also offer lending or insurance (Auboin, 2007).

3. Mechanism of realization of structured financial transactions of banks and specialized institutions- Buyer's credit

Buyer's Credit is loan intended to support exports, whereby the exporter's commercial bank grants a loan to the importer's bank or the importer itself, while a specialized (state) financial institution finances and secures a credit claim against commercial and political risks by issuing insurance policies in favor of the exporter's bank. The request for financing and insurance is submitted to a specialized financial institution before concluding a commercial contract. The transaction is financed in the maximum amount of 85% of the value of the commercial contract, while 15% of the value of the transaction is paid by the importer in advance. The loan to the buyer is made in such a way that the exporter, in addition to his product and service to the buyer, also offers financing to the importer. A specialized financial institution for export insurance and financing can lend to a buyer abroad: by co-financing export operations together with other banks or by independently lending to a foreign bank or a buyer abroad. The request for approval of a loan to a buyer or his bank is submitted by the exporter to a specialized financial institution for export insurance and financing, as a rule before the conclusion of the contract. Approved credit funds are paid directly to the exporter's account in the currency of the export contract, and the loan is repaid by the buyer abroad or his commercial bank. Loan repayment deadlines are defined by the OECD agreement (Vapa Tankosić, 2009b). For example, for a loan amount of USD 80,000.00 the maximum loan repayment period is 3 years, for a loan amount up to USD 175,000.00 is 4 years, for a loan amount up to USD 350,000.00 the maximum repayment period is 5 years. The credit may amount to a maximum of 100% of the value of the export contract for repayment periods of up to two years, or a maximum of 85% of the contract amount for repayment periods longer than two years. For repayment periods longer than two years, the contract must define an advance payment that must be paid before the first use of approved credit funds, in the amount of at least

15% of the contract value. The value of the contract implies the total value of the exported goods and services that the buyer has to pay (does not include local costs). Local costs include the costs of goods and services in the customer's country that are necessary to perform the contract. Given the type of goods exported, the members of the Berne Union have defined the maximum loan repayment lengths.Loan repayment by type of goods and services is defined as follows (Vapa Tankosić, 2009b): consumables with a useful life of up to 1 year and related services have a repayment period of up to 6 months; consumer goods with a useful life of over 1 year and related services have a repayment period of up to 2 years; parts and components and related services have a repayment period of up to 5 years; capital goods and related services have a repayment period of up to 10 years; financing the construction of hydro and thermal power plants, projects based on wind energy, geothermal, solar and bioenergy projects, power plant projects and projects for drinking water and drainage up to 15 years.Repayment of the loan begins when the buyer of the goods enters its physical possession in the country of import, ie. when the delivery of equipment consisting of special units individually usable, or the date when the buyer takes over the entire plant which is the subject of the contract, e.g. construction of the entire thermal power plant (unless there is a responsibility for putting it into operation, i.e. a "turnkey" contract has not been agreed). The principal can be repaid in monthly, quarterly, six-month or twelve-month equal installments.

Graph 1. Graphic representation of the Buyer's credit



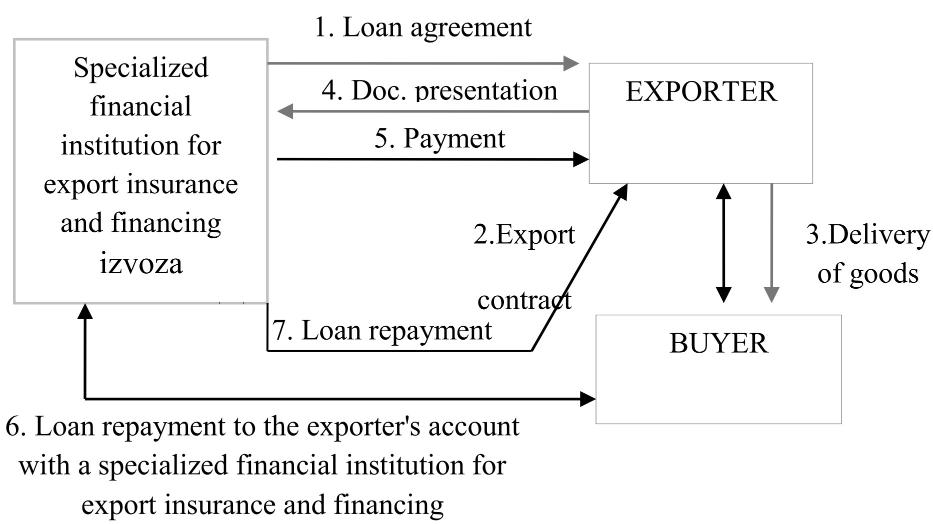
Source: authors' elaboration

The interest rate depends on the creditworthiness of the bank, the creditworthiness of the buyer, the country of the export transaction, and can be fixed or variable. The interest rate at the time of concluding the loan agreement cannot be lower than the internationally prescribed minimum interest rate according to the EURIBOR, LIBOR or CIRR rate (CIRR-commercial reference interest rate for the currency of the export agreement sets the minimum commercial reference interest rate CIRR) Commercial Interest Reference Rate) which is published periodically (OECD, 2018, p.16): "CIRR is the commercial interest rate at which funds are placed on the domestic market, CIRR should correspond to the rate for first-class domestic borrowers, CIRR should be based on the cost of financing with fixed interest rates, CIRR shouldnot disturb competitive market conditions, CIRR should that it closely corresponds to the interest rate available for first-class foreign borrowers". For a proper execution of obligations, a specialized financial institution for export insurance and financing will require an insurance policy against political and commercial risks. The fee for processing the loan application for the end user is up to 1% one-time on the amount of the approved loan and is charged before the first use of the loan. The fee for the reservation of funds is calculated quarterly in the amount of up to 1% per year on the amount of approved and unused funds. The loan funds are paid directly to the exporter's foreign currency account.

4. Mechanism of realization of structured financial transactions of banks and specialized institutions- Supplier's credit

On the other hand, the supplier (the exporter), who is the borrower in this case, concludes a contract with the buyer abroad on the purchase of goods or services on credit. The application for credit approval to the supplier is submitted directly to a specialized financial institution for export insurance and financing, and it must contain all the elements of the transaction. The buyer abroad repays the loan to the supplier, and the supplier repays the loan to a specialized financial institution for export insurance and financing. Supplier credit is usually conditioned by the issuance of a policy of insurance of direct deliveries of goods and services against political and commercial risks, assigned to a specialized financial institution for export insurance and financing. The loan funds are paid to the supplier's account, upon fulfillment of all preconditions from the Loan Agreement. The beginning of the loan repayment period is the date when the buyer of the goods becomes its physical owner in the country of import. Repayment for durable consumer goods including related services is from 180 days to 2 years. Advance payment is not obligatory for loan repayment periods of up to 2 years. For a repayment period longer than 2 years, an advance payment of 15% is required, payable no later than the day of the loan repayment. For equipment of high purchase value, the allowed repayment period is up to 10 years with an advance of 15%. As with the loan to the buyer and the preparation of exports, before the first use of the loan, a fee is charged for processing the loan application for the end user (up to 1% one-time on the amount of the approved loan). The fee for reserving funds is usually lower than for a loan to a buyer, it is calculated in the amount of approximately 0.25% per year, starting from the date of signing the loan agreement until the expiration of the loan. The loan funds are paid directly to the exporter's foreign currency account.It is important to emphasize that the interest rate of the credit arrangement does not have to be the same as the interest rate approved by the exporter for the commodity loan to his buyer. The exporter may participate in the crediting together with the export insurance and financing agency by approving a higher interest rate to the buyer, and if he has a surplus of inflows, after settling the obligations with the export insurance and financing agency, he may freely dispose of the same. Thus, the exporter can reimburse any costs of engaging funds through a higher interest rate than his buyer. Credit to the supplier is most often used in cases when: the importer does not want credit from the bank; the importer cannot borrow directly from banks or the exporter and the buyer have agreed in preliminary negotiations on a commodity loan by the exporter.

Graph 2. Graphic representation of the Supplier's credit



Source: authors' elaboration

There are also structured arrangements that include framework credit lines. The aim of providing framework credit lines to banks by specialized financial institutions for export insurance and financing is: to establish long-term relationships with financial institutions in countries of strategic importance for exports; enabling the competitiveness of the home country of goods and services in international markets (by approving longer repayment terms to customers abroad); increasing the liquidity of exporters and reducing the risks that exporters face when participating in international trade. Credit lines represent a somewhat more operational and faster form of lending for the sale of goods and services abroad. They function in almost the same way as a loan to a customer, only the framework credit limit and financing conditions with the customer's commercial bank abroad are determined in advance. Since relations with a commercial bank abroad are regulated in advance, this significantly shortens the loan approval process. This construction is used for the placement of consumer goods, equipment of lesser value and in cases when there are more small buyers interested in buying the goods of exporters, so it is more practical to place the funds in their commercial bank, and for it to sell them to end customers. Specialized financial institution for export insurance and financing conclude the Framework Loan Agreements with commercial foreign banks. The framework loan agreement defines the general conditions for lending to customers (clients) of foreign banks. The framework loan agreement will specify the basic loan terms, the maximum amount of all individual loan agreements that can be concluded under the Framework Loan Agreement (which will depend on the creditworthiness of the bank and the risk of the country in which it operates) and the minimum amount of each loan agreement. Upon receipt of the loan application, the specialized financial institution for export insurance and financing will enter into an individual loan agreement with a commercial bank of a foreign buyer to which the provisions of the Framework Loan Agreement will apply, and which will contain elements of an individual export transaction. The loan funds are paid directly to the foreign currency account of the exporter, after fulfilling the preconditions from the individual loan agreement, and the loan is repaid by the buyer's commercial bank, for the account of its client.

5. Conclusion

Today, in the light of an improved institutional framework, the development of global trade and financial integration, structural transformations in the organization of production, the field of traditional trade credit support has developed significantly. International capital markets have become more sophisticated, liquid and efficient. Globalization and the financial crisis have radically increased the interdependence of countries to reconsider their trade policies and apply complex mechanisms to encourage the implementation of foreign trade arrangements. New financing instruments have been developed, international risk assessment has been improved and cooperation has been developed on financing particularly large projects and transactions of higher amounts. These forms of trade financing are largely dominated by commercial banks. The current financial situation and volatility affecting global markets require the preservation of specialized institutions that have the role of "last resort insurer" that support transactions that commercial banks cannot support on their own. They have been shown to play an important role in insuring political risks and commercial risks that occur especially in times of recession. Commercial banks typically provide a wide range of trade finance services that may not fully cover all services provided by specialized financial institutions to secure export claims. In order for such a specialized financial institution to be effective, all requirements must be met in terms of an adequate economic environment, institutional design and management structure. Foreign trade cooperation and the establishment of a clearly defined institutional system of export support certainly contributes to the growth of exports of companies from the Republic of Serbia, as well as the creation of a basis for sustainable economic development. Based on the above, having in mind the existing models of structuring financial transactions, commercial banks and specialized financial institutions, through appropriate support to foreign trade transaction mechanisms, have the opportunity to enable successful realization of economic transactions of our economic entities on the international financial market.

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ANALIZA STRUKTUIRANIH FINANSIJSKIH TRANSAKCIJA KAO ALTERNATIVNIH IZVORA FINANSIRANJA

REZIME: Nesporno je da su globalne finansijske institucije suočene sa velikim promenama koje su se odigrale u poslednjih par godina. Počev od kontinuiranog pooštrenja pravne i finansijske regulative, priprema za uvođenje Bazela 3, konsolidacije same industrije, uvođenja novih informaciono komunkacionih tehnologija, pojačanih zaštitnih mera u cilju sprečavanja pranja novca, globalizacije finansijskih funkcija i kapitalnih tržišta, tradicionalna struktura same industrije pružanja finansijskih usluga pretrpela je mnoge promene. Tehnološke promene smanjile su troškove transakcija i ubrzale transfer znanja između zemalja sveta. Pojavili su se savremeni oblici finansijskih instrumenata koji prelaze barijere nacionalnih tržišta. Složene finansijske transakcije spajaju sve učesnike na globalnom tržištu i pri tom formiraju relativne cene svih dobara, usluga i kapitala. Ovaj rad ima za cilj da analizira mehanizam realizacije struktuiranih finansijskih transakcija banaka i specijalizovanih institucija kao alternativnih izvora finansiranja na globalnom finansijskom tržištu.

Ključne reči: *poslovne banke, specijalizovane finansijske institucije, robni kredit, kredit dobavljača, garancija.*

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