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**Project financing instruments for export-oriented enterprises of Kazakhstan**

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## **Abstract**

Project finance is currently one of the most effective financing methods for investing in projects for manufacturing as well as industrial countries. Moreover, project finance is a relatively new financial discipline, which over the past 20 years has become widespread in the developed countries of the world and has its own advantages, which makes it different from other forms of financing. This study aims to determine how project financing systems can be better developed in order to increase export in Kazakhstan, by exploring the experience of Russia and Japan. Specifically, the activity of the main export credit insurance institution KazakhExport was compared with EXIAR and NEXI.

To deeper analysis of the study practical cases, researches and articles from academic journals were analyzed. The analysis conducted further demonstrates the efficiency of project finance and highlights overall similarities between the instruments applied by different countries. Moreover, for a better understanding of the activities of KazakhExport, an interview was conducted. As a result and analysis, in the near future, KazakhExport plans to provide an opportunity to finance foreign buyers directly to Kazakh banks. After study of countries, such as Russia and Japan, final guidelines based on their experience were concluded, which can be practically used in further activity of KazakhExport and financial instruments of these three countries were compared.

**Key words:** Project financing, financial instruments, insurance, KazakhExport, EXIAR, NEXI.

## Content

1	Abbreviation.....	4
2	Introduction.....	5
2.1	Literature review.....	6
2.2	Research methodology.....	8
3	Comparison of the definition of project financing .....	9
3.1	KazakhExport- Kazakhstan.....	10
3.2	EXIAR- Russia.....	17
3.3	NEXI- Japan.....	21
4	Results and analysis.....	29
	Conclusion.....	31
	Bibliography.....	33
	Appendices.....	34

## List of figures and tables

Table 1	Definition of project financing by articles.....	9
Table 2	Types of risks covered by KazakhExport.....	12
Table 3	Information on the insurance rates of KazakhExport.....	16
Table 4	Comparison of insurance instruments by countries.....	27
Figure 1	Diagram of exporter's credit insurance (KazakhExport) .....	12
Figure 2	Diagram of international factoring insurance (KazakhExport).....	14
Figure 3	Diagram of export trade finance (KazakhExport).....	15
Figure 4	Diagram of insurance returns (KazakhExport).....	16
Figure 5	Diagram of credit insurance of export (EXIAR).....	19
Figure 6	Diagram of insurance for an exporter's short-term receivables (EXIAR).....	19
Figure 7	Diagram of export factoring insurance (EXIAR).....	21
Figure 8	Pie-chart of insurance (NEXI).....	24
Figure 9	Diagram of export credit insurance (NEXI).....	25
Figure 10	Diagram of trade insurance for standing orders from specific buyers (NEXI) .....	25

## **1 Abbreviation**

**EXIAR** -The Russian Agency for Export Credit and Investment Insurance

**NEXI** - Nippon Export Investment Insurance

**IDP** - Infra Del Projects Kazakhstan" LLP

**SMEs** - Small and medium sized enterprises

**AFF Sector** - Agriculture, forestry and fisheries

## **2 Introduction**

In terms of limited monetary resources, it can be noted that the solution of the main and key tasks within the framework of achieving the goal of sustainable development of the banking system depends, in particular, on increasing the efficiency of financing large infrastructure projects. Therefore, one of the most effective sources of project credit can be project financing and the ways of its practical implementation are very relevant at this moment.

In the present circumstances, project finance is considered to be one of the most widely used tools for attracting investment and therefore, thanks to project financing, it is possible to attain the development of infrastructure and investment projects based on the interaction of the state and the financial-banking system of the country.

This project work will be about the project financing instruments for export-oriented enterprises of Kazakhstan. In this work the main focus is directed on Kazakhstan, further compared with Russia and Japan. Project financing in Kazakhstan is carried out through government agents- national managing holdings. The main holding for the development of project financing in the country - “Baiterek” National Managing Holding JSC, which includes 9 subsidiaries. Each subsidiary has narrow direction in project financing. At the beginning of the project, specifics of each subsidiary were studied in detail and one appropriate subsidiary was selected for further work.

By the degree of the government of the Republic Kazakhstan dated 26 august 2017 the program “National Export Strategy of the Republic Kazakhstan” for 2018-2022 years, which is aimed at formation of unified policy to ensure conditions for growth of export was approved. The main aim of the program is to increase export by two times by 2025 year and three times by 2040 year. The program identifies a priority export market, contains a set of specific measures for promotion and development of Kazakhstan export. These measures are implemented by the Ministry of Trade and Integration Republic of Kazakhstan. Insurance and financial support for exporters in the Republic of Kazakhstan is carried out by export insurance company JSC "Export Insurance Company"

KazakhExport "(further - KazakhExport), which is one of subsidiaries of "Baiterek" holding. KazakhExport is a development institution of Kazakhstan and the **only specialized organization of insurance** performing the functions relating to export credit agencies. In this direction, KazakhExport offers to the exporter's services concerning export credit insurance, export trade financing and pre-export financing. The development strategy of the KazakhExport for 2017-2023 determines the direction of the Company's development in the context of the expected growth of both the export-oriented activity in the non-resource sector of the economy and the volume of export support to the target level of 1% of GDP. KazakhExport should, on the one hand, contribute to the growth of the number of exporters and the volume of non-primary exports, and, on the other hand, technologically and organizationally meet the requirements of a growing client base in the face of an increase in the volume of support provided. Strategic directions for KazakhExport's development include improving export support tools, creating conditions for increasing the number of exporters and increasing operational efficiency.

## **2.1 Literature review**

*In the part of literature review current work analyzed practical case studies, official reviews and documents from institution and academic journals on the given topic.*

Project finance is believed to be a relatively new approach that was invented approximately 20 years ago. According to the legal guide written by Graham Vinter (1998) project finance is financing the development or exploitation of a right, natural resource or other asset where the bulk of the financing is not to be provided by any form of share capital and is to be repaid principally out of revenues produced by the project in question. Admittedly, project finance is considered to be a riskier approach to organize financial investments in the project. It was noted that the major part of resources (human, financial, time) in project finance is dedicated towards managing risks (V. Fauzer). Project financing is widely used abroad, mainly in developing countries, when it comes to very large energy

and transport projects. It means such financing, in which the investment project is a self-sustaining business unit; loans are secured primarily from the project's financial flows; the property guarantee is also mainly limited to the funds of the project itself.

According to the law of the Republic of Kazakhstan, the concept of project financing in Kazakhstan is defined as a method of organizing financing for a long-term project, which is provided by assignment of receivables or related to the creation and transfer of assets. As stated in the review of the activities of international development banks for 2019, Kazakhstan has the largest share of approved investment and project financing among other CIS countries, which accounts for about 25%.

With regard to project finance in Russia, in 2018 the figure for small and medium enterprises that had export operations was only 1% which is substantially lower than the figure for developed countries with an average of 3-7% (Ministry of economic development of Russian Federation, 2019). Alexandr Suetin (2012) stated that on average, only 10% out of 100 projects are selected for further analysis and only 2-3% get their projects financed and realized. This shows that this financial segment in Russia is just starting to evolve and needs more contribution. In order to accomplish this task, The Russian Agency for Export Credit and Investment Insurance EXIAR (further-EXIAR) integrates its insurance products in the form of the insurance instruments which will be able to reduce the investment risk and have increased finance at a relatively low cost so that sponsors and investors benefit both (Project Finance in Developing Countries, 1999).

Looking at the project financing in Japan, the Japanese government established a trade and investment insurance program in 1950 as part of its export promotion policy. Since its inception, the program has been under the direct control of the government for 50 years, which has played a significant role in the expansion of exports and the development of overseas activities of Japanese companies (NEXI official Website, 2020). The main feature of national foreign economic activity in Japan is a high level of centralization and control from the side of government. The coordinator is the



Nippon Export and Investment Insurance (further-NEXI), which is an official export credit agency of Japan, that provides insurance services to reinforce Japanese companies' international business. Moreover, the country has a unique tax system, which does not have analogue in the world, focused stimulating both export and import. To all this, Japan has the world's largest system of state insurance of trade and investment that reliably protects Japanese exporters from risks.

## **2.2 Research methodology**

Considering the experience in the formation of analytical commodity classifications, two main methodological approaches are distinguished. While studying the topic of the project, practical cases were reviewed and analyzed from open sources. Above that, due to the social limitations caused by pandemic of COVID-19 there are certain limitations to conducting the research. Therefore, the approach that was chosen first is an interview through "ZOOM" meetings sessions with Almaz Nurgaliyev, who is a deputy Director of the department of Insurance of Company KazakhExport. He directly works with exporters, accompanies them and knows all the basic practical details that will help deeper study the topic of the project. The data collected provided thorough and descriptive details regarding project finance particularly in Kazakhstan based on which an analysis was made.

### 3 Comparison of the definition of project financing

Article name	Definition
<a href="#">«Project financing: essence and significance», Prokofiev S.E, Murar V.I, Rashkeyeva I.V, Yelesina M.V (2014)</a>	<p>Project financing is the attraction of long-term debt financing for large-scale projects depending on a loan against a cash flow created only by the projects themselves in the absence of recourse to the borrower</p> <p>Main features:</p> <ol style="list-style-type: none"> <li>1.For the implementation of the project, a special company (SPV, SPE) is created that appeal to resources</li> <li>2.There are practically no assets to guarantee the return of borrowed funds received at the first stage of borrowed funds</li> <li>3.Different financial resources are used: different financial instruments and different types of contracts.</li> </ol>
<a href="#">«Modern methodology for assessing investment lending and project financing», Aliev N.S (2017)</a>	<p>Project financing is one of the types of investment activities that are always risky. Project financing is used primarily for projects with high investment volumes and high risks that cannot be financed within the existing structure of the enterprise or, if the risks of the project exceed the capabilities of the initiator of the project. Unlike traditional funding, for compliance acceptable levels of risk, it is required to prove the economic efficiency of the project.</p>
<a href="#">Project Finance A Legal Guide, Graham D. Vinter (2003)</a>	<p>Project finance is financing the development or exploitation of a right, natural resource or other asset where the bulk of the financing is not to be provided by any form of share capital and is to be repaid principally out of revenues produced by the project in question.</p>
<a href="#">Project financing on the example of "Blue Stream" PJSC "Gazprom", YurievS.V</a>	<p>Project financing is a type of financing necessary for the development of a specific project of the parent company (sponsor). The essence of project financing is that the source of funds for the return of the received financing becomes the cash flow of the project itself. The key principle of investment in project financing is determined by the fact that the investor will receive income only if the project begins to generate profit, respectively, in the event of a loss of the project, the investor loses the invested capital.</p>

*Table 1: Definition of project financing by articles*

At the moment, in the literature on economics, there is a huge variety of definitions of the economic phenomenon as project financing by various authors. First of all, we will consider the existing concepts of project financing at the present time. For example, the definition proposed by P. K. Nevitt implies that «project financing is nothing more than financing of a separate economic unit, in

which the lender is ready at the initial stage to consider cash flows and its income as a source of repayment, and the assets of this unit as additional security for the loan». (Nikonova I. A. Project analysis and project financing /I. A. Nikonova. M. Alpina Publisher, 2012. - p. 49.). Moreover, project financing is one of the types of investment activities that are always risky. In the scale of this study there will be consideration of project financing instruments related to export-oriented enterprises. It was evident from the finance industry review that project financing instruments are widely used globally.

In addition, for the research Russia and Japan were taken for the purpose of the comparative analysis. As is known, coming from one unity, Russia and Kazakhstan have been always cooperating economically and politically so that the markets in these countries have many similarities. Japan was chosen because it is an industrial country and has had various payments for a very long time, while such a law was recently introduced in Kazakhstan. For instance, referring to Grebenshchikov, E. S. "Japan's insurance industry - challenges of globalization" since 2001, Japan has experience in the implementation of instruments in its market.

### **3.1 KazakhExport - Kazakhstan**

KazakhExport is a state-owned export insurance agency whose main activities support the export and implementation of an insurance instrument to protect export operations. The main mission of the agency is to support the growth of exports of non-primary goods, services in the priority sector of the economy and the formation of the practice of financial, insurance and non-financial support of Kazakhstani enterprises. Moreover, KazakhExport was established for commercial and political risks accompanying foreign economic contracts of exporting enterprises of the non-resource sector. In 2017, KazakhExport received the status of a national company and thereby expanding the company's capabilities in terms of supporting domestic exporters.

According to the data, KazakhExport provides a guarantee due to insurance of pre-shipment risks and

commodity loans for exporters of a confident existence in the future for the benefit of the economy of the Republic of Kazakhstan. By revealing the features of KazakhExport, Kazakhstan, like any other country with a developing economy should increase the share of non-primary exports in order to reorient the Kazakh economy from raw materials, and thereby increase competitiveness (*General information, official website of KazakhExport*).

Further in the project only certain types of insurance were considered in Kazakhstan, comparatively with Russia and Japan.

The list of instruments that will be examined in comparison with EXIAR &NEXI are the following:

1. Export credit insurance
2. Factoring insurance
3. Trade export insurance
4. Insurance of exporter's short-term receivables

### **Development strategy of KazakhExport for 2014-2023**

The development strategic directions for 2014-2023 of KazakhExport development include improving export support tools, creating conditions for increasing the number of exporters and increasing efficiency. KazakhExport determines the direction of the Company's development in the context of the expected growth of both the export-oriented activity in the non-resource sector of the economy and the export environment to the target level of 1% of GDP. Performance indicators include: volume of exports supported; volume of insurance liabilities; number of exporters supported; the volume of products produced by the entrepreneurs supported; the volume of export earnings of enterprises - recipients of financial and insurance support from KazakhExport.

### **Insurance instruments**

One of the insurance instruments provided by KazakhExport is **Insurance of the Exporter's Credit**.

This instrument allows Kazakhstani exporters to receive protection against the risk of non-payment by a foreign counterparty (Importer) under an export contract providing for Kazakhstani goods or services on a deferred payment basis. To apply for insurance procedures the exporter and the importer enter into an export contract with a deferred payment. After that, KazakhExport considers the application and concludes an agreement with the exporter, then the exporter delivers the goods and pays the insurance premium. If the importer does not pay for the goods received, KazakhExport will compensate the exporter's losses.

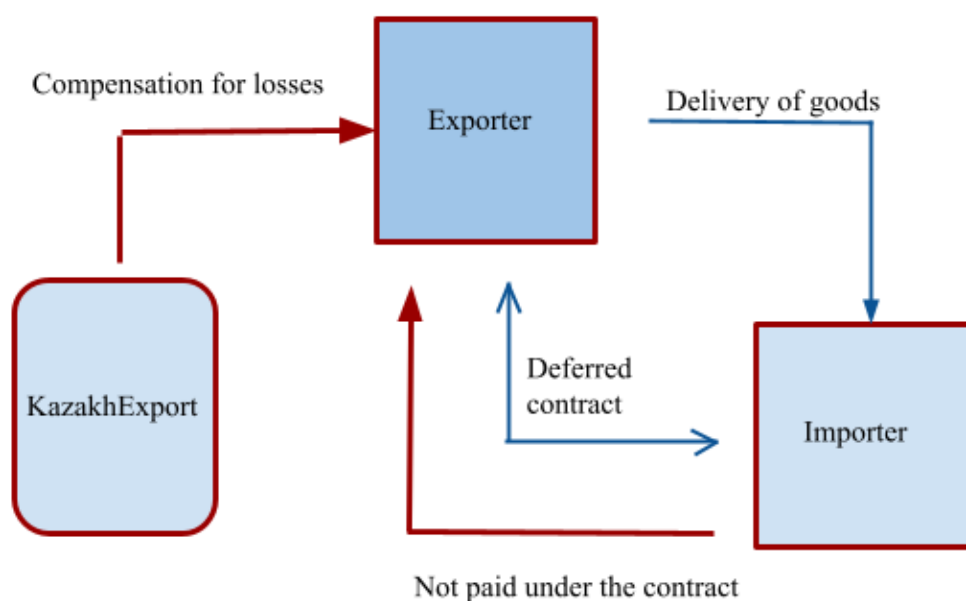


Diagram 1: Exporter's Credit insurance. Source: KazakhExport Official Website.

Commercial risks	Political risks
<ul style="list-style-type: none"> <li>● Importer's bankruptcy</li> <li>● Failure by the Importer to fulfill financial obligations under the contract</li> </ul>	<ul style="list-style-type: none"> <li>● War, civil unrest, mass disorder outside the Republic of Kazakhstan, preventing the fulfillment of obligations under the insured Contract</li> <li>● Unforeseen action by the state body of the country of destination for the delivery of Kazakhstani goods, work, services, restricting or prohibiting the supply of this product, performance of work, provision of services</li> </ul>

Table 2: Types of risks covered by KazakhExport Source: insurance instruments

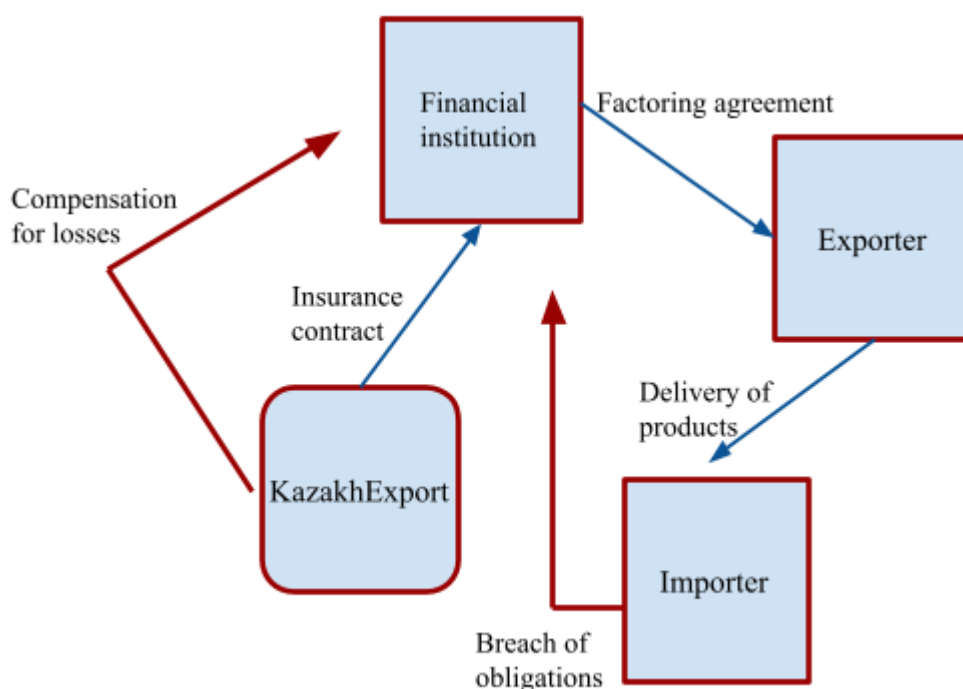
Case: Kazakh engineering is exported to Russia

Kazakhstani engineering companies have individual competencies, but they are hindered by the lack of working capital when exporting. However, there is one successful case as an example: it is the company "Infra Del Projects Kazakhstan" LLP (IDP), which received its first order in Russia - from the Amur Gas Processing Plant, to realize the first stage of the project at the site of the Amur Gas Processing Plant, the company mobilized more than 300 highly qualified specialists and all of them are citizens of Kazakhstan. Moreover, IDP had no experience in exporting engineering services. Support through KazakhExport Export Insurance Company helped to get it. IDP company was able to purchase all the necessary consumables, as well as cover all operating costs associated with the implementation of the contract for borrowed funds in the amount of 650 million tenge. (*Company news, official website of KazakhExport, December 2020*)

The second insurance instrument is **Insurance of the Exporter's Short-Term Receivables**. Insurance of short-term accounts receivable of an exporter is a tool that lets a Kazakhstani enterprise (Exporter) to have protection of the entire portfolio of export obligations from the risk of non-payment by importers under export contracts that provide for the control of Kazakhstani goods on a deferred payment basis. To apply for insurance procedures the exporter and the importer enter into an export contract with a deferred payment. Then, KazakhExport reviews the application and concludes an insurance contract with the Exporter. The exporter pays the minimum insurance premium and delivers the goods in accordance with export contracts and submits to KazakhExport a declaration with information on the actual trade turnover. In the event of a difference between the previously paid minimum insurance premium and the premium calculated on the basis of the declaration, the Exporter pays an additional insurance premium. However, If Importers do not pay for the goods received, KazakhExport will compensate the Exporter's losses.

The third insurance instrument is **International Factoring insurance** - insurance protection of a

financial organization on factoring operations against the risk of non-fulfillment by foreign counterparties of their contractual obligations. (Tools of business support, Official Website of KazakhExport). To apply for insurance procedures the exporter and the financial institution providing factoring services (hereinafter referred to as the Factor) conclude a factoring agreement. Then, KazakhExport and Factor enter into a factoring insurance agreement. The exporter supplies products to the Importer. After the Exporter documents the shipment of products, the Factor pays the Exporter for the cost of the delivered products. If Importers do not pay for the goods received, KazakhExport will compensate the Exporter's losses.



*Diagram 2: International Factoring insurance. Source: KazakhExport Official Website.*

The last insurance instrument is **Export Trade Finance**. Export trade finance is financial support that assists companies trade and sell goods and services abroad, usually by providing an advance or guaranteed payment. (Export or trade finance, The Institute of Chartered Accountants in England and Wales, 2016) This tool was introduced by the Company to stimulate demand for Kazakhstani products from foreign buyers. Export trade finance is provided to foreign companies for the purchase

of goods through Kazakhstani second-tier banks as part of a letter of credit settlement. To register for insurance procedures the exporter and importer sign an export contract and the importer submits an application to the importer's bank to issue a letter of credit in favor of the exporter. After, the importer's bank issues a letter of credit. The Exporters' Bank and KazakhExport enter into insurance and conditional bank deposit agreements and the bank confirms the letter of credit the exporter delivers the goods and submits the documents to the exporter's bank. KazakhExport places a notional deposit with the exporter's bank, which in turn transfers the money to the exporter. The importer repays the loan to his ATM, which in turn repays the interbank loan to the exporter's bank.

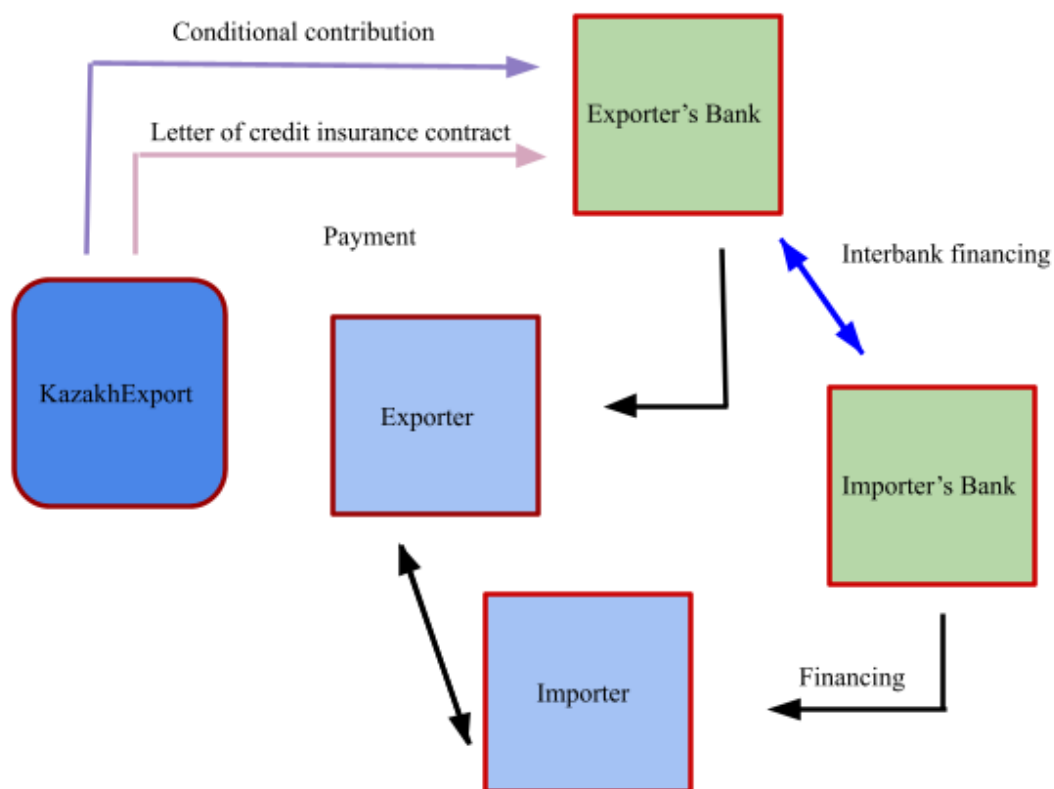


Diagram 3: Export Trade Finance. Source: KazakhExport Official Website.

### Insurance rates of KazakhExport

All instruments have different insurance rates. The rate for a specific contract is based on the risk period. For example, insurance against other financial losses has 3 main rates - minimum, basic and



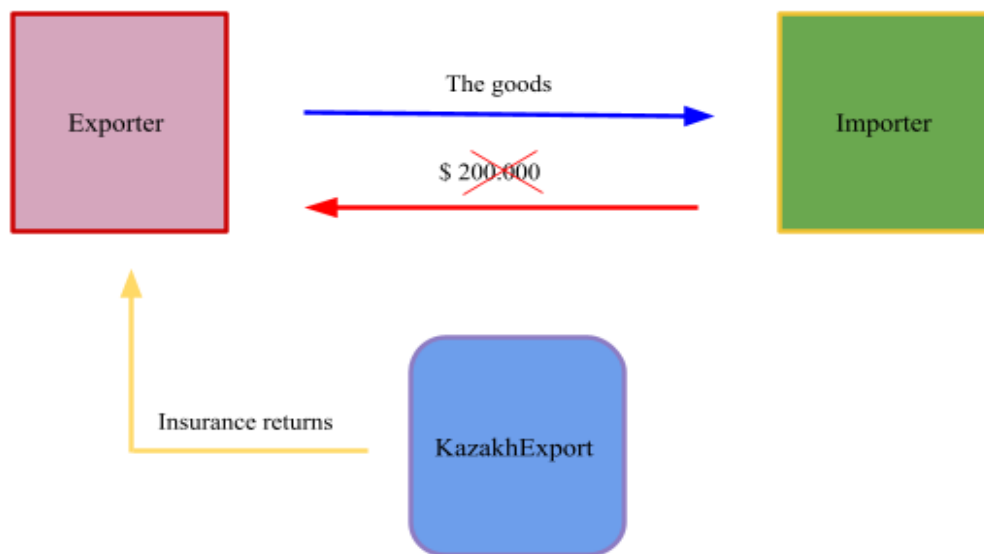
maximum for all. The table below is shown the rates for the “insurance of export credits”.

Minimum basic rates	Basic rates	Maximum basic rates
0, 36%	0, 92%	22, 17%

*Table 3: Information on the insurance rates of KazakhExport, march 31, 2021*

*Example:*

If your buyer cannot pay for the goods under the terms of the contract due to any problems, then you inform KazakhExport about this. Before paying the sum insured, your application will be reviewed by the Legal Department. Following a waiting period that begins on the date of the due payment, KazakhExport makes the insurance claim. For example, you sign a contract with KazakhExport and pay 2% of the tariff of the total amount, and if company A does not pay you \$ 200.000 for any reason, then KazakhExport returns 80% (that is, \$160.000) to you and your lose is \$40.000 + originally paid tariff.



*Diagram 4: Example of insurance returns.*

Contract - 200.000\$

Insurance rate KE - 2% (4.000\$)

Insurance deployed KE returns - 80% (160.000\$)

200.000\$-160.000\$=40.000\$ (Loss)

*With the purpose of deeper study and comparison of instruments on an international scale there will be brief analysis of the experience of Russia and Japan.*

### **3.2 EXIAR- Russia**

One of the main points to consider Russia as one of the countries for comparison with Kazakhstan is that the export of goods from Russia is very important for the economy of Kazakhstan itself, since one of its main partners in the international arena is Russia. Moreover, there are close long-term relations between these states, which are also due to a common border, which has led to the establishment of trade routes, transport communications, and etc. Due to the economic and political difficulties it is necessary for the modern Russian economy to have constant investments which increases the value of project financing. During 2014 to 2016 Russian banks were oriented on maximization of their own financial result by lending projects that have governmental support. As the term of sanctions on import in Russia is prolonged, now project financing is dedicated on import substitution of different fields.

So, according to the XIII International Conference "Eurasian Economic Integration", which was organized by the Eurasian Development Bank in Moscow, EXIAR signed an optional reinsurance agreement with the export credit agency of Kazakhstan - KazakhExport. In this document, the terms of the risk allocation under the contract issued by EXIAR for the insurance of short-term receivables were noted. Thus, the signing of this agreement indicates that this is one of the results of fruitful cooperation between the agencies and indicates the systematic integration of export support systems in Russia and Kazakhstan.

EXIAR is the first credit export agency in Russia functioning since 2011. The main strategic objectives of the agency are insurance support for Russian produced goods and services, assistance in expanding to new markets, application of modern export financing systems ensured with agency's insurance coverage, insurance support for Russian investments abroad, support of export-oriented subjects of small and medium-sized enterprises.

The agency offers insurance services that insure export credits with a coverage up to 95% of political risks caused losses and 90% of commercial risks losses. Apart from that, since 2013 the agency also secures Russian investments that are made abroad from the political side. It operates based on a specific legal framework that regulates insurance support order for export loans and investments provided services. In fact, there is a governmental guarantee in the amount of 20 billion US dollars that is dedicated to ensure insurance obligations till 31 December of year 2042. (*Russian Export center Official Website*).

As is known, EXIAR serves as a governmental institution of export support applying several insurance instruments for export credit and investment insurance protection.

One of the insurance instruments provided by EXIAR is **Credit Insurance of an Exporter**. Similarly, to Kazakhstan, Russian economy is lacking diversity in export structure. It is known that leading export fields in Russia are fuel and energy sectors and the metal industry. Although the goods produced are of high quality, Russian market should be able to provide competitive conditions for overseas supplies, particularly, in terms of payment on a deferred basis. Insuring such export credits is the main tool that will provide economic stimulation for Russian exporters and have regular increase in export volumes. Despite the high interest in insuring export credits among Russian businesses, project finance was not receiving enough governmental attention. In contrast, Kazakhstan has already implemented a State Insurance Corporation of Export Investments and Crediting in 2003. EXIAR supplier credit insurance provides protection for Russian exporters and the financing banks from foreign borrowers defaulting on a loan that was given to pay for Russian exported goods and services. The insurance coverage here spreads to individual supplies that are realized on deferred payment terms. To be more precise, the insured is the exporter who insures an individual export contract which includes a loan from Russian or international bank. The credit provided operates under a contract with interest assurance. The beneficiaries in here are the banks that provide financial assistance to the exporter respectively. Hence, the agency insures political or commercial default

risks that emerged from foreign buyers for a certain period based on the duration of an export contract.



Diagram 5: Credit insurance of an export. Source: EXIAR Official Website

Another insurance instrument that is offered by EXIAR is the **Insurance of an Exporter’s Short-term Receivables**. This can be applied to regular supplies that are based on deferred payment terms to foreign buyers for a maximum period of 360 days (Diagram 4). Similar to the buyer credit insurance, beneficiaries here are financing the export contracts banks. As is evident, the insured period is defined to 1 year since it is designed to cover particularly short-term receivables of an exporter. It is dedicated to cover both political and commercial risks up to 90% of the whole amount of insured’s loss, while KazakhExport offers only 80% coverage. By implementing insurance of short-term receivables exporters can profit from end-to-end services such as financial operations with foreign buyers, logistics of goods and other processes. Above the risk coverage, the major differences in implementation of this instrument in KazakhExport were not defined.

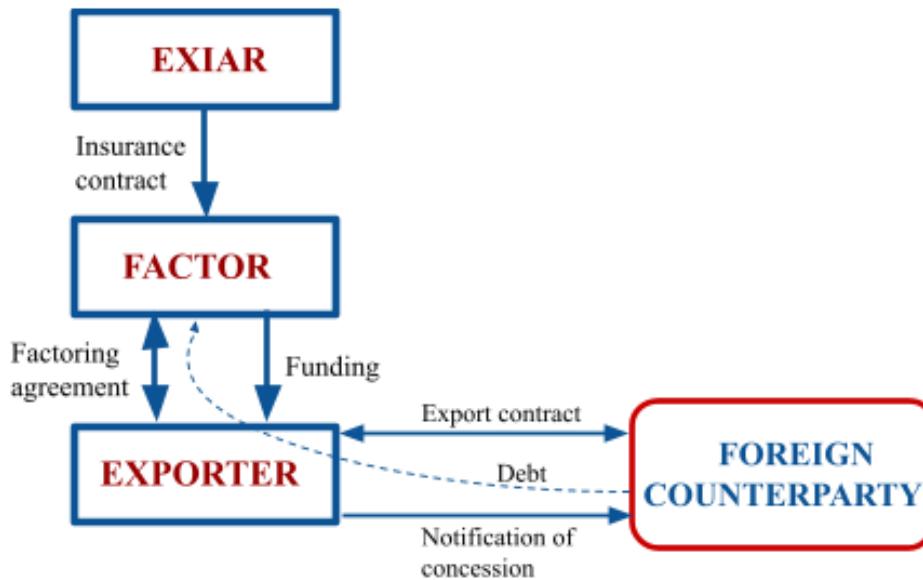


Diagram 6: Insurance for an exporter’s short-term receivables. Source: EXIAR Official Website

One of the successful cases of implementing the instrument can be seen in a contract between EXIAR and birch plywood manufacturer LLC “Sveza Les” in April of 2021. EXIAR insured the export

contracts between “Sveza Les” and 52 countries. “This allows companies to enter new markets safely as well as manage the credit risks system efficiently” stated A. Danilov, the CFO of LTD “Les-Sveza”. Particularly during the COVID 19 epidemic in the spring of 2020, EXIAR provided an additional term for deferred payments which allowed the company to continue supply of their products.

The third insurance instrument that would be demonstrated is Export Factoring insurance. This instrument works exactly identically as implemented in Kazakhstan, as the main factor that this insurance includes is protection from the risk of non-payment of foreign counterparties. Thus, the risk of non-receipt of revenue from deferred payment trading operations is completely eliminated. But in contrast with KazakhExport, this product is realized in two varieties in EXIAR: for small and medium-sized enterprises and for large exporters. The process is similar to KazakhExport, where the object of insurance may be a loan provided by a bank to a Russian exporter for the purpose of making deliveries under export contracts, whereas the insurant could be a bank, a specialized factoring company or other financial agent that provides the exporter with financing against monetary claims against the Debtor arising from the provision of goods by the exporter, the execution of work or the provision of services in accordance with the Export Contract. While speaking about export factoring insurance for large exporters, individual solutions will be offered, depending on the specifics of the client's export activities and the terms of financing under the factoring agreement.



*Diagram 7: Export factoring insurance. Source: EXIAR Official Website*

Guidelines based on the experience of Russia for the market of Kazakhstan:

The project finance instrument that KazakhExport is lacking is Working capital financing insurance. This would help to compensate for the shortage of financial resources for export production. It is evident that the lack of funds is one of the main reasons that prevent enterprises from foreign economic activity. Thus, by implementing such an approach KazakhExport could provide a possibility for Kazakh small and medium enterprises to have bigger volumes of production so that they could achieve a new standard and have a higher credibility for foreign markets.

### **3.3 NEXI- Japan**

The main reason for choosing the second country as Japan for comparison with Kazakhstan, because the Japanese insurance market is the second largest national market in the world after the United States. The Japanese insurance market is the most concentrated and protected, its financial strength allows it to play an important role in the country's economy, which means that a great experience of a country like Japan will be helpful and positively influence a young country as Kazakhstan. The Japanese economy, which in the past faced a large number of production and financial problems, was

able to overcome the internal crisis and gain a leading position in the insurance market. Thus, insurance in Japan has won about 80% of life insurance premiums, typical for the Asian region. The planned introduction of a new economic system and its phased implementation helped bring the country to a new economic level. The main feature of national foreign economic activity in Japan is a high level of centralization and control from the side of government.

In the KazakhExport official website, on November 7, 2016 within the framework of the official visit of the first president of the republic of the Kazakhstan Nursultan Nazarbayev to Japan, a memorandum between Kazakhstan and Japan was signed. The signing of this memorandum shows effective collaboration between the KazakhExport and NEXI, moreover specify the regular integration of export support systems in Japan and Kazakhstan

Referring to the NEXI official website, in April 2001, NEXI, a joint administrative agency, was recently created as a fully state-owned agency to effectively manage this program in conjunction with the government. The main institution in the sphere of export credit insurance is NEXI. Most export companies during their work face political and commercial problems and risks that are difficult to solve by the company itself. The main goal of NEXI is to solve that risk and problems, by providing export credit insurance.

NEXI insures both political and commercial risks:

1. Restrictions on currency conversion;
2. Risks of war, civil unrest, revolution;
3. Unilateral termination of an international contract concluded with a foreign government;
4. Partner bankruptcy and other similar events;
5. Delay in the fulfillment of contractual obligations by a foreign partner for a period of 3 months or more;
6. Other political and commercial risks.

Nowadays the institution NEXI plays a huge role in Japan's foreign trade. Referring to the article "Reforming Japan's State Foreign Trade Insurance System" written by Nozdreva R.B. (2020), with the beginning of activity the Japanese state corporation for export and investment insurance NEXI

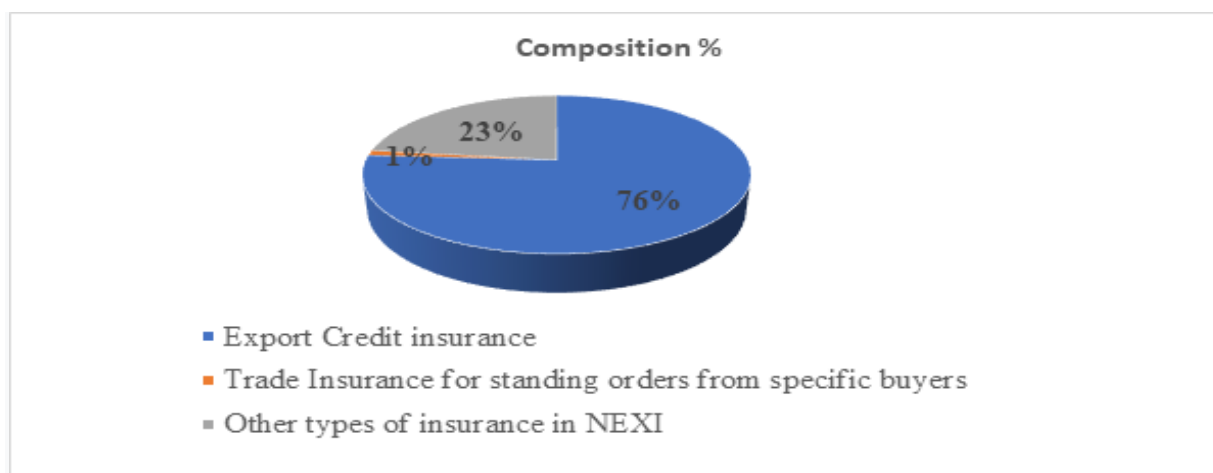
built its work on the principles of commercialization, which led to the fact that government loan shave ceased to be used. In this regard, Japan's experience in reforming the insurance system seems to be important to identify ways to improve similar systems in other countries. As part of the commercialization process, the state corporation NEXI has developed a business program to improve the effectiveness of the management, concentrated on the medium and long-term periods in order to improve customer service and expanding the list of risks for which the organization provides insurance coverage. In this regard, Japan's experience in reforming and improving the organizational forms of the insurance system is important and significant for identifying ways to improve similar systems in other countries, such as Kazakhstan.

Key points from the article:

- NEXI stopped using the government's loans, became more **centralized**. Instead of that, NEXI started to use **external resources**.
- NEXI uses **PDCA (plan-do-check-act)** cycle that helps to describe problems, implement the plan, analyze and standardize the situation. PDCA is an algorithm of actions, including planning, setting goals and processes for the implementation of planned works, control of results based on key indicators, making adjustments, taking measures to achieve results in accordance with the planned growth, making appropriate changes in planning and resource allocation.
- NEXI tries to lead a **transparent activity**: financial statements, annual reports, annual results are in the public domain.

Insurance types in NEXI are considered for short-term and for medium & long-term business. Each division of business has its own types of insurance. In this work 2 types of insurance: export credit insurance and trade insurance for standing orders from specific buyers are analyzed.





*Diagram 8: The pie-chart of insurances. Source: annual report NEXI (2019)*

According to the NEXI annual report (2019), the pie chart shows types of insurance in NEXI and their percentage ratios for 2019 year. Referring to the diagram, you can see that more than half is occupied by export credit insurance (~76%), Trade insurance for standing orders from specific buyers (~1%), and 23% percentage is for other types of insurance. Here it can be seen that the 2 tools that were chosen Export credit insurance and Trade Insurance for Standing Orders from Specific Buyers have a large difference in their percentages, which makes it clear that Export Credit Insurance has been one of the main types of insurance for the last 2019. Percentages may change annually and the reasons for such changes may affect different regions in different ways and etc.

Case relating to export credit insurance:

“An exporter from Japan shipped iron and steel products to a buyer, who is from Country C. But, the ship was rejected entry into the port of destination, because of a punch and pushed to lie at anchor off the port for one month. The demurrage was loaded to the exporter from Japan, because the buyer rejected to pay. NEXI paid insurance claims to the exporter to cover the extra losses.”

([www.nexi.go.jp](http://www.nexi.go.jp))

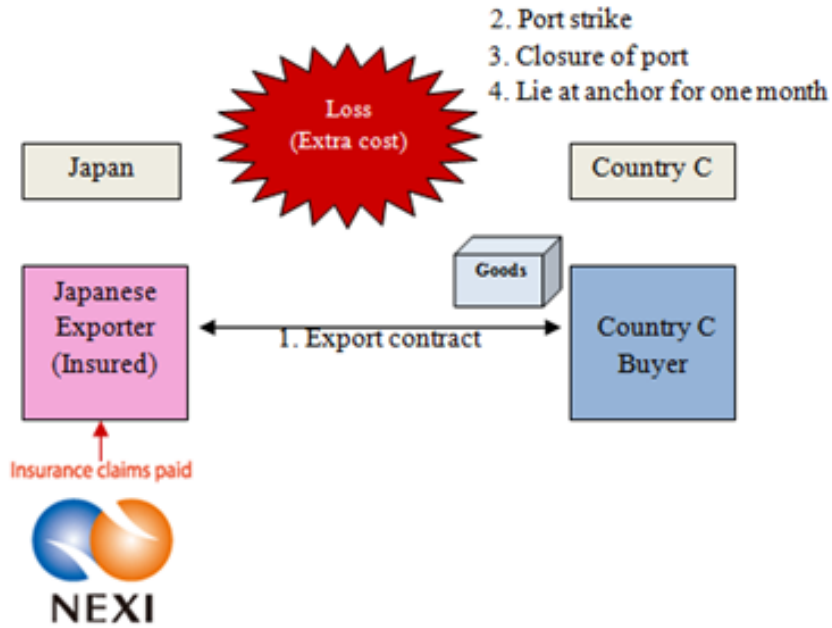


Diagram 9: Export credit insurance. Source: annual report NEXI (2019)

The diagram above represents the case situation visually between two countries. Export credit insurance should be used to avoid unexpected risks such as port strike, closure of port and lie at anchor for one month as in the case. After being insured by NEXI, all losses will be covered by NEXI.

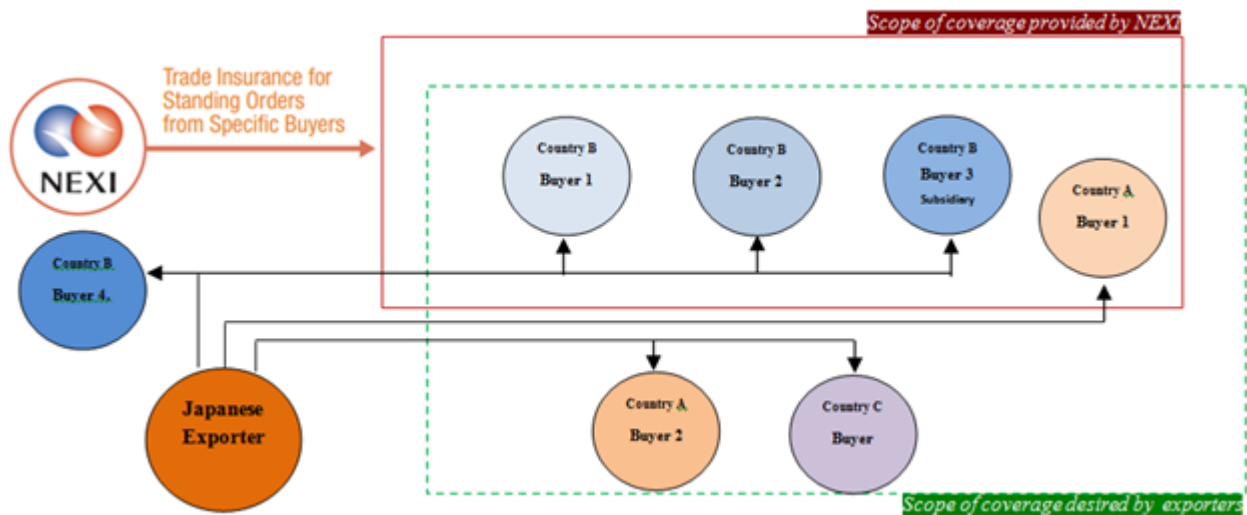


Diagram 10: Trade insurance for Standing Orders from Specific Buyers. Source: Annual report NEXI (2019)

The diagram shows the process of Trade insurance for standing orders from specific buyers clearly.

It can be seen from the cooperation between Japanese exporters and several buyers from different countries. The main feature is that insurance does not need to be applied for each buyer export contract. The insurance is convenient for those type contracts, to which Japanese exporters supply products repeatedly.

Guidelines based on the experience of Japan for the market of Kazakhstan:

One of the types of insurance that NEXI has is the Prepayment Import Insurance. It is the insurance that covers losses from the side of Japanese importer, who has paid for goods but could not receive them on the specified dates for some reasons. It is highly recommended for KazakhExport to implement the same type of insurance. This policy is very important in the event that the buyer for any reason is unable to fulfill his part of the payment agreement. Despite the many advantages, it is for this reason that new importers are afraid to do international business. Therefore, such import credit insurance covers the payment risk. This will make it possible to develop credit insurance not only on the part of export, but also on the part of import. Thus, Kazakhstani importers will be also insured from unforeseen situations.

Instruments	KazakhExport - Kazakhstan	NEXI - Japan	EXIAR - Russia
<p><b>Exporter Credit Insurance</b></p>	<ul style="list-style-type: none"> <li>● Allows exporters from Kazakhstan to receive protection against the risk of losses by a foreign counterparty (Importer) under an export contract providing for Kazakhstani goods / services on a deferred payment basis.</li> <li>● For political risks and commercial risks the share of insurance coverage is up to 80% of the number of losses incurred.</li> <li>● Insurance rate determined on the basis of country risk assessment and analysis results for the Importer's Bank.</li> <li>● Competitive advantage in foreign markets, consisting in the possibility of granting a deferred payment under an export contract.</li> <li>● Protection from political risks.</li> <li>● Minimization of losses in case of non-fulfillment of financial obligations by the Importer.</li> <li>● Increase in volumes and expansion of the geography of exports due to favorable conditions for foreign partners.</li> </ul>	<ul style="list-style-type: none"> <li>● Takes all losses incurred when a Japanese company is exporting trade or cooperates technically</li> <li>● Takes all losses when the side of exporter is unable to collect all receivable exporting</li> <li>● This insurance provides protection of small and medium sized enterprises (SMEs) in Japan and organizations agriculture, forestry and fisheries organizations (AFF Sector).</li> <li>● It protects at the moment where exporter cannot collect receivables. It offers easy procedures for application and quick payment of insurance claims to satisfy the needs of customers of SME and AFF.</li> </ul>	<ul style="list-style-type: none"> <li>● Provides protection for Russian and foreign financing banks from foreign borrowers defaulting on a loan that was given to pay for Russian exported goods and services</li> <li>● The insured is the exporter who insures an individual export contract which includes a loan from Russian or international bank</li> <li>● The insurance covers political or entrepreneurial default risks that emerged from foreign buyers</li> <li>● Term of insurance takes a certain period of time defined by the duration of an export contract</li> </ul>
<p><b>Insurance of an exporter's short-term receivables</b></p>	<ul style="list-style-type: none"> <li>● Admits an exporter to get protection of the entire portfolio of export obligations from the risk of importers' losses under export contracts that provide for the control of Kazakhstani goods on a deferred payment basis.</li> <li>● For political risks and commercial risks the share of insurance coverage is up to 80% of the number of losses incurred.</li> </ul>		<ul style="list-style-type: none"> <li>● This product is used for Russian companies' and the financing banks' protection from the risk of loan default of foreign buyers</li> <li>● The insured is the exporter (production or trading company) who is supplying by export contract</li> <li>● It is dedicated to cover both political and commercial risks up to</li> </ul>

			<p>90% of the whole amount of insured's loss</p> <ul style="list-style-type: none"> <li>● The insured period is defined to 1 year since it is designed to cover particularly short-term receivables of an exporter.</li> </ul>
<b>Trade Insurance</b>	<ul style="list-style-type: none"> <li>● Promotes demand for domestic products from foreign buyers by providing trade finance on favorable terms. Financing is carried out indirectly through second rate banks in Kazakhstan under the letter of credit method of payment.</li> <li>● The Exporters' Bank and KazakhExport enter into insurance and conditional bank deposit agreements.</li> </ul>	<ul style="list-style-type: none"> <li>● Trade insurance protects exporter from risks relating to international trade and other overseas transactions that cannot be protected by private-sector insurance. The main aim of trade insurance is to support and promote the overseas growth of companies by reducing the risks relating to foreign trade.</li> </ul>	
<b>Export factoring insurance</b>	<ul style="list-style-type: none"> <li>● Protects financial institutions under factoring transactions against the risk of failure by foreign counteragents of its contractual obligations.</li> <li>● up to 80% of the amount of expenses relating to political risks</li> <li>● up to 80% of the amount of expenses relating to commercial risks.</li> </ul>		<ul style="list-style-type: none"> <li>● Protection from the risk of non-payment of foreign counterparties. Thus, the risk of non-receipt of revenue from deferred payment trading operations is completely eliminated.</li> <li>● The insured is a bank, a specialized factoring company or other financial agent that provides the exporter with financing against monetary claims against the debtor</li> <li>● The insurance covers 70% of commercial risks</li> </ul>

*Table 4: Comparison of insurance instruments between Kazakhstan and Russia, Japan.  
Source: Official websites of the companies KazakhExport, NEXI, EXIAR*

#### **4 Results and analysis**

*As the key part of this study the interview was conducted with field expert in order to validate the knowledge derived from the literature.*

*Following the results of the interview conducted by our group the next outcomes were formed:*

As it was previously studied and confirmed by the words of the interviewee, the main purpose of the activity of KazakhExport is to support exporters by financing their projects and let them pay at interest rates that are significantly lower (8,5%), which helps and improves the financial position of the exporter. The interest rates are lower due to the fact that the budget is allocated from the state and there is further cooperation with second-tier banks, insurance agencies and institutions. Speaking about the instruments that are in demand in KazakhExport could be identified as 4 main directions: Exporter's credit insurance; pre-export financing; advance payment insurance and export trade finance. Above that, it is planned to provide an opportunity to finance foreign buyers directly in Kazakh banks for the purchase of Kazakh products, which will cover the risks not only of the Kazakh manufacturers themselves, but also if they have representative offices and branches abroad.

Moreover, it is known that KazakhExport is making every effort to support and help Kazakhstani companies and their goal is not to make as much profit as possible on this, on the contrary, they provide reduced rates for the convenience of their customers. Also, the company is not a commercial organization, therefore it cannot be said that KazakhExport competes with other organizations and for comparison it is better to take some similar foreign companies.

From the interviewee's words, KazakhExport always tries to take an example from the experience of foreign countries, which in this project was one of the goals to show and compare work experience of foreign countries, like Russia and Japan. Moreover, the speaker noted that unfortunately at the moment there are no real cases of joint work with Japanese export credit agencies. If they had a number of negotiations with Korean, with Chinese export-credit agencies, like "SINOSURE", etc., it was not with the Japanese. Since there are not so many Kazakhstani products that are exported to

Japan.

But KazakhExport is always ready for joint work with Japanese colleagues and is ready to expand further. On the contrary, KazakhExport has a successful case of cooperation with Russian export agency EXIAR. The contribution that both agencies made in supporting local enterprises allowed them not only to save partnership but also maintain profit margins.

**In addition, the interviewee stated that in the near future KazakhExport plans to add new instruments, which shows that previously written guidelines based on the experience of Russia and Japan can be practical in real life.**

At the moment, the activities of the KazakhExport are in demand among exporters, even during the period of pandemia demand was high. During the interview, it was noticed that the past year the amount of support provided by KazakhExport was around 134 billion tenge. **This number proves the fact that there is always high demand for export and the activities of organizations such as KazakhExport are important and for long-term. This leads to the fact that the study of this topic of export financing is currently relevant and necessary for the development of export in Kazakhstan.**

## **Conclusion**

It has been concluded that although the concept of project finance is relatively new to the world, it has shown to be of great value towards contributing to the development of export oriented small and middle enterprises. As is evident, the instruments of project finance vary significantly so that exporters have their contracts insured from different occasions. Project financing is one of the priority instruments stimulating economic growth of the country around the world, which makes it possible to implement large-scale and capital-intensive projects, providing favorable credit conditions for insufficient creditworthiness of the sponsor. By the analysis that was conducted above, it was identified that today KazakhExport is the biggest insurance agency in Kazakhstan and it stands in the same row with the leading agencies of Russian Federation and Japan. While the agencies have differences due to the specific political or economic factors, a number of similarities have been defined. The main similarity of three countries that have the common goal of an introduction of an insurance system-to enable exporters to export, with the possibility of insurance with coverage of future unplanned risks. Thus, project financing is one of the most advanced and priority methods of attracting investments into the country's economy. Cooperation in this area with other states provides an opportunity for the formation of international cooperation of production, the introduction of new technologies, the establishment of mutually beneficial economic relations.

It should be noted that, in the scope of the current work, the results cannot be fully generalized. Importantly, this study stresses the importance of the project financing instruments for an economy of Kazakhstan and paves the way for further practical research in this field.

After a detailed study of insurance systems of countries like Russia and Japan with comparison to Kazakhstan, it was recommended above for further development of KazakhExportis to add new types of insurance such as Working Capital Financing Insurance and Prepayment Import Insurance, which are already successfully applied and are in demand in EXIAR and NEXI. According to the interview, with Almaz Nurgaliyev, who is a deputy Director of the department of Insurance of



KazakhExportis ready to expand further, considering and updating the types of financial instruments.

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## Appendices

Questions of the interview:

1. - *How did coronavirus affect the activities of KazakhExport?(perhaps there are special cases). Has the number of applications from kazakhstani businesses increased?*

- Thanks for the question! In fact, this question has been repeatedly asked, including the representatives of the official mass media. I will tell you so for the period of the coronavirus, figuratively speaking, the last year since March 2020, the number of appeals from Kazakhstani exporters has not decreased for sure. I can even say it has increased to some extent. At the same time, our all instruments that we provide to exporters, we have given such an opportunity so that companies can contact us online. Accordingly, despite the fact that even some of our employees of the companies were remote, this did not in any way affect the list and amount of support provided to exporters. If we say based on the results, let's say last year 2020, which is considered difficult in all respects. Including the reduction of production, volumes and business activity among entrepreneurs of Kazakhstan, in fact, over the past year we supported more than 100 Kazakhstani exporters, of which about 40 companies are new exporters. These are the companies that used government support instruments for the first time. Thus, the total amount of support provided over the past year amounted to about 134 billion tenge, this is in total terms. That includes all the tools, insurance and financial, that KazakhExport provides to exporters as stated above. This may indicate that, in fact, in our work there was no significant decline, activity or volumes of support provided. At the same time, the appeals of exporters, which were last year and at the current moment, they are aimed at the fact that ... There were, of course, appeals of such a plan that there are closed borders somewhere, it became more difficult and more problematic with logistics and with export. That for objective reasons, many states cannot open borders, let goods through. During the last year, in 2020, there were certain measures introduced at the state level to restrict the export of certain items of goods, but you probably understand why this is connected. It is precisely connected with the fact that to ensure food security, primarily in Kazakhstan itself, because in such times when there are problems with supplies, problems with the movement of goods across the border to other states, there is always a risk that essential goods, basically, these are products that make up the main set of the food basket, including, such goods should primarily ensure the internal food security of the state. In this way, certain course-limiting measures were taken for the export. In some areas, mainly food products, but this was a temporary phenomenon, that is, it lasted literally 2-3 months until the necessary internal stock of volumes of these products was formed and after this, these restrictions were lifted. In general, if we speak, then even taking into account the fact that there was a pandemic, let's say there were no restrictions in terms of the provision of state support measures for exporters in any way.

2. - *What instruments are in demand in KazakhExport and will there be any changes in the future, such as adding new instruments?*

- In fact, we have about 16 instruments, among them there are main 4 directions, if we group all our instruments, the main demand is firstly - export credit insurance, this product provides for insurance of risks under export transactions, contracts, one of the directions is the protection of the Kazakh exporter from the financial risk of non-payment under export contracts from foreign buyers. The second direction is pre-export financing, we provide funding to second-tier banks, which, in turn, due to the provided funding KazakhExport, has the opportunity to provide loans

to its exporting clients on more favorable terms. The third direction is prepaid insurance, when, on the contrary, we provide an opportunity for Kazakhstani exporters to receive advances from their foreign buyers under our insurance, since there are cases when a good contract is planned, the buyer abroad is ready to make an advance payment for the export product, but is afraid that our Kazakh manufacturer will not deliver products under the contract in a timely manner, and in this case, this insurance provides him with this risk, that is, we guarantee for the Kazakh enterprise that it will perform its contractual obligations. The fourth direction is when we can finance foreign buyers for the purchase of Kazakh products, our product is called export trade financing, it is carried out through an accredited form of payment, that is, through interbank financing, when we allow foreign buyers of Kazakh products to receive preferential financing in 4 currencies and at the expense of our single preferential financing, foreign buyers can purchase Kazakh products in a good volume. These were the main areas, but in addition to this, there is also loan insurance, which is also in demand, when we give Kazakh exporters the opportunity, if necessary, to obtain a loan from second-tier banks, where our insurance coverage is used as collateral, that is, we provide our insurance to the bank as collateral and guarantee for the exporter in the amount of up to 90%. Thus, these were our main areas that are in demand, and I would also like to say that we regularly work on expanding our existing product line. Moreover, in the near future, we plan to provide an opportunity to finance foreign buyers directly in Kazakh banks for the purchase of Kazakh products, which will allow us to cover the risks not only of the Kazakh producers themselves, but also if they have representative offices and branches abroad. That is, it will be a separate product that will allow you to insure the risks of these foreign representative offices through the insurance companies of the partnerships with which we conclude agreements, this will be carried out under the reinsurance scheme. This is in our plans, that is, in the near future, we can still expand our tools so that exporters have the opportunity to receive new tools, elements in support.

3. - *Has KazakhExport financed with NEXI any joint project for the export of goods and services to the third countries of mutual interest to Kazakhstan and Japan? If not, are there any plans?*

- Unfortunately, I will say right away that we have not yet had any joint projects with the Japanese export credit agency «NEXI», but there were similar projects with the export credit agencies of the Russian Federation «EXIAR» and with the Belarusian «Белэксимгарант». These are the same state-owned companies that support exports. If we had a number of negotiations with Korean, with Chinese export credit agencies, like «SINOSURE», etc., we wouldn't have it with Japanese. I'll just say that we do not have so many Kazakhstani products that are exported to Japan. In our case, during my practice there were literally several deliveries of Kazakhstani products to Japan. Moreover, this was food products in the form of vegetable oil. Safflower oil was supplied to Japan, but it was not a large volume, actually it was trial deliveries. In the future, of course, we hope that if there is some kind of export of Kazakhstani products to Japan, then we are interested in working with our Japanese colleagues. Unfortunately, at the moment there are no such cases.

4. - *Is there a successful case of cooperation between Kazakhstan and EXIAR?*

- Yes, in 2020 there was a company (Company A) a big manufacturer of steel wheels for the rolling stock in Kazakhstan. Company A purchases raw materials for production from Russia in large quantities since, unfortunately, there is no steel analog of the same quality in Kazakhstan. All the raw materials are procured from Russian Federation, specifically from Taganrog metallurgical plant (Company B) which is the biggest one in Russia and is a part of TMC (Tube Metallurgic Company). The problem here was that, as an exporter, Company A has to purchase raw materials ahead because the production cycle of steel train wheels takes approximately half

a year. While Company B requested prepayment for raw materials, Company A could not afford giving such a big amount of money ahead since the production cycle is very long and the company did not have big cash flows. In order to make payment in advance, Company B would have to sell the final product so that there is money for prepayments. This generates a vicious circle, to sell the product there should be raw materials, whereas to purchase the materials products must be sold. So, an exporter faced a problem of inability to purchase the raw materials in large volumes, therefore, the company purchased the amount for the money it could afford. This was not enough to operate in full capacity for a firm. Of course, this affects the profitability of the company and the costs. Thus, an agreement was made between EXIAR and KazakhExport where Company B provided a large amount of raw materials with a big deferral (240 calendar days). This was accomplished due to the fact that the risk of nonpayment of Kazakhstani company was insured by EXIAR, while KazakhExport reinsured the risks. In short, KazakhExport guaranteed the payment capacity of Company A to the Russian company. If Company A would be incapable of paying for the materials from Company B then EXIAR would have to pay the loss to Company B, whereas KazakhExport as a reinsurer would have to cover the losses to EXIAR. In fact, the whole risk was taken by KazakhExport because the risk holder is Kazakhstani exporter so that KazakhExport supports local enterprises.

**5. -** *Why is KazakhExport better than other export organizations? How does KazakhExport offer more favorable terms to exporters than second-tier banks? Please give an example.*

- First of all, KazakhExport is not a commercial organization and making a profit and setting high tariffs for services is not the goal of our organization. Thus, we don't compete with other Kazakhstani companies, including with second-tier banks, because we have a different set of instruments. Therefore, it is better to compare KazakhExport with foreign agencies, from which we can learn something new (advanced tools, new mechanisms). I will say that in Kazakhstan we don't work in a competitive market where we could compete with someone, because we do not have a banking license and we are not a bank. On the contrary, we have partnerships with our insurance companies and second-tier banks, and we cooperate. Moreover, we don't give preference to certain banks, we are ready to cooperate with all banks in Kazakhstan. In addition to cooperation with second-tier banks, we also work with state institutions (for example, the Development Bank of Kazakhstan, Damu, etc.) Regarding pricing, our tariffs are based on the break-even principle rather than commercial revenue generation. This is done so that exporters have less burden and less costs, given that support comes from the state.

**6. -** *To what extent do KazakhExport instruments have a positive effect on the financial condition/position of exporters? What are average rates and costs the exporter will incur when contacting KazakhExport?*

- As I said earlier, everything related to the financial condition, we enable exporters to be financed in banks at a reduced preferential rate due to the fact that we are operators of government money. We receive money from the republican budget and then we can place it in banks on conditional deposits, and at the same time, in the future, these banks, when banks finance their exporters, their clients pay less. Thus, the financial situation can improve due to the fact that the exporter will pay less bank interest. For example, if the commercial rate in the bank for exporting clients is 13 or 14 percent per cent, then due to the fact that it is financed by money that we place with the bank for these purposes as support for exporters, then the final rate is 8.5 %. Well, you see that this is a significant difference in the amount, and just the same, all this difference turns out to be that certain amount that the exporter saves, and this affects his financial situation positively.

Link to the interview: [Interview through “ZOOM” meetings session](#)

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