Baker Ing

Hosted by Henry Webinar Summary

Eastern Europe & Central Asia

March 2021

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Hosted by Henry

Eastern Europe & Central Asia

Introduction – Lisa Baker, CEO, Baker Ing

The late 1990's and beyond saw Eastern Europe become an emerging market for many companies. It quickly became the "hub" of choice for multi-national companies in their order-to-cash process, whether through appointed BPO or home-grown shared service centre. Credit management had to, quite quickly, adapt their credit policies to welcome and support this growth. The countries that are part of the EU are typically easier to trade with for credit management; Czechia, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. This is because they have common legislation around debt recovery and litigation, e.g., the EU Debt Recovery Directive. The more standardised and advanced the local country is in supporting creditors, the more security credit management has in extending credit.

We can see from the economic report that non-EU economies are advancing, with a growth in middle class wealth; with this comes demand for product and opportunity for businesses. Post COVID-19, credit management are more involved with all business decisions and a 'go-to' for company stakeholders concerning business strategy and growth decisions. What defines an exceptional credit manager from a great one is how they can assess opportunity for new markets with a supportive credit policy which mitigates risk and encourages growth.

This document summarises the content from our Global Outlook Eastern Europe & Central Asia report, along with related insights from our panel of experts who came together on 18th March 2021 for the Hosted by Henry webinar. Please register at www.hostedbyhenry.global for future webinars.

In addition to this summary, you can download the speakers' slides and view the full recording of the webinar at www.bakering.global/resources

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Key economic indicators and most significant implications – Jas Sehmi, Economist, Baker Ing

1. The Covid-19 crisis has hit the region particularly hard

   Currently, 6 out of the 20 countries most affected by Covid-19 worldwide are in Eastern Europe. This is due to a number of vulnerabilities which have left the region particularly exposed to the health and economic impacts of the pandemic. One key vulnerability stems from years of underinvestment in healthcare systems, which has left them overburdened and unable to cope with a health emergency on this scale. On the economic front, a high dependence on exports and tourism revenues, as well as limited government capacity to finance rescue packages, has meant that lockdowns (both domestically and abroad) have hit the region hard.

2. The regional economy is slowly recovering

   GDP should rebound by around 4.3% on average this year after contracting by roughly 3.2% in 2020. But risks to this projection are firmly to the downside, given that uncertainty over the course of the pandemic is still elevated, and consumer and business confidence remain fragile.

3. Vaccine rollout in the region

   Likely to lag behind that of most other key global regions. This is one of the main risks to the recovery. While a number of countries have commenced their vaccine programmes, issues with securing sufficient supplies in many states, infrastructural and logistical constraints, as well as vaccine scepticism, mean that vaccines are unlikely to be widely available in most countries until late 2021 at the earliest.

4. Confluence of pressures

   Despite the gradually and tentatively improving economic backdrop, financial conditions remain tough and credit risks are still elevated as unemployment remains high and businesses continue to contend with subdued demand. Moreover, many regional currencies came under pressure amid the crisis as investors flocked to safe haven assets. This has put pressure on consumers and firms with high levels of foreign-currency denominated debt.

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5. Regional inflation slowed sharply in 2020

   It is expected to remain subdued in 2021 amid the still-muted economic backdrop. While low inflation should help to bolster consumer spending, household budgets will remain stretched, as labour market conditions continue to be tough, uncertainty is elevated, and many government support schemes will be rolled back. As such, household consumption is unlikely to recover fully this year, with a more convincing pick-up in spending likely to kick-in in 2022.

This provides a crib sheet of the most important factors, but I would certainly recommend downloading the full report, if you haven't already, as depending on your trading circumstances, some of the detail may be very important to you.

Poland drilldown - Robert Dyrcz, Founder, Polish Institute of Credit Management

Poland is the region's most important market, so it's worth taking time for us to look at its business confidence, PMI, consumer confidence, and PCIM metrics.

1. Business confidence

   The general business climate indicator for February is still unfavourable (below long-term mean) in most areas of the economy, although it is better than last month or remains at a similar level. The most pessimistic assessments are noted among companies from accommodation and food service activities (at the same time these units noted the greatest improvement in the economic situation in comparison to January 2021). Only entities in information and communications have positive evaluations in this regard.

Chris Snelson, Sr. Director Int. Credit, VF International;

'Poland seems to be hardest hit of these nations during Covid, with numerous payment plans being negotiated, however things are starting to improve, and payments are coming through more frequency than the last quarter of 2020. '

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2. Purchase Managers' Index (PMI) – Manufacturing

The IHS Markit Poland Manufacturing PMI rose to 53.4 in February 2021, up from 51.9 in the previous month and above market forecasts of 52.7, signalling the strongest overall improvement in manufacturing business conditions since June 2018. New orders rose at a faster rate, boosted by exports, leading to renewed output growth and the strongest increase in backlogs since January 2007. On the price front, input costs rose the most in a decade, leading manufacturers to raise their own prices at the fastest rate since May 2004. Looking ahead, business sentiment strengthened in February.

Jon Swan, Head of Credit Services, Hachette UK;

'Our biggest change in payment behaviour certainly has been in Poland and our overdue %'s in that country are increasingly higher. We haven't yet seen any commensurate increase in insolvencies though.'

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3. Consumer confidence

In February 2021, there was an improvement in both current and future consumer sentiment moods compared to the previous month. The current consumer confidence indicator, synthetically describing the current trends in individual consumption was -25.2, which was 0.1 p.p. lower in relation to last month. Among the components of the indicator, a lower value than a month before was recorded for the current likelihood of making important purchases and the current economic situation of the country (decreases by 2.9 percentage points and 1.6 percentage points, respectively). There were higher values for the future financial situation of the household and the future economic situation of the country (increases by 3.3 percentage points and 0.7 percentage points, respectively).

4. PICM Risk Index © – Manufacturing

PICM Risk Index © for manufacturing rose to 72.1 in February 2021, up from 71 in the previous month, signalling record high credit risk in the sector. The main negative drivers of the indicator were current order book, production and expected deterioration in financial standing.

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Q&A – Robert Dyrcz, Founder, Polish Institute of Credit Management

1. What is the structural break down of Polish industry - sole traders v SME v large corporates? Where is the driver of growth going to come from?

   In Poland we have around 2 mln enterprises, including 1,9 microfirms (sole traders and with up to 9 employees), 52k small (between 10 and 19 employees), 31k small (between 20 and 49 employees), 15k medium (between 50 and 249 employees), 3,2k large companies (between 250 and 999 employees) and 800 big corporations (more than 1000 employees). We can compare those statistics to the rest of EU here. Definitely the growth comes now from the ones located in the industrial sector, opposite to microfirms and small enterprises located in the service sector, especially in HoReCa business, heavily affected by the pandemic. It is worth to note that Polish economy is well-diversified, and this is the main reason for its strength, equally on domestic and foreign markets. Poland's economy is also benefiting from export, with rapidly rising production of car batteries (Mercedes-Benz, LG and Northvolt) and automotive overall. The export from Poland is more diversified than other countries in the region, reflecting the economy structure: please compare Poland to Germany/France, Czechia, Slovakia, Hungary or Romania.

2. Why is inflation a risk with low growth in Polish economy

   High inflation accompanied with low growth is always a risk and bad situation for every economy – we call it "stagflation". On the slides you can see how rapidly money supply is increasing in Poland. The inflation risk materialized once two conditions are met: (12) large money supply, above the dynamic of value added supplied by the economy and (2) increasing speed of money circulation in the economy. So far, the first condition is met. We see however the increase in the value added (see slides with industrial production output), but this probably is not enough to balance artificial money creation by the central bank (quantitative easing). The second condition for high inflation is on its way: we see industry booming and a lots of transport and commodities bottlenecks popping up everywhere which is driving prices up. Once the service sector opens (depends on pandemic statistics) we will see explosion of "frozen" expenditures for services and another boost for inflation processes. Inflation is dangerous for companies with low margins, as central bank will be forced to increase the interest rates and financial costs could eat the profitability. Low-profitable companies are at risk (zombie-companies). It is worth to note that inflation in Poland is the highest in EU.

3. PICM 72.65 for Poland - is it calculated on exposure at risk or on entity at risk level?

   The PICM Risk Index © indicators are based on the long-term time series of business tendency trends provided by the statistical offices around Europe. The business tendency trends (business sentiment) comes from the surveys

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conducted among enterprises in all business sectors. The entrepreneurs are asked about their view on current and future business condition in terms of production level, order book and many other factors driving the business activity. The scope of the research sample is wide (industrial processing – 37,790 entities, construction – 24,000 entities, trade – 29,740 entities, services – 43,700 companies) and not available for other similar studies. In PICM we use the output from those surveys to compute an index showing the trade credit risk, per country and economy sector. The PICM Risk Index © ranges from 0 to 100, where the higher the value of the index, the higher the risk of insolvency of companies in a given country/industry. It is assumed that a significant risk arises when the indicator exceeds 50 points.

Business Information in the CEE Region - Tim Wendholt, Corporate CPR

A major challenge throughout the region, both pre and certainly post Covid related economic lockdowns, has been the availability of viable information on which to base commercial risk assessments.

Purchasing data from credit agencies outside of the region is at best random, with old data sold as fresh and often weak in areas of crucial importance such as ownership.

Using a local credit agency is often the better answer – ideally, in tandem with a trade credit insurer which has genuine representation and intelligence gathering capabilities in the region. Insurers are more than just issuers of credit limits or payers of claims – they gather fresher intelligence than credit agencies ever do.

However, using a data source is nevertheless good practice if for no other reason than to confirm the existence of a counterparty and to help formulate both the framework of questions to ask of the counterparty and the risk management strategy in working with them.

The CEE region varies considerably in quality and coverage. Some examples of data content below (contact admin@bakering.global for the full list).

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Country	Name	Legal Status	Tax debts	Financials
Baltics				
Latvia	yes	yes	yes	yes
Lithuania	yes	yes	yes	yes
Estonia	yes	yes	yes	yes
CIS				
Russian Federation	yes	yes	yes	yes
Ukraine	yes	yes	yes	yes
Belarus	yes	yes	yes	yes
Moldova	yes	yes	yes	yes
Kazakhstan	yes	yes	yes	yes
Armenia	yes	yes	no	no
Azerbaijan	yes	yes	yes	no
Georgia	yes	yes	yes	no
Kyrgyzstan	yes	yes	yes	no
Tajikistan	yes	yes	yes	no
Uzbekistan	yes	yes	no	no
CEE				
Albania	yes	yes	yes	yes
Bosnia Herzegovina	yes	yes	yes	yes
Bulgaria	yes	yes	yes	yes
Croatia	yes	yes	yes	yes
Czech Republic	yes	yes	yes	yes
Hungary	yes	yes	no	yes
North Macedonia	yes	yes	yes	yes
Kosovo	yes	yes	yes	no
Montenegro	yes	yes	yes	yes
Poland	yes	yes	no	yes
Romania	yes	yes	yes	yes
Slovenia	yes	yes	no	yes
Slovakia	yes	yes	yes	yes
Serbia	yes	yes	yes	yes

Many countries, the 'stans aside, have financials available but, often in only a limited format and often structured in an unfamiliar way. Don't forget as well, that if the financials are accessed through a credit report, they will have been forced into the format used by the credit agency which will have required compromise to accommodate the process.

As with other jurisdictions - and that would include certain company types in the UK and by far the majority of USA businesses – it is necessary to adopt a back-to-basics approach, leveraging soft data to guide the decision-making process.

Create Your Own Risk Matrix (an example that can utilise credit report and general research)

Analyst Grade	LEVEL OF RISK	EXPLANATIONS
0	Rating not possible	Business not registered – general information unavailable and unable to verify information. Official verification could not be determined, contact could not be established or not enough information for a rating
1-2	Extremely High (no credit)	The company is in bankruptcy or in liquidation
4-5	Very high	Many incidents of delayed payments, legal actions registered major difficulties with partners, bad financial ratios.
6	High	Weak financial and commercial structure, irregularities of payments, poor reputation and evidence of debt collection.
7	Moderate	Weak financial structure, no credit history, no payment experiences, OR Company is suspended by the Register for non payment of taxes/fees
11	Low	Stable financial and commercial structure, low credit history, no negative.
12	Low	Good financial ratios (where available) indebtedness controlled, no legal actions or debt collection.
14	Very Low	The company has good credit history, no legal actions or debt collection and good financial and commercial structure, indebtedness is controlled, profitable, payments are regular.
16	Minimum	Good financial and commercial structure, the company is well regarded by its trade partners, Or/also the company is part of a large strong group, the company has good solvency and can meet its obligations.
20	Nil	Minimum risk; solid financial structure.

Of course, an experienced credit manager will be able to interpret subjective terms such as "good commercial structure" or "large strong group" in a manner that fits their own context and knowledge.

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Then it may be possible to move to the next level of assessment, for example:-

Principal Factors	Covering	Weighting %				Score (100)	Result
		Financials	No financials with Parent	No Financials	Offshore		
		A	B	C	D		
Legal type	Ltd						
	LLC	15.00%	15.00%	15.00%	5.00%	15	2.25
	Sole Trader						
Shareholders/ Parent Company	Experience/ background	10.00%	10.00%	15.00%	10.00%	10	1.5
Legal Actions	Non-payment related	10.00%	10.00%	10.00%	10.00%	10	1
Financial Statements	Scale of operations	15.00%	0.00%	0.00%	0.00%	0	0
	Net worth						
	Sales/ Operational trends						
	Employee size						
Consolidated accounts	Consolidated accounts	5.00%	20.00%	0.00%	20.00%	0	0

Such an approach will enable at least some basic assessments to be conducted in a consistent fashion, enabling enhancements as experience is gained and payment performance to be added to the overall picture.

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Looking back, edging forward – Ian Leslie ACMA CGMA, Head of Business Development, AON

Utilising Aon's data and analytics, we can see that for the regions covered within this document, approval ratios for credit limit requests stayed consistent between March 2020 and March 2021.

In general, across Eastern Europe, limit satisfaction remained consistent throughout the pandemic, which is in stark contrast to what happened after the 2008 financial crisis.

March 2020 to March 2021 saw an average acceptance rate of 60%. Surprisingly, the first three months of 2021 have fared even better, with an average acceptance rate of 68%. This number also includes an average acceptance rate of 61.33% on buyers in grades we would class as higher risk. This level of consistency echo's insurers' comments about staying consistent and offering support during the pandemic.

Recovery is now the main focus, and it brings new challenges. Ignoring the most obvious around vaccination, your eyes are then drawn to the possibility of further economic disruption, in either increased social distancing, or complete lockdowns. As I researched this piece the Czech government are planning to further tighten their existing lockdown to slow a surge brought on by a variant.

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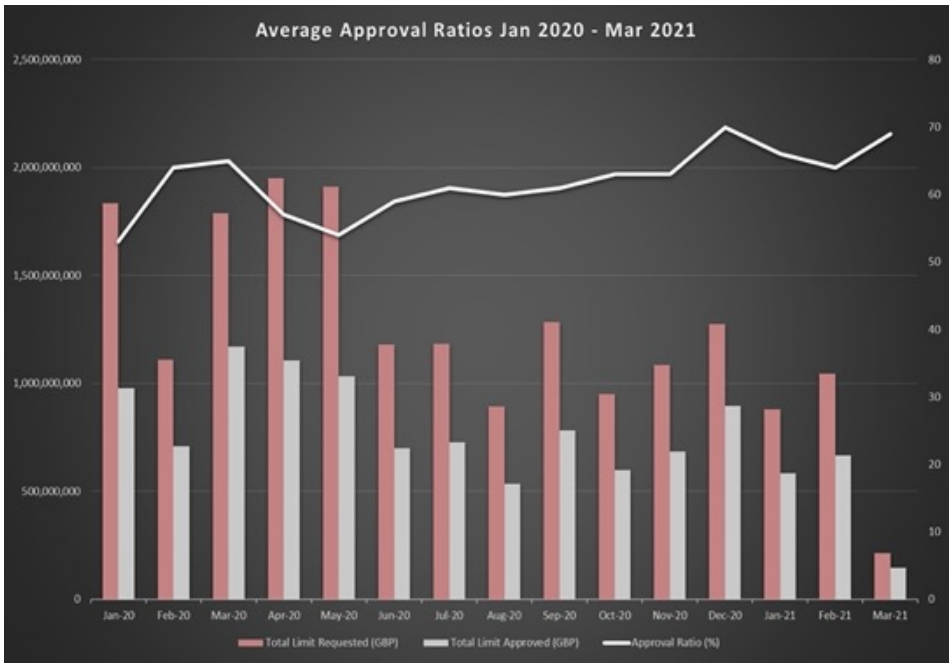
The roll out of the vaccination across Eastern Europe is paramount if we want to return to any level of normality. Without this recovery isn't difficult, it's impossible.



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Creditors in a post-COVID environment - Adrian Hyde, Partner, Begbies Traynor

Russia:

The Moratorium on bankruptcy filing in certain sectors and industries ended on 7th January 2021. A comprehensive package of legislation was brought in to ensure that the position of creditors was not prejudiced or could at least be restored to what it would have been had they been allowed to proceed during the moratorium period. Therefore, dissipation of assets and asset stripping during the moratorium period is capable of attack. Whilst the moratorium prevented applications for bankruptcy, it did not prevent asset preservation actions or the commencement of proceedings generally. The Court also allows transactions such as transactions at undervalue, effected during the moratorium, to be set-aside without the commencement of bankruptcy proceedings.

Kazakhstan:

The Moratorium on bankruptcy filing is, along with many other support packages, extended. The Moratorium will not end until 1st July 2021, the same time as occupants of state-owned property will again begin to pay rent. The SME exemption on the requirement to pay property tax and employee tax is extended until 31st December 2021. Such is the significant effect that the pandemic has had on this economy.

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Czechia:

The key date here is 30th June 2021, which is the hard-stop date for the end of special restrictions aimed at preserving economic stability. The first development is the Extraordinary Moratorium; a tool allowing businesses to seek protection from its creditors, but with a much-simplified process, not requiring the approval of an absolute majority of its creditors and requiring significantly less information than would normally be required. This will, potentially, make debt recovery and enforcement more difficult until 30th June 2021. The second development is the Moratorium on bankruptcy filings. The rule here is more qualified than in many jurisdictions; a business is not exempted from the requirement to declare bankruptcy, where the reason for the insolvency is other than COVID related matters, and it does not apply where the entity was insolvent prior to the emergency measures being adopted. The special measures also provide for the freezing during the moratorium period, and extension for a further 6-month period after the end of the special measures, on the application of the debtors. Finally, there are provisions dealing with voluntary arrangements, enabling them to be concluded with the balance of debts being written off, notwithstanding that the terms of the arrangement have not been fully met, where that failure is as a result of COVID.

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Jonathan Swan, Hachette

'Average terms in Russia are, at an average of over 120 days, some of the longest globally, and the overdue position is slightly deteriorating but, well below that in Poland. This is contrast to Ukraine where average terms are near 90 days with almost zero overdue. Elsewhere in the Region there has been no material change in payment behaviour in recent months and customers in several countries particularly in Turkey and Czechia are consistently paying at or very close to terms. '

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Key legal process developments – Liz Dotter, Legal Director, Baker Ing

Poland:

1. The simplified proceedings for the approval of an arrangement (postępowanie o zatwierdzenie układu) is the newest restructuring procedure available under Polish law. It was introduced to the Polish legal system by the so-called COVID Shield 4.0 enactment. The simplified proceedings for the approval of an arrangement can be applied for by the debtor until 30th June 2021. The new process allows the debtor to individually open the simplified restructuring proceedings and to subsequently notify the Court and Business Gazette (Monitor Sądowy i Gospodarczy).

   As a result of this notification, the debtor is given four months to seek consent of creditors to its restructuring proposals and to submit the motion for approval of arrangement with the court.

   The most significant consequence of the debtor's individual notification with the Court and Business Gazette is that existing enforcement and injunctive proceedings against this debtor are suspended. Furthermore, no new enforcement and injunctive proceedings can be initiated, which is also a notable outcome.

   The debtor's protection can be challenged in court by a creditor if the notification of opening the restructuring proceedings' consequences are detrimental for the creditors

2. Regions of Poland most impacted by COVID are the ones that are closely related to transportation and tourism – North-West Poland and Świętokrzyskie voivodeship. Eastern Poland has suffered greatly as well.

   When it comes to specific sectors, there are few that suffered the most and the problems with financial fluency are visible – transportation, gastronomy, food sector, retail sales, services and sales sector.

   Apart from small bumps, the construction sector seems to be doing pretty well.

   Generally, bigger companies are doing better than the smaller ones.

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3. We can see significant shifts in the number of receivables among our clients, which is reflected by the national reports regarding the state of the economy. Debtors tend to overuse the "COVID reason" as an explanation for their mishap. On the other hand, Polish government introduced financial aid given to companies from specific sectors, regions, of specific size etc… and this were we see the chances of repayments.

   The sectors that we feel the most competent at are construction, footwear, installation and sanitary, electrotechnical, agricultural, automotive, furniture, ICT. However, we work with companies from all sectors.

Russia, Ukraine, Kazakhstan:

1. During the lockdown, Russia, Ukraine, Kazakhstan and most of CIS remained in lockdown longer, than, for example, companies in Europe or Baltic States. This had the direct impact on the financial situation.

   Our experience after the lockdown shows:

   - The companies, which were able to survive over the COVID lockdown, have already resumed operations and most of them are willing to continue operations.

   - A larger number of them have missed the high season and incurred costs during the lockdown due to obligations to pay salaries, rent, loans etc…

2. Our case analysis and studies of other sources for economic forecast bring us to the following conclusions:

   The number of insolvencies during 6 months of this year will increase by about 30% (as in 2020 there was an official moratorium on bankruptcies). The companies were supported by the governments during the lockdown period, however at this moment the state aid has come to an end or is very minimal.

   The debtors try to minimise the payment, at least for coming half year, mostly due to the uncertainty if there will be another lockdown. Another reason is that the turnovers still have not reached the pre-lockdown numbers.

   The debtors, especially retail, try to bargain discounts. Even though the forecast for retails sector shows that the sector is recovering, but the lockdown period brought significant loss to the companies in the sector when the trade malls, shops and markets were closed, so they try to compensate their loss with the help of creditors. We see that creditors who agree to some

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discount, are the first to receive the payments. This also works, if the debtor is moving its operations to another company.

3. Most affected industries are retail of electronics, wear, tourism, HoReCa businesses.

   Debtors are looking into continuing cooperation with their suppliers, and we also actively promote agreement to continue cooperation between the creditor and the debtor on full prepayment terms, with payment of some % above the order value. This scheme helps both the debtor, especially in production and construction sectors, and the creditor.

   The debtors are less willing to give personal surety in given conditions of uncertainty. If there are clear signs of debtor planning to stop operations and take the assets out, the fastest creditor is to receive the money. Securing of the claim is more and more popular.

4. To bring a conclusion, it is crucial to be fast, flexible and creative in order to collect the receivables, especially in current circumstances in these regions.

Hungary:

1. Online retailers have been winners, and we see no big differences in this region. Things are likely to deteriorate rapidly and in the coming months more payment agreements will be made. Therefore, we advise all our clients, if you have debts, to collect. The faster you act, the better it is, as things are deteriorating.

2. There is a moratorium in case of existing bank loan agreements of private persons at Hungarian banks. This moratorium is not valid for non-existing contracts (e.g., because of non-payment of debtors). In the case of companies, the commencement of liquidation process is extended by 90 days. That is why legal proceedings still can be initiated and continued against debtors.

3. Territorially, the epidemic and solvency cannot be separated in Hungary; the whole country has been affected and there are no specific differences in the regions.

4. The better performing sectors are (online) retail chains and courier companies, but their number is negligible.

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Chris Snelson, Sr. Director Int. Credit, VF International

'These markets have been a mixed bag over the last year. In Ukraine, Kazakhstan & Romania, which are distributor markets in the main, we have the security of standby letters of credit which provide us with the confidence to continue to trade up to those values. Payments have been varied from on-time to delays (with agreement) by 30 days. Overall, not too bad, considering.

Currency has been an impact on the Russian market due to some suppliers insisting on USD for payments. With the fluctuation of the Ruble from 63 to 83 to the dollar, this has caused some pressure points for customers. However, despite a slow start in April/May things have picked up and we have had more than a 20% improvement in both DSO and DBT for this market over the last year. This level of performance has continued in the Turkish market as well, with DBT reducing from high teens to now low single digit numbers in the last twelve months. We have seen some issues in the Czech and Hungarian markets, mainly the latter.

One positive thing to note is that insolvencies in these regions have been very small throughout the last year. However once government aid stops and things return to some sort of normal, I would expect a larger number of insolvencies to come through.'

Credit lines, Security, Due Diligence: AML & KYC – Mike Diette, Int. Credit Director, Harley Davidson International

Most Eastern European countries, such as Poland, Czechia and Romania, are now considered established markets. Depending on the value of product / orders, transactions on open account can be made once the usual credit checks, per your company's credit policy, have been completed.

In markets where open account is not advisable or when the client does not match your company's credit-worthy standards, some form of hard security is advised. Generally, it is difficult for businesses in many of these countries to obtain bank guarantees, especially if your credit policy will only accept investment graded banks. Documentary LCs are administratively burdensome, so I prefer to go with

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Standby LCs or in some cases, cash deposits. These deposits can be held in escrow as hard security or can be utilised to draw down against receivables on a regular basis and then topped up, depending on seasonality (if applicable) of sales. Cash deposits should always be taken in hard currency; USD, EUR, etc… Parent company or third-party company guarantees may also be acceptable in cases where that company resides in a low-risk market to ensure enforceability.

Due to the risk of limited public information and/or transparency, as well as the risks of sanctions, money laundering, et al, in some of these markets, it is vital that due diligence, including but not limited to anti-money-laundering and know your client protocols are followed to protect your company both from potential credit losses but also, hefty fines.

Risk mitigation – Lisa Baker-Reynolds, CEO, Baker Ing

Top line is there are three risks I'm looking to cover off as a priority:

- Lack of Financial Information
- Ultimate Business Ownership, Sanctions & Corruption
- Currency Issues & Political Risk

We know that, in even the most advanced economies in EE and central Asia, the financial filing laws are very relaxed, and some countries do not hold a financial registry. When extending credit and defining a credit policy, it is the level of transparency that we can gain into a company's financial position that often determines surety and confidence. It is difficult to implement credit algorithms and score cards when information is missing and what is available cannot be relied upon as truthful or accurate. This poses the greatest hurdle for credit management today but, the good news is there are developments being made and we can trade with such territories if additional measures and processes are put in place. It is advisable to avoid the use of automation in newly established markets and ensure each credit assessment is run manually – at least until a certain level of confidence has been achieved in that market and client payment performance history has been achieved. It is widely accepted that additional securities are asked for in regions where financial information is scarce and non-traditional forms of credit assessment are becoming available.

1. Financial Information

   The one consistent we have for reliability and honest delivery of information is banking. In country banks are often the most the most advanced in the way of obtaining financial information on local business and are not corrupt. The banks are incentivised to see commercial prosperity but are also subject to strict due diligence and global compliance that can be audited and monitored. We have seen in the Baltic regions how banking has responded to support

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businesses in obtaining credit lines, both in-country and foreign finance, by providing access to a companies' banking records and live financial information. This is helping to ease the problems caused by the lack of filed and audited accounts. You can contact Creditinfo (www.creditinfo.com) who are leaders in data innovation within Eastern Europe and they can advise how you can gain access to live financial information on prospective clients.

As companies advance their use of technology and cloud-based software, it is also easier to connect with a business to gain visibility into their finances and in-house order-to-cash process. Businesses who are seeking credit terms and investment in countries where there are issues with obtaining financial information will expect to be asked for additional securities or transparency of their finances. If SME companies can provide access to their accounting systems, or even a monthly report, it could provide confidence to extend credit lines. Credit management could investigate trends in how companies are providing their suppliers with evidence of financial security and what practices are becoming accepted to gain credit

2. Ultimate Business Ownership, Sanctions & Corruption

There are countries where UBO is more difficult to obtain due to companies having an assumed name or 'doing business as'. The group holding company may lead back to an oligarch or person(s) that you would never have thought had a financial interest in the business being assessed.

The level of importance this issue has to credit management trading in Eastern Europe and Central Asia is determined by the services or products that you provide. Industry regulations may cause greater problems than, say, standard due diligence requirements. Obtaining official incorporation documents at the time of client onboarding and following a 'group structure' or family tree credit risk assessment will provide a greater understanding of the company formation and ownership structure.

It is possible to trade with non-EU countries in Eastern Europe & Central Asia with similar confidence to the EU but, it could be said that your processes need to be more robust and the level of risk monitoring more in-depth. Implement spot checks on actively trading clients through the year.

Forensic investigations are proving more popular with companies who trade in difficult territories and lack client filed financial accounts. Running such assessments are lengthy in time and expensive. You need to take this into consideration when comprising a credit policy. However, it is also a thorough process that is needed for larger value accounts and higher risk clients.

You can obtain details on forensic Investigations through large accountancy firms such as PWC, Deloitte and Ernst Young, as well as dedicated service providers such as K2 Consulting, Berkeley Research Group and AlixPartners.

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Corruption and corporate bribery are a contentious issue in some countries and even Government led tenders and contracts have been known to be exposed. This is more likely to be encountered when trading with companies outside of the EU, but it is something that needs to be considered and discussed. You should document your company's protocols.

3. Currency Issues & Political Risk

Many multinational's trade in local currency and have provisions in place for currency and exchange volatility. A good comparable region could be LATAM where established economies trade in both local currency and the banks support Dollar transactions. Most of Eastern Europe & Central Asia trade with the Euro and even non-EU countries and banks pay in euro.

That said, it is important to ensure your contractual terms and conditions note the currency that is contracted for payment and what should happen if restrictions occur. Stipulations to consider are which party pays the cost of transaction and are there other means of payment through group structure companies, in other locations, that could step in and remediate the problem.

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