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FINAL QUALIFYING PAPER

on the topic:

“Justification for the Selection of Payment Terms for the Foreign Economic Activity
of the Enterprise”

(based on materials of LLC “Engelhart CTP (Ukraine)”)

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INTRODUCTION

The actuality of the research. In today's world economy, foreign economic activity is an essential and integral part of every successful enterprise. It helps companies to expand markets, increase production volumes and improve their trading strategies. It also creates a favourable base for strengthening the competitive position of the enterprise in the domestic market.

Effective foreign economic activity is the key to maximising the profit of the company. At the same time, foreign economic activity is the basis for international settlements. International settlements present its participants with a variety of risks, which the subject of FEA must handle and minimise to facilitate the transaction better. Nowadays, to succeed in international markets and prevail its foreign competitors, the exporter as the subject of FEA should offer attractive contract terms including the appropriate payment method. The main objective for every exporter is to receive the payment entirely and on time. Therefore, the exporter should choose an appropriate form of payment carefully to minimise the payment risk while also satisfy the needs of the importer.

Besides, the continuous development of foreign trade relations determines the relevance of this topic. Consequently, companies must continuously improve the mechanisms of foreign economic activity. The companies can make it through the search for more profitable and secure options for foreign trade, one of which is finding the appropriate payment method.

Selection of payment terms is one of the highly essential points, on which the exporter as the subject of FEA should pay his attention to ensure the transaction and generate the profit. International markets are full of fraudsters and fake counterparties, which entails high risks for the exporter. There are many examples of fraudulent activity, such as replacement of actual bank details with fake ones or interception of emails. Therefore, the exporter should consider all these factors during the selection of payment terms to protect himself as much as possible. Furthermore,

the selection of the appropriate payment method can increase the profit of the transaction and make it more effective.

One type of foreign economic activity is export. It plays a vital role in the development of the Ukrainian economy. Since export forms the part of the country's GDP and helps to integrate into the world economy. Now agricultural products take the most significant part of the Ukrainian export of goods. Good crops in recent years and improved access to the European Union market support this. One of the participants in this sector of the economy is a grain trading company LLC "Engelhart CTP (Ukraine)". It exports the goods of group 10 and 12 (under the Ukrainian classification of goods in foreign economic activity) to the foreign markets.

The work of domestic and foreign scientists, such as B. Ivasiv, O. Nakonechnyi, N. Tyurina, O. Gnativ, V. Shpylovyi, I. Vlasova, O. Bereslavska, V. Kozyk,

N. Kudlayeva, T. Schmidt-Eisenlohr, A. Hoefele, F. Niepmann, I. Blank, D. Blake and E. Brigham shows the significant scientific contribution to theoretical and practical questions regarding the use of payment terms for the foreign economic activity of the enterprise. At the same time, there is a need for the analysis of methodical aspects of the selection of appropriate payment terms, which conform to certain foreign economic operations of the enterprise. As well as evaluation and studying the effectiveness of using different types of payment.

The purpose of the research is to improve the procedure of the selection of payment terms for the foreign economic activity of agricultural companies; to develop methodological and practical recommendations for this procedure; to assess the effectiveness and main benefits of using different types of payment.

To achieve this purpose, it is necessary to solve the following tasks:

- To analyse the financial and economic activity of LLC "Engelhart CTP (Ukraine)";
- To examine the foreign economic activity of LLC "Engelhart CTP (Ukraine)";

- To evaluate the effectiveness of using different types of payment for the foreign economic activity of LLC “Engelhart CTP (Ukraine)”;
- To consider directions of improvement of the selection of payment terms of LLC “Engelhart CTP (Ukraine)”;
- To develop measures for improvement of payment terms of LLC “Engelhart CTP (Ukraine)”;
- To provide a forecast of proposed measures effectiveness for the foreign economic activity of LLC “Engelhart CTP (Ukraine)”.

The object of the research is the process of the selection of payment terms for the foreign economic activity of Ukrainian agricultural companies.

The subject of the research is a set of theoretical, methodological and practical aspects of the development of the procedure of the selection of payment terms for the foreign economic activity of Ukrainian agricultural companies.

Research methods. Based on the purpose and formulated tasks of the scientific paper we use various research methods, such as the method of analogy, generalisation, method of systematisation and synthesis, grouping, classification, dialectical method of cognition, table and graphic methods of economic-statistical analysis, system and complex approaches.

The information base of the research consists of financial statements of LLC “Engelhart CTP (Ukraine)”, inside information of the company, periodical and monographic editions, legislative base, statistical materials of international databases and Internet resources.

Practical value. The companies can use the results obtained during the research to improve the procedure of the selection of appropriate payment terms for the foreign economic activity of Ukrainian agricultural companies.

The final qualifying paper consists of two parts. In the first part, we make the research of the financial, economic and foreign economic activity of LLC “Engelhart CTP (Ukraine)”. We also examine payment terms for the foreign economic activity of the company. In the second part, we develop methods for

improvement of the selection of payment terms for the foreign economic activity of agricultural companies.

CHAPTER 1. RESEARCH OF PAYMENT TERMS FOR THE FOREIGN ECONOMIC ACTIVITY OF LLC “ENGELHART CTP (UKRAINE)”

1.1. Analysis of the Financial and Economic Activity of LLC “Engelhart CTP (Ukraine)”

Engelhart Commodities Trading Partners (ECTP) is a global trading house. It is present in all the major global commodities hubs. ECTP was established in 2013 and was formerly known as BTG Pactual Commodities. The company is a global diversified merchant and client solutions provider in the commodities space covering a range of agricultural, industrial and energy products. It provides support to its clients throughout the entire value chain with a proven strategy focused on financing, marketing, transportation and risk mitigation [39].

The company has headquarters in London (England) and representative offices in eight countries around the world. ECTP engages in physical trading and financial trading based on various commodities. In particular, it purchases, sells physical commodities and hedge instruments associated with them.

Engelhart CTP (Switzerland) SA (ECTP SA) is mainly responsible for the agricultural direction of the company and is a wholesaler of agricultural products. The commodities trader is focusing its physical trading on the origination of grains, oilseeds, coffee, sugar and other related agricultural products. It also trades freight, industrial and energy products [38].

LLC “Engelhart CTP (Ukraine)” is the branch of ECTP. It has been operating in Ukraine since August 2014. The company is a subject of FEA and engages in the export of grains and oilseeds. It holds one of the leading positions for the export of grains from the Black Sea region. For example, it is in the Top-20 leading wholesale shippers for the export of Ukrainian grain in recent years [57].

LLC “Engelhart CTP (Ukraine)” has two offices in Ukraine with the head office in Kyiv and the regional representative office in Odesa. The company works with local and foreign companies, financial institutions, multinational organizations, producers, and end-users. LLC “Engelhart CTP (Ukraine)” employs about 25 people. The company’s structure consists of trader, analytical, execution, logistical and financial departments which all together form the core asset of the company. It also has its local trading agents, who buy goods in their local areas.

LLC “Engelhart CTP (Ukraine)” is focusing on the origination and export of such main commodities as wheat (milling wheat, feed wheat), corn, barley and sunflower (sunflower oil, sunflower meal) (Figure 1.1.1).

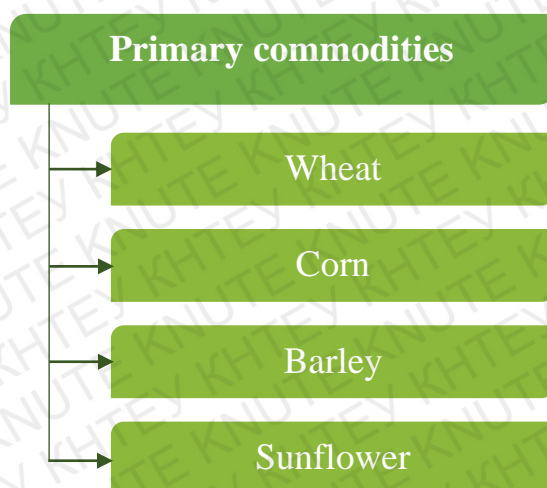


Figure 1.1.1. Primary Commodities Exported by LLC “Engelhart CTP (Ukraine)”

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

In order to receive more comprehensive information about the process of origination of goods by LLC “Engelhart CTP (Ukraine)”, we suggest diving deeper.

LLC “Engelhart CTP (Ukraine)” works closely in cooperation with Engelhart CTP (Switzerland) SA based on the Administrative service agreement.

Usually, the company buys goods on DAP (Delivered at Place) basis from Ukrainian producers and trading houses for Ukrainian hryvnia (UAH) and/or US dollars (USD). The company make the delivery by trucks and/or railway wagons, which depends on the distance to the port from the place where the goods are bought.

LLC “Engelhart CTP (Ukraine)” also buys goods at inland silos on EXW (Ex Works) basis during the harvest period when prices are low. The company store the goods at inland silos for the period of 3 to 6 months and then move it to the port for further sale and loading on the vessel. The average cost of storage at inland silos is about 2.00 USD per one metric tonne for one month of storage [54].

ECTP buys the goods in two ways. Usually, if LLC “Engelhart CTP (Ukraine)” buys the goods from local suppliers for UAH, then the company sells it on DAP basis to ECTP SA for USD (after the delivery to the port). The second way is when ECTP SA buys the goods on DAP basis from other companies for USD.

To tranship the goods at the port LLC “Engelhart CTP (Ukraine)” has transshipment agreements with several port terminals in Ukraine. By signing such agreement and paying a certain amount of fobbing cost, the company can store its goods at the port terminal for a certain period (stipulated by such agreement) and then export the goods. The average cost of transshipment at Ukrainian terminals (deep seaports) is about 12.00 USD per one metric tonne [42]. It includes the period of storage for

25-30 days (depending on the agreed terms). For grains, LLC “Engelhart CTP (Ukraine)” works with three terminals – TIS-Grain, TIS-Fertilizers and Borivage terminal. They are located at the port of Pivdennyi (the deepest port in Ukraine) near Odesa. For the transshipment of oilseeds, the company has an agreement with OLIR RESOURCES terminal. It is located in Chornomorsk port near Chornomorsk city.

ECTP sells the goods on FOB (Free on Board) basis to international trading houses and on CIF (Cost, Insurance and Freight) or CFR (Cost and Freight) basis to destinations.

We conduct a comprehensive financial analysis to examine whether LLC “Engelhart CTP (Ukraine)” is stable, solvent, liquid and profitable enough (Appendices A-D). LLC “Engelhart CTP (Ukraine)” historically shows wide fluctuations of growth rates. Generally, it is caused by the fact that the company is in the first stage of the life cycle (launch phase). The company is searching for the perfect trading strategy by trying to sell different commodities to generate the

maximum profit. Considering the above, LLC “Engelhart CTP (Ukraine)” incurred losses during certain years of its activity (2014 and 2017). Low revenues and high initial start-up costs are also the reason for losses. This is inherent for companies during the launch phase of the life cycle. Nevertheless, LLC “Engelhart CTP (Ukraine)” is profitable during 2015-2016 and 2018. We observe a consistent elevation of the gross and operating profit year over year since 2015 except 2017. For example, gross profit growth is 7134.08% in 2015, 45.35% in 2016 and 26.43% in 2018. The variation of direct and indirect costs and different amount of other operating income is the main reason for such fluctuations in growth rates of the gross profit. As we mentioned before, this situation is normal for a young, fast-growing company (Appendix D).

By having analysed the last year of the company’s activity, we see the net revenue of about 2.38 billion UAH in 2018. It is the largest amount during the period 2014-2018. The growth rate of net revenue year over year is 8.90% while the growth rate of COGS is slower – 7.81% YoY. It is driven by the increase of trade margin of LLC “Engelhart CTP (Ukraine)” (Appendix D). By taking into account the company’s total export sales in 2018 (389 448 metric tonnes of goods), we see that the company has the net revenue per one metric tonne of goods in the amount of 6 099 UAH. It is the highest indicator for the analysed period. Consequently, it indicates the increase in the efficiency of the trading activity of the company and the strengthening of its position on the market.

Based on the historical 5-year analysis presented in appendices and tables of financial ratios, LLC “Engelhart CTP (Ukraine)” generated the net profit of 12.94 million UAH in 2018 (Appendix B).

Table 1.1.1

Profitability Ratios of LLC “Engelhart CTP (Ukraine)” in 2014-2018, %

No.	Ratio	2014	2015	2016	2017	2018
1.	Return on Total Assets	-	5,98	1,90	-	1,46
2.	Return on Equity	-	-	329,88	-	38,66
3.	Return on Capital Employed	-	-	371,45	-	61,72
4.	Gross Profit Margin	36,03	31,05	5,83	5,85	6,79

5.	Operating Profit Margin	-	4,41	0,76	-	0,87
6.	Net Profit Margin	-	3,64	0,68	-	0,54

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

The analysis of profitability indicators of LLC “Engelhart CTP (Ukraine)” shows significant fluctuations in profitability during the period 2014-2018 (Table 1.1.1). Besides, several indicators cannot be measured because the company incurred losses in 2014 and 2017. ROA and ROE are measures of how the company utilizes its assets and equity to generate earnings. At first sight, we see that the company became less efficient in using its resources. However, the reason for different ratios of ROA is the change for assets (mostly inventories) and accounts receivable from year to year. Similarly, the different amount of equity, particularly accumulated translation differences during the period 2014-2018 is the cause for such big fluctuations of ROE. For example, LLC “Engelhart CTP (Ukraine)” made capital injections in 2017, which is the reason for such a high level of accumulated translation differences. In particular, it is caused by the fact that LLC “Engelhart CTP (Ukraine)” has the registered capital, measured in US dollars in Ukrainian hryvnia equivalent fixed at the exchange rate of 2014 (Appendix C). Consequently, a large devaluation of Ukrainian hryvnia in the period from 2014 to 2017 has a significant effect on the company’s capital [53]. We cannot measure ROE and ROCE in 2015 because the company has negative equity due to high accumulated deficit.

LLC “Engelhart CTP (Ukraine)” shows incomparable gross profit margins in the analysed period. This is caused by the different amount of sold merchandise during 2014-2018. Therefore, it is appropriate to analyse the period 2016-2018, when the number of goods sold is at a comparable level. During this period, we observe the growth of the gross profit margin by 0.96%. It indicates the improvement of the company’s performance in recent years. We also see a huge difference between operating profit margins of LLC “Engelhart CTP (Ukraine)” in 2015 and 2016. Several successful speculative operations of the company in 2015 and the increase in selling and distribution expenses in 2016 is the reason for such change. Furthermore,

we can observe the difference between the net profit margins of the company in 2015, 2016 and 2018. The cause is the variation of finance costs (Table 1.1.1).

By having analysed assets use ratios of LLC “Engelhart CTP (Ukraine)”, we can make the following conclusions (Table 1.1.2). Total assets turnover in 2018 is 2.67. It is the second-largest indicator in the analysed period, up by 0.44 more compared to the 4-year average index (2.23). The same applies to the current assets turnover. Hence, we can conclude that the company is efficient in using its assets and should continue to follow its assets management strategy.

Table 1.1.2

**Assets Use Ratios (Activity Ratios) of
LLC “Engelhart CTP (Ukraine)” in 2014-2018**

No.	Ratio	2014	2015	2016	2017	2018
1.	Total Assets Turnover	-	1,64	2,81	1,78	2,67
2.	Current Assets Turnover	-	1,66	2,82	1,79	2,67
3.	Inventory Turnover	-	3,09	5,72	3,24	4,13
4.	Receivable Turnover	-	8,28	7,08	5,37	11,68
5.	Net Working Capital Turnover	-	-32,81	645,96	107,29	71,62

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

One of the factors that affect the assets turnover ratio is cash and cash equivalents, particularly accounts with banks (Appendix C). We can observe a quite high distinction between accounts with banks of LLC “Engelhart CTP (Ukraine)” for the period 2014-2018. For example, it is almost 182 million UAH in 2017 and only 37 million in 2018. The reason for such a big difference is the fact that the company receives VAT receivables at the end of every month. Besides, it should be noted that at the end of every month the company takes credit in the bank to hedge these VAT receivables in order to avoid forex losses (Appendix A).

Inventory is one of the most important assets of the company because the inventory turnover represents one of the primary sources of revenue generation and subsequent earnings for the company. We see the inventory turnover at the level of 4.13 in 2018, up by 0.09 more compared to the 4-year average index. We can explain

this by an effective inventory management policy of LLC “Engelhart CTP (Ukraine)”. Also, LLC “Engelhart CTP (Ukraine)” has a consistent positive trend of growth of the receivable turnover ratio. In 2018, it is almost one third higher in comparison to the 4-year average index (8.1). This, in turn, indicates about company's effectiveness in collecting its receivables of its clients (Table 1.1.2).

Table 1.1.3

Liquidity and Solvency Ratios of LLC “Engelhart CTP (Ukraine)” in 2014-2018

No.	Ratio	31.12. 2014	31.12. 2015	31.12. 2016	31.12. 2017	31.12. 2018
1.	Current Ratio	0,84	0,98	1,01	1,03	1,06
2.	Acid-Test Ratio	0,55	0,72	0,59	0,55	0,40
3.	Cash Ratio	0,22	0,25	0,08	0,16	0,06
4.	Day’s Sales in Inventory*	-	171,15	67,79	119,79	94,70
5.	Average Collection Period*	-	44,10	51,56	67,94	31,24

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

** is calculated for the whole year*

The overall analysis of the company’s liquidity and solvency ratios for the period 2014-2018 shows an increase in the company’s overall liquidity by 27%. This indicates a great improvement in the company’s ability to pay short-term liabilities. We observe the opposite trend in acid-test and cash ratios of the company during the analysed period. Nevertheless, we have reasonable explanations for such results obtained.

LLC “Engelhart CTP (Ukraine)” holds most of its assets in inventories, particularly in merchandise and not in cash (Table 1.1.3). There are two main reasons why the company manages this strategy. First, the company intentionally minimizes the amount of cash in the bank to insure the forex risks. LLC “Engelhart CTP (Ukraine)” has clear cash management and raises funds on a weekly basis exclusively under clearly defined purchases (cash based on needs). The biggest debtor of LLC “Engelhart CTP (Ukraine)” is another ECTP’s intercompany – ECTP SA. Thus, there is a very

low risk of claims of accounts payable. Moreover, even if that happens in case of the emergency, accounts payable is matched with the inventories. Secondly, during the analysed period there has been a requirement of the National Bank of Ukraine (NBU) that obliges entrepreneurs to sell 50% of their foreign currency proceeds in the interbank forex market. NBU cancelled this requirement in June 2019 [47].

By having analysed the Day's sales in inventory of LLC "Engelhart CTP (Ukraine)", we see a huge decrease in the indicator by 76 days in 2018 compared to 2015. This indicates a large increase in the company's efficiency in selling its inventories. Consequently, it can lead to the potential for higher profits in future years. Similarly, there is a positive trend in the average collection period of the company, which is 31 days in 2018, down by 17 days in comparison to the 4-year average index (Table 1.1.3).

Table 1.1.4

**Capital Structure Ratios (Debt Ratios) of
LLC "Engelhart CTP (Ukraine)" in 2014-2018**

No.	Ratio	31.12. 2014	31.12. 2015	31.12. 2016	31.12. 2017	31.12. 2018
1.	Debt to Total Assets	1,17	1,01	0,99	0,97	0,94
2.	Debt to Shareholders' Equity	-	-	106,48	37,06	16,33
3.	Times Interest Earnings*	-	5,59	41,71	-	3,67

Source: compiled by the author based on the information provided by LLC "Engelhart CTP (Ukraine)"

** is calculated for the whole year*

Debt to total assets ratio of LLC "Engelhart CTP (Ukraine)" reduced by 19.57% for the period 2014-2018. This indicates a positive trend for the company as its assets grow faster than its liabilities. This, in turn, improves the solvency of the company, particularly its ability to pay the long-term liabilities. Moreover, we can conclude that the company finances almost all assets through borrowing (e.g., LLC "Engelhart CTP (Ukraine)" finances 97% of assets through debt in 2018). First, the company raises the capital through debt because of the tax advantages (interest

payments are tax-deductible). Furthermore, the raise of capital through equity is more expensive than through debt, especially when interest rates are low (Table 1.1.4).

For debt to shareholder's ratio, it is appropriate to analyse the period 2016-2018, because the equity in 2014-2015 is negative. LLC "Engelhart CTP (Ukraine)" is highly leveraged. Further to our previous comments, the main reason is that the company is financed mainly by borrowing rather than by equity. However, the company's level of financial leverage decreased by almost 85% in 2018 compared to 2015. This fact is positive for LLC "Engelhart CTP (Ukraine)" because it increases the confidence of creditors to the company. Times interest earnings ratio of the company reduced by 91% in 2018 in comparison to the highest index in 2016. This indicates that the company is in good financial condition and is able to pay interest on credit on time (Table 1.1.4).

1.2. Analysis of the Foreign Economic Activity of LLC "Engelhart CTP (Ukraine)"

The foreign economic activity of the enterprise is the main way of obtaining competitive advantages. Since foreign economic activity enables the enterprise to use resources most rationally and efficiently and distribute the investment by establishing new foreign economic relations, developing capacity, deepening their specialization, spreading their influence to other regions [18].

At the same time, the foreign economic activity of the enterprise contributes to the reproduction of the country's export potential, attracting foreign investment, and the formation of an open economy [8]. One of the types of foreign economic activity carried out in Ukraine by the subjects of this activity is export of goods [2]. Export operations are the most essential component of foreign economic activity [16].

LLC "Engelhart CTP (Ukraine)" is a subject of FEA, in particular, engages in the export of agricultural goods. The company exports such main commodities as wheat, including milling wheat and feed wheat, corn, barley and sunflower oil.

Agribusiness is the biggest supplier of foreign currency (mostly US dollars) to Ukraine's economy. As of the end of 2018, the agricultural sector provided almost

40% of foreign exchange earnings to the domestic economy. In 2019, this proportion is likely to increase – in seven months, the number of grains, legumes and oilseeds produced by Ukrainian farmers increased by almost one-third. Moreover, for the 2018/2019 marketing year (July 2018 – June 2019), agricultural export of Ukraine grew by 15% to 20.2 billion US dollars. The grain occupies the largest part of the foreign supplies of domestic agribusiness (42%). These crops have become the driver of export growth, as in 2018 Ukraine harvested a record crop of 70 million tonnes. Another essential part of sales to foreign markets is occupied by sunflower oil, whose share in the total basket is 21%. However, in this season, its supplies in monetary terms increased slightly – by 1%, to 4.2 billion US dollars, which is caused by the fall in export prices [56].

LLC “Engelhart CTP (Ukraine)” successfully operates in the world grain market and is a well-known exporter in Ukraine. The company has established long-term foreign economic relations with lots of foreign companies, multinational organizations, producers and end-users around the world. For example, the company exports the goods to more than 20 countries in Europe, the Middle East, Asia and Africa. The destinations vary depending on the type of commodities. Generally, top destinations for the export of Ukrainian grains are the following (Figure 1.2.1):

- For wheat – Indonesia, Egypt, Bangladesh, Philippines, Spain, Republic of Korea, Morocco, Tunisia, Thailand, Israel and India;
- For corn – China, Egypt, Netherlands, Italy, Spain, Turkey, Israel, Iran, Portugal, Tunisia;
- For barley – Saudi Arabia, China, Libya, Turkey, Spain, Israel, Tunisia, Algeria, Jordan.



Figure 1.2.1. Top Destinations for the Export of Ukrainian Grains

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

We conduct a comprehensive analysis of the foreign economic activity, particularly the export of LLC “Engelhart CTP (Ukraine)” and suggest observing the following results. In order to receive a clearer understanding, it is best to begin the analysis from 2015. Since the company was founded in August 2014 and the export volume in this year is too small for comparison (e.g., total export in 2014 is 1 000 MT of milling wheat) (Table 1.2.1). Based on the historical analysis presented in table 1.2.1 below, LLC “Engelhart CTP (Ukraine)” has exported more than 1.4 million metric tons of goods for five years of its foreign economic activity. Moreover, 97% of the total export volume is in the period 2016-2018.

The small export volume in comparison to the period 2016-2018 characterised the second year (2015) of the company’s activity. For example, in 2015, LLC “Engelhart CTP (Ukraine)” exports 45 159 metric tonnes of goods, of which 42.5% (19 181 MT) comes from milling wheat, 27.8% (12 564 MT) from feed wheat, 20% (9 037 MT) from corn and 9.7% (4 375 MT) from barley (Table 1.2.1). In 2015, LLC “Engelhart CTP (Ukraine)” still optimises the processes of foreign economic activity, which is the main reason for such low level of export. The company also develops foreign economic relations with its foreign trading partners and searches for

perfect commodities for export. Furthermore, the company expands its base of domestic trading channels for the origination of goods.

Table 1.2.1

Commodity Structure of Export of LLC “Engelhart CTP (Ukraine)” in 2014-2018

Commodity	Quantity, in metric tonnes				
	2014	2015	2016	2017	2018
Corn	-	9 037,782	246 378,020	213 482,987	196 404,348
Milling wheat	1 000,000	19 181,243	95 321,111	50 725,763	49 963,365
Feed wheat	-	12 564,878	117 868,316	57 161,404	77 167,895
Barley	-	4 375,695	89 441,098	110 749,903	65 342,443
Sunflower oil	-	-	1 736,114	600,000	570,000
Soybeans	-	-	5 455,485	-	-
Total	1 000,000	45 159,598	556 200,144	432 720,057	389 448,051

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

Consequently, in 2016, LLC “Engelhart CTP (Ukraine)” hugely increased the volume of export (511 040 MT YoY). For example, the company exports 556 200 metric tonnes of goods. The biggest part of 44.3% (246 378 MT) comes from corn, 21.2% (117 868 MT) from feed wheat, 17.1% (95 321 MT) from milling wheat, 16.1% (89 441 MT) from barley, 1% (5 455 MT) from soybeans and 0.3% (1 736 MT) from sunflower oil (Table 1.2.1). We observe significant changes in the commodity structure of export in 2016 compared to the previous year. In particular, the company increased the share of corn in commodity structure more than twice (24.3% YoY). In contrast, the share of wheat (both milling and feed) reduced by 30% YoY. We also see the growth of barley share by 6.5% YoY as well as the export of new crops such as soybeans and sunflower oil in 2016. The changes in market conditions, particularly the fluctuations of trade margins on different commodities are the reason for changes in the company’s commodity structure.

In 2017, LLC “Engelhart CTP (Ukraine)” reduced its export by 123 480 metric tonnes of goods and by 22.2% accordingly. The reason for such a decrease in export volumes is a change in the trading strategy of the company. The aim of this strategy is to increase the profit through precise sales (i.e., the increase in profit due to sales with larger margins, instead of due to the increase in export volumes). The total

export in 2017 is 432 720 metric tonnes of goods, of which 49.3% (213 482 MT) comes from corn, 25.6% (110 749 MT) from barley, 13.2% (57 161 MT) from feed wheat, 11.7% (50 725 MT) from milling wheat and 0.2% (600 MT) from sunflower oil (Table 1.2.1). We see the further rising of shares of corn and barley in the company's commodity structure of export in 2017 compared to 2016 (corn – 5% YoY, barley – 9.5% YoY). At the same time, the company decreased the share of wheat (both milling and feed) by 13.4% YoY. This is because in 2017, the export of corn and barley was more profitable for the company than the export of wheat since trade margins were bigger. Besides, we observe a slight decrease in sunflower oil share in 2017. We can explain such a low volume of export of sunflower oil compared to other commodities by the following facts. The company wants to focus its export operations more on grain crops. Besides, the export of sunflower oil has a high level of risk since prices on it are very volatile. Nevertheless, we consider that the export of sunflower oil has a high level of potential as well. Therefore, the company may need to increase its export operations in the sunflower oil market to make the business more profitable.

In 2018, LLC “Engelhart CTP (Ukraine)” repeatedly decreased the volume of export by 43 272 metric tonnes of goods (-10% YoY). The total export of the company in 2018 is 389 448 metric tonnes of goods, of which 50.4% (196 404 MT) comes from corn, 19.8% (77 167 MT) from feed wheat, 16.8% (65 342 MT) from barley, 12.8% (49 963 MT) from milling wheat and 0.2% (570 MT) from sunflower oil (Table 1.2.1). We observe that corn occupies half of the company's export volume in 2018. This is because in 2018, Ukraine harvested a record corn crop of 35.5 million tonnes [58]. We can also see the increase of wheat share over the barley share in the commodity structure of export of LLC “Engelhart CTP (Ukraine)” in 2018. The reason for such changes is the decrease in the barley crop in 2018 compared to 2017.

Export share ratio shows what part of the company's total sales the revenue from its export operations occupies. We can observe the following trend: a huge

increase – by almost 60% in 2016, a significant decline – by 17.63% in 2017, and a further slight decrease of the export share by 4.75% in 2018 (Figure 1.2.2).

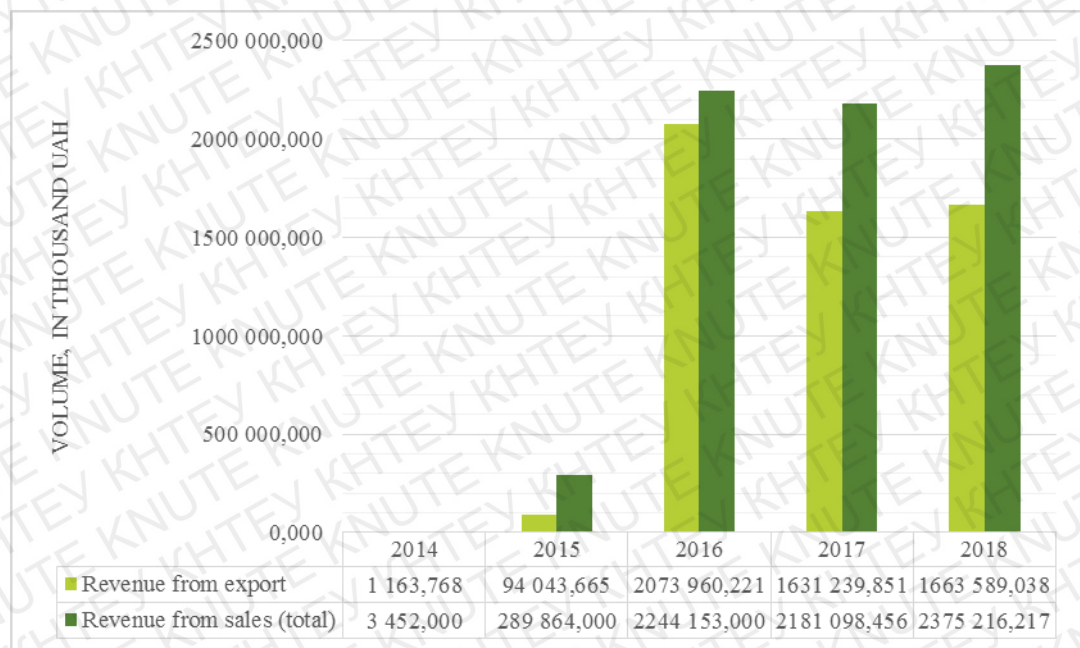


Figure 1.2.2. Export Share Ratio of LLC “Engelhart CTP (Ukraine)” in 2014-2018

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

LLC “Engelhart CTP (Ukraine)” does not count its export performance separately and keeps its export prices in a commercial secret. Therefore, it is difficult to calculate economic (sales-related and market-related) indexes of the company’s performance on export. It should be also noted that the export performance of the company hugely depends on the amount of the harvested crop in Ukraine as well as on the world grain supply and demand estimates. This also has a great impact on export prices and makes it difficult to determine the effectiveness of the company’s export during the analysed period. Thus, we will continue to analyse the foreign economic activity of the company through observing the net revenue from the export of

LLC “Engelhart CTP (Ukraine)” by commodities (Table 1.2.2).

Table 1.2.2

Net Revenue from Export of LLC “Engelhart CTP (Ukraine)” by Commodities in 2014-2018

Commodity	Net revenue, in thousand UAH				
	2014	2015	2016	2017	2018
Corn	-	11 999,968	961 412,331	815 400,876	817 683,999
Milling wheat	1 163,768	24 529,920	328 208,923	208 836,078	236 551,911
Feed wheat	-	42 562,515	404 320,176	193 104,297	325 863,499
Barley	-	14 951,261	303 243,423	402 018,232	270 397,464
Sunflower oil	-	-	33 858,280	11 880,368	13 092,165
Soybeans	-	-	42 917,087	-	-
Total	1 163,768	94 043,665	2 073 960,221	1 631 239,851	1 663 589,038

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

In 2015, LLC “Engelhart CTP (Ukraine)” receives the total net revenue of 289.9 million UAH, including 94.04 million UAH of revenue from export. The share of the company’s revenue from export of goods is 32.44%, of which 8.46% (24.53 million UAH) comes from milling wheat, 14.68% (42.56 million UAH) from feed wheat, 4.14% (12 million UAH) from corn and 5.16% (14.95 million UAH) from barley (Table 1.2.2).

In the next year, LLC “Engelhart CTP (Ukraine)” generates the total net revenue of 2.24 billion UAH, of which 2.07 billion UAH is the company’s revenue from export. The company increased the share of the revenue from the export almost threefold in 2016 compared to 2015. It is 92.42%, of which 42.84% (961.41 million UAH) comes from corn, 18.02% (404.32 million UAH) from feed wheat, 14.63% (328.21 million UAH) from milling wheat, 13.51% (303.24 million UAH) from barley, 1.91% (42.92 million UAH) from soybeans and 1.51% (33.86 million UAH) from sunflower oil (Table 1.2.2).

In 2017, LLC “Engelhart CTP (Ukraine)” receives the total net revenue of 2.18 billion UAH and 1.63 billion UAH is the company’s revenue from export accordingly. The share of the company’s revenue from the export of goods is 74.79%. The biggest part of revenue is occupied by corn – 37.38% (815.4 million

UAH), 18.43% (402.02 million UAH) comes from barley, 8.85% (193.1 million UAH) from feed wheat, 9.57% (208.84 million UAH) from milling wheat and 0.54% (11.88 million UAH) from sunflower oil (Table 1.2.2).

In the last year, LLC “Engelhart CTP (Ukraine)” receives the total net revenue of 2.38 billion UAH, including 1.66 billion UAH of revenue from export. In 2018, the share of the company's revenue from export is 70.04%, of which 34.43% (817.68 million UAH) comes from corn, 13.72% (325.86 million UAH) from feed wheat, 11.38% (270.4 million UAH) from barley, 9.96% (236.55 million UAH) from milling wheat, and 0.55% (13.09 million UAH) from sunflower oil (Table 1.2.2).

Table 1.2.3

Geographical Structure of Export of LLC “Engelhart CTP (Ukraine)” in 2018

Country	Corn	Milling wheat	Feed wheat	Barley	Sunflower oil	Total
Bangladesh		21 413,000	26 019,000			47 432,000
China	14 850,000					14 850,000
Egypt	34 275,000	5 750,000				40 025,000
Germany	26 345,000					26 345,000
India					570,000	570,000
Indonesia		18 874,000	16 498,895			35 372,895
Israel	38 045,900					38 045,900
Malaysia		3 926,365				3 926,365
Portugal	14 437,500					14 437,500
Saudi Arabia				65 342,443		65 342,443
Spain	29 866,100		34 650,000			64 516,100
The Netherlands	38 584,848					38 584,848
Total	196 404,348	49 963,365	77 167,895	65 342,443	570,000	389 448,051

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

To find out what countries take the biggest part in the export structure of the company, we also suggest observing the geographical structure of export of LLC “Engelhart CTP (Ukraine)” in 2018 (Table 1.2.3). We see that the main export markets of LLC “Engelhart CTP (Ukraine)” in 2018, above all, are Asian countries, including Bangladesh, China, India, Indonesia, Israel, Malaysia and Saudi Arabia.

They take more than half of the total export of the company. Their share in the export structure is 53% and 205 539,603 metric tonnes of goods accordingly. The close maritime connection of this area with Ukraine is the main reason. Furthermore, Asian countries can offer attractive prices on grain commodities of Ukrainian origin. The significant role of Saudi Arabia should be noted as it takes almost one-third of all the company's export to the Asia region. It is also the only importer of barley from LLC "Engelhart CTP (Ukraine)" in 2018. The countries of the European Union, particularly Germany, Spain and the Netherlands also play a significant role in the export structure of the company. For, example, all together they take 37 % of the company's export (143 883, 448 MT). The introduction of a free trade area agreement between Ukraine and the EU is the main reason [19]. The geographical proximity of countries and the convenience of transportation facilitate the company's export to these countries as well. The biggest importer from this group of countries is Spain that imported almost 30 000 metric tons of corn and 34 650 metric tons of feed wheat from LLC "Engelhart CTP (Ukraine)" in 2018. We should also mention the importance of the Netherlands in the company's export structure. It is the biggest importer of corn from LLC "Engelhart CTP (Ukraine)" in 2018. Finally, the African region, in particular, Egypt takes the smallest part in the export structure of LLC "Engelhart CTP (Ukraine)". Nevertheless, this country takes 10% of the total company's export (34 275 MT). It is also the third-largest importer of corn from the company.

To sum it up, we can conclude that the export plays an integral part in the foreign economic activity of LLC "Engelhart CTP (Ukraine)". The large share of export in the overall sales structure of the company confirms this. As well as the fact that the company has foreign economic relations with international partners in more than

20 countries around the world.

1.3. Evaluation of the Effectiveness of Payment Terms for the Foreign Economic Activity of LLC “Engelhart CTP (Ukraine)”

To mitigate various areas of credit, operational and contractual risk companies take steps to document the obligations of the parties in the foreign economic contract. Aside from negotiating the price, the exporter as the subject of FEA should consider how, in practice, the contract will be performed. Therefore, it may include provisions as to timing, mode of delivery, and payment. Additionally, the contract should consider the liability for the various forms of risk, which are present in almost every aspect of the foreign economic activity [6].

The nature of international sales gives rise to a higher risk than domestic sales. This is because there is frequently a significant period between:

- The date of shipment of goods and the date of their arrival at the contractual destination in a CIF or CFR case;
- The date of contractual delivery FOB at the load port and the safe arrival of goods at the discharge port.

The delivery over great distances is widespread for the export of agricultural products. The ocean voyage can last a month or longer. During the delivery period, the exporter is exposed to three main forms of risk: financial, physical and legal. In this paragraph, we consider the first of these risks.

Foreign trade is the basis for international settlements. Because it reveals a relatively separated form of movement of values in the international turnover due to differences in the timing of production, sale and payment of goods, as well as due to the territorial fragmentation of markets [3]. A complex system of conduction and selection of forms of international settlements may prevent the development of the foreign economic activity of the company.

International settlements are a system of organization and regulation of payments in the field of international economic relations, the subjects of which are the banks, exporters and importers. International settlement operations are carried out

on the monetary requirements and obligations arising during foreign economic activity between the states, business entities, other legal entities and citizens located in different countries [26, 46].

A set of factors influence the state of international settlements. These factors include:

- Political and economic relations between countries;
- The country's position in commodity and money markets;
- The degree of use and effectiveness of state measures on foreign economic regulation;
- Currency legislation;
- International trade rules and customs;
- Regulation of interstate flows of goods, services and capital;
- The difference in inflation rates in individual countries;
- Balance of payments status;
- Banking law and practice;
- Terms of foreign economic contracts and credit agreements;
- Currency convertibility [3, 11].

The main feature of international settlements is that they are carried out in different currencies. Making payments in foreign currencies requires the use of various methods of payment. The selection of the specific form of international payments by which payments under the contract will be made is determined by the agreement of the parties – partners in the foreign trade operation [10].

Therefore, one of the central features of all foreign economic contracts is the agreed method of payment. There are two significant interests: the exporter requires the payment as soon as possible, while the importer wishes to secure the title in the goods prior to the payment. The result of these competing interests has led to the separation of risk and title alongside the delivery and payment provisions. For example, the exporter may seek to retain some interest in the goods by way of security until the payment is received, or at least until there is an assurance of the payment. In turn, the importer will seek to avoid the payment for the goods until he

receives it, or at least to obtain a proprietary interest in the goods that may be relied upon if the exporter fails to deliver the goods following the payment [24].

For the foreign economic activity, LLC “Engelhart CTP (Ukraine)” uses various payment methods such as cash against documents, cash against fax copies, performance bonds, standby letters of credit, guarantees and letters of credit (Figure 1.3.1).

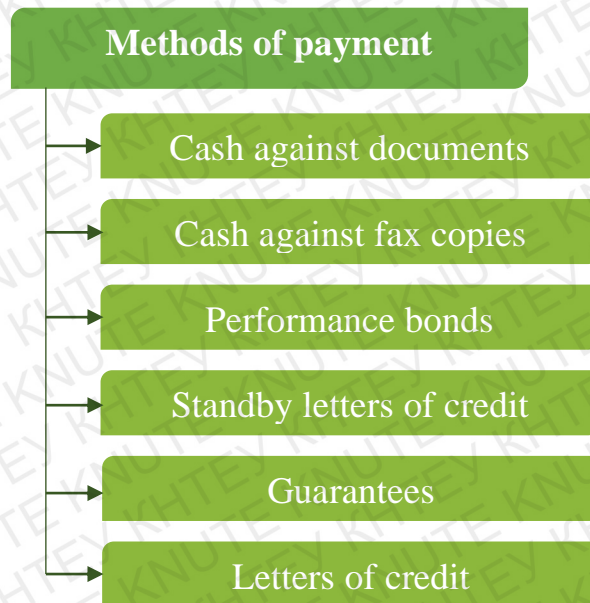


Figure 1.3.1. Methods of Payment Used by LLC “Engelhart CTP (Ukraine)” for the Foreign Economic Activity

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

Every method of payment has its peculiarities, which the exporter as the subject of FEA should take into account during the selection of payment terms. We consider the main features of using them by LLC “Engelhart CTP (Ukraine)” below.

The first and the most commonly used payment method by LLC “Engelhart CTP (Ukraine)” is cash against documents (CAD). It means that the payment is made prior to the arrival of the vessel, against documents (i.e., on presentation of conforming documents). The exporter should present shipping documents to the importer’s bank after which he receives the payment [37]. Normally, LLC “Engelhart CTP (Ukraine)” uses cash against documents when it sells

the goods to familiar companies with whom it has the previous relationship. Also, LLC “Engelhart CTP (Ukraine)” uses such method of payment in case it sells the goods to large companies such as ABCD companies (ADM, Bunge, Cargill and Louis Dreyfus) or other well-known companies (which have a good name and trading history) on the grain market.

A typical payment process using cash against documents is illustrated in Figure 1.3.3 below.

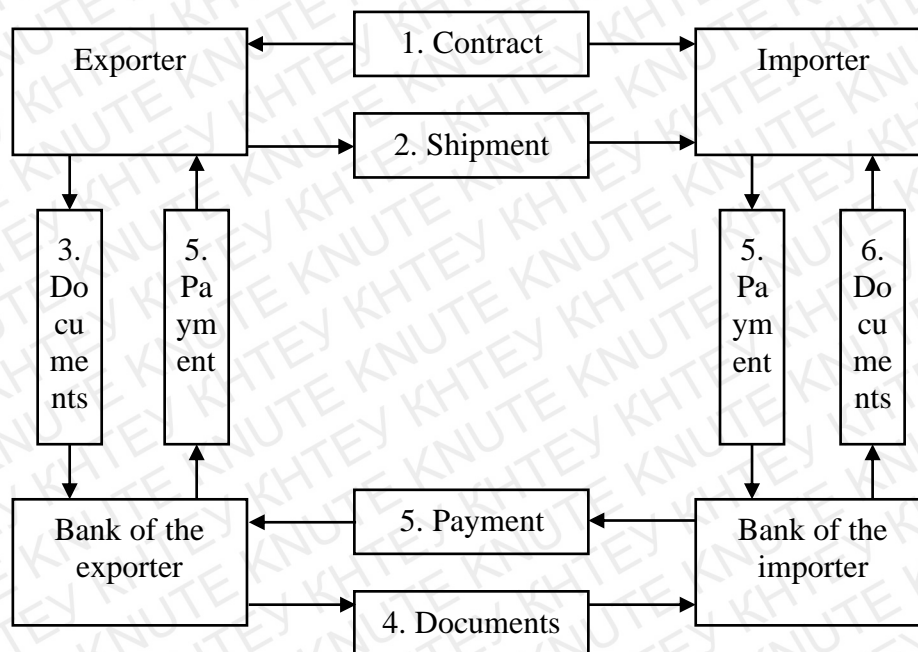


Figure 1.3.2. Payment Process Using Cash Against Document

Source: compiled by the author based on [37]

Another payment method used by LLC “Engelhart CTP (Ukraine)” is cash against fax copies. This payment term is similar to the previous one. However, it is more cost-efficient. Since the exporter needs to present only copies of shipping documents to the importer to receive the payment. The main aim of using cash against fax copies is to save time and reduce payment costs. It is appropriate to use when there is a small period of the voyage between the port of loading and the port of discharge. For example, the voyage from Ukraine to Turkey takes only two days, from Ukraine to Israel – six days [51]. In this case, the exporter agrees with the importer (of course if they are confident in the reliability of each other) that:

- The importer will pay the exporter against copies of shipping documents;

- In return, the exporter will send documents to the forwarding agents of the importer after receiving the payment.

LLC “Engelhart CTP (Ukraine)” also uses such method of payment in swap contracts (an agreement between two parties to exchange sequences of goods for a set period) on FOB basis.

The next payment method is a performance bond. It is an unqualified undertaking, usually given by the bank, to pay a sum of money against no more than a signed declaration from the exporter (or another person to whom the performance bond is issued) stating that the price has become due or that there has been a default of the importer and stating the amount due [49]. This form of payment is appropriate to use when the company needs additional liability insurance. For example, in case there is an absence of the previous trading history between the company and its counterparty. LLC “Engelhart CTP (Ukraine)” uses performance bonds when it participates in the international tenders for the export of goods. For example, the tender of General Authority for Supply Commodities (GASC) and the tender of Saudi Grains Organization (SAGO) [41, 50].

Standby letters of credit (SBLC) are also often used as performance bonds, with the only documents required under the credit being a simple demand for the payment signed by the beneficiary [52]. Although the bank issues SBLC in the letter of credit form, it is in most cases the performance bond. To obtain the payment under the standby letter of credit, the exporter is often required to present no more than a signed statement that the documents have been taken up but not paid for. However, sometimes the exporter also needs to present the copies of shipping documents.

With both performance bonds and standby letters of credit, it is best to agree in the contract the precise wording of it, the identity of the bank or another party that is issuing it as well as the time by which it shall be issued.

LLC “Engelhart CTP (Ukraine)” rarely uses performance bonds and standby letters of credit and prefers instead using a guarantee. The guarantee is a promise of

one entity (guarantor) to take responsibility for another company's obligations if that company fails to fulfil its obligations under the contract [40].

The guarantee could be:

- In respect of the price;
- In respect of the whole of the importer's obligations under the contract.

It could be given by the bank, however, banks dislike giving it. Since whether or not to pay out under the guarantee involves the bank taking a view about the underlying contractual obligations, and generally banks prefer to pay against documents. Therefore, if the exporter specifies "bank guarantee" in the contract, he should be sure that he does mean the bank guarantee and that the bank can provide it. Because, in practice, when parties use the expression "bank guarantee" they often mean either the performance bond or the standby letter of credit.

A more common situation in which the guarantee is appropriate to use would be where LLC "Engelhart CTP (Ukraine)" has a business with a new subsidiary of a parent company that it knows. Because doing business with newly incorporated companies, particularly in certain countries, entails certain financial risks. If the new subsidiary defaults then, for the sake of the good name of the organisation, the parent company may decide to fulfil the subsidiary's obligations and pay for the goods instead of the subsidiary. Consequently, to mitigate such risks LLC "Engelhart CTP (Ukraine)" always requires providing the guarantee from the parent company when there is the business with its new subsidiary.

In case LLC "Engelhart CTP (Ukraine)" is willing to work at the new market, the main form of payment, which allows protecting the interests of the company and securing the transaction, is a letter of credit (L/C) [14]. The letter of credit is an agreement containing an obligation of the issuing bank, under which this bank, on behalf of the client (applicant of letter of credit) or on its behalf against documents corresponding to the terms of letter of credit, is required to make the payment in favour of the beneficiary or entrust to another bank (paying bank) to make this payment [1].

The letter of credit as a payment instrument is particularly important to mitigate the collision of the exporter-importer interests. The exporter wants to be confident that the payment for the shipment of goods is made on time and in a correct currency. In turn, the importer does not want to pay for goods until the moment when goods arrived at the place of destination.

A typical payment process using a letter of credit is illustrated in Figure 1.3.3 below.

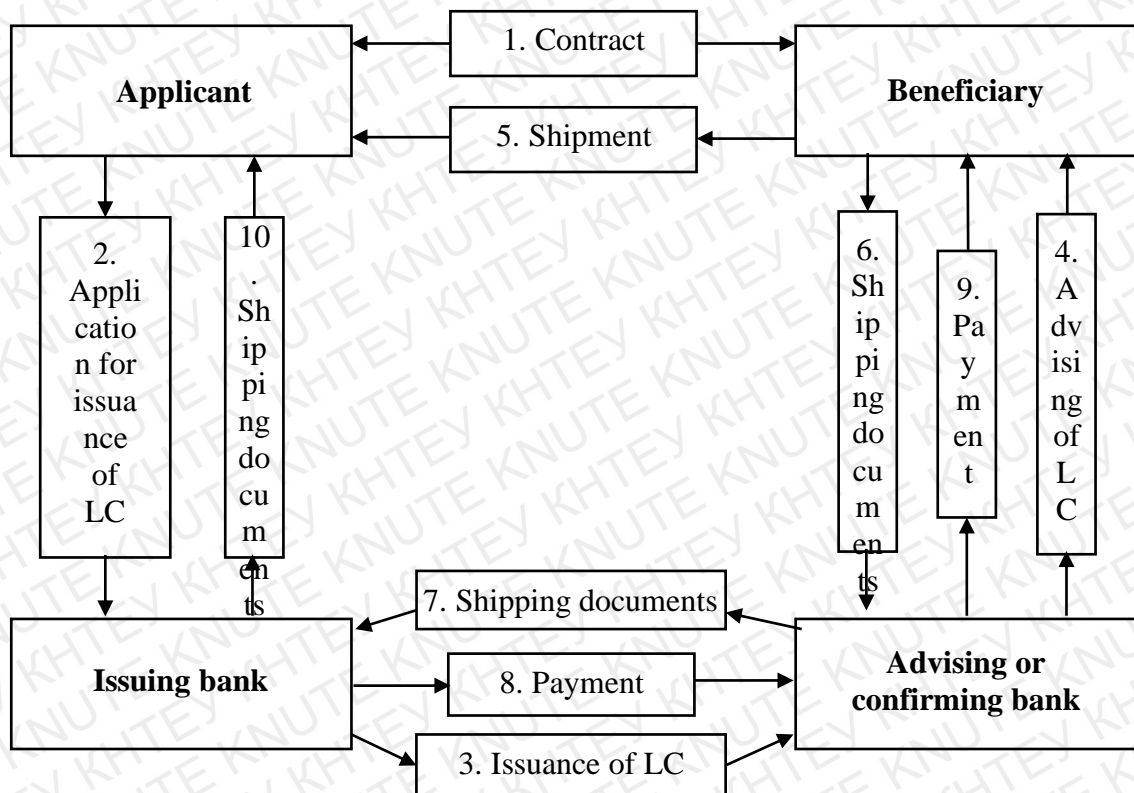


Figure 1.3.3. Payment Process Using a Letter of Credit

Source: compiled by the author based on [17]

Therefore, it is appropriate to use the letter of credit by LLC “Engelhart CTP (Ukraine)” in the following cases:

- The company has established a new, unverified business relationship;
- The company is not sure in the solvency of the importer;
- The subject of the foreign economic contract is a large volume of goods [5].

To sum it up, LLC “Engelhart CTP (Ukraine)” most frequently uses the following payment methods – cash against documents, guarantees and letters of

credit. We observe the main advantages and disadvantages of using them during the foreign economic activity of LLC “Engelhart CTP (Ukraine)” in the table below (Table 1.3.1).

Table 1.3.1

**Advantages and Disadvantages of the Most Frequently Used Payment Methods
by LLC “Engelhart CTP (Ukraine)”**

Payment term	Advantages	Disadvantages
Cash against documents (CAD)	<ul style="list-style-type: none"> – The exporter can promptly receive the payment from the importer (payment is usually made in 2 days after the submission of documents to the bank); – CAD is easy to deal with in operational terms; – Low banking fees (much cheaper than L/C); – The absence of strict requirements to the form of documents; 	<ul style="list-style-type: none"> – Appropriate to use only with large and well-known companies; – The risk of failure to pay in the absence of reliable information about the financial position and history of credit relationships of the importer; – The risk of failure or change of terms of the agreement without the consent of the exporter; – Banks are not responsible for the payment;
Guarantee	<ul style="list-style-type: none"> – Additional guarantee of payment for the exporter from the parent company; – The use of the guarantee helps to reduce the credit risk; – The use of the guarantee allows working with importers without previous trading history; 	<ul style="list-style-type: none"> – Appropriate to use only with subsidiaries of familiar parent companies; – The process of signing the guarantee can delay the conclusion of the contract; – The risk of failure of the subsidiary and the parent company;
Letter of credit (L/C)	<ul style="list-style-type: none"> – The payment is made immediately after the submission of documents corresponding to the terms of the L/C to the bank; – Confidence in receipt of payment irrespective of the importer (if the exporter fulfils all terms of the L/C); – Mitigation of credit risk; – Elimination of the risk of receiving a fake obligation issued by a non-existent bank; – Mitigation of the risk of failure to pay, late payment or partial payment for the delivered goods; – A possibility of increasing volumes of deliveries, the expansion of new markets, gaining competitive advantage; 	<ul style="list-style-type: none"> – Banks charge expensive commission fees, which increase the real value of the goods; – Documents must be prepared and presented in strict compliance with the requirements stipulated in the L/C; – Every amendment in the L/C is worth the money; – Some importers may not be able to open the L/C due to the lack of credit facilities with their bank; – The procedure of using the L/C is complicated for the exporter if he previously does not work with such payment method;

Source: compiled by the author based on the analysis of materials [3, 5, 21, 25, 30]

We take a closer look at the procedure of the selection of payment terms for the foreign economic activity of LLC “Engelhart CTP (Ukraine)” in the next section of this scientific paper.

Conclusions to Chapter 1

Nowadays, the strengthening of globalization processes causes the intensification of foreign economic activity. At the same time, the development of foreign economic activity is a significant factor in improving the efficiency of the economic activity of the enterprise. The foreign economic activity presents new sales opportunities that can generate more profit for the company than sales in the domestic market. This is why foreign economic activity plays a vital role in the activity of every successful enterprise.

Agriculture is one of the most significant sectors of the world economy because it provides vital resources to our everyday life. As per the projection of the United Nations, the world population expected to rise to almost 10 billion people in 2050. Therefore, agribusiness is among one of the most demanded and fastest-growing businesses all over the world.

The Ukrainian agricultural sector has been historically one of the main sectors of the country’s economy. Ukraine possesses 42.7 million hectares of agricultural land, which equals to 71% of all land in the country. This makes agriculture the largest export industry of Ukraine. Moreover, Ukraine possesses 2.1% of the global arable land bank and about 25% of the world most fertile black soil. Consequently, Ukraine is one of the world’s leading exporters of grain. In particular, it is the fourth-largest exporter of corn and barley, and the sixth-largest exporter of wheat. Furthermore, Ukraine is the largest exporter of sunflower oil in the world.

Considering the above, Ukraine is unique in terms of agri potential. This also confirms by the fact that more and more multinational companies open their representative offices, and ECTP is not an exception.

For five years of the foreign economic activity, LLC “Engelhart CPT (Ukraine)” has become one of the largest exporters of Ukrainian grain. The company

exports goods (wheat, corn, barley, sunflower oil) to more than 20 countries around the world. LLC “Engelhart CPT (Ukraine)” also takes a significant share in Ukrainian grain export in recent years. For example, in 2018 the company’s total export of grains is about 390 thousand metric tonnes. Besides, LLC “Engelhart CPT (Ukraine)” received the net profit of almost 13 million UAH in 2018.

Ukraine has been harvesting record grain crops in recent years, which increases its export potential. To generate the maximum profit from the export, companies need to improve the mechanisms of foreign economic activity. At the same time, the foreign economic activity requires the development of an appropriate management strategy. Since such activity is riskier and requires companies to take into account many factors not only within the country of the enterprise but also those related to the functioning of the partner companies. In order to prevent the effects of unfavourable factors, the enterprise engaged in foreign economic activity should be able to prevent the risks, which can arise during such activity. Therefore, the selection of appropriate payment terms for foreign economic activity of the enterprise is one way to mitigate those risks and ensure the profit.

In the first chapter of this scientific paper, we considered the use of different payment methods of LLC “Engelhart CTP (Ukraine)”, including cash against documents, cash against fax copies, performance bonds, standby letters of credit, guarantees and letters of credit. The company selects them depending on various conditions of foreign economic operations.

This is why the development of methods for the selection of payment terms is essential for the foreign economic activity of LLC “Engelhart CTP (Ukraine)”. It will help to improve the efficiency of foreign economic operations and reliability of generating the profit for the company.

Furthermore, we suggest examining the methodological and practical aspects of the selection of payment terms for the foreign economic activity of LLC “Engelhart CTP (Ukraine)”. This will also help other Ukrainian agricultural companies in making their businesses more efficient and secure.

CHAPTER 2. METHODS FOR IMPROVEMENT OF THE SELECTION OF PAYMENT TERMS FOR THE FOREIGN ECONOMIC ACTIVITY OF LLC “ENGELHART CTP (UKRAINE)”

2.1. Directions of Improvement of the Selection of Payment Terms of LLC “Engelhart CTP (Ukraine)”

The foreign economic activity is a necessary tool for companies to successful existence in today’s economic space and system of market relations [32]. This activity is related to the use of international forms of payment, which have their peculiarities of application in different countries.

Choosing an appropriate payment method for the foreign economic activity of the enterprise is a critical decision-making process because of its consequences. The foreign economic activity presents a spectrum of risk, which causes uncertainty over the timing of payments between the parties. Besides, the use of the specific payment method in the foreign economic operation depends on the duration of relationship and trust between the exporter and the importer.

LLC “Engelhart CTP (Ukraine)” as the exporter should review several issues such as the reliability and credibility of the importer, credit and payment terms, delivery terms, political and economic conditions within the importer’s country, value of the goods before selecting payment terms.

There are different strategies that can protect exporter’s interest in receiving the payment from the importer. The first of them can be to find enough information on the importer before signing the foreign economic contract (e.g., to find out whether the importer is reliable enough). However, although this instrument can be helpful, it may not be sufficient. The second way is to ensure the probability of non-payment by the importer. This option can be expensive, and the chosen insurance company may not be willing to cover all commercial risks arising from the transaction. The third strategy is to receive the money from someone who is ready to

take over the receivables of the importer by the time it is due to be repaid. In case the importer refuses to pay, the exporter can ask the guarantor to reimburse the money. However, not all insurance companies or institutions will accept to bear such credit risk. The fourth way can be the use of a debt-collecting agency. However, the agency may not accept all importer's debts or if the agency accepts, it can deduct a large part of the money from the total value of the contract. The fifth and most secure option is to agree with the importer the appropriate method of payment before the conclusion of the contract [12].

As we mentioned before, most foreign economic contracts for dry commodities such as grain are concluded on FOB or CIF basis. In this case, the exporter delivers the goods to the importer across the vessel's rail at the load port, with the following consequences:

- The exporter must ship the goods by the agreed time;
- The importer takes the risk of transit loss from the time of shipment;
- The exporter is entitled to payment when he tenders the contractual documents, whatever happens to the goods in transit.

Besides, 80% of grain trade is done according to standards of the Grain and Feed Trade Association (Gafta). As per Gafta's standards, the most significant feature of the FOB or CIF contract is that once the exporter ships the goods and tenders documents all of which conform to the contract, he has fulfilled his obligations under the contract and can require the payment. The importer is essentially buying the shipping documents representing the goods. Hence, whether or not the importer has seen the goods or they are lost, damaged, stolen, deteriorated or sitting in an intermediate port because the vessel has broken down, the importer must pay for the conforming documents. Therefore, LLC "Engelhart CTP (Ukraine)" should choose payment terms carefully to ensure the receiving of payment after the company fulfils its obligations under the foreign economic contract.

Our suggestions for improvement of the selection of appropriate payment terms for the foreign economic activity of LLC "Engelhart CTP (Ukraine)" are based on the

analysis of three methods of payment – letter of credit, guarantee and cash against documents. Since the company uses these payment methods most frequently.

To select the best payment method for the foreign economic activity of the company, it can be helpful to consider it in terms of the below risk ladder (Figure 2.1.1).



Figure 2.1.1. The Risk Ladder of Payment Methods Used by LLC “Engelhart CTP (Ukraine)” for the Foreign Economic Activity
Source: compiled by the author based on the analysis of materials [48]

The letter of credit is the most secure method of payment for LLC “Engelhart CTP (Ukraine)” as the exporter.

Where the parties have agreed in the foreign economic contract that the payment is to be made through the letter of credit, the exporter will be paid when, as the beneficiary under the letter of credit, he tenders the documents listed in the letter of credit. That list replaces any list of documents given in the foreign economic contract or in the confirmation note. This is why it is crucial for the exporter to read the letter of credit carefully as soon as he receives it. LLC “Engelhart CTP (Ukraine)” should check whether the letter of credit opened by the importer requires the tender of the same documents, which were required to tender by the original agreement in the foreign economic contract. Since the lack of attention to details of the letter of credit can delay the payment and cost the company money.

The letter of credit is appropriate to use to support larger transactions. Because it is expensive and can be ineffective to use if the subject of the contract is small. Thus, for LLC “Engelhart CTP (Ukraine)”, it is best to specify in the foreign economic contract that opening of the letter of credit shall be for the importer’s account otherwise the company should consider the costs for the opening of the L/C in the sale price.

Below we observe banking tariffs for services of letters of credit provided by leading Ukrainian banks (Table 2.1.1).

Table 2.1.1

Banking Tariffs for Services Provided to Clients during Documentary Operations under Letters of Credit as of 2019

No.	Operations for letters of credit	JSC Ukreximbank	PJSC Raiffeisen Bank Aval	JSC Ukrsibbank
1.	Previous advising of the letter of credit	30 USD	50 EUR	30 USD
2.	Advising of the letter of credit*	0.15%, but not less than 50 USD and not more than 500 USD	0.15%, but not less than 75 EUR and not more than 500 EUR	0.1%, but not less than 100 USD and not more than 1,000 USD
3.	Verification of documents under the letter of credit**	0.2%, but not less than 50 USD and not more than 5,000 USD	0.2%, but not less than 150 EUR and not more than 1,000 EUR	0.2%, but not less than 100 USD and not more than 1,500 USD
4.	Incorporation of the agreed amendments into the terms of the letter of credit	50 USD per 1 amendment	30 EUR per 1 amendment	50 USD per 1 amendment
5.	Increase in the amount of the letter of credit***	0.15%, but not less than 50 USD and not more than 500 USD	0.3% (min 300 EUR)	0.2%, but not less than 100 USD and not more than 1,000 USD
6.	Execution of operations under the letter of credit	0.2%, but not less than 50 USD and not more than 2,000 USD	0.15% (min 75 EUR)	0.2%, but not less than 100 USD and not more than 2,000 USD
7.	Confirmation of the letter of credit*	0.5-5.0% per annum, but not less than 100 USD	is determined by a separate decision (min 1,200 EUR)	1.5-5.0% per annum

Source: compiled by the author based on [43-45]

** is calculated from the amount of the letter of credit;*

*** is calculated from the number of documents submitted for the verification;*

*** is calculated from the amount of increase of the letter of credit;

As we see from table 2.1.1 above, the cheapest services for documentary operations under letters of credit is provided by JSC “Ukreximbank”. Banking fees of JSC “Ukrsibbank” are medium, and the most expensive are services of PJSC “Raiffeisen Bank Aval”.

Besides, to those described above, the letter of credit is also efficient to use for the foreign economic activity of the company in the following cases (Figure 2.1.2).

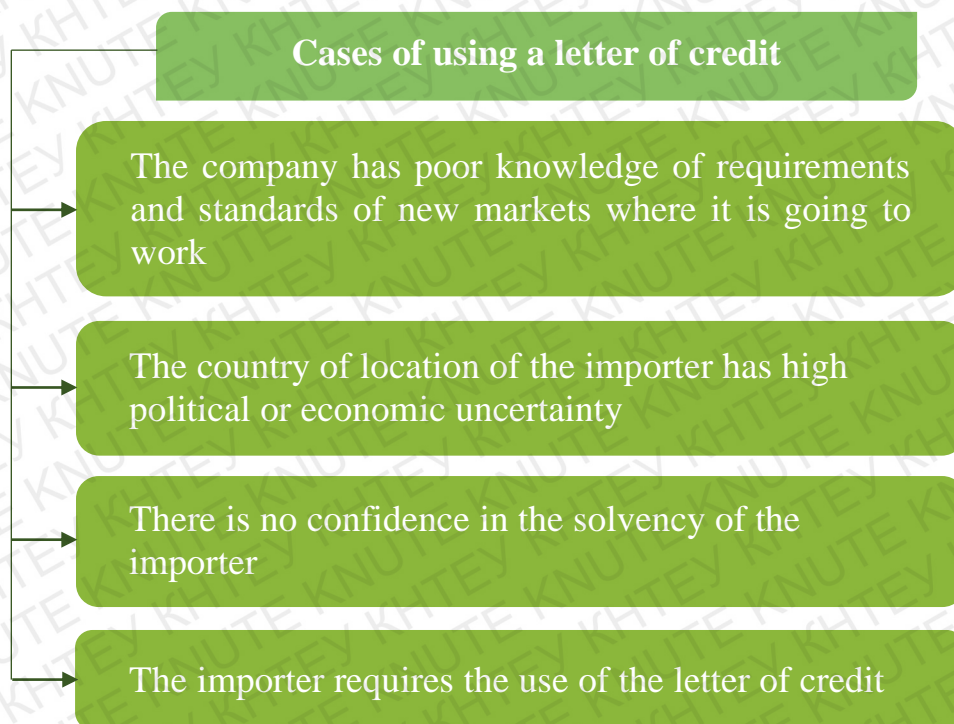


Figure 2.1.2. Cases of Using the Letter of Credit for the Foreign Economic Activity of LLC “Engelhart CTP (Ukraine)”

Source: compiled by the author based on the analysis of materials [5, 34]

In terms of risks, the second secure method of payment used by LLC “Engelhart CTP (Ukraine)” for the foreign economic activity is the guarantee. It can be a good way of “meeting in the middle” with the importer, in which the risk is reduced but not eliminated.

The guarantee is an undertaking by party “A” (guarantor) to party “B” (guarantee) that party “C” (debtor/primary obligor) will perform its contract with party “B”. The essential feature of the guarantee is that there must be written

evidence of the promise. Therefore, LLC “Engelhart CTP (Ukraine)” should make the guarantee in writing and ensure all parties sign it before the execution of the foreign economic contract. Furthermore, it is best to specify in the contract the clause by which the performance of the importer’s obligations is secured by such guarantee.

As we mentioned previously, such a payment method is appropriate to use while LLC “Engelhart CTP (Ukraine)” is doing business with new subsidiaries of the familiar parent company. However, there are still a number of risks to be prepared for while using guarantees:

- 1) The guarantor does not become a party to the foreign economic contract, the performance of which is guaranteed.
- 2) The guarantor only guarantees the original performance of obligations under the foreign economic contract between the guarantee and the primary obligor. In the event that the contract is varied or that performance according to its original terms is not strictly insisted on by both sides, the guarantor is usually discharged from the liability under guarantee.
- 3) If the subsidiary fails, then the parent company may well fail as well. In that case, there will often be intercompany debts, and as an insured party, the company may be claiming in the insolvency of the parent company in competition with the subsidiary.

However, using guarantee is a very safe option for LLC “Engelhart CTP (Ukraine)” as the exporter. The company should always try to obtain the guarantee when

it is not confident in the creditworthiness of the importer. Furthermore, LLC “Engelhart CTP (Ukraine)” can require the guarantee with a few guarantors to be on a safer side (in case one guarantor is not sufficient and cannot ensure the fulfilment of the whole of the importer’s obligations under the foreign economic contract).

Finally, the least secure payment method in case LLC “Engelhart CTP (Ukraine)” is willing to work with the importer for the first time is cash against documents.

It is essential to use it primarily with recognized companies because such method of payment can be risky from the exporter's point of view. With cash against documents (CAD) settlement – whether on a CIF or FOB basis, the acceptance or rejection of the shipping documents is the importer's option, therefore this is a risky undertaking. If the importer instructs the bank (which acts as the agent in a CAD presentation) not to take up and pay for the documents, then the exporter is in an exposed position. The goods may have been shipped to the other side of the world at considerable expense and the resale of it, whether at sea or landed in the port of destination might result in a significant loss. Also, a change in the destination may be necessary, and this could entail paying additional freight to the owners of the carrying vessel. Alternatively, the vessel may have arrived at the discharge port and the exporter, as charterer of the vessel, will face a demurrage liability.

Notwithstanding the above, the use of cash against documents can be very effective for certain foreign economic operations of LLC “Engelhart CTP (Ukraine)”. For example, by using such payment method the company can promptly receive the payment from the importer. It can also reduce the costs for the transaction since banking fees for CAD are very low. Therefore, we recommend using this payment method as often as possible for the company (of course, when risks are low for the exporter). This will help to increase the profit from the foreign economic activity of the company as well as reduce the time of the transaction.

Therefore, it is appropriate to use cash against documents for the foreign economic activity of the company in the following cases (Figure 2.1.3):

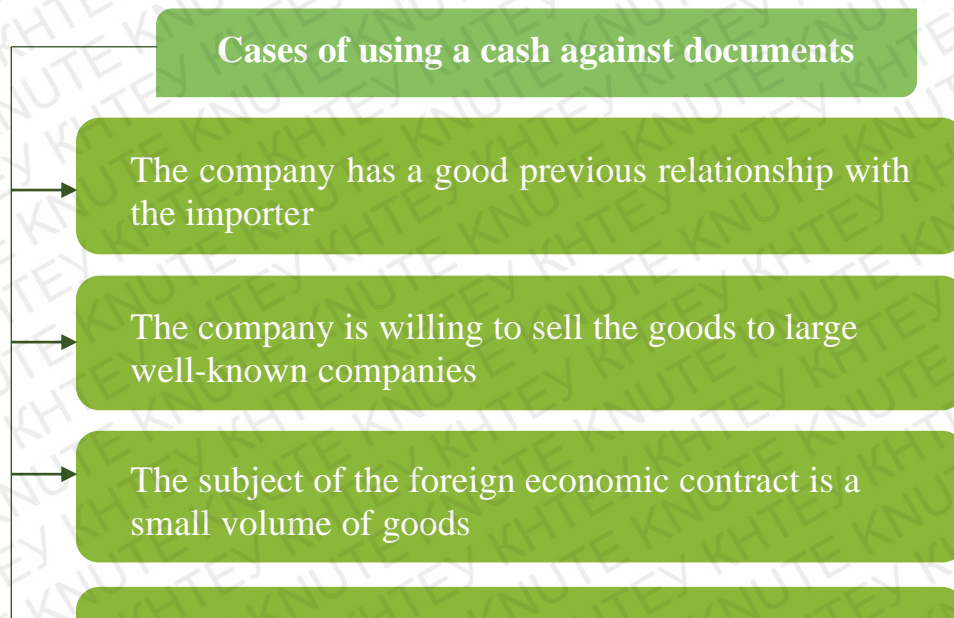


Figure 2.1.3. Cases of Using Cash Against Documents for the Foreign Economic Activity of LLC “Engelhart CTP (Ukraine)”

Source: compiled by the author based on the analysis of materials [5]

Based on the information above, we can summarize the distinctive features of payment terms, particularly cash against document and letter of credit used by LLC “Engelhart CTP (Ukraine)” for the foreign economic activity.

For example, although the transfer of money using cash against documents and letter of credit is made through the bank, these payment terms are of completely different nature. Cash against documents is based on commercial credit, and whether LLC “Engelhart CTP (Ukraine)” can safely receive the payment is entirely depends on the importer’s commercial reputation. In this case, the importer is the only responsible person. If he breaches the terms of the contract, the company can only rely on the foreign economic contract. The letter of credit settlement is a kind of bank credit, and the issuing bank assumes the payment. As long as LLC “Engelhart CTP (Ukraine)” provides all the shipping documents under the terms of the letter of credit, the issuing bank must proceed with the payment.

Another feature is handling charges for services provided to clients during the transaction. The banking fee for cash against documents settlements is comparatively low, and the transfer of money is fast. Besides, the procedure of payment using cash against documents is relatively simple. In contrast, the procedure of letter of credit settlement is quite complicated, and the bank cost for the letter of credit is more.

These payment terms (CAD and L/C) are also different in terms of risks. By using the letter of credit, LLC “Engelhart CTP (Ukraine)” can almost completely ensure its interests in the transaction [20]. In contrast, the nature of cash against documents settlement can present unpredictable risks for the foreign economic activity of the company in some cases.

To sum it up, we emphasise that the selection of payment terms plays an integral part in improving the efficiency of the foreign economic activity of LLC “Engelhart CTP (Ukraine)”. Moreover, there is a necessity in the development of methods for using the most suitable payment terms for the foreign economic activity of the company.

2.2. Substantiation of Measures for Improvement of Payment Terms of LLC “Engelhart CTP (Ukraine)”

In the process of concluding foreign economic contracts, exporters and importers take into account many factors and indicators. They start with the financial position of the business partner, his position on the market and end with the political, economic and legal conditions of his country. A careful study of the counterparty is essential in the current environment. Because the rapid development of the world market and constant improvement of the manufactured products lead to the fact that buyers tend to update business partners, search for new suppliers, most attractive in terms of price and quality of goods. When conducting a new trading partnership, companies and banks involved in settlements, first, assess the risks that may arise in the process of such cooperation [3].

Therefore, it is important to know all types of risks that can arise in international trade, as well as the measures that allow minimizing these risks or eliminating.

World practice shows that participants in international trade are exposed to four significant types of risk (Figure 2.2.1):



Figure 2.2.1. The Four Significant Risks in International Trade

Source: compiled by the author based on [9]

a) Commercial risk is the risk of probable losses, which can arise from the importer. Therefore, the exporter should ensure that the importer is reliable. The exporter should also take into account the importer's possible bankruptcy or indisposition to pay.

- E.g., the poor credit history of the importer, operational problems, competitive intensity, poor execution of strategy [9, 28];

b) Financial risk is the risk that contains financial loss to the exporter's company. This type of risk usually appears because of instability and losses in the financial market produced by changes in interest rates, currencies, stock prices.

- E.g., currency exposure, asset valuation, foreign taxation, inflationary, transfer pricing [4, 9, 22];

c) Country risk refers to the possibility that fluctuations in the business environment in the importer's country may have a negative impact on export operations or payment, resulting in a financial loss to the exporter. It includes sovereign risk, which is a subdivision of risk generally connected to the government or one of its agencies refusing to comply with the terms of a credit agreement.

- E.g., government intervention, protectionism and barriers to trade, red tape, lack of safeguards for intellectual propriety rights, legislation unfavourable to foreign firms, economic failures, social and political instability [7, 9];

d) Cross-cultural risk is a situation or occurrence where a cultural miscommunication puts the human value at stake.

- E.g., cultural differences, negotiation patterns, decision-making styles, ethical practices [9, 28].

Considering the above, LLC "Engelhart CTP (Ukraine)" must know which exactly payment method it should select in the certain foreign economic contract. Moreover, since the main goal for the company is to receive the payment completely and on time, there is a need for the development of methods for the selection of payment terms for the company's foreign economic activity.

The method of choosing the payment in the foreign economic contract is determined by three main factors (Figure 2.2.2):

- Bargaining power – whether it is an exporter’s market or an importer’s market and whether either party could use this to their advantage;
- Previous relationship – the trust between the parties built up during the previous trading history. If there have been problems with past trades, the party may insist on specific requirements to protect itself from the risk;
- Creditworthiness – this can be established by reference to credit agencies, for example, some companies only trade with “triple-A” companies.

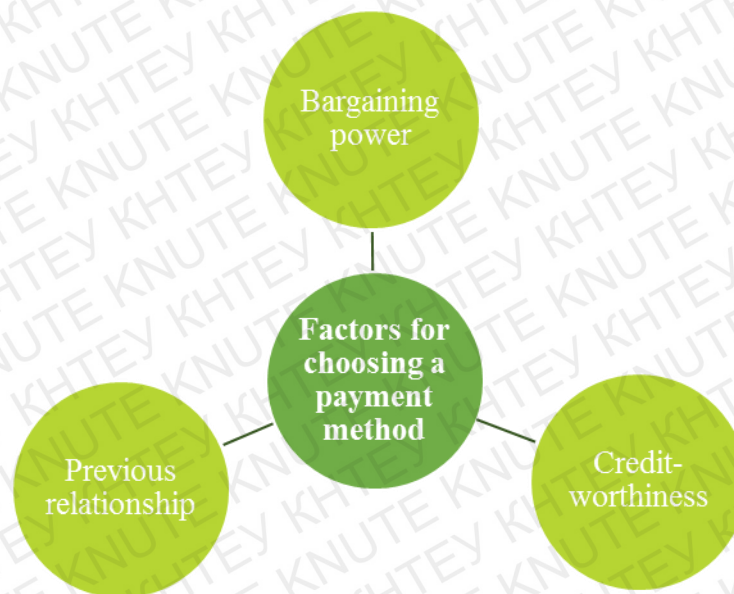


Figure 2.2.2. Main Factors for Choosing the Payment Method in the Foreign Economic Contract

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

The last two factors are crucial for the selection of payment terms for the foreign economic activity of the company. In the real practice of international trade, there is a need to assess the creditworthiness of the counterparty in advance. Hence, the company can select the appropriate method of payment according to the counterparty’s credit rating. For the counterparty whose credit rating is not high or

not yet been fully understood through the first transaction, the company should choose the payment with less risk to deal with it. To protect its interests during foreign economic activity, the company as the exporter can generally use the letter of credit, or, if necessary, it should require the prepayment. In case the exporter is willing to trade with the importer with high credit rating, he can choose the method of payment with a more simple procedure and at a lower cost than the letter of credit. For example, the company can use cash against documents. In this case, it can also secure some title in the goods [33].

Therefore, based on the previous relationship and creditworthiness of its counterparties, LLC “Engelhart CTP (Ukraine)” can decide whether to trade with them as well as which payment method is appropriate to use. For this reason, a credit risk department of LLC “Engelhart CTP (Ukraine)” maintains a certain list of approved counterparties and updates it every month.

The other factors that can also help LLC “Engelhart CTP (Ukraine)” to select payment terms for the foreign economic activity are:

- The country of location of the importer;
- The requirements and standards of the importer’s market;
- The presence or absence of interstate agreements;
- Market conditions and prospects for its development;
- Traditions and customs of trade in this product;
- Rules of national legislation;
- International rules and conventions governing settlement relations;
- The trade terms and contract amount.

For example, the country where the importer is located can have high political or economic uncertainty. Consequently, the exporter faces a high level of risk. In this situation, LLC “Engelhart CTP (Ukraine)” as the exporter should consider the use of the letter of credit. Besides, the country of the importer may belong to developing countries. Hence, the international legal provisions, which govern certain forms of international settlements and determine the nature of the interbank relationship, are

still poorly developed in such countries. Therefore, the banks and their clients face several serious problems, which leads to various mistakes and delays in settlements.

The use of the letter of credit can also enable LLC “Engelhart CTP (Ukraine)” to minimize risks caused by the poor knowledge of the requirements and standards of new markets, particularly ignorance of local laws on settlements in foreign currency, specifics of transportation and insurance of goods as well as registration documentation.

If the conclusion of the foreign economic contract is preceded by an interstate agreement (for example, the procedure for delivery and payment), which has some common monetary and financial conditions, then it is advisable in the contract to refer to such an agreement. This is essential in terms of resolving disputes that may arise between the parties in the course of contract performance.

Finally, the trade terms and contract amount may affect the company’s decision regarding the selection of payment terms. In the foreign economic contract, different trade terms make different delivery methods and delivery modes, which inevitably affect the selection of payment methods. For example, if the contract is on CIF or CFR basis, there is a time gap between the delivery and receipt of goods by the importer. Consequently, the transfer of title of the goods is based on shipping documents. In this case, it is appropriate to choose the letter of credit. Nevertheless, the exporter can also choose cash against document settlement if the importer has a good credit history. In the contract on FOB basis, the exporter can have difficulties to control the goods because under FOB contract the importer is a party who nominates the vessel. In this case, the exporter can face risks by using cash against documents. In general, there is a direct relationship between the contract amount and the risk (i.e., the larger the contract amount means a higher risk for the company). Therefore, if the amount of the contract is large it is appropriate to use the letter of credit. On the contrary, if the contract value is not big, the company can use cash against documents settlement. This can speed up the transaction and reduce the cost [27, 33].

Referring to our previous point, foreign economic activity entails more risks than domestic sales. We observe what is different about taking payment

internationally and how to overcome these differences in the table above (Table 2.2.1).

Table 2.2.1

Differences about Taking Payment Internationally

For the exporter	How to overcome these differences
The exporter may know less about the importer	<ul style="list-style-type: none"> – Get to know the importer; – Consider export credit insurance;
It can be difficult for the exporter to find out if the importer has good creditworthiness	<ul style="list-style-type: none"> – Try to undertake a credit reference check; – Possibly ask for references; – Possibly ask for the prepayment;
There will be more competitors for the goods that the exporter wants to sell: – both locally and internationally (the world grain market is highly competitive)	<ul style="list-style-type: none"> – Do the goods of the exporter offer something unique; – The exporter may provide something which is not available locally, e.g., quality; – Aspects of the transaction can make the exporter more competitive, e.g., exchange rates and trade agreements;
Some countries may have barriers to trade which can cause payment delays (exchange control)	<ul style="list-style-type: none"> – Knowing the local environment of the importer's country, or somebody who knows it;

Source: compiled by the author based on the analysis of materials [48]

Firstly, in case LLC “Engelhart CTP (Ukraine)” is going to work with the importer for the first time it should get to know the importer. In some instances, the company can consider the export credit insurance, which is insurance for the late payment or long payment.

However, when the company gets to know the importer, it is more difficult to determine whether the importer has good creditworthiness. To overcome this, LLC “Engelhart CTP (Ukraine)” should ask for references and try to make a credit reference check of the importer. Furthermore, if the company has increased uncertainty, it should ask for the prepayment.

The world grain market is highly competitive. Therefore, the company should provide a unique offer (e.g., better price, higher quality or cheaper freight) to win the sale. Besides, it can be a good opportunity for the company if there are trade agreements between Ukraine and the country of the importer.

Nevertheless, there can be barriers to export, as well. The importer may want to have a business with the exporter, but the importer's country can block the payment.

Hence, LLC “Engelhart CTP (Ukraine)” can have an advantage if it knows the local environment of the importer’s county or somebody who knows it.



Figure 2.2.3. Assessing the Creditworthiness of the New and Existing Counterparties

Source: compiled by the author based on the analysis of materials [48]

As we emphasise earlier, it is vital to make the credit reference check and assess the creditworthiness of the counterparty before contracting. Consequently, we review the steps of the credit assessment of the importer (Figure 2.2.3).

In the real business of international trade, it is not always easy to assess the creditworthiness of the importer. Therefore, LLC “Engelhart CTP (Ukraine)” should try to get to know the importer and ideally to have a personal meeting with him. In case it is difficult to meet the importer, we recommend contacting him using virtual technology such as Skype.

Following that the company should make the credit reference check of the importer. Although sometimes it can be expensive, it can be beneficial and can help to mitigate future risks. LLC “Engelhart CTP (Ukraine)” can make it by using special databases of internet sources such as Thomson Reuters or Bloomberg [36, 55]. There

the company can find credit information on the importer. Furthermore, the company should check the electronic registers, where it can find useful data about the importer's company. For example, LLC "Engelhart CTP (Ukraine)" can determine whether the importer's company is real. Moreover, in some cases, the company can also find financial statements of importer's company in individual electronic registers.

LLC "Engelhart CTP (Ukraine)" should try to see the importer's payment history (i.e., to check whether the importer has a good history of paying on time). Furthermore, the company can consider trade references from the importer. For example, the importer may provide references to some other suppliers from whom he purchased before. It is essential to verify that those references are credible.

One more option to assess the reliability of the importer is to search online for the information about his company. For example, LLC "Engelhart CTP (Ukraine)" can make the following steps:

- To check whether the importer has a website;
- Does the website provide the information that the importer has accreditations (e.g., ISO);
- To find out whether the importer is mentioned positively or negatively in any articles;
- Is there are good points in these articles to suggest the importer's company is good and safe to do business with.

Hence, referring to the facts that we analyse before, we emphasise that LLC "Engelhart CTP (Ukraine)" should select payment terms for the foreign economic activity primarily based on the previous relationship and creditworthiness of the importer.

This means that the importer should earn a certain payment method based on previous cases. As a result, if LLC "Engelhart CTP (Ukraine)" has concerns about the importer's ability to pay or cannot find reliable information about his company, the company should not offer standard payment terms and to compromise. Furthermore,

the company should choose the payment method that is the best for it (i.e., which is the most secure and can guarantee the payment).

2.3. Forecast of Proposed Measures Effectiveness of LLC “Engelhart CTP (Ukraine)”

The first and necessary condition for concluding and executing a foreign economic operation is a foreign economic contract, which defines the rights and obligations of the parties and their responsibility for the operation [29]. When concluding the foreign economic contract, it is highly important to determine the payment terms correctly. Because the selection of payment terms affect the profitability of the foreign economic transaction, timely receipt of payment, the fulfilment of contractual obligations and insurance of the parties against currency risks [31, 35].

The effectiveness of the selection of payment terms for the foreign economic activity of the company does not have a standard method of measurement. A lack of a universal measure deprives both exporters and importers of a meaningful way to evaluate the performance and understand the effectiveness of choosing appropriate payment terms. In today’s world economy, the company has to choose the best payment method from the existing options on the market. We suggest developing our approach on how to evaluate the efficiency of using different payment terms for the foreign economic activity of LLC “Engelhart CTP (Ukraine)”.

Every payment method has different advantages and disadvantages. There is no single method of payment, which is appropriate for all foreign economic operations. Therefore, the best payment method for the company depends on the terms and conditions of the particular foreign economic contract.

When selecting payment terms, LLC “Engelhart CTP (Ukraine)” has to think about how their advantages and disadvantages can affect the counterparty as well as the foreign economic operation with him. Because the selection of the right and proper method of payment is essential to reduce the risk of international transactions and ensure the smooth progress of international trade [33].

In discussing the payment terms, it is also important for the parties to agree on the following issues:

- When to make the payment (for example, before, at the time or only after the delivery of goods);
- How the payment should be made (payment method);
- Where it should be carried out.

For LLC “Engelhart CTP (Ukraine)” as the exporter, cash against documents (CAD) can be the cheapest option, but at the same time, it gives rise to higher risks (under certain conditions). For example, for the simple procedures and fewer bank charges, payment under cash against document is more prompt and less expensive than the letter of credit. Consequently, if LLC “Engelhart CTP (Ukraine)” has long business relationships with its counterparty under the transaction, CAD is an ideal way of payment [15]. However, sometimes the exporter can be subject to the rejection of shipping documents by the importer. In this case, the company can have a complicated position and, therefore, it may choose the payment method where it can control the shipping documents and reduce such risks.

Instead, the letter of credit (L/C) has the lowest risk, but it requires paying expensive banking fees as well as the accuracy in the tender of documents by the exporter. For example, the L/C is appropriate to use for the foreign economic activity of LLC “Engelhart CTP (Ukraine)” when the company has not established business relations with the importer. It will help fully secure the interest of the exporter. On the other hand, the transaction under the letter of credit has complicated procedure and formalities for submitting documents. Therefore, for the high cost and difficult procedure, it is appropriate to use other forms of payment when the parties have a long-standing and proven relationship among themselves [15].

Given that, LLC “Engelhart CTP (Ukraine)” should consider certain factors when choosing payment terms for the foreign economic activity, including:

- Importer’s preference – the company can receive the payment more quickly by choosing the payment method that the importer prefer;

- Risk – for example, the use of letters of credit can be the safest option for the company (under certain conditions);
- Service fees – for example, the bank requires expensive banking fees for services during documentary operations under the letter of credit;
- Transaction costs – the bank may charge the fee for every transaction [13].

Another factor to consider during the selection of payment terms for the foreign economic activity of LLC “Engelhart CTP (Ukraine)” is a business intent. For example, there are situations where the company has many buyers for goods. This cannot only increase the price of the goods but also allow choosing the method of payment that is more profitable for the company. In this case, LLC “Engelhart CTP (Ukraine)” can require the letter of credit settlement or even the prepayment for the goods from the importer. However, as opposed to, market conditions can be highly competitive and, therefore, the company can have difficulties to sell the goods. In this case, LLC “Engelhart CTP (Ukraine)” may not only need to reduce the price but also need to make a reasonable concession in the selection of payment method. For example, in order to enhance its competitiveness, the company can choose a more convenient payment method for the importer such as cash against documents [33].

We also need to highlight one more important factor that may have an effect on the choice of payment terms for the foreign economic activity of the company. It is the scale and financial situation of the exporter’s company. If the exporter’s company has a relatively big size and a relatively stable capital, then it can adopt a more relaxed settlement way. It can also enhance the competitiveness of the company. For the companies with small scale and weak financial position, whether the company can recover the money on time seriously affect the capital turnover to the company. Therefore, the company needs to choose a settlement with relatively low risk [33].

Hence, according to the analysed information presented previously in this scientific paper, we have formulated a list of questions, for which

LLC “Engelhart CTP (Ukraine)” should find answers before agreeing to the specific method of payment in the foreign economic contract. They are the following:

- 1) Does LLC “Engelhart CTP (Ukraine)” have a new or established business relationship with the importer?
- 2) What is the financial position (creditworthiness) of the importer?
- 3) What is the position of the importer on the market? For example, whether the importer’s company is recognized or unknown on the market.
- 4) Does the subject of the contract is specific or standard?
- 5) Does the volume of the contract is large or small?
- 6) Does the political situation of the importer’s country is stable or unstable?
- 7) Does the economic situation of the importer’s country is stable or unstable?
- 8) Is there a risk of price changes?
- 9) Is the market competitive or not? For example, competitors offer different payment terms, or there are many buyers for the goods on the market.

Based on the questions above, we made the comparative table of payment terms used by LLC “Engelhart CTP (Ukraine)” that may help the company to choose the appropriate payment methods for the foreign economic activity (Table 2.3.1).

Table 2.3.1

**Comparative Table of Payment Terms Used by
LLC “Engelhart CTP (Ukraine)”**

No.	Factors	Letter of credit	Guarantee	Cash against documents
1.	Previous relationship	New	New with a subsidiary, established with a parent company	Established
2.	Creditworthiness of the importer	Poor	Poor	Good
3.	Market position of the importer	Unknown/Poor	Poor	Well-known
4.	Subject of the contract	Specific	Standard/Specific	Standard
5.	Volume of the contract	Large	Large	Small - Large
6.	Political situation of the importer’s country	Unstable	Stable	Stable
7.	Economic situation of the importer’s country	Unstable	Stable	Stable
8.	Risk of price changes	Yes	Yes	No
9.	Competitiveness of the market	No	No	Yes

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

By finding the answers to these questions, LLC “Engelhart CTP (Ukraine)” will have more qualification to select the appropriate method of payment in the particular foreign economic contract. However, it should be mentioned that not all these factors carry equal weight. For example, the previous relationship with the importer may carry more weight for the selection of payment terms by the company and, on the contrary, the possibility of using different payment terms offered by competitors may carry less weight.

Furthermore, LLC “Engelhart CTP (Ukraine)” should pay the most attention to the verification of the creditworthiness of the importer’s company. Because the credit reference check may give the company the most comprehensive understanding of the financial position of the importer and his ability to pay. This factor will be the deciding point in choosing the payment method for the foreign economic activity of the company.

We suggest observing the effectiveness of the proposed approach based on the particular example below. Example of the contract was provided by LLC “Engelhart CTP (Ukraine)” (Table 2.3.2).

Table 2.3.2

Description of the Foreign Economic Contract

Contract date	01.10.2019
Seller	Exporter – LLC “Engelhart CTP (Ukraine)”
Buyer	Importer (unknown), Indonesia
Goods	Ukrainian wheat, crop 2019
Quality	Ukrainian feed wheat
Quantity	25,000 metric tons, 5% more/less at Buyer’s option and at contract price
Packing	In bulk
Delivery period	Between 15 th and 29 th of February 2020, both mentioned dates included. No extension.
Delivery basis/ destination	CIF (as per Incoterms 2020) Cigading, Indonesia
Price	\$224.00 per one metric ton of goods
Payment	<i>To be determined later by the author</i>

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

Based on the information provided by this foreign economic contract, we made the following comparative table (Table 2.3.3). By analysing the terms of this particular contract using such an approach, we will decide which payment method best suited this foreign economic transaction. We will provide a comprehensive explanation of the proposed measures as well.

Table 2.3.3

Comparative Table of Payment Terms for the Foreign Economic Contract

No.	Factors	Contract terms	Letter of credit	Guarantee	Cash against documents
1.	Previous relationship	New	+	-	-
2.	Creditworthiness of the importer	Poor	+	+	-
3.	Market position of the importer	Unknown	+	-	-
4.	Subject of the contract	Feed wheat (specific)	+	+	-
5.	Volume of the contract	25,000 MT (large)	+	+	-
6.	Political situation of the importer's country	Indonesia (stable)	+	+	+
7.	Economic situation of the importer's country	Indonesia (stable)	+	+	+
8.	Risk of price changes	Yes	+	+	-
9.	Competitiveness of the market	High	-	-	+

Source: compiled by the author based on the information provided by LLC "Engelhart CTP (Ukraine)"

As we see from table 2.3.3 above, every payment method has its advantages and disadvantages that can affect this foreign economic transaction. We suggest diving deeper to receive the complete answer.

In this case, several factors such as the political and economic situation of the importer's country allow LLC "Engelhart CTP (Ukraine)" to use all three forms of payment. However, the other seven factors can help us to determine which payment method will be the most appropriate for this particular foreign economic contract. First, under the terms of this contract, we can observe the possibility of the risk of price changes. The reason for such risk is the fact that the concluded contract is "forward". This means that LLC "Engelhart CTP (Ukraine)" shall make the delivery

of goods in the future at the price fixed on a date (October 1, 2019) of the conclusion of such a contract. We see a great time gap between the contract date and the beginning of the delivery period, which is 137 days. Therefore, in case the market price at the time of delivery will rise above the contract price, the importer may want to renegotiate the agreement or at worst may cancel it. Hence, LLC “Engelhart CTP (Ukraine)” needs to protect himself from such risks by selecting the appropriate payment method in the contract.

Paying attention to the information provided in table 2.3.3 above, we can conclude that the importer’s market is highly competitive because there are other exporters that can offer different payment terms. In such a case, using cash against documents settlement will be an advantage for LLC “Engelhart CTP (Ukraine)”. However, as the field of foreign economic activity is associated with several risks of credit and financial relations, the exporter can regulate and minimize them by a number of specific methods, which include:

- The use of letters of credit;
- The use of guarantees [23].

We also observe that the subject of the contract – feed wheat, is specific. The goods should meet the requirements of Indonesia phytosanitary control, which can cause certain risks. For example, since surveyors take samples for quality analysis upon loading of the vessel there is a risk of product recalls (if it does not comply with relevant regulatory requirements of the phytosanitary control of the importer’s country). This issue can damage the profit of the company because the importer may reject the documents while the company as a charterer of the vessel may face a demurrage liability. Besides, the contract value of the goods is 5 600 000 USD (25 000 MT with price 224.00 USD per one metric tonne), which is very large. It means a high risk for the company. Therefore, for this foreign economic contract, LLC “Engelhart CTP (Ukraine)” should use the payment method, which will help the company to mitigate possible risks.

LLC “Engelhart CTP (Ukraine)” should also pay attention to the market position of the importer, which is uncertain. In this situation, whether the company can safely receive the payment is entirely depends on the importer’s commercial reputation.

Finally, the last two and the most significant factors for the selection of payment terms for this foreign economic contract are:

- The presence of the previous trading history between LLC “Engelhart CTP (Ukraine)” and the importer;
- The creditworthiness of the importer’s company.

We see that LLC “Engelhart CTP (Ukraine)” is going to work with the importer for the first time. Therefore, we can classify this contract as the high-risk foreign economic transaction. Based on the results of this first transaction, the company will decide whether to trade with the importer in the future. Hence, it is vital for LLC “Engelhart CTP (Ukraine)” to make the credit reference check of the importer’s company. We see that the importer has poor creditworthiness, which entails high risks for receiving the payment in full and on time.

Considering all facts, the guarantee is also not an appropriate variant for use during this transaction. Instead, the most suitable payment term for this specific contract is the letter of credit. It will secure all interests of LLC “Engelhart CTP (Ukraine)” during this foreign economic operation.

From the results obtained, we can see that our suggestions for the selection of payment terms will influence the foreign economic activity of the company. The execution of previously mentioned measures and the selection of appropriate payment methods will allow LLC “Engelhart CTP (Ukraine)” to successfully enter and gain a competitive advantage on the new foreign markets.

Since the company will be growing due to successful export operations, it will be necessary to expand its foreign economic activity. Furthermore, we need to point on the fact that because of taking into consideration all the suggestions that we proposed to the company, LLC “Engelhart CTP (Ukraine)” will definitely increase its export potential

and market share. Consequently, the revenue from export and the total net revenue of the company will be increasing. Therefore, we can make a forecast of how our suggestions will influence the financial results of LLC “Engelhart CTP (Ukraine)” (Table 2.3.4).

Table 2.3.4

The Forecast of Financial Results of LLC “Engelhart CTP (Ukraine)” in 2019-2021

in thousand of UAH	2018	Forecast			2021/ 2018
		2019	2020	2021	
Net revenue from sales of products	2 375 216	2 401 344	2 545 199	2 697 435	322 219
Cost of sales	(2 213 952)	(2 193 540)	(2 317 970)	(2 451 702)	(237 751)
Gross profit	161 265	207 805	227 228	245 733	84 468
Other operating income	9 646	11 555	13 150	15 753	6 106
Administrative expenses	(49 264)	(61 160)	(66 390)	(70 599)	(21 335)
Selling and distribution expenses	(74 835)	(97 794)	(106 498)	(115 976)	(41 141)
Other operating expenses	(26 148)	(37 018)	(42 328)	(47 017)	(20 869)
Financial result from operating activities	20 664	23 388	25 163	27 892	7 229
Other income	752	827	910	1 001	249
Finance costs	(5 632)	(5 581)	(5 861)	(6 524)	(892)
Financial result before tax	15 784	18 635	20 211	22 369	6 586
Income tax	(2 841)	(3 354)	(3 638)	(4 026)	(1 185)
Net financial result	12 943	15 281	16 573	18 343	5 400

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

Because of the implementation of the new method of the selection of payment terms, it is forecasted to increase the profitability of export operations and the growth of net profit of the company from 12.94 million UAH to 18.34 million UAH.

To sum it up, we can conclude that our research will increase the efficiency of the risk management in payments of LLC “Engelhart CTP (Ukraine)”. Moreover, it will help LLC “Engelhart CTP (Ukraine)” to support its competitiveness and avoid the risks, which can arise during the selection of payment terms for the foreign economic activity. The proposed methods for the selection of payment terms will also allow the company to more accurately predict and evaluate the payment risks during the foreign economic activity. Furthermore, the results obtained in this scientific

paper can be useful for other Ukrainian agricultural companies.

Conclusions to Chapter 2

One of the main objectives for every successful enterprise is to generate the maximum level of profit. Consequently, complicated market conditions force companies to develop new ways of making it. The foreign economic activity is more profitable than sales in the domestic market and, therefore, it is a necessary tool for companies to successful existence in today's economic space. At the same time, foreign economic activity is accompanied by high risks, which the company should be able to avoid or at least mitigate during such activity.

We define four significant types of risk, which the subjects of FEA may face during international trade:

- Commercial risk;
- Financial risk;
- Country risk;
- Cross-cultural risk.

The foreign economic activity is related to the use of different forms of payment, which have their peculiarities of application. The selection of payment terms plays an integral part in the foreign economic activity of the enterprise because of its consequences. It has a huge impact on the effectiveness of the company's foreign economic operations. Besides, the choice of payment terms depends on the weight (position) of partners on the market as well as other conditions of the particular foreign economic operation. Therefore, the company should pay careful attention when choosing the appropriate payment terms.

We determine main factors, which help LLC “Engelhart CTP (Ukraine)” to select the appropriate payment methods for the foreign economic activity. These factors are the following:

- Bargaining power;
- Previous relationship with the importer;
- The creditworthiness of the importer's company.

They are crucial for the selection of payment terms. Because by considering these factors, the company can predict and determine the possible risks that may arise during the foreign economic activity. Furthermore, a careful study of the counterparty is essential for the selection of payment terms in the current environment and system of market relations.

We also recommend maintaining the list of approved counterparties. It can help the companies to decide whether to trade with certain counterparties as well as which payment method is appropriate to use with them. Besides, this list can save the company from unpredictable consequences.

We observe other factors, which can help the company to determine the appropriate payment method for foreign economic activity:

- The political and economic situation of the importer's country;
- The requirements and standards of the importer's market;
- The presence or absence of interstate agreements;
- Market conditions and prospects for its development;
- Traditions and customs of trade in this product;
- Rules of national legislation;
- International rules and conventions governing settlement relations;
- The trade terms and contract amount.
- The risk of price changes;
- The importer's preference;
- The banking fees for services.

Based on the comprehensive analysis of all these factors, we developed the method for the selection of payment terms for the foreign economic activity of LLC "Engelhart CTP (Ukraine)". This method can also be useful to other companies who work in the agricultural sector, particularly the companies who engaged in the export of grain.

CONCLUSIONS AND RECOMMENDATIONS

Foreign economic activity is the driver of successful businesses all over the world. It drives companies to break into established and emerging markets, seizing opportunities wherever they may be.

Several factors have an effect on the foreign economic activity of companies, their perception and behaviour patterns. These may be the country and industry to which the exporting company belongs, export volumes, its international experience, export intensity and nature of goods it trades.

The fundamentals of trade can be used for both domestic and export sales. However, exporters should deal with their foreign economic operations more carefully compared to their domestic channels due to the more challenging nature of foreign trade. The highly uncertain and risky external environments and the need to adapt to rapid market changes are the main differences between foreign economic activity and domestic sales. Subjects of FEA have to deal with different kinds of customers, laws, regulations and financial systems that may be different from their domestic markets. Besides, goods are subject to international trade documentation, customs control, legal restrictions and the payment of import duties (where necessary).

Moreover, there are significant complexities related to the selection of payment terms for the foreign economic activity of the company. This is why the agreed method of payment is one of the central features of all foreign economic contracts.

LLC “Engelhart CTP (Ukraine)” uses different payment terms for the foreign economic activity. They are cash against documents, cash against fax copies, performance bonds, standby letters of credit, guarantees and letters of credit.

Every method of payment has peculiarities as well as advantages and disadvantages. The company should take all of them into account during the selection of the appropriate method of payment. We examined the methodological and practical aspects of the selection of payment terms for the foreign economic activity

of
LLC “Engelhart CTP (Ukraine)”.

For example, the company uses cash against documents when it sells goods to companies with whom it has the previous trading history. Moreover, the company uses such a method of payment with large and well-known companies.

When there is a small period of the voyage between the port of loading and the port of discharge, LLC “Engelhart CTP (Ukraine)” usually uses cash against fax copies. It also uses such payment method in swap contracts.

In case LLC “Engelhart CTP (Ukraine)” participates in the international tenders for the export of goods, it uses performance bonds. This can be the tender of General Authority for Supply Commodities (GASC) or the tender of Saudi Grains Organization (SAGO).

The company uses the guarantee if it has a business with a new subsidiary of a well-known parent company. This helps to reduce but not eliminate certain financial risks while doing business with newly incorporated companies.

In case LLC “Engelhart CTP (Ukraine)” works with the unknown importers, it should use the letter of credit. It allows protecting the interests of the company and securing the foreign economic transaction.

The selection of payment terms of LLC “Engelhart CTP (Ukraine)” depends on various conditions of the foreign economic operations and possible risks, which can arise during such operations. We determined the main factors, based on which the company should choose appropriate payment terms for the foreign economic activity:

- The previous relationship with the importer;
- The creditworthiness of the importer’s company;
- The political and economic situation of the importer’s country;
- The requirements and standards of the importer’s market;
- The presence or absence of interstate agreements;
- Market conditions and prospects for its development;
- International rules and conventions governing settlement relations;
- The trade terms and contract amount.

We observed that the most frequently used payment methods by LLC “Engelhart CTP (Ukraine)” are cash against documents, guarantees and letters of credit. Therefore, our suggestions for improvement of the selection of payment terms for the foreign economic activity of the company are based on the analysis of these three particular payment methods.

In this scientific paper, we also examined the perception of payment and financial risks by LLC “Engelhart CTP (Ukraine)”. We analysed the utilisation of several risk management tools for the selection of payment terms for the foreign economic activity of the company. For example, it is vital to make the credit reference check and assess the solvency of the importer before entering the foreign economic contract with him. This will help to ensure the receiving of payment from the importer after the company fulfils its obligations under the contract.

However, it is not always easy to assess the creditworthiness of the importer. Therefore, the company should try to use different methods to receive as much information about the importer as possible.

Primarily, we recommend having a meeting with the importer either personal or by using virtual technologies. Following that, the company should obtain all the available information about the importer’s company on the Internet. For example, it should check the importer’s website and articles related to him. Furthermore, the company should check the electronic registers, where it can find useful data about the importer’s company. For example, the exporter can determine whether the importer’s company is real and find their financial statements. Based on this information, LLC “Engelhart CTP (Ukraine)” can form an initial understanding of the importer. We also recommend using paid sources such as Thomson Reuters or Bloomberg to find more accurate credit information on the importer. Finally, the company should try to see the importer’s payment history and consider trade references from the importer.

To sum it up, we emphasise that the selection of appropriate payment terms plays a vital role in the foreign economic activity of the enterprise. Hence, the company should choose the payment method for every foreign economic contract

carefully. Furthermore, the company should always try to get the best and the most secure form of payment from available options on the market.

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APPENDICES

Appendix A

LLC “Engelhart CTP (Ukraine)”

Balance Sheet

in thousand of UAH	31 Jan 2014	31 Jan 2015	31 Jan 2016	31 Jan 2017	31 Jan 2018
Assets					
I. Non-current assets					
Intangible assets	275	286	219	97	20
historical cost	275	506	746	901	901
accumulated amortisation	-	220	527	804	881
Fixed assets	1 215	1 094	661	350	162
historical cost	1 294	1 592	1 631	1 632	1 652
depreciation charge	79	498	970	1 282	1 490
Total I	1 490	1 380	880	447	182
II. Current assets					
Inventories	40 192	147 248	637 733	710 165	438 724
Production stock	-	-	251 967	64	-
Finished goods	-	-	1 452	21 994	438 724
Merchandise	40 192	147 248	384 314	688 107	-
Accounts receivable for goods, works and services	322	50 598	199 851	44 550	60 505
Accounts receivable for settlements:					
advance payments made	436	448	436	436	436
with budget	7 623	9 950	357 594	194 161	104 106
Other current receivables	16	646	14 496	387	2 017
Cash and cash equivalents	17 818	72 618	99 636	181 632	37 161
Accounts with banks	17 818	72 618	99 636	181 632	37 161
Deferred expenses	56	177	475	468	867
Other current assets	885	864	-	1 517	-
Total II	67 348	282 549	1 310 221	1 133 316	643 816
Balance	68 838	283 929	1 311 101	1 133 763	643 998

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

Continuation of Appendix A

Liabilities					
I. Equity					
Registered (share) capital	8 640	4 320	4 320	17 281	17 281
Additional capital	6 327	1 504	1 504	30 470	30 470
Accumulated translation differences	6 327	1 504	1 504	30 470	30 470
Retained earnings (accumulated deficit)	(17 631)	(8 814)	6 375	(17 965)	(10 580)
Unpaid capital	(9 143)	-	-	-	-
Total I	(11 807)	(2 990)	12 199	29 786	37 170
II. Long-term liabilities and provisions					
Total II	-	-	-	-	-
III. Current liabilities and provisions					
Short-term bank loans	-	-	-	278 000	-
Current accounts payable on:					
goods, works, services	604	2 781	43 854	63 263	50 146
settlements with the budget	-	-	1 130	-	-
including income tax	-	-	1 130	-	-
payroll	-	24	-	-	-
Current accounts payable on advance					
payments received	5 213	165 936	1 252 871	762 214	556 682
Other current liabilities	74 828	118 226	1 047	500	-
Total III	80 645	286 919	1 298 902	1 103 977	606 828
Balance	68 838	283 929	1 311 101	1 133 763	643 998

Source: compiled by the author based on the information provided by LLC "Engelhart CTP (Ukraine)"

Appendix B

LLC “Engelhart CTP (Ukraine)”

Income Statement

in thousand of UAH	2014	2015	2016	2017	2018
Net revenue from sales of products (goods, works, services)	3 452	289 864	2 244 153	2 181 099	2 375 216
Cost of sales (goods, works, services)	(2 208)	(199 869)	(2 113 344)	(2 053 549)	(2 213 952)
Gross:					
Profit	1 244	89 995	130 809	127 549	161 265
Loss					
Other operating income	2 104	40 258	165 052	8 858	9 646
Administrative expenses	(11 516)	(28 935)	(45 238)	(44 286)	(49 264)
Selling and distribution expenses	(1 439)	(16 950)	(68 719)	(75 895)	(74 835)
Other operating expenses	(8 024)	(71 587)	(164 801)	(24 011)	(26 148)
Financial result from operating activities:					
Profit		12 781	17 103		20 664
Loss	(17 631)			(7 784)	
Other income	-	60	1 056	683	752
Finance costs	-	(2 285)	(410)	(17 239)	(5 632)
Other expenses	-	-	(433)	-	-
Financial results before tax:					
Profit		10 556	17 316		15 784
Loss	(17 631)			(24 340)	
Income taxes (expense)/benefit	-	-	(2 127)	-	(2 841)
Net financial result:					
Profit		10 556	15 189		12 943
Loss	(17 631)			(24 340)	

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

Appendix C

LLC “Engelhart CTP (Ukraine)”
Vertical Analysis of Balance Sheet

in thousand of UAH	31 Jan 2014	31 Jan 2015	31 Jan 2016	31 Jan 2017	31 Jan 2018
Assets					
I. Non-current assets					
Intangible assets					
historical cost	18,46%	36,67%	84,77%	201,57%	495,05%
accumulated amortisation	-	-15,94%	-59,89%	-179,87%	-484,07%
Fixed assets					
historical cost	86,85%	118,19%	185,34%	365,10%	907,69%
depreciation charge	-5,30%	-36,09%	-110,23%	-286,58%	-818,68%
Total I	2,16%	0,49%	0,07%	0,04%	0,03%
II. Current assets					
Inventories	59,68%	52,11%	48,67%	62,66%	68,14%
Accounts receivable for goods, works and services	0,48%	17,91%	15,25%	3,93%	9,40%
Accounts receivable for settlements:					
advance payments made	0,65%	0,16%	0,03%	0,04%	0,07%
with budget	11,32%	3,52%	27,29%	17,13%	16,17%
Other current receivables	0,02%	0,23%	1,11%	0,03%	0,31%
Cash and cash equivalents					
Accounts with banks	26,46%	25,70%	7,60%	16,03%	5,77%
Deferred expenses	0,08%	0,06%	0,04%	0,04%	0,13%
Other current assets	1,31%	0,31%	-	0,13%	-
Total II	97,84%	99,51%	99,93%	99,96%	99,97%
Balance	100,00%	100,00%	100,00%	100,00%	100,00%

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”

Continuation of Appendix C

Liabilities					
I. Equity					
Registered (share) capital	73,18%	144,48%	35,41%	58,02%	46,49%
Additional capital					
Accumulated translation differences	53,59%	50,30%	12,33%	102,30%	81,97%
Retained earnings (accumulated deficit)	-149,33%	-294,78%	52,26%	-60,31%	-28,46%
Unpaid capital	-77,44%	-	-	-	-
Total I	-17,15%	-1,05%	0,93%	2,63%	5,77%
II. Long-term liabilities and provisions					
Total II	-	-	-	-	-
III. Current liabilities and provisions					
Short-term bank loans	-	-	-	25,18%	-
Current accounts payable on:					
goods, works, services	0,75%	0,97%	3,38%	5,73%	8,26%
settlements with the budget	-	-	0,09%	-	-
including income tax	-	-	0,09%	-	-
payroll	-	0,01%	-	-	-
Current accounts payable on advance	6,46%	57,83%	96,46%	69,04%	91,74%
payments received					
Other current liabilities	92,79%	41,21%	0,08%	0,05%	-
Total III	117,15%	101,05%	99,07%	97,37%	94,23%
Balance	100,00%	100,00%	100,00%	100,00%	100,00%

Source: compiled by the author based on the information provided by LLC "Engelhart CTP (Ukraine)"

Appendix D

LLC “Engelhart CTP (Ukraine)”
Basic Growth Rates of Income Statement

YoY growth, %	2015	2016	2017	2018
Net revenue from sales of products (goods, works, services)	8296,16%	674,21%	-2,81%	8,90%
Cost of sales (goods, works, services)	8950,81%	957,36%	-2,83%	7,81%
Gross:				
Profit	7134,08%	45,35%	-2,49%	26,43%
Loss				
Other operating income	1813,77%	309,99%	-94,63%	8,90%
Administrative expenses	151,26%	56,34%	-2,10%	11,24%
Selling and distribution expenses	1077,90%	305,42%	10,44%	-1,40%
Other operating expenses	792,23%	130,21%	-85,43%	8,90%
Financial result from operating activities:				
Profit	-	33,81%	-	-
Loss				
Other income	-	1660,00%	-35,28%	10,00%
Finance costs	-	-82,06%	4104,56%	-67,33%
Financial results before tax:				
Profit	-	64,04%	-	-
Loss				
Net financial result:				
Profit	-	43,89%	-	-
Loss				

Source: compiled by the author based on the information provided by LLC “Engelhart CTP (Ukraine)”