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ScienceDirect

Procedia Engineering 85 (2014) 420 – 427

Procedia Engineering

www.elsevier.com/locate/procedia

Creative Construction Conference 2014, CC2014

Export financing in international construction: Case study of Siemens power division in Oman

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Abstract

Many construction and technological firms grew beyond borders of their countries since their market size couldn't absorb their growing production capacities. Similarly, orientation to certain market segments forced these firms to go abroad in order to sustain their revenues, further improve their specialization and expand shareholder value. Due to increasing competition in the world market, traditional prerequisites do not necessarily have to lead to success in international bids. In addition to technological excellence, long-lasting experience, quality and cost leadership, securing project financing can play a crucial role in project bids. International Joint Venture (IJV), led by Siemens, gained an order with an international bid for delivery of two power plants with combined cycle to Oman, due to securing project financing for multinational investor. Project financing, arranged by German state-owned KfW IPEX-Bank, proved to be the turning point in this international tender. Siemens and its Korean partner successfully delivered both power plants in full conformance to investor's requirements. Despite uneasy market conditions and financial markets recovering from financial crises, German and Korean government export credit agencies (ECAs) opened new export opportunity, in order to support their home economies. Whereas jobs in Germany were secured, Siemens as a leading contractor improved its market position within the region of Middle East. At the same time, Sultanate of Oman gained access to highly efficient power sources with low impact on environment. This reference study demonstrates increasing and necessary role of government export-oriented agencies and banks for reaching exporters' success in international business. The main objective of this paper is to contribute to identification of exporter's key success factors, when delivering project on export financing principles. In order to clearly introduce key aspects of this advanced export financing concept, case study as a research methodology was selected.

Peer-review under responsibility of the Diamond Congress Kft.

Keywords: Buyer's credit; Competitive advantage; Construction; Export credit agency; Project financing

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doi:10.1016/j.proeng.2014.10.568

1. Introduction

Exporting is considered by governments around the world as a central strategy for economic prosperity in the new global landscape. The focus on exporting, as an engine of economic growth, has taken hold in almost in every country, even in nations with large domestic demand. This focus is not surprising since national governments have discovered that outward-bound international activities generate jobs and taxes at home and that export revenues are instrumental to the enhanced welfare of its citizens [1]. Although many studies have sought to discover the main aspects of export performance, export risks and their hedging, far less attention was given to sources of competitive advantage or the way to build up competitive advantage at export markets. Several studies came to conclusion that essential for export success is access to financial resources [2,3,4]. Other study argues that the working capital and financial liquidity requirements of export operations mean that access to financial resources is essential [5]. Recently, there were just few studies focused on gaining access to export financing [6].

For running business in international context, there must be a large degree of mutual trust and support. Such a trust is giving confidence to exporter, that buyer will pay for the goods and services received. In addition to that, exporters are recently forced to assist buyers in getting access to credit with competitive credit terms. Delivering project construction together with secured project financing proved to be the key success factor in developing markets which enables these firms to succeed in highly competitive international bids [7]. Other study investigated how public insurance schemes could be used to serve trade-related or other objectives [8]. In many OECD countries, the political risk of default associated with export credits is usually covered by ECA which is owned and supported by the government. The analysis emphasizes the role of government export financing and insurance programmes when exporting to less developed and risky markets, while private insurers still limit their activities to relatively safe markets.

2. Case Study – Construction of Barka III and Sohar II - combined cycle power plants in Oman

2.1. Sultanate of Oman

The Sultanate of Oman (Oman) is one of the most progressive countries in the Middle East. The country has achieved remarkable growth in all sectors of economy during the past years and is well on course for excellent growth. Crude oil remains the single most important source of the state revenues and it’s expected to make the growth and development process of Oman more sustainable in the long run. The Sultanate encourages foreign capital that will enhance the overall development of the country. It should supplement local investment in utilizing its untapped resources, facilitate transfer of technology, know-how, managerial skills, and getting benefit from the worldwide connections of multinational corporation in opening new markets for Omani products.

Oman is committed to a policy of open market economy based on free competition in which the private sector is encouraged and facilitated to play the leading role. Developed infrastructure, incentive packages, attractive corporate tax and tax holidays and simplified business procedures made Oman to become an attractive destination for investment. The government is continuously engaged in making the investment climate as conducive and investor-friendly as possible. Oman's foreign capital investment law has been liberalized, permitting 70% foreign participation in companies automatically in most of the sectors and even 100% foreign capital investment is permitted for projects of national importance.

The country’s economy has shown ability to counter and confront the consequences of the large decline in oil prices. The country’s economy depends on oil market prices, which suffered from high volatility during the last years. Despite the market situation driven by development of the world economy, the country reported solid GDP growth of 5 % in 2012, resp. 5.4 % in 2011. Together with economic growth, even power consumption is dramatically rising. The less efficient power technologies are penalized through very high gas prices. Efficiency is thus the key leading to success in this market in order to meet environmental criteria. In addition to that, limited