

Plenary Session G

Financing Service Exports – Is It Really a Problem?

The Issue: A successful, export-oriented services sector requires the fusion of expertise, technology, originality and entrepreneurship. But there is a fifth factor in the equation for success: the availability of finance at the start-up and growth stages of the firm's development. And it is this vital fifth ingredient that is missing in most developing and transition economies.

Venture capital is limited and while, on paper, financial institutions appear prepared to lend to services firms, in reality, they are not. The level of risk generally associated with lending against "intangibles" is perceived to be incompatible with sound banking practice, particularly when it involves an export transaction.

A strategy to improve the availability, and minimize the cost, of financing in the services sector is at least as important as in the manufacturing sector. Yet few countries have introduced such a strategy. They should.

The Proposition: The solution to the financial problem lies on both sides of the transaction: the would-be borrower and the prospective lender. We believe, however, that it is the borrower who must bear the greater share of the burden.

Each service exporter operates within a business environment that is as unique as its technical specialization. When preparing his loan request, the services exporter must, as a consequence, ensure that he "educates" the banker on the specificities of his service and business. In the absence of traditional forms of collateral (e.g. factory, land, and inventory), it is essential that the prospective borrower provides detailed explanations of (i) how the "business" works, (ii) the factors influencing the service's, and his firm's, competitiveness, (iii) the origin and nature of demand, (iv) sources of future flows of revenue; and (v) the protection afforded by intellectual property rights.

There are three implications for strategy, and strategy-makers:

- First, strategy-makers must, therefore, ensure that prospective borrowers are sufficiently aware of, and capable of providing, this wider sectoral background when approaching banks.
- Second, strategy-makers must also address the built-in "risk bias" among bankers against financing exports in general, and exported services in particular. It must ensure that banks have the necessary guarantees (and confidence) to apply minimum lending criteria to loan applications from services exporters.
- Third, strategy-makers must assist monetary authorities understand, and adapt mandatory requirements to, the special needs and circumstances of the service industry.

But strategy must also call for direct intervention by the public sector. The creation of special facilities for services start-ups, which can take the form of business incubators or tailor-made financing operations or both, represent the best way forward, provided that these facilities, while government financed, are professionally managed.

Focus of the Debate: It is proposed that this session focus on the following:

1. Are the initiatives presented above realistic, and, if so, why does the financing issue remain a key constraint to the development of export capacity in the services sector?
2. What could be considered as minimum, realistic criteria for lending to export-oriented, services firms?
3. What role, if any, should a Services Sector Association or "services coalition" seek to play when it comes to resolving the financing constraint?
4. What are examples of "best practice" when it comes to public sector intervention?