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# Trade Finance as a Barrier for Chilean Services Internationalization

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## TRADE FINANCE AS A BARRIER FOR CHILEAN SERVICES INTERNATIONALIZATION

SECO/WTI ACADEMIC COOPERATION PROJECT WORKING PAPER

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### ABSTRACT

This paper intends to analyze trade finance access for Chilean services companies, and whether it is perceived as an obstacle in their internationalization process. Through a survey we try to assess companies' perceptions, controlling for their subsectors, size, export level, amongst other variables. The role of financial institutions and government agencies will be included in the study. The first section reviews the relevant literature on trade finance. In the second section, we present an overview of trade finance for services exports instruments available in the main world economies. The third section will present the methodological approach, results of the survey and its analysis. Finally, some conclusions and policy recommendations will be drawn.

### KEY WORDS

Trade finance, services internationalization, Chile

### JEL Classification

F23 – M16 – O14



## INTRODUCTION

For decades, international trade has been predominately driven by goods. The share of services exchange was for a time insignificant (except for transport and tourism), being characterized as a mainly non-tradable sector. Now, services are becoming increasingly important in worlds trade showing their own dynamism and characteristics. The changes in production, the arise of new technologies and the increase liberalization and removal of domestic barriers have allowed that now-a-days services account for at least 20% of global world trade, despite the remaining problems regarding their classification and measuring (WTO, 2015), and have shown much less volatility than trade in goods, particularly during economic turndowns (Borchert & Mattoo, 2010).

Services have their own characteristics, which play a fundamental role in the way a firm will engage in international markets. In the literature various models and conceptual frameworks have been developed for services (Cicic, Patterson, & Shoham, 1999) and specific sectors (McQuillan & Scott, 2015) in order to capture these unique characteristics, most from marketing perspective (Grönroos, 1999, 2016; Javalgi & Martin, 2007). Some studies have review the impact of technology and other changes in the rapid internationalization of services firms (Miozzo & Soete, 2001)

Also, an important body of the literature has tried to identify those obstacles and barriers faced by services exporters, particularly SMEs (OECD, 2009). Traditional barriers usually refer to the lack of data and governmental policies to protect domestic providers (Borchert, Gootiiz, & Mattoo, 2013; Samiee, 1999). Other works have studied firms own characteristics and their impact in internationalization success (Bianchi, 2009; Brush, Edelman, & Manolova, 2015; Gaur, Kumar, & Singh, 2014; Javalgi & Grossman, 2014; O'Farrell, Zheng, & Wood, 1996; Shaw & Darroch, 2004). But one of the most important problems identified that firms must face when becoming global is the access to financial resources, particularly for export and import operations (Schmidt-Eisenlohr, 2011). This problem becomes particularly relevant for services businesses as they do not have large assets as liability for traditional financial system operators. Therefore, a large number of companies do not involve in international trade or have to do it using their own resources, limiting their expansion possibilities. This problem is faced by both goods and services firms, particularly SMEs in developing countries. Various attempts have been made in order to expand the access to financial instruments for these companies, including Aid-for-Trade initiatives (Auboin, 2007; Malouche, 2009) but is still an important obstacle in internationalization processes.

As noted by Auboin and Engemann (2013, p. 4), “there are two main reasons for which international trade may carry larger financial constraints than domestic trade. First, international transactions involve a higher level and number of risks, such as the exchange rate risk, the political and non-payment risks. Second, internationally active firms have larger financing needs, explained in particular by the time lag between actual production of the good and its delivery”. Due to these characteristics, various financial instruments have developed over time to overcome the risks and delays faced by international transactions. As defined by Ahn, Amity, and Weinstein (2011), trade finance may be understand as borrowing using trade credit (accounts receivable) as collateral and/or the purchase of insurance against the possibility of trade credit defaults. We may summarize these

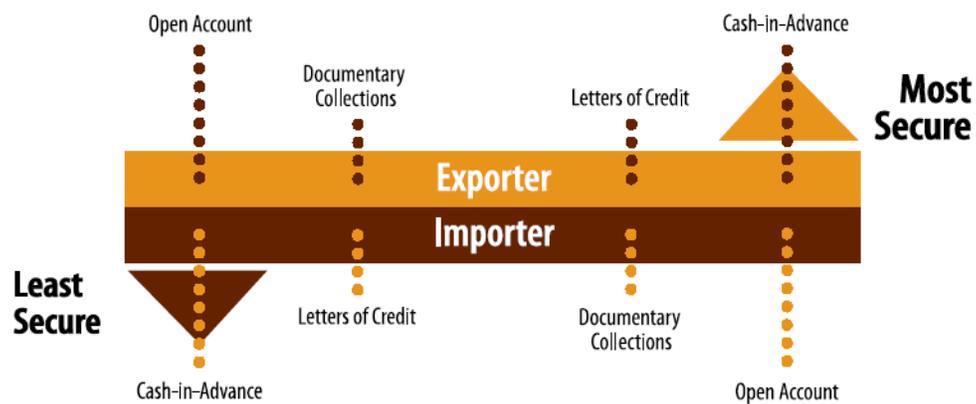
instruments in payments (cash operations, letter of credit, document collections and open accounts), insurance (export credit, foreign exchange & other insurance schemes) and working capital (working capital, factoring and other loans directed to exports production).

Payment Instruments

Amongst the most common payment instruments used in international transactions, we find cash operations, letter of credit, document collections and open accounts. In cash operations, importers will need to pay in advance for the products. Letters of credit (LC) and document collections (D/C) involve bank instruments. A LC is a commitment by a bank on behalf of the buyer that payment will be made to the exporter, provided that the terms and conditions stated in it have been met, while D/C is a transaction whereby the exporter entrusts the collection of a payment to the remitting bank (exporter’s bank), which sends documents to a collecting bank (importer’s bank), along with instructions for payment (U.S. Department of Commerce, 2008).

Once parties involved in an international exchange agree on a payment method, the selected method will have associated risks, which will differ between exporter and importer. As stated by the U.S. Department of Commerce (2008), For exporters, any sale is a gift until payment is received & for importers, any payment is a donation until the goods are received. As shown in figure 1, payment instruments may be ranked according to the inherited default risk for exporters and importers. The distribution of the risk is a sum zero game, where the greater one’s risk, the lower the counterpart’s risk.

**Figure 1: Payment Risk Diagram**



Source: U.S. Department of Commerce (2008)

Insurance instruments

A second trade finance market is insurances. Focusing on reduce the risk of non-payment due to commercial problems of the importer export credit insurance cover situations such as default, insolvency or bankruptcy. There has also been developed a market against “political losses”, those derived from wars, nationalizations, etc. Exchange rate fluctuation may also be covered by foreign exchange insurances.

### Working capital

Schemes to provide companies with funds to operate and generate new products and services for international markets. Factoring and loans for production may be included.

Despite its growing importance, little research has been done on the impact of trade finance on services exports, as most literature has focused on merchandise flows. This paper intends to analyze trade finance access for Chilean services companies, and whether it is perceived as an obstacle in their internationalization process. Through a survey we try to assess companies' perceptions, controlling for their subsectors, size, export level, amongst other variables. The role of financial institutions and government agencies will be included in the study.

After this introduction, the first section reviews the relevant literature exploring trade finance. In the second section, we present an overview of trade finance for services exports instruments available in the main world economies. The third section will present the methodological approach, results of the survey and its analysis. Finally, some conclusions and policy recommendations will be drawn.

## **TRADE FINANCE: LITERATURE REVIEW**

Trade finance has been understood from different strands, as various theoretical approaches have been developed to recognize the role of trade finance on international trade flows. From a single entity approach, studies have reviewed the trade-off between financing costs and contracting environments trying to look for optimal finance trade transactions. Other papers have focused on the use of credits between firms, and how these are substitutes for formal financial institutions (banks/insurance companies). On a macro view, the impact of financial market conditions and international trade has also been studied. On an empirical approach, access to trade finance instruments has been analyzed as a barrier for SMEs internationalization processes, particularly for developing economies.

Some papers have analyzed domestic financial constraints on entry in a heterogeneous firm trade and export volumes (Chaney, 2016; Manova, 2013). Liquidity constraints prevent firms to engage in international trade, therefore, financial underdevelopment hinders exports. Schmidt-Eisenlohr (2013) develops a model to understand the optimal choice between three payment contracts (Cash in Advance, Open Account and Letter of Credit). It concludes that both domestic and destination legal and financial conditions are relevant, and the election of payment contract will have effects on "trade prices, quantities and patterns and that the ability to switch between contracts can mitigate adverse effects of financial crises on trade".

Empirically, evidence suggest that credit constrains have a negative impact over exporting firms performance (Greenaway, Guariglia, & Kneller, 2007; Muûls, 2015; Paravisini, Rappoport, Schnabl, & Wolfenzon, 2015). Wagner (2014) presents a literature review on papers addressing how credit constraints affect exports using firm-level data. Although he finds out that financial constraints are important for the export decisions of firms, some issues for future research are raised: the use of indirect measures, non-comparability of results due to differences in the empirical

models, limitations due to the availability of sound measures of credit constraints for smaller firms and the number of exporters and time spans tend to be small for generalizing conclusion. Auboin (2007), in a pre-crisis period prove that trade finance is providing fluidity and security to the movement of goods and services worldwide.

The liquidity contraction and limited financial credit availability have become some of the main reasons behind trade collapse during the 08-09's financial crisis. "The lack of trade finance is frequently mentioned as one of the reasons for the collapse in trade in 2008" (Auboin & Engemann, 2013, p. 3). Ahn et al. (2011) show that "exporters whose financial institutions became unhealthy cut back on exports more than other firms, and imports declined more in sectors that had greater external financial dependence". Ahn (2011) developed a general equilibrium model to understand trade's sensitivity to financial shocks. A series of papers have analyzed the effects of trade finance contraction on trade flows due to 2008 financial crisis, finding that this extended the effect of the crisis and recommending policies to overcome them (Auboin, 2009; Chauffour & Farole, 2009). Ronci (2004, p. 16) estimates that while trade finance affects positively both export and import volumes in, trade financing explains a relatively small part of the fall of trade flows in recent crises as elasticities of trade volumes with respect to trade financing are small, while a fall in trade financing in connection with domestic banking crisis can lead to a substantial loss of trade. This is consistent with Asmundson, Dorsey, Khachatryan, Niculcea, and Saito (2011) who argue that although financial constrains played a role in the decline of merchandise exports, demand factors are the main cause.

Country, or region, specific case studies have also been developed to understand the relevance of trade finance, on exports growth. (Kasseeah, Ancharaz, & Tandrayen-Ragoobur, 2013) research the impact on Mauritius XXX exports, finding that... (Humphrey, 2009) surveyed the impact of trade finance constrains in sub-Saharan African horticulture and garment firms, finding that Exchange rate volatility and demand contractions are the most important effects over their companies revenues and financial stability. Stephens (1998) explore the role of export credit agencies in south East Asia during the Asian Crisis, finding that these agencies did not help to solve the problem. Antras and Foley (2015) using data from a company exporting frozen and refrigerated food products found out that firms having higher cost to obtain external capital are those more needed to finance transactions, firms in weak institutional environments are able to overcome the constraints of such environments if they can establish a relationship with their trading partners, and trade is financed shapes the impact of macroeconomic and financial crises.

Following a qualitative assessment, Bianchi (2009) shows that shortages of financial capital are amongst the main barriers for the internationalization of Chilean services providers. Borchert and Mattoo (2010) showed in a study for India that financial instruments had a lesser impact on services exports during the crisis. Amongst the reasons to sustain this they counted that many services are delivered electronically across borders, advance payments and factoring continue to help meet financing needs, and services are found to be relative independence from debt finance. The authors pointed out that this may be explained as well by the fact that financing working capital poses quite a challenge as nothing tangible is produced that could be used as collateral, becoming a generic problem of services, even before the crisis. Malouche (2009) found out that the global financial

crisis constrained trade finance for exporters and importers in developing countries. In the section referred to Chile, they could set that 67% do not use guarantees or trade credit insurance

Although we may find an abundant literature studying the impact of trade finance on exports, there are still gaps to be filled. Most empirical analysis has focused on goods industries, while studies for services are scarce. This is particularly relevant as evidence points out that a firm with low collateral for secure trade finance instruments (mainly export credits) tend to export less than the rest, which is the case of most services firms in developing economies.

### **Trade finance for services exports: an international comparison**

The increase participation of trade in services in the economies and their low access to credit has led countries to develop different instruments of support. Varied initiatives focused on financing exports are provided by different governmental entities, as the export credit agencies. Because, Chile does not have an institution as one of the industrialized countries have and considering it could be positive for the country, some international experiences with export credit agencies are presented.

The export credit agencies are commonly public entities that provide government-backed loans, coverage, credits, guarantees and insurance to corporations from their home country for exporting. They have mainly three objectives; they aid exporters meet officially supported foreign credit competition. They give financing to foreign buyers when private lenders cannot or will not finance those export sales. Finally, they take risks further those that can be assumed by the private sector. In spite of this, they are not the private sector competition (Krauss, 2011).

Most of the countries have different programs but very few targeting only to services, this makes very complicate to help economies to diversify from traditional exports. Many of them are concentrated in small and medium enterprises, (SMEs) and they normally replace banks when they are not able to support exporters. This is very often services companies need, as a result that they do not have any collateral capital to get credits from the formal financial sector (Stephens, 1999). Services are the case where public intervention in financial markets is justified when substantial and determined externalities or market failures are present (Chauffour, Saborowski, & Soylemezoglu, 2011).

In OCDE countries they are between the biggest sources of public financial support for foreign corporate involvement in industrial projects in the developing world. most important differences between focus on how financial support is structured, whether the operations are financed directly or if they provide the support for the private sector to finance (Naredo, Minguela, & Rubio, 2010). At OCDE there is a special "Working Party on Export Credits and Credit Guarantees". Which is responsible for carrying forward the work of the OECD in the field of export credits. Most OECD countries belong to it except Chile and Iceland.

In 2016 the export credits agencies financed approximately \$400 billion of exports and business transactions. Close to \$50 billion was used for different projects in developing countries and emerging markets. There is also \$14 billion of insurance in new foreign direct investments, regional development banks, the World Bank, and multilateral and bilateral aid (Investopedia, 2017).

ECAs have some opposition to its existence, for being considered socially harmful mainly because trade subsidies that benefit neither the ECA country nor the recipient countries (ECAwacht, 2017). For this reason, some authors suggest that these agencies should be guided by strict rules in order to prevent the crushing debt, human rights abuses, corruption, environmental damage, and other impacts that now frequently accompany ECA activities (Goldzimmer, 2003).

In this section some country study cases are presented, mentioning the programs and the general situation of the agency. These cases were chosen for their characteristics or because the countries are relevant in trade of services. In Table I we presented the organizations and where it is possible to get more information, and in Table II we described the programs.

Australian Government has the Australian Export Credit Agency (EFIC), which is a financier that supports Australian corporations when the banks are not able to do. Their orientation is to small businesses to improve their international insertion and to increase their exports. EFIC concentrates efforts in SMEs but also supports large natural resource projects. Most of their programs started in 1991. In the last three years they supported 262 small businesses providing more than \$350million in financial support.

There are three main programs that help exporters with loans, insurances or guarantees: Small Business Export Loan: which was developed for SMEs to accelerate approvals and give them flexibility, they are online and easy to apply. The Export Contract Loan provides capital to fund an export contract, is a security to borrow working capital from banks. The Capital Guarantee and Guarantee or Bond they provide a purchaser or the bank the security of a guarantee if there is a failure by the seller failure to meet its contractual obligation. In the importers side they help them with a documentary credit that allows receiving the export contract payments due to you by moving the payment risk of your contract from your overseas buyer to your buyer's bank. They do not specify any just for services, but there is no collateral payments or any limitation, and there are some cases exposed regarding services. They have

The Canadian Export Credit Agency (EDC) has as its main objective to support and develop Canadian companies and help them to take advantage of international business opportunities. They are self-financing Crown Corporation that operates with the Government. They provide different insurances: credit, contract frustration, political risk, surety bond that protects your surety company from losses if your customer demands payment against that bond. Also, there are different instruments as that shares the risk and security by providing a bank guarantee. The Account Performance Security Guarantee, the Performance Security Insurance and the Foreign Exchange Facility Guarantee. They do not make any clear difference with services.

The export credit agency for France the Compagnie Française d'Assurance pour le Commerce Extérieur. It was created in 1946. This agency provides export insurance and guarantees. Although it does not have a broad portfolio of instruments, it provides guarantees to provide professional services, required in certain countries. As the credit insurance for SMEs: against unpaid invoices and other credit that protects against the risk of non-payment of receivables. Mainly for services they have guarantees for regulated professions.

The Foreign Trade and Investment Promotion Scheme of the Federal Republic of Germany is appointed by the German government to manage foreign trade and investment promotion schemes. This scheme offers insurance for exports and internationalization of companies. It is remarkable to note that there is a clear differentiation between goods and services. For example, German exporters of services have insurance for breach of contract, for a specific transaction or several. The other programme evidently directed to services is the insurance for construction services.

They offer credits, for suppliers to enable German exporters to insure trade receivables arising from a single export transaction delivery for goods and services. They have a specific program that provides credit cover for service providers, for services that are not linked to export goods. Revolving Supplier Credit Cover for short-term trade receivables Manufacturing Risk Cover to insure production costs incurred in connection with an export contract. Leasing cover to be protected against the loss of the amounts owing from a foreign lessee under a cross-border lease. Contract Bond Cover to insure against the politically occasioned or unfair calling of a bond required by the foreign buyer to ensure the exporter's satisfactory performance of the contract. Constructional works cover to insure their exporters for the risks arising in connection with the performance of construction contracts abroad. Finally, Whole turnover Policy Light is a cost-effective and easily manageable tool for German exporters supplying goods to several buyers in different countries to insure short-term receivables Whole turnover Policy a cost-effective and easily manageable tool for German exporters repeatedly supplying goods and/or services to several buyers in different countries to insure short-term receivables.

Israel is ranked as one of the world top exporters of services. The Israel Export Insurance Corp. Ltd. (ASHRA) is a government-owned company established in 1957 to encourage exports from Israel. ASHRA is a g foreign trade risks insurance company , it is able to handle and insure risks that banks and other financial institutions are unable to cope with.

Regarding export financing they have: Promissory Notes – Forfeiting where the an exporter holding promissory notes from the buyer as payment for the exported goods is occasionally interested in raising funds by selling these notes to a bank and transforming a credit transaction into a cash transaction. This policy covers a risk of non-payment of the notes. Letter of Credit – L/C Confirmation covers a risk of non-payment by a bank that has issued a Letter of Credit to the exporter. The insured is the confirming bank. Pre-Shipment – Export Contract enables the exporter to obtain compensation from the Corporation if it is adversely affected by the cancellation of the order. Finally, it is a policy to protect investment form nationalization, confiscation, expropriation and similar discriminatory acts of the authorities of host country.

And form imports financing they have the credit line where the bank provides the loan to the buyer's bank overseas which then becomes the debtor and carrier of the risk, and the overseas bank provides the loan to the final buyer, and the buyer credit that guarantees repayment of the loan by the buyer to the bank according to the amount of insurance and the percentage of coverage. It is also the Yozma Group a venture capital firm created by the government in 1993, that focuses on the investment of early-stage startups of communications, IT and medical technologies sectors.

The Swedish Exports Credit for goods and services export supports. It is a government agency that offers its exporters long-term financial solutions and acts as a complement to banks. Even though they do establish programs just for services their policy has been very constant in order to support them, so strategies are clearly defined and the agency understand the limitation that an exporter of services faces. It has an important focus on lending to international buyers of Swedish services

The Nippon Export and Investment Insurance (NEXI) is an agency mainly focused on export insurance and export credit insurance. Even though this agency does not discriminate between exporters of goods and services, there are insurance plans designed to cover risks in the provision of services such as those related to construction. There is also the Japan Bank for International Cooperation which is a financial entity that lends, invests and guarantees operations while complementing the private sector.

Whereas the Mexican Bank for Development BANCOMEXT specifies strategic sectors that have priority to provide them with assistance and support, including some related to services: Aerospace, Automotive and auto parts, Electrical – Electronic, Energetic, Textile factory and industrial buildings, Mining – Metalworking, Telecommunications, Transport and logistics, Tourism. It can be seen that sectors are limited so other services may not be covered by these benefits. In relation to credits and letters of credit, it is specified that the beneficiaries can be companies that export goods and services. With regard to guarantees for the buyer, the bank provides guarantees for goods and services exported by Mexican suppliers. The problem is that for any financing instrument the exporter must have a source of payment and show moral and creditworthiness and in the evaluation of service credit, the most important issue is financial solvency.

The UK Export Finance Agency mission is to ensure that any UK export does not have any problem for not having finance or insurance. They have a defined Export Insurance Policy that insures an exporter against the risk of not being paid under an export contract or of not being able to recover the costs of performing that contract because of certain events which prevent its performance or lead to its termination. The policies are oriented to goods and services. There is also the British Business Bank a government owned business development dedicated to make finance markets easily to small and medium enterprises.

The Export-Import Bank of the United States (Ex-Im Bank) provides insurance and guarantees to facilitate access to credit, protecting the exporter of goods and services against the risk of non-payment. Only in the case of consigned goods, the EXIM offers direct financial support. Extends the credit conditions to the foreign clients of the small and medium enterprises and insure against default by international buyers



**TABLE I. Export Credit Agencies Information. Selected economies**

LOGO	COUNTRY/YEAR OF CREATION/PUBLIC OR PRIVATE	AGENCY	WEB PAGE/ EXPORT SERVICES SPECIFICATION
	<b>AUSTRALIA</b> Public: Australian Government's Foreign Affairs and Trade Portfolio and the Minister for Trade, Tourism and Investment 1991	Export Finance Insurance Corporation (EFIC)	<a href="http://www.efic.gov.au">www.efic.gov.au</a> Goods and services
	<b>CANADÁ</b> Public: Government of Canada 1994	Export Development Canada (EDC)	<a href="http://www.edc.ca/">www.edc.ca/</a> Goods and services
	<b>FRANCE</b> Public-Private 1946	Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE)	<a href="http://www.coface.fr">www.coface.fr</a> Goods and services
	<b>GERMANY</b> Public-Private	Foreign Trade and Investment Promotion Scheme of the Federal Republic of Germany	<a href="http://www.agaportal.de/">www.agaportal.de/</a> Services specified
	<b>ISRAEL</b> Public 1957	Israel Export Insurance Corp. Ltd. (ASHRA)	<a href="http://www.ashra.gov.il/eng">www.ashra.gov.il/eng</a>
	<b>JAPAN</b> Public: Minister of Economy, Trade and Industry 2001	Nippon Export and Investment Insurance (NEXI)	<a href="http://www.exim.gov">www.exim.gov</a>
	<b>MEXICO</b> Public: Secretariat of finance and public credits. 1937	Banco Nacional de Comercio Exterior (Bancomext)	<a href="http://www.bancomext.gob.mx">www.bancomext.gob.mx</a>
	<b>UNITED KINGDOM</b> Public: Ministerial Department	United Kingdom Export Finance	<a href="http://www.ukexportfinance.gov.uk">www.ukexportfinance.gov.uk</a>
	<b>UNITED STATES</b> Public 1934	Export Import Bank of the United States	<a href="http://www.exim.gov">www.exim.gov</a>
	<b>SWEDEN</b> Public SEK was founded jointly by the Swedish government and major Swedish banks in 1962, but since 2003 SEK has been wholly owned by the Swedish government.	Swedish Export Credit Corporation	<a href="http://www.ekn.se">www.ekn.se</a>

**Table II. Main trade finance programs. Selected economies.**

Country	Export financing	Import financing
		Letter of Credit or insurance
Australia	<b>Loans</b>	<b>Letter of Credit</b> A documentary credit allows you to receive the export contract payments due to you by moving the payment risk of your contract from your overseas buyer to your buyer's bank
	<b>Small Business Export Loan:</b> Developed to meet the specific needs of small business exporters by bringing together convenience, accelerated approvals and flexibility.	
	<b>Export Contract Loan:</b> Working capital to fund an export-related contract	
	<b>Insurance</b>	
	<b>Working Capital Guarantee:</b> It can be provided to your bank if you don't have the security that the bank requires to approve further working capital finance.	
	<b>Guarantee</b>	
Canada	<b>Bonds:</b> A Guarantee or Bond provides a purchaser the security of a guarantee if there is a failure by the seller failure to meet its contractual obligation.	
	<b>Loans</b>	<b>Buyer Financing</b> Providing to the international buyers with flexible payment options.
	<b>Direct Lending:</b> Directly to either the Canadian company in support of its international investment or directly to its foreign affiliate, secured by the foreign assets.	
	<b>Insurance</b>	
	<b>Credit Insurance:</b> Accounts Receivable Insurance; Trade credit insurance for all U.S. or foreign accounts receivable	
	<b>Contract Frustration Insurance:</b> Protect a single contract with multi-faceted coverage	
	<b>Political Risk Insurance:</b> Safeguard the value of your overseas assets and Protect your company against non-payment or contract cancellation by a foreign government buyer.	
	<b>Surety Bond Insurance:</b> It protects your surety company from losses if your customer demands payment against that bond.	
<b>Guarantee</b>		
<b>Working Capital Financing Export Guarantee:</b> Program shares the risk and security with the extern by providing a bank guarantee, encouraging them to increase the access to the financing.		
<b>Account Performance Security Guarantee:</b> Posting contractual and financial letters of guarantee related to international contracts.		
<b>Performance Security Insurance:</b> Assurance that it performs to the stipulations of the contract.		
<b>Foreign Exchange Facility Guarantee:</b> Provider agrees to lock in the exchange rate on the contract, removing the foreign exchange risk.		
France	<b>Loans</b>	
	<b>Asset securitization</b> Securitization of your trade receivables amounts to sell these receivables to an assignee, which then develop the structure and to offer them to investors.	
	<b>Insurance</b>	
	<b>Credit insurance for SOHO/SME</b> Easy liner is a credit insurance offer SMEs to protect you against unpaid invoices in France and abroad. These defaults can be a real threat to the sustainability of a business.	
	<b>Credit Insurance for SMEs/ETI</b> It protects against the risk of non-payment of your receivables, whether due to bankruptcy or late payment	
	<b>Guarantee</b>	
<b>Bonds</b>		
Environmental bonds, guarantees for regulated professions, customs or excise bonds		

Germany	<b>Loans</b>	
	-	
	<b>Insurance</b>	
	<b>Supplier credit cover</b> It enables German exporters to insure trade receivables arising from a single export transaction (delivery of goods or rendering of services).	
	<b>Export Credit Cover for Service Providers</b> A German exporter can insure accounts receivable arising from an export transaction for the rendering of services which are not linked to the export of goods.	
	<b>Manufacturing Risk Cover</b> It enables German exporters to insure production costs incurred in connection with an export contract.	
	<b>Leasing cover</b> A German lessor (manufacturer/exporter or leasing company) protects himself against the loss of the amounts owing from a foreign lessee under a cross-border lease.	
	<b>Revolving Supplier Credit Cover</b> It covers short-term trade receivables due to a German exporter as a result of supplies of goods and/or services to a foreign buyer on a continuous basis.	
	<b>Wholturnover Policy Light (APG-light)</b> It is a cost-effective and easily manageable tool for German exporters supplying goods to several buyers in different countries to insure short-term receivables (credit terms of up to 4 months).	
	<b>Wholturnover Policy (APG)</b> It is a cost-effective and easily manageable tool for German exporters repeatedly supplying goods and/or services to several buyers in different countries to insure short-term receivables (credit terms of up to 12 months).	
<b>Contract Bond Cover</b> By taking out contract bond cover, a German exporter may insure himself against the politically occasioned or unfair calling of a bond required by the foreign buyer to ensure the exporter's satisfactory performance of the contract.		
<b>Constructional works cover</b> A German exporter can insure the typical risks arising in connection with the performance of construction contracts abroad.		
<b>Guarantee</b>		
<b>Buyer credit cover</b> It enables banks to insure their receivables arising from the financing of a German export transaction.		
<b>Credit Confirmation Risk Cover</b> With buyer credit cover against credit confirmation risks a bank insures itself against the risks involved in the confirmation of a letter of credit that has been issued to finance an export transaction of a German company.		
Israel	<b>Loans</b>	<b>Credit Line- Loan Agreement</b>
	<b>Promissory Notes – Forfeiting</b> An exporter holding promissory notes from the buyer as payment for the exported goods is occasionally interested in raising funds by selling these notes to a bank and transforming a credit transaction into a cash transaction. This policy covers a risk of non-payment of the notes. In such a case, the insured is the bank that buys the promissory notes from the exporter.	The bank provides the loan to the buyer's bank overseas which then becomes the debtor and carrier of the risk, and the overseas bank provides the loan to the final buyer. Buyer credit - Loan Agreement
	<b>Insurance</b>	ECA, guarantees repayment of the loan by the buyer to the bank according to the amount of insurance and the percentage of coverage
	<b>Letter of Credit – L/C Confirmation</b> This policy covers a risk of non-payment by a bank that has issued a Letter of Credit to the exporter. The insured is the confirming bank.	
	<b>Pre-Shipment – Export Contract</b> Enables the exporter to obtain compensation from the Corporation if he is adversely affected by the cancellation of the order.	
	<b>Policy to protect investment</b> Nationalization, confiscation, expropriation and similar discriminatory acts of the authorities of host countries by which the policyholder is unable to exercise his rights attached to his investment.	
<b>Guarantee</b>		
-		

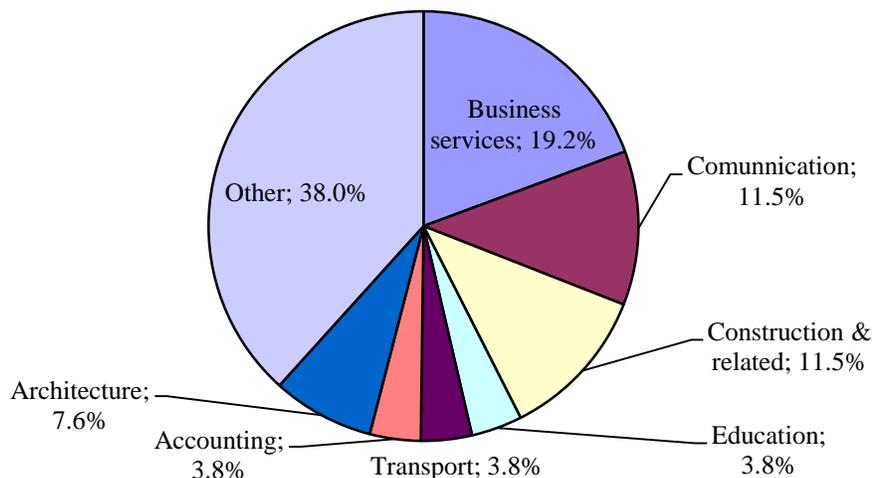
Japan	<b>Loans</b>	<b>Buyer's Credit Insurance</b> This insurance covers losses suffered by a Japanese commercial bank or other financial institution as a result of providing loans to a foreign importer who purchases goods and services from a Japanese exporter.
	-	
	<b>Insurance</b>	
	<b>Export Credit Insurance</b> This insurance covers losses incurred when a Japanese company undertaking export, intermediary trade, or providing technical cooperation, such as construction work, is unable to export the goods.	
	<b>Export Credit Insurance for SMEs and AFF Sector</b> This insurance exclusively supports the export activities of Japanese SMEs (small- and medium-sized enterprises) and organizations related to agriculture, forestry and fisheries. It covers losses incurred due to inability to collect receivables.	
	<b>Trade Insurance for Standing Orders from Specific Buyer</b> This insurance is suitable for transactions with a buyer or buyers to whom a Japanese exporter repeatedly supplies products.	
	<b>Export Bill Insurance</b> This insurance covers losses suffered by a Japanese commercial bank that negotiates documentary bills of exchange drawn without an L/C for export payments.	
<b>Overseas Investment Insurance</b> This insurance covers losses suffered by a Japanese company with a subsidiary or a joint venture in a foreign country.		
<b>Investment and Loan Insurance for Natural Resources and Energy</b> This insurance covers risks linked to overseas resources development projects. NEXI further strengthens support for Japanese companies' activities from a perspective of securing a stable natural resource supply.		
<b>Guarantee</b>		
-		
Mexico	<b>Loans</b>	<b>Buyer's Guarantees</b> Mexican exporters that need to offer financing options for purchasing Mexican products and/or services to their foreign clients.
	Working capital and equipment. Loans for financing needs of firms in conducting production activities associated with foreign trade and foreign currency generation.	
	<b>International factoring</b> Management of credit through the sale of its accounts receivable	
	<b>Insurance</b>	
	<b>Export Import letters of credit</b> In the case of exports, Bancomext only figures as an intermediary bank	
	<b>Guarantee</b>	
-		
Sweden	<b>Loans</b>	
	<b>Accounts Receivables</b> Acquisition of accounts receivables from export sales, with the aim of freeing up capital and improve the liquidity of the company.	
	<b>Insurance</b>	
	<b>Credit</b> The exporter is paid on delivery, while the buyer pays the credit quarterly from 2 to 5 years	
	<b>Guarantee</b>	
	<b>Insurance by European Fund for SMES</b> Covers part of intermediary financial losses, premises in loans, leases and guarantees	

United States	<p><b>Loans</b></p> <p><b>Export Working Capital Financing (EWC)</b> EWC financing helps exporters of consigned goods have access to financing and credit while waiting for payment from the foreign distributor.</p> <p><b>Government-Guaranteed Export Working Capital Loan Programs</b> EXIM doesn't replace an exporter's bank; it works with lenders to provide a loan guarantee that backs the borrower's debt in the event something goes awry.</p> <p><b>Export factoring</b> is a complete financial package that combines export working capital financing, credit protection; foreign accounts receivable bookkeeping, and collection services. A factoring house, or factor, is a bank or a specialized financial firm that performs financing through the purchase of invoices or accounts receivable.</p> <hr/> <p><b>Insurance</b></p> <p><b>Export credit insurance (ECI)</b> Protects an exporter of products and services against the risk of non-payment by a foreign buyer. ECI also covers currency inconvertibility, expropriation, and changes in import or export regulations</p> <p><b>Forfeiting</b> Forfeitters typically work with exporters who sell capital goods and commodities, or engage in large projects and therefore need to offer extended credit periods from 180 days to seven years or more.</p> <p><b>Government-Backed Agricultural Export Financing</b> Department of Agriculture (USDA). USDA's Foreign Agricultural Service (FAS) is responsible for the operation of two credit guarantee programs for commercial financing of U.S. agricultural exports and related facilities—the Export Credit Guarantee (GSM-102) Program and the Facilities Guarantee Program (FGP)</p> <hr/> <p><b>Guarantee</b></p> <p>-</p>	<p><b>Buyer Financing</b> Financing for international buyers of U.S. goods and services.</p>
United Kingdom	<p><b>Loans</b></p> <p><b>Strat up loan:</b> Loan for less than 25,000 pounds contracts. Small business export loan. <b>Loan to finance expansion</b></p> <hr/> <p><b>Insurance</b></p> <p>-</p> <hr/> <p><b>Guarantee</b></p> <p><b>Working capital:</b> Given to a bank that works as a security to approve further working capital finance.</p>	

## Chilean services exports & trade finance: an overview

As stated before, most studies regarding trade finances access and effects have been based on good firms, leaving behind studies focusing on services companies. Due to their characteristics, services firms have less access to the financial system, as companies usually do not have collateral to secure financial operations. In order to fill the gap in literature and understand trade finance instruments access of services firms, we conducted a survey to Chilean services companies. The survey was composed of three parts: firms' characterization, exports' characterization and trade finance instrument access. Figure I present firms' main service sector.

**Figure I. Firms main sector**



Source: Authors' elaboration

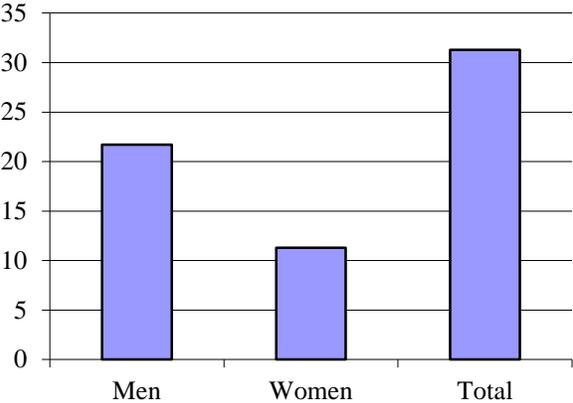
With respect to the employees number, Figure II presents the mean number of employees for the sample and their distribution. We can emphasize that 80% of the companies in the sample have less than 50 employees; with an average of 10. The number of men employees doubled the woman ones, with only 30% of companies having more or equal number of women and men in their payroll.

In order to characterize the companies according to their size, they were consulted for their total annual turnover, including both their sales in Chile and their exports. With these data, the companies were classified according to the following scale, as defined by the Chilean Internal Revenue Service:

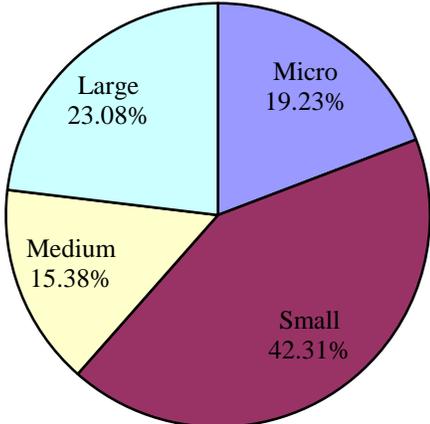
- Micro companies: Billing between US\$ 0 – US\$ 1,600,000;
- Small companies: Billing between US\$ 1,600,00 and US\$ 16,675,000;
- Medium companies: Billing between US\$ 16,675,000 and US\$ 66,700,000;
- Large companies: Billing more than US\$ 66,700,000.

Figure III shows the distribution of the sample companies according to the amounts of annual turnover. The highest percentage of them, 61.54%, is comprised of micro and small companies, which is consistent with the number of employees hired in them.

**Figure II. Average employees**



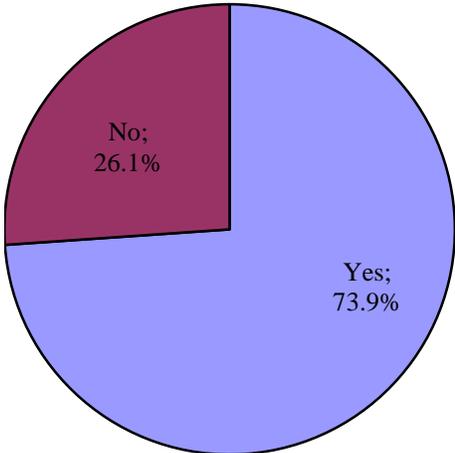
**Figure III. Total annual firms' turnover**



Source: Authors' elaboration

As seen on Figure IV, out of the total number of companies, 26.1% do not export services. Non exporting companies are concentrated amongst small and micro firms. They argued as the main reason the lack of financial resources to reach foreign markets. Likewise, ignorance of the markets and in particular of their potential to enter those markets, generate local networks and seek strategic partners and alliances. On the other hand, there are companies that have no interest in exporting, either because they are in the process of consolidating the domestic market or because the nature of their service they are not allowed, as in the case of companies that represent foreign firms in Chile.

**Figure IV. Exporting companies**

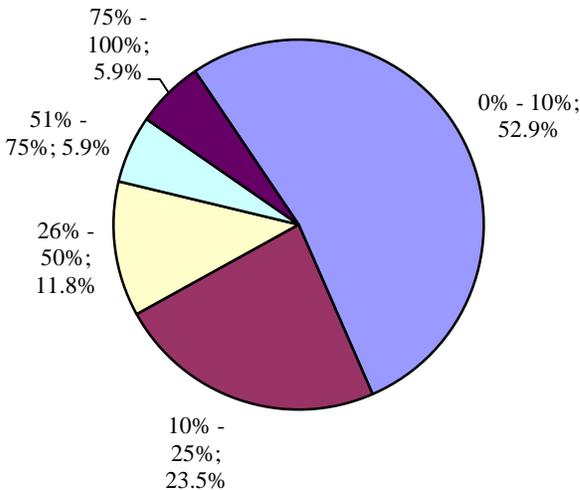


Source: Authors' elaboration

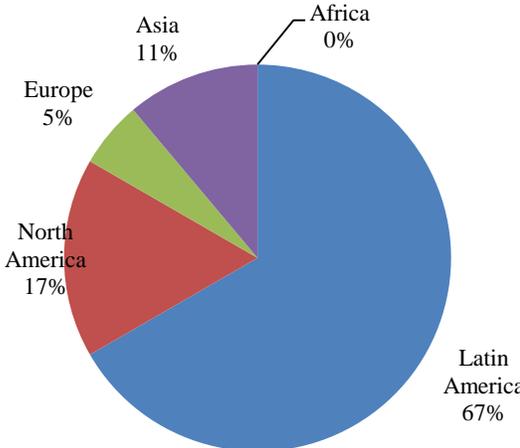
For the companies that have achieved internationalization, the percentage of their exports is still small compared to sales. Among those surveyed, more than 50% declares that exports represents less than 10% of their total turnover. Only 11% of the firms declares that exports represents over 50% of their total sells (Figure V).

When analyzing the destination markets of their exports (Figure VI), we may find an important concentration in Latin America (67%), followed by North America (17%), Asia (11%) and Europe (5%). It is interesting that when asked about which markets firms would like to enter in the near future, Latin American countries are again the main preference, followed by United States and European economies.

**Figure V. Exports percentage on total turnover**



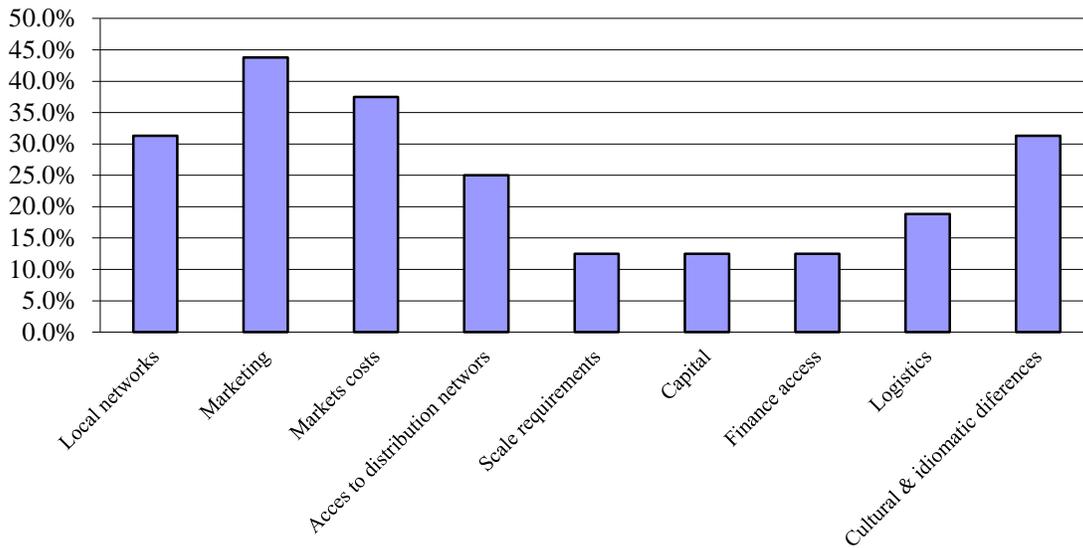
**Figure VI. Exports destination**



Source: Authors' elaboration

Companies were also asked about the main barriers they face to export. As shown in Figure VII, marketing, market costs, local networks and cultural and idiomatic differences are perceived as the most problems companies face when trying to export their services. To a lesser extent, logistics, access to distribution networks and financial access were mentioned. When analyzing the perception of the companies on the main barriers that will face the year 2018, we can see some differences in the answers according to the size of each one of the companies. First, with regard to access to financing, it is relevant to note that this problem affects more intensely the small companies, while most of the companies with turnover below USD \$ 16,000,000 affirm that access to financial instruments is a potential barrier to their operations, only 33% of large companies believe that access to financing could limit their operations.

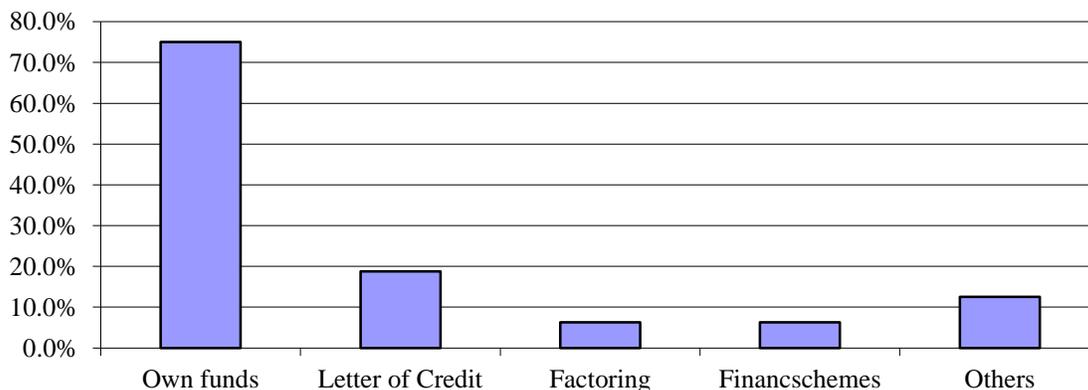
**Figure VII. Main barriers to export perceived**



Source: Authors' elaboration

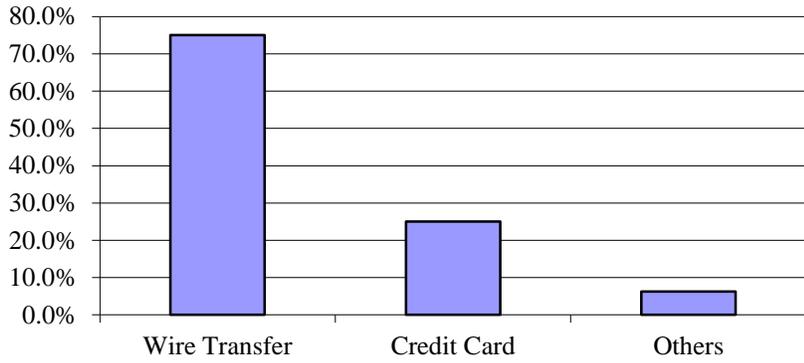
Capital and financial access may not be perceived amongst the main barriers, because, as shown in Figure VIII, when analyzing the way firms finance their international trade operations, we may find that most companies may only engage in foreign transaction when own funds allow them to explore these opportunities (over 70%). As comparison, in countries such as Ireland, less than 50% of companies use own resources for internationalization processes. Financial instruments such as letter of credit account for less than 20% of firms. When consulting on the payment form of their exports, more than 70% use wire transfer and lesser the credit card (Figure IX.). As shown in Figure X, most transactions are paid between 30 and 60 days, bearing the risk of insolvency from the client; and US dollar continues to be the most used currency for foreign transaction (Figure XI), while Euro represents a small share, mainly linked with operations made with economies in the Euro zone (especially Spain).

**Figure VIII. Which are the financial instruments that you firm utilize for exporting?**



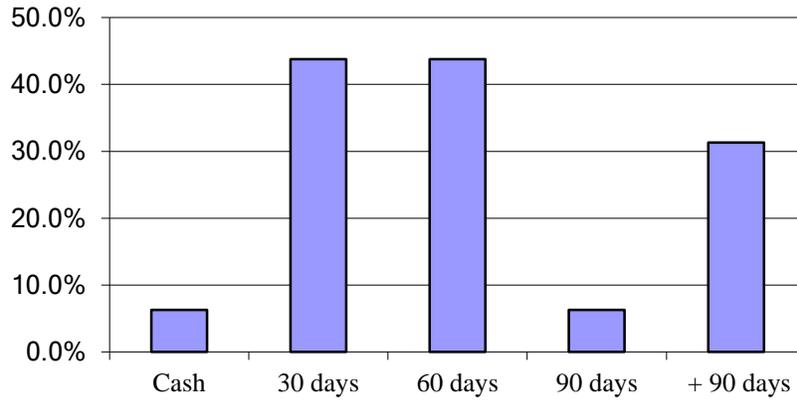
Source: Authors' elaboration

**Figure IX. Services exports payment forms**



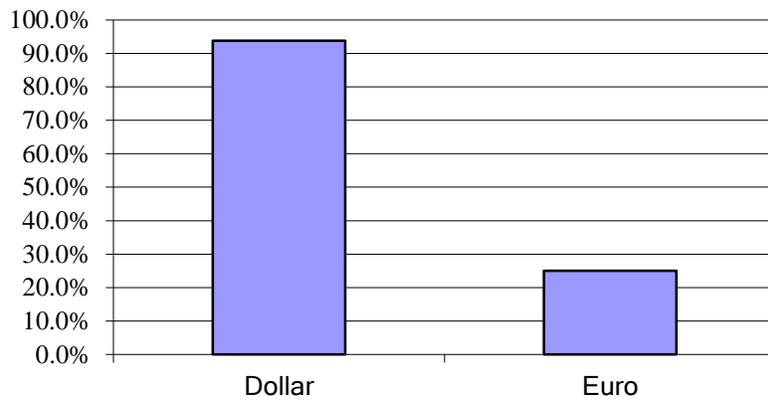
Source: Authors' elaboration

**Figure X. Payments terms**



Source: Authors' elaboration

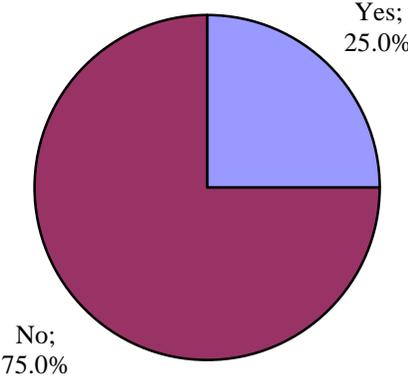
**Figure XI. Foreign payments currencies**



Source: Authors' elaboration

And most of them do not hire foreign exchange insurances (Figure XII). In Ireland, insurance penetration is very low, at 18%, but India, for example, has a highly developed credit insurance market mainly focused on exporting services, with products developed to deal with the particularities of the sector. In Chile, on the one hand, there are companies that, due to the nature of their services, have secure payment guarantees, such as temporary licenses or communication flows. On the other hand, ignorance of insurance may have as a consequence what can be observed that the companies that export services have concentrated their sales on few clients but whose reliability in payment is very high, such as large multinational companies, Chilean retail, among others or in working with foreign parent companies.

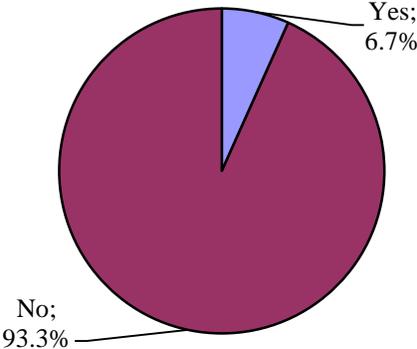
**Figure XII. Do you use foreign exchange insurances**



Source: Authors' elaboration

With respect to credit insurance, over 90% of the total sample does not know this type of protection, and the rest no one uses them in its export process. In addition to ignorance, problems are identified in the contracts as a result of the complexities implied in them or that the costs are still very high for the amounts that are handled. The development of credit insurance has, along with the advantages of the protection granted, that can be considered as guarantees for obtaining credits and, in some cases, serve as an incentive for companies to explore riskier markets.

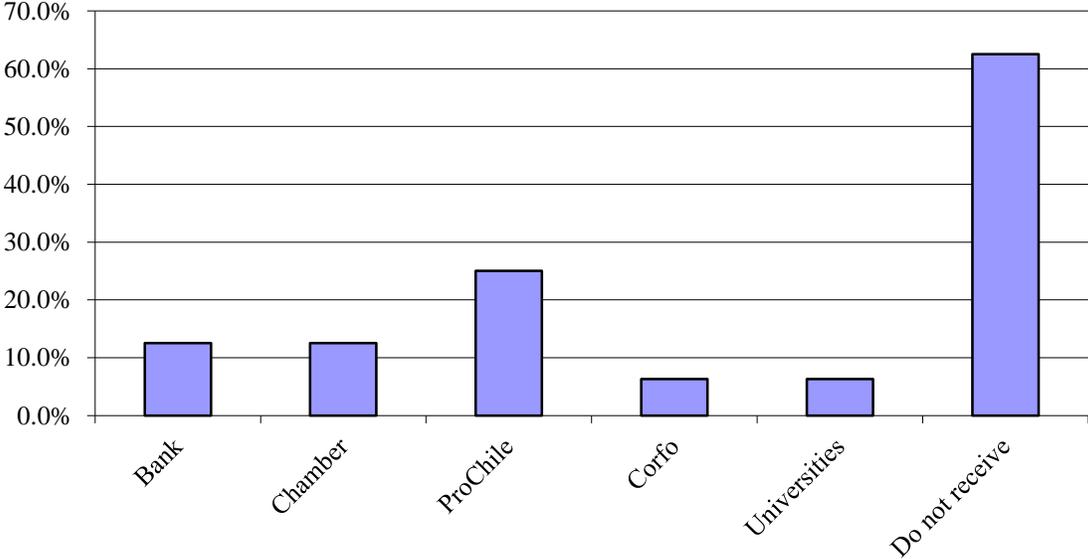
**Figure XIII. Do you know credit insurances for services exports?**



Source: Authors' elaboration

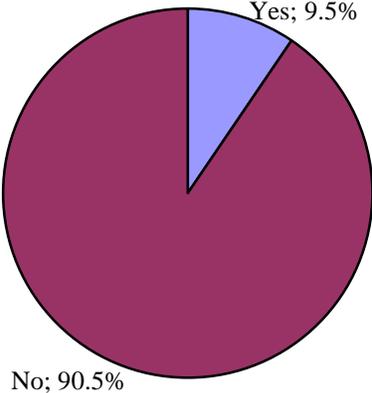
Finally, regarding the export support that they received, they were consulted from which institution they have it. More than 60% do not receive any support. ProChile is the most mentioned entity as seen in Figure XIV. They were also asked about one specific program regarding trade finance, COBEX by Corfo (Figure XV). Over 90% of the sample does not know this program, which helps firms engaging in international trade transaction to access financial system when they do not have enough collateral. This may in part explain the lower share of companies that subscribe credit insurance, as most of them do not know the existence of this kind of schemes.

**Figure XIV. Which institution supports you to export?**



Source: Authors' elaboration

**Figure XV. Do you know the Corfo Guarantees for Trade (COBEX)?**



Source: Authors' elaboration

In general, we can appreciate that the problem of access to sources of financing for the development of the export process of services companies is relevant. Also, we can conclude that this problem crosses all companies, regardless of size or category. On the other hand, there is a strong ignorance on the part of businessmen of possible sources of financing, both internal and external, and, above all, other financial instruments such as credit insurance.

### **Final remarks**

As it is highly recognized exporting services is more complex for its own characteristics, one of them is the difficulty to get in to the financial markets mechanism. Increasing services is one of the key factors for develop, diversify and to participate in global value chains. For this reason, most of the industrialized countries have Export Credit Agencies which offer mainly insurance to support export contracts and guarantees for the allocation of credits (by another financial institution) to the importer / exporter. However, direct financing, through credits for the export of goods and services, is limited.

As we have seen the majority of export initiatives target goods and services, and it is very difficult to find only directed to services, neither of them are concentrated in specific sectors. Some of the agencies specify in their offer of credits, which do not compete with private financial institutions, only intervene in the event that the bank of the exporter cannot provide financial support required for one or more Exports. For example in the case of Australia, where they provide you help when the bank not. Israel has a similar scheme, but it has a very large insurances strategies. Some demand a collateral payment, which makes again impossible for services exporters to get a credit, loan or insurance under that condition. We revised some other Latin American countries, but for example Colombia they are still highly concentrated in the traditional sectors, Peru has a very weak structure and we did not find direct financing for services, in Uruguay there are many financial products but they are still few and Brazil has some interesting experiences that we did not analyzed here.

As reviewed for Chile, finance is a barrier for developing an export services sector. But it's unclear the origin of the problem. One may state that traditional banking system often is biased against services industry as they do not have collaterals and tangible assets to secure operations. But when reviewing the actual reality of services exporters we may find a big ignorance of available instruments to finance international trade transactions, both private and public. There is a market failure in financial markets, and therefore the State should intervene, as is been done through Export Credit Agencies, in which Chile should invest more. But there is also an important and growing information asymmetry problem, to which the State should also pay attention and be able to expand the number of firms using these instruments.

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