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Finance and Investment: The Practitioners' Perspectives (2)

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ASSET-BASED FINANCING IN THE SPACE INDUSTRY - LESSONS FROM AVIATION FINANCE
AND MARKET READINESS

Abstract

Even though the size of the global space industry is steadily increasing, the industry's demand for credit and capital is still outweighing supply. This is particularly true for companies in developing countries and in newspace markets, where access to capital is even more constrained.

One form of financing often used in relation to movable assets is that of securing credit against assets themselves, or asset-based financing on a secured transactions model. In this, investors or financiers have greater certainty over their investments, which is preferable, especially considering their levels of exposure within these investments.

This paper will outline secured financing practices in the aviation industry and explore their viability in the space sector, and what alternatives could work in this adjustment of industry. As part of this, the paper will examine the financing models used and the types of interests created, both in domestic and cross-border financing arrangements of space assets. It will also examine the mechanisms through which more such secured transactions can be promoted, and efforts made towards bridging the credit gap found in the industry.

Noting the importance of legislation as an enabler to asset-based financing, and to offer comfort to the industry, this paper will give consideration to domestic and international secured transactions law systems, including the Cape Town Convention and its Protocols relevant to the aviation sector, and the space sector.

The paper will also explore solutions to address the challenges posed by asset-based financing in the space industry. It will examine difficulties in repossessing space assets, efforts made to recover investments through alternative mechanisms, etc.

Additionally the paper will explore the topic of sustainable financing. Recently, there has been a push to take into account economic, social, governance (ESG) factors in all activities. This will be increasingly present in the space sector, pushing towards financing of more sustainable space assets and activities. Asset-based financing has the capacity to enable this. The paper will examine how secured credit in the space sector can reduce the sector's carbon footprint, potentially leading to the creation of a secondary market for space assets, fostering the development of products and services with their own financing schemes, and how this impacts the demand of credit and security.

The paper will conclude with the practical benefits for companies and investors of asset-based financing, as well as understanding how finance and legal are key enablers for the development of the space industry.