WTO–Informal Working Group on MSMEs - World IP Day

WIPO & Intangible Asset Finance

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The potential of intangible asset finance for SMEs

- Account for 90% of businesses and more than 50% of employment worldwide
- Formal SMEs contribute 40% of GDP in emerging economies
- Create 7 out of 10 jobs

- 65 million firms, or 40% of SMEs struggling to access capital in developing countries
- SME credit gap at approx. $5.2 trillion annually in emerging markets
Boosting innovation & IP culture using intangible asset finance

**SMEs make most of the businesses, but most of them lack hard assets**
- Primary asset they have is intangibles
- Kinds of assets that might qualify, not only tech, but also film industry, brands, software, business practices

**Closing the funding gap for young innovative companies**
- Solving challenges to towards keeping innovative companies afloat
- Supporting growth ambitions for economic development
- Facilitates transfer to knowledge-based economy

Underutilized IP assets could provide a solution to close SMEs’ funding gap
Intangible asset finance is already happening

**BIG IDEAS**
**BIG DEALS**

While far from mainstream, IP-backed transactions are becoming more common

- **bdc**: C$160MM Fund
- **Spiber**: ¥25 billion
- **HSBC**: £500MM fund
- **AON**: $400MM Fund + Insurance offering
- **KIPO**: 2+ trillion won
- **American Airlines**: $1 billion
Different ways to use intangible assets to secure capital

| SECURITIZATION | IP assets sold to Special Purpose Vehicle (SPV). SPV creates securities that can be sold to investors |
| COLLATERAL | Security interest in the IP is taken. If the company defaults/fails, the lender or investor can liquidate the IP assets |
| SALE AND LEASEBACK | ENHANCED CASHFLOW LOAN |

| IP that currently generates predictable revenue | • Catalogs of licensed music or film | • Standard essential patents for a popular standard |
| IP with clear value outside the company, even if the business fails | • a well-known brand | • a patent portfolio that can be easily implemented |
| IP that is central to a business’s activities | • Catalogs of licensed music or film | • Royalty-generating software license |

Adapted from: OECD (2022), Secured lending for SMEs: Making effective use of registries and intangibles, pg. 39
What’s holding intangible asset finance back?

- Valuing intangibles is hard
- Lenders and investors lack of solid understanding of intangibles
- Regulators do not encourage intangibles as collateral
- High transaction costs
- Intangibles can be hard to liquidate
### Initiatives to enhance intangible asset finance

<table>
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<tr>
<th>Public sector</th>
<th>Quasi-public sector</th>
<th>Private sector</th>
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| ▪ Tax credits / benefits  
▪ Directly subsidized interest rates  
▪ Credit guarantees (e.g. China)  
▪ Valuation assistance (e.g. Japan)  
| ▪ Potential assistance in financial instruments (e.g. Jamaica)  
▪ Supported venture debt / equity funds (e.g. Singapore)  
| ▪ Collateral insurance  
▪ Equity alongside  

Limited information available to policymakers on potential actions
- No accepted approach to IP valuation, which is context dependent
- Varying accounting treatments and disclosure requirements
- Sector specificities

**HERE’S SOME CHALLENGES**

- Partner with key players (IGO, financial institutions, SSOs)
- Facilitate the discourse
- Encourage market-driven solutions and guide state initiatives
- Working with both potential lenders and SMEs
- Work across sectors (e.g. innovative, creative) and government (finance, IP, etc.)
- **High-level conversation** that described the potential and major challenges to a broader community (continuing in 2023)
- Expert Consultative Groups to take technical deep dives (first one in 2023 on valuation)
- Participants with first hand knowledge or an institutional stake in intangible asset finance

1. **Raise the profile of intangible asset finance**
2. **Reveal what is happening on the ground**
3. **Equip participants in the finance and valuation ecosystems**

- Document current state of affairs, including the actions and challenges: gov’t, financiers, commercial
  - *e.g. Country reports on IP-Backed Financing*
  - *also economic studies on creative industry, commercial trends*

- Create practical tools to improve use of intangible assets for financing and better equip financiers to participate
  - *e.g. Hands on intangible asset finance series*
WIPO’s Inaugural High-Level Conversation on Unlocking Intangible Asset Finance

November 1, 2022

A dialogue between senior leadership of institutions with a role in intangible asset finance, hosted by WIPO’s Director General

For more information on the event, visit: https://www.wipo.int/sme/en/events/high-level-conversation.html

~1’400 people followed the event
Coming from more than 100 countries

33 speakers from 5 continents shared their vision, experiences, and challenges in intangible asset finance

They came from different sectors like:

- Group of Thirty, ASEAN, European Commission, and 5 heads of IP offices
- International Finance Corporation, INTA, IVSC, International Patent Organization
- Aon, Bank of China, HSBC, JP Morgan Chase, KPMG
Thank You

For more information about WIPO’s work in the area, visit: [https://www.wipo.int/sme/](https://www.wipo.int/sme/)
Responses to challenges in intangible asset finance

**Jamaica**
- Development bank grants
- Government-backed loan guarantees
- Launch of state-backed venture capital fund
- Looking into IP-backed instruments
- Current effort to build valuation capacity

**Japan**
- Focus on supporting credit decision-making processes of regional business lenders
- Subsidized valuation for bank lenders
- Institutional education

**Singapore**
- Guarantee facilities to support IP finance (mainly through banks)
- Establishment of enterprise financing/venture debt scheme
- Subsidized valuation
- Going forward focus on enablers such as valuation and disclosure

**Switzerland**
- Focus on the use of IP in venture equity for start-ups rather than debt finance
- Discussion on state-backed innovation fund ongoing
- Initiatives for general awareness raising, training and education on IP-backed finance

**Korea**
- Provision of development bank loans for IP commercialization
- Establishment of collection fund for distressed IP
- Launch of direct investment fund
- Credit guarantors offering underwriting
- Subsidized valuation

Different responses to overcome hurdles regarding IP-backed finance, ranging from a variety of instruments to educational initiatives