

WTO–Informal Working Group on
MSMEs - World IP Day

WIPO & Intangible Asset Finance

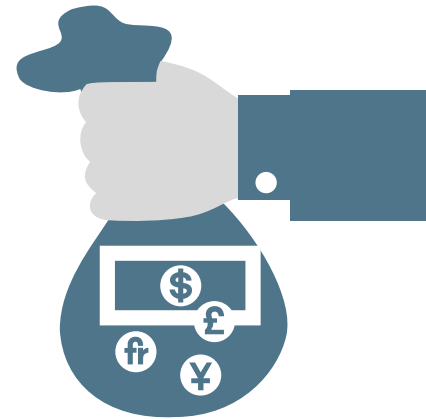
April 26, 2023

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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



C\$160MM Fund



¥25 billion



£500MM fund



\$400MM Fund +
Insurance offering



2+ trillion won



\$1 billion

Different ways to use intangible assets to secure capital

IP that currently generates predictable revenue

- Catalogs of licensed music or film
- Standard essential patents for a popular standard

SECURITIZATION
IP assets sold to Special Purpose Vehicle (SPV). SPV creates securities that can be sold to investors

IP with clear value outside the company, even if the business fails

- a well-known brand
- a patent portfolio that can be easily implemented

COLLATERAL
Security interest in the IP is taken. If the company defaults/fails, the lender or investor can liquidate the IP assets

IP that is central to a business's activities

- Catalogs of licensed music or film
- Royalty-generating software license

SALE AND LEASEBACK

ENHANCED CASHFLOW LOAN

Adapted from: OECD (2022), Secured lending for SMEs: Making effective use of registries and intangibles, pg. 39

What's holding intangible asset finance back?

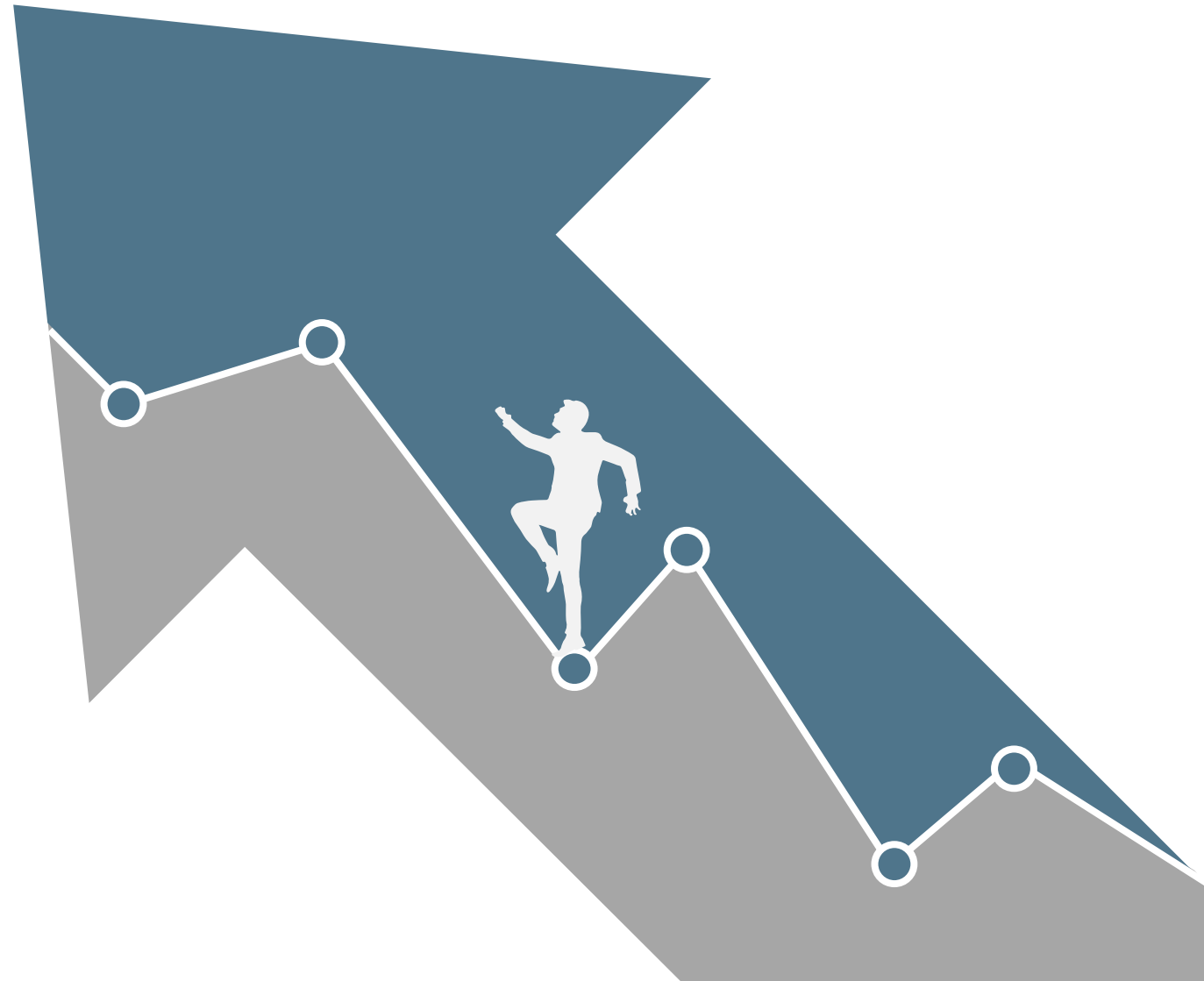
Valuing intangibles is hard

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

Public sector

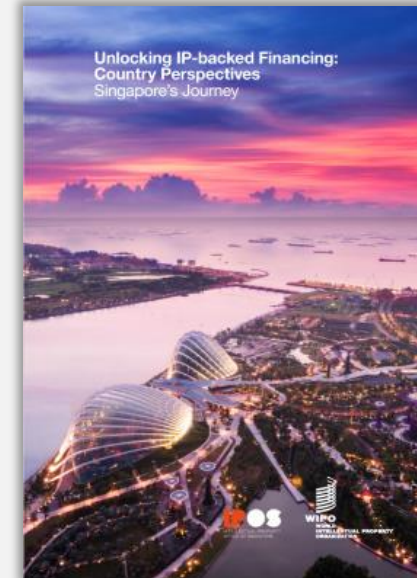
- Tax credits / benefits
- Directly subsidized interest rates
- Credit guarantees (e.g. China)
- Valuation assistance (e.g. Japan)

Quasi-public sector

- Potential assistance in financial instruments (e.g. Jamaica)
- Supported venture debt / equity funds (e.g. Singapore)

Private sector

- Collateral insurance
- Equity alongside



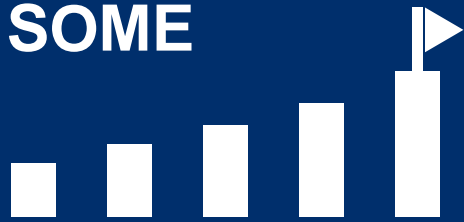
Read more about
Singapore's IP
financing journey



<https://www.wipo.int/publications/en/details.jsp?id=4579>

Intangible asset finance landscape and WIPO's approach

HERE'S SOME CHALLENGES

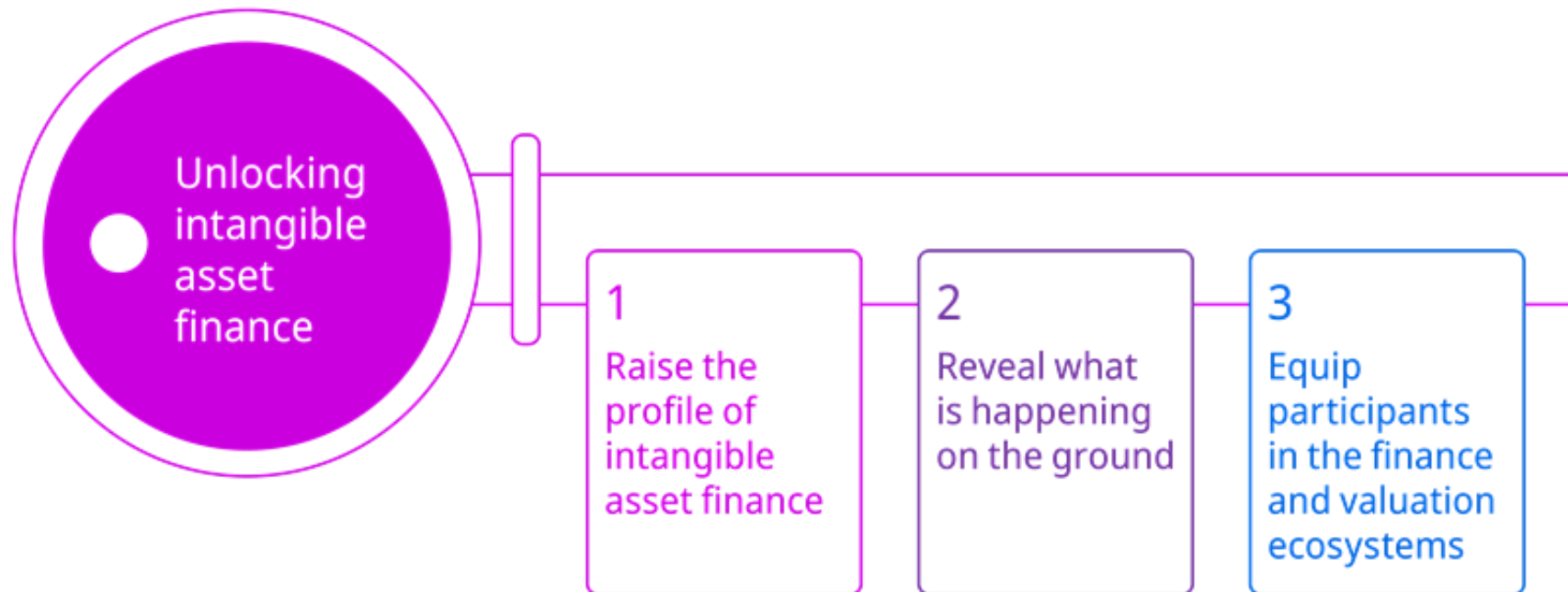


- Limited information available to policymakers on potential actions
- No accepted approach to IP valuation, which is context dependent
- Varying accounting treatments and disclosure requirements
- Sector specificities

- Partner with key players (IGOs, 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.)



**AN ACTION
ORIENTED
APPROACH**



- [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

- 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/>

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Responses to challenges in intangible asset finance

Jamaica	Japan	Singapore	Switzerland	Korea
<ul style="list-style-type: none">▪ 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	<ul style="list-style-type: none">▪ Focus on supporting credit decision-making processes of regional business lenders▪ Subsidized valuation for bank lenders▪ Institutional education	<ul style="list-style-type: none">▪ 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	<ul style="list-style-type: none">▪ 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	<ul style="list-style-type: none">▪ 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