Policy Paper Summary and Key Messages:

WIPO and Intangible Asset Finance: Moving Intangible Asset Finance from the Margins to the Mainstream

Author and institution Name: The World Intellectual Property Organization (WIPO)

Summary by: Mohammad Ataul Karim

SUMMARY			
Document Title	WIPO and Intangible Asset Finance: Moving Intangible Asset Finance from the Margins to the Mainstream (2022), pp. 26		
Author	Mohammad Ataul Karim	**Date**	12.02.2023

Abstract

Business enterprises, including small and medium-sized enterprises (SMEs), require capital to grow and scale up their business. However, they may face difficulties in securing funds. Apart from tangible assets, they often hold intangible property, such as intellectual property (IP), for their creative and innovative products and services. IP has huge intangible values and could be used in intangible asset financing. Regrettably, intangible asset financing is still in the infant stage. This policy paper explores the potentials and challenges of intangible asset financing along with the WIPO's Action Plan to move intangible asset finance from the margins to the mainstream.

Keywords: Intangible Asset Financing, IP, SMEs.

Key Message:

The potential of intangible asset finance

Businesses primarily rely on their physical assets to secure investments, funds, or loans. With time, there is a growing trend to use intangible properties such as IP for securing funds. Indeed, intangibles are one of the key driving forces of our current economies. Brands, designs, and technology are heavily influencing the growth of the business and global value chain. IP and other intangibles add almost twice the value to the products traded in the value chain in comparison to tangible capital.[1] New and small businesses mainly depend on innovative or creative products/services. These SMEs comprise 90% of global business, and they generate more than half of global employment.[2] Regrettably, they often lack sufficient physical assets as collateral to secure funds. Many SMEs may suffer financial setbacks even with groundbreaking innovations in their portfolio. Thus, recognizing and improving intangible asset financing could be a viable way to secure funds.

What is intangible asset financing?

Intangible assets financing means using a business entity's intangible assets (such as IP) to secure funds. This can be done either by pledging them or transferring rights to cash flows derived from these intangible assets.[3] Usually, funds are secured via debt or equity financing.[4] In equity financing, investors earn a percentage of ownership in an investment business. Intangible assets such as IP can help to measure the value of the company and secure investments. Moreover, IP can be useful as part of ownership sharing. In debt financing, IP can also help. It is common for a

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[1] WIPO and Intangible Asset Finance: Moving Intangible Asset Finance from the Margins to the Mainstream, (2023), p.3

[2] Ibid.

[3] Ibid, p.5

[4] Ibid.

business to take a loan against its asset. The intangible assets of a business can assist to secure loans and signal the ability of the company to pay back the loan.

Challenges to intangible asset financing

Intangible asset financing remains in a nascent stage. In equity financing, investors usually lack a proper understanding of the actual value of the IP. Therefore, the costs of raising capital by giving away ownership might be more than the benefits.[5] In such a situation, debt financing can be an option. Despite its advantages, it is also susceptible to many challenges. Intangible asset-intensive businesses lack physical capital. Therefore, they cannot satisfactorily guarantee collaterals. IP can be used as collateral. However, it has two key challenges for lenders: assessing risk and return.[6] Assessing the risk of the debt based on the value of IP is difficult. The lenders often lack the necessary expertise to assess the value of IP. Thus, the borrowers cannot satisfactorily guarantee IP as the collateral worth of actual value. Moreover, the borrower's ability to timely return the debts remains unclear. Overall, the following main challenges for intangible asset financing can be highlighted:

a. Valuing intangibles is difficult.
b. Lenders and investors often lack an understanding of the value of intangibles.
c. Lack of recognizing intangibles as collateral.
d. Intangibles can involve burdensome transaction costs.
e. Liquidation of intangibles is hard.

Moving Intangible Asset Finance from the Margins to the Mainstream

Mainstreaming IP-backed financing involves multiple challenges and needs a holistic approach from the public and private sectors. The World Intellectual Property Organization (WIPO), as an UN-specialized agency for IP, is undertaking many streams to move intangible asset financing from the margin to the mainstream. First, *raising the profile of intangible asset finance* by convening high-level conversations among the leaders from finance, business, and IP sectors. Second, *disclosing the ground reality* through surveying what is happening at ground level and what the governments and commercial actors should be doing. Finally, *preparing stakeholders for intangible asset finance and valuation ecosystems* by building practical toolkits for borrowers and lenders.

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[5] Ibid.
[6] Ibid, p.6