



A global forum for micro, small and  
medium-sized enterprise development

# Key Topic Group: Financing Intangible Assets

Annual Meeting, Brazil, April 2014

# Financing Intangible Assets: Members

## KEY TOPIC: FINANCING INTANGIBLE ASSET



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# Agenda

- > Introduce key topic and the key definitions
- > Objective of the team
- > Methodology
- > Findings and Conclusions
- > Recommendations

# Financing **Intangible** Assets

- > Generally speaking, definition of “intangible” varied among members
- > To focus discussion we defined **intangible** as follows:
  - Anything not tangible (building, equipment)
  - Innovation, working capital, sales and marketing pitch, training, technology development, market survey, brand, patents, employee costs, technology transfer, licenses, regulation compliance, etc...
  - Key emphasis on innovation as it relates to intangible
- > **Innovation** is defined as per OECD (1992):
  - innovation is the implementation of a product (good or service), or process (production) new or significantly improved, a new marketing method or organizational practises in an enterprise, organization of the workplace or external relations

# Objective of the Team

- > Compare and contrast:
  - Existing ecosystem of each bank (external environment)
  - Different methodologies of financing intangibles
  - Different terms and conditions and structures
  - Different mandates (public policy driven)
- > Sharing of experiences and different strategies
- > Explore scope for adopting and implementing the learnings between banks

# Methodology

- > Comparing of products and processes
  - Result: table comparing main parameters of each bank
- > Compared challenges faced
  - Results: table outlining top three challenges for each bank
- > Business Case
  - Reviewed how each member would possibly meet the needs of a fictional entrepreneur's intangible financing needs
- > Communication
  - Conference calls, email, jive (articles and information posted) and working group sessions (Mexico and Brazil)

# Findings and Conclusions

1. Financing intangible assets (as it includes innovation) is an important mandate for all of the members
2. Approach to intangible financing and the definition differs in each country
  - Example: BDC finances intangibles based on enterprise value vs. security value
  - Example: VEB uses direct and indirect and Bpifrance only direct
3. Innovation raises the issue of risk and uncertainty
  - Calls for specialized skills and/or mentoring
  - Accept higher loss rate and higher loss provisions (example BDC has higher loss rate and provisions vs. BNDES does not)

# Findings and Conclusions (continued)

## 4. Public policy mandates impacts offering and debt features

- Example: BNDES prices to company risk not project (lower rate) while SIDBI prices to risk (higher rate) and Bpifrance on fixed interest rate plus variable upside

## 5. Different methodologies of evaluating companies and due diligence processes are used

- Example: NAFINSA used external experts for technology and legal assessment, BNDES always uses internal assessment
- Example: Bpifrance has a tool to evaluate innovation and in-house technology experts or external experts (2500+)

## 6. Challenges are very similar but solutions are different

- Example: Pricing to risk



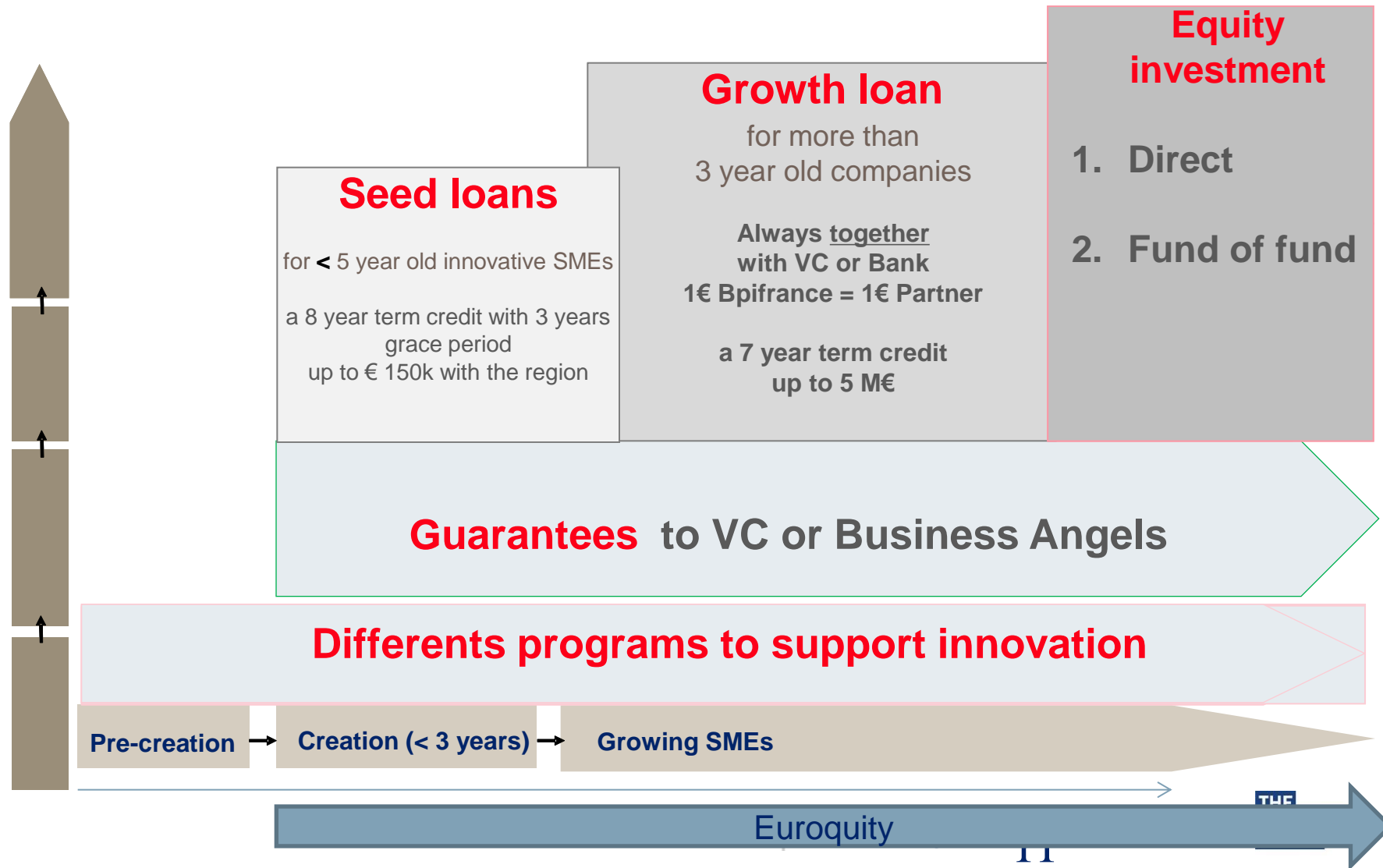
# Findings and Conclusions (continued)

7. Value system (culture) of both country and bank plays an important role in devising financing products
  - Example: SIDBI finances all forms of organizations (sole proprietorships, partnerships, etc.)
  - Example: NAFINSA prefers companies supplying to government in energy sector
8. Needs of innovated companies are large and different depending on lifecycle and project thus many different solutions are required in the ecosystem
  - subsidies/grants, reimbursable advances, seed, debt, equity, etc. either within or outside the development bank
9. Cross-country learnings need to be adapted to local situations

# Recommendations

- > Continue to keep the working group active:
  - Share any new initiatives or products
  - Post relevant material on the subject matter
  - Use each other as a sounding board for problems or questions
  
- > **Study the complete ecosystem** for supporting innovation
  - Many elements linked together. We have reviewed “**debt** “ but need to look at the other elements to foster innovation
  - Could have lots of information to exchange in future on this
  - Example of Bpifrance’s ecosystem for supporting innovation

# Example of Bpifrance's ecosystem for a **start up** having an **innovative product**



**Thank you**  
**Financing Intangible Assets Group**

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# Quick Comparison

	<b>BNDES</b>	<b>BPIFrance</b>	<b>NAFINSA</b>	<b>SIDBI</b>	<b>VEB</b>	<b>BDC</b>
Min Amount	\$500k	150 euro	None	\$10k	\$1.7M	\$50k
Max Amount	\$10M	5 euro	\$400K	\$2.5M	\$4.3M	\$20M
Approval time	6 months-1 year	1 week 1 month average	45 days	4-6 weeks	2-3 months	4-6 weeks
Use of Proceeds	Important and verified	Analyze prior	Important and verified	Important and verified	Important and verified	Analyze prior
Pricing	Do not price to risk	Do not price to risk	depends	yes	no	yes
Personal Guarantee	yes	no	depends	yes	yes	no

# Quick Comparison (continued)

	BNDES	BPIFrance	NAFINSA	SIDBI	VEB	BDC
Dedicated Team?	no	yes	no	yes	yes	yes
Authorization process	Credit committee	Credit committee	Credit committee	Credit committee	Credit committee	Credit committee
External DD	no	yes	yes	yes	If required	Rarely Legal yes
Integrity of Financials	Good - ones they work with – external audit	Good – external audit	Good-external audit	Average for non corporates Good for corporates	Average	Good-external audit

# Financing Intangible Assets

1. Discuss the top 3 challenges of financing intangible assets in each of our perspective organizations
2. Discuss and compare the financing solution(s) offered and what the main criteria, terms and conditions, and the pros and cons. (Exclude venture capital as it is equity, not financing)
3. Also looked at a business case and compared solution to meet entrepreneurs needs



# Financing Intangible Assets

PRESENTED BY: **SUSAN ROHAC**, Vice-President Subordinate Financing



# BDC – Top 3 Challenges

Challenge	Solution?	Comments
1. Assessing technology/market size	<ul style="list-style-type: none"> <li>External experts hired for due diligence</li> <li>Reduce entrepreneur's forecasts for analysis purposes (ie, if they only achieve 70% of forecast is company still viable?)</li> </ul>	<ul style="list-style-type: none"> <li>Do not have internal expertise on all technologies</li> <li>Look beyond the financial results to understand the company</li> </ul>
2. Pricing to risk	<ul style="list-style-type: none"> <li>Variable return based on success of company</li> <li>Historical cashflows are important in assessment and pricing</li> </ul>	<ul style="list-style-type: none"> <li>Need to well above traditional debt to make money in this asset class</li> </ul>
3. Debt return for equity risk?	<ul style="list-style-type: none"> <li>Clear guideline on how far along technology is – not VC risk. Need to have key clients (sales) and a track record of at least 12-18 months</li> <li>Need to have shareholder's financial commitment to company</li> </ul>	<ul style="list-style-type: none"> <li>Careful not to take on VC risk – we will not do “start-ups”</li> </ul>

# BDC – Financing Intangible Assets

Financing Solution	Main Criteria	Main Terms and Conditions	PROS	CONS	Comments
Direct lending: <b>Term loan</b>	<ul style="list-style-type: none"> <li>• Can have a portion unsecured but use unencumbered assets as security</li> <li>• Look at historical and forecast cashflows</li> </ul>	<ul style="list-style-type: none"> <li>• Specific charge on building or equipment but funds used for intangible (working capital, marketing, etc)</li> <li>• Typically 5-10 years amortization</li> </ul>	<ul style="list-style-type: none"> <li>• Often limited security available</li> </ul>	<ul style="list-style-type: none"> <li>• Because of “secured” position its tempting not to do full due diligence</li> </ul>	<ul style="list-style-type: none"> <li>• Able to do large volume lower risk thus fulfilling our mandate</li> </ul>
Direct Lending: <b>Subordinate Financing</b>	<ul style="list-style-type: none"> <li>• No assets to support financing but historical or forecasted cashflows support the financing</li> </ul>	<ul style="list-style-type: none"> <li>• Charge on assets <b>behind</b> senior lender</li> </ul>	<ul style="list-style-type: none"> <li>• Flexible repayments and return types</li> <li>• No fixed assets required</li> </ul>	<ul style="list-style-type: none"> <li>• Need to price to risk – thus higher interest rate for entrepreneur</li> </ul>	<ul style="list-style-type: none"> <li>• Lower volume business as due diligence and admin of files is time consuming</li> </ul>



# Financing Intangible Assets

PRESENTED BY: FLAVIA C. KICKINGER

# Financing Intangible Assets

## > 2 different intangible assets support:

### – Working Capital for non-risky projects

- No problem supporting
- Progeren Program

### – Resources for risky projects or innovation

- Challenge

# BNDES – Top 3 Challenges

Challenge	Solution?	Comments
Collaterals	<ul style="list-style-type: none"> <li>• Guarantee funds</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of collaterals is common in intangible intensive micro and small firms</li> </ul>
Debt return for equity risk	<ul style="list-style-type: none"> <li>• Focus on end of R&amp;D / commercialization stages</li> <li>• Stop loss control</li> </ul>	<ul style="list-style-type: none"> <li>• We could accept some financial losses for more innovation</li> </ul>
Evaluate the results – measure the financial tools effectiveness	<ul style="list-style-type: none"> <li>• Establish goals</li> <li>• Collect indicators</li> <li>• Design the evaluation while design the program</li> </ul>	<ul style="list-style-type: none"> <li>• Hard to have good indicators to measure intangibles</li> </ul>

# BNDES – Financing Intangible Assets

Financing Solution	Main Criteria	Main Terms and Conditions	PROS	CONS	Comments
BNDES FGI	<ul style="list-style-type: none"> <li>SMEs supported by BNDES' indirect programs</li> </ul>	<ul style="list-style-type: none"> <li>Personal guarantees from the controlling shareholders</li> <li>Credit rating: AAA to C</li> </ul>	<ul style="list-style-type: none"> <li>Supplement the firm's guarantees for BNDES' indirect support</li> </ul>	<ul style="list-style-type: none"> <li>Only for SMEs</li> </ul>	
BNDES Innovation	<ul style="list-style-type: none"> <li>Direct support to innovation investment plans</li> </ul>	<ul style="list-style-type: none"> <li>Minimum amount: US\$ 500 thousand (R\$ 1 Million)</li> </ul>	<ul style="list-style-type: none"> <li>Low interest rates</li> <li>Don't price to risk</li> </ul>	<ul style="list-style-type: none"> <li>Not suitable for SMEs</li> </ul>	SMEs are allowed in theory but cannot access in practice (large minimum amount / limited borrowing capacity)
BNDES Innovative SMEs	<ul style="list-style-type: none"> <li>Support to innovative SMEs through financial agents</li> </ul>	<ul style="list-style-type: none"> <li>Patent (granted or requested) or incubation program (resident or recently graduated) or located at a science and technology park or supported by official innovation programs (state or federal)</li> </ul>	<ul style="list-style-type: none"> <li>Objective criteria for eligible clients</li> <li>Low interest rates (4% per year for investment projects)</li> </ul>	<ul style="list-style-type: none"> <li>Only for SMEs</li> </ul>	Focus is the firm, not the project

# Brazil's Innovation Policy

# Brazilian Industrial and Technological Policy – Plano Brasil Maior (PBM)

## Focus

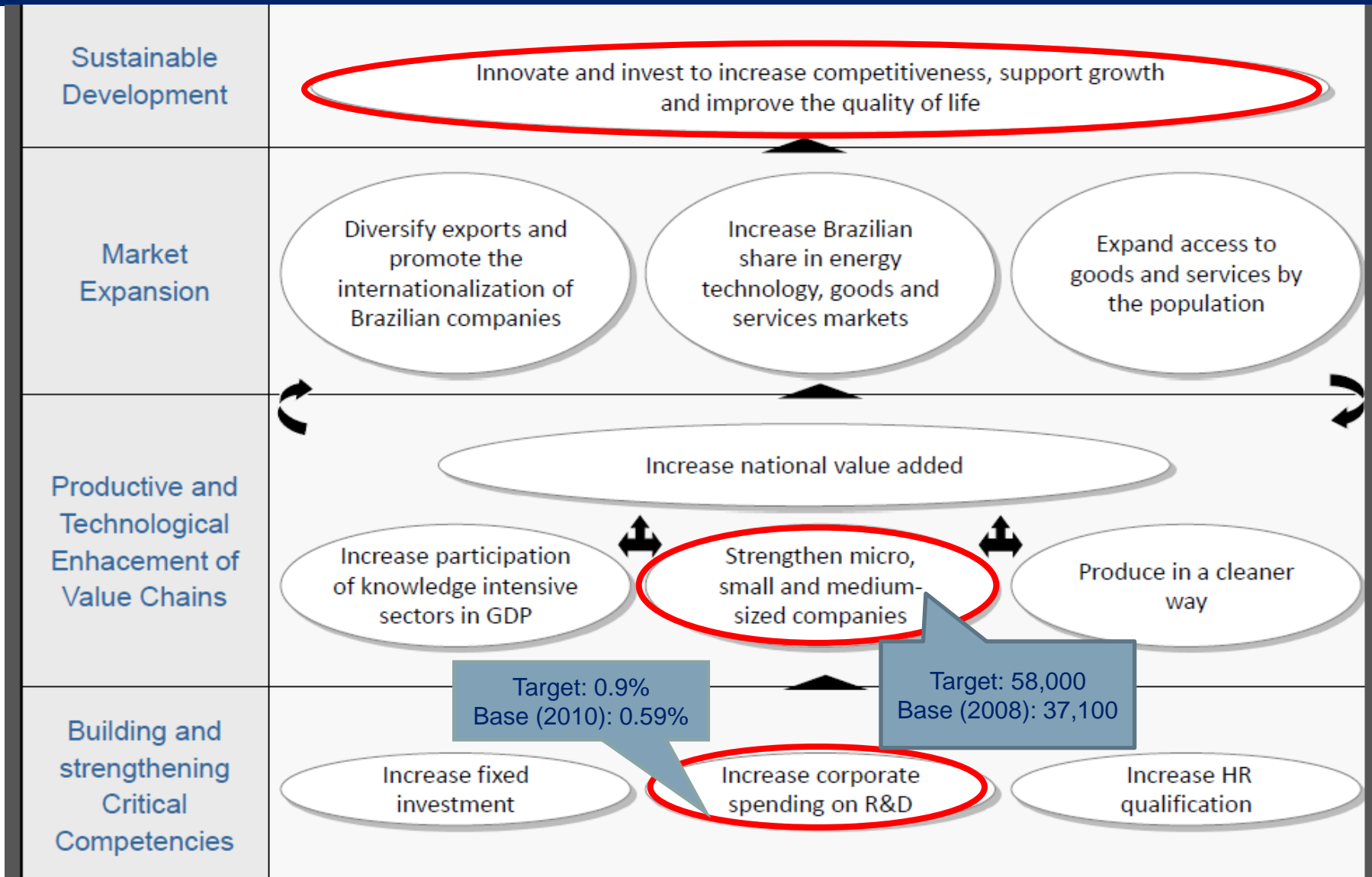
- Innovation and technological development

### Priorities:

- To build and strengthen critical competencies
- To increase the productive and technology density within value chains
- To expand the domestic and external markets of Brazilian companies
- To ensure socially inclusive and environmentally sustainable growth



# Strategic Objectives



# Plano Inova Empresa (2013 -2014)

## Investment in innovation to raise productivity and competitiveness of the Brazilian economy

### Priorities:

- Expand the level of investments in companies
- Offer a greater support for technological risk projects
- Strengthen relationship between companies, Research Institutes and public sector
- Define strategic areas

### How?

- Supporting innovation business plans
- Decentralization of credit to SMEs
- New model for fostering innovation

- **Conjoint programs of public institutions**
- Coordinated use of financial instruments
- Integrated Management (“Innovation Room”)



# Financing Intangible Assets

PRESENTED BY: VINCENT DI BETTA

# Bpifrance – Top 2 Challenges

Challenge	Solution?	Notes
<b>1. Assessing technology/market size</b>	Bpifrance use in-house technology experts and /or subcontracts the evaluation to an external expert network (more than 2 500 people)	We analyse in depth company risk and technology
<b>2. Pricing to risk</b>	According the quotation of Banque de France (see next page)	

# Bpifrance – Financing Intangible Assets

Financing Solution	Main Criteria	Main Terms and Conditions	PROS	CONS	Comments
<b>The new Seed investment loan</b>	<p>a 8 year term credit up to 500 000 € with 3 year grace period</p> <p>Rate : about 5 %</p>	<p>no collateral neither on the assets of the company nor on the personal assets of the entrepreneur</p> <p>ONLY for a company ready for a second important fund raising</p>	<p>Quasi-equity</p> <p>to develop and create better conditions for a second opening of the capital to investors</p> <p>No collateral Grace period</p>	<p>Limited to the amount of equity</p> <p>Companies must have been previously awarded an innovation aid (from Bpifrance)</p> <p>Amount : up to 500 000 €</p>	<p>Seed investment loan associated or not to a bank loan or fund raising</p>
<b>Innovation loan</b>	<p>a 7 year term credit up to 3 000 000 € with 3 year grace period</p> <p>Rate : between 3 and 7 % : it depends on the Banque de France BDF cotation</p>	<p>No collateral</p> <p>to finance the industrialization and commercialization of innovation</p>	<p>Amount : up to 3 000 000 €</p> <p>Competitive rate if good BDF'otation</p>	<p>Limited to the amount of equity</p> <p>The company must prove its ability to innovate</p>	<p>Innovation loan associated or not to a bank loan or fund raising</p>
<b>Guarantee</b> Guarantee requested by the bank when co-financing with Bpifrance	<p>Guarantee for a bank loan</p>	<p>Up to 40 % or 50 % of the net bank risk</p>	<p>Leverage effect on the lending market</p>		<p>The bank has to request the guarantee</p>



## Financing Intangible Assets

INFORMATION PROVIDED BY: Wang Fei

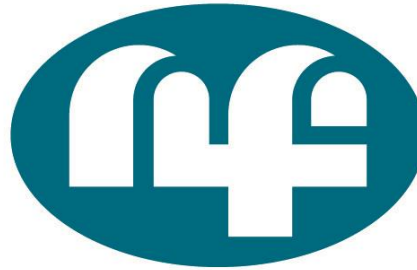
# China – Top 3 Challenges

Challenge	Solution?	Comments
Assessing the value of intellectual property and the difficulty of pledge registration	<ul style="list-style-type: none"><li>-Project appraisal based on accounts receivable generated by intellectual property transaction</li><li>-Promote government to regulate the criteria and institution of intellectual property assessment, etc</li></ul>	Reduce default risks, improve the accuracy of intellectual property assessment and the efficiency of pledge
Realize the value of intellectual property	<ul style="list-style-type: none"><li>-with aid of intellectual property exchange, etc</li><li>-Apply a combination of guarantees</li></ul>	Reduce the risk of value fluctuation and improve the realization of intellectual property
Differences among technology MSMEs increase the difficulty of accurate appraisal	<ul style="list-style-type: none"><li>-Implement differential appraisal methodology</li><li>-invite guarantee institutions to provide guarantees to them</li><li>-push the government to set up policy fund as risk compensation mechanism</li></ul>	Reduce credit risks and information asymmetries

# China – Financing Intangible Assets

Financing Solution	Main Criteria	Main Terms and Conditions	PROS	CONS	Comments
Provide credit line to MSMEs through whole lending platform	Cooperate with policy institutions, operating risk reserves and sharing the loss	-mainly working capital loan -loan term shorter than 3 years ,typically 1 year	Effective risk control	Complicated and difficult to cooperate with external institutions	The complete cooperation mechanism promote the development of high-tech SMEs
Co-finance with policy institutions and venture capital	-Cooperate with policy institutions and venture capital -Structured debt capital pool		Flexible repayments and return types	higher interest rate for SMEs	Able to do large volume because of leverage effect
On-lend to micro credit company to support SMEs indirectly	Micro credit company is obligated to repay the loan as the borrower		Lower the cost for the bank because it is not necessary to appraisal individual SMEs	difficulty to monitor the utilization of the loan	Provide financial support to more entrepreneurs effectively
Intellectual property pledged loan	use intellectual property as security to support financing		Reduce finance costs for SMEs	such pledge is not strong guarantee	Meet the needs of high-tech SMEs





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# Financing Intangible Assets

PRESENTED BY: JAVIER PARDO PARDO



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Banca de Desarrollo



Capital  
EMPRENDEDOR



Capital  
Semilla



#### Experience in seed capital

- We hold trained and experienced employees dedicated exclusively to develop due diligence process, and to select seed and venture funds.
- We have developed controls and methods for the close monitoring of the development of the funds during their investments.
- We have continuous training programs for our employees to acquire better practices.

#### Access to seed and venture funds

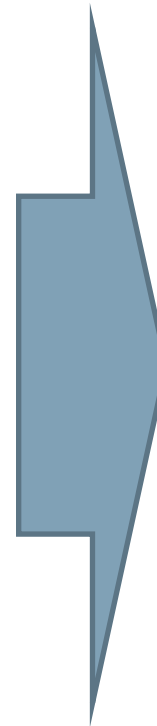
- Extensive market knowledge
- Recurring investments and good relationships with funds operating in Mexican market

#### Fund diversification

- Fund type: Seed, VC,
- Geographic, sectorial and economic cycle
- Use of abilities of fund managers investing in diverse economic sectors
- Reduces the variation of expected returns

## LINKING INNOVATION NETWORKS

- > The companies that IMPI-FUMEC-NAFIN works with have access to linking and innovation networks formed by actors that promote their development such as: universities, research centers, state and Federal government agencies, clusters and chambers of commerce, among others.
- > These networks facilitate the creation of business ecosystems where businesses can grow productively and innovatively.



- > Mexico Intellectual Property Services
- > We Provide Patent and Trade Mark Funds for early stage companies and entrepreneurs.
- > We added value through intangible assets valuation.

# NAFINSA – Top 3 Challenges

Challenge	Solution?	Comments
Promote more monetary funds in order to have more Patents in Mexico, financing programs in innovation.	<ul style="list-style-type: none"> <li>• measuring success stories</li> </ul>	<ul style="list-style-type: none"> <li>• Government program to apply for more capital resources</li> </ul>
Accounting policies for include in balance intangible assets value.	<ul style="list-style-type: none"> <li>• Meetings with government and accounting chambers</li> </ul>	<ul style="list-style-type: none"> <li>• no understanding of international rules</li> </ul>
Measure the value-added Patents Program	<ul style="list-style-type: none"> <li>• Establish controls</li> <li>• Comparative Indicators</li> <li>• Evaluation of the IMPI-FUMEC-NAFIN program</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to have good indicators to measure patents in Mexico</li> </ul>



# Financing Intangible Assets

PRESENTED BY: KARTIK ALAI

# SIDBI – Top Three Challenges

Challenge	Solution	Comments
Non availability of primary assets, as in the case of software development proposals, makes the application for sub-debt ineligible for credit guarantee coverage (applicable for loans up to approx US \$ 0.161 million).	The guidelines of the guaranteeing institution needs to be modified for encouraging such technology oriented projects of first generation entrepreneurs.	A large number of software development companies have to depend on private equity at higher cost rather than sub-debt at a fixed cost.
Rate of interest on stand alone intangible financing through sub-debt which is higher by about 200 bps compared to normal loans dissuades many entrepreneurs from availing this form of intangible financing.	The product pricing has to be dynamic with graded increase depending on loan size and repayment period	Ideally, a mix of secured and unsecured advance (for intangible finance) would provide a acceptable level of average price structure to the borrower.
At operational level in branch offices, which are the points for credit delivery, there is a tendency to not push financing of intangibles since it is unsecured.	The policy of staff accountability needs to have suitable provisions to differentiate between normal asset based credit decisions and those based on non-traditional criteria of funding.	Centralisation of credit decisions by credit officers experienced in intangible financing would ensure that such proposals get cleared fast and without any apprehensions.

# SIDBI – Financing Intangible Assets

Financing Solution	Main Criteria	Main Terms and Conditions	PROS	CONS	Comments
Structured Debt involving both term loan and sub-debt.	Existing well performing entities with 3 years profitable track record.	Term loan has lower moratorium of up to 18 months and overall repayment period of 5-7 years. Sub-debt has a longer moratorium of up to 3 years and overall repayment period of 7-8 years.	The customer can get the finance at relatively lower rate of interest due to averaging effect (TL at normal rate and Sub-debt at higher rate). Bank has the comfort of security extended to the sub-debt portion. The operating level officials are comfortable with this arrangement.	For entities who do not have tangible assets, this financing solution does not suit their requirements.	The financing solution is suitable for existing well performing entities going in for expansion or modernisation.

# SIDBI – Financing Intangible Assets Ctd

Financing Solution	Main Criteria	Main Terms and Conditions	PROS	CONS	Comments
Subordinated Debt	Linked to Net worth	Subordinated to senior lenders	Easy to avail / Flexibility of use/Quasi Equity status	High interest cost	Plain vanilla product. Can be given to all forms of enterprises
Participative / Optionally Convertible Debt	Only corporate entities	Equity kicker / Royalty on sales	Low interest outgo initially / Structuring Flexibility	Equity kicker at par with drag / tag along rights / Increased complexity of transaction.	Bank can share upside
Optionally Convertible Debentures / Preference Shares	Only to corporate entities in high growth phase	Convertible options	Helps in leveraging further debt	Only for high growth companies / Limited avenues for exit to investors	Limitation of structuring for small companies / Exit issues





VNESHECONOMBANK

# Financing Intangible Assets

PRESENTED BY: NATALIA RANNIKH

# VEB – Top Three Challenges

Challenge	Solution?	Comments
Assessing new technology and its potential market	External expertise, special purpose funding from special task funds	External experts still can make mistakes (2 different experts may be involved) Increase expenses
Lack of assets and/or collateral (no funds to start, no credit history (too short) to prove sustainable proceeds from other resources)	Guarantee funds 'Good (bad) projects' data base Syndications	Data on previous business experience may be critical to assess project's viability ('company or person')
Modernization/reconstruction/expansion wrongly considered as innovation	Clear criteria to distinguish among these	Misuse of terms may lead to misuse of funds

# VEB – Financing Intangible Assets

Financing Solution	Main Criteria	Main Terms and Conditions	PROS	CONS	Comments
Credit by VEB	Provide support when commercial banks can not (low to zero profit, long term financing)	payback period over 5 years; project value over RUB 2 bn (appr. 40 mln euro)	Relatively inexpensive and long-term funding	For bigger size corporates	Considered as a prior task for DB
Credit by SME Bank (VEB's subsidiary)	Compliance with the standards developed by SME Bank (approved by VEB)	60-150 mln RUB (1,2 – 3 mln euro) for up to 7 years at up to 12,5% (6,4-6,75%% + for partnering banks in combination with SME Bank's guarantee	Standard requirements May be granted straight by SME Bank or through a partnering bank (regional banks)	75% of the credit must be covered Standard requirements	Competition with commercial banks

# THE MONTREAL GROUP

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**Thank you!**