



Discussion Paper - Korea

IP Secured Loan and IP Fund

A. Policy Level

Key Facts

SBA 6 Sub-dimension:

6.1.5

Country:

Korea

Results & Impact:

- Highest number of locally-filled patent registration per million population in the world (2016)
- EUR 13.97 million (USD 15.4 million) to 15 companies (2013)
- EUR 41.73 million (USD 46 million) to 10 IP companies (2014)
- KDB: EUR 90.71 million (USD 100 million) to 80 IP companies (2016)
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Introduced in September 2013, the Intellectual Property (IP) Secured Loan and IP Fund are part of Korea's access to finance policy based on intellectual property (IP includes patent rights, trademark rights, design rights, and copyright) possessed by SMEs to foster ventures and start-ups.

As part of the government policy to foster "creative finance" derived from "creative economy", the IP Secured Loan and the IP Fund Programmes are significant in providing SMEs with opportunities for financing by developing new financial markets with intellectual property rights as a medium for diversifying the market that has conventionally been centered on traditional loan guarantees and tangible assets collateral.

BACKGROUND

The Korean Government has made several enhancements to its existing support of IP and intangible asset financing starting from the establishment of the Korean Intellectual Property Office (KIPO) in 1961 to patent management services (free of charge) for SMEs in 2000 up to the establishment of the Industrial Bank of Korea (IBK) in 2015. All of these initiatives were put together to encourage innovation and enhance economic growth and jobs creation and contributed to the country's IP ranking (13th in 2019).

B. Programme Level

The Korea Development Bank (KDB) offers financial instruments (guaranteed loans) related to IP according to the stages of growth that businesses go through, and based on evaluation of the IP by a technical team, and forming an organization to facilitate the collection of IP Secured Loans:

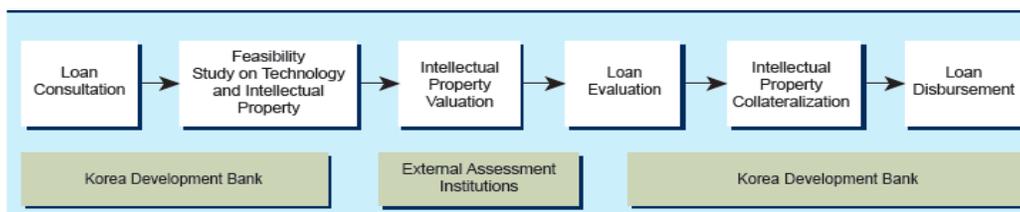




1. For start-up companies, loans are offered for purchasing IP.
2. For venture companies and MSMEs, IP loan guarantees are offered for diversifying sources of financing by recognizing intangible assets, IP, as security.
3. For SMEs in their mature stage, IP funding is offered for providing a comprehensive financing program (i. e., assistance for investment activities and loan programs, which include loans, investments, and securitization of IP).

C. Action Level

Process of IP Secured Loans



The IP Secured Loan program is categorized into loans and collections.

- Loans: IP is valued by external assessment institutions and, based on the results, it is recognized as a security. The valuation process is based on a valuation model developed with support from the Korean Intellectual Property Office.
- Collections: For nonperforming loans, either a company or a fund intervenes to purchase the secured IP, thus providing relevant assistance in loans recovery.

Innovative and Revolutionary Step Change

- Korea runs numerous risk sharing programs, including cost sharing for IP disputes and commercial IP insurance, bearing 70% of the risk for companies.
- Credit is also offered through guarantees from the Korea Credit Guarantee Fund (KODIT), one of the oldest funds in Korea, established in 1976.
- Korea also developed the first IP Sovereign Wealth Fund (SWF) investment company in Asia, Intellectual Discover.

D. Key Success Factors

- IP Fund and IP Secured Loan programs have the momentum to transform IP holders into successful businesses by offering financial assistance to companies with outstanding IP, yet lacking tangible assets for guarantees. The funds are anticipated to promote growth and enhance SME value by diversifying sources of financing through IP.
- IP-backed loans not only allow companies to secure funds through their intangible intellectual assets but also offer a relatively low interest rate ranging from 2 to 6 percent.
- The valuation activity is subsidized by the Korean Intellectual Property Office (KIPO), and the valuation work itself is done by others such as the Korea Invention Promotion Association (KIPA). Companies are allowed to choose the optimal valuation module according to their business needs and budget capacities.