Mind the financing gap: Enhancing the contribution of intangible assets to productivity

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Intangible assets are at the heart of firms’ competitiveness, but their financing is complex for many firms. Typically, intangible assets have unique characteristics – uncertain returns, non-rivalry, large synergies, low redeployability – that tend to increase information asymmetries and render them difficult to collateralise. Using sector and firm level data, our recent strand of work (Demmou et al., 2019; Demmou et al., 2020; Demmou and Franco, 2021) points to the existence of a financing gap impeding the full potential of intangibles from being harnessed, with negative implications for aggregate productivity growth and resilience (see also the companion Ecoscope blog).

Policies to close intangibles’ financing gap

The financial system has been historically designed to ease the accumulation of tangible capital and thus the global shift of our economies toward ideas-based growth reduces the ability of the financial sector to serve firms’ needs, generating new challenges for policy makers.

Given differences in the structure of financial systems across countries as well as in the most appropriate financing source for the various types of intangibles, the best-suited answer is not a one-size-fits-all approach. Accordingly, our recent paper (Demmou and Franco, 2021) discusses policy-levers that authorities could exploit to make each source of external finance available to firms – government support, equity
financing and bank credit – more supportive of intangible investment (Figure 1).

The following set of policy measures is particularly relevant:

- **Financial market framework policies.** Equity investors are more willing than banks to take risks even without strong collateral. Several actions could spur both the demand and supply of equity: progressing on the European Capital Market Union, reducing the preference to use debt over equity, easing access to IPOs, ensuring that the structure of equity markets is supportive of the provision of patient and engaged capital, and enhancing financial literacy.

- **Standard innovation policies that would benefit investment in intangibles.** The development of venture capital markets, which are an important source of finance for start-ups and intangible-intensive firms at early stages of their life-cycle, and a fine-tuning of government direct and indirect support of high growth SMEs could further ease the financing frictions faced by innovative firms.

- **Policies to widen financing options for investment in intangibles.** Ensuring efficient liquidation of intangibles and providing incentives to bank credit backed by intangibles could increase their collateral value and ease access to bank finance. Better tailoring financial reports and accounting standards to the specific features of intangibles would enable both banks and equity investors to make better informed decisions when allocating resources. Moreover, the expansion of well-designed R&D tax incentives and government funding to other types of intangibles might also be considered for assets displaying positive externalities (e.g., organisational capital and workers’ training).

- **Intangible-friendly COVID-19 related support.** The provision of loans and loan guarantees, the development
of schemes featuring equity-type capital injections and the preservation of direct public support to innovative businesses could contribute to attenuate the disruptions caused by the COVID-19 outbreak and ease the even higher frictions that would hamper intangibles investment.

**Figure 1. Policy options to ease intangibles financing**

![Diagram of policy options to ease intangibles financing]

Source: OECD.

**References**

