



Abstract for the 12th INSME Annual Meeting Session II

Driving financial Inclusion for Start-ups and SMEs – Unlocking Investment and Access to Smart Capital

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Risk Capital: Options to ease current constraints

In most developed economies, risk capital directed at Innovative SMEs (ISME) is primarily supplied by Venture Capital Funds or Angel Investors. These entities provide a portion of the total ISME credit needs. Notwithstanding its small relative quantity, the products provided by VCs and Angels often serve as a critical catalyst for expanding the range of credit products available to ISME.

However, VCs and Angels seem to be constrained in their ability to reach the critical scale needed to provide the bulk of credit needs of ISMEs. The constraints seem to originate from these entities' (1) inability to raise sufficient capital funds (Back-End Constraints); as well as their (2) inability to extend risk capital to ISMEs that do not already have some form of collateral asset or some form of visible cash flow (Front-End Constraints).

Governments can play a critical role in easing these constraints by providing a robust legal framework to protect intellectual property, working with VCs and Angels to provide risk capital to ISMEs, and leveraging its procurement arm to accelerate and direct innovation creation and commercialization for the betterment of society.

Governments could further alleviate some, possibly a good portion, of VCs and Angels (Back-End) capital-funding constraints by facilitating the introduction of a standardized accounting framework for evaluating Intangible Assets. This framework would facilitate the sale of Intangibles either as individual assets, or more likely, as part of a pool of similar assets backing Securitized Financial Instruments.

The private financial sector could facilitate the expansion of the (Front-End) origination constraints by expanding its credit origination modality from one primarily based on existing asset collateralization (including certain intangible assets) or visible cash flows to a modality more reliant on the Commercial and Scientific Validity of innovation.