THE ROLE OF CAPITAL MARKETS IN FUNDING MSMES IN LATIN AMERICA AND THE CARIBBEAN

Authors:
Dr. Edward I. Altman
Dr. Gabriele Sabato

Coordination:
Diego Herrera
Ana Maria Zárate Moreno

IDB

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List of Acronyms

AIM	Alternative investment market
APYME	Autoridad de Micro, Pequeñas, y Medianas Empresas (Micro, Small, and Medium Enterprise Authority)
ASFI	Autoridad de Supervisión del Sistema Financiero (Financial System Supervisory Authority)
BFSC	Barbadian Financial Services Commission
BCC	Chilean Central Bank
B3	Brasil, Bolsa, Balcão (Brazilian Stock Exchange)
BCRA	Central Bank of the Argentine Republic
BEC	Bolsa Electronica de Chile (Electronic Stock Exchange of Chile)
BEVSA	Bolsa Electronica de Valores del Uruguay (Electronic Stock Exchange of Uruguay)
BIVA	Bolsa Institucional de Valores (Institutional Stock Exchange)
BME	Bolsa de Madrid (Madrid Stock Exchange)
BMV	Bolsa Mexicana de Valores (Mexican Stock Exchange)
BS	Bolsa de Santiago (Santiago Stock Exchange)
BSBA	Barbadian Small Business Association
BSE	Barbados Stock Exchange
BVC	Bolsa de Valores de Colombia (Colombian Stock Exchange)
BVG	Bolsa de Valores de Guayaquil S.A. (Guayaquil Stock Exchange, Inc.)
BVL	Bolsa de Valores de Lima (Lima Stock Exchange)
BVRD	Bolsa de Valores de la República Dominicana (Dominican Republic Stock Exchange)
BYMA	Bolsas y Mercados Argentinos (Argentine Stock Exchanges and Markets)
CCAF	Cambridge Centre for Alternative Finance
CDB	Caribbean Development Bank
CMF	Comisión para el Mercado Financiero (Financial Market Commission)
CONASSIF	Consejo Nacional de Supervision del Sistema Financiero (National Council on Supervision of the Financial System)
CORFO	Production Development Corporation
CVM	Comissão de Valores Mobiliarios (Stock Market Commission)
DPCs	Deferred payment checks
FCA	Financial Conduct Authority
FCI	Fondos Comunes de Inversion PyMEs (Common Investment Funds)

FIAB	Ibero-American Federation of Stock Exchanges
GAAP	Generally accepted accounting principles
GDP	Gross domestic product
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IGM	Innovation and growth market
IPO	Initial public offering
JSE	Jamaica Stock Exchange
JFSC	Jamaican Financial Service Commission
LAC	Latin America and the Caribbean
Latinex	Latin American Stock Exchange
LSE	London Stock Exchange
MAV	Mercado Alternativo de Valores (Alternative Stock Market)
MSME	Micro-, small-, and medium-sized enterprises
MTF	Multilateral trading facility
OECD	Organisation for Economic Co-operation and Development
OTC	Over-the-counter
ROE	Return on equity
SGR	Sociedad Recíproca de Garantías (Reciprocal Guarantee Societies)
SMV	Superintendencia del Mercado de Valores
SUGEVAL	Superintendencia General de Valores
SWB	Börse Stuttgart (SWB) (Stuttgart Stock Exchange)
URF	Unidad de regulación financiera (financial regulation unit)

Foreword: Inter-American Development Bank

Micro-, small-, and medium-sized enterprises (MSMEs) comprise 99.5 percent of the businesses, 60 percent of the employed population, and about 25 percent of total gross domestic product (GDP) in Latin America and the Caribbean (LAC).[1] Despite their significance, their lack of access to finance deters them from investing in long-term assets, reduces their capacity to grow in scale, and impacts their productivity. The MSME Finance Forum has estimated an MSME financing gap of US$1.8 trillion in LAC, equivalent to 35 percent of regional GDP.[2]

On the supply side, barriers to accessing financing begin with the lack of financial depth in the region and extend to financial intermediaries (FIs), which often perceive MSMEs as riskier borrowers than larger firms. Also, FIs in the region frequently do not have access to financial instruments such as guarantees.

On the demand side, MSMEs often lack admissible collateral, knowledge, and capacity. Few MSMEs have financial records or business plans, reducing their chances of finding suitable financing options in banks and other traditional financial institutions. As a result, the percentage of credit-constrained MSMEs in the region is about 22 percent of the total, while a third of women-owned MSMEs face credit constraints.

The Inter-American Development Bank (IDB) supports efforts to broaden the range of financing options for MSMEs in the LAC region, including using fintech solutions such as crowdlending. A study published by the IDB and the Cambridge Centre for Alternative Finance (CCAF) at the University of Cambridge found that alternative finance volumes in the LAC region reached US$5.27 billion in 2020, 86 percent of which was aimed at MSMEs.[3] Another joint IDB-CCAF study showed that as a result of the funding, MSMEs in five jurisdictions reported that they had increased or maintained their number of employees (92 percent of the total), income (86 percent), and turnover (84 percent).[4] However, only eight jurisdictions in LAC have regulated crowdfunding, and of those, three have authorized crowdlending as a regulated activity.[5]

Capital markets have untapped potential to address some of the funding needs for MSMEs in the LAC region. This includes installed capacity for market infrastructure, such as stock exchanges, clearinghouses, and valuation facilities, among others. This study assesses long-term financing instruments for MSMEs and the regulatory frameworks and incentives that enable them. It also presents business models to finance MSMEs that could be applied in the region based on international experience. The study presents best practices from Europe and the region, where junior exchanges and other vehicles are used to finance equity and debt for MSMEs.

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[1] See https://www.oecd.org/latin-america/regional-program/productivity/sme-development/
[2] See https://www.smefinanceforum.org/data-sites/msme-finance-gap#field-data-sites-tabs-tab-1.
[3] See https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/the-2nd-global-alternative-finance-market-benchmarking-report/
[4] See https://www.jbs.cam.ac.uk/wp-content/uploads/2022/08/2022-08-30-ccaf-report-sme-access-to-digital-finance-latam.pdf
[5] See https://www.iadb.org/es/sectores/iniciativas/digital-finance-innovation/fintechregmap.

Specifically, the study highlights the increasing role of collaboration between the private and public sectors and the importance of taking advantage of the opportunities presented by new technologies and data. It also recommends public policy options for financial authorities, such as sponsoring initiatives at the initial stages through the issuance of guarantees and enabling fintech, among others. Taking all of the elements mentioned above together, one interesting finding shows that, when appropriately regulated, crowdlending can be an alternative for MSME funding through the infrastructure and capabilities of the securities exchanges.

This study is an excellent example of our collaboration with market infrastructures, such as our close joint work with the Ibero-American Federation of Stock Exchanges (Federación Iberoamericana de Bolsas, or FIAB). With this study, the IDB, through its Connectivity, Markets, and Finance Division, is strengthening its commitment to supporting LAC countries in improving access to finance by MSMEs and providing innovative solutions that are appropriate for their characteristics and reality.

Anderson Caputo Silva
Division Chief
Connectivity, Markets, and Finance Division
Institutions for Development Sector
Inter-American Development Bank

Foreword: Ibero-American Federation of Stock Exchanges

Although MSMEs represent a smaller share of global GDPs, their potential as catalysts for prosperity is immense. They play a vital role in job creation, act as agents of growth, and prioritize innovation.

Unfortunately, MSMEs face numerous obstacles and barriers when seeking capital and financing for their operations and expansion. Traditional bank financing is rarely accessible to them, and the capital markets present an even greater challenge. Among the factors contributing to these barriers are a lack of understanding about how capital markets operate, high costs, investor concerns about risk management, and complex regulatory requirements.

We recognize our ability to address some of these obstacles. However, true progress requires collaboration with regulatory bodies and the public sector. To successfully integrate MSMEs into capital markets, we must establish simpler and more affordable schemes.

The Inter-American Development Bank has provided invaluable insights into the challenges faced by MSMEs, offering successful case studies from various jurisdictions and presenting valuable recommendations. Building on this foundation, we believe it is essential to evaluate the actions taken by members of FIAB to measure the progress achieved because of these recommendations. Moreover, monitoring the actions of regulatory bodies to ensure their collaboration with stock exchanges in facilitating the integration of MSMEs into capital markets is crucial.

FIAB extends its sincere gratitude to the IDB for its support and valuable insights as we collectively strive to promote the growth and success of MSMEs in capital markets. Through our joint efforts, we can create an inclusive and supportive environment for MSMEs, unlocking their potential to drive economic growth and innovation in our region and beyond.

Olga Cantillo
Executive President and CEO of Latinex
Chairwoman and Ex-President of the Ibero-American Federation
of Stock Exchanges

Executive Summary

Capital market financing for MSMEs in the Latin American and Caribbean (LAC) region is one of the policy challenges under the pillar of diversified financing modalities. It requires sophisticated and innovative institutional arrangements to respond effectively to their needs. The development of long-term financing instruments for MSMEs and proper regulatory frameworks for new instruments is a key growth agenda for policymakers and regulators that should be incorporated into a comprehensive menu of policy options on MSME finance. These instruments, such as mini-bonds, must be specifically tailored to MSMEs, providing more flexibility than those offered to large corporates (e.g., smaller size, lower costs of issuance, simplified disclosure requirements).

This study finds that governments and regulators can play a fundamental role in increasing acceptance and trust in new forms of MSME funding through capital markets. Incentives, such as subsidies, guarantees, and tax incentives, can be offered to both investors and MSMEs to facilitate faster adoption. In general, collaboration between regulators and exchanges is a key element that can drive the success of these innovative forms of financing. Ultimately, they control the requirements imposed on MSMEs to access capital markets. When regulation is not tailored and proportional to the needs and resources of smaller firms, they may quickly become discouraged and disengaged, causing the markets to fail.

Capital markets whose exchanges support investors in the screening and risk assessment of issuers are more successful. Building a strong credit culture is critical in helping reducing information asymmetry, building trust, and allowing a more effective allocation of funds. New data and credit risk models are available to support exchanges and investors in assessing the creditworthiness of MSMEs to reduce the risk of early failures and allow constant monitoring of credit profiles and covenants.

Results herein reveal that governments that invested more in the financial education of MSMEs achieved better outcomes, both in terms of faster adoption and better risk-reward trade-offs. Most MSMEs in the LAC region are unaware of the options available for funding. Bank lending continues to be perceived as the easiest choice. Also, they tend to lack a basic understanding of the main drivers of their credit risk profile. This increases uncertainty and vulnerability, as MSMEs often select the wrong time to raise funds.

Finally, in several LAC countries, there is a healthy relationship between regulators, exchanges, and fintechs. This increases opportunities for MSMEs and accelerates the development of technologies that can support faster and more effective deployment of funds through capital markets.

Introduction

MSMEs are a key sector in LAC economies because of their contribution to job creation and their share of the total number of companies in the region. However, their support to GDP growth is relatively small due to their low productivity and inability to raise funds to scale. Access to bank funding for MSMEs has always been difficult because of the higher perceived credit risk, which limits the supply of credit that banks can provide due to risk tolerance parameters and capitalization requirements. This study explores the role that capital markets can play in helping MSMEs secure the funding needed to grow. It also proposes ways that governments, regulators, and exchanges can contribute to the success of these initiatives.

Rationale

In the aftermath of the financial crisis of 2008–2009, credit disintermediation, the low-interest rate environment, and greater regulation of the banking sector have affected the expansion of the non-bank financial sector worldwide. The move to market-based instruments to obtain resources and an intense search for yield due to low, risk-free rates have led to a notable growth of innovative funding options for corporates. In recent years, these new options have played an important role in supporting real economic activity globally. They have diversified the credit supply for businesses and households and have led to healthy competition as alternatives to traditional bank financing.

Across the LAC region, the scarcity of equity funding has limited the opportunities for growth for all companies, but especially for MSMEs. Debt has been the main, and often the only, source of working capital, with banks being the preeminent lenders. The LAC region has about 27.5 million MSMEs, some 26.2 million of which are microenterprises. The overall funding gap for MSMEs is estimated to be $1.8 trillion (IFC, 2019). In 2017, this gap was the second largest in the world, after the East Asia region. The global economic crisis of 2008 highlighted the main limitation of a bank-centric financing system: procyclicality (Thomadakis, 2017). The contraction in the amount of credit offerings had a significant negative impact on the entrepreneurial fabric, since no alternative forms of financing had been seriously considered until that point.

A feeble and fragmented business-to-bank relationship, excessive weakness in corporate capital, and a lack of diversification of financing sources are problems that can no longer be ignored. They require integrated and immediate solutions. These obstacles should be tackled on the supply side, through the implementation of a progressive process of partial disintermediation of the credit system and the development of alternative markets and instruments, and on the demand side, by preparing the business culture to consider frameworks that are more open to external capital. These objectives are highly ambitious, yet achievable by strengthening alternative sources of risk capital and debt that are sustainable and accessible to MSMEs.

The limited development of the stock market in the LAC region cannot be explained merely by the small number of companies that could be listed. The reason for the lack of listings is attributable in part to structural deficiencies of the companies, but largely to cultural factors (OECD, 2019). For MSMEs, accessing capital markets incurs direct dues deriving from the listing process and implicit costs associated with the necessary effort to make them transparent and more visible to external investors, as well as loss of control. Although still to a limited extent, MSMEs globally are moving toward diversifying their liabilities, which will necessarily require transparency and a new system of governance open to the outside world. The need to cover the funding gap is dictated by the need to support future business growth, which was negatively affected in the past by the numerous bankruptcies attributable to financial imbalance. While bank lending remains the most common source of funding for MSMEs, it is often not suitable for smaller firms. MSMEs that are particularly innovative and fast-growing are likely to not have the required cash flows and collateral for bank financing. Therefore, they need more flexible alternatives to achieve their full potential. In this context, fintechs have already proved to be a valid alternative, lending more than US$3 billion in 2019 and 2020 across the LAC region (CCAF, 2022).

Capital market financing for MSMEs is one of the policy challenges under the pillar of diversified financing modalities, which requires more sophisticated and innovative institutional arrangements to respond effectively to their tangible needs. In several countries in the LAC region, regulators and exchanges have already collaborated to offer new sources of working capital to MSMEs. The development of long-term financing instruments for MSMEs and proper regulatory frameworks for new instruments are a key growth agenda among policymakers and regulators, which should be incorporated into a comprehensive menu of policy options on MSME finance. Some of these options will be assessed in this study based on the lessons learned by regulators and exchanges in the region.

Despite the increasing interest in equity-based propositions to support MSMEs in LAC countries, debt remains the most common source of funding. This study found several debt products that could be considered an interesting alternative for MSME funding through capital markets. It also explored other debt-based capital market products that have been particularly successful in Europe.

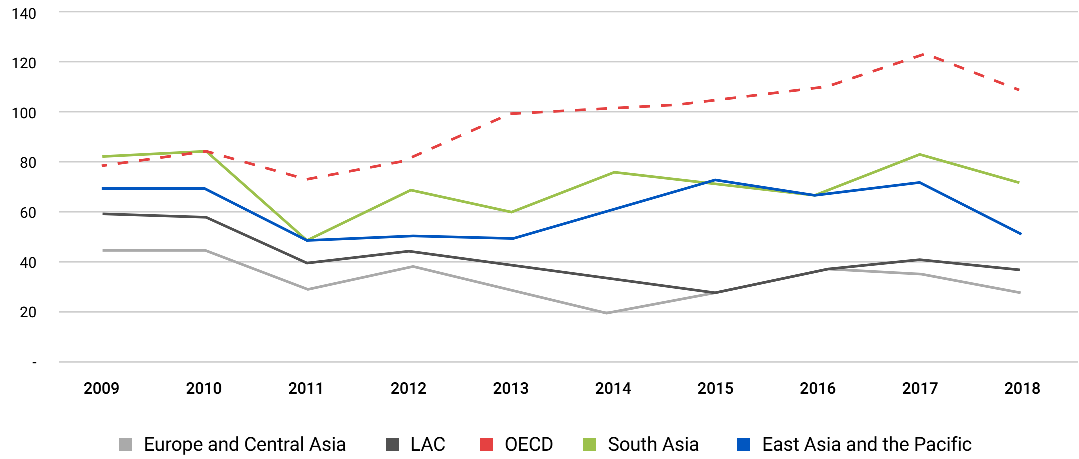
Over the last 20 years, capital markets globally have faced significant challenges. Many OECD members have seen a decline in the number of publicly listed companies and a decrease in the overall number of initial public offerings. Advanced economies such as France, Germany, the United Kingdom, and the United States have lost more than half of their listed companies, and the amount of capital raised globally through initial public offerings (IPOs) has shifted toward emerging economies (OECD, 2021a). This trend has prompted many exchanges to find ways to attract smaller companies and support them in their growth, giving them exposure to capital markets and investors in preparation for a future IPO. They are providing transparent risk metrics to investors to encourage primary and secondary market issuance and trading of MSME securities.

One of the most successful programs in this space is the Elite program on the London Stock Exchange. [6] Elite is dedicated to the most exciting and ambitious firms that have sound business models, clear growth strategies, and the desire and need to obtain funding in the future. Elite companies can access a vibrant community which facilitates structured engagement among inspiring businesses, industry experts, and the investor and corporate advisory community. The long-term objective of Elite is to improve access to more sophisticated skill sets, networks, and a diversified capital pool to secure financing and prepare for future growth.

Alternatively, several exchanges have also tried to attract MSMEs by offering private debt directly through their platform or through a third party. This type of funding also benefits MSMEs from a marketing and market awareness perspective, allowing them to increase their visibility in preparation for a future IPO.

LAC equity markets exhibited some dynamism during the first decade of the 2000s. Listed companies' market capitalization as a share of GDP rose from 28 percent on average for the period 1995–2000 to 52 percent of GDP for the period 2005–2010 (OECD, 2019). Such growth allowed the region to start reducing the economic gap with other developing and developed markets. However, the region's equity markets have experienced a slow recovery since the global financial crisis of 2008–2009 (Figure 1).

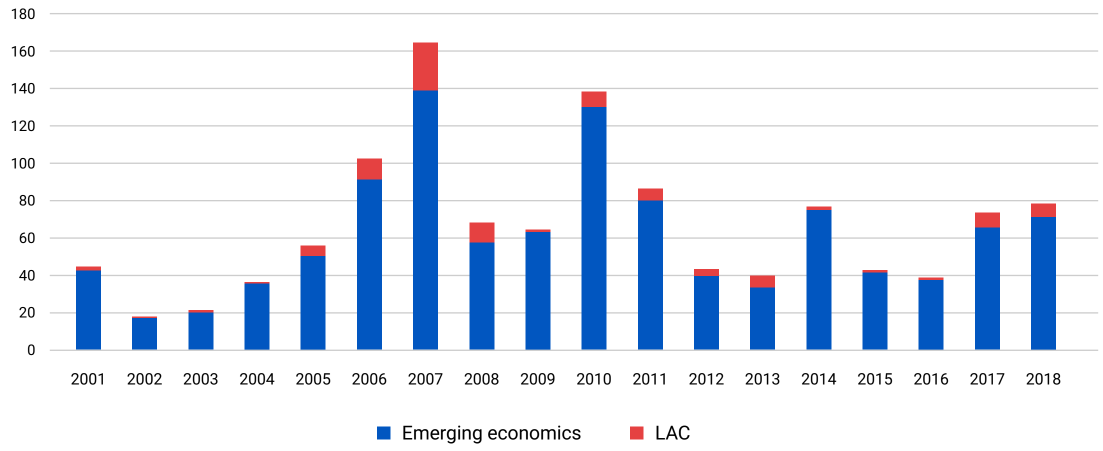
Figure 1: Equity Market Capitalization as a Share of GDP



[6] See https://www.lseg.com/resources/1000-companies-inspire-britain/elite-0

In addition to having fewer listed companies and low liquidity, equity markets in LAC also exhibit higher market concentration ratios in terms of the market share held by the 10 largest listed companies in each market compared to other developing regions (OECD, 2019) (Figure 2). Moreover, market concentration in LAC has remained stable over the last 13 years whereas in regions where the number of listed companies has grown, concentration has declined. The share of concentration in equity market volume trade in the LAC region has also remained steady compared to rising trade volumes in the South Asia region in the last two decades. High market concentration is a symptom of the dominance of large companies, which is further indicated by the average market capitalization of domestic companies.

Figure 2: Initial Public Offerings by Non-financial Corporations in Latin America and the Caribbean and Emerging Markets (in billions of 2018 US$)



In this context, increasing MSME funding through capital markets would provide important benefits. Capital markets would offer new products and market segments to increase diversification and liquidity, and MSMEs would gain access to a wider array of funding options. However, to be effective, the new products offered to MSMEs need to be different from the ones offered to large corporates. Traded corporate bonds generally have a minimum size of US$250 million. This would be too big for most of small businesses. The same applies to maturities, guarantees, issuance costs, and disclosure. For these instruments to be truly appealing to MSMEs, all their characteristics need to be proportional.

This study found that successful initiatives to provide access to capital markets for MSMEs were frequently accompanied by a significant amount of collaboration between the regulators and exchanges to find the best levers to attract MSMEs and investors. When these benefits are not well defined and visible, the interest of firms and investors remains low, and the initiatives tend to fail.

The Role of MSMEs in the Global Economy

Throughout the world, there is growing evidence that MSMEs play an important role in the economic development of any country. They are increasingly attracting attention in developing countries, countries in transition, and developed economies. In market economies, MSMEs are the engine of economic development. Thanks to their private ownership, entrepreneurial spirit, flexibility, and adaptability, as well as their potential to react to challenges and changing environments, MSMEs' contribution to sustainable growth and employment generation is significant. Sustainable finance is of interest to firms of all sizes.

MSMEs account for 90 percent of businesses and employ about 60 percent of the workforce in the world (Munro, 2013). Thus, their contribution to poverty reduction and sustainable economic growth is critical (Asare et al., 2015; Ayyagari, Beck, and Demirguc-Kunt, 2007; St.-Pierre et al., 2015; Zeng, Xie, and Tam, 2010). According to Fiseha and Oyelana (2015), MSMEs significantly contribute to the development of communities in rural economies in countries all over the world. The role of MSMEs in enhancing local development is more important to overcome poverty, inequality, and unemployment in rural areas, as they help people meet their basic needs and support marginalized groups such as disabled, female household heads, people with low educational attainment, and rural families (Fiseha and Oyelana, 2015). MSMEs also benefit the economy based on their potential for utilizing local resources such as raw materials, mobilizing local savings, providing opportunities for self-employment, and training semi-skilled workers through apprenticeships (Asare et al., 2015).

From a growth perspective, MSMEs are less likely to be able to satisfy their funding needs than larger firms. Often, they rely on their own funds or cash from friends and family to launch and initially run their enterprises. The International Finance Corporation (IFC) estimates that 65 million firms, or 40 percent of MSMEs in developing countries, have an unmet financing need of $5.2 trillion every year, equivalent to 1.4 times the current level of global MSME lending. East Asia and the Pacific accounts for the largest share (46 percent) of the total global finance gap and is followed by the LAC region (23 percent) and Europe and Central Asia (15 percent). The gap varies considerably from region to region. The LAC and the Middle East and North Africa regions have widest finance gaps compared to potential demand, measured at 87 percent and 88 percent, respectively. About half of all MSMEs in the LAC region lack access to credit (IFC, 2017).

Terminology

Providing a single definition for MSMEs is challenging, mainly since definitions of small-and medium-sized enterprises (SMEs) vary widely across countries. Some refer to them as small businesses, some as SMEs, while others call them MSMEs. Definitions also vary depending on who is doing the defining: international institutions, national laws, or industry.

Precisely defining SMEs is key for assessing economic performance within countries and between countries and across sectors. Such assessments provide valuable information for policymakers to estimate the categories of businesses and their contribution to employment, gross domestic product (GDP), and other economic indicators, to guide strategic policies aimed at supporting MSMEs.

In Europe, the Commission Recommendation of May 6, 2003, contains a definition of MSMEs. Specifically, (i) the category of MSMEs is made up of enterprises that employ fewer than 250 employees and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million; (ii) a small enterprise is defined as an enterprise which employs fewer than 50 employees and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million; and (iii) a micro-enterprise is defined as an enterprise which employs fewer than 10 employees and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million. Table 1 presents common definitions of MSMEs in various countries by number of employees.

Table 1: Most Common Definitions of MSMEs in OECD Countries by Number of Employees

	Micro	Small	Medium	SME	Large
EU Countries	1–9	10–49	50–249	1–249	250+
Australia	0–9	10–49	50–199	0–199	200+
Canada	0–9	10–49	50–499	0–499	500+
Japan	4–9	10–49	50–249	1–249	250+
Korea	5–9	10–49	50–199	5–199	200+
New Zealand	1–9	10–49	50–99	0–99	100+
Turkey	1–19	20–49	50–249	1–249	250+
United States	1–9	10–99	100–499	1–499	500+

Source: Authors' compilation.

There is no common definition of an SME in the LAC region. As regional economic integration is progressing, it is important to have one (SELA, 2015). Ideally, it should be based on criteria that are easy to measure and verify, avoiding complex, sector-specific definitions. To avoid discrepancies in interpretation, the definition should clarify the status of the self-employed and introduce an independence clause. Employment is considered a good proxy for enterprise size (Table 2), but the employment criterion is not widely used across the Latin America. Governments should conduct broad consultations with input from the private sector to ensure that the definition is applicable across various policy areas and well understood by the business sector.

Table 2: Most Common Definitions of Firm Size in the LAC region by Number of Employees

MSME Definitions (number of employees)				
Country	Micro	Small	Medium	Large
Argentina	<5	6–24	25–96	>96
Barbados	<5	5–25	26–50	>50
Belize	<5	5–19	20–50	>50
Bolivia	1–4	5–14	15–49	>49
Brazil	0–9	10–49	50–249	>249
Colombia	<11	11–50	51–200	>200
Costa Rica	1–5	6–30	31–100	>100
Dominica	<5	5–24	25–50	>50
Dominican Republic	1–9	10–49	50–99	>100
Ecuador	1–9	10–49	50–199	>199
El Salvador	<11	11–50	51–100	>100
Guatemala	1–10	11–80	81–200	>200
Jamaica	<6	6–20	21–50	>50
Mexico	0–10	11–50	51–250	>250
Nicaragua	1–3	4–30	31–50	>50
Paraguay	1–10	11–19	20–49	>49
Uruguay	<5	5–19	20–99	>99
Venezuela, RB	1–4	5–20	21–100	>100

Source: MSME Economic Indicators. 2021. SME Finance Forum. https://www.smefinanceforum.org/datasites/msme-country-indicators

MSMEs use several products to satisfy their funding needs. These are generally either debt-based or equity-based. In the LAC region, MSMEs commonly use debt-based products. The amount of funding they need is generally small and mainly used for working capital. Table 3 summarizes several types of products used by MSMEs in different countries, which the exchanges have often used to ease their entry into the MSME market.

Table 3: Products commonly used by MSMEs in the LAC Region to Access Funding

Category	Products	Purpose
Debt-based	• Term loans • Mini-bonds • Invoice/trade finance • Checks • Crowdfunding	These products are generally used to support the funding of working capital of the MSMEs in the short term (less than one year). Mini-bonds can be used to fund long-term investments in fixed assets with up to six years maturity.
Equity-based	• Junior exchanges • Crowdfunding • Revenue sharing	Institutional investors can provide equity through junior equity markets specifically focused on MSMEs or through private firms (fintechs) that can help raise equity funds. Exchanges have started to partner with these firms to increase their reach into the MSME market.

Source: Authors' elaboration.

Methodology

This study consisted of data collection through interviews and surveys of exchanges and regulators in the LAC region and in other countries throughout the world. The research team agreed on the questions in line with the objectives of this study (see Appendix 2 for the questions in the surveys administered to the exchanges and regulators). One survey was sent out to all FIAB members (exchanges) located in 15 LAC countries between March and June 2022. Twenty-two exchanges (93 percent) in 14 countries responded to the survey (Table 4).

Table 4: Exchanges Surveyed

Organization	Country
Mercado Argentino de Valores S.A.	Argentina
Bolsa de Comercio de Buenos Aires	Argentina
Bolsa de Comercio de Rosario	Argentina
Bolsas y Mercados Argentinos SA (BYMA)	Argentina
Mercado Abierto Electrónico	Argentina
Bolsa Boliviana de Valores S.A.	Bolivia
Bolsa Electrónica de Chile (BEC)	Chile
Bolsa de Santiago	Chile
Bolsa de Valores de Colombia (BVC)	Colombia
Bolsa de Valores de Costa Rica	Costa Rica
Bolsa de Valores de la República Dominicana (BVRD)	Dominican Republic
Bolsa de Valores de Guayaquil S.A. BVG	Ecuador
Bolsa de Valores de Quito	Ecuador
Bolsa de Valores de El Salvador	El Salvador
Bolsa Mexicana de Valores (BMV)	Mexico
Bolsa Institucional de Valores (BIVA)	Mexico
Latin American Stock Exchange (Latinex)	Panama
Bolsa de Valores de Asuncion	Paraguay
Bolsa de Valores de Lima (BVL)	Peru
Bolsa de Valores de Montevideo	Uruguay
Bolsa Electrónica de Valores del Uruguay (BEVSA)	Uruguay
Bolsa de Valores de Caracas	Venezuela

Source: Authors' compilation.

A second survey was sent to 28 regulators across 26 countries in the LAC region between June and July 2022. Seventeen of them (61 percent) responded. Their answers have informed the study (Table 5).

Table 5: Regulators Surveyed

Organization	Country
Comisión Nacional de Valores de Argentina	**Argentina**
Autoridad de Supervisión del Sistema Financiero (ASFI)	**Bolivia**
Comisión para el Mercado Financiero CMF	**Chile**
Superintendencia Financiera de Colombia	**Colombia**
Unidad de Regulación Financiera (URF)	**Colombia**
Consejo Nacional de Supervisión del Sistema Financiero (CONASSIF)	**Costa Rica**
Superintendencia General de Valores (SUGEVAL)	**Costa Rica**
Registro del Mercado de Valores y Mercancias	**Guatemala**
Guyana Securities Council	**Guyana**
Comisión Nacional Bancaria y de Seguros	**Honduras**
Comisión Nacional Bancaria y de Valores	**Mexico**
Superintendencia de Bancos y otras Instituciones Financieras	**Nicaragua**
Superintendencia del Mercado de Valores Rep. Panamá	**Panama**
Superintendencia del Mercado de Valores (SMV)	**Peru**
Centrale Bank van Suriname	**Suriname**
Trinidad and Tobago Securities and Exchange Commission	**Trinidad y Tobago**
Superintendencia de Servicios Financieros	**Uruguay**

Source: Authors' compilation.

The team conducted 15 virtual interviews with representatives from the largest exchanges and regulators between March and July 2022. Table 6 lists the institutions interviewed.

Table 6: List of Institutions Interviewed

Organization	Country
Mercado Argentino de Valores	**Argentina**
Babados Stock Exchange	**Barbados**
Commissao de Valores Mobiliarios	**Brazil**
Comisión para el Mercado Financiero	**Chile**
A2censo - Bolsa de Valores de Colombia	**Colombia**
Superintendencia Financiera de Colombia	**Colombia**
Borsa Italiana	**Italy**
Financial Services Commission	**Jamaica**
London Stock Exchange Group	**London**
Bolsa Institucional de Valores (BIVA)	**Mexico**
Intelligentia (Gonzalo Cegarra)	**Mexico**
Superintendencia del Mercado de Valores	**Panama**
Bolsa de Valores de Lima	**Peru**

Table 6: List of Institutions Interviewed (continuation)

Organization	Country
Superintendencia del Mercado de Valores	**Peru**
Bolsas y Mercados Espanoles	**Spain**

Source: Authors' compilation.

CHAPTER 1

The Role of Capital Markets in Funding MSMEs

An estimated 40 percent of MSMEs in developing countries, or 65 million firms, have a yearly unmet financing need of US$5.2 trillion (IFC, 2017). This equals 1.4 times the current lending by MSMEs globally. The LAC region accounts for over US$1.2 trillion of this finance gap, compared to an estimated demand of 87 percent.

An important reason that MSMEs have more difficulty accessing funding than larger firms is that smaller firms have trouble proving the credibility of their credit quality, which results in a greater degree of information asymmetry.[7] Further, it is well known that MSMEs are not scaled-down versions of larger corporates (Cressy and Olufsson, 1997). Consequently, they tend to rely on financing through informal sources, as well as trade credit (Peterson and Rajan, 1994; 1997). This is consistent with the finding of Lawless O'Connell, and O'Toole (2015) that SMEs in the 28 European countries they studied rely on trade credit and informal sources for funding, while very few use debt securities, subordinated debt, or external equity. Using survey data on thousands of firms in the euro area, Öztürk and Mrkaic (2014) find that firm age and size are significantly positively correlated with access to finance. They also find that firms' to finance is significantly negatively correlated with both their debt-to-asset ratios and their costs of bank funding.

Robb and Robinson (2014) analyze firms in the United States and find that startups rely heavily on formal bank debt. However, for a typical newly founded firm, average bank debt is proportional to the amount of personal equity, with a ratio of about 40 percent. Based on this, startups have a suboptimal activity level because (i) the scale of their operations correlates with the net worth of the founders and (ii) the entrepreneurs bear the risk of default, not the banks. Furthermore, the average firm is found to use twice as much bank debt as trade credit, and about half as many firms rely on trade credit compared to bank debt.

[7] See, for example, Beck Demirguc-Kunt, and Maksimovic, (2008); Beck and Demirguc-Kunt (2006); Berger and Udell (1998); Block et al. (2018); Masiak et al. (2019).

Access to bank funding for MSMEs has always been difficult. This is mostly explained by the higher perceived credit risk, which limits the supply of credit that banks can provide due to risk tolerance parameters and capitalization requirements. Higher risk translates to higher bank provisions that make lending to MSMEs more expensive than lending to large corporates. However, banks have always struggled to find the best way to assess credit risk for small, private firms, often relying on inadequate credit assessment procedures plagued by informational asymmetry (Altman, Esentato, and Sabato, 2020). In the last few years, new data and models are becoming available, including transactional and banking data, which is allowing financial institutions to improve their credit assessment and increase the confidence of their lending.[8]

In sum, these findings suggest that there is an opportunity for increased economic activity in the LAC region by investing in solutions for better to capital for MSMEs. Indeed, as MSMEs struggle with financing constraints, Öztürk and Mrkaic (2014) suggest that policies should ensure more access to credit for these firms, such as by establishing markets for more financing options that can complement traditional bank lending.

A larger literature shows that improved development of financial markets, both for equity and debt, is associated with higher economic growth.[9] This is shown to be true also for developing economies. For example, Leiponen and Poczter (2016) study microdata from developing economies and find a 28 percent increase in the probability of firm innovation when external financing increases by one standard deviation. This increase in innovation with external financing is found to be particularly prominent for younger and smaller firms, indicating that MSMEs would especially benefit from better access to finance. Further, Leal and Carvalhal (2006) argue that the bond market is a large part of GDP in developed countries but is still underdeveloped in emerging markets. They investigate the Brazilian bond market and find evidence that domestic bonds are used as an alternative to bank loans. Further, they find that the two biggest challenges for the local bond market are low liquidity of the secondary market and low market capitalization of individual firms.

Financial markets can be improved by strengthening the legal protection of investors and increasing the level of law enforcement (La Porta et al., 1997; 1998). Further, OECD (2016a; 2016b) suggests strengthening SMEs' access to capital by standardizing credit risk information about them so that investors can better identify opportunities. In addition, these studies suggest broadening the range of financing instruments available for SMEs. This includes corporate bonds and equity instruments, with special consideration for venture capital and private equity financing. It also includes asset-based finance, such as factoring, and financing instruments made possible through crowdfunding.

[8] See the SME Z-Score models provided by Wiserfunding, www.wiserfunding.com.

[9] See, for example, Bekaert, Harvey, and Lundblad (2003); Cameron (1967); King and Levine (1993); Levine and Demirguc-Kunt (1996); Rousseau and Wachtel (1998).

The benefits of crowdfunding are well documented. For example, Balyuk Berger, and Hackney, (2020) find that financing through lending-based crowdfunding platforms boost hiring at small businesses. Moreover, Bazley (2019) analyzes U.S. data and finds that lending-based crowdfunding moderates the diminished growth in business establishments associated with less access to credit due to bank mergers and natural disasters.

An important step in achieving more crowdfunding activities is to adapt the legal system in a way that facilitates crowdfunding. For example, Rau (2020) investigates 2,225 crowdfunding platforms worldwide over the 2015–2018 period and finds that the legal system explains a large proportion of the level of crowdfunding volume. Indeed, European countries are currently adopting country laws to an EU regulation that establishes a framework for equity-based and lending-based crowdfunding.[10] The framework aims to facilitate a well-functioning internal market for crowdfunding of business activities while strengthening investor protection.

Alternative sources of finance for MSMEs have increased rapidly, also for LAC countries. For example, OECD (2020) finds this to be the case for Chile, Colombia, and Peru. Moreover, Ziegler et al. (2021) survey platforms that offer alternative finance, that is, digital and online finance activities that have emerged outside of the incumbent banking systems and traditional capital markets. The survey reveals that alternative finance volumes in the LAC region had rapid growth from US$1.81 billion in 2018 to US$4.83 billion in 2019, followed by a 9 percent increase to US$5.27 billion in 2020. The 2020 volume comes mainly from Brazil, Chile, Mexico, Colombia, Peru, and Argentina, with US$3.371, 0.804, 0.537, 0.342, 0.073, and 0.069 billion, respectively. Balance sheet business lending accounted for the largest share (>60 percent) of alternative finance volumes in the LAC region in 2020, followed by invoice trading (>20 percent) and balance sheet consumer lending (>7 percent). Moreover, the World Bank Group (2020) reports that the total amount of funding raised via equity crowdfunding platforms in Brazil increased from BRL 8.3 million in 2016 to BRL 46 million in 2018. Despite these innovations, the gap between MSME needs and funds available is still considerable.

Nassr and Wehinger (2016) argue that policies addressing the financing gap of SMEs should focus on young, high-growth firms. This is because these are responsible for a disproportionately large share of an economy's net job creation, as shown by Criscuolo, Gal, and Menon (2014) on firm-level data across 17 OECD countries and Brazil. A further argument for focusing on policies aimed at young, high-growth firms are because such firms are dominant in knowledge intensive and high-tech sectors (Machado and Wilson, 2014).

[10] See EU regulation 2020/1503 (https://eur-lex.europa.eu/eli/reg/2020/1503/oj).

There is growing need to promote positive changes in economic behavior and in the financial literacy levels of individuals and households in LAC countries. Lack of financial education often drives mistrust of financial institutions. This translates to a lack of ability and/or understanding for the majority of MSMEs of how to access credit in the region (Garcia et al., 2013). Policymakers now recognize the need to address shortcomings in financial literacy levels through financial education programs and wider initiatives, such as national strategies for financial education (Grifoni and Messy, 2012). Financial education has become a policy priority for public institutions globally as well as for international organizations and multilateral institutions operating in the region. It can contribute to reduce the demand-side barriers to financial inclusion. Improved financial literacy can increase both awareness and understanding of financial products and services, and, as such, promote demand of financial products and their effective use (OECD, 2021b).

CHAPTER 2

Global Experience in Funding MSMEs

Italy (Borsa Italiana—Euronext)

In Italy, the Borsa Italiana exchange has successfully pioneered a new model for SME credit financing with the creation of the SME mini-bond market. "Mini-bond" is a non-technical term used to refer to debt securities that take advantage of a simplified issuing mechanism enabled by package of regulatory reforms in 2012.[11] The objective of the law was to generate liquidity and growth for SMEs by reducing barriers to capital market entry for SMEs and unlisted companies. The reforms prompted Borsa Italiana's parent company, *Euronext*, to encourage mini-bond market development by re-branding the dormant European Alternative Investment Market as Euronext Growth, an SME-friendly marketplace for equity and debt securities. Domestic Italian mini-bonds are traded on the *ExtraMOT*, a multilateral trading facility (MTF) submarket of the Borsa Italiana founded in 2013 and dedicated to bonds, commercial paper, and project finance bonds that are exclusively available to professional investors. As of December 2021, *ExtraMOT* supported approximately 223 issuances worth €9.5 billion, with approximately 160 issues listed. The majority (86 percent) of issuances were below €50 million (see Appendix 1).

[11] Mini-bonds were introduced by Law Decree no. 83 of 22 June 2012 converted with Law 134/2012 (the so–called Decreto Sviluppo or Development Decree) as amended by Law Decree 179 of 18 October 2012 converted with Law 221/2012 (the Development Decree bis).

Issuer interest had historically posed the greatest constraint on the development of SME capital markets; therefore, the critical aspect of the reform package was the introduction of a regulatory framework of proportional requirements for issuing SMEs. Cost and complexity of compliance were the greatest barriers to issuance of SMEs[12] before the law, as traditional requirements for large corporations in areas like reporting frequency, accounting standards, auditing, and issuance costs posed onerous burdens on SMEs. New proportionality requirements reduced these barriers while preserving information transparency and risk management mechanisms that satisfied a diverse range of qualified investors, including the critical segment of risk-averse, conservative institutional investors. For example, Euronext Growth allows issuing companies to use local Generally Accepted Accounting Principles (GAAP) accounting standards as opposed to International Financial Reporting Standards (IFRS), which typically incurs higher overheads. Only two years of audited financial statements are required for Euronext Growth, as opposed to three as required on the Euronext main market. Issuances require a cheaper, lighter-touch Listing Sponsor as opposed to a costlier Listing Agent as an intermediary, and issuances below €8 million require a lighter prospectus document than the formal EU Prospectus. Ongoing SME listings are required to file semi-annual accounts that do not require an audit, whereas main market accounts require an audit from a third party.[13]

Attracting issuers to the mini-bond market required explicit incentives and education. Euronext launched the *Elite* program to provide hands-on advisory support to potential issuers, using the support both as an opportunity to market the advantages of mini-bonds while easing the operational overhead of listing. Lowering the cost of capital has proven to be the strongest incentive to improve the attractiveness and success of mini-bonds among issuers. At introduction, mini-bond interest rates were 7 to 8 percent and often incurred higher issuance costs than traditional bank loans, disincentivizing many from issuance. As of 2021, average interest rates have declined to 4 percent, but are rising again in 2022. Preliminary results from a study commissioned by the Borsa Italiana indicate that bonds incur a lower overall cost of capital than bank loans: comparatively, bonds increase the employment rate for companies with listed bonds and correlate with a +0.4 percent uplift in return on equity. Additionally, listed SMEs report intangible strategic benefits from listing. The perceived prestige of listing has improved brand value perception in the marketplace, strengthening their ability to attract talent and develop new investor relationships. Euronext launched the Elite program to provide hands-on advisory support to educate and prepare SMEs for listing.

[12] According to Italian regulation, SMEs are defined as companies with fewer than 250 employees and annual turnover of no more than €50 million.
[13] See https://www.euronext.com/en/raise-capital/how-go-public/choosing-market

To include a new and improved credit culture into the mini-bond market and promote secondary trading of these bonds, Borsa Italiana commissioned a study (Altman, Esentato, and Sabato, 2020). This resulted in the development and implementation of a sophisticated credit scoring approach to assess the creditworthiness of mini-bond issuers. The new approach would hopefully provide enhanced transparency about the risks and rewards in investing in the primary and secondary mini-bond market. The importance of a common reference and its established creditworthiness assessment cannot be overemphasized to provide a knowledgeable and recognizable risk metric, especially in a market which includes mostly unrecognizable names of smaller companies.

Three recent developments, however, have negatively impacted the effectiveness of the mini-bond initiative since the 2012 regulatory reforms. First, new reporting regulations have been extended from EU directives to MTFs, which have increased the cost of compliance. The increased regulatory burden has had low impact on issuance, though total listings have declined as companies feeling the increased reporting burden opt not to re-list. Second, the pandemic-induced public debt guarantees were not allocated to mini-bonds. Investors shifted their mix of investment toward guaranteed public securities and away from mini-bonds as the lower risk profile of the former improved their risk/return analysis. Guarantees were not issued to bonds primarily because compliance with guarantees regulations while issuing private securities created undue complexity in secondary markets. Third, the persistent low-interest rate environment induced by the central bank following the pandemic has led to an environment of "mini-bond washing"; banks, to preserve eroding margins, shifted lending mix away from lower-margin loan products into higher-margin bonds. However, this created an environment in which bonds were bought and held by banks rather than being issued and sold multilaterally, raising concentration risk in the marketplace.

To protect buy-side investor interest and risk, the reforms issued new incentives to investors in the form of tax breaks on mini-bond interest payments. The market permits individual investors as well as retail investors but requires formal accreditation to compensate for the increased risk profile inherent to SMEs. Going forward, new government legislation could examine mandatory minimum asset allocations for public institutional funds into SME asset classes to increase capital deployment to mini-bonds and SME equity.

In recent years, crowdfunding has become an increasingly viable fundraising option for Italian SMEs, and Borsa Italiana has found them to be a collaborative partner in capital markets. Crowdfunding platforms provide the primary issuance of equity or debt; by doing so, issuers receive preparation to list on Euronext Growth as a secondary marketplace where requirements permit.

United Kingdom (London Stock Exchange)

The United Kingdom has developed one of the world's most advanced SME funding environments with sophisticated capital markets that offer a variety of securitization options for SMEs and investors. The most notable and distinguishing feature of UK SME capital markets is the *Alternative Investment Market* (*AIM*). The London Stock Exchange (LSE) created AIM in June 1995 as an equity-only marketplace designed to support SMEs with a market capitalization between £50 million and £1 bilion. AIM currently does not support debt issuances, predominantly due to a lack of interest among issuers. Debt servicing costs remain prohibitively high, especially since some high-growth issuers are pre-revenue or loss-making startups. Additionally, small potential ticket sizes for issuers are unattractive to the investor set because the associated return on investment does not compensate highly enough for the cost of performing security analysis. Going forward, this makes "basket bonds" an attractive alternative instrument to incentivize institutional investment to hold SME debt by increasing the quantum of issuance.

AIM operates as a sub-market of the LSE under a distinct regulatory framework that provides several benefits for SMEs. Crucially, AIM is a self-regulating entity that enforces proportional requirements for issuance, reporting, and compliance. Issuers are required to maintain a nominated advisor from an accredited set of approved investment banks, regulated by AIM under UK law; the nominated advisor, rather than the Financial Conduct Authority (FCA) directly, is responsible for reviewing admissions documents and regulatory filings, which reduces the cost and difficulty of listing for SMEs. Because of its strength and longevity, AIM has become a model for SME equity markets around the world, like Euronext's Growth Market and the Jamaican Junior Market. AIM currently serves 820 listings with an average market capitalization of £150 million, and IPOs typically range from £30–50 million. AIM attracts strong interest from foreign entities, with 30 percent of listings with foreign domicile.

Strong capital supply is driven by a competitive, experienced investor set bolstered by favorable tax incentives. Institutional investors have created dedicated SME funds, creating a captive audience that understands the risk-reward trade-offs for SMEs. The government stimulates investor interest through tax incentives on capital gains and income for investors and owners alike.

Adjacent to public capital markets are private capital markets supported by financial technology startups and innovators (fintechs). The United Kingdom boasts the world's third-largest crowdfunding ecosystem, behind only the United States and China by market capitalization. SMEs have the option of raising equity or debt through a variety of local and multinational crowdfunding platforms like Kickstarter, Crowdcube, and Seedrs; barriers to issuance on these platforms are very low. Additionally, a vibrant ecosystem of fintechs offer a variety of credit options like peer-to-peer (P2P) lending, revenue-based financing, invoice factoring, and supply chain financing that SMEs can approach for private loans and credit lines. Some platforms, like crowdlenders, grant access to retail and institutional investors alike without requiring any formal certifications, taking advantage of strong financial literacy and inclusion among the general populace.

Spain (Bolsas y Mercados Espanoles)

In Spain, SMEs represent 99 percent of companies, 80 percent of employment, and 65 percent of GDP. In the wake of the 2008–2009 financial crisis, the central government recognized a need to revive the SME sector as a component of broader economic recovery. This prompted the Spanish exchange, the Bolsa de Madrid (BME), to create BME Growth as an SME-specific MTF in 2009.

BME Growth supports equity and fixed-income securities for companies up to €200 million in total capitalization. The market's objective is to help SMEs grow by providing liquidity and visibility to listed companies in preparation for graduation to the main stock market. Since its founding in 2009, BME Growth has facilitated €5.5 billion in issuances through 439 capital increases, and 127 companies were listed at an aggregate capitalization of €19.1 billion at the end of 2021.

Similar to growth markets elsewhere, such as the LSE's AIM or Euronext Growth, BME Growth primarily incentivized SME issuance through a regulatory framework of proportional requirements. Regulators focused on proportionality in three key areas: compliance, reporting, and corporate governance. First, allowing local accounting rules rather than enforcing IFRS compliance reduced the cost of compliance, as many SMEs lacked the scale and expertise of international standards. Second, reducing reporting requirements to biannual rather than quarterly reports decreased the operational overhead of preparing company metrics. Third, the regulator allowed for streamlined corporate governance by reducing the need for audit, risk, and commissions normally required for listed corporations.

Future capital supply to BME growth is limited by liquidity and investor expertise. Because of smaller average ticket sizes, the market can explore basket instruments that aggregate sector-specific securities to increase investor appetite. Additionally, SME investment requires a more sophisticated investor set with an understanding of the differential risk inherent to SMEs, and BME Growth requires that investors either obtain investment qualifications or seek an independent qualified advisor. Two potential levers to increase the number of qualified investors are foreign investment and the increase of domestic investment via education schemes.

Germany

The SME funding landscape in Germany offers businesses a wide variety of financing options, though German capital markets have a challenging history in SME securitization. On several occasions in past decades, unexpected surges in defaults have crippled fiduciary trust between market participants, rendering these markets effectively inactive.

From 2000 to 2008, mezzanine loans were the primary source of SME funding outside of traditional bank loans. These asset-backed securities were traded on German exchanges using structured finance technology before suffering a decline that coincided with the 2008 financial crisis. Publicly traded mezzanine debt became an avenue for banks to offload poor-performing loans, creating an adverse selection problem that caused a wave of defaults and poor returns. After the market collapsed in the 2008 crisis, mezzanine debt did not revive as investors were bruised from the macro crisis and doubly wary of mezzanine debt.

Beginning in 2010, several German exchanges launched a new market segment for Mittelstand bonds, a type of mini-bond for SMEs. Of the eight German exchanges, the Börse Stuttgart (SWB) experienced the most successful attempts in SME mini-bond securitization; Mittelstand bonds were typically sold in €1,000 tickets and did not require risk ratings from corporate ratings agencies. SME issuances surged, and from 2010 to 2013 the German regulator (BaFin) reviewed approximately 150 prospectuses for Mittelstand bonds.[14] The Mittelstand bond market then suffered a similar fate to mezzanine debt when a wave of defaults, beginning in 2014, caused a sharp decline in new issuances. Investor demand and SME supply crumbled as trust in the instrument waned. Mittelstand bonds were relegated to the dustbin of history, and the market has since remained dormant.

SME funding demand continues to grow in the gap remaining after past failed experiments, and crowdfunding has partially fulfilled this mandate. Over 14 crowdfunding platforms operate in Germany under BaFin regulation, the majority of which offer P2P crowdlending, like Auxmoney and Lending Club. SME loans from crowdfunders are unsecured debt obligations, and as such command only a small portion of capital deployment on these platforms. While these crowdloans are marketed as P2P retail products, most lending flows into the platforms from traditional banks rather than individuals; in this sense, crowdfunding fintechs are mostly an intermediary between banks and businesses rather than bringing new retail investment supply to SME financing.

Aside from retail lending, the most notable crowdlending activity in Germany occurs in real estate lending. Approximately 22 fintechs support real estate crowdlending, and retail investors deploy capital into subordinated debt for real estate construction projects. A similar pattern emerged for real estate crowdlending: following a recent wave of defaults in the wake of the coronavirus pandemic, activity in this sector has been dwindling.

While an SME financing gap persists in Germany, SMEs are not as underserved by traditional financiers in Germany as in other economies. Banks offer a large loan supply to SMEs, so there is little demand for capital markets and fintechs to bridge any funding shortfalls. As a result, the threshold for trust and investment returns for new financing options remains high to stimulate competition from traditional lending sources.

[14] https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2017/fa_bj_1710_Mittelstandsanleihen_en.html

CHAPTER 3

Developments in Latin America and the Caribbean

Colombia

While 99 percent of Colombian businesses are MSMEs, the percentage of SMEs that accessed formal credit to meet their requirements declined from 42 percent in 2019 to 24 percent in 2020.[15] Recent influxes of foreign equity capital, particularly through venture capital funds, have begun changing the landscape for high-growth startups. These MSMEs, however, form a minority of companies in need of funding, and a sizable gap persists. Bank lending is historically insufficient to fund MSMEs, leaving a critical role for capital markets to bridge the gap. The coronavirus pandemic strained MSMEs and brought their revival to the forefront of focus for public and private institutions.

Capital markets in Colombia have historically progressed more slowly than neighboring markets with a trend toward consolidation. Liquidity levels are lower, as Colombian average annual trading volumes amounted to 4.2 percent of GDP, compared to 13.7 percent in Chile and 9.5 percent in Mexico. From 2001 to 2018, the number of new Colombian equity issuers declined from 110 to 68, and the Colombian stock market cap reached 39.3 percent of GDP; by comparison, Chile had 212 new issuers and a market cap of 106.4 percent of GDP, while Brazil's market cap reached 46.4 percent.[16] According to OECD research, most Colombian issuers are large "multilatina" corporations that operate around the LAC region.[17]

[15] https://www.oecd-ilibrary.org/sites/a01e1fec-en/index.html?itemId=/content/component/a01e1fec-en
[16] https://www.oecd.org/corporate/ca/Colombia-Latin-America-Equity-Markets.pdf
[17] https://www.oecd.org/corporate/ca/Colombia-Latin-America-Equity-Markets.pdf

Institutional investors form most capital supply, and tight government regulations on public fund allocation and compensation have blunted this segment's motivation to explore alternative asset classes and instruments with higher risk profiles. Scale poses an additional problem for MSME funding, as institutional investors typically do not invest in issuances of less than US$50 million individual MSME issuances are virtually entirely below this threshold. Prudential regulatory frameworks have tended to increase disclosure and compliance requirements for issuers without proportional requirements for small businesses, which has increased barriers to entry for MSMEs. Additionally, Colombian MSMEs often fall victim to an "inverted food chain of funding." Large corporate purchasers, which often have access to the cheapest capital, extend the length of invoices payable to MSME suppliers, placing the working capital burden upon them. As a result, security issuances are predominantly comprised of government bonds, bank debt, and corporate paper. Equities amount to a small proportion of aggregate market capitalization.

The Colombian regulatory agency, the Superintendencia Financiera de Colombia (SFC), has embarked on a program of increased competition, reduced barriers to entry, and lowered the cost of compliance to stimulate the MSME funding ecosystem. The primary initiative to target the gap has been the introduction of authorized crowdfunding platforms for MSMEs. One crowdfunding has been authorized as of 2022, with two additional licenses in progress.

A2Censo, the first crowdfunding platform authorized by the Bolsa de Valores de Colombia (BVC), was launched in 2019 and has funded almost US$16 million in debt issuances for 137 MSMEs. The platform supports debt issuances and plans to expand into equity. On average, loans offer a 10–11 percent interest rate; compared to the 4–4.5 percent range inherent to most corporate debt. This range is highly attractive to investors; 99 percent of the more than 10,000 investors are private individuals who generally invest between US$20,000 and $800,000. The average amount funded to each company is US$95,000.

Despite significant efforts to attract a larger number of institutional investors, BVC and A2Censo rely mainly on private individuals. Trust-building among investors has been a core focus for A2Censo. The platform began exclusively with debt issuances to provide a more dependable income stream to investors. A2Censo has applied rigorous risk screening to applicant funders; of 1,184 applications, only 85 companies (7 percent) have issued securities on the platform. Pandemic-era government loan guarantees of 50 to 80 percent have been implemented on these issuances, building investor confidence in the reliability of their return. With the government guarantee program ending, A2Censo is exploring no-issuance guarantees. While the initial sample size is small, initial data indicates that increasing the interest rate from ~10 percent to ~13 percent has compensated for the increased risk.

The burgeoning success of A2Censo's platform has shown promise in Colombia, and both the crowdfunders and regulators continue to embark on a program that steadily increases the availability of issuances and instruments to preserve the nascent market incentives at play.

Jamaica

Following the 2007–2008 financial crisis, the Jamaica Stock Exchange (JSE) launched the Junior Market to stimulate investment in MSMEs. The Junior Market operates with a similar model and set of objectives to the London Stock Exchange's Alternative Investment Market, though the regulatory framework of the Junior Market diverges from AIM's proportional requirements regulatory framework by enforcing uniform requirements across MSMEs and large corporations alike. As of 2022, there were 49 listings on the Junior Market: 48 of ordinary shares and 1 of preference shares.

The core objectives of the Junior Market are twofold: to provide a new channel of capital to promising MSMEs beyond bank financing and to prepare MSMEs for listing on the mature capital markets (e.g., the Main Market and Bond Market). The regulatory requirements that distinguish the Junior Market from the main market are solely based on company size: listing companies must be incorporated in CARICOM with net assets of US$330,000 to US$3.3 million (J$50 million to J$500 million). Companies can issue equity on the Junior Market, and investors must be formally accredited. Additionally, the Junior Market provides tax incentives to listed companies to stimulate interest; issuing companies do not pay any income tax for the first five years after listing, and only pay 50 percent income tax for the following five years. Otherwise, all issuing costs, reporting requirements, and corporate governance regulations are the same for the Junior Market as the JSE's Main Market.

MSMEs are also allowed to issue debt instruments on the Bond and Private Markets, though there is no separate distinction between MSMEs and large corporations in these markets. Bond spreads are typically 1.25 to 2.5 percent above the Bank of Jamaica benchmark, and SMEs command higher spreads. The Jamaican Financial Service Commission (FSC) does not require that bond issuances receive ratings, though MSMEs are incentivized to achieve ratings as this broadens the potential investor set; institutional investors dominate fixed-income capital supply, and public institutional investors require accredited ratings for their assets per separate regulations. Because the bond markets do not differentiate MSMEs from the main market, the high relative cost of issuance and compliance disincentives issuances.

Peru

A few months before the coronavirus pandemic, forecasts of a global economic slowdown impacting emerging markets in 2019 prompted the Peruvian legislature to take action to protect the private sector. As in other Latin American and emerging markets, Peru's economy is heavily dependent upon SMEs: MSMEs account for 99.5 percent of Peruvian enterprises and 89 percent of private sector employment,[18] while over 50 percent of GDP derives from the informal economy.

[18] https://www.oecd-ilibrary.org/sites/2b9cb6d3-en/index.html?itemId=/content/component/2b9cb6d3-en

The Peruvian exchange, the Bolsa de Valores de Lima (BVL), has operated the Mercado Alternativo de Valores (MAV) for growth-stage MSMEs. It has historically, however, not closed the SME financing gap. As of 2022, MAV listed 11 companies across 39 instruments, accommodating a new listing roughly every 2 to 3 years. Debt securities comprise most instruments, with 1 equity shares listing among the 39 listed instruments. Requirements for listing on MAV are the proportional for MSMEs. One year of past data is required for listing (compared to two years on the main market), with lighter ongoing requirements for reporting and sustainability compliance.

Considering a large financing gap not delivered by existing capital markets, the macroeconomic slowdown was poised to hit SMEs the hardest. In response, the government issued the MSME law (Emergency Decree NO. 013-2020) to provide rapid, cheap liquidity to SMEs. The decree was composed of two key elements: the establishment of a legal framework for securitized invoice factoring and the creation of an SME capital fund. Invoice factoring has proven to be highly successful in achieving the law's stated goals.

The new legal framework for invoice securitization created a distinct market with separate regulations from the existing capital market legislation. The authorization enabled SMEs to factor their commercial invoices into tradable instruments via private institutions, like new financial technology companies and traditional banks, to be traded on the public exchange, the BVL. SMEs did not need to be registered on the BVL to factor their invoices, and factoring requirements required light levels of information.

The BVL plays a key role in providing transparency and confidence to market stakeholders. While issuing SMEs do not need to be registered with the BVL, the exchange keeps a centralized digital register of all issuances that is traceable to factoring institutions, providing investors with a clear path of provenance. The BVL functions as the depository institution via CAVALI, the Peruvian securities register, and regulates the terms of the invoices by providing a certificate of protest that allows for cheaper, faster recovery than traditional legal channels in the event of nonpayment by the supplier. While there are no guarantees on the invoicing, easy access to recovery recourse and digital transparency have built a high level of trust in domestic and international investors.

Invoice factoring has had a dramatic impact on the sources of SME funding. Prior to the MSME law, approximately 95 percent of SME financing came from bank loans; today, less than 70 percent of funding is financed by bank loans, while 30 percent is financed by factoring institutions. The BVL has seen 80–100 percent annualized growth in market capitalization of invoice factoring, with approximately 25,000 MSMEs participating in factoring. Factoring has also been an advantageous political tool, as it has incentivized the informal sector to formalize to access capital in a cheap, easy manner.

Despite being an entirely unfamiliar asset class, investor appetite has largely kept pace with the demand for new issuances. The BVL is seeking a variety of new ways to increase capital inflows through new investment channels and instruments. Regional investors in Chile and Colombia, having experience with similar instruments in their domestic markets, have begun expanding their portfolios into Peru; in response, the BVL is exploring regional alliances with regulators and exchanges to increase scale. Additionally, the exchange is considering the addition of new instruments, like purchase orders, with a similar risk and cost profile.

Attracting local institutional funds is the next frontier for new domestic investment. The institutional investment set is highly concentrated with low-risk appetites, and high yields (~10 percent) on local government bonds crowd out capital supply to alternative assets like factored invoices, which drive similar returns (8–12 percent).

Developments adjacent to invoice factoring are the primary focus for regulatory changes to SME financing. In addition, the SMV is exploring crowdfunding and crowdlending authorization based on the success of neighboring markets, like Chile and Colombia. While MAV offers an opportunity to bridge the gap through proportional requirements, it is still primarily targeted as a vehicle to prepare companies for listing on main markets as opposed to a liquidity solution for SMEs today.

Argentina

As is observed in most emerging markets, the informal and SME economy are large in Argentina; SMEs generate 50 percent of GDP and 70 percent of registered employment. Several regulatory changes in recent decades have targeted improved financial access for MSMEs.

In 1996, Argentina passed Law 24.467 to begin the creation of Reciprocal Guarantee Societies (SGRs). SGRs are made of up Protective Members who provide guarantees to MSMEs by making contributions to Risk Funds that allow Protective Members to respond to an MSMEs creditors in the event of default.[19] Guaranteed MSMEs can use the SGRs to negotiate better interest rates and repayment terms with banks and regulated creditors. As of 2017, 36 SGRs were in operation supporting nearly US$14 billion in guarantees.[20]

Additionally, in 2013, two legacy capital markets (Mercado de Valores de Rosario and Mercado de Valores de Mendoza) merged to create the Mercado Argentino de Valores (MAV) as a segmented, specialist junior market for SMEs.[21] MAV is based on proportional requirements and a flexible suite of debt and equity products for SME, including Deferred payment cheques, e-cheques, promissory notes, factored invoices, ordinary shares, negotiable debt obligations, and municipal financing.[22] By 2021, MAV represented 12 percent of total credit in the Argentinian financial system.[23]

19 https://www.argentina.gob.ar/servicio/obtener-una-garantia-por-parte-de-una-sociedad-de-garantia-reciproca-sgr
20 https://www.unsam.edu.ar/escuelas/economia/investigacionpublicaciones/wp-content/uploads/2018/08/Manzanal_SGR.pdf
21 http://handbook.fiabnet.org/en/mercado-argentino-de-valores/
22 https://www.argentina.gob.ar/economia/inclusion-financiera/necesitas-financiamiento/obligaciones-negociables-pyme
23 https://www.mav-sa.com.ar/uploads/tx_sbdownloader/Informe_Anual_MAV_2021-.pdf

In recent years, the Central Bank of the Argentine Republic (BCRA) enabled banks to invest in Common Investment Funds (Fondos Comunes de Inversión PyMEs, or FCIs) to create new pools of debt capital accessible to SMEs. FCIs are regulated by the National Securities Commission and receive special legal jurisdiction to provide direct lines of credit and capital market investments to SMEs.

Deferred Payment Cheques (DPCs) are the most notable and successful form a securitized instrument unique to the Argentinian capital markets that have enabled a high volume of flexible credit funding available to MSMEs. DPCs were formally authorized in 2003 as a stimulus initiative in response to the 2001 *Argentinazo* economic and political crisis. Issuances gained adoption gradually throughout the decade and, in 2011, new regulation required that institutional investors allocate a proportion of their assets to MSMEs. Today, DPCs comprise 85 percent of SME financing in capital markets, and the Mercado Argentino de Valores (MAV) is the sole exchange authorized to trade DPCs due to a specialization agreement with other exchanges. Fintech platforms are not authorized for trading.

DPCs have achieved prominence as a form of SME financing due to the flexibility of issuance and exchange. Businesses issue DPCs through MAV as a payment order against a bank account with a payment date up to 1 year in the future from an issuance, which can then be traded on secondary markets similar to bonds. As a specialized form of a cheque, the issuance process for a DPC greatly resembles standard forms of cheques and invoices that businesses issue regularly. Additionally, DPCs are an executive instrument, which allows issuers to ask courts to exercise intermediate cautionary measures for unpaid DPCs before formal action is required by the creditor. Unpaid DPCs are tracked by central banks as delinquent accounts, ensuring the reliability of the instrument by incentivizing issuers to pay promptly or suffer damages to their credit ratings. Additionally, MAV has implemented proportional requirements for SMEs that lower costs and barriers to issuance. DPC regulation bears a high resemblance to invoice factoring in Peru.

Other forms of SME debt instruments include IOUs and deferred commercial invoices. Both instruments function similarly to corporate paper and are traded on the MAV, though these instruments are much less common than DPCs.

While DPCs have become the most popular form of DPCs, adoption is still constrained to a minority of SMEs. Interest rates pose a structural challenge to increased capital allocation. Lower interest rates can be used to attract more SMEs to compete with other sources of funding, like bank loans. However, lower interest rates are challenging as the historical yield for SME debt is below inflation, resulting in a negative real interest rate for investors. This problem is systemic in Argentinian capital markets, and while not unique to SMEs, poses the greatest obstacle to growth.

Brazil

Beginning in 2014, the Brazilian Securities Commission (Comissão de Valores Mobiliarios, CVM) initiated a set of regulatory reforms to incentivize MSME growth. They offered tax incentives for investment into MSMEs on the Brazilian Stock Exchange (B3). The change brought new capital supply to the market, though the MSME market segment did not develop due to a shortage of interest from MSME issuers. Stringent compliance and governance regulations created a costly legal burden for issuers that posed insurmountable for many small firms.

In response, the CVM introduced the first crowdfunding regulation in 2017 aimed at creating a new segment specifically for MSME issuance. The package allowed MSMEs (defined as businesses generating up to R$10 million in annual revenue) to raise up to R$5 million in primary issuances on regulated platforms. The legislation allows crowdfunding platforms to facilitate primary debt and equity issuances, though the majority of issuances are debt convertibles and pure debt issuances have been rare; the platforms are currently not authorized as secondary markets. The law has been perceived as a success. Today, 55 platforms are registered as crowdfunders. In 2021, the top 10 platforms raised R$124 million in 75 public issuances.[24]

The promise of crowdfunding has prompted the CVM to review existing regulations to further develop the sector. In 2022, the commission plans to issue new legislation that doubles the limits on market sizes, increasing the definition of MSME from R$10 million to R$20 million in annual revenue and raising the maximum issuance ceiling from R$5 million to R$10 million. Additionally, the CVM will propose that crowdfunders receive authorization to function as secondary marketplaces to increase capital supply by improving investor liquidity.

High yields on government treasuries have posed a structural challenge to capital markets that have crowded out funding to other debt and equity instruments alike. Interest rates on government 10-year bonds have historically ranged from 10 to 16 percent; though rates briefly dipped to a low of 6.5 percent during the coronavirus pandemic. They rapidly recovered to 12 percent+ by 2021 and challenges persist. Additionally, investors in public debt receive tax incentives that do not extend to private debt or equities, furthering the incentive divide for SMEs.

Transparency and pricing offer a particular challenge to liquidity. Virtually all trading in Brazilian debt markets occurs over the counter without pre-trade transparency, and crowdfunding platforms are not authorized as secondary markets. Additionally, MSMEs lack formal risk assessments. Standardized MSME risk measurements and pricing mechanisms can attract a higher volume of market makers and establish trust among new investors. Lastly, extending tax incentives to MSME investments, similar to public debt, will increase competition.

[24] See https://labsnews.com/en/news/business/crowdfunding-investment-platforms-raised-brl-124-million-for-startups-in-2021/

The regulatory regime can be improved to foment MSME capital markets. Notably, success in crowdfunding has pointed to initial success with proportional requirements for small businesses, and a more flexible framework can be applied to debt and equity markets alike on public exchanges to incentivize public listing. Experiences on the British AIM and Euronext Growth both point to the viability of such proportionality on a public scale.

In response, the B3 is investigating a variety of programs to improve liquidity in secondary markets. Current reporting standards are not aligned with international formats, and standardizing the structure offers a path to attracting greater foreign investment. Today, SME investments on B3 are limited to specialist institutional investors. Regulation targeting the inclusion of retail investors will broaden and deepen markets.

Chile

Despite its small population, Chile has created one of the most flexible and dynamic financing environments for MSMEs in Latin America. Beginning in 2010, Chile's governmental Production Development Corporation (CORFO) launched Start-Up Chile in response to heightened immigration constraints to the USA's entrepreneurial hubs. The organization provided a multilateral accelerator program and free venture investment into qualifying startups hailing from around the world. Since launch, Start-Up Chile has supported over 2,000 MSMEs through its mentorship program.

More recently, public debt markets have grown to support MSMEs. The Bolsa de Santiago (BS) facilitates mini-bond trading with a distinct set of regulatory requirements for SMEs. Qualifying companies with less than US$11 million in net assets face reduced regulatory requirements to issue mini-bonds. Domestic institutional investors have registered interest in mini-bonds as a new asset class, and government restrictions permit them to invest in these instruments despite higher risk profiles.

In response to the global popularity and success of innovation fintech startups, the Commission for Financial Markets (CMF) introduced the Fintech Law bill in 2021 as a legislative package aimed at widening the legal parameters for regulated crowdfunding and crowdlending platforms. The Law was approved by Congress and sanctioned by the President in 2022. Crowdlending has existed for over a decade in Chile, though without formal regulation; Cumplo, the leading Chilean crowdlending platform, began operations in 2011 and currently operates with 63 employees across Chile and Mexico. The Chilean Central Bank (BCC) has issued research[25] outlining the benefits and risks of such platforms to inform the regulatory proposal; its conclusions point towards an ecosystem in which fintech platforms like crowdlenders operate adjacent to (rather than in competition with) capital markets and bank lending. While the legislative future of the fintech law is uncertain, success from companies like Cumplo has encouraged fintechs to expand into new instruments, like invoice factoring.

[25] See https://www.bis.org/ifc/events/ifc_bnm/2_abarca.pdf

Mexico

The Mexican economy relies similarly on SMEs for domestic production and employment, though funding for MSMEs lacks the infrastructural innovation available in countries like Argentina and Chile. Investment in Mexican capital markets is heavily concentrated in the portfolios of local institutional investors and pension funds. Historically, MSMEs have struggled to raise capital from institutional investors for several reasons. Strong competition from government debt means that the risk-reward balance for MSME instruments is less attractive for institutional investors. Additionally, the risk appetite of pension funds has directed investment toward fewer, higher-value tickets in larger corporations. Insurance companies invest in local debt, but at a much lower rate (2 percent) than the global average (10 percent) due to high solvency requirements in Mexico. There are no formal secondary debt markets, though some private OTC exchanges attempt to fill this gap.

BIVA, Mexico's second stock exchange launched in 2018, is developing a program of "basket" bonds to widen access to MSME debt. Basket bonds aggregate the debt of multiple MSMEs within a similar industry to increase ticket size and attract institutional investment.

In addition to the existing programs, there are three main areas of opportunity to increase funding to Mexican MSMEs. On the demand side, the first area is to reduce barriers to issuances for MSMEs. Introducing proportional requirements would reduce the financial and administrative costs of issuance and incentivize listing. Regulatory processing to list typically takes 6 to 8 months, whereas a similar process in the United States takes 6 to 8 days. Current requirements entail quarterly financial reporting, which is unfeasible for a majority of MSMEs.

On the supply side, there are two opportunities to attract investment: incentivizing institutional investors and attracting new retail investors. Tax incentives are not feasible since Mexican pension funds are not taxed, but guarantees can be explored as further incentives to reduce the perceived risk of MSME debt. Retail investment has boomed in the past several years: the number of retail investors grew from 200,000 in 2018 to over 3 million by 2022. New vehicles like basket bonds and mini-bonds can be marketed toward these investors.

Panama

The Panamanian SME funding ecosystem is still nascent. As an international hub of banking and institutional asset management, the MSME and startup sector has historically not received much focus from government or private sector support. The first major development for MSME financing came in 2018 with the launch of the country's first crowdfunding platform, Fortesza. Fundraising activity has remained stable, approaching US$1 million in annual capital raised for startups. During the pandemic, the government launched two initiatives intending to continue supporting startup innovation. The first program delivered seed capital in the form of grants to applying businesses, while the latter provided a path to government-backed loans directly to MSMEs. As of 2022, both programs continued to exist, though the long-term horizon for these programs is unclear.

The major barriers to MSME financing in Panama relate to the cost of issuance and compliance. Under current laws, all corporations face the same cost to issue debt or equity either privately or publicly, and all listed companies are required to file quarterly earnings reports audited by a third party. Because of a highly specialized and educated investor set, capital supply poses a small barrier.

To address these concerns, the multilateral government institution Autoridad de Micro, Pequeñas, y Medianas Empresas (APYME) has begun consultations with MSME owners and investors to create a prioritized list of suggested regulatory changes. Proposals from the working group are shared with the National Assembly as they develop a new fintech law, which aims to incentivize innovation and growth among high-growth financial companies. APYME's proposals focus on regulatory changes that introduce proportional requirements and lower the cost of issuance for MSMEs. The legislative working group is still developing their recommendations, with an unclear timeline for parliamentary ratification.

Barbados

Approaching the pandemic, the Barbados Stock Exchange (BSE) faced a period of decline due to a lack of interest among issuers. As of 2022, 20 companies were listed on the exchange. In addition, the BSE reacted to recent studies showing that MSMEs in Barbados, like elsewhere around the world, struggled to raise funding after "friends and family" investments. Prior attempts to incentivize new listings focused on tax breaks for issuing companies, but these incentives were insufficient to attract new interest. Because most private companies were owner-operated, the regulation requiring a maximum of 25 percent ownership by a single shareholder posed a major obstacle to generating interest.

In response to waning interest and activity, the BSE spearheaded a multilateral reinvigoration program targeting Barbadian SMEs with support and funding from the Caribbean Development Bank (CDB). The program re-branded the BSE's Junior Market as the Innovation & Growth Market (IGM) in 2019, modelling it on the London Stock Exchange's AIM, with two core goals: providing capital to high-growth MSMEs and building a pipeline for future listings on the BSE Main Market. The IGM only lists equities currently, though the exchange is investigating debt offerings given the size of debt securities on the Main Market.

The program is currently ongoing and is being executed in three phases. The first phase has focused on educating and familiarizing market stakeholders with the desired objectives and mechanisms of the IGM. By creating a multilateral oversight committee that includes participants from the Ministry of Entrepreneurship, the Barbadian Small Business Association (SBA), and the Barbadian Financial Services Commission (FSC), the BSE coordinated outreach to more than 100 MSMEs who were potential issuers on the new IGM. The next phase involved assessing the true potential among MSMEs while building capabilities among service providers necessary for listing. The BSE contacted brokers, the Barbados bar, and a variety of financial service providers to form a network of advisors to listing MSMEs. The BSE aims to have 40 to 50 businesses participating in preparatory programs to list. The final phase of the reinvigoration program is formal listing, and the BSE is targeting 20 to 25 companies to list on the IGM.

There is no distinct regulatory framework for MSMEs in the IGM, and the SFC applies the same requirements to all listed companies regardless of size. The BSE has lowered issuance costs to 50 percent of the main market's rates to incentivize listings. While there has been some past discussion on proportionality of requirements for MSMEs, this is currently not a priority for the BSE or the SFC.

CHAPTER 4

Summary of Survey Results

Surveys were sent to all FIAB members in 15 countries in the LAC region.[26] Among these, 22 exchanges in 14 countries responded. The 14 countries are listed in Table 4.1, along with information on the population.

Table 4.1: Countries, Population, and Country Groups of Survey Respondents

Country	Population	Country group
Argentina	44.49	Large
Bolivia	11.35	Small
Chile	18.78	Large
Colombia	49.82	Large
Costa Rica	5.02	Small
Dominican Republic	10.27	Small
Ecuador	17.03	Large
El Salvador	6.42	Small
Mexico	124.65	Large
Panama	4.16	Small
Paraguay	7.05	Small
Peru	32.12	Large
Uruguay	3.51	Small
Venezuela	31.82	Large
Median	14.19	

Notes: Population is reported in millions. Countries are classified as either large or small based on whether their population is larger or smaller than the sample mean of 14.19 million.

Source: Authors' elaboration based on World Bank data.

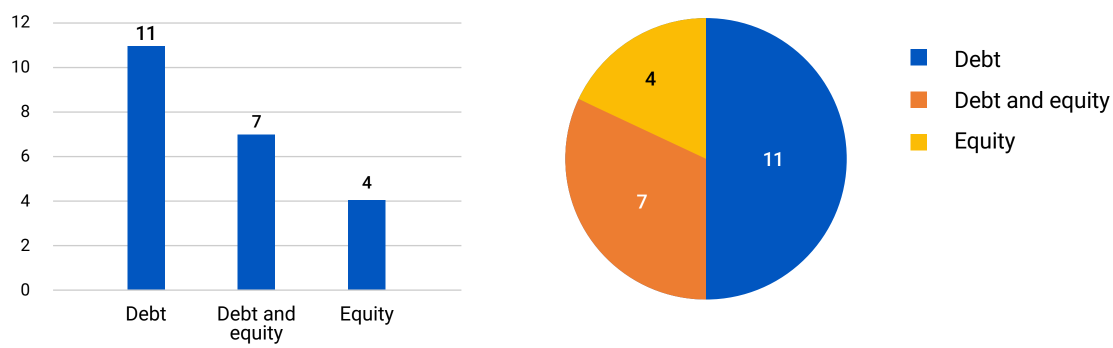
[26] The FIAB is an association of stock exchanges in Europe and the Americas. The association sets standards to which member exchanges must adhere and promotes cooperation between exchanges.

Facilities for Supporting MSME Funding

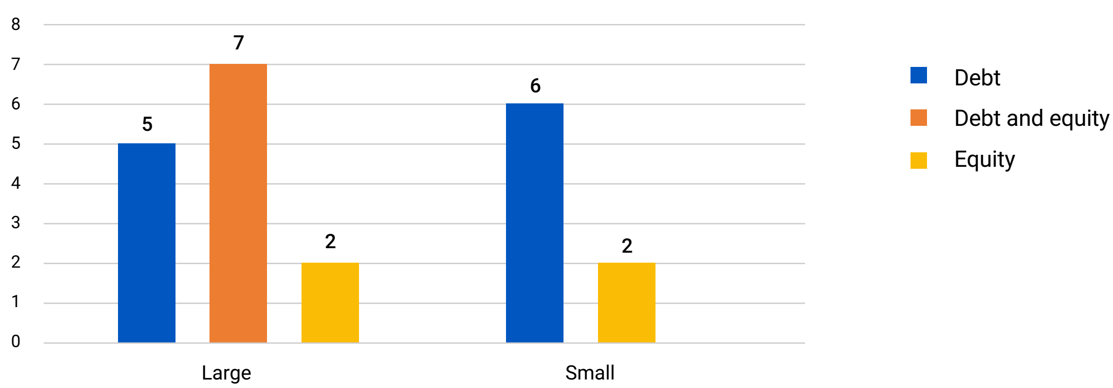
Figure 4 reports the responses obtained from the 22 participating exchanges when asked about their interest in offering facilities to MSMEs, with the option to choose "debt," "equity," or "debt and equity." Panel A shows that 11 respondents (or 50 percent) expressed interest in offering debt only. Seven respondents, or about one-third of the participants, are interested in offering both debt and equity, and the remaining four respondents (or 18 percent) are interested in offering equity only to MSMEs. Panel B splits these survey responses by size of the countries where the participating exchanges are located. As the figure shows, all seven responding exchanges that indicated an interest in issuing debt and equity are in a large country. Specifically, seven (or 50 percent) of the exchanges located within large countries indicated their interest in offering both debt and equity to MSMEs. In contrast, no single exchange located in a small country indicated an interest in offering both debt and equity to MSMEs.

Figure 4.1: What types of facilities would you be interested in offering?

Panel A: All Respondents



Panel B: Sample Split by Country Size



In a follow-up question, exchanges were asked the reasons why they intend to issue either debt, equity, or both. Argentinian exchanges, the majority of which are interested in offering both debt and equity, are convinced that providing financing facilities to MSMEs is important because “they represent 90 percent of the Argentine business infrastructure,” and thus providing access to financing to MSMEs will promote economic development in the country. Moreover, equity issues by MSMEs may provide an interesting and profitable investment niche to some stock investors. Chile’s Bolsa de Santiago has already made the first steps toward facilitating capital market access to MSMEs by launching ScaleX, an investment platform for venture capital issuers. Bolivia already has a short-term debt market for MSMEs, but MSMEs also require long-term debt markets. The Bolivian exchange intends to develop such a market and also indicates interest in offering an equity market to MSMEs. The exchange in Colombia indicated an interest in offering both debt and equity to MSMEs and that the specific financial needs of MSMEs are not yet covered by traditional exchanges and markets. In summary, many survey respondents said that providing funding to MSMEs, in particular debt, is important for economic growth and job creation and will also offer new investment opportunities to institutional investors.

Exchanges were then asked whether they had already considered offering a debt or equity instruments to MSMEs. Their responses are depicted in Figure 4. Panel A shows that two exchanges (or 19 percent) indicate that so far, they had not considered offering for MSMEs (Bolsa de Valores de Quito in Ecuador and Bolsa de Valores de Caracas in Venezuela). More than two-thirds of the exchanges (i.e., 15 out of 22) have considered offering or have offered debt funding options for MSMEs. Four exchanges (18 percent) have considered or already offer an equity funding for MSMEs. Finally, a single exchange (Bolsa de Santiago in Chile) is already considering offering both debt and equity funding to MSMEs.

Panel B of Figure 4.2 splits these survey responses by size of the country where the exchanges are located. The figure shows that the size of the country is not very relevant to the consideration to offer a debt or equity funding to MSMEs. Exchanges located in both large and small countries have considered offering debt funding. The single exchange that has considered offering both debt and equity is in a large country, as are the two exchanges that have not yet considered offering funding to MSMEs.

Figure 4.2: Have you considered offering a marketplace (debt or equity) for financing MSMEs? If yes, which type?

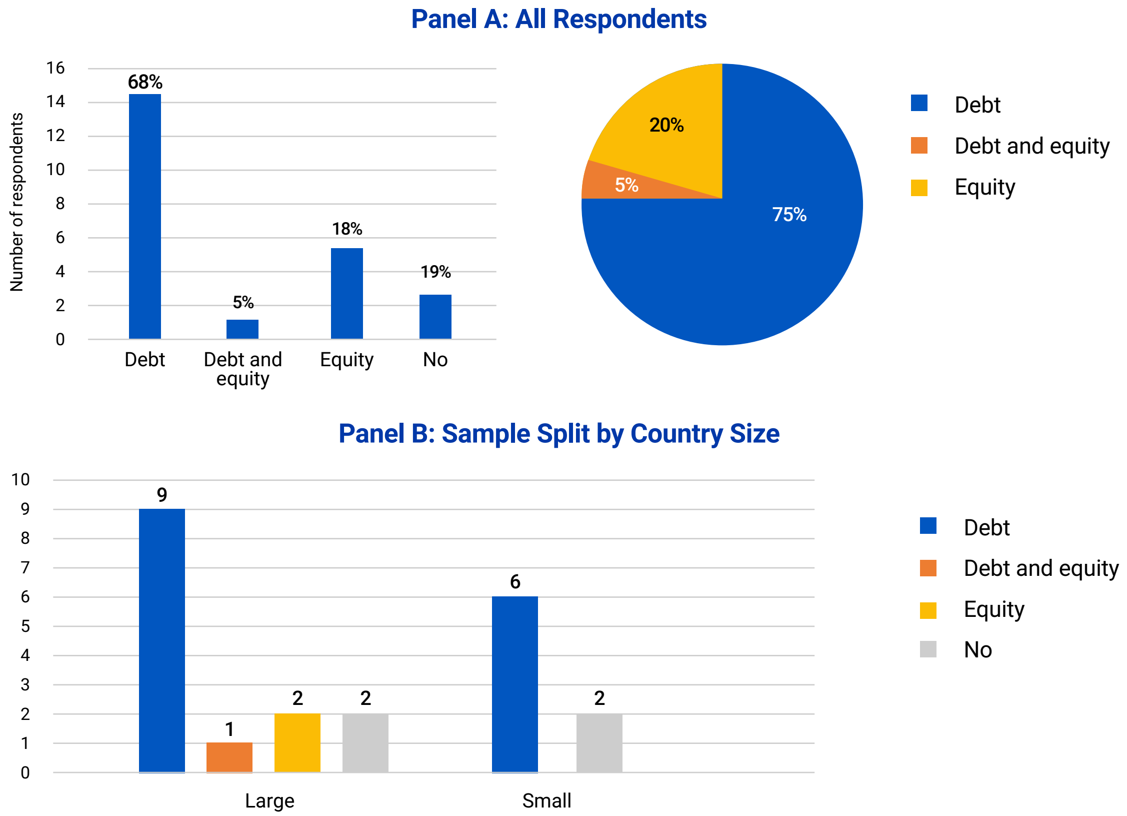
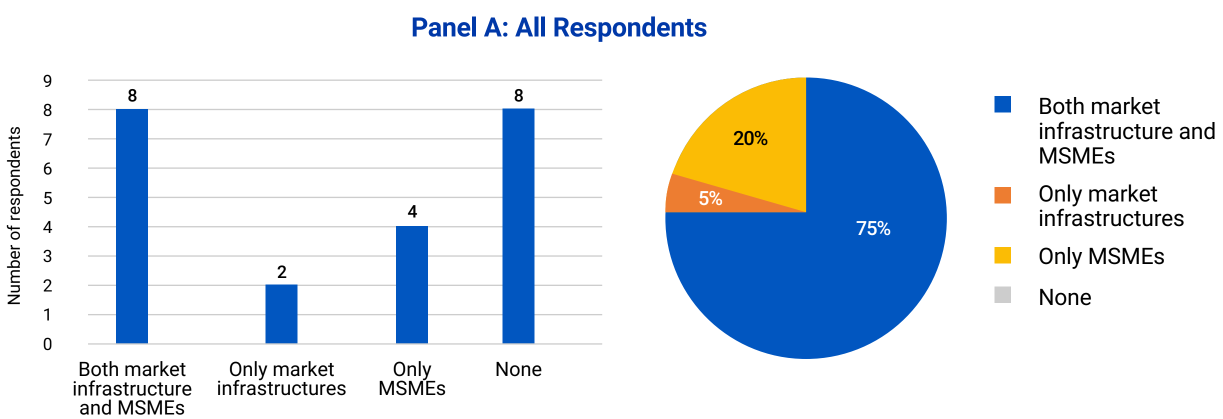
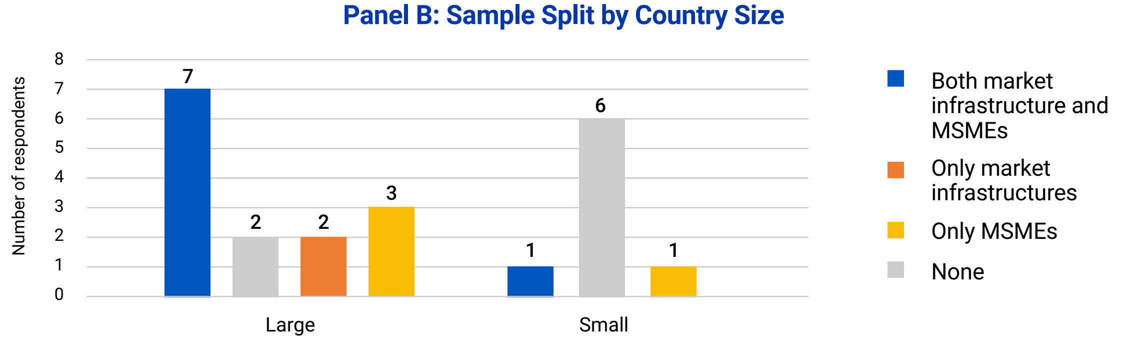


Figure 4.3 reports in Panel A the responses by exchanges when asked whether interest in MSMEs funding was raised by market entities, that is, by exchanges or regulators, or by MSMEs themselves. Eight exchanges (36 percent) indicated that both MSMEs and infrastructures had shown interest. Another eight exchanges (36 percent) indicated that there was neither interest by MSMEs nor by market entities. Four exchanges (18 percent) reported that only MSMEs had requested them, and two exchanges (9 percent) responded that only by market entities had asked for MSME financing, with no explicit demand formulated by MSMEs.

Figure 4.3: Was there any explicit demand for MSME financing by market infrastructures or MSMEs?





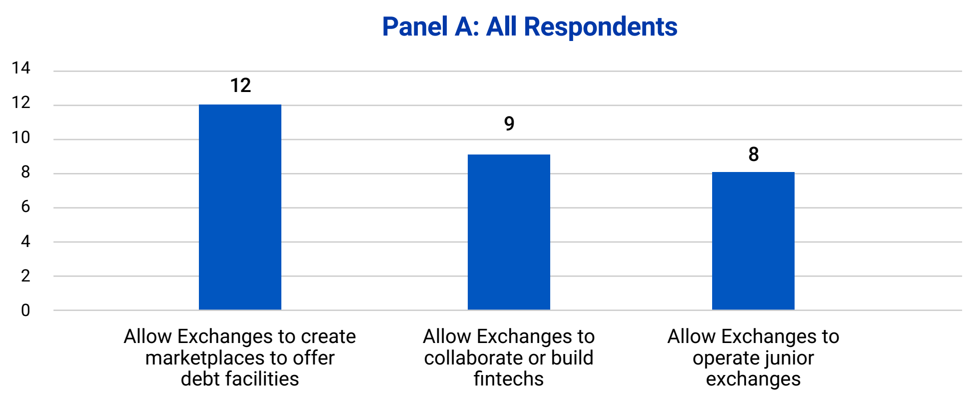
Survey responses for exchanges located in small and large countries are reported in Panel B of Figure 4.3. The panel shows that country size is an important determinant of demand for MSME financing. Seven of the eight respondents reporting demand by both MSMEs and market infrastructures are in a large country. In contrast, six out of the eight exchanges reporting no specific demand from MSME financing, either by market entities or by MSMEs, are in a small country.

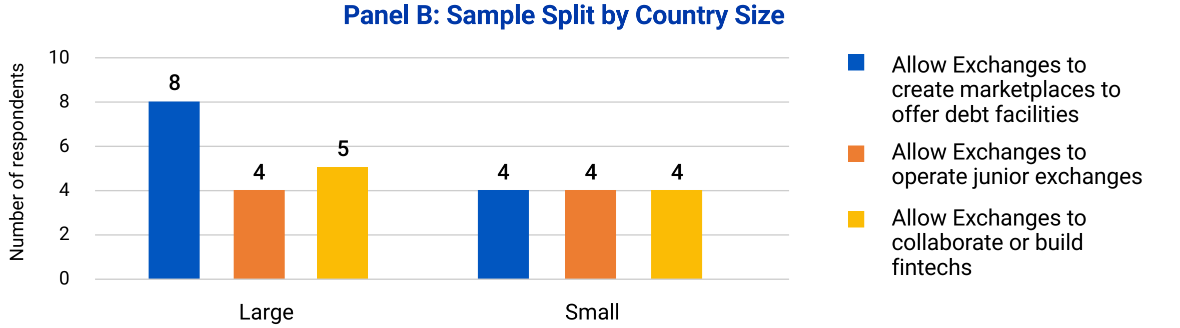
Exchanges were asked to respond to the regulator's specific demands from MSMEs. Ten exchanges indicated their support for MSMEs' financing requests by, for example, revising regulation or lowering listing and maintenance requirements.

The Regulatory Environment

Figure 4.4 shows the responses of the exchanges when asked which changes in the regulatory environment would be key in allowing them to set up MSME funding propositions. Respondents could select from three non-exclusive answers. The most frequently named regulatory change to facilitate MSME funding was to allow exchanges to create marketplaces specifically for offering MSME funding (12 respondents, or 55 percent). The second was to allow exchanges to collaborate with or found their own fintechs (9 respondents, or 41 percent), and the third was to allow exchanges to operate junior exchanges (8 respondents, or 36 percent). Responding exchanges also had the option to name other regulatory changes that would be key to facilitating MSME funding. Five exchanges named changes to the tax code, lower disclosure requirements, and specific crowdfunding laws.

Figure 4.4: What changes in the regulatory environment would be key in allowing you to set up your MSME funding proposition?





As Panel B of Figure 4.4 shows, about 47 percent of exchanges in large countries predominantly advocate being allowed to create marketplaces to offer debt facilities. About one quarter of exchanges in large countries would like to operate junior exchanges, and another quarter favored collaborating with or building fintechs as a key change to the regulatory environment. Answers in small countries are equally distributed across the three categories.

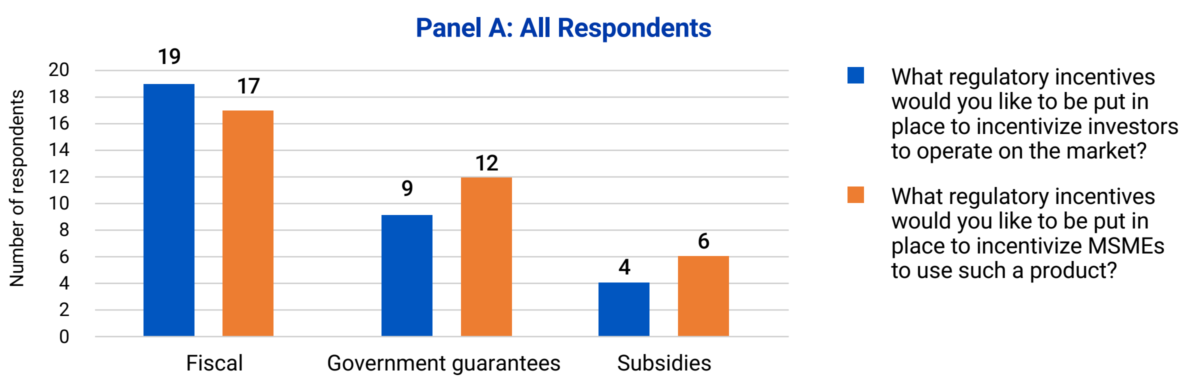
In a follow-up question, exchanges could indicate their requests to policymakers and regulators for facilitating MSME financing. The most often named requirements were the following:

- Provide incentives to MSMEs, and in particular, to investors (seven respondents)
- Revise/reduce regulation, in particular on crowdfunding (seven respondents)
- Apply tax benefits to incentivize more investors to participate in the market (three respondents)

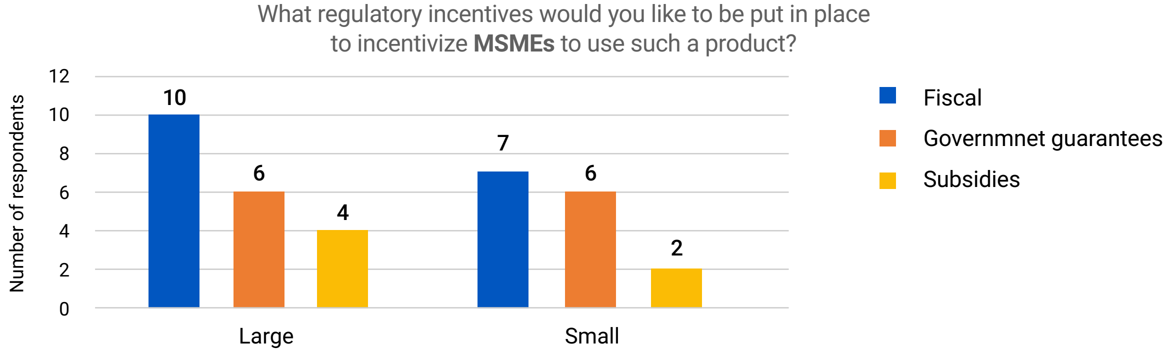
Further, exchanges were asked about regulatory incentives that they expect would help them operate a successful MSME marketplace. Investors and MSMEs were each asked about two types of regulatory incentives. The results are reported in Figure 6, Panel A, where the blue bars refer to incentives to investors and the orange bars refer to MSMEs.

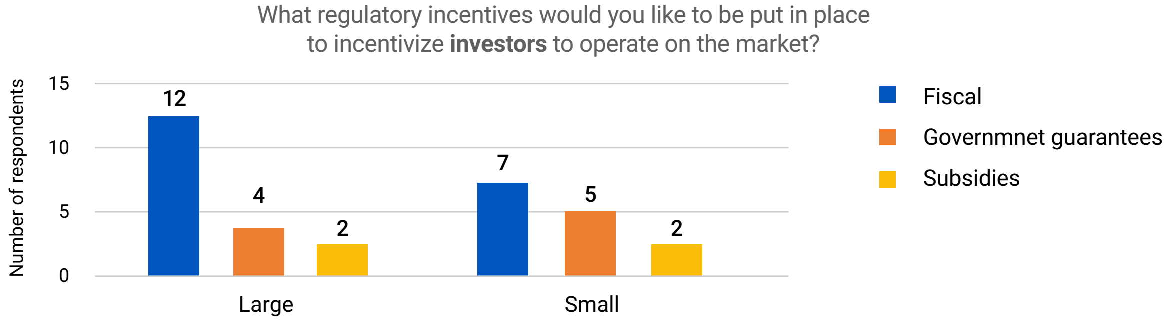
The exchanges surveyed consider adjustments to fiscal treatment, such as tax cuts, to be the most important regulatory change that would incentivize both investors and MSMEs to participate in such a market (86 percent and 77 percent of respondents, respectively). The second most important are government guarantees (41 percent and 55 percent, respectively). The least important are subsidies, that is, co-investments in MSMEs by the government (18 percent and 27 percent, respectively).

Figure 4.5: What regulatory incentives would you like to be put in place to incentivize investors to operate on the market and MSMEs to use such a product?



Panel B: Sample Split by Country Size



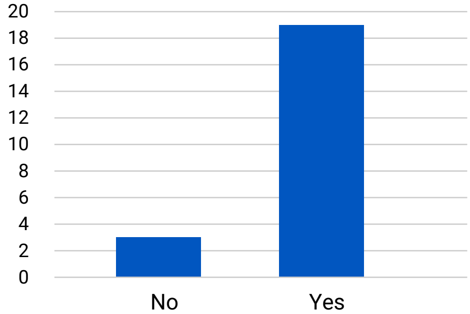


Exchanges were also asked about any other regulatory incentives they consider important to motivate investors or MSMEs to participate in the market. Investors named legal protection from operating risk, government-sponsored entities that provide guarantees, and an established minimum threshold. MSMEs identified simplified administration, government-sponsored financial education programs, a defined minimum number of investors, and streamlined processes and predictable rules as important motivators.

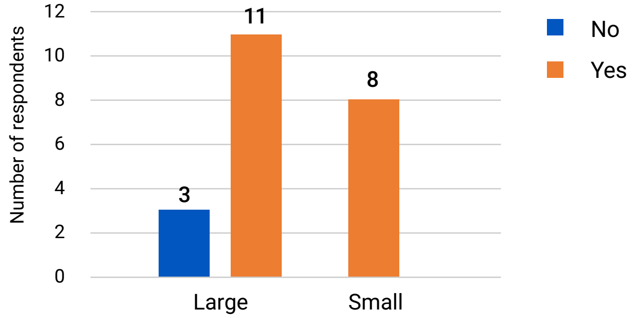
Exchanges were also asked whether they believe that revised and generally reduced regulatory and reporting requirements that are proportional to the size of MSMEs are necessary to broadly promote MSME issuances. As the responses in Panel A of Figure 4.6 show, 19 exchanges believe so, while only 3 do not. Statistics by country group in Panel B show that there are no relevant differences in patterns between large and small countries.

Figure 4.6: Do you believe that reduced regulatory requirements for the issuance of MSMEs securities are necessary for your jurisdiction?

Panel A: All Respondents



Panel B: Sample Split by Country Size

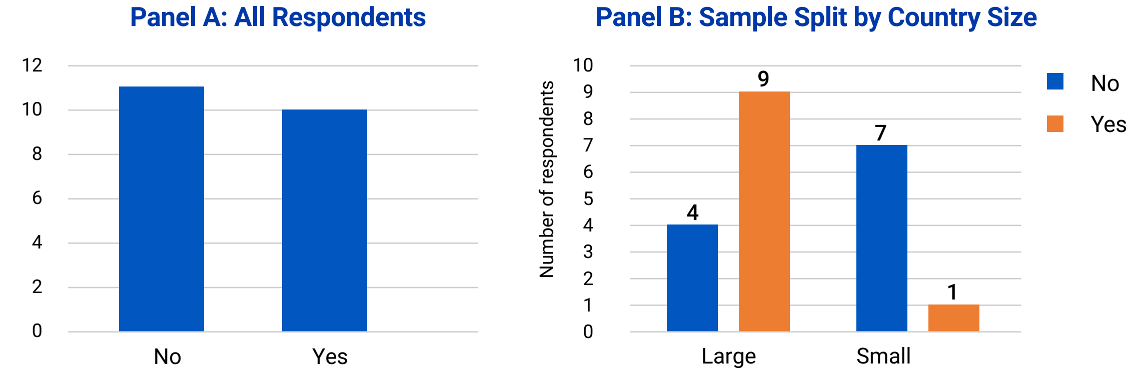


In a follow-up question that asked respondents to provide the rationale for their yes/no response, the predominant answer was that lower barriers of entry are required to incentivize MSMEs to access capital markets for debt and equity financing. Other answers were that regulatory requirements should be linked to the risk and size of the issuer and that the rights of minority shareholders should be better protected.

Existing and Planned Types of Infrastructure

When asked whether there are already fintech platforms that offer products similar to those being considered by the exchanges, Panel A of Figure 4.7 shows that 12 respondents deny and 10 respondents agree. One respondent did not answer this question. When considering country size, Panel B, shows that those who responded in the affirmative are in both large and small countries. The three non-respondents are in Argentina, Chile, and Venezuela, all in the large country group.

Figure 4.7: Are there fintech platforms already offering products similar to your desired proposition?

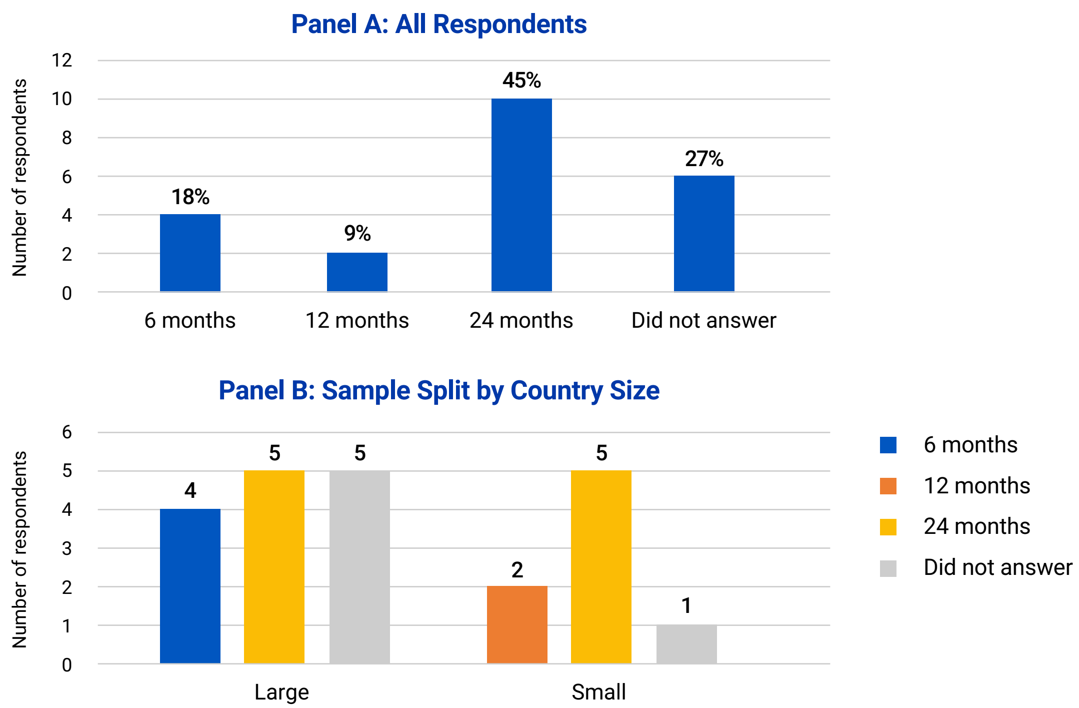


Finally, in a follow-up question, exchanges were asked about the types of competing products that are already offered by fintechs in their country. Answers included factoring platforms (four respondents), lending platforms (three respondents), deferred checks and invoice finance (two respondents), crowdfunding platforms (two respondents), equity (one respondent), and participation loans, loans with collateral, and trading of negotiable invoices (one respondent).

When asked whether and when exchanges plan to offer a marketplace, junior exchange, or fintech platform specific for funding MSMEs, four (18 percent) indicated an intention to offer one within six months, two (9 percent) within 12 months, 10 (45 percent) within 24 months, and six (27 percent) did not answer (see Panel A of Figure 10). One of these six exchanges reported elsewhere that it had already launched such a platform, and another exchange indicated its intention to open a fintech platform.

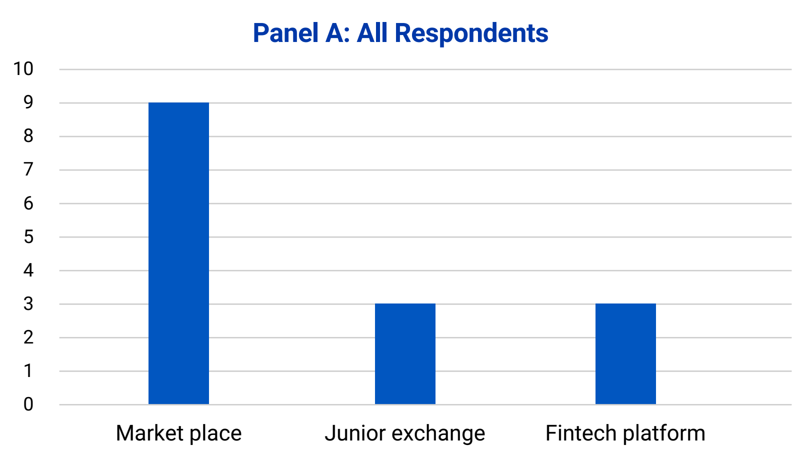
The split by country size in Panel B of Figure 4.8 shows that all four exchanges that plan to offer a marketplace, junior exchange, or fintech platform specific for funding MSMEs are in a large country. The non-respondents were also primarily located in large countries (five, or 36 percent of respondents in large countries; only one respondent (13 percent) was in a small country.

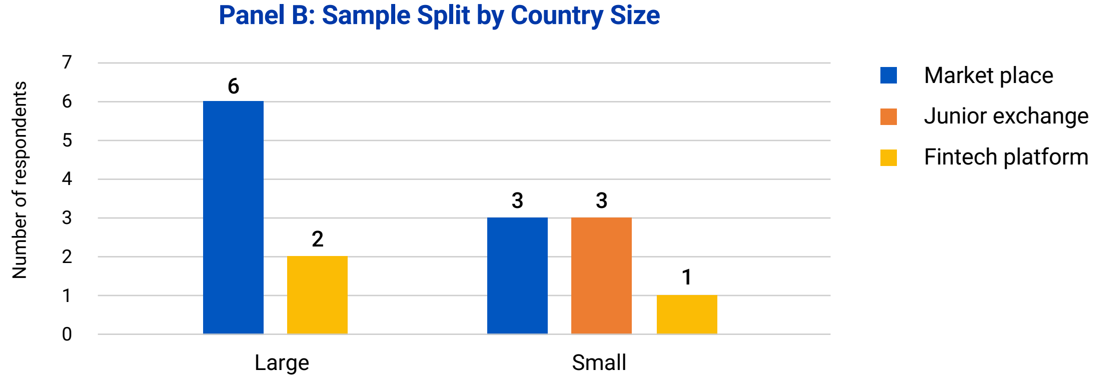
Figure 4.8: Are you already preparing to offer either a marketplace/junior exchange/fintech platform for funding MSMEs in the next X months?



When asked about the specific type of infrastructure that surveyed exchanges intend to offer, nine respondents said that they intend to offer a marketplace, three a junior exchange, and three a fintech platform (see Panel A of Figure 11). As Panel B of Figure 4.9 shows, exchanges located in large countries appear to predominantly plan to offer marketplaces, while for smaller countries such a pattern is less clear, as marketplaces and junior exchanges are named at the same frequency.

Figure 4.9: Which type of infrastructure are you planning to offer?

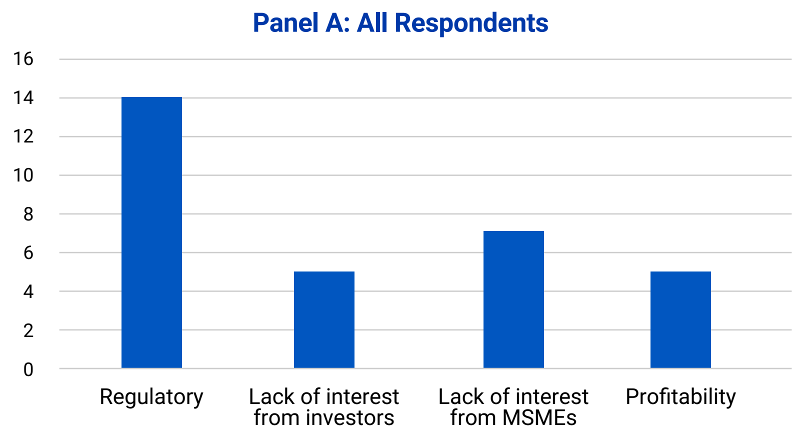


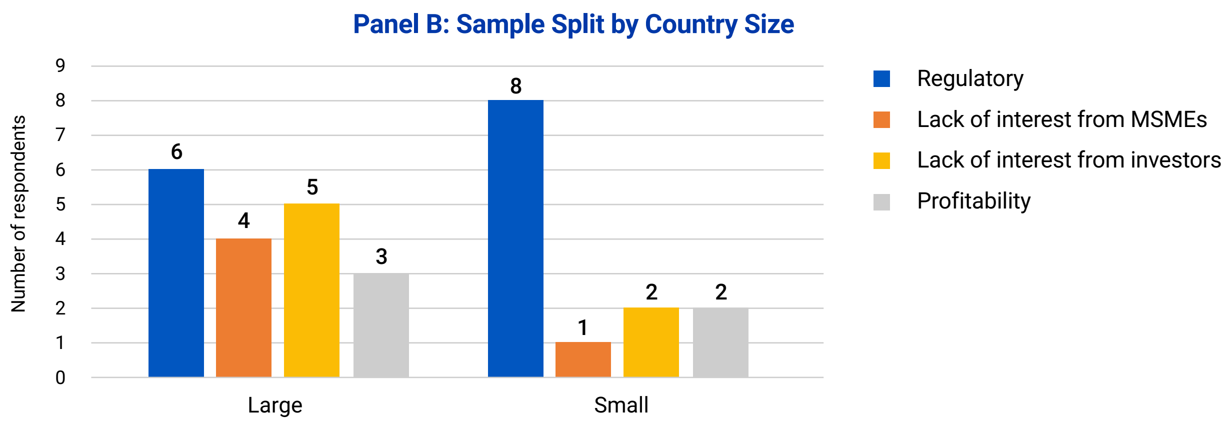


Barriers Encountered when Building MSME Funding Propositions

When asked about barriers faced by exchanges in building an MSME funding proposition, Panel A of Figure 4.10 shows that most exchanges pointed to regulatory barriers (64 percent), followed by a lack of interest by MSMEs (32 percent). Twenty-three percent of exchanges struggle with a lack of interest from investors, and 23 percent are concerned about the profitability of such a proposition. Note that the exchanges surveyed had the option of selecting more than one barrier, so that the percentages do not equal 100 percent. With respect to responses by country size, Panel B of Figure 4.10 shows that exchanges operating in small countries face a particularly high level of regulatory barriers (all eight of those surveyed in small countries, or 100 percent).

Figure 4.10: Which barriers (if any) have you encountered in building an MSME funding proposition?

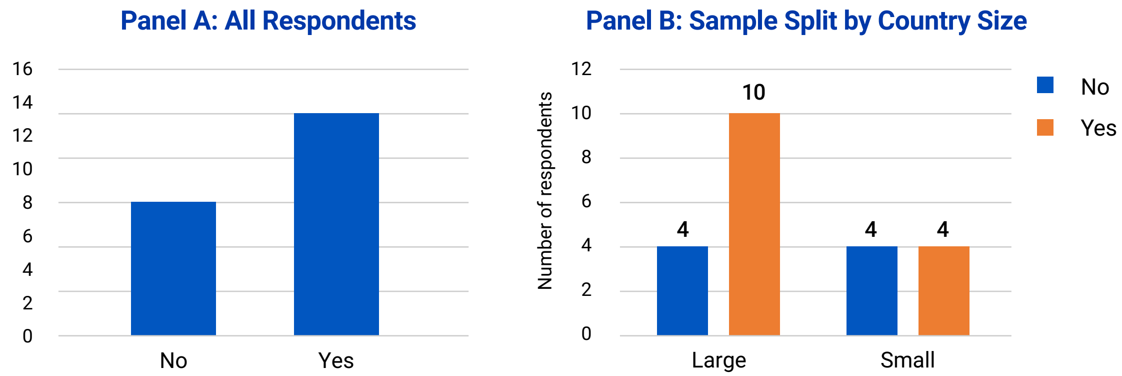




Institutional Investors' Interest in Providing Debt Facilities

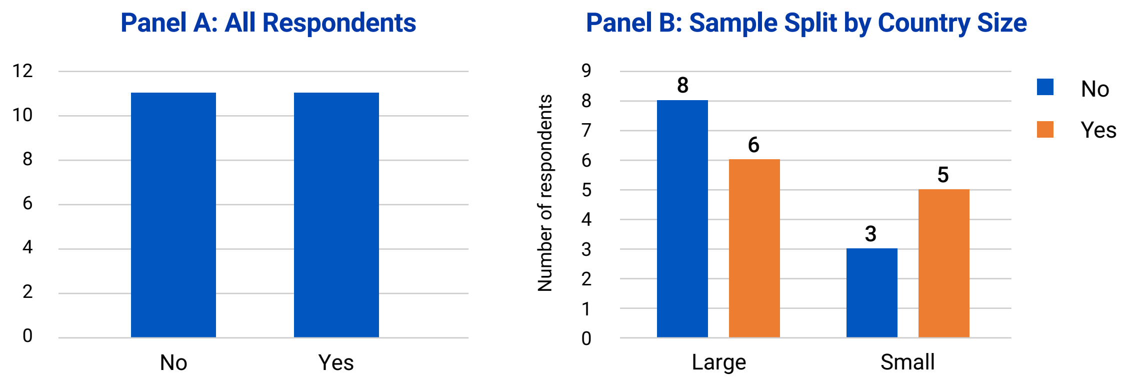
Asked about whether exchanges believe that local institutional investors would be interested in SME debt investments, 14 of the 22 exchanges surveyed (64 percent) said yes, while 36 percent said no (Panel A of Figure 13). Divided by country size, Panel B of Figure 4.11, shows that the aggregate positive assessment is mostly driven by exchanges located in large countries (71 percent yes). Exchanges in small countries are evenly divided in their assessment (50 percent say yes, while 50 percent say no).

Figure 4.11: Do you think that local Institutional investors would be interested to provide debt facilities to SMEs through an Exchange-regulated marketplace?



When asked about whether the exchanges believe that international institutional investors would be interested in SME debt investments, half of those surveyed said yes and half said no (see Panel A of Figure 4.12). Panel B of Figure 4.12 shows that exchanges located in larger countries hold more positive beliefs concerning international institutional investors' interest in purchasing debt instruments of local MSMEs.

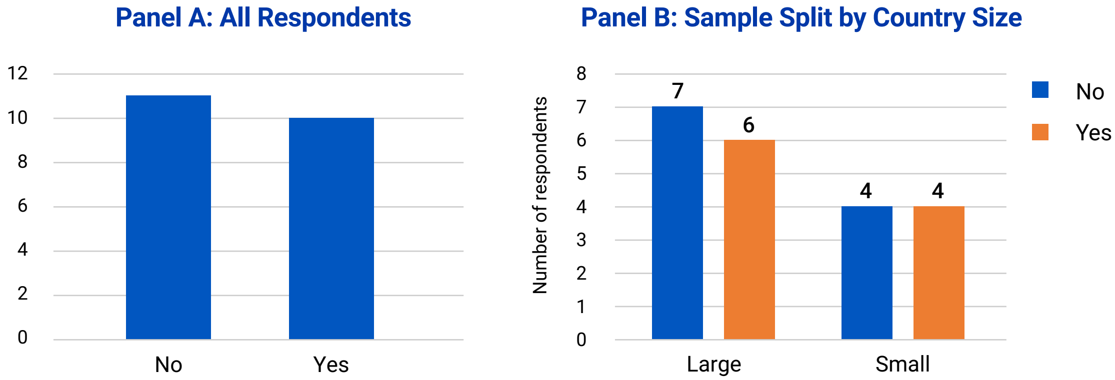
Figure 4.12: Do you think that international Institutional investors would be interested in providing debt facilities to SMEs through an Exchange-regulated marketplace?



Shorter Maturity Instruments for MSME Funding

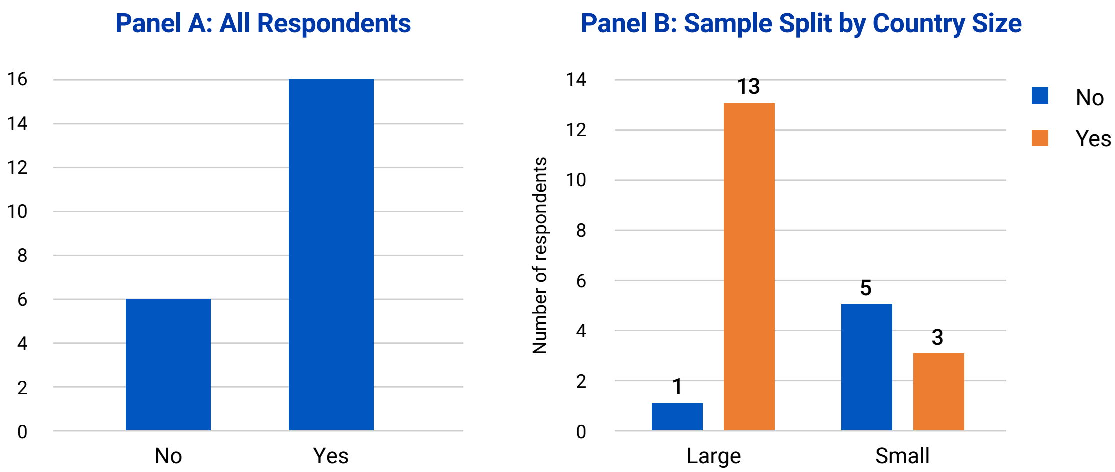
When asked whether shorter maturity (debt) instruments would possibly attract more MSMEs, the answers given by exchanges were split (see Panel A of Figure 4.13): Eleven, or 50 percent, of the exchanges said no, while 10, or 45 percent, said yes. One exchange did not respond. As Panel B of Figure 15 shows, country size did not influence the exchanges' responses to this question.

Figure 4.13: Would shorter maturity instruments (less than one year) attract more MSMEs?



When asked whether they expect shorter maturity (debt) instruments to attract more investors, the answer is quite different than when asked about MSMEs' preferences (see Panel A of Figure 4.14): 16, or 73 percent of exchanges, answer affirmatively, and only 6, or 27 percent, say no. Looking at the country splits displayed in Panel B of Figure 4.14, we observe that positive answers are more prevalent among exchanges located in large countries (93 percent) versus 38 percent for exchanges located in small countries).

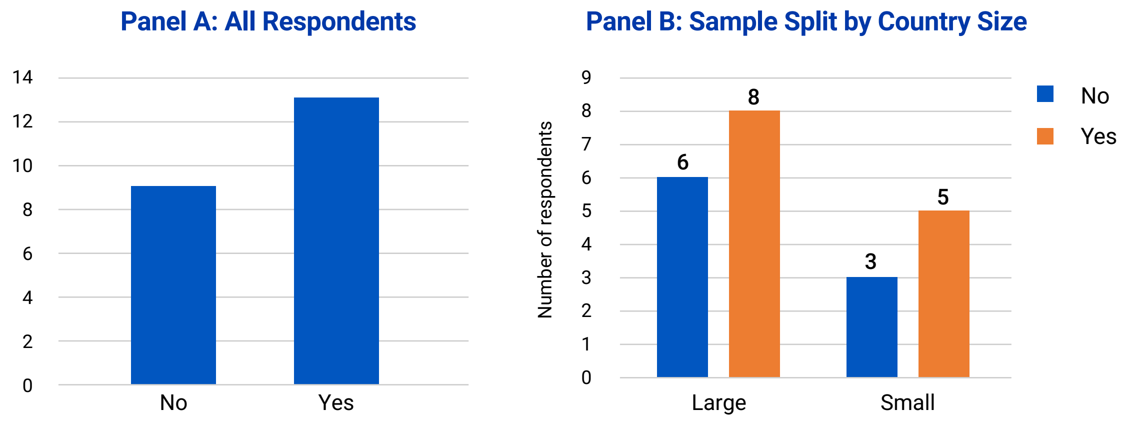
Figure 4.14: Would shorter maturity instruments (less than one year) attract more investors?



Government Support

When asked whether exchanges believe that government or multilateral support could help set up a financing proposition for MSMEs, 13 exchanges surveyed, or 59 percent, agreed with the statement, while 9, or 41 percent, did not, as Panel A of Figure 4.15 shows. Looking at country splits in Panel B of Figure 4.15, there are no observable patterns across exchanges located in small versus large countries.

Figure 4.15: Is there any government or multilateral support that can help you with the initiative?



CHAPTER 5

Conclusions and Recommendations

MSMEs globally are moving toward diversification of their liabilities, which will necessarily be based on transparency and a new system of governance open to the outside world. The need to support future business growth dictates the imperative to close the funding gap. Capital market financing for MSMEs is one of the policy challenges under the pillar of diversified financing modalities. It requires more sophisticated and innovative institutional arrangements to respond effectively to their tangible needs. The exploratory work for this study revealed that in several LAC countries, regulators and exchanges have already collaborated to offer new sources of working capital to MSMEs. The development of long-term financing instruments for MSMEs and proper regulatory frameworks for new instruments are a key growth agenda among policymakers and regulators, which should be incorporated into a comprehensive menu of policy options on MSME finance.

Despite the increasing interest in equity-based propositions to support MSMEs in the LAC region, debt remains the most common source of funding. This research also explored other debt-based capital markets products that have been particularly successful in Europe. The findings show that equity instruments are often used as a tool to help introducing MSMEs to investors and capital markets in preparation for future IPOs. The most successful experiences in Europe relied heavily on institutional investors to underwrite the debt funding. Often, where markets opened to private investors, the wrong incentives were set and allocation of funds was generally poorer, leading to suboptimal results and a higher degree of information asymmetry.

Governments and regulators can play a fundamental role in encouraging greater acceptance and trust in these new forms of MSME funding. Incentives, such as subsidies, guarantees and tax discounts, can be offered to both investors and MSMEs to facilitate faster adoption. In general, collaboration between regulators and exchanges is a key element to drive the success of these innovative forms of funding. Ultimately, they control the requirements imposed upon MSMEs to access capital markets. When regulation is not tailored and proportional to the needs and resources of smaller firms, these may quickly become discouraged and disengaged driving the market to a failure.

Capital markets where exchanges were supporting investors in the screening and risk assessment of issuers were more successful. Building a strong credit culture is critical in helping reducing information asymmetry, building trust, and allowing a more effective allocation of funds. New data and credit risk models are available to support exchanges and investors in assessing the credit worthiness of MSMEs reducing the risk of early failures and allowing constant monitoring of credit profiles and covenants. In few countries in the LAC region, we found new initiatives, such as central registers of invoices and open banking, which are reducing the information gap between bank and non-bank lenders.

Governments that invested more in financial education of MSMEs achieved better outcomes, both in terms of faster adoption and a better risk-reward trade-off. Most MSMEs in LAC countries are not aware of the options available for funding. Bank lending continues to be perceived as the easiest choice. Also, a basic understanding of the main drivers of their credit risk profile is generally missing. This increases uncertainty and vulnerability as MSMEs often select the wrong timing to raise funds.

Last, in several LAC countries, there is a healthy relationship between regulators, exchanges, and fintechs. This increases opportunities for MSMEs and accelerates the development of technologies that can support faster and more effective deployment of funds through capital markets.

Based on the above findings, the LAC region has great potential to support MSMEs and fuel growth by embracing new forms of funding channeled through capital markets. Governments, regulators, and exchanges have a unique opportunity to disrupt the traditional forms of funding by directly connecting investors and MSMEs. The following recommendations drawn on the findings of this report should be considered when elaborating future policies.

Institutional and Legal Framework

Implementing funding solutions for MSMEs through the capital markets requires a fluid dialogue between the public and private sectors and an adequate legal framework that considers their nature and different needs and provides incentives.

i. Dialogue and Collaboration

Dialogue and collaboration between key stakeholders are determinants for successfully implementing MSME funding propositions through capital markets. The cases described in this study show that open and constant dialogue is crucial in informing policymakers on the market's needs, trends, and opportunities to improve the regulatory and policy framework. Public institutions can institutionalize dialogue by creating public–private tables and committees. Furthermore, this study points to the importance of collaboration that involves different actors in the ecosystem.

Regulators and exchanges can work together to find alternative solutions to support MSMEs funding. Also, the collaboration between private sector actors can facilitate the development of innovative solutions. Colombia's A2censo is an excellent example of the complementarity of exchanges and fintech models and how they can work together to accelerate the deployment of new funding options for MSMEs (e.g., crowdfunding as a segue to capital markets).

ii. Legal and Institutional Architecture

The alternative finance mechanisms for MSMEs analyzed in this study show the importance of developing a legal architecture fit for purpose and adequate public policy incentives to promote the use of these solutions. Any regulatory development should follow a balanced approach when defining MSME requirements, considering their nature, characteristics, and contributions to the economy and employment. Besides proportional regulatory requirements, this study shows that tax incentives, guarantees, and other such incentives can accelerate the growth of capital market initiatives and help attract institutional investors.

From an institutional perspective, financial regulators can benefit from assigning clear responsibilities and adequate resources to a dedicated area to understand the nuances of this market and identify and promote initiatives fit for the realities of MSMEs, such as a junior exchange. Furthermore, such an area or group must complement its legal expertise with emerging technologies and new business model knowledge, with a clear view of innovative MSME funding mechanisms. As shown in the study, diversification of products available to MSMEs is a prerequisite to better respond to different needs and stages of development. From the examples analyzed, mini-bonds and factoring appear to be the most successful lending products to support MSMEs (both growth and working capital). A centralized public register for invoices can boost confidence in the market.

Human Talent and Culture

One of the most critical enablers of success for a diversified MSME funding market is education and capacity building, along with an environment that prioritizes decisions based on a credit risk culture.

i. Human Talent and Capacity Building

Some of the jurisdictions surveyed highlighted that investing in financial education for MSMEs will help reduce their reliance on bank lending and allow them to open up to new funding options. Exchanges can promote capacity-building initiatives in collaboration with the government and other relevant stakeholders to create awareness of the financing alternatives and create capacities for complying with regulatory and market requirements. Financial regulators and supervisors should focus attention on training and attracting new talent, so that the teams in charge of creating an enabling environment for MSME funding through capital markets have the required sectoral and technology-specific knowledge. Understanding international experiences and new solutions and approaches is key in these efforts.

ii. Credit Risk Culture

Furthermore, some international best practices rely on modern methods for assessing the credit risk of MSMEs. According to the study's results and best international practices, more emphasis on credit risk culture and increased confidence in a common language of credit can reduce the information asymmetry and the opacity of MSME funding, ultimately leading to a more efficient allocation of funds.

Technology and Data Analytics

As the cases analyzed show, some funding propositions highlighted rely heavily on data or the use of technologies in innovative ways to better assess MSME risks and address their financing needs. This characteristic indicates that financial supervisors and regulators need to increase their data analytics capabilities to decrease the requirements for small issuances and ensure no harm in these markets. Digital solutions can facilitate the collection and utilization of more granular data for regulatory and supervisory purposes. Also, by automatizing reporting, the regulatory burden of delivering data decreases, allowing smaller enterprises to allocate resources to other purposes. Among others, authorities may use data for risk analysis at the micro and macro levels.

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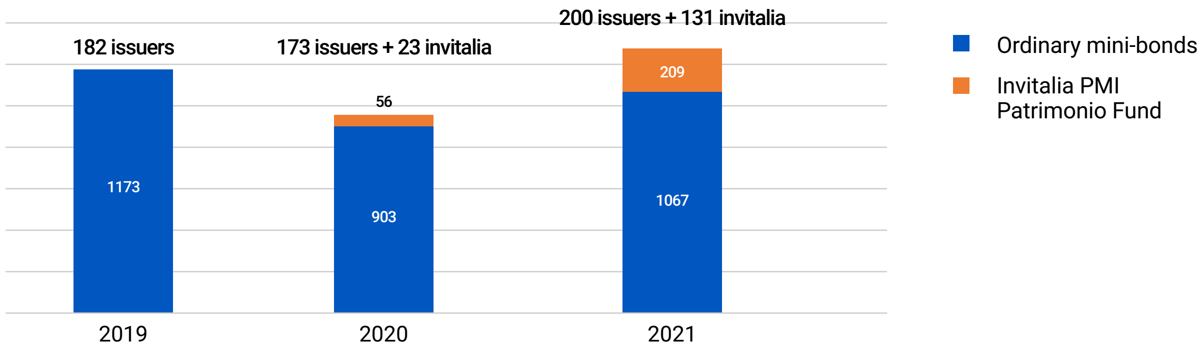
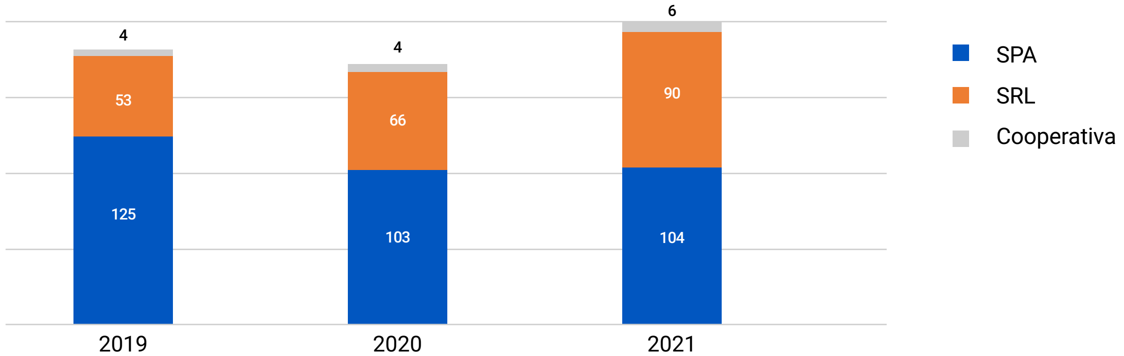
Appendix 1

Italian Mini-Bond Market (as of 31/12/2021)



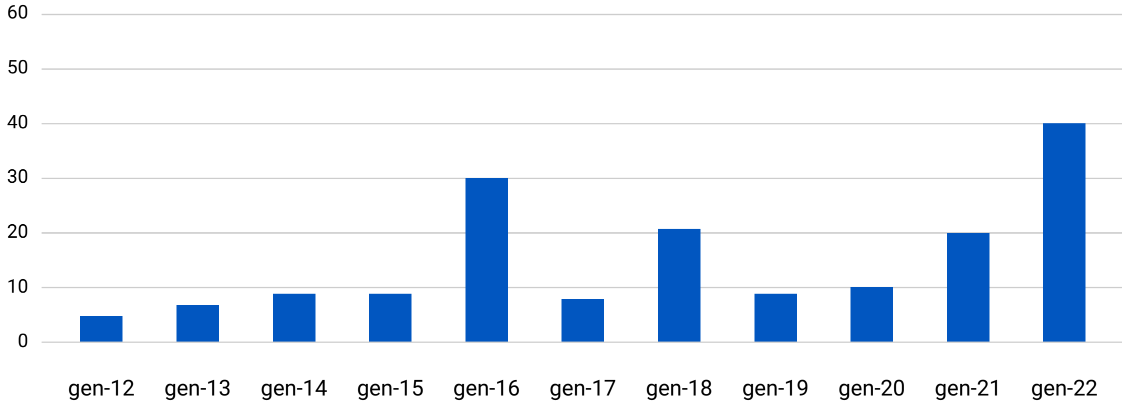
Source: Authors' elaboration.

Italian Mini-Bond Market (as of 31/12/2021)



Source: Authors' elaboration.

New emissions



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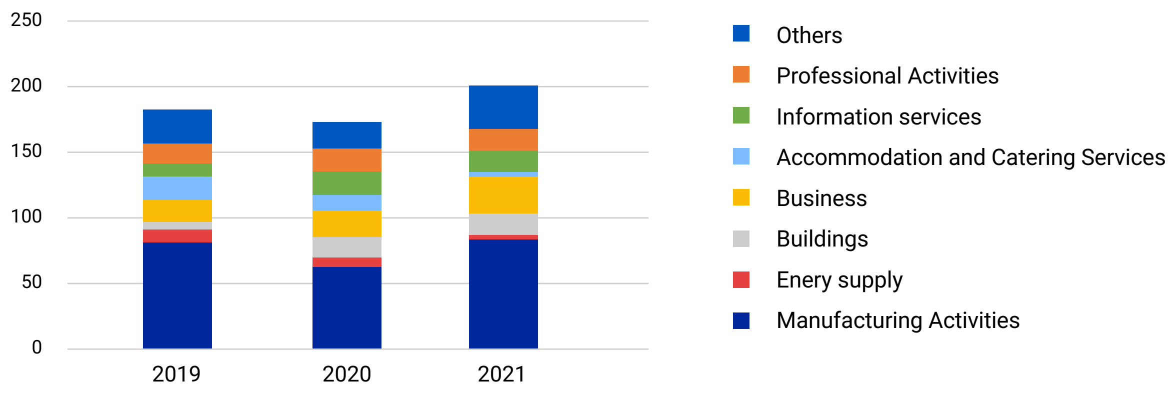

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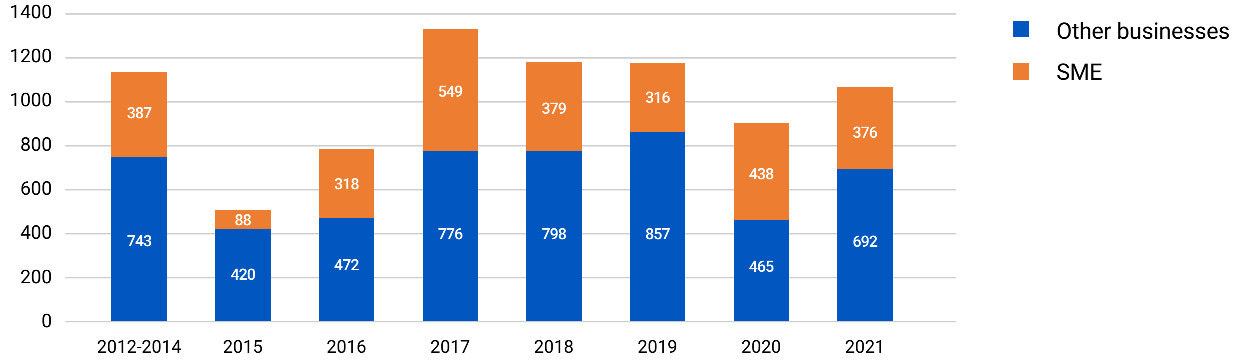

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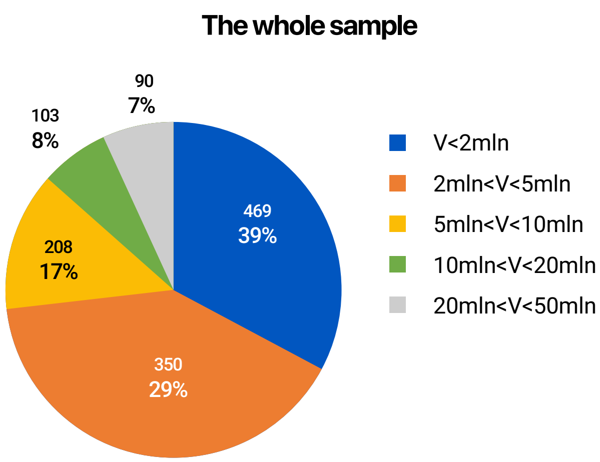

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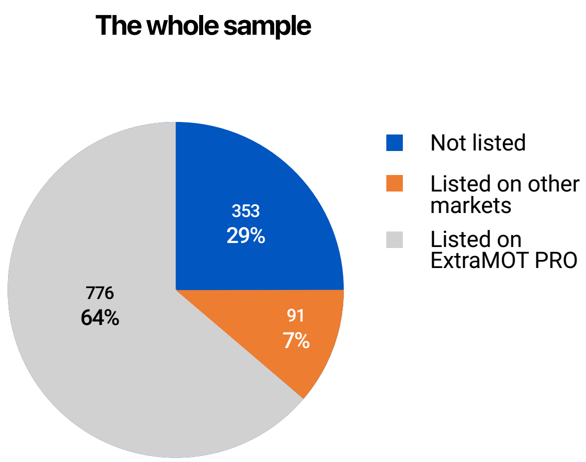

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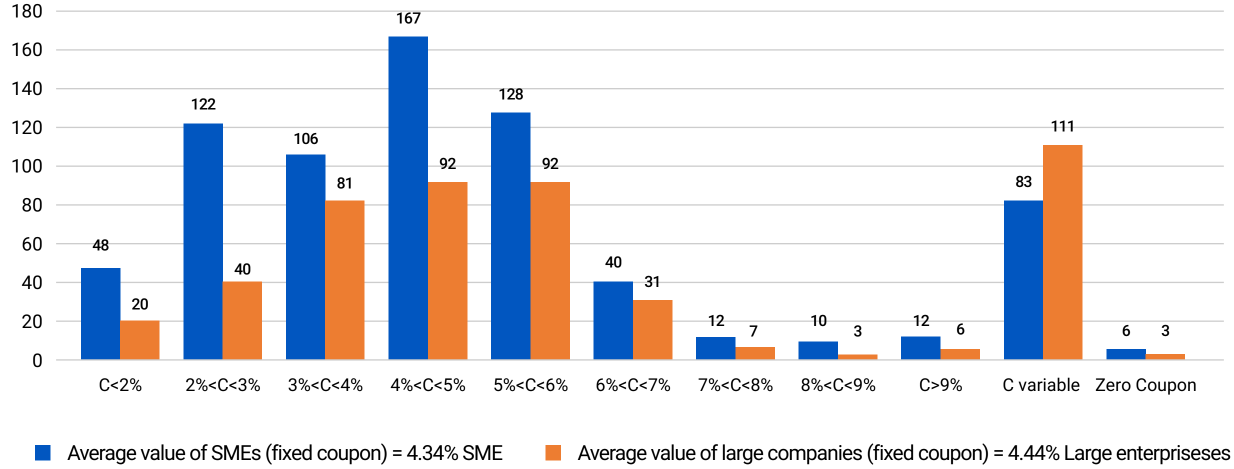

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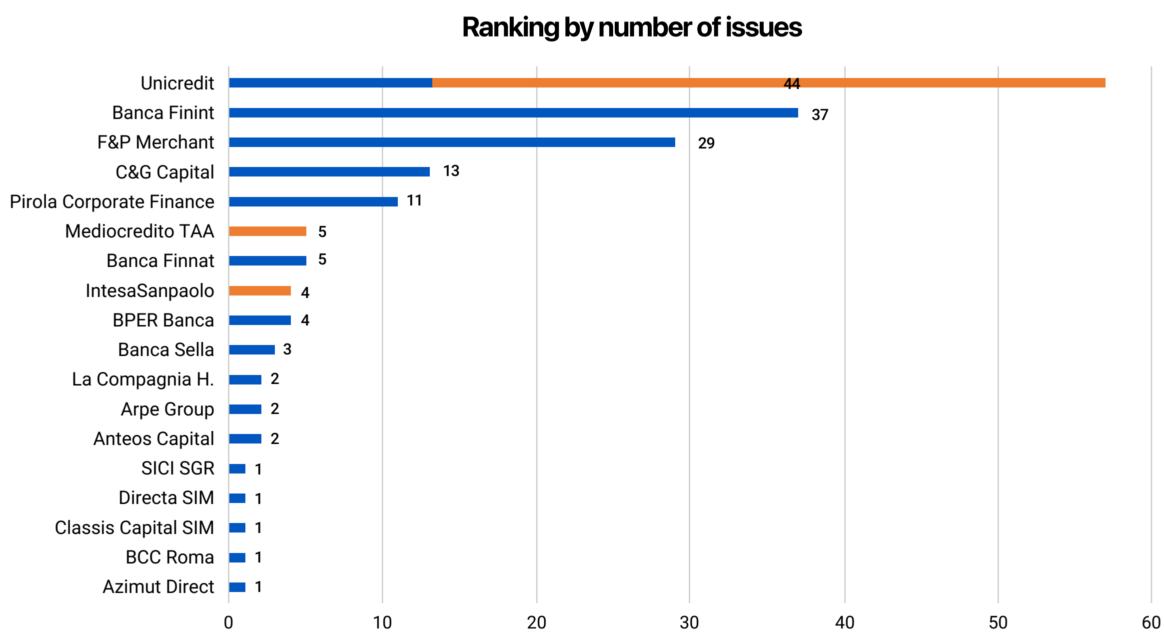

Source: Authors' elaboration.

Appendix 2

Questions for the Exchanges

1. Have you considered offering funding for MSMEs?
   - Yes
   - No

2. Was there any explicit demand on the side of the MSMEs?
   - Yes
   - No

3. What types of facilities would you be interested in offering?
   - Yes
   - No

4. Can you explain why you would be interested in offering equity or debt facilities to MSMEs?
   - Yes
   - No

5. Is there any government or multilateral support that can help you with the initiative?
   - Yes
   - No

6. What changes in the regulatory environment would be key in allowing you to set up your MSME funding proposition?
   - Allow Exchanges to create marketplaces to offer debt facilities
   - Allow Exchanges to operate junior exchanges
   - Allow Exchanges to collaborate or build fintechs
   - Other (please specify)

7. What would you ask of policymakers and regulators?

8. What regulatory incentives would you like to be put in place to incentivize investors to operate in the market?
   - Fiscal
   - Government guarantees
   - Subsidies

9. What regulatory incentives would you like to be put in place to incentivize MSMEs to use such a product?
    - Fiscal
    - Subsidies

10. Are there fintech platforms already offering products similar to your desired proposition?
    - Yes
    - No

11. Are you already preparing to offer funding to MSMEs in the next:
    - 6 months
    - 12 months
    - 24 months

12. What barriers (if any) have you encountered in building an MSME funding proposition?
    - Regulatory
    - Lack of interest from investors
    - Lack of interest from MSMEs
    - Profitability

13. Do you think local Institutional investors would be interested to provide debt facilities to SMEs through an exchange-regulated marketplace?
    - Yes
    - No

14. Do you think international Institutional investors would be interested to provide debt facilities to SMEs through an exchange-regulated marketplace?
    - Yes
    - No

15. Would shorter maturity instruments (less than 1 year) attract more MSMEs and investors?
    - Yes
    - No

Questions for Regulators

1. Have you put in place any specific policies and/or regulations to facilitate MSMEs access to capital markets?
   - Yes
   - No

2. If Yes, when?
   - Last 6 months
   - Last 12 months
   - More than 12 months ago

3. If No, are you considering putting in place such policies and regulations in the next:
   - 6 months
   - 12 months
   - 24 months

4. Was there any explicit request from the MSMEs to put in place such policy/regulation?
   - Yes
   - No

5. Is there any government or multilateral support that can help you with the initiative?
   - Yes
   - No

6. What adjustments to the regulatory environment would be key in allowing exchanges or other market infrastructure to set up your MSME funding proposition?
   - Allow Exchanges to create marketplaces to offer debt facilities
   - Allow Exchanges to operate junior exchanges
   - Allow Exchanges to collaborate or build fintechs
   - Other (please specify)

7. What regulatory incentives can be put in place to incentivize investors to operate on the market?
   - Fiscal
   - Government guarantees
   - Subsidies

8. What regulatory incentives can be put in place to incentivize MSMEs to issue securities?
   - Fiscal
   - Subsidies

9. Do you think that the proportionality of the disclosure requirements for MSMEs is a key factor to attract more MSMEs to the markets?
   - Yes
   - No

10. Would you consider allowing Government guarantees and/or tax exemptions as potential incentive to be offered at least at the start?
    - Yes
    - No

11. Do you think the conflict of interest between Directors and Investors should be regulated?
    - Yes
    - No

12. Do you think policy/regulation on this matter is receiving the appropriate attention from the Government?
    - Yes
    - No

13. As Regulator, is there any specific product that you believe is a best fit to support MSMEs in your country?
    - Term loans
    - Mini-bonds
    - Factoring
    - Future cheques