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The SME Access to Digital Finance Study

A Deep Dive into the Latin American Fintech Ecosystem

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The small business sector is one of the most important drivers of economic development, employment, and innovation. With a quickly growing micro, small and medium-sized (MSME) sector in Latin America, it is important to address the MSME finance gap in the region. Across Latin America, digital lending and capital raising fintech firms have increasingly been servicing the MSME sector. In both 2019 and 2020, more than USD3 billion was lent to MSMEs through fintech channels.

Thus, to better contextualize how growth in the fintech industry has contributed to bridging the finance gap, *The SME Access to Digital Finance: A Deep Dive into the Latin American Fintech Ecosystem* shows how fintechs could be part of the solution of how to include MSMEs in the financial sector. Focusing on six key countries where fintech has taken off over the last few years – Argentina, Brazil, Chile, Colombia, Peru and Mexico – this study provides a comprehensive analysis of the challenges and opportunities faced by MSMEs when seeking finance through fintech channels. The study also seeks to understand how MSMEs view their fintech funding activities compared to traditional finance options, such as retail banking.

This study follows on from the first edition of this study, *Business Access to Alternative Finance: A Deep Dive into Mexico & Chile*, which focused on how small businesses use digital alternative financial products to support their funding needs. It is also part of a regional series focusing on access to finance more broadly, with the forthcoming *ASEAN Access to Digital Finance Study* looking at how both small businesses and individual consumers use digital financial channels for their financing needs in Indonesia, Malaysia, the Philippines, Singapore and Thailand.

The findings from this study confirm the hypothesis that fintechs are important players in closing the MSME financing gap, and can play an important role in driving MSME growth in the region. Alternative finance originations related to fintech credit and capital raising models reached USD5.27 billion in 2020 when most of it went to MSMEs. This highlights the fast pace at which fintechs are becoming of key importance for MSME growth. Crucially, for many MSMEs in the region, fintech platforms are becoming an essential resource for providing much-needed finance.

The study presents the current regulatory landscape in the region as 'access to finance' mandates become increasingly important to policymakers. Fintech-focused regulation and policies must be considered to ensure the small business sector across the region is supported. The fintech ecosystem continues to develop rapidly, and regulators and supervisors across the region are endeavoring to keep pace with developments.

We expect the fintech ecosystems across Latin America to continue growing, particularly in terms of functioning as clear channels for financial inclusion for MSMEs. We would like to thank the Inter-American Development Bank and IDB-Invest for their support, and the 33 fintech platforms that partnered with the research team to ensure robust MSME participation.

Bryan Zhang
Co-founder and Executive Director
Cambridge Centre for Alternative Finance

Tania Ziegler
Lead in Global Benchmarking
Cambridge Centre for Alternative Finance

IDB
Improving lives

Alternative finance: a power tool for financial inclusion

The SME Access to Digital Finance: A Deep Dive into the Latin American Fintech Ecosystem is one more achievement of our successful partnership with the University of Cambridge Centre for Alternative Finance (CCAF) on the fintech space. Insofar, we have collaborated on seven publications with the CCAF during the last seven years. Last year, we produced The *2nd Global Alternative Finance Market Benchmarking Report* to deconstruct the alternative finance (AF) and crowdfunding ecosystem in Latin America and the Caribbean (LAC).

The results were impressing indeed: the region reached USD5.27 billion in AF originations for 2020, representing a stunning 191% compared with 2018. Most importantly, the LAC AF ecosystem increased the share of business finance to reach 86% in 2020 from 60% in 2018. Alternative finance business-oriented funding grew 260% compared with 2018, from USD1.08 billion to more than USD4.45 billion. Consequently, it is safe to say that AF platforms appear to be a feasible alternative to finance the micro, small, and medium enterprises (MSMEs), which are 95% of their client firms.

The present document is a deep dive into the patterns of MSME financing in our region. The study is highly relevant, since the financing gap for MSMEs in our region is only 21% of the regional GDP. One of the main conclusions of the study supports the idea that fintech platforms can become important vehicles of financing for the firms in the region.

The study is based on a sample of 540 MSMEs from Argentina, Brazil, Chile, Colombia, Peru and Mexico. Out of those, 59% of the firms funded their businesses with personal credit cards. In this context, the study shows how fintechs could be part of the solution to include MSMEs in the financial sector. First, the study found that 76% of respondents used the P2P/marketplace lending model as a channel to finance their activities, while 13% used invoice trading as an alternative to funding them. The models are relevant because they give hints to policymakers about where to focus their actions.

Furthermore, with a median credit value of USD3,917, a total of 61% of the firms used the resources obtained from AF platforms for working capital, while 8.2% used it for asset purchases, 8.2% to refinance and 7.8% to expand the business. But more important yet, those firms that were able to access fintech funding through P2P lending, could also increase or maintain their number of employees (92% of the total), income (86%) and turnover (84%). Fintech-financed firms became resilient, even in the middle of a very adverse situation such as the pandemic, thanks to the availability of credit. The results are even more relevant if it is taken into account that 83% of the firms were micro or small firms (ten employees or less).

Finally, as the fintech ecosystem is moving forward, so are regulators and supervisors across the region. Hence, the study presents a summary of the regulations and policies related to crowdfunding in Latin America and the Caribbean. In this regard, it is worth highlighting that seven countries have enacted regulations on crowdfunding and alternative finance, and five more jurisdictions are drafting corresponding rules. The study classifies the regulations along five fintech segments (crowdfunding, cryptoassets, fast retail payments systems and open finance). The results are shown in FintechRegMap, an interactive map showing the status of relevant fintech regulations in the region. The study also includes visuals for regulatory sandboxes and innovation hubs in the region. The map is available at www.iadb.org/FintechRegMap, or through the Power BI mobile application.

We believe that all these efforts may be valuable for investors, regulators, the ecosystem and academia. Data is relevant for their decision-making processes. We expect to witness a continued growth of fintech in Latin America and the Caribbean as a means to foster financial inclusion in our region.

Juan Antonio Ketterer
Connectivity, Markets, and Finance Division Chief
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RESEARCH TEAM

Tania Ziegler

Tania is Head of Global Benchmarking at the Cambridge Centre for Alternative Finance and manages the Centre's industry-facing research activities. She has authored over 25 industry reports and contributed to numerous academic and working papers since joining the CCAF. Tania is an expert on SME finance and leads the Centre's work on SME access to finance in LATAM. Tania completed an MSc at the London School of Economics, and a BA at Loyola College, Maryland. Tania is a 2010 Fulbright Scholar.

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Felipe is a Research Associate at the CCAF, and works with the Global Benchmark team, leads the work on SME access to finance in LATAM and participated in the development of the CCAF Alternative Finance Atlas. He pursued his Bachelor's degree in Mechanical Engineering in Brazil and a Master's degree in Management at the School of Economics at the University of Coimbra (FEUC) in Portugal with a focus on sharing economy.

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Cecilia is a Research Affiliate at the CCAF and works with the Global Benchmark Team. She holds a BA in Business Administration from the Universidad Paraguayo Alemana (UPA) and is currently pursuing a Master's degree in Finance, Technology and Policy at the University of Edinburgh. Her main research interests are how fintech solutions can improve financial inclusion, for both individuals and MSMEs.

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Erika is a Research Affiliate at the CCAF. She holds a Master's degree from the Brazilian National School of Public Administration, where she developed research on SME financial inclusion and the perspectives of fintech players entering the Brazilian SME credit market. She is a policy analyst dedicated to research on financial inclusion and education at the Central Bank.

Diego Herrera

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Jaime works at the Connectivity, Markets, and Finance Division at the Inter-American Development Bank. Previously, Jaime was a member of the Argentinian team that oversees the highest profile lending program at the International Monetary Fund. Prior to that, he participated in a project to identify the factors driving investment project performance at the World Bank. Jaime also gained experience at the Insurance Deposit Fund in Colombia, among others. He is an MBA graduate from the George Washington University in the United States.

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1. EXECUTIVE SUMMARY

This edition of *The SME Access to Finance: A Deep Dive into LATAM's Fintech Ecosystem* provides insights into micro, small and medium enterprises' (MSMEs') access to funding through the alternative finance industry in Latin America (LATAM). The study looks at key factors influencing MSMEs' access to finance, such as business owner demographics and company structure, relationships with traditional finance, previous and current funding experiences with a financial technology (fintech) firm, and post-funding outcome. It follows on from our first report on MSMEs' access to finance, which has since become a critical resource for industry stakeholders, regulators and policymakers as they evaluate the important role that fintech plays in supporting the MSME sector in LATAM.

This study is based on a survey of MSMEs in Argentina, Brazil, Chile, Colombia, Mexico and Peru, making this the largest MSME-focused alternative finance project to date. The survey captured a total of 540 unique responses from MSMEs that had raised funds via the digital marketplace, focusing on online alternative finance models as they relate to digital lending and digital capital raising activities. Due to certain limitations related to response distribution within the sample, this study does not incorporate any cross-business model or cross-country analysis.

- **The results from the study reveal that most respondents (75%) were micro enterprises, supporting the hypothesis that fintechs are a critical component of smaller businesses' funding cycle.** Of the respondent MSMEs, 44% were mature firms that had been operating for more than six years and less than one-third were young firms that had been operating for fewer than three years. Most of the CEOs were men, and one-third had an undergraduate degree and were aged between 35 and 44.
- **In terms of the amounts borrowed or raised, the findings suggest that they were concentrated around lower values.** Overall, the median amount borrowed or raised was USD3,917 and for 75% of the sample (up to the third quartile), the amounts ranged up to USD20,000. Most MSMEs used the money, with a median value of USD4,023, for working capital. This value was largely influenced by MSMEs that had borrowed from a P2P/marketplace lending platform. By industry, MSMEs operating in traditional industries raised the highest funding amounts, with a median borrowing value of USD8,813. This was followed by MSMEs in the innovative, and commerce and services industries, where the median amount borrowed for both sectors was approximately USD4,000.
- **Before receiving funding from a fintech platform, MSMEs had tried to raise funds through different sources, primarily banks or family and friends.** Banks were the most popular funding source for those that used P2P/marketplace or invoice trading platforms, while for those MSMEs that used investment crowdfunding or non-investment crowdfunding platforms, it was friends and family. Although many MSMEs sought funding from banks, only approximately one-half received an offer and accepted it. MSMEs that sought funding from family and friends were more successful, especially those that used an investment crowdfunding platform: more than 80% received an offer, all of which were accepted.
- **Regarding traditional finance facilities, the type of product used differed by vertical.** MSMEs that used P2P/marketplace lending or non-investment crowdfunding platforms relied more on personal financial products, in the form of personal credit cards or personal accounts, to support their business. Conversely, most MSMEs that used invoice trading or investment crowdfunding platforms used business accounts. Friends and family were

the traditional facilities that more than half the MSMEs that raised funds through an investment crowdfunding fintech turned to.

- **The decision to raise funds through an alternative finance platform was largely influenced by being able to receive funds faster and better customer service.** Also, MSMEs that used a P2P/marketplace lending platform reported they were unable to get funding through any other source except a fintech, indicating this was one of the most important decision-making factors. A better interest rate was another very important decision-making factor, being reported by approximately half the MSMEs.

- **Overall, MSMEs managed to improve their businesses' financial health as a result of the funding received via an alternative finance platform.** Most MSMEs across all business models and platform types increased turnover and net income. However, 20% of those that used an investment crowdfunding platform saw a decrease in net profit, but those MSMEs also reported a significant increase in the business's value and employment rate (over 60% for both factors).

- **Overall, the main impact on the businesses due to funding was an increase in productivity, which was mainly seen for those that used an investment crowdfunding platform (67%).** One-third of MSMEs that used a digital lending or invoice trading platform decreased costs. Further, launching a product or service was the result for more than 60% of MSMEs that used an investment or non-investment crowdfunding platform.

- **Another outcome of receiving funding was a positive change in the use of different financial products.** There was a noted increase in the use of savings or checking accounts for entrepreneurs that borrowed from a digital lending or invoice trading platform. MSMEs either decreased their use of or stopped using products such as overdrafts, loan contracts or revolving lines of credit. Interestingly, most MSMEs that used an investment crowdfunding fintech reported no change. However, there were a few for which the use of loan contracts and mortgages increased, and decreased for business credit cards and invoice trading products.

- **Regarding the Covid-19 pandemic's effects on the business, almost half the businesses managed to cope with the crisis and remained operational, albeit with adjustments.** Approximately one-third of MSMEs had to shut down operations temporarily and only 3% had to permanently close their business. When asked about government-based assistance, 22% reported receiving it, of which half received a government Covid-19 voucher and emergency funds for payrolls.

- **The main assistance offered by fintech platforms was related to payment facilities.** For digital lending, invoice trading and investment crowdfunding platforms, the primary types of assistance provided were payment holidays and eased payment plans. For non-investment crowdfunding platforms, it was waiving fees. Completing the top three assistance types offered, across all models, were credit facilities (not related to a government assistance scheme).

2. INTRODUCTION

This study aims to assess qualitatively LATAM MSMEs' access to funding through the alternative finance industry, the decision-making processes, previous funding experiences, funding experiences with alternative finance platforms and post-funding outcomes; not collect precise figures for company turnover or overall performance.

2.1. Study rationale

Across Latin America, digital lending and capital raising fintech firms have increasingly been servicing the MSME sector. In both 2019 and 2020, more than USD3 billion was lent to MSMEs that applied to fintech channels for funding.

With a quickly growing entrepreneurial MSME sector, governments and policymakers across LATAM need evidence-based data to determine best practices for MSME-focused financial inclusion. Part of this discussion must include the role that fintechs play. This study aims to provide a comprehensive analysis of the challenges and opportunities faced by MSMEs in LATAM when seeking finance through fintech channels and how this compares to traditional finance options such as banking.

To that end, in 2018, the CCAF and the Inter-American Development Bank (IDB) jointly produced the seminal report *Business Access to Alternative Finance: A Deep Dive into Mexico & Chile*, which focused on how small businesses use financial technology to support their funding needs. The report contains a reliable, evidence-based analysis of the relationships that MSMEs have with the alternative finance industry, and how they use these channels to access growth and working capital.

It serves as a crucial public resource that supports regulators, policymakers and key stakeholders in trying to understand the uniquely important position that fintech has in terms of small business funding. The findings of the first report support the hypothesis that alternative finance channels are a critical component of an MSME's funding cycle, enhancing access to credit and bolstering this segment of the economy.

2.2. Report structure

Chapters 6–9 analyze the business models included in this study, each one divided into the survey blocks: business structure and demographics, borrowing experience, and the funding outcomes.

Chapter 10 analyzes the impact of Covid-19 on the MSMEs. It describes the effects of the pandemic on the businesses and the assistance offered by the fintech platforms they were funded by.

We present country factsheets in Chapters 11–15 that contain the main findings for the jurisdictions targeted in this study: Argentina, Brazil, Chile, Columbia and Mexico. For this section, we analyzed factors such as business structure and demographics, funding experience, and funding outcomes for each jurisdiction.

3. METHODOLOGY

3.1. Data sources

The main data used for this report was collected through the *Business Access to Finance: Deep Dive into LATAM's Fintech Ecosystem* survey, developed by the CCAF and IDB. The survey was distributed in partnership with 33 fintech firms in LATAM and we received responses from 540 MSMEs that had used a digital lending or digital capital raising fintech platform during 2020 to access credit or raise finance.

The 32-question survey comprised four research areas:

1. Business owner demographics and company structure
2. MSMEs' relationships with traditional finance services (banks)
3. MSMEs' fundraising experiences when using fintech-based financial services
4. Post-fundraising outcomes

We collected both quantitative and qualitative data from the survey and used survey logic to improve the user experience. The survey was distributed as a stand-alone online survey. We collected data between 11 January and 14 March 2021 in English, Spanish and Portuguese. Respondents were MSMEs based in Argentina, Brazil, Chile, Colombia, Peru and Mexico that had used a fintech firm to access credit or raise finance using debt-, investment- or non-investment-based alternative finance models. Specifically, the models tested in this study are the following:

- **Debt-based models:** P2P/marketplace business lending, balance sheet business lending and invoice trading
- **Equity-based models or investment crowdfunding:** equity-based and real estate crowdfunding
- **Non-investment models or non-investment crowdfunding**: reward-based and donation-based crowdfunding

After defining the scope of the report, the research team initiated the identification process, which included listing LATAM fintechs from the above-mentioned business models. The targeted platforms were then invited to assist us in our data-collection process. They were provided with a communication pack and guidelines regarding the projects, which included information on the type of customers (MSMEs) that the study would be focusing on.

3.2. Taxonomy

The focus of this report is on online alternative finance models as they relate to digital lending and digital capital raising. Though somewhat vague, at its core, the term 'online alternative finance' includes digital financing activities that have emerged outside incumbent banking systems and traditional capital markets. In particular, the alternative finance ecosystem comprises various lending, investment and non-investment models that enable individuals, businesses and other entities to raise funds via a digital marketplace. As the ecosystem has evolved, distinct model types have emerged. In this regard, the CCAF has developed a taxonomy for 16 business models, grouping them into three categories: debt, equity and non-investment models.

Debt models

Debt models, commonly associated with person-to-person (P2P) and marketplace lending activities, include online non-deposit taking platforms from which individual lenders or institutional investors can extend credit to individuals, businesses or other borrower entities. This debt can be in the form of a secured or unsecured loan, a bond or another type of debtor note. Table 3.2.1 summarizes the models included in this category.

Table 3.2.1 Models included in the debt-based model category

Category	Business model	Stakeholders
P2P/ marketplace lending[i]	Consumer lending	Individuals or institutional funders provide loans to consumer borrowers; commonly assigned to off-balance-sheet lending.
	Business lending	Individuals or institutional funders provide loans to business borrowers; commonly assigned to off-balance-sheet lending.
	Property lending	Individuals or institutional funders provide loans secured against property to consumers or business borrowers; commonly assigned to off-balance-sheet lending.
Balance sheet lending[ii]	Consumer lending	The platform entity provides loans directly to consumer borrowers; assigned to on-balance-sheet non-bank lending.
	Business lending	The platform entity provides loans directly to business borrowers; assigned to on-balance-sheet non-bank lending.
	Property lending	The platform entity provides loans secured against property directly to consumers or business borrowers; assigned to on-balance-sheet non-bank lending.
Invoice trading[iii]	Invoice trading	Individuals or institutional funders purchase discounted invoices or receivables from businesses.
Securities	Debt-based securities	Individuals or institutional funders purchase debt-based securities, typically a bond or debenture, at a fixed interest rate.
	Mini-bonds	Individuals or institutions purchase securities from companies in the form of an unsecured bond which is called 'mini' because the issue size is much smaller than the minimum bond amount that can be issued from institutional capital markets.
	Consumer purchase financing/customer cash-advance	A buy now, pay later payment facilitator or store credit solution; typically interest bearing.

Equity models

Equity-based models (including equity-based crowdfunding) relate to activities where individuals or institutions invest in unlisted shares or securities issued by a business, typically a start-up. As equity-based models have advanced, subsets of the model, such as real estate and property-based crowdfunding, have flourished, with investors being able to own a property asset fully or partially by purchasing property shares.

Non-investment models

Non-investment-based models, including reward-based and donation-based crowdfunding, are the crowdfunding models the public is most likely to recognize. In reward-based and donation-based crowdfunding, individuals fund a project, an individual or a business, and the fundraiser is under no obligation to provide a financial return for the funds raised in the form of shares of profits. In this report, we also include crowd-led microfinance in the non-investment category, which is where profits made from such loans are re-invested in new microcredit, usually for social responsibility efforts. Table 3.2.2 summarizes the models included in this category.

Table 3.2.2 Models included in the equity-based and non-investment categories

Category	Business model	Stakeholders
Equity-based	Equity-based crowdfunding	Individuals or institutional funders purchase equity issued by companies.
	Real estate crowdfunding	Individuals or institutional funders provide equity or subordinated debt financing for real estate.
	Profit sharing	Individuals or institutions purchase securities from companies, such as shares or bonds, and receive a share of the profits or royalties in return.
Non-investment-based	Reward-based crowdfunding	Backers fund individuals, projects or companies in exchange for non-monetary rewards or products.
	Donation-based crowdfunding	Donors fund individuals, projects or companies for philanthropic or civic reasons with no expectation of monetary or material rewards.
	Crowd-led microfinance[iv]	Interests and/or other profits are re-invested (forgoing the interest earned by donating the funds) or used to provide microcredit at lower rates.
Other		For this category, the research team recorded funds raised through other alternative finance models including community shares, pension-led funding, and other models that fall outside our existing taxonomy.

Emerging models that can be defined as debt-based, equity-based or non-investment-based, are classified as ‘other’ in this report. The research team will further analyze them to see if they can be included in the taxonomy.

3.3. Data sanitization, verification and analysis

The CCAF research team sanitized and verified the raw data between 15 and 27 March 2021. Adhering to the EU General Data Protection Regulation (GDPR) and University of Cambridge's data controller and protection rules, we stripped and securely removed all personal and firm-level identifying information. We analyzed the data against an anonymized file and reported at an aggregate level: vertical or geographical jurisdiction.

There were 594 unique entries in the primary data. After the initial sanitization, 54 entries did not match the inclusion criteria and were removed (31 were funded by a traditional bank, 14 reported unrealistic figures and nine were large enterprises). In total, 540 entries were analyzed, and some data cleaning and manipulation features were implemented. These features are as follows.

- Each entity was categorized by size according to the respective country's guidelines. The CCAF research team classified each MSME by size based on the reported number of full-time employees (FTEs) and 2020 turnover,[v] according to each jurisdiction's criteria for determining company size.[vi]
- The legal structures of the companies were re-matched. There were some discrepancies in the categorization of legal structures between the United States' (English), Brazilian (Portuguese) and Spanish versions of the survey because of regional differences in the classification of companies. These differences were accounted for in the final database. To that end, the research team tracked the language in which a respondent submitted the survey in order to apply the exact translation in the final dataset.
- Each response was assigned a sector group according to the reported industry sector. The CCAF and IDB research teams created a new variable categorizing MSMEs into traditional, innovative, creative, and commerce and service sectors.
- The turnover and amount borrowed were analyzed. We inspected the sample's quartiles, where the first quartile represents the first 25% of the sample, the second quartile between 26% and 50%, the third quartile between 51% and 75%, and the last quartile between 76% and 100%.
- Banking products were grouped into their respective lines. Banking products were reclassified as personal financial products, business financial products, equity investments or other products.
- Banking products' usage intensity index was calculated. To shed light on how MSMEs use certain banking products, the research team developed an intensity index based on the MSMEs' frequency of use, ranging from 0 (never) to 52 (very often or weekly).[vii] Thus, three groups of use types were created: credit intensity, payment intensity and overall banking intensity. For each response, the total use frequency was calculated within a banking product group and divided by the maximum frequency that group could reach: credit = 364 or three products weekly; payments = 156 or three products weekly; banking = 520 or ten products weekly).[viii]

The data from the *Business Access to Finance: A Deep Dive into LATAM's Fintech Ecosystem* survey was analyzed using an aggregated sample based on response distributions and averages, and split into four verticals (digital lending, invoice trading, investment crowdfunding and non-investment crowdfunding) and six jurisdictions (Argentina, Brazil, Chile, Colombia, Mexico and Peru). To account for potential response bias (in terms of larger players elevating the averages), we checked results against a normal distribution and excluded significant outliers as aforementioned. For some analyses, the sample size did not allow us to apply this data treatment, which we considered in our descriptions.

Analysis type

In this study, we collected data using a survey with questions that resulted in both quantitative and qualitative data. The research team relied on case studies that they analyzed by business model and jurisdiction, the results of which are contained in this report. They applied a descriptive analysis to the quantitative data and a content analysis to the qualitative data reported, to better understand the responses given by the participants.

Limitations

This study contains some limitations regarding sample size and response distribution because the number of responses was not evenly distributed among all countries and verticals. Because of this, the research team were unable to perform any cross-business model or cross-country analysis.

This study does not intend to measure the quality, price and diversity of offers, nor the behavior of the MSMEs when deciding between online financial products or services and traditional banking products or services. Further research is needed to analyze those aspects of financial products and services.

4. OVERALL PROFILE OF MSMEs

4.1. Participating countries

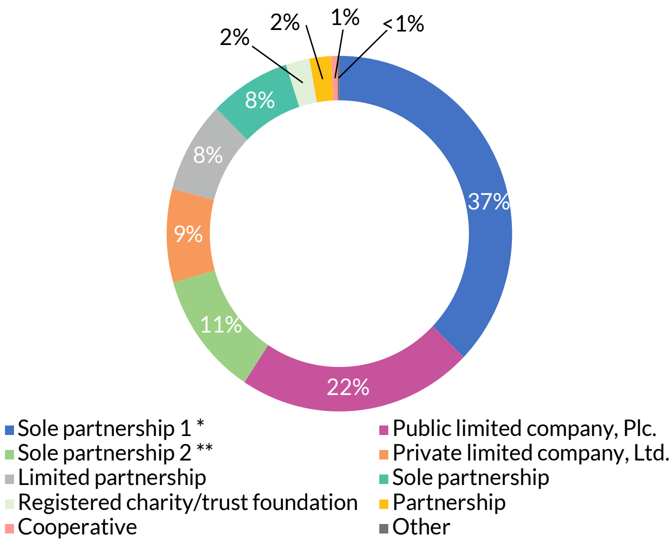
Most respondents were from Brazil (64%), followed by Colombia (15%) and Mexico (12%). The remainder comprised 4% from Chile, 2% from Argentina, 1% from Peru and less than 1% from Venezuela.

Figure 4.1.1 Country of operation (n. 540)

4.2. Legal structure

More than half the respondents (56%) indicated sole partnership as their legal structure, of which the majority (37% of the total number of respondents) were individual micro-entrepreneurs (IME) which was also included as a category and is an important size bracket in Brazil. This was followed by public limited companies (22%), private limited companies (9%) and limited partnerships (8%). Figure 4.1.1 shows the respondents' country of operation and Figure 4.2.2 the reported business legal structures.

Figure 4.2.1 Business legal structure (n. 540)



Note: Sole partnership 1 corresponds to individual micro-entrepreneurs (IME) and sole partnership 2 corresponds to individual entrepreneurs (IE)

4.3. Size and full-time employees

MSMEs were classified by size based on the relevant country's criteria (as shown in Table 4.3.1), which is mostly a mix of FTEs and annual turnover. Overall, 39% of respondents were classed as micro enterprises, 22% as small and 5% as medium. Sole partnerships (IMEs) represented 34% of respondents.

Figure 4.3.1 represents the number of full-time employees of the respondent MSMEs: 73% had between zero (sole partnership) and five FTEs, 13% had between 11 and 50, and 10% between six and ten.

Figure 4.3.1 Number of full-time employees (n. 534)

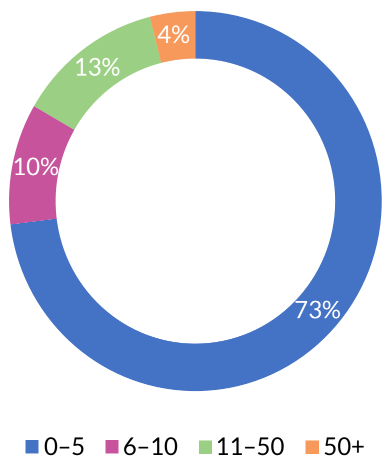


Table 4.3.1 MSMEs by size (n. 540)

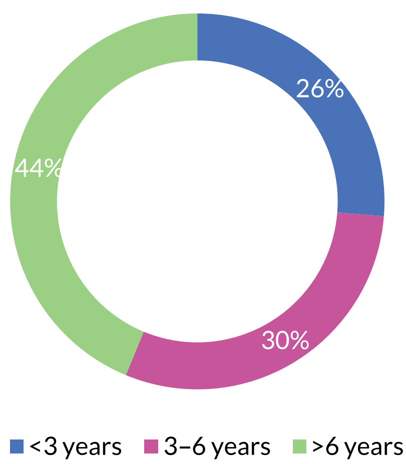
MSME Size	Count	Proportion
Medium	28	5%
Micro	198	39%
Small	112	22%
Sole partnership (MEI)	172	34%
Total	510	100%

Note: Thirty responses were excluded for not providing enough data for classification.

4.4. Trading duration

Most respondents (44%) were mature MSMEs that had been operating for more than six years: 17% had been operating for between six and ten years, 17% between 10 and 20 years, and 10% for more than 20 years. Thirty percent of firms had been operating for between three and six years and 26% for less than three years. It is worth mentioning that fewer than 1% had been operating for less than a year. These figures are summarized in Figure 4.4.1.

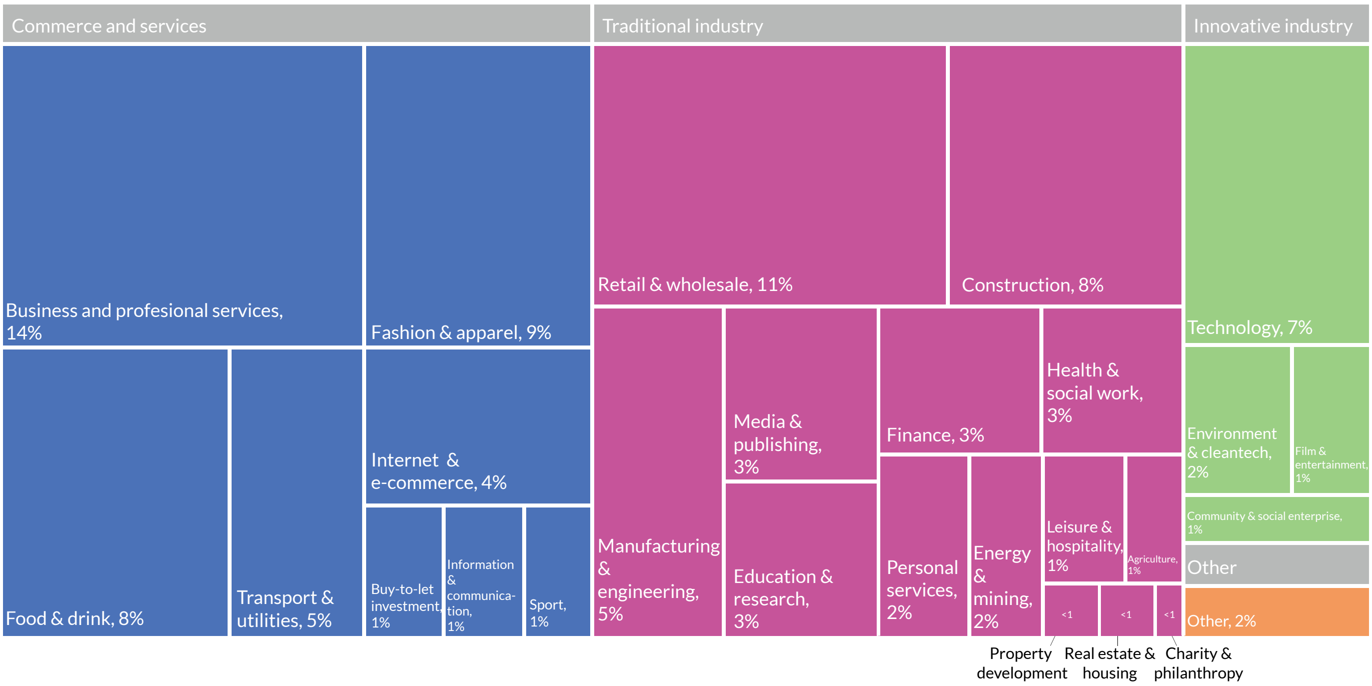
Figure 4.4.1 Trading duration (n. 537)



4.5. Sector

As shown in Figure 4.5.1, the respondent MSMEs operated in a variety of business sectors, with 43% operating in sectors related to commerce and services, and another 43% in traditional industries such as construction (8%), and retail and wholesale (11%). Approximately 12% of MSMEs operated in sectors related to the innovative industry such as technology (7%), and film and entertainment (1%). Some of these sectors include business and professional services (14%), retail and wholesale (11%), fashion and apparel (9%), food and drink (8%), construction (8%), and technology (7%).

Figure 4.5.1 Business sector (n. 540)



4.6. Gender, education and age of Chief Executive Officer or Managing Director

Most respondent MSMEs were managed by men between the ages of 34 and 54. Twenty-one percent had a Chief Executive Officer (CEO) or Managing Director (MD) aged between 25 and 34, 34% were between 35 and 44, and 26% were between 45 and 54. Only 19% of MSMEs were led by a person older than 55 and 1% by a person younger than 24. In terms of gender, 70% of CEOs or MDs were male and 25% were female.

Regarding the level of education, the CEO or MD of most MSMEs had a university-level education (67%), followed by those with undergraduate degrees (35%), postgraduate certificates (19%) and postgraduate degrees (13%). Of the remainder, 19% had a secondary school education and 14% a technical education. These statistics are summarized in Figures 4.6.1 to 4.6.3.

Figure 4.6.1 CEO or MD highest level of education (n. 472)

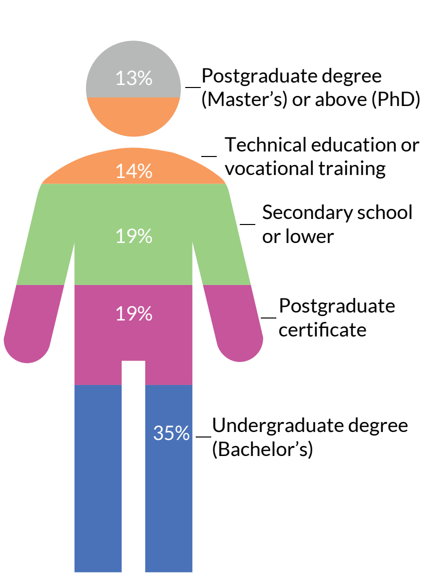


Figure 4.6.2 CEO or MD age (n. 473)

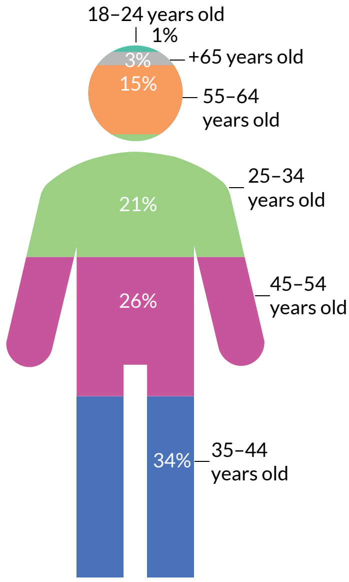
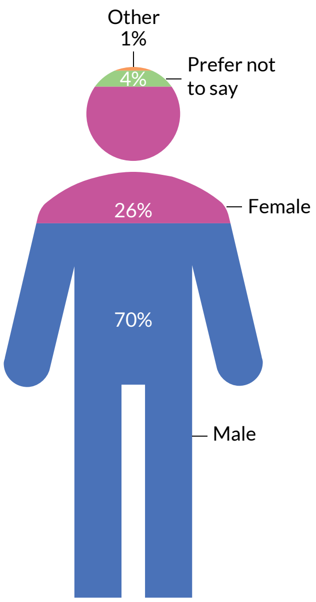


Figure 4.6.3 CEO or MD gender (n. 480)

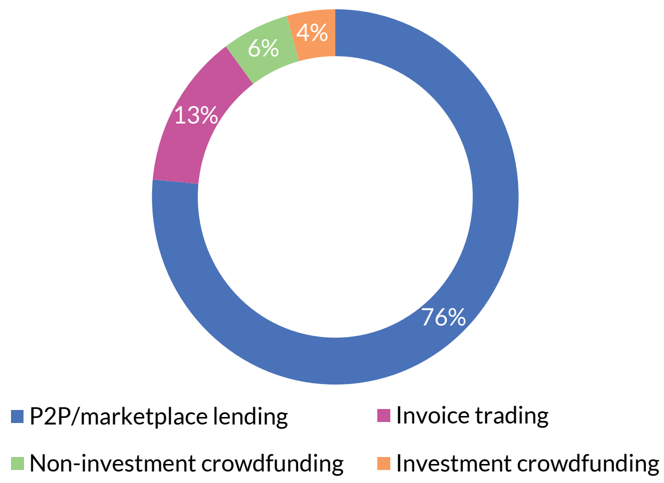


5. OVERALL USE OF ALTERNATIVE FINANCE BY MSMEs

5.1. Verticals: models encompassed in this study

As shown in Figure 5.1.1, most respondent MSMEs (76%) had used a P2P/marketplace lending or balance-sheet lending platform in the previous 12 months to fund their business, followed by invoice trading (13%); the two credit models making up the majority of this study sample. Few MSMEs had used non-investment crowdfunding (6%) including rewards-based crowdfunding and donation-based crowdfunding, and investment crowdfunding (4%) including real estate crowdfunding and equity crowdfunding, however, there were some higher use outliers.

Figure 5.1.1 Verticals distribution (n. 540)



5.2. Amount borrowed or raised by MSMEs through a digital financial services platform

The amounts raised or borrowed by MSMEs varied greatly (see Figure 5.2.1). Overall, respondent MSMEs were low-value operations, with the overall median value being USD3,917 and until the third quartile, or 75% of the sample, the maximum value ranged up to USD20,000. It is worth noting that outliers borrowed values greater than USD1 million, pushing the average amount to over USD62,000.

Among the verticals analyzed, P2P/marketplace lending (digital lending) represented most of the sample and concentrated the values among lower amounts, with three-quarters of the sample borrowing only USD9,792, considerably less than the general sample (USD19,584), as shown in Figure 5.2.1. Over 76% of those borrowers were micro enterprises or IMEs (sole partnership), most of which used the funds for working capital, although there were numerous outliers, especially in this vertical. Crowdfunding, especially real estate, pulled the distribution to higher amounts as shown in Figure 5.2.2, and despite most companies being small enterprises, they borrowed over USD200,000. The main purpose for borrowing the funds in this vertical was to purchase or develop real estate.

The analysis of the amounts borrowed by MSMEs revealed an interesting pattern: firms in commerce and services had a distribution within higher values, while the distribution of innovative industries was spread over lower amounts (see Figure 5.2.3). Traditional industries had a higher median and reached considerably higher values in their distribution within the third quartile.

Figure 5.2.1 Amount borrowed/raised by MSMEs

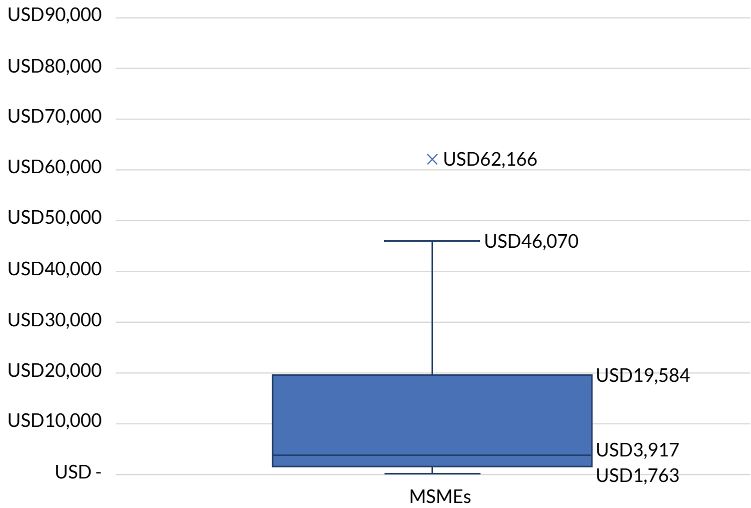
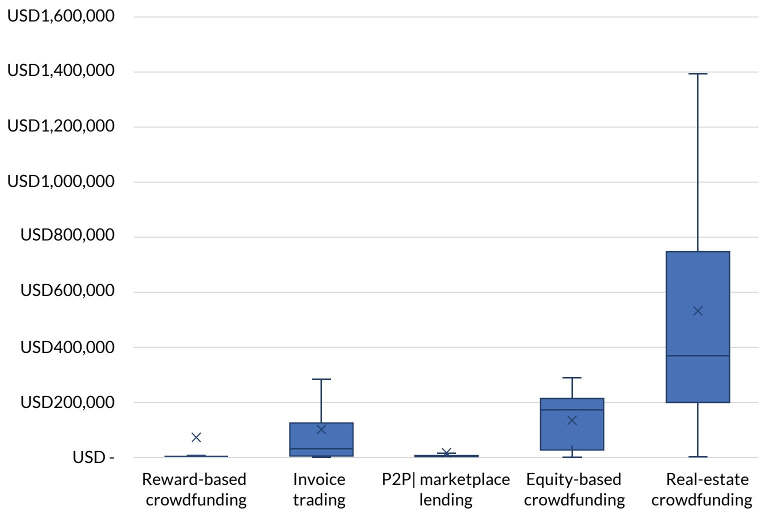


Figure 5.2.2 Amount borrowed/raised vs vertical



Finally, the purpose for which the funding was required influenced the amount raised by MSMEs. When purchasing an asset, the amounts borrowed were of higher values with a median of over USD9,000 and an overall average greater than USD52,000. This was mainly due to companies that sought funding from real estate fintechs. For other purposes (as shown in Figure 5.2.4), the median value ranged between USD3,000 and USD4,000, mainly comprising MSMEs who borrowed funds from P2P/marketplace lending platforms to use as working capital.

Figure 5.2.3 Amount borrowed/raised vs sector (no outliers)

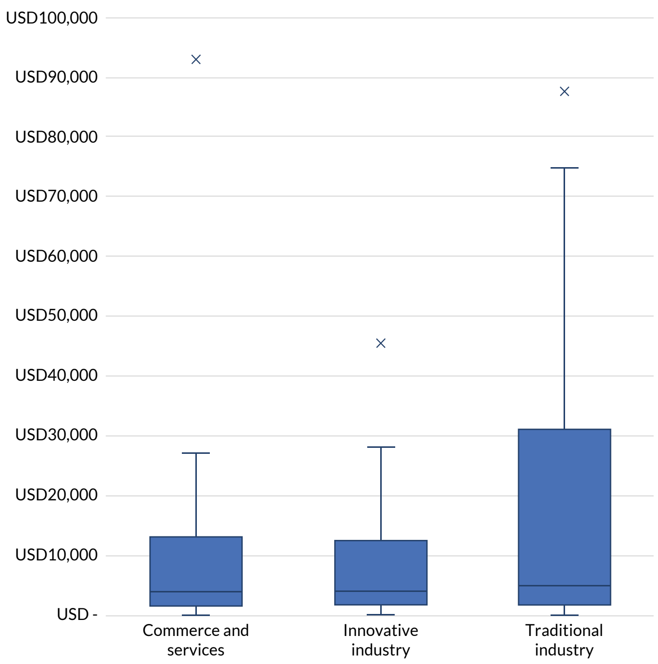
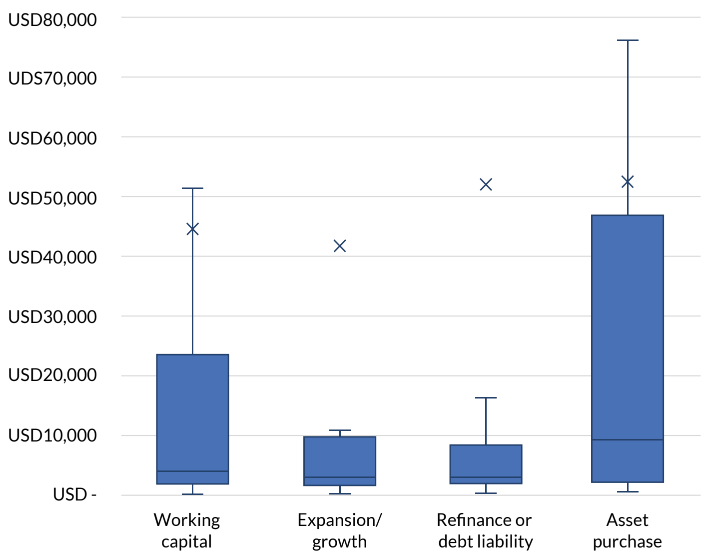


Figure 5.2.4 Amount borrowed/raised vs purpose (no outliers)

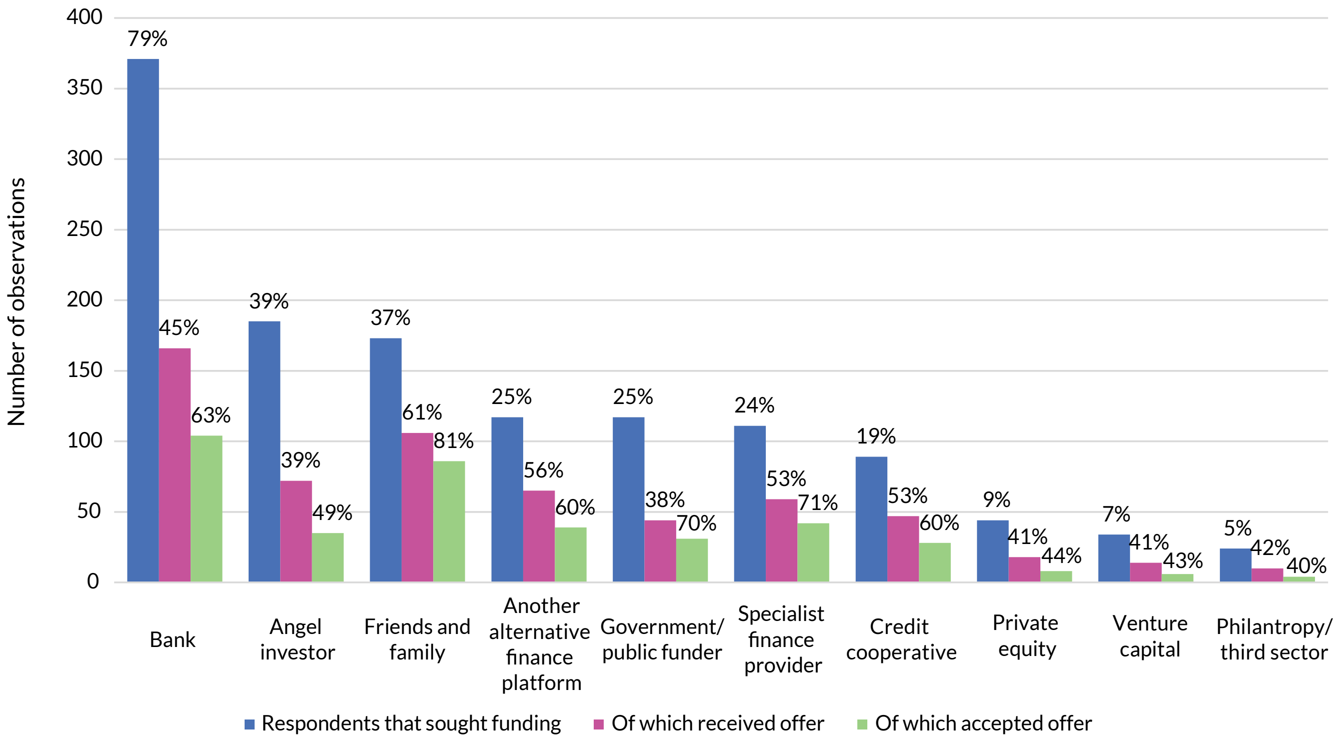


5.3. Previous funding experiences of MSMEs

Figure 5.3.1 shows that most respondents had sought funding from banks before receiving finance from a fintech platform. About 80% tried a bank provider but 70% of these MSMEs were unable to finance their business through this source. The second funding source most frequently turned to was angel investors (39%), followed by friends and family (37%). Interestingly, one-quarter of MSMEs had also sought funding from other platforms before taking part in this study.

Although angel investors were the second most popular funding source, the success rate of receiving an offer was the second-lowest at 39%, which was only slightly higher than the success rate from government sources. Conversely, friends and family were the sources from which the highest percentage of offers were received (61%) and consequently accepted (81%).

Figure 5.3.1 Previous fundraising activity (n. 549)



5.4. Analysis by model

The following chapters (Chapters 6–9) provide an overview of the key findings for the fintech business models P2P/marketplace lending, invoice trading, investment crowdfunding and non-investment crowdfunding. The chapters include data on business structure, relationships with traditional banking products and services, borrowing experiences, funding outcomes, and demographics of the MSMEs in each model.

Table 5.4.1 summarizes the main findings of each model where, for most of the aspects, there was no trend between the models apart from FTEs, CEO gender and the primary purpose of the funding.

Most MSMEs across all models were managed by a man and experienced a decrease in total turnover between 2019 and 2020, except for MSMEs that raised funds using an investment crowdfunding platform. Those MSMEs saw an increase of more than 10% in the year-on-year comparison. Finally, for MSMEs that used P2P/marketplace lending, invoice trading and investment crowdfunding, the main business impact caused by the funding from an online alternative finance platform was an increase in productivity.

Table 5.4.1 Main findings by model

	P2P/marketplace lending	Invoice trading	Investment crowdfunding	Non-investment crowdfunding
Country	Brazil (79%)	Colombia (46%)	Mexico (65%)	Mexico (53%)
Legal structure	Sole partnership (IME) (46%)	Public limited company (65%)	Public limited company (61%)	Sole partnership (47%)
Main sector	Business and professional services (15%)	Manufacturing/ engineering (15%)	Buy-to-let investment (30%)	Technology; health and social work (13%)
Number of FTEs	1–5 (62%)	1–5 (39%)	1–5 (57%)	1–5 (61%)
Years of operation	>6 (44%)	>6 (57%)	3–6 (39%)	<3 (59%)
2019 total turnover	USD134.9 million	USD72.5 million	USD10.3 million	USD9.4 million
2020 total turnover	USD115.7 million	USD63 million	USD11.5 million	USD6.9 million
Turnover difference YoY	−14.23%	−13.10%	11.65%	−26.60%
CEO education	Undergraduate degree (34%)	Undergraduate degree (40%)	Postgraduate degree (35%)	Undergraduate degree (43%)
CEO age	35–44 (35%)	45–54 (37%)	35–44 (43%)	25–34 (30%)
CEO gender	Male (67%)	Male (76%)	Male (87%)	Male (73%)
Traditional finance facilities used	Personal credit cards (57%)	Business account (72%)	Business account (61%)	Owner's personal account (47%)
Previous fundraising activity (respondents that sought funding)	Bank (82%)	Bank (84%)	Friends and family (74%)	Friends and family (70%)
Primary purpose of funding	Working capital (64%)	Working capital (90%)	Working capital (54%)	N/A
Final interest rate of most recent loan	2–2.9% (20%)	0–2% (44%)	11–14.9% (69%)	N/A
Business impact due to funding	Increased productivity (43%)	Increased productivity (35%)	Increased productivity (67%)	Expanded customer base (68%)

6. P2P/MARKETPLACE LENDING

Most respondent businesses (76%) used a P2P/marketplace lending platform to access credit, which is not surprising given this is the largest lending model across LATAM, consistently ranking as the most robust fintech model in the six countries included in this study.[ix]

6.1. Profile of MSMEs

Business structure

Total respondents and countries

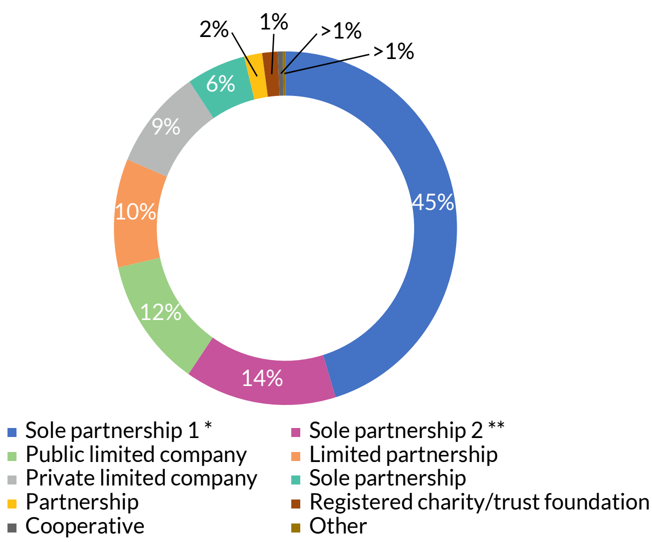
In total, 413 MSMEs used a P2P/marketplace lending platform to fund their business. Of these, 79% were based in Brazil, 11% in Colombia and 7% in Mexico, with Chile, Peru and Argentina comprising the remaining 4% of firms (as shown in Figure 6.1.1).

Figure 6.1.1 Country of operation: P2P/marketplace lending (n. 413)

Legal structure

Figure 6.1.2 shows that the two most prevalent structures among respondents were sole partnerships (65%), of which the majority comprised IMEs (45%), and public limited companies (12%).

Figure 6.1.2 Business legal structure: P2P/marketplace lending (n. 413)

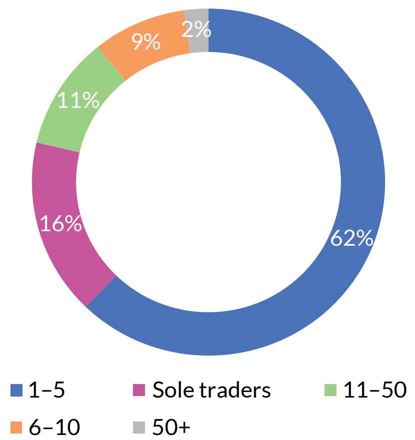


Note: Sole partnership 1 corresponds to individual micro-entrepreneurs (IME) and sole partnership 2 corresponds to individual entrepreneurs (IE).

Size and full-time employees

When classified by size, most respondents were Brazilian sole proprietorships (IMEs) or micro enterprises (76%). This is in line with the 78% of respondents that reported being self-employed or having up to five employees. Nineteen percent of firms were classified as small and 4% as medium. Less than 3% of respondents were firms with over 50 FTEs (see Figure 6.1.3).

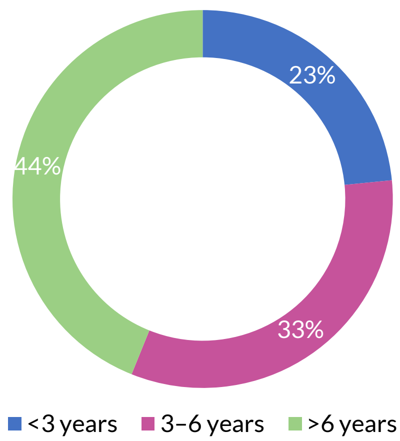
Figure 6.1.3 Number of full-time employees: P2P/marketplace lending (n. 408)



Trading duration

Despite the strong trends related to structure and number of employees, the number of years of operation varied greatly. However, mature firms were more prevalent (44%) than younger ones (23%), as shown in Figure 6.1.4.

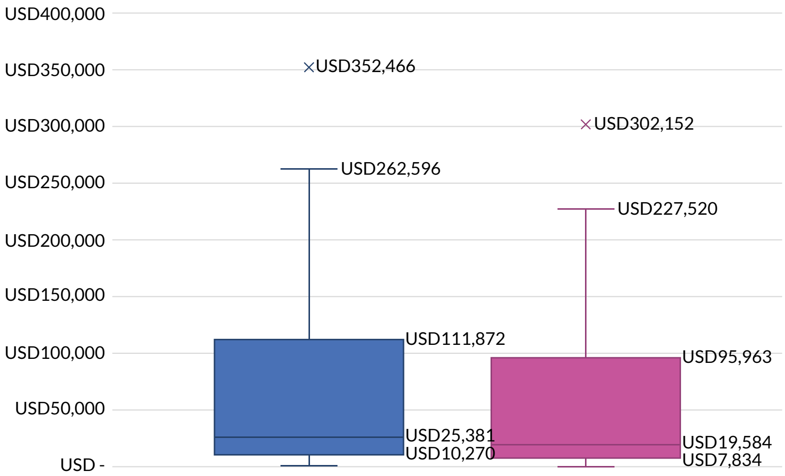
Figure 6.1.4 Trading duration: P2P/marketplace lending (n. 410)



Turnover

Most respondent firms reported turnovers of less than USD100,000 in 2019 and 2020, with a slight drop in 2020. Median values were approximately USD25,000 in 2019 and USD20,000 in 2020. Average values were largely influenced by the last quarter of the distribution which comprised 84% of total declared turnover in 2019 and 95% in 2020 (see Figure 6.1.5).

Figure 6.1.5 2019 turnover vs 2020 turnover (USD): P2P/marketplace lending (n. 383)

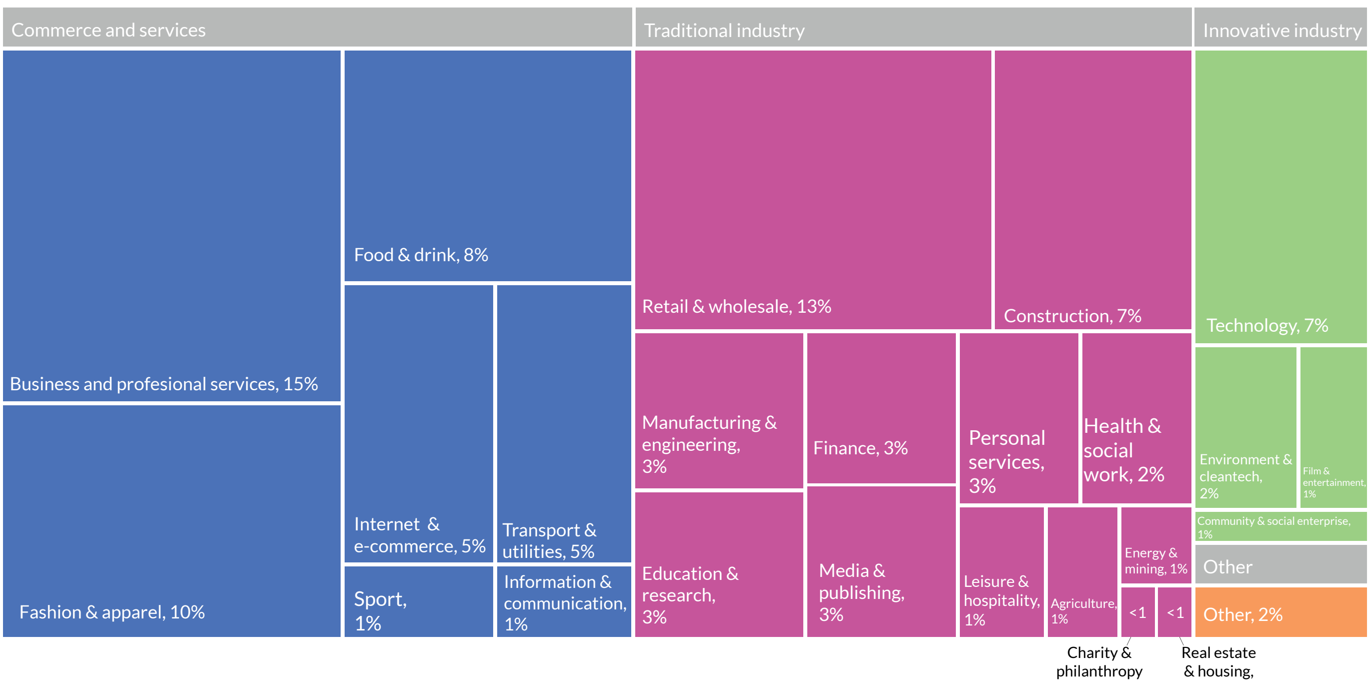


Note: Amounts were reported in local currencies and converted into USD using the OANDA average rate for the period between 1 January 2019 and 31 December 2020. Outliers are not shown in this boxplot.

Sector

As shown in Figure 6.1.6, the sectors most represented among respondents were those related to commerce and services (46%), traditional industries (41%) and innovative industries (11%).

Figure 6.1.6 Business Sector: P2P/marketplace lending (n. 413)



Gender, education and age of Chief Executive Officer or Managing Director

Similar to the overall trend, 67% of MSMEs that used P2P/marketplace lending were led by men and 29% by women. More than one-half of CEOs or MDs were under 44 years of age and over 60% held higher education degrees. These statistics are summarized in Figures 6.1.7 to 6.1.9.

Figure 6.1.7 CEO or MD gender: P2P/marketplace lending (n. 367)

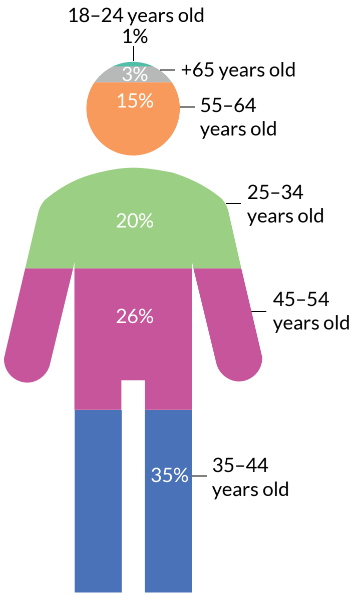


Figure 6.1.8 CEO or MD age: P2P/marketplace lending (n. 361)

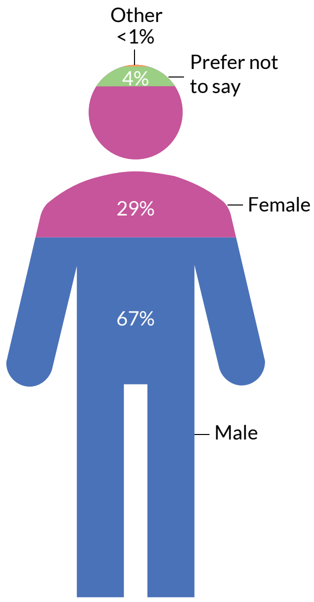
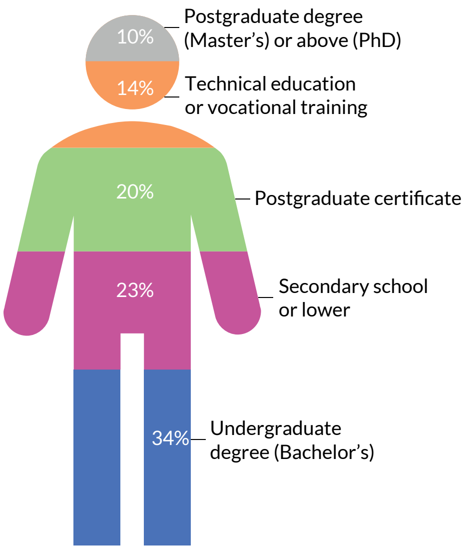


Figure 6.1.9 CEO or MD highest education level: P2P/ marketplace lending (n. 360)



Case study

Country: *Brazil*
Fintech platform: *Biz Capital*
MSME: *Salão Azul*

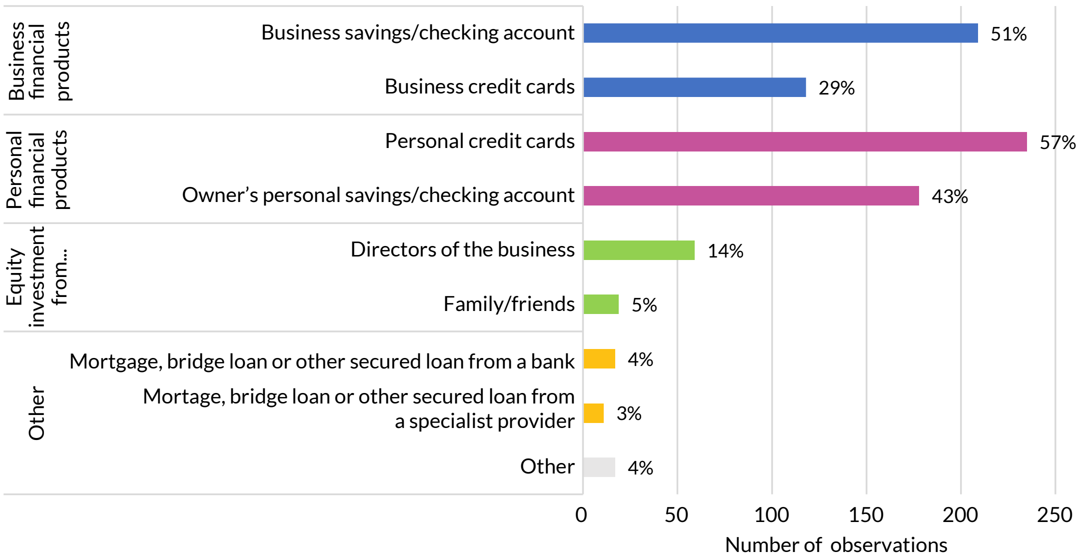
Anistalio Jairo inherited the Blue Saloon (Salão Azul) from his father. He took over the barbershop, which was established in 1989, in 2013. Despite the company's history, Anistalio was denied credit to renovate the shop. He came across Biz Capital advertized on a social network and, after some research, applied for funding and decided to accept the offer he received. With these funds, he renovated the barbershop, which led to more clients and higher turnover.

Relationship with traditional financial services
Traditional finance facilities use

MSMEs that used traditional finance facilities relied heavily on personal financial products, as shown in Figure 6.1.10, Most used personal credit cards (57%) or personal bank accounts (43%) for funding. Over half the MSMEs used a business account for funding, making it the second-most product used. This points to the formal structure of these firms' financial situation, which seems to agree with the high prevalence of mature firms in the sample.

Investment from directors, and family and friends, was used by 14% and 5% of firms, respectively. In terms of formal credit, less than 10% of respondents used a secured loan from a bank and only 5% held a secured loan from a financial specialist.

Figure 6.1.10 MSMEs' traditional finance facilities use: P2P/marketplace lending (n. 410)



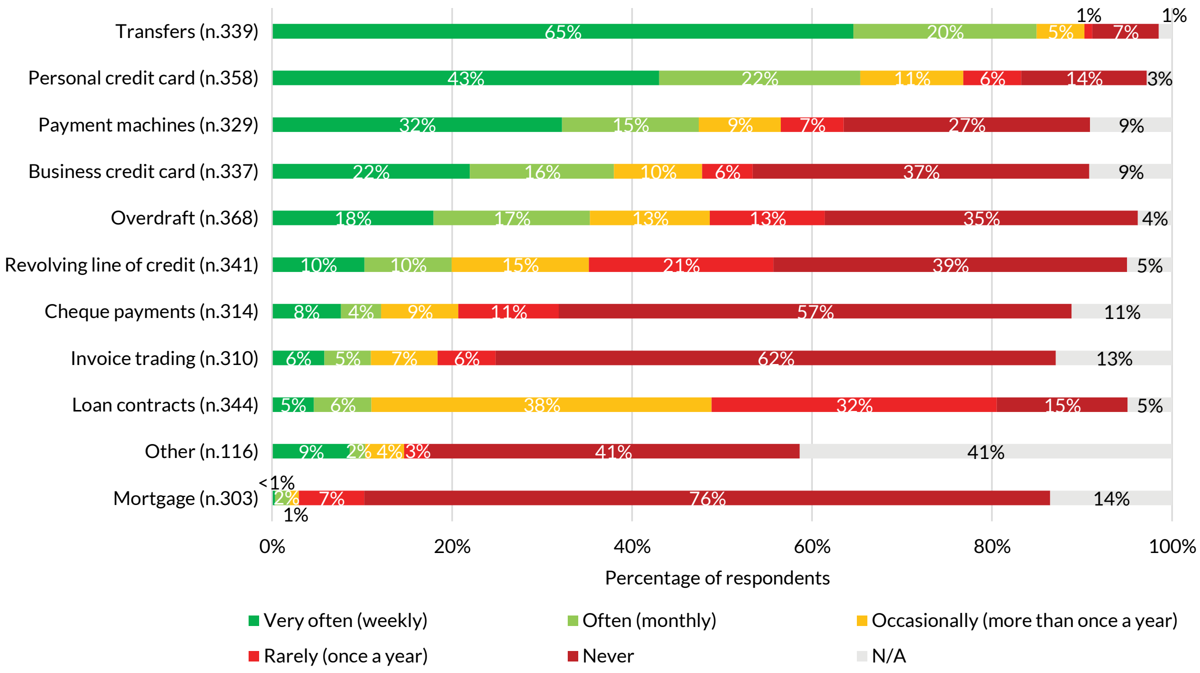
Banking product use

Further analysis showed that banking product use mostly related to payments and transfers, with 85% of respondent MSMEs using transfers. Payment machines were used often or very often by 47% of firms. Only 13% frequently used cheque payments.

As previously mentioned, more firms used business accounts than personal accounts. However, this was not the case for credit cards: personal credit cards were used often or very often by 65% of respondents, while 38% used business cards frequently.

In terms of credit, overdrafts and revolving lines of credit were frequently used by 35% and 20% of firms, respectively. Loan contracts seem to be a viable alternative for respondents, as more than 80% of MSMEs reported they used that bank product. Regarding secured credit, invoice trading and mortgages were less prevalent: 62% had never used invoice trading products and 76% had never resorted to mortgages. These statistics are summarized in Figure 6.1.11.

Figure 6.1.11 MSMEs' bank products use: P2P/marketplace lending



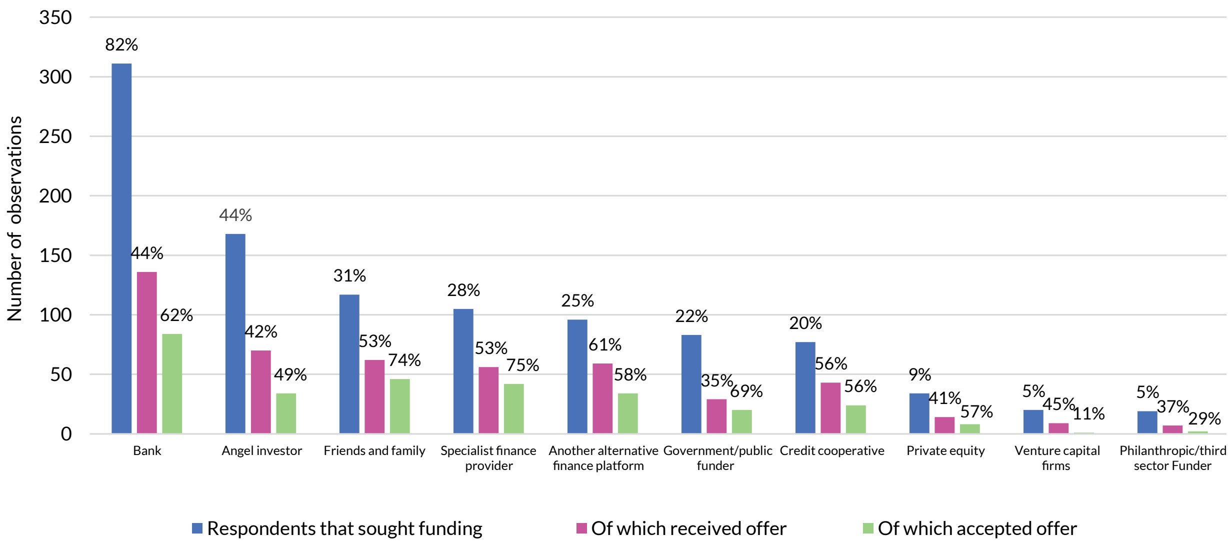
Funding from other sources

MSMEs commonly searched for funding from various other sources before turning to P2P/marketplace lending platforms. The facility from which funding was most often sought was banks (82%), with less than half of those firms receiving an offer. Of those, 62% accepted the bank's offer. The biggest funding gap was observed in sole partnership (IME) enterprises in Brazil, where only 18% received funding from a bank (see Figure 6.1.12).

Angel investors were the second most popular facility from which to source funding (44%), but less than half of those MSMEs received an offer, of which 50% accepted the funding. Funds from friends and family were sought by 31% of firms, 54% of those received an offer and 74% accepted it.

One in four firms sought funding from other platforms. Those firms received the highest percentage of offers (61%). Finally, one in five respondent MSMEs sought credit from a credit cooperative, with over 56% receiving an offer.

Figure 6.1.12 Previous fundraising activity: P2P/marketplace lending (n. 381)



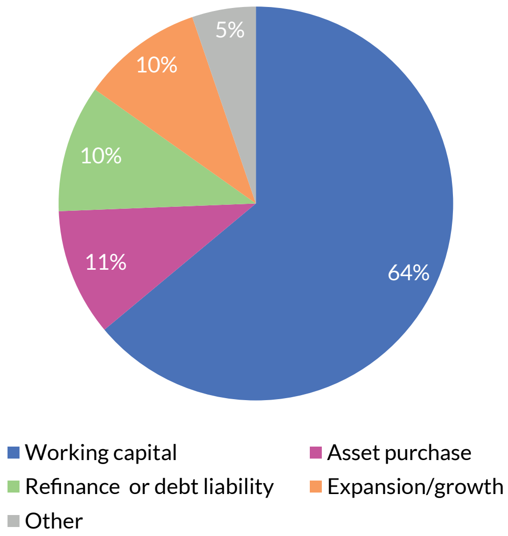
6.2. Borrowing experience

Primary purpose of borrowing

When borrowing from a P2P/marketplace lending platform, most MSMEs sought funding to use as working capital (64%) and one-fifth used the funding to cover unexpected cash flow requirements. The remainder used the funding to pay suppliers.

For 22% of MSMEs, the motivation for borrowing funds was purchasing an asset (11%), mainly a non-property, and refinancing long-term debts (11%). Expansion and growth were the next motivating factors (10%), with most MSMEs using the funds to develop a new product or service, or expand into a new market. These statistics are summarized in Figure 6.2.1.

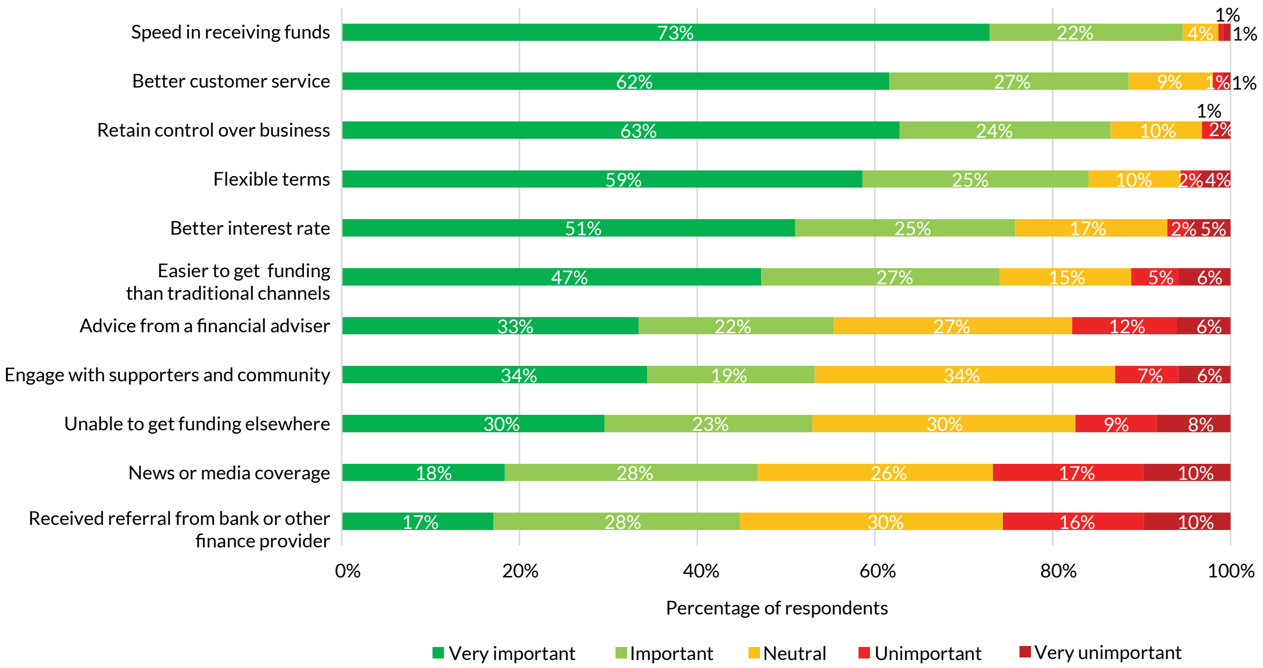
Figure 6.2.1 Funding primary purpose: P2P/marketplace lending (n. 360)



Decision-making factors for borrowing from fintechs

As shown in Figure 6.2.2, the decision to borrow funds from a platform was heavily influenced by five main factors: speed (73%), customer service (62%), non-interference in the business (63%), flexible terms (59%) and better interest rates (51%).

Figure 6.2.2 Decision-making factors: P2P/marketplace lending



Ability to get funding from another source

One-third of firms decided to use fintech platform services because they were unable to secure funds from other sources. An in-depth analysis revealed that 23% were unsure they could have accessed other credit facilities to meet their needs. This finding demonstrates that fintech platform services have the potential to increase financial inclusion. Conversely, almost half the respondents believed they would have been able to source funding elsewhere, hence additional factors such as speed, better customer service and flexibility may have influenced their decision to choose an alternative finance provider.

Table 6.2.1 Amount borrowed: P2P/marketplace lending (n. 329)

Measure	Amount (USD)
Average	20,812.25
Minimum	156.67
1st quartile	1,566.74
2nd quartile	3,916.86
3rd quartile	9,792.15
Maximum	758,400.00

Note: Amounts were reported in local currencies and converted into USD using the OANDA average rate for the period between 1 January and 31 December 2020. Zero values were excluded from calculations.

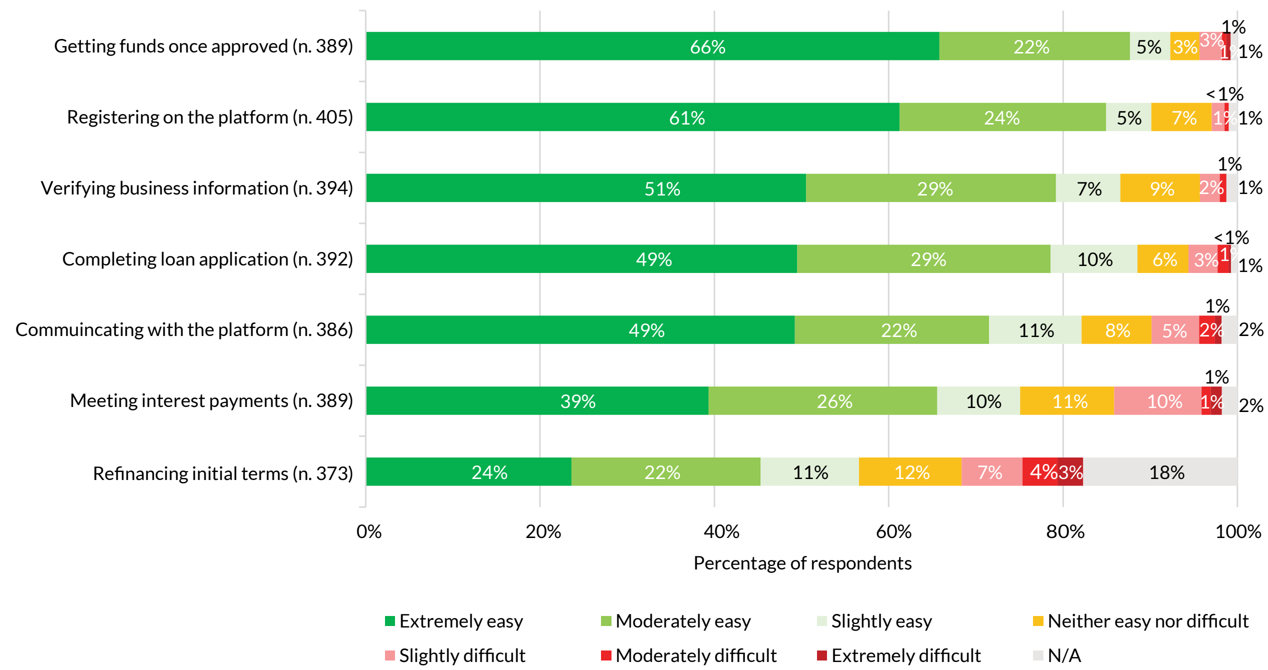
Amount borrowed

Only 20% of MSMEs borrowed amounts over USD20,000. More than half borrowed less than USD4,000 (see Table 6.2.1), most of which were sole partnerships (IME) operating in Brazil that had borrowed from fintechs to cover working capital needs.

Digital finance platform ease of use

In terms of P2P/marketplace lending platforms, MSMEs indicated that generally, digital financial services were accessible and easy to use. In this regard, over 80% of respondent MSMEs reported that bureaucratic processes such as registering, applying, verifying business information and receiving the funds after approval caused no difficulty. Communicating with the platform was also reported as easy by over 70% of MSMEs. Eighteen percent of MSMEs were unable to refinance at the initial terms and a much lower percentage reported using this feature as easy. These statistics are summarized in Figure 6.2.3.

Figure 6.2.3 Ease of using alternative finance platforms: P2P/marketplace lending



Case study

Country: *Colombia*
Fintech platform: *Creci*
MSME: *Moksa Green Engineering*

Brief story about the MSME

Moksa Green Engineering was legally established in July 2016. The company was created with the aim of adding value to what organizations do by generating solutions and strategies that aim to meet the United Nation's Sustainable Development Goals (SDGs), especially SDG 6: Clean Water and Sanitation. The name of the company comes from a term used by Indian alchemists to refer to transformation. The alchemists believed that they must first transform themselves before transforming matter. We want to be transformers, generators of change and become better human beings in the process.

Why CRECI?

In CRECI, we found a fintech willing to support us and that also seeks to leverage companies and ventures, such as ours, that work to achieve sustainable development.

How has the funding affected the company?

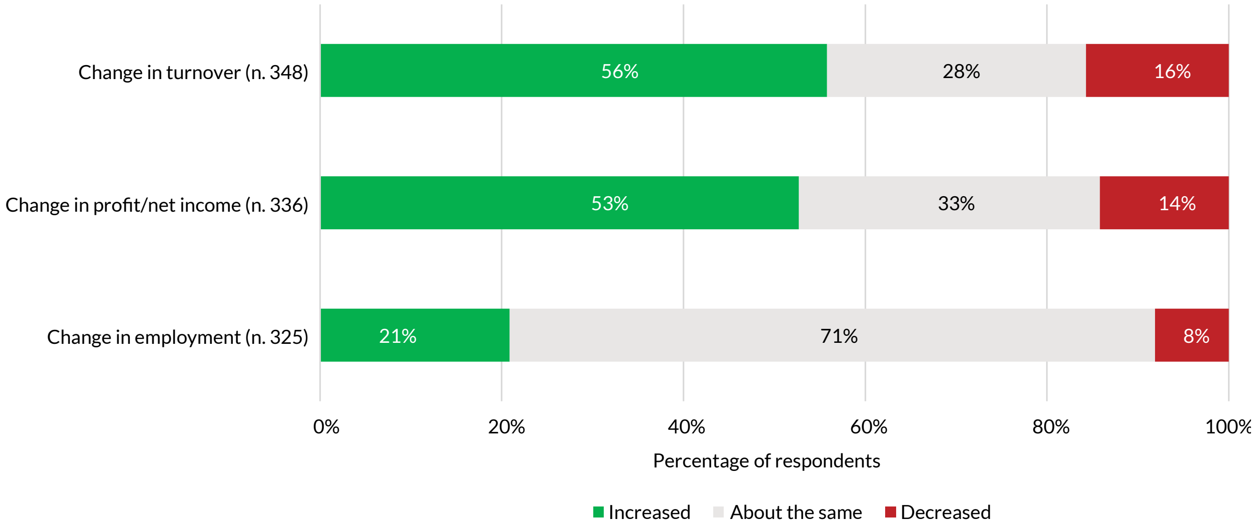
A growing venture , at some point, will need funding sources to nurture that growth, whether the resources are obtained from its close circle, from an investor, or from a conventional financial institution or a fintech. The funding has allowed us to develop larger projects and, therefore, of greater impact. Having these additional sources of financing makes it possible for our mission to be carried out on a larger scale as we continue to grow.

6.3. Funding outcomes

Changes to business

Figure 6.3.1 shows that over half the respondent firms indicated they perceived an increase in turnover (56%) and profits (53%) since receiving funding from a P2P/ marketplace lending platform. Moreover, 28% of respondents reported no change in turnover and one-third no change in profits. Changes in employment were less prevalent, with 71% of firms maintaining their size. Changes were predominately positive, with one in five firms increasing employee numbers.

Figure 6.3.1 Business changes since using the facility: P2P/marketplace lending

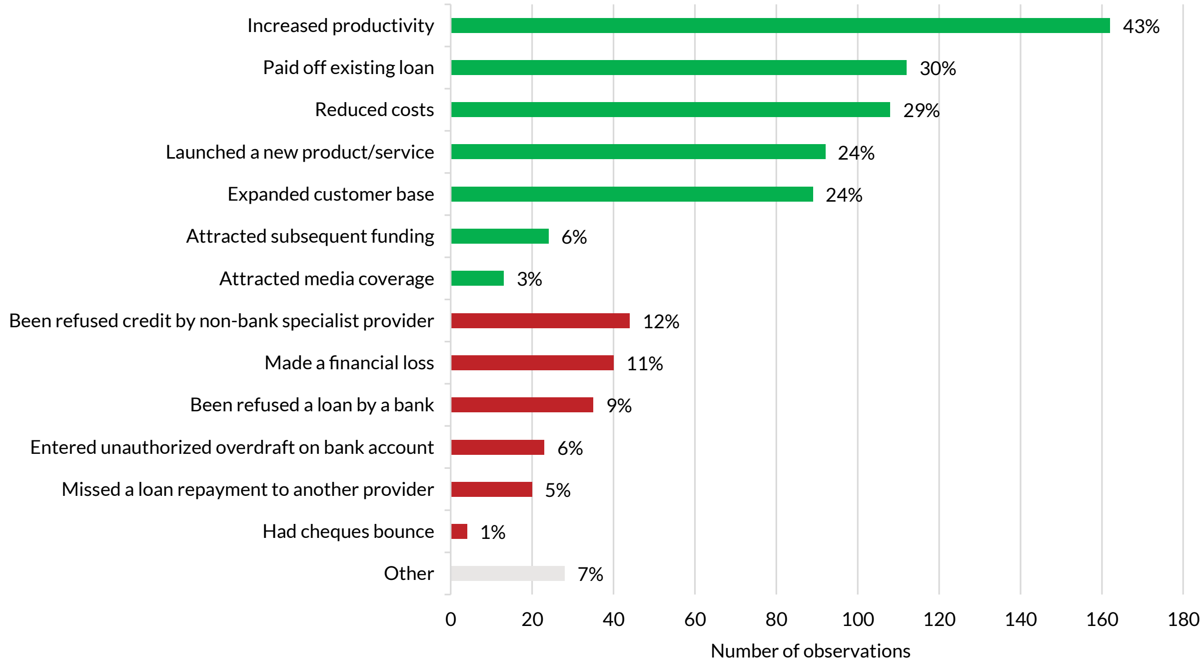


Impact on business as a result of funding

When asked about how their funding activity with a P2P/marketplace lending platform affected their business, MSMEs responded that the impact was, for the most part, positive (as shown in Figure 6.3.2). An increase in productivity was reported by 43% of respondents, while 29% saw a reduction in costs as a direct effect of funding. Thirty percent of firms used the funds to pay off an existing loan. One-quarter reported expanding their customer base and launching a new product or service. A smaller number attracted subsequent funding (6%) and media coverage (3%).

A smaller percentage of respondent firms reported negative impacts due to the funding, the most prevalent of which were being refused credit by a specialist provider (12%) or a bank (9%) and making a financial loss (11%). Others reported disruption to their financial situation: 6% became overdrawn without prior agreement, 5% missed a loan repayment to other providers and 1% had cheques bounce. Further investigation could help clarify the links, if any, between an MSME's funding experience and its specific outcomes.

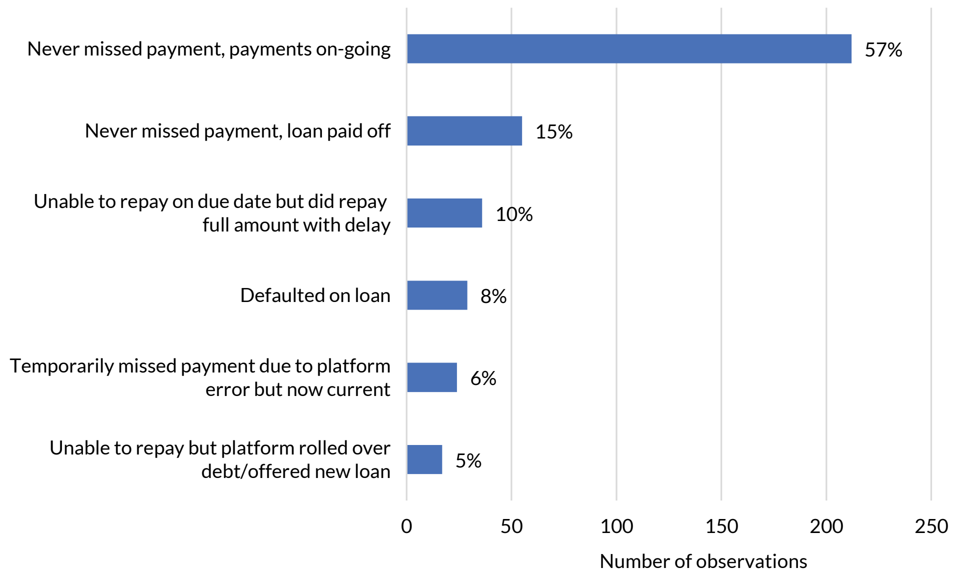
Figure 6.3.2 Impact of funding: P2P/marketplace lending (n. 377)



Repayment status

Most businesses were able to pay their debts on time (see Figure 6.3.3). More than half of MSMEs reported meeting the terms of their loan, and 15% had already paid it off. The remaining third had some difficulty in repaying the loan: 10% were unable to meet the due date but did eventually repay the full amount, and 6% missed the payment date due to platform errors but are now up to date. Another 5% renegotiated the terms of the debt they were unable to pay and 8% of MSMEs reported defaulting on their loan, which was higher than the non-performing loan average for the six countries analyzed in this study which, according to IMF data, was 3.17% in 2020.[x]

Figure 6.3.3 Loan repayment status: P2P/marketplace lending (n. 377)



Subsequent funding

One-third of firms received subsequent funding, which could indicate that their funding activity with a P2P/marketplace lending platform positively affected their ability to access finance from traditional finance providers. This figure is greater than that reported by MSMEs when asked about the general impact the funding had on their business, with only 6% indicating they had attracted subsequent funding. This discrepancy may be because the link between the cause and its direct effect was not emphasized. The main providers of subsequent funding were banks (36%), followed by specialist finance providers (28%). These statistics are summarized in Figures 6.3.4 and 6.3.5.

These results indicate that traditional banking services are still the main source of funding that MSMEs turn to even if they previously have had a positive funding experience with a platform. A more detailed analysis of the impact that MSMEs' experiences with platforms had on traditional banking services use is presented below.

Figure 6.3.4 Subsequent funding: P2P/marketplace lending (n. 326)

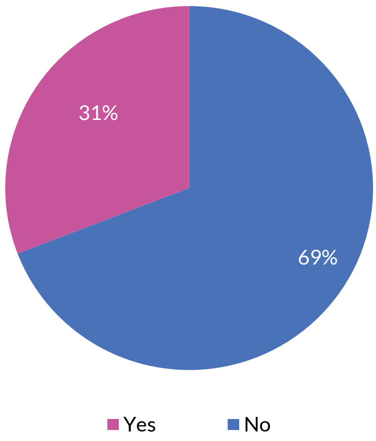
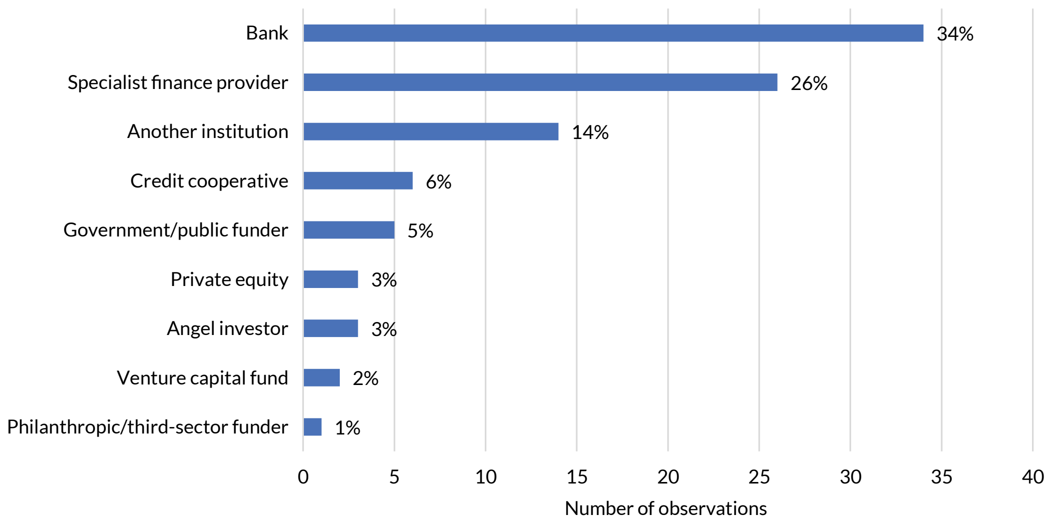


Figure 6.3.5 Source subsequent funding: P2P/marketplace lending (n. 100)



Banking relationship impact

MSMEs reported no change in their use of traditional banking services after using a digital financial platform. When there was a change, most firms relied less on traditional credit products (see Figure 6.3.6).

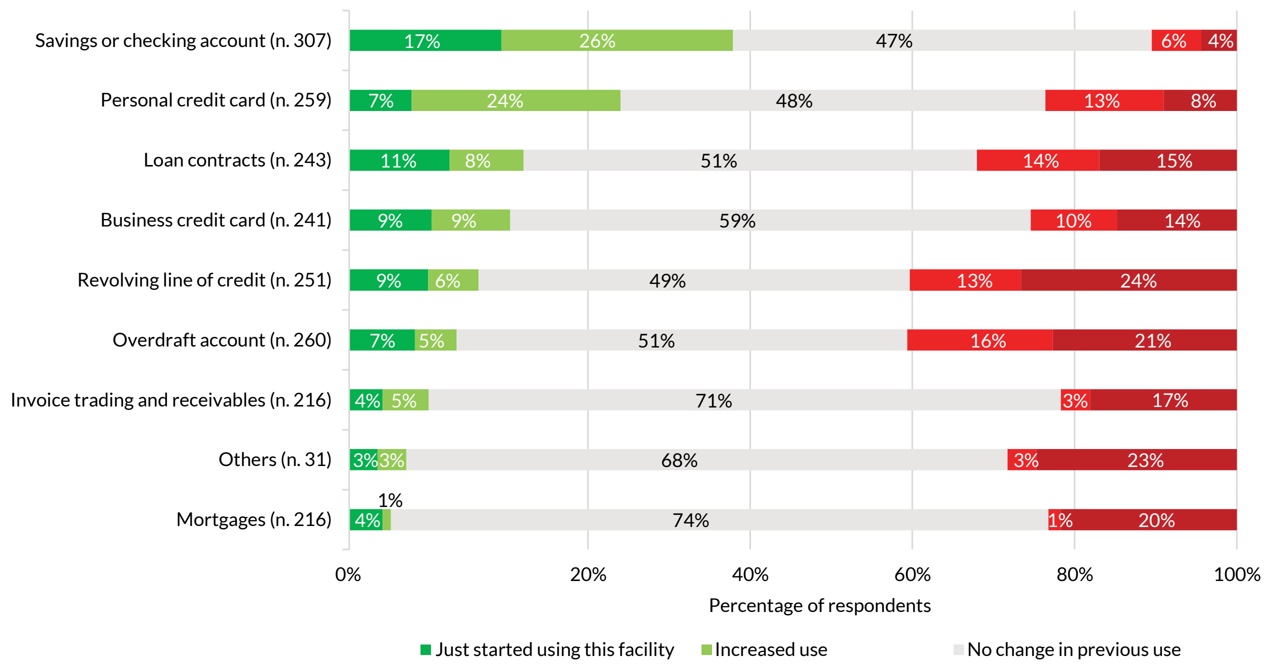
The borrowing experience influenced the use of banking products for half the respondents who used account services, loans, credit cards and overdraft facilities.

However, the only two services for which there was a reported increase in use were savings or checking accounts and personal credit cards. Seventeen percent of MSMEs reported they had started using savings or checking accounts as a direct result of the loan. Another 26% reported using these accounts more. This may indicate a more organized financial situation for those entrepreneurs, and further research could help explain this potential financial inclusion aspect of the funding experience with a P2P/marketplace lending platform. Personal credit cards were used more frequently by 24% of respondents, 7% started using them and 21% used them less often or stopped using them.

A significant percentage of MSMEs stopped using or reduced their use of expensive credit lines: 37% each for overdraft accounts and revolving lines of credit. Conversely, 12% (for overdraft accounts) and 15% (for revolving lines of credit) reported an increase in use.

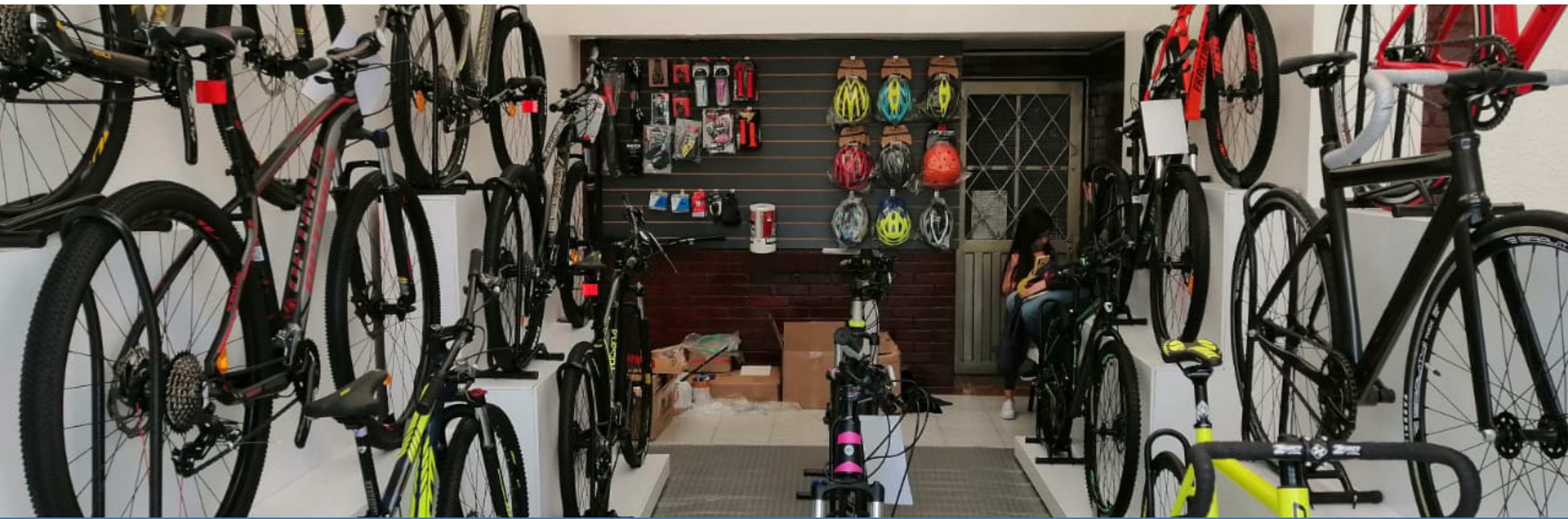
There was a smaller impact on the use of mortgages and invoice trading, with 71% of MSMEs reporting no change. For those firms that reported changes in the use of these banking products, most had decreased their use.

Figure 6.3.6 Banking relationship impact: P2P/marketplace lending



Case study

Country: *Colombia*
Fintech platform: *Juancho Te Presta*
MSME: *Bicicletas SONEG*



Brief story about the MSME

Bicicletas SONEG was created in November 2019 in the city of Bogota, but the owner had a dream of operating throughout the whole country. So, with only two bicycles and a credit card with COP1 million, its owners started selling bicycles by promoting them online. To inspire confidence, they decided to open the doors of their home so customers could see the bicycles. The company's owner, Camilo, decided to take a mechanics course so he could assemble the bicycles himself because he had trouble finding someone nearby to assemble them for him. However, in the meantime, he had to travel to the other side of the city to someone he could trust to assemble them.

A challenge they faced was to purchase more stock so they could offer their customers a variety of options. They then began looking for someone to invest in the bike store but came across many difficulties in trying to obtain finance. Finally, they found a relative who was willing to help the business, which helped create a positive relationship with its suppliers which, in turn, resulted in the company being offered credit. This access to additional funds allowed them to expand the company's credit portfolio the following year (March 2020). Unfortunately, this coincided with the Covid-19 pandemic, which slowed down operations but only for about one month because, they were fortunate that the bike sector was one of the first sectors to recover during the pandemic.

Why Juancho Te Presta and the impact of the funding

After receiving credit from their relative, they chose to start looking for a fintech to help and support them sell their products, as this would increase the purchase options. After searching for more than six months, they finally found the fintech Juancho Te Presta that agreed to finance them. The financing allowed them to increase the variety of products they sold and, because of increased demand for their products, they could purchase a store on a main street in Bogota. Their reputation for bicycles and mechanical services grew as they were able to afford a specialized and experienced mechanic.

7. INVOICE TRADING

Of the MSMEs that responded to the survey, 13% had used an invoice trading platform to access credit. Invoice trading companies are becoming more important in LATAM, and this model was the second most frequently used by MSMEs participating in this study.

7.1. Profile of MSMEs

Business structure

Total respondents and countries

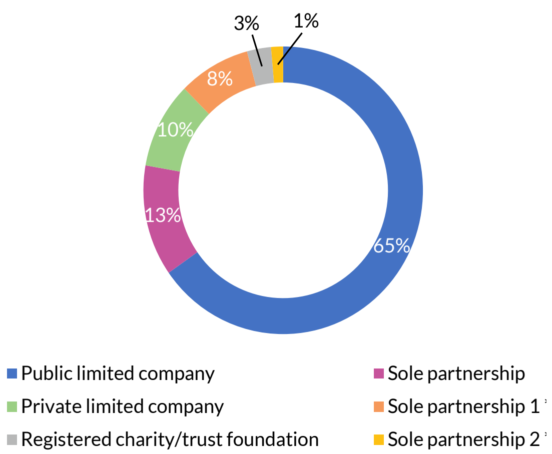
As shown in Figure 7.1.1, among the 72 respondents, 46% operate in Colombia, 19% in Chile, 13% in Brazil, 11% in Argentina, and the remainder in Mexico and Peru.

Figure 7.1.1 Country of operation: invoice trading (n. 72)

Legal structure

Figure 7.1.2 shows that among the MSMEs that used invoice trading, more than two-thirds were classified as public limited companies (65%). Sole partnerships came second (22%) and private limited companies, third (10%).

Figure 7.1.2 Business legal structure: invoice trading (n. 72)

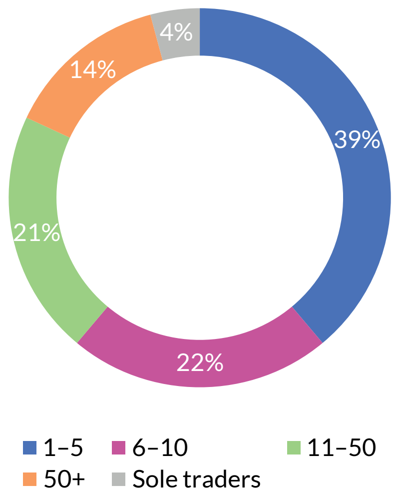


Note: Sole partnership 1 corresponds to individual micro-entrepreneurs (IME) and sole partnership 2 corresponds to individual entrepreneurs (IE).

Size and full-time employees

Based on reported turnover, half the MSMEs were micro enterprises, followed by small (30%), medium (10%) and IME (10%). Regarding the number of FTEs, 39% reported having between one and five employees, 22% between six and ten, and 21% between 11 and 50 (see Figure 7.1.3).

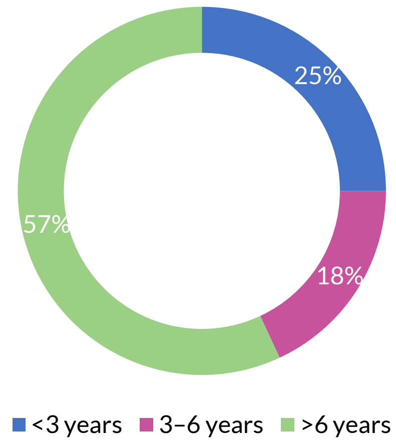
Figure 7.1.3 Number of full-time employees: invoice trading (n. 72)



Trading duration

In contrast to the overall trend, MSMEs that used an invoice trading platform were predominantly more mature firms: 57% reported operating for more than six years, with most of those operating for more than 11 years, as shown in Figure 7.1.4.

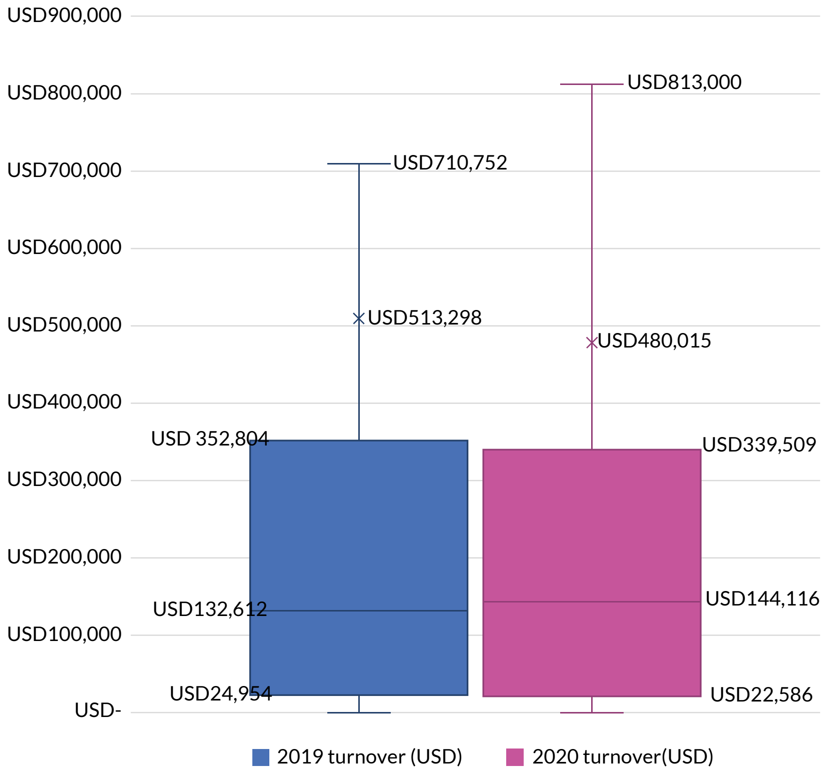
Figure 7.1.4 Trading duration: invoice trading (n. 72)



Turnover

As shown in Figure 7.1.5, over half the respondent MSMEs reported a turnover of approximately USD150,000 in both 2019 and 2020, as well as a 13% decrease in value between those years. Average values were largely influenced by the last quarter of the distribution, which accounted for over 85% of the total turnover amounts in both years; the average turnover was USD513,297 in 2019 and USD480,015 in 2020.

Figure 7.1.5 2019 turnover vs 2020 turnover (USD): invoice trading (n. 72)



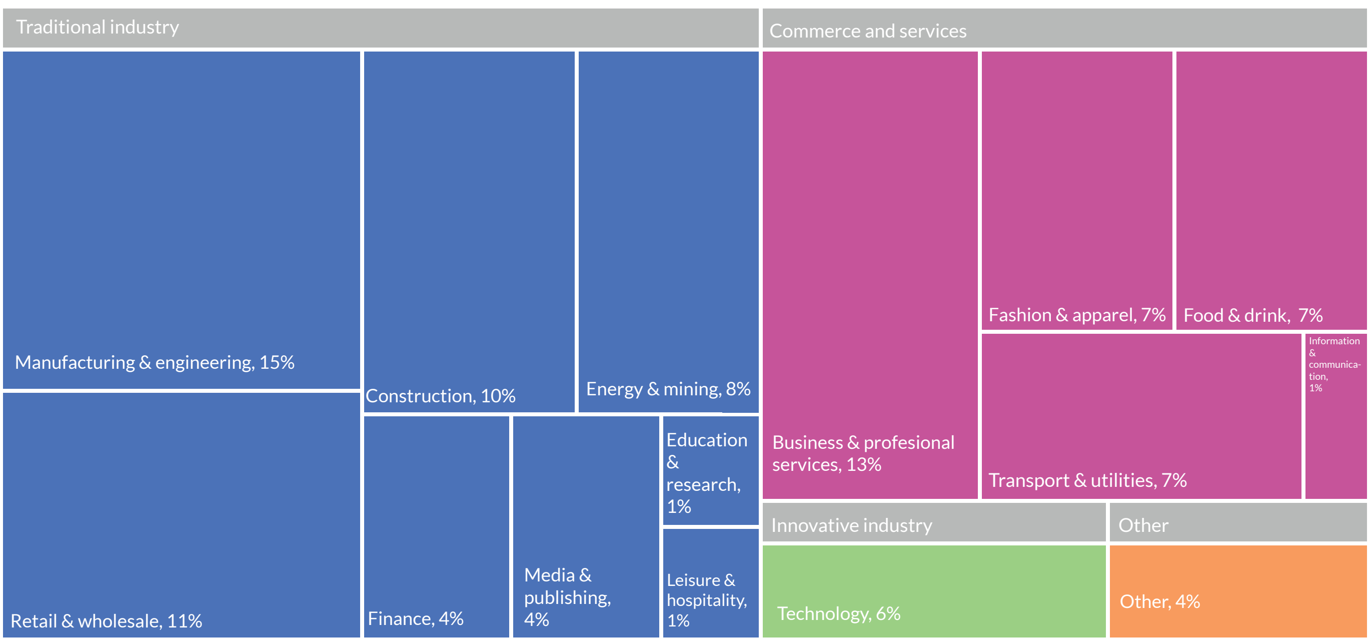
Note: Amounts were reported in local currencies and converted into USD using the OANDA average rate for the period between 1 January 2019 and 31 December 2020. Outliers are not shown in this boxplot.

Sector

Most invoice trading platforms catered for MSMEs operating in traditional industries (56%), generally within the manufacturing and engineering, and retail and wholesale sectors.

Commerce and services represented 35% of MSMEs, mostly comprising business and professional services. The technology sector represented 6% of MSMEs (see Figure 7.1.6).

Figure 7.1.6 Sector: invoice trading (n. 72)



Gender, education and age of Chief Executive Officer or Managing Director

In this vertical, males were the founders/managers of most MSMEs (76%), slightly higher than the overall average. Regarding the highest level of education of the CEO or MD, 40% reported having an undergraduate degree, 24% a technical education or vocational training, 16% a postgraduate degree or above, 14% a postgraduate certificate, and the remaining 6% a secondary school or lower level of education. In 37% of the respondent firms, the CEO or MD was between 45 and 54 years of age, 29% between 35 and 44, 19% between 55 and 64, 13% between 25 and 24, and only 2% were aged between 18 and 24 or over 65. These statistics are summarized in Figures 7.1.7 to 7.1.9.

Figure 7.1.7 CEO or MD gender: invoice trading (n. 63)

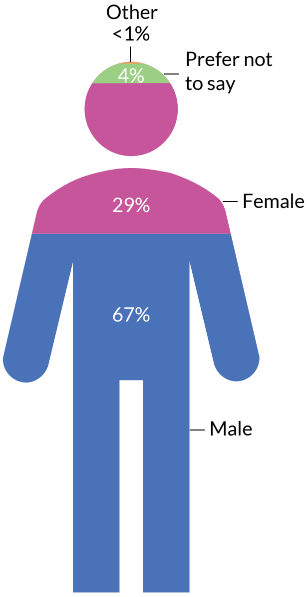


Figure 7.1.8 CEO or MD highest education level: invoice trading (n. 63)

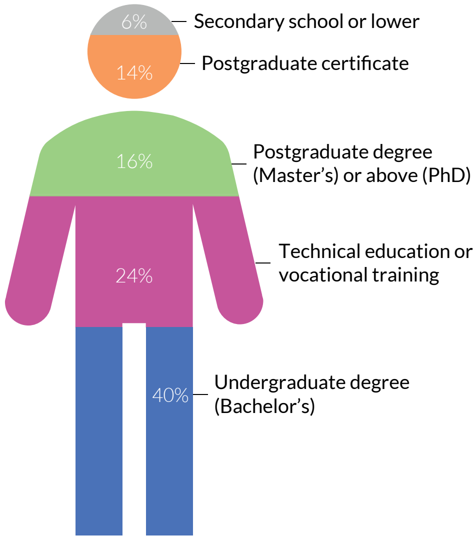
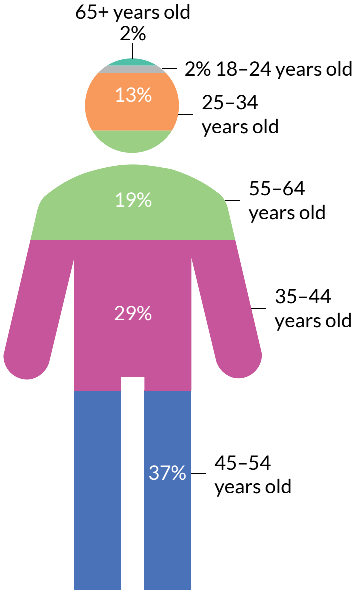


Figure 7.1.9 CEO or MD age: invoice trading (n. 63)



Relationship with traditional financial services

In this section, we discuss the relationship between MSMEs and traditional financial services, the type of services or products they use, and previous fundraising experiences.

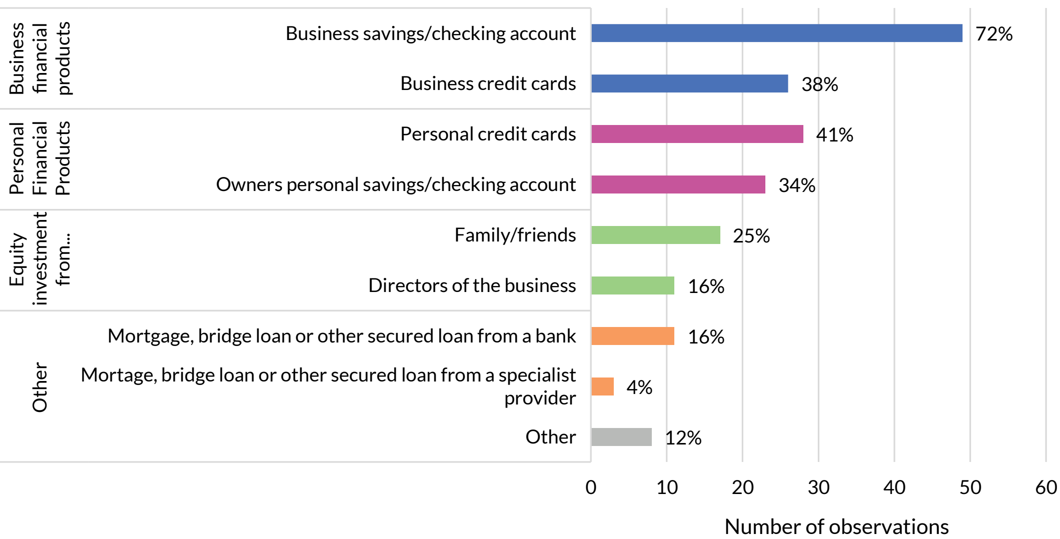
Traditional finance facilities use

As shown in Figure 7.1.10, most of the 68 respondents used business financial products and more than two-thirds (72%) used business savings or checking accounts, followed by 38% that used business credit cards to support their business, which is consistent with the maturity of the firms in the sample.

Regarding the use of personal financial products, most MSMEs used a personal credit card and over one-third reported using a personal savings or checking account for their business.

When MSMEs used equity investment as a source of funding, over two-thirds chose to use family or friends and 16% used funds from the directors.

Figure 7.1.10 MSMEs' traditional facilities use: inovice trading (n. 68)



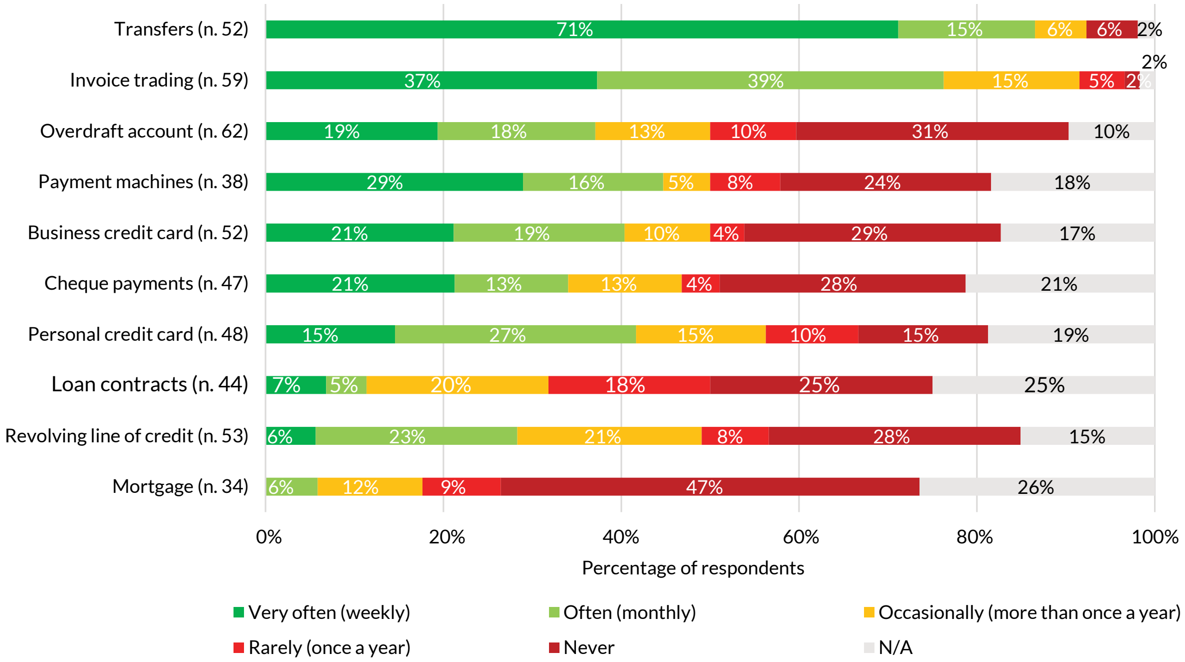
Banking products use

Most MSMEs (86%) reported using transfer services very often (weekly) or often (monthly). Unsurprisingly, invoice trading services were the second most used banking product (37% very often; 39% often). Completing the top three, 45% of MSMEs used payment machines very often or often (see Figure 7.1.11).

Business and personal credit cards were among the most used traditional finance facilities by MSMEs. Of those, 40% reported using their business credit cards and 45% their personal credit cards as frequently as weekly or monthly.

The products least used were mortgages and overdraft accounts, which makes sense as these products can incur high costs in many LATAM countries; 47% (mortgages) and 31% (overdraft accounts) of firms reported that they never used these products. However, 37% of MSMEs used an overdraft account weekly or monthly, suggesting that this facility is an important source of finance for those businesses.

Figure 7.1.11 MSMEs' bank products use: invoice trading



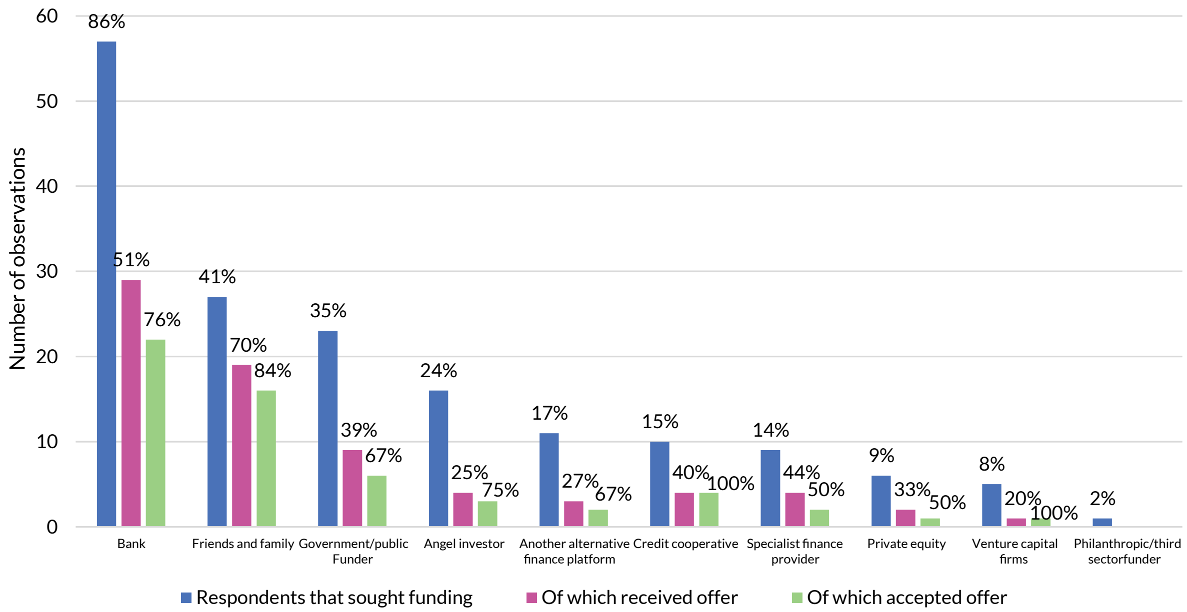
Search for funding from other sources

As shown in Figure 7.1.12, most MSMEs searched for funding from alternative sources before using invoice trading to fund their business activities. Overall, 66 respondents applied for funding from some form of traditional financial service. Most of those sought funding through banks (86%), of which over half received an offer and 76% accepted the funding.

The second most popular source of funding was friends and family, with 41% of respondents trying this option. Of those, 70% received an offer, which was the highest percentage for offers received, and 84% accepted the loan.

Completing the top three funding sources were governments or public funders. Over two-thirds of MSMEs sought funding from these institutions and less than half received an offer. Of those, over two-thirds accepted the funding.

Figure 7.1.12 Previous fundraising activity: invoice trading (n. 68)



Case study

Country: *Colombia*
Fintech platform: *Exponencial Confirming*
MSME: *Sello Global S.A.S.*

Brief story about the MSME

SSello Global S.A.S. was established in 2017 and sells cleaning products. Their main supplier ran into financial difficulties, so Sello Global S.A.S. decided to buy the supplier's production plant. The business began to develop and started to establish stores specializing in their own brand of cleaning products, called ONZA, which are biodegradable and developed in an environmentally friendly way. The company has 18 stores in the metropolitan areas of Medellin, Cartagena and Villavicencio.

To open the stores, we needed enough capital to buy stock. We used our own capital and resources from strategic commercial partners to open the stores.

Why Exponencial Confirming?

Because we were only using a small percentage of the production plant's capacity, in 2019 we decided to explore the possibility of manufacturing our own brand of products for third parties. Therefore, we were able to partner with Hard Discount, traditional retail and catalog sales. This increase in manufacturing generated cash flow difficulties, so to acquire more capital, we looked for new investors. However, because the cashflow was not sufficient, we explored the possibility of approaching traditional banks for financing. Because of our limited credit history, we still could not raise enough funds. We continued searching for alternative financing sources, such as invoice discounting models, and we finally decided to use Exponencial Confirming because of how easy it was to obtain funds and gain credibility in the financial sector. The fintech also offered a very competitive discount rate compared to the market.

Exponencial Confirming has been key in the expansion and growth of Sello Global S.A.S. because, without its support, we would not have been able to grow nor develop new ventures.

How has the funding affected the company?

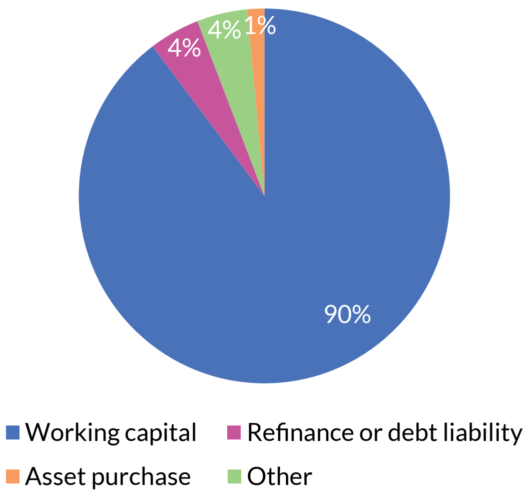
We are currently expanding so we can triple our production capacity and grow our customer base. One of the reasons we can do this is because of the support we received from Exponencial Confirming through its Affirmatum platform. It has been a key tool and strategic ally for us.

7.2. Borrowing experience

Primary purpose of borrowing

Most firms used an invoice trading platform for short-term working capital. For the remainder of MSMEs, a refinance or debt liability, or asset purchase, amongst others, were the main reasons for seeking funding (see Figure 7.2.1).

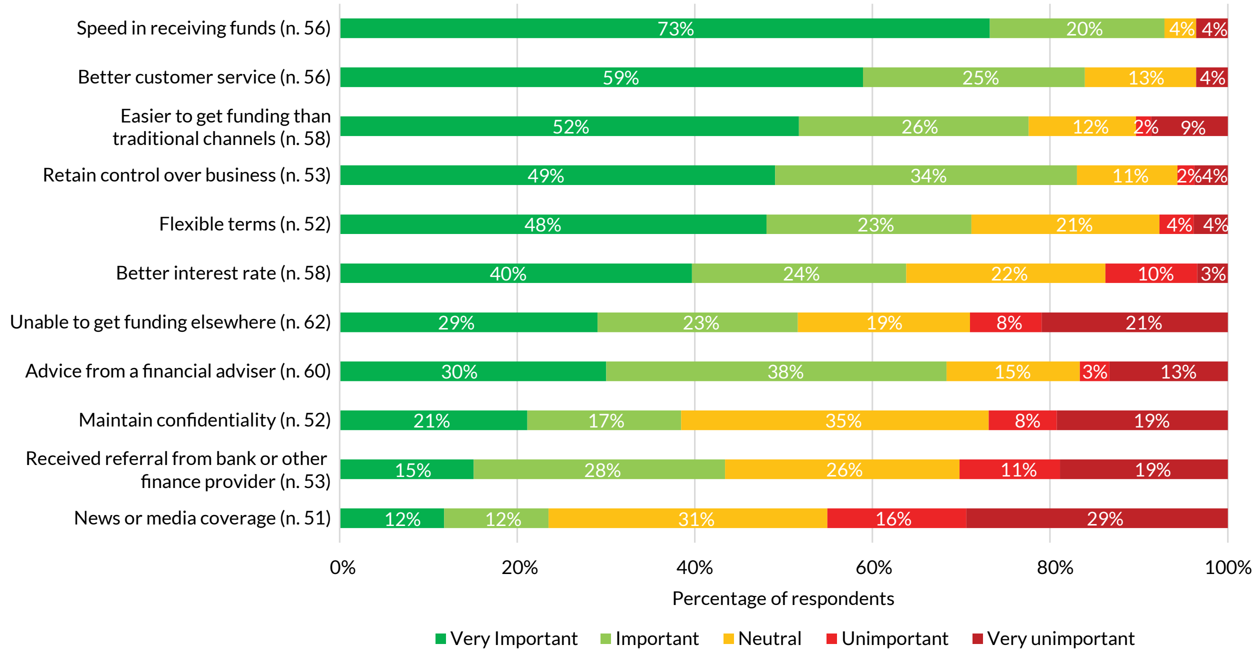
Figure 7.2.1 Primary purpose of funding: invoice trading (n. 68)



Decision-making factors for borrowing from a fintech

Among the MSMEs that chose to use invoice trading services, the top five decision-making factors were reported as being important by 70%. Almost unanimously (93%), the speed of receiving funds was the main decision-making factor and it was very important to the majority (73%). Better customer service was very important for 59% of MSMEs, followed by the ease with which funding could be obtained through alternative finance platforms compared to traditional channels. Finally, retaining control of the business and flexible terms completed the top five (see Figure 7.2.2).

Figure 7.2.2 Decision-making factors: invoice trading



Ability to get funding from another source

Half the MSMEs that were funded by an invoice trading platform reported they were sure they could get funding from other sources. One-third were not sure and 13% were sure they could not. This corresponds to the high proportion of companies that sought funding from a bank, and then received and accepted the offer.

Amount borrowed

The average amount MSMEs borrowed was USD90,849.35, as shown in Table 7.2.1. This was largely biased by the last quartile of values as half the respondents borrowed an average of USD24,559.50.

Frequency of invoice trading use

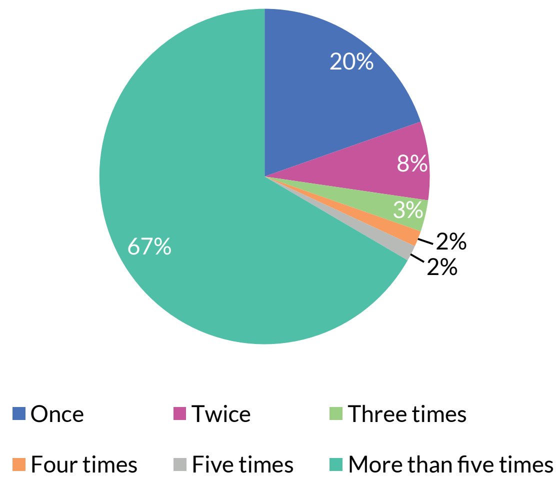
Over two-thirds of respondent MSMEs reported using an invoice trading platform more than five times, in contrast to the 20% that used the platform only once (see Figure 7.2.3).

Table 7.2.1 Amount borrowed: invoice trading (n. 56)

Measure	Amount (USD)
Minimum	153.38
Average	90,849.35
1st quartile	5,568.14
2nd quartile	24,559.50
3rd quartile	98,897.75
Maximum	716,050.00

Note: Amounts were reported in local currencies and converted into USD using the OANDA average rate for the period between 1 January and 31 December 2020. Zero values and outliers were excluded from calculations.

Figure 7.2.3 Frequency of use: invoice trading platform (n. 66)

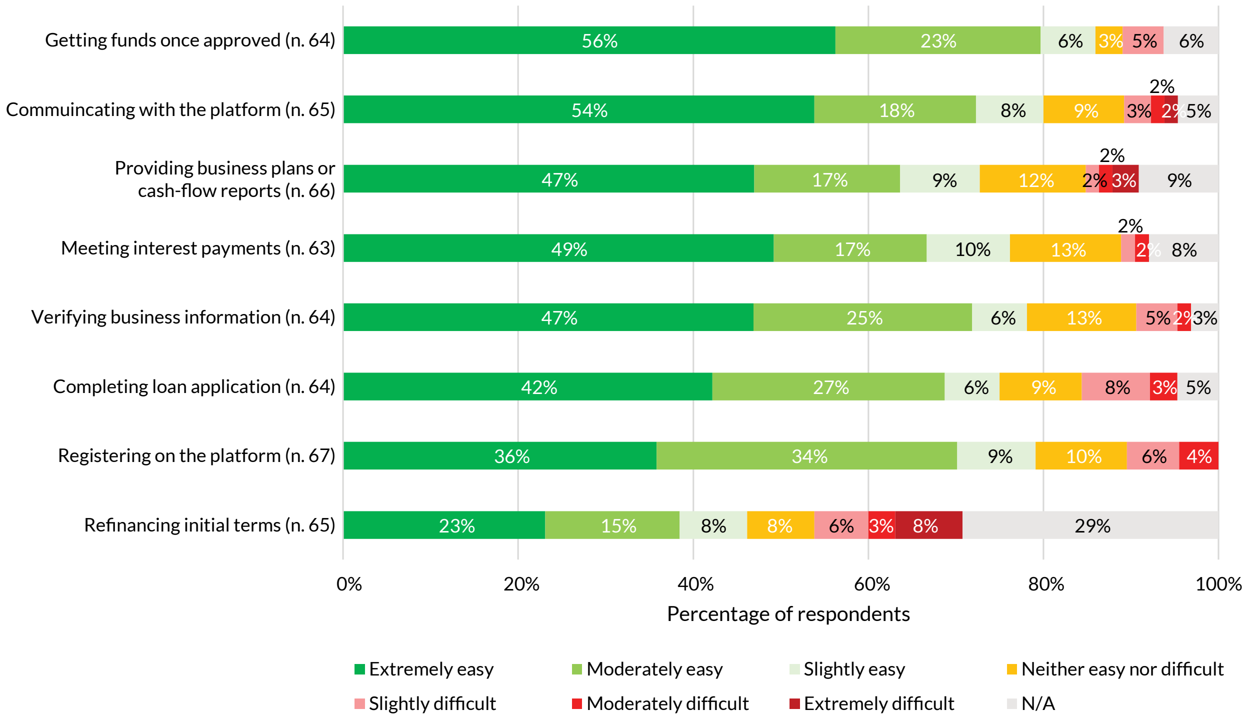


Platform ease of use

Most of the entrepreneurs who used an invoice trading platform found it fairly easy to use and accessible. The main reason for this was the ease of getting the funds once the application was approved (85% of positive correlation), which more than half the MSMEs reported being extremely easy. Communicating with the alternative finance platform was reported as being extremely easy by 54% of MSMEs and approximately half the MSMEs found meeting interest payments extremely easy, as shown in Figure 7.2.4.

Another positive correlation is the bureaucratic processes involved when applying for the loan such as providing business plans, finding business information, completing loan applications and registering on the platform. Refinancing initial terms had the highest proportion of responses marked 'not applicable' (29%), meaning that for many MSMEs, it was not even possible to do.

Figure 7.2.4 Ease of using alternative finance platforms: invoice trading



7.3. Funding outcomes

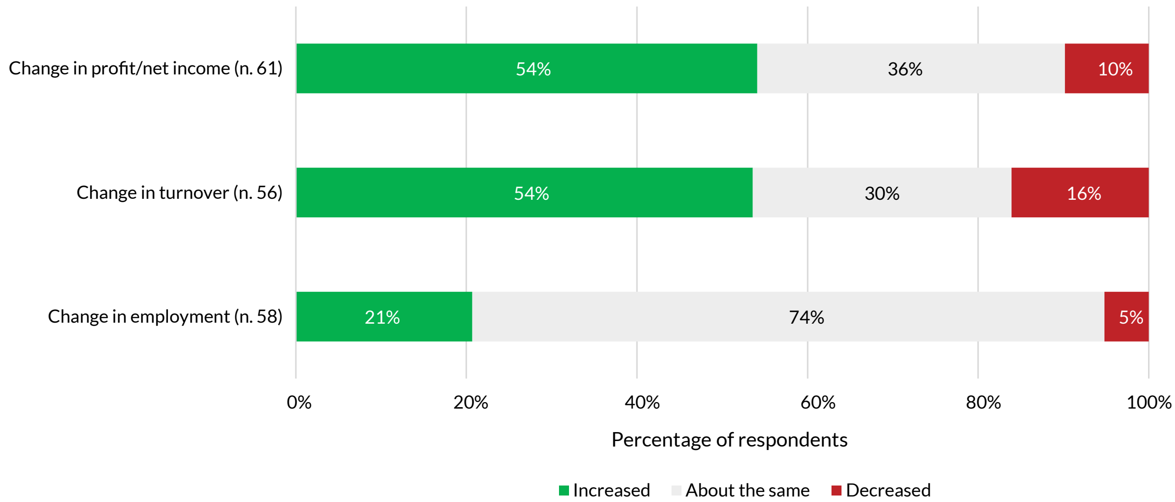
In this section, we describe the changes that occurred in the businesses as a result of the funding. We look at the transaction details, the direct impact on the businesses and the relationship changes with traditional banking services.

Changes to business

As shown in Figure 7.3.1, respondents indicated that using an invoice trading platform for funding had a positive impact on their business: more than half the MSMEs reported an increase in turnover and profit/ net income. One-fifth of those reported a 20% increase in turnover and 5% in net profit.

Regarding employment, 22% of MSMEs reported an increase in the number of employees and 73% reported no change.

Figure 7.3.1 Business changes since using the facility: invoice trading

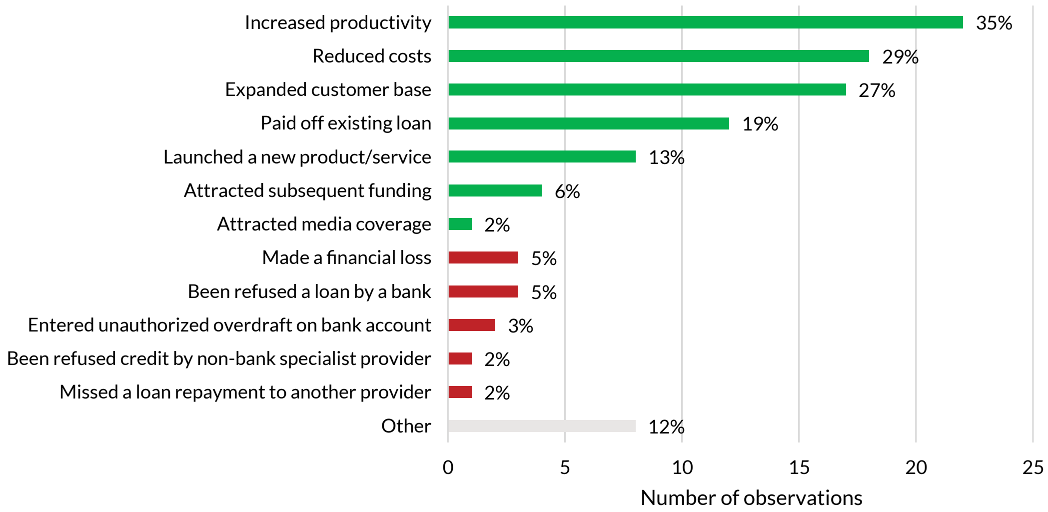


Business impact due to funding

Sixty-three MSMEs responded to the question regarding the impact the funding had on their business. Over one-third reported increased productivity, followed by reduced costs and a greater customer base. In addition, 19% paid off an existing loan. These are all positive outcomes that strengthen the financial health and operational structure of MSMEs (see Figure 7.3.2).

A far smaller proportion of MSMEs reported negative impacts on the business compared to those that reported positive factors. After receiving the funds, 5% reported making a financial loss and being refused a loan by a bank.

Figure 7.3.2 Impact of funding: invoice trading (n. 63)

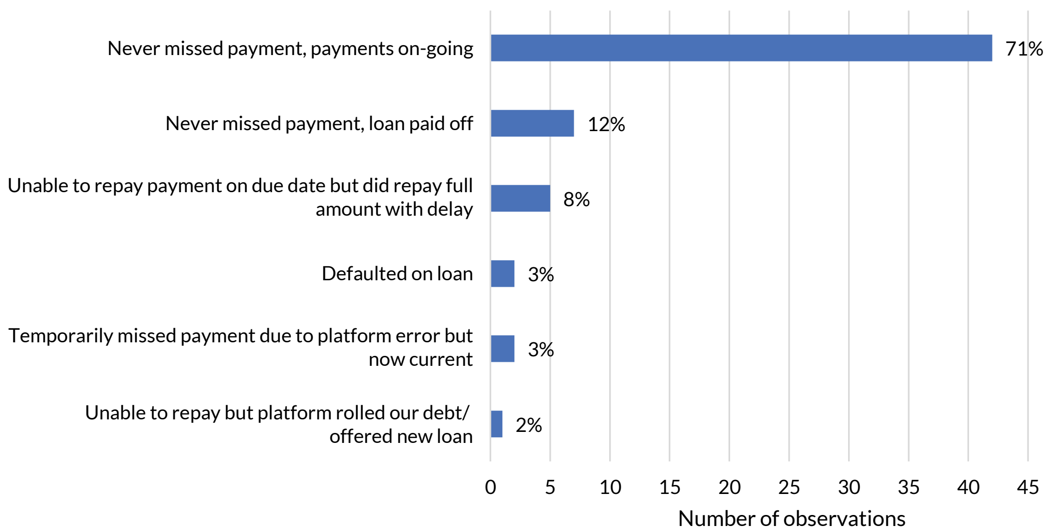


Repayment status

Surveyed MSMEs were questioned about the status of the loan repayment. Most firms (71%) reported never missing a payment and that the payments were ongoing (see Figure 7.3.3).

Among the remaining MSMEs, 12% reported never missing a payment and had already paid off the loan, and 8% reported having issues repaying on time but did eventually repay the full amount. Only 3% had defaulted on their loan.

Figure 7.3.3 Loan repayment status: invoice trading (n. 59)



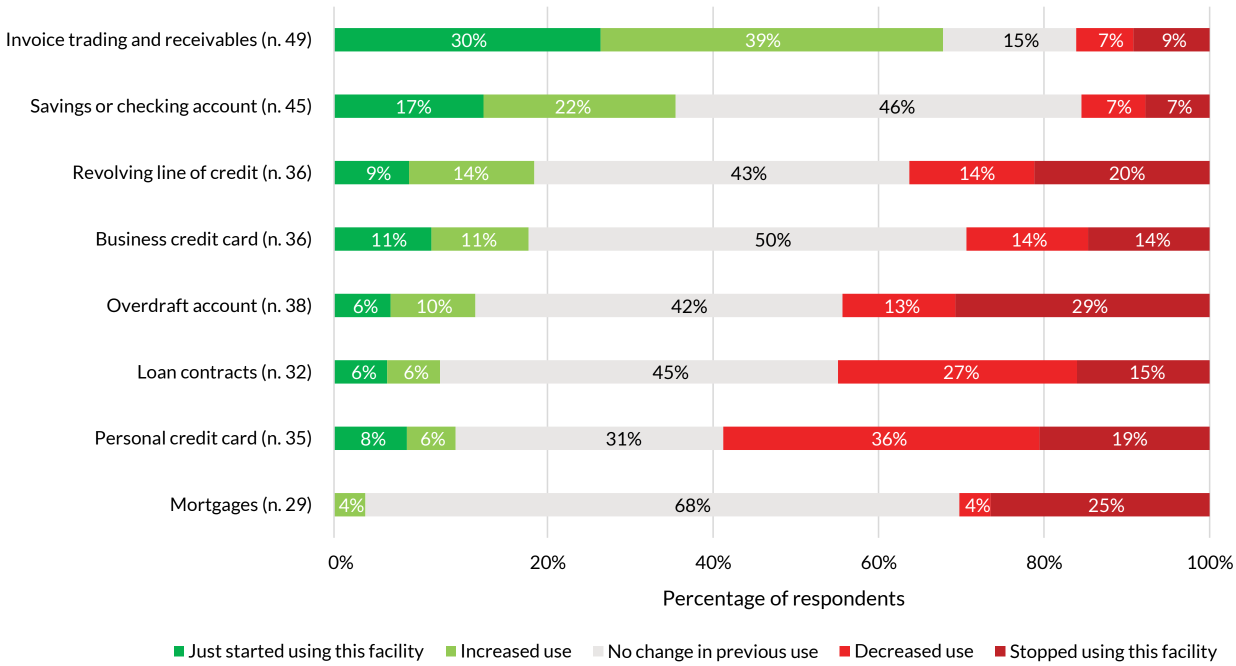
Impact on banking relationship

As shown in Figure 7.3.4, more than half the MSMEs reported increasing or decreasing their use of all banking products except for mortgages, for which 68% of respondents reported no change.

Notably, more than half the respondents increased their use of invoice trading and receivables services (30% started using this facility and 39% reported using it more often). However, this question could be considered ambiguous as we asked about the impact on traditional banking relationships and, therefore, the responses may include those relating to banks as well as other financial providers that also offer these services.

The use of savings or checking accounts also increased, suggesting better financial organization. For all other credit-related products, MSMEs either stopped using them or used them less: 29% stopped using overdraft accounts and 36% had less personal credit with a bank. This trend contrasts with that of digital lending where MSMEs reported relying more on these products to support their businesses.

Figure 7.3.4 Banking relationship impact: invoice trading



Case study

Country: *Colombia*
Fintech platform: *Liquitech*
MSME: *Fundación La Santísima Trinidad-Funsantri*

Brief story about the MSME

The 'Fundación La Santísima Trinidad' is dedicated to caring for children between the ages of 18 months and five years, providing services in education, nutrition and psychology. Endorsed by the Ministry of Education, the Foundation now cares for 555 children, distributed among five sites located in Carrizal, La Luz, Galán, Las Nieves and Rebolo.

The Foundation's aim is to help vulnerable children in highly marginalized areas in the city of Barranquilla. The child development centers (CDIs) in each area employ qualified personnel such as graduates in early childhood education, psychologists, nutritionists and social workers, who are supported by community mothers. Women play an essential role in the services that Funsantri offers.

Challenges to obtain funding

The service contracts the Foundation have are with the public sector, specifically with the District of Barranquilla. The greatest challenge for the Foundation is the amount of time the district takes to pay the bills because it needs these funds immediately. This created an uncertain financial situation for the Foundation, forcing them to find funding elsewhere to cover their operating costs. However, because the Foundation does not belong to a robust and solid economic sector, it found it very difficult to find financing. Non-traditional sources had very high costs and the traditional financial sector (banks) rejected their application because of the type of company the Foundation is.

Why Liquitech?

Due to these circumstances, the District of Barranquilla recommended that the Foundation approach Liquitech for funding. Liquitech offered the Foundation very attractive rates and terms. Additionally, the fintech provided useful and proactive commercial support, and the Foundation found its digital factoring platform very simple to use.

How has the funding affected the business or relationship with finance?

The financing from Liquitech improved the Foundation's cash flow, providing it with the financial resources it needed to smoothly develop its core business. Liquitech's service has had a very positive impact because it has given the Foundation the opportunity to concentrate fully on its business because it no longer needs to spend time searching for finance. It can now dedicate its time to strengthening the services and projects offered and developed in the CDIs, such as providing food and education to young children in vulnerable areas.

8. INVESTMENT CROWDFUNDING: EQUITY AND REAL ESTATE

Four percent of MSME respondents used an investment crowdfunding platform to fund their business activities, making this model the least frequently used

8.1. Profile of MSMEs

Business structure
Total respondents and countries

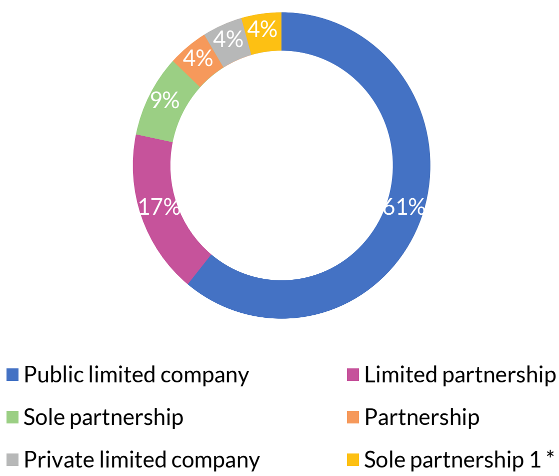
As Figure 8.1.1 summarizes, a total of 23 respondent MSMEs had used an investment crowdfunding platform (equity and real estate) to fund their business. The MSMEs operated in Mexico, Brazil, Argentina and Chile.

Figure 8.1.1 Country of operation: investment crowdfunding (n. 23)

Legal structure

Most respondents were classed as public limited companies (63%), followed by limited partnerships (17%), as shown in Figure 8.1.2.

Figure 8.1.2 Business legal structure: investment crowdfunding (n. 23)

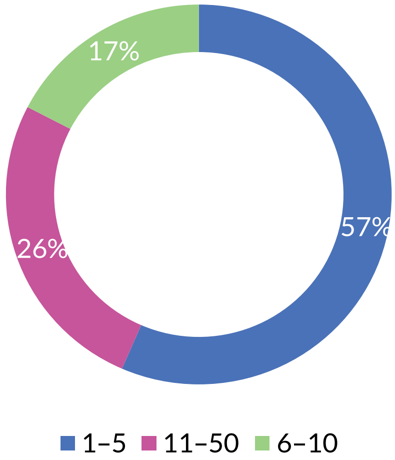


Note: Sole partnership 1 corresponds to individual micro-entrepreneurs (IME).

Size and full-time employees

Most MSMEs that raised funds via investment crowdfunding were classified as small (61%) and micro (30%). These statistics are reflected in the number of FTEs: more than half (57%) reported having between one and five FTEs (see Figure 8.1.3).

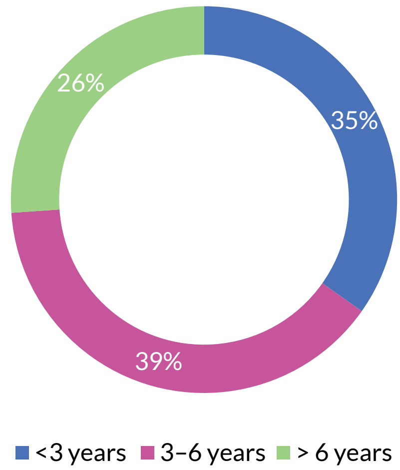
Figure 8.1.3 Number of full-time employees: investment crowdfunding (n. 23)



Trading duration

As shown in Figure 8.1.4, most respondent MSMEs were established and mature: 26% had been operating for more than six years, 39% between three and six years, and 25% had been operating for less than three years.

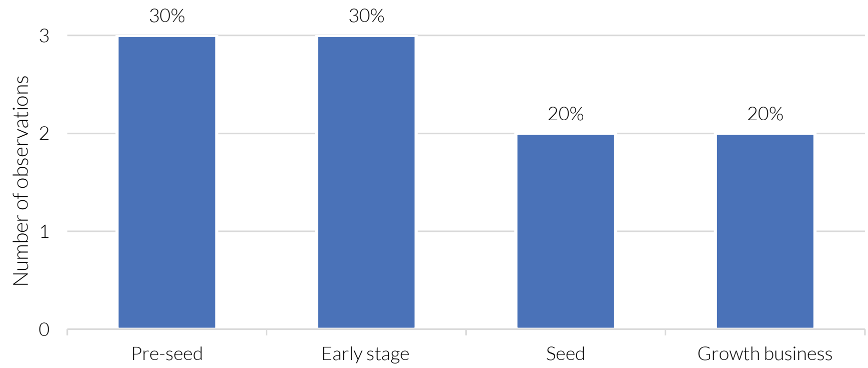
Figure 8.1.4 Trading duration: investment crowdfunding (n. 23)



Business stage

Thirty percent of equity-based crowdfunding respondents reported being in the pre-seed stage, another 30% indicated they were early-stage enterprises, 20% were in the seed stage and the remaining 20% specified being a growth business (see Figure 8.1.5).

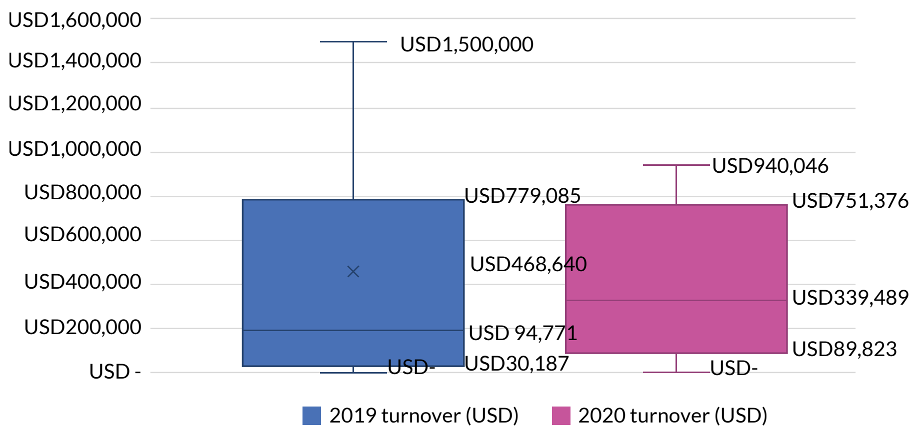
Figure 8.1.5 Business stage: equity crowdfunding (n. 10)



Turnover

As shown in Figure 8.1.6, the average turnover for investment crowdfunding respondents was USD468,640 in 2019 and USD527,168 in 2020. Because this is a small sample of firms, further analysis, such as comparisons with other models, is not viable.

Figure 8.1.6 2019 turnover vs 2020 turnover (USD): investment crowdfunding (n. 22)

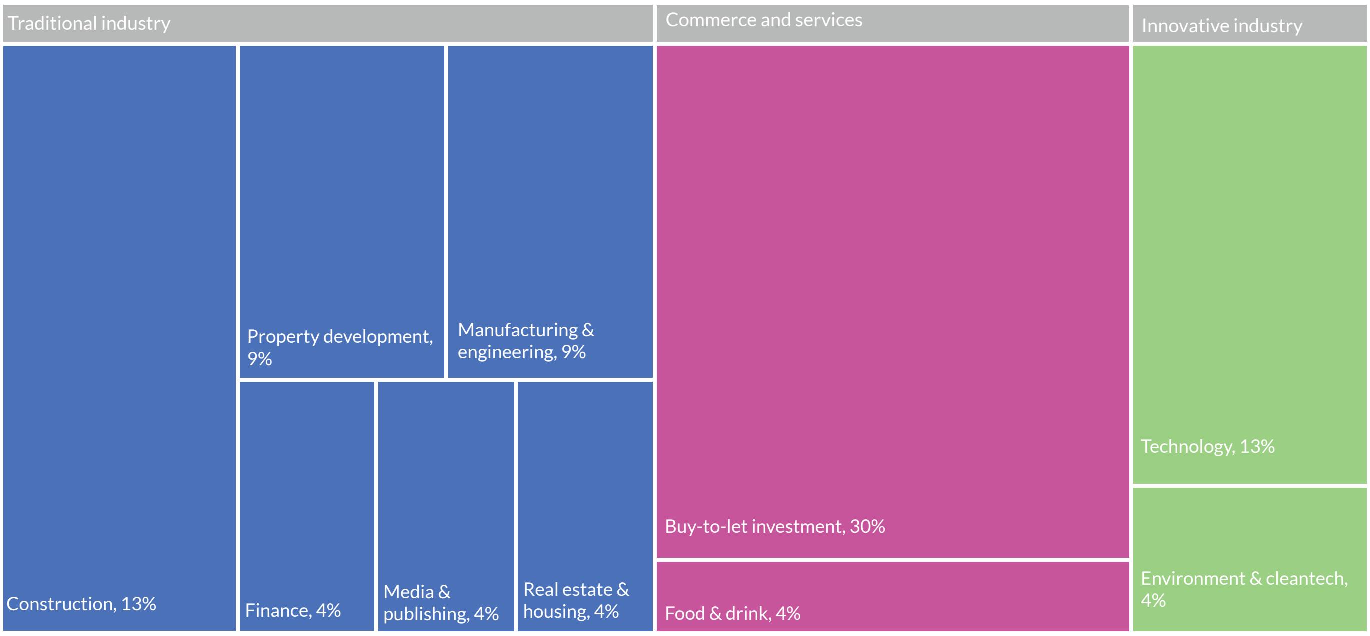


Note: Amounts were reported in local currencies and converted into USD using the OANDA average rate for the period between 1 January 2019 and 31 December 2020. Outliers are not shown in this boxplot.

Sector

Most respondents operated in traditional industries (48%), followed by commerce and services (35%), and innovative industries (17%), as shown in Figure 8.1.7.

Figure 8.1.7 Business sector: investment crowdfunding (n. 23)



Gender, education and age of Chief Executive Officer or Managing Director

Only 9% of investment crowdfunding respondents were led by women. In terms of age, 43% of CEOs or MDs were between 35 and 44, and more than 80% had a higher education degree. These statistics are summarized in Figures 8.1.8 to 8.1.10.

Figure 8.1.8 CEO or MD gender: investment crowdfunding (n. 23)

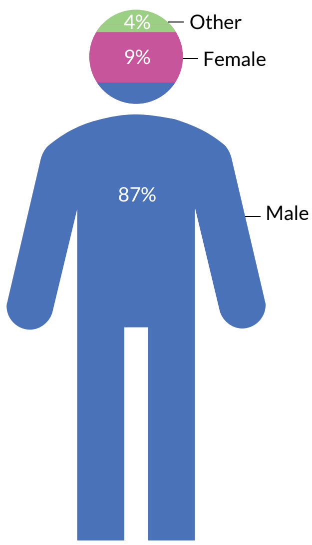


Figure 8.1.9 CEO or MD age: investment crowdfunding (n. 23)

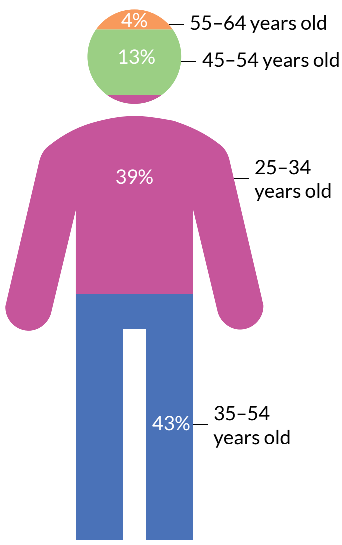
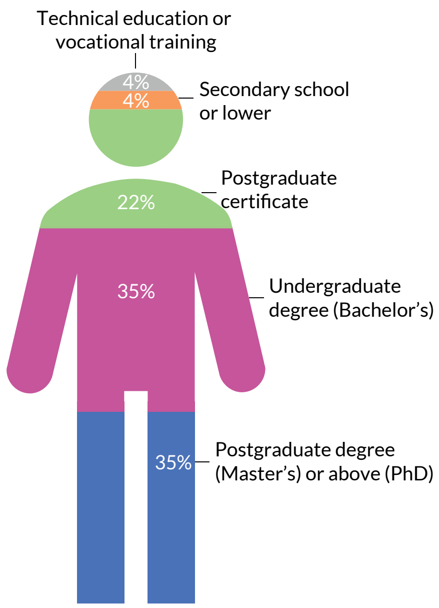


Figure 8.1.10 CEO or MD highest education level: investment crowdfunding (n. 23)



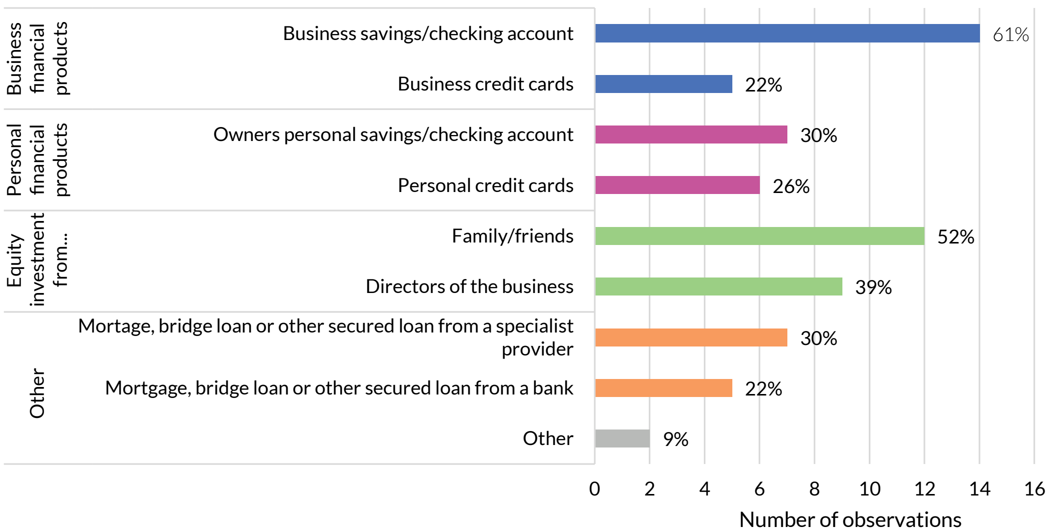
Relationship with traditional financial services
Traditional finance facilities use

As shown in Figure 8.1.11, more of the 23 respondent MSMEs reported using business financial products (65%) compared to those that used personal financial products (43%). The most-used product was a business account, which is double the number of MSMEs that used the owner's personal account. This reflects a clear separation between a business and the owner, reflecting the fact most respondent MSMEs were well-established and mature, and that the most predominant legal structure was a public company.

In contrast, more entrepreneurs reported using personal credit cards than business credit cards to support business activities.

Regarding equity investment, 52% of MSMEs received funding from family or friends, and 39% from directors of the business. In terms of credit products, 30% used a secured loan from a specialist provider and 22% from a bank.

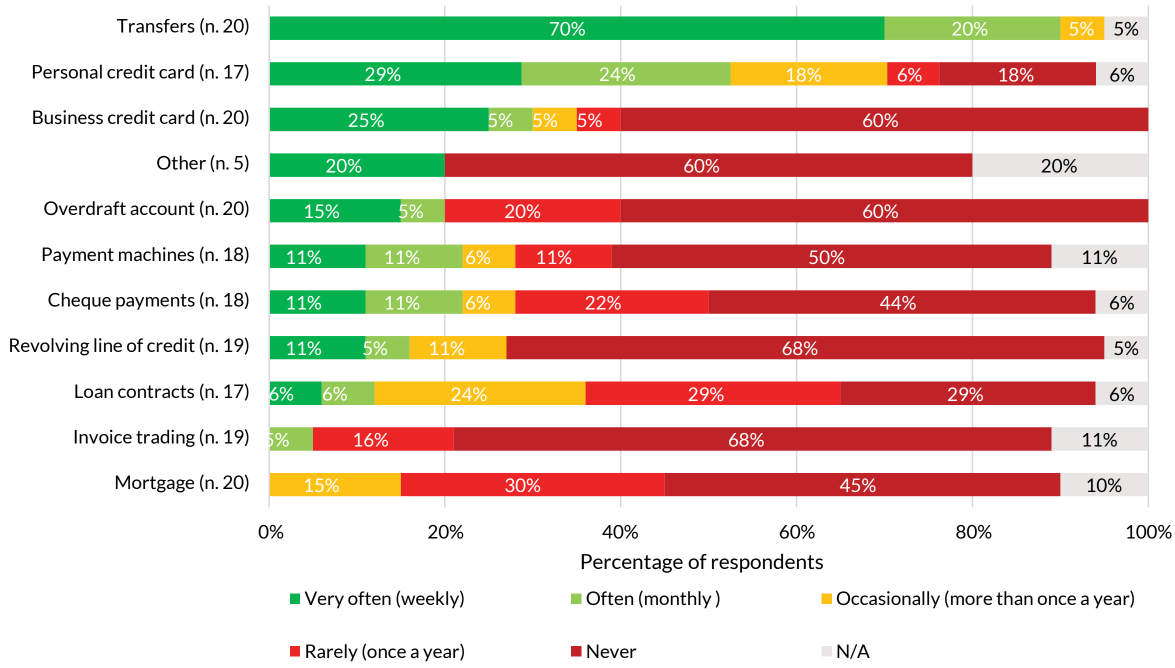
Figure 8.1.11 MSMEs' traditional finance facilities use: investment crowdfunding (n. 23)



Banking product use

The most often used product was transfers, with 70% of respondents reporting they used it weekly and 20% reported using it monthly. In addition, 29% percent of MSMEs also reported using a personal credit card weekly for their business and 24% used it monthly. Business credit cards were used weekly by 25%, 5% used them monthly and 5% more than once a year (see Figure 8.1.12).

Figure 8.1.12 MSMEs' bank products use: investment crowdfunding

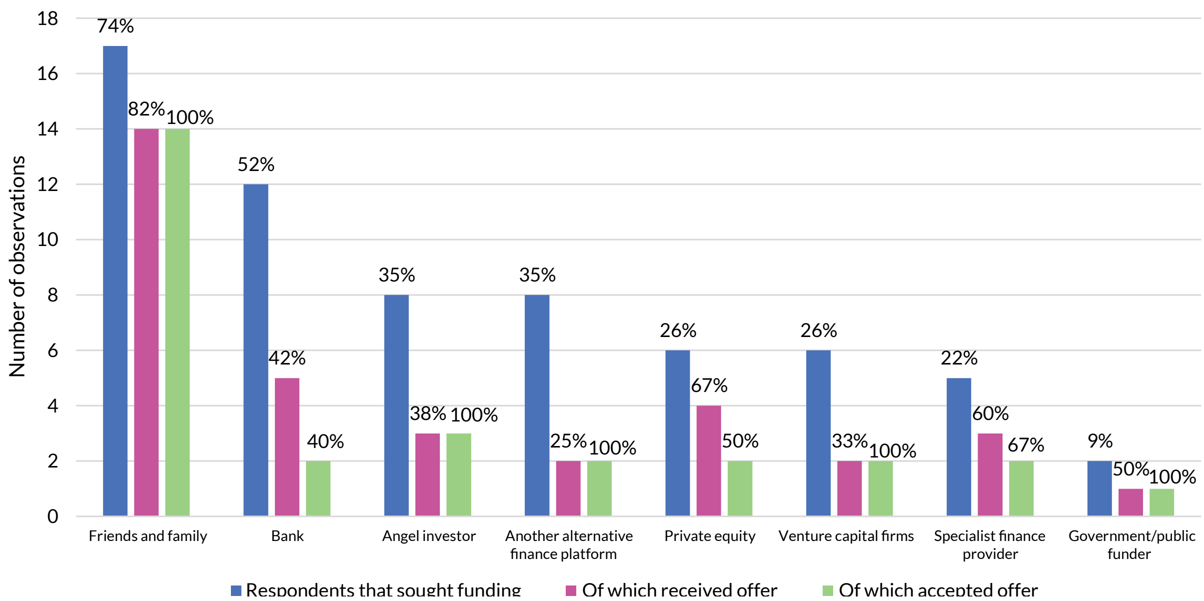


Search for funding from other sources

Regarding previous fundraising activities, the most sought-after funding source was family and friends at 74%. Of those MSMEs, 82% received an offer and 100% accepted the offer. Banks were approached for funding by 52% of respondents but less than half received an offer and only 40% of those accepted the offer.

Angel investors were the third most popular funding source, with 35% of respondents approaching them. Of those, 38% received an offer which was accepted by all MSMEs that received the offer. Alternative finance platforms were approached by 35% of respondents. One-quarter of those received an offer, all of which accepted the offer. These statistics are summarized in Figure 8.1.13.

Figure 8.1.13 Previous fundraising activity: investment crowdfunding (n.23)



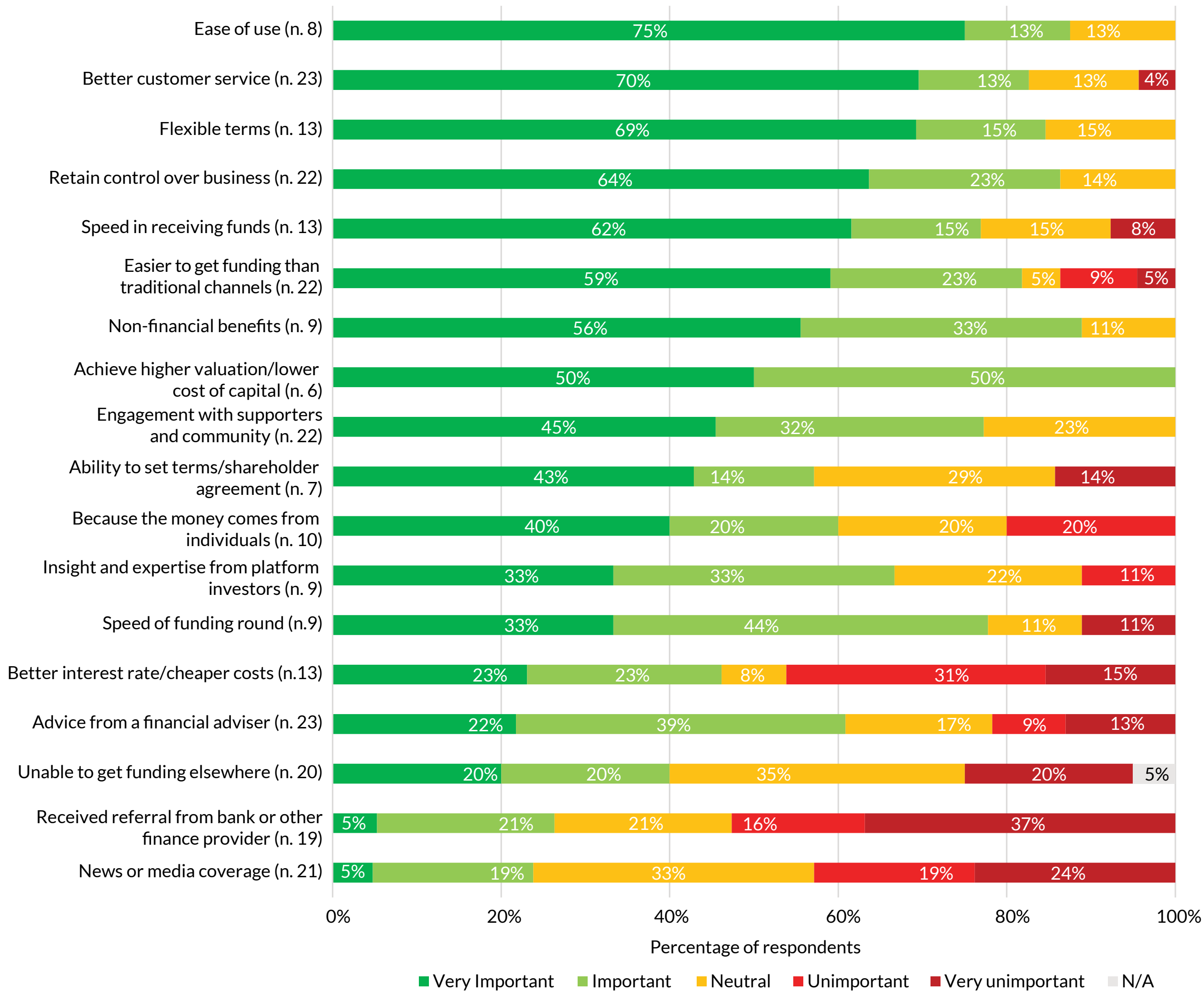
8.2. Issuer experience

Decision-making factors

As shown in Figure 8.2.1, for equity-based crowdfunding respondents, the most important factor that influenced their decision to raise funds through an investment crowdfunding platform was ease of use: 75% of eight respondents reported this factor as being very important. This was followed by better customer service at 70%. For real estate crowdfunding respondents, flexible terms were deemed important by 69%.

Retaining control of the business was a very important factor for 64% of investment crowdfunding respondents, followed by 62% of equity-based crowdfunding respondents who considered the speed of receiving funds as very important.

Figure 8.2.1 Decision-making factors: investment crowdfunding



*Includes only real estate crowdfunding respondents
**Includes only equity-based crowdfunding respondents

Ability to get funding from another source

Approximately 40% of respondents reported that the impossibility of getting funding elsewhere was an important or a very important decision-making factor. Thirteen percent did not believe they could get funding from other sources, while 57% believed they could. This explains the prevalence of ease of use and customer service in the responses regarding decision-making factors.

Amount raised

Respondent MSMEs raised an average of USD378,723 (see Table 8.2.1). However, approximately 70% raised less than the average, the majority of which were partnerships operating in Mexico that had sought funding to cover their working capital needs.

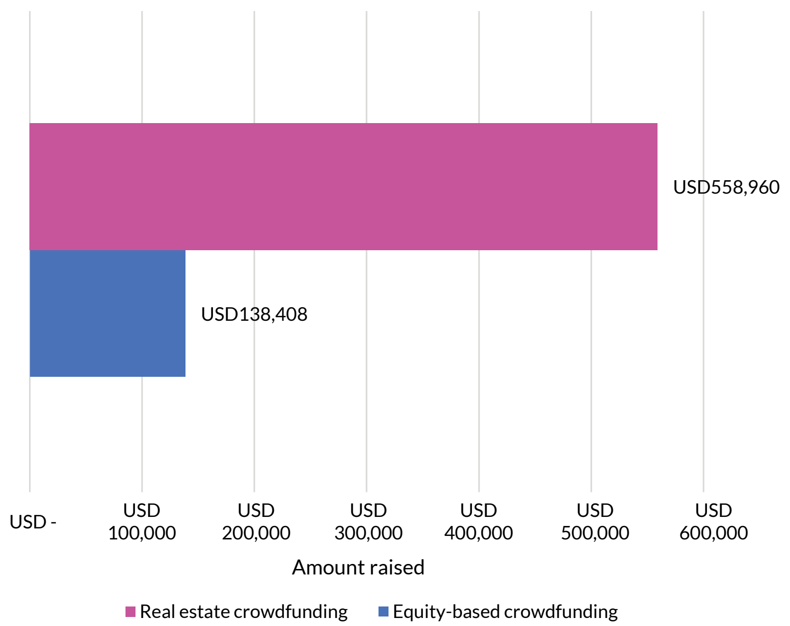
When comparing the average amounts raised by equity-based respondents and real estate respondents, the latter raised more than four times the former (see Figure 8.2.2). Most MSMEs that sought funding through real estate crowdfunding had been trading longer than those that funded their business through an equity-based crowdfunding platform.

Table 8.2.1 Amount raised: investment crowdfunding (n. 21)

Measure	Amount (USD)
Minimum	153.38
Average	378,723
1st quartile	104,367
2nd quartile	215,427
3rd quartile	468,260
Maximum	1,638,910

Note: Amounts were reported in local currencies and converted into USD using the OANDA average rate for the period between 1 January and 31 December 2020. Zero values and outliers were excluded from calculations.

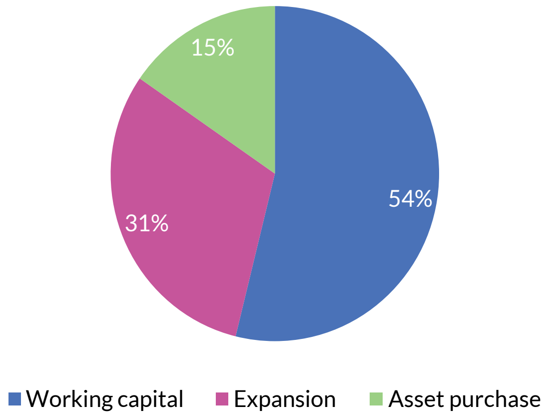
Figure 8.2.2 Average amount raised: equity-based crowdfunding vs real estate crowdfunding (n. 21)



Primary purpose for debt finance: real estate crowdfunding

For 54% of real estate respondents, working capital was the main purpose for raising funds, 31% used it for expansion, mainly a real estate purchase or development, and 15% used it to purchase assets, specifically a new business premises (see Figure 8.2.3).

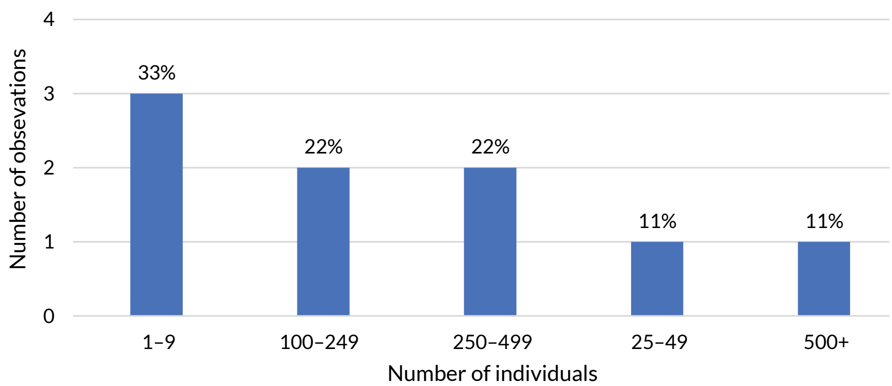
Figure 8.2.3 Funding primary purpose: real estate crowdfunding (n. 13)



Number of individuals in the crowd (equity) and voting rights

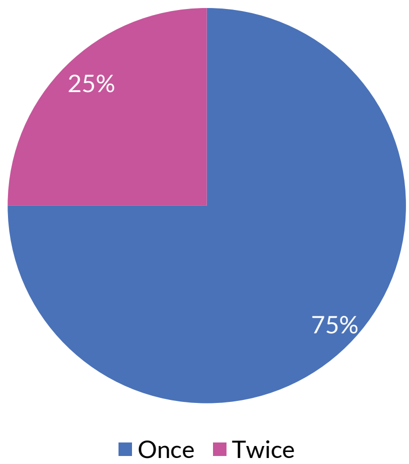
Equity-based crowdfunding respondents were asked how many individuals were in the fundraising crowd. Of the nine respondents, 33% reported between one and nine participants, 22% between 100 and 249, another 22% between 250 and 499, 11% between 25 and 49, and another 11% had 500 or more participants, as shown in Figure 8.2.4.

Figure 8.2.4 Individuals in the crowd: equity crowdfunding (n. 9)



Of the eight equity-based crowdfunding respondents, 75% reported using an equity-based crowdfunding platform only once and 25% had used it twice (see Figure 8.2.5).

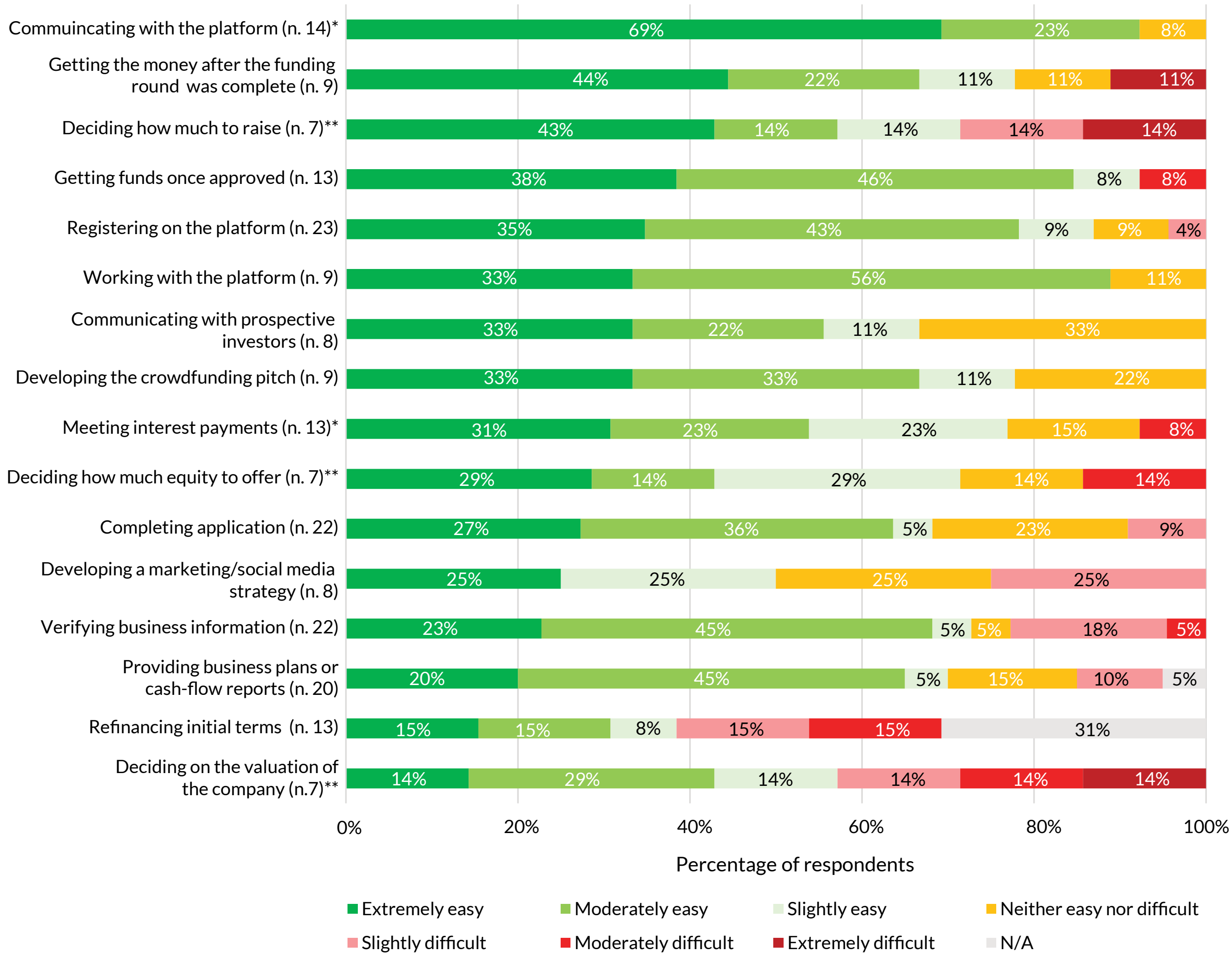
Figure 8.2.5 Frequency of use: equity crowdfunding (n. 8)



Platform ease of use

Regarding the ease of using an investment crowdfunding platform, 69% of real estate crowdfunding respondents found communicating with the platform extremely easy. This was followed by getting the money after the funding round was complete and deciding how much to raise, which 44% and 43%, respectively, of equity-based crowdfunding respondents reported as being extremely easy. Overall, respondents reported that using the alternative finance platform was relatively easy. However, equity-based crowdfunding respondents had some difficulty deciding how much to raise and the value of the company. These statistics are summarized in Figure 8.2.6.

Figure 8.2.6 Ease of using alternative finance platforms: investment crowdfunding



*Includes only real estate crowdfunding respondents
**Includes only equity-based crowdfunding respondents

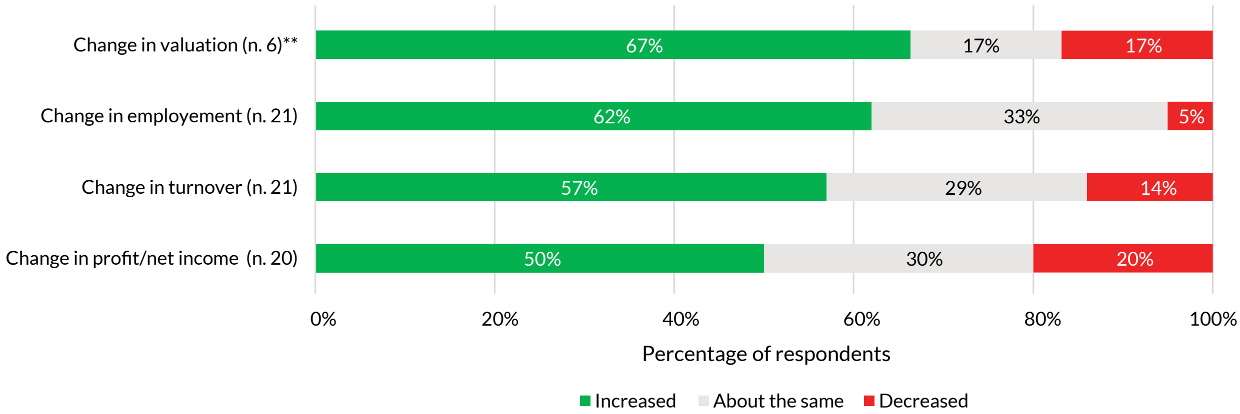
8.3. Funding outcomes

Business changes

As shown in Figure 8.3.1, overall, respondent MSMEs reported positive business changes after fundraising. An increase in employment was reported by 62%, 57% reported an increase in turnover and 50% an increase in profits. There were only six equity-based crowdfunding respondents but, of those, 67% reported an increase in the value of the business.

These statistics indicate that by using an investment crowdfunding platform, MSMEs saw a noted increase in their businesses' financial health.

Figure 8.3.1 Business changes since using the facility: investment crowdfunding



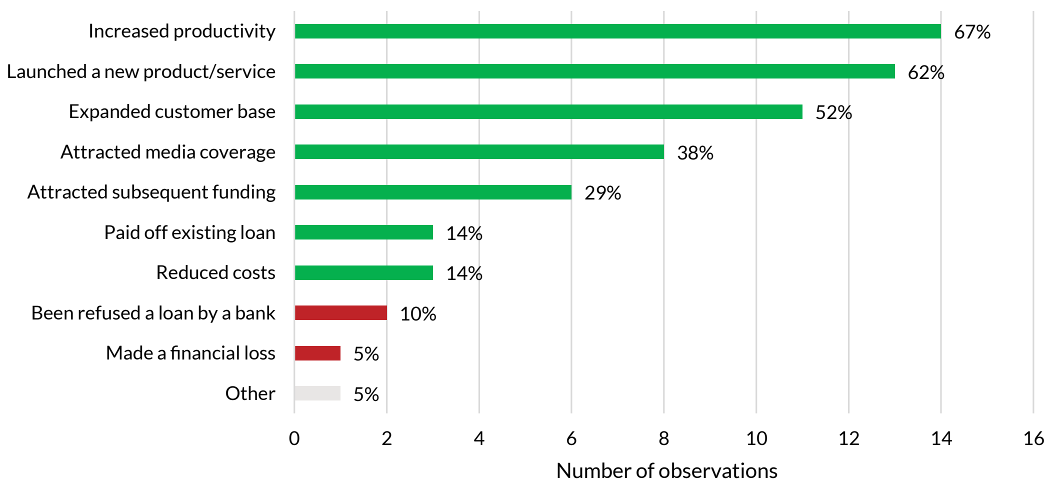
**Includes only equity-based crowdfunding respondents

Business impact due to funding

Overall, MSMEs reported a positive business impact due to the funding: 67% reported an increase in productivity, 62% launched a new product or service and 52% expanded their customer base (see Figure 8.3.2).

Among the negative effects, 10% had a loan application refused by a bank and 5% made a financial loss.

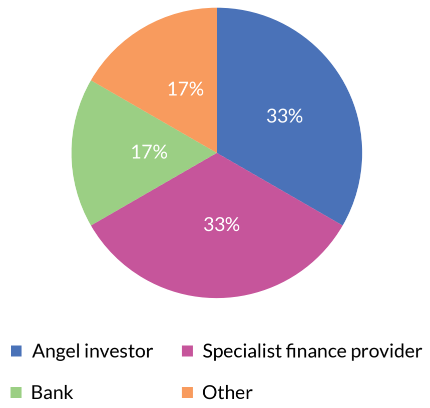
Figure 8.3.2 Business impact as a result of funding: investment crowdfunding (n. 21)



Subsequent funding

Of the 17 investment crowdfunding respondents, 35% reported receiving subsequent funding. This suggests that crowdfunding enables better access to finance. Of those who received subsequent funding, 33% received it from an angel investor, another 33% from a specialist finance provider and 17% from a bank (see Figure 8.3.3).

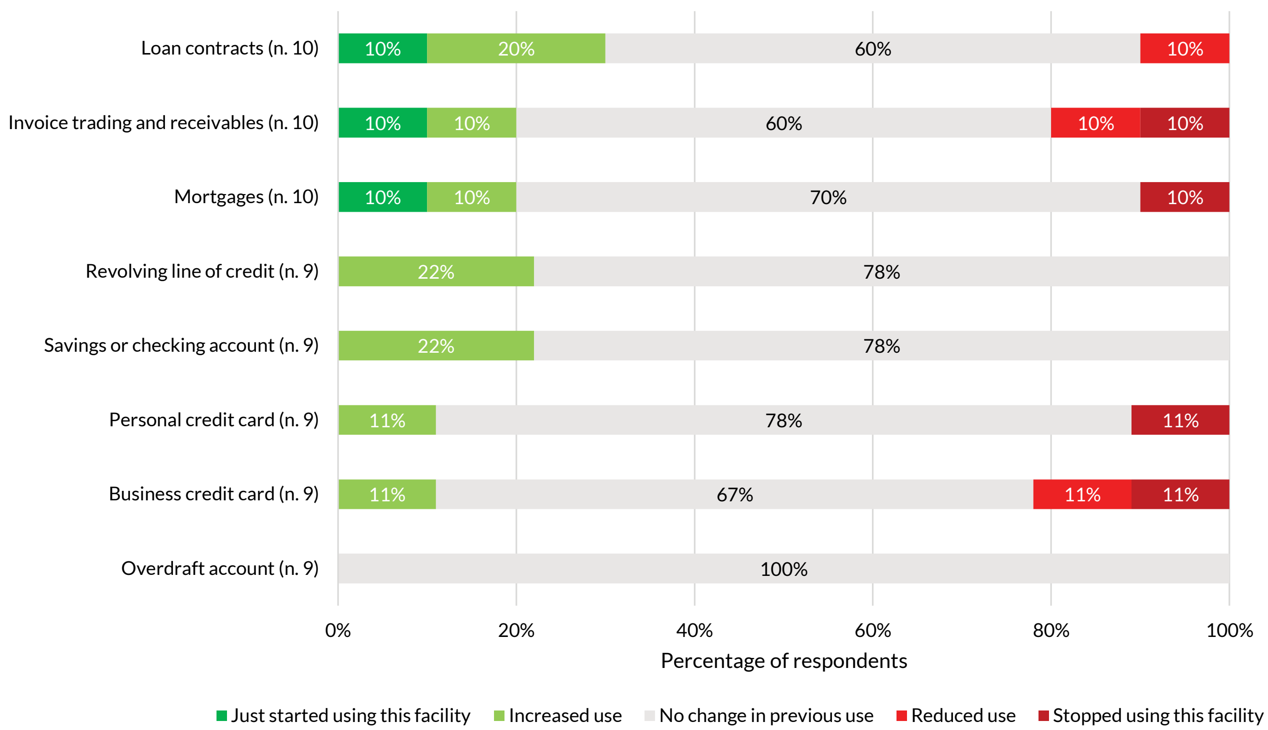
Figure 8.3.3 Subsequent funding: investment crowdfunding (n. 6)



Banking relationship impact

As shown in Figure 8.3.4, most real estate crowdfunding respondents reported no change in their banking relationship due to funding. However, those MSMEs that did note an impact after fundraising reported increased access to core financial services from banks such as loan contracts, mortgages, revolving lines of credits and savings or checking accounts.

Figure 8.3.4 Banking relationship impact: real estate crowdfunding



Case study

Country: *Brazil*
Fintech platform: *Sitawi*
MSME: *Inteceleri*


Photo: Cadenza Filmes

Difficulties in obtaining financing

One of the main challenges for borrowing was the exorbitant interest rates. This was not a smart way for us to obtain the funds that would help the organization evolve and achieve financial, operational and impact sustainability.

Why SITAWI?

Inteceleri wanted to grow its business with an institution that, as well as offering low-interest rates and better repayment terms, was aligned with the company's values of impacting society. The company wanted to work with a platform that would help them leverage the business's operational and financial sustainability in a way that would enable them to make the greatest possible impact. Therefore, they chose SITAWI.

How has the funding affected the company?

Thanks to SITAWI's support in business development, the company achieved financial sustainability, managing to pay off its debts ahead of schedule. Under SITAWI's guidance, it was also able to improve its impact and acquire new clients (B2B and B2G) thanks to the visibility it gained with the crowdfunding platform.

After obtaining support and funding from SITAWI in 2017 and 2019, this is what the entrepreneur had to say:

'In 2018, we developed a new app called "Geometricando" to teach people about geometry using virtual reality experiences that helped them recognize regular geometric shapes. However, to use this app, people needed a cell phone and virtual reality glasses, which was a bit out of reach for most educational institutions. That's when we developed the "Miritiboard VR" virtual reality headset, which is low in cost, and made from the fibers of palm trees that are abundant in the Amazon rainforest and 100% sustainably managed.

In 2020, we supported more than 25 institutions during the pandemic with an emergency plan to deploy online/remote education. As well as sharing some of our educational materials to help teachers and students in Brazil, we created the "Miritiboard VR Mobile Maker Lab" to provide a more intense experience of learning by doing. Our first customer purchased 40 units comprising 1,600 Miritiboard VR glasses and 1,200 devices. We have had fantastic growth, tripling the number of customers and earning revenues beyond our projections.

Today, after being in business for six years, more than 350,000 students and teachers are involved with the company, which is now called "EduTech Amazon: Innovations born from the forest", composed of all our technological education products and services. We are currently operating in Pará, Amapá, Ceará and São Paulo, and are expanding to seven more states in Brazil. By the end of the year, we hope the project will impact 500,000 people, thus contributing to the acceleration of teaching and learning in Brazil.'

9. NON-INVESTMENT CROWDFUNDING

Non-investment crowdfunding was the third most frequently used model by MSMEs that participated in this study, with 6% of MSMEs reporting they used a non-investment crowdfunding platform to finance their business activities.

9.1. Profile of MSMEs

Business structure
Total respondents and countries

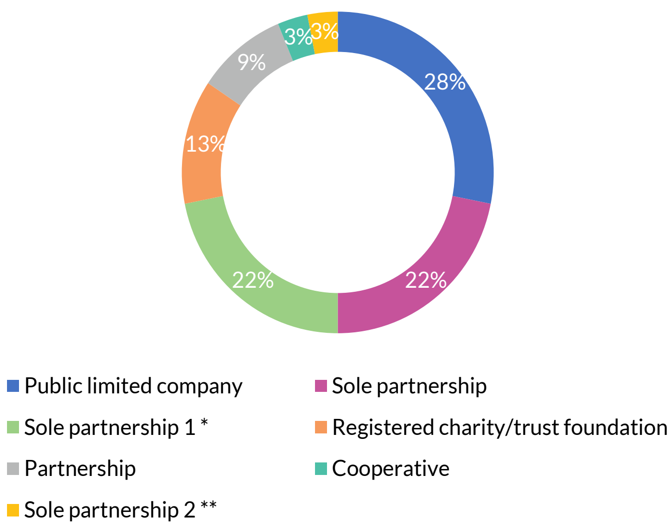
Of the respondent MSMEs, 32 indicated they used a non-investment crowdfunding platform. Of those, 53% operated in Mexico, 25% in Brazil, 19% in Colombia and the remaining 3% in Venezuela (see Figure 9.1.1).

Figure 9.1.1 Country of operation: non-investment crowdfunding (n. 32)

Legal structure

As shown in Figure 9.1.2, sole partnerships were the most common legal structure (47%), followed by public limited companies (28%) and registered charities or trust foundations (13%).

Figure 9.1.2 Business legal structure: non-investment crowdfunding (n. 32)

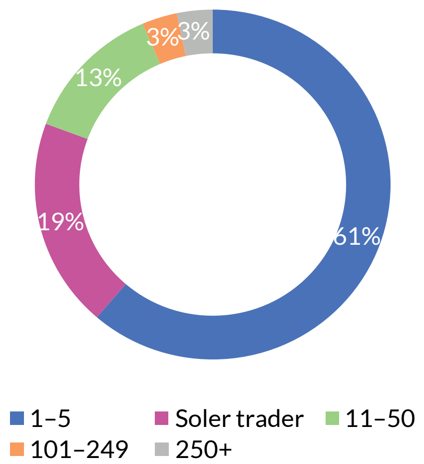


Note: Sole partnership 1 corresponds to individual micro-entrepreneurs (IME) and sole partnership 2 corresponds to individual entrepreneurs (IE).

Size and full-time employees

Most respondents (59%) were classified as micro enterprises, followed by the Brazilian classification of sole partnerships (IME) at 19%. Small enterprises accounted for 13% and only 6% were medium enterprises. This classification is supported by the number of FTEs reported: 61% had between one and five FTEs, 19% were sole traders, and 13% had between 11 and 50 FTEs (see Figure 9.1.3).

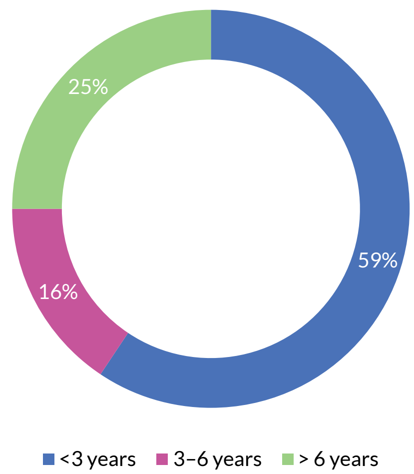
Figure 9.1.3 Number of full-time employees: non-investment crowdfunding (n. 31)



Trading duration

Most respondent MSMEs were new businesses (59%) that had been operating for less than three years, which reflects the prevalence of micro and small enterprises among the respondents and their legal structures. Sixteen percent of MSMEs had been operating between three and six years, and 25% were mature MSMEs that had been operating for more than six years, as shown in Figure 9.1.4.

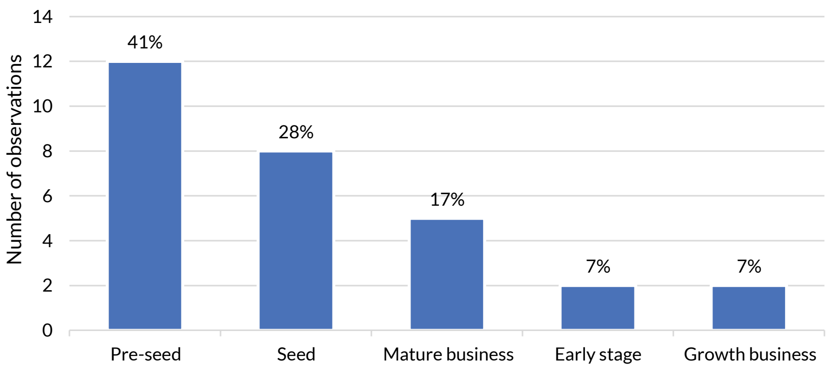
Figure 9.1.4 Trading duration: non-investment crowdfunding (n. 32)



Business stage

As shown in Figure 9.1.5, of the 29 respondents, 41% reported being at the pre-seed stage, 28% at the seed stage, 17% a mature business, 7% were early-stage and another 7% were a growth business.

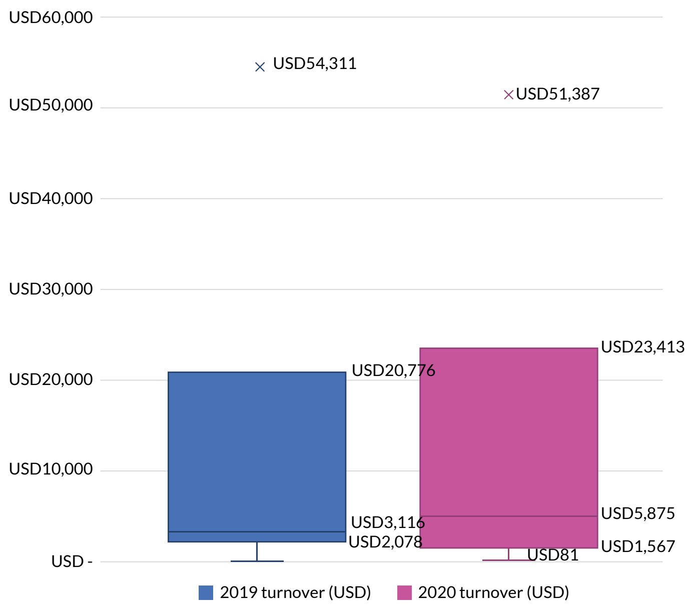
Figure 9.1.5 Business stage: non-investment crowdfunding (n. 29)



Turnover

The average turnover for 2019 was USD54,311 and for 2020 it was USD51,387. However, more than 75% of respondents reported values below these averages, as shown in Figure 9.1.6.

Figure 9.1.6 2019 vs 2020 turnover (USD): non- investment crowdfunding (n. 23) - no outliers

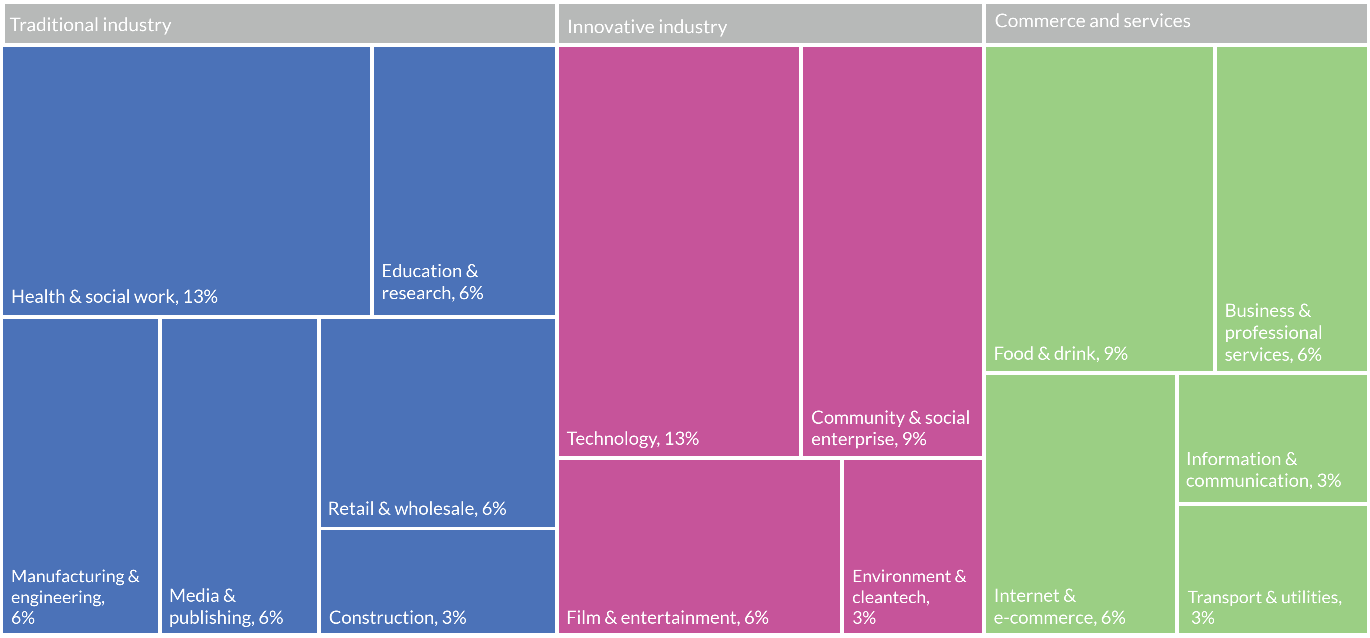


Note: Amounts were reported in local currencies and converted into USD using the OANDA average rate for the period between 1 January 2019 and 31 December 2020. Outliers are not shown in this boxplot.

Sector

As shown in Figure 9.1.7, of respondent MSMEs, 41% reported operating in traditional industries, 31% in innovative industries, and 28% in commerce and services.

Figure 9.1.7 Business sector: non-investment crowdfunding (n. 32)



Gender, education and age of Chief Executive Officer or Managing Director

Of the non-investment crowdfunding platform respondents, 20% were run by women. In terms of age, most respondent MSMEs were run by a CEO or MD younger than 44 years of age and more than 75% had a higher education degree. These statistics are summarized in Figures 9.1.8 to 9.1.10.

Figure 9.1.8 CEO or MD: non-investment crowdfunding (n. 30)

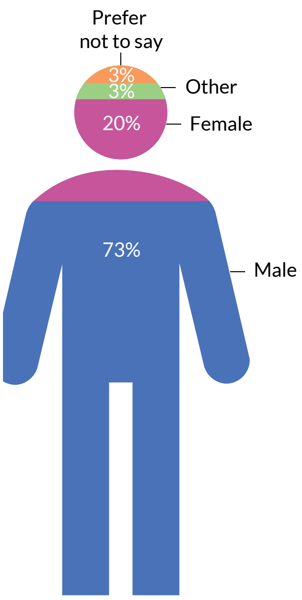


Figure 9.1.9 CEO or MD age: non-investment crowdfunding (n. 30)

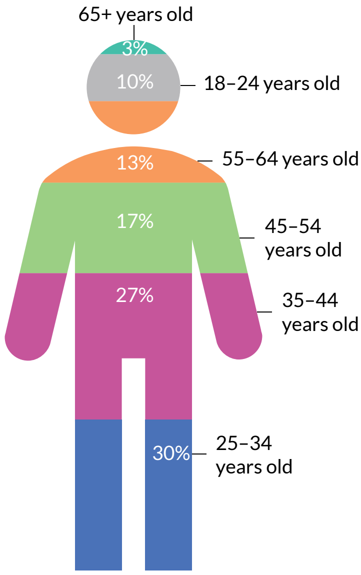
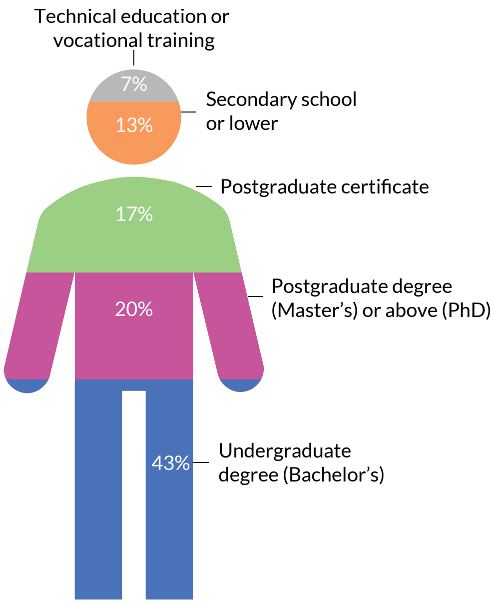


Figure 9.1.10 CEO or MD highest education level: non-investment crowdfunding (n. 30)

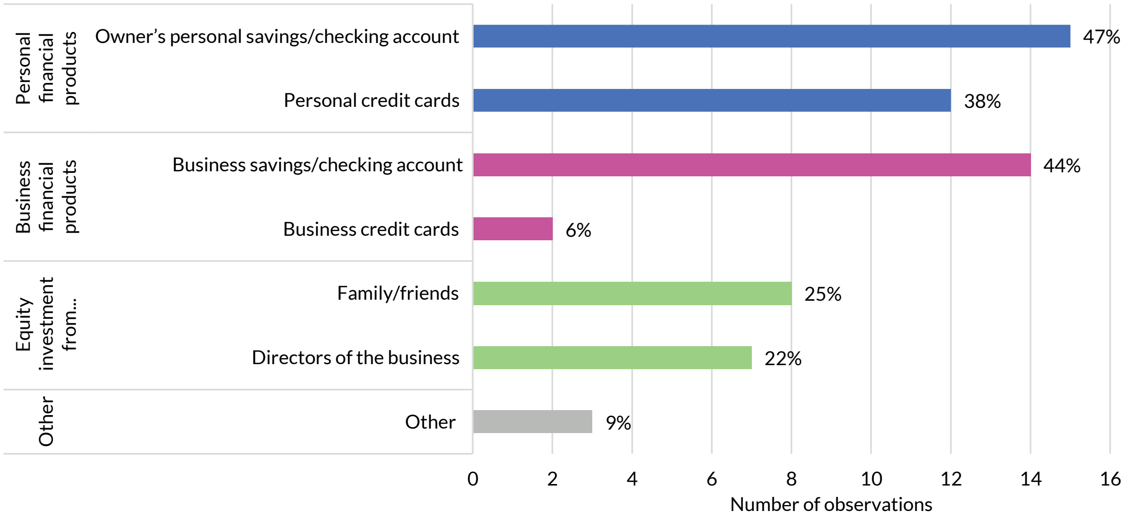


Relationship with traditional financial services
Traditional finance facilities use

As shown in Figure 9.1.11, more respondents (59%) relied on personal financial products for business activities compared to those using business financial products (50%). It is important to note that a higher percentage of MSMEs reported using a personal credit card (38%) compared to those that used a business credit card (6%). These results make sense considering that most respondents were young micro and small enterprises and, at this stage, the separation between the individual running the business and the business itself is still blurred.

Twenty-five percent of respondents reported receiving an equity investment from family or friends and 22% from directors of the business.

Figure 9.1.11 MSMEs' traditional finance facilities use: non-investment crowdfunding (n. 32)



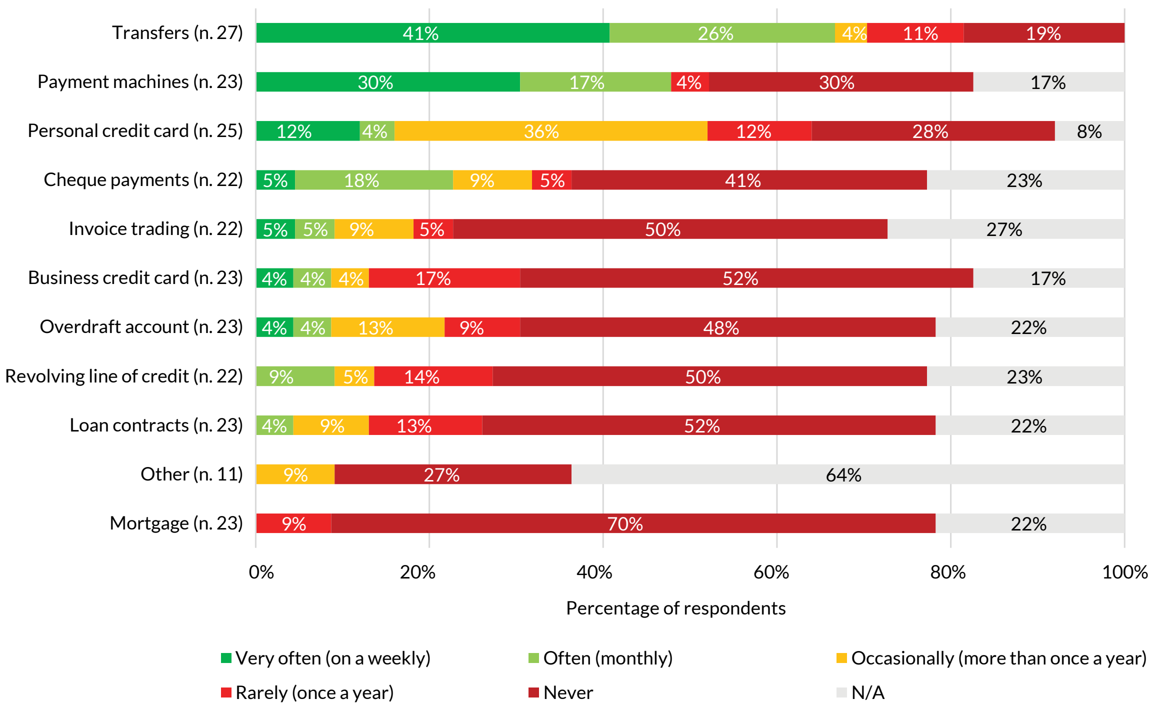
Banking product use

When asked about the frequency with which they used banking products, the two most frequently used by MSMEs were related to transfers and payments. Transfers were the most frequently used, with 67% using them very often or often, followed by payment machines (47%), as shown in Figure 9.1.12.

As previously mentioned, more MSMEs reported using a personal credit card than a business credit card for business activities. This trend is also reflected in the frequency of use.

Most respondents (70%) reported never having used mortgages, followed by business credit cards (52%) and loan contracts (52%).

Figure 9.1.12 MSMEs' bank products use: non-investment crowdfunding



Search for funding from other sources

Of respondent MSMEs, 27 reported seeking funding from sources other than alternative finance. Most respondents (70%) had sought funding from family and friends. More than half of those received an offer and almost all accepted the offer (see Figure 9.1.13).

The second most popular funding source was banks at 52%. Less than half the MSMEs that requested funding from a bank received an offer and only one-third accepted the offer.

Angel investors were approached by 44% of respondents. Of those, less than half received an offer and 40% accepted the offer.

Figure 9.1.13 Previous fundraising activity: non-investment crowdfunding (n. 27)

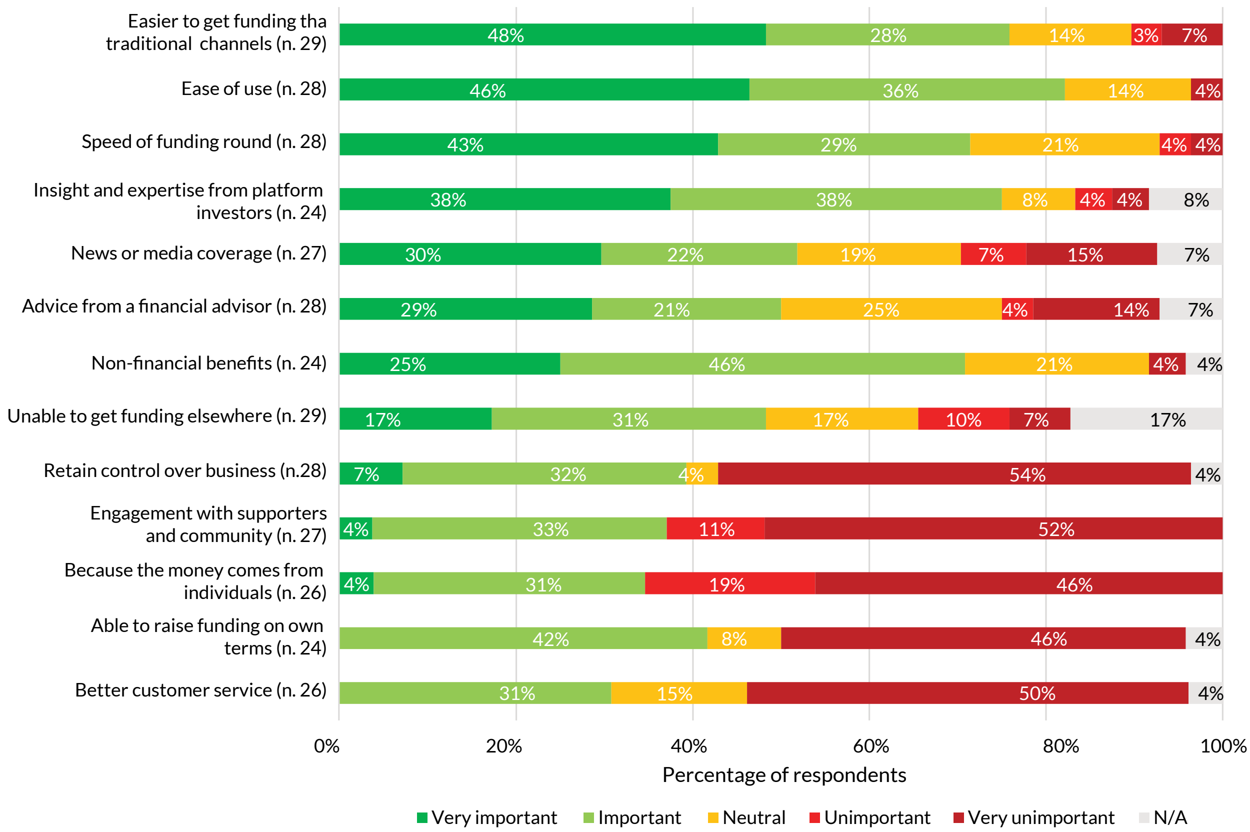
9.2. Issuer experience

Decision-making factors

As shown in Figure 9.2.1, ease of use and speed were among the most important decision-making factors for respondents when choosing to use a non-investment crowdfunding platform. A very important factor for 48% of MSMEs was the ease with which they could get funding compared to traditional channels such as banks. Ease of platform use was reported as being very important for 46% of respondents. For 43%, the speed of the funding round was very important and 38% gave the same importance to insight and expertise from platform investors.

Very few respondent MSMEs considered retaining control over the business, engaging with supporters and better customer service as very important decision-making factors.

Figure 9.2.1 Decision-making factors: non-investment crowdfunding



Ability to get funding from another source

Approximately 48% of respondents reported that the impossibility of getting funding elsewhere was a very important or an important decision-making factor. However, when these respondents were specifically asked if they believed they could get funding elsewhere, only 16% responded they did not think they could.

Amount raised

The average amount raised by reward-based crowdfunding respondents was USD5,080 (see Table 9.2.1). However, approximately 90% raised below the average amount, most of which were sole partnerships operating in Mexico.

Table 9.2.1 Amount raised: Non-investment crowdfunding (n. 25)

Measure	Amount (USD)
Minimum	81
Average	5,080
1st quartile	232
2nd quartile	509
3rd quartile	2,496
Maximum	54,200

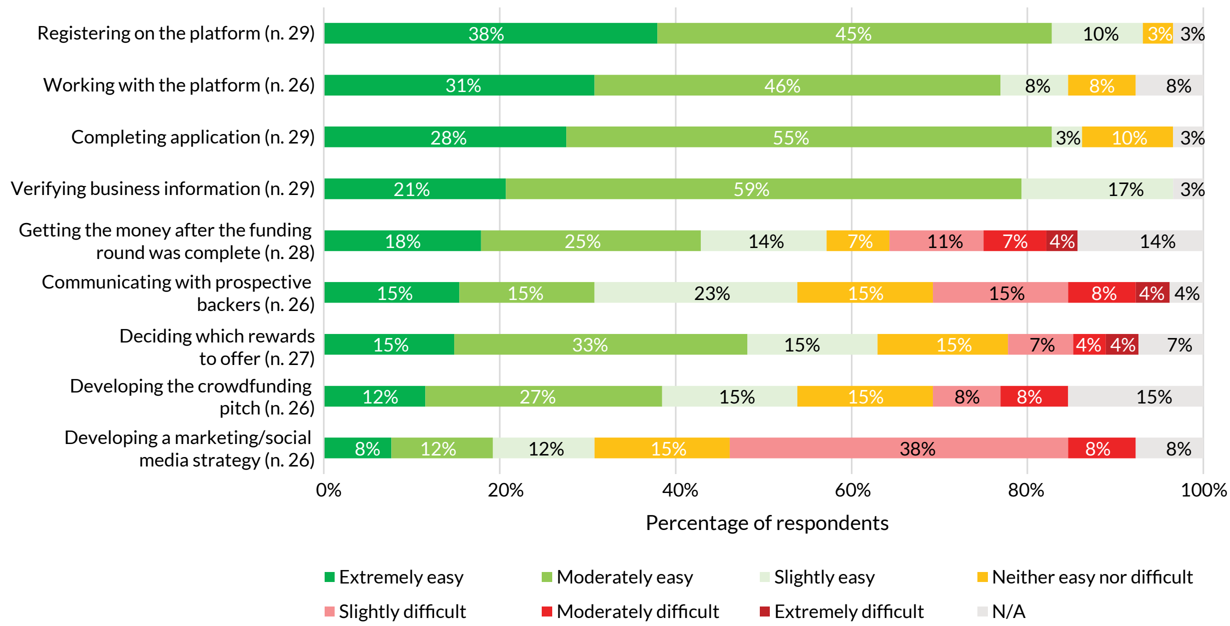
Note: Amounts were reported in local currencies and converted into USD using the OANDA average rate for the period between 1 January and 31 December 2020. Zero values and outliers were excluded from calculations.

Platform ease of use

As shown in Figure 9.2.2, overall, respondents reported that using a non-investment crowdfunding platform was easy. Processes such as registering on the platform and completing the application were considered easy by more than 80%, the easiest being registering on the platform. Working with the platform was also regarded overall as easy.

In terms of developing a marketing or social media strategy, MSMEs reported some difficulty, with 46% finding it either slightly or moderately difficult.

Figure 9.2.2 Ease of using alternative finance platforms: investment crowdfunding



Number of individuals in the crowd

When asked how many individuals were in the fundraising crowd on the non-investment crowdfunding platform, most respondents (more than 80%) reported having less than 100 participants (see Figure 9.2.3).

As shown in Figure 9.2.4, of the 26 respondents that reported using a reward-based platform, 65% had used it once, 12% twice, 12% three times, 4% four times and 8% had used the platform more than five times.

Figure 9.2.3 Individuals in the crowd: reward-based crowdfunding (n. 24)

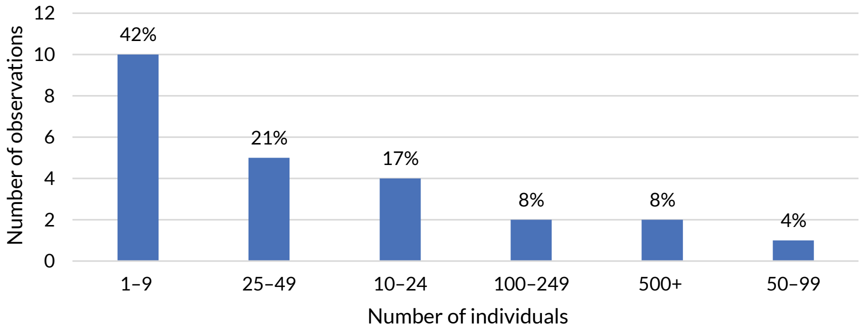
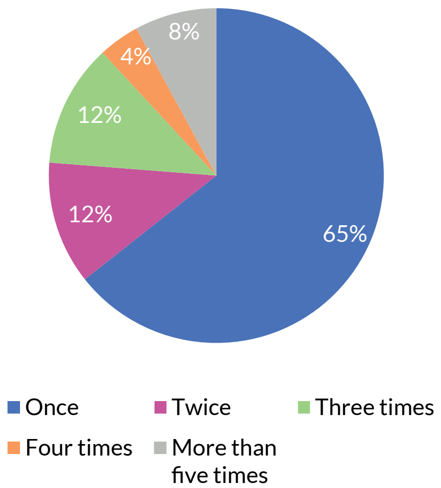


Figure 9.2.4 Frequency of use: reward-based crowdfunding (n. 26)

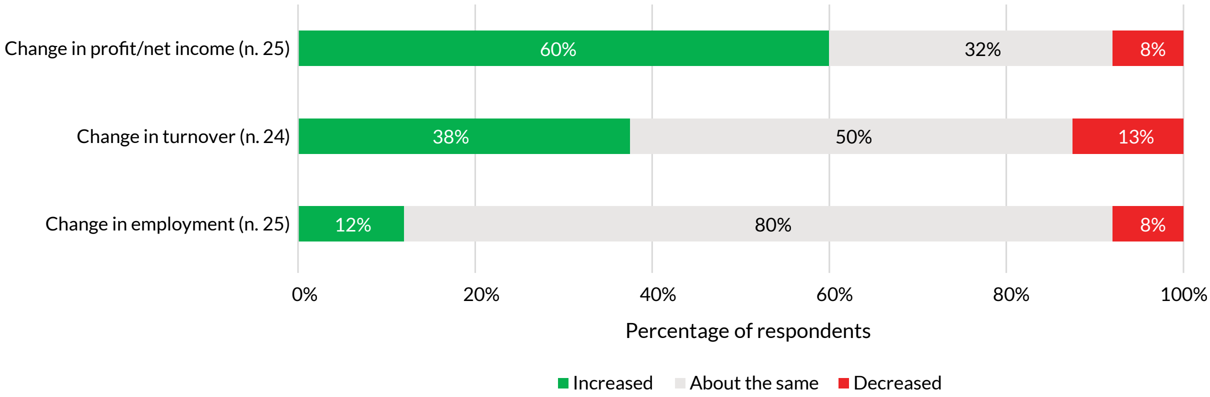


9.3. Funding outcomes

Business changes

Of the positive business effects caused by raising funds through a non-investment crowdfunding platform, most MSMEs that reported a change saw an increase in profits (60%). Other reported increases included those in turnover (38%) and employment (12%). Most respondents, however, indicated no business changes (see Figure 9.3.1).

Figure 9.3.1 Business changes since using the facility: non-investment crowdfunding

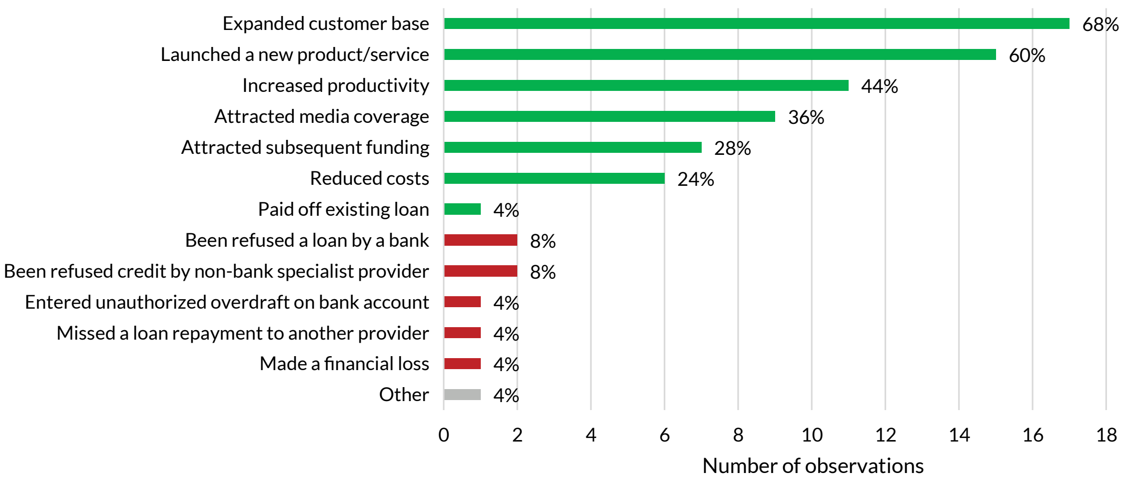


Business impact due to funding

Most MSMEs reported an overall positive impact on the business due to the funding: 68% expanded their customer base, 60% launched a new product or service, and 44% increased productivity and attracted media coverage (see Figure 9.3.2).

Regarding negative impacts, 8% reported they had been refused credit by a bank or a specialist provider.

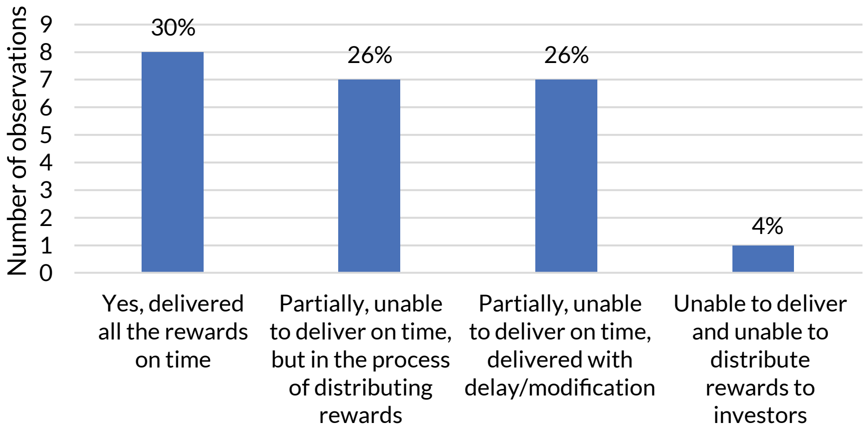
Figure 9.3.2 Business impact due to funding: non-investment crowdfunding (n. 25)



Rewards delivery

As shown in Figure 9.3.3, only 4% of respondents reported they were not able or would not be able to deliver the rewards resulting from the funds raised. In contrast, 30% had delivered all the rewards on time and 52% were unable to deliver them on time but were either in the process of distributing the rewards or had delivered them, albeit with a delay.

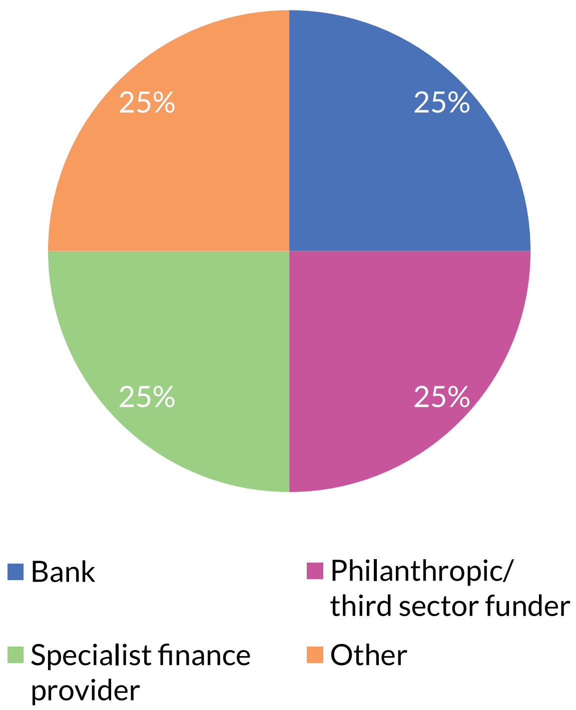
Figure 9.3.3 Rewards delivery: reward-based crowdfunding (n. 27)



Subsequent funding

Only 18% of 22 respondents reported they had managed to attract subsequent funding. This funding came from a bank, the philanthropic sector, a specialist finance provider, or other channels such as a contest, as shown in Figure 9.3.4.

Figure 9.3.4 Subsequent funding: reward-based crowdfunding (n. 4)

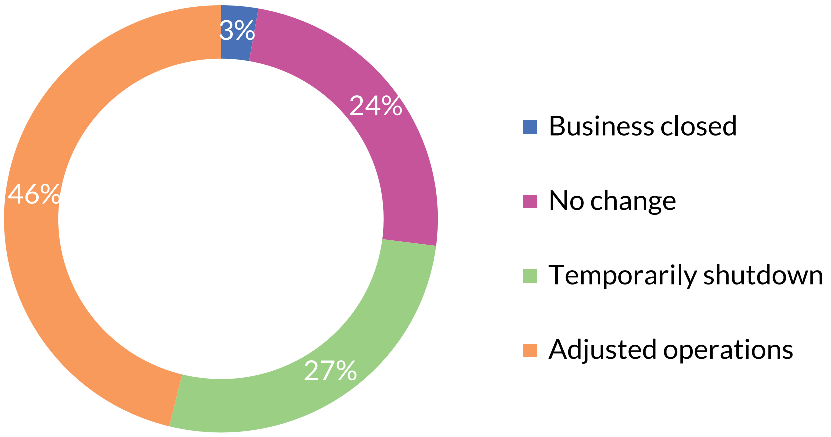


10. IMPACTS OF COVID-19

10.1. Business closures

As shown in Figure 10.1.1, when respondents were asked about the effects of the Covid-19 pandemic, 3% had permanently shut down their businesses and 27% had to close them temporarily. Almost one-quarter (24%) did not shut down and were operating with minor adjustments. The greatest percentage of MSMEs (46%) were still operating albeit with adjustments such as implementing remote working and offering online or delivery services.

Figure 10.1.1 Covid impact: business closure (n. 470)



10.2. Government assistance

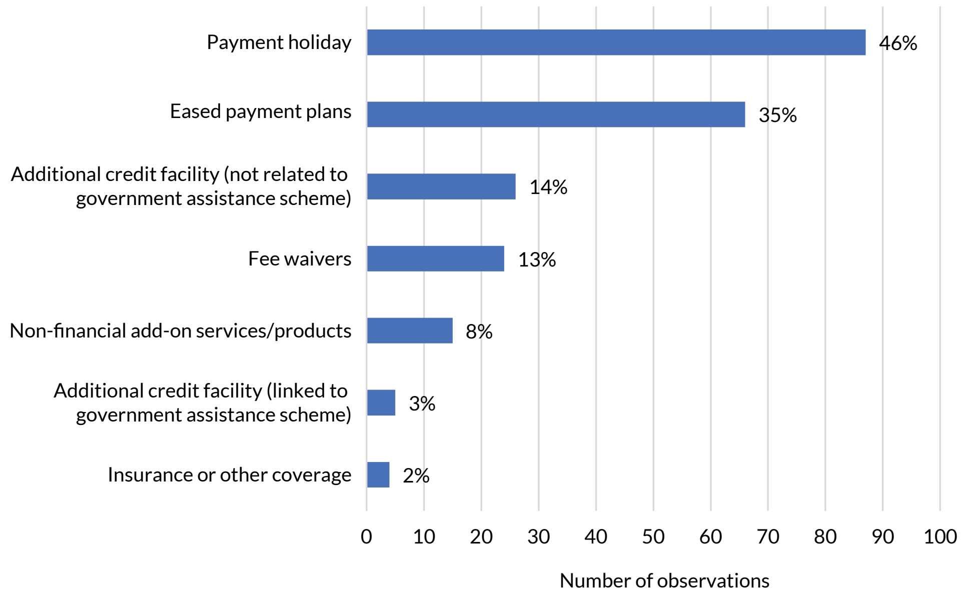
Of respondent MSMEs, only 22% reported they had received government assistance. Of those, approximately half received a government Covid-19 voucher and emergency funds to pay salaries, and 41% were part of a government support scheme and received subsidies, loans with subsidised interest rates and loan guarantees. Another 7% received tax support, which included postponed tax payments and discounts.

10.3. Covid-19 platform assistance

P2P lending

Of the 413 MSMEs that got funding through a P2P lending platform, 191 received Covid-19-related assistance. The two main types of assistance these platforms offered were related to loan repayment: 46% received a payment holiday and the platform used by 35% relaxed the repayment plans (see Figure 10.3.1).

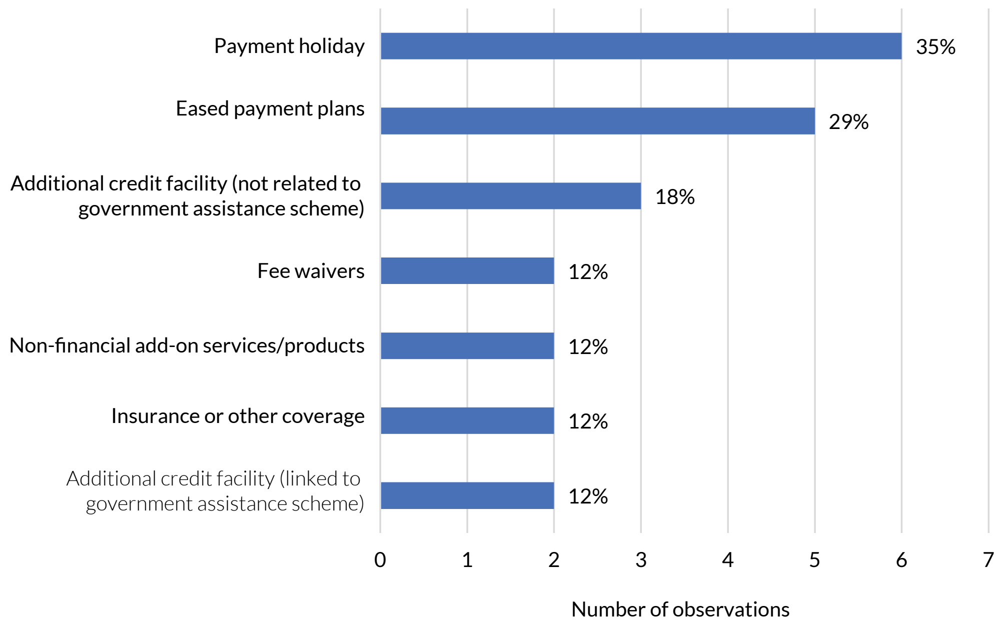
Figure 10.3.1 Covid-19 assistance provided: P2P/marketplace lending (n. 191)



Invoice trading

As shown in Figure 10.3.2, the assistance provided by invoice trading platforms was similar to that of P2P lending platforms: 35% of the 17 invoice trading respondents received a payment holiday and 29% a relaxed repayment plan.

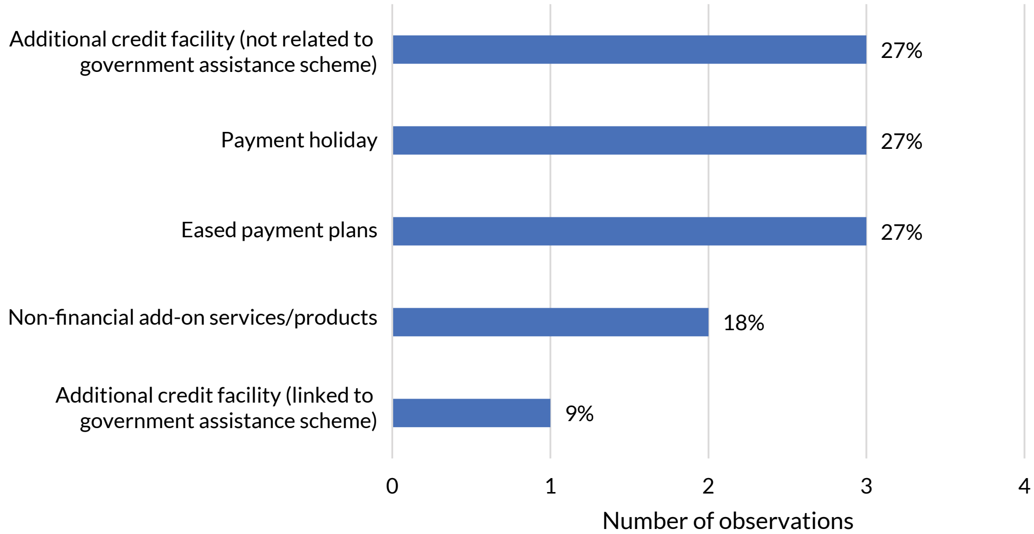
Figure 10.3.2 Covid-19 assistance provided: invoice trading (n. 17)



Investment crowdfunding

Regarding the Covid-19 assistance provided by investment crowdfunding platforms, 27% of 11 respondents were offered an additional credit facility not related to a government assistance scheme, 27% received a payment holiday and another 27% a relaxed repayment plan, as shown in Figure 10.3.4.

Figure 10.3.3 Covid-19 assistance provided: investment crowdfunding (n. 11)

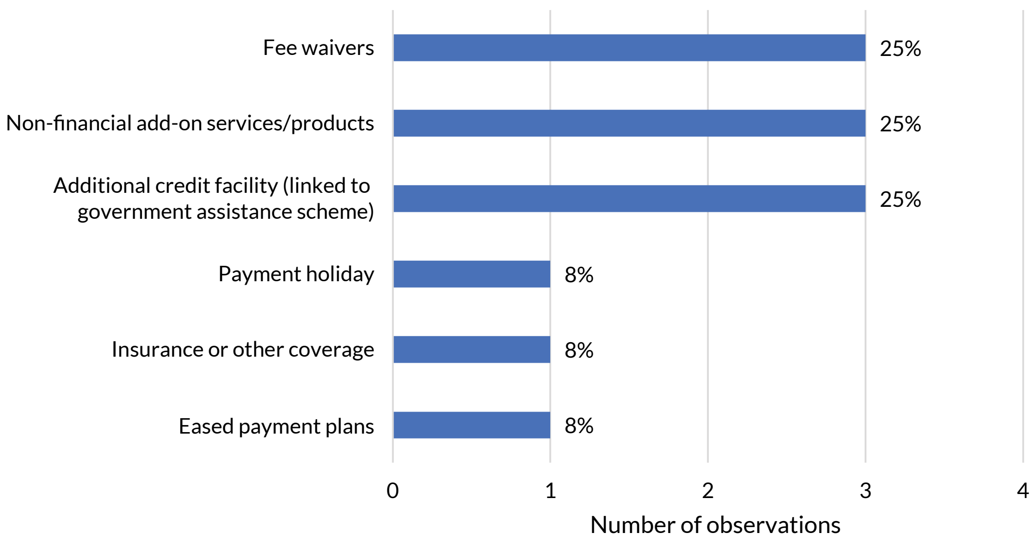


Non-investment crowdfunding

Of the 32 non-investment crowdfunding respondents, 12 received Covid-19-related assistance from the platform. Of those, 25% reported the platform waived fees, 25% received non-financial add-on services or products and another 25% were offered an additional credit facility not related to a government assistance scheme (see Figure 10.3.4).

Overall, the platforms across the different models focused on ensuring their products and services remained accessible to their MSME clients.

Figure 10.3.4 Covid-19 assistance provided: non-investment crowdfunding (n. 12)



11. Country factsheet | Argentina

11. COUNTRY FACTSHEET | ARGENTINA

11.1. MSMEs and platforms: demographics and previous relationship with finance

Thirteen Argentinian MSMEs participated in this survey. More than half were businesses located in Buenos Aires; the remainder were in Mendoza, Neuquén and Chubut (see Figure 11.1.1).

Argentina classifies business size by revenue and business sector. Based on this system, 46% of respondents were classified as micro enterprises, 31% as small and 23% as medium, as shown in Figure 11.1.2. This includes enterprises both in the Mediana Tramo 1 and Mediana Tramo 2 classification per business sector.[xi] Sixty-nine percent of respondents were mature enterprises that had been operating for more than six years.

Figure 11.1.1 MSMEs in Argentina by province (n. 12)

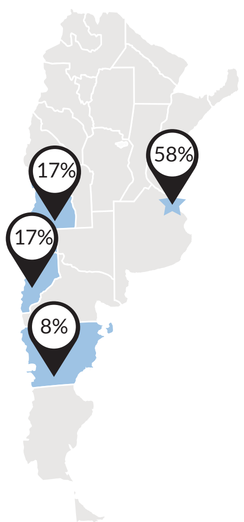
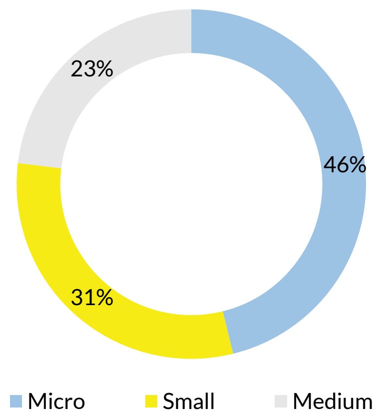


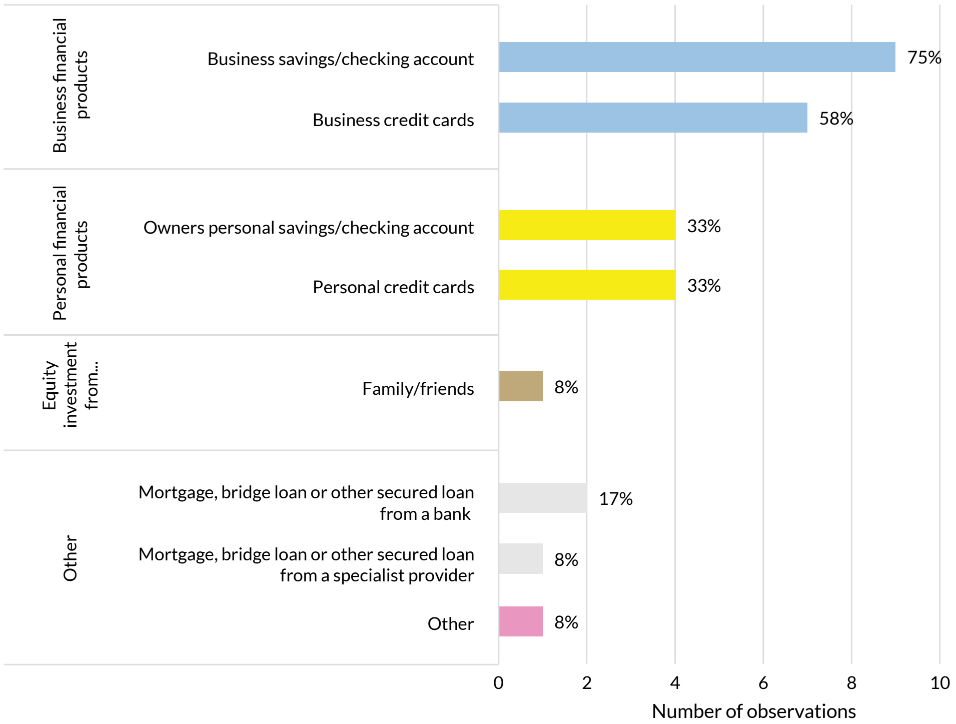
Figure 11.1.2 MSME size (by revenue) Argentina (n. 13)



Three of the four verticals were represented by the respondents: 62% used an invoice trading platform, 23% a digital lending platform and the remaining 15% an investment crowdfunding platform.

As shown in Figure 11.1.3, more respondents reported using business financial products (75%) than personal financial products (50%), which makes sense considering that more than half the respondents were mature businesses. The financial product most used was business savings accounts (75%), followed by business credit cards (58%).

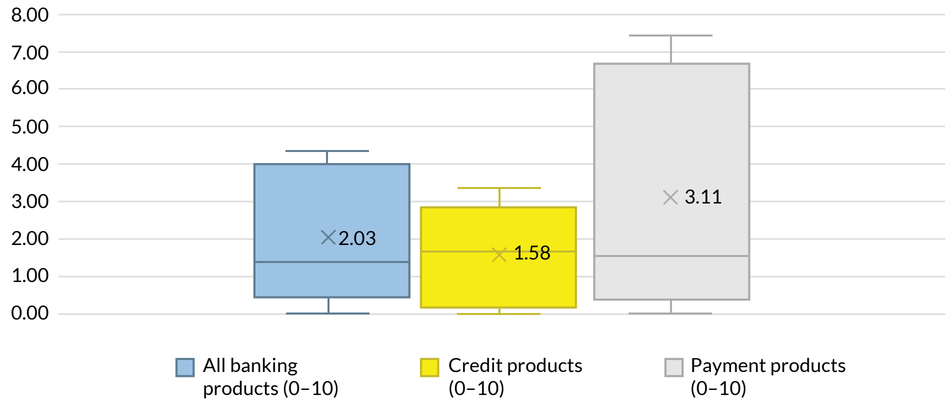
Figure 11.1.3 MSMEs' traditional finance facilitites use: Argentina (n. 12)



Frequency of banking product use

Argentinean respondents reported using payments products, such as transfers, more frequently than banking products related to credit (see Figure 11.1.4).[1]

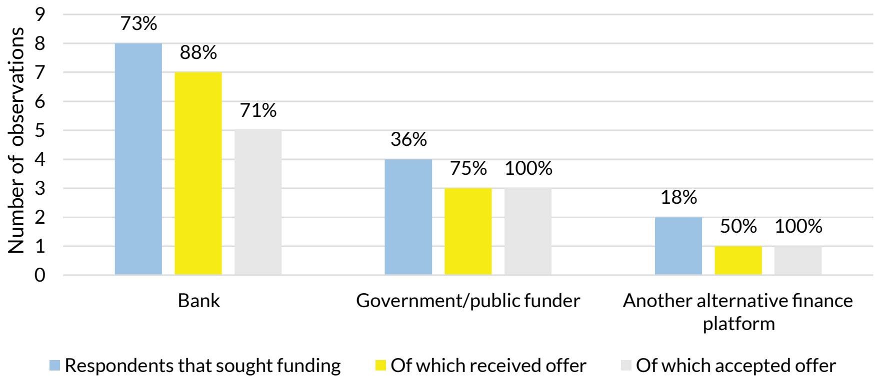
Figure 11.1.4 Intensity of banking products use: Argentina



In terms of previous fundraising activity, the most sought-after funding source was banks (73%), followed by government or a public funder (36%), and 18% sought funding from another alternative finance platform. Of those who sought funding, approximately 50% received an offer and 71% accepted the offer, as shown in Figure 11.1.5.

[1]Credit products: business credit cards, personal credit cards, revolving lines of credit, overdraft accounts, invoice trading, loan contracts and mortgages; payment products: transfers, payment machines and cheque payments

Figure 11.1.5 Top three previous fundraising activities: Argentina (n. 11)

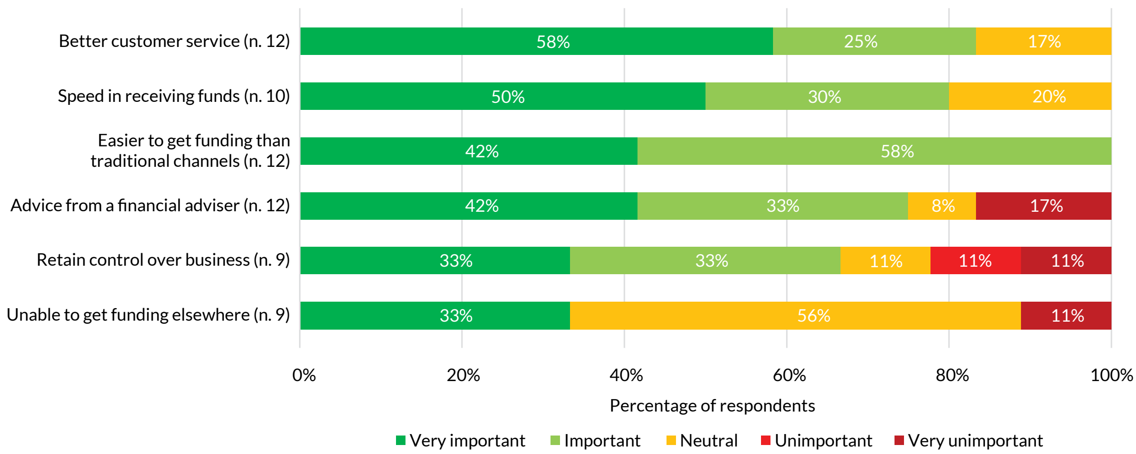


11.2. Funding experience: purpose, amount and decision-making factors

As shown in Figure 11.2.1, the most important decision-making factors were related to service: 58% of respondents reported that better customer service was very important and for 50%, it was the speed of receiving funds. Although most respondents did not believe or were not sure whether they would be able to get funding through other sources, only 33% reported that this was an important factor when deciding whether to use an alternative finance platform for funding.

Most respondents (90%) reported that working capital was the main reason for applying for funding through an alternative finance platform. The average amount raised by Argentinian respondents was USD310,240. Micro enterprises raised an average of USD142,358, small enterprises USD198,556 and medium enterprises USD701,729.

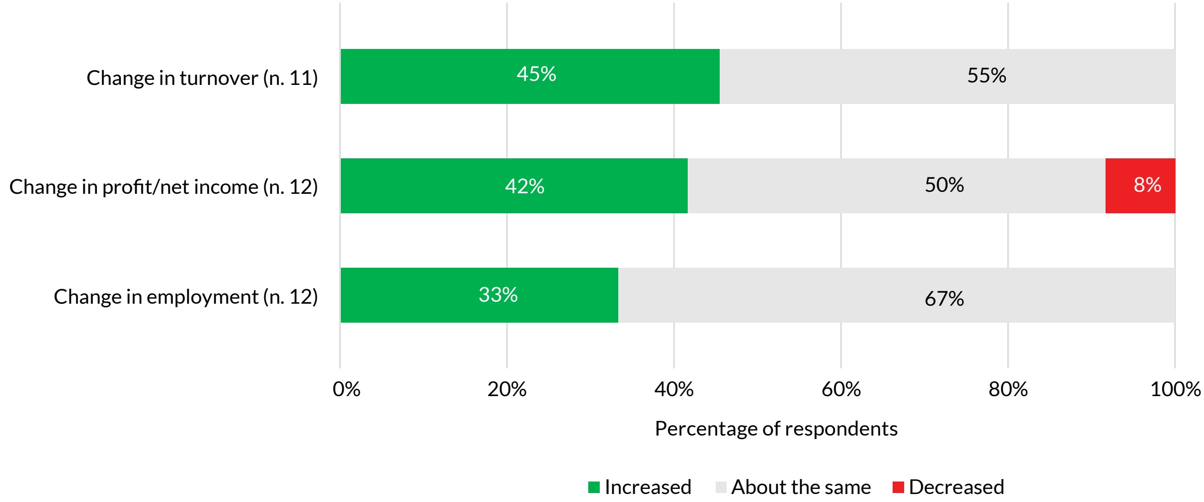
Figure 11.2.1 Top six decision-making factors: Argentina



11.3. Funding outcomes: business and banking relationship changes

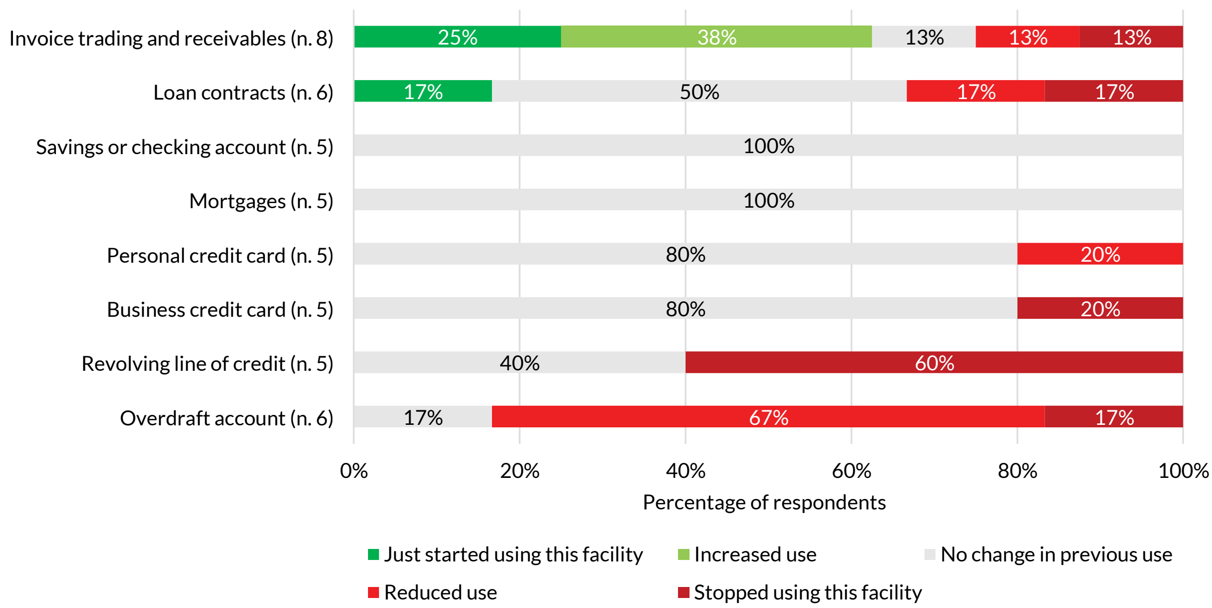
When asked about the business changes caused by receiving funding, almost half the respondents reported an increase in turnover, 42% an increase in profit and 33% an increase in employment, as shown in Figure 11.3.1.

Figure 11.3.1 Business changes since using the facility: Argentina



In terms of how the funding activity with an alternative finance platform affected the relationship with banking products, 25% of respondents reported starting using invoice trading and 38% used this product more frequently. The use of most other banking products remained unchanged, except for overdraft accounts: 67% of respondents used them less often and 17% stopped using them (see Figure 11.3.2).

Figure 11.2.2 Banking relationship impact: Argentina



12. Country factsheet | Brazil

12. COUNTRY FACTSHEET | BRAZIL

12.1. MSMEs and platforms: demographics and previous relationship with finance

A total of 347 Brazilian MSMEs participated in this study, most of which were in the southeast region. All but three states were represented (see Figure 12.13.1), indicating that alternative finance platforms have reached remote areas and hence can cater to small businesses. The sample included all verticals: digital lending represented 93%, invoice trading 3%, reward-based crowdfunding 2% and equity-based crowdfunding 1%.

Figure 12.1.1 MSMEs in Brazil by state (n. 341)

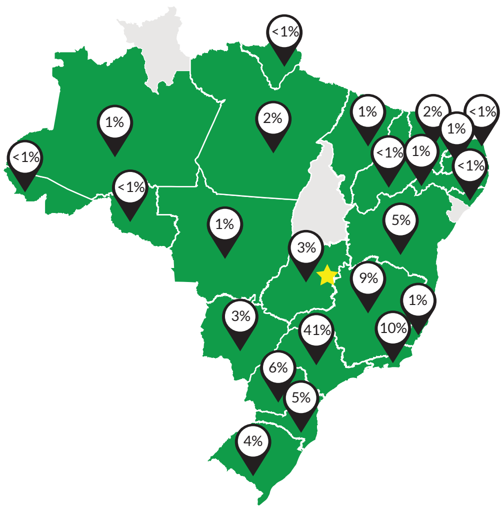
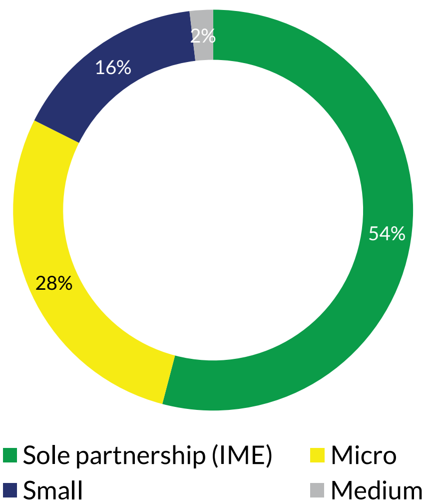
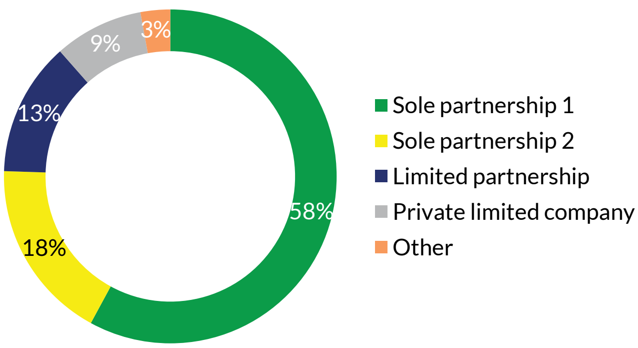


Figure 12.1.2 MSME size (by revenue): Brazil (n. 318)



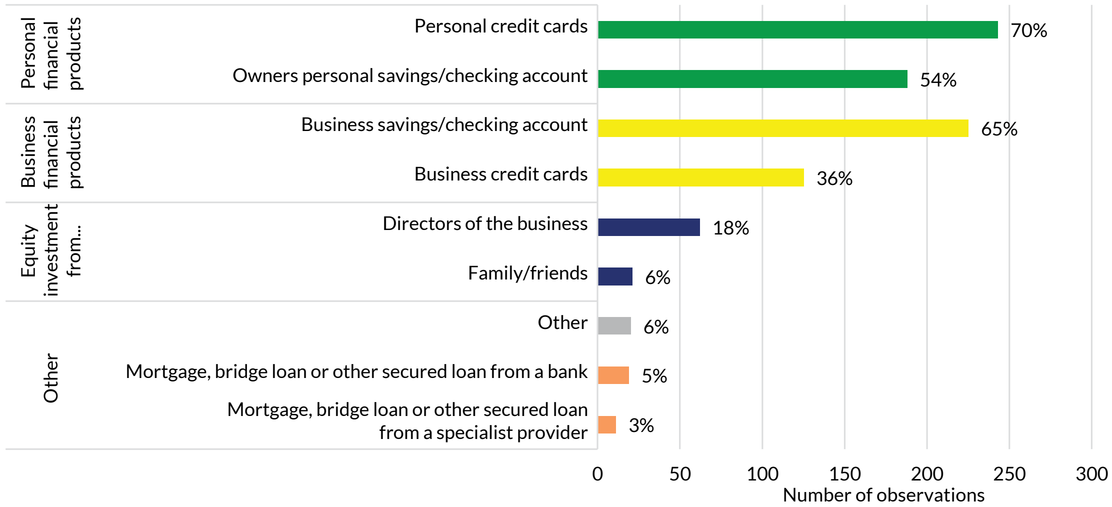
As shown in Figure 12.1.2, most Brazilian firms were classified as microempreendedores individuais (IME)/sole partnership 1 (58%). This category of small business is characterized by self-employed entrepreneurs who may have one employee, subject to a simplified tax and social security contribution. When using revenue criteria to determine the business size, IMEs represented 54% of the sample (see Figure 12.1.3). It is worth noting that this fiscal arrangement specifically applies to sole entrepreneurs providing personal services that have a maximum annual revenue of RD81,000 (USD15,863.04). Few firms that reported their legal structure as IME had revenue within the micro enterprises' threshold.[xii]

Figure 12.1.3 Business legal structure: Brazil (n.347)



Note: Sole partnership 1 corresponds to individual micro-entrepreneurs (IME) and sole partnership 2 corresponds to individual entrepreneurs (IE).

Figure 12.1.4 MSMEs' traditional finance facilities use: Brazil (n. 348)



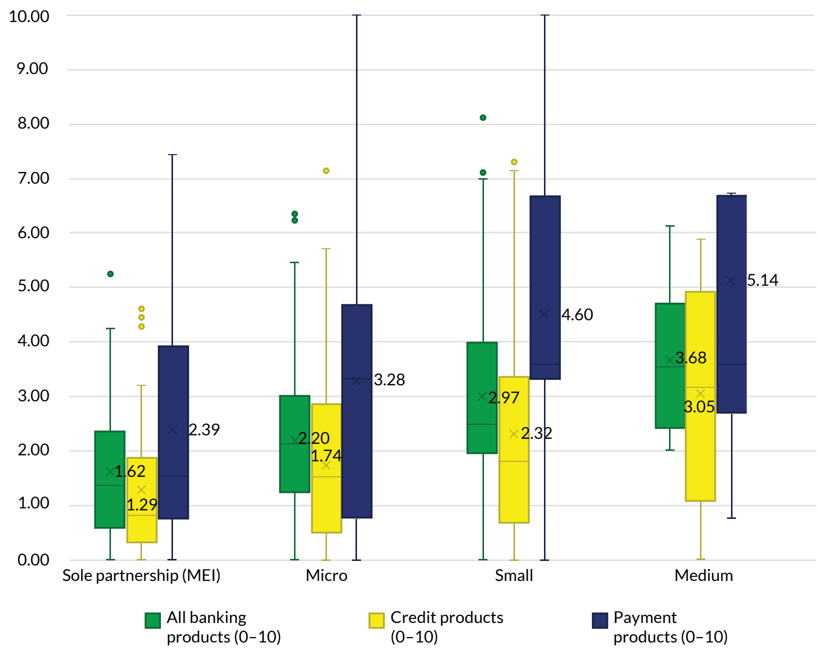
Over three-quarters of firms had been operating for more than three years, indicating that mature MSMEs also rely on alternative finance. This contradicts the assumption that fintech platforms generally cater to younger firms that have less access to traditional finance.

As shown in Figure 12.1.4, many firms reported having a formal relationship with traditional finance providers: 65% were using business savings or checking accounts at the time the survey was conducted. However, many still used personal finance products for the business: 70% of MSMEs reported they used personal credit cards and 54% used the owner's account.

Banking product use frequency

MSMEs' use of banking products and services varied widely among respondents of all sizes, especially in terms of how often they used payment services, as shown in Figure 12.1.5. To measure how frequently MSMEs used certain credit and payments products, we used a scale from 1–10.[2] A score of 0 represents never using any of these products and 10 means all the products were used weekly.

Figure 12.1.5 Business size vs intensity of banking products use: Brazil

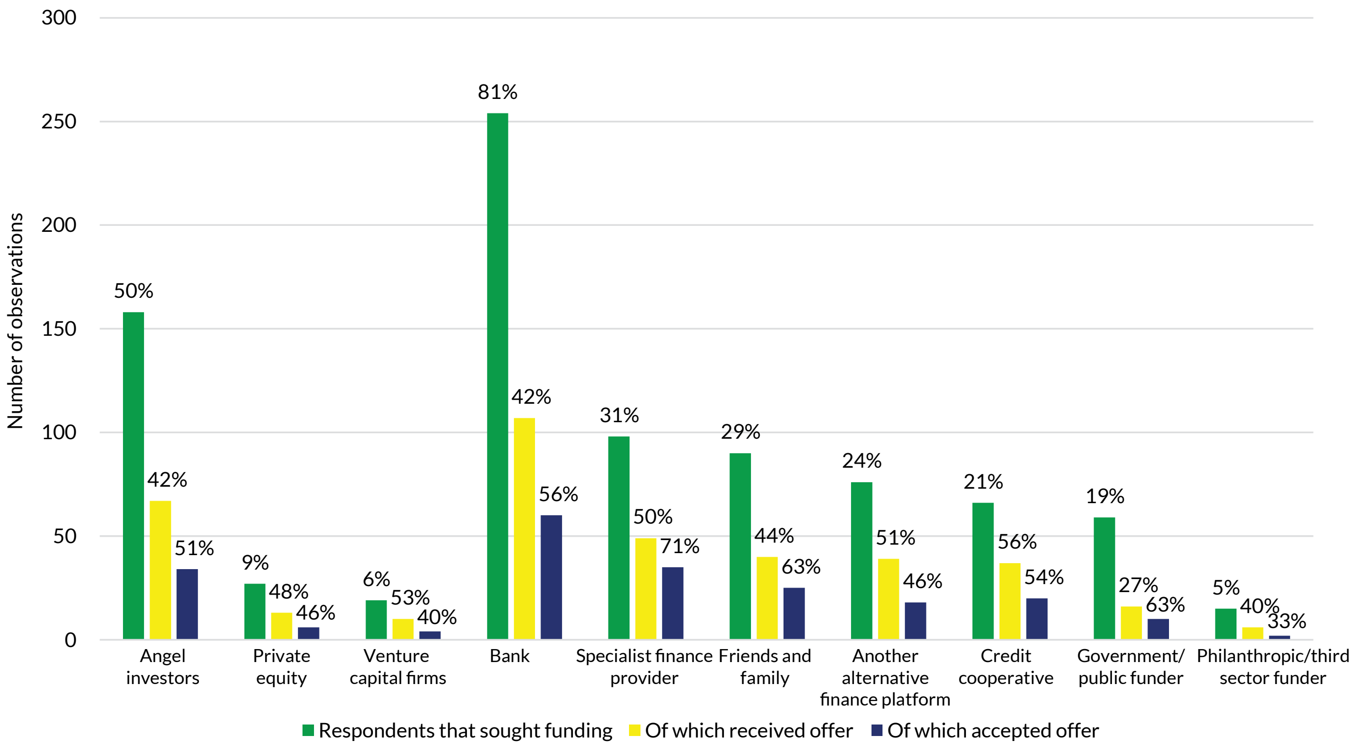


[2]Credit products: business credit cards, personal credit cards, revolving lines of credit, overdraft accounts, invoice trading, loan contracts and mortgages; payment products: transfers, payment machines and cheque payments

As shown in Figure 12.1.6, most firms that received funding from alternative finance platforms also sought funding from other sources. The sources most often approached were banks, angel investors, specialist finance providers, and friends and family. Interestingly, one in four MSMEs also looked for funding from other fintechs. An average of 45% of those who sought funding from this source received an offer. The two sources that extended the fewest offers were banks (27%) and the government (42%). Of those MSMEs that received an offer from these sources, 56% accepted it. The source from which most offers were accepted was non-bank providers, with 71% of MSMEs accepting the offer received. This was followed by friends and family, and the government, from which 63% of offers were accepted.

One-third of MSMEs in the sample reported they would not have been able to get funding anywhere else other than the platform. This indicates that alternative finance platforms have improved access to finance. However, firms also consider other factors when deciding where to apply for funding. In the next section, we describe in more detail these and other aspects of funding.

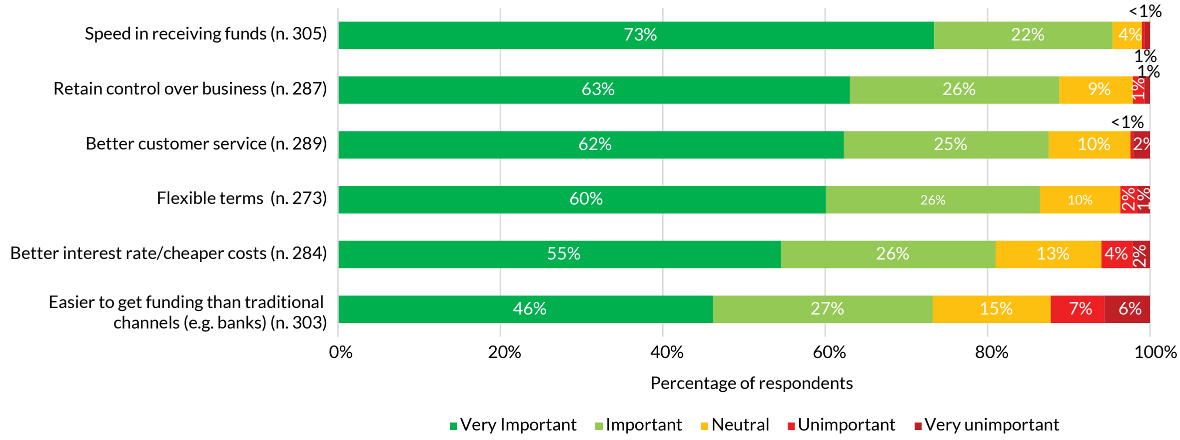
Figure 12.1.6 Previous fundraising activities: Brazil (n. 314)



12.2. Funding experience: purpose, amount and decision-making factors

The most important decision-making factors for firms when choosing a fintech provider were the speed of funding, followed by retaining control over the business, better customer service and flexible terms (see Figure 12.2.1). The fact that alternative finance was an easier way to get funds than traditional finance was also important for three-quarters of MSMEs. However, it was only the sixth most important factor when deciding why to use alternative finance. Other factors such as advice from a financial adviser and engaging with supporters and the community were important for about half the respondents. Notably, not being able to get funding elsewhere was an important factor for 53% of MSMEs when deciding whether to get funding from a fintech.

Figure 12.2.1 Top six decision-making factors: Brazil

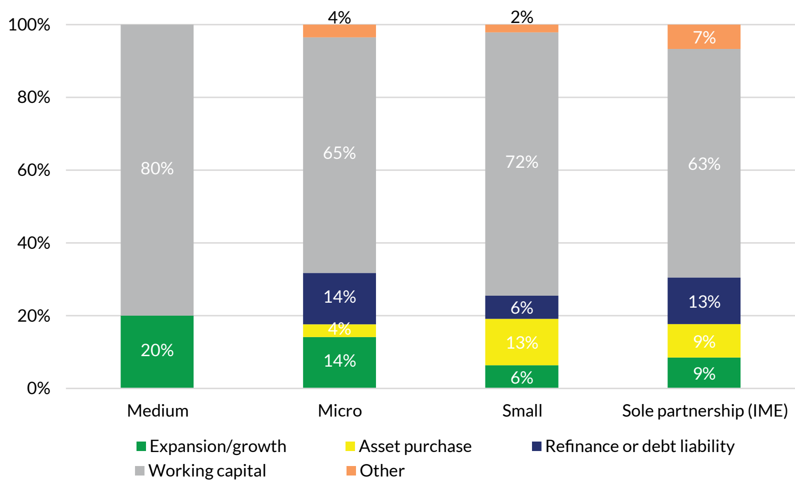


The average amount of funding borrowed/raised was USD19,000, although 75% of those amounts were below USD6,000.

Average amounts borrowed/raised increased with increasing enterprise size. IMEs raised an average of USD4,000, micro USD5,300, small USD38,700 and medium USD359,000. However, the average amount for medium-sized enterprises must be analyzed with care due to the influence of extreme outliers.

Expansion and growth were the main reasons for securing funding for 10% of MSMEs, compared to 63% that were driven by working capital needs (see Figure 12.2.2), which was the main purpose for all sizes of firms.

Figure 12.2.2 Purpose funding vs size: Brazil (n. 318)

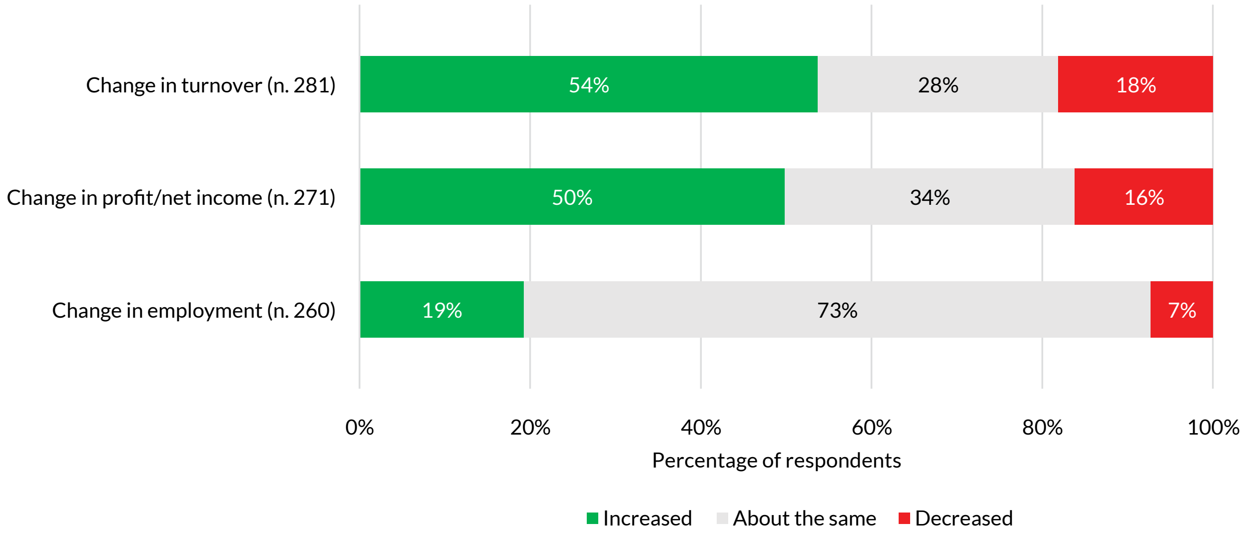


12.3. Funding outcomes: business and banking relationship changes

As a result of the funding, half the MSMEs reported an increase in turnover and profits, and a 19% increase in the number of employees, as shown in Figure 12.3.1. More firms for which the main purpose of the funding was for expansion/growth or purchasing an asset reported an increase in employee number compared to other firms: 26% and 32% respectively. Increased turnover was also reported more frequently for those firms: by 75% of MSMEs that used the funding for growth and 62% that used it to purchase assets.

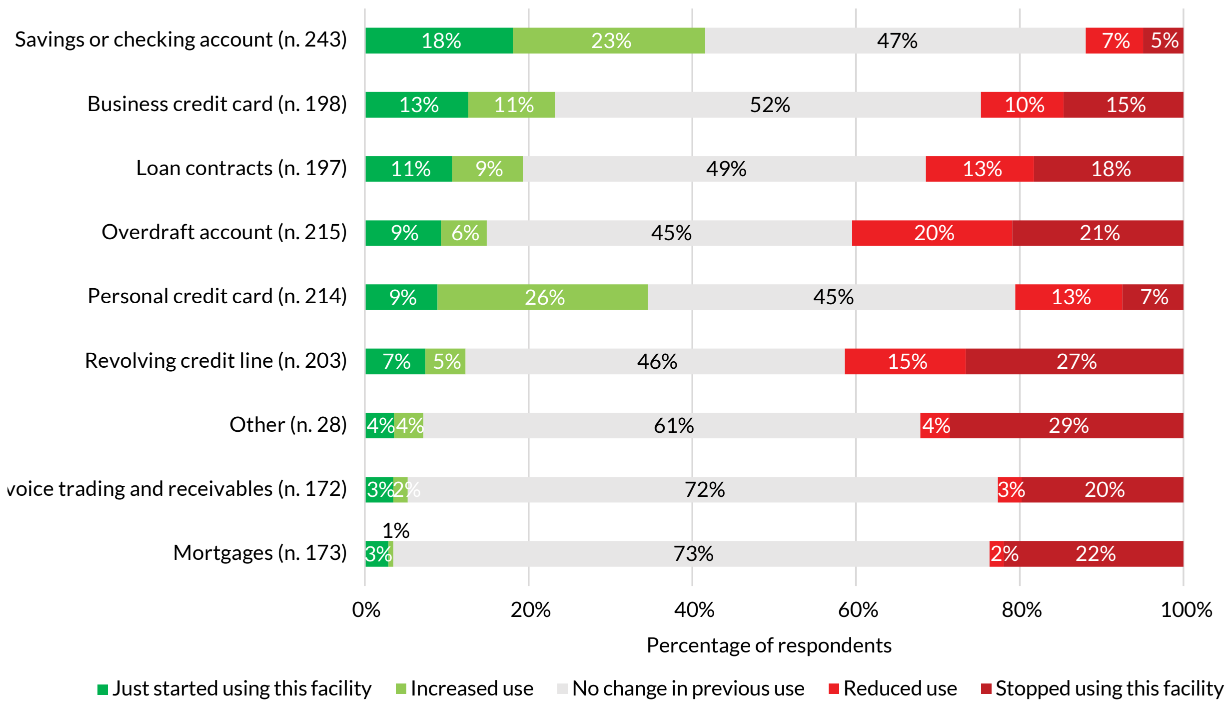
Increases were less frequently reported by firms that needed the funds for refinancing: only 37% increased profit, 47% increased turnover and 7% increased employment.

Figure 12.3.1 Changes as a result of funding: Brazil



Interestingly, the firms that used the funds for refinancing more frequently reported stopping using overdraft accounts and revolving lines of credit or using them less often. Overall, 40% of MSMEs reported using overdraft accounts and revolving credit less often because of the funding received. For those firms that sought funding for refinancing, 59% used overdraft accounts less often and 52% decreased their use of revolving lines of credit (see Figure 12.3.2).

Figure 12.3.2 Impact on banking relationship: Brazil



13. Country factsheet | Chile

13. COUNTRY FACTSHEET | CHILE

13.1. MSMEs and platforms: demographics and previous relationship with finance

Twenty-three Chilean MSMEs responded to our survey, 74% of which were based in the metropolitan region of Santiago, as shown in Figure 13.1.1. Of the 23 respondents, 63% were classified as small enterprises according to revenue, and micro and medium enterprises each represented 17%[xiii] (see Figure 13.1.2).

Figure 13.1.1 MSMEs in Chile by region (n. 23)

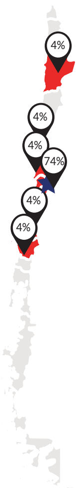
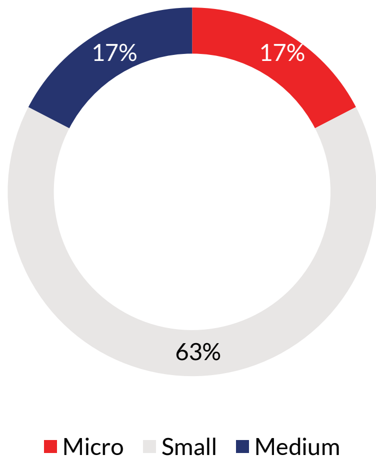


Figure 13.1.2 MSME size (by revenue): Chile (n. 23)



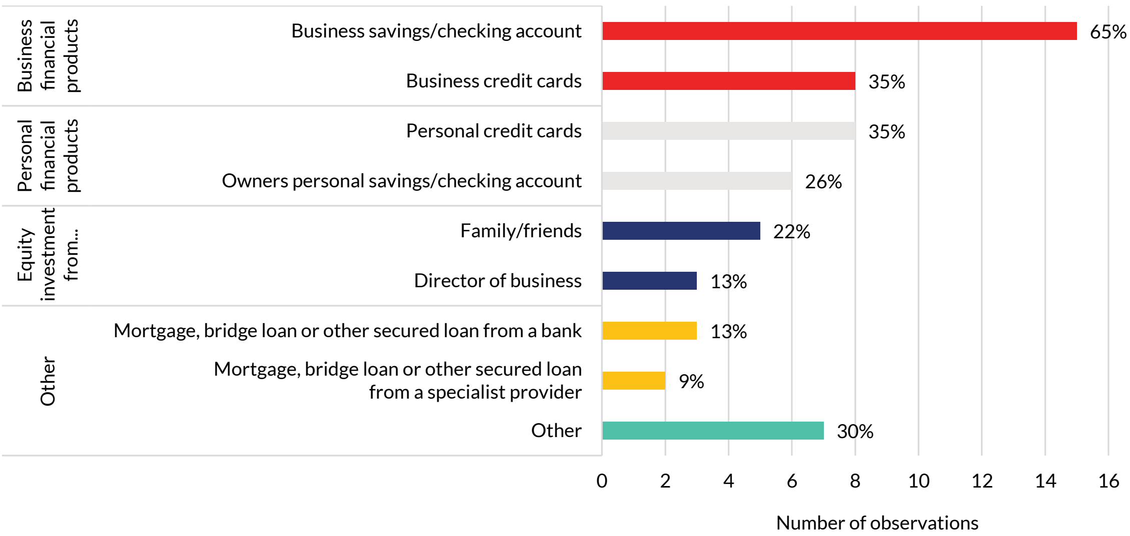
More than half the respondent firms in Chile were classified as mature, 35% of which had been operating for more than six years and 22% for more than three years. Firms operating for less than three years represented 43% of respondents, indicating that alternative finance is a funding option for both mature and younger firms.

MSMEs in Chile reported using mainly business financial products for firm activities. Most used business savings or checking accounts (65%) and 35% used business credit cards, as shown in Figure 13.1.3.

MSMEs also used personal financial products for business activities: 35% reported using personal credit cards and 26% personal savings or checking accounts.

Finally, 22% of firms reported they were funded by family and friends, and 13% by the directors of the business, either as equity investments or loans.

Figure 13.1.3 MSMEs' traditional finance facilitites use: Chile (n. 23)

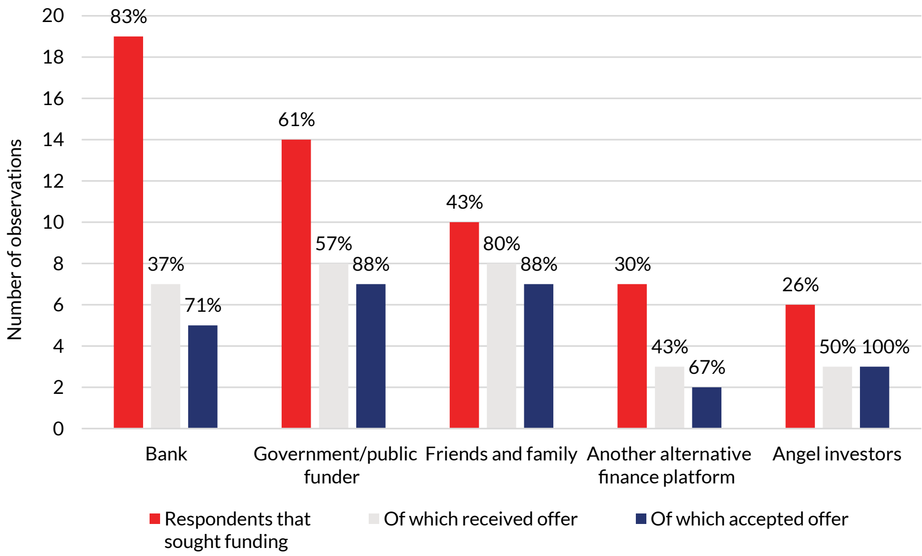


When Chilean MSMEs approached a provider to fund their business, most sought funding from a bank (83%), of which 37% received an offer and 71% accepted the offer. The second most popular funding source was the government, which was approached by 63% of firms. Of those, 57% received an offer and 88% accepted the offer, as shown in Figure 13.1.4.

Family and friends were the third most sought source of funding (43%) and were the source from which a greater percentage of MSMEs received offers (80%). The rate of acceptance was also one of the highest at 88%.

Completing the top five funding sources were other fintechs (30%) and angel investors (26%). Half the MSMEs that sought funding from angel investors received an offer and it is noteworthy that 100% accepted the offer.

Figure 13.1.4 Top five previous fundraising activities: Chile (n. 23)

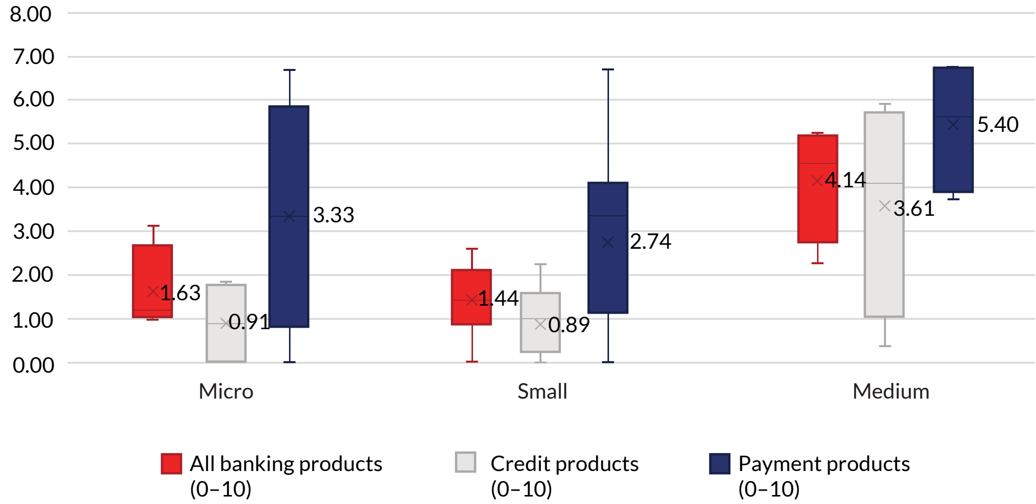


Frequency of banking product use

MSMEs also provided information about how frequently they used banking products, both credit and payment products.[3] These two products make up the composition of the overall usage intensity index calculated by the CCAF research team.

It is worth noting that all categories of firms used payment products more than credit products (see Figure 13.1.5). The frequency with which both products were used was linked to firm size: the larger the firm, the more frequently a banking product was used.

Figure 13.1.5 Business size vs intensity of banking products use: Chile



13.2. Funding experience: purpose, amount and decision-making factors

The average amount raised by the 23 Chilean MSME respondents was USD136,372. However, this value lies in the last quartile of the sample, being higher than 80% of all loans reported. In terms of MSME size, micro enterprises raised an average of USD27,492, small enterprises USD99,906 and medium enterprises USD244,373.

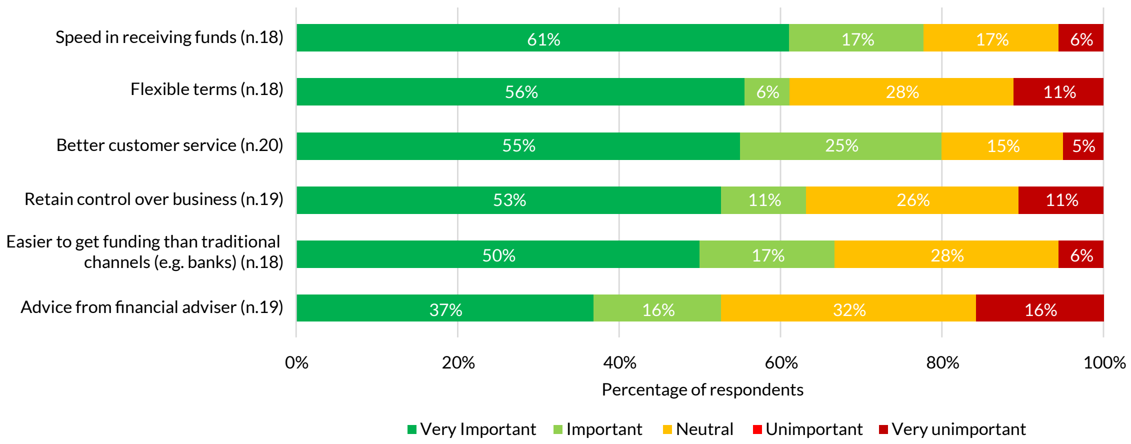
Similar to the other countries in this study, the primary purpose of the funding raised by MSMEs in Chile was for working capital (75%). The remaining 15% of firms sought funding to purchase an asset.

The top five decision-making factors in Chile were better customer service, followed by speed of receiving funds, the ease of getting funding compared to traditional channels and, finally, retaining control over the business (see Figure 13.2.1).

The speed of receiving funds was considered very important by 61% of MSMEs and for more than half, being unable to get funding elsewhere was important or very important. These statistics correlate to those from MSMEs who sought funding and received an offer from a bank.

[3]Credit products: business credit cards, personal credit cards, revolving lines of credit, overdraft accounts, invoice trading, loan contracts and mortgages; payment products: transfers, payment machines and cheque payments

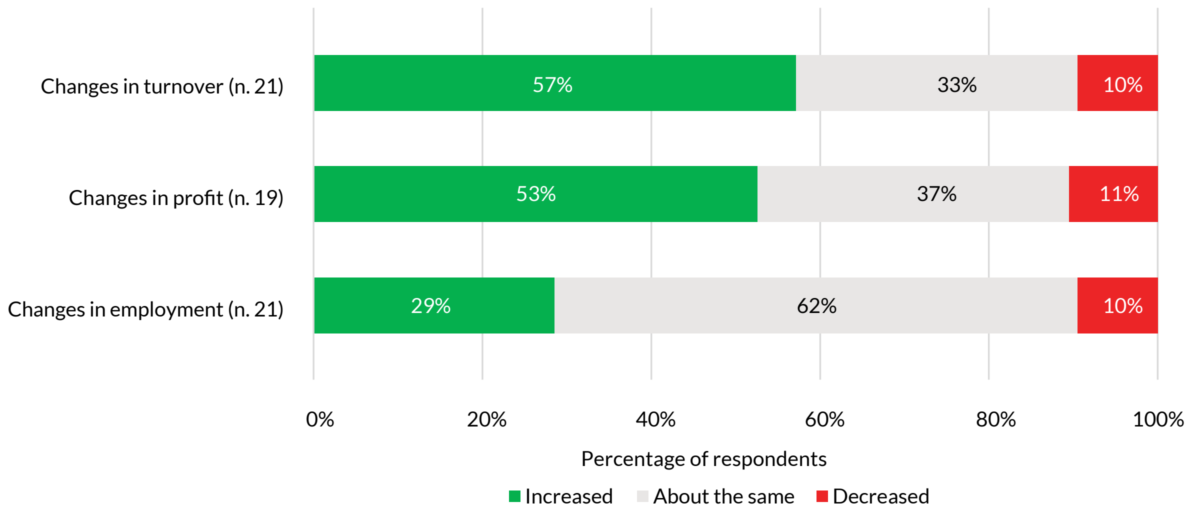
Figure 13.2.1 Top six decision-making factors: Chile



13.3. Outcome of funding: business and banking relationship changes

As shown in Figure 13.3.1, in Chile, 57% of MSMEs reported an increase in turnover after receiving funding. More than half reported an increase in profits and 29% had increased their number of employees. One in ten respondents reported decreases in turnover, profits and employee numbers.

Figure 13.3.1 Business changes since using the facility: Chile

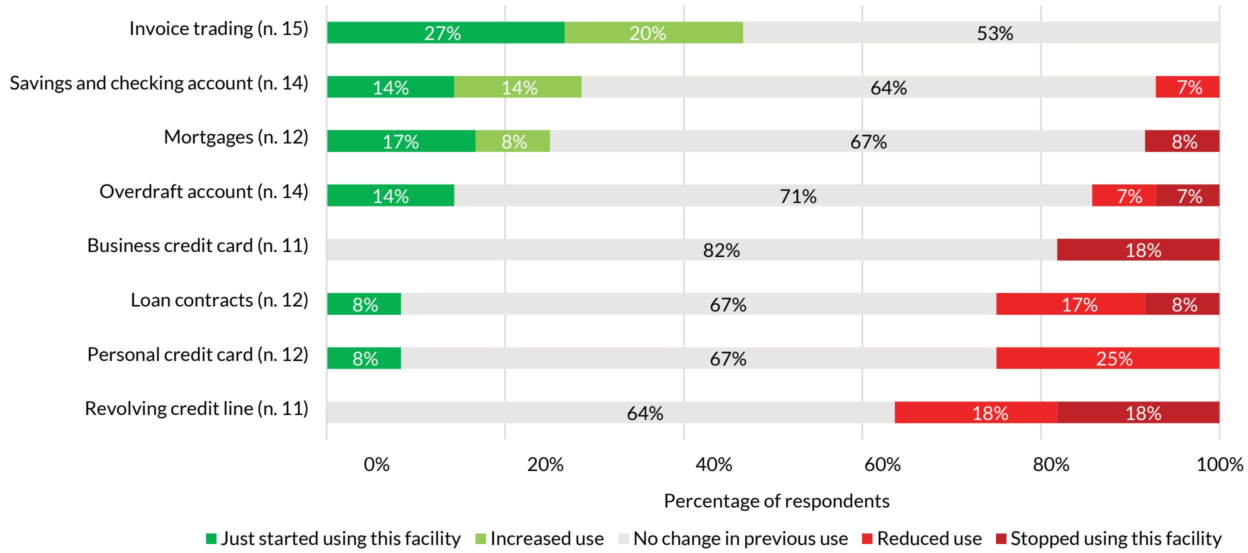


Regarding changes in the relationship between MSMEs and banking products, 36% reported they had decreased or stopped using revolving credit lines and for 64%, there was no change (see Figure 13.3.2).

Of those that had decreased or stopped using a certain product, one-quarter reported using personal credit cards less frequently and 18% stopped using business credit cards. For 82%, however, there was no change in how frequently they used business credit cards. In terms of loan contracts, 25% had decreased or stopped using them.

Among the MSMEs that reported using banking products more often, almost half reported just starting to use invoice trading options or using them more frequently, 28% used more savings and checking accounts, 25% were using more mortgage products or had just started using them, and 14% had just started using overdraft accounts.

Figure 13.3.2 Banking relationship impact: Chile



14. Country factsheet | Colombia

14. COUNTRY FACTSHEET | COLOMBIA

14.1. MSMEs and platforms: demographics and previous relationship with finance

In Colombia, 83 MSMEs from 14 different provinces participated in our survey. Antioquia was the area most represented, accounting for one-third of firms, followed by Bogota (23%), as shown in Figure 14.1.1. Most respondents (77%) were classified as micro enterprises according to revenue, 17% as small and 6% as medium, meaning that over 90% of the data set comprised smaller enterprises[xiv] (see Figure 14.1.2).

Figure 14.1.1 MSMEs in Colombia by department (n. 83)

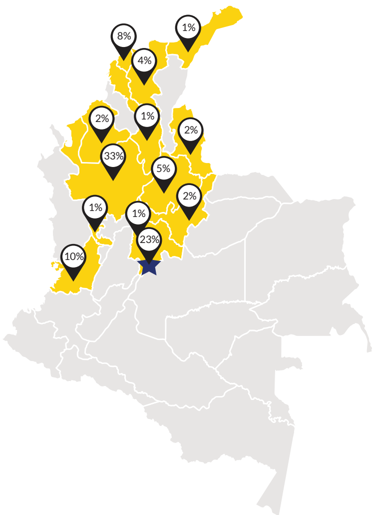
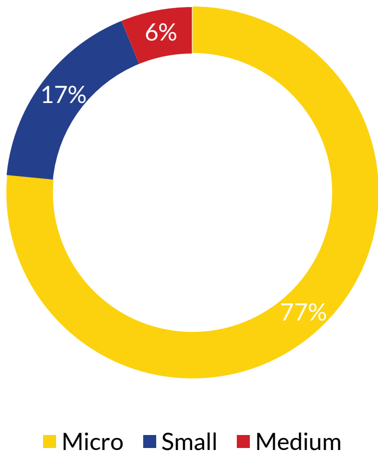


Figure 14.1.2 MSME size: Colombia (n. 81)



Regarding trading duration, three-quarters of Columbian respondents were mature companies that had been operating for more than three years (see Table 14.1.1). This suggests that alternative finance appeals to more mature businesses in Columbia as well as younger ones.

Table 14.1.1 Trading duration: Colombia (n. 83)

Years of operation	Count	Proportion (%)
<3	21	25
3–6	26	31
>6	36	44

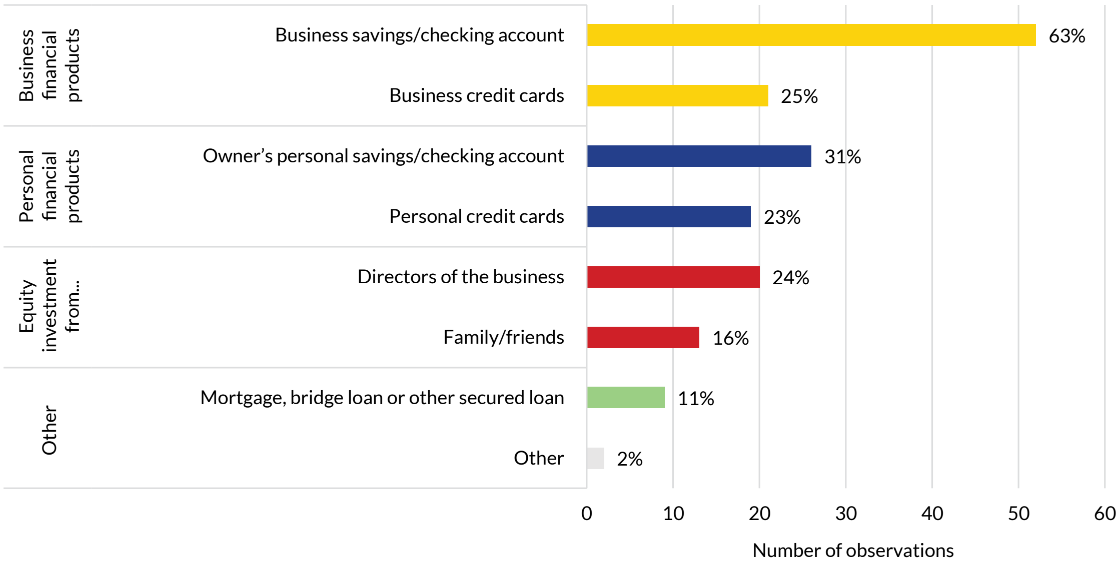
As shown in Figure 14.1.3, almost two-thirds (63%) of Colombian respondents used business savings or checking accounts, which can be linked to the maturity of a business, as most of the

MSME respondents from Colombia were mature businesses. Additionally, one-quarter reported using business credit cards, indicating significant use of business financial products, similar to the other countries sampled in LATAM.

Regarding personal financial products, the owner's personal savings or checking accounts were used by 31% of MSMEs and personal credit cards by 23%.

Among those MSMEs that opted for equity investments, 24% used equity or loans from the business directors and 16% turned to family and friends for credit.

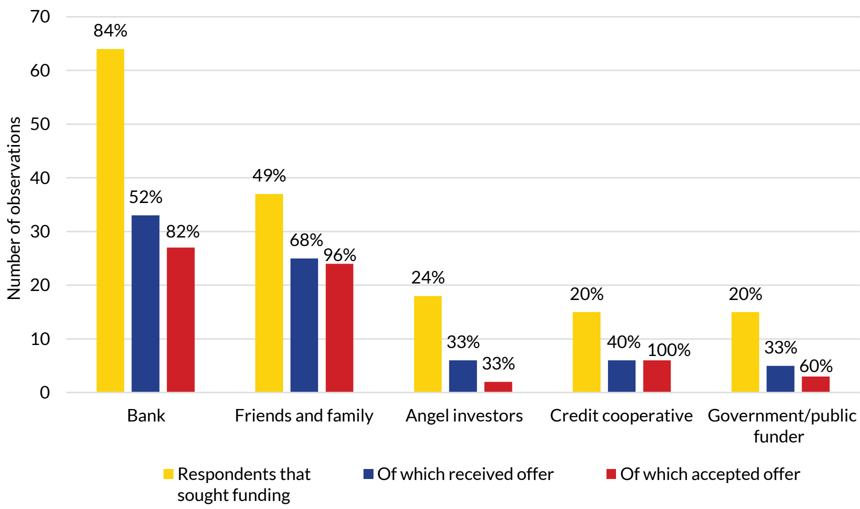
Figure 14.1.3 MSMEs' traditional finance facilitites use: Colombia (n. 83)



Before using a fintech to access funding, Colombian MSMEs approached a variety of other sources. Corresponding with the trend in LATAM, banks were the main option, with 84% of MSMEs seeking funding from this source, of which 52% received an offer and 82% accepted the offer, as shown in Figure 14.1.4.

Family and friends were the second most popular option, with almost half the Columbian MSMEs seeking funding from this source. Of those, more than two-thirds received an offer and 96% accepted the offer. Angel investors completed the top three funding sources: 24% of firms sought funding from this source, of which one-third received an offer and one-third accepted the offer.

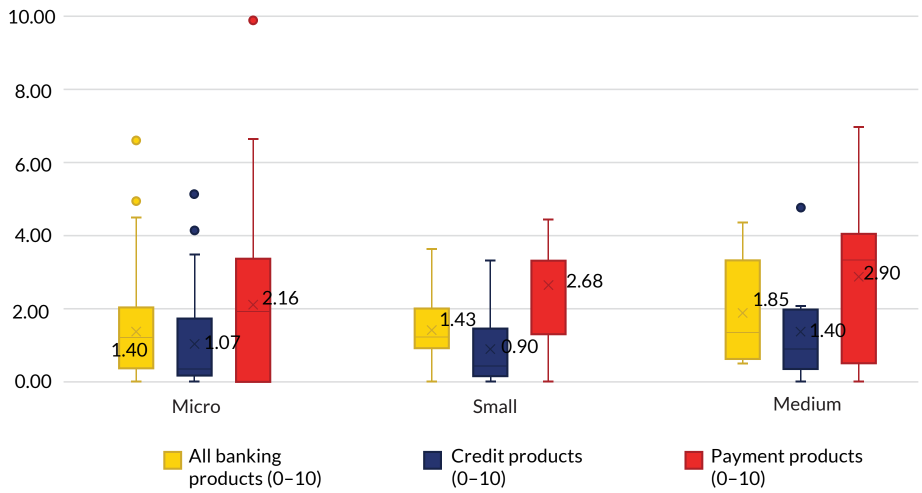
Figure 14.1.4 Top five previous fundraising activities: Colombia (n. 76)



Frequency of banking product use

Regarding the frequency of banking product use, it is worth noting that all categories of firms used payment products twice as much as credit products.[4] Overall, the larger the business, the greater the use of banking products. However, micro enterprises used credit products more than small enterprises (see Figure 14.1.5).

Figure 14.1.5 Business size vs intensity of banking products use: Colombia

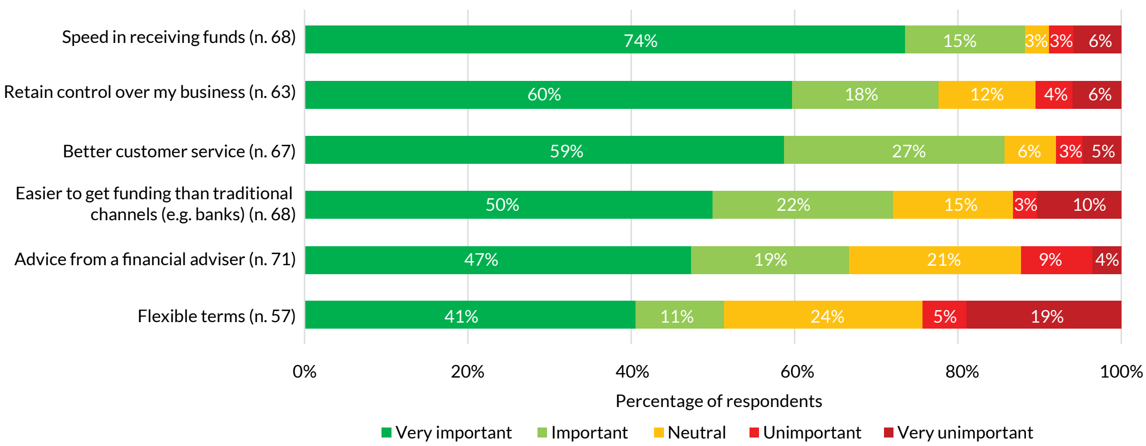


14.2. Funding experience: purpose, amount and decision-making factors

Working capital was the main reason that respondent Colombian MSMEs sought funding (80%). The remaining 18% used the funding to purchase an asset, expand/grow or refinance existing debt (6% each).

As shown in Figure 14.2.1, the top five decision-making factors for using alternative finance platforms were speed in receiving funds (94%), retaining control over the business (91%) and better customer service (83%). Additionally, half the respondents cited not being able to get funding elsewhere as an important decision-making factor.

Figure 14.2.1 Top six decision-making factors: Colombia



After excluding outliers, MSMEs in Colombia borrowed an average of USD21,521, which is unsurprising when considering the predominance of micro enterprises in the sample. The

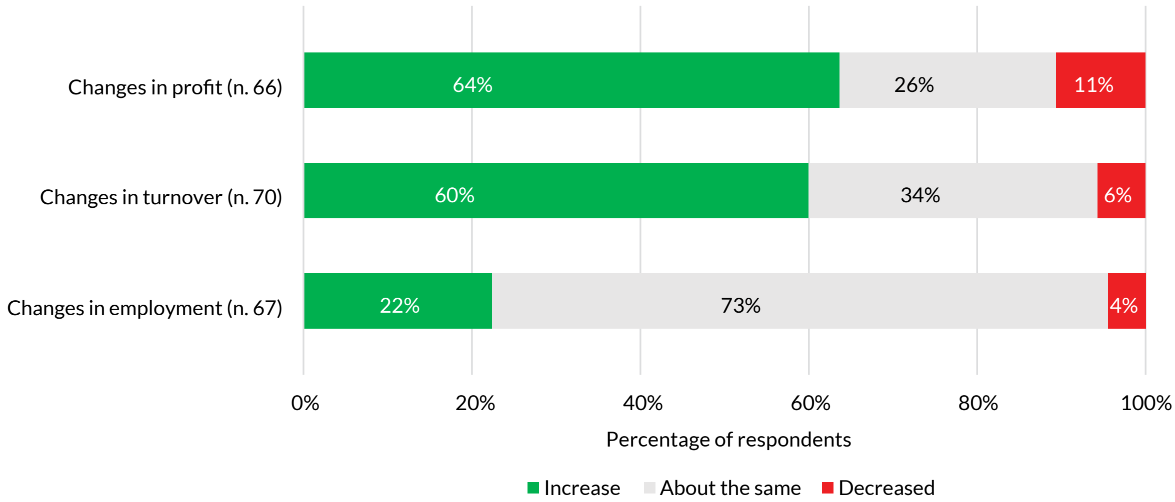
[4]Credit products: business credit cards, personal credit cards, revolving lines of credit, overdraft accounts, invoice trading, loan contracts and mortgages; payment products: transfers, payment machines and cheque payments

amount is similar to that borrowed by other countries in the region. When comparing the amount borrowed with size, the trend was that the larger the business, the greater the amount borrowed: micro enterprises borrowed USD17,040, small enterprises USD45,295 and medium enterprises USD271,935, on average.

14.3. Funding outcomes: business and banking relationship changes

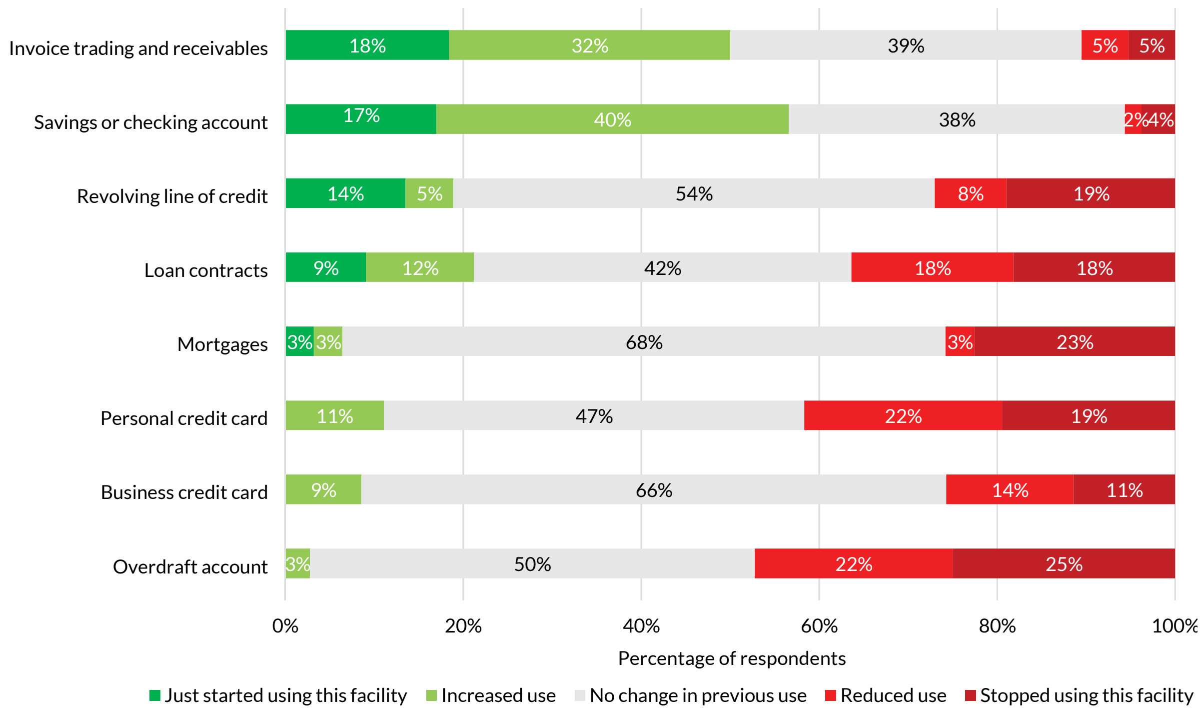
More than 60% of firms reported an increase in profit and turnover after receiving funding. One in five reported an increase in employment (see Figure 14.3.1). None of the firms that sought funding to expand/grow or purchase an asset reported a decrease in these indicators.

Figure 14.3.1 Business changes since using the facility: Colombia



After using an alternative finance platform, more than one-third of MSMEs reported having decreased or stopped using overdraft accounts. More than half increased or started using a savings or checking account. The purpose of seeking funding did not influence the changes in banking products used (see Figure 14.3.2).

Figure 14.3.2 Banking relationship impact: Colombia



15. Country factsheet | Mexico

15. COUNTRY FACTSHEET | MEXICO

15.1. MSMEs and platforms: demographics and previous relationship with finance

Regarding geographical distribution, 36% operated in the capital, Mexico City (see Figure 15.1.1). As shown in Figure 15.1.2, of the 70 Mexican MSMEs that participated in the survey, 42% were micro, 45% small and 11% medium enterprises.[xv] Most respondents (44%) were mature businesses that had been operating for more than six years (Table 15.1.1).

Figure 15.1.1 MSMEs in Mexico by state (n. 70)

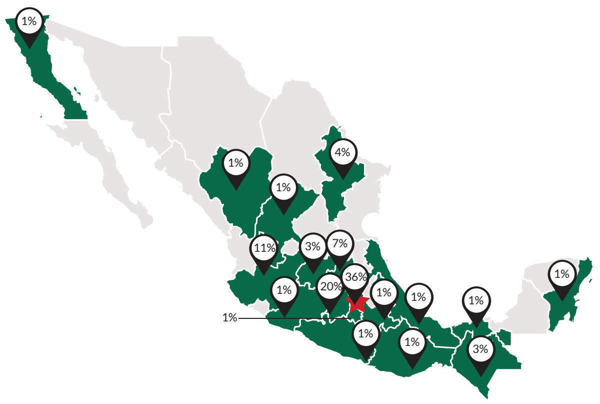
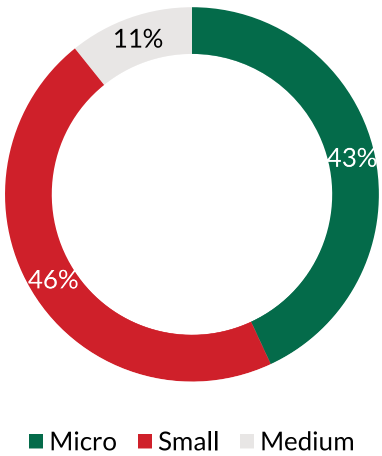


Figure 15.1.2 MSME size (TEC criteria): Mexico (n. 65)

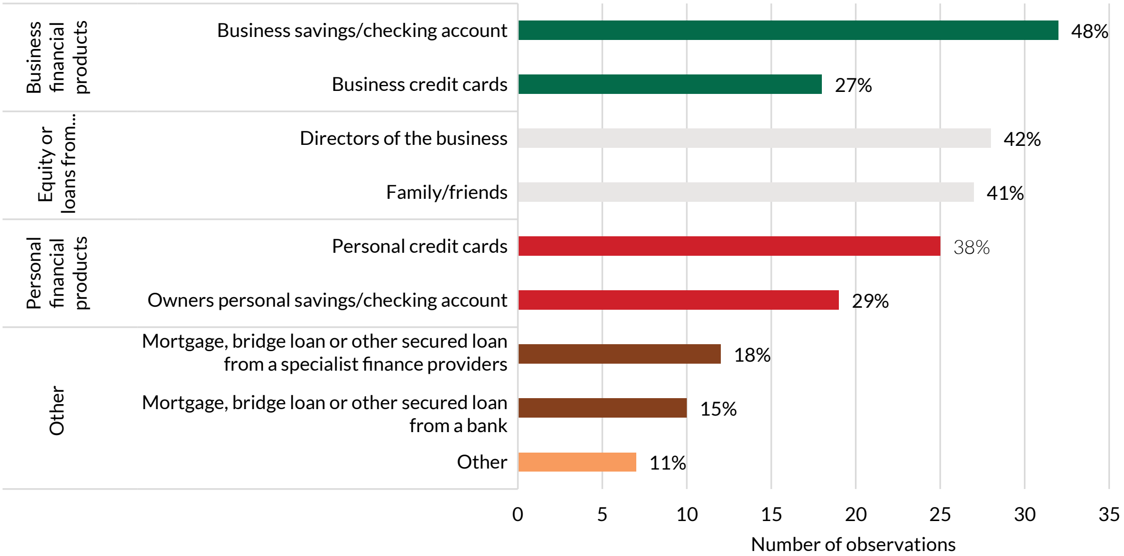


Regarding the types of finance facilities used by Mexican MSMEs, business savings and checking accounts were deemed important: 48% of respondents reported using them at the time of the survey. This was followed by equity or loans from the business' director (42%), and family and friends (41%). Interestingly, a higher percentage of respondents (38%) reported using personal credit cards for the business compared to those that used business credit cards (27%), as shown in Figure 15.1.3. This is in contrast to other countries in LATAM where business cards were more frequently used by MSMEs.

Table 15.1.1 Trading duration MSMEs: Mexico (n. 70)

Years of Operation	Count	Proportion (%)
<3	23	33
3–6	16	23
>6	31	44

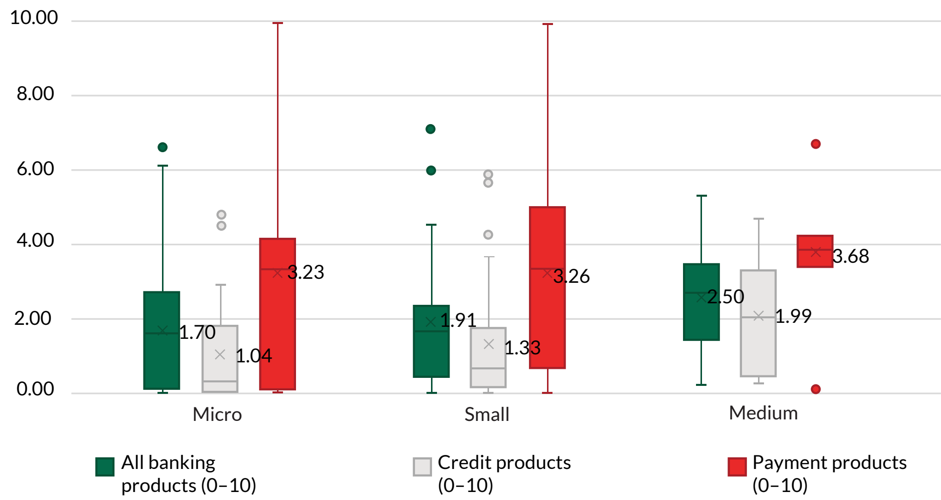
Figure 15.1.3 MSMEs' traditional finance facilities use: Mexico (n. 66)



Frequency of banking product use

As shown in Figure 15.1.4, in terms of banking product use, respondent MSMEs used payment products more frequently than credit products.[5] And similar to other countries in LATAM, the larger the business, the greater the frequency of use.

Figure 15.1.4 Business size vs intensity of banking products use: Mexico (n. 63)

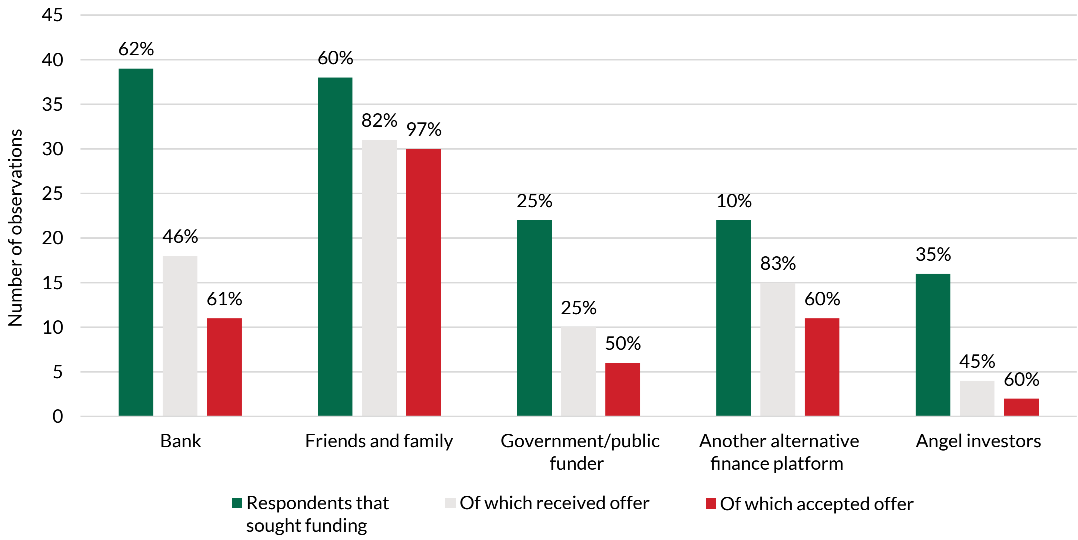


In terms of previous fundraising activity, banks were the most popular source: 62% of respondents reported approaching them for funding. However, only 46% of those firms received an offer and 61% accepted the offer. Friends and family were the next sources most approached. Of the 60% of respondents that asked for funding from family and friends, 82% received an offer and 97% accepted the offer, meaning this source has the highest offer and acceptance rate.

One in ten MSMEs sought funding from other fintechs. Angel investors were approached for funding by more than one-third of MSMEs, 45% of which received an offer. The results indicate that funding sources other than those that are debt-based are growing in popularity. These statistics are summarized in Figure 15.1.5.

[5]Credit products: business credit cards, personal credit cards, revolving lines of credit, overdraft accounts, invoice trading, loan contracts and mortgages; payment products: transfers, payment machines and cheque payments

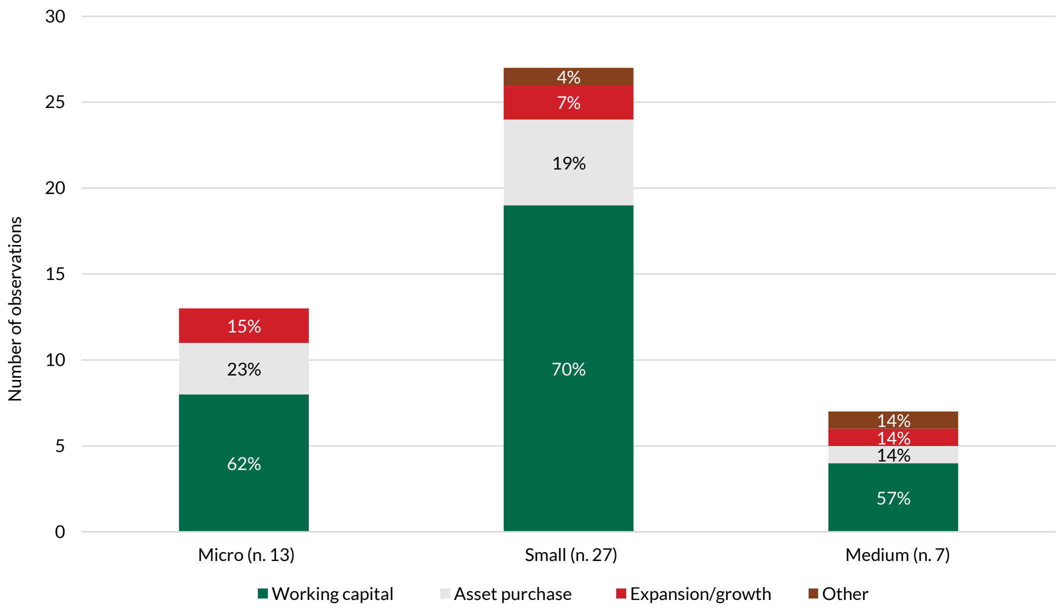
Figure 15.1.5 Top five previous fundraising activities: Mexico (n. 63)



15.2. Funding experience: purpose, amount and decision-making factors

As shown in Figure 15.2.1, working capital was the main purpose of funding for 66% of MSMEs, followed by purchasing an asset (19%) and expansion/growth (11%), regardless of size.

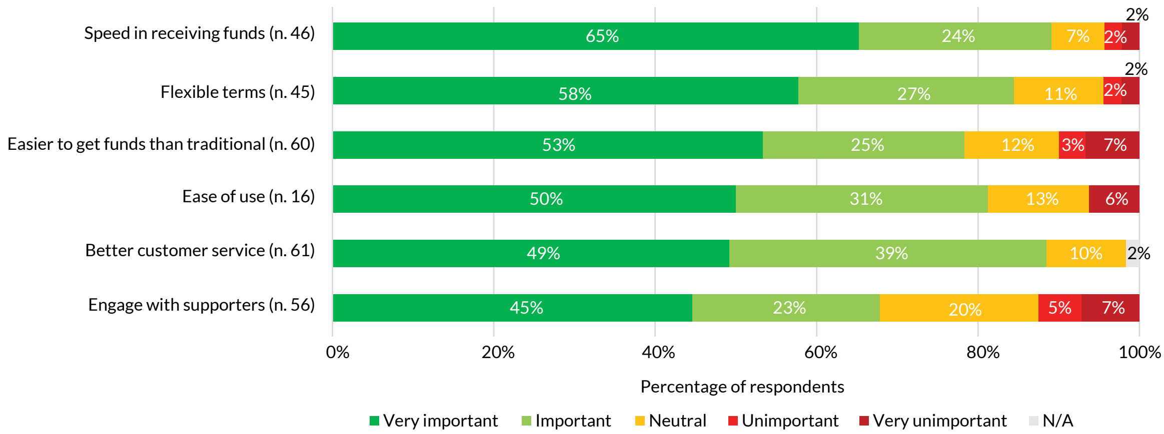
Figure 15.2.1 Funding primary purpose vs size: Mexico (n. 47)



Speed of funding, quality of customer service, flexibility of funding terms and ease of use were the most important factors for MSMEs when choosing which funding platform to use. Of note, 78% of MSMEs found it easier to get funding from a platform than from traditional finance, as shown in Figure 15.2.2.

The inability to secure funding elsewhere was also an important decision-making factor for 57% of MSMEs. This percentage is higher than the regional average and points to the role played by alternative finance in expanding the access to funding for Mexican MSMEs and improving its quality.

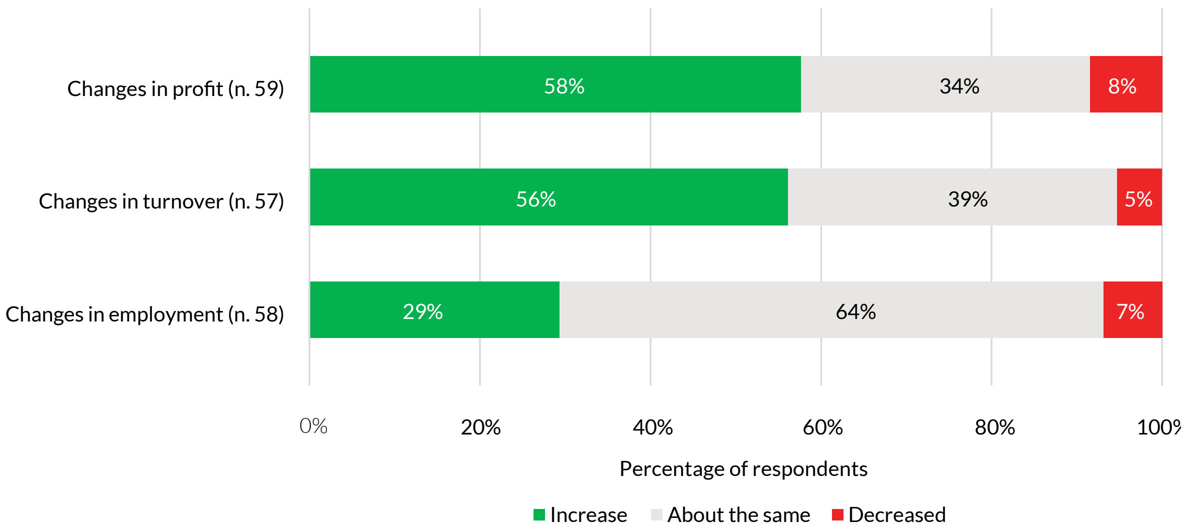
Figure 15.2.2 Top six decision-making factors: Mexico



15.3. Funding outcomes: business and banking relationship changes

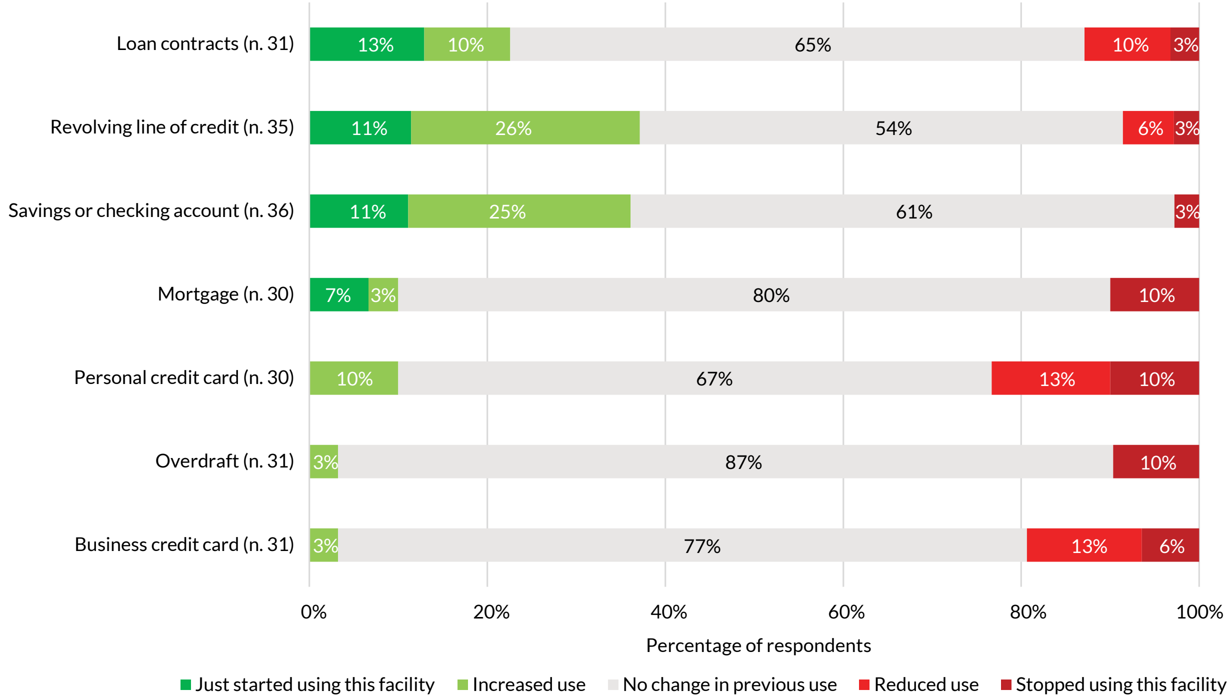
As shown in Figure 15.3.1, more than half the Mexican firms reported increases in both profit and turnover, and employment increased in one-third of respondent MSMEs since receiving funding.

Figure 15.3.1 Business changes since using the facility: Mexico



Banking relationships among the Mexican MSMEs remained largely unchanged after receiving funding. However, it is worth noting that one-quarter of respondents started using savings or checking accounts, and 23% reported decreasing their use of or stopping using personal credit cards. Twenty-three percent started using or increased their use of loan contracts with banks (see Figure 15.3.2).

Figure 15.3.2 Banking relationship impact: Mexico



16. Country Factsheet | Peru

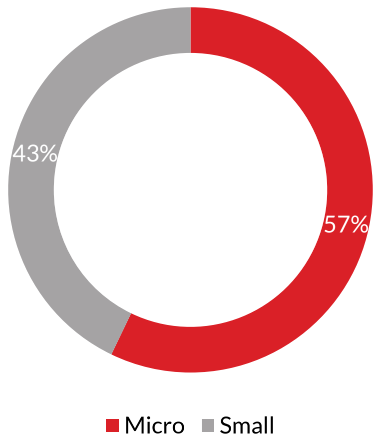
16. COUNTRY FACTSHEET | PERU

16.1. MSMEs and platforms: demographics and previous relationship with finance

As shown in Figure 16.1.1, all Peruvian respondents were located in the capital, Lima. In terms of business size, 57% of respondents were micro enterprises and 43% small enterprises (see Figure 16.1.2), based on the Peruvian MSMEs classification by revenue.[xvi]

Figure 16.1.1 MSMEs in Peru (n. 7)

Figure 16.1.2 MSME size (by revenue): Peru (n. 7)



As shown in Figure 16.1.3, respondents used business financial products (71%) slightly more than personal financial products (57%). This finding may be related to how long these MSMEs had been in operation as 86% of them were mature enterprises trading for more than six years. As with other countries in this study, the most used financial product by Peruvian MSMEs for business activities was business savings accounts. However, this was followed by personal credit cards, indicating that MSMEs resorted to using this personal financial product to access credit.

Regarding previous fundraising activities, the most sought-after source of funding was banks (71%). This is similar to findings from other countries in the region. Of those, more than half received an offer and one-third accepted the offer. The next two most popular funding sources were angel investors (57%) and the government or a public funder (57%). A smaller proportion of MSMEs received offers from these sources compared to banks (see Figure 16.1.4).

Figure 16.1.3 MSMEs' traditional finance facilities use: Peru (n. 7)

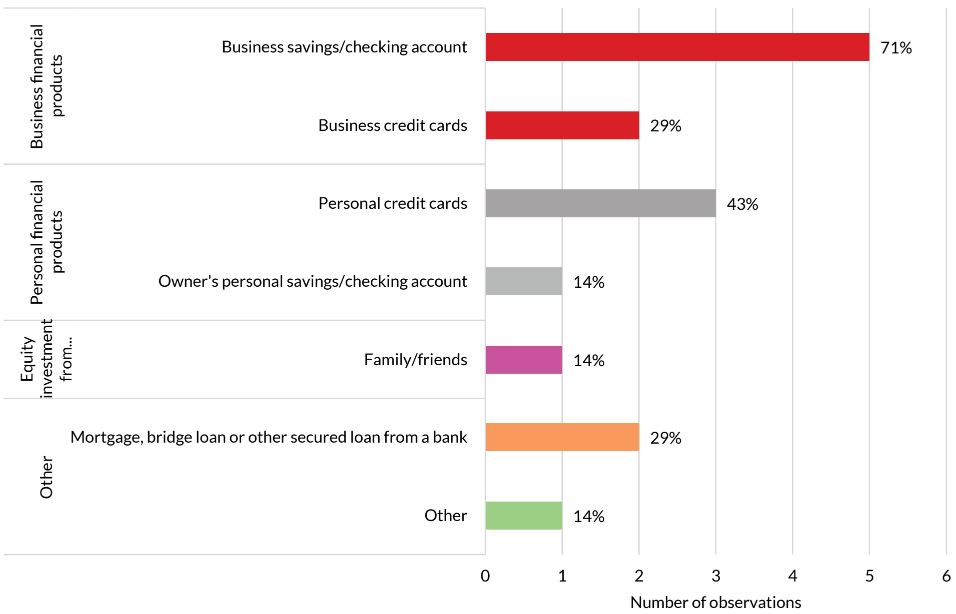
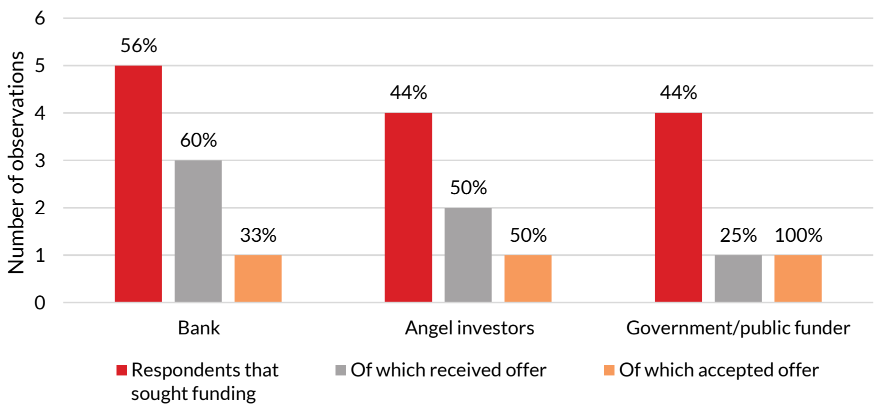


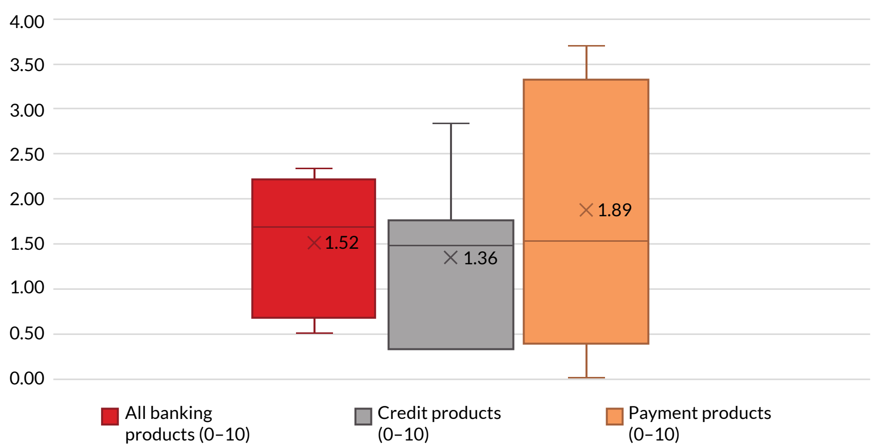
Figure 16.1.4 Top three previous fundraising activities: Peru (n. 7)



Frequency of the banking product use

As shown in Figure 16.1.5, respondent Peruvian MSMEs used payments products more frequently than credit products, which is similar to other countries in LATAM.[6]

Figure 16.1.5 Business size vs intensity of banking products use: Peru

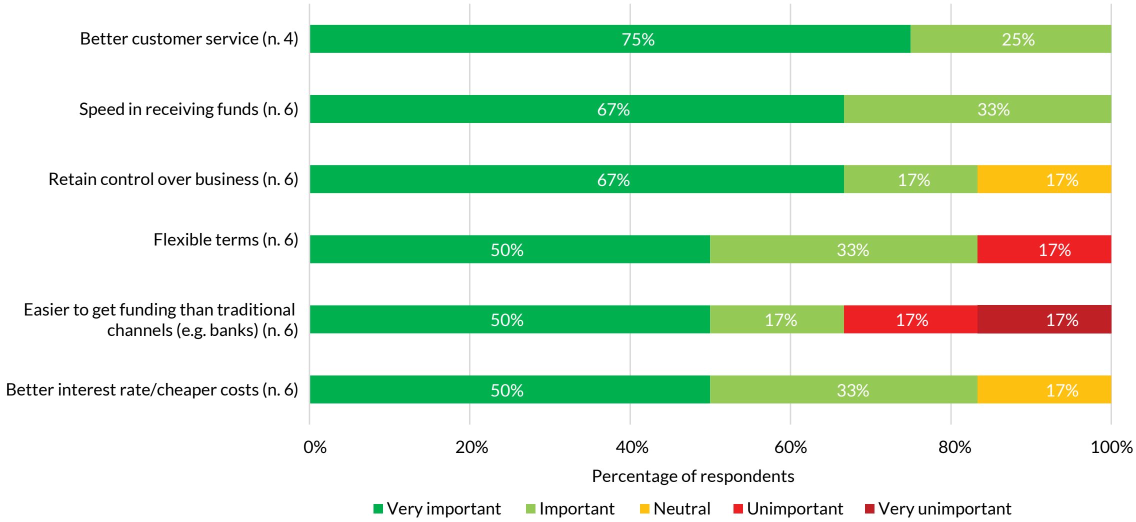


[6]Credit products: business credit cards, personal credit cards, revolving lines of credit, overdraft accounts, invoice trading, loan contracts and mortgages; payment products: transfers, payment machines and cheque payments

16.2. Funding experience: purpose, amount and decision-making factors

Figure 16.2.1 shows the responses given by MSMEs when asked about the factors that influenced their decision to seek funding through an alternative finance platform. Better customer service was deemed the most important by 75% of respondents, followed by speed of receiving funds (67%), both factors being related to the service itself. Retaining control over the business was considered very important by 67% of respondents.

Figure 16.2.1 Top six decision-making factors: Peru

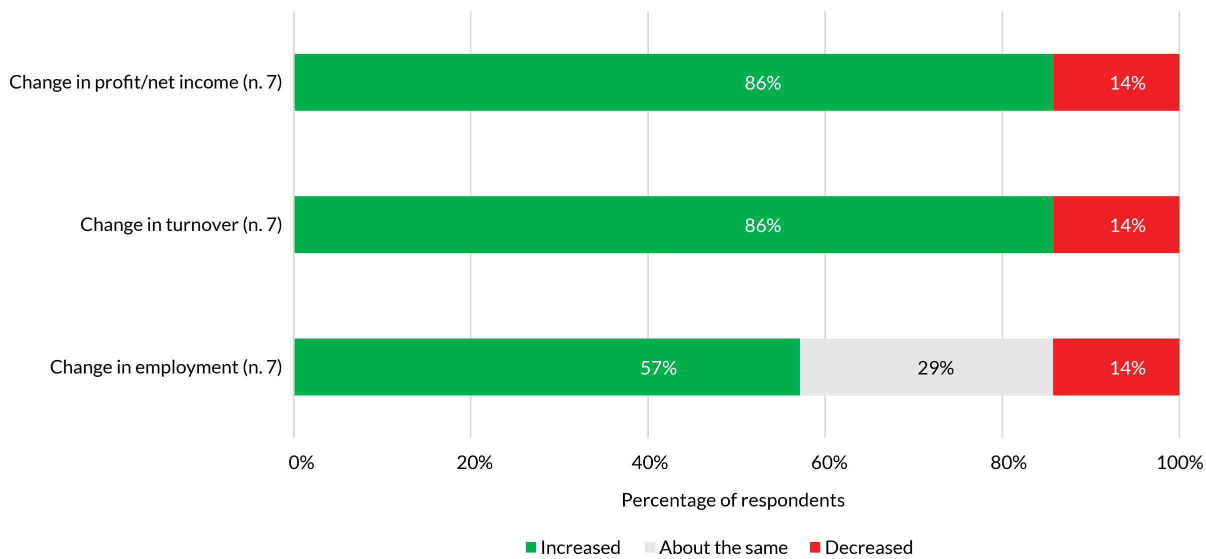


The main reason for seeking funding was working capital, with 57% of respondents indicating this as their primary purpose, mainly through an invoice trading platform. The average amount raised by Peruvian MSMEs through alternative finance was USD56,031, micro enterprises raised an average of USD33,628 and small enterprises USD78,434.

16.3. Funding outcomes: business and banking relationship changes

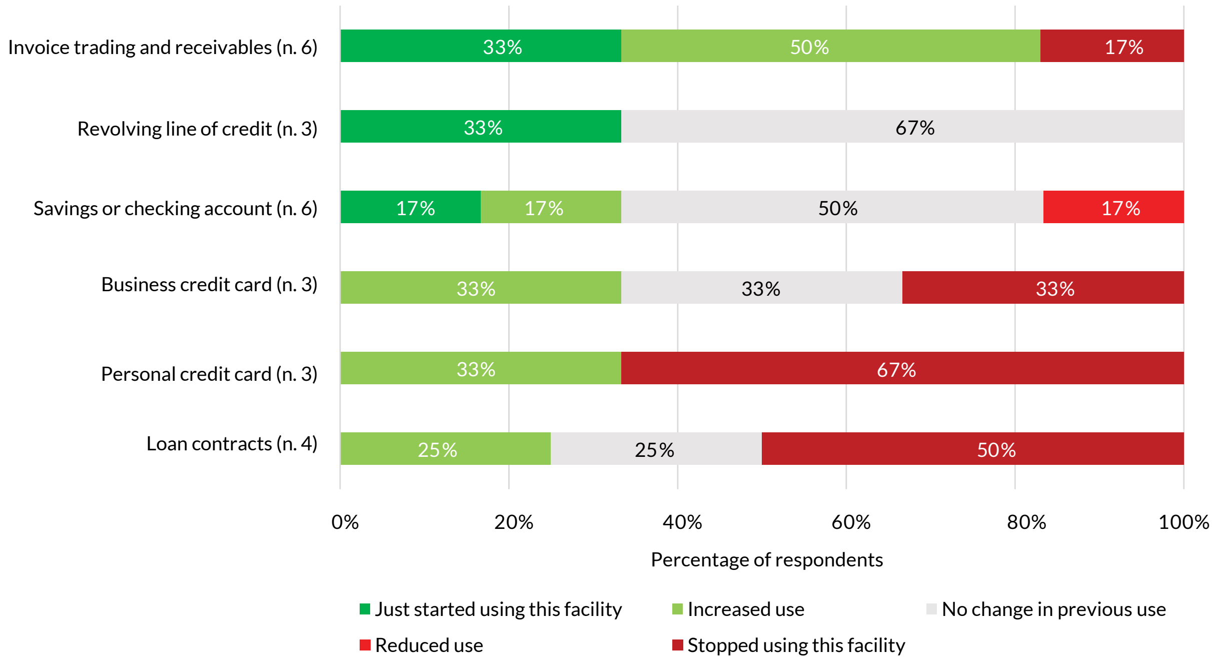
Overall, respondent MSMEs observed a positive impact on their business after receiving funding: 86% reported an increase in net income and turnover, and 57% in employment (see Figure 16.3.1).

Figure 16.3.1 Business changes since using the facility: Peru



In terms of how funding had affected their banking relationships, 33% indicated they had just started using invoice trading services, one-half were using them more often and 17% had stopped using this facility. Some respondents reported they had stopped using personal credit cards and loan contracts (see Figure 16.3.2).

Figure 16.3.2 Banking relationship impact: Peru



17. CURRENT REGULATIONS OF ALTERNATIVE FINANCE IN LATIN AMERICA AND THE CARIBBEAN

This section describes the current status of alternative finance regulations across Latin America and the Caribbean. We use the terms 'alternative finance' and 'crowdfunding' interchangeably because of the subtle differences in meaning policymakers in the region attribute to the terms. Below is a compilation of the regulations and rules that currently govern alternative finance in LATAM, country by country. We decided to also include the largest markets in the region as well as those analyzed in this study for a amore holistic view. Therefore, this section describes region's administrative Act and issuers, and their main characteristics, definitions for alternative finance/crowdfunding, minimum capital requirements to be classed as a firm, limits for numbers of investors and size of investments, among others. Chile was left as a final case study because, when this report was written, its regulation was a Bill passed for approval by their National Congress. You can access a map containing the references to regulations and rules at: https://www.iadb.org/es/sectores/iniciativas/digital-finance-innovation/fintechregmap. Besides alternative finance, the map includes information about other fintech segments such as cryptoassets, fast retail payments Systems, open finance, trading and robo-advisers. The map also contains information about innovation hubs and regulatory sandboxes in the region.[xvii]

17.1. Argentina

The Entrepreneurial Capital Support Law, *Law No. 27,349*, issued by the *Argentine National Congress in 2017*, created the Collective Financing System (CFS) and provided essential descriptions of how it should be implemented.[xviii] According to the Law, the CFS aims to promote the financing of the venture capital industry through capital markets. Defining the whole system in this way differentiates the Argentinian regulation from those of other countries in the region. The system comprises collective financing platforms (CFPs) under the National Securities Commission (CNV) oversight which manages their registration and licensing. Firms must contact 'entrepreneurs', persons or enterprises requesting resources, and investors seeking to fund projects, through digital platforms. The provisions outlined in the Law allow the development of collective financing activities through capital markets (equity financing).

Subsequently, CNV published in January 2018 the *General Resolution No. 717*,[xix] creating rules for the CFS and platforms. The Resolution defined general dispositions and specific requirements for CFP licensing and registration, including:

- governance
- minimum capital
- consumer protection and risk disclosure instructions
- specifying commissions and fees
- the type of investors who could access the platforms.

Several characteristics differentiate the Regulation from others. First, the Resolution states that CFP operations are not a public offering in the capital markets and, consequently, the operations are not subject to review under the CNV powers, and the requirements and demands of the initial public offerings (IPOs) regime do not apply.

On the other hand, the minimum capital required for registering a CFP is ARS250,000[xx] (USD 2,433).[xxi] Note that civil or administrative protection insurance is not an alternative to minimum capital in Argentina as it is for other jurisdictions in the region. In terms of investment, the maximum amount for a single project subscription is ARS20 million (USD194,704), and its exposure time on the platform can range between 30 and 180 days. However, a time extension of 20% is possible as long as no more than 80% of the original time proposed has elapsed.

There are also rules that apply to investors. Of significance is the maximum investment permitted per investor which, according to the Resolution, is 5% of the total issuance amount or ARS20,000 (USD195), whichever is the lesser. The 5% limit applies to qualified investors with no limits in Argentine pesos. Additionally, the rule enables a secondary market for spot operations.

It is crucial to point out that CFPs should establish themselves as corporations under the *General Companies Law, Law No. 19,550.*[xxii] As such, platforms require a social statute, administrative bodies and governance. Additionally, the mandates include an organizational chart, clear definitions of the platform's functions and an operations manual. The regulation's emphasis on consumer protection is noted in the requirements for investors to disclose risks, projects selected and investments procedures.

The rules of conduct that platforms must abide by include transparency and objectivity, avoiding and reporting potential conflicts of interest concerning platform administrators, establishing risk management procedures and policies, and observing regulations.

In summary, the Argentinian regulation focuses on equity crowdfunding under the collective financing system formed by collective financing platforms. Platforms have minimum capital and companies' requirements to comply with, and there are also rules for investors.

17.2. Brazil: equity crowdfunding

Brazil became the region's pioneer in regulating fintech activities in 2017 when it set forth a standard for equity crowdfunding. Of note, is the fact that the local regulation is divided into equity (analyzed in this subsection) and debt instruments (detailed in the next subsection), as per Brazil's legal and institutional architecture. The capital markets regulator, Comissão de Valores Mobiliários (CVM), regulates equity crowdfunding, while Central Bank of Brazil (BCB) regulates debt crowdfunding. Hence, the CVM issued *Instruction CVM 588* in July 2017 regulating small-sized companies' initial public offering of securities an electronic participative investment platform (EPIP).[xxiii] The CVM is responsible for registering and licensing EPIPs to professionally carry out the activity of public offerings of securities issued by small sized companies. This particular regulation aims to allow small-sized companies access to funds through a regulated market. The platforms trade securities issued electronically and, like other regulations, there are no provisions for a secondary market. In April 2022, the CMV introduced a series of reforms to the equity crowdfunding regime to make it more flexible through *Resolution CMV 88 of 2022* which replaced *instruction CMV 588 of 2017*. Under the 2022 reforms, resales are allowed through securities platforms.

The minimum capital requirement for EPIPs to start operations is BRL 200,000[xxiv] (USD35,800).[xxv] On the other hand, as in other jurisdictions, there is a maximum financing amount of BRL15,000,000.00 (USD2,688,000) with a financing period that must not exceed 180 days. These terms should be defined before the offering is published on the website where the offering occurs. For investors, the maximum amount an individual can invest is BRL20,000 (USD3,600) per year. However, there are exceptions for a particular category called 'leading investors' and 'qualified investors' (discussed later). This category of investors can invest up to 10% of their annual gross income or their total financial investments, whichever is the largest amount.

The offerings in the platforms should disclose comprehensive information to potential investors regarding the economic sector of the enterprise wishing to issue equity, its key executives, number of employees, financial statements, business plan details, potential allocation of the funds collected, applicable taxation and risks, among others. A remarkable highlight of the requirements is that EPIPs must publish an investment contract describing the terms of the issuance, the deadline for investment and information after the IPO closes. Furthermore, the regulatory framework prohibits platforms from managing resources discretionarily, brokering and safeguarding securities, and promising returns.

The Resolution also regulates the role of the leading investor who, together with the project promoter, presents information to potential investors about the undertakings to reduce information asymmetries. The leading investor can act as a liaison between the project and investors, charging a commission under certain conditions.

17.3. Brazil: loan crowdfunding

As previously mentioned, BCB regulates debt crowdfunding in Brazil. These regulations cover two types of institutions: direct credit societies (DCSs) and P2P loan companies (SEPs).

Direct credit societies

DCSs are financial institutions supervised by the BCB. They carry out lending operations and financing, and acquire credit rights exclusively through an electronic platform. The only source of capital is their financial resources (which could be categorized as balance sheet loans). DCSs also offer risk analysis and collection services to third parties, and provide offerings for insurance, payments and electronic money services.[xxvi] DCSs must select potential offerings for funding based on verifiable and transparent criteria, covering aspects related to assessing credit risks, degree of indebtedness, ability to generate cash flows and credit limit. The DCS can also sell or assign credit to financial institutions, sell investment funds for qualified investors and securitize companies.

P2P loan companies

SEPs have a different purpose from DCSs: they carry out lending and financing operations between peers exclusively through an electronic platform. However, they are authorized to carry out the same activities as DCSs, except for selling or assigning credits to third parties. Creditors include natural persons, financial institutions, and investment funds for qualified investors and securitization companies. Debtors may be natural or legal persons resident and domiciled in Brazil. The regulation allows SEPs to issue representative credit instruments solely or group them with other issuers. The credit instruments must clearly state lending conditions, expected rate of return (if it is a fixed-income instrument), duties of creditors and debtors, and that the SEP does not grant any guarantee or collateral. The information that SEPs must provide to financial consumers includes a breakdown of the factors that make up the expected return and the risks incurred when investing in debt instruments.

The regulation forbids some activities for SEPs. Some of the more significant ones include:

- funding operations with their resources (it is considered a financial intermediation activity)
- granting guarantees for loans
- using resources from debt operations
- keeping resources in the company's accounts.

Finally, it is also important to highlight that a risk concentration rule applies. Within an SEP, each loan's creditor and its financing operation may not sign a contract with the same debtor when the joint operation's nominal value exceeds the maximum limit of BRL15,000.00 (USD2,688).

Provisions applicable to both models

DCSs and SEPs must maintain a minimum capital (shareholders' and liquid equity of BRL1 million (USD179,200)). Both licenses are subject to authorization criteria that include the legal incorporation of a company and disclosure about beneficial owners and their business relationships. On the other hand, licensing requirements include stating the legal type of company asking for the licensing, services offered, a business plan for the target audience, differences with potential competitors and the technology used. The regulation also contains the procedures for liquidation and resolution of the company. It is relevant to note that the rule does not regulate the secondary market for contracts issued by either company.

17.4. Colombia: debt and share capital

Colombia has issued three administrative acts to regulate alternative finance. It is an example of how the regulation has adapted to evolving markets. The first act was published in 2018 and focused on regulating the activity of collaborative financing through securities, including debt and equity.[xxvii] The second, issued in 2019, modifies the original regulation and follows an approach based on regulatory proportionality for establishing operational requirements, information requests, maximum financing amounts and the possibility of registering issued securities. Subsequently, the *External Circular 014 of 2021* issued guidelines regarding collaborative financing activities such as operations, internal controls, additional criteria for classifying productive projects and rules for executing other activities.[xxviii]

The activity of collaborative financing, as defined by the Colombian authorities, by securities occurs through electronic communications where, to determine a lucrative project to invest in, several 'contributors' contact 'receivers' who have requested funding. The collaborative financing platforms (CFPs) are the licensed companies allowed to perform the activity in Colombia. The regulation approves issuing securities representing both debt and equity. CFPs must be established as public limited companies and registered as such in the National Registry of Securities Market Agents, a repository administered by the Financial Superintendence of Colombia (SFC), the financial supervisor. These platforms are obliged to receive, classify, and publish productive projects electronically. They must also collect resources, which must be removed from the company's equity and placed in a financial institution subject to inspection and surveillance by the SFC. The Colombian regulation requires the approval of operational rules for the company similar to those needed for market infrastructures such as stock exchanges. No minimum capital is necessary for CFPs, unlike most regulations in the region.

In terms of monetary resources, there are several information requirements contained in the regulations that 'receivers' (the companies looking for capital) must abide by. The disclosure rules include certifying the legal incorporation of the enterprises, C-Suite and Directors' resumes, credit history reports (companies must also report to credit bureaus) and detailed descriptions for the projects. On the other hand, the maximum limit for each project is based on the current legal monthly minimum wages (SMMLV) and depends on the characteristics of 'contributors' (the investors). If the contributors are a mixture of qualified and unqualified investors, the limit is 58,000 SMMLV (USD14.8 million). However, if they are not qualified, the limit is 19,000 SMMLV (USD4.8 million). The projects have six months to estimate their business failure rate based on technical criteria.

Investors are classified as qualified or unqualified by applying specific standards and criteria. For qualified investors, these include demonstrable equity or portfolio higher than USD2 million and being certified by the self-regulatory body, among others. Unqualified investors may invest up to 20% of either their annual income or equity through companies, whichever is the largest amount.[xxix]

There are some other rules in the Colombian regulatory framework worth highlighting. First, advice, direct administration of resources and promise of expected returns are prohibited. Also, according to the regulation, companies must use clear, concise and non-technical language to describe projects. Still, there are several regulatory mandates regarding infrastructure, operational and cyber risks, resource management, and regulatory approval, among others.

Finally, the securities issued are called 'crowdfunding securities'. They do not constitute a public offering, and investors can sell them on a registration platform that each company can implement in over-the-counter (OTC) operations. However, the activity is not considered securities intermediation.

17.5. Mexico: broad crowdfunding

In 2018, Mexico issued the first-ever Fintech Law[xxx] involving mandates for more than one segment. The Law included segments such as crowdfunding, payments and virtual assets. Regarding crowdfunding, collective financing institutions (CFIs) are defined as financial technology institutions (FTIs) with a range of different categories with specific purposes:

- Equity collective financing
- Co-ownership or royalties
- Debt instruments for business loans between persons
- Debt of personal loans between persons
- Real estate financing

According to the regulation, crowdfunding aims to connect potential individual investors with collective financing institutions through electronic platforms. The institution in charge of authorizing, licensing, and supervising the activities of these FTIs is the Mexican National Banking and Securities Commission (CNBV). A Circular implements the Fintech Law for the authorization, licensing, and registration of CFIs. The Circular requires applicants to include information such as the type of operations to be licensed, a detailed business plan and operational risk mandates. Once the platforms are approved, their primary obligations include, among others:

- publishing the selection criteria of applicants and projects, as well as payment mechanisms for these and investors

- implementing measures to prevent the dissemination of false information
- valuing assets at market prices.

FCIs should establish business continuity plans responsibly based on a contingency procedure from the operational risk perspective. CFIs can carry out operations in foreign currency and virtual assets according to the regulations of the Bank of Mexico (Central Bank). Finally, it may be possible to establish a secondary market for the securities, critical for investors' liquidity.[xxxi]

TThe minimum capital required by CFIs operating in local currency is 500,000 investment units (UDI),[xxxii] approximately USD174,000. If the institution manages more than one type of license or transacts using a foreign or virtual currency, the minimum amount required increases to 700,000 UDI (USD243,000).[xxxiii]

The financial consumers are called 'investors' and 'applicants'. CFIs can be agents for their clients, in contrast to several other country regulations in the region. This means they can perform mandate contracts on behalf of investors, for instance. Therefore, platforms can use automatic ordering and trading systems. Table 17.5.1 summarizes the limits per operation imposed on applicants, given that they are varied and more complex than in other jurisdictions. The accrued amount of an applicant through one IFC cannot be greater than 7,370,000 UDI (USD2,560,000).

Table 17.5.1 Limits per operation: crowdfunding; Mexico

Model	Maximum limit	
	In UDI	In USD
Debt or personal loans between people	50,000	17,364,94
Corporate debt or personal loans, real estate, equity, co-ownership, and royalties	1,670,000	579,988.91
Special authorization	6,700,000	2,326,901,63

Note: MXN[xxxiv] to USD exchange rate = 20.47; UDI = 7.11

Source: Circular of Financial Technology Institutions, own calculations, 2021

The limits for investors are defined by this formula:

$$\text{Limit} = \frac{\text{NCI}}{\sum \text{IE} + \sum \text{CI} + \sum \text{NCI}} * 100$$

Where:

- NCI = investment commitments intended in the same financing request
- IE = effective investments previously made by the investor through the collective financing institution
- CI = investment commitments previously made in other financing requests by the investor through the collective financing institution

The limit must be less than or equal to the criteria in Table 17.5.2.

Finally, the charges and commissions must be stipulated in contracts, including those that apply to automatic mandates. Additional rules also elaborate on commitments to prevent money laundering and terrorist financing for platforms.

Table 17.5.2 Limits by types of investors: crowdfunding Mexico

Operation type	Natural person (%)	Legal entity (%)
Personal loan debt between people	7.5	20.0
Debt of business loans between persons or for real estate development	15.0	20.0
Capital, co-ownership or royalties	15.0	20.0

Source: Circular of Financial Technology Institutions, 2020

17.6. Peru: financial participatory financing

As one of the several measures to mitigate the effects of the Covid-19 pandemic, Peru issued an Emergency Decree to promote MSMEs, ventures and startups' financing, containing guidelines regarding 'participative financing' (PF) as alternative finance is referred to in Peru. PF activity is defined as one '... which through a platform contacts natural persons domiciled in the country or legal entities incorporated in the country who request financing on their behalf, known as Recipients, with a plurality of natural persons, legal entities or collective entities, known as Investors, who seek a financial return ....'[xxxv] The Peruvian taxonomy includes the types of financial and non-financial returns. The former, which we focus on here, contains two kinds of entities:

- Participatory financing for securities representing debt or capital, in which the recipients are the issuers
- Loans with recipients who are individual and legal persons

The 'lending' category has the authorization to issue financial instruments or securities.

The Superintendency of Securities Markets (SMV) has the powers to regulate the licenses. As such, this Peruvian financial watchdog is responsible for describing and implementing the authorization regime, minimum capital, services and obligations, prohibitions, and settlement and resolution procedures.

Hence, *Superintendent Resolution No. 045-2021-SMV/02*[xxxvi] established the requirements for developing the financial type of PF to promote the stock market's role in financing the corporate sector. To this end, participative financing platforms (PFPs) connect those enterprises searching for capital to potential investors. All activity carried out through the platform must be conducted in Peru, and the resources collected cannot be used to finance third-party projects.

The minimum capital requirement is equivalent to PEN300,000.00 (USD75,500). It is essential to highlight that the regulation requires net equity for the platforms to equal or be larger than the minimum capital. The requirement is incremental: net equity should not be less than 70% and 80% of the minimum capital during the first and second years of operation.

On the other hand, there are also rules for investors. The maximum investment amounts are expressed in tax units (UIT), an index used to apply sanctions and establish limits, among other tax aspects. These UIT limits were converted into dollars for comparison purposes as shown in Table 17.6.1.[xxxvii]

Table 17.6.1 Limits on financing and participation per investor: crowdfunding Peru

Model	Maximum limit	
	In UIT	In USD
By project amount		
Personal projects	50	55,352.87
Business projects	500	553,528.75
By amount received by the receiver:		
Recipient natural person	100	110,705.75
Recipient legal entity	750	830,293.12

Exchange rate (PEN[xxxviii]/USD)	3.97
UIT (in soles)	4,400

Source: Superintendent Resolution No. 045-2021-SMV/02, own calculations, 2021

Additionally, investments by a non-institutional investor may not exceed 20% of the total amount of a project. Also, during the previous 12 months of any investment, the investor should not put more than 20% of their annual income or total equity, whichever is larger. On the other hand, institutional investors do not abide by such requirements, but a diversification rule applies: a single institutional investor cannot be the sole funder of a project. PFPs are allowed to set lower limits if their risk appetite determines it.

Some prohibitions apply to PFPs, such as managing investor funds, granting credits, offering financial advice and participating as investors or recipients in projects through their platforms. An exception to the last prohibition is the participation as an investor in projects offered on their platforms if their participation is less than or equal to 10% of the financing amount and there is subordination in the repayment of the principal plus the financial return compared to other investors.

17.7. Chile

IIn September 2021, Chile published a specific bill for alternative finance. According to message No. 172-369 of the Presidency of the Republic of Chile, the Fintech Bill seeks to encourage financial inclusion and competition through innovation and technology by providing financial services. This Bill was supported by the Inter- American Development Bank and is currently passed for approval in the Chilean Congress.

The Financial Market Commission (CMF), the Chilean financial watchdog, will have the power to regulate multiple equity and debt models, as per the Bill. The Bill is built under the idea of a principle-based and proportional regulation. The regulatory burden of the platforms will depend on the services offered such as credit advice, custody of financial instruments, investment advice and routing of orders. The higher the platform's risk, the higher the amount of capital required.

As per the Bill, legal persons providing online financial services shall:

- have the mandatory systems in place to comply with information and dissemination obligations
- comply with the requirements regarding risk management and corporate governance
- have the ability to process transactions made in their systems.

Once a certain turnover is reached, platforms must have capital equal to or larger than 3% of the risk-weighted assets or 5,000 development units (UF),[xxxix] approximately USD182,000.[xl] IIf the entity has poor risk management, this percentage may increase to 6%, according to the CMF.

The Bill establishes a registration obligation to provide the services in the Registry of Financial Services Providers. However, the general rule allows the CMF to set less burdensome forms of compliance or exempt certain technological and financial services providers from complying with specific requirements. The latter offers some flexibility in the entry of new market participants and possible developments generated in different technological services.

17.8. Crowdfunding regulations in Latin America and the Caribbean: a comparison

Tables 17.8.1 and 17.8.2 compare the main characteristics of the different regulatory models of crowdfunding in the region. This regulatory comparison summary uses CCAF's taxonomy (2020) to determine which subsegments in each jurisdiction have at least one primary regulation (law, decree, or other administrative act) describing the activity. The comparison includes the names of the standard for each jurisdiction for each taxonomy category. It excludes nonfinancial crowdfunding models such as donations and rewards, pre-purchases and other nonfinancial types. Thus, classifications for business models from platforms are assigned when they are identified in the primary or secondary regulation. Crowdfunding regulations in the region have a variety of regulatory approaches in terms of minimum capital, maximum subscription per project and maximum investment amounts, among others.

As an example, regarding minimum capital, the Bank of Brazil requires BRL1 million (USD179,000) for a platform to operate in debt crowdfunding. Alternatively, the Comissão de Valores Mobiliários of Brazil requires a minimum capital of BRL100,000 (USD17,900) for equity crowdfunding, which additional requirements may increase. In Mexico, the Fintech Law sets a minimum capital requirement of 700,000 tax units (USD243,000), which is one of the highest in the region after Chile's expected value from their Bill (USD182,000). No minimum capital is required in Colombia, although there are high requirements for management and infrastructure.

The maximum subscription amounts per project are bounded by a limit of USD200,000 in Argentina and USD900,000 in Brazil for equity crowdfunding. In Peru, the subscription limits vary by the amount of the project (USD55,300 to USD553,000) and the amount received by the recipient (USD110,700 to USD830,300).

The maximum amounts for non-qualified investors are fixed limits of USD200 in Argentina and USD2700 for debt crowdfunding in Brazil, among others. Similarly, limits such as 20% of the maximum annual income or equity are applied in Peru and Colombia. In Mexico, there are requirements by type of operation (equity, personal or corporate loan debt) that correspond to 20% for legal entities or between 7.5% and 15% for individuals. In a nutshell, regulations are diverse, not standardized from the regional point of view, even in the denomination for the businesses, imposing a cost for investors.

Table 17.8.1 Taxonomy of crowdfunding regulation in each country in the region

Category	Loans or Debt Subsegment				Capital	
Sub-category	Marketplace peer-to-peer loans	Balance sheet	Invoices-factoring	Securitities or financial assets	Stocks/equity	Real estate
Argentina	N/A	N/A	N/A	N/A	Crowdfunding platform	N/A
Brazil	Loan societies between persons (SEP)	Direct credit societies (DCS)	DCS	SEP and DCS	Electronic participatory investment platform	N/A
Chile*	Crowdfunding platform	N/A	N/A	N/A	Crowdfunding platform	N/A
Colombia	Collaborative finance platforms (CFP)	CFP	CFP	CFP	CFP	CFP
Ecuador*	Collaborative reimbursable financing fund platforms (PFCFR)	PFCFR	N/A	PFCFR	Collaborative equity investment fund platforms	N/A
Mexico	Collective finance institutions (CFI)	CFI for business lending or debt between people	CFIDPEP	CFI	CFI for capital	CFI for real estate
Peru*	Participative financing platforms (PFP)	N/A	PFP	PFP	PFP	N/A

*Secondary regulations are needed to clarify some aspects.

N/A: It does not apply. There is no information or direct interpretation of the rule regarding the application of the category.

Source: Regulations, own construction, 2022

Table 17.8.2 Differentiating characteristics of crowdfunding regulations in each country in the region

Country	Supervisory institution	Denomination for capital seekers	Denomination for capital providers	Minimum capital in local currency or specific unit	Minimum capital (USD)	Maximum subscription amount or offer (USD)
Argentina	Comisión Nacional de Valores	Crowdfunding entrepreneur	Investor	ARS 250,000.00	2,433.80	194,704
Brazil - equity	Comissão de Valores Mobiliários	Small-sized business companies	Investor, lead investor, investment syndicate	BRL 200,000.00	35,800.00	2,688,000
Brazil - debt	Banco do Brasil	Debtors	Creditors	BRL 1,000,000.00	179,000.00	N/A
Chile	Comisión para el Mercado Financiero (CMF)	N/A	N/A	5,000 UF	182,000.00	N/A
Colombia	Superintendencia Financiera de Colombia	Receivers	Contributors	N/A	N/A	4,300,000.00
Ecuador	Superintendencia de Sociedades, Valores y Seguros	Promoters	Investors	N/A	N/A	400,000
Mexico	Comisión Nacional Bancaria y de Valores	Applicants	Investors	700,000 UDI	243,000.00	2,056,000.00
Peru	Superintendencia del Mercado de Valores	Receivers	Investors	S/ 300,000.00	75,500.00	See Table 17.6.1

Table 17.8.2 continued...

Country	Maximum amount for unqualified investors	Secondary market	Advice or authorized mandate	Document for risk-taking acknowledgement for investors	Individual (I) and professionals (P) investors	Licensing (L) and dedicated registration (R) platforms	Other licenses
Argentina	USD194.70	Spot market, registration	No	No, general section in contract	I, P	L, R	Related and complementary activities, not specified
Brazil - equity	USD3,600	Spot market, registration	Yes, algorithms and other systems	Yes, exclusive addendum	I, P	L, R	Securities Registry
Brazil - debt	USD2,688.00	No	No	No, clause in contract between debtors and creditors	I, P	L, R	Collections, credit assessment, insurance representation, payments
Chile	N/A	Yes	Yes, with special registration	N/A	I, P	L, R	To be determined
Colombia	20% of the maximum between annual income or equity	Spot market, registration	No	No, linkable format	I, P	L, R	Collection and advertizing projects, administration of operations registration system, donations
Ecuador	N/A	N/A	No	No	I	L	No
Mexico	See Table 17.5.2	Spot market, registration	Yes, algorithms and other systems	Yes, exclusive addendum	I, P	L, R	Obtaining loans and credits, issuing securities for propietary accounts, constituting trusts, collections, credit evaluation
Peru	20% of the maximum between annual income or equity	PD	No	PD	I, P	L, R	Collections and others that SMV will authorize

N/A: It does not apply. There is no information or direct interpretation of the rule regarding the application of the category.
PS: To be determined in secondary regulation.
Source: Regulations, own construction, 2022

Endnotes

[i] P2P lending: A group of individual or institutional investors that provide a loan (secured or unsecured) to a consumer or business borrower. In its most orthodox form, the P2P lending platform acts as a marketplace connecting the borrower and investor(s) in such a way that the financial risk of the loan not being repaid lies with the investor and not the platform. Depending upon the jurisdiction, this model is called loan-based crowdfunding, marketplace lending, collaborative financing or crowdlending.

[ii] Balance sheet lending: A digital lending platform that directly retains consumer or business loans (either whole or partial loans) using funds from the platform operator's balance sheet. These platforms, therefore, function as more than just intermediaries, originating and actively funding loans, so the financial risk of the loan not being repaid lies with the platform operator. In this respect, the platform operator acts more like a non-bank credit intermediary.

[iii] Increasingly, invoice trading models are expanding into supply-chain finance activities. At present, this subset activity is too small to categorise as its own model. It is possible that this model will need to be further refined in subsequent years.

[iv] Although it is a lending model, crowd-led microfinance shares many characteristics with a non-investment model. This is because 'lenders' participate in supplying finance to non-financial motivations. Typically, these lenders do not receive a return on their capital, or minimal return.

[v] Fiscal year turnover is a firm's ability to sell its assets or services as quickly as possible and is thus, a measure of efficiency

[vi] This has led to the identification of nine large enterprises that were removed from further analysis.

[vii] Table A Frequency of bank product use

Variable	Value (x)
N/A	
Never	0
Rarely (once a year)	1
Occasionally (more than once a year)	6
Often (monthly)	12
Very often (weekly)	52

[viii] Table B Product line intensity scale (intensity index [0–1] = $\Sigma\ \alpha / \beta * 10$)

Product line intensity scale: $\alpha=\sum x$	# of products (n)	Max frequency (x')	Max total: $\beta= n^*x'$
Credit intensity	7	52	364
Payments intensity	3	52	156
Banking intensity	10	52	520

[ix] Please refer to *The 2nd Global Alternative Finance Market Benchmarking Report* for a complete analysis. https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/the-2nd-global-alternative-finance-market-benchmarking-report/

[x] Source: https://data.imf.org/?sk=51B096FA-2CD2-40C2-8D09-0699CC1764DA&sId=1393552803658

[xi]Table C Size of company by revenue in Argentina in Argentine pesos

Category	Construction	Services	Commerce	Industry and mining	Agriculture
Micro	19,450,000	9,900,000	36,320,000	33,920,000	17,260,000
Small	115,370,000	59,710,000	247,200,000	243,290,000	71,960,000
Medium 1 (Mediana Tramo 1)	643,710,000	494,200,000	1,821,760,000	1,651,750,000	426,720,000
Medium 2 (Mediana Tramo 2)	965,460,000	705,790,000	2,602,540,000	2,540,380,000	676,810,000

Source: https://www.argentina.gob.ar/produccion/registrar-una-pyme/que-es-una-pyme
Retrieved September 24, 2020

[xii] Table D Size of company by revenue in Brazil, including an exclusive category for sole partnerships (IME)

Size	Turnover R$	Turnover 2020 (USD)	Count
Sole partnership (MEI)	<= 81,000	15,863.04	172
Micro	360,000	70,502.40	90
Small	> 360,000 <= 4,800,000	940,032.00	50
Medium	> 4,800,000 <= 300,000,000	58,752,000.00	6
Large	> 300,000,000		0

Source: https://www.bndes.gov.br/wps/portal/site/home/financiamento/guia/porte-de-empresa
Retrieved September 24, 2020

[xiii] Table E Size of company by revenue in Chile

Size	Classification by revenue	2020 turnover (USD)
Micro	0–2,400UF	92,187
Small	2,400.01UF–25,000UF	> 92,187 <=960,286
Medium	25,000.01UF–100,000UF	> 960,286 <= 3,841,150
Large	+100,000.01UF	> 3,841,150

Source: https://www.economia.gob.cl/wp-content/uploads/2014/04/Boletin-Revision-Clasificacion-Estatuto-Pyme.pdf Retrieved September 24, 2020

[xiv]Table F Size of company by revenue in Colombia in USD

Sector	Micro	Small	Medium
Industy	227,371.10	1,978,098.64	16,756,978.76
Services	318,317.61	1,273,260.78	4,661,035.13
Commerce	431,129.88	4,160,824.51	20,849,590.97

Source: http://www.mipymes.gov.co/temas-de-interes/definicion-tamano-empresarial-micro-pequena-median
Retrieved September 24, 2020

[xv] Table G Size of company by TEC (calculation for company size) in Mexico

$$\mathrm{TEC} = \#\mathrm{FTEs} * 0.1 + \frac{\text{annual revenue}}{1{,}000{,}000} * 0.90$$

Size	Sector	Range: FTEs	Range: revenue (millions of pesos)	Maximum limit combined (TEC)
Micro	All	Up to 10	up to 4	4.6
Small	Commerce	From 11 up to 30	From 4.01 up to 100	93
	Industry and services	From 11 up to 50		95
Medium	Commerce	From 31 up to 100	From 100.01 up to 250	235
	Services	From 51 up to 100		
	Industry	From 51 up to 250		250
Large	When the TEC exceeds 235 for commerce and services and 250 for industry.			

Source: https://www.banxico.org.mx/publicaciones-y-prensa/rib-creditos-a-PYMES/%7B6F30DAE4-E446-DE94-8A66-84CB2E2E0F54%7D.pdf Retrieved September 24, 2020

[xvi]Table H Size of company by revenue in Peru

Size	UIT limit
Micro	150
Small	1,700
Medium	2,300

*UIT = 4,300 Peruvian soles
Source: https://mypes.pe/noticias/cual-es-la-diferencia-entre-micro-pequena-y-mediana-empresa Retrieved September 24, 2020

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[xviii] Congress of the Argentine Nation: 2017. Law 27349: Support for entrepreneurial capital http://servicios.infoleg.gob.ar/infolegInternet/anexos/270000-274999/273567/norma.htm#:~:text=Emprendedor%20de%20financiamiento%20colectivo%3A%20es,la%20Comisi%C3%B3n%20Nacional%20de%20Valores. Accessed 10 October 2020.

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[xx]ARS = Argentine Pesos

[xxi]The exchange rates issued by the Central Bank of the Argentine Republic for 31 December 2021 were used for conversions into US Dollars. https://www.bcra.gob.ar/PublicacionesEstadisticas/Cuadros_estandarizados_series_estadisticas.asp.

[xxii] http://servicios.infoleg.gob.ar/infolegInternet/anexos/25000-29999/25553/texact.htm#:~:text=Concepto.,beneficios%20y%20soportando%20las%20p%C3%A9rdidas. Retrieved April 23, 2021.

[xxiii] Comissão de Valores Mobiliários: Instrução CVM 588. http://www.cvm.gov.br/legislacao/instrucoes/inst588.html. Accessed 16 October 2020.

[xxiv] BRL= Brazilian Real

[xxv] The exchange rates issued by the Central Bank of Brazil for 31 December 2021 were used for conversions into USD. https://www.bcb.gov.br/.

[xxvi] A total of eight direct credit societies are part of PIX, the centralized payment system of the Central Bank of Brazil. For more information: https://www.bcb.gov.br/en/financialstability/pixstatistics.

[xxvii] Ministry of Finance and Public Credit of Colombia. Decree 1357 of 2018. https://dapre.presidencia.gov.co/normativa/normativa/DECRETO%201357%20DEL%2031%20DE%20JULIO%20DE%202018.pdf. Accessed 20 October 2020.

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[xxix] Data from SMMLV and the Colombian peso to dollar exchange rate of the Banco de la República (Banco Central) were used. Available in: https://www.banrep.gov.co/. Retrieved 31 December 2021.

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[xxxi] Comisión Nacional Bancaria y de Valores. 2018. DISPOSICIONES de carácter general aplicables a las Instituciones de Tecnología Financiera https://www.fintechmexico.org/s/CUITF-DOF-100918.pdf. Accessed 21 October 2021.

[xxxii] A measure tied to inflation, published by the Central Bank on a daily basis.

[xxxiii] Data for 31 December 2021 extracted for the UDI and the official exchange rate of the Bank of Mexico (Banxico) were used as a reference. Exchange rate: https://www.banxico.org.mx/tipcamb/main.do?page=tip&idioma=sp and UDI: https://www.banxico.org.mx/SieInternet/consultarDirectorioInternetAction.do?sector=8&accion=consultarCuadro&idCuadro=CP150&locale=es. The UDI is a unit of value that fluctuates due to increases in the consumer price level (inflation) and is used to meet financial obligations.

[xxxiv] MXN = Mexican Pesos

[xxxv] See: https://busquedas.elperuano.pe/normaslegales/decreto-de-urgencia-que-promueve-el-financiamiento-de-la-mip-decreto-de-urgencia-n-013-2020-1848441-1/. Retrieved October 21, 2020.

[xxxvi] See: https://busquedas.elperuano.pe/normaslegales/decreto-de-urgencia-que-promueve-el-financiamiento-de-la-mip-decreto-de-urgencia-n-013-2020-1848441-1/. Retrieved October 21, 2020.

[xxxvii] The data was extracted for UIT and the official exchange rate from the Bank of Peru as of 31 December 2021. UIT: https://www.gob.pe/435-valor-de-la-uit, and exchange rate: https://estadisticas.bcrp.gob.pe/estadisticas/series/diarias/tipo-de-cambio

[xxxviii]PEN = Peruvian Soles

[xxxix]An inflation-based measure published daily by the Central Bank of Chile.

[xl] The data for 30 December 2021 extracted for the UF and the official exchange rate of the Central Bank of Chile were used as a reference: https://si3.bcentral.cl/IndicadoresSiete/secure/IndicadoresDiarios.aspx.

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