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SMEs, a crucial link to cement social transformation and drive the economy of Latin America

- *One of the major challenges faced by the region's public development banks is finding different paths to provide timely and innovative financing to micro, small, and medium-sized enterprises in Latin America and the Caribbean.*

- *Promoting access to technology and financial education is paramount to ensuring that Latin American SMEs become a source of social transformation and a better quality of life for workers and communities.*

Cartagena (Colombia), September 5, 2023. Public development banks recognize the transformative power of small and medium-sized enterprises (SMEs) in the communities of dozens of countries, particularly those in Latin America and the Caribbean.

SMEs that receive support, accessible financing, and guidance not only change the lives of those who work for them but the context around them. This enables and motivates more people to embark on the path out of poverty.

Development banks have understood that this is a tailored commitment and that universal formulas do not always apply, not even within the same sectors. Some of these experiences, which were studied at the Fourth Common Finance Summit, are at the heart of building a new generation of financing and financial inclusion for micro, small, and medium-sized enterprises.

Funding

Investing in this diverse segment, which in countries like Colombia represents over 90% of the business network, requires substantial financial support. Generating interest in these investments requires creative, attractive, and diverse funds that reduce the risks associated with these funding initiatives; thos would encourage global investors to openly and decidedly participate with a purpose that is similar to the overall purpose set by public development banks.

Initiatives like equity crowdfunding or regional funds currently encourage investment, promote development, and allocate risks. To this end, possible formulas for funding solutions include strengthening and developing alternate segments in capital markets, with government emission incentives such as guarantees.

The growth of social emissions in Latin America and the Caribbean is a positive indicator of the region’s commitment to sustainable development. In the past three years, the projects aimed at SMEs in the region have totaled $18 billion and have had a positive impact on creating jobs, promoting gender equality, and protecting the environment. This is stressed in the Social Finance Initiative (SFI) report “Social Emissions in Latin America and the Caribbean: A Perspective of the Last Three Years,” that was published in 2023.

The country with the highest volume of social emissions in the region was Mexico with a total of $6 billion in the last three years. It is followed by Brazil with $4 billion, Colombia with $3 billion, and Argentina with $2 billion. In terms of sectors, the most benefited have been projects related to renewable energy, sustainable transportation, agriculture, and education.

Adopting Technology

SMEs struggle to secure funds to invest in technology, particularly in regions where there are significant limitations in capital. One way to break out of this cycle is by giving direct or indirect support to this key area of the economy. Another barrier identified, sometimes associated with the first, is the high acquisition, training, and integration costs that strain limited resources. Thus, the proposed solution includes assistance, guidance, training, and education rather than credit alone.

Part of the answer to improving access to market financing for growing businesses in the region is specific financial education. Promoting technology adoption entails knowledge so that, by using education, SMEs can develop capabilities and tailor solutions to their diverse needs. Proving success through pilot projects and providing financial support fosters innovation.

Romy Calderón, head of the Economic Studies and Information Program at the Latin American Association of Development Financial Institutions (ALIDE), commented, “Technological breakthroughs have been a blessing for providing services, reducing costs, increasing service reach, and speed. But all of this also helps in the environmental aspect, going paperless. The productivity of financial workers has increased.”

Calderón added, “All of this has allowed us to reach places that couldn’t be reached over the phone. Governments should prioritize the strengthening of digital connectivity, and there should be free internet. Small businesses have massified digital payment systems, and this is also seen in small exporters. There is a great opportunity window for SMEs, but without connectivity, it’s not possible. Development banks should commit to it.”

Furthermore, sharing successful experiences inspires others and takes into consideration local contexts; it enhances importance. Ongoing support, innovation centers, and awards accelerate appropriation and demonstrate the return on investment and planning to convince micro and small enterprises of their scalability.

According to a study by the Economic Commission for Latin America and the Caribbean (CEPAL), SMEs that use digital technologies are more productive, profitable, and more likely to grow and create jobs. According to this organization, 67% of the region's SMEs use at least one digital technology, representing a 10% increase compared to the previous year. The most commonly used digital technologies are the Internet (97%), email (96%), management software (89%), websites (83%), and social networks (77%).

The study also analyzed an additional barrier, mainly how to provide SMEs with the solvency they need to advance their objectives. One of the main challenges is strategically deciding where to invest efforts and resources.

At this point, monitoring and advisory services are the foundation that must be coupled with the disbursement and allocation of resources. In this regard, public-private partnerships could play a crucial role in achieving the financial sustainability of projects until they become self-sufficient.

Connectivity

Infrastructure limitations delay the arrival of solutions and should be a reason for investment associated potential development projects for SMEs.

Poor connectivity hinders technology implementation. One of the primary tasks of public development banks should be to promote projects in which access to the Internet in Latin America and the Caribbean is a key component in combating inequalities.

In this region, Internet penetration is still higher in urban areas than in rural areas. In certain ways, access to connectivity is related to deep-seated poverty. The countries with the lowest Internet access in Latin America and the Caribbean today are Guatemala (43%), Haiti (32%), Nicaragua (32%), Bolivia (31%), and Honduras (29%)