

MAP SECOND CALL FOR PROPOSALS

SMEs ACCESS TO FINANCE AND COMPETITIVENESS

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Small and Medium-Sized Enterprises (SMEs) have been part of the IDB group's approach to expanding growth, productivity, and employment opportunities in Latin America and the Caribbean. A vital dimension to enhance SMEs' contribution to growth and productivity is their access to the credit. By narrowing the financial gap faced by SMEs, Latin American economies can improve their growth potential in significant ways. In general, **SMEs are underrepresented in Latin America, where less formal micro and very small enterprises with fewer growth options predominate.** This further limits the growth potential of Latin American and Caribbean economies.

Evidence suggests that financial access offers opportunities for SMEs to make technological changes and increases their incentives to comply with labor and tax regulations. Hence, financial inclusion has a positive effect on formalization and, in so doing, expands the productive frontier and the capacity of the firm. The link between credit and informality is illustrated, for example, in a recent study by Catão, Pagès y Rosales (2009) that estimate that *in Brazil as credit for firms grew so did formal employment*¹.

Policies that help firms upgrade can also support greater access to finance. SMEs are characterized by the lack of required scale, guarantees, managerial capital, and information that enable them to take advantage of market opportunities or new technologies. Specific programs to overcome these barriers can support greater firm creation, investment and expansion.

This is why SMEs financial inclusion policies require an integrated approach that addresses the relevant topics from the supply and the demand side of financial access. Following this approach, the MAP line will finance activities and research projects that address problems in these two key dimensions. A list of proposed topics is presented below.

¹ Catão, Luis A. V, Carmen Pagés, and Maria Fernanda Rosales, 2009. "Financial Dependence, Formal Credit and Informal Jobs". IDB Working Paper Series, no. IDB-WP-118.

In order to assess proposals the MAP Team will examine the following criteria: a project's innovativeness; use of empirical evidence to generate policy lessons; support of solid actors with the capacity to implement a project and document its results. As well, those proposals that are selected will be required to have the no objection of government authorities.

The MAP strongly encourages projects that introduce an impact evaluation component to raise new ideas on *what* is working and *how* and *why* it worked. These require careful design and implementation, often involving multiple actors, both public and private.

The MAP has two types of grants: Activity grants and Research Grants.

Activity Grants (Euro125,000)

Proposals should be for activities that fund specific interventions aimed to improve financial access. These may include activities related to:

Supply side perspective:

- ***Sound regulatory and supervisory systems and agencies:*** improving technical capacities for new prudential regulations and supporting regulations for clear banking resolutions rules, effective deposit insurance schemes or consumer, creditor and investor legal rights protections.
- ***New technologies to improve financial inclusion:*** promoting regulations and projects to adapt lending to SME requirements, such as credit scoring technologies, asset-back lending, factoring, and trade or supplier credits.
- ***Better financial information of SME:*** credit bureaus and information systems that report on a client's history of bill repayment and permit the development and use of new techniques to overcome SMEs lax financial records.
- ***Impact Evaluation of SME Finance Policies and Institutions:*** use of analytical tools to identify and measure the impact of SME finance policies and institutions on productivity of firms. Developing rigorous tools to assess impact and draw lessons learned.

Demand side perspective:

- ***Secure transactions frameworks and collateral facilities:*** regulations and projects directed at improving the *bankability* of projects through the creation, perfection, and enforcement of security interests in assets like inventories, accounts receivables, equipment, and forward sales contracts.

- ***Better financial literacy of SMEs:*** financial management training programs for SMEs to increase their knowledge and use of different financial products and financing alternatives.
- ***Integrated financial and productive development policies:*** supporting activities directed at establishing services to SMEs that combine a financial with a productive component, such as credit with training.
- ***Financing high growth potential sectors or clusters:*** supporting the definition and execution of strategies directed at financing SMEs in sectors or clusters with high growth potential, such as green projects and others.
- ***Value Chain Financing models:*** use of linkages between SMEs and larger firms in order to strengthen their creditworthiness with external financiers or the use of this modality to obtain direct financing from other firms in the chain or cluster.

Research Grants (Euro15,000)

Proposals will be considered for studies on the topics stated above. These studies should be empirically based cases or comparative studies that use relevant data sources to produce high quality research findings.

The research activities will favor studies based on firm-level data, surveys or similar data sources. The methodologies proposed may be comparative studies that examine different policy regimes and their effects; applied statistical techniques that estimate the factors that influence SMEs access to finance; or studies that highlight the impact of policy changes. For example, studies might examine the effect of improving financial regulations on SMEs access to credit or evaluate the impact of SMEs lending programs on firm's productivity and growth.