Chapter 13
Financial Instruments for Small and Medium Enterprise Sustainable Growth:
Strategies for Latin American Emerging Economies

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ABSTRACT

Financing is a key issue for companies to grow. In Latin America, small and medium enterprises face difficult challenges when trying to get the necessary resources they need to grow or just stay in the market. From excessive paperwork to high interest rates, difficult access to credit is a challenge that has prevented companies from growing, reaching new markets, or just surviving in the markets during the first stages of operation. This, consequently, has an impact on the economic development of the region. The current macroeconomic situation, characterized by the end of a raw material boom, brings an additional issue to a normally difficult situation. This chapter therefore analyzes the current situation of five Latin American emerging economies and then presents a set of financial instruments that could help SMEs to get resources easily.

1. INTRODUCTION

"In order to suggest progress, the term emerging market was introduced at the International Finance Corporation" (Todaro & Smith, 2012, p. 41). The term can be confusing when defining which markets are considered "emerging" and which are not. The authors of this chapter consider that people usually tend to call emerging all those countries that before were called "third world" or "developing countries".

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First, the term "emerging market" is clearly not emphasizing on a country, although the term is also referred to as "emerging economies", in which case, the term could be referring to a country. "The term emerging market is used widely in the financial press to suggest the presence of active bond and stock markets" (Todaro & Smith, 2012, p. 41).

Therefore, the authors of this chapter consider that calling "emerging" to an economy or country is not an indicator of human development, industrialization, or a better standard or living of its population. Being this chapter about financing for Small and Medium Enterprises (SMEs) in Latin American emerging economies, it is necessary to define which Latin American economies can be considered as such. The authors consider Brazil, Mexico, Colombia, Peru and Chile as emerging economies, based on NASDAQ (Nacional Association of Securities Dealers Automated Quotation [NASDAQ], 2015), which besides mentioning such countries, defines emerging economies as

Economies that are growing at a fast pace and working to make their economic progress more sustainable. From an investment perspective, the stock market of these countries are more volatile than the mature markets of developed countries but offer higher returns (NASDAQ, 2015).

As it is also stated by Todaro and Smith (2012), the definition of NASDAQ emphasizes on stock markets in as a key factor when considering an economy as emerging. Therefore, when an economy is considered emerging, it is reasonable to think its financial markets and stock markets have reached a level of development that other countries have yet to reach. However, native SMEs do not necessarily enjoy the benefits of such developed financial markets, or the necessary credit access they need in order to grow and be sustainable through time.

SMEs are a key player in Latin America's economy and their importance is clear when considering their weight in the total number of companies and job creation, however, their GDP share is only 30%, a low participation compared to 60% share of their counterparts in OECD countries (Dini, Rovina & Stumpo, 2014). SMEs account for 99% of industrial fabric, create most jobs but have low productivity compared to large companies (Economic Commission for Latin America and the Caribbean [ECLAC] 2017a). According to ECLAC (2013), a small European enterprise produces 74%, and a medium European enterprise produces 85% of the production of a big European enterprise. In contrast, the same indicator for a small company is 16% in Peru, 26% in Chile, 27% in Brazil, 35% in Mexico and 36% in Argentina; for a medium company the numbers are 40% in Brazil, 46% in Chile, 47% in Argentina, 50% in Peru and 60% in Mexico (ECLAC, 2013). Appropriate financing may help to improve this situation.

However, *SMEs access to funding is not new, it has been a problem for long time, but it has further exacerbated nowadays, as a result of the latest financial crisis and economic downturn* (Nitescu, 2015 p. 40); even though Nitescu previous cite is related to Romanian SMEs, the same words apply to Latin American SMEs, which generally deal with insufficient access to funding from financial institutions, a situation that may take them to try to find informal lenders, who usually do not make strict requirements to provide funds but charge higher interest rates on return.

Therefore, considering the important role SMEs play in Latin American economies, it is necessary to address their problems of low productivity and difficult access to resources. Getting proper financing becomes a must in order to improve SMEs competitiveness; more competitive enterprises mean better opportunities for workers in the region.

This chapter emphasizes on possible financial instruments that SMEs in Latin American emerging economies might use in order to gain the possibility to grow and become sustainable in time. It starts