

ALLIANCE FOR ETRADE DEVELOPMENT

IMPACTS OF FINTECH LENDING ON ONLINE SELLER MSMES: EARLY INSIGHTS FROM MEXICO

June 30, 2021

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IMPACTS OF FINTECH LENDING ON ONLINE SELLER MSMES: EARLY INSIGHTS FROM MEXICO

Agreement No:

7200AA19CA00021

Submitted to:

USAID Center for Economics and Market Development

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ACKNOWLEDGEMENTS

This report was produced for the Alliance for eTrade Development, a Global Development Alliance supported by the U.S. Agency for International Development. The author would like to thank Erica Vambell for research assistance and Usman Ahmed and Anne Szender McCarthy for perceptive comments.

I. INTRODUCTION

The Covid-19 crisis is accelerating consumers' and businesses' migration online. However, surveys suggest that micro, small, and medium-size enterprises (MSMEs) face a range of challenges to grow their ecommerce sales. One key challenge is accessing finance, particularly fast-disbursing working capital loans that enable online sellers to promptly fulfill incoming orders. For example, in a recent eTrade Alliance survey of MSME ecommerce in developing countries, 65 percent of Mexican MSMEs that sell online identified lack of access to working capital as an "enormous challenge" or "one of the leading challenges" to grow their online sales.[1] Financing challenges of course do not affect only online sellers: developing country MSMEs' financing gap is estimated at $5 trillion, most of it rejected working capital and revolving credit applications.[2]

Financial technology companies or "Fintechs" offer potentially powerful solutions to addressing the MSME financing gap. Fintechs have proliferated around the world over the past several years, providing innovative and efficient payment and financial services to firms and consumers. Fintechs that lend online tend to make lending decisions within seconds or minutes by leveraging a wide range of digital public and private data and automated algorithmic underwriting techniques.[3] In advanced countries, Studies carried suggest that Fintechs that lend to firms have helped credit-strapped micro and small firms access financing. For example, in the United States, online lenders such as OnDeck and PayPal Working Capital have enabled unbanked and remote firms in regions deserted by banks to access working capital loans. There is also evidence from Europe that Fintechs can open access to finance to rural small businesses, women-led firms, and innovative firms light on collateral.[4]

Could Fintechs then also help unlock credit for MSMEs in developing countries? Fintechs have grown in number and sophistication in emerging markets as Brazil, Mexico, Thailand, Kenya, and certainly in China.[5] However, relatively little is known about Fintechs' impact on MSMEs in emerging markets and developing countries. Even less is understood about the impact of Fintech loans on MSMEs that engage in ecommerce. Bridging this knowledge gap is critical for the many governments and development organizations that are working to enable MSMEs to access financing and engage in ecommerce as a means to weather the Covid-19 crisis, grow, and create jobs.

This study focuses on the impact of Fintechs on MSMEs and online sellers by looking at the Mexican context, a booming ecommerce market with a vibrant Fintech community. In particular, this study leverages a survey of 2,034 Mexican firms to answer such critical questions as (1) how MSMEs of different characteristics are using Fintechs; (2) what the impact of Fintech loans are on firms' performance and online sales; and (3) how Fintech lending could be expanded further to benefit a larger number of MSMEs. The study also assess the impact of Covid-19 on Mexican firms' business prospects and financing needs.

More generally, this study seeks to inform the international development community and developing country governments about the potential of Fintechs as an enabler of MSME financing, ecommerce, and growth – and to identify new policies and programs that would expand the opportunities opened by Fintechs to a broader set of MSMEs, especially for online sellers.

The main findings are as follows:

- **Most Mexican micro and small businesses, including online sellers, borrow conservatively and infrequently from lenders – either never or 1-2 times a year**. Only 5 percent of firms in our survey borrow more frequently. However, larger firms borrow more frequently: a third of mid-size and large firms borrow more than twice a year, some monthly or even more often. Online sellers are more likely to borrow in every size category than "offline" sellers – firms that do not sell goods or service online.

- **Mexican firms across size categories still favor bank loans, but midsize and large online sellers located in major urban areas have started to use Fintechs and appear pleased with the results**. Fourteen (14) percent of micro and small online sellers and 26 percent of mid-size and large online sellers have accessed Fintechs for working capital, in contrast to 6 percent of micro and small offline sellers and 7 percent of mid-size and large offline sellers. Fast-growing online sellers in major metropolitan regions are especially likely to use Fintechs: 36 percent of surveyed micro and small online sellers and 40 percent of midsize and larger sellers in first-tier cities identify Fintechs as their top-2 choice as a source of capital, alongside banks.

- **Firms that have borrowed from Fintechs are particularly disposed to borrowing from Fintechs in the future.** This propensity to be a "repeat customer" suggests Fintechs provide a unique value to firms. The use of Fintechs by larger firms may reflect these firms' lack of collateral to access bank loans or desire for quick access to small working capital loans to fill inbound orders. Meanwhile, micro and small firms in rural areas are least likely to use Fintechs, and view Fintechs as their least preferred source of financing in comparison to banks, personal funds, credit cards, and microfinance entities.

- **Firms that have used Fintechs report gains in online order fulfillment and domestic and export sales**. Fintech borrowers typically borrow small sums, less than $20,000, and use the proceeds primarily to purchase supplies and materials needed to fulfill orders, or invest in marketing services or products and in new equipment or machinery. Mexican Fintech borrowers report that Fintech loans enabled them to expand production, and purchase materials and supplies to fulfill orders, specifically orders received online. In addition, 55 percent of the surveyed Fintech borrowers reported that Fintech loans have "very significant" or "significant" positive impacts on their exports and domestic sales. This suggest that Fintechs and ecommerce are symbiotic: ecommerce enables firms to reach customers globally and at scale, while Fintechs enable them to service their customers in a timely manner.

- **Fintech borrowers are typically larger and better performing firms that have access to alternative financing sources as small unbanked firms appear to be somewhat unfamiliar and uncomfortable with Fintechs**. Over a third of Fintech borrowers believe that they could get financing from other sources, as opposed to only a fifth of non-Fintech borrowers. This suggests that Fintechs offer unique benefits such as faster turnaround times and more flexible and customizable terms than offered by banks. Paradoxically, firms that have the fewest options to secure financing and could benefit most from Fintechs are least likely to prefer Fintechs. The data suggest that Mexican unbanked firms do not yet use Fintechs to the same extent that unbanked firms in the United States do. Rather, Mexican Fintech borrowers appear to be dynamic and well-performing firms with alternative sources of financing. This may in part be due to the timing of the survey: the Fintech market is quite new in Mexico, and many Mexican MSMEs still lack awareness of Fintechs and do not necessarily trust them. The most likely Fintech borrowers observed in the survey – well-performing, digitized urban firms – may be early adopters of Fintechs.

- **MSMEs across sectors and geographies would borrow more from Fintechs if Fintechs' interest rates were lower, and terms were clearer**. Smaller firms would also like to be able to call Fintechs and discuss loan options with a customer service representative. There appears to be a need for awareness-building about the benefits of Fintechs – some 30 percent of firms believe they might borrow from Fintechs if they understood Fintechs better. Rural firms and offline sellers tend to perceive Fintechs as offering easier access to capital but having unclear terms, higher cost of capital than charged by banks, and potentially being fraudulent. However, these non-users also express interest in learning more about Fintechs.

- **There are no gender disparities among comparable companies on performance, use of Fintechs, or gains from Fintech loans**. Women-led firms are just as likely as comparable male-led firms to use Fintechs. The differences in the use of Fintechs and in firm performance are driven by firm size, online sales activity, and geolocation (urban vs. rural areas), not the gender of the firm's CEO.

- **Only ten percent of firms express a need for new loans or financing to weather the Covid-19 crisis**. Rather, firms want solutions to generate more sales and reach the customer that has now migrated online, reporting a as top need digitizing their sales channels and diversifying their products and services. Many firms also expressed a need for help to digitize their businesses and launch teleworking.

These findings suggest Fintechs have had a positive impact on Mexican firms, and that online sellers helping power Mexican MSMEs' ecommerce sales at home and abroad. Policymakers focused on promoting MSMEs' ecommerce, growth, and recovery could usefully enable a larger set of MSMEs to access Fintech loans. In Mexico, specific policy approaches could include awareness-building about Fintechs (especially with MSMEs in tier-3 cities and rural areas), and government credit enhancements and loan guarantees on Fintech-issued loans to enable Fintechs to lend to a broader set of MSMEs. In several countries, including Mexico, governments have used guarantees on qualifying bank loans to expand financing to MSMEs; they can now apply similar guarantee solutions to Fintechs that lend to MSMEs.

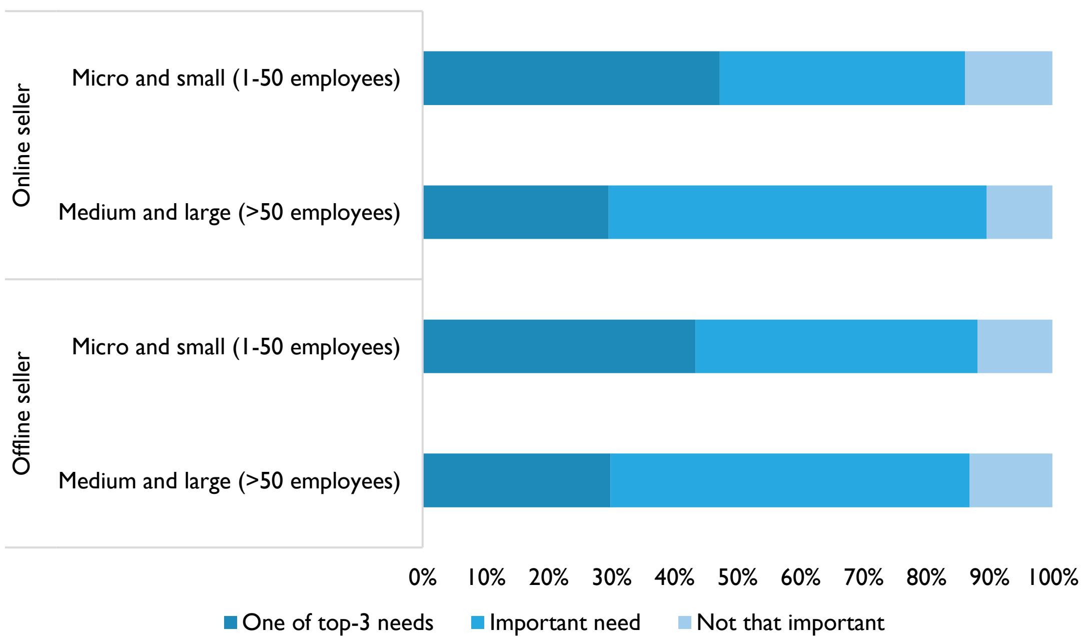
In addition, Fintechs themselves can do better to attract borrowers by clarifying loan terms and expanding awareness-building and customer service support for new customer onboarding. In light of Fintech borrowers' high satisfaction with Fintechs and interest in becoming repeat borrowers, further investment in MSME awareness-building and customer acquisition can have a strong return.

The following section reviews the growth of the Fintech market in Mexico, and literature on the impact of Fintechs on MSMEs and various economic outcomes. Section three discusses the data and survey results. Section four offers several policy recommendations. Section five concludes with a policy and research agenda.

II. RISE OF FINTECHS, THEIR EFFECTS IN MEXICO, AND BEYOND

Dozens of firm-level surveys run by the eTrade Alliance and Nextrade Group with various clients around the world show that lack of access to finance from banks, particularly for fast-disbursing working capital loans, is a leading constraint for developing country MSMEs to engage in business and ecommerce. This is very much the case in Mexico: in a 2020 survey by the eTrade Alliance, over 40 percent of Mexican micro and small firms stated that working capital is a top-3 need for growing their online sales (Figure 1). A third of midsize and large firms also saw access to working capital as a key need. Anecdotal evidence and the author's discussions with ecommerce associations and marketplaces around the world suggest that developing country online sellers are often overwhelmed by the search for financing to fulfill orders they receive online, and that these challenges undermine their customer service and credibility.

Figure 1: Percent of Mexican Firms' Working Capital Needs to Grow Sales, by Online Sales and Firm Size



MSMEs have always faced challenges to access financing, and governments have long sought to bridge MSMEs' financing gaps, especially by offering credit guarantees to banks on loans they make to MSMEs. Governments are also increasingly extending direct low-cost loans to MSMEs. In addition, providers such as microfinance entities and factoring firms have proliferated and helped MSMEs access financing. Yet MSMEs' financing constraints have persisted and even been exacerbated by regulators' push to tighten know your customer (KYC) and anti-money laundering (AML) processes. Banks' increased compliance costs raise their fixed costs of loan underwriting, disincentivizing them to issue small loans.

As banks have struggled to service MSMEs, Fintechs have proliferated around the world. Many of them are consumer-facing digital banks that lend to individuals, provide wealth management services, or enable payments. There are sets of Fintechs in just about every market that cater their products specifically to lend to or invest in MSMEs. Studies suggest that these online lender Fintechs have indeed helped bridge MSME financing gaps and been additive, providing credit to firms that have failed to secure financing from banks. For example, in the United States, where online lenders have proliferated over the past decade, Fintechs such as OnDeck, Dealstruck, Kabbage, and PayPal Working Capital have helped finance unbanked, remote, and rural firms that do not have banks in their regions.[6] Online lenders have been especially helpful to small firms with less than $1 million in revenue that have some constraint to accessing bank financing and limited collateral.[7] In France, Fintech loans have similarly been used by innovative firms with little collateral.[8] In addition, unsecured medium-term Fintech loans appear to help firms increase their pledgeable assets and expand their borrowing capacity, and thereby access financing from banks.

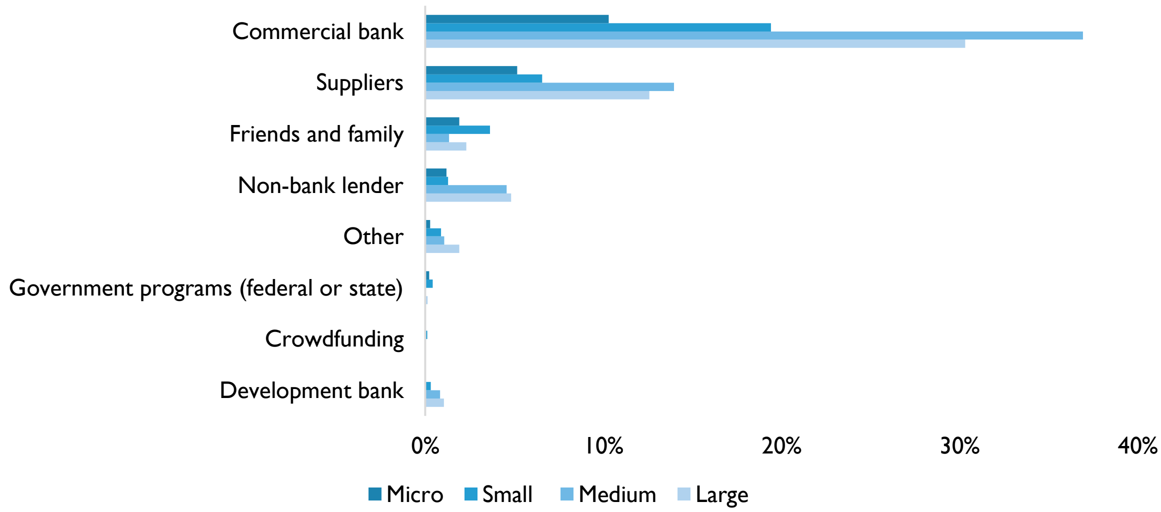
An IMF study of 1.8 million loans made by a Chinese online bank echoes this research, finding that Fintech loans benefit smaller firms based in smaller cities – and that the Fintech approach to assessing credit risk using big data and machine learning yields better predictions than traditional scorecards and other methods.[9] Another study in China found that bank-operated Fintechs facilitate banks' financing of MSMEs.[10] There is also some evidence from Germany that Fintechs can help make lending decisions more gender-blind and facilitate women-led firms' access to finance.[11]

Do Fintechs in other emerging markets and developing countries have similar positive impacts? This question is still quite unexplored, even though Fintechs have proliferated forcefully in recent years in developing countries and emerging markets such as Brazil, Colombia, Chile, Mexico, Thailand, Kenya, and Nigeria. Particularly unexplored, in both advanced and developing nations, is whether Fintechs support MSMEs that sell online. After all, online seller MSMEs often need, and struggle to access, nimble working capital solutions to fulfill online orders from impatient customers. This paper explores these questions with survey data from Mexico, an emerging market with an ecommerce boom, vibrant Fintech providers, and MSMEs that lack access to credit.

FINANCING CHALLENGES FACING MEXICAN MSMES AND ONLINE SELLERS

Mexican MSMEs have traditionally struggled to access bank loans. One fundamental reason is that many firms and their owners do not have bank accounts. Another is that banks' collateral requirements have traditionally been very steep, over 200 percent, and the average interest rate on an MSME loan in Mexico has climbed to 17.7 percent (as of 2017).[12] Fewer than a tenth of Mexican micro enterprises and fewer than a quarter of small and midsize firms accessed finance in 2018 (Figure 2).[13] Overall, MSMEs get fewer than a tenth of all bank loans in Mexico.[14] This share is also out of a proportionally smaller credit lending base than in other countries; credit supplied to the private sector in Mexico is only about one-half of what could be expected for an economy the size of Mexico's.[15]

Figure 2: Percent of Mexican Firms with Financing in 2018, by Financing Sources and Firm Size



SOURCE: INEGI. 2018. "ENCUESTA NACIONAL DE FINANCIAMIENTO DE LAS EMPRESAS."

On the supply side, Mexican banks do see an opportunity in the MSME market, but often find MSMEs to be opaque and costly to vet and monitor. Banks tend to be much more comfortable lending to MSMEs that enjoy a guarantee from Nacional Financiera (NAFIN), the Mexican development bank, but NAFIN's scalability is reportedly low.[16] Leasing companies and some 1,500 mostly informal and unregulated microfinance firms are options for MSMEs, but their interest rates are high, and their loans are often made to groups of firms, rather than to individual businesses.[17] Predatory lenders have also been an issue. Oftentimes, partially due to these challenges, Mexican MSMEs opt to self-fund, use credit cards, turn to supply chain financing from their clients, or simply forego external financing altogether.

At the same time, Mexico is at the forefront of Latin America's Fintech revolution. Many Fintechs service consumers and enable payments but some are prominent MSME lenders (Table 1). Among the market leaders are Konfio, which issues loans of up to US$150,000, and Credijusto that offers business loans up to US$1.4 million. The Mexican Fintech market has grown even more sophisticated and formal after the 2018 passage of the Fintech law, which set the parameters for market participants. The law has strict licensing requirements that have been criticized as undermining competition in the sector, but they have also arguably helped pre-empt unviable and fraudulent operators. It also includes a regulatory sandbox for Fintechs to rapidly test their products and services in the market. In short, Mexico appears to have the demand and supply side dynamics conducive to MSME borrowing from Fintechs.

Table 1: Mexican Fintechs that Lend to MSMEs, by Selected Characteristics

Name	Lending products	Loan amounts	Loan duration	Fees	Stated loan approval times	Other products	Criteria for applicants	Data to be submitted	Source of capital for on-lending
Credijusto	Business loan	200,000-30 million pesos/10,000-1.5 million USD	12-48 months	Cost of value estimate of the property for collateral	Receive a financing offer immediately, subject to receipt of complete documentation	Leasing for machinery, equipment	• Registered as a Legal Entity, Natural Person with Business Activity or Tax Incorporation Regime • At least 1 year of operations • Verifiable sales above 1 million pesos per year • Lienfree property for collateral	• Requested loan amount • Annual sales Age of company Type of business (how it is registered) and industry • Property for collateral	Institutional, including Credit Suisse and Goldman Sachs
Konfio	Business loan for entrepreneurs	100,000-850,000 pesos/5,000-43,000 USD	3-24 months fixed annual interest rate, annual weighted average is 28%	5% of loan amount	7 minutes for approval		• 25 to 68 years old for individuals and up to 75 for legal entity • Physical person with business • 3 months in operation or 3 months of billing • 3month residence • Good credit history • Valid official identification • Proof of address	• Identification • RFC • CIEC key	Institutional, including Goldman Sachs
	Business loan for SMEs, can turn into recurring line of credit	150,000-3 million pesos/7,100-150,000 USD	6-24 months fixed annual interest rate, annual weighted average is 29%	5% of loan amount	7 minutes for approval	Credit card, financial management app (Kompás)	• Legally incorporated in Mexico • 3 months in operation or 3 months of billing • 3month residence • Good credit history • Valid official identification • Proof of address		
Creze	Business loan	Up to 1.5 million pesos/75,000 USD	No guarantee Rate from 27% 3-18 months term	4% of loan amount	24 hours for loan offer	Factoring	• Registered with the SAT (Tax Administration Service) as a legal person, an individual with business activity, or RIF • At least 6 months of operations • Billing at least 50,000 pesos per month	• Business registration documents • Proof of fiscal situation • Last 3 months of complete account statements IFE / INE credential, or passport	Institutional

Name	Lending products	Loan amounts	Loan duration	Fees	Stated loan approval times	Other products	Criteria for applicants	Data to be submitted	Source of capital for on-lending
	Business loan	1.5 million-5 million pesos/75,000-250,000 USD	Real estate guarantee Rate from 20% 6-36 months term	4% of loan amount	24 hours for loan offer	Factoring	• Registered with the SAT (Tax Administration Service) as a legal person, an individual with business activity, or RIF (sole proprietor) • At least 6 months of operation • Billing at least 50,000 pesos per month	• Proof of current address • Bureau consultation authorization with correct data and signed	
PitchBull	Business loan	Up to 250,000 pesos/12,500 USD	6-24 months Average fixed annual rate 23%	4% of loan amount	24 hours for approval		• RIF status • At least 2 years of operation registered with the SAT • At least 1 million pesos/47,650 USD in revenue in previous year	• Last 12 bank statements for company • Tax return • Proof of fiscal status of company • Valid identification of individual or if company, legal representative • Proof of address If company, incorporation documents	Crowdfunding model until around September 2019, when it decided to become SOFOM and seek Institutional backing
	Business loan	Up to 350,000 pesos/17,700 USD	6-24 months Average fixed annual rate 23%	4% of loan amount	24 hours for approval		• At least 2 years of operation registered with the SAT • At least 1 million pesos/47,650 USD in revenue in previous year		
	Business loan	Up to 1 million pesos/50,000 USD	6-24 months Average fixed annual rate 23%	4% of loan amount	24 hours for approval		• At least 3 years of operation registered with the SAT • At least 3 million pesos/143,000 USD in previous year		

III. DATA AND MAIN FINDINGS

Fielded on 2-9 September 2020, the survey questionnaire drew in part on a 2018 Fintech survey designed for U.S. MSMEs by Barbara J. Lipman and Ann Marie Wiersch of the U.S. Federal Reserve System, and yielded 2,034 responses from firms across size categories and sectors (Figures 4-5).[18] Thirty-six (36) percent of the surveyed firms are led by a woman. Consistent with other surveys, small firms tend to be less likely than large ones to sell online: 11 percent of micro enterprises and 21 percent of small firms report selling via their own online stores in contrast to34 percent of larger firms (Figure 6). Midsize and large firms are also likelier to use global marketplaces such as Amazon to sell online – for example, 20 percent of midsize firms sell on local and regional marketplaces and 13 percent sell on global marketplaces. These groups overlap – 64 percent of global marketplace sellers also sell on local and regional marketplaces.

Figure 3: Surveyed Firms, by Number of Full-Time Employees

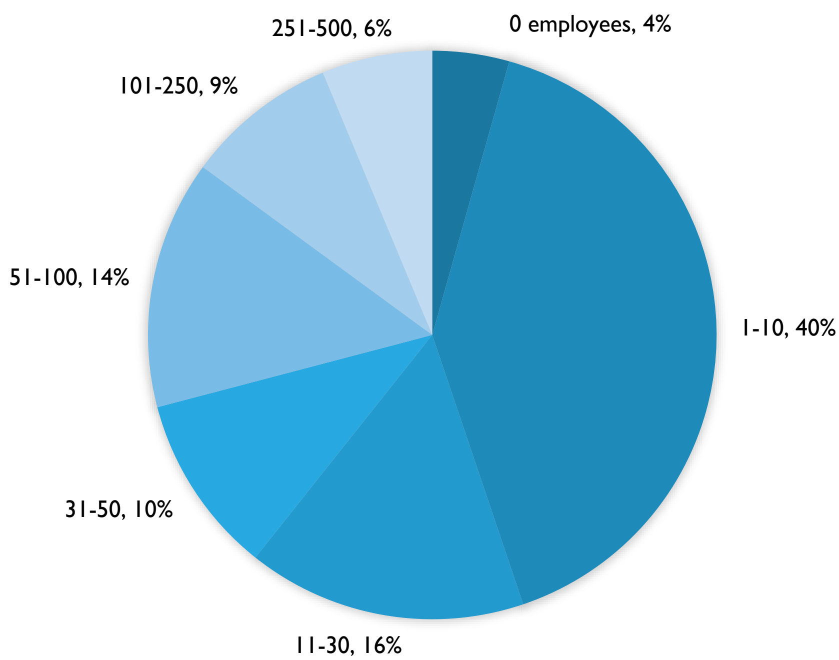


Figure 4: Surveyed Firms, by Sector

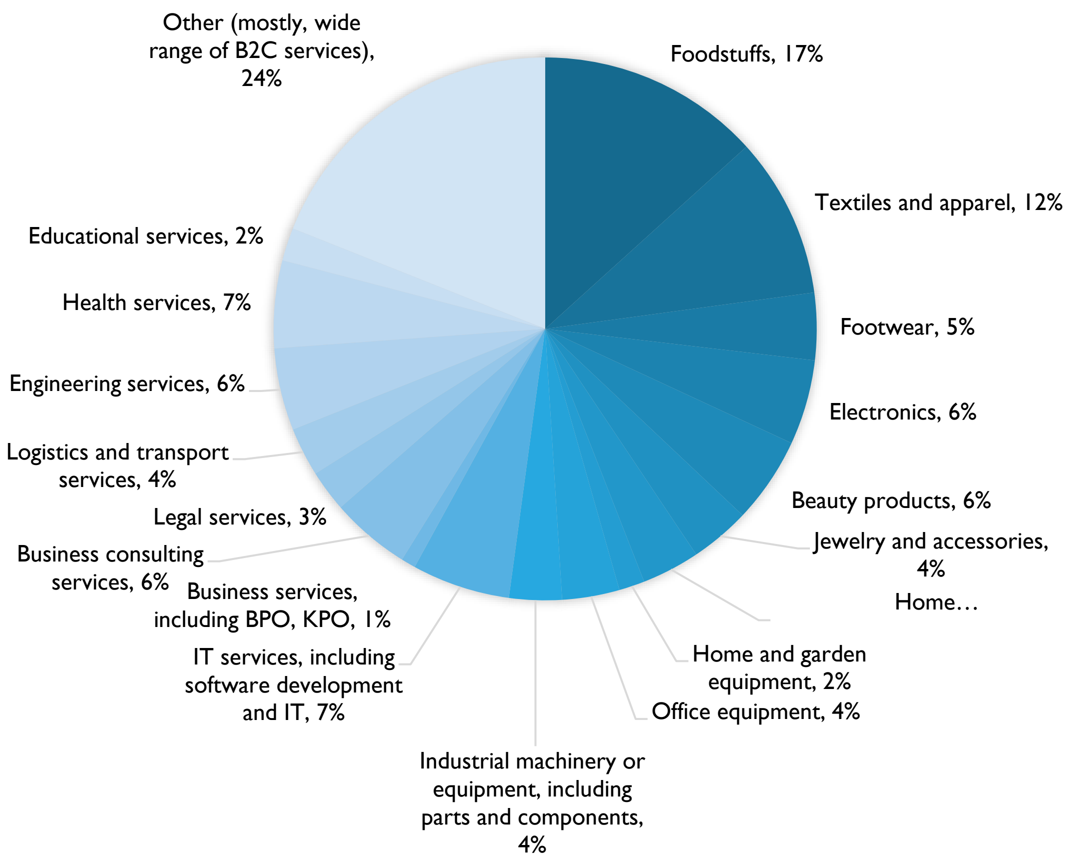
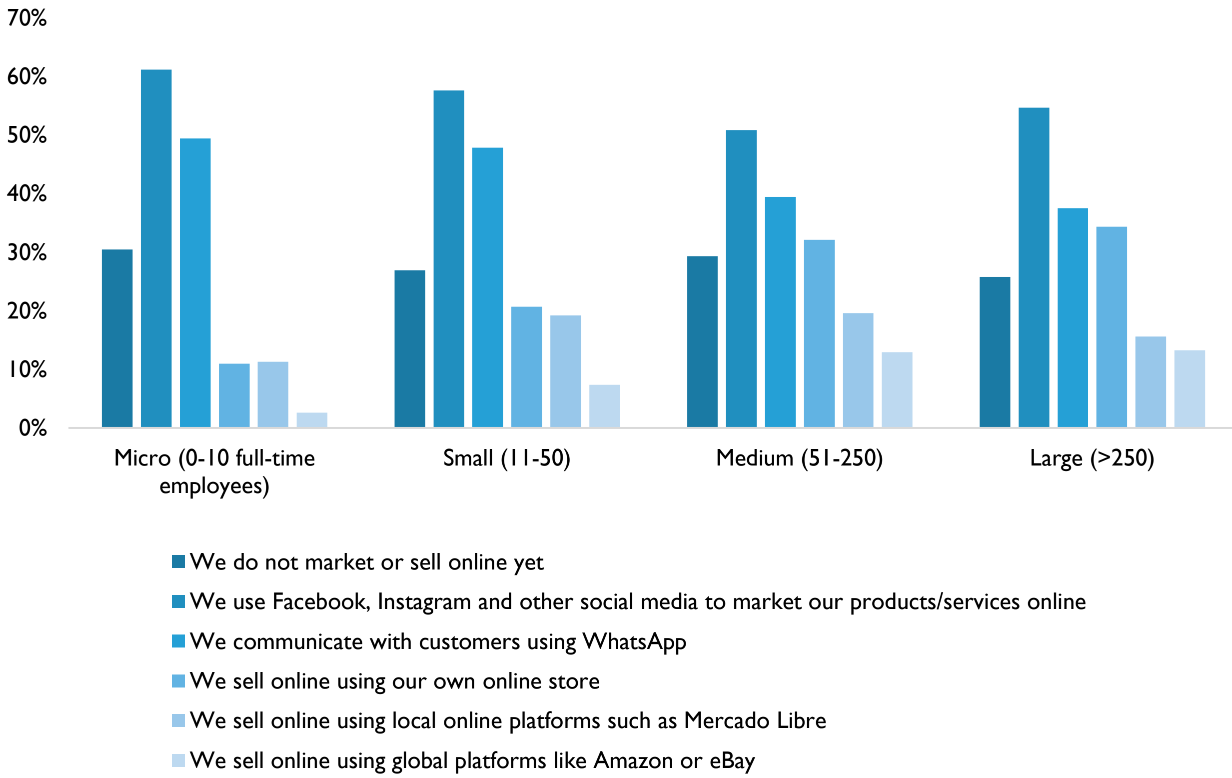


Figure 5: Surveyed Firms, by Firm Size and Use of Platforms and Marketplaces

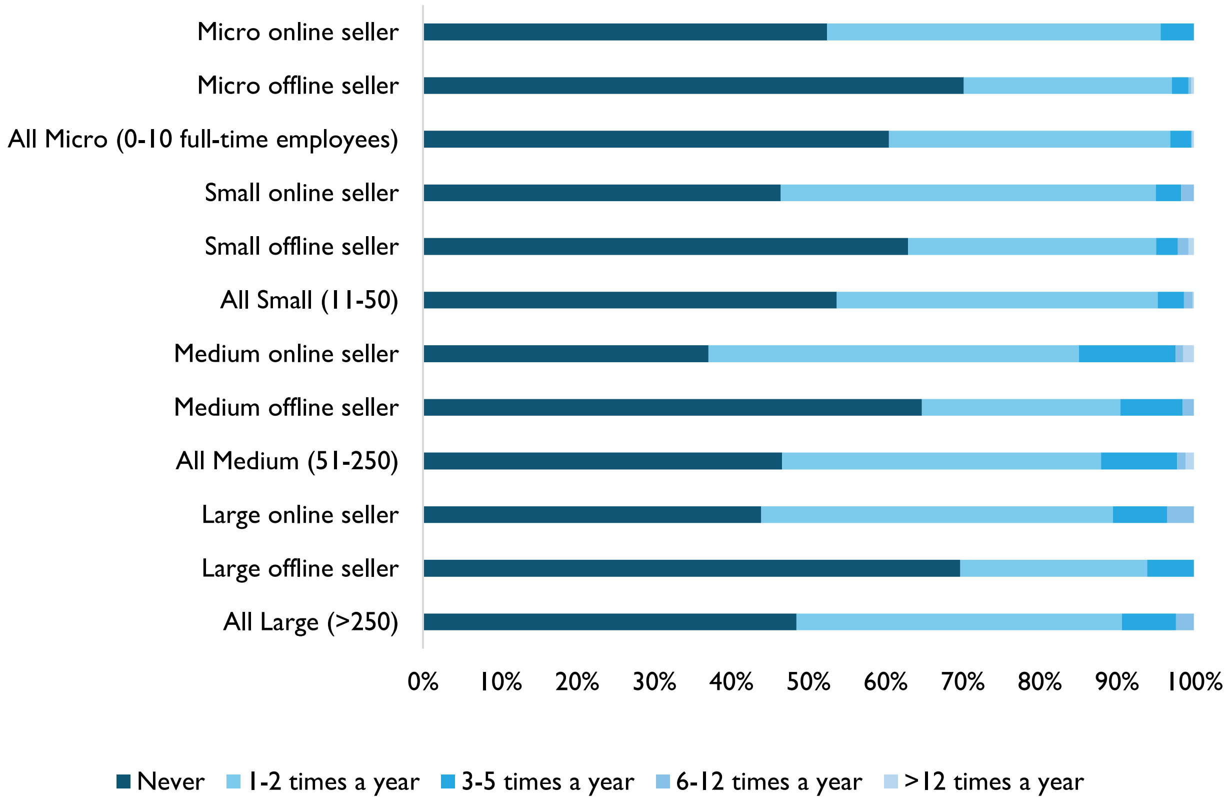


How and to what extent do Mexican firms use Fintechs? Are there significant differences in the use of Fintechs across different types of firms, such as between online and offline sellers? And what is the impact of Fintech-issued loans on firms' performance? This section provides answers, presenting ten stylized facts about Mexican firms' use of Fintechs.

1. MEXICAN MSMES BORROW INFREQUENTLY

Mexican MSMEs are conservative borrowers. Of the surveyed microenterprises, 60 percent report never having applied for a loan, 37 percent seek loans 1-2 times per year, and only 5 percent apply more than three times per year (Figure 6). Larger firms borrow more frequently – 42 percent report borrowing 1-2 times a year and 9 percent borrow more than three times per year. Online sellers are especially likely to borrow in every size category compared to offline sellers. For example, 48 percent of micro online sellers and 54 percent of small online sellers borrow at least once per year, as opposed to 30 percent of micro offline sellers and 47 percent of small offline sellers. Sectors with the more frequent borrowers include legal, engineering, and transport services; office equipment; textiles and apparel; footwear; and electronics. A quarter of surveyed firms report having grown more indebted during Covid-19, and a tenth report having borrowed more during the crisis.

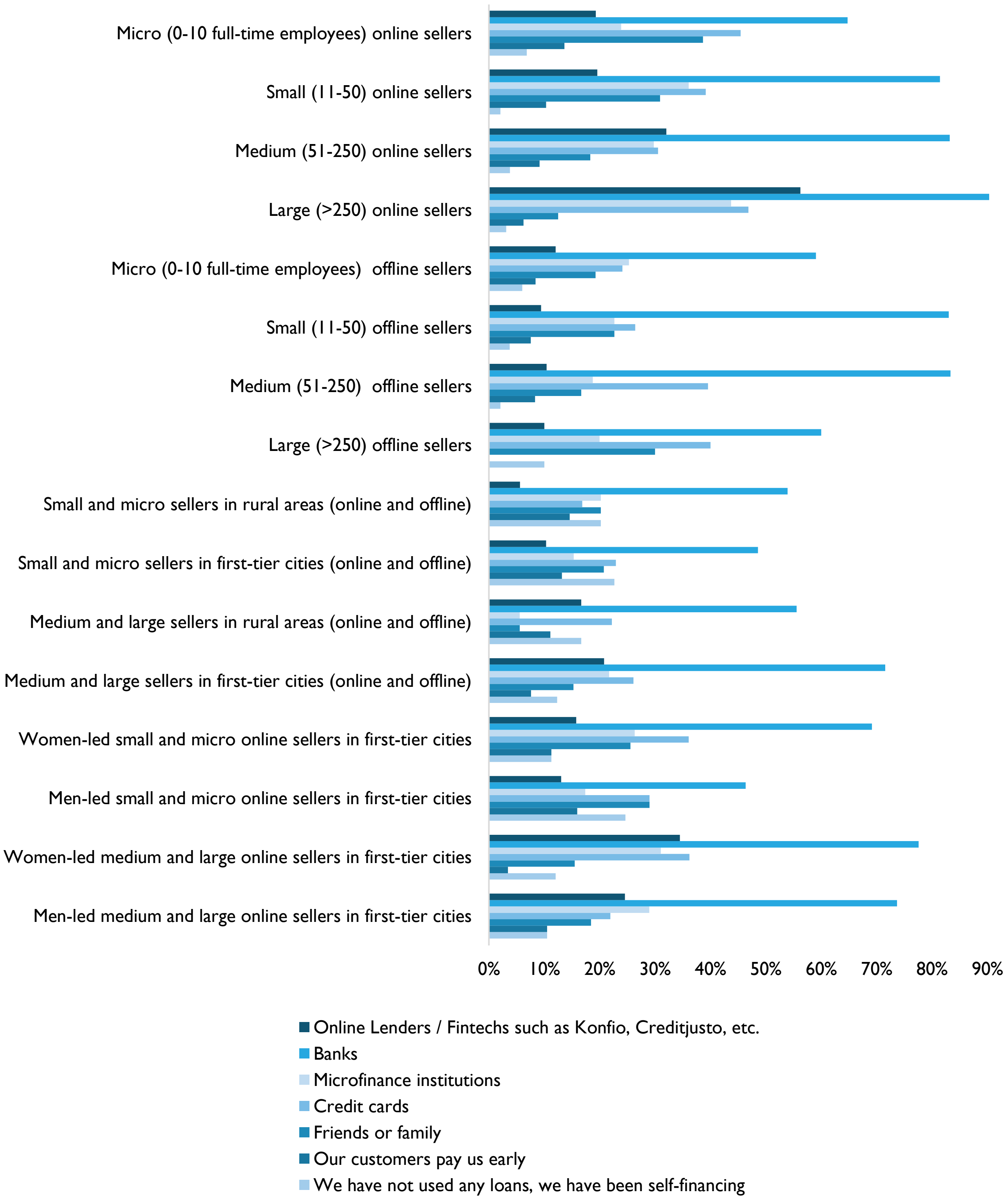
Figure 6: Surveyed Firms' Frequency of Borrowing, by Firm Size and eCommerce Use



2. FIRMS THAT PREFER TO BORROW FROM FINTECHS SHARE KEY CHARACTERISTICS

Banks are the main source of working capital for most firms in all size categories, followed by credit cards, friends and family, and microfinance entities. However, for online sellers, Fintechs are the second most widely used source of working capital. A fifth of micro and small online sellers, a third of mid-size online sellers and over one-half of large online sellers have used Fintechs (Figure 7). Only about a tenth of offline sellers across firm size categories have used Fintechs. The share of firms that have used Fintechs for working capital also varies by geography, with rural micro and small firms being notably less likely to use Fintechs than their peers in urban areas (6 percent vs. 10 percent). There are no major differences between comparable women- and men-led firms.

Figure 7: Surveyed Firms' Use of Different Sources for Working Capital, by Firm Size and eCommerce Use



Fintech borrowers are more likely be B2B companies that sell to distributors or other firms rather than to consumers. However, many of these B2B sellers also report selling some of their inventory directly to consumers.

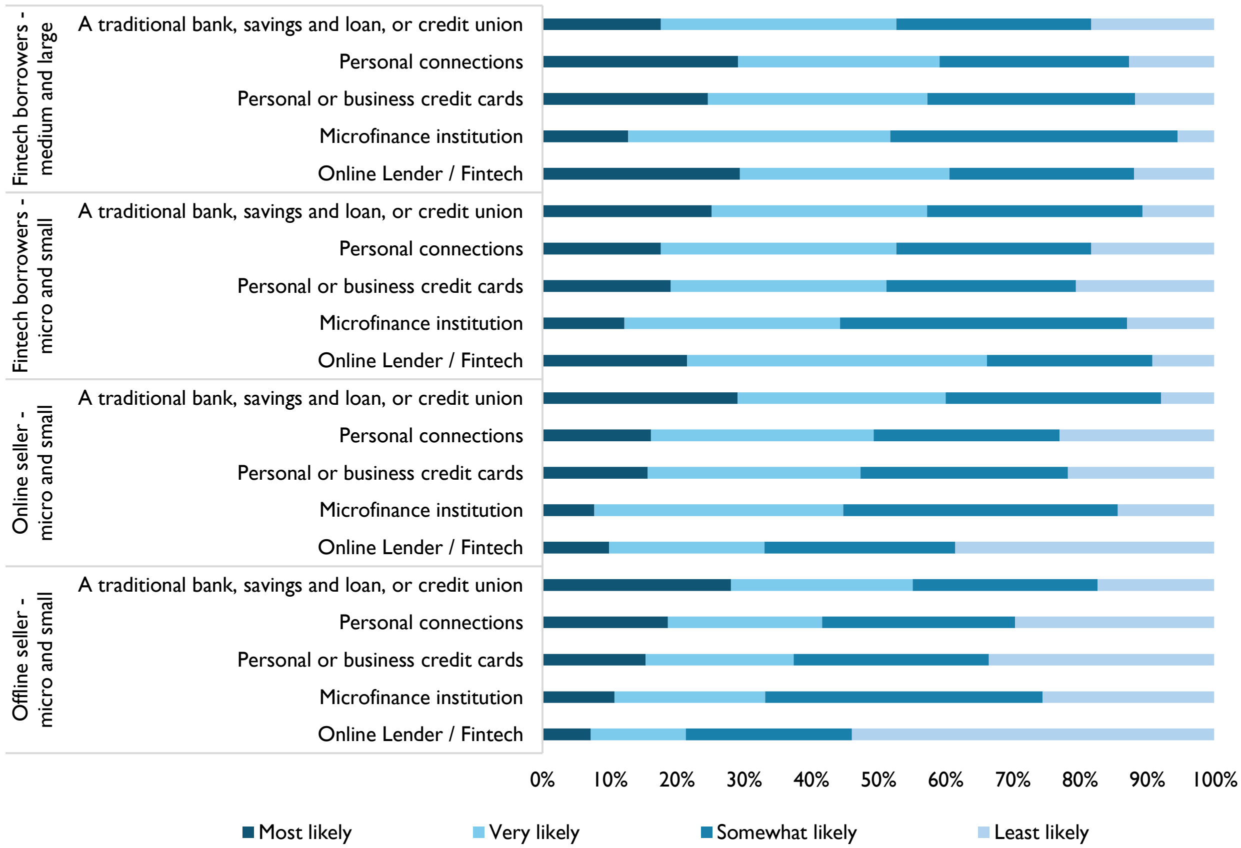
The use of Fintechs by middle market and large firms is interesting given that large firms typically have established banking relationships and likely can secure financing at a lower cost from banks. One explanation may be that Fintechs and banks provide complementary financing options to these firms. Larger firms may be turning to Fintechs to quickly access small loans that would take much too long to secure from banks: Fintechs may complement bank financing and enable firms to meet specific needs, such as for small, fast-disbursing working capital loans to fulfill orders. Firms may meanwhile use banks for larger loans with longer payback periods. In addition, Mexican banks' collateral requirements and interest rates are quite high, which may make the tradeoff when borrowing from Fintechs more palatable than it might be in advanced markets.

An alternative explanation can be that some larger firms use Fintechs to substitute for banks. For example, it could be that the larger Fintech borrowers are firms that have for one reason or another been rejected by banks and then turned to financing from other sources like Fintechs. In the United States, there is evidence that significant numbers of mid-cap companies that are too leveraged to access financing from banks have been turning to alternative financing sources, some possibly to newer Fintechs that specifically cater to middle market firms.[19] According to the Mexican statistical agency INEGI, 70 percent of large and 60 percent of midsize firms whose loan applications are rejected by banks sought and got financing from elsewhere, as opposed to fewer than a third of micro and small firms.[20]

3. ONE THIRD OF MEXICAN FIRMS PREFER FINTECHS AS A SOURCE OF FINANCING

Firms of all sizes report that banks are their most preferred source of commercial loans: twenty-nine (29) percent of micro and small firms report that banks are the "most likely" source of loans, and another 31 percent state banks would be a "very likely" source (Figure 8). Firms that have previously borrowed from Fintechs consider them a likely source of commercial loans. Approximately 22 percent of micro and small Fintech borrowers and 29 percent of midsize and large Fintech borrowers see Fintechs as their likeliest source of commercial loans. Further, 66 percent of micro and small Fintech borrowers and 62 percent of mid-size and large Fintech borrowers rate Fintechs as their top-2 likeliest sources of loans, alongside banks.

Figure 8: Percent of Surveyed Firms Indicating Their Likelihood of Using Various Sources for Commercial Loans



4. URBAN FIRMS THAT HAVE USED FINTECHS ARE MORE LIKELY TO FAVOR FINTECHS; RURAL FIRMS ARE LEAST DISPOSED TO FINTECHS

Fast-growing online sellers in Tier 1 and Tier 2 metropolitan regions that have used Fintechs are especially likely to favor Fintechs. Over 85 percent of them indicate Fintechs are their likeliest or very likely source of capital (Figure 9). Prior use of Fintechs appears to drive a preference for Fintechs loans. Only 25 percent of urban micro and small online sellers that have not used Fintechs consider Fintechs as the likeliest or a very likely source of future commercial loans. Third-tier city and rural firms that have not used Fintechs are unlikely to prefer Fintechs for commercial loans, and fewer than a tenth of them see Fintechs as a very likely choice of financing. Firms in the poorer southern states are less likely to have used Fintechs (Figure 10).

Figure 9: Percent of Surveyed Firms by Likelihood of Using Fintechs for Commercial Loans, by Current Fintech and eCommerce Use and Firm Size

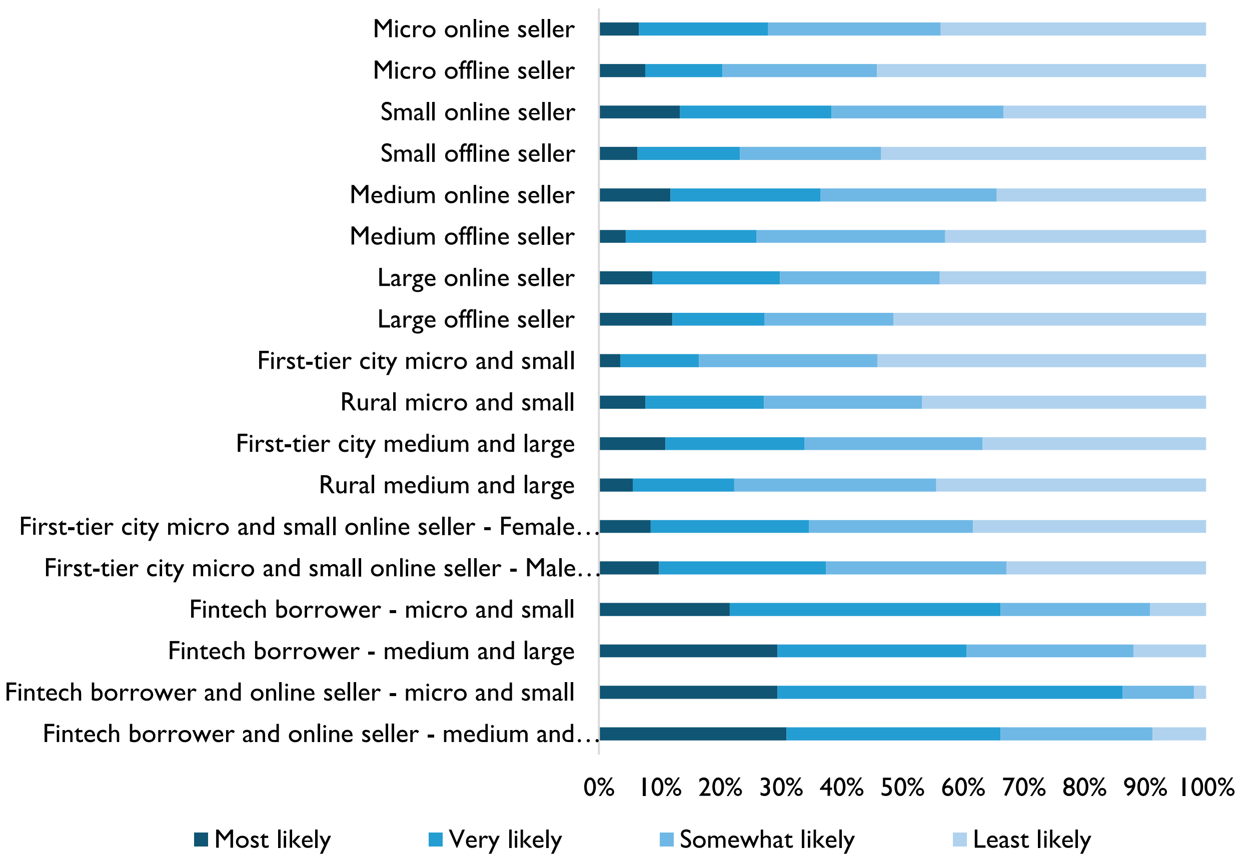


Figure 10: Surveyed Online Seller Micro and Small Firms' Likelihood of Using Fintechs, by Municipality

BUBBLE SIZE COMMENSURATE TO THE NUMBER OF FIRMS

Overall, these data suggest that there are four archetype enterprise borrowers in Mexico (Table 2):

- **Current Fintech users**: These firms are fast-growing small, midsize, and large urban online sellers across sectors. About one-half of them export. These firms need financing to fulfill orders and to grow, know about Fintechs, and are accustomed to transacting and accessing services online. Many of these firms can access financing from sources other than Fintechs. Thirty-seven (37) percent of them state they could get a loan from elsewhere.
- **Next Fintech users:** These firms are urban micro and small online sellers across sectors in major metropolitan areas. A third of them export. They indicate that Fintechs are the "most likely" or a "very likely" source of funding for them, but they have yet to borrow from Fintechs to meet their working capital needs.
- **Potential Fintech users:** These firms are offline and online sellers in major cities and tier-2 cities. About a third of them export. They see Fintechs as a "somewhat likely" financing source, and they have not borrowed from Fintechs yet. These firms represent a wide variety of goods and services sectors, especially IT, engineering and health services.
- **Least likely Fintech users:** These firms are second- and third-tier city and rural micro and small offline sellers. They see Fintechs as the "least likely" financing source, and they have not borrowed from Fintechs yet. These firms are also less likely to borrow in general. Only a fifth of them believe they could access external financing.

Overall, the likeliest Fintech users are dynamic, digitized, and export-driven companies that could have a chance to access bank loans. In contrast, rural offline sellers see Fintechs as the last resort. Paradoxically, they also typically have most significant financing constraints and thus could benefit from Fintechs to bridge their financing gaps.

Table 2: Archetype Fintech Users, by Use of Fintechs

Type		Size	Sector	Geography	Sell online	Export	Growth per annum	Prioritizes in borrowing	% That state they can get loans from elsewhere
A	**Current Fintech users**	Medium and large	Wide variety of goods and services sectors	Mostly metropolitan areas, also tier 2 cities	50% have own online store ~25-30% sell on regional marketplaces 15% sell on global marketplaces	~ 50% export, typically to 1-3 markets	Typically >5-10%	Flexible loan terms; flexible payment terms	37%
B	**Next Fintech users**	Small	Wide variety of goods and services sectors, esp. IT and professional services	Metropolitan areas and tier 2 cities	20% have own online store 16% sell on local and regional marketplaces <10% sell on global marketplaces	~ 33% export, typically to 1-3 markets	Typically >5-10%	Loan terms, low monthly payments, speed of issuance	30%
C	**Potential Fintech users**	Micro and small	Wide variety of goods and services sectors, esp. IT, engineering and health services	Metropolitan areas and tier 2 cities	20% have own online store 13% sell on local and regional marketplaces 7% sell on global marketplaces	~ 33% export, typically to 1-2 markets	About 5%	Loan terms, low monthly payments, likelihood of getting approved	31%
D	**Least likely Fintech users**	Micro and small	Wide variety of goods and services sectors, esp. agricultural products and some services such as health services	Tier 2/3 cities, rural areas	17% have own online store 13% sell on local and regional marketplaces 5% sell on global marketplaces	~ 25% export, typically to 1-2 markets	About 5%	Loan terms, low monthly payments, can trust lender, likelihood of getting approved	21%

5. FINTECH LOANS TEND TO BE SMALLER AND USED FOR WORKING CAPITAL, PROMOTION, OR NEW EQUIPMENT

Firms typically seek less than US$20,000 from Fintechs; however, volumes sought are highly correlated with firm size, with large firms seeking larger volumes (Figure 11). Women- and men-led firms of similar sizes borrow similar amounts.

MSMEs tend to use loan proceeds from Fintechs to purchase supplies and materials to fulfill orders, and to invest in marketing services or in new equipment or machinery (Figure 12). A considerable share of firms also use Fintech loans to pay down debt. Firms are less likely to use Fintech loans to hire workers. Most firms that have used Fintechs report interest rates lower than 15 percent, with payback periods of less than six months (Figures 13 and 14).

Figure 11: Surveyed Firms' Amount borrowed from Fintechs, by Firm Size and Ecommerce Use

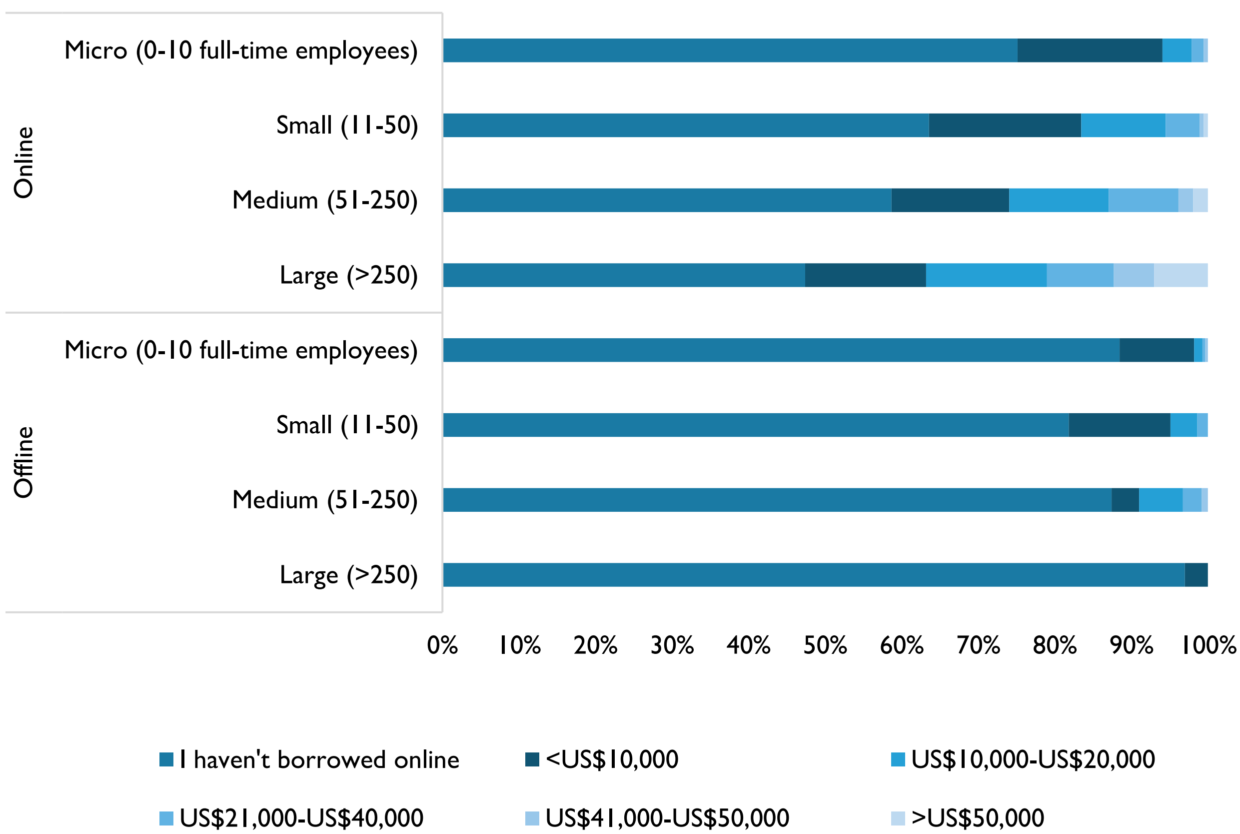


Figure 12: Percent of Firms by Use of Fintech Loan Proceeds, by Size and Ecommerce Use

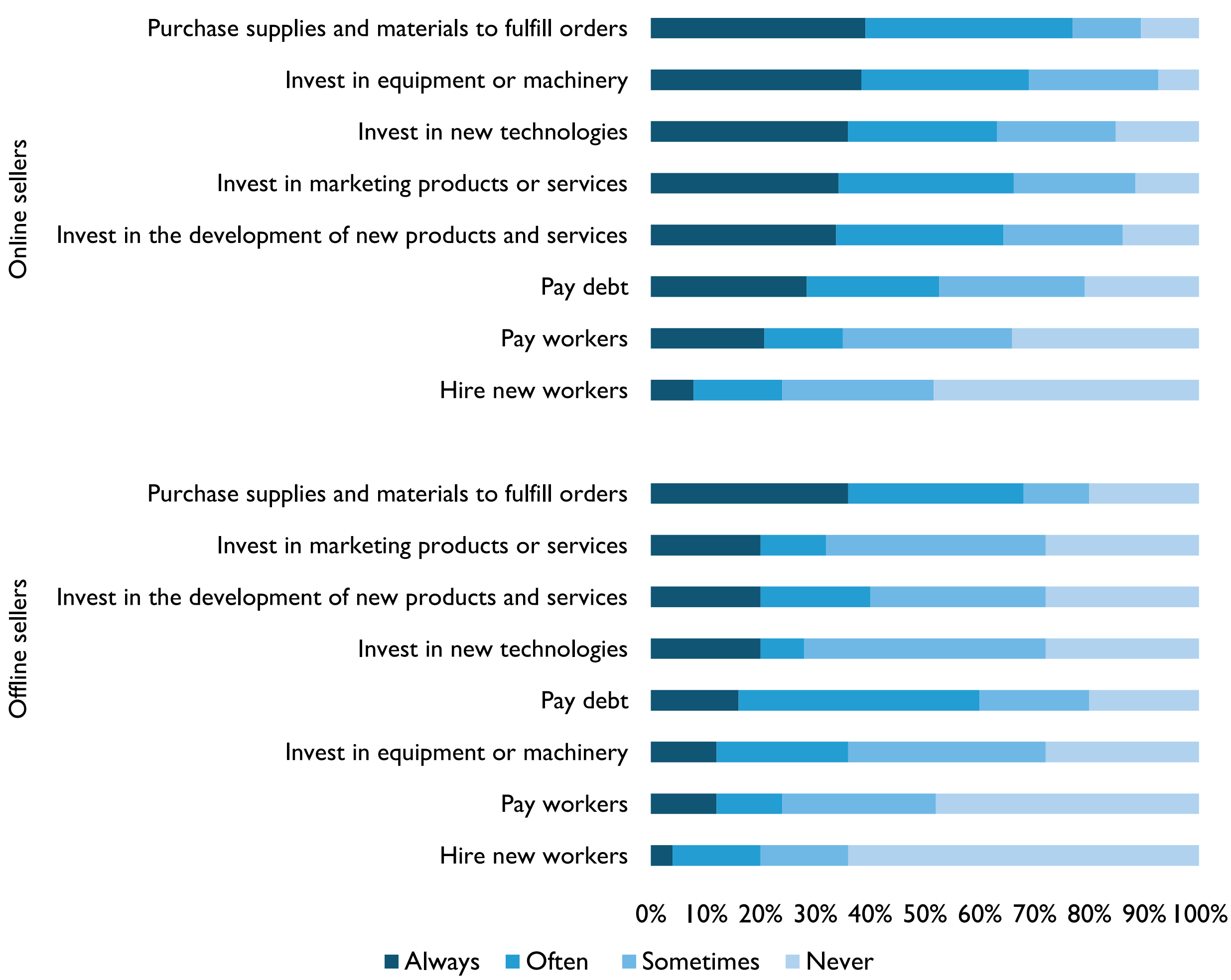


Figure 14: Percent of Firms by Fintech Payback Period, by Firm Size

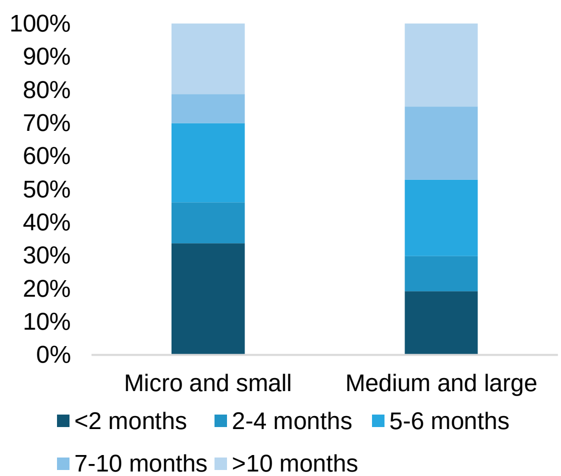
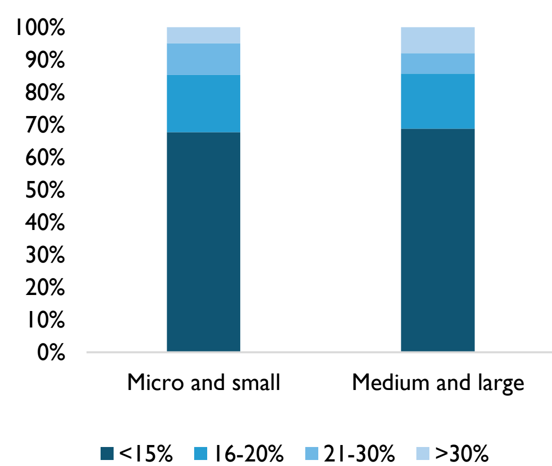


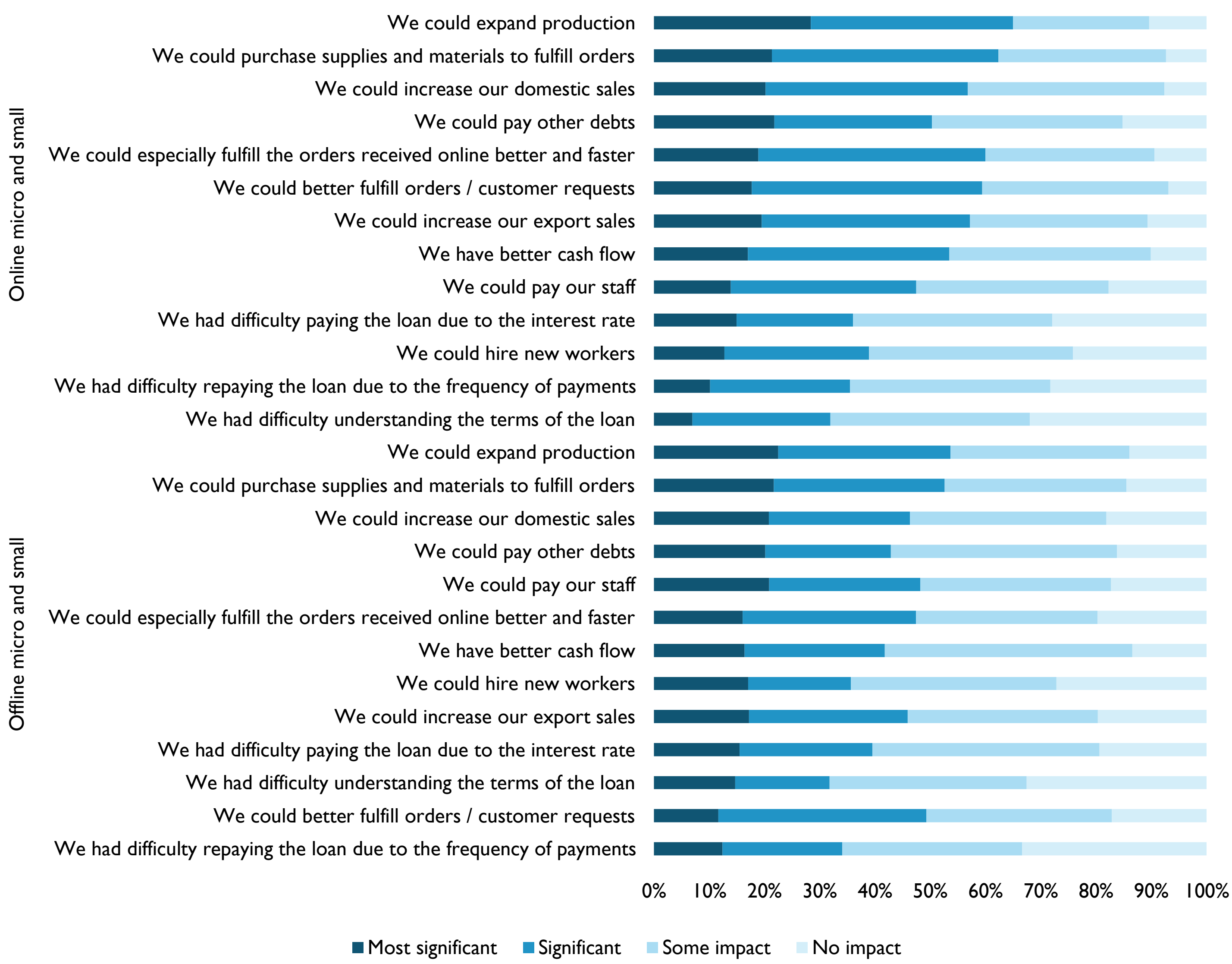
Figure 13: Percent of firms by Fintech Interest Rate Charged, by Firm Size



6. FINTECH LOANS HELP FIRMS EXPAND PRODUCTION, FULFILL ORDERS, AND BOOST SALES

Firms that have used Fintechs report important gains. Fintech-issued loans have helped them expand production, purchase input materials and supplies, and fulfill orders received online (Figure 15). Over a quarter of micro and small online sellers report that Fintech-issued loans also enabled them to expand exports and domestic sales. The impacts are similar among comparable men- and women-led firms. Offline sellers that have borrowed from Fintechs report similar gains, albeit at somewhat lower magnitude.

Figure 15: Fintech Loans' Impact, by Borrower Firm Size and Ecommerce Use



7. SMALL FIRMS SEEK CUSTOMIZED LENDING PRODCUTS, LARGE FIRMS PRIORITIZE COST OF CAPITAL

What do Mexican firms look for in a lender in general, and in a Fintech, in particular? Surveyed MSMEs highly value lenders that meet their unique needs and have low monthly payments (Table 3). Firms that have borrowed from Fintechs are particularly focused on the lenders' ability to customize products and offer flexible repayment terms. For small firms, knowing and trusting the lender is also an important factor in choosing a lender. For large firms, the cost of capital tends to be the paramount consideration, likely because large firms have many potential funding options.

Table 3: Surveyed Firms' Prioritization of Lenders, by Firm Size and Criteria (1= least important, 8 = most important)

	Firm size	The best price for the loan	Quick and easy loan application process	The lender offers the terms that best suit our needs	Faster disburseme nt than from other lenders	Probability application will be approved	Low monthly payments	Flexible repayment terms	Lender I know and trust
Online sellers	Micro (0-10)	5.7	5.5	6.2	5.6	5.9	6.2	5.9	6.0
	Small (11-50)	5.4	5.5	6.0	5.8	5.7	6.0	5.8	5.8
	Medium (51-250)	6.0	5.9	6.2	5.9	6.1	6.2	6.1	6.2
	Large (>250)	6.6	6.0	6.8	6.4	6.4	6.4	6.2	6.5
Offline sellers	Micro (0-10)	5.7	5.5	6.2	5.6	5.9	6.2	5.9	6.0
	Small (11-50)	5.4	5.5	6.0	5.8	5.7	6.0	5.8	5.8
	Medium (51-250)	6.0	5.9	6.2	5.9	6.1	6.2	6.1	6.2
	Large (>250)	6.6	6.0	6.8	6.4	6.4	6.4	6.2	6.5
Fintech borrowers	Micro and small	5.9	6.2	6.3	5.9	6.0	6.2	6.1	5.85
	Medium and large	6.3	6.4	6.6	6.4	6.3	6.4	6.5	6.42
All firms	Micro (0-10)	5.3	5.3	5.8	5.3	5.5	5.9	5.7	5.7
	Small (11-50)	5.2	5.4	5.8	5.4	5.6	5.8	5.7	5.6
	Medium (51-250)	5.8	5.8	6.1	5.8	5.9	6.0	5.9	6.0
	Large (>250)	6.2	5.8	6.5	6.1	6.1	6.3	6.1	6.3

MSMEs' choices of loan products confirm the preference for simplicity and flexibility. Shown three different loan structures, MSMEs favor Option B: loan with a simple interest rate and straight-forward flat fee (Figures 16 and 17). Firms commented as pros that the interest was low and there were no hidden fees. In a study in the United States, SMEs also favored Option B.[21] Firms that have borrowed from Fintechs also overwhelmingly chose Option B. Offline sellers frequently chose Option B, alongside Option A. Option C, akin to a more complex revenue-sharing arrangement, came in a distant last.

Figure 16: Three Loan Options Shown to Mexican MSMEs

Product A

"Our loans have a single, fixed fee that you'll know before you sign up. There's no periodic interest, no hidden fees, and no late fees."

Sample loan:
Business's annual sales: $500,000
Loan amount: $50,000

Repayment percentage options*	One-time fixed fee**	Total to be repaid
30%	$2,300	$52,300
20%	$3,500	$53,500
10%	$7,700	$57,700

*Repayment percentage is the percent of each sale that is deducted to repay the loan. Choosing a higher repayment percentage lowers your fee. Choosing a lower repayment percentage results in a higher fee, but more flexibility for your business since you'll get to keep a larger percentage of your sales.

**Your actual fee is based on your business's sales history, your loan amount, and the repayment percentage you choose.

Product B

"Apply online in just minutes, and receive funding as fast as one day to grow and invest in your business. Rates as low as 9%."

Sample loan:

Loan amount: $50,000
Repayment period: 12 months
Payment frequency: Weekly
Simple interest*: 9%
Interest cost: $4,500
Total payback amount: $54,500

*Simple interest calculates the total amount of interest you pay as a percentage of your loan amount. It is not an annualized rate. This rate excludes any fees, including a one-time origination fee of 3.0%.

Product C

"Our cash advance product offers flexible payments and no hidden costs."

Sample product:

Business's annual sales: $500,000 (about $2,000 per day, on average, Monday-Friday)
Merchant cash advance amount: $50,000
Cost: 1.2 / factor
Repayment amount*: $60,000

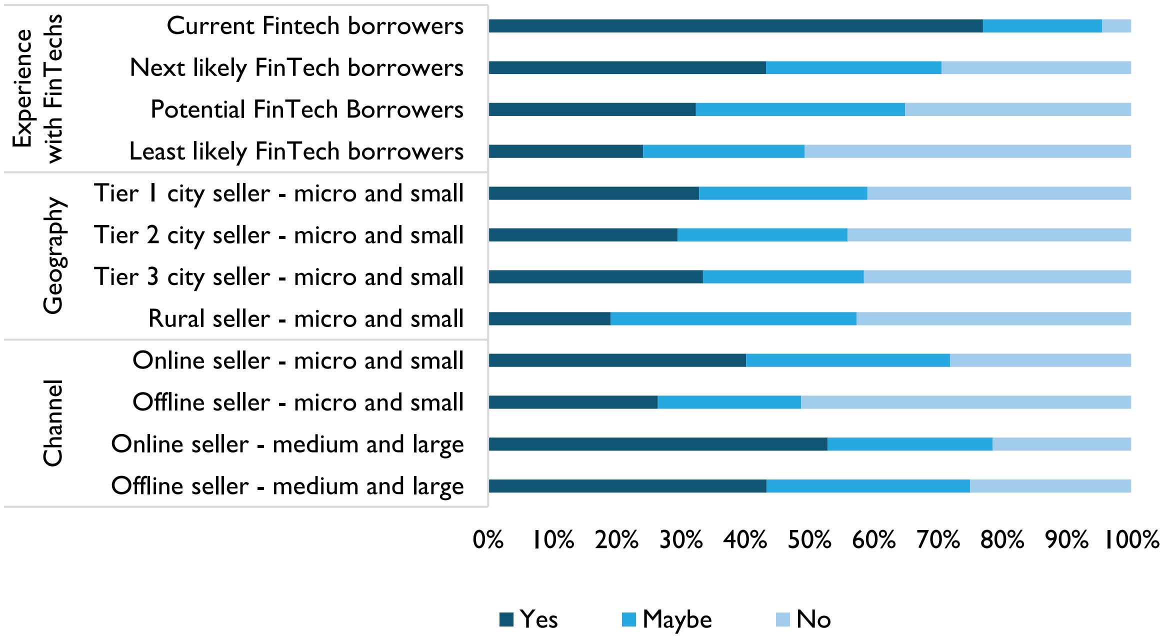
*We either take a small percentage from your daily credit card sales or a daily ACH payment from your bank.

Rather than fixed payments like traditional business loans, the repayment for a merchant cash advance is totally flexible and is structured to fluctuate with the cash flow of the business. There is no set payback period with merchant cash advances, because the payments are aligned with the income of the business.

Our merchant cash advances don't use interest rates, but instead a fixed cost or "factor rate" that does not change throughout the duration of the MCA.

SOURCE: BARBARA J. LIPMAN AND ANN MARIE WIERSCH, "BROWSING TO BORROW: "MOM & POP" SMALL BUSINESS PERSPECTIVES ON ONLINE LENDERS," FEDERAL RESERVE SYSTEM, JUNE 2018.

Figure 17: Surveyed Firms' Preference of Loan Options A, B or C, by Firm Size, Ecommerce Use, and Experience Borrowing from Fintechs



8. MEXICAN MSMES' AWARNESS OF FINTECHS IS HIGH BUT VARIES BY FIRMS' LOCATION AND ONLINE PRESENCE

Mexican Fintech borrowers appear to be pleased with Fintechs and want to use Fintechs to meet their financing needs - so why don't more MSME borrow from Fintechs? Part of the answer is MSMEs' limited awareness about Fintechs. Shown images of various online lenders' logos, 32 percent of micro and small firms and 48 percent of large firms state they have definitely received promotional materials or seen advertisements by these various Fintechs, and another 26 percent in both groups believed they have at some point seen promotional materials by these firms (Figures 18 and 19). Exposure to Fintechs varies a great deal by firm size, online presence, and experience with Fintechs. Seventy-six (76) percent of micro and small firms and 77 percent of midsize and large firms that sell online and that have borrowed from Fintechs recognized one or more of the logos with certainty. However, only a quarter of micro and small offline sellers and 40 percent of midsize and large firms that had not borrowed from Fintechs recognized them.

Figure 18: Mexican Fintechs' Logos Shown to Surveyed Firms

Credijusto.com

konfio

PitchBull
Préstamos para PyMEs

Prestadero.com

ePesos

Figure 19: Surveyed Firms' Recognition of Main Fintechs Lending to Businesses (Response to question: "Have you received calls, emails or announcements from online lenders like ones above?"), by Firm Size, Ecommerce Use and Experience Borrowing from Fintechs

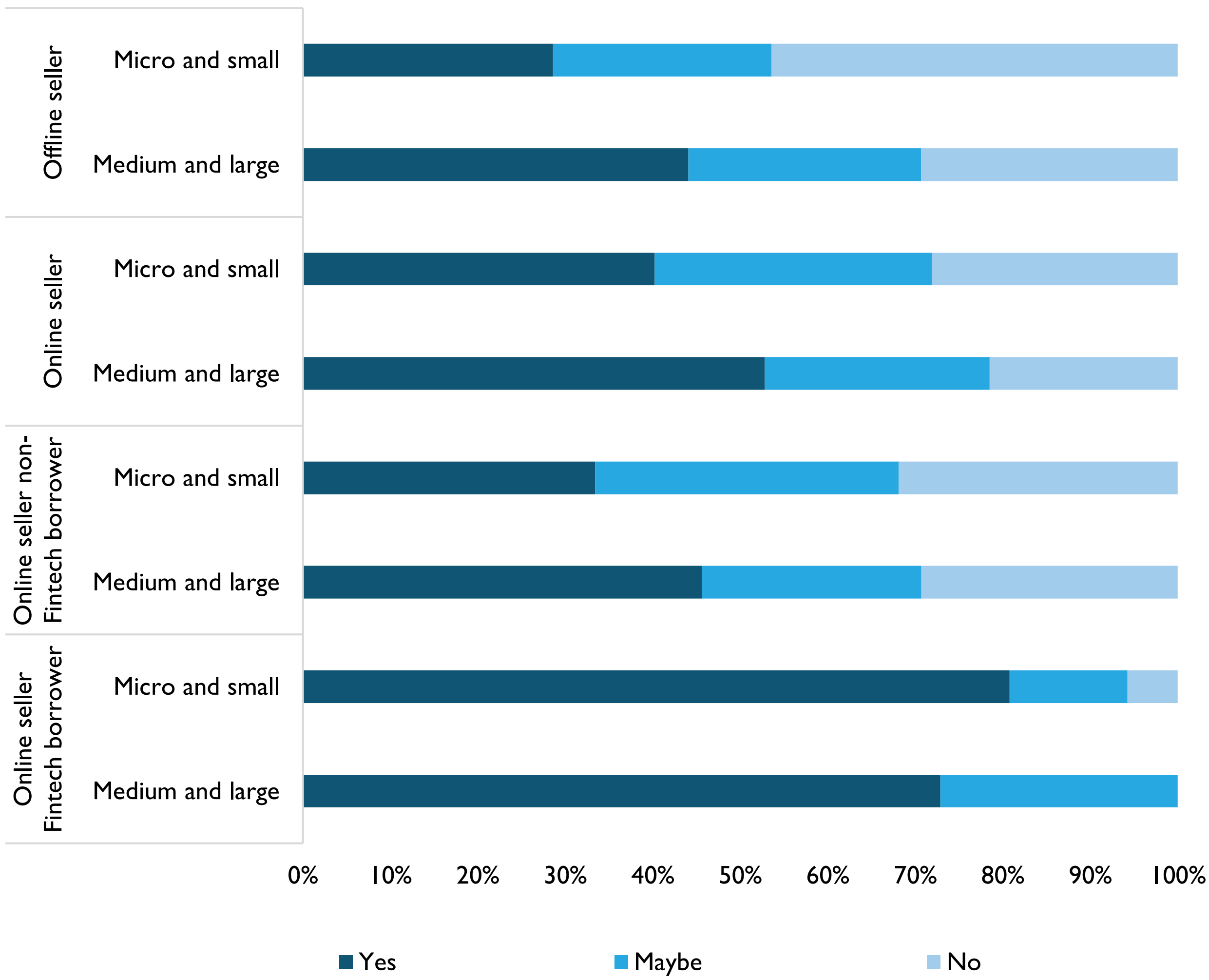
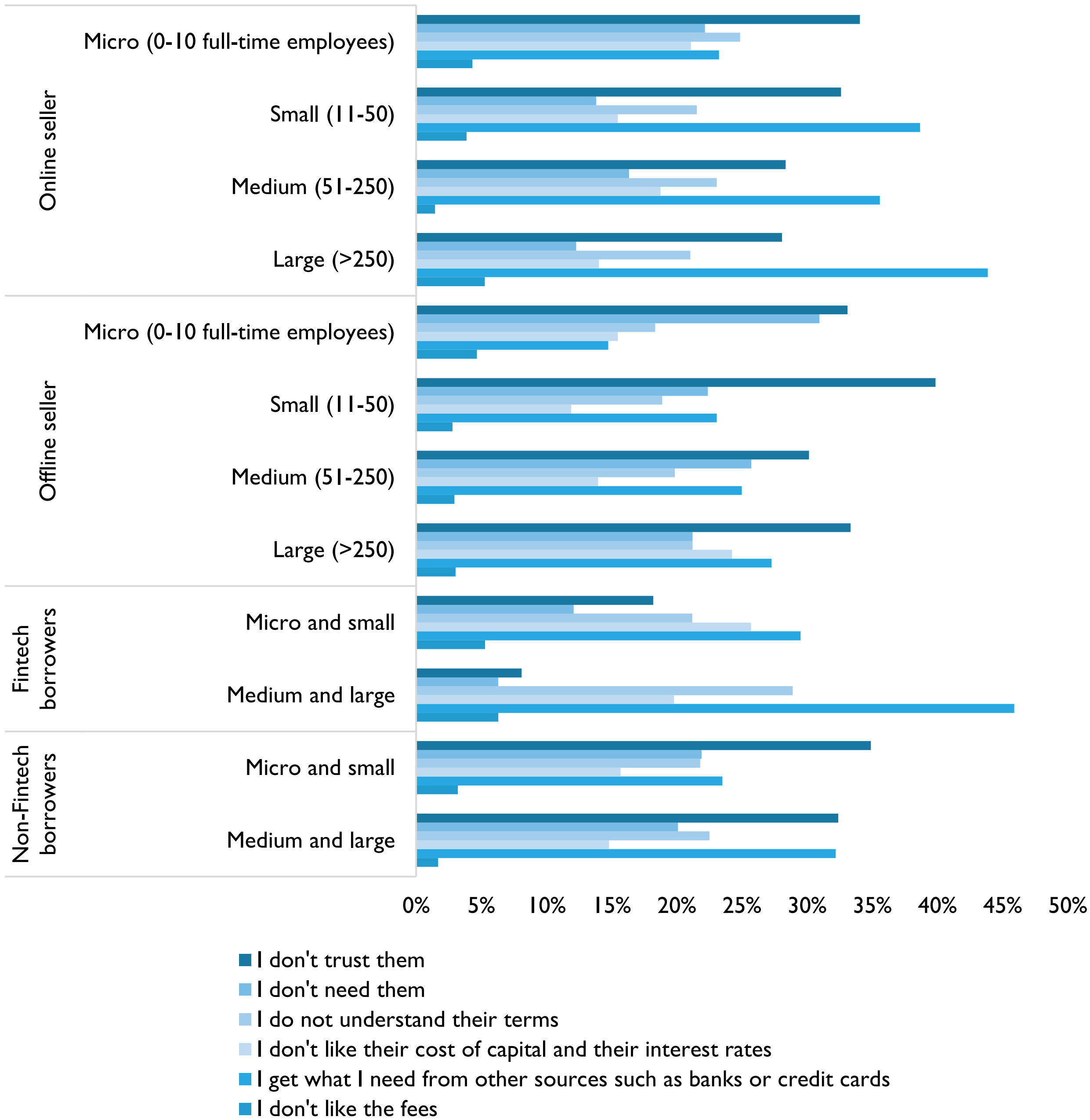
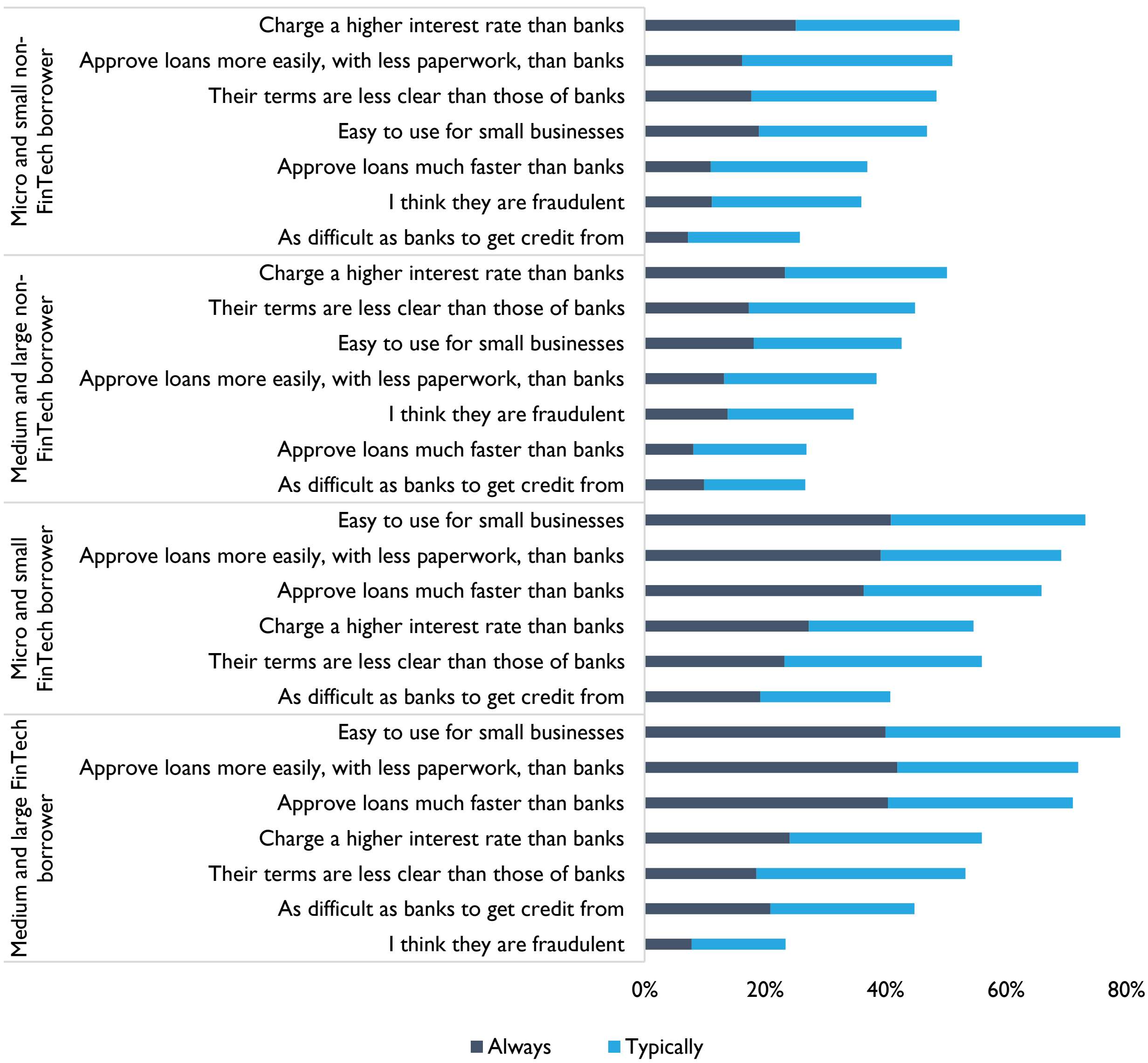


Figure 20: Surveyed Firms' Views of Fintechs, by Firm Size and Ecommerce and Fintech Use



When asked to compare Fintechs to banks, current Fintech borrowers reported a favorable view of Fintechs, seeing them as faster and easier to use than banks, albeit opaquer and more expensive (Figure 21). This is not unfounded. A quick review of main Fintechs' websites reveals discrepancies from page to page on what the interest rates and loan terms are – these inconsistencies would be very easy for a Fintech to correct. Rural firms and offline sellers perceive Fintechs as offering easier access to capital, but having unclear terms, higher cost of capital than charged by banks, and potentially being fraudulent.

Figure 21: Surveyed Firms' Views on Fintechs vs. Banks, by Firm Size and Use of Fintechs



9. MSMES WOULD BORROW MORE FROM FINTECHS IF INTEREST RATES WERE LOWER, TERMS CLEARER, AND REPAYMENT PERIODS LONGER

Mexican MSMEs report they would borrow more from Fintechs if Fintechs' interest rates were lower and terms were clearer. Smaller firms would also be open to Fintechs if they could call them and discuss loan options with a customer service representative (Figure 22). There also appears to be a need for awareness-building with the 30 percent of firms that are non-Fintechs users and believe they might borrow from Fintechs if they understood Fintechs better. Table 4 summarizes the above insights by the archetype firms.

Figure 22: Changes that Would Make Surveyed Firms More Interested in Borrowing from Fintechs, by Firms Size and Ecommerce Use

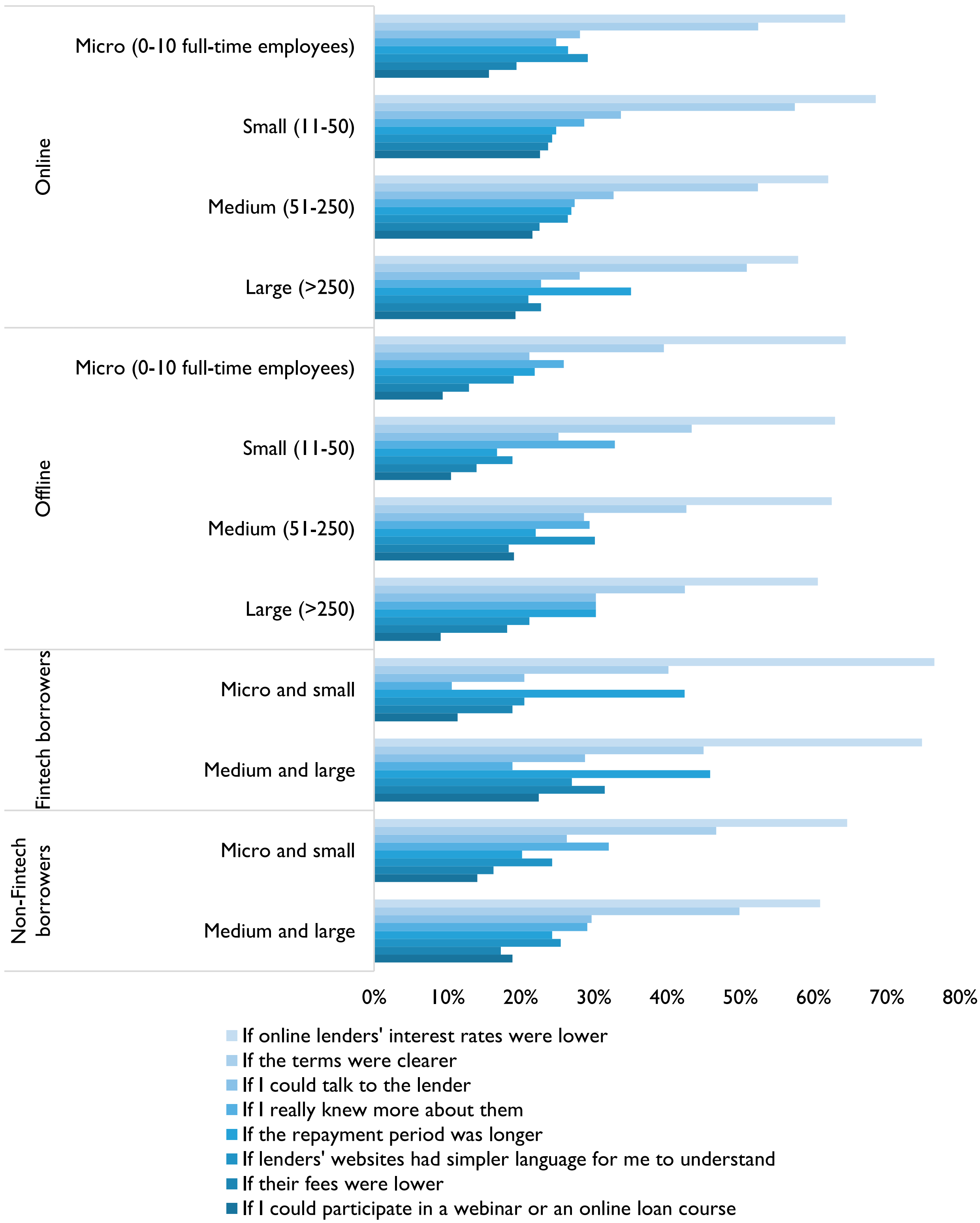


Table 4: Archetype Fintech Users' Perceptions of Fintechs

	Type	Likelihood of using FinTechs	Perceived highest impact of Fintech loans	View of Fintechs	Would borrow more from Fintechs if Fintechs'…
A	**Current Fintech borrowers**	Still likely to use banks, but Fintechs are a top-2 option	On fulfilling online orders	Fintechs are easy to use, their approval process is easier and faster than that of banks	Interest rates were lower
B	**Next Fintech borrowers**	Fintechs are a top-2 option with banks	On buying supplies, scaling production, order fulfillment	Fintechs are easy to use but charge higher interest rates than banks	Interest rates were lower and terms were clearer
C	**Potential Fintech Borrowers**	Fintechs are a less likely source than banks, personal financing, microfinance entities, or credit cards	On buying supplies, scaling production	Fintechs are easier to use than banks but their terms are less clear	Terms were clearer and we knew more about Fintechs
D	**Least likely Fintech borrowers**	Fintechs are a less likely source than banks, personal financing, microfinance entities, or credit cards	On buying supplies, scaling production	Fintechs are easy to use but they charge higher interest rates than banks, their terms are less clear, and they may be fraudulent	Terms were clearer and we knew more about Fintechs or could talk to a person at a Fintech

10. MEXICAN FIRMS' RESPONSES TO COVID-19 ARE IMPROVING DIGITAL CAPABILITIES AND REDUCING DEBT

Mexican firms' main response to Covid-19 is to digitize their transactions and cement their online presence. Firms look specifically to expand their digital marketing, bolster their ecommerce sales, and adopt digital payments (Figure 23). Almost a third of firms in every size category vow to take fewer loans to avoid debt. Only 15 percent of firms mentioned plans to borrow online. Rather, firms' wish list is topped by a desire to have clients return, digitize sales, and diversify products and services (Figure 24). Many firms also expressed need for assistance to digitize their businesses and launch teleworking.

Figure 23: Firms' Main Plans in Response to Covid-19, by Firm Size and Ecommerce Use

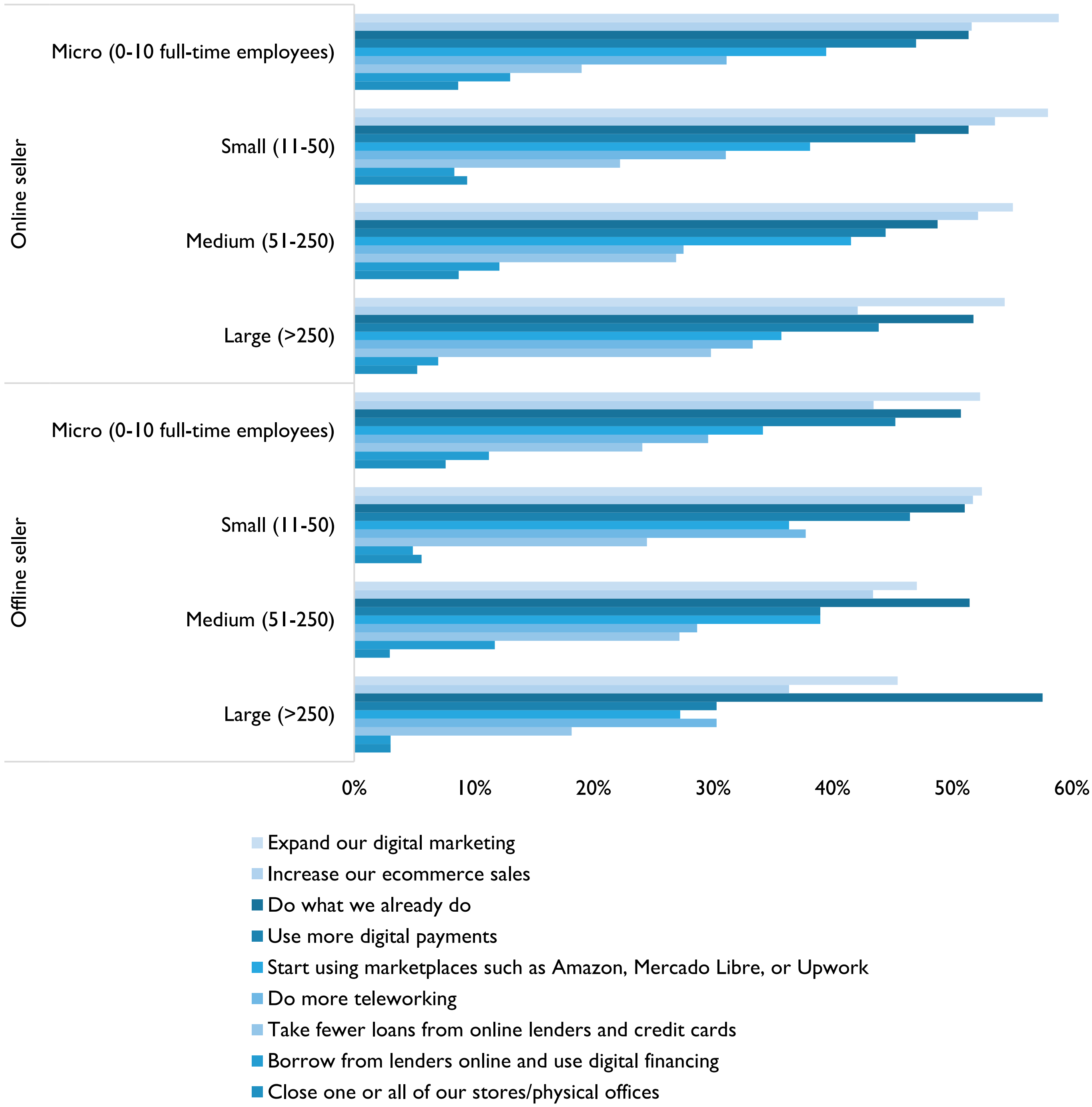
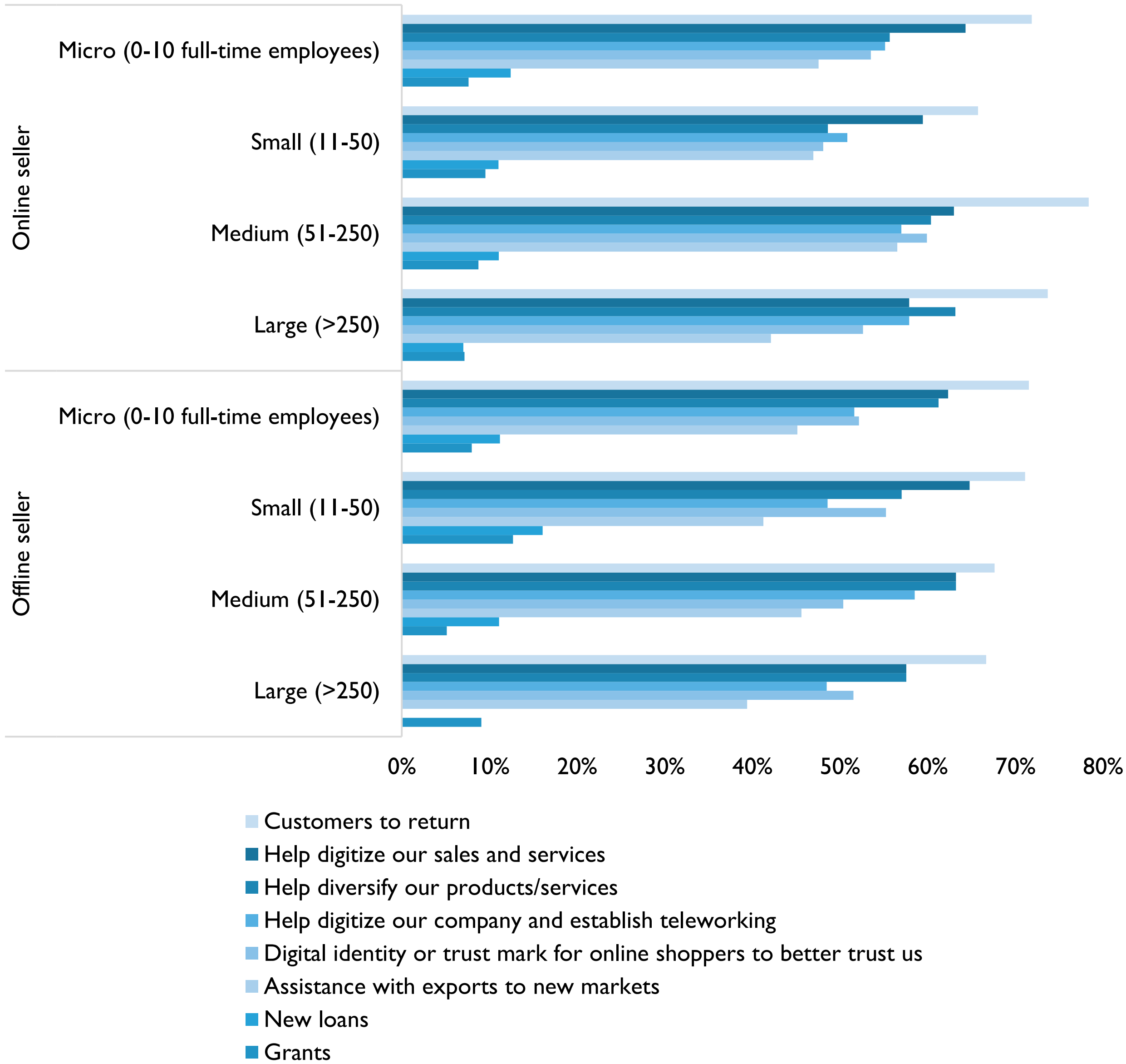


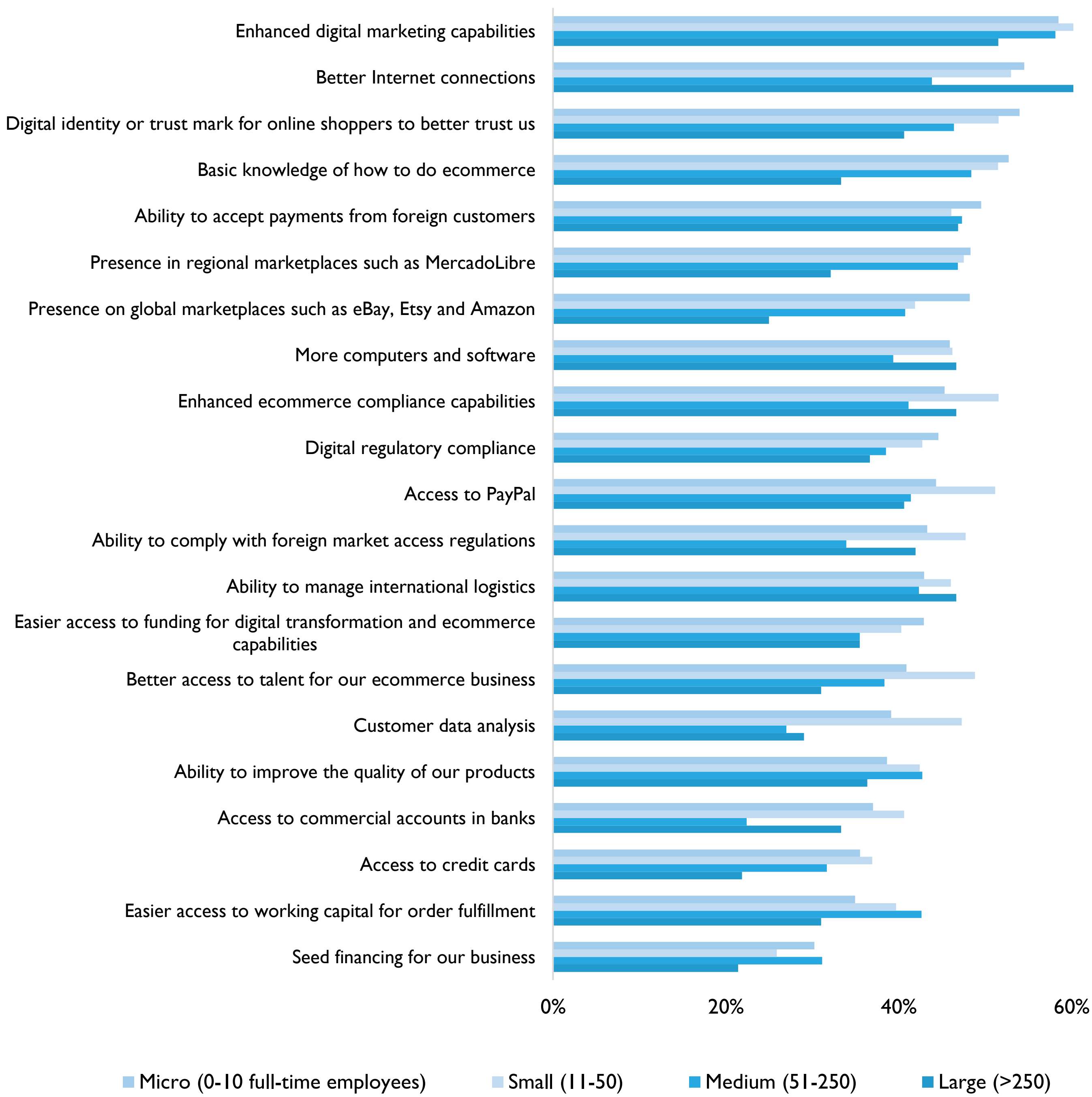
Figure 24: Firms' Main Needs to Respond to Covid-19, by Firm Size and Ecommerce Use



Asked about their needs for new capabilities, online and offline sellers of all sizes highlighted a need for enhanced digital marketing capabilities, digital identities or trust marks that enable consumers to trust them, better internet connections, and better basic knowledge about doing ecommerce (Figures 25 and 26). Over a third of firms expressed a need for working capital, seed and growth capital, and bank accounts. However, the need for capabilities to reach and transact with the customer online overwhelm these financing needs.

Figure 25: Percent of Online Sellers Needing a Capability a "Great Deal" to grow Ecommerce Sales, by Firm Size

Figure 26: Percent of Offline Sellers Needing a Capability a "Great Deal" to Grow Ecommerce Sales, by Firm Size



IV. CONCLUSIONS AND POLICY RECOMMENDATIONS

This study has explored the survey responses of 2,034 firms in Mexico to determine how MSMEs of different characteristics are using Fintechs in Mexico and compare how offline versus online sellers use Fintechs. The study has also explored the impact of Fintech loans on Mexican firms' performance and online sales, and how Fintech lending could be expanded further to benefit a larger number of MSMEs. These questions are highly policy-relevant at a time when governments and development organizations are working to enable MSMEs to access financing and engage in ecommerce to overcome the Covid-19 crisis.

The main findings are as follows:

- **Mexican firms across size categories still favor banks as a source of commercial loans, but midsize and large online sellers located in major urban areas have started to use Fintechs**. Fast-growing online sellers in major metropolitan regions are especially likely to use Fintechs: 36 percent of micro and small online sellers and 40 percent of midsize and larger sellers in first-tier cities identify Fintechs as their top-2 choice as a source of capital, alongside banks. Meanwhile, micro and small firms in rural areas are least likely to use Fintechs, and view Fintechs as their least likely source of financing in comparison to banks, personal funds, credit cards, and microfinance entities.
- **Firms that have used Fintechs appear to have scored important gains especially in their domestic and cross-border online sales and see Fintechs in a particularly positive light**. Fintech borrowers report that Fintech loans enabled them to expand production, purchase input materials and supplies, and fulfill orders received online. Fintech borrowers also credit fintech loans with having a "very significant" or "significant" positive impact on their exports and domestic sales. This suggest that Fintechs and ecommerce are highly symbiotic in enabling MSMEs to reach new markets and access cash flow to quickly fulfill orders, which in turn accelerated online sellers' cash conversion cycle.
- **MSMEs across sectors and geographies report they would borrow more from Fintechs if Fintechs' interest rates were lower and terms were clearer**. Smaller firms would also like to be able to call Fintechs' customer service representatives and discuss loan options. There appears to be a need for some awareness-building about the benefits of Fintechs – some 30 percent of firms believe they might borrow from Fintechs if they understood Fintechs better.

The data and results presented here may not be perfectly representative of all MSMEs in Mexico: the survey was fielded online to firms that have selected into taking online surveys and chose to take the survey specifically about Fintechs. These survey respondents are inherently more digitized (by virtue of taking the survey electronically). Thus, the sample may slightly over-represent better-performing and more digitized firms that also know more about Fintechs. Still, the sample includes many types of firms across geographies and the patterns are intuitive.

The findings yield several recommendations to policymakers, development organizations, and Fintechs themselves.

- **Governments and development organizations should promote Fintechs as key enablers of MSME ecommerce:** The champions of MSME ecommerce – ecommerce marketplaces, governments, and development organizations – have an opportunity to promote Fintechs as enablers of MSME ecommerce. One method is to offer credit enhancements such as guarantees on Fintech-issued loans, which could significantly expand Fintech lending to a broader set of MSMEs, and possibly also lower the cost of Fintech financing for small firms and entrepreneurs.[22] The concept could also be applied over time to export credit agencies (ECAs) that already guarantee bank-issued export working capital loans in most countries, and help ECAs guarantee loans issued by Fintechs to small exporters.[23] The Mexican government has already made progress in this area, issuing a government guarantee on the loans provided by individual lenders, such as wealthy individuals, to incentivize people to engage in peer-to-peer lending via online lenders.[24] However, currently there is no data on its performance.

- **Fintechs can improve their marketing and customer service:** The findings also suggest that Mexican Fintechs can improve their marketing and customer service. For example, Fintechs can clarify their terms in order to address MSMEs' complaints about "excessive fine print" and concerns about Fintechs' trustworthiness. There also appears to be a need for awareness-building among the many firms that believe they might borrow from Fintechs if they understood Fintechs better. Fintechs could also set up call centers, perhaps with the support of MSME support agencies. MSMEs often still need additional support and handholding and a call with a customer service representative would likely allay their concerns about lending from Fintechs. This may be a small acquisition cost, and worthwhile investment if the firm becomes a repeat customer.

- **Measure the impact of Fintechs on MSME growth and trade**: There is also an important need for further research on the impact of Fintechs on MSME growth and trade, especially in developing nations where MSMEs and many larger firms struggle to access bank loans. New value can be added in four ways:

    - Further policy-relevant research would ideally combine surveys, transactional data, and interviews and focus groups to gain a more comprehensive view on (1) MSMEs' experiences with Fintechs; (2)MSME challenges to access loans from Fintechs; and (3) Fintech constraints to serving MSMEs; and (4) the performance of loans across different types of loans and borrowers. These types of analytics could provide further answers about credit enhancements and other support governments could offer to Fintechs to support a larger set of MSMEs.

    - Much more research is also needed on the performance of embedded finance solutions associated with ecommerce marketplaces. One such solution is Mercado Crédito that sellers on marketplace Mercado Libre can use to access working capital loans. A key policy-relevant question is whether embedded finance solutions have lower default rates than Fintechs that cannot readily use data on applicants' online transactions. If this is the case, further work could be done on making MSMEs' transactional data portable.

    - So far, studies largely suggest that Fintechs substitute for banks, offering unbanked small firms a financing window. However, research is also pointing towards growing complementarities between Fintechs and banks. As shown by research in France, Fintech loans may enable firms to build up assets and better access bank loans. The data presented here suggest that Fintechs offer a distinct and complementary product to bank loans that is attractive even to larger firms that can access bank loans, possibly to meet certain smaller, sudden, and more immediate financing needs. Governments are of course already promoting open banking practices to create more synergies among banks and innovative Fintechs, but more work is needed to understand the impact of these practices on MSMEs.

- More work is needed on public policies to enable a broader set of MSMEs to benefit from Fintechs. This is timely in that many governments are using Fintechs to distribute Covid-19-related support to firms, and research on the impact of these initiatives is gradually coming in. However, more work is needed (1) to assess government credit enhancements and other instruments that are being used or that could enable Fintechs to lend to even some more riskier borrowers; and (2) on the potential for public sector entities lending to MSMEs to leverage Fintechs' algorithms and loan underwriting methods, and thereby scale governments' own underwriting processes.

Governments have for decades provided loan guarantees on MSME bank loans in order to expand MSMEs' access to finance and growth opportunities. Today, as financial regulations make bank lending increasingly challenging for small firms to access curtailed and MSMEs' needs for fast-disbursing financing are growing, Fintechs around the world can provide a powerful solution – enable MSMEs with demand from customers around the world to access finance and fulfill orders. It is time governments seize on the historic opportunity opened by Fintechs to promote MSME finance, ecommerce, and trade, as well as employ Fintech proven instruments such as loan guarantees to enable broader MSME access to loans.

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[3] OnDeck for example "looks at more than 2,000 data points to create an accurate business credit profile. These data range from cash flow and transactional data to public records to our own extensive internal historical performance data." See Miranda Eifler, "The OnDeck Score: Making Targeted Small Business Lending Decisions in Real Time," ondeck.com, accessed October 19, 2020 https://www.ondeck.com/resources/ondeckscore. For studies on the impact of Fintechs, see for example Schweitzer, Mark E and Brett Barkley, 2017. "Is 'Fintech' Good for Small Business Borrowers? Impacts on Firm Growth and Customer Satisfaction," Federal Reserve Bank of Cleveland (February 1), https://www.clevelandfed.org/newsroom-and-events/publications/working-papers/2017-working-papers/wp-1701-is-fintech-good-for-small-business-borrowers.aspx; Usman Ahmed, Thorsten Beck, Christine McDaniel and Simon Schropp, "Filling the Gap How Technology Enables Access to Finance for Small- and Medium-Sized Enterprises; 2016, innovations/volume 10, number 3/4, https://www.mitpressjournals.org/doi/pdf/10.1162/inov_a_00239.

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Unlike in a traditional survey process where we would first draw up a sample frame of firms in a country and then randomly select firms from it for phone interviews, here we leveraged online surveys relying on Centiment's proprietary panel of respondents. The survey takers will take the survey on their laptops or computers, online, on their own time. This online survey method is scalable and saves considerable amount of time and resources. compared to computer-assisted telephone interviews (CATIs). Nextrade Group has found in several prior work utilizing both CATI and online surveys in a country simultaneously that online surveys as executed as here have minimal tradeoffs: they produce very similar patterns as CATI surveys, and, even if the surveys are unsupervised, produce robust, high-quality responses by serious survey takers. This in part owes to robust quality control before, during, and after the survey, through such practices as questions to identify inattentive survey takers and digital fingerpinting to prevent duplicates. A mix of further solutions ensure that even users that may have multiple accounts and devices attempt a specific survey only once.

[19] In a random sample of publicly-traded middle-market firms during 2010-15, some 32 percent of all loans being extended by nonbank lenders such as private equity and venture capital firms, hedge funds, bank-affiliated finance companies, investment banks, insurance companies, business development companies, and investment managers. See Sergey Chernenko, Isil Erel, Robert Prilmeier "Nonbank Lending," Fisher College of Business Working Paper No. 2018-03-013, Charles A. Dice Center Working Paper No. 2018-13. There are Fintechs catering to the middle market; one example in NepFin that lends to firms with up to $100 million in revenue and recently partnered with HSBC to lend to the middle market in the United States. See "HSBC Partners with Fintech NepFin to Strengthen Middle-Market Footprint," *ABL Advisors,* February 27, 2019 https://www.abladvisor.com/news/15851/hsbc-partners-with-fintech-nepfin-to-strengthen-middle-market-footprint.

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