



G20 Action Plan on SME Financing

Joint Action Plan of G20 GPFI SME Finance Sub-Group and IIWG

Executive Summary

Small and medium-sized enterprises (SMEs) play a crucial role for employment, job creation, investment, innovation and economic growth around the world. They account for about 90% of businesses and more than 50% of employment worldwide, and are therefore crucial for the recovery of the world's economy. Considering this important role, it is critical to ensure that viable SMEs around the world have access to the credit they need to expand.

The G20 should encourage G20 countries and non G20 countries to fully develop credit infrastructure for SMEs, improve SME financial capability through targeted learning and support interventions and enable competition through an enabling regulatory environment. Lack of a sound financial infrastructure is one of the major problems in the credit market for SMEs. Having a solid financial infrastructure will help countries to reduce the information asymmetries and legal uncertainties that increase risk to lenders and constrain the supply of finance to SMEs.

The G20 Investment and Infrastructure Working Group (IIWG) and the G20 Global Partnership for Financial Inclusion (GPFI) SME finance Sub-group have both been working on topics related to the promotion of SME financing. Based on previous work, the G20 will take, as appropriate, the following actions:

I. Financial Market Infrastructure Reform in G20 countries

There are three key priority reform measures in financial markets infrastructure, previously endorsed by the G20, which are the focus of implementation for this action plan. All three measures are well documented in the context of past G20 work, with a solid framework in place to estimate the expected impact of those measures on the availability of SME finance. Reforms in all these areas would be of immense benefit to SMEs in G20 countries. Action by individual countries in these areas would take into account the status of current regulatory and jurisdictional arrangements, and other reforms which are underway. In addition, interested LIDCs can benefit through existing G20 vehicles, for example the SME Finance Compact, and promotion of this agenda through the GPFI.

The priority reform measures are:

1. *Improvements of the credit reporting framework for SMEs*
2. *Reforms that allow banks and non-banks to lend to SMEs against movable collateral*
3. *Insolvency reforms*

II. Continued Knowledge Agenda

Building on previous GPFI work, areas of continued focus on women owned SMEs, young entrepreneurs, and agricultural SMEs remain important and would be streamlined in new knowledge topics and data work. The knowledge and policy agenda of the action plan includes relevant new focused topics with strong potential for improving SME access to finance:

1. *Drivers and constraints for innovative SME finance policies and instruments*
2. *Addressing SME data gaps*
3. *SME Long Term Financing – The Role of Different Instruments*

Introduction

The G20 Investment and Infrastructure Working Group (IIWG) and the G20 Global Partnership for Financial Inclusion (GPFI) SME Finance Sub-group have both been working on topics related to the promotion of SME financing that range from supporting improvements in investment climate, facilitating financial intermediation, building stable financial systems in countries providing access to finance for SMEs in accordance with responsible finance principles and deepening and sharing knowledge in specific areas.

Small and medium-sized enterprises (SMEs) play a crucial role for employment, job creation, investment, innovation and economic growth around the world. They account for about 90% of businesses and more than 50% percent of employment worldwide¹, and are therefore crucial for the recovery of the world's economy. Considering this important role, it is critical to ensure that viable SMEs around the world have access to the credit they need to expand.

This joint action plan provides a framework to (a) facilitate a **dialogue between the G20 GPFI SME Finance Sub-group and the G20 IIWG**; (b) **extend, as appropriate, successful G20 endorsed reforms and policy measures** in G20 and non G20 countries in order to increase the availability of finance for SMEs to grow and create jobs, action by individual countries in these areas would take into account the status of current regulatory and jurisdictional arrangements, and other reforms which are underway; and (c) **advance the agenda for SME finance across different G20 work streams with a focus on Low Income Developing Countries (LIDCs)**, including additional work from implementing partners and International Organizations (IOs), with the aim of leveraging the G20 for greater investments in and by SMEs.

The action plan benefits from current work developed by the IIWG and the GPFI sub-group (Annex I). It will be supported by IOs currently active in supporting the work of the IIWG and the GPFI.²

Context

Access to finance for SMEs has been challenging in the aftermath of the financial crisis, even in G20 countries. The difficulties of accessing credit affect smaller and younger companies in particular: for 26% of SMEs in G20 developing countries, access to finance still remains a major constraint³, with this problem being especially acute in a number of G20 developing

¹ IFC Issue Brief on SME, 2012.

² Implementing partners for IIWG are OECD, WBG, IMF, MDBs and for GPFI are WBG, AFI, CGAP, OECD, BTCA, and IFAD. GPFI Affiliated Partners: CYFI, WWB. Microinsurance Network

³ Enterprise Surveys (WBG, 2013 and 2014). Data available under the Global Methodology for Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea and Turkey.

countries. The challenge is slightly lighter in G20 developed countries, although still significant: 13% of SMEs in the EU also identify access to finance as a major constrain⁴, with countries that recently joined the European Union reaching higher levels.

It is estimated that SMEs around the world face an estimated credit gap of \$2.1 to \$2.6 trillion⁵, which is equivalent to 30% to 36% of current outstanding SME credit. From these figures, approximately \$1.3 trillion⁶ correspond to G20 countries – almost 50% of the developing world’s credit gap. Most of the financing is normally sourced locally. Moreover, from the 200 to 245 million enterprises that are unserved or underserved⁷ around the world, approximately 120 million are established in G20 countries. On average, more than 90% of these unserved and underserved enterprises are formal micro enterprises or informal SMEs⁸. These magnitudes highlight the importance of addressing the SME’s access to finance challenge at the G20 level.

Against this backdrop, an opportunity arises for both policy makers and the private sector to intervene at various levels to try to encourage better access to finance policies for SMEs. Financial market infrastructure is one of the key areas where these policies should focus. The importance of establishing a solid financial market infrastructure has been recognized in many occasions by the G20 in recent years. This is partially explained by the wide array of benefits that financial market infrastructure may bring to the economy, and in particular to SMEs. Financial market infrastructure can lower the costs and risks to financial institutions of serving SMEs, open the way for more modern and efficient lending techniques, and expand the proportion of SMEs that can viably be served. While financial market infrastructure development improves financial access for all firms, SMEs benefit proportionately more from these developments, as the problems of opacity and information asymmetry, which financial market infrastructure mitigates, are more severe in the case of smaller firms.

The importance of establishing a solid financial market infrastructure has been recognized on many occasions by the G20 in recent years, (Annex II).

⁴ The European Commission Survey on the Access to Finance for Enterprises (SAFE), April-September 2014, p.12.

⁵ SME Finance Forum (financegap.smefinanceforum.org). The study refers to SMEs in the developing world, and therefore, the credit gap figure does not include SMEs in developed (OECD) countries.

⁶ Data available for Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea and Turkey.

⁷ SME Finance Forum. Under the database methodology, “unserved” means SMEs that do not have a loan or overdraft, but are in need of one, and “underserved” means SMEs that do have a loan but still find access to finance as a constraint.

⁸ Informal firms are estimated to account for around 74 percent of all MSMEs in the world, and around 77 percent of all SMEs in developing countries.

Joint Action Plan Areas of Focus

I. Financial Market Infrastructure Reform in G20 countries

As recognized by the G20, one of the key recommended actions going forward is to "accelerate and replicate successful policy reforms that facilitate the expansion of financial services to SMEs⁹". Diagnostic assessments against international good practices are necessary as a first step to inform the selection and sequencing of reforms in the areas of financial market infrastructure. For the development of these best practices, the Financial Stability Board (FSB) determines in coordination with the IMF and WBG areas and standards considered key for sound financial systems. The General Principles for credit reporting have been included in the FSB compendium of standards as relevant standards for financial system soundness. Standards are endorsed by each respective SSB. Similarly, in the area of Insolvency and Creditor's Rights ("ICR"), the ICR is considered as an international standard.

It is somewhat surprising that a preliminary assessment of the level of compliance in G20 countries with these international standards shows great disparity in results. In fact, several G20 countries are far from implementing the international standards:

- The area of secured transactions is where the disparity among G20 countries' performance is the greatest. For examples, some G20 jurisdictions still use document registration, which requires delivery and recording of the agreement and possibly other documentation at the registry, instead of a modern notice registration system. Other countries do not present a centralized registry or a single registry for all types of movable assets.
- The efficiency of insolvency regimes varies around G20 countries too. Although results present less disparity than in secured transactions, some countries are far from implementing best international practices. For example, in several G20 countries early restructuring is not possible. In others, secured creditors are not affected by the automatic stay, or it is impossible for debtors to obtain fresh-financing during insolvency proceedings. As a result, viable businesses are channeled into liquidation¹⁰.
- The area of credit reporting is where G20 countries' performance is the most homogeneous. Indeed, many G20 countries have strong credit reporting frameworks.

⁹ 2014 Financial Inclusion Action Plan. GPFI publications that focus on SME finance provide a helpful reference point of key dimensions, example cases or diagnostics needed. These publications include: Enhancing SME Access to Finance - Case Study; SME Finance - New Findings, Trends and G20 / GPFI Progress, Impact Assessment Framework for SME Finance, Innovative Agricultural SME Finance Models, Strengthening Access to Finance for Women-Owned SMEs in Developing Countries; SME Finance Policy Guide; Scaling-Up Access to Finance Agricultural SMEs; Scaling-Up SME Access to Financial Services in the Developing World - Stocktaking Report. All publications are available at: <http://www.gpfi.org/publications>

¹⁰ This situation has caught the attention of the European Commission, which in March 2014 released a recommendation urging member states to reform their national insolvency frameworks, based in 2 main pillars: (i) adopting a preventive restructuring framework that allows distressed businesses to restructure at an early stage, and (ii) providing a second chance to entrepreneurs by establishing provisions that promote a full discharge of debts after a maximum period of time.

Other countries have some room for improvement, for example, those which do not distribute data on retailers or utility companies.

Proposed reforms and their benefits may apply equally to G20 and non G20 countries and can in partnership, for example through the SME Finance Compact, be supported in LIDCs.

There could be **three key priority reform measures** in financial markets infrastructure, previously endorsed by the G20, which are the focus of implementation for this action plan:

1. Reforms that allow banks and non-banks to lend to SMEs against movable collateral:

Typically, SMEs have limited immovable assets but possess a wider range of movable assets. An effective secured transactions regime facilitates lending by using the available movable assets as collateral in loan contracts. Examples of the impact of secured transaction reforms in emerging market economies that have introduced reforms illustrate well the potential transformational effect of these reforms in the SME financing space. For example, in China between October 2007 and June 2011 the secured transactions reform cumulatively facilitated USD \$3.58 trillion accounts receivable financing, of which USD \$1.09 trillion were awarded to SMEs¹¹.

Evidence¹² shows reforming collateral registries for moveable assets led to an 8% increase for a firms' access to credit and a decrease in interest rates by 3%. In addition, the percentage of working capital financed by banks increased by 10% (other examples Annex II).

2. Insolvency reforms:

Effective insolvency regimes have a dual aim: to save businesses that are viable, while also promoting the efficient and effective "exit" of those businesses that are not economically efficient. A reorganization-oriented insolvency regime plays a crucial role in mitigating investor and creditor risk, which in turn contributes to improved access to credit and lower cost of credit, as well as to a more stable financial system. As a result of reorganization procedures, creditors are willing to extend more credit, debtors are provided an opportunity to stay in business and employees keep their jobs.

¹¹ Dalberg, an international development consulting firm, conducted an independent evaluation of the movable collateral registry project in China to validate the results and gather additional information about the impact on different levels. Data used by the study was provided by the Chinese Collateral Registry's.

¹² "Collateral registries for movable assets: does their introduction spur firms' access to bank finance?" - Love, Martinez-Peria, Singh (2013).

In Brazil, a study of the 2005 bankruptcy law reform reported a statistically significant increase in the Brazilian private credit market¹³. At the firm level, the authors reported a 10% to 17% increase in total credit and a 23% to 74% increase in long-term credit (other examples Annex II).

3. Improvements of the credit reporting framework for SMEs:

Credit reporting systems help ensure financial stability by enabling responsible access to finance and can also play an instrumental role in expanding access to credit and other services on credit to the underserved and unbanked. They facilitate lending processes by providing lenders with objective information that enables them to reduce their portfolio risk, reduce transaction costs, and expand their lending portfolios. Small firms benefit from credit bureaus.

Empirical research shows that credit information sharing is critical to lower the financing constraints for small firms, as it mitigates the effects of information asymmetries in the market. Studies on this area¹⁴ show that the percent of firms reporting financing constraints declined from 49% in countries without credit information sharing systems to 27% in those countries that did have such systems. The same study showed that the probability of a small firm obtaining a bank loan increased from 28% in countries without credit bureaus to 40% in those that did have credit bureaus (Annex II). Similarly, a different study¹⁵ reveals that the introduction of a credit bureau is associated with an increase in the probability that firms have access to finance, a reduction in loan interests, a lengthening of loan maturities, and an increase in the fraction of working capital financed by banks.

All three measures are well documented in the context of past G20 work, with a solid framework in place to estimate the expected impact of those measures on the availability of SME finance. Reforms in all these areas could be of immense benefit to SMEs in G20 countries. Action by individual countries in these areas would take into account the status of current regulatory and jurisdictional arrangements, and other reforms which are underway. These reforms can take time to implement, and while some countries are poised for rapid progress, others will require greater adaptation to existing laws and systems, and will take longer. In addition, there would be an opportunity for interested LIDCs to benefit through existing G20 vehicles, for example, the SME Finance Compact, and the DWG would be invited to promote this agenda through the GPMI.

¹³ Ferreira and Funchal (2012).

¹⁴ Love and Mylenko (2004).

¹⁵ *"The Impact of Credit Information Sharing Reforms on Firm Financing"*, WBG, 2014. The study analyzes the impact of introducing credit information-sharing systems on firms' access to finance, and uses multi-year, firm-level surveys for 63 countries covering more than 75,000 firms over the period 2002-2013. The findings of the study are not only statistically but also economically significant.

Reporting

Through the existing structures of the GPF and IIWG the G20 members will share information on country level progress and best practices in these areas and non G20 countries will be encouraged to join these efforts to contribute to the global knowledge sharing. The methodology for compiling the information and reporting will be developed in a coordinated effort by the GPF and IIWG.

II. Continued Knowledge Agenda

Building on previous GPF work, areas of continued focus on women owned SMEs¹⁶, young entrepreneurs, and agricultural SMEs remain important and would be streamlined in new knowledge topics and data work. The knowledge and policy agenda of the action plan will further include relevant new focused topics with strong potential for improving SME access to finance:

1. Drivers and constraints for innovative SME finance policies and instruments

Innovative SME Finance: Information technology is one of the strongest drivers for competitiveness, innovation and change in our modern economy. There is a need for a more efficient use of Information and Communications Technology (ICT) to improve approaches of SME finance, particularly in new areas such as crowdfunding/marketplace lending. Furthermore, it should be noted that SMEs are the ones suffering the most from limited understanding of ICTs and their potential. ICT can play a critical role in strengthening SME financial and management capability, addressing another key constraint to their growth. Many of the promising new technologies either are arising in LIDCs, or may have greater commercial viability in LIDCs.

- There are three main areas in which “Fintech” is helping SMEs – reducing costs of getting critical information on such clients by banks (e.g. alternative data); providing alternative channels to reduce costs of service delivery (e.g. cell phones, cards, internet); and helping SMEs manage their business better through real-time, responsive, and adapted support services delivered affordably through new ICT (e.g. financial management, marketing).
- Digital platforms for supply/value chain financing, receivables discounting – identifying good practices that can lead to more standardization/harmonization of approaches that will help in increased national commerce and cross border commerce.
- New players are entering the market for financial services, including telcos, payments companies and crowdfunding or ‘marketplace lending operations’.
- E-procurement, particularly by governments, identifying good practices and how it can improve SME access to markets, and e-payments.

2. Addressing SME data gaps

Supply side data: promote core common data provision on SME finance. This would encompass a comprehensive view of the SME financing data gap, including not only bank credit, but also at non-bank debt (short and long term), and all forms of risk capital (equity, quasi-equity). Strategies for addressing this data gap will be

¹⁶ By this term, the present note refers to SMEs with at least one women owner, which are estimated to be approximately 8-10 million in over 140 countries, which is about 31 - 38 percent of all SMEs, IFC study (2014).

considered, taking into account possible roles for the G20, IIWG/GPFI implementing partners, standard setting bodies and other institutions.

Demand side data: (a) Deepen understanding of the impact of different types of financing (short vs. long term) on jobs, productivity, profit, etc. through support of innovative research methods and exchange of good practices including updates on initiatives taken by G-20 member countries. (b) G20 Sub-group prioritizing a set of countries where the SME financing data gap is largest and mobilizing resources to increase frequency and depth of country level demand data (e.g. WG Enterprise Survey).

3. SME Long Term Financing – The Role of Different Instruments

Understanding the instruments: (a) guarantees, asset backed and asset based structures (e.g. securitization, project bonds, covered bonds, sukuk), debt funds, equity and quasi equity. (b) Current level of use in advanced and emerging economies. (c) Challenges to using the instrument for SME financing and other issues and concerns, including potential risks to financial stability. (d) New developments and approaches to using these instruments.

Timeline

The IIWG and the GPFI SME Finance Sub-group will agree on the form of and timeline for the deliverables under the knowledge agenda and report on progress under the Joint Action Plan through existing reporting mechanism such as the GPFI progress report. In doing so, input should be sought from the GPFI Payments and Market Systems Sub-group, which is also adding to the knowledge base in relevant areas, such as the use of technology for client identity, transfers and payments.

ANNEX I: CURRENT WORK IN THE IIWG AND GPFI

G20 Investment and Infrastructure Working Group (IIWG):

OECD reports transmitted to G20 Finance Ministers and Central Bank Governors at their meetings on 9-10 February in Istanbul and on 16-17 April in Washington, DC:

- “New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments”
- “SME Debt Financing Beyond Bank Lending: The Role of Securitization, Bonds and Private Placements”
- Financing SMEs and Entrepreneurs 2015: An OECD Scoreboard

Work underway for the IIWG in response to requests from the G20 Finance Ministers and Central Banks Governors at their February and April meetings:

- Based on the outcomes of the G20/OECD Corporate Governance Forum held in Istanbul, we look forward to submission of the revised Principles of Corporate Governance together with a report on their use for SMEs by our September meeting.
- We ask the OECD, together with other relevant IOs, to develop voluntary high-level principles on SME financing by our September meeting.
- We ask the OECD to update their report on SMEs and Taxation, which was first published in 2009 to analyse current policy and administrative aspects of taxing SMEs.
- We also ask the WBG and Islamic Development Bank Group to report on leveraging asset backed finance with a special focus on SME financing by our September meeting.
- The World SME Forum was established in May 2015, which has a mandate to provide advocacy, know-how, and e-knowledge to enable SMEs to better fulfil their potential as the locomotive for sustainable growth and jobs

G20 Global Partnership for Financial Inclusion (GPFI) SME Finance Sub-Group:

The following reports and policy guidelines were launched and endorsed by the G20 in the past with relevance to the topic:

- Scaling-Up SME Access To Financial Services in The Developing World (2010)
- SME Finance Policy Guide. (2010)
- Strengthening Access To Women Owned SMEs In Emerging Markets (2011)
- Scaling-Up Access To Finance For Agricultural SMEs Policy Review and Recommendations (2011)
- Innovative Agricultural SME Finance Models (2012).

ANNEX II – ADDITIONAL BACKGROUND ON SME FINANCE IN THE G20 COUNTRIES

1. G20 endorsements of related policy guidance

The G20's efforts on this space have crystalized into a set of policy measures, legal reforms and financial market infrastructure improvements that were consolidated in the "*SME Policy Guide*"¹⁷, October 2011. The Guide refined and developed the policy recommendations endorsed by G20 leaders in Seoul in 2010. The Guide is intended as reference point for governments and regulators, providing a roadmap for planning, assessing, and implementing policy and legal measures to support SME's access to finance. While the Guide provides an exhaustive list of potential actions in the area of financial market infrastructure, it also acknowledges that each jurisdiction presents different challenges and weaknesses, and suggests that diagnostic assessments are necessary as a first step to inform the selection and sequencing of reforms.

2. Impact of financial market infrastructure reforms

Financial market infrastructure includes, among others¹⁸, credit reporting systems (credit registries and bureaus) as well as collateral and insolvency regimes. Although each of these areas focuses on different aspects of financial market infrastructure regulation, actions across these three areas should be regarded as complementary as they ultimately impact SME's capacity to access finance.

A) Secured transactions / movable collateral

Typically, SMEs have limited immovable assets but possess a wider range of movable assets. An effective secured transactions regime facilitates lending by using the available movable assets as collateral in loan contracts. Firm level data from around the world highlights the mismatch between the assets that firms hold and the assets that most banks accept as collateral.¹⁹ The value of movable property generally makes up three-quarters of firms' total asset portfolios and yet, on average, banks predominantly accept only land and buildings as their main form of collateral. Secured transactions laws and regulations, if formulated and implemented correctly, increase use of credit (via increased demand) by broadening the range of assets acceptable as collateral to banks to include both present and future assets (future crops or future receivables), tangible assets (equipment, vehicles, inventory, commodities, livestock, etc.) and intangible assets (accounts receivable, negotiable instruments, shares, intellectual property rights, etc.)

¹⁷ "*SME Finance Policy Guide*" (IFC, 2011), presented to the G20 at the Cannes Summit in November 2011. The Guide is available at <http://www.gpfi.org/publications/sme-finance-policy-guide>

¹⁸ In addition to these topics, Financial Infrastructure may also include accounting and auditing standards and payments and settlement systems.

¹⁹ De la Campa (2010).

Examples of impact of secured transaction reforms in emerging market economies that have introduced reforms illustrate well the potential transformational effect of these reforms in the SME financing space. In fact, as a result of the reform the total number of commercial loans involving movable assets grew by 21% per year in 2008-2010, versus a flat rate in 2006-2008²⁰. In Colombia, in less than one year more than 100,000 loans secured with movables have been registered in the movable collateral registry, of which 5,000 loans belong to SMEs for a total aggregate amount of USD \$3.43 billion (compared to a few hundred per year before the reform). Even low income or conflict affected economies (Ghana, Afghanistan, and Vietnam) have reaped the rewards of these reforms with increased access for the SME sector. And in some cases, secured transactions reform has also enabled the development of innovative financing products like supply chain financing (CITIC Bank) or floating charge financing (China Minsheng Banking Corp.).

B) Insolvency

Effective insolvency regimes have a dual aim: to save businesses that are viable, while also promoting the efficient and effective "exit" of those businesses that are not economically efficient. This allows returning assets and entrepreneurs to more productive uses as soon as possible. Implementing a robust insolvency system that promotes the reorganization of viable enterprises and gives honest entrepreneurs a second chance is therefore critical. A reorganization-oriented insolvency regime plays a crucial role in mitigating investor and creditor risk, which in turn contributes to improved access to credit and lower cost of credit, as well as to a more stable financial system. As a result of reorganization procedures, creditors are willing to extend more credit, debtors are provided an opportunity to stay in business and employees keep their jobs.

Evidence from previous work in the area of insolvency suggests that reforming an insolvency regime can help lower interest rates, making credit more affordable and easing firm's access to finance. In Italy for example, the 2005 bankruptcy law reform that deeply reformed the liquidation procedure led to a decrease in interest rates²¹. In particular, firms with higher numbers of bank creditors saw the most pronounced reduction in interest rates due to the enhanced coordination provided by the bankruptcy law. In Brazil, a study of the 2005 bankruptcy law reform reported a statistically significant increase in the Brazilian private credit market²². At the firm level, the authors reported a 10% to 17% increase in total credit and a 23% to 74% increase in long-term credit.

²⁰ Based on an independent impact evaluation study of the Chinese reform on secured transactions, prepared by Dalberg (November 2011).

²¹ Rodano, Serrano-Velarde, Tarantino (2012).

²² Ferreira and Funchal (2012).

C) Credit reporting

Credit reporting systems help ensure financial stability by enabling responsible access to finance and can also play an instrumental role in expanding access to credit and other services on credit to the underserved and unbanked. They facilitate lending processes by providing lenders with objective information that enables them to reduce their portfolio risk, reduce transaction costs, and expand their lending portfolios. By doing so, credit reporting systems enable lenders to expand access to credit to creditworthy borrowers including individuals with thin credit files, such as micro-entrepreneurs and SMEs.

Empirical research shows that credit information sharing is critical to lower the financing constraints for small firms, as it mitigates the effects of information asymmetries in the market. Studies on this area²³ show that the percent of firms reporting financing constraints declined from 49% in countries without credit information sharing systems to 27% in those countries that did have such systems. The same study showed that the probability of a small firm obtaining a bank loan increased from 28% in countries without credit bureaus to 40% in those that did have credit bureaus. A well-functioning credit reporting market infrastructure helps SME lenders assess SMEs' risk and creditworthiness profile, make informed credit granting decisions, and monitor and manage portfolio risk. In addition, credit bureaus act as a disciplining mechanism for SME borrowers since these borrowers are less inclined to default if they are aware that this default will affect their future applications for credit.

²³ Love and Mylenko (2004).