



Project on “Empowering SME Development Agencies with Innovative Financing Solutions under the OIC-SMENET Framework”

Training Course on “Building Institutional Capacity for Innovative SME Financing Models”

Virtual, 28-29 July 2026

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Building Institutional Capacity for Innovative SME Financing Models

Day 1 (28 July 2026)

SME Financing Gap, Microfinance, Crowdfunding and Peer-to-Peer Lending

Project

Empowering SME Development Agencies with Innovative Financing Solutions under the OIC-SMENET Framework

Project Partner Countries: Azerbaijan, Morocco, Türkiye, Pakistan, Jordan and Senegal

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Economic role of MSMEs

Micro, Small and Medium-sized Enterprises (MSMEs) are central economic actors worldwide. Their contribution extends beyond any single indicator, but is especially visible in employment, output, entrepreneurship, local value chains, and economic resilience.

As in the global economy, MSMEs in OIC Member Countries play an important role in productive capacity, job creation, enterprise development, and inclusive growth.

Persistent financing constraint

Access to finance remains a persistent constraint for many SMEs.

The financing constraint is not only about funding availability

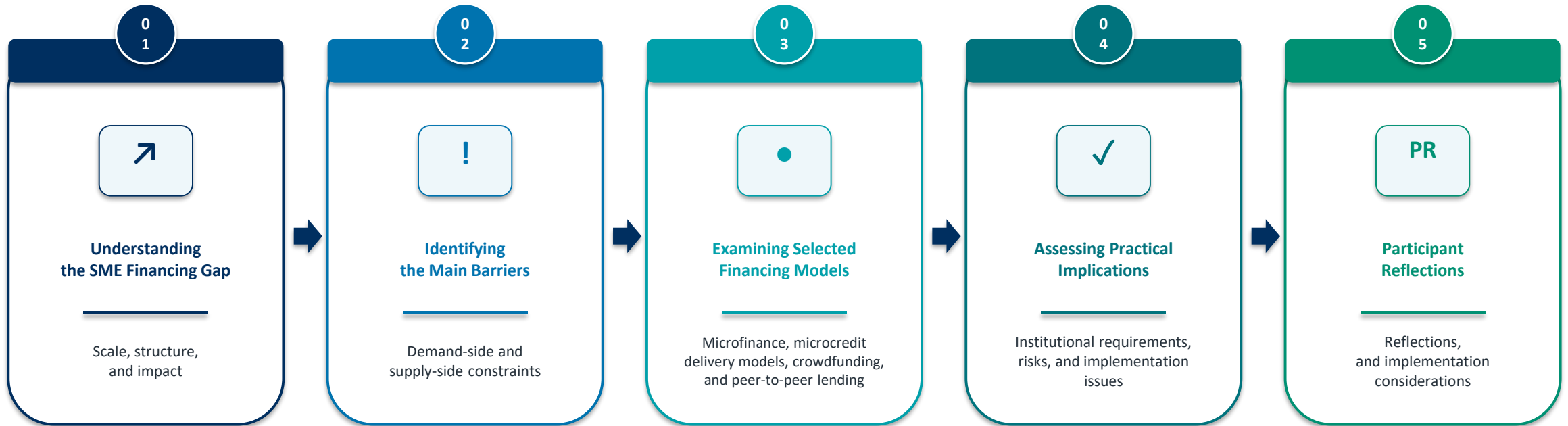
It is shaped by conditions on the SME side, the capacity and risk assessment practices of finance providers, and the wider institutional environment.

Session focus

This section sets the frame for Day 1: first by outlining the scale and nature of the SME financing gap, and then by examining the demand-side and supply-side barriers behind it.

Day 1 Roadmap (28 July 2026)

Five Steps in the Session



Micro, Small and Medium-sized Enterprises (MSMEs) account for the majority of firms worldwide and make major contributions to employment and economic output.

Over 90%

MSMEs as a share of
all firms worldwide

Around 70%

MSMEs' average share of
total employment worldwide

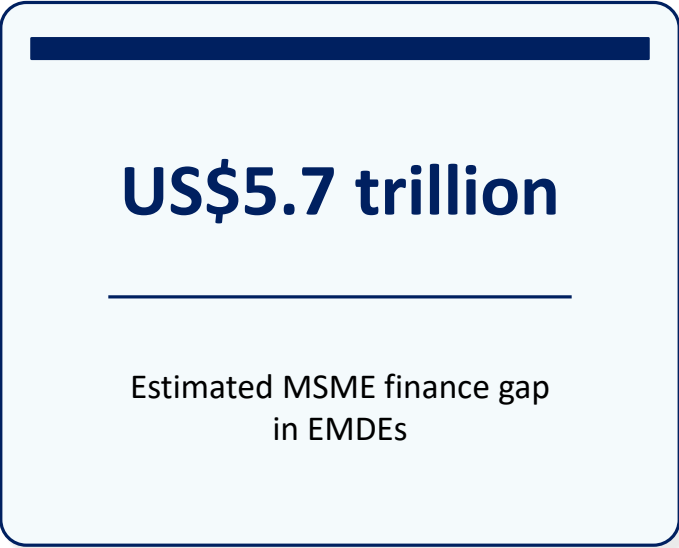
Around 50%

MSMEs' average contribution to
Gross Domestic Product (GDP)
worldwide

Source: International Finance Corporation (IFC), Micro, Small and Medium-sized Enterprises (MSMEs) Factsheet, Financial Institutions Group, as of October 2025.

Data scope: Global MSME contribution to number of firms, employment, and GDP.

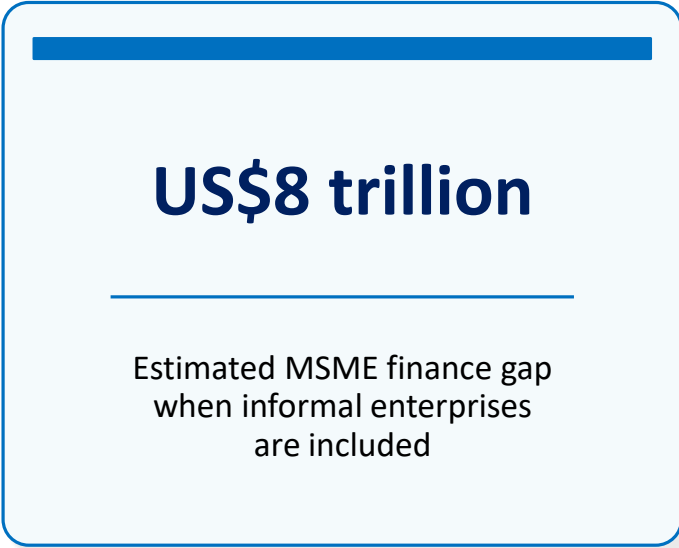
Despite their economic importance, many Micro, Small and Medium-sized Enterprises (MSMEs) in emerging markets and developing economies remain inadequately financed.



US\$5.7 trillion

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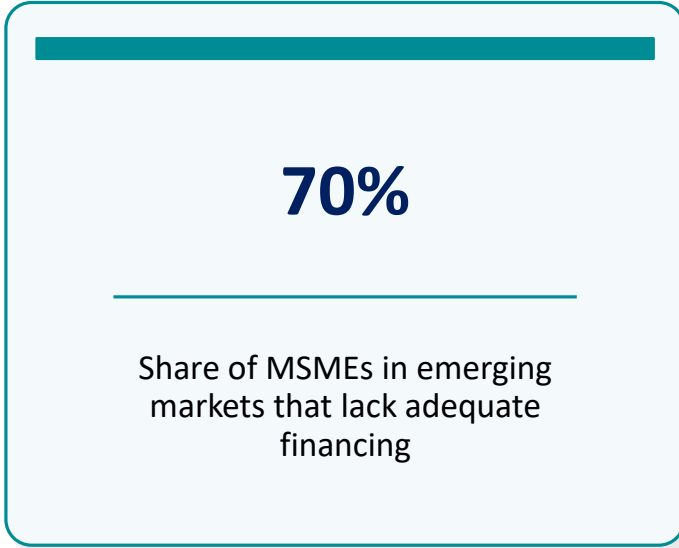
Estimated MSME finance gap
in EMDEs



US\$8 trillion

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Estimated MSME finance gap
when informal enterprises
are included



70%

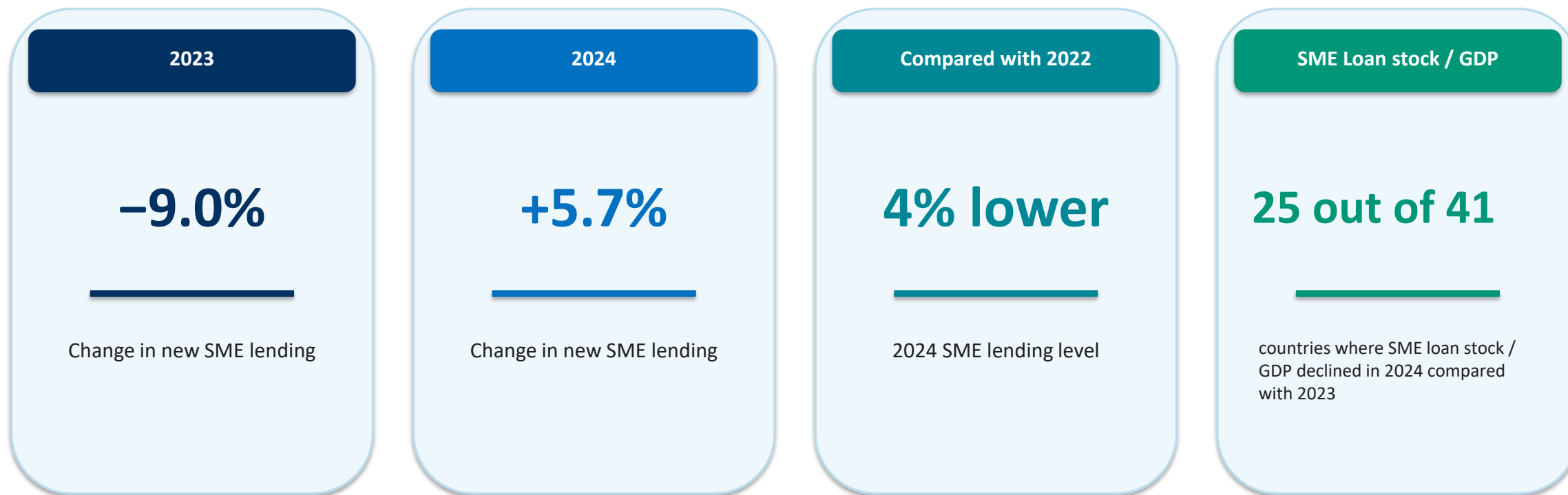
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Share of MSMEs in emerging
markets that lack adequate
financing

Source: International Finance Corporation (IFC), Micro, Small and Medium-sized Enterprises (MSMEs) Factsheet, Financial Institutions Group, as of October 2025.

Data scope: MSME finance gap in emerging markets and developing economies.

Although SME lending began to recover in 2024, the rebound remained incomplete. New lending increased after the sharp decline of 2023, but 2024 lending had not returned to its 2022 level.



Source: Organisation for Economic Co-operation and Development (OECD), Financing SMEs and Entrepreneurs 2026: An OECD Scoreboard, published 31 March 2026.

Note: Figures refer to participating OECD Scoreboard countries with available data for the relevant indicators.

Before focusing specifically on SMEs, it is useful to look at the broader firm-level financing environment in Organisation of Islamic Cooperation (OIC) Member Countries. The comparison below uses three reference groups: the world average, non-OIC developing economies, and developed economies.

Firms with a checking and/or saving account

79.1%

OIC

86.8%

World

90.2%

Non-OIC developing economies

91.4%

Developed economies

Firms with a line of credit or loan from a financial institution

18.3%

OIC

31.6%

World

33.6%

Non-OIC developing economies

50.2%

Developed economies

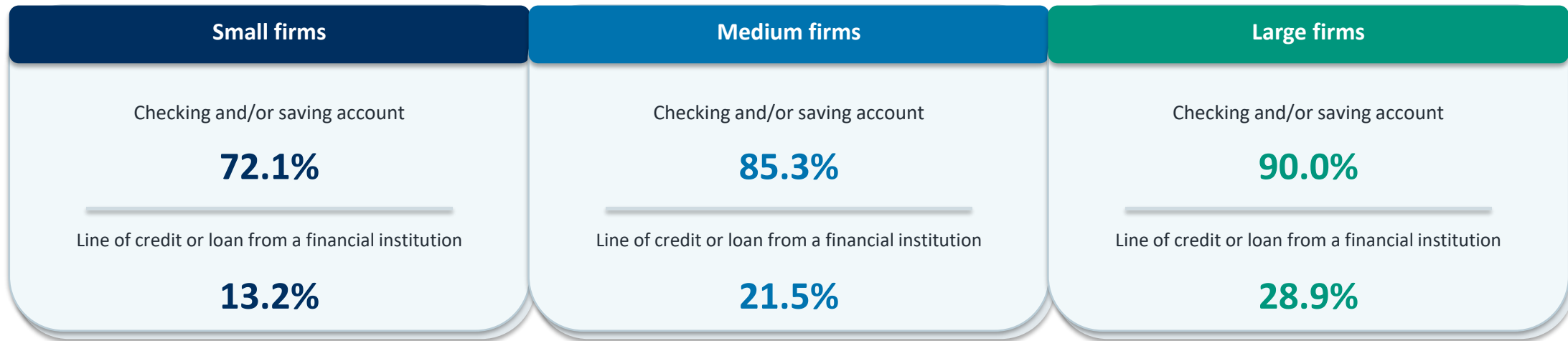
The difference is especially visible in the share of firms with a line of credit or loan from a financial institution.

Source: Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRTC), OIC Economic Outlook 2024: Supporting Private Sector and SME Development in OIC Countries, Table 3.2 “Financing Mechanisms of Firms”, based on World Bank Enterprise Surveys (WBES), June 2024.

How SME Financing Challenges Manifest in OIC Member Countries: Smaller Firms Are More Financially Constrained

The regional financing gap in OIC Member Countries becomes more visible when firms are compared by size. Small firms are less connected to formal finance than medium and large firms. They are less likely to have a checking or saving account and much less likely to have a line of credit or loan from a financial institution.

Formal finance access within OIC Member Countries by firm size



The main difference appears in formal credit access: only 13.2% of small firms have a line of credit or loan from a financial institution, compared with 21.5% of medium firms and 28.9% of large firms.

Demand-side constraints refer to barriers that originate on the SME side of the financing relationship.

They affect whether firms can demonstrate creditworthiness, provide reliable information, and use available financing instruments effectively. In the SME financing gap, the issue is also whether SMEs are sufficiently documented, financially prepared, and resilient enough to access available finance.

Demand-side constraints covered in this section

01**Lack of collateral and credit history**

Core issue: Insufficient assets or formal borrowing records

02**Limited financial literacy**

Core issue: Weak capacity to prepare, compare, and manage financing options

03**Informal business practices**

Core issue: Limited documentation and weak financial visibility

04**Vulnerability to economic shocks**

Core issue: Unstable cash flows and limited resilience

Connected barriers to SME finance

Lack of collateral and weak credit history are closely connected barriers to SME finance. Many SMEs do not have assets that lenders can easily value, pledge, or liquidate in case of default.

Limited borrowing records weaken assessment

At the same time, many SMEs have limited formal borrowing records, which makes it harder for financial institutions to assess repayment capacity.

This does not mean that these firms are necessarily unviable. It means that lenders may not have enough verifiable information or security to distinguish viable SMEs from riskier borrowers.

Collateral requirements as a reason for not applying for new loans or lines of credit

OIC

6.8%

World

4.9%

Non-OIC developing economies

4.8%

Developed economies

1.4%

Indicator: Firms reporting collateral requirements as too high as a reason for not applying for new loans or lines of credit.

Source: Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRTC), OIC Economic Outlook 2024: Supporting Private Sector and SME Development in OIC Countries, based on World Bank Enterprise Surveys (WBES), June 2024.

When SMEs do not have a formal borrowing record, lenders have less evidence for assessing repayment capacity. Recent International Finance Corporation (IFC) work on MSME banking discusses the use of account transaction history, financial statements, and alternative data as part of data-driven MSME lending models.

IFC: data used in data-driven MSME lending

Account and financial records

- Account transaction history
- Financial statements

Alternative data sources

- Utility payments
- E-commerce and supply-chain activity
- Mobile phone operator records
- Other digital data sources

GPFI: digital transactional data for working-capital finance

The G20 Global Partnership for Financial Inclusion (GPFI) highlights the role of digital transactional data related to:

Orders

Inventory

Sales

Receivables

These data can enable MSMEs to access working-capital finance when conventional collateral is limited.

Limited financial literacy can make it difficult for SMEs to understand, compare, and use financing options effectively.

In SME financing, financial literacy affects how firms present information to lenders, evaluate repayment obligations, and decide whether a financing instrument is suitable for their business purpose.

Practical issues for SMEs and why they matter for access to finance

01

Weak loan or financing application

Lenders may not have enough information to assess the firm.

02

Limited understanding of financing cost

Firms may compare products only by headline rate, rather than total cost, maturity, fees, collateral, and repayment structure.

03

Weak cash-flow planning

The firm may not show how financing will be repaid from business operations.

04

Limited product awareness

The firm may choose an instrument that does not fit its financing need.

05

Weak financial recordkeeping

Poor records reduce transparency and can weaken future access to formal finance.

Informal business practices refer to business activities that are not sufficiently registered, documented, or recorded in ways that financial institutions can verify. The issue is not necessarily that the firm is unviable, but that its activity is difficult for lenders to observe and assess.

Informal business practice	Why it matters for access to finance
Limited formal registration or incomplete legal documentation	The lender may not be able to verify the firm’s legal status or ownership structure.
Cash-based transactions with limited records	Sales and payment flows may be difficult to trace or verify.
Weak bookkeeping and accounting records	The firm may not be able to demonstrate revenues, costs, profitability, or repayment capacity.
Limited use of formal invoices, receipts, or contracts	Business transactions may not create reliable evidence for credit assessment.
Mixing household and business finances	The lender may not clearly distinguish business cash flow from personal consumption.

Source: World Bank Enterprise Surveys, The Informal Sector Enterprise Surveys: Indicator Descriptions, 28 June 2022; International Labour Organization (ILO), Women and Men in the Informal Economy: A Statistical Update, 7 March 2023.

Why shocks matter for SME finance

SMEs are often more exposed to economic shocks because they usually operate with thinner liquidity buffers, weaker bargaining power, and more limited access to emergency finance than larger firms. Since 2020, overlapping shocks — including the COVID-19 pandemic, inflation, higher borrowing costs, supply-chain disruptions, geopolitical uncertainty, climate-related events, and energy-price shocks — have increased the relevance of this vulnerability.

How shocks affect SMEs' financing needs

Inflation and rising input costs

SMEs may need more working capital to purchase inventory, materials, and services.

Supply-chain disruptions

Firms may face delays in inputs, delivery, receivables, or customer payments.

Demand volatility

Unstable sales can make cash-flow forecasting and repayment planning more difficult.

Higher borrowing costs

Existing and new financing can become more expensive, reducing firms' willingness or ability to borrow.

Geopolitical and energy-price shocks

Higher fuel, transport, fertilizer, and imported-input costs can increase working-capital needs and weaken cash-flow predictability.

Climate-related events

Physical damage, production disruption, or income loss can increase liquidity pressure.

Energy and commodity price pressure

The World Bank Group reports that average energy prices are forecast to increase by 24% in 2026, and Brent oil is forecast to average US\$86* per barrel in 2026, up from US\$69 in 2025.

Macro-financial risk environment

The IMF's April 2026 outlook highlights macroeconomic risks from rising commodity prices, firmer inflation expectations, and tighter financial conditions.

Double pressure on SME finance

SMEs may need more finance to stabilise cash flow and continue operations.



Financial institutions may become more cautious as revenues, costs, and repayment capacity become harder to predict.

Country-specific transmission

The impact differs across countries depending on energy-import dependence, exchange-rate conditions, inflation dynamics, fiscal space, and exposure to food, fertilizer, transport, and imported-input costs.

*: The current situation will be shared during the training session.

Supply-side barriers refer to constraints on the side of financial institutions and the broader financing ecosystem. Even when SMEs need finance and have viable business activities, finance providers may still face cost, information, risk, or institutional constraints that make SME financing difficult to provide at scale.

These barriers help explain why the SME financing gap cannot be understood only from the firm side. The financing relationship also depends on whether financial actors can assess, price, monitor, and manage SME finance effectively.

High transaction costs for small loans

Small SME loans may require screening, documentation, monitoring, and recovery efforts that are costly relative to the loan size.

Information asymmetry

Financial institutions may not have enough reliable information to assess an SME's true risk, cash flow, or repayment capacity.

Risk perception challenges

SMEs may be perceived as riskier because of weak records, informality, limited collateral, volatile cash flows, or exposure to shocks.

Institutional capacity gaps

SME finance often requires specialised systems, data, skills, products, and partnerships across financial institutions, regulators, and support organisations.

Why costs are high

Lending to SMEs can involve higher transaction costs than lending to larger corporates, partly because SME loans are often smaller in size while screening, documentation, credit assessment, monitoring, and recovery still require operational effort.

The scale problem

A small loan may generate limited interest or fee income, while still requiring lending procedures that are costly relative to the loan amount. For this reason, financial institutions may prefer larger borrowers, larger loan sizes, or more standardised SME segments.

Cost areas and why they matter for small SME loans

Client screening

The financial institution must understand the firm, owner, sector, and financing purpose.

Documentation

Small firms may require additional verification because records are often incomplete.

Credit assessment

The lender must assess repayment capacity even when formal information is limited.

Monitoring and servicing

Repayment follow-up and account management can be costly relative to loan size.

Recovery in case of default

Collection and recovery procedures may be expensive compared with the outstanding amount.

Core idea

Information asymmetry means that SMEs usually know more about their own business conditions than financial institutions do. Lenders may not be able to fully observe the firm's true cash flow, repayment capacity, business risk, use of funds, or future prospects.

Practical problem

This does not mean that SMEs are intentionally withholding information. The problem is often that reliable and verifiable information is limited, especially when firms have weak records, informal transactions, limited credit history, or incomplete financial statements.

Information problems and why they matter for SME finance

Limited financial records

The lender may not be able to verify sales, costs, profit margins, or cash flow.

Weak credit history

The lender has less evidence about past repayment behaviour.

Unclear use of funds

The lender may be uncertain whether the loan will be used for productive business purposes.

Difficult risk assessment

The lender may find it hard to distinguish viable SMEs from riskier borrowers.

Monitoring challenges after lending

The lender may not easily observe changes in business performance or borrower behaviour after the loan is disbursed.

Core idea

Risk perception challenges arise when SME finance is affected by limited information, weak collateral, volatile cash flows, or uncertainty in the broader economic environment.

Practical implication

This does not mean that all SMEs are high-risk borrowers. The issue is that firms with productive potential may be difficult to assess when reliable information is limited. When uncertainty is high, SME finance can become more conservative.

Risk perception factors and why they matter for SME finance

Weak or incomplete business records

Financial institutions may have less evidence for assessing the firm's financial condition.

Limited collateral

There is less security if the borrower defaults.

Volatile cash flows

Repayment capacity becomes harder to forecast.

Exposure to economic shocks

Inflation, higher input costs, energy-price shocks, or demand volatility can make future performance more uncertain.

Sector or macroeconomic uncertainty

Financing terms may become more conservative for firms or sectors seen as more vulnerable.

What institutional capacity gaps refer to

Institutional capacity gaps refer to the practical requirements needed to make SME finance work effectively across the financing ecosystem. These requirements may relate to data, credit assessment, product design, risk management, regulatory coordination, and partnerships.

Why capacity matters for SME finance

In SME finance, the challenge is not only whether funds are available. SME finance also depends on whether financial institutions and related actors have appropriate tools to assess smaller firms, process transactions efficiently, manage information, design suitable products, and monitor portfolio performance.

Capacity areas and why they matter for SME finance

SME data and information systems

Reliable information helps assess firm activity, repayment capacity, and portfolio risk.

Credit assessment tools

SME lending often requires methods that can work when collateral is limited or financial records are incomplete.

Product design capacity

Different SME needs may require different instruments, such as working capital loans, leasing, guarantees, Islamic finance, or supply-chain finance.

Risk management systems

SME portfolios require monitoring of repayment behaviour, sector exposure, defaults, and macroeconomic risks.

Regulatory and supervisory coordination

Innovative finance models may require clear rules on platforms, data use, consumer protection, and market conduct.

Partnerships across the ecosystem

SME finance often involves coordination among banks, microfinance institutions, fintech platforms, guarantee funds, Islamic finance providers, and SME support institutions.

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How Demand- and Supply-Side Barriers Manifest in OIC Member Countries: Access to Finance as a Business Obstacle

Business environment perspective

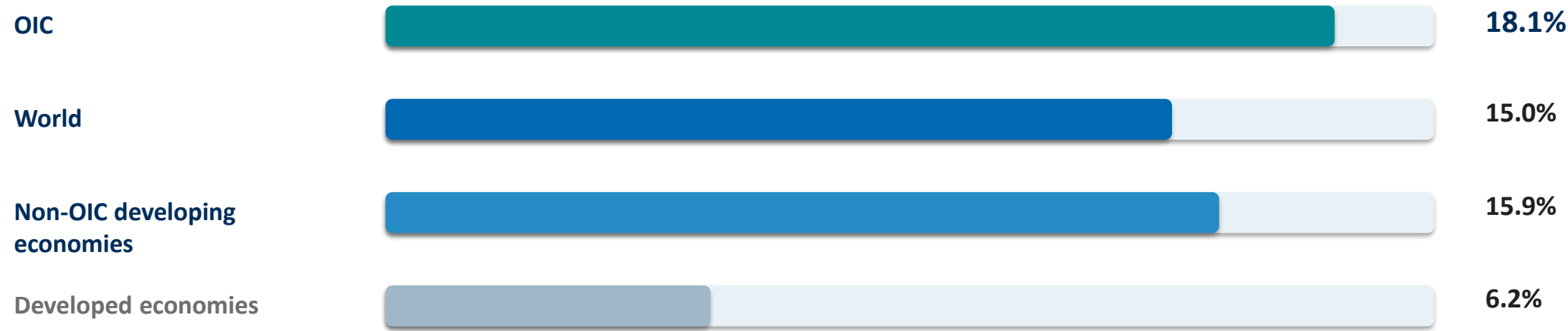
After examining demand-side and supply-side barriers, the next step is to see how these barriers appear in the business environment of OIC Member Countries. In the World Bank Enterprise Surveys data reported by SESRIC, firms were asked to identify the biggest obstacle affecting their operations.

OIC Member Countries

18.1%
of firms selected access to finance as their biggest obstacle.

This measure adds a different perspective to the previous finance-access indicators: it shows that firms themselves identify access to finance as a major operational constraint.

Biggest obstacle affecting firm operations: Access to finance



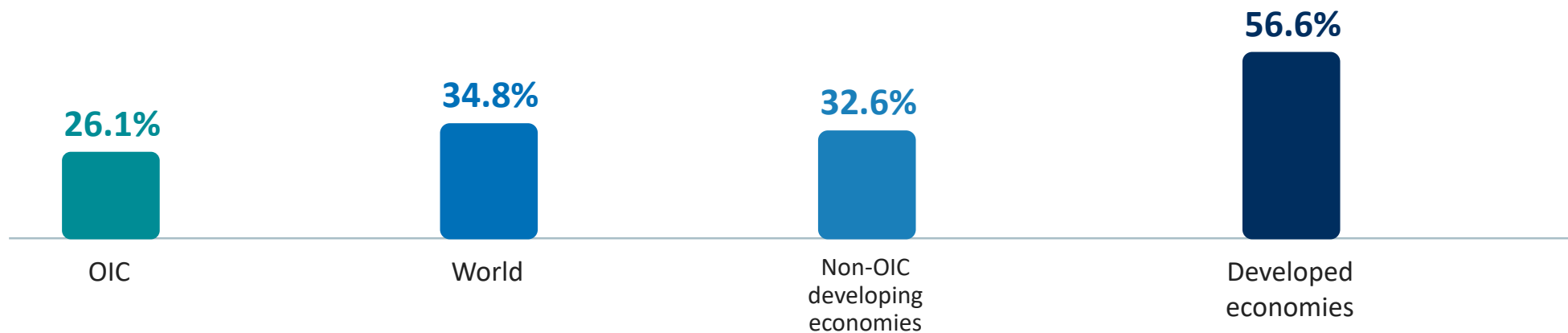
Source: Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), OIC Economic Outlook 2024: Supporting Private Sector and SME Development in OIC Countries, Table 3.4 “Biggest Obstacle Affecting the Operation of Firms”, based on World Bank Enterprise Surveys (WBES), June 2024.

SME growth often requires investment in equipment, machinery, technology, premises, vehicles, production capacity, and other fixed assets. When firms face financing barriers, they may delay or reduce these investments.

In the firm-level data reported by SESRIC, the share of firms purchasing fixed assets in the last fiscal year is lower in OIC Member Countries than in the world average, non-OIC developing economies, and developed economies.

Lower fixed-asset investment can matter for firm growth because it may limit expansion of production capacity, technology upgrading, productivity improvement, and entry into new markets.

Firms that purchased fixed assets in the last fiscal year



Job Creation Context in OIC Member Countries

SME finance is relevant to job creation because many OIC Member Countries face continuing pressure to create productive employment opportunities, especially for young people and women.

The indicators below do not measure the direct causal effect of SME finance on employment. They show the labour-market context in which SME growth and private-sector expansion matter.

Labour-market indicators

OIC countries’ share of the global youth labour force



2024 labour-market comparison

Indicator	OIC	World	Non-OIC developing	Developed
Youth not in employment, education, or training (NEET)	26.3%	20.4%	19.2%	9.7%
Female unemployment rate	5.9%	5.3%	4.9%	4.7%
Total unemployment rate	5.3%	5.0%	4.8%	4.6%

Source: Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), OIC Labour Market Report 2025, published 17 October 2025, based on International Labour Organization (ILO) modelled estimates, November 2024.

The next part of the training moves from diagnosis to practical financing mechanisms.

Complementary instruments

Innovative financing solutions are introduced here as complementary instruments that can help address different SME financing needs across different institutional settings.



Not replacing traditional banking

The focus is not on replacing traditional banking, but on understanding how alternative and specialised mechanisms can widen the range of financing options available to SMEs.



Microfinance and microcredit

The first set of mechanisms focuses on microfinance and microcredit, including individual lending, group lending, and solidarity group models.

These instruments are especially relevant for smaller firms, microenterprises, and entrepreneurs that may not yet be fully served by conventional financial channels.

Microfinance

Microfinance refers to small-scale financial services designed for individuals, microenterprises, and very small firms that are not fully served by conventional financial channels.

These services may include credit, savings, payments and transfers, and insurance, often complemented by financial education.

A broader set of small-scale financial services for underserved individuals, microenterprises, and very small firms.

Microcredit

Microcredit is the lending component of microfinance.

It provides small loans to borrowers who may have limited collateral, weak formal credit history, or insufficient access to traditional bank lending.

Small loans provided to borrowers who may not meet conventional bank lending requirements.

Target segment

Microenterprises, very small firms, informal or semi-formal entrepreneurs, women and youth entrepreneurs, and rural producers.

Main relevance

Provides an entry point into formal or semi-formal finance for firms that are too small, too undocumented, or insufficiently collateralised for conventional lending.

Key limitation

Microfinance can support inclusion and working capital, but it is not always sufficient for larger investment, technology upgrading, export expansion, or high-growth SME finance.

Microcredit can be delivered through different lending models depending on borrower profile, available information, collateral conditions, repayment responsibility, and monitoring arrangements.

This section focuses on three widely used delivery models: individual lending, group lending, and solidarity groups.

These models differ mainly in how borrowers are assessed, how repayment responsibility is organised, and how lenders manage information and monitoring challenges.

Individual lending

The borrower is assessed and financed as an individual client, based on business activity, repayment capacity, available records, and sometimes collateral or guarantors.

Group lending

Borrowers are organised in groups, and the group structure supports screening, monitoring, repayment discipline, or peer support.

Solidarity groups

Group members share stronger mutual responsibility for repayment, which can partly substitute for conventional collateral where borrower records are limited.

Individual Lending: How the Model Works

Individual lending is a microcredit delivery model in which each borrower is evaluated and financed separately. The lending decision is based on the borrower's own business activity, repayment capacity, cash flow, available records, and overall creditworthiness.

The process usually involves borrower identification, initial screening, loan appraisal, approval, disbursement, monitoring, and repayment follow-up. The main feature is that the borrower's financing conditions are determined according to the borrower's own business situation.

01 Borrower identification

The lender identifies or receives applications from eligible microenterprises or very small firms.

02 Initial screening

The borrower's basic eligibility, business activity, and financing purpose are checked.

03 Loan appraisal

The lender evaluates repayment capacity, cash flow, available records, and risk.

04 Loan approval and terms

The loan amount, maturity, repayment schedule, and conditions are determined.

05 Disbursement

The approved loan is provided to the borrower.

06 Monitoring and repayment follow-up

Repayment behaviour and business performance are followed during the loan period.

Individual Lending: Advantages and Potential Risks

Individual lending can be useful when a borrower's business activity, cash flow, and repayment capacity can be evaluated separately. It allows loan size, maturity, repayment schedule, and conditions to be adapted to the borrower's own business situation.

However, individual lending may be more costly to deliver when borrowers have weak records, limited collateral, or very small loan needs. The lender must rely more heavily on its own appraisal, monitoring, and follow-up capacity.

Potential advantage

The loan can be tailored to the borrower's own business activity and repayment capacity.

Loan size and repayment terms can be adjusted to the borrower's cash-flow pattern.

The borrower's repayment record can be built individually over time.

It may be suitable for microenterprises with identifiable business activity and some records.

Potential risk or limitation

The lender needs enough borrower-level information to conduct a meaningful appraisal.

Screening, appraisal, monitoring, and follow-up may be costly for very small loans.

Borrowers with weak documentation or informal activity may still be difficult to assess.

It may exclude the smallest or least documented borrowers if appraisal requirements are too demanding.

Group lending is a microcredit delivery model in which borrowers are organised into groups, and the group structure becomes part of borrower selection, monitoring, and repayment discipline.

The key point is not simply that several borrowers receive loans at the same time. The distinctive feature is that group members may use local knowledge and peer relationships to support repayment behaviour, especially when collateral and formal records are limited.

Step	How it works in practice
Group formation	Borrowers form or join a group, often based on local knowledge, social ties, or shared economic activity.
Mutual screening	Group members may help identify reliable borrowers because they often know each other's business activity and repayment behaviour.
Loan disbursement	Loans may be provided to individual members within a group-based structure.
Peer monitoring	Group members may observe and encourage each other's repayment behaviour.
Repayment discipline	Future access to loans, reputation, or group responsibility can support repayment incentives.

Group lending can help microfinance institutions reach borrowers who may be difficult to assess through conventional individual lending. However, the model does not eliminate credit risk and may create problems if repayment pressure becomes excessive or if the whole group faces the same economic shock.

Potential advantage

Local knowledge can improve borrower selection.

Peer monitoring can support repayment discipline.

Group reputation can support repayment discipline.

It can partly substitute for collateral where formal assets are limited.

It may reduce monitoring costs for very small loans.

Potential risk or limitation

Social ties may exclude weaker or less connected borrowers.

Borrowers who face genuine repayment difficulties may experience excessive social pressure from the group.

One member's repayment problem may affect the whole group's future access to finance.

It does not protect the lender if the whole group is unable or unwilling to repay.

Common shocks such as drought, inflation, conflict, or demand collapse can weaken repayment capacity for all members.

Solidarity groups are a microcredit delivery model in which a small group of borrowers is formed around trust, peer monitoring, and stronger mutual responsibility for repayment.

This model is closely related to group lending, but the distinction is important. In group lending, the group may mainly support borrower selection, peer monitoring, and repayment discipline. In solidarity-group models, the group usually carries a stronger responsibility for repayment performance: if one member fails to repay, other members may be expected to help cover the payment, or the whole group's future access to loans may be affected.

Dimension	Group lending	Solidarity groups
Main role of the group	Supports screening, monitoring, and repayment discipline	Supports screening and monitoring, but with stronger mutual responsibility
Repayment responsibility	May remain mainly with each borrower, depending on the model	More explicitly shared or linked to group performance
Collateral substitute	Group structure may reduce information and monitoring problems	Mutual responsibility can partly substitute for conventional collateral
Consequence of non-payment	The borrower and sometimes the group may be affected	The whole group may face pressure, shared responsibility, or loss of future credit access
Best fit	Borrowers who benefit from peer support and local monitoring	Borrowers with limited collateral where trust and mutual commitment are strong

Solidarity Groups: Advantages and Potential Risks

Solidarity groups can expand access to microcredit for borrowers who have limited collateral, weak formal records, or limited credit history. The model uses trust, local knowledge, peer monitoring, and stronger mutual responsibility to support repayment discipline.

However, solidarity groups do not eliminate credit risk. If one member cannot repay, other members may face pressure to help cover the payment, or the whole group's future access to credit may be affected. If all members face the same economic shock, the group mechanism may also become less effective.

Potential advantage

Mutual selection can help identify reliable borrowers.

Stronger mutual responsibility can partly substitute for conventional collateral.

Within-group monitoring can support repayment discipline.

Successful repayment can build a repayment record over time.

The model can reduce information problems for very small loans.

Potential risk or limitation

Social ties may exclude borrowers who are less connected to the group.

If one member cannot repay, other members may face pressure to cover the payment.

Borrowers with genuine repayment difficulties may experience excessive social pressure.

Group default can affect all members' future access to credit.

Common shocks such as drought, inflation, conflict, or demand collapse can weaken the whole group's repayment capacity.

Crowdfunding allows SMEs, entrepreneurs, or projects to raise funds online from many contributors, usually through a platform. For SME finance, crowdfunding matters because it can provide an additional financing channel outside conventional bank lending. The models differ according to what contributors receive in return: a reward or product, an equity stake, loan repayment, or no financial return.

Reward-based crowdfunding

1

Basic financing logic

Contributors support a project in exchange for a non-financial reward, product, or pre-purchase benefit.

Contributor receives

Product, service, recognition, or other non-financial reward.

Equity-based crowdfunding

2

Basic financing logic

Contributors invest in a business in exchange for shares or ownership participation.

Contributor receives

Equity stake and potential future return.

Lending-based crowdfunding

3

Basic financing logic

Contributors provide funds as loans to be repaid, usually with interest or another defined return, depending on the product and regulatory structure.

Contributor receives

Repayment of principal and expected return.

Donation-based crowdfunding

4

Basic financing logic

Contributors provide funds without expecting financial return.

Contributor receives

Social or community impact.

Reward-based crowdfunding allows SMEs and entrepreneurs to raise funds online by offering contributors a non-financial reward, such as a product, service, early access, or recognition.

For SME finance, this model is most useful when the funding need is linked to a clearly defined product or project. Contributors do not receive shares and do not provide a loan; they support the funding initiative because they value the promised reward.

Features and meaning for SME finance

Funding logic

Contributors provide funds in exchange for a promised non-financial reward.

Return to contributor

Product, service, early access, recognition, or another reward.

Suitable SME use

Product launch, prototype development, creative products, design items, or initial production run.

Main advantage

It can provide early demand feedback before the SME commits to larger-scale production.

Main limitation

It is less suitable for ordinary working-capital needs because contributors expect a specific promised reward.

Key implementation need

Clear communication, realistic delivery timelines, transparent promises, and contributor trust.

Crowdfunding models differ because contributors do not always play the same role. In some models, they act mainly as customer-like contributors or supporters. In other models, they act as investors or lenders. This distinction matters for SME finance because each model creates different policy and regulatory concerns, depending on what contributors are promised.

SME crowdfunding model		Contributor's role	Main policy / regulatory concern
Reward-based crowdfunding		Customer-like contributor	Clear delivery promise, realistic timeline, non-delivery risk, and consumer protection.
Equity-based crowdfunding		Investor / shareholder	Issuer disclosure, investor protection, ownership rights, valuation risk, risk warnings, and platform supervision.
Lending-based crowdfunding		Lender	Borrower disclosure, credit-risk assessment, repayment management, default handling, platform governance, and lender protection.
Donation-based crowdfunding		Supporter	Clear purpose, transparent use of funds, platform trust, and prevention of misuse.

For SME support institutions, the practical implication is clear: crowdfunding is better understood as a set of different financing models rather than one single instrument. Reward-based and donation-based models raise mainly trust and implementation concerns, while equity-based and lending-based models raise stronger financial-regulation, disclosure, and investor or lender protection concerns.

Source: World Bank / infoDev, Crowdfunding’s Potential for the Developing World, 2013; International Organization of Securities Commissions (IOSCO), Crowdfunding: 2015 Survey Responses Report, 2015; Organisation for Economic Co-operation and Development (OECD), Financing SMEs and Entrepreneurs 2024: An OECD Scoreboard, 2024.

Reward-based and donation-based crowdfunding are non-investment crowdfunding models. Contributors do not receive interest, loan repayment, shares, or ownership rights. In SME finance, their relevance is use-case specific. Reward-based crowdfunding is more directly relevant when an SME can offer a clearly defined product, service, or initial production output. Donation-based crowdfunding has a narrower role and is mainly linked to social, community-oriented, recovery-oriented, or entrepreneurship-support purposes.

Model relevance and implementation concern

Reward-based crowdfunding		Donation-based crowdfunding	
SME finance relevance	Main implementation concern	SME finance relevance	Main implementation concern
Relevant for product-based SMEs and entrepreneurs with a concrete product, prototype, design item, creative output, or initial production run.	Contributors need confidence that the promised product, service, or reward will actually be delivered.	Has a narrower role in SME finance. It is mainly relevant for social enterprises, community-oriented business initiatives, women/youth entrepreneurship support, or recovery-oriented SME support.	Contributors need to trust the purpose of the funding initiative and how funds will be used.
Common issue	SME finance relevance		Main implementation concern
	Both models rely on credibility, clear communication, and platform trust.		The main risk is not financial return risk, but misuse of funds, non-delivery, weak disclosure, or unrealistic promises.

Source: World Bank / infoDev, Crowdfunding’s Potential for the Developing World, 2013; International Organization of Securities Commissions (IOSCO), Crowdfunding: 2015 Survey Responses Report, 2015; Organisation for Economic Co-operation and Development (OECD), Financing SMEs and Entrepreneurs 2024: An OECD Scoreboard, 2024.

Equity-based and lending-based crowdfunding are more directly connected to SME financing because contributors provide funds with an expectation of financial return.

In equity-based crowdfunding, the SME raises capital by offering an ownership stake or investment instrument. In lending-based crowdfunding, the SME receives debt finance and contributors expect repayment.

Because equity-based and lending-based crowdfunding involve financial return expectations, they require clearer rules on platform authorisation, disclosure, risk warnings, investor or lender protection, and platform governance.

Equity-based crowdfunding

Investor /shareholder

SME finance relevance

Provides capital to SMEs or start-ups by allowing investors to participate in ownership or investment returns.

Main regulatory concern

Issuer disclosure, investor protection, valuation risk, ownership rights, risk warnings, and platform supervision.

Lending-based crowdfunding

Lender

SME finance relevance

Provides debt finance to SMEs outside conventional bank lending channels.

Main regulatory concern

Borrower disclosure, credit-risk assessment, repayment management, default handling, platform governance, and lender protection.

Common concern

Both models involve financial return expectations.

Regulation needs to address information asymmetry, platform conduct, conflict of interest, transparency, and investor or lender protection.

Peer-to-Peer (P2P) lending platforms connect SME borrowers with lenders through an online platform. The SME receives debt finance and repays the loan according to agreed terms.

P2P lending overlaps with lending-based crowdfunding, but in this section it is examined separately as a platform-based lending model for SME finance.

Borrower

The SME seeks debt finance for working capital, business continuity, order fulfilment, or small investment needs.

Lenders

Funds may come from individual lenders, institutional investors, or both, depending on the platform model and regulation.

Platform role

The platform facilitates borrower screening, loan listing, lender matching, payment servicing, and repayment management.

Financing form

The SME receives a loan, not equity capital; therefore, repayment obligation remains central.

SME relevance

P2P lending can be relevant where SMEs face limited collateral, thin credit files, high transaction costs, or slow conventional lending processes.

Boundary with equity crowdfunding

P2P lending does not create ownership rights; it is a debt-financing channel rather than an investment-ownership channel.

Advantages of Peer-to-Peer (P2P) Lending Platforms for SMEs

P2P lending platforms can offer SMEs a digital debt-financing channel when conventional lending is slow, collateral-intensive, or difficult to access.

The advantages are potential advantages, not automatic results. They depend on platform quality, credit assessment, pricing, regulation, and borrower suitability.

Potential advantage	What it means for SMEs	Important qualification
Speed	Digital application, online borrower assessment, and platform-based matching can shorten the time between application and funding.	Speed is useful only if affordability and credit-risk assessment are not weakened.
Flexibility	P2P loans may support smaller ticket sizes, short-term working capital, order fulfilment, inventory needs, or bridge financing.	Flexibility depends on the platform model, lender appetite, and regulation.
Reduced intermediation costs	Online platforms can reduce some branch-based and manual processing costs by using digital onboarding, data-based screening, and automated servicing.	Lower platform cost does not always mean cheaper credit for SMEs; platform fees and risk pricing still matter.

Potential advantage

What it means for SMEs

Important qualification

Access for thin-file SMEs

Platforms may use alternative data or non-traditional screening methods to assess borrowers with limited formal credit history.

This requires responsible data use, privacy safeguards, and reliable credit assessment.

Wider funding base

SMEs may access funds from multiple lenders rather than relying only on one bank relationship.

Fragmented lender participation can create repayment, servicing, and confidence issues if the platform is weak.

P2P lending can widen SME access to debt finance, but it also creates credit, operational, conduct, and platform-risk issues. Risk management is therefore central to whether P2P lending can become a reliable SME financing channel.

Risk management areas and what they mean in P2P SME lending

Borrower screening

The platform needs a process to assess the SME's identity, business activity, repayment capacity, and financing purpose.

Credit-risk assessment

SME creditworthiness should be assessed using available financial records, transaction data, credit history, cash-flow information, or alternative data where appropriate.

Risk grading and pricing

Borrowers may be assigned risk categories so that lenders can understand the risk level before funding.

Affordability and repayment capacity

Loan size, maturity, and repayment schedule should be consistent with the SME's expected cash flow.

Lender disclosure

Lenders need clear information on borrower risk, expected return, fees, default risk, and the fact that repayment is not guaranteed.

Risk management areas and what they mean in P2P SME lending

Diversification and exposure control

Platforms or regulators may limit excessive concentration by encouraging or requiring lenders to diversify across borrowers.

Payment servicing and monitoring

The platform needs reliable systems for repayment collection, recordkeeping, communication, and loan performance monitoring.

Default and recovery procedures

There should be clear procedures for late payment, default notification, restructuring, recovery, and loss allocation.

Data governance and operational resilience

Digital lending requires protection of borrower and lender data, reliable platform systems, cybersecurity, and continuity arrangements.

P2P lending platforms can support SME finance, but they require a clear regulatory environment because they facilitate debt finance through digital platforms rather than through conventional bank lending.

Regulatory considerations and why they matter for SME finance

Platform authorisation or registration

Helps distinguish supervised platforms from informal or unreliable lending arrangements.

Borrower disclosure

SMEs seeking finance should provide clear information on business activity, financing purpose, repayment capacity, and key risks.

Lender protection

Lenders need clear information on expected return, fees, credit risk, default risk, and the possibility of loss.

Credit-risk assessment standards

Platforms need credible borrower assessment so that speed does not replace proper evaluation of repayment capacity.

Pricing and fee transparency

SMEs and lenders should understand financing cost, platform fees, late-payment charges, and total cost of finance.

The exact regulatory design differs across countries. For SME development agencies, the central point is that P2P lending should be encouraged only with attention to platform reliability, responsible credit assessment, transparent disclosure, and borrower/lender protection.

Regulatory safeguards and why they matter for SME finance

Client money and repayment handling	Rules may be needed for how funds are collected, held, transferred, and repaid through the platform.
Conflict-of-interest management	Platforms should manage incentives that could encourage poor borrower selection, misleading listings, or inappropriate risk-taking.
Data protection and cybersecurity	P2P lending depends on digital data, so borrower and lender information must be protected.
Default and recovery procedures	Clear procedures are needed for late payments, defaults, restructuring, recovery, and communication with lenders.
Complaints and dispute resolution	SMEs and lenders need channels to address platform conduct, payment problems, disclosure issues, or operational failures.

Source: World Bank and International Finance Corporation (IFC), Fintech and SME Finance: Expanding Responsible Access, 2022; Organisation for Economic Co-operation and Development (OECD), Marketplace and FinTech Lending for SMEs in the COVID-19 Crisis, 2022; Committee on the Global Financial System (CGFS) and Financial Stability Board (FSB), FinTech Credit: Market Structure, Business Models and Financial Stability Implications, 2017.

What Day 1 examined

Day 1 examined why SME financing gaps persist and how selected innovative financing models can respond to different types of SME financing constraints.

Practical implication for SME development agencies

For SME development agencies, the practical implication is to match the financing model to the enterprise's need, readiness, risk profile, and institutional environment. No single instrument can close the SME financing gap on its own.

Main areas covered and core conclusions

SME financing gap

SME finance constraints are not only about lack of funds; they also reflect information gaps, collateral limitations, transaction costs, risk perceptions, and institutional capacity requirements.

Demand-side constraints

SMEs may need support to improve documentation, financial literacy, recordkeeping, credit visibility, and resilience to economic shocks.

Supply-side constraints

Financial institutions and platforms need appropriate tools, data, products, risk-management systems, and institutional capacity to serve SMEs effectively.

Microfinance and microcredit

Microfinance is most relevant for microenterprises, very small firms, and entrepreneurs with limited access to conventional finance; delivery models differ across individual lending, group lending, and solidarity groups.

Core conclusion for SME development agencies

Crowdfunding platforms

Crowdfunding is not one single model.

Reward-based, equity/share-based, lending/debt-based, and donation-based crowdfunding serve different purposes and require different levels of trust, disclosure, regulation, and investor or lender protection.

Peer-to-Peer (P2P) lending platforms

P2P lending can provide a digital debt-financing channel for SMEs, especially for smaller or short-term needs, but it requires sound credit assessment, platform governance, repayment management, and regulatory oversight.

Thank you for your valuable participation.

We would be pleased to hear your reflections on how the themes discussed during Day 1 relate to your respective country and institutional contexts.

Discussion points

- Which SME financing barriers are most relevant in your respective country or institutional context?
 - Which Day 1 financing mechanisms could be most useful in addressing these barriers?
 - Are there institutional, regulatory, or implementation experiences from your context that you would like to share?
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