

Can Digital Credit Boost E-commerce among MSMEs?

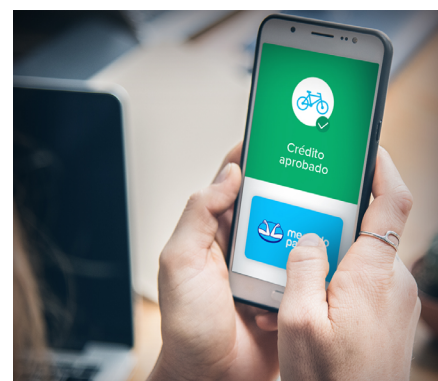
- The COVID-19 pandemic has underscored the advantages of e-commerce for both consumers and businesses.
- Despite increasing trends, only 1% of MSMEs in Latin America and the Caribbean participate in e-commerce.
- Mercado Crédito, the fintech company of Mercado Libre (MELI), is leveraging its technological platforms to offer credit to MSMEs traditionally excluded from the financial market.
- IDB Invest, together with MELI, conducted a study to measure the impact of the credit offered by Mercado Crédito in Argentina on MSME sales within the MELI ecosystem.
- The results show that companies that did receive the credit increased their quarterly sales through MELI platforms for 6 months—by 34% on average during the first quarter and by 26% in the following quarter—compared to similar companies that did not receive the credit.

MSMES AND E-COMMERCE

Micro, small and medium-sized enterprises (MSMEs) are important economic drivers in Latin America and the Caribbean, representing over 99% of firms and 60% of jobs. However, they receive less than 15% of credit provided to businesses¹ and only 1% of MSMEs participate in e-commerce.² These factors are closely tied to their consistently low productivity and limited growth rates, as MSMEs only represent 40% of the region's GDP.

The economic impact of the COVID-19 pandemic, along with the policies put in place to address it, heightened the problems already confronting MSMEs. Most of these businesses faced stark drops in demand for their products, many were forced to halt operations, and despite public policies implemented to alleviate this situation, their access to credit was also affected. Many MSMEs did not make it.³

At the same time, the pandemic has also created new opportunities, leading many companies to seek new online sales channels and use e-commerce to survive. While the number of digital transactions through Mercado Libre (MELI), the region's main e-commerce platform, had already been growing significantly pre-pandemic, they reached US\$49.8 billion in 2020, a 75% increase over 2019 (Figure 1).



The growth of e-commerce is beneficial for both consumers and businesses. For consumers, e-commerce can increase competition, facilitate price comparisons, expand the variety of products available, and save time. Businesses can also benefit from reduced costs, greater efficiency, and access to new clients. Additionally, digital payments allow for greater traceability of business operations, making monetary transactions more secure, reducing informality, and facilitating tax collection.

To promote greater uptake of e-commerce among MSMEs, it is important to understand the barriers that hinder their participation in the first place. These include persistent digital gap problems (lack of internet connectivity, computers, and human resources with digital skills), informality, limited financial literacy, and underdeveloped

Figure 1. The MELI Ecosystem: Evolution of Digital Transactions (US\$ billion)



1. ECLAC/OECD (2013). [Latin American Economic Outlook 2013. SME Policies for Structural Change.](#)
2. IDB (2021). [Expansión de herramientas financieras digitales para impulsar el comercio electrónico de las MiPyMEs de América Latina.](#)
3. According to ECLAC, by mid-2020 an estimated 2.7 million formal businesses in Latin America and the Caribbean were expected to close permanently, losing 8.5 million jobs. More recent data sources suggest that the impact may be much larger. For example, in Mexico INEGI reported that 20.8% of MSMEs closed permanently from May 2019 to September 2020 (about 1 million firms).





logistics channels, among others.⁴ Insufficient access to financing can also make it difficult for MSMEs to “go digital” and reduce their capacity to grow online sales.

THE CASE OF MERCADO CRÉDITO IN ARGENTINA

IDB Invest, together with MELI, carried out a study to understand how access to financing can affect the level of MSME participation in e-commerce. MELI provides an ideal setting for exploring this question since it offers credit to companies who operate within its ecosystem through Mercado Crédito.

Mercado Crédito is an innovative platform that offers consumer loans and working capital loans to MSMEs that sell through MELI or process their sales through Mercado Pago (MELI’s payment platform). It aims to make access to financing



simple, flexible, and tailored to clients’ needs, reaching people and businesses that are underserved or unserved by the traditional financial system.⁵

The online loan application is user-friendly: it does not require additional documentation and loans are granted instantaneously. Loan terms are flexible, as the seller can select the desired credit amount and repayment schedule, which will be deducted from their future sales on the platform. This allows the seller to take out a loan in line with their needs.

As of the end of 2020, Mercado Crédito had provided 3.5 million loans totaling over US\$2.7 billion to more than 1 million MSMEs in the region (Argentina, Brazil, and Mexico). They are mostly working capital loans with an average size of US\$450 and repayment period of 11 months.

To determine the impact of the credit provided by Mercado Crédito on the sales of MSMEs within the MELI ecosystem, IDB Invest used a database including the monthly sales of over 1.2 million MSMEs in Argentina from December 2018 to December 2020. The main challenge in measuring this impact is that on average, the companies that received the credit are differ-

ent than those that did not, making a simple comparison unfeasible. Therefore, IDB Invest employed econometric techniques to identify companies with similar characteristics that did and did not receive the credit. This allowed for creating comparable groups and analyzing their evolution over time.⁶



The sample of comparable groups includes 4,851 MSMEs, of which 1,229 received a loan from Mercado Crédito. Of these, average quarterly sales within the MELI platform were AR\$618,000 at January 2021 exchange rates (approximately US\$7,075)⁷ and 43% were women-led firms. Most companies are located in the country’s main urban centers: 40% in the Province of Buenos Aires, 25% in the City of Buenos Aires, 8% in Córdoba and 5% in Santa Fe. Their average credit score (NOSIS) is 443 points, below the threshold that commercial banks typically have for lending to this segment. The average

4. IDB (2020). [Transformación digital empresarial: ¿Cómo nivelar la cancha?](#)
 5. Mercado Libre (2019). [Mercado Crédito: préstamos para potenciar la inclusión financiera.](#)
 6. Specifically, the “Nearest Neighbor” method of the “Propensity Score Matching” methodology was used, which narrows down the universe to 4,851 companies (including treatment and control groups), followed by a fixed effects estimation.
 7. According to the official exchange rate on January 29, 2021. Source: [Banco Central de la República de Argentina.](#)



loan size was AR\$150,000 (US\$1.700)⁸ with an average of 8 repayment installments. According to a survey by Mercado Crédito, 66% of MSMEs took the loan to buy inventory and 20% to invest in their business, among other reasons.

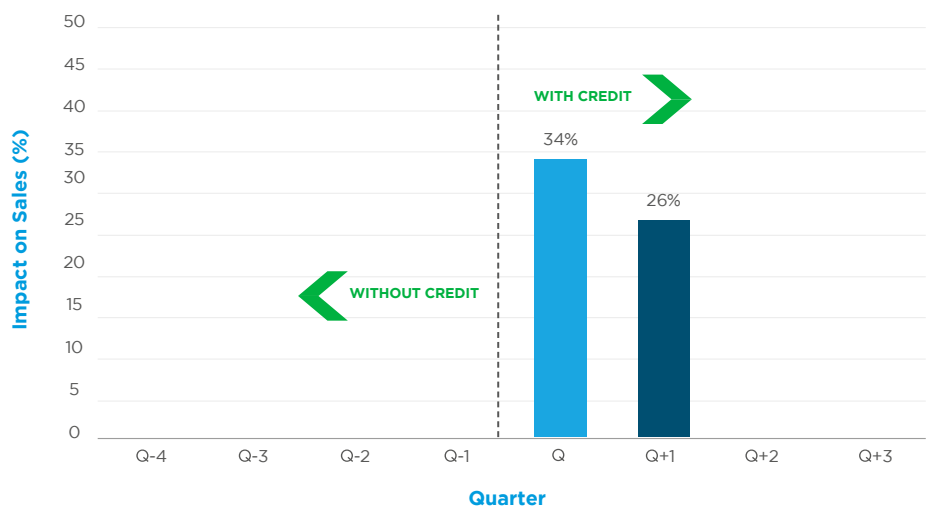
STUDY RESULTS

Companies that did receive the credit increased their quarterly sales through MELI platforms for six months—by 34% on average during the first quarter and by 26% in the following quarter—compared to similar companies that did not receive the credit. In dollar terms, the average seller⁹ who received the credit sold about AR\$376,000 more (nearly US\$4,300) over a six-month period than they would have sold without it.

This effect was also clear in the months following the implementation of COVID-19 lockdowns and social distancing measures in Argentina: the quarterly sales of MSMEs receiving the credit in the second quarter of 2020 within the MELI ecosystem were 55% higher than those that did not receive credit, and 36% higher in the following quarter.



Figure 2. Variation in Quarterly Sales Due to Credit (%)



These results show that the effect of credit on MSME digital sales within the MELI ecosystem lasts up to six months, with firms then returning to their average sales levels. This is in line with the type of short-term working capital loans offered by Mercado Crédito.

CONCLUSION

Leveraging a fintech company and an e-commerce platform can help boost MSME digital sales within that ecosystem. Nonetheless, it remains to be seen how more MSMEs can pursue a digital transformation to reap the rewards of e-commerce. The challenges are big, but so are the benefits, especially in a post-pandemic world where e-commerce will likely be here to stay. ■

Quarter

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This DEBrief summarizes the results of a study carried out by IDB Invest to measure the impact of the credit offered by Mercado Crédito in Argentina on MSME sales within the Mercado Libre ecosystem.

Photography: Mercado Libre & Shutterstock
Design: Mario Segovia Guzmán

The views expressed here are those of the authors and do not necessarily reflect the views of the IDB Group, its respective Boards of Directors, or the countries they represent.

8. According to the official exchange rate on January 29, 2021. Source: Banco Central de la República de Argentina. The median loan amount was AR\$47,000 (US\$544).
9. A company without credit from Mercado Crédito with average quarterly sales of AR\$624,000 (US\$7,150).