

FINANCING FIRM GROWTH:

The Role of Capital
Markets in Low- and
Middle-Income Countries

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What is the **role of capital markets** in the growth of firms, jobs, and productivity in low- and middle-income countries?



Document the **large expansion of capital market financing** access by firms around the world since 1990



Document **how** capital market expansion is **driving investment, business growth, and employment**



Document the **role of policy reforms** in capital markets growth

Financing Firm Growth uses a **novel database of issuances** since 1990

80,000 Firms Worldwide



Focus on the **20,000 firms** located in 106 low- and middle-income countries (excl. China)

DEBT AND EQUITY ISSUANCES:
Securities Data
Company Platinum,
LSEG

FIRM BALANCE SHEET:
Worldscope, LSEG

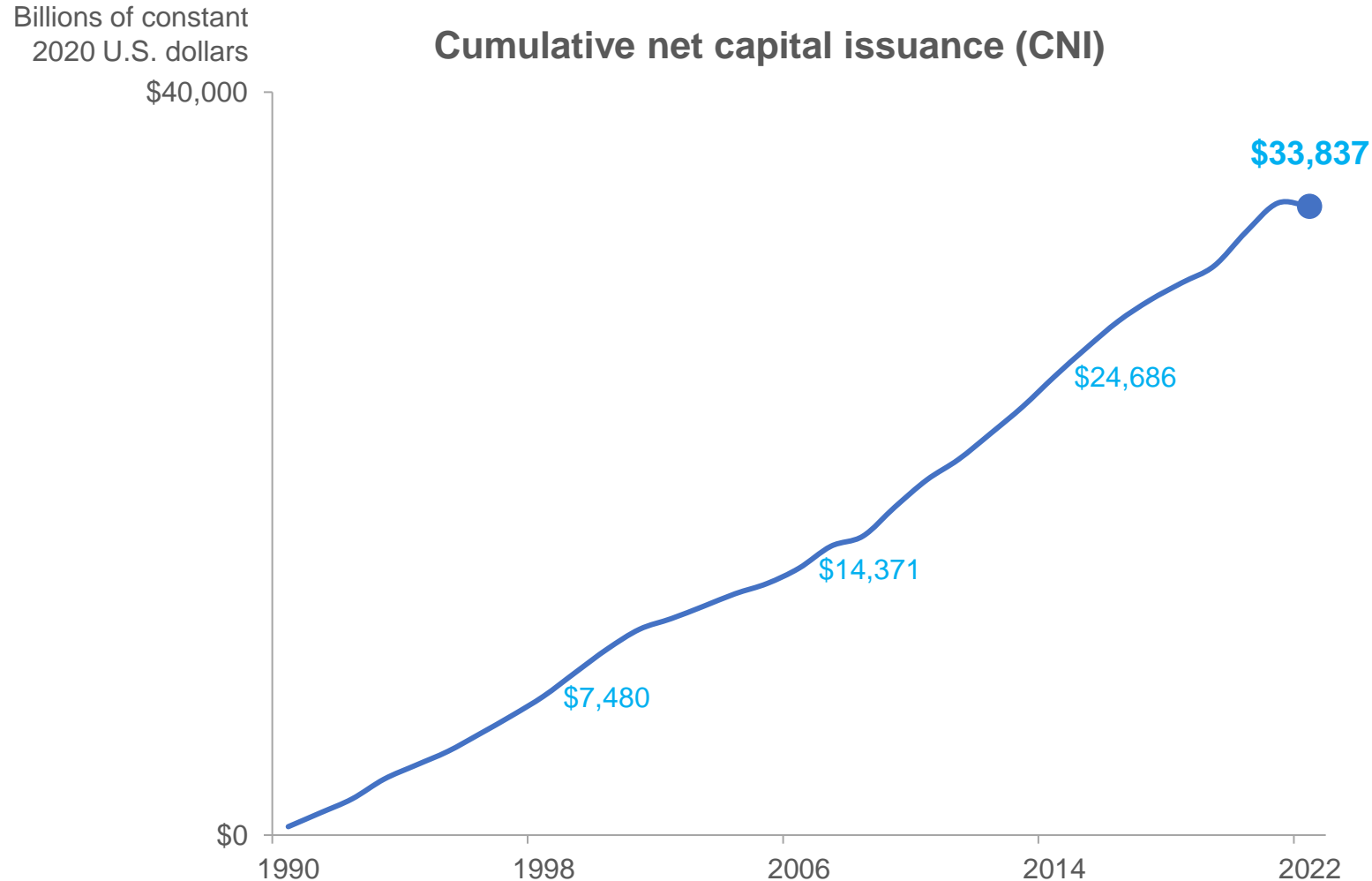
COUNTRY INCOME GROUPS:
1990 World Bank
income categories

Measure of expansion of capital markets:
cumulative net capital issuance

+ Equity issuances
+ Bond issuances
since 1990

} minus bonds that
have matured

Firms worldwide access more capital market financing



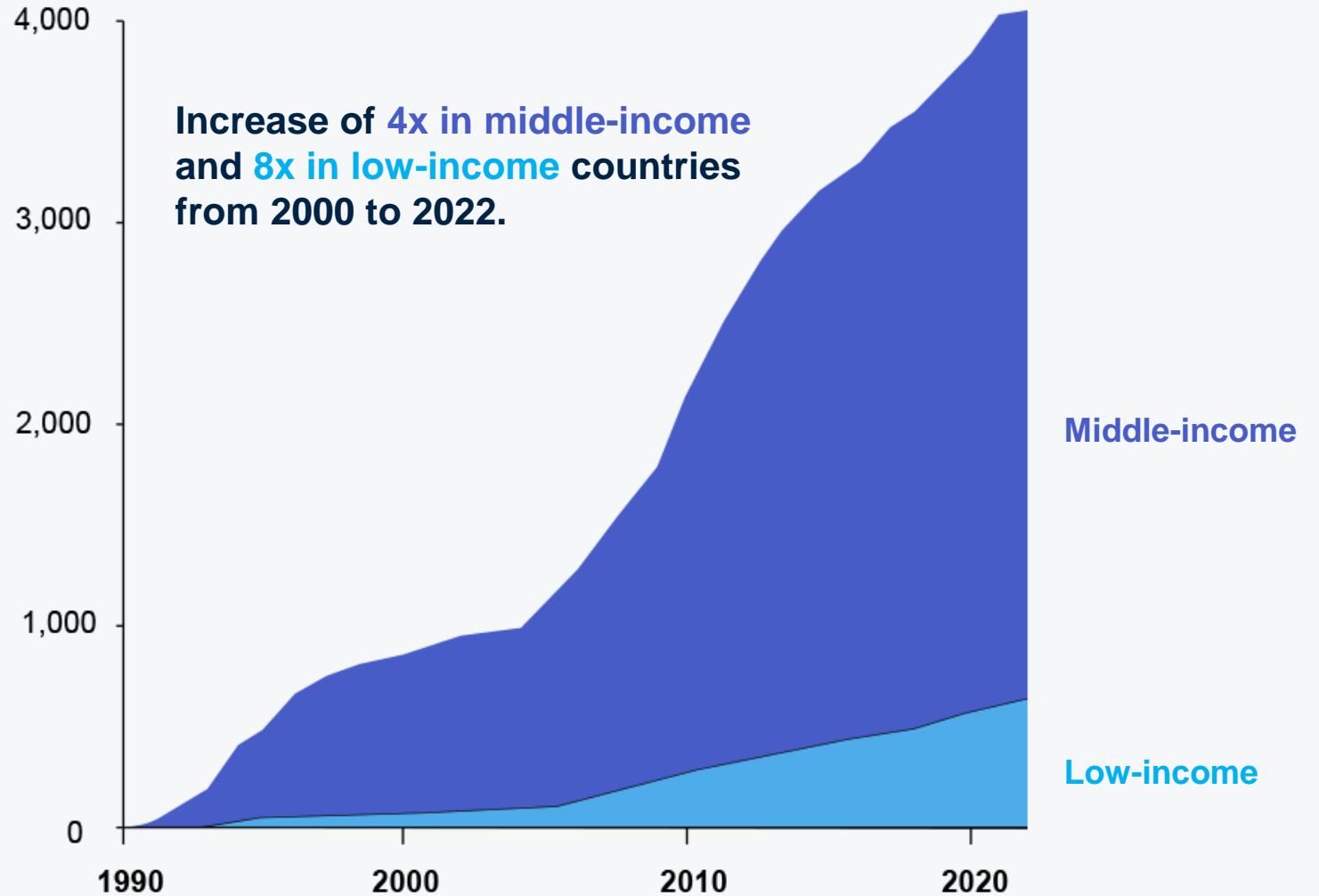
Global capital market financing has grown significantly in past three decades



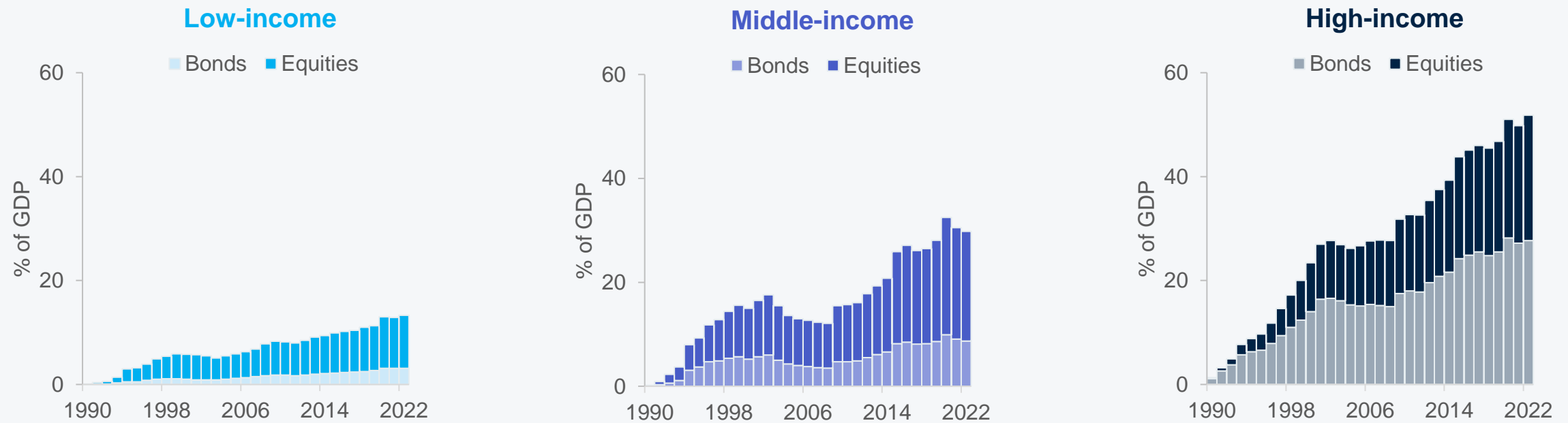
How much growth has been for firms in low- and middle-income countries?

**Capital market
financing
for firms in
low- and
middle-income
countries
has grown
by \$4 trillion
since 1990**

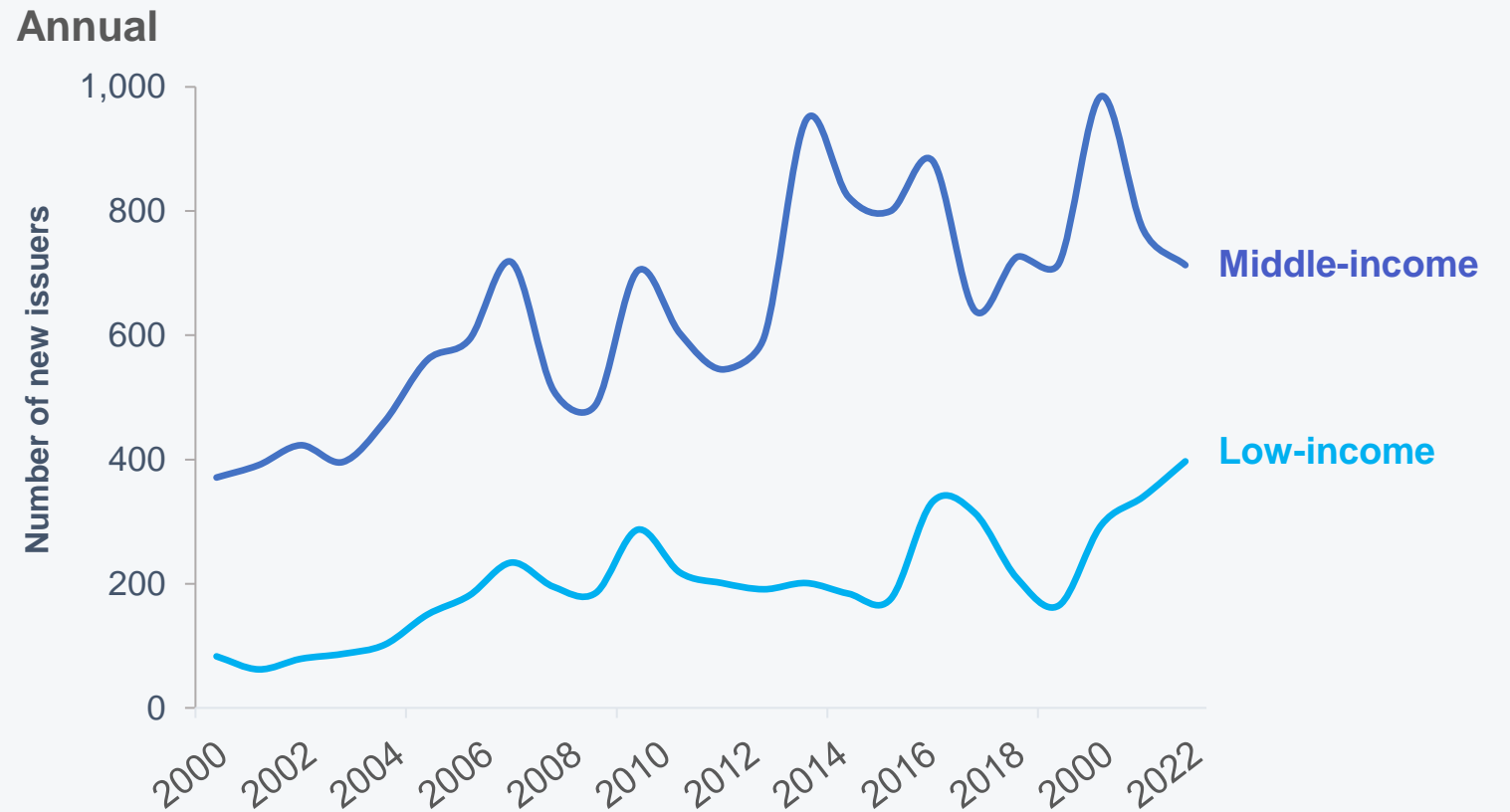
Billions of
constant 2020
U.S. dollars



Financing through equity has been more prominent in low- and middle-income countries

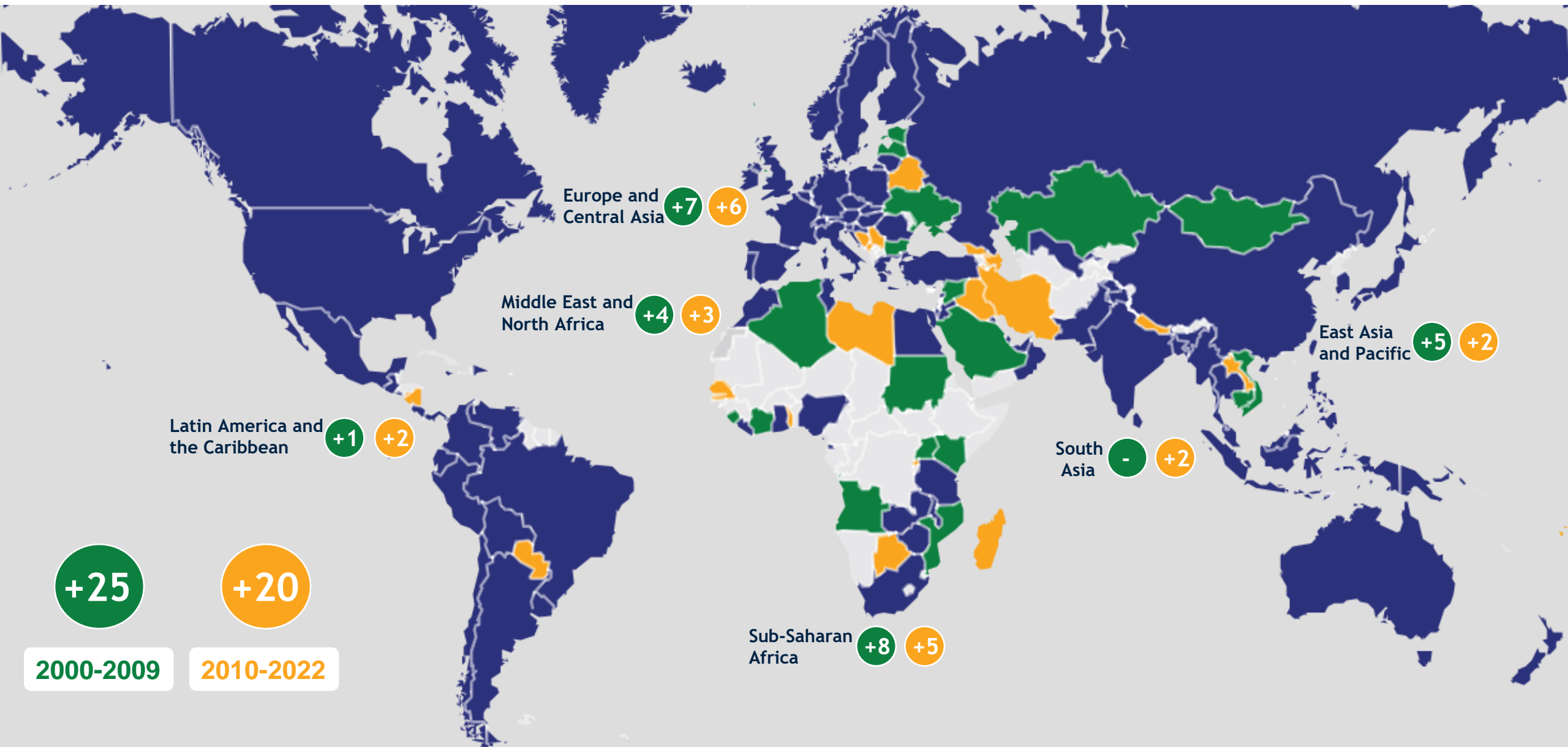


Expansion of capital market financing is associated with a growing number of new issuers in low- and middle-income countries

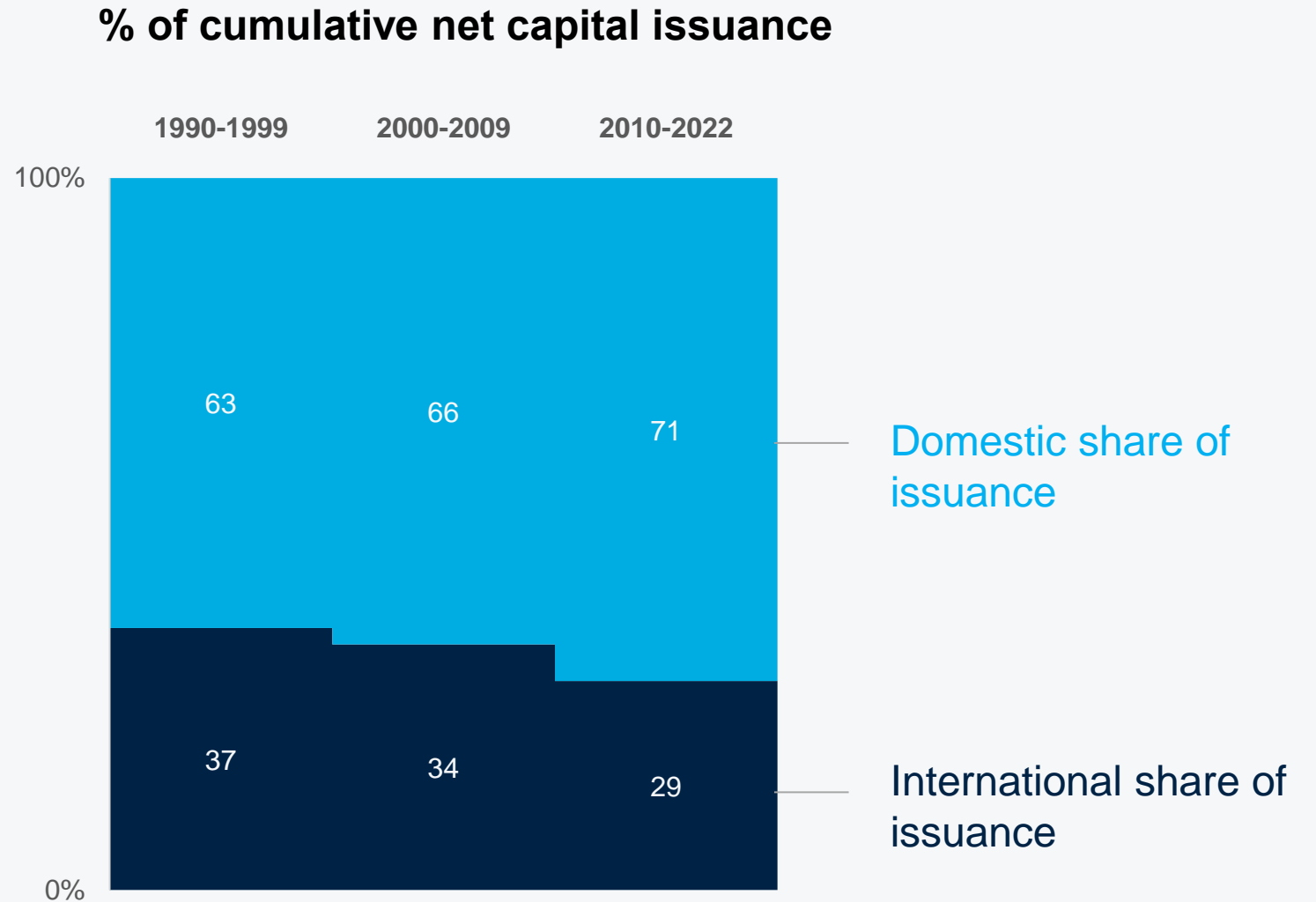


14,000 firms became new participants in capital markets between 2000 and 2022 in low- and middle-income countries.

Firms in **more countries** accessed capital markets: 2000-22

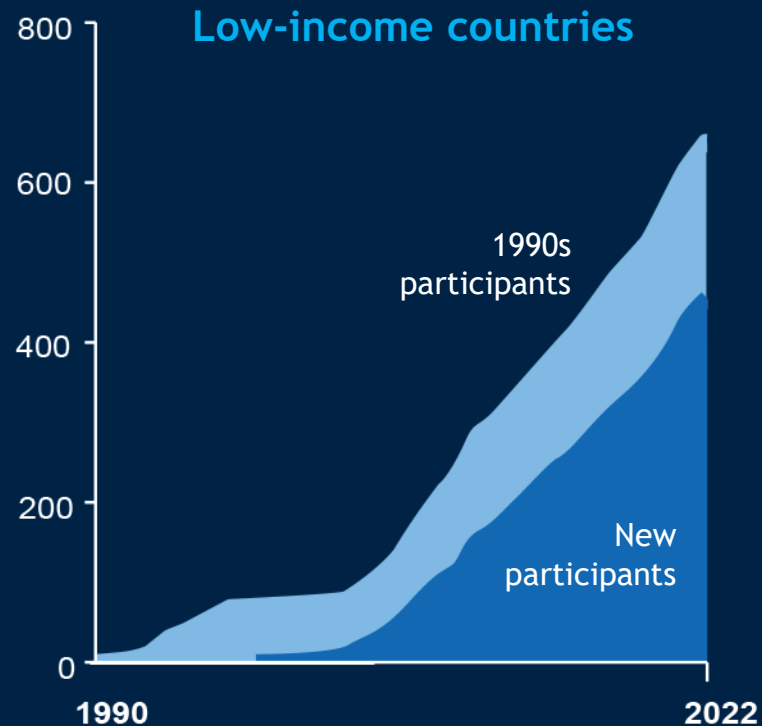


**Most growth
took place
in domestic
capital markets
rather than
international
markets**



New issuers accounted for an increasing share of capital market financing in low- and middle-income countries

Billions of
constant 2020
U.S. dollars

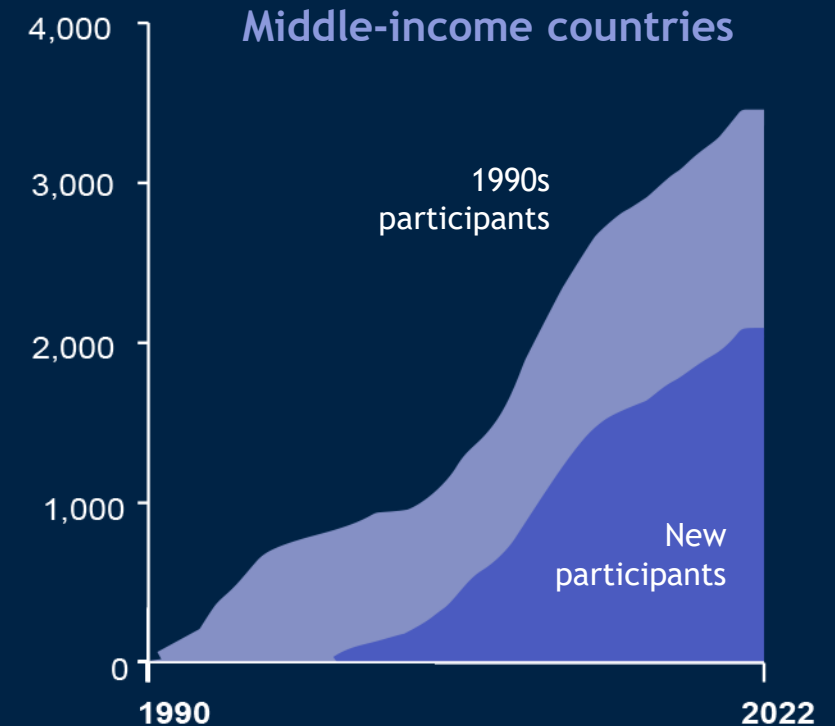


61%

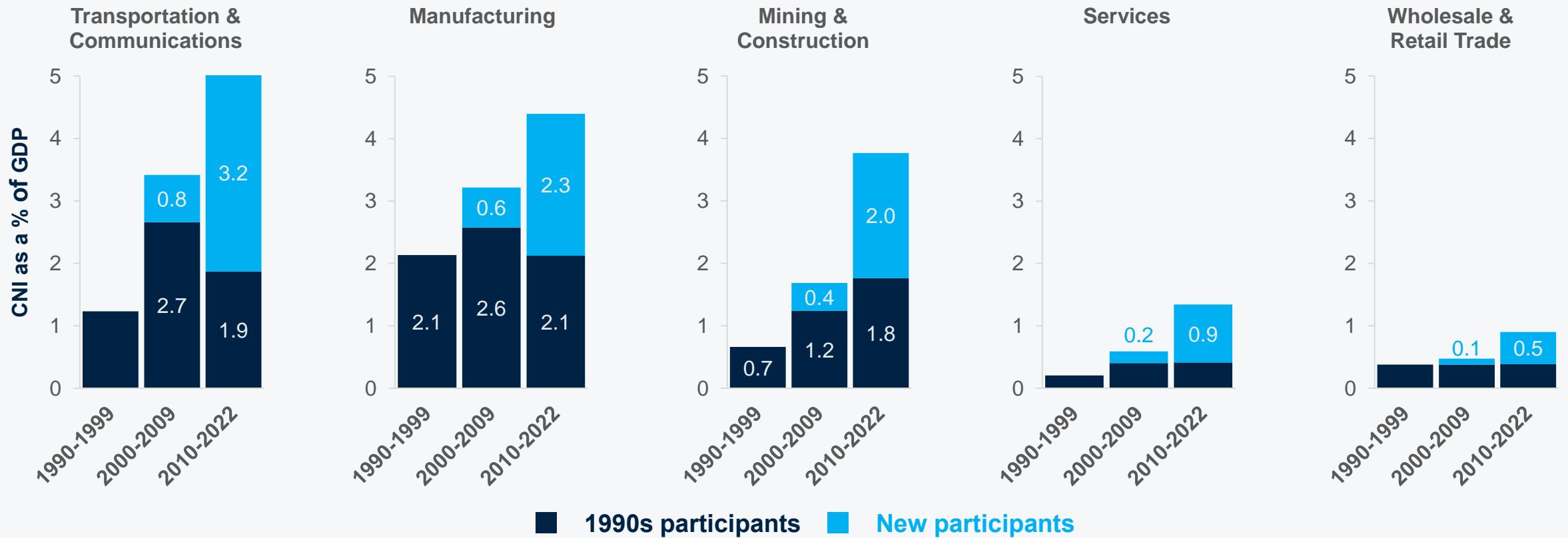
of total capital market financing by 2022 came from new issuers in low- and middle-income countries.

High-income countries accounted for 42%.

Billions of
constant 2020
U.S. dollars

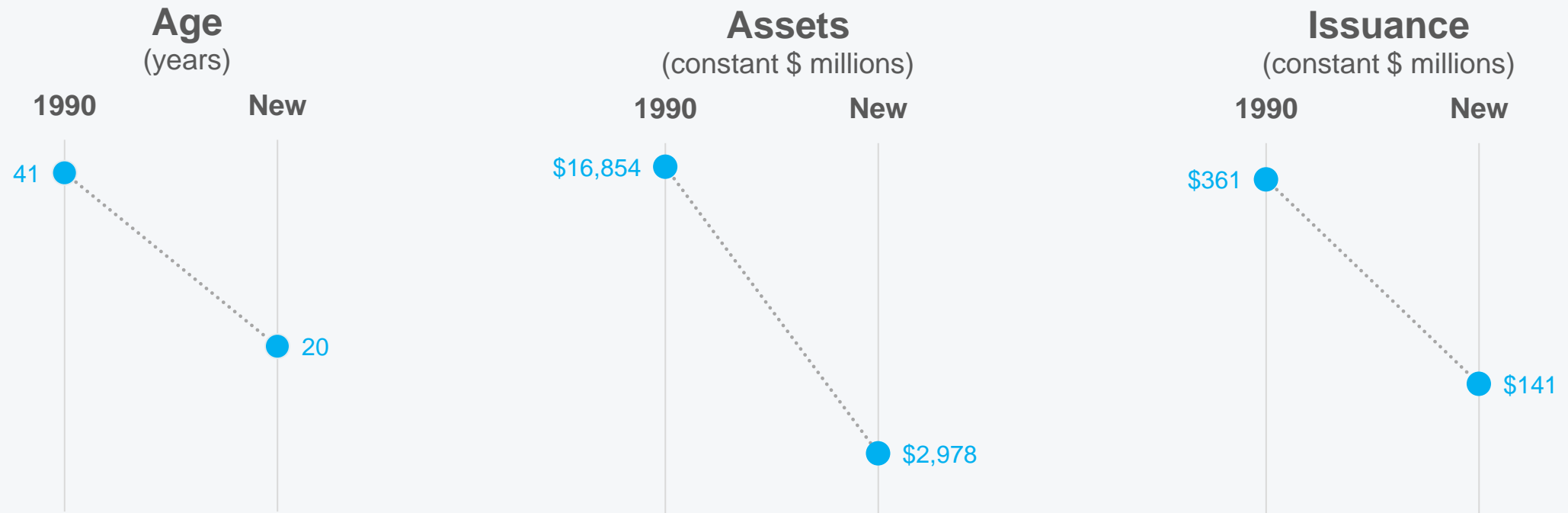


New issuers' share increased across all sectors



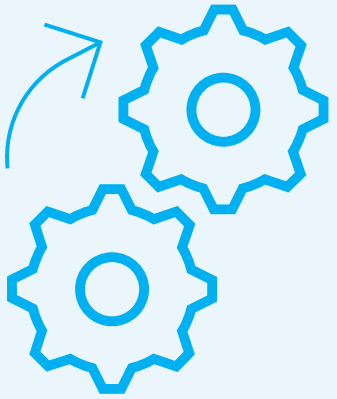
New issuers are younger, smaller, and issue smaller amounts

Distribution of 1990s and new participants, by age, assets, issuance size



Impact of capital market growth in low-and middle-income countries

Whether capital market financing enables growth depends on how issuance proceeds are used



Do firms use capital market financing to **invest productively?**

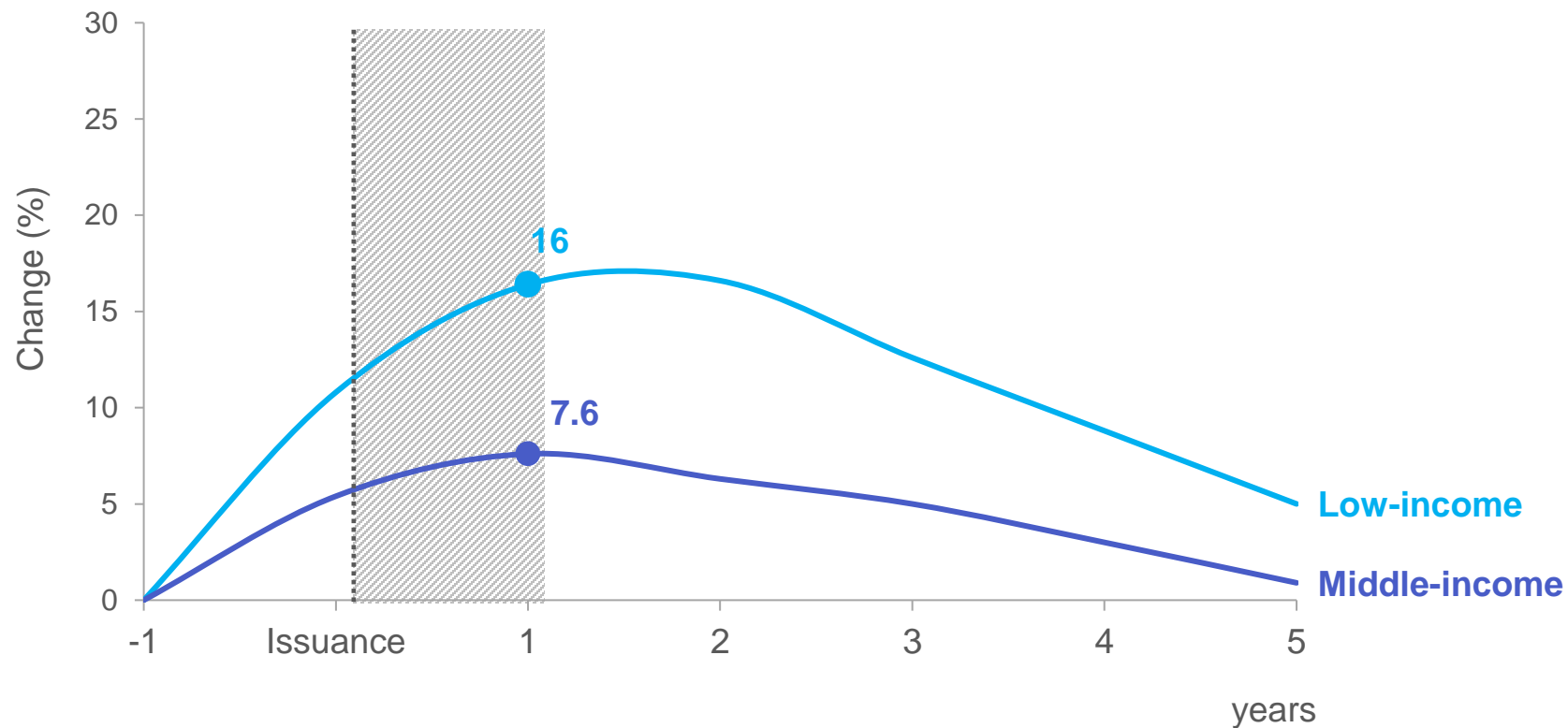


Do firms apply capital market financing to **non-productive uses?**

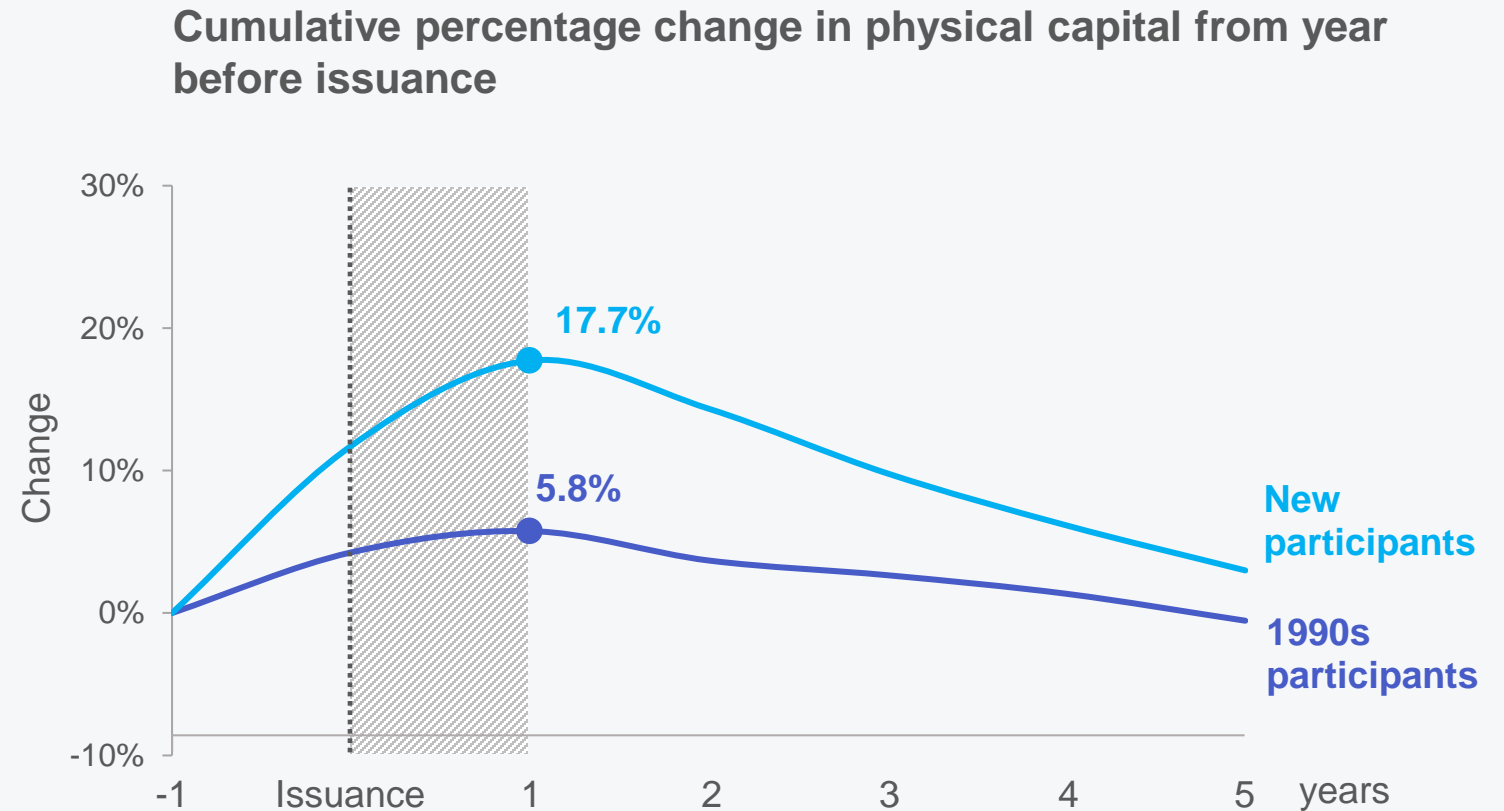
- to repay expensive loans
- change leverage ratio
- increase cash holdings

Firms invest more in physical capital after their first issuance

Cumulative percentage change from year before issuance



Firm growth after capital markets issuance is stronger for new issuers



Firm growth is twice as strong after issuing equity than bonds

13%

Physical capital increases by **13% for equity issuances** in the year of issuance.

5%

Physical capital increases by only **5% for bond issuances** in the year of issuance.

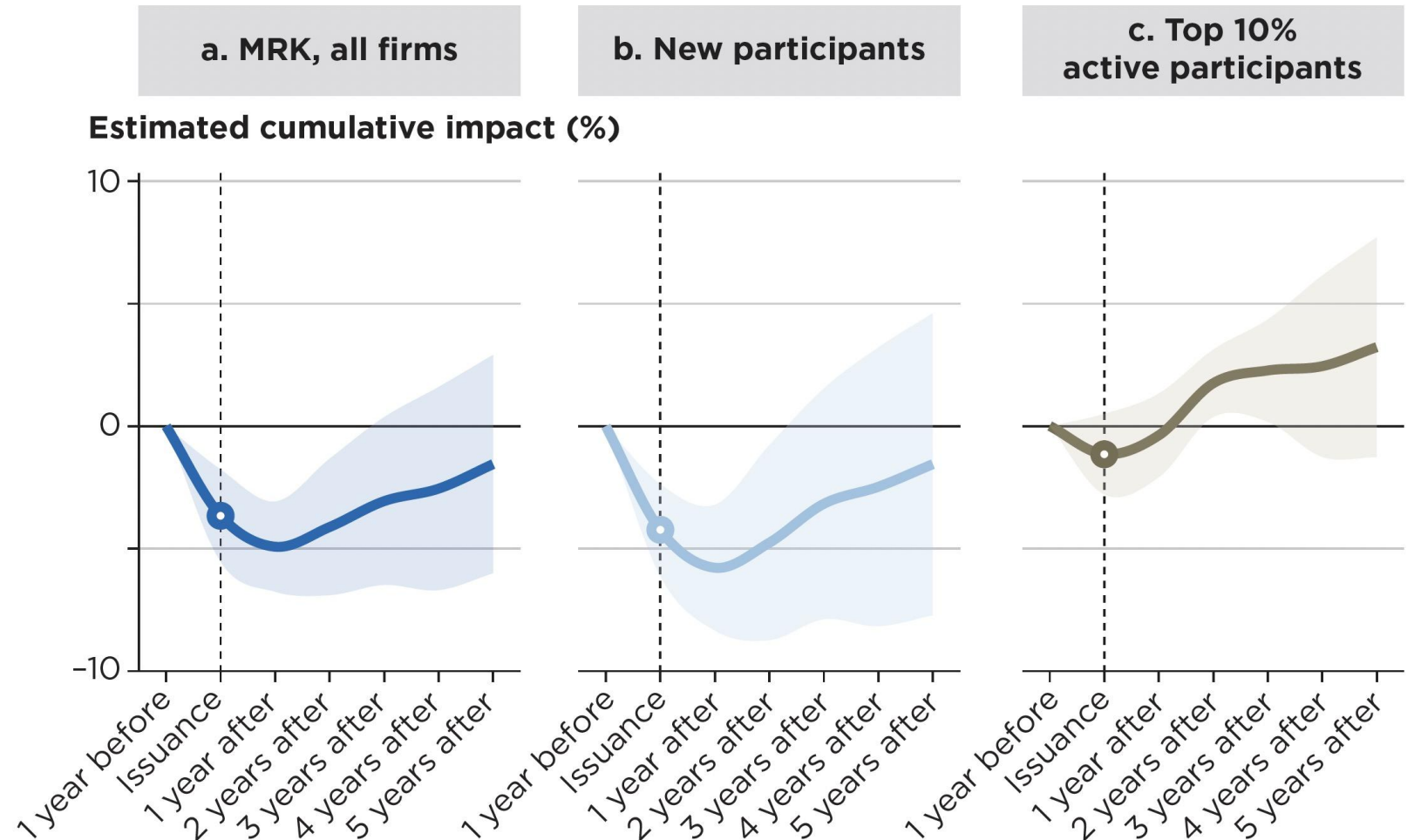


Equity financing provides **greater flexibility** without the pressure of regular, fixed debt payments.

New participants also experience a reduction in their MRK

New participants appear financially constrained before participating in capital markets

Relaxed their constraints ex-post



Micro effects have macro consequences

Micro

Effects: firms' reaction in physical capital, sales, employment, and productivity

Macro

Effects: aggregate responses for low- and middle-income countries

Example

Productivity Gains

- ▲ New participants, ex-ante higher marginal return to capital (MRK)
- ▲ Significant increase in their capital stock following issuance activity



Aggregate productivity increases if capital markets finance highly productive firms:

$$\widehat{Prod.} \approx \sum_i S_i \times MRK_i \times \Delta \hat{k}_i$$

S_i : relative firm size, MRK_i : ex-ante productivity, $\Delta \hat{k}_i$: predicted change in capital

$$\text{Contribution} = \widehat{Prod.} / Prod.$$

Capital market issuance contributes to **economy-wide growth**

12%

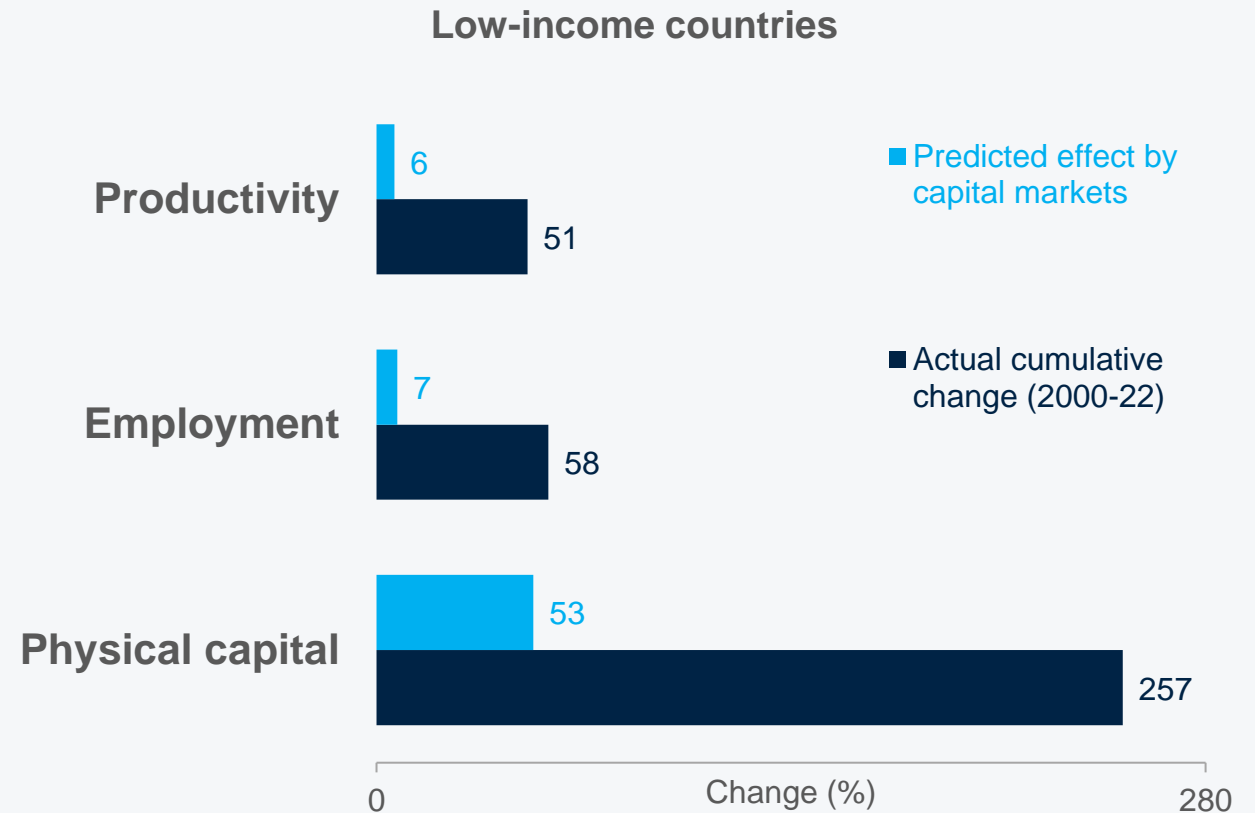
Increase in **productivity**

12%

Increase in **employment**

21%

Increase in **physical capital**



Capital market issuance contributes to **economy-wide growth**

11%

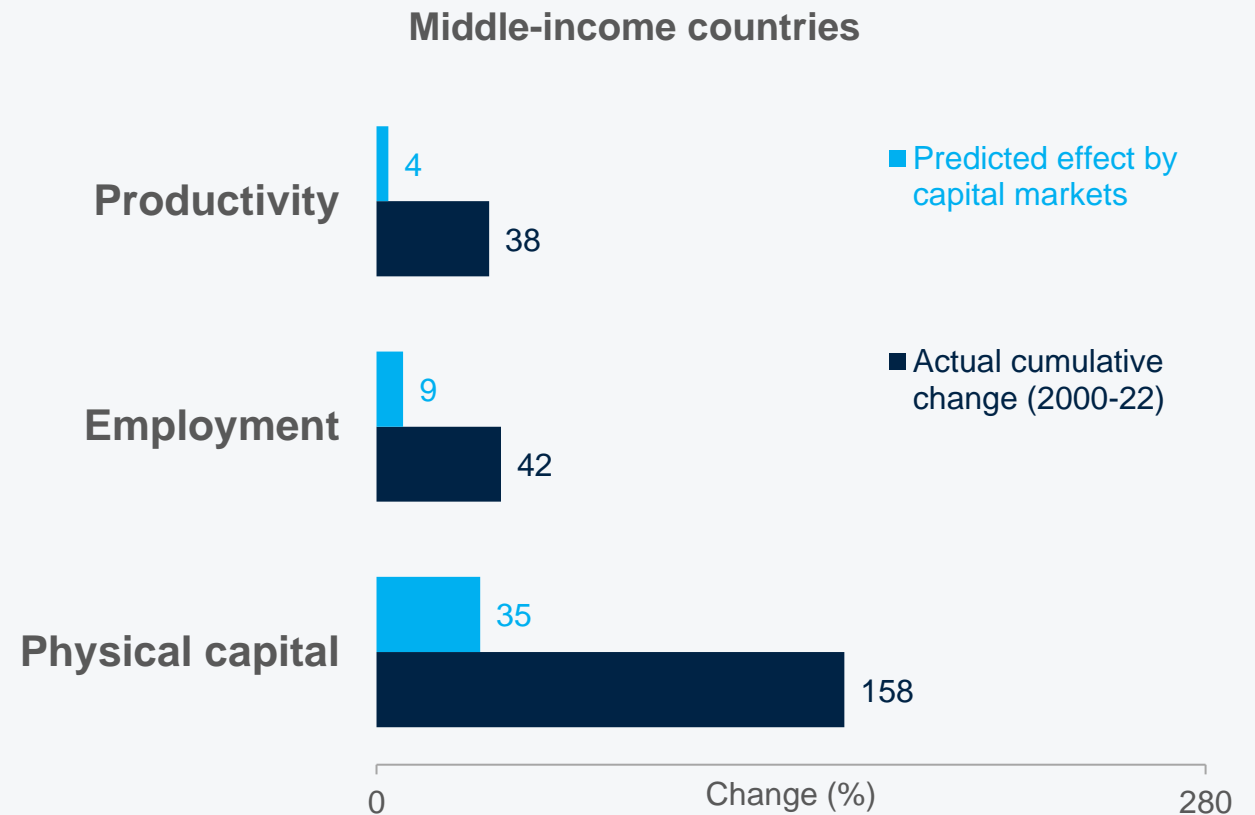
Increase in **productivity**

21%

Increase in **employment**

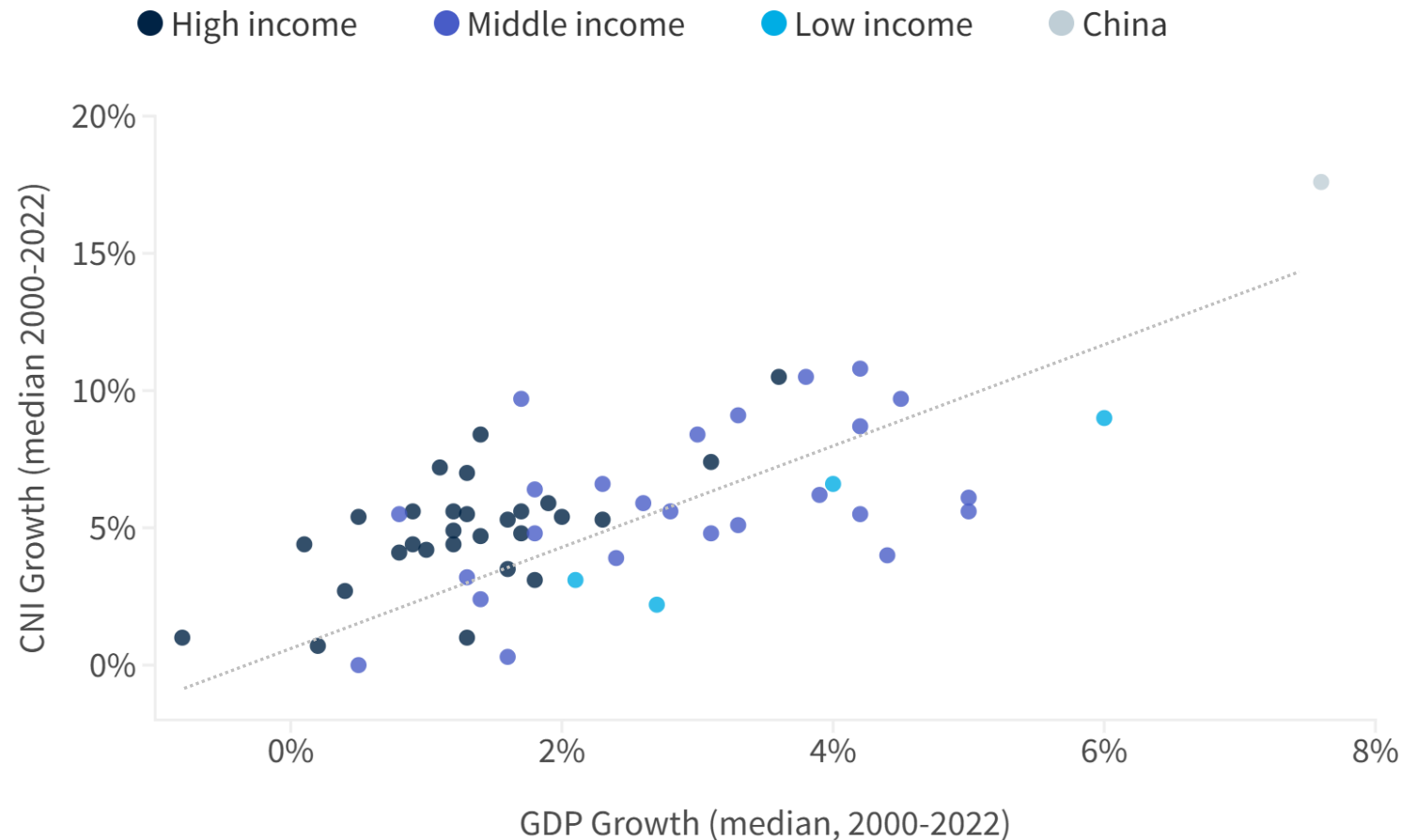
22%

Increase in **physical capital**



Drivers of capital markets growth

Economic growth is associated with capital market growth



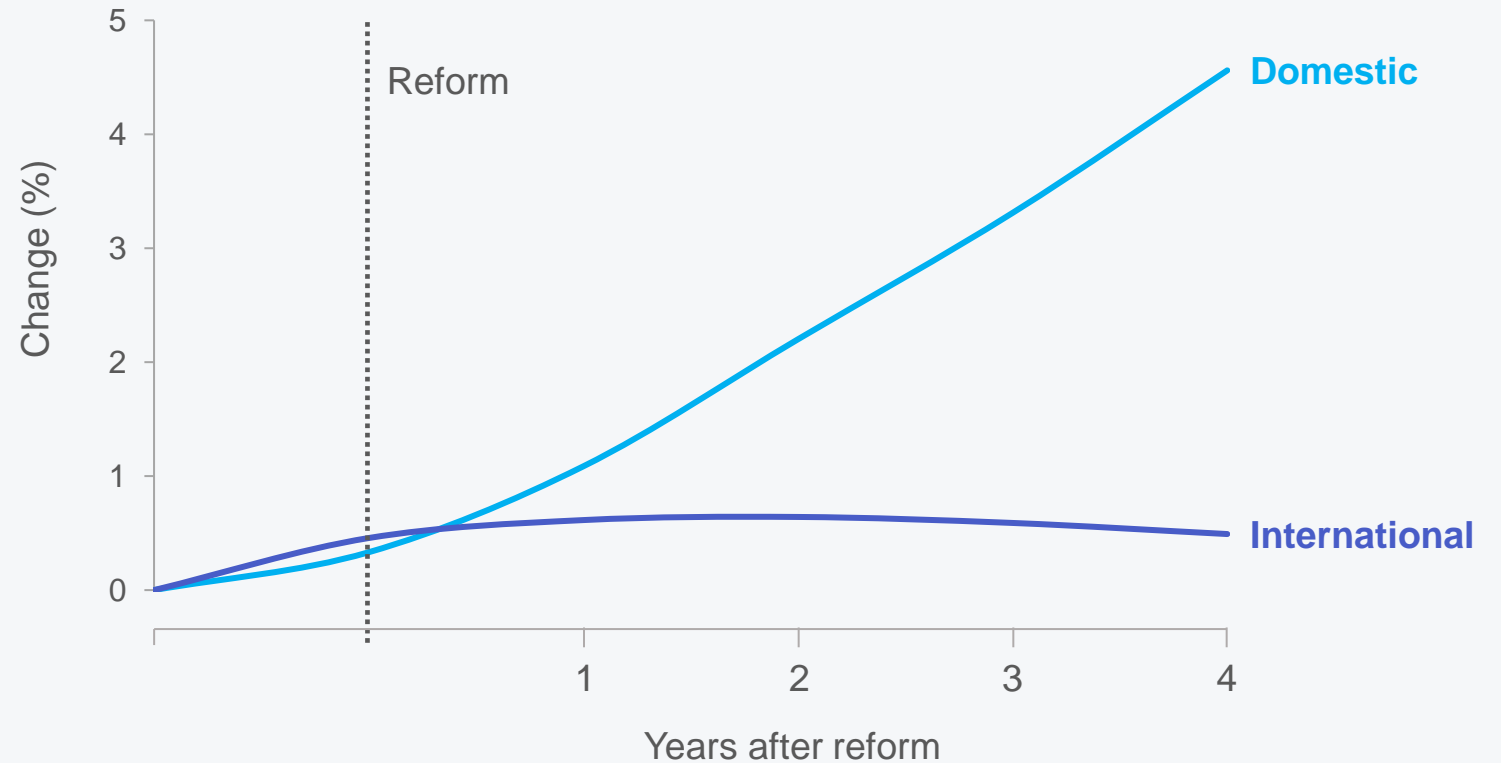
GDP growth accounts for about half of the variation in capital market financing across countries

Policies to grow investable savings can promote capital issuances

Moving to a prefunded pension system:

- Grows local investor base
- Increases domestic issuances by firms

Change in cumulative net issuance (as % of GDP)

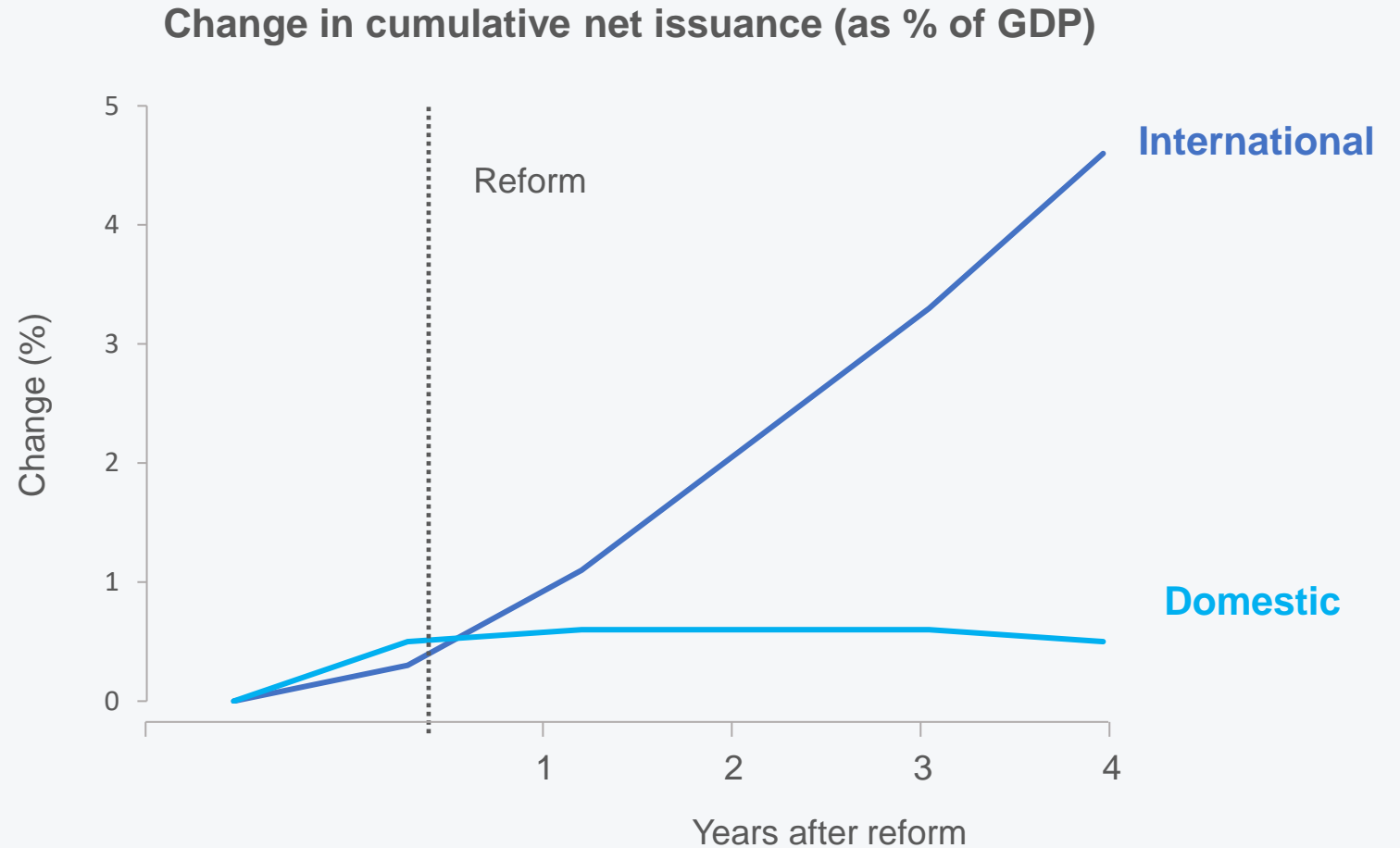


Pension reforms introduced mandatory or quasi-mandatory individually funded programs

Capital account liberalization boosts foreign bond issuances

Policies include:

- Easing regulations
- Reducing capital controls
- Opening markets to foreign investors

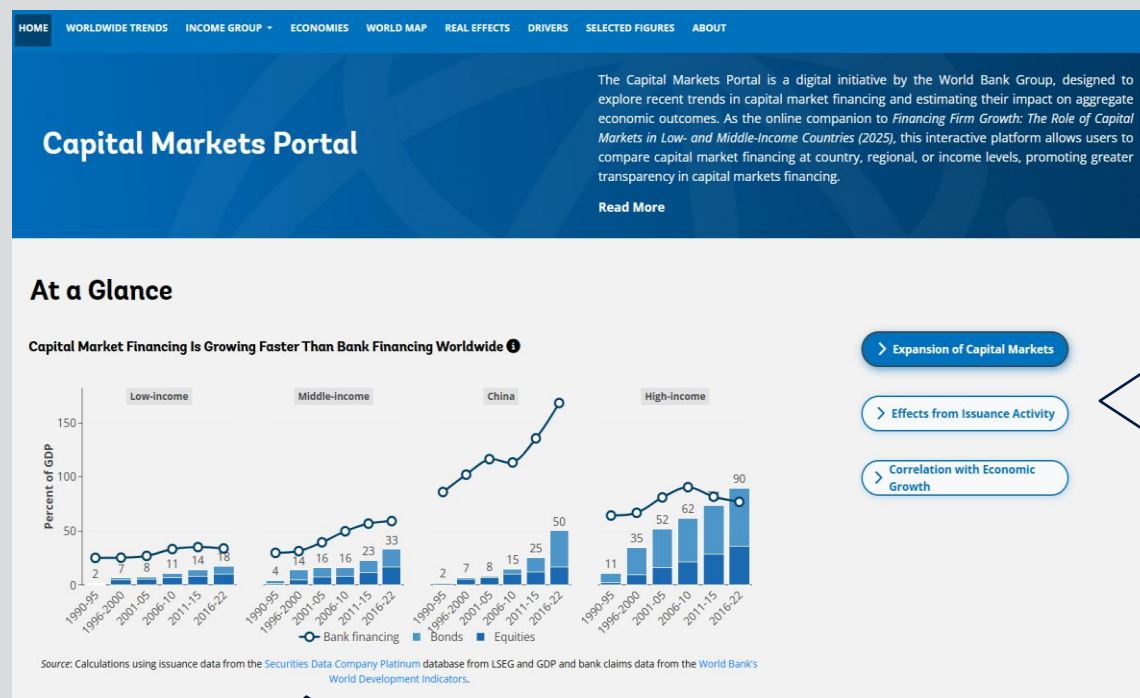


Ongoing working papers

- **Meh, Quadrini, and Kaminsky (2025).** “Debt and Equity Financing: A Quantitative Assessment”
- **Schmukler, García-Santana, Kirpichev, and Moretti (2025).** “Capital Markets, Misallocation, and Productivity Gains: Evidence from Global Bond and Equity Issuances”
- **Mauro, Pedraza, and Ul Haq (2025).** “Capital Market Growth and Policy Reforms”

Capital markets portal

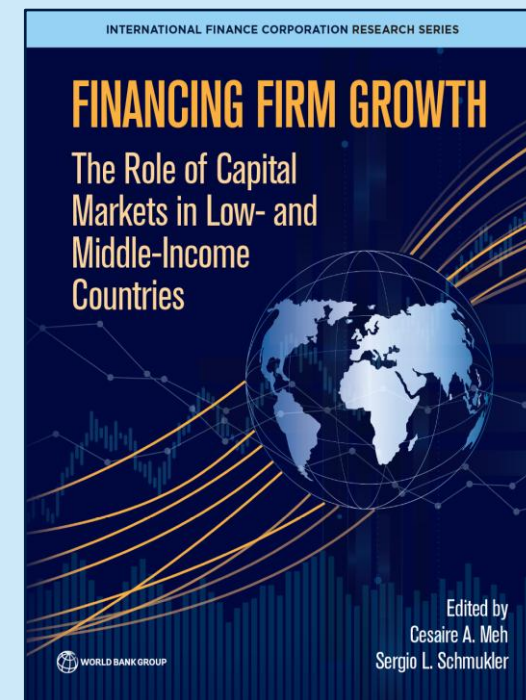
An interactive tool to explore trends in capital market activity



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Users can reproduce figures and tables for any country and region

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