

## Hybrid finance instruments for SMEs (New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments)

This chapter describes the functioning and development of hybrid finance instruments, which combine features of both debt and equity into a single financing vehicle. Hybrid instruments include: subordinated debt (loans or bonds); participating loans; silent participation; convertible debt and warrants, and; mezzanine finance, which combines two or more of these instruments within a facility. The chapter discusses the profile of firms that are suited for hybrid financial tools and the pre-conditions for the investment. It highlights the key enabling factors for the development of a commercial market for hybrid instruments, which typically concerns larger SMEs in need of substantial capital injection, and comments on mechanisms to facilitate the downsizing of this type of finance and access by lower-tier SMEs. It illustrates recent market trends and typologies of policy intervention to sustain the development of mezzanine finance and ease access to hybrid instruments by lower-tier SMEs.

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