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## The capital market gap: A dedicated SME bond exchange in the United States

Wese Obiabaka \*

*Senior Partner, Emerging Markets, IIN Consulting, LLC, USA.*

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### Abstract

More than 90% of America's earning population - representing near 257 million people - are still not able to participate in any meaningful fashion of corporate bond investments. This exclusion is not incidental but is built into longstanding structural, regulatory and operational constraints that disproportionately restrict access to fixed income securities. At the same time, Small and Medium Enterprises (SMEs), for all their central role in driving national productivity, innovation, job creation and economic resilience, are faced with persistent barriers to raising capital via the world's deepest and most liquid corporate bond market. As a result, a large portion of the US economy is effectively locked out of one of its most stable and scalable financing mechanisms. We live in an age defined by fast-paced change - an age where the old limitations are being broken down and ANYTHING IS POSSIBLE, thanks to the strategic use of technology. The intersection of digitization, financial innovation, blockchain systems and alternative capital raising models has proven the potential to transform long established markets. These technological advances not only challenge outdated assumptions, but also present unprecedented opportunities to democratize the access to corporate bond markets. This paper examines the economic consequences of the exclusion of middle markets from fixed income investing, and focuses on how the exclusion contributes to a lack of wealth creation, capital efficiency, and economic growth more broadly. It further suggests viable and technology-enabled solutions that can address structural deficiencies that currently hamper the ability of individual investors and SMEs. By rethinking the architecture of markets, and with the inclusion of new, transparent, and scalable mechanisms, the paper makes the case that increased participation in the corporate bond ecosystem isn't just desirable, but necessary, to create a more equitable, competitive, and future-ready U.S. financial system.

**Keywords:** SME Financing; Corporate Bonds; Capital Market Access; Bond Exchange; Financial Innovation; Economic Inclusion

### 1. Introduction

This article proposes the creation of a bond exchange dedicated to SME issuance, by registering the exchange with the Securities and Exchange Commission SEC of the U.S, with primary operations in the state of Texas. As you read this article, maintain an open mind to revolutionize the bond market for America's Small and Medium Enterprises (SMEs). The potential for change is premised on the review of existing models, which reveal clear pathways for conceptual replication to favor SMEs.

Texas is the 8th largest economy in the world, ahead of Russia, Canada, and Italy, with a Gross Domestic Product GDP of \$2.77 trillion. (Texas Government, 2024) It is the largest exporting U.S. State with exports in 2024 amounting to \$455 billion, supporting approximately 1.2 million jobs.

\* Corresponding author: Wese Obiabaka

## **2. Proposition 1 advanced in this article**

The creation of a bond exchange dedicated to SMEs liberalizes access to debt capital for issuers (SMEs), utilizing a capital-raise model dominated by investment-grade corporations. The effect of this dedicated bond exchange expands to providing additional investment options for especially non-accredited investors (i.e., existing and future customers of issuing SMEs).

The conventional capital market (bond market) favors institutional investors and accredited investors disproportionately, leaving individual (retail and non-accredited investors with the challenge of high entry barriers to the market. This SME Bond Exchange seeks to rebalance this trend.

The potential role of capital market-based financing for SMEs has also been recognized by the G20. (Gert Wehinger, 2015)

### **2.1. Rationale**

The corporate bond market has long excluded SMEs due to high credit rating requirements and costly underwriting. At its core, this proposed exchange serves as an instrument of economic fairness. The SMEs drive innovation, employ the critical working-class population, yet remain structurally ostracized from the capital markets. The rigid threshold of scale, high ratings, costly underwriting, minimum ticket size, etc., are calibrations of the capital markets that can be customized for mid-level players.

By establishing a bond exchange designed specifically for SMEs, we create a level playing ground where all drivers of the economy can access debt financing proportionate to their track record, governance, and impact, and not only based on their ratings and size.

Such a platform will bridge the divide between the large corporations and local innovators. The expected result is a more inclusive financial ecosystem for all viable enterprises to participate equitably in shaping our national growth, while non-accredited investors gain access to one of the economy's most dynamic financial markets.

For investors, the introduction of SME bonds offers access to a new asset class offering higher yields than traditional returns on disposable income, possibly domiciled in money market savings instruments. The OECD notes that 'broadening the range of investible instruments available to households contributes to healthier financial diversification and resilience at the retail level' (Gert Wehinger, 2015) This diversification offers portfolio stability to households.

Retail participation in structured SME debt markets enhances financial wellbeing, and channels household savings towards real sector development ((IFC), 2021) The financial and development duality of this handshake between the SME Bond Exchange and household investment is a compelling value proposition for strengthening the co-existence of companies and community.

Finally, the initiative of dedicating a formal exchange ensures investor protection following the ensuing regulatory framework required to support the operation of the exchange. These regulations include, but are not limited to, regulatory disclosures, listing standards, etc.

Thus, an SME Bond Exchange enhances not only the financing landscape for small and medium enterprises but also the investment landscape for households, creating a more inclusive and balanced capital-market ecosystem. It builds a marketplace where SMEs gain access to the capital they need, and individual investors gain access to deserving investment opportunities.

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## **3. Proposition 2 advanced in this article**

Providing alternative financing to SMEs from traditional banking credit options, including debt financing. Market financing should be seen as a complementary, and not a substitute for bank lending (Gert Wehinger, 2015)

This proposition seeks to create a marketplace that promotes this alternative path to capital raising. This will create a regulated environment where SMEs can responsibly leverage their operational performance and customer base to participate in the nation's broader economic growth trajectory.

### 3.1. Rationale

The components of market financing include the financial markets (capital, money, and derivatives), financial institutions (banks, insurance companies, investment firms), and financial instruments (stocks, bonds). These components should be promoted across the board to effectively facilitate the flow of funds by bringing lenders (investors) into a marketplace with borrowers (bond issuers). It is a typical scenario of supply and demand, opportunity and profit.

A business's cash flow, whether actual or projected, is the most critical determinant of creditworthiness. When a company's operations generate sufficient cash flow to qualify for traditional bank credit, it should likewise have the opportunity to raise capital from the capital market.

Cash flow, fundamentally derived from sales, reflects the interactive exchanges between a business and its network of customers, subscribers, and consumers. These relationships constitute valuable intangible assets that reflect the business's financial stability and growth potential. If customer engagement and consistent revenue generation already demonstrate the capacity to meet repayment obligations, why should these assets (customer base) not be leveraged to raise capital? By issuing bonds to their customer base, businesses can incorporate a vital component of their operations into this identified capital raise model. By so doing, the operational vitality of a company becomes the source and guarantor of repayment at bond maturity. A unique captive approach to this suggested bond issuance.

Middle-market players in the United States and indeed across other geographies can experience funding stability. The fixed interest rates component of the bond issuance process, coupled with the flexibility in aligning repayment schedules (bond settlements) with the cashflow timelines of the issuer, is a great consideration for SMEs. This provides a predictable and manageable funding model over the volatility associated with money market cycles of traditional bank credits. In Europe, SMEs issuing bonds benefit from maturities and coupon structures that can be aligned with seasonal cashflow patterns (Croce, 2024) thereby eliminating the pressures of short-term liquidity management.

Market-based debt mechanisms enable firms to optimize liability structures around predictable operational inflows ((IFC), 2021) reinforcing the characteristic stability of the bond market capital raise model. Here in the United States, where SMEs constitute the majority drivers of employment and production, this stability is economically and systemically paramount.

This consideration of fixed obligations with cashflow timelines is a major reason why the registration of an SME focused bond exchange is essential.

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## 4. Proposition 3 advanced in this article

Further reinforcement of the United States' economic dominance in the Global financial system, demonstrating improvements over the European minibonds model of Italy, Germany, to mention a few (Croce, 2024). The operationalization of the proposed SME Bond Exchange will serve as an enabler for the entrenchment and improvement of some features of the Regulation A+, innovatively made possible by the Securities and Exchange Commission (SEC) to authorize private companies to raise capital by selling securities to the public and enabling the investment participation of non-accredited investors.

The U.S. dollar remains the world's primary reserve currency, it holds a record for the most highly sophisticated regulatory framework, it has the most enriched institutional investor base with an earning population in excess of 250million (Stella U. Gunwale, 2021) – the United States of America is placed in a unique position to lead the next frontier of SME financing through a dedicated SME bond exchange.

### 4.1. Rationale

Innovations of any manner to the capital market must begin with the acknowledgement of the unrivalled dominance of the United States in the global financial system. It is the largest in the world, and represents approximately 40% of international bond markets and almost 50% of global equity markets (SIFMA, 2023)

Europe's bond market innovations, such as Italy's Minibonds and the United Kingdom's Order Book for Retail Bonds (ORB), are great references on considerations made for alternative capital raising for SMEs. Academic research on the minibonds reveals limitations such as market fragmentation, inconsistent SME uptake, transaction dynamics, etc., especially with the Minibonds issued in 2021 and 2022 (Croce, 2024) Similarly, analysis on the ORB of the United

Kingdom highlights challenges in sustaining liquidity and attracting retail demand (London Stock Exchange Group, 2021)

In the United States bond market, the contrast is historic in its ability to transform financial systems. From the evolution of municipal bonds to a record \$4trillion market, to the growth of securitization and inclusivity through NASDAQ, there has been a consistent growth in the capital market. The 'U.S. markets continue to set global standards for liquidity, transparency, and investor participation' (U.S. Securities and Exchange Commission, 2022)

Another U.S. led innovation is set to be achieved by the establishment of the bond exchange, which will be focused on SMEs. This initiative can point to the U.S. SEC's innovative Regulation A+ as a precedent for the regulators of the capital market to pave the way for both non-investment-grade companies and non-accredited investors. The SME focused bond exchange will facilitate the emergence and sustenance of a robust national retail bond exchange for the issuance of SME bonds.

The Regulation A+ is an exemption from the U.S. Securities and Exchange Commission's registration requirements under the JOBS Act that permits private companies in the United States and Canada to raise up to \$75million in public offerings of securities, including equity and debt instruments (Securities and Exchange Commission, 2015)

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## 5. Proposition 4 advanced in this article

With a resident population of 257.3million above the age of 18 (Data Center, 2020) and considered the earning population, the U.S. economy holds the numerical potential to sustain this planned revolution in the bond market.

From Q1 2021, SME's made-up 52.8 percent of the total net job creation in the U.S. (U.S. Bureau of Labour Statistics, 2025) This market feature draws sufficient attention for innovation in methods of capital raise – hence the solution proposed in this article for an SME focused bond exchange.

### 5.1. Rationale

Statistics of SMEs, their numerical impact on employability and production, the population of accredited investors a viz the total earning population of the United States are great indications that the middle market ecosystem is robust and must be adequately enabled.

Accredited investors, by the SEC definition, rule out more than 90% of this earning population from participation in the bond market. Out of a 257.3 million earning population, only 24million, i.e., less than 10% are deemed qualified to participate in the bond market by the regulatory authorities, the SEC.

The 90% of the earning population alienated from the bond market, however, remain economically viable and are significantly driving both the money market and stock market. This initiative re-focuses this existing structure to provide investment opportunities in the bond market.

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## 6. Summary of opportunities

This article presents a transformational initiative for the U.S. financial ecosystem by proposing the creation and eventual registration of a dedicated SME Bond Exchange. This was intended to liberalize access to capital for America's SMEs and, at the same time, enhance investment opportunities for everyday Americans who are typically non-accredited investors.

The opportunities contained in the article can be summarized in 4 sections in alignment with the presented propositions.

- Liberalizing Debt Capital Access for SMEs by a dedicated Bond Exchange for Small and Medium Enterprises

The article identifies a market gap where SMEs, despite being significant economic drivers, are excluded from the corporate bond market as a result of high rating thresholds, large minimum issue sizes, and complex underwriting. This dedicated SME Bond Exchange would.

- Offer debt capital for SMEs following a long-standing exclusion from investment-grade markets;

- Present new investment opportunities to non-accredited investors, specifically unveiling a captive process of first offering to customers of an enterprise;
- Recalibrate capital market participation by correcting the institutional investor bias and lowering entry barriers for retail investors.
- Strengthen the financial versatility of American households by giving access to higher-yielding SME debt instruments and diversifying portfolios.
- Entrenching economic inclusivity by linking community savings directly to community enterprises.

This exchange aligns with global recommendations (G20, OECD, IFC) encouraging broader SME access to market-based financing.

- Creating a capital-raise option for SMEs based on certain performance indices.

SMEs generating consistent cash flows may qualify for bank credit but lack the alternative of raising capital based on indices like operational performance and customer base.

### 6.1. The article highlights that

- A business's customer bases and revenue streams are valuable assets that can support bond issuance, leveraging the captive bond issuance model of IIN Consulting LLC.
- By this model, SMEs can issue bonds directly to their customers, creating a captive, loyalty, and brand acceptability-driven funding mechanism.
- Bond financing offers
  - Fixed interest rates
  - Flexible repayment aligned to seasonal or operational cashflows
  - Predictable long-term funding
  - Reduced exposure to short-term credit cycles

This model's captive feature has a semblance to the on-us model the Credit Unions run on. The United States should lead with this model ahead of the entire global economy.

- Reinforcing U.S. Leadership in Global Capital-Market Innovation

Here, the SME Bond Exchange is positioned as an opportunity for the U.S. to:

- Set global benchmarks and take the lead in the SME capital market by providing a solution that outclasses variations of SME capital market attempts.
- Leverage its global dominance, such as being the largest and most liquid bond market, a 40% share of global bond activity, a robust institutional investor base, a structured SEC regulatory framework, and proven innovations such as Regulation A+, which already admits non-accredited investors and non-investment grade issuers.

The proposed exchange would magnify Regulation A+ and activate a nationwide retail bond marketplace accessible to millions of Americans and retail investors across the globe.

A success that will further entrench the might of the U.S. as it leads, yet again, a global inclusivity of an SME bond exchange.

- Catalyzing the unparalleled U.S. earning population into the bond market

Highlights of the powerful demographics of the United States are made in the article to point to a market that has the population to support the SME Bond Exchange. These highlights are:

The U.S. has 257.3 million adults considered part of the earning population, excluding the potential of qualifying foreign nationals.

- Less than 10% (24 million) qualify as accredited investors under the SEC rules and guidelines;
- More than 90% of the American earning population is structurally excluded from the bond market participation despite the recognized economic viability.

- The market demographic excluded from the bond market is driving liquidity in both the money markets and stock markets.
- SME bonds offer them a new, accessible, and socially connected investment gateway.

## 6.2. Additionally

- U.S. SMEs are responsible for over half (52.8%) of net job creation, underscoring their importance and validating the need for innovative financing channels like the SME Bond Exchange.

Overall, the core opportunity presented in the article is the creation of a more equitable, more inclusive, and more growth-oriented financial system, where:

- SMEs have access to affordable, regulated, scalable capital raise using debt instruments like corporate bonds;
- Retail (non-accredited) investors replicate their prominence in both the money markets and capital markets by participating in the bond market via the equal opportunities that the proposed bond exchange offers.
- Communities and their inherent entities invest directly in the enterprises that employ them, serve them, and drive their immediate local economies;
- The United States entrenches its position as the global leader in innovative, liberalized capital market structures.

The SME Bond Exchange thus becomes a national economic development platform out of Texas, connecting SMEs, households, regulators, and all market players to a unified platform of processes that offers sustainable financial and investment inclusion.

The exchange will also serve as a new marketplace for the issuance of high-performing, underrepresented enterprises. This will create diversified investment options for non-accredited investors and impact investors. Accredited investors and institutional investors have had a very full day in the past.

This investment and capital raise innovation by IIN Consulting is rooted in inclusion, immersed in the true American liberality, and laced with a global outcry to salvage SMEs from streamlined and limited financing options.

Share this article to expand the awareness of SMEs having equitable access to capital.

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## 7. Conclusion

The evidence presented throughout this article demonstrates that the absence of a dedicated SME bond exchange represents one of the most significant structural gaps in the U.S. financial system. Despite being responsible for more than half of net job creation and serving as the backbone of national innovation and productivity, SMEs remain systematically excluded from the corporate bond market—one of the most scalable and cost-effective sources of long-term financing. Likewise, more than 90% of America's earning population is denied access to fixed-income investment opportunities due to long-standing regulatory and institutional barriers. This dual exclusion underscores an urgent need for market reform.

Developed SME Bond Exchange provides a disruptive route to financial inclusion, economic stability, and the modernization of markets. Using the Reg A+ frameworks, taking advantage of technology, and putting in place transparency provisions and scalable bond issuance models in the realities of the SME cashflow will open a new world of fair access to capital in the United States. The suggested exchange does not just democratize the participation but will also shift the latent household investment power into the real-sector development- the matching of funds to community prosperity.

World experience has experience with minibonds, retail bond markets, and so on, but none has the institutional base, regulatory knowledge, or market size of the United States. The chance is not to copy, though, but to be a leader.

Establishing this exchange positions the U.S. to pioneer the next major evolution in global capital markets: one where access is no longer determined by size or status, but by performance, transparency, and economic potential. The time to close the capital market gap for SMEs is now.

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