A Framework for Understanding the Financial Health of MSME Entrepreneurs

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Introduction

Micro, small, and medium enterprises (MSMEs) play an important role in economies across the globe. The World Bank estimates that formal SMEs account for about 40 percent of GDP and 50 percent of employment worldwide (World Bank 2020). Estimates of the number of microenterprises and informal businesses are imprecise, but there is broad recognition that they are an important source of livelihoods to large swaths of the population in many economies (ILO 2019). Consequently, a growing number of governments in emerging markets are enlisting MSMEs to advance their national financial inclusion strategies (AFI 2018). The United Nations also envisions MSMEs playing a critical role, whether directly or indirectly, in reaching each of the 17 Sustainable Development Goals (UNDESA 2019).

To harness the potential power of MSMEs to boost employment and incomes, it is necessary to understand their condition. The entrepreneurs running these businesses navigate a complex web of exogenous and endogenous obstacles, ranging from discrimination based on gender or caste to challenges acquiring and implementing business skills. To further complicate matters, entrepreneurs — and microentrepreneurs in particular — must also juggle their personal finances, which for many are indiscernibly intertwined with their business finances. They navigate these challenges with the goal of operating a successful, sustainable, and resilient business. In other words, they aim to be financially healthy.

Definition of MSMEs

There is no universal definition for what constitutes an MSME. The parameters differ by country, industry, and entity collecting statistics related to MSMEs. However, based on a meta-analysis of the available data, the SME Finance Forum concluded that the most widely used variable for defining MSMEs is the number of employees, followed by annual turnover and value of assets. Other alternative variables include loan size, formality, years of experience, type of technology, and initial investment amount, to name a few (Gonzales, Hommes, and Mirmulstein 2014). In order to facilitate the standardization of a global framework, CFI has opted for an employee-based definition of MSMEs. The most common categorization based on number of employees is:

- **Microenterprises**: fewer than 10 employees;
- **Small Enterprises**: between 10 and 50 employees;
- **Medium Enterprises**: between 51 and 250 employees.

As discussed in this paper, researchers have studied the various determinants of MSME financial health extensively and created high quality measures to capture data on them. There has been excellent work examining entrepreneurial attitudes, business owners' financial capability, determinants of growth, and indicators of performance. If there has been any shortcoming of the work to date, it has been the relative lack of surveys that seek to capture a holistic understanding of MSME financial health in one place. Traditional accounting measures can provide insight into an MSME's financial health, but they say little about why one MSME might be performing well when another is performing poorly. Examining financial capability of an MSME owner independent of exogenous influencers and business outcomes limits the diagnostic value that a survey provides. However, bringing all of these factors into one place allows for a comprehensive understanding of MSME financial health.

This paper presents the Center for Financial Inclusion's (CFI) conceptual framework for understanding MSME financial health along with a survey instrument that measures indicators for each factor in the conceptual framework. The intent of the framework and survey is to provide a tool that policymakers, financial service providers (FSPs), and non-governmental organizations (NGOs) can use to learn about their MSME constituents. These entities will be able to use this survey to segment MSMEs based on their performance and its drivers, in turn allowing them to target policies, products, and services better. While broadly applicable to MSMEs globally, CFI took a specific interest in microenterprises — both formal and informal — in emerging markets, and the survey instrument is ideally suited for that segment.

In the following sections, CFI briefly describes the methodology used in the creation of the framework and survey instrument before presenting an overview of the financial health concept as it applies to MSMEs, then provides an in-depth examination of core components of the framework. This examination includes a summary of the primary and secondary evidence articulating the importance of these components to one's ability to understand MSME financial health, how CFI addresses it in this survey, and any specific opportunities or challenges that approach creates. The paper then presents considerations for analysis and guidance to practitioners interested in deploying the survey.

Methodology

Literature Review

CFI began its research with a review of academic articles, surveys, and gray literature to develop a comprehensive landscape of MSME financial health research. The literature review was broad, including research on MSME financial capability, business performance, survey methods, and scoring approaches. CFI included a cursory review of individual- and household-level frameworks and drew inspiration from both the United States and global contexts. As part of this review, CFI created a question bank to collect and compare survey questions on these different elements.

This literature review contributed to several different activities. First, CFI used the results of the review to draft a definition of MSME financial health for validation with experts and MSME owners. Second, it assisted CFI in the identification of gaps in the knowledge base as well as areas in the literature in need of revisiting. Third, it aided in the conceptual framing of MSME financial health. In other words, the literature review helped to articulate the determinants of MSME financial health and how these change over the life cycle of a business.

Expert Interviews

Following the literature review, CFI consulted with industry experts, including researchers, international development practitioners, community business development practitioners, and technical assistance providers with expertise in financial health, entrepreneurship, technical assistance provision, survey methodology, and credit underwriting for businesses. The goal of these conversations was threefold: to validate and gain a deeper understanding of the determinants and characteristics of MSME financial health as identified in the literature review; to identify any additional domains of information overlooked in the review; and to review research methods that have been effective with this segment.

Client Interviews

The literature review and expert interviews contributed to the development of a semi-structured interview guide for use with MSME owners. The goal of the interviews was to determine whether the domains we identified through the literature review and expert interviews resonated with MSME owners by reflecting how they thought about their financial well-being. Additionally, we conducted cognitive testing of several survey elements.

CFI conducted face-to-face in-depth interviews with 69 MSME entrepreneurs in two markets — Nigeria and India — between July and September 2019. The sampling frames in each country were client lists at two institutions: Accion Microfinance Bank (AMfB) in Nigeria and Sub-K in India.[1] Each entity operates on a distinct business model: AMfB functions as a deposit-taking microfinance institution, and Sub-K serves as an agent banking network.

CFI asked each institution to provide a representative list of their clients for interviews based on gender, economic activity, and geographic distribution. As captured in Annex A, nearly three-quarters of the selected sample comprised entrepreneurs between the ages of 35 and 49, and approximately one-third of the group were women entrepreneurs. The business segments represented were manufacturing (9 percent), retail and wholesale trade (72 percent), and service (19 percent). Each interview lasted about 45 minutes and took place on the premises of the entrepreneur's business.

A Framework for Understanding the Financial Health of MSMEs

Background on the Financial Health Concept

Financial health is a term meant to encompass the complex set of outcomes individuals aim to achieve in their financial lives. As a concept, it started gaining traction in the mid-2010s with major donors funding practitioners to define and develop measurement approaches for financial health, and later promoting its uptake by mainstream FSPs. At the time of this writing, most financial health initiatives have focused at the individual or household-level in high-income countries.

Financial health's intellectual roots connect back to financial education and financial capability initiatives. The credit-linked financial literacy training model that prevailed between the 1990s and 2000s was predicated on the notion that borrowers who had yet to maximize the utility of the credit they were receiving needed more and better financial knowledge and skills to do so. In addition, policymakers looked to financial education as an important mechanism for promoting consumer protection and ensuring market stability (OECD 2009). At the start of the 2010s, two different trends coalesced that encouraged a revision to financial education programs. First, a series of high-quality impact studies raised questions about the efficacy of financial education programs as designed. Many of these studies were included in an often-cited meta-analysis conducted by Fernandes, Lynch, and Netemeyer (2014), which found that interventions to improve financial literacy explained only 0.1 percent of the variance in financial behaviors studied.[2] Second, financial education practitioners began considering whether

[1] At the time of publishing, each institution was participating in an ongoing Mastercard-Accion Partnership project.
[2] Subsequent studies have suggested a less definitive result. For instance, Kasier and Menkhoff (2017) included many of the same studies from the Fernandes et al. paper in their analysis, yet found positive impacts.

knowledge and skills were necessary but insufficient in helping users maximize the utility of financial products.

Financial capability emerged as the next concept in the financial health lineage. Capability moved beyond knowledge and skills to include attitudes — and in some cases self-efficacy and behaviors — as an element requiring intervention to improve financial outcomes. The financial capability concept had broad uptake throughout the United States and international financial sectors, with several United States government departments — including the Department of the Treasury and the Consumer Financial Protection Bureau — promoting its importance domestically, and actors like the World Bank promoting it internationally. Simultaneously, behavioral science rose in prominence within the financial service industry as practitioners aimed to achieve two goals. First, in response to data showing high rates of account access but low utilization rates, they aimed to encourage use of financial products by clients. Second, they wanted that use to result in measurable, positive outcomes. Using simple tools like rules of thumb, default options, and reminders, behaviorists offered a way to circumvent cognitive biases and intensive capability programs to achieve these goals (Noggle 2019).[3]

While financial capability and behavioral interventions aimed to improve financial outcomes for clients, it was unclear which outcomes practitioners should focus on. In other words, to adapt a question posed by the Financial Health Network (2016), how can stakeholders know whether financial products are making a difference?

Financial health emerged as an attempt to answer this question, but it is not a concept without controversy or flaws. As described in Rhyne (2020), there is no consensus on its definition, although those that have been offered include a focus on day-to-day cash flow management, financial resilience, and long-term planning. There are also several competing concepts such as financial well-being, financial wellness, financial control, and financial needs. Furthermore, financial health, in many ways, is a way to articulate only a minimum set of financial outcomes for individuals or households. Tools that have been created to measure financial health have struggled to offer a means by which to differentiate client segments that have exceeded this minimum benchmark (although they do offer some basic segmentation of clients who are not financially healthy).

Defining MSME Financial Health

During the late 2010s, several organizations — including CFI, the Financial Health Network, the Microfinance Center, and ADA, among others — began examining whether and how the financial health concept could be extended to MSMEs. As with a financial health definition for individuals and households, the goal of a financial health definition for MSMEs is to capture a complex set of financial outcomes for a business.

CFI's goal in crafting a financial health definition for MSMEs was to articulate a clear benchmark by which to differentiate healthy and not healthy businesses while remaining neutral to entrepreneurs' business goals and the skills or resources they use to achieve those goals. Additionally, CFI wanted to ensure that it was easily applicable, particularly to emerging markets and microenterprises. Based on that goal, the literature review, and interviews with experts and clients, CFI formulated the following definition of MSME financial health:

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[3] See Noggle (2019) for additional discussion on financial education, financial capability, and behavioral principles; the research supporting each; and the industry conversation which has pegged them as antagonists rather than collaborators.

An MSME is financially healthy if it breaks even or earns a profit over time. Financially healthy businesses have the practices and/or resources to manage economic shocks and return to at least a break-even point.

In CFI's estimation, profit is the ultimate indicator of MSME financial health.[4] Businesses that earn a profit — or at least break even — will continue to operate, and the obvious corollary is that businesses that are operating at a loss are not financially healthy and will eventually cease to operate.[5] The "over time" condition is an important one in both cases, as it reflects the importance of understanding how a business's revenues and expenses trend. Knowing whether revenues meet expenses at a single point in time provides little information about the financial health of a business; rather, it's the ability of the business to do this on average during a given period that separates ongoing concerns from businesses that exit the market.[6]

It is, however, unreasonable to expect a business to have revenues that meet expenses all the time. Bad weeks, months, and quarters are inevitable in the life of a business. Intrepid business owners have practices they turn to in order to boost revenues or reduce expenditures during these times, and/or they can turn to outside resources to weather the shock and eventually return to at least a break-even point. In some cases, these strategies are unsuccessful and eventually the business fails. The definition is neutral regarding which practices or resources a business uses to weather a shock.

As will be discussed in more detail in the next section, the survey instrument that CFI developed is crafted specifically to capture information on financial health as defined here. Questions examine profit, business practices, financial tool use, and financial shocks with a special emphasis on examining how indicators trend over time. The curious reader might note that growth is absent from this definition. That is purposeful. Based on CFI's research, there was little to suggest that growing an MSME's size or scope was a precondition for achieving financial health. The reasons for this are numerous and explored in the next section.

A Conceptual Framework for MSME Financial Health

The research suggests a conceptual framework for how MSMEs achieve financial health. Broadly, the framework articulates that there are two related, major exogenous factors. At its base is the sociopolitical context such as societal norms, the form of government, and the capacity of local, regional, or national governments to offer services and protection. Separate but related is the economic ecosystem within the country, inclusive of its levels of macroeconomic stability, growing economic sectors, and the development of its financial sector. The second exogenous factor is the sociodemographic context of the individual owner. This recognizes that there are different demographic characteristics — including gender, ethnicity, religion, or caste, among others — that are influenced by the sociopolitical context and influence endogenous factors. There are three broad groups of endogenous factors: entrepreneurial psychology, financial capability, and access to and use of financial tools.

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[4] Profit here refers to net income or net profit — the difference between total revenues and total expenses, inclusive of the cost of goods, operating expenses (including wages owners pay to themselves), and taxes.

[5] For clarity, CFI recognizes that there are instances in which an MSME could be heavily subsidized by outside investment, allowing them to operate for several years at a loss before turning a profit. However, this circumstance is rare among low-income entrepreneurs in emerging markets, especially those in the informal sector.

[6] See the section on 'Profit' for a discussion of the period over which a business needs to average a profit to be considered financially healthy.

A Conceptual Framework for MSME Financial Health

OUTCOMES

Outcomes are what individuals or groups achieve. The exogenous and endogenous factors explain why different groups achieve different outcomes.

Profit

Profit is the ultimate indicator of MSME financial health. Analyzing how profit trends over time, rather than at a singular point, more accurately reflects the reality of MSMEs in emerging markets.

Resilience

Financially healthy MSMEs weather shocks and bounce back to their pre-shock performance. To weather external shocks, MSME entrepreneurs deploy a wide range of coping strategies, including altering their business practices and using financial tools.

ENDOGENOUS FACTORS

While exogenous factors help to explain differences between groups, endogenous factors help to explain variation within groups. Endogenous factors are strongly correlated with business outcomes even after controlling for exogenous factors.

Entrepreneurial Psychology

Personality traits can provide important insight into how an entrepreneur manages his or her business and subsequently why a business may not grow.

Financial Capability

Financial capability is strongly correlated with business outcomes. For MSMEs, it is useful to track business practices as an indicator of entrepreneurs' capability.

Financial Tools

Entrepreneurs use formal and informal financial tools to manage their cash flow, plan for the future, and respond to shocks. Appropriate and affordable financial tools can help owners earn a profit and be resilient to shocks.

EXOGENOUS FACTORS

Exogenous factors are the formal and informal rules that govern interactions in an environment. How those rules are created, applied, and enforced with different groups influences what different types of MSME owners in an environment can achieve.

Sociopolitical Context & Economic Ecosystem

These are the rules that govern the interactions in an environment. They include laws, regulations, and social and cultural norms.

Sociodemographics

How the rules are applied to different entrepreneurs based on sociodemographic characteristics — like gender, religion, or caste — can help explain differences in different types of MSMEs' profit and resilience.

Collectively, these factors influence an entrepreneur's business behaviors or practices and thus his or her ability to generate a profit and be resilient.

Measuring MSME Financial Health

Exogenous Factors

Sociopolitical context, the economic ecosystem, and sociodemographics collectively define the setting in which individual MSME owners operate. Exogenous factors can be thought of as the formal and informal rules that govern interactions in an environment, and include laws, regulations, and social and cultural norms. How those rules are created, applied, and enforced with different groups influences what MSME owners in an environment can achieve. Thus, they are important for understanding differences in endogenous factors and ultimately MSME financial health across groups.

Sociopolitical Context and Economic Ecosystem

There is consensus among social science researchers that sociopolitical context and economic ecosystems can have significant impacts on economic development of a country or region. In the past decade especially, there has been much attention paid to the role of political and economic institutions in promoting or alleviating economic inequality.[7] While economic formalization, the depth of the financial sector, the ability of the government to collect taxes and offer support to MSMEs, and monetary policy can, at times, seem like rather esoteric issues, clients we interviewed articulated very real concerns with how social, political, and economic systems impact their businesses. For instance, clients in Nigeria articulated the implications of political and economic developments on their businesses. One entrepreneur told us that business had not been "moving" the previous two months in Nigeria because of uncertainty around the elections. Another told CFI he moved to Lagos from northern Nigeria to escape increasingly common communal clashes. Others explained the negative impact of the government's decisions to increase import duties overnight in November 2018.

To capture data on these issues in this survey, CFI adapted the business environment question from the World Bank Group's Enterprise Survey. This question, which asks respondents to identify the biggest environmental obstacle facing their business, collects data on social, political, economic, and physical infrastructure obstacles.

Sociodemographics

Entrepreneurs' sociodemographic characteristics are potentially important factors in the success of an enterprise. For instance, higher levels of formal education are typically associated with better economic outcomes for employed workers and entrepreneurs. Similarly, systemic discrimination based on gender, ethnicity, caste, age, marital status, or religion, among other factors, can significantly and negatively affect a business. CFI proposes a basic core set of sociodemographics for researchers to collect in this survey, including age, gender, level of education, marital status, household size, and decision-making authority in the home. This list, however, is not exhaustive and CFI encourages researchers to collect data on sociodemographic issues relevant to their context.

[7] Mainstream sources examining this issue include Acemoglu and Robinson (2012) and Piketty (2013).

The Importance of Gender

Of the demographic characteristics this survey collects data on, gender is arguably the most important. There is a persistent gap in women's ownership and management of MSME enterprises globally. The gender-related constraints and other inequalities women face — such as increased familial and household responsibilities, less decision-making power within the family, fewer educational and employment opportunities relative to men, and disparate legal protections — impact the economic performance of their businesses (Buvinić and O'Donnell 2019; Meunier, Krylova, and Ramalho 2017; Stickney 2016; Farrell, Wheat, and Mac 2019).

Christy Stickney's analysis of emerging SMEs in Latin America draws attention to the impact of gender norms regarding household roles and familial responsibilities on women's participation in MSME enterprises. Women's contributions to the financial management and sales functions of these businesses are aligned well with their familial responsibilities. However, Stickney's study suggests that women entrepreneurs make a tradeoff between this flexibility and their ownership and operation of those businesses, finding that the overwhelming majority (over 90 percent) of growth-oriented businesses identified were led by men, even if the businesses were originally started by women.

Qualitative interviews conducted by CFI in India also highlighted this impact of gender norms and familial responsibilities on women's participation in MSME enterprises. Only half of these seemingly women-owned businesses were, in fact, solely operated by female entrepreneurs; male family members played a significant role in operating these businesses, whether by jointly managing the businesses (i.e., an equal split of responsibilities) or by leading or overseeing a key business function (e.g., financial recordkeeping, inventory management). One woman entrepreneur operating a buttonhole shop in Hyderabad noted being very dependent upon her husband for business operations; as the main decision-maker of the household, he would make decisions on which supplies to buy, when to buy them, and where to buy them from, in addition to supporting her in the event of a cash shortage or other external shock.

This survey instrument does provide gender-disaggregated data. Questions on household and business decision-making role also provide some insight into intra-household dynamics. It is not, however, explicitly a gender-focused MSME survey. Researchers specifically interested in gender-related constraints and the other inequalities women entrepreneurs face should consider adapting the survey to capture data specifically on the role of gender norms in entrepreneurship and financial services.

Methodological Note: Research Design

CFI has included a limited set of questions exploring these exogenous factors. Practitioners should not consider these questions sufficient for a full exploration of the relationship between sociopolitical context, economic systems, and sociodemographics and financial health. As noted in the section on gender, the survey is meant to provide basic data on these issues and requires adaptation for different contexts. Depending on the research questions, it may be more appropriate to look at research design or other external data to learn about the relationship between exogenous factors and financial health. For instance, researchers conducting a multi-site study where there are differences in the economic ecosystem — like the availability of agents in an area — may be able to use that variation to posit a relationship between this factor and financial health without adding any additional survey questions. In a single market, researchers may be able to surmise the role of these factors by analyzing market-level data before and after major social or policy changes, again limiting the need for additional survey questions.

Endogenous Factors

While exogenous factors help to explain differences between groups, endogenous factors help to explain variation within groups. As detailed in the evidence below, endogenous factors — entrepreneurial psychology, financial capability, and financial tool use — are strongly correlated with business outcomes even after controlling for exogenous factors. In other words, exogenous factors may explain the differences in performance between male and female entrepreneurs while the endogenous factors help to explain why some female entrepreneurs outperform others.

Entrepreneurial Psychology

A critical question among development practitioners is, "What determines whether microenterprises grow or not?" One common hypothesis, especially in emerging markets, is that not all microentrepreneurs are poised for growth because they are not innovation- or opportunity-based entrepreneurs. In this hypothesis, many entrepreneurs are so because of necessity, and thus, do not have the capability or desire to grow, and given the opportunity, they would be inclined to enter the labor force as a wage worker.

For example, according to Schoar (2010), subsistence enterprises are created by individuals looking to provide subsistence income for their households; for many of them, self-employment is an alternative to unemployment. They are fundamentally different from — and do not evolve into — transformational enterprises, which grow into larger firms and create employment opportunities for others in the economy. In her study of a distinct segment of MSME business owners which she calls "Growth Entrepreneurs," Stickney (2016) noted that this group purposely left employment to launch or significantly grow their own business, and their decision to do so is a visionary move that is motivated by opportunity as much as necessity.

De Mel, McKenzie, and Woodruff (2008) looked at wage workers, own account workers (microenterprises with no employees), and micro and small enterprises with employees ("employers") to identify similarities and differences between these three groups. The authors examined "family background, measures of ability, attitudes toward risk, labor history, and measures from the entrepreneurship psychology literature." The authors' data suggest that about two-thirds of the "microenterprise owners [they surveyed] are more like wage workers than larger enterprise owners in both cognitive ability, personality, and ambition," suggesting that "the lack of growth is likely to derive from a lack of ability or desire to grow." Of the remaining third of own account enterprises that had characteristics like employers, a non-trivial number — about 14 percent — went on to hire at least one employee in the next three years. Both are important findings as they speak directly to factors that correlate with growth, the need for segmentation (especially of microentrepreneurs), and the importance of differentiated policies and products to serve each segment.[8]

The authors' results emphasized the relative importance of entrepreneurial psychology (motivation, risk appetite, etc.) as a differentiating characteristic. Consequently, CFI tested the Entrepreneurial Psychology Survey developed by De Mel, McKenzie, and Woodruff (2008) during client interviews. The interview results pointed to the correlation between entrepreneurial psychology and financial health, especially elements of tenacity, drive to achieve, and focus on the business. For example, a phone accessory vendor interviewed in Nigeria noted that he lived and breathed his business, attributing his good fortune to it. He reported investing all his efforts to his businesses and taking calculated risks to reach his goals. Separately, a vendor of cosmetic goods expressed that she was able to achieve business success thanks to her ability to plan tasks carefully and her optimistic nature.

Financial Capability

There is consensus that financial capability is a state of being in which an individual has the knowledge, skills, and attitudes to make sound money management decisions, and some common definitions of financial capability also include self-efficacy and behavior. Within the study of MSMEs, behaviors have a central role in understanding MSME financial capability. Zottel et al. (2018) link knowledge, skills, and attitudes with behavior by explaining that the former lead to a series of specific behaviors. They reason that capturing tangible behaviors inherently allows for an assessment of knowledge, skills, and attitudes. The OECD/INFE makes a similar connection, noting that knowledge, skills, and attitudes are meant to enable a range of positive business practices (2018). Consequently, their framework has a series of skill and behavior indicators linked to knowledge and attitude indicators.

Furthermore, the Alliance for Financial Inclusion's financial capability barometer underscores how knowledge is formed through "education and training, experience or information flows from various resources (e.g., relatives and friends, mass media, etc.)." While formal knowledge and training play a role in developing entrepreneurs' financial capability and literacy as well as strengthening their business management practices, they may reflect the level of financial system development in a country or area of a country (Pokrikyan, Lalayan, and Mkrtchya 2017). Qualitative interviews conducted by CFI highlighted important linkages between MSME entrepreneurs' past experience (which includes having worked in a similar industry or business prior to starting their enterprises), their origin stories (whether entrepreneurs had inherited the business from family, taken it over from other owners, or built the business from scratch), and their level of financial capability (Foelster 2019). In this view, a focus on behavior rather than familiar financial knowledge questions (e.g., "Which of the following statements best describes the meaning of the term 'assets' for a company?") in emerging markets is prudent. This suggests that experiential forms of knowledge and skills align with similar assessments of

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[8] Among other suggestions, De Mel, McKenzie, and Woodruff (2008) advocate for policies that focus on boosting the incomes of own account workers. There is some evidence that focusing on elements of entrepreneurial psychology can help do so. For instance, in a randomized controlled trial conducted in Togo, Campos et al. (2017) found that microenterprise owners who received personal initiative training increased firm profits by 30 percent over two years, compared to 11 percent for those participating in a traditional business training program.

financial literacy and given that, CFI has embedded questions that will allow research to delineate proxy indicators of knowledge, skills, and attitudes (see the previous section on Entrepreneurial Psychology and on Enterprise Creation, Growth, and Death later in this report for a discussion on these elements).

In addition, CFI's survey incorporates a modified set of questions on business practices developed by McKenzie and Woodruff (2015), which are based on the International Labor Organization's *Improve Your Business* curriculum. The instrument comprises questions spanning multiple categories of business practices such as costing and record-keeping, financial planning, and marketing. The primary benefit of using these questions is that the authors tested them in five emerging market countries. In their study, McKenzie and Woodruff (2015) found that a one standard deviation improvement in business practices for their sample of microenterprises was associated with a 35 percent increase in labor productivity and a 22 percent increase in total factor productivity.

Financial Tools

Financial tools — savings, credit, cash transfers, and insurance — allow individuals and businesses to intermediate day-to-day mismatches between their income and expenses and allow for the accumulation of lump sums of cash that can be used for investment or to respond to an economic shock.[9] The survey instrument captures a range of formal and informal financial tools MSME owners use to manage their businesses, and users of the survey can correlate use of financial services with the other determinants of financial health as well as profit and resilience metrics.

Clients interviewed by CFI reported using a combination of formal and informal financial tools, and it is worth noting the interviews revealed the entrepreneurs had different preferences for financial tools at different points in the life cycle of their businesses.

CFI found entrepreneurs in Nigeria and India either bootstrapped their businesses or relied on informal tools to start their businesses. In India, for example, nearly two-fifths of entrepreneurs relied on informal loans from family and friends, chit funds, or local moneylenders to start their businesses, and about one-third used their personal savings (whether formal or informal). In comparison, fewer than 10 percent of Indian entrepreneurs interviewed got their start-up capital from formal loans provided by financial institutions.

For entrepreneurs looking to grow their businesses or achieve other longer-term business goals, CFI found that it was common for respondents to hold off on their expansion plans until they could secure a larger formal loan. They were often loath to secure such a loan though, expressing various complaints about the specific processes and terms of lending institutions. Some entrepreneurs perceived formal lending products as being too rigid relative to informal loans (e.g., "a loan from my father won't have a fixed repayment schedule."). Without external sources of financing, however, entrepreneurs can only operate and invest in the business using personal savings, informal loans, or earnings from the business, limiting the speed of growth (Schoar 2010; Everett, Onyeagoro, and Davidson 2014).

Many of the entrepreneurs CFI interviewed were not using formal loans from financial institutions to help them respond to economic shocks either. More than half of the Indian

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[9] See Rutherford (1999), Collins (2009), Noggle (2017), and Stuart, Noggle, and Gallagher (2017) for a selection of descriptive financial diaries studies that provide an in-depth look at the role financial tools in household and micro-enterprise money management. See CGAP (2020) for a summary conversation on the impact evidence of financial tools.

entrepreneurs relied on informal loans from family and friends in case of emergency, 38 percent would draw from their personal savings (whether formal or informal), and around 20 percent would rely on other informal sources. These entrepreneurs often said they did not prefer or were hesitant to take out formal loans from financial institutions in general or in the event of a cash shortage or other emergency. They thought it would be too complicated or complex to do so, or that the fixed repayment terms were too inflexible and caused them additional stress, especially in comparison to informal sources. However, CFI found a non-trivial share of entrepreneurs did have insurance products in India: 28 percent of entrepreneurs surveyed had life insurance; 33 percent had health insurance for themselves or their families; approximately 20 percent had business or shop insurance; and 33 percent mentioned having at least some form of non-business insurance.

Outcomes

Outcomes are what individuals or groups achieve. The exogenous and endogenous factors explain why different groups achieve different outcomes. For instance, men may have better access to financial tools because of cultural norms or legal rules, providing them a path to start, build, and maintain a business that is easier than a path for women. But not all men who can access financial tools will succeed; those with higher levels of financial capability may create financially healthy businesses while those with low levels of capability struggle to do so.

Profit

As described previously, profit is the ultimate indicator of MSME financial health, and more important than capturing a point-in-time estimate for profit is determining how it trends over time. However, as alluded to in the previous section, a sizable portion of entrepreneurs reported not keeping formal records of revenues and expenses during the client interviews. These businesses tended to use other metrics to track their performance such as customer traffic, the number of times they replenished their inventory, or the number of invoices they had from clients.

Consequently, this survey instrument asks respondents to identify the main indicator they use to track performance and to report on year-on-year trends in this metric in addition to trends in profit level. The survey also asks respondents to provide an estimate for the size of their profit in the past year with the goal of avoiding inconsistencies in annualized profit estimation resulting from collecting data during seasonal high or low points. However, recall can be an issue, and asking about a shorter interval may be appropriate. CFI selected this approach because of its relative speed during survey testing and De Mel, McKenzie, and Woodruff (2007) found that owners' estimates of profit are reasonably accurate using this method. Anderson, Lazicky, and Zia (2019) provide an approach for triangulating profit estimates as well, but it is time consuming and likely more appropriate for SMEs.

In this framework, CFI is not offering a benchmark for the period over which an MSME needs to average a profit to be considered financially healthy because we currently do not have enough data to set one. Presumably, this survey will be given to active MSMEs (as opposed to temporarily or permanently closed ones), and those MSMEs will either currently be averaging a profit (or breaking even) or will be managing a downturn. Understanding the nature of those downturns, and MSMEs' ability to recover from them, will be important for establishing a baseline period over which to evaluate profit in the future. Emerging data from quantitative surveys CFI is conducting with MSMEs in Nigeria shows that most owners anticipate being able to manage through a three-month economic downturn using a mix of management strategies. An analysis of transaction data of MSMEs in the United States by the JP Morgan Chase Institute showed most small businesses had less than a month's worth of a cash buffer available, but that analysis does not account for other management strategies (Farrell and Wheat 2016).

Resilience

Businesses of any size will eventually experience an economic shock. Many of the entrepreneurs CFI interviewed shared that they would draw on their personal savings or turn to relatives and friends should they need to respond to an income shock. However, some respondents who were willing to speak candidly about recent hardship they had endured revealed that more drastic measures may sometimes be required. In Nigeria, for example, an abrupt change in consumer demand for a once-popular product forced a vendor to sell off his car in order to keep up with loan repayments to his financial institution. Separately, a road expansion project required another vendor to close her stall overnight and temporarily sell refreshments from her house in order to compensate for foregone income. What distinguishes healthy from not healthy businesses is having the skills and resources to weather the shock and return at least to a break-even point. The woman who had to close her stall during the road construction was able to quickly pivot to a second income stream, and between the income generated from that and intra-household transfers from her husband, she was able to cover her basic expenses until the road was complete and she could open her stall again. This survey captures data on the shocks like these that business owners experience, the business practices and financial tools they used to cope with them, and the length of time it takes them to recover.

Enterprise Creation, Growth, and Death

Much attention is devoted to fostering MSMEs to generate employment opportunities in emerging markets. However, CFI's client interviews showed that not all business owners are striving for growth. As discussed previously, one potential reason for this is that a preponderance of own account entrepreneurs are essentially necessity entrepreneurs whose business goals, skills, and attitudes do not predispose them to growth.

Even aspirational businesses expressed varied approaches to growth: some grew once and never again; some business did not actively pursue growth opportunities but seized them when they presented themselves; others actively planned and implemented growth strategies. Additionally, the qualitative interviews showed that some businesses were entities with histories and descendants separate from their current owner. In Nigeria and India, CFI interviewed several respondents that "grew up" in the business, eventually inheriting it from their parents.

It is also important to examine instances of firm death. McKenzie and Paffhausen (2019) found that half the stock of firms operating at a given point in time will die within six years. However, they also found that approximately 40 percent of owners whose firms had closed in their sample ended up opening a new firm within three years. One of the owners of a "kirana" shop (local neighborhood store) in India revealed that delayed payments on goods she sold on credit forced her to shut down her business. She managed to reopen her business after a year — with the support from income earned from renting out the shop and taking out a formal loan — and has since been keeping record of her credit sales to better track her cash flows.

Based on CFI's research, it is obvious that growth is not realistic for some microenterprises and a deliberate choice for others. Rather than make a normative judgement about the importance of growth and its role in financial health, CFI views growth orientation as a mechanism by which to segment financially healthy businesses. To that end, the survey contains questions on previous failures, start-up stories, recent growth experiences, and attitudes toward future business growth. These questions will allow researchers to examine issues like how previous growth affects attitudes and future growth, when growth occurs in the lifecycle of a business, and how previous business failures correlate with current business trends.

Linking MSME and Household Financial Health

Micro and small enterprises provide an important source of income and employment to households in emerging markets. CFI's client interviews in India largely underscored the interconnectedness between the business and the household across several dimensions. 85 percent of Indian entrepreneurs surveyed said that the primary goal of their business was to provide income for the family, and nearly 40 percent of entrepreneurs expressed a desire for their businesses to help them build savings for their households, whether for personal needs or for a family event or milestone in the future, such as a child's marriage. Considering the importance of the family to entrepreneurs' lives, it is perhaps not surprising that there may be little separation between entrepreneurs' management of their businesses and of their households. When asked about how they managed their business and household finances, 87 percent of Indian entrepreneurs surveyed said they did not use separate budgets or accounts, and while the specific reasons for why they chose not to do so varied slightly, entrepreneurs noted not feeling any need to keep separate records as household expenses were largely covered by business income or profit.[10] Respondents frequently mentioned how they pooled together all the sources of household income (e.g., from a secondary business or from rental income) and then set aside a fixed amount to meet monthly household expenses.

The framework includes survey questions that capture this overlap between entrepreneurs' businesses and households, asking about the share of income that the primary business provides for the household, whether the entrepreneur is keeping separate finances for the household, whether household assets are being used to meet the needs of the business and vice versa, and whether household debt is preventing the entrepreneur from investing in the business.

Applying the Framework

By having its survey instrument reflect a conceptual framework of how MSMEs achieve financial health, CFI is providing a useful tool for policymakers, FSPs, and NGOs to triage the market. The survey instrument will allow for the identification of healthy and not healthy business, and the inclusion of exogenous and endogenous determinants of success can assist these entities in identifying areas in which MSMEs need support.

For example, FSPs interested in explicitly promoting the financial health of their clients could track the outcome metrics measuring profit and resilience only. However, if they are interested in understanding why certain business are performing better than others, it would be prudent to collect data on the endogenous determinants articulated in the conceptual framework. By doing so, the FSP could delineate the degree to which business skills, entrepreneurial psychology, and use of financial tools are correlated with better performance, and develop products and services to improve outcomes for their clients. For instance, if an FSP found dramatic differences in the financial capability of top and bottom performing businesses, they

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[10] The importance of separating business and household expenses is also an indicator of MSME owner financial capability in Zottel et al. (2018) and the OECD/INFE (2018).

could offer a service to boost business skills, such as money management rules of thumb delivered via text message. These messages could be targeted to certain segments based on the results of the survey and changes in their capability and performance could be tracked over time.

Financially healthy businesses can be segmented too, and this could serve as a means by which FSPs could offer the most beneficial products to MSMEs. A simple segmentation would be identifying stability-oriented and growth-oriented entrepreneurs by using the opportunity and goals questions included in the framework. Stability entrepreneurs may benefit especially from an insurance product to ensure their resiliency to economic shocks, while growth-oriented entrepreneurs are more likely to need influxes of capital (among other resources) to scale their businesses.

Policymakers could also use the tool to determine what business support services are necessary and for whom. The entrepreneurial psychology questions could be used to help identify necessity-based entrepreneurs while the business skills and behavior questions could provide a sense of the level of formality of their business operations. Together, policymakers could work with stakeholders to target initiative training like the one offered by Campos et al. (2017) or identify candidates for a job-training program, helping to transition workers to wage work.

Methodological Note: Analysis

CFI's MSME financial health framework does not offer a scoring index. An index approach is common in individual and household financial health frameworks because of its perceived benefits — it offers a quick, easy, and intuitive way for benchmarking financial health — but it has seen little to no use in MSME financial health frameworks at the time of this writing. In CFI's framework, an index score is not appropriate given the conceptual framework, which delineates healthy and not healthy business and provides additional data for segmentation. The sections on business practices were adapted from an original survey that used a basic index (proportion of "correct" answers) and the section on entrepreneurial psychology can also tolerate an index. However, more work is necessary before CFI can offer explicit benchmarks based on either. In the meantime, one efficient approach may be to conduct a cluster analysis to identify similar groups. Either low-tech (like a decision tree like the one below) or high-tech (like basic machine learning models) approaches could be used depending on the capacity of the institution. Additionally, basic correlations and regression analysis will be very useful to FSPs looking to identify relationships between financial health and its determinants.

Conclusion and Next Steps

An MSME is financially healthy if it breaks even or earns a profit over time. Financially healthy businesses have the practices and/or resources to manage economic shocks and return to at least a break-even point. Financial health is influenced by exogenous factors — specifically the sociopolitical environment, economic ecosystem, and sociodemographic group of the entrepreneur — as well as endogenous factors, namely entrepreneurial psychology, financial capability, and use of financial tools. Despite the attention paid to growth-oriented businesses, MSMEs do not have to grow to be financially healthy, and CFI's research suggests that some entrepreneurs are unable or unwilling to grow their otherwise healthy businesses. Furthermore, there are important links between the financial health of the business and the financial health of the entrepreneur's household, especially for microenterprises.

Understanding the exogenous and endogenous factors influencing MSME financial health as well as the linkages between business and household financial health is important for policymakers looking to support entrepreneurs. This survey instrument provides policymakers with a tool by which to triage the MSME market and identify various types of interventions — from economic policy to business training programs — that could be beneficial for MSMEs. Similarly, being able to segment businesses by their financial health and growth orientation, as well as other endogenous factors, provides a pathway for FSPs to better target their customers with useful products that are responsive to entrepreneurs' goals. It also provides additional data about MSMEs that may be useful in designing new products or support services.

While CFI has tested the individual components of this survey or adapted questions from other surveys which have been implemented in emerging markets, CFI has not yet deployed the survey with a large sample of MSMEs. CFI had planned to deploy this survey with a sample of MSMEs in early 2020 but those plans were derailed by the outbreak of COVID-19. Rather than wait to implement the survey itself, CFI invites researchers, policymakers, FSPs, and other stakeholders to use the survey and provide feedback on the instrument and findings from the data. CFI also looks forward to implementing the survey and sharing data, analysis, and future iterations of the tool with the industry.

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Annex A – Client Interviews

LOCATION		AGE		GENDER		BUSINESS SEGMENT	
City, Country	#	Age group	# (%)	Gender	# (%)	Segment	# (%)
Hyderabad, India	23	25-29 30-34 35-39 40-44 45-49	3 (13%) 2 (9%) 5 (22%) 7 (30%) 6 (26%)	Women Men	6 (26%) 17 (74%)	Manufacturing Retail Trader/wholesale Service provider	1 (4%) 12 (52%) 5 (22%) 5 (22%)
Jaipur, India	24	25-29 30-34 35-39 40-44 45-49 >50	5 (21%) 3 (13%) 5 (21%) 3 (12%) 4 (17%) 4 (17%)	Women Men	5 (21%) 19 (79%)	Manufacturing Retail Trader/wholesale Service provider	5 (21%) 14 (58%) 1 (4%) 4 (17%)
Lagos, Nigeria	22	25-29 30-34 35-39 40-44 45-49 >50	0 (0%) 0 (0%) 6 (27%) 12 (55%) 2 (9%) 2 (9%)	Women Men	9 (41%) 13 (59%)	Manufacturing Retail Trader/wholesale Service provider	0 (0%) 11 (50%) 7 (32%) 4 (18%)
Aggregate	69	25-29 30-34 35-39 40-44 45-49 >50	8 (12%) 5 (7%) 16 (23%) 22 (32%) 12 (17%) 6 (9%)	Women Men	20 (29%) 49 (71%)	Manufacturing Retail Trader/wholesale Service provider	6 (9%) 37 (54%) 13 (19%) 13 (19%)

Annex B – Survey Instrument

RESPONDENT OVERVIEW					
Question Number	Logic	Question	Instructions	Code	Answers
1	ASK ALL	Respondent Gender	Observe and record	1	Male
				2	Female
				97	Don't Know
				99	Refused
2	ASK ALL	How old are you?	Enter years	Numeric	Enter Number
3	ASK ALL	What is the highest level of education you have completed?		1	Did Not Complete Primary
				2	Primary
				3	Secondary
				4	University
				5	Technical School/Vocation
				97	Don't Know
				99	Refused
4	ASK ALL	What is your marital status?		1	Single (never married)
				2	Married
				3	Divorced
				4	Widowed/Widower
				97	Don't Know
				99	Refused
5	ASK ALL	Which of the following statements best describes you?		1	I make most of the household's financial decision alone
				2	I make most of the household's financial decisions with my spouse
				3	I am not involved with most of the household's financial decision making.
				97	Don't Know
				99	Refused
BUSINESS DESCRIPTION					
6	ASK ALL	What is your primary business? In other words, how do you earn most of your income?	Spontaneous mention	1	Restaurant
				2	Grocery/Food Stuffs
				3	Household Goods
				4	Electronics
				5	Construction/Building Materials
				6	Clothing
				7	Tailoring
				8	Manufacturing (various)
				9	School Operator
				10	Farming

				11	Other (Specify)
				97	Don't Know
				99	Refused
7	ASK ALL	For how many years have you been continually operating this business?	Round to nearest half year	Numeric one decimal	Enter Number
8	ASK ALL	Which of the statements best describes how you began operating this business?	Read options 1 - 3 to respondent	1	I inherited this business from a family member.
				2	I took over this business from another owner.
				3	I started this business.
				97	Don't Know
				99	Refused
9	ASK ALL	Which of the statements best describes the top management of your business?	Read options 1 - 3 to respondent	1	I am the sole top manager of this business
				2	I split top management responsibilities with my spouse
				3	I split top management responsibilities with another family member (non-spouse)
				97	Don't Know
				99	Refused
10a	ASK ALL	During the past 12 months, what was the largest number of part-time, full-time, seasonal, and contract employees you had working for you at one time? Include family members if they were paid a wage.	If there are no employees, enter zero. The respondent should not include himself/herself.	Numeric	Enter Number
10b	IF 10a ≠ 0	How many of those people worked with you throughout the entire year?		Numeric	Number <= 10a
10c	IF 10a ≠ 0	How many of those people were only employed during a seasonal period?		Numeric	Number <= 10a
11	IF 10a ≠ 0	How many employees currently work for you? Include part-time, full-time, seasonal, and contract employees as well as family members if they were paid a wage.		Number	Number <= 10a
12	ASK ALL	Considering the environment in which you operate your business, what is the biggest obstacle facing your establishment?	Spontaneous mention. Probe as necessary.	1	Access to finance
				2	Access to land
				3	Business licensing and/or permits
				4	Corruptions
				5	Courts
				6	Crime, theft, and disorder
				7	Customs and trade regulations
				8	Electricity
				9	Inadequately educated workforce
				10	Labor regulations
				11	Political Instability
				12	Practices of competitors

				13	Tax administration
				14	Tax rates
				15	Transport
				16	Other (please specify)
				97	Don't Know
				99	Refused

FINANCIAL TOOLS

Now, I'd like to ask you some questions about the financial services
you use typically use to help you manage your finances.
Please tell me which of the following you did IN THE LAST 12 MONTHS.

Savings			
Question Number	Question	Code	Answer
13	Saved or set aside money for any reason	1	Yes
		2	No
		97	Don’t Know
		99	Refused
14	Saved or set aside any money by using an account at a bank or another type of formal financial institution	1	Yes
		2	No
		97	Don’t Know
		99	Refused
15	Saved or set aside any money in a mobile money account	1	Yes
		2	No
		97	Don’t Know
		99	Refused
16	Withdrawn money from savings to cover an expense	1	Yes
		2	No
		97	Don’t Know
		99	Refused
Insurance			
17	Purchased a new insurance plan	1	Yes
		2	No
		97	Don’t Know
		99	Refused
18	Used an insurance plan to cover an expense	1	Yes
		2	No
		97	Don’t Know
		99	Refused

Cash Transfers and Payments			
Have you sent money to or received money from any of the following sources? Please tell me whether you have only sent money, only received money, or both sent and received money.			
19	Family or friends within the country	1	Sent Only
		2	Received Only
		3	Sent and Received
		4	Have Not Used
		97	Don't Know
		99	Refused
20	Family or friends living in another country	1	Sent Only
		2	Received Only
		3	Sent and Received
		4	Have Not Used
		97	Don't Know
		99	Refused
21	A supplier of goods or services to your business	1	Sent Only
		2	Received Only
		3	Sent and Received
		4	Have Not Used
		97	Don't Know
		99	Refused
22	Customers, for the purchase of goods or services	1	Sent Only
		2	Received Only
		3	Sent and Received
		4	Have Not Used
		97	Don't Know
		99	Refused
Have you used any of the following to send or receive money? Please tell me whether you have only sent money, only received money, or both sent and received money.			
23	A bank account	1	Sent Only
		2	Received Only
		3	Sent and Received
		4	Have Not Used
		97	Don't Know
		99	Refused
24	A money transfer service like Western Union	1	Sent Only
		2	Received Only
		3	Sent and Received
		4	Have Not Used
		97	Don't Know
		99	Refused
25	A mobile money service	1	Sent Only
		2	Received Only

		3	Sent and Received
		4	Have Not Used
		97	Don't Know
		99	Refused
26	Had you, personally, RECEIVED any financial support from the government? This money could include payments for educational or medical expenses, unemployment benefits, subsidy payments, or any kind of SOCIAL BENEFITS. Please do NOT include wages or any payments related to work.	1	Yes
		2	No
		97	Don't Know
		99	Refused
Borrowing			
Have you borrowed any money from any of the following sources?			
27	From a bank, microfinance institution, or another type of formal financial institution	1	Yes
		2	No
		97	Don't Know
		99	Refused
28	From family, relatives, or friends	1	Yes
		2	No
		97	Don't Know
		99	Refused
29	From an informal savings group/club	1	Yes
		2	No
		97	Don't Know
		99	Refused
30	From a moneylender	1	Yes
		2	No
		97	Don't Know
		99	Refused

BUSINESS FINANCIAL HEALTH

Business Financial Health Overview					
Question Number	**Logic**	**Question**	**Instructions**	**Code**	**Answers**
31	ASK ALL	What is the primary indicator you use to tell how your business is doing?	Prompt if necessary	1	Customer visits (foot fall or foot traffic)
				2	Orders with Suppliers
				3	Customer Invoices
				4	Gross Revenue
				5	Profit
				6	Level of Inventory
				97	Don't Know
				99	Refused

32	IF 31 ≠ 97-99	Compared to last year at this time, has your [INSERT ANSWER TO 13] increased, decreased, or stayed the same?		1	Increased
				2	Stayed the Same
				3	Decreased
				97	Don't Know
				99	Refused
33	ASK ALL	What is your best estimate for your profit during the past 12 months? That is, how much money did you earn after paying for all your business expenses, including paying yourself a salary.		Numeric	Enter Number
34	IF 31 ≠ 5	Compared to last year at this time, do you think your profit has increased, decreased, or stayed the same?		1	Increased
				2	Stayed the Same
				3	Decreased
				97	Don't Know
				99	Refused
35	ASK ALL	Would you say that your earnings from your primary business vary from month-to-month, from season to season, or that they are reasonably stable?		1	Month-to-Month
				2	Season-to-Season
				3	Stable
				97	Don't Know
				99	Refused
Opportunity and Goals					
36	ASK ALL	Have you ever grown the size or scope of your business?		1	Yes
				2	No
				3	Don't Know
				4	Refused
37a	ASK IF 36=1 Skip to 20 IF 36=2-99	Since you started your business, was there a time when it grew in any of the following ways?	Read out. Select all that apply	1	Hired additional employee(s)
				2	Expanded the size of shop (at this location)
				3	Expanded the size of shop (by moving to new location)
				4	Added an additional location
				5	Increased variety of inventory
				6	Opened a new business line (i.e., selling cloth to making clothes, etc.)
				7	Other (please specify)
				8	None
				97	Don't Know
				99	Refused
37b_1	IF 37a=1	When was the last time you hired additional employees?	Answer in months and years	Numeric	Enter Months Enter Years
37b_2	IF 37a=2	When was the last time you expanded the size of shop at this location?	Answer in months and years	Numeric	Enter Months Enter Years
37b_3	IF 37a=3	When was the last time you expanded the size of	Answer in months and years	Numeric	Enter Months Enter Years

		shop by moving to a new location?			
37b_4	IF 37a=4	When was the last time you added an additional location?	Answer in months and years	Numeric	Enter Months Enter Years
37b_5	IF 37a=5	When was the last time you increased the variety of inventory?	Answer in months and years	Numeric	Enter Months Enter Years
37b_6	IF 37a=6	When was the time last time you opened a new business line?	Answer in months and years	Numeric	Enter Months Enter Years
37b_7	IF 37a=7	When was the last time you [insert from 19a]?	Answer in months and years	Numeric	Enter Months Enter Years
37c_1	IF 37a=1	The last time you hired additional employees, was it planned, or did you take advantage of an opportunity that presented itself?		1	Planned
				2	Took advantage of an opportunity
				97	Don't Know
				99	Refused
37c_2	IF 37a=2	The last time you expanded the size of shop at this location, was it planned, or did you take advantage of an opportunity that presented itself?		1	Planned
				2	Took advantage of an opportunity
				97	Don't Know
				99	Refused
37c_3	IF 37a=3	The last time you expanded the size of shop by moving to a new location, was it planned, or did you take advantage of an opportunity that presented itself?		1	Planned
				2	Took advantage of an opportunity
				97	Don't Know
				99	Refused
37c_4	IF 37a=4	The last time you added an additional location, was it planned, or did you take advantage of an opportunity that presented itself?		1	Planned
				2	Took advantage of an opportunity
				97	Don't Know
				99	Refused
37c_5	IF 37a=5	The last time you increased the variety of inventory, was it planned, or did you take advantage of an opportunity that presented itself?		1	Planned
				2	Took advantage of an opportunity
				97	Don't Know
				99	Refused
37c_6	IF 37a=6	The last time you opened a new business line, was it planned, or did you take advantage of an opportunity that presented itself?		1	Planned
				2	Took advantage of an opportunity
				97	Don't Know
				99	Refused
37c_7	IF 37a=7	The last time you [Insert from 19a_7], was it planned, or did you take advantage of an opportunity that presented itself?		1	Planned
				2	Took advantage of an opportunity
				97	Don't Know
				99	Refused
38	ASK ALL	Which of the following best describes your attitude towards the growth of your business?	Read option 1 - 3 to respondent	1	It is important that my business grows, and I am actively trying to make it do so.
				2	If an opportunity to grow my business appears, I will capture it but I would not otherwise seek it.

				3	I am content with the size and performance of my business right now and do not intend to grow it.
				97	Don't Know
				99	Refused
39	ASK ALL	In the past, have you ever owned and operated a primary business--not including your current one--that has permanently closed?	Spontaneous mention	1	Yes
				2	No
				97	Don't Know
				99	Refused
40	ASK ALL	How many years ago did that business stop operating?	Enter years	Numeric	
Resilience					
41		Has your business experienced any event that negatively impacted normal business operations during the **past 12 months**? (*Select all that apply.)*	Spontaneous mention. Prompt if necessary	1	Social or political unrest
				2	Personal or family health challenge
				3	Theft/Loss/Fire
				4	Other event (please specify)
				5	Did not experience any such event
				97	Don't Know
				99	Refused
42	If 41 = 1, 2, 3, 4	What actions did you take to deal with [that event/those events]? *Select all that apply.*	Spontaneous mention. Probe as necessary.	1	Made a late loan repayment or did not pay
				2	Used personal savings or assets
				3	Took out additional debt from a bank or MFI
				4	Took out additional debt from a moneylender
				5	Took a loan from a friend or family member
				6	Received a cash transfer from a friend or family member
				7	Cut staff, hours, and/or downsized operations
				8	Offer discounts and lower price to stimulate sales
				9	Offer discounts to clients that pay early to encourage them to pay faster
				10	Used insurance to cover expenses
				11	Used income from another business you own
				12	Other (please specify)
				13	Unsure
				97	Don't Know
				99	Refused
43	Ask for each event that negatively impacted normal business operations.	Following [insert event], how long did it take for your business's performance to return to its level before the shock?		1	Less than 2 weeks
				2	Between 2 weeks and 1 month
				3	Between 1 month and 2 months
				4	Between 2 months and 3 months
				5	Longer than 3 months

				97	Don't Know
				99	Refused
44		Has your business experienced any financial challenges during the **past 12 months**? (*Select all that apply.)*	Spontaneous mention. Prompt if necessary.	1	Decreased ability to make payments on debt on time and/or in full
				2	Decreased ability to pay operating expenses (including wages)
				3	Decreased ability to purchase inventory or supplies to fulfill contracts
				4	Decreased availability of credit
				5	Other financial challenge (please specify)
				97	Don't Know
				99	Refused
45	If 44 = 1, 2, 3, 4, 5	What actions did you take to deal with [that financial challenge/those financial challenges]? *Select all that apply.*	Spontaneous mention. Probe as necessary.	1	Made a late loan repayment or did not pay
				2	Used personal savings or assets
				3	Took out additional debt from a bank or MFI
				4	Took out additional debt from a moneylender
				5	Took a loan from a friend or family member
				6	Received a cash transfer from a friend or family member
				7	Cut staff, hours, and/or downsized operations
				8	Offer discounts and lower price to stimulate sales
				9	Offer discounts to clients that pay early to encourage them to pay faster
				10	Used insurance to cover expenses.
				11	Used income from another business you own.
				12	Other (please specify)
				13	Unsure
				97	Don't Know
				99	Refused
46	Ask for each financial challenge	Following [insert financial challenge], how long did it take for your business's performance to return to its level before the shock?		1	Less than 2 weeks
				2	Between 2 weeks and 1 month
				3	Between 1 month and 2 months
				4	Between 2 months and 3 months
				5	Longer than 3 months
				97	Don't Know
				99	Refused

HOUSEHOLD-BUSINESS INTERACTION					
Question Number	Logic	Question	Instructions	Code	Answers
47	ASK ALL	What share of your household's income comes from your primary business?	Read options to respondent	1	75% or more
				2	Between 50% and 75%
				3	50%
				4	Between 25% and 50%
				5	Less than 25%
				97	Don't Know
				99	Refused
48	ASK ALL	Do you manage your business finances and household finances together, using the same budget and accounts?		1	Yes
				2	No
				97	Don't Know
				99	Refused
49	ASK ALL	In the past 5 years, have you used personal assets, a personal guarantee, or those of your family to secure a loan/debt financing?		1	Yes
				2	No
				97	Don't Know
				99	Refused
50	ASK ALL	In the past 12 months, has household debt prevented you from investing in your business?		1	Yes
				2	No
				97	Don't Know
				99	Refused
51	ASK ALL	In the past 12 months, have you used any of your household assets to meet an immediate business need?		1	Yes
				2	No
				97	Don't Know
				99	Refused
52	ASK ALL	In the past 12 months, have you used any of your business assets, including inventory, to meet an immediate household need?		1	Yes
				2	No
				97	Don't Know
				99	Refused

BUSINESS BEHAVIORS					
Have you done any of the following in the past 3 months?					
Question Number	Logic	Question	Instructions	Code	Answers
53	ASK ALL	Visited one of your competitor’s businesses to see what prices they are charging and/or what products they have available for sale?		1	Yes
				2	No
				97	Don't Know
				99	Refused
54	ASK ALL	Asked your existing customers whether there are any other products they would like you to sell or produce?		1	Yes
				2	No
				97	Don't Know
				99	Refused

55	ASK ALL	Asked a supplier about which products are selling well in your industry?		1	Yes
				2	No
				96	Not Applicable
				97	Don't Know
				99	Refused
56	ASK ALL	Used a special offer to attract customers?		1	Yes
				2	No
				97	Don't Know
				99	Refused
57	ASK ALL	Done any form of advertising?		1	Yes
				2	No
				97	Don't Know
				99	Refused
58	ASK ALL	Do you keep written business records?	If yes, go to 59a. If no, go to 60.	1	Yes
				2	No
				97	Don't Know
				99	Refused
59a	ASK ALL	Do you record every purchase and sale made by the business?		1	Yes
				2	No
				97	Don't Know
				99	Refused
59b	ASK ALL	Are you able to use your records to easily see how much cash your business has on hand at any point in time?		1	Yes
				2	No
				97	Don't Know
				99	Refused
59c	ASK ALL	Do you regularly use your records to know whether sales of a particular product are increasing or decreasing from one month to another?		1	Yes
				2	No
				97	Don't Know
				99	Refused
60	ASK ALL	Do you have a written budget, which tells you how much you have to pay each month for rent, electricity, equipment maintenance, transport, advertising, and other indirect costs of the business?		1	Yes
				2	No
				97	Don't Know
				99	Refused
61	ASK ALL	In the last three months have you attempted to negotiate with a supplier for a lower price on goods for your inventory or other materials for your business?		1	Yes
				2	No
				97	Don't Know
				99	Refused
62	ASK ALL	In the last three months, have you compared the prices or quality offered by alternate suppliers to the supplier you have?		1	Yes
				2	No
				97	Don't Know
				99	Refused

63	ASK ALL	How frequently does your inventory run out of stock or do you run out of raw materials?		1	Never, I always have enough on hand
				2	Infrequently, like every 6 months or so
				3	Once every three months
				4	Once a month or more
				96	Not Applicable
				97	Don't Know
				99	Refused
64	ASK ALL	How long does it take to obtain goods for which you have run out of stock?	Record the number of days	Enter Days	Numeric
65	ASK ALL	Do you have a record-keeping system which allows you to know how much stock you have on hand?		1	Yes
				2	No
				97	Don't Know
				99	Refused

ENTREPRENEURIAL PSYCHOLOGY SURVEY

Rank how strongly you agree with each of the following statements with the following scale:
5 - Strongly Agree, 1 - Don't Agree at All.

66	ASK ALL	I plan tasks carefully.
67	ASK ALL	I make up my mind quickly.
68	ASK ALL	I save regularly.
69	ASK ALL	I look forward to returning to my work when I am away from work.
70	ASK ALL	I can think of many times when I persisted with work when others quit.
71	ASK ALL	I continue to work on hard projects even when others oppose me.
72	ASK ALL	I like to juggle several activities at the same time.
73	ASK ALL	I would rather complete an entire project every day than complete parts of several projects.
74	ASK ALL	I believe it is best to complete one task before beginning another.
75	ASK ALL	It is difficult to know who my real friends are.
76	ASK ALL	I never try anything that I am not sure of.
77	ASK ALL	A person can get rich by taking risks.
78	ASK ALL	It is important for me to do whatever I'm doing as well as I can even if it is not popular with people around me.
79	ASK ALL	When a group I belong to plans an activity, I would rather direct it myself than just help out and have someone else organize it.
80	ASK ALL	I try harder when I'm in competition with other people.

81	ASK ALL	It is important to me to perform better than others on a task.
82	ASK ALL	When it comes to work, it is important for me to do whatever I'm doing as well as I can even if it is not popular with people around me.
83	ASK ALL	When it comes to work, part of my enjoyment in doing things is improving my past performance.
84	ASK ALL	I enjoy planning things and deciding what other people should do.
85	ASK ALL	I find satisfaction I having influence over others.
86	ASK ALL	I like to have a lot of control over the events around me.
87	ASK ALL	The most important thing that happens in life involves work.
88	ASK ALL	My family and friends would say I am a very organized person.
89	ASK ALL	In uncertain times I usually expect the best.
90	ASK ALL	If something can go wrong with me, it will.
91	ASK ALL	I'm always optimistic about my future.
92	ASK ALL	I hardly ever expect things to go my way.
93	ASK ALL	I rarely count on good things happening to me.
94	ASK ALL	Overall I expect more good things to happen to me than bad.

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