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# On the Economic Frontlines of COVID-19: Early Insights From MSMEs Grappling With the Crisis

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# Introduction

As COVID-19 spread across the globe in early 2020, it quickly became evident that government restrictions meant to limit the pandemic would cause a global economic slowdown. As consumer demand evaporated in response to government lockdowns, there was significant concern that the impact on micro, small, and medium enterprises (MSMEs)—one of the prime contributors to economic growth and employment in emerging markets—would be devastating.

Unfortunately, in many emerging markets there were few systemized ways to collect data on MSMEs' experience in normal times, let alone during a pandemic. Without data from emerging markets, it would be impossible to understand the extent to which COVID-19 had disrupted the livelihoods of MSME operators and how they were coping in response. In turn, it would be more difficult for financial service providers (FSPs), investors, governments, and other stakeholders to craft effective responses to the crisis.

The Center for Financial Inclusion's (CFI) research on the financial health of MSMEs during COVID-19 aims to fill that data gap and ensure these stakeholders have visibility on MSME well-being to address their needs. To that end, in May 2020, CFI launched a six wave, longitudinal survey in four countries: Colombia, India, Indonesia, and Nigeria. In each country, CFI is surveying MSME clients at one financial

institution participating in Accion's partnership with Mastercard every other month for one year. This brief summarizes the results from the first wave of surveys by highlighting major insights from the data with supporting analysis.

There were variations in survey implementation, including the timing of the surveys relative to the stage of the pandemic and associated government response in each country. A summary of the partners and the context in which the survey was conducted is in [Table 1](#). A thorough description of the methodology can be found on CFI's website.<sup>1</sup>

In the first wave of data collection, CFI interviewed 2,869 MSME owners across the four countries. Overall, the sample is roughly balanced between men (47.6 percent) and women (52.4 percent), although there are meaningful differences between the countries. The businesses in the survey were well established with an average operating age of nine years. Of all the businesses in the sample, 61 percent were micro businesses, defined as having between 1 and 10 employees, while an additional 33 percent of businesses were sole proprietorships.<sup>2</sup> The businesses were diverse, including everything from school operators to mechanics, construction material suppliers, pharmacies, and tourist agencies. However, in most markets, grocery stores of various sizes were the most common businesses, followed by clothing shops.

**TABLE 1 COUNTRY CONTEXT**

<b>COUNTRY</b> Colombia	CÍVICO provides MSMEs in Bogotá, Colombia; Mexico City, Mexico; and Santiago, Chile with a platform to connect with local customers as well as business information and payment services. CÍVICO also provides merchants with electronic payments, e-commerce, business education in digital marketing techniques, coupons and loyalty programs, as well as bookkeeping techniques. This survey focused on CÍVICO's clients in Bogota.
<b>PARTNER</b> CÍVICO	
<b>SURVEY DATES</b> August 21–September 10, 2020	Shortly after COVID-19 reached Colombia in March, the national government imposed a country-wide lockdown. The mayor of Bogota, meanwhile, instituted a variety of mitigation measures. At the time the survey started, the national lockdown was in effect, but the government lifted some restrictions midway through the survey period.
<b>COUNTRY</b> India	Operating in 26 states across India, BASIX Sub-K's mission is to provide a technology-enabled financial platform for India's unbanked and underbanked populations. The company offers digital finance solutions (e.g., credit, savings, and payments) by partnering with 12 banks, nationwide, through an agent-assisted model. The survey interviewed clients of Sub-K in Andhra Pradesh, New Delhi, Rajasthan, and Telangana.
<b>PARTNER</b> BASIX Sub-K	
<b>SURVEY DATES</b> October 5–15, 2020	India instituted strict lockdown measures at the start of the pandemic, which were gradually eased starting in April 2020. By the time of CFI's survey (October 5 to October 15) in India, the national government had announced "Unlock 5.0" guidelines, which lifted many pandemic restrictions and moved further management of mitigation measures to the states.
<b>COUNTRY</b> Indonesia	BAV serves clients through an extensive network of 330 branches across peri-urban and rural regions of Java and Sulawesi. BAV offers microentrepreneurs, the majority of whom are women, with group and individual lending products meant to grow their businesses and improve their financial well-being. The survey interviewed clients living in Java, Sulawesi, and Sumatra.
<b>PARTNER</b> Bina Artha Ventura (BAV)	
<b>SURVEY DATES</b> July 13–August 8, 2020	The survey in Indonesia occurred shortly after leaders in several areas throughout the country, and particularly Jakarta, began easing social restrictions in June. However, by September—after the survey period—leaders tightened these restrictions again.
<b>COUNTRY</b> Nigeria	AMFB provides loans and savings products to low-income customers, many of whom are microentrepreneurs running small businesses, such as retail shops, in urban and peri-urban settings. AMFB has 130 locations across the country with the bulk of its operations and headquartered in Lagos, where this survey focused.
<b>PARTNER</b> Accion Microfinance Bank (AMFB)	
<b>SURVEY DATES</b> June 16–July 15, 2020	At the start of CFI's survey in Nigeria, the Nigerian and local government had imposed many restrictions on movement, including a curfew. In the middle of the survey period (June 16 to July 15), some restrictions—for example, limitations on mass gatherings—were eased, but only slightly.

**TABLE 2 SAMPLE OVERVIEW**

	COLOMBIA	INDIA	INDONESIA	NIGERIA
<b>SAMPLE SIZE</b>	801	601	730	737
<b>SURVEY DATES</b>	August 14 to September 9	October 5 to 15	July 13 to August 6	June 16 to July 15
<b>GENDER (Male/Female)</b>				
Male	58.5%	83.2%	9.6%	44.4%
Female	41.5%	16.8%	90.4%	55.6%
<b>BUSINESS AGE</b>	6.4	9.6	7.9	13.0
<b>BUSINESS SIZE (Avg. Number of Employees)</b>				
Sole Proprietorship	18.4%	24.3%	66.7%	24.1%
Micro	74.8%	73.0%	31.8%	66.9%
Small	6.2%	2.7%	1.2%	8.6%
Medium	0.6%	0.0%	0.3%	0.4%
<b>TOP THREE BUSINESS TYPES</b>				
	Manufacturing (Various)	Clothing	Grocery	Grocery
	General Sales	Grocery	Restaurant	Clothing
	Grocery	Electronics	Farming/Agriculture	Electronics



## Survey Insights

### COVID-19 has closed 15 percent of all businesses

The data shows 15 percent of MSMEs had shuttered their operations at the time of the survey. Respondents in Colombia were the hardest hit: 29 percent of respondents reported that their business was closed. The survey in India showed only 1 percent of businesses reported being closed, which may be a result of the survey taking place after lockdowns had largely been lifted there.

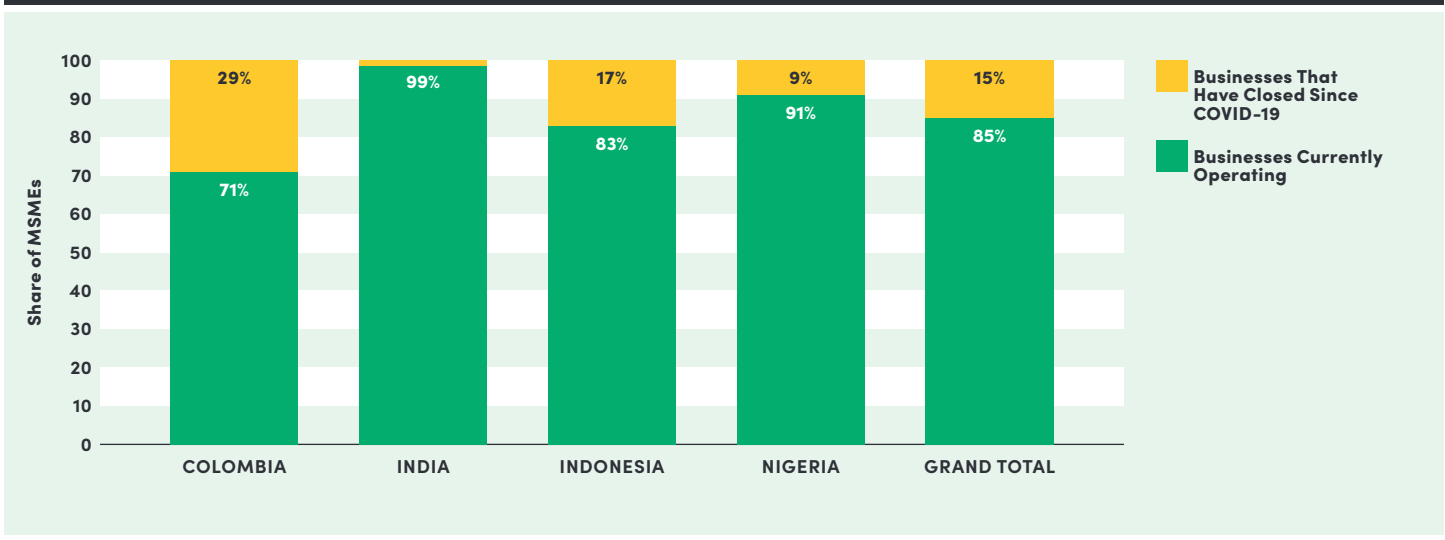
Importantly, there was limited evidence that different owner or business characteristics were correlated with business closures. For instance, there was no statistically significant relationship between the size or age of a business and whether it continued operating. Meanwhile, there were meaningful but disparate relationships between gender and the likelihood of closure. In

Colombia, female-led businesses were 32 percent more likely to have closed than male-led businesses, and women's businesses were almost twice as likely to close as men's businesses in Indonesia. Both differences were statistically significant, at the .05 and .10 levels, respectively, after controlling for other factors. In India and Nigeria, there was no significant difference in the rate at which female- and male-led businesses closed.

In future waves, CFI will collect additional data on other factors that may help to explain the disparate findings across countries, including gender-disaggregated data on time-use (i.e. whether women's domestic, unpaid work has increased) and financial capability. This additional data may help explain why women's businesses underperformed in one country but not another.

FIGURE 1

### Share of Operating Businesses by Country



## Forty-six percent of closed MSMEs report government-imposed restrictions on movement as the most direct cause of their business closure, and confidence in ability to reopen is high

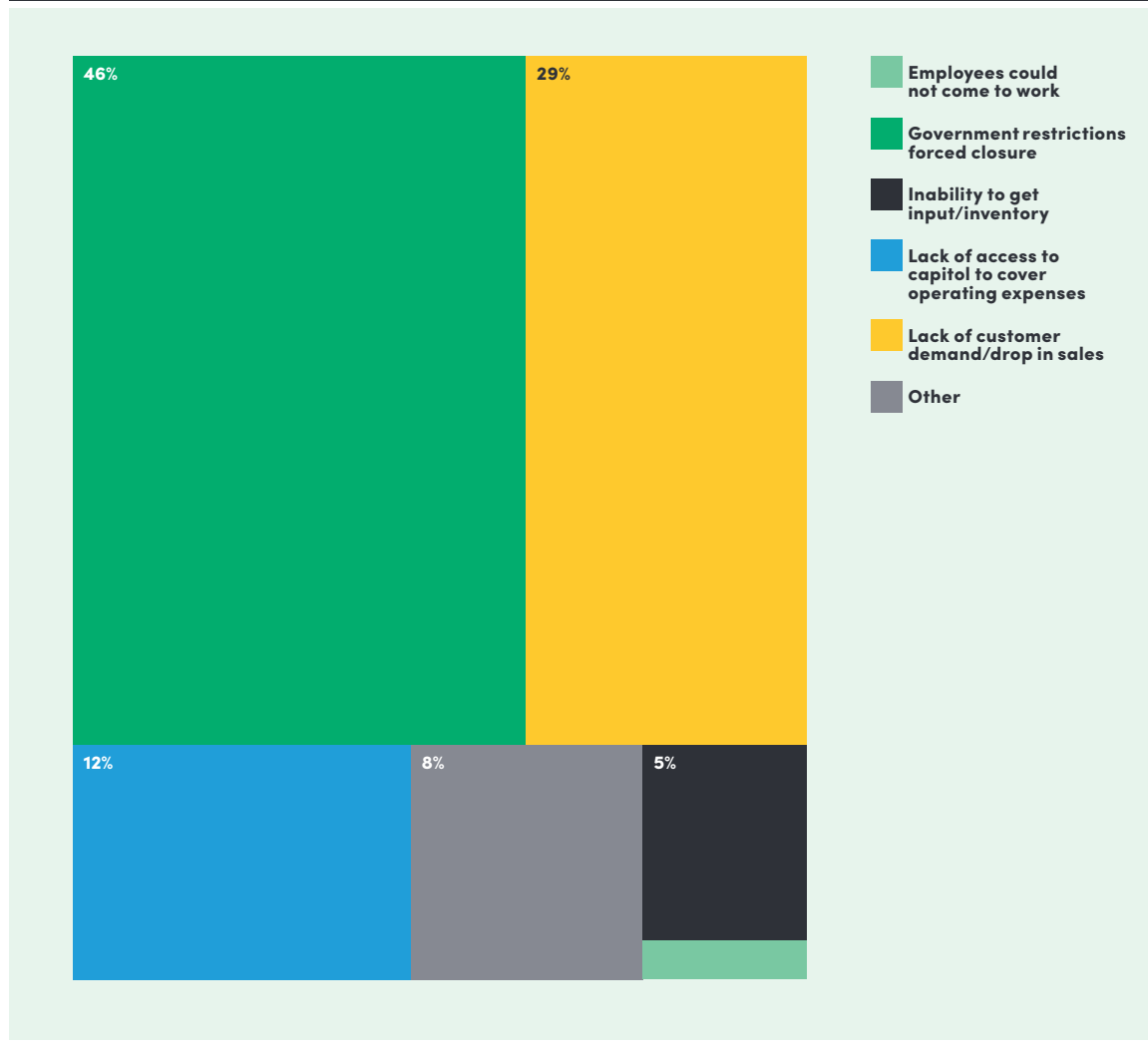
Forty-six percent of all closed businesses said that government-imposed restrictions on movement were the primary cause of their business's failure, underscoring the degree to which direct action by governments in response to the pandemic affected the livelihoods of MSME owners. The second most common reason for business

closures, at 29 percent of responses, was a lack of customer demand or drop in sales, an important foreshadow to the struggles of businesses that were operating at the time of the survey.

Most MSME owners—63 percent—reported they were somewhat or completely confident that they would reopen their businesses once the pandemic was over. This is a strong reflection of the optimism of these respondents in general, but a large minority of businesses—25 percent—said it was unlikely that they would open their doors again.

FIGURE 2

### Primary Reason for Business Closure



### Eighty-three percent of operating MSMEs have seen a dramatic decline in profits, leading to struggles covering operating expenses

Of the operating businesses in the sample, 83 percent reported their profits declined after COVID-19 hit. The share of businesses experiencing this phenomenon was similar in each country, ranging from 77 percent of businesses in Colombia up to 89 percent of businesses in India.

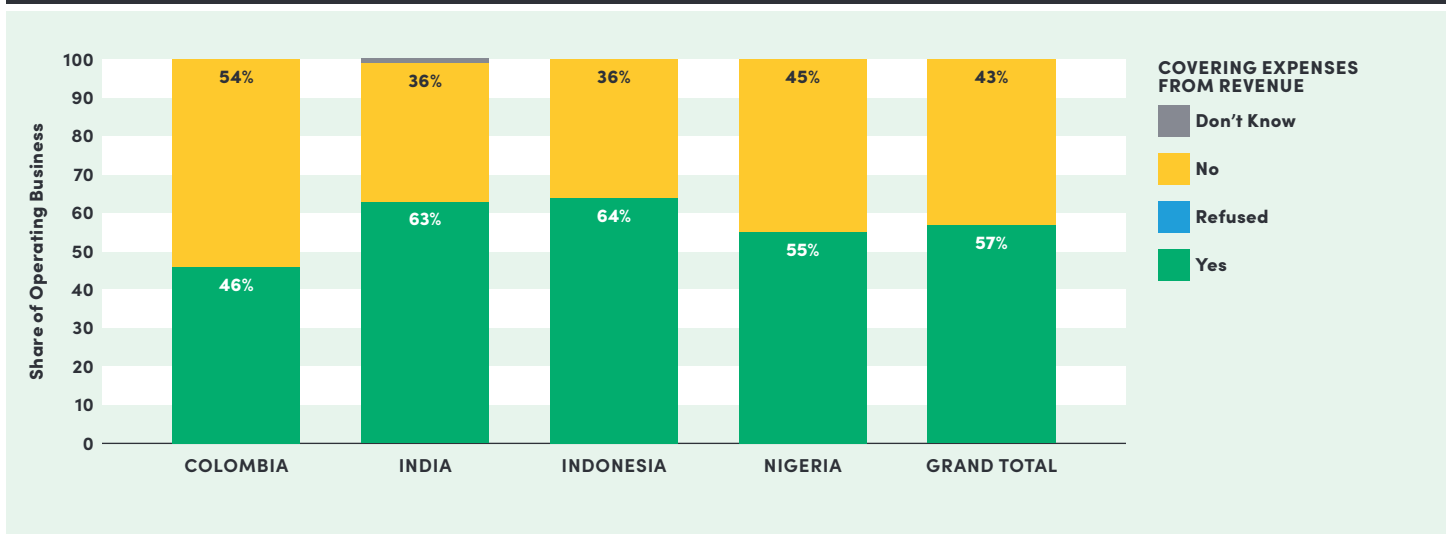
The magnitude of the decline is staggering. Roughly two-thirds of respondents in Colombia, India, and Indonesia reported their profits had declined by 50 percent or more since

the pandemic began; in Nigeria, a third of respondents reported similar declines. These losses were a major change for these businesses. In the year before the pandemic, nearly three-fourths of respondents said their profits had been stable or increasing.

Predictably given this decline in profits, a meaningful share—43 percent—of MSME owners reported not being able to cover their operating expenses from their revenue. While there were differences between countries, there was little evidence of significant differences between groups, such as men and women or businesses of different sizes, within a country.

FIGURE 3

#### Share of Operating Businesses Covering Expenses from Revenue by Country





## The number of people employed by MSMEs has declined by 53 percent compared to its peak in the year before the pandemic

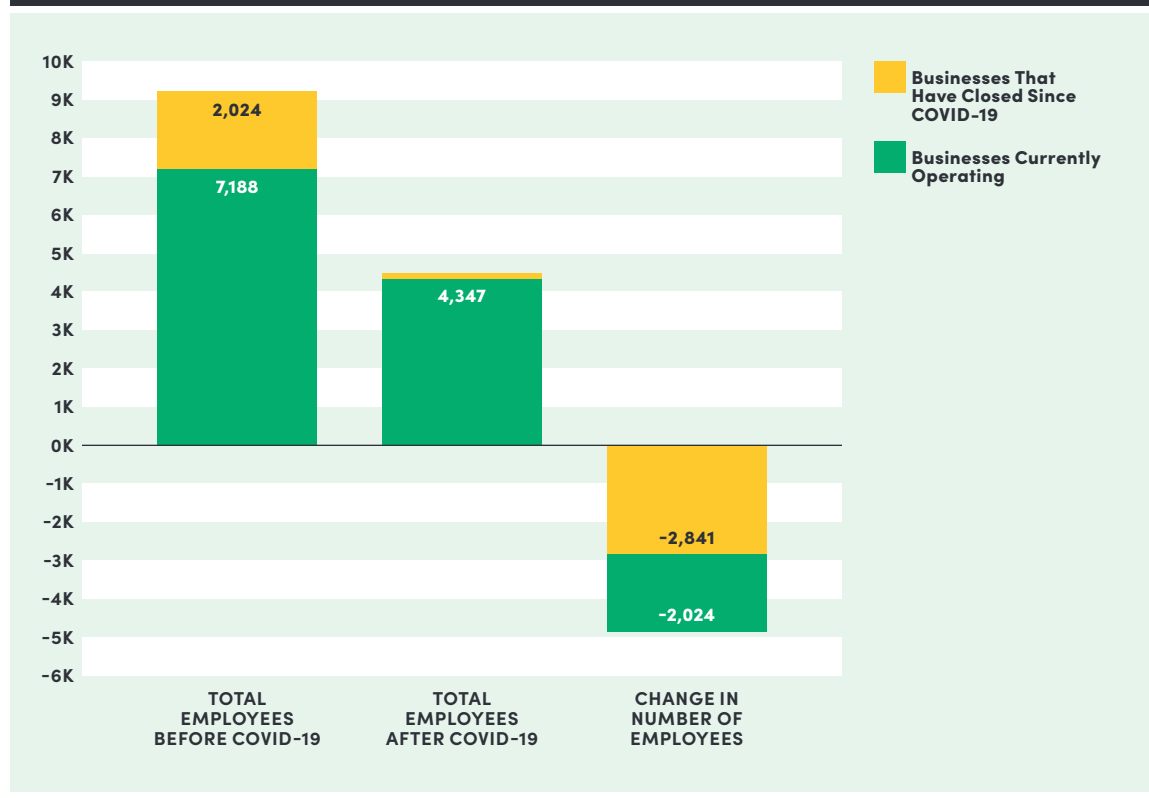
The reduction in the MSME workforce was astounding. At its peak in the year before the pandemic, MSMEs in the sample employed 9,212 people.<sup>3</sup> By the time of the first survey, that number had fallen by more than half to 4,347 people. The job losses were pervasive. In Colombia, Indonesia, and Nigeria—which were surveyed during or proximate to their country’s lockdowns—at least 50 percent of pre-pandemic employees were no longer employed. In Colombia, MSME owners reduced their workforce by an astronomical 66 percent. Even in India, which was surveyed outside of a

widespread lockdown, MSME owners reduced their workforce by 25 percent.

Importantly, the data shows these reductions in the labor force are not a result just of business closures, although this is a significant contributor. In fact, most job losses in each market occurred at businesses which were still operating, suggesting that MSME owners were cutting employees to cope with their lower earnings. It also shows that small enterprises lost proportionally more of their workforce (62 percent) than micro enterprises (48 percent). While this suggests that small enterprises were harder hit, it is impossible to say how these losses have hurt the long-term productivity of the businesses without an analysis of the marginal benefit of employees in each circumstance.

FIGURE 4

### Change in the Number of Employees



## Data on coping strategies suggests that there is no obvious “best practice” coping strategy MSMEs are using, and using too many strategies may be a sign of trouble

CFI asked respondents about the strategies they were using to cope with the impact of COVID-19 on their businesses. The data made clear that, within and across countries, there was little consensus about what coping strategies were best practice. Across all countries, no more than 54 percent of operating businesses used any single coping strategy, and frequently, most coping strategies were used by only a third of respondents. In many cases, the coping strategies owners used seemed contradictory. Consider selling on credit to customers: across the project, 23 percent of respondents said they started selling on credit, 23 percent said they stopped selling on credit, and 10 percent said they both started and stopped selling on credit, all since the pandemic began.

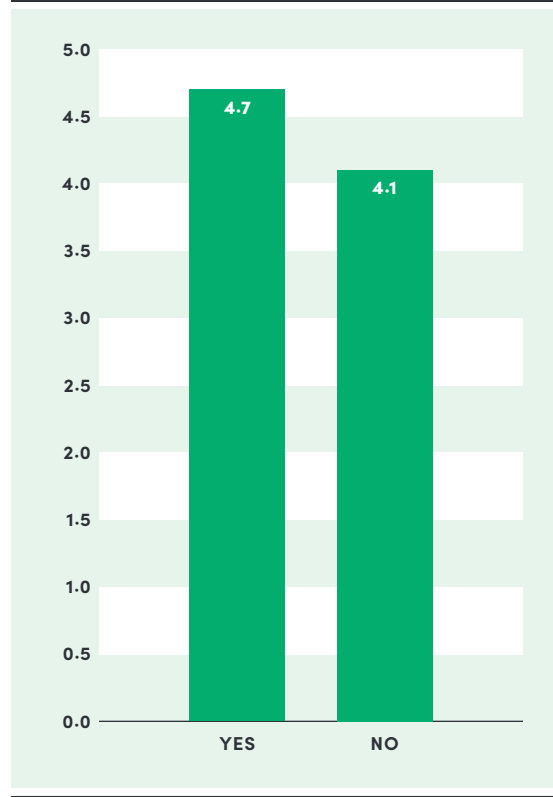
This latter point may help to explain a potentially concerning finding: there was an inverse relationship between the number of coping strategies an operating business used and how well that business performed. For instance, owners who reported using more coping strategies were more likely to report declines in profit since the pandemic started; they were also more likely to have been experiencing declines before the pandemic. Respondents who reported not being able to cover their business expenses from revenue were statistically more likely to have used more coping strategies than those who were covering their expenses. Similarly, the more coping strategies an MSME owner used, the larger the number of employees had been laid off.

CFI’s data cannot say that the use of one or a combination of coping strategies caused a business to do better or worse. It is entirely possible, for instance, that owners with struggling businesses before the pandemic or businesses that were predisposed to a difficult recovery tried a dynamic set of strategies to keep operating. However, because of the questions CFI asked, it was difficult

for a respondent to report using many coping strategies without them eventually selecting some contradictory ones, suggesting a capability issue may be at play. The issue of contradictory store credit practices is seen again with price management: 17 percent of operating businesses say that they both raised and lowered prices. Meanwhile, 19 percent of operating businesses said they started selling on customer credit since the pandemic and discounted their prices—two strategies that effectively reduce cash flow in the immediate term. There are certainly instances in which this combination of behaviors may make sense, but given what the data shows, they seem to indicate owners were flailing. CFI plans to explore the issue of capability in future waves.

FIGURE 5

### Average Number of Coping Strategies by Expense Coverage



## MSME owners' financial tools appear to be under stress, raising concerns they will not have the financial wherewithal to survive the economic downturn

CFI asked respondents about their use of savings, credit, cash transfers, and insurance in the year prior to the pandemic and since the pandemic struck their respective countries. In the first wave, these questions focused on whether certain financial tools or types of accounts were used or not as opposed to the frequency of their use or the volume of money flowing through each financial tool or account. Thus, these results are instructive of financial tool use and additional questions in subsequent waves will provide more detail.

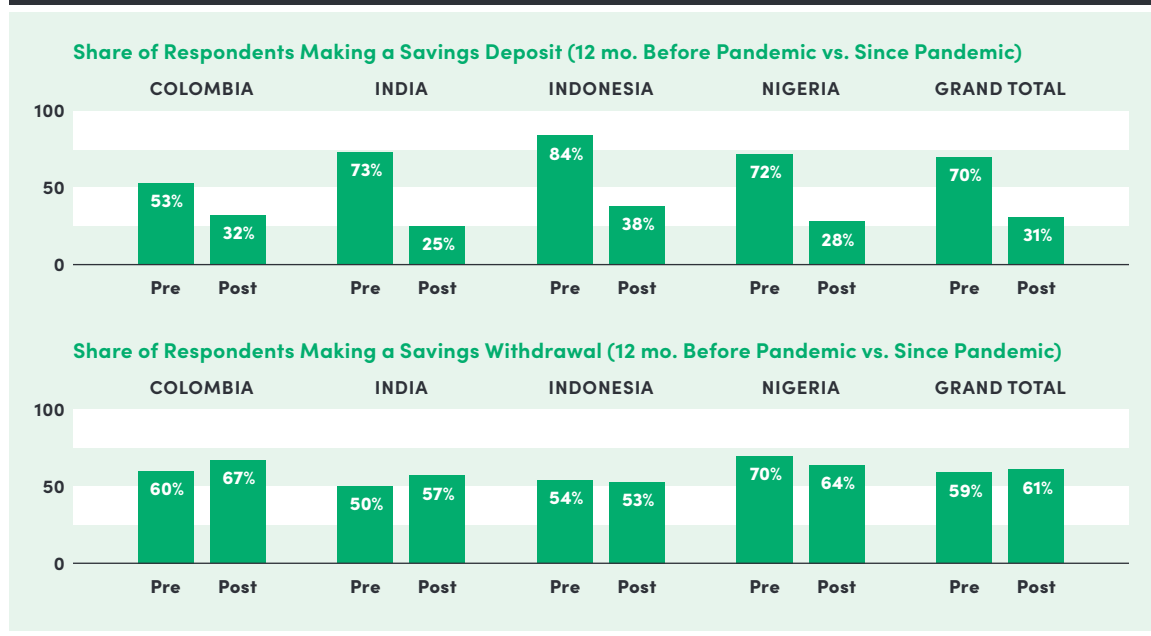
Even with that caveat, the data does suggest that respondents are drawing down savings and stressing other financial support mechanisms to cope with the pandemic. For instance, in the year before the pandemic, about 70 percent of respondents reported that they had made a savings deposit, but after the pandemic—a period of five to seven months—the share of respondents who reported a deposit was only 31 percent. Meanwhile, the share of people who reported withdrawing money remained unchanged between the two periods.

The data suggests that borrowing slowed, too. Since the pandemic, only 19 percent of respondents—including both those with closed and operating businesses—reported getting a new loan from a bank or microfinance institution, compared to 61 percent in the year before the pandemic. Borrowing from moneylenders and self-help groups declined by statistically significant amounts as well. Only borrowing from friends and family remained constant over the two periods. Meanwhile, domestic and international cash transfers showed modest reductions in use, and the use of insurance was negligible.

The collapse of savings deposits compared to withdrawals along with the reduction in formal and semi-formal lending and cash transfers all suggest that MSME owners are drawing down their financial reserves to keep their businesses and households afloat, although additional work is necessary to confirm this hypothesis. If true, it highlights the degree to which COVID-19 is eroding wealth and consuming respondents' lifelines, highlighting one of the pathways by which MSME owners could slip back into poverty.

FIGURE 6

### Savings Deposits and Withdrawals Before and After the Pandemic



### MSMEs' financial stress is leading to negative outcomes for households

While this work focuses on the impact of COVID-19 on MSMEs, the reality is that these businesses are often the main livelihood for their owners' households. Thus, it is important to look at the relationship between MSME performance and household impact. Given the stress on these businesses described above, it is little surprise that households also appear to be struggling; 41 percent of owners reported their households could not cover their expenses with non-debt sources of income.

This decline has very real consequences. The respondents who reported their households are not covering their expenses are experiencing worryingly high levels of food insecurity, as seen in [Figure 6](#). Even in India, where the survey was conducted after the lockdown was lifted in a country with numerous social services, food insecurity was 10 percent among households struggling to cover their basic expenses. Arguably more striking, and confounding, are the large

proportions of individuals in Colombia, Indonesia, and Nigeria that report that they can cover their expenses with non-debt income but are still experiencing high levels of food insecurity.

### Government cash transfers are having minimal to no effect on those they do reach

There is significant evidence showing that unconditional cash transfers can have meaningful economic impacts for low income households, especially in crisis environments.<sup>4</sup> Consequently, CFI and others have advocated for the expansion of cash transfers as a critical component of any response to the pandemic, and many governments have created or expanded cash transfer programs.<sup>5</sup>

There is some evidence in the data for these expansions. In every country except Nigeria, more people received cash transfers from a government entity since COVID-19 arrived in their country than had received them in the previous 12 months. In Colombia and Indonesia, the proportion of respondents receiving cash

FIGURE 7

#### Food Insecurity by Country and Whether Households are Covering Expenses

	COLOMBIA		INDIA		INDONESIA		NIGERIA	
	YES	NO	YES	NO	YES	NO	YES	NO
<b>EATEN SMALLER MEALS</b>	28%	60%	1%	10%	16%	44%	44%	71%
<b>EATEN FEWER MEALS</b>	20%	46%	2%	9%	14%	36%	43%	75%
<b>GONE TO BED HUNGRY</b>	4%	15%	1%	8%	7%	20%	19%	47%

transfers from the government roughly doubled (6.8 to 12.4 percent in Colombia and 22.7 to 42.9 percent in Indonesia).

However, there was little evidence to show a positive relationship between receiving a cash transfer and better business or household outcomes. After controlling for whether people received cash transfers before the pandemic; business size, type, and age; and owner gender, receiving a cash transfer during the pandemic did not have a statistically significant relationship with business closures, revenue or profit levels, change in the number of employees, or household food security.

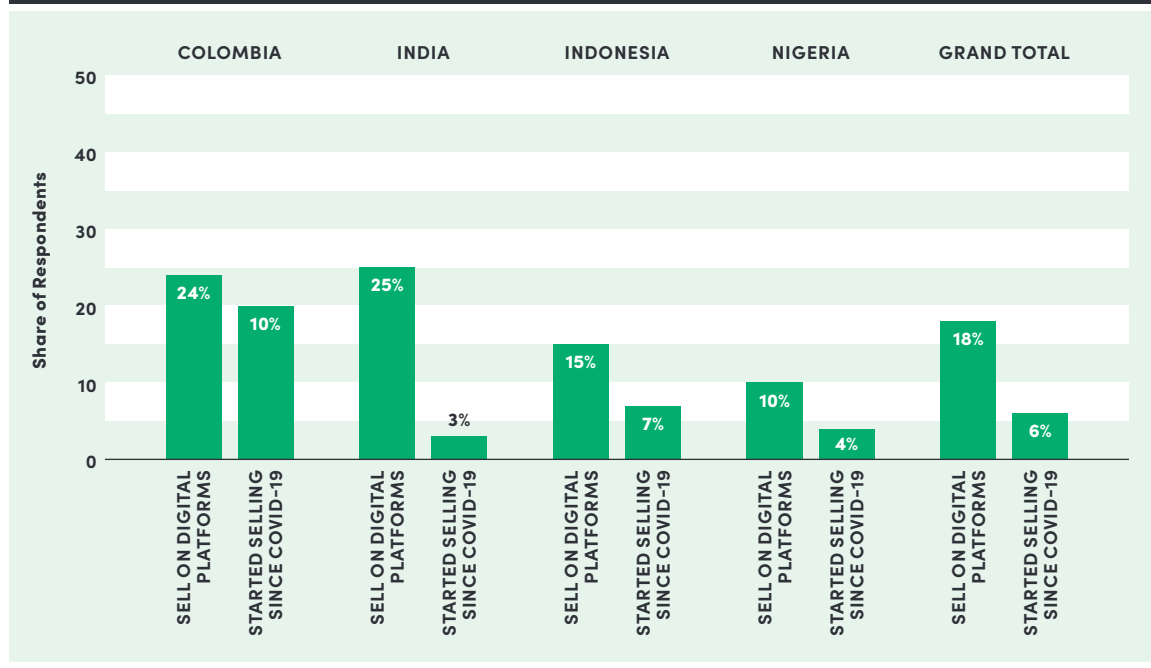
This analysis should not be considered an indictment of government transfers. The body of evidence on their benefits are strong enough to suggest that more information is needed to explain these patterns. There are important variables such as the size, frequency, and conditionality of the transfers, among others, that CFI will aim to examine in future surveys.

### The share of MSMEs selling on digital platforms increased, but there is little evidence of positive business outcomes so far

Across all markets, 18 percent of MSME owners reported selling on a digital platform at the time of the survey. The largest share of respondents on digital platforms was in Colombia and India, where CFI's partners had the most robust digital offerings at the time of the survey. Importantly, there has been nearly a 33 percent increase in the number of businesses on these platforms since the pandemic began, with significant growth in almost every market (see [Figure 7](#)). However, there appears to be little impact of these digital platforms on businesses so far. After controlling for other factors, there was no statistically significant relationship between selling on a digital platform and improved business outcomes during the pandemic, such as ability to cover operating expenses or mitigate revenue losses.

FIGURE 8

#### Adoption of Digital Commerce Platforms Since COVID-19





# Implications

The data shows that a drop in sales stemming from government-mandated restrictions on movement and reductions in customer demand reduced MSME owners' income and liquidity, causing them to engage in a variety of undesirable coping strategies, including laying off employees; engaging in, at times, counterproductive business practices; and reducing expenditures on household essentials like food. The data also shows that there were few meaningful lifelines to these MSMEs to increase sales and address liquidity shortages: savings were evaporating, borrowing was less frequent, and cash transfer behavior did not change dramatically from its pre-pandemic level despite immense need. Their circumstance points to a set of actions that could help mitigate the effects of the pandemic in the short-, medium-, and long-term.

## **In the short-term, governments need to expand direct assistance to support MSMEs**

Social safety nets to individuals have expanded rapidly since the start of the pandemic, yet the data does not show a meaningful impact on the MSME owners in our sample.

In September 2020, the World Bank released data showing 212 countries or territories launched or expanded social protection measures in response to the pandemic. Of these countries, 158 distributed cash transfers and 93 offered in-kind food or food vouchers. Approximately 1.8 billion people have benefited from cash

and in-kind transfers, of which 1.3 billion were cash recipients. Of the four countries in this study, all offered some type of social safety nets, but none explicitly targeted MSME owners. However, our data shows some MSME owners did get cash transfers, likely because they were classified as vulnerable individuals or as part of a vulnerable household.

Ultimately, though, most MSME owners did not receive social transfers despite large stimulus packages in each market. Even in Colombia and Indonesia, where the share of respondents who reported receiving a cash transfer increased dramatically after the start of the pandemic, more than half of all respondents did not report receiving a cash transfer from the government. The small number that did receive assistance did not display better business or household outcomes despite generally strong evidence for the efficacy of cash transfers. In theory, MSMEs should benefit from the impact of fiscal transfers to households on aggregate demand. While that is much harder to evaluate at the individual MSME level, the dramatic decline in profits by MSMEs found in all countries suggests that the impact of safety nets was not sufficient to maintain aggregate demand for goods and services in the face of this public health crisis.

In addition to social payments targeting individuals, governments have been supporting MSMEs using loan guarantees or even direct lending windows through the banking sector.

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A summary of support measures can be found in the World Bank's dashboard on the topic. Of the 845 measures captured in this dashboard, 328 relate to debt, either in the form of direct loans or guarantees, followed by 205 measures linked to employment, and 151 measures linked to taxes.<sup>6</sup> Each of the countries in this study offered some form of relief through the banking sector—Nigeria's was the most paltry—but these measures are more likely to benefit formal firms and have thus far been insufficient in their impact on MSMEs.<sup>7</sup>

The lack of reach and impact on MSMEs suggests that government support measures need to be structured and expanded to meet the immediate needs of MSMEs. For instance, the Paycheck Protection Program (PPP) in the United States, while controversial, utilized the banking sector to deliver aid to businesses, conditional on small businesses retaining workers. In Brazil, the government extended support to informal and self-employed workers and relaxed labor laws to maintain jobs.<sup>8</sup> And in Colombia, the government introduced deferral of tax income for the tourism sector, which was particularly hard hit by the pandemic.<sup>9</sup> As the diversity of these examples show, governments may need to take a range of actions that are specific to and evolve with the public health and economic crisis.

### **In the medium-term, lenders need to adapt their products and services to promote liquidity**

Regulators in a plethora of countries have instituted moratoria on loan repayments to provide immediate relief to MSMEs. Moratoria are often considered pro-consumer, but whether they are in practice is highly dependent on their terms. For example, if interest on a loan accrues during a moratorium with additional payments due at the end of the loan term, this relief measure simply delays the cash crunch MSMEs will face. Based on data from these surveys, it seems unlikely that MSMEs would be

able to repay accrued interest payments without a negative impact on their business or household well-being. The risk of negative outcomes for MSME owners increases especially in instances where balloon payments are required.<sup>10</sup>

To provide more breathing room to MSMEs, many lenders have been exploring how to restructure their clients' debt to provide more flexible repayment terms through measures like capitalizing interest charges and extending loan terms. However, this is feasible only if the financial institutions' lenders extend the tenure of their financing, and encouragingly, lenders to inclusive finance providers—such as the Group of 9 Microfinance Investment Vehicles (MIVs)—have agreed to restructure their loans to reduce the liquidity pressures that many FSPs face. Even with that support, FSPs cannot offer blanket restructuring to clients. It is obvious that not every business is going to survive the pandemic, so FSPs will need to find new ways to segment and evaluate their clients. MSMEs that have proven to be resilient to the shock would benefit from quick restructuring while FSPs may need to take more time to evaluate businesses with changing business prospects (because of shifts in the nature of the business or the market they operate in).

To make restructuring effective, FSPs will need to maintain contact with their customers throughout the pandemic and the recovery period so they can stay abreast of their needs. For many FSPs, that will require moving their customer outreach channels to a digital-first approach. There are many signs that this shift is already taking place. For example, the many microfinance institutions in the FINCA network prioritized customer engagement using digital communications mechanisms in the early phases of the pandemic.<sup>11</sup> CGAP's Pulse Survey found that about a third of microfinance institutions reporting to the survey had expanded their call center operations or digital channels.<sup>12</sup>

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## **In the long-term, MSMEs — particularly sole proprietors and microenterprise owners — need guidance on how to weather shocks**

CFI's data suggests that MSME owners were trying a mix of sometimes contradictory strategies to cope with the pandemic. For example, owners may be engaging in practices that diminish their liquidity rather than enhancing it, like cutting prices and offering sales on store credit. The most common adaptation observed in developed countries has been the shift to online sales, but that strategy has not been pervasive or yielded bottom-line results for the MSMEs in this study. If the strategies that MSMEs are using are not yielding meaningful results, what should they do instead?

While large corporations have major consultancy firms helping them strategize how to adapt to market-level changes, MSMEs do not have readily accessible guidance on which they can rely. Based on previous work on the financial health of MSMEs, CFI hypothesizes that delivering simple, actionable guidance on which coping strategies to use and when during a crisis could be valuable for MSME owners.

There are a variety of examples of ways that governments, FSPs, and non-governmental

organizations (NGOs) could offer such a service cheaply and quickly. For instance, Financial Sector Deepening Zambia (FSDZ) partnered with Zuzu Africa to develop a program that is easily delivered through mobile phones to individuals in rural areas; the program is about half the cost of traditional financial education programs and showed good uptake and impact in a pilot program.<sup>13</sup>

Finding the business case for offering financial capability training to customers has been a challenge for many financial services providers, but COVID-19 presents a unique opportunity to reconsider many of the assumptions and incentives that have underpinned those challenges. As detailed in CFI's MSME Financial Health Framework, financial capability is an important determinant of MSMEs' financial health, and CFI's hypothesis is that customers that are more financially healthy are better customers for FSPs. The data makes clear that MSMEs are not financially healthy currently, and the more of them that fail or permanently reduce operations because of the pandemic, the more FSPs will be harmed, which will make it harder for them to recover from the pandemic. Helping their customers pivot and adapt is as important for the FSPs as it is for the MSME owners.





## Conclusion

CFT's data makes clear the need for immediate action to support MSMEs. Short- and medium-term measures led by financial regulators and FSPs like moratoria and loan restructuring can help certain MSMEs meet their basic needs, but they do not work equally well for all clients. Consequently, extraordinary fiscal measures by governments are necessary to get MSMEs—which employ 7 out of 10 people in developing countries according to the International Labor Organization—help now.<sup>14</sup>

Looking ahead, it is clear some businesses will thrive during the pandemic; others will pivot their operations. Some will close their doors permanently and their owners will look to new ventures. Governments, regulators, and FSPs need to evaluate the needs of these different businesses carefully to provide the most effective

response. To understand those needs, these actors need to keep lines of communication open with customers, and many institutions are transitioning to digital channels to do that. Data initiatives like this one are also important in getting detailed information on MSMEs' financial health to decision makers.

As FSPs collect information, they need to prepare to reimagine their products and services, inject fresh capital to MSMEs during the post-pandemic recovery, and offer guidance to MSMEs on how to best cope with the lingering effects of the crisis. This is not something that they will be able to do alone. Regulators will need to continue to adapt and extend their guidance to offer institutions maximum flexibility. It would also behoove FSPs to partner with NGOs and other service providers to offer a suite of value-added service to their clients.



## Notes

- 1** The methodology for CFI's MSME surveys can be found on our website at <https://www.centerforfinancialinclusion.org/covid>.
- 2** Firm size is based on the largest number of employees—full-time, part-time, and seasonal—that an MSME employed in the 12 months preceding COVID-19. Family members are included if they were paid a wage. Thresholds are: Sole Proprietor: No recorded employees; Micro: 1 to 10 employees; Small: 11 to 50 employees; and Medium: 50 to 250 employees. These thresholds are adapted from the [IFC definition](#) of MSME segments.
- 3** The number of employees is based on the largest number of employees—full-time, part-time, and seasonal—that an MSME employed in the 12 months preceding COVID-19. Total employment after COVID-19 included full-time, part-time, and seasonal employees at the time of the survey. Family members are included if they were paid a wage.
- 4** See <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11316.pdf> for an overview of these programs. Bastagli, Francesca, Jessica Hagen-Zanker, Luke Harman, Valentina Barca, Georgina Sturge, Tanja Schmidt, and Luca Pellerano. "Cash Transfers: what does the evidence say? A rigorous review of programme impact and of the role of design and implementation features." ODI, July 2016. <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11316.pdf>.
- 5** See for a description of cash transfer programs during the pandemic. Michaels, Loretta, "Rapid Response for Social Payments During COVID-19." Center for Financial Inclusion, December 2020. <https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2020/12/Rapid-Response-for-Social-Payments-During-COVID-19-Center-for-Financial-Inclusion-Policy-Brief.pdf>.
- 6** "Map of SME-Support Measures in Response to COVID-19." World Bank. April 14, 2020. <https://www.worldbank.org/en/data/interactive/2020/04/14/map-of-sme-support-measures-in-response-to-covid-19>.
- 7** "Coronavirus (COVID-19): SME Policy Responses." OECD. July 15, 2020. <https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101>.
- 8** "Brazil: Government and institution measures in response to COVID-19." KPMG. September 9, 2020. <https://home.kpmg/xx/en/home/insights/2020/04/brazil-government-and-institution-measures-in-response-to-covid.html>.
- 9** CFI's data has not shown significant differences between industries, but this is likely a reflection of the relatively narrow geographic areas and smaller sample sizes.
- 10** See Barrès, Isabelle. "Are Moratoriums Good for Clients?" Center for Financial Inclusion. June 23, 2020. <https://www.centerforfinancialinclusion.org/are-moratoriums-good-for-clients>.
- 11** Simon, Andrée. "How a Microfinance Network Has Changed Customer and Staff Engagement During COVID-19." Center for Financial Inclusion. April 15, 2020. <https://www.centerforfinancialinclusion.org/how-a-microfinance-network-has-changed-customer-and-staff-engagement-during-covid-19>.
- 12** Zetterli, Peter. "Four Ways Microfinance Institutions Are Responding to COVID-19." CGAP. August 13, 2020. <https://www.cgap.org/blog/four-ways-microfinance-institutions-are-responding-covid-19>.
- 13** "Leveraging Digital Financial Education for Financial Inclusion." FSD Zambia. April 29, 2020. <https://www.fsdzambia.org/publication/leveraging-digital-financial-education-for-financial-inclusion/>.
- 14** "Small businesses and self-employed provide most jobs worldwide, new ILO report says." International Labour Organization. October 10, 2019. [https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS\\_723409/lang-en/index.htm](https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_723409/lang-en/index.htm).

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