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Authors

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# Preparing MSMEs for Future Crises: Lessons From COVID-19

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## Acknowledgements

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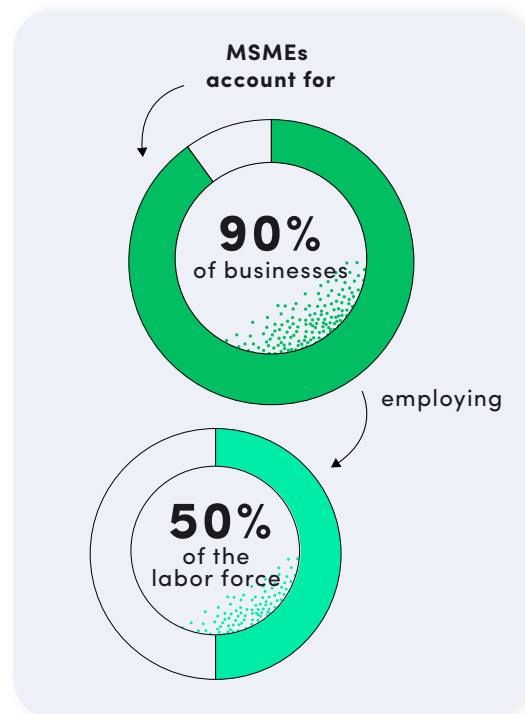
# Introduction

Micro, small, and medium enterprises (MSMEs) are the backbone of the economy, accounting for about 90 percent of businesses and employing more than 50 percent of the labor force in some markets.<sup>1</sup> The COVID-19 pandemic revealed the fragility of these important businesses and the ensuing impact on the employees and households that rely on them.

CFI conducted surveys of MSME owners in four countries — Colombia, India, Indonesia, and Nigeria — every two months over a 12-month period during 2020 and 2021 to understand the impact of the pandemic on their businesses and households. The surveys revealed a devastating initial blow and a long, ongoing process of recovery. In the early months of the pandemic, 15 percent of businesses in our sample closed operations, primarily due to government-imposed movement restrictions and declining customer demand. Businesses that were able to stay open struggled; 22 percent of open businesses faced declining profits and 44 percent were unable to cover expenses with business revenue. As movement restrictions eased, business performance rebounded to some extent, but many MSMEs were still recuperating from the pandemic during the final survey wave conducted around September 2021, with 26 percent reporting declining profits and 28 percent unable to cover business expenses with revenue. Throughout it all, MSME owners in our study persisted, but it has not been easy.

Leveraging survey data on over 1,600 MSMEs, collected from June 2020 to October 2021, and focus groups with 130 MSME owners in March and April 2022, this report provides insights into the experiences of MSMEs since the pandemic began. How did they navigate the challenges presented by the pandemic? What support did they have available? What lessons have they drawn from this experience to prepare for future crises? And what can inclusive finance stakeholders do to help these critical businesses recover from the pandemic,

build resilience, improve stability, and, ultimately, prosper and grow? This report sheds light on these questions and draws attention to the needs of MSMEs as they prepare for an ongoing period of economic instability.





# Financial Health of MSMEs: A Guiding Framework

Financial health, as defined by a working group convened by the United Nations Secretary General's Special Advocate (UNSGSA) for Financial Inclusion, is “the extent to which a person or family can smoothly manage their current financial obligations and have confidence in their financial future.”<sup>11</sup>

In 2019, CFI adapted the concept of financial health, typically used to measure the financial well-being of individuals, for MSMEs. The resulting definition of financially healthy MSMEs is that they “have the practices and/or resources to manage economic shocks and return to at least a break-even point.” CFI designed a Financial Health of MSMEs Framework based on evidence pointing to the most impactful drivers of MSME performance. The Framework is organized into two sets of drivers:

(1) individual factors that are unique to each MSME; and (2) contextual factors that help explain differences between groups.<sup>12</sup> Individual factors include traits that are inherent to an individual, such as entrepreneurial psychology; are learned by individuals, such as financial and business capability; and that enable access to and usage of financial products and tools. Contextual factors include the sociopolitical context and overall economic ecosystem within which the MSME operates, and other sociodemographic factors, such as gender and religion, which are influential in determining access to opportunities and outcomes for groups of individuals. CFI developed an accompanying survey tool to measure the financial health of MSMEs using the Framework. See Figure 1 for more information on the Framework.



FIGURE 1

Financial Health of MSMEs Framework

## Financial Health of MSMEs Framework

### OUTCOME: FINANCIAL HEALTH



Financially healthy MSMEs have the practices and/or resources to manage economic shocks and return to at least a break-even point.

#### 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.

### INDIVIDUAL FACTORS that influence Financial Health



These factors are unique to each individual and help to explain variation among MSME owners within a group with the same contextual 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 and Business Capability

Financial and business capabilities are strongly correlated with business outcomes.

#### Financial Product and Tools

Entrepreneurs use formal and informal financial products and tools to manage their cash flow, plan for the future, and respond to shocks.

### CONTEXTUAL FACTORS that influence Financial Health



These factors are the formal and informal rules that govern interactions between people and between an individual around their environment and community. These factors influence how MSME owners can respond to situations.

#### 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

These are rules based on sociodemographic characteristics including gender, religion, and caste.



CFI adapted a version of the Framework’s survey to conduct a longitudinal study of MSMEs in four countries – Colombia, India, Indonesia, and Nigeria – from June 2020 to October 2021 over six waves (see Table 1 below). In addition, CFI conducted focus group discussions in the same four countries plus Bolivia from March to April 2022. The primary focus of the study was to better understand the experience of MSMEs during the pandemic, and as such, the research was not designed to provide an exhaustive review of MSMEs based on the Framework. However, the results did generate many valuable findings when examined against the Framework, and highlighted the importance of three of the Framework’s

factors in determining how MSMEs navigated the COVID-19 pandemic: (1) sociodemographics and, in particular, how gender impacts the resilience of MSMEs; (2) financial and business capability; and (3) financial products and tools. While CFI tested the results for entrepreneurial psychology, we did not find a correlation between that factor and MSME performance during the pandemic. CFI did not include the sociopolitical context and economic ecosystem in our results given the widespread nature of the pandemic and its impact on the overall market in which MSMEs operate. The following sections provide insights on the three factors and the role they played in helping MSMEs navigate the pandemic.

**TABLE 1**

**Financial Health of MSMEs Framework**

Timeline	Colombia	India	Indonesia	Nigeria
<b>Wave 1</b>	August 2020	October 2020	July 2020	June 2020
<b>Wave 2</b>	December 2020	December 2020	September 2020	September 2020
<b>Wave 3</b>	February 2021	February 2021	December 2020	December 2020
<b>Wave 4</b>	April 2021	June 2021	March 2021	March 2021
<b>Wave 5</b>	July 2021	September 2021	June 2021	May 2021
<b>Wave 6</b>	September 2021	October 2021	September 2021	July 2021



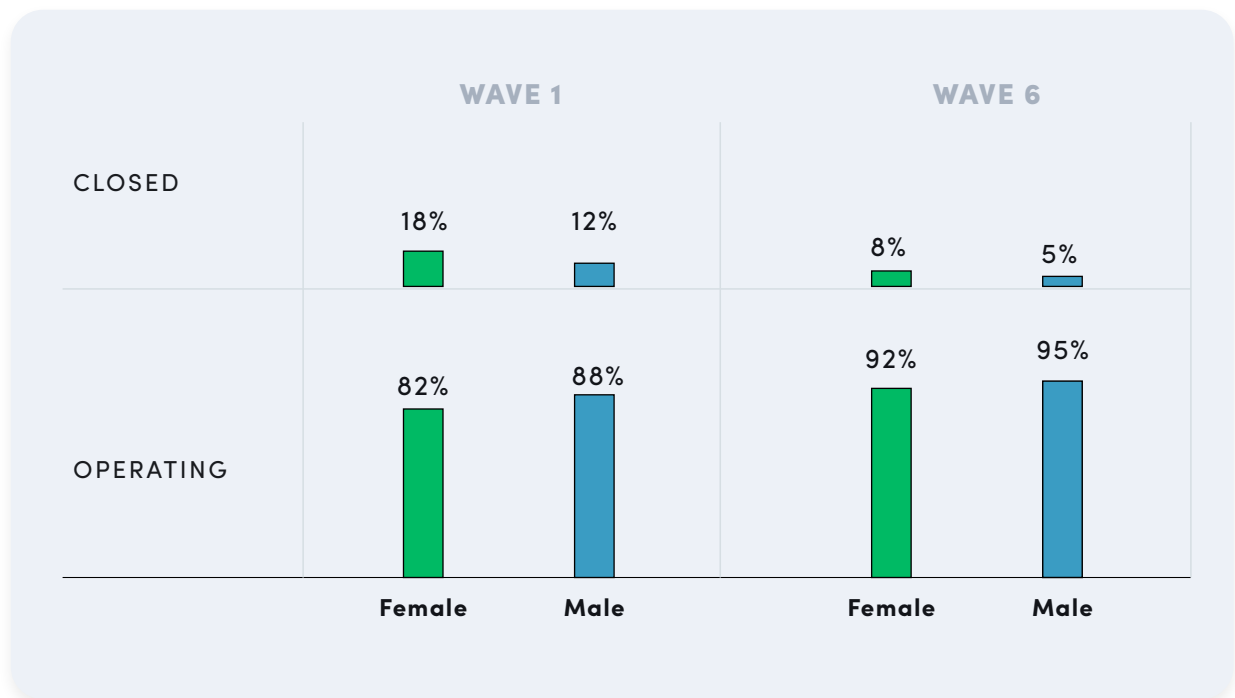


## Sociodemographics — Women MSME Owners Struggled More Than Men

CFI's analysis tested several sociodemographic variables that might contribute to the financial health of an MSME and found a significant correlation between gender of the business owner and performance. Across several dimensions, women-owned MSMEs fared worse than men-owned MSMEs; women-owned MSMEs faced higher rates of business closures, lower profit levels, and were less likely to cover business expenses with revenue than their men-owned counterparts.

FIGURE 2

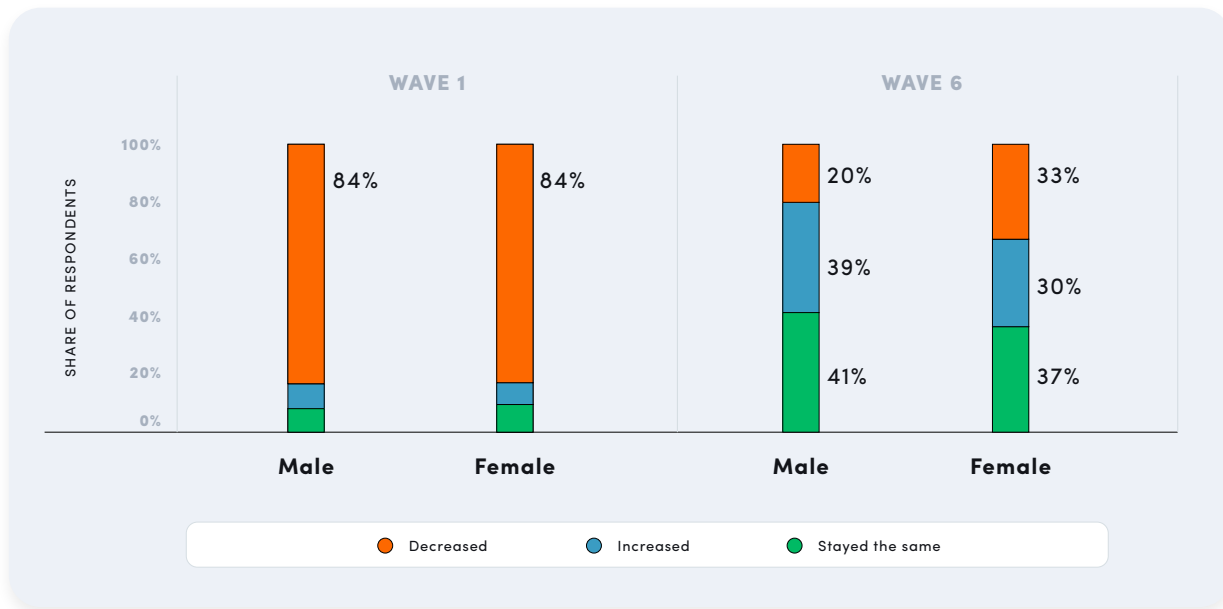
Operating Status by Wave and Gender



In wave 1, as seen in Figure 2, 18 percent of women-owned businesses closed, while 12 percent of men-owned businesses closed. By wave 6, 8 percent of women-owned businesses were still closed, while the number of men-owned businesses closed was reduced to 5 percent. For those businesses that were able to continue operating, in wave 1, there was little difference between women- and men-owned MSMEs in the ability to cover expenses with revenue, but by wave 6, 76 percent of men were able to cover expenses while 69 percent of women reported being able to do so. The result is that men-owned businesses saw overall better profit trends, with 80 percent reporting that profits stayed the same or increased, compared to 67 percent for women-owned MSMEs, as shown in Figure 3.

**FIGURE 3**

**Profit Trends by Wave and Gender**



When we probed further on these trends in focus groups, women participants noted several challenges they faced while managing their business during the pandemic. Suppliers in some instances were less willing to negotiate with women business owners. As one woman put it, she encountered suppliers who “think because you are a woman you will not be able to accomplish, you will not be able to fulfill everything you ... committed.” Other women reported discrimination when seeking a loan. As another woman explained, “The truth is, as a woman they lend me less than a man.”

While the results varied and these were not universal experiences shared across countries, one consistent theme among women in all five countries was that household needs trumped the business. Focus group participants reported routinely tapping into business funds to cover household expenses and reducing their own working hours to meet the needs of children home from school.

**■ Bolivia**

According to the owner of a craft object manufacturing business, “If you work – it is to cover the needs at home.” This was supported by the owner of a bakery in almost the same words:

“That’s what the business is for – to cover the needs at home.” The owner of a local store suggested that business funds were “like our bank.”

**■ Colombia**

“Work time was reduced a lot because the [children’s] virtual classes got us busy. There was always something ... we always had to leave work tasks aside to explain to them.”

**■ India**

“We managed it because we had to manage it, that is our work and there was no option of any other thing.”

**■ Indonesia**

“I just do what I have to do every day.”

**■ Nigeria**

“I also reduced working hours because I had to tutor my children and the man is also at home ... the man that ate two times a day began to eat three times, so I had to reduce working hours.” For the owner of a bag manufacturing firm, the situation was even more dire: “I had to close my business because I





spent the business money on food during COVID, so afterwards I had to take [a] loan from [my] bank to start again.”

The dual responsibility of women to both their businesses and their households helps explain why women-owned businesses suffered more throughout the pandemic. In the initial months, women took on the role of primary caretaker for children who were not in school. They cooked multiple meals daily for the entire family, who were now all home rather than at work and school during the day. And they tapped into the coffers of their businesses to cover the additional expenses.

The results suggest that MSME initiatives must seek to really understand the social norms influencing women business owners and how they impact their ability to succeed. With better knowledge and understanding of social norms, we can do more to address systemic barriers to support women business owners.



## Financial and Business Capability – Positive Association Between Capability and Business Outcomes

CFI's Financial Health of MSMEs Framework and survey take a behavioral approach to assessing financial and business capability. The survey questions seek to understand how capability informs actions rather than test for raw knowledge. By forming an index based on a set of 15 questions about financial and business capability, our survey data found a statistically significant relationship between scoring high on the financial and business capability index and the ability to cover business expenses. The analysis finds, however, that financial and business capability explains less than 10 percent of the ability to cover expenses. So, while financial and business capability was associated with better outcomes, it was not the leading determinant in the performance of MSMEs in our study. That said, it was the only factor determined to be statistically significant, and no single factor was determined to be a dominant driver of success.

Financial and business capability manifested in the range of approaches business owners deployed to adapt to the rapidly changing conditions. Rather than wait for the conditions to change, business owners with financial and business capability used a range of coping mechanisms to quickly adapt their activities to adjust for the circumstances. For example, in the first wave of surveys, one-third of MSMEs opted to sell assets when they struggled to maintain liquidity. Almost half offered discounts in the first wave, and one-third started providing credit to customers. The surveys showed a wide range of approaches that varied across countries and waves, demonstrating that business owners would try one approach and then shift to others as needed. The ability to adapt quickly became a necessity during the pandemic, and the business owners who were able to do so were more successful than those who could not.

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### Common Approaches Deployed by MSMEs to Cope and Adapt

Focus group participants also spoke to a range of practices, with the following four approaches emerging as the most cited by business owners as they navigated the last two years.

#### ■ Shift inventory and inputs approach

The pandemic disrupted global supply chains, making some inputs and inventory difficult to access. On the other hand, liquidity pressures meant that MSME owners only wanted to purchase what they knew they could sell. As explained by a participant in Nigeria, “Before, we could come across something that a client has not requested ... [and] still purchase it with the hopes of selling it in the future. But now, before we buy something we make sure people are demanding for it, that’s how much it really affected us.”

To adapt, some business owners spent more time shopping around for the best prices. They tapped social networks to expand their supplier relationships and find the best deals. In Bolivia, participants reported buying in bulk to accumulate goods when they were available and to get a better price. In Indonesia, some businesses began only making products when they had an active order. This allowed them to avoid having liquidity tied up in their inventory.

For many respondents, actively managing inventory to such a degree was a new way of doing business, and now is likely to remain in place for the near-term as supply chain issues and fluctuations in demand continue to present challenges.

### ■ Introduce delivery

Delivery was one of the most common business adaptations reported both in the surveys and focus groups. “One of the things that has ... been a boon, especially in the food business, is delivery. The price of motorcycles has risen. Last time I bought motorcycles ... the price was double precisely because everything was being delivered.”

Delivery was a necessity in the early days of the pandemic due to social distancing requirements, but many business owners began to see that it opened opportunities for their business in unexpected ways. In Colombia, one business owner saw how delivery expanded their customer base. “We began to make ourselves known more and to leave the circle in which we were, which is very closed and many times it was limited to our acquaintances or at most, people from the neighborhood. So, it was a good opportunity.”

But delivery came with costs as well. Many business owners, desperate for sales, absorbed the cost of delivery or charged only a small fee. As fuel costs increased, business owners incurred additional costs either directly when making a delivery themselves, or due to the increased cost of taxis and courier services. Despite these expenses, our surveys showed that MSMEs offering delivery were more likely to have increasing or stable profits, and many focus group participants suggested that delivery would continue to play a role in their business.

### ■ Begin marketing on social media

With foot traffic essentially nonexistent in the



early days of the pandemic, many business owners turned to social media to market their products and services. As the owner of an electronics shop in Colombia explained, “The [pandemic] forced me [to use social media] because how else could we communicate with the rest of the world? It was the only way.”

One woman in Nigeria noted, “[Social media] makes your sales vast, everybody sees it, especially when you use sponsored ads. It can reach 10,000 people. The more you put money into it, the more people you reach.” In Bolivia, participants reported that marketing on digital platforms resulted in 20 to 50 percent increases in sales.

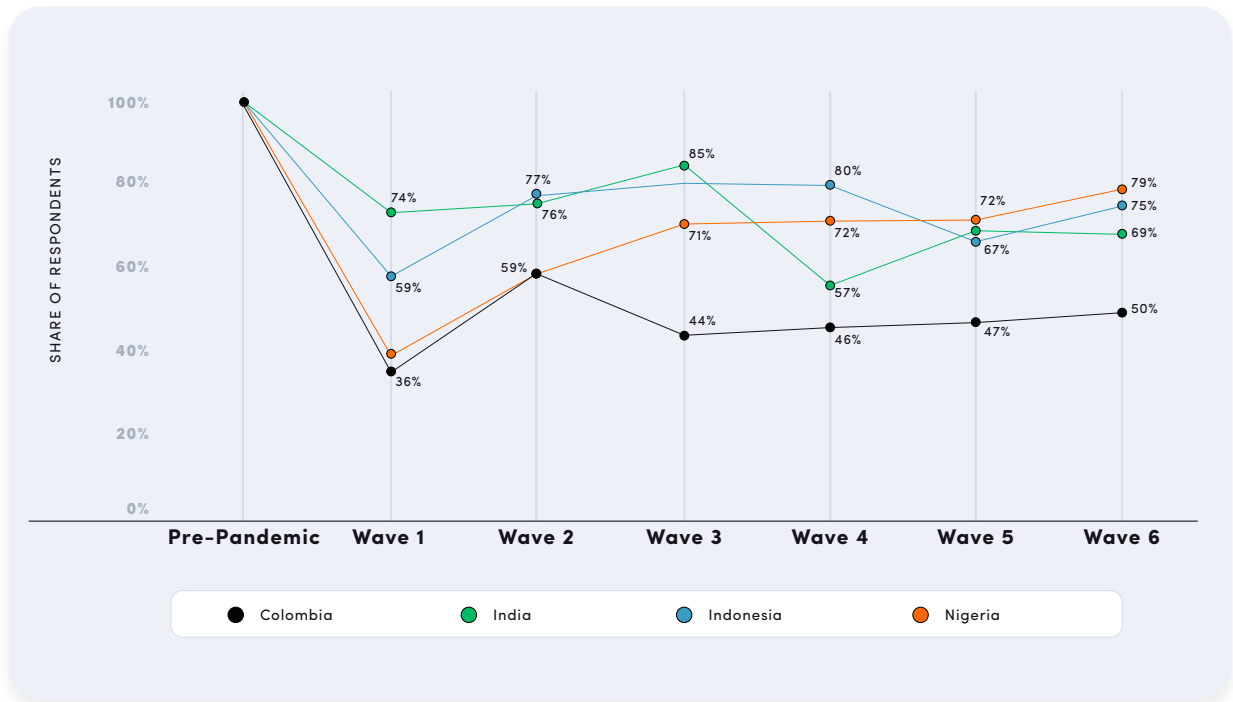
While marketing on Facebook, Instagram, and WhatsApp was common among focus group participants, few were using platforms to directly sell or conduct digital financial transactions with customers. Our surveys found that just 12 percent of respondents were selling on digital platforms, and many of these business owners reported inconsistent use of digital platforms across survey waves. While COVID-19 brought about a global wave of digital adoption, MSMEs have yet to fully capitalize on this trend. Further details on these findings will be shared in a forthcoming CFI brief.

## Reduce permanent employees

Our surveys found that laying off employees was a common coping strategy across all countries. Even by the final wave of surveys in Q3 2021, employment levels remained below pre-pandemic levels, ranging from just 50 percent in Colombia to 79 percent in Nigeria. In Nigeria, men-owned businesses had increased to 90 percent of pre-pandemic employment levels, compared to 64 percent for women-owned businesses.

FIGURE 4

MSME Employment Levels



Focus group participants explained these changes in several ways. In Colombia, one participant noted that they had closed a business that employed several people and now are focused on a business that only employs family members. In Bolivia, one respondent reported that they tried to keep employees for as long as possible, but eventually they laid off their employees out of a fear of getting into trouble with labor laws if they were unable to pay full salaries and holiday bonuses. In Indonesia, business owners reported assuming more duties themselves after laying off employees, which was beginning to take a toll on them.

Across the focus groups, many business owners reported that they intended to keep operating with fewer employees for the time being. None of the focus group participants connected lower levels of employees with increased use of digital tools, which could automate certain functions or improve efficiencies and reduce the need for as many employees. Instead, many business owners spoke about the stress of having to lay off long-term employees, suggesting that they may be waiting until their business is in a more stable position before hiring again. Regardless, businesses in our sample that remained open are employing fewer people in the wake of the pandemic and the future remains uncertain for those who rely on employment by MSMEs.



## Financial Products and Tools – MSME Owners Used a Variety of Financial Services but Many Needs Remained Unmet

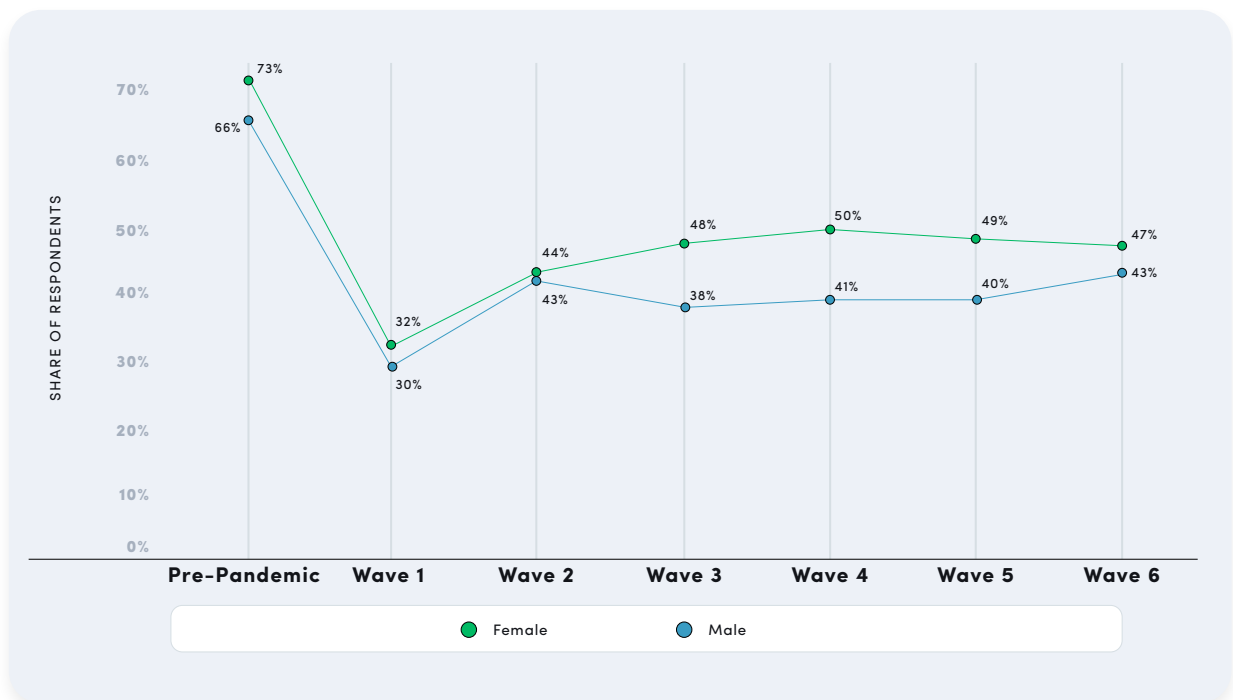
Financial products and tools – savings, credit, insurance, and government programs – support MSMEs in managing the day-to-day operations of their businesses and planning for the future. As the pandemic unfolded, MSME owners used a variety of products and tools to manage their needs and continuously changing circumstances. However, many business owners' needs were still unmet and more should be done to support business owners to build resilience and grow.

### ■ Savings

When COVID initially hit, the number of respondents who reported being able to save dropped dramatically in all four countries. While 73 percent of women and 66 percent of men reported saving before the pandemic, by the first wave, only 32 percent of women and 30 percent of men reported saving. As time went on, more respondents reported being able to save, with women consistently more likely to report saving than men – by wave 6, 47 percent of women reported saving and 43 percent of men. However, neither men nor women returned to pre-pandemic saving levels. As discussed earlier, women business owners often carry responsibility for both their business and household finances. Their savings behavior likely reflects the need to save anything available to them due to their dual obligations.

FIGURE 5

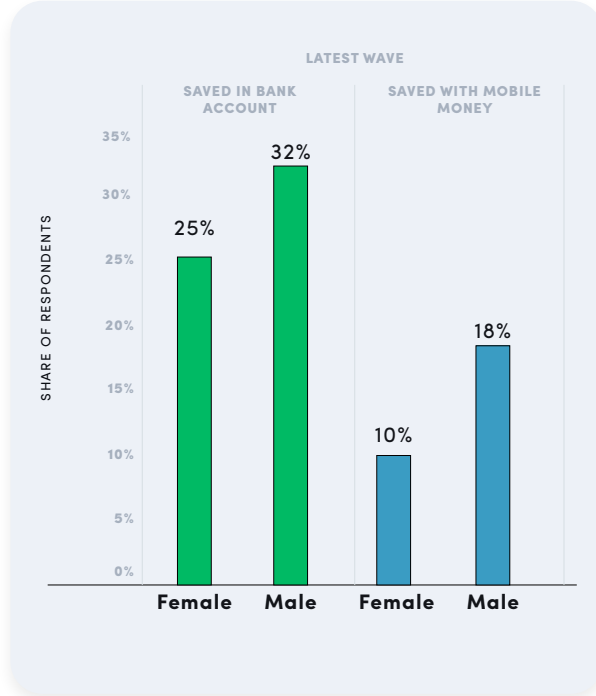
Savings Activity by Gender



When asked about where they save, men were more likely to save in a bank account or mobile money account and women were more likely to save informally.

**FIGURE 6**

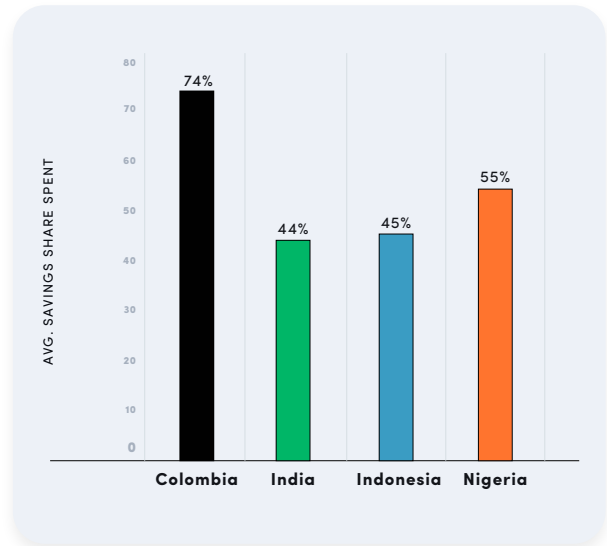
**Formal Savings Instrument by Gender, Wave 6**



However, although respondents reported an increase in their ability to save as time went on, by wave 6, they reported that they had depleted large amounts of their savings since the pandemic began. Respondents used savings to cover business and household expenses in light of decreased and unpredictable revenues. With many businesses still not able to cover expenses with revenue, many MSME owners will likely find it challenging to rebuild savings balances for some time.

**FIGURE 7**

**Share of Savings Spent, Wave 6**

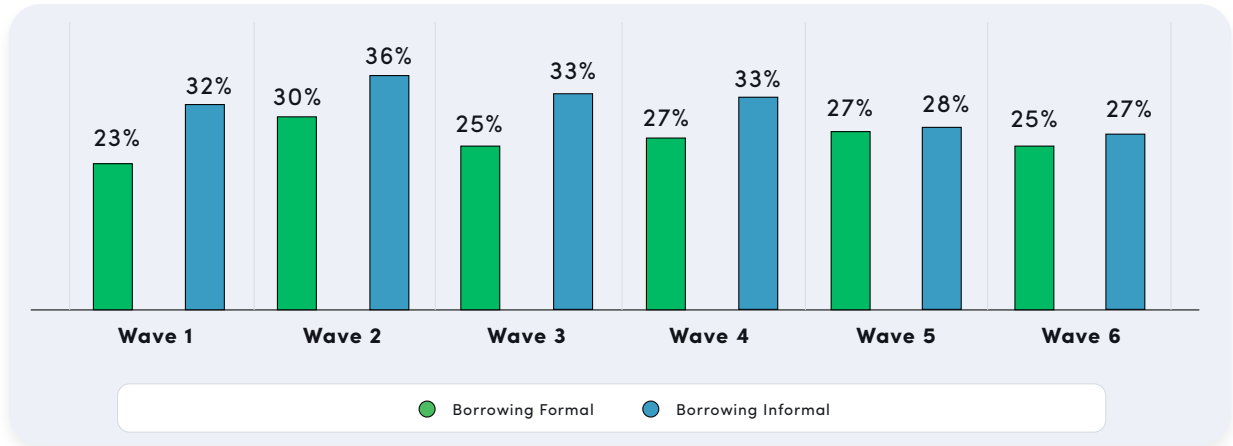


### Credit

As savings were depleted, MSME owners increasingly turned to credit. In the early days of the pandemic, informal credit options, such as friends and family or moneylenders, were more prominent than formal credit sources, such as banks and microfinance institutions. This may be explained by the widespread use of moratoria placed on formal credit sources in 2020 which limited the disbursement of new loans. Our data also showed that business owners with declining profits were more likely to prefer informal loans, perhaps due to their inability to secure a formal loan. Over time, borrowing from informal sources reduced, and by wave 6, a similar share of respondents reported having taken a loan from informal and formal sources.

**FIGURE 8**

**Informal and Formal Borrowing by Wave**



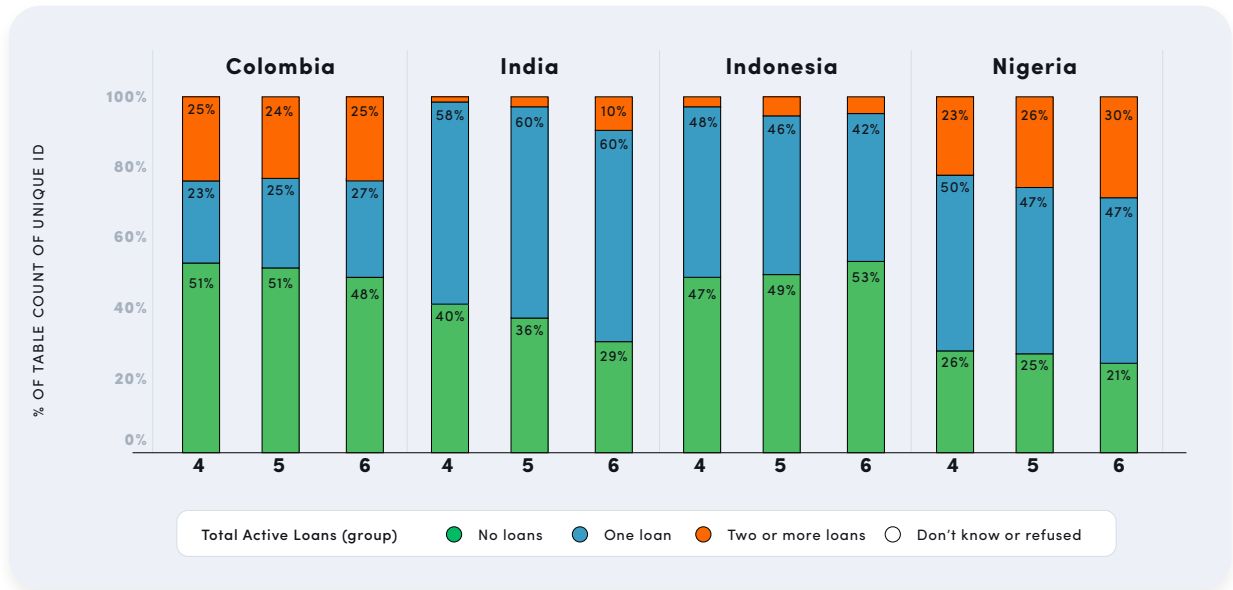
Focus group participants generally preferred accessing credit from formal sources, when available, over friends and family. While friends and family loans were reported to be more convenient for small, short-term loans, they also come with complications. People spoke about loans creating problems in their relationships, feeling ashamed if they are not able to repay, and general reputational issues of needing to borrow in the first place. That said, if an immediate opportunity or need presents itself, MSMEs are more likely to

turn to informal borrowing because of the rapid access to funds and lack of documentation required. As one participant in Bolivia put it, “In a moment of an emergency, [banks] do not support us ... the bank didn’t have [loans].”

While survey data showed that most respondents had at least one loan,<sup>1</sup> and roughly 50 percent had two or more loans in Indonesia and Colombia, focus group participants expressed strong concerns about debt.

**FIGURE 9**

**Number of Active Loans by Country and Wave**



1 This is likely a sampling bias as the sample was obtained via a financial service provider in each country.

In Indonesia, one respondent discussed fear of being in a cycle of debt: “When I have not enough money to pay [my loan], I will seek another from another financial institution, which becomes a never-ending loop.” A participant in Colombia preferred to avoid credit in the first place, noting, “If you start to ask for a loan, then the profits go away paying interest, so I prefer to produce a little less but manage my own investment capital.”

A participant in Bolivia had a different perspective: “I have always worked with a bank and I am also grateful because it motivates you and pressures you. I mean, they keep you awake at night.” While having an outstanding loan can be stressful, in this case, the added pressure motivated the business owner to improve performance to repay the loan.

While access to short-term, consumer credit from formal sources has increased over the years with the growth of digital lenders,<sup>v</sup> business owners still fail to meet their short-term capital requirements. With the shifting approaches to inventory control mentioned earlier, the financing needs for MSMEs may likewise be shifting. Rather than a longer-term working capital loan, a classic product offered by most microfinance institutions, more MSMEs may begin requiring just-in-time financing to purchase inventory for a specific order which could then be repaid as soon as the order is fulfilled. Research conducted by Accion demonstrates the potential value of supply chain financing as another approach to addressing the short-term, ongoing capital needs of MSMEs.<sup>vi</sup>

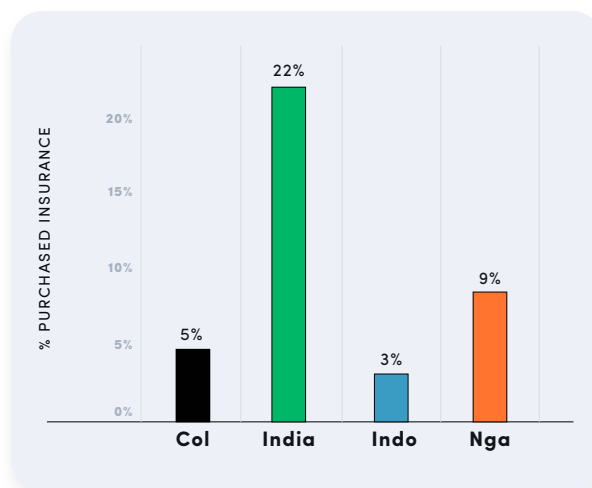
Central to both approaches is the use of digital platforms to establish credit history, assess creditworthiness, and facilitate rapid payments. Our surveys found that respondents overwhelmingly conduct business in cash, and more work is needed to continue building digital capability among MSMEs and designing digital products that meet their needs, while also safeguarding against potential risks.<sup>2</sup>

## Insurance

MSMEs in our sample reported low levels of insurance coverage, ranging from 3 percent in Indonesia to 22 percent in India prior to the pandemic. Reasons cited for not having insurance include cost, use of savings as a safety net instead of insurance, lack of available options, ineligibility, or MSME owners were simply unaware.

FIGURE 10

Percent of MSMEs With Insurance Prior to the Pandemic



Additionally, focus groups confirmed a low level of knowledge about insurance. In Bolivia and India, some participants mentioned that they had secured insurance for their business as a requirement for a loan. Participants in Bolivia, Colombia, and Nigeria all expressed interest in insurance policies that could protect them from losses due to theft and accidents. In Indonesia, participants cited cultural and religious reasons for not having insurance. One respondent stated, “The proof is that when I went bankrupt, I could back my business again without insurance. So, I leave everything to Allah.”

In many survey group sessions, participants referenced anecdotes of bad experiences with insurance to explain their lack of interest in insurance. For example, one participant in Bolivia explained, “A cousin had a car and I left it just for a little moment on the street, and the engine control unit was stolen. The car no longer worked [and] my cousin had to pay to continue the process [to collect the insurance]. That insurance is pure noise and not a real thing.”

However, despite the overwhelming skepticism among focus group participants in all five countries, many participants cited insurance as an important product to consider in preparation for future crises. As one participant in India explained, if they have insurance, “We will have a security that if anything like [COVID-19] happens ... we will get money from the insurance. We will get support and help.”

2 Digital adoption by MSMEs will be discussed in further detail in a forthcoming CFI brief.



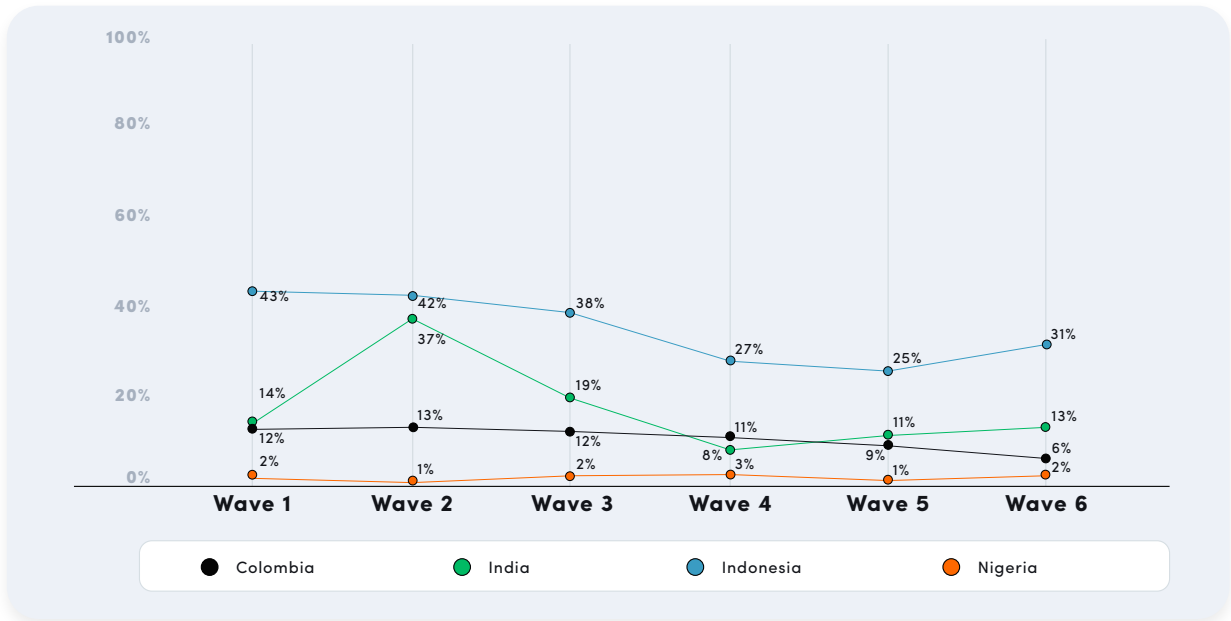
## Government Support

Since the pandemic began, an unprecedented 203 countries have implemented 962 cash transfer measures.<sup>vii</sup> In addition to household cash transfers, other modes of support deployed for MSMEs included grants, subsidized loans, debt moratoria, wage subsidies, food subsidies, deferred taxes and social security contributions for employees, vocational training, and more.<sup>viii</sup>

Our survey found that a relatively low number of respondents received government cash transfer payments, with Indonesia and India reporting higher numbers than Nigeria and Colombia.

FIGURE 11

Recipients of Government Cash Transfers by Country and Wave

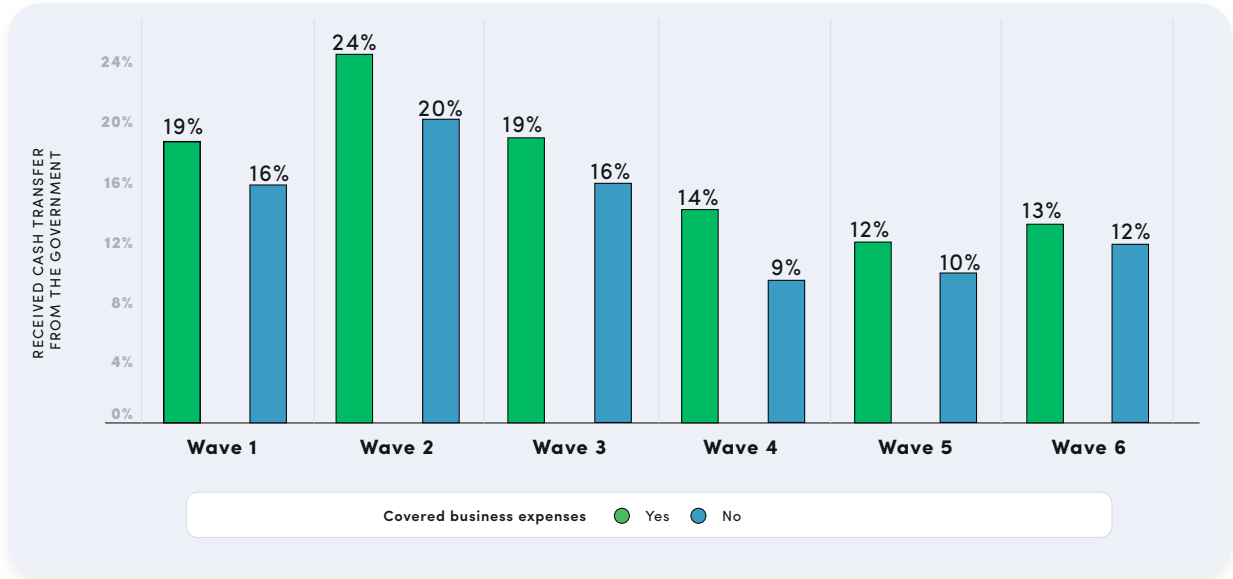


Analysis shows, however, that those who received a cash transfer in wave 1 were more likely to be able to cover expenses in subsequent waves. Due to the interconnected finances of households and MSMEs, it appears that when a household received government support, the business owner was able to divert fewer



**FIGURE 12**

**Recipients of Government Cash Transfers and Their Ability to Cover Business Expenses by Wave**

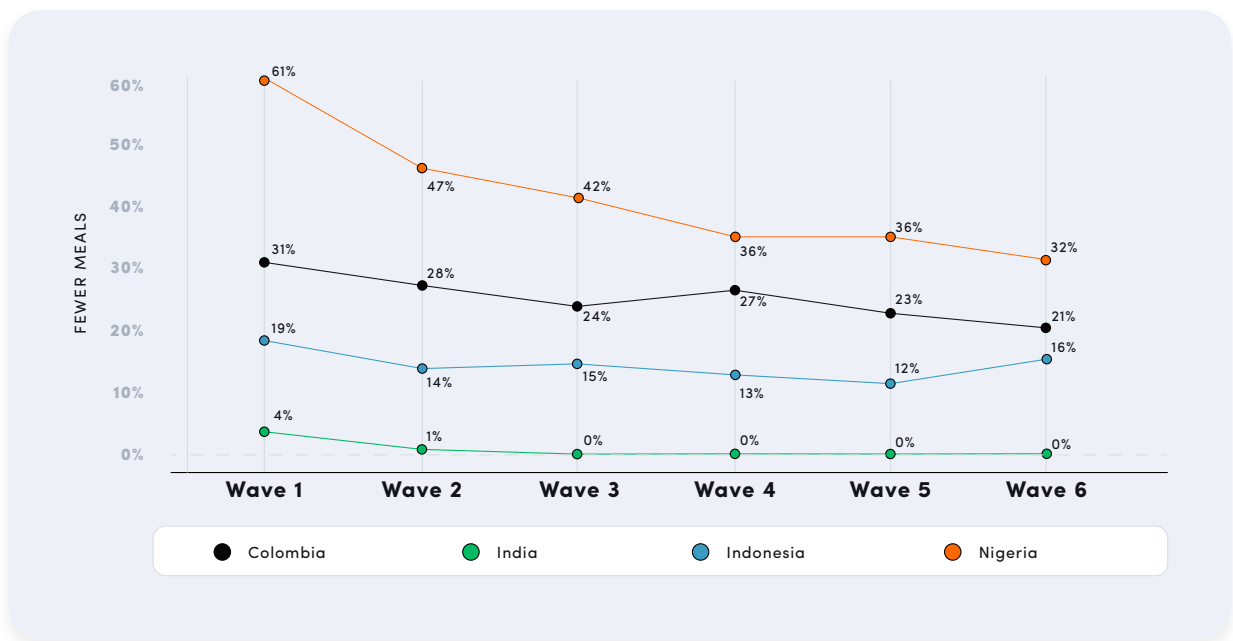


resources to the household.

In India, the most common form of government support was food rations, which resulted in lower levels of household food insecurity relative to the other countries in our sample. Nigeria reported the highest levels of food insecurity, but saw a steady improvement throughout the survey period, while Indonesia remained

**FIGURE 13**

**Percent of Respondents With One Household Member Eating Fewer Meals**



relatively consistent and saw a small uptick in food insecurity in the final wave.

The focus groups revealed mixed experiences with government programs. In Bolivia, participants spoke positively about the ease of government support at the household level, which was described as “a great help” by one participant. Funds were distributed directly to bank accounts or could be withdrawn from any financial institution, making it very easy for recipients to collect. But when it came to business support initiatives, the experience was much less positive. For example, one participant spoke about a tax deferral program which was intended to help ease the burden for MSMEs, but when the deferral period ended, payment was expected in full. “We had been paying in a payment plan [but] later they asked us for the total, so basically, the government did not give us help there.”

Focus groups in Colombia, Indonesia, and Nigeria reported similarly negative experiences with government programs aimed at MSMEs. For some, there was confusion about eligibility, with several participants expressing that they were not eligible due to their businesses’ informal status. One participant commented, “For small merchants or informal merchants, no type of support was generated.”

In Indonesia, the government disbursed grants to 12 million MSMEs under the Presidential Assistance (Banpres) Productive Micro Business (BPUM) program,<sup>18</sup> though none of our focus group participants reported receiving a grant through this program. The BPUM program was rolled out in four waves, with recipients for the first two waves selected at random and the subsequent waves only available to those who had previously received a grant. This created frustration among participants. One respondent stated, “I had never received anything on the previous ones. I was annoyed.”

Among our sample, Nigeria had the lowest level of survey respondents who reported receiving a government cash transfer, and respondents in Nigeria also reported the highest levels of food insecurity. The focus groups confirmed that the MSME owners felt largely unsupported by the government: “Government left us to our fate, it was like an orphanage with no director.” The World Bank cites several cash transfer programs in Nigeria that targeted 3 million people, yet these programs were insufficient to reach the estimated 82.9



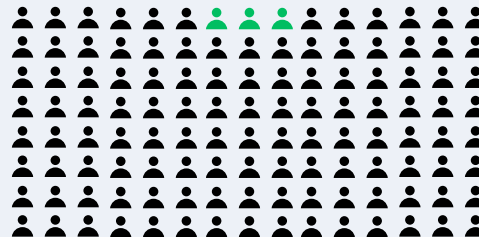
The World Bank cites several cash transfer programs in Nigeria that targeted

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people living in poverty in Nigeria



million people living in poverty in Nigeria.\*

While many governments went to extraordinary measures<sup>19</sup> to support low-income and vulnerable populations during the pandemic, more action will be needed to support MSMEs in future crises.



# Looking Ahead

CFI's Financial Health of MSMEs Framework defines two outcomes for a financially healthy enterprise: profit and resilience. By this definition, many MSMEs, especially women-owned MSMEs, in our sample were not yet financially healthy when our surveys concluded in September and October 2021. Savings had been depleted and revenue was insufficient to cover expenses.

Yet when asked how they felt about the future, many focus group respondents reported feeling optimistic. While uncertainties remain around inflation, supply chain issues, conflict, food shortages, climate crises, political upheaval, and more, MSMEs expressed optimism at having thus far survived what had appeared to be an insurmountable crisis in the first half of 2020.

MSMEs demonstrated incredible capability and tenacity by rapidly shifting to new business lines, adapting new modes of operating, and generally doing whatever was needed to continue supporting their families. Reflecting on these experiences, our research identified three priorities to improve MSME resilience for future crises, as well as opportunities that go beyond resilience to help businesses achieve stability and eventually grow and prosper:

## ■ 1. Improve effectiveness of government support schemes to better assist MSMEs in future crises.

Governments and aid agencies responded to COVID-19 in unprecedented ways, launching a variety of measures aimed at softening the crisis for low-income and vulnerable populations as well as MSMEs. The MSMEs in our study, however, were largely excluded from such programs and did not receive much-needed support. Those who did receive cash assistance early on were more likely to be able to cover business expenses by the end of the survey period. CFI's surveys did not collect data on the government support schemes for MSMEs

beyond cash transfers, but focus groups indicated overall negative experiences with government programs and frustration that governments had not done more to help small businesses.

More research is needed to better understand the experiences with and outcomes of a range of support programs governments deployed to support small businesses, including employee retention schemes, tax and social security contribution deferrals, grants, subsidized loans, and more. A study on policy measures to support MSEs in Latin America found, for example, that targeting of MSMEs was too narrow and left out too many businesses to have the intended impact.<sup>xii</sup> Governments can leverage these lessons to prepare now for future crises by better understanding effective approaches to targeting and assisting MSMEs.

## ■ 2. Expand access to credit for MSMEs by offering products tailored to their needs.

MSMEs in our sample borrowed from a range of sources — formal and informal — to meet their needs during the pandemic. While focus groups expressed a preference for borrowing from formal institutions, many found that formal loans were unavailable when needed and resorted to friends and family or moneylenders. Informal borrowing can be convenient, fast, and flexible, but also comes without any safeguards or protections. Some focus group participants, for example, noted that informal lenders often demand payment before the agreed-upon schedule, creating added stress for the borrower.

Financial service providers (FSPs) must do more to understand the financial needs of MSMEs, taking into account that MSMEs are not a monolith and that segmentation is key.<sup>xiii</sup> Providers should consider how to meet MSMEs where they are — with short- and long-term products that consider small businesses' cash flows and



capital needs, transacting on the platforms where MSMEs increasingly do business and supporting them during times of crisis. Some focus group participants spoke highly of the flexibility and restructuring programs offered to them by their FSP, as well as the other forms of support, such as food baskets or health information. And as relationships between customer and FSP shift to digital, customer care and product design continue to matter.

### ■ 3. Support the digital adoption of MSMEs, especially for women.

When asked about how they are preparing for the future, many focus group participants spoke about the critical role they see for digital tools going forward. While few survey or focus group participants were selling goods on digital platforms, marketing on social media platforms was commonplace and respondents were interested in other ways of using digital platforms to support their businesses. Transitioning from social commerce to ecommerce is a multifaceted process and one that many MSME owners are not likely to make on their own. One participant noted the extensive support they had received from an FSP, explaining, “Banco Sol offered us to create a web

page, online store, a website where you could offer your products. They have paid the hosting for a year ... I went to lessons, I did everything that they requested from me, and it’s been great.” For women in particular, this type of handholding to build awareness, skills, and confidence to use digital services is critical.<sup>xiv</sup>

Such extensive support can help MSME owners overcome the initial cost and capability obstacles of digital adoption, but more research is needed to understand which approaches are most effective for various segments and the costs and benefits of digital adoption for MSMEs, FSPs, and platforms. The results could be used to better tailor support.

While the pandemic dealt a devastating blow to MSMEs around the world, the lessons we draw from this experience can help these businesses and those who support and partner with them to better prepare for and respond to future shocks. As one focus group participant from Bolivia explained, “It is obvious that we should all be optimistic and think that tomorrow is going to be better. That’s a quality we have as microentrepreneurs, to be optimistic.”



# Annex A: Survey Sample Overview

## Sample Size

Observations	Colombia	India	Indonesia	Nigeria	Total
Wave 1	801	601	730	736	2,868
Wave 2	399	400	409	400	1,608
Wave 3	400	401	407	400	1,608
Wave 4	400	400	411	400	1,611
Wave 5	400	400	400	400	1,600
Wave 6	400	401	400	400	1,601
<b>Grand Total</b>	<b>2,800</b>	<b>2,603</b>	<b>2,757</b>	<b>2,736</b>	<b>10,896</b>
<b>Freq = 6</b>	<b>332</b>	<b>160</b>	<b>247</b>	<b>220</b>	<b>959</b>

## Gender

Observations	Colombia	India	Indonesia	Nigeria	Total
<b>Female</b>	41.5% 332	17% 101	90% 660	56% 409	52% 1502
<b>Male</b>	58.5% 468	83% 500	10% 70	44% 26	48% 1364
<b>Non-binary/ Prefer not to say</b>	0.1% 1			0.1% 1	0% 2

## Age

Age Group	Colombia	India	Indonesia	Nigeria	Total
<b>18-25 years</b>	6%	8%	5%	1%	5%
<b>26-35 years</b>	32%	45%	26%	18%	30%
<b>36-45 years</b>	35%	33%	39%	45%	38%
<b>46-55 years</b>	20%	12%	24%	26%	21%
<b>56-65 years</b>	6%	1%	7%	8%	6%
<b>66 years +</b>	1%		0%	1%	1%
<b>NA/Refused</b>	0%			1%	0%
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### Business Size

Business Size	Colombia	India	Indonesia	Nigeria	Total
<b>Sole Proprietor</b>	18% 147	24% 146	67% 487	24% 178	33% 958
<b>Small</b>	75% 599	73% 439	32% 232	67% 492	61% 1,762
<b>Medium/Large</b>	7% 53	3% 16	1% 10	9% 63	5% 142
<b>Small</b>	0% 2		0% 1	0% 3	0% 6

### Business Age

Business Age	Colombia	India	Indonesia	Nigeria	Total
<b>Average years</b>	6.4	9.6	8.0	14.6	9.6

### Business Type

Business Type	Colombia	India	Indonesia	Nigeria	Total
<b>Retail</b>	41%	71%	61%	65%	58%
<b>Service</b>	19%	8%	17%	10%	14%
<b>Manufacturing and Construction</b>	27%	13%	5%	7%	13%
<b>Other</b>	10%	7%	18%	18%	13%
<b>Don't Know/NA</b>	3%	0%			1%
<b>Grand Total</b>	100%	100%	100%	100%	100%



# Appendix B: Focus Group Participants

## Bolivia

### Group 1. Modality: In-person

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Female	52	Service	Micro	Reprography
2	Male	50	Service	Micro	Restaurant and bakery
3	Female	46	Retail	Micro	Cleaning products
4	Male	60	Service	Micro	Dentistry
5	Male	35	Service	Micro	Welding shop
6	Male	21	Service	Micro	Car wash
7	Female	59	Service	Micro	Gas piping installation
8	Female	27	Retail	Micro	Micro-market

### Group 2. Modality: In-person

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Male	37	Manufacturing	Micro	Sportswear
2	Female	38	Manufacturing	Micro	Polleras (Cholita skirts)
3	Female	33	Manufacturing	Micro	Shoes
4	Female	38	Manufacturing	Micro	Hospital supplies
5	Male	56	Manufacturing	Micro	Furniture
6	Male	52	Manufacturing	Micro	Industrial clothing
7	Female	34	Manufacturing	Micro	Sculptor and painter
8	Male	32	Manufacturing	Micro	Sport shoes

### Group 3. Modality: In-person

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Female	49	Retail	Micro	Ice cream shop
2	Female	62	Service	Micro	Restaurant
3	Female	42	Retail	Micro	Bakery
4	Female	44	Retail	Micro	Backpack store
5	Female	40	Manufacturing	Micro	Craft items
6	Female	39	Retail	Micro	Neighborhood store
7	Female	27	Manufacturing	Micro	Shawls
8	Female	45	Retail	Micro	Clothing store



Colombia

Group 1. Modality: Online

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Male	45	Retail	Micro	Household goods
2	Female	30	Retail	Micro	Household goods
3	Male	34	Retail	Micro	Electronics
4	Female	45	Retail	Micro	Groceries
5	Male	26	Retail	Micro	Collectible figures
6	Female	36	Service	Micro	Food
7	Female	49	Service	Micro	Restaurant
8	Female	70	Service	Micro	Tailoring

Group 2. Modality: Online

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Male	56	Retail	Micro	Sacha inchi nut oil distributor
2	Female	50	Service	Micro	Events organization
3	Female	65	Manufacturing	Micro	Sleepwear
4	Female	45	Manufacturing	Micro	Christmas dolls and decorations
5	Female	32	Manufacturing	Micro	Uniforms
6	Female	33	Manufacturing	Micro	Construction implements
7	Male	36	Service	Micro	Cold equipment maintenance
8	Female	43	Service	Micro	Gardening
9	Male	36	Retail	Micro	Cosmetics
10	Female	60	Service	Small	Restaurant and theme farm

Group 3. Modality: Online

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Female	33	Service	Micro	Tourism
2	Female	45	Retail	Micro	Cosmetics
3	Female	23	Service	Micro	Cosmetics
4	Female	40	Service	Micro	Hairdressing
5	Female	44	Service	Micro	Hairdressing
6	Female	38	Service	Micro	Tailoring
7	Female	46	Retail	Micro	Adult products
8	Female	43	Manufacturing	Micro	Furniture

Indonesia

Group 1. Modality: In-person

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Female	51	Retail	Micro	Food
2	Female	33	Retail	Micro	Food
3	Female	43	Retail/Service	Micro	Food and laundry
4	Female	42	Retail	Micro	Food and clothes
5	Female	41	Retail	Micro	Clothes
6	Female	43	Retail	Micro	Food
7	Female	38	Retail	Micro	Food
8	Female	44	Retail	Micro	Food and furniture

Group 2. Modality: In-person

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Male	39	Manufacturing	Micro	Crafts
2	Female	32	Manufacturing	Micro	Cloth masks
3	Female	30	Manufacturing	Micro	Building materials
4	Female	52	Manufacturing	Micro	Tote bags and home decor
5	Male	55	Manufacturing	Micro	Furniture
6	Male	41	Manufacturing	Micro	Furniture
7	Male	40	Manufacturing	Micro	Snacks
8	Female	30	Manufacturing	Micro	Crafts and coffee
9	Female	29	Manufacturing	Micro	Home decor

Note: Participants were recruited outside of the original sample set.

Group 3. Modality: Online

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Female	47	Retail	Micro	Food
2	Female	38	Retail	Micro	Food
3	Female	42	Retail	Micro	Food
4	Female	36	Retail	Micro	Food
5	Female	29	Retail	Micro	Food
6	Female	36	Retail	Micro	Food
7	Female	32	Retail	Micro	Groceries
8	Female	34	Retail	Micro	Food
9	Female	32	Service	Micro	Laundry
10	Female	35	Retail	Micro	Secondhand electronics

## Nigeria

### Group 1. Modality: In-person

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Male	35-54	Manufacturing	Small	Fashion designer
2	Male	35-54	Service	Micro	Interior decorator
3	Female	35-54	Service	Micro	Hair stylist
4	Female	Under 35	Food retail	Micro	Drinks vendor
5	Female	55+	Food retail	Micro	Food vendor
6	Male	35-54	Service	Small	Interior decorator
7	Male	35-54	Retail	Micro	Pharmaceuticals
8	Female	Under 35	Retail	Micro	Clothing

### Group 2. Modality: In-person

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Male	Under 35	Service	Micro	Interior designer
2	Female	Under 35	Retail/ Manufacturing	Micro	Clothing
3	Male	35-54	Service	Micro	Electrician
4	Female	35-54	Retail/ Manufacturing	Micro	Clothing
5	Male	35-54	Service	Small	Engineer
6	Female	35-54	Retail	Micro	Food vendor
7	Male	Under 35	Service	Small	Real estate
8	Female	Under 35	Service	Small	Salon

### Group 3. Modality: In-person

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Female	Under 35	Retail	Micro	Food vendor
2	Female	Under 35	Retail/service	Micro	Makeup/cosmetics
3	Female	Under 35	Service	Micro	Real estate
4	Female	35-54	Retail	Micro	Food vendor
5	Female	35-54	Manufacturing	Micro	Bags
6	Female	35-54	Retail	Micro	Catering
7	Female	35-54	Retail	Micro	Clothing materials
8	Female	35-54	Retail	Micro	Drinks vendor
9	Female	35-54	Manufacturing	Micro	Clothing
10	Female	35-54	Retail	Micro	Food vendor

India

Group 1. Modality: In-person

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Male	37	Manufacturing	Micro	Electrical boards
2	Male	40	Manufacturing	Micro	Garments
3	Male	35	Retail	Micro	Garment showroom
4	Male	38	Retail	Micro	Garment shop
5	Male	35	Manufacturing	Micro	Jeans
6	Male	38	Manufacturing	Micro	Shirts
7	Male	40	Manufacturing	Micro	Shirts
8	Male	28	Manufacturing	Micro	Formal pants
9	Male	45	Manufacturing	Micro	Hawaii slippers

Group 2. Modality: Online

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Female	45	Retail	Micro	Sarees business
2	Female	52	Manufacturing	Micro	Paper plates
3	Female	40	Retail	Micro	Grocery & ready-made garments shop
4	Female	47	Retail	Micro	Kirana shop
5	Female	42	Retail	Micro	Matching center
6	Female	37	Retail	Micro	Bangle Shop
7	Female	45	Retail	Micro	Kirana shop
8	Female	50	Retail	Micro	Kirana shop

Group 3. Modality: Online

Participant	Gender	Age	Business Type	Business Size	Industry/Sector
1	Male	35	Service	Micro	Trading
2	Male	30	Service	Micro	Internet business
3	Male	32	Retail	Micro	Internet service point
4	Male	36	Retail	Micro	Car repair shop
5	Male	41	Service	Micro	Clothing – tailor shop
6	Male	34	Service	Micro	General business store
7	Male	26	Manufacturing	Micro	Chicken shop
8	Male	39	Service	Micro	Carpentry
9	Male	32	Retail	Micro	Electrical shop
10	Male	46	Retail	Micro	Copy shop



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