

UNFINISHED BUSINESS

What We (Still) Don't Know About the Impacts of Small Business Finance

CGAP Presenters

Sai Krishna Kumaraswamy and Alexander Sotiriou

Panelists

Robert Cull, World Bank

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Mayada El-Zoghbi, CFI

Timothy Ogden, FAI

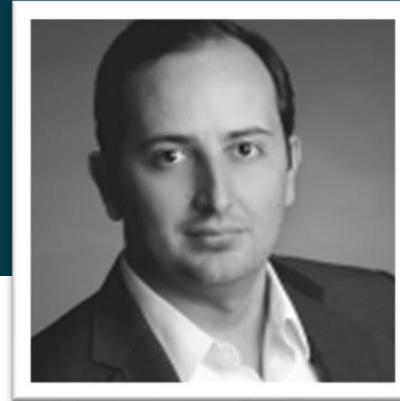


May 20, 2021

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Panelists



Robert Cull

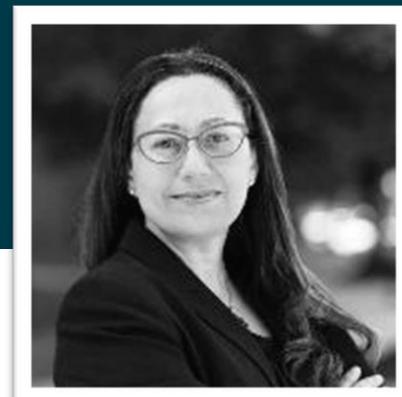
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Agenda

~25 Mins	Webinar Overview
	Livelihoods and MSE Finance in the Digital Age
	Key Insights & Knowledge Gaps from Literature Review
~50 Mins	Opening Remarks by Panelists
	Moderated Discussion
~15 Mins	Open Q&A

CGAP's Work:

Livelihoods and MSE Finance in the Digital Age

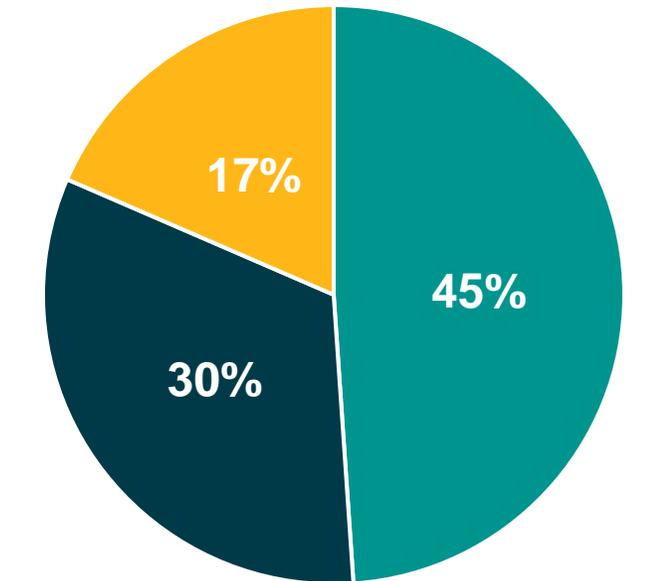
Micro and small enterprises provide a critical pathway to improved livelihoods for low-income households

MSEs with 5 - 19 employees contribute to nearly half of all job creation in developing countries



Dalberg (2019)

Share of Job Creation Across Firm Size



■ 5 - 19 employees ■ 20 - 99 ■ 100+

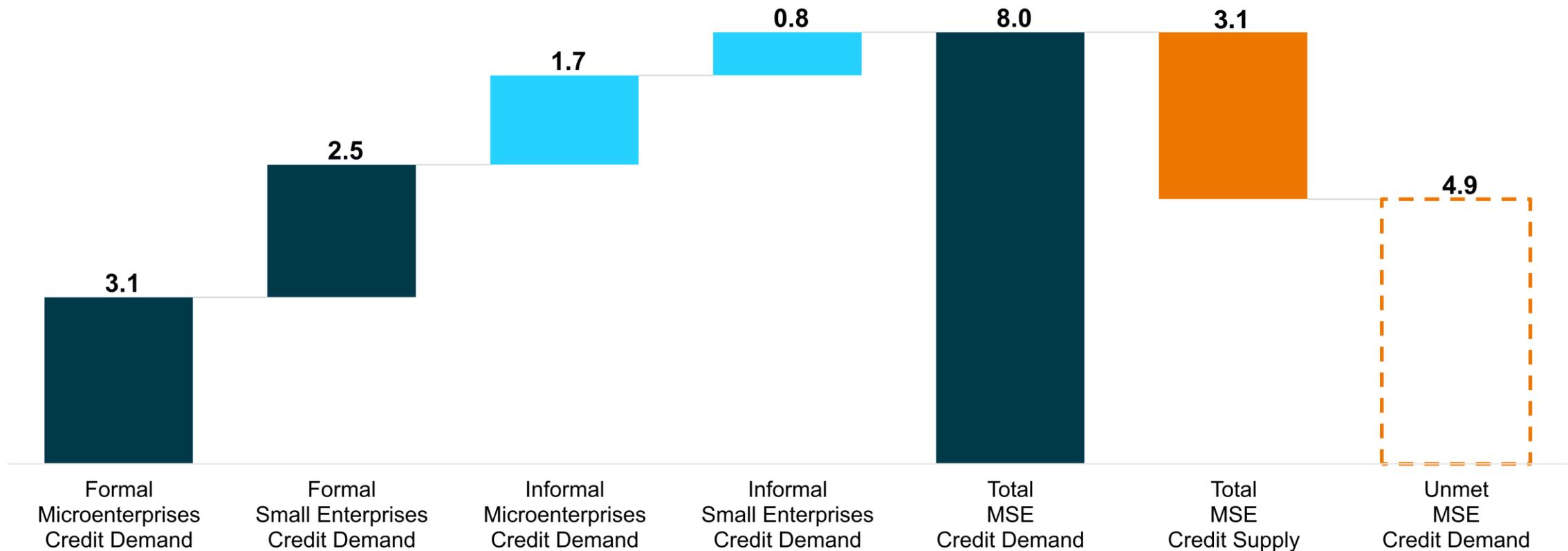
N = 85 countries, Ayyagari et al (2014)

Note: Ayyagari et al (2014) use World Bank Enterprise Survey data which excludes firms < 5 employees

Financial services are critical to the success of small firms, yet there remains a \$4.9 trillion financing gap

Estimated Global Micro and Small Enterprise Credit Gap

USD trillions



The Digital MSE Finance Opportunity

Digital technologies present new opportunities to address the dearth of effective financial services for underserved and excluded small firms. But several knowledge gaps remain that prevent these technologies from reaching their full potential.

Opportunity

What we don't know

Fintech business models show promise in overcoming traditional barriers (OPEX + Risk) to serving excluded MSEs

Which fintechs are best positioned to reach underserved MSEs and what support is needed for them to do so

MFIs, the original MSE finance innovators, are increasingly leveraging new technologies to serve excluded MSEs

Best practices for pragmatic, cost effective approaches to digitization that result in measurable value for customers

Small firms are adopting digital technologies in ways that address financial and non-financial challenges and may facilitate improved access to finance

If/how technology meets the holistic needs of MSEs and If/how financial services supports livelihoods

By addressing these knowledge gaps, CGAP seeks to accelerate the pace at which digitally enabled financial services reach excluded and underserved MSEs in a way that supports the livelihoods of their owners and employees

Literature Review

Key Insights and Knowledge Gaps

What do we know about the average MSE?



Photo Credit: Zakir Chowdhury, CGAP Photo Contest 2014

Most MSEs are created out of necessity, and remain small throughout their lifetime

- ✓ Unable to find wage employment
- ✓ Sustain and smooth incomes until they find wage jobs/ off-season in agriculture
- ✓ Cope with health shocks
- ✓ Finance agricultural activities

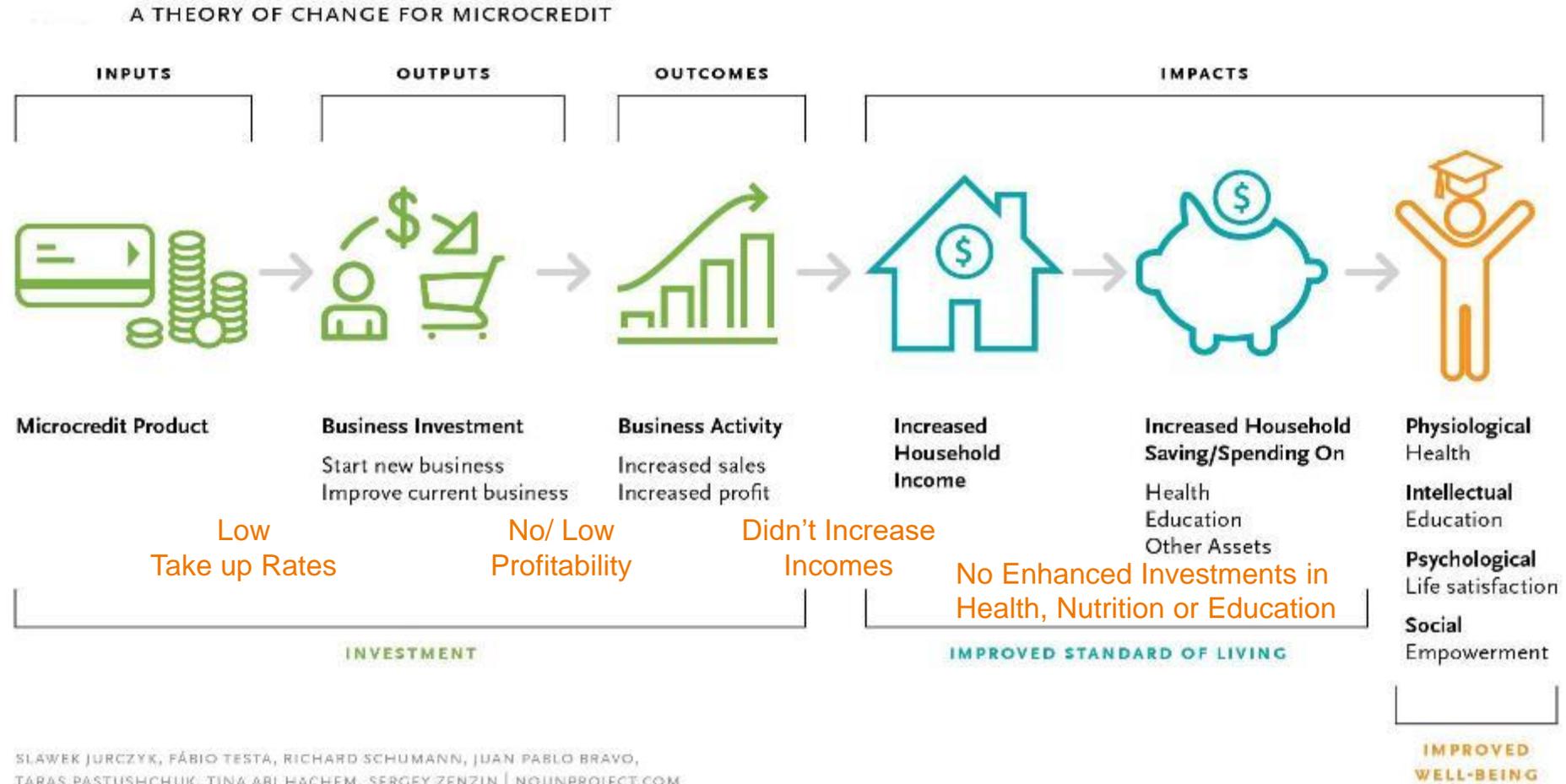
They face several interconnected, binding constraints that inhibit their productivity, profitability and expansion

- ✓ Access to finance
- ✓ Skilled labor
- ✓ Advisory services
- ✓ Growth mindset
- ✓ Utilities related
- ✓ Crimes, economic shocks

A narrative for access to finance for MSEs

The historical narrative centered on the group lending model of microcredit, and envisioned an escape from poverty through microenterprise

However, practitioner experience and research suggests that this narrative isn't true for most MSEs



Here's what we learned about the impacts of MSE finance

Insights from a literature review



Microcredit has modest impacts on the average borrower

It helps:

- Expand scale of business operations (both revenues and expenses, hours worked)
- Increase investment in consumer durables (motorcycles, phones, TVs, fridges, rickshaws etc.)
- Keeps business going instead of shutting down or from becoming unemployed

However, microcredit does not meaningfully increase enterprise profits, household consumption, promote entry into new businesses or fuel an escape from poverty



Photo Credit: Sudipta Dutta Chowdhury, CGAP Photo Contest 2016

Impacts of microcredit are greater for borrowers with previous experience of running a business



Photo Credit: Rana Pandey, CGAP Photo Contest, 2016

‘Strivers’ or ‘Gung-Ho Entrepreneurs’ are borrowers with **ex-ante entrepreneurial mindset**, who have:

- Large target business size
- Growth goals
- Extensive social networks and use of informal credit facilities from other households
- Making full use of credit facilities when extended

Microcredit helps women expand or take up new enterprises

But it does not improve their enterprise outcomes like sales or profits.

Some of this is explained by:

- Women's **self-selection into low growth potential sectors** like small scale retail, high contact services, caregiving etc.
- Women **diverting their loans** to fund the enterprises of the men in their household, or for household consumption
- Women's **bargaining power** within households
- **Restrictive social norms** around women's access to and control over economic resources

Much of the gender gap in enterprise profitability remains unexplained.



Photo Credit: Vikash Kumar, CGAP Photo Contest, 2014

Flexibility in loan characteristics has shown to improve impacts from financing

The following, have had greater impacts on enterprise profits, and encourage otherwise risk-averse borrowers to start enterprises:

- Larger sized loans
- Individual liability loans
- Repayment holidays
- Flexible repayment schedules
- Digital channels of delivery (especially for women borrowers)

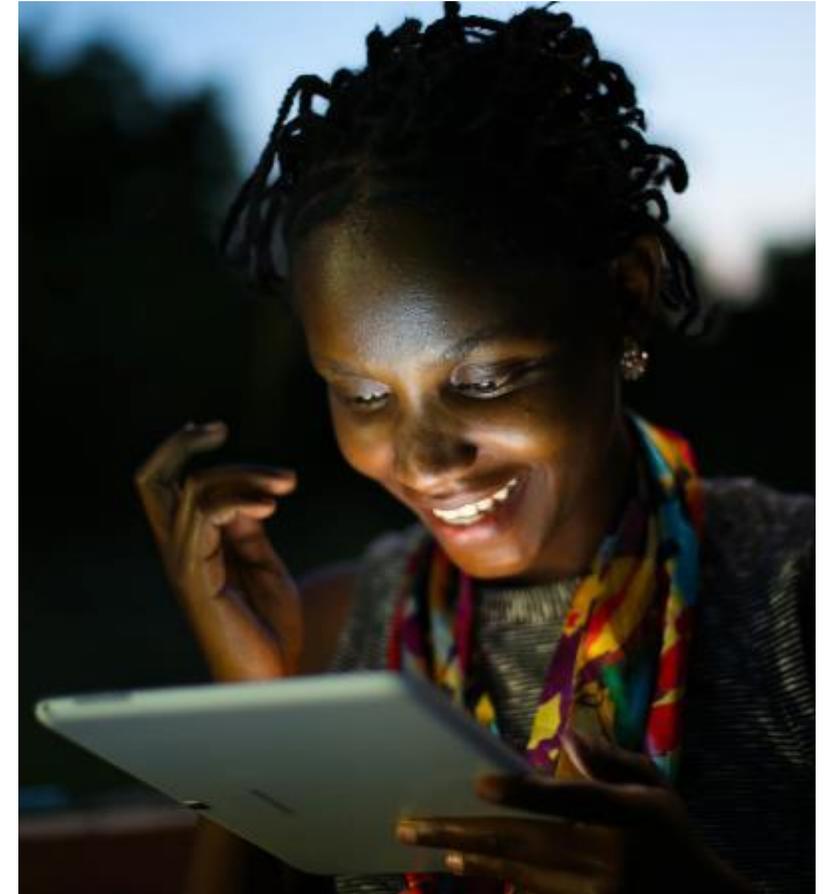


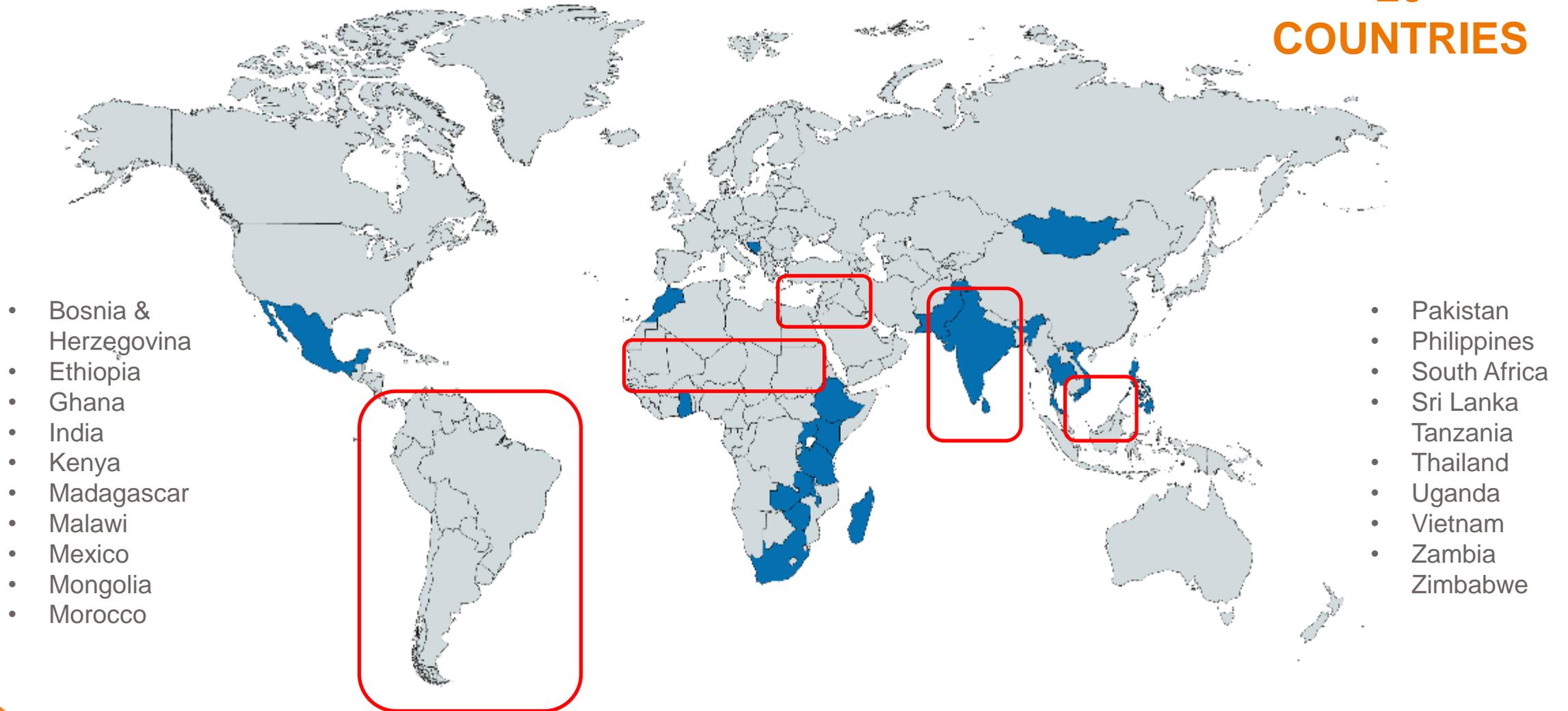
Photo Credit: Deogratius Surah, CGAP Photo Contest, 2018

What we have learned so far about the impact of MSE finance rests squarely on microcredit.



What is the geographic footprint of impact evidence?

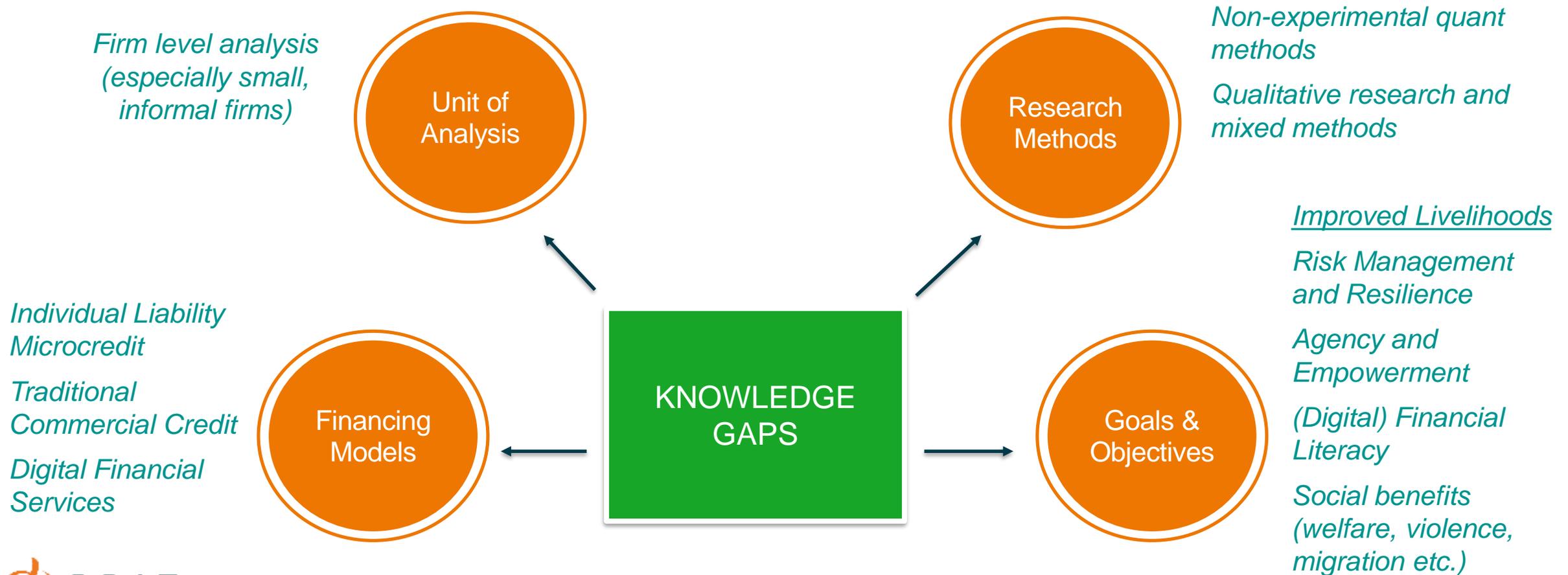
**20
COUNTRIES**



- Bosnia & Herzegovina
- Ethiopia
- Ghana
- India
- Kenya
- Madagascar
- Malawi
- Mexico
- Mongolia
- Morocco

- Pakistan
- Philippines
- South Africa
- Sri Lanka
- Tanzania
- Thailand
- Uganda
- Vietnam
- Zambia
- Zimbabwe

The MSE finance impact narrative is incomplete, and there are several knowledge gaps



What are the implications for the microfinance community?

Do we need an updated narrative?

- An improved Theory of Change
- Identify broad and comprehensive pathways of impact
- Redefine 'impact' to accommodate more modest, but meaningful goals

Do we need more evidence?

- Looking beyond RCTs, employing varied research methods
- Asking broader questions, aligning impacts of MSE finance with livelihoods



Photo Credit: Alamsyah Rauf, CGAP Photo Contest, 2016

Panelists



Robert Cull

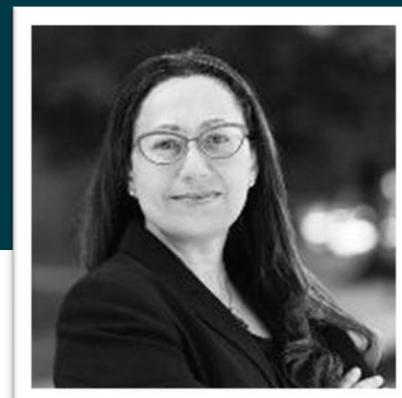
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Photo Credit: KM Asad, CGAP Photo Contest 2014

Panelists' Opening Remarks



Photo Credit: Pranab Basak, CGAP Photo Contest 2017

Moderated Discussion

Questions and comments from the audience



Zoom Q&A

Pose questions directly to the panelists and presenters.

- Please indicate if your question is intended for a specific person.
- Feel free to share your name, country and organization (but it's not mandatory)



Zoom Chat

Share your own views and experiences, or reactions on today's discussion.

- **Does this resonate with you?** What are your thoughts on these evidence gaps? Is there research or literature we may have missed?
- **Can you think of novel ways to define and document 'impact' of MSE Finance?**

Thank you

To learn more, please visit
www.cgap.org

