



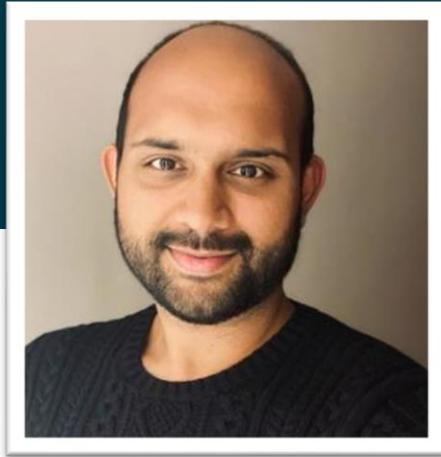
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# DIGITIZING MSEs FOR FINANCIAL INCLUSION: OPPORTUNITIES & CHALLENGES

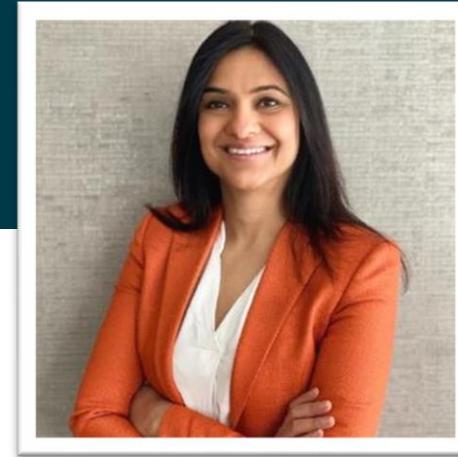
13 June 2022



# CGAP Moderators



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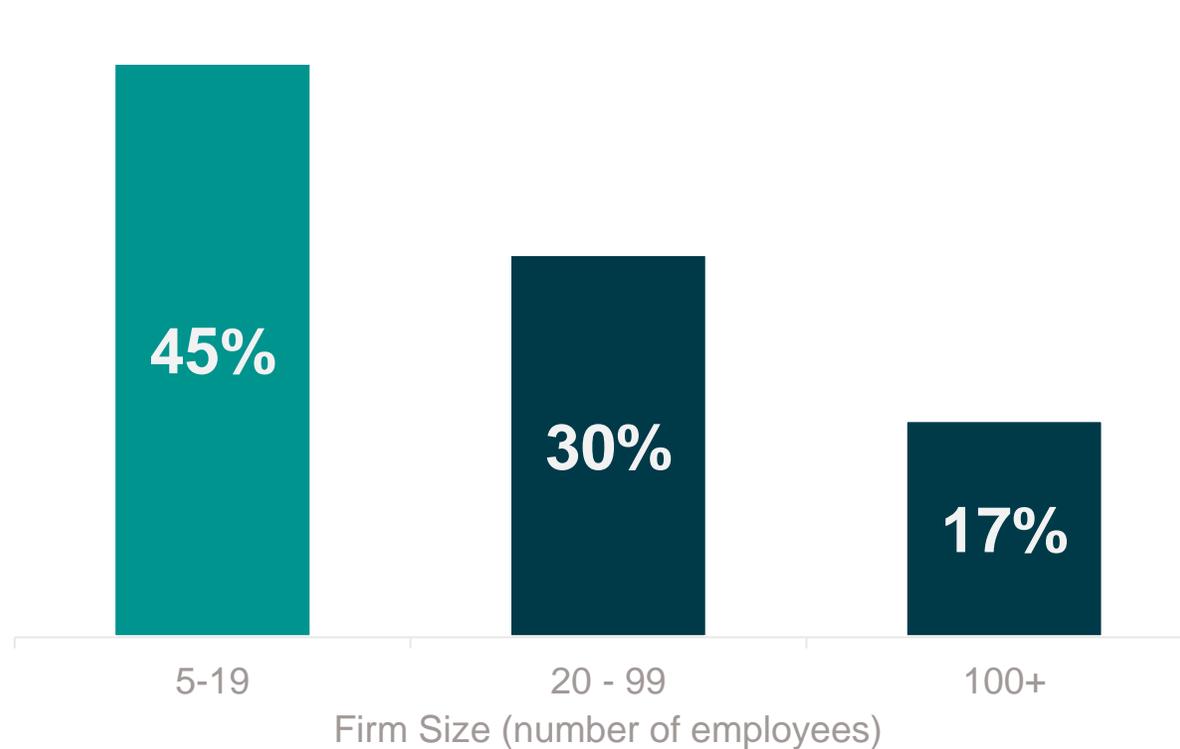
MicroSave Consulting (MSC)

# Micro and Small Enterprises (MSEs) are important pathways to improved livelihoods for low-income households



Dalberg (2019)

### Share of Job Creation across Firm Size



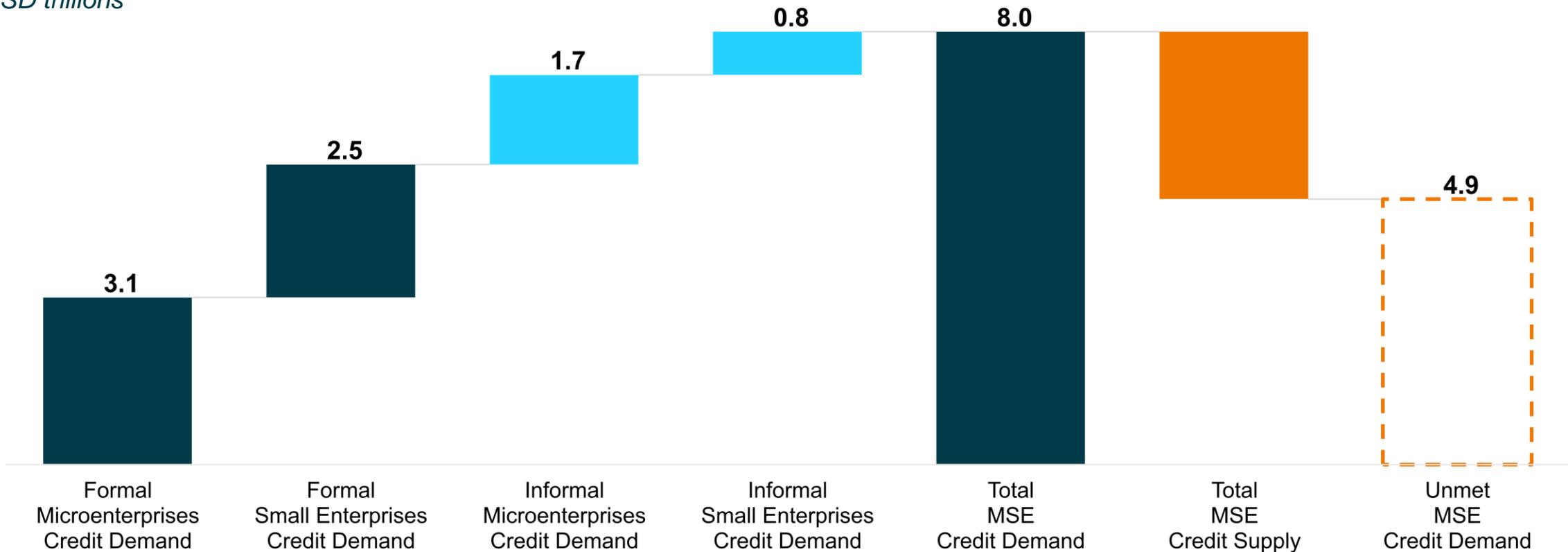
N = 85 countries, Ayyagari et al (2014)

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

# Financial services are critical to the success of MSEs, yet there remains a persistent US\$4.9 trillion financing gap

## Estimated Global Micro and Small Enterprise Credit Gap

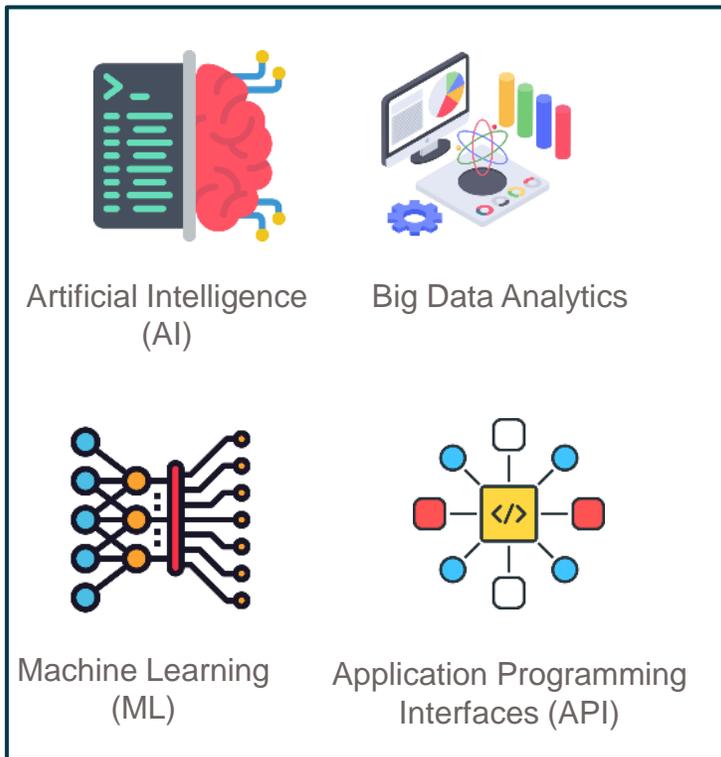
USD trillions



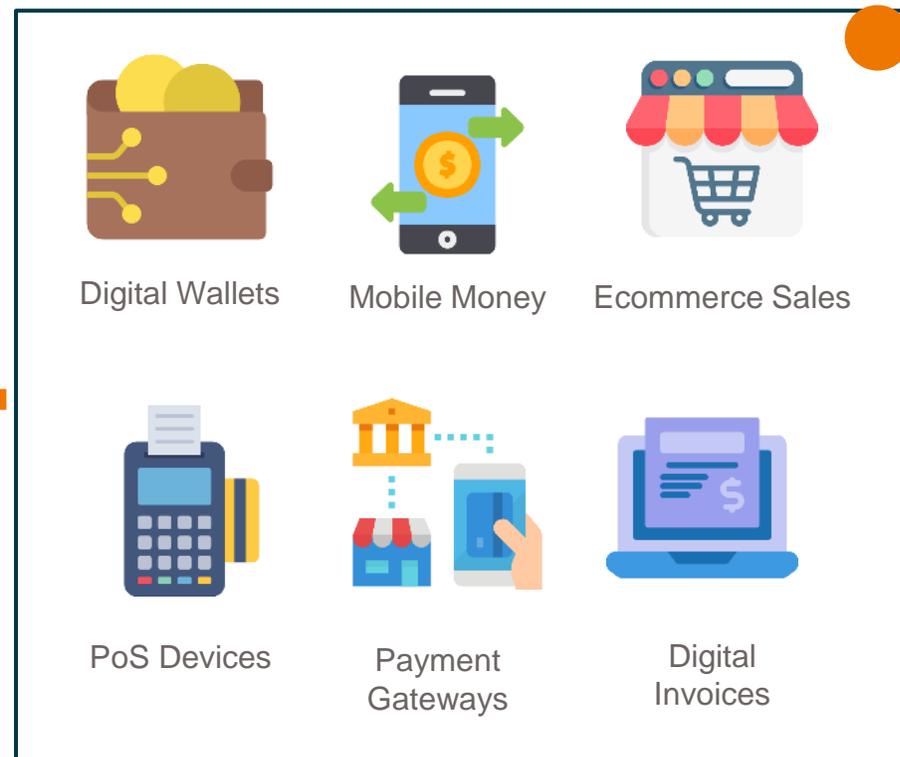
Sources: Dalberg (2019), Bridging the credit gap for micro and small enterprises through digitally enabled financing models  
IFC (2017), MSME Finance Gap

# Emerging FinTech business models exhibit potential to address unmet financial needs of MSEs

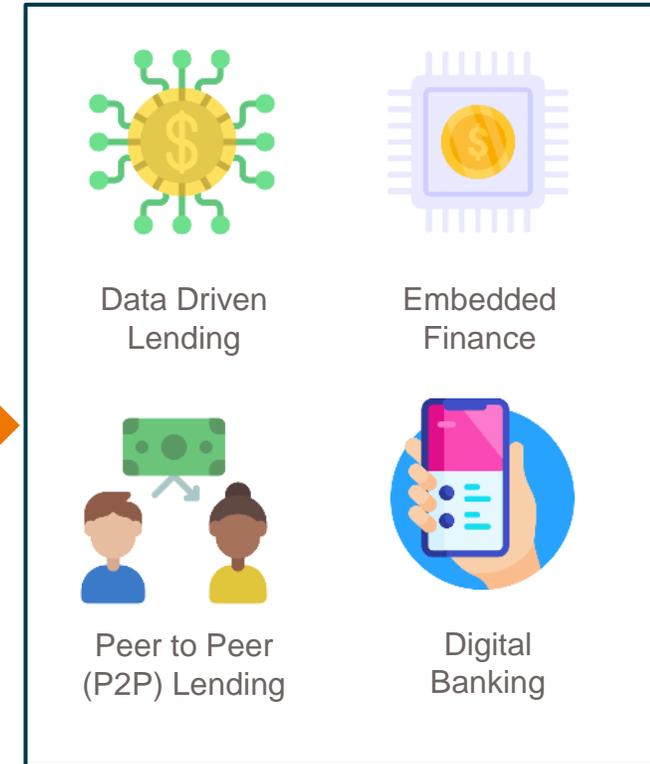
Providers harness innovations in technology



Leverage digital data trails created by MSEs' increasing embrace of digital technologies



Create Innovative FinTech MSE Finance Models



# We still don't know much about the smallest and poorest MSEs

Existing research and data sources often exclude very small enterprises (<5 employees) and the informal sector

We know even less about the various segments within the MSE universe, their peculiarities, and nuances

- Who owns MSEs in emerging markets?
- What are their entrepreneurial goals, motivation and business trajectories?
- What are their financial attitudes, behaviors and experience?
- How can financial services help improve their livelihoods?
- What's the role of digitization?



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In 2021, CGAP undertook primary qualitative research with nearly 400 MSEs in India, Kenya and Peru, to:

- Understand distinguishing factors affecting **livelihood and income generation** across key MSE segments
- Understand the **role of financial and non-financial services** in supporting MSE livelihoods
- Recommend ways in which FSPs, particularly DFS providers, can **tailor their approach and offerings** to better address the needs of MSEs

### SAMPLE SELECTION CRITERIA

**MSE Size:** three segments as defined by number of employees (1–4, 5–19, and 20–30) .

**Economic Sector:** focus on three sectors: retail (including services), manufacturing, and transport.

**Formality and Digitization:** businesses along a spectrum of formality and digitization.

**Gender:** gender lens applied throughout the research.

# In the wake of the COVID-19 pandemic, it appears that MSEs have accelerated their adoption of digital technologies and DFS

- MSEs embraced digitization, DFS and explored online platforms to keep commerce flowing
- Some shifted almost entirely to online social platforms, which increased the complexity of managing marketing, sales, and fulfillment
- MSEs, particularly new digital adopters, expressed need for support in understanding the long-term use of these services and concerns around security.



Employees labeling jars at a small pickle manufacturing enterprise in Ahmedabad, India. © Photo Credit: M-CRIL, 2021

© Photo Credit: M-CRIL Inclusive Economics, 2022

Although DFS use has increased significantly, it has been more in response to customer preferences than inherent enthusiasm...

... there remains a significant lack of trust in providers

*“We have all the type of payments, because we saw that if we don't have the type of payments, we lose a customer”*

*– Woman Business Owner,  
Peru*

- Despite increased frequency, many MSEs remain reluctant users of DFS, and strictly manage the frequency of use to limit risk exposure
- MSEs believe that DFS providers are not as well-regulated as banks and other non-digital NBFIs
- Likewise, MSEs frequently note a lack of transparency by DFS providers and express concerns about the security of their data

**If MSEs continue to have low trust in providers, they will limit usage, and will treat DFS providers, particularly credit providers, as lenders of last resort.**

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***“I would want to know what the apps is going to cost me. And I should know how to use it. I don't know how a new app would work. How the data is stored. Could the data get erased? I trust the Bank but don't know anything about these apps, the people, where they're from. All your data is going into this app, and it could be misused.”***

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***Small store owner, India***

# Thank you

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