



Empowering small businesses for a digital future

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Center for
Inclusive Growth

Foreword

Intezaar owns and operates a small workshop in Meerut, a popular hub for manufacturing in northern India. His workers make armor featured in theatrical shows and movies around the world.

Too small to qualify for a commercial loan and too big for traditional microfinance, Intezaar struggled for years to access the capital he needed to grow his businesses. A loan from a fintech innovator, Aye Finance, transformed his prospects, enabling Intezaar to double his full-time workforce and move his operations to a larger factory.

Intezaar's story embodies the aspiration and ambition of tens of millions of small business owners of modest means who are striving to succeed. It is not something inherent that is holding these entrepreneurs back. Rather, it is their inability to connect to the right resources and networks to get them to the next step.

Moving forward, ensuring small business owners, like Intezaar, can benefit from digital transformation will be critical to their survival and recovery from the pandemic, and ultimately, for narrowing economic divides.

In developing economies, micro and small businesses provide 70 percent of jobs and 50 percent of global GDP, according to the International Labour Organization.

Toward a digital future

During the pandemic, lockdowns compelled millions of consumers around the world to adopt digital behaviors for the first time, including e-commerce and digital financial tools. In the United States, those shifts translated into more revenue and new customers for digitally enabled small businesses than for their brick-and-mortar peers, according to the Mastercard Digital Acceleration Index.

Growing digital adoption has also coincided with [increased business formation](#) in several countries, including the United Kingdom, Turkey, the United States and Chile. Experts believe the trend could be in response to opportunities with new digital business models and entrepreneurship out of necessity in areas of high unemployment.

However, urgent collective action is needed to help small businesses "go digital." In the wake of COVID-19, small businesses have been forced to make hard choices—pay their bills or their employees—and do whatever it takes to survive, including running through their savings, borrowing from friends and family and taking on debt.

When micro and small businesses struggle, the impact is widespread—especially in the world's developing economies where they provide [70 percent of jobs](#). An [ongoing study](#) by the Center for Financial Inclusion (CFI), produced through the Mastercard/Accion partnership, has been tracking the impact of the pandemic on some of the smallest and most fragile businesses in four emerging markets—Colombia, India, Indonesia and Nigeria. Based on the [latest available data](#), only 48 percent of the businesses surveyed reported they have been able to recover to pre-pandemic employment levels, pointing to a long and difficult recovery ahead, as businesses struggle to find ways to improve their bottom line and reap the benefits of digitalization.

Leveling the playing field for small businesses

It's clear that digital acceleration isn't taking hold everywhere. As the CFI study shows, the smallest businesses aren't all going digital, even in India and Indonesia where the digital ecosystem is more evolved. An average of only 15 percent of businesses in those two markets reported selling on a digital platform.

In Europe, small businesses have been lagging behind large competitors in integrating digital technologies since before the pandemic. [A 2019 survey](#) found that roughly one-third of European micro businesses had implemented at least one digital form of technology since starting up compared to approximately 79 percent of large European firms. An [OECD report](#) also found that the smaller the firm, the less likely it was to use digital tools. Adoption gaps were even wider with more sophisticated technology.

Unless these gaps are addressed with urgency and at scale, vast numbers of small businesses will continue to be left behind, and economies around the world will miss out on the jobs, services, innovation and tax revenue these businesses could contribute to accelerate the post-pandemic economic recovery.

At the Mastercard Center for Inclusive Growth, we have been working to test, iterate and scale new ways of connecting growth-oriented micro and small businesses to the know-how, tools and capital they need to survive and thrive in the digital economy. By combining technology and partnerships, we can help small businesses more easily overcome hurdles that have plagued them for years, from limited access to wider markets and financial services that meet their needs to time-consuming back-office operations.

This paper draws on what we've learned from seven years of philanthropic work with partners and identifies three key opportunities to empower small businesses for a digital future.



Shamina Singh

Founder and President
Mastercard Center for Inclusive Growth

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Executive Summary

In the wake of COVID-19, the gap is growing between businesses that can reap the benefit of digital acceleration and those that are struggling to adapt. Micro and small businesses, which represent the vast majority of businesses globally, face a host of challenges when it comes to digitalization.

The barriers go beyond issues of access and connectivity; they include lagging digital skills, a lack of trust and confidence in their own abilities, and the cost of implementing cybersecurity measures, according to a [recent ILO report](#).

While digitalization can help micro and small businesses overcome many of the constraints that have hindered their growth, without targeted tools and resources delivered at scale, they are at risk of being left further behind.

Empowering Small Businesses for a Digital Future outlines three ways digitalization creates new opportunities for small businesses around the globe and how to support micro and small businesses in reaching their potential. The insights are drawn from seven years of work in the field with our global partners.

1 Increased market participation and linkages

Digital platforms can help small businesses reach bigger markets more easily, but small business owners need the know-how to tap into these advantages. Digital platforms like MicroMentor are helping connect entrepreneurs to seasoned experts who can provide tailored advice to help them adapt and grow.

2 Better access to formal financial services

Access to capital is one of the biggest hurdles small businesses face, often because they lack credit history. Digitizing merchants' payment histories, like [Jaza Duka](#) is doing in Kenya, can help the financial standing of a business. Innovative digital solutions can also help small businesses build financial resilience to boost savings, accept digital payments and access insurance.

3 More efficient and optimized business operations

From inventory-tracking to supply chain insights, a variety of tools can help small businesses digitize their operations. The [CÍVICO Negocios app](#) in Colombia, for example, bundles a suite of services for building a digital presence—which has helped save hundreds of Bogotá small businesses during COVID-19.

To achieve impact, two elements are needed: 1) tools and training that are tailored to unique gender, cultural and business needs and 2) robust collaboration that brings together expertise and resources across the private, public and NGO sectors to drive true change at scale.

Digitalization describes a host of transformations that are reshaping how business is done, including low-cost, global communications and networking; platform-based business models; virtual and integrated supply chains; innovative finance; automation; big data; and artificial intelligence.

Growing participation in digital marketplaces

The shift to digital has fundamentally changed how micro and small businesses access markets, with digital marketplace platforms playing a central role.

These platforms create new opportunities for small businesses to reach larger pools of local, national and global customers and suppliers while also connecting them to social networks, peers and mentors who can provide customized information. Marketplace platforms also have the advantage of connecting resources at scale and in ways that are dynamic and tailored to the needs of small businesses.

Take the example of Silmi, an entrepreneur in Indonesia, who, like countless entrepreneurs before her, had a potentially game-changing idea but needed advice about how to take it to the next level. She had developed a digital platform to help farmers sell their fresh produce, but until she reached out to MicroMentor, a platform that connects entrepreneurs to seasoned experts, she lacked the skills and know-how to grow the business. Thanks to a digital platform helping a digital platform, Silmi has hired three new employees.

In Indonesia, 33 percent of the micro and small businesses that used MicroMentor added new employees.



With support from the Center for Inclusive Growth and other funders, MicroMentor has helped 26,000 entrepreneurs in 10 countries tap into the expertise of numerous mentors who help them with financial management, marketing, sales, promotion and a range of other skills critical for success in a digital economy.

Use hybrid approaches to scale tailored support to small businesses

During the pandemic, many retail businesses found a lifeline by selling online. Yet, many others struggled to find the support and resources to make the transition to e-commerce. Magdalena, a clothing boutique owner with five brick-and-mortar shops in Poland, was staring down 18 years of hard work about to go under as the pandemic wore on. She knew she had to pivot to digital but was not sure how. She was able to access the support she needed through an accelerator program offered by Impact CEE that provided her with high-touch coaching, advisory services and discounted tech tools. The support helped her design an online user interface and develop new promotional channels.

If more business owners had better access to support systems and smart digital strategies like Magdalena, fewer would have had to scramble so desperately just to stay in business.

We have found, however, that one of the biggest challenges for delivering this kind of customized support is the ability to scale. As grant makers, the Center has focused heavily on **testing a variety of digital and hybrid approaches** to business training and capacity building, often paired with financial services. More recently, these programs have used messaging platforms and chatbots that deliver tailored information to help entrepreneurs better manage their businesses and address challenges they currently face.

- **Messaging apps integrate skill-building into day-to-day operations.** In 2019, the Center partnered with [Juntos](#), which helps financial institutions interact with customers via automated text messages. Juntos, in turn, partnered with two Colombian financial service providers—[Bancolombia and Movii](#)—to provide 134,000 micro, small and medium enterprises (MSMEs) with business training via mobile messaging. Many of the businesses improved their record-keeping and cash flow management, integrated new technologies, tried new promotional tactics and set savings goals.
- **Interactive chatbots deliver critical COVID-19 support.** During the height of COVID-19, we were able to quickly leverage our grantee [Arifu's](#) training platform to provide merchants in Kenya with critical COVID-19 information. The digital-first model made it possible to move quickly and cost-effectively to convey critical information to micro-retailers.

However, through our programs, we have also learned that digital-only is not the most inclusive approach. Hybrid approaches that blend tech and touch are often the most effective. This is particularly true with groups who lack digital access or show strong preferences for face-to-face options, which research shows, women business owners often do. For example, when our work with Impact CEE in Poland went fully virtual, the number of women in attendance dropped dramatically. It is critical to understand people's varying motivations and to use a blended approach to help ensure equity. Face-to-face interactions can also more effectively establish trust and credibility, which is critical to adoption and use.

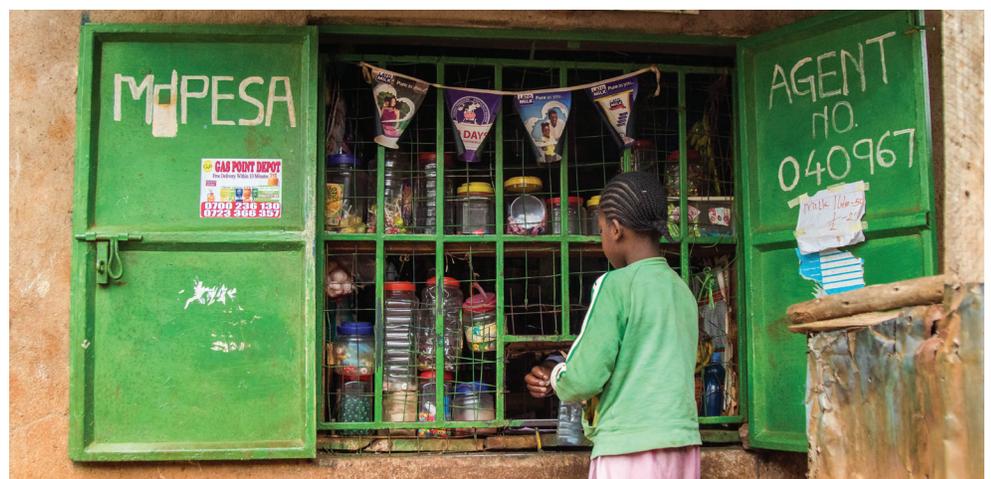
Delivering financial services that meet small business needs

Small businesses often cite working capital as their most critical business need. However, when it comes to accessing credit, many micro and small businesses fall into the “missing middle”—too big to qualify for microfinance, but too small for commercial bank loans, leaving them constrained when it comes to growing their business.

Digital solutions and platforms can help close this gap by enabling micro and small businesses to build “digital footprints” that can be used by financial service providers as a proxy for credit history in assessing risk and underwriting loans.

Take the case of dukas—the ubiquitous, tiny shops in Kenya that sell everything from food staples to mobile airtime. Like many small shops around the globe, [dukas deal mostly in cash](#). But that means when it comes time to expand and grow, banks often have little data on the shop to inform their lending. [Jaza Duka](#)—a partnership between Unilever, KCB Bank and Mastercard—is solving that problem by digitalizing the historical data of a duka’s payments to Unilever’s distributor, whom the owners use to stock their stores. The bank then uses the data to assess risk and allocate credit.

Innovative digital solutions can also help more micro and small businesses build financial resilience to boost savings, accept digital payments and access insurance. Through the [Mastercard/Accion partnership](#), we are supporting inclusive service providers, such as BancoSol, to create a micro-business savings product using behavioral design. We have also learned that innovative products do not always start with the most high-tech solution. For example, in India, we have supported Annapurna Finance to design an SMS-based emergency loan product that can be used on a feature phone and can easily be upgraded to a smartphone as customers gain digital skills and tools.



Six in ten small businesses in developing markets are unbanked or underserved by financial services, according to the International Finance Corporation.

Be gender intentional, not gender blind

Financial services must be intentionally designed to ensure digitalization does not exacerbate existing inequalities. In many countries, cultural norms and other barriers mean women business owners have long lagged behind men in startups, revenue, and access and use of financial services. For example, data from the first two years of our Accion partnership showed that women customers at seven inclusive financial service providers were not using digital financial services as much as men, even though they outnumbered male customers in using financial services by two to one. In India, lagging digital adoption by women may have been due to less device ownership and digital proficiency and **preferences for in-person interactions**, according to a [digital maturity assessment](#) conducted by Accion with Annapurna Finance.

Other studies have found that women are less likely to apply for financing than men. In North Africa, women were four times more likely than men to **think their business was not credit-worthy**, according to an [African Development Bank study](#). Thus, they did not apply for loans, even though there was no difference in their actual credit-worthiness and no higher likelihood of being rejected by banks.

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Through our work with partners, we have found that combining financial services with tailored training can help bridge disparities. The transition to digital is not simply about replacing cash transactions with digital transactions. When combined with training, transitioning to digital can lead to greater financial health and the confidence to use products. For example, after their wage payments were digitized and they had participated in [BSR's HERFinance training program](#), garment workers in Egypt saw a 23 percentage point increase in their savings accounts (both men and women) and a 10 percentage point increase in women's confidence in managing a financial emergency.

With planning and foresight, digitalization can be a tool for lifting up women and less-resourced small businesses so they can survive and thrive during the economic recovery from COVID-19.

Helping small businesses optimize operations



From simple record-keeping and inventory-tracking programs to point-of-sale and customer relationship management apps, a variety of tools are available to help micro and small businesses digitalize their operations and analyze data that was previously inaccessible.

Tools that help build online presence allow small businesses to take advantage of new market connections and help them become more data-driven in reaching new customers.

For example, the [CÍVICO Negocios app](#), part of the CÍVICO platform in Colombia, bundles a suite of services for entrepreneurs, that helps them build a digital presence. Business owners can use the app to sell their products, run promotions, offer home delivery of products and accept digital payments. By providing an easy tool to buy and sell online, this app has helped many micro and small businesses stay in business during the pandemic and has contributed to the growing digital ecosystem in Bogotá, improving the quality of life for small business owners and their customers.

As micro and small businesses fight to thrive and compete during the economic recovery from COVID-19, they will need tailored tools and support delivered at scale. Digital marketplaces offer new channels and methods to develop these tools while building capabilities and trust with large segments of underserved small businesses.

As grant makers, we have learned that business support services need context and tools to put knowledge into practice and that the services must be actionable in the short and medium term. These principles are even more critical in a digital context because **they engender trust among those new to digital options**. Without trust and capacity building, the digital economy will only work for the few.



Creating a network effect to empower small businesses for a digital future

A time for unprecedented collaboration: In the wake of COVID-19's enormous shock, it will take unprecedented collaboration to realize the collective aspirations of small businesses across the globe. As grant makers, we have identified an opportunity to help build a broader ecosystem by bringing together sectors and organizations with complementary skills and know-how.

Our partners include:

- **Digital platforms and marketplaces** that are innovating quickly to reach small businesses at scale, with opportunities to find new markets and operate more efficiently;
- **NGOs and social enterprises** whose social impact focus and on-the-ground expertise are invaluable in developing and localizing training content for nascent micro and small businesses;
- **Researchers and behavioral scientists** who are developing the evidence based on what works in shifting behavior and building capabilities for small businesses; and
- **Governments and development finance organizations** who can support and scale digitalization of micro and small businesses with their investments and programs.

Evidence-based insights will be crucial to success. For example, our partner [Common Cents Lab](#) is working with digital platforms like Mercado Libre, the largest e-commerce site in Latin America, to design strategies based on behavioral science that can be validated and replicated by other e-commerce players in the region. The Center is supporting them for the next two years as they develop strategies that can ultimately be scaled to other digital platforms to support more entrepreneurs in building financial resilience.

Now, through our Strive Community initiative, launched in partnership with Caribou Digital, we aim to bring together the collective know-how, networks and expertise across the private and public sectors, NGOs and research organizations to meet the evolving needs of underserved small businesses with innovative and impactful solutions delivered at scale. While certainly an immense undertaking, the world needs grand ambitions like this and mutual commitments if we are to build back stronger.

Strive Community will equip five million small businesses over four years with innovative digital solutions that unleash their potential as catalysts of inclusive growth.

Get involved

Share your insights and stories on small business digitalization and join our Strive Community.

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