



strive

BFA GLOBAL

# Strive Mexico: Roads to Resilience for MSEs



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## Foreword

The COVID-19 pandemic is far from over, but the impact, which continues to play out before our eyes, will reverberate for even longer. During this collective experience, each of us has a story about how we adapted, coped, and what we learned about ourselves. Micro and small enterprises (MSEs) are no different. Often spoken about as a monolithic group, MSEs are as gloriously diverse as we are, with each demonstrating immense adaptability and ingenuity in the most trying of situations.

There are more than 4.5 million MSEs in Mexico – the pulse of the Mexican economy and local communities. For enterprising individuals, MSEs offer a way to become economically empowered and make life better for their households and wider circle. A substantial proportion of these individuals are women, who own more than 30 percent of MSEs in Mexico.

While all MSEs bore the brunt of the COVID-19 pandemic, the impacts were not felt equally along gender lines. According to the Organisation for Economic Co-operation and Development (OECD), women-owned enterprises are more likely to report a negative economic impact and lack of cash flow than MSEs owned by men. Women-owned enterprises are also less likely to be digitalized due to lower levels of digital literacy among women. This has left these women business owners less likely to be able to cope with financial stressors, such as those brought on by a pandemic.

Given the sheer numbers of MSEs in Mexico, it is necessary to shine a light on their unique experiences, especially those owned by women. The Mastercard Center for Inclusive Growth commissioned BFA Global to better understand the current landscape of MSEs in Mexico. The result is this comprehensive white paper, which illustrates the complex and specific needs of MSEs, the lessons that can be drawn from the COVID-19 pandemic, and the paths to resilience for MSEs, especially those led by women, to reach their full potential.

Supporting tailored paths to digitalization can strengthen resilience and unlock broad economic benefits to the Mexican economy. With philanthropic funding from the Mastercard Impact Fund, and in partnership with a team of small business experts, we have launched Strive Mexico, an initiative that will support 400,000 small businesses over the next three years with a strong focus on the needs of Mexican women business owners.

But we cannot do this work alone. As we embark on Strive Mexico, our aim is to engage with Mastercard's broader network of partners supporting entrepreneurs – from federal and state governments to the array of financial services providers that make up our entrepreneurial ecosystem. The world can only move forward with innovation and inclusion, and that begins with the partnerships we form. We hope you will also join us in supporting the lifeblood of Mexico's economy.

**Mauricio Schwartzmann,**  
*Country Manager, Mastercard México*

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The Frogtek shopkeepers, Nancy and the married couple, Juanita and Armando, were very generous in sharing their time and stories to bring the experience of MSE retailers to life. We are extremely appreciative of their contribution of the customer voice to this white paper.

A final thanks goes to Sandy Pederson who edited the text, Ariadna Molinari who translated the text, and Dami Famuyibo who designed the layout.

# Glossary and definitions

**CNBV** – National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores)

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**FSP** – Financial services provider

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**INEGI** – National Institute of Statistics and Geography (Instituto Nacional de Estadística y Geografía)

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**INFE** – International Network on Financial Education

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**OECD** – Organisation for Economic Cooperation and Development

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**MFI** – Microfinance institution

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## Enterprise size

Microenterprise – Enterprises with 0 to 11 employees

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Small enterprise – Enterprises with 11 to 50 employees

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Medium enterprise – Enterprises with 51 to 250 employees

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Large enterprise – Enterprises with more than 250 employees

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## Enterprise segments

**Nano** – Sole proprietors or enterprises with 0 to 2 employees that we have termed in this white paper for sub-segmentation.

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**META** – Microenterprise in transition to a small enterprise. Enterprises with 6 to 15 employees.

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**MSE** – Micro and small enterprise. Enterprises with up to 50 employees.

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**MSME** – Micro, small, and medium enterprise. Enterprises with 0 to 250 employees. There are 4.8 million enterprises in Mexico. More than 4.7 million are MSEs.<sup>1</sup> Over 4.5 million or 95 percent, are microenterprises.

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**SME** – Small and medium enterprise. Enterprises with 11 to 250 employees.

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1. INEGI. 2019 Economic Census. <https://www.inegi.org.mx/programas/ce/2019/>.

# Executive summary

In preparation for the launch of its flagship Strive Mexico program<sup>2</sup>, the Mastercard Center for Inclusive Growth commissioned BFA Global to conduct a landscape review of micro and small enterprises (MSEs) in Mexico and efforts to support them.

The purpose of the review, which included research, data analysis, surveys, and interviews with stakeholders across Mexico, was to uncover opportunities to support their resilience through digitalization,<sup>3</sup> with a focus on MSEs owned by women.

**This white paper examines the findings of our research and identifies roads to resilience that will inform the design and development of Strive Mexico. They can be summarized in three topline takeaways:**



**MSEs are especially vulnerable, but digitalization can build their resilience and create broad economic benefits.**

**MSEs were hit hardest by COVID-19 and are least likely to weather a future shock.** Only 43 percent of MSEs in Mexico would be able to operate for more than a year on current pandemic revenues.

**MSEs were the least digital of enterprises when the pandemic started.** However, almost 50 percent of MSEs digitized in some

way because of the pandemic. Those that shifted to digital tools during the COVID-19 pandemic demonstrated greater resilience. Top-performing shopkeepers (by annual sales) that used more digitalization strategies kept their businesses performing under financially challenging conditions.

**After the peak of the pandemic, some 30 percent of MSEs aspired to go digital** with increased acceptance of digital payments, selling online, and acquiring digital tools. Supporting MSEs with digital and financial support has a ripple effect across the economy and an outsize benefit for women who are among the most vulnerable and most digitally excluded of MSEs.



**The MSE sector is diverse and microenterprise subsegments have distinct needs, digitalization levels, aspirations, and roads to resilience.**

**Subsegmenting microenterprises is critical to understanding their needs and wants** and meeting them where they are in the form of meaningful financial services and digital tools. This is more likely to encourage adoption and usage.

**Acceptance of digital payments is more important to smaller microenterprises than getting a loan,** since many are either not

2. A new program in Mexico of the Mastercard Center for Inclusive Growth with philanthropic capital from Mastercard Impact Fund.

3. In this white paper, "digitization" refers to the digitized form of data and processes that were previously analog or non-digital in nature whereas "digitalization" refers to the broader digital transformation of data, processes, and behaviors as a result of digitization.

interested or are wary of taking on credit. For the larger microenterprises that do want a loan, the cost of credit is a barrier.

**Women-owned MSEs are more nano-sized, the least digital, and less stable**, with more volatile incomes, and experienced a higher proportion of closures during the COVID-19 pandemic. Many women-owned MSEs are not aspiring to grow but rather prioritize sustaining their business to smooth household income.



### More coordination and tailored strategies are needed to support the digitalization of MSEs and promote resilience.

**There is a lack of coherent and targeted support for MSEs.** Several public and private sector actors offer generalized training, which is ultimately duplicative. Fintech players and NGOs are effective at engaging MSEs to digitize but struggle to sustain use at scale. Academic institutions and think tanks could play a bigger role in building evidence of the impact of digitalization on resilience to encourage market players to care about MSE resilience.

**MSE support programs need to introduce and reinforce healthy financial behaviors and build digital skills that are relevant to subsegments. This is applicable for three categories of MSEs.** First: the least digital of MSEs, which are found in retail commerce and food and beverage preparation industries. Second: MSEs in industries where

women dominate such as food and beverage preparation, the retail trade of personal use items, beauty salons, and the retail trade of textiles and clothing accessories. Third: subsegments such as social commerce sellers and growing META enterprises.

**Scalable digitization of MSEs requires "Tech + Touch" strategies.**<sup>4</sup> Trust is still a major deciding factor for MSEs, and women in particular, to digitally engage. Peer-to-peer learning provides the higher touch approach required for coaching MSEs to adopt and use digital tools, and is especially attractive to MSEs and women-owned enterprises. Peer-based networks could also offset the higher costs to scale Tech + Touch approaches.



4. Akansha Kasera. October 15, 2018. Proven strategies for making fintech inclusive. BFA Global. <https://bfa-global.com/catalyst-fund/insights/proven-strategies-for-making-fintech-inclusive/>. Tech + Touch is a Catalyst Fund (an inclusive fintech accelerator operated by BFA Global) approach to customer acquisition and retention for low-income populations with a strong human component to onboard customers, increase their level of trust in digital products and services, and enable them to use digital tools, i.e., manage their accounts, make transactions, etc.

1

# Introduction: viewing MSEs through the lens of resilience



Nancy is a shopkeeper, a mother, and the breadwinner of her household. Her business in Mexico City relies on heavy foot traffic from nearby government and office buildings. Her business earns high margins and she has been modernizing and improving her business with technology. Meanwhile, an older couple, Armando and Juanita, have had a shop nearby for 30 years, managing to feed their family of four without any real access to digital tools and financial services. For both shopkeepers, increasing competition from a nearby OXXO convenience store means their businesses are now under threat.

**Which microenterprise is more resilient? One that is thriving or one that has been surviving?** What does each microenterprise require to meet its needs in the short term and sustain itself in the long term?

As the world enters the third year of the COVID-19 pandemic, we are all facing the consequences of an entrenched war in Ukraine, rising gas and food prices, extreme weather conditions as a result of climate change, and a bear market that reflects a

weakening global economy. 2022 has been a year of shocks, bringing the need for resilience into sharp relief and making the vulnerability of MSEs even more pressing to address.

**After decades of work in financial inclusion and a more recent focus on financial health, "financial resilience" is now seen as increasingly urgent to improve the lives of low-income people.** According to Common Cents Lab, financial resilience is defined as "the capability of individuals, households and organizations to prepare for financial shocks, deal with them when they occur and recuperate afterwards."<sup>5</sup> While some new programs have sought to address these concerns in the region,<sup>6</sup> financial resilience is not top of mind for the ecosystem actors such as fintech companies, NGOs, and local, federal, and national governments that provide support for MSEs in Mexico.

Mastercard, with its history of development in Mexico, robust network of strategic partners, and global expertise in digital payments and financial services, not only seeks to accelerate support for MSEs, including their digital transformation or "digitalization",

<sup>5</sup>Center for Advanced Hindsight, Common Cents Lab. n.d. Financial Resilience in LAC. <https://advanced-hindsight.com/financial-resilience-lac/>.

<sup>6</sup>Mastercard. May 17, 2021. Mastercard, Mercado Libre, Common Cents Lab, and IDB Join Forces to Improve Financial Resilience among entrepreneurs and gig workers. <https://www.mastercard.com/news/latin-america/en/newsroom/press-releases/pr-en/2021/may/mastercard-mercado-libre-common-cents->

[lab-and-idb-join-forces-to-improve-financial-resilience/](#). Mastercard, Mercado Libre, Common Cents Labs, and IDB joined forces in 2021 to improve the financial resilience of entrepreneurs and gig workers in Mexico. The program is designing and testing strategies based on behavioral science to help SMEs make more beneficial long-term financial decisions.

but also to shine a light on the need for MSEs to become more resilient to adapt and thrive in the long term. **In preparation for the launch of its flagship Strive Mexico program, the Mastercard Center for Inclusive Growth commissioned BFA Global to conduct a landscape review of micro and small enterprises (MSEs) in Mexico and efforts to support them.** Our literature review, analysis of national economic census data and private retail data, and 21 in-depth stakeholder interviews, revealed an emphasis on the output – the digitalization of MSEs – but less of an understanding of whether these businesses were becoming more resilient.

## Understanding resilience

The word **resilience** is often used interchangeably with the term “financial resilience”, as though individuals and systems only recover and thrive in a monetary sense. Individuals with few resources are indeed highly sensitive to changes in their finances, and financial resilience is the bare minimum for weathering a shock. **CGAP defines resilience as “the ability of individuals and households to reduce and mitigate risks, as well as to cope with and recover from various shocks, stresses, and life cycle events, so as to minimize any reduction in short-term consumption or long-term well-being.”** We intentionally use the term “resilience” over “financial resilience” to capture the capacity of vulnerable populations to withstand, recover, and adapt to turbulence and uncertainty.

Different frameworks have been developed to explain and measure resilience. For example, BFA Global’s **DORA financial health framework** comprises four elements: Day-to-day, Opportunities, Resilience, and Agency.<sup>7</sup> Resilience refers to having the specific financial means to protect a household and livelihood against unforeseen shocks. In particular, the framework evaluates preparedness, available and accessible coping strategies, the effectiveness of these

strategies, and the time it takes to recover from a shock.<sup>8</sup>

The Center for Financial Inclusion (CFI) has developed the **PACT Framework for Resilience**, for fintech companies and their customers, which “measures resilience as a combination of abilities and access to resources across four dimensions: Preparedness, Access, Capability, and Ties (Networks)” that interact and influence one another for individuals to withstand and adapt to outside shocks.<sup>9</sup> In this white paper, we examine the PACT dimensions as a starting point to elaborate the framework for the roads to resilience of MSEs in Mexico. These dimensions provide a more comprehensive picture and interplay of digitalization, financial inclusion, and supporting MSEs in their capacity to adapt.

## A snapshot of MSEs in Mexico

Of the 4.8 million enterprises in Mexico, more than 4.7 million are MSEs.<sup>10</sup> MSEs are not a monolithic group, nor are they a simple and uniform group to serve. For analytical purposes, we categorized MSEs into three distinct subsegments:

Sole proprietors or “nano” enterprises, those with 0–2 employees. We have developed this term in this white paper to subsegment the smallest of microenterprises.

Lower- and upper-end microenterprises with 3–10 employees.

META enterprises with 6–15 employees that are transitioning from microenterprises to small enterprises with 11–50 employees.

In addition to these attributes focused on the number of employees, we also considered that the subsegments may have different knowledge of existing digital tools and

<sup>7</sup> Mazzotta, Ben. May 2021. Financial health in Mexico: A new tool for measurement. BFA Global. <https://bfaglobal.com/finnsalud/insights/financial-health-in-mexico-a-new-tool-for-measurement/>

<sup>8</sup> Mazzotta, Ben and Winiacki, Jacob. December 2020. Behind the macro-level statistics: The role of resilience in informing financial health in Mexico. BFA Global. <https://bfaglobal.com/finnsalud/insights/behind-the-macro-level-statistics-the-role-of-resilience-in-informing-financial-health-in-mexico/>

<sup>9</sup> Venkatesan, Jayshree and Stark, Evelyn. February 2022. A Pact to Promote

Resilience: Using a Framework to Understand How Fintechs and their Customers Cope, Survive, and Thrive. Center for Financial Inclusion, Accion. <https://www.centerforfinancialinclusion.org/a-pact-to-promote-resilience>

<sup>10</sup> NEGI. 2019 Economic Census. <https://www.inegi.org.mx/programas/ce/2019/>

distinct motivations, digital capabilities, level of and appetite for financial inclusion and formalization, and access to support.

There are significant opportunities to address the barriers that MSEs face to digitizing, formalizing, and accessing adequate financing. Understanding the extent to which these barriers affect different subsegments of MSEs, whether individually or in interrelated ways, is key to determining how they can realistically be overcome.

What we do know is that all MSEs have fared worse than medium and large enterprises during the COVID-19 pandemic. The benefits of digitalization and formalization were least evident for poorer microentrepreneurs, who also faced the greatest barriers. Shocks and trends such as rising inflation are having a disproportionate negative effect on MSEs.<sup>11</sup>

Women-owned enterprises make up just over 30 percent of MSEs in Mexico. These enterprises are more nano-sized, the least digital, and less stable than enterprises owned by men. Women business owners have more volatile incomes, are less resilient, and have experienced a higher proportion of

closures as a result of the pandemic. Despite smartphones becoming more widespread, connectivity, data plans, higher capacity phones, and digital capabilities are still an issue for many, particularly women. According to the 2022 GSMA Mobile Gender Gap Report, although there is only a one percent gender gap in mobile ownership and mobile internet awareness in Mexico, there was at least a five percentage point difference between male and female respondents who reported that owning a mobile phone benefited them in their day-to-day activities.<sup>12</sup>

This white paper examines subsegments of MSEs in Mexico with a focus on size (number of employees), gender, and industry. We consider different roads, or pathways to resilience for MSEs through the use of relevant digital solutions and products. Given the high number of women-owned nano enterprises and the greater disadvantages they face, we pay particular attention to their needs. In Mastercard's pursuit to have a positive impact on MSEs, it seeks to rally and learn alongside local partners to champion MSEs in Mexico and help them advance on the road to resilience.



<sup>11</sup> Oxford Economics, October 2021. ¿Cómo ha afectado la inflación a las Pymes mexicanas? <https://www.americanexpress.com/es/mx/negocios/trends-and-insights/infographics/como-ha-afectado-la-inflacion-a-las-pymes-mexicanas>. MSEs tend to rely on traditional financial service providers (banks and microfinance institutions) to get funding, while large enterprises have other sources of funding like the stock market. Interest rates have been increasing during the last year as a result of the central bank's restrictive monetary policy to control inflation. The inflation in Mexico during 2022 has reached the highest values registered during the last two decades, at 7.8

percent annually

<sup>12</sup> Shanahan, Matthew. June 2022. The Mobile Gender Gap Report 2022. GSMA. <https://www.gsma.com/r/wp-content/uploads/2022/06/The-Mobile-Gender-Gap-Report-2022.pdf>.

2

# The COVID-19 pandemic exposed the vulnerability of MSEs and women



## MSEs were hit hardest by COVID-19 and least able to respond

The experience of the COVID-19 pandemic provides a helpful, if disheartening, snapshot of the vulnerability of households and businesses. In Mexico, the 2021 National Survey of Financial Inclusion (ENIF) captured the impact of the shock of the pandemic on adults and their financial resilience strategies. Almost all adults (96 percent) had to reduce their expenses and eight out of 10 had to resort to using their savings for daily expenses. One out of four obtained loans from friends and family and almost one out of five sold or pawned an asset. Among those with an outstanding loan, one in four benefited from a moratorium on payments.

For MSEs, the negative economic impacts were dire. To characterize these impacts, we

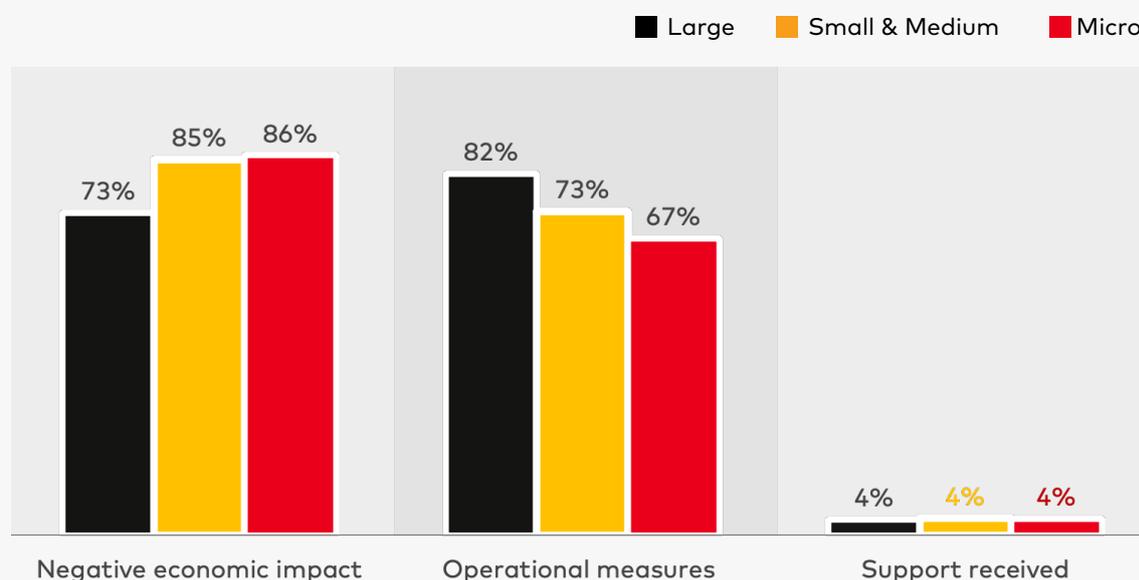
spoke with experts and analyzed survey data provided by Frogtek, a data-tech company processing approximately 12,000 MSE retail shops in Mexico in 2022.<sup>13</sup>

**More microenterprises reported negative economic impacts from the COVID-19 pandemic, but they were least likely to change how they operated.** Eighty-six percent of microenterprises in Mexico reported a negative economic impact due to the COVID-19 pandemic (Figure 1), a higher proportion than small and medium enterprises (one percentage point) and large enterprises (13 percentage points).

**Despite this, microenterprises were less likely to change how they operate.** Those that adjusted reported four main types of adaptive measures: delivery (33 percent); digital sales (29 percent); emergency loans (10 percent); and delaying payment (10 percent). Few enterprises – just 4 percent – received external support, such as from the government, private sector association, or company.

<sup>13</sup> Frogtek. "Empowering micro-entrepreneurs through business tools in mobile devices." <https://www.frogtek.org/>

Figure 1. Impact of COVID-19 on Mexican enterprises



Source: INEGI. 2021. 2021 National Survey on the Economic Impacts of COVID-19 on Enterprises.

**The COVID-19 pandemic reversed a decade of business creation in Mexico.** At the end of 2008, there were 3.7 million physical enterprises in Mexico, but by 2018 this number had risen to 4.8 million – a 29 percent increase. However, as a consequence of national lockdown measures and the subsequent contraction in demand, by mid-2021 the total number of enterprises had declined by 7 percent to 4.5 million. It is estimated that for every microenterprise

that closed during the pandemic, 0.76 were opened, compared to 0.31 small and medium enterprises (SMEs). This may be because MSEs are easier to start during an economic downturn than SMEs. However, since SMEs tend to provide more productive and better-paid jobs than microenterprises, **having a larger proportion of microenterprises is a signal of deteriorating employment outcomes and business growth.**

<sup>14</sup> INEGI. 2019 Economic Census. <https://www.inegi.org.mx/programas/ce/2019/>. Thirty-seven percent of businesses are owned by women, while 36 percent are owned by men, 10 percent are owned by both men and women, and 18 percent did not respond.

<sup>15</sup> INEGI. 2021. Características de los establecimientos de propietarios y propietarias: Censos Económicos 2019. [https://www.inegi.org.mx/contenidos/productos/prod\\_serv/contenidos/espanol/bvinegi/productos/nueva\\_estruc/889463900900.pdf](https://www.inegi.org.mx/contenidos/productos/prod_serv/contenidos/espanol/bvinegi/productos/nueva_estruc/889463900900.pdf).

<sup>16</sup> INEGI-CNBV. 2021. 2021 National Financial Inclusion Survey. <https://www.inegi.org.mx/programas/enif/2021/>.

<sup>17</sup> INEGI. 2019. 2019 Economic Census. <https://www.inegi.org.mx/programas/ce/2019/>.

<sup>18</sup> G20/OECD-INFE. 2021. Navigating the Storm: MSMEs' Financial and Digital Competencies in COVID-19 Times. <https://www.oecd.org/financial/education/navigating-the-storm-msmes-financial-and-digital-competencies-in-covid-19-times.htm>.

# Women-owned MSEs are smaller, more informal, less digital, and less financially included

**Women-owned businesses in Mexico tend to be informal microenterprises with very low levels of digitalization and limited access to financial products and services**

(in comparison with national averages). More than one in three enterprises in Mexico are owned by women.<sup>14</sup> Almost all of the women-owned enterprises (99.5 percent) are microenterprises.<sup>15</sup> Informal enterprises represent 62 percent of all enterprises in Mexico on average, but the proportion jumps to 78 percent for women-owned enterprises.

**The gender gap in financial services is largest in account ownership.** According to the latest ENIF, in 2021, 61.9 percent of female adults and 74.3 percent of male adults owned at least one financial product (account, credit, insurance, or pension fund), a gap increase of 5.8 percentage points since 2018. The gender gap is widest in account ownership, increasing to a gap of 13 percentage points in 2021 (43 percent for women compared to 56 percent for men). Access to financing is only slightly less prevalent among women (32 percent) than men (34 percent).<sup>16</sup>

In terms of digitization, 10 percent of women-owned enterprises have computer equipment (vs 20 percent of their male counterparts),

8 percent conduct internet sales (vs 17.5 percent) and 42 percent use an accounting mechanism (vs 54 percent).<sup>17</sup>

The OECD has found that MSEs owned by men are less likely than MSEs owned by women to report a negative economic impact and lack of cash as a result of the COVID-19 pandemic. On average, across G20 countries, they were also more likely to have increased their use of digital financial products and services.<sup>18</sup>

The OECD has also found that the level of digitization of MSEs is positively associated with the level of financial literacy of their owners, with women-owned microenterprises in Mexico reporting lower levels of financial literacy than men (1.4 points less in financial knowledge and 1.8 points less in financial behaviors).

It is critical to note that these **lower levels of financial inclusion and digitalization have left women-owned enterprises less able to cope with the financial distress of the COVID-19 pandemic** and with less access to resources such as digital tools, savings, credit, and insurance to cope through periods of economic shock.

<sup>14</sup>INEGI. 2019 Economic Census. <https://www.inegi.org.mx/programas/ce/2019/>. Thirty-seven percent of businesses are owned by women, while 36 percent are owned by men, 10 percent are owned by both men and women, and 18 percent did not respond.<sup>20</sup> This figure refers to business owners that reported using an accounting mechanism, of which 52 percent use an accounting method they developed themselves (mostly a notebook), 43 percent pay a professional accountant, and just 5 percent use software.

<sup>15</sup>INEGI. 2021. Características de los establecimientos de propietarios y propietarias: Censos Económicos 2019. [https://inegi.org.mx/contenidos/productos/prod\\_serv/contenidos/espanol/bvinegi/productos/nueva](https://inegi.org.mx/contenidos/productos/prod_serv/contenidos/espanol/bvinegi/productos/nueva)

<estruc/889463900900.pdf>

<sup>16</sup>INEGI-CNBV. 2021. 2021 National Financial Inclusion Survey. <https://www.inegi.org.mx/programas/enif/2021/>.

<sup>17</sup>INEGI. 2019. 2019 Economic Census. <https://www.inegi.org.mx/programas/ce/2019/>.

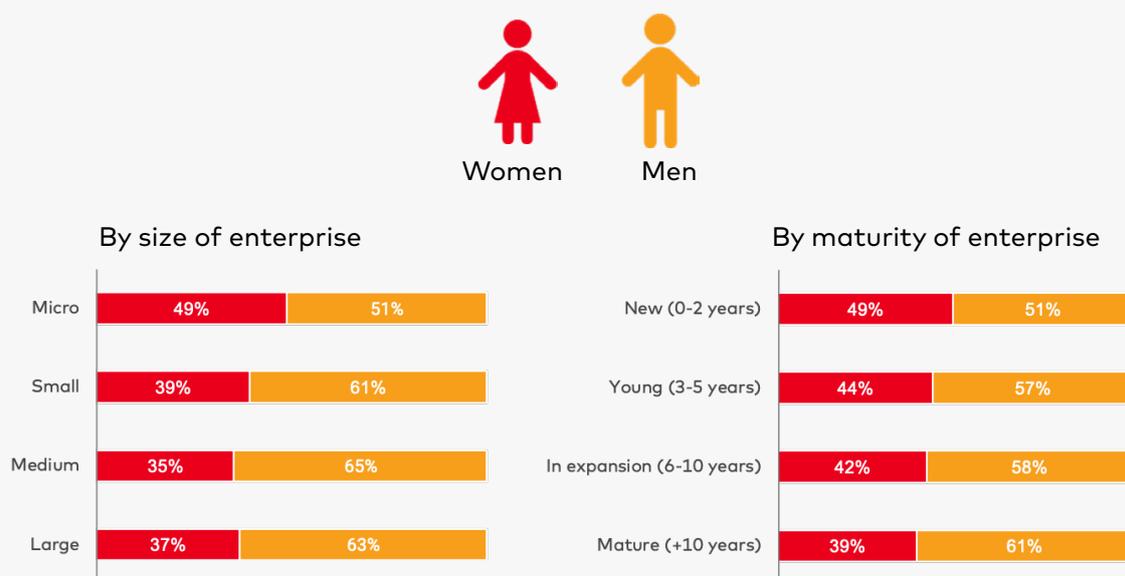
<sup>18</sup>G20/OECD-INFE. 2021. Navigating the Storm: MSMEs' Financial and Digital Competencies in COVID-19 Times. <https://www.oecd.org/financial/education/navigating-the-storm-msmes-financial-and-digital-competencies-in-covid-19-times.htm>

# MSEs employ more women, who are less likely to stay in the workforce

Although new enterprises hire men and women at nearly equal rates, **over time women leave the workforce and become outnumbered by men.** As shown in Figure 2, 61 percent of mature enterprises are owned by men. While the data does not explain why, our qualitative interviews revealed that many women use their business to supplement

their household income and do not commit to them full time because of personal or family obligations.<sup>19</sup> Women are already in more precarious and uncertain labor situations that could be toppled by shocks such as COVID-19 and keep them out of the workforce for long periods or permanently.

Figure 2. Business ownership in Mexico, by gender



Source: INEGI. 2019 Economic Census.

<sup>19</sup> Stakeholder interviews with Blanca Aldasoro (Fundación Capital), Giovana Hernández (CREA), and Ursula Heimann (Solliv). Interviews by Gabriela Zapata. BFA Global. April 20–May 9, 2022.

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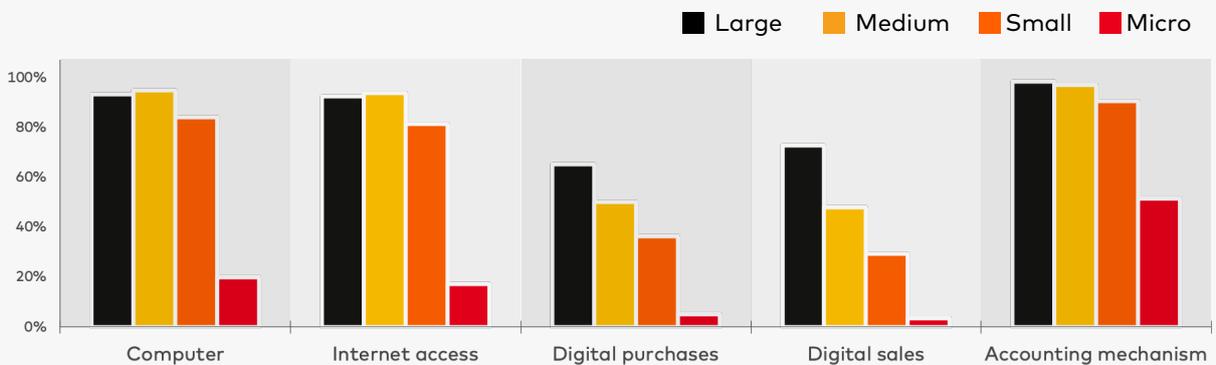
# COVID-19 encouraged MSEs to go digital



Prior to the pandemic, MSEs were least likely to use digital technologies. The digitalization of operations (Figure 3) was especially limited. Half of microenterprises reported keeping track of their business with an accounting mechanism,<sup>20</sup> a figure vastly lower than the 90 percent reported by small enterprises and 97 percent by medium enterprises.

There were also immense gaps between enterprises in terms of internet access and computer equipment ownership. Among microenterprises, 17 percent had access to the internet and 20 percent owned a computer, compared to more than 80 percent for small enterprises – a glaring four to five times difference.

Figure 3. The digital footprint of Mexican enterprises



Source: INEGI. 2019 Economic Census.

<sup>20</sup> This figure refers to business owners that reported using an accounting mechanism, of which 52 percent use an accounting method they developed themselves (mostly a notebook), 43 percent pay a professional accountant, and just 5 percent use software.

# Nearly half of microenterprises started shifting to digital during COVID-19

During the pandemic, 45 percent of microenterprises in Mexico began using digital solutions for their business (either acquiring a digital product or digitizing business operations). Although impressive, this figure lags behind other middle-income countries, such as China, Turkey, and Brazil.<sup>21</sup> Only 30 percent of microenterprises began using at least one digital financial product, whether an account, loan, or insurance. Only 29 percent shifted to digital solutions for at least one of their operations, such as using social media to market their business or selling products on platforms or websites. Digital sales among microenterprises were reported to be 3 percent – minuscule compared to the 30 percent reported by small enterprises and 48 percent by medium enterprises. These figures are similar to those that acquired supplies online, with 5 percent for

microenterprises, 36 percent for small, and 50 percent for medium enterprises.<sup>22</sup> The 2022 INEGI survey suggests further demand for digitalization support; more MSEs hope to digitize once the pandemic ends, including 30 percent of microenterprises.

**Enterprise size is positively related to increased digital activities during COVID-19 in Mexico** and other OECD countries, such as acquiring a financial product or conducting business operations. In Mexico, enterprises with five to nine employees had a higher likelihood (by two-fold) of undertaking digital activities during COVID-19 compared to enterprises with fewer than five employees. The correlation has implications for targeting the META (microenterprise in transition to small) as a subsegment that may more readily adopt digital products and solutions.

<sup>21</sup> G20/OECD-INFE. 2021. Navigating the Storm: MSMEs' Financial and Digital Competencies in COVID-19 Times. <https://www.oecd.org/financial/education/navigating-the-storm-msmes-financial-and-digital-competencies-in-covid-19-times.htm>. In comparison with Mexico, China, Turkey, and Brazil reported using digital products: 42 percent, 49 percent, and 51 percent; digital business operations: 37 percent, 40 percent, 41 percent; digitizing at least one activity: 47 percent, 62 percent, 66 percent, respectively.

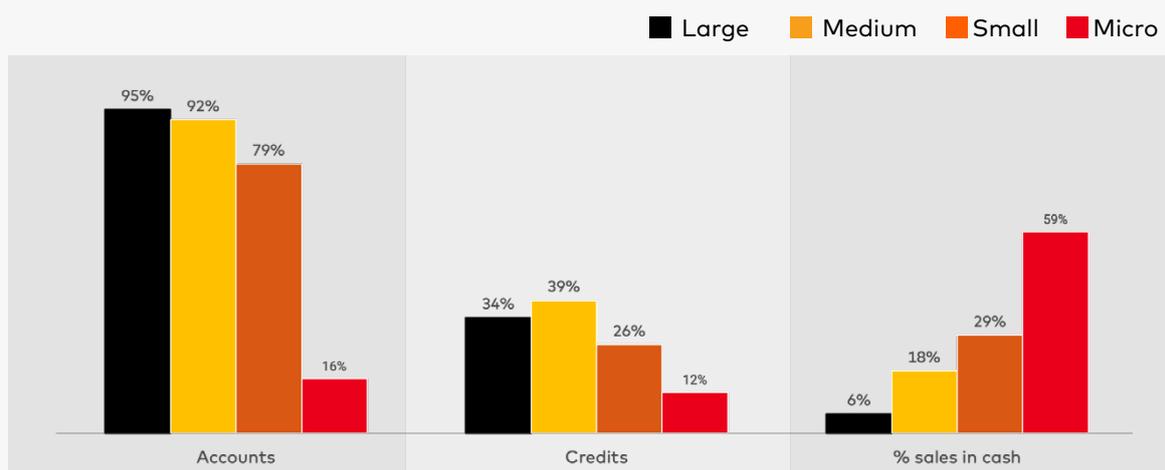
<sup>22</sup> INEGI. 2021. 2021 National Survey on the Economic Impacts of COVID-19 on Enterprises. <https://en.www.inegi.org.mx/programas/ecovidie/#Documentation>.

# COVID-19 increased uptake of digital merchant payments, but not irreversibly

In general, MSEs receive the bulk of their payments in cash and seldom use digital tools (only 24 percent accept payments via wire transfers and only 10 percent via debit or credit card). For microenterprises, this translates into 59 percent of total sales transacted in cash, in contrast to 29

percent for small enterprises, 18 percent for medium enterprises, and 6 percent for large enterprises (Figure 4). Whether an MSE merchant accepts digital payments depends on several factors, such as customer demand, the business owner's willingness to pay service commissions, and their level of digital literacy.

Figure 4. Financial services and payment acceptance



Source: INEGI. 2019 Economic Census.

<sup>31</sup> Venkatesan, Jayshree and Stark, Evelyn. February 2022. A Pact to Promote Resilience: Using a Framework to Understand How Fintechs and their Customers Cope, Survive, and Thrive. Center for Financial Inclusion, Accion. <https://www.centerforfinancialinclusion.org/a-pact-to-promote-resilience>

<sup>32</sup> INEGI. 2019. 2019 Economic Census. <https://www.inegi.org.mx/programas/ce/2019/>

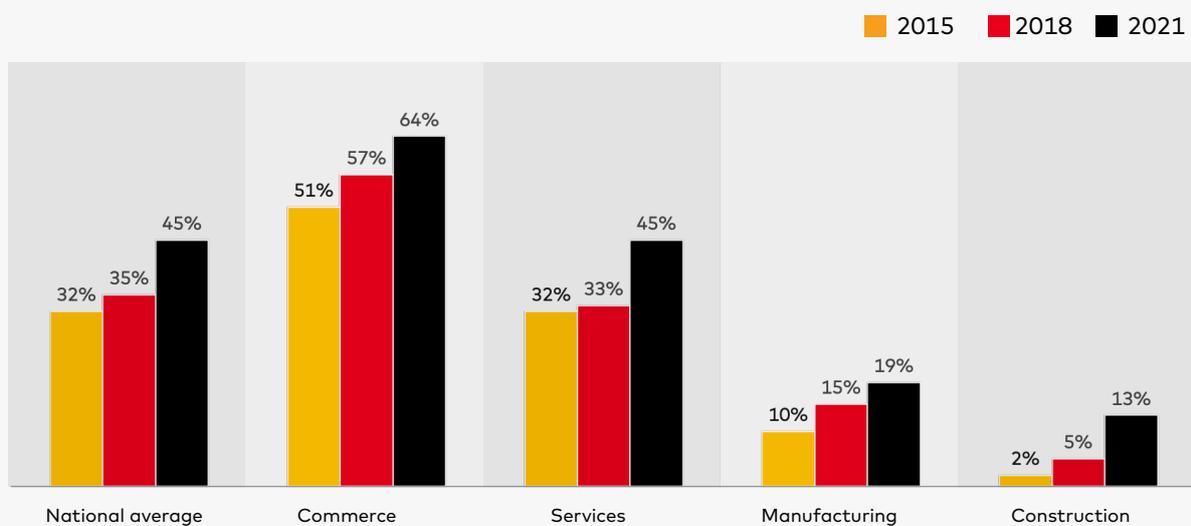
<sup>33</sup> G20/OECD-INFE. 2021. Navigating the Storm: MSMEs' Financial and Digital Competencies in COVID-19 Times. <https://www.oecd.org/financial/>

<sup>34</sup> 2018 National SME Competitiveness and Productivity Survey (ENAPROCE). <https://www.inegi.org.mx/programas/enaproce/2018/>

However, the acceptance of digital payments in Mexico has accelerated in the last three years. From 2018 to 2021, acceptance of digital payments increased by 10 percentage points, much higher than the three percentage point increase in the prior three-year period (Figure 5). Not surprisingly, digital

payments acceptance is higher in commerce than in other industries. The commerce and services industries have experienced the biggest increases in the percentage of enterprises accepting digital payments: 13 percentage points between 2018 and 2021.

Figure 5. Digital payments acceptance in Mexico, 2015–2021



Source: INEGI-CNBV. 2021 National Business Financing Survey.

Note: Results differ from the 2019 Economic Census by date (2021 vs 2019) and the size of enterprises included in the sample (enterprises with at least six employees vs all enterprises in the census).

Although the trend in digital payment acceptance is promising, there is no guarantee it is permanent. A World Bank survey in Latin America and the Caribbean asked first-time digital payment respondents if they would rather use digital payments or cash in stores when the pandemic subsides. On average, half of the users would prefer to remain digital and half would prefer cash. According to the 2021 ENIF, more than half

of the adult population have a debit or credit card, but just one out of four use it to make payments, and **64 percent prefer to pay in cash**. Whether it is a consumer making a digital purchase or a merchant accepting digital payments, this finding suggests there may be a return to pre-pandemic norms. Presumably this would be driven by existing motivations and entrenched behaviors in a world “returning to normal”.



## Case study: Shopkeepers who were digitally and financially included fared better during COVID-19

We conducted primary research on retail shopkeepers who are customers of Frogtek, a data-tech company in Mexico. Frogtek retail shopkeepers are mainly grocery stores in low- and middle-income urban areas with one paid employee on average (nano enterprises). A sample of Frogtek retail shopkeepers was surveyed during May 2022 and we analyzed the data as part of a deep dive into the digitalization and resilience of MSEs.<sup>24</sup>

**Delivery and digital payments acceptance were the operational changes that benefited Frogtek retail shopkeepers most during COVID-19** (44 percent and 32 percent, respectively).<sup>25</sup> These results coincide with the data collected by INEGI for all industries.

According to the OECD, micro, small, and medium enterprises (MSMEs) across

G20 countries that lacked cash during the pandemic were, on average, over 30 percent more likely to have increased their digital activities than MSMEs that did not report a lack of cash. This suggests that MSMEs heavily affected by the COVID-19 crisis may have had to shift to digital to help overcome the shock.<sup>26</sup> The results of our survey showed that **digitalization and financial inclusion went hand-in-hand with better financial outcomes during COVID-19**. By measuring the change in annual sales between two periods during the COVID-19 pandemic, we saw clear differences (Figure 6) between the top performers (top 50 percent of retailers in annual sales) and the bottom performers (bottom 50 percent of retailers in annual sales). Top-performing MSEs used more digitalization strategies to keep their businesses performing in financially challenging conditions.

<sup>23</sup> World Bank, 2021. Adoption of digital payments during COVID-19: new data from the first year of the pandemic. <https://www.worldbank.org/en/publication/globalindex>. The World Bank's Development Research Group conducted a survey on digital payments in Latin America and the Caribbean, which provided data on the use of cards, cell phones, and the internet to make purchases online or in stores, with a sample of 14 countries in the region.

<sup>24</sup> The sample consists of 427 business owners from Frogtek's current shopkeeper base (10 percent of customer base). The survey was distributed through a link and respondents completed the survey

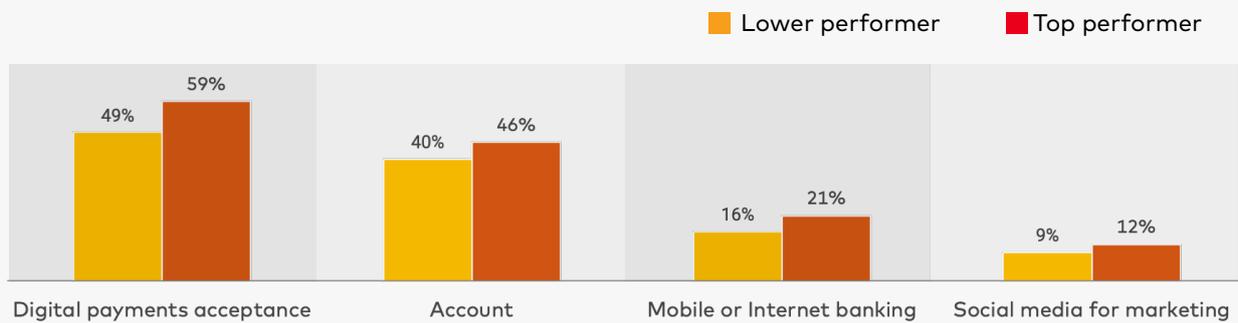
online. An economic incentive was offered to retail shopkeepers to increase the response rate.

<sup>25</sup> The question was: "Which of the following options were or would have been most helpful in dealing with the COVID-19 pandemic?"

<sup>26</sup> G20/OECD-INFE, 2021. Navigating the Storm: MSMEs' Financial and Digital Competencies in COVID-19 Times. <https://www.oecd.org/financial/education/navigating-the-storm-msmes-financial-and-digital-competencies-in-covid-19-times.htm>.



## Figure 6. Financial inclusion and digitalization of Frogtek retailers

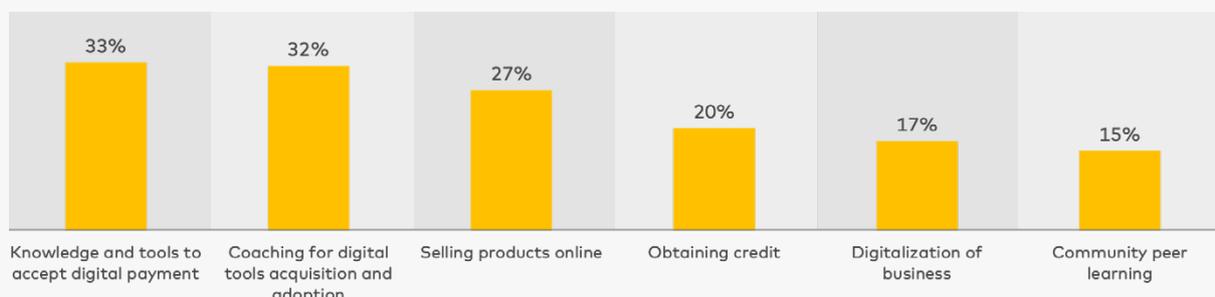


Source: Frogtek retail shopkeeper data

Almost six out of 10 top-performing merchants accepted digital payments compared to less than half of low performers. A higher proportion of top-performing shopkeepers also owned an account (46 percent vs 40 percent) and used mobile banking (21 percent vs 16 percent) and social media for marketing (12 percent vs 9 percent). **Our analysis suggests that tech-enabled Frogtek shopkeepers were able to cope better with pandemic-related shutdowns and orchestrate a more resilient business.** Similarly, a Stanford University study of the impact of payment technology adoption on enterprises in Mexico found that it had a greater impact on measures of

resilience; both sales and survival rates were higher relative to a control group.<sup>27</sup> Frogtek retail shopkeepers noted they would like to receive support in three main areas: **knowledge and tools for digital payments acceptance, coaching to select and use digital tools for their business, and selling products online** (Figure 7).<sup>28</sup> Acceptance of digital payments (33 percent) and selling products online (25 percent) were the main forms of support requested by women-owned retailers. Two Frogtek retailers in Mexico City are profiled in Box 1 and Box 2 to illustrate how various businesses have put digital tools to use for their businesses and their continued need for support.

## Figure 7. Support requested by retail shopkeepers



Source: Frogtek retail shopkeeper data

<sup>27</sup>Kankanhalli, Shreya. April 12, 2022. Incentives for Small Retailers to Climb the Modernization and Digitization Ladder. Penn State University. <https://www.findevgateway.org/blog/2022/04/incentives-small-retailers-climb-modernization-and-digitization-ladder>

<sup>28</sup>The question was: "What kind of support for your business would be most helpful in dealing with any kind of emergency in the future or to make it grow?"

**Box 1.****Microentrepreneur profile: a thriving shopkeeper**

*This profile is based on interviews conducted with Frogtek retailers in Mexico City in June 2022.*

Nancy is in her thirties, married with two children, and has a high school-level education. Her retail shop, La tiendita, is her family's main source of income. Her shop is an example of a thriving microenterprise that's been in operation for over twenty years, passing through generations, from her father to her. Nancy was especially prepared and capable of adapting during the pandemic with her digital savvy. She brought digital inventory management to the business by adopting the Frogtek app in 2017 and more recently, delivery services via WhatsApp.

The CFI's PACT Framework for Resilience is a useful tool to analyze the elements that have put Nancy on a pathway to resilience.

**1. Preparedness:**

Nancy had sufficient revenue, in fact increasing revenue, before the pandemic, which allowed her business to stay afloat. Nancy's shop has accepted card payments since 2017. She currently uses three point of sale (POS) terminals: one for food voucher cards, one for government cash transfer cards, and one for the rest. Having three types of payment infrastructure reduces her dependency on one type of client and expands her revenue streams. Nancy's husband provides another source of household income to cope with unexpected expenses through a low-wage informal job.

**20 percent of the sales are made with cards; customers request this means of payment.**

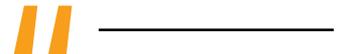
**2. Access**

Nancy does not have any outstanding loans and is not currently interested in applying for one. However, she has expressed interest in a loan but needs to feel confident that she knows how to manage a debt instrument, suggesting that with the right support and knowledge she would employ credit to invest in her business.

**A loan could benefit me if provided with enough information about how it works.**

### 3. Capability

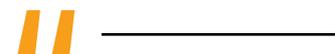
Nancy is especially digitally savvy having used her smartphone/computer/social media to run her business for several years. Her inventory management on the Frogtek app has helped her run the business more efficiently, manage liquidity, and keep stricter control of the inflows and outflows of merchandise. The Frogtek sales tracking feature allows her to monitor sales and has given her a greater sense of control over her business and a willingness to hire personnel and to meet the demands of growth. Having help to run the store has even freed up more time for her personal life. Nancy's quick deployment of delivery services became another revenue stream during the pandemic, demonstrating her ability to search and embark on new business opportunities.



**I'd like to receive guidance on how to remodel my store and buy storage equipment.**

### 4. Ties / Networks

Finally, Nancy recognizes the value she brings to the neighborhood as a small, family-run business, denoted by the steady flow of customers into her shop and her deep relationship with clients as a provider of essential goods and products. She has built her business' social capital by extending credit to her customers, a practice that would not be available in corporate-run supermarkets or chains.



**There should be more support for micro businesses; fewer OXXOs and more families with little stores.**

**Box 2.****Microentrepreneur profile: A shopkeeper couple that is surviving**

*This profile is based on interviews conducted with Frogtek retailers in Mexico City in June 2022.*

Armando and Juanita are in their fifties. They are married with two children and both have a middle school-level education. Their shop is their only source of income. The shop has been in operation for the last thirty years. Their shop is an example of a microenterprise that has been surviving for a long period, but struggling to perform and grow in line with the owners' aspirations. The pandemic set their business and finances back significantly, leaving them in a vulnerable position in the face of any hardship or new shocks. They started accepting digital payments in 2020 as a reaction to client demand to make payments digitally to avoid contact with coins and bills in the wake of the COVID-19 pandemic.

They have been using the Frogtek app-based inventory management tool since 2013. Inventory management and payments are the only business operations they manage digitally.

**1. Preparedness:**

Income from the business has declined over the last decade and today can only sustain the couple, instead of the family of four. The attempt to accept digital payments has reduced their margins which has not been offset by increased sales, because they have not been able to attract more customers. They also did not receive any government support during the peak of the pandemic because they did not know how to request aid from any relief programs.



**The fees for accepting card payments reduce our margins by a third.**

**2. Access**

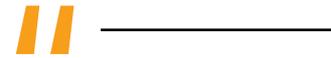
They also report that suppliers offer them credit with low-interest rates, but the financing is limited to the supplier portfolio of products. They feel that credit products and services must be accompanied by capacity building. The continued loss of revenues has made them averse to acquiring a loan. However, they manifested a willingness to have one if their prospects improved in the future.



**We are not interested in a loan for the time being, but we don't rule out requesting one if we receive expert advice on how to use it in the most effective way.**

### 3. Capability

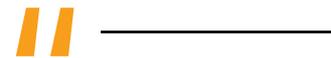
To cope with the COVID-19 pandemic, they only began digitizing aspects of their business such as accepting card payments in 2020 and added home delivery to help smooth the drop in revenue. These changes were a stretch for them, they needed a lot of support to digitize. They say that the Frogtek inventory management tools have helped them track revenues, in which they have begun to understand how their business is being impacted by COVID-19. Prior to this, they were managing the business with scarce data to support any operational adjustment or make any significant business decisions



**I would like to receive support on how to use credit and receive payments with QR codes and WhatsApp.**

### 4. Ties / Networks

During the pandemic, they experienced a rapid decline in sales and did not have any support from friends, family, or the government. This situation put them at a crossroads: either reducing their household basic expenses or closing the business. Direct competition from OXXO made them fearful of losing clients and stopped them from raising their prices. Only by stretching their family budget did they stay afloat.



**A better strategy is needed to ensure the sustainability of this kind of business. Otherwise, small shops will disappear**

Source: BFA Global

In the introduction we posed the questions: "Which microenterprise is more resilient? One that is thriving or one that has been surviving? What does each microenterprise need to meet its goals for the short term and sustain itself in the long term?" Both businesses have demonstrated varying degrees of resilience even if one shop is a high performer compared to the other, relative to annual sales. At the very least, both shops have managed to stay in business during the pandemic. However, they clearly differed in the gaps that their businesses needed to close and their appetite to address them. Nancy could benefit from improvements in her capability by receiving

proper advice for acquiring a loan. Armando and Juanita need support on all fronts of resilience, for example, tailored advice to increase and diversify their revenue streams, access to information regarding government support programs, starting a savings cushion, and growing their customer base to recover their sales volumes.

**Each microenterprise shop demonstrated the need for specific strategies to improve along four resilience dimensions**, which we examine in detail in the following section.

# Why MSEs have **low levels** of resilience

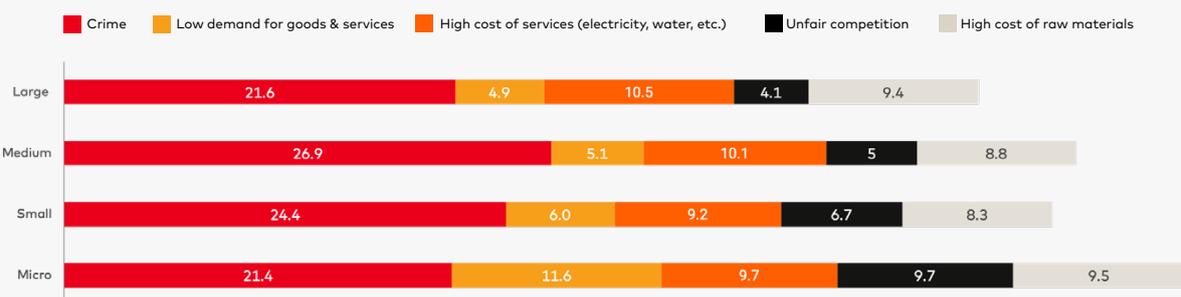


Even though MSEs do not drive as much employment or contribute as much to GDP as large enterprises, their sheer numbers mean that **supporting MSEs would have a broad impact on the Mexican economy**. Microenterprises, in particular, are as profitable as large enterprises, with both recording annual margins of 35 percent, on average.<sup>29</sup> For individuals and households living on low wages and with scarce employment opportunities, microentrepreneurship is an

economic necessity and a lifeline.

**Microentrepreneurs reported higher obstacles to running their businesses** (Figure 8), with more than 60 percent citing at least one barrier compared to 50 percent of large enterprises.<sup>30</sup> Although crime is the greatest impediment for enterprises of all sizes, low demand for goods and services and unfair competition were more than twice as important for microenterprises as they were for large enterprises.

Figure 8. Main obstacles to running a business in Mexico



Source: INEGI. 2019 Economic Census.

Conscious of the challenges MSEs face and the circumstances in which they operate, the following sections unpack why MSEs have low levels of resilience, and the support they need to become more resilient. Using the CFI PACT framework, we assess how MSEs stack up against these dimensions, highlight

their needs, and identify opportunities to strengthen their resilience. **We argue that MSEs could become more resilient if support for digitalization and access to financial services were better tailored to the needs of different types of MSEs.**

<sup>29</sup>INEGI. 2019. 2019 Economic Census. <https://www.inegi.org.mx/programas/ce/2019/>. Average profitability: income from selling goods and services / sum of expenses for inputs plus wages - 1. A more digitized operation could possibly result in efficiency gains for MSEs and thus improve their margins.

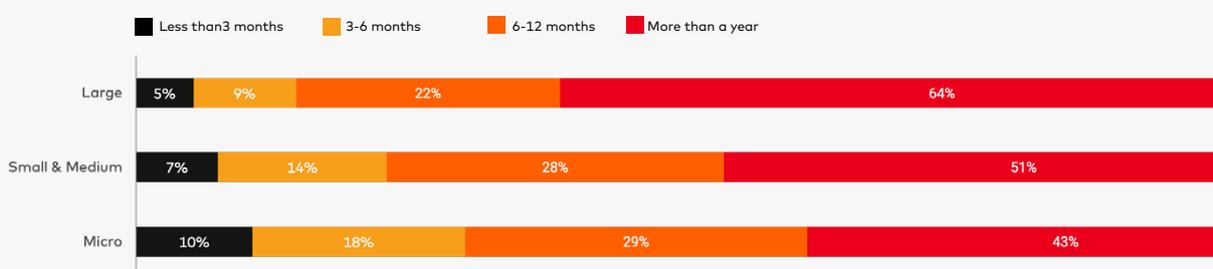
<sup>30</sup>INEGI. 2019. 2019 Economic Census. <https://www.inegi.org.mx/programas/ce/2019/>.

# Preparedness: MSEs have fewer means to prepare for and cope with shocks

All Mexican enterprises exhibit low levels of financial resilience, but a lack of preparedness is especially prevalent among microenterprises. Preparedness refers to “the ability to anticipate challenges and leverage financial tools (both formal and informal) to cushion, if not fully mitigate, a shock when it arises.”<sup>31</sup> In terms of livelihood, lower productivity translates into lower salaries for MSEs employees.<sup>32</sup> An employee at a microenterprise earns, on average, US\$259, while an employee at a small business earns US\$358, at a medium enterprise US\$542, and at a large enterprise US\$775. Lower earnings were also reflected in the INEGI survey, which

considered the economic impact of COVID-19 in 2021 based on the number of months enterprises were able to continue operating on current pandemic income (Figure 9). Fifty-seven percent of microenterprises reported being unable to operate for more than a year with their current pandemic income compared to small and medium enterprises (49 percent) and large enterprises (37 percent). A lack of emergency preparedness was also evidenced by the fact that 68 percent of microenterprises reported that cash inflows were insufficient to cover outflows or pay for expected business expenses during COVID-19.<sup>33</sup>

Figure 9. Number of months Mexican enterprises could operate with current pandemic income



Source: INEGI. 2021 National Survey on the Economic Impacts of COVID-19 on Enterprises.

<sup>31</sup> Venkatesan, Jayshree and Stark, Evelyn. February 2022. A Pact to Promote Resilience: Using a Framework to Understand How Fintechs and their Customers Cope, Survive, and Thrive. Center for Financial Inclusion, Accion. <https://www.centerforfinancialinclusion.org/a-pact-to-promote-resilience>

<sup>32</sup> INEGI. 2019. 2019 Economic Census. <https://www.inegi.org.mx/programas/ce/2019/>.

<sup>33</sup> G20/OECD-INFE. 2021. Navigating the Storm: MSMEs' Financial and Digital Competencies in COVID-19 Times. <https://www.oecd.org/financial/education/navigating-the-storm-msmes-financial-and-digital-competencies-in-covid-19-times.htm>

With regard to insurance, only seven percent of microenterprises have a policy.<sup>34</sup> This low level of protection contrasts sharply with the occurrence of emergencies or unexpected events. One out of four microenterprises experienced a loss, damage, or other unexpected events in 2018. Eighteen percent were assaulted or robbed, six percent experienced flooding, and one percent a fire.

Having timely access to a financial product and being able to use it adequately provide a buffer against emergencies. However, this behavior is hampered when enterprises do not trust financial institutions. In Mexico, 45 percent of microenterprises reported a lack of trust in approaching banks.<sup>35</sup> Whereas more than 79 percent of larger businesses have a bank account, only 16 percent of microenterprises do.<sup>36</sup> As we have learned

from our research on MSEs in Africa, microenterprise shops draw on informal sources, such as personal funds, family, savings groups and microfinance to capitalize their businesses.<sup>37</sup>

In Mexico, 32percent of microenterprises keep separate accounts. This holds true among the Frogtek shopkeepers we surveyed, with only 44percent of them maintaining personal and business accounts separate. This suggests that microenterprises tend to invest their personal funds to operate their business instead of resorting to financial services providers, highlighting the need for MSEs for more ways to manage and maintain their income flows, expand when demand increases and access relevant financial instruments to draw from when the need arises.<sup>38</sup>



<sup>34</sup>2018 National SME Competitiveness and Productivity Survey (ENAPROCE). <https://www.inegi.org.mx/programas/enaproce/2018/>.

<sup>35</sup>G20/OECD-INFE. 2021. Navigating the Storm: MSMEs' Financial and Digital Competencies in COVID-19 Times. <https://www.oecd.org/financial/education/navigating-the-storm-msmes-financial-anddigital-competencies-in-covid-19-times.htm>.

<sup>36</sup>INEGI. 2019. 2019 Economic Census. <https://www.inegi.org.mx/programas/ce/2019/>.

<sup>37</sup>Hassan, Michelle. September 27, 2018. Getting the Timing Right: The Life Cycle of a Small Shop in Africa. BFA Global. <https://bfa-global.com/fibr/insights/getting-the-timing-right-the-life-cycle-of-a-small-shop-in-africa/>.

<sup>38</sup>G20/OECD-INFE. 2021. Navigating the Storm: MSMEs' Financial and Digital Competencies in COVID-19 Times. <https://www.oecd.org/financial/education/navigating-the-storm-msmes-financial-anddigital-competencies-in-covid-19-times.htm>.

<sup>39</sup>INEGI. 2019. 2019 Economic Census. <https://www.inegi.org.mx/programas/ce/2019/>.

# Access: Not all MSEs are interested in taking out a loan, but it is expensive for those that seek financing

**Microenterprises often use personal funds to run their businesses.** The ENIF revealed that in the 12 months prior to the survey, more than 600,000 respondents had used or planned to use personal funds to start, grow, or run their business. Although larger microenterprises and those in transition from micro to small enterprises (META) face a funding gap, overall, interest in credit among MSEs is low. According to INEGI's 2019 Economic Census, only 12 percent of microenterprises and 16 percent of small enterprises had an outstanding loan, and 56 percent mentioned "no need" as the main reason for not having one. Other reasons included lack of interest, lack of knowledge of the value proposition, and unwillingness to take on debt. Of the microenterprises that had a loan, 41 percent of microenterprises reported that a bank was the source of credit, compared to 81 percent of small enterprises and 86 percent of medium enterprises.<sup>39</sup>

The CFI PACT framework defines access as "having access to capital when and where you need it." However, the 2021 National Business Financing Survey demonstrated that for many enterprises, pricing sensitivity around the high cost of credit kept them from actively pursuing loans. **One in three microenterprises reported the cost of credit was the main**

**barrier to getting a loan,** compared to just 16 percent of small, 12 percent of medium, and 8 percent of large enterprises. In its 2021 Annual Financial Inclusion Outlook, the CNBV reported that business loan interest rates for MSMEs were, on average, 5.4 percentage points higher than for larger enterprises.

**Informality and fear of taxation play an important role in the cost of credit.** Fear of taxation limits the amount of data that is collected on the commercial activities and performance of informal MSEs. For financial services providers (FSPs), this makes it more difficult and risky to offer loans to MSEs quickly and at better rates. Informal microentrepreneurs who are clients of microfinance institutions (MFIs) and credit unions currently pay higher rates and taxes on "repurposed" consumer loans that carry a 16 percent VAT, since they cannot access VAT-free productive/commercial loans. They are also typically restricted to rigid credit products (MFI group lending cycles) or slow loan approval processes (credit unions). **While access to credit does not seem to be a central need of many MSEs, those who do need it would benefit from lower rates and better products that only data-driven risk models can offer.**

# Capability: Mexican microentrepreneurs exhibit low financial capability

Capability is having the "advice-seeking behavior, know-how, and the ability to respond quickly in terms of adversity."<sup>40</sup> For business owners, **financial capability is vital for digitalization and resilience**. However, according to the OECD 2022 survey, which measured the preparedness of business owners to face uncertainty, setbacks, and temporary failures, **Mexican microentrepreneurs exhibit low levels of financial capability**,<sup>41</sup> performing low across three measures of financial capability:<sup>42</sup>

**Financial knowledge** measures critical elements required to reap the benefits of financial services and make informed financial decisions, such as an understanding of interest rates, risks, inflation, dividends, and equity.

**Financial behaviors** measure activities such as emergency preparedness, separation of accounts, shopping around before acquiring a financial product, and keeping track of financial records.

**Savvy financial attitudes** measure the extent to which businesses exhibit desirable business traits.

The OECD survey also assessed the degree to which several sociodemographic characteristics of business owners and their enterprises increase the likelihood of a higher financial capability score. The low financial capability of MSEs is consistent with organizations that do not generally receive much training. Only two percent of workers at microenterprises have received capacity building compared to 59 percent of those employed at large enterprises. This gap may be magnified by the fact that only half of the workers at microenterprises have a basic education compared to roughly one out of three at small and medium enterprises.<sup>43</sup>

**A business owner's education also seems to be positively correlated with financial capability.** This was demonstrated by a 12-point difference between owners who have a college degree and those with less than upper secondary school. However, entrepreneurial experience, gender, and economic activity do not seem to affect the score.

<sup>40</sup> Venkatesan, Jayshree and Stark, Evelyn. February 2022. A Pact to Promote Resilience: Using a Framework to Understand How Fintechs and their Customers Cope, Survive, and Thrive. Center for Financial Inclusion, Accion. <https://www.centerforfinancialinclusion.org/a-pact-to-promote-resilience>.

<sup>41</sup> G20/OECD-INFE. 2021. Navigating the Storm: MSMEs' Financial and Digital Competencies in COVID-19 Times. <https://www.oecd.org/financial/education/navigating-the-storm-msmes-financial-and-digital-competencies-in-covid-19-times.htm>

<sup>42</sup>1. Financial knowledge: Business owners in Mexico struggle with the interest rate and dividend question, with only 50 percent and 43 percent, respectively, getting the question right. On the other hand, more than 80 percent knew the concept of inflation and risks.

2. Financial behaviors: Only one out of five Mexican MSEs could cope with theft by using savings or insurance, instead of closing shops temporarily or for

good, or requesting a loan. Less than one in three MSEs reported separating their business and personal accounts and doing price comparisons. In contrast, at least 90 percent adjust their planning according to the economic situation and keep track of financial records.

3. Savvy financial attitudes: In particular, less than half agree with the statement that assesses confidence: "I am confident to approach banks and external investors to obtain business finance," and the one that measures business planning: "I prefer to follow my instinct rather than make detailed financial plans for my business". In contrast, 81 percent agree with setting long-term financial goals for their business and striving to achieve them. Mexican business owners scored the lowest on all savvy financial behaviors.

<sup>43</sup>INEGI. 2019. 2019 Economic Census. <https://www.inegi.org.mx/programas/ce/2019/>

# Ties (Network): Women have weaker ties to the formal economy, but deep ties to social and informal networks

Ties refer to the networks and the value of interactions and connections between individuals and the organizations around them.<sup>44</sup> Women-owned MSEs tend to operate in more informal networks and in the informal economy. A higher proportion of women-owned enterprises rely on friends and family (19 percent) and informal providers (9 percent) than those owned by men (18 percent and 6 percent respectively).<sup>45</sup> Women's strong reliance on close informal networks was also evidenced in our interviews. These networks are familiar and enable women to better manage expectations and meet demand.<sup>46</sup>

**Women-owned enterprises, on average, have fewer assets and employ less-educated personnel,** which translates into lower productivity, measured by value-added. One out of five employees at enterprises owned by men has a college degree, compared to only 16 percent at women-owned enterprises. **Women also have 36 percent fewer fixed assets than men** (average value of US\$3,100 vs US\$4,800).<sup>47</sup> As a result, women are constrained by a lack of professional networks, organizational assets, and know-how that would enable them to acquire resources and better manage their businesses.

**Trust is essential in a woman's decision to use digital tools in her business, and these trust-based networks and tools could help to reach more women.** Microwd is a fintech company offering crowdfunded microloans and mentoring to women, serving approximately 3,600 clients in Mexico. In interviews, Microwd indicated that most women operate their businesses locally because even the most enterprising are fearful of selling outside their known circles.<sup>48</sup> Widely used WhatsApp and Facebook are trusted tools and used primarily by women business owners to promote their goods and services, and to a lesser extent to sell. Other interviewees mentioned the need for handholding, coaching, and high-touch tech to promote the adoption of digital tools, but these approaches are quite expensive. A sustainable way to lower costs and barriers to adoption for women would be to employ a peer-based network to transfer knowledge – an approach that has been used successfully in adolescent sex-ed programs in Mexico. Given the need for trust and guidance for the enhanced use of some digital tools or uptake and use of new ones, the Ministry of Economy raised the need for a mentoring platform that could be serviced by volunteers from Google, Mercado Libre, and other companies, to be scalable.

<sup>44</sup> Venkatesan, Jayshree and Stark, Evelyn. February 2022. A Pact to Promote Resilience: Using a Framework to Understand How Fintechs and their Customers Cope, Survive, and Thrive. Center for Financial Inclusion, Accion. <https://www.centerforfinancialinclusion.org/a-pact-to-promote-resilience>.

<sup>45</sup> INEGI. 2021. Características de los establecimientos de propietarios y propietarias: Censos Económicos 2019. [https://www.inegi.org.mx/contenidos/productos/prod\\_serv/contenidos/espanol/bvinegi/productos/nueva\\_estruc/889463900900.pdf](https://www.inegi.org.mx/contenidos/productos/prod_serv/contenidos/espanol/bvinegi/productos/nueva_estruc/889463900900.pdf).

<sup>46</sup> Stakeholder interviews with Blanca Aldasoro (Fundación Capital), Giovana Hernández (CREA), and Jesús de la Escosura (Microwd). Interviews by Gabriela Zapata. BFA Global. April 20–May 9, 2022.

<sup>47</sup> Ibid.

<sup>48</sup> De la Escosura, Jesús. "Stakeholder interview with Microwd." Interview by Gabriela Zapata. BFA Global. May 5, 2022.

# 5

## Segmenting MSEs and tailoring support are critical



Segmenting MSEs enables a more precise assessment of businesses most likely to adopt digital tools and demonstrate the digitally-enabled road to resilience. It also enables a deeper understanding of the needs and motivations of different segments, and the barriers they face to adopting digital tools which, in turn, helps service providers to tailor their support.

**A deeper understanding of different MSE segments entails meeting MSEs where they are,** learning which tools they are already familiar with, and which ones are available, affordable, and relevant to their needs. This will help to ensure that interventions are designed to generate quick, positive results with a clear outcome.

**It is also important to target MSEs by gender to meet the needs of underserved women business owners.** Even women who are more educated and know and trust digital tools often do not know which ones to use for their business or how to use them. Prevailing social norms also need to be considered using

a gender lens.<sup>49</sup> Men are often considered the main providers while women provide supplementary income (a consumption-smoothing role), with **aspirations to sustain rather than grow their enterprises.** Time is scarce, particularly for women raising children who may prefer smaller, less time-consuming businesses that provide a stable income. Drawing on insights from research and our stakeholder interviews, we examine four MSE segments and compare their key attributes by size.

**Nearly a quarter (23 percent) of microenterprises reported being reluctant to grow.** The two most-cited reasons for this were being satisfied with the current size of the business and the inability or unwillingness to manage a business expansion.<sup>50</sup> In interviews, stakeholders also pointed out that growth can often be complex and involve change management, hiring and training capable staff, and greater responsibilities (money management, wages, taxes, labor law compliance), among other complexities that enterprises are weary to undertake.<sup>51</sup>

<sup>49</sup> Aldasoro, Blanca. "Stakeholder interview with Fundación Capital." Interview by Gabriela Zapata. BFA Global. April 18, 2022.

<sup>50</sup> Ibid.

<sup>51</sup> Stakeholder interviews with Ursula Heimann (Solliv) and Blanca Aldasoro (Fundación Capital). Interviews by Gabriela Zapata. BFA Global. April 20–May 9, 2022.

# Microenterprises (0–10 employees)

The 4,555,263 microenterprises currently operating in Mexico account for 95 percent of businesses, employ more than 10 million workers (a third of the workforce), and generate 11 percent of the country's GDP. While a segment of microenterprises showed reticence to expand as addressed in the previous section, four out of five want to grow

their business. This is especially true for the largest microenterprises. Microenterprises are largely excluded from the financial system, seldom use digital tools, and the smallest microenterprises have little interest in credit. **Many microenterprises need support to recover, grow, innovate, and adopt digital tools successfully.**

Economic and social outlook	Digitalization and resilience	Financial services
Women are overrepresented in microenterprises as employees and owners.	The adoption of digital tools has accelerated since 2019, mainly due to COVID-19.	Only one in six has a financial account.
COVID-19 hit them hardest.	Most still struggle to acquire and use digital tools.	Only one in eight has an outstanding loan from an FSP.
They were less able to adjust how they operated in response to COVID-19.	Almost all keep track of their businesses using an accounting mechanism (50 percent notebooks, 45 percent accountants, and 5 percent software).	Almost 70 percent of sales are in cash.
Their salaries and productivity are much lower than SMEs.	Computer equipment and internet access are not common.	More than 70% would reject a loan from an FSP.
They represent a larger proportion of enterprises in the economy since the start of the pandemic.	Low levels of financial resilience.	Cooperatives and MFIs play a bigger role as FSPs than banks.
		Interest rate levels are a major barrier to accessing credit.

Source: BFA Global, based on the 2019 Economic Census.

The microenterprise segment can be further broken down into analytical subsegments to understand the differences between smaller and larger microenterprises and tailor support accordingly. The nano/sole proprietor subsegment is the largest in number and tends to be the least digital and the least interested in credit. The larger, upper-end microenterprise subsegment is the smallest in number, but more willing to take on credit despite facing a financing gap.

## Definitions of MSE subsegments and other enterprise segments in Mexico

	<b>Sole proprietorship or "nano"</b>	Enterprises from 0 to 2 employees: <b>33 million enterprises.</b>	A segmentation created for analytical purposes in this research.
	<b>Micro (Lower-end)</b>	Enterprises from 3 to 5 employees: <b>945K enterprises.</b>	A segmentation created for analytical purposes in this research.
	<b>Micro (upper-end)</b>	Enterprises from 6 to 10 employees: <b>277k enterprises.</b>	A segmentation created for analytical purposes in this research.
	<b>Meta (in transition)</b>	Enterprises from 6 to 15 employees: <b>357k enterprises</b>	A segmentation created by some practitioners for analytical purposes.
	<b>Small</b>	Enterprises with 11 to 50 employees: <b>193k enterprises.</b>	INEGI's definition for small enterprises.
	<b>Medium</b>	Enterprises with 51 to 250 employees: <b>41k enterprises.</b>	INEGI's definition for medium enterprises.
	<b>Large</b>	Enterprises more than 250 employees: <b>11k enterprises.</b>	INEGI's definition for large enterprises.

# META (microenterprises in transition) (6–15 employees)

The 357,000 METAs in Mexico generate practically the same sales and employ the same number of people as the country's 4.5 million microenterprises. In other words, a META delivers almost 12 times as much as a smaller microenterprise (nano and lower-end). As an enterprise in transition from micro to small, the high-end of META begins to overlap

with the small enterprise, which is defined as 11 to 50 employees. The META subsegment seeks permanence, greater returns and, often, growth.

METAs are largely financially included (i.e., have access to basic accounts) and often use digital and mobile payments. This group

is more likely to seek credit but faces a funding gap. Recent primary research by Promujer and Tecnológico de Monterrey on the “missing middle” in Latin America measured the range of credit that women-owned SMEs seek as between US\$17,000 and US\$200,000.<sup>52</sup>

Types of METAs	Characteristics	Examples
<p><b>Structured business</b></p> 	<ul style="list-style-type: none"> <li>• Solid foundations</li> <li>• Well-defined staffing structure</li> <li>• Well-defined market</li> <li>• Keep accounting records</li> <li>• Follow a sales strategy</li> <li>• Ready for expansion with adequate financing</li> <li>• Able to develop new products, marketing, and sales channels</li> </ul>	<p>Manufacture of kitchen utensils; production of edible flavoring and baking ingredients</p>
<p><b>Semi-structured business</b></p> 	<ul style="list-style-type: none"> <li>• Highly variable structure, adapted to current needs rather than a long-term strategy</li> <li>• To achieve significant expansion, they need:                             <ul style="list-style-type: none"> <li>• Financing</li> <li>• Specialized personnel</li> <li>• Greater division of labor</li> </ul> </li> <li>• Processes that do not necessarily depend on the direct supervision of the business owner</li> </ul>	<p>Garment factory (maquila); food processing</p>
<p><b>Personal business</b></p> 	<ul style="list-style-type: none"> <li>• Very limited growth capacity</li> <li>• Require:                             <ul style="list-style-type: none"> <li>• Division of labor</li> <li>• Delegation of functions</li> <li>• Greater resources</li> </ul> </li> <li>• Limited market for their products/services</li> </ul>	<p>Small architecture firm</p>

Source: Heimann, Ursula. Solliv. 2022. META: *Transforma tu negocio*.

<sup>52</sup> Galván Carvajal, Eileen and Villarreal Hernández, and Alexa Fernanda. June 28, 2022. Emprendedoras en situación de Missing Middle: Opciones de financiamiento. Tec de Monterrey/ Pro Mujer & Zona Shero/ Fair Center/ Women Forward/ Center for Inclusive Growth. <https://promujer.org/mx/es/missing-middle>.

# Small enterprises (11–50 employees)

The 193,423 small enterprises in Mexico account for 4 percent of all businesses, 40 percent of employment, and an almost equal percentage contribution to GDP.

Economic and social outlook	Digitalization and resilience	Financial services
Women are underrepresented in this segment as employees and owners.	The adoption of digital tools has accelerated since 2019, mainly due to COVID-19.	More than three in four have an account.
They were hit as hard as microenterprises by COVID-19, but were better able to make changes to their operations.	Many are acquiring and using digital tools.	One in four has an outstanding loan from an FSP.
They represent a smaller overall proportion of enterprises in the economy since the start of the pandemic.	More than 90% use an accounting system to keep track of their business (one in three uses a third-party mechanism like software or an app).	Almost 30% of their sales are in cash.
Their productivity and salaries are half that of large businesses.	Nearly a quarter had a computer and internet access, but a minority buy or sell products and services digitally.	Banks are their main FSP.
	They exhibit low levels of financial resilience, but higher than microenterprises.	Access to credit and paying taxes seem to be more important to running their businesses properly than for microenterprises.

Source: IBFA Global, based on the 2019 Economic Census.

# A lack of coordinated and targeted support for MSE resilience

A visual mapping exercise of key players engaged with MSEs allowed us to hone in on three subsegments of interest:

		
<p>Sole proprietor or nano enterprises (0–2 employees)</p>	<p>Lower and upper microenterprises (3–10 employees)</p>	<p>META (6–15 employees)</p>



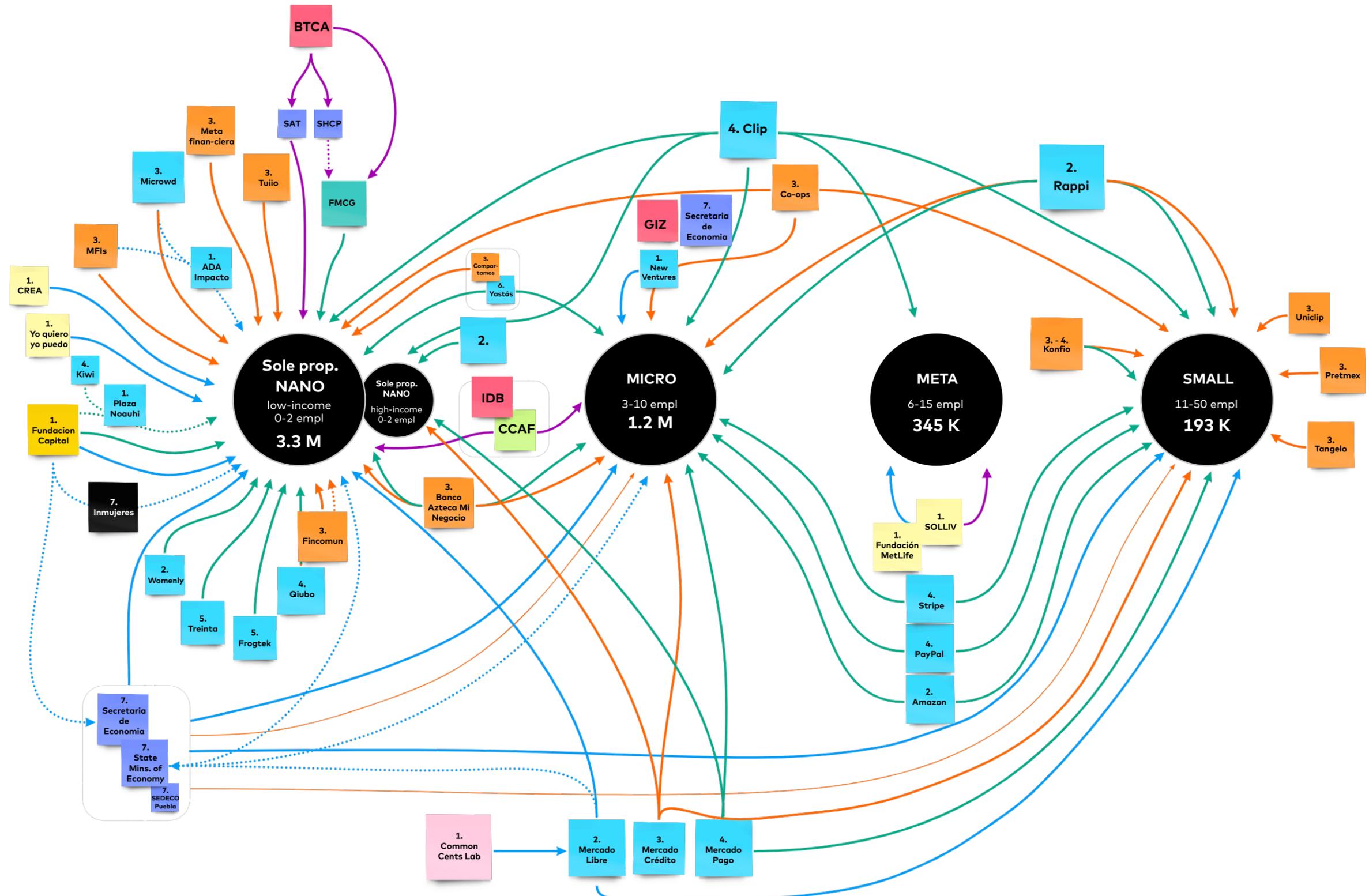
# Figure 10. Ecosystem map of MSE subsegments

This map (Figure 10) provides a non-comprehensive visualization of actors that interact with MSEs. The largest of the three subsegments – the 3.3 million sole proprietors or nano segment – shows a concentration of actors with initiatives that range from capacity building to digital tools, loans, and research. Our research shows scarce evidence of a positive overall impact on the resilience and growth of this subsegment.

Interaction Type	Private Sector	Training / upskilling	Knowledge	Government
Provides Capacity Bldg	Apex institution	FSPs	Apex institution	NGOs
Provides Digital tools	Startups / Hubs	Corporates	Academia	Gov't
Provides credit				Int'l agency
Chanelled through				
Less significant focus				
Research/Advice/Regulation				

**Mapping Key:**

1. Technical assistance, support, coaching to MSEs and providers
2. E-commerce platforms
3. Lending service providers
4. Payments service providers/aggregators
5. MSE Solution Stack (Digital business tools)
6. Agent network
7. Government Agencies



Some actors, such as the Ministry of Economy at the federal and national levels, support all MSE segments – low and higher income, formal and informal – with a wide array of programs. However, they have limited budgets and primarily offer general training and some modest financial support. Digital tool providers also offer support to all MSE segments, although some clearly target specific subsegments, such as corner shop retailers.

With few exceptions, e-commerce platforms tend to more successfully work with higher income segments, which are better able

to thrive on the platforms. Some credit providers (e.g., MFIs) mainly target informal nano and microenterprises while others focus exclusively on formal businesses. Capacity-building efforts are extremely diverse and focus on a wide range of topics for different segments and subsegments, from budgeting to marketing, sales, and digital tool adoption (e.g., for payments, inventory management, social media, and e-commerce). Capacity-building providers that target low-income nano and microenterprises are primarily NGOs or governments.



## There is no learning community about MSEs

Despite the numerous initiatives by diverse institutions in support of MSEs, we observed that there is no single entity or effort that systematically collects and disseminates learnings and insights on the successes and failures of these initiatives. Few institutions conduct impact evaluations. Some publish

project reports. Even from the interviews, we did not detect any knowledge hubs or learning communities that intentionally focus on helping inform subsequent initiatives, building on existing knowledge, and saving time on repetitive trial and error while charting paths to MSE resilience.

6

## Roads to resilience for MSEs in the digital economy



To serve MSEs well, focus on subsegments and have clear targets

Our interviews shed light on several pathways to resilience for MSEs and opportunities to support digital adoption and transformation. These include the need to segment MSEs and support efforts that address the needs of different groups and the barriers they face to adopting and using digital tools. For microenterprises, access to financial services, digitalization, and business performance differ widely from that of small, medium, and large enterprises. For this segment, meaningful support could include Tech + Touch strategies for smaller and more vulnerable enterprises, especially those owned by women.

Target industries where MSEs dominate and digitization is low

The largest microenterprise industries (by the number of employees) are the least digital: repair and maintenance, food and beverage preparation, and retail commerce. This disparity has been quantified by the **Digitization Index** (Box 3), developed by BFA Global to compare the digitization of microenterprises and small enterprises and the digitization of industries.

**Box 3.**

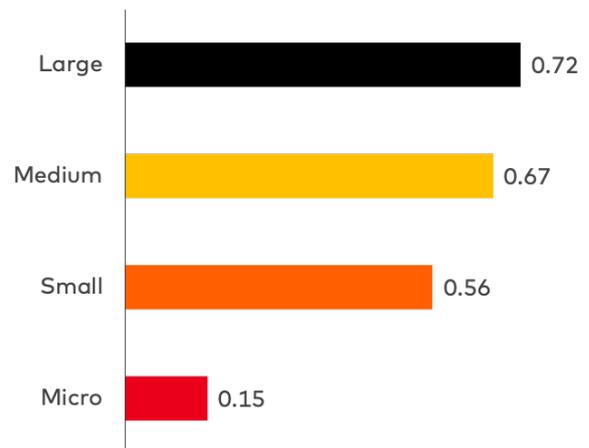
## A Digitization Index to compare enterprises and industries

To capture the level of digitization in a single number, BFA Global created an index using indicators that would express the digital status of industries (e.g., retail, beauty salons, food, and beverage preparation) and enterprise size.

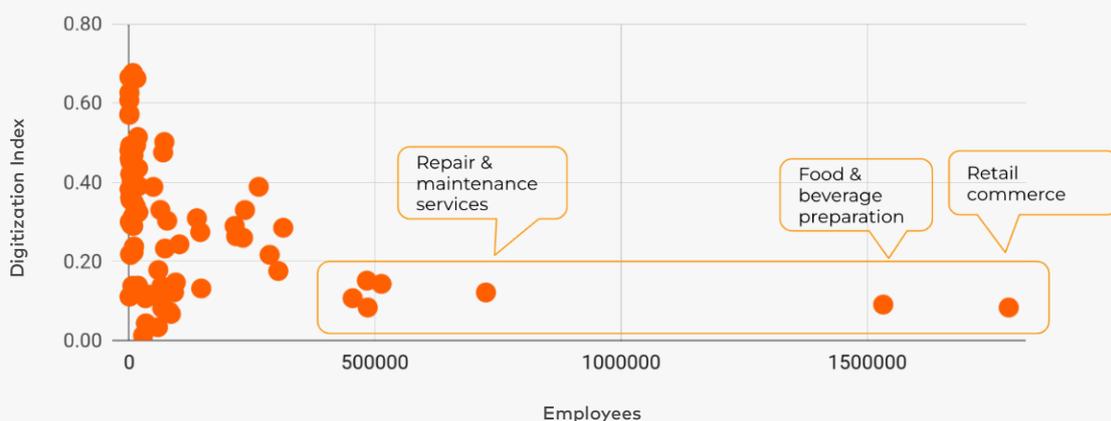
The index comprises six indicators: computer equipment, internet access, online sales, online purchases, digital payments acceptance, accounts, and a digital accounting system. In all cases, it refers to the percentage of enterprises with each attribute. All six indicators were weighted equally for ease of understanding and expressed in an index from 0 to 1. The raw data for the indicators was sourced from the 2019 Economic Census.

The results on the right indicate that microenterprises lag behind small enterprises by almost four times (0.15 vs 0.56). This difference is substantial in comparison to the gap between small and medium enterprises or medium and large enterprises.

The index was also used to assess the digitization of microenterprises across industries. Among microenterprises, only 20 industries have more than 300,000 employees.



Industries in which microenterprises employed more workers (i.e., retail commerce and food and beverage preparation) scored lower on the digitization scale.



The Digitization Index highlights industries where there are a high number of MSEs but are the least digital. To reach high numbers of MSEs at scale, support for digitization should prioritize two sectors: retail commerce and food and beverage preparation. Our analysis of MSE sectors by gender revealed that women tend to be more employed in food and beverage preparation, as well as in the retail trade of personal use items, beauty salons, and the retail trade of textiles and clothing accessories.<sup>53</sup>

We cannot stress enough: if efforts to support Mexico's 4.5 million microenterprises are to make a difference, MSEs need to be segmented further. Programs supporting MSEs should have a clear objective to build resilience and consider the following questions that are relevant to the context of MSEs:



### 1. Preparedness

How can our services build income, savings and uptake of insurance?



### 2. Access

What are appropriately tailored resources and infrastructure, such as digital tools, financial services (beyond credit), and knowledge for the MSE segments? Are we rightfully targeting the segments of entrepreneurs that desire credit to grow?



### 3. Capability

In addition to delivering information, how is our curriculum addressing critical behavior changes and building financial savviness?



### 4. Ties

How can we leverage and build on strong community ties, especially among women, to accelerate digitalization?

<sup>53</sup> DENEUE, INEGI. 2021. [Subsector 463]; 2021-4Q Employment National Survey (ENOE); INEGI. 2019. 2019 Economic Census. <https://www.inegi.org.mx/programas/ce/2019/>

## Target women-owned MSEs on social networks

As MSEs shifted to doing business digitally during COVID-19, selling over social networks became a key way for microenterprises to stay afloat or to pivot to online models to generate income. Social commerce is particularly important for young, more digitally savvy MSEs, and is also attractive to women-owned MSEs as it provides flexible working hours and the ability to work out of the home, especially in informal and livelihood-supporting contexts.<sup>54</sup>

In Mexico, the “Nenis” or “Nueva Emprendedora de Negocios por Internet” – new female online business entrepreneurs – may be an ideal segment to focus on since these sellers seek training and support.<sup>55</sup>

From BFA Global’s work in accelerating inclusive digital commerce startups in West Africa such as Tendo,<sup>56</sup> we observed that women resellers were more successful than men at using social commerce to market and sell online, using word of mouth, acting as an influencer, and tapping into their trusted social networks.

Still, the e-commerce opportunity for women-owned MSEs through selling over social networks is not well defined. According to La Asociación Mexicana de Venta Online (AMVO), a trade organization representing online sales (e-commerce) institutions, only about 500,000 enterprises in Mexico sell online, and only 2–10 percent have considerable sales. However, given that e-commerce is still a nascent industry in Mexico, data is likely underreported. There is currently a lack of disaggregated data to distinguish between MSMEs that sell online, whether B2B and B2C or by their line of business (e.g., food vs construction material; sales via social media vs marketplaces).<sup>57</sup>

<sup>54</sup>Roest, Joep and Bin-Humam, Yasmin. September 7, 2021. Forging Her Own Path: Women and Informal Online Commerce. CGAP. <https://www.cgap.org/blog/forging-her-own-path-women-and-informal-online-commerce/>.

<sup>55</sup>Guzmán, Jaime. “Stakeholder interview with SEDECO Puebla.” Interview by Gabriela Zapata. BFA Global. May 9, 2022.

<sup>56</sup>Tendo. BFA Global, Catalyst Fund Inclusive Digital Commerce. <https://bfaglobal.com/catalyst-fund/inclusive-digital-commerce/>.

<sup>57</sup>Blaise, Pierre-Claude and Victoria Albanesi. “Stakeholder interview with Asociación Mexicana de Venta Online (AMVO).” Interview by Gabriela Zapata. BFA Global. May 10, 2022.

<sup>58</sup>Zepeda, Jorge. “Stakeholder interview with Frogtek.” Interview by Gabriela Zapata. BFA Global. April 28, 2022.

<sup>59</sup>Oriol, Isabel. “Stakeholder interview with ADA Impacto.” Interview by Gabriela Zapata. BFA Global. May 6, 2022.

<sup>60</sup>Saldívar, Mario. “Stakeholder interview with Metafinanciera.” Interview by Gabriela Zapata. BFA Global. May 5, 2022.

<sup>61</sup>Zepeda, Jorge. “Stakeholder interview with Frogtek.” Interview by Gabriela Zapata. BFA Global. April 28, 2022.

## Target the META subsegment as likely digital adopters

It is widely recognized that smaller and lower-income MSEs, particularly those owned by women, require a hybrid Tech + Touch approach (often with more touch than tech). Face-to-face or human-assisted onboarding, as well as timely and friendly human-operated customer support, are key for adoption and continuity of use.<sup>58</sup>

**Mentoring, both peer-to-peer and institutional, is vital to encourage digital adoption and facilitate successful use for all types of MSEs.**

However, effective mentoring strategies and the infrastructure to support them are both needed.<sup>59</sup> Microwd, a startup focused on providing loans to low-income women microentrepreneurs, is looking for ways to scale its capacity-building support efforts to identify and train “extraordinary women.” Microwd’s clients value social incentives of leadership and mentoring roles as much as financial ones. Microwd is working with ADA Impacto, a platform focused on capacity building for women microentrepreneurs, to train them to become coaches for other women, helping them to use digital tools to improve their business and become trusted advisors in their networks.

Another proponent of trust-based networks, Metafinanciera, an MFI providing loans to low-income women via digital wallets, confirmed that high social interaction among their female market segment is enabling digital adoption and generating network effects.<sup>60</sup> Frogtek retail shopkeepers ranked coaching in digital tools as their top need, with one out of six identifying a peer-to-peer learning platform as an extremely valuable form of support.<sup>61</sup>

Peer-to-peer and institutional mentorship, in-person when necessary, can be an effective way to motivate behavior change, foster adoption and successful use of digital tools, and retain users.<sup>62</sup> The infrastructure for a scalable mentorship platform is needed, for example, a chatbot to address FAQs. Volunteer mentors could be drawn from companies like Google, Facebook, Mercado Libre, and other tech platforms to provide non-automated answers or guidance.<sup>63</sup>

<sup>62</sup>De la Escosura, Jesús. “Stakeholder interview with Microwd.” Interview by Gabriela Zapata. BFA Global. May 5, 2022.

<sup>63</sup>Mungaray, Ana Bárbara. “Stakeholder interview with the Ministry of the Economy.” Interview by Gabriela Zapata. BFA Global. May 10, 2022.

<sup>64</sup>Stakeholder interviews with Ana Bárbara (Ministry of Economy), Barbara Magnoni (Noahui), and Ursula Heimann (Solliv).

## More collaboration is needed to support MSEs and have a greater impact

A host of public and private actors interact with MSEs in a variety of ways, from technical assistance to financial support, loans, training, technology transfer, digital onboarding assistance, and others. During the pandemic, only three percent of SMEs received government support. While several actors offer capacity-building support for MSEs, there has been very little collaboration. A clear pattern emerged from our direct stakeholder interviews: **no single actor is focusing on building more measurably resilient businesses.** There is enormous duplication of training and onboarding efforts across public and private sector institutions. While some efforts do not sufficiently target MSEs, others (over)target the same segments. Several providers ruefully reflected that large training programs barely scratch the surface, duplicate content, and have not demonstrated sufficient impact because programs suffer from a lack of a targeted and segmented approach.

**Most stakeholders could be playing a bigger role in supporting the MSE ecosystem.** For instance, many digital solution providers and fintech companies are vying for market share and invest a great deal of capital in customer acquisition. However, this singular focus on growth leads to companies onboarding the same MSE customers instead of “expanding the pie”. Meanwhile, federal and state governments fund many MSE support programs, but do not have a clear strategy to optimize scarce resources and tend to focus on outputs rather than more substantive outcomes. Few providers have major influence among microentrepreneurs in terms of reputation and trust, which we established is especially important for women-owned MSEs. Even fewer offer products and services that would help MSEs become more resilient. In contrast, some NGOs have both high levels of influence and engagement with microenterprises, but also lack a clear focus on resilience outcomes. Some of these players are potential partners that could

raise awareness of, and draw attention to, the needs of MSEs.

**There is a conspicuous absence of a learning community in the MSE ecosystem focused on resilience outcomes.** There is scarce to no funding for impact evaluations and few academic institutions and think tanks are doing research on MSEs. This gap highlights the need for academic actors to play a bigger role in the ecosystem by generating evidence of the impact of digitalization on the resilience of MSEs.

The lower a microentrepreneur is at the “bottom of the pyramid”, the more barriers they face to digital adoption and the more support they need to manage their business and become more resilient. This is not to overlook entrenched barriers such as connectivity and data plans, which are still an issue for many, especially women.

It is important to be aware of what digital tools are available, affordable, realistic, and relevant for MSEs, and to be clear about the impact these technologies are expected to have on resilience and growth. Meaningful impacts on MSEs are more feasible when support is focused, through both pilot and larger initiatives tailored by region, MSE segment, gender, and industries.

Like the MSEs in our research that want to go digital and become more resilient, we are also hopeful. There is room for innovation and for support programs to strengthen resilience, but no single actor can move the needle on its own. By working with an array of actors, including fintech companies, NGOs, and local, state and national government, more evidence and lessons can be generated to support Mexican MSEs with meaningful digital roads to resilience.

# Appendix



## Methodology

### Desk research and data analysis

Our desk research was based on a quantitative, two-pronged approach. We first gathered and analyzed existing data on MSEs in Mexico, relying heavily on the 2019 Economic Census conducted by the National Institute of Statistics and Geography (INEGI). The census, which is conducted every five years, provided a wealth of information on the characteristics of enterprises with a physical outlet, across all sectors except the primary sector. The census was the source of our analysis of Mexico's main economic data, such as employment, economic value added, productivity, and number of enterprises, among other indicators.

The census was complemented by two surveys to capture the more current landscape of financial services: the 2021 National Survey of Business Financing and the 2021 National Survey of Financial Inclusion (ENIF). Both surveys were conducted by INEGI in collaboration with the National Banking and Securities Commission (CNBV).

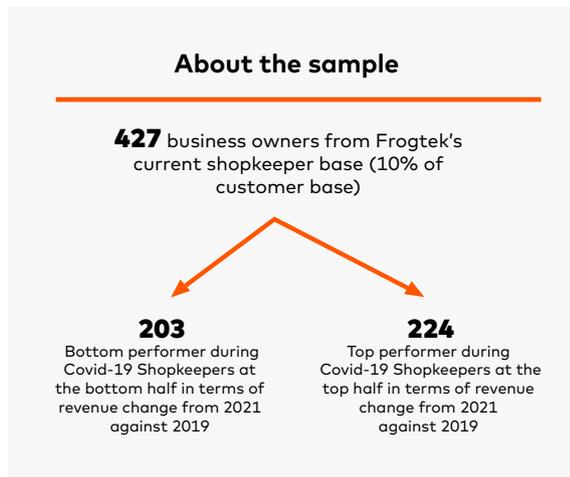
Information related to the impact of the COVID-19 pandemic was obtained from two sources: INEGI's 2021 National Survey on the Economic Impacts of COVID-19 on Enterprises and the G20/OECD-INFE. The latter provides a cross-country analysis of the impact of digitalization and financial capabilities during the pandemic.

We then conducted primary research, drawing on a sample of retail shopkeepers who are customers of Frogtek, a business

<sup>66</sup>G20/OECD-INFE. 2021. Navigating the Storm: MSMEs' Financial and Digital Competencies in COVID-19 Times. <https://www.oecd.org/financial/education/navigating-the-storm-msmes-financial-anddigital-competencies-in-covid-19-times.htm>.

<sup>66</sup>Frogtek. n.d. Empowering micro-entrepreneurs through business tools in mobile devices. <https://www.frogtek.org/>.

management inventory and data analytics firm in Mexico. The sample consisted of 427 business owners representing 10 percent of Frogtek's customer base. Frogtek retail shopkeepers are mainly grocery stores in low- and middle-income urban areas with an average of one paid employee.



The survey was conducted during the first week of May 2022. It was distributed through an SMS link and respondents completed the seven open-ended and multiple-choice questionnaires online. To ensure a higher response rate, respondents received a financial incentive to participate.

To distill more insights about the relationship between financial inclusion, digitalization, resilient behavior, and COVID-19 coping strategies, the survey was sent (simultaneously) to two different groups of retailers: the top 50 percent and bottom 50 percent economic performers during the pandemic (from 2020 to 2021). Finally, we interviewed and prepared two profiles of small retailers in Mexico City: Nancy (Box 1) and Armando and Juanita (Box 2).

## Digitization Index

To create a digitization profile of MSEs and compare differences between enterprise segments (micro, small, and large), BFA Global created an index using a set of indicators that capture the digital status of industries and the size of enterprises (Box 3). The Digitization Index comprises six

indicators: computer equipment, internet access, online sales, online purchases, digital payments acceptance, accounts, and an accounting system. In all cases, the indicator values are measured as the percentage of enterprises that possess each attribute, with all six indicators weighted equally for ease of understanding. The values were then converted from percentages into scores ranging from 0 to 1.

## Stakeholder interviews

To pinpoint the gaps in using digital tools to strengthen the resilience and support the growth of MSEs, we conducted one-hour virtual interviews with 21 relevant stakeholders in Mexico. These included payment aggregators, e-commerce platforms, tech providers, consulting enterprises, agent networks, marketplaces, NGOs, executing agencies, apex institutions, FSPs, government agencies, and international and multilateral institutions.

The interviews shed light on several areas of opportunity, including the need to segment MSEs and support efforts that address the specific needs of different subsegments and the barriers they face to adopting and using digital tools successfully. These include Tech + Touch strategies for smaller and more vulnerable enterprises, especially those led by women.

A particularly poignant finding was the number of public and private players in Mexico that are providing capacity building, digital tools, and loans to MSEs without considering how these efforts contribute to the resilience of these enterprises. Given the size of the MSE ecosystem in Mexico – more than 4.5 million enterprises – and the magnitude of their need to survive and grow, these uncoordinated efforts, particularly with support for digitalization, are a lost opportunity.

# Frogtek survey

We developed the following questionnaire for Frogtek retailers to collect data on three aspects: 1) the economic impacts of the COVID-19 pandemic; 2) the business support received and operational measures taken to strengthen resilience; and 3) the digitalization and financial capabilities of the business owner.



## 1. Knowing the business

**1.1 Do you own any of the following products or services or perform any of the following activities for your business?** [More than one answer is allowed.]

1. A website dedicated exclusively to selling your products
2. Use social media to promote your products
3. Own an enterprise deposit account
4. Own a business credit card
5. Perform payroll disbursement
6. Use mobile banking for your business
7. Use internet banking for your business
8. Pay for basic services online
9. Pay taxes online

## 2. Measuring COVID-19 impact and resilience measures

**2.1 Did your business experience any of the following negative consequences of COVID-19?** [More than one answer is allowed.]

Staff reduction

1. Decrease in salaries or benefits for staff
2. Lack of supply, raw materials, finished goods, or items bought to sell
3. Income reduction
4. Demand reduction or canceled orders
5. Cash flow shortages
6. Less access to financial services

7. None of the above

**2.2 Did your business receive support from any of the following institutions to face the COVID-19 pandemic?** [More than one answer is allowed.]

1. Government
2. Chambers of commerce or business associations
3. Didn't receive any support

**2.3 Did your business take any of the following operational measures to face the COVID-19 pandemic?** [More than one answer is allowed.]

1. Home office
2. Request an emergency loan
3. Start delivering goods and services
4. Selling goods and services via internet or digital platforms
5. Offer special discounts
6. Offer new goods and services
7. Close your business temporarily
8. None of the above

### 3. Measuring financial resilience

**3.1 In case you face a situation in which the revenue of your business falls by half or more, considering savings and available credit lines, how long would you be able to continue operating?** [More than one answer is allowed.]

1. Less than 1 month
2. Between 1 and 2 months
3. Between 2 and 4 months
4. More than 4 months

**3.2 Imagine that tomorrow you discover that most of the equipment you need to run your business has been stolen. Which of the following statements best represents what you would do?** [Only one option can be selected.]

1. I would use the money I saved for business emergencies.
2. I would file an insurance claim for all or part of what was stolen.
3. I would take out a loan to buy new equipment.
4. I would use personal or household resources.
5. I would borrow money or equipment from family or friends.
6. I would close the business temporarily or permanently.
7. I don't know, I've never thought about how I would deal with that situation.

### 4. Strengthened financial resilience

**4.1 What kind of operational adjustments have been or would have been most useful for facing the COVID-19 emergency?** [More than one answer is allowed.]

1. Accept digital payments in-store or online
2. Selling products and services online
3. Obtaining loans from a financial institution
4. Carrying out business operations through digital means (payment to providers, sales, inventory records, payroll payments, tax filing, etc.)
5. Delivery services
6. None of the above

**4.2 What kind of support for your business would have been more useful to face the COVID-19 pandemic?**

[More than one answer is allowed.]

1. Accepting digital payments in-store or online

2. Selling products and services online
3. Obtaining loans from a financial institution
4. Carrying out business operations through digital means (payment to providers, sales, inventory record, payroll payment, tax filing, etc.)
5. Receiving advisory services on the best options in the market for digital tools
6. Receiving training on the use of digital tools
7. Having access to a knowledge-sharing platform for business owners
8. None of the above

### 5. Measuring financial literacy

**5.1 Which of the following alternatives represents your situation regarding an account with a financial institution?** [Only one option can be selected.]

1. I use the same account for home and business.
2. I have separate accounts for home and business, but it's hard for me to manage my home and business finances separately.
3. I manage the accounts strictly separately.
4. I don't have an account.
5. I don't know.

**5.2 Thinking about the way you run your business, do you agree with the following statements?** Please indicate any of the following: Strongly Agree/Agree/Disagree/Strongly Disagree.

1. I usually forecast the profitability of the enterprise.
2. I compare the different costs of financing for the business.
3. I set long-term financial goals for the business and strive to achieve them.
4. I prefer to follow my instincts instead of making detailed financial plans for my business.

**5.3 Which of the following statements are true or false?**

1. Dividends are part of a business' payments to a bank to pay off a loan.
2. If a financial investment offers you the possibility of making money easily, it can also be easily lost.
3. A 15-year loan typically requires higher monthly payments than a 30-year loan, but the total interest payment will be less.

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