



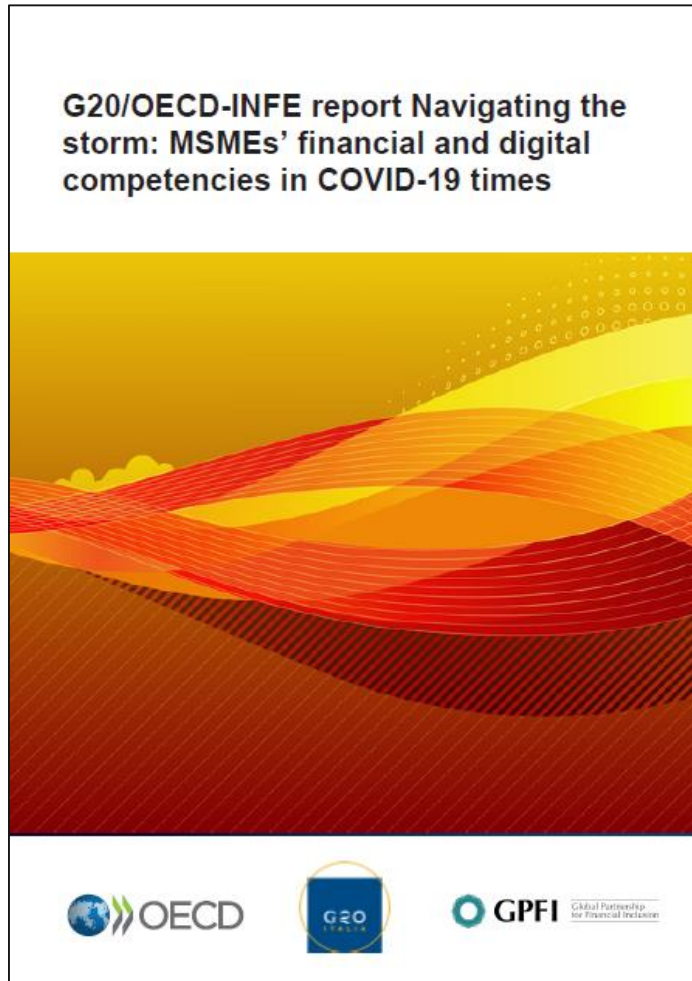
G20/OECD-INFE REPORT NAVIGATING THE STORM: MSMES' FINANCIAL AND DIGITAL COMPETENCIES IN COVID-19 TIMES

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Workshop CCA “Why Financial Literacy is increasingly important and increasingly multifaceted” – 29 October 2021



G20/OECD-INFE report Navigating the storm: MSMEs' financial and digital competencies in COVID-19 times



- Developed for the G20 Global Partnership for Financial Inclusion in the context of Italy's Presidency of the G20 in 2021
- Based on a primary data collection in 14 countries:
 - G20 countries: **Brazil, China, France, Germany, Italy, Mexico, Russia, Saudi Arabia, Turkey**; and,
 - non-G20 countries: **Georgia, the Netherlands, Peru, Portugal, Spain**



Background

- **Motivation:**
 - Several international surveys to measure the FL of adults and young people (PISA), but this is the first for MSMEs owners
 - Severe impact of the COVID-19 crises on MSMEs
 - Growing digitalisation of MSMEs, especially during COVID-19
- Based on a **questionnaire**
 - developed by the OECD/INFE to be internationally relevant
 - piloted in Brazil, Chile, Italy, Lebanon, Portugal, Russia and South Africa in 2018-2019
 - Revised in 2020 to add information about COVID-19 in collaboration with the Bank of Italy



Methodological information

- Data collected by countries on a voluntary basis
- Data collection took place between March and September 2021
 - “surviving” firms
- Respondents are owners of businesses with up to 49 employees
- All the analysis are based on OLS or logit regressions, with robust SE and sampling weights
- Multivariate analysis taking into account
 - Owners characteristics: gender, education, experience as entrepreneurs
 - Business characteristics: size (number of people) and sector
- Country level analysis. Averages are means of country results
- Associations, no causation



Aim

1. Mapping the financial literacy, account holding, and digitalisation of MSMEs
2. How did the COVID-19 pandemic affect MSMEs?
3. How did financial literacy and digitalisation help MSME navigate the storm?



Measuring financial literacy

Table 3. Financial knowledge score

Question number	Label	Core competency area	Value towards final score
QK7_1	Dividends are part of what a business pays to a bank to repay a loan	Financing the business	1 for correct response [false]. 0 in all other cases.
QK7_2	When a company obtains equity from an investor it gives the investor part of the ownership of the company	Financing the business	1 for correct response [true]. 0 in all other cases.
QK7_3	If a financial investment offers the chance to make a lot of money it is likely that there is also a chance to lose a lot of money	Risk and insurance [similar to adults' survey]	1 for correct response [true]. 0 in all other cases.
QK7_4	High inflation means that the cost of living is increasing rapidly	External influences [same as adults' survey]	1 for correct response [true]. 0 in all other cases.
QK7_5	A 15-year loan typically requires higher monthly payments than a 30-year loan, but the total interest paid over the life of the loan will be less	Planning beyond the short term	1 for correct response [true]. 0 in all other cases.

Table 5. Financial attitudes score

Question number	Label	Core competency area	Value towards final score
QK2_1	I set long term financial goals for the business and strive to achieve them	Planning beyond the short term [similar to adults' survey]	1 for long-term attitude [4 or 5]. 0 in all other cases.
QK2_2	I am confident to approach banks and external investors to obtain business finance	Financing the business	1 for confident attitude [4 or 5]. 0 in all other cases.
QK2_4	I prefer to follow my instinct rather than to make detailed financial plans for my business	Risk and insurance	1 for prudent attitude [1 or 2]. 0 in all other cases.

Table 4. Financial behaviour score

Question number	Label	Core competency area	Value towards final score
QP2	Separation account	Basic payment and deposit services	1 for separate account [3]. 0 in all other cases.
QP5	Shopping around	Basic payment and deposit services	1 for shopping around [1 or 4]. 0 in all other cases.
QM3	Keeping track of financial records	Keeping records and accounting	1 for keeping track formally [1, 2, 4, 5]. 0 in all other cases. The question is optional for businesses with 10 or more employee; in this cases one point will be awarded.
QM4	Thought about retirement	Risk and insurance	1 if thought about how to fund retirement [1]. 0 in all other cases.
QM6	Strategies to cope with theft	Risk and insurance	1 for thinking ahead of a way of insuring the equipment [1 or 2]. 0 in all other cases.
QM7_1	I keep secure data and information about the business	Financial protection for MSMEs	1 for agreeing [3 or 4]. 0 in all other cases.
QM7_2	I compare the cost of different sources of finance for the business	Financing the business	1 for agreeing [3 or 4]. 0 in all other cases.
QM7_3	I forecast the profitability of the business regularly	Planning beyond the short term	1 for agreeing [3 or 4]. 0 in all other cases.
QM7_4	I adjust my planning according to the changes in economic factors	External influences	1 for agreeing [3 or 4]. 0 in all other cases.

- Sum of points (5+9+3)
- Greater weight on behaviour
- Rescaled to 0-100



Measuring digitalisation

Digital activities related to financial products and services:

- Opening a bank account completely online
- Signing a financing contract (e.g. a bank loan) completely online
- Signing an insurance contract completely online
- Online payments from customers as a percentage of total payments from customers
- Online payments to suppliers as a percentage of total payments to suppliers
- Operations on a current account conducted online, as a percentage of total operations on the current account

Digital activities related to sales and other business operations:

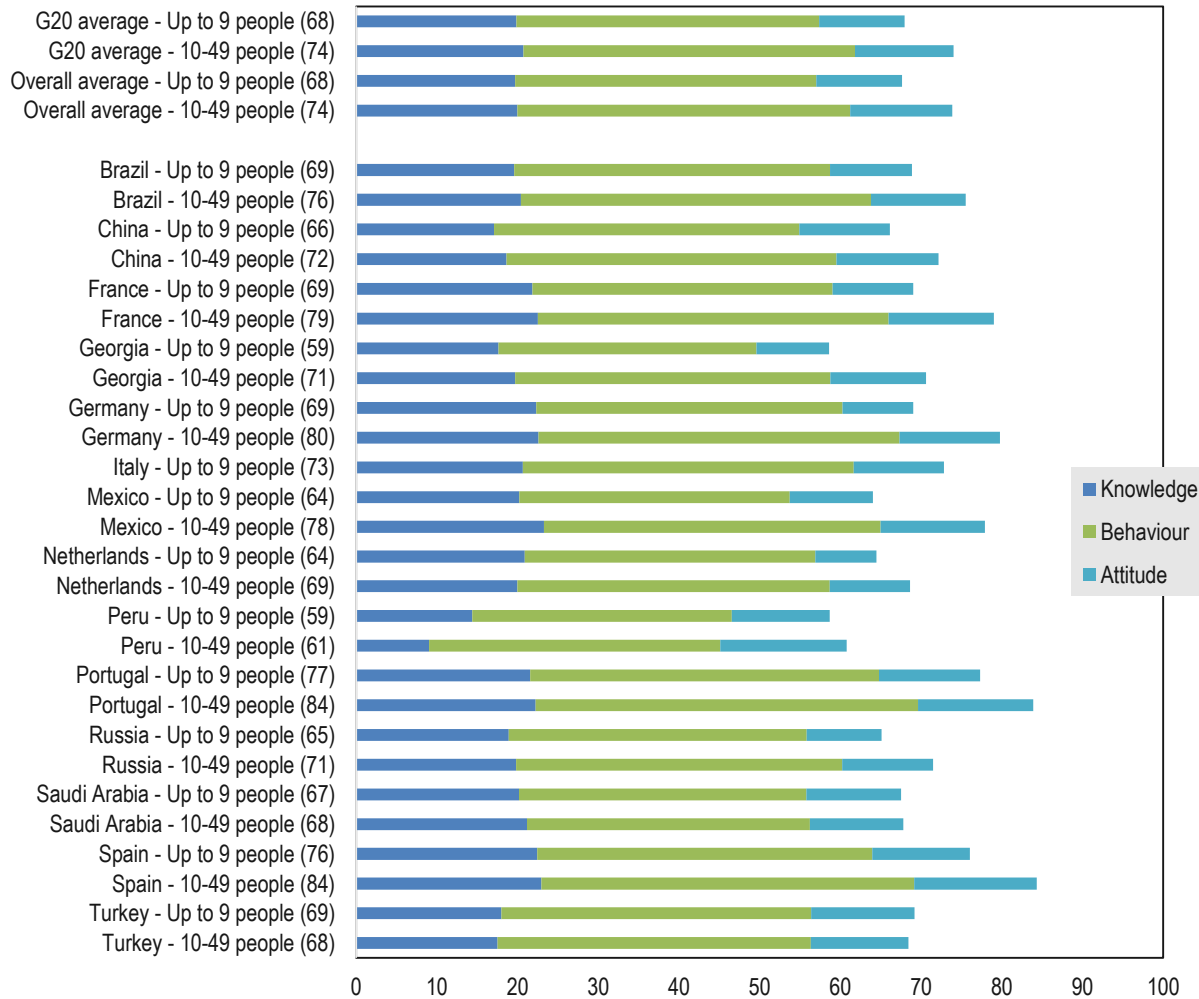
- Having a dedicated website to showcase the products or services of the business
- Having a dedicated website to sell the products or services of the business
- Sales of products or services through your business' website as a percentage of total sales
- Sales of products or services through a shared online platform as a percentage of total sales
- Use of social media for business activity such as advertising or networking

- **Sum of points (1 = “yes” or “quite or very large”)**
- **Rescaled to 0-100**



Low financial literacy among MSME owners

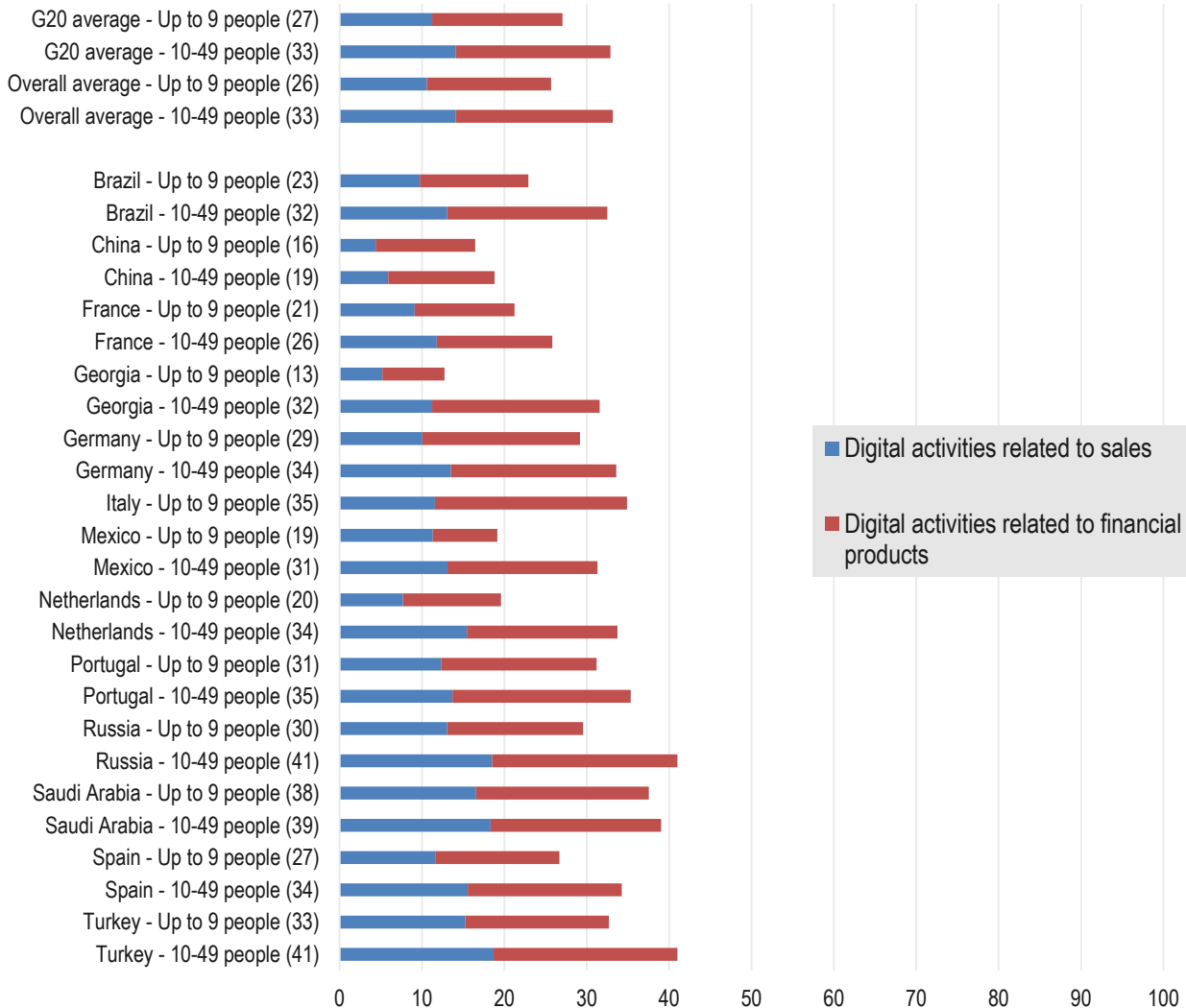
Financial literacy of MSME owners



- On average across G20 participating countries, only 27% of MSME owners with up to 9 people and 41% of MSME owners with 10-49 people showed **high levels of financial literacy**
- On average across G20 countries, financial literacy associated with (taking into account personal and business characteristics):
 - **Gender** (Brazil, China, Mexico, the Netherlands and Peru)
 - **Education and experience**
 - **Size** (employees)



Digitalisation (pre-pandemic)



On average across G20 countries, digitization associated with (taking into account personal and business characteristics):

- **Size** (employees)
- **Education**
- **Sector:** in several countries, higher levels of pre-pandemic digitization in companies working in the accommodation, food and beverage services and information and communication sectors than in the manufacturing sector

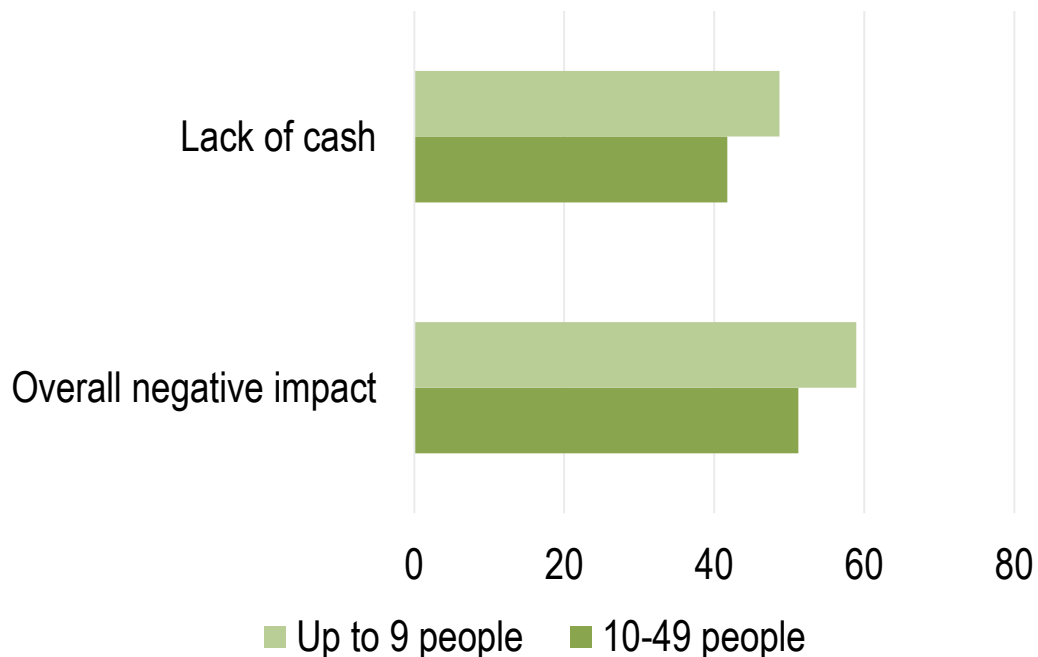


Negative economic impact on MSMEs during the COVID-19 crisis

Percentage of business owners who

- reported a negative economic impact on their business
- experienced situations where cash inflows were insufficient to cover cash outflows or to pay for expected expenses of the business since the start of the COVID-19 pandemic

G20 average



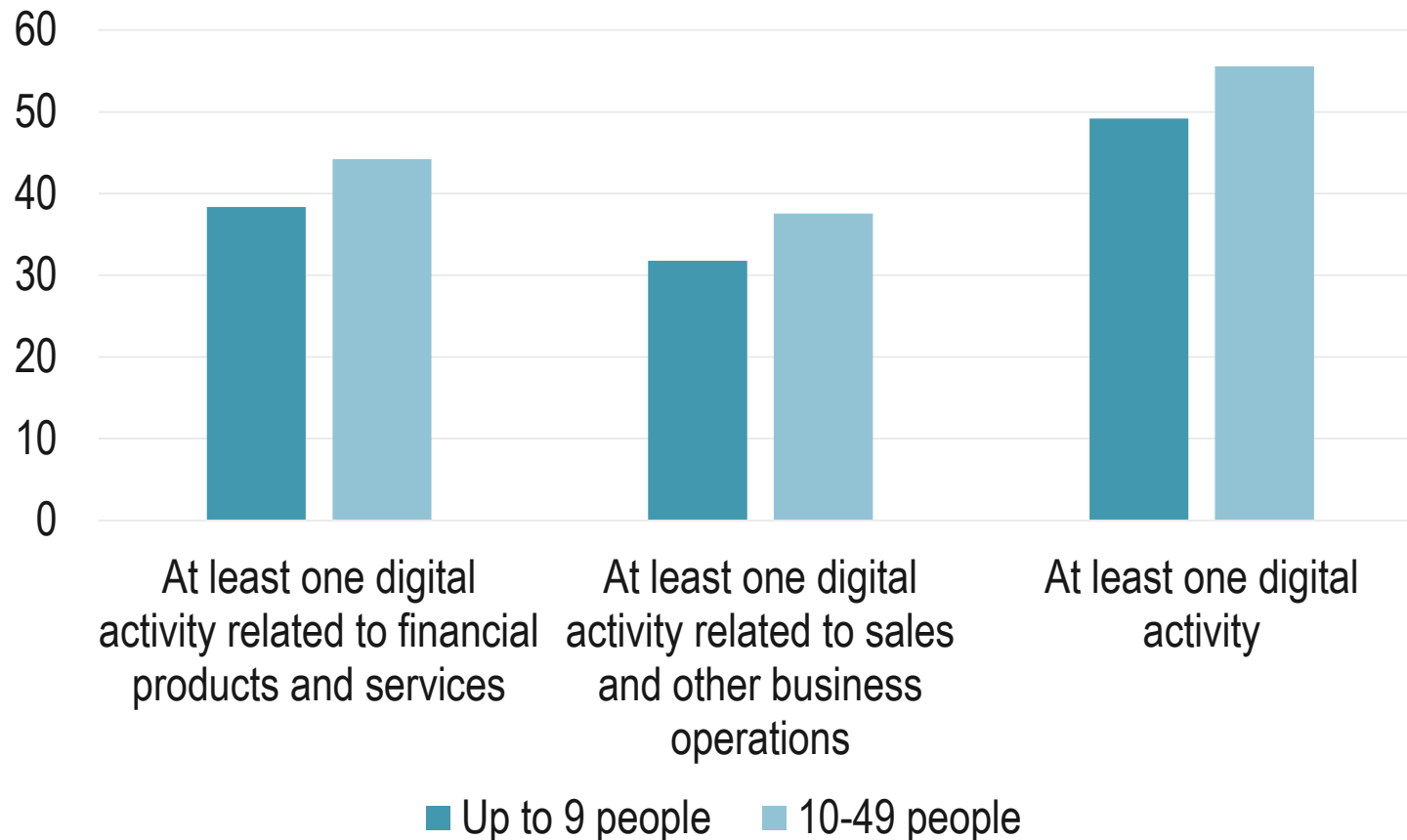
The impact of the COVID-19 crisis has been worse for:

- **smaller MSMEs** (up to 4 people)
- **female-headed MSMEs**
- MSMEs operating in **accommodation, food and beverage services**, those providing other **personal services**, and in those in **construction** and real estate



Many MSMEs stepped up their digitalisation during the COVID-19 pandemic

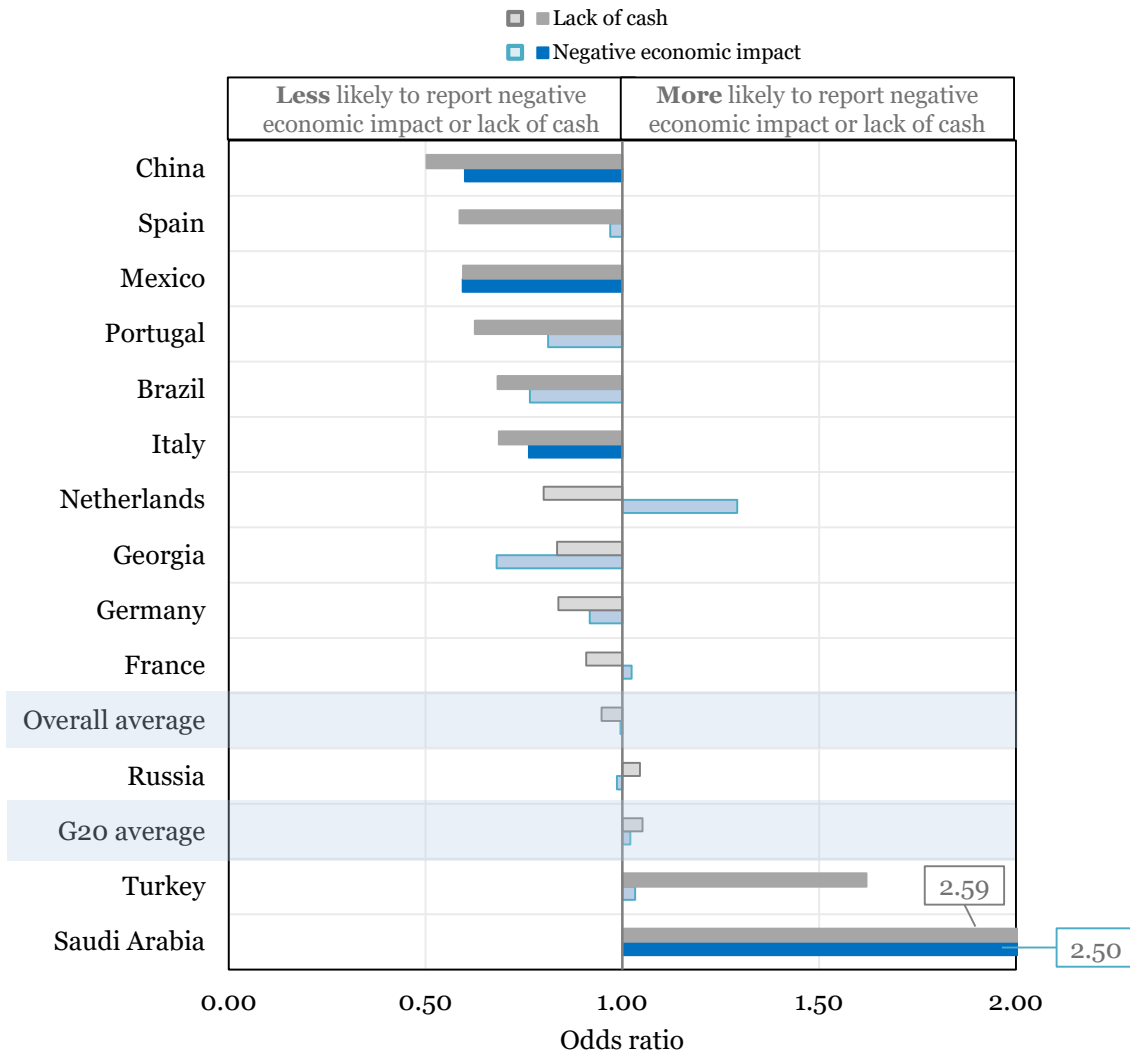
Percentage of business owners who reported an increase in the following digital activities since the outbreak of the COVID-19 pandemic – *G20 average*



- On average across G20 countries, MSMEs that **reported lacking cash during the crisis were over 30% more likely to have increased their digital activities** than MSMEs not reporting a lack of cash, suggesting that MSMEs heavily affected by the COVID-19 crisis may have had to increase their digitalisation to help overcome the shock



Financial literacy associated with less negative impact from the crisis

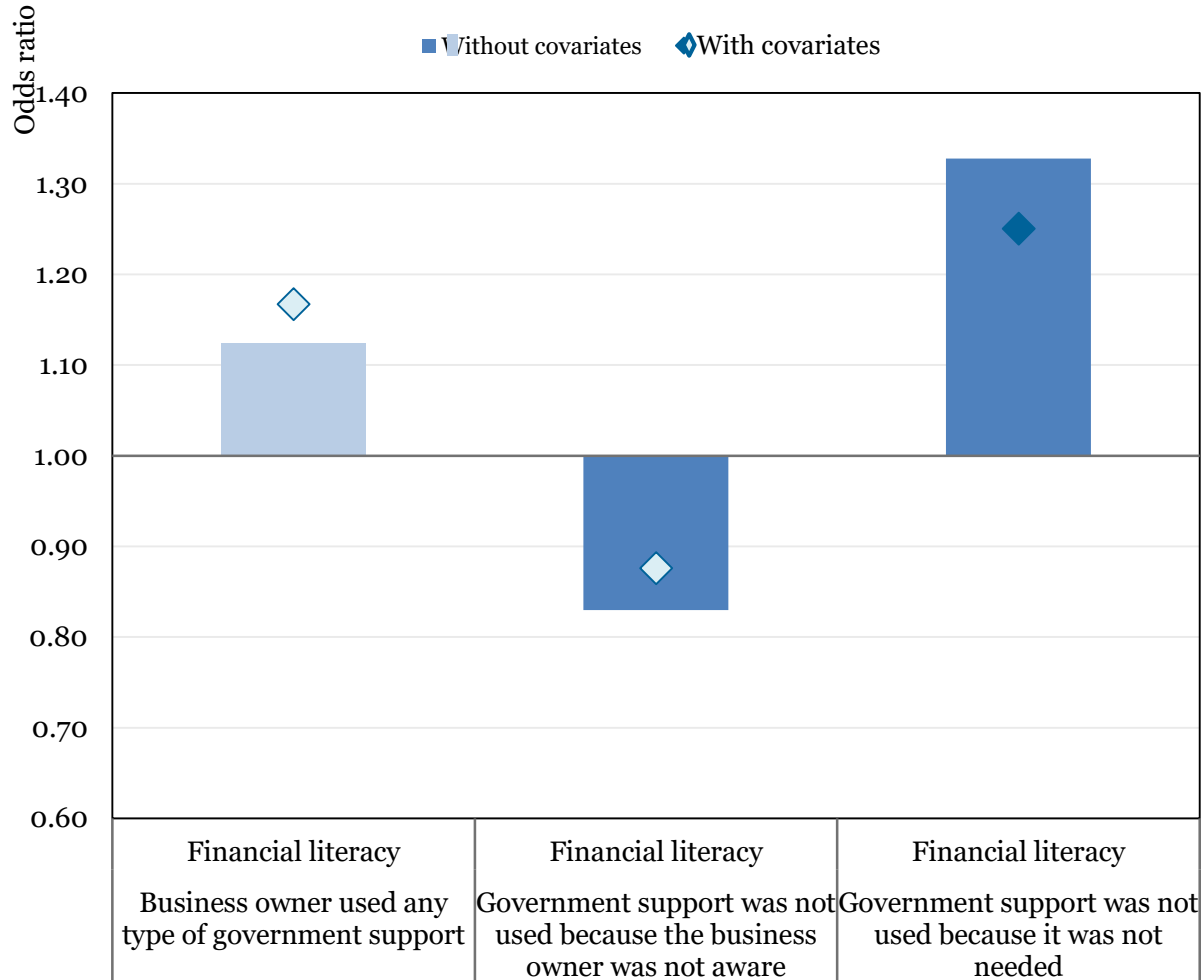


In Brazil, China, Italy, Mexico, Portugal and Spain, financially literate MSME owners were less likely than low financial literacy ones to **suffer from a lack of cash** during the COVID-19 crisis

Moreover, in China, Italy and Mexico, MSME owners with high financial literacy were less likely to **report a negative overall economic impact** of the crisis on the business



Financial literacy associated with access to external support during the crisis



Higher financial literacy:

- Not associated with **use of government support**
- But: associated with not using government support because **it was not needed**, and with greater **awareness** of support measures
- Associated with a positive response on a **loan application** during the crisis (most applications were accepted)



Next steps

- Initial analysis
- Rich dataset that will allow for further explorations
- Possible follow up surveys



GRAZIE!

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