





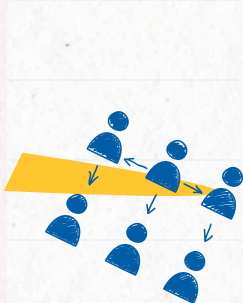
Context

LEAD at Krea University (LEAD) is collaborating with Michael & Susan Dell Foundation (MSDF) to conduct a two-year-long study to understand the impact of their economic investment on their lending partners' portfolio. The MSDF lending portfolio comprises a range of NBFCs, including emerging fintech firms that primarily cater to the microenterprise segment.

The impact assessment is particularly relevant as microenterprises form the bulk of the MSME segment, and are often highlighted as bearing the potential to have a significant impact on the local economy. Despite this, microenterprises are faced with limited formal finance options; they remain beyond the purview of microfinance, and barely under the radar of the enterprise-lending portfolios of banks. Microenterprises are often viewed as high-risk, mostly given their inability to provide required documents or collateral. NBFCs and fintechs are working to bridge this gap between the formal financial sector and the financial needs of this segment.

This study aims to assess the impact of formal finance on microenterprises - ranging from determining the effect on enterprise growth and job creation to household well-being. The study will focus on urban microenterprises, with proprietors' having a monthly household disposable income of INR 25,000 or less. 'Microenterprises' here refers to the revised definition that was introduced by the Government of India in June 2020. However, based on existing literature, it is understood that most of these enterprises will have an annual turnover significantly less than the official threshold of INR 5 crore or even the threshold of INR 1 crore as identified by MSDF. The study will adopt a proportional stratified random sampling strategy, and, since the loan for the borrowers is not all disbursed simultaneously, a rolling sampling process will be undertaken for assessing the baseline, midline, and end-line estimates.

The evaluation framework is a result of an iterative and co-creative consultation between LEAD, MSDF, experts, and the lending partners. Given the intersectionality of the impact assessment topics, a series of workshops were conducted with key experts to seek insights and validate hypotheses to better understand aspects of micro entrepreneurs and business functions, measures of entrepreneurial orientation, job creation, and proxy indicators to identify low-income households in urban settings for our study. The inputs from the discussions will help the research team refine and finetune the survey design and questionnaire.



Expert consultations

The workshops were divided into three sessions. Each session commenced with an opening statement from the guest moderator, followed by a brief introductory statement from each expert panelist followed by a series of discussions on key questions. The workshops centered around two central questions: (1) Target variables and parameters to understand the motivation, aspiration, and performance of microentrepreneurs, and (2) Identification of the low-income households in urban settings (identifying proxy variables and parameters to access income for urban poverty estimates and determinants of household wellbeing). The details of each workshop are as follows:



Workshop 1



Key questions:

1. Ways to assess the impact of access to finance on business performance and employment creation among microenterprises
2. Is formalization necessary to drive improved business performance, cheaper credit, and increased job creation?

Date: 15 September 2021

Panel: Dr. Amrit Amirapu (Senior Lecturer, University of Kent), Prof. Santosh Mehrotra (Visiting Professor, University of Bath), Dr. Sumita Kale (Advisor, Indicus Foundation)

Moderator: Bindu Ananth (Chairperson and Managing Trustee, Dvara Holdings)

Additional Participants: MSDF team (Nat Malupillai, Vipul Singh, Rahil Rangwala, Sharvi Dublish) and LEAD team (Sharon Buteau, Preethi Rao, Diksha Singh, Abhishek Gupta, Sanjana Vijay, Varun Hariharan).



Workshop 2



Key questions:

1. Ways to assess microenterprises' digital progress
2. Identify the microenterprises with entrepreneurial traits
3. Assessing linkages between entrepreneurial orientation and digital orientation

Date: 16 September 2021

Panel: Ramesh Dharmaji (Advisor, GAME), Pradnya Godbole (CEO, deAsra Foundation), Amolo Ng'weno (CEO, BFA Global), Neeraj Bansal (Co-Founder & CEO, CredRight)

Moderator: Dr. Sumita Kale (Advisor, Indicus Foundation)

Additional Participants: MSDF team (Nat Malupillai, Vipul Singh, Rahil Rangwala, Sharvi Dublish) and LEAD team (Sharon Buteau, Preethi Rao, Diksha Singh, Abhishek Gupta, Sanjana Vijay, Varun Hariharan).



Workshop 3



Key questions:

1. Ways to identify the low-income households in urban areas in the absence of income proof document(s)
2. Assess improvement in the socio-economic wellbeing of low-income households as spillover, as a result of debt capital provided to the microenterprises run by them

Date: 20 September 2021

Panel: Dr. Santanu Pramanik (Senior Fellow and Deputy Director, NCAER-National Data Innovation Centre (NDIC)), Prof. M.S. Sriram (Chairperson, Center for Public Policy, IIM-Bangalore), Dr. Debolina Kundu (Professor, National Institute of Urban Affairs)

Moderator: Dr. Fabrizio Valenti (Head, Financial Inclusion, LEAD at Krea University)

Additional Participants: MSDf team (Nat Malupillai, Vipul Singh, Rahil Rangwala, Sharvi Dubish) and LEAD team (Sharon Buteau, Preethi Rao, Diksha Singh, Abhishek Gupta, Sanjana Vijay, Varun Hariharan).

The moderated panel discussed their experience and interpretation of the questions posed and suggested possible approaches that would present a unique solution. Through this workshop, policy-makers, academics, researchers, practitioners, and subject matter experts convened to provide their insights and experiences.

Key insights from the consultation

This section highlights key insights derived from the workshops. It provides a summary of various points of view elaborated by the panellists during the course of the three workshops.

Which metrics matter for identifying low-income households in urban settings?



Looking beyond income: Identification of urban poor households should extend beyond relying on income estimates alone. Governments across the world have contextualized income estimates through the creation of poverty line estimates.

"The Oxford Multidimensional Poverty Index's approach has stood the test of time. It lists out an average of 80 indicators - along the lines of education, health, and standards of living. This system of scoring could be adapted by the study team as a potential estimation approach".

- Dr. Fabrizio Valentini

In the Indian context, ration cards have been used to identify households that live Below the Poverty Line (BPL). Apart from income estimates, the following metrics could be used as proxy variables to identify urban poor households:

Classification based on location: All urban areas are not homogeneous. Prior to understanding the divisions within a specific urban area, it is equally important to understand that there are variations between metros and urban cities themselves. For instance, the divide between a city such as Delhi and Coimbatore exists in the form of costs of living. To normalize income estimates across locations, it is important to estimate an income-to-consumption ratio across each urban city selected. This can be captured through a suitable cost of living index. Further, decoding estimates within each urban city themselves, it is important to note the variations across urban villages among landscapes and amenities available. Sub-classifications across authorized and unauthorized slums/non-notified slums, squatters could provide a deeper level of insights into understanding living conditions across urban locations. In recent times, a pressing estimate is the state of legality of the dwelling unit, i.e. ownership of household titles enables households to exercise their freedom with home improvements and investing in assets for the dwelling unit.

"A ratio of income to expenditure will be useful to capture the cost of living in that particular area"

- Dr. Santanu Pramanik

Source and composition of household

income: Given that women-run households are disadvantaged from an earning potential, it poses a higher level of risk to the household. Furthermore, it is important to understand whether the household is a single earning income household or whether there are

secondary sources of income to sustain livelihoods and consumption. Finally, there should be focus on understanding the nature of work undertaken by the earning member of the family. This can be viewed through the lens of the nature of the work - casual workers, part-time workers, home-based workers, agriculture workers, and that of street vendors. Each job provides its own unique set of challenges and threats to a steady flow of income to the worker's family which poses the risk of shifting the households from economically active to seasonally poor (based on the durations/seasons in which the breadwinner of the household is able to secure a steady flow of income). Disaggregating information about the breadwinner of the household based on demographic factors such as age, social group, disability status, and education levels help provide key insights into understanding their level of exclusion/inclusion within the community.

"Apart from expenditure on rent, estimating household expenditure on utilities such as electricity and the type of electricity is an important indicator. For instance, does the household have a direct/individual connection or a hooked connection? Can they afford to pay the electricity bills?"

- Dr. Debolina Kundu

Expenditure patterns: Measuring the expenditure patterns of households can help build an understanding of their level of deprivation and living standards. The following measures of expenditure are important to track - expenditure on children's education, food/grocery expenses, health/medical expenses, electricity consumption, stable and continuous internet connection, means of accessing the internet (WiFi connection, data packs, etc.), and most importantly rental expenditure.

These broad categories of expenditure would provide highlights into identifying patterns of poor/deprivation among the urban poor.

Asset Ownership: Apart from a household's expenditure patterns, durable asset ownership is another important indicator of socio-economic status. The nature of these assets can be further disaggregated into classes such as vehicle ownership (car, bike, cycle), and assets and appliances powered by electricity and internet (air conditioners, washing machines, computers, mobile phones, etc). This dissection will allow us to understand their current operating conditions, which will tell us more about their usage patterns.

Loan size and usage patterns: Finally, data on the household's current credit portfolio, including loan sizes and tenure can provide insights into the economic status of the household. Larger ticket sizes and more productive term loans could be indicative of households that are on a growth trajectory,

as compared to households that borrow on a shorter-term duration or primarily for consumption purposes. Moreover, assessing repayment patterns of borrowers can also shed light on the state of their cash flows and access to liquidity.



Key takeaways:

1. Urban households can be classified on the basis of type (authorized vs unauthorized slums) and condition of housing (kutcha vs pucca house, access to water and sanitation facilities).
2. The legal state of dwelling unit/residence highlights the state of household wellbeing.
3. Source of income and composition of the overall household is key to understanding their level of exclusion/inclusion among the community.

What indicators can be used to measure improvements in overall socio-economic well-being of households?

Bank account ownership and increased usage of a broad suite of financial products:

Setting up and regularly using a bank account for either securing loans, building savings, investments, or using digital financial services signifies an uptick of overall household status.

"The best way to measure the status of housing is to ask about the legality of the entrepreneur's dwelling unit, and checking if the household unit has access to their titles. Access to piped water, electricity and sanitation facilities, either inside the dwelling unit or as a common facility within the locality they are living are also relevant indicators".

- Prof. M.S. Sriram

Changes in condition of housing: As elaborated in the previous section, the status of housing is a clear indicator to highlight an improved state of wellbeing. The transition of a household to attaining legal ownership of the dwelling unit would affect investments in rebuilding/furbishing the dwelling and can improve overall welfare. Overall household improvements include the addition of piped water connection, better roofing and flooring conditions in the household (e.g. transitioning from a kutcha to a pucca house), improved sanitation facilities (e.g. moving from a shared to an individual sanitation facility, and/or making improvements to the current sanitation facility), and access to clean drinking water on a more permanent

basis. These are improvements in and around a household that would greatly impact the status of the household and its members.

Children's education: An improvement in the household's quality of living can translate into improved education/schooling choices for the children. The following criteria may suggest an improvement - shifting children from a public/government school to a private school, enrolling the child into a tutoring facility, and investing in school supplies such as textbooks, notebooks, stationery, and school uniforms.

Fuel consumption: Energy poverty is an issue that has been discussed more commonly in recent times. The transition of a household from traditional fuel sources to modern, cleaner fuels such as piped natural gas can signify a shift in priorities, improvements in income, time use, and future earning potential.

Trends in food consumption: As the income of a household increases, there may be an increase in expenditure on staple foods such as milk, eggs, rice, wheat, fruits, and vegetables.

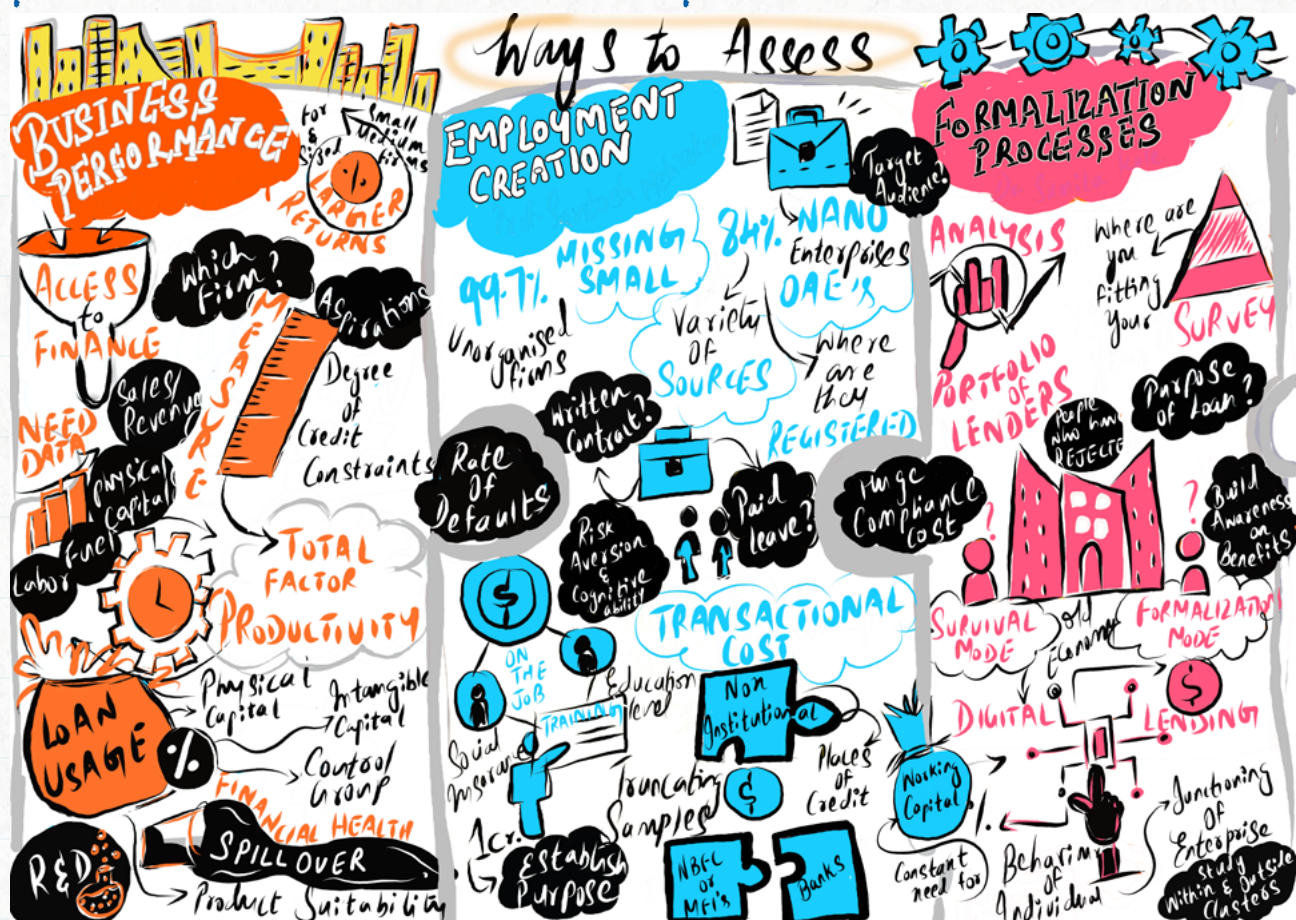
Asset ownership: At a household level, acquisition of assets such as air conditioners, refrigerators, vehicles, smartphones, television sets, and cable connections are equally relevant. Furthermore, the quality of the smartphone and the ability to connect to the internet signifies an improvement in the consumption/expenditure patterns of the household.



Key takeaways:

1. Improvement in housing conditions includes piped water connection, improved sanitation facility, access to rights/titles of household dwelling units, etc.
2. Improved household well being is synonymous with: Bank account ownership, improved schooling choices for children (expenditure on school uniforms, textbooks, stationery), household assets (AC, refrigerator, washing machine), and Food expenses (Milk, eggs, rice, wheat, and vegetables)
3. Transition to modern fuel sources from traditional ones such as firewood.

How can we best estimate the overall business performance of microenterprises over time?



Business fundamentals: The fundamentals for assessing business performance can be viewed through three broad categories: firm, individual, and environmental level metrics. These include variables such as individual entrepreneurial capabilities and the firm's functionality and productive capacity. Environmental factors include the plethora of external conditions such as rate of competition, access to capital, among other factors.

"Banks are unlikely to provide unsecured credit to microentrepreneurs, so that goes entirely to the NBFCs and non-institutional. But the same enterprise

could have an unsecured loan from an NBFC and one against property, i.e. secured loan from a bank. These relationship dynamics and relative product specialisations of different lenders are important to capture as well."

- Bindu Ananth

Production function: At its core, in order to estimate business performance, it is crucial to ascertain the values to build a production function using output variables of business metrics such as revenue, profits, and output/units sold and input variables such as raw materials, fuel, cost of rent, labor costs, and

quality. This function could help in identifying the degree of credit constraint amongst firms and in calculating total factor productivity.

Individual factors: An entrepreneur's individual attributes and characteristics such as education levels (highest degree attained) are highly correlated with the growth of their business units. Beyond attainment of educational degrees, the extent of formal certification in the line of business (such as vocational education, business communication, English communication, etc.) that are directly applicable to day-to-day business activities can greatly impact the outlook of the entrepreneur and overall business performance metrics. Typically, personal factors such as average time spent on business activities also provide an indirect assessment towards understanding business outlook and performance.

Behavior and entrepreneurial attitudes: In recent times, it is also important to look at the various measures of and high-frequency indicators on growth performance and proxies for potential growth. This includes behavior aspects and psychometric assessments to identify and measure the degree of risk aversion and cognitive ability. These could be tested by engaging the individual through rigorous rounds of self-evaluated efficacy such as testing their ability to carry out business tasks, handling challenging business decisions, generating sales, managing customer requests, etc. In more recent times, tests that identify psychological aptitude are able to provide accurate insights to understand individual capabilities and thus, business performance.

Firm factors and stage of business: Firm-level determinants such as stage of growth and operation determine capital utilization and growth potential. The stage of business operation determines the purpose and extent of financing needs. Hence, identification of stages of business development is crucial to understanding and identifying any form of analysis of capital utilization. Beyond the stage of functioning, factors such as the lack of managerial talent and skilled labor affect business performance. Some of the metrics that can be used to assess business performance and growth include revenue, sales, profit, and the number of goods sold.

Increase in earnings and total earnings: it is also important to track the amount of wages paid to employees. Intuitively the improvement in business performance eventually trickles down to an increase in wages paid to employees which is why it is an important metric to track and understand growth. Furthermore, understanding the

total earnings of the organization could be an all-encompassing metric that includes the imputed value of earning of labor and return on capital employed (as opposed to profits).

Introduction of innovations: At a firm level, assessing the rate of innovation both in terms of product and production are attributes of improved business performance. When firms introduce modern methods of production processes for existing goods or introduce new goods and services to customers, it serves as a sign of businesses understanding the market they are operating in and adapting to the ever-changing landscape.

Change in loan usage patterns: Another layer to understanding business performance is analyzing the methods in which firms use loans they secure. This includes analyzing the extent to which firms invest in physical capital (plant and machinery) along with intangible capital (marketing/ advertising costs, R&D expenditure). Or in the case of working capital loans, tracking trends of repayment of outstanding bank overdraft, introducing innovative products and/or product lines, or goods bought on credit from suppliers. These trends provide insights into understanding how firms smoothen out their own consumption patterns and preempt future expenditures.

Change in enterprise location: Understanding the nature of business premises would provide insights into the scale and size of business performance. An enterprise purchasing additional land could be an indicator to show the transition of business growth. Wherein, businesses have graduated from operating out of their households to owning land and a business location outside. This could also be a factor in expanding the scale of operation in terms of employees, store location, improved manufacturing process, etc.

Ecosystem factors: External factors prevent firms from accessing financial and physical capital. These factors include inefficient loan markets, increasing transportation costs, high transaction costs while lending to the microenterprise segment, along with contracting frictions in the credit market and goods markets that impede the firm's ability to access cheaper credit sources and raw materials that enable business growth. External factors such as delayed payments and poor enforcement of contracts limit credit provision. Thus, the presence of systems such as Online Dispute Resolution (ODR) may be a faster and cheaper way to resolve such disputes and improve recovery of debts, thus lowering the cost of loan provision and could greatly affect and improve the flow of timely credit to microentrepreneurs.

"Contracting frictions such as not being able to trust workers with more responsibility over fear of theft can prevent firms from growing. Other constraints such as inefficient land markets, high transportation costs and of course access to physical or financial capital also prevent businesses from growing."

Dr. Amrit Amirapu

Status of nearby firms: Business performance must never be looked at in isolation, it is

equally important to assess the spillover effects on nearby competing firms in homogenous markets producing identical goods. Where in, it is important to collect information from other competing firms on their perceptions of the firm being evaluated. A symbol of improved business performance can be understood through the following: Persisting among competitors and emerging as the leading firm and establishing dominance amongst other players by playing the role of the price setter.



Key takeaways:

1. Business performance can be assessed through output metrics such as revenue, sales, profit, number of products sold. These metrics need to be tailored specifically to the nano/microenterprise sector, and the data can be used to estimate Total Factor Productivity.
2. Input variables such as land, asset ownership, raw materials purchased, cost of rent, labour costs can be used to identify the current state of business performance.
3. High-frequency indicators such as individual behavioral aspects, measures of risk aversion, cognitive ability of entrepreneurs, and most importantly rate of digital adoption can be used as proxies to traditional business performance estimates.

Does formalization matter to microenterprises?

Significant lack of information on registered enterprises: These enterprises are small, unregistered, and units that are solely operating on survival mode. This points to the notion that despite experts calling out the existence of a 'missing middle', in fact, there exists data to claim that there is also a 'missing small' wherein, there is an extreme lack of data and registered small and micro enterprises operating in both the formal and informal sector in India.

Cost of formalization: The desire to formalize amongst these enterprises is halted by the mounting compliance costs both in terms of monetary and opportunity cost of time. Most small businesses, after weighing out the long-term benefits of formalization with its immediate costs, are disincentivized from registering and choose to operate under the radar of bureaucracy. While discussing benefits to formalization, access to finance ranks high. But in reality, most micro enterprises do not want to access formal finance from banks. Since most micro enterprises have fluctuating income sources, they opt for informal sources of finance as it honors flexible repayment schedules. Formal institutions (Banks, NBFCs, etc.) do not accept repayment prior/after agreed-upon repayment

schedules. Hence, this structure of operation deters small enterprises from considering formalization or formal lending institutions.

Types of registration: Although for the minuscule percentage of enterprises that have undertaken the process of formalization might not necessarily register under the factories act (which applies to businesses with ten or more employees) or the Udyam registration certificate.

"The benefits of registration such as financial support, access to Government loans if required, need to be demonstrated to small businesses. Moreover, these nano or microbusinesses may be registered under different regulations, e.g. the Shop & Establishments Act, with state and local government bodies, or have a GST registration."

Dr. Sumita Kale

However, these firms tend to have a higher likelihood of being registered with local and state/national governing bodies, the Shops and Establishments Act and hold a GST registration.



Key takeaways:

1. Enterprises face high compliance costs, and so the benefits of formalization need to be made evident – as it is simpler and cheaper to stay under the radar.
2. Most microenterprises do not want to access formal finance from banks due to their inflexible repayment schedules, thus dissuading them from considering formalization as a motive.
3. Microenterprises are less likely to have central government registration but could be registered with local authorities/industry bodies and have GST compliance certificates.

How can we track job creation and improvements in job quality?

A dominance of solopreneurs: 84% of the micro enterprises include own account enterprises (operating with only one employee, the owner). On a larger MSME level, only 50% of the enterprises categorized as MSME have only one worker (the owner). An insignificant percentage of firms have more than ten workers. Hence the challenge that this sector faces is not just restricted to the growing number of small enterprises but also the fact that these small enterprises are categorically unproductive which tends to hold back their potential for growth.

Metrics to track- Job creation: Measuring job creation potential amongst smaller firms starts from the ground up, which includes checking for the presence of a written contract. In most cases, employees are hired without the mention of a formal contract due to its simplicity in the process. Hiring labor with a formal contract would signify that enterprises are growing in scale, processes, and employee management, thus reflecting business growth and sustenance.

Employee education: The educational level of employees at the time of hiring is important. Microenterprises usually hire unpaid workers, family members, or low-skilled employees. Hiring workers that have either acquired formal training in their line of work or completed formal education degree, highlights that the enterprise is growing in size and is required to hire functional expertise to keep up with the growing demand.

Training on the job: The majority of the micro enterprises operate with less than ten workers and are categorized as small, informal, and unproductive, the question of employee training and job security is more of an afterthought. Given the fact that employee poaching is a moral hazard. Entrepreneurs view employee training as a sunk cost, one that is irrelevant as there is no

guarantee that the trained employees would continue working at the firm post-training. More so, employers in the micro enterprise sector view employees as a liability than an asset. Additionally, employers expect that employees gain experience, training, and knowledge even through unpaid work at their enterprise and hence see no value in providing additional training to further their personal growth and performance.

"The cost of conducting the training is simply not worth it. There exists the issue of poaching. After enterprises train someone, they will lose them to a better paying employer. It is a moral hazard issue. Most workers acquire their skills on the job."

Dr. Santosh Mehrotra

This mindset is common among microentrepreneurs and can dissuade them from considering any form of formal training for their employees. The transition from an own account enterprise to an established enterprise is not straightforward and governed not simply by access to finance and loan usage for working capital or fixed investment purposes but more importantly, the terms and conditions of the loan regarding the interest rates charged which may not leave any room in margins for capital accumulation, which ultimately feeds into hiring someone on wages.

Social Insurance: It is important to note here that micro enterprises may not view social security (maternity pay, sick leave, etc.) from the same lens as typically larger firms. The entrepreneurs themselves most likely do not hold any form of social security. This is because in most cases the smaller firms themselves act as a social insurance mechanism. They operate as tight-knit entities, understanding the needs and requirements of each of their employees



Key takeaways:

- ### How is entrepreneurship orientation measured?



"We believe that most small businesses are not able to grow as they lack trusted talent. An entrepreneur does not trust their employees. But, when we see that they bring their family into the business, we notice that they run over 2-3 shops versus a person who is individually running the business. So it helps to see if they bring family into the picture and this clearly depicts a growth mindset. This factor has a higher correlation to show enterprise growth, more than even entrepreneurial education levels."

- Neeraj Bansal

Educational background: The extent to completing formal training in the field of work. Entrepreneurs that not only complete formal education degrees but undertake additional vocational training to further understand the nuances of the business and industry they are operating currently, show that they have the tenacity and mindset towards improving their current body of knowledge and excel at growing the current state of business operation.

Cultural and geographic backdrop of the entrepreneur and business: Beyond classifying businesses based on urban or rural backdrops, it is crucial to understanding their network circles and if they are operating among clusters. But education levels too, have their limitations. In several cases, entrepreneurship orientation extends beyond the ability to acquire formal education but also developing meaningful relationships and trust to grow the business.

Ecosystem-level awareness: The extent to which the entrepreneur is able to understand the market landscape of business competitors, the market value of prices and quality offerings, sourcing cheaper raw materials from suppliers, meeting regulatory compliances, and most importantly, the ability to navigate through the financial ecosystem (Banks, NBFCs) is an important dimension. For instance, the capability to approach banks, evaluating multiple loan offers and types is essential to measure entrepreneurial ability and ecosystem awareness.

Building relationships and trust: Beyond understanding the competitive landscape, assessing the entrepreneur's ability to form collaborations within the community and build trust in their brand/business among their competitors and even customers is an important aspect to consider.

In more recent years, key players in the space chart out the extent of entrepreneurial orientation through understanding:

Digital index: This includes the enterprises' ability to use QR codes, accept UPI payments, Digital bookkeeping applications to track inflow and outflow of stock, the extent of creating an online business presence (listing products on digital platforms/marketplaces). In more recent times, the ability for the entrepreneur to not only own an email ID but also use it for internet logins at multiple marketplaces is of growing relevance. The digital aptitude of small businesses owners speaks volumes to their ability to modernize their business and create a more agile working environment.

Formalization index: Measuring the ability of an entrepreneur to push the envelope and attain some form of legal registration documents is a helpful indicator of entrepreneurial ability. This could include an SME license, GST registration, among others. The maintenance of IT balance sheets highlights their innate ability and desire to grow and scale their business.

Credit index: As highlighted above, beyond just sourcing loans from formal institutions, the nature of loans and their features are important. The ability for the entrepreneur to secure loans that are not asset-backed alone, or informal in nature, i.e. their ability to create working relationships with suppliers or even customers and enable borrowing on credit is a testament to building trust and entrepreneurial ability.

Risk-taking ability: Besides availing goods on credit, providing goods on credit to other businesses and customers, can be a testament to an entrepreneur's risk-taking ability. Small businesses take larger risks while providing goods on credit as they operate with short turnover cycles. Thus, their ability to trust customers and other businesses with the hope that they value the business in a better light is the objective of undertaking this risk.

"We believe that most small businesses are not able to grow as they lack trusted talent. An entrepreneur does not trust their employees. But, when we see that they bring their family into the business, we notice that they run over 2-3 shops versus a person who is individually running the business. So it helps to see if they bring family into the picture and this clearly depicts a growth mindset. This factor has a higher correlation to show enterprise growth, more than even entrepreneurial education levels."

- Ramesh Dharmaji

Businesses that are willing to break social norms to seek external funding in order to grow are uncommon, and pledging personal assets and guarantee for sourcing this funding shows that they have some 'skin in the game' and are most likely to have an added level of personal motivation to grow their business and repay the loans.

"Measuring an entrepreneur's proactive approach to savings and cash flows is important, especially during crises. How do they manage cash flows in order to keep cushion operations? Proactiveness is also reflected in their negotiation

skills. How proactive are they in seeking discounts from lenders and landlords?"

- Pradnya Godbole

Proactiveness: Proactiveness among entrepreneurs can be measured across parameters such as introducing innovative products and processes, setting up marketing techniques for products, upgrading their skill sets, introducing innovative cash management tools (discounting, subscription models) that incentivize their customers to purchase goods.



Key takeaways:

1. Entrepreneurship orientation can be measured across the following metrics: individual profile, digital capabilities of enterprise, credit index, formalization index, and asset ownership
2. Proactiveness can be measured in cash management, discounting, subscription models, negotiating skills, willingness to upgrade skills, borrowing from different sources.
3. The ability to trust suppliers and customers feeds into the notion of risk-taking ability that acts as a crucial factor in building the entrepreneurial mindset.

What drives digital adoption?

Digital mindset: Small enterprises undertake decisions as rational economic agents prior to adopting a digital component to their operations. For instance, processes such as bookkeeping and documentation have so far been maintained physically and the push to automate or digitize this system is undertaken only when businesses see immediate tangible economic value in the same, and most importantly do not have to pay a subscription fee to use the tool nor require training to understand its functionalities. Most of the digital uptake among small businesses is characterized by ease of use only.

Digital uptake: Effect of COVID-19 has been revamping models to be more digital in terms of making products available online. Similar to the micro enterprise ecosystem, digital uptake by the sector is also characterized by heterogeneous factors- This includes the age of enterprise, the individual entrepreneur (Older and established business owners tend to shy away from digital adoption), and sector of business operation.

"Microenterprises are typically not keen on adopting any form of formal record keeping, beyond what they are currently doing. Usually, they may have a register or ledger where they keep a record of the money they

owe or people who owe them money. But records of stock and inventory, and employee details are typically unavailable and they don't see value in adopting these practices."

Amolo Ng'weno

Digital payments: In terms of digital tools being used, digital payment apps are the most common and are being widely adopted. Most of which is a push through external factors, rather than an internal drive to adopt digital means. This includes requests from the supplier to pay electronically or customers opting to pay smaller amounts through digital means. In more recent times, they also opt to take up digital credit that solves their instant credit needs.

Beyond payments: Beyond digital payment tools, the ecosystem is witnessing a push towards other types of tools- Digital bookkeeping, online marketplaces, social media, etc. As elaborated before, small businesses are beginning to adopt digital payments if they are easier to navigate and adopt. This involves similar features such as bookkeeping linked with payments, like that of Khatabook is seeing high rates of adoption among micro enterprises. E-commerce adoption/online retailers such as Amazon provides a platform for businesses to expand

their presence and reach customers beyond their local geography.

Uptake of social media is of growing

relevance: Small businesses are not just using social media platforms (Facebook, Instagram, etc.) to market their products, but these platforms also serve as important channels of

communication, to reach untapped segments, and sell their products to potential customers. The introduction of WhatsApp payments is also relevant in the sense that it has broadened the horizon for smaller retailers to communicate with each other, their customers and now sell directly to them as well.



Key takeaways:

1. Effect of covid has been revamping models to be more digital in terms of making products available online
2. Digital payment apps are the most common and are being widely adopted
3. Beyond digital payment apps, digital tools such as digital bookkeeping, online marketplaces/ E-commerce, and social media platforms are seeing an increase in usage patterns.



LEAD at Krea University

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