



Literature review

Micro and Small Enterprise
(MSEs') financing in Kenya,
Uganda and India

August 2024

DISCLAIMER

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List of abbreviations

MSME	Medium, Small and Microenterprises
SME	Small and Medium Enterprises
MSE	Micro and Small Enterprises
SGB	Small and Growing Businesses
KII	Key Informant Interview
CGAP	Consultative Group to Assist the Poor
VSLA	Village savings and loan associations
MFI	Microfinance institution
MDIs	Micro-Deposit-Taking-Institutions
FSP	Financial Service Provider
GDP	Gross Domestic Product
IDI	In-depth Interview
NHIF	National Hospital Insurance Fund
NRLM	National Rural Livelihood Mission
MSEA	Micro and Small Enterprise Authority
YEDF	Youth Enterprise Development Fund
GST	Goods and Services Tax
SHG	Self-Help Groups
NRLM	National Rural Livelihood Mission

Executive summary

CGAP is engaged in a multi-stage research project that will culminate in working with funders and providers (incumbents and disruptors alike) to develop, test and scale solutions for digitally enabled business models to serve women-owned micro and small enterprises (MSEs). To get to the point where solutions can be taken to market, much groundwork is needed to first understand the landscape and context of women-owned nano and micro businesses and the most meaningful dimensions across which to segment this target market. Without a clear understanding of the landscape of the various MSE finance segments in a given country — who they are, what they need to succeed, and what services they already have access to — any intervention intended to support MSEs will at best be limited in its potential to improve the livelihoods of MSE owners and employees.

This report presents the findings of a literature review to scope out and inform the dimensions for segmentation of women-owned MSEs in three countries: India, Kenya, and Uganda. By focusing on these three countries, CGAP will broaden the international development and financial inclusion ecosystem's knowledge regarding both the borrowing needs and characteristics of women-owned MSE segments

Problem statement and project objectives

Persistent financing gap for women-owned MSEs. MSEs make up the bulk of enterprises, globally, but are overwhelmingly informal, and have little to no access to financial services, especially credit. The financing gap for MSEs is an ongoing challenge. It means that the largest portion of businesses across developing countries are left with severely restricted opportunities to grow and thrive. This, in turn, hinders the potential for MSEs to contribute significantly to employment, growth, and innovation. In most countries the bulk of micro and small businesses are run by women entrepreneurs. As women, they face disproportionate hurdles, related to collateral, management capabilities, and higher interest rates.

Forming a more nuanced understanding of realities and needs. To ensure that lending products align with the complex and diverse needs of women MSEs, it is important to analyse their financial service requirements at a granular level. However, there is no comprehensive understanding of the needs and realities of different types of MSEs. They are typically only segmented based on their size in terms of turnover or number of employees. This does not allow for a nuanced analysis of their needs, contextual realities, resilience and borrowing behaviour as invariably the bulk of enterprises are classified in the same micro category.

Objectives. The research presented in this report focuses specifically on the MSE¹ sector to identify an approach to segmentation that can enable lenders to better size

¹ Further information on the use of MSME and MSE definitions can be found in Box 1Box 1

and identify viable market segments within the women-owned MSE target market, to

Box 1: Use of MS(M)E definitions within the context of this report

i. The parameters and values used for the differentiation between nano, micro, small and medium enterprises differ significantly between countries and also between different kinds of surveys and other forms of research that have been conducted for this sector. For the country deep-dives, the main starting point of definition are the national definitions for MSMEs. For studies that did not use the official definition, further information will be provided on the specific sample and the size of enterprises included in this sample. The inclusion of this information helps to assess how the definitions used in studies align with CGAP's definition of MSEs. It is also important to note in this regard that while many data points are only available on MSMEs, these are often strongly applicable to the MSE sector given that the overwhelming majority of MSMEs are MSEs. Throughout this report, the terms MSEs, MSMEs and SMEs are used deliberately and not interchangeably. In all cases the specific term used refers to the sampling group of enterprises within the literature or dataset being discussed.

Segmentation framework

The first step in the literature review is to take stock of existing segmentation approaches to formulate a framework for the most meaningful and pertinent dimensions for women-owned MSE segmentation.

Eight core segmentation dimensions. There are two key aspects that matter especially for the creditworthiness of MSEs: their willingness and ability to grow, and their resilience. From the literature review, several fundamental variables influencing MSE resilience and growth were identified. Building upon these identified indicators, existing frameworks, and best practices in MSE segmentation were consulted to select the most critical parameters to serve as segmentation dimensions for MSEs and, particularly, nano and microenterprises owned by women. The aim was to get to those dimensions that will allow one to form the truest understanding of this target market's borrowing behavior and needs. From this exercise, eight core segmentation dimensions have been identified, as outlined in the table below. Of these, access to networks and the role of the business owner in the household are particularly relevant to women-owned enterprises. These are also the dimensions least explored and applied across the global literature.

Dimension	Number of frameworks that included the dimension	Rationale for choosing the dimension
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Business owner characteristics



Mindset

11

Mindset, rooted in the reason for starting a business, along with development growth plans, mindset, and aspirations, shapes the borrowing behavior and needs of MSEs. It influences responsible credit use, repayment commitment, long-term business sustainability and business development plans.



Entrepreneurial ability

10

The entrepreneurial ability of microenterprises encompasses factors such as education, business experience, managerial competence, digital skills, and financial literacy, and is crucial for accessing credit. These factors determine effective credit utilization, risk mitigation, and overall business sustainability, underscoring the importance of skills and knowledge in securing financial support.



Role of the business owner in the household

3

Family structure, encompassing marital status, head of household, and the number of dependent children, is a crucial segmentation dimension for further unpacking the women-owned enterprise sector. These factors provide insights into women's financial responsibilities, income stability, and risk assessment since societal expectations, family dynamics and cultural factors related to the family set-up impact women's ability to secure loans. By tailoring financial products to accommodate diverse family situations and acknowledging social and cultural contexts, lenders can enhance inclusivity and promote economic empowerment for women entrepreneurs.

Business and business owner characteristics



Access to networks

3

Access to networks refers to aspects such as association memberships, family or friends as financing sources, and support from sponsors or training opportunities. These connections enhance credibility, expand financial support options, and provide valuable resources, making network access a pivotal dimension for successful credit access in the microenterprise sector. They also provide a core coping mechanism in the case of shocks.

Business characteristics



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The level of business sophistication relates to a combination of a wide range of aspects such as registration status, premises type, record-keeping, permits, technology use, business plan, differentiation between personal and business needs, online market access, and business age. These factors determine the business's stability, risk




Dimension	Number of frameworks that included the dimension	Rationale for choosing the dimension
Level of business sophistication		assessment, and creditworthiness, highlighting the significance of these dimensions in securing financial support.
 Sector	10	<p>The sector in which microenterprises operate significantly influences their access to credit. Industries vary in risk and opportunity, impacting creditworthiness. Technology or service-oriented sectors may find credit more accessible due to perceived stability, while more volatile or season-dependent sectors may face challenges. Lenders evaluate economic outlooks and growth potential in specific sectors when assessing credit applications. Understanding industry dynamics is crucial for tailoring financial support, ensuring microenterprises in diverse sectors receive targeted assistance for sustainable growth.</p>
 Location	2	<p>The geographic location of microenterprises, whether in rural, urban, or semi-urban areas, significantly influences their access to credit. Urban and semi-urban businesses often benefit from better infrastructure and access to diverse markets, enhancing their creditworthiness. In contrast, rural microenterprises face unique challenges, including limited access to banking services and less developed markets, which can affect their credit opportunities. Recognizing the distinct dynamics of each location is crucial for lenders to tailor financial support, fostering inclusive economic growth across diverse communities.</p>
 Size	12	<p>The size of nano and microenterprises, encompassing factors such as business size, employee count, and turnover/profit, is crucial for credit access. Lenders rely on these metrics to measure the financial stability, operational capacity, and repayment potential of smaller businesses. A clear understanding of size allows financial service providers to tailor credit solutions, ensuring that nano and microenterprises receive the necessary support to thrive and contribute to economic growth.</p>

Table 1: Overview of selected segmentation dimensions and the rationale for selecting them

Country snapshots

Next, the report sketches a snapshot of findings for each of the three study countries, based on the available literature as captured in the underlying data library. Below, the summary insights from the exercise is presented along three aspects of the landscape of MSEs: (i) overview of the MSE *business owner and business characteristics*; (ii) overview of the MSE *finance* landscape; and (iii) overview of the MSE *data* landscape.

MSE business owner and business landscape

Across the three countries, we see that MSEs are mostly informal and struggle to make ends meet. Women face particular challenges:

Country	MSE landscape narrative summary
<p>Kenya</p>	<p><i>Business owner characteristics:</i> Business owners are primarily young and mainly female run. A high proportion of female business owners is the household head. Informal business owners typically started with a survivalist mindset and display weak business management skills.</p> <p><i>Business characteristics:</i> MSEs in Kenya mainly operate in the wholesale and retail trade sector. They have low levels of formalization and business sophistication. This is even more apparent among female-led businesses. It is therefore not surprising that MSEs – and especially those that are women-owned – have high failure rates.</p> <p><i>Access to digital technology and skills:</i> MSMEs in Kenya rely on mobile phones for communication. Female-owned enterprises make slightly greater use of digital payments from consumers than male-owned businesses. However, female-owned enterprises lag with internet access and mobile capabilities compared to male-owned enterprises.</p>
<p>Uganda</p>	<p><i>Business owner characteristics:</i> MSME ownership is equally distributed between men and women, and the owners tend to be young. Female entrepreneurs in Uganda often lack higher education and are typically motivated by necessity. Most Ugandan female entrepreneurs have significant familial responsibilities. Social networks, particularly family, are key enablers for young entrepreneurs in Uganda.</p> <p><i>Business characteristics:</i> Many microenterprises operate in the trade sector, and the majority of MSMEs are geographically concentrated in Kampala and the Central Region. The majority of MSMEs face short lifespans with many businesses failing within the first few years. Female-owned MSMEs were more affected by the COVID-19 pandemic than male-owned MSMEs. The majority of microenterprises are registered, primarily at a district level. In rural Uganda, women entrepreneurs often form groups or associations to cooperatively organize businesses.</p> <p><i>Access to digital technology and skills:</i> MSMEs in Uganda have limited access to digital technologies. Digitalisation increased during the COVID-19 pandemic. Technology is making it easier for female entrepreneurs to operate their businesses and cut down costs.</p>
<p>India</p>	<p><i>Business owner characteristics:</i> Most microenterprises in India are owned by men. The majority of microenterprises is owned by socially disadvantaged groups. Female entrepreneurs are motivated by familiarity with a sector and the necessity to generate an income and business operation skills are typically low among women entrepreneurs. Most female entrepreneurs are not considered as head of households. Social networks and Self-Help Groups (SHG) play a critical role for informal enterprises in India.</p>

Business characteristics: The estimated 63 million MSMEs in India play a pivotal role in the country's economy. **Manufacturing, trade,** and other **services** are nearly evenly distributed. Women-owned enterprises often operate in different sectors than male-owned enterprises. Limited data is available on business failure rates of MSEs in India. Despite endeavours to simplify registration processes, a predominant number of enterprises remain **informal**. The majority of non-home-based women-owned enterprises **do not have paid employees**.

Access to digital technology and skills: Significant **gender gaps** exist in technology access and usage. The adoption of **digital payments** in India has witnessed a remarkable **surge**, propelled by the COVID-19 pandemic. MSMEs are increasingly leveraging **e-commerce** platforms.

MSE finance landscape

The literature also provides insights on the status of the MSE finance landscape in the three study countries:

Country	MSE finance landscape narrative summary
Kenya	<p>Main credit use cases relate to working capital. MSEs source credit mainly from mobile platforms. Gender gaps exist in financing methods: women rely more on group-based financing such as <i>Chama</i> groups and less on digital credit solutions, though there is also an increasing uptake of mobile money-based overdraft products among women-owned nano and small enterprises. Family, friends, and savings are the biggest sources of start-up financing for MSEs. The cost of credit, approval time and lack of collateral are preventing MSEs from accessing formal credit.</p>
Uganda	<p>There are urban-rural disparities in household enterprises' demand for credit. Ugandan commercial banks are increasingly focusing on MSMEs, but mainly on small- and medium-sized enterprises. Monetary Financial Institutions and Minority Depository Institutions play a vital role in overcoming barriers to MSME financial inclusion. Nevertheless, own savings remain the core source of capital for MSMEs in Uganda.</p> <p>Formal and informal businesses mainly choose a bank based on consistently good service or based on recommendations by other business owners. Service and location are important factors when choosing a bank, and MSMEs also tend to choose the same banks that the customers of the business use.</p> <p>Evidence suggests stronger reliance on informal financing sources among women-owned microenterprises than among their male-owned counterparts. Women micro-entrepreneurs in Uganda primarily rely on savings groups and VSLA as well as on support from friends and family.</p>
India	<p>Financing needs are primarily met through self-financing. Start-up financing is also mainly based on personal funds and savings, including for women-owned microenterprises. Female entrepreneurs face a range of challenges preventing them from accessing formal credit: women-owned small businesses face higher borrowing costs, get shorter-term loans, and have a higher rejection rate. Moreover,</p>

gender gaps in bank account usage remain. A range of stakeholders are specifically **targeting women entrepreneurs**, including various government initiatives, MFIs, and self-help groups, cooperatives, and NGOs at the grassroots level.

Cross-country commonalities. Across the three study countries, the main **credit need** is the purchasing of stock, often followed by household related expenses such as food, health, and education. Business growth and extension is a much less common credit need. Where **credit sources** are concerned, there is a strong role for informal group lending as well as family and friends as source of funding. The cost of credit emerges as a critical **barrier** across all three countries. This is followed by aspects related to the loan application such as the processing time, collateral and documentation requirements. Women-owned nano and micro entrepreneurs are often disproportionately affected by these barriers and can also experience additional barriers such as socio-cultural norms, poor experiences with bank staff and low awareness and lack of confidence in using formal financial services.

MSE data landscape

Finally, the table below summarizes the landscape of available data on MSEs in the three study countries. Overall, it shows that there are numerous publications on MSMEs, but a specific focus on microenterprises (and, within that, nano enterprises) and specifically those owned by women is still lacking. This challenges a comprehensive application of the full segmentation framework.

Country	MSE data landscape narrative summary
Kenya	<p>A total of 43 publications have been identified for Kenya. Together, they contain a wealth of information on the MSE landscape in Kenya. Many are less than five years old, and almost all the publications focus on the financial inclusion of MSEs. Most studies leverage quantitative methodologies.</p> <p>Half of the publications have a dedicated focus on women-owned enterprises, but only a few studies focus solely on women-led <i>microenterprises</i>.</p> <p>The datasets identified overall cover the different segmentation dimensions well. In particular, the level of business sophistication, business size and location are well covered across datasets. In terms of the role of the business owner in the household, the marital status of women is included in some datasets but not other variables such as household head.</p>
Uganda	<p>In Uganda, 53 publications were identified. The existing publications predominantly focus on the MSME sector, with only a few specifically addressing microenterprises or women-owned enterprises. Mostly, the focus is on growth potential and constraints, rather than financial inclusion or credit related topics.</p> <p>More than half of the publications are less than five years old, indicating a notable gap in recent data. Moreover, there is a lack of studies covering the whole of Uganda, rather than specific regions, as well as recent studies on digitalisation and access to finance that do not specifically focus on COVID-19.</p>

	<p>All eight segmentation dimensions have been employed in these datasets, showcasing a diverse and multifaceted exploration of the MSME landscape. However, there is a limited use of access to networks and household structure as variables in these studies and the motivation of business owners is only included in few datasets.</p>
<p>India</p>	<p>A total number of 91 publications and datasets have been included in the data library for India, of which 63% are less than five years old. Women’s entrepreneurship is well covered.</p> <p>Large-scale government datasets focus primarily on the level of business sophistication and other business characteristics such as sector and location. Access to different kinds of credit is also a critical variable found in different studies and datasets. However, there is a clear gap in terms of large-scale studies that focus on the mindset, the abilities of entrepreneurs, access to networks and the family structure within the small and microenterprise sector.</p> <p>Additional analysis is required to understand the mindset of women nano entrepreneurs, their sectors of operation, role in the household and ways to overcome barriers to access formal finance, and to further unpack factors that determine the success of women-owned microenterprises, especially nano enterprises.</p>

Core findings and recommendations

Based on the data library exercise, the report develops recommendations for an initial set of archetypes of women-owned MSEs emerging from the segmentation dimensions, along which a segmentation and market sizing exercise can be conducted for each focus country going forward. It also concludes on the availability of data to be used as proxy per segmentation dimension and makes recommendations for the future of women-owned MSE data collection.

Archetypes

Four archetypes emerge for further exploration. The figure belowFigure 15 provides an overview of four archetypes that may be useful for segmenting the women-owned nano and microenterprise sector. The three segmentation dimensions on which the four archetypes are based on the entrepreneurial ability of the business owner, the mindset of the business owner and the level of business sophistication. These archetypes should be further explored and validated through consumer research with a particular emphasis on the dynamics of access to networks and the role in the household segmentation dimensions. Further exploration into how the other five segmentations dimensions (e.g., access to networks and role of the

business owner in the household) interact with these core dimensions and proposed archetypes is strongly recommended.








	Survivalists	Go-getters	Aspirers	Expanders
				
 Ability	Low	Low	Medium	High
 Motivation	Low	Medium	Medium	High
 Level of business sophistication	Low	Low	Medium	High
Segment description	<p>The survivalists are using the business as an additional source of income for their household and to channel their business income into their household income. If given a choice, the survivalists would likely prefer to have a job with someone else than running their own business. They typically operate from their home or from non-permanent structures, do not hold business records and do not employ any paid workers. They typically struggle to use technology and have low business management skills.</p>	<p>The go-getters might have started their business primarily as a means of survival but are now moving away from that and want to expand their business and grow it into something bigger and sustainable in the long-term. Similar to the survivalists, they typically struggle to use technology, have low business technology skills and they typical operate from informal structures or from their home and do not employ any paid workers. However, they are increasingly looking into how to best access advice and training to improve their abilities and are reinvesting some of their business income into their business.</p>	<p>The aspirers want to run their own business, but their current business might not really align with their actual skills set and is more born out of grabbing an opportunity that came up. However, they are using their business to further build their business skills and to learn how to run a more formalised business. To this end, they have adopted more sophisticated business practices such as record keeping and having a more stringent differentiation between their business and their personal finances.</p>	<p>The expanders are often motivated by meeting an unmet demand in the market and to leverage their skills to fill it. They have hired one or two paid workers and want to further expand their business while also strengthening its resilience. To achieve this, they have started developing business plans, they keep records of their business and are separating their business and personal finances and are likely to operate from dedicated commercial premises. They are often digital savvy and are leveraging technology to achieve their business goals. They might not have registered their business, depending on the trade-offs related to business registration in the country that they are operating in.</p>

Figure 1: Archetype examples based on three of the identified segmentation dimensions

To conduct the segmentation of MSEs along the identified segmentation dimensions, core proxy variables that can be leveraged to gauge each of the segmentation dimensions need to be identified. The figure below gives an overview of the most available proxies per country and outlines desirable proxies that have been identified through key informant interviews with experts in the field and the literature review findings. The outline of the proxy variable boxes shows how many datasets have included the respective proxy variable. The figure shows that especially business sophistication and business location are relatively well covered across the three countries. It is crucial not only to consider the availability of proxies but also

to assess their suitability in capturing the essence of the respective segmentation dimension:

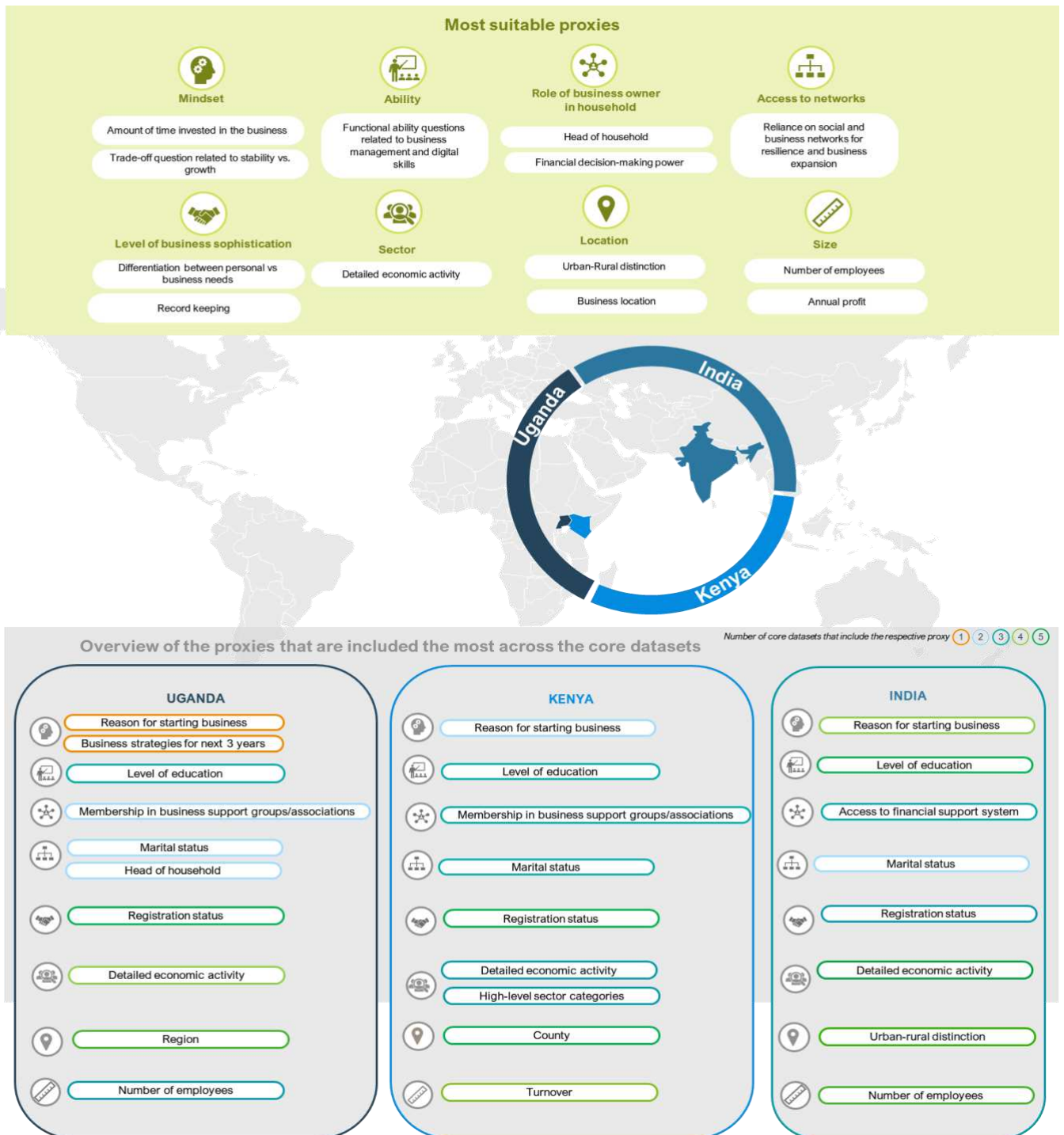


Figure 2: Overview of the most available proxies and the most suitable proxies per segmentation dimension

Future data collection recommendations

In conclusion, the report points to a number of ways for future data collection to build more granular insights on women-owned nano and microenterprises. In the first instance, it is important to strategically integrate business owner characteristics into government-administered surveys. Next, demand-side surveys need to be refined to focus in on the different segmentation dimensions identified. Finally, it is important to explore how to unlock access to hitherto largely unutilised datasets, such as the transactional and administrative data held by financial service providers and other corporates, as well as the procurement data held by governments. These recommendations, when implemented, have the potential to significantly elevate the precision and comprehensiveness of MSE segmentation, to align more closely with the intricate dynamics of the women-owned MSE landscape.

Introduction

Problem statement

The financing gap for MSMEs continues to persist despite their pivotal role in economic development. Micro, small, and medium Enterprises (MSMEs) globally contribute significantly to employment, growth, and innovation by comprising over 90% of businesses and over 50% of global employment (**Cenfri, 2020**). However, they encounter significant challenges accessing formal financial services, with 41% of formal MSMEs in developing countries facing unmet financing needs (**FinMark Trust, 2021**). Informal businesses account for 90% of informal businesses in developing countries, and 70-78% face challenges in accessing credit and require financial support, while 12-16% have credit access but encounter financing limitations (**International Labour Organization, 2016**). MSMEs are often deemed high-risk borrowers and encounter obstacles related to collateral, management, and capabilities. MSMEs also have high mortality rates, with businesses rarely making it past the two-year mark (**FinMark Trust, 2021**).

Women entrepreneurs are particularly affected by financing challenges.

The MSME finance gap, estimated at USD 5 trillion, disproportionately affects women-owned businesses, which account for USD 1.6 trillion of the USD 5 trillion gap (**SME Finance Forum, n.d**). Women entrepreneurs lack equal access to capital and networks crucial for stability and growth (**U.S Department of State, 2021**). Female business owners also face challenges such as limited land rights, inheritance constraints, higher interest rates due to perceived riskiness (**Global Economy and Development , 2020**), as well as low levels of financial literacy (**Syafiqah, Razak, & Said, 2023**).

MSME segmentation is a critical tool for closing the financial gaps for MSMEs.

Considering that MSMEs make up the vast majority of businesses worldwide, it is not only a development need, but also a business opportunity for lenders to tap into this large market sector (World Bank, n.d). Effectively serving the MSME sector requires business models and interventions that specifically target this sector and its particular needs and requirements. In this regard, the rise of digitally enabled business models offers an opportunity to transform MSME finance, potentially reducing the existing financing gap. To ensure that lending products align with the complex and diverse needs of MSMEs, a refined segmentation strategy is required to unlock the analysis of their financial service requirements at a granular level. However, there is a lack of a comprehensive understanding of the needs and realities of different types of MSMEs, and they are typically only segmented based on their size in terms of turnover or number of employees which does not allow for a nuanced analysis of their needs, contextual realities, resilience and borrowing behaviour.

MSEs represent the majority of businesses worldwide and are in particular affected by unmet financing needs. Within the MSME sector, micro and small Enterprises (MSEs) make up the vast bulk by number of enterprises but are

overwhelmingly informal and with little to no access to financial services. This means that the largest portion of businesses across developing countries are left with strongly restricted opportunities to grow and thrive. The bulk of these in most countries are women entrepreneurs. Hence, this research focuses specifically on the MSE sector, and women-owned enterprises in particular, to identify segmentation approaches that can better enable lenders to size and identify viable market segments within the MSE target market, in turn unlocking more capital for this large sector. In the absence of MSE-specific research and/or data, literature and data that also includes medium-sized enterprises is used and considered. Given that MSEs account for the overwhelming majority of total MSMEs this data on MSMEs is largely applicable to the sub-sector of MSEs. Many different definitions exist for MSMEs, however, for this paper, MSEs are referred to as micro and small enterprises that employ fewer than 20 people (CGAP, 2022). Further information on the use of MSME and MSE definitions can be found in Box 1.

Box 1: Use of MS(M)E definitions within the context of this report

The parameters and values used for the differentiation between nano, micro, small and medium enterprises differ significantly between countries and also between different kinds of surveys and other forms of research that have been conducted for this sector. For the country deep-dives, the main starting point of definition are the national definitions for MSMEs. For studies that did not use the official definition, further information will be provided on the specific sample and the size of enterprises included in this sample. The inclusion of this information helps to assess how the definitions used in studies align with CGAP's definition of MSEs. It is also important to note in this regard that while many data points are only available on MSMEs, these are often strongly applicable to the MSE sector given that the overwhelming majority of MSMEs are MSEs.

Throughout this report, the terms MSEs, MSMEs and SMEs are used deliberately and not interchangeably. In all cases the specific term used refers to the sampling group of enterprises within the literature or dataset being discussed.

Project objectives. This research focuses on two key objectives: improving the understanding of the MSE landscape, with a specific emphasis on women-owned microenterprises in Kenya, Uganda, and India, and accelerating progress towards a more digitally enabled MSE finance ecosystem. To these ends, this report seeks to:

- Provide a comprehensive view of the state of MSE finance in **Kenya, Uganda, and India**, with a particular focus on subsistence, nano, and microenterprises owned and run by women.
- Provide guidance on specific dimensions along which players in the ecosystem can conduct effective segmentation and market sizing exercises at the country level for the purposes of designing and providing tailored credit products for these target sectors.

While the primary target audience for this report is Consultative Group to Assist the Poor (CGAP), these research insights are intended to inform future outputs that

target financial service providers, policymakers, development organizations, funders and donors and other stakeholders dedicated to advancing MSE finance.

Project approach. The project consists of three core phases to achieve its objectives:

- **Phase 1:** The first phase of this project is a systemic review of core literature that i) explores which variables influence MSE's growth, resilience, and operational dynamics and ii) publications that have developed segmentation frameworks. The objective of the first phase is to identify core characteristics that are likely to play a critical role in influencing MSE resilience and growth and through that their viability for borrowing and the financing needs of MSEs. Based on these identified core characteristics and the insights emerging from the review of existing segmentation models, core segmentation dimensions are selected.
- **Phase 2:** The second phase of this project is the development of a data library that includes all available datasets and publications that are relevant within the context of MSE segmentation and MSE finance for each of the focus countries. The objectives of the data landscaping exercise are to i) extract insights on the MSE landscape and the MSE finance landscape to further assess the dynamics related to the segmentation dimensions and to ii) understand which proxy variables are available for each identified segmentation dimension. Box 2 provides further detail on the approach taken to develop the data library. Key informant interviews (KIIs) in the respective countries have been conducted to gain insights into additional datasets in the field (see Annex A for the list).
- **Phase 3:** The third phase is the development of recommendations on viable segmentation approaches based on the literature review findings captured in Chapter 2 and the MSE landscaping and MSE data landscaping findings discussed in Chapter 3.

Box 2: Data library approach

An extensive review of publicly available literature and datasets specific to each country was undertaken to identify core information and data that are relevant in the context of MSE segmentation and MSE finance. The focus was on women-owned enterprises and nano and microenterprises but also literature and datasets that looked more broadly at MS(M)Es were included when considered relevant. Moreover, secondary literature that did not include analysis of actual qualitative or quantitative data was only included if it was deemed particularly relevant to gain an overview of the MSE landscape within the particular country. The types of data sources looked at were survey data, secondary literature and administrative datasets in India, Kenya, and Uganda. The data library contains core information on each publication or dataset, such as the publisher of the data, the type of data, relevant variables included, the availability of the underlying data, the limitations of the data/publication findings and the key take-aways. Each of the data library fields is clearly defined through a data library user guide for ease of reference and to ensure consistency.

This report is divided into five chapters:

- **Chapter 1** is an introduction, providing a problem statement, project objectives and the project approach.

- **Chapter 2** delves into the literature review on MSE segmentation characteristics and models to identify core segmentation dimensions.
- **Chapter 3** includes country deep-dives for Kenya, Uganda, and India, examining the current landscape of MSEs and MSE lending, alongside an evaluation of data availability, opportunities, and existing gaps in data.
- **Chapter 4** discusses the identified segmentation dimensions and the suitability of available proxies for each dimension based on the insights arising from the data landscaping for each of the focus countries.
- **Chapter 5** concludes the report by summarizing the core findings and recommendations emerging from the research.

Literature review on MSE segmentation

Chapter 2 presents the core insights emerging from a review of relevant global literature. The primary aim of this literature review is to pinpoint the most meaningful and pertinent segmentation dimensions for MSEs. There are two key aspects that matter especially for the credit worthiness of MSEs: their willingness and ability to grow and their resilience. Thus, to achieve the above objective, Chapter 2.1 offers an overview of fundamental variables influencing MSE resilience and growth. Building upon these identified indicators, Chapter 2.2 then delves into an examination of existing frameworks and best practices in MSE segmentation, with a particular emphasis on microenterprises owned by women. Looking at existing MSE segmentation frameworks and approaches helps to understand which segmentation dimensions previous studies have selected and how they have combined different dimensions with each other to come up with meaningful MSE segments. The evaluation of these frameworks subsequently guides our selection of the most critical parameters to be employed as segmentation dimensions in the context of MSEs and, particularly, in the realm of nano and microenterprises owned by women, as further discussed in Chapter 2.3.

Overview of core parameters that matter for MS(M)E growth and resilience

Various studies have explored variables that influence the resilience and growth of MS(M)Es² and hence, provide useful descriptors of the specific needs of MS(M)Es and their viability for borrowing. A useful categorization of these variables differentiates between those related to business owners and those related to the businesses themselves, such as applied in a study conducted by the Mastercard Centre for Inclusive Growth on microenterprises in Mexico (2018). This section provides a comprehensive overview of the core business owner and business characteristics that have been identified through the literature review.

Business owner characteristics

Five core dimensions have been identified with regard to business owner characteristics, as displayed in Figure 3 below: sociodemographic characteristics, mindset, entrepreneurial ability, access to social networks and financial means of the business owner.

² The literature reviewed refers to MSMEs and MSEs.

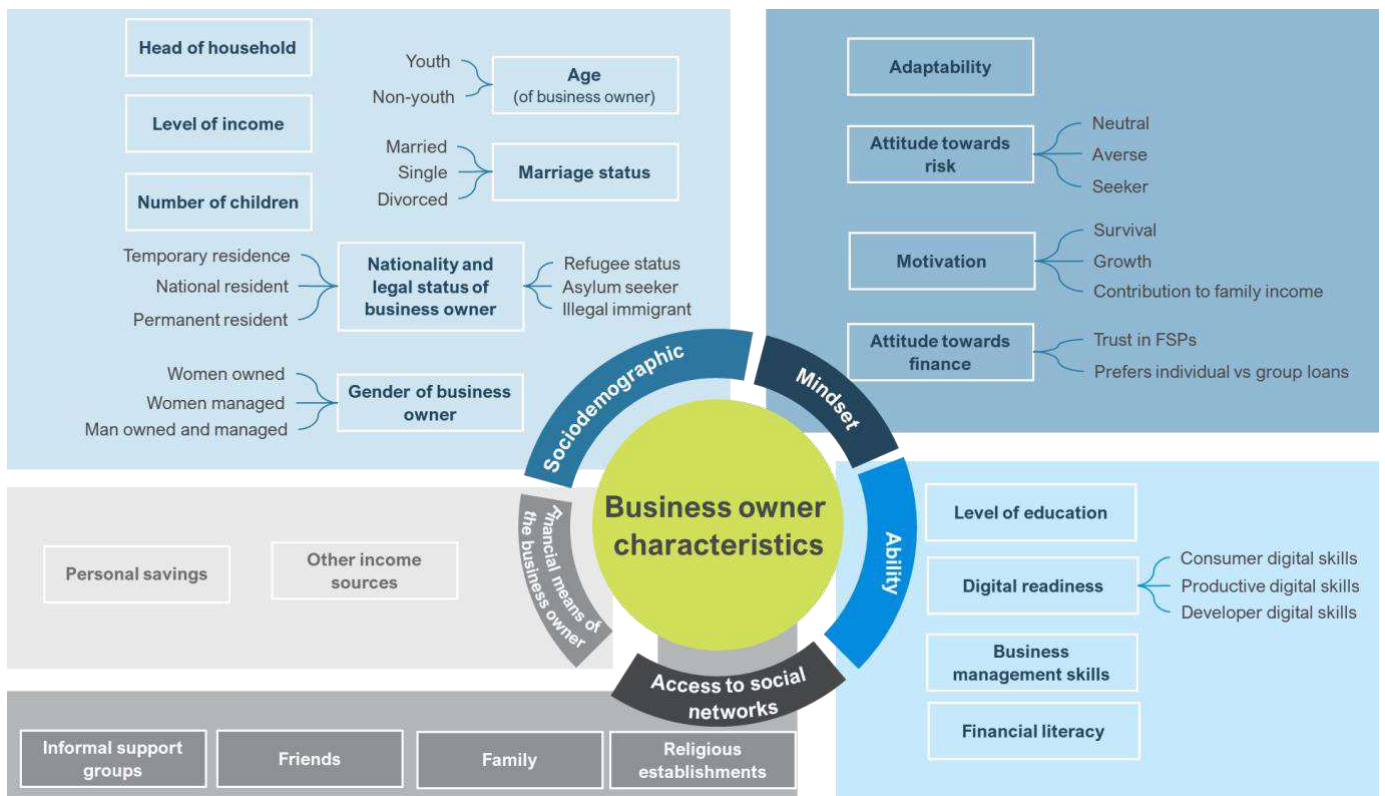


Figure 3: Business owner characteristics

Sociodemographic characteristics play a pivotal role in the success of women-owned enterprises. Core characteristics related to sociodemographic identified in the reviewed literature are:

- **Marriage status**³: Especially, for women-owned enterprises, marriage status and other family structure related characteristics can play a critical role because lenders may view married women as more stable and responsible due to traditional gender roles, assuming they have access to family support and joint assets. These perceptions impact eligibility for loans that require collateral and reflect assumptions about commitment to business success (Monteith & Camfield, 2019). Moreover, women face family trade-offs and need to make more arrangements for childcare than men and there is often also a hierarchy of needs where children’s welfare and education take precedence over reinvestment in the business (FinMark Trust, forthcoming).
- **Age**⁴: Age can have different effects on the ability to access credit. For instance, younger entrepreneurs may struggle to establish a credit history, while older ones

³ FSD Kenya, Kenya National Bureau of Statistics, Central Bank of Kenya (2021), FSD Kenya, Kenya National Bureau of Statistics, Central Bank of Kenya (2023), FinAccess (2022), Eton, Mwosi & Mutesigensi (2017), International Labour Organization (2015), Bosco Kakooza, Tusiime, Namiyingo, Nabwani & Basamera (2022), Mugaiga & Tugume (2020), Monteith & Camfield (2019), Trust Africa & IDRC CRDI (2012), C- Katongole, W. Manyisha Ahebwa, R. Kawere (2014), S. Vieitez-Cerdenño, R. Manzanera-Ruiz, O. Margaret M.M Namasembe (2021), M.Eton, F.Mwosi, B.P. Ogwel, C. Edaku, D.Obote (2019)

⁴ US Aid (2020), FSD Kenya, Kenya Bureau of Statistics, Central Bank of Kenya (2021), Kenya National Bureau of Statistics (2021), NYU Wagner (2023), Kenya Commercial Bank Group (2020), FSD Kenya (2020) Kenya Bankers Association (2021), International Labour Organization (2008), FSD Kenya & Dalberg (2021), FinMark Trust (2017), FinAccess (2022), FSD Kenya & DMA Global (2022), FSD Uganda (2015), C.P Lakuma, R. Marty & F. Muhumuza (2019), M. Eton, F. Mwosi, C. Okello-Obura, A.Turyehabwa, G.Utwonda (2021), M. Eton, F. Mwosi, D. Mutesigensi (2017), International Labour Organization (2015), J. Bosco Kakooza, I. Tusiime, S. Namiyingo, R. Nabwani, M. Basamera (2022), K. Mugaiga, P. Tugume (2020), O.K. Osunsan, S.Kinyatta, J.B. Baliruno, A. Ramathan Kibirige

may face biases and stereotypes or are less able to leverage digital credit (US Aid, 2020; FinMark Trust, 2017).

- **Nationality and legal status**⁵: Nationality and legal status impact loan eligibility and often migrants face significant barriers in using formal financial services, limiting their ability to secure loans, and hindering financial inclusion (International Labour Organization, 2021; FSD Uganda, 2015).
- **Gender of the business owner**⁶: Women often face gender-based challenges that can restrict their ability to secure financial resources or are more strongly affected by credit access barriers than men, hindering the growth and success of their businesses (Afi & SME Finance Working Group, 2021)
- **Number of children**⁷: Lenders may consider family size when assessing an entrepreneur's financial stability and resource allocation, influencing credit approval decisions. This factor reflects on the business owner's ability to manage both personal and business finances, impacting their creditworthiness (Trust Africa, 2012; FinAccess, 2022).
- **Head of household**⁸: If the business owner is the head of the household, they are more likely to have the autonomy to decide on the usage of the business income. Moreover, the head-of-household status may positively influence credit approval decisions, as it speaks to the business owner's ability to navigate both personal and business finances effectively (FinAccess, 2022).
- **Level of income**⁹: The level of income is vital for MSME owners' access to credit as it directly affects their creditworthiness. A higher income demonstrates

(2015), W. Monteith, L. Camfield (2019), IFC & UK Aid (2021), Institute of Advanced Leadership (2020), S. Nakyejwe, L.Kimuli, K.Sendawula, S.Nagujja (2021), Trust Africa & IDRC CRDI (2012), Uganda Bureau of Statistics (2013), FinScope (2018), M.Komunte (2015), International Labour Organization (2021), M.Eton, F.Mwosi, B.P. Ogwel, C. Edaku, D.Obote (2019), C- Katongole, W. Manyisha Ahebwa, R. Kawere (2014)

⁵ Uganda Bureau of Statistics (2007), Uganda Bureau of Statistics (2011), FSD Uganda (2015), International Labour Organization (2021)

⁶ FSD Kenya (2020), CGAP (2022), FinMark Trust (2018), US Aid (2020), Kenya National Bureau of Statistics (2021), NYU Wagner (2023), Kenya National Bureau of Statistics (2016), Kenya Commercial Bank Group (2020), Microsave Consulting (2022), FSD Kenya (2020), Kenya Bankers Association (2021), EconStor (2022), International Labour Organization (2008), Microsave Consulting (2022), FSD Kenya, Central Bank of Kenya & Kenya National Bureau of Statistics (2021), FSD Kenya, Gmaurich Insights & 71point4 (2022), FSD Kenya & Dalberg (2021), FSD Kenya & CGAP (2020), FinAccess (2022), FSD Kenya & DMA Global, (2022), KIPPRA (2022), Kenya National Bureau of Statistics (2016), AfricNenda (2022), FSD Uganda (2015), International Growth Centre (2020), M. Eton, F. Mwosi, C. Okello-Obura, A.Turyehewa, G.Utwonda (2021), International Labour Organization & Women's Entrepreneur Development (2014), M. Eton, F. Mwosi, D. Mutesigensi (2017), International Labour Organization (2015), J. Bosco Kakooza, I. Tusiime, S. Namiyingo, R. Nabwani, M. Basemera (2022), K. Mugaiga, P. Tugume (2020), O.K. Osunsan, S.Kinyatta, J.B. Baliruno, A. Ramathan Kibirige (2015), W. Monteith, L. Camfield (2019), IFC & UK Aid (2021), Institute of Advanced Leadership (2020), S. Nakyejwe, L.Kimuli, K.Sendawula, S.Nagujja (2021), A.Fred, A. Nduhura (2019), Uganda Bureau of Statistics (2020), FSD Uganda (2018), International Labour Organization (2021), S. Vieitez-Cerdenño, R. Manzanera-Ruiz, O. Margaret M.M Namasembe (2021), M.Eton, F.Mwosi, B.P. Ogwel, C. Edaku, D.Obote (2019)

⁷ FinMark Trust (2018), FSD Kenya, Central Bank of Kenya & Kenya National Bureau of Statistics (2021), Kenya National Bureau of Statistics (2021), NYU Wagner (2023), Microsave Consulting (2022), International Labour Organization (2008), FSD Kenya & Dalberg (2021), P. Nijiraini, P. Gachanja & J. Omolo (2018), FSD Uganda (2015), FSD Uganda (2018), International Labour Organization (2021), M.Eton, F.Mwosi, B.P. Ogwel, C. Edaku, D.Obote (2019), C- Katongole, W. Manyisha Ahebwa, R. Kawere (2014), S. Vieitez-Cerdenño, R. Manzanera-Ruiz, O. Margaret M.M Namasembe (2021)

⁸ FSD Uganda (2018), A. Fred & A.Nduhura (2019), FSD Kenya, Central Bank of Kenya & Kenya National Bureau of Statistics (2021), Kenya National Bureau of Statistics (2021), Kenya National Bureau of Statistics (2016), Kenya Commercial Bank Group (2020), FSD Kenya (2020), Kenya Bankers Association (2016), EconStor (2022), International Labour Organization (2008), Microsave Consulting (2022), FSD Kenya & CGAP (2020), KIPPRA (2022)

⁹ FSD Kenya, Central Bank of Kenya & Kenya National Bureau of Statistics (2021), M.Eton, F.Mwosi, B.P. Ogwel, C. Edaku, D.Obote (2019)

financial stability and increases the likelihood of loan approval, enabling business owners to invest in and expand their enterprises (NYU Wagner, 2023; FinMark Trust, 2017).

The financial means of the business owner can positively affect informal and formal credit access as it demonstrates financial responsibility. Moreover, these personal finance sources can be leveraged by the business owner to cover start-up costs or to support overall cash flow management. It also provides a safety net during challenges, supports entrepreneurial investment, and contributes to building creditworthiness, enhancing the chances of securing formal credit and strengthening the growth prospects of MSEs (Afi & SME Finance Working Group, 2021). Personal access to finance can be divided into:

- **Personal savings**¹⁰: Personal savings serve as a key indicator of financial responsibility and commitment, enhancing the creditworthiness of entrepreneurs while also offering a source of resilience that business owners can fall back on. Lenders often view personal savings as a form of collateral and a demonstration of the owner's financial stability, which positively influences credit approval decisions (Microsave Consulting, 2022).
- **Other income sources**¹¹: Diversified revenue streams demonstrate financial stability, bolstering the creditworthiness of business owners and enable to balance their cash flow management across several income streams. This increases the likelihood of securing loans and fostering the growth of their enterprises (Eton, Mwosi, & Mutesigensi, 2017).

Access to social networks¹² enables business owners to tap into their social networks to support skill development and access to finance. In particular, the following core support systems have been identified:

- **Religious establishments**: Religious establishments often serve as community hubs, fostering trust and social capital. Being affiliated with religious groups can provide entrepreneurs with valuable connections, support, and a sense of credibility, which can positively influence their ability to secure credit from within their community. The network within religious establishments may offer both financial and moral support, enhancing the creditworthiness of business owners (Shumba, 2015).
- **Family**: Family support provides a readily available source of capital, allowing business owners to invest in their businesses, acquire new skills, and explore growth opportunities. As the business grows, the improved financial standing enhances the owner's creditworthiness (Rasmi & Ramya, 2023).

¹⁰ Trust Africa & IDRC CRDI (2012), M. Eton, F. Mwosi, C. Okello-Obura, A.Turyehebwa, G.Utwonda (2021), Kenya National Bureau of Statistics (2021), Kenya Commercial Bank Group (2020), FSD Kenya (2020), International Labour Organization (2008), Microsave Consulting (2022), FSD Kenya, Gmaurich Insights, 71point4 (2022), Federation of Kenya Employers (2021), FSD Kenya & CGAP (2020), Shabia & Barako (2016), S. Vieitez-Cerdenño, R. Manzanera-Ruiz, O. Margaret M.M Namasembe (2021)

¹¹ Trust Africa & IDRC CRDI (2012), FSD Uganda (2018), International Labour Organization (2021)

¹² FSD Kenya, Central Bank of Kenya, Kenya National Bureau of Statistics (2021), Kenya National Bureau of Statistics (2021), NYU Wagner (2023), Kenya Bankers Association (2021), FSD Kenya, Central Bank of Kenya, Kenya National Bureau of Statistics (2020-2021), FSD Kenya & Dalberg (2021), Peter Njiraini, Paul Gachanja & Jacob Omolo (2018), Federation of Kenya Employers (2021), FSD Kenya & DMA Global (2022), AfricaNenda (2022), M. Komunte (2015), FSD Uganda (2018), S. Nakyejwe, L.Kimuli, K.Sendawula, S.Naguja (2020), GSMA (2023), Women's World Banking (2022), Mastercard Center for Inclusive Growth (2018), Pulse Lab Jakarta (2021)

- **Friends:** Friends serve as a valuable external support system and can provide immediate financial assistance for business expansion and skill enhancement. This external support not only contributes to short-term needs but also helps in building a network of trust beyond family connections (Ioanid, Deselnicu, & Militaru, 2017).
- **Self-help groups/informal localised support structures:** Self-help groups and local support networks are lifelines for micro, small, and medium enterprises (MSMEs) seeking access to credit and finance. They cultivate trust, offer tailored solutions, and provide flexible terms that traditional institutions often lack. Through capacity-building and social capital, these grassroots initiatives empower MSMEs, bridging the gap between local businesses and formal finance, and driving economic growth at the grassroots level (Chandirasekaran & Nambirajan, 2018; Thyagarajan, Thangasamy, & Chandirasekaran, 2018).

The entrepreneurial ability of the business owner plays a crucial role in the success of micro-enterprises. The ability of the business owner to manage their business and to understand and leverage financial and digital tools is important for their ability to sustainably grow their business and to access different sources of financing. Core elements of entrepreneurial ability include:

- **Digital readiness¹³:** Digital readiness, including consumer digital skills, productive digital skills, and developer digital skills, is essential for business owners as digital marketplaces are increasingly gaining importance for tapping into a variety of customer segments. Digital skills also enable business owners to leverage digital tools to manage their business and finances more effectively and to build a digital footprint, contributing to overall financial viability and increased creditworthiness (GSMA, 2023; International Labour Organization, 2021). Additionally, digital skills enable business owners to access digital forms of credit, opening up a larger variety of formal credit sources for them
- **Level of formal education¹⁴:** Formal education can be linked to vital skills such as financial literacy and effective communication and business owners with higher formal education levels are often perceived as less risky for lenders. Higher education levels enable entrepreneurs to meet documentation requirements, navigate legal obligations, and enhance negotiation and risk management skills (Afi & SME Finance Working Group, 2021).

¹³ A.Fred, A. Nduhura (2019), S.Nsubuga Mayanja (2020), Trust Africa & IDRC CRDI (2012), J. Bosco Kakooza, I. Tusiime, S. Namiyingo, R. Nabwani, M. Basemera (2022), M. Eton, F. Mwosi, D. Mutesigensi (2017), M. Eton, F. Mwosi, C. Okello-Obura, A.Turyehebwa, G.Utwonda (2021), FSD Uganda (2015), KIPPRA (2022), Shibia & Barako (2016), Federation Of Kenya Employers (2021), Peter Njiraini, Paul Gachanja & Jacob Omolo (2018), Kenya Bankers Association (2021), FSD Kenya (2020), Microsave Consulting (2022), Kenya National Bureau of Statistics (2016), S. Vieitez-Cerdenño, R. Manzanera-Ruiz, O. Margaret M.M Namasembe (2021), C- Katongole, W. Manyisha Ahebwa, R. Kawere (2014))

¹⁴ FinMark Trust (2017), Cenfri (2015), ADB (1997), Mastercard Center for Inclusive Growth (2018), Women's World Banking (2022), GSMA (2023), FSD Kenya, Central Bank of Kenya, Kenya National Bureau of Statistics (2021), Kenya National Bureau of Statistics (2016), Microsave Consulting (2022), FSD Kenya (2020), Kenya Banker's Association (2021), EconStor (2022), FSD Kenya, Central Bank of Kenya, KNBS (2020-2021), FSD Kenya & Dalberg (2021), Peter Njiraini, Paul Gachanja & Jacob Omolo (2018), Federation of Kenya Employers (2021), FSD Kenya & DMA Global (2022), AfricaNenda (2022), World Bank (2013), M. Eton, F. Mwosi, C. Okello-Obura, A.Turyehebwa, G.Utwonda (2021), M. Eton, F. Mwosi, D. Mutesigensi (2017), J. Bosco Kakooza, I. Tusiime, S. Namiyingo, R. Nabwani, M. Basemera (2022), K. Mugaiga, P. Tugume (2020), W. Monteith, L. Camfield (2019), Institute of Advanced Leadership (2020), S. Nakyejwe, L.Kimuli, K.Sendawula, S.Nagujja (2021), Trust Africa & IDRC CRDI (2012), Uganda Bureau of Statistics (2020), FSD Uganda (2018), M.Komunte (2015), International Labour Organiation (2021)

- **Business management skills**¹⁵: Business management skills, such as strategic decision-making, efficient resource allocation, and adaptability to market changes are crucial. These abilities showcase the owner’s capacity to navigate challenges and capitalize on opportunities, which lenders consider essential for assessing creditworthiness. Furthermore, effective communication and relationship-building skills can foster trust with lenders, facilitating easier access to credit by demonstrating a commitment to responsible financial management (Msoka, 2013).
- **Financial literacy**¹⁶: Financial literacy is essential for MSMEs to access loans and credit. A strong understanding of financial concepts and practices allows business owners to manage their finances effectively. Lenders are more inclined to offer credit to businesses with owners who demonstrate financial literacy as they are perceived as lower risk. Financial literacy enables MSMEs to present a clear and informed financial picture, improving their creditworthiness and increasing the likelihood of securing loans and credit (Afi & SME Finance Working Group, 2021).

Mindset shapes business viability and creditworthiness which is crucial for women-owned enterprises. Core variables identified in the literature are:

- **Attitudes towards risk**¹⁷: The business owner’s attitude towards risk (risk-neutral, risk-averse and risk seeker) shapes their ability to expand and grow their business and to adapt it to a changing market environment. Lenders assess the risk profile of businesses before extending credit, and businesses with a balanced and informed approach to risk are perceived as more creditworthy. Businesses that demonstrate a thoughtful attitude towards risk are better positioned to navigate uncertainties and establish a trustworthy financial track record, ultimately facilitating their access to crucial financial Resources (Bahrat Inclusion Initiative, 2020).
- **Motivation**¹⁸: Motivation, (survival, growth, side hustle and contributing to family income), which demonstrates the reasoning for opening a business, the drive, determination, and intentions of the business owner, play a crucial role when it comes to borrowing behaviour. It influences the business’s commitment to growth and success, impacting their approach towards seeking and managing credit or loans (Trust Africa, 2012)

¹⁵ A.Fred, A. Nduhura (2019), S.Nsubuga Mayanja (2020), Trust Africa & IDRC CRDI (2012), J. Bosco Kakooza, I. Tusiime, S. Namiyingo, R. Nabwani, M. Basemera (2022), M. Eton, F. Mwosi, D. Mutesigensi (2017), M. Eton, F. Mwosi, C. Okello-Obura, A.Turyehebwa, G.Utwonda (2021), FSD Uganda (2015), KIPPRA (2022), Shibia & Barako (2016), Federation Of Kenya Employers (2021), Peter Njiraini, Paul Gachanja & Jacob Omolo (2018), Kenya Bankers Association (2021), FSD Kenya (2020), Microsave Consulting (2022), Kenya National Bureau of Statistics (2016), S. Vieitez-Cerdeno, R. Manzanera-Ruiz, O. Margaret M.M Namasesembe (2021), C- Katongole, W. Manyisha Ahebwa, R. Kawere (2014)

¹⁶ Kenya Commercial Bank Group (2020), Microsave Consulting (2016), Kenya Bankers Association (2021), Microsave consulting (2022), FSD Kenya & DMA Global (2022), AfricaNenda (2022)

¹⁷ HM Revenue & Customs (2010), Bahrat Inclusion Initiative (2020), KIPPRA (2022), FSD Kenya & CGAP (2020), Peter Njiraini, Paul Gachanja & Jacob Omolo (2018), EconStor (2022), Kenya Bankers Association (2021), Kenya National Bureau of Statistics (2016), US Aid (2020)

¹⁸ CGAP (2022), Cenfri (2020), GSMA (2023), FSD Kenya (2020), SAFIN & ISD (2021), Cenfri (2015), FinMark Trust (2018), International Finance Corporation (2020), International Finance Corporation (2013), US Aid (2020), Uganda Bureau of Statistics (2020), Trust Africa & IDRC CRDI (2012), S. Nakyejwe, L.Kimuli, K.Sendawula, S.Nagujja (2021), FSD Kenya, Central Bank of Kenya & Kenya National Bureau of Statistics (2021), NYA Wagner (2023), FSD Kenya (2020), International Labour Organization (2008), FSD Kenya, Gmaurich Insights, 71point4 (2022), FSD Kenya & Dalberg (2021), Federation of Kenya Employers (2021), C- Katongole, W. Manyisha Ahebwa, R. Kawere (2014), S. Vieitez-Cerdeno, R. Manzanera-Ruiz, O. Margaret M.M Namasesembe (2021)

- **Attitude towards finance**¹⁹: Attitudes towards finance, (trust in financial service providers, preference for individual vs. group loans), are pivotal for MSMEs in gaining access to loans and credit. A positive attitude and trust in financial institutions contribute to a willingness to engage in financial transactions and establish relationships with lenders. Business owners with favourable attitudes towards formal finance are more likely to navigate the financial landscape effectively, fostering a conducive environment for obtaining the necessary credit for business growth and development (Afi & SME Finance Working Group, 2021).
- **Adaptability**²⁰: Adaptability is crucial for businesses as it is the ability to navigate and thrive in evolving market scenarios. Lenders value businesses that can quickly adjust to changing conditions and businesses with a demonstrated ability to adapt are perceived as less risky, enhancing their creditworthiness, and increasing their likelihood of securing loans (International Finance Corporation, 2013).

¹⁹ Mastercard Center for Inclusive Growth (2018), GSMA (2023), International Finance Corporation (2020), KIPPRA (2022), Peter Njiraini, Paul Gachanja & Jacob Omolo (2018), FSD Kenya & Dalberg (2021), International Labour Organization (2008), Kenya Bankers Association (2021), Kenya Bankers Association (2016), Kenya National Bureau of Statistics (2016), NYA Wagner (2023)

²⁰ Pulse Lab Jakarta (2021), International Finance Corporation (2013)

Business characteristics

Seven different core characteristics have been identified for businesses. The core characteristics that have been identified for business characteristics are lifecycle stage, size of business, type of business operation, business risk exposure, access to networks, revenue stream patterns, and level of business sophistication. The identified business characteristics are outlined in Figure 4.

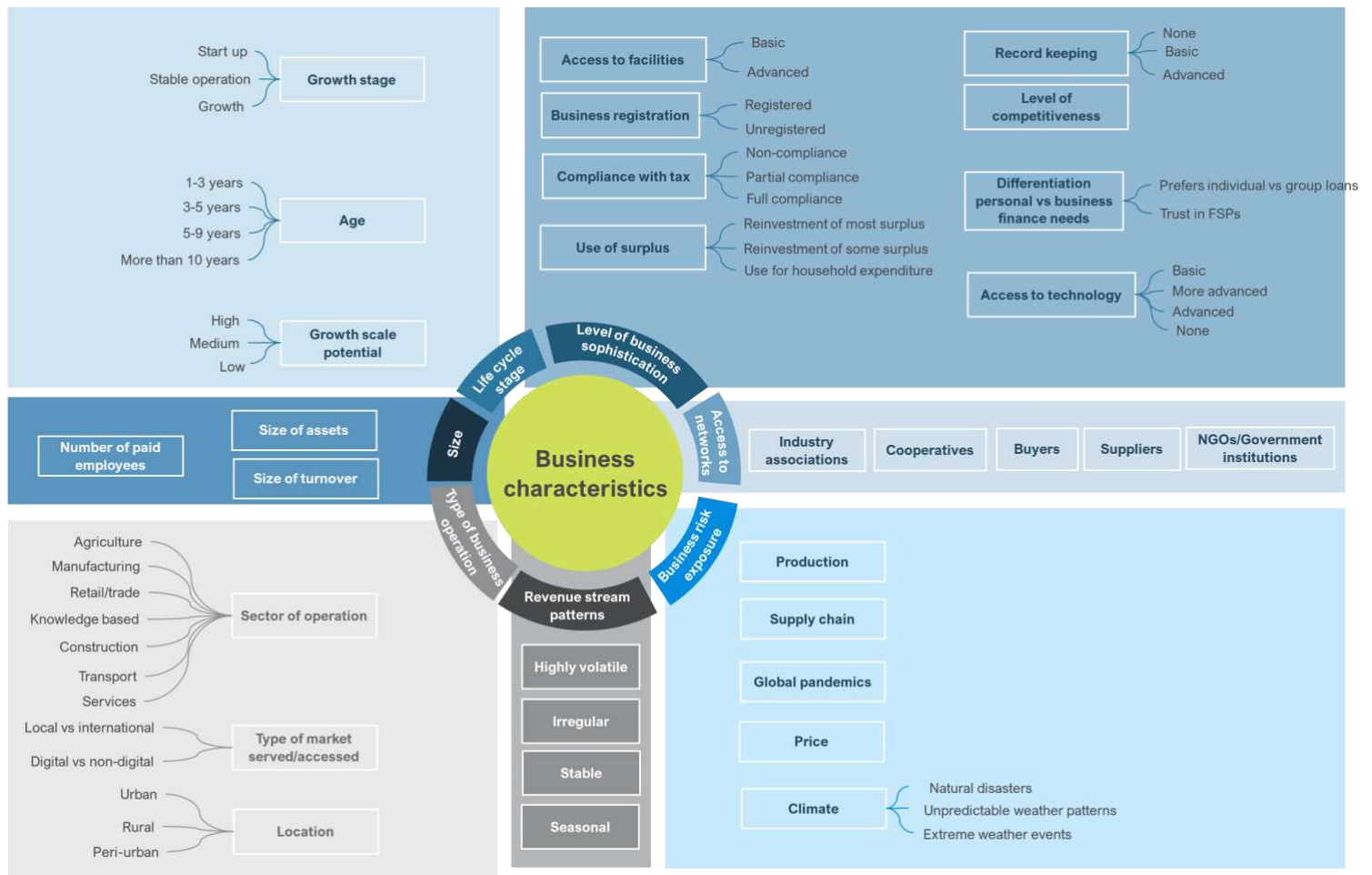


Figure 4: Business Characteristics

The lifecycle stage of a business shapes its ability and need to access finance. Considering the lifecycle stages of businesses is important for assessing risk, tailoring financial products, and promoting inclusivity (Bank of Uganda , 2023). In the early stages of a business, more finance is usually needed to cover start-up costs, and business owners tend to rely a lot on peers and informal channels for financial support, rather than financial service providers (CGAP, 2022). The lifecycle stage can be divided into:

- **Growth stage**²¹: The growth stage²² of a business is crucial for businesses in accessing loans and credit. Lenders often assess the business's stage to evaluate its financial stability, operational track record, and growth potential. Start-ups may face challenges due to limited operating history, while stable businesses with a proven track record are often considered lower risk. Growing businesses may demonstrate potential for increased revenue, making them more attractive to lenders. Understanding the growth stage is essential for lenders to assess risk and tailor financial solutions, impacting the ease with which businesses can secure loans and credit (World Bank, 2019; US Aid, 2020).
- **Age of business**²³: The age²⁴ of a business plays a role when it comes to access to finance. Established businesses with a longer operating history are generally perceived as less risky, making them more attractive to lenders. A longer business tenure provides a track record of financial performance, enhancing the business's creditworthiness and increasing the likelihood of securing loans or credit (International Finance Corporation, 2020; Trust Africa, 2012).
- **Growth and scale potential**²⁵: The growth and scale of a business²⁶ are pivotal for MSMEs in securing access to loans and credit. A growing and scalable business signifies financial stability and potential for future success, enhancing its creditworthiness. Lenders are more inclined to support businesses that demonstrate a trajectory of expansion, as this indicates the ability to generate revenue and repay loans (Collaborative for Frontier Finance, 2018).

The size of a business is important in their access to finance. The size of an MSME significantly influences its perceived risk and, consequently, its ability to secure credit. Larger enterprises often present a more stable financial profile, making them more attractive to lenders. Their size indicates a capacity for sustained operations and repayment, increasing their creditworthiness. Smaller MSMEs may face challenges in demonstrating the same level of financial stability, potentially encountering more barriers when seeking loans. (Collaborative for Frontier Finance, 2018). The core elements are:

- **Profit/assets/turnover**²⁷: Asset, profit, and turnover are crucial factors for MSMEs seeking access to credit and loans. Lenders typically evaluate these

²¹ CGAP (2022), GSMA (2023), US AID (2020) World Bank (2019), NYU Wagner (2023), International Labour Organization (2008), W. Monteith, L. Camfield (2019), S.Nsubuga Mayanja (2020), Trust Africa & IDRC CRDI (2012), A.Fred, A. Nduhura (2019), Bank of Uganda (2023)

²² Start-up stage, stable operations stage, growth stage)

²³ Bank (2019), International Finance Corporation (2020), FSD Uganda (2015), E.Nzibonera, I.Waggumbulizi (2020), E.Nzibonera, I.Waggumbulizi (2020), Trust Africa & IDRC CRDI (2012), Uganda Bureau of Statistics (2020), Uganda Bureau of Statistics (2011), US Aid (2020), M. Komunte (2015), FSD Kenya, Central Bank of Kenya, Kenya National Bureau of Statistics (2021), NYU Wagner (2023), FSD Kenya (2020), Kenya Bankers Association (2016), Kenya Bankers Association (2021), EconStor (2022), Peter Njiraini, Paul Gachanja & Jacob Omolo (2018), Kenya National Bureau of Statistics (2017), Federation of Kenya Employers (2021), United National Development Programme (2021), Shibia and Baroki (2016), FSD Kenya & DMA Global (2022), Collins Omundu Koyo(2017), Kenya National Bureau of Statistics (2016)

²⁴ 1-3 years, 3-5 years, 5-9 years, 10+ years.

²⁵ Collaborative for Frontier Finance (2018), SAFin & ISF Advisors (2021), Bain & Company (2016), McKinsey & Company (2020), FinMark Trust (2018), FSD Kenya & Dalberg (2021), International Labour Organization (2008), US Aid (2020), World Bank (2016), J. Bosco Kakooza, I. Tusiime, S. Namiyingo, R. Nabwani, M. Basemera (2022), M. Eton, F. Mwosi, D. Mutesigensi (2017), M. Eton, F. Mwosi, C. Okello-Obura, A.Turyehewa, G.Utswana (2021)

²⁶ High potential, medium potential, low potential

²⁷ ICRIER (2023), LEAD at KREA University (2022), M. Kapoor, A. Schoar, P. Rao, S. Buteau (2012), National Sample Survey Office, Ministry of Statistics and Programme Implementation, Government of India (2017), S. Gosh (2022), Omidyar Network, Boston Consulting Group (2018), Basix Consulting (2018), International Finance Corporation (2022), Harpriya, R.K. Sharma, A.N. Sah (2020), IDInsight, SEWA Bharat, IMAGO Global Grassroots (2021), Catalyst & ICE 260 (2018 & 2019), Google and Bain & Company (2020), M. Eton, F. Mwosi, D. Mutesigensi (2017), World Bank

metrics to assess the financial health and repayment capacity of businesses. A strong asset base provides collateral, reducing the lender's risk and increasing the likelihood of loan approval. Profitability demonstrates the business's ability to generate income and repay debts, while turnover reflects its liquidity and operational efficiency. Therefore, MSMEs with a healthy asset, profit, and turnover ratios are more likely to secure favourable loan terms, enabling them to invest in growth and navigate financial challenges effectively (International Labour Organization, 2016; US Aid, 2020).

- **Number of employees²⁸:** The use of hired labour in MSMEs is important for their access to loans and credit. Employing a workforce signals business stability and growth potential, which positively influences lenders' perception of creditworthiness. The presence of hired labour often reflects increased operational capacity and the ability to generate consistent income, making MSMEs more attractive to financial institutions. This, in turn, enhances the likelihood of securing loans and credit to support further business development (ADB, 1997; GSMA, 2023).

The type of business operation of a business is important to consider. The following aspects shape the business operations:

- **Sector of operation²⁹:** Lenders often evaluate the industry in which a business operates³⁰ to assess its risk and growth potential. Certain sectors may be considered more stable or promising, influencing credit decisions. Businesses in

(2016), Uganda Bureau of Statistics (2011), Maina et-al (2016), International Initiative for Impact Evaluation (2019), Sabana (2014), Odhiambo (2023), Higgins et.al. (2012), KNBS (2016), KIPPRA (2022), Shibia and Barako (2016), FSD Kenya & CGAP (2020), UNDP (2021), KNBS (2017), FSD Kenya, Gmaurich Insights, 71point4 (2022), EconStor (2022), Kenya Bankers Association (2021), Kenya Bankers Association (2016), KNBS (2016), NYU Wagner (2023)

²⁸ ADB (1997), GSMA (2023), FSD Kenya, Central Bank of Kenya, KNBS (2023), NYU Wagner (2023), KNBS (2016), Kenya Commercial Bank Group (2020), MicroSave CONSULTING (2022), FSD Kenya (2020), Kenya Bankers Association (2016), Kenya Bankers Association (2021), EconStor (2022), FSD Kenya, Central Bank of Kenya, KNBS (2021), UNDP (2015), FSD Kenya, Gmaurich Insights, 71point4 (2022), FSD Kenya, Dalberg (2021), Peter Njiraini, Paul Gachanja & Jacob Omolo (2018), KNBS (2017).UNDP (2021), FSD Kenya & CGAP (2020), FSD Kenya & DMA Global (2022), Collins Omundu Koyo (2017), KIPPRA (2022), AfricaNenda (2022), Higgins et.al (2012), Odhiambo (2023), Sabana (2014), GSMA (2023), International Initiative for Impact Evaluation (2019), Uganda Bureau of Statistics (2011), Trust Africa (2012), S. Nsubuga Mayanja (2020), K. Mugaiga, P. Tugume (2020), ILO (2015), World Bank (2013), FSD Uganda (2015), SIDBI (2018), Google and Bain & Company (2020), H.E. Chew, V.P. Ilavarasan, M.R. Levy (2015), S. Rajan, S. Panicker (2020), Harpriya, R.K. Sharma, A.N. Sah (2020), M. Das (2012), Department of Industries and Commerce, Government of Telangana (2023), Basix Consulting (2018), World Bank Group (2022), Ministry of Statistics and Programme Implementation (2022), A. Banerji (2022), S. Ghosh (2022), M. Kapoor, A. Schoar, P. Rao, S. Buteau (2012), LEAD at KREA University (2023), IWWAGE (2020), Central Statistical Organization (2016), ICRIER (2023), Development Commissioner, Ministry of Micro, Small and Medium Enterprises (2011)

²⁹ FinMark Trust (2018), FSD Uganda (2021), Bain & Company (2016), Women's World Banking (2022), GSMA (2023) US Aid (2020), Cenfri (2020) ADB (1997), FSD Kenya (2020), FSD Uganda (2015), C.P. Lakuma, R. Marty, F.Muhumuza (2019), World Bank (2013), M. Eton, F. Mwosi, D. Mutesigensi (2017), E.Nzibonera, I.Waggumbulizi, J. Bosco Kakooza, I. Tusiime, S. Namiyingo, R. Nabwani, M. Basemera (2022), Insurance Regulatory Authority of Uganda (2021), W. Menteith & L.Camfield (2019), IFC & UK aid (2021), Cenfri (2021), Institute of Advanced Leadership (2020), S. Nakyejwe, L.Kimuli, K.Sendawula, S.Nagujja (2021), R.Ishengoma, E.Kappel (2007), World Bank (2016), Uganda Bureau of Statistics (2020), Uganda Bureau of Statistics (2011), Uganda Bureau of Statistics (2007), Bank of Uganda (2023), World Bank (2006), US Aid (2020), M. Komunte (2015), International Labour Organization (2021), FSD Kenya, Central Bank of Kenya, Kenya National Bureau of Statistics (2021), FSD Kenya, Central Bank of Kenya, Kenya National Bureau of Statistics (2023), NYU Wagner (2023), Kenya National Bureau of Statistics (2016), Kenya Bankers Association (2016), Kenya Bankers Association (2021), International Labour Organization (2008), FSD Kenya, Central Bank of Kenya, Kenya National Bureau of Statistics (2020-2021), FSD Kenya & Growth Cap (2015), FSD Kenya, Gmaurich Insights, 71point4 (2022), Kenya National Bureau of Statistics (2017), United Nations Development Programme (2021), FSD Kenya & CGAP (2020), Shibia & Barako (2016), FinAcess (2022), KIPPRA (2022), National Bureau of Statistics (2016), AfricaNenda (2022), C- Katongole, W. Manyisha Ahebwa, R. Kawere (2021)

³⁰ Agriculture, manufacturing, retail/trade, knowledge-based, construction, transport, services

sectors with proven financial stability and growth prospects are generally more attractive to lenders, increasing their chances of obtaining loans and credit facilities. The specific industry context is, therefore, a significant factor shaping the credit landscape for businesses. Moreover, the industry within which a business operates has a strong impact on the risk profile of the business (Women's World Banking, 2022; Bain & Company, 2016).

- **Type of market served/accessed**³¹: The type of market served and accessed³² is an important aspect when it comes to MSMEs' access to finance. FSPs assess the market dynamics to gauge business stability and growth potential. Businesses operating in international or digital markets may demonstrate resilience and scalability, enhancing their creditworthiness. Moreover, the integration into formal supply chains enables businesses to establish linkages with distributors and manufacturers and through those linkages, access to different sources of finances, for instance, trade credit. However, these businesses are also more vulnerable to risks related to international or digital markets, such as global supply chain risks (World Bank, 2019; Nakyejwe, Kimuli, Sendawula, & Nagujja, 2021).
- **Location/geography**³³³⁴: Financial institutions often consider the economic conditions and market dynamics of specific regions when evaluating creditworthiness. Businesses located in thriving or strategic areas may be viewed more favourably due to the potential for sustained growth and market demand. Additionally, local factors such as infrastructure, industry clusters, and regulatory environments shape the ability of the business to evolve and its risk profile. Additionally, the location of a business influences its proximity to formal FSPs or other formal credit sources (FinMark Trust, 2017; US Aid, 2020).

Revenue stream patterns affect the ability of MSEs to access financing.

Understanding revenue stream patterns is crucial for businesses and financial service providers. It informs risk management, credit assessments, resource allocation, financial planning, and operational efficiency, ensuring adaptability and long-term success (Microsave Consulting, 2022). For instance, lenders may perceive businesses with seasonal income as riskier due to potential challenges in meeting regular payments during off-peak periods. Businesses in such situations may need to provide detailed financial projections or explore specialized loan products to enhance their creditworthiness (Afi & SME Finance Working Group, 2021).

The business risk exposure shapes the resilience of MSEs. Businesses, and particularly MSEs, are constantly at risk of outside factors affecting their operations. Lenders assess risk to make informed decisions, and entrepreneurs who demonstrate awareness and mitigation strategies for potential risks are more likely to

³¹ World Bank (2019), FSD Kenya, Central Bank of Kenya, Kenya National Bureau of Statistics (2021), FSD Kenya, Central Bank of Kenya, Kenya National Bureau of Statistics (2023), World Bank (2016), Uganda Bureau of Statistics (2020)

³² Local vs. international, digital vs. non-digital, effect of global pandemics.

³³ Urban, rural, peri-urban

³⁴ FinMark Trust (2017), ADB (1997), Cenfri (2020), FSD Uganda (2015), C.P. Lakuma, R. Marty, F. Muhumuza (2019), World Bank (2013), International Labour Organization (2015), J. Bosco Kakooza, I. Tusiime, S. Namiyingo, R. Nabwani, M. Basemera (2022), Insurance Regulatory Authority of Uganda (2021), W. Monteith & L. Camfield (2019), Cenfri (2021), World Bank (2007), Trust Africa & IDRC CRDI (2012), Uganda Bureau of Statistics (2020), Uganda Bureau of Statistics (2011), Uganda Bureau of Statistics (2007), Bank of Uganda (2023), FSD Kenya, Central Bank of Kenya, Kenya National Bureau of Statistics (2023), NYU Wagner (2023), Microsave Consulting (2022), Kenya Bankers Association (2021), International Labour Organization (2008), Microsave Consulting (2022), FSD Kenya, Central Bank of Kenya, Kenya National Bureau of Statistics (2020-2021), FSD Kenya & Growth Cap (2015), United Nations Development Programme (2015), Kenya National Bureau of Statistics (2017), Federation of Kenya Employers (2021)

secure credit (Uganda Bureau of Statistics, 2011; Dalberg, 2015). Core types of risks to consider are supply chain risks³⁵, price risks³⁶, production risks³⁷ and climate-related risks³⁸.

The ability to tap into business networks positively affects MSE's access to finance. Linkages with business networks can be critical for MSEs to seek advice on how to access financing but can also be a key source of financing themselves. Women entrepreneurs in particular rely on their social and business networks and linkages with female mentors to help them establish their businesses, to get access to suppliers and customers and to access financing (FinMarkTrust, forthcoming). Business networks can also be direct sources of financing through supply chain financing or can act as distribution channels for loans, such as digital platforms and value chain cooperatives. Core examples of business networks are industry associations, cooperatives, linkages with distributors and linkages with manufacturers. For instance, through shared resources, businesses within cooperatives enhance individual and collective financial stability and community-based financing and capacity-building initiatives further contribute to financial literacy and alternative financing sources, fostering overall business growth and success (Trust Africa, 2012). (International Labour Organization, 2021; Trust Africa, 2012)

The level of business sophistication influences the financial interactions of MSEs and their access to credit. Core elements that matter for the level of business sophistication are:

- **Business registration³⁹:** Business registration⁴⁰, determines the formality of an enterprise. The formality of operations plays an important role. It enhances credibility, and legal recognition, and allows for accurate creditworthiness assessments. Formal businesses qualify for larger loan amounts, mitigate risks, and establish credit histories. Moreover, formality opens doors to government initiatives and expansion opportunities. Overall, maintaining a formal business structure can be critical for the financial stability and success of MSMEs in accessing formal credit, depending on the individual country context (Trust Africa, 2012; FSD Kenya, Gmaurich Insights, & 71point4, 2022).

³⁵ S. Nakyejwe, L.Kimuli, K.Sendawula, S.Nagujja (2021)

³⁶ World Bank (2007), NYU Wagner (2023)

³⁷ Insurance Regulatory Authority of Uganda (2021), S. Nakyejwe, L.Kimuli, K.Sendawula, S.Nagujja (2021)

³⁸ Insurance Regulatory of Uganda (2021)

³⁹ CGAP (2022), International Finance Corporation (2020), Women's World Banking (2022), International Labour Organization (2021), Mastercard Centre for Inclusive Growth (2018), International Finance Corporation (2013), FSD Kenya (2020), FSD Kenya, Central Bank of Kenya & Kenya National Bureau of Statistics (2021), FSD Kenya, Central Bank of Kenya & Kenya National Bureau of Statistics (2023), NYU Wagner (2023), Kenya National Bureau of Statistics (2016), FSD Kenya (2020), Kenya Bankers Association (2016), Kenya Bankers Association (2021), EconStor (2022) International Labour Organization (2098), United Nations Development Programme (2015), FSD Kenya, Gmaurich Insights, 71point4 (2022), FSD Kenya & Dalberg (2021), Federation of Kenya Employers (2021), United Nations Development Programme (2021), FSD Kenya & CGAP (2020) FSD Kenya & DMA Global (2022), KIPPRA (2022), FSD Uganda (2015), S. Nsubuga Mayanja, S. Namutebi Mayanja (2020), World Bank (2013), K. Mugaiga, P. Tugume (2020), Institute of Advanced Leadership (2020), Trust Africa & IDRC CRDI (2012), World Bank (2016), Uganda Bureau of Statistics (2020), Uganda Bureau of Statistics (2011), Uganda Bureau of Statistics (2007), International Labour Organization (2021), S. Vieitez-Cerdeno, R. Manzanera-Ruiz, O. Margaret M.M Namasembe (2021)

⁴⁰ Registered, unregistered)

- **Access to technology**⁴¹: Technologically equipped businesses demonstrate operational efficiency and adaptability, factors that enhance their creditworthiness in the eyes of lenders. Utilizing technology⁴² for financial record-keeping, online transactions, and data analysis not only streamlines business operations but also provides lenders with transparent and reliable information, instilling confidence and facilitating easier access to financial support for MSMEs (Mastercard Centre for Inclusive Growth, 2018; Pulse Lab Jakarta, 2021).
- **Differentiation between business vs. personal finance needs**⁴³: A clear separation of business and personal funds⁴⁴ ensures that borrowed funds are utilized for business growth rather than personal expenses, enhancing transparency and credibility for lenders. This distinction demonstrates responsible financial management, increasing the likelihood of loan approval and fostering the business's long-term creditworthiness as well as its ability to grow (Cenfri, 2020; NYU Wagner, 2023).
- **Level of competitiveness**⁴⁵: Lenders assess the market position and viability of businesses before extending credit. Competitive businesses are viewed as more likely to generate consistent revenue, making them attractive to lenders. A strong competitive stance enhances the businesses' creditworthiness, increasing the likelihood of securing loans and access to essential financial resources (ADB, 1997).
- **Use of surplus**⁴⁶: Utilizing surplus⁴⁷ funds for channelling them back into the business itself instead of into household consumption enhances the financial stability and creditworthiness of the business, making it more attractive to lenders. Businesses with a demonstrated ability to generate and manage surplus are viewed as lower risk, increasing the likelihood of securing loans and credit facilities. This prudent financial management not only supports day-to-day operations but also positions the business favourably for obtaining essential financial support when needed (Nsubuga Mayanja & Namtuebi Mayanja, 2020).
- **Use of business support infrastructure**⁴⁸: Utilizing business support infrastructure is crucial for MSMEs in accessing loans and credit. These support systems enhance operational efficiency, financial management, and overall business viability, making MSMEs more attractive to lenders. Improved business practices and stability resulting from such infrastructure increase the creditworthiness of MSMEs, facilitating easier access to the financial resources necessary for growth and development (FinMark Trust, 2017; GSMA, 2023).

⁴¹ Pulse Lab Jakarta (2021), Mastercard Centre for Inclusive Growth (2018), Women's World Banking (2022), GSMA (2023), Mastercard Foundation & IFC (2019), CGAP (2022), M.Komunte (2015), S. Nakyejwe, L.Kimuli, K.Sendawula, S.Naguji (2021), Cenfri (2021), M. Eton, F. Mwosi, D. Mutesigensi (2017), FSD Kenya, Central Bank of Kenya & Kenya National Bureau of Statistics (2021), Microsave Consulting (2022), FSD Kenya (2020), Microsave Consulting (2022), United Nations Development Programme (2021), FSD Kenya & CGAP (2020), FinAccess (2022)

⁴² Basic technology, more advanced technology, advanced technology

⁴³ Cenfri (2020), Women's World Banking (2022), NYU Wagner (2023)

⁴⁴ Prefers individual vs. group loans, trust in FSPs

⁴⁵ ABD (1997), World Bank (2013), S. Vieitez-Cerdenño, R. Manzanera-Ruiz, O. Margaret M.M Namasembe (2021)

⁴⁷ Reinvestment of most surplus, reinvestment of some surplus, use of surplus for household expenditure

⁴⁸ FinMark Trust (2018), FSD Kenya, Central Bank of Kenya & Kenya National Bureau of Statistics (2021), FSD Kenya, Central Bank of Kenya & Kenya National Bureau of Statistics (2023), Kenya National Bureau of Statistics (2016), International Labour Organization (2008), United Nations Development Programme (2015), FSD Kenya, Gmaurich Insights, 71point4 (2022), FinAccess (2022), KIPPRA (2022)

- **Compliance with tax**⁴⁹: Tax compliance⁵⁰ enhances the credibility of businesses, signalling financial responsibility to lenders. A history of compliance provides transparency, aiding in the assessment of financial health and stability. It also reflects a commitment to legal and ethical business practices, reducing the risk for lenders and improving creditworthiness (HM Revenue & Customs, 2010).
- **Access to facilities**⁵¹: Well-equipped businesses are perceived as less risky, increasing loan approval chances. Facilities also demonstrate commitment to growth, instilling confidence in lenders. Additionally, they contribute to collateral value, making MSMEs more creditworthy and improving loan terms (Federation of Kenya Employers, 2021).
- **Record keeping**⁵²: Record keeping⁵³, is crucial, aiding lenders in assessing financial health and enhancing the likelihood of securing loans. Record keeping influences creditworthiness assessment, demonstrates financial stability, and aids in effective risk management. Well-maintained records expedite the loan application process, showcase regulatory compliance, and contribute to a positive credit history, all crucial factors that enhance the credibility and eligibility of businesses for formal credit (Women's World Banking, 2022).

Overview of segmentation frameworks

Meaningful segmentation to create distinct segments is key. While there are many variables that describe different aspects of MSE resilience and growth patterns, a meaningful segmentation must determine which subset of these variables can be combined to create a useful set of significantly distinct segments. This means that for the purpose of developing a sufficiently simple and meaningful segmentation of MSEs, a range of existing segmentation frameworks have been reviewed to identify and assess the core segmentation parameters that provide the greatest distinction between different types of MSEs.

A diverse set of segmentation frameworks for (M)SMEs has been developed.

A total of 26 different segmentation frameworks for MSMEs have been identified (Annex B lists all identified segmentation frameworks and the segmentation criteria they used). Among the most common approaches; business sophistication segmentation is prominent, categorizing MSMEs based on factors such as size, sector, type of ownership, and geographic location. Another important approach is behavioural segmentation, which focuses on how MSMEs engage with financial service providers and handle financial services. This includes aspects such as digital and management skills, income patterns, networking, and the level of business sophistication.

⁴⁹ HM Revenue & Customs (2010), Federation of Kenya Employers (2021), Uganda Bureau of Statistics (2020), International Labour Organization (2021)

⁵⁰ Non-compliance, partial compliance, full compliance

⁵¹ Federation of Kenya Employers (2021), FSD Kenya (2020), Microsave Consulting (2022)

⁵² Women's World Banking (2022), FSD Kenya (2020), FSD Kenya, Central Bank of Kenya & Kenya National Bureau of Statistics (2021), Central Bank of Kenya & Kenya National Bureau of Statistics (2023), Kenya National Bureau of Statistics (2016), Microsave Consulting (2022), Kenya Bankers Association (2021), Microsave Consulting (2022), Federation of Kenya Employers (2021), FinAccess (2022), KIPPRA (2022)

⁵³ No record keeping, basic record keeping, advanced record keeping

Three core focus themes have been identified in the literature. The focus topic for which the studies seek a more nuanced understanding of MSMEs also shapes the developed segmentation framework. The following core focus topics have been identified:

- **Financial behaviour and inclusion:** Within the context of this study, frameworks that have been developed to better understand financial needs and the usage of financial services are particularly relevant and especially those studies that focus on borrowing behaviour and credit access in particular (Bain & Company, 2016; Bahrat Inclusion Initiative, 2020; Collaborative for Frontier Finance, 2018; ADB, 1997; International Finance Corporation, 2013)
- **Digitalization and technology:** Another core element that frameworks seek to unlock is to better understand the **entrepreneurial** ability and willingness of MSMEs to leverage digital tools and technology for their businesses (International Labour Organization, 2021; Mastercard Foundation & IFC, 2019; GSMA, 2023; Women's World Banking, 2022; Pulse Lab Jakarta, 2021). The ability to use and apply digital technology are increasingly prerequisites for many types of businesses. Moreover, given the opportunities emerging from digital financial services, this angle is also critical to understand further for the purposes of this project.
- **Business development, resilience, and growth:** Lastly, overall differences in business development and resilience have been the motivation behind a range of segmentation frameworks (Cenfri, 2020; Mastercard Centre for Inclusive Growth, 2018; International Finance Corporation, 2020; World Bank, 2019; McKinsey & Company, 2020; FSD Kenya, 2020; FSD Uganda, MSME resilience in Uganda, 2021).

There is a lack of frameworks that focus on microenterprises and women-owned enterprises. This research gap underscores the need for more comprehensive studies that not only recognize the important role of microenterprises, particularly those owned by women, but also shed light on the nuanced financial behaviours and barriers they encounter when trying to access formal credit. Moreover, there is a lack of studies examining the financial dynamics of women-owned microenterprises, especially in the context of formal credit access. Existing research predominantly focuses on MSMEs and SMEs, with limited attention given to microenterprises. Moreover, within the micro-entrepreneur sector, there is a scarcity of frameworks tailored for women-owned enterprises, with existing frameworks often prioritizing digitalization over lending and borrowing behaviours. There are no frameworks that specifically look into informal enterprises, however, many of the segmentation frameworks take informal enterprises into account, since many MSMEs operate informally.

Frameworks for MSME segmentation vary in focus. Some of the identified segmentation frameworks have a narrow scope on a smaller set of segmentation dimensions, while others consider a broader variety of dimensions. In most studies, a combination of business and business owner characteristics is considered in segmentation frameworks. This seems particularly relevant for nano and microenterprises, given the importance of business owner characteristics for these types of enterprises. Box 3,

Box 4 and Box 5 showcase examples of MSME segmentation frameworks that are considered particularly comprehensive and relevant in the context of women-owned microenterprises.

Frameworks centred on MSEs tend to emphasize the mindset and motivation of the business owner whereas SME-focused ones look at business characteristics. In the context of MSEs, the characteristics of the business owner are often considered more relevant for segmentation purposes. An example of such a study is captured in **Error! Reference source not found.** In contrast, frameworks dedicated to SMEs are more inclined to focus on growth and scale potential, innovation profile, and differentiation between local and international businesses and markets. Nevertheless, even in SME-focused frameworks, the motivation of the business owner remains a significant factor. These distinctions highlight the nuanced considerations in segmentation based on the size and maturity of enterprises.

Box 3: IFC MSME segmentation framework to unpack MSME growth potential

The International Finance Corporation's (2020) study on MSME growth potential stands out for its comprehensive approach, utilizing both qualitative and quantitative methods to identify key characteristics. Qualitative methods reveal insights into mindset, business and financial acumen, and business maturity, while quantitative methods highlight business formality and maturity. The resulting segments differ based on the approach: Survivalist, Emerging, Affluent, and Pioneers for qualitative, and True Survivalist, Growth Survivalist, Rapid Risers, Aspirers, Pragmatic Established, and Fully Established for quantitative. True Survivalists, Growth Survivalists and Rapid Risers are the segments that are most relevant when considering MSEs:

- **True Survivalists** are at the bottom of the small business spectrum and are the sole owners of their businesses. They created their business out of necessity to create self-employment for themselves. They use their business revenue for personal expenses as they view their business as a form of employment rather than a business entity. Their businesses are often young, less than 3 years old and in their start-up phase. They are mostly informal and have the largest unbanked owners.
- **Growth Survivalists** have also started their business out of necessity but are slightly more sustainable in their business practices when profit allows. They still use profit for personal expenses, which limits their growth. Growth Survivalists are sometimes job creators and employ up to five people. They are not registered or licensed and are largely cash-based, but have better longevity, being in business for up to five years.
- **Rapid Risers** are a balance between those who have started their business out of choice and those who have started their business out of necessity. They are sole owners that are rapidly growing and can employ up to five people, with plans on employing more. They straddle the formal and informal sectors. When informal, they are unlikely to be registered and they operate from residential premises, use personal or dual bank accounts for business banking, and use cash to pay salaries. When formal, they are registered and have invested in infrastructure such as vehicles, digital technology, and business cards.

	ENTREPRENEUR BY NECESSITY (48.5%)	STABLE ENTREPRENEUR (28%)	GROWTH-ORIENTED ENTREPRENEUR (23%)
BUSINESS CAPITAL	Self funding	Self funding	Self funding
	Informal loan	Informal loan and non-bank formal loan	Formal loan
LICENSING	Do not perceive as important and do not have one	Do not perceive as important but will apply one if needed by formal borrowers	Perceive as important and have one
SEPARATION OF BUSINESS AND HOUSEHOLD/ PERSONAL NEEDS	Mix	Business income set aside separately	Business income set aside separately
		Cover business/household needs based on whichever most available	Cover business and household separately from each allocated money
USAGE OF BUSINESS PROFIT	To cover daily needs Any money left is aside for household and business needs	To kept household and business needs Prioritize it for business expansion	Prioritize it for business expansion
TRANSACTION RECORDING	Never	Only record receiveables, if any	Always record transaction
FINANCIAL PREFERENCES AND BEHAVIOUR	Mostly cash based	The customers and suppliers still use cash, the ultra-micro entrepreneurs start using digital platform for delivery, i.e. Cash on Delivery (COD)	Convenient in using cash, bank transfer or digital wallet for financial transactions
SMARTPHONE UTILIZATION	For personal/leisure	Both personal and product promotions	Both personal and product promotions
EFFORTS TO ACCESS FORMAL TRAINING FOR BUSINESS IMPROVEMENT	Never try to find and access one	Never try to find one, but willing to join if there is an offer	Have try to find and access one

Box 4: Women’s World Banking segmentation framework on women-owned microenterprises

The framework developed by Women’s World Banking (2022) is highly relevant given its focus on women-owned microenterprises. It explores economic conditions, financial behaviour, social relationships, and responses to financial situations as segmentation criteria, identifying entrepreneurs by necessity, stable entrepreneur, and growth-oriented entrepreneur segments which are further described in

Table 2.

	ENTREPRENEUR BY NECESSITY (48.5%)	STABLE ENTREPRENEUR (28%)	GROWTH-ORIENTED ENTREPRENEUR (23%)
BUSINESS CAPITAL	Self funding	Self funding	Self funding
	Informal loan	Informal loan and non-bank formal loan	Formal loan
LICENSING	Do not perceive as important and do not have one	Do not perceive as important but will apply one if needed by formal borrowers	Perceive as important and have one
SEPARATION OF BUSINESS AND HOUSEHOLD/ PERSONAL NEEDS	Mix	Business income set aside separately	Business income set aside separately
		Cover business/household needs based on whichever most available	Cover business and household separately from each allocated money
USAGE OF BUSINESS PROFIT	To cover daily needs Any money left is aside for household and business needs	To kept household and business needs Prioritize it for business expansion	Prioritize it for business expansion
TRANSACTION RECORDING	Never	Only record receiveables, if any	Always record transaction
FINANCIAL PREFERENCES AND BEHAVIOUR	Mostly cash based	The customers and suppliers still use cash, the ultra-micro entrepreneurs start using digital platform for delivery, i.e. Cash on Delivery (COD)	Convenient in using cash, bank transfer or digital wallet for financial transactions
SMARTPHONE UTILIZATION	For personal/leisure	Both personal and product promotions	Both personal and product promotions
EFFORTS TO ACCESS FORMAL TRAINING FOR BUSINESS IMPROVEMENT	Never try to find and access one	Never try to find one, but willing to join if there is an offer	Have try to find and access one

Table 2: Overview of core characteristics of identified MSE segments

Source: Women’s World Banking (2022)

Box 5: Microsave Consulting segmentation framework on women-owned MSEs in the context of credit

The study from Microsave Consulting holds significant relevance because of its focus on women micro and small entrepreneurs and their access to credit in India. The framework considers business owner characteristics such as motivation, as well as business characteristics, which are registration, ownership type, size, sector, and memberships in collectives. The framework identifies Credit-willing, Credit-unwilling, Credit-ready and Bridge Institutions.

- 1 Credit-willing**
Credit-willing enterprises are those that need credit and are also willing and motivated to approach the financial service provider and go through the application process.
- 2 Credit-unwilling**
Credit-unwilling enterprises are those that do not want to take credit due to various social and economic factors
- 3 Credit-ready**
These enterprises are those that have a viable business model, documents to prove their business identity, profitability, regular business records, and a good credit history (from the bank's perspective).
- 4 Bridge institutions**
Bridge institutions are entities that offer credit* along with credit-plus services to women. They offer memberships, credit-plus services like training, business support services, and serve as a bridge between banks and individual users and members. They are typically associated with their borrowers for a long time and follow a gender-intentional or gender-transformative approach in lending to their borrowers as applicable to the sample selected in this study.

Source Microsave Consulting (2023)

Selection of core segmentation dimensions

Eight core dimensions have been identified as being most relevant for shaping the resilience and growth of MSEs. Based on the literature review, eight core segmentation dimensions have been identified as being most relevant in the context of unpacking the borrowing behaviour and needs of MSEs due to their relevance for MSE resilience and growth. The eight dimensions, the frameworks that have been included in them and the rationale for selecting each dimension are outlined in Table 3: Overview of selected segmentation dimensions and the rationale for selecting them. Access to networks and the role of the business owner in the household are identified as being of particular relevance to women-owned enterprises and are also the dimensions least explored and applied across the global literature. These eight segmentation dimensions guide the country deep dives in chapter 3 and core recommendations regarding how to use these eight segmentation dimensions for MSE segmentation which is discussed in chapter 4.

Dimension	Frameworks that included dimension	Rationale for choosing the dimension
Business owner characteristics		



Mindset

- CGAP (2022)
- Cenfri (2020)
- International Finance Corporation (2020)
- GSMA (2023)
- SAFIN & IFS (2021)
- ADB (1997)
- Cenfri (2015)
- Giz (2023)
- Microsave Consulting (2023)
- FinMark Trust (2017)
- FSD Kenya (2020)

The mindset of microenterprises, encompassing adaptability, attitude towards finance, motivation, and attitude towards risks, is important for accessing credit. This mindset influences how entrepreneurs navigate challenges, utilize credit wisely, persevere through setbacks, and make calculated decisions. It plays a pivotal role in securing financial support, determining effective credit utilization, and ensuring the overall sustainability of the business.



Entrepreneurial ability

- Cenfri (2020)
- International Finance Corporation (2020)
- GSMA (2023)
- Women's World Banking (2022)
- Pulse Lab Jakarta (2021)
- ADB (1997)
- McKinsey & Company (2020)
- HM Revenue & Customs (2010)
- Giz (2023)
- IWWAGE (2020)

The entrepreneurial ability of microenterprises encompasses factors such as education, business experience, managerial competence, digital skills and readiness, and financial literacy, and is crucial for accessing credit. These factors determine effective credit utilization, risk mitigation, and overall business sustainability, underscoring the importance of skills and knowledge in securing financial support.



Role of the business owner in the household

- ADB (1997)
- Women's World Banking (2022)
- IWWAGE (2020)

Family structure, encompassing marital status, head of household, and the number of dependent children, is a crucial segmentation dimension for further unpacking the women-owned enterprise sector. These factors provide insights into women's financial responsibilities, income stability, and risk assessment since societal expectations, family dynamics and cultural factors related to the family set-up impact women's ability to secure loans. By tailoring financial products to accommodate diverse family situations and acknowledging social and cultural

Dimension	Frameworks that included dimension	Rationale for choosing the dimension
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contexts, lenders can enhance inclusivity and promote economic empowerment for women entrepreneurs.

Business and business owner characteristics



Access to networks

- Women’s World Banking (2022)
- Mastercard Center for Inclusive Growth (2018)
- Microsave Consulting (2023)
-

Access to networks refers to aspects such as association memberships, family or friends as financing sources, and support from sponsors or training opportunities. These connections enhance credibility, expand financial support options, and provide valuable resources, making network access a pivotal dimension for successful credit access in the microenterprise sector. They also provide a core coping mechanism in the case of shocks.

Business characteristics



Level of business sophistication

- GCAP (2022)
- Cenfri (2020)
- International Finance Corporation (2020)
- International Labour Organization (2021)
- Bahrat Inclusion Initiative (2020)
- Mastercard Foundation & International Finance Corporation (2019)
- GSMA (2023)
- Women’s World Banking (2022)
- World Bank (2019)
- Collaborative for Frontier Finance (2018)
- ADB (1997)
- International Finance Corporation (2013)
- HM Revenue & Customs (2010)
- FSD Kenya (2020)
- Microsave Consulting (2023)
- FinMark Trust (2017)
- Giz (2023)
- IWWAGE (2020)

The level of business sophistication relates to a combination of a wide range of aspects such as registration status, premises type, record-keeping, permits, employee count, technology use, business plan, differentiation between personal and business needs, online market access, and business age. These factors determine the business’s stability, risk assessment, and creditworthiness, highlighting the significance of these dimensions in securing financial support.

Dimension	Frameworks that included dimension	Rationale for choosing the dimension
 <p>Size</p>	<ul style="list-style-type: none"> • CGAP (2022) • Cenfri (2020) • International Labour Organization (2021) • Mastercard Foundation & International Finance Corporation (2019) • GSMA (2023) • Bain & Company (2016) • ADB (1997) • HM Revenue & Customs (2010) • FSD Kenya (2020) • GIZ (2023) • MicroSave Consulting (2023) • IWWAGE (2020) 	<p>The size of nano and microenterprises, encompassing factors such as business size, employee count, and turnover/profit, is crucial for credit access. Lenders rely on these metrics to measure the financial stability, operational capacity, and repayment potential of smaller businesses. A clear understanding of size allows financial service providers to tailor credit solutions, ensuring that nano and microenterprises receive the necessary support to thrive and contribute to economic growth.</p>
 <p>Sector</p>	<ul style="list-style-type: none"> • FSD Kenya (2020) • IWWAGE (2020) • Cenfri (2020) • ABD (1997) • CGAP (2022) • US Aid (2020) • GSMA (2023) • Women's World Banking (2022) • Bain & Company (2016) • FSD Uganda (2021) 	<p>The sector in which microenterprises operate significantly influences their access to credit. Industries vary in risk and opportunity, impacting creditworthiness. Technology or service-oriented sectors may find credit more accessible due to perceived stability, while more volatile or season-dependent sectors may face challenges. Lenders evaluate economic outlooks and growth potential in specific sectors when assessing credit applications. Understanding industry dynamics is crucial for tailoring financial support and ensuring microenterprises in diverse sectors receive targeted assistance for sustainable growth.</p>
 <p>Location</p>	<ul style="list-style-type: none"> • Cenfri (2020) • ABD (1997) 	<p>The geographical location of microenterprises, whether in rural, urban, or semi-urban areas, significantly influences their access to credit. Urban and semi-urban businesses often benefit from better infrastructure and access to diverse markets, enhancing their creditworthiness. In contrast, rural microenterprises face unique challenges, including limited access to banking</p>

Dimension	Frameworks that included dimension	Rationale for choosing the dimension
		<p>services and less developed markets, which can affect their credit opportunities. Recognizing the distinct dynamics of each location is crucial for lenders to tailor financial support, fostering inclusive economic growth across diverse communities.</p>

Table 3: Overview of selected segmentation dimensions and the rationale for selecting them

Country deep dives

Chapter 3 serves a dual purpose: firstly, it delivers an overview of the current MSE landscape and lending environment for each of the three focus countries. This overview is instrumental in gauging the relevance and applicability of the core segmentation dimensions identified in Chapter 2 within each specific context. Secondly, it assesses the available data and information in each context necessary for populating these segmentation dimensions. These indicators play a pivotal role in effectively populating the segmentation dimensions, facilitating the creation of well-defined MSE sectors or archetypes that accurately capture the diversity and characteristics of enterprises within each unique context. The insights gathered from Chapters 2 and 3 will be synthesized in Chapter 4, providing a comprehensive understanding of the implications derived from the country-specific analysis detailed in Chapter 3.

Kenya

Overview of the MSE landscape

MSEs play a major role in fostering economic development in Kenya. Kenya has made many strides as a country resulting in sustained economic growth, social development, and political stability. The real GDP in 2022 was 5%, showing a strong recovery after the COVID-19 pandemic (Kenya National Bureau of Statistics, 2023). The over 7.4 million MSEs currently operating in Kenya are a significant contributor to the Kenyan economy and contribute 24% to GDP (Ministry of Industrialization, Trade and Enterprise Development, 2020; Kenya National Bureau of Statistics, 2016). MSEs also make up 98% of companies in Kenya (FSD Kenya, Central Bank of Kenya, & Kenya National Bureau of Statistics, 2023) and contribute 90% towards the labour force (Cheruiyot, 2023). The vast majority of those MSEs are microenterprises with 92% of MSEs being microenterprises (Kenya National Bureau of Statistics, 2016) according to the official definition in Kenya as outlined in Box 6, and operate in rural and peri-urban areas (Federation of Kenya Employees, 2021).

Box 6: MSME definition in Kenya

Microenterprises: These are firms that have an annual turnover not exceeding Ksh.500,000 and employ 1-9 people.

Small enterprises: These are firms that have an annual turnover of between Ksh.500,000 and Ksh.5 million and employ 10-49 employees.

Medium enterprises: These are firms that have an annual turnover of between Ksh.5 – 100 million and employ between 51-250 employees.

Business owner characteristics

Business owners are primarily young. A bit more than 50% of MSE owners are between the ages of 18 and 35 (FSD Kenya, Central Bank of Kenya, & Kenya National Bureau of Statistics , 2023). This suggests that there are a lot of young entrepreneurs operating in the micro and small business space (FSD Kenya, Central Bank of Kenya, & Kenya National Bureau of Statistics , MSE Tracker Survey Wave II, 2023). Initiatives such as the Youth Enterprise Development Fund (YEDF) and Uwezo Fund have been established not only to facilitate funding to women, youth, and persons with disabilities but to also develop bookkeeping knowledge, and entrepreneurial abilities, and create networks and connections in the market (Embassy of the Republic of Kenya in Stockholm, 2023).

MSEs are mainly female-run. A large number of MSEs are female-owned, particularly microenterprises where about 62% of the businesses surveyed by FinAccess⁵⁴ are women-led, (FSD Kenya, Central Bank of Kenya, & Kenya National Bureau of Statistics , 2023). In the same study, it was found that more than half of microenterprises were women-owned as shown in Figure 4. This underscores the significant role that women play in the micro and small business landscape and there has been a growing emphasis by Kenyan stakeholders on promoting women's entrepreneurship.

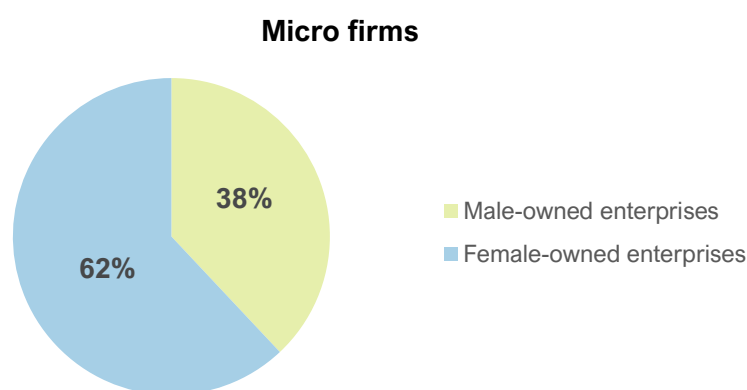


Table 4: Percentage of women vs men running microenterprises

Source: FinAccess 2023

A large proportion of females running businesses are married. A 2021 study undertaken by FSD Kenya using FinAccess data⁵⁵ revealed that 59% of females running a business were married. On the one hand, married women often receive

⁵⁴ The dataset utilized in the FinAccess study comprises a sample of 1,961 Micro and Small Enterprises (MSEs) where 70% had no employees, 30% had 1-9 employees. The study defines microenterprises as having an annual turnover is below KSh 1 million and employs less than 10 people. Small enterprises are defined as having annual turnover ranges between KSh 1 million and KSh 5 million and employs between 10-50 people.

⁵⁵ The sample size looked at covered 3 792 MSMEs. Of those 68% employ no staff; 20% employ one person; 20% employ 2-10 employees and 11% employ more than 11 employees.

support from their husbands, through financial or management support (FSD Kenya, Gmaurich Insights, & 71point4, 2022). On the other hand, they face challenges in the form of household responsibilities or abusive husbands which hinder their ability to run their business efficiently (International Labour Organization, 2008). Female entrepreneurs also still face judgement from society being a married woman running a business, which can discourage some women (Lock & Lawton Smith, 2016). The results of the second wave of the MSE tracker survey show that 54% of female MSE owners in contrast to 70% of male MSE owners are the sole income earners (FSD Kenya, Central Bank of Kenya, & Kenya National Bureau of Statistics, 2023). Similarly, an analysis of the 2021 FinAccess data shows that 48% of female business owners are the head of the household (FSD Kenya, 2022). This indicates that a relatively high proportion of female business owners is likely to have significant autonomy over their business decisions but also bear considerable responsibilities for their respective households.

Informal businesses typically started with a survivalist mindset. The aspiration of MSEs is closely correlated to their level of formality and growth. Most businesses display a survivalist mindset, only operating to make ends meet. Businesses that are semi-formal (usually have a county permit and operate out of permanent premises but not registered and use a mix of formal and informal finance) and formal (registered businesses, use formal finance, operate out of permanent premises) are more likely to aspire to grow beyond infancy stage and become more established. The main motivation among informal businesses showed that 29% of them began their business because there were no alternative income-generating opportunities. At the inception of semi-formal and formal businesses, there is typically a growth mindset, with the main reasons for starting up the business being preferring self-employment (22%), seeking a better income (20%), and taking advantage of an activity they are skilled in (19%) (FSD Kenya, 2020). According to findings from a financial diary exercise, the aspirations of women who run small businesses⁵⁶ are mainly to seek both business stability and profit growth (Small Firms Diaries, 2023). Females who run microenterprises thus display a strategic balance between achieving stability and pursuing profit growth.

MSEs display weak business management skills, and a gendered digital skills gap exists. MSE business owners report spending most of their time on production and sales, implying they trust their employees to carry on their work without supervision⁵⁶ (Small Firms Diaries, 2023). Male and female-led businesses both practice foundational business management skills, however, there is a need to develop more advanced business management skills like marketing and financial planning to encourage more growth-focused business practices (Mutuku, Kiilu, Mathuku, & Auka, 2022). For instance, only 23% of female MSE owners reported that they are using a marketing channel and only 6% of them reported that they are using social media for marketing their business (FSD Kenya, Kenya FinAccess 2021 – Business Owners – Gender analysis, 2022). This was cited as being especially prevalent among women-owned microenterprises where they are said to lack the expertise, digital skills, and self-assurance necessary to fully utilize technology's advantages for managing their business daily and for future expansion (GSMA, 2023).

⁵⁶ Sample in Small Firms Diary consist of 155 small enterprises with at least one employee and maximum of 20 employees.

Between 41 and 42% of female business owners reported that they are comfortable downloading an app, using a touch screen, and accessing the Internet as opposed to between 56 and 57% of male business owners (FinAccess, 2022). This indicates a significant digital skills gap between female and male business owners.

A challenge many female-owned enterprises face is the lack of business networks. A substantial 70% of informal micro-enterprises operate independently without the support of a business network, potentially hindering their capacity to tap into valuable business support structures. 70% of informal micro-enterprises⁵⁷ do not belong to any organization and 62% are not participating in any support group (Federation of Kenya Employees, 2021). The informal nature of these enterprises raises concerns about their utilization of social capital, a resource crucial for fostering collaborative efforts and shared success. However, amidst this landscape, informal savings groups called *Chamas*⁵⁸, family, and friends emerge as vital social networks for female-run enterprises, being mainly a source of financing (Nkatha, 2016). Notably, *Chamas*, which are often led by women⁵⁹, are significant due to their accessibility, the accrual of social capital, as well as financial inclusion experienced by women participating in them (Dalberg and FSD Kenya, 2021). A *Chama* is an informal cooperative society commonly utilized in East Africa, particularly in Kenya, for the purpose of pooling and investing savings. This phenomenon is also known as "micro-savings groups" (United Nations, n.d). Currently, Kenya has 300,000 *chamas* with a total asset base of around USD 3.4 billion (Chidziwisano & Wyche, 2020). *Chamas* are instrumental in activities such as saving, lending, and borrowing money for females running businesses. The government's recent efforts to monitor the increasing number of *Chama* groups, overseen by the Department of Social Services in the Ministry of Labour, underscore their significance. The registration and regulation of these groups reflect the growing recognition of their impact on female entrepreneurs' financial inclusion (Echo Network Africa & Hanns Seidel Foundation, 2021). Existing formal networks tend to be predominantly male-dominated and, at times, less than welcoming to women, fostering exclusivity rather than inclusivity (Maina & Mwiti, 2016).

Business characteristics

MSMEs mainly operate in the wholesale and retail trade sector. The two main sectors MSMEs in Kenya operate in are wholesale and retail trade, including the repair of motor vehicles and motorcycles, and the manufacturing sector. Wholesale and retail trade accounted for 57% of licensed enterprises and 63% of unlicensed enterprises (Kenya National Bureau of Statistics, 2016). These two sectors are also where most employees are working (Kenya National Bureau of Statistics, 2016).

Most of Kenya's businesses are situated in Nairobi (36.1%), with Mombasa following behind at 5%. The notable prevalence of enterprises in Nairobi and Mombasa can be attributed to their well-developed infrastructure and open markets. Meanwhile, counties like Wajir (77.8%), Tana River (74%), and Lamu (79%) exhibit a particularly

⁵⁷ Size definition: 1-9 employees

⁵⁸ Chama is the general term for informal savings groups in Kenya. Three different types can be differentiated: Rotating savings and credit association, accumulating savings and credit associations and welfare groups (FSD Kenya, 2014).

⁵⁹ While *Chamas* have been predominately ran by women, over time, men in Kenya have started to come on board and utilize this as a financial practice.

high concentration of enterprises with 0-3 employees. Nairobi (78.7%) notably leads in the proportion of enterprises with 4-6 employees, with Mombasa following at 59% (Kenya National Bureau of Statistics, Report on the 2017 Kenya Census of Establishments, 2017). MSEs have high failure rates, especially women-owned ones. The average lifespan of microenterprises is estimated at 7 years whereas it is around 10 years for small to medium enterprises (Federation of Kenya Employees, 2021). Moreover, it has been reported that the survival rate of MSE start-ups is only 46% within the first year of operation (Ministry of Industrialization, Trade and Enterprise Development, 2020). Female-owned MSMEs⁶⁰ faced the highest percentage of business closures, with 30% of them closing as compared to 23% of male-owned enterprises (FSD Kenya, Central Bank of Kenya, & Kenya National Bureau of Statistics, MSE Tracker Survey Wave II, 2023). Driving factors for these gender differences are the social obligations women face in society, a lack of demand for products, a declining customer base, old age or pursuing other opportunities like further education (Kenya National Bureau of Statistics, 2016).

MSEs in Kenya have low levels of formalization. The Micro and Small Enterprises Authority (MSEA) Act of 2012 created the office of the Registrar, which works in tandem with the Registrar of Companies, and is therefore a national level of registration. The MSEA Act 2012 empowers the Registrar to register business associations and umbrella organizations that lack clear legal definitions, which includes MSMEs (*United Nations Department of Economic and Social Affairs, 2019*). The MSME Survey in 2016 used the registration of enterprises with the registrar of companies as a proxy to determine levels of formalisation. The distribution between micro-, small- and medium-sized enterprises is shown in Figure 5 (*Kenya National Bureau of Statistics, 2016*). MSMEs are also required to have a county permit, based on the economic activity of the enterprise and the respective regulatory framework in each county. This is significantly more common among MSEs than national registration (*Kenya National Bureau of Statistics, 2016*). Only 22% of microenterprises are formally registered at the national level. The report further states that 61% of unlicensed establishments are female-owned. Similarly, a recent analysis of the FinAccess data shows that 15% of female-owned businesses had a business permit compared to 22% of male-owned businesses and only 1% of female-owned businesses are registered nationally as

⁶⁰ The dataset utilized in the FinAccess study comprises a sample of 1,961 Micro and Small Enterprises (MSEs) where 70% had no employees, 30% had 1-9 employees. The study defines microenterprises as having an annual turnover is below KSh 1 million and employs less than 10 people. Small enterprises are defined as having annual turnover ranges between KSh 1 million and KSh 5 million and employs between 10-50 people.

compared to 3% of male-owned businesses (FSD Kenya, Kenya FinAccess 2021 – Business Owners – Gender analysis, 2022)⁶¹.

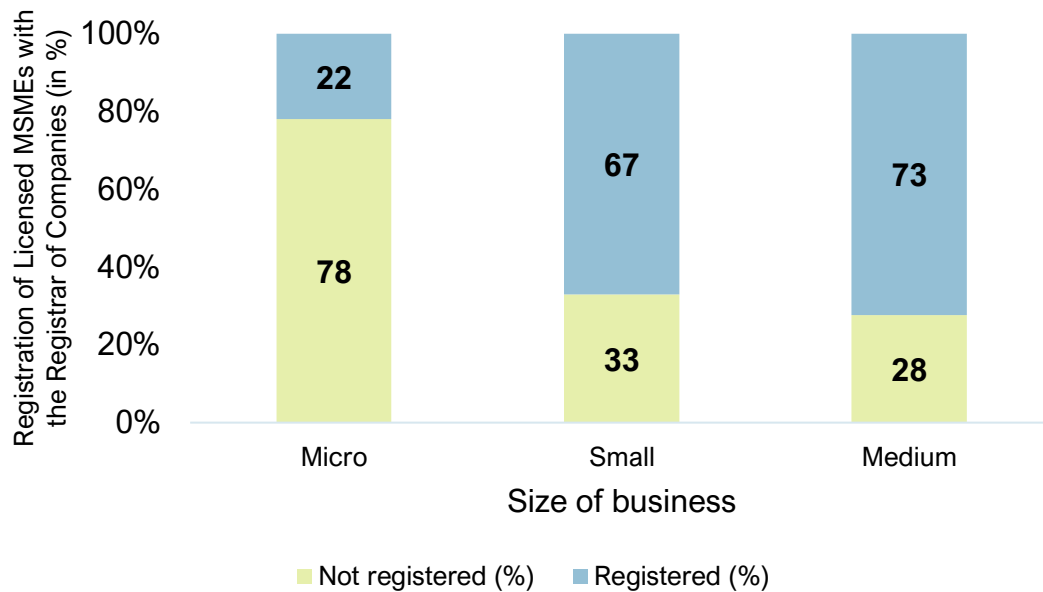


Figure 5: Percentage of MSMEs registered with the Registrar of Companies⁶²

Source: (Kenya National Bureau of Statistics, 2016)

Business sophistication is low amongst MSEs but is more apparent in female-led businesses. When looking at other proxy variables of business sophistication it becomes clear that the overall level of business sophistication is low among MSEs with, for instance, only 7% of MSEs having a till number⁶³ and only 4% having a formal bank account. Similarly, 36% of MSEs keep hardcopy business records and just 2% keep electronic records. In terms of business sophistication, women-owned businesses trail behind male-owned businesses in terms of business bank accounts and National Hospital Insurance Fund (NHIF) payments. The 2021 FinAccess Business Owners Gender analysis indicated that 2% of female-owned enterprises had a business bank account compared to 4% of male-owned enterprises. No female-owned enterprises were registered for NHIF payments, while 2% of male-owned enterprises were registered. However, no significant differences exist when it comes to record keeping and till number registration (FSD Kenya, Kenya FinAccess 2021 – Business Owners – Gender analysis, 2022). This also matches with findings from the Small Firms Diaries study which shows that male and female business owners equally reported keeping written business records as well as keeping track of stock (Small Firms Diaries, 2023).

⁶¹ The sample size for the (MSMEs) under consideration is comprised of 3,792 entities. Of those 68% employ no staff; 20% employ one person; 20% employ 2-10 employees and 11% employ more than 11 employees.

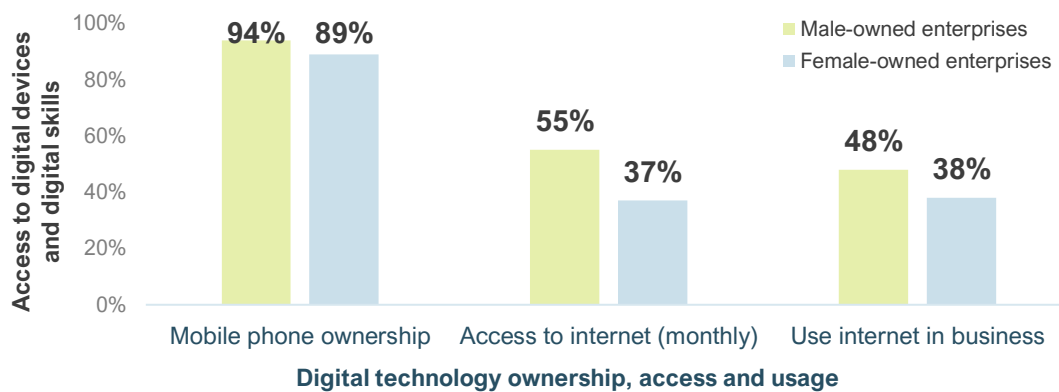
⁶² The number of establishments for microenterprises was 1 438 109, for small enterprises 110 938 and medium enterprises 11 480, the definition for MSMEs are given as micro-enterprises have less than 10 employees turnover do not exceed five hundred thousand shillings, small enterprises have 10-49 employees and turnover is between five hundred thousand and five million, and medium sized enterprises have between 50 and 99 employees.

⁶³ A till number is a unique six-digit code linked to a business's contact number for account verification, enabling customers to transfer funds into the business accounts via M-Pesa (Safaricom, 2023).

MSME owners in Kenya rely on mobile phones for communication. To maintain contact with suppliers, clients, and other stakeholders, MSME owners increasingly need a mobile phone for business purposes. There is widespread adoption of mobile phones within the MSME sector in Kenya. According to the 2016 MSME Basic Report, 79% of the MSME owners reported having a mobile phone (Kenya National Bureau of Statistics, 2016). This is similar across genders, however, when it comes to accessing and using the internet, disparities become clearer as can be seen in Figure 6

Figure 6: Gender split on access to digital technologies. ^[66]

Source: (FSD Kenya, Kenya FinAccess 2021 – Business Owners – Gender analysis, 2022)



Female-owned enterprises make slightly greater use of digital payments from consumers. With the high rate of mobile phone usage, there is a broader shift in MSME practices toward embracing digital solutions for financial transactions. This is displayed in the prevalence of client payments where over 89% of female-led enterprises digitize⁶⁴ their customer payments, compared to 82% of male-led enterprises, indicating a similar level of usage of digital payments among female-owned businesses. Only 39% of MSEs located in rural areas vs. 49% of those located in urban areas have digitized their customer payments (FSD Kenya, Central Bank of Kenya, & Kenya National Bureau of Statistics, 2023).

Female-owned enterprises lag with internet access and mobile capabilities compared to male-owned enterprises. Some of the perceived barriers women-led businesses face are the cost and skills required to use digital tools (Small Firms Diaries, 2023). A recent study conducted by the Global System for Mobile Communications Association (GSMA)⁶⁵ shows that 28% of female-led microenterprises had a phone with no internet access compared to 22% of male-led microenterprises. This shows that a notable portion of women-led businesses may lack internet connectivity, limiting their ability to access online resources and services. Moreover, more female (9%) than male (6%) microenterprise owners believed that mobile phones were not useful to help their business (GSMA, 2023).

⁶⁴ The digital payments refer to 1). The use of mobile money (send money, till number, paybill number, pochi la biashara), 2). Use of digital bank transfers (EFT, SWIFT, Pesalink), 3). Credit and debit cards.

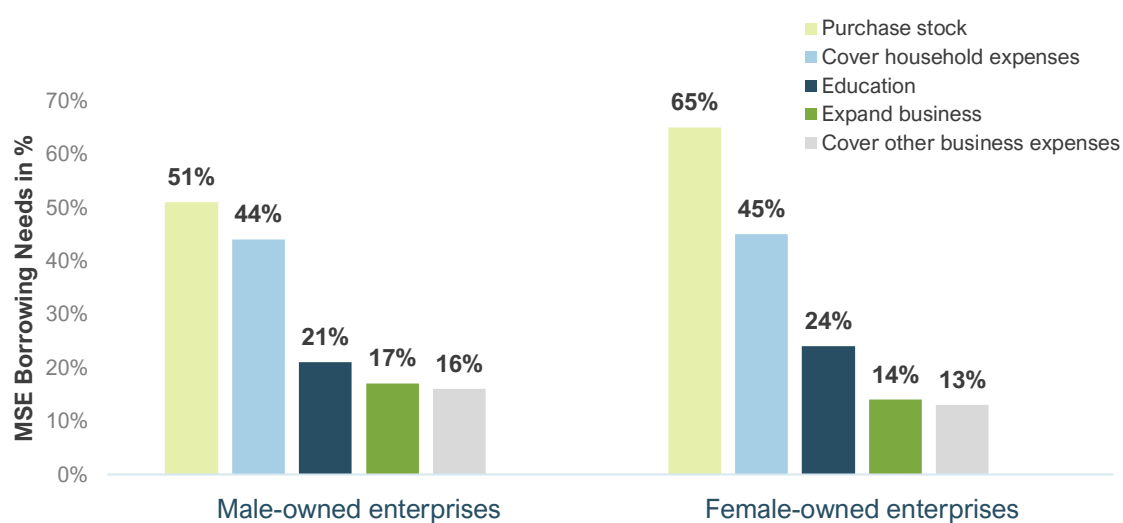
⁶⁵ This study only surveyed micro-enterprises in 10 low-and middle-income countries. 577 male-owned enterprises and 570 female-owned enterprises were part of the Kenya sample, and microenterprises are defined as self-employed individual with less than nine employees.

Overview of the MSE finance landscape

Main credit use cases relate to working capital. Credit is mainly obtained for purchasing stock, and secondly for personal reasons, as shown in Figure 7 (FSD Kenya, Central Bank of Kenya, & Kenya National Bureau of Statistics, MSE Tracker Survey Wave II, 2023). In line with this, the Small Firms Diaries study finds that the desired uses for loans are related to working capital, rather than for purchasing assets to expand the business (Small Firms Diaries, 2023).⁶⁶ According to a national MSME Survey from 2016, 71% of licensed and unlicensed establishments applied for working capital loans (Kenya National Bureau of Statistics, 2016). Female-owned enterprises displayed a greater need for purchasing stock compared to male-owned enterprises, while more male-led enterprises sought to expand their business compared to female-led enterprises, as shown in Figure 7

Figure 7: Gender split on MSE borrowing needs⁶⁷.

Source: (FSD Kenya, Central Bank of Kenya, & Kenya National Bureau of Statistics, MSE Tracker Survey Wave II, 2023)



MSEs source credit mainly from mobile platforms. Mobile money overdraft has become a popular source of credit since Safaricom launched in partnership with Kenya Central Bank (KCB) the product Fuliza ya Biashara earlier this year which is a service that enables business owners on Lipa Na M-PESA to complete payments even with insufficient funds in their till (Safaricom, 2023). This led to a decrease in the use of other mobile banking loan platforms such as Mshwari and M-Pesa (FSD Kenya, Central Bank of Kenya, & Kenya National Bureau of Statistics, 2023). In 2020, Safaricom launched “Pochi la Biashara,” an M-Pesa product that allows MSMEs to receive and separate business funds from personal funds. In 2023, 6.1% of MSME customers had used Pochi la Biashara as a channel for payment, and 12% of MSMEs

⁶⁶ Sample in Small Firms Diary consist of 155 small enterprises with at least one employee and maximum of 20 employees.

⁶⁷ The dataset utilized in the FinAccess study comprises a sample of 1,961 Micro and Small Enterprises (MSEs) where 70% had no employees, 30% had 1-9 employees. The study defines microenterprises as having an annual turnover is below KSh 1 million and employs less than 10 people. Small enterprises are defined as having annual turnover ranges between KSh 1 million and KSh 5 million and employs between 10-50 people.

had used it as a channel to pay suppliers (FSD Kenya, Central Bank of Kenya, & Kenya National Bureau of Statistics , 2023). Another new popular source of credit among MSEs is the Hustler Fund, also known as the Financial Inclusion Fund, which is governed by Public Finance Management in Kenya. It was introduced in 2022, and offers affordable credit, market linkages and financial literacy to MSEs, including those who might be blacklisted (FSD Kenya, Central Bank of Kenya, & Kenya National Bureau of Statistics , 2023)

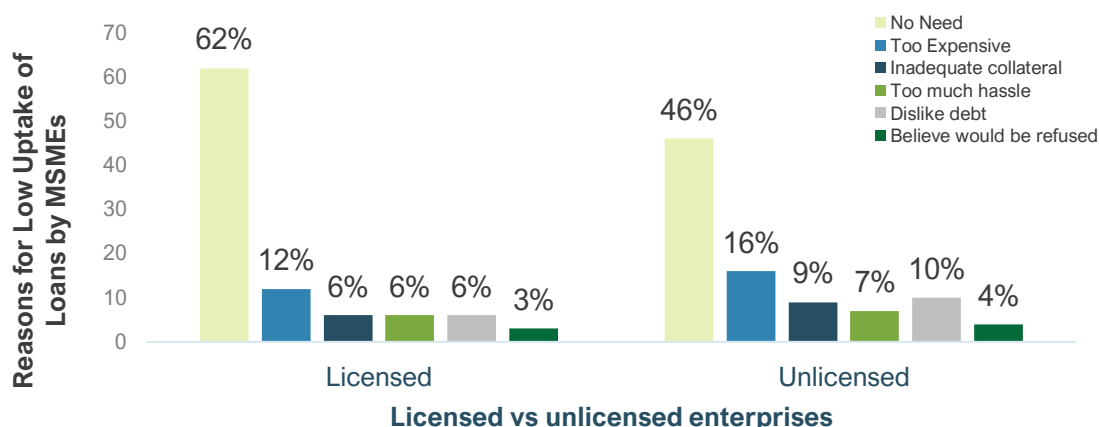
Gender gaps exist in financing methods where women rely more on group-based financing and less on mobile banking. While sources of credit are becoming more innovative, open, and accessible to all, notable gender disparities exist in financing strategies. 32% of micro and small enterprises owned by women rely on Chama/group-based financing, while only 13% of those owned by men adopt a similar approach. This difference is further made evident in the utilization of mobile banking or mobile money overdraft loans, with only 35% of micro and small enterprises owned by women utilizing them, compared to 59% of those owned by men (FSD Kenya, Central Bank of Kenya, & Kenya National Bureau of Statistics , MSE Tracker Survey Wave II, 2023). This is an interesting difference to note given that there is women-owned enterprises are more active in the digital payment space than male-owned ones.

Family, friends, and savings are the biggest sources of start-up financing for MSEs. In addition to ongoing financing needs for MSEs, start-up financing is also critical given how dynamic the business landscape is in the informal sector. Formal credit provided by registered FSPs plays an insignificant role in this regard. Especially, female business owners leverage their social networks to obtain start-up financing with 29% of female-led businesses relying on support from their family, friends, and community, compared to 17% of male-led businesses. A second major source of start-up capital was savings, mobile money providers being the leading source of this. Around 10% of female-led enterprises and 13% of male-led enterprises made use of mobile money savings to start their business. The third main source of start-up capital was loans. The sources of these displayed some gender disparities with 9% of female-led businesses making use of Chamas/savings groups, versus 3% of male-led businesses. In terms of taking out a loan from a bank, 2% of female-led businesses did so compared to 5% of male-led businesses. (FSD Kenya, Central Bank of Kenya, & Kenya National Bureau of Statistics , MSE Tracker Survey Wave II, 2023).

The cost of credit, approval time and lack of collateral are preventing MSEs from accessing formal credit. Many MSMEs avoid taking loans from commercial banks or MFIs due to the perception that they are too expensive owing to high-interest rates. A main reason among licensed (62%) and unlicensed (46%) businesses for not taking up a loan is that they do not have a need for it. The second major reason why loan uptake was low among licensed (12%), and unlicensed (16%) businesses was that loans were too expensive. Other reasons MSMEs cited as preventing them from accessing credit are shown in Figure 8 (Kenya National Bureau of Statistics, 2016). In line with these findings, the Small Firms Diaries exercise showed that the most mentioned barrier, cited by nearly half (49%) of the businesses, was the cost. Regardless of factors like the number of loans taken, the gender of the

business owner, or the industry, cost emerged as the primary cited barrier, followed by the time required for loan approval.

Figure 8: Licensed vs unlicensed split: reasons for low uptake of loans by MSMEs.



(Kenya National Bureau of Statistics, 2016)

Gender gaps in formal credit access are minimal for microenterprises but more pronounced in medium enterprises. Microenterprises exhibit a gender gap score close to zero when it comes to accessing formal credit⁶⁸ provided by registered FSPs. As mentioned previously, most of these microenterprises are unlicensed. Among these unlicensed businesses, a high proportion⁶⁹ of male-owned and female-owned businesses do not apply for credit, contributing to this small gender gap among microenterprises. The most significant gender gap, amounting to 40%, is observed in medium enterprises, indicating a higher likelihood of male-owned enterprises in this category receiving credit compared to their female-owned counterparts. Conversely, the largest gap in favour of women is observed among large enterprises. Despite displaying a low gender gap when it comes to accessing credit, there are still specific barriers facing women-led microenterprises. These include stringent collateral requirements and limited awareness about financial opportunities (Research Pro Solutions, 2023).

MSE data landscape overview

The identified publications contain a wealth of information on the MSE landscape in Kenya. A total of 43 publications have been identified. A high proportion of publications were less than five years old, indicating that recent data and data analysis insights are available on Kenyan MSEs. Almost all the publications

⁶⁸ Formal credit in this case refers to commercial banks, microfinance, SACCOs and other financial institutions

⁶⁹ The 2016 MSME survey studied 50 000 licensed businesses, where 92% were micro-enterprises are defined as having less than 10 employees with turnover do not exceed five hundred thousand shillings, small enterprises have 10-49 employees and turnover is between five hundred thousand and five million, and medium sized enterprises have between 50 and 99 employees. This study showed that 88% of unlicensed male owned businesses and 84% of unlicensed female owned businesses did not apply for credit.

focus on the financial inclusion of MSEs. Most studies leverage quantitative methodologies, as shown in **Error! Reference source not found.**

Yet there is limited research specifically looking at women-led microenterprises

Half of the publications have a dedicated focus on women-owned enterprises. Most studies on women-owned enterprises focus on the demographics of females, how they compare to men (particularly in accessing finance) as well as the challenges they face in the businesses. However, microenterprises were only focused on 10% of the publications, despite making up the majority of MSEs operating in Kenya. Consequently, there are only a few studies that focus solely on women-led microenterprises. The available publications either focus on segmenting based on size between micro, small and medium (with no gender split) or distinguish between male and female business owners (with no split between micro, small and medium enterprises) but not both.

Number of publications	43
Proportion of publications that are less than five years old	65%
Topic that is covered the most [% of publications that cover it]	Financial inclusion [90%]
Proportion of publications that used a quantitative methodology	17%
Proportion of publications that used a qualitative methodology	24%
Proportion of publications that used a mixed methodology	47%
Proportion of publications with a focus on women-owned enterprises	50%
Proportion of publications with a focus on microenterprises	10%

Table 5: Overview of Kenya data library

The datasets identified overall cover the different segmentation dimensions well.

Table 56 gives an overview of the main quantitative datasets (household surveys are highlighted in grey) that have been identified for Kenya and the available proxies within each dataset for each of the eight segmentation dimensions identified in chapter 2. These eight segmentation dimensions are generally well covered, especially, the level of business sophistication, business size and location. There are gaps in terms of how detailed the specific economic activity of the respective business is captured. In terms of the role of the business owner in the household, the marital status of women is included in some datasets but not other variables such as

household head. The good availability of recent and large-scale datasets on MSEs and on MSE owners that comprehensively cover a range of business owner and business characteristics is a result of close collaboration between Kenya National Bureau of Statistics, Central Bank of Kenya, and Financial Sector Deepening Kenya.

Institution (name of dataset)	Core dataset information	Sample size	Includes rural enterprises	Mindset	Entrepreneurial ability	Business sophistication	Networks	Size	Sector	Location	Role of business owner in the HH
Kenya National Bureau of Statistics: 2021 (FinAccess Household Survey Data)	Year and frequency: 2021 [every 2-3 years] Accessibility: Available upon registration	22 024 households 6 000 businesses	Yes	Reason for starting business.	<ul style="list-style-type: none"> Level of education Digital readiness 	<ul style="list-style-type: none"> Infrastructure of business Record keeping Business registration 	Financial assistance sources	<ul style="list-style-type: none"> Number of paid employees Monthly turnover 	High level sector category	<ul style="list-style-type: none"> County District Location 	Marital status
Kenya National Bureau of Statistics (Small and Medium Enterprises Survey).	Year and frequency: 2016 [currently only one but plans to complete another in future] Accessibility: Available upon registration	50 000 licensed businesses & 14 000 households	Yes	<ul style="list-style-type: none"> Attitudes towards finance Attitudes towards risks 	<ul style="list-style-type: none"> Level of education Business management skills 	<ul style="list-style-type: none"> Infrastructure of business Type of business premises Record keeping Business registration 	Membership in business support groups	<ul style="list-style-type: none"> Turnover Number of employees 	High level sector category	<ul style="list-style-type: none"> Location County 	None
FSD Kenya, Central Bank of Kenya, KNBS (Micro and Small Enterprises Tracker Survey)	Frequency and year: 2023 [every 1-2 years] Accessibility: Available upon registration	4 125 MSMEs	Yes	Reason for starting business	<ul style="list-style-type: none"> Level of education Training received 	<ul style="list-style-type: none"> Infrastructure of business Record keeping Business registration 	Membership in association	<ul style="list-style-type: none"> Daily and monthly turnover Value of current stock Number of employees 	Detailed economic activity	<ul style="list-style-type: none"> Location County 	<ul style="list-style-type: none"> Head of household Sole income earner
Small Firms Diaries	Year and frequency: 2021-2022 [once-off] Accessibility: Potentially available upon request	155 firms	Yes	<ul style="list-style-type: none"> Mindset of owner 	<ul style="list-style-type: none"> Digital readiness Confidence in business skills 	<ul style="list-style-type: none"> Business registration Record keeping Differentiation between personal vs business needs 	Financial assistance sources	<ul style="list-style-type: none"> Detailed revenue patterns over time Number of employees 	Detailed economic activity	County	None
Kenya National Bureau of Statistics (Kenya Integrated Household Budget Survey 2015-2016)	Frequency and date: Every 10 years, last one from 2015/16	23,880 households	Yes	None	None	Business registration	None	Profit	High level sector category	<ul style="list-style-type: none"> County Location 	Marital status

	Accessibility: Available upon registration										
AfricaNenda (SIIPS 2022)	Frequency and year: 2022 [once-off] Accessibility: Potentially available upon request	100 MSMEs	No	Level of education	None	<ul style="list-style-type: none"> Differentiation between business and personal finances Access to facilities and internet and computer Type of premises 	Membership in business support group	<ul style="list-style-type: none"> Number of employees Monthly turnover bracket 	Detailed economic activity	Urban/Rural/Peri-urban	None

Table 6: Overview of core quantitative MSE datasets identified

Uganda

Overview of the state of the MSE landscape

Uganda's MSME sector, dominated by microenterprises, plays a significant role in the economy. There are approximately 1.1 million MSMEs operating in Uganda, 94% of them are microenterprises according to Uganda's official definition as outlined in Box 7, followed by small enterprises at 4% and medium enterprises at 2%. Collectively MSMEs contribute to nearly 20% to Uganda's GDP, underscoring their important role in economic growth. Beyond economic contribution, MSMEs play a crucial role in job creation, generating approximately 2.5 million employment opportunities throughout the country (Uganda Bureau of Statistics, 2011).

Box 7: MSME definition in Uganda

- **Microenterprise:** employing up to four people, with an annual sales/revenue turnover or total assets not exceeding 10 million Ugandan shillings
- **Small-enterprise:** employs between 5 to 49 people and has total assets between 10 million but not exceeding 100 million Ugandan shillings
- **Medium-enterprise:** employs between 50 to 100 people with total assets of more than 100 million but not exceeding 360 million Ugandan shillings

(Uganda Investment Authority, n.d.)

Business owner characteristics

MSME ownership is equally distributed between men and women, and the owners tend to be young. The ownership landscape of MSMEs in Uganda is equally distributed between male and female entrepreneurs, with ownership standing at 49% for males and 51% for females (United Nations Development Programme, 2022). In a 2015 study completed by FSD Uganda, it was found that 52%⁷⁰ of the entrepreneurs in their sample fall within the 30-35 age bracket. Following closely are individuals aged 25-34, constituting 30%⁷¹ of MSME owners (FSD Uganda, 2015).

Female entrepreneurs in Uganda are young and often lack higher education. In Uganda, the landscape of female micro- and small entrepreneurs reveals a predominantly youthful demographic, with the majority falling within the 25-34 age bracket. Despite their entrepreneurial spirit, many of these women do not possess higher education qualifications. Around 34% of women entrepreneurs possessed a primary education only, while 38% of them had up until grade 11, and only 2.4%

⁷⁰ Sample size was 1 839 MSMEs, where 1290 were microenterprises. Size definition: Microenterprise: employing up to four people, with an annual 12 million Uganda shillings turnover. Small enterprise: employing between 5 and 50 people, with an annual sales/revenue turnover total asset of up to Uganda Shillings (USH.) 360 million. Medium enterprise: employs more than 50 people with an annual sales turnover or assets of between USH.) 360 million and 30 billion. It does not state if the sample includes non-national business owners.

⁷¹ Ibid.

possessed a university qualification (Trust Africa, 2012)⁷². These low levels of education are reflected in the digital skills gap, which disproportionately affects women entrepreneurs putting them at a distinct disadvantage. A recent survey conducted by the DREAMS project team⁷³ on entrepreneurs (including agricultural businesses) shows that 42% of them reported having a low level of digital literacy and only 11% of them reported having a high level of digital literacy (CARE Uganda, 2023a).

Most Ugandan female entrepreneurs have significant familial responsibilities.

A notable aspect of Uganda's female entrepreneurs is the marital and family context in which they operate. The majority are married, often balancing their entrepreneurial pursuits with family responsibilities. A study by the International Labour Organisation in 2015 indicated that 72% of women entrepreneurs are married (International Labour Organization, 2015)⁷⁴. According to the World Bank, the fertility rate in Uganda for 2021 was nearly at nearly five children per woman (World Bank , 2023). Almost 70% of respondents in a study on understanding factors that influence women-led MSEs had between 1 to 5 children (Trust Africa, 2012) ⁷⁵. Namatovu et. al., further state that women entrepreneurs also usually took care of the related childcare responsibilities of their children. The above-mentioned DREAMS project survey shows that 93% of female entrepreneurs spent more than eight hours per day on household-related work compared to 7% of men. Despite actively contributing to their households' income while simultaneously increasing the household income, most female entrepreneurs are not considered the head of their household; instead, their spouses often assume this role. Correspondingly, the DREAMS project survey further shows that only 10% of female entrepreneurs have sole control over their finances and 44% have joint control (CARE Uganda, 2023b).

⁷² This study involved 540 women entrepreneurs who were running either micro or small businesses and defines a microenterprise as a business operating informally with under ten employees.

⁷³ The study used a mixed methodology of quantitative and qualitative data collection and analysis. Lot Quality Assurance Sample (LQAS) was the sampling methodology used to survey 690 participants (67% women and 33% men) from the project's total number of 20,000 participants. In the household survey, 457 people were interviewed including 361 women (67%) and 96 men (33%).

⁷⁴ The sample in this study was 1550 business owners, and no definition for microenterprises were given.

⁷⁵ This study sample consisted to 73% of women and 23% of men and involved 540 women entrepreneurs who were running either micro or small businesses where the authors define a microenterprise as a business operating informally with under ten employees.

Women-owned microenterprises are typically motivated by necessity.

The entrepreneurial landscape for women in Uganda is characterized by a significant presence in the microenterprise sector, with most operating informally. More women (30%) than men (21%) enter entrepreneurship out of necessity, driven by a variety of factors including limited economic opportunities and the need for financial sustainability (International Labour Organization, 2014).

Social networks, particularly family, are key enablers for young entrepreneurs in Uganda.

Family connections play an important role in the entry of young women into entrepreneurship, often facilitated by relationships with mothers and aunts who serve as mentors and guides. This family-oriented approach to entrepreneurship underscores the interconnected nature of women's economic activities. Interestingly, women entrepreneurs frequently prioritize interdependence over individual financial freedom. Profits are often shared within the family to address various needs, including education and care for elders (Monteith & Camfield, 2019). More than 150,000 group structures have been identified in Uganda based on data from secondary sources. Out of the 70,000 groups that reported information about gender composition, 81% are women's groups (groups that consist of at least 40% of women). The core objectives of these groups are saving (81% of groups), followed by lending, and borrowing (56% of groups) and social support (36 of groups) (CARE Uganda & IPSOS, 2022). However, a recent study conducted in urban Kampala shows that the high interest rates in formal saving groups, and the risk of theft in informal saving groups have led to distrust of such groups (Vieitez-Cerdeño, Manzanera-Ruiz, & Namasembe, 2023).

Business characteristics

Many microenterprises operate in the trade sector. Most microenterprises (62%) operate in the trade sector. 16% are engaged in the hospitality sector, reflecting the significance of services related to accommodation and food. Meanwhile, 11% of microenterprises contribute to the manufacturing sector⁷⁶ (Uganda Bureau of Statistics, 2011). The sectors in which female entrepreneurs are predominantly engaged tend to be traditionally female-concentrated, although less lucrative. These sectors include barbershop/hair salon, catering, clay moulding, and tailoring/knitting. Unfortunately, this concentration in less financially rewarding sectors limits the earnings potential for these women. Only a small fraction, approximately 6%⁷⁷, operate in male-dominated sectors such as carpentry, electric, fitting and machinery, foundry and forgery, metal fabrication, and shoemaking and repair (Trust Africa, 2012). This reportedly limits female entrepreneurs' potential for growth and profits. The potential for significant financial growth is evident when considering that transitioning to male-dominated sectors could increase average monthly profits by an impressive 141% (World Bank, 2021) Women-owned microenterprises in Uganda profit on average 30% less than their male counterparts (Trust Africa, 2012).

⁷⁶ Sample size was 458 106 businesses where 70% were microenterprises. Microenterprises were defined as those with an annual revenue below 5 million shillings, regardless of the number of employees. Meanwhile, small businesses were characterized by an annual turnover ranging from 5 to 10 million shillings, irrespective of the number of employees.

⁷⁷ Sample size: 540 women entrepreneurs who were running either micro or small businesses. Does not provide size definition or information on if the sample includes non-national business owners.

The majority of MSMEs clustered in primary markets. Geographically, the concentration of MSMEs in Uganda is evident in Kampala and the Central region, which collectively contribute the largest share of the nation's GDP. According to the latest national household survey, 42% of households in urban areas operate a household enterprise whereas it is only 27% of households in rural areas. At a sub-regional level, 46% of households in Kampala operate a household enterprise whereas it is only 15% in Acholi (Uganda Bureau of Statistics, 2021). In Kampala specifically, micro, small, and medium enterprises are predominantly engaged in trade-related services, tourism, education, and both cash and food crop production within the agricultural sector (Uganda Bureau of Statistics, 2011).

The majority of MSMEs face short lifespans with many businesses failing within the first few years. MSMEs in Uganda often have a short lifespan, with many of them operating for less than five years (Uganda Bureau of Statistics, 2011), as outlined in Table 7. These enterprises predominantly take the form of family-owned sole proprietorships. Only 30% of family-owned businesses manage to surpass the three-year mark, indicating a challenging business landscape (Uganda Bureau of Statistics, 2011). Uganda has one of the highest business failure rates in Africa (Mukalazi, 2023).

Age in years	Number	%
Started in 2010/11	129,429	28.3%
2.5	121,769	26.6%
6-10	70,120	15.3%
21-50	75,264	16.4%
>50	403	0.1%
Not stated	9,425	2.1%

Sample size: 458 106 businesses. Does not provide a size definition. Includes non-national business owners. It covered all business establishments countrywide with a fixed location, irrespective of the number of employees. However, it excluded Household based businesses.

Table 7: Age of businesses in Uganda

Source: Bureau of Statistics, Census of Business Establishments (2011)

The majority of microenterprises are registered. Only 25%⁷⁸ of microenterprises in Uganda are not registered, 36% are registered on a district level, 23% at a national

⁷⁸ 1839 MSMEs (1-20 employees). Micro: 0-4 employees, Small: 5-9 employees, Medium: 10-20 employees.

level, and 16% are registered in another form. The majority of registered microenterprises are based in Kampala, while the majority of registered small enterprises are based in the Northern region (FSD Uganda, 2015). Informal microenterprises are commonly found in the street- or market stalls. In contrast, SMEs tend to be more formal, with 76% of small enterprises and 99% of medium enterprises being registered. SMEs are often situated in more structured environments such as office blocks and factory plants, showcasing a greater propensity for formalization (Institute of Advanced Leadership, 2020). Several factors contribute to the high levels of informality among MSMEs in Uganda. A significant proportion of entrepreneurs are not aware of the necessity for legal business existence, fear the perceived complexity of the registration process, or are reluctant to bear the burden of direct taxes (Institute of Advanced Leadership, 2020). The motivations for MSMEs to formalize their operations include the desire to access external financing, obtain operating licenses, open bank accounts, and separate business from personal finances (Argidius, 2016).

MSMEs in Uganda have limited access to digital technologies. The technological landscape among MSMEs in Uganda paints a dynamic picture, reflecting both opportunities and challenges in digital adoption. According to a FinScope study, 84% of business owners⁷⁹ have access to a phone, however, only 18% have internet access and only 7% of business owners have access to a computer, further highlighting the limited digital infrastructure. As of 2018, 14% owned smartphones, indicating a gradual integration of more advanced devices within the MSME sector (FSD Uganda, 2018), which has almost certainly further increased in the interim. The most popular technologies among MSMEs are social media platforms such as Facebook and WhatsApp, mobile money services, digital transport options like Uber and SafeBoda, digital banking, CCTV cameras, websites, smartphones, and computers. The main reason for MSMEs to not use or to use additional digital technologies is the lack of knowledge on how to use and apply them, a lack of access to devices such as smartphones and computers, as well as the high cost of buying data daily (Sendawula, Saadat Nakyejwe Lubowa, Turyakira, & Kibanja, 2022).

Digitalisation increased during the COVID-19 pandemic. The COVID-19 pandemic has acted as a catalyst for digital adoption among MSMEs. Many businesses turned to technology during the pandemic to adapt and sustain operations. The crisis served as a landmark for the transition from manual to digital interfaces, transactions, and marketing strategies. Business owners, discovering the viability of digital technologies, opened websites, social media platforms, and other digital channels to serve customers during lockdowns, showcasing resilience and adaptability within the MSME sector (Saadat Nakyejwe Lubowa, Sendawula, & Nagujja, 2021).

Technology is making it easier for female entrepreneurs to operate their businesses and cut down costs. In Uganda, 69% of women, compared to 84% of men own a phone, however, only 13% of women are using mobile Internet (GSMA, 2020). A recent survey conducted by the DREAMS project team⁸⁰ on entrepreneurs

⁷⁹ Sample: 237 non-agricultural businesses (0-25 employees).

⁸⁰ The study used a mixed methodology of quantitative and qualitative data collection and analysis. Lot Quality Assurance Sample (LQAS) was the sampling methodology used to survey 690 participants (67% women and 33% men) from the project's total number of 20,000 participants. In the household survey, 457 people were interviewed including 361 women (67%) and 96 men (33%).

(including agricultural businesses) shows that 50% of female entrepreneurs have access to digital devices for person and economic purposes and 20% have no access to digital devices literacy (CARE Uganda, 2023a) The integration of mobile phone usage has proven to be a significant catalyst for the profitability of women entrepreneurs, with a substantial 55%⁸¹ acknowledging its positive impact on their businesses. The adoption of mobile phones has emerged as a powerful tool, providing women entrepreneurs with a fast and efficient means of communication critical to their business operations. Mobile phones play an important role in reducing transactional costs for women entrepreneurs, contributing to increased profitability. Moreover, the use of mobile phones strengthens business networks, enhancing women entrepreneurs' ability to navigate emergencies and boosting productivity rates. This network reinforcement facilitates the reduction of trade costs, minimizes risks, substitutes for necessary journeys, and intensifies the efficiency of various business activities (Komunte, 2015).

In rural Uganda, women entrepreneurs often form groups or associations to cooperatively organize businesses. According to a recent survey conducted by the DREAMS project team⁸² on entrepreneurs (including agricultural businesses), 51% of women's livelihoods depend on Village Savings and Loans Associations or business-orientated associations, compared to only 13% of men (CARE Uganda, 2023b). This collaborative approach allows for the leveraging of economies of scale, pooling of resources, and balancing of work-life responsibilities (International Labour Organization, 2014).

Female-owned MSMEs were more affected by the COVID-19 pandemic than male-owned MSMEs. As the economy gradually revives, female-owned enterprises continue to face a slower recovery rate compared to their male counterparts. This discrepancy underscores persistent challenges that hinder the resilience of women entrepreneurs in the post-pandemic landscape. A critical factor contributing to the slower recovery is the limited adaptive capacity of female-owned enterprises in leveraging technology, especially in accessing crucial knowledge and information through online channels. This technological gap places women entrepreneurs at a disadvantage in a rapidly evolving business environment where digital tools are increasingly vital for competitiveness and growth. In a study from the Economic Policy Research Centre, 77% of female-owned enterprises (primarily microenterprises) encountered difficulties in repaying existing bank loans or obtaining new ones, surpassing the 66% reported by male-owned enterprises⁸³. This disparity is primarily attributed to the challenge of providing collateral, reflecting systemic barriers that disproportionately affect women in accessing financial resources (Economic Policy Research Centre, 2022).

⁸¹ Sample: 280 women entrepreneurs, with majority of these being microenterprises. Microenterprises are defined as having less than 10 employees.

⁸² The study used a mixed methodology of quantitative and qualitative data collection and analysis. Lot Quality Assurance Sample (LQAS) was the sampling methodology used to survey 690 participants (67% women and 33% men) from the project's total number of 20,000 participants. In the household survey, 457 people were interviewed including 361 women (67%) and 96 men (33%).

⁸³ Sample size: 1 536 MSMEs where 1290 were microenterprises. Size definition: Microenterprises employ less than 5 people; small enterprises employ between 5-49 people; medium enterprises employ 50-100 people. Includes non-national business owners.

Overview of the MSE finance landscape

There are urban-rural disparities in household enterprises' demand for credit.

Diverse motivations underlie household enterprises' decisions to borrow, as shown in the Uganda National Household Survey⁸⁴ of 2019/2020. Notably, the pursuit of loans or credit to acquire inputs or working capital for non-farm enterprises emerges as a more prevalent urban phenomenon, accounting for 27% of cases compared to the rural counterpart at 15%, as visible in Figure 9. This nuanced analysis emphasizes the multifaceted nature of borrowing patterns and underscores the divergent economic dynamics between urban and rural environments (Uganda Bureau of Statistics, 2021).

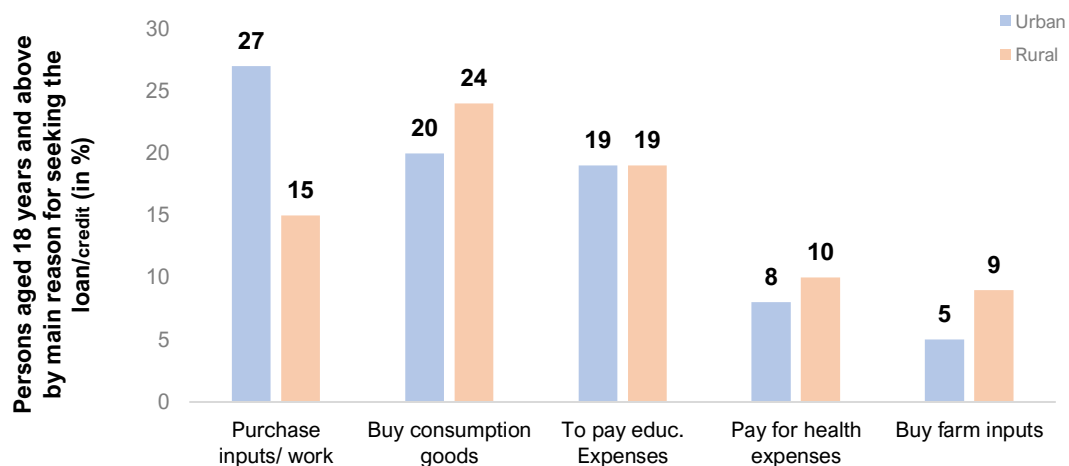


Figure 9: Reasons for seeking credit for rural vs. urban enterprises

Source: (Uganda Bureau of Statistics, 2021)

Ugandan commercial banks are increasingly focusing on MSMEs, but mainly on small- and medium-sized enterprises. Banks in Uganda offer relatively basic MSME products with limited tailoring for women entrepreneurs or the agricultural sector (Uganda Bureau of Statistics, 2011). Among the top eight commercial banks catering to the MSME sector, as of 2021, only four provide specialized products tailored to the unique requirements of MSMEs (International Finance Corporation, 2021). However, there is an increasing interest in this market (Economic Policy Research Centre & INCLUDE, 2017). In 2022, under the Young Africa Works strategy, Mastercard Foundation Micro and Small Enterprises (MSE) Recovery Fund partnered with FSD Uganda to facilitate direct access to finance 50,000 MSEs, particularly to women-led businesses as well as young entrepreneurs. This is a rotating fund, which offers concessional capital to involved financial service providers, allowing them to lend to micro, small, and medium enterprises that have been adversely affected, with a reduced interest rate (MicroSave Consulting and FSD Uganda, 2023).

Monetary Financial Institutions and Minority Depository Institutions play a vital role in overcoming barriers to MSME financial inclusion. Lack of collateral, lack of credit history, inadequate business skills or financial literacy, and high-interest rates

⁸⁴ A sample of 2,780,186 household enterprises were identified, where a household enterprise is defined as being run by one or more members of a household. Number of employees was not specified.

are barriers to access to formal financial services for MSMEs (Economic Policy Research Centre & INCLUDE, 2017). Monetary Financial institutions (MFIs) and Minority Depository Institutions (MDIs) play increasingly important roles in providing financial services to MSMEs. These financial service providers often offer more flexible and accessible financial products, contributing to the financial inclusion of a diverse range of businesses (International Finance Corporation, 2021)

The selection of banks is based on several different criteria. Formal and informal businesses mainly choose a bank based on consistently good service or based on recommendations by other business owners. Service and location are important factors when choosing a bank, and MSMEs also tend to choose the same banks that the customers of the business use (Uganda Bureau of Statistics, 2011).

Evidence suggests stronger reliance on informal financing sources among women-owned microenterprises than among their male-owned counterparts.

Despite the growing availability of financing options for MSMEs, as of 2021 none of the banks in Uganda offered specialized products tailored to women-owned businesses (International Finance Corporation, 2021). Women micro-entrepreneurs in Uganda face specific challenges in accessing affordable financing options, relying primarily on savings groups/Village Savings and Loan Associations (VSLA), as well as support from friends and family, as outlined in **Error! Reference source not found.** (Economic Policy Research Centre & INCLUDE, 2017). A key disparity between men and women entrepreneurs lies in the collateral security required for loans. Men often have more readily available collateral, while women struggle to identify potential guarantors. Additionally, insufficient financial literacy poses challenges for female business owners, making it challenging for them to meet standard lending requirements and manage loans effectively (Eton M. , Mwosi, Okello-Obura, Turyehebwa, & Uwonda, 2021). The lack of credit affects enterprise size since individual female entrepreneurs are limited to personal savings. An alternative to this shortcoming is group lending. Through the formation of groups, these groups can access funding from financial service providers. However, the amounts for these types of lending are small (Trust Africa, 2012).

Own savings are the core source of start-up capital for MSMEs in Uganda. For MSMEs, their savings represent a primary source of capital. Entrepreneurs often rely on their personal savings to initiate and sustain their businesses. According to the latest Uganda national household survey, 84% of urban and 80% of rural household enterprises relied on their savings or retained profits to finance the starting of their business (Uganda Bureau of Statistics, 2021). However, this reliance on personal savings comes with limitations, as these savings are typically marginal. The constrained nature of these savings acts as a significant obstacle to the growth and expansion of MSMEs, as the available funds may not be sufficient to support the desired scale of business operations. The second significant source of capital for MSMEs is loans. However, this path is not without challenges. MSMEs face limitations on the amount they can borrow, often due to stringent requirements imposed by banks and credit institutions. Additionally, high-interest rates on loans pose a considerable burden for entrepreneurs, impacting the cost of capital and potentially limiting the profitability of their ventures (Institute of Advanced Leadership, 2020). As a result, among household enterprises, only 0.5% of urban ones and only 0.3 of rural

ones relied on loans from commercial banks to establish their businesses (Uganda Bureau of Statistics, 2021).

MSE data landscape overview

Lack of recent publications and datasets. Table 8 the identified number of publications and datasets and their focus. The main focus of publications lies on growth potential and constraints, so not specifically on financial inclusion or credit related topics. Among the 53 identified publications, more than half are less than five years old, indicating a notable gap in recent data and information. This gap is particularly pronounced when considering actual datasets, with two out of seven being more than five years old, highlighting the need for more current and relevant information.

Number of publications	53
Proportion of publications that are less than five years old	59%
Topic that is covered the most [% of publications that cover it]	Growth potential and constraints [20%]
Proportion of publications that used a quantitative methodology	31%
Proportion of publications that used qualitative methodology	16%
Proportion of publications that used mixed methods	36%
Proportion of publications with a focus on women-owned enterprises	18%
Proportion of publications with a focus on microenterprises	8%

Table 8: Overview of Uganda data library

There is a lack of studies with a specific women micro-entrepreneur focus. The existing publications predominantly focus on the MSME sector, with only a few specifically addressing microenterprises or women-owned enterprises. Existing studies are quite focused on cultural norms and women's expectations to take care of unpaid, domestic, and family duties, limiting their abilities to grow their businesses. Thus, there is a need for studies looking into this sector with a specific focus on lending and borrowing behaviour. Other identified gaps include the lack of recent studies that are covering the MSME landscape in all of Uganda, not just in certain

regions, as well as recent studies on digitalisation and access to finance that do not specifically focus on COVID-19. However, some core datasets have been identified and are outlined in

CARE Uganda (DREAMS project survey)	Frequency and year: once-off in 2023-off in 2023 Accessibility: Available on request	457 individuals	Yes	None	<ul style="list-style-type: none"> Level of education Training received related to entrepreneurship 	None	Member of savings groups	
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Table 9.

Level of business sophistication is the main segmentation dimension used in the identified literature.

CARE Uganda (DREAMS project survey)	Frequency and year: once-off in 2023-off in 2023 Accessibility: Available on request	457 individuals	Yes	None	<ul style="list-style-type: none"> Level of education Training received related to entrepreneurship 	None	Member of savings groups	
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Table 9 gives an overview of the main quantitative datasets (household surveys are highlighted in grey) that have been identified for Uganda and the available proxies within each dataset for each of the eight segmentation dimensions identified in chapter 2. The analysis of identified datasets on MSMEs in Uganda reveals a comprehensive approach to using segmentation dimensions. All eight dimensions have been employed in these datasets, showcasing a diverse and multifaceted exploration of the MSME landscape. However, there is a limited use of access to networks and household structure as variables in these studies. Another interesting finding is the relatively lower emphasis on studies investigating the motivation behind MSME activities whereas the level of business sophistication emerges as a frequently used segmentation dimension in the identified studies.

Institution (Name of dataset)	Core dataset information	Sample size	Includes rural enterprises	Mindset	Entrepreneurial ability	Business sophistication	Networks	Size	Sector	Location	Role of business owner in the HH
FSD Uganda (National Small Business Survey of Uganda)	Frequency and year: 2015 (once off) Accessibility: Open access	1,839 MSMEs	Yes	Reason for starting the business	<ul style="list-style-type: none"> Level of education Digital readiness 	<ul style="list-style-type: none"> Age of business Business registration Number of permanent and casual employees 	Membership in association	<ul style="list-style-type: none"> Monthly sales Number of employees 	Detailed economic activity	<ul style="list-style-type: none"> Business location Region 	None
World Bank (Enterprise Survey)	Frequency and year: 2013 (once off) Accessibility: Open access	640 establishments	Yes	None	Work experience of the top manager	<ul style="list-style-type: none"> Business permit Size Number of employees 	None	<ul style="list-style-type: none"> Number of full-time employees Annual sales 	Detailed economic activity	Region	None
World Bank (National Manpower Survey 2016, Kampala Informal Sector Survey)	Frequency and year: 2016 (1988) Accessibility: Open access	2,234 informal businesses	No	Business strategies for the next 3 years	<ul style="list-style-type: none"> Previous working experience Business training 	<ul style="list-style-type: none"> Business registration Assets Age of business Number of employees Record keeping 	Membership in association	<ul style="list-style-type: none"> Number of paid employees, family workers, unpaid employees Asset size Sales over the past week 	Detailed economic activity	Business location	Marital status
Uganda Bureau of Statistics (The Uganda National Household Survey)	Frequency and year: 2013 (7 th edition, 1999/2000, 2002/2003, 2006/2007, 2009/2010, 2012/2013, 2016/2017) Accessibility: Open access	458,106 household businesses	Yes	Motivation	<ul style="list-style-type: none"> Level of education Business training received 	<ul style="list-style-type: none"> Age of business Record keeping Registration Tax compliance Number of working owners, family workers, paid employees, unpaid employees 	None	None	High level sector categories	<ul style="list-style-type: none"> Region Urban/Rural 	<ul style="list-style-type: none"> Household head Marital status

Institution (Name of dataset)	Core dataset information	Sample size	Includes rural enterprises	Mindset	Entrepreneurial ability	Business sophistication	Networks	Size	Sector	Location	Role of business owner in the HH
FSD Uganda (FinScope Uganda)	Frequency and year: 2018 (2007, 2009, 2013) Accessibility: Open access	3 002 individuals	Yes	None	<ul style="list-style-type: none"> Level of education Digital skills 	None	<ul style="list-style-type: none"> Member of informal financial group Source of advice Ability to rely on community for financial help 	None	Detailed economic activity	None	<ul style="list-style-type: none"> Marital status Household head
Uganda Bureau of Statistics (Census of Business establishments 2010/2011)	Frequency and year: every 10 years, last one 2010/2011 Accessibility: Open access	458 106 businesses	Yes	None	None	<ul style="list-style-type: none"> Number of employees Age of business Use of the internet Use of computer Annual turnover Registration 	<ul style="list-style-type: none"> Member of group enterprise Member of association 	Annual turnover	High level sector categories	District	None
CARE Uganda (DREAMS project survey)	Frequency and year: once-off in 2023-off in 2023 Accessibility: Available on request	457 individuals	Yes	None	<ul style="list-style-type: none"> Level of education Training received related to entrepreneurship 	None	Member of savings groups	None	None	<ul style="list-style-type: none"> District Business location 	<ul style="list-style-type: none"> Marital status Household head

Table 9: Overview of core quantitative MSE datasets identified

India

MSE landscape overview

Microenterprises play a pivotal role in India's economy. There are 63 million MSMEs in India (see definition of MSMEs in Box:8 below) which contribute to about 29% of the country's GDP and employs 111 million people, constituting a fifth of the labour force (Government of India, 2023). Nano enterprises are not a distinct category in the official size definition of enterprises in India which means that they are included within the category of microenterprises. Notably, 99% of these enterprises are nano or microenterprises and have less than 20 employees, with 85% (77% in urban areas vs. 91% in rural areas) being own account enterprises that do not hire regular workers (Centre for Sustainable Employment , 2019). Acknowledging the importance of MSMEs for India's economic development, the government has been supporting MSMEs through various policy initiatives such as the sector-specific Production-Linked Incentives (PLI) programs (Ministry of Commerce & Industry India, 2023). These incentives extend beyond financial support, encompassing schemes tailored for technical skilling and the integration of digital tools. Moreover, the government has swiftly implemented relief measures to mitigate the impact of the COVID-19 crisis on MSMEs.

Box:8 MSME definition in India

The Government of India changed the classification of MSMEs in 2020. The new classification has higher thresholds and does not differentiate between manufacturing and service sector enterprises, as outlined in Table 10. Based on the new definition, the number of micro-enterprises included in MSMEs has increased for both the manufacturing and services sectors.

Size of enterprise	Old size of investment value		Old size of turnover value	New size of investment values	New size of turnover values
	Manufacturing	Services	Both		
Micro	Up to Rs. 500 thousand (5 999 USD)	Up to Rs. 200 thousand (2 400 USD)	Up to Rs. 50 million (600 035 USD)	Up to Rs. 10 million (120 007 USD)	Up to Rs. 50 million (600 035 USD)
Small	Rs. 500 thousand (5 999 USD) to Rs. 100 million (1 200 070 USD)	Rs. 200 thousand (2 400 USD) to Rs. 50 million (600 035 USD)	Rs. 50 million (600 035 USD) to Rs. 750 million (9 000 525 USD)	Up to Rs. 100 million (1 200 070 USD)	Up to Rs. 500 million (6 000 350 USD)
Medium	Rs. 100 million (1 200 070 USD) to Rs. 300 million (3 600 210 USD)	Rs. 50 million (600 035 USD) to Rs. 150 million (1 800 105 USD)	Rs. 750 million (9 000 525 USD) to Rs. 2.5 billion (30 001 750 USD)	Up to Rs. 200 million (2 400 140 USD), later changed to be Rs. 500 million (6 000 350 USD)	Up to Rs. 1 billion (12 000 700 USD), later changed to be Rs. 2.5 billion (30 001 750 USD)

Table 10: Comparison of the new and the previous MSME definition

Sources: MSME Development 2006 Act, MSME Development Amendment Bills 2015 and 2018, PIB update on cabinet approval, PRS

Business owner characteristics

Most microenterprises are owned by men. As visible in Figure 10, only 20% of microenterprises are owned by women, and only 5% of small enterprises. There is no data available on the gender distribution among nano enterprise owners and nano enterprises here are included under microenterprises. The majority, 65%, of women-owner enterprises are located in rural areas in rural areas (Kapoor, 2019). The top five states in India with highest share of women-owned proprietorships are Telangana (37%), West Bengal (33%), Tamil Nadu (26%), Gujarat (25%), and Andhra Pradesh (25%) (MoSPI, 2011).

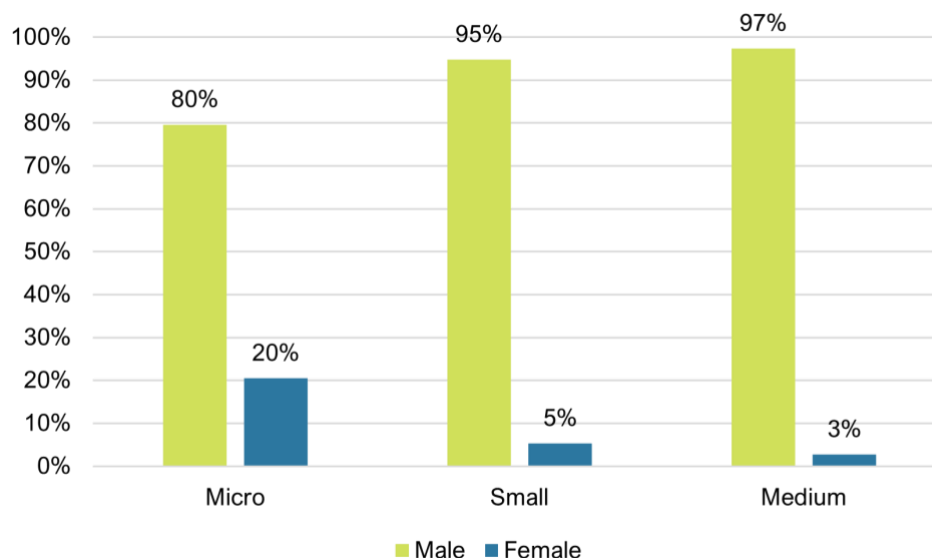


Figure 10: Percentage distribution of unincorporated non-agricultural establishments by gender⁸⁵

Source: MoSPI 2011

The majority of microenterprises is owned by socially disadvantaged groups.

The ownership landscape of MSMEs in India reflects significant social disparities, with nearly 66% of enterprises being owned by socially disadvantaged groups. Half of the business owners of microenterprises are part of communities that have been historically marginalised in India but that do not fall into the Scheduled Castes or Scheduled Tribes list. This is followed by business owners that fall into the Scheduled Castes category which refers to sub-communities within the framework of the Hindu caste system which own 13% of microenterprises (Government of India, 2017).

Most female entrepreneurs are not considered as head of households. 9% of agricultural households reported having female heads as compared to 14% female heads in non-agricultural households (NAFIS, 2017). In agricultural households, 9% of females are the head of the household and in non-agricultural households, **14%** of females are the head of the household (NABARD, 2016). About 85 % of home-based female entrepreneurs⁸⁶ in the craft clusters in Rajasthan and Tamil Nadu reported that they are married. Less than 5% of these home-based entrepreneurs are the sole income earner of the household (IWWAGE, 2020).

Push factors dominate the motivation of female entrepreneurs. A variety of factors influence the motivation of female entrepreneurs. A recent segmentation study conducted by Bain & Company and Google in 2019 developed six segments of female entrepreneurs. Core segmentation dimensions used were location of the business, size of the business, place of business operations and what motivates them as entrepreneurs (Google and Bain & Company, 2019). Most of the surveyed

⁸⁵ 73rd NSS survey, 2015-2016, of un-incorporated non-agricultural enterprises (excluding construction) with a sample size of 290,113 enterprises (no information on split of size available but 84% of unincorporated non-agricultural enterprises under survey coverage were own account enterprises).

⁸⁶ Systematic random sampling was used to reach 800 women-led businesses within craft clusters in Rajasthan and Tamil Nadu. Over 70% of sampled entrepreneurs are solo entrepreneurs who do not have employees on a fairly regular or temporary basis.

enterprises (31%) fall into the rural solopreneur segment which is primarily motivated by an interest or familiarity with the sector or the financial need to create an income source. This is followed by the urban small business owner segment (17% of surveyed enterprises) where business owners are primarily motivated by interest or familiarity with the sector and the desire to fulfil an unmet need (Google and Bain & Company, 2019). Another prominent segment are rural agripreneurs (13%) which are driven by the same set of motivational drivers as the rural solopreneur segment.

Business operation skills are typically low among women entrepreneurs. Over half of the respondents in a study on female home-based microentrepreneurs⁸⁷ did not maintain regular financial accounts. In some cases, a contractual company also keeps manual records for some entrepreneurs. Typically, most women keep a memory record of the costs incurred, sales, profit, and loss. In total, there is an absence of a systematic way of maintaining records of sales/costs and profits-loss. Mobility restrictions for women due to social norms prevalent in the society impede women from upskilling. As a result, marketing skills are very rudimentary for most of them. There is also a tendency to depend on the male-member of the household for marketing needs. In some cases, there is no need for marketing as businesses leverage Self Help Group networks (IWWAGE; KREA Univeristy, 2020).

Social networks and Self-Help Groups (SHG) play a critical role for informal enterprises in India. Informal, or unregistered enterprises in India rely heavily on social networks_(IWWAGE; KREA Univeristy, 2020). Prasad et al., found that family is an important resource and can be conducive to venture growth for Indian women entrepreneurs. Family support can contribute to the growth of the enterprise by encouraging risk-taking, enhancing entrepreneurial self-efficacy, and helping women overcome societal and patriarchal barriers (Kanti Prasad , Naidu, Murthy, Winkel, & Ehrhardt, 2011). Venkatesh et al., conducted research on ICT kiosks in 20 villages as part of a seven-year-long field-based, quasi-experiment. One of their findings was that families bear a major impact on women's access to ICTs to run their businesses. The study also found a substantive relationship between ICTs and business profit suggesting that social networks have a bearing on the operations and growth of women owned businesses (Venkatesh, Shaw, Sykes, Wamba, & Macharia, 2017). Another type of social network in India are women's SHGs. These groups can be registered or unregistered. A study on gender-specific barriers faced by women entrepreneurs⁸⁸ found that business outcomes are best for women who are members of seasoned collective enterprises such as SHGS and cooperative societies. A strong network helps them overcome the limitations of scale and gender-related market constraints. When backed by the government, as SHGs can be, they can also play a strong role in formulating social security policies targeting their trade (IWWAGE; KREA Univeristy, 2020). The National Rural Livelihood Mission (NRLM) which is a poverty reduction program that is implemented by the Ministry of Rural development leverages SHGs as a core institutional network structure for its program implementation. As of January 2024, NRLM covers over 99.8 million women

⁸⁷ Systematic random sampling was used to reach 800 women-led businesses within craft clusters in Rajasthan and Tamil Nadu. Over 70% of sampled entrepreneurs are solo entrepreneurs who do not have employees on a fairly regular or temporary basis.

⁸⁸ Systematic random sampling was used to reach 800 women-led businesses within craft clusters in Rajasthan and Tamil Nadu. Over 70% of sampled entrepreneurs are solo entrepreneurs who do not have employees on a fairly regular or temporary basis.

organised into 9.04 million SHGs across 34 states and union territories (Government of India , n.d).

Business characteristics

Manufacturing, trade, and other services are nearly evenly distributed. The distribution of MSMEs in India reflects a diverse landscape across various sectors. Manufacturing holds a significant share at 31%, while trade encompasses 36%, and other services account for 33% of the enterprise activity⁸⁹ (Government of India, 2017). Certain value chains such as tobacco, repair, retail, and apparel, predominantly consist of enterprises with 1-3 workers whereas industries such as food, textiles, healthcare, education, chemicals, and plastics exhibit a relatively larger scale in terms of employee numbers. There are stark differences between male-owned and female-owned enterprises in terms of the sectors that these enterprises engage in. As visible in Figure 11, rural women-owned enterprises are predominantly focusing on tobacco, apparel and retail and urban women-owned enterprises are predominantly located within the apparel, retail, and tobacco sector. Women and men tend to be in different industries, except for retail, which has a large share of both genders.

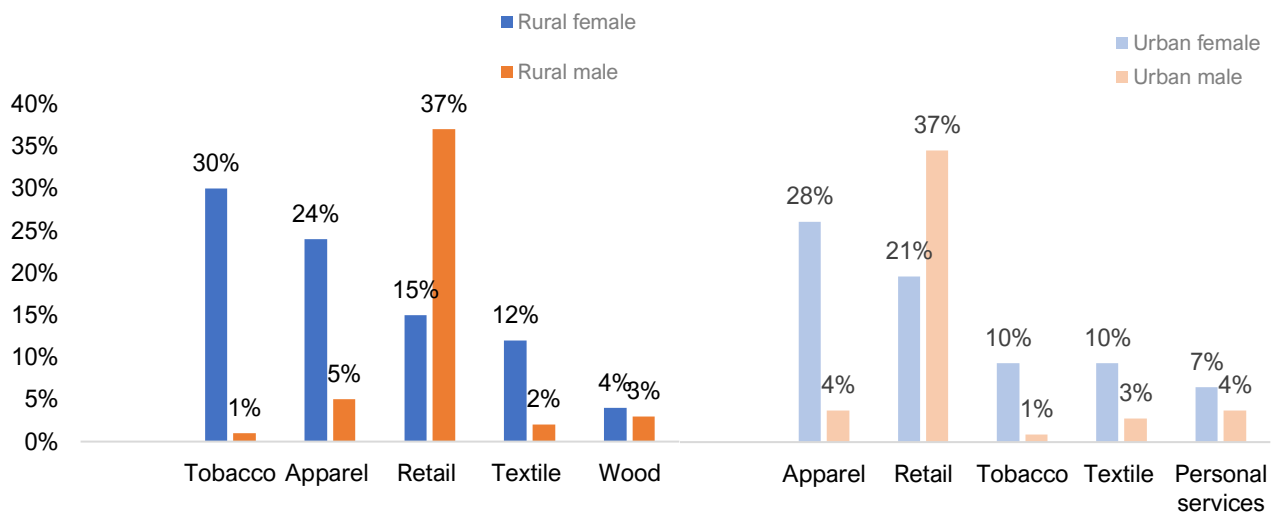


Figure 11: Share of unincorporated non-agricultural enterprises per sector, gender split

Source: (Global Alliance for Mass Entrepreneurship and Azim, 2019)

Limited data available on business failure rates of MSEs in India. There is a lack of comprehensive data on the longevity of MSEs in India. According to the most recent World Bank Enterprise Survey, 34% of the firms have been in operation for 11-20 years, 28% for 0-10 years, and 16% for more than 30 years (World Bank Group, 2022).⁹⁰ Specifically on microenterprises, a panel data analysis from the Centre for Monitoring Indian Economy Prowess database reveals that 41% of microenterprises

⁸⁹ 73rd NSS survey, 2015-2016, of un-incorporated non-agricultural enterprises (excluding construction) with a sample size of 290,113 enterprises (no information on split of size available but 84% of unincorporated non-agricultural enterprises under survey coverage were own account enterprises).

⁹⁰ 9,376 firms were interviewed between December 2021 and September 2022. 3395 Small enterprises identified and were defined as having employees 5-19 employees. 3059 Medium were identified and defined as having 20-99 employees. 2922 Large enterprises were identified and defined as having over 100 employees.

in the service sector transition to small enterprises based on turnover, while the number is only 20% for the manufacturing sector (World Bank, 2016).

The majority of non-home-based women-owned enterprises do not have paid employees. Overall, an analysis of the maturity level of women-owned enterprises based on the number of hired workers and premises of work shows that women-owned enterprises are less mature compared to male-owned enterprises. The majority of women-owned enterprises are home-based (78%) with a higher share in rural areas (59%) as compared to urban areas (46%). Figure 12 shows the distribution of women-owned firms based in commercial premises with respect to the number of wage workers. While 57% of these enterprises do not have any paid employees, 34% of them hired at 1-2 paid employees (Global Alliance for Mass Entrepreneurship and Azim, 2019). In total 83% of women-owned enterprises are own-account enterprises (MoSPI, 2011).

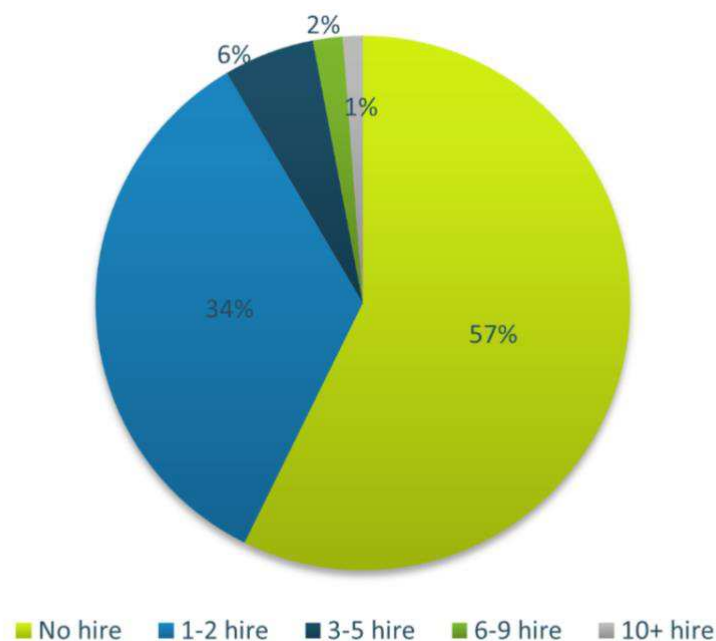


Figure 12: Share of women-owned enterprises in commercial premises by number of hires and rural/urban presence

Source: MoSPI 2011

Despite endeavours to simplify registration processes, a predominant number of enterprises persist in maintaining an informal status. Overall, only 70% of enterprises in India are registered (MoSPI, 2011). The introduction of the Goods and Services Tax (GST) in 2017 aimed to streamline taxation and extend the government's reach. However, challenges persist, with a notable emphasis on tax rather than the broader aspects of enterprise registration and formalization. The GST framework allows optional registration for low-turnover enterprises (those with a turnover below INR 2 million and engaged only in intra-state transactions), resulting in only 20% of MSMEs opting for registration. Frequent policy changes further compound compliance challenges, particularly for smaller enterprises. Barriers to formalization include a lack of knowledge, limited capacity, or willingness to handle compliances and licensing, and the inability or reluctance to meet entitlement costs. In an attempt to encourage formalization, the Udayam Portal was introduced in 2020.

However, despite this initiative, only 13 million out of the 63 million MSMEs in India have registered on the portal, underscoring the persistent hurdles in the path to comprehensive formalization (Government of India, 2017).

Significant gender gaps exist in technology access and usage. 32% of enterprises stated that they did not use internet in the past year while 68% have used it (MoSPI, 2011)⁹¹. Among women-owned enterprises, however, only 5% have used the internet and this figure is even lower among own-account enterprises. Overall, there is an 11% gender gap in mobile ownership and a 40% gender gap in smartphone ownership and in mobile Internet, respectively (GSMA, 2023). Similarly, according to a recent survey conducted by ICRIER⁹² only 20% of women-owned enterprises have access to a computer and only 2% of women-owned own-account enterprises (ICRIER, 2023).

The adoption of digital payments in India has witnessed a remarkable surge, propelled by the COVID-19 pandemic. The growth in India's mobile phone market with an increase of mobile internet users from 290 million users in 2015 users to 557 million users in 2022 alongside the effects of the COVID-19 pandemic, have strongly influenced digital payment adoption in India (GSMA, 2022). The Digital Unified Payments Interface transactions have notably spearheaded the adoption of digital payments, contributing to a substantial 75% of the total transaction volume in the retail sector during the fiscal year 2022-23 (PwC, 2023). The impact is particularly evident in businesses, with varying daily payment volumes depending on the location. According to a study by MicroSave Consulting that looked at data from 50 informal microenterprise financial diarists⁹³, in metropolitan areas, the acceptance of digital payments can reach as high as 90%, underscoring the widespread embrace of this convenient mode of transaction. In tier 2 or 3 cities, the adoption rate hovers around 30% (Omidyar Network India; MicroSave Consulting, 2022). However, this is much less for women-owned microenterprises. Penetration of digital payments is only 1%. This is partly attributed to the fact that over half of the women-entrepreneurs do not own mobile/smartphones (IWWAGE; KREA Univeristy, 2020).

MSMEs are increasingly leveraging e-commerce platforms. A survey conducted by the Indian Council for Research on International Economic Relations (ICRIER) sampled 2 007⁹⁴ between November 2022 and January 2023 reveals that nearly 50% of microenterprises included in study had joined e-commerce platforms during or after 2020. With respects to gender dynamics, 45% of women-owned enterprises are integrated with e-commerce platforms as opposed to 50% of male-owned enterprises (ICRIER, 2023). As visible in Figure 5, the integration of e-commerce by MSMEs in India is primarily driven by the pursuit of increased sales. The COVID-19 pandemic, serving as a catalyst for digital transformation, follows closely at 48%, reflecting the

⁹¹ Internal analysis of 73rd NSS survey on unincorporated non-agricultural enterprises (excluding construction) with sample size of 290,113 enterprises (no information on split of size available but 84% of unincorporated non-agricultural enterprises under survey coverage were own account enterprises).

⁹² Survey of 2007 MSMEs conducted by ICRIER in between Nov'22-Jan'23. 65% of the firms were micro in size, 19% were small, and the remaining 16% were medium based on the national definition of MSMEs in India. 63% of the 63% of the included firms have less than 10 employees and 28% have 10-50 employees. The remainder of firms has more than 50 employees.

⁹³ Selection of 25 microenterprises for this research from five locations; 24 of these were informal microenterprises and selection of 25 corner shops. No further information on size available.

⁹⁴ 65% of the firms were micro in size, 19% were small, and the remaining 16% were medium based on the national definition of MSMEs in India. 63% of the included firms have less than 10 employees and 28% have 10-50 employees. The remainder of firms has more than 50 employees.

adaptability of MSMEs in navigating the challenges posed by the global health crisis. Additionally, building better market linkages and scaling up business operations emerge as noteworthy motivations for migrating towards e-commerce. The primary hurdle to the widespread adoption of digital technologies and e-commerce among MSMEs is lack of knowledge, as mentioned by 43% of respondents, followed by 14% stating the lack of ability to return products. Another study highlights that the use of digital technologies among India’s MSEs is largely restricted to the younger population and that informal enterprises tend to believe that for their small scale of business operations, manual systems of book-keeping are adequate. Moreover, the ultra-local nature of these businesses and the small scale of their operations discourages them from using e-commerce platforms to grow their businesses (MicroSave Consulting, 2022).

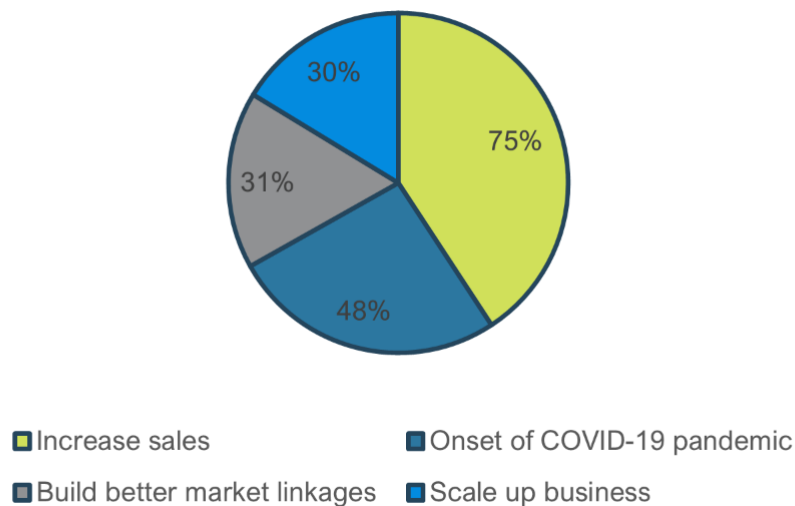


Table 11: Reasons for integration with e-commerce platforms

Source: ICRIER 2023

Business and social networks are essential to the functioning of any enterprise. Business networks refer to groups of interconnected companies that facilitate the exchange of goods, services, information, and resources among network participants. The connections among the network participants enable collaboration, knowledge sharing, and business opportunities. Examples of business networks in India include the Federation of Chambers of Commerce and Industry; Confederation of Indian Industry; National Association of Software and Service Companies; Federation of Small and Medium Enterprises (Klyver & Hindle , 2014) .However, only formal enterprises, and a fraction at that, join local associations that then join federations such as FISME. Federations like FISME have their own exclusions. For instance, only manufacturing and services associations are allowed membership into FISME while explicitly excluding traders (Federation of Indian Micro and Small & Medium Enterprises, 2023). Most enterprises are unregistered, and their size suggests that they are subsistence enterprises (Centre for Sustainable Employment , 2019). By extension, this also means that these unregistered enterprises are neither allowed membership into recognized business networks that only enroll registered businesses, nor do they want to be made visible through registration.

MSE finance landscape overview

Financing needs are primarily met through self-financing. The estimated debt demand for MSMEs in India stands at a substantial USD 1.1 trillion (International Finance Corporation, 2018). According to a recent financial diary exercise, the demand for credit among micro and nano entrepreneurs⁹⁵ is dominated by the need for working capital over a short period of time to diversify their product offerings, replenish stocks, and navigate unforeseen challenges, such as external shocks like the COVID-19 pandemic and other health emergencies (MicroSave Consulting, 2022). According to overall credit supply estimations, more than 80% of the credit supply stems from informal sources, comprising self-financing, assistance from family and friends, as well as loans from moneylenders and chit funds and only 16% from formal sources such as commercial banks, government institutions and Non-Bank Financial Institutions (International Finance Corporation, 2018). The share of public sector banks' loans to microenterprises has reduced in the past two years, while private sectors banks have the highest market share in loan disbursement to both micro and small enterprises with a share of 39% for the first quarter of 2023 for microenterprises (Small Industries Development Bank of India, 2023). Self-financing is dominant with 78% of non-agricultural establishments⁹⁶ stating that they rely on self-financing as their main source of financing (Government of India, 2016). The prevalent reliance on informal channels suggests a significant gap in the formal credit system. However, organizations like MFIs and SHGs play a critical role in stepping into these gaps. SHG's are informal groups of people who meet to tackle their shared problems. SHG savings linked to banks as well as loans disbursed to SHGs by banks have increased significantly in 2021-2022 with loans being disbursed to SHGS increasing from INR 776.6 billion in 2019-2020 to INR 997.3 billion in 2021-2022.

Start-up financing is also mainly based on personal funds and savings. According to a 2016 ADBI survey of 85 entrepreneurs⁹⁷, the main source of start up financing is personal funds and savings, as visible in Figure 13 below (ADBI, 2016). Moreover, an ongoing study on the impact of credit on nano-enterprises⁹⁸ found that because of the lack of seed capital, the majority of the proprietors bootstrap their enterprises from their own savings (69%), and a little more than one-third of the enterprises also received support from family or friends (37%) (KREA University, 2023).

⁹⁵ Financial diaries maintained by 50 micro and nano entrepreneurs across India. Selection of 25 microenterprises for this research from five locations; 24 of these were informal microenterprises and selection of 25 corner shops. No further information on size available.

⁹⁶ Census data with a total number of 43,363,786 non-agricultural establishments of which 95% have less than 6 workers and 0.7% has more than 20 employees.

⁹⁷ 45 micro and 33 small enterprises; 16.5% in startup phase with less than 3 yrs in operation

⁹⁸ Sample size: 2,215 nano enterprises (hyperlocal urban/semi-urban shop-based businesses) across seven states in India.

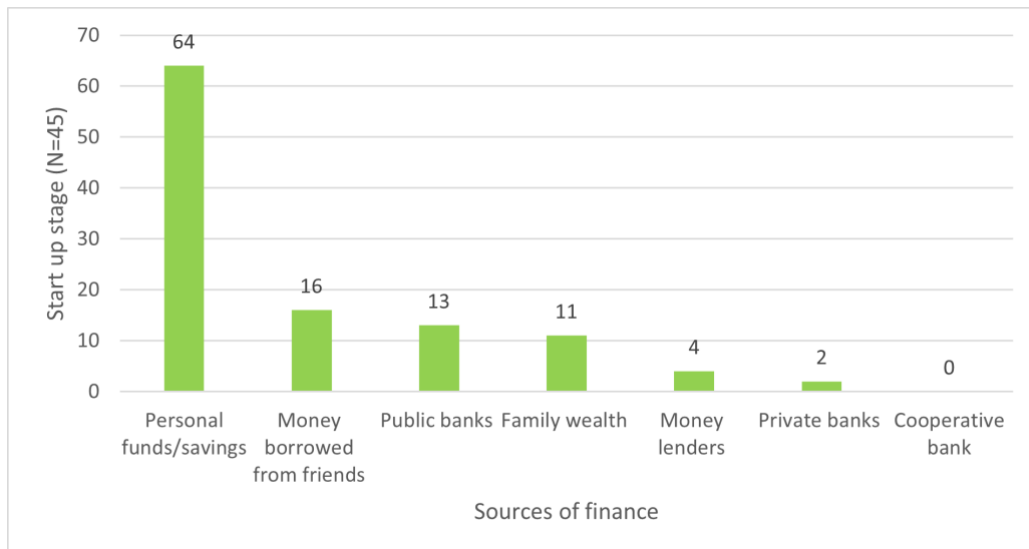


Figure 13: Main source of start-up financing

Source: ADBI 2016

Women-owned microenterprises also rely predominantly on self-financing.

Nearly 80% of women-owned enterprises⁹⁹ rely on self-financing, and only 1% on financing from financial service providers, as highlighted in Figure 14 below. Conversely, women account for only 8% of the bank credit in India (including MFIs, Self-Help Groups (SHG), and joint liability groups) (RBIH Whitepaper, 2022). As a result, the financing gap for women-owned enterprises is estimated to be USD 20.52 billion (IFC, 2019).

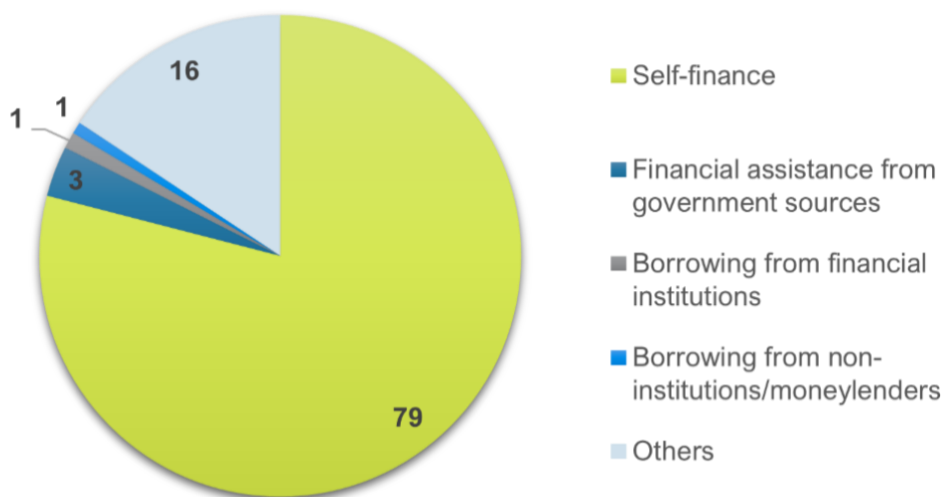


Figure 14: Percentage distribution of women-owned enterprises by major source of finance

Source: 6th Economic Census

⁹⁹ Census data with a total number of 8,050,819 women entrepreneurs with 83% being own-account enterprises.

Female entrepreneurs face a range of challenges, preventing them from accessing formal credit. Women-owned small businesses face higher borrowing costs, get shorter-term loans, and have a higher rejection rate of 19%, as compared to 8% for men¹⁰⁰. Moreover, according to a study on women-owned microenterprises¹⁰¹ across 10 states in India, key demand-side barriers that women face in accessing credit are poor experiences with banks, lack of collateral, a lack of required documentation and a lack of credit history. Additionally, low awareness and poor confidence to use financial services, socio-cultural norms and the time and energy involved in accessing credit from formal sources collectively impede women-owned microenterprises from leveraging available credit opportunities (MicroSave Consulting, 2023). From a supply-side perspective, there is a lack of products and services designed for women entrepreneur's needs with commercial banks not prioritizing female entrepreneurs and a lack of gender-disaggregated data in the financial sector further prevents commercial banks from designing products that meet the needs of female entrepreneurs (MicroSave Consulting, 2023; Women's World Banking, 2023). As a result, 43% of female entrepreneurs against 26% of male entrepreneurs cited an inability to access credit as a reason for discontinuing their businesses. Credit received by women comprises only 27% of the deposits they contribute, while the credit received by men is 52% of their deposits. Only 5.2% of the total credit outstanding that all Public Sector Banks provided to MSMEs belongs to women-led MSMEs (MicroSave Consulting, 2023).

Gender gaps in bank account usage remain. In light of the considerable reliance on self-financing, examining the usage of bank accounts for savings becomes a pertinent aspect to explore. According to the latest Findex Report, the gender gap in account ownership has reduced from 20% in 2014 to zero in 2021 (World Bank, 2021). Yet a recent study on a pilot product introduced by Women's World Banking in collaboration with a large public sector bank shows that a gender gap in actively depositing savings remains, with only 15% women compared to 32% of men actively depositing savings (Women's World Banking, 2023). However, when women use their account, they have on average a 30% higher account balance than men.

A range of stakeholders are specifically targeting women entrepreneurs. Government initiatives play a pivotal role in the women entrepreneur financing ecosystem, with programs like MUDRA Yojana, Stand-Up India, and NSDC facilitating access to loans and credit facilities specifically tailored for women-owned micro and small enterprises (MicroSave Consulting, 2022). In addition to government initiatives MFIs emerge as instrumental entities, particularly in rural and semi-urban areas. Notable examples, such as Chaitanya Microfinance, highlight the significant role of MFIs in providing customized financial services to women micro-entrepreneurs (RBIH Whitepaper, 2022). Complementing these efforts are women-centric banks and schemes, both government and private, exemplified by institutions like Mann Deshi Mahila Sahakari Bank, which cater to the unique financial needs of small women-

¹⁰⁰ Based on a survey with 605 women-owned enterprises and 122 male-owned micro level firms in rural and urban India across six states

¹⁰¹ Qualitative insights from in-depth interviews with 40 individual and 10 collective women-owned microenterprises across 10 states in India. On average, the enterprises in the sample have a credit requirement of INR 200,000-500,000 (2400-6000 USD).

owned enterprises through targeted savings and credit schemes. Furthermore, the support network extends to grassroots levels through SHGs, cooperatives, and NGOs. Organizations like SEWA actively mobilize and empower women workers while providing financial assistance aligned with their specific needs, thereby fostering women's empowerment within their communities (IWWAGE, 2021). The NRLM program is a major source of credits for rural-based female entrepreneurs. 38 million members of SHGs that form part of the NRLM program have an outstanding loan with an average size of 640 USD as of 2023 (BMGF, 2023).

MSE data landscape overview

Large number of recent publications available on India's MSMEs. Table 12 provides an overview on the publications and datasets that have been identified for India. It is critical to note that given the breadth of literature on MSMEs in India, a more rigorous selection approach has been adopted for India than for Uganda and Kenya. The publications have been selected based on their relevance to the growth of women-led nano or microenterprises and their access to credit. Another core selection criteria was the quality of the research gauged on the basis of the publication institutions, the uniqueness of the insights, the national and regional focus, and the year of the publication. Based on this selection approach, a total number of 91 publications and datasets has been included in the data library of which 63% are less than five years old.

Number of publications	91
Proportion of publications that are less than five years old	63%
Topic that is covered the most [% of publications that covers it]	Women's entrepreneurship [40%]
Proportion of publications that used a quantitative methodology	30%
Proportion of publications that used a qualitative methodology	20%
Proportion of publications that used a mixed methodology	20%
Proportion of publications with a focus on women-owned enterprises	41%
Proportion of publications with a focus on microenterprises	33%

Table 12: Overview of India data library

Women's entrepreneurship is well covered by publications but certain gaps in the analysis remain. Women's entrepreneurship emerges as a focal point within the data library, constituting 40% of the topics covered and 41% of the included publications have a specific focus on women-owned enterprises. However, additional analysis is required to understand motivations of women nano entrepreneurs beyond their financial needs, ways to overcome barriers to access formal finance and to further unpack factors that determine success of women-owned microenterprises, especially nano enterprises. Research is also needed on the degree of formality of women-owned enterprises, how aware women are of formalization and its benefits, and how formalization impacts the scale of operation and access to credit.

Analysis is also needed to further understand the sector of operation of women-owned enterprises. While many datasets to collect information on urban or rural location, further breakdown of the premises of operation, number of workers, and size of enterprises is essential to understand the level of sophistication of women-owned enterprises, and the barriers faced by rural and urban women entrepreneurs.

Large-scale datasets focus primarily on business characteristics. All eight segmentation dimensions are covered within the data library, as visible in Table 13 (household surveys are highlighted in grey). Core insights emerging are:

- A high degree of granularity and coverage is observed in terms of the level of business sophistication dimension especially in the large-scale government-administered datasets.
- Analysis is also needed to further understand the sector of operation of women-owned enterprises.
- Many datasets to collect information on urban or rural location, further breakdown of the premises of operation, number of workers, and size of enterprises is essential to understand the level of sophistication of women-owned enterprises, and the barriers faced by rural and urban women entrepreneurs.
- Access to different kinds of credit is also a critical variable that occurs repeatedly in different studies and datasets.
- Clear gap in terms of large-scale studies that focus on the mindset, the abilities of entrepreneurs, the access to networks and the family structure within the small and microenterprise sector.
- Lack of large-scale data on the usage and impact of financial services on women-owned nano and microenterprise and more insights are required on behavioural interventions to promote the use of financial services among women.

Institution (Name of dataset)	Core dataset information	Sample size	Includes rural enterprises	Mindset	Entrepreneurial ability	Business sophistication	Networks	Size	Sector	Location	Role of business owner in the HH
Development Commissioner, Ministry of Micro, Small and Medium Enterprises (Fourth All India Census of Micro, Small & Medium Enterprises 2006-2007)	Year and frequency: 2011 [1977, 1988, 2002] Accessibility: Available	2,378,000 MSME	Yes	None	Source of Technical Know-how	<ul style="list-style-type: none"> Type of organization No. of Exporting Units Registration status Operations status Number of products Source of power 	Source of Finance	<ul style="list-style-type: none"> Fixed Assets Original value of plant and machinery 	Detailed economic activity	Region	None
Central Statistical Organization (Sixth Economic Census)	Year and frequency: 2016 [1977, 1980, 1990, 1998, 2005] Accessibility: Freely available	58,495,359 establishments	Yes	None	None	<ul style="list-style-type: none"> Nature of operation Ownership type 	Membership in Self Help Groups	Number of employees	High level sector categories	None	None
Ministry of Statistics and Programme Implementation, Government of India (All-India survey on unincorporated non-agricultural enterprises (excluding construction))	Frequency and year: 2017 [2011] Accessibility: Available upon purchase	290,113 enterprises	Yes	Not for profit	<ul style="list-style-type: none"> Use of internet Use of computer 	<ul style="list-style-type: none"> Ownership type Nature (Seasonality) of operation Type of registration Access to waste management Source of raw materials 	<ul style="list-style-type: none"> Access to informal credit Membership in SHG 	<ul style="list-style-type: none"> Market value of fixed assets Number of employees Own-account enterprises Annual net value added Value of owned fixed assets 	Detailed economic activity	<ul style="list-style-type: none"> Urban-rural distinction Enterprise location 	Role of family members in the enterprise

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Institution (Name of dataset)	Core dataset information	Sample size	Includes rural enterprises	Mindset	Entrepreneurial ability	Business sophistication	Networks	Size	Sector	Location	Family structure
International Journal of Economics and Financial Issues (Gender and Entrepreneurship: Motivational Factors for Women Entrepreneurs in India)	Frequency and year: Once off; 2023 Accessibility: Not available	300 women-owned unregistered enterprises	No	Motivation	<ul style="list-style-type: none"> Level of education Ability 	<ul style="list-style-type: none"> Business registration Lifecycle stage 	Access to Financial Support System	<ul style="list-style-type: none"> Size of enterprise Source of capital 	None	<ul style="list-style-type: none"> State District 	<ul style="list-style-type: none"> Marital status Caste
Google and Bain & Company (Powering the Economy with Her: Women Entrepreneurship in India)	Frequency and year: Once off; 2020 Accessibility: Potentially available upon request	1,100 women entrepreneurs; IDIs with 60 women entrepreneurs	Yes	<ul style="list-style-type: none"> Motivation Aspirations 	<ul style="list-style-type: none"> Business skills Digital readiness 	<ul style="list-style-type: none"> Type of market served 	<ul style="list-style-type: none"> Access to networks Access to financial support systems 	<ul style="list-style-type: none"> Turnover Number of employees Own-account enterprises 	None	Urban – rural distinction	None
Women's World Banking (From Access to Use: Insights on Serving Women Banking Customers in India)	Frequency and year: Once off; 2023 Accessibility: Potentially available upon request	5,976 individuals	Yes	None	<ul style="list-style-type: none"> Attitude towards finance Digital readiness Savings behaviour Borrowing behaviour Financial literacy Decision-making ability Level of education 	None	<ul style="list-style-type: none"> Access to financial support system Personal access to finance 	<ul style="list-style-type: none"> Annual income Annual savings 	None	<ul style="list-style-type: none"> Urban-rural distinction State District 	None

Institution (Name of dataset)	Core dataset information	Sample size	Includes rural enterprises	Mindset	Entrepreneurial ability	Business sophistication	Networks	Size	Location	Sector	Family structure
MicroSave Consulting (Voices of India's MSMEs: Insights notes from The Diaries Edition 1: Business Finance and Adoption of Digital Technologies)	Frequency and year: Financial diaries; 2022 Accessibility: Potentially available upon request	50 microenterprises	No	None	<ul style="list-style-type: none"> Level of education Adaptability Digital readiness Business management skills 	<ul style="list-style-type: none"> Constraints to growth Access to finance Use of technology Recordkeeping Type of market served 	<ul style="list-style-type: none"> Access to financial support systems 	<ul style="list-style-type: none"> Size of enterprise Income from business Business expenses Savings Loans taken 	<ul style="list-style-type: none"> Enterprise location Urban-rural distinction 	Detailed economic activity	Marital status
National Bank for Agriculture and Rural (NABARD All India Financial Inclusion Survey (2016-17))	Frequency and year: 2018 [Once off] Accessibility: Potentially Available upon request	40 327 households	Yes	None	<ul style="list-style-type: none"> Financial knowledge Financial behavior Financial literacy Educational status Receipt of vocational training 	<ul style="list-style-type: none"> Nature of enterprise 	<ul style="list-style-type: none"> Loan from non-institutional sources Source of funds for investments Membership in MFIs 	<ul style="list-style-type: none"> Savings Investment made Number of household members employed 	<ul style="list-style-type: none"> Urban-rural distinction Enterprise location 	Detailed economic activity	Head of household

Institution (Name of dataset)	Core dataset information	Sample size	Includes rural enterprises	Mindset	Entrepreneurial ability	Business sophistication	Networks	Size	Location	Sector	Family structure
Small Industries Development Bank of India (The FinScope Consumer Survey India)	Frequency and year: 2015 [Once off] Accessibility: Potentially Available upon request	16 000 households	Yes	None	<ul style="list-style-type: none"> Ability to use communication channels Education status 	None	<ul style="list-style-type: none"> Financial support from friends and family Access to non-institutional sources of credit 	<ul style="list-style-type: none"> None 	Urban-rural distinction	Broad economic activity	<ul style="list-style-type: none"> Marital Status Role of family members in financial decisions Gender of head of household
Ministry of Statistics and Programme Implementation, Government of India (Annual Survey of Industries)	Frequency and year: 2022 [Annual] Accessibility: Available upon purchase	77 737 113 enterprises	Yes	None	R&D Unit	<ul style="list-style-type: none"> Use of surplus Access to technology Tax paid 	None	<ul style="list-style-type: none"> Number of employees Turnover Profit Gross sales value Total production cost Role of family members in the enterprise 	Urban-rural distinction	None	
Department of Industries and Commerce, Government of Telangana (Telangana Industries MSME Data)	Frequency and year: 2023 [Monthly] Accessibility: Freely available	325 enterprises	No	None	None	<ul style="list-style-type: none"> Ownership type Investment amount Export 	None	Number of workers	District	Detailed economic activity	None

Table 13: Overview of core quantitative MSE datasets identified

MSE segmentation recommendations

Chapter 2 has outlined in-depth which parameters shape MSE resilience and growth, and which parameters are suitable for a nuanced but also simple MSE segmentation. In reference to these identified eight segmentation dimensions, the country deep dives on Kenya, Uganda and India captured in Chapter 3 provide further nuances on identified dimensions and on which proxies are feasible for each of them given the current data availability. Building on the insights from Chapter 2 and Chapter 3, Chapter 4 synthesizes them to provide core recommendations on a robust and actionable framework for understanding and addressing the dynamics of MSEs in the designated focus countries through segmentation.

Development of archetypes

Objectives of developing archetypes. The outcome of a segmentation exercise is typically not only the market sizing of different segments but also the development of archetypes of MSEs. Archetypes can serve as analytical tools to enable a more in-depth understanding of behaviour by focusing on central segmentation dimensions that influence other patterns, sentiments and attitudes of business owners and businesses and allow for a meaningful comparison across different contexts, decisions, and behaviours. In the context of MSE segmentation, archetypes can be leveraged to characterise types or groups of MSEs, in a way that establishes meaningful differences in their behaviours. Thus, the development of archetypes can be critical to enable targeted product development and to illustrate the potential for financial service uptake for each segment.

Relevance of country nuances when considering segmentation dimensions. Archetypes can be based on a variety of variables and behaviours, typically identified through the research process. Overall, the findings from the three country deep dives further underscore the importance of the eight identified segmentation dimensions for unpacking the different financing needs and financial behaviours of MSEs. Especially, the relevance of access to networks as a core source of financial and non-financial knowledge and assistance has come through strongly across the three countries in the context of women-owned enterprises but also is less widely considered in existing segmentation approaches. Additionally, it brings to light a vital insight – the sectoral distribution of MSEs varies significantly across countries, impacting the relevance of sector-specific segmentation. In Uganda and Kenya, the vast majority of MSEs, especially women-owned nano and microenterprises, are operating in the trade sector whereas in India, there is a wider spread across different industries. This implies that for Kenya and Uganda, a sector-specific lens might not add much additional value whereas for India it most likely would, pointing towards the importance of a contextualized approach towards MSE segmentation.

Core considerations for developing archetypes. The archetypes can be developed by combining the selected segmentation dimensions together and seeing which types are likely to exist, taking into account the likely strong interdependencies between the different segmentation dimensions. For instance, certain types such as an enterprise with low ability and low motivation but a high level of business sophistication seem rather unlikely and could be excluded from the typology framework as a primary archetype. Other things to look at include the differentiation between leading segmentation dimensions that are used to come up with a smaller number of primary archetypes and then a further segmentation of those primary archetypes based on additional dimensions to get more granular and specific. Consumer research can be critical in further nuancing the development of archetypes by ensuring that the identified archetypes are grounded within the reality of MSEs within a particular country and across countries. Moreover, leveraging the existing datasets within each country can help to shed further light on the characteristics of each archetype and the number of MSEs that fall within a particular archetype. The business owner and business characteristics explored in chapter 2.1 can guide which characteristics should be explored for each archetype.

Four archetypes emerge which should be further explored. Figure 15 provides an overview of four archetypes which have been informed by the literature and the KIs and are considered to be useful for segmenting the women-owned nano and microenterprise sector. The three segmentation dimensions on which the four archetypes are based are the entrepreneurial ability of the business owner, the mindset of the business owner and the level of business sophistication. These three have been selected as they seem to be of particular importance for nano and microenterprises. While access to networks and the role of the business owner in the household are important indicators for MSE resilience and viability for borrowing, especially among women-owned enterprises, there is only limited evidence from studies on how they play out and how they interact with the other dimensions. Therefore, these dimensions have not been included yet in the development of the archetypes, but it is strongly recommended to further explore these dimensions with regards to their implications to MSE segmentation. For instance, it will be interesting to explore how decisions are made by women who own businesses that are supported by their husbands, as these dynamics impact the motivation, decision-making process, growth of business, and also which financial services to access. The other dimensions such as location, sector and business size are often correlated with the three selected segmentation dimensions but should nevertheless be further explored through future research as well.








	Survivalists	Go-getters	Aspirers	Expanders
				
 Ability	Low	Low	Medium	High
 Motivation	Low	Medium	Medium	High
 Level of business sophistication	Low	Low	Medium	High
Segment description	The survivalists are using the business as an additional source of income for their household and to channel their business income into their household income. If given a choice, the survivalists would likely prefer to have a job with someone else than running their own business. They typically operate from their home or from non-permanent structures , do not hold business records and do not employ any paid workers. They typically struggle to use technology and have low business management skills.	The go-getters might have started their business primarily as a means of survival but are now moving away from that and want to expand their business and grow it into something bigger and sustainable in the long-term. Similar to the survivalists, they typically struggle to use technology , have low business technology skills and they typical operate from informal structures or from their home and do not employ any paid workers. However, they are increasingly looking into how to best access advice and training to improve their abilities and are reinvesting some of their business income into their business.	The aspirers want to run their own business , but their current business might not really align with their actual skills set and is more born out of grabbing an opportunity that came up. However, they are using their business to further build their business skills and to learn how to run a more formalised business. To this end, they have adopted more sophisticated business practices such as record keeping and having a more stringent differentiation between their business and their personal finances.	The expanders are often motivated by meeting an unmet demand in the market and to leverage their skills to fill it. They have hired one or two paid workers and want to further expand their business while also strengthening its resilience. To achieve this, they have started developing business plans , they keep records of their business and are separating their business and personal finances and are likely to operate from dedicated commercial premises. They are often digital savvy and are leveraging technology to achieve their business goals. They might not have registered their business, depending on the trade-offs related to business registration in the country that they are operating in.

Figure 15: Archetype examples based on three of the identified segmentation dimensions

Assessment of proxies per segmentation dimension

In order to conduct the segmentation of MSEs along segmentation dimensions, core proxy variables that can be leveraged for the segmentation need to be identified. Figure 16 gives an overview of the most available proxies per country and outlines desirable proxies which have been identified through KIIs with experts in the field and the literature review findings. The colour of the outline of the available proxies per country indicates in how many of the core datasets per country the respective proxy variable is included. A comparison between the different countries reveals a noticeable relative lack of data in Uganda, particularly regarding the mindset of business owners, access to networks, and family structure. This aligns with the broader assessment that the data gaps for MSEs are the most prevalent in Uganda

out of the three focus countries. Additionally, it becomes apparent that the level of business sophistication and entrepreneurial ability are relatively well covered across the three countries.

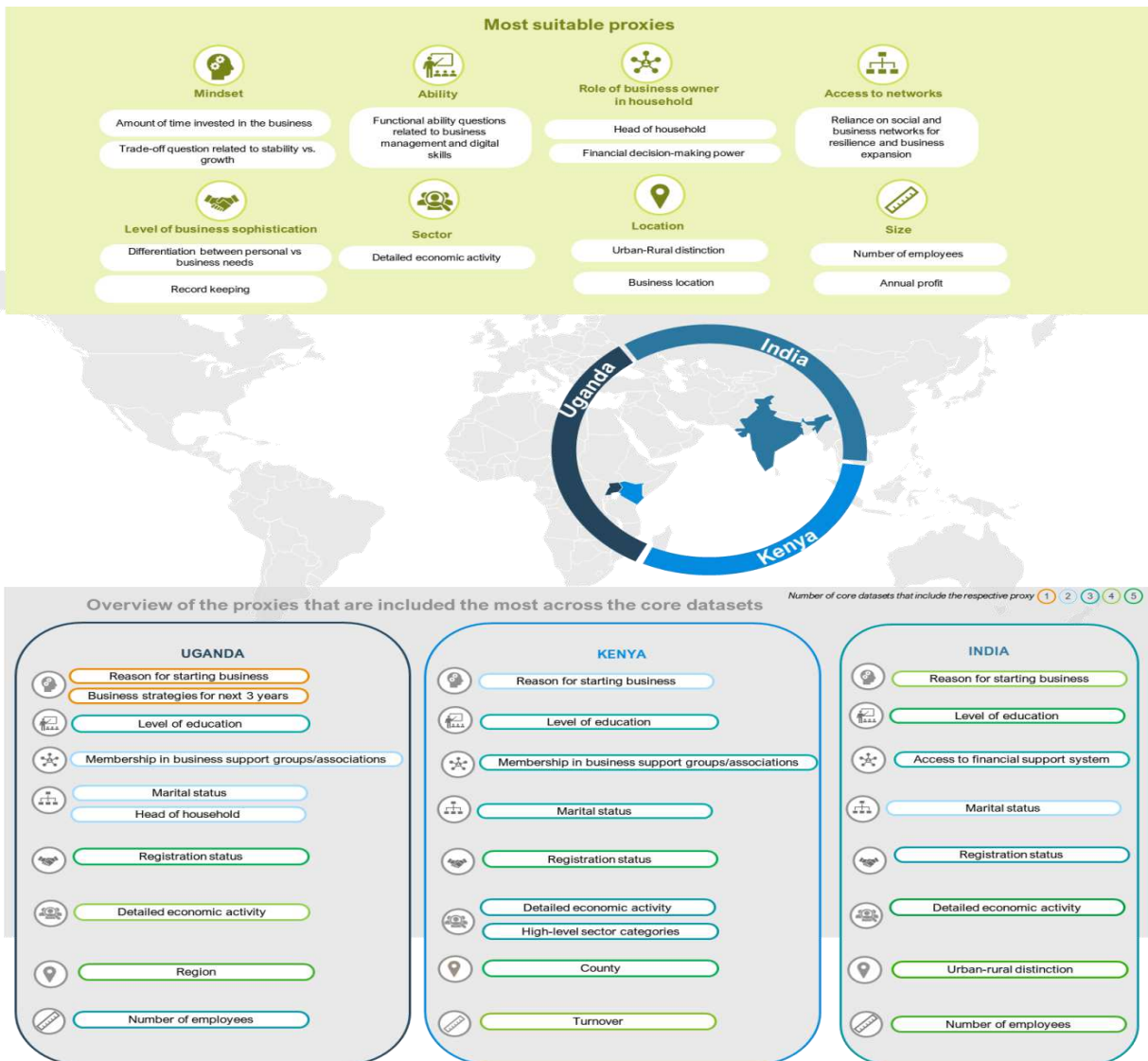


Figure 16: Overview of the most available proxies and the most suitable proxies per segmentation dimension

However, it is crucial not only to consider the availability of proxies but also to assess their suitability in capturing the essence of the respective segmentation dimension. Below we are discussing for each segmentation dimensions which variables would be most suitable for capturing the essence of the respective dimension and which variables are actually available:

- **Mindset:** Overall, the reason for starting a business is the proxy variable that is most often included in datasets. While this variable captures the original mindset of the business owner, it may not accurately reflect their current mindset. Moreover, the quality of this proxy variable differs between surveys that only

provide business owners with two or three broad categories of mindsets to choose from which might not allow for sufficient level of detail. Alternatives that could be integrated in future into surveys are the amount of time invested in the business to reflect on how important the business development is for the business owner as well as trade-off questions where the business owner has to decide between different scenarios that, for instance, refer to stability of the business vs. growth of the business trade-off scenario. This would enable a more dynamic understanding of the entrepreneur's mindset. For instance, the study conducted by IIWAGE on women-owned home-based entrepreneurs in India captured the risk and loss-taking preference of the respondents by playing a game with hypothetical scenarios that were based on monetary incentives to understand how the participants may respond to stressful or risky business decisions (IIWAGE; KREA Univeristy, 2020).

- **Entrepreneurial ability:** The level of education of the business owner is widely covered across datasets and countries. However, the level of formal education is often not a good indicator to judge the actual entrepreneurial ability of a business owner to successfully manage and grow their business. The level of formal education is generally low among business owners of nano and microenterprises and functional abilities of the business owner in terms of their business management and digital skills are deemed to be significantly more important. Therefore, it should be considered how questions related to the entrepreneurial ability of business owners to implement certain business practices such as their negotiation skills, price setting skills, knowing which goods/services are most profitable, and using business records could be integrated into surveys (see Box 9 below). Also, digital skills are important to keep in mind given the growing importance of digital sales channels and also the importance of being able to use digital financial services.

Box 9: Business practice score

The business practice score is a metric developed to measure key operational aspects in the day-to-day management of small businesses. Derived from a set of 26 questions aligned with the International Labour Organization's business training curriculum, these questions cover practices such as marketing, buying and stock control, costing, record-keeping, and financial planning. The questions focus on universally beneficial "best practices," applicable across various sectors and countries. The closed-ended questions are designed for inclusion in large-scale surveys conducted with small business owners, administered by survey enumerators. To reduce subjectivity, binary measures are employed, indicating whether a firm is implementing a particular practice within a specified time frame. The business practices score is defined as the proportion of the 26 practices adopted by a firm, providing a standardized metric that ranges between 0 and 1. This scoring method facilitates easy interpretation and comparison of practices, ensuring robustness across different aggregation approaches. The business practice score entails the following dimensions: marketing; buying & stock control; costing & stock control and financial planning.

- **Level of business sophistication:** The registration status is a commonly captured variable in surveys. While registration documents are often a prerequisite for enterprises to obtain formal sources of credit, they may not

necessarily be a good proxy of the actual level of business sophistication. Business owners are adept at navigating the registration landscape in their respective countries, weighing the costs of registration against the benefits of it for their businesses. The outcome of this evaluation is heavily influenced by the context of each country. For instance, in Kenya, the county permit is significantly more widely adopted by MSEs than the national registration. Based on the country deep dive insights, we suggest that a good differentiation between formal vs. informal is whether a business is registered with/has a permit from a government institution, irrespective whether that is at a national or at a provincial/district level. Moreover, alternative proxy variables related to record-keeping practices may offer a more suitable proxy for measuring the level of business sophistication as they assess the commitment of the business owner to formalize their business management processes. It would also be advantageous to more robustly capture whether businesses differentiate between personal and business needs. Overall, the business sophistication indicator allows to unpack further dynamics regarding the formality and sophistication of businesses.

- **Access to networks:** While current surveys capture network-related indicators such as financial support systems and association memberships, the tangible reliance on these networks remains unexplored. Future investigations should delve into in which situations businesses rely on which type of networks. There are several reasons to why MSMEs to be part of a bigger network, whether it is SHGs, association memberships, or informal networking groups. MSME owners tend to turn for support from these groups when it comes to financial and social support, business growth (Trust Africa, 2012), to gain information about new technologies, customers/markets, suppliers and for information about access to business training (FSD Uganda, 2015).
- **Role of the business owner in the household:** The survey landscape commonly captures marital status but overlooks the crucial aspect of whether the woman is the head of the household and her role and power in the financial decision-making of the household. These aspects hold significant implications for understanding mindset, rendering it a critical segmentation dimension in the context of women-owned enterprises. To determine the role of the business owner in the household, one can look into the level of empowerment that women experience in the household and to which extent they can decide over what happens with their business profits (CARE Uganda, 2023b).
- **Location of the business:** Nearly all datasets provide information about business locations, but they vary significantly in detail. While some offer broad geographic categories such as regions or counties, they often lack the simple urban versus rural distinction which can help to easily assess urban-rural dynamics. However, many datasets do also capture the actual business location which not only allows for a granular location-based analysis but also for classifying businesses according to the urban-rural distinction.
- **Sector of the business:** In the realm of business sectors, broad categories often fall short in providing a nuanced understanding of individual businesses, their risk profiles, and financing requirements. For example, a furniture manufacturing business operates differently from one in electronics manufacturing. While many datasets offer detailed information on economic activities, others provide only a high-level overview of sectoral operations. However, more detailed distinctions within sectors would greatly benefit MSMEs seeking access to credit by allowing lenders to better discern their unique needs and tailor financial solutions accordingly.

- **Size of the business:** When it comes to business size definitions, a wide range of business size definitions exists globally. Among the 267 existing definitions used by different institutions, number of employees is the most widely used (92%) MSME size definition (Cenfri, 2020). While the specific number of employees may not be as critical, a significant distinction lies between enterprises with no paid employees which often relates to a more survivalist mindset and those that have at least one paid employee. The number of employees, however, can be very fluctuating which can make it hard to assess the size of a business purely based on this. The second most common definition takes the number of employees, turnover and assets into consideration in defining the MSME size. The least used definition is defining MSME size according to solely turnover (Cenfri, 2020). Other relevant proxies to determine the size of an enterprise include asset size and market value, and annual and monthly sales. When it comes to distinguishing between nano and microenterprises, there is a lack of a formal definition for nano enterprises. The Michael & Susan Dell Foundation and IFMR Lead define nano enterprises in an Indian context based on annual turnover (approx. USD 12,000-120,000) (LEAD at KREA University, 2023). The lack of standardized definition of MSME size did also become apparent during the literature review, as can be seen in Box 10. Further research will be needed to determine which variables are most appropriate for distinguishing between nano vs. micro vs. small enterprises and which cut-offs should be used.

Box 10: Business size

The table below outlines the most prominent size definitions of MSMEs in Kenya, Uganda and India based on the literature review for the respective country.

Table 14: Overview of MSME definitions based on the literature review

Kenya	Uganda	India
<p>National definition</p> <p>Microenterprise: annual turnover not exceeding Ksh. 500,000 and employ 1-9 people.</p> <p>Small enterprise: annual turnover between Ksh. 500,000 – Ksh. 5 million and employ 10-49 people</p>	<p>National definition</p> <p>Microenterprise: employing up to 4 people, with an annual sales/revenue turnover not exceeding 10 million Ugandan shillings</p> <p>Small enterprise: employs between 5 – 49 people and has a total asset between 10 million – 100 million Ugandan shillings</p>	<p>National definition</p> <p>Microenterprise: Investment in Plant and machinery or equipment <= INR 10 million & Annual Turnover <= INR 50 million</p> <p>Small enterprise definition: Investment in Plant and Machinery or equipment <= INR 100 million & Annual Turnover <= INR 500 million</p>
<p>FSD Kenya, Central Bank of Kenya, Kenya National Bureau of Statistics</p> <p>Microenterprise: Annual turnover is below KSh 1 million and meets any of the following criteria:</p> <ul style="list-style-type: none"> -Employs less than 10 people - Has total assets as determined from time to time by the Cabinet Secretary. <p>Small enterprise: Annual turnover ranges between KSh 1 million and KSh 5 million and meets any of the following criteria;</p> <ul style="list-style-type: none"> -Employs between 10-50 people - Has total assets as shall be determined from time to time by the Cabinet Secretary 	<p>Federation of Small and Medium Enterprises.</p> <p>Microenterprise: businesses employing not more than 4 people and their total assets and turnover between 1 - 12 million Uganda shillings</p> <p>Small enterprise: employ between 5 and 50 people and total assets and turnover between 12 - 100 million Uganda shillings.</p>	<p>TransUnion CIBIL Limited</p> <p>Very small enterprise: aggregate credit exposure not exceeding ₹ 10 Lakh.</p> <p>Micro 1 enterprise: aggregate credit exposure between ₹ 10-50 Lakh.</p> <p>Micro 2 enterprise: aggregate credit exposure between ₹ 50 Lakh to 1 Cr</p>

<p>Kenya Bankers Association</p> <p>Micro-enterprise: May be formerly registered (but likely not); annual turnover of less than Kshs.1 million; less than 10 employees, up to 5 permanent employees (including the owner), and at least 1 year in business operation.</p> <p>Small enterprise: formerly registered, annual turnover between Kshs.1 million and Kshs. 50 million, asset base of over Kshs. 3 million, a general workforce of between 6 and 30 employees, between 2 and 20 permanent employees, and at least 2 years in business operation.</p>	<p>Journal of Innovation and Entrepreneurship (C.P. Lakuma, R. Marty, F.Muhumuza)</p> <p>Microenterprise: 1–4 permanent employees.</p> <p>Small enterprise: 5–19 permanent employees</p>	<p>Access Development Services</p> <p>Microenterprise: has an enterprise loan of up to INR 2 million</p>
<p>International Labour Organization</p> <p>Microenterprise: maximum of 10 employees</p> <p>Small enterprise: minimum of 11 employees and a maximum of 50</p>	<p>Institute of Advanced Leadership</p> <p>Micro and small enterprises have between 1-15 employees.</p>	<p>LEAD at KREA University</p> <p>Nano enterprise: annual turnover less than INR 10 million</p>

Future data collection recommendations

To enhance the comprehensiveness and efficacy of future data collection efforts, the following recommendations aim to address critical gaps in understanding MSE behaviour:

- Integration of business owner characteristics in government-administered surveys:** Government-administered surveys which often have extensive regional coverage and substantial sample sizes, primarily focus on business characteristics. Recognizing the pivotal role of business owner characteristics in understanding MSE behaviour, is imperative to explore the integration of business owner characteristic-related questions within these surveys.
- Enriching demand-side surveys:** Demand-side surveys, particularly financial inclusion household and business surveys, represent valuable sources for capturing nuanced dimensions such as mindset, entrepreneurial ability, and access to networks. Building on the earlier suggestions regarding more suitable proxy variables for the different segmentation dimensions, these surveys should explore how to more effectively capture these dimensions by adjusting the

existing questionnaires. Moreover, given the importance of self-employment for the livelihood of households, household surveys should make sure to incorporate sufficient questions on business owners to capture those dynamics in sufficient detail.

- **Integration and analysis of diverse data sources:** Exploration into the synergies between private sector datasets and government datasets presents a promising avenue. Transaction data held by FSPs offers a rich source for historical interactions between customers and FSPs. Leveraging this data within the broader MSE segmentation process could significantly enhance the granularity of insights. Additionally, Mobile Network Operator (MNO) and Call Detail Record (CDR) data, along with data from suppliers and providers aggregated by digital platforms, constitute underutilized resources. Integrating and analysing these diverse datasets would provide a more comprehensive understanding of MSE behaviour, consumption patterns, and transactional dynamics.
- **Leveraging government procurement data:** Governments often possess detailed information on MSEs from which they procure services. This data, underutilized in current segmentation processes, holds significant potential, however, it is most relevant within the context of analysing more formalized MSEs.

In conclusion, the strategic integration of business owner characteristics into government-administered surveys, refinement of demand-side surveys, and the exploration of interconnected private and government datasets signify crucial advancements in future data collection exercises. These recommendations, when implemented, have the potential to significantly elevate the precision and comprehensiveness of MSE segmentation, aligning them more closely with the intricate dynamics of the MSE landscape. ^[10]

Conclusion

The financing gap for MSEs remains a persistent challenge, hindering their potential to contribute significantly to employment, growth, and innovation globally. Particularly, women-owned businesses face disproportionate hurdles, encountering obstacles related to collateral, management capabilities, and higher interest rates. This research aimed to enhance the understanding of the MSE landscape, with a specific focus on women-owned microenterprises in Kenya, Uganda, and India and to provide guidance on MSE segmentation dimensions.

Eight core segmentation dimensions have been identified based on a review of existing MSE classification models and literature on MSE finance segmentation – namely, the mindset of the business owner, the entrepreneurial ability of the business owner, level of business sophistication, business location, size of the business, sector of the business, access to networks and the role of the business owner in the household. Based on three (entrepreneurial ability, mindset, and level of business sophistication) out of the eight segmentation dimensions, four archetypes of MSEs have been developed. These archetypes should be further explored and validated through consumer research with a particular emphasis on the dynamics of the other five segmentation dimensions. Especially, further exploration into how access to networks and role of the business owner in the household interact with the proposed archetypes is also strongly recommended. The country analysis finds significant gender-based discrepancies in these latter two dimensions and both may have a significant impact on the potential and realities of women-owned enterprises, as outlined in this report. However, both of these dimensions remain under-explored in the literature.

An analysis of the data landscape within Kenya, Uganda and India reveals that there are opportunities for the segmentation of MSEs based on these eight different segmentations. Especially, the level of business sophistication, business location and business size are well covered. However, core gaps exist in terms of the existence of recent studies and proxies that really capture the actual essence of the respective segmentation dimension, especially when it comes to business owner related variables such as entrepreneurial ability. Addressing these gaps will be imperative for comprehending the unique financing needs and behaviours of this sector. Moreover, any segmentation exercise and subsequent development of MSE archetypes will need to strike the right balance between nuanced segmentation and practical utility for product design. The insights derived from the comparative study of Kenya, Uganda, and India underscore the necessity for adaptable and context-specific segmentation approaches across diverse geographical landscapes.

Annex A: List of interviewed stakeholders

Organisation	Country	Date of KII
usabledata	Kenya	15 November 2023
Financial Sector Deepening Kenya	Kenya	1 November 2023
Kenya National Bureau of Statistics	Kenya	1 November 2023
Financial Sector Deepening Uganda	Uganda	2 November 2023
CARE Uganda	Uganda	26 January 2024
V20	Kenya and Uganda	20 November 2023
ILO	Kenya and Uganda	23 November 2023
Small Firm Diaries	Kenya and Uganda	28 November 2023
FINBIT	Kenya and Uganda	1 December 2023
Centre for Policy Research	India	4 November 2023
Federation of Indian Micro and Small & Medium	India	28 November 2023
ILO	India	13 November 2023
Confederation of Indian Industries	India	20 November 2023
Kudumbashree National Resource Organisation	India	30 November 2023
Women's World Banking	India	09 November 2023
Government of India	India	13 December 2023
USAID	India	20 November 2023
NABARD	India	13 November 2023

Table 15: List of stakeholders interviewed

Annex B: Overview of identified segmentation frameworks

Institution	Year	Geography	Target Group Focus	Methodology	Segmentation criteria used	Developed segments
Collaborative for Frontier Finance	2018	No geographic location	SGBs with 5-250 employees, operating in emerging and frontier markets	Stakeholder interview with investors, analysis of enterprise-level data	<ul style="list-style-type: none"> Market growth and scale potential Product or service innovation profile Entrepreneur behavioural attributes (risk tolerance, impact motivation, growth ambition) 	<ul style="list-style-type: none"> Livelihood-sustaining enterprises. Dynamic enterprises Niche ventures High-growth ventures
Mastercard Center for Inclusive Growth	2018	Mexico	Micro entrepreneurs in urban areas	Survey analysis	<ul style="list-style-type: none"> Level of education Preference for individual loans Predisposition to technology Predisposition to informal financial relations Type of contribution to family income Size of loan Number of clients Average weekly income 	<ul style="list-style-type: none"> Non-strivers Strivers
Bharat Inclusion Initiative	2020	India	MSMEs in rural, semi-urban and urban marketplaces	Survey analysis	<ul style="list-style-type: none"> Risk appetite Business model Profitability Sources of financing for the business 	<ul style="list-style-type: none"> Conformist Strategist Opportunities Adventurer

Institution	Year	Geography	Target Group Focus	Methodology	Segmentation criteria used	Developed segments
IFC	2020	South Africa	Informal and formal MSMEs	Survey analysis	<ul style="list-style-type: none"> • Business maturity • Business formality 	<ul style="list-style-type: none"> • True Survivalist • Growth Survivalist • Rapid Risers • Aspirers • Pragmatic Established • Fully Established
McKinsey	2020	No geographic location	SMEs	Conceptual	<ul style="list-style-type: none"> • Business model • Growth pattern • Company size 	<ul style="list-style-type: none"> • Early-stage innovative start-ups • Established successful start-ups • Growing medium-size companies • Stagnant or struggling medium size companies • Locally focused small businesses • Informal microbusinesses
Women's World Banking	2022	Indonesia	Women-owned microenterprises	Loan disbursement dataset analysis, IDIs, survey analysis	<ul style="list-style-type: none"> • Economic condition • Financial behaviour • Social relationships • Responses to financial situations 	<ul style="list-style-type: none"> • Entrepreneur by necessity • Stable entrepreneur • Growth-oriented entrepreneur
Pulse Lab Jakarta	2021	Indonesia	Women necessity microentrepreneurs	IDIs	<ul style="list-style-type: none"> • Level of comfort and skills in adopting and using technology for business purposes 	<ul style="list-style-type: none"> • Tech anxious • Tech novice • Tech apprentice • Tech practitioner
ILO	2021	No geographic location	MSEs	Conceptual	<ul style="list-style-type: none"> • MSE size • Degree of formalization • Export orientation • Information intensity of the sector 	<ul style="list-style-type: none"> • Microenterprises • Locally oriented small enterprises • Export-oriented small enterprises • Start-ups

Institution	Year	Geography	Target Group Focus	Methodology	Segmentation criteria used	Developed segments
Cenfri	2015	Malawi	MSMEs	Survey data analysis	<ul style="list-style-type: none"> Ability of business owner (education level) Motivation (necessity vs. aspiration) 	<ul style="list-style-type: none"> Survivalist Struggling go-getters Reluctant entrepreneurs Driven achievers
GSMA based on CGAP 2022 and WWB 2022	2023	No geographic location	Women micro-entrepreneurs in low- and middle-income countries	Conceptual	<ul style="list-style-type: none"> Growth orientation Ability Financial behaviour Use of mobile for business 	<ul style="list-style-type: none"> Necessity driven Stable Growth orientated
Finmark Trust	2017	Eswatini	Individuals over 18 years perceiving themselves to be business owners, with businesses with 0-50 employees	Survey data analysis	<ul style="list-style-type: none"> Level of formality Level of record-keeping Number of employees Use of technology Use of financial products 	<ul style="list-style-type: none"> Least developed Emerging business Most developed
IFC	2013	No geographic location	Informal enterprises	Conceptual	<ul style="list-style-type: none"> Owners' willingness to formalize the firm Firms' capacity to formalize 	<ul style="list-style-type: none"> Necessity firms Defensive evader Opportunity firms

Institution	Year	Geography	Target Group Focus	Methodology	Segmentation criteria used	Developed segments
Bain & Company	2016	No geographic location	SMEs	Conceptual	<ul style="list-style-type: none"> Banking needs 	<ul style="list-style-type: none"> International large corporations Mid-size enterprises Small businesses
CGAP	2022	India, Kenya, Peru	MSEs in the transport, retail, and manufacturing sectors	Primary research	<ul style="list-style-type: none"> Formalization Digitalization Business size Attitudes towards growth 	<ul style="list-style-type: none"> Cautious entrepreneur Determined aspirant
Cenfri	2020	Asia	MSMEs	Qualitative interviews	<ul style="list-style-type: none"> Personal and business insurance needs Ability Motivation Sector Geography Assets and turnover 	<ul style="list-style-type: none"> Survivalist Aspirational self-starter Skilled self-employed Sustainable start-ups Historic established Mid-sized export Mid-sized or large national Large
Mastercard Foundation, IFC	2019	Sub-Saharan Africa	MSMEs using individual mobile money accounts	Survey analysis	<ul style="list-style-type: none"> Size Level of technological sophistication Level of financial inclusion 	<ul style="list-style-type: none"> Non-agent entrepreneurs Savvy mediums Basic small Mobile money agent
World Bank	2019	No geographic location	MSMEs in all growth stages	Conceptual	<ul style="list-style-type: none"> Firm capability Markets Finance Environment 	<ul style="list-style-type: none"> New or young MSME Established MSME

Institution	Year	Geography	Target Group Focus	Methodology	Segmentation criteria used	Developed segments
FSD Uganda	2021	Uganda	MSMEs in the agriculture, construction, logistics and retail sectors	Survey analysis and qualitative interviews	<ul style="list-style-type: none"> • Sector of operation • Value chains 	<ul style="list-style-type: none"> • Survivalist • Aspirational
FSD Kenya	2020	Kenya	MSEs in the Starehe constituency	Qualitative interviews with SMEs, KIIs, survey analysis	<ul style="list-style-type: none"> • Government compliance • Premises • Financial services • Number of employees • Record keeping • Suppliers • Customers 	<ul style="list-style-type: none"> • Mostly formal • In-betweens • Mostly formal
ADB	1997	No geographic location	Microenterprises	Conceptual	<ul style="list-style-type: none"> • Competition • Seasonality • Use of hired labour • Surpluses and reinvestments • Use of credit • Growth potential • Education • Skills and experience • Gender • Contribution to household income 	<ul style="list-style-type: none"> • Livelihood microenterprises • Growth-oriented microenterprises
GIZ	2023	No geographic location	Growth-oriented women-led businesses	Does not provide	<ul style="list-style-type: none"> • Motivation • Level of education • Sources of financing 	<ul style="list-style-type: none"> • The Enthusiast • The Visionary • The Veteran • The Provider

Institution	Year	Geography	Target Group Focus	Methodology	Segmentation criteria used	Developed segments
Microsave Consulting	2023	India	MSEs Individual and collective women-led enterprises	In-depth interviews	<ul style="list-style-type: none"> • Motivation • Registration • Ownership type • Size • Sector • Membership in collective 	<ul style="list-style-type: none"> • Credit-willing • Credit-unwilling • Credit-ready • Bridge institutions
Google & Bain & Company	2019	India	Women entrepreneurs across rural, semi-urban and urban India	Qualitative interviews	<ul style="list-style-type: none"> • Sector • Number of employees • Geography • Motivation • Age • Challenges • Ability 	<ul style="list-style-type: none"> • Scaler • Urban small business owner • Rural small business owner • Urban solo-preneur • Rural solo-preneur • Rural agri-preneur
Initiative for What Works to Advance Girls in the Economy (IWWAGE)	2020	India	Women-owned home-based handicraft and handloom enterprises	Integrative Desk Reviews, Case Studies, and Quantitative Methods	<ul style="list-style-type: none"> • Age • Marital status • Household size • Average monthly income • Education • Business registration • Age of business • Size of business • Business management skill • Risk appetite • Access to markets • Abilities • Constraints 	<ul style="list-style-type: none"> • The Millennial Entrepreneur • The Striving Entrepreneur • The Latent Entrepreneur

Table 16: Relevant literature and segmentation criteria

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