Small Firm Diaries

UNDERSTANDING BARRIERS TO SMALL FIRM SURVIVAL & GROWTH

Project Overview

The Small Firm Diaries is a global research initiative to understand the barriers to growth and productivity growth among small firms, through high frequency quantitative and qualitative data collection ("financial diaries"). The Small Firm Diaries will visit the same firms frequently over a full year, spending time with firm owners and employees to gather rich and nuanced data about financial flows and the stories behind those flows. From 2021 to 2023, the project will be active in 7 countries: Colombia, Uganda, Ethiopia, Kenya, Nigeria, Fiji, and Indonesia. Globally, funding for the project is provided by the Mastercard Center for Inclusive Growth, the Bill & Melinda Gates Foundation, the Argidius Foundation, the Aspen Network of Development Entrepreneurs (ANDE), and UNESCAP.

The Colombian Sample

In Colombia, the project will follow a sample of 130 small firms in urban or peri-urban areas of Barranquilla, Bogotá, and Cali. The project defines “small firms” as those that employ between 2 and 20 paid workers, and will include both formal and informal businesses. In terms of number of employees, amount of revenues, level of formality, and degree of professionalization, the firms in this study fall into the tier in between "microenterprises" (generally an informal, household enterprise with no non-family employees) and “medium businesses” (usually formal firms large enough to have hired professional managers).

Unlike in other countries in the study, support from ANDE in Colombia allows us to include as part of our sample a group of 30 firms that participate in business support services programs, which may have up to 50 employees. The purpose of this group is so that we can learn how these “small and growing businesses” are similar or different to other firms in the sample.
Because our overall focus for the project is on alleviating poverty by identifying barriers to growth for small firms—including women-led firms—and contributing ideas that can help these firms grow and thrive, we want to study industries in which growth in employment, productivity and profitability is possible. These priorities determine which sectors we’ll look to in order to select the small firms in our study. We plan to focus on light manufacturing, agri-processing, and some services.

**Objective and Outcomes of the Research**

The aim of the research is to inform policy and practice by a wide variety of actors. Our outputs will allow others to use the research independently to address challenges of SMEs in low- and middle-income communities in Colombia and around the world. Using the data we gather and analyze we and other actors in the space will be able to:

- Design or improve products and programs that increase the capacity and productivity of small firms.
- Design financial services products, including digital financial services, that better meet the liquidity and investment needs of SMEs so that they can expand their businesses in terms of revenue, productivity, employment and wages paid.
- Design policies, programs and products that better address the specific barriers faced by woman-led firms which lead to a closing of any gap between male- and female-led firms in terms of revenue, profitability, and growth.

**Research Themes**

Review of the existing research on MSMEs—including both descriptive statistics and experimental studies on the initiatives that seek to help these businesses grow—leaves many unanswered questions and puzzles. Through weekly visits to small firms over the course of a full year in seven countries, this study will shed new light on several broad research questions:

- What are the barriers to small firm growth and productivity growth?
- How do these barriers differ for woman-led small firms?
What opportunities are there for innovative and digital financial services to help overcome these barriers?

In doing so, we will also explore many secondary factors related to small firm growth and productivity, including:

- How do firms experience and manage risk and volatility?
- What are the aspirations of small firm owners, and how do these aspirations affect decision-making?
- What are the boundaries of the firm and how do small business owners conceive of and manage multiple business lines?
- What role does small firm employment play in the financial lives of employees?
- How does the firm fit into the market, and what are its relationships with suppliers, competitors, and customers?
- What business skills and management practices do the small firm owners use, and how do they acquire them?
- How profitable is the firm, and how are profits best measured?

Project Leadership

The small firm diaries is a collaboration between field-leading researchers, data collection experts, and a network of government, academic, and financial services partners in each country.

The Small Firm Diaries is led by the Financial Access Initiative (FAI). FAI is a research center housed at New York University focused on how financial services can better meet the needs and improve the lives of poor households around the world. With partners, FAI produced the Portfolios of the Poor and the US Financial Diaries projects. These groundbreaking studies reshaped the financial inclusion field, illuminating volatility as a central issue for low-income households around the world. Microfinance Opportunities (MFO) and Low-Income Financial Transformation (L-IFT) will manage the in-country implementation of Small Firm Diaries field research, including recruiting, hiring, training and managing field researchers, bringing their experience from many previous diaries studies.
Join our Network

During the project’s preparation phase in the first half of 2021, we are designing survey instruments, recruiting field researchers and supervisors, and speaking with a range of Colombian researchers, government agencies, chambers of commerce, and NGOs and foundations that support small businesses. At the project outset, these partners help ensure that the study is informed by local knowledge and priorities. And as research findings emerge, local partners will play a crucial role in disseminating findings and applying them to complementary initiatives taking place in Colombia.

For more information, and to receive news and findings from the project in Colombia, visit: www.smallfirmdiaries.org/socios