How their businesses are progressing

How their businesses are progressing

Situation of their businesses, postpandemic

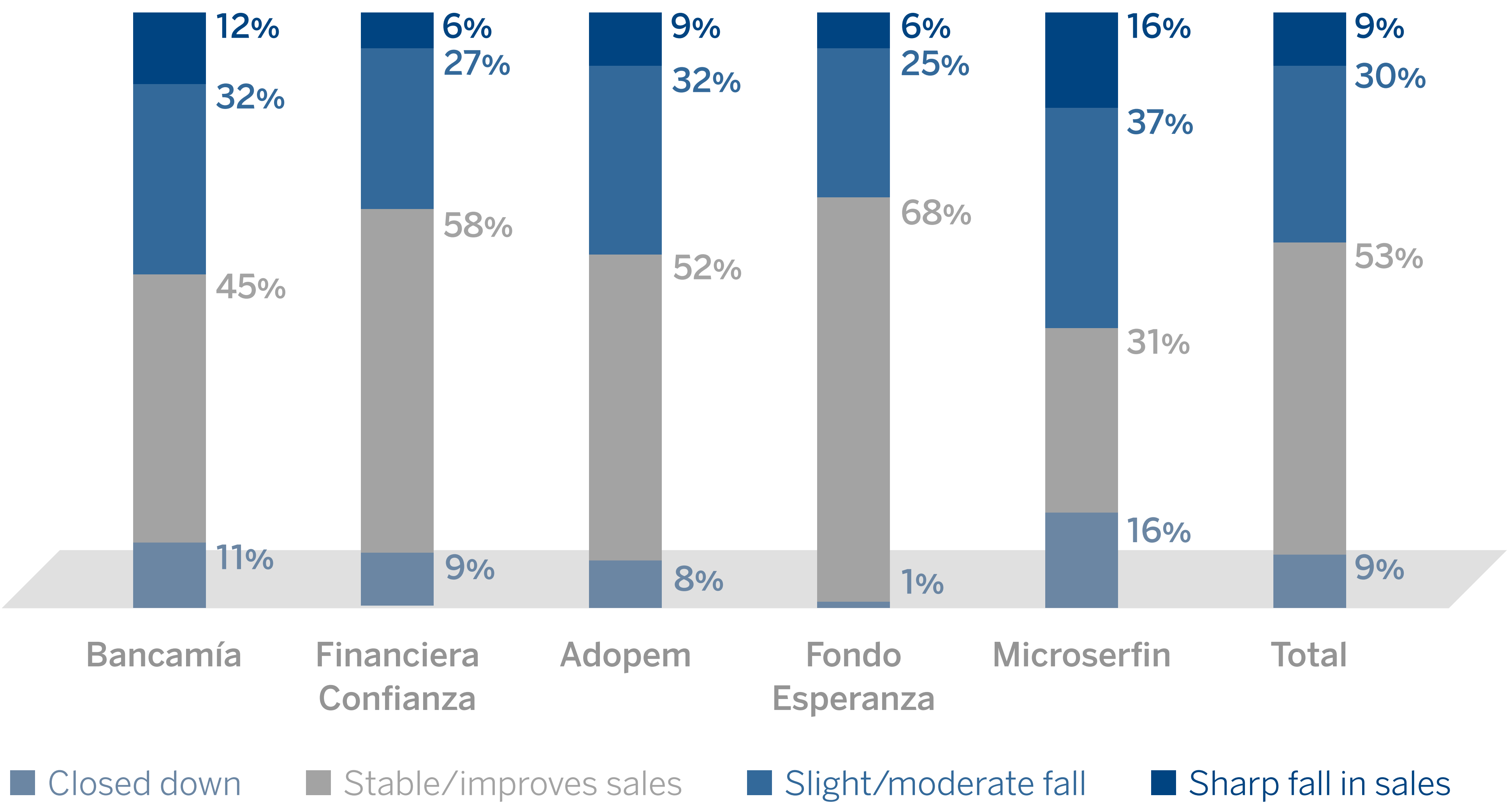
Most entrepreneurs have been resilient to shocks such as the pandemic, although the loss of income has entailed some kind of curtailment in other areas of the entrepreneurs' business/household. To March 2022, 53% of entrepreneurs had recovered or even increased their sales over 2020. Just 9% of their businesses remained shuttered. Even though in April-August 2020, when the pandemic was having its greatest impact, lockdown affected 47% of their businesses, practically all of them have managed to reopen. Furthermore, the proportion of entrepreneurs with lower sales has fallen significantly since 2020.

To a large extent this is determined by their type of activity, with behavior patterns similar across countries:

- Minimarts (grocery and general stores, etc.) benefited from the pandemic, generally raising their sales.
- Crops and stockbreeding activities (or mixed farming) saw a slight impact on sales. Where these fell, they subsequently recovered rapidly.

22 | **Effect on their business sales**

Entrepreneurs surveyed



- Services such as hairdressers, beauty parlors and transportation were generally very affected, but recovered quickly.
- Restaurant and food service businesses were the most impacted, suffering sharp falls in sales and some have not managed to reactivate, being forced to close down.

Entrepreneurs return to normal, showing that half of them are resilient

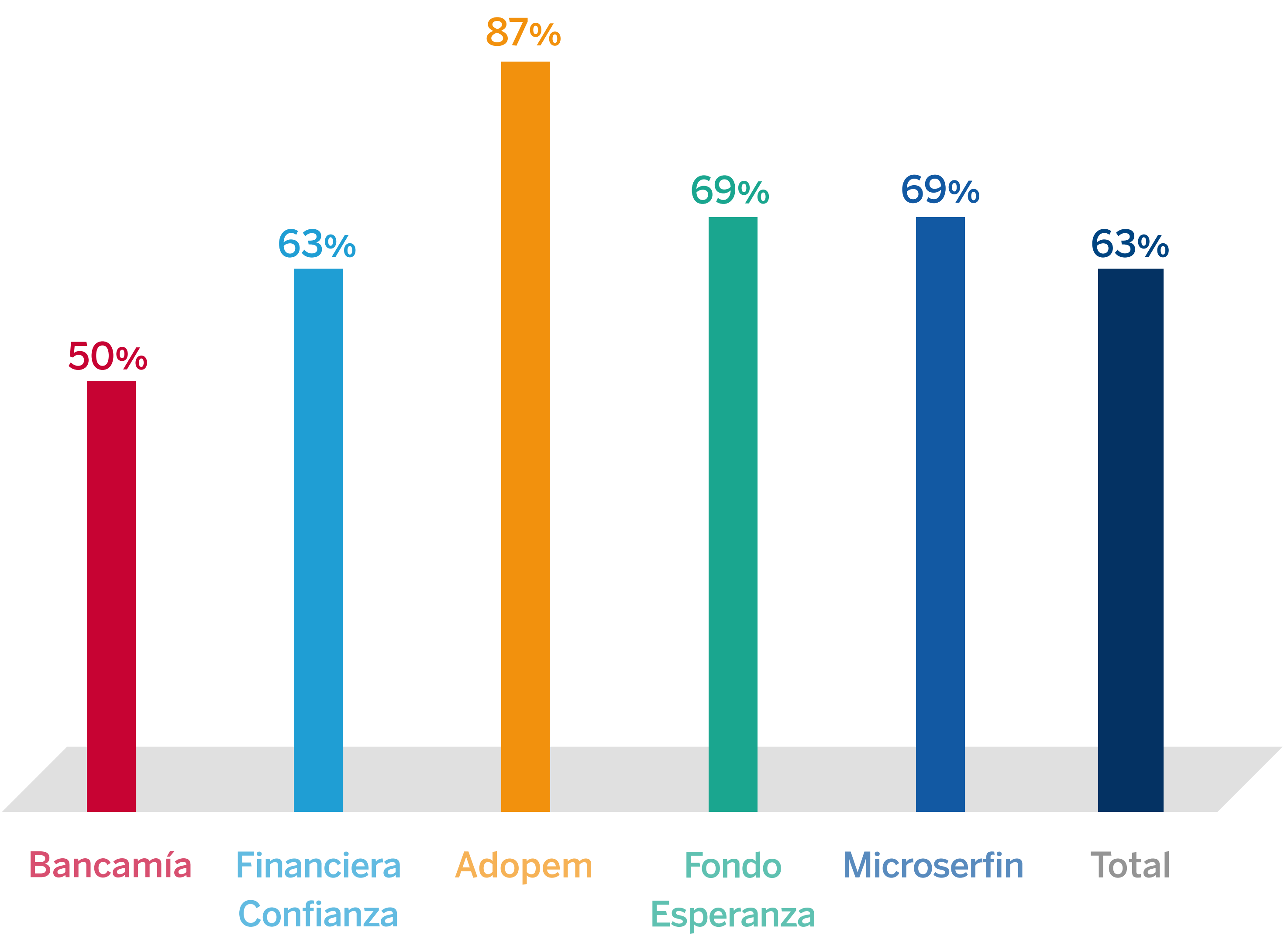
G-**22.** Compared to the situation pre-pandemic. The question asked was "When compared to your situation two years ago (pre-pandemic, in January/February 2020), are your monthly business sales higher/lower/the same?" A fall of over 50% is classified as serious, of less than 50% as slight.

Our era is increasingly defined by people's great capacity for adaptation, especially in the case of informal micro-entrepreneurs who face multiple, complex disruptions and their consequences over the long term. However, they are often not in conditions to deal with them. Digitalization has crept cautiously into sales channels and is only sometimes used to buy inputs. Diversification as a strategy for mitigating risks, while successful during the pandemic, has not been permanent. And investment in new installations to serve new, different needs is virtually non-existent. To this is added the financial stress suffered by these entrepreneurs day after day, especially inflationary pressure, that reduces the margins for their households, where the needs of their business and of their families are intrinsically interrelated.

63% of entrepreneurs have the capacity to make plans[9] for the next 12-month period, which suggests that it is this ability to anticipate that enables them to be resilient. Indeed, the (less positive) impact on household welfare (as we shall see below) is not aligned with this trend, indicating therefore that contingencies become important in the household sphere. That is, not only is it important to accompany them with the right financial tools, that are timely and appropriate, but also education and mentoring services are increasingly relevant in dimensions that go beyond just the business itself. Furthermore, 37% merely survive, a percentage that is particularly unequipped with this quality of resilience.

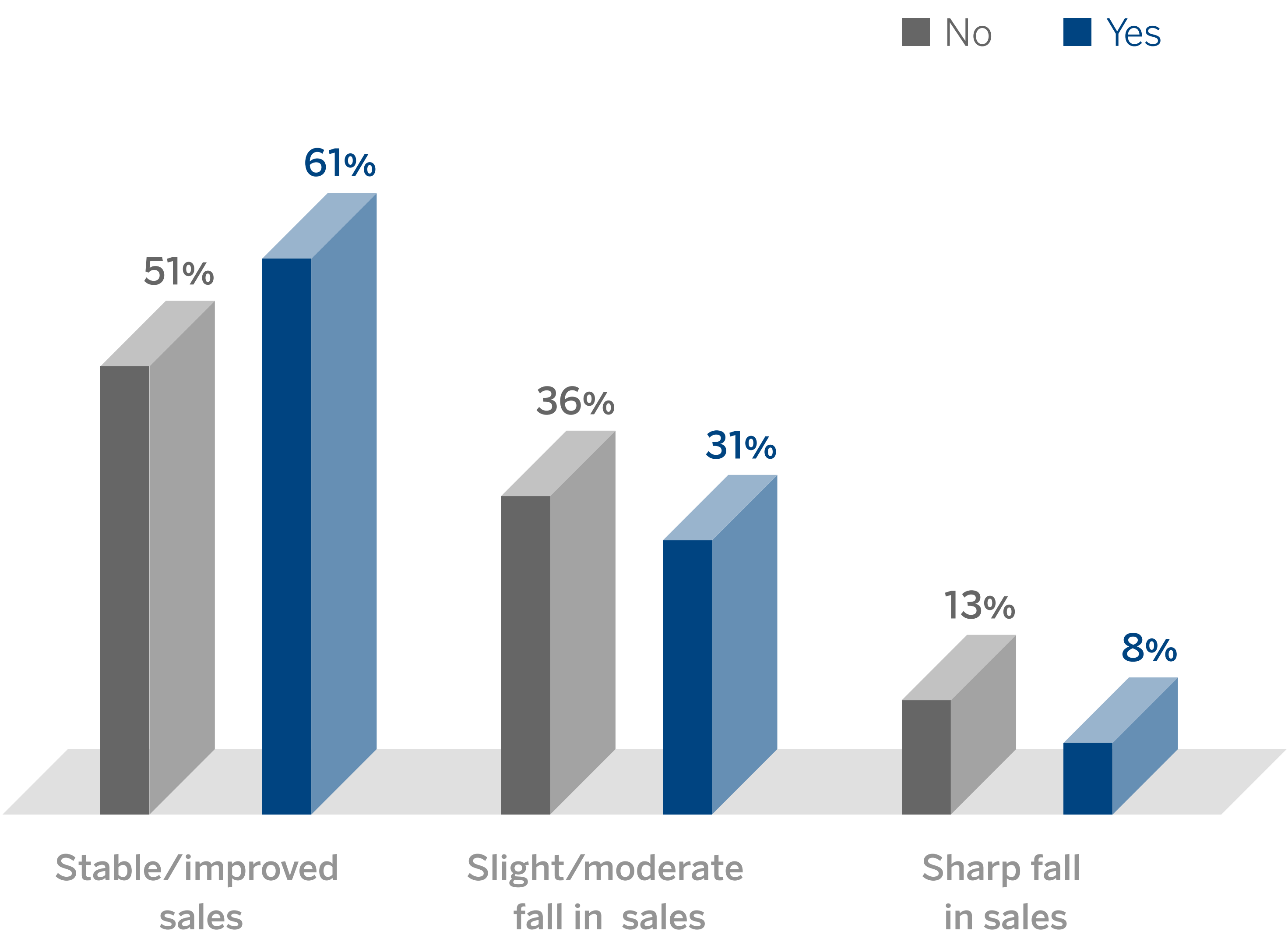
23 | Those with a 12-month plan

Entrepreneurs surveyed



24 | Those with a 12-month plan

Entrepreneurs surveyed



The 63% of entrepreneurs with a plan to expand their business in the next 12 months are the most resilient

9 and G-**23.** The survey question "Do you have a plan for expanding your business in the next 12 months?" tends to be a good proxy for financial management capacity.

Business adjustments

Sales channels

Sales channels have been a key tool for increasing the incomes of entrepreneurs' businesses, especially since they have had to adapt after the pandemic.

Selling directly from the home or from commercial premises continue to be the most popular channels, although they were displaced by social media and the telephone after the pandemic. The latter two channels, as well as enabling entrepreneurs to adapt to a changing environment, entailed some cost savings.

Household: In the Dominican Republic, hairdressers and beauty parlors continued to conduct their activity from their homes, whereas in Peru this strategy was mainly followed by the restaurant trade and general goods stores. In Colombia, small traders such as minimarts or convenience stores kept their businesses at home, as did takeaway food services.

Social media: The most significant increase has been in the use of social media: whereas beforehand, 19% of clients used it, the percentage now stands at 28%. This form of sales has been taken up more by young people, especially those with secondary education or higher. Telephone sales have also grown, rising from 14% before the pandemic to the current 20%. We should highlight the case of the Dominican Republic, where street sellers have been particularly keen to adopt telephone sales.

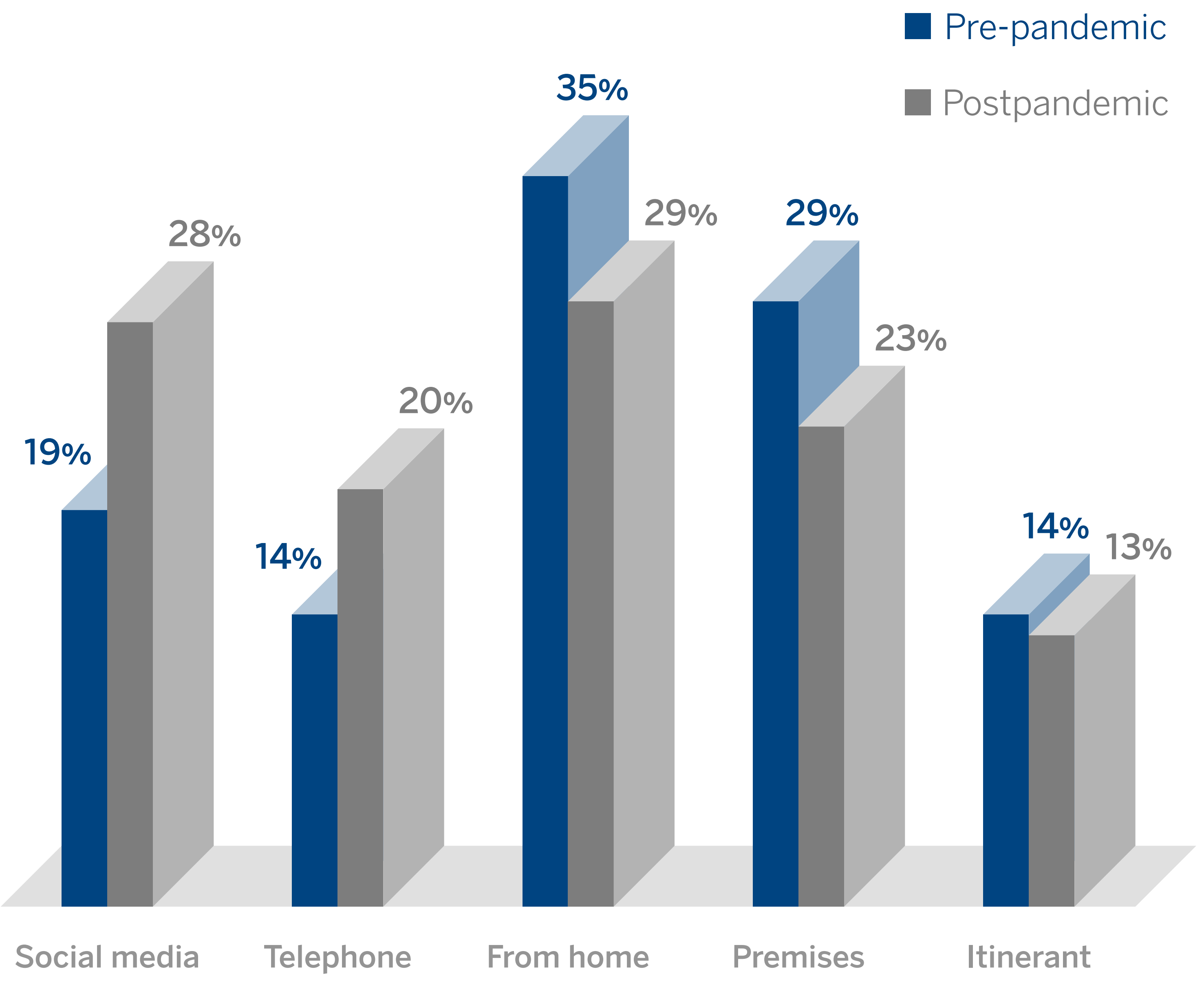
Street selling: Currently 13% of businesses are itinerant, with practically no change across the different countries. This suggests that this small entrepreneurial segment remains excluded from digital progress.

Markets/Fairs: It is very noticeable that in Colombia, the Dominican Republic and Chile, sales in markets and fairs have virtually disappeared. In Peru they continue to account for 24% of the whole.

When looked at country by country, we note a clear positive correlation between using technologies for sales and each country's level of nationwide connectivity. Thus, Chile is the country that used social media the most, followed by the Dominican Republic and Panama. As a consequence, in these countries sales using this channel have grown the most. Even so, the marketplace still hasn't really taken off. Peru has the fewest digital sales. In all countries the use of the telephone remains significant, suggesting that digital skills still have a way to go.

25 | Sales channels

Entrepreneurs surveyed



G-**25.** When asked about the sales channel used pre- and post-pandemic.

Purchase of inputs

The way in which entrepreneurs obtain their inputs has not been affected by the pandemic. The habit of buying directly in markets or stores continues to be the most popular (66% of the total), followed by buying through intermediaries (29%). Even so, online buying has risen from 7% to 10%.

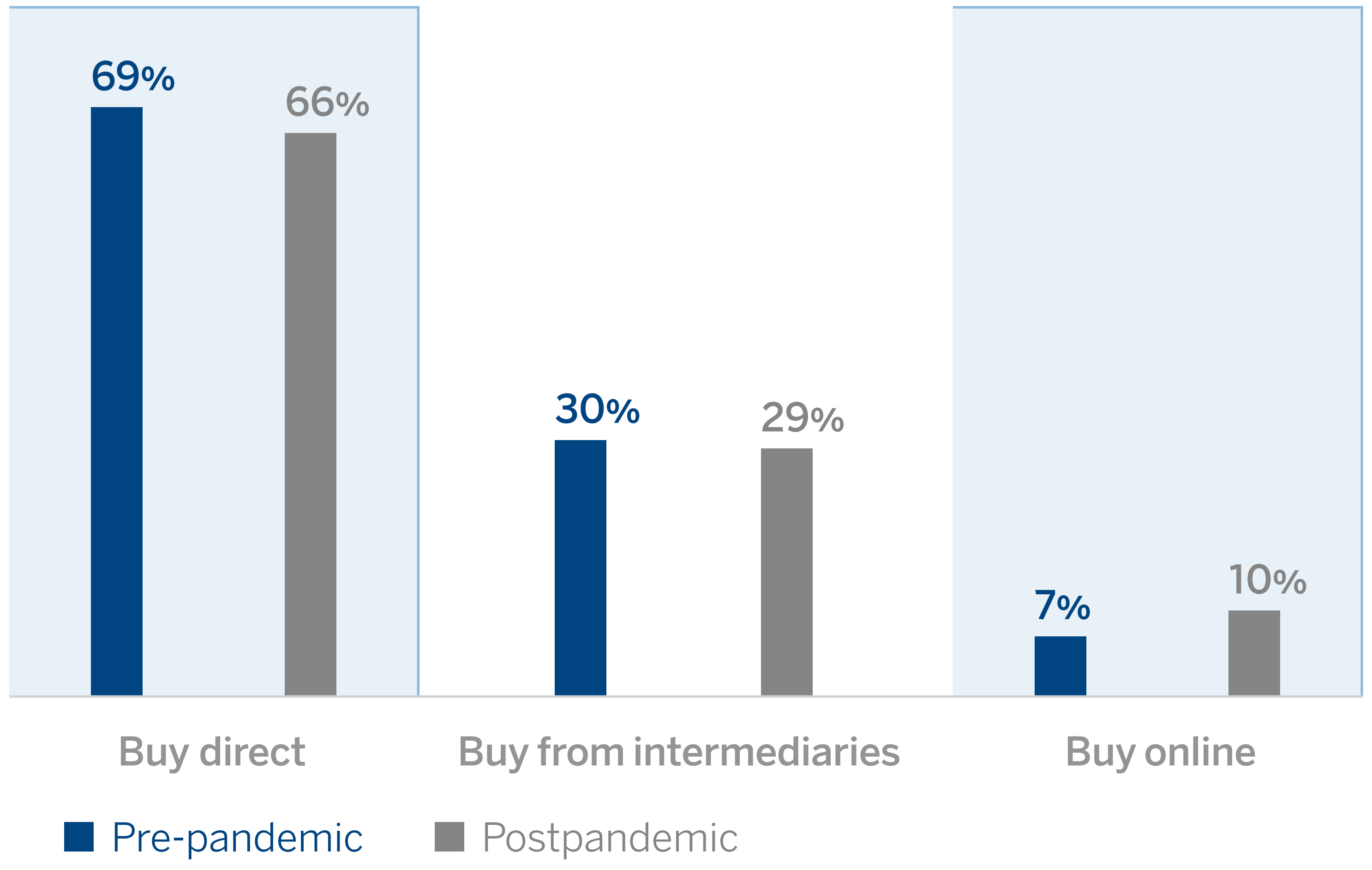
The digital channel is clearly the choice of the younger segment, where 54% of entrepreneurs use it, compared to 35% in the middle-aged segment, and 17% among older clients. In fact, it is the young who have made the transition from direct purchasing to using digital channels, while the over-60s have not changed their way of obtaining inputs to any significant degree, mainly using intermediaries.

The switch to using internet to buy supplies is slow, so the learning curve for many people will be progressive and will require mentoring.

G-**26.** When asked about how they acquire supplies, pre and post-pandemic.

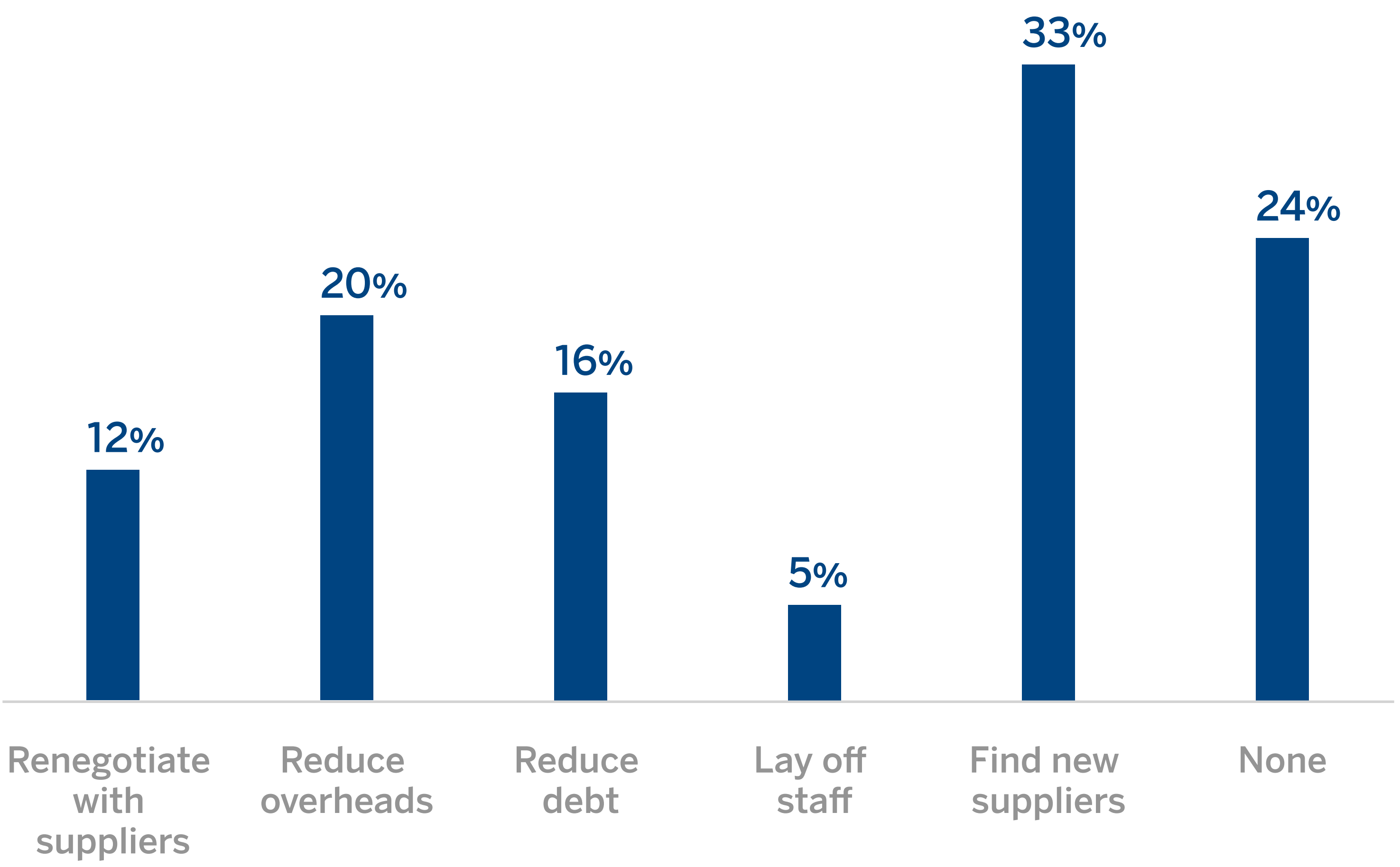
26 | Buying supplies

Entrepreneurs surveyed



27 | Managing expenses

Entrepreneurs surveyed



Managing expenditure

The search for new suppliers, or renegotiating with current ones, is the formula most used when trying to reduce business expenses. The options most used to adjust expenses has been to shrink overheads and reduce debts, whether by reducing their value or that of the monthly installment payments. Firing workers is the least used formula.

In Colombia and the Dominican Republic, the younger entrepreneurs are most inclined to adjust their expenses, possibly because they have less to lose. This indicates that there are opportunities to mentor entrepreneurs in managing suppliers to help them reinforce their resilience.

When the countries are analyzed one by one, we see notable differences in many of our clients' solutions to managing their expenses. Nevertheless, one of the star measures, the most common of all, has been to reduce overheads.

Young entrepreneurs are the most inclined to reduce their expenses

Adjusting installations or products

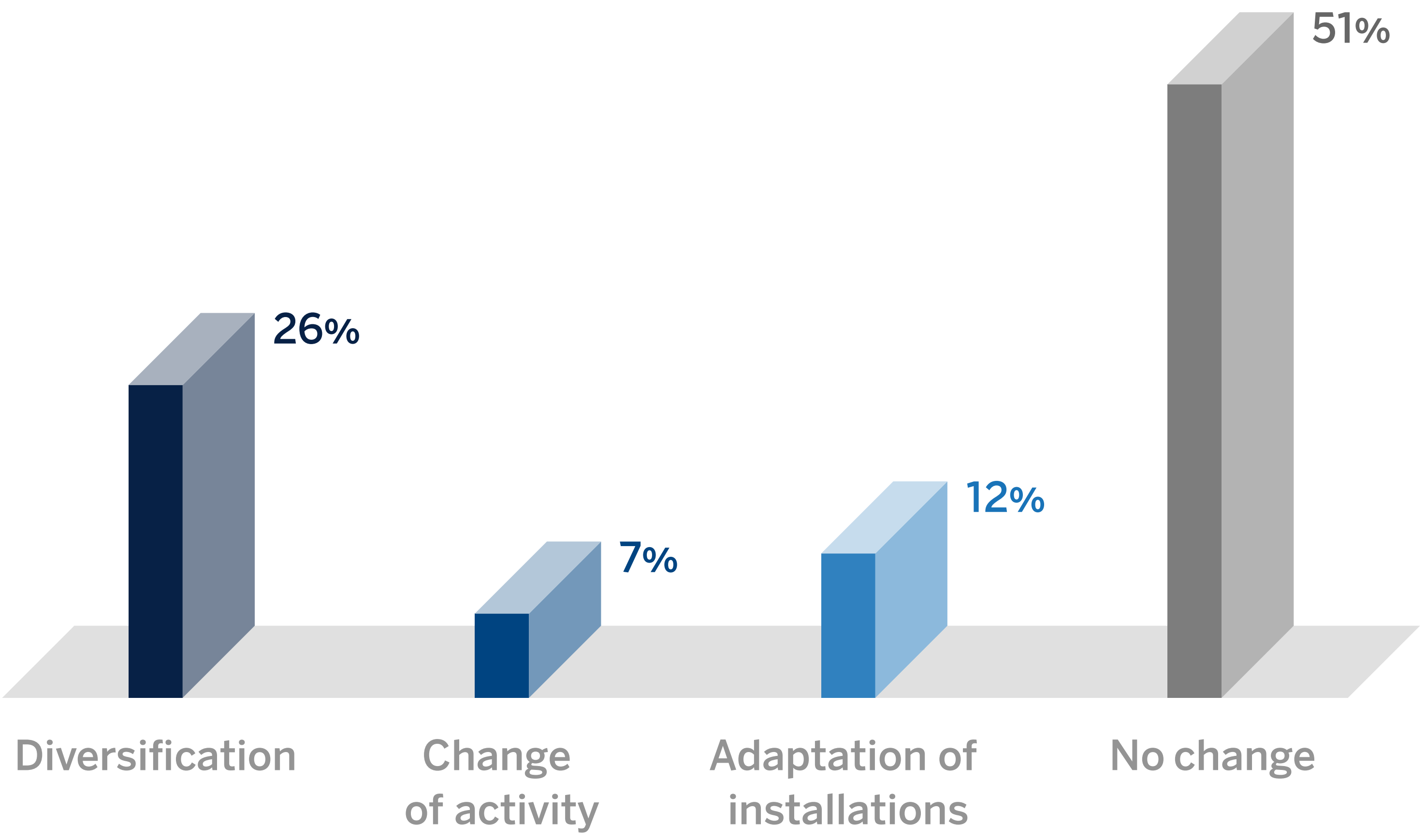
Half of the people surveyed had made no changes to their activity. This means that to continue operating they didn't need to change their activity or to adapt their installations. An example of this are farming clients. Those who did decide to make more structural changes reported positive outcomes in all countries as, thanks to this decision, they succeeded in expanding their sales when compared to their lowest point.[10]

Diversification of products has been the most popular adjustment and the one generating the highest number of positive opinions about its results.

Although the majority of these adaptations have been positive, they have also been temporary. In the Dominican Republic and Colombia, they have been adopted on a provisional basis, to be abandoned when activity returned to normal. This short-term vision differs depending on the nature of the change. The most drastic adjustments, entailing a complete activity swap, are the least permanent. In Peru there has been no difference between permanent and non-permanent, whereas in Chile the opposite is true. Seven out of ten Chilean entrepreneurs say that they have made their changes permanent. Indeed, Chile is the country with the best outcomes: nine out of every ten entrepreneurs comment that these adaptations have enabled them to increase their sales and/or earnings.

28 | Adjusting installations or products

Entrepreneurs surveyed

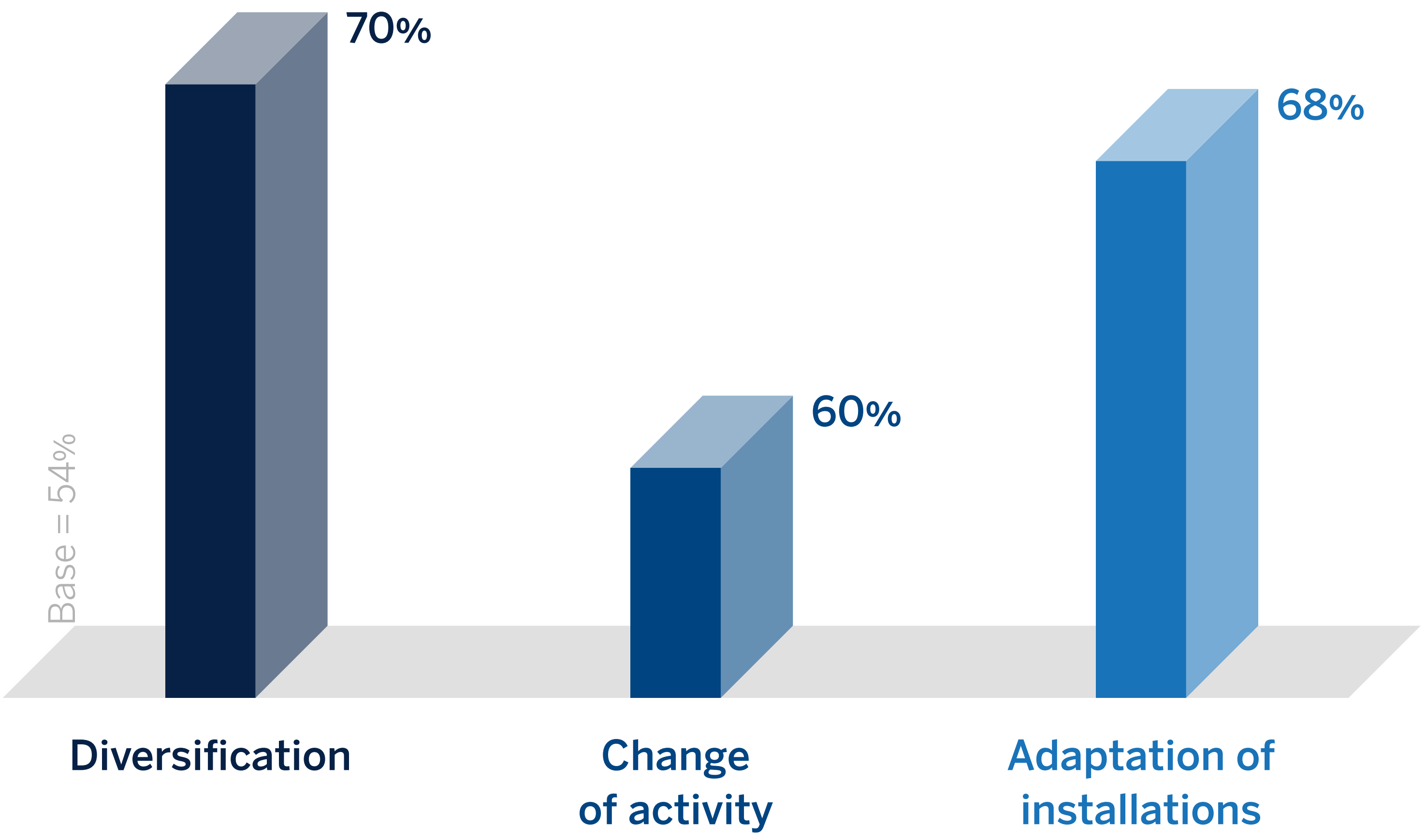


The case of Chile captures our attention, given that nearly 20% of businesses have totally changed their productive activity. This is the most complex change, since it implies starting a different business from scratch, with a learning curve and the need for time before it becomes profitable. Finally, our clients in Panama differ from those in other countries as they made the most adaptations to their installations.

Women are a little more proactive than men when it comes to making changes (54% of women have done so, compared to 50% of men) and it is in business diversification where we see the greatest different between the two sexes, on aggregate (29% women and 24% men).

29 | Effectiveness of the changes

Entrepreneurs surveyed who report that the change has been positive



Once again it is our young entrepreneurs who are more inclined to make changes in their businesses: 54% of those under 30 years old made adjustments, compared to 40% of older clients. Young people show greater readiness to make changes, especially if they have to change their activity completely.

7 in every 10 believe that adaptations have been effective to mitigate the impact of the pandemic on their sales

10 and G-**29.** Clients self-reporting response. The question was "Do you believe that these changes to your business have enabled you to increase your sales/earnings when compared to the worst moment of the pandemic?"

Growth and instability

Growth of their businesses

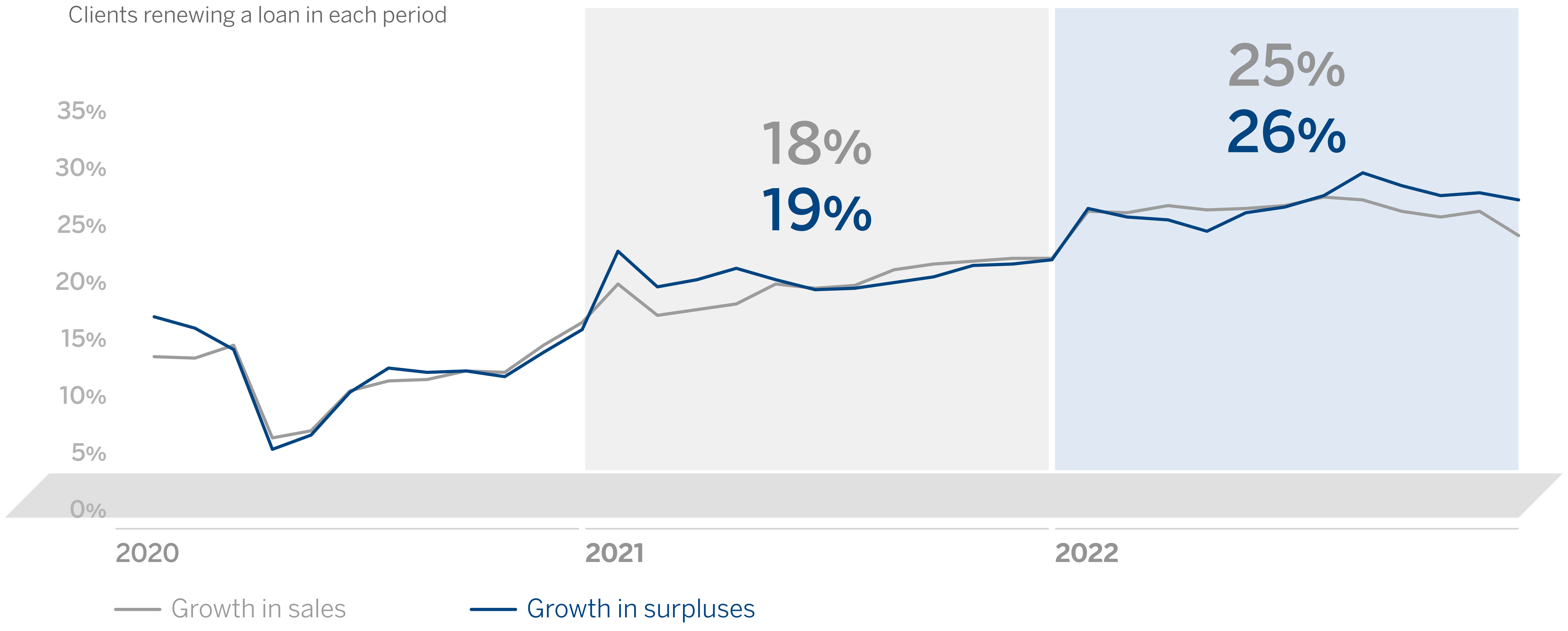
How businesses perform depends in many ways on the macroeconomic environment. Thus, **the resilience of microentrepreneurs is converted into solid growth,** both of sales and surpluses, reaching in both cases annual increases of 27%. This growth has passed over into higher household incomes that in 2022 grew for 52% of our clients, similar to the rate in 2021 (51%). Nevertheless, these averages hide differences both by country and by activity.

In Peru, a country that is highly entrepreneurial, businesses enjoyed strong growth across all activities, whereas in Colombia and the Dominican Republic this was more moderate and localized. In Colombia, agriculture and mixed farming posted high growth rates, while in the Dominican Republic takeaway food services did well. This is to a large degree due to the economic reactivation: primary goods (which include food) performed solidly, followed by leisure activities such as beauty services and restaurants. The remaining activities improved too, but at a slower rate

In general, the food industry – from farming to supermarket/general store – has benefited the most from the pandemic, increasing its sales and consolidating its business.

30 | Business growth

Clients renewing a loan in each period



Services, which at the beginning suffered a great deal, managed to recover after activity returned to normal, posting solid growth. Both this sector and its activities are the most flexible.

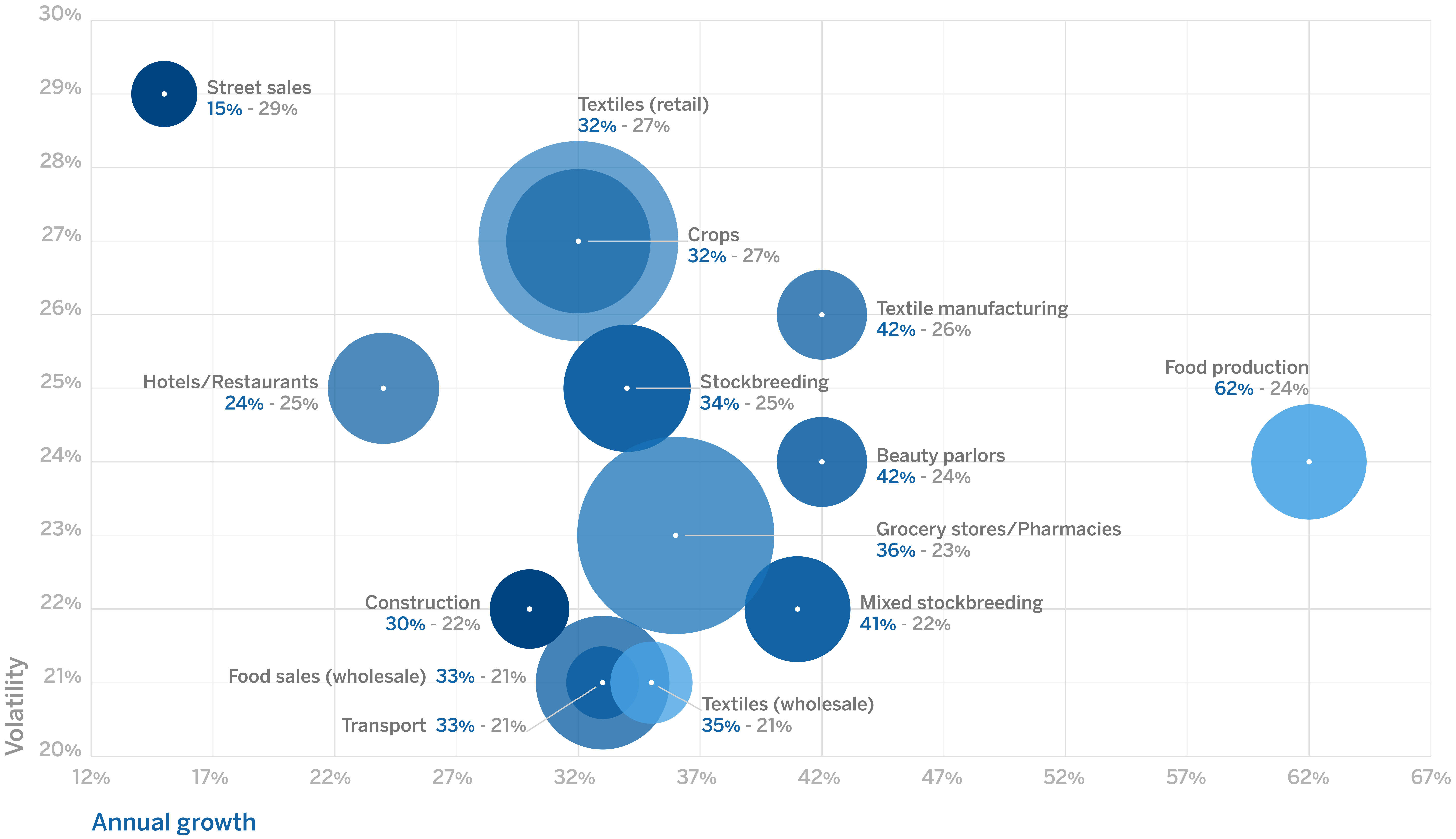
Finally, both trade and the textile industry have recovered more slowly, as they are second-tier needs.

G-**30.** Clients renewing a loan each month. Average annual growth of sales and surpluses in those businesses. Excludes data from Chile and Colombia between March and December 2020.

The food industry has benefited the most from the pandemic, increasing its sales and consolidating its business

31 | Growth of surpluses and volatility, by activity

Clients renewing a loan in each period



G-**31. Growth:** Clients renewing a loan every month. Average annual growth of sales and surpluses in those businesses. Excludes data from Chile and Colombia between March and December 2020.

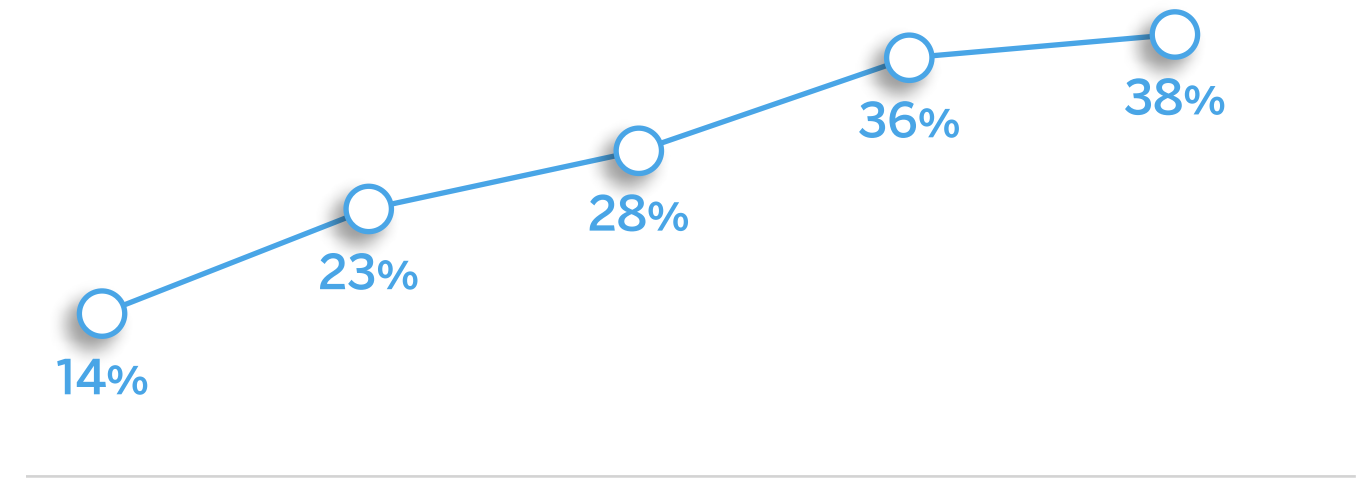
Volatility was calculated from clients who have received at least 3 disbursements. Entrepreneurs whose incomes have crossed the poverty line at least twice in the previous 3 loan periods are classified as volatile.

The diameter of the circles in the diagram is approximately proportional to the number of clients in each activity.
As a reference, in "Street Sales" there are 8,252 clients and 66,561 in "Textiles (retail)".

32 | Reduction in the poverty segment

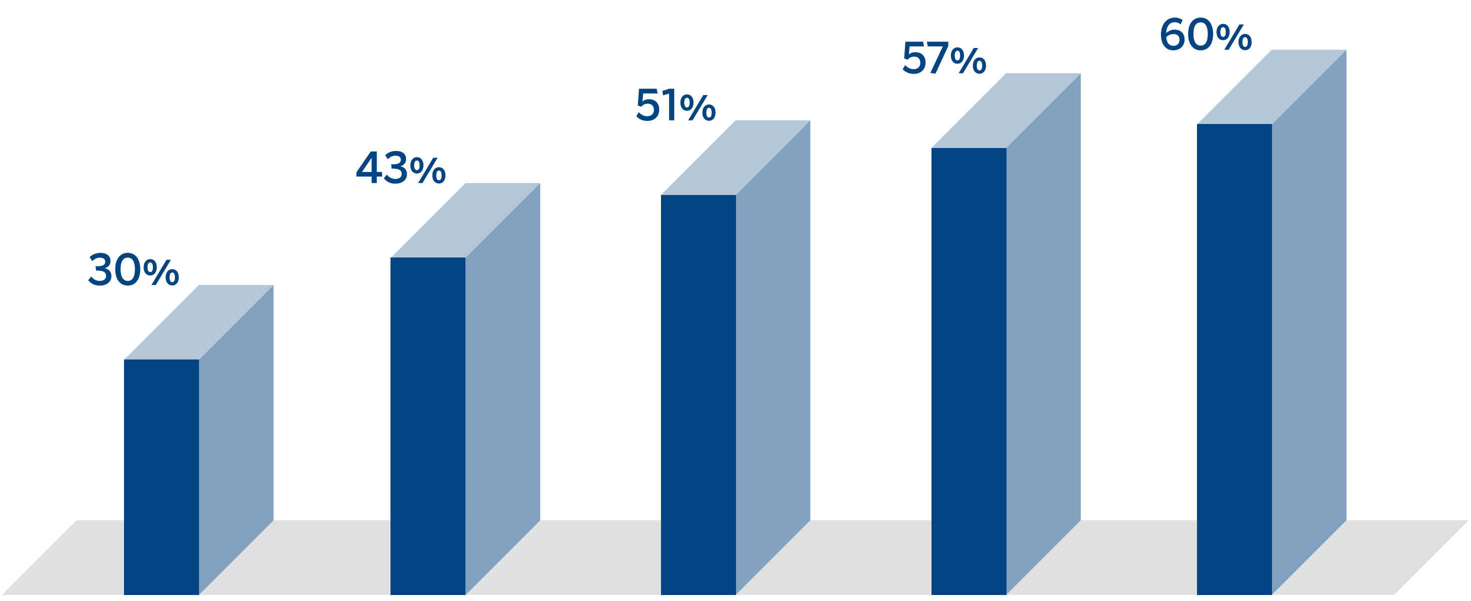
Clients renewing a loan in 2022

Net reduction



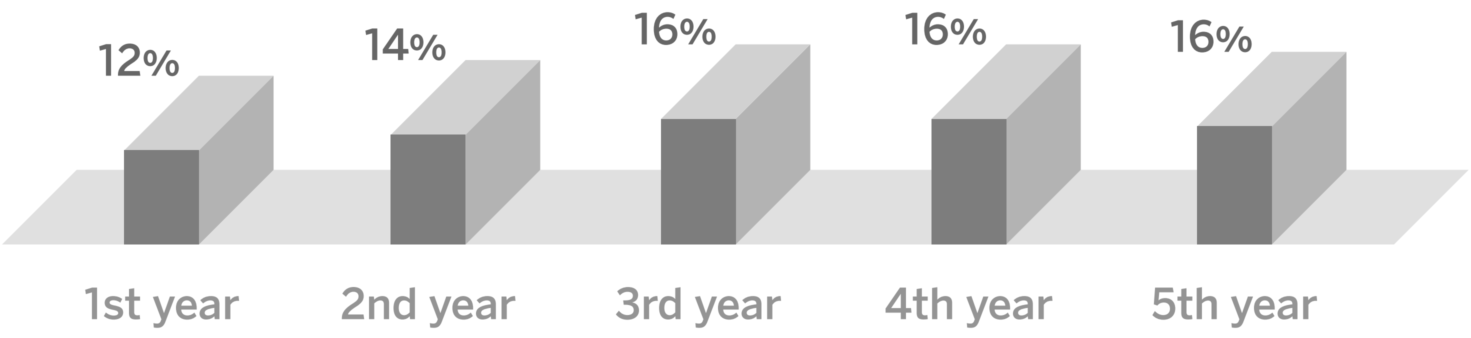
Escape poverty

Poor clients who escape poverty



Fall into poverty

Non-poor clients who fall into poverty



Overcoming the poverty line

Business growth implies an increase in household income, something that often improves the situation of entrepreneurs' vulnerability. After two years banking with us, two in ten manage to overcome poverty, and this number increases over time. The longer they bank with us, the better their performance.

After two credit cycles, entrepreneurs classified as poor have overcome poverty; the extremely poor need at least four cycles to do so. This is because their initial financial status is worse and, although their growth rates are much greater (in relative terms), they have further to go.

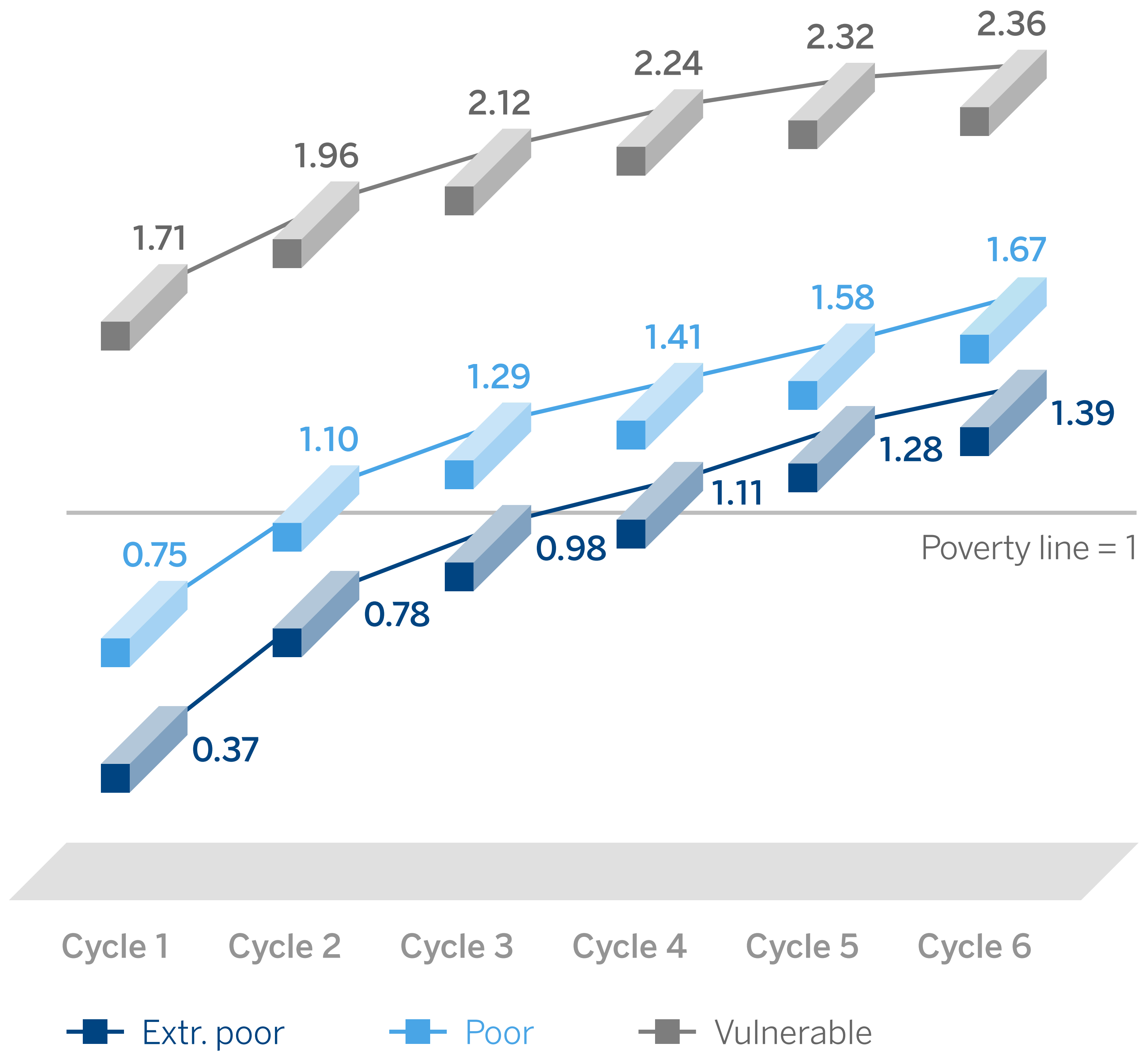
Given that long-term banking relationships promote positive performance, it is crucial to continue mentoring entrepreneurs over time so that they manage to achieve sustained progress, especially as, for many of them, their business represents their household's main source of income.

G-**32.** Entrepreneurs current at year-end who have renewed a loan at some point in 2022.

- **Escape from poverty:** Clients in poverty at the outset of their relationship with the institution (classified as extremely poor or poor) who have generated income taking them over the poverty line.
- **Fall into poverty:** Non-poor clients at the outset of their relationship with the institution (classified as vulnerable or others), who have generated income that leaves them below the poverty line.
- **NNet reduction:** Escape from poverty - Fall into poverty

33 | Income relative to the poverty line, for each credit cycle

Credit clients renewing a loan in 2022



G-**33.** Clients with an individual loan during 2022 –classified by their situation at the first loan. Surplus per capita at each credit cycle and in relation to the country's official poverty line in the year of disbursement. Relative income has the value of 1 when it is the same as the poverty line.

The existence of this long-term relationship enables us to analyze the variations in the poverty status of entrepreneurs over time, since some of them do not succeed in stabilizing their incomes due to their vulnerability profile.

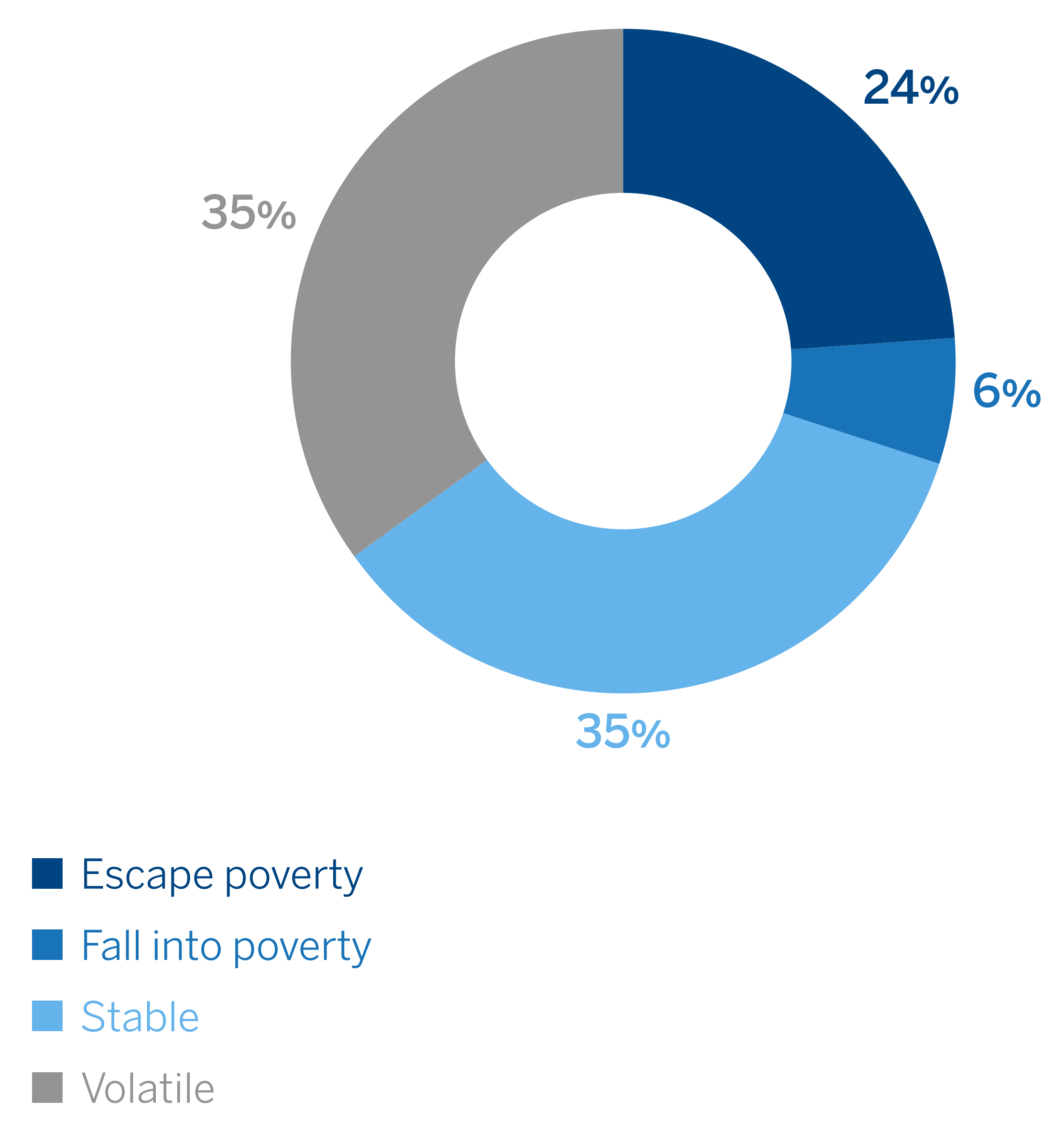
35% of those with more than five credit cycles have experienced changes in their income, falling below the poverty line at least twice at some point during these cycles. There are no significant changes from 2021, which indicates stabilization in their business performance (a return to normal).[11]

There is still a long way to go: 18% of the people in poverty had not managed to overcome it, and 12% fell into poverty. That is why it is so important to accompany them with loans and medium-term savings, as well as with insurance and education, creating some of the conditions for them to better avoid the obstacles in their environment.

11. 2021 data: Volatility: 35%; Stable: 37%; Escape poverty: 23%; Fall into poverty: 6%. Compared to 2019 if there are changes: Volatility: 30%; Stable: 42%; Escape poverty: 22%; Fall into poverty: 6%.

34 | Income volatility

Credit clients with at least 5 disbursements



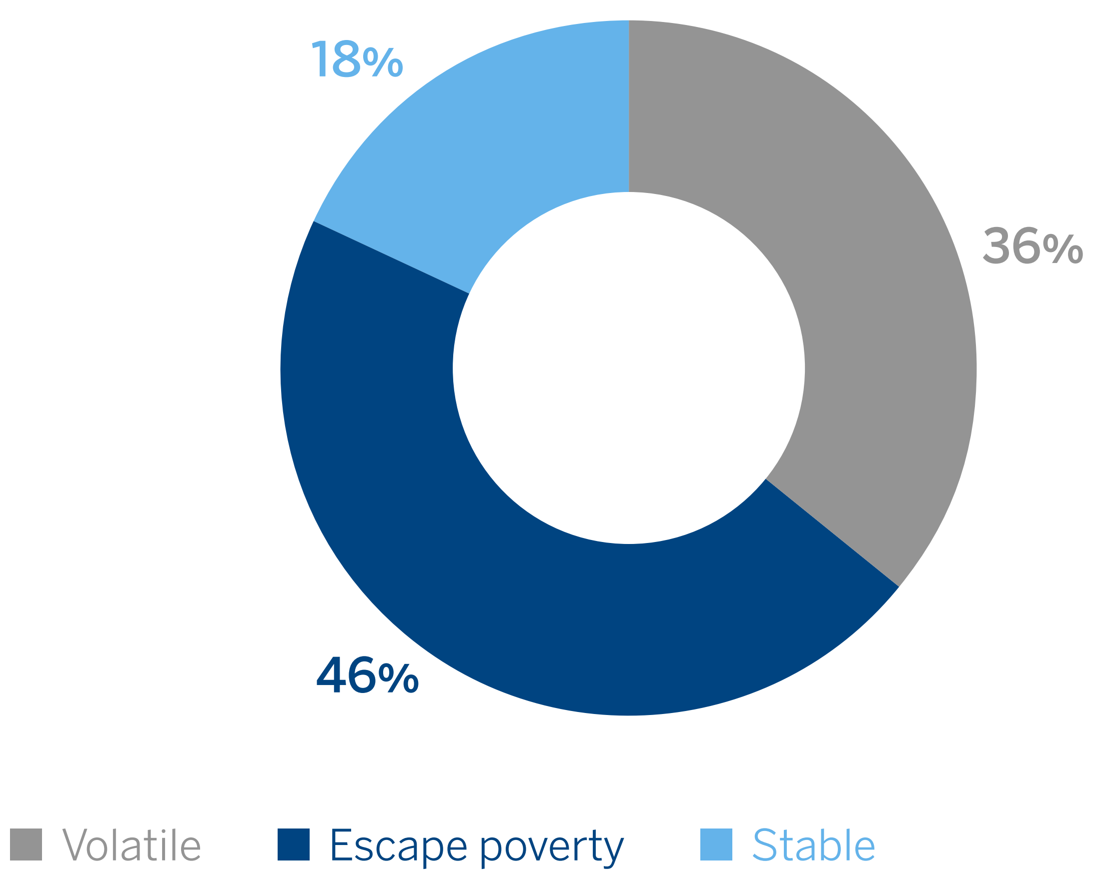
G-**34.** Clients served since 2011 to 12.31.2022 with at least five disbursements. Analysis of the number of times a client crosses the poverty line (PL).
Volatile: Clients whose surpluses for each member of the household cross the PL more than once are classified as volatile. **Escape from poverty:** Clients who are poor at the outset whose surpluses grow to pass the PL (and are not seen to fall back again). **Fall into poverty:** Clients who were not poor at the outset whose surpluses fall below the PL (and are not seen to increase). **Stable:** Clients who remain poor (or not poor) throughout their five disbursements.

G-**35.** Volatility in two segments: poor at the outset vs. non-poor at the outset. Segmented by entrepreneurs who, at the beginning of their relationship with the entity, generated surpluses for each household member below/above the Poverty Line.

35 | Income volatility – clients below and above the poverty line

Credit clients with at least 5 disbursements

In poverty at the outset



Non-poor at the outset