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OECD (2018), OECD/INFE Core competencies framework on financial literacy for MSMEs

This document contains a core competencies framework on financial literacy for micro, small and medium-sized enterprises (MSMEs) and potential entrepreneurs, developed by the OECD International Network on Financial Education (OECD/INFE).

The framework is a policy tool that highlights a range of financial literacy outcomes that may be important to sustain or improve the financial literacy of owners and managers of MSMEs and of potential entrepreneurs in their experience of starting, running or growing a business. It is a high-level international tool that policy makers, programme designers and other stakeholders can adapt to the circumstances and context of their economies, recognising that not all entrepreneurs in all countries and industries may need or exhibit each competency.

This framework builds upon and complements the OECD/INFE Core Competencies Framework on Financial Literacy for Youth (2015) and the G20/OECD INFE Core Competencies Framework on Financial Literacy for Adults (2016), developed in response to a G20 leaders' call.

The overall structure and content of the framework was approved by the OECD/INFE in Paris in May 2018.

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OECD/INFE core competencies framework on financial literacy for MSMEs

This document contains an outcome-based, internationally relevant, core competencies framework on financial literacy for micro, small and medium-sized enterprises (MSMEs) and potential entrepreneurs, developed by the OECD International Network on Financial Education (OECD/INFE).

The importance of financial skills for MSMEs is recognised by the G20/OECD High-Level Principles on SME financing developed in 2015, which recall the need to “Enhance SME financial skills and strategic vision” in Principle 7 (G20/OECD, 2015^[1]) (see Box 1).

This framework builds upon and complements the OECD/INFE Core Competencies Framework on Financial Literacy for Youth developed in 2015 and the G20/OECD INFE Core Competencies Framework on Financial Literacy for Adults developed in 2016, both in response to a G20 leaders' call.

This policy tool highlights a range of financial literacy outcomes that may be important to sustain or improve the financial literacy of owners and managers of MSMEs and of potential entrepreneurs in their experience of starting, running or growing a business. The framework describes the types of financial knowledge and skills that owners and managers of MSMEs or potential entrepreneurs could benefit from, the behaviours that may help them to improve the management of their business finances, as well as the attitudes that will support this process.

Such financial literacy competencies are intended to complement and deepen broader entrepreneurial skills, and to complement more general financial literacy competencies that young and adult consumers need for their own financial well-being (OECD, 2015^[2]; OECD, 2016^[3]).

To clarify the scope of the work, the framework starts with a definition of financial literacy of owners and managers of MSMEs and of potential entrepreneurs, as described in Box 2.

The framework can be used to inform specific sections of national strategies on financial education or strategies to support MSMEs or entrepreneurship, improve programme design, identify gaps in provision, and create assessment, measurement and evaluation tools. The framework is a high-level international tool that policy makers, programme designers and other stakeholders can adapt to the circumstances and context of their economies, recognising that not all entrepreneurs in all countries and industries may need or exhibit each competency.

Going forward, this core competencies framework will inform the development of an OECD/INFE survey instrument to measure the financial literacy of micro and small business owners.

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Introduction

Micro, small and medium-sized enterprises (MSMEs) make up the majority of enterprises in the world, providing employment and contributing significantly to national incomes. They can play an important role in sustainable, inclusive economic growth and development and improved financial stability given appropriate conditions and timely support. Successful development and growth of MSMEs depends on supply- and demand-side factors, including the possession of adequate financial knowledge and skills (OECD, 2015^[4]; OECD, 2017^[5]).

The importance of financial skills for MSMEs is recognised by the G20/OECD High-Level Principles on SME financing developed in 2015, which recall the importance to “Enhance SME financial skills and strategic vision” in Principle 7 (G20/OECD, 2015^[1]) (see Box 1).

At the same time, the OECD International Network on Financial Education (INFE) created a dedicated work stream and working group on financial education for MSMEs. Within this stream of work, the OECD/INFE conducted a stocktaking exercise to identify existing policy frameworks covering financial education for entrepreneurs and businesses. This data collection exercise led to the submission of the “Progress report on financial education for MSMEs and potential entrepreneurs” to G20 leaders in September 2015 (OECD/INFE, 2015^[6]) and to the report on “Financial Education for MSMEs and Potential Entrepreneurs” (Atkinson, 2017^[7]), which highlights the main policy challenges and good practices. The OECD report “Financial education for micro, small and medium-sized enterprises in Asia” provides further evidence and guidance on Asian countries (OECD, 2017^[8]).

The OECD/INFE report on financial education for MSMEs and potential entrepreneurs notes that MSMEs need a wide range of general and specific business competencies, including the financial management skills, the skills that will enable them to effectively negotiate and operate within a business environment, the ability to manage a business and other people, and the sector specific skills that can help them to succeed in competitive and volatile environments.

The OECD/INFE work on financial education for MSMEs recognises that the overall needs of MSMEs (including for increased financial, business and entrepreneurial literacy and education) can vary according to the size and life stage of the enterprise. In particular, as medium-sized firms typically have the resources to recruit finance specialists and to have dedicated functions within the firm dealing with financial decisions, the OECD/INFE work on financial education for MSMEs mainly focuses on micro and small firms, as also highlighted in the working definition of financial education for MSMEs (Box 3).

One of the first steps for policy makers seeking to improve the level of financial literacy among MSMEs is to identify what financial competencies MSMEs and potential entrepreneurs need and collect evidence on the levels of financial literacy among MSMEs.

The OECD and its INFE have developed significant expertise in both developing core competency frameworks on financial literacy for young and adult consumers, and on measuring the financial literacy of consumers. Building on the experience of the PISA Financial Literacy Assessment and Analytical Framework (OECD, 2013^[9]), the OECD/INFE developed the Core Competencies Framework on Financial Literacy for young people (OECD, 2015^[2]) and the Core Competencies Framework on Financial Literacy for Adults (OECD, 2016^[3]). This work supported and complemented the

development of the PISA financial literacy assessment (OECD, 2013^[9]; OECD, 2017^[10]), the OECD/INFE International Survey of Adult Financial Literacy Competencies (OECD, 2016^[11]) and the G20/OECD INFE report on adult financial literacy in G20 countries (OECD, 2017^[12]).

**Box 1. G20/OECD High-Level Principles on SME financing (2015),
Principle 7: Enhance SME financial skills and strategic vision**

To enable SMEs to develop a long-term strategic approach to finance and improve business prospects, public policies should champion SMEs' enhanced financial literacy; their awareness and understanding of the broad range of available financial instruments; and changes in legislation and programmes for SMEs. SME managers should be encouraged to devote due attention to finance issues, acquire skills (including digital skills) for accounting and financial and risk planning, improve communication with investors and respond to disclosure requirements.¹ Efforts should also aim to improve the quality of start-ups' business plans and SME investment projects, especially for the riskier segment of the market.² Programmes should be tailored to the needs and financial literacy levels of different constituencies and target groups, including groups that are underserved by financial markets, such as women, young entrepreneurs, minorities, and entrepreneurs in the informal sector, and to different stages in the SME business cycle.

¹ Efforts should be made to improve awareness and understanding by SMEs of the information required by creditors and other investors in order to consider their demand for finance. This should include feedback from financial institutions on how to improve the quality of applications for external financing. Entrepreneurs' financial literacy and skills can be improved either through the education system, as part of a more general effort to teach entrepreneurship skills, or through specific programmes and advocacy, including in cooperation with the private and not-for-profit sector. Approaches such as training, mentoring and coaching can help SMEs understand how different instruments serve different financing needs at specific stages of the life cycle; the advantages and risks implied; the complementarities and possibility to leverage different sources of finance; and how to approach different types of investors and meet their information requirements.

² Investment readiness programmes can support start-ups and SMEs in understanding investors' specific needs, gathering information and developing business plans so as to address these needs appropriately. Furthermore, accompanying support to financing, such as mentoring and coaching, including by investors, can improve the survival and growth of new and small firms.

Box 2. Working definition of financial literacy of owners and managers of MSMEs

The OECD/INFE defines the financial literacy of adults as: “a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being” (Atkinson and Messy, 2012_[13]).

Taking into account this definition as well as the definition of financial education for MSMEs (Box 3), in the context of the work stream of financial education for MSMEs and of this core competencies framework, financial literacy is defined as:

“the combination of awareness, knowledge, skills, attitudes and behaviour that a potential entrepreneur or an owner or manager of a micro, small or medium sized enterprise should have in order to make effective financial decisions to start a business, run a business, and ultimately ensure its sustainability and growth”.

This definition stresses that:

- The subject displaying a certain level of financial literacy is an individual, be it an entrepreneur-to-be or owner/manager of an MSME, and not the MSME as a whole (even if it is considered to be a legal person);
- The financial literacy being described is specific to business issues rather than personal ones (i.e. it is not the personal financial literacy of an entrepreneur).

A high-level tool to support learning and assessment frameworks at the national level

The OECD/INFE has designed this framework as a reference for all stakeholders with an interest in developing the financial literacy of potential entrepreneurs and MSMEs, such as policy makers, business associations, chambers of commerce, organisations supporting entrepreneurship and start-ups, other not-for-profit organisations, accountants, programme developers, and financial intermediaries. In particular, the framework is expected to support the development of:

- learning frameworks for financial education initiatives (including training) targeting MSMEs and potential entrepreneurs, as well as deepening the financial content of programmes covering business skills more broadly,
- assessment frameworks for measuring the financial literacy of MSMEs and for use in programme evaluation.

The framework is intended to be read as a high-level overview of financial literacy competencies. It is unlikely that entrepreneurs in all countries and industries will exhibit each competency, even though they may aspire at having as many as possible of the competencies listed. It is anticipated that a combination of these competencies, depending

on personal and business needs and on the national cultural, economic, financial and industry context, is likely to maintain or improve financial business management, profitability and sustainability.

In most cases, managers and owners of MSMEs will be able to improve the competencies listed through education, information and advice, but policy makers will also recognise competencies that could be reinforced through a combination of better product design, financial consumer protection and/or regulation. It is not anticipated that these competencies should in any way form a curriculum for advanced study.

Box 3. Working definition of financial education for MSMEs

The OECD/INFE Working Group on Financial Education for MSMEs agreed that the work of the OECD/INFE will primarily focus on those enterprises that are either micro or small (with a suggested maximum size of 100 employees) as well as potential entrepreneurs. The title of the subgroup will continue to refer to MSMEs to take into account the various definitions of enterprises.

The working group adopted the following definition of financial education for MSMEs and potential entrepreneurs, which “takes into account different types of business and stages of enterprises, and refers to the process by which they:

- Recognise the interaction between personal and business finance;
- Know where to go for help;
- Improve their understanding of the financial landscape, products and concepts of relevance; and
- Through information, instruction and/or objective advice, develop the skills, knowledge, attitudes and confidence to:
 - become more aware of financing opportunities and financial risks and opportunities;
 - make informed business plans and related choices;
 - manage their financial records, planning and risks effectively over the short and long term; and
 - take other effective actions to maximise the potential of their business for the benefit of their enterprise and that of the wider economy”.

The work of the OECD/INFE recognises that the decision of how to apply the working definition should be made at the country level, as the definitions of micro, small and medium enterprises vary by country, and, in some cases, by industry.

A flexible framework to be adapted to different contexts

The framework focuses on a range of competencies that are – or are likely to become – relevant for entrepreneurs across countries and for different groups of entrepreneurs and businesses, making it a valuable policy tool regardless of national factors, such as the level of financial and economic development, or existence of national strategies for financial education or strategies to support entrepreneurship and MSMEs.

Nevertheless, in reading and applying the framework, it is important to keep in mind that:

- The framework mainly focuses on competencies relevant to potential entrepreneurs and owners/managers of micro and small firms, rather than medium-sized enterprises, as also highlighted in the working definition of financial education for MSMEs adopted by the OECD/INFE (Box 3).
- The framework covers, to some extent, the competencies needed at different stages of development of the firm (see the section about Progressions). More detailed frameworks or checklists devoted to life stages of the firm or different industries may be developed at a later stage.

Certain financial literacy outcomes for owners/managers of MSMEs may currently only be relevant in some countries, such as the impact of technological advancements and the use of digital financial services, and may become relevant in others over time. Some competencies have relevance in different ways across businesses of different size or age, such as the choice of different financing sources or the externalisation of some functions, like accounting. Other issues, such as taxation or credit reporting, are more specific to the national context and it is therefore left to the individual country to incorporate more detailed competencies in their own version of the framework. Finally, it should also be remembered that the extent to which owners and managers of micro and small businesses are financially included and confident using financial products and services will impact on their knowledge, behaviour and attitudes, indicating that access to appropriate financial products and services is a pre-requisite for some of the competencies indicated. This should be taken into account when applying the framework at a national level.

The case studies presented in Box 4 give an idea of the types of businesses covered by this framework, of the challenges they face, and of the competencies they might need.

Box 4. Case studies illustrating the scope of the framework

Jaktar is a micro-farmer selling cow's milk door-to-door in India. He receives payment in cash and P2P payments on a mobile. His business does not pay any taxes or receive government benefits. He is looking for finance to buy a cooler to keep the unsold milk fresh, but has no collateral and no access to formal financial markets. Jaktar may need to evaluate the advantages of accessing formal financial providers (if available) and to gain some financial management competencies.

Elvira is a painter and decorator in Spain. She recently set up her own website for promoting her work and receiving payments. She pays for raw materials using a credit card and debit card. She would like to hire one or two people on an occasional basis to help on large jobs. Elvira has the competencies to ensure that she keeps personal expenses separate from her business ones and keeps careful records of transactions. She needs to develop additional competencies to better understand the risks and benefits of different forms of staffing. She is currently researching ways to prevent fraudulent payments over the internet, to build her competencies in addressing this particular risk.

Amin is a plumber in Malaysia. He has several employees. Over the last three years, he set aside some cash to buffer against slow payers or lean months. He now has a contract with a large client, which provides most of the revenues for his company. He is considering extending his credit line to have enough cash until the end of this large 12-month contract. To ensure that his business finances are in good shape he may need to develop some additional competencies, from being aware of the risks of having only one large client, to being able to cope with the mismatch between the client's terms of payment and the timing of his debt repayments.

Satchin, Agnès and Sacha completed their PhDs in chemistry and engineering a few years ago and have since been working as consultants for various bio-tech companies in France. They have continued to do research on the side and have together come up with a project to develop waterproof paper. They would like to set up their own company but have no previous experience of looking for funding or financial management. They will need to find opportunities for training themselves in financial management, figure out the best legal form for the company, and consider applying to an incubator, crowdfunding platform or venture capitalist.

Structure of the framework

Figure 1 offers a stylised representation of the structure of the framework, which is articulated into Areas of competency, Dimensions of financial literacy and Progressions of the enterprise.

Areas of competency

The framework is structured around four main areas of competencies, with the content of each area further split into distinct topics:

- **Choice and use of financial services**
 - Basic payment and deposit services

- Financing the business
- **Financial and business management and planning**
 - Registration, taxes and other legal requirements
 - Keeping records and accounting
 - Short-term financial management
 - Planning beyond the short term
- **Risk and insurance**
 - Personal risk and insurance
 - Business risk and insurance
- **Financial landscape**
 - External influences
 - Financial protection for MSMEs
 - Financial information, education and advice

The areas and topics do not have a particular order and are not necessarily intended to be cumulative (e.g., an entrepreneur may have competencies in one area but not need competencies in another).

Often, in a business context, the short term refers to decisions, obligations and contracts to be made or honoured within one year or one year and half. In this framework, time limits associated with the short term and “beyond the short term” are intentionally left unspecified so that they can be adapted to different national or industry contexts.

Dimensions of financial literacy

Within each area and topic, competencies are organised into:

- **Awareness, knowledge and understanding**
- **Skills and behaviour**
- **Attitudes**

These three dimensions are ordered in the same way as in the OECD/INFE core competencies framework for adults (OECD, 2016^[31]). Nevertheless, it is recognised that knowledge, skills and attitudes do not necessarily need to be acquired in this order, and that they could be developed simultaneously or sequentially. Similarly, the framework does not assume that competencies around knowledge, skills and attitudes may be equally easy to attain.

Progression of the enterprise

Competencies are ordered across the main stages of development of the firm (or life stages):

- **Basic / informal:** includes very basic competencies that owners and managers of micro and small businesses should possess. Entries within this group include competencies that can be intended as pre-requisites to formally setting up a business, or competencies for very small businesses operating in the informal/grey sector and that are not registered (do not belong on a list of registered or

incorporated companies, do not prepare tax returns or receive government benefits). For simplicity, it is also assumed that informal businesses covered under this group do not have access to formal financial services, even though this might not always be the case. The OECD/INFE does not encourage individuals to run unregistered businesses, but it is important to recognise that in some developing and emerging economies many micro and small businesses operate in this way, and many entrepreneurs across the world start in a craft/hobby phase, before seeking to put their business on a legal footing.

- **Starting up / becoming formal:** includes the competencies that potential entrepreneurs should have if they want to start a formal business and during the start-up phase, or that owners/managers of informal micro or small firms should possess if they want to run their business formally.
- **Growing:** includes competencies related to managing a business beyond the start-up stage and making it grow. This also includes doing business abroad and hiring employees, even though these issues are not essential components of growth, and might arise at different points in the development of the business.
- **Closing:** includes competencies related to the sale, liquidation, succession or bankruptcy of a business.

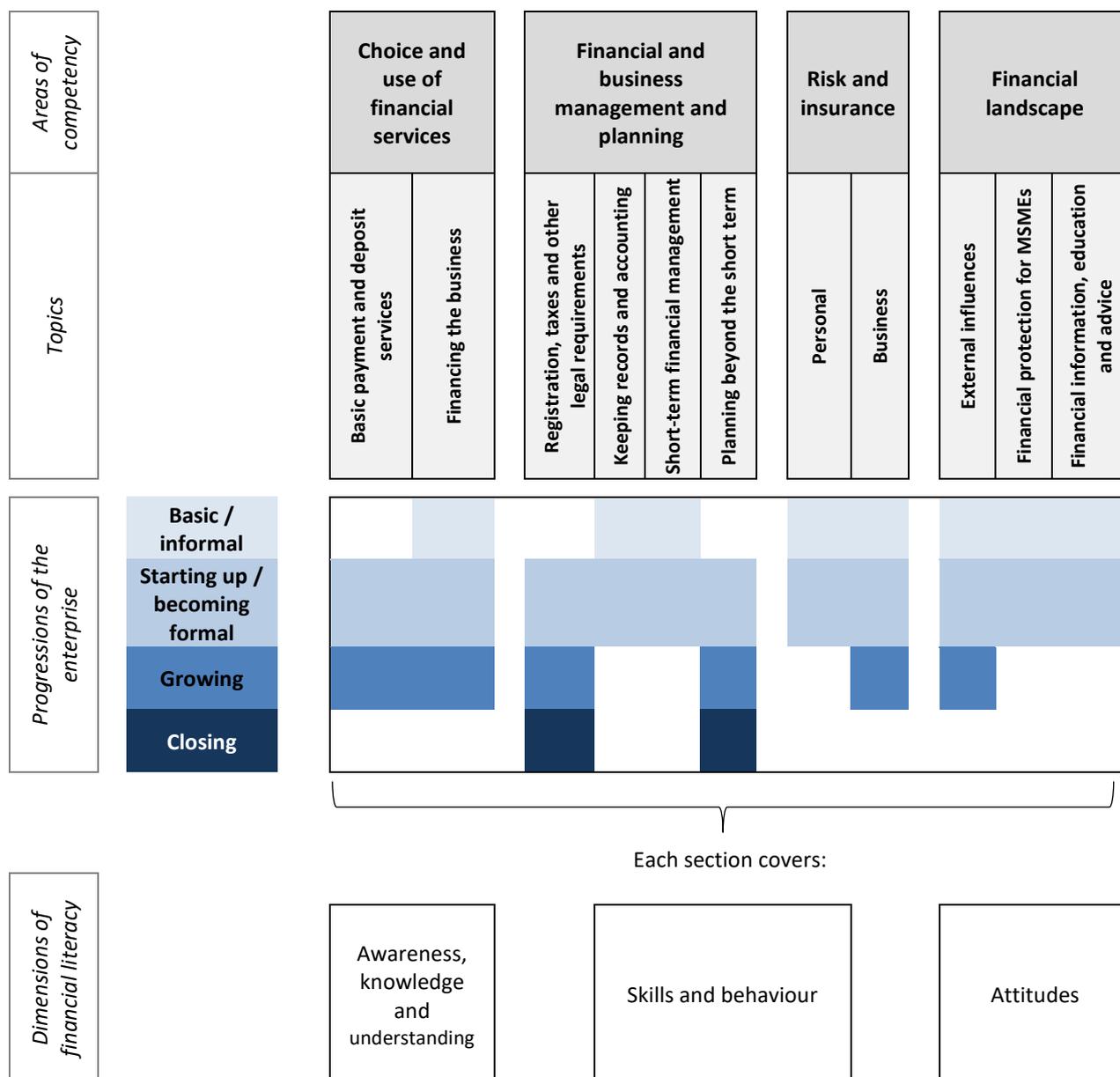
These progressions are intended as stages of development of the firm, and they do not necessarily represent levels of difficulty of competencies. Stages of development provide a rather natural way of organising competencies, but the distinction between one stage and the other can be quite ambiguous in practice, so the distinction between competencies in adjacent stages should be interpreted flexibly.

Competencies are meant to be cumulative with respect to progressions, in the sense that competencies at one level include competencies at all previous levels. For instance, owners and managers of micro or small firms who are already running a formal business should have competencies at the “basic” and “starting-up” levels. For this reason, the absence of competencies in a particular area at a given stage does not mean that no competencies are needed at that stage of development, but simply that the competencies that are already necessary at lower levels continue to apply. For instance, most competencies related to financial consumer protection for MSMEs are likely to be needed from the start of the (informal or formal) business, and are therefore not mentioned at later stages.

In some cases, a particular competency could fit within more than one topic. For the sake of brevity, competencies are not replicated in all possible positions within the framework. Nevertheless, there are some instances where a specific topic is mentioned in more than one place, especially when it is related to different competencies (e.g., Understanding the different taxes that may apply to the business and managing business finances keeping in mind the business needs in the medium- long term, including tax obligations). The framework strives to use terminology that is as general and internationally relevant as possible. Stakeholders using the framework may wish to use terminology closer to their national context and to develop examples of relevance to their country or target groups.

Stakeholders using this framework are free to apply it flexibly, using a specific order of priority depending on local specificities. Stakeholders interested in a specific topic, such as cash flow, are encouraged to examine the whole framework before applying it in their work, as it is quite possible that some relevant competencies overlapped with other topics and are included elsewhere in the document.

Figure 1. Structure of the framework



OECD/INFE Core Competencies Framework on Financial Literacy for MSMEs

A. Choice and use of financial services

Basic payment and deposit services

	Awareness, knowledge and understanding	Skills and behaviour	Attitudes
Starting-up / formal	Understanding the potential advantages, constraints and implications of accessing and using formal payment and deposit products and services	Choosing the most appropriate payment and deposit services, including digital ones, for the business needs, taking into account relevant factors, including price, costs associated with transactions, quality and breadth of service provision, supplier and customer preferences, and other conditions of the offer	Being confident to speak to financial services providers about the needs of the business
	Being aware of basic payment and deposit services for the business, including digital ones, and of their costs	Shopping around for different financial providers and products	Being confident to shop around for payment and deposit products and services for the business
	Being aware of fees associated with payments received from clients, such as fees associated with using point-of-sale (POS) or contactless terminals	Creating separate transaction, payment, deposit and savings accounts for personal purposes and for the business	
Growing	Being aware of costs related to currency exchange and transactions in a foreign currency	Being able to carry out business transactions in a foreign currency, if relevant Reviewing regularly the suitability of transaction, payment and deposit services and changing when necessary	Being confident to carry out business transactions in a foreign currency

Financing the business

	Awareness, knowledge and understanding	Skills and behaviour	Attitudes
Basic / informal	Knowing how much money will be needed to start the business and become operational	Evaluating the actual cost of setting up a business and making concrete plans to meet those costs	Being confident to shop around for different financial products and providers for funding the business
	Knowing how much of the initial capital to start the business will need to be found from external sources	Making informed decisions about funding the business, taking into account the implications and benefits of different options	
	Understanding the implications of obtaining funding from different sources, including family and friends	Shopping around for different potential funding providers	

Starting-up / formal	Being aware of different financing options that are available to set up a business and fund the start-up phase, including internal/family vs. external finance, government support vs. private funding, debt vs. equity	Researching and being able to access loans and other forms of financial support (grants, guarantees) available from various levels of national and local government to support MSMEs	Being confident to approach and speak to a range of sources of external finance, including banks, investors and potential other funders
	Knowing the features of different products providing external finance, how they work, and what are the implied benefits and risks	Evaluating the best financing option to set up the business and finance it in the start-up phase	Being determined and motivated to seek the most appropriate funding options
	Understanding the role of collateral and/or a guarantor when seeking to borrow	Choosing an appropriate balance across different sources of financing, and especially across internal finance, government support, debt and equity	Being persuasive and communicative when supporting one's own business plan
	Understanding that some forms of debt financing for the business entail the personal liability of the business owner	Being able to prepare documentation, develop an effective business plan, and practice a pitch to attract capital	Having a flexible and optimistic attitude towards achieving funding goals
	Understanding the decision-making process of banks, investors and other external finance providers, to improve the creditworthiness or investment-readiness of the business	Complying with the requirements of banks and investors (e.g., being "bankable" and/or "investment-ready")	Having a constructive attitude even when rejected by an investor or lender, and having the confidence and motivation to try again
	Being aware of public or not-for-profit opportunities to receive financial and in-kind support, including incubators ³	Meet terms and conditions set as part of the repayment process	
	Understanding the benefits, risks, costs and limitations related to digital services and platforms for funding the business (such as crowdfunding, peer-to-peer lending and initial coin offerings)	Managing financial relationships with banks and other sources of external finance and keeping them informed of developments in the business in order to ultimately improve the lending or investment process	
	Understanding whether a financing product is appropriate given the size and stage of development of the business (e.g. recognising that derivatives may not be suitable to micro businesses)	Taking steps towards obtaining credit rating, if appropriate for the business and relevant in the country	
Understanding how credit rating works and its financial implications for accessing credit (if relevant in the country)	Reviewing credit rating periodically and maintaining a good rating (if relevant)		

³ Incubators are organisations that help start-up companies to develop by providing them various services including training, office space, the opportunity to meet other start-ups or else.

Growing	Understanding which funding options are the most appropriate to grow the business	Choosing the most appropriate funding option to support business growth, given the stage of development of the business, its riskiness, and the amount of funding sought	Being proactive in dealing with financial issues related to business growth
	Understanding the functioning of capital markets and the requirements for accessing them		

B. Financial and business management and planning

Registration, taxes and other legal requirements

	Awareness, knowledge and understanding	Skills and behaviour	Attitudes
Starting-up / formal	Being aware of the business types available in the country and understanding their legal, fiscal and financial implications	Evaluating and choosing the best legal form for the business, potentially with the help of a professional advisor, based on business needs and aspirations	Being focused and organised to keep track and respect deadlines related to legal requirements
	Understanding that, under some business structures, the business owner can be personally liable for the business debts	Dealing timely with legal requirements related to opening and operating the business, such as preparing financial statements, dealing with licenses, tax filing and remitting, and compulsory insurances	Being timely and forward looking in addressing legal obligations
	Understanding the potential advantages, constraints and implications of registering the business formally or turning an informal business into a formal one	Being able to comply with due diligence requirements if necessary	
	Being aware of the legal requirements related to opening and owning a business (including licences, insurances, trademarks, patents, tax matters, financial statements)		
	Understanding whether the business should comply with due diligence requirements (e.g. to access certain sources of funding)		
	Understanding the different taxes that may apply to the business (such as income tax, corporation tax and sales tax) and the business responsibility to pay/remit taxes		
	Being aware of tax reductions or subsidies that may be available to MSMEs in the country		

Growing	Being aware of administrative and legal procedures related to hiring employees or apprentices (payroll, pensions, health care, safety, etc.)	Choosing an appropriate solution for managing employees' payroll and pensions, which may include obtaining and using relevant software, or paying an accountant
	Being aware of different options for managing employees' payroll and pensions (doing it one's self, paying/hiring an accountant) and of their respective advantages and disadvantages	Evaluating periodically if the chosen solution for managing employees' payroll and pensions is adequate or if it should be changed
Closing	Being aware of the legal and fiscal requirements related to different exit strategies Being aware of the legal implications and requirements of bankruptcy	Dealing timely with the legal requirements related to different exit strategies, including tax and insurance obligations, and those related to terminating licenses and any employees' job contracts

Keeping records and accounting

	Awareness, knowledge and understanding	Skills and behaviour	Attitudes
Basic / informal	Understanding the main components of business income and budget (revenues, profits, assets, liabilities, etc.) and how they are related one to the other	Keeping written records of business transactions Keeping track of revenues and costs	Having persistence and patience to keep track of costs, revenues and profits
	Being aware of all the revenues of the business and of all the expenses the business may regularly run into	Drawing cash flow projections and a budget for the short term Assessing if the business is making a profit or losing money	
	Understanding the different nature of some costs (such as variable or fixed costs)		
Starting-up / formal	Understanding how balance sheets, cash flow statements, and profit and loss statements are structured and how they are different one from the other	Keeping records of all business revenues, payments and contracts for accounting, insurance and tax purposes	Being determined to keep records for accounting, insurance and tax purposes
	Being aware of possible solutions for book-keeping and accounting, including available software and/or paying or hiring a professional to do it; being aware of their respective advantages and disadvantages	Choosing an appropriate solution for book-keeping and accounting, including potentially resorting to a professional, based on available options and costs, and on other advantages and disadvantages; evaluating periodically if the chosen solution is adequate or if it should be changed	Being confident to choose the most appropriate book-keeping and accounting solution for the business

Short-term financial management

	Awareness, knowledge and understanding	Skills and behaviour	Attitudes
Basic / informal	Understanding the importance of separating personal and business finances and the risks that may arise if this is not done	Separating personal and business finances	Having the determination and self-control to keep personal and business finances separate
	Understanding that factors like equipment depreciation, customer payment terms and supplier payment terms can impact cash flow in the short term	Drawing an income for the entrepreneur/owner, and considering it an expense of the business Setting enough funds aside to start the business and operate it while it starts to make a profit	Being focused, timely and organised to monitor cash flow regularly
	Understanding basic financial concepts and principles relevant for short-term management (such as inflation, interest, exchange rates, depreciation)	Monitoring cash flow at short and regular intervals to estimate future cash needs, potential liquidity problems, and to track progress Managing revenues and costs in the short term to make sure the business is able to pay regular expenses Comparing cash flow estimates against actual amounts, to see if the business is tracking as planned	Having a forward-looking orientation when starting the business
Starting-up/ formal	Understanding the factors, like loan repayments, that can impact the cash flow of the business in the short term	Using financial ratios and comparisons with industry ratios for monitoring and managing the business on a short-term basis	Being focused, timely and organised to respect payment deadlines
	Understanding the characteristics of short-term financing products or services, including credit accounts, as a support to managing cash flow	Managing revenues, costs, stock and inventories in the short term to make sure the business is able to pay amounts due to suppliers, taxes and loan instalments when they are due	Being motivated and forward-looking to anticipate short-term cash flow needs
	Understanding financial ratios that are relevant for short-term management	Being able to mobilise some financial resources quickly (such as short-term loan, bank overdraft or factoring) in case of cash flow problems to meet regular expenses	
	Identifying financial ratios in the industry	Evaluating the consequences of late payments (or non-payments) from customers and finding ways of dealing with them (including carefully selecting customers, assessing their creditworthiness, asking for payments in advance or using credit insurance) Identifying the profitability of different product/service lines	

Planning beyond the short term

	Awareness, knowledge and understanding	Skills and behaviour	Attitudes
Starting-up / formal	Understanding financial concepts and principles relevant for planning business finances in the future (like interest compounding)	Managing business finances keeping in mind the business needs in the medium and long term (including cash shortfall, tax obligations, debt repayments, equipment obsolescence, business growth, etc.)	Having perseverance and patience if success does not materialise as quickly as expected
	Understanding performance indicators and financial ratios for planning business finances in the future	Matching the timing of expected revenues and debt repayments, to avoid not having the cash flow to pay debt obligations Considering actions that can be put in place to increase revenues (such as pricing policy, promotion) and reduce costs (such as green energy investments) in the medium term	Being able to manage expectations and have realistic expectations about the business Having the perseverance to stick to intentions and carry out planned tasks
Growing	Being aware of the expenses that the business may run into in order to grow (such as new equipment, additional staffing, new licences, or new locations)	Creating medium-term business plans and budgets to develop the business in the medium-long term	Being alert to opportunities to develop the business Having the strategic view, motivation and long-term orientation to plan ahead for the business
	Understanding the advantages and disadvantages of different options to finance business growth, including savings, debt or external equity	Analysing the reasons and opportunities of growing the business (e.g. because of customer demand or to remain competitive), and assessing if they would be feasible and profitable	Being proactive to steer the business towards growth opportunities
	Understanding the financial implications of hiring employees and complying with labour legislation	Conducting an investment analysis to assess whether a specific investment is financially attractive for the business	Taking into account ethical and sustainability issues in dealing with business growth

Closing	Understanding the personal and business financial implications of different exit strategies, including transferring or selling the business to different parties (including family members, employees, management, external enterprises, etc.), going public, or closing the business	Evaluating options for different exit strategies in advance, and potentially seek help from a professional advisor	Having the long-term orientation to think about exit strategies in advance
	Understanding the personal and business financial implications of bankruptcy	Planning the closure, transfer, sale or succession of the business in advance	
	Knowing how to determine the market value of the business for the purpose of selling the business or for succession	Taking steps to manage the business finances in preparation of the business transfer or closure, such as collecting accounts receivable, selling inventories and business assets, settling outstanding debts, estimating business value, and planning how to deal with taxes, payroll and pension issues	

C. Risk and insurance

Personal risk and insurance

	Awareness, knowledge and understanding	Skills and behaviour	Attitudes
Basic / informal	Understanding the need to cover the entrepreneur/owner's retirement and healthcare needs	Evaluating whether public insurance for medical expenses and pension for the entrepreneur/owner is adequate and taking steps to complement it if necessary	Being proactive to address the needs for medical and pension insurance of the entrepreneur/owner
Starting-up / formal		Considering the opportunity to insure the life of the entrepreneur/owner	

Business risk and insurance

	Awareness, knowledge and understanding	Skills and behaviour	Attitudes
Basic / informal	Understanding sources of cash flow variability and overall risk for the business, including temporary failures, variability in revenues, theft/loss/damage, sickness, death of the entrepreneur/owner, damage to third parties, etc.	Having a plan for dealing with unexpected business expenses	Being willing to take some (controlled) degree of risk Being prepared to face uncertainty, setbacks and temporary failures
Starting-up / formal	Understanding that insurance can be used to cover some of the business risks, also in addition to the legally required ones	Developing contingency plans under alternative scenarios and planning for unexpected events; considering the possibility of the 'worst case scenario' and its impact on business viability	Having perseverance and patience to manage change
	Understanding that some strategies can be put in place to mitigate risk, in addition to insurance	Insuring the main equipment and assets necessary to run the business; evaluate periodically if the chosen insurance solution is adequate	
	Identifying risks with financial implications over different time horizons	Setting enough funds aside to operate the business during less profitable periods or emergencies Diversifying sources of revenue (for instance through different clients, or different products, or different locations) Considering the financial consequences of possible complaints from customers or of a loss of reputation for the business	
Growing	Understanding which factors and risks may affect the sustainability and growth of the business over time Recognising that a too large amount of resources set aside for emergencies can be an impediment to business development and growth	Being able to handle currency fluctuation Take into account potential new sources of risk in growth decisions, such as exploring unknown markets	Being flexible and adaptive when external or business circumstances change

D. Financial landscape

External influences

	Awareness, knowledge and understanding	Skills and behaviour	Attitudes
Basic	Understanding that external factors (local markets, competitors, etc.) may affect the business and that the business may affect the community	Keeping an eye on news of events that may have an impact on the business	Having the determination to follow relevant news and information that may impact the business
Starting-up / formal	<p>Understanding the role of the main economic and financial actors</p> <p>Understanding the main macroeconomic variables and the relationship between them</p> <p>Understanding how changes in the economic and financial landscape – such as inflation, recession, changes in benefits and taxation – can affect the business</p> <p>Understanding the implications of business decisions on the community, the economy, the society and the environment</p>	<p>Keeping an eye on changes in the main macroeconomic variables and legal framework that may affect the business</p> <p>Minimise the negative impact of business decisions on the community, the economy, the society and the environment</p>	Having a forward looking orientation to assess and take into account the consequences of business decisions on the wider landscape
Growing		<p>Using information about the economic and financial landscape to inform a strategic view to develop the business</p> <p>Adapting business plans according to changing economic and financial circumstances</p>	Being proactive in taking advantage of changes in the economic and financial landscape to make the business grow

Financial protection for MSMEs

	Awareness, knowledge and understanding	Skills and behaviour	Attitudes
Basic / informal	Understanding the risks of dealing with informal and non-regulated financial products (such as initial coin offerings) and providers (such as informal money lenders)	Keeping business data and financial information secure	Being vigilant against scams and determined to keep business information secure
Starting-up / formal	Being aware of the role of financial regulator(s) concerning consumer protection for MSMEs	Keeping informed about common examples of financial fraud, scams and mis-selling towards businesses and taking steps to the extent possible to avoid them	Being determined to protect business data from technological fraud
	Knowing the rights of the business in the financial marketplace, including that financial service providers have a duty to treat the consumer fairly and transparently, to provide reliable services, and to ensure security of consumer's data	Taking cybersecurity measures to protect the business from technological fraud	Being confident and determined to make complaints and seek redress from financial providers if needed
	Being aware of mechanisms to handle complaints and resolve disputes with financial services providers	Checking credit ratings and other records to verify that the business has not been a victim of fraud Checking that a financial services provider is covered by relevant regulation and supervision Taking steps to make complaints, resolve a dispute with financial providers and seek redress if necessary	

Financial information, education and advice

	Awareness, knowledge and understanding	Skills and behaviour	Attitudes
Basic / informal	<p>Being aware of gaps in own financial business knowledge and skills</p> <p>Being aware that not all sources of financial information may be reliable, unbiased and of high quality</p>	<p>Distinguishing sources of financial information that are reliable, unbiased and of high quality from unreliable and biased ones</p>	<p>Being ready to learn from a variety of sources</p>
Starting-up / formal	<p>Being aware of opportunities to improve own financial business knowledge and skills, to seek mentoring or financial advice, including small business associations; being aware of any potential costs of these opportunities</p> <p>Being aware of opportunities to join business incubators and accelerators to receive help on financial business management</p>	<p>Filling gaps in own financial business knowledge and skills, through self-study, available education programmes, mentoring or other learning opportunities</p> <p>Recognising when the help of a professional business, legal or financial advisors is needed, and seeking advice whenever this is the case</p> <p>Considering opportunities for supporting the financial literacy of the employees of the business</p>	<p>Being motivated to fill in gaps in knowledge or skills related to the business</p>

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Annex

This table summarises the resources that informed the development of the OECD/INFE core competencies framework on financial literacy for MSMEs.

Category	Institution	Resources
Dedicated financial literacy frameworks for MSMEs	Portugal's National Plan for Financial Education	Core Competencies for Financial Training. Micro, Small and Medium-Sized Enterprises (2016)
Financial literacy as part of broader entrepreneurship competencies frameworks	European Union	EntreComp: The Entrepreneurship Competence Framework (2016)
	Junior Achievement Europe	Entrepreneurial Skills Pass
Other exercises defining financial literacy competencies for MSMEs	Association of Chartered Certified Accountants (ACCA)	Building your financial capabilities: a guide for growing businesses (2013)
		Financial education for entrepreneurs: what next? (2014)
	USAID	Development of strategy options for SME financial literacy (2009)
Selected financial education courses and resources for MSMEs	Australian Securities and Investments Commission (ASIC) / MoneySmart	First Business online module and app
	Chartered Professional Accountants of Canada (CPA)	Toolkits and training sessions
	Chamber of Commerce of Metropolitan Montreal, Canada	Info Entrepreneur
	Reserve Bank of India	Syllabus for conducting workshops for bankers under the National Mission on Capacity Building of Bankers in the MSME Sector (NAMCABS) (not available online).
	Edufinet (Spain)	Financial Guide for Business Owners and Entrepreneurs (2016)
	US Federal Deposit Insurance Corporation (FDIC) and Small Business Administration (SBA)	Money Smart for Small Business (MSSB)

OECD/INFE Core Competencies Framework on Financial Literacy for MSMEs

This document contains an outcome-based, internationally relevant, core competencies framework on financial literacy for micro, small and medium-sized enterprises (MSMEs) and potential entrepreneurs, developed by the OECD International Network on Financial Education (OECD/INFE).

It is a policy tool that highlights a range of financial literacy outcomes that may be important to sustain or improve the financial literacy of owners and managers of MSMEs and of potential entrepreneurs in their experience of starting, running or growing a business. The framework describes the types of financial knowledge and skills that owners and managers of MSMEs or potential entrepreneurs could benefit from, the behaviours that may help them to improve the management of their business finances, as well as the attitudes that will support this process.

This framework builds upon and complements the OECD/INFE Core Competencies Framework on Financial Literacy for Youth (2015) and the G20/OECD INFE Core Competencies Framework on Financial Literacy for Adults (2016), developed in response to a G20 leaders' call.

www.oecd.org/finance/financial-education

