



IMPACT REPORT 2017

# SME FINANCE LOANS FOR GROWTH

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# GLOSSARY

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**Decent work** involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men.<sup>1</sup>

**Emerging and frontier markets** are countries which, broadly speaking, are classified by the World Bank as low- and middle-income countries.<sup>2</sup>

**Impact investing** is defined as investments made into companies, organizations and funds with the intention of generating measurable social and environmental impact alongside a financial return.<sup>3</sup>

**Small and medium enterprises (SMEs)** are defined by various metrics in different markets. These include employment figures, revenue turnover, total asset levels or loan sizes. For the purpose of this research, the local definition of an SME in each market as defined by investees was used, be it based on employment measures or a loan size proxy. Overall, this included SMEs with under 200 employees, and/or loans of about US\$ 1,000-250,000 (excluding outliers). Formal SMEs are those that are declared to the government and pay taxes.

**The Sustainable Development Goals (SDGs)** are a universal call action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. These 17 Goals include areas such as climate change, economic inequality, innovation, sustainable consumption, peace and justice, among other priorities.<sup>4</sup>

1 International Labour Organization. (n.d.). Decent Work. Retrieved from <http://www.ilo.org/global/topics/decent-work>

2 The World Bank Data. (n.d.) Low & middle income. Retrieved from <https://data.worldbank.org/income-level/low-and-middle-income>

3 Global Impact Investing Network. (n.d.). What You Need to Know About Impact Investing. Retrieved from <https://thegiin.org/impact-investing/need-to-know/>

4 United Nations Development Programme. (n.d.). Sustainable Development Goals. Retrieved from <http://www.undp.org/content/undp/en/home/sustainable-development-goals.html>



# KEY HIGHLIGHTS

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This impact report aims to measure the extent to which the Loans for Growth (LFG) fund meets its objectives to foster job creation, employment and entrepreneurship in emerging and frontier markets through SME finance. The LFG fund, launched in September 2016, provides financing to SMEs by investing in local, specialized financial institutions. One year after its launch, the fund is invested in 37 financial institutions across 22 countries worldwide.

The current report is the first in a series of four annual impact reports, which follow a sample of enterprises financed by the LFG fund. The outcomes presented in this report (Section 4) are based on primary data, collected through surveys conducted with 506 SMEs in 12 low- and middle-income countries in 2017. These outcomes will serve as the baseline for the data to be collected in the coming years. Using survey data from the end-clients of the fund, this research sheds light on a rich and detailed set of SME outcomes, including type of employment, gender of employees, wage levels, sources of financing, and type of assets, among others.

WORKING TOWARDS THE SUSTAINABLE DEVELOPMENT GOALS

Table 1  
Working Towards the SDGs



	SDG Targets	Indicators	SME Outcomes
<p><b>1</b> NO POVERTY</p>	<p>1.1 Eradicate extreme poverty (people living on less than \$1.25 a day)</p>	<p>Average daily wage rate per employee</p>	<p>Average daily wage rate \$10.16</p>
<p><b>5</b> GENDER EQUALITY</p>	<p>5.A Give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, and financial services</p>	<p>Proportion of female ownership per enterprise Number of employees, by gender</p>	<p>31% female-owned SMEs 35% female employees</p>
<p><b>8</b> DECENT WORK AND ECONOMIC GROWTH</p>	<p>8.3 Promote decent job creation and encourage the formalization and growth of micro-, small- and medium-sized enterprises</p>	<p>Number of employees, by employment type Formalization of enterprise</p>	<p>10,421 employees hired 86% of jobs are full-time 86% are formal sector SMEs</p>
	<p>8.6 Reduce the proportion of youth not in employment</p>	<p>Number of employees, by age group</p>	<p>17% of employees are youth (less than 25 years old)</p>
	<p>8.8 Promote safe and secure working environments</p>	<p>Incidence of occupational injuries</p>	<p>93% had zero incidences of occupational injury in the past 12 months</p>
	<p>8.10 Strengthen the capacity of domestic financial institutions to expand access to banking and financial services for all</p>	<p>Use of bank accounts</p>	<p>82% have a bank account used for business purposes</p>
<p><b>9</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>	<p>9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit</p>	<p>Sector of business</p>	<p>23% industry-related enterprises</p>

# 1. INTRODUCTION

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The SME Finance Loans for Growth fund (LFG) provides loans to small and medium enterprises (SMEs) in emerging and frontier markets via financial institutions active in the SME segment. Through its loans, LFG aims to support positive social transformation, economic growth and contribute to the development of local financial markets.

SMEs represent nine out of every ten businesses, account for half of global gross domestic product (GDP), and provide two thirds of jobs worldwide.<sup>5</sup> However, SMEs are considered riskier than larger firms, and therefore their access to finance remains limited, particularly in emerging and frontier markets. In 2012, the International Finance Corporation estimated that more than 17 million formal SMEs in emerging markets are credit-constrained.<sup>6</sup> The size of the financing gap for SMEs is estimated to be between US\$ 900 billion and US\$ 1.1 trillion.<sup>7</sup> As a consequence, their growth and employment potential is inhibited.

In an effort to alleviate these credit constraints, Symbiotics launched the LFG fund in September 2016. The LFG fund is a fully subscribed US\$ 50 million investment fund, with a four-year, closed-ended structure. The fund's structure benefits from a 10% first-loss risk protection, co-financed equally by public and private funds, which is designed to attract greater private capital flows to investment activities in emerging markets by guaranteeing lower risk to investors.

The fund aims to achieve the following main objectives:

- i to capture the financial and social value creation from financial institutions active at the base of the pyramid, in low- and middle-income economies, working with SMEs;
- ii to foster job creation, employment and entrepreneurship, as well as more broadly the democratization of access to capital.

This report aims to assess the extent to which LFG meets these objectives by measuring a detailed set of qualitative and quantitative SME outcomes through direct surveys with a sample of SMEs, in addition to illustrating the outreach of the total LFG portfolio. It provides insights into the characteristics of the SMEs in terms of employment, access to finance, assets, financial performance and challenges faced.

5 SME Finance Forum. (n.d.). What We Do. Retrieved from <http://www.smefinanceforum.org/about/what-we-do>

6 International Finance Corporation. (2012). IFC and Small and Medium Enterprises. Retrieved from [https://www.ifc.org/wps/wcm/connect/277d1680486a831abec2fff995bd23db/AM11IFC+IssueBrief\\_SME.pdf?MOD=AJPERES](https://www.ifc.org/wps/wcm/connect/277d1680486a831abec2fff995bd23db/AM11IFC+IssueBrief_SME.pdf?MOD=AJPERES)

7 Ibid.

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## 2.

# IMPACT MEASUREMENT METHODOLOGY

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Measuring and assessing the social performance of funds' investments is a crucial component of impact investing. Symbiotics has developed a social performance measurement framework that is rigorous, evidence-based and comprehensive.<sup>8</sup> This framework is used in order to assess the extent to which the LFG fund meets its objective to foster job creation, employment and entrepreneurship, as well as contribute to financial inclusion in emerging and frontier economies. The social impact of the fund is assessed both at the level of the financial institutions in the portfolio, and at the level of the end-clients (SMEs).

**At the level of the financial institutions:** We measure a set of outreach indicators, which shows where the fund is invested geographically, the type of financial institutions it engages with, their average financing size to SMEs and the number of SME clients the fund expects to have reached.

**At the level of SMEs:** The focus is on direct outcomes measurement through face-to-face interviews with a sample of SMEs financed by the LFG fund. A geographically representative group of financial institutions was selected, and a sample of their SME clients was interviewed. This included SMEs with under 200 employees, and/or loans of about US\$ 1,000-250,000 (excluding outliers).

Symbiotics developed a survey to collect detailed primary data from the sampled SMEs, focusing on indicators that are relevant to the objectives of the fund. The survey has the following seven main dimensions and contains in total 157 qualitative and quantitative indicators:<sup>9</sup>

- I Characteristics of the Business and the Business Owner
- II Accounting and Business Practices
- III Business Assets
- IV Loans and Access to Credit
- V Employment
- VI Business Expenditures, Income and Profits
- VII Business Challenges

In this effort, Symbiotics relied on the expertise of local market research agencies to conduct the survey with the sampled SMEs in the local language. The participation of the SMEs in this research is entirely voluntary, and their data remains confidential. The goal is to follow the same sample of SMEs through annual surveys over the four-year period of the fund (until 2020) to observe their growth trajectory. The data presented in this report describes the SME outcomes today, and will serve as a baseline for the outcomes in the coming years.

<sup>8</sup> Symbiotics SA. (2017). *Managing & Measuring Social Performance: Insights on Definitions, Practices and Solutions*. Retrieved from [https://symbioticsgroup.com/wp-content/uploads/2017/10/SPM\\_web.pdf](https://symbioticsgroup.com/wp-content/uploads/2017/10/SPM_web.pdf)

<sup>9</sup> For further details on these dimensions, please refer to Appendix 1.

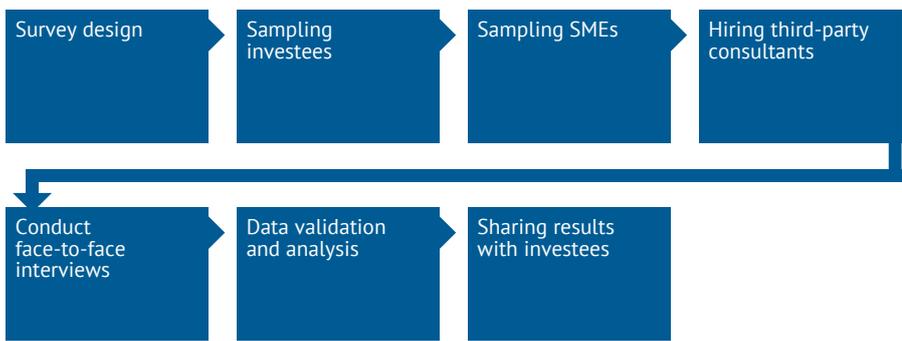


Figure 1  
Data Collection Methodology

**NOTE ON SAMPLING**

While the sample of SMEs is geographically representative of the fund’s portfolio, it is unlikely to be representative of all the clients reached by the investees. The investees have different target clients depending on their institutional structure, and only a segment of their gross loan portfolio (25-100%) is in SME finance. When sampling end-clients to measure their outcomes, we focus only on SME clients. The effort to follow the same sample of SMEs and measure similar indicators annually over the four-year period will allow us to gather comparable data, both over time and across countries. However, there is a risk of attrition from the sample.

**NOTE ON ATTRIBUTION**

A positive (or negative) relationship between access to finance and improvements in SME outcomes does not allow us to infer that LFG or Symbiotics are the cause of these outcomes. The study follows a diverse and heterogeneous sample of enterprises, subject to a variety of exogenous factors that are likely to affect their outcomes. Therefore, the analysis in this report is descriptive in nature and is intended to better understand SMEs’ performance and any challenges they face.

### 3. LFG FUND'S PORTFOLIO OUTREACH

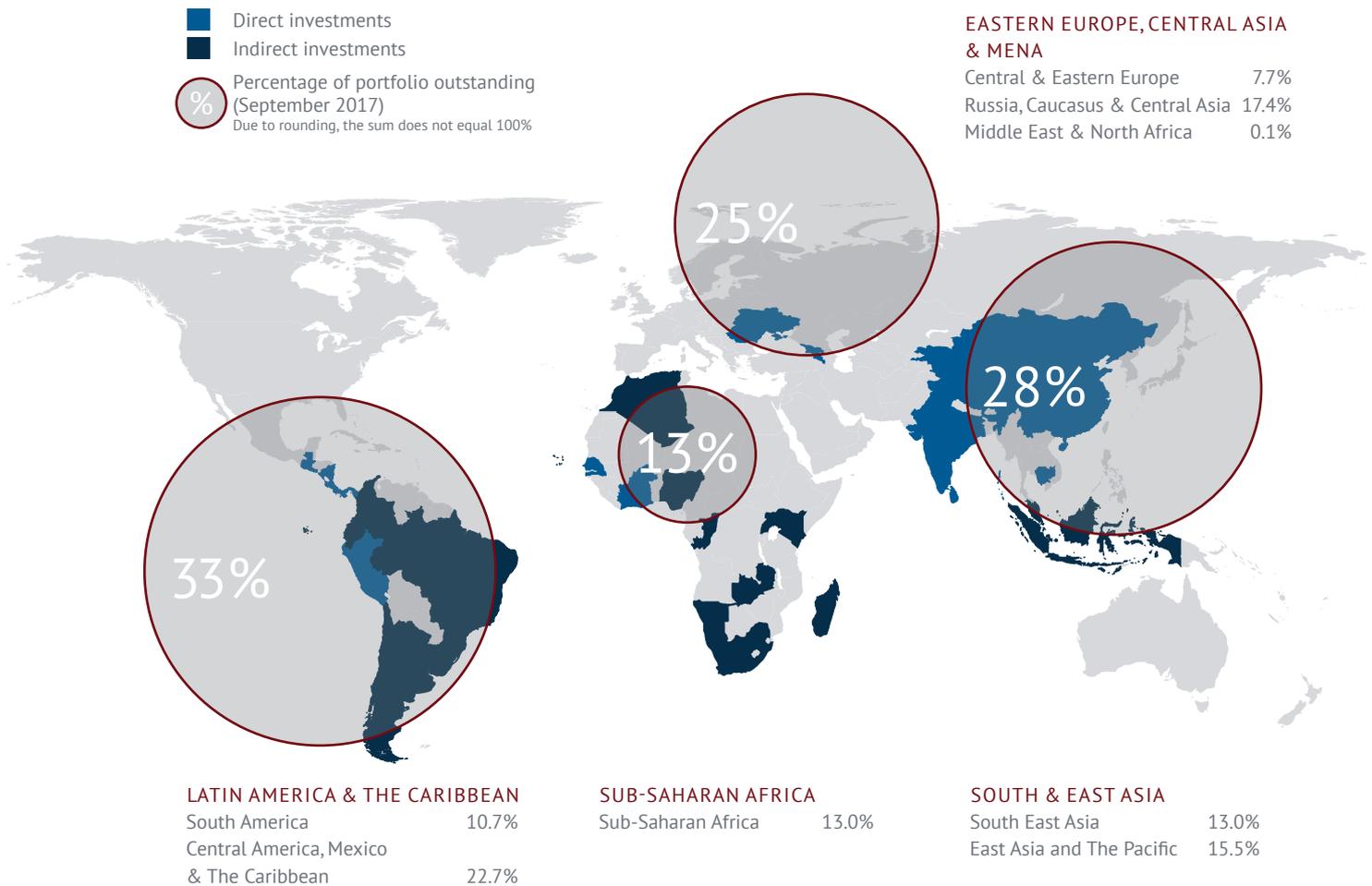
#### SETTING THE CONTEXT

During its first year of operation, the LFG fund:

- › Originated US\$ 49 million
- › Financed 37 financial institutions through 48 transactions
- › Invested in 41 countries, including 19 through the Trilinc Global Impact Fund LLC<sup>10</sup>

As of September 2017, the fund's largest exposure is in Latin America & the Caribbean, at one-third of portfolio outstanding. The second largest exposure is South & East Asia (28%) while 25% is invested in Eastern Europe, Central Asia & the Middle East and North Africa (MENA) and the remaining portion (13%) in Sub-Saharan Africa.

Figure 2  
Geographic Outreach of LFG



<sup>10</sup> Trilinc Global Impact Fund LLC is a private debt impact investing fund providing growth stage loans and trade finance to established SMEs in 25 countries.

### SOCIAL INTENTIONS – SOCIAL RESPONSIBILITY RATINGS

Prior to an investment decision, each potential investee is rated on a scale of zero to five on its likelihood to contribute to sustainable development and positive social impact. This rating has been developed in-house by Symbiotics and assesses the social responsibility practices of a financial institution across seven different dimensions (Figure 3).

The portfolio-weighted average rating of investees in the LFG fund is 3.5 stars as of September 2017, with 35 such ratings being produced during the fund’s initial year of operation. Overall, the institutions perform well on most dimensions, with scores ranging between 49% and 72%. The only exception is environmental policy, where the score is only 31%. This dimension primarily measures whether an investee has an environmental policy in place, be it for its own operations or for its lending activities. Historically, traditional financial services providers such as those in the LFG portfolio have tended not to prioritize this dimension.

### OUTREACH MEASUREMENT

The following section aims to quantify the breadth and depth of LFG fund’s portfolio outreach by integrating market-level and investee-level information. These metrics enable us to draw valid observation points in terms of social outreach.<sup>11</sup>

#### Market outreach

As of September 2017, the LFG fund is invested in countries where:

- › GDP per capita (current US\$) is US\$ 4,565, which is lower than the world average and in-line with the average of low- and middle-income economies (Figure 4).<sup>12</sup>
- › Banking penetration levels (42.9%) are not only lower than world averages, but also lower than the average for low- and middle-income economies (Table 2).<sup>13</sup>

Table 2

Banking Penetration Levels, % of Adult Population

Banking Penetration Levels	% of Adult Population
LFG Portfolio (Weighted Average)	42.9%
World (as of 2014, Global Findex)	60.7%
Low & Middle Income Economies (as of 2014, Global Findex)	53.0%

11 The metrics do not conclusively determine the outreach levels attained by the LFG fund (positive or negative), because one has to consider market specificities.

12 The World Bank DataBank. (2018). *World Development Indicators*. Retrieved from <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>

13 The World Bank. (2015). *Global Findex Database*. Retrieved from <http://datatopics.worldbank.org/financialinclusion/>

Figure 3  
Social Responsibility  
Rating Scores per Dimension  
(LFG Portfolio Weighted Averages)



Figure 4  
GDP per Capita (current US\$)

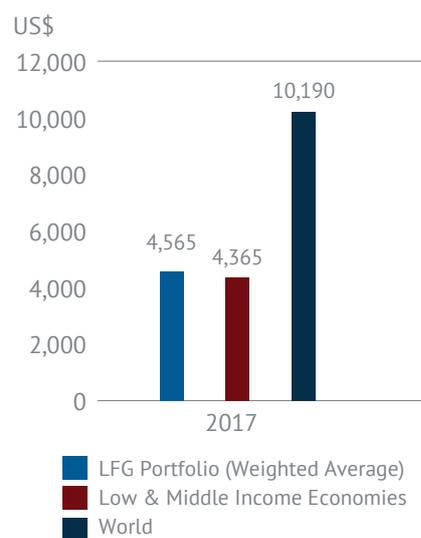
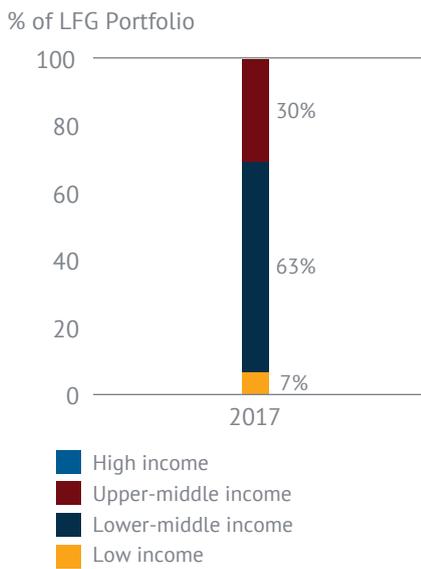


Figure 5  
% of LFG Portfolio by Countries' Income Levels



Both these metrics demonstrate the depth of outreach of the LFG fund, towards lower income markets where the adult population lacks appropriate financial integration.

When applying the World Bank's classification in terms of countries' income levels, we see that the LFG fund's portfolio is largely channeled to lower-middle income economies (63%) as of September 2017 (Figure 5).

#### Investee outreach<sup>14</sup>

As of September 2017, the LFG fund's portfolio is largely composed of:

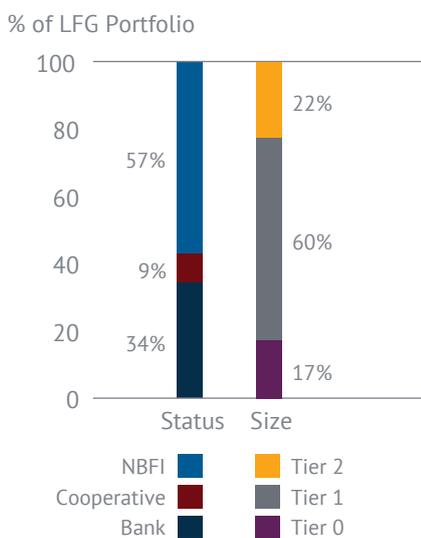
- › Non-bank financial institutions (NBFIs) and banks, together accounting for 91% of portfolio outstanding.
- › Tier 1 financial institutions (60%).<sup>15</sup>

These investees have an SME clientele that benefits from loans amounting to US\$ 48,411 on average, with variations depending on countries. The median SME loan among these investees is US\$ 33,223, indicating that there is heterogeneity among the investees. These variations are further illustrated and verified within the sample of SMEs surveyed (Section 4A).

Given the portfolio outstanding of the LFG fund in each investee, the fund is expected to have financed 3,490 SMEs as of September 2017.<sup>16</sup>

Out of those, more than 500 SMEs were surveyed in the field to assess the social outcome of the LFG fund. The following section provides the results and analysis of these surveys undertaken in various countries, and forms the core of this first year impact report.

Figure 6  
Status & Size of Financial Institutions



# US\$48,411

Average SME Financing  
Size of LFG Investees  
(Simple Average)

14 The investee outreach indicators are measured for direct investments only, excluding indirect investments made through the TriLinc Global Impact Fund LLC.

15 Symbiotics categorizes investees in different tiers depending on their balance sheet size in US\$:

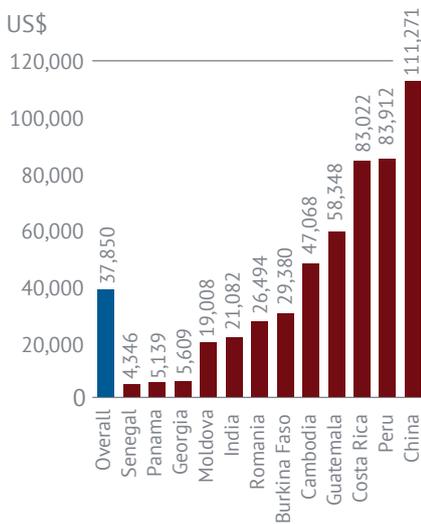
- Tier 0: total assets ≥ US\$ 1 billion
- Tier 1: US\$ 100 million ≤ total assets < US\$ 1 billion
- Tier 2: US\$ 10 million ≤ total assets < US\$ 100 million
- Tier 3: total assets < US\$ 10 million

16 This figure is derived by dividing the portfolio outstanding of the LFG fund for each investee by this investee's average SME financing size, and then summing the number of SMEs reached for each investee across the entire portfolio.

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## 4. SME OUTCOMES

Figure 7  
Average Loan Size by Country (US\$)<sup>18</sup>



### A. SAMPLE DESCRIPTION

#### Size

- › 506 SMEs were successfully interviewed.
- › Sampled SMEs are financed by 13 investees in 12 countries. The investees in the sample are geographically representative of the regions in which the LFG fund is invested.
- › The loans allocated to the sampled investees constitute 35% of the total LFG portfolio.
- › The number of SMEs in the sample represents approximately 14.5% of the expected number of SMEs financed by the fund.

#### Type of institutions

The diversity in institution type and geographic location is clearly reflected in the heterogeneity in loan size between the financial institutions. Overall, larger banks or specialized SME finance institutions in higher income countries tend to disburse larger loans than do microfinance institutions.

Table 3  
Investees and Sample Size

Financial Institution	Country	Sample size	Institution type
<b>Sub-Saharan Africa</b>			
Coris Bank International	Burkina Faso	46	Bank
Cofina Senegal	Senegal	45	Microfinance institution
<b>South &amp; East Asia</b>			
Sathapana Bank Plc.	Cambodia	45	Bank
Grassland Finance Ltd.	China	45	Microfinance institution
NeoGrowth Credit Pvt. Ltd.	India	46	SME finance
<b>Eastern Europe, Central Asia &amp; MENA</b>			
Lazika Capital	Georgia	51	Microfinance institution
Microinvest	Moldova	45	Microfinance institution
RoCredit IFN S.A.	Romania	47	Microfinance institution
<b>Latin America &amp; the Caribbean</b>			
Banco Improsa	Costa Rica	24	Bank
Arrend Leasing	Guatemala	42	Leasing company
Centro Financiero Empresarial	Panama	45	SME finance
Financiera TFC S.A.	Peru	12	SME finance
Cooperativa Pacifico	Peru	13	SME finance
		<b>TOTAL</b>	<b>506</b>

17 Average loan size among the sampled SMEs, which is different from the institutions' entire portfolio average loan size. Self-reported values of the loan size were validated using administrative data from the financial institutions, when possible.

## B. BUSINESS OWNER CHARACTERISTICS

### Gender

- › Out of the 506 SMEs, 30.9% are owned by women.<sup>18</sup>
- › The highest proportion of female ownership is in Romania (47%). Meanwhile, the lowest proportion is in Costa Rica (12%, see Figure 8).
- › There is a clear contrast between these figures and the proportion of women among microfinance clients, which is typically much higher.

### Age

- › The business owners we interviewed are between 20 and 77 years old, with an average age of 44.
- › 89% of business owners are between 25 and 60 years old.

### Educational background

The business owners are overall well educated and have some prior entrepreneurial experience.

- › The overwhelming majority of participants (95%) are literate.
- › 25% have completed at least secondary schooling and one third have also completed an undergraduate degree.
- › 48% of respondents currently own or previously owned another micro- or small enterprise.

Figure 8  
Proportion of Female Ownership by Country

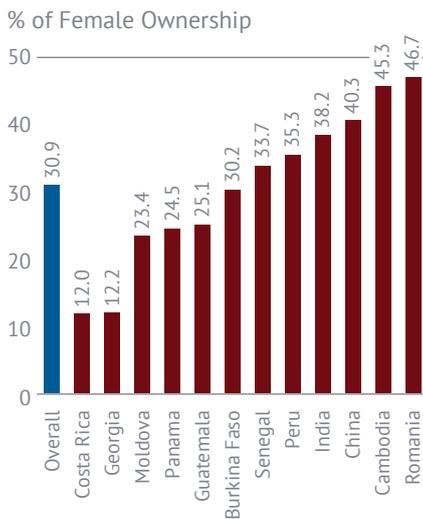


Figure 9  
Age of Business Owners

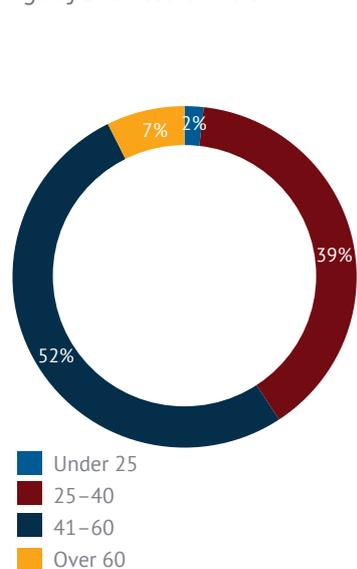
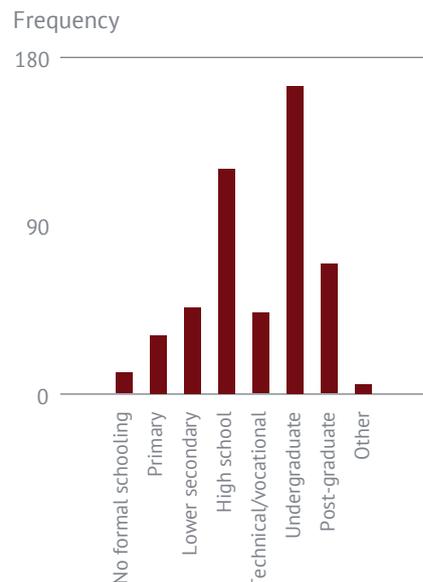
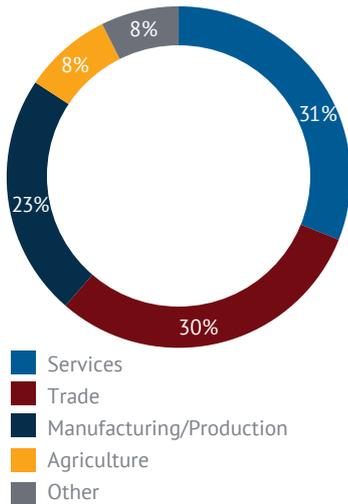


Figure 10  
Educational Attainment of Business Owners



18 Since we ask respondents about co-owners of their businesses and their gender, we derive this figure by summing up the proportion of female ownership in each business (e.g. 100% if the business is solely owned by one or more female entrepreneurs) and dividing it by the total number of businesses.

Figure 11  
Business Sectors



#### Location and activities

- › The largest proportion of the SMEs run service-based and trading activities, and the smallest share is in agriculture.
- › Almost a quarter of the businesses work in manufacturing and production, with activities ranging from construction to the production of plastics, among others.

23% in rural areas

## Golden Grains, TBC Leasing | Georgia



Golden Grains is a small enterprise (SE) owned by Mr. Oktai Ozturki, a trader in the food industry and Mr. Engin Bilsen, a mechanical engineer. In 2012, they founded the SE, which produces food additives for animals and birds. To gain knowledge about this type of business, both men visited similar enterprises in Turkey, Germany and the USA. As they were not able to obtain financing for their new venture through commercial banks, they turned to TBC Leasing where they obtained a leasing contract for US\$ 60,000. TBCL leased a packing machine, a drying machine and a conveyor unit. Golden Grains recycles beer waste materials by collecting the liquid yeast obtained during the processing of the beer and then drying it and transforming it into animal food additives. This technique contributes to positive environmental impact, which is one of the SE's core aims. The partnership with TBCL has helped Golden Grains generate annual revenues of 1M GEL (US\$ 410,000). The SE's expenses remain minimal thanks to its location in Natakhtari where the famous Georgian beer that carries the same name is brewed, enabling the SE to have onsite access to beer waste materials.

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### Formalization

- › 86% of SMEs in the sample are formalized; they are registered or licensed with an official government body and pay taxes. Meanwhile, 13.5% are in the informal sector and 0.5% reported that they are in the process of being registered. In half the sampled countries, all the SMEs interviewed are in the formal sector. The lowest proportion of formalization is in Cambodia and Moldova, where it is 60% (Figure 12).
- › 28% of SMEs agreed or strongly agreed that the registration process in their country is difficult. SMEs in China, Georgia and Moldova found it easiest to register their businesses, while those in Costa Rica and Senegal found it the most difficult.

Figure 12  
Proportion of SMEs  
in Formal Sector

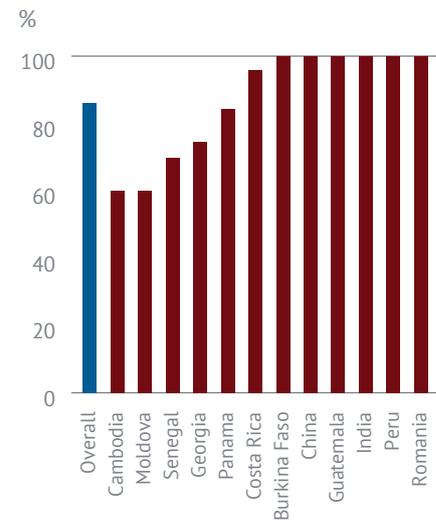


Figure 13  
Distribution of Number of Employees  
per Enterprise

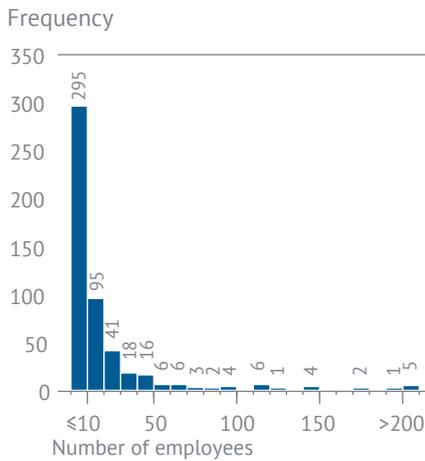


Figure 14  
Age of Employees

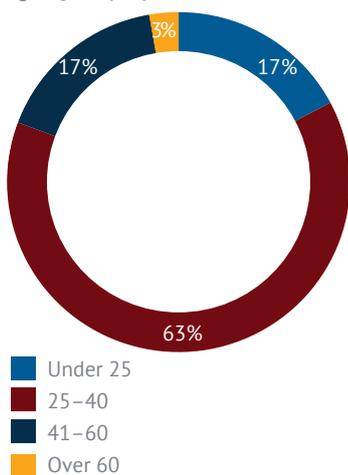
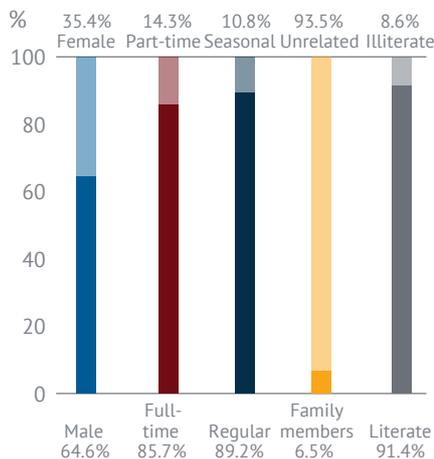


Figure 15  
Characteristics of Employees



## C. KEY OUTCOMES

### I EMPLOYMENT

- › The 506 SMEs in the sample hire 10,241 employees in total.
- › The average number of employees per enterprise is approximately 20. However, the median number of employees per enterprise is 8, suggesting that the average is skewed due to some outliers with a significantly larger number of employees than the remainder of the sample.
- › The majority of the SMEs in the sample are on the smaller end of the spectrum; 58% of the SMEs employ less than 10 individuals, and another 19% employ between 10 and 20 individuals (see Figure 7). Meanwhile, only 8% of the sampled SMEs employ 50 or more individuals.
- › Of the 10,241 employees, 35.4% are female, while 64.6% are male.
- › The largest SMEs in the sample, with 150 employees or more, are based primarily in Guatemala and India.
- › Female-owned enterprises are more likely to hire a greater proportion of female employees. Among the female-owned enterprises, 50.7% of employees are female, and the average number of female employees per enterprise is 11. Meanwhile, among male-owned enterprises, only 29.2% of employees are female, and the average number of female employees is 6.
- › On average, the business owners/respondents, worked 25 days during the month preceding the interview, at a rate of approximately 9 hours per day.

### Employee characteristics

- › The majority of those employed by the SMEs in the sample are between 25 and 40 years old, while another 34% of employees are evenly distributed between the younger (<25) and older (41-59) age brackets.
- › This is consistent with the demographic profile of the countries included in the sample, most of which have a predominantly young population<sup>19</sup>. It also suggests that SMEs in emerging economies contribute to alleviating the pressing issue of youth unemployment.
- › The SMEs provide opportunities for regular, full-time employment, allowing for a stable source of income to employees.
- › This is likely to be because the SMEs primarily operate in non-agricultural sectors (see Figure 11); among the agricultural businesses in the sample, the proportion of casual/seasonal employment almost doubles from 10.75% to 19.75%.
- › The overwhelming majority of employees are unrelated to the business owners, unlike microenterprises where family members are typically responsible for business activities.

19 Central Intelligence Agency. (2018). The *World Factbook*. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/>

## Wages

We analyze the wage rate offered by the SMEs in the sample relative to (i) the national or sectoral minimum wage, where applicable,<sup>20</sup> (ii) the prevailing wage rates offered by similar businesses, and (iii) the country's gross domestic product (GDP) per capita.<sup>21</sup>

- › 445 SMEs reported how their wage rates compare to the applicable minimum wage.
- › The majority (71%) stated that they pay their employees a wage that is above the minimum wage, and 19% pay the minimum wage.
- › Most respondents (57%) believed that the wages they pay their employees are competitive or very competitive, as compared to similar businesses. A further 35% believe their wage rate is average and in line with what their competitors pay. Finally, only 8% believe they pay uncompetitive wages to their employees.

The average monthly wage paid to an employee in one of the sampled SMEs is US\$305.<sup>22</sup> Table 4 shows the average monthly wage rate by country in the sample, and compares it to the 2016 GDP per capita. The average daily income per employee shows that all the SMEs in the sample provide an income that is well above the absolute poverty line of US\$ 1.25 per day. Overall, the wage rates paid by the SMEs in Africa and Asia exceed the GDP per capita, whereas they are lower than the GDP per capita in Latin America.

Figure 16  
Competitiveness of Wage Rate

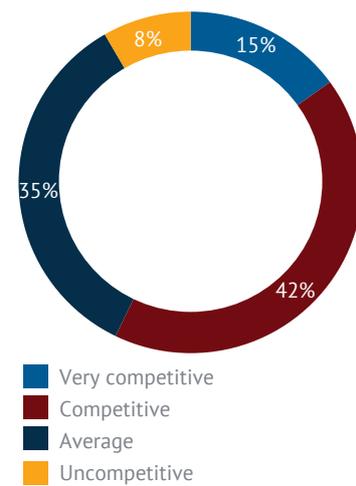


Figure 17  
Comparison to Minimum Wage



20 Note that the question pertaining to the minimum wage was added to the survey after the pilot phase, which was conducted in Cambodia. Therefore, the results refer to the other 11 countries in the sample, excluding Cambodia.

21 Based on 2016 GDP per capita, in current US\$, as reported by the World Bank. The annual GDP per capita is divided by 12 for the purposes of comparison to the average monthly wage rate.

22 Respondents reported the total amount spent on wages to all employees in the past 30 days. This value was divided by the total number of employees in each enterprise, and averaged over the entire sample. The average is calculated only over non-zero values of total wages for enterprises where there is at least one employee. Note that Costa Rica is excluded from the calculation because one third of the respondents refused to report their wage data, and the available data includes multiple outliers that appear to be misreported.

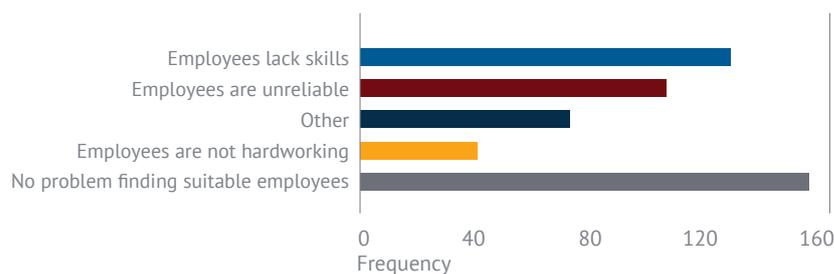
Table 4  
Wage Rates by Country

	Sample Average Monthly Wage Rate	2016 Monthly GDP per capita	Sample Average Daily Income
<b>Sub-Saharan Africa</b>			
Burkina Faso	\$180.43	\$52.26	\$6.39
Senegal	\$164.03	\$79.40	\$6.03
<b>South &amp; East Asia</b>			
China	\$685.04	\$676.93	\$22.83
India	\$315.57	\$142.47	\$10.52
Cambodia	\$157.43	\$105.83	\$5.25
<b>Eastern Europe, Central Asia &amp; MENA</b>			
Georgia	\$194.01	\$322.15	\$6.47
Moldova	\$203.40	\$158.35	\$6.78
Romania	\$446.24	\$793.33	\$14.87
<b>Latin America &amp; the Caribbean</b>			
Guatemala	\$102.84	\$345.56	\$3.44
Panama	\$629.61	\$1,140.02	\$20.99
Peru	\$240.97	\$504.10	\$8.03
<b>Overall</b>	<b>\$304.73</b>	<b>\$392.76</b>	<b>\$10.16</b>

#### Employment growth: needs and challenges

- › 45% of respondents reported that they would like to hire more workers than they are currently employing, if suitable workers are available.
- › However, this does not directly imply that financing is the only obstacle to employment growth. We asked respondents whether it is difficult to find employees and why. Half of the respondents agreed that it is difficult to find suitable employees in their area of work.
- › The most common problem reported is that prospective employees lack the necessary skills, and the second most common problem is that employees are not hardworking. Among the other difficulties reported are lack of loyalty to the business, and dishonesty.
- › On the other hand, 55% of the SMEs do not want to hire more employees. Among these SMEs, 36% (96 SMEs) have no difficulty finding suitable employees, suggesting that they do not have a need for more employees.
- › Business owners in this sample are more likely than not to retain their employees; 71% of SMEs did not lay off any employees in the past 12 months.

Figure 18  
Employment Challenges



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### Employee safety

One of the principles of decent work is a safe and secure working environment for all workers, wherein they do not face any harm. Among the sampled SMEs, 70% of respondents reported that they take some measures to ensure the safety of their employees, such as having a fire alarm or evacuation policy in place. Although not a sufficiently high proportion, 93% of the enterprises had no incidences of occupational injury in the past 12 months.

**70%** of SMEs use safety measures for employees

**93%** of SMEs had no incidences of occupational injuries

## YATI clinic, Coris Bank | Burkina Faso

YATI is a medical clinic established in 2012 in Ouagadougou by Mr. Adama Gnoumou, a Burkinabe radiologist, and three other specialized doctors (immunology, rheumatology and medical imaging). Since creation, the YATI clinic has benefitted from two loan cycles from Coris Bank International (CBI). A first loan of US\$ 68,000 was contracted in 2013 to fund two automated equipment for biochemistry and hematology. A year later, the clinic was granted a second loan of US\$ 21,000 to finance a generator that aimed to plug gaps during electricity shortages. The clinic, which started operating with one employee and 10 contractors at inception, today employs 30 people and works with 40 contractors. More than one hundred patients are taken care of every day by the YATI clinic, with medical services ranging from general medicine to cardiology, rheumatology, diabetology, infectious diseases and gynecology. Given strong affluence and huge needs in its operating areas, the clinic plans to move out to bigger premises next year, and will probably solicit a third loan from CBI.



Figure 19  
Distribution of Profit Margins

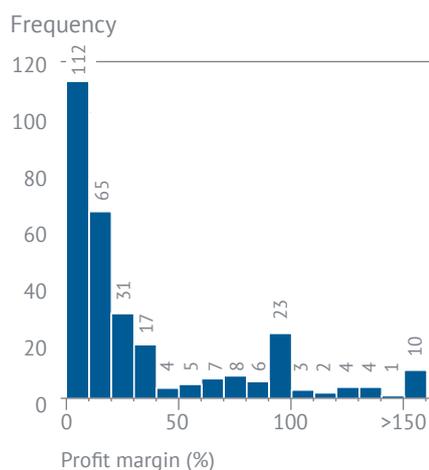
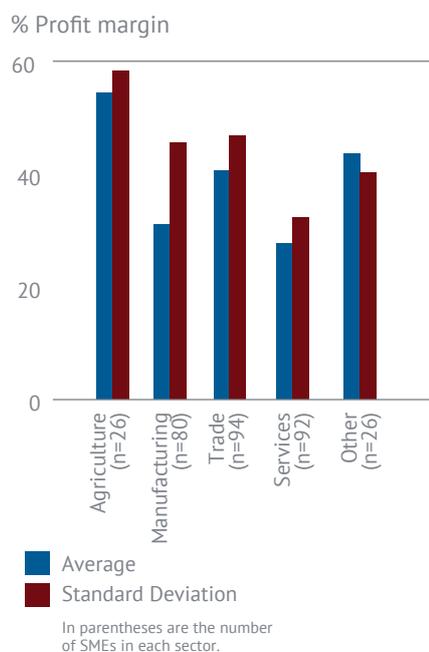


Figure 20  
Profit Margins by Sector



## II BUSINESS PERFORMANCE

### Revenues, expenses and profits

In terms of business performance, we asked the SMEs to report their total revenues, expenses and profits in the month preceding the interview.<sup>23</sup> It is common to observe extreme outliers in financial data, and therefore we report the median levels of these outcomes. The highest median levels of revenues, expenditures and profits (in absolute terms) is in China. Overall, the median revenues, expenditures and profits are US\$ 14,617, US\$ 7,805 and US\$ 1,741, respectively.

Across all regions, the largest proportion of SMEs' expenditures is on the purchase of inputs or raw materials (accounting for 50-85% of expenditures), followed by employee wages.

Using self-reported data on the SMEs' revenues and profits, we calculate the monthly profit margin.<sup>24</sup>

- › The average margin is equal to 36.1%, while the median is 16.1%.
- › None of the SMEs reported losses in the month preceding the survey, but 9 SMEs had zero profits.
- › 35% of SMEs had a profit margin below 10%.
- › The highest average margin is attained by businesses operating in agriculture. However, this sector also has the most volatile returns (with a standard deviation<sup>25</sup> of 58.2%).

23 Profit levels are not calculated by deducting the expenses from the revenues, but are self-reported, following the recommendation of De Mel, McKenzie & Woodruff, who conclude that this is a more accurate measure of firm profits in survey data.

De Mel, S., McKenzie, D.J., & Woodruff, C. (2009). Measuring microenterprise profits: Must we ask how the sausage is made? *Journal of Development Economics*, 88(1), 19-31. <https://doi.org/10.1016/j.jdeveco.2008.01.007>

24 The below calculations are based on 318 observations; there are 184 missing values and we trimmed the 99th percentile of the distribution (4 observations). The highest proportion of missing values was in Panama, followed by Moldova and India. Consequently, the analysis that follows is unlikely to be representative of the whole sample. The survey question used to collect the monthly profits was: "What was the total income the business earned during the past month after paying all expenses including wages of employees, but not including any income you paid yourself. That is, what were the profits of your business during the past month?" Therefore, the calculated figures (=monthly profit/monthly revenues) reflect the net profit margin.

25 The standard deviation is a measure of the dispersion of a group of observations from their average (mean) value. A low standard deviation means that most of the numbers are very close to the average. A high standard deviation means that the numbers are spread out.

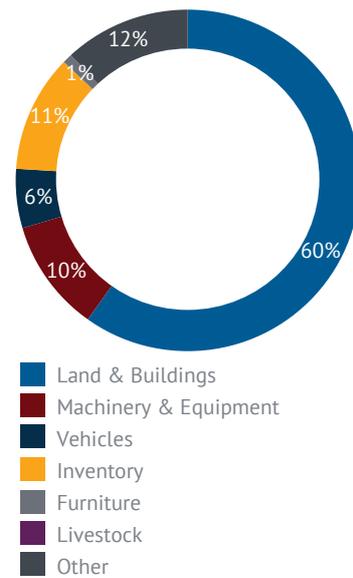
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### Assets

Across all regions, the highest proportion of business assets is in land and buildings. This is likely to be because 45% of the SMEs own the premises in which the business operates.

The median value of total assets in the sample is US\$ 52,337. As with other indicators of business performance, the highest value of total assets is in China, where the median is US\$ 2,902,665. Excluding China, the median level of total assets is US\$ 38,900.

Figure 21  
Types of Assets



### III FINANCIAL INCLUSION

#### Bank accounts

- › 82% of the SMEs in the sample have at least one bank account that is used exclusively for business purposes.
- › The 417 respondents who use bank accounts for their business have 700 bank accounts in total, averaging 1.7 bank accounts per business owner.
- › 84% of these accounts are opened at formal banks, another 10% are at micro-finance institutions, and the remainder is at cooperative or rural banks.
- › Of the 700 accounts, 84% are secured through a pin code or other means, and 71% are accessible through a mobile phone or other electronic device.

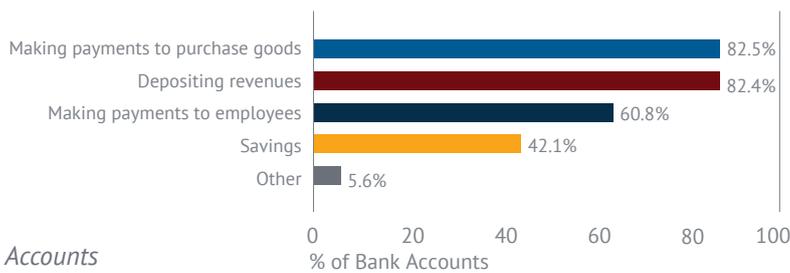


Figure 22  
Uses of Bank Accounts

#### Uses:

SMEs most commonly use the bank accounts to:

- › Make payments for the purchase of goods or inputs
- › Deposit revenues
- › Pay employees' salaries

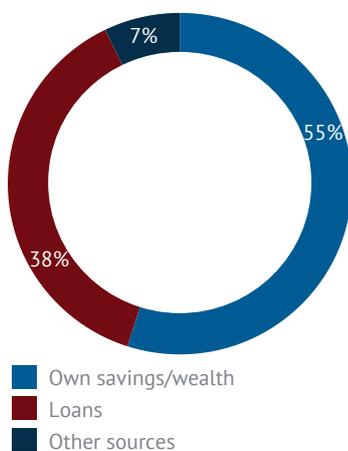
These purposes are clearly of direct relevance to the successful operation of the businesses. Most often, the SMEs open accounts at the institution from which they received their business loan. As a result, the fund provides not only access to finance, but also access to basic financial services that facilitate business transactions.

#### Access to finance

All the SMEs in the sample are loan recipients, and therefore have access to finance through loans. Nevertheless, more than half of the SMEs reported that their own savings or wealth is the main source they use to finance their business, while 38% use loans as their main source of finance. The remaining 7% rely on financial assistance from friends, relatives or other sources.

However, only 9% of SMEs had their loan applications rejected in the past. These findings suggest the creditworthiness of the SMEs is not the main reason they choose to rely on alternate sources of financing, as opposed to loans. It is likely that business owners use their own savings or wealth to finance their business ventures because loans are a costlier source of finance.

Figure 23  
Sources of Finance



#### IV BUSINESS CHALLENGES

When asked about the most important challenges they face out of a list of 10 challenges (Figure 24), the most common challenge faced by the SMEs is competition from businesses providing similar products or services, followed by changes in costs of inputs.

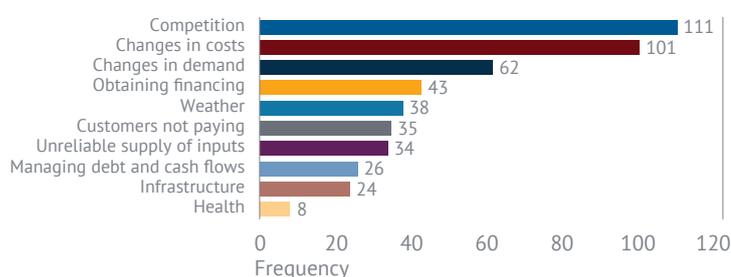


Figure 24  
Business Challenges

## AGP Semillas, TFC | Peru

At the end of the 1990s, as Mr. Gonzalo García had just graduated as an agronomic engineer, Peru was hit by a wave of floods and landslides, damaging crops all over the country. His father, then an important trader of imported chemical products for the agricultural sector, had to face repayment difficulties from his clients. However, some of them managed to repay the products by ceding livestock. Mr. García soon started the business of importing, packing and selling good quality seeds to feed the cattle. AGP Semillas was born and slowly became the main provider of good quality seeds for the country (52% of the market today), and thanks to the adequate outreach of its distribution network, it has already surpassed direct competitors in Colombia and Chile. The company has had 6 loan cycles with TFC, totaling PEN 1.3m (US\$ 400k). The first loan was initiated when no other financial institution offered support, given the high-risk perception of the business. Thanks to TFC's financing, the business has grown, and is able to reach clients in every corner of Peru: the coast, the highlands and the rainforest (Amazonia). AGP Semillas has improved its warehouses, IT systems, and has bought new packing machines. In the future, the owner plans to use polymerization, a process designed to improve seeds resistance to climate change.



# APPENDIX 1

## DIMENSIONS OF THE QUESTIONNAIRE

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### I CHARACTERISTICS OF THE BUSINESS AND THE BUSINESS OWNER

- › Age, gender, marital status, literacy levels, education background, past history of the business owner
- › Nature, history, products and services, and registration of the business

### II ACCOUNTING AND BUSINESS PRACTICES

- › Financial literacy of the owner
- › Accounting principles within the business

### III BUSINESS ASSETS

- › Valuation of the business
- › Cost structure for the venue rental

### IV LOANS AND ACCESS TO CREDIT

- › Accounts used for business purposes
- › Creditors
- › Financing sources

### V EMPLOYMENT

- › Number of employees
- › Average working time
- › Employee gender
- › Wage characteristics
- › Internal trainings
- › Safety of the work environment

### VI BUSINESS EXPENDITURES, INCOME AND PROFITS

- › Revenues
- › Costs
- › Profits

### VII BUSINESS CHALLENGES

- › Qualitative listing of challenges, if any







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