SME FINANCE LOANS FOR GROWTH

symbiotics

CONTENTS

GLOSSARY

Blended finance is the strategic use of development finance for the mobilization of additional commercial finance towards the Sustainable Development Goals in developing countries.[1]

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.[2]

Emerging and frontier markets are countries which, broadly speaking, are classified by the World Bank as low- and middle-income countries.[3]

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.[4]

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 250 employees, and/or loans of about USD 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.[5]

1   Organisation for Economic Co-operation and Development. (n.d.). Blended Finance. Retrieved from
    http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/blended-finance.htm
2   International Labour Organization. (n.d.). Decent Work. Retrieved from
    http://www.ilo.org/global/topics/decent-work
3   The World Bank Data. (n.d.) Low & middle income. Retrieved from
    https://data.worldbank.org/income-level/low-and-middle-income
4   Global Impact Investing Network. (n.d.). What You Need to Know About Impact Investing. Retrieved from
    https://thegiin.org/impact-investing/need-to-know/
5   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

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. Two years after its launch, the fund is invested in 38 financial institutions across 24 countries worldwide.

The current report is the second 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 488 SMEs in 12 low- and middle-income countries in 2018.

The changes in SME outcomes between 2017 and 2018 demonstrate impressive growth in employment (including full-time and female employment), wage rates, asset size and profitability, suggesting that access to finance is positively related to various SME outcomes. Overall, these changes indicate that the LFG fund is working towards its objectives and contributing to progress towards the United Nations Sustainable Development Goals (SDGs; see Table 1).

WORKING TOWARDS THE SUSTAINABLE DEVELOPMENT GOALS

Table 1
Working Towards the SDGs

SUSTAINABLE DEVELOPMENT GOALS	SDG Targets	Indicators	SME Outcomes
1 NO POVERTY	1.1 Eradicate extreme poverty (people living on less than $1.25 a day)	Average daily wage rate per employee	Overall average daily wage rate of USD 14.64 in 2018. Average daily wage rate increased by 44% from 2017
5 GENDER EQUALITY	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	Proportion of female ownership per enterprise. Number of employees, by gender	29% female-owned SMEs. 44% female employees, a 34% increase from 2017
8 DECENT WORK AND ECONOMIC GROWTH	8.3 Promote decent job creation. Encourage the formalization and growth of micro-, small- and medium-sized enterprises	Number of employees, by employment type (full/part-time). Formalization of enterprise	10,598 employees hired, a 3% increase from 2017. 89% of jobs provided are full-time, an 11% increase compared to 2017. 82% are formal sector SMEs
	8.6 Reduce the proportion of youth not in employment	Number of employees by age group	15% of employees are youth (less than 25 years old), a decline of 8% compared to 2017
	8.8 Promote safe and secure working environments	Incidence of occupational injuries	95% had zero incidences of occupational injury in the past 12 months
	8.10 Strengthen the capacity of domestic financial institutions to expand access to banking and financial services for all	Use of bank accounts	Average of 2.1 bank accounts per business owner, an increase of 47% from 2017
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit	Sector of business	19% industry-related enterprises (working in manufacturing, production or construction), a decrease of 15% from 2017

1.
INTRODUCTION

The SME Finance Loans for Growth (LFG) fund 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.

The LFG fund, launched in September 2016, is a fully subscribed USD 50 million investment fund, with a four-year, closed-ended structure. The fund 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 and frontier markets.

LFG 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 is the second impact report produced for the LFG fund, tracking its progress towards meeting these objectives two years after its launch. The results presented in this report are based on data collected through direct surveys with a sample of 488 SMEs in 12 low- and middle-income countries worldwide.

Between 2017 and 2018, there is a clear positive trend in SME outcomes; the average SME size, in terms of both number of employees and assets, has grown, the proportion of female and full-time employment has increased, and average wage rates as well as profit margins have risen. These results are promising, demonstrating that there is a positive relationship between access to finance and SME outcomes, and that the LFG fund is working towards its main objectives.

2.
IMPACT MEASUREMENT METHODOLOGY

In 2018, Symbiotics maintained its efforts to assess the impact of the LFG fund in line with its objectives to foster job creation, employment and entrepreneurship in emerging and frontier economies. The impact measurement methodology that was developed and implemented in 2017 was adopted again in 2018, utilizing direct outcomes measurement through face-to-face interviews with the end-beneficiaries of the fund.

At the level of the financial institutions: We measure a set of outreach indicators, which show 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: As in 2017, a sample of SMEs financed by the LFG fund were contacted for face-to-face interviews (phone interviews were conducted in exceptional cases). The focus of these interviews was to measure the fund's direct outcomes. All 506 SMEs interviewed in 2017 were re-contacted for follow-up interviews in 2018. Of these SMEs, 271 were successfully re-interviewed, whereas 235 dropped out of the study, bringing the attrition rate to 46%. [6] Consequently, it was not possible to rely solely on last year's participants for the purpose of this study, and 217 SMEs were added to the sample in 2018.

In a similar fashion, new participants will be added to the sample in the forthcoming years to maintain an adequate sample size. However, to prevent unexpected changes to the sample composition (in terms of characteristics such as loan size, location and business activities), new participants will be in the same 12 countries, and will primarily be clients of the same financial institutions. [7] The sample comprised SMEs with under 250 employees, and loans of about USD 1,000-250,000 (excluding outliers).

Compared to 2017, the survey developed by Symbiotics underwent few changes in order to evaluate the progress of the SMEs and maintain a coherent analysis. As in 2017, detailed primary data was collected from the sampled SMEs, addressing indicators consistent with the fund's objectives. The seven main dimensions of the survey are:

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

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6   For further details on the attrition rate by country and the reasons for attrition, please refer to Appendix 2.
7   In 2018, Vitas Romania was the only new financial institution added to the sample.

New questions were added to the survey with the aim of gaining better insights on the evolution of the SMEs in the sample. New questions address aspects such as product development, the purchase of new assets, job creation and the use of marketing tools.[8]

In order to gather the data from the SMEs and conduct the interviews in the local language, Symbiotics relied on the expertise of local market research agencies. The participation in this research continues to be entirely voluntary, and SMEs' data remains confidential.

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.

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.

8   For further details on the dimensions of the questionnaire, please refer to Appendix 1.

3.
LFG FUND'S PORTFOLIO OUTREACH

SETTING THE CONTEXT
As of September 2018, two years since its launch, the LFG fund:
› Originated USD 50.2 million
› Financed 38 financial institutions through 52 transactions
› Invested directly in 24 countries, of which two countries (Honduras and Paraguay) were newly added to the portfolio in 2018
› Invested indirectly in an additional 20 countries reached through the TriLinc Global Impact Fund LLC [9]

Compared to last year, Latin American & the Caribbean is still the region with the fund's largest exposure with 38% of portfolio outstanding. Eastern Europe, Central Asia & MENA is now the second largest exposure (25%), while 24% is invested in South & East Asia and the remaining portion (13%) is in Sub-Saharan Africa.

Figure 1
Geographic Outreach of LFG

Direct investments
Indirect investments
Percentage of portfolio outstanding (September 2018)

EASTERN EUROPE, CENTRAL ASIA & MENA

LATIN AMERICA & THE CARIBBEAN

25%

24%

SOUTH & EAST ASIA

38%

13%

SUB-SAHARAN AFRICA
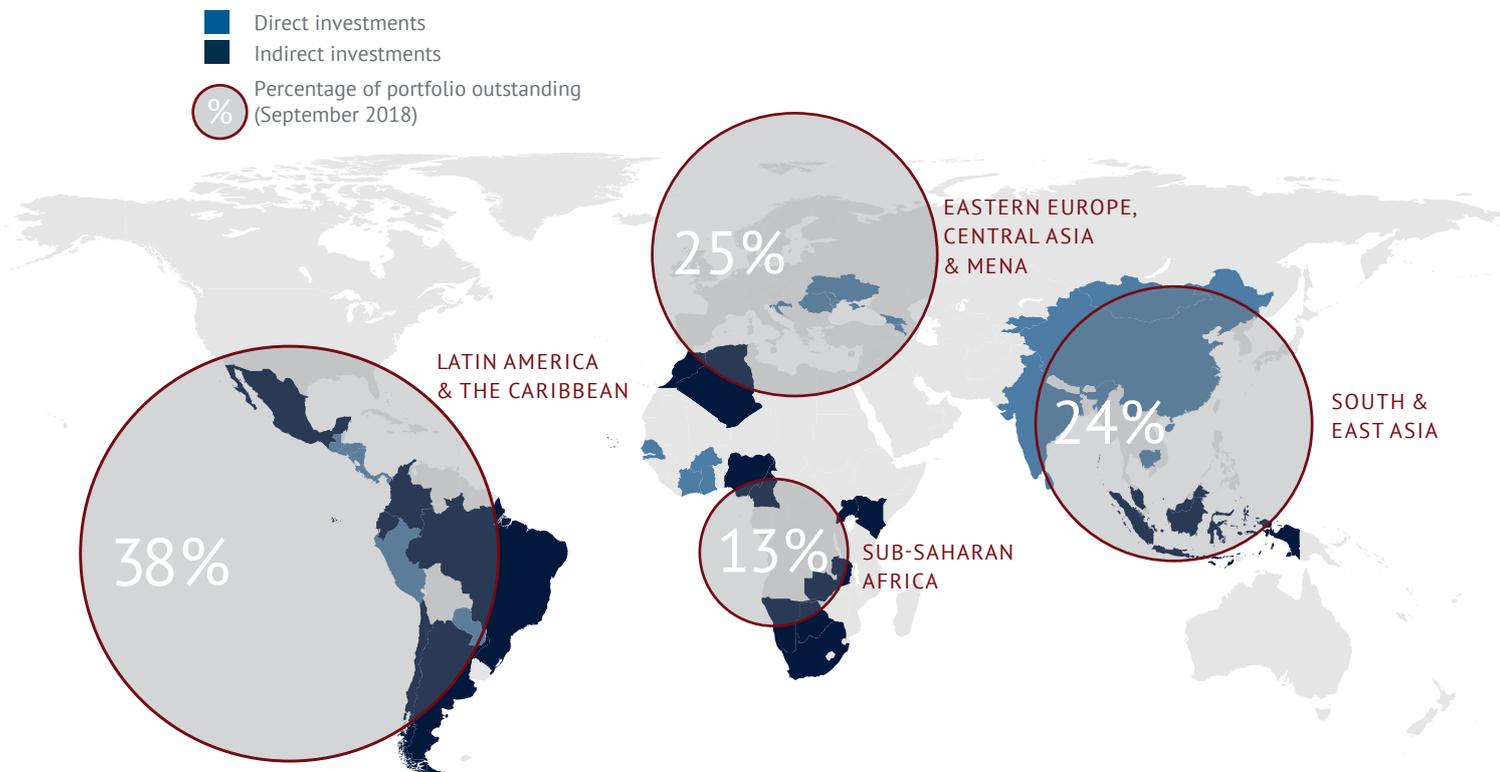
9   TriLinc Global Impact Fund LLC is a private debt impact investing fund providing growth stage loans and trade finance to established SMEs in 27 countries.

SOCIAL INTENTIONS – SOCIAL RESPONSIBILITY RATINGS

Through its Social Responsibility Rating, potential investees are ranked by Symbiotics on their likelihood to contribute to sustainable development, considering social and environmental aspects. The rating is on a scale of zero to five, with five being an extremely strong likelihood of contributing to sustainable development. The rating methodology comprises seven different dimensions encompassing approximately 100 quantitative and qualitative indicators. This rating provides key insights and is carried out before making an investment decision.

The portfolio-weighted average social responsibility rating has remained stable at 3.5 stars between 2017 and 2018. During the second year of operations, 28 social ratings were produced. The average social rating per dimension has likewise remained stable since 2017, with the strongest results on client protection and labor climate. On the other hand, environmental policy continues to score poorly (29.4%) as the financial institutions in the LFG portfolio do not focus on green lending activities.

OUTREACH MEASUREMENT

The following section aims to quantify the breadth and depth of the 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.[10]

Market outreach

As of September 2018, the LFG fund is invested in countries where:
› GDP per capita (current USD) is USD 4,919, which is lower than the world average and in line with the average of low- and middle-income economies (Figure 3).[11]
› Banking penetration levels (54%) are not only lower than world averages, but also lower than the average for low- and middle-income economies (Table 2).[12]

Since 2014, there has been an increase in the share of adults with a bank account, both worldwide and in developing economies. In 2018, banking penetration levels for the LFG portfolio increased by 11 percentage points (pp) when compared to last year's results.

Figure 2
Social Responsibility
Rating Scores per Dimension
(LFG Portfolio Weighted Averages)

Client Protection 66.6%
Community Engagement 56.5%
Social Governance 54.0%
Environmental Policy 29.6%
Product Quality 53.3%
Financial Inclusion 48.4%
Labor Climate 63.3%

Figure 3
GDP per Capita (current USD)

USD

10,715 — World
4,974 — LFG Portfolio (Weighted Average)
4,662 — Low- & Middle-Income Economies

2018

- World
- LFG Portfolio (Weighted Average)
- Low- & Middle-Income Economies

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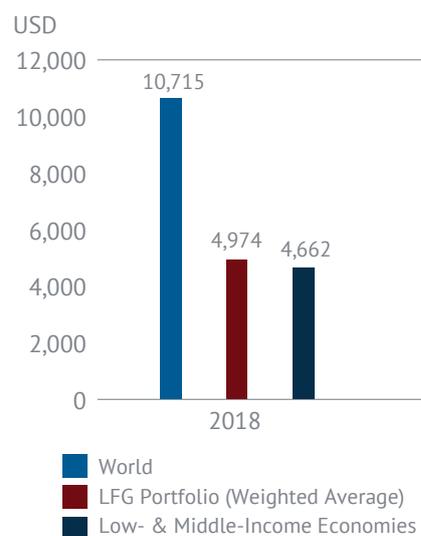
10   The metrics do not conclusively determine the outreach levels attained by the LFG fund (positive or negative), because one has to consider market specificities.

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

12   In 2018, the World Bank published the latest edition of its Global Findex Database, providing updated data on financial inclusion worldwide. The previous edition was based on data from 2014. The World Bank. (2018). *Global Findex Database.* Retrieved from http://datatopics.worldbank.org/financialinclusion/

Figure 4
% of LFG Portfolio by Countries'
Income Levels
% of LFG Portfolio

- High-income
- Upper-middle-income
- Lower-middle-income
- Low-income

Figure 5
Size of Financial Institutions
% of LFG Portfolio

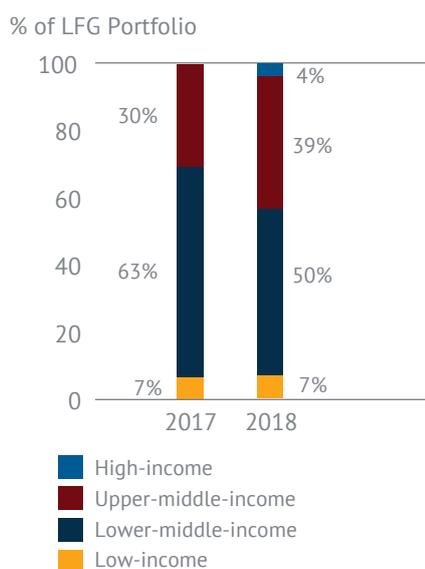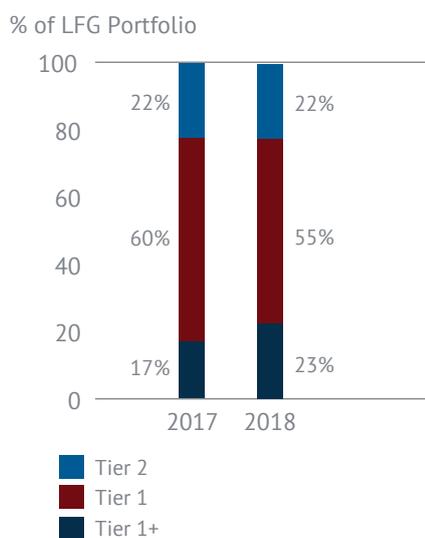- Tier 2
- Tier 1
- Tier 1+

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

Table 2
Banking Penetration Levels, % of Adult Population

Banking Penetration Levels	% of Adult Population
LFG Portfolio (Weighted Average)	54.7%
World (as of 2017, Global Findex)	68.5%
Low- & Middle-Income Economies (as of 2017, Global Findex)	63.0%

Considering the World Bank's country classification by income levels, in 2018, the LFG fund's portfolio is predominantly concentrated in lower-middle-income economies.[13] Nevertheless, there is a decrease in the proportion of the portfolio invested in lower-middle-income economies relative to upper-middle-income economies (Figure 4). Currently, 4% of the LFG portfolio is invested in high-income countries, whether directly or indirectly (in Argentina, Chile, Croatia and Panama).[14]

Investee outreach[15]

As of September 2018, the LFG fund's portfolio is largely composed of Tier 1 financial institutions (55%).[16] The proportion of volumes invested in Tier 2 institutions has remained unchanged, whereas the proportion invested in Tier 1+ institutions has increased by 6 pp.

In 2018, these investees have an SME clientele that benefits from loans amounting to USD 54,661 on average, with variations depending on countries. The median SME loan among these investees in 2018 is USD 33,969, indicating

13 As of July 2018, the World Bank uses the following thresholds to determine a country's income level classification based on its Gross National Income (GNI) per capita:
 – Low-income: GNI per capita ≤ USD 995
 – Lower-middle-income: USD 995 < GNI per capita ≤ USD 3,895
 – Upper-middle-income: USD 3,895 < GNI per capita ≤ USD 12,055
 – High-income: GNI per capita > 12,055
 The World Bank. (n.d.). World Bank Country and Lending Groups. Retrieved from https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups
14 Of these four countries, Argentina, Croatia and Panama (accounting for 3.63% of the outstanding portfolio) were re-classified from upper-middle-income countries to high-income countries between 2017 and 2018.
15 The investee outreach indicators are measured for direct investments only, excluding indirect investments made through the TriLinc Global Impact Fund LLC.
16 Symbiotics categorizes investees in different tiers depending on their balance sheet size in USD:
 – Tier 1+: total assets ≥ USD 1 billion
 – Tier 1: USD 100 million ≤ total assets < USD 1 billion
 – Tier 2: USD 10 million ≤ total assets < USD 100 million
 – Tier 3: total assets < USD 10 million

that there is heterogeneity among the investees. When comparing to 2017, there has been an increase of 13% in the average SME financing size among LFG investees. This is primarily due to the increase in the proportion of Tier 1+ financial institutions in the LFG portfolio as these institutions have larger average loan sizes.[17]

These variations are further illustrated and verified within the sample of SMEs surveyed (Section 4a).

USD 54,661

Average SME Financing
Size of LFG Investees
(Simple Average)

Given the portfolio outstanding of the LFG fund in each investee, the fund is expected to have financed **3,131 SMEs** as of September 2018.[18] The expected number of SMEs financed by the LFG fund has declined compared to last year (3,490 SMEs) due to the increase in the average SME loan size offered by the investees in the portfolio.

In 2018, 488 SMEs were surveyed with the aim of evaluating the social outcome of the LFG fund. The following section provides the results and analysis of these surveys, undertaken in various countries for the second year, and forms the core of the 2018 impact report.

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17   Among Tier 1+ financial institutions, the average SME financing size is USD 92,146, whereas among all other institutions, the average SME financing size is USD 47,163.

18   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.

4.
SME OUTCOMES

A. SAMPLE DESCRIPTION

Size

› In 2018, 488 SMEs were successfully interviewed, of which 271 were participating in the study for the second time (henceforth referred to as the 'constant sample'),[19] and 217 are new participants.

› Sampled SMEs are financed by 14 investees in 12 countries. Overall, the geographic composition of the sample is similar to that in 2017 and the investees in the sample remain geographically representative of the regions in which the LFG fund is invested. The number of SMEs interviewed in Latin America & the Caribbean decreased from 136 in 2017 to 105 in 2018, while the number of SMEs interviewed in Eastern Europe, Central Asia & MENA increased from 143 to 153.

› The loans allocated to the sampled investees constitute 36% of the total outstanding LFG portfolio as of 30 September 2018.

› The number of SMEs in the sample represents 16% of the expected number of SMEs financed by the fund.

Table 3

Investees and Sample Size 2018

| Financial Institution	Country	Sample size	Institution type
Sub-Saharan Africa		95	
Coris Bank BF	Burkina Faso	45	Bank
Cofina Senegal	Senegal	50	Microfinance institution
South & East Asia		135	
Sathapana	Cambodia	51	Bank
Grassland Finance (GL Conso)	China	51	Microfinance institution
Neogrowth	India	33	SME finance
Eastern Europe, Central Asia & MENA		153	
Lazika	Georgia	52	Microfinance institution
Microinvest	Moldova	52	Microfinance institution
RoCredit	Romania	44	Microfinance institution
Vitas Romania	Romania	5	Microfinance institution
Latin America & the Caribbean		105	
Improsa	Costa Rica	27	Bank
Arrend	Guatemala	12	Leasing company
CFE Panama	Panama	16	SME finance
TFC	Peru	34	SME finance
Pacifico	Peru	16	SME finance
	TOTAL	488	

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19   For further details about the attrition rate, please refer to Appendix 2.

Type of institutions

The diversity in institution type and geographic location is clearly reflected in the heterogeneity in loan size among the financial institutions (Figure 6).

Figure 6
Average Loan Size by Country (USD)

USD
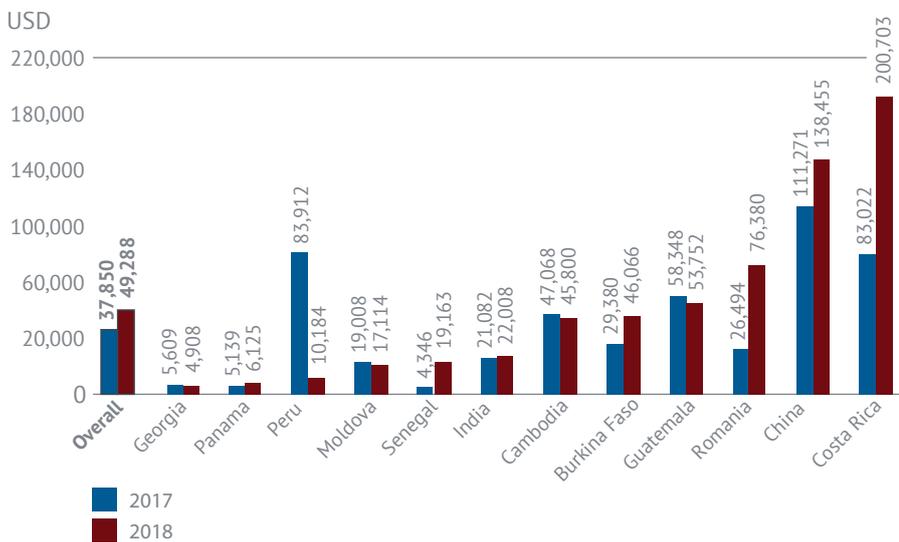
The average loan size in the 2018 sample is 30% higher than it was in 2017 due to the fact that the new participants added to the sample have larger loans on average, and, to a lesser extent, that existing participants have taken additional loans in the past year. The largest changes are in Peru, Romania and Costa Rica.[20]

20   Reasons for sharp changes in loan size:
    – Peru: the 2017 sample was comprised of 25 SMEs, of which 12 SMEs dropped out of the study in 2018. Meanwhile, in 2018, the sample size in Peru grew to 50 participants (37 of which were newly added). The changes to the sample composition are the primary reason for the striking decrease in loan size. The newly added participants in Peru have smaller loan sizes, ranging from USD 900 to USD 60,000.
    – Romania: In 2017, the loan data for Romania had 37 missing values. In 2018, we were able to increase the response rate for this question and had only 15 missing values. The 2018 data is, therefore, likely to be more representative of the average loan size among the sampled SMEs.
    – Costa Rica: the increase in average loan size is primarily due to the fact that the SMEs in the constant sample have taken additional loans since 2017.

B. BUSINESS & OWNER CHARACTERISTICS

The characteristics of the SMEs and the business owners remain largely unchanged relative to 2017, despite the addition of 217 SMEs to the sample (see Table 4).

Table 4

Characteristics of Business Owners & SMEs

	% SMEs/Business Owners	
	2017	2018
Gender		
Male	69.1	70.6
Female	30.9	29.4
Age		
Under 25	1.8	0.9
25-40	39.0	37.2
41-60	51.8	53.0
Over 60	7.4	8.9
Educational Attainment		
No formal schooling	2.2	2.1
Primary	6.3	8.1
Lower secondary	9.4	10.6
High school	24.5	20.3
Technical/Vocational	8.8	16.9
Undergraduate	33.5	28.0
Post-graduate	14.1	13.1
Other	1.0	0.8
Formalization		
Formal	86.1	82.4
Informal	13.5	17.0
In the process of being registered	0.4	0.6
Location		
Urban	77.1	74.5
Rural	22.9	25.5
Business Sector		
Agriculture, Forestry & Fishing	8.4	11.9
Manufacturing & Construction	22.9	19.5
Trade (Retail or Wholesale)	30.3	33.9
Services	31.1	32.6
Other	7.4	2.1

Gender

› Out of the 488 SMEs, 29% are owned by women.[21]
› The highest proportion of female ownership is in Cambodia (47%). Meanwhile, the lowest proportion is in India (7%, see Figure 7).
› The proportion of female ownership among the sampled SMEs declined by more than 15 pp in China and Senegal, whereas it increased by 21 pp in Costa Rica.

Figure 7
Proportion of Female Ownership by Country

% of Female Ownership

Legend:
■ 2017
■ 2018
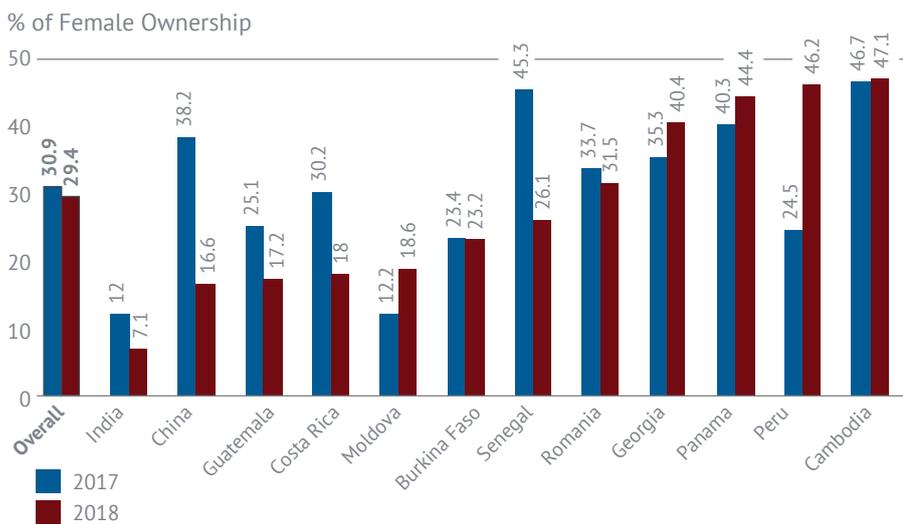
Location and activities

› The largest proportion of the SMEs are running service-based (33%) and trading (34%) activities, and the smallest share is in agriculture (12%).
› The most common sectors of activity in the sample are retail trade of food and beverages, and miscellaneous services (48 SMEs; see Figures 8 and 11).
› 19% of the SMEs in the sample work in manufacturing and production, including construction activities.

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21 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.
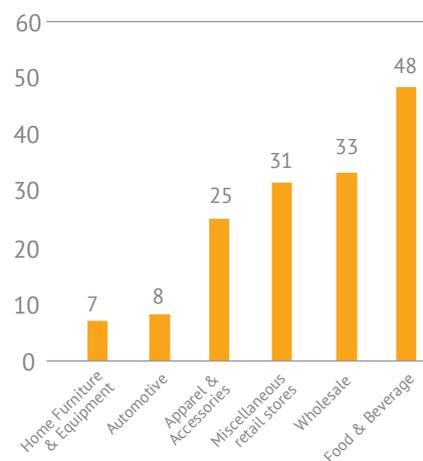
Figure 8 Business Sectors: Trade

Frequency

Figure 9 Business Sectors: Agriculture, Forestry & Fishing
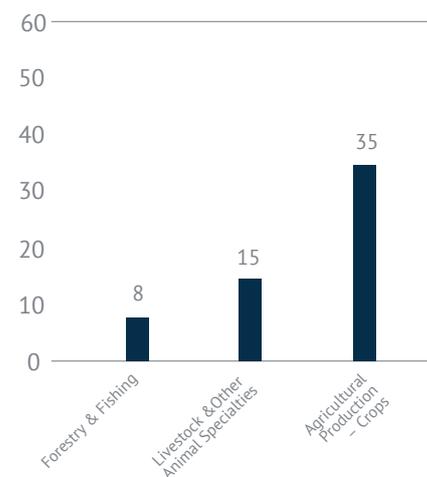
Frequency

Figure 10 Business Sectors: Manufacturing & Production

Frequency
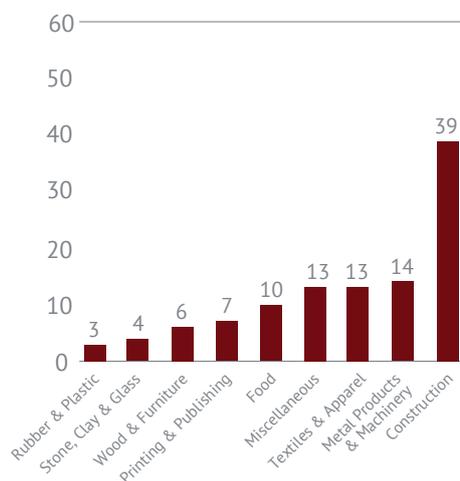
Figure 11 Business Sectors: Services

Frequency
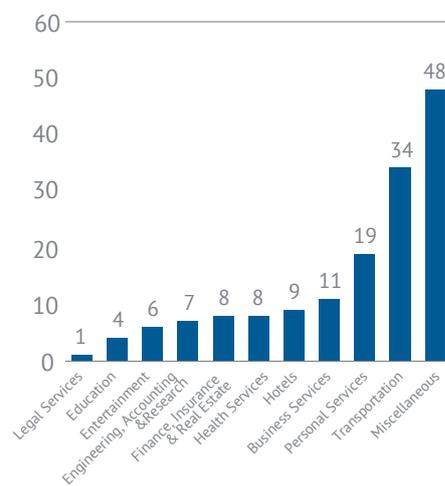
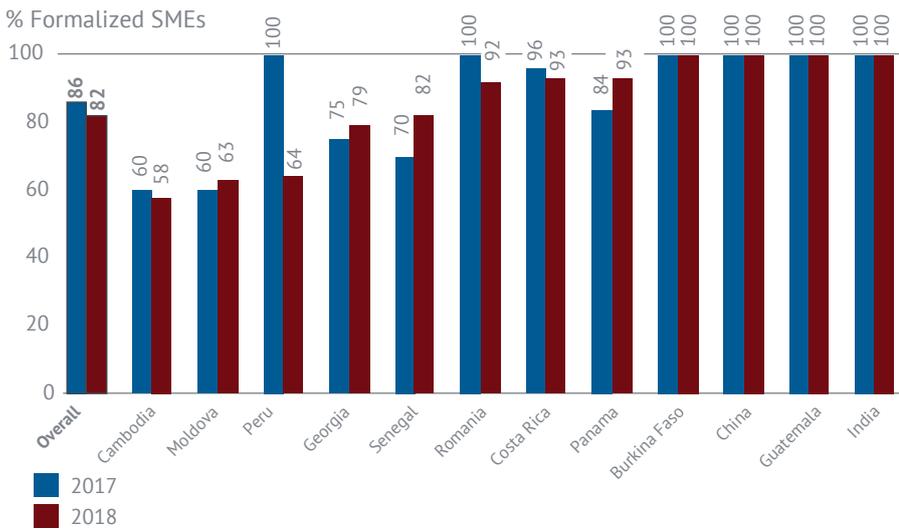## Formalization

› 82% of SMEs in the sample are formalized; they are registered or licensed with an official government body and pay taxes. Meanwhile, 17% are in the informal sector and 1% reported that they are in the process of being registered. This year, as in 2017, the lowest proportion of formalization continues to be in Cambodia and Moldova, where it is 58% and 63%, respectively (Figure 12).

Figure 12
Proportion of SMEs in Formal Sector

% Formalized SMEs

	Overall	Cambodia	Moldova	Peru	Georgia	Senegal	Romania	Costa Rica	Panama	Burkina Faso	China	Guatemala	India
2017	86	60	60	100	75	70	100	96	84	100	100	100	100
2018	82	58	63	64	79	82	92	93	93	100	100	100	100

■ 2017
■ 2018

Navrang Designer Studio | NeoGrowth, India

Narendra K Acharya, originally from the northern province of Rajasthan, is 27 years old. Seven years ago, he opened his business in Vashi, located about an hour away from Mumbai. After having worked as a salesperson for other clothing retailers in Mumbai and Goa, he opened the Navrang Designer Studio. His business is located in the market area amid other small shops. At the beginning, he focused on working in retail trade selling kurtas (traditional Indian clothing) for women. He later expanded into wholesale, thanks to a ten-month tenor, 400,000 INR (5,625 USD) first loan from Neogrowth. Like all of Neogrowth clients, he has access to a card swipe machine to repay his loan. As his business grew, he decided to make better use of the second floor of his boutique. He purchased some sewing machines in order to start making his own garments. He currently employs six people in manufacturing, wholesale and retail trade. His product line consists of ready-to-wear clothing for women such as kurtas and tunics. In the future, he would like to open an additional store in the city of Mumbai.

C. KEY OUTCOMES

I   EMPLOYMENT

› In 2018, the sample consists of 488 SMEs hiring a total of 10,598 employees. This year, the sample includes 18 SMEs less than last year and the number of employees hired is 3% higher.

› 1,635 new employees were hired during the 12 months before the interview, of which 794 were female.

› The average number of employees per enterprise in 2018 is 22, a 7% increase compared to last year. The median number of employees per enterprise is 6, a decrease from 2017, where the median number of employees was 8.

› In 2018, the distribution of the number of employees per enterprise changed slightly from that observed in 2017 (see Figure 13). The proportion of SMEs hiring fewer than 10 employees rose from 58% to 65%. Likewise, the proportion of SMEs hiring between 10 and 20 employees fell from 19% in 2018 to 14% in 2018. These changes explain the decrease in the median number of employees.

› On the other hand, the proportion of SMEs hiring more than 50 employees increased from 8% to 9%, which explains the increase in the average (mean) number of employees.

› The largest SMEs in the sample, with 150 employees or more, are based primarily in China and Peru.

Table 5

Employment Summary

	2017	2018	% change
Total number of employees	10,241	10,598	3.5%
Number of employees per SME			
Average	20	22	7.3%
Median	8	6	-25.0%
Number of employees hired in the past 12 months			
Total		1,635	
Of which female		794	
Working hours of business owners			
Average number of days worked per month	25	25	0%
Average number of hours worked per day	10	10	0%

Figure 13

Figure 13
Distribution of Number of Employees per Enterprise
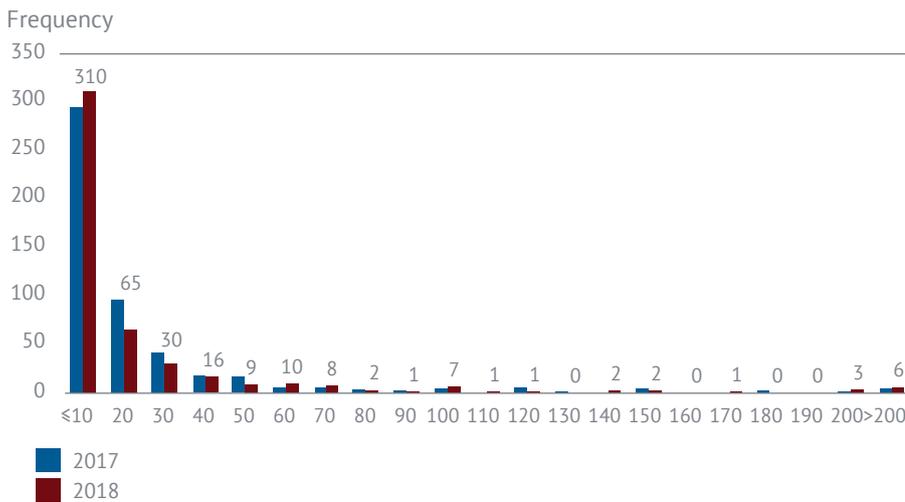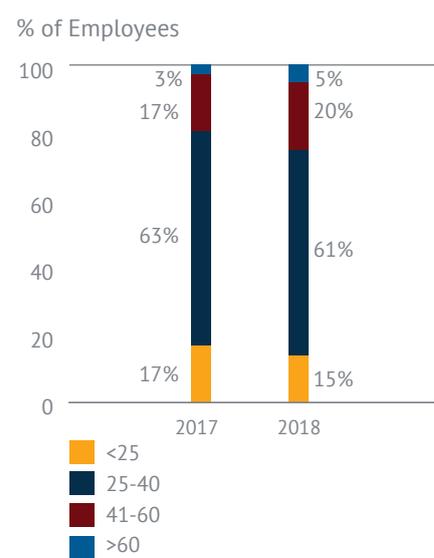

Frequency

Figure 14
Age of Employees

% of Employees

Employee characteristics

› The majority of those employed by the SMEs in the sample are between 25 and 40 years old. The second largest group of employees in the sample is between 41 and 60 years old. However, compared to 2017, the proportion of employees under the age of 25 decreased from 17% to 15%.

› The proportion of female employees increased by 8 pp compared to last year. Of the 10,598 employees, 44% are female and 56% are male.

› Enterprises, who have at least one female co-owner are more likely to hire a greater proportion of female employees. Among the female-owned enterprises, 64% of employees are female, and the average number of female employees per enterprise is 16. Meanwhile, among male-owned enterprises, only 35% of employees are female, and the average number of female employees is 8.

› SMEs provide opportunities for regular, full-time employment (89%), allowing for a stable source of income to employees.

› The majority of employees are unrelated to the business owners.

Constant Sample

› The sample of 271 SMEs that were observed in both 2017 and 2018 increased their number of employees by 3% overall (173 employees).

› Most of the new employees hired in 2018 were female with a 20% increase in female employment between 2017 and 2018 (Figure 16). The country with the largest increase in female workers is Peru.
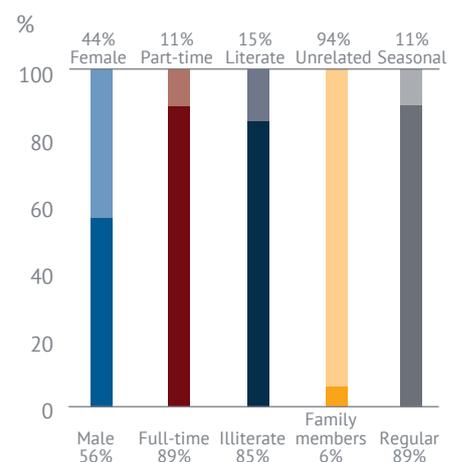
Figure 15
Characteristics of Employees
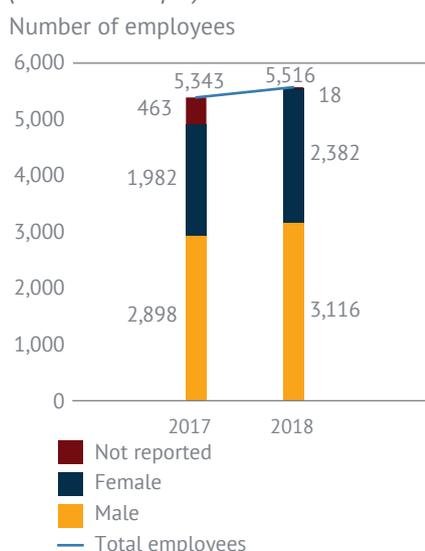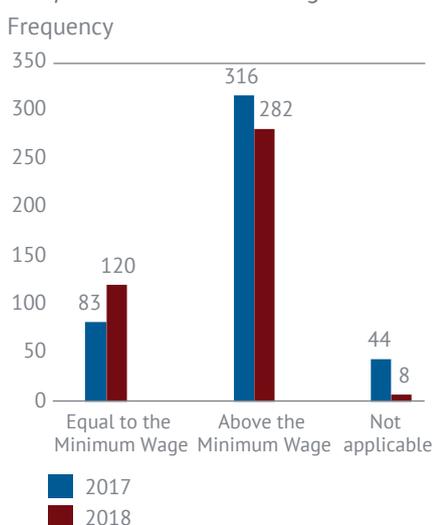

%

Figure 16
Employment Growth by Gender
(Constant Sample)

Figure 16
Employment Growth by Gender
(Constant Sample)
Number of employees

	2017	2018
Not reported	463	18
Female	1,982	2,382
Male	2,898	3,116
Total	5,343	5,516

Legend:
- Not reported
- Female
- Male
- Total employees

Figure 17
Comparison to Minimum Wage
Frequency

	2017	2018
Equal to the Minimum Wage	83	120
Above the Minimum Wage	316	282
Not applicable	44	8

Legend:
- 2017
- 2018

› These SMEs grew in terms of full-time employees in favor of part-time employees; the number of full-time employees grew by 31%. Of the sampled countries, Costa Rica had the largest increase in full-time workers.

› The proportion of casual/seasonal workers decreased by 28%, and the proportion of workers related to the business owners likewise fell by 27%.

› In terms of employees' age profile in the constant sample, in 2018, the number of employees aged 41-60 years old increased by 40%, while the proportion of employees over 60 decreased by 76%.

› In 2017, 177 SMEs indicated they would hire new workers if suitable workers were available. Of those 177 SMEs, 129 hired new employees.

Wages

We analyze the wage rate offered by the SMEs in the sample relative to (i) the national or sectoral minimum wage, where applicable,[22] (ii) the prevailing wage rates offered by similar businesses, and (iii) the country's gross domestic product (GDP) per capita.[23]

› In 2018, 487 SMEs reported how their wage rates compare to the applicable minimum wage.

› The majority (58%) stated that they pay their employees a wage that is above the minimum wage, and 25% pay the minimum wage. Compared to last year, there is a decrease of 13% in SMEs stating they pay a wage above the minimum wage and an increase of 6% of SMEs paying the minimum wage.

› Most respondents (61%) believe the wages they pay their employees are competitive or very competitive, as compared to similar businesses. A further 33% believe their wage rate is average and in line with what their competitors pay. Finally, only 6% believe they pay uncompetitive wages to their employees.

› Among the companies that believe they pay a very competitive wage, China, Georgia, Moldova and Romania are the countries in which the wages paid exceed both the monthly GDP per capita and the average sample wage.

› On the other hand, the SMEs in Burkina Faso, Cambodia, Guatemala, India and Peru that stated that they pay a very competitive wage were found to have wage rates below the monthly GDP per capita and the average sample wage.

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22 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 for 2017 refer to the other 11 countries in the sample, excluding Cambodia.

23 Based on 2017 GDP per capita, in current USD, 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.

The average monthly wage paid to an employee in one of the sampled SMEs is USD 439.[24] Table 6 below shows the average monthly wage rate by country in the sample, and compares it to the 2017 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 USD 1.25 per day. In seven out of nine of the countries for which data is available, the average wage paid by the SMEs in the sample exceeds the GDP per capita. The wage rate is in line with the GDP per capita in China, whereas it is below the GDP per capita in Georgia (Table 4).

Table 6
Wage Rates by Country (USD)

	Sample Average Monthly Wage Rate	2017 Monthly GDP per capita	Sample Average Daily Income
Sub-Saharan Africa			
Burkina Faso	171.11	55.89	5.70
Senegal	204.98	86.09	6.83
South & East Asia			
China	719.91	735.58	24.00
India	175.69	161.63	5.86
Cambodia	180.53	115.37	6.02
Eastern Europe, Central Asia & MENA			
Georgia	120.00	339.85	4.00
Moldova	223.61	190.82	7.45
Romania	1,009.74	901.14	33.66
Latin America & the Caribbean			
Peru	855.01	547.66	28.50
Overall	439.06	350.66	14.64

Constant Sample

When considering the constant sample, in 2018 there was an increase in the average wage rate by 29% (from USD 240 to USD 310).[25]

While the SMEs in Peru and Romania have the greatest increase in monthly wage rates, those in Georgia, Moldova and India reduced their wage rates.

Figure 18
Competitiveness of Wage Rate

Frequency

- 2017
- 2018
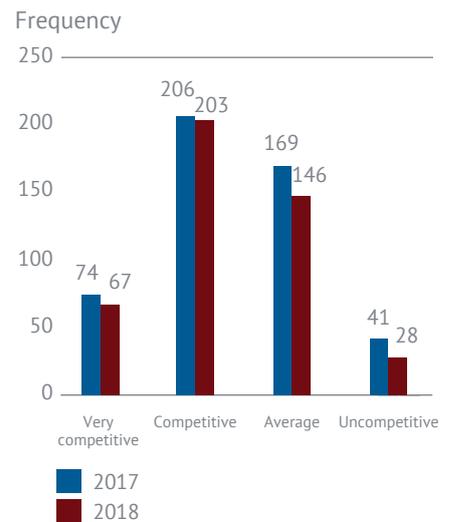
24 Respondents self-reported the total amount spent on wages to all employees in the past 30 days. This value was divided by the total number of employees in each enterprise, and averaged over the entire sample. The average is calculated only over non-zero values of total wages for enterprises where there is at least one employee. Note that Costa Rica, Guatemala and Panama are excluded from the table because too few SMEs (four, eleven and five for Costa Rica, Guatemala and Panama, respectively) reported their wage data. Furthermore, the 99th percentile of the wage distribution was trimmed to exclude outliers (3 observations). Overall, this calculation includes 314 SMEs.

25 Of the 271 SMEs in the constant sample, 191 SMEs reported their wage data. Note that Costa Rica, Guatemala and Panama are excluded from the country-level analysis because there are too few observations for the wage data (one, four and five observations, respectively). Further to that, the 99th percentile of the wage distribution is trimmed (4 observations) because the data is positively skewed.

Table 7
*Wage Rates by Country (USD) – Constant Sample*

Sample Average Monthly Wage Rate	2017	2018
Sub-Saharan Africa		
Burkina Faso	178.36	180.21
Senegal	174.04	222.44
South & East Asia		
China	589.78	710.54
India	187.44	175.69
Cambodia	163.86	176.19
Eastern Europe, Central Asia & MENA		
Georgia	169.85	126.40
Moldova	272.93	217.75
Romania	452.88	689.77
Latin America & the Caribbean		
Peru	235.27	353.08
Overall	240.30	309.64

Distribuidora Ramirez y Castillo | Banco Improsa, Costa Rica

Distribuidora Ramirez y Castillo is a family-owned business founded in 1986 as a company distributing office products in Costa Rica. They began operations by distributing local products, but by the end of the nineties, they started importing articles from renowned international brands. For its twentieth anniversary, in 2006, they inaugurated the first branch outside the capital. In 2009, thanks to a contract with the Ministry of Finance, they began the construction of a new, modern facility open to the public, with spacious storage and parking areas. Today, they offer more than 6,000 products in their catalog, covering the following categories: office supplies, technology, furniture, school supplies and cleaning products. In recent years, both of their children have joined the company and are responsible for the marketing and commercial management, respectively. Currently, Ramirez y Castillo employs 71 people and has three points of sale across Costa Rica. Their relationship with Banco Improsa started in the nineties, with a first loan of 11,500 USD and, since then, they have maintained a positive business relationship.

Figure 19
% Change in Wage Rates (Constant Sample)

%
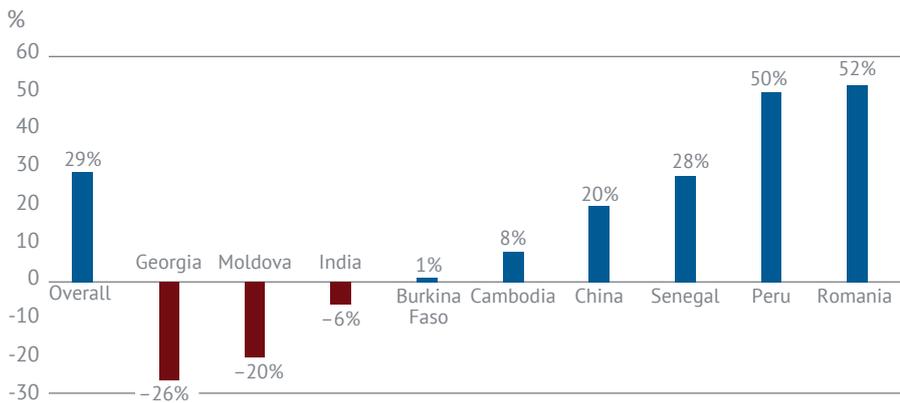
Employment Growth: Needs and Challenges

› In 2018, 51% of respondents report that they would like to hire more workers than they are currently employing, if suitable workers are available.

› In an effort to better understand the employment needs of the SMEs, 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, a similar proportion to that reported in 2017.

Figure 20
Employment Challenges

% of SMEs

■ 2017
■ 2018
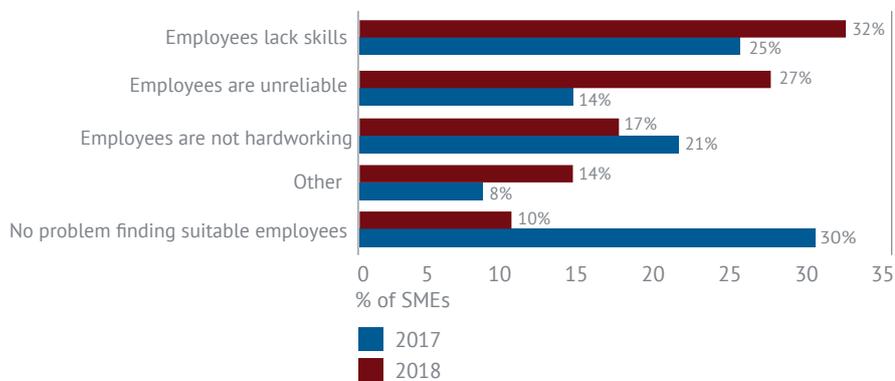
› Moreover, among those respondents who have difficulties finding employees, lack of skills remains the most common problem, reported by 32% of respondents. The second largest reason, in 2018, is linked to employees being unreliable.

› Among the respondents that reported lack of skills as the main problem with finding suitable employees, 50% reported that they provide training to their employees. These businesses relied primarily on on-the-job training (81%) in favor of off-the-job training.

› Among the other problems with finding employees are migration and lack of financial means to offer employees higher wage rates, compared to competitors.

› Last year's results showed that 55% of the SMEs did not want to hire new employees. This number has decreased to 49% in 2018. In addition, in contrast with 2017, where 30% of respondents indicated they did not encounter difficulties finding suitable employees in their area of work, this percentage decreases to 10% in 2018. This suggests that employers are experiencing greater difficulty in finding suitable employees for their businesses.

› Business owners in the sample are more likely than not to retain their employees. In 2018, 80% of SMEs report that they did not lay off any employees in the past 12 months, an increase of 9 pp compared to 2017.

› Among the SMEs that did lay off employees, the main reasons reported were that employees are unreliable and not hardworking.
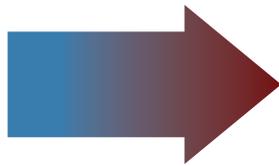
Figure 21
Reasons for Laying Off Employees
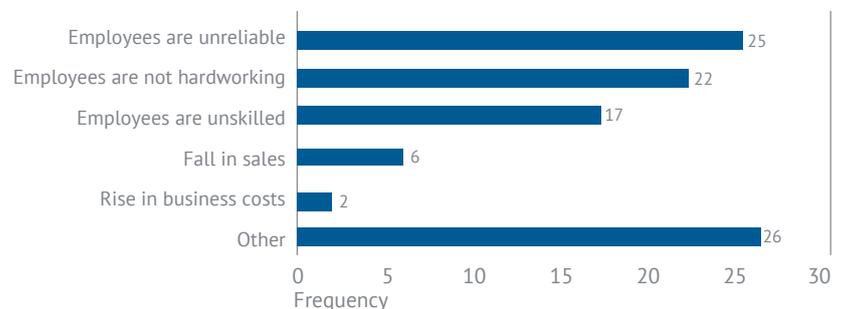
Employee Safety

› One of the principles of decent work is a safe and secure working environment for all workers, wherein they do not face any harm. Similar to 2017, among the sampled SMEs, 73% of respondents report 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 yet a sufficiently high proportion, the percentage of enterprises with no incidences of occupational injury in the past 12 months increased to 95% (from 93% in 2017).

73%

of SMEs use safety measures for employees

95%

of SMEs had no incidences of occupational injuries
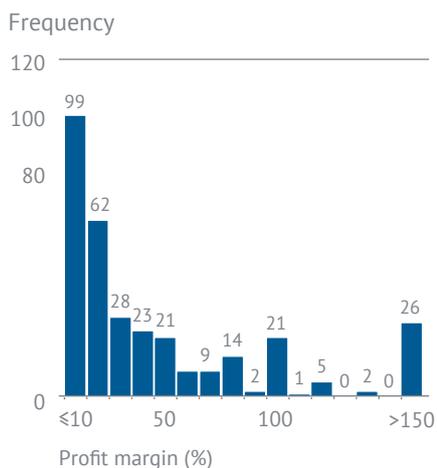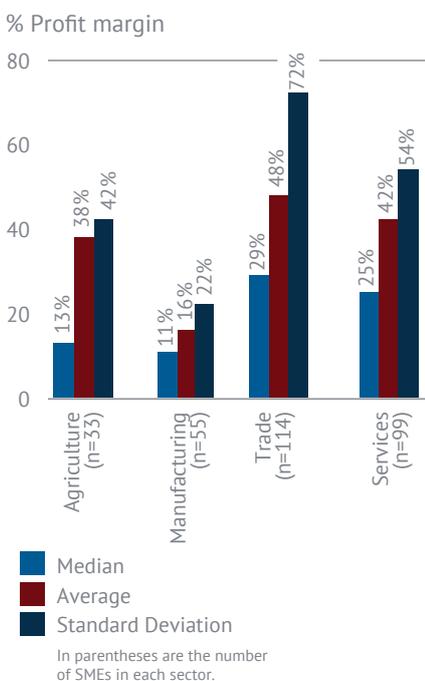
Figure 22
Distribution of Profit Margins
Frequency

Profit margin (%)

Figure 23
Profit Margins by Sector

% Profit margin

■ Median
■ Average
■ Standard Deviation

In parentheses are the number
of SMEs in each 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.[26] 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 USD 10,774, USD 6,283 and USD 1,180, respectively.

Across all regions, as in last year's results, the largest proportion of SMEs' expenditures is on the purchase of inputs or raw materials (accounting for up to 84% of expenditures), followed by employee wages.

Using self-reported data on the SMEs' revenues and profits, we calculate the monthly profit margin.[27]

› The average margin is equal to 40% while the median is 21%. Both the average and median profit margin increased relative to 2017 (by 4 pp and 5 pp, respectively).
› 31% of SMEs had a profit margin below 10%.
› In 2018, the highest average and median profit margin is attained by businesses operating in retail or wholesale trade. However, this sector also has the most volatile returns (with a standard deviation of 72%).[28]

Assets

Across all regions, as in 2017, the highest proportion of business assets remains in land and buildings. This is likely to be because 48% of the SMEs own the premises in which the business operates.

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26 Profit levels are not calculated by deducting the expenses from the revenues, but are self-reported, following the recommendation of De Mel, McKenzie & Woodruff (2009), 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

27 The below calculations are based on 306 observations; there are 166 missing values and we trimmed the 95th percentile of the distribution (16 observations).
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.

28 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.

The median value of total assets in the sample is USD 58,298, an increase of 11% from 2017. As with other indicators of business performance, the highest value of total assets is in China, where the median is USD 960,867. Excluding China, the median level of total assets is USD 46,000.

Constant Sample

Assets

› 124 of the 271 SMEs (46%) purchased new assets in 2018.
› 45% of these SMEs used their own savings to purchase new assets, whereas 28% relied on loans and 19% used the retained earnings of their business.
› The new assets acquired represent a 6% increase in total assets.
› The median value of new assets purchased per SME is USD 26,141.

New Products

› In the 12 months preceding the survey, 35% of SMEs in the constant sample (95 SMEs) expanded their business activities by introducing new products or services, or by improving their existing products.[29] Of these SMEs, 43 improved an existing product, whereas 51 introduced a new product/service.

III FINANCIAL INCLUSION

Bank accounts

› 70% of the SMEs in the sample have at least one bank account that is used exclusively for business purposes. Compared to 2017, the proportion decreased by 12 pp.
› The 337 respondents who use bank accounts for their business have 701 bank accounts in total, with an average of 2 bank accounts per enterprise.
› 84% of these accounts are open at formal banks, another 14% are at micro-finance institutions, and the remainder is at cooperative or rural banks.
› Out of the 701 accounts, 69% are secured through a pin code or other means, and 61% are accessible through a mobile phone or other electronic device.

Uses:

SMEs most commonly use the bank accounts to deposit revenues and to make payments for the purchase of goods or inputs.

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.
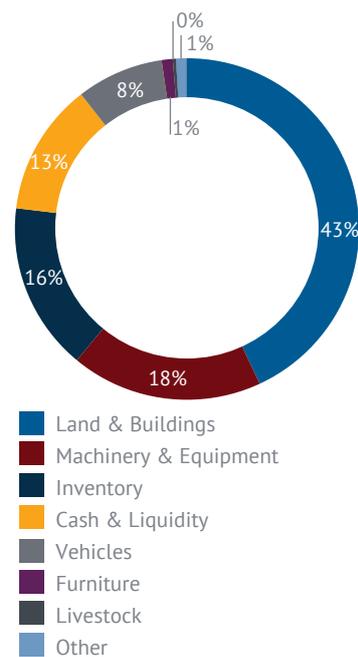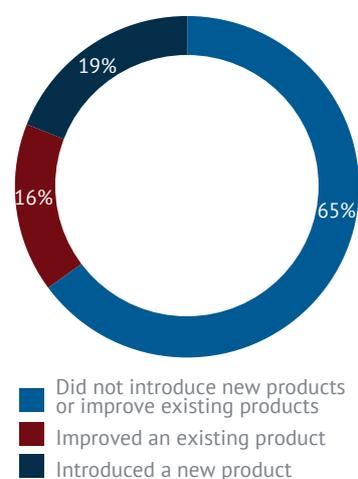
Figure 24
Types of Assets

■ Land & Buildings
■ Machinery & Equipment
■ Inventory
■ Cash & Liquidity
■ Vehicles
■ Furniture
■ Livestock
■ Other

Figure 25
New or Improved Products
(Constant Sample)

■ Did not introduce new products or improve existing products
■ Improved an existing product
■ Introduced a new product

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29 In the survey, a new product or service was defined as one that the business did not offer to its clients in the past. A significant improvement to an existing product was defined as a change in the materials used for production to enhance the product's quality or cut costs.
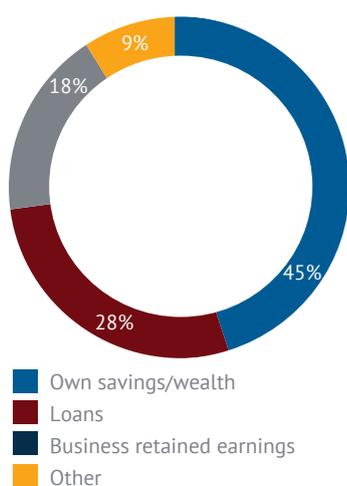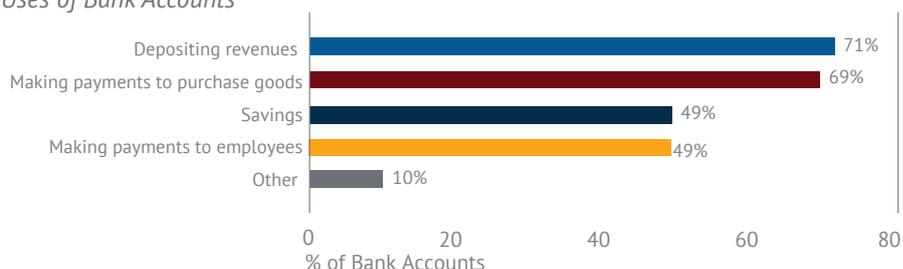
Figure 26
Sources of Finance

- 🟦 Own savings/wealth
- 🟥 Loans
- 🟦 Business retained earnings
- 🟧 Other

Figure 27
Uses of Bank Accounts

Depositing revenues — 71%
Making payments to purchase goods — 69%
Savings — 49%
Making payments to employees — 49%
Other — 10%

% of Bank Accounts

Access to finance

All the SMEs in the sample are loan recipients, and therefore have access to finance through loans. Nevertheless, as in 2017, the main source of finance used for business investments is business owners' own savings or wealth (reported by 45% of SMEs; see Figure 26).

Peanut Oil Merchant | Cofina, Senegal

Amina Diop is a 25-year-old, married woman living with her family in the city of Touba. Touba is Senegal's second largest city outside the Dakar region. Amina completed primary school and she is the mother of two daughters and one son. She started a small retail business in 2014, financed through her personal savings. She used to sell fruits and vegetables at the local market. In order to increase her business' profitability, she decided to take a loan and changed her product line. She did so by turning to the sale of peanut oil at the local market. Peanut oil is a highly demanded commodity as it is an indispensable ingredient in the Senegalese cuisine. She works alone six days a week, four hours per day during the market opening hours. She took her first loan from Cofina in 2017 for 200,000 CFA (350 USD). She stores her merchandise and material for the market stand in a garage where she pays 1,000 CFA (1.75 USD) per day. Her sales do not vary significantly from month to month. However, the biggest challenge for her business is to deal with the fluctuating cost of peanut oil. If she could get another loan of 200,000 CFA (350 USD), she would buy more stock and potentially hire another woman to help her with the business.

Only 11% of SMEs reported that they have had any 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 prefer to use savings or retained earnings to finance their business ventures because loans are a costlier source of finance.

IV BUSINESS CHALLENGES

When asked about the most important challenges they face out of a list of 10 challenges (Figure 28), the most common challenge faced by the SMEs in 2018 is changes in the costs of their inputs, followed by changes in demand for their products. Competition is also a persistent challenge, considered the most important challenge by 16% of SMEs (compared to 23% in 2017).

Marketing tools

Since competition was listed as one of the main business challenges, the use of marketing and advertising tools (as well as product innovation; see Section 4.c.ii.) may be helpful for SMEs facing this challenge. Of the SMEs in the constant sample, there was a decrease of 7% in the use of advertisement tools in 2018.

Only 34% of respondents use marketing or advertising tools for their products and services. Among those SMEs, the most commonly used tool is digital and mobile advertising, followed by print advertising.
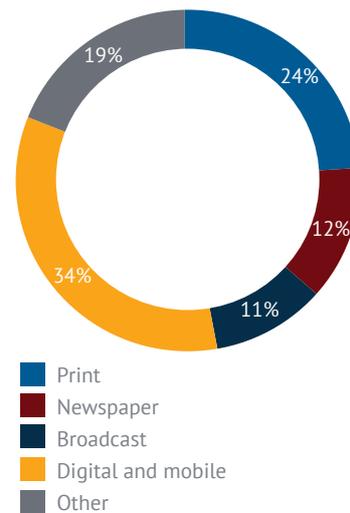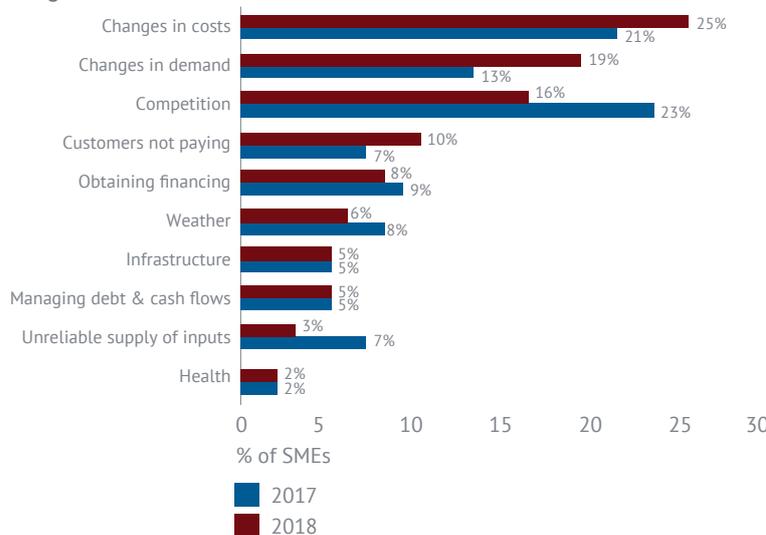
Figure 29
Types of Advertising

- Print
- Newspaper
- Broadcast
- Digital and mobile
- Other

Figure 28
Business Challenges

% of SMEs

- 2017
- 2018

APPENDICES
APPENDIX 1: DIMENSIONS OF THE QUESTIONNAIRE

I CHARACTERISTICS OF THE BUSINESS AND THE BUSINESS OWNER
› Age, gender, educational background
› Ownership structure of the business
› Sector of activity, products and services, and registration of the business

II ACCOUNTING AND BUSINESS PRACTICES
› Financial literacy of the owner
› Accounting principles within the business
› Marketing and advertising tools

III BUSINESS ASSETS
› Valuation of the business
› New assets purchased, and sources of financing

IV LOANS AND ACCESS TO CREDIT
› Accounts used for business purposes
› Creditors
› Financing sources

V EMPLOYMENT
› Number of employees
› New employees hired
› 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

APPENDIX 2: ATTRITION

Out of 506 SMEs that were interviewed in 2017, 271 were successfully re-interviewed in 2018, indicating that the overall attrition rate was 46%. However, attrition rates vary significantly by country. Georgia has the lowest attrition rate (18%), followed by Senegal and Burkina Faso. On the other hand, Guatemala has the highest attrition rate at 90% (Figure 30).

Table 8
Constant Sample

Country	Sample size 2017	Constant Sample 2018
Sub-Saharan Africa		
Burkina Faso	46	35
Senegal	45	35
South & East Asia		
Cambodia	45	34
China	45	19
India	46	33
Eastern Europe, Central Asia & MENA		
Georgia	51	41
Moldova	45	14
Romania	47	20
Latin America & the Caribbean		
Costa Rica	24	11
Guatemala	42	4
Panama	45	12
Peru	25	13
Total	506	271

Figure 30
*Attrition Rate by Country*
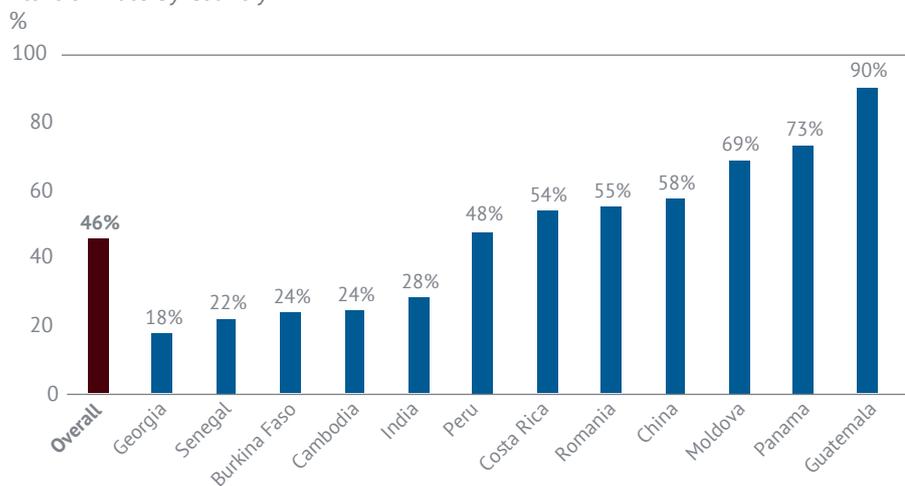
Every SME interviewed in 2017 was contacted up to five times in an effort to schedule a second interview. We used the contact details that participants shared during the 2017 interview, or asked the financial institution to provide updated phone numbers, when necessary. If it was not possible to schedule an interview, the survey enumerators were asked to record the reason why.

The key reasons reported for attrition were respondents refusing to answer the survey as well as inability to contact the business owners to schedule an interview (Figure 31). Among the key challenges described by the survey enumerators are:

› **Unwillingness to share financial data:** Even though the interview responses remain anonymous and SMEs are not obliged to report their financial data, many are skeptical when asked to do so, and choose to opt out of participating in the study altogether.
› **Fiscal reforms:** Several of the countries included in the study (e.g. Costa Rica and Romania) are undergoing or implementing fiscal reforms, making business owners in these countries less likely to share data openly for fear of scrutiny by tax authorities.
› **Increasing insecurity:** In many contexts, business owners are uncomfortable disclosing detailed information due to security concerns. This was particularly true in Central America, where there have been recent phone scams that led to cases of burglary as well as more severe crimes.
› **Difficulty contacting clients that have repaid their loans:** Among the financial institutions in the sample, many offer short loan tenors. As a result, some of the SMEs interviewed in 2017 have already repaid their loans in full and have not started another loan cycle with the same financial institution. In these cases, it was not possible to gain the support of the financial institutions in reassuring the SMEs that the data would be collected solely for research purposes, or for updating contact details.

Figure 31
Reasons for Attrition
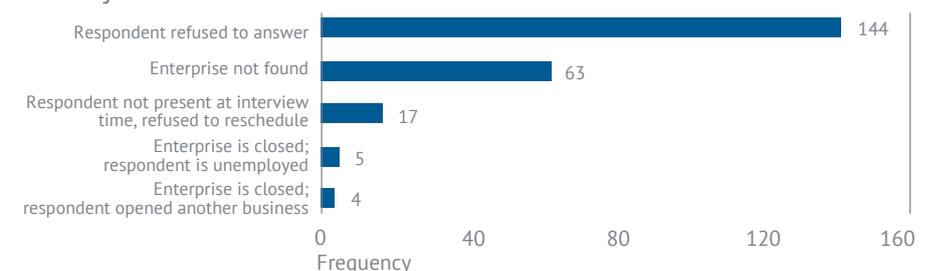
While we will continue efforts to re-contact all the sampled SMEs, we expect to face high attrition rates in the coming years in light of these challenges.
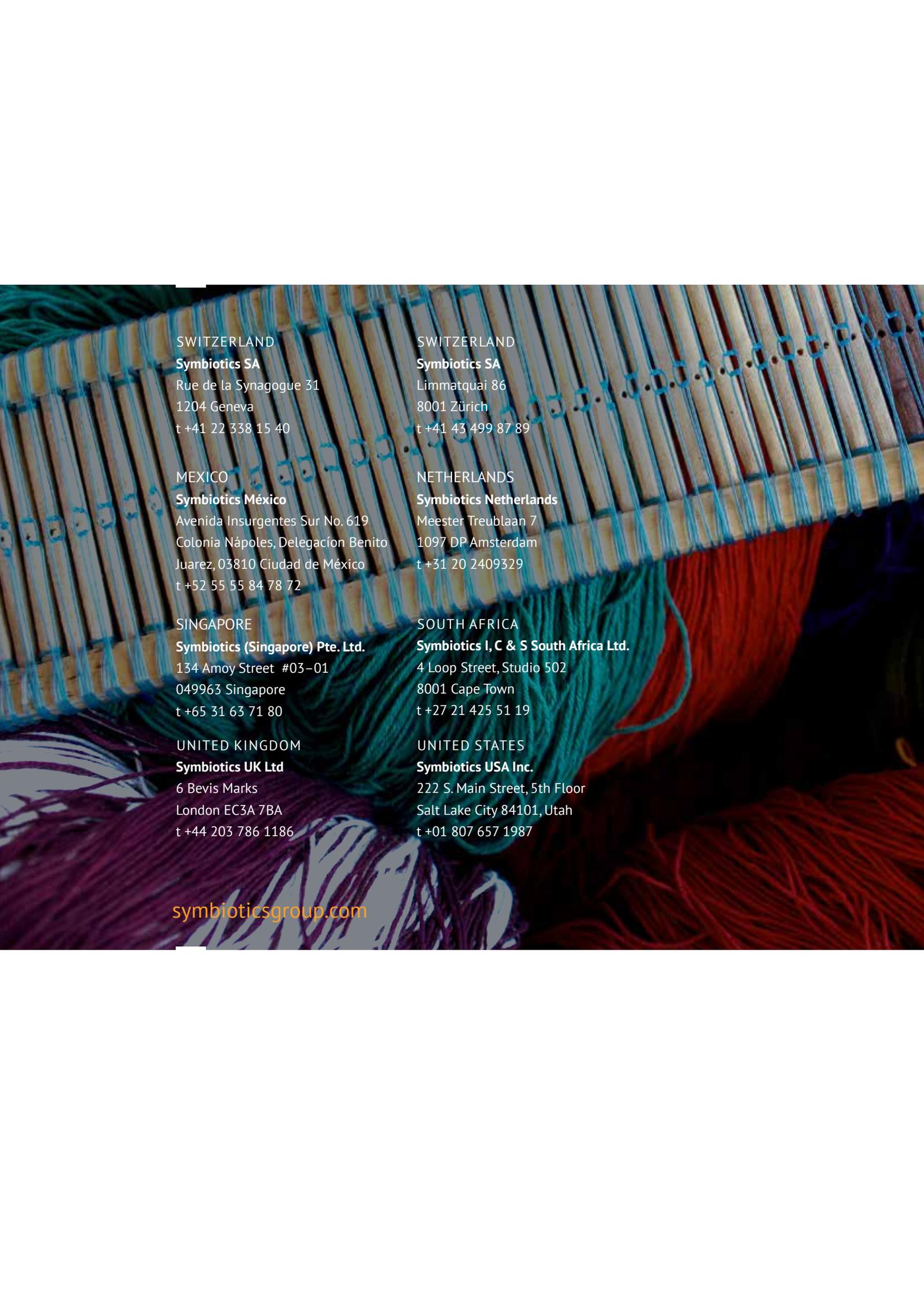
SWITZERLAND
Symbiotics SA
Rue de la Synagogue 31
1204 Geneva
t +41 22 338 15 40

MEXICO
Symbiotics México
Avenida Insurgentes Sur No. 619
Colonia Nápoles, Delegacíon Benito
Juarez, 03810 Ciudad de México
t +52 55 55 84 78 72

SINGAPORE
Symbiotics (Singapore) Pte. Ltd.
134 Amoy Street #03–01
049963 Singapore
t +65 31 63 71 80

UNITED KINGDOM
Symbiotics UK Ltd
6 Bevis Marks
London EC3A 7BA
t +44 203 786 1186

SWITZERLAND
Symbiotics SA
Limmatquai 86
8001 Zürich
t +41 43 499 87 89

NETHERLANDS
Symbiotics Netherlands
Meester Treublaan 7
1097 DP Amsterdam
t +31 20 2409329

SOUTH AFRICA
Symbiotics I, C & S South Africa Ltd.
4 Loop Street, Studio 502
8001 Cape Town
t +27 21 425 51 19

UNITED STATES
Symbiotics USA Inc.
222 S. Main Street, 5th Floor
Salt Lake City 84101, Utah
t +01 807 657 1987

symbioticsgroup.com