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## **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.<sup>1</sup>

**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>2</sup>

**Emerging and frontier markets** are countries which, broadly speaking, are classified by the World Bank as low- and middle-income countries.<sup>3</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>4</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 250 employees, and/or loans of about USD 1,000–350,000 (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>5</sup>

- 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 (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

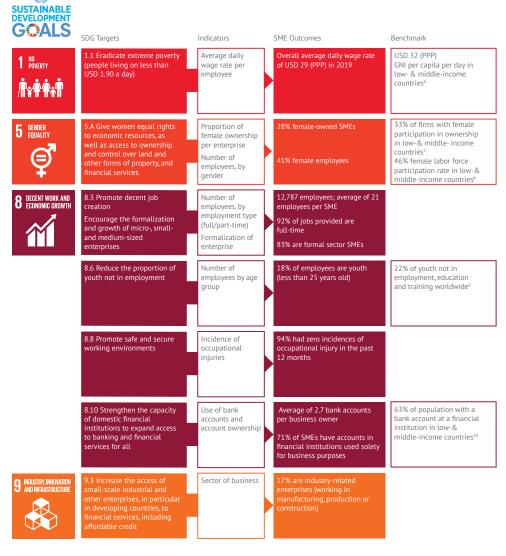
This impact report aims to measure the extent to which the Loans for Growth (LFG) fund meets its objectives to foster job creation, employment and entrepreneurship in emerging and frontier markets through SME finance. The LFG fund, launched in September 2016, provides financing to SMEs by investing in local, specialized financial institutions. Three years after its launch, the fund is invested in 30 financial institutions across 22 countries worldwide.

The current report is the third 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 924 SMEs in 12 low- and middle-income countries between 2017 and 2019.

During this period there is a clear positive trend in SME outcomes: the average SME size, in terms of total assets, has grown, the proportion of female and full-time employment has increased, and average wage rates as well as profit margins have risen. 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



- 6 The World Bank. (n.d.). GNI per capita, PPP (current international \$) Low & middle income. Retrieved from https://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD?locations=XO
- 7 The World Bank. (n.d.). Firms with female participation in ownership (% of firms) Low & middle income. Retrieved from https://data.worldbank.org/indicator/IC.FRM.FEMO.ZS?locations=XO
- 8 International Labour Organisation, ILOSTAT database. (2019). Labor force participation rate, female (% of female population ages 15) (modeled ILO estimate) – Low & middle income. Retrieved from https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS?locations=XO
- 9 International Labour Organisation, ILOSTAT database. (2019). Proportion of youth (aged 15-24 years) not in education, employment or training (%). Retrieved from https://www.ilo.org/shinyapps/bulkexplorer22/?lang=en&segment=indicator&id=SDG\_0861\_SEX\_RT\_A
- 10 Demirgü.-Kunt, A., Klapper, L., Singer, D., Ansar, S., & Hess, J. (2018). The Global Findex Database 2017. Washington, DC: World Bank Group. Retrieved from https://globalfindex.worldbank.org/

# 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:

- 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 third impact report produced for the LFG fund, tracking its progress towards meeting these objectives three years after its launch. The results presented in this report are based on data collected through direct surveys with a sample of 924 SMEs in 12 low- and middle-income countries worldwide.

## 2.

# IMPACT MEASUREMENT METHODOLOGY

In 2019, 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. As in previous years, Symbiotics utilized direct outcomes measurement through face-to-face interviews with the endbeneficiaries 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: A sample of the 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.

#### (i) Key characteristics and outcomes (all SMEs):

A total of 924 SMEs were interviewed between 2017 and 2019, of which 201 were newly added to the sample in 2019. In an effort to prevent unexpected changes to the sample composition (in terms of characteristics such as loan size, location and business activities), the new participants are located in the same 12 countries, and are clients of the same financial institutions. The sample comprises SMEs with under 250 employees, and loans of about USD 1,000–350,000 (excluding outliers). In sections 4.a to 4.c, we describe the main characteristics of the SMEs interviewed in 2019, as well as their key outcomes in terms of employment and business performance.

#### (ii) Evolution in outcomes (constant sample – 490 SMEs):

Out of these 924 SMEs, 490 were interviewed at least twice.<sup>12</sup> We examine how these SMEs have evolved over time, analyzing the difference between their survey responses the first time they were interviewed (baseline) versus their most recent interview (end-line). We refer to these SMEs as the 'constant sample' and present the results of this analysis in section 4.d.<sup>13</sup>

Any financial data presented in this report is in USD, converted from local currency using a fixed exchange rate as of 30 September 2019.

<sup>11</sup> In 2018, Vitas Romania was the only new financial institution added to the sample.

<sup>12</sup> For more details on the SMEs that dropped out of the sample and the reasons for drop-out, please refer to Appendix 2.

<sup>13</sup> For further details on the composition of the constant sample, please refer to Appendices 2 and 3.

Compared to previous years, the survey developed by Symbiotics underwent few changes in order to evaluate the progress of the SMEs and maintain a coherent analysis. As before, 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.

New qualitative questions were added to the survey with the aim of gaining better insights on the evolution of the SMEs within the sample. These new questions assess entrepreneurs' self-perception of their business performance (e.g. we ask whether they believe their revenues and profits have increased, decreased or remained unchanged over the past 12 months).<sup>14</sup>

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 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

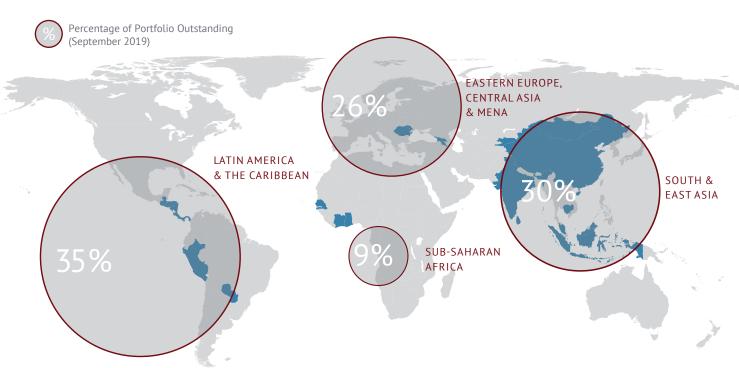
The LFG fund is a four-year, closed-ended fund, which was launched in September 2016 and is due to close in September 2020. The data reported in this section are based on the portfolio outstanding as of the end of September 2019. With one year until its closing, several of the investments in the LFG portfolio have matured and were repaid to the fund. No new investments have been made since July 2019 and therefore any changes in the portfolio size and composition are only a consequence of the investments maturing in the fund.

As of September 2019, the LFG fund:

- > Originated USD 60 million
- > Financed 42 financial institutions through 59 transactions
- > Invested directly in 24 countries, of which Indonesia was newly added to the portfolio in 2019.

Similar to the two previous years, Latin American & the Caribbean continues to be the region with the fund's largest exposure with 35% of portfolio outstanding. This year, the region with the second largest exposure was South & East Asia (30%), while 26% is invested in Eastern Europe, Central Asia & MENA and the remaining portion (9%) is in Sub-Saharan Africa.

Figure 1
Geographic Outreach of LFG



#### SOCIAL INTENTIONS - SOCIAL RESPONSIBILITY RATINGS

Through its Social Responsibility Rating, Symbiotics ranked potential investees based 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 2019. During the third 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.

Environmental policy continues to be the lowest score (35%) as the financial institutions in the LFG portfolio do not focus on green lending activities. However, in comparison with 2018 and 2017, this year the the environmental policy dimension score increased by 5 percentage points (pp). This is largely because, in 2019, nine out of the 30 institutions currently in the portfolio improved their environmental policy score.

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



# Financial Institutions Improving Their Environmental Policies

Alliance Finance is one of the nine institutions that improved their environmental policy score. It is the first financial institution in Sri Lanka to commit to the Karlsruhe Resolution, a resolution that aims to contribute to the SDGs and the Paris Climate Agreement. Alliance Finance provides loans for hybrid and electric cars, as well as longer term loans to support climate-smart agriculture solutions. Another example is Banco Continental in Paraguay, implementing an environmental and social management system to evaluate the adherence of large companies to the bank's environmental policies before any disbursement. In addition, together with nine Paraguayan banks, Banco Continental has created the Sustainable Finance Board to promote the evaluation of environmental risks in the financial system.





Figure 3

GDP per Capita (current USD)

USD

12,000 — 11,297

10,000

8,000

6,000

4,968

5,355

4,000

2,000

World

Low- & Middle-Income Economies

LFG Portfolio (Weighted Average)

#### **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.

#### Market outreach

As of September 2019, the LFG fund is invested in countries where:

- GDP per capita (current USD) is 5,355, which is lower than the world average and in line with the average of low- and middle-income economies (Figure 3).<sup>15</sup>
- Banking penetration levels (55%) are not only lower than world averages, but also lower than the average for low- and middle-income economies (Table 2).<sup>16</sup>

Since 2014, there has been an increase in the share of adults with a bank account, both worldwide and in developing economies. Likewise, banking penetration levels for the LFG portfolio have increased by 11 pp when compared to the first year of the fund.<sup>17</sup>

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

Table 2 Banking Penetration Levels

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

<sup>15</sup> The World Bank. (n.d.). GDP per capita (current US\$). Retrieved from https://data.worldbank.org/indicator/NY.GDP.PCAP.CD

<sup>16</sup> Demirgüç-Kunt, A., Klapper, L., Singer, D., Ansar, S., & Hess, J. (2018). *The Global Findex Database 2017*. Washington, DC: World Bank Group. Retrieved from https://globalfindex.worldbank.org/

<sup>17</sup> The Global Findex Database has been published by the World Bank every three years since 2011. In 2017, results showed an increase of financial inclusion globally compared to 2014. The share of adults who have an account with a financial institution or through a mobile money service provider increased from 62% to 69% between 2014 and 2017.

Considering the World Bank's country classification by income levels, in 2019, the LFG fund's portfolio is predominantly concentrated in upper-middle-income economies.<sup>18</sup>

Since 2018, there continues to be a decrease in the proportion of the portfolio invested in lower-middle-income economies relative to upper-middle-income economies (Figure 4). This is not because new investments were made that favored upper-middle-income economies, but rather because a large proportion of the repayments made by financial institutions between 2018 and 2019 came from lower-middle-income and low-income economies, such as Burkina Faso, El Salvador and Mongolia. Currently, 2% of the LFG portfolio is directly invested in one high-income country, which is Panama.<sup>19</sup>

#### Investee outreach

As of September 2019, the LFG fund's portfolio is largely composed of Tier 1 financial institutions (70%).<sup>20</sup> The proportion of volumes invested in Tier 2 institutions decreased by 7 pp, whereas the proportion invested in Tier 1+ institutions has decreased by 9 pp.

In 2019, these investees have an SME clientele that benefits from loans amounting to USD 57,938 on average, with variations depending on countries. The median SME loan among these investees in 2019 is USD 29,417 indicating that there is heterogeneity among the investees.

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

- 18 The World Bank currently 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 1,025
  - Lower-middle-income: USD 1,026 < GNI per capita ≤ USD 3,995
  - Upper-middle-income: USD 3,996 < GNI per capita ≤ USD 12,375
  - High-income: GNI per capita > 12,376

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

- 19 Panama (accounting for 2.49% of the outstanding portfolio) was reclassified from an upper-middle-income country to a high-income country between 2017 and 2018. It is still considered an emerging market according to the International Monetary Fund's World Economic Outlook. Nevertheless, the LFG fund invested in Panama prior to the reclassification and did not add new institutions in Panama to its portfolio in 2019.
- 20 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

Figure 4
% of LFG Portfolio by Countries'
Income Levels

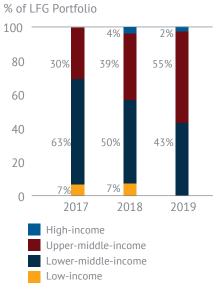
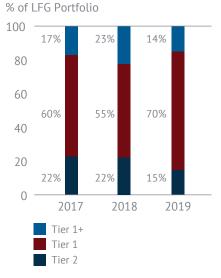


Figure 5
Size of Financial Institutions



Given the portfolio outstanding of the LFG fund in each investee, the fund is expected to be financing 2,781 SMEs as of September 2019.<sup>21</sup> The expected number of SMEs financed by the LFG fund has declined compared to last year (3,123 SMEs) primarily due to the decreasing size of the portfolio outstanding leading up to the fund's closing in September 2020.

In 2019, 619 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.

USD 57,938

Average SME Financing Size of LFG Investees (Weighted Average)

Table 3
LFG Fund Outreach Summary

	Sept 2017	Sept 2018	Sept 2019
Origination (USD millions; cumulative)	51.9	54.6	59.7
Portfolio outstanding (USD millions)	49.6	50.2	36.7
Number of countries	22	23	22
Number of financial institutions	37	38	30
SME financing size (USD; weighted average)	48,092	58,560	57,938
Number of SMEs financed	3,512	3,123	2,781

<sup>21</sup> 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

- > Between 2017 and 2019, a total of 924 SMEs were interviewed:
  - In 2019,619 SMEs were interviewed, out of which 201 were newly added to the sample. Unless stated otherwise, the results in this section summarize the data collected from these 619 SMEs.
- > Sampled SMEs are financed by 14 investees in 12 countries. Overall, the geographic composition of the sample is similar to that in 2017 and 2018 and the investees in the sample remain geographically representative of the regions in which the LFG fund is invested. The two regions with the greatest increase in number of participants were Latin America from 105 in 2018 to 206 in 2019 and Eastern Europe from 153 to 166 in 2019.
- Out of the USD 36.7 million in outstanding volumes as of September 2019 (see Table 3), USD 11 million (30%) is in the financial institutions in the sample.
- > The number of SMEs in the sample in 2019 represents approximately 22% 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 institution size and loan size (Table 4).

Table 4
Investees and Sample Size 2019

Financial Institution	Country	Country Income Level	Sample Size	Institution Type	Tier Level	SMEs (% GLP)	Average Outstanding SME Loan (USD)
Eastern Europe, Central Asia	a & MENA		166				
Lazika	Georgia	Upper-middle	65	MFI	Tier 2	65%	3,459
Microinvest	Moldova	Lower-middle	53	MFI	Tier 1	25%	27,038
RoCredit	Romania	Upper-middle	37	MFI	Tier 2	64%	62,083
Vitas Romania	Romania	Upper-middle	11	MFI	Tier 2	36%	12,485
Latin America & the Caribb	ean		206				
Improsa	Costa Rica	Upper-middle	51	Bank	Tier 1	50%	87,615
Arrend	Guatemala	Upper-middle	53	Leasing	Tier 1	42%	35,791
CFE Panama	Panama	High	51	SME finance	Tier 2	75%	13,755
TFC	Peru	Upper-middle	33	SME finance	Tier 1	71%	21,059
Pacifico	Peru	Upper-middle	18	SME Finance	Tier 1	84%	70,550
South & East Asia			143				
Sathapana	Cambodia	Lower-middle	51	Bank	Tier 1+	50%	11,313
Grassland Finance	China	Upper-middle	51	MFI	Tier 1	70%	81,996
Neogrowth	India	Lower-middle	41	SME finance	Tier 1	100%	14,519
Sub-Saharan Africa			143				
Coris Bank BF	Burkina Faso	Low	53	Bank	Tier 1+	27%	104,745
Cofina Senegal	Senegal	Lower-middle	51	MFI	Tier 2	85%	11,078
	TOTAL	L	619			54%	39,820

#### **B. BUSINESS & OWNER CHARACTERISTICS**

In 2019, the characteristics of the SMEs and the business owners remain largely unchanged relative to 2017 and 2018, despite the addition of 201 SMEs to the sample (see Table 5):

- > About 30% of the SMEs are owned by women
- > Over half of business owners are between 41 and 60 years old.
- > Business owners are well-educated, with about 80% completing at least a high school degree, or higher.
- > SMEs are primarily based in urban areas (more than 75%)
- > The majority of SMEs are in the formal sector (more than 80%)

Table 5
Characteristics of Business Owners & SMEs

		% SMEs/Busin	ness Owners
	2017	2018	2019
Gender			
Male	69.2	70.2	72.2
Female	30.8	29.8	27.8
Age			
Under 25	1.8	0.6	0.7
25-40	39.0	38.4	34.7
41-60	51.8	51.9	52.9
Over 60	7.4	9.0	11.7
Educational Attainment			
No formal schooling	2.2	2.6	4.7
Primary	6.3	8.4	6.5
Lower secondary	9.4	10.9	7.9
High school	24.5	22.5	25.4
Technical/Vocational	8.8	13.9	14.2
Undergraduate	33.5	27.0	28.8
Post-graduate Post-graduate	14.1	13.9	12.1
Other	1.0	0.9	0.5
Location			
Urban	77.1	74.5	78.0
Rural	22.9	25.5	22.0
Formalization			
Formal	86.1	82.7	82.7
Informal	13.5	16.7	16.7
In the process of being registered	0.4	0.6	0.5
Business Sector			
Agriculture, Forestry & Fishing	8.0	10.7	10.7
Manufacturing & Construction	19.5	18.3	19.5
Trade (Retail or Wholesale)	31.5	31.4	35.1
Services	20.5	27.1	34.7
Other	20.5	12.5	0.0
No. of SMEs interviewed	506	488	619

#### Activities

- > The largest proportion of the SMEs are running trading and service-based (35%) activities, and the smallest share is in agriculture (11%).
- The most common sectors of activity in the sample are transportation services and wholesale trade (74 and 59 SMEs respectively; see Figure 6).
- 20% of the SMEs in the sample work in manufacturing and production, including construction activities.



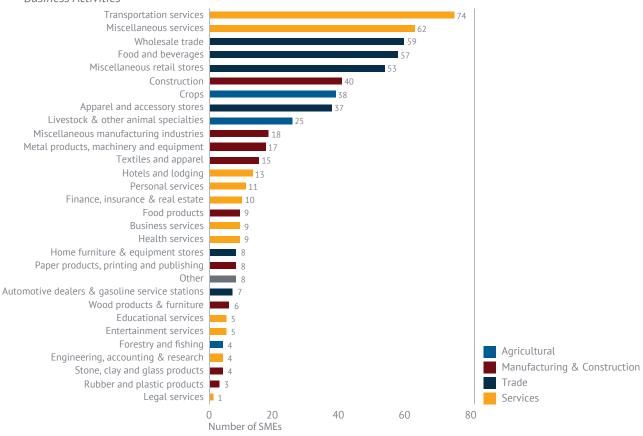
### Novigraf | Cooperativa Pacifico, Peru

Novigraf is a paper business operating in Lima, Peru. It is currently owned by Victor Hugo, who took over the management of the enterprise after his father's death. Following the hyperinflation that hit the country in the 80-90s, the business went bankrupt. Luckily, two loyal clients rescued Novigraf by offering two paper machines to Victor Hugo's father, so that the enterprise could keep operating.

Novigraf first contacted Cooperativa Pacífico in 2014 for a working capital line of credit of USD 30,000. The loan helped Mr. Hugo to top up the business's inventory, knowing that clients' bills are collected either 30 or 60 days after the paper sale. Today, Novigraf's 30 employees produce and sell a wide variety of cartons and boxes, which are notably used in Lima for shoes and cakes.

Mr. Hugo, who studied and worked in engineering, recently launched a range of environmentally friendly cartons, which do not use dyes that harm the environment. Novigraf's recyclable boxes allow them to reduce their production costs. Their ecological packaging products are now officially patented under the brand Natural Pack and have received the world-renowned Forest Stewardship Council Certification (FSC) and Programme for the Endorsement of Forest Certification (PEFC), thanks to their exclusive use of wood with high standards of sustainable management and harvesting. Mr. Hugo aims to commercialize this new brand internationally and intends to develop a website for this purpose.

Figure 6
Business Activities



#### Formalization

> 83% 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 less than 1% reported that they are in the process of being registered. This is largely a reflection of the financial institutions' lending policies; several institutions lend exclusively to registered SMEs, which is why the proportion of formal sector businesses in the respective countries is 100%. The lowest proportion of formalization is in Cambodia and Moldova, where it is 51% and 68%, respectively (Figure 7).

Figure 7
Proportion of SMEs in Formal Sector

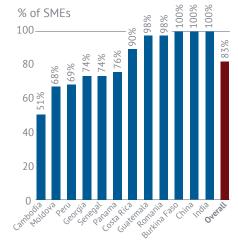
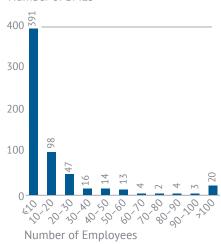


Figure 8
Distribution of Number of
Employees per Enterprise

Number of SMEs



#### C. KEY OUTCOMES

#### I EMPLOYMENT

- > In 2019, the sample includes 619 SMEs, employing a total of 12,787 workers, i.e. there is an average of 21 workers per SME. The median number of employees per SME is 6.
- > 1,863 new employees were hired by 226 SMEs during the 12 months before the interview, of which 43% were female.
- The distribution of the number of employees per enterprise is largely similar to that observed in 2017 and 2018, with the majority of SMEs (64%) employing fewer than 10 workers.
- > The largest SMEs in the sample, with 150 employees or more, are primarily based in China and Peru.
- > The business sector with the lowest average number of employees is trade (14 employees), while services and agriculture are the sectors with the highest average (25 employees).

Table 6
Employment Summary

	2019
Total number of employees	12,787
Number of employees per SME	
Average	21
Median	6
Employment growth	
Number of employees hired in the past 12 months	1,863
- Of which female	797
Number of employees laid off in the past 12 months	415
Net increase in number of employees	+ 1,448
Working hours of business owners	
Average number of days worked per month	24
Average number of hours worked per day	9

#### **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.
- When considering the age of employers, it can be observed that employers between 25 and 40 years old are more likely to employ youth (<25 years old), or workers of the same age and less likely to employ older workers. In the case of business owners between 41 to 60 years old, they are prone to hire workers their same age and are less likely to hire younger workers. This might indicate that providing access to finance to young people will likely lead to more youth employment.</p>
- > SMEs provide opportunities for regular, full-time employment (92%), allowing for a stable source of income to employees.
- > The majority of employees are unrelated to the business owners (94%).

#### Wages

We analyze the wage rate offered by the SMEs in the sample relative to (i) the national or sectoral minimum wage, where applicable, (ii) the prevailing wage rates offered by similar businesses, and (iii) the country's gross national income (GNI) per capita in USD, adjusted for purchasing power parity (PPP).<sup>22</sup>

Most respondents (63%) believe the wages they pay their employees are competitive or very competitive, as compared to similar businesses. A further 29% 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 the sample is USD 882 (PPP).<sup>23</sup> Table 8 below shows the average monthly wage rate in the sample by country, and compares it to the 2018 GNI per capita and the self-reported minimum wage. The average daily income per employee shows that all the SMEs in the sample provide a wage that is well above the absolute poverty line of USD 1.90 per day. The wages paid by the SMEs in the sample are mostly below the monthly GNI per capita in Eastern Europe and Latin America, and above the monthly GNI per capita in South Asia and Sub-Saharan Africa (Table 7).

We also asked the SMEs whether there is a minimum wage set by their country's laws for the sector in which their business operates, and, if yes, what that

- 22 Based on 2018 GNI per capita, converted to international USD using purchasing power parity rates, as reported by the World Bank. An international dollar has the same purchasing power over GNI as a US dollar has in the United States. The annual GNI per capita is divided by 12 for the purposes of comparison to the average monthly wage rate.
- 23 We convert the data reported from local currency to USD using the PPP conversion factor, published in the World Bank's International Comparison Program database. This conversion factor is the number of units of a country's currency required to buy the same amounts of goods and services in the domestic market as US dollar would buy in the United States. This conversion factor is for private consumption (i.e., household final consumption expenditure). Retrieved from: https://data.worldbank.org/indicator/PA.NUS.PRVT.PP

Figure 9
Age of Employees

(% of Employees)

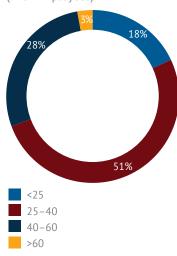


Figure 10 Characteristics of Employees

% of Employees

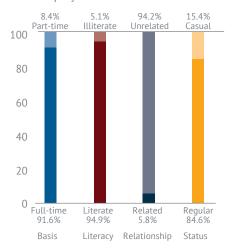
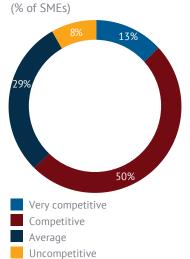


Figure 11
Wage Competitiveness



minimum wage is. In eight out of the 12 countries, SMEs reported a minimum wage. SMEs in these countries generally pay wages that are significantly higher than the minimum wage (in Romania, the wages paid by SMEs are very close to the minimum wage).

Table 7
Wage Rates by Country (USD, PPP)

wage Rates by Country (USD, Pi	PP)			
	Sample Average Monthly Wage Rate	2018 Monthly GDP per capita	Sample Average Daily Income	Minimum Wage (self- reported)
Eastern Europe, Central Asia and ME	ENA			
Georgia	499.9	958.3	16.7	
Moldova	611.2	635.0	20.4	_
Romania	1,342.6	2,293.3	44.8	1,271.9
Latin America & the Caribbean				
Costa Rica	1,241.1	1,391.7	41.4	854.1
Guatemala	1,079.4	692.5	36.0	662.3
Panama	1,029.4	1,962.5	34.3	-
Peru	863.2	1,142.5	28.8	564.8
South & East Asia				
Cambodia	660.7	339.2	22.0	-
China	1,318.6	1,514.2	44.0	597.5
India	867.8	640.0	28.9	427.0
Sub-Saharan Africa				
Burkina Faso	497.7	164.2	16.6	163.8
Senegal	444.3	305.8	14.8	304.6
Overall average	881.7	1,003.3	29.4	586.3
Low- and middle-income countries		968.1		

#### Employment growth: needs and challenges

- > In 2019, 47% 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. 46% of the respondents agreed that it is difficult to find suitable employees in their area of work.

- According to the Global Competitiveness Report, out of the countries in the sample, Costa Rica is the country that ranks highest (27 out of 141 countries) in ease of finding skilled employees while Moldova and Romania rank the lowest, 133 and 135 respectively.<sup>24</sup> Consistent with these findings, Moldova and Romania are also the countries in the sample where the largest proportion of respondents report that it is difficult to find suitable employees (71% and 85%, respectively).
- Moreover, among those respondents who have difficulties finding employees, the two most common challenges are lack of skills (27%) and employees being unreliable (24%, see Figure 12).
- Among the respondents that reported lack of skills as the main problem with finding suitable employees, 56% reported that they provide training to their employees. These businesses relied primarily on on-the-job training (70%) in favor of off-the-job training.
- 24 Schwab, K. (2018). The Global Competitiveness Report 2018. World Economic Forum.

  "In your country, to what extent can companies find people with the skills required to fill their vacancies? [1 = not at all; 7 = to a great extent]". Retrieved from: http://www3.weforum.org/docs/GCR2018/05FullReportTheGlobalCompetitivenessReport2018.pdf

# Kingway Technology Yan Yongming | Grassland Finance, China

An experienced professional, Yan Yongming worked for more than 10 years in the area of human resources management systems (HRMS) before starting Kingway Technology in 2011. Kingway provides a proprietary HRMS primarily to the clients in the public sector in China (over 75% of its revenues). With its product currently used by 13 provincial governments, Kingway claims to be the top HRMS in China. The company has 40 employees and 6 sales representatives and is headquartered in Chengdu with further branches in Beijing, Yunan, Shenyang, Guangxi and Jiangsu. Kingway is also listed on the National Equities and Exchange Quotation (NEEQ), an SME-focused exchange for over-the-counter trading. Kingway has received two loans from Grassland Finance for a total amount of USD 115,000 to develop its HRMS software and to cover the substantial cost of hiring and remunerating its skilled staff. Kingway plans to grow by enhancing its software and catering to additional sectors through new HRMS products.



- Migration, shortage of young people to work (principally due to migration), low salaries, and lack of interest in part-time employment are among other difficulties SMEs are facing when looking for suitable employees. Migration is especially a challenge for SMEs in Moldova. According to the Global Competitiveness Report, Moldova ranks 133 out of 137 in terms of country capacity to retain talent.<sup>25</sup> Out of the 12 countries in the sample, Moldova is the country that ranked the lowest.
- Business owners in the sample are more likely than not to keep their employees. In 2019, 73% of respondents indicated that they did not lay off employees in the past 12 months. As shown in Table 6 above, a total of 415 employees were laid off by the sampled SMEs in the past 12 months.
- > Among the SMEs that did lay off employees, the main reasons reported were that employees are unreliable and not hardworking.



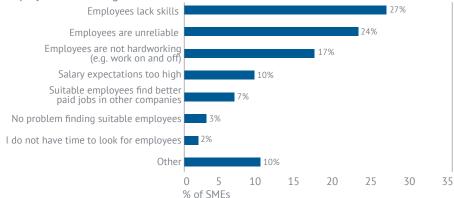
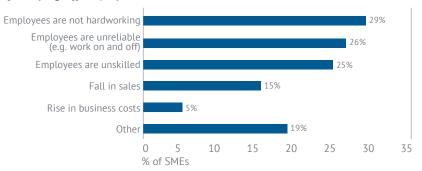


Figure 13
Reasons for Laying Off Employees



<sup>25</sup> Schwab, K. (2018). The Global Competitiveness Report 2018. World Economic Forum. "Does your country retain talented people? [1 = the best and brightest leave to pursue opportunities in other countries; 7 = the best and brightest stay and pursue opportunities in the country]". Retrieved from:

http://www3.weforum.org/docs/GCR2018/05FullReport/heGlobalCompetitivenessReport2018.pdf

#### **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, 72% of respondents report that they take some measures to ensure the safety of their employees. 32% of the SMEs indicated having a fire alarm in their premises, 45% to have an evacuation policy in place in case of an emergency and 65% to have further measures to guarantee the safety of their employees such as such providing protective gear and safety training, among others.
- While 94% of SMEs had no incidences of occupational injury in the past 12 months, the sectors that reported the highest proportion of incidences were SMEs active in the trade and service-based sectors.

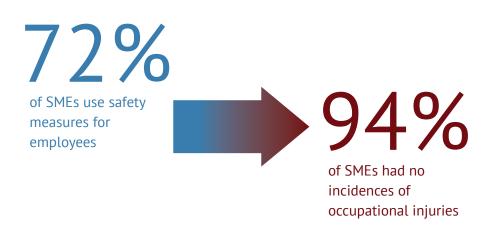


Table 8
Median Revenues, Expenses
and Profits (USD)

	Median (USD)
Revenues	14,389
Expenses	4,509
Profits	3,079

#### 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>26</sup> It is common to observe extreme outliers in financial data, and therefore we report the median levels of these outcomes. Overall, the median revenues, expenditures and profits are USD 14,389, USD 4,509 and USD 3,079, respectively (see Table 8). The highest median levels of revenues, expenditures and profits (in absolute terms) are in China.

This year, SMEs were asked to rank their expenses from what they spend the most on to what they spend the least on. Purchase of inputs or raw materials together with wages and salaries for employees have been the most important expenses, as reported by SMEs in all three years. SMEs have ranked taxes and transport costs for the business higher this year, compared to 2017 and 2018. In addition, utilities expenses and machinery and equipment rental have been classified as less significant in 2019.

Table 9
Ranking Expenses

	9	.,,
Rank	ing	Expense
1		Purchase of supplies, raw materials and materials for resale
2		Wages and salaries for employees
3		Taxes
4		Transport costs for the business
5	<b>V</b>	Utilities expenses (electricity, gas, water, garbage collection)
6	<b>V</b>	Other expenses
7		Rental of commercial premises
8	<b>V</b>	Machinery and equipment rental

Using self-reported data on the SMEs' revenues and profits, we calculate the monthly profit margin.<sup>27</sup>

- > The average margin is equal to 44% while the median is 29%.
- > 20% of SMEs had a profit margin below 10%.

Figure 14
Distribution of Profit Margins
Number of SMEs

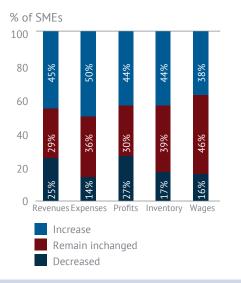


- 26 Profit levels are not calculated by deducting the expenses from the revenues, but are self-reported, following the recommendation of De Mel, McKenzie & Woodruff (2009), who conclude that this is a more accurate measure of firm profits in survey data.
  De Mel, S., McKenzie, D.J., & Woodruff, C. (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
- The above calculations are based on 304 observations; there are 315 missing values. 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.

This year, a new question was introduced to measure SMEs' perception of their business outcomes. SMEs were asked if they believed their revenues, expenses, profits, inventory and expenditures on wages have decreased, remained unchanged or increased over the past 12 months.

- The trend for revenues, expenses and profits was similar with over 40% reporting an increase, about 30% saying they remained unchanged and about a quarter saying they decreased. The three variables are strongly correlated with each other; SMEs that reported an increase in revenues were likely to also report an increase in expenses and profits, and vice versa.
- > For inventory and wages, the largest proportion of respondents indicated that they increased.

Figure 15
Perceived Changes to Business Performance



## Serghei Volc | Microinvest, Moldova

Before becoming an entrepreneur, Serghei Volc, a 45-year-old man from Chisinau, worked as a sailor. This line of work did not allow him to spend a lot of time with his family. Tired of this situation, Serghei accepted his schoolmate's proposal to start a business together. In 2006, both partners opened a small advertising production company in Chisinau, which was initially equipped with only one manual printing machine. Following the 2008-2009 economic crisis in the country, Serghei's partner left the business. As a result, both Serghei and his wife worked days and nights to deliver the orders on time. They decided to invest in an automated and higher-capacity printing machine and requested financial support from Microinvest in 2018. They received a 215,000 Lei (approximately USD 12,000) loan for 5 years. Since then, the advertising production company can fulfil bigger orders and offer additional services, such as ceramic printing. Serghei and his wife are now able to deliver better quality orders on time, without needing to hire an additional employee. They also have more time to spend with their two children. The next step is to expand their activities by providing more advanced printing services to be more competitive in the market.



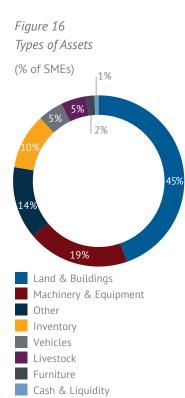
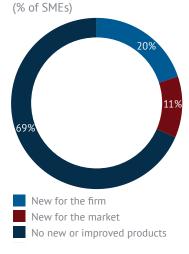


Figure 17 New or Improved Products



> These responses suggest that there are mixed results in terms of business performance. While the majority of SMEs are growing and improving their performance, one quarter are experiencing difficulties. SMEs that reported a decrease in revenues, expenses and/or profits in the past 12 months are generally smaller in terms of number of employees, and are more likely to be informal businesses. These SMEs are also less likely to plan their business expenses in advance and less likely to have a record-keeping system, compared to SMEs that report an improvement in business performance. This indicates that these SMEs could benefit from basic business training to help them better manage their cash flows.

#### Assets

Across all regions, the highest proportion of business assets is in land and buildings. This is likely to be because 52% of the SMEs own the premises in which the business operates.

The median value of total assets in the sample is USD 128,111. As with other indicators of business performance, the highest value of total assets is in China, where the median is USD 2.2 million. Excluding China, the median level of total assets is USD 108,005.

#### New products

 Out of the 619 SMEs interviewed in 2019, 33% have introduced new or significantly improved products or services to their clients in the past 12 months.

#### III FINANCIAL INCLUSION

#### Bank accounts

- > 73% of the SMEs interviewed in 2019 have at least one bank account that is used exclusively for business purposes.
- > The countries where the smallest proportion of SMEs have a bank account that is used solely for business purposes are Georgia (14%), Panama (45%) and Moldova (57%). In the case of Georgia and Moldova, both institutions in the sample are microfinance institutions and so their clients most likely use their bank accounts for both personal and business purposes.
- SMEs that do not have a bank account used solely for business purposes are smaller, on average, in terms of both number of employees and size of total assets. They are also more likely to be informal businesses operated from the business owner's home.
- > The 439 respondents who use bank accounts for their business have 1,156 bank accounts in total, with an average of 2.7 bank accounts per enterprise.
- Out of the 1,156 accounts, 86% are secured through a pin code or other means, and 79% are accessible through a mobile phone or other electronic device.

#### Uses:

SMEs most commonly use the bank accounts to deposit revenues (68%, see Figure 18) and to make payments for the purchase of goods or inputs (67%).

These purposes are clearly of direct relevance to the successful operation of the businesses. The SMEs most often 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 18
Uses of Bank Accounts

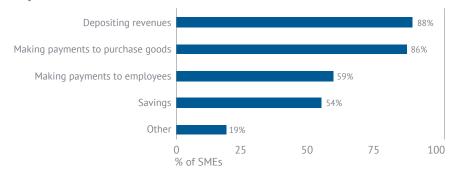


Figure 19 Main Sources of Finance

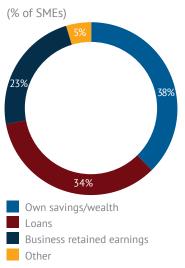
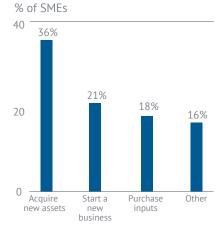


Figure 20 Reasons for Taking Loans



#### Access to finance

All the SMEs in the sample are loan recipients, and therefore have access to finance through loans. Nevertheless, they appear to be resorting to alternatives as the main source of financing business investments, notably their own savings or wealth (38%).

SMEs are using the loans to grow or to continue developing their business by taking loans to acquire new assets (36%) and purchase inputs (18%). Moreover, 21% of SMEs in the sample are using the loan to start a new business.

53% of SMEs reported that their access to financing through financial institutions has improved over the past 12 months, whereas 37% reported that it remained unchanged, and only 9% said it deteriorated.

Similarly, only 9% of SMEs reported that they have had any loan applications rejected in the past. These findings suggest the creditworthiness of the sampled 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 GENDER

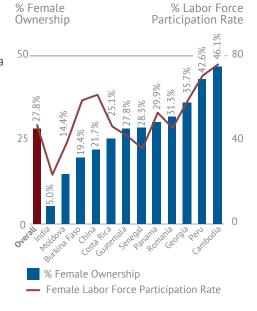
#### Female ownership

- > Out of the 619 SMEs, 28% are owned by women.<sup>28</sup>
- > 131 SMEs are 100% owned by women, whereas another 45 SMEs have least 50% female ownership.
- > The highest proportion of female ownership is in Cambodia (46%) followed by Peru (43%) and Georgia (36%). Meanwhile, the lowest proportion is in India (5%, see Figure 21).
- The proportion of female ownership is strongly correlated with the labor force participation rate in each country. Despite a few exceptions, countries with the highest proportion of female ownership, like Cambodia and Peru, also have the highest labor force participation rates (75% and 70%, respectively).<sup>29</sup> This demonstrates that women's economic activities are more widely accepted by social and cultural norms in these countries.

#### Female employment

- Of the 12,787 employees reported in 2019,41% are female and 59% are male.
- The two sectors with the highest proportion of female employees are agriculture and the services sector (about 45%), whereas the sector with the lowest proportion of female employees is manufacturing and construction (29%).
- These figures are consistent with global statistics from the International Labour Organisation (ILO), which show that services (including trade) account for 56% of female employment worldwide, and 48% of female employment in low- and middle-income countries, whereas industry (including manufacturing and construction) accounts for the lowest share of female employment.<sup>30</sup>

Figure 21
Proportion of Female Ownership and
Labor Force Participation Rate by Country



- 28 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.
- 29 International Labour Organisation, ILOSTAT database. (2019). Labor force participation rate, female (% of female population ages 15+) (modeled ILO estimate). Retrieved from https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS
- 30 International Labour Organisation, ILOSTAT database. (2019). Retrieved from https://data.worldbank.org

Figure 22 Gender of Employees



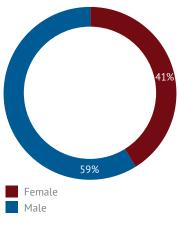


Table 10
Female Employment by Sector

	Agriculture	Industry	Services (incl. trade)
% of total fe	male employmen		
World	27%	16%	56%
Low- & middle-income countries	34%	18%	48%
Agriculture	Manufacturing & Construction	Trade	Services
Proportion of fema	ale employees per	sector	
Sample 45%	29%	40%	47%

- > SMEs that have at least one female co-owner are more likely to hire a greater proportion of female employees. Among the female-owned enterprises, 58% of employees are female, and the average number of female employees per enterprise is 13. Meanwhile, among male-owned enterprises, only 36% of employees are female, and the average number of female employees is 7 (see Table 11 below).
- > The proportion of female employment increases as the proportion of female ownership increases, with SMEs that are 100% owned by women hiring the greatest proportion of female employees.
- > However, 100% female-owned SMEs have fewer female workers, on average, because these businesses are smaller overall (average of 10 employees, compared to 21 for the whole sample).

Table 11
Female Employment and Female Ownership

Business Owners	% Female Employees	Average no. Female Employees
Female owners only	62%	8
At least one female owner	58%	13
Male owners only	36%	7
Overall	41%	10

#### **V** BUSINESS CHALLENGES

When asked about the most important challenges they face out of a list of 10 challenges (Figure 23), the most common challenge faced by the SMEs is competition from businesses providing similar products or services, followed by changes in the costs of their inputs and changes in demand for their products.

#### 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.

Out of the 619 SMEs interviewed this year 34% (212 SMEs) 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.



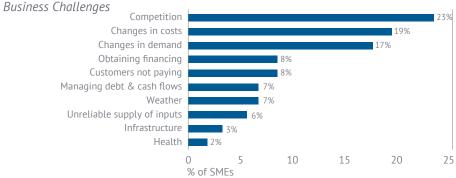


Figure 24
Types of Advertising

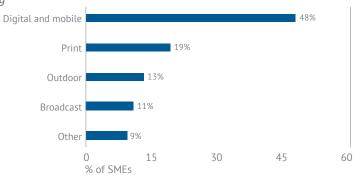
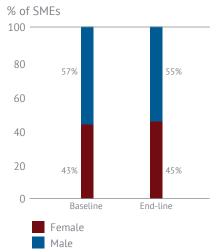


Figure 25 Employment Growth by Gender – Constant Sample



#### D. CONSTANT SAMPLE

This section focuses on SMEs that were interviewed at least twice (490 SMEs; henceforth the 'constant sample'), analyzing the change in outcomes between their first interview (baseline) and their latest interview (end-line).

#### I EMPLOYMENT

- > 475 SMEs in the constant sample report their number of employees. Between their first interview and their latest interview, the number of workers they employ increased by 47 in total from 10,346 to 10,393; a modest increase of 0.5%
- > As such, the average and median number of employees per SME do not change much over the period observed.
- Panama being the countries with the largest proportion of SMEs increasing the number of employees. On the other hand, 25% of SMEs maintained the same number of employees, while 43% reduced the number of employees. Cambodia and India were the countries with the highest proportion of SMEs reducing the number of employees. In fact, the decrease in number of employees in India alone accounts for 37% of the total decrease in employees in the sample. This is likely due to the fact that Indian MSMEs were severely affected by the demonetization that took place in November 2016 and many have been unable to recover since.
- > SMEs that reduced their number of employees were more likely to also report a decrease in their revenues and profits in the past 12 months, suggesting that they are facing difficulties with their business performance overall.
- Despite mixed results in terms of overall employment growth, the proportion of female employees in the businesses increased slightly from 43% to 45% as SMEs hired more female employees. On average, each SME hired one additional female employee between the baseline and end-line observations.
- > The proportion of full-time employment in the constant sample increased from 84% to 93%. 41% of SMEs increase number of full-time employees.

  Given the small net increase in total number of employees, this suggests that

Table 12
Employment Summary – Constant Sample

Baseline	End-line
10,346	10,393
22	22
7	6
10	11
2	2
	10,346 22 7

- the SMEs are replacing part-time positions with full-time ones. On average, each SME added 4 full-time employees.
- During their first interview, less than half the SMEs (47%) indicated that they would like to hire more workers, if suitable workers were available. Less than half of these SMEs (45%) hired new employees during their latest interview. On the other hand, about one third of SMEs that said they did not want to hire new employees did actually hire more workers. This suggests that SMEs are not always able to anticipate their staff needs one year or more in advance.

#### Wages

SMEs increased the average monthly wage rate by 23% from USD 681 to USD 840; each SME increased their monthly wage rate by USD 159, on average (all values in USD PPP).  $^{31}$ 

- > 66% of SMEs in the constant sample increased their wage rate. The largest increase was for SMEs in Costa Rica and Cambodia.
- On the other hand, 28% of the SMEs decreased the monthly wage rates. The largest decreases in wages were in Guatemala and Panama. The remaining 6% of SMEs did not change their wage rates.

Table 13 Wage Rates by Country (USD PPP) – Constant Sample

Sample Average Monthly Wage Rate	Baseline	End-line	% Change
Eastern Europe, Central Asia & MENA			
Georgia	445.0	621.2	39.6%
Moldova	543.3	624.2	14.9%
Romania	991.4	1,276.1	28.7%
Latin America & the Caribbean			
Costa Rica	625.3	1,114.5	78.2%
Guatemala	1,271.5	1,091.2	-14.2%
Panama	693.9	648.3	-6.6%
Peru	544.1	797.9	46.7%
South & East Asia			
Cambodia	402.7	670.9	66.6%
China	1,127.5	1,376.4	22.1%
India	639.1	700.1	9.5%
Sub-Saharan Africa			
Burkina Faso	455.5	496.6	9.0%
Senegal	462.7	484.8	4.8%
Overall	681.0	840.1	23.3%

<sup>31</sup> Wage data is available for 307 SMEs from the constant sample. Out of these 8 extreme outliers are excluded from the calculation. The values therefore represent the change reported by 299 SMEs. As described in section 4.c.i., the wage data is converted to USD using the PPP conversion factor, retrieved from: https://data.worldbank.org/indicator/PA.NUS.PRVT.PP

Table 14 Average and Median Profit Margin – Constant Sample

	Baseline	End-line
Average	37%	52%
Median	16%	25%

#### II BUSINESS PERFORMANCE

- Median monthly profits increased by 31% from USD 2,289 to USD 3,000.
- > 52% of SMEs increased their profits, whereas 6% had no change in profit levels and 42% saw a decrease in profits.
- The distribution of the profit margin shifted slightly as SMEs' profit margins increased. Both the average and the median profit margins increased over the period observed. As shown in Figure 26, the proportion of SMEs with a profit margin below 10% fell and now more SMEs have a margin higher than 20%.

Figure 26 Margin Distribution – Constant Sample Number of SMEs

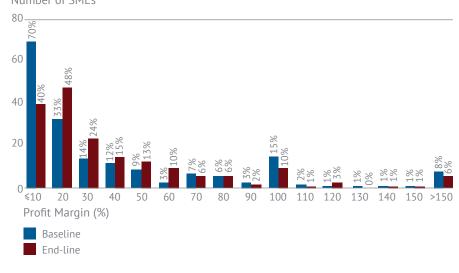
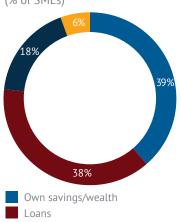


Figure 27
Sources of Finance for New Assets
- Constant Sample

(% of SMEs)



Retained earnings

Other

#### Assets

- Based on data from 391 SMEs that reported the value of their assets, we observe that the median value of the total assets per SME grew from USD 87,251 to USD 132,549.
- > 35% of SMEs purchased new assets in the past 12 months.
- The median value of new assets purchased per SME in the past 12 months is USD 32,580.
- 39% of these SMEs used their own savings to purchase new assets, whereas 38% relied on loans and 18% used the retained earnings of their business.

# 5. MAIN TAKEAWAYS

The data collected through this study provide several key insights into the operations of SMEs in emerging and frontier economies, allowing us to better understand their employment characteristics and business performance, as well as their challenges and needs.

It is clear that SMEs significantly contribute to employment in emerging economies. In our sample, each SME employs an average of about 20 workers, over 40% of whom are women. A persistent finding is that female-owned enterprises tend to employ a larger proportion of female workers than do enterprises that are solely owned by men. There is a well-documented gender finance gap among MSMEs in emerging and frontier markets, with female-owned enterprises facing more severe credit constraints.<sup>32</sup> Our findings suggest that, in addition to promoting economic growth, providing access to finance for female-owned enterprises may have a positive effect on female employment.

On the other hand, looking at SMEs' evolution over time, they do not necessarily increase their number of employees, nor do they always foresee a need to hire more workers in the future. However, we observe that SMEs generally increase their proportion of both full-time and female workers over time. They also tend to increase the wage rates they pay to their employees, on average.

In terms of business performance, we observe that a large proportion of SMEs report an increase in revenues, expenses and profits in the past 12 months (over 40%). Interestingly, SMEs that report a decrease in these business indicators are more likely to be smaller businesses operating in the informal sector, and having poorer business practices overall (e.g. record-keeping and financial planning). This suggests that SMEs could benefit from basic financial trainings to improve their performance.

The most common reason that SMEs take loans is to purchase new assets for their businesses. This is clearly reflected in the growth in SMEs' total assets over time. However, we find that business owners still tend to rely more on their own savings to finance business investments. This is in spite of the fact that our sample focuses exclusively on SMEs that have access to formal credit.

Finally, turning to the challenges faced by SMEs, competition appears to be among the most pressing challenges, affecting about a quarter of SMEs in our sample. However, only one third of SMEs use marketing or advertising tools to attract more clients. Likewise, only one third attempted to offer new products or services to gain a competitive advantage. Once again, this suggests that training or business development services may be beneficial for SMEs to help overcome this challenge in the future.

<sup>32</sup> International Finance Corporation. (2017). MSME Finance: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets. Retrieved from: http://documents.worldbank.org/curated/en/653831510568517947/pdf/121264-WP-PUBLIC-MSMEReportFINAL.pdf

# **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
- Value of business assets
- > 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
- > Expenses
- Profits
- Perceived change in outcomes in the past 12 months

#### VII Business Challenges

> Qualitative listing of challenges, if any

#### APPENDIX 2: ATTRITION

Out of the 619 SMEs interviewed in 2019, 201 were being interviewed for the first time. Panama was the country with the highest number of new SMEs added (40), while no new SMEs were included in Moldova.

A total of 723 SMEs had been interviewed in 2017 and 2018. Of those, 490 were re-interviewed and represent the constant sample used throughout this year's report. The overall attrition rate for this year is 32%. Panama (67%) and Guatemala (58%) have the highest number of SMEs dropping-out of the sample and Georgia (13%) has the lowest drop-out rate.

Figure 28
Attrition Rate by Country
% of SMEs

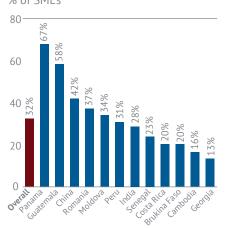


Table 15 Drop-out Rate 2019

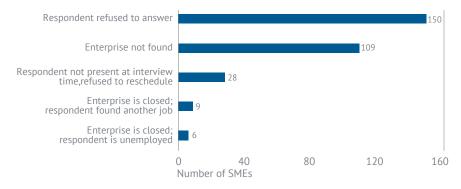
Country	Newly Added in 2019	Interviewed in 2017/18	Re-interviewed (Constant Sample)	Drop-out Rate
Eastern Europe, Central Asia & MENA				
Georgia	15	62	54	12.9%
Moldova	0	83	55	33.7%
Romania	6	76	48	36.8%
Latin America & the Caribbean				
Costa Rica	23	40	32	20.0%
Guatemala	36	50	21	58.0%
Panama	40	49	16	67.3%
Peru	12	62	43	30.6%
South and East Asia				
Cambodia	4	62	52	16.1%
China	14	77	45	41.6%
India	24	46	33	28.3%
Sub-Saharan Africa				
Burkina Faso	16	56	45	19.6%
Senegal	11	60	46	23.3%
Total	201	723	490	32.2%

Every SME interviewed in 2017/18 was contacted up to ten times in an effort to schedule a second or third interview. We used the contact details that participants shared during the 2017/18 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 29). 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.
- Weather conditions: One example is Cambodia, where enumerators had difficulties reaching SMEs as the data collection process took place during the rainy season.
- In Moldova, the data collection process coincided with the harvesting season. Many SMEs in the country reported their unavailability to participate due to harvesting season.

Figure 29 Reasons for Attrition 2019



- > Increasing insecurity: In many contexts, business owners are uncomfortable disclosing detailed information due to security concerns.
- 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 2017/18 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.

While we will continue efforts to re-contact all the sampled SMEs, including those that could not be interviewed this year, we expect to face high attrition rates in 2020 in light of these challenges.

#### APPENDIX 3: CONSTANT SAMPLE

The constant sample in the report comprises SMEs that participated in the survey for a minimum of two years. The table below illustrates the composition of the 490 SMEs in the constant sample: 72 SMEs participated both in 2017 and 2018; 70 SMEs participated both in 2017 and 2019; 149 SMEs participated in 2018 and 2019; and lastly, 199 SMEs were respondents in all three years. The sum of all these SMEs represent the 490 SMEs in the constant sample.

Table 16
Composition of Constant Sample

	2017	2018	2019	Number of SMEs
Constant Sample				
	Yes	Yes	Yes	199
	Yes	Yes	No	72
	Yes	No	Yes	70
	No	Yes	Yes	149
				490
Drop outs				
	No	Yes	No	68
	Yes	No	No	165
				233
Newly added				
	No	No	Yes	201
Total				924

43

