IMPACT REPORT 2020

SME FINANCE LOANS FOR GROWTH

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs, Education and Research EAER
State Secretariat for Economic Affairs SECO

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FOREWORD

The Loans for Growth fund, a public-private partnership between a Swiss bank, Symbiotics and SECO, contributed in a measurable way to selected Sustainable Development Goals. SECO entered this partnership to act as a catalyst to scale such financing solutions and to test the impact hypothesis in line with our economic development mandate. Jobs are the key way out of poverty, with nine out of ten jobs in developing and emerging markets created by the private sector. The Loans for Growth fund helped SMEs "missed" by access to finance to grow by alleviating their financial constraints.

The fund confirmed that such investments are commercially viable and private investors perceive them as less risky.

SECO, together with private investors, sponsored this pilot impact report. Symbiotics, as fund manager, leveraged its long-term experience in impact investing and outcome measurement in this undertaking.

The report looks at new ways to measure key economic and social outcomes at the SME level. We can now demonstrate that during its four-year lifespan, the Loans for Growth fund successfully promoted SME financial inclusion, job creation and entrepreneurship and generated significant development impact, such as higher business performance, more jobs and increased safety of the work environment.

This final report provides us, as a donor agency, with some insights about intended and unintended impacts and sheds some light on the short-term effects of the COVID-19 pandemic on SMEs. Such evidence will help us to adjust and improve our approaches and interventions for future engagement with the private sector in the impact investment space.

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Table 1

Working to achieve the SDGs

	SDG Targets	Indicators	SME sample outcomes (4-year average)	Benchmark
1 NO POVERTY	1.1 Eradicate extreme poverty (people living on less than USD 1.90 a day)	Average daily wage rate per employee	Overall average daily wage rate of USD 28 (PPP)	USD 30 (PPP) GNI per capita per day in low- & middle-income countries
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	30% female-owned SMEs 42% female employees Average of 10 female employees per SME	33% of firms with female participation in ownership in low- & middle- income countries[1] 46% female labor force participation rate in low-& middle-income countries[2]
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	Average of 21 employees per SME 90% of jobs provided are full-time 85% are formal sector SMEs	
	8.6 Reduce the proportion of youth not in employment	Number of employees by age group	15% of employees are youths (less than 25 years old)	22% of youths not in employment, education and training worldwide[3]
	8.8 Promote safe and secure working environments	Incidence of occupational injuries	94% 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 and account ownership	Average of 2.3 bank accounts per business owner 75% of SMEs have accounts in financial institutions used solely for business purposes	63% of population with a bank account at a financial institution in low-& middle-income countries
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% are industry-related enterprises (working in manufacturing, production or construction)	

1 International Labour Organization (n.d.). ILOSTAT database. Data retrieved from: https://databank.worldbank.org/source/world-development-indicators.

2 International Labour Organization (n.d.). ILOSTAT database. Data retrieved from: https://databank.worldbank.org/source/world-development-indicators.

3 International Labour Organization (n.d.). ILOSTAT database. Data retrieved from: https://ilostat.ilo.org/data/.

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 small and medium enterprise (SME) finance. The LFG fund, launched in September 2016 and closed in September 2020, provided financing to SMEs by investing in local, specialized financial institutions. Over four years, the fund invested in 42 financial institutions across 24 countries worldwide.

This is the final report in a series of four annual impact reports that 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 2020.

In 2020, SMEs suffered due to the COVID-19 pandemic, with the majority experiencing decreases in revenues and profits, and many having to temporarily close their businesses or lay off employees. Despite that, over the course of four years, we have seen an overall positive trend in SME outcomes, especially in terms of asset size, the proportion of women employed and full-time employment, as well as average wage rates. These changes indicate that the LFG fund successfully contributed to advancing the United Nations Sustainable Development Goals (SDGs; see Table 1).

1. INTRODUCTION

Deemed as key drivers of economic development and an important source of employment creation, SMEs play a fundamental role in a country's economy and its social development. SMEs provide 70% of employment in developing and emerging countries, accounting for over 50% of GDP.[4] Employment generation is an imperative component of poverty reduction as it is through employment that people are given the opportunity to earn an income and potentially improve their living conditions.[5]

However, SMEs success and with it, the future impact on society and the economy, is often hindered by a lack of access to financial services. This is especially true in developing countries, where, on average 44%% of SMEs have partial or no access to finance.[6] Providing financial products and services to SMEs could lead to increasing employment levels and the overall advancement of local economies in developing countries. Also, having access to finance allows SMEs to be better equipped to face challenges and seize business opportunities.

The LFG fund provided loans to SMEs in emerging and frontier markets via financial institutions active in the SME segment. Through its loans, LFG aimed to support positive social transformation and economic growth and contribute to the development of local financial markets.

The LFG fund, launched in September 2016 and scheduled to close in September 2020, was a fully subscribed USD 50 million investment fund, with a four-year, closed-ended structure. The fund benefitted from 10% first-loss risk protection, co-financed equally by public and private funds, designed to attract greater private capital flows to investment activities in emerging and frontier markets.

LFG aimed to achieve the following main objectives:

i. 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. Foster job creation, employment and entrepreneurship, as well as the democratization of access to capital more broadly.

4 Kok, J. D., & Berrios, M. (2019). Small matters: Global Evidence on the Contribution to Employment by the Self-Employed, Micro-enterprises and SMEs. Geneva: International Labour Organization (ILO).

5 United Nations. (2005). The Centrality of Employment to Poverty Eradication: Report of the Secretary-General. United Nations General Assembly. Retrieved from: https://undocs.org/A/60/314

6 International Finance Corporation. (2017). MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small, and Medium Enterprises in Emerging Markets. World Bank.

Due to the outbreak of the COVID-19 pandemic and the ensuing consequences on financial institutions and SMEs in developing countries, the LFG fund did not fully close in September 2020 but still has some outstanding loans to its investees. In coordination with other players in the impact investing industry, the fund demonstrated flexibility in its reimbursement schedules to ease SME loan burdens during the pandemic.

This report is the fourth and final impact report for the LFG fund, tracking its progress towards meeting its objectives. 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

Impact measurement plays an important role in identifying key areas of success as well as areas of much needed engagement when delivering on targeted impact outcomes. It also helps highlight the catalytic role of capital and the contribution of investors to sustainable development. Based on the premise that what can be measured can be improved, there is consensus among impact investors on the significance of measuring impact. As the impact investing universe continues to expand, transparency of information becomes increasingly important throughout the decision-making process. There is also a growing demand for accountability from society, which puts additional pressure on investors to assess and measure the impact of investments.[7]

Impact data allows investors to assess progress towards set objectives, revise impact goals, report to key stakeholders, while also providing relevant data to satisfy clients' need for information.[8] More importantly, investors engage in impact measurement to improve the impact performance of their investments on society.

Since 2017, Symbiotics has conducted a yearly impact assessment of the LFG fund to evaluate its performance against its objectives to foster job creation, employment and entrepreneurship in emerging and frontier markets. We assessed the impact performance of the fund at the level of both its investees (financial institutions) and its end-beneficiaries (SMEs). At the level of the end-beneficiaries, we relied on direct outcome measurement through interviews with a sample of the SMEs financed.

At the level of the financial institutions: We measured a set of outreach indicators that show where the fund invested geographically, the type of financial institutions it engaged with, their average financing size to SMEs and the number of SME clients the fund expected to have reached.

At the level of SMEs: We contacted a sample of the SMEs financed by the LFG fund for interviews. Between 2017 and 2019, we used face-to-face interviews, whereas in 2020 we switched to phone interviews in light of the COVID-19 pandemic. The focus of these interviews was to measure the fund's direct outcomes.

7 K Schiff, H., Bass, R., & Cohen, A. (2016). The Business Value of Impact Measurement. The Global Impact Investing Network.

8 Bass, R., Dithrich, H., Sunderji, S. & Nova, N. (2020) Second Edition. The State of Impact Measurement and Management Practice. The Global Impact Investing Network.

(i) Key characteristics and outcomes (all SMEs)

We interviewed a total of 924 SMEs between 2017 and 2020. In contrast with 2019, where we added 201 new SMEs to the sample, in 2020 we contacted all 924 SMEs that had participated in the past and successfully interviewed 503. 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 all the SMEs interviewed, as well as their key outcomes in terms of employment and business performance.

(ii) COVID-19 pandemic

Out of the 924 SMEs, we re-interviewed 503 of them in 2020 and surveyed the impact of the COVID-19 pandemic on their business. Section 4.d. presents an analysis by sector, country and gender, along with a comparison between SME responses from 2020 to previous years. The goal was to learn how measures implemented during the pandemic influenced different aspects, including employment composition, business challenges and changes in business perception.

All financial data presented in this report is in USD, converted from local currency using a fixed exchange rate as of 30 September 2020.

In 2020, we adapted the questionnaire to conduct all interviews over the phone, in line with the social distancing measures and overall restrictions implemented in the respective countries. We shortened the survey to ensure we could conduct it in approximately 20 minutes, simplifying some questions and removing any indicators expected to have remained consistent with the previous year.

Over the four years, the questionnaire included seven main dimensions for the collection of detailed data from the SMEs sampled, assessing the fund's performance in line with its objectives:

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
VIII COVID-19 business impact *(newly added)*

NEW INDICATORS ADDED[9]

- In 2019, we added qualitative questions to the survey to gain better insights on the evolution of the SMEs in the sample. These questions assess entrepreneurs' self-perception of their business performance (e.g., we asked

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

whether they believe their revenues and profits have increased, decreased or remained unchanged over the past 12 months).

- In 2020, we added new questions considering the COVID-19 pandemic. The objective was to have a broad understanding of how restrictions imposed in each country have affected SMEs. This includes the coping mechanisms that SMEs resorted to in the face of the pandemic and the financial burden that loans may have imposed during this time.

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 was entirely voluntary and SME data is confidential. For more information on the methodological lessons learned through this study, see Appendix 3.

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 its aim is to better understand SME performance and any challenges they face.

3.
LFG FUND'S PORTFOLIO OUTREACH

SETTING THE CONTEXT

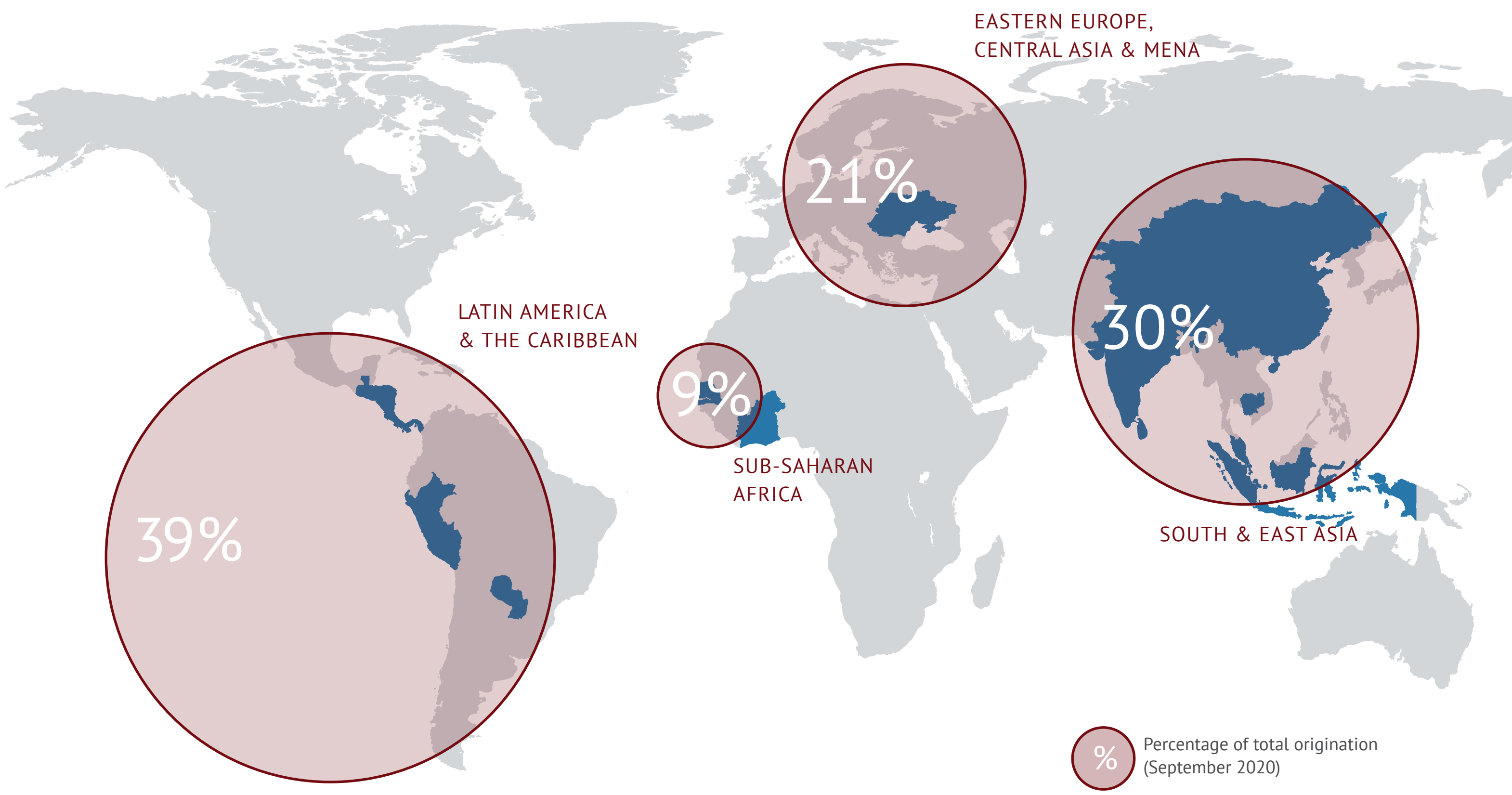
The LFG fund is a four-year, closed-ended fund, launched in September 2016 and closed in September 2020. The data reported in this section are based on the total origination since the beginning of the fund to September 2020.

Over the four years, the LFG fund:

- Originated USD 59.6 million in loans;
- Financed 42 financial institutions through 61 transactions;
- Invested directly in 24 countries and indirectly in another 23 countries.[10]

Latin American & the Caribbean accounted for the largest proportion of the fund's investments, with 39% of total origination. South & East Asia followed (30%), while the fund invested 21% in Eastern Europe, Central Asia & MENA and the remaining portion (9%) in sub-Saharan Africa.

Figure 1
Geographic outreach of LFG (direct investments)



10 LFG was invested in the TriLinc Global Impact Fund LLC (TGIF) from July 2017 to July 2019 with a loan of USD 2.5 million. TGIF is a private debt impact investing fund providing growth-stage loans and trade finance to established SMEs in 28 emerging countries worldwide. Through this investment, LFG indirectly invested in 23 countries in addition to the countries in its portfolio through its direct investments.

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 stars, with five being an extremely strong likelihood of contributing to sustainable development. The rating methodology comprises seven dimensions encompassing approximately 100 quantitative and qualitative indicators. We carried out this rating before making each investment decision.

Box 1

Symbiotics Social Responsibility Rating

We developed a social responsibility rating to assess the likelihood that a financial institution will contribute positively to sustainable development and social impact. We have applied it systematically to all investment decisions since 2010. We conduct the rating pre-investment, during the due diligence process for a financial institution, and on an annual basis afterwards. The rating methodology includes seven dimensions and consists of 98 qualitative and quantitative indicators. We compile all indicators into a weighted aggregated score that grades the institutions from zero stars (lowest) to five stars (highest). The seven dimensions of the rating are:

1 **Social governance:** looking at the social orientation of shareholders and the financial institution's stated and effective commitment to its social mission, its target market and development objectives/stakeholder needs.

2 **Labour climate:** assessing policies regarding social responsibility to staff, looking at human resources policies, systems to monitor employee satisfaction and staff turnover rates as a measure of staff satisfaction.

3 **Financial inclusion:** measuring whether the financial institution has an efficient and proactive strategy and good results in terms of financial inclusion, as well as its ability to serve low-income and excluded clients, especially those located in areas that lack other financial services.

4 **Client protection:** looking at whether the financial institution treats clients in a fair and transparent way and if it avoids the negative impacts that affect them (notably over-indebtedness) as much as possible. These indicators are linked to the Client Protection Standards.

5 **Product quality:** looking at the financial institution's marketing strategy and activities, as well as the diversity and quality of its financial and non-financial products and services.

6 **Community engagement:** assessing the steps that the financial institution takes in implementing policies and actions aimed at supporting community development at-large and the social impacts of such steps on the community.

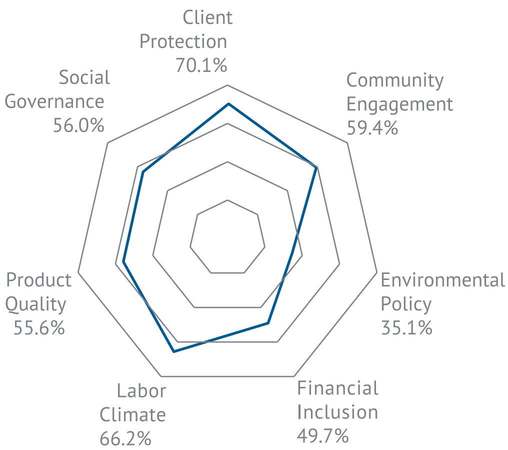
7 **Environmental policy:** looking at whether the financial institution has any policies and initiatives in place to mitigate environmental impacts for its internal activities and, above all, for the enterprises it finances.

The portfolio-weighted average social responsibility rating has remained stable at 3.5 stars throughout the life of the fund. The average social rating per dimension has likewise remained stable since 2017, with the strongest results on client protection and labor climate. Five financial institutions improved their social rating scores over the four years. One of these institutions is Advans Ghana, which has committed resources to expanding its presence to the country's underserved regions. Advans also introduced a customer call center to provide an extra channel for clients to voice their concerns and complaints, as well as to get useful and personalized information on the institution's products. In terms of environmental protection, Advans Ghana is implementing policies in its facilities that focus on reducing waste and saving energy.

Social responsibility rating of investees in the LFG fund (weighted average)

Client protection is consistently the dimension with the highest score (70.1%) while environmental policy continues to have the lowest score (35%) as the financial institutions in the LFG portfolio do not focus on green lending activities. However, institutions like Improsa in Costa Rica are continuously taking steps to improve their environmental performance, including a systematic assessment of potential social and environmental risks. To further its efforts in this dimension, Improsa is working on the design of a green loan framework that it will later implement in its investment process.

Figure 2
Social responsibility rating scores per dimension (LFG portfolio weighted averages)



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

From its launch, the LFG fund invested in countries where:

- GDP per capita (current USD) is 5,667, which is lower than the world average and in line with the average in low- and middle-income economies (Figure 3).[11]
- Banking penetration levels (55%) are lower than world averages and 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. Likewise, banking penetration levels for the LFG portfolio have increased by 12.4 percentage points (pp) when compared to the first year of the fund. [13]

Both these metrics demonstrate the depth of outreach of the LFG fund towards markets where the population has a lower income, on average, and has limited access to financial services.

Table 2
Banking penetration levels, % of adult population

Banking Penetration Levels	% of Adult Population
World (as of 2017, Global Findex)	68.5%
Low- & Middle-Income Economies (as of 2017, Global Findex)	63.0%
LFG Portfolio (Weighted Average)	55.3%

Figure 3
GDP per capita (current USD)

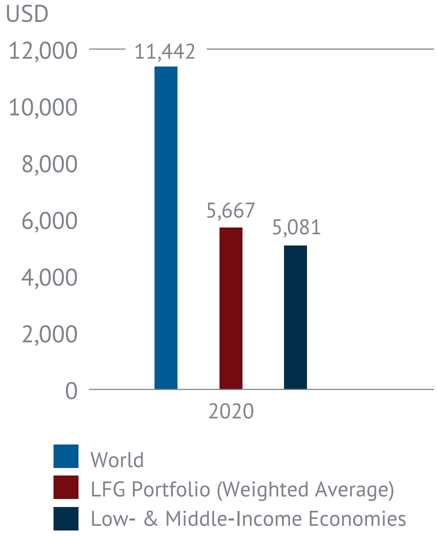
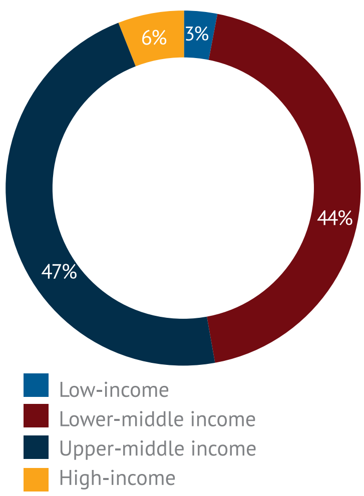


Figure 4
Country income levels
% of LFG portfolio



11 The World Bank DataBank (2019). World Development Indicators. Retrieved from: http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators.

12 The World Bank (2018). Global Findex Database. Retrieved from: http://datatopics.worldbank.org/financialinclusion/

13 The World Bank has published the Global Findex Database report every three years since 2011. In 2017, results showed an increase in financial inclusion globally since 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.

Figure 5
Size of financial institutions
% of LFG portfolio

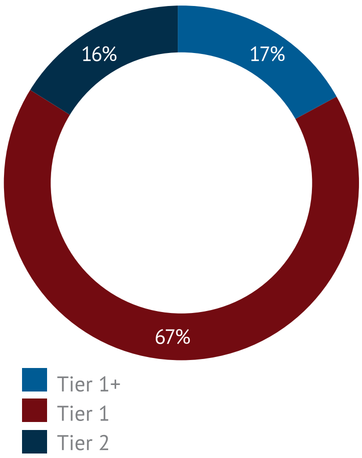


Table 3
LFG fund outreach summary

	Cumulative total origination
Origination (USD millions; cumulative)	59.6
Number of countries (direct investments)	24
Number of financial institutions	40
SME financing size (USD; weighted average)	55,795
Number of SMEs financed	3,744

The fund primarily concentrated its investments in upper-middle-income economies, according to the World Bank's latest country classification by income level.[14] Of the fund's total origination, 6% of direct investments were in two high-income countries, Romania and Panama.[15]

Investee outreach

The LFG fund largely invested in Tier 1 financial institutions (67%).[16] It invested 16% in Tier 2 institutions and 17% in Tier 1+ institutions.

These investees have an SME clientele that benefits from loans amounting to USD 55,795 on average, with variations depending on countries. The median SME loan among these investees is USD 34,114, indicating that there is heterogeneity among the investees.

The sample of SMEs surveyed further illustrates and verifies these variations (Section 4a).

Considering the volume invested in the past four years, we expect the fund to have financed 3,744 SMEs. [17]

Over the four annual rounds of impact assessment, we interviewed a total of 924 SMEs, of which we interviewed over 500 SMEs more than once. The following section provides the results and analysis of these surveys.

USD 55,795

Average SME financing size of LFG investees (weighted average)

14 As of July 2020, the World Bank defines country income levels according to gross national income (GNI) per capita as follows:
› Low income: USD 1,035 or less
› Lower middle income: USD 1,036 to USD 4,045
› Upper middle income: USD 4,046 to USD 12,535
› High income: USD12,536 or more
The World Bank (n.d.). World Bank Country and Lending Groups. Retrieved from: https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2020-2021.

15 Investments in high-income countries included Panama (3.5% of total origination) and Romania (2.8%). The World Bank upgraded both countries from an upper middle income to a high income level in 2017 and 2019, respectively. Despite having higher per capita income, the International Monetary Fund's *World Economic Outlook* classifies Panama and Romania as 'emerging and developing economies'.

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

17 We derived this figure by dividing the total investment of the LFG fund in 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 2020, we interviewed a total of 924 SMEs:
  - In 2020, we interviewed 503 SMEs. No new enterprises were added to the sample.
- Sampled SMEs are financed by 14 investees in 12 countries. Overall, the investees in the sample are geographically representative of the regions in which the LFG fund invested. The two regions with the highest number of participants were Latin America with 312 SMEs and Eastern Europe with 242 SMEs.
- Of the USD 59.6 million in loans, the institutions in the sample represent 32% of total origination.

Type of institutions: The heterogeneity in institution size and loan size clearly reflects the diversity in institution type and geographic location in (Table 4).

Table 4

Investees and sample size

Financial Institution	Country	Country Income Level	Sample Size	Institution Type	Tier Level	SMEs (% GLP)	Average Outstanding SME Loan (USD)
Sub-Saharan Africa			143				
Coris Bank BF	Burkina Faso	Low	72	Bank	Tier 1+	27%	104,745
Cofina Senegal	Senegal	Lower middle	71	MFI	Tier 2	85%	11,078
South & East Asia			227				
Sathapana	Cambodia	Lower middle	66	Bank	Tier 1+	50%	11,313
Grassland Finance	China	Upper middle	91	MFI	Tier 1	70%	81,996
Neogrowth	India	Lower middle	70	SME finance	Tier 1	100%	14,519
Eastern Europe, Central Asia & MENA			242				
Lazika	Georgia	Upper middle	77	MFI	Tier 2	65%	3,459
Microinvest	Moldova	Lower middle	83	MFI	Tier 1	25%	27,038
RoCredit	Romania	High	71	MFI	Tier 2	64%	62,083
Vitas Romania	Romania	High	11	MFI	Tier 2	36%	12,485
Latin America & the Caribbean			312				
Improsa	Costa Rica	Upper middle	63	Bank	Tier 1	50%	87,615
Arrend	Guatemala	Upper middle	86	Leasing	Tier 1	42%	35,791
CFE Panama	Panama	High	89	SME finance	Tier 2	75%	13,755
TFC	Peru	Upper middle	53	SME finance	Tier 1	71%	21,059
Pacifico	Peru	Upper middle	21	SME Finance	Tier 1	84%	70,550
		TOTAL	**924**			**54%**	**39,820**

B. BUSINESS & OWNER CHARACTERISTICS

Over the four years, the SMEs in the sample were similar in terms of the characteristics of their business owners, location and sectors of activity (Table 5):

- Women owned about 30% of the SMEs.
- Over half of business owners are between 41 and 60 years old.
- Business owners are well-educated, with about 80% completing 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/Business Owners			
	2017	2018	2019	2020
Gender				
Male	69.2	70.2	72.2	68.3
Female	30.8	29.8	27.8	31.7
Age				
Under 25	1.8	0.6	0.7	1.5
25–40	39.0	38.4	34.7	38.5
41–60	51.8	51.9	52.9	51.3
Over 60	7.4	9.0	11.7	9.0
Educational Attainment				
No formal schooling	2.2	2.6	4.7	4.0
Primary	6.3	8.4	6.5	5.7
Lower secondary	9.4	10.9	7.9	7.7
High school	24.5	22.5	25.4	23.0
Technical/Vocational	8.8	13.9	14.2	13.1
Undergraduate	33.5	27.0	28.8	32.4
Post-graduate	14.1	13.9	12.1	13.8
Other	1.0	0.9	0.5	0.2
Location				
Urban	77.1	74.5	78.0	77.7
Rural	22.9	25.5	22.0	22.3
Formalization				
Formal	86.1	82.7	82.7	84.0
Informal	13.5	16.7	16.7	15.8
In the process of being registered	0.4	0.6	0.5	0.2
Business Sector				
Agriculture, Forestry & Fishing	8.0	10.7	10.7	10.5
Manufacturing & Construction	19.5	18.3	19.5	17.1
Trade (Retail or Wholesale)	31.5	31.4	35.1	34.8
Services	20.5	27.1	34.7	37.0
Other	20.5	12.5	0.0	0.6
No. of SMEs interviewed	**506**	**488**	**619**	**503**

Location and activities:

- The largest proportion of the SMEs run trading and service-based (68%) activities and the smallest share is in agriculture (9%) (Figure 6).
- The most common sectors of activity in the sample are transportation services and wholesale trade (98 and 83 SMEs respectively; see Figure 7).
- 18% of the SMEs in the sample work in manufacturing and production, including construction activities.

Most SMEs in the sample offer transportation services. Iem Marke's story provides a good illustration of how clients in this sector can benefit from the loans offered through the LFG fund. Thanks to these loans, Iem built his business and expanded his activities, providing jobs for people in his community.

Figure 6

Business sector (latest data available)

% of SMEs

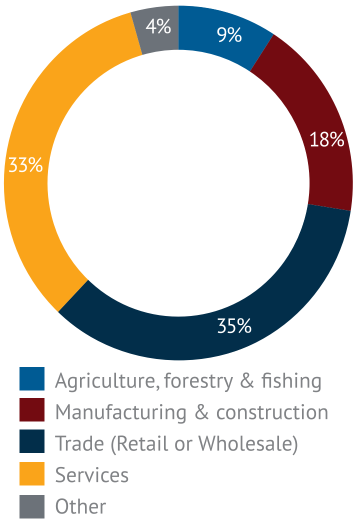


Figure 7

Business activities (latest data available)

No. of SMEs

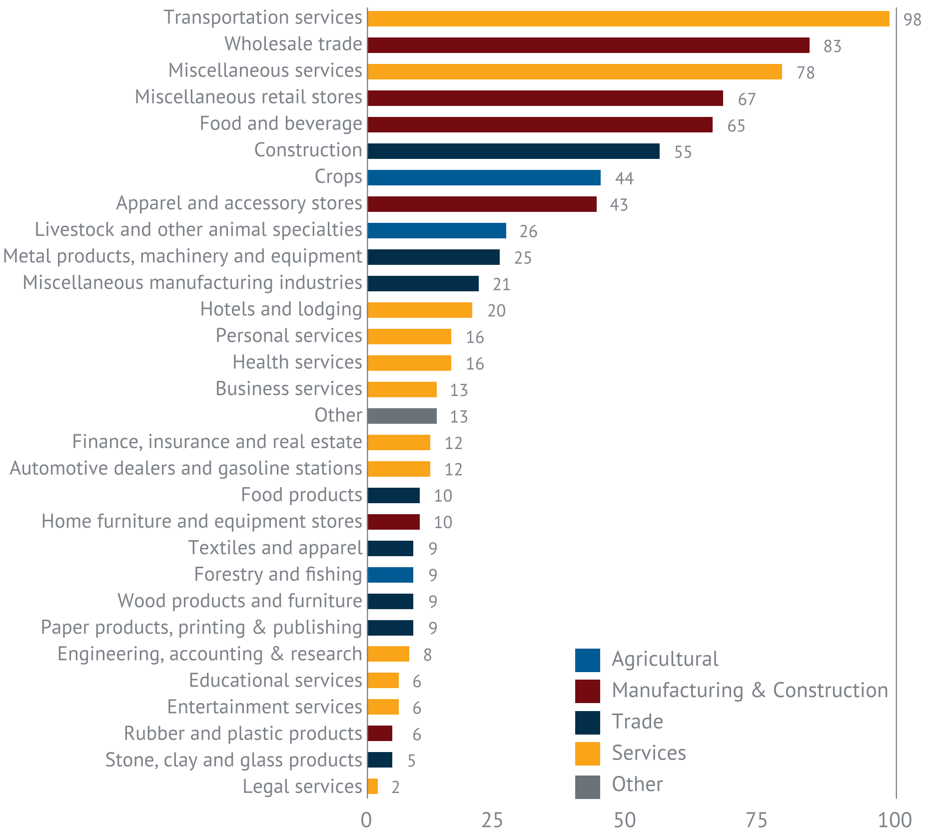
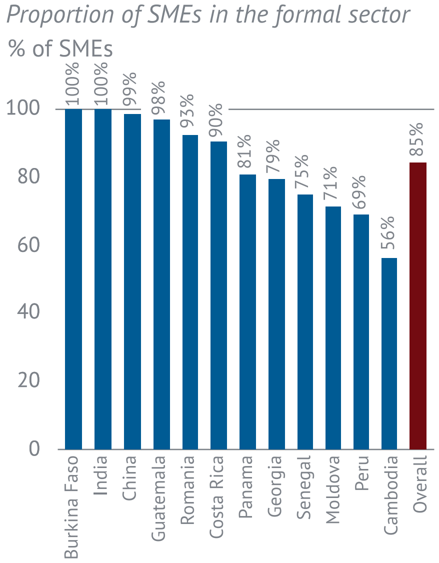


Figure 8

Proportion of SMEs in the formal sector



Formalization

- Considering the latest data points from all 924 SMEs interviewed, 85% of them are formalized. This means they are registered or licensed with an official government body and pay taxes. Meanwhile, 15% 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 individual financial institution's lending policies; several institutions lend exclusively to registered SMEs, which is why the proportion of formal sector businesses in Burkina Faso and India is 100%. The lowest proportion of formalization is in Cambodia and Peru, where it is 56% and 69%, respectively (Figure 8).

Box 2

Iem Marke – Sathapana, Cambodia

Iem Marke – Sathapana, Cambodia

Iem Marke is a businessman living in Phnom Penh. Before starting his business, Iem Marke obtained his Bachelor of Arts from the University of Cambodia. Upon graduation, he joined a Korean company and eventually became general manager after 10 years. Married with a young child, Iem Marke has always been interested in having his own business. When looking around for opportunities, he noticed that Phnom Penh lacked trusted companies offering chauffeuring and leasing services on a flexible schedule. While working for the Korean company, he noticed visitors would fly in and stay for durations ranging from a few days to a year. Thanks to some contacts he had from the company, he took out a loan and purchased a car to offer services to former colleagues visiting the city. He built his business out of his network and today he runs a fleet of eight vehicles. Iem Marke still collaborates with Korean companies established in Cambodia to lease vehicles to their visitors. Leases can be from one to 12 months. When requested, he also employs two part-time chauffeurs.

His last loan with Sathapana was USD 60,000 with a six-month tenor at 1% per month. This loan allowed him to expand his fleet of vehicles and to grow his customer base. His leasing business is relatively hands-off; while the leasing contracts are in place, he has time to help his wife with her laundry business. Iem Marke also purchased an additional property, which he uses to earn rental income. There is high demand for leasing vehicles, but the value of his collateral limits the loan ceiling he can access. He has to gradually build up more retained earnings before he can purchase more vehicles.

C. KEY OUTCOMES

I. EMPLOYMENT

- The full sample includes 924 SMEs, employing a total of 19,233 workers, with an average of approximately 21 workers per SME (based on the latest data available for each SME).
- The average number of employees and the employee breakdown by gender were fairly stable over the four years, although the average and median number of employees fell slightly, whereas the number of women employees increased.
- Most SMEs (63%) employ fewer than 10 workers (Figure 9).
- 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 (13 employees), while manufacturing and construction is the sector with the highest average (25 employees).
- We introduced the questions regarding the number of employees hired in the past 12 months in 2018. From 2018 to 2019 we observed a decrease in the average. In 2020 this average increased to 3.8. The number of employees laid off also increased to 5 in 2020, compared to 3.1 in 2019 and 3.9 in 2018 (see Section 4.d.)

Table 6
Employment information

Average	2017	2018	2019	2020
Number of employees	20.3	22.4	20.9	19.6
Median number of employees	8	6	6	5
Female employees	7.6	11.0	9.7	10.4
Male employees	13.8	13.9	13.9	11.2
Number of employees hired in the past 12 months	–	3.6	3.1	3.8
Number of employees laid off in the past 12 months		3.9	3.1	5.0

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.
- Employers between 25 and 40 years old are more likely to employ youths (<25 years old) or workers of the same age, and less likely to employ older workers. Business owners between 41 to 60 years old tend 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 greater youth employment.

Figure 9
Distribution of number of employees per enterprise (latest data available)

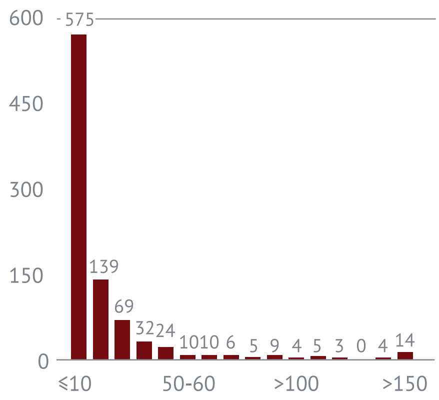


Figure 10
Age of employees (latest data available)

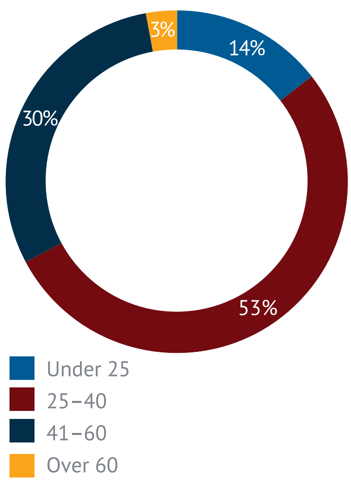


Figure 11
Characteristics of employees
(latest data available)

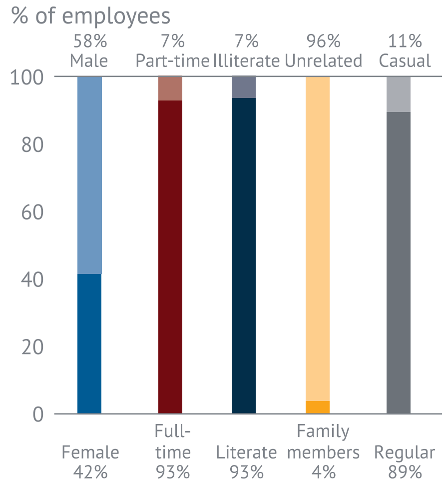
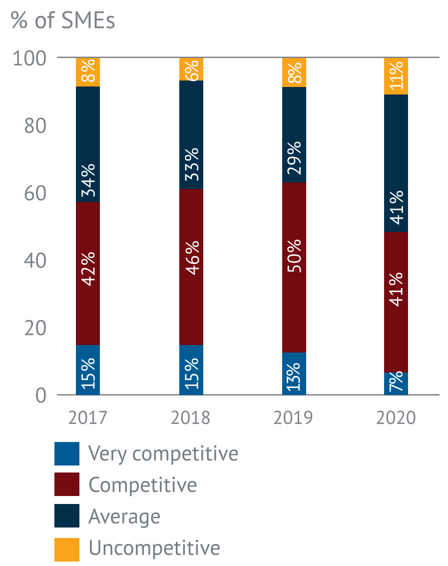


Figure 12
Wage competitiveness



- 93% of SMEs provide opportunities for regular, full-time employment, allowing for a stable source of income for employees.
- The majority of employees are unrelated to the business owners (96%).

Wages

We have analyzed 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).

In terms of the perception of SME competitiveness on the wages paid to their employees, the results were similar during the four years of the study. Most of the respondents (57%, 4-year average) believe the wages they pay their employees are competitive or very competitive compared to similar businesses. A further 34% (4-year average) 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 four-year average monthly wage paid to an employee in the sample is USD 844 (PPP).[19] Table 8 below shows the average monthly wage rate in the sample by country each year and compares it to the 2019 GNI per capita. 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 minimum wage is. In eight 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).

18 Based on 2019 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 the US dollar has in the United States. We divided the annual GNI per capita by 12 for the purposes of comparison to the average monthly wage rate.

19 We converted 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 amount of goods and services in the domestic market as the 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.

Table 7
Wage rates by country (USD, PPP)

Sample Average Monthly Wage Rate	2017 n=340	2018 n=317	2019 n=508	2020 n=293	2019 monthly GNI per capita
Eastern Europe, Central Asia & MENA					
Georgia	504	545	795	796	1,272
Moldova	499	649	758	877	1,194
Romania	1,010	1,171	1,327	1,197	2,653
Latin America & the Caribbean					
Costa Rica			1,165	1,131	1,604
Guatemala	1,391		1,114	1,142	739
Panama	1,353		1,215	1,235	2,558
Peru	438	606	812	824	1,066
South & East Asia					
Cambodia	536	575	784	867	360
China	948	1,063	1,037	1,146	1,399
India	646	647	880	746	576
Sub-Saharan Africa					
Burkina Faso	527	688	712	805	182
Senegal	405	549	563	509	289
Overall average	755	750	929	941	
Low- and middle-income countries					911

Employment growth: needs and challenges

- To better understand the employment needs of the SMEs, we asked respondents whether it is difficult to find employees and why. Three main challenges consistently stood out over the four years: SMEs find that many employees are unreliable, lack skills or are not hardworking (Figure 13).
- The two countries that repeatedly demonstrated more difficulty finding employees were Moldova and Romania. In 2020, SMEs in Moldova (71%) and Romania (65%) agreed it was difficult to find suitable employees. This is consistent with results from the World Economic Forum's 2019 *Global Competitiveness Report*, where Romania and Moldova ranked very low out of 141 countries (132 and 133, respectively) in their capacity to retain talent[20] as well as their capacity to attract talent from abroad. [21]
- In 2019, migration, a shortage of young people to work (principally due to migration), low salaries and lack of interest in part-time employment were among other difficulties SMEs were facing when looking for suitable employees. Migration is especially a challenge for SMEs in Moldova.

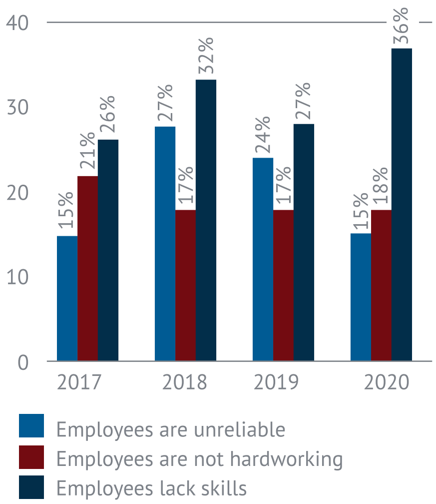
20 World Economic Forum 2018. *The Global Competitiveness Report 2018*. Schwab, K. (ed.). "Does your country retain talented people? [1 = the best and brightest leave to pursue opportunities in other countries; 7 = the best and brightest stay and pursue opportunities in the country]".

21 World Economic Forum 2018. *The Global Competitiveness Report 2018*. Schwab, K. (ed.). "To what extent does your country attract talented people from abroad? [1 = not at all; 7 = to a great extent—the country attracts the best and brightest from around the world]".

Figure 13

Top three employment challenges

% of SMEs



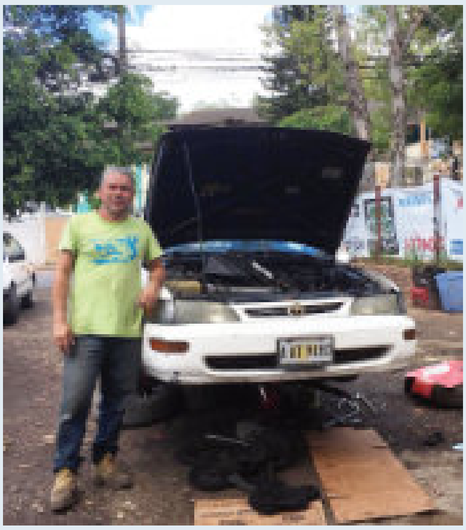
- On the other hand, India, Costa Rica and China had the lowest proportion of SMEs experiencing issues with finding employees. When looking at the *Global Competitiveness Report*, these countries rank the highest from the sample both in terms of retaining and attracting talent.
- Among the respondents that reported lack of skills as the main problem with finding suitable employees, 53% reported that they provide training to their employees. These businesses relied primarily on on-the-job training, with on average 70% of SMEs in favor of off-the-job training.

José Luis García Vazquez from Honduras is a good example of entrepreneurs able to expand their business and increase their income through access to finance.

Box 3

Jose Luis Garcia – Banco Popular, Honduras

José Luis García Vazquez – Banco Popular, Honduras



José Luis García Vazquez is a microentrepreneur living in the neighborhood of San Ignacio, in the south of Tegucigalpa, Honduras. Married with two children, he created a taxi repair and maintenance workshop in 2010. He started his career as a self-employed taxi driver but has always tried to learn more about car mechanics. As he developed his skills, José Luis García Vazquez started providing repair services to different taxi coworkers and started developing his network in the taxi driver community.

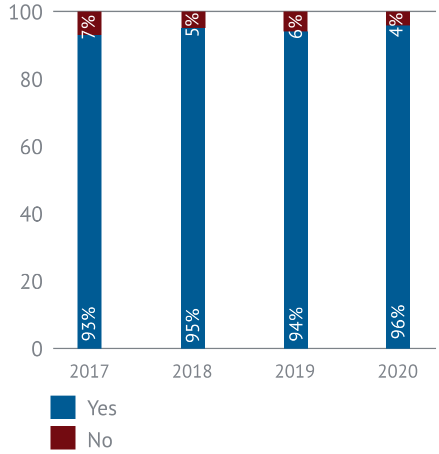
He contracted his first loan of 80,000 Lempiras (approx. USD 3,300), which he invested in his repair services business. As his network has grown, he has been able to buy new taxis and employ taxi drivers. Currently, he owns four cars and provides repair and maintenance services for around 100 taxis.

His excellent repayment track record enabled him to secure a new 400,000 Lempira (approx. USD 16,600) loan in 2018 with Banco Popular with a five-year tenor. He used the loan to buy his most recent car, allowing him to hire a new employee. His objective is to continue generating income through his workshop and his taxis to buy more cars and grow his enterprise.

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 SMEs sampled, 76% of respondents reported that they take some measures to ensure the safety of their employees. In 2020, 33% of SMEs indicated having a fire alarm on their premises, 57% have an evacuation policy in place in case of an emergency (12 pp higher than in 2019) and 69% have further measures to guarantee the safety of their employees, such as providing protective gear and safety training.
- The vast majority of SMEs reported no incidences of occupational injury (93–96%). However, the sector that reported the highest proportion of incidences were SMEs active in the manufacturing and construction sector.

Figure 14
Occupational injuries
% of SMEs



76%

of SMEs use safety measures for employees

96%

of SMEs had no incidences of occupational injuries

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.[22] It is common to observe extreme outliers in financial data; therefore, we report the median levels of these outcomes. There is a clear decline in the level of revenues and expenses in 2020, which is likely linked to the COVID-19 pandemic (see Section 4.d.) Overall, the highest median revenue, expenditure and profit levels (in absolute terms) were in China.

Table 8
Median values for revenues, expenses and profit

(USD)	2017	2018	2019	2020
Revenues	16,306	17,708	14,746	10,724
Expenses	8,154	5,962	4,717	2,492
Profits	2,406	2,681	3,137	2,134

We asked SMEs to indicate the item representing the largest proportion of business expenses. In all four years, SMEs reported that the purchase of inputs or raw materials together with wages and salaries for employees were the most important expenses. On the other hand, transport costs for the business and rent for machinery and equipment ranked as the least important business expenses.

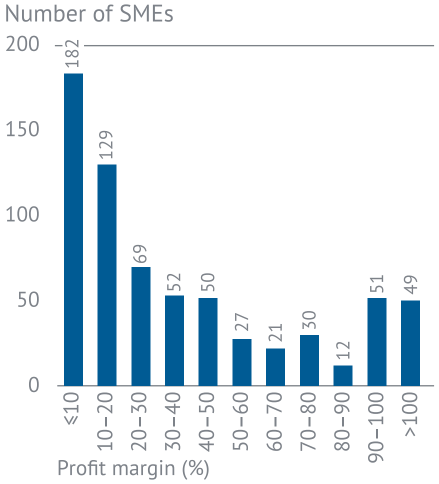
Table 9
Average margin by year

2017	2018	2019	2020
47%	36%	44%	44%

Using self-reported data on SME revenues and profits, we calculated the monthly profit margin.[23]

- Considering the latest data available for each SME, 27% of SMEs had a profit margin below 10%, while 7% had a profit margin higher than 100%.

Figure 15
Profit margin distribution (latest data available)



22 We do not calculate profit levels by deducting the expenses from the revenues; they 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. Retrieved from: https://doi.org/10.1016/j.jdeveco.2008.01.007.

23 The survey question used to collect the monthly profits is: "*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.

Assets

Land and buildings (30%) represent the highest proportion of assets owned by SMEs in all regions, followed by vehicles (28%) and machinery and business equipment (27%). This is likely because more than half of the SMEs own their business premises. This distribution has remained similar throughout the four years of the study (Figure 16).

Approximately 34% of SMEs invested in new assets for their business over the course of the study. In terms of new assets acquired, most SMEs (61%) purchased machinery and business equipment, 54% purchased vehicles and 41% land and buildings. Compared to previous years, SMEs were less likely to buy new assets in 2020. The main source used to finance the new assets was loans, followed by entrepreneurs' own savings and business retained earnings.

New products

› The proportion of SMEs introducing new products has remained the same since 2018, with an overall average of 35% of SMEs launching new products each year.

Figure 16

Types of assets

% of SMEs

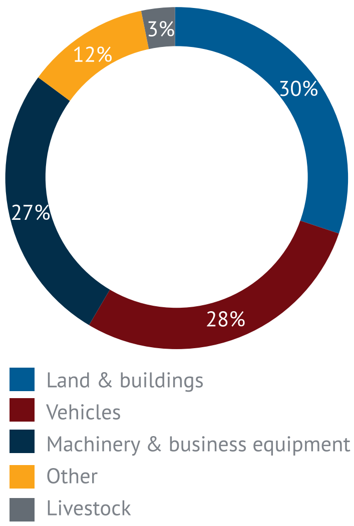


Figure 17

Sources of finance for asset acquisition

% of SMEs

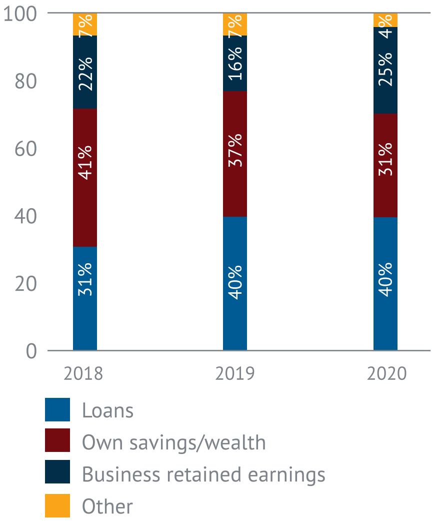


Figure 18

New or improved products

% of SMEs

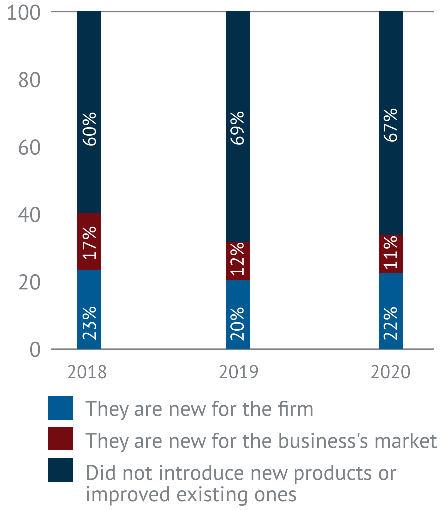


Table 10

Median level of total assets

(USD)	Including China	Excluding China
2017	79,230	60,715
2018	84,096	68,377
2019	127,481	105,436
2020	107,242	87,578

Figure 19

Bank account uses

% of SMEs

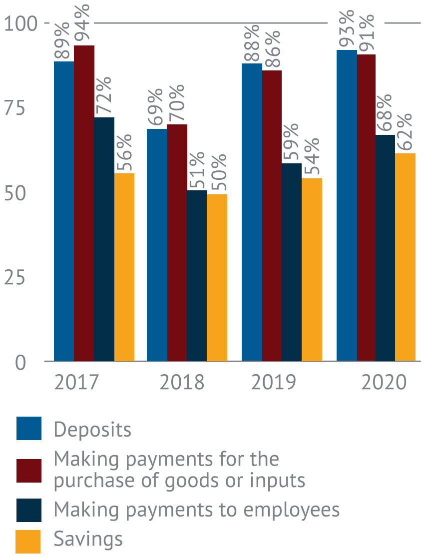
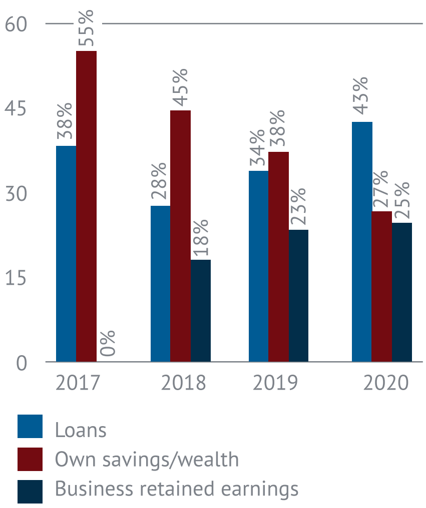


Figure 20

Top three sources of finance

% of SMEs



III. FINANCIAL INCLUSION

Bank accounts

Overall, 74% of the SMEs have a bank account that they use exclusively for business purposes. In Burkina Faso, India and Guatemala, 90% or more of SMEs have bank accounts dedicated to their business. On the other hand, in Georgia, Moldova and Panama, less than two thirds of SMEs have a bank account for their business. 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.

Businesses often use more than one bank account, with an average of 2.4 accounts per SME. They often open multiple accounts for different purposes (e.g., payroll, savings account, etc.) or they open different accounts to have access to credit from more than one financial institution.

On average, 88% of all bank accounts have pin code or fingerprint security and 71% are accessible from a mobile phone or another electronic device.

Uses

SMEs mostly used the bank accounts to deposit revenues (see Figure 19) and to make payments for the purchase of goods or inputs. At least 50% of the SMEs throughout the four years indicated using the bank accounts for savings.

These purposes are clearly of direct relevance to the successful operation of the businesses. The SMEs most often opened accounts at the institution from which they received their business loan. As a result, the fund has provided both access to finance and access to basic financial services that facilitate business transactions.

Access to finance

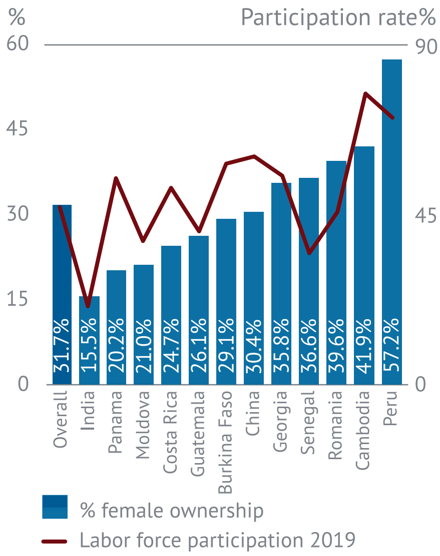
Between 2017 and 2019, SMEs relied primarily on their own savings to finance their business, with a lesser proportion relying on loans or the business retained earnings. However, in 2020, there was increased reliance on loans (Figure 20). During the COVID-19 pandemic and the ensuing financial difficulties it has caused, many households have relied on their savings as a coping mechanism. We expect that this is why business owners have resorted to loans to finance any business investments or halted business investments altogether (see Section 4.d.).

Overall, SMEs have tended to use loans to acquire new assets or purchase inventory or raw materials (over 50% of loans). However, a smaller proportion of business owners also have taken out loans to start new business ventures (15–20%).

In 2020, 13% of SMEs reported that they had had loan applications rejected in the past 12 months. This is an increase of 4 pp from 2019 but similar to 2018. 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.

Figure 21

Proportion of female ownership and labor force participation rate by country



IV. GENDER

Female ownership

- Women own approximately one third of SMEs in the sample.[24] Nearly all these businesses are at least 50% owned by women and women solely own about 40% of them (Table 11).
- The three countries with the highest proportion of female ownership are Cambodia, Peru and Romania. Meanwhile, the lowest proportion is in India (see Figure 22).
- The proportion of female ownership strongly correlates with the labor force participation rate in each country (Figure 21). Despite a few exceptions, countries with the highest proportion of female ownership, like Cambodia and Peru, also have the highest labor force participation rate for women (77% and 70%, respectively).[25] This demonstrates that social and cultural norms more widely accept women's economic activities in these countries.

Table 11

Average proportion of female ownership by year

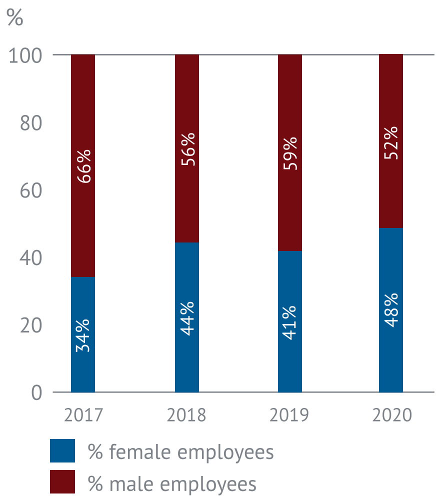
	2017	2018	2019	2020
% Female ownership	30.5%	29.7%	29.0%	31.7%
SMEs 100% female ownership	118	116	131	107
SMEs at least 50% female ownership	135	136	176	141

Women's employment

- 42% of employees on average are women; this proportion grew from 34% in 2017 to 48% in 2020 (Figure 22).

Figure 22

Proportion of female employees



24 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 one or more women entrepreneurs solely own the business) and dividing it by the total number of businesses.

25 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

- The two sectors with the highest proportion of female employees are trade and services (about 44%), whereas the sector with the lowest proportion of female employees is mostly manufacturing and construction.
- These figures are consistent with global statistics from the International Labour Organization (ILO) showing that services (including trade) account for 60% of women's employment worldwide and 52% of women's employment in low- and middle-income countries, whereas industry (including manufacturing and construction) accounts for the lowest share of women's employment.[26]
- SMEs that are 100% women-owned are mostly involved in trading activities, followed by providing services (Figure 23). The same is the case for SMEs where women own 50% of the business.

Figure 23
Percentage female-owned SMEs by sector

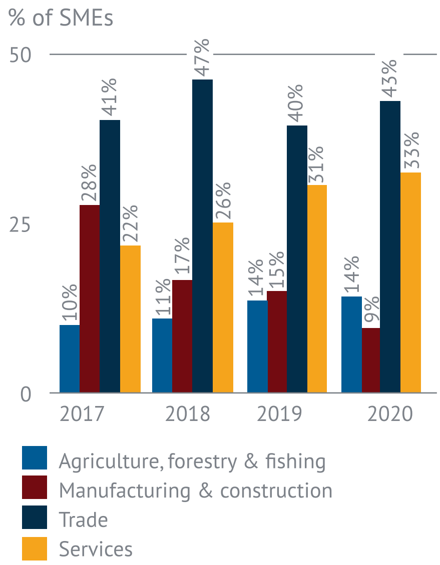


Table 12
Female employment by sector

	% of total female employment			
	Agriculture	Industry		Services (incl. trade)
World	25%	16%		60%
Low- & middle-income countries	32%	17%		52%
	Proportion of female employees per sector			
	Agriculture	Manufacturing & construction	Trade	Services
Sample (4-year average)	35%	35%	41%	48%

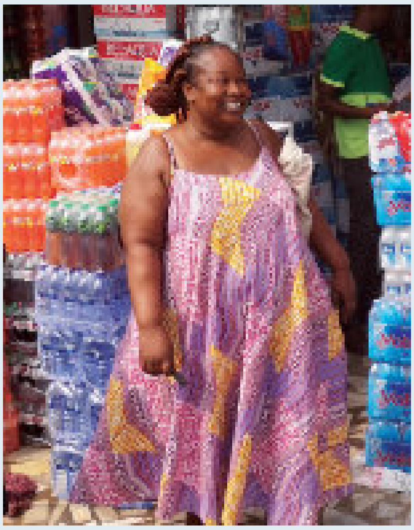
26 International Labour Organization, ILOSTAT database (n.d.). Data retrieved from https://databank.worldbank.org/source/world-development-indicators.

› SMEs that have at least one woman as co-owner are more likely to hire a greater proportion of female employees. We observed a larger proportion of female employees when women fully owned the enterprises compared to those fully owned by men. About one third of employees in SMEs fully owned by men are women, while at least half of employees in fully women-owned enterprises are women (Table 13).

Table 13
Proportion of female employees in enterprises owned by women/men

	% of female employees in 100% female-owned SMEs	% female employees in 100% male-owned SMEs
2017	55%	30%
2018	74%	36%
2019	58%	33%
2020	74%	31%

Auntie Esther from Ghana is one of many women using the loans provided by LFG's investees to grow and diversify her product offering. She provides essential products for people and businesses in her community.



Auntie Esther, Advans Ghana

In 2006, Auntie Esther, as she is known in her village in Ghana, started a small shop in a container with the help of her husband. Two years later, as her business started growing, she bought the land where her container was located and built a small provision shop. At that point, this woman entrepreneur faced a problem. She wanted to grow further but she could not fulfil her potential because of limited access to finance.

It was only in 2017, that she learned about Advans Ghana from a TV advertisement. The mobile money services provided by Advans have enabled her to access a USD 2,000 loan and withdraw money without having to make an hour-long trip to Accra. With this loan, she can withdraw money and has diversified and increased her stock of products. Her store is now so well organized and set up that clients keep coming back and she even sells to other provision shops in the area. She now has five full-time employees and plans to start catering food and beverages for weddings.

V. BUSINESS CHALLENGES

When asked about the most important challenges they face, SMEs reported the same top three challenges (60% of total responses) over the four years: changes in demand for their products, changes in costs of inputs and competition from other businesses (Figure 24). While the proportion of SMEs reporting each of these challenges varied slightly each year, the key change is in 2020 where the largest proportion of SMEs reported that reduced demand for their products was the main challenge they faced. We expect this is due to weaker purchasing power worldwide, especially in emerging markets, linked to the economic consequences of the COVID-19 pandemic.

Marketing tools

Since SMEs repeatedly reported competition as the most important challenge they faced, the use of marketing and advertising tools may support businesses in reaching more customers.

We have found that about 32% of the SMEs in the sample used marketing or advertising tools for their products and services. Of the SMEs using advertising, digital and mobile advertising are their preferred channels. In 2020, the proportion of SMEs using digital and mobile advertising grew significantly, which the different lockdown measures taken in each country and the ease of using this type of advertising to circulate information on products and services could explain.

Figure 24

Top three business challenges

% of SMEs

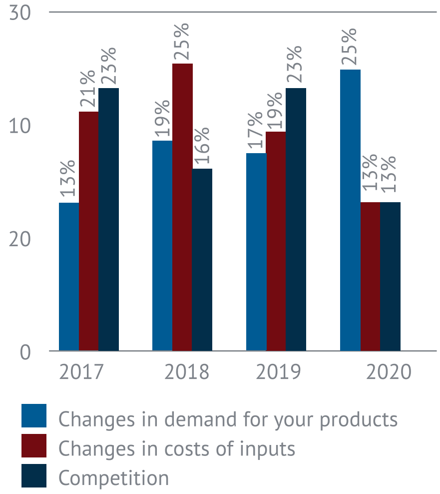


Figure 25

Types of advertising

% of SMEs

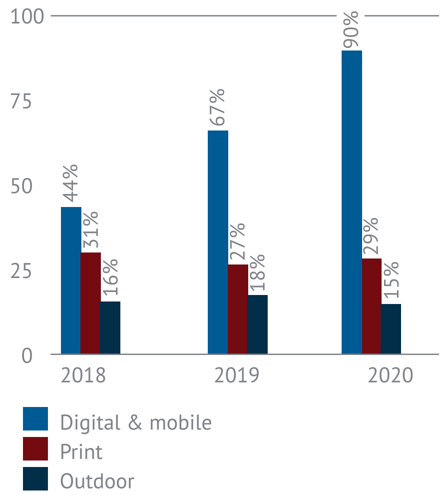
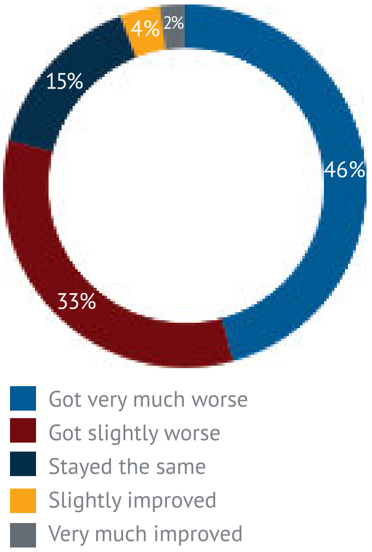


Figure 26

COVID-19 effects on SMEs

% of SMEs



D. IMPACTS OF COVID-19

In 2020, the COVID-19 pandemic forced nearly all countries worldwide to impose safety measures that severely affected the private sector. Restrictions on mobility, the closure of non-essential businesses, reductions in working hours and cross-country trade restrictions, among other measures, have had an unprecedented economic impact, leading to a worldwide recession.[27] In this context, we expect that the measures imposed likewise impacted the end-beneficiaries of the LFG fund in their respective countries. As such, we added new indicators to the survey to better understand how the pandemic affected the SMEs.

Nearly 80% of SMEs reported that their business worsened because of the pandemic, whereas 15% were not affected and 6% of SMEs experienced improvements in their business performance (Figure 26).

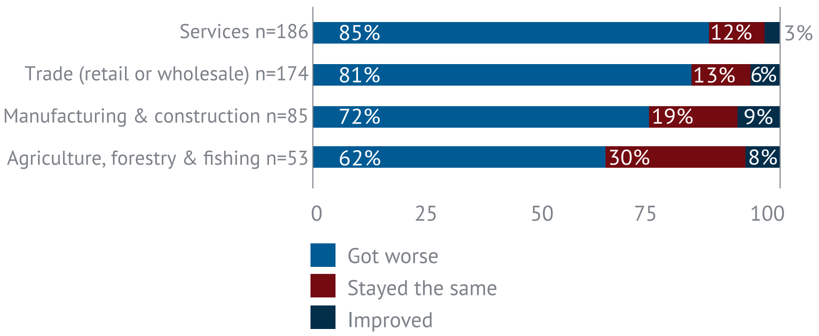
The SMEs most negatively affected were those operating in the service sector, where 85% indicated that their business deteriorated, followed by those running trading activities. While the pandemic appears to have impacted SMEs from all sectors, the highest percentage of SMEs reporting no change in their business activities were those in the agriculture sector (30%). Only 29 SMEs (6%) reported that their businesses improved because of the pandemic. These include supermarkets, pharmacies and SMEs in the telecommunications sector.

Women-owned enterprises seem to be coping with the pandemic relatively better than those owned by men. Among women-owned enterprises (50% or higher ownership by women), a smaller proportion report that their businesses got worse because of the pandemic, compared to those owned by men (Figure 28). Women-owned enterprises were also more likely to report that their business was unaffected or improved.

Figure 27

COVID-19 effects on SMEs, by sector

% of SMEs

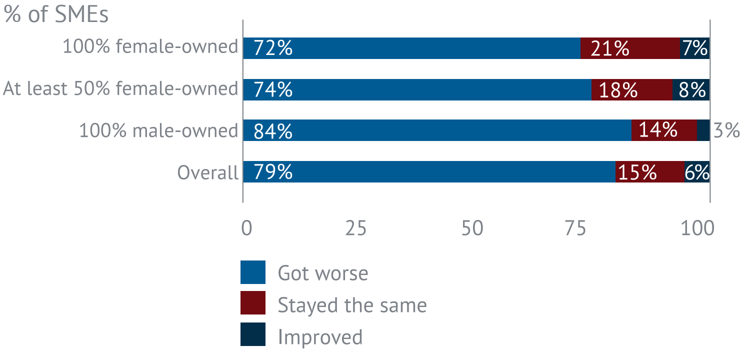


27 The World Bank (2020). The Global Economic Outlook During the COVID-19 Pandemic: A Changed World. Feature story. 8 June 2020. Retrieved from: https://www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world.

Figure 28

COVID-19 effect on SMEs female-owned

% of SMEs

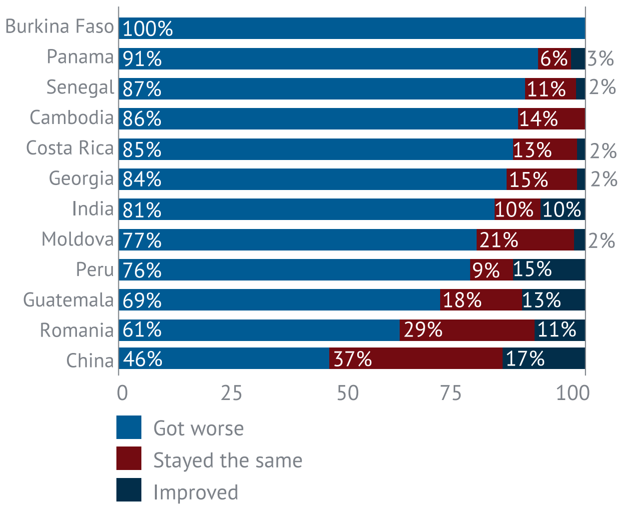


Among the countries in our sample, Burkina Faso was the most severely impacted, with 100% of SMEs reporting that their business got very much worse or slightly worse, followed by Panama (91% of SMEs), Senegal (87%) and Cambodia (86%). China was the only country were the proportion of SMEs indicating no change was higher than 30%. It was also the country with the highest proportion of SMEs indicating an improvement. The country's targeted policies to control the dissemination of COVID-19, as reflected in the acute decline of confirmed cases by April 2020 compared to February 2020, could explain this. China has since experienced a rapid economic recovery as well as improved labor market conditions followed by increasing incomes for households.[28]

Figure 29

COVID-19 effects on SMEs, by country

% of SMEs

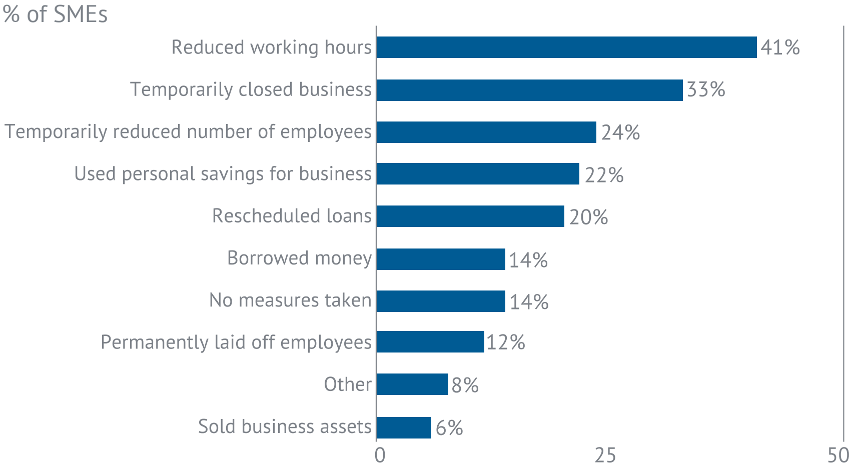


28 The World Bank (2020). From Recovery to Rebalancing: China's Economy in 2021. Retrieved from: http://documents1.worldbank.org/curated/en/297421610599411896/pdf/From-Recovery-to-Rebalancing-China-s-Economy-in-2021.pdf.

On the other hand, in Burkina Faso, a survey conducted by the National Statistical Office and the World Bank[29] showed how the restrictions imposed by the government to curb the spread of COVID-19 affected the country. The survey found that 72.5% of workers in non-farm business suffered a reduction in income. In addition, 20% of households dependent on remittances are no longer receiving them and a majority saw the frequency and value of remittances decrease. Both aspects have a direct effect on consumption. On the other hand, Panama and Costa Rica both have a high proportion of SMEs in the service sector (81% and 56%, respectively) and with the majority of SMEs providing transportation services, such as taxis and school transportation. Government-imposed restrictions on mobility as well as school closures heavily impacted the service sector, in this case the transportation sector.

SMEs resorted to several measures to cope with the COVID-19 pandemic. The largest proportion of businesses reduced their working hours (41%), had to temporarily close their business (33%), reduced their number of employees (24%) or used their personal savings for the business (22%). A study conducted by the World Bank to learn about the short-term impact of the pandemic found similar business responses.[30] The study shows that most business preferred to grant leave (43%) or reduce working hours (32%) before laying off workers.[31]

Figure 30
COVID-19 coping mechanisms
% of SMEs



29 World Bank Group and INSD. (2020). COVID-19 Impact Monitoring at the household level: Burkina Faso. Retrieved from: http://documents1.worldbank.org/curated/en/425021598292810539/pdf/COVID-19-Impact-Monitoring-at-the-Household-Level.pdf.

30 Apedo-Amah, M. C., Avdiu, B., Cirera, X., Cruz, M., Davies, E., Grover, A., … & Tran, T. T. (2020). *Unmasking the Impact of COVID-19 on Businesses: Firm Level Evidence from across the World. Policy Research Working Paper*. World Bank Group. October 2020.

31 The study used data from 100,000 businesses located in 51 countries.

Considering the responses above, measures taken by SMEs to cope with the pandemic directly affected businesses income and consequently their ability to repay their outstanding loans (20% had to reschedule their loan repayments); 45% of SMEs replied that loans had become more of a burden since the beginning of the pandemic, 32% indicated there was no change and 9% indicated loans had become less of a burden.

SMEs also experienced greater difficulties in accessing finance as a result of the pandemic. In 2019, most SMEs (54%) were experiencing improvements in their access to finance, whereas this proportion was nearly halved in 2020. In fact, 24% of SMEs reported that their access to finance through a financial institution deteriorated in 2020, compared to only 9% in 2019. This is in line with overall trends in the financial inclusion sector in 2020, where monthly loan disbursements fell dramatically in April and May 2020 and started recovering later in the year.[32]

Effect on employment

Many of the coping mechanisms used by businesses during the pandemic have a direct effect on employment (e.g., reducing working hours, temporarily/ permanently laying off employees; Figure 30). In addition, we have seen a decrease in the average number of employees and the number of employees laid off in 2020 among the sampled SMEs (Table 6).

In previous years, on average 48% of SMEs have responded they would like to hire more employees if they could find suitable ones. In 2020, the proportion of SMEs responding positively has decreased to 39%. Moreover, 31% of SMEs reported that they had laid off employees in 2020, an increase from previous years where the highest proportion was in 2017 with 29%.

This time, when we asked SMEs the main reasons for laying off employees, 30% indicated COVID-19 measures as the main reason. The second reason was a fall in sales (16%) while 14% of SMEs mentioned employees were unreliable and 14% said employees were not hardworking. In previous years the latter two represented more than 40% of the answers given by SMEs.

Figure 31
Loan repayment burden due to COVID-19
% of SMEs

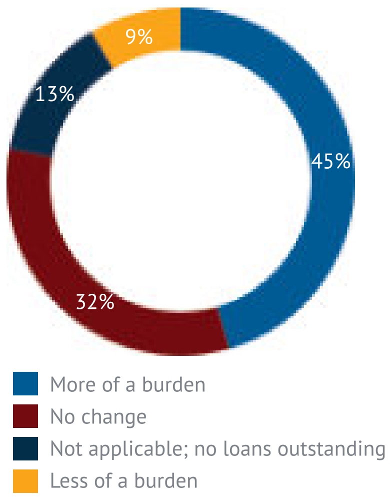
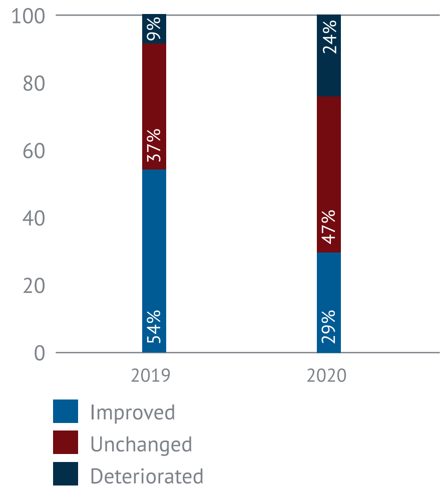
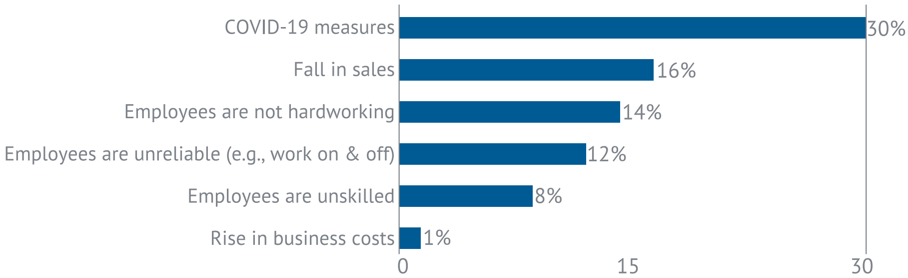


Figure 32
Access to finance through financial institutions
% of SMEs



32 Consultative Group to Assist the Poorest (CGAP) & Symbiotics (2021). COVID-19 Briefing – Snapshot: MFIs During the Crisis. Microfinance institutions maintain rebound, but solvency questions loom. Retrieved from: https://www.cgap.org/sites/default/files/datasets/2-2021-COVID-Briefing-Snapshot-MFIs-During-the-Crisis.pdf.

Figure 33
Reasons for laying off employees
% of SMEs



Regarding falls in sales, the World Bank study found that the pandemic has negatively impacted business sales, with 84% of businesses indicating a reduction in sales. When compared to the same period the previous year, estimates show sales have decreased by 49%.[33]

Changes in business outcomes 2019-2020

In 2019 and 2020, we asked SMEs if their revenues, total expenses, expenses on wages, profits, and levels of inventory had increased, remained unchanged or decreased over the past 12 months. We analyzed the responses of a constant sample SMEs that responded to these questions in both years to understand how the COVID-19 pandemic impacted their performance. There is a clear shift in the trend between 2019 and 2020.

- The proportion of SMEs reporting a decrease in revenues and profits increased dramatically in 2020. In 2019, about a quarter of SMEs experienced a decrease in revenues and profits, whereas in 2020 the proportion grew to about 65%. This is in line with global trends; results from the ILO SCORE Global Covid-19 Enterprise Survey show that one in three business lost more than 50% of revenues during 2020 and enterprises expected a 79% reduction in revenue for 2020.[34]
- As mentioned above, there was a decrease in demand for SME products in 2020 (Figure 24). SME inventory levels reflect this; in 2020, 45% of SMEs decreased their inventory, up from 15% the previous year.
- Most SMEs reduced their working hours, closed their businesses temporarily or reduced their number of employees due to the pandemic, which could explain why businesses also had to decrease their wages and expenses: 36% indicated a decrease in business expenses in 2020, compared to 12% in 2019. Likewise, the proportion of SMEs reporting a decrease in their total wage expenses grew from 13% in 2019 to 35% in 2020. However, we can see that the proportion of

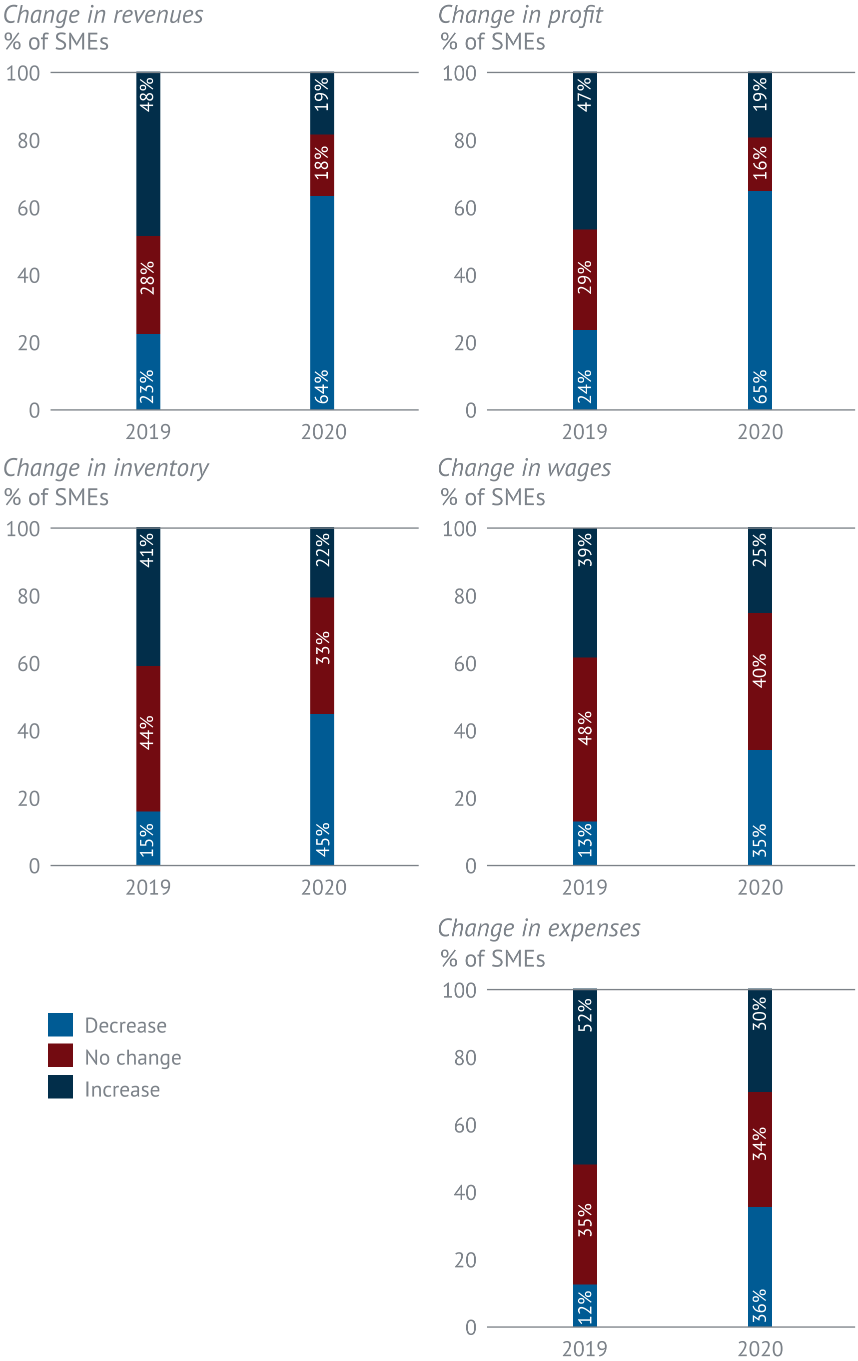
33 Apedo-Amah, M. C., Avdiu, B., Cirera, X., Cruz, M., Davies, E., Grover, A., & Tran, T. T. (2020). *Unmasking the Impact of COVID-19 on Businesses: Firm Level Evidence from across the World*. World Bank Group Policy Research Working Paper. Retrieved from: https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-9434.

34 International Labour Organization & SCORE (2020). *ILO SCORE Global Covid-19 Enterprise Survey*. Retrieved from: https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/presentation/wcms_745097.pdf.

SMEs that decreased their expenses and wages is significantly smaller than the proportion that experienced decreases in revenues and profits, suggesting that many businesses had to keep up with their regular expenses despite reducing their business activities.

Figure 34

Changes to business performance



5. MAIN TAKEAWAYS

Launched in 2017, the LFG fund provided financial services to over 3,700 SMEs through 42 financial institutions in 24 countries where financial inclusion remains limited. Through this study, we collected data from a sample of over 900 SMEs financed by the LFG fund to assess how the fund affected its end-beneficiaries in terms of their employment characteristics and business performance, as well as their challenges and needs.

SMEs contribute significantly to employment in emerging economies. In our sample, each SME employs an average of 21 workers, over 40% of whom are women. Over time, the number of employees hired by each SME did not grow significantly. However, the proportion of full-time employees and of female employees grew. In addition, we found that SMEs gradually increased the wages they pay to their employees. We also found that conditions in the local economy unrelated to access to finance sometimes affect employment growth. For example, in some markets, the migration of young people to neighboring countries makes it difficult for business owners to find suitable workers.

A persistent finding is that women-owned enterprises tend to employ a larger proportion of women than do those owned by men. There is a well-documented gender finance gap among MSMEs in emerging and frontier markets, with women-owned enterprises facing more severe credit constraints.[35] Our findings suggest that, in addition to promoting economic growth, providing access to finance for women-owned enterprises may have a positive effect on women's employment.

The most common reason that SMEs take out loans is to purchase new assets for their businesses. This growth in SME total assets over time reflects this. However, we find that SMEs tend to rely more on their own savings and the business retained earnings to invest. Interestingly, we find that loans also contribute to entrepreneurship, as about 20% of respondents stated that they have used the loans to start a new business.

Considering the outbreak of the COVID-19 pandemic in 2020, we included new indicators in the survey to better understand the effects of the pandemic on SMEs. The pandemic and the measures implemented to curb its effects made 2020 an extraordinarily difficult year for SMEs because most of them operate in the services and trade sectors, which often require proximity to people to conduct their activities. Consequently, 79% of SMEs in 2020 reported that business worsened due to the pandemic.

SMEs resorted to several coping mechanisms in the face of the pandemic, mainly reducing their working hours (41%), temporarily closing their business (33%) and temporarily reducing the number of employees (24%). These measures have a

35 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.

strong impact on employment; the average number of employees laid off increased in 2020, with 30% of SMEs indicating COVID-19 measures as the main reason for laying off employees. SME business performance has also reflected the effects of the pandemic, with nearly two thirds of SMEs reporting that their revenues and profits decreased.

Finally, in terms of the challenges faced by SMEs, competition and increases in the cost of inputs were the most important between 2017 and 2019, whereas in 2020, the largest proportion of SMEs reported changes in demand for products as the top challenge. This is also likely linked to changes in demand resulting from the restrictions and income reduction people are experiencing due to the COVID-19 pandemic.

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."[36]

Decent work involves opportunities for work that are productive and deliver 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.[37]

Emerging and frontier markets are countries that, broadly speaking, the World Bank classifies as low- and middle-income countries.[38]

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.[39]

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 this research, we used the local definition of an SME in each market, as defined by investees, be it based on employment measures or a loan size proxy. Overall, this includes 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.[40]

36 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.

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

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

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

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

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 training
- Safety of the work environment

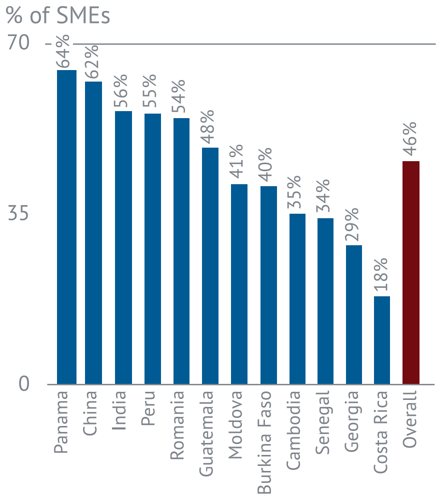
VI. Business expenditures, income and profits
- Revenues
- Expenses
- Profits
- Perceived change in outcomes in the past 12 months

VII. Business challenges
- Qualitative listing of challenges, if any

VIII. COVID-19 business impact
- Effect of COVID-19 on business
- Coping mechanisms
- Financial burden

Figure 35

Attrition rate by country



APPENDIX 2: ATTRITION

We interviewed a total of 924 SMEs at least once during the four years of the study. Of those, we re-interviewed 503, showing an overall dropout rate of 46% in 2020. The country with the highest number of SMEs dropping out of the study was Panama with 64% of SMEs, followed by China (62%) and India (56%). Conversely, Costa Rica was the country with the lowest dropout rate, at 18%, followed by Georgia (29%) and Senegal (34%) (Figure 35).

As shown in the table below, we interviewed one third of the SMEs at least twice, 233 SMEs once and 136 SMEs (15% of the sample) 4 times. The two countries where we interviewed the largest number of SMEs four times were Georgia and Senegal. China was the country that had the most SMEs interviewed, at 91.

Table 14

Number of interviews per SMEs

	1	2	3	4	No .of SMES
Burkina Faso	11	25	18	18	72
Cambodia	8	15	20	23	66
China	28	39	20	4	91
Costa Rica	7	28	21	7	63
Georgia	8	20	21	28	77
Guatemala	34	38	14	0	86
India	13	37	16	4	70
Moldova	19	22	32	10	83
Panama	47	33	5	4	89
Peru	22	23	25	4	74
Romania	22	27	26	7	82
Senegal	14	19	11	27	71
All	**233**	**326**	**229**	**136**	**924**

In 2020, we contacted every SME interviewed up to five times to schedule a follow-up interview. We used the contact details that participants shared during previous interviews or asked the financial institution to provide updated phone numbers, when necessary. If it was not possible to schedule an interview, the survey interviewers recorded the reason why.

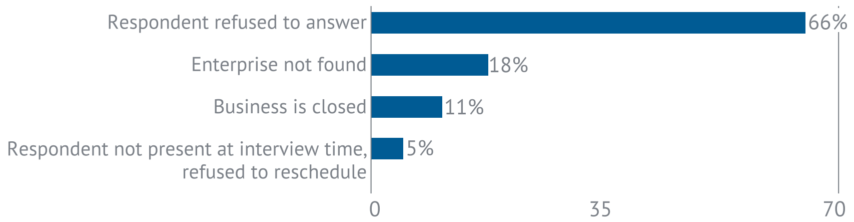
Throughout the four years of the study the two main reasons reported for attrition were respondents refusing to answer the survey and the inability to contact the business owners to schedule an interview (Figure 36).

Modifying the format of the interviews from face-to-face to phone interviews created new challenges for interviewers. However, some of the main challenges they reported remained the same.

- Unwillingness to share financial data: Interviewers mentioned this challenge recurrently all four years of the study. While we considered this factor during the adaptation of the survey, interviewers noted this year that phone interviews made it especially difficult. They mentioned that people were even more reluctant to share this type of data over the phone.

- 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 previous years 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 to reassure the SMEs that we were collecting the data solely for research purposes or to update contact details.
- Weather conditions and harvesting season: While both of these were very popular challenges in previous years, in 2020 they were not due to the new format of the interviews.

Figure 36
Reasons for attrition
% of SMEs



APPENDIX 3: LESSONS LEARNED ON METHODOLOGY

The Swiss State Secretariat for Economic Affairs (SECO) and private investors generously sponsored this impact measurement project in the context of our unique public-private partnership. Over the course of the past four years, we learned about the impact of access to finance on SMEs, as well as about how to assess the impact of investments on end-beneficiaries. Based on our experience, we would like to share a few lessons learned for the benefit of other impact investors who would like to conduct similar assessments in the future:

- **Sampling:** In an effort to track outcomes over time, we attempted to follow a constant sample of SMEs. However, we found this to be difficult and faced high attrition rates, especially when working with financial institutions that have short loan tenors to their end-beneficiaries. Therefore we added new participants to the sample in the second and third years, maintaining similar sample characteristics. To mitigate this problem in the future, we would likely opt to draw a different random sample for each round of data collection.
- **Data collection method:** Between 2017 and 2019, we relied on face-to-face interviews, whereas in 2020 we used phone interviews. There are pros and cons to each approach. Face-to-face interviews allow interviewers to ask more in-depth questions and to verify information by seeing the business premises. However, it can be difficult and costly for interviewers to complete these visits, especially when end-beneficiaries are based in remote or difficult-to-access regions. Phone interviews tend to be shorter as it is difficult to hold someone's attention for a longer time on the phone. However, they are more cost-effective, especially for a larger sample size, as the cost per interview falls significantly after the set-up and training are complete for interviewers.
- **Questionnaire:** We revised the questionnaire, making small modifications each year after testing the questions and monitoring the data quality for all the indicators. Overall, we found that end-beneficiaries are more comfortable answering questions where they can voice their opinions or share information about qualitative aspects of their business and less comfortable answering detailed quantitative questions about their financial performance. We had a lot of missing values for financial indicators and we often found inconsistencies between responses from the same business from one year to the next. In the context of this type of study, we believe it would be more useful to focus on end-beneficiary perceptions than on financial data, which it would be better to analyze in an academic study with more resources available to validate this type of data (e.g., through financial diaries projects).

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