



ASSESSING PRIVATE SECTOR CONTRIBUTIONS TO JOB CREATION: A BANK CASE STUDY IN A LATIN AMERICAN COUNTRY



THEME: ACCESS TO FINANCE

IFC partners with local financial institutions to increase access to finance for small and medium enterprises (SMEs) and to expand the breadth and depth of services banks provide to these firms. IFC has supported one of the largest private banks in a Latin American country (referenced in this executive summary as “the Bank”) through long-term loans that support the Bank’s lending to SMEs. Interviews with 37 firms that obtained loans from the Bank in 2009 found that they created 509 permanent jobs between 2009 and 2012. This figure represents an annual job growth of 2.7 percent ¹, slightly higher than the national average for the same time period; job creation was particularly high for women and youth ². The study also calculated that in average per US\$100,000 of loans to SMEs in the sample, 5 jobs were created by the SMEs. Sales and labor productivity (measured by sales per employee) also increased over the three year period. Wages grew across the board, and the average wage in the sample grew at 16 percent per annum, a faster rate than the national minimum wage increment between 2009 and 2012 ³. Extrapolating the sample results to the Bank’s SME portfolio, we estimate that the Bank may have supported the creation of around 95,000 to 317,000 jobs between 2009 and 2012, which represents up to 6 percent of formal employment in the country. However, these jobs cannot be attributed to the financing alone. Other caveats exist (e.g. potential selection bias).

This study is part of a series of case studies covering financial markets for the IFC Job Study (<http://www.ifc.org/jobcreation>) and Let’s Work (www.letswork.org) (<http://www.letswork.org>) estimating the employment effects of access to finance on SMEs. It is based on interviews with a sample of 37 SMEs that received loans from the Bank - IFC’s financial intermediary client - in 2009. For confidentiality reasons, the identity of the Bank, name of the country where the study was conducted, and commercially sensitive information have been omitted from this executive summary.

Methodology

The main objective of this study is to measure the employment contribution of SMEs that obtained financing from the Bank. IFC randomly selected 37 firms from the Bank’s SME portfolio that received loans in 2009 ⁴. Firms were asked about their access to finance, job creation, wages, financial performance, and other developmental indicators between 2009 and 2012. The three year period was specifically chosen to measure the employment effects on firms having capital to start and expand operations. This range would also limit the effect of external factors on turnover and job growth that could result over a longer period of time.

Out of the 37 SMEs, 23 were identified as medium-sized firms, and 14 as small, according to the Bank’s SME definition. Thirty-four firms in the sample were over ten years old, therefore defined as mature firms. Two firms were considered young, less than five years old, and one firm was mid-aged, in operation between five and ten years. The majority of firms (25) were in the services sector and the rest (12) were manufacturing firms. Most services and manufacturing firms were medium-sized firms. There were 11 exporters in the sample. Twenty firms were located in the country’s capital and 17 in a nearby province.

The Bank’s Impact on Firms’ Access to Finance

Firms cited access to finance as one of the key constraints to business development, which is consistent with responses from over 1,000 firms covered in the World Bank Enterprise Survey. SMEs in the sample face capacity constraints, and like other SMEs in the country, can find it difficult to access the necessary financing. **When asked to describe the impact of the Bank’s loan on their business evolution, most firms explained that without the loan they would not have been able to grow as much as they did.** Most cited that they would have experienced lower growth and that business development would have been more difficult. Several explained that the Bank’s loan helped them to secure new business deals, improve production, and increase productivity.

The Bank has had a catalytic effect in the market by introducing several firms to other financial institutions that provide them with financing. The Bank has helped 10 firms to acquire funding from other financial institutions, giving them access to additional services such as factoring, leasing, corporate credit card, and overdraft accounts. The Bank’s role in the expansion of firms’ financing networks and access to finance demonstrates the Bank’s contribution to the country’s private sector development. Most sampled firms – 33 of

¹ All growth rates in this report are compounded annual growth rates (CAGR).

² Youth are employees under the age of 25.

³ All sales, productivity and wages figures were provided in domestic currency and were converted to 2012 US\$ values, taking into account inflation ([Consumer prices – percent change over corresponding period of previous year; source: Principal Global Indicators](#)) and exchange rates ([Official exchange rate – LCU per US\\$, period average; source WDI](#)).

⁴ Out of the 109 firms that IFC originally chose and contacted, 37 remained in the final sample that was analyzed for the purposes of this report.



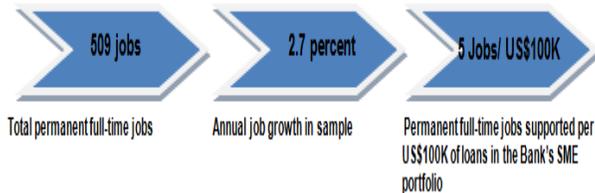
them – plan on obtaining another loan from the Bank in the next two years.

Fast Annual Employment, Sales, and Productivity Growth between 2009 and 2012 of SMEs Served by the Bank

Despite the challenges they face, SMEs in the sample have been expanding their operations, growing the size of their workforce and increasing wages. Among the firms sampled, 509 new jobs were created, with a median of 5 jobs added per firm between 2009 and 2012. This figure represents an annual job growth of 2.7 percent, slightly higher than the national average growth rate within that same time period. In addition, the study calculated that in average per **US\$100,000 of loans to SMEs in the sample, 5 jobs were created by the SMEs, or 1 job per US\$20,000.**

Employment growth has been complemented by high sales and labor productivity growth in the sample. Because sales grew faster than employment, labor productivity also increased. Overall sales grew 16 percent per annum, and overall labor productivity 9 percent. **Firms in the sample did not experience a tradeoff between job creation and productivity; but rather, those firms that added more jobs also saw greater levels of productivity.** The average labor productivity was US\$183,671 in 2009 and US\$228,117 in 2012. **Additionally, firms that grew sales at a higher rate, added more jobs.**

FIGURE 1. FIVE JOBS WERE CREATED PER US\$100K IN LOANS

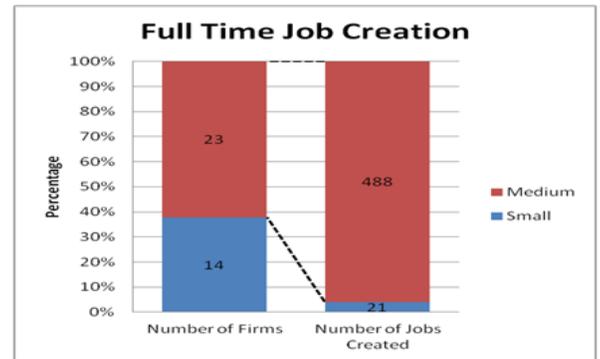


Women and Youth Accounted for the Majority of New Jobs

Among the new jobs created, a substantial number were for women and youth. While the initial ratio of female employment in sampled firms was significantly lower (32 percent) than the country's average, women received a large share of the new jobs created (85 percent). In addition, the annual growth rate of female jobs (6.9 percent) was more than eleven times as high as that for men (0.6 percent). **Female employment growth rates were higher than male employment in small and medium-sized firms and in both manufacturing and services sectors.** Five firms decreased the number of male employees, while increasing the number of female employees. **The annual growth rate of jobs for youth (4.4 percent) was also significantly higher than the sample's average (2.7 percent).** These figures are encouraging given that, in the country, youth unemployment rate was twice as

high as the country's unemployment rate.

FIGURE 2. MEDIUM SIZED FIRMS WERE THE MAIN JOB CREATORS IN THE SAMPLE



Medium Sized Firms Created More Than 96 Percent of Jobs

Employment figures showed a positive correlation between firm size and the number of jobs created. Medium-sized firms on average created over 14 times more jobs than small firms (21.2 versus 1.5 jobs per firm between 2009 and 2012), and had higher annual growth rate of jobs (3.1 percent in medium firms versus 0.8 percent in small firms). Small firms in the sample created a median of one job and medium firms created a median of 11 jobs.

Manufacturing Firms Created 10 Times More Jobs Than Services Firms

Although there were more than twice as many services firms (25) in the sample than manufacturing firms (12), **manufacturing firms on average created over ten times more jobs between 2009 and 2012** (on average 35.3, 5.9 percent annual growth rate) **than those in services** (on average 3.4 jobs, 0.7 percent annual growth rate). Several of the services firms dropped a significant number of employees, bringing the annual growth rate of jobs down for this sector. **Manufacturing firms also sold more.** On average, turnover per manufacturing firm was US\$18 million in 2009 and US\$30 million in 2012, a 19 percent annual growth rate, while services firms' turnover was US\$13 million and US\$19 million, respectively, a 14 percent annual growth rate.

Wages Grew Across the Board

All firms in the sample, except for one, increased wages between 2009 and 2012. While wages in the country increased overall in response to significant inflation, **firms interviewed increased their wages by more than the minimum wage increment over this time period in the country.** The overall average wage in sampled firms was US\$1,229 in 2009 and US\$1,914 in 2012.

Wages of low skilled workers grew at a faster rate than those of skilled workers. The **lowest** low-skilled wages in the sample grew 6 percentage points more than the **lowest** skilled average wage. In addition, the **average** low-skilled



wage grew 2 percentage points more than the **average** skilled wage. There is thus a convergence of low-skilled and skilled worker wages. Firms explained that this trend of higher growth of wages for lower-skilled workers was a result of the unions' influence on wages. In sum, low-skilled workers are becoming relatively better off than skilled workers.

Some Caveats

The sample showed considerable job growth between 2009 and 2012. However, possible job losses by competitors due to SMEs expansion are not measured in the study. The sample did not include firms with non-performing loans, which could have experienced job losses in this time frame. Even though the extrapolation was done using a conservative approach of 40th and 60th percentile, the job growth in the sample could be an overestimate. At the same time, the study did not take into consideration the growth in surveyed firms' value chains (suppliers or distributors) – which could lead us to underestimate total job growth.

Banks likely provide loans to high performing SMEs, which are expected to grow faster than those that are ineligible for loans. Therefore, job growth results can be related to the Bank's choice of successful SMEs.

Access to finance likely played an important role in business growth, but it is difficult to attribute job creation effects just to loans provided by the Bank in 2009. Several firms obtained loans not only from the Bank but from other banks as well before and after 2009, which could have supported job creation.

Although the team made great efforts to secure a minimum of sixty enterprises to interview (thirty small and thirty medium), there were operational constraints, which limited the number of firms analyzed. Therefore, a degree of caution should be taken given the small sample size.

Job Creation Analysis: Opportunities for Financial Institutions

This study is part of the micro-case studies that were initially launched as part of the IFC Jobs Study— conducted in partnership with other financial institutions—to understand and estimate job creation effects of improved access to finance to SMEs. **When making and informing strategic decisions, financial institutions can benefit by: 1) identifying products, regions, and sectors that are associated with high growth;**

2) identifying SMEs with a history of creating large number of jobs that can be potential clients for other financial services; 3) understanding their reach and employment impact on firms and in the market; and 4) serving as an additional source of responsible finance and corporate social responsibility, given the impact of job creation on development and poverty reduction.

The study helps to understand the effects of access to finance for SMEs and the channels through which jobs can be created. From a sectorial perspective, this study collects information to build job creation multipliers that can be used to estimate the impact of providing financing to SMEs in specific ways. These multipliers can be used to establish benchmarks and compare the effects across sectors, but evidence from additional studies and obtained through other estimation methods is needed to further confirm these results.

Conclusions and Lessons

Despite the impact of slow economic growth, high inflation, and government regulations and interventions on businesses in the country, firms have been expanding operations and increasing their workforce. SMEs in the sample created 509 jobs between 2009 and 2012 (2.7 percent annual growth rate).

The jobs created by SMEs in the sample demonstrate that access to finance can have important effects in emerging markets. Employment growth was complemented by growth in sales and labor productivity. A significant portion of jobs went to woman and youth who are one of the more vulnerable segments of the workforce. Wages also grew across the board and skilled and low skilled wages are converging. Despite the small sample size and caveats mentioned earlier, **this study provides evidence that improved access to finance in the country can be positively associated with job creation, productivity, and rising wages. By supporting local financial institutions such as the Bank, IFC can help create jobs and promote sustainable economic growth.**

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For more information: www.ifc.org/jobcreation
www.letswork.org