IFC JOBS STUDY
ASSESSING PRIVATE SECTOR CONTRIBUTIONS TO JOB CREATION AND POVERTY REDUCTION

Preliminary Findings and Conclusions—Draft October 2012
Preface

This report is the result of an open-source study to assess the direct and indirect effects of private sector activity on job creation. The report examines how and under what conditions the private sector can best contribute to job creation and poverty reduction, drawing on a review of the literature and evaluations; surveys of more than 45,000 businesses in over 100 countries; a website, blog, and essay competition to solicit outside views; macro and micro case studies of IFC clients; and IFC’s own operational experience and lessons learned.

The report aims to elicit practical lessons that can be applied to the work of IFC, policy makers, and other finance institutions focused on the private sector.

IFC is well placed to lead this study, as the largest global development institution focused on the private sector in developing countries. The study has been closely coordinated with the World Bank’s World Development Report (WDR) 2013 on Jobs and draws upon the experience of relevant departments within the World Bank and IFC as well as the expertise of our external consultants, partners, and clients.

This summary was prepared by a team led by Roland Michelitsch under the overall guidance of Nigel Twose, director of IFC’s Development Impact Department. The core team of authors included Gabriela Armenta, Ferran Casadevall-Massuet, Namita Datta, Anastasiya Denisova, Rijak Grover, Luz Leyva, Junko Oikawa, and Anqing Shi. The report greatly benefited from the inputs of many operational colleagues in IFC and the World Bank, as well as an external technical advisory panel, which included CEOs of private sector companies, academics, the International Labour Organization (ILO), the World Bank, and the World Development Report team. The production of the report was supported by Thoko Moyo and Katherine Hutt Scott, and in the initial phase by Rupa Ranganathan.

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Why jobs matter

High levels of unemployment, especially among youth, are a problem in developing countries around the world and therefore creating more jobs is an urgent priority because jobs are the main path out of poverty. Jobs are much more than monetary income; they are the cornerstone of development. Jobs boost living standards, raise productivity, and foster social cohesion.

Currently 200 million are unemployed globally, and the unemployment rate for youth is more than 2.5 times higher than that of adults. By 2020, 600 million jobs must be created in developing countries—mainly in Africa and Asia—just to accommodate young people entering the workforce. A separate issue is the quality of today’s jobs. Almost a third of workers are poor, and about half are informal workers, a condition “...often coupled with lower rights and protection for workers.”

The private sector plays a key role in creating the new jobs needed and fostering growth, since it already provides nine out of 10 jobs in developing countries. Therefore, it is crucial to understand the constraints that prevent the private sector from growing and generating jobs.

Global employment by the numbers

- Number of unemployed: 200 million
- Unemployment rate for youth: 2.5 times higher than for adults
- Highest unemployment rates: more than 10 percent in the Middle East and North Africa
- Lowest unemployment rates: about 4 percent in East Asia and South Asia
- Number of jobs needed by 2020: 600 million

Specific needs in specific regions

The nature of the jobs challenge varies by region, due to different demographic, institutional, and socioeconomic factors (see figure 1). Unemployment rates are the highest in the Middle East and North Africa (MENA) (at about 10 percent), more than double those of East Asia and South Asia, which have the lowest rates (at about 4 percent). In addition, youth unemployment rates in the MENA region are particularly high. While unemployment rates are comparatively low in South Asia, both vulnerable employment and the working poor remain major policy challenges despite recent progress. The same is true of Sub-Saharan Africa. In Eastern Europe and Central Asia, migration and aging are potential threats. Aging also is a future concern for China. Unemployment rates tell only part of the story; there is a large informal sector in many countries, particularly poorer ones, and sometimes people give up looking for formal work and are no longer captured in unemployment statistics.

Figure 1 Unemployment rate varies by region


Constraints to job creation: a conceptual framework

This report adopts the World Bank Group framework for thinking about constraints to job creation known as MILES:

- **M**acroeconomic policies
- **I**nvestment climate institutions and infrastructure
- **L**abor market regulations and institutions
- **E**ducation and skills
- **S**ocial protection

This framework acknowledges that besides Labor market policies and Social protection, employment growth depends on other factors. On the demand side, job creation is influenced by policy fundamentals such as Macroeconomic and fiscal stability, Investment climate and Infrastructure, while on the supply side it depends on Education and skills. The IFC Jobs Study addresses four constraints that fall into I, L, E and S in this framework. They are access to finance, infrastructure, investment climate, and skills. Other factors are also important, but addressing them is typically beyond the ability of private companies and private-sector-oriented financial institutions. However, the private sector contributes to growth and job creation, and thus ultimately to macroeconomic and fiscal stability.
What kind of firms create the most jobs and where?

Jobs in small and medium enterprises (SMEs) account for more than half of all formal employment worldwide. This is especially true in developing countries, where SMEs represent on average about 66 percent of permanent, full-time employment. Meanwhile, employment in the informal sector accounts for half or more of the total labor force in developing countries.

In developed countries, many firms are born small and then they grow into bigger firms. In developing countries, this is frequently not the case: firms are either born large and do not grow much, or firms decline in size. As an example of the latter, when the sizes of 35-year-old firms in India, Mexico, and the United States are compared to their sizes at birth, in India, the size declines by a fourth; in Mexico, the size doubles; and in the United States, it is 10 times larger (see figure 3). A similar pattern is observed for the productivity of the firms in these three countries.

Small companies tend to have much higher rates of job growth (18.6 percent over a 2-year period in a representative sample from 106 countries, twice the average of all companies), but are also more likely to go out of business. However, larger firms tend to be more productive, invest more in training, and offer higher wages (see figure 4).

Institutional and financial constraints prevent the smallest firms from formalizing and growing into larger, formal firms. Removing such constraints will disproportionately benefit micro, small, and medium enterprises and allow them to grow into larger firms. Additionally, efforts to help enterprises formalize are recommended, since informal enterprises tend to have lower productivity and poorer working conditions.
Employment trends vary by sector

When direct job creation across industries is examined in more than 100 countries, the service sector leads employment growth, followed by manufacturing, while the agricultural sector shows a steady decline. The number of jobs created by each industry varies somewhat across countries, depending on the availability of natural resources, skills, institutions, and other country and regional characteristics.

However, analyzing only direct job creation can be quite misleading. Once the total effects are considered, industries such as utilities or manufacturing that have significant forward or backward linkages also become important job creators. Also, generating the highest number of jobs does not necessarily

Figure 3: The majority of firms are born small and grow little in India and Mexico

Note: Figures present the average employment (or productivity) of firms in different age groups relative to the average employment (or productivity) at birth. Figures are computed using 1992 and 1997 data for the United States, 1998 and 2003 data for Mexico, and 1989-1990 and 1994-1995 data for India.
translate into generating the highest value-added jobs. For example, studies by Standard Chartered Bank in Ghana and Indonesia indicate that sectors that added more jobs, e.g., agriculture and trade, had the lowest value added per worker. At the same time, industries that created fewer jobs, e.g., utilities and extractive industries, had the highest value added per worker. Lastly, employment growth in various sectors might be hindered due to a mismatch between skills demanded and those available, if current education trends continue.
Does increased labor productivity hurt employment?

Contrary to popular belief, increased labor productivity does not necessarily equal job losses. Our analysis shows that higher productivity was associated with faster employment growth in subsequent years (a 1.8 percent growth in number of jobs for each 1 percent gain in productivity). An increase in productivity can lead to goods becoming cheaper to produce. Thus prices fall and demand for the product increases—in addition to making the industry more competitive at the global level. This effect can more than offset the employment-lowering effect of increased productivity (i.e., fewer workers are needed to produce the same amount of goods or services).

Also, IFC’s own experience showed that financially successful companies and investment funds tended to create more jobs.

Furthermore, there is evidence of innovation, in particular product innovation, being associated with increases in hiring—with a high number of low-skilled people typically hired. In the case of process innovation, the effects are more mixed and sector-specific.

### Figure 5: A large fraction of firms achieve both productivity and employment growth

![Figure 5](image)

Source: WDR 2013 team estimates based on data of the Annual Industrial Survey of Chile and Amadeus Database.

Note: The figure presents contribution to 5-year growth over the specified period by plants in each country. Plants considered are those with average employment above 10 that exist throughout the five year period. Successful upsizers are plants that increased both labor productivity and employment, successful downsizers are plants that increase productivity but lost jobs, unsuccessful downsizers are plants that reduced employment and productivity, and unsuccessful upsizers are plants that increased employment at the expense of productivity growth.

#### Estimating economy-wide job creation effects

Many development finance institutions, policymakers, and business leaders are interested in being able to estimate the job-creation effects of their activities. While data on direct jobs created may be available, it gives an incomplete and possibly misleading story. To properly estimate economy-wide job creation effects, it’s important to consider the total job effects, including: (a) indirect jobs (jobs created in suppliers and distributors); (b) induced jobs (jobs resulting from direct and indirect employees spending more); (c) second-order “growth” effects such as more reliable power allowing enterprises to produce more, and more efficiently; and (d) net job creation (accounting for job losses in competitors).
Summary of one IFC Micro Case Study: Cement

IFC granted a loan to Indian cement manufacturer Orissa Cement Limited to partly finance expanding its capacity and setting up a plant. This additional capacity created about 300 direct jobs and 7,200 indirect jobs over four years, of which 65 percent were in the company’s distribution network. Every $1 million that IFC invested helped generate an estimated 1.5 direct jobs but almost 40 indirect jobs, of which close to 70 percent were unskilled.

In 2011, IFC client companies provided some 2.5 million direct jobs. The number of these direct jobs, net of job losses, tends to be relatively small, but the number of indirect jobs generated can be significant, though more difficult to measure. In a variety of sectors—agribusiness, cement, tourism, steel, and infrastructure—we found that the total job effects can be a large multiple of direct jobs, and vary by country, industry, and company. Moreover, in developing countries, these jobs often benefited the unskilled and the poor.

Multipliers theory and practice

Therefore, it’s important to estimate the economy-wide effects of job creation. Employment multipliers such as the total number of jobs in an economy created per one direct job are commonly used. However, these multipliers vary a lot depending on factors including management style, the capital intensity of a particular project, the business cycle, and the regional and country context (see table 1). Thus a range should be used with lower and upper bounds.

A multiplier assessing the total number of jobs per $1 million invested also can be informative. There is still variation, but less than in the standard indirect/induced jobs-created multipliers.

Net job creation

“Net” job creation should be kept in mind when estimating total employment. A study in the United States found that over five years, the initial gain of 100 jobs after the opening of a Walmart store was offset by a loss of 50 jobs in smaller competitors, but that the net job effects were still positive. This pattern of overall job growth in the retail sector despite job losses in competitors also was found in several Eastern European countries.

Trade-off between value added and number of jobs created

There often is a tradeoff between the number of jobs created and the value-added per job (see figure 6). Macroeconomic case studies from Ghana and Indonesia show that for every $1 million invested, the sectors that contributed most to employment growth (e.g., agribusiness, trade) may feature the lowest value added per worker, whereas the sectors that contribute relatively few jobs (e.g., mining, utilities) created most value-added. However, the tradeoff may vary by country. For example, in Tunisia, food processing and agriculture contribute significantly to value-added, and a large portion of it goes to workers.

Major constraints facing firms

Based on the responses of more than 45,000 businesses in 106 developing countries to the World Bank Group’s Enterprise Surveys, the top constraints facing their operations are a poor investment climate, notably red tape, high tax rates, and competition from the informal sector; inadequate infrastructure, especially an inadequate or unreliable power supply but also transportation and water; lack of access to finance such as credit lines; and insufficient skills and training.

Four findings stand out: 1) informality is a major hindrance for SMEs and middle-income countries; 2) a reliable power supply is the most important issue for companies in low-income countries; 3) access to finance is particularly a problem for SMEs; and 4) workers’ skills constitute a key challenge for larger businesses and businesses in high-income countries.
Table 1: Multipliers for indirect and induced job creation effects vary widely

<table>
<thead>
<tr>
<th>Sector / Industry</th>
<th>Examples of Multipliers (Type II): Total number of jobs (direct, indirect, induced) in the economy for each direct job in a sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>1.2 :1 (Chile) 2: (US and Scotland) 3:1 (Tanzania)</td>
</tr>
<tr>
<td>Mining Financial Services</td>
<td>2.5:1 (Scotland) 14.9:1 (Indonesia) 5:1 (US) 19:1 (Ghana) 7:1 (Chile) 28:1 (Ghana)</td>
</tr>
<tr>
<td>Oil and Gas Hotels</td>
<td>7.5:1 (US) 1.24:1 (Scotland) 13.4:1 (Scotland) 2.66:1 (Tanzania) 13:1.24:1 (Scotland)</td>
</tr>
<tr>
<td>Retail Cement</td>
<td>1.27:1 (Chile) 2.47:1 (Scotland) 1.31:1 (Scotland) 1.89:1 (US) 4.45:1 (US)</td>
</tr>
</tbody>
</table>


Figure 6: Two countries, same results: There can be a trade-off between the number of jobs created and the value added per job.
Findings show that the perception-based responses are often closely correlated with more objective measures. Subjectively, fewer firms in high-income countries than in low-income countries consider access to power as the most important constraint. Using a more objective measure, firms in low-income countries tend to suffer from a higher incidence of power outages than firms in high-income countries.

**Constraints from a regional perspective**

As has been established in the literature, the most important constraints differ by region. In Sub-Saharan Africa, more than one fifth (22.3 percent) of firms said access to power was their biggest obstacle. In East Asia and the Pacific, 16.6 percent of firms ranked access to finance as their top constraint. In Europe and Central Asia, the tax rate was the top concern for 16.7 percent of firms. In Latin America and the Caribbean, informality was the top problem for 16 percent of firms. And in South Asia, nearly one quarter of firms said political instability was the biggest issue.

Therefore, obstacles differ significantly by country, and policymakers should consider the most binding constraints for businesses in their specific context.

**The investment climate**

The Enterprise Surveys of formal private sector businesses—which reveal perceived obstacles to their operations—show that various concerns about the investment climate, when added up, account for more than half the constraints identified by businesses as most important (see figure 7). The investment climate problems add up to the most pressing issue for firms.

![Figure 7: Investment climate problems add up to the most pressing issue for firms](source)

**Figure 8: Constraints vary by firm size and country income**

<table>
<thead>
<tr>
<th>Constraint (Top 3)</th>
<th>Firm size*</th>
<th>Country income group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small</td>
<td>Medium</td>
</tr>
<tr>
<td>Access to Finance</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Electricity</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Informality</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Tax rate</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Skills</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

*For this analysis: Small = 5-20 employees, medium-sized = 21-99, large >= 100 employees.

climate constraints include competition from the informal sector, tax rates, and corruption, followed by various business regulations.

Efforts to align investment climate with an optimally conducive business environment through business regulations are often the first critical step to promote strong investment in the economy in order to create more growth and jobs.

### The informal sector

Informality is a reality, especially in developing countries where the size of the informal market tends to be larger, employing half or more of the labor force. Formal companies perceive as a major constraint the unfair competition from informal economic activities that don’t abide by the same regulatory and financial requirements. Informality includes not only informal companies and informal jobs, but also informal activities engaged in by formal companies. Corruption and other underground activities are more serious types of informality involving regulations and weak governance.

Leaving aside the underground activities and informal activities of formal companies, the main causes of informality are diverse and include regulatory costs and procedural burdens as well as personal necessity. A large number of informal entrepreneurs would prefer a wage job and are “entrepreneurs out of desperation,” but there also are “entrepreneurs out of aspiration” who are more likely to formalize their enterprises in an improved business environment.

### Figure 9: Informal employment is positively associated with poverty

It is critical to continue efforts to bring informal players to the formal playing field, because informality does not help workers, businesses in the formal sector, or the economy. Informal employment is linked to poverty, and informal firms find it more difficult to grow and don’t contribute to government revenues (see figure 9). One experiment demonstrated that understanding the perceived benefits of formalization could successfully motivate informal business owners to formalize their enterprises. But cost-benefit tradeoffs must be made clear to business owners.

### Investment climate reforms can help generate jobs

Investment climate regulatory reforms aim to facilitate easing burdens for business operators, and by doing so, they promote and increase fairer competition, incentivizing more players to enter the formal market.
A study shows that business-entry reform can have strong effects on job growth, estimated at 2.8 percent (inclusive of wage workers and self-employed business owners) in Mexico.

Combining business-entry reform with other regulatory reforms, such as investment promotion and trade logistics, has demonstrated even stronger job creation effects.\(^\text{16}\) However, progress is needed in data collection and impact evaluation, especially when dealing with attribution methodologies for investment climate regulatory reforms. This will be critical for determining which policies and regulatory reforms are effective in creating more jobs.

Naturally, it is more complicated to implement more than one reform, as multi-reform programs require a great deal of cross-agency planning and coordination. The country must possess sufficient institutional capacity to handle the implementation. Table 2 shows examples of multi-reform investment climate programs implemented in four countries in Africa where the estimated ranges of jobs created were evaluated.

Other types of regulatory reforms that are believed to lead to job creation—in part based on their positive impact on growth and other parameters—include reforms of business taxes, secured transactions/collateral registries, and special economic zones. However, impact evaluations of these reforms largely lack specific data on jobs.

### Access to infrastructure

As infrastructure is a critical input for firms, improving and expanding infrastructure allows higher economic growth and, in turn, job creation. In addition, infrastructure is a sector with special capacity for promoting inclusive growth,\(^\text{17}\) particularly by providing access to productive opportunities for the poor and by facilitating access to basic services, including water, education, and health.

Infrastructure plays a crucial role in urbanization, an integral process in the development of countries. Well-integrated power, transportation, and water and sanitation networks avoid congestion and establish a cohesive link between the urban and rural sectors.

Perception data from Enterprise Surveys show that access to infrastructure, in particular power, is a key constraint for the private sector. These data also show that firms that rank infrastructure problems as severe are often the most productive, because they tend to be firms that sell in larger markets and

### Table 2: Investment climate reforms generate jobs

<table>
<thead>
<tr>
<th>Investment Climate Reform</th>
<th>Burkina Faso</th>
<th>Liberia</th>
<th>Rwanda</th>
<th>Sierra Leone</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of Jobs Created</strong></td>
<td>1,700 - 2,000</td>
<td>16,300 - 20,400</td>
<td>15,000 - 17,600</td>
<td>13,500 - 16,800</td>
</tr>
<tr>
<td>Access to Business Land</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Business Entry</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Business Exit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Licensing Reform</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Construction Permits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract Enforcement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Doing Business Reforms</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Investment Promotion</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Labor Regulation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Registration</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Private Dialogue</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Special Economic Zones</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Policy and/or Admin</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism Development</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Trade Logistics</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Source: Author’s elaboration using information from Economisti Associati srl, Center for Economic and Social Research, and the Africa Group LLC (2011).

Note: Data from 2008 to 2010.

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**Not all jobs are created equal**

- **Direct jobs** (jobs in a company)
- **Indirect jobs** (jobs created in the company’s suppliers and distributors)
- **Induced jobs** (jobs resulting from direct and indirect employees of the company spending more money)
- **Net job creation** (accounting for job losses in the company’s competitors)
are more dependent on infrastructure.\textsuperscript{18} It is particularly common for firms in developing countries to spend their own resources on buying infrastructure services or providing it on their own. For example, in low-income and lower-middle-income countries, firms often buy power generators to deal with supply disruptions. But this represents a drain on resources, since it costs substantially more to obtain power from generators than from the regular grid.\textsuperscript{19}

**Investment in infrastructure creates jobs**

There are two main categories of jobs created through infrastructure investments:

- **Jobs associated with construction and maintenance.** These activities generate employment not only for those workers directly involved in performing them (direct effect), but also for the corresponding suppliers and distributors (indirect effect), and for the providers of goods and services for the direct and indirect workers (induced effect). For example, it has been estimated that $1 billion spent on road construction in the United States generates about 6,000 direct jobs, 7,790 indirect jobs, and 14,000 induced jobs.\textsuperscript{20} An evaluation conducted of a power transmission line that IFC had financed in India also showed that many more indirect and induced jobs had been created than direct jobs.

Direct, indirect, and induced job creation will depend on the import content of the production methods and the availability of skilled labor. It is also important to distinguish between construction, providing short-term jobs, and maintenance and operation, providing permanent jobs.

- **Jobs associated with improved services and lower costs for firms** (second-order or “growth-related” jobs). Many studies focus on the above-mentioned immediate job-creation effects (e.g., in construction), but having reliable infrastructure has an even greater effect. Access to reliable power, information, and communication technologies, or improved transportation, can add significantly to job growth by allowing businesses to produce more and hence create more jobs (see figure 10). The growth effect can be substantial. The IFC Jobs

**Power transmission lines and job creation: the Powerlinks project**

In 2003, IFC committed a loan of $75 million to Powerlinks Transmission Limited (PTL), a joint venture company, to construct power transmission lines that helped evacuate hydropower from Bhutan to a number of states in northern and eastern India.

We estimate that the construction, maintenance, and operation of the lines will create almost 250,000 person years employment (approximately 9,700 direct, indirect, and induced jobs) over the 25-year life of the project. This will have a significant effect on poverty, as the transmission lines were constructed through some of the poorest states in India. Second, in terms of growth effects, we estimate that the increased supply power and increase in its reliability have generated 75,000 jobs from 2006 to 2012. For the state of West Bengal in particular, we estimate the number at 4,600 jobs, of which almost 1,600 could be attributed to a reduction in power outages. Finally, the transmission line also contributed to development in Bhutan, by boosting GDP growth and increasing government revenues.


Figure 10: The growth-related effects of infrastructure investments are the largest and affect the overall economy
Study has estimated that a new power transmission line in the North of India could have generated about 75,000 jobs from 2006 to 2012, a much larger number than job creation associated with construction and maintenance.

**Infrastructure investments are not always gender neutral**

There is now increasing awareness about the need to adopt gender-sensitive policies while planning and designing infrastructure investments. Men and women have different roles, responsibilities, and constraints because their respective demand for infrastructure facilities and services often vary. For example, evidence from village-level travel and transport surveys and case studies in Africa showed that the major part of the household transport burden falls on women, who contribute up to 65 percent of the total transport effort related to agriculture.\(^21\)

Some assumptions about gender in infrastructure planning, coupled with poor implementation, could create infrastructure facilities that fail to meet the needs of women in poor communities. For example, water pumps introduced to provide clean water have broken down because handles were designed for use by men, and not women and children who are the principal water bearers in the community.\(^22\)

**The private sector role in addressing the infrastructure deficit in low-income countries**

The private sector is playing an increasing role in providing infrastructure, notwithstanding the large amount of resources needed and the public-good nature of the assets. The involvement of public-private partnerships in infrastructure investment in low- and middle-income countries has increased significantly in the last decade, especially in the energy and telecommunications sectors but also in transportation (see figure 11). However, the private sector is still lagging behind in funding improvements to water and sewage systems.

The private sector can play a very important role in augmenting public funds and bringing in technology, efficiency, and results-based approaches to infrastructure through market solutions. Studies show that in electricity and ports, the larger the involvement of the private sector, the higher the labor productivity.\(^23\)

However, harnessing the potential of the private sector, especially in complex sectors like infrastructure, also needs an effective regulatory framework. For example, public-private partnerships in Latin America have seen a high frequency of renegotiation of concessions due to weak regulatory framework and accountability.\(^24\)

Another often-discussed concern about the role of private sector and employment is that efficiency gains could result in a reduction in jobs. The evidence of this is mixed. In general, privatization of previously
state-owned companies could lead to a lower number of direct jobs in the short run, but new investments by the private sector tend to have a positive effect on employment.25

Infrastructure sectors differ in their propensity to generate jobs

**Power** is a key constraint, especially in low-income countries. IFC estimates using Enterprise Surveys data that a reliable power supply could increase annual job growth in low-income countries by 4 percent to 5 percent.26 Since this estimate is based on relatively expensive power from generators, the job effects of reliable power from the grid could be significantly higher. Evidence from the Powerlinks project in India supports this finding (see box above). For power projects, the combined level of indirect and induced employment is likely to be larger than the direct employment itself. Also, the employment-generating propensity of power projects varies with technology.

Since construction and maintenance of roads are more labor intensive than most other infrastructure investments, road projects tend to have large direct job effects, while multipliers for indirect and induced effects are comparatively more moderate because other inputs are less intensively used.27 Still, estimates continue to point to indirect and induced effects being larger than direct effects.28 These direct jobs are mostly temporary and also tend to benefit men over women.29 Improved transport infrastructure reduces transportation costs, thus supporting economic growth and job creation, especially through the development of trade and markets. Workers from rural villages with better roads have access to new non-agricultural activities and also have a higher potential of finding productive employment in nearby cities, thus benefiting from urban jobs that tend to be more regular and permanent.30

The telecommunications sector fulfills similar goals to roads and highways, reducing communications cost and facilitating and spreading access to information and services. Information and communication technologies have expanded rapidly and have had a large growth impact.31 At the firm level, studies using Enterprise Surveys data conclude that the use of websites and e-mails for operations is positively and significantly associated with employment creation, as well as with labor productivity.32 As in other infrastructure sectors, the growth-related employment effects tend to be larger than the direct, indirect, and induced effects.

IT-based services offer many direct and indirect employment opportunities, particularly for youth and women. It is estimated that the IT industry will create 4 million additional direct jobs by 2016, while indirectly creating as many as 12 million to 16 million more in other sectors.33

Access to finance

Lack of access to finance is a key constraint to job creation, particularly for micro, small, and medium enterprises. Businesses in less developed countries tend to face more financial obstacles, given the lower level of financial development. Evidence shows that improved access to credit lines and other types of

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**Figure 12:** Smaller firms have less access to financing

![Figure 12: Smaller firms have less access to financing](chart.png)

finance can help generate a significant number of jobs, and the results tend to be larger and more significant for SMEs and businesses in developing countries.

A main challenge for the financial sector is to improve the external sources of financing available to reach profitable unserved and underserved firms with business potential.\textsuperscript{34}

\textbf{The credit gap}

Developing countries still lag behind high-income countries in firms’ access to finance: less than 20 percent of micro, small, and medium enterprises in developed economies are unserved, while in regions such as South Asia and Sub-Saharan Africa, more than 59 percent of these small companies are unserved.\textsuperscript{35}

The lack of access to finance for SMEs, a large sector which is not served by microfinance institutions and not effectively covered by commercial banking institutions, is known as the missing middle. An estimated 45 percent to 55 percent of formal SMEs are unserved (do not have a loan or overdraft but need credit) and 21 percent to 24 percent are underserved (have a loan and/or overdraft but face financing constraints).\textsuperscript{36} The unmet credit needs of formal SMEs in the developing world add up to $850 billion.

Out of 365 to 445 million micro, small, and medium enterprises in developing countries, including informal and formal establishments, about 70 percent do not use external finance.\textsuperscript{37} Their unmet credit needs total as much as $2.5 trillion, or around 14 percent of GDP in the developing world.\textsuperscript{38}

When firms cannot borrow directly from financial institutions, they have to use alternative financial sources, including their own funds or informal credit sources\textsuperscript{39} that can be costlier or might not cover their funding needs. Alternative external sources such as trade finance and equity markets might not be available for these firms either. If they are unable to obtain enough financial resources, they cannot grow into larger companies and create more jobs.

\textbf{Why credit markets are constrained}

The structure of credit markets is different from other markets in the sense that the market interest rate can create an undersupply of financial resources. Besides, markets do not have perfect information on firms, which results in an inefficient allocation of resources.\textsuperscript{40} Supply-side constraints to access to finance include weak property rights and enforceability, a strict regulatory framework, high risk management and credit costs, an underdeveloped financial system, and costly government intervention and corruption.

\textbf{Figure 13: Some firms with access to finance choose not to use it}

SMEs have intrinsic characteristics that discourage financial institutions from providing them with loans and instead directing the resources to larger firms. SMEs usually have higher default risks, higher transaction costs of lending in small amounts, and represent higher risk-management costs. Additionally, they usually lack credit history, have worse credit indicators compared to larger or publicly traded companies, do not have financial statements or projections, and have fewer assets to cover collateral requirements.41

On the other hand, even financially sound firms could choose to not apply for loans because they expect to be rejected, fear the consequences of not paying, or simply lack the financial literacy to apply. They can also be discouraged by high interest rates or convoluted application processes. Among demand-side constraints identified for firms are their low growth rates and revenues, costly processes to prepare credit information, high borrowing costs, insolvency fears, and informal operations.

Additionally, there are diverse factors determining the level of access to finance for firms operating in the private sector that stem from differences in financial development across regions, country income groups, and firm size.

**The link between access to finance and job creation**

The literature confirms that firms that have access to finance have higher job-growth rates than firms without it.42 Even when the relationship has proven positive, it is difficult to attribute job-creation effects solely to access to finance. The channels by which access to finance can lead to job creation are diverse:

- There is a positive relationship between external finance and number of start-ups, closely related to entrepreneurship.43
- Access to formal financial sources allows higher investments in capital, new technologies, research, and innovation.
- It also assures liquidity, improves risk management in firms, and allows the acquisition of productive assets.44
- Access to finance also has indirect employment effects in the supply and distribution chains of firms served.

These new opportunities can be transformed into higher sales and revenues for the company, more firm entry into industries, achievement of business stability, and expansion of operations into new markets.

A study using data for 98 developing countries showed that firms with a loan or an overdraft facility had 3.1 percent higher growth of permanent employees than firms without the financing, while access to external funding was associated with 4.2 percent higher employment growth.45

A micro case study conducted in Sri Lanka to estimate job growth in micro, small, and medium enterprises, financed by an IFC bank client, showed a rapid annual job growth of 12 percent from 2009 to 2012 (twice the country rate using the latest data), accompanied by growth in labor productivity (sales per worker). Business expansion and technology investment were the two main channels of job creation in firms that were eligible for loans.46 But effects cannot be totally attributed to financing, since some enterprises had multiple loans, job losses in competitors are not accounted for, and the sample did not include firms with nonperforming loans. Also, the bank probably picked “winners” that were likely to have higher growth rates, a sign of an efficient allocation of credit.

Studies have shown that access to finance has the largest employment effects for SMEs,47 which also are most credit constrained. By using different measures of credit access, micro, small, and medium-size enterprises in developing countries gained more in terms of employment than larger firms from having access to finance.48

**Measures that can improve access to finance**

- **Improve financial sector regulations**: Financial liberalization can promote the creation of new companies and the closure of inefficient or unprofitable ones, which can cause a decrease in lending costs and allow profitable businesses to flourish. It is also necessary to
improve enforcement of regulations. For example, better protection of property rights can increase access to finance, especially for small companies.

• **Improve financial infrastructure**: A more developed financial infrastructure can make more information available about potential clients, and therefore reduce transaction costs and expand credit, particularly for SMEs. The probability of obtaining loans for small firms increases from 28 percent to 40 percent when they operate in countries with credit bureaus.

• **Step up bank competition**: Governments can promote competition in the sector, for example by encouraging entry of financial intermediaries or diversification of their lending, which can result in financing to previously unserved groups. Heightened competition can reduce interest rates, which benefit businesses that obtain credit.

• **Increase funding to financial institutions or other financial intermediaries**: Policies that help financial institutions broaden their lending activities to underserved groups can help generate jobs. Partial Credit Guarantees are an example of schemes that mitigate the credit losses of financial institutions in the event of default and therefore promote lending to SMEs.
  - IFC obtained employment data from more than 3,100 firms that received loans from 34 banks. Based on that data, we estimate that about 100 million jobs were provided by 23 million micro, small, and medium enterprises financed by IFC client financial institutions at the end of 2011. It is important to note that this estimate is for the number of people employed (not additional jobs created). We are in the process of gathering more evidence on jobs created by companies receiving finance.
  - An analysis of firms financed by IFC-supported growth equity funds showed that they had annual job growth rates of 14.7 percent from 2000 to 2010 and created—net of job losses—nearly 300,000 jobs.

**The skills gap**

Approximately 45 million job seekers join the labor force every year in the current challenging macroeconomic environment, yet more than one-third of companies in 41 countries around the world report an inability to find the workers they need. This dynamic suggests a global mismatch between the supply of workers and the availability of job training. The world’s labor force is concentrated in developing economies, while advanced skills and training are more prevalent among workers in developed economies. The mismatch has thus become a cross-country challenge. In general, there are not enough jobs for low and medium-skilled workers, while there is a higher demand from firms for workers who are highly skilled.

**The global skills gap**

More than 1/3 of companies in 41 countries are unable to find the workers they need.

Combining classroom with on-the-job training has been proven to increase the success of training by as much as 20 percent.

Working with the private sector to identify the skills gap is fundamental to ensure that training and education programs tackle that gap.

Sources: ManPower Group (2012); Fares Puerto (2009).

**Case studies from Indonesia, Ghana, and Jordan**

When firms expand operations after obtaining access to finance, there can be indirect and induced employment effects that can be larger than direct effects, but more difficult to estimate.

Two studies of the effects of opening branches of Standard Chartered Bank in Indonesia and Ghana showed estimated employment creation effects of 67,000 and 15,400 jobs, respectively, when direct, indirect, and induced employment were estimated. An additional 962,000 jobs in Indonesia and 140,300 jobs in Ghana were created by the bank’s clients. The studies in Indonesia and Ghana found an inverse relationship between value-added per job and number of jobs created, suggesting a tradeoff between these.

IFC conducted similar studies in Ghana and Jordan, also finding a trade-off between the number of jobs created, (particularly high in agriculture and trade) and the value-added per job (particularly high in services, transport and construction) see figure 6. Every US$ 1 million of IFC investment had an economy-wide employment effect of 228 jobs in Ghana and 114.1 jobs in Jordan.
More advanced skills become even more important as countries aim to reach higher levels of development by switching to industries that require workers to be more productive, such as more sophisticated manufacturing and business services. Meanwhile, managers and business owners sometimes lack the skills required to manage their companies, which also limits the potential for these to grow and create more jobs.

**Shortages of worker training and skills is a major constraint**

The lack of skills is a particularly pressing constraint for larger firms and for firms located in higher-income countries. Income disparities across regions and technological advancement in countries markedly affect whether training and skills are a priority. For instance, in Latin America and the Caribbean, 12.5 percent of firms report that training and skills are their biggest obstacle, while this percentage is only 3.2 in Sub-Saharan Africa.

China, despite significant investments in higher education, is expected to face a shortfall in workers with a tertiary education by 2020 as it moves to higher value-added activities, whereas India is expected to face shortfalls of people with a secondary education. Given the size of these markets, this could significantly affect the global search for skilled workers.

**Small companies, low-income countries invest less in training and innovation**

The education level of workers matters. A higher percentage of workers who completed secondary education in a firm is associated with a higher growth in sales. In addition, firms that invest in innovation experience higher job growth rates, and growth that tends to be higher for those firms with a larger proportion of unskilled workers and women.

However, the number of firms investing in their workers’ education and in innovation varies by country income group and firm size. The latest Enterprise Surveys conducted across 106 countries show that approximately 40 percent of firms offer training to their workers. About 29 percent of small enterprises, 44 percent of medium-size enterprises, and 67 percent of large enterprises offer training. In addition, about 27 percent of companies in low-income countries offer training, while this number is around 43 percent in high-income countries (see figure 14).

SMEs are much less likely than larger firms to invest in training, and reasons can vary. Among them is that training and innovation can often be perceived as a cost rather than a benefit for firms, especially for those with higher rotation of employees. Therefore, it is important to provide information on the benefits of training and innovation programs, and given that young firms are the ones with higher employment growth rates, it would be appropriate to support training programs for this group of firms.

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**Training for Sugar Cane Farmers in India**

IFC worked with its investment client DCM Shriram Consolidated Limited (DSCL), a major sugar producer in India’s low-income state of Uttar Pradesh, to develop a package of training targeted for sugar cane farmers. IFC’s program provided training in techniques including seed management, soil improvement, and water usage, as well as growing alternative crops between the sugar cane stock. The results: In the project’s first year, trained farmers saw an increase in productivity of 23 percent, compared to an 11 percent increase for the farmers in the control group. The second-year numbers were 89 percent for trained farmers and 19 percent for the control group.

**Management training in India and Yemen**

Business Edge, an IFC program that provides management training to owners and employees of SMEs, targeted 16,000 people in Yemen in 2009. The result was productivity gains for thousands of people. Some examples:

- Employment for more than 400 recent college graduates in the construction, oil, and tourism industries
- Hundreds of women started micro-businesses doing sewing, farming, and craftwork
It's also crucial to identify new approaches to investing in training programs for small companies, such as focusing on clusters of SMEs. Other ways to lower the costs of training include working with larger companies on improving their suppliers’ skills (which ultimately also benefits the larger firm), or finding innovative ways of decreasing the cost of providing training, such as online training tools.

**Investing in training, innovation, and technology can stimulate job creation**

Firms that offer training can experience between 4 percent and 5 percent higher job growth. There also is a higher employment growth rate in firms that have an internationally recognized quality certification. Obtaining these certifications often requires the adoption of technology or of training and skills-development programs.59

**Most effective training and skill-building programs**

The report reviewed evaluations that have measured the impact of training programs, dividing training and skills-development programs into four groups: training for the unemployed, managerial training, retraining programs, and training for youth. Training for the unemployed seems to increase the probability of employment, but does not translate into higher earnings. When these programs target business managers and firm owners, they usually have a positive impact on firms’ productivity but not necessarily on employment. Retraining programs lack evidence of significant positive effects. However, comprehensive retraining programs including on-the-job training seem to yield positive results more frequently. When training and skills-building programs are effective, their impact is usually greater for disadvantaged groups such as women and low-income youth; this was the case for vocational training.

In summary, programs offering training and skills have mixed results overall, but better results when education is combined with on-the-job training, and better results in the medium term than in the short term.

When designing and implementing training and skills-development programs, it is necessary to collaborate with the private sector to identify its needs. It is also fundamental to partner with other relevant stakeholders—such as governments, educational institutions, training providers, and organizations working with youth—in order to design and implement programs that can more effectively address market needs.
The gender gap

Globally, education levels of women have increased, and educated women earn more than their uneducated peers. But the gender gap, the difference between the number of economically active women and men, persists. Women comprise 49.6 percent of the world’s population and make up only 40.8 percent of the formal global labor market. This is untapped economic and productive potential, which matters because women’s economic empowerment is good for society, companies, and the economy.

Educated and employed women positively contribute to poverty reduction efforts by helping their families and communities out of the cycle of poverty. Women influence the productivity and competitiveness of future generations by reinvesting 90 percent of their incomes into their families and rearing children for success.

Gender diversity is good for firms

Productivity gains from women’s inclusion in the labor market come from the variety of ways women bring added value to their workplaces, including their high educational levels and alternative labor practices. In the agricultural sector, increased access to productive resources for women (commensurate with levels for men) could have a productivity gain as large as 4 percent. For male-dominated sectors and occupations, removing obstacles for women to enter these industries could trigger productivity increases by up to 13 percent to 25 percent.

Gender diversity is good for the economy

Equality of employment opportunities for men and women is associated with poverty reduction and higher GDP levels. For example, barriers preventing women from fulfilling their economic potential are estimated to have cost the Asia-Pacific region somewhere between $42 billion and $46 billion in GDP losses.

A study in Turkey simulated an increase in the relatively low participation of women in the labor force from 23 percent to 29 percent and found that it could help reduce poverty by 15 percent if women took full-time positions, or 8 percent if they had part-time jobs. In some developing countries—especially in the Middle East and North Africa—women participation rates are lower than expected and notably lower than men, considering education and age levels of population. Therefore, raising the labor participation rates to the expected level would boost household income by 25 percent.

Barriers to women’s full and productive participation in the workforce

Women often enter the labor market with lower levels of education or training than their male counterparts. Other known constraints to full and productive participation include low wages, time rigidity, lack of education and skills, costly child care, household and family responsibilities, inadequate social protections, discrimination, and working conditions not suited for women. These constraints are interconnected. For example, the unequal access to legal and property rights between men and women in many parts of the world is one reason women lack access to credit and financing. In order to get a bank loan, women sometimes need collateral—which may be under a male relative’s name—to start a business. The top constraints are:

Lack of access to finance. Firms run by women are usually smaller than those operated by men in terms of number of employees, asset value, and annual turnover, besides being less profitable and productive. One reason for these differences: A study using 2005 data from 34 countries in Western Europe, Eastern Europe and Central Asia, and East Asia and the Pacific showed that firms owned or managed by women were 5 percent less likely to receive a loan, and that women-owned firms had interest rates that were on average 0.5 percentage points higher than those for men-owned firms. In more developed countries, the probability of women obtaining loans was higher, and women had to give less collateral on average.
Legislative barriers. In many countries, legislation regulating work in the formal sector treats men and women differently. The legislation covers a variety of issues over a woman’s work life cycle, including hours of work, taxation, parental benefits, and retirement. Some labor regulations may serve to enhance a woman’s incentives and abilities to get the job of her choice; others may inhibit her chance to do so. In 102 out of 141 economies, there exists at least one legal difference that could hinder women’s economic opportunities. In some cases, the intention may be to protect the women. But in countries where there are greater numbers of legal differentiations between men and women, fewer women work, own, or run businesses (see figure 15).71

Cultural considerations and restrictions. Traditional views of a woman’s role in society reduce the number of women employed in the formal labor market and also increase the wage gap between men and women.72 In economies where women cannot get a job without permission from their husband or guardian, there are fewer women in the workforce than in economies where such restrictions do not exist.73 There are two times in life where this constraint is particularly binding: adolescence and after marriage.74

Women working in vulnerable positions. Although the number of women working in the informal sector or as unpaid employees in family businesses is alarmingly high, there has been some improvement. In 2007, more than 50 percent of women’s employment was catalogued as vulnerable,75 reduced from 2005 when it was 86.5 percent.76 The recent trend has been for women to leave family activities to become wage-earning and salaried workers.77

Concentration of women in sectors with lower productivity

As a result of these barriers, women are concentrated in sectors that are generally characterized by low pay, long hours, and often informal working arrangements.78 Specific sectors that rely heavily on women workers include agribusiness, tourism, and textiles.79 Women tend to be under-represented in industry and extractive sectors, and other highly productive activities, working primarily in agriculture or services.

Two main strategies have been identified to address this problem: (i) increase the number of women in industries that are already female-friendly—and help women get to leadership positions in these areas, and (ii) encourage the participation of women in non-traditional fields, where possible. Other targeted approaches that have been successful include connecting women entrepreneurs to global markets and providing microfinancing to women-owned SMEs, and encouraging women’s leadership on company boards.
Quality of jobs

It’s not just the number of jobs created that counts; quality matters. Quality jobs are effective at reducing poverty and maximizing companies’ productivity and efficiency.

It is through the creation of good jobs at the firm level that positive macro-level transformation can take place within the society and economy (see table 3).

The definition of a “good job” depends on whom you ask. We will use the definition elaborated in the IFC Performance Standard 2 on labor and working conditions: A job which guarantees workers’ rights while paying them a decent wage. The requirements of this standard have in part been guided by core labor standards of ILO and key United Nations conventions.

IFC Performance Standard 2 (PS-2)

PS-2 recognizes that the pursuit of economic growth through employment creation and income generation should be balanced with protection of basic rights for workers.

Objectives:
- To promote the fair treatment, non-discrimination, and equal opportunity for workers
- To establish, maintain, and improve the worker-management relationship
- To promote compliance with national employment and labor laws
- To protect workers, including vulnerable categories of workers such as children, migrant workers engaged by third parties, and workers in the client’s supply chain
- To promote safe and healthy working conditions, and the health of workers
- To avoid the use of forced labor

Successful use of Performance Standard 2 requirements: The case of Antea Cement

IFC provided €29.4 million in financing to Antea Cement in late 2008 to help the Greek company build and operate a blended-cement plant in Albania that resulted in the creation of 300 direct jobs and an additional 500 indirect jobs.

CBMI, a member of the Chinese SONOMA GROUP, had the contract to design and build the plant and planned to hire 800 Chinese workers and build accommodations for them on site. Antea included specific Performance Standard 2 requirements in its agreements with CBMI and other contractors. After two years, SONOMA is presenting the Antea project as a case study of best practice. The benefits included on-time and on-budget completion of the project, zero accidents, best practices in contractor management, and improvement of labor and working conditions at SONOMA, which will create opportunities for the company to expand operations into European and North American markets.

The Equator Principles

The Equator Principles, which are based on IFC Performance Standards, are a credit risk management framework for determining, assessing, and managing environmental and social risk in project finance transactions, which often are used to fund the development and construction of major infrastructure and industrial projects. Currently, 77 financial institutions in 32 countries have officially adopted the principles, covering more than 70 percent of international project-finance debt in emerging markets.

According to the World Bank Group’s Enterprise Surveys, the key obstacles for private enterprises in developing countries are a poor investment climate, inadequate infrastructure, lack of access to finance, and inadequate skills and training.

Perhaps the first and major contribution of this report is to provide evidence of the significant job-creation effects of removing these constraints, and to identify the specific conditions and activities necessary for jobs to be generated.
Table 3: Improved labor standards yield multiple benefits

<table>
<thead>
<tr>
<th>Country</th>
<th>Change</th>
</tr>
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<tbody>
<tr>
<td>China</td>
<td>Annual worker turnover decreased from 78 to 32 percent in three years</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Product Rejection rate reduced by 44 percent overall</td>
</tr>
<tr>
<td>Turkey</td>
<td>37 percent decrease in lost time from accidents and sickness</td>
</tr>
<tr>
<td>India</td>
<td>Worker turnover reduced from 75 percent to 35 percent</td>
</tr>
</tbody>
</table>

Source: IFC and Social Accountability International (2012).

Labor conditions in the supply chain and distribution networks: Better Work program

Better Work, a partnership program between IFC and the ILO, was launched in 2007 with the goal of improving compliance with labor standards. The underlying premise is that improving compliance—and the lives of workers—can go hand in hand with improving the competitiveness of the industry, in this case global apparel supply chains.

The Better Factories project in Cambodia started in 2001 and was the predecessor of “Better Work.” The public disclosure of compliance levels of individual Cambodian garment factories increased compliance and accelerated improvements from 2001 to 2007.

Even more striking is that during the 2008-2009 financial crisis, the Cambodian garment factories with higher levels of compliance of selected categories of labor standards had a higher probability of survival. This suggests that improving some working conditions, especially related to workers’ incentives such as compensation and modern human resource management practices, may enhance productivity and therefore make factory survival more likely.
Emerging Findings and Conclusions

The world urgently needs to address the enormous jobs challenge it faces. Failure to do so would be an unacceptable missed opportunity to boost economic growth and development and reduce poverty.

The private sector, which provides about 90 percent of current jobs, holds the key to this challenge. Therefore, it is crucial to understand the constraints that prevent the private sector from growing and generating jobs. This report has explored this issue, focusing on supply constraints to job creation and leaving aside other determinants such as the macroeconomic environment or social safety nets, which are typically beyond what the private sector or private-sector-oriented development finance institutions can address.

- **Red tape and high tax rates can affect the start-up and operations of formal businesses and prevent businesses from formalizing.** Business-entry reforms can create large numbers of jobs, particularly when combined with other reforms. More data are needed on other types of interventions. In any case, formalization remains a clear employment challenge, as informality is often associated with lower productivity and lower quality of jobs.

- **Lack of infrastructure**—especially a reliable power supply—is a big problem in lower-income countries. Many studies focus on direct effects from the construction phase, but indirect and induced effects are often larger, and the main job effects often come from having improved services (like more reliable power), and not from the construction phase. The job creation effects from improved services from investments in power, transportation, and information and communications technologies can be enormous, but it is difficult to estimate them. The private sector has increasingly invested in infrastructure, and going forward there will be big needs for improving urban infrastructure, as people are increasingly moving to cities. Infrastructure investments also can be very effective at reducing poverty.

- **Lack of access to finance** is felt especially by micro, small, and medium enterprises. Measures that can improve access to finance include reform of financial sector regulations, policies that help financial institutions broaden their lending activities to underserved groups, increased competition in the financial sector, and enhancement and development of financial infrastructure. Many different analyses indicate that facilitating access to finance can generate a significant number of jobs.

- **Larger companies in higher-income countries are most affected by inadequate skills and training.** Despite the global skills mismatch, the effects of training and skills programs are mixed. Combining education with on-the-job training achieves better results, and collaboration with the private sector is essential to ensure that skills taught are useful for the jobs available—today, and in the future.

The report provides additional findings.

- First, compared to the number of direct jobs created by IFC’s client companies, job creation in the supply and distribution chains tends to be larger. In addition, these jobs tend to benefit the unskilled and the poor. However, these indirect jobs, as well as second-order or growth-related jobs from improved services (particularly relevant for infrastructure), are difficult to measure. Better data and comprehensive methodologies are needed to have a more complete picture of job creation resulting from specific activities.

- Second, firm size matters. When studying the effects of different programs and examining the literature, firm size has often emerged as a determinant. In general, small companies tend to have higher rates of job growth, but larger firms are more productive, invest more in training, and offer higher wages.
• Third, we have found evidence that higher labor productivity is associated with faster employment growth. Higher productivity makes companies more competitive, and makes it more attractive for them to hire workers, and this effect overall outweighs job losses that can be associated with higher productivity. Macro case studies conducted for this report show evidence of a trade-off between quantity of jobs and value added per job. In this context, competing objectives (growth, profitability, job creation, income generation, etc.) must be balanced when prioritizing sectors for investment.

• Fourth, women and youth face some specific employment challenges. Therefore, the issues of gender and youth must be considered when formulating job-creation policies. Women still face significant disadvantages in many countries and areas—including legislative barriers, lack of access to finance, and cultural norms—often forcing them to work in jobs that pay less and are more vulnerable. Providing better access to jobs for women is good for their families, their companies, and economies. For youth, it is important that training provides them with the necessary skills for current and future jobs and also that sufficient job opportunities are created. The information and telecommunications sector is of special relevance for youth. Not only can it help close the skills gap, but it also is an important direct provider of jobs for young workers.

Emerging implications

For policymakers, it will be important to consider the most important constraints for private enterprises in their specific country context. Removing these barriers will contribute significantly to job creation. While this study highlights the most important constraints globally and for countries at different income levels and different types of enterprises, more detailed analysis at the country and industry level will be needed to effectively prioritize. Focusing on the most important constraints for private enterprises is a useful approach.

The World Bank Group, IFC, and private-sector-oriented development finance institutions also have roles to play in helping to remove barriers to job creation. In fact, this report confirms that key elements of IFC’s overall strategy (a focus on the investment climate, infrastructure, access to finance, and training and skills) are crucial not only for private sector activity, but also for job generation.

Using a “job lens” in country and regional strategies can help to identify key constraints to job creation, and typically the more severe a constraint, the bigger the job-creation effect from removing it.

Also, focusing only on direct jobs misses the point: We have seen that the job effects are often much larger in supply chains and distribution networks, and that these jobs often provide opportunities for the poor. Thus helping to strengthen the link between client companies and their local suppliers and distributors has been revealed as a very effective way to reach the unskilled and reduce poverty. Another channel to attack poverty is to make it easier for enterprises to become formal. The aim should be to reduce obstacles that prevent formalization, particularly in lower-income countries where informality is predominant.

To address the skills mismatch, it is important to align the skills taught with the skills needed. This will typically require bringing together various stakeholders, including policymakers, private companies, training providers, and the youth themselves. Development finance institutions can help facilitate this dialogue, working with private firms to assess their needs, support private training providers, and combine classes with on-the-job training for better results.

Finally, ensuring high environmental and social standards can not only be the right thing to do, but also help companies improve productivity, reduce risks, and increase the likelihood of survival during difficult times. Development finance institutions can help ensure high standards, for example by applying the Equator Principles, and should raise awareness of the benefits of good working conditions for the affected workers as well for companies.
This encompasses education, vocational and technical training, as well as managerial and entrepreneurial training.

5. SMEs in this study were defined as firms with 5−250 employees.

6. Some of the aspects of social protection are addressed in the chapter on Investment Climate and the one on Quality of Jobs.


8. This number is for California only, not the whole country.

9. This number considers only petroleum refineries.

10. McKinsey Global Institute (2012). One of the limitations of this analysis is that it uses educational attainment as proxy for skills due to data availability. However, training through apprenticeship, which is not captured, can be more relevant than formal education in many occupations. In addition, the quality and content of formal education are not the same across countries.

11. Jobs created in the client firm in case of the development finance institutions, or jobs created in the industry in case of industry-level evaluations.


13. This number considers only petroleum refineries.

14. This number is for California only, not the whole country.


16. IFC (Forthcoming) – IFC Jobs Study: Meta-evaluation.


27. Schwartz et al. (2009).

28. Ibid.


34. World Bank (2008). Finance for all?

35. Stein, Goland, and Schiff (2010).

36. Ibid.

37. Ibid.

38. Ibid.


42. Dinh, Mavridis, Nguyen (2010).

43. Klapper et al. (2007).

44. World Bank (2008). Finance for all?


46. Preliminary results from IFC CBC Case Study.

47. Bigsten and Soderbom (2005).


52. ManPower Group (2012) interviewed some 38,000 companies in 41 countries.

53. The present study aims to shed some light on the impact of innovation and training on employment using cross-country micro-level data from Global Enterprise Surveys collected between 2006 and 2010. See chapter 3 for more information on main constraints. Larger firms tend to be more concentrated in higher income countries.


55. Source: Enterprise Surveys. Analysis based on an analysis of a representative sample of manufacturing and services firms from 106 developing countries.

56. Dutz et al. (2011).

57. In this section, small refers to 5−20 employees, medium to 21−99 employees, and large to 100 or more employees.


59. As shown in the evaluation by the Certificate in Entrepreneurial Management training program of the Enterprise Development Centre (2011)

60. IFC (2012). The Sweet Taste of Success.


64. Ibid.

65. Tae-hoon (2010).


67. Ibid.

68. Ibid.


76. World Development Indicators.


Credits

IFC Jobs Study: Assessing private sector contributions to job creation and poverty reduction

Preliminary Findings and Conclusions: October 2012

Produced by Development Impact Department, IFC

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OUR VISION
That people should have the opportunity to escape poverty and improve their lives.

OUR VALUES
Excellence
Commitment
Integrity
Teamwork
Diversity

OUR PURPOSE
To create opportunity for people to escape poverty and improve their lives by catalyzing the means for inclusive and sustainable growth, through:

- Mobilizing other sources of finance for private enterprise development
- Promoting open and competitive markets in developing countries
- Supporting companies and other private sector partners where there is a gap
- Helping generate productive jobs and deliver essential services to the poor and vulnerable

To achieve its purpose, IFC offers development-impact solutions through firm-level interventions (direct investments, Advisory Services, and the IFC Asset Management Company); promoting global collective action, strengthening governance and standard-setting; and business enabling environment work.

Creating Opportunity Where It's Needed Most