CONCLUSIONS AND IMPLICATIONS

1. Jobs, an urgent challenge

The world is facing an enormous jobs challenge, a challenge that is twofold. First, 600 million jobs must be created by 2020. Second, in a context where informality and working poverty are still widespread, future jobs must be quality jobs. The importance and urgency of this challenge cannot be overstated, as jobs are an integral part of the development of countries. Not only do they contribute to boosting living standards, productivity, and social cohesion, but they also are the main path out of poverty.

The private sector, which provides about nine out of 10 jobs in developing countries, holds the answer to this challenge. Therefore, it is crucial to understand the constraints that prevent companies from growing and generating jobs. The public sector must help build an environment where these obstacles are removed or minimized.

This report addressed this crucial issue by identifying and exploring the most binding constraints to growth and job creation. First, it presented employment trends in the developing world and discussed methods to estimate the impact of private sector development on jobs. Next, the study considered in detail four constraints: a poor investment climate, inadequate infrastructure, lack of access to finance, and insufficient skills and training. In particular, the report explored the effects of these constraints and of policies to remove them, on job creation, while identifying the circumstances under which these policies are likely to work and providing some estimates of the employment-generation effects. The study also discussed three cross-cutting themes, namely gender, quality of jobs, and youth employment. Other factors that affect job creation, such as the macroeconomic environment or social safety nets, were not analyzed because they are typically beyond the scope of what the private sector or development finance institutions oriented toward the private sector can address.

This report complements, and has been prepared in collaboration with, the World Bank Group’s World Development Report 2013 on jobs.

2. Opportunities for job creation

This report provided evidence and advice about the job-creation effects of removing the main obstacles to companies’ operations. It also identified the specific types of interventions that are most successful and discussed tools to measure these effects.

Establishing a friendly investment climate is the starting point for promoting job creation by the private sector. Cumbersome and costly regulations prevent firms from operating and growing in the formal sector. The report found that investment climate reforms were more effective when multiple barriers were tackled simultaneously. However, multi-reform programs require sufficient information and the ability of regulatory institutions to make sound policy decisions and coordinate among themselves. Certain stand-alone reforms—such as those affecting business entry, taxation, competition, and secured transactions—have demonstrated a positive impact on growth and jobs. For example, a study explored the link between tax rates and foreign direct investment, illustrating how investment-promotion efforts could proactively influence investors’ decisions. Many countries also use targeted investment climate tools, such as creating a special economic zone or improving regulations in a specific industry.
The report explored the issue of informality, because informal jobs are often associated with poverty, the last resort for vulnerable groups, such as the poor, the low-skilled, and women. An unfriendly investment climate, in the form of cumbersome regulations and weak enforcement, generally results in a large informal sector. Easing regulatory costs and constraints helps persuade businesses to formalize, but some informal entrepreneurs may prefer moving to wage-earning jobs if given the chance. In addition, one study suggests that modest increases in the perceived benefits of operating formally could persuade informal firms to formalize. Another lesson was that formalization and job creation would very likely require reform of business-entry regulations combined with other efforts, such as tax reform.

**For most infrastructure projects such as roads, policymakers often consider only the jobs associated with construction, but the report found that the improved services that result from the new infrastructure can generate far larger numbers of jobs.** Access to good reliable infrastructure is a big problem for companies, especially reliable electricity supply in low-income economies and transportation. Therefore, eliminating infrastructure bottlenecks can generate substantial economic activity and jobs. Sufficient infrastructure also helps reduce poverty by extending economic opportunities to broader populations and by facilitating access to basic services. For example, rehabilitated roads can provide nonfarm job opportunities in rural areas. Infrastructure also plays a key role in the process of urbanization and in building functional cities. The study noted that the private sector is playing an increasing role in providing infrastructure, especially in telecommunications, where private businesses have contributed to a rapid expansion of mobile phone technologies in recent decades. Because improved services can have the biggest employment effects, policies based on the short-term job creation of infrastructure projects can be misguided. Labor-intensive technologies and construction methods that maximize short-term job creation might not be optimal to promote long-term growth and employment. However, it is difficult to estimate job creation via growth effects, because this requires long time horizons and the effects can be geographically dispersed.

**There are several ways to improve private companies’ access to finance and financial services, and the best option may depend on the degree of development of the local financial sector.** As expected, studies confirm that access to finance is associated with employment growth, although it is difficult to quantify this link. Access to finance supports job creation by facilitating entrepreneurship and by giving businesses the means to operate and expand their activities, and it also generates jobs through indirect effects among firms’ suppliers and distributors. Financing helps reduce poverty, not only by creating jobs but also by reaching unserved and underserved individuals and companies. In addition, microfinance helps individuals become self-employed.

Providing access to finance for small and medium enterprises would generate the largest employment effects, at least in the short term, since these companies are the most credit-constrained and are the main formal employers in developing countries. IFC projects in Ghana and Jordan provided evidence of this. IFC investments via financial institutions had larger employment effects than when we invested directly in businesses, because local financial institutions had a more varied portfolio of clients, including small labor-intensive firms. However, direct investments in large companies can have stronger effects on productivity.

Governmental support is a necessary component of several potential programs that can improve access to finance and lead to job creation. These programs include reforming financial regulations to strengthen the sector, directing loans to profitable firms, building a strong financial infrastructure to diminish risk management costs for financial institutions, promoting bank competition, and increasing funding and providing advice to un-served and underserved firms. Policies must be adapted to the specific needs of each country. In countries where the private sector lacks sufficient credit, simply providing more credit can have the biggest impact, as long as the financial sector is strong and properly supervised. In countries with intermediate credit levels, efforts should be geared toward high-growth SMEs and un-served groups. Where credit is already available, constructing a balanced and inclusive financial sector and targeting un-served or under-served groups such as SMEs or women entrepreneurs should be the objective, along with appropriate supervision and regulation to avoid the risk of overheating the economy or creating credit bubbles.

**There are not enough workers for high-skilled jobs, not enough jobs for low-skilled workers, and not enough skilled business owners and managers.** Technology and productivity trends are producing a shortage of high-skilled workers for larger companies in higher-income countries. In addition, with about 45 million job seekers entering the labor force every year, their chances of finding jobs are not favorable unless they acquire the right skills, which increases the surplus of low-skilled workers both in developed and developing economies. Meanwhile, many business owners and managers lack the skills required to operate and grow their enterprises, which also limits the potential for their firms to create more jobs.
3. Jobs and beyond: transformational jobs

The report showed that some reforms or programs and the jobs created as a result can have a transformational impact on an economy. Successful programs and projects can reduce poverty, increase competition, strengthen networks of local suppliers and distributors, improve working conditions, decrease the difference between the number of economically active women and men, and serve as a model for others to follow.

The clearest example of transformation, common to a series of micro-case studies in agribusiness and manufacturing, is the strengthening of local suppliers and distributors and the significant effect this can have on reducing poverty. The cases show that IFC programs help generate indirect jobs, by building the local supply and distribution chains. Furthermore, most of these indirect jobs are low-skilled and in rural areas, thus have the potential to reduce poverty.

There are other examples of significant impact. By investing in a microfinance institution in Afghanistan, IFC helped not only to support about 1,000 direct jobs, but also to formalize the sector, improve regulations, and increase local bank competition. Similarly, infrastructure investments such as making information and communication technology more widely available can increase productivity throughout an economy. Improving the quality of jobs and working conditions also can make a huge difference. Although companies traditionally view compliance with labor standards mainly as cost, the report provided evidence that such compliance can improve business performance in two ways. First, compliant firms might benefit from increased demand for their products by socially conscious clients and customers. Second, labor standards can improve worker productivity by fostering collaboration and loyalty and by reducing the number of accidents and injuries. An assessment of the Better Work program appears to confirm that job creation and better working conditions can go hand in hand. Still, more data and studies are needed in this field.

Therefore, it is not just the number of jobs that counts, but also their broader impact on the economy. The country case studies provided further insights. There can be a trade-off between the number of jobs created and the value-added per job, and what portion of the value-added goes to workers depends on the country and company. Similarly, IFC investments through financial intermediaries support more jobs than direct investments into real sector companies. However, direct investments can have a bigger transformational impact, because they help companies move to higher value-added activities or serve as successful examples for others to follow. Policymakers may focus on different priorities in different countries, depending on the stage of development and other circumstances.

4. Factors that determine the impact on job creation

- **Job creation occurs through different channels.** The number of direct jobs created in a specific company is often only a small part of the impact on employment and on reducing poverty. The report provided evidence that the number of indirect and induced jobs created can be much larger. In addition, as already mentioned, indirect jobs can potentially reduce poverty. Beyond direct, indirect, and induced jobs, programs that remove constraints and bottlenecks lead to job creation by allowing companies to produce more and more efficiently and therefore stimulating economic growth. These growth-related job effects can be large. When comparing alternative programs, it is important to consider all types of jobs, not just direct ones. For example, investing in utilities can have large growth-related effects relative to other sectors, and investing in manufacturing relatively large indirect impacts.

  Multipliers can be used to estimate the total number of jobs created per each direct job created. However, the magnitude of the multipliers will depend on country, industry, and company characteristics. Using multipliers per $1 million invested incorporates cost considerations, but these still show significant variation. Therefore, it would be unrealistic to expect a single representative multiplier based on the industry and country. In addition, multipliers cannot capture the transformational impacts discussed above.

- **Constraints vary by region and country.** In general, lack of access to finance and electricity and competition from the informal sector constitute the biggest obstacles that businesses face in developing countries. But there are some differences across regions and countries. For example, in South Asia, political instability is the most-cited problem closely followed by power supply; in Europe and Central Asia, tax rates are the major obstacle; and in Latin America and the Caribbean, a lack of skilled workers is a key constraint. Therefore, it is necessary to adopt country-specific responses.
- **Firm size matters.** As countries become richer, both the share of employment provided by larger companies and the degree of formalization tend to increase. On the other hand in low-income countries, small and medium firms tend to dominate, indicating that they suffer from stunted growth. Allowing firms to grow would lead to productivity gains and higher wages. Institutional and financial constraints prevent the smallest companies from formalizing, accessing financial markets, and growing into larger businesses. Removing such constraints would disproportionately benefit micro, small, and medium enterprises.

- **There is a link between productivity, employment, and poverty.** This link depends, among other factors, on the type of innovation and level of analysis. There is evidence that product innovation is associated with increases in hiring and industry-wide gains. Furthermore, the link between productivity and employment is important to reduce poverty. In order for employment to lead to sustainable poverty reduction, it must be accompanied by higher earning possibilities, which in turn are associated with higher labor productivity.

- **Women and youth face specific employment challenges.** Therefore, their needs must be taken into account when formulating employment policies. Women still face significant disadvantages in many countries and sectors—ranging from legislative barriers to cultural norms—that often force them to work in jobs that pay less and are more vulnerable or informal. The report showed how programs that remove obstacles, for example in access to finance, can reduce the gender gap. Providing more and better jobs for women has a positive impact on their families’ education and nutrition, their companies’ productivity, and the economy overall.

  Young people not only face higher unemployment than adults but also are more likely to work in informal jobs and be underemployed. A comprehensive strategy is necessary to address this multifaceted challenge. Training must integrate the needs of the private sector to give youth the skills they need for current and future jobs. The private sector also must provide sufficient job opportunities. In low-income countries, youth often are underemployed and in informal jobs. Solutions to addressing youth underemployment should include measures to improve the business climate, such as making it easier for businesses to start up or continue operations, plus training to promote entrepreneurship. 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.

5. Implications

This report presented an approach that can be used by policymakers to help prioritize job-creation programs. The first step is to identify the biggest obstacles for the private sector in their specific country context. This study used World Bank Enterprise Survey data, but other data might be available. Use of these data, whether objective or subjective, would help establish an evidence-based approach to policy prioritization. For example, policymakers must take into account the distribution of companies by size or the specific situation of women and youth in their country. It is also effective to focus on specific sectors that may likely provide good job opportunities and to create areas where private enterprises can establish themselves and thrive, such as special economic zones.

The World Bank Group, IFC, and development finance institutions oriented toward the private sector also have a role to play in helping to remove barriers to job creation. In fact, this report confirmed 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. Furthermore, the report has provided evidence that jobs stimulated by such activities can be effective in reducing poverty. Still, it is important to consolidate this understanding of the job impact of private sector programs and to disseminate and integrate findings from case studies into operations, progressively creating a “community of practice” around jobs.

Where creating jobs is a priority, a “jobs lens” could be used in country, regional, and sector strategies, as well as at the project level. Given the impact of private sector programs and projects on job creation, which this report has helped bring to light, it is essential to use a “jobs lens” in decision-making. The objective is to identify major obstacles to job creation and to assess the job-creation effects of IFC programs. For example, strengthening backward and forward linkages clearly can have positive effects on job creation and poverty reduction. Three important components of the “job lens” are:

- **Focusing only on direct jobs misses the point.** Decisions must be based on the acknowledgement that job effects are often much larger in the supply chains and distribution networks and throughout the economy than in the client companies alone.
• Strengthening the link between client companies and local suppliers and distributors helps reduce poverty.

• Using financial intermediaries supports job creation, but investing directly in large firms may have transformational effects. Depending on a country’s stage of development and current circumstances, policymakers may focus on different priorities.

Calculating the additional job effects in the supply and distribution chains and throughout the economy is important but methodologically challenging. Multipliers for indirect and induced jobs are very case specific, and methods to estimate jobs generated by higher economic growth are complex and varied. Nevertheless, IFC and other development finance institutions oriented toward the private sector should continue to improve their understanding of the variables that determine these additional employment effects and their size. Tools that track only direct job creation should be used with the knowledge of additional job effects. Collaboration among development institutions, including academia, can be very fruitful in this task. Another impediment is a lack of data, including data on the informal sector.

Formalization also can help reduce poverty. Another channel for addressing 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. However, it is important to bear in mind that only a small portion of informal enterprises may formalize—and identifying those “entrepreneurs out of aspiration” is important—whereas a significant number of informal “entrepreneurs out of desperation” may opt for wage-earning jobs when opportunities arise.

A comprehensive approach is needed to tackle the lack of more advanced skills and future employment needs. This approach requires collaboration with the private sector and other relevant stakeholders, and also including different levels and types of education in order to design and implement policies and curricula that can more effectively address market needs. Development finance institutions can help facilitate this dialogue by working with private firms to assess their needs, supporting private training providers, and ensuring that private companies are engaged in the design of the curricula, which should combine classes with on-the-job training for best results. One area of concern is that SMES appear to be under investing in training—including their managers and owners, which also limits the potential for businesses to grow and create more jobs. Given that young firms are often the ones with higher employment growth rates, it would be appropriate to support training programs for this group of companies. An apprenticeship system could be particularly beneficial also for the informal sector, which forms a large portion of employment in developing countries and in SMEs. Finally, more data collection and evaluation of training and skills-development programs are needed to measure and track their capacity to create jobs.

Investing in training, technology, and innovation can have an impact on job growth and must be part of the strategy to decrease the skills mismatch. The best results come from combining programs that use on-the-job experience with classroom education.

Ensuring high environmental and social standards helps 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 among affected workers as well as among companies.

Focus on the quality of jobs in client companies and in supply chains. The most effective way to improve the quality of jobs is a combination of monitoring and tackling the root causes of poor working conditions. Interventions such as the ILO-IFC Better Work program target labor compliance in global apparel supply chains. This program leverages the interests of global apparel brands to protect their reputation by incentivizing factories to work on institutional change. The Equator Principles—based on IFC’s Performance Standard 2—also point to the importance of better management practices as a key entry point and driver for businesses to improve compliance with labor standards, including in supply chains.

Focus on creating opportunities for women and youth. Two main strategies have been identified to increase the economic participation of women and reduce the concentration of women in less productive sectors: (i) increase the number of women in industries that are already women-friendly, and (ii) encourage the participation of women in non-traditional fields. The private sector can play a major role in promoting women as valuable leaders, productive employees and dynamic entrepreneurs. A comprehensive strategy is necessary to address the multifaceted challenges facing youth. Training must integrate the needs of the private sector to give youth the skills they need for current and future jobs. Other pieces of the puzzle are investment climate reforms that facilitate entrepreneurship and programs that give youth recognition for training that they receive informally while on the job. Finally, policies to promote the information and telecommunications sector are of special relevance for youth. Not only can this sector help close the skills gap, but it also is an important provider of direct jobs for young workers.
Endnotes

2 Bloom, Nicholas., et. al. (2012a).