

CREATING JOBS IN SRI LANKA

Role of Private Sector Financial Institutions



Case Study

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Role of a Private Sector Financial Institution in Creating Jobs in Sri Lanka

EXECUTIVE SUMMARY

IFC, a member of the World Bank Group, looks at promoting private sector growth, with the aim of helping people improve their lives and escape poverty by creating opportunities. In Sri Lanka, IFC's work focuses on encouraging sustainable economic growth and ensuring that it benefits the poor.

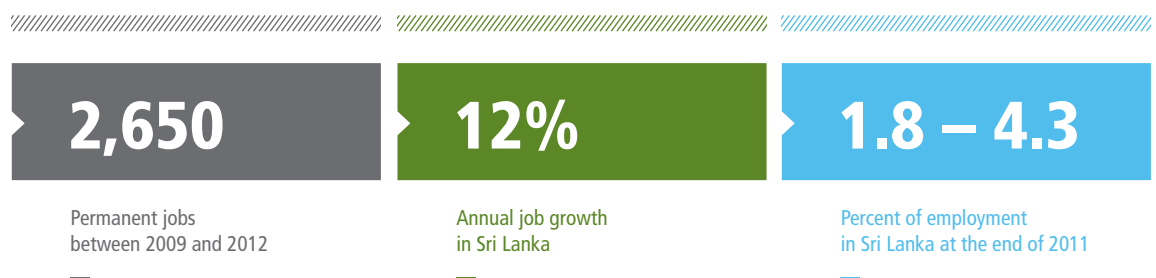
As part of its activities in the country, IFC is working with banks and other financial institutions to expand their network to reach people across the country and provide increased financial services for small businesses, leading to economic growth and job creation.

In Sri Lanka, IFC has supported the Commercial Bank of Ceylon (CBC), the island nation's largest private bank, through equity investment and long term loans that support the bank's lending to smaller businesses. CBC's lending to small businesses includes loans to companies based in post-conflict areas as well as those owned partly or fully by women. This case study was conducted as part of a larger initiative; an IFC led global study in 2012 titled, "Assessing Private Sector's Contributions in Job Creation". The global study is referred to as the IFC 2012 Jobs Study in subsequent pages.

This report based on the CBC case study covers 100 smaller companies who were provided loans by CBC in 2009. The companies ranged from micro to medium businesses from tourism, agribusiness, infrastructure, and manufacturing sectors.

The study found encouraging job creation effects. The firms surveyed had, by themselves, created 2,650 jobs, between 2009 and 2012, implying growth in jobs of 12 percent. This was higher than the rate of growth experienced by the rest of the country. Of these, almost half the new jobs created went to women.

Extrapolating results of this study from CBC's customers across small and medium enterprises, shows that lending to small businesses has a positive impact on creating jobs, bringing development to areas where it is needed most. Further study needs to be taken up to show the exact nature and extent of impact on jobs. The study's limitations need be kept in mind while interpreting these results, since there may be other factors that have not been considered within the scope of this study that may have contributed to growth of these smaller firms.



Content

CHAPTER 1

IFC and CBC: Investing in Progress

Methodology

About IFC and CBC

CHAPTER 2

Creating Jobs, Promoting Growth and Equality

Direct Employment in CBC

CBC's Strategy for Small and Medium Enterprises

Micro, Small, and Medium Enterprises Need Access to Finance

Contribution to Employment Creation

Manufacturing Firms Created More Than 40 Percent of Jobs

Firms in Central Sri Lanka Created the Most Jobs per Firm

Women and Small Enterprises

CHAPTER 3

Extrapolations, Conclusions, Lessons Learned

Jobs Created in CBC's Portfolio of Micro, Small, and Medium Enterprises

Some Caveats

Job Creation Analysis: Opportunities for Financial Institutions

Conclusions and Lessons

IFC and CBC

Investing in Progress

IFC's relationship with Commercial Bank of Ceylon, Sri Lanka's largest private bank, began in 2003. Over the years, IFC has provided equity, long-term loans, and advisory services to support CBC's lending to small and medium enterprises.

Interviews with a sample of 100 micro, small, and medium enterprises that obtained loans from CBC in 2009 found that these firms created 2,650 permanent jobs between 2009 and 2012. This indicates an annual job growth of 12 percent, higher than the country's average job growth in the same period. Job creation was equal for men and women.

Small and medium enterprises financed by CBC also show increased labor productivity. The average annual labor productivity (sales relative to employees) growth in the sample was 10 percent from 2009 to 2012.

The rapid job growth coincides with companies starting and expanding operations using financial resources from CBC and taking advantage of a better investment climate. On extrapolating the sample results to CBC's portfolio of smaller businesses that received loans in 2009, we find that they may have created between 140,000 and 340,000 jobs over three years, which represents about 1.8–4.3 percent of employment in Sri Lanka at the end of 2011.

The study estimated that 10 to 31 new jobs were associated with loan amounts of \$100,000 provided to firms. However, these jobs cannot be exclusively attributed to financing as there are some caveats, which are outlined later in this study.

This case study, conducted for the IFC 2012 Jobs Study referred to earlier, estimates the employment effects created by micro, small and medium businesses, which obtained funding from CBC. The study is based on interviews with a representative sample of 100 smaller businesses that received loans from CBC in 2009.

It is reasonable to expect that IFC through its investments in financial intermediaries operating in developing countries supports indirect job creation. The rationale being that when IFC invests in financial institutions, they in turn are able to offer a wider range of products or provide loans to more firms. These firms can then serve more clients. Financial institutions hire more staff to serve new clients and train them in the new products developed. Smaller enterprises obtain more loans and, if they are successful and profitable, are able to continue to grow and create jobs.

METHODOLOGY

This case study measures data from a number of sources. It combines data collected from secondary sources including CBC's annual report and Sri Lankan national public sources, along with primary data from interviews of the financial intermediary and its small business customers. Since financial institutions do not consistently track firm information on employment and financial performance for all firms they serve, field-based interviews were conducted with a sample of smaller businesses that obtained loans from CBC. The interviews collected information on the operations and performances of the smaller firms, as well as constraints faced by them over a three-year period.

To select firms, the portfolio was split into three groups according to the size of the loan, assuming that loan size is a proxy for firm size.¹ CBC helped choose samples of at least 30 firms for each loan size so as to have large enough representative samples to extrapolate the number of jobs created in each category. The sample size of 100 firms provides a reasonable estimate of the jobs created by CBC's portfolio. In order to account for some variability in the method used to select the 30 firms per loan size, a range of estimates of the jobs created has been calculated.² Firms were asked about employment from 2009 to 2012. The period of about three years was chosen to measure the employment effects for firms having capital to start and expand operations, while limiting the effect of external factors on job growth that could result over a longer period of time.

The sectors covered included tourism, agribusiness, infrastructure, and manufacturing, particularly relevant for Sri Lanka's economy. Of the 100 selected micro, small, and medium enterprises, 60 were in the western and southern provinces and 32 in central parts of the country (figure 1). The other eight were from northern and eastern (post conflict) areas (box 1). An effort was made to ensure that the sample was approximately proportional to the share of these regions in CBC's loan portfolio. Based on the sample, a conservative extrapolation was done on the total portfolio of loans provided by CBC in 2009.³ The estimates considered loans provided by the bank to companies in 2009, adjusting for non-performing loans in the portfolio,⁴ but not correcting for the fact that some companies could have received more than one loan in 2009.

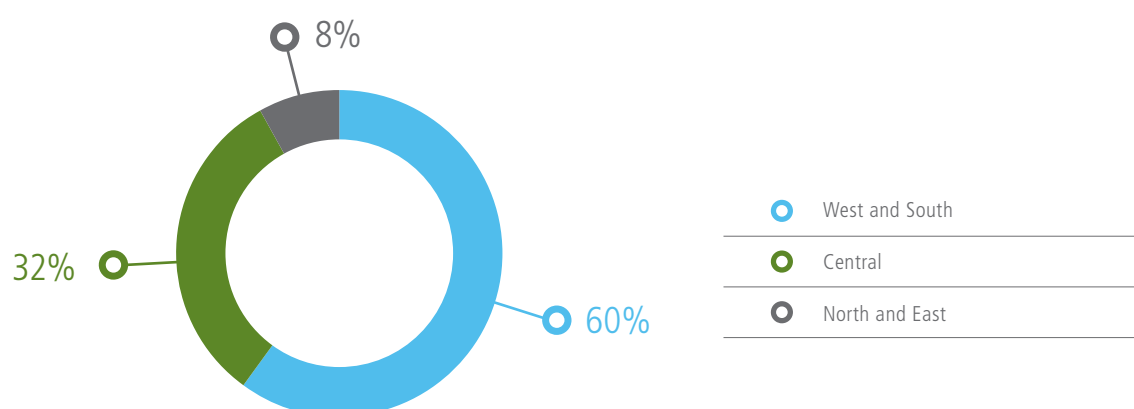


Figure 1. Regional coverage of the sample of firms

¹ IFC uses loan size as a firm size proxy. Firms for the study are defined as micro if the loan received falls within the range of (\$1,000–10,000), small (\$10,001–100,000), or medium-size (\$100,001–1,000,000), depending on the loan size received in 2009. In 2009 Sri Lanka did not have a uniform nationally accepted definition of Small and Medium Enterprises but used classifications based on employment, asset value, or investment depending on the institution (i.e. Sri Lanka Standards Institution, Industrial Development Board, Department of Census and Statistics, and the Ministry of Small and Rural Industries). This study was conducted with 100 firms from CBC's Small and Medium Enterprise portfolio that obtained micro, small and medium enterprise loans based on IFC's definition.

ABOUT IFC AND CBC

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. We help developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments.

To grow opportunities for the underserved, IFC in South Asia has concentrated on low-income, rural, and fragile regions while building infrastructure and assisting public-private-partnerships; facilitating renewable energy generation; promoting cleaner production, energy and water efficiency; supporting agriculture and sustainable forestry; creating growth opportunities for small businesses; reforming investment climate; encouraging low-income housing; and making affordable healthcare accessible.

IFC's strategy in South Asia is built on three pillars:

to promote economic inclusion at the base of the pyramid particularly in frontier parts of the region including India's low income states;

to help address climate change impacts;

and encourage global and regional integration

CBC is the country's largest private bank, accounting for about 12 percent of the Sri Lankan market (2011).⁵ CBC estimates that it currently holds about 20 percent share of loans given to smaller businesses in Sri Lanka. The bank is among IFC's longest-standing investment clients in the country. IFC's equity investment in CBC started in 2003. It now holds nearly 8 percent of the bank's shares.

Between 2006 and 2009, IFC helped CBC with advisory services to develop an integrated strategy to create a new loan product for small and medium enterprises. From 2009 to 2011, CBC increased its focus on smaller businesses and grew its SME portfolio, increasing the number of loans (ranging from \$1,000 to \$1,000,000) more than three times. IFC has also been involved in developing internal systems and improving risk management and credit scoring models. CBC will continue to support Sri Lanka's growth and development, especially in infrastructure, tourism, and agriculture, in addition to retail financing in the northern and eastern regions. In 2012, IFC further supported CBC, providing \$65 million to expand its small enterprises portfolio, which will in turn support 20,000 smaller businesses.

Hence, the firms interviewed will frequently be referred in the study as Micro, Small and Medium Enterprises (Micro, small and medium enterprises).

2 The selection of sample of 30 firms is based on the standard stat theorem. For more details on the methodology please go to www.ifc.org/jobcreation.

3 The approach used the 25th percentile and the median to extrapolate the results, instead of using the average, in order to eliminate the effects of outliers. The 25th percentile is the value below which 25 percent observations in each loan group can be found and the median is the value below which 50 percent of the observations can be found.

4 The adjustment consisted of removing an equivalent share of nonperforming loans from the loans extended in 2009.

5 Commercial Bank of Ceylon. 2011. Miles Ahead. Annual Report 2011. 43rd issue.

2

Creating Jobs

This section discusses direct employment created within CBC. In the period under review, CBC's strategy for small and medium enterprises, the need among micro, small and medium enterprises for ease of access to finance, and how CBC contributed to job creation for its customers' enterprises across different sectors, regions and types of beneficiaries.



DIRECT EMPLOYMENT IN CBC

The Commercial Bank of Ceylon has grown from 2009 to 2011, increasing its full-time employee base at 6 percent annually.

CBC's solid financial performance is reflected in its growth in business volumes and increased profits before taxes. Profits grew 18 percent in 2010 and 10 percent in 2011.⁶ Employment in CBC also increased between 2009 and 2011, with full-time employment up nearly 6 percent per year and outsourced workers⁷ by about 3 percent per year.⁸ Between 2009 and 2011 almost 470 positions were created and the gender mix of employees remained stable, with three-quarters accounted for by men. Men and women participation is similar among outsourced workers.

CBC provides competitive compensation based on market surveys and collective agreements. It promotes equal pay at the same employee levels regardless of gender. In 2010 and 2011 the men to women wage ratios at each level were close to one.⁹ Employees receive significant training and education, with an average of 23.8 training hours per worker annually during 2009 to 2011. CBC increased spending on training by 28 percent with 446 training programs between 2011 and 2012.

CBC'S STRATEGY FOR SMALL AND MEDIUM ENTERPRISES

CBC has provided quality service and timely advice when serving micro, small and medium enterprises.

The bank plays an important role in providing access to financial services for micro and small businesses. About two-thirds of the micro, small and medium enterprises sampled to which CBC provided loans in 2009 obtained them solely from CBC. The most common reasons cited for getting loans from CBC were its efficient services, convenient locations, and established relationships. According to some of the firms interviewed, the bank also offers competitive rates and provides valuable advice on loans and other financial products.

Box 1. Expanding Financial Services in Post Conflict Areas

CBC is opening more branches in post conflict eastern and northern areas of Sri Lanka. In fact, it was the first bank to open a branch in Kilinochchi, in the North – one of the most affected areas of the country.

CBC committed more than 1,500 unsecured loans to stimulate livelihoods for people in the north, mainly in agriculture and fishery.

In the east—not as economically affected as the north—people look to develop businesses and mainly need working capital. Here, CBC opened branches for convenience and to create opportunities.

6 Commercial Bank of Ceylon. 2011. Miles Ahead. Annual Report 2011. 43rd issue.

7 Defined as employees hired by agencies to perform certain activities for the bank but are not directly employed by CBC.

8 Commercial Bank of Ceylon. 2011. Miles Ahead. Annual Report 2011. 43rd issue.

9 Commercial Bank of Ceylon, HR Manager and HR reports.

MICRO, SMALL, AND MEDIUM

ENTERPRISES NEED ACCESS TO FINANCE

Lack of access to finance was the most common constraint perceived by micro, small and medium enterprises, and they are more financially constrained during a crisis.

A significant proportion (40 percent) of firms interviewed said that insufficient access to finance was a major obstacle when starting or expanding their business. Lack of access to finance represented a key constraint for three reasons: firms did not have enough resources to start at a bigger scale or expand rapidly, interest rates were too high, and business slowdown increased financial needs or made it difficult to repay loans. For example, a quarter of the companies surveyed said difficulties in repaying loans were due to the European financial crisis, higher loan costs, competition, delayed client payments, or macroeconomic conditions. This indicates that, during crises, smaller businesses are more vulnerable to shocks and have greater problems accessing finance than larger firms.

Firms operating in the infrastructure sector face financial constraints mainly because they lack liquidity and working capital due to delayed payments from customers and high project costs. These firms said that another major constraint for their operations was the unavailability of skilled workers. In addition, wages for machine operators tended to be high compared to the minimum wage in Sri Lanka. These firms usually had the lowest share of women employees. Women in these companies were placed mainly in administrative posts.

CONTRIBUTION TO EMPLOYMENT CREATION

Employment in micro, small and medium enterprises financed by CBC grew at 12 percent annually, faster than the national growth of 4.8 percent. Smaller businesses also showed sales growth and labor productivity increases. The analysis estimated that 10 to 31 new jobs were created for every \$100,000 of loans provided to micro, small and medium enterprises.¹⁰

Employment figures show that the Sri Lankan economy is going through a growth phase, despite the difficult global economic climate. While the global unemployment rate has been increasing since 2007, in Sri Lanka it decreased to about 4 percent in 2011 (figure 2).^{11,12} The annual employment growth for Sri Lanka up to the third quarter of 2011 was 4.8 percent.¹³ The services sector employed 43 percent of the workforce in the third quarter of 2011, showing a compounded annual growth of about 3.5 percent since 2009. Agriculture grew at 3 percent during this period.¹⁴

Sri Lanka's gross domestic product grew by 8 percent in 2010 and 2011, with a similar growth in the first quarter of 2012.¹⁵

¹⁰ This figure was calculated using the 25th percentile and the median of jobs created per loan amount of \$100,000. The large range might be a result of the diverse sample of firms interviewed, or the different sizes of firms (micro, small and medium enterprises) analyzed in the study and their different job creation potential.

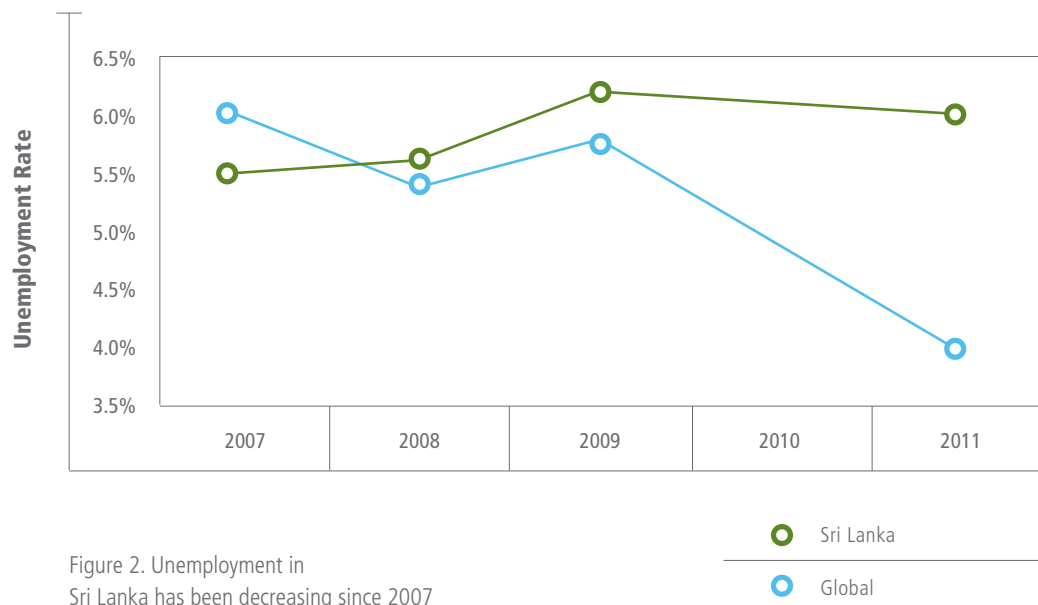
¹¹ Provisional annual estimate published in Sri Lanka Central Bank Annual Report 2011. The latest official unemployment figure calculated by Sri Lanka Department of Census and Statistics is 3.9 percent, as of the third-quarter of 2011. Excluding the north. <http://www.statistics.gov.lk>.

¹² International Labor Organization. 2012. Global Employment Trends 2012. Geneva.

¹³ Excluding the north. Department of Census and Statistics. <http://www.statistics.gov.lk>.

¹⁴ Department of Census and Statistics. <http://www.statistics.gov.lk>.

¹⁵ <http://www.statistics.gov.lk>



The micro, small and medium enterprises surveyed showed an annual job growth of 12 percent between 2009 and 2012, with equal job creation for women and men. This is more than twice the most recent annual growth for which data is available. The firms surveyed created 2,650 positions, with half going to women. In the sample however, the women participation rate (40 percent) was lower than the male participation. In addition, 15 companies interviewed did not have any women employees at all.

The study estimated that 10 to 31 jobs were created for every \$100,000 of loans provided to smaller businesses.¹⁶ However, more than 80 percent of the firms surveyed also got other loans before or after 2009, which may have contributed to their expansion and job creation during the period. This could, in turn, overestimate the number of jobs created per \$100,000 of loans. Other factors could also have affected job growth, and the variation in the estimate could be significant.¹⁷

Sales of the companies in the sample increased by 19 percent a year because of the significant expansion of activities.¹⁸ This is higher than the job growth rate. Firms in tourism and agribusiness had the highest increases in sale, while infrastructure firms did not perform as well. Two factors affecting sales in infrastructure were higher competition and more expensive imports, in part due to the depreciation of the Sri Lankan rupee. It is also possible that an improved investment climate drove the increase in sales and demand.

The average annual labor productivity (sales relative to employees) growth in the sample was 10 percent from 2009 to 2012, showing that, on an average, firms had both job growth and productivity growth. That could be, to some extent, due to investments in technology: about 20 percent of firms interviewed mentioned that they used loans to acquire more productive machinery or additional technology. The result of job growth accompanied with increases in labor productivity is in line with IFC 2012 Jobs Study findings, which has seen a positive association between labor productivity and job growth for firms in developing countries. The estimates in the global study are based on a large sample of over 45,000 firms in 106 countries.¹⁹

¹⁶ Based on an exchange rate of 114 Sri Lankan rupees to \$1 in 2009 when the loans were obtained. The range of the multiplier is based on all industries considered and was calculated using the 25th percentile and the median.

¹⁷ Even excluding outliers - the 10 percent smallest and largest job creation figures per \$100,000 - the range is 2-145.

¹⁸ Sales (or turnover) data was available for 98 percent of the sample.

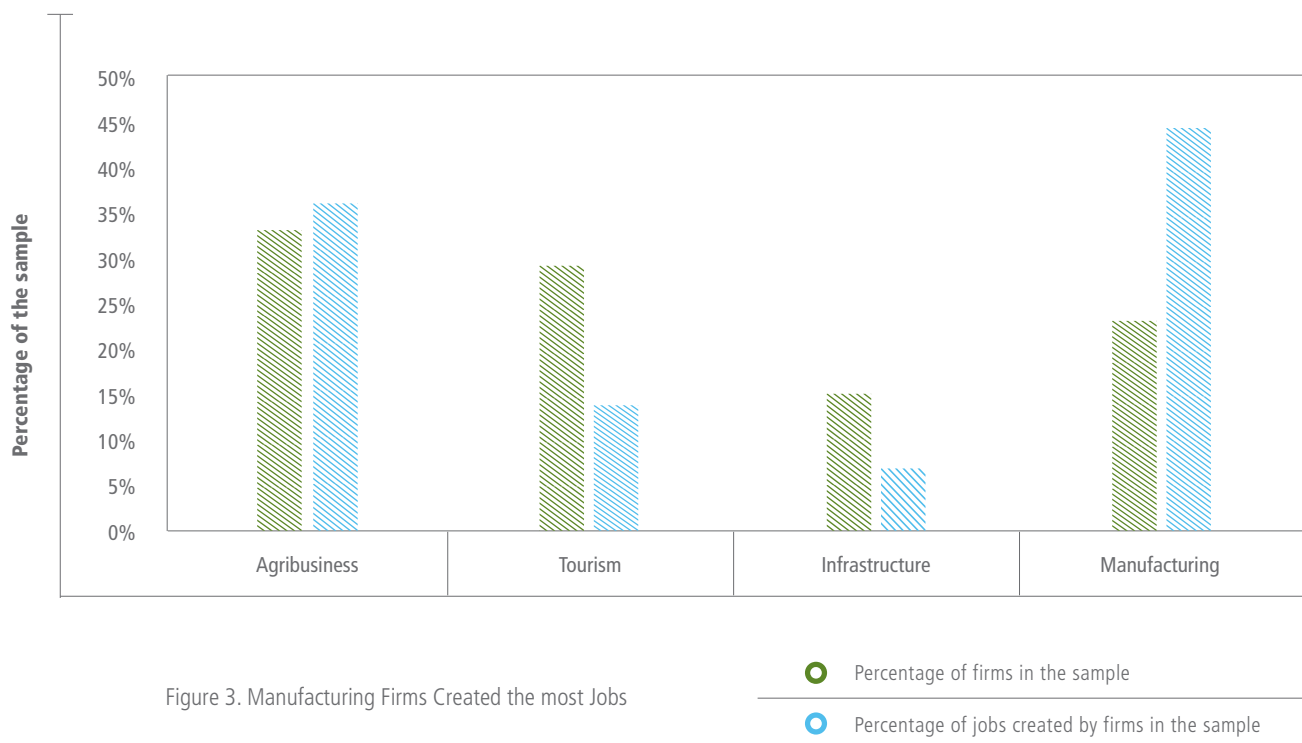
¹⁹ IFC Forthcoming (www.ifc.org/jobcreation). For the analysis, World Bank Group Enterprise Surveys were used and data from IFC clients.

MANUFACTURING FIRMS

CREATED MORE THAN 40 PERCENT OF JOBS

In the sample, manufacturing firms created the most jobs, accounting for 44 percent of jobs, with an average of 51 positions per firm (figure 3). (This is despite a relatively lower number of manufacturing firms in the sample surveyed). Agribusiness created about 36 percent of jobs, and accounted for 33 percent of firms. Manufacturing and agribusiness firms had the highest annual job growth between 2009 and 2012 (16 percent). Infrastructure firms had the lowest annual job growth, at 3 percent, and also had the lowest share of jobs created (7 percent).

According to the surveyed firms, low job growth in infrastructure is the result of higher competition and slowdown in construction. In addition, direct employment for infrastructure firms is low compared to other sectors. Even in the case of tourism, which is a labor intensive sector, employment creation impacts were relatively low. This could be a consequence of a higher incidence of temporary workers (which was not captured) and stagnating business trends due to the European financial crisis. European tourists accounted for half of all tourism arrivals to Sri Lanka in 2011.²⁰



²⁰ Sri Lanka Tourism Development Authority. 2011. Annual Statistical Report.

FIRMS IN CENTRAL SRI LANKA

CREATED THE MOST JOBS PER FIRM

Firms in central Sri Lanka created the most jobs (averaging 44 new jobs), and showed a rapid annual job growth of 17 percent. But these results are bolstered by a few firms that created a large number of jobs between 2009 and 2012. In the north and east, the average of 15 jobs created per firm was enlarged by an infrastructure firm that almost doubled its turnover. The west (including southwest) had the slowest annual job growth rate in the sample, at 8.8 percent.

Basnayake Enterprise: Expansion in Manufacturing

Basnayake started his rubber processing business in 2007. Lacking capital, he had to rent a factory for his operations. By the end of 2009 he had bought a new factory and machinery with CBC's help. His workforce grew from eight workers in 2007 to 18 in 2012, seven of whom are women. His sales doubled from 2009 to 2012, as a result of adding new machinery.

He wants to expand his business in the near future and plans to buy new machines, which will allow him to double production capacity. He expects to hire ten additional workers when he accomplishes his expansion plans.



WOMEN AND SMALL ENTERPRISES

The survey found significant participation of women in smaller business ownership. Forty percent of the firms surveyed had at least one woman as owner. The most common form of ownership for women was in partnership with their husbands. In Sri Lanka, women and men have equal property ownership and inheritance rights. This gives women in Sri Lanka better access to land and property than in other countries in South Asia.²¹ Their property can be used along with their husbands' to obtain better loan conditions and/or higher loan amounts. The high proportion of husband and wife business partnerships can be indicative of people taking advantage of this option.

²¹ International Center for Research on Women. 2006. Property Ownership & Inheritance Rights of Women for Social Protection – The South Asia Experience (Synthesis report of three studies).

40%

Average women
employment ratio



The average women employment ratio in the sample was 40 percent, slightly higher than the national share of women in the labor force (35 percent).²² Firms operating in the agribusiness sector tended to have the highest shares of women employment, followed by textile and manufacturing companies. Among agribusinesses, 40 percent of firms employed more women than men. The tourism and infrastructure sectors showed very low participation of women, except in administrative positions. In tourism, one in five companies did not have women employees. Women participation is the lowest among infrastructure firms, with one in three employing no women.

Omega Green: Foliage Producer

Ananda Tissa hoped to have his own foliage production business when he was a worker at a foliage company. He ventured into a limited liability firm with his wife and another partner, establishing Omega Green in 2003. It started with 20 workers, and by July 2012 Omega Green had 75 employees, of which 65 were women. The company seeks to expand its operations and become more mechanized by re-investing its earnings.



²² <http://www.statistics.gov.lk>. Female ownership did not affect women employment – in fact, women employment was slightly lower in women-owned micro, small and medium enterprises at 34 percent).

3

Extrapolations, Conclusions, Lessons Learned

This section extrapolates the results from the case studies to the bank's small and medium enterprises loan portfolio, lists the key caveats or limitations of the study, and opportunities for financial institutions and conclusions.

JOBS CREATED IN CBC'S PORTFOLIO OF MICRO, SMALL, AND MEDIUM ENTERPRISES

Using the sample results and extrapolating to CBC's micro, small and medium enterprise loan portfolio, we estimate that between 140,000 and 340,000 jobs have been created over three years. This represents about 1.8 to 4.3 percent of employment in Sri Lanka.

Employment data showed a positive relationship between firm size and number of jobs created (figure 4). Medium firms created the most jobs per firm, but small firms had the fastest annual job growth rate. Medium firms had an average job growth of 39 positions per firm, small firms created 30, and micro firms had 11.

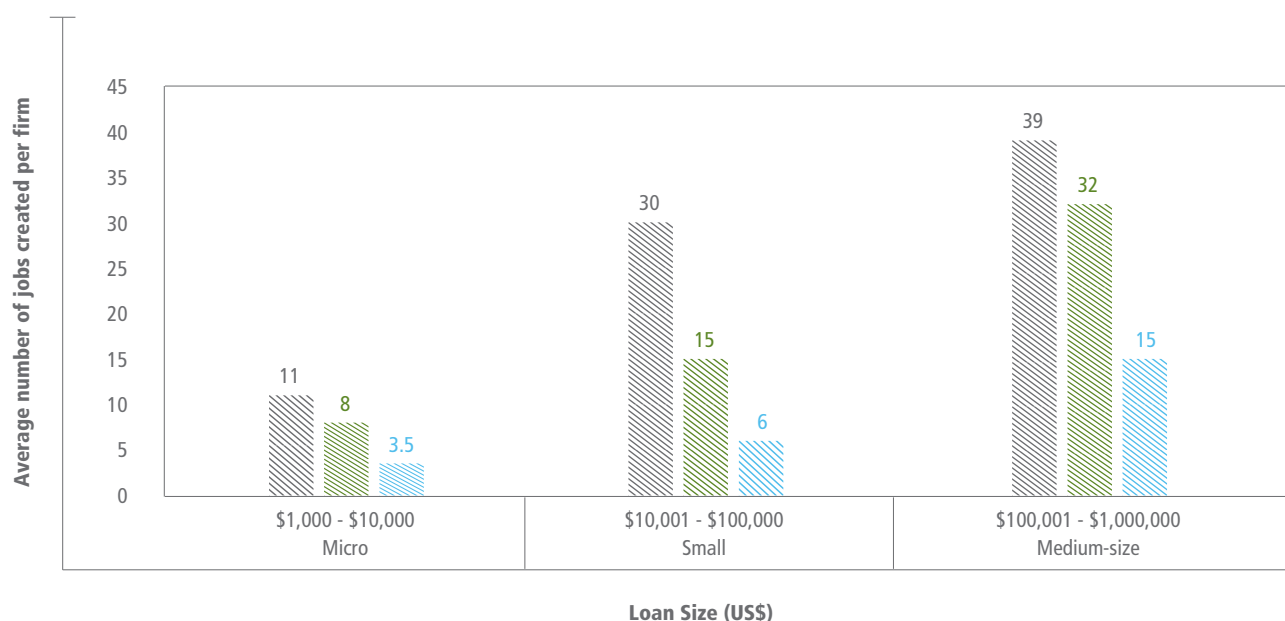
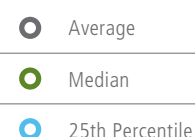


Figure 4. Larger Firms Created the Most Jobs per Firm



The sample showed significant job creation due to business expansion and technology investment. More than 80 percent of firms used loans obtained in 2009 for these purposes. CBC's development credit department provided more than 30,000 micro, small and medium enterprise loans in 2009 ranging from \$1,000 to \$1 million.²³ An extrapolation²⁴ of sample results to CBC's entire micro, small and medium enterprise loan portfolio in 2009 showed that the companies created about 140,000 to 340,000 jobs between 2009 and 2012 (figure 5). The range might represent about 1.8 to 4.3 percent of total employment figures in 2011.²⁵ However, as explained in the caveats below, it is difficult to clearly attribute job creation effects just to the loans provided by CBC in 2009.

TYPE	LOAN SIZE	COMPANIES IN SAMPLES	POPULATION (2009 LOANS)		JOB CREATION IN SAMPLE			POPULATION ON JOB CREATION ESTIMATES		
			TOTAL	ADJUSTED FOR NPL	AVERAGE	MEDIAN	25TH PERCENTILE	AVERAGE	MEDIAN	25TH PERCENTILE
Micro	\$1K - \$10K	30	18,470	16,319	11	8	3.5	179,504	130,549	57,115
Small	\$10K - 100K	39	12,925	11,206	30	15	6	336,175	168,087	67,235
Medium	\$100K - \$1M	31	1,388	1,238	39	32	15	48,271	39,607	18,566
TOTAL								563,949	338,242	142,916

Figure 5. Estimating job creation effects for CBC's portfolio of loans provided in 2009: Overall, small firms created the most jobs, followed by micro firms.

²³ Source: CBC's Management Information System.

²⁴ Using the adjusted total loans for NPL, the study extrapolates the measures of the 25th percentile and median to the portfolio.

²⁵ Based on provisional data. The employment figure for Sri Lanka does not include the north as the information is not available. The percentage is a rough estimate, and there are some caveats on the calculation. Hence, it should not be considered as an accurate estimation of employment impact in the country.

SOME CAVEATS

The sample showed considerable job growth from 2009 to 2012. However:

- Job losses experienced by competitors due to business expansion of firms in the sample are not measured in the study. The sample of firms interviewed did not include firms with nonperforming loans, which could have experienced job losses in the period.
- Even when the portfolio is adjusted for nonperforming loans and the extrapolation is done using a conservative approach of the 25th percentile and the median, the job growth results can be an overestimation, since firms may have received other loans from CBC or other banks.

CBC supported smaller businesses by providing loans efficiently and advising them on financial opportunities to help firms with their operations and expansion plans. However,

- Banks most often lend to select high performing micro, small and medium enterprises, which are expected to grow faster than other micro, small and medium enterprises not eligible for loans. Therefore, the high job growth results could be related to CBC choosing more successful small businesses that are willing to risk collateral to fund business plans.
- Collateral was required to lend to firms. Nearly all (99 percent) of the firms surveyed that got loans in 2009 used land and property as collateral. Only one firm got a loan without providing collateral, but used guarantees instead.

The sample showed considerable job growth from 2009 to 2012. However:

- Job losses experienced by competitors due to business expansion of firms in the sample are not measured in the study. The sample of firms interviewed did not include firms with nonperforming loans, which could have experienced job losses in the period.
- Even when the portfolio is adjusted for nonperforming loans and the extrapolation is done using a conservative approach of the 25th percentile and the median, the job growth results can be an overestimation, since firms may have received other loans from CBC or other banks.

Access to finance may have played an important role in business growth, but it is difficult to attribute job creation effects just to the loans provided by CBC in 2009:

- Several firms obtained loans from CBC and other banks before and after 2009, and other relevant events occurred in the period considered in Sri Lanka; both could have affected job creation.
- The conflict in Sri Lanka ended in 2009 and the economy benefited from macroeconomic and political stability. Firms that started operations or expanded in 2009 benefitted from a better business environment.
- In contrast, most firms that participated in the study said that current macroeconomic conditions made it harder to expand their operations; mainly due to high interest rates in the country (borrowing costs are over 14 percent).

JOB CREATION ANALYSIS:

OPPORTUNITIES FOR FINANCIAL INSTITUTIONS

This study is the first of a series of micro case studies for the IFC Jobs Study report conducted in partnership with a financial institution to understand and estimate job creation effects of providing access to finance to micro, small and medium enterprises. From a sectoral perspective, the study collects information to build job creation multipliers, but these are preliminary calculations that need to be further refined and tested before using them to estimate the impact of providing financing to smaller businesses.

Partner banks can use the information from such studies to

- 1 Understand their reach and impact on firms and the market in terms of employment, and possibly use this information to offer other services (for instance, offering services to employees).
- 2 Target SME products, regions, and sectors that are associated with high potential for job creation.
- 3 Identify SMEs with high job creation results that can be potential clients for other financial services.

The financial sector can

- 1 Use the results to demonstrate that banks have an impact on SME growth.
- 2 Use job creation multipliers to establish benchmarks and compare the effects across sectors, but evidence from additional studies is needed to confirm these findings.

The study provides several lessons:

- 1 Providing loans to micro, small and medium enterprises has a significant potential to create jobs, but there are other relevant elements such as improving skills of workers and the investment climate in the country that can contribute to it.
- 2 By supporting local banks, IFC can indirectly help firms create jobs and raise labor productivity.
- 3 The study estimated that 10 to 31 jobs were created per \$100,000 of credit provided. However, there was a lot of variation, and the job creation cannot be exclusively attributed to the financing. Hence, more studies are needed to confirm these findings.

CONCLUSION

Sri Lanka, in contrast to global trends, has been experiencing fast economic growth and unemployment reduction in recent years. This study shows that firms have been expanding operations and increasing their workforce. CBC itself had an employment growth of 6 percent in the past two years, while micro, small and medium enterprises surveyed registered an annual 12 percent employment growth since 2009; higher than the rate of growth experienced by the rest of the country.

Jobs created by productive smaller businesses in Sri Lanka show that improved access to finance can have significant effects. Other factors, such as macroeconomic stability, have also contributed to business expansion and employment effects. Firms have reported that limited access to finance is a major constraint to business creation and expansion. In addition, crises can exacerbate the impact of financial constraints on micro, small and medium enterprises. Employment growth in micro, small and medium enterprises has been complemented by higher labor productivity, possibly supported by technology investments. There was a significant share of women-owned enterprises in the sample. Higher levels of women employment were associated with the sector in which firms operated, in particular in agribusiness, textiles and manufacturing.

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