ASSESSING PRIVATE SECTOR CONTRIBUTIONS TO JOB CREATION: IFC OPEN SOURCE STUDY

International Finance Corporation
World Bank Group

Note 1: Small firms show the highest job growth rates

The importance of small businesses to job creation has been part of the economic policy narrative since the provocative work of David Birch (1979). The key role of small businesses is also highlighted in the results of World Bank Group Enterprise Surveys[1] data of 46,556 enterprises in 106 countries. The data shows that small firms are the primary engines of employment growth in developing countries.

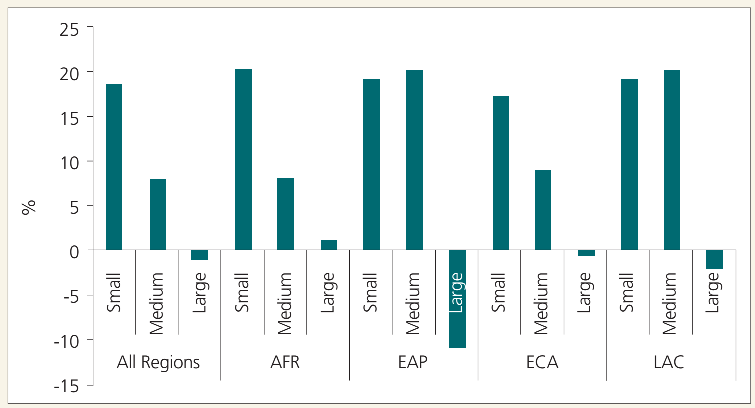
Small firms (5-19 workers) have the highest employment growth rates over a two-year period (18.6%) across the 106 developing countries, followed by medium-size firms (20-99 workers) with a growth rate of 8.1%. Large firms (100+ workers) have slightly negative employment growth (-1.0%).[2] Ideally, growth is based on both rising employment and higher productivity, as more resources are put to work productively. Increases in employment for small firms did not occur in tandem with increases in productivity: smaller firms had the lowest productivity growth among all firm sizes. These relative results are remarkably similar across regions and country income groups. Small firms had similar growth rates in the manufacturing and services sectors, and young small firms (1-5 years old) had the highest growth rates.

Looking across regions, small firms had the highest employment growth rate, followed by medium-size and large firms (Figure 1). Small firms in the Sub-Saharan Africa region have experienced higher employment growth (20.3%) than small firms in any other region. The employment growth of small firms in Sub-Saharan Africa was led by small firms in Democratic Republic of Congo and Mauritius, which grew by 45.2% and 44.6%, respectively. On the other hand, the only country in the entire sample where small firms experienced negative employment growth was Eritrea, which is also in Sub-Saharan Africa (-9.7%). In East Asia and Pacific, small firms grew nearly as fast as in Sub-Saharan-Africa at 19.1%, but medium-size and large firms created jobs at a much lower rate than in any other region. Large firms in the East Asia and Pacific region had especially strong negative employment growth (-10.8%).

In addition to providing the highest rate of employment growth in the overall sample, small firms were unsurprisingly the most numerous. The East Asia and Pacific region has the highest percentage of small firms (81%), while the Latin America and Caribbean region has the highest percentage of medium-size and large firms (36% and 18%, respectively).

Small firms have experienced the highest rate of employment growth driven by both sectors: manufacturing (18.2%) and services (18.5%). This pattern is similar across all regions, as small firms in the services sector have had slightly higher employment growth than those in the manufacturing sector in all regions except the East Asia and Pacific region, where the reverse is true. The rate of employment growth in medium-size firms in the services and manufacturing sectors is also broadly similar, again with the exception of the East Asia and Pacific region, where medium-size firms in services grew by 7.3% and those in manufacturing had close to zero growth. For large firms, the rate of employment growth in the overall sample was close to zero for firms in the manufacturing sector, but negative in the services sector (-6.5%). Only in the Eastern Europe and Central Asia region did large firms in the services sector experience significantly more employment growth than in the manufacturing sector.

Figure 1: Average Employment Growth by Region and Type of Enterprise (in %)



Source: Enterprise Surveys. AFR=Sub-Saharan Africa, EAP=East Asia and Pacific, ECA=Europe and Central Asia, LAC=Latin America and Caribbean.

The relative rates of employment growth among small, medium-size, and large firms also hold when controlling the age of the firm.[3] When dividing firms in the overall sample into young firms (1-5 years), middle-aged firms (6-15 years), and old firms (16+ years), small firms experienced the highest rate of employment growth, followed by medium-size and large firms in every age category. As expected, younger firms tended to have higher average employment growth than older firms. For example, small and young firms had employment growth of 24%, small and middle-aged firms had growth of 18%, and

small and old firms had growth of 13%. The only firm size where this pattern did not hold was for large firms, where old firms had the highest rate of employment growth, followed by young and middle-aged firms.

Considering different income groups, once again small firms have the highest rate of employment growth, followed by medium-size and large firms. Firms in low income countries show this typical pattern, where small firms experienced 18.5% employment growth, followed by medium-size firms at 5.8% and large firms at -1.6%. The gap in employment growth between small and medium-size firms was narrower in high income countries, where they had rather similar rates of employment growth, at 11.1% for small firms and 9.5% for medium-size firms. Large firms once again lagged at -3%.

Data and definitions

The World Bank's Enterprise Surveys (ES) provide a unique source of information that can be used to measure employment growth across a large set of developing countries. The data used for employment growth analysis in this note covers manufacturing and services firms in 106 countries from different regions of the world.[4] All data used in this analysis were collected from surveys conducted since 2006. Size is measured using total employment level in the baseline year and size groups are defined as: Small: 5-19 workers, Medium-size: 20-99 workers, and Large: ≥ 100 workers.[5] The employment growth rate for a subcategory of firms (e.g. small firms) in a given country is calculated as the total number of jobs created in that particular subcategory in the country in the past two years divided by the total number of jobs that exist among all firms in that subcategory in the country in the current year. In order to find the employment growth rate for a subcategory across countries, the simple average across countries is used. Labor productivity (output/worker) is used as a proxy for firm productivity.

References

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Endnotes

1 The data used in this study as well as the methodology used in data collection and sample construction are available at www.enterprisesurveys.org. For additional information please contact Federica Saliola (fsaliola@worldbank.org) or Jon Vierk Bernt (jbernt@worldbank.org).

2 It should be noted that these results only include firms for which employment recall data was available, that is, all firms that provided a survey response for the number of full-time, permanent employees in the most recently completed fiscal year and for the two previous years According to these criteria, all new firms that have been in business for two years or less are excluded. Also, since the data only include surviving firms, data on job destruction by firms which exited the market over the sampling period are excluded.

3 Recent studies (Haltiwanger 2010, Demirguc-Kunt, et.al. 2011) provided evidence that there is no systematic relationship between firm size and growth after controlling for firm age. However, our results are not directly comparable since the size definition used in these studies is different (small firms are defined as less than 250 employees).

4 List of countries available upon request.

5 About 4% of small firms in the sample had less than 5 employees in the baseline year, but grew to 5 or more workers by the time of the survey.

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