Assessing Private Sector Contribution to Job Creation

Indirect Job Creation Among IFC Clients:
Findings from micro case studies in MAS

Ruchira Kumar (CDI)
Hayat Abdo (MAS)

Development Impact Department, IFC
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Outline

- Strategic importance and objective
- Methodology
- Key findings
- Case details
- Lessons learnt and implications
Why Jobs?

• The poor consider a job as the most important pathway out of poverty

• The private sector - and IFC - play a pivotal role in fostering growth and job creation; it provides about 90% of jobs in developing countries.

• Currently, about 200M people are unemployed, more than 600M additional jobs must be created by 2020 to halve the global unemployment rate (WDR 2013)

How IFC?

• IFC facilitates job creation through engagement with private sector clients.

• Monitoring (DOTS) captures the direct jobs among clients. Indirect job creation effects are more difficult to track; special studies needed

• MAS clients can be capital intensive; direct jobs are few but potentially significant employment effects in the value chains

Micro case studies are an attempt estimate these effects, as part of IFC’s overall study on ‘Assessing Private Sector Contribution to Job Creation’
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Methodology

- **Client Selection** is easier said than done! Identification of clients done keeping in mind regional and sectoral coverage, and willingness of relationship managers and clients to engage

- **Follow the money……or labor!** Identification and analysis of the key cost drivers or most labor intensive components in the client’s supply and distribution chain

- **Distinguish main suppliers & distributors.** Identification of suppliers and distributors for whom IFC clients are major share of business

- **Interviews and data collection.** Face to face interviews with select identified suppliers and distributors on employment and growth trends from before year of IFC’s engagement, and with key client departments, secondary client financial data and country statistics
The Five Case Studies

SAFAL (Steel, Kenya)

PRAN (Agribusiness, Bangladesh)

OCL (Cement, India)

MRIYA (Agribusiness, Ukraine)

ECOGREEN (Chemicals, Indonesia)
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Key Findings

**Direct Employment**
- Direct jobs created by the clients *mostly skilled* in nature
- Established on the job and classroom training programs by all clients resulted in skill building

**Indirect Employment**
- Significant Indirect jobs compared to direct job creation after IFC’s engagement
  - Range of multipliers vary across clients from 7 to 25
- Share of incremental indirect jobs *vary* across clients in supply & distribution
- Large *unskilled* share in indirect jobs compared to direct employment

**Poverty Reduction Effects**
- **Jobs**: Indirect jobs, mostly unskilled in nature or largely rural provided source of employment in areas with few alternate opportunities
- **Removing Access Constraints**: Addressing access constraints likely helped improve productivity and hence incomes
- **Products for the Poor**: Affordably products likely expanded reach to poor
- **Knowledge Spillovers**: Likely transfer effects of training for client employees, and of exposure to best practices for labor in supply & distribution chain
Significant Indirect Job Creation

* The indirect jobs for Safal do not include 24,000 jobs in distribution channels that were created due to inability to attribute to IFC investment
Range of Multipliers for Jobs Created

<table>
<thead>
<tr>
<th>Direct Jobs</th>
<th>Indirect Jobs</th>
<th>Multiplier</th>
<th>Sector, Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mriya</td>
<td>2505</td>
<td>7390</td>
<td>3</td>
</tr>
<tr>
<td>PRAN</td>
<td>294</td>
<td>2198</td>
<td>7</td>
</tr>
<tr>
<td>Ecogreen</td>
<td>177</td>
<td>3646</td>
<td>21</td>
</tr>
<tr>
<td>OCL</td>
<td>293</td>
<td>7156</td>
<td>24</td>
</tr>
<tr>
<td>Safal*</td>
<td>4200</td>
<td>24000</td>
<td>6</td>
</tr>
</tbody>
</table>

* For Safal, the multiplier is calculated on total jobs provided instead of incremental jobs due to difficulties with attribution.

- Variation in multipliers reflecting sectoral and regional variations, labor intensity of operations, local labor regulations etc

- Hence, emphasis should be on ‘total jobs’ and less on multiplier

- ‘Attribution’ to project only has been attempted, but its difficult to ascertain
Spread of Indirect Jobs across Supply and Distribution Chains

![Graph showing the split of indirect jobs created in supply & distribution for Ecogreen, PRAN, OCL, Mriya, and Safal. The graph compares the number of distribution and supply jobs for each company.](image)
Compared to almost all additional direct jobs being skilled in nature, a large share of additional indirect jobs were unskilled or semi skilled.
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• Methodology

• Key initial findings

• Case details

• Lessons learnt and implications
SAFAL (Steel, Africa)

- Safal owns 4 manufacturing subsidiaries (Kenya, Tanzania, Uganda and South Africa) and 9 Roll-forming centers.
- IFC and Safal have a long-term partnership since 1999.
- In 2007, IFC provided $35 million to support a green-field up to 150,000 TPA* steel coating capacity in South Africa and expansion of coating capacity in Kenya by 35,000 TPA and in Tanzania by 40,000 TPA. This incremental capacity form the basis for estimating incremental job creation.

*TPA-Ton per annum
**Significant Indirect Job Creation Effects in the Distribution Networks**

**Type of Wholesalers and Retailers of Safal Products**

<table>
<thead>
<tr>
<th>Type of Wholesalers/Retailers</th>
<th>Share of Safal Products from Total Sales</th>
<th>Number of Total Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusive Wholesalers</td>
<td>100%</td>
<td>20-55</td>
</tr>
<tr>
<td>Non-Exclusive Wholesalers</td>
<td>50-60%</td>
<td>10-15</td>
</tr>
<tr>
<td>Retailers</td>
<td>20-30%</td>
<td>5-7</td>
</tr>
</tbody>
</table>

**Safal: Direct and Indirect Employment**

- **Direct Employment**
  - Exclusive Wholesalers: 2450
  - Non-Exclusive Wholesalers: 1,750

- **Indirect Employment**: 24,000

**Multiplier of 5 indirect jobs per every direct job supported by Safal**
Potential impact on Poverty due to Job Creation

Production Employees at Mabati Rolling Mills (MRM), Kenya

Monthly wages for Production Employees of MRM

- Skilled: 47%
- Lower Skilled: 29%
- Unskilled: 24%

Case Study 1
Safal Africa
ECOGREEN (Chemicals, Indonesia)

- In 2004, IFC made its first investment in Ecogreen (US$30 million loan), which was solely used for the company’s working capital needs.

- In 2005, IFC provided a US$25 million loan to support Ecogreen’s expansion plan in its Batam manufacturing facility (US$84 million investment).

- Both IFC’s investments contributed to stabilizing the company’s financials and achieving its growth.

- IFC investments helped Ecogreen double its capacity with the current total production capacity of 225,000 tpa.

- An estimated incremental capacity of 115,000 tpa is used as a basis of estimating the indirect employment and induced impacts of Ecogreen’s operations due to IFC engagement.
Indirect Employment Effects is Significant

The **incremental indirect job supported** due to capacity expansion is estimated as follows:

<table>
<thead>
<tr>
<th>Category of Employees</th>
<th>Number (#)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skilled</td>
<td>646</td>
<td>18%</td>
</tr>
<tr>
<td>Low Skilled</td>
<td>2,245</td>
<td>62%</td>
</tr>
<tr>
<td>Unskilled</td>
<td>755</td>
<td>21%</td>
</tr>
<tr>
<td>Total</td>
<td>3,646</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Job Multiplier (on Incremental Basis)** - 21 indirect jobs for every direct job

- Most of the indirect employment effects from suppliers of Palm Kernel Oil (86% of cost of goods sold)
- Since Ecogreen exports 95% of its products using its own jetties (near to the port), the indirect employment from distribution and transport is minimal
Poverty Impact through Direct and Indirect Job Creation

Categories of Direct Employees at Ecogreen

- Management: 36 (5%)
- Other Admin. Staff: 17 (2%)
- Skilled Production Staff: 48 (7%)
- Total: 442 (64%)

Since more than 90% of the employees at Ecogreen are highly skilled, the poverty impact is mostly indirect and induced.

Most of the poverty impacts from indirect employment - 73% of indirect jobs are unskilled and low-skilled, paid above the minimum wages.

Ecogreen: Monthly Wages for Unskilled and Low-skilled Employees

- Minimum Wage Category for Unskilled
- Category of Workers: Unskilled, Low-skilled
MRIYA (Agribusiness, Ukraine)

• MRIYA is an agricultural group producing a diversified crops including wheat, corn, rapeseed, buckwheat, potatoes and sugar beets.

• IFC provided MRIYA two loans in 2010 and 2011, totaling $60 million, to help MRIYA expand its capacity and finance working capital needs.

• MRIYA’s production volume went from 1.8 million MT in 2009 to 3.4 million MT in 2011.

• An estimated incremental capacity of 1.6 million MT is used as a basis of estimating the indirect employment effects of MRIYA’s operations due to IFC engagement.
Between 2009-2011, the number of domestic suppliers increased from 22 to 59, of which 16 companies rely on Mriya for more than half of their revenue.
Employment Effect Due to Expansion

- Mriya’s expansion helped create about 7,400 indirect jobs between 2009-11.

- Seasonal workers includes subsistence farmers involved in the agricultural production and other manual jobs at the Mriya’s operations.

- The multiplier: 3 indirect jobs created for each direct jobs
High level of rural poverty in areas Mriya operates: Western Ukraine has the highest poverty rate, with 24% living below the poverty line ($1 a day). Average monthly income of $250-275 in Western Ukraine compared to $525 in Kiev.

Job creation in rural areas as a way out of poverty: Mriya provides job opportunities to about 3,500 subsistence farmers in the region, creating a source of income other than farming. Mriya pays 5-10% more than the regional averages. All the construction contractors are also unskilled (30%) and low skilled (70%)

Strong gender impact: Expansion of Mriya’s operation resulted in greater participation of women in its work force (21% of Mriya’s employees are female). Also 30% of seasonal workers are women, who are mostly subsistence farmers.

Provision of training: Mriya set up a training school to provide skilled processes that allowed staff to move to higher paid positions.

Specialists inspecting seeds at a new silo in Derenivka
OCL India (Cement, India)

• In 2007, IFC part financed capacity expansion of one cement plant & setting up of another greenfield clinker grinding facility in Orissa in the eastern region of India

• Loan size of $50 mn (project cost $196 mn) for incremental capacity of 1.9 MT.

• Greenfield plant became fully operational in 2008

• Job creation effects studied for the period between 2008 and 2011 to attribute to IFC’s support
Supply/Distribution Chain Components Studied And Incremental Job Effects

Case Study 4: OCL India

IN PLANT CONTRACTING SERVICES

- Inputs: 1150
- Processing: 292
- Bagging: 300
- Distribution: 4628

TRANSPORTATION AND LOGISTICS

- 790

Colors:
- Red: Direct Jobs
- Gray: Indirect Jobs
Case Study 4: OCL India

Employment Effects due to OCL Expansion

- Based on jobs created, multiplier of ~25 indirect jobs per direct job
- For every US$ mn invested, 1.5 direct jobs and almost 40 indirect jobs created
Case Study 4: OCL India

Potential impact on Poverty due to Job Creation

- Poverty Rate: 2nd highest rural poverty rate among Indian states: 60%
- One of the highest unemployment rates of ~10%

OCL expansion between FY08 and FY11 has created close to 5000 unskilled jobs paying around state minimum wages; and another ~2000 semi skilled jobs.
PRAN (Agribusiness, Bangladesh)

IFC Engagement

• IFC provided financing to PRAN in FY08 and FY11 of cumulative US$21 mn. Of this, about US$ 9 mn was to dairy operations

• Total project cost of US$65 million to expand operations and support working capital requirements.

• Incremental capacity of milk processing of 50,000 liters/day between 2008 and 2011 form the basis for analysis

PRAN’s Dairy Business

• Dairy operations began in 2004 in small scale; only UHT

• In 2009, PRAN was one of the top 3 domestic producers of milk; UHT, pasteurized and milk powder, yoghurt, ghee (clarified butter)
Dairy Value Chain & Jobs Created

- Dairy Farmers: 1438
- Agents: 85
- Milk Collection Centers & Dairy Hub: None
- Dealers: 675
- Retailers: 294

Direct Jobs: None
Indirect Jobs: 675

Case Study 5
PRAN
Employment Effects due to Expansion

- Based on jobs created, multiplier of ~ 7 indirect jobs per direct job
- For every US$ mn invested, 5 direct jobs and almost 35 indirect jobs created
Poverty Reduction Effects of Operations

- **Jobs as a path out of poverty**: Large share of job creation in rural areas (rural poverty rates ~ 35 percent)

- **Improving farmer productivity** with increased incentive to switch to dairy farming: Extension services provide access to market, access to training, state of art technology and processes with spillover effects

- **Access to affordable products to the poor**: Provision of UHT milk and smaller sized packets with greater reach to the poor

- **Provision of training**: PRAN’s dairy academy, recruitment of international dairy experts and on the job training provides access to skills with potential cascading effects across value chain

Photo: Hygiene & sanitation assistants at a MCC in PRAN; women who consider working at PRAN the only stable and dignified employment option in the village
Lessons and Implications

- **Looking at direct jobs only may miss the point.** Evidence suggests large indirect job effects of clients. Systematic assessment of these through similar case analyses along with more in depth evaluations would be useful.

- **Replication** of similar cases could prove beneficial in identifying viable multipliers for sectors as a tool for future tracking of indirect jobs.

- **Value chain encompasses large employment effects.** Explore ways to work with clients on strengthening the supply chain linkages by removing access constraints, which will also positively influence job creation.

- **Evidence of poverty impact in value chains.** Identification of direct and indirect transmission links to poverty reduction important while considering impact of a project, specifically in the value chains.

- Cases could highlight the competitive advantage of both IFC and client. Explore a collaborative approach to these studies.
THANK YOU!

RUCHIRA KUMAR, rkumar10@ifc.org

HAYAT ABDO, habdo@ifc.org

www.ifc.jobcreation