World Bank Group Enterprise Surveys data shows that small firms in developing countries have increased their share of total employment relative to medium-size and large firms. Overall, the share of small firms (5-19 workers) in total employment has increased by 3.7 percentage points (in a two-year period). Employment shares of medium-size firms (20-99 workers) increased by only 0.2%, whereas large firms (100+ workers) have decreased their share of total employment (by 3.9%). The increase in the share of small firms’ employment was highest in low-income countries, and lowest in high-income countries. Net job growth was positive across all firm sizes.

Results are more heterogeneous across regions. Small firms increased their share of total employment in all regions; in Sub-Saharan Africa (AFR) and East Asia and Pacific (EAP) the increase in employment was compensated by a decrease in both medium-size and large firms total employment shares. In contrast, in Eastern Europe and Central Asia (ECA) and Latin America and Caribbean (LAC), only large firms decreased their share of total employment. In Sub-Saharan Africa, particularly, small firms increased their share of total employment significantly in multiple countries, including Liberia, Democratic Republic of Congo, and Guinea-Bissau. These three countries had the highest increases in employment shares of small firms for the overall sample (increases of 17, 12.6, and 12.5 percentage points, respectively). It is interesting to note that in AFR and EAP, total employment share of small, medium-size and large firms is about one-third each, whereas in ECA and LAC small firms have the smallest shares and large firms the highest (Figure 1).

Overall, the study found that small firms increased their share of total employment, medium-size firms experienced little net change, and large firms decreased their share. These results hold even after controlling for the age of the firm. As expected, young, small firms increased their share in total employment the most, by 5.6 percentage points. Young, large firms experienced a large decrease (-6.9%).

For manufacturing firms, the increase in the share of small firms in total employment is slightly lower than the overall increase (2.8%), and the increase in the share of medium-size firms is slightly higher (0.4%). On the other hand, small firms in the services sector increased their share of total employment (by 4.1%), while the share of medium-size firms declined (by 0.6%). In both sectors, the share of large firms in total employment decreased by about 3.5%.

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Figure 1: Share of Employment by Region (in %)

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

Figure 2: Difference in Contribution to Employment between Year t and Year t-2 by Country Income Category (in percentage points)

Source: Enterprise Surveys.
and young, middle-aged firms experienced a small decrease. In addition, old firms experienced the least change in the relative share of total employment by different firm size. Small-size, old firms increased their share of total employment by only 2.1%; medium-size, old firms increased their share by 0.5%; and large, old firms decreased their share by a relatively small 2.7%.

Small firms increased their average employment shares across all country income groups, but the extent of the increase was smaller the higher the country income group. On the contrary, large firms decreased their share in all country income groups. The increase in employment shares by small firms in low income countries stands out when compared to the other income groups (Figure 2). In addition, in low income countries small firms have the highest employment shares than in the other income groups (38% vs. 27% of lower-middle, 21% of upper-middle and 20% of high-income countries).

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. 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.

The share of employment of firms in a particular subcategory in a given country is calculated as the number of employees in firms in the subcategory divided by the total number of employees in all firms in the country. In order to find the share of employment for a subcategory across countries, the simple average across countries was used. The share of employment for subcategories in different countries was calculated both for the most recently completed fiscal year and for the fiscal year that occurred two years before. The difference in the share of employment for a given subcategory is calculated as the share of employment of the subcategory from the most recently completed fiscal year minus the share of employment of the subcategory two years before.

References


Endnotes

1 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 recent fiscal year before the survey and the fiscal year two years before the most recent one. 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.

2 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 and age definitions used in these studies are different.

3 Age categories are defined as: young firms (1-5 years), medium-aged firms (6-15 years), and old firms (16+ years).

4 Across World Bank funding categories (IDA vs. non-IDA) these results also hold. However, only in IDA countries (with very low per capita income) do small firms have the highest share of employment (36 % vs. 20% of IBRD and 22% of IDA-IBRD blend countries).

5 List of countries available upon request.

6 About 4% of small firms in the sample had less than 5 employees in the baseline year.