Data from IFC’s Development Outcome Tracking System (DOTS) show strong job growth for companies financed through IFC-supported private equity (PE) funds. The nearly 500 companies covered in this analysis — in which the funds had invested about $4.0 billion, of which more than $400 million or 10% in financing came from IFC — created nearly 300,000 jobs between 2000 and 2010. Though job growth rates were higher for smaller companies, most jobs were created by larger companies. Job creation was also strongly and positively correlated with the returns of the funds, showing that good financial performance did not come from cutting jobs, but from expanding companies — their valuations, revenues, and jobs. The best job creation occurred when fund managers worked with companies with which they were familiar.

The sample for the Development Outcome Tracking System (DOTS) consists of:

- 69 PE funds classified as growth equity funds.
- 596 companies in which these funds had invested between 1/1/2000 and 12/31/2010.
- 494 of these companies that had reported information on jobs (83% of investments).
- Total investments by the funds in these companies were $4.0 billion.
- The portion of IFC investment in these companies was $405 million, or 10% of the total.

Here a small or medium-size enterprise (SME) is defined as a company with at least two of three characteristics:

- Less than or equal to $15 million in revenues.
- Less than or equal to $15 million in assets.
- Fewer than or equal to 300 employees.

### SUMMARY OF STATISTICS FROM THE SAMPLE

<table>
<thead>
<tr>
<th>STATISTICS</th>
<th>SMEs</th>
<th>LARGER FIRMS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of companies</td>
<td>306</td>
<td>188</td>
<td>494</td>
</tr>
<tr>
<td>Fund investment</td>
<td>$1.3 billion</td>
<td>$2.7 billion</td>
<td>$4.0 billion</td>
</tr>
<tr>
<td>IFC portion of investment</td>
<td>$158 million</td>
<td>$247 million</td>
<td>$405 million</td>
</tr>
<tr>
<td>Jobs created</td>
<td>54,643</td>
<td>239,149</td>
<td>293,792</td>
</tr>
<tr>
<td>Fund investment per job created</td>
<td>$25,000</td>
<td>$12,000</td>
<td>$14,000</td>
</tr>
<tr>
<td>IFC portion per job created</td>
<td>$3,000</td>
<td>$1,100</td>
<td>$1,400</td>
</tr>
<tr>
<td>Job growth rate</td>
<td>18.0%</td>
<td>9.7%</td>
<td>14.7%</td>
</tr>
</tbody>
</table>

Sources: IFC’s management information systems, including DOTS
Investment by PE funds helped stimulate significant job creation

DOTS data were available for 494 companies, representing $405 million of IFC investment capital. These companies have created 293,792 jobs and currently provide, or at the time of exit by the funds provided, 724,478 jobs. For a subset of companies, employment data by gender were available. This subset of companies employed about 170,000 women, which represented 41% of jobs.

PE funds have been able to leverage IFC's financial resources to drive job growth and to extend IFC's reach by providing capital to SMEs (which accounted for 306 of the 494 companies). In Sub-Saharan Africa and South Asia, three-quarters of investments by PE funds were in SMEs (figure 1). The PE funds have produced strong financial returns that compare favorably with the Cambridge Associates Private Equity Benchmark.

Expansion-stage companies created the most jobs

The companies that created the most jobs in absolute terms tended to be established businesses in an expansionary stage. In the portfolio of PE funds, the biggest job creators were in services. The largest job creation occurred in a retail chain for women’s shoes in China. It created more than 70,000 jobs in over six years, starting at 17,000 and growing to over 87,000 employees (with an annualized job growth rate of 29.5%). Another investee, a commercial bank in China, created more than 22,000 jobs, more than doubling employment from fewer than 21,000 employees to more than 43,000 in just over five years (job growth rate of 14.8%). A third, a restaurant franchise operator in Latin America, created more than 22,000 jobs, starting with about 64,000 employees and growing to more than 86,000 in less than two years (job growth rate of 22.1%).

Collectively, the 114,000 jobs represented by these three companies account for more than one-third of the jobs created by the PE funds in the portfolio. This group also accounted for the largest employer of women, with the restaurant franchise reporting 49,000 women employees (57%). Given the nature of the business, it is not surprising to see this sector account for the most jobs created.

All these companies started with many employees and high revenues. The companies were established and operating when they raised money from the investment funds. IFC capital was leveraged and supported by other investors’ money to achieve the impressive job creation results. While these companies did not experience the high job growth rate that many start-ups experienced, they did create more jobs than other companies in the dataset (figure 2).

Job creation in the portfolio mirrored regional economic activity during the timeframe. The three highest job creators were in China and Latin America. These companies took advantage of economic growth happening in their locations to support the expansion of their businesses.
Small and medium-size enterprises grew fastest

Though in absolute terms larger enterprises created more jobs, the fastest job growth rates came from smaller companies (figure 3). Investments by PE funds in SMEs produced a growth rate of 18% or almost twice the rate of job growth in non-SMEs (9.7%).

There was great variation among results for SMEs but a clear pattern emerged, showing that as companies got larger, the growth rate slowed. Small companies (employing up to 19 workers) and medium-size companies (20-99 employees) had job growth of over 20%. As companies got larger, it became more difficult to maintain such aggressive growth, and growth rates fell to 11% or less.

Identifying and supporting winners is a powerful strategy for PE funds. A cosmetics company in China started with 60 employees and within four years had more than 9,200 (job growth rate of 284%). Another SME, a transportation company in India, started with 99 employees and in just over two years had more than 1,500 employees (job growth rate of 239%). These are examples of the fast job growth rate that can be achieved by SMEs, which is one reason why investors are interested in them. These two companies’ employment creation numbers are dwarfed by any of the expansion-stage companies discussed earlier. However, none of the high job creation companies comes close to the growth rates exhibited by these companies.

PE funds combine capital and expertise to drive returns

Fund managers’ incentives are aligned with the successful performance and exit of portfolio investee companies. Fund managers provide capital, guidance, contacts, and resources to support their companies. This alignment of incentives is created by the bonus structure of the PE industry. The incentives explain why fund managers are willing to put in time, networking, talent, and capital to help their investee companies succeed. The data show that PE funds can help drive the growth and development of their portfolios.

Some fund managers support a company in an earlier fund and then follow on with investment capital from successive funds. One example is an African telecom company. It was a start-up in 2001 but grew to 2,200 employees with $4 billion in revenues in 2010. This growth was assisted by multiple investments from the fund management team that ran several funds in Africa. Three funds invested in the company for a total of $4.5 million. The first fund was considered an SME fund; the other

Figure 3: Smaller companies had faster job growth rates

<table>
<thead>
<tr>
<th>Employees at Time of Investment</th>
<th>Job Growth rate (CAGR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 20 Employees (117 Companies)</td>
<td>25%</td>
</tr>
<tr>
<td>20-99 Employees (110 Companies)</td>
<td>20%</td>
</tr>
<tr>
<td>100-300 Employees (107 Companies)</td>
<td>15%</td>
</tr>
<tr>
<td>+301 Employees (160 Companies)</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: DOTS

Figure 4: Fund returns and job creation are positively correlated

\[ y = 3.438x + 2.461 \]

\[ R^2 = 0.264 \]

Sources: IFC’s management information systems, including DOTS
two funds were considered expansion funds. The company grew with each investment and the fund managers continued to support a very successful company through several rounds of financing.

In the Middle East a management team also invested in a company with multiple funds. The fund team worked with a pharmaceutical company when it had 10 employees in 2002. Making follow-on investments with succeeding funds, the funds and the company grew together. By the end of 2010, the company had received several rounds of financing, hired more than 400 people, and was generating over $30 million in revenues.

Fund managers typically support portfolio companies by sitting on the boards of their companies, giving guidance and direction. The manager usually helps by providing contacts to customers, suppliers, and other groups along supply or distribution chains. Business models that can fully utilize the financing, support, resources, and relationships of investment managers are best suited for investment by PE. These are the scenarios where the fund managers can have the greatest influence on a successful investment, and the company can have the greatest impact for their investors.

Fund performance and job creation are correlated

Among the PE funds in this sample there was a strong positive correlation between fund returns and job creation. This indicates that good financial performance can accompany expanding companies, their valuations, revenues, and jobs. Figure 4 shows the linkage at the fund level.

Conclusion

PE activity has created jobs. This segment of the portfolio reaches into many countries, regions, and industries. For strong job creation, both investments in smaller companies (that enjoyed higher job growth rates) and subsequently in expansion-stage companies, probably in services or a customer-facing operation, were important. There was a strong positive correlation between fund returns and job creation, indicating that job creation can be achieved without sacrificing financial returns.

Endnotes

1. Average Jobs Compound Annual Growth Rate (CAGR) used.
2. Includes start-ups and new ventures.
3. Covers 446 companies with investment information.
4. R² value 0.26, or 26% of the variation in job growth is explained by variation in returns.

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