

2019

# Decent Work and Economic Growth in the SGB Sector

ANDE Issue Brief

 Aspen Network of  
Development Entrepreneurs



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## About **ANDE's Issue Briefs**

This issue brief, part of a series published by ANDE in 2019, is designed to create a common knowledge base from which the Small and Growing Business (SGB) sector can work in the hopes of advancing towards selected development goals. Each brief highlights how SGBs can play a critical role in this progress. This series is meant to act as a starting point to drive the conversation forward and shape ANDE's strategy regarding each of these key issue areas, with the acknowledgement that this is not an exhaustive collection of the research/literature on these topics.

# OVERVIEW

Small and growing businesses<sup>i</sup> (SGBs) are critical to the achievement of SDG 8: Decent Work and Economic Growth. In emerging markets, young and high-growth firms are net job creators and small and medium enterprises (SMEs) employ the majority of the workforce. This brief examines how the SGB sector can contribute to Goal 8 and how SGB support organizations can best help them do so by examining the following topics:

- 1 SGBs as job creators in emerging markets;
- 2 SGBs as drivers of economic growth in emerging markets; and
- 3 SGBs and the changing nature of work

The following sections provide more detail on each of these themes, followed by specific strategies that sector organizations can take to drive change.

## KEY TAKEAWAYS

- High-growth businesses account for a disproportionate amount of net job creation in emerging markets, and these businesses are likely to fit the profile of an SGB: young, often small at the outset, and growth-oriented. However, the quality of jobs created by these businesses is uneven and an area for increased scrutiny and support by the SGB sector.
- Having a large share of “opportunity entrepreneurs,” or those that are starting a business to take advantage of a market opportunity rather than out of necessity, is associated with stronger economic growth at the country level.
- Managerial talent development represents a relatively under-supported area for supporting SGB growth and decent job creation.
- The SGB sector must deeply consider the ways that technology will impact the workforce of the future, and consciously engage with both the promise and peril of emerging trends such as the “gig economy.”

<sup>i</sup> Small and Growing Businesses (SGBs) are defined by ANDE as commercially viable businesses with five to 250 employees that have significant potential, and ambition, for growth. Typically, SGBs seek growth capital from \$20,000 to \$2 million.

# CURRENT EVIDENCE BASE

## SGBs as job creators in emerging markets

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While there is little research that focuses specifically on SGBs as defined by ANDE, there is significant evidence showing that a relatively small number of high-growth firms have a disproportionate impact on job creation in emerging markets. Using country-specific data from Latin America, South and Southeast Asia, Central Asia, Eastern Europe and sub-Saharan Africa, the World Bank finds that high-growth firms account for between three and 20 percent of firms in the manufacturing and service industries, though are responsible for more than 50 percent of new jobs in these industries.<sup>9</sup> Other country-level studies show similar effects, with “one study of 925 Colombian companies using the World Bank Enterprise Surveys [finding that] high-growth firms represented 8 percent of Colombian SMEs in 2010, but accounted for 45 percent of new job creation.”<sup>9</sup> This reflects well-studied trends in Organization for Economic Co-operation & Development (OECD) economies, as well: “In the United Kingdom, 6 percent of all firms with 10 or more employees created 54 percent of jobs between 2005 and 2008 (Anyadike-Danes et al. 2009). Likewise, in Sweden, 6 percent of the firms created 42 percent of jobs over the same period (Daunfeldt et al. 2013), while in Finland fewer than 5 percent of firms created 90 percent of jobs during 2003–06 (Deschryvere 2008).”<sup>9</sup>

Although a firm can show high growth at any size and age, those seeing the biggest gains tend to be young and are often small, though the relationship between size and growth is a subject of continued debate. The comprehensive World Bank analysis of emerging markets found that younger start-ups are significantly over-represented among high-growth firms, while the effect of firm size on growth was less clear.<sup>9</sup> Similarly, a job creation study on firms in Tunisia found that “age matters more than size”<sup>3</sup> in predicting employment growth potential. However, a broader study on developing countries showed stronger evidence for the specific contribution of smaller firms to job growth, finding that “young firms are the fastest growing and large mature firms have the largest employment shares[,] but small young firms have higher job creation rates.”<sup>4</sup> While the specific combination of firm age and size that is most associated with growth and job creation remains a subject for further study, it is clear that the development of new, dynamic, growth-oriented businesses plays an outsized role in net job creation in emerging markets.

Nevertheless, while SGBs are important job creators, these jobs can be less stable than more established firms; a study examining job volatility found that small firms are more likely to exit the market, which leads to increased employment volatility.<sup>5</sup> However, SGBs often provide relatively high-paying jobs when the firm is successful enough to maintain them, with an examination of start-ups in developing countries finding that “jobs created by growth entrepreneurs tend to pay higher wages than national averages, and employees report higher levels of job satisfaction.”<sup>8</sup>

## SGBs as drivers of economic growth in emerging markets

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Empirical evidence on the impact of SGBs on economic growth, compared to job creation, is more nuanced, especially in developing country contexts.<sup>6</sup> However, many studies show a strong link between measures of growth-oriented entrepreneurship and national economic growth.

In a study of 37 Global Entrepreneurship Monitor (GEM) countries, which includes a mix of low, medium, and high income economies, entrepreneurs with “high-growth potential” had a positive effect on economic growth, while other entrepreneurial activity either had no effect or a negative effect.<sup>7</sup> In its study, GEM found that the differentiating factor between entrepreneurs that contribute to and detract from a country’s

economy is the motivation behind creating a venture. “Opportunity entrepreneurs” perceive demand for a certain product or service and take advantage of that market opportunity to start a business, as opposed to “subsistence entrepreneurs,” who seek employment out of necessity due to lack of job opportunities with established or formalized companies, and are often unregistered businesses that operate informally.<sup>1</sup> SGBs fall under opportunity entrepreneurs, as they are defined by their ambition and potential for high growth. This distinction is important in setting the agenda for support intermediaries working in emerging markets; these organizations can add value by transforming “self-employment or low value-added new ventures for local markets into strong, innovative networked firms competing globally.”<sup>2</sup>

## SGBs and the changing nature of work

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Globalization and digital innovation have had significant impacts on labor markets worldwide. Technology has disrupted the labor market by fulfilling many needs that used to be filled by human capital, shifting demand away from unskilled labor to higher-skilled workers. Although this shift has an initial negative effect on workers in disrupted industries, in the long term, the increased demand for skilled labor creates opportunities for “safer, less physically arduous, more stimulating” jobs that provide greater independence for employees.<sup>10</sup> However, in the interim as the economy adjusts, there is significant risk of unemployment for workers in vulnerable sectors including manufacturing, logistics, healthcare, construction, transport, and e-commerce.<sup>12</sup> This is especially alarming for emerging economies, where a large percentage of the population is coming of working age and will need to gain skills relevant to the new economy.

Innovative startups that provide more efficient and structured connections between supply and demand for services offer a potential counterforce to job loss from digitization. In more developed economies, this new and growing “gig economy”<sup>ii</sup> is replacing formerly stable and formal jobs with more precarious, though more flexible, contract work. However, in the developing world, however, low-productivity informal work currently is the norm in many sectors, meaning that this trend can instead provide a “progressive onramp to formalization” of jobs.<sup>14</sup> As a CDC Group analysis notes, “the gig economy has the potential to complement efforts to increase formal employment and provide another avenue to meaningful engagement with the formal economy.”<sup>13</sup> One of the most successful examples of technology facilitating such formalization is M-PESA, a mobile money transfer service, which “has enabled millions of informal sector workers to move money at a lower cost, [providing] a significant boost to the Kenyan and Tanzanian economies.”<sup>11</sup> Nevertheless, going forward it will be important to consider potential negative consequences of the rise of the gig economy for formally employed workers, such as “the decline of unions and weakened workers’ bargaining power, the erosion of norms on pay equity, and reduced job security.”<sup>10</sup>

<sup>ii</sup> [Defined by Oxford](#) as “a labor market characterized by the prevalence of short-term contracts or freelance work as opposed to permanent jobs.”

# STRATEGIES

## Consider talent development as a critical part of building effective entrepreneurial ecosystems

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An important part of helping enterprises cross the threshold into high-growth businesses and provide good jobs is fostering the local labor market and ensuring SGBs can find and develop their human capital. The World Bank has found that higher pay and a focus on management and employee talent is a critical driver of growth for firms in Brazil,<sup>9</sup> while the African Management Initiative (AMI) has shown that talent-focused programming leads to better business performance among African companies.<sup>15</sup> ANDE has already supported some testing of talent development models through the Argidius-ANDE Talent Challenge (AATC), through which five organizations were selected to conduct pilot programs to recruit, develop and/or retain effective managers.

One of the key findings from the challenge is that SGBs often undervalue middle management, which leads to under-trained staff and higher turnover at that level. Organizations directly supporting SGBs can incorporate more middle management talent-focused components into their programming. Developing middle management talent and supporting SGB leadership's ability to invest in and train staff at that level is critical to the sustainable growth of enterprises, something capacity development providers can prioritize in their interactions with SGBs. On a broader ecosystem level, collaborations among support organizations focusing on providing labor market services such as "vocational training programs and employment service agencies"<sup>18</sup> will help grow the talent pool, increasing capacity in the ecosystem more broadly.

## Track and support the development of quality jobs

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Often, the primary measure of success for investors in SGBs is growth in revenue or profit, without intentional or explicit consideration for job creation or contribution to sustainable economic development. Many investors focus on information and communications technology (ICT) companies, for example, which may experience revenue growth without a proportional increase in jobs. While there is strong evidence that young, small, and fast-growing firms are disproportionate job creators, some of these fast-growing start-ups are more focused on job creation than others. SGB supporters who want to see job creation should explicitly consider this as a requirement when deciding which entrepreneurs to support, whether as investors, donors, or technical assistance providers.

An SGB support strategy focused on job creation should also consider job quality. Measuring success must go beyond employment statistics to ensure long-term economic sustainability for local markets. Looking at quality beyond quantity is important, as quality relates to level of earnings and job security, which translates to community development. From the business perspective, not meeting certain job quality standards can affect employee motivation, productivity, and ultimately well-being.<sup>17</sup> According to a study conducted by Insight at Pacific Community Ventures (PCV InSight),<sup>16</sup> there are five indicators that help measure job quality:

- 1 A Living Wage.** Determining whether an SGB is providing its employees a living wage requires collecting and benchmarking wage data. However, collecting and providing data on wages can potentially be a burden for SGBs, especially those that do not use a formal payroll system, and is therefore something that support organizations can incorporate into programming.

- 2 Basic Benefits.** Benefits are especially important for lower-paying jobs or laborious jobs, as workers are exposed to greater health risks and may need more non-salary-based support. PCV InSight's research finds that the three most important benefits to workers are paid leave, health insurance, and retirement plans.
- 3 Career-Building Opportunities.** This includes professional development opportunities as well as a clearly defined career path (when possible) that allow employees to grow professionally and in their current role.
- 4 Wealth-Building Opportunities.** Once the criteria of a living wage has been met, wealth-building opportunities, such as profit-sharing arrangements, provide additional incentives for employees as it allows them the ability to achieve more long-term financial security and savings opportunities.
- 5 A Fair and Engaging Workplace.** Creating a working environment attentive to employee needs can increase job satisfaction and professional fulfillment. Employers should respect their employees and ensure staff understand how they are contributing to the organization's mission. Dependable and flexible schedules are also important to ensuring employee wellbeing.

Support organizations have a significant role to play in helping SGBs create high quality jobs including offering training and resources for employers and managers to implement these components successfully and cost-effectively. Investors interested in job quality can incentivize investee companies to track and report on job quality, which may require providing resources for SGBs to collect and report more comprehensive jobs data.

## Engage the gig economy, but consider both its promise and peril

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The gig economy presents both unique opportunities and challenges in emerging economies. As is true in more developed economies, the gig economy can provide expanded work opportunities and flexibility that cannot be matched by many other careers, which is particularly relevant for women. However, one of the greatest downfalls of the gig economy, particularly in emerging economies, is that it does not necessarily offer quality jobs, often lacking benefits, high salaries, or attention to job satisfaction. SGB support organizations working with gig economy-focused start-ups should carefully consider the potential effects of the growth of these platforms and closely monitor both their intended and unintended consequences.

## Support or implement research and measurement on the dynamics of job creation among SGBs

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While there is ample evidence that young, small, fast-growing firms spur economic growth and create a disproportionate number of jobs, it is not as clear which other characteristics—such as sector, founder characteristics, etc.—drive the most job creation within this group. Certain firm-level characteristics such as incorporation of technology, a focus on exports, and a close connection to urban centers and sector networks have been linked with firm growth,<sup>9</sup> but more research is needed to be able to better identify firms likely to create decent jobs. Funders interested in job creation can support research that focuses specifically on better understanding the characteristics of SGBs that drive the development of more and better jobs. SGB support organizations can track and analyze data on the firms that they support to understand where their own work is most effective at driving job growth, and partner with researchers to provide data that can be used in larger research efforts on job creation.

# RELEVANT METRICS

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In order to track and demonstrate progress on job creation and quality, the SGB sector will need a common set of indicators. The UN defines specific targets and indicators to measure progress towards each SDG. Since the goals were originally designed as national targets for countries to work towards, many of the indicators are not tailored for the private sector. However, organizations like the Global Impact Investing Network (GIIN) have designed metrics systems that align with the SDGs. While the metrics below are from the SDGs, other relevant metrics can be found through the GIIN's IRIS+ catalogue of metrics.<sup>iii</sup>

## Relevant SDG Targets and indicators for SGBs creating jobs

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- 1** 8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
  - a. 8.3.1: Proportion of informal employment in non-agriculture employment, by sex
- 2** 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value
  - a. 8.5.1: Average hourly earnings of female and male employees, by occupation, age and persons with disabilities
  - b. 8.5.2: Unemployment rate, by sex, age and persons with disabilities

## Relevant SDG Targets and Indicators for SGBs supporting economic growth

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- 1** 8.1: Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries
  - a. 8.1.1: Annual growth rate of real GDP per capita

## Relevant SDG Targets and Indicators for SGBs engaging in the gig economy

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- 1** 8.6: By 2020, substantially reduce the proportion of youth not in employment, education or training
  - a. 8.6.1: Proportion of youth (aged 15-24 years) not in education, employment or training



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