

Private sector as engine for employment and qualitative growth

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Companies that remain competitive on the market and that fulfil international environmental and social standards stimulate sustainable and thus qualitative growth. They create jobs and income and contribute significantly to government revenues by their tax payments. They process locally available resources and increase the national value added. By producing and exporting internationally competitive products, they contribute to improving the countries' foreign exchange balance and account balance.

In international development cooperation, private-sector activities are therefore increasingly perceived as a key factor in fighting poverty and achieving the Millennium Development Goals.

The inadequate access for companies in developing and emerging-market countries to financing for investments however remains a key constraint on growth. It is therefore DEG's purpose - within the scope of entrepreneurial development cooperation - to promote private enterprise initiative in these countries as a contribution to sustainable growth and to

Qualitative growth defines a conceptual framework for finding solutions that are economically sound, ecologically sustainable and socially just. Qualitative growth means an increase in social welfare, which is reflected in [...], among other things, an enhanced distributive justice, equality of opportunities, social security, peaceful coexistence or the conservation of natural resources.

improved living conditions of the local population. To this end, DEG provides long-term investment capital and advice to private enterprises in more than 80 countries worldwide. DEG only takes on commitments in projects that on the one hand are profitable while on the other hand make an effective development policy impact and are ecologically and socially acceptable. Developmental broad-based and structural impacts can be additionally enhanced by accompanying measures.

Employment - a key developmental effect of DEG's activities

Jobs create income and provide people with new opportunities for a better life, beyond poverty. Receiving a fair income is a fundamental component of a self-determined and dignified life. Jobs contribute to social recognition and integration and can play a key role in overcoming conflicts. In this connection, job creation for young people is of particular importance in order to offer them prospects, thereby tackling social unrest. A sufficient number of suitable jobs additionally helps avoid unintended internal migration as well as emigration and the related loss of know how.

Creating and safeguarding *formal employment* thus constitutes one of DEG's key developmental impacts. Within DEG's investment activity, jobs are created across all sectors in which DEG is active (infrastructure, agribusiness, manufacturing sector and financial sector) - albeit to differing degrees. Traditionally, projects from the agricultural sector regularly create more long-term employment than infrastructure projects do.

The direct jobs created and secured by the project companies are *socially responsible* and generally created on a lasting basis, which guarantees the families a sufficient income. Accordingly, the project companies' hourly wage rates are generally higher than the average wage local employers pay. Furthermore, in each of its investments DEG insists on implementation of and compliance with the IFC Performance Standards¹. This means, inter alia, that the companies co-financed by DEG must undertake to meet the ILO Core Labour Standards. If the standards required by DEG have not been implemented yet at the commencement of the agreement, an action plan is agreed with the project companies which describes the measures required to implement these standards. DEG supports these measures by providing advice. The jobs that are directly secured and newly created through these financing projects are therefore "good jobs", which reduce the number of the *working poor*, thus contributing specifically to socially sustainable, qualitative growth in the partner countries.

Identifying employment effects

Given that employment constitutes one of the key development impacts of DEG's activities, DEG has been *systematically* measuring employment effects as an essential quantitative indicator for all projects both ex-ante and ex-post since 2002 within the scope of its corporate policy project rating (GPR)². In doing so, it has gathered valuable findings over the last ten years. The GPR considers both direct jobs in the project companies (secured or newly created jobs as well as the number of women in the company) and indirectly secured jobs (with suppliers, outgrowers etc.).

In that way DEG could demonstrate that the current investment portfolio of 2010, amounting to 3.4 billion euros, contributed to securing around 800,000 direct jobs in developing and emerging-market countries in the long term. It is expected

¹ See also: *IFC Performance Standards on Environmental and Social Sustainability*, IFC, 2012.

² In 2002 DEG introduced GPR, a sophisticated and complex assessment tool for project evaluation, which measures both the developmental and corporate policy quality of its projects. Developmental effects are highly weighted. GPR measures the (1) long-term profitability of the project, the (2) developmental effects / sustainability, the (3) special role of DEG as well as the (4) return on equity of DEG.

that through DEG's new financings in 2011 alone, around 110,000 direct jobs will be created or maintained by the project companies, with another 130,000 indirect jobs. Furthermore, investments by DEG project companies are anticipated to contribute to government revenues amounting to EUR 790 million p.a. and net foreign currency inflows of around EUR 700 million p.a.

DEG is continuously working on improving its methods of measurement and takes a leading role in harmonising the identification of employment effects within the group of EDFI members (European Development Finance Institutions). Since 2007, EDFI members have jointly been assessing quantitative employment effects.

A particular challenge as regards international impact measurement is the assessment of indirect employment effects. So far, DEG has only determined indirect jobs at the supplier end. In the absence of an appropriate methodology on macroeconomic level, this approach neglects both jobs at the purchaser end as well as the impacts achieved outside the sector (induced employment effects). External experts note that for this reason DEG greatly underestimates the indirect employment effects, generated by its project companies. DEG is therefore testing different approaches in order to fill this information gap. By means of innovative estimation procedures, an external expert put the number of estimated indirect jobs on macroeconomic level, created by six projects from the energy sector alone with an overall commitment volume of around EUR 400 million, at around 160,000, compared to some hundred indirect jobs, at which DEG had put the estimated number of secured jobs.

For the future, DEG additionally works on a systematic recording of the number of created and secured jobs for youth.

SME promotion as a job engine

Small and medium-sized enterprises (SMEs) are considered to be the job engines which additionally contribute to a diversification of employment, both regional and sectoral. Particularly for these reasons, SME promotion is one of DEG's strategic aims. Around 300,000 direct jobs were secured in 2010 by DEG's SME promotion.

But there are a number of additional reasons why the promotion of SMEs is increasingly important to DEG with regard to qualitative growth: By cooperating with German medium-sized enterprises which are international market leaders in their segments ("hidden champions"), new technologies and knowhow are transferred to developing countries. Moreover, local SMEs are able to benefit from the international partners' management expertise in case of joint ventures, which enables them to improve corporate governance-standards and control structures, among other things. In view of the expansion of the SME sector and the positive employment effects which it entails, a specific SME promotion ultimately contributes to poverty reduction in less developed countries, thus achieving greater social justice.

Taxes to ensure sustainable development

Taxes paid by the project companies can be used in the partner countries for governmental expenditure with a development effect in terms of *pro-poor growth*, leading towards, inter alia, improved educational and healthcare systems as well as an improved infrastructure. This helps to raise labour productivity and to achieve higher incomes in the long term, thus contributing to poverty reduction.

Furthermore, foreign exchange earnings by internationally competitive project companies make a significant contribution towards securing the partner country's solvency and stabilising the exchange rate.

Climate - a strategic aim of DEG

Development policy is clearly connected to environment and climate protection. That is why sustainable resource use and the corresponding contribution to qualitative growth is a key component of DEG's commitment. In 2010, climate impact was included as a indispensable strategic aim of DEG. Every project is subject to a detailed assessment of its climate-related impact.

Since 2010, DEG has been supporting small and medium-sized enterprises in expanding climate-friendly technologies in developing and emerging-market countries within the framework of the "International Climate Initia-

tive" of the BMU (Federal Ministry for the Environment, Nature Conservation and Nuclear Safety) and its programme "Climate partnerships with the private sector". In 2010 and 2011, twelve projects with a total financing volume of around EUR 2.7 million were committed in the areas of energy efficiency and renewable energies. Priority areas of promotion were "Energy efficiency India" and "Renewable energies South Africa".

Corporate Social Responsibility

Many of the co-financed enterprises assume a particular share of entrepreneurial responsibility. This "corporate social responsibility" includes, among other things, the provision of insurance benefits, kindergartens, health care stations and training centres as well as the implementation of voluntary environmental protection programmes by the companies.

By doing so, DEG project companies contribute to qualitative growth also beyond their core business.

Conclusion

For a variety of reasons - especially for the creation and safeguarding of jobs - private sector promotion contributes to achieving qualitative growth in the partner countries and can thus be regarded as an engine for employment and qualitative growth.

Further information

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Case study 1 - Qualitative growth through job creation and organic cultivation

In one of the poorest rural regions of China (province of Jiangxi), Jiangxi Jinyuan Agriculture Development Co., a DEG project company founded in 2004, cultivates organically grown rice, freeze-dried organic vegetables and organic fruits which serve both as snack for in between and as food ingredient.

If the province of Jiangxi was viewed separately from China, it would be classified as "low-income country". The project company contributes to eradicating poverty (MDG 1) through the creation of approximately 500 new jobs, thus generating income. Some 18,000 smallholders are additionally integrated indirectly in the project company's value chain. Jinyuan is planning to increase this number by further 3,000 farmers annually. Training measures, among others in husbandry technologies and in the distribution of seedlings, lead to a significant transfer of technology and know-how between the project company and the smallholders. The farmers obtain additional support from the company in the form of advance financing. With its exclusive use of organically grown food products for production, the project company makes a substantial contribution to MDG 7 (ensure environmental sustainability). The sale of organic products helps farmers achieve an income which on average is 15 % higher than it is in traditional agriculture.

In close coordination with IFC, DEG and Proparco (the French development finance institution) each provide a long-term loan to the amount of USD 10 million, thus providing Jinyuan with a solid financial basis for long-term development. This is of special importance due to Jinyuan's remote location where even short-term financing from local banks is hard to obtain.

Case study 2 - Qualitative growth through job creation and corporate social responsibility

The project company Danper Trujillo S.A.C was set up as a processing and export company for tinned asparagus in 1992. It is a joint venture of Peruvian and Danish investors and today Peru's third largest exporter of asparagus. Since 2001, Danper has been diversifying its product range towards high-quality tinned vegetables and the export of fresh asparagus. Among the buyers are leading international supermarket chains. Since 2003, Danper has not only exported the vegetable but also cultivated it.

The labour-intensive vegetable sector particularly offers unskilled workers a possibility of earning a living for themselves and their families: a major contribution to poverty reduction. Danper has a staff of around 10,000, complemented by another 200 indirect employees with suppliers of asparagus, artichokes and sweet pepper. The company pays above-average wages and excels by its social commitment. It supports, for example, the neighbouring villages in improving their waste management and refurbishing the village schools. Danper is certified according to internationally acknowledged hygienic, environmental and social standards. A sophisticated drip irrigation system and a closed circulation system applied on the plantations as well as in processing guarantee resource efficiency.

On top of this, the project helps to achieve MDG 3 "Promote gender equality and empower women", given that roughly 50 % of Danper's staff are women which additionally have access to appropriate psychological support and health care. With the company's medical services, especially with the services provided to expectant mothers, the project makes a contribution towards reducing child and maternal mortality as well as chronic diseases.

The project company requires debt capital in order to expand the already existing asparagus fields. The possibilities of obtaining long-term financing from local banks, however, are scarce, given the limited collateral that the project company is able to offer. For this reason, DEG has been assuming the role as long-term capital lender since 2008, providing a long-term loan of 10 million US-dollars.



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