Foundations for Private Sector Growth: Lessons for Middle Income Countries

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Motivation

- Firms create output and jobs
- When firms become more productive output increases.
- When more productive firms grow, output and jobs grow.

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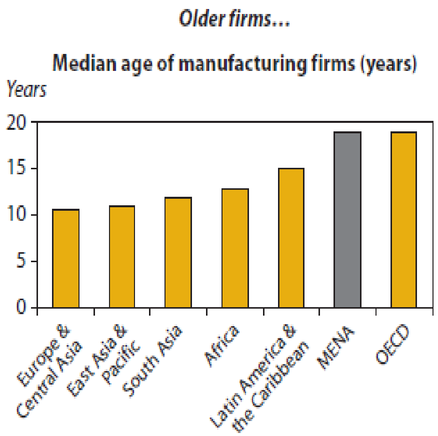
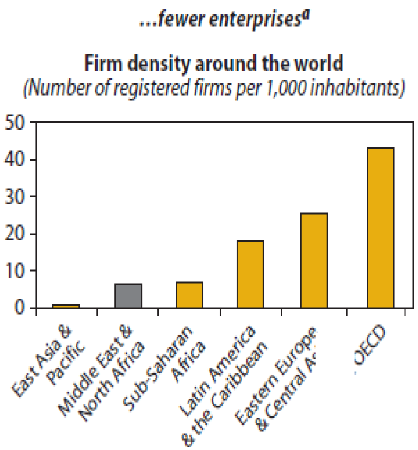
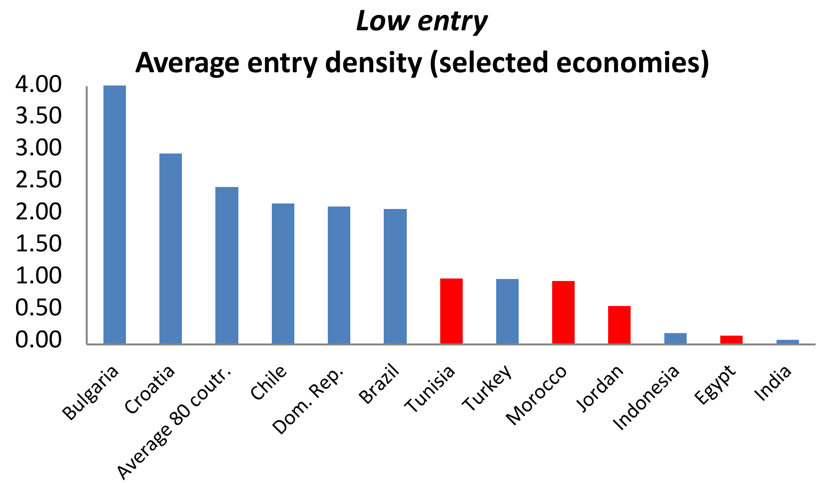
- When more productive firms grow, output and jobs grow.
    - Hsieh and Klenow (2012) – weak life-cycle dynamics constrain productivity in Mexico and India by an estimated 25 percent, as compared with US.
    - Resource reallocation across firms within industries accounts for most of the gains from trade liberalization.

The Private Sector in MENA is Underdeveloped







- **Relatively few firms** per capita
- **Low entry rates**; competitive pressure of entrants is low
- **Many old firms**: competition does not weed out the weak

Which Firms Create the Most Jobs?
Evidence from Morocco and Tunisia

Introduction

- **Which firms create the most jobs?**
  - Answering this question is at the heart of the debate about how to tackle unemployment

- **Popular notion: Small firms create the most jobs.**
  - But is this true?
  - Most studies based on partial data – often from developed countries

- We revisit this question in **Tunisia** using a **unique, confidential database containing information on ALL registered enterprises, including the self-employed**

- **Offer some similar evidence for Morocco, using manufacturing census,**

Data

Repertoire National des Enterprises (1996-2010)

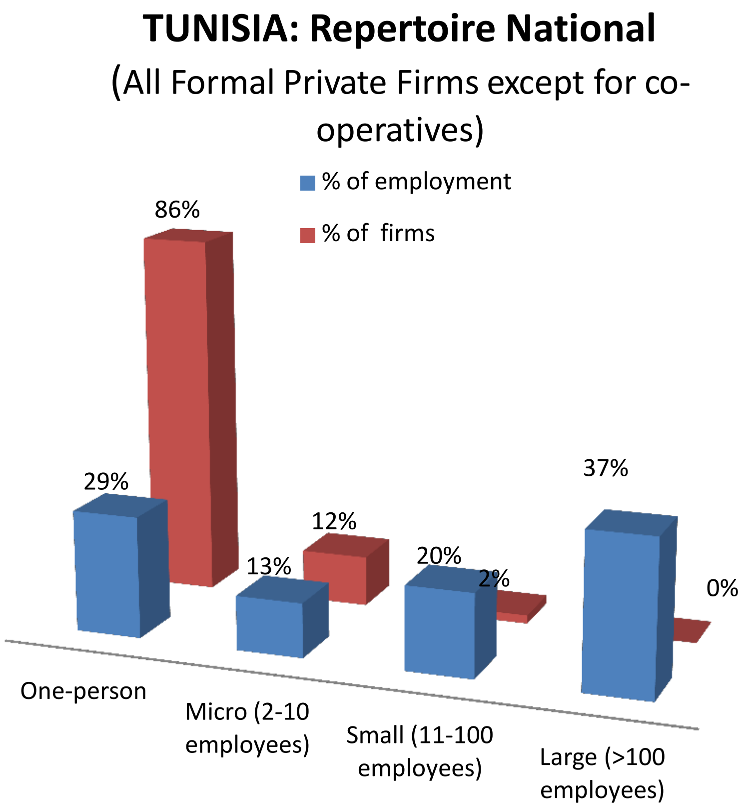
- Panel of ***all*** registered private firms in Tunisia
  - including those without salaried employees, i.e. the self-employed
- Covers all sectors – except agriculture

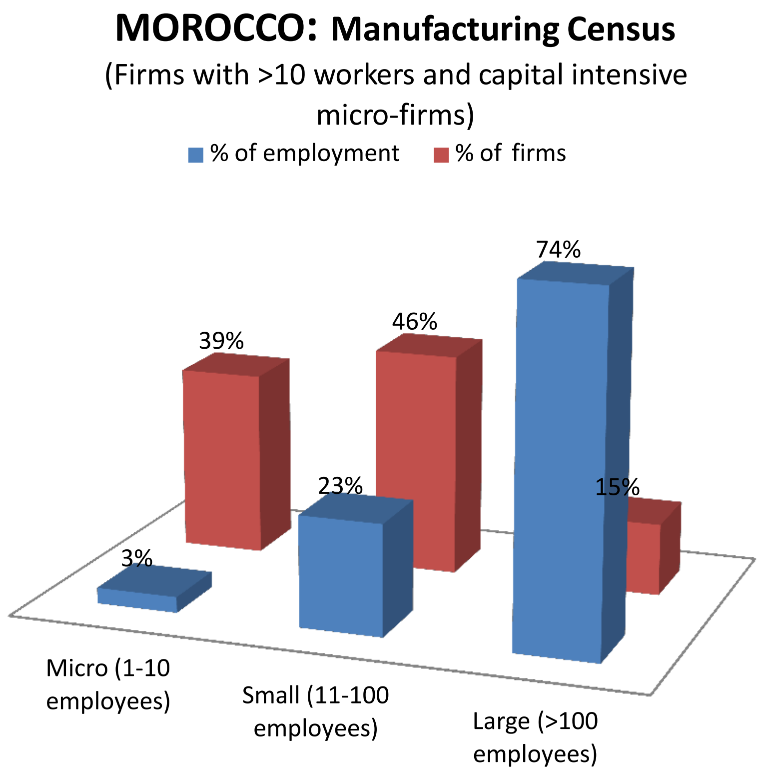
Manufacturing Census Morocco (1996-2006)

A Bird's Eye View of Firms and Jobs:

4 stylized facts

Fact #1: Too Many Small Firms





– For comparison; in the U.S. firms with more than 10,000 employees account for 48% of employment – in Tunisia, no such firms exists, one in Morocco.

Fact #2: Dynamism is limited: Most small firms remain small

Short-term transaction matrix
Annual Transitions

Tunisia – All Firms
Status in year t+1

Status in year t	**Exited**	**1-person**	**Micro**	**Small**	**Large**
1-person	5,3%	**90,6%**	3,8%	0,2%	0,0%
Micro	3,3%	10,6%	**83,9%**	2,1%	0,0%
Small	1,8%	7,1%	10,1%	**78,4%**	2,6%
Large	1,1%	3,1%	1,5%	10,3%	**84,0%**

Morocco – Manufacturing only
Status in year t+1

Status in year t	**Exited**	**Micro**	**Small**	**Large**
Micro	11.1%	**81.0%**	7.9%	0.0%
Small	6.9%	6.8%	**83.6%**	2.7%
Large	5.1%	0.1%	7.6%	**87.1%**

Long-term transaction matrix
Decadal Transitions

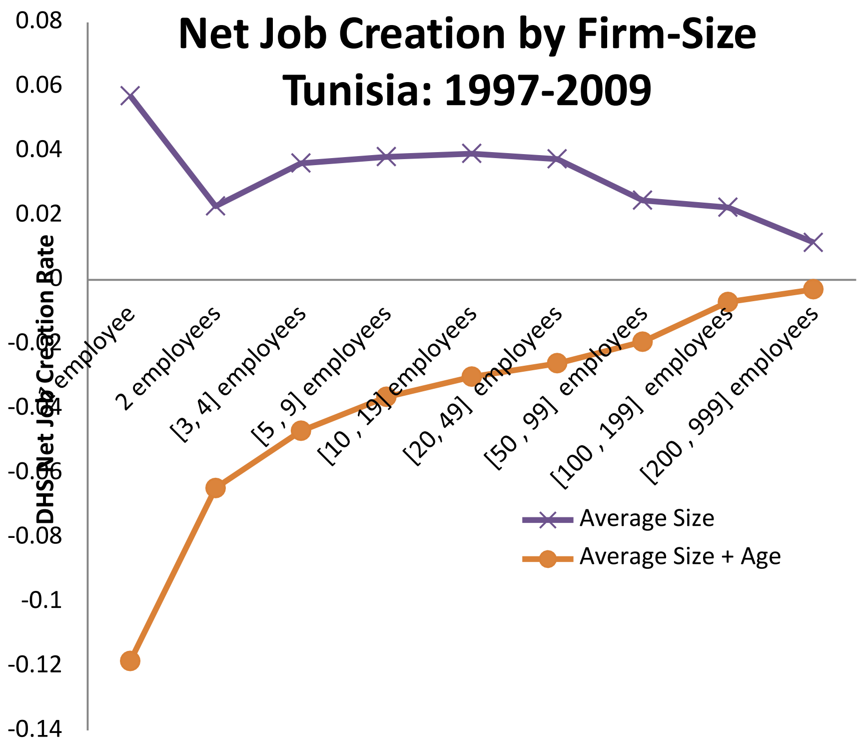
Tunisia – All Firms
Status in year t+10

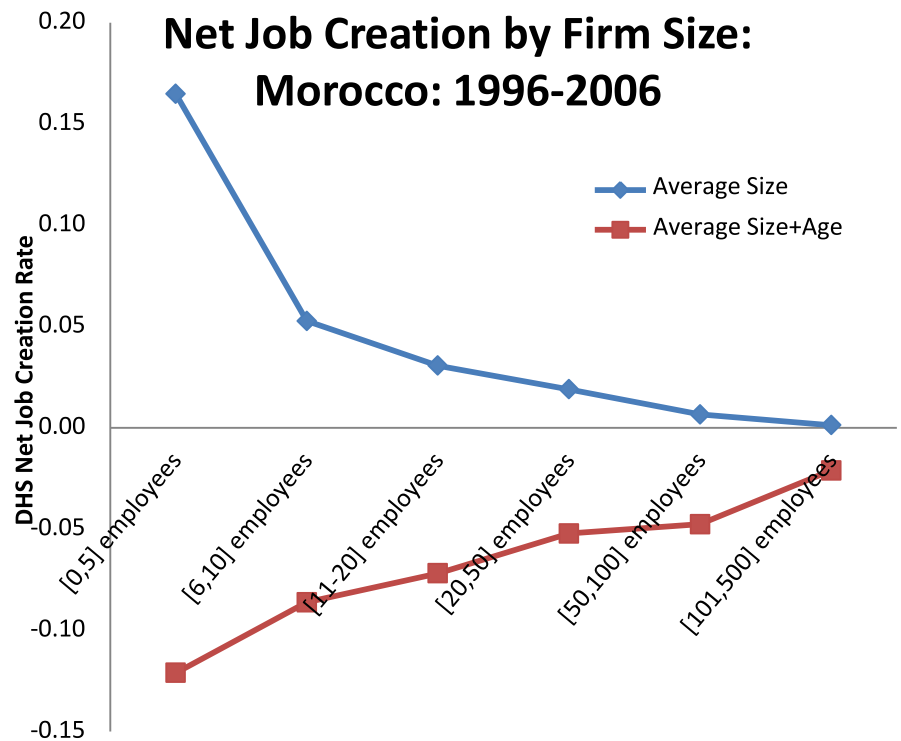
Status in year t	**Exited**	**1-person**	**Micro**	**Small**	**Large**
1-person	30,8%	**65,5%**	3,4%	0,3%	0,0%
Micro	19,0%	41,2%	**37,0%**	2,8%	0,1%
Small	14,8%	28,4%	14,0%	**39,5%**	3,3%
Large	**42,7%**	15,8%	23,3%	2,9%	15,2%

Morocco – Manufacturing only
Status in year t+10

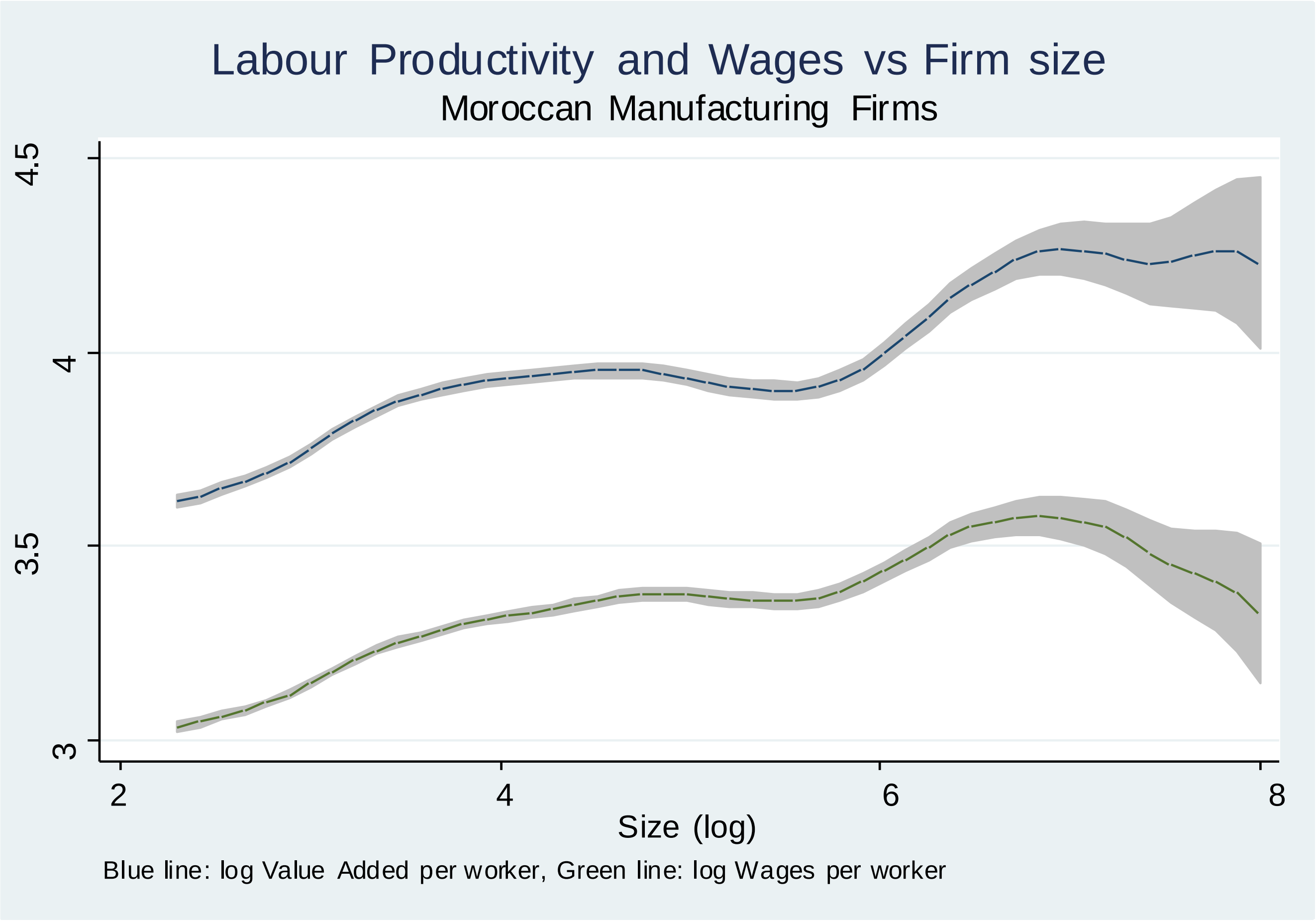
Status in year t	**Exited**	**Micro**	**Small**	**Large**
Micro	52.1%	**36.5%**	11.3%	0.1%
Small	44.6%	9.5%	**41.2%**	4.8%
Large	40.7%	0.6%	12.9%	**45.9%**

Fact #3: It's Age, not Size, that Matters





Fact #4: Large firms create better jobs



Implications

- Weak firm dynamics constrain job growth
  - Too many small firms
  - Little growth, even in the long run
  - Youth more important that size in creating jobs.
- Better jobs do come in big firms

Firms and Globalization

Evidence from 32 Countries

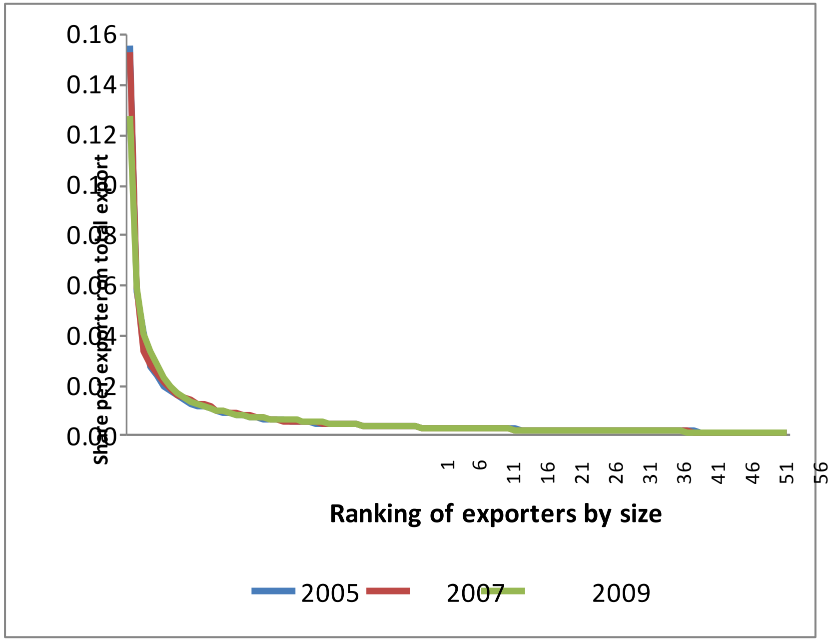
Countries Don’t Export, Firms Do
Learning from firm-level data

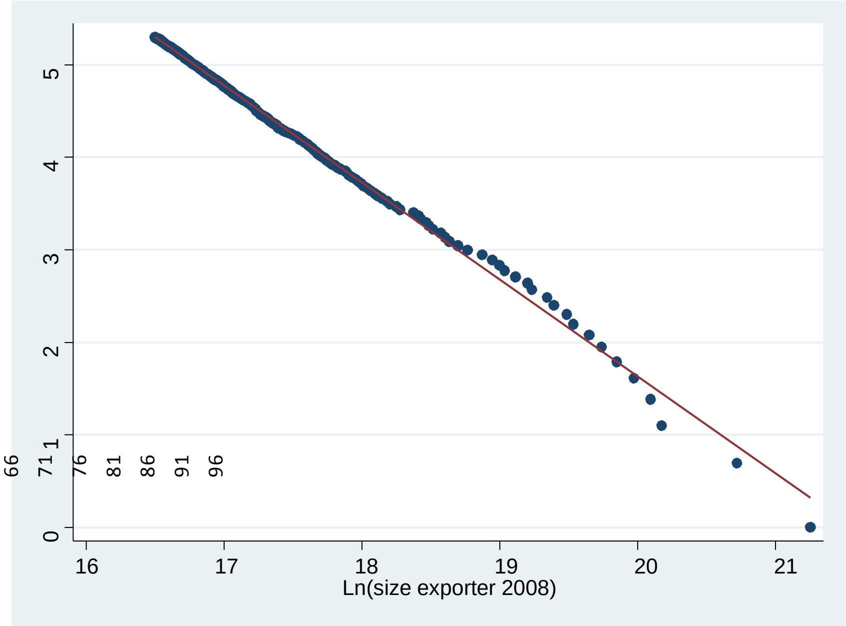
- **Exporters are more productive than other firms**
- **Extreme heterogeneity among exporters**
- **Large multi-product firms dominate**

Exports are Defined by a Few Big Firms

The total values per exporter follow a Zipf's curve in all countries: a few big firms concentrate most of the exports.

Average Pareto shape parameter is 0.996. Half below 1.





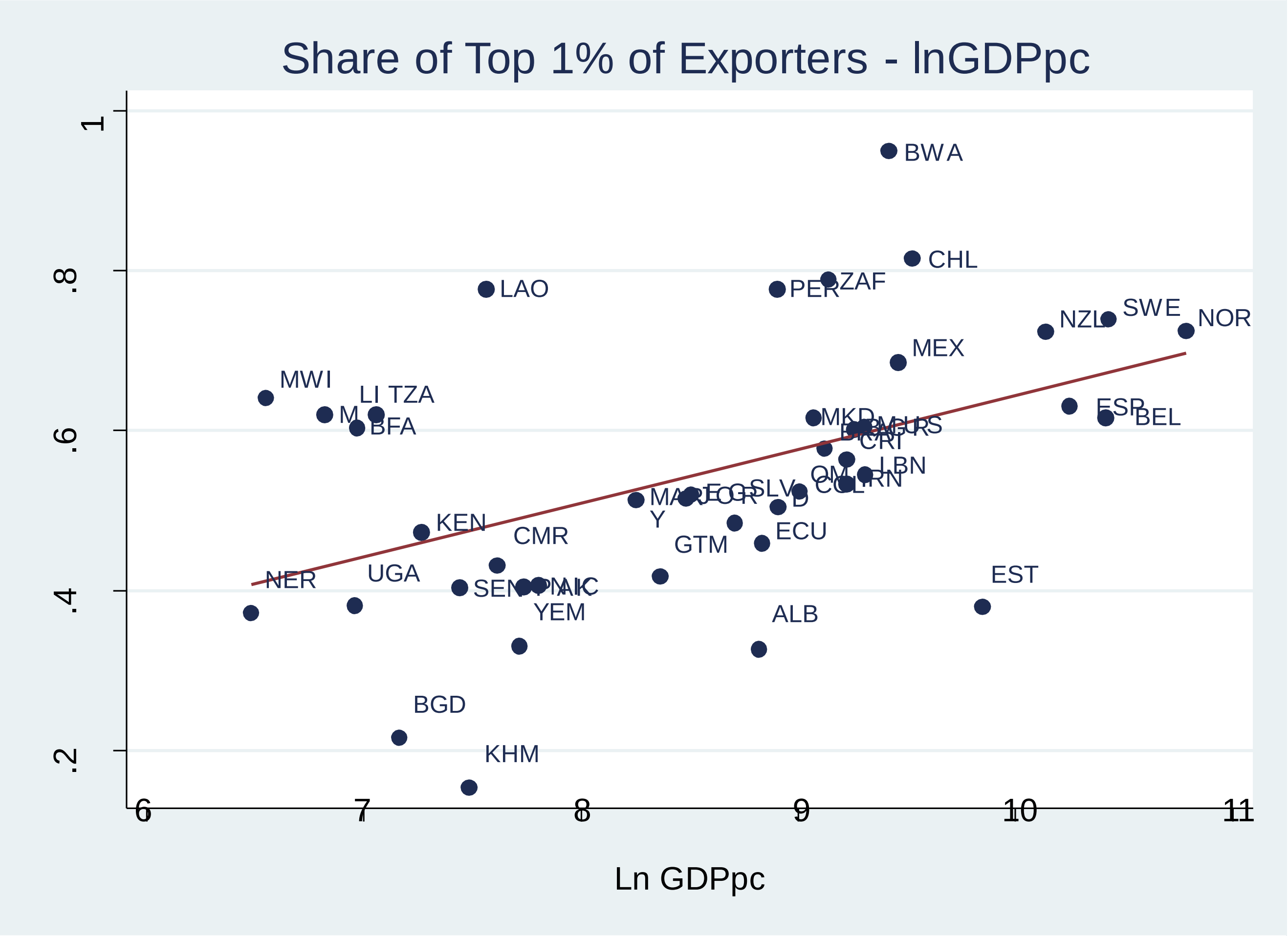
Note: Exclude exporters with less than $1,000. Similar results with top 5% or top 10%.

Some Examples

Company	Country	Share of Exports	Year	Industry
Nokia	Finland	25	2004	Electronics
Intel	Costa Rica	20	2006	Electronics
Samsung	Korea	20	2012	Electronics
Bulyanhulu gold mine	Tanzania	19	2009	Mining
Arab Potash Company	Jordan	11	2010	Dead sea products

Concentration Rises with Stage of Development

(average rates 2006-2008)



Source: Freund and Pierola 2012.

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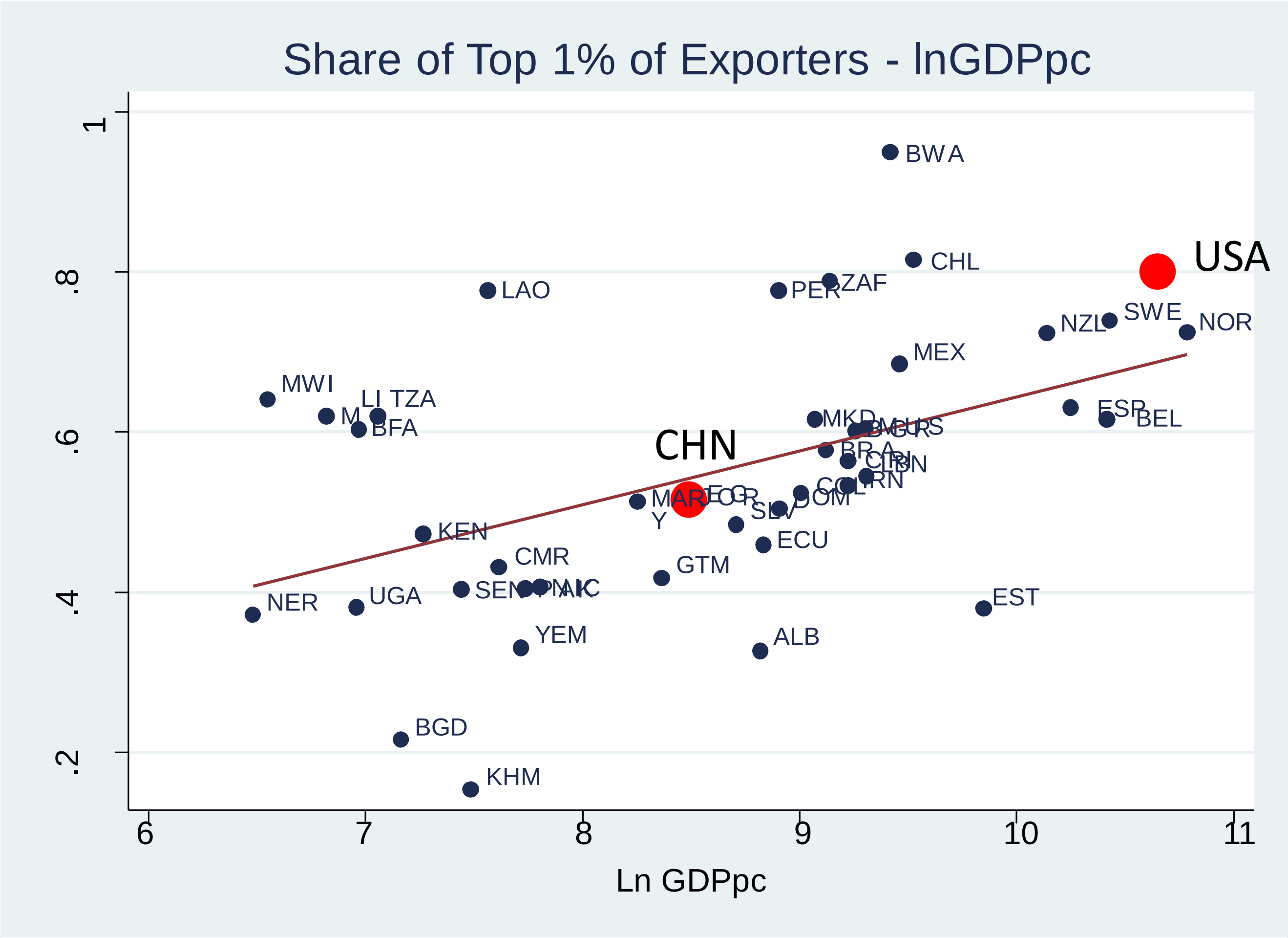
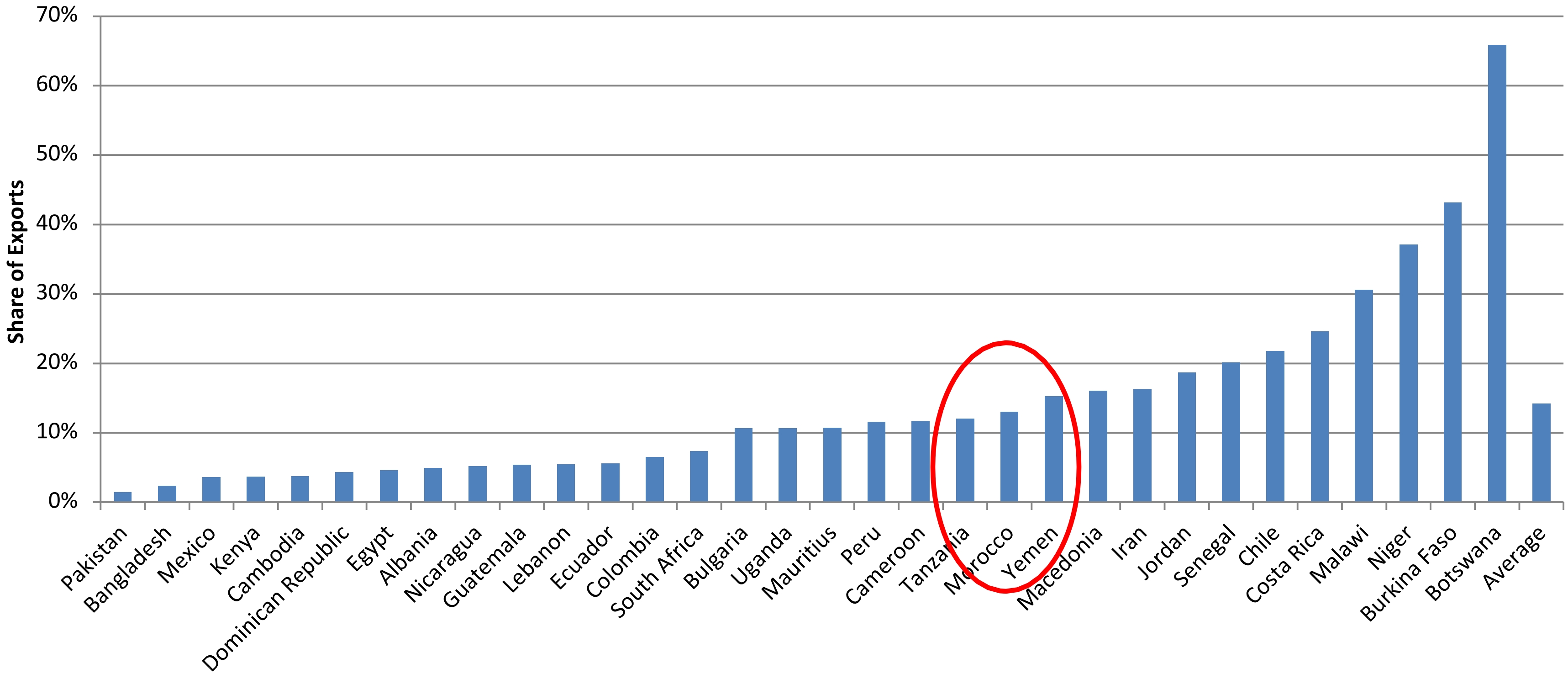


Source: Freund and Pierola 2012.

Exporters are Granular:
One firm is on average 14 percent of exports (32 countries, 2006-2008)



Source: Freund and Pierola 2012.

Where do Superstars come from?

a. What type of firms were 2009/2010's Superstars in 2000/2002?

	ALL			**Manufacturing**		
	Costa Rica	Morocco	Peru	Costa Rica	Morocco	Peru
top 1	30%	51%	36%	28%	47%	36%
top 02-05	22%	8%	35%	33%	11%	34%
top 06-25	15%	9%	6%	6%	11%	9%
quart 26-50	0%	6%	3%	0%	4%	5%
quart 51-75	0%	2%	1%	0%	2%	0%
bottom 25	0%	0%	0%	0%	0%	0%
NE	33%	25%	19%	33%	26%	16%

b. Size Distribution of 2009's and 2010's New Superstars at their Entry

				All Sectors	
	CRI	MAR	PER	Total	Percent
top1	2	3	1	6	17%
top 02-05	1	3	8	12	33%
top 06-25	5	2	2	9	25%
quart 26-50	1	4	2	7	19%
quart 51-75				0	0%
bottom25		2		2	6%

Peterson Institute for International Economics

Who are Superstars?

		Tanzania	Jordan	Peru
Type of Exporter	Producer	100%	100%	91%
	Trader	0%	0%	9%
Ownership	Foreign	81%	67%	48%
	Domestic	19%	33%	52%
Age when first exported	0 to 2 years	53%	81%	71%
	3 to 5 years	0%	14%	16%
	More than 5 years	47%	5%	14%

Implications

- Weak firm dynamics constrain export growth
  – Not enough superstar exporters
  – Little growth, even in the long run
- Superstars can be born large
  – Foreign ownership is important

Policy Implications

SME promotion may not help unless complementary constraints are addressed

-> promoting entry of large firms and removing constraints to firm *growth are especially beneficial , focus on age not size*

FDI can be transformative

->Investors enter large, creating jobs and output.

Business climate is critical

->Labor flexibility, firm entry, access to finance, etc.