DEBrief

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Measuring the Contribution of Development Projects to Employment:
IDB Invest's Pilot Framework

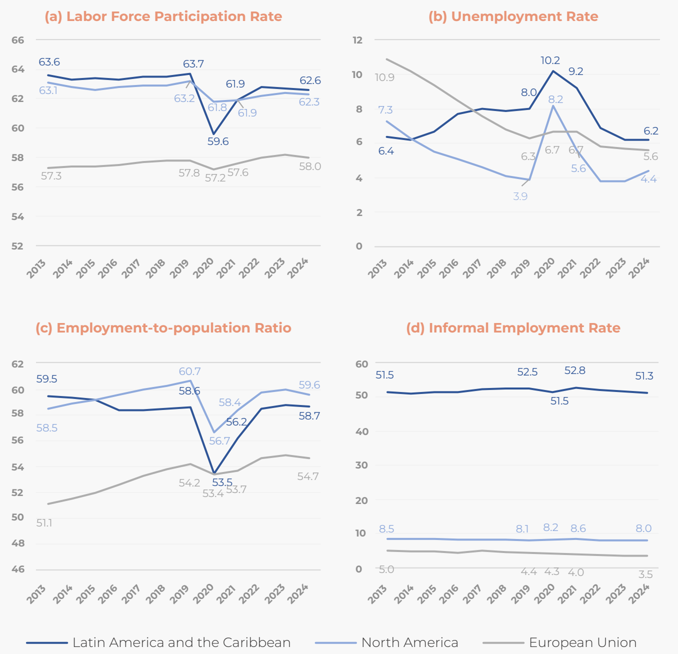
- **Creating quality jobs in Latin America and the Caribbean is a major challenge,** constrained by structural factors shaping the labor market.
- **Even before the COVID-19 pandemic, unemployment in the region was rising,** and the pandemic furthered weakened labor markets.
- **Development finance institutions (DFIs) play a vital role** in addressing these challenges by promoting sustainable and inclusive economic growth.
- **However, assessing the impact of DFI projects on employment poses significant challenges.** Although efforts have been made to develop a standardized methodology for measuring job creation, there is currently no universally accepted approach.
- **IDB Invest has developed a pilot framework** for measuring the contribution of a portfolio of development projects to employment and applied it to its active portfolio in 2024.

EMPLOYMENT IN LATIN AMERICA AND THE CARIBBEAN

Creating quality jobs in Latin America and the Caribbean (LAC) is a major challenge, shaped by deep-rooted structural labor market conditions. Indeed, a combination of factors, such as low levels of education and innovation, excessive labor and tax regulations, weak rule of law, and limited competition, has hindered economic growth over the past few decades, resulting in insufficient job creation.[1]

The analysis of key labor market indicators presented in Figure 1 shows that labor markets in LAC continue to underperform relative to those in the European Union and North America. Several overarching conclusions emerge. To start, even before the COVID-19 pandemic, unemployment in LAC was rising, likely reflecting the end of the commodity boom. The pandemic furthered weakened labor markets, reducing participation, which, as of 2024, remains below pre-pandemic levels, and increasing unemployment. Additionally, even when labor market conditions vary significantly across countries in the region, they all exhibit persistently high levels of labor informality.

Figure 1: Aggregate Labor Market Indicators. Annual Averages (%). 2013-2024



Source: Authors' own elaboration based on International Labor Organization (ILO) data.

THE ROLE OF DEVELOPMENT FINANCE INSTITUTIONS

In this context, there is a pressing need to both increase and improve employment opportunities throughout the region. Addressing these issues requires a dual approach: fostering formal job creation through close collaboration with the private sector and ensuring that governments promote a supportive environment for job creation through favorable labor, tax, and macroeconomic policies. Moreover, it is essential to implement targeted measures that facilitate the transition from informal to formal employment.

[1] Crespi et al. (2014). Rethinking Productive Development: Sound Policies and Institutions for Economic Transformation; Galindo and Nuguer (2023). Latin American and Caribbean Macroeconomic Report; Galindo and Izquierdo (2024). Latin American and Caribbean Macroeconomic Report.

Development finance institutions (DFIs) play a vital role in addressing these challenges by promoting sustainable and inclusive economic growth. At the core of their mission is the creation of quality employment, achieved through a combination of financing and technical assistance. DFIs place particular emphasis on supporting projects that drive economic development through the private sector.

As the private sector arm of the IDB Group, IDB Invest partners with companies and financial intermediaries to advance sustainable and inclusive economic growth. Its financing portfolio includes a broad spectrum of initiatives, from large-scale infrastructure projects to capital expenditures, working capital, and trade financing. Through these investments, IDB Invest contributes both directly and indirectly to the creation of formal employment throughout the region.

A FRAMEWORK FOR MEASURING EMPLOYMENT CONTRIBUTION

Assessing the impact of DFI projects on employment is complex. Although efforts have been made to develop a standardized methodology for measuring job creation, there is currently no universally accepted approach. In this context, DFIs have adopted related concepts such as "employment or jobs supported" which are easier to quantify but have limitations in terms of conceptual clarity and scope.[2] In contrast, measuring the number of direct or indirect jobs created involves substantial technical and data-related challenges, which have complicated the development of a consistent and robust methodology.

To tackle this challenge, IDB Invest is piloting a conceptual framework to measure the contribution of its projects to employment. Depending on the type of project, and drawing on client data, country-specific aggregate statistics, and standard economic models, the framework proposes a methodology to estimate both jobs supported, and direct and indirect jobs created.

This framework represents the first attempt by IDB Invest to develop a framework for systematically and comprehensively measuring the contribution of its development projects to employment. It is an initial step in an ongoing effort to establish a robust approach for quantifying the ex-ante and ex-post employment effects of IDB Invest projects.[3]

PILOT RESULTS

Table 1 presents preliminary results from applying the framework to IDB Invest's portfolio. It reports an estimate of the number of direct jobs supported (defined as the number of employees working within the project, the client company, or the final beneficiaries) and direct jobs created (defined as the number of new employees hired as a direct result of the project) across all active IDB Invest projects in 2024.

Table 1. Pilot Results for IDB Invest's Portfolio, 2024

Project Type	Direct Jobs Supported	Direct Jobs Created [4]	Direct Jobs Created per US$1 million
Real Sector - Project Finance	3,949	593	0.5
Real Sector - Corporate Finance	472,652	17,558	7.8
Financial Intermediaries	1,362,105	10,589	6.6
Total	**1,838,706**	**28,740**	**5.8**

Source: Authors' own elaboration. Note results may be updated as new information from clients becomes available throughout the supervision cycle.

The results shows that Real Sector-Corporate Finance projects have the largest contribution to job creation, typically through large-scale expansions and scale-ups of established companies. These initiatives often involve operating new plants, opening new production lines, expanding service offerings, or entering new markets, each driving multiple rounds of recruitment for managerial, technical, and operational jobs. Similarly, projects through financial intermediaries, which enable access to financing for capital expenditures (CAPEX) for many micro, small, and medium-sized enterprises (MSMEs), also generate a significant uptick in employment.

Conversely, Real Sector-Project Finance infrastructure projects such as highways, bridges, or wind farms tend to create relatively few permanent jobs. While they mobilize large workforces during the construction phase and generate indirect employment, long-term staffing needs generally stabilize around small maintenance teams. As a result, their contribution to direct job creation remains modest compared with corporate expansions and MSME CAPEX financing. Results for direct jobs created align closely with the literature on jobs multiplier.[5]

LOOKING FORWARD

This study represents an initial effort to quantify how a portfolio of development projects contributes to employment by systematically assessing the direct jobs it has supported and created. Future extensions should not only improve and test the validity of the current framework but also broaden it to capture the full spectrum of jobs effects. This includes indirect jobs supported, forward linkages that reflect downstream economic activity, and spillover effects. Moreover, subsequent work must delve into the qualitative dimension of employment. Key areas for measurement include wage levels, skills requirements, job stability and duration, opportunities for skills development, gender equality, sustainability and inclusion.

Additional Information

Authors: Lucas Figal Garone, Victoria Luca, Lucas Navarro, and Rodolfo Stucchi

Editor: Norah Sullivan

For more information, contact: lfigal@iadb.org

This DEBrief summarizes the findings of the study by Lucas Figal Garone, Victoria Luca, Lucas Navarro, and Rodolfo Stucchi (2025), Measuring the Contribution of Development Projects to Employment: IDB Invest's Pilot Framework, which is part of IDB Invest's Development through the Private Sector Series.

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[2] *Within this framework, "employment supported" typically refers to the number of individuals employed by a firm during the period it receives DFI support. While this metric does not capture new jobs created, it is relatively straightforward to measure and thus easier to standardize.*
[3] *At this stage, certain dimensions of indirect contributions, such as forward-linkages, induced and spillover effects, are not yet incorporated into the analysis. It is also important to emphasize that while the methodology is designed to estimate contributions at a portfolio level, rigorous impact evaluations with proper counterfactual analysis are necessary at the project level to enable causal attribution.*
[4] *These results were presented in IDB (2025). Impact Report 2025: Transforming for Scale and Impact.*
[5] *Figal Garone, L. et al. (2025). Access to credit and employment growth: Evidence from MSMEs in LAC (forthcoming); Brown and Earle (2013). Do SBA loans create jobs?; Brown and Earle (2015). Finance and growth at the firm level; Centre for Economics and Business Research (2016); Small Business, Big Growth: How Investing in SMEs Creates Jobs; International Finance Corporation (2021).*