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Pathways to Higher-Quality, Productive Jobs:
Access to Credit for MSMEs in Latin America and the Caribbean

- **LAC economies typically have a dual structure,** where many small firms with low productivity, limited growth, and high informality coexist alongside a small number of larger, formal, highly productive, and fast-growing firms.
- **Creating higher-quality, more productive jobs calls for increasing access to finance for MSMEs,** which represent 99% of firms in LAC and employ two-thirds of the labor force, yet face the world's second-largest finance gap.
- **An IDB Invest study assessed how improved access to finance translates into employment growth,** providing one of the first estimates of the job creation multiplier associated with MSME financing in LAC.
- The results show that on average, **an additional US$1 million in credit to MSMEs in LAC is associated with the creation of 4 permanent jobs per year,** equivalent to an annual employment increase of about 8%.
- **Employment effects are strongest for smaller and faster-growing firms**, especially when **credit is recent**, used to finance **fixed assets** rather than working capital, and provided in more **competitive banking sectors.**
- Recognizing these distinctions is essential not only for increasing employment, but also for **promoting higher-quality, more productive jobs** that strengthen firm competitiveness and support long-term development outcomes.

FIRM PRODUCTIVITY, GROWTH, AND INFORMALITY

Latin American and Caribbean (LAC) economies typically have a dual structure, where many small firms with low productivity, limited growth, and high informality coexist alongside a small number of larger, formal, highly productive, and fast-growing firms.

Within this context, micro, small, and medium-sized enterprises (MSMEs) represent 99% of all firms and employ two-thirds of the labor force. Despite their pivotal economic role, most **MSMEs are trapped in a vicious cycle of low productivity, limited growth, and minimal creation of formal, productive jobs.**

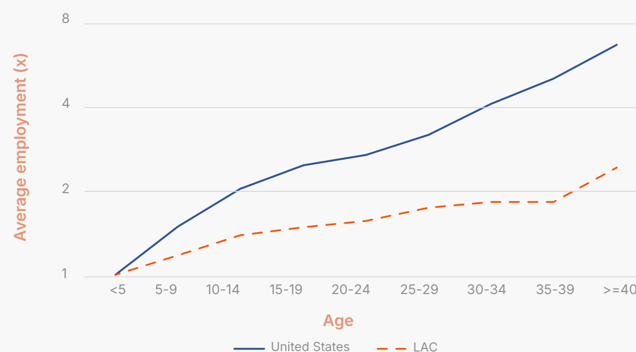
This challenge is reflected in the overall **aggregate productivity** of LAC economies, which still lags behind more developed economies. An IDB Invest study on firm-level productivity in LAC[1] explores the prevailing productivity differences in the region, with three key findings:

- **There are significant differences between the most and least productive firms in the same sector.** A firm in the 90th percentile of the productivity distribution produces almost seven times more than a firm in the 10th percentile, using the same inputs.
- **Productivity differences persist over time.** A firm's productivity today is nearly the same as it was a year ago.
- Most aggregate productivity growth comes from **improvements within existing firms, rather than from firm entry or exit.**

Long-term firm growth in LAC also reveals slower trajectories than in advanced economics. An IDB Invest study exploring the link between access to credit for MSMEs and employment growth[2] replicates the analysis by Hsieh and Klenow (2014) on long-term firm growth (Figure 1), finding that:

- In the U.S., firms scale dramatically with age; **in LAC, firms remain small even after decades.** Specifically, while the average 40-year-old U.S. firm employs more than seven times as many workers as a newly established firm, in LAC, MSMEs show significantly slower growth, only doubling in size over the same period.
- This **growth differential persists across firms of all ages** and is most pronounced at the mid-to-late stage of a firm's lifecycle, signaling **barriers to scaling** rather than entry alone.
- The flatter age–size profile of LAC firms suggests **fewer scale-ups and/or many small firms that are surviving without growing.**

Figure 1. Long-term Firm Growth



Notes: Authors' elaboration based on WBES and Hsieh and Klenow (2014). Employment in the youngest group of firms (age < 5 years) is normalized to 1.

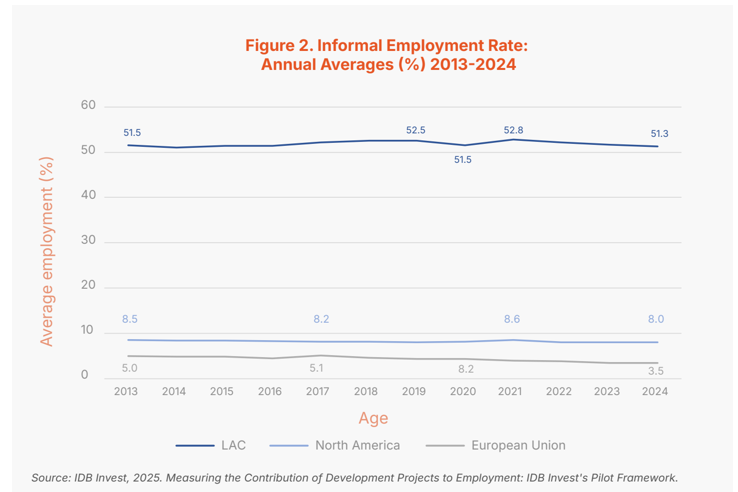
[1] IDB Invest, 2020. *Firm-level Productivity in Latin America and the Caribbean*.
[2] IDB Invest, 2026. *Access to Credit and Employment Growth for MSMEs: Evidence from Latin America and the Caribbean*.

High levels of **informality** are another prominent feature of firms in LAC. Informality exists along a continuum, ranging from firms that operate entirely outside the legal framework to those that fully comply with regulations. Most firms fall somewhere in between, remaining formally registered while partially evading taxes, hiring workers off the books, or complying selectively with regulations. Formal and informal firms coexist within the same industries; however, **informal businesses tend to be smaller, less productive, pay lower wages, and generate lower profits than their formal counterparts.**

An IDB Invest study on measuring job creation[3] analyzes key labor markets indicators, showing that:

- The pandemic furthered **weakened labor market participation,** which as of 2024 remained below pre-pandemic levels, **and increased unemployment.**
- Despite significant cross-country variation in labor market conditions across the region, all **LAC countries exhibit persistently high levels of labor informality** *(Figure 2)*.

Figure 2. Informal Employment Rate: Annual Averages (%) 2013-2024

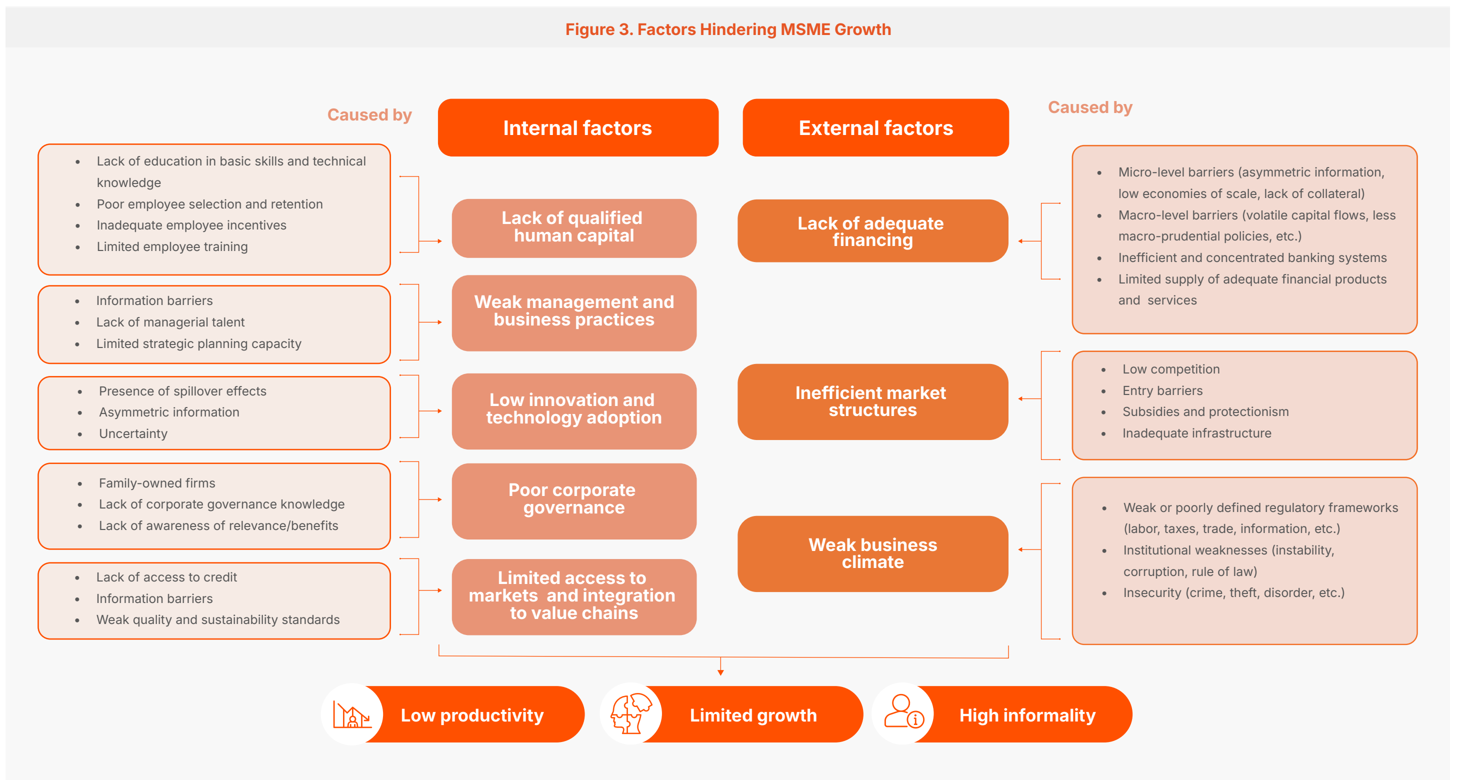


Source: IDB Invest, 2025. Measuring the Contribution of Development Projects to Employment: IDB Invest's Pilot Framework.

BARRIERS TO MSME GROWTH

MSMEs face a web of mutually reinforcing internal and external factors that hinder them from reaching their full potential *(Figure 3)*. Firm-level constraints and weak capabilities are amplified by market failures, information asymmetries, and institutional shortcomings, resulting in low productivity, limited growth, and persistent informality.

Figure 3. Factors Hindering MSME Growth



ACCESS TO FINANCE FOR MSMEs

Chief among these barriers is limited access to finance. At an estimated $1 trillion, **the region's MSME finance gap is the second largest in the world.**[4] Among LAC firms, 75% consider access to finance a constraint on their operations, with 12% identifying it as their most significant obstacle.[5]

Adequate financing is critical for alleviating liquidity constraints, enabling capital investment, facilitating technology adoption, and supporting innovation. Improved access to finance not only promotes firm growth but also **expands opportunities for generating higher-quality and more productive employment across the economy.**

MORE CREDIT FOR MSMEs, MORE EMPLOYMENT?

Establishing causal links between access to finance and economic performance is challenging given the many factors at play, and evidence from LAC is still limited. Nevertheless, recent systematic reviews and meta-analyses suggest that access to credit has positive effects on key indicators of firm performance, such as sales, employment, investment, and productivity.[6] Similarly, evidence from Argentina,[7] Colombia,[8] Brazil,[9] Mexico,[10] and Ecuador[11] generally shows positive associations between access to finance and the expansion of employment and production.

[3] IDB Invest, 2025. Measuring the Contribution of Development Projects to Employment: IDB Invest's Pilot Framework.
[4] IFC, 2025. MSME Finance Gap.
[5] IDB Invest, 2020. Firm-level Productivity in Latin America and the Caribbean.
[6] Kersten et al. (2016). Small Firms, Large Impact? A Systematic Review of the SME Finance Literature; Bruhn et al. (2025). Do Formal Loans Boost SME Performance? Key Takeaways from a Meta-Analysis.
[7] Giuliodori et al. (2020). The Impact of Guarantees on SMEs Access to Credit and Employment;
Clemente et al. (2023). The Impact of Credit Programs on the Post-Pandemic Reactivation of the Fabric of Production and Employment: The Case of Argentina.
[8] Eslava et al. (2012). Second-tier Government Banks and Firm Performance: Micro-evidence from Colombia; Arraiz et al. (2014). Partial Credit Guarantees and Firm Performance: Evidence from Colombia.
[9] Garcia-Escribano & Han (2015). Credit Expansion in Emerging Markets: Propeller of Growth?;
Grimaldi & Ornelas (2024). Do Firms Need Cheaper Credit to Grow? Investigating the Effectiveness of Subsidized Earmarked Loans.
[10] Gutierrez et al. (2023). Do Credit Supply Shocks Affect Employment in Middle-Income Countries?
[11] Bruhn et al. (2025). Access to Finance for MSMEs in Ecuador: A Firm-Level Impact Evaluation.

To contribute to this evidence base, IDB Invest carried out a study to estimate the relationship between access to credit and employment using firm-level data for 21,696 firms across 30 countries in LAC.[12] The analysis draws on four waves of the World Bank Enterprise Surveys (WBES), covering the periods 2006, 2009–2010, 2016–2017–2018, and 2023–2024–2025.

Descriptive evidence based on WBES data shows that on average, firms with access to credit are 1.5 times larger in terms of employment, pay 17% higher wages, generate 1.5 times more in sales, and are 43% more likely to export compared to firms without access to credit. However, these trends cannot be directly attributed to credit access given the multiple factors that can affect the analysis.

Therefore, the study uses firm-level regressions that link annual changes in employment to the amount of credit received, employing several econometric strategies[13] to improve the comparability between treatment firms (those with access to credit) and control firms (those without access to credit). This approach provides one of the first estimates of the job creation multiplier associated with MSME financing in the LAC region.

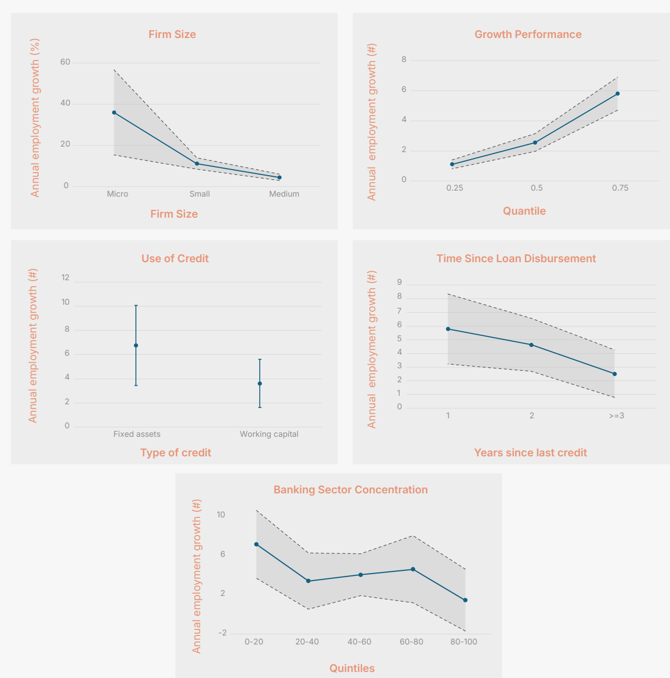
MAIN FINDINGS

The results indicate a positive association between access to credit and employment outcomes. **On average, for MSMEs in LAC, an additional US$1 million in credit is associated with the creation of 4 permanent jobs per year.** These results are equivalent to an annual employment increase of about 8%. This estimate is in line with previous efforts to calculate job multipliers in other countries.[14]

Five key findings emerge from analyzing this effect across different firm, credit, and banking sector characteristics *(Figure 4):*

1. **Smaller firms** exhibit higher employment growth in relative terms, but lower growth in absolute (nominal) terms.
2. The employment effect is stronger among **faster-growing firms**. Job creation among more dynamic firms in the 75th percentile of the distribution is more than twice as high as that of the median firm.
3. Credit allocated to **fixed-asset investment** is linked to larger employment gains than credit used for working capital. This signals that as firms invest in new capital assets, they also hire additional people to operate, manage, and maintain those assets.
4. **More recent loans** —measured as the number of years since the last loan was received—exhibit, on average, a larger effect on employment, and this effect tends to dissipate for older loans. This may be due to MSMEs facing more binding financial constraints, which once alleviated through credit, allow them to quickly allocate more to labor costs.
5. **Lower levels of banking sector competition** (i.e., higher concentration) weaken the effects of credit on employment. This result is consistent with theories that emphasize the negative effect of bank market power on access to credit, particularly in developing countries.

Figure 4. The Effects of Credit on Employment



Notes: Authors' elaboration based on WBES.

CONCLUSION

These findings highlight the critical role that access to credit plays in fostering MSME growth and employment. Beyond showing that credit can stimulate job creation, the results highlight the importance of understanding **which firms obtain financing, how those resources are allocated within the firm, and under what banking sector conditions credit is supplied.**

Understanding these nuances is particularly relevant for development finance institutions engaged in private sector development, financial intermediaries responsible for channeling funds to firms, and policymakers designing strategies to promote inclusive and sustainable economic growth. Recognizing these distinctions is essential not only for increasing employment, but also for promoting higher-quality, more productive jobs that strengthen firm competitiveness and support long-term development outcomes.

Additional Information

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This DEBrief highlights the findings of the following studies, which are part of IDB Invest's **Development through the Private Sector Series:**

- Celina Camilleti, Lucas Figal Garone, Victoria Luca, and Rodolfo Stucchi (2026), *Access to Credit and Employment Growth for MSMEs: Evidence from Latin America and the Caribbean*.
- Lucas Figal Garone, Victoria Luca, Lucas Navarro, and Rodolfo Stucchi (2025), *Measuring the Contribution of Development Projects to Employment: IDB Invest's Pilot Framework*.
- Lucas Figal Garone, Paula López Villalba, Alessandro Maffioli, and Christian Ruzzier (2020), *Firm-level Productivity in Latin America and the Caribbean*.

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[12] *Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay.*

[13] *Estimates rely on OLS combined with entropy balancing and a comprehensive set of firm controls and country–sector–year fixed effects. Robustness checks include winsorizing the dependent variable, a Heckman two-step model, and propensity score methods.*

[14] *Brown & Earle (2013) found that each million dollars in loans generated 5.4 jobs in the U.S., while Brown & Earle (2015) estimated between 3 and 4 jobs per million. The Centre for Economics and Business Research (2016) reported a similar multiplier for the U.K. Finally, the IFC (2021) estimated that loans to SMEs in developing economies resulted in the creation of 8.15 jobs per million dollars.*