

viewpoint

Entrepreneurship

New Data on Business Creation and How to Promote It

The World Bank Group Entrepreneurship Survey continues to extend our knowledge of the importance of entrepreneurship for a dynamic economy. In its second year, with more countries participating, the survey again shows a strong relationship between entrepreneurship, the business environment, and governance. New data shed light on how the distribution of businesses among sectors varies by level of development. And analysis of new data on business registration suggests that automation can greatly reduce the barriers to starting a business. This finding makes a strong case for pursuing e-government initiatives to spur entrepreneurship.

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In 2006 the World Bank Group launched its first international survey on entrepreneurship and economic development (Klapper 2006). In 2007 the survey gained an improved methodology, greater participation by developing countries, and new data topics. This Note summarizes the revisions to the methodology and survey instrument, the updated database, and the key findings.



The 2007 World Bank Group Entrepreneurship Survey gathered data from 84 developing and industrial countries on existing and new businesses in the period from 2000 to 2005.¹ For every year for which data were available, the survey recorded the year-end stock of total registered firms and new firms registered in the calendar year.

Thanks to improvements in the methodology and greater participation by developing countries, this second survey provides data that are of higher quality and greater comparability across countries. The improvements have both expanded our understanding of entrepreneurship and reinforced the findings of the 2006 survey on the impact of business creation on economic development.

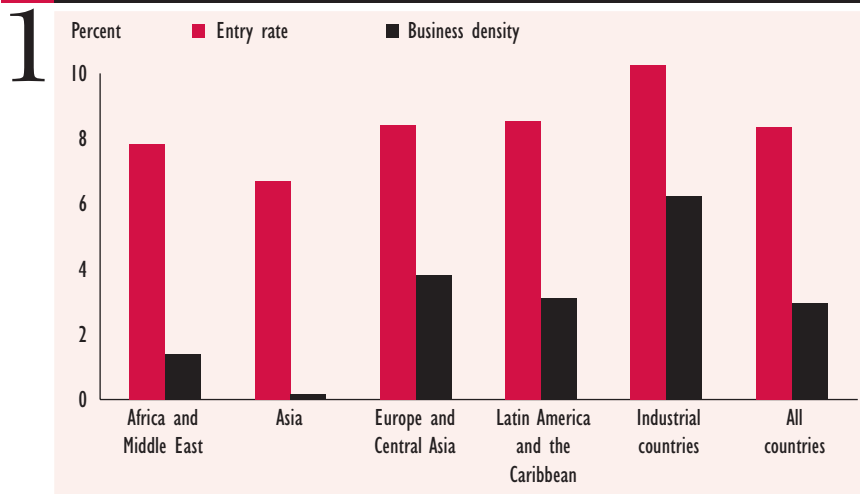
Update on entrepreneurship

The key indicator of entrepreneurship is the entry rate, defined as new firms (those that were registered in the current year) as a percentage of lagged total registered firms. Average entry rates in developing regions have remained between 7 and 9 percent (figure 1). In contrast, business density, the number of registered firms as a percentage of the active population (those ages 15–64), varies greatly across regions.

The highest entry rates—those above 15 percent—are found in industrial countries in Western Europe and in New Zealand (figure 2). The lowest rates are found in countries in Africa, South Asia, and Latin America.

Consistent with earlier findings (Klapper 2006), a strong relationship emerges between

Figure 1 Entry rate and business density by region, 2003–05



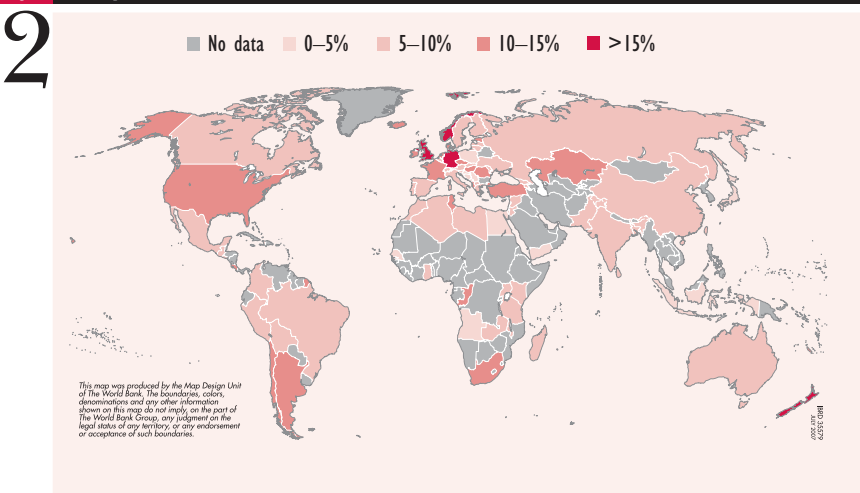
Source: World Bank Group Entrepreneurship Database, 2007.

greater entrepreneurship and such factors as higher GDP per capita and greater financial development. For example, entry rates have a significantly negative relationship with the cost of starting a business and a significantly positive relationship with better governance (figures 3 and 4). These results are robust to the inclusion of income level in a multivariate model.²

New data by sector

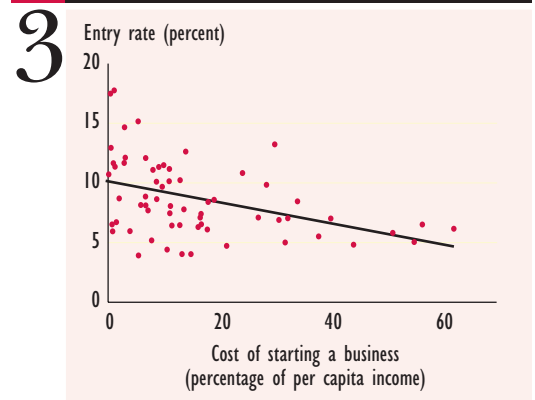
To gain a better understanding of local private sector development, the 2007 survey collected

Figure 2 Entry rates around the world, 2003–05



Source: World Bank Group Entrepreneurship Database, 2007.

Figure 3 Entry rate and cost of starting a business, 2003–05

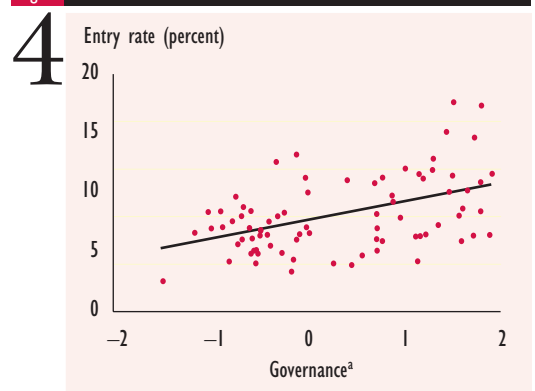


Note: Beta = -0.087, p = 0.00, R² = 0.17, obs = 63.
Source: World Bank Group Entrepreneurship Database, 2007; World Bank Group 2005.

data on existing and new businesses disaggregated by sector of activity. While a large number of countries participated in this section, the analysis includes only those using a similar sectoral classification, to allow comparison across regions. The final data set includes data from 46 countries for four sectors: wholesale and retail trade; finance, insurance, and real estate; industry; and services.

The distribution of businesses across these sectors shows an almost perfect asymmetry between developing and industrial countries. In developing countries the share of businesses in the wholesale and retail trade and finance sec-

Figure 4 Entry rate and quality of governance, 2003–05



Note: Beta = 1.57, p = 0.00, R² = 0.23, obs = 81.
a. Average of six aggregate governance measures: voice and accountability, government effectiveness, regulatory quality, political stability, rule of law, and control of corruption.
Source: World Bank Group Entrepreneurship Database, 2007; Kaufmann, Kraay, and Mastruzzi 2006.

tors is twice that in industrial countries, while the share in industry and services is only about half as large (figure 5).

Understanding why entrepreneurs in developing countries focus so disproportionately on some sectors requires a deeper analysis. Still, a preliminary analysis suggests that reasons for focusing on the wholesale and retail trade sector might include its lower requirements for investment, human resources, knowledge, and capital. In addition, firms in this sector might be more likely to join the formal economy—and therefore to be recorded by the survey—because of a reluctance among overseas importers and large domestic traders to purchase from informal sector firms.

Why automate business registration?

To help better understand the challenges entrepreneurs face, the 2007 survey added a section relating to the registration of new businesses. Seventy-five countries participated in this section, providing valuable information about the registration process and the extent to which it has been automated.

Availability of electronic registration

To assess the modernization of business registries, the survey collected information on the availability of electronic registration—which includes both the automation and computeriza-

tion of local registrars and the ability to register over the Internet—and electronic distribution of registry information. The data show a deep disparity between industrial and developing countries (figure 6).³ While more than 80 percent of industrial countries have introduced an electronic registry, only about 30 percent of developing countries have done so.

In contrast, in most regions more than 60 percent of countries have introduced electronic distribution (over the Internet) of registry information. The reason for this discrepancy may be that electronic distribution is less expensive and difficult to implement, since it requires neither electronic signatures nor complex e-government platforms.

Impact on the ease of starting a business

Automation reduces the barriers to starting a business, as measured by the Doing Business indicators. In countries with electronic registration, starting a business takes less time, requires fewer procedures, and costs less (figure 7). This might be explained by the greater efficiency of electronic registries. In addition, within regions, countries with electronic registration have higher entry rates, though the difference is not significant.

Further support for the importance of automating business registration comes from “before and after” data: in three countries that

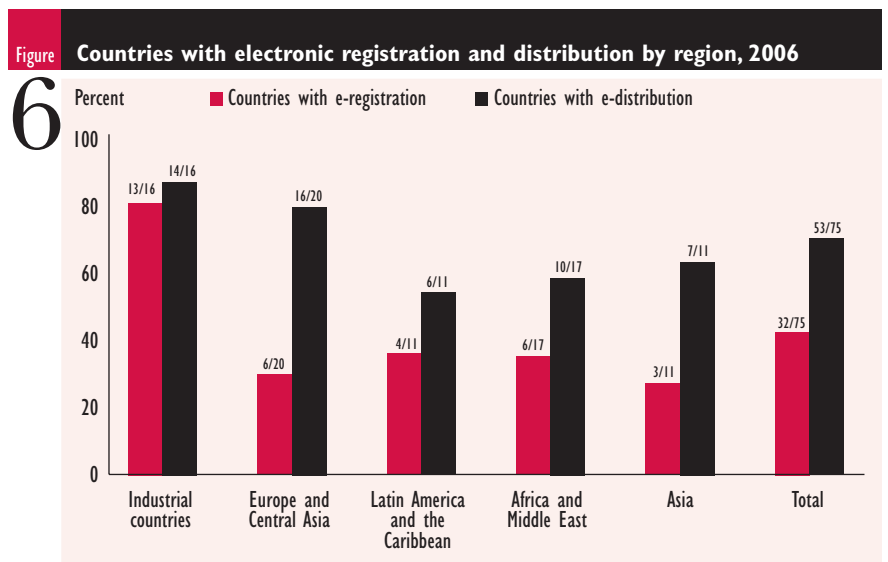
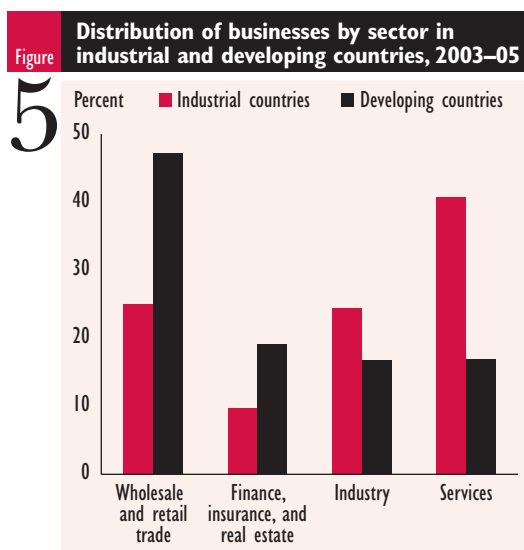
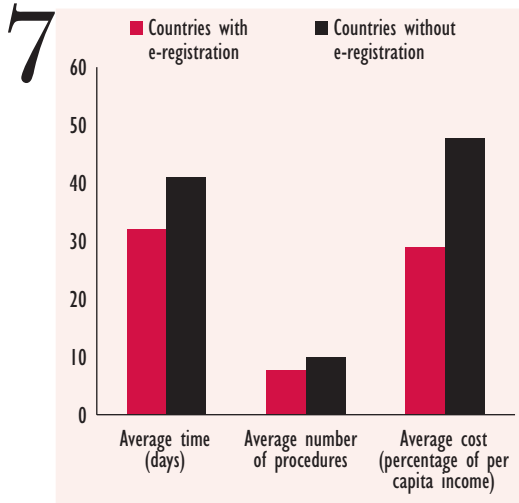


Figure 7 Effect of electronic registration on the ease of starting a business, 2006



Source: World Bank Group Entrepreneurship Database, 2007; World Bank Group 2005.

implemented electronic registration, the average number of new firms registered in the following three years showed a remarkable increase compared with the three years before implementation (figure 8).

Conclusion

With new topics and broader coverage of developing countries, the 2007 World Bank Group Entrepreneurship Survey supports deeper and more comprehensive study of entrepreneurship. The survey reveals sharp differences between industrial and developing

countries in the sectoral distribution of businesses, though why these differences arise is a question for future studies. The survey also provides evidence that automating business registration can greatly increase the ease of starting a business. The survey data could be used to measure the impact of similar policy reforms to improve the investment climate.

Notes

1. The World Bank Group Entrepreneurship Database is available at <http://www.ifc.org/ifcext/sme.nsf/Content/Entrepreneurship+Database>.
2. The analysis includes the log level of GDP per capita (see Klapper and others 2007).
3. The definition of electronic registration used here does not necessarily include online authentication or integration of e-government services.

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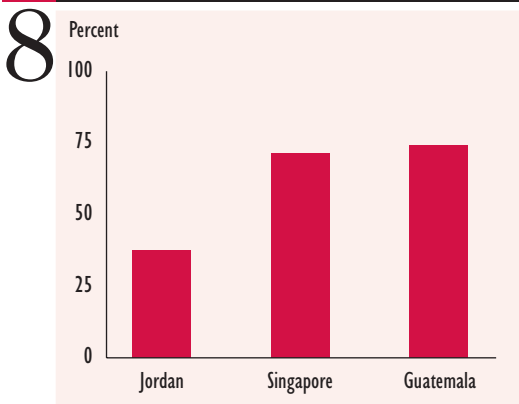
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Figure 8 Average increase in annual registrations after implementing electronic registration



Note: The figure compares annual registrations in the three-year period before and after implementation.

Source: World Bank Group Entrepreneurship Database, 2007.

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