



The World Bank Group
DECRG



Entrepreneurship and Economic Development

An overview of the 2008 World Bank Entrepreneurship Survey (WBGES)

Presentation prepared by

Leora Klapper, Senior Economist, World Bank

with assistance from Anna Cusnir, Ana Ribeiro and Juan Manuel Quesada Delgado

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Introduction & Methodology



Goal

The WBGES aims to gather data on business creation at the international level that can be compared across heterogeneous legal, economic, and political systems.

Strategy

Defining a unit of measurement, source of information, and concept of entrepreneurship applicable and available among the diverse countries surveyed.

To meet the demand of governments and policy makers for:

- Diagnosis of private sector development and growth
- Monitoring and evaluation of policy reforms (impact of regulatory, political, and macroeconomic institutional changes)

To better understand what drives entrepreneurs to transition from the informal to the formal sector

To encourage greater formal sector participation and corporate registration

What is measured

Entrepreneurial activity using a definition applicable across countries regardless of their degree of industrial development.

For the purposes of collecting this survey data, entrepreneurship is defined as:

The activities of an individual or a group aimed at carrying out commercial activities in the formal sector under a legal form of business.

Unit of measure

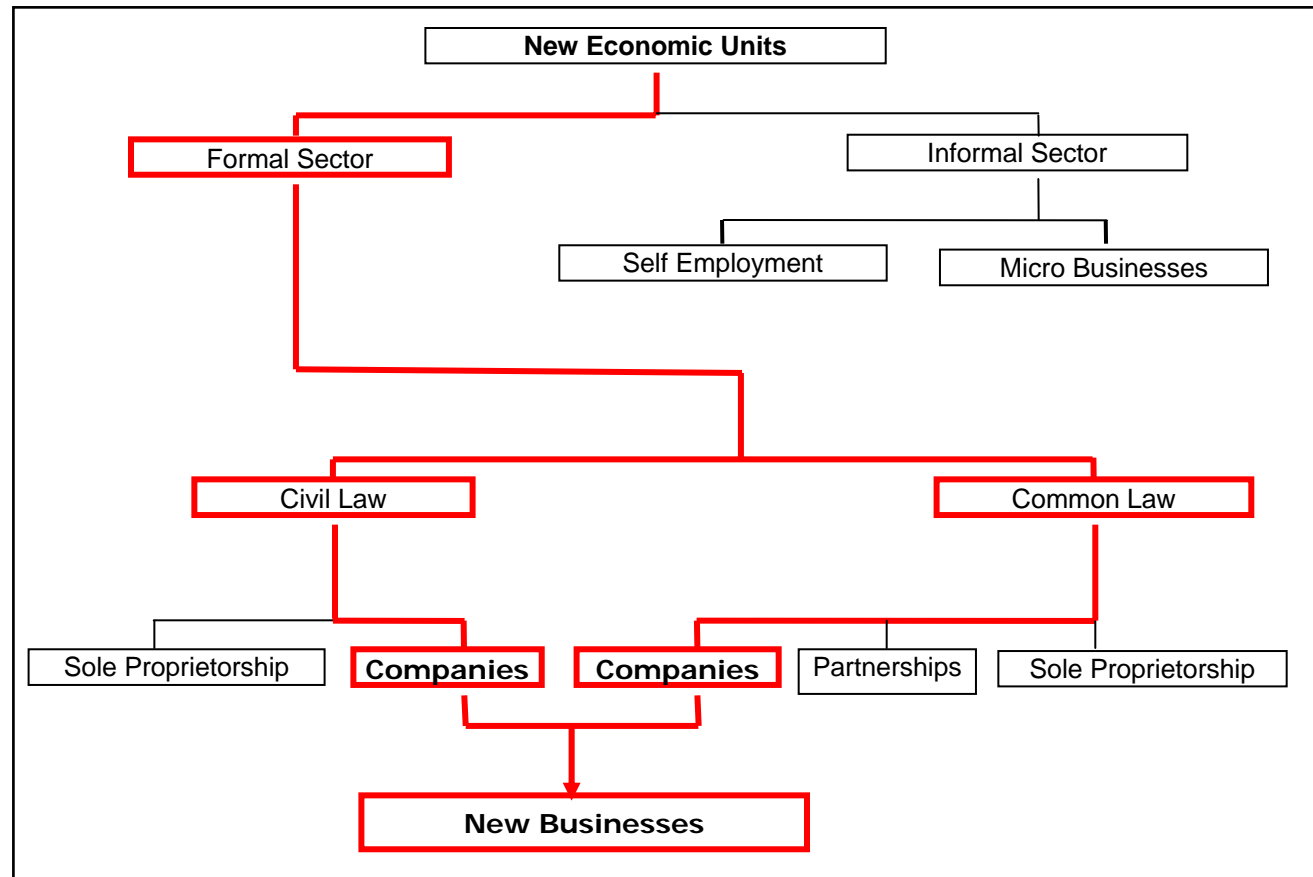
The unit used to measure entrepreneurial activity is:

The limited liability corporation, or its equivalent.

Where do we measure?

The **WBGES** focuses on the **formal sector** and its advantages, such as police and judicial protection (and less vulnerability to corruption and the demand for bribes), access to formal credit institutions, the ability to use formal labor contracts, and greater access to foreign markets.

Data on the informal sector has been excluded from this analysis because the data is incomplete and in some cases unavailable.



The WBGES facilitates the analysis of the growth of the formal private sector, relative to the informal sector, and the identification of factors that encourage firms to begin operations in or transition to the formal sector.

Business Registries

Reasons

- Documents entry into the formal sector
- Information source for other government agencies

Challenges

- Different registration and annual filing requirements
- Available legal forms
- Identification of exited firms
- Re-registrations
- Paper-based registries
- Decentralized registry systems

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Survey Structure & Summary Statistics

2.a. Survey Structure

The WBGES 2008 survey focuses on four aspects of the business circle:

- Panel A: Total and new registered corporations
- Panel B: Corporations, by sector
- Panel C: Corporate Registry Infrastructure
- Panel D: Business Legal Forms

Data from 2000 to 2008

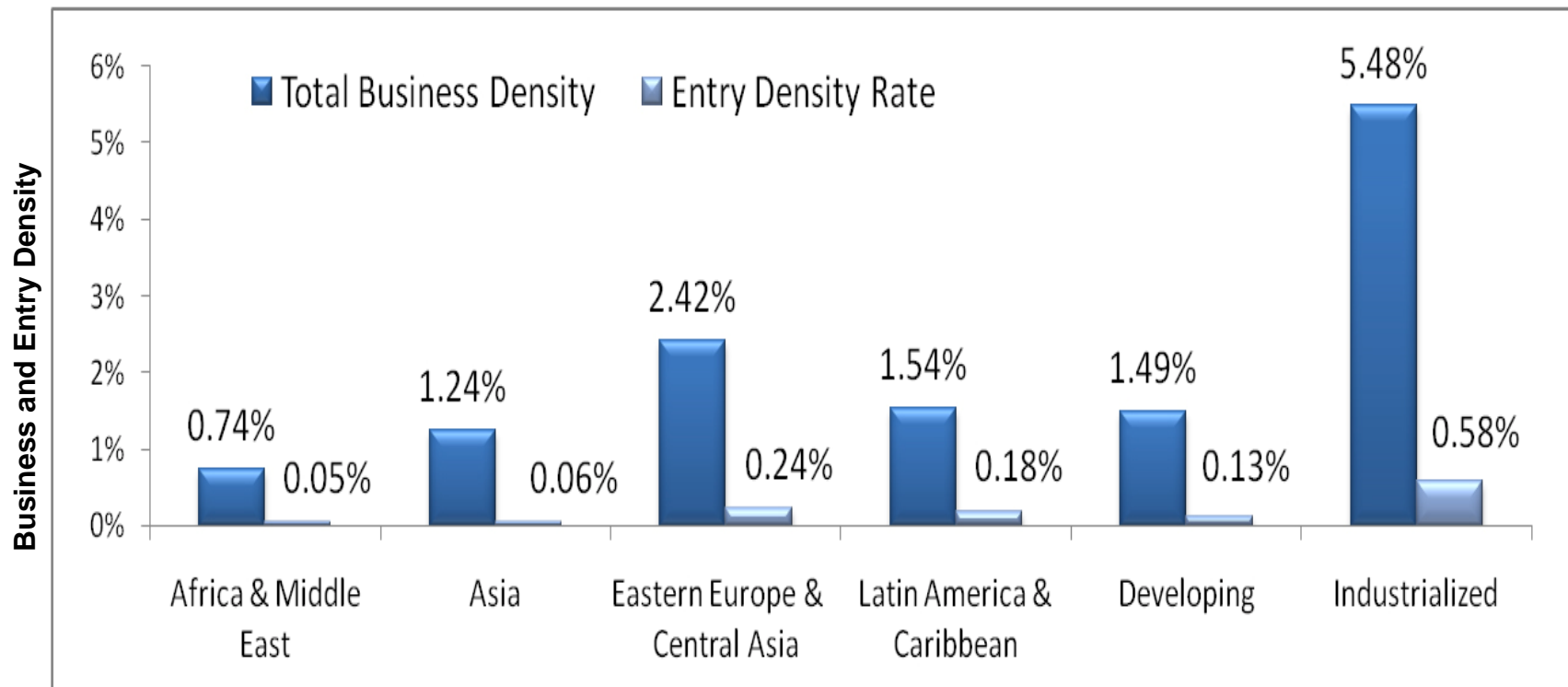
- Total and new Limited Liability Companies

To calculate

- Entry density rates
- Total business density
- Entry rates
- Trends

Number of countries: 100

2. Panel A: Summary statistics, by region (3-year averages)

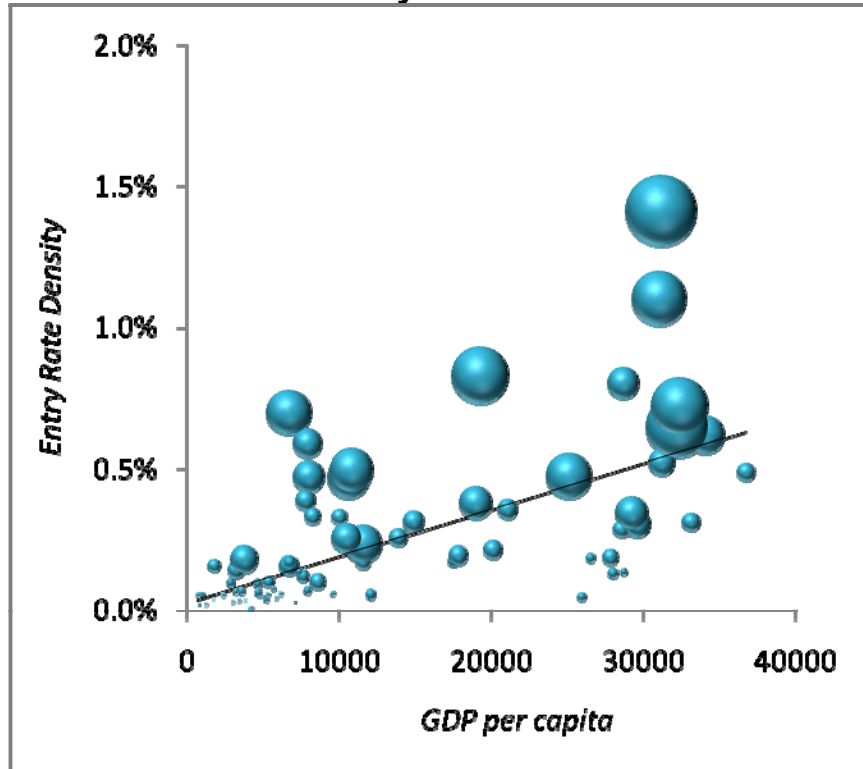


Click the link below to view the data in Business Planet

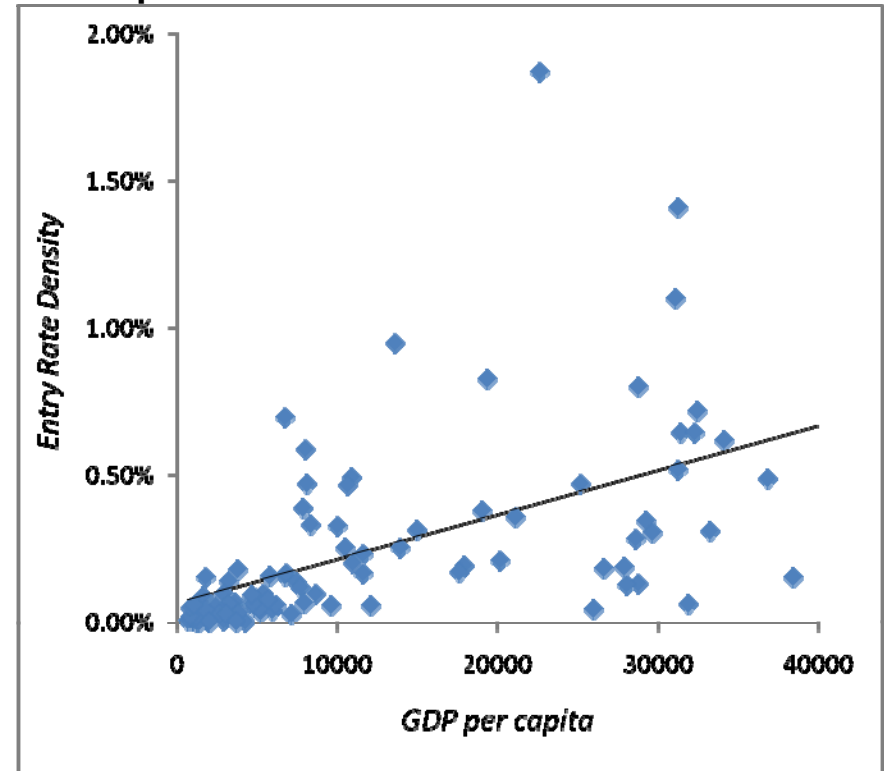
<http://rru.worldbank.org/businessplanet/default.aspx?pid=8>

Panel A: Summary statistics (3-year averages)

Entry Rate Density, GDP per Capita, and Total Business Density



Entry Rate Density and GDP Per Capita

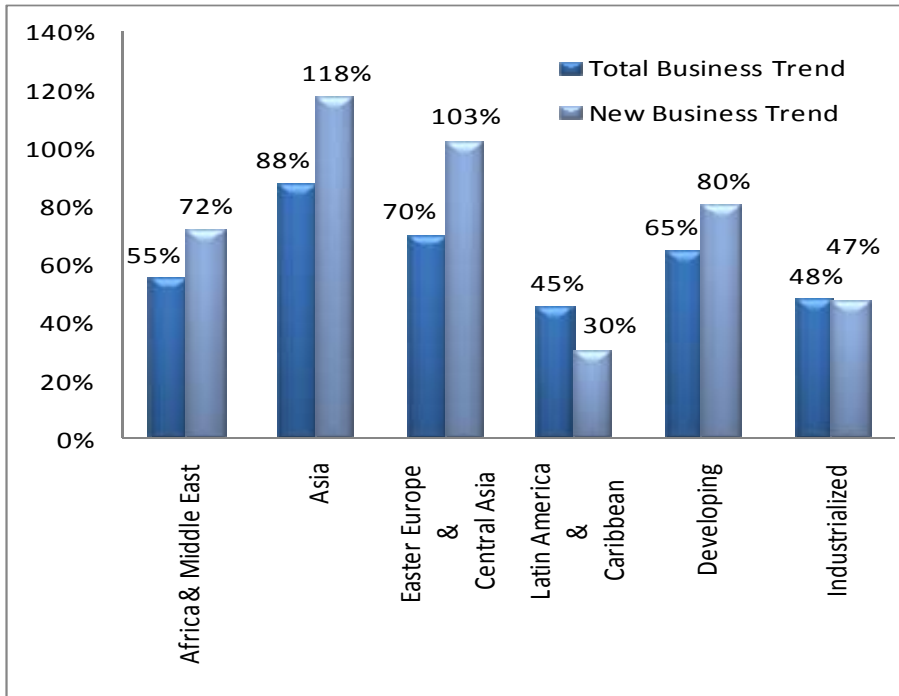


These figures show the strong and significant relation between entry density, business density, and GDP per capita. *Click the link below to view changes in the relation between measures of entrepreneurial activity and GDP per capita over time.*

<http://econ.worldbank.org/research/entrepreneurship>

Panel A: Summary statistics, by region

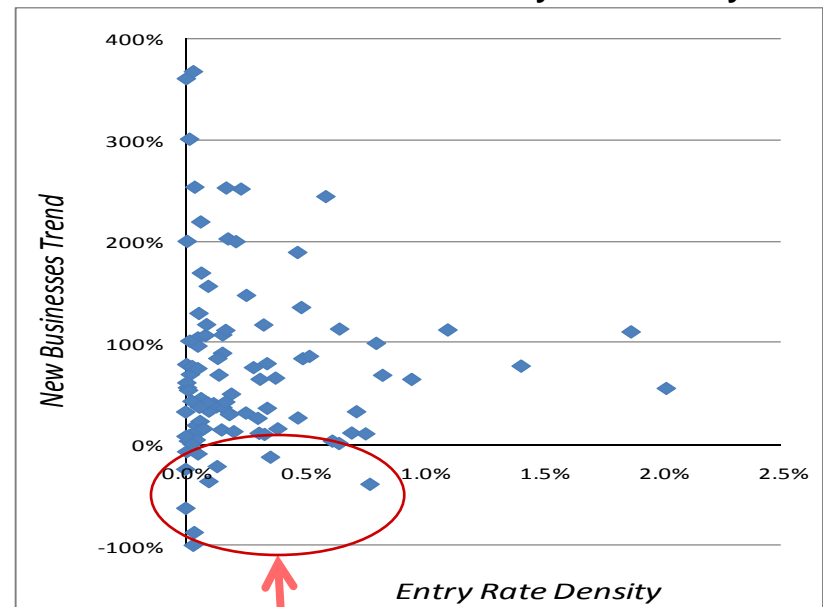
Total and New Businesses Trends



2008 WBGES provides enough historical data to establish trends in the number of new and total businesses during the eight years period 2000/2008. Developing countries have a higher trend in both the number of total and new businesses, with some of the countries doubling their numbers during the period, whereas industrialized countries show little variation during the same period.

Countries with a higher percentage increase in the number of new businesses have a significantly lower entry density rate, further confirming the perception that large changes in the number of total and new businesses is a characteristic of developing countries, as opposed to industrialized countries, which tend to have more stable business demography.

New Businesses Trend vs. Entry rate Density



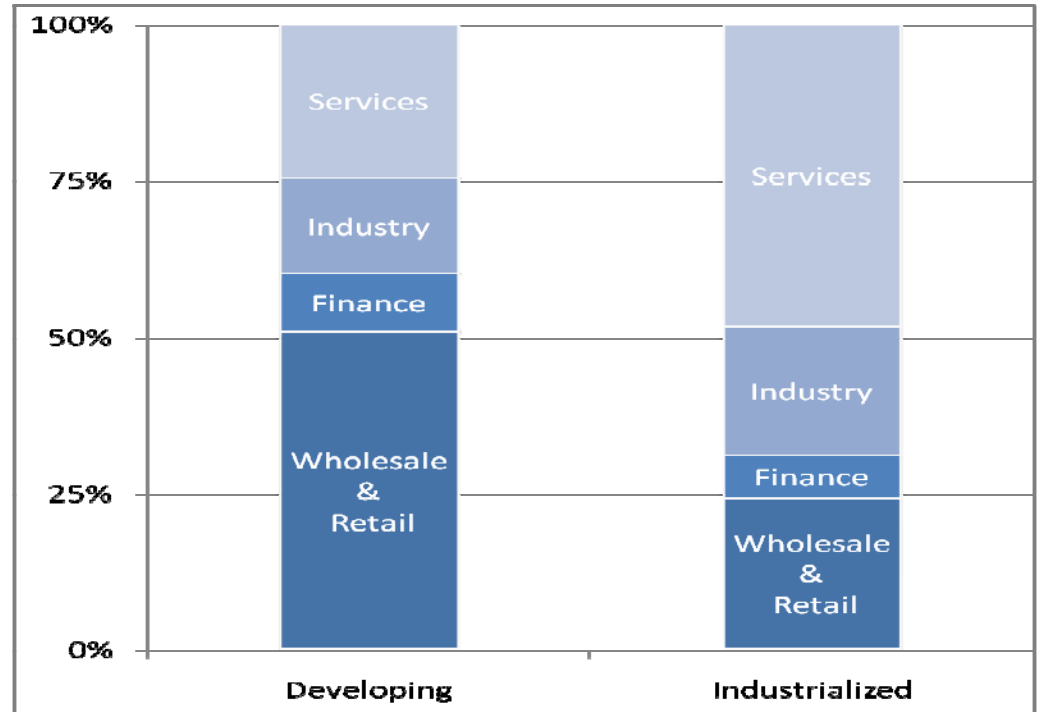
The majority of the surveyed countries with a negative business growth suffered a war, civil unrest, or remarkable political instability during the eight-year period.

Data collected from 46 countries on existing and new businesses disaggregated by the following sectors of activity:

- Wholesale & Retail
- Industry
- Finance
- Services

Panel B: Summary statistics, by sector

The distribution of businesses across sectors of activity shows a strong asymmetry between the trade and service sectors in developing and industrial countries. In developing countries the share of businesses in the wholesale and retail trade amounts for almost 50 percent of the number of total business, while the share of this sector in industrialized countries is barely above 20 percent. Conversely, the services sector of industrialized countries amount for almost 50 percent of the total businesses, while in the developing countries it represents little more than 20 percent.

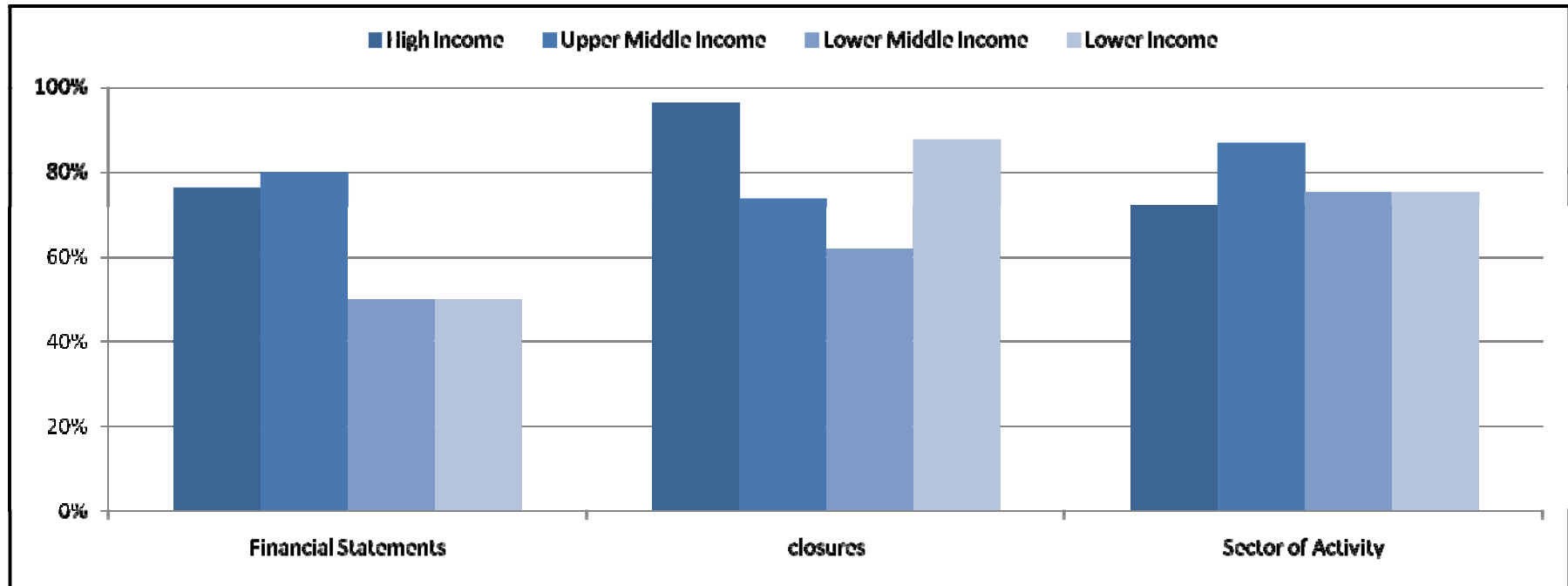


In countries with more costly and timely barriers to entry, registered firms are more likely those with the greatest incentive to formally register, for instance, in order to receive a Value Added Tax (VAT) number, which might be required for domestic and international sales

In order to better understand the structure and functioning of the Business Registries around the world, the WBGES collected information on:

- Information required to register
- How do firms register
- Remote registration
- Number of business registries in the country
- Registration fees
- Registrar data distribution
- Data and registry ownership
- Case Studies

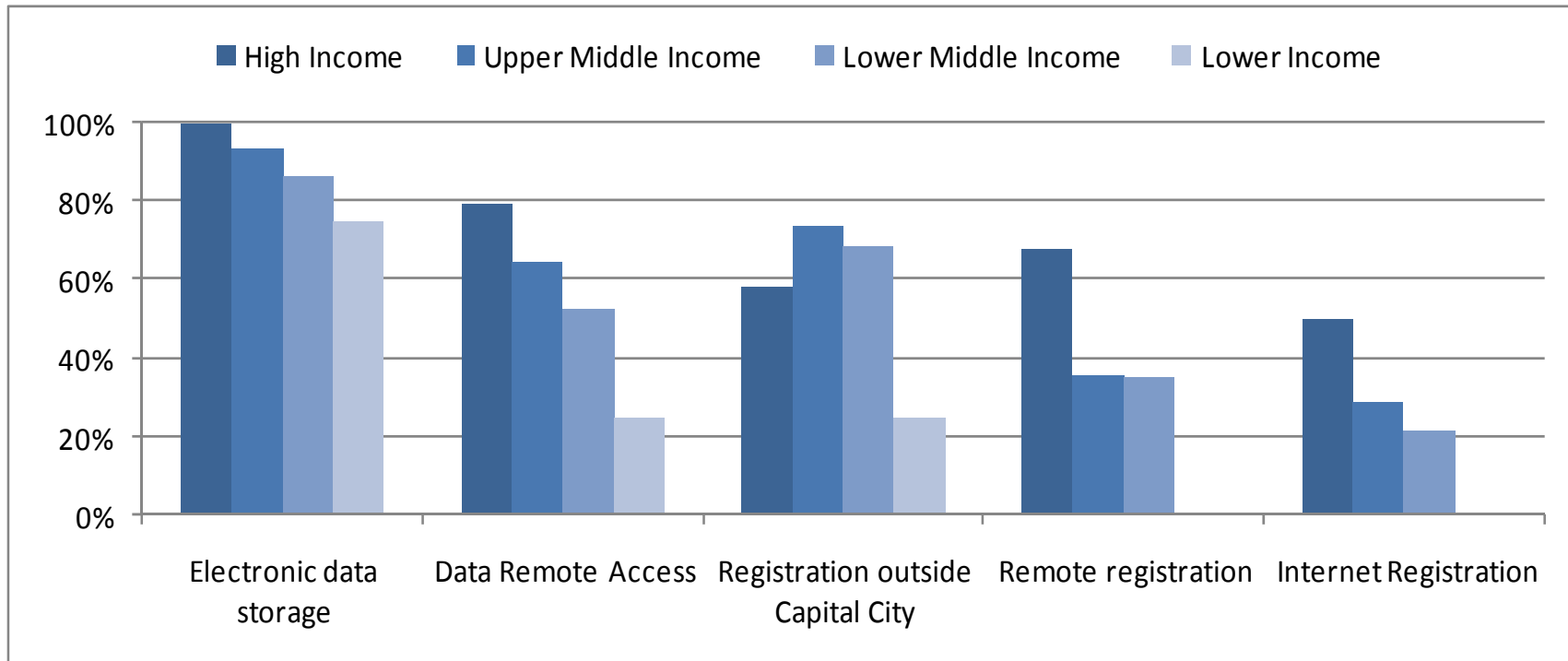
Panel C: What information are required of firms to register?



The data collected by the WBGES 2008 facilitates the assessment of the functioning and degree of modernization of business registries around the world. This figure shows that the majority of the countries surveyed require their business to file their financial statements, to report closure, and report about their sector of activity. Nevertheless, the data gathering process revealed that while most of the countries had regulation compelling the business to provide such information, few had mechanisms to enforce such an obligation. As a result, many developing countries may not have accurate records on business that have ceased to exist.

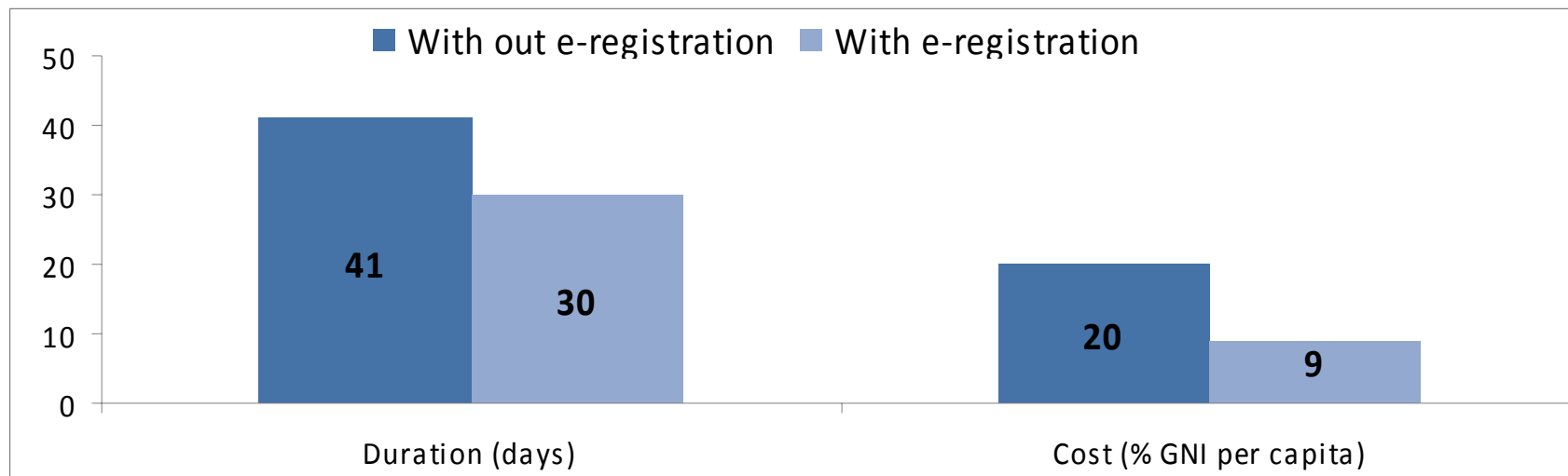
Panel C: How do firms register?

Automating a business registry is a phased process going from a paper-based decentralized registry to an electronic registry, which facilitates remote access and registration. The percentage of countries entering the automation process (electronic data storage) is similar regardless of their stage of economic development. But differences arise as the process advances, resulting in a wide gap between industrialized and developing countries in the latter steps. None of the low-income countries surveyed have implemented remote or internet registration, compared to 50 percent of high-income countries.

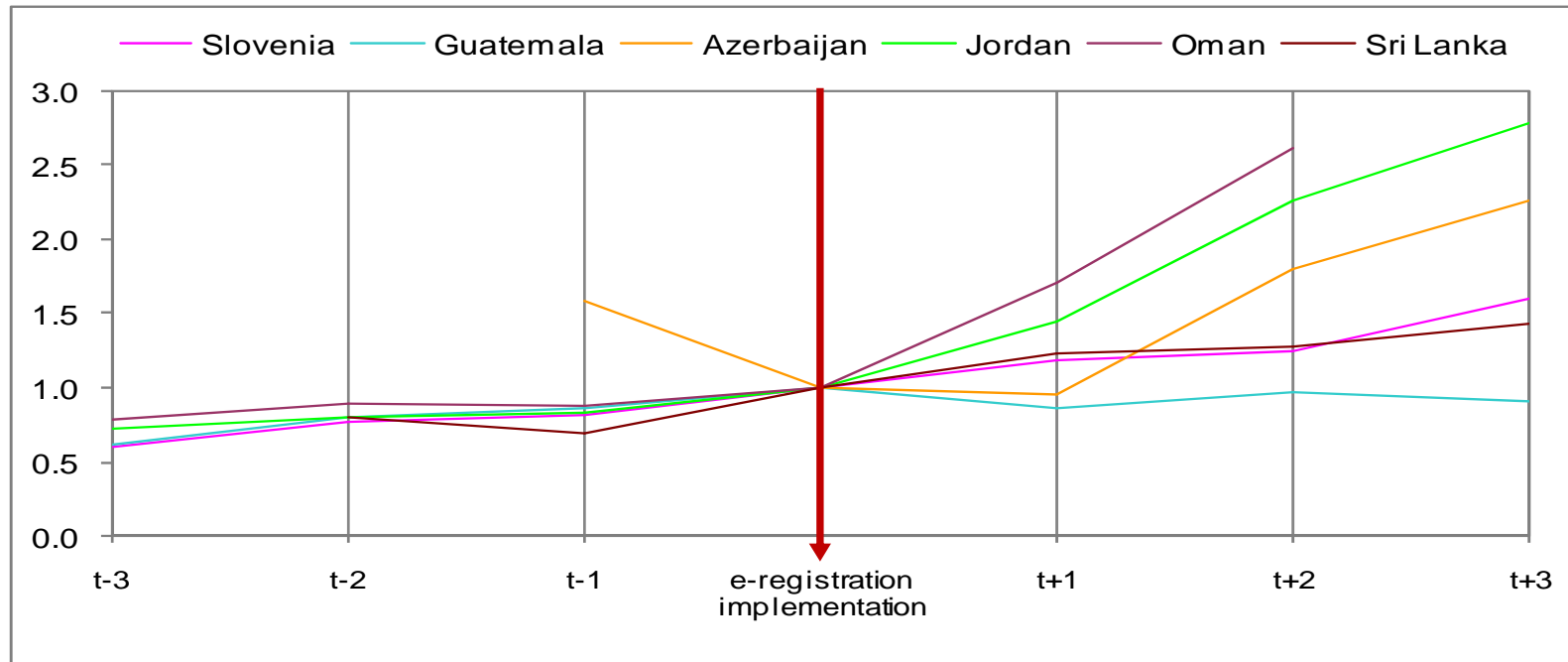


Panel C: What is the relationship with the business environment?

It is difficult to isolate the causality between the implementation of electronic registration, improvements in the business environment, and the creation of new businesses. But, the WBGES 2008 data suggest that business registry modernization provides a more favorable business environment for starting a business and facilitates the business creation process. Countries with remote registration (internet, telephone, “one-stop shops”, etc) require 30 percent less time to start a business, and costs are reduced by 50 percent (*Doing Business Report 2009*)



Panel C: EBR Country Cases



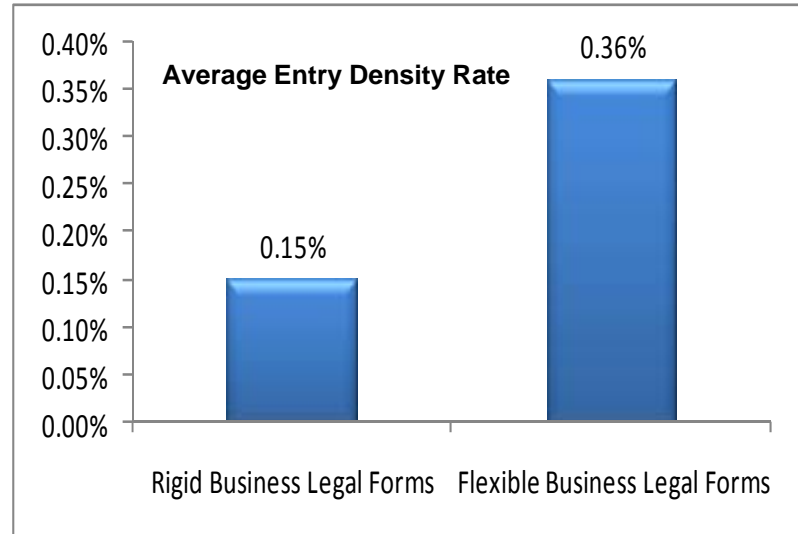
This figure illustrates the evolution of entry rate density three years before and after implementation of electronic registration for six developing countries. The data suggest a strong relation between the implementation of electronic registration and the number of new business registered, as all these countries have witnessed an increase of more than 30 percent after the full implementation of their e-registries. A necessary caveat is that business registration modernization might be part of a broader package of regulatory reforms, and we do not control for business cycle effects.

To better understand the legal forms favored by entrepreneurs, the survey collected information on the main characteristics of the three prevalent legal forms in 59 countries:

- **Percentage registration of each legal form**
- **Registration requirements**
- **Legal Entity**
- **Minimum and maximum number of shareholders**
- **Liability**
- **Transferability of shares**
- **Possibility of “going public”**
- **Taxation**
- **Minimum capital requirements**

Panel D: Business Legal Forms, Findings

Data from 59 countries show that entrepreneurs tend to choose the simplest legal form available, requiring only one shareholder and with low capital requirements. In developing countries, simpler legal forms generally impose restrictions in the transferability of shares and cannot be publicly traded. Moreover, the data suggest that those countries that have more flexible legal business forms enjoy a higher entry rate than those that impose more requirements, such as limitations in the number of shareholders.

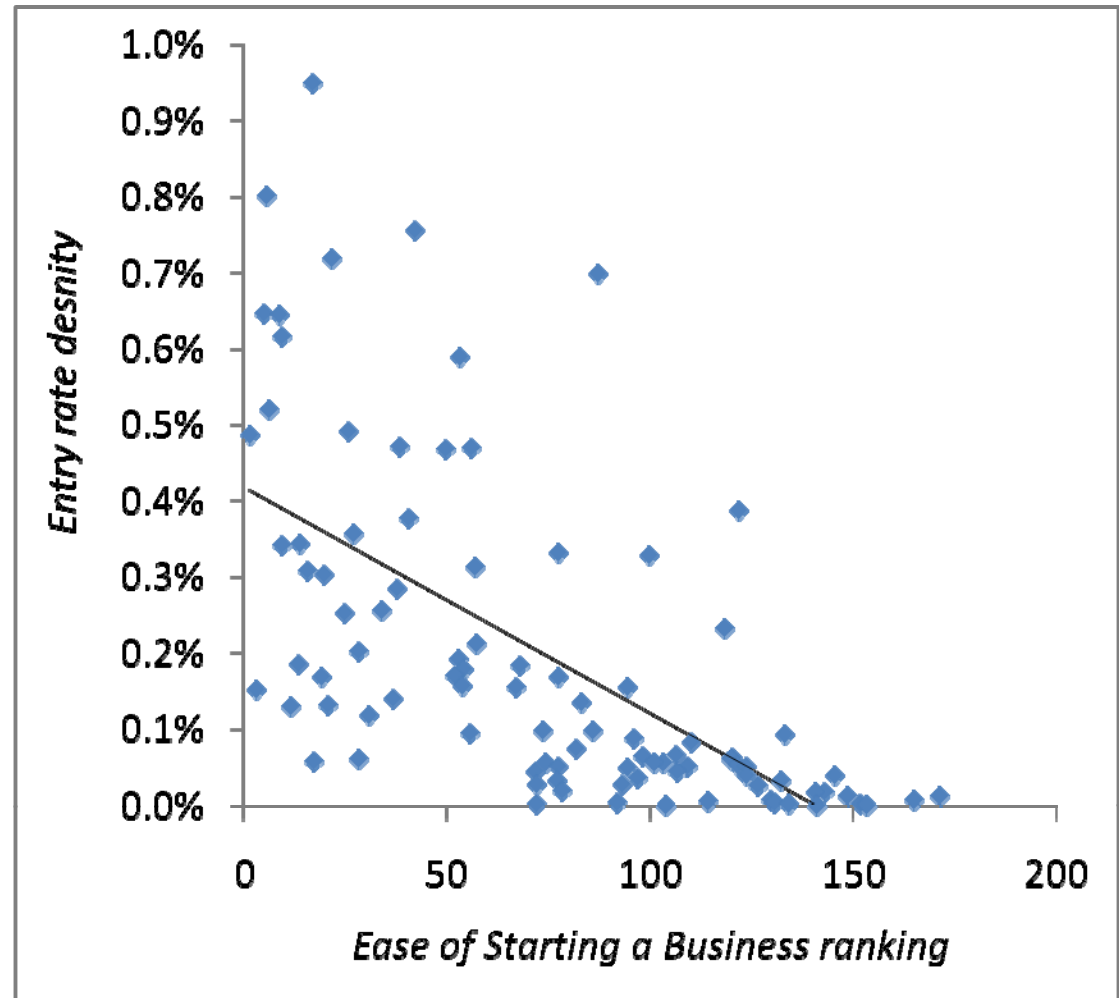


	Developing Countries	Industrialized Countries
Prevailing Legal Form	Joint Stock Company	Limited Liability Company & Sole Proprietorship
Business Regulation	Endemic	Homogeneous
Requirements	Complex	Simplified

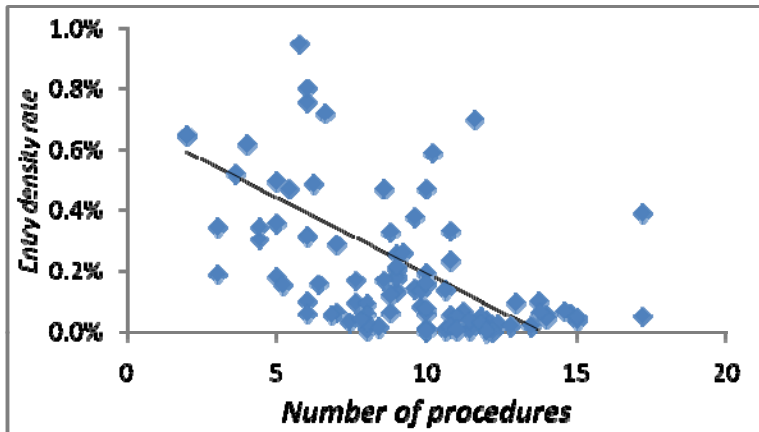
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Entrepreneurship & Business Environment

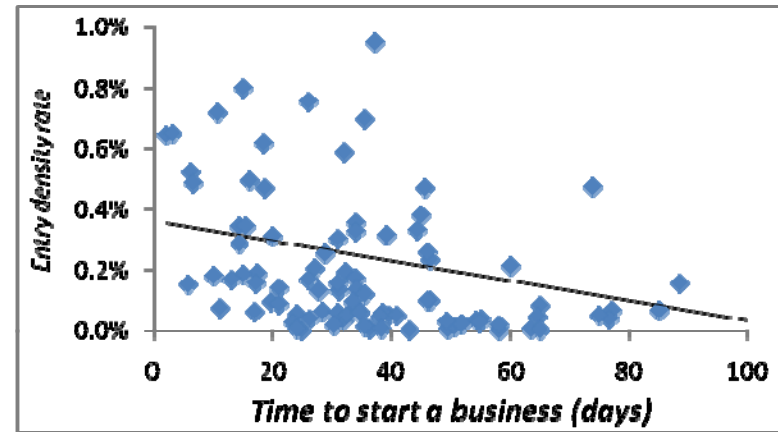
From the set of ten indicators that compose the Doing Business report, the “ease of starting a business” indicator is the one that better measures the bureaucratic and legal hurdles an entrepreneur must overcome to incorporate and register a new firm. The data show a strong and significant relation between a cheap and fast incorporation process as measured by the Ease of Starting a Business ranking, and the number of new businesses per capita (after controlling for economic development).



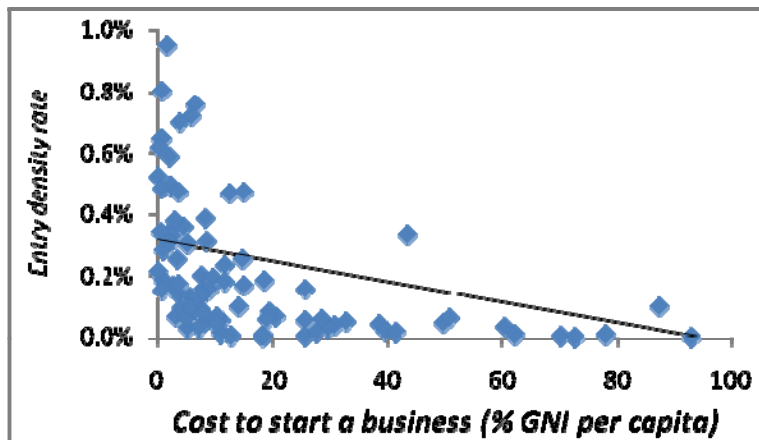
Panel A: Number of Procedures



Panel B: Time (in days)

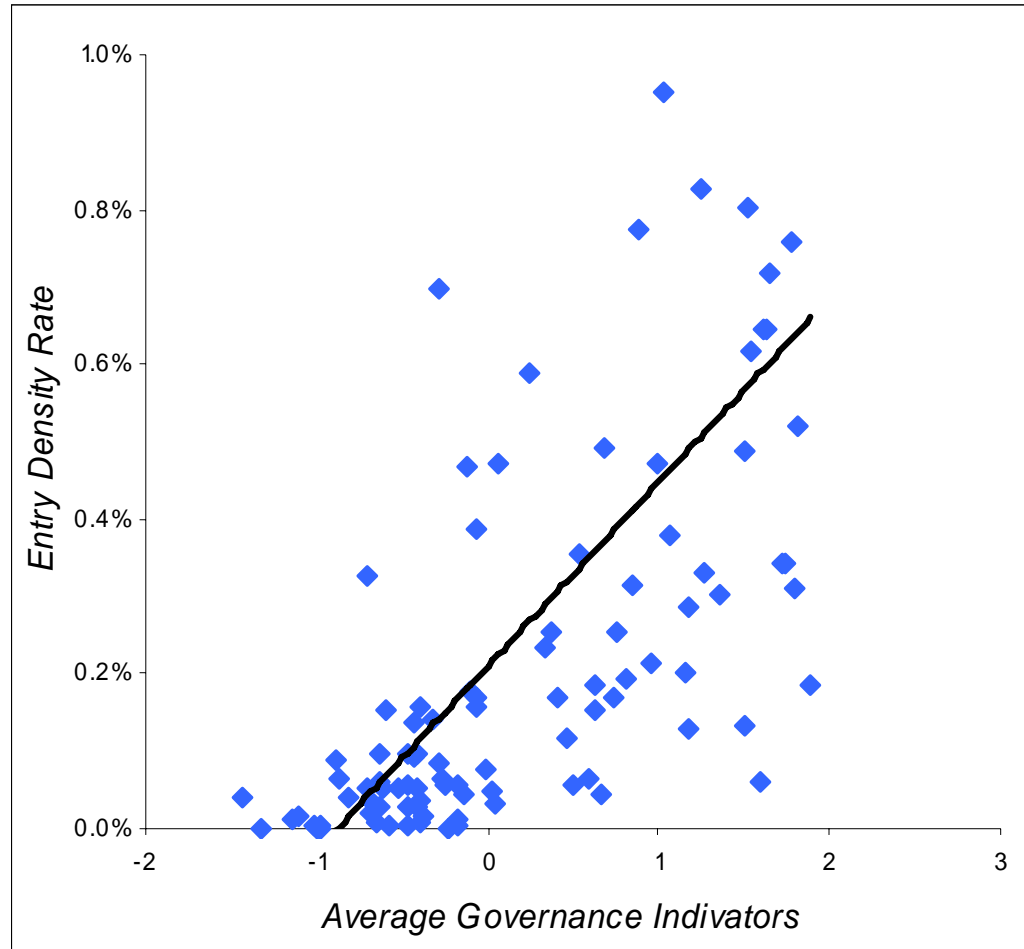


Panel C: Cost of starting a business



These graphs show the relation between entry density rates and three of the Ease of Starting a Business sub-indicators (number of procedures, time in days, and cost to start a business), further corroborate the assumption that “red tape” reduction can promote business creation. The relationships are significant, even after controlling for economic development.

The data reveals an inverse relationship between political risk and business creation. Countries with lower political risk have significant higher business entry rates. Using the average of the six Kaufmann Governance Indicators (voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption) to measure good governance, the data show a strong and significant relationship between higher business entry rates and better governance.



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Conclusion

Conclusions

In its third year, the 2008 World Bank Group Entrepreneurship Survey (WBGES) continues to show that a good regulatory environment can boost entrepreneurial activity in developing countries.

- For instance, the country with the highest density of new business per capita is New Zealand (27%), which ranks number one in *Doing Business 2009* ranking for *Starting a Business*. In comparison, the country surveyed with the lowest entry rate density is Haiti (1%), which ranks 176 (out of 181 countries).

The 2008 WBGES finds significant differences between developing and industrial countries. For example, industrial countries are categorized by:

- High business density rates
- Low growth rates in the number of new businesses over time
- Large service sectors (and relatively small wholesale and retail trade sectors)
- Electronic business registries offering remote business registration
- The availability of simplified business legal forms.

With broader coverage of developing countries, the 2008 WBGES and future surveys will continue to support a deeper and more comprehensive understanding of conditions that can encourage entrepreneurship, and as a policy tool to measure the impact of policy reforms to create new firms and stimulate economic growth.

Annex 1: Regressions Predicting Entry Density

The dependent variable is the three-year average of entry density, 2005- 2007, or the last three available years. *GDP per capita* is from WB-WDI statistics. *Entry Cost* and *Entry Procedures* are the total costs (as a percentage of GNI) and number of procedures required to start a business, respectively (*Doing Business 2009*). *Ranking* is the *Doing Business 2009* country ranking for *Starting a Business* (where 1 is the highest ranking). *Governance* is the index from Kaufman and others (2008). Robust p-values are shown in brackets.

Log GDP per capita	0.0017*** [0.000]	0.0014*** [0.000]	0.0009*** [0.000]	0.0010*** [0.000]	0.0005 [0.186]
Entry Cost		-0.0008* [0.093]			
Log Entry Procedures			-0.0029*** [0.009]		
Log Ranking				-0.0013*** [0.000]	
Governance					0.0018*** [0.004]
Constant	-0.0124*** [0.000]	-0.0100*** [0.000]	0.0003 [0.933]	-0.0013 [0.633]	-0.0019 [0.525]
Observations	99	97	97	97	99
R-squared	0.307	0.332	0.453	0.473	0.368

Astericks *, **, ***, indicate significance at 1%, 5%, and 10%, respectively.



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<http://econ.worldbank.org/research/entrepreneurship>