Entrepreneurship around the World—Before, During, and After the Crisis

The 2014 World Bank Entrepreneurship Database provides a unique indicator of new business registration, allowing the measurement of entrepreneurial activity across economies and over time. The most recent data show that by 2012, only 56 percent of economies around the world had reached the level of new firm creation that they had achieved before the global financial crisis hit in 2007. The pace of new firm creation has been slightly stronger in developing than in developed economies. And the share of economies with year-on-year growth in the rate of firm creation is now higher in the developing than in the developed world.

Background

The Entrepreneurship Database collects comparable cross-country data on new business registration with the aim of facilitating a greater understanding of the dynamics of private enterprises around the world. The data also allow a deeper understanding of the trends in new firm creation, the relationship between entrepreneurship and the business environment, and the effect of the economic shocks on entrepreneurial activity.

The 2014 edition of the Entrepreneurship Database covers 139 economies. It builds on earlier editions while incorporating improvements in methodology and adding newly participating low- and middle-income economies. This year, nine economies—including Botswana, Nepal, South Sudan, Thailand, and Zambia—participated for the first time. Data were collected directly from the registrar of companies, the entry point for entrepreneurs joining the formal sector.

The main Entrepreneurship Database indicator measures entry density—defined as the number of newly registered firms per 1,000 working-age adults (ages 15–64) per year. This indicator quantifies the impact of regulatory, political, and macroeconomic institutional changes on new business registration, a vital component of a dynamic private sector. The main input for calculating entry density is the number of newly registered companies with limited liability (or its equivalent). A limited liability company is one in which the financial liability of the firm's members is limited to the value of their investment in the company. The company is a separate legal entity that has its own privileges and liabilities. Because the database excludes firms without limited liability as well as informal firms, it does not provide comprehensive coverage of firms in the 139 economies.

This SmartLesson summarizes the main findings of the 2014 Entrepreneurship Database, focusing on the following questions:

- How does new firm creation vary around the world, and what are the trends?
- What has the pace of recovery been since the financial crisis, and what are the differences across economies and income groups?
- What is the effect of business registration reforms on new firm creation?
Lesson 1: Trends in entry density around the world correlate with development but are subject to change over time.

Entry rates vary widely across economies and income groups and are highly correlated with the level of development in an economy. In 2012, about 5 new limited liability companies registered for every 1,000 working-age adults in high-income economies. By comparison, entry density was about 3 in upper-middle-income economies, about 1 in lower-middle-income economies, and close to 0 in low-income economies (Figure 1).

There are also considerable differences within regions. For example, while entry density in most economies in Sub-Saharan Africa was less than 1 in 2012, it was about 7 in South Africa and about 12 in Botswana. Economic growth in past years is the main explanation for such variation.

In some economies the pace of firm creation picked up strongly in 2012, compared to the previous year. Norway had one of the biggest increases, at 56 percent. The total number of new limited liability companies registering in the country went up from 16,405 in 2011 to 25,870 in 2012. Rwanda saw its entry density increase by 39 percent, to reach a level of 1 new firm per 1,000 working-age adults, and the number of new limited liability companies rose from 4,627 in 2011 to 6,655 in 2012.

Lesson 2: The share of economies with positive growth in entry density became higher in developing economies than in high-income economies.

The economic environment is radically altered during any crisis, fundamentally changing conditions for start-ups. Lack of credit, uncertainty about the future, and lower aggregate demand are among the challenges that contribute to an uninviting business climate for entrepreneurs.

Patterns of growth in entry density can help in analyzing the effect of the global financial crisis. Changes in the share of economies with positive year-on-year growth in entry density illustrate the impact that the crisis had on most economies (Figure 2). In 2007, more than 70 percent of economies experienced positive growth in entry density. This share changed dramatically in the following years as a result of the global financial crisis. In 2009, the share dropped to 34 percent.

Among high-income economies, the share with positive growth in entry density dropped from 80 percent in 2007 to 26 percent in 2009. Moreover, between those years the level of entry density fell by approximately 20 percent. In 2010, the share of high-income economies with positive growth in entry density almost bounced back to the pre-crisis level, though this was not sustained in the following two years.

The data show similar trends in the developing world, though at different magnitudes. While the effect of the crisis hit high-income economies almost immediately, there was a one-year delay in the developing world. In 2009, only 40 percent of developing economies had positive growth in entry density, down from 70 percent the year before.

Among developing economies, the growth in entry density varied by income level. While 71 percent of low- and lower-middle-income economies had positive growth in entry density in 2012, only 59 percent of upper-middle-income economies did. Among a group of low- and lower-middle-income economies, Zambia saw its entry density more than double in the six years from 2006 to 2012 (Figure 3).

By 2012, the share of economies with positive growth in entry density was higher in the developing than in the developed world. Developed economies not only suffered harsher effects from the crisis, but they also appear to have had a more difficult time achieving a sustainable recovery.

Lesson 3: Requirements for business registration relate to entrepreneurship.

Earlier research using the Entrepreneurship Database showed that the costs and bureaucracy involved in registering a company can be an obstacle for entrepreneurs. The most recent data, covering the period 2006–2012, continue to show a significant relationship between entry density and
the cost to start a business (Figure 4). Higher costs—along with longer waits and higher minimum capital requirements—provide bigger incentives for start-ups to remain informal and can even deter entrepreneurs from pursuing their business ideas.

So it is no surprise that reforms making it easier to register a company can boost firm registrations. Reductions that exceed 50 percent are most likely to have an effect on firm creation. In addition, research shows that reforms affecting more than one aspect of business registration can have important complementary effects. In 2009, Zambia made starting a business easier by both eliminating the minimum capital requirement and lowering the cost to register a company. This reform increased the incentives for entrepreneurs to operate in the formal sector. Entry density in the country increased by 60 percent over the following three years, from 0.85 new firms per 1,000 working-age adults to 1.36 (see Figure 3).

Indonesia is another example. In 2009, the country reduced the cost of registering a company from 75 percent of gross national income per capita to 25 percent. In that same year it also implemented reforms reducing the procedures and time required. By introducing online services, eliminating requirements for certain licenses, and increasing efficiency at the registry, Indonesia was able to cut two procedures and 16 days from the registration process. Over the following three years, entry density in Indonesia increased by more than half (see Figure 3).

Similar reforms making it easier to start a business took place in many other economies across the developing world. And it is possible that they lessened the impact of the crisis on entrepreneurship.

**Conclusion**

The 2014 Entrepreneurship Database allows researchers to examine the impact of the global financial crisis on firm creation. The data show evidence of recovery, especially in low- and middle-income economies. More importantly, the data allow a close look at the pace of recovery in individual economies and in different income groups. The database can also be an important tool to help policymakers understand what drives growth in formal entrepreneurship.