The World Bank Group Entrepreneurship Survey
The Impact of the Financial Crisis on New Firm Creation:
What Explains Differences Across Countries?

The 2008 World Bank Group Entrepreneurship Survey (WBGES) collected data directly from Registrar of Companies in over 100 countries around the world on the number of total and newly registered corporations. The data showed that a better business environment, such as lower costs and time required to register a business, promotes greater entrepreneurship (after controlling for economic development and growth). In addition, computerization and automation of the registration process is found to reduce the regulatory barriers to starting a business and is related to growth in the formally registered private sector.

The 2010 World Bank Group Entrepreneurship Survey (WBGES) continues to illustrate the importance of entrepreneurship in the dynamism of the modern economy. The 2010 WBGES is especially valuable because it provides unique and timely insight into the impact of the financial crisis on entrepreneurial activity. The database includes cross-country, time-series data on the number of total and newly registered limited liability corporations from 2000 to 2009 in over 100 countries worldwide. In addition, the database includes new information on the registration processes within each country allowing analysis of the relationship between registry modernization on entrepreneurial activity.

The 2007-08 financial crisis impacted economies across the globe in a variety of ways. Yet, comprehensive, cross-country data exploring the dimensions of the impact of the crisis on entrepreneurial activity remains scarce. The 2010 WBGES database can provide insight into the following questions:

(1) To what degree did the financial crisis impact entrepreneurial activity in the formal sector?

(2) Did the relationship between the regulatory environment and entrepreneurial activity change during the financial crisis?

(3) In a crisis, how relevant are other measures that have traditionally been predictive of entrepreneurship trends, such as GDP per capita, access to credit, and corruption?

1 The complete database is available at: http://econ.worldbank.org/research/entrepreneurship.
2 The data collection process began in January of 2010 and is still underway. As of March 10th, data has been collected from 72 countries. We anticipate the final dataset to be completed in April.
Importantly, data on the number of formal businesses has only been available since the computerization of registries, so the 2008/08 financial crisis is the first crisis with available data for emerging markets.3

Preliminary data for 65 countries shows that nearly all countries experienced a sharp drop in business entry during the crisis (Figure 1). Only 15% of countries experienced growth in new business entry between 2008 and 2009, calculated as newly registered corporations normalized by population, compared with 74% between 2006 and 2007. The decline in business entry varies greatly across income categories with upper-middle income countries experiencing the sharpest drop.

Figure 1: Entry Density 2000-2009, by income level

Figure 2 plots coefficients from a simple multivariate regression with the change in business entry regressed on country and year fixed-effects. All coefficients for the year dummy are significant, with the exception of 2008 which suggests the lagged impact of the crisis.

Figure 2: Coefficients on the Relationship between Entry Density and Year

3 According to the 2008 WBES survey responses; almost all developing countries automated their registries after 2001.
More interesting, perhaps, is the shift in the relationship between the regulatory environment and entrepreneurial activity. Between 2003 and 2007, the change in new business entry is significantly and positively associated with the strength of the regulatory environment (after controlling for GDP per capita). That is, countries in which it is time-consuming and costly to register a business experienced less growth in new business entry than those with a cheap and modernized registration process (Klapper, et al, 2009). During the crisis, however, the strength of the regulatory environment loses its predictive power on entrepreneurial activity. Essentially, these preliminary results suggest that a strong regulatory environment cannot safeguard an economy against a sharp contraction in new formal business entry during a financial crisis.