

Latent entrepreneurship in transition economies

Some entrepreneurs and would-be entrepreneurs face financial and bureaucratic barriers to starting a business

Keywords: latent entrepreneurship, attempted entrepreneurship, self-employment

ELEVATOR PITCH

Because entrepreneurial activity can stimulate job creation and long-term economic growth, promoting entrepreneurship is an important goal. However, many financial, bureaucratic, and social barriers can short-circuit the process of actually starting a business, especially in transition economies that lack established institutional systems and markets. The main obstacles are underdeveloped financial markets, perceptions of administrative complexity, political and economic instability, and lack of trust in institutions. Gender disparities in the labor market are also reflected in less entrepreneurial activity among women than men.

KEY FINDINGS

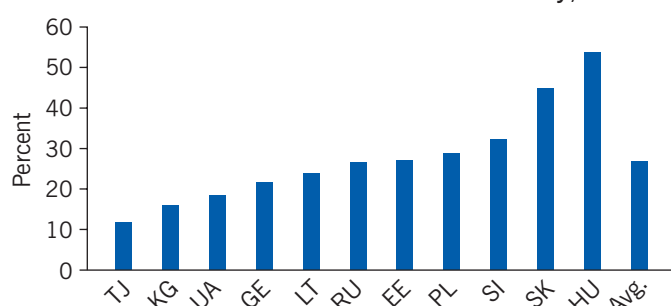
Pros

- ⊕ Increasing access to finance and loans helps latent entrepreneurs move to the next stage of trying to start a business.
- ⊕ Reducing the number of procedures required to start a business can make it easier for latent entrepreneurs to become active entrepreneurs.
- ⊕ While there are fewer women than men at each stage of entrepreneurship, women are as likely as men to successfully start a business once they attempt it.
- ⊕ Social capital is especially helpful for women's entrepreneurship, indicating that it can compensate for the connections and resources they are less likely to gain in the labor market.

Cons

- ⊖ Many people who would like to be entrepreneurs never progress beyond latent entrepreneurship, especially in transition economies.
- ⊖ Underdeveloped financial markets and inadequate financial capital remain serious obstacles to the expansion of entrepreneurship.
- ⊖ Perceptions of administrative complexity, political and economic instability, and lack of trust in institutions are key impediments to starting a business.
- ⊖ Less entrepreneurial activity among women than men mirrors gender disparities in the labor market.

The share of latent entrepreneurs who try to start a business in transition economies varies widely, 2010



Source: Calculations using data from the 2010 World Bank and EBRD Life in Transition Survey. Online at: <http://www.ebrd.com/news/publications/special-reports/life-in-transition-survey-ii.html>

AUTHOR'S MAIN MESSAGE

Increasing the number of people who want to be entrepreneurs and making it easier to start a business can create jobs and stimulate economic growth, especially critical in low-growth transition economies. But there are many obstacles in the way of achieving such gains. Easing access to financing, simplifying start-up procedures, and building trust in the financial and judicial systems are among the key policies for boosting the rate of business start-ups. By removing barriers and encouraging more people to become entrepreneurs, such policies can deepen the pool of potential entrepreneurs and free entrepreneurs to develop their ideas and fuel growth.