

Entrepreneurship in Developing Economies: The Bottom Billions and Business Creation*

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Abstract

Over 100 million of the 1.8 billion midlife adults living on less than \$15 a day are attempting to create new firms. Another 110 million are managing new ventures. This is almost half of the global total of 450 million individuals involved with 350 million start-ups and new ventures. They are responsible for almost half of all new firms and one-third of new firm jobs. For the poor, business creation provides more social and personal benefits than illegal and dangerous migration, criminal endeavors, or terrorism. Almost all of the business creation by the bottom billions occurs in developing countries, half are in Asia. The ventures initiated by the bottom billion are a significant proportion of all firms expecting growth, exports, an impact on their markets, and

* Ayman El Tarabishy suggested using the GEM data set to explore this topic resulting in the first draft of the assessment dated 7 December 2011. This substantial revision reflects suggestion made by Tomasz M. Mckiewicz to adjust all measures of income to a harmonized global standard, proposals by Erkkö Autio to use multi-level modeling to examine the relative impacts of individual and national factors, and comments from Elena Bardasi that more complete information about the basis for developing the estimates of daily income would be helpful. The author alone is, of course, responsible for any errors of omission or commission.

in high tech sectors. Assessments based on multi-level modeling suggest that young adults, whether they are rich or poor, in countries with access to informal financing and an emphasis on traditional, rather than secular-rational, and self-expressive values are more likely to identify business opportunities and feel confident about their capacity to implement a new firm. Such entrepreneurial readiness is, in turn, associated with more business creation. Compared to the strong associations of informal institutions with business creation, formal institutions have very modest and idiosyncratic relationships. Expansion of access to secondary education and early stage financing may be the most effective routes to more firm creation among the bottom billion.