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Impact of National Policy and Legal Environments on Employment Growth and Investment in Micro and Small Enterprises

by

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Foreword

Policies, institutions and regulations that are conducive to small enterprise development can make a substantial contribution to employment creation. This working paper contributes to the discussion about growth and employment creation in micro and small enterprises (MSEs) by relating employment growth and investment behaviour to underlying national policy differences.

This paper is one of the outcomes of a broader international ILO research project on how policy and regulatory environments have an effect on the volume and quality of employment created by small enterprises. Enterprises in Chile, Guinea, Pakistan, Peru, South Africa, Tanzania and Viet Nam participated in this study and the present analysis is based on firm-level data collected during the research process in each country. The research has been funded through the Netherlands Partnership Programme with the ILO, and the ILO would like to thank the Government of the Netherlands for its ongoing support for small enterprise development.

The analysis shows that national policy environments affect MSEs and that employment creation takes place in micro enterprises where growth rates are high. Growth rates drop as micro enterprises become larger and barriers to entering the formal economy are observed. The formal status of enterprises is still seen to facilitate growth since registration gives a more legitimate status in input and output markets. Access to national markets and export markets is important for employment creation and access to credit is found to be a significant determinant of investment within firms.

These findings are important as they further stress the need for focusing on the barriers and constraints to growth that MSEs face in many countries. Entry into the formal economy comes at a cost but it also opens up opportunities for growth. A common challenge for governments and international agencies is to reduce barriers to growth and to facilitate enterprises' entry into the formal economy. Formal status and improved enabling environments do create better prospects for employment creation in small enterprises.

The research activities are leading to new policy training materials and policy guidelines. Through action programmes at country and regional levels, IFP/SEED works with national stakeholders to assess the policy environment and to strengthen national and local capacities to design, implement and evaluate policy reform. A database on national policies, laws and regulations pertaining to small enterprise development and a range of survey data is also maintained and can be consulted on the ILO website at http://www.ilo.org/seed.

This report was written by Micheline Goedhuys and Jens Dyring Christensen. Valuable inputs were provided by Christine Enzler and Gerhard Reinecke, IFP/SEED.

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Executive summary

In the year 2000, the International Labour Organization's (ILO) InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED) initiated the research project "Do decent jobs require good policies – an assessment of the impact of policy and legal environments on the creation and improvement of jobs within small enterprises". The study was designed to improve current knowledge and experience on how national policy and regulatory environments (PLE) affect the employment dynamics and employment quality in micro and small enterprises (MSE). The survey was conducted in seven countries: Chile, Guinea, Pakistan, Peru, South Africa, Tanzania and Viet Nam.

Using firm-level data gathered in these seven countries, this paper tries to shed new light on the impact of policies on firm conduct and performance. The paper analyses employment dynamics in MSEs in the seven different countries and tries to relate successful employment growth and investment behaviour to the underlying policy differences that exist in the seven different countries. Employment dynamics are first analysed in terms of firm specific characteristics and characteristics of the entrepreneur. Subsequently, the focus of the paper turns to the firms in relation to the regulatory environment. The relationship of firms with governments and government agencies and their compliance with registration legislation is presented. Finally, the paper shows to what extent entrepreneurs explain the performance of their firms as due to market conditions, versus determined by policies and regulations. While this analysis is indeed based on the entrepreneurs' personal and subjective view, it reveals some important information on how they view the policy environment, a perception upon which they base their actual investment behaviour and employment decisions.

The paper demonstrates that MSEs are operating in different macro-economic and policy environments. Though some robust determinants of firm performance are observed, the behaviour and performance of firms is clearly also affected by country-specific conditions. Given the importance of knowing the profile of the firms that create employment, an important section of this paper explores which firms create more jobs, or, in other words, explores employment growth rates. An important and robust finding that applies to all countries is that growth in the smallest size classes is very common and growth rates are high. However, the growth rates drop quickly as firms move towards a slightly larger size, turning negative as firms reach the size of about 10 workers. Hence, micro firms grow faster but the growth path is short. This is observed in all the countries, yet in Peru and South Africa, expansion of the micro firms is most common. One exception to this observed growth pattern is Viet Nam. Vietnamese firms maintain a good growth performance, even above the critical size of 10 workers. Jointly with the firm size effect on growth, the age of the firm is also negatively related to growth. Younger firms grow faster, but their growth flattens out after a few initial years of existence. Important changes in the level of employment are indeed less common among mature firms, who tend to keep a more stable employment level.

Controlling for size and age, firms with superior employment creation capacity seem to be found among firms producing for national or export markets, against firms producing for local markets. In addition, firms in urban areas face better growth opportunities. Firm location is indeed an important determinant of employment creation as vicinity of input and output markets create agglomeration economies. It also facilitates registration, as costs incurred to register are possibly lower in urban areas.

Registration with business licence and tax authorities in turn has its impact on employment creation. Controlling for size, age, sector and location, formal registration positively affects employment growth in Peru, Chile and South Africa. The formal status of the firms indeed seems to open up growth opportunities, as firms occupy a more legitimate status in both input and output markets. The entrepreneurs' perceptions with respect to the reasons of entrepreneurial success confirm this. While registration seems to open up chances for growth, still a large share of entrepreneurs are reluctant to register and this is especially the case for the micro-enterprises. In general, small enterprises hold a higher number of registrations and licenses, which shows a direct positive relationship between firm size and formality and corresponds with national legislations and more requirements on the small enterprise segment. Therefore, a positive correlation is also seen between the number of compulsory licenses a government requests from enterprises and the actual compliance as seen in Chile, Peru and Viet Nam.

When entrepreneurs are asked how market conditions versus taxation, regulation and government policies affect their employment decision, markets and premises are ranked as having the largest impact. In line with assumptions, employment expansion seems to be mainly driven by a strong demand for the product, and the availability of good infrastructure to supply it. An additional demand from export markets and the availability of other resources such as equipment, technology, and skills are in general also perceived as favourable for the decision to expand the size of the labour force. Importantly, the policy environment is generally perceived as hampering employment creation. Labour costs, labour regulation, government policies and, especially, taxation are perceived as least conducive factors to firm growth. This pattern is especially observed in some individual countries such as Peru, Tanzania, Pakistan and Viet Nam.

In Peru, despite the excellent growth performance of the smallest firms, the perception of the business environment was quite poor, with labour regulations, labour costs, and taxation and government policies being ranked least conducive to growth. In Tanzania, successful entrepreneurs view their success as thanks to input and output market conditions and despite a constraining policy environment with high taxation, regulation and labour costs. In Viet Nam, taxation is indeed viewed as the influence that is least conducive to employment creation. In a country characterized by very high levels of regulation, and a tax structure discriminating against local firms, informal MSEs seem to have stagnated for taxation reasons. In addition, formal Vietnamese MSEs complain about taxation, but they can overcome the tax burden thanks to superior market opportunities, and better access to resources and finance. In Pakistan, the picture is quite similar to Viet Nam, with employment growth constraints being mainly related to taxation and labour regulation and government policies. Nevertheless, in both Viet Nam and Pakistan, entrepreneurs were quite mild in assessing the impact of policy and economic variables on the growth of their firms. The relatively good macro-economic performance of the Pakistani and Vietnamese economies over the same period may be at the origin of the optimistic perceptions and responses of the entrepreneurs.

The Chilean and South African entrepreneurs present a different picture. With formal firms growing faster in these countries, entrepreneurs perceive taxation as relatively favourable. In export-oriented Chile, access to finance, labour costs and, especially, export markets are among the more severe market constraints. In South Africa, a lack of access to finance and resources keep entrepreneurs from hiring additional workers. In both countries, government policy is poorly perceived. In Guinea, lack of finance and the burden of taxation are keeping firms from expanding the work force. For those firms who have overcome these

constraints and have grown, their growth intensity may well be tempered by the taxation burden.

A general perception of the tax burden as hampering additional employment is in a sense normal. Taxation channels internal resources away from the firm and directs them to the State, leaving less financial means within the firm for investment in employment, human capital and financial capital or equipment. Therefore, it is not surprising when entrepreneurs evaluate factors on their impact on investment decision that taxation is also perceived as least conducive to investment. Again, apart from Chile (where the corporate tax rate is only 15 per cent) entrepreneurs in all other countries perceive taxation as a severely constraining factor. The loss of means through taxation is all the more hampering when financial markets are imperfect, and problems related to asymmetric information and contract enforcement imply that credit may be extremely costly for smaller firms. This seems to be the case, as firms with access to credit indeed are found to invest more. Only 17 per cent of the sample firms had access to formal credit.

Finally, also working conditions are especially determined by market conditions. Entrepreneurs view taxation and government policies as conflicting to their willingness to improve working conditions, mostly because the benefits that are imposed by labour regulations are, while involving a certain cost, not unanimously perceived as contributing to better performance. Hence, the entrepreneurs seem to suggest a trade-off between taxation and investment in working conditions.

It can be concluded that country specific macro-economic and policy environments clearly affect firm conduct and performance. Within one country however, different competitive regimes apply to firms with varying levels of formal status as firms comply or do not comply with regulatory requirements. While entry into the formal sector always comes at a cost, it also puts firms in a more legitimate position and opens up better growth perspectives, as is found in this and other papers based on empirical evidence. With growth rates dropping steeply as micro firms move to a slightly larger size and stagnate in the small size class, the barrier of entry into the formal economy is clearly observed. Too large a share of entrepreneurs is still choosing to stay small. Reducing the burden involved with entry into the formal economy can therefore reduce the duality observed in so many countries, where besides a formal economy, a large share of employment and economic activity takes place in the informal unregistered sector.

1. Introduction

In the last decades, the notion of small enterprise development has increasingly received attention among donors and development agencies. Development interventions are currently directed towards developing the private sector at a higher rate than ever before, and the strengthening of market forces has become a priority in developed and developing countries alike. Current wisdom among agencies working in the field prescribes that the private sector should ensure economic growth and that the State should ensure a supportive environment that enables private enterprises to grow. One important role of the State is to ensure a stable macro-political and economic environment with appropriate policies and regulations that remove constraints to growth and development of firms and allow creation of quality employment.

Throughout the world's developing economies, micro and small enterprises (MSEs) have become crucial for the creation of the majority of jobs. Micro and small firms generate employment and income for the mass of poor living in urban areas. The development of these micro entities into more productive medium or large-scale enterprises is understood to be the engine for economic development. Yet, the successful development and growth of small firms into a larger size still seems to be hampered, as a relative under-representation of firms in medium size classes is persistently observed in many developing economies.

Therefore, the growth performance or employment creation capacity of small firms deserves special attention. It is generally understood that the combined effect of market conditions, access to resources and the level of efficiency of the firm determine successful growth of firms. In empirical studies, these determinants are proxied by, among other variables, firm size and firm age, the sector of activity, capital intensity, export performance and technological capabilities. Mostly, these factors are indeed found to be important growth determinants. However, MSEs additionally seem to face policy, legal and regulatory constraints that erode their capacity to create new employment opportunities, foster technological innovation, increase productivity and generate wealth. Similarly, even when the policy, legal and regulatory instruments themselves are supportive of MSE operations, the enforcement and implementation of laws and regulations may be inadequate or inefficient.

Though many regulations apply to firms, one of the most important sets of regulations is related to the requirements for formally registering a business to become a legal entity. A recent paper by Djankov et al. (2001) explores the implications of the regulation of entry for 85 countries. They find that the cost of becoming a formal business is in most countries very high. Hence, barriers of entry into the formal sector are high and an important number of firms have to operate in the margin of the economy, where access to resources and growth perspectives are limited. They indeed found that countries with heavier regulation of entry have larger unofficial economies, but no better quality of public or private goods. These findings support the arguments in favour of reducing the burden of regulation involved in the formalization process of firms.

In line with the observation that smaller firms face relatively higher transaction and entry costs, governments and donors are actively seeking to promote and support MSEs.[1] However, the effect of national policies and legal environments on the magnitude and nature of employment created in MSEs remains empirically unexplored. Empirical firm-level evidence on the relationship between policies and firm performance is largely missing, yet it would greatly contribute to the knowledge and experience on which policy reforms are based.

Taking on these challenges, the ILO's IFP/SEED Programme initiated in 2001 the research study "Do decent jobs require good policies – an assessment of the impact of policy and legal environments on the creation and improvement of jobs within small enterprise". The study was carried out in seven countries, Chile Guinea, Pakistan, Peru, South Africa, Tanzania and Viet Nam. In a first phase the study reviewed national policies, laws, regulations and reforms and in particular on specific MSE policies where they existed. In each country, the place and role of MSEs in the economy as well as their employment share was explored based on available information and statistics. The second phase consisted of a sample survey in which a sample of approximately 300 MSEs in each country were interviewed to assess how policies, laws and regulations influence the decisions of MSE owners and managers in the operation of their business.

Using data collected in these seven country surveys, this paper tries to shed new light on the impact of policies on firm conduct and performance. It is the contention of this paper to analyse employment dynamics in MSEs in the seven different countries and to relate successful employment growth and investment behaviour to the underlying policy differences that exist in the seven different countries. To that end, employment dynamics are first analysed in terms of firm specific characteristics and characteristics of the entrepreneur. Firm specific characteristics include, among others, firm size and age, sector of activity, location and exporting behaviour while entrepreneur characteristics refer to human capital embodied in the entrepreneur, gender, educational background and work experience. Subsequently, the focus of the paper turns to the firms in relation to the regulatory environment. The relationship of firms with governments and government agencies and their compliance with registration and legislation is presented. Finally, it is analysed to what extent entrepreneurs explain the performance of their firms as due to market conditions, versus determined by policies and regulations. While this analysis is indeed based on the entrepreneurs' personal and subjective view, it reveals some important information on how they view the policy environment, a perception upon which they base their actual investment behaviour and employment decisions.

[1] The ILO has come to assign greater prominence to the role of MSEs in the development process and in particular with respect to employment creation. In 1998, the International Labour Conference adopted Recommendation No. 189 on General conditions for the promotion of job creation through small and medium-sized enterprises. The Recommendation recognizes the importance of setting a policy and legal environment that is conducive to small enterprise development and recommends that the 176 Member States adopt and pursue appropriate fiscal, monetary and employment policies to promote an optimal economic environment." Recommendation No. 189 encourages governments to ensure that enterprises of all size classes enjoy equal opportunities such as access to credit, to foreign exchange and to imported inputs. Emphasis is given to improving the attractiveness of entrepreneurship so that small enterprise development is considered a more viable career option.

The paper has the following structure. Section 2 describes the policy environment in the selected countries. Section 3 presents the data and highlights some key characteristics of the entrepreneurs and their firms. Section 4 analyses employment dynamics in the sample firms in relation to some structural factors that are hypothesised to affect firm growth. Section 5 turns to the policy environment and reports on registration requirement and on the extent to which firms comply with them. In section 6, the impact of policy differences in the seven countries with regards to employment creation, investment and working conditions is explored. Section 7 concludes.

2. National economic and policy environments

This section describes the economic and policy environments in Peru and Chile in the Latin American region, Guinea, South Africa and Tanzania in the Africa region, and Pakistan and Viet Nam in the Asian region. The intention is to give a picture of the different national environments in which the micro and small enterprises under study operate. Finding consistent data to compare the countries on their attitudes and policies towards MSEs is difficult. Therefore, several different sources are used, each one shedding light on partial aspects of the policy environment.

Important in-depth information on national policies and regulations for the seven countries is provided in a forthcoming publication by Reinecke and White. This publication is written in the context of the IFP/SEED research study mentioned above of which the MSE survey was one component. In addition, this report reveals some problems and difficulties encountered with the implementation of SME policies and regulations, and it gives some principle for sound practice.

Additional useful information is derived from the Heritage Foundation, 2002. The Foundation, in collaboration with the Wall Street Journal, calculates yearly based on 50 independent economic variables scores on 10 factors that jointly describe the economic policy environment of countries. These 10 factors are: (i) trade policy; (ii) fiscal burden of government; (iii) government intervention in the economy; (iv) monetary policy; (v) capital flows and foreign investment; (vi) banking and finance; (vii) wages and prices; (viii) property rights; (ix) regulation; and (x) black market activity. These scores are calculated yearly for 156 countries. Jointly, they make up the 'Index of Economic Freedom'.[2] While it is not the objective to study economic freedom in this paper, some factors of the index may be useful proxies for the business environment MSEs are prone to. It is particularly useful since it provides information consistently for the seven countries under study. The focus of the Heritage Foundation, however, is not on MSEs but on the economic environment in general and the latter may be especially difficult for MSEs.

Information on the cost of formally registering a business is derived from Djankov et al. (2001). This paper shows for 86 countries, including six of the countries under study in this paper, the number of procedures that a starting company has to comply with in order to obtain a legal status, i.e. to start operating as a legal entity. It also shows the time (expressed in business days) it takes to obtain a legal status and the official cost of obtaining it, as a share of GDP/capita. The data refer to the situation in 1999 and, importantly, to official data. As such, the 'time spent' component does not include the delays caused by slow official administration and the 'costs of registering' do not include bribes and other costs incurred unofficially. Real costs and time spent are, therefore, expected to be considerably higher. Finally, the Global Corruption Report of Transparency International publishes yearly the Corruption Perception Index, which is also available for six of the seven countries under study. The index ranges between 0 (high perceived corruption) and 10 (low perceived corruption) (Transparency International, 2001).

Table 1 summarizes the information derived from these sources. A first glance at table 1 shows that the level of economic development strongly differs, with Chile reaching a

[2] More information on the index can be obtained from http://www.heritage.org/index/

GDP/capita of US$5,121, while this is US$188 in Tanzania. Different levels of export orientation also become apparent. Given the geographical spread, it can safely be assumed that cultural differences are also high.

A first factor of the policy environment is the fiscal burden[3] imposed by governments. According to the Heritage Foundation, fiscal burden is especially high in the African countries. This is consistent with the findings by Reinecke and White (forthcoming). This publication reports that in Guinea, MSEs face a complex tax law, relatively high degree of tax coverage and a lack of transparency. In South Africa, the administrative burden is high, yet the level of tax payments seems less problematic. The administrative costs are high for low amounts. Tanzanian MSEs face numerous and high taxes and lack of transparency despite increased institutional capacity at the top of tax authorities. Tax holidays are possible for large enterprises. In Chile, Peru and the Asian countries, the fiscal burden is moderate. Chilean MSEs show relatively high compliance and in Peru, MSEs face a relatively simple tax system, with special tax regimes available to some categories of MSEs. Pakistan is characterized by a complex tax system.

Regulations and restrictions can make it difficult for entrepreneurs to create new businesses. In some countries, government officials frown on any private-sector initiatives and, in a few, even make them illegal. Although many regulations hinder business, the most important are associated with licensing new companies and businesses. In some countries, such as Tanzania and in parts of South America, obtaining a business license requires endless trips to government offices, and the process can take a year or more.[4] The evidence provided by Djankov et al. (2001) is also included in the table and shows that official costs and time needed to register are generally high but differ strongly among countries.

Some countries, not surprisingly, are trying to reform registration regulations. Reinecke and White found that in Guinea, a one-stop shop was initiated. However, this one-stop shop was only available in the capital city Conakry, which strongly reduced its value for enterprises in smaller towns or in rural areas. In Tanzania, there are on-going efforts to simplify the procedures related to the registration and licensing of enterprises. For example, it has been decided to transfer the registration and licensing of micro and small enterprises to district councils. The Enterprise Law, introduced in 2000 in Viet Nam, reduced the number of steps required to register an enterprise from 13 to seven, the average time needed to register a business decreased from 99 days to 17 days and the average monetary cost involved dropped from US$660 to about US$30. The procedures to obtain a municipal permit have been improved in many Chilean municipalities. Further simplification of regulations has started for family-based micro-enterprises. In Peru, business laws and regulations have been simplified during the 1980s and 1990s. In 1984, it took 289 days to register a small manufacturing enterprise and the cost was US$1,231. By 1998, this time span had been reduced to 30 days and the cost involved had fallen to US$200. Enterprises in the trade sector have experienced similar improvements.

Besides registration and licensing, labour regulations can affect the performance of firms regarding employment growth. In Guinea and in South Africa, labour laws apply in theory to

[3] The fiscal burden score has two components: tax rates and government expenditures as a percentage of GDP. The tax component reflects the country's income and corporate tax rates. Higher tax rates interfere with the ability of individuals to pursue their goals in the marketplace.

[4] See also "The Informal Sector Roadmap", a report on a study by ILO, 2001, on the constraints faced by informal firms. One section reports on the difficulties entailed in registering a business.

MSEs, but not in practice. In Tanzania and Pakistan, enterprises with less than 10 workers are excluded from labour laws. Yet, in Tanzania, enterprises have to register with the unemployment fund as soon as they employ more than three persons. In Viet Nam, household enterprises are outside the scope of the labour code and cannot sign work contracts. In Chile and Peru, most laws apply to all size classes and there is a relatively high compliance in Chile.

Further, in table 1 the factor 'Government intervention in the economy' measures government's direct use of scarce resources and government's control over resources through ownership.[5] Strikingly, the level of protection of property rights is inversely related to the level of regulation. On the other hand, the perceived corruption index strongly relates to the level of regulation. This is in line with the findings of Djankov et al. (2001) that countries with heavier regulation of entry have higher corruption and larger unofficial economies but not necessarily better quality of public or private goods. The factors 'Government intervention', 'protection of property rights' and 'perceived corruption' are included in table 1 for mere illustrative purposes. Their differential impact on firms of different size is not straightforward. Nevertheless, these factors give an indication of the general business environment in which MSEs operate.

[5] The measure comprises both government consumption and government production. The variables which make up the factor include: (1) Government consumption as a percentage of the economy; (2) Government ownership of businesses and industries; (3) Share of government revenues from State-owned enterprises and government ownership of property; and (4) Economic output produced by the government.

Table 1. Economic and policy indicators for the seven countries

	Chile	Peru	Guinea	Tanzania	South Africa	Pakistan	Viet Nam
GDP/capita	US$5,121	US$2,346	US$603	US$188	US$3,904	US$508	US$342
GDP growth rate	-1.1%	1.4%	3.3%	4.7%	1.2%	4.0%	4.8%
Exports/GDP	36.4%	6.4%	21.7%	17.7%	25%	12.6%	43.8%
Imports/GDP	27.3%	15.4%	21.6%	24.2%	22.1%	18.4%	44.2%
Fiscal burden	Moderate tax rate	Moderate tax rate	High tax rates	High tax rates	High tax rates	Moderate tax rate	Moderate tax rate
Corporate tax rate	15%	30%	35%	30%	30%	35%	32% local firms 25% foreign-owned firms
Regulation	Low level	High level	High level	High level	Moderate level	High level	Very high level
Number of procedures to obtain legal status*	10	8	n.a.	13	9	8	16
Time spent (business days)*	28	83	n.a.	29	26	50	112
Cost (as a share of GDP/capita)*	0.24	0.53	n.a.	3.47	0.19	0.55	1.79
Govt. intervention	Very low level	Moderate level	Very low level	Moderate level	Moderate level	Moderate level	High level
Govt. consumption as % of GDP	8%	11%	7%	12%	19%	12%	7%
Income from SOEs	3.24%	7.54%	2.29%	-	4.57%	10.75%	4.49%
Property rights, level of protection	Very high level of protection	Low level	Low level	Low level	Moderate level	Low level	Very low level
Corruption perception index**	7.5	4.1	n.a.	2.2	4.8	2.3	2.6

Sources: Unless mentioned otherwise, data come from the Heritage Foundation, 2002; data refer to the period July 1, 2000–June 30, 2001; * Djankov et al. 2001; ** *Transparency International Global Corruption Report,* 2001.

However, from Reinecke and White (forthcoming), it is clear that governments are becoming aware of the need for a policy tailored to address specific needs of MSEs. In Guinea, a multidisciplinary and multi-sectoral Technical Committee for Policy Formulation was established in 2000 and is considering the need for an MSE policy. South Africa has a White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995). In addition, in South Africa the National Small Business Act defines small, micro and medium enterprises (SMMEs) and has established a set of institutions. Government departments are encouraged (but not compelled) to assess the impact of policies and laws on MSEs. In Tanzania, it is anticipated that a current draft SME Development Policy of Tanzania will be finalized in 2002. In Viet Nam, the Decree on Supporting the Development of Small and Medium Enterprises (2001) creates new support schemes for SMEs such as the creation of a Technical Assistance Centre, and a government department to provide support to SMEs, as well as a new SME Council that includes private-sector representatives. The Chilean policy statement of "12 Commitments of the President with the SME sector" (2000) could lead into the formulation of a more elaborate SME policy. A public-private sector committee on the SME sector has been meeting. Several others of the 12 commitments have already been implemented. Finally, in Peru, the General Law on Small and Micro-enterprises (2000) and the Regulation of the General Law on Small and Micro-Enterprises (2000) cover a wide range of SME matters, including regulations, training, BDS, innovations, finances marketing, etc. However, there are still some concerns regarding implementation.

These changes in the policy environment are aimed to address specific needs of MSEs and result in employment creation in these firms. It is still early to evaluate the long-term impact of these changes on MSEs. Nevertheless, an attempt is done in the following sections to assess how entrepreneurs have perceived the regulatory climate and how this has affected employment and investment decisions over the period 1999–2001.

3. The survey and the data set

The empirical data for the analysis were collected in the framework of the above-mentioned IFP/SEED research project. The survey component included a survey in which samples of approximately 300 MSEs in each country[6] were interviewed in 2001. In total 2,730 firms were included in the survey. Each country sample consists of firms with less than 50 workers, including contributing family workers. To achieve a broad cross-sectional sample, the sample frames in each of the seven countries were drawn on the basis of four main control variables: (i) enterprise size; (ii) sex of the business owner; (iii) business sector (trade, services, manufacturing); and (iv) location, including rural-based firms and firms active in urban areas.[7]

The distribution of the firms over the different size classes and sectors was for each country determined based on national statistics, reports or censuses, where these exist. However, due to the unavailability of reliable or complete data regarding the numbers and importance of business sizes and sectors in the rural and urban areas, especially with regard to micro firms, the final sample is reached by informed judgement in collaboration with local consultants. In Guinea, e.g. given the current knowledge of the MSE sector, it was decided that the sample would be evenly split between men and women and that it would include a 50 per cent share of micro firms (1–4 employees according to national definitions). In Pakistan, after the sample drawing was completed, it was found that an insufficient number of women were available in some sectors and it was decided to carry out a booster sample of 25 women entrepreneurs arriving at a sample size of 333 entrepreneurs in total. The final sample in Pakistan, however, still had a large majority of men. Additionally, it was the objective in all countries to have a sufficient number of observations in each of the cells made up by the four main control variables.

3.1 Presentation of the sample firms

Table 2 presents the composition of the final sample for the seven countries. The last column indicates the total number of firms interviewed in each country. The percentage distribution in the different size classes and over the different sectors can be read directly from the table.

Table 2. Sample composition+

	Size		Sector			Gender	Location	
	1-9	10+	Trade	Services	Manuf.	% Female-run firms	% Rural firms	Total no. of firms
Chile	53.7	46.3	37.0	36.0	27.0	35.0	16.0	*300*
Guinea	83.3	16.7	45.8	37.5	16.7	50.0	25.0	*312*
Pakistan	50.8	49.2	30.6	37.2	32.1	14.4	39.6	*333*
Peru	78.1	21.9	34.2	33.0	32.9	26.0	14.1	*894*
South Africa	89.2	10.8	35.1	30.8	34.1	40.5	14.0	*279*
Tanzania	67.0	33.0	28.7	37.7	33.7	43.0	23.7	*300*
Viet Nam	63.8	36.2	40.1	30.4	29.5	30.4	37.2	*312*
No. of firms	*1 937*	*793*	*970*	*938*	*822*	*878*	*610*	*2 730*

[6] Except for Peru where 894 entrepreneurs were interviewed.

[7] Rural agricultural production firms were excluded from the study.

The majority of firms are micro-enterprises with 1937 firms or 71 per cent of the total sample employing less than 10 workers. The country with the smallest representation of these firms is Pakistan followed by Chile, which has the largest average firm size. The three economic sectors trade, service and manufacturing were quite evenly distributed in all countries except in Guinea, where the final sample allocation saw a much higher share of both trade and service businesses compared to only 16 per cent of manufacturing firms. The explanation for this relatively low share of manufacturing enterprises in the Guinean final sample is based on the actual known sectoral distribution in the economic zones, major towns and rural areas in which the survey was carried out.

A rural/urban split was also strived for in the national sample compositions. In all countries, firms active in major cities and industrial centres were included. For the inclusion of firms in rural areas, rural areas were defined as those with economic activities being within the reach of regulatory authorities and in a reachable proximity from major towns so that the likelihood of rural-based businesses being influenced by the policy and regulatory environment were maintained. The final sample allocations show that across all countries the urban-based enterprises have a higher share than the rural-based enterprises with Peru and South Africa having the lowest share of rural-based firms at 14 per cent and Pakistan the highest share, close to 40 per cent.

The survey was designed to better understand how policy and legal environments influence the volume and quality of employment in MSEs. A first set of questions was included to capture the major firm characteristics, such as size, sector of activity, legal status, year of establishment, location, and some key entrepreneur characteristics, such as education, age, former work experience and gender. Related sets of questions assess the firm's position in input markets and output markets. On the input markets, firm's access to credit, business information and infrastructure are assessed. The degree of diversification and the size of the geographical market provide some information on the firm's position in output markets.

A subsequent set of questions was asked to identify the major source of influence for employment and investment decisions. Some questions allow to track employment decisions made by business owners and managers in the last two years. The respondent entrepreneur was asked to indicate to what extent his or her employment decisions and investment behaviour were the direct or indirect result of one or more policies, laws or regulations or rather determined by conditions in input and output markets.

3.2 Presentation of the entrepreneurs

Table 3 presents some characteristics of the entrepreneurs, their age, formal education and gender, along the micro and small size categories. In annex 1, these entrepreneur characteristics are presented for the seven countries separately.

A large proportion of entrepreneurs are aged 40 years or more. Elder entrepreneurs are slightly more represented in the small size class as they may have acquired the skills and managerial endowments to run a firm of slightly larger size. Firm growth is indeed a learning process over time that takes place in the person of the entrepreneur. In their growth process, firms and manager/owners uncover and increase their level of efficiency.

In a similar way, managerial skills can be acquired through formal education. Individuals with an academic degree are represented among the larger MSEs where 46 per cent of entrepreneurs with a university degree are in the small size class. In addition, when looking at

the entrepreneurs in the small size class 43 per cent have an academic degree. A simple chi-square test indicates that the observed relationship between education and firm size is significant at the 1 per cent level. The value of the chi-square test is indicated in the table, as well as the critical value above which it becomes significant at the 1 per cent level.

Women entrepreneurs are more represented in the smallest size class of 1–9 workers. This relationship is obvious as it was assumed in the sampling procedure that the share of women entrepreneurs is higher in the micro segment. Some additional tests were done to describe the characteristics of the entrepreneurs in the sample. It was found that the level of formal education is related to the sex of the entrepreneur. Women entrepreneurs are significantly less represented among the entrepreneurs with an academic degree. There is also a significantly higher proportion of entrepreneurs with an academic degree in urban areas as compared to rural areas.

Table 3. Entrepreneur characteristics

Frequency Row Pct Col Pct		Micro	Small	Total	
Age	<25	95	43		X^2=5.6;critical X^2=9.210
		68.84	31.6	138	
		4.90	5.42		
	25-39	835	303	1 138	
		73.37	26.63		
		43.11	38.21		
	40+	1 007	447	1 454	X^2=180.7;critical X^2=13.277
		69.26	30.74		
		6.45	2.65		
Education	None	125	21	146	
		85.62	14.38		
		6.45	2.65		
	Primary	391	65	456	
		85.75	14.25		
		20.19	8.20		
	Secondary	902	312		
		74.30	25.70		
		46.57	39.34		
	Technical	125	51	176	
		71.02	28.98		
		6.45	6.43		
	University	394	344	738	
		53.39	46.61		
		20.34	43.38		
Sex	Male	1 254	598	1 852	
		67.71	32.29		
		64.74	75.41		
	Female	683	195	878	
		77.79	22.21		
		35.26	24.59		

3.3 Presentation of general firm characteristics

Table 4 presents some characteristics of the firms. The businesses in the trade sector are mainly micro-enterprises. About 81 per cent of trading businesses are in this size class. Services and manufacturing businesses are slightly larger. This can be expected, in the light of the large economies of scale that exist in most manufacturing industries.

Firm size and firm age are correlated, as one can expect as small businesses grow over time when they are successful, or exit when they are not successful and efficient, in which case they are not included in the sample. The largest proportion of firms is very young. The proportion of firms in the small size class increases with firm age, from 22 per cent for the youngest firms, to 30 per cent for more mature firms of 6 to 10 years of age, up to 39 per cent for firms of over 10 years of age.

Businesses that are operating from the streets, with no fixed or structured premises, 160 in total, are especially found in the micro size classes. For those who are operating from a structured premise, about half of the entrepreneurs also own the premise, the others renting or squatting. The premise owners are more represented in the small size class.

The size of the geographical output market seems to increase with firm size. Firms producing for the local market are for 79 per cent micro firms and 21 per cent are small firms. On the contrary, for exporting firms only 39 per cent are in the 1–9 workers size class while 61 per cent of the exporting firms have 10 or more workers.

Chi-square tests were done on the relationship between firm size on the one hand and sector, firm age, location, geographical market and non-structured/structured premises on the other hand. They are all significant at the 1 per cent level, indicating that, according to the size class firms belong, the distribution of firms over the categories in the firm age, geographical market and non-structured/structured premises variables was very different. The value of the chi-square test is again presented in the table. In annex 2, these firm characteristics are presented for the different countries.

Table 4. Firm characteristics

		Micro	Small	Total	
Sector	Trade	781 80.52 40.32	189 19.48 23.83	970	Frequency Row pct Col pct
	Services	622 66.31 32.11	316 33.69 39.85	938	
	Manufacturing	534 64.96 27.57	288 35.04 36.32	822	
Firm age	1996/2001	967 78.30 49.92	268 21.70 33.80	1 235	X^2=74.4; critical X^2=9.210
	1991/1995	480 69.87 24.78	207 30.13 26.10	687	
	<1990	490 60.64 25.30	318 39.36 40.10	808	
Location	Urban	1 491 70.33 76.97	629 29.67 79.32	2 120	
	Rural	446 73.11 23.03	164 26.89 20.68	610	
Premises	No structure	131 81.88 6.76	29 18.13 3.66	160	X^2=9.8; critical X^2=6.635
	Fixed premises	1 806 70.27 93.24	764 29.73 96.34	2 570	
Ownership	Rented/ Used premises	982 75.89 54.37	312 24.11 40.84	1 294	X^2=39.4; critical X^2=6.635
	Own premises	824 64.58 45.63	452 35.42 59.16	1 276	
Geographical market	Local market	1 316 79.28 68.08	344 20.72 43.54	1 660	X^2=164.2; critical X^2=9.210
	National market	571 60.36 29.54	375 39.64 47.47	946	
	Exporting	46 39.32 2.38	71 60.68 8.99	117	

4. Employment dynamics over the period 1999–2001

In this section, the evolution of employment within the sample firms is analysed, by country. This is done with respect to firm size, given the emphasis that is put on firm size in relation to job creation. The evolution of employment in the smallest size classes is given specific attention, by presenting the findings in a different size classification with additional size classes for micro firms.

Subsequently employment growth differences for different groups of firms are investigated. A number of structural factors are generally hypothesised to determine employment growth and firm performance in general. These are the level of human capital and knowledge represented in the business, the sector of activity, the exploitation of agglomeration economies, through an urban-based location and size of the market. The impact of the formal status of the firm on employment creation will also be investigated.

The next sections then turn to a more detailed analysis of the policy environment on firm conduct by describing the regulatory requirements and firms attitudes (section 5) and by assessing policy influences on the employment growth performance, employment quality and investment behaviour of firms (section 6).

4.1 Employment growth rates in small firms

Employment growth rates were calculated based on the number of paid workers at the time of the interviews in 2001 and a comparable number of paid workers two years earlier. The employment figures include full time workers, as well as part time workers, weighted by 0.5, and casual workers, weighted by 0.25.[8]

For Guinea and South Africa however, the employment figure is based on a mere total employment figure that was found in the data set. While for these countries the employment figure may include non-paid or family workers in 2001, it also does so in 1999. Hence, it can be assumed that the general employment growth trend that is analysed here is not systematically or overly biased. Unfortunately, the actual employment figures in 2001 and in 1999 for Pakistan were not recorded. The only information available from the Pakistan data set is whether the firm has grown in terms of employment over the period 1999–2001. Therefore, Pakistan does not appear systematically in all the tables of this section.

Table 5 shows the average employment growth rates, the standard deviation and the numbers of firms for the period 1999–2001. The growth rates are presented according to the size of firms in 1999.

A first finding that can clearly be observed is that the employment growth rates are inversely related to the size of the firm in 1999. Apart from Viet Nam, firms of 10 or more workers in 1999 experienced negative growth rates over the two-year period of measurement. For firms of less than five workers in 1999 the opposite holds. In Peru, employment growth

[8] While the magnitude of the weighting factors is rather arbitrarily chosen, the impact of these on the results was tested in comparison to other weighting factors. Given the relatively smaller share of part time and casual work in the sample, the findings were not significantly affected. Also, the resulting factor of total weighted employment to total un-weighted employment equals 0.87, which compares well to the 0.9 factor that is used by Blanc, et al. (1997) on Tanzanian data.

reaches 325 per cent or the size of firms in 2001 is on average more than four times higher than in 1999. For each country, the average growth rate of the firms with 5–9 workers in 1999 lies between the growth rates of the smaller and the larger size class. Jointly these findings suggest that employment growth is negatively related to initial firm size, or smaller firms grow faster than larger ones, but these growth rates decrease sharply as the firm moves to a slightly larger size, i.e. from 1–4 workers to 5–9. It even turns negative as the firm grows over the 10 workers threshold.

Table 5. Growth rates (in %) of firms, by size in 1999 and by country

Size in 1999		Peru	Chile	Guinea	Tanzania	R.S.A.	Viet Nam	All
1-4	Mean	325.4	25.1	41.4	33.6	50.0	92.0	166.9
	STD	645.5	75.4	130.4	92.9	80.3	396.5	469.9
	N	656	144	181	163	186	232	1532
5-9	Mean	–3.7	5.8	15.8	14.1	21.0	47.5	12.9
	STD	92.4	42.0	46.0	33.3	97.6	156.7	83.0
	N	111	65	85	69	64	42	436
10+	Mean	–17.1	–8.8	–5.7	–4.0	–8.9	11.4	–8.3
	STD	45.4	26.3	50.5	29.4	49.0	65.8	43.4
	N	127	91	46	68	29	38	399

Notes: Mean = mean growth rate; STD = standard deviation; N = number of observations.

However, a few comments need to be raised while interpreting these data. First, given the very small size of the enterprises, the calculation of growth rates is subject to very high variation. A one-worker business growing into a two-workers business reaches a 100 per cent growth. One additional worker in a ten-workers firm implies that the firm grows by a mere 10 per cent. Hence, one has to consider this when looking at the growth rates of the smallest firms.

Related to this is the apparent bias that originates from the fact that only surviving MSEs are included in the sample. Firms that have contracted from 1 to 0 workers over the period 1999–2001 have presumably ceased to exist and are thus not included in the sample drawn in 2001. This leaves us with a selection of only successful micro-businesses and this may have an upward effect on the average growth rate of firms in that size class. For larger businesses, this bias is expected to be less important, as contracting firms may still exist and therefore be included in the sample. Firm hazard rates are indeed found to be generally higher among smaller firms.

Finally, the period over which growth is measured is relatively short. Therefore, the measured employment evolution may partly reflect temporary shocks rather than structural growth or contraction within the firms.

4.2 Size class mobility of firms

To take some distance from the growth rates approach, table 6 presents how firms of different size in 1999 evolved and moved into larger size classes. Given the possible selection bias and the interest that is given to the employment evolution in micro businesses, an interest which becomes obvious from the large share of micro firms in the sample, in this section the 1–4 workers size class is further split into two separate categories, 1–2 workers and 3–4 workers.

Table 6 should be read as follows: of the 575 Peruvian firms that had a size of 1–2 workers in 1999, 43.48 per cent were still in that size class in 2001, 32.70 per cent expanded into a size of 3–4 workers, 13.04 per cent into 5–9 workers and 10.78 per cent into 10 workers or larger. Per country, one can imagine a diagonal running from the upper left corner down to the bottom right corner. Firms on that diagonal line have stagnated over the two-year period. Above that line, firms have grown, while below that line firms have contracted.

It can be seen that for the very smallest firms (1–2 workers) in 1999, expansion is most obvious in South Africa followed by Peru. In these countries, only 37 per cent respectively 43 per cent is still in the same size class. In Peru, however, expansion into even larger size classes is more common than in South Africa. About 13 per cent, respectively 11 per cent of the 1–2 workers businesses have grown into firms of 5–9 workers, respectively more than 10 workers, the highest proportion of the seven countries. This is in line with the high mean growth rates that were found earlier for Peru. In line with the high volatility of growth rates in Peru, as could be derived from the standard deviation, is the proportion of firms that was in the category 3–4 workers in 1999 and ended up employing 1–2 workers in 2001. This proportion is very high in Peru, as compared to the other countries.

Stagnation in the smallest size class seems to be higher in Viet Nam, followed by Chile. In these countries, 87 per cent and respectively 83 per cent of firms remain in the smallest size class of 1–2 workers. Strikingly, the proportion of firms that employed more than 10 workers in 1999 and in 2001 is in both countries also high, being more than 90 per cent. For Chile, one might suspect that the older age of the firms is at the origin of this finding. Changes in size are indeed more likely in younger firms who in their initial years of existence discover their efficiency level and adjust their size of operations accordingly.

In the African countries, the proportion of firms of size 1–2 and 3–4 workers that grows into a size of more than 10 workers is extremely low. Some evolution takes place between the 1–2 workers and 3–4 workers in the African countries, but further growth is limited, at least in this 2 years period.

In general, what comes out of these data is that growth in the smallest size classes is very common. Growth from the 1–2 workers size class to the 3–4 workers size class implies growth rates of over 100 per cent.[9] These are reached by large proportions of firms in the African countries (38 per cent, 30 per cent and 54 per cent in Guinea, Tanzania and R.S.A. respectively) and Peru. Growing another 100 per cent from the average size in the 3–4 workers, namely 3.5 workers, brings the employment figure to seven workers, or the average size of the 5–9 size class. The proportion of firms that grow this successfully is already much smaller, ranging between 10 per cent and 28 per cent.

Besides the initial firm size, the successful growth versus stagnation and contraction of firms may be determined by other structural factors, including firm age, sector of activity, geographical market and the managerial endowments of the owner/manager. The next section relates these factors to employment creation in our sample firms.

[9] The average size in the 1–2 workers class is 1.5. In the 3–4 workers class, it is 3.5. Growth from 1.5 into 3.5 workers is a 130 per cent growth rate.

Table 6. Percentage distribution of firms, by number of workers in 1999 and 2001

		Workers in 2001				
		1-2	3-4	5-9	10+	Total
Peru	1-2	43.48	32.70	13.04	10.78	575
	3-4	38.27	29.63	28.40	3.70	81
	5-9	9.01	34.23	41.44	15.32	111
	10+	3.15	5.51	18.11	73.23	127
Chile	1-2	83.53	14.12	2.35	0.00	85
	3-4	13.56	54.24	27.12	5.08	59
	5-9	3.08	10.77	72.31	13.85	65
	10+	0.00	0.00	9.89	90.11	91
Guinea	1-2	55.00	38.33	5.00	1.67	60
	3-4	9.92	57.85	28.93	3.31	12
	5-9	4.71	8.24	74.12	12.94	85
	10+	0.00	15.22	6.52	78.26	46
Tanzania	1-2	66.07	30.36	1.79	1.79	56
	3-4	6.54	71.03	19.63	2.80	107
	5-9	1.45	5.80	73.91	18.84	69
	10+	0.00	2.94	10.29	86.76	68
R.S.A.	1-2	37.21	54.65	8.14	0.00	86
	3-4	10.00	70.00	18.00	2.00	100
	5-9	0.00	31.25	50.00	18.75	64
	10+	3.45	0.00	24.14	72.41	29
Viet Nam	1-2	87.19	3.45	4.93	4.43	203
	3-4	13.79	55.17	27.59	3.45	29
	5-9	2.38	9.52	64.29	23.81	42
	10+	2.63	0.00	5.26	92.11	38

Workers in 1999

4.3 A bi-variate analysis of employment growth

In this section, it is the objective to find associations between some key firm and entrepreneur characteristics on the one hand, and firm growth versus stagnation and contraction on the other hand. To do so, the firms are split into two groups. The first group includes 1,305 firms that have expanded employment over the last two years equivalent to 48 per cent of the total sample. The remaining group of 1,425 firms have stagnated or reduced the number of workers over the same period. It is then tested whether growing firms are more represented in specific sectors, firm age categories, etc. than in others. An X^2 statistic is done to test this formally, or to test whether growing and stagnating/contracting firms are equally distributed among the different levels of the key factors.[10]

[10] The Chi-square statistic tests the null-hypothesis of no association between two variables. It involves the differences between observed frequencies in the sample nij and expected frequencies, i.e. frequencies under the hypothesis of no-association, mij. This is determined by: $X^2 = \sum i \sum j (nij - mij)^2 / mij$

Higher values of the X^2 statistic lead to rejection of the null-hypothesis. The null-hypothesis in our specific analysis is that there is no relationship between the growth of firms and the selected key factors, sector, firm age cohort etc. This implies that both groups of firms are equally distributed over the different levels of the key factors, i.e. over the three sectors, over the different firm age cohort etc. Example: if in a country 25 per cent of the firms have grown while 75 per cent have stagnated/contracted, and there are no sectoral differences (null-hypothesis), then in each sector one would find that 25 per cent have grown and 75 per cent have not. As can be seen from the formula above, the X^2 test compares the observed frequency of the sample firms with the frequency under the null-hypothesis. If the observed distribution strongly differs from the distribution under the null-hypothesis, higher values of the X-distributed statistic will be generated, leading to rejection of the null-hypothesis.

Table 7 shows the results for the entire sample of 2,730 firms (first column) and for the countries separately. In particular, table 7 shows in the first row the proportion of firms that have grown, for the entire sample and for the respective countries. Not surprisingly, this proportion is highest in Peru and lowest in Chile and Viet Nam. In the subsequent rows, the proportion of growing firms is shown for different age cohorts, sectors, formal status and geographical output market, as well as along entrepreneur characteristics. The significance of the X^2-statistic is given for each firm and entrepreneur characteristic.

The proportion of growing firms is significantly higher among the youngest firms that started in the period 1996–2001, or firms of up to five years of age. It decreases systematically for the older firm age cohorts. This observed effect mainly originates from the large sub sample of Peruvian firms, for which this negative firm age/incidence of growth relationship is also significant. It is also reinforced by the sub sample of Guinean firms, where only a small proportion of firms that started in 1990 or earlier have been successful in expanding employment. Sectoral differences only seem to be significant in Peru and in South Africa. In Peru, firms in the services sector seem to have been most successful and in South Africa manufacturing firms. Some variation in the other countries is obviously observed, but this is not significant. In none of the seven countries is any sector significantly outperforming other sectors.

The geographical size of the output markets does seem to be a significant determinant for the expansion of employment. Apart from Peru and Pakistan, the group of exporting firms hosts the highest proportion of growers.

Regarding the formal status of the firm, a firm is defined here as 'formal' if it has either complied with the business registration requirements or is registered with tax authorities, or both. A clear relationship between formality and growth cannot be observed. In Pakistan, formal registration and resulting taxation seems to significantly hamper employment creation. The same holds for Peru and Tanzania. In Chile, on the contrary, growing firms are less represented among the informal firms. In South Africa and Viet Nam the same pattern is observed, yet the difference is not significant.

Table 7 subsequently presents five variables that relate to the person of the entrepreneur. These are: gender; whether or not the entrepreneur has participated in any business management or technical training during the period 1999–2001; highest educational qualification; occupation before starting the business and main motivation to do so.

Contrary to what is generally perceived, there are no strong indications that female-run businesses would be less successful in expanding employment. The opposite is even observed in the Peruvian sample, where about 80 per cent of the women entrepreneurs have succeeded in letting the business grow, against 72 per cent for the male entrepreneurs. The same is observed for Chile, South Africa, Pakistan and Viet Nam, albeit not significant.

Training seems to have some impact on employment expansion in Chile and Guinea. In these countries the subgroup of entrepreneurs that have received training over the last 2 years hosts a significantly higher proportion of growing businesses. For Pakistan, this information is missing in the same format. Higher levels of formal education gradually increase the probability that the entrepreneur is successful in making the business grow. This finding becomes apparent when looking at the entire sample. Some country differences can nevertheless be observed.

The former occupation and the motivation to start a business give some information on the functioning of labour markets. Entrepreneurs who have been working as an employee in a private company seem to be the most successful entrepreneurs. Wage work in private companies seems to be a seedbed for successful entrepreneurship. In a similar way, yet to a slightly lesser extent, those who have done similar work running another small business and those who have worked as a wageworker in a State-owned enterprise (SOE) are also more successful. The opposite holds for persons that have been unemployed before starting the business or for persons that started without previous working experience. Presumably, the entrepreneurs may have been pushed into entrepreneurship, rather than choosing it.

To gain a better insight about entrepreneurs' motivation to start a business, the respondents were asked to indicate their main motive for becoming entrepreneur. The answers have subsequently been grouped into four distinct categories. The first category refers to the freedom entrepreneurs experience from running their own business (I can work when and how I want, I want to be my own boss). The second category refers to a form of negative motivation for being in business (I can't find work anywhere else, I don't have any skills for other kinds of work, previous employment ended). The third category refers to the profitability of running a business.[11] A fourth category refers to 'other' motives, which in Guinea, South Africa, Pakistan and Viet Nam may capture some of the entrepreneurs who were driven by the financial rewards of being an entrepreneur.

It can be seen that in the overall sample the entrepreneurs who are driven by profit maximising behaviour are also those who are most successful in employment creation. When looking at the separate countries, some differences do occur. However, a redistribution of the 'other' category could reveal a more consistent picture.

[11] Unfortunately, despite the importance of this motive, the questionnaires used in Guinea, South Africa, Pakistan and Viet Nam did not include financial considerations/profitability as a precoded answer.

Table 7. Proportions of successfully growing firms, by firm and entrepreneur characteristics and by country

	All	Peru	Chile	Guinea	Tanzania	R.S.A.	Pakistan	Viet Nam
Proportion growing firms	47.8	74.2	27.3	41.4	37.0	44.1	36.0	24.7
Firm age								
1996/01	50.0	83.1	29.7	40.7	38.2	46.2	40.3	27.7
1991/95	48.8	71.7	27.1	51.4	41.7	45.9	39.0	20.8
<1990	43.6	66.9	26.0	29.4	29.6	29.4	30.3	23.4
Sign. X^2	**	***	–	**	–	–	–	–
Sector								
Trade	45.9	77.1	20.7	37.7	40.7	34.7	31.4	25.6
Services	49.6	78.0	29.6	43.6	34.5	47.7	41.1	22.1
Manufacturing	48.1	67.4	33.3	46.2	36.6	50.5	34.6	26.1
Sign. X^2	–	***	–	–	–	*	–	–
Market								
Local	50.0	76.2	22.0	30.8	39.8	36.2	36.8	19.3
National	44.0	67.1	33.3	47.6	34.8	59.1	35.8	27.8
Exporting	48.7	67.9	37.5	76.9	44.4	100.0	21.4	33.3
Sign. X^2	**	**	*	***	–	***	–	–
Formal status								
Informal	45.8	76.9	14.7	41.7	50.0	42.5	46.9	22.9
Formal	48.3	73.9	29.0	41.3	36.6	46.7	29.1	25.0
Sign. X^2	–	–	*	–	–	–	***	–
Entrepreneur characteristics								
Male	47.8	72.4	27.2	41.7	38.6	42.8	34.7	24.4
Female	47.7	79.3	27.6	41.0	34.9	46.0	43.7	25.3
Sign. X^2	–	**	–	–	–	–	–	–
Training								
No training	48.4	74.6	24.0	37.5	38.2	41.6	n.a.	22.6
Training	51.9	73.9	36.5	48.2	29.6	48.9	n.a.	28.0
Sign. X^2	–	–	**	*	–	–		–
Education								
None	35.6	82.4	9.1	37.0	0.0	33.3	15.4	50.0
Primary	44.7	71.8	30.6	41.5	35.7	42.9	32.0	14.3
Secondary	44.2	76.6	22.4	43.5	35.6	35.3	34.0	19.9
Technical	55.7	66.3	38.2	28.6	-	-	81.8	20.0
University	56.1	74.3	35.0	–	44.2	51.1	37.6	36.6
Sign. X^2	***	–	**	–	–	–	**	**
Experience								
Similar	47.5	75.0	32.3	33.3	37.5	46.2	26.1	24.7
Employee private	56.2	72.5	33.3	48.5	45.1	48.8	49.3	19.0
Employee SOE	49.2	82.9	25.0	38.5	46.8	31.4	11.1	33.3
Civil servant	39.5	88.9	20.0	38.2	30.9	41.2	59.3	23.1
Student	37.9	87.5	18.8	45.2	26.2		48.3	19.4
Unemployed	39.1	69.6	19.5	34.7	33.3	35.1	25.0	16.7
Other	50.0	74.5	24.4	35.9	39.1	63.6	34.2	26.8
Sign. X^2	***	–	–	–	–	–	***	–
Motivation								
Freedom	45.7	77.5	25.4	39.7	41.4	38.8	34.6	25.3
Profit	53.8	69.1	33.3	n.a.	32.2	n.a.	n.a.	n.a.
Negative	49.1	72.3	21.1	47.9	37.6	50.0	37.3	22.0
Other	50.4	72.9	32.4	25.0	20.0	76.9	52.9	23.7
Sign. X^2	**	–	–	–	–	**	–	–

Notes: *** significant at the 1 per cent level; ** significant at the 5 per cent level; * significant at the 10 per cent level; – not significant; n.a. data not available.

4.4 Determinants of entrepreneurial success in terms of employment creation: A multivariate logit-analysis

To investigate the joint effect of these variables on firm growth, a logit analysis or logistic regression is done in this section. Logit analysis is a technique with similarities to the multiple regression or Ordinary Least Squares (OLS) technique, but it is used when the dependent variable is dichotomous or binary. This is the case in our analysis, as the dependent variable is a binary variable equalling one if the firm has grown over the period 1999–2001, and zero if the firm has stagnated or contracted. However, as compared to OLS, logit analysis has a different estimation technique. It compares the probability that an event occurs, to the probability that it does not occur, or, in our particular case, it compares the probability that a firm has grown to the probability that it has not grown.[12] The use of this technique does not change in any manner the way to interpret the sign of the estimated coefficient. A positive coefficient increases the probability, while a negative value decreases the predicted probability.

We use the logistic regression technique to estimate the probability that firms have grown. Explanatory variables include firm size in 1999 and firm age in logarithmic terms, location, and sector of activity, geographical market and formal status. Table 8 summarizes the estimation results and presents merely the estimated coefficients and their significance level. In annex 3, the full estimation results are presented, including measures of the goodness of fit of the estimated models. The first column of table 8 refers to the estimation for the entire sample, with country dummy variables, the reference country being Peru. Pakistan is excluded from the estimations due to missing values. The second until the seventh column are estimations for the countries separately. As the sample size for the separate country estimations are smaller, the number of explanatory variables may change.

Table 8. Estimation results for the logit analysis

	All	Peru	Chile	Guinea	Tanzania	R.S.A.	Viet Nam
Constant	1.76 ***	2.64 ***	–1.83 ***	0.07	0.87	0.57	–1.06*
Log (firm age)	–0.16 **	–0.31 **	–0.22	–0.01	–0.00	0.11	–0.16
Log (size 1999)	–0.90 ***	–1.84 ***	–0.24 *	–0.84***	–0.55***	–1.51***	0.47***
Rural	–0.32 **	-0.52 *	0.27	0.01	–0.85***	0.08	–0.66**
Services	0.37 ***	0.88 ***	0.53	0.44	–0.02	0.76**	–0.16
Manufacturing	0.14	–0.13	0.72 **	0.07	0.10	0.94***	0.10
Formal	0.30**	0.86 **	1.03 *	–0.01	–0.53	1.05***	–0.27
National	0.62 ***	0.73 ***	0.60 *	1.07***	0.05		0.39
Exporting	0.82 ***	1.70 **	0.61	1.86 **	0.76		0.37
Chile	–1.78 ***						
Guinea	–1.23 ***						
Tanzania	–1.56 ***						
R.S.A.	–1.05 ***						
Viet Nam	–2.90 ***						

Notes: *** significant at the 1 per cent level; ** significant at the 5 per cent level; * significant at the 10 per cent level; – not significant.

[12] Prob (event) / prob (no event) = $e^{a0+a_1X_1+\ldots+a_nX_n}$

From the first column, it is clear that for the entire sample, firm size and firm age are negatively related to the probability that firms have grown over the period 1999–2001. The effect is significant and holds when the estimations are done for the different countries separately. The negative firm age – firm growth relationship is in line with theoretical models of learning (Lucas, 1978; Jovanovich, 1982; Pakes and Ericson, 1990) and other empirical studies (Evans, 1987a; Dunne and Hughes, 1994, and for developing countries: Das, 1995, Goedhuys 2002, Goedhuys and Sleuwaegen, 2000, Sleuwaegen and Goedhuys, 2002). Most studies also find a significant negative relationship between firm growth and firm size [Mansfield (1962), Evans (1987a), Kumar (1985) Dunne and Hughes (1994) and McPherson (1996) and Das (1995) for developing countries]. It should be noted, however, that Viet Nam seems to be an exception to this robust finding. In Viet Nam, initial firm size has a positive effect on the probability that the firms have grown over the subsequent 2 years period.

Rural-based firms seem to have faced more growth constraints than firms in urban areas, the reference group of firms. The coefficient is negative and significant for the entire sample, as well as for Peru, Tanzania and Viet Nam. Sectoral differences are also observed. Firms in services and manufacturing have apparently been more successful in creating employment as compared to trading businesses.

Firms registered with business licence or tax authorities have faced better growth opportunities in Peru, Chile and South Africa. Measured at the sample means and considering the variables included in the logit estimations, the formal status raises the probability that a firm has grown from 70 to 85 per cent in Peru, from 12 to 28 per cent in Chile and from 33 to 59 per cent in South Africa. This is in line with other studies (Sleuwaegen and Goedhuys, 2002; Goedhuys, 2002, Levensohn and Maloney, 1997), which find that formality is related to superior growth. In these studies, formality captures legitimation and reputation of firms in the industry. Registration provides firms with an institutional standing in the eyes of law-enforcing agencies, consumers, suppliers, police officers and other key actors and facilitate contractual relationships with clients and suppliers and third parties. Formal firms can also gain better access to scarce resources. Therefore, the formal status may grant legitimacy and open up additional growth opportunities. However, formality can only be obtained at a cost that is so high that small firms are not in a position to overcome it. The process of registering is very costly and the mere collection of information about registration, the registration process itself and the subsequent taxation and fulfilment of regulations imposes a very high barrier to entry into the formal sector, and hampers the smooth transition of micro firms toward a larger size.

The size of the output market also seems to be strongly related to firm growth. As compared to the reference group of firms who produce for local markets, firms serving the national market have grown significantly more. In the same way, exporting firms grow even better, as the coefficient of ‘national’ and ‘exporting’ indicate.

The estimations were also done including four binary variables that capture entrepreneur characteristics.[13] It was found that sex of the entrepreneurs did not have a significant impact in either one of the countries. For the entire sample, the youngest entrepreneurs of less than 25 years were less successful in making their firms grow as compared to older entrepreneurs. The achievement of higher levels of formal education, i.e. an academic degree, is significantly

[13] See annex 4. The binary variables are FEMALE, equaling one for women entrepreneurs, EYOUNG equaling one if the entrepreneur is less than 25 years of age, and SECONDARY and UNIV if the entrepreneur’s highest level of formal education is a level of secondary school, respectively, an academic degree.

positive for employment creation in Peru and South Africa. No significant impact was found for lower levels of formal education.

In the estimations for the entire sample, the country binary variables are all significant, implying that there are indeed significant differences in the proportions of firms that have grown, in the different countries. The reference country, Peru, has the highest proportion of growing firms, meaning that all the other countries have significantly less growing firms as compared to Peru. This may be due to several reasons. In the first place, the macro-economic conditions of the country may determine the performance of the firms. Secondly, country-specific policy environments and cultural factors may affect the differential employment growth performance of MSEs in the different countries.

In the next section, the focus is on the policy environment in which firms operate. The issue of business registration was already raised in relation to growth of the firms, but section 5 will deal with registration requirements and compliance in more detail. In section 6, the impact of policy environments versus economic conditions on firm conduct and performance is then further explored.

5. Registration of firms and relationship with government agencies

One of the important components of the study was to explore the legal status of the firms, i.e., how small businesses behave when confronted with the at times heavy burden of procedures that may be conditional in order to operate as a legal entity (see sections 2 and 3). Hence, it was the intention to investigate (i) the percentage of enterprises that were registered directly with government or related government agencies; (ii) which types of registrations and how many; and (iii) were there significant variations between micro and small enterprises?

Due to the national adaptations of the questionnaire, the type of registrations differs from country to country. In all countries, however, regardless of size and sector, enterprises were subject to compulsory registration with business revenue tax authorities. Although not compulsory, registration with labour authorities, with departments for trade and industry and with local authorities also took place in most countries.

Registration with business revenue authorities took place in all countries, but at varying rates as shown in table 9. The compliance rates are highest in Chile and Peru at close to 90 per cent. With the exception of South Africa, rates among entrepreneurs in other countries were close to 60 per cent. Registration with labour authorities varies greatly by country. In Peru, labour laws apply to all enterprises and in Tanzania enterprises with four workers or more are obliged register with the Unemployment Fund. Interestingly, enterprises in these two countries show to be registered at a higher rate than entrepreneurs in other countries suggesting a positive correlation between the requirement to register and actual rate of registration. If micro-enterprises are excluded the rate in Tanzania doubles to 62.6 per cent and in Peru it increases threefold to 94.9 per cent. Compliance with labour laws thus clearly increases the larger the enterprise.

In some countries, the surveyed enterprises were also registered with government agencies related to trade and industry, and Guinea and Tanzania show the highest levels of registration at more than 20 per cent. Registration with this authority is required for specific sectors only and for enterprises that directly import and/or export. When micro-enterprises are excluded the rate of registration increases in all countries. Table 9 also shows a quite high rate of enterprises registered with the local authorities being highest in Chile, Peru and Tanzania.

Table 9. Types of business registrations

	Business income tax*	Labour departments	Trade and industry	Registration with local authorities
Chile	87.7	–	–	81.3
Guinea	73.7	9.6	22.4	–
Pakistan	58.0	13.5	11.7**	–
Peru	86.5	47.3	–	83.3
South Africa	30.5	16.1	9.0	24.7
Tanzania	68.7	31.7	20.7	89.0
Viet Nam	61.9	6.7	7.1	49.7

Notes: * In the Chile and Viet Nam surveys, 73.3 per cent and 81.4 per cent also stated that they had obtained a business licence. ** Export Promotion Bureau (EPB).

5.1 Registration with enterprise revenue authorities

When registration with business income tax authorities is disaggregated by enterprise size, a clear trend emerges. In all countries, except Guinea, small enterprises are registered at a higher rate than micro-enterprises. The difference in percentage points differs across countries, being highest in South Africa at 48 and then Viet Nam and Pakistan at 29.2 and 25.1, as table 10 shows. There is also little difference in the micro and small segment of the Chilean enterprises both of which see a high registration rate at more than 85 per cent for micro and close to 91 per cent for small enterprises. South Africa sees the lowest registration rates at 25.3 per cent for micro-enterprises and Guinea the lowest for small enterprises 69.2 per cent.

Table 10. Business income tax registration by size

	Micro (1-9)	Small (10+)	Difference
Chile	85.1	90.6	+ 5.5
Guinea	74.6	69.2	– 5.4
Pakistan	45.6	70.7	+ 25.1
Peru	82.8	99.5	+ 16.7
South Africa	25.3	73.3	+ 48
Tanzania	62.2	81.8	+ 19.6
Viet Nam	51.3	80.5	+29.2

When registration with tax authorities by enterprise size is further disaggregated by location, as in table 11, three clear trends emerge. First, urban-based enterprises are more registered than rural-based enterprises. Second, small enterprises are more registered than micro-enterprises regardless of location and thus, third, urban-based small enterprises are the most registered of all.

Table 11. Business income tax registration by size and location

		Chile	Guinea	Pakistan	Peru	R.S.A	Tanzania	Viet Nam
Urban	Micro (1-9)	85.7	78.2	54.8	85.5	26.9	70.7	55.4
	Small (10+)	91.6	67.6	80.3	99.5	76.9	87.8	87.9
Rural	Micro (1-9)	82.1	63.5	36.5	68.8	17.1	38.9	43.5
	Small (10+)	85.0	73.3	46.8	–*	–*	52.9	70.2

Note: *The sample size for these two cells is too small to compute.

On a country basis, Peruvian entrepreneurs are the most registered of small enterprises at 99.5 per cent for urban-based and 100 per cent for the rural-based,[14] but Chile likewise sees a high registration rate of both urban and rural-based small enterprises. In Tanzania, urban-based small enterprises are also registered at a high rate but the rate drops for rural-based enterprises to close to 53 per cent. To a lesser extent this is also the case for Viet Nam where

[14] The 100 per cent registration rate is unlikely, however, and probably results of a sampling error due to the small sample (n=14) and variation of rural-based small-scale entrepreneurs. The standard error of proportion computes to ± 8.8 per cent. It should also be mentioned that the Peru survey included one-person enterprises and of these 31.1 per cent had registered with the business income tax authorities. In all figures from Peru these cases have been excluded.

urban-small enterprises are registered at a rate of 87.9 per cent, but this drops to little more than 70 per cent for rural-small enterprises. All countries except Guinea and South Africa have registration rates above 80 per cent for urban-small enterprises, and all countries except Pakistan and South Africa have registration rates for rural small enterprises above 50 per cent. Turning to the registration rate of micro-enterprises, Chile and Peru and then Guinea and Tanzania have the highest registration rates of urban micro-enterprises, and South Africa experiences the lowest. For rural-based micro-enterprises rates in Chile, Peru and Guinea is high, but drop to less than 50 per cent in the other countries and even below 20 per cent in South Africa.

The low registration rates in South Africa can be explained by two interrelated factors. First, the final sample was dominated by micro-enterprises at close to 91 per cent. A large number of these micro-enterprises, furthermore, showed to be relatively young operating for less than one and a half year in many cases. Second, due to the infant stages of these micro-enterprises, they often have little capital and often involve only the owner, some family members and at the most one or two paid employees. These enterprises quite often lack formality by not having gone through the procedures to obtain the necessary licences and business registrations.

If business income registration is disaggregated by enterprises size and sex of the enterprise owner, it seems that male-owned enterprises in general are slightly more registered than female-owned. When compared to the overall average for business registration, the extent to which either male of female enterprise owners lies above or below the average varies from country to country, as shown in table 12. In general, micro and small enterprises managed by men are represented at a higher rate than micro-enterprises managed by women. Exceptions are Guinea and small enterprises managed by women in Peru. In Chile, Peru, Viet Nam and to some extent also Tanzania, the difference in registration and size between men and women is not that pronounced, but in Pakistan and South Africa the difference is significant.

Table 12. Business income tax registration by size and sex

		Chile	Guinea	Pakistan	Peru	R.S.A	Tanzania	Viet Nam
Micro (1-9)	Men	89.1	66.4	48.9	83.2	31.9	67.7	51.5
	Women	78.3	83.3	32.4	81.8	16.2	56.9	50.7
Small (10+)	Men	93.6	63.6	72.7	99.3	86.4	79.2	81.6
	Women	84.4	73.3	50.0	100.0	37.5	88.9	76.9

5.2 Other registrations

Rates of registration with labour departments also vary according to the size of the enterprise, as shown in table 13. With the exception of Viet Nam, small enterprises in all countries are registered at higher rates than their micro counterparts. In Viet Nam, however, registration is not compulsory, which may partly explain the rather low registration rate for small enterprises compared to other countries. Registration with the national employment fund is, however, compulsory in Tanzania, for businesses with four employees or more. This corresponds to the findings which show a low level of registration among micro-enterprises at only 16.4 per cent a rate which increases more than three for small enterprises. The degree of

compliance among small enterprises in Peru for whom registration is also compulsory reaches a high registration rate at almost 94 per cent. This suggests a robust correlation between the degree of compliance with labour regulations and the size of the enterprise; as the enterprise grows compliance increases.

Table 13. Registration with labour departments by enterprise size

	Micro (1-9)	Small (10+)
Guinea	8.1	17.3
Pakistan	3.6	23.8
Peru	34.2	93.9
South Africa	13.3	40.0
Tanzania	16.4	62.6
Viet Nam	7.5	5.3

Similar findings are observed with regard to registration with departments for trade and industry as shown in table 14. Small enterprises are registered at a higher rate in all countries although the relative difference varies being highest in Pakistan and lowest in Viet Nam. In general, however, few micro-enterprises were registered with these authorities, first, because the perceived benefits for micro-enterprises seem to be small and, second, because this registration often is only compulsory for enterprises that work in specific sectors. In Viet Nam registration is not compulsory, thus the low rate, and in Tanzania, e.g. registration is compulsory only for enterprises that are working in sectors like construction, mining, import/export and brokerage.

Table 14. Registration with departments for trade and industry

	Micro (1-9)	Small (10+)
Guinea	20.8	30.8
Pakistan	4.1	19.5
South Africa	8.0	16.7
Tanzania	16.9	28.3
Viet Nam	5.5	9.7

The differences by countries in registration with local authorities are not as pronounced as other findings although the registration rate is higher for small enterprises in general. The exception is Viet Nam where micro-enterprises are registered with local authorities at a higher rate. This may be explained by the fact that household enterprises, of which the majority are micro-enterprises, are obliged to register and obtain the necessary licences for their business with the district Peoples Committee's Business Bureau.

Table 15. Registration with local authorities

	Micro (1-9)	Small (10+)
Chile	78.3	84.9
Peru	79.5	96.9
South Africa	20.5	60.0
Tanzania	86.1	94.9
Viet Nam	53.8	42.5

In the Chile and Viet Nam surveys, entrepreneurs were also asked about value added tax (VAT) registration. VAT registration is compulsory for all enterprises in both countries. VAT registration in Chile is high for both micro and small enterprises at 88.8 and 91.4 per cent respectively. In Viet Nam, VAT registration for micro and small enterprises are 50.3 and 66.4, respectively. The difference is not surprising when the Chilean and Vietnamese economies are compared. In Chile, the market reforms and initiatives to formalize enterprises within the economy over the last ten years have had a positive effect. Particularly, strategies against tax evasion have ensured a high degree of registration with tax authorities in general. In comparison, private enterprises have only just been legalised in Viet Nam for ten years and government strategies and incentives to bring enterprises into the formal economy have only just begun.

5.3 Number of registrations

When investigating the total number of government agencies, compulsory and non-compulsory, that enterprises are registered with the findings are quite different across countries. The rate of enterprises that are not registered with any government agency at all is highest by far in South Africa and second in Pakistan, as table 16 shows. As earlier mentioned, there is high number of unregistered micro-enterprises in general in South Africa, and in Pakistan micro-enterprises also see low registration levels in all other areas than registration with business-income tax authorities. In Viet Nam, all enterprises have registered, but this is by design since informal enterprises were not included in the sample. With regards to being registered with one agency, South African entrepreneurs are the least registered with just over 41 per cent, whereas the rates in other countries are quite high. The rate of registration changes drastically when looking at the percentage of enterprises that are registered with two agencies. Whereas the rates in Chile, Peru and Viet Nam remain high, the rates in Guinea and Tanzania drop significantly compared to the high rate of enterprises being registered with at least one agency in these two countries.

Table 16. No. of registrations (cumulative)

	Number of agencies					
	0	1	2	3	4	5
Chile	7.3	92.7	88.7	81.3	65.3	n/a
Guinea	19.3	80.7	28.2	9.3	4.8	1.3
Pakistan	34.2	65.8	44.1	28.5	19.5	12
Peru	8.2	91.8	83.6	55.1	46	38.7
South Africa	58.7	41.3	24.7	14.9	9.3	4
Tanzania	7.3	92.7	40.3	13	1.3	n/a
Viet Nam	0.0	100.0	85.2	65.7	50	26.9

The decrease is still present when looking at the rate of enterprises registered with at least three agencies. Again, in Guinea and Tanzania it continues to drop, and in Peru, although the rate remains high at 55.1 the drop is significant from 83.6 per cent. In Chile especially, but also in Viet Nam, the rates remain quite high and in Pakistan the decrease continues to be quite steady. When looking at registrations with at least four agencies, Guinea, South Africa and Tanzania have all dropped below ten per cent. Of the country data available for five registrations, the drop seems to steadily continue.

These findings are interesting. First, because they show the overall density of enterprise registrations in the different countries, which tell us that entrepreneurs in Chile, Peru and Viet Nam in general have registered more than enterprises in other countries. Second, and related to the first point, there is also a clear correlation between the number of compulsory registrations and the density in registrations. In Chile, Peru and Viet Nam enterprises are required to obtain a higher number of licences and registrations to run their businesses than entrepreneurs in other countries.

In Chile and Peru, registration procedures are generally more effective making it easier for an entrepreneur to register and thus enter the formal economy. In Viet Nam, on the other hand, the presence of Peoples Committees at the district and communal level throughout the country and the location of business bureaus within these make it difficult for entrepreneurs not to register. Thus, there seems to be a clear correlation between required licences and a registration and monitoring system that encourage entrepreneurs to register on the one hand, and the rates of registration on the other.

Looking at the number of individual registrations per enterprises as shown in table 17, this finding is further highlighted. In Chile, Peru and Viet Nam fewest enterprises are registered with only one agency. In Chile and Viet Nam no small enterprises are registered with only one agency in Peru, the rate is as low as less than half a per cent.

Table 17. No. of registrations (non-cumulative)

		0	1	2	3	4	5	6	7	8
Chile	Total	7.3	1.6	7.7	18	65.3	–	–	–	–
	Micro	6.8	3.1	10.6	22.4	57.1	–	–	–	–
	Small (10+)	7.9	0.0	4.3	13.0	74.8	–	–	–	–
Guinea	Total	19.2	52.6	19.2	4.2	3.5	1.0	0.3	–	–
	Micro	24.2	58.3	12.2	2.6	1.9	0.6	0.0	–	–
	Small (10+)	14.1	46.8	26.3	5.5	5.1	1.3	0.6	–	–
Pakistan	Total	34.2	21.6	16.2	9.9	5.1	3.6	4.5	1.2	3.6
	Micro	44.4	27.2	19.5	4.1	3.6	0.0	0.6	0.0	0.6
	Small (10+)	23.8	15.9	12.8	15.9	5.7	7.3	8.5	2.4	3.7
Peru	Total	8.2	10.8	39.4	11.5	6.7	18.4	–	–	–
	Micro	13.8	11.2	40.8	11.2	6.7	15.7	–	–	–
	Small (10+)	0.0	0.4	4.1	2.8	6.3	86.4	–	–	–
South Africa	Total	58.7	12.6	8.9	4.0	6.9	8.8	–	–	–
	Micro	59.4	12.9	8.9	4.5	7.1	7.0	–	–	–
	Small (10+)	52.2	8.7	8.7	0.0	4.3	26.0	–	–	–
Tanzania	Total	7.3	30.3	29.3	24.7	12.0	1.3	–	–	–
	Micro	3.0	37.3	36.3	17.9	5.0	0.5	–	–	–
	Small (10+)	1.0	16.2	15.2	38.4	26.3	3.0	–	–	–
Viet Nam	Total	0.0	1.6	13.8	19.9	12.9	17.0	20.6	10.6	3.5
	Micro	0.0	2.5	14.6	25.3	15.7	16.7	14.6	7.1	3.5
	Small (10+)	0.0	0.0	12.4	10.6	8.0	17.7	31.0	16.8	3.5

In Guinea, Pakistan and Tanzania, on the other hand, the single largest category of registrations is with one agency, due to the higher rates of registration for micro-enterprises. Moving progressively to the right in table 17, the number of registrations, in general, decreases for micro-enterprises and increases for small enterprises. The exception is Chile where the majority of both micro and small enterprises are registered with four government agencies at rates of 57.1 and 74.8 respectively. In Guinea 26.3 per cent of small entrepreneurs have two registrations but hereafter the rate drops continuing, however, to be higher than the rate for micro-enterprises. In Pakistan, small enterprises are registered at a higher rate starting with three agencies or more whereas the rate drops to nil for micro-enterprises. In Peru more than 40 per cent of micro-enterprises are registered with two agencies whereas the majority of small enterprises at 86.4 per cent are registered with five agencies. In South Africa the highest rate of registration for micro-enterprises is with one agency at 12.9 per cent and highest among small enterprises with five agencies at 26 per cent. In Tanzania the highest registration among micro-entrepreneurs is with one and two agencies at 37.3 and 36.3 per cent whereas for small enterprises the highest registration is with three and four agencies at 38.4 and 26.3 per cent. Finally, in Viet Nam micro-enterprises have more registrations with one, two, three and four agencies after which small enterprises are more registered peaking around five, six and seven registrations. However, the registration rate for micro-enterprises remains relatively high.

In summary, small enterprises are seen to have a higher number of registrations and licenses than their micro counterparts. This trend is present across all countries and does correspond with national legislations and the general higher requirement on smaller enterprises. As the size of the enterprise grows in number of employees so does the need for registrations and permits. There is a positive correlation between the number of compulsory licenses a government requests from its enterprises and the actual rates of registration in these countries. Examples are Chile, Peru and Viet Nam. However, effective registration procedures that make the cost of not being registered higher than if registered has to be in place to have enterprises comply. In South Africa e.g., most business laws and registrations apply to all enterprises, but incentives to register are in many cases absent and enforcement is low.

5.4 Visits by government officials

Respondents were also asked whether a government official over the last two years had visited their businesses. As table 18 shows (for the countries where this data was available), small enterprises are more often visited than their micro counterparts. In Pakistan and Tanzania, this question was further adapted and the figures in table 18 for these two countries are with regards to visits of officials from the tax authorities, but remain unspecified for the other countries. Notable are the high rates of both micro and small enterprises in Tanzania that have been visited by tax officials.

Table 18. Business visited by government official last two years

	Guinea	Pakistan	Peru	Tanzania	Viet Nam
Micro (1-9)	14.7	36.1	32.0	85.6	28.6
Small (10+)	25.6	52.4	70.5	92.9	40.7

In Pakistan, enterprises were also asked if they were visited by trade, labour or business regulation authorities, as shown in table 19. The findings show that visits from these authorities were less frequent for both micro and small enterprises. The type of officials who visited the enterprises was most often tax officials and then officials from labour authorities.

Table 19. Enterprise inspection in Pakistan

	Tax	Trade	Labour	Licensing	Business regulations
Micro (1-9)	36.1	1.8	4.7	10.1	7.1
Small (10+)	52.4	9.1	25	15.2	18.9

In addition, in Pakistan, as generally in all countries, small enterprises were visited at a higher rate than micro-enterprises, which further underscores the informality of many micro-enterprises. Since these are less registered, they are less monitored. Furthermore, the fact that micro-enterprises are visited less by government officials might signify the lesser importance paid to the micro-enterprises sector by the government or perhaps even more to the practical problems associated with identifying and accessing micro-enterprises. In Tanzania, visits by government officials were found to be almost equally high for both micro and small enterprises. Enterprises visited by officials from trade authorities were 52.2 per cent for micro and 49.5 per cent for small enterprises. The percentage of enterprises that were visited by health authorities amounted to 58.7 for micro and 63.6 for small enterprises and, as shown in

table 18, 85.6 per cent of micro-enterprises and 92.9 per cent of small enterprises were visited by the tax authorities.

5.5 Membership with business associations

Membership with business associations varied considerably by country and by size of the enterprise as shown in table 20. Membership with chambers of commerce varied little among small enterprises across countries being highest in Pakistan at 32.9 per cent and lowest in Tanzania at 17.2 per cent. Membership of chambers of commerce among micro-enterprises was highest in Guinea, and memberships were not, as one would presume, primarily in the capital of Conakry, but were found across the country.

Table 20. Membership with private sector organizations

		Guinea	Pakistan	Peru	Tanzania	Viet Nam
Chamber of Commerce	Micro (1-9)	16.5	7.1	4.0	8.0	6.5
	Small (10+)	28.8	32.9	20.9	17.2	23.0
Business association	Micro (1-9)	25.4	10.1	6.9	9.5	3.0
	Small (10+)	40.4	44.5	13.3	22.2	14.2
Employers' organization	Micro (1-9)	10.4	2.4	0.6	1.5	3.5
	Small (10+)	11.5	23.2	3.6	13.1	5.3
Any of the above*	Micro (1-9)	36.9	13.6	10.7	16.9	10.1
	Small (10+)	63.5	58.5	31.6	39.4	36.3

Note: *Data for Chile is only available for "any of the above" and are 7.5 per cent and 12.9 per cent for micro and small enterprises respectively.

Membership of business associations was also higher among small enterprises, being highest in Pakistan at 44.5 per cent for small enterprises and lowest in Peru at 13.3 per cent. Also, the low figures for Viet Nam are interesting considering that there are approximately one hundred different kinds of business associations in Viet Nam. Most of these associations have been established since 1980, but based on an assessment of the Viet Nam Chamber of Commerce and Industry (VCCI), most of these organizations are weak in providing services to their members. The low member base makes it difficult to generate funds that would allow an improvement of services and equally so to lobby vis-à-vis the Government. Furthermore, the legal framework for establishing business association remains unclear. This might also explain the higher rate of membership with the chamber of commerce than with business organizations and other employers' organizations.

In general, however, the membership with private sector organizations is quite low across countries with the exception of Pakistan, which consistently has the highest rate of membership among small enterprises. However, when looking at the membership rate with any of the mentioned private sector organizations then Guinean entrepreneurs are most often members at 36.9 per cent for micro and 63.5 per cent for small enterprises. In most countries, there is also a clear trend that urban-based enterprises are more registered than rural-based and in the case of Pakistan male-owned enterprises were members at significantly higher rates than women, although this was not the case in other countries. Membership did not appear to vary much according to sector. In summary, membership with private sector organizations is

mostly influenced by the size of the enterprise with a greater proportion of small enterprises being members of these organizations. The higher rate of membership among small enterprises points to the fact that the larger the enterprise is the more visible it is and thus the greater need for being organized and being able to act collectively vis-à-vis governments. The higher rates of registrations with government agencies among small enterprises further confirm this.

6. National policies and employment growth, working conditions and investment behaviour of firms

This section tries to unravel to what extent market conditions versus the policy environment are influencing the investment behaviour and employment decisions of firms. Given the important impact that markets have on the conduct and performance of businesses, the influence of policies is mostly indirect and difficult to measure with an objective indicator. Therefore, in this section, the analysis focuses on the personal perception of entrepreneurs.

During the interviews, the respondent entrepreneurs were asked to indicate on a five point Likert-scale to what extent different factors had influenced their employment decision over the past two years. On a similar scale they had to indicate how the same set of factors had influenced working conditions and investment behaviour.

The respondents could indicate for each factor whether it had had 'a strong positive influence', 'a positive influence', 'no influence', 'a negative influence' or 'a strong negative influence' on past employment decisions, working conditions or investment. A positive influence refers to an influence toward employing more workers, improving working conditions, respectively investing in the business. A negative influence refers to the opposite.

The factors of potential influence can be classified into three broad categories. A first set of factors refers to input markets, including access to finance, access to resources, the size and status of business premises and the cost of labour. A second set refers to the status and position of the firm in the output markets: market conditions (referring to demand) and export to other countries. Finally, the impact of laws and regulations was captured by the factors: labour regulations, taxation and government policies. To some extent, the cost of labour can also be affected by labour regulation.

To analyse the data and in order to summarize the findings, the responses were 'quantified'. A 'no-influence' response on the Likert-scale was set equal to 0; a 'positive' influence was set equal to 1; a 'strongly positive' influence was set equal to 2. A 'negative' respectively 'strongly negative' influence was set equal to -1, respectively -2. As such, average scores could be calculated per factor and per country, where positive values imply that on average the entrepreneurs experienced a positive influence of the respective factor on their employment decisions.[15] However, it should be stressed that the responses remain the subjective view of entrepreneurs. Hence, the responses may be affected by cultural factors or attitudes by which respondents tend to respond systematically more positively (or optimistically) or negatively (or pessimistically) in one country as compared to other countries. Comparing magnitudes of scores across countries is making abstraction of this cultural bias. Therefore, when making cross-country comparisons, factor scores are ranked and the rankings are compared. In what follows, sometimes rankings of factors are presented for cross-country comparisons, sometimes scores are presented for assessing the relative impact of factors within one country.

[15] For Chile, there were only three response levels: positive influence, no influence, negative influence. To calculate the scores, these response levels were put equal to 1.5, 0 and –1.5.

6.1 Factors influencing employment decisions

Table 21 shows the factor rankings based on the obtained factor scores for the seven countries and for the entire sample (last column). It is clear that markets and premises are ranked as having the largest impact. In line with the expectations, employment expansion seems to be mainly driven by a strong demand for the product, and the availability of good infrastructure to supply it. An additional demand from export markets and the availability of other resources such as equipment, technology, and skills are in general also perceived as favourable for the decision to expand the size of the labour force.

Table 21. Ranking of factors influencing employment decisions over the period 1999–2001

	Chile	Guinea	Pakistan	Peru	South Africa	Tanzania	Viet Nam	All
Markets	1	1	1	4	1	1	1	1
Exports	9	4	4/5	2	4	3	7	4
Premises	2	2	2	1	2	2	2	2
Finance	5	7	4/5	5	9	6	4	5
Resources	3	3	3	3	7	4	5	3
Labour costs	7	5	6	7	5	7	3	6/7
Labour regulations	6	6	7	6	3	5	8	6/7
Taxation	4	9	8	8	6	9	9	9
Government policies	8	8	9	9	8	8	6	8

Table 22. Scores of factors influencing employment decisions over the period 1999–2001

	Chile	Guinea	Pakistan	Peru	South Africa	Tanzania	Viet Nam	All
Markets	–0.1	0.6	0.6	–0.2	0.8	0.2	1.3	0.3
Exports	–0.9	0.0	0.1	0.0	–0.1	0.0	0.1	–0.1
Premises	–0.2	0.1	0.5	0.0	0.5	0.2	0.4	0.2
Finance	–0.4	–0.2	0.1	0.2	–0.3	–0.1	0.2	–0.1
Resources	–0.3	0.0	0.1	0.1	–0.2	0.0	0.2	–0.1
Labour costs	–0.5	–0.0	0.0	–0.4	–0.1	–0.2	0.2	–0.2
Labour regulations	–0.5	–0.0	–0.0	–0.3	–0.1	–0.1	0.0	–0.2
Taxation	–0.3	–0.4	–0.2	0.4	–0.1	–0.6	-0.1	–0.3
Government policies	–0.5	–0.3	0.3	–0.4	–0.2	–0.5	0.1	–0.3

For the overall sample, labour costs, labour regulation, government policies and taxation are perceived as least conducive factors for employment creation. This pattern is also observed in some individual countries such as Peru, Tanzania, Viet Nam and Pakistan. For Guinean and South African entrepreneurs, access to finance seems to be perceived as a constraining factor. In South Africa, the perception of labour regulation is surprisingly favourable. In Chile and South Africa, taxation is also relatively well perceived. These findings are consistent with *a-priori* expectations. In countries where taxation is complex

(Pakistan and Guinea) or involves numerous taxes (Tanzania), it is perceived as highly constraining. In countries with higher levels of economic development, such as Chile and South Africa, taxation becomes subordinate to input and output market conditions.

Table 22 shows the average factor scores for the different countries. In Peru, despite the large proportion of growing firms, the general trend is to perceive most of the factors on average as having a negative impact on employment decisions. The same holds for Chile, where, on average, all factors were perceived as growth constraining. Especially a decrease in the demand from export markets seems to have had a strong negative influence on employment within MSEs. In the Asian countries, all the different factors are relatively perceived as employment stimulating, especially in Viet Nam where only taxation got on average a negative score. This may be because over the same period the macro-economic performance of the countries was relatively good, with GDP growth rates reaching four per cent and more (see table 1) and in the case of Viet Nam more than eight per cent on average through the 1990's.

Tables 21 and 22 reflect how the different factors have affected employment decisions of all entrepreneurs, whether or not they have been successful in expanding employment. However, it is of interest to analyse whether there are differences in perception between successful entrepreneurs and less successful ones. This can reveal what factors have been at the origin of firm growth, and what factors have led to stagnation/contraction of businesses. Table 23 presents the factor scores for growing versus non-growing firms, and for the different countries. An X^2-test was also done[16] to test whether growing and non-growing firms perceived the influence of the different factors in the same way. The significance of the X^2-test is included in table 23.

[16] On the original response levels.

Table 23. Factor scores for growing versus non-growing firms

	Peru growfirm			Chile growfirm			Guinea growfirm			Tanzania growfirm			South Africa growfirm			Pakistan growfirm			Viet Nam growfirm		
	0 Mean	1 Mean	Sign.	0 Mean	1 Mean	Sign.	0 Mean	1 Mean	Sign.	0 Mean	1 Mean	Sign.	0 Mean	1 Mean	Sign.	0 Mean	1 Mean	Sign.	0 Mean	1 Mean	Sign.
Markets	–0.7	0.0	***	–0.3	0.6	***	0.1	1.2	***	–0.3	1.2	***	0.7	1.0	*	0.3	1.2	***	1.3	1.6	***
Premises	–0.2	0.1	***	–0.3	0.1	***	–0.2	0.6	***	0.1	0.4	***	0.5	0.4	–	0.4	0.8	–	0.4	0.5	–
Labour costs	–0.5	–0.3	***	–0.5	–0.4	–	–0.2	0.2	***	–0.3	–0.1	**	0.0	–0.2	*	0.1	0.0	–	0.2	0.2	–
Access to finance	–0.4	–0.2	***	–0.5	–0.1	***	–0.5	0.2	***	–0.2	0.0	–	–0.2	–0.5	**	–0.0	0.4	–	0.2	0.2	–
Access to resource	–0.3	–0.1	***	–0.4	0.0	***	–0.3	0.5	***	–0.0	0.1	–	–0.1	–0.4	**	–0.0	0.4	**	0.2	0.1	–
Exports	–0.1	–0.0	–	–0.9	–0.7	**	–0.1	0.2	***	0.0	0.1	*	–0.1	–0.1	–	0.1	0.2	–	0.1	0.1	–
Labour regulations	–0.5	–0.3	***	–0.5	–0.3	**	–0.2	0.1	***	–0.1	–0.1	–	0.0	–0.2	–	0.0	–0.1	–	0.0	0.0	–
Taxation	–0.5	–0.4	**	–0.4	–0.2	–	–0.7	–0.1	***	–0.8	–0.4	***	–0.2	–0.1	–	–0.2	–0.3	–	–0.1	–0.1	–**
Government policies	–0.5	–0.3	***	–0.6	–0.3	**	–0.5	0.0	***	–0.6	–0.3	**	–0.3	–0.2	–	–0.3	–0.2	*	0.1	0.1	

Notes: Significance of a X^2-test on an association between the perceived influence of the respective factors and the incidence of growth: significance levels: *** 1% level; ** 5% level; * 10% level; – not significant.

Large and significant differences in perception seem to exist between growing and non-growing businesses. In Peru, growth of firms seems to be driven by a favourable demand for products and the availability of good premises. Despite growth, the regulatory and policy environment is not perceived as conducive. Less successful firms seem to relate their stagnation to a lack of demand for their output and the regulatory and policy environment. In Chile, successful firms refer to markets, premises and inputs as engines for growth. For stagnating firms, an unfavourable export market is pointed at. This is also true for growing firms, albeit to a lesser extent. Given the export orientation of Chile, firms may be sensible to a downturn in export earnings, which affects entrepreneurs in their employment decisions. In Guinea, a lack of finance and the burden of taxation are keeping firms from expanding the work force. For those firms who have overcome these constraints and who have grown, their growth intensity may well be tempered by the taxation burden. In Tanzania, successful entrepreneurs view their success as thanks to input and output market conditions and despite a constraining policy environment with high taxation, regulation and labour costs. The difference with non-growing firms is not so significantly apparent. In South Africa, some firms have grown despite financial and other input constraints. In Pakistan and Viet Nam, perception of the environment does not differ much between growing and non-growing firms. Both groups seem to have faced similar constraints, which are mainly related to taxation, labour regulation and government policies.

It was further analysed whether entrepreneurs running businesses of different size (1–9 versus 10+) reported different influences on their employment decision. In Peru, small firms rated the factors markets, premises, labour costs, access to finance and resources and exports significantly better than micro firms. In Chile, small firms were less negative about premises and export markets as compared to their micro counterparts with less than 10 workers. Another interesting finding was that in Tanzania, micro firms reported to be significantly[17] more constrained by a lack of finance, resources and premises, while larger firms reported significantly more to be hampered by government policy. In Pakistan, strong and significant differences were found for micro versus small firms. As such, small firms were more positive regarding domestic and export markets, premises and access to finance and resources as factors conducive to employment growth. In Viet Nam, micro firms seemed more constrained by labour costs, export markets and government policy.

In a similar way, the analysis was done splitting the group of firms into formal firms and informal firms. Peruvian informal firms seemed to experience the condition of their premises as significantly more constraining than their formal counterparts while the opposite holds for government policy. In Chile, informal firms suffered more from a lack of demand and resources than formal firms. In Tanzania, informal firms were less negative about taxation and government policy than formal firms. In Pakistan, informal firms seemed to be more constrained by a lack of demand from export markets than formal firms. Large differences were observed in Viet Nam, where informal firms remain small due to heavily constraining taxation (or to evade taxes) and a high cost of labour, while formal firms benefit from market opportunities.

[17] Only findings significant at the 1 per cent level are discussed here.

6.2 Factors influencing investment behaviour

The investment behaviour of firms is generally affected by the macro-economic and policy environments, in which enterprises operate. Macro-economic studies report an adverse effect of instability on investment. Instability and uncertainty about government policies raise uncertainty and risk, leading to a higher capital cost faced by firms, thereby constraining investment.

At the firm level, investment is mainly determined by firm profitability. Profitability directly affects the capacity to internally finance investment. This is especially important in poorly functioning financial markets where agency problems related to asymmetric information and contract enforcement in the lending market imply that credit may be extremely costly for smaller firms. Moreover, and in line with a profit-maximizing behaviour of banks, firm profitability reduces the probability of bankruptcy and raises the probability that credit is allocated. Similarly, past firm borrowing and firm size and age may affect access to finance and investment.

Some information on investment behaviour and access to finance was collected in the seven countries. The entrepreneurs were asked whether they had invested over the period 1999–2001. Firms are considered to have invested if they have purchased additional production equipment or new office equipment over the last two years.[18] The proportion of firms that have invested is relatively low in Peru and Chile, being close to 40 per cent. The highest share of investing firms is in Viet Nam, where about 70 per cent of firms have purchased production or office equipment. The entrepreneurs also reported their reasons for investing, or not investing, reasons that can be related to either factors influencing profitability or factors related to stability of the policy environment.

Information was gathered that allows shedding light on firms' access to credit to finance operations and investments. Firms were asked whether they had tried to get formal[19] or informal[20] credit and whether or not they had been successful in obtaining the credit. For Peru, this information was not available in this format. Of the 1,836 firms for whom this information was available, 548 or 30 per cent of the firms had applied for formal credit and 320 or 58 per cent had succeeded in obtaining the loan. 330 or 18 per cent of the firms applied for informal credit, but the success rate was higher, being 87 per cent or 288 firms. A large proportion of firms did not apply for any form of credit. This does not mean that they did not face any financial constraints. They may be reluctant to apply for credit, knowing that their chances to obtaining it are very small. The only important information that we have is on those firms who have access to formal credit. Firms also reported whether or not they had a bank account specifically for the business. This may well proxy the insertion of firms into the formal financial market as overdraft facilities are often related to account ownership. Moreover, the history of a bank account may reduce the information costs involved in screening firms on a credit application.

Relating access to credit to the investment behaviour of firms, table 24 shows the proportion of firms that have invested. Column 1 and 2 show these proportions for firms

[18] Improvements of premises, working environment or equipment were also asked for. However, these are not considered as investments, as they do not necessarily involve a financial investment. Considering these as investments would also bring the share of investing firms close to 0.8, which leaves little variation for analysis.

[19] Being a loan from a private or public bank, a government credit fund or an international project.

[20] Being a loan from family or friends, a money lender or any form of trade credit.

without and with access to formal credit. Of the 521 firms with access to formal credit, 64 per cent have purchased equipment in the last 2 years. For the other firms this percentage is significantly lower, being 50 per cent. A chi-square test tests this formally and the significance level is indicated in the table. Of the 801 firms with access to any form of credit, be it formal or informal credit, 65 per cent have invested, versus 48 per cent for firms without credit access (column 4 and 5). Also, for the individual countries, a larger propensity to invest is observed among firms with access to formal or informal credit.

It can be seen from table 24 that having a bank account also strongly relates to the investment behaviour of firms and this in all the individual countries (data not available for Chile).

Table 24. Investment behaviour and obtention of (formal) credit and a bank account

% of investing firms	(1) No access to formal credit	(2) Access to formal credit	(3) Sign.	(4) No access to any form of credit	(5) Access to credit	(6) Sign.	(7) No bank account	(8) Bank account	(9) Sign.
All firms	50.2	63.7	***	47.6	65.3	***	44.9	67.9	***
Chile	34.9	35.4	*	46.7	33.7	**	n.a.	n.a.	
Guinea	60.3	71.3	–	59.3	71.2	*	59.4	66.0	–
Pakistan	58.3	84.6	***	56.5	79.0	***	55.4	67.7	**
Peru	32.7	61.7	***	30.3	60.6	***	25.8	62.8	***
South Africa	67.2	61.7	–	67.4	62.1	–	58.9	73.6	**
Tanzania	57.7	73.3	–	55.5	69.5	**	44.7	66.2	***
Viet Nam	67.4	77.7	*	62.3	76.4	***	63.9	81.8	***

Notes: *** significant at the 1 per cent level; ** significant at the 5 per cent level; * significant at the 10 per cent level; – not significant; n.a. data not available.

Table 25 reveals the entrepreneurs' motives for investing/not-investing in the different countries. Obviously, firms that have invested were mainly driven by market considerations. Favourable market conditions directly affect firm profitability, which in turn allows investing internally generated funds or facilitates access to credit.

For those firms that have not invested, taxation seems to have been the most hampering factor. Taxation indeed channels resources away from private businesses and reduces their ability to invest. In all the countries except in Chile, taxation was for non-investing firms the most negative influence.

In Chile, unfavourable export markets and uncertainty with respect to government policies were perceived as the most investment constraining factor. In the African countries, investment was hampered by taxation, government policies and a constrained access to finance. In these countries, the proportion of sample firms with effective access to formal credit is indeed very low, being 11 per cent in Guinea, 10 per cent in Tanzania and 16 per cent in South Africa.

Table 25. Factor scores for investing versus non-investing firms

	Peru			Chile			Guinea			Tanzania			RSA			Pakistan			Viet Nam		
	Investing			Investing			Investing			Investing			Investing			Investing			Investing		
	0	1	Sign.	0	1	Sign.	0	1	Sign.	0	1	Sign.	0	1	Sign.	0	1	Sign.	0	1	Sign.
Markets	0.2	0.7	***	–0.5	0.3	***	0.3	1.2	***	0.0	1.3	***	1.0	1.1	*	0.3	0.8	***	1.2	1.5	**
Business premises	0.1	0.4	***	–0.3	0.3	***	0.3	0.8	***	0.2	0.5	**	0.7	0.5	–	0.4	0.6	–	0.6	0.7	**
Labour costs	–0.0	0.0	***	–0.6	–0.3	**	–0.0	0.3	***	0.0	0.0	–	–0.1	–0.0	–	0.0	0.0	–	0.1	0.3	***
Access finance	–0.0	0.1	***	–0.5	–0.1	**	–0.1	0.2	***	–0.5	0.3	***	–0.2	–0.2	–	0.2	0.2	–	0.3	0.4	*
Export markets	–0.0	0.1	***	–1.0	0.7	***	0.0	0.1	*	–0.0	0.0	–	–0.0	–0.1	–	0.1	0.2	**	0.0	0.1	–
Taxation	–0.0	0.1	**	–0.5	–0.2	***	–0.4	0.0	***	–0.6	–0.6	–	.	.	–	–0.2	–0.3	–	–0.2	–0.0	–
Government policies	–0.2	–0.2	–	–0.7	–0.4	***	–0.3	0.1	***	–0.4	–0.4	–	–0.2	–0.2	–	–0.2	–0.2	–	0.1	0.2	–

Notes: Significance of an X^2-test on an association between the perceived influence of the respective factors and the incidence of investment in firms: significance levels: *** 1 per cent level; ** 5 per cent level; * 10 per cent level; – not significant.

It was further analysed whether entrepreneurs running businesses of different size (1–9 versus 10+) reported different influences on their investment decisions. In Peru, small firms rated the factors 'markets' and 'premises' significantly better or more conducive to investments than micro firms. In Chile, small firms were more positive about markets and less negative about access to finance, exports and taxation than micro firms. In both Tanzania and South Africa, micro firms viewed access to finance as a constraining investment (negative score) while small firms perceived it as conducive to investment (positive score). The same pattern was observed in Pakistan for the factor 'access to resources'. Additionally, in Pakistan, small firms were more positive about markets and premises. In Viet Nam, firms of this size seemed to have perceived labour costs as a reason to invest.

Distinguishing formal from informal firms, it becomes clear that in Chile informal firms complained significantly more from markets, labour costs and taxation as constraining investments. In Pakistan, formal firms viewed exports as a significantly more favourable influence on investment decisions than did informal ones. In Peru and Viet Nam, formal firms were more positive about markets.

6.3 Factors influencing working conditions

Table 26 presents the ranking of the different factors with regard to how these factors have influenced the decision to improve working conditions. Taxation and government policies do not come out favourably. Apparently, entrepreneurs view taxation and policies as conflicting to their willingness to improve working conditions.

Table 26. Ranking of factors influencing decisions related to working conditions

	Chile	Guinea	Pakistan	Peru	South Africa	Tanzania	Viet Nam	All
Markets	3	1	1	2	1	1	1	1
Exports	9	6	7	3	5	5	8	4
Premises	1	2	2	1	.	2	2	2
Finances	4	7	6	5	7	7	6	5
Resources	2	3	5	4	3	4	4	3
Labour costs	5	5	3	7	2	6	3	7
Labour regulations	6/7	4	4	6	4	3	5	6
Taxation	6/7	9	8	9	.	9	9	9
Government policies	8	8	9	8	6	8	7	8

Despite this lack of support, a number of entrepreneurs nevertheless try to improve working conditions by providing different types of benefits to their workers, as shown in table 27.

Table 27. Proportion of firms offering benefits to their workers, and rate of success

Benefits	% of firms offering benefit	% of firms reporting better performance
On-the-job training	47.8	91.4
Off-the-job training	15.0	85.6
Written employment contracts	25.3	61.1
Pension or old age insurance scheme	19.0	55.8
Health and accident insurance	26.7	56.1
Parental leave	24.2	59.9
Productivity incentives	44.9	86.4
Salary increase	41.1	82.2
Safer working conditions	45.2	75.5

From this table, it is clear that the benefits fall into two categories. A first set of benefits is those imposed by labour regulations and includes written contracts, insurance schemes and maternity leave. Only 20–25 per cent of the firms offer these benefits to their workers. About half of the firms that offer these benefits report that it contributes to improved firm performance. The second category involves optional benefits, which entrepreneurs tend to view as much more contributing to firm performance than the first set. Apart from off-the job training, almost half of all sample firms offer these voluntary benefits because they pay off in terms of business performance.

7. Conclusion

This paper has explored employment dynamics, investment behaviour and registration of micro and small firms in seven different countries. The MSEs are operating in different macro-economic and policy environments and, though some robust determinants of firm performance are observed, the behaviour and performance of firms is clearly determined by country-specific conditions.

Given the importance of knowing the profile of the firms that create employment, an important section of this paper explores employment growth rates by looking at which firms create more jobs. An important and robust finding for all countries is that growth in the smallest size classes is very common and growth rates are high. However, the growth rates drop quickly as firms move towards a slightly larger size, turning negative as firms reach the size of about 10 workers. Hence, micro firms grow faster but the growth path is short. This is observed in all the countries, yet in Peru and South Africa, expansion of the micro firms is most common. The Peruvian sample firms reveal very high growth rates. One exception to this observed growth pattern is Viet Nam. Vietnamese firms maintain a good growth performance, even above the critical size of 10 workers. Jointly with the firm size effect on growth, the age of the firm is also negatively related to growth. Younger firms grow faster, but their growth flattens out after their few initial years of existence. Important changes in the level of employment are indeed less common among mature firms, who tend to keep employment at a steady level.

Controlling for size and age, firms with superior employment creation capacity seem to be found among firms producing for national or export markets, against firms producing for local markets. In addition, firms in urban areas face better growth opportunities. Firm location is indeed an important determinant of employment creation as vicinity of input and output markets create agglomeration economies. It also facilitates registration, as costs incurred to register are possibly lower in urban areas.

Business registration and registration with tax authorities in turn have an impact on employment creation. Controlling for size, age, sector and location, formal registration positively affects employment growth in Peru, Chile and South Africa. The formal status of the firms indeed seems to open up growth opportunities, as firms occupy a more legitimate status in both input and output markets. The entrepreneurs' perceptions with respect to the reasons of entrepreneurial success confirm this. In Chile, entrepreneurs running informal businesses complain more about a lack of demand and access to resources as constraining investment and firm growth. In Peru, formal firms' business premises seemed more conducive to further expansion of the firm and the demand for their products allowed more investment.

While registration seems to open up chances for growth, still a large share of entrepreneurs are reluctant to register as seen in the case of South Africa where both micro and small enterprises are least registered, but it is the registered enterprises that are seen to experience growth. This relates directly to the fact that small enterprises are more registered and hold more licenses than the micro-enterprises. When the enterprise grows the need of formality also increases. This is especially the case in Chile where three-quarters of small enterprises have at least four different types of registrations/licenses. Business registration in itself is not a precursor for growth, but the findings show that businesses which have made the transition into the formal economy are likely to create more growth and employment.

When entrepreneurs are asked how market conditions versus taxation, regulation and government policies affect their employment decision, markets and premises are ranked as having the largest impact. In line with the expectations, employment expansion seems to be mainly driven by a strong demand for the product, and the availability of good infrastructure to supply it. An additional demand from export markets and the availability of other resources such as equipment, technology, and skills are in general also perceived as favourable for the decision to expand the size of the labour force.

Importantly, the policy environment is generally perceived as hampering employment creation. Labour costs, labour regulation, government policies and, especially, taxation are perceived as least conducive factors to firm growth. This pattern is especially observed in some individual countries such as Peru, Tanzania, Pakistan and Viet Nam.

In Peru, despite the excellent growth performance of the smallest firms, the perception of business environment was quite poor, with labour regulations, labour costs, and taxation and government policies being ranked last as conducive to growth.

In Tanzania, successful entrepreneurs view their success as thanks to input and output market conditions and despite a constraining policy environment with high taxation, regulation and labour costs. Micro firms are more constrained by a lack of finance and resources than firms of slightly larger size.

In Viet Nam, taxation is indeed viewed as the influence that is least conducive to employment creation. In a country characterized by very high levels of regulation, and a tax structure discriminating against local firms, informal MSEs seem to have stagnated for taxation reasons. In addition, formal Vietnamese MSEs complain about taxation, but they can overcome the tax burden thanks to superior market opportunities, and better access to resources and finance.

In Pakistan the picture is quite similar to Viet Nam, with employment growth constraints being mainly related to taxation and labour regulation and the government policies. Nevertheless, in both Viet Nam and Pakistan, entrepreneurs were quite mild in assessing the impact of policy and economic variables on the growth of their firms. The relatively good macro-economic performance of the Pakistani and Vietnamese economies over the same period may be at the origin of the optimistic perceptions and responses of the entrepreneurs.

The Chilean and South African entrepreneurs present a different picture. With formal firms growing faster in these countries, entrepreneurs perceive taxation as relatively favourable. In export-oriented Chile, access to finance, labour costs and, especially, export markets are among the more severe market constraints. In South Africa, access to finance and resources keep entrepreneurs from hiring additional workers. In both countries, government policy is poorly perceived.

In Guinea, lack of finance and the burden of taxation are keeping firms from expanding the work force. For those firms who have overcome these constraints and who have grown, their growth intensity may well be tempered by the taxation burden.

The general perception of the tax burden hampering additional employment is in a sense normal. Taxation channels internal resources away from the firm and directs them to the State, leaving less financial means within the firm for investment in employment, human capital and financial capital or equipment. Thus, it is not surprising that when the entrepreneurs evaluate factors on their impact on investment decision, taxation is also

perceived as least conducive to investment. Again, apart from Chile, where the corporate tax rate is indeed only 15 per cent, in all other countries entrepreneurs perceive taxation as a severely constraining factor. The loss of means through taxation is all the more hampering when financial markets are imperfect, and agency problems related to asymmetric information and contract enforcement imply that credit may be extremely costly for smaller firms. This seems to be the case, as firms with access to credit indeed are found to invest more. Only 17 per cent of the sample firms had accessed formal credit.

Finally, also working conditions are especially determined by market conditions. Entrepreneurs view taxation and government policies as conflicting to their willingness to improve working conditions, mostly because the benefits that are imposed by labour regulations are, while involving a certain cost, not unanimously perceived as contributing to better performance. Hence, the entrepreneurs seem to suggest a trade-off between taxation and investment in working conditions.

It can be concluded that country specific macro-economic and policy environments clearly affect firm conduct and performance. Within one country, however, different competitive regimes apply to firms with varying levels of formal status as firms comply or do not comply with regulatory requirements. While entry into the formal economy always comes at a cost, it also puts firms in a more legitimate position and opens up better growth perspectives, as is found in this and other papers based on empirical evidence. With growth rates dropping steeply as micro firms move to a slightly larger size and stagnate in the small size class, the barrier of entry into the formal economy is clearly observed. A too large share of entrepreneurs chooses to stay small. Reducing the burden involved with entry into the formal economy can therefore reduce this duality observed in so many countries.

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Annex 1. Entrepreneur characteristics, by country

		Peru	Chile	Guinea	Tanzania	R.S.A.	Pakistan	Viet Nam	Total
<25years	Frequency	24	7	18	21	10	50	8	138
	% Row	17.39	5.07	13.04	15.22	7.25	36.23	5.80	
	% Column	2.68	2.33	5.77	7.00	3.58	15.02	2.56	
25–39	Frequency	315	116	147	123	136	155	146	1 138
	% Row	27.68	10.19	12.92	10.81	11.95	13.62	12.83	
	% Column	35.23	38.67	47.12	41.00	48.75	46.55	46.79	
40 +	Frequency	555	177	147	156	133	128	158	1 454
	% Row	38.17	12.17	10.11	10.73	9.15	8.80	10.87	X2=139.3
	% Column	62.08	59.00	47.12	52.00	47.67	38.44	50.64	
None	Frequency	17	22	73	1	18	13	2	146
	% Row	11.64	15.07	50.00	0.68	12.33	8.90	1.37	
	% Column	1.90	7.33	23.40	0.33	6.45	3.90	0.64	
Primary	Frequency	103	49	41	84	133	25	21	456
	% Row	22.59	10.75	8.99	18.42	29.17	5.48	4.61	
	% Column	11.52	16.33	13.14	28.00	47.67	7.51	6.73	
Secondary	Frequency	342	134	191	163	34	159	191	1 214
	% Row	28.17	11.04	15.73	13.43	2.80	13.10	15.73	
	% Column	38.26	44.67	61.22	54.33	12.19	47.75	61.22	
Tech/voca	Frequency	98	55	7	0	–	11	5	176
	% Row	55.68	31.25	3.98	0.00	–	6.25	2.84	
	% Column	10.96	18.33	2.24	0.00	–	3.30	1.60	
University	Frequency	334	40	0	52	94	125	93	738
	% Row	45.26	5.42	0.00	7.05	12.74	16.94	12.60	X2=922.6
	% Column		13.33	0.00	17.33	33.69	37.54	29.81	X2*=42.9
Male	Frequency	662	195	156	171	166	285	217	1852
	% Row	35.75	10.53	8.42	9.23	8.96	15.39	11.72	
	% Column	74.05	65.00	50.00	57.00	59.50	85.59	69.55	
Female	Frequency	232	105	156	129	113	48	95	878
	% Row	26.42	11.96	17.77	14.69	12.87	5.47	10.82	
	% Column	25.95	35.00	50.00	43.00	40.50	14.41	30.45	
Total		894	300	312	300	279	333	312	2 730

Note: R.S.A.: Republic of South Africa.

Annex 2. General firm characteristics, by country

		Peru	Chile	Guinea	Tanzania	R.S.A.	Pakistan	Viet Nam	Total
Start year 1996/2001	Frequency	331	91	189	157	184	124	159	1 235
	% Row	26.30	7.37	15.30	12.71	14.90	10.04	12.87	
	% Column	37.02	30.33	60.58	52.33	65.95	37.24	50.96	
1991/95	Frequency	240	59	72	72	61	77	106	687
	% Row	34.93	8.59	10.48	10.48	8.88	11.21	15.43	
	% Column	26.85	19.67	23.08	24.00	21.86	23.12	33.97	
<1990	Frequency	323	150	51	71	34	132	47	808
	% Row	39.98	18.56	6.31	8.79	4.21	16.34	5.82	
	% Column	36.13	50.00	16.35	23.67	2.51	39.64	15.06	
No structure	Frequency	37	19	29	2	7	21	45	160
	% Row	23.13	11.88	18.13	1.25	4.38	13.13	28.13	
	% Column	4.14	6.33	9.29	0.67	2.51	6.31	14.42	
Fixed premises	Frequency	857	281	283	298	272	312	267	2 570
	% Row	33.35	10.93	11.01	11.60	10.58	12.14	10.39	
	% Column	95.86	93.67	90.71	99.33	97.49	93.69	85.58	
Total		894	300	312	300	279	333	312	2 730
Renting/ borrowing	Frequency	469	145	187	160	142	141	50	1 294
	% Row	36.24	11.21	14.45	12.36	10.97	10.90	3.86	
	% Column	54.73	51.60	66.08	53.69	52.21	45.19	18.73	
Owning premises	Frequency	388	136	96	138	130	171	217	1 276
	% Row	30.41	10.66	7.52	10.82	10.19	13.40	17.01	
	% Column	45.27	48.40	33.92	46.31	47.79	54.81	81.27	
Total		857	281	283	298	272	312	267	2 570
Local	Frequency	692	159	133	103	188	–	135	1 410
	% Row	49.08	11.28	9.43	7.30	13.33	–	9.57	
	% Column	77.49	53.18	42.90	34.45	67.38	–	43.27	
National	Frequency	173	132	164	178	88	–	144	879
	% Row	19.68	15.02	18.66	20.25	10.01	–	16.38	
	% Column	19.37	44.15	52.90	59.53	31.54	–	46.15	
Exporting	Frequency	28	8	13	18	3	–	33	103
	% Row	27.18	7.77	12.62	17.48	2.91	–	32.04	
	% Column	3.14	2.68	4.19	6.02	1.08	–	10.58	
Total		893	299	310	299	279	–	312	2 392

Annex 3. Estimation results of logistic regressions

Response Variable: GROWFIRM
Response Levels: 2

Estimation with firm characteristics, entire sample

Model Fitting Information and Testing Global Null Hypothesis BETA=0

Criterion	Intercept only	Intercept and covariates	Chi-Square for covariates
–2 LOG L*	3306.050	2564.630	741.420 with 13 DF (p=0.0001)
Score	–	–	646.158 with 13 DF (p=0.0001)

Variables	DF	Parameter estimate	Standard error	Wald Chi-Square	Pr> Chi-Square	Standardized estimate	Odds ratio
INTERCPT	1	1.7581	0.2113	69.2164	0.0001	–	–
LFIRMAGE*	1	–0.1580	0.0644	6.0125	0.0142	–0.071392	0.854
LSS*	1	–0.9029	0.0575	246.4412	0.0001	–0.537229	0.405
RURAL	1	–0.3160	0.1257	6.3192	0.0119	–0.069709	0.729
SERV*	1	0.3725	0.1166	10.2048	0.0014	0.097179	1.451
MANU*	1	0.1356	0.1243	1.1896	0.2754	0.034247	1.145
FORMAL	1	0.2994	0.1419	4.4511	0.0349	0.063304	1.349
NATION*	1	0.6192	0.1111	31.0831	0.0001	0.167314	1.857
EXPORT*	1	0.8222	0.2427	11.4725	0.0007	0.092166	2.276
CHILE	1	–1.7814	0.1685	111.8135	0.0001	–0.321528	0.168
GUINEA	1	–1.2277	0.1623	57.2183	0.0001	–0.228291	0.293
TANZANIA	1	–1.5609	0.1636	91.0422	0.0001	–0.285439	0.210
SOUTH AFRICA	1	–1.0526	0.1762	35.6935	0.0001	–0.186564	0.349
VIET NAM	1	–2.8962	0.1832	249.8308	0.0001	–0.538550	0.055

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Model Fitting Information and Testing Global Null Hypothesis BETA=0

Criterion	Intercept only	Intercept and covariates	Chi-Square for covariates
–2 LOG L	1019.804	568.345	451.459 with 8 DF (p=0.0001)
Score	–	–	423.872 with 8 DF (p=0.0001)

Variables	DF	Parameter estimate	Standard error	Wald Chi-Square	Pr> Chi-Square	Standardized estimate	Odds ratio
INTERCPT	1	2.6378	0.4384	36.1951	0.0001	–	–
LFIRMAGE	1	–0.3107	0.1322	5.5236	0.0188	–0.147339	0.733
LSS	1	–1.8411	0.1266	211.5596	0.0001	–1.176139	0.159
RURAL	1	–0.5158	0.3106	2.7573	0.0968	–0.099146	0.597
SERV	1	0.8763	0.2882	9.2449	0.0024	0.227096	2.402
MANU	1	–0.1319	0.2651	0.2475	0.6188	–0.034208	0.876
FORMAL	1	0.8559	0.3444	6.1758	0.0130	0.142977	2.353
NATION	1	0.7319	0.2808	6.7962	0.0091	0.165700	2.079
EXPORT	1	–1.7030	0.6978	5.9565	0.0147	0.163901	5.491

* LOG L = log-likelihood function
LFIRMAGE = Log (firm age)
LSS = Log (size 1999)
SERV = binary variable equalling 1 if firm active in services sector
MANU = binary variable equalling 1 if firm active in manufacturing
NATION = binary variable equalling 1 if firm is producing for the national market
EXPORT = binary variable equalling 1 if firm is exporting
DF = degrees of freedom.

CHILE

Model Fitting Information and Testing Global Null Hypothesis BETA=0

Criterion	Intercept only	Intercept and covariates	Chi-Square for covariates
–2 LOG L	342.266	323.314	18.951 with 8 DF (p=0.0151)
Score	–	–	17.720 with 8 DF (p=0.0234)

Variables	**DF**	**Parameter estimate**	**Standard error**	**Wald Chi-Square**	**Pr> Chi-Square**	**Standardized estimate**	**Odds ratio**
INTERCPT	1	–1.8299	0.6616	7.6489	0.0057	–	–
LFIRMAGE	1	–0.2168	0.1645	1.7358	0.1877	–0.106463	0.805
LSS	1	–0.2373	0.1434	2.7392	0.0979	–0.147162	0.789
RURAL	1	0.2665	0.3679	0.5249	0.4688	0.054170	1.305
SERV	1	0.5271	0.3367	2.4514	0.1174	0.139203	1.694
MANU	1	0.7224	0.3625	3.9706	0.04663	–0.178805	2.059
FORMAL	1	1.0289	0.5427	3.5950	0.0580	0.177773	2.798
NATION	1	0.5999	0.2935	4.1791	0.0409	0.165537	1.822
EXPORT	1	0.6129	0.8047	0.5801	0.4463	0.055346	1.846

GUINEA

Model Fitting Information and Testing Global Null Hypothesis BETA=0

Criterion	Intercept only	Intercept and covariates	Chi-Square for ovariates
–2 LOG L	423.130	382.218	40.912 with 8 DF (p=0.0001)
Score	–	–	37.466 with 8 DF (p=0.0001)

Variables	**DF**	**Parameter estimate**	**Standard error**	**Wald Chi-Square**	**Pr> Chi-Square**	**Standardized estimate**	**Odds ratio**
INTERCPT	1	0.06551	0.5107	0.0163	0.8985	–	–
LFIRMAGE	1	–0.0107	0.1780	0.0036	0.9520	–0.004191	0.989
LSS	1	–0.8406	0.2010	17.4852	0.0001	–0.341142	0.431
RURAL	1	0.0143	0.3067	0.0022	0.9629	0.003413	1.014
SERV	1	0.4385	0.2817	2.4225	0.1196	0.117221	1.550
MANU	1	0.0714	0.3551	0.0405	0.8406	0.014703	1.074
FORMAL	1	–0.0149	0.3017	0.0024	0.9606	–0.003467	0.985
NATION	1	1.0655	0.2761	14.8869	0.0001	0.292427	2.902
EXPORT	1	1.8646	0.7317	6.4936	0.0108	0.205753	6.453

TANZANIA

Model Fitting Information and Testing Global Null Hypothesis BETA=0

Criterion	Intercept only	Intercept and covariates	Chi-Square for covariates
–2 LOG L	395.373	375.673	19.700 with 8 DF (p=0.0115)
Score	–	–	18.807 with 8 DF (p=0.0159)

Variables	DF	Parameter estimate	Standard error	Wald Chi-Square	Pr> Chi-Square	Standardized estimate	Odds ratio
INTERCPT	1	0.8731	0.7602	1.3190	0.2508	–	–
LFIRMAGE	1	–0.0227	0.1911	0.0001	0.9905	–0.000929	0.998
LSS	1	–0.5484	0.1933	8.0498	0.0046	–0.258119	0.578
RURAL	1	–0.8450	0.3173	7.0899	0.0078	–0.198342	0.430
SERV	1	–0.0210	0.3172	0.0044	0.9472	–0.005618	0.979
MANU	1	0.0969	0.3239	0.0895	0.7648	0.025291	1.102
FORMAL	1	–0.5287	0.6866	0.5929	0.4413	–0.052409	0.589
NATION	1	0.0529	0.2825	0.0350	0.8515	0.013929	1.054
EXPORT	1	0.7580	0.5317	2.0326	0.1540	0.099411	2.134

SOUTH AFRICA

Model Fitting Information and Testing Global Null Hypothesis BETA=0

Criterion	Intercept only	Intercept and covariates	Chi-Square for covariates
–2 LOG L	382.864	327.752	55.112 with 6 DF (p=0.0001)
Score	–	–	49.460 with 6 DF (p=0.0001)

Variables	DF	Parameter estimate	Standard error	Wald Chi-Square	Pr> Chi-Square	Standardized estimate	Odds ratio
INTERCPT	1	0.5659	0.4592	1.5186	0.2178	–	–
LFIRMAGE	1	0.1085	0.2153	0.2542	0.6141	–0.037636	1.115
LSS	1	–1.5135	0.2529	35.8161	0.0001	–0.621405	0.220
RURAL	1	–0.0797	0.3991	0.0399	0.8416	–0.015274	0.923
SERV	1	0.7624	0.3313	5.2954	0.0214	0.194447	2.143
MANU	1	0.9356	0.3318	7.9482	0.0048	0.244867	2.549
FORMAL	1	1.0475	0.3168	10.9327	0.0009	–0.280290	2.851

VIET NAM

Model Fitting Information and Testing Global Null Hypothesis BETA=0

Criterion	Intercept only	Intercept and covariates	Chi-Square for covariates
–2 LOG L	348.683	324.622	24.061 with 8 DF (p=0.0022)
Score	–	–	24.647 with 8 DF (p=0.00018)

Variables	DF	Parameter estimate	Standard error	Wald Chi-Square	Pr> Chi-Square	Standardized estimate	Odds ratio
INTERCPT	1	–1.0552	0.5838	3.2667	0.0707	–	–
LFIRMAGE	1	–0.1562	0.2168	0.5192	0.4712	–0.057203	0.855
LSS	1	0.4667	0.1216	14.7355	0.0001	–0.274238	1.595
RURAL	1	–0.6557	0.3244	4.0848	0.0433	–0.174997	0.519
SERV	1	–0.1569	0.3394	0.2137	0.6439	–0.039865	0.855
MANU	1	0.0954	0.3645	0.0685	0.7935	0.024022	1.100
FORMAL	1	–0.2746	0.4025	0.4653	0.4952	–0.054702	0.760
NATION	1	0.3877	0.2896	1.7924	0.1806	0.106813	1.474
EXPORT	1	0.3736	0.4276	0.7634	0.3823	0.063455	1.453

Annex 4. Estimation results of logistic regressions with entrepreneur characteristics

ESTIMATIONS WITH ENTIRE SAMPLE

Model Fitting Information and Testing Global Null Hypothesis BETA=0

Criterion	Intercept only	Intercept and covariates	Chi-Square for covariates
–2 LOG L	3306.050	2581.701	724.349 with 14 DF (p=0.0001)
Score	–	–	632.959 with 14 DF (p=0.0001)

Variables	DF	Parameter estimate	Standard error	Wald Chi-Square	Pr> Chi-Square	Standardized estimate	Odds ratio
INTERCPT	1	1.8461	0.1969	87.9261	0.0001	–	–
LFIRMAGE	1	–0.1548	0.0644	5.7716	0.0163	–0.069931	0.857
LSS	1	–0.8804	0.0570	238.9254	0.0001	–0.523843	0.415
RURAL	1	–0.2731	0.1261	4.6917	0.0303	–0.060233	0.761
SERV	1	–0.2644	0.1167	5.1305	0.0235	0.068976	1.303
MANU	1	0.2733	0.1217	5.0423	0.0247	0.069055	1.314
SECONDARY*	1	0.1061	0.1176	0.8132	0.3672	0.029029	1.112
UNIV*	1	0.7635	0.1438	28.1918	0.0001	0.183878	2.146
FEMALE*	1	0.0605	0.1031	0.3447	0.5571	–0.015873	0.941
EYOUNG*	1	–0.4058	0.2451	2.7426	0.0977	–0.042189	0.666
CHILE	1	–1.4436	0.1676	74.2297	0.0001	–0.260558	0.236
GUINEA	1	–0.7433	0.1626	20.8952	0.0001	–0.138217	0.476
TANZANIA	1	–1.1043	0.1596	47.8755	0.0001	–0.201943	0.331
SOUTH AFRICA	1	–1.0982	0.1628	45.4811	0.0001	–0.194643	0.333
VIET NAM	1	–2.6017	0.1736	224.5761	0.0001	–0.483784	0.074

* See footnote 13 in main text.

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Model Fitting Information and Testing Global Null Hypothesis BETA=0

Criterion	Intercept only	Intercept and covariates	Chi-Square for covariates
–2 LOG L	1019.804	548.341	471.463 with 9 DF (p=0.0001)
Score	–	–	433.212 with 9 DF (p=0.0001)

Variables	DF	Parameter estimate	Standard error	Wald Chi-Square	Pr> Chi-Square	Standardized estimate	Odds ratio
INTERCPT	1	3.1525	0.4194	56.5033	0.0001	–	–
LFIRMAGE	1	–0.3371	0.1359	6.1547	0.0131	–0.159840	0.714
LSS	1	–1.9328	0.1317	215.4838	0.0001	–1.234746	0.145
RURAL	1	–0.4864	0.3195	2.3174	0.1279	–0.093503	0.615
SERV	1	–0.5570	0.3002	3.4417	0.0636	0.144351	1.745
MANU	1	0.0200	0.2694	0.0055	0.9409	0.005177	1.020
SECUNDRY	1	0.2322	0.2787	0.6940	0.4048	0.062179	1.261
UNIV	1	1.8122	0.3372	28.8819	0.0001	0.383937	6.124
FEMALE	1	–0.0844	0.2695	0.0981	0.7542	–0.020371	0.919
EYOUNG	1	–0.6451	0.6284	1.0541	0.3046	–0.057614	0.525

* See footnote 13 in main text.

CHILE

Model Fitting Information and Testing Global Null Hypothesis BETA=0

Criterion	Intercept only	Intercept and covariates	Chi-Square for covariates
–2 LOG L	342.266	329.669	12.597 with 9 DF (p=0.1817)
Score	–	–	12.154 with 9 DF (p=0.2048)

Variables	DF	Parameter estimate	Standard error	Wald Chi-Square	Pr> Chi-Square	Standardized estimate	Odds ratio
INTERCPT	1	–0.5364	0.4675	1.3164	0.2512	–	–
LFIRMAGE	1	–0.2065	0.1624	1.6170	0.2035	–0.101417	0.813
LSS	1	–0.2016	0.1438	1.9645	0.1610	–0.125037	0.817
RURAL	1	–0.1849	0.3682	0.2521	0.6156	0.037574	1.203
SERV	1	0.5138	0.3327	2.3857	0.1224	0.135697	1.672
MANU	1	0.7506	0.3479	4.6547	0.0310	0.185785	2.118
SECONDARY	1	–0.2733	0.2957	0.8542	0.3554	–0.075090	0.761
UNIV	1	0.4573	0.4170	1.2023	0.2729	0.086031	1.580
FEMALE	1	–0.1207	0.2891	0.1742	0.6764	–0.031727	0.886
EYOUNG	1	–0.3891	0.9019	0.1861	0.6662	–0.032923	0.678

GUINEA

Model Fitting Information and Testing Global Null Hypothesis BETA=0

Criterion	Intercept only	Intercept and covariates	Chi-Square for covariates
–2 LOG L	423.130	402.739	20.391 with 8 DF (p=0.0090)
Score	–	–	19.277 with 8 DF (p=0.0134)

Variables	DF	Parameter estimate	Standard error	Wald Chi-Square	Pr> Chi-Square	Standardized estimate	Odds ratio
INTERCPT	1	0.6090	0.4723	1.6629	0.1972	–	–
LFIRMAGE	1	–0.0942	0.1744	0.2919	0.5890	–0.036883	0.910
LSS	1	–0.6872	0.1850	13.7998	0.0002	–0.278859	0.503
RURAL	1	–0.1085	0.2901	0.1398	0.7085	–0.025939	0.897
SERV	1	0.2252	0.2661	0.7162	0.3974	0.060202	1.253
MANU	1	0.3573	0.3402	1.1031	0.2936	0.073522	1.429
SECONDARY	1	0.3042	0.2607	1.3614	0.2433	0.081854	1.356
FEMALE	1	–0.0979	0.2444	0.1603	0.6888	0.027020	0.907
EYOUNG	1	–0.7799	0.5574	1.9577	0.1618	–0.100413	0.458

TANZANIA

Model Fitting Information and Testing Global Null Hypothesis BETA=0

Criterion	Intercept only	Intercept and covariates	Chi-Square for covariates
–2 LOG L	395.373	375.353	20.020 with 9 DF (p=0.0178)
Score	–	–	19.096 with 9 DF (p=0.0244)

Variables	DF	Parameter estimate	Standard error	Wald Chi-Square	Pr> Chi-Square	Standardized estimate	Odds ratio
INTERCPT	1	0.4440	0.4552	0.9515	0.3293	–	–
LFIRMAGE	1	–0.0492	0.1917	0.0659	0.7974	–0.020096	0.952
LSS	1	–0.5601	0.1841	9.2549	0.0023	–0.263605	0.571
RURAL	1	–0.7053	0.3217	4.8085	0.0283	–0.165559	0.494
SERV	1	–0.0438	0.3155	0.0193	0.8896	–0.011719	0.957
MANU	1	0.1495	0.3238	0.2132	0.6443	0.039015	1.161
SECONDARY	1	0.1897	0.3051	0.3868	0.5340	0.052188	1.209
UNIV	1	0.4718	0.3919	1.4496	0.2286	0.098634	1.603
FEMALE	1	–0.3176	0.2656	1.4296	0.2318	–0.086837	0.728
EYOUNG	1	0.1092	0.4811	0.0515	0.8205	–0.015384	1.115

SOUTH AFRICA

Model Fitting Information and Testing Global Null Hypothesis BETA=0

Criterion	Intercept only	Intercept and covariates	Chi-Square for covariates
–2 LOG L	382.864	331.508	51.356 with 9 DF (p=0.0001)
Score	–	–	46.327 with 9 DF (p=0.0001)

Variables	DF	Parameter estimate	Standard error	Wald Chi-Square	Pr> Chi-Square	Standardized estimate	Odds ratio
INTERCPT	1	0.6030	0.5134	1.3794	0.2402	–	–
LFIRMAGE	1	0.1484	0.21987	0.4555	0.4997	0.051447	1.160
LSS	1	–1.3336	0.2370	31.6641	0.0001	–0.547566	0.264
RURAL	1	0.0568	0.3961	0.0206	0.8859	0.010882	1.058
SERV	1	0.6461	0.3328	3.7686	0.0522	0.164776	1.908
MANU	1	0.8791	0.3324	6.9925	0.0082	0.230084	2.409
SECONDARY	1	–0.2709	0.4327	0.3920	0.5312	–0.048954	0.763
UNIV	1	0.7052	0.3115	5.1259	0.0236	0.184096	2.024
FEMALE	1	–0.1879	0.2883	0.4245	0.5147	–0.050936	0.829
EYOUNG	1	–0.4228	0.7030	0.3617	0.5476	–0.043413	1.655

VIET NAM

Model Fitting Information and Testing Global Null Hypothesis BETA=0

Criterion	Intercept only	Intercept and covariates	Chi-Square for covariates
–2 LOG L	348.683	322.303	26.379 with 9 DF (p=0.0018)
Score	–	–	27.179 with 9 DF (p=0.0013)

Variables	DF	Parameter estimate	Standard error	Wald Chi-Square	Pr> Chi-Square	Standardized estimate	Odds ratio
INTERCPT	1	–1.5187	0.6988	4.7230	0.0298	–	–
LFIRMAGE	1	–0.1291	0.2206	03423	0.5585	–0.047263	0.879
LSS	1	0.4537	0.1220	13.8288	0.0002	0.266570	1.574
RURAL	1	–0.3006	0.3658	0.6754	0.4112	–0.080218	0.740
SERV	1	–0.1702	0.3367	0.2556	0.6132	–0.043261	0.843
MANU	1	0.1938	0.3559	0.0008	0.5861	0048805	1.214
SECONDARY	1	0.0158	0.5436	0.3920	0.9768	–0.004246	0.984
UNIV	1	0.6999	0.5984	1.3677	0.2422	0.176777	2.013
FEMALE	1	0.3014	0.3098	0.9464	0.3306	0.076599	1.352
EYOUNG	1	–0.5307	1.1059	0.2303	0.6313	–0.046322	0.588

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