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HETEROGENEITY IN THE EFFECT OF REGULATION ON ENTREPRENEURSHIP AND ENTRY SIZE

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ABSTRACT

We use cross-national harmonized micro data from a broad sample of developed and developing countries and investigate the heterogeneity of the effect of entry, contract enforcement regulation, and financial development on both the decision to become an entrepreneur and the level of employment of newly created businesses. We focus on the interaction between the level of regulation and financial development and some individual characteristics that are important determinants of entrepreneurship, such as gender, business skills, and social networks. We find that entry regulation moderates the effect of business skills, while accentuating the effect of gender, even after accounting for the level of financial development. Specifically, women are more likely to enter into entrepreneurship in countries with higher levels of entry regulation, but mainly because they cannot find better work. This effect is also more pronounced in countries that are less financially developed. Furthermore, individuals who report having business skills are less likely to enter entrepreneurship in countries with higher entry regulation. Finally, we also find that individuals who know other entrepreneurs are less likely to start large businesses in countries with higher levels of entry and contract enforcement regulation.

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1 Introduction

Regulation is commonly held to be an important factor in determining a country's economic performance. One way in which regulation can impact growth and employment is its effect on the rate at which new businesses are created as new entrepreneurial activities can foster innovation, employment, and growth. A burgeoning empirical literature has studied the influence of regulation of product and labor markets on GDP growth, TFP, investment, and employment using macro or firm level data (see Ciccone and Papaioannou (2006) and references therein). However, little is known about how a country's regulatory environment affects individuals' decisions to engage in new entrepreneurial activity.

Ardagna and Lusardi (2008, 2009) study the effect of entry, contract enforcement, and labor market regulation on entrepreneurship using cross-national harmonized micro data from a broad sample of developed and developing countries. Building on that work, in this paper we investigate the heterogeneity of the effect of entry and contract enforcement regulation on both the decision to become an entrepreneur and the level of employment of newly created businesses. We focus on the interaction between the level of regulation and some individual characteristics that are important determinants of entrepreneurship, such as gender, business skills, and social networks. We investigate whether individuals with certain characteristics are more or less likely to engage in entrepreneurship or to start businesses of different sizes when they live in countries that differ in the level of entry and legal system regulation. Moreover, we account for the level of financial development. Specifically, we add to our empirical models interaction terms between a country-level indicator of credit availability and individual characteristics. We investigate whether the effects of regulation on the determinants of entrepreneurship work through the availability of credit —for example because regulation makes credit constraints more likely to be binding (see Desai et al. (2003))— or whether regulation matters above and beyond this channel.

Our methodology does not allow us to measure the overall effect of regulation on entrepreneurship. However, we can control for the effect of time invariant country-level variables and, by focusing on the interaction terms, we can study the type of people who are affected by regulation and the ways in which regulation influences entrepreneurial choices. Also, the focus on the level of employment complements the work of Da Rin et al. (2009 and 2010) and Kerr and Nanda (2009 and 20101) on the effect of corporate tax policy and the impact of banking deregulation on entry rates and the size of new entrants, respectively. Similar to those other papers, in this paper too we examine the effect of policies on entrepreneurship focusing on both the intensive and extensive margin.

We extend the dataset used in Ardagna and Lusardi (2009) with two more

years of data (2004 and 2005) and measure the regulation of entry and contract enforcement with specific indicators of regulation that were parts of the indices used in these previous works. The dataset we use makes it possible to distinguish between two types of entrepreneurs: those who enter entrepreneurship to pursue a business opportunity (opportunity entrepreneurs) and those whose entrepreneurial activity is simply remedial, i.e., they could not find a better alternative (remedial/necessity entrepreneurs). We find that entry regulation has an impact on the effects of gender, social networks, and business skills, even after controlling for the effects of credit availability. Specifically, women are more likely to enter into entrepreneurship in countries with higher levels of entry regulation, but mainly because they cannot find better work. This effect is also more pronounced in countries that are less financially developed. Furthermore, entry regulation attenuates the effect of social networks and business skills; individuals who know other entrepreneurs and report having business skills are less likely to enter into entrepreneurship in countries with tighter regulation. Even though some of the effects of entry regulation work via the impact on financial development, entry regulation affects the determinants of entrepreneurship above and beyond this channel. Finally, we find that the size of new businesses is influenced by the effect that entry and contract enforcement regulation and financial development has on the determinants of entrepreneurship, in particular social networks. Controlling for the interaction between individual characteristics and the level of financial development, individuals who know other entrepreneurs are less likely to start large businesses in countries with higher levels of entry and contract enforcement regulation.

2 Data

We use micro survey data collected by the Global Entrepreneurship Monitor (GEM), a research program started in 1998 that annually collects cross-national harmonized data on entrepreneurship. We use data from the Adult Population Surveys in 2001 through 2005. Countries included in our sample cover a wide spectrum, from the Organization for Economic Co-operation and Development (OECD) countries, to Latin American, European and Central Asian (ECA), and East Asian and Pacific (EPA) countries. We restrict our analysis to individuals of 18-64 years of age; the total number of observations in our sample is 470,183.[1]

[1]The complete list of countries includes Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, China, Croatia, Denmark, Ecuador, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Korea, Latvia, Mexico, The Netherlands, New Zealand, Norway, Peru, Poland, Portugal, Russia, Singapore, Slovenia, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Uganda, United Kingdom, and

Our focus is on individuals who are at the initial planning or inception stage rather than on well-established firms that have been active for many years and upon which the regulatory environment can have different effects. The variable of interest is total entrepreneurial activity (TEA). TEA is an indicator variable equal to one if individuals are starting a new business or are owners and managers of a young firm; it is equal to zero otherwise. TEA can be further split into opportunity entrepreneurial activity ($Opportunity$) and remedial/necessity entrepreneurial activity ($Necessity$). $Opportunity$ is an indicator variable equal to one if individuals are starting a new business or are owners and managers of a young firm to take advantage of a business opportunity; it is equal to zero if individuals are not starting a business (opportunity entrepreneurs hereafter). $Necessity$ is an indicator variable equal to one if individuals are starting a new business or are owners and managers of a young firm because they could not find better work; it is equal to zero if individuals are not starting a business (remedial/necessity entrepreneurs hereafter). This distinction, which is very close to the one between self-employment and high-growth entrepreneurship proposed by Glaeser and Kerr (2009) is important because, as Ardagna and Lusardi (2009) show, opportunity and remedial entrepreneurs differ substantially both in terms of personal characteristics and the type of activity they engage into.

We use a variety of demographic variables: age, gender, education, and working status and we also have information on other potentially important variables to explain entrepreneurship: self-assessed business skills ($Skills$), attitudes toward risk ($Fear\ to\ fail$), and social networks ($Social\ networks$).[2] As several studies have shown, in addition to some important individual characteristics, such as age, education and gender, other variables can play a critical role in the decision to become entrepreneurs, such as business skills, and social networks (see (Djankov et al. (2008) and Minniti (2005)). We use the richness of information provided in GEM to examine whether regulation strenghtens or diminishes the effect of these determinants of entrepreneurship.

We merge the micro survey data described above with data on countries' institutional and regulatory environments from the Doing Business Database 2003 from the World Bank[3]. Specifically, we focus on entry regulatory indicators for

the United States. See Ardagna and Lusardi (2008, 2009) for a thorough analysis of the quality of GEM data.

[2] $Skills$ is a dummy variable equal to 1 if an individual answers that he or she has the knowledge, skill, and experience to start a new business; the variable is equal to 0 otherwise. $Fear\ to\ fail$ is a dummy variable, which is equal to 1 for individuals who answer that fear of failing prevents them from starting a new business; the variable is equal to 0 otherwise. *Social networks* is a dummy variable equal to 1 if an individual knows someone who has started a business in the past two years; the variable is equal to 0 otherwise.

[3] Data before 2003 are not available. We examined the values of the regulatory indicators

the product markets and regulation of contract enforcement (indicators measuring the efficiency of the justice system in resolving legal disputes) and use two measures of regulation, defined as follows: *Entry procedures*: The number of procedures that are officially required to start and operate a new business; and *Contract procedures*: The number of procedures required to solve a commercial dispute. While these aspects of regulation do not cover all regulatory and economic policies (e.g., taxes, tariff and non-tariff barriers, regulation of labor, safety and environmental standards) that can influence individual entrepreneurial behavior, they include some of the most important regulatory constraints across countries. We also use an important indicator of financial market development, defined as follows: the ratio of private credit by deposit money banks and other financial institutions to GDP available in the World Bank Financial Development and Structure Database (as described in Beck and Demirguc-Kunt (2009))and commonly used in the macro literature on growth and entrepreneurship (King and Levine, 1993). The correlation between this index and our indicators of regulation is 0.54. While highly correlated, both variables have predictive power when they are included in the regressions.

3 Empirical analysis

There are different reasons why individuals enter into entrepreneurship, from the desire to pursue an opportunity to the inability to find a job. Regulation can affect entrepreneurial types differently; for example, regulation can increase the cost of pursuing a business opportunity but can also make labor markets thinner, thereby increasing entry into remedial entrepreneurship. Moreover, regulation can have a differential impact on would-be entrepreneurs depending on their characteristics. For example, in countries that are more heavily regulated the threshold for starting a business becomes higher for those whose characteristics makes them more likely to become entrepreneurs. Thus, it is important to distinguish among the reasons to start a business and to be able to account for the rich set of characteristics that might affect entrepreneurship.

We estimate the effects of regulation and financial development on entrepreneurship as follows: For individual i, in country j, at time t, let us define the outcome of interest y_{ijt}, where y is one of the three measures: TEA, $Opportunity$, $Necessity$. The following equation for y_{ijt} is estimated:

$$y_{ijt} = \alpha_j + \beta_1 X_{ijt} + \beta_2 X_{ijt} R_j + \gamma_t + \varepsilon_{ijt} \quad (1)$$

for the years 2004 and 2005. For all the countries in our sample the regulatory indicators are mostly equal to their values in 2003.

where α_j is a vector of country dummies, X is a vector of variables measuring individual characteristics such as age, gender, employment status, and education, and variables measuring social networks, business skills, and fear of failure, R captures countries' regulatory environment and, in one instance, the development of financial markets, and γ_t are time dummy variables. Since the dependent variables are binary, we estimate a probit model. We add country fixed effects to control for time-invariant differences in macroeconomic and institutional characteristics of the countries in our sample.[4] However, because the regulatory indices are country and time invariant, once we include α_j among our regressors, we can only measure the differential effect that personal characteristics have on the decision to engage or not engage in entrepreneurial activity because of cross-country differences in the regulatory environment and the level of development of financial markets. In other words, we can only measure the effect of regulation via the interaction between countries' regulation and individual characteristics. This approach is similar in spirit to the one adopted by Klapper, Laeven, and Rajan (2006) who study the effect of regulation on industries' entry rates using firms level data.

A key concern, as in most cross-sectional studies, is that the measures of regulation and (financial development) may capture other factors that independently affect entrepreneurship. Hence, the results captured in this paper do not present necessarily casual evidence. Note, however, that in our empirical strategy we control for country-fixed effects to pick-up unobservables such as culture, religion, institutions that vary across countries, but not over time. While the endogeneity of regulation may be a less relevant problem in our empirical work because we focus on the interaction between regulation and individual characteristics, we consider these estimates as a starting point and will investigate the endogeneity of regulation variables in future work.

We begin the empirical analysis with some descriptive evidence on the relationship between entrepreneurship and countries' regulatory environments. In Table 1, we report the rate of entrepreneurship and regulation across geographic regions, a classification that should be exogenous to both entrepreneurship and regulatory constraints. We find that Latin American countries display the highest rate of entrepreneurship while OECD and European Union (EU) countries display a much lower level of entrepreneurship. However, these statistics hide a fundamental difference between the type of entrepreneurs in these countries: While in OECD and EU countries most of the entrepreneurs are opportunity entrepreneurs, in Latin America a very large share of entrepreneurs are necessity

[4] Standard errors are clustered at the country level and we always use weights. The difference between weighted and unweighted statistics and weighted and unweighted empirical estimates is rather small. Results using unweighted data are available upon request.

entrepreneurs. In fact, the ranking of countries simply reverses when we consider the ratio of opportunity over necessity entrepreneurs rather than the total rate of entrepreneurship. Regulation by geographic regions, as measured by the number of procedures required to start a business, very closely mimics the pattern described by the ratio of entrepreneurial types in these countries. Regulation is highest in Latin America and lowest in EU and OECD countries.

As expected, financial development is higher in OECD and EAP countries, the most developed countries. Moreover, countries that exhibit higher regulation also exhibit lower financial development, indicating that regulation may also impact financial development. Most of the new start-ups are rather small and employ on average 5-6 workers. In fact, most of the start-ups are composed simply by one person (the entrepreneur), but some employ more than 100 workers even at this early stage of their life.

Table 2 focuses on entry regulation (measured by the indicator *Entry procedures*) and reports the empirical estimates of equation (1) described above.[5] Entry regulation plays a role not only in affecting who becomes an entrepreneur but also the type of entrepreneurship one engages into. While women are overall less likely to become entrepreneurs than men, in countries with higher levels of entry regulation women do enter into entrepreneurship, but mostly because they cannot find better work. The magnitude of the effect is sizeable. For example, in Australia, New Zealand, and Canada, where entry regulation is at its minimum value (*Entry procedures* = 2), women are 0.5 percentage points less likely than men to start a new business because they cannot find better work. Conversely, in Uganda, where entry regulation is at its maximum value (*Entry procedures* = 17), women are 0.25 percentage points more likely to start a new business because they cannot find better work.

Entry regulation also moderates the effect of social networks and business skills, two variables that are important predictors of entrepreneurship. The effect of knowing other entrepreneurs is less conducive to engaging in both opportunity and remedial entrepreneurship in countries with higher levels of entry regulation. Those who report having business skills are 5.8 percentage points more likely to pursue a business opportunity if they live in a country that requires only 2 procedures to start a business, while they are only 3.9 percentage points more likely to pursue a business opportunity if they live in a country that requires 17 procedures to start a business. Fear of failure is also an important determinant of entrepreneurship; those who are afraid of failing are less likely to start a new business to pursue an opportunity. However, this variable does not seem to be affected by entry regulation.

[5] For brevity, in Tables 2 and 3, we report only the estimates of some of the variables included in the regressions. Estimates of the other variables are available upon request.

The level of financial development has also an effect on entrepreneurship. As other studies have emphasized, financial development works in the same way as regulation. As shown in Table 2, columns 4-6, in countries with higher levels of financial development women are less likely to be pulled into entrepreneurship because they cannot find better work. Moreover, those who know other entrepreneurs and have business skills are more likely to start a business to pursue an opportunity if they live in a country with a high level of financial development. Thus, regulation may be an impediment to businesses because it makes credit availability more difficult and financial constraints more likely to be binding. In countries where it is more expensive to comply with regulation and where contract enforcement is weaker, a larger fraction of would-be entrepreneurs can be prevented from starting a new business because of credit constraints.

In Table 2, columns 7-9, we interact all the right-hand-side variables with both the entry regulatory indicator and the indicator of financial development. Results show that entry regulation remains statistically significant even when accounting for financial development. The estimates for both gender and business skill also do not change very much in magnitude. Therefore, even after accounting for the level of financial development, women are more likely than men to be pulled into necessity entrepreneurship and those with business skills are less likely to become entrepreneurs in more heavily regulated countries. The effect of entry regulation via social networks is only significant at the 10% level for the index of total entrepreneurial activity.[6]

In addition to examining the effects of regulation and financial development on the decision to start a business, we also study the effects on the employment of these businesses. First, it is important to look not only at the extensive margin, i.e., who starts a business, but also at the intensive margin, i.e., how many workers do these businesses employ. Second, employment is another useful proxy for the type of activity entrepreneurs engage into. Rather than relying on the subjective definition of *Opportunity* and *Necessity* entrepreneurship, we also examine whether entrepreneurs start a small or a large firm.

In Table 3, we use as dependent variable the log of the number of employees (including the entrepreneur), the same controls as in Table 2, and interaction terms with indicators of entry and contract enforcement regulation and financial development. We find that entry regulation moderates the effects of business skills and social networks. Using the estimates in column 1, in businesses created by individuals with business skills employment is about 20 percent higher in a country that requires only 2 procedures to start a business than in a country that requires 17 procedures. Also, employment in businesses created by individ-

[6] Estimates of specifications that focus on contract enforcement regulation (*Contract procedures*) are similar to those shown in Table 2 and are available upon request.

uals who know other entrepreneurs is 15 percent larger if they live in a country that requires only 2 entry procedures rather than in a country that requires 17 procedures. However, note that, when accounting for both entry regulation and financial development, the impact of entry regulation on determinants of entrepreneurship is significant mostly for social networks. Using the estimates in column 3, employment in businesses created by individuals who know other entrepreneurs is 25 percent higher in a country that requires only 2 entry procedures than in a country that requires 17 procedures. Hence, the effect on employment of entry regulation through *Social networks* is not trivial and it is robust to controlling for the interaction between individual characteristics and the level of financial development. Similarly, in column 4, we show that contract enforcement regulation moderates the effects of social networks: employment in businesses created by individuals who know other entrepreneurs is higher in countries with lower levels of contract enforcement regulation.

4 Conclusions

In this paper, we use GEM data to estimate the effects of entry and contract regulation and financial development on both entry and the size of new businesses. While we cannot measure the total direct effect of regulation, we study the heterogeneity of the effect of regulation on entrepreneurship and entry size. The variables through which regulation affects entrepreneurship are gender, social network, and business skills. Even after accounting for the level of financial development, we find that entry regulation moderates the effect of business skills, while accentuating the effect of gender. Finally, we find that employment in businesses created by individuals who know other entrepreneurs is lower in countries with higher levels of entry and contract enforcement regulation.

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Table 1: Entrepreneurship and regulation – Descriptive statistics

ENTREPRENEURSHIP RATES	*TEA*		*OPPORTUNITY*		*NECESSITY*		*NECESSITY/OPPORTUNITY*
	mean	s.dev	mean	s.dev	mean	s.dev	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
OECD	5.40	22.60	3.683	18.83	0.74	8.60	20.24
EU	4.53	20.80	2.99	17.04	0.64	7.95	21.27
ECA	4.16	19.96	1.99	13.97	1.18	10.78	59.07
EAP	7.74	26.72	4.29	20.28	2.33	15.08	54.21
LATIN AMERICA	15.38	36.08	7.29	26.00	5.97	23.69	81.83
	Number of people working for the start-ups						
	mean	s.dev					
	(1)	(2)					
OECD	5.68	10.90					
EU	5.67	10.51					
ECA	7.12	15.14					
EAP	6.46	12.60					
LATIN AMERICA	4.24	7.36					
REGULATORY INDICATORS	ENTRY PROCEDURES		CONTRACT PROCEDURES		FINANCIAL DEVELOPMENT		
	mean	s.dev	mean	s.dev	mean	s.dev	
	(1)	(2)	(3)	(4)	(5)	(6)	
OECD	6.40	3.46	21.86	5.88	1.20	0.30	
EU	7.25	3.31	22.93	6.25	1.16	0.26	
ECA	8.77	2.64	27.23	7.08	0.39	0.12	
EAP	8.80	2.87	26.50	5.01	1.24	0.17	
LATIN AMERICA	12.10	3.64	35.10	7.46	0.27	0.20	

Notes: Mean and standard deviation of the dependent variables used in the empirical analysis and of the indices of regulation and financial development are shown in Table 1. *TEA* = 1 if individuals are not starting a new business nor are owners and managers of a young firm, 0 otherwise; *OPPORTUNITY* = 1 if individuals are starting a new business or are owners and managers of a young firm to take advantage of a business opportunity, 0 if individuals are not starting a business; *NECESSITY* = 1 if individuals are starting a new business or are owners and managers of a young firm because they could find no better economic work, 0 if individuals are not starting a business; Entry procedures = number of procedures that are officially required to start and operate a new business; Contract procedures = number of procedures required to solve a commercial dispute; Financial Development = private credit by deposit money banks and other financial institutions to GDP. OECD includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, The Netherlands, Norway, New Zealand, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States. EU includes Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, The Netherlands, Portugal, Spain, Sweden, United Kingdom; ECA includes Croatia, Hungary, Latvia, Poland, Russia, Slovenia. EAP includes China, Hong Kong, Singapore, South Korea, Taiwan, Thailand. Data sources: Global Entrepreneurship Monitor, World bank Doing Business Database 2003, World Bank Financial Development and Structure Database.

Table 2: Start-ups, regulation, and financial development

SPECIFICATION:	*PROBIT REGRESSIONS*								
DEPENDENT VAR:.	*TEA*	*OPPORTUNITY*	*NECESSITY*	*TEA*	*OPPORTUNITY*	*NECESSITY*	*TEA*	*OPPORTUNITY*	*NECESSITY*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
FEMALE	-0.022***	-0.010***	-0.006***	-0.0072	-0.0071**	0.0008	-0.0181***	-0.0115***	-0.0037**
	(0.004)	(0.002)	(0.001)	(0.0047)	(0.0028)	(0.0012)	(0.0062)	(0.0037)	(0.0018)
R*FEMALE	0.001**	0.0003	0.0005***				0.0009	0.0004	0.0003**
	(0.001)	(0.0003)	(0.0001)				(0.0006)	(0.0003)	(0.0001)
FIN*FEMALE				-0.0060	-0.0007	-0.0030***	-0.0015	0.0010	-0.0011
				(0.0040)	(0.0023)	(0.0011)	(0.0035)	(0.0020)	(0.0011)
SOCIAL NETWORKS	0.050***	0.031***	0.007***	0.0276***	0.0174***	0.0041***	0.0445***	0.0291***	0.0048**
	(0.004)	(0.003)	(0.001)	(0.0040)	(0.0028)	(0.0009)	(0.0101)	(0.0080)	(0.0021)
R* SOCIAL NETWORKS	-0.001***	-0.001**	-0.0001*				-0.0011*	-0.0007	-0.0001
	(0.0004)	(0.0003)	(0.00006)				(0.0007)	(0.0005)	(0.0001)
FIN* SOCIAL NETWORKS				0.0090***	0.0050**	0.0014*	0.0032	0.0013	0.0011
				(0.0033)	(0.0021)	(0.0007)	(0.0051)	(0.0034)	(0.0011)
SKILLS	0.099***	0.062***	0.018***	0.0642***	0.0335***	0.0139***	0.0833***	0.0444***	0.0221***
	(0.006)	(0.004)	(0.002)	(0.0079)	(0.0050)	(0.0019)	(0.0107)	(0.0062)	(0.0047)
R*SKILLS	-0.002***	-0.001***	-0.0003***				-0.0013**	-0.0007*	-0.0004**
	(0.001)	(0.0004)	(0.0001)				(0.0007)	(0.0004)	(0.0002)
FIN*SKILLS				0.0124**	0.0111***	0.0002	0.0062	0.0077**	-0.0020
				(0.0060)	(0.0038)	(0.0013)	(0.0055)	(0.0033)	(0.0014)
FEAR TO FAIL	-0.023***	-0.016***	0.0002	-0.0199***	-0.0158***	-0.0020**	-0.0221***	-0.0177***	-0.0002
	(0.004)	(0.002)	(0.001)	(0.0045)	(0.0029)	(0.0010)	(0.0080)	(0.0046)	(0.0022)
R* FEAR TO FAIL	0.0003	0.0001	-0.0002				0.0002	0.0002	-0.0001
	(0.001)	(0.0003)	(0.0001)				(0.0006)	(0.0004)	(0.0002)
FIN*FEAR TO FAIL				-0.0019	0.0011	0.0009	-0.0007	0.0021	0.0001
				(0.0051)	(0.0034)	(0.0011)	(0.0059)	(0.0038)	(0.0013)
OBSERVATIONS	325758	315368	305151	314977	305092	295277	314977	305092	295277

Table 3: Start-ups size, regulation, and financial development

SPECIFICATION:	OLS REGRESSIONS			
DEPENDENT VAR.	LOG (NUMBER OF EMPLOYEES + ENTREPRENEUR)			
	R = Entry procedures	R = Contract procedures	R = Entry procedures	R = Contract procedures
	(1)	(2)	(3)	(4)
FEMALE	-0.173***	-0.233***	-0.079	-0.200**
	(0.041)	(0.070)	(0.092)	(0.084)
R*FEMALE	0.001	0.003	-0.005	0.002
	(0.004)	(0.003)	(0.005)	(0.002)
FIN*FEMALE			-0.054	-0.012
			(0.064)	(0.053)
SOCIAL NETWORKS	0.239***	0.228***	0.411***	0.335***
	(0.033)	(0.072)	(0.091)	(0.096)
R* SOCIAL NETWORKS	-0.009*	-0.002	-0.017**	-0.004*
	(0.005)	(0.002)	(0.007)	(0.002)
FIN* SOCIAL NETWORKS			-0.105*	-0.055*
			(0.058)	(0.033)
SKILLS	0.220***	0.202**	0.132	-0.003
	(0.058)	(0.082)	(0.130)	(0.242)
R*SKILLS	-0.014**	-0.004	-0.009	0.000
	(0.006)	(0.003)	(0.009)	(0.005)
FIN*SKILLS			0.052	0.111
			(0.072)	(0.109)
FEAR TO FAIL	-0.123*	-0.085	-0.126	0.036
	(0.066)	(0.090)	(0.159)	(0.177)
R*FEAR TO FAIL	0.008	0.001	0.008	-0.001
	(0.006)	(0.003)	(0.010)	(0.004)
FIN*FEAR TO FAIL			-0.003	-0.068
			(0.088)	(0.080)
OBSERVATIONS	15911	15911	15482	15482

Notes to Tables 2 and 3: See Footnotes to Table 1 for definition of the following variables: *TEA, OPPORTUNITY , NECESSITY , R=Entry procedures* in col. (1) and (3), *R=Contract procedures* in col. (2) and (4), *FIN=Financial development*. *Skills*=1 if an individual answers that he or she has the knowledge, skill, and experience to start a new business; 0 otherwise. *Social networks*=1 if an individual knows someone who has started a business in the past two years; 0 otherwise. *Fear to fail*=1if individual answers that fear of failing prevents him from starting a new business; 0 otherwise. Other regressors included in Tables 2 and 3: *AGE*=age of the individual. *FEMALE*=1 if female; 0 otherwise. *STUDENT*=1 if individual is a student; 0 otherwise. *RETIRED DISABLED*=1 if individual is retired or disabled; 0 otherwise. *NOTWORKING*=1 if individual not working in any other occupation; 0 otherwise. *HIGHSCHOOL*=1 if individual has a high school degree; 0 otherwise. *COLLEGE*=1 if individual has at least a college degree; 0 otherwise. Country dummies and interaction terms between *R* and *FIN* and the regressors not shown are also included. Table 2 shows marginal effects (not coefficients). Tables 2 and 3 report standard errors, clustered at the country level in ().
*Significant at 1%,**Significant at 10%,***Significant at 5%.