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Is Entrepreneurship a Channel of Social Mobility in Latin America?

Francesca Castellani¹ and Eduardo Lora*

Abstract

This paper provides a summary of the findings contained in a forthcoming issue of the *Latin American Journal of Economics* on entrepreneurship in Latin America as a vehicle for upward social mobility, especially for the middle class. The income persistence coefficients estimated with pseudo-panel data for Colombia, Ecuador, and Uruguay indicate that entrepreneurial activity is a channel of intergenerational mobility, while the estimates of asset persistence for Mexico using a special survey show that entrepreneurship increases mobility across generations. Although persistence coefficients do not indicate the direction of such mobility, the estimates of income differentials between entrepreneurs and non-entrepreneurs for Ecuador and Mexico lend support to the hypothesis that upward mobility dominates.

JEL classification E21; I31; O15:

Key Words: Latin America, Entrepreneurship, Social Mobility, Middle Class

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1. Introduction

The lack of social mobility is arguably one of the main reasons behind the extreme levels of inequality observed in many countries in Latin America. This is consistent with both theory and empirical observation in several countries and regions (Erickson and Goldthorpe, 1992; Solon, 1992, Jantti et al., 2006;). Since low intergenerational mobility is the transmission channel of high inequality from one generation to the next (UNDP, 2010), identifying the main barriers to social mobility and the possible vehicles to break this intergenerational vicious circle is a commendable objective for public policy-minded researchers (Torche, 2010).

Entrepreneurship can be seen as a vehicle for upward social mobility, especially for the middle class, which is often considered the cradle of entrepreneurship. Countries with large middle classes are alleged to support a vigorous business class because middle-class values and attitudes are conducive to investing and innovating (Acemoglu and Zilibotti, 1997; Doepke and Zilibotti, 2005). However, the alleged entrepreneurial spirit of the middle classes is debatable and in apparent contradiction to the fact that the share of entrepreneurs is larger among the upper classes (Banerjee and Duflo, 2008; OECD, 2011).²

Similarly, although public policies in both developed and emerging economies often encourage entrepreneurship as a means to create employment and promote growth, the effectiveness of such policies is far from proven. This is especially the case in developing countries, where entrepreneurship is the only recourse for many workers with no other opportunity to make a living, and where most firms are small and very unproductive (Levy, 2008; Pagés, 2010).

The main purpose of this working paper is to summarize the state of the literature and recent findings by a series of papers on the relationship between entrepreneurship and social mobility, with special emphasis on Latin America. The papers, which will be published as a special issue of the *Latin American Journal of Economics*, aim at addressing the following questions: Do Latin American entrepreneurs experience more mobility within and across

² Analyzing data on patterns of consumption and investment by the middle class, Banerjee and Duflo (2008, p. 26), conclude that: “Nothing seems more middle class than the fact of having a steady, well-paying job. While there are many petty entrepreneurs among the middle class, most of them do not seem to be capitalists in waiting. They run businesses, but for the most part only because they are still relatively poor and every little bit helps. If they could only find the right salaried job, they might be quite content to shut their business down. If the middle class matters for growth, it is probably not because of its entrepreneurial spirit.” OECD (2011) finds the highest concentration of entrepreneurs among the richest group of the population rather than the middle sector, and no systematic differences in attitudes to entrepreneurship across social groups.

generations than non-entrepreneurs? Is this mobility absolute or relative, and upward? Do entrepreneurs from different social origins face different prospects for mobility? What family and personal background factors seem to be more conducive to entrepreneurship? Should public policy promote entrepreneurial activity in order to increase social mobility and further the possibilities of improvement of the lower classes?

The papers were prepared under the auspices of the Korean Social Development Fund and the Fund for Special Operation in a project led by the Inter-American Development Bank (IDB). A volume published jointly by the IDB and the World Bank (Lora and Castellani, forthcoming) presents other studies prepared under the same project, which address other aspects of the relationship between entrepreneurship and social mobility, with a focus on the potential and limits of policies to promote entrepreneurship as a vehicle for social mobility.

2. Brief Literature Review

Only a few studies of developed countries and almost none of developing countries assess the extent to which entrepreneurship is a channel of (higher) social mobility. In these works, entrepreneurship is often seen as an engine of economic and social change for lower-income earners, disadvantaged groups such as minorities, women, and migrants (Glazer and Moynihan, 1970; Fairlie, 2004, 2005; Holtz-Eakin, Rosen, and Weathers, 2000), or low-skilled workers (Lofstrom, 2009).

In the case of the United States, the empirical evidence has revealed mixed roles of entrepreneurship in intragenerational economic mobility and significant differences among socioeconomic groups. These studies use self-employment as a proxy for entrepreneurship, which is a debatable premise (see discussion below). Hamilton (2000) finds that self-employed men, on average, have lower initial earnings and earnings growth than their salaried counterparts. Holtz-Eakin, Rosen, and Weathers (2000) show that self-employment leads to an increase in the earnings distribution for low-income individuals but a decrease for high-income ones. Fairlie (2004, 2005) finds that self-employed, less educated young men and women experience faster earnings growth on average than their counterparts in salaried or paid employment, and that young self-employed black and Hispanic men have greater earnings over time than their minority salaried counterparts after a few initial years of lower initial earnings.

To explore the role of entrepreneurship in social mobility, Quadrini (1999) characterizes the accumulation behavior of agents across the wealth distribution, using data from the U.S. Panel Study of Income Dynamics and the Survey of Consumer Finances. He finds that the existence of borrowing constraints has the effect of concentrating the occurrence of entrepreneurship in the upper-income groups. He concludes that, while entrepreneurship enhances upward social mobility across all classes, the presence of borrowing constraints and the higher cost of external financing make undertaking entrepreneurial activity less likely for those households located in the lower portion of the wealth distribution. Because undertaking entrepreneurial activity increases a household's probability of moving to a higher wealth class, those households with lower levels of wealth—due to financial constraints and/or to the higher cost of external finance—have fewer opportunities to move up the wealth ladder.

Entrepreneurship, narrowly defined as the creation of new firms, is considered to be a key factor influencing socioeconomic mobility. Robson and Davidsson (2004), in a theoretical study, argue that creation of new firms, innovation, and competition are the three major channels through which entrepreneurship can contribute to economic development by changing wealth distribution patterns. Similarly, Spencer, Saemundsson, and Kirchhorr (2005) suggest that entrepreneurs may contribute to the democratization of wealth through the process of creative destruction. Amoros and Cristi (2010), in turn, show that new firms have a positive effect on human development by reducing poverty. Finally, Saini (2001) shows that entrepreneurship has a direct impact on poverty reduction.

Several studies have empirically explored the factors that apparently contribute to entrepreneurship. According to Hurst and Lusardi (2004), the propensity to become a business owner is a nonlinear function of wealth. The relationship between wealth and entry into entrepreneurship is essentially flat along most of the wealth scale. It is only at the top of the wealth distribution—after the 95th percentile—that a positive relationship can be found. Segmenting businesses into industries with high and low starting capital requirements, they find no evidence that wealth matters more for businesses requiring higher initial capital. When using inheritances as an instrument for wealth, they find that both past and future inheritances (rather than simply liquidity) predict current business entry.

Ardagna and Lusardi (2008) explore the role of individual characteristics as potential explanations of international differences in entrepreneurship in a cross-country setting using

micro data. They distinguish between entrepreneurs driven by an interest to pursue a business opportunity (“opportunity entrepreneurs”) and what they call “remedial” or “necessity entrepreneurs,” whose businesses are merely a means of basic sustenance—as portrayed by Banerjee and Duflo (2008) in reference to middle-class entrepreneurs. They find that opportunity entrepreneurs are slightly younger and are more likely to be male, to have higher education levels, and to have higher incomes. These results hold across country groups divided by income and geographic areas.

In a study of Argentina, Anchorena and Ronconi (forthcoming) find that the probability of becoming an entrepreneur is substantially higher for individuals raised in families headed by entrepreneurs: more specifically, the probability is 15.8 percentage points higher if the parents were owners of a firm, while it is only between 1.5 and 6.3 percentage points higher if the parents were rich.

Recent evidence from several Latin American countries reveals that while only a very small proportion of the population can be regarded as entrepreneurs, entrepreneurship is a vehicle for increased social mobility. As shown in the case of Bolivia, the degree of social mobility hinges on the type of entrepreneur (Hernani-Limarino, Eid and Villarroel, 2012). Employers, defined as those who hire labor, tend to experience higher mobility than self-employed workers (organized in cooperatives or working on their own) and wage workers (formal and informal). Employers are significantly more likely to move upward in both labor income and overall income distributions, and much more likely to end up in the upper class relative to other types of self-employed workers or wage workers.

Using data from a survey on entrepreneurship in emerging economies, Kantis, Koenig, and Angelelli (2004) find that dynamic entrepreneurs in Latin America come from a narrower range of social classes—primarily from the highly educated and middle classes—than in East Asia. Nearly half—48 percent—of the dynamic ventures in East Asia are founded by people from the lower and middle classes, while in Latin America only about one-quarter of entrepreneurs—28.6 percent—come from the lower and middle classes. This suggests that the contribution of entrepreneurship to social mobility and wealth creation is lower in Latin America than in East Asia.

3. Entrepreneurship in Latin America: Descriptive Statistics

Measuring entrepreneurship can be elusive. Across the papers in a forthcoming issue of the *Latin American Journal of Economics* (LAJE), entrepreneurs are defined as those individuals whose occupational category is “employers”: namely, those individuals who work independently and employ at least one additional person.³ This definition excludes self-employed individuals working on their own—most of whom are necessity entrepreneurs (also called remedial entrepreneurs), rather than opportunity entrepreneurs. This differs from the way entrepreneurship is usually defined in studies that focus on founders of start-ups and young ventures, which include individuals working on their own as entrepreneurs.

Table 1. Occupational Category by Country (percent of working population)

Country	Entrepreneur	Self-employed	Employee	Source	Data used
Argentina	6.3	20.6	73.1	Kantis, Federico, and Trajtenberg (forthcoming)	Household survey
Bolivia	5.3	38.5	56.2	Hernani-Limarino, Eid, and Villarroel (2012)	Household survey
Brazil	6.3	22.1	70.8	Kantis, Federico, and Trajtenberg (forthcoming)	Household survey
Colombia	3.5	44.4	52.2	Mejía and Meléndez (forthcoming)	Living Standards Survey 2010
Ecuador	7.1	45.8	47.1	Kantis, Federico, and Trajtenberg (forthcoming)	Household survey
El Salvador	9.6	33.9	59.2	Kantis, Federico, and Trajtenberg (forthcoming)	Household survey
Mexico	8.3	31.7	60	Vélez-Grajales and Vélez-Grajales (forthcoming)	Mexican Social Mobility Survey 2006
Peru	9.9	44.4	45.7	Kantis, Federico, and Trajtenberg (forthcoming)	Household survey
Uruguay	5.3	n.a	n.a	Bukstein and Gandelman (forthcoming)	Household survey

Sources: Authors’ compilations based on cited papers.

n.a. not available

By our definition of entrepreneurship, between 3.5 and 9.9 percent of the Latin American working population are entrepreneurs, depending on the country (Table 1). The share of self-

³ This definition is consistent with the definition in the *OECD-Eurostat Manual on Business Demographics* (OECD, 2007).

employment is substantially larger: between 20.6 percent and 45.8 percent of the working population. The shares of entrepreneurs bear no resemblance to the levels of economic or social development of the countries: Peru has the largest share of entrepreneurs, followed by El Salvador and Mexico, and Colombia the lowest, while Argentina and Uruguay, the most developed countries within the sample, have intermediate levels of entrepreneurship. In general, the composition of the population by occupational category holds relatively stable through time. Latin American entrepreneurs tend to be middle-aged males with secondary, and often tertiary, education. Middle-class entrepreneurship tends to dominate the sample, in part because this is the largest group in society. However, as a percentage within each social class, entrepreneurship tends to be more common among the upper class, followed by the middle and the lower class (Tables 2 and 3).

Table 2. Entrepreneurs and Social Origin by Country (percent of social class)

Country	Lower class	Middle class	Upper class	Source
Colombia	1.8	5.3	21.4	Mejía and Meléndez (forthcoming)
Mexico	5.7	7.6	16.9	Vélez-Grajales and Vélez-Grajales (forthcoming)
Uruguay	1.5	5.8	15.3	Bukstein and Gandelman (forthcoming)

Sources: Authors' compilations based on cited papers.

Table 3. Distribution of Entrepreneurs by Social Origin (percent of total entrepreneurs)

Social class	Argentina	Brazil	Colombia	Ecuador	El Salvador	Peru
Lower class	23.3	19.8	34.4	42.3	51.6	62.0
Middle class	63.9	61.3	46.3	50.6	44.2	33.2
Upper class	12.8	18.9	19.3	7.0	4.2	4.8

Sources: Authors' compilations based on Kantis, Federico and Trajtenberg (forthcoming) and Mejia and Meléndez (forthcoming).

Note: Social classes are defined according to the thresholds recently proposed by Ferreira et al. (2013): daily per capita incomes of less than US\$10 PPP correspond to the lower class; between US\$10 and US\$50 PPP correspond to the middle class; and more than US\$50 PPP correspond to the upper class.

With respect to social origin, the middle classes generally represent an important and increasing part of the entrepreneurial population, especially in Argentina and Brazil, where the middle class has represented more than 60 percent of the entrepreneurial population in the last

years. In Ecuador, El Salvador, and Peru, lower-class entrepreneurship is a more dominant phenomenon than in Argentina and Brazil. The proportion of middle-class entrepreneurs has increased in recent years. However, the share of the middle class has also increased in the other occupational categories as a consequence of the general expansion of the middle class in the region (ECLAC, 2010). In some countries, employers and/or employees are more likely than entrepreneurs to be middle class. Nonetheless, the importance of the middle class for entrepreneurs is higher than for employees and the self-employed in all of the countries studied except Peru, where both proportions are similar.

Entrepreneurs tend to be older than the rest of the population, and better educated than non-entrepreneurs. Entrepreneurs have higher labor income than employed workers. Males predominate in all occupational categories, but this predominance is even greater among entrepreneurs. On average, women make up slightly more than 10 percent of the total entrepreneurial population. Participation by women is lowest in Argentina and Peru, and higher in Brazil, Ecuador, and El Salvador.

Lower-class and middle-class entrepreneurs are concentrated in businesses of 10 or fewer employees. Entrepreneurs and employed workers also differ by the sectors of activity in which they participate. While a majority of entrepreneurs in all social classes work in wholesale and retail trade activities, employees tend to work more in services.

4. Findings on Mobility

Following previous literature on the subject, mobility is defined by the authors of the papers in the forthcoming issue of the LAJE as the lack of persistence of individuals' income with respect to their own past income (intragenerational mobility) or that of their parents (intergenerational mobility). If incomes are compared in absolute values (after adjusting for inflation), the results are measures of *absolute* mobility. If incomes are measured with respect to the median income of the country (or relevant group), the results are measures of *relative* mobility.

Whether mobility (either absolute or relative) is upward or not is a question that is ideally tackled with so-called panel data: longitudinal surveys that follow individuals or families over time. None of the studies in the forthcoming issue of the LAJE uses panel data in the strict sense. Those on Colombia by Mejía and Meléndez, Ecuador by Ordeñana and Villa, and Uruguay by

Bukstein and Gandelman rely on pseudo-panels constructed by the authors, which follow cohorts of individuals that share some characteristics (typically age, gender, and education), rather than specific individuals. Depending on the number and size of the cohorts, and the time they are followed, pseudo-panels may provide reliable estimations of absolute or relative intragenerational mobility, and may shed some light on whether the share of entrepreneurs in the cohorts is associated with higher or lower mobility—with upward or downward mobility, depending on the estimation technique.

The study on Mexico by Vélez-Grajales and Vélez-Grajales, which focuses on intergenerational mobility, uses a special survey which—although it is a cross-section of individuals and not a longitudinal survey—inquires about the respondents and their parents and can therefore be used as a panel, with some caveats. One of the limitations is that income cannot be measured in a reliable way for both generations in this way. For this reason, the survey inquires about the assets held by the respondents and by their parents. The authors use this information to construct asset indexes, which are used as proxies of permanent income to assess absolute mobility.

The study on Colombia and another study on Uruguay (Gandelman and Robano, forthcoming) assess other form of intergenerational mobility where entrepreneurship may make a difference: education. Gandelman and Robano analyze whether the children of entrepreneurs attain more years of education than the children of non-entrepreneurs. Mejía and Meléndez, in their study on Colombia, look at the issue from the opposite angle, which is whether entrepreneurs' education levels are less influenced by the level of education reached by their parents than is the case for non-entrepreneurs.

All these studies find that entrepreneurship is associated with higher social mobility, whether within or across generations, and in the case of intragenerational mobility, whether it is absolute or relative. Evidence of higher intergenerational social mobility is revealed as well when at the focus is on education, rather than income or assets.

A summary of the point estimates of income (or asset) persistence coefficients is provided in Table 4 (values closer to 1.0 imply lower mobility). Intragenerational persistence of entrepreneurs' absolute income is substantially higher in Uruguay (0.702) than in Colombia (0.44) and Ecuador (0.524 for males, 0.227 for females). Income persistence is lower among entrepreneurs than non-entrepreneurs, and the differences between both are statistically

significant in all cases. However, in the case of Uruguay, self-employed workers with fixed work location exhibit lower income persistence than entrepreneurs. Women experience lower income persistence than men whether or not they work in entrepreneurial jobs, but while the differences are very small (though statistically significant) in Colombia, they are substantial in Ecuador (the study of Uruguay did distinguish between men and women, but not between male and female entrepreneurs, and male and female non-entrepreneurs). The studies of Colombia and Uruguay present estimates of relative income persistence. In Colombia, relative income persistence coefficients are substantially larger than absolute income ones for men, whether entrepreneurs or not, but not for women (they are very similar). In contrast, in Uruguay, relative income persistence coefficients are lower than absolute income ones, and the differences between them are modest.

Table 4. Income (or Asset) Persistence Coefficients of Entrepreneurs and Non-entrepreneurs

	Entrepreneurs		Non-entrepreneurs	
		Total	Self-employed	Employees
Colombia (Mejía and Meléndez)				
Intragenerational absolute income persistence				
	All	0.440	0.507	
	Male	0.447	0.550	
	Female	0.495	0.527	
Intragenerational relative income persistence				
	All	0.454	0.499	
	Male	0.573	0.661	
	Female	0.503	0.519	
Ecuador (Ordeñana and Villa)				
Intragenerational absolute income persistence				
	Male	0.524	0.774	
	Female	0.227	0.477	
Mexico (Vélez-Grajales and Vélez-Grajales)				
Intergenerational asset persistence				
	Born 1942–64	0.28	0.37	0.26
	Born 1965–81	0.49	0.43	0.35
Uruguay (Bukstein and Gandelman)				
	Intragenerational absolute income persistence	0.702	0.592, 0.735 ^a	0.851
	Intragenerational relative income persistence	0.657	0.564, 0.643 ^a	0.821

Source: Authors' compilations based on cited papers.

^a The first number refers to self-employed with fixed location, the second to self-employed without fixed location.

Surprisingly, in Mexico, for those born between 1965 and 1981, the intergenerational persistence of asset ownership with respect to their parents is higher among entrepreneurs (0.49) than among self-employed workers (0.43) or wage earners (0.35). However, for the generation born between 1942 and 1964, the persistence coefficient of the entrepreneurs is substantially lower (0.28): below that of self-employed workers (0.37), and similar to that of wage earners (0.26). Although strict comparability of the two sets of coefficients may be limited by the nature of the data and the computation of the asset indexes, the results suggest that social mobility has declined in Mexico, especially for entrepreneurs.

That intragenerational social mobility among entrepreneurs is higher than among other workers is not surprising since entrepreneurship implies more risk taking and therefore higher income variability than other work options. Thus, a central question is whether or not that additional risk taking is compensated by higher incomes. Using propensity score matching to compare entrepreneurs with non-entrepreneurs, the study of Mexico reaches the conclusion that the earning premium for entrepreneurs is 17 percent. The premium differs markedly by socioeconomic origin. For the entrepreneurs who come from the poorest quintile (in terms of their parents' asset ownership), the premium is 48 percent, while for those from the richest quintile, it is 28 percent, and for those from the middle quintiles, 13 percent. Since the estimation procedure allows comparing entrepreneurs with non-entrepreneurs of similar family background (in addition to other characteristics), it is less subject to the potential bias problem resulting from the omission of variables that are known to influence the probability of success of entrepreneurs, such as early exposure to the values and decision practices associated with entrepreneurship (Kantis, Federico, and Trajtenberg, forthcoming; Anchorena and Ronconi, forthcoming) and access to social and professional networks (Ordeñana and Arteaga, forthcoming).

The study on Ecuador, which does not control for family background, indicates that the premium of entrepreneurial work is an astonishing 79 percent, which would imply that entrepreneurial activity is highly productive and socially desirable. In contrast, although it does not provide an estimate of the premium, the study for Colombia reaches the conclusion that middle-class entrepreneurs, who constitute the bulk of entrepreneurs in the country, are probably not contributing much to productivity and growth, since they tend to have very small firms in the less capital-intensive, low-knowledge sectors.

5. Other Findings

Entrepreneurship does not occur randomly among individuals. Entrepreneurs are more often found in higher-income groups, as mentioned. In Colombia, entrepreneurship is more common among older, male, more educated individuals. Entrepreneurs are more likely to have experienced intergenerational social mobility, as measured by years of education attained by them with respect to their parents. In Uruguay, the children of entrepreneurs attain more years of education than the children of non-entrepreneurs, irrespective of the parents' education. The two findings combined suggest that entrepreneurs are both the result and the cause of higher social mobility. In Mexico, the probability of becoming an entrepreneur increases when the respondent's father was also an entrepreneur, suggesting that there is a strong role model effect. Father's occupation turns out to be a more important explanatory factor than initial wealth or education. As mentioned, a family-transmission effect of occupational *values* (to become an entrepreneur) seems to be operating.

Self-employment is often seen as an incipient form of entrepreneurship. However, the characteristics of these two types of workers are markedly different, and so are their responses to changes in opportunities. In Mexico, the father's occupation is the variable that most increases the probability of sons choosing the same occupation, which is also the case for the self-employed. But, in addition, having a father who belonged to the middle class or was an entrepreneur decreases the probability of being self-employed (but not the probability of becoming an employee). The probability of becoming self-employed instead of an entrepreneur falls with years of education attained and increases if the individual comes from an indigenous group or lives in the rural area. The study of Colombia confirms that self-employment is an occupational choice of individuals whose characteristics are significantly different from those of entrepreneurs, on average. Women are more likely to become self-employed than entrepreneurs. The number of years of schooling decreases the probability of being self-employed rather than being an entrepreneur, as does parents' maximum educational attainment. Finally, the study of Uruguay finds that income from self-employment is more stable than income from entrepreneurship, as entrepreneurs assume more risks. While entrepreneurship tends to flourish during periods of rapid economic growth and to shrink during recessions, self-employment without fixed location behaves counter-cyclically.

6. Conclusion

Taken together with previous empirical literature on the role of entrepreneurship in fostering social mobility, the findings of the papers summarized in this working paper indicate that entrepreneurial activity is a channel of social mobility, both within and across generations. Although the income persistence coefficients do not indicate the direction of such mobility, the estimates of income differentials between entrepreneurs and non-entrepreneurs lend some support to the hypothesis that upward mobility dominates. The only study based on longitudinal series (Hernani-Limarino, Eid, and Villarroel, 2012), which examines Bolivia, also finds that, on average, entrepreneurs tend to move up the economic ladder.

Although the literature on the United States indicates that entrepreneurial activities open avenues of economic progress especially to minority groups, the studies included in this issue do not shed much light on this issue. Women in entrepreneurial activities do seem to have lower income persistence than their male counterparts, but only the study of Ecuador finds a substantial effect.

From a public policy perspective, a central issue in the design of policies to promote social mobility and reduce inequality is whether to focus on policies that benefit specific socio-demographic groups or to facilitate mobility in general. Policies to promote entrepreneurial activities also face that dilemma. Mejía and Meléndez (forthcoming), after considering the evidence for Colombia, take the position that instead of promoting entrepreneurship among middle- or low-income groups, public policies should aim at facilitating firm creation and growth and fostering education and the formation of productive capabilities among those groups. These and other arguments against policies to promote entrepreneurship are made strongly by Shane (2009). Furthermore, as discussed by Solimano (forthcoming), the wide range of entrepreneurial activities and types of entrepreneurs means that the targeted segment of pro-entrepreneurial policies—the potential entrepreneur—is potentially diffuse, elusive, and very heterogeneous. Nonetheless, knowledge about individuals' backgrounds and circumstances that increase their chance of success in entrepreneurial activities, such as that provided by the papers summarized, though still scant, is growing and sufficient to provide a good basis for policy action in some areas. Recommendations must go beyond generic policies to improve education and facilitate

firm creation, to include more specific actions aimed at potential entrepreneurs, such as the following (adapted from Solimano, forthcoming):

Build on role models. As suggested by the findings of Vélez-Grajales and Vélez-Grajales (forthcoming), Anchorena and Ronconi (forthcoming) and Ordeñana and Arteaga (forthcoming), policies should take into account and exploit the importance of role models for encouraging entrepreneurship.

Lower the costs of doing business. As highlighted by the World Bank's annual *Doing Business* reports, red tape and bureaucracy are external obstacles to entrepreneurship. Reducing the time and cost of legal incorporation of a firm will favor the creation of new enterprises. The cost of closing a firm and going out of business should also be reduced and bankruptcy procedures streamlined.

Build entrepreneurial capacities. The studies in Lora and Castellani (forthcoming) show that an important obstacle to entrepreneurship is a shortage of capacities among many entrepreneurs and managers to properly manage human resources, technology, and cash flows. This finding calls for further efforts to make postsecondary education not only more accessible, but more relevant for effective entrepreneurship in the local context. It is important to develop appropriate systems of detecting and nurturing entrepreneurial traits.

Improve financing. Apart from easing access to credit by small firms and facilitating the use of collateral to reduce risks and costs, addressing the lack of financial education among entrepreneurs is essential in markets plagued by asymmetrical information and unethical lending practices.

Strengthen social capital. Given the importance of networks and institutions in entrepreneurial success (Kantis, Federico, and Trajtenberg, forthcoming; Ordeñana and Arteaga, forthcoming), promoting social capital and facilitating communication and networking among potential entrepreneurs should be a component of policies to raise the prospects of entrepreneurship.

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