



Transformational Entrepreneurship for Jobs and Growth

Acknowledgements

This report is a product of the Chief Economist Office for Latin America and the Caribbean at the World Bank. The preparation of the report was led by William Maloney (Chief Economist), Guillermo Vuletin (Senior Economist), Pablo Garriga (Economist), and Raul Morales (Economist). Excellent research and editorial assistance were dispensed by Gaston Marinelli (Research Analyst), Jose Andree Camarena (Research Analyst), Fernando Castaño (Consultant), Bruna Fernandes (Consultant), Lucas Finamor (Consultant), Vinícius Nery (Consultant), Rafael Vilarouca (Consultant), Honorio Zabaleta (Consultant), Tomas Ramirez Tobon (Consultant), and Jacqueline Larrabure (Senior Program Assistant).

Substantive inputs were offered by the following teams:

Chief Economist Office for Latin America and the Caribbean: Guillermo Beylis (Senior Economist) and Andres Zambrano (Senior Economist).

International Finance Corporation: Marcio Cruz (Principal Economist, CERER), Mariana Pereira-Lopez (Senior Economist, CERER), and Edgar Salgado (Economist, CERER).

Finance, Competitiveness and Innovation: Federico Alfonso Diaz Kalan (Financial Sector Specialist, ELCFN), Nicolo Fraccaroli (Economist, ELCFN), and Guillermo Fernandez Zubia (Consultant, ELCFN).

Poverty and Equity: Carlos Rodriguez Castelan (Practice Manager, ELCPV), Hernan Winkler (Senior Economist, ELCPV), Diana Marcela Sanchez Castro (Data Scientist, ELCPV), and Karen Yiseth Barreto Herrera (Consultant, ELCPV).

Country-specific macroeconomic estimates and write-ups were produced by country economists in the Economic Policy Global Practice, under the leadership of Shireen Mahdi (Practice Manager, ELCMU) and the coordination of Elena Fernández Ortiz, and Adriane Landwehr. Contributors included Daniel Barco, Paola Brens, Luigi Butrón, Natalia Cámpora, Paulo Chavez, Fabiano Colbano, Antonio Cusato, Barbara Cunha, Anton Dobronogov, Sandra El Saghir, Aygul Evdokimova, Elena Fernández Ortiz, Cornelius Fleischhaker, Julián Folgar, Sebastián Franco, Fernando Giuliano, Christian González, Bernard Haven, Fernando Im, Evans Jadotte, Melise Jaud, Santiago Justel, Andrés Lajer, Woori Lee, Fernanda Massarongo, Karen Muramatsu, Marcelo Ordóñez, Rafael Ornelas, Fausto Patiño, Raphael Pinto Fernandes, Daniel Reyes, Santiago Rivera, Natasha Rovo, Gabriela Schmidt, Vasileios Tsiropoulos, Hulya Ulku, Constanza Vergara, Erik von Uexkull, Pui Shen Yoong, Gabriel Zaourak, and Luan Zhao (all ELCMU).

Communications and Dissemination support was provided by Ana Elisa Luna Barros (Manager, ECRLC), Ruth Idalina Gonzalez Llamas (Senior External Affairs Officer, ECRLC), Analia Martinez (Online Communications Officer, ECRLC), Yuri Szabo Yamashita (External Affairs Officer, ECRLC), Carlos Alberto Cortes Galavis (Consultant, ECRLC), Francisco Seminario (Consultant, ECRLC), and Leandro Juan Hernandez (Consultant, ECRLC). Nancy Morrison (Consultant, LCRCE) provided editorial support, Leonardo Padovani (Consultant, LCRCE) translated the document, which was subsequently reviewed by João Gabriel de Araujo Oliveira (Consultant, LCRCE), and Alejandro Espinosa (Sonideas) contributed to the design.

The cutoff date for this report was September 25, 2025.

Contents

1	<u>Overview</u> Transformational Entrepreneurship for Jobs and Growth	
	Chapter 1. Persistent Inflation and Slowing Growth Amid Global Uncertainty	2
	Chapter 2. LAC's Entrepreneurship Challenge	3
	Growth Outlook for the Region	6
7	<u>Chapter 1</u> The State of the LAC Region	
	Economic Activity: Growth Remains Sluggish	8
	External Environment: External Headwinds and Uncertainty Remain Challenging	14
	Inflation's Sticky "Last Mile": External Headwinds Complicate Disinflation	16
	Latin America's Persistent Fiscal Challenges and Higher-for-Longer Rates	20
	Financial Sector: Non-Performing Loans Moderate, While Credit Growth Diverges across Subregions	24
	Foreign Direct Investment Is Decreasing in the Region	25
	Caribbean and Central America	28
	Labor Markets and Social Conditions: Recent Trends and Future Prospects	30
	References	37
38	<u>Chapter 2</u> The Entrepreneurship Challenge in Latin America and the Caribbean	
	Entrepreneurs: The Drivers of Job Creation and Growth	39
	Quantity versus Quality of Entrepreneurship: Is LAC, in Fact, Entrepreneurial?	42
	Two Worlds of Entrepreneurship: A Mass of Micro Firms and a Small Pool of Potentially Transformational Firms	43
	What Elements of the Enabling Environment Limit Transformational Entrepreneurship?	53
61	Policy Recommendations	
	References	63

Figures

Figure 1.1.	LAC's Growth Remains Below Other Regions	8
Figure 1.2.	Expectations Are Stabilizing in Argentina	9
Figure 1.3.	Growth in Most LAC-6 Countries Is Being Led by Consumption	9
Figure B1.1.1.	LAC Has Underperformed Other Regions for More than a Century	10
Figure B1.1.2.	Latin American Countries Lag in the Adoption of Advanced Production Technologies	11
Figure 1.4.	As Budget Deficits Remain, Fragile Growth Weighs on External Balances	13
Figure 1.5.	Consumer Confidence Is Improving, While Business Sentiment Remains Cautious	13
Figure 1.6.	Expectations of Higher External Uncertainty Persist into 2025, Weighing on the LAC Outlook	14
Figure 1.7.	Trade Policy Uncertainty Remains High	15
Figure 1.8.	LAC's Export Volumes Show Resilience against Global Uncertainty	16
Figure 1.9.	Inflation's Sticky "Last Mile"	16
Figure 1.10.	Inflation Expectations Remain Anchored	18
Figure 1.11.	Monetary Policy Has Slowly Loosened in the LAC-5, Except for Brazil	18
Figure 1.12.	Major Currencies in the Region Have Appreciated Due to a Weak Dollar and End of Monetary Loosening	19
Figure 1.13.	Fiscal Deficits Persist Amid Rising Interest Payments	20
Figure 1.14.	Debt Service Restricts Fiscal Space for Investment	21
Figure 1.15.	Public Debt Has Stabilized at High Levels	21
Figure 1.16.	Borrowing Costs Remain High	22
Figure 1.17.	Trends in Non-Performing Loans Warrant Continued Vigilance	24
Figure 1.18.	Credit Growth Diverges among LAC Economies	25
Figure 1.19.	Foreign Direct Investment to LAC is Decreasing	27
Figure 1.20.	Public Debt Trajectories Vary across the Caribbean and Central American Countries	28
Figure 1.21.	Inflation Pressures Are Easing	30
Figure 1.22.	While Declines in Poverty Have Slowed in LAC, They Have Continued in Some Other Emerging Regions	31
Figure 1.23.	Poverty Declines Are Slowing in Most LAC Countries	31
Figure 1.24.	Labor Informality Rates Remain High in LAC Countries, Especially for the Less Educated	32
Figure 1.25.	Labor Income Is the Most Important Source of Income	33
Figure 1.26.	Labor Force Participation and Unemployment Are Already at about Pre-Pandemic Levels	34
Figure 1.27.	Growth in Labor Income Has Been Small and Uneven in Most Countries	34
Figure 1.28.	Declining Earnings Returns to Education Contributed to Modest Growth in Labor Earnings	35
Figure 2.0.	Increase in the working age population	39
Figure 2.1.	Differences in Labor Productivity between Entrants and Incumbents Are Large in Developing Countries	40
Figure 2.2.	Drivers of Technological Adoption	41
Figure 2.3.	Entrepreneurial Intentions are Strong in LAC	42
Figure 2.4.	LAC Is Within the Range of Self-Employment That Advanced Economies Were When They Were at LAC's Current Income Level	43
Figure 2.5.	High Entrepreneurship in LAC Is Mostly Explained by the Abundance of Own-Account Firms, Especially at the Bottom Deciles	44
Figure 2.6.	Entrepreneurs with Low Levels of Education Are Common across All Income Levels in LAC, but Especially among the Lower Deciles	44
Figure 2.7.	"Mom-and-Pop" Shops Find It Optimal to Remain Small Because They Are Mostly Run by Low- Ability Entrepreneurs	45
Figure B2.1.1.	Creation of MEI Firms in Brazil Has Been Robust since the MEI Regime Was Introduced	46
Figure B2.1.2.	Limited Liability Companies in Brazil are Larger and Survive More than MEIs, Signaling Higher Productivity	47
Figure 2.8.	Most Microentrepreneurs Choose Self-Employment for Income and Independence	48
Figure 2.9.	The Share of Own-Account Workers Decreases and the Share of Employer-Entrepreneurs Increases at Higher Levels of Development	49
Figure 2.10.	Individuals with Low Marketable Abilities Might Find in Microentrepreneurship Their Best-Paying Occupation, while Those with High Abilities Reap the Gains from Transformational Entrepreneurship	49
Figure 2.11.	Firms with Different Legal Statuses Have Different Capacities to Create Good-Quality Jobs	50

Figure 2.12.	LAC Has a Relatively Low Share of Limited Liability Companies (LLCs)	51
Figure 2.13.	LAC Has Few Educated Entrepreneurs, Explained by a General Lack of Educated Individuals	51
Figure 2.15.	Highly Educated Managers Run Firms that Grow and Innovate More in Brazil	52
Figure 2.14.	Larger Firms in Brazil Have More Educated and Experienced Managers	52
Figure 2.16.	Managerial Skills Are Low in LAC	53
Figure 2.18.	Financial and Human Capital Constraints Affect Micro, Small, Medium, and Large Firms in Chile Differently	54
Figure 2.17.	The Growth of Firms in LAC Is Limited by Insufficient Credit and Qualified Workers	54
Figure 2.19.	The Quality of LAC's Financial Markets Is Quite Low Compared to Other World Regions	55
Figure 2.20.	LAC's Legal System Contributes to Poor Financial Markets	56
Figure 2.21.	Firing Costs in LAC Rank among the Highest in the World	57
Figure B2.3.1.	e-commerce Is Booming in LAC	58

Tables

Table 1.1.	Growth Prospects in the Caribbean Exceed the Regional Average, but Performance Remains Uneven	28
Table 2.1.	Business Entry Motivations Are Similar across LAC and OECD	48

Boxes

Box 1.1.	LAC's Lost Century of Growth: Learning to Learn about Technological Opportunity	10
Box 1.2.	Jobs and Growth Opportunities for LAC in the Energy Transition	11
Box 1.3.	Toward a Smarter Tax Mix for Latin America and the Caribbean—Behavioral, Technological, and Strategic Insights for a New Fiscal Blueprint	23
Box 1.4.	Localized Nearshoring in Mexico: Evidence from the 2018-2020 U.S.-China Trade Tensions	26
Box 1.5.	Harnessing Skilled Migration and Local Economic Development in Central America and the Caribbean	29
Box 1.6.	Revising the Global Poverty Lines: Implications for Latin America and the Caribbean of the 2021 Purchasing Power Parity Update	32
Box 2.1.	Terminology Used in this Chapter	40
Box 2.2.	Is the Legal Status of Firms Informative about Firm Quality? Evidence from the MEI Regime in Brazil	46
Box 2.3.	Digital Entrepreneurship in Latin America and the Caribbean	58



Overview

Transformational Entrepreneurship for Jobs and Growth

Latin America and the Caribbean (LAC) continues its efforts to reignite growth and create more and better jobs, but progress remains constrained. The regional growth rate is expected to edge up slightly—from 2.2 percent in 2024 to 2.3 percent in 2025—even as many individual economies face downward revisions in their projections. These adjustments reflect, in part, an external environment that offers limited support, shaped by a cooling global economy, falling commodity prices, and greater uncertainty. Monetary authorities in the region continue to manage inflation competently, but the “last mile” is proving longer and rockier than expected. Interest rates in advanced economies have slowed their decline, constraining interest rate reductions across the region, and delaying the needed relief for households, banks, and governments’ fiscal accounts. Investment, both public and private, remains depressed, and any momentum for “nearshoring”—the practice of bringing offshore operations to close or friendly countries—is stalled, both because of the rise in global uncertainty and because of a lack of preparedness in the region’s enabling environment to attract and host it. The persistent lack of fiscal space underlines the continuing importance of improving the efficiency of government spending, as well as rethinking the ways governments raise revenue to generate resources for development investments.

These challenges only serve to emphasize the importance of the agenda of growth-related reforms needed in infrastructure, education, regulation, competition, and tax policy. LAC’s slow growth is not primarily a result of the COVID-19 pandemic, or stagnant commodity prices, but has its roots in a long-standing inability of decades to identify, adapt, and exploit technological advances. Addressing these issues requires deep reforms: among them, improving education systems of all levels, strengthening the quality of universities and research institutes and tightening their links to the private sector; as well as deepening capital markets and facilitating the management of the risk inherent in the processes of innovation and entrepreneurship. This lag affects the region’s capacity to create quality jobs that empower the region to engage more competitively. This agenda, along with increased investment and institutional upgrading, is also critical to the region getting the most out of its abundant natural resources—including for more efficient renewable energy sources. In the Caribbean, a rethinking of how to integrate itself, and lever the flows of talent across borders, remains a pending agenda.

Chapter 1 of this report reviews the recent macroeconomic and social evolution of the region and the near-term challenges it faces, particularly in the realm of growth and balancing fiscal accounts. Chapter 2 argues that the shortfalls in growth and job creation partly reflect LAC’s shortfall of transformational entrepreneurs—the individuals who manage the mobilization of private capital and technology transfer that development

requires. This is at once an issue of entrepreneurial quality, which is a function of a variety of types of human capital, and the ways in which the “enabling” environment in which entrepreneurs operate supports or blocks their efforts. Action on both dimensions is essential from governments and the private sector to stimulate growth and create higher-quality jobs.

Chapter 1. Persistent Inflation and Slowing Growth Amid Global Uncertainty

Steady, but Slowing Progress on Inflation

Most large countries continue to be on track to meet their inflation targets by 2026, but the last mile is proving difficult. Though inflationary expectations remain anchored, rising labor costs in the service sector have led to persistent core inflation across some major economies since the first quarter of 2025, and policy interest rates are, in general, falling more slowly.

More Challenging External Headwinds Limit Growth

For the short term, international headwinds are proving more challenging than expected in the April 2025 *Latin America and the Caribbean Economic Review* (LACER). Global interest rates remain high: the U.S. Federal Reserve’s September decrease in interest rates of 0.25 percentage points reflects a balancing act between slowing economic activity and inflationary pressures,

while the European Central Bank and the Bank of England have kept their interest rates unchanged. LAC's local authorities will thus remain constrained in further lowering policy rates due to the possibility of capital outflows. Growth in the Group of Seven (G-7) nations is expected to fall this year as uncertainty drags down investment. Growth in China, LAC's largest trading partner, continues to slow while authorities adjust their growth strategy and grapple with ongoing trade frictions. Both slowdowns will contribute to a persistent slide in commodity prices expected to continue into 2026 to levels not seen since 2021.

Together these factors contribute to a modest growth forecast for LAC that reaches 2.3 percent in 2025, with substantial variation across countries. Argentina continues a notable economic rebound following two consecutive years of contraction, though deep-seated challenges persist. Meanwhile, the ongoing uncertainty surrounding tariffs has weighed on Mexico's economic outlook. Overall, regional business and consumer confidence remain firm. On the fiscal front, government spending remains elevated, with limited relief expected from further interest rate cuts. Progress on debt reduction remains limited: the debt-to-GDP ratio increased in 2024 to 63.8 percent and remains above the 2019 level of 59.9 percent. The region still needs to generate more fiscal space by cutting wasteful spending and improving the tax mix to enhance revenue collection with fewer economic distortions. Some reduction in current account imbalances has occurred, though mostly due to a stagnation in investment. This low accumulation of public and private capital, combined with low productivity gains over the longer term, bodes ill for long-term growth.

Furthermore, the broad slowdown in interest rate reductions across advanced economies has, in practice, limited the ability of central banks in the region to ease monetary policy domestically. As a result, relief in debt servicing costs for households, firms, and governments is likely to be delayed. This monetary constraint underscores the importance of complementary fiscal measures. A box in Chapter 1 examines how, beyond the necessary improvements in government efficiency and responsiveness, this is an opportune moment to reassess the composition of tax systems. Specifically, it explores how countries can optimize their mix of taxes not only to raise revenue and promote equity, but also to support growth.

Leveraging Emerging Opportunities Amidst Continued Uncertainty around Global Trade

The enthusiasm for nearshoring of recent years is waning in the face of uncertainty about market access. Still, the increase in trade barriers has been higher for some key competitors, offering possibilities for export expansion

from LAC. However, continued uncertainty has dampened investment of all types. While circumstances evolve, policy makers must address the pending reform agenda to increase the relative attractiveness of the region as a destination and boost job creation and upgrading—tackling the cost of capital, the weak education level of the workforce, poor energy and infrastructure policy, high corporate taxes, and social instability, as discussed in the April 2023 LACER. Addressing these structural concerns is urgent, but more is needed to leverage potential trade opportunities as well as those arising from the efficient use of the region's natural resources—including renewable energy sources and critical minerals. Chapter 1 illustrates this by summarizing recent World Bank publications showing how a lack of technical and entrepreneurial human capital, combined with an absence of supportive research institutions, caused the region to lose comparative advantage in key sectors, such as mining in the last century. These publications further show that steps to redress these “learning” shortfalls, in addition to investments and institutional reforms, are necessary to get the most out of the new opportunities offered by coming changes in energy generation and technology.

Slow Progress on Jobs, Poverty, and Inequality

Progress on poverty and inequality remains slow, largely reflecting continued sluggish job creation resulting from weak economic dynamism. In 2025, monetary poverty is expected to decrease marginally to 25.2 percent of LAC's population (based on a newly revised upper-middle-income poverty line of \$8.30 per day in 2021 purchasing power parity terms), while inequality is expected to remain high by global standards, with the Gini index reaching 49.1.

In this complex scenario, empowering entrepreneurs and the private sector is essential. They can help fuel needed rapid growth and job creation as central actors in economic progress. Chapter 2 argues that LAC faces a deficit in entrepreneurial quality and needs to undertake reforms to the ecosystems in which entrepreneurs operate, so they can play their part in uplifting the region's economy.

Chapter 2. LAC's Entrepreneurship Challenge

The entrepreneur is a central but understudied figure in developing economies, mobilizing the private capital needed to create jobs and value added, as well as being the individual agent who identifies new technologies, recognizes their potential as a business in the local context, and then takes them to market. Entrepreneurship is fundamentally a process of experimentation marked by uncertainty and risk, placing a bet on what new

product, process, or technology has the possibility to create value and jobs in the local context. Its success depends not only on individuals with the capabilities to identify and pursue new opportunities but also on the enabling environment that supports such risk-taking through enabling institutions and regulations.

LAC ranks very high on attitudes toward entrepreneurship, on the status of the entrepreneur, and on the number of workers engaged in entrepreneurship. However, paradoxically, it appears to get little “kick” out of this experimentation process: new firms tend not to be more productive than incumbents, meaning that high firm turnover (entry and exit) does not automatically translate into the productivity gains that lead to better jobs. Chapter 2 argues that this puzzle results in part from a deficiency in the quality of entrepreneurs. LAC’s apparently high entrepreneurship rates conflate two very distinct types of entrepreneurs—owners of “mom and pop” operations versus transformational entrepreneurship that adds value to the economy and creates higher-quality jobs. These two types of entrepreneurship need to be treated separately conceptually, and some important weaknesses in the latter type need to be understood and addressed. However, deficiencies in the entrepreneurial ecosystem also matter—particularly gaps related to the availability of credit and worker skills, which discourage the entry and growth of transformational firms.

Two Worlds of Entrepreneurship: A Mass of Micro Firms and a Small Pool of Potentially Transformational Firms

The vast majority of LAC’s entrepreneurs are found in micro firms (those with 0 to 5 employees), dominated by single person firms (own account workers) with low education and income who have no employees. These micro firms are predominantly unregistered (informal). A much smaller group of more “modern” or “transformational” firms grow and create jobs. Their founders and managers are often more highly educated and better off. This variation by income strata, for example, is not observed in advanced economies such as the United States and is largely determined by LAC’s low level of education: even among entrepreneurs in the top decile of the income distribution, nearly 50 percent have attained only a high school education or less. By contrast, in the United States, at least 60 percent of entrepreneurs have at least some college education in every income stratum. This suggests that low levels of education interacting with lagging productivity in the formal economy is a determinant factor in encouraging a large share of the workforce to enter into and engage in micro entrepreneurship. As importantly, from the perspective of growth and job creation, only firms with a more educated entrepreneur at the helm can be expected to be able to have the capabilities to take advantage of new technologies and create dynamic enterprises.

LAC’s Microentrepreneur Sector Is a Source of Desirable Jobs, but not Economic Dynamism

The mass of own account workers tends to report little interest in expanding their businesses—only 8 percent in Chile and 1 percent in Mexico say they want to do so—and few state they are constrained from doing so by, for instance, lack of access to credit. By contrast, firms with employees in both countries report stronger intentions to grow their businesses, with substantially higher shares planning to hire or invest. In this sense, LAC’s microentrepreneurs resemble “mom-and-pop” firms of standard microeconomic theory—small operations with limited entrepreneurial ability that rationally maximize their profits at a small size. Hence, counter to the claims of Hernando de Soto, in his popular book, *The Other Path*, policies to reduce formalization costs may have little impact on growth, given the low ambition reported.

The weight of survey responses about business motivations, and data about job duration and gross labor flow, suggest that the vast majority of those who are self-employed/working in micro entrepreneurial jobs in LAC consider themselves no worse than they would be in jobs they are qualified for in the formal salaried sector. In particular, taking the value they place on flexibility and being one’s own boss into account raises the effective “pay” to double actual earnings, rendering earnings comparisons across sectors unhelpful for comparing relative job satisfaction or quality. In sum, the informal micro firm sector is not a driver of growth, but generally offers jobs that are perceived as being as good as the ones they are qualified for in the formal salaried sector.

Transformational Entrepreneurship

That said, the share of own-account workers decreases with development, suggesting that the relative benefits of being an own-account worker, in fact, decline as the opportunity cost presented by increasingly attractive opportunities in the salaried sector rises. By contrast, the share of entrepreneurs with at least one employee increases with the level of development, consistent with the increasing density of these types of entrepreneurs contributing to the increase in output per worker. But even these entrepreneurs are lagging in key capabilities. By one measure correlated with growing firms—whether they were registered at the time they start up—LAC falls substantially below East Asia and Europe in density. Comparing the current density of employers to those when the advanced economies were at LAC’s level of income also reveals a substantial shortfall, as do direct surveys of management quality, investments in tech sectors, and innovativeness. Finally, the density of larger “*tecnolatinas*”—technology-based private companies born in LAC and owned by founders from the region—while growing, lags other regions in value

added contributed. Though this suggests that LAC has a shortfall in transformational entrepreneurship, this does not seem to be the result of a lack of enthusiasm—LAC has a higher share of its tertiary graduates in entrepreneurship than the United States; however, the region has many fewer tertiary graduates, and even fewer in careers involving STEM (science, technology, engineering, and mathematics) fields, so the pipeline of technically able entrepreneurs remains insufficient.

This diagnosis points most clearly to the need to improve the overall quality of education across the spectrum to increase the pool of individuals with the basic ability to run a modern business. However, improving technical capabilities to grasp the promise of new technologies, as well as the managerial capabilities to experiment and place the necessary “bets,” require generating more and higher quality STEM graduates, as well as graduates of specialized programs such as entrepreneurship curriculums in universities or managerial extension programs. Incubator-type programs that offer mentoring and support to fledgling entrepreneurs also help would-be transformational entrepreneurs make the leap from academic ideas to market.

Constraints on Transformational Entrepreneurship

However, even the region’s best prepared entrepreneurs face constraints that can hinder their growth and job creation. These factors include anticompetitive forces protecting incumbents; poor physical infrastructure; some of the highest corporate taxes globally; and innovation subsidies that favor established firms over newcomers, among others. Chapter 2 focuses on two particularly binding constraints. The first is shallow financial markets. Over a quarter of firms in LAC report

being financially constrained (more than twice the rate of firms in the OECD and the United States). The second is difficulties in hiring qualified workers, affecting firms of all sizes, but especially larger firms. These two constraints appear to be widespread. In Chile, more than 70 percent of firms report being constrained by either financing, human capital, or both. Financial limitations persist across firm sizes, while the challenge of hiring qualified workers increases with size.

Shallow financial markets make it difficult for entrepreneurs to secure the funding required to scale their businesses, as well as diversifying risk. LAC could strengthen its financial markets by enhancing the efficiency of court systems to reduce the costs of enforcing contracts, improving bankruptcy laws to protect entrepreneurs and creditors, and adopting best practices in financial reporting and creditors’ rights.

The limited availability of qualified workers constrains entrepreneurs from recruiting and retaining talent. Here, LAC needs to address two main challenges: increasing the stock of qualified workers, and rationalizing labor market regulations. This involves improving education, enhancing short-cycle higher education programs to quickly provide valuable skills, and redesigning long-established and expensive training programs. Additionally, labor market regulations need to be designed carefully to avoid increasing hiring costs, which can reduce employment opportunities.

Entrepreneurs are key actors in solving LAC’s slow growth puzzle and creating better and more jobs. Increasing their number, and their tools to create, while improving the environment in which they work, merits being high on the policy agenda.

Growth Outlook for the Region

Real GDP Growth Rates

	2022	2023	2024	2025e	2026f	2027f
Argentina	6.0	-1.9	-1.3	4.6	4.0	4.0
Bahamas	10.9	3.0	3.4	2.3	2.1	1.8
Barbados	17.8	4.1	4.0	2.7	2.0	2.0
Belize	9.3	0.5	3.5	1.5	2.4	2.2
Bolivia	3.6	3.1	0.7	-0.5	-1.1	-1.5
Brazil	3.0	3.2	3.4	2.4	2.2	2.3
Chile	2.2	0.5	2.6	2.6	2.2	2.1
Colombia	7.3	0.7	1.6	2.4	2.7	2.9
Costa Rica	4.6	5.1	4.3	3.6	3.6	3.7
Dominica	10.4	3.7	2.1	3.1	3.0	2.9
Dominican Republic	5.2	2.2	5.0	3.0	4.3	4.5
Ecuador	5.9	2.0	-2.0	2.3	2.5	2.5
El Salvador	2.9	3.5	2.6	2.5	2.5	3.0
Grenada	7.3	4.5	3.7	3.8	3.3	2.7
Guatemala	4.2	3.5	3.7	3.9	3.7	3.7
Guyana	63.3	33.8	43.6	11.8	22.4	24.0
Haiti	-1.7	-1.9	-4.2	-2.0	2.0	2.5
Honduras	4.1	3.6	3.6	3.5	3.4	3.7
Jamaica	6.4	2.7	-0.5	2.0	1.6	1.5
Mexico	3.7	3.4	1.4	0.5	1.4	1.9
Nicaragua	3.6	4.4	3.6	3.1	3.0	3.0
Panama	10.8	7.4	2.9	3.9	4.1	4.1
Paraguay	0.2	5.0	4.2	4.2	3.7	3.7
Peru	2.8	-0.4	3.3	3.0	2.5	2.5
St. Lucia	20.4	2.2	3.9	2.6	2.5	2.1
St. Vincent & the Grenadines	3.1	5.3	4.1	4.0	2.9	2.7
Suriname	2.4	2.5	2.8	3.2	3.4	3.7
Trinidad and Tobago	0.9	1.5	2.5	1.4	0.3	2.5
Uruguay	4.5	0.7	3.1	2.3	2.2	2.2

Source: World Bank staff calculations.

Note: The cut-off date for the data is September 25, 2025. "e" stands for estimate; "f" for forecast.



Chapter 1

The State of the LAC Region

Economic Activity: Growth Remains Sluggish

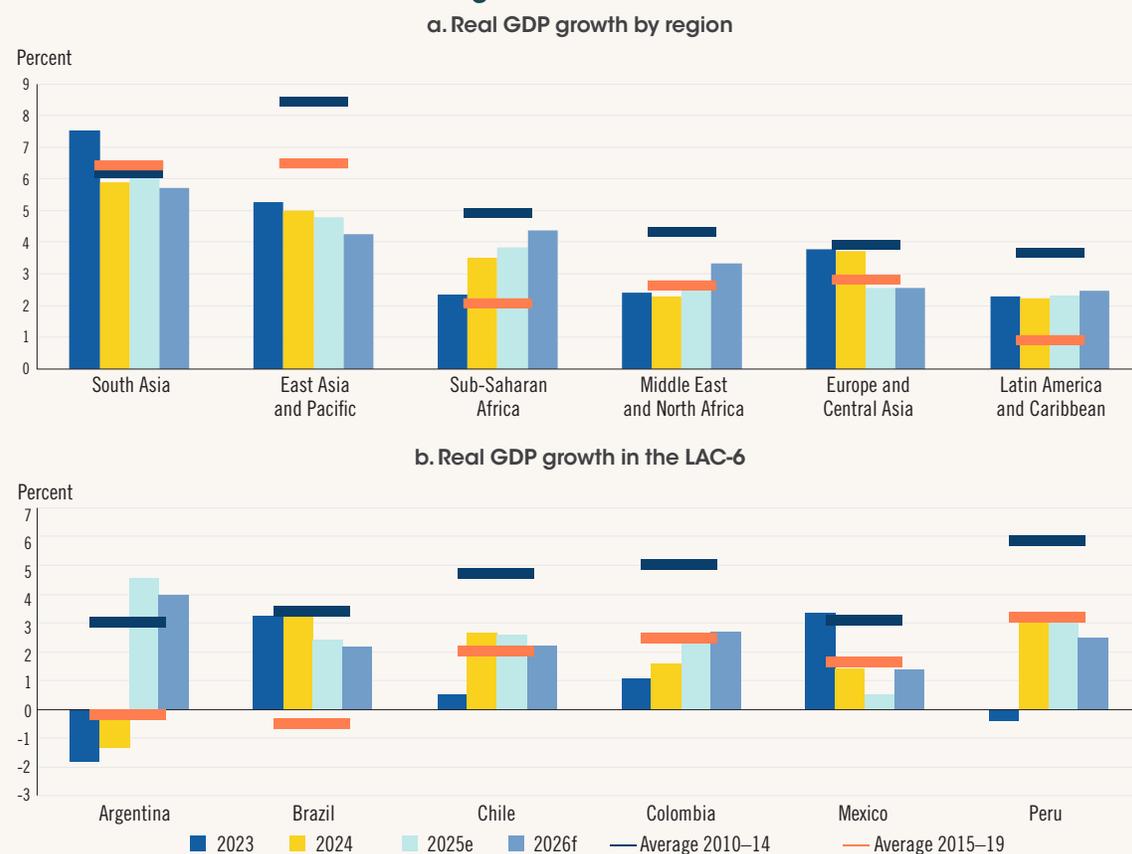
Although the regional growth rate for Latin America and the Caribbean (LAC) is expected to edge up slightly from 2.2 percent in 2024 to 2.3 percent in 2025, this marginal improvement conceals downward revisions in growth projections for many economies across the region (refer to figure 1.1, panels a and b). The region's growth trajectory continues to be shaped by persistent structural challenges and a more constrained global environment, leaving LAC once again among the world's slower-growing regions.

Argentina is undergoing a notable economic rebound in 2025, standing out in the region after two consecutive years of contraction (refer to figure 1.1, panel b). The range of growth forecasts for 2025 among analysts has narrowed (figure 1.2), indicating reduced uncertainty compared to previous years and the early phase of the current Argentinian administration. The rebound is being driven primarily by a recovery in agricultural exports following the severe 2023 drought. Early signs of improvement in private consumption and investment are also evident, supported by the initial implementation of the government's stabilization plan, which has coincided with lower inflation and a fiscal surplus. These developments have contributed to improved macroeconomic indicators. Colombia is also projected to show stronger performance than in 2024, supported by recovering private consumption and investment as inflation moderates (refer to figure 1.1, panel b).

Conversely, Mexico's growth forecast is expected to slow in 2025, as the impetus from major public infrastructure projects fully wanes and escalating trade restrictions, particularly new U.S. tariffs, begin to weigh on external demand. Brazil's growth is also projected to decelerate, with restrictive monetary policies and limited fiscal support weighing on investment and consumer spending. The remaining large LAC economies—Chile and Peru—are anticipated to see moderate expansion, with Chile benefiting from a strengthening of private consumption alongside its mining exports, and Peru from mining investments, though overall consumption growth may temper.

Figure 1.1.

LAC's Growth Remains Below Other Regions



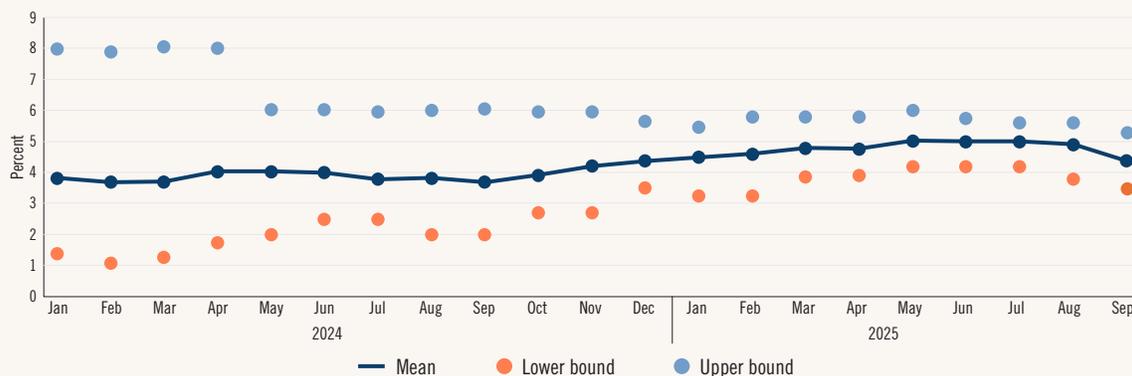
Source: World Bank Macro-Poverty Outlook (Annual Meetings 2025).

Note: The values for 2025 are based on projections (as of September 25, 2025). In panel b, the LAC-6 includes Argentina, Brazil, Chile, Colombia, Mexico, and Peru. e = estimate; f = forecast; GDP = gross domestic product; LAC = Latin America and the Caribbean.

Figure 1.2.

Expectations Are Stabilizing in Argentina

Argentina: Evolution of 2025 GDP growth forecasts



Source: Consensus Forecasts.

Note: GDP = gross domestic product.

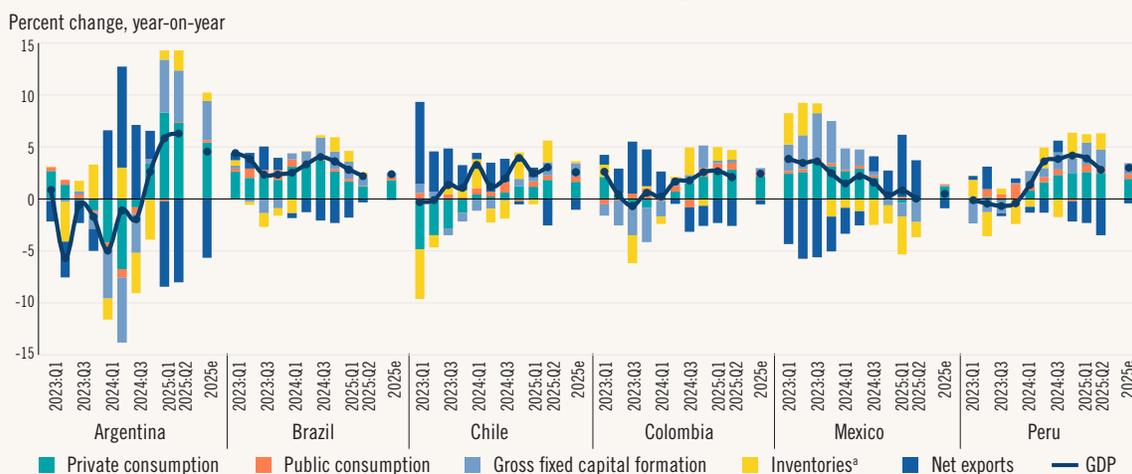
LAC’s meager growth performance relative to other world regions points to deeply rooted structural impediments within LAC, including long-standing institutional weaknesses, an often excessively complex and nonentrepreneurial regulatory environment, lags in infrastructure, and critical deficits in human capital development. A recent World Bank publication, *Reclaiming the Lost Century of Growth: Building Learning Economies in Latin America and the Caribbean*,¹ argues in particular that a deeply rooted inability to “learn how to learn” about new technologies and opportunities has led to a lost century of growth (refer to box 1.1), while a new World Bank volume, *From Resource Rich to Resource Smart*,² argues that remedying this will be critical for the region to take advantage of the energy transition (refer to box 1.2).

Private consumption is generally projected to remain the primary engine of aggregate demand across LAC in 2025, buoyed by moderating, though persistent, inflationary pressures and resilient labor markets (refer to figure 1.3). However, the region continues to grapple with subdued investment, which largely constrains overall dynamism. Despite some central

Figure 1.3.

Growth in Most LAC-6 Countries Is Being Led by Consumption

Contributions to real GDP growth



Sources: Haver Analytics; Banco Central de Chile; World Bank Macro-Poverty Outlook (Annual Meetings 2025); World Bank staff calculations.

Note: The values for 2025 are based on projections (as of September 25, 2025). e = estimate; GDP = gross domestic product; LAC = Latin America and the Caribbean. a. Inventories include statistical discrepancies.

1 Maloney, Cirera, and Ferreyra (2025).
2 Beylis and Lozano Gracia (2025).

Box 1.1.

LAC's Lost Century of Growth: Learning to Learn about Technological Opportunity

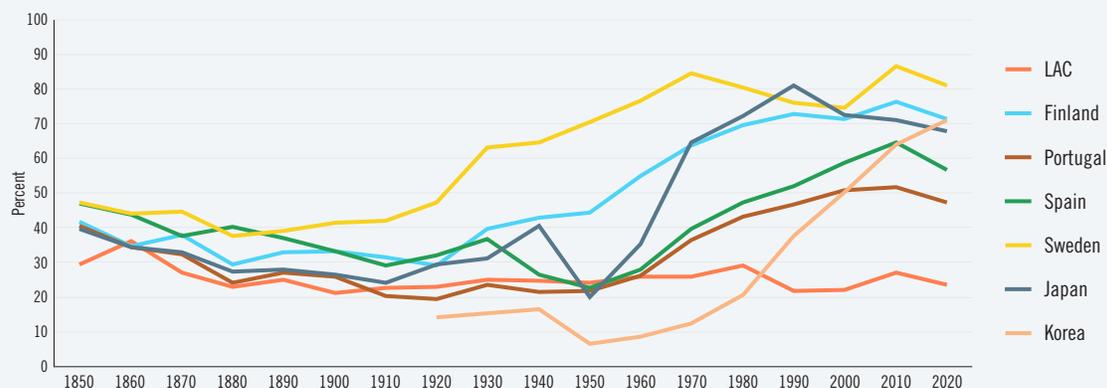
The recently launched World Bank flagship Reclaiming the Lost Century of Growth: Building Learning Economies in Latin America and the Caribbean argues that the region's low growth rates date from the second industrial revolution more than a century ago (refer to figure B1.1.1), and hence require a correspondingly long-term strategy to improve.^a The roots lie in lags in “learning how to learn” about how to best exploit new technological opportunities.

Development is fundamentally a process of placing informed bets on new processes, products, or industries. Latin America and the Caribbean (LAC) has been less effective in pursuing experimentation—the processes of identifying, adapting, implementing, and often failing—with technologies ranging from steamships to digital technologies. This has historically led to retrogression in established industries like mining, steel, and textiles; an inability to enter new industries; and more profoundly, to a long-term divergence from countries that had similar or lower income levels a century ago, leaving the region trapped in a persistent pattern of low productivity growth and under-diversification. Even today, leading Latin American economies such as Brazil and Chile lag in adopting new technologies, according to detailed data from the World Bank Firm Adoption of Technology Surveys (refer to figure B1.1.2), among others.

Figure B1.1.1.

LAC Has Underperformed Other Regions for More than a Century

LAC region's income versus European and Asian comparators relative to the United States, 1850–2020



Source: Maloney, Cirera, and Ferreyra 2025.

Note: Income refers to gross domestic product per capita. Korea refers to the historical Korea until 1948, and the Republic of Korea after that. LAC = Latin America and the Caribbean.

While the potential returns to innovation can be exceptionally high—especially for countries far from the global technological frontier—, LAC faces barriers such as limited access to credit, skilled labor shortages, and a weak enabling environment, all of which reduce the expected returns on innovation and limit incentives to invest.^b

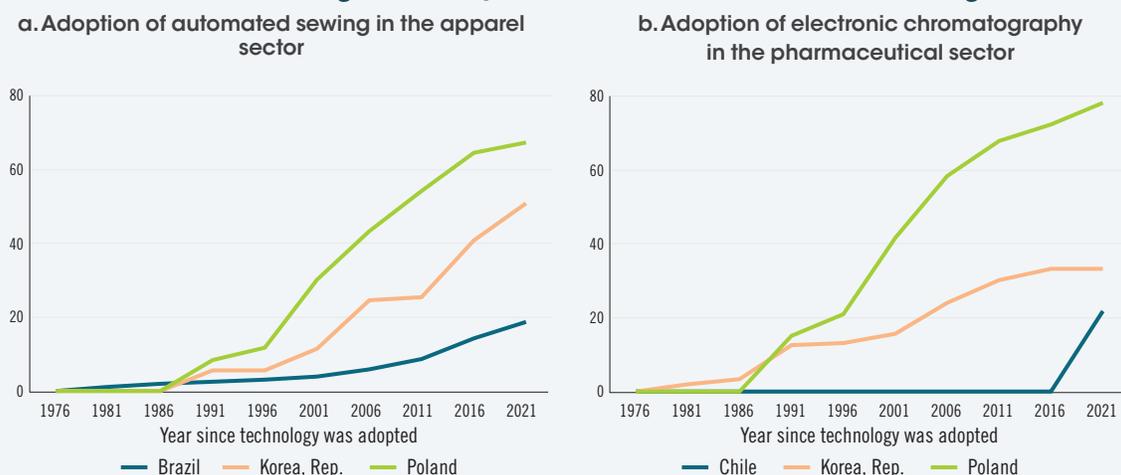
Building the capacity to identify, adapt, and implement new technologies is critical to growth and economic transformation (and any industrial policies with that purpose in mind); to harnessing the opportunities of the energy transition and the accelerating adoption of artificial intelligence (AI); and to navigating the evolving global trade landscape.

To begin, LAC needs to undertake the reforms to raise educational quality and capabilities across the spectrum. This is the well from which future entrepreneurs and scientists are drawn, yet the region lags fatally. As an example, the scores on the worldwide evaluation of educational systems, the Programme for International Student Assessment (PISA), of the richest quintile of families in Argentina are below those of the poorest quintile in Viet Nam, a country with half the income, but a prime competitor for foreign direct investment (FDI). LAC generates relatively few graduates in STEM fields (science, technology, engineering, and mathematics) and the region's entrepreneurs lag in the quality of management practices. These shortfalls impede the identification and adoption of new technologies.

Box 1.1. LAC's Lost Century of Growth: Learning to Learn about Technological Opportunity (continuation)

Figure B1.1.2.

Latin American Countries Lag in the Adoption of Advanced Production Technologies



Source: Maloney, Cirera, and Ferreyra 2025, based on calculations from the World Bank Firm-level Adoption of Technology survey.

Note: Panel a: Advanced technology refers to the cumulative percentage of firms using semi-automated, automated, or 3D knitting machines for sewing in the apparel sector. Panel b: Advanced technology refers to the cumulative percentage of firms using electronic chromatography with or without data acquisition for quality control in the pharmaceutical sector.

The enabling environment within which this talent operates needs to be strengthened. The usual market-friendly reforms remain essential; the institutions for financing and diversifying risk need to be deepened; and barriers to entry and competition reduced. LAC's nonmarket institutions also need to be strengthened. The region's universities are relatively lacking in innovation and tie with Sub-Saharan Africa for their low levels of coordination with the private sector. Further, their role as incubators and supporters of innovative enterprises that would arbitrage technological differentials remain nascent. Reforms on all these fronts are urgent if LAC's current century will be more dynamic in terms of growth and job creation than its last.

Notes

a. Beylis and Lozano Gracia (2025).

b. Cirera and Maloney (2017); Goñi and Maloney (2017).

Box 1.2.

Jobs and Growth Opportunities for LAC in the Energy Transition

The transition to a lower-carbon global economy opens a window of opportunity for dynamic growth and job creation in Latin America and the Caribbean (LAC). Moving toward a net zero economy requires new products, energy sources, markets, and production processes. A recent World Bank report, *From Resource Rich to Resource Smart: Opportunities for Latin America and the Caribbean in the Energy Transition*, argues that the region is well positioned to take advantage of changing consumer demands and advancing technology.⁹ Enormous potential in generating additional renewable energy, on top of an electricity matrix that is already considerably cleaner than those in other regions, boost the potential for attracting energy-intensive industries, (a practice known as greenshoring). LAC boasts not only nearly one-quarter of the world's standing forest but also ample renewable freshwater resources and fertile land, which are critical for both global decarbonization goals and regional economic growth. Furthermore, the energy transition depends heavily on mineral resources, such as lithium and copper, which the region has in abundance.

But such bountiful natural wealth is no quick or certain guarantee of development. To capitalize on the region's competitive advantages, its governments must develop a comprehensive set of policies that transform the region's legacy resource-driven model into one driven by resource and environmental efficiency and greater productive and innovation capabilities. It will require far-reaching reforms and strategic interventions—what some have called “green industrial policies.” The report proposes a policy framework based on three I's: Institutions, Investments, and Innovation.

Box 1.2. Jobs and Growth Opportunities for LAC in the Energy Transition (continuation)

In the new economy, solid institutions are crucial for addressing market failures and the inefficient allocation of resources. Externalities must be addressed through the establishment of clear property rights and strong regulatory frameworks. Legal frameworks should establish economic penalties that reflect the value of natural capital and ecosystem services. Effective monitoring and enforcement technologies and services help deter misbehavior. Governments can also shape incentives by designing subsidies and taxes that align private and social values.

Complementary investments in infrastructure and other productive public goods help raise the productivity of nascent markets. Markets are still incomplete and imperfect, and the social benefits of developing them will not be incorporated into private decisions. Complementary public goods could also reduce informational asymmetries and coordination failures by strengthening linkages between actors in a particular sector.

Currently, LAC underperforms in both innovation efforts and outcomes, even considering the region's income level. But with the right enabling environment and a capacity to quickly adopt, adapt, invent, and diffuse emerging technologies, LAC's economies could get the chance to leapfrog ahead of other developed countries. That result requires building a green National Innovation System (NIS) that promotes interaction among all those involved in the development, distribution, and application of new technologies, including governments, the private sector, public research institutes, and universities. An effective NIS can help firms improve the allocation of resources by developing new production processes and technologies that can expand production while also reducing the environmental impact. Crucially, a strong NIS is essential to opening new markets.

LAC has long been a region of great promise, yet lasting prosperity has remained elusive. As a new window of opportunity for the region to advance presents itself in the form of the energy transition—perhaps the region's best chance yet given its unparalleled natural resources—it must not rely solely on the richness of its resources but it must learn how to leverage them effectively, focusing on efficiency and investing in developing its productive and innovative capabilities.

Notes

a. Beylis and Lozano Gracia (2025).

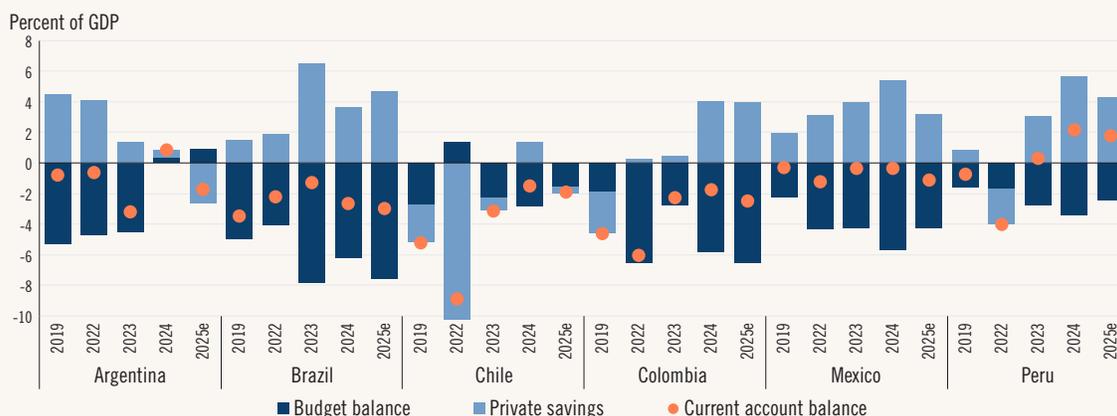
banks easing monetary policy, high real interest rates coupled with lingering uncertainty—both global and domestic—are deferring significant private capital formation. While Argentina's rebound is prominently driven by agricultural exports and a nascent recovery in domestic demand (in consumption and investment), and Chile is benefitting from strengthening private consumption alongside robust mining exports, fading public investment in Mexico combined with new U.S. tariffs present a significant drag on its external sector. For Brazil, the moderation in growth is attributed to restrictive monetary policies and limited fiscal support weighing on domestic components. The remaining large economies are seeing some support from certain sectors, such as mining investments for Peru, though consumption growth may temper.

Fiscal deficits persist, yet weakening domestic demand and subdued economic growth—particularly emerging in 2025—are now weighing on private savings. This erosion in savings is beginning to undermine external positions in several economies, signaling a potential reversal of earlier gains (refer to figure 1.4).

Entering the second half of 2025, both consumer and business confidence have improved modestly in several LAC economies since April, signaling a rebound from earlier uncertainty (refer to figure 1.5). Households' expectations are gaining further ground, supported by resilient labor markets, tentatively translating into stronger private consumption growth in some countries. While business confidence has also shown a cautious uptick, overall investment rates across the region remain largely subdued. This persistent pattern underscores that low investment is not merely cyclical but rather reflects deep-seated structural and institutional fundamentals within LAC, which continue to deter more robust capital formation.

Figure 1.4.

As Budget Deficits Remain, Fragile Growth Weighs on External Balances



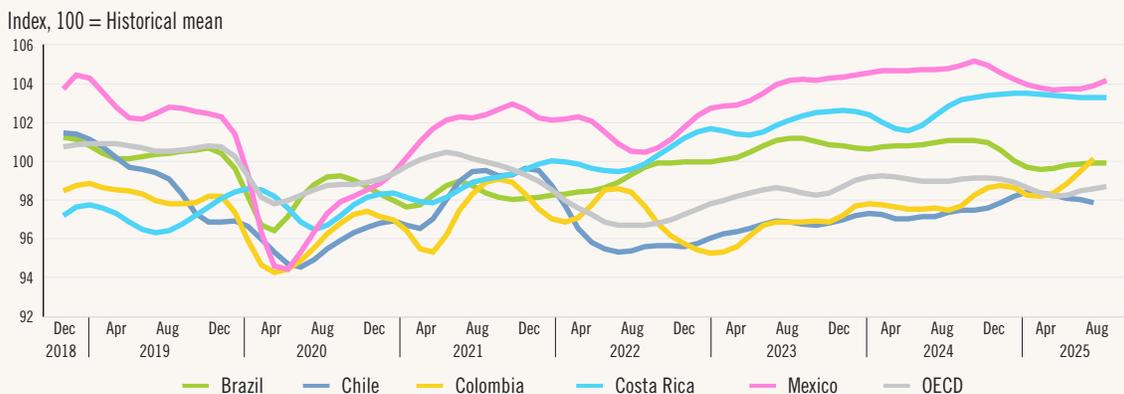
Source: World Bank Macro-Poverty Outlook (Annual Meetings 2025).

Note: The values for 2025 are based on projections (as of September 25, 2025). e = estimate; GDP = gross domestic product.

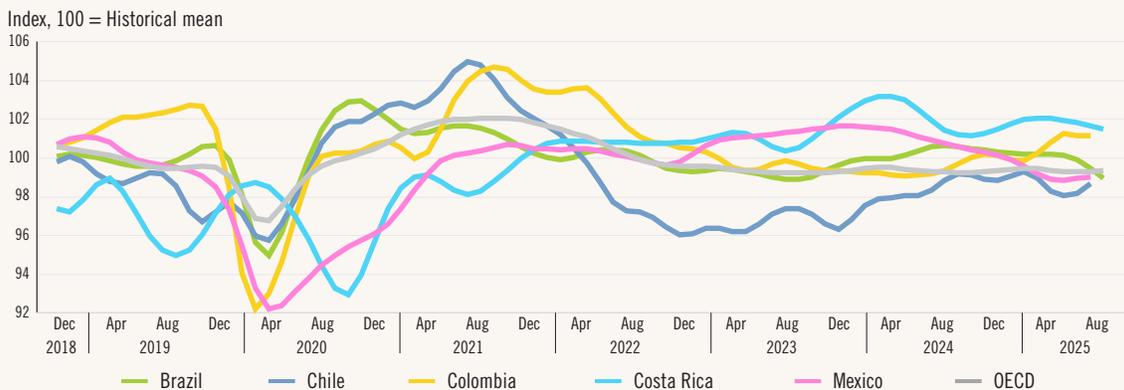
Figure 1.5.

Consumer Confidence Is Improving, While Business Sentiment Remains Cautious

a. Consumer confidence index



b. Business confidence index



Sources: For panel a, OECD (Consumer Confidence Index, CCI) (indicator) (doi: 10.1787/46434d78-en). For panel b, OECD Business Confidence Index (BCI) (indicator) (doi: 10.1787/3092dc4f-en).

Note: OECD = Organisation for Economic Co-operation and Development.

External Environment: External Headwinds and Uncertainty Remain Challenging

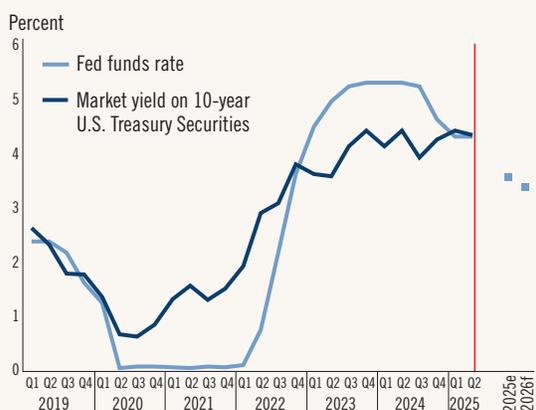
After a period of easing, the Federal Funds Rate (FFR) has remained mostly stable since the beginning of 2025. A 0.25 percentage point decrease took place in September (refer to figure 1.6, panel a). This modest adjustment reflects the U.S. Federal Reserve's balancing act between slowing economic activity and inflationary pressures. In parallel, central banks in Europe and the United Kingdom have kept their interest rates unchanged, and local LAC authorities remain constrained in further lowering policy rates due to the risk of capital outflows.

For LAC economies, this recalibration of global monetary policy translates into potentially tighter external financial conditions. Persistently high interest rates would likely keep borrowing costs elevated for LAC governments and corporations, and would maintain pressure on capital flows as investors continue to favor higher yields in the United States. In response, LAC central banks may face a delicate balancing act, needing to weigh the imperative of maintaining price stability against supporting economic growth, potentially requiring them to adjust their own monetary policy stances or utilize other macroprudential tools to manage capital flows and safeguard financial stability.

Figure 1.6.

Expectations of Higher External Uncertainty Persist into 2025, Weighing on the LAC Outlook

a. Federal Funds Rate and real yield on 10-year US Treasury Note



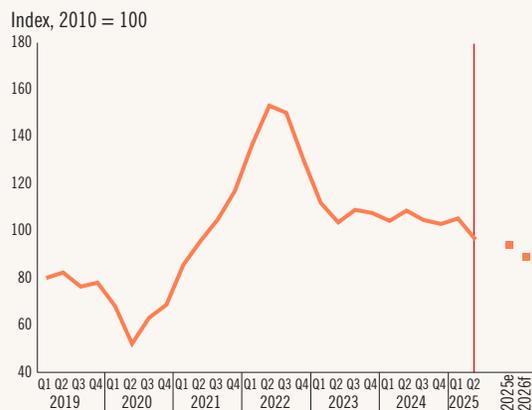
b. G-7 growth



c. China growth



d. Commodity prices



Source: For panel a, U.S. Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis and U.S. Federal Open Market Committee; for panel b, Organisation for Economic Co-operation and Development (OECD) Quarterly GDP (indicator) (doi: 10.1787/b86d1fc8-en) and Consensus Forecasts; for panel c, National Bureau of Statistics of China and World Bank; for panel d, World Bank Commodity Prices (Pink Sheets) (<https://www.worldbank.org/en/research/commodity-markets>).

Note: f = forecast; G-7 = Group of Seven; LAC = Latin America and the Caribbean.

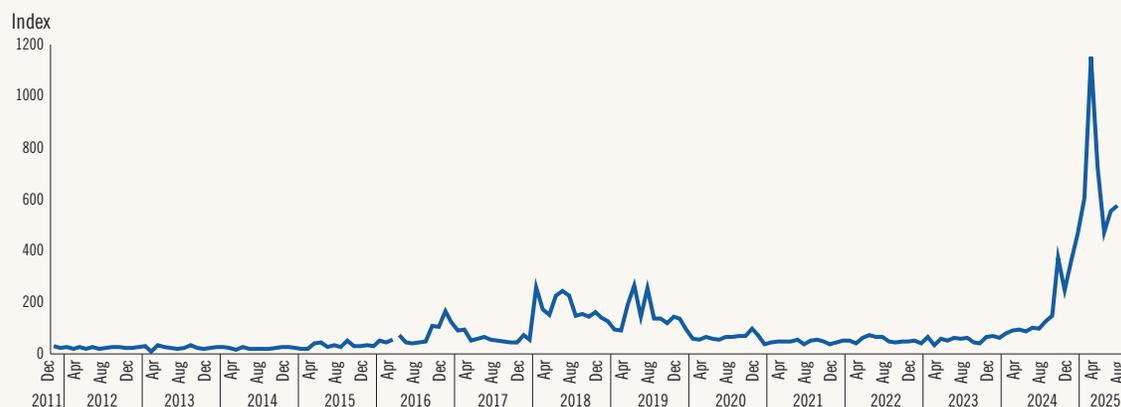
The global growth outlook has been persistently revised downward throughout 2025, largely due to intensifying trade tensions and elevated policy uncertainty. Major advanced economies, particularly the Group of Seven (G-7), are experiencing slower momentum than previously anticipated (refer to figure 1.6, panel b). The United States has seen its growth projections for 2025 reduced, now projected at about 1.7 percent (from 2.8 percent in 2024) and then 1.8 percent in 2026.³ Similarly, the euro area's modest recovery is facing new headwinds, with growth projected at a subdued 1.1 percent in 2025 (from 0.9 percent in 2024) and 0.9 percent in 2026. China's economic outlook has been subject to downward revisions for 2025 and 2026, signaling a moderation in its growth trajectory. After expanding by 5.0 percent in 2024, China's growth is now projected to decelerate to 4.8 percent in 2025 and further to 4.2 percent in 2026 (refer to figure 1.6, panel c).

The broader weakness in global demand and the deceleration in major economies like China are directly translating into significant downward pressure on global commodity prices. Following a period of volatility, global commodity prices are now expected to slide approximately 10 percent in 2025 and an additional 5 percent in 2026, falling to levels not seen since 2021 (refer to figure 1.6, panel d). This anticipated decline encompasses energy, metals, and agricultural commodities, reflecting reduced industrial demand and, in some cases, improved supply conditions. For commodity-exporting LAC economies, this constitutes a substantial external shock. It will lead to lower export revenues, tighter fiscal spaces, and a potential narrowing of current account surpluses or widening of deficits. This trend poses a significant challenge to the fiscal health and growth prospects of many countries in the region that rely heavily on commodity exports for income and foreign exchange.

Figure 1.7.

Trade Policy Uncertainty Remains High

Trade policy uncertainty index, January 2012—August 2025



Source: Caldara et al. 2020.

Note: The index represents the proportion of news articles that contain references to trade policy uncertainty (TPU). A value of 100 in the index corresponds to 1 percent of articles mentioning trade policy uncertainty.

Even as some of the immediate spikes in the global trade policy uncertainty index have eased from their April 2025 peak, uncertainty remains elevated by historical standards (refer to figure 1.7). This persistent volatility—driven by ongoing geopolitical tensions and the possibility of new restrictions, including tariffs and non-tariff barriers—continues to cloud the global trade outlook. Interestingly, export volumes in LAC economies have remained resilient, even as firms contend with elevated costs, disrupted supply chains, delayed investment decisions, and constrained monetary policy space amid persistent global interest rate pressures and weakening external demand (refer to figure 1.8). The recent stall in negotiations over the EU-Mercosur agreement underscores how political dynamics in key partner countries can derail regional trade prospects and reinforce uncertainty.⁴ In this context, the upcoming review of the United States-Mexico-Canada Agreement (USMCA) in 2026 emerges as a pivotal moment for North American trade relations, with early signals suggesting both strategic opportunities and negotiation challenges that could shape investor sentiment and regional integration dynamics.

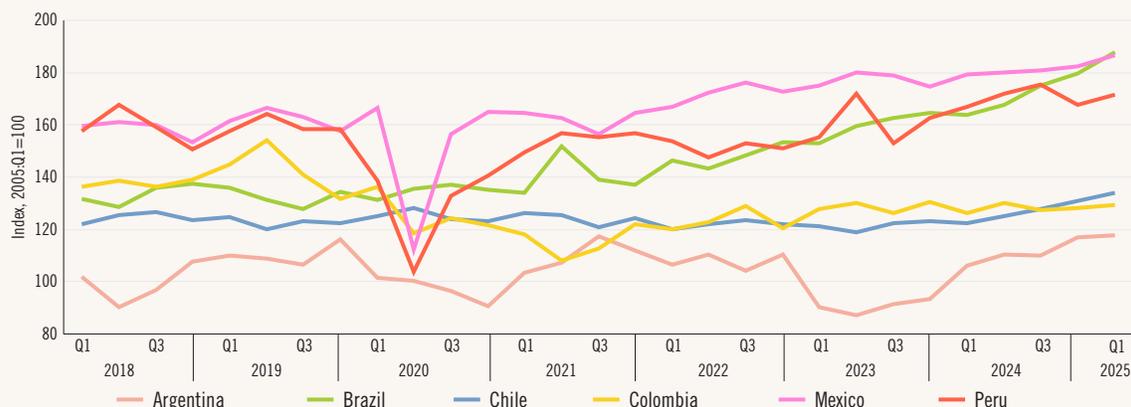
³ World Bank.

⁴ Malingre (2025).

Figure 1.8.

LAC's Export Volumes Show Resilience against Global Uncertainty

Export of goods, volume index, seasonally adjusted



Source: United Nations Conference on Trade and Development (UNCTAD).

Note: LAC = Latin America and the Caribbean.

For LAC economies, this triple blow of restrained global financial conditions, decelerating external demand, and falling commodity prices, compounded by persistent trade policy uncertainty, creates a particularly challenging environment for policymaking aimed at fostering economic recovery and long-term development.

Inflation's Sticky "Last Mile": External Headwinds Complicate Disinflation

After the decisive response of monetary authorities and the normalization in global supply chains, inflation has receded significantly throughout the region from its peak in 2022. However, during 2024, the disinflation process slowed as core inflation remained high, largely due to increased labor costs affecting the prices of services and rising international food prices (refer to figure 1.9). Notably, Argentina stands as a distinct outlier in this narrative, embarking on a strong disinflation path from close to hyperinflationary levels not seen since the 1980s—a process that is underway.

Figure 1.9.

Inflation's Sticky "Last Mile"

Annual headline inflation (percent, year-on-year)

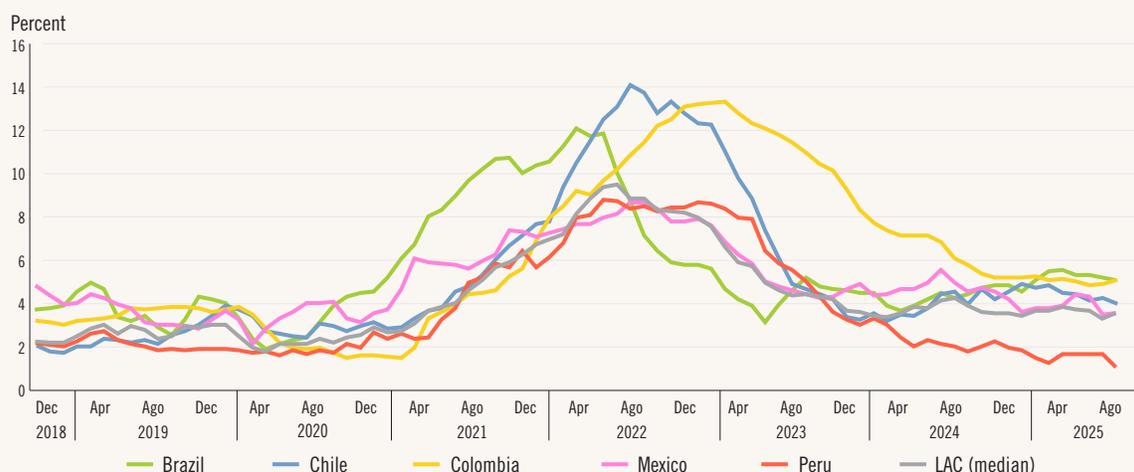
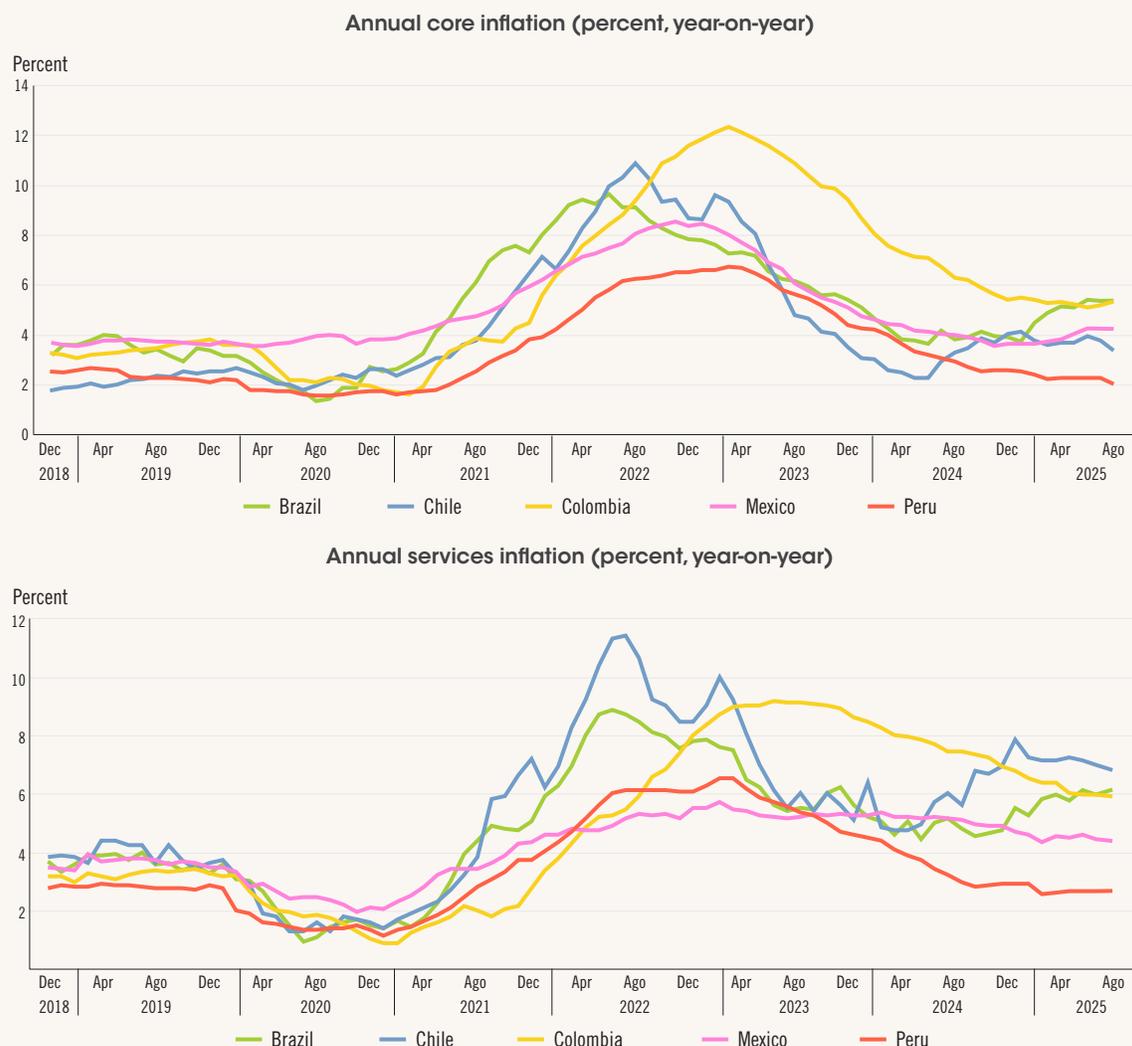


Figure 1.9. Inflation's Sticky "Last Mile" (continuation)



Source: World Bank Macro-Poverty Outlook (Annual Meetings 2025).

Note: LAC = Latin America and the Caribbean. LAC (median) includes Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, and Uruguay.

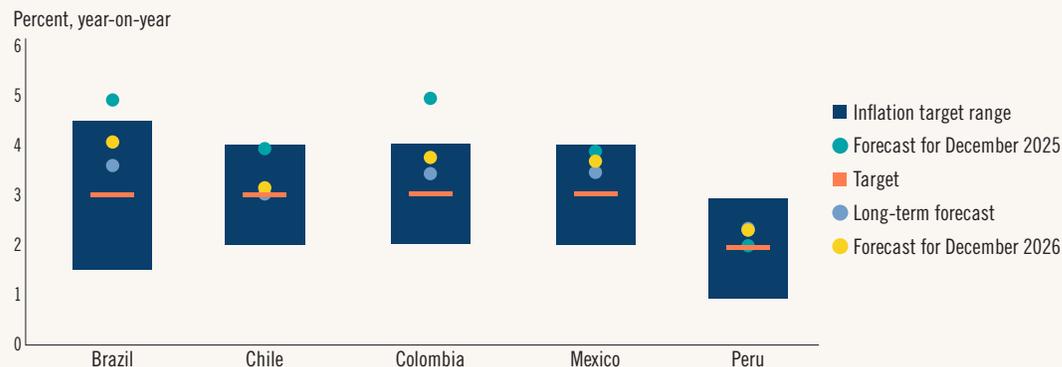
This downward resistance in the disinflation process has become more pronounced in LAC since the first quarter of 2025, with some economies even showing nascent signs of an uptick in inflation rates. This complicates the monetary policy landscape for the region. While headline inflation has broadly continued its moderating trend, albeit at a slower pace, core inflation has proven stubbornly sticky across many economies. This is largely driven by persistent pressures from the services sector, where prices are more directly influenced by domestic demand and, crucially, by the ongoing pass-through of past wage increases. The tightness in some labor markets within the region continues to translate into higher labor costs, making service price inflation particularly resilient.

In 2025, global conditions are not helping inflationary pressures to recede, adding complexity to the policy landscape in LAC. Adjustments in global monetary policy are influencing exchange rates and borrowing costs, with potential spillovers into domestic prices. Although global commodity prices are projected to decline, the immediate impact on LAC's domestic inflation, particularly in commodity importers, will not always be swift or uniform, especially if certain energy or food categories experience volatility or if the pass-through from international to domestic prices is incomplete or lagged.

Figure 1.10.

Inflation Expectations Remain Anchored

Inflation forecasts and central banks targets



Source: Consensus Forecasts.

Note: The survey date was September 2025 for the December 2025 and December 2026 forecasts, and July 2025 for the long-term forecasts. Long-term forecasts are period averages at the 6- to 10-year horizon.

Despite these challenges and the difficulty monetary policy in LAC is having with this “last mile” of disinflation, the latest inflation forecasts for 2025 (consistent with April 2025 projections) suggest that most countries in the region are still expected to see their inflation rates converge within or close to central bank target bands by late 2025 or 2026 (refer to figure 1.10). This reflects a continued commitment to price stability and a cautious, agile approach by central banks, but underscores the delicate balancing act required to manage both domestic cost pressures and evolving external shocks while attempting to support economic growth (refer to figure 1.11).

The major currencies of the region depreciated against the U.S. dollar during 2024, driven by global factors—such as the relative strength of the U.S. dollar—and domestic ones, including narrowing interest rate differentials due to monetary loosening (refer to figure 1.12).

This narrative has shifted in 2025. The slower decline in global interest rates, driven by rising inflation concerns, trade policy uncertainty, and a weakening U.S. dollar, have reversed the earlier dynamic: rather than holding back to preserve capital flows, LAC central banks are now pausing or reassessing easing cycles. While, in principle, further rate cuts and tolerance for currency depreciation remain options, many central banks are exercising caution to avoid reigniting inflation,

Figure 1.11.

Monetary Policy Has Slowly Loosened in the LAC-5, Except for Brazil

a. Monetary policy rates, January 2021 to September 2025, and projected (percent)

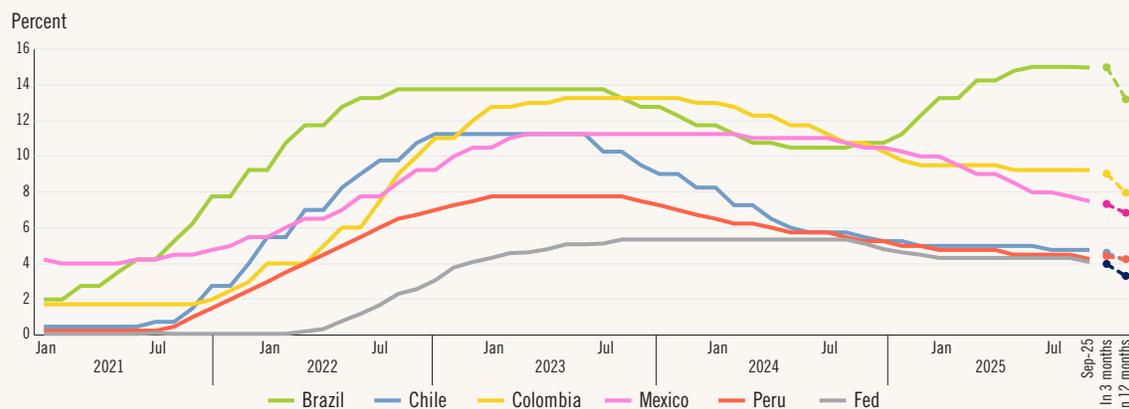
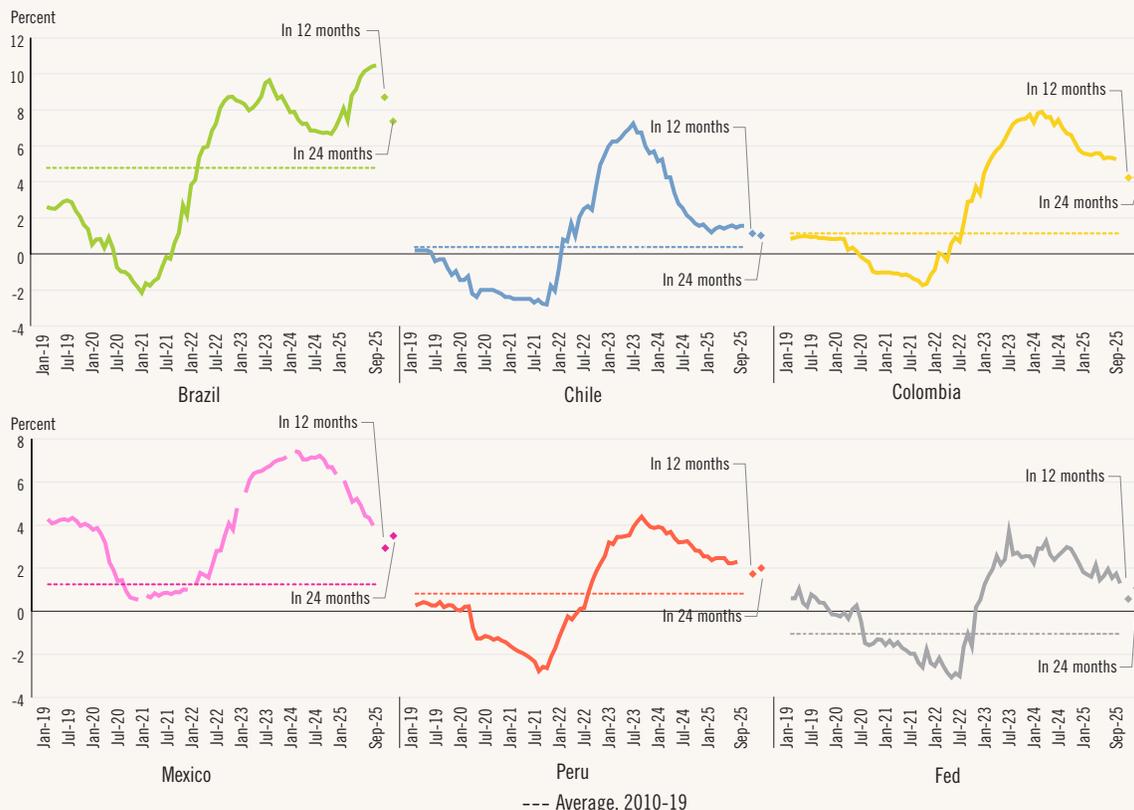


Figure 1.11. Monetary Policy Has Slowly Loosened in the LAC-5, Except for Brazil (continuation)

b. Real policy rates, January 2019 to September 2025, and projected (percent)



Sources: World Bank Macro-Poverty Outlook (Annual Meetings 2025); Consensus Forecasts; central banks databases.

Note: For panel b, real interest rates are calculated as the difference between the nominal monetary policy rate and the expected inflation rate for the next 12 months, based on data from central banks. For forecasted values, the same calculation is applied, using national central bank forecasts for the nominal policy rate. For inflation rates, the 12-month forecast uses expected inflation for 2026 from Consensus Forecasts, while the 24-month forecast uses the inflation target for each country. The series for Mexico contains breaks due to the unavailability of inflation expectations data in December of each year since 2020, based on data from Bank of Mexico. LAC-5 includes Brazil, Chile, Colombia, Mexico, and Peru. Fed = U.S. Federal Reserve.

Figure 1.12.

Major Currencies in the Region Have Appreciated Due to a Weak Dollar and End of Monetary Loosening

a. Exchange rates, January 2024–August 2025, local currency per U.S. dollar (USD)

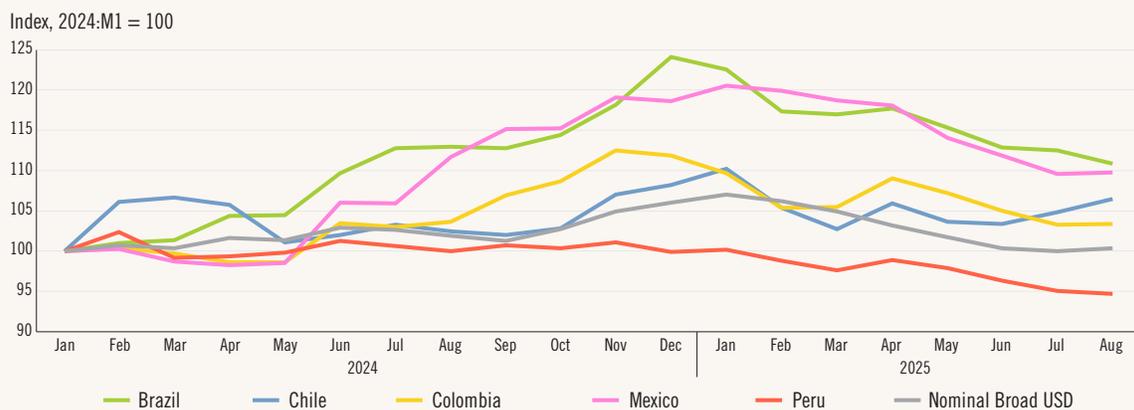
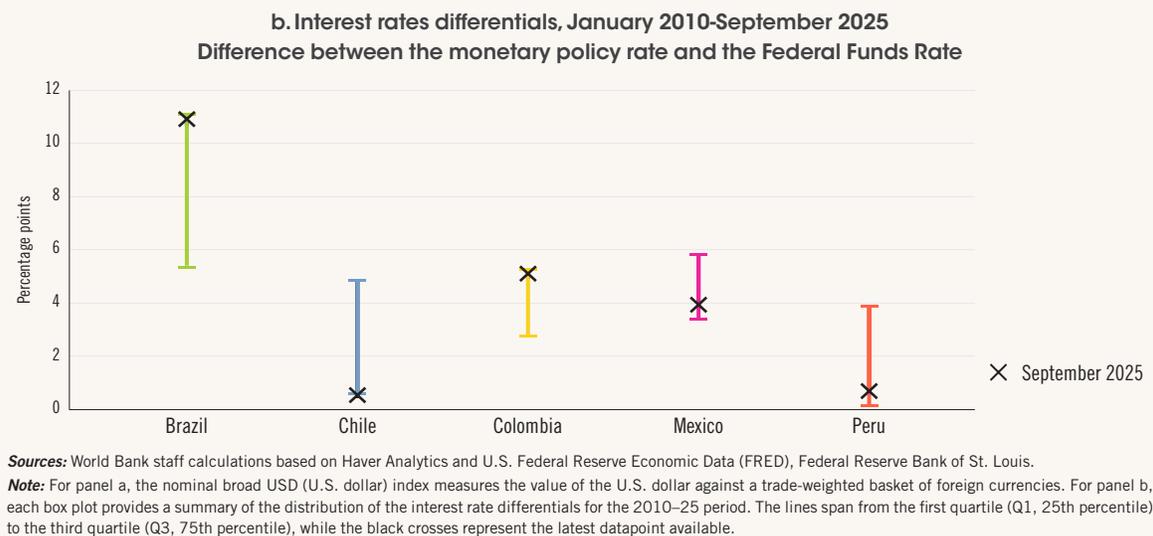


Figure 1.12. Major Currencies in the Region Have Appreciated Due to a Weak Dollar and End of Monetary Loosening (continuation)

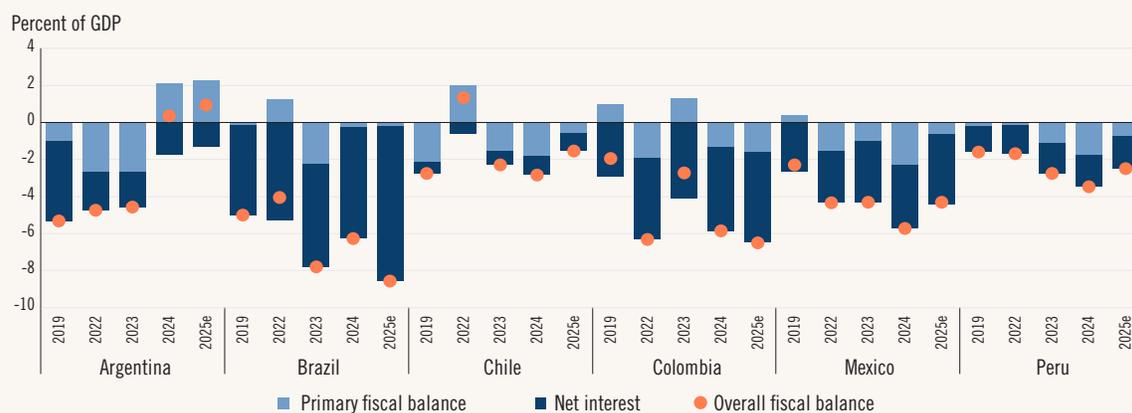


triggering capital flight, or undermining hard-won policy credibility. As of September-2025, interest rate differentials remain broadly in line with historical norms for Brazil and Colombia, but remain compressed for Chile, Mexico, and Peru, limiting monetary policy space in those economies (refer to figure 1.12, panel b).

Latin America’s Persistent Fiscal Challenges and Higher-for-Longer Rates

Fiscal deficits persist at stubbornly high levels across Latin America’s largest economies (refer to figure 1.13). Despite efforts to address primary deficits through measures like phasing out pandemic-era stimulus and proposed tax reforms, many nations struggle to achieve overall fiscal balance, primarily due to the growing burden of debt service. A distinct case amidst this regional trend is Argentina, which has made significant strides toward fiscal consolidation, achieving recent fiscal surpluses. While a widespread debt crisis akin to those of the 1980s and 1990s appears unlikely in the LAC region, elevated public debt levels impose considerable costs. For the LAC-6, debt service alone now consumes

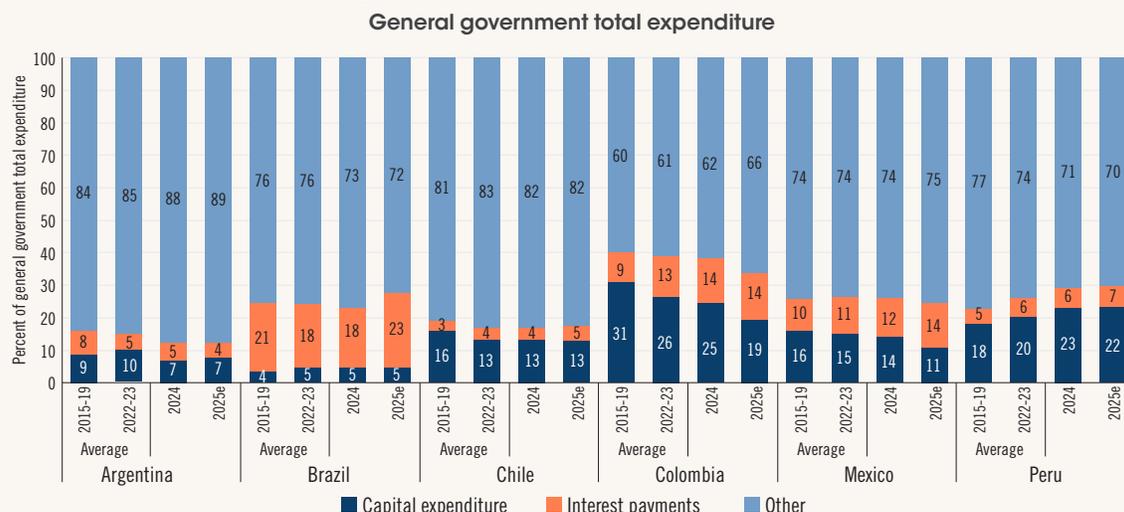
Figure 1.13. Fiscal Deficits Persist Amid Rising Interest Payments



Source: World Bank Macro-Poverty Outlook (Annual Meetings 2025).
Note: The values for 2025 are based on projections (as of September 25, 2025). e = estimate; GDP = gross domestic product.

Figure 1.14.

Debt Service Restricts Fiscal Space for Investment

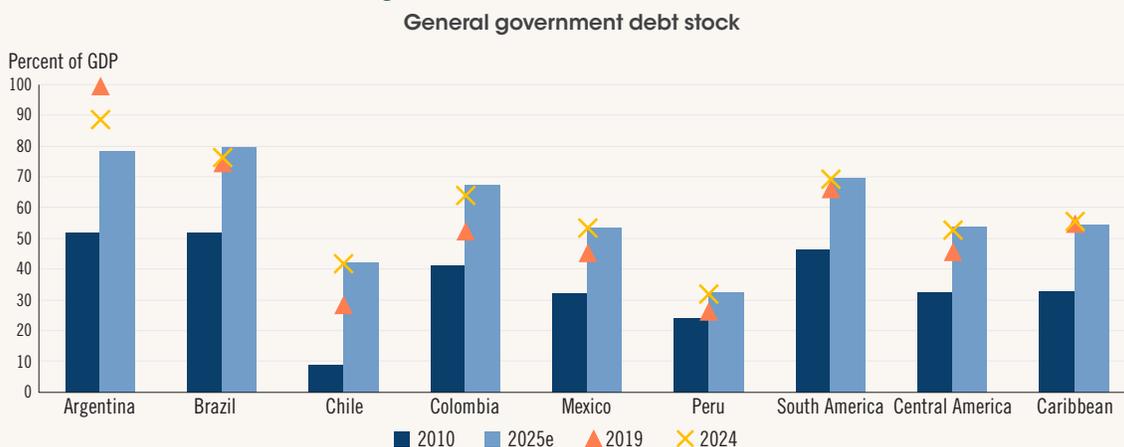


Source: World Bank Macro-Poverty Outlook (Annual Meetings 2025).

Note: The values for 2025 are based on projections (as of September 25, 2025). e = estimate; GDP = gross domestic product.

Figure 1.15.

Public Debt Has Stabilized at High Levels



Source: World Bank Macro-Poverty Outlook (Annual Meetings 2025).

Note: The values for 2025 are based on projections (as of September 25, 2025). e = estimate; GDP = gross domestic product.

11.1 percent of government spending on average, significantly crowding out crucial public investments in infrastructure and essential support for pension payments (refer to figure 1.14). For most countries, while debt-to-GDP ratios have stabilized in the period after the pandemic, they are not projected to revert to pre-pandemic levels without further fiscal consolidation (refer to figure 1.15).

This challenging fiscal landscape is further compounded by the region’s public spending habits, as highlighted in the World Bank report *Public Spending Policies in Latin America and the Caribbean: When Cyclicalities Meets Rigidities*.⁵ The report distinguishes between current spending and public investment: current expenditures, including wages and social programs, tend to be procyclical—increasing during economic booms—but prove rigid and difficult to cut during downturns, thereby straining budgets. In stark contrast, public investment, vital for long-term growth and citizen well-being, often bears the brunt of fiscal adjustments when governments face financial distress. This dynamic means that essential long-term development is frequently sacrificed to accommodate the inflexibility of current expenditures and the

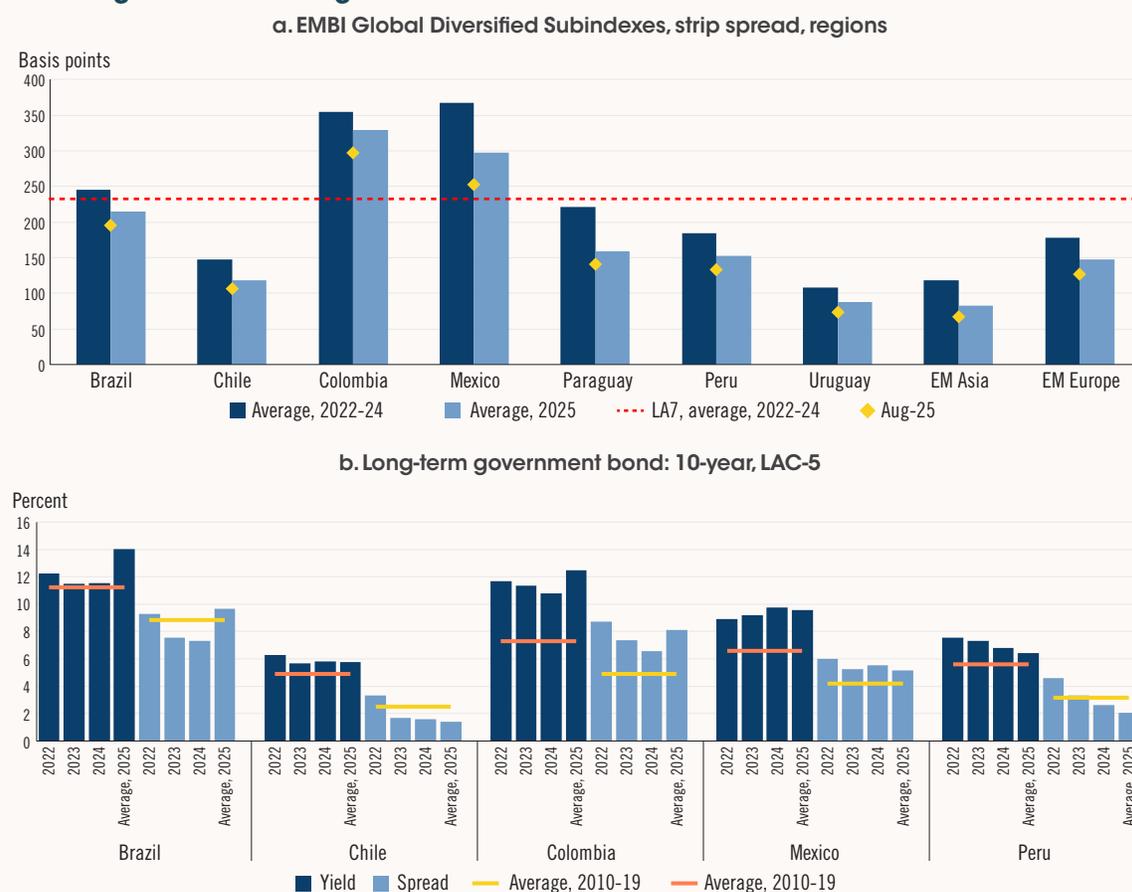
5 Riera-Crichton and Vuletin (2024).

persistent burden of debt service. For strategies on improving fiscal accounts through enhanced revenue mobilization, the October 2022 LACER, New Approaches to Closing the Fiscal Gap,⁶ and a new World Bank regional report, Rethinking Taxation in Latin America and the Caribbean for Growth: Objectives, Behavioral Responses, and Technological Advances,⁷ propose a framework for improving the tax mix to foster much-needed growth (refer to box 1.3).

The recent rise in debt stocks for LAC economies unfolds against a backdrop of persistently high interest rates on government debt, a challenge the region has historically faced (refer to figure 1.16, panel a). The slower easing of monetary policy in major global economies, coupled with continued efforts to combat stubborn inflation, has increased borrowing costs for most LAC-5 governments. In fact, the uptick in the government borrowing cost in Brazil and Colombia has been noticeable (refer to figure 1.16, panel b). While some eventual normalization of interest rates is anticipated, these costs are now clearly unlikely to fully revert to the significantly lower levels seen over the past decade. This reality demands a more cautious fiscal approach, as the era of exceptionally low global interest rates appears to be behind us for the foreseeable future. Beyond general interest rate dynamics, sovereign risk premiums have also contributed to elevated borrowing costs for specific countries like Colombia and Mexico.

Figure 1.16.

Borrowing Costs Remain High



Sources: For panel a, World Bank staff calculations based on J.P. Morgan; for panel b, World Bank staff calculations based on Haver Analytics, Central Bank of Peru, and U.S. Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis. Both panels contain data as of August 31st, 2025.

Note: EM = emerging market; LA = Latin America; LAC = Latin America and the Caribbean.

a. For panel a, the J.P. Morgan EMBI Global Diversified Index (EMBIGD) tracks liquid, U.S. dollar-denominated emerging market fixed, and floating-rate debt instruments issued by sovereign and quasi-sovereign entities. The Emerging Markets Bond Index (EMBI) spread reflects the difference between the yield on these instruments and the yield on U.S. Treasury bonds of comparable maturity. Aggregates are simple averages. EM Asia includes India, Indonesia, Malaysia, and the Philippines. EM Europe includes Bulgaria, Hungary, Poland, Romania, and Serbia. LA7 includes Brazil, Chile, Colombia, Mexico, Paraguay, Peru, and Uruguay.

b. For panel b, the spread shown in the figure represents the difference between the 10-year government bond yields of LAC-5 countries (Brazil, Chile, Colombia, Mexico, Peru) and the yield on the 10-year U.S. Treasury bond.

6 World Bank (2022).
7 Vuletin (2025).

Box 1.3.**Toward a Smarter Tax Mix for Latin America and the Caribbean—Behavioral, Technological, and Strategic Insights for a New Fiscal Blueprint**

In Latin America and the Caribbean (LAC), the historical reliance on narrow tax bases, high statutory rates, and administratively burdensome systems has produced a tax mix that is often regressive, distortionary, and growth-inhibiting—reflecting a traditional policy framework shaped by a rigid trade-off between collection efficiency (via value added taxes and corporate income taxes) and equity (via personal income taxes and wealth taxes). A new World Bank report, *Rethinking Taxation in Latin America and the Caribbean for Growth: Objectives, Behavioral Responses, and Technological Advances*,^a proposes a strategic tax mix: a configuration of tax instruments that is smarter, behaviorally informed (accounting for how taxpayers respond to tax changes), and technologically enabled. Crucially, it moves beyond the conventional dual objectives of efficiency and equity to also embrace the region's imperative to foster growth and improve lives. The focus is not on taxing more—it's on taxing better.

The proposed tax mix offers a comprehensive and forward-looking response to LAC's most persistent fiscal challenges. It begins by addressing the region's exceptionally high corporate income tax (CIT) rates—currently the highest in the world—which not only deter investment and encourage evasion but also amplify the effects of a broader hostile business environment. Excessive regulation, inefficient judicial systems, complex compliance procedures, and a shortage of skilled labor all contribute to a climate where firms do not just evade taxes—they evade the region. A more competitive CIT regime, with lower rates and simplified administration, is essential to attract investment, stimulate job creation, and reverse decades of underperformance in productivity and growth.

Personal income tax (PIT) systems, while highly progressive on paper, are built on narrow bases and high top rates that generate limited revenue and significant behavioral distortions. At the upper end of the income distribution—where entrepreneurship, innovation, and high-skilled labor reside—taxpayers are highly responsive to personal income taxes. They can reduce work hours, shift to informal arrangements, or exit the labor force entirely. The report proposes moderately expanding the PIT base to include upper-middle-income earners, where behavioral responses are less pronounced, while shielding vulnerable populations. This approach can enhance revenue, reduce distortions, and support a more inclusive and dynamic growth strategy.

The value added tax (VAT) dilemma is equally central. In an effort to mitigate regressivity, many LAC countries rely on reduced rates or exemptions for essential goods. But this forces them to maintain high standard rates to meet revenue needs—creating distortions, complicating administration, and disproportionately benefiting members of higher-income groups who consume more exempted goods. The report recommends broadening the VAT base, lowering the standard rate, and pairing the system with targeted cash transfers (TCTs). This would not only neutralize regressivity but would simplify the tax code, improve transparency, and enhance the system's overall efficiency.

On the equity front, the report advocates for a shift away from wealth taxes (WT), which—despite their theoretical appeal—are difficult to enforce due to the mobility of financial assets and the complexity of valuation. Instead, it proposes leveraging property taxation as a practical and enforceable form of wealth taxation. Real estate is inherently immobile, easier to value with modern digital tools, and represents a significant share of wealth in LAC. Property taxes can be locally administered, tied to visible public services, and scaled progressively—making them a grounded, growth-compatible alternative to taxing mobile capital. In short, property tax is the smart wealth tax.

Finally, the report elevates targeted cash transfers (TCTs) from a social policy instrument to a fiscal cornerstone. Traditional tax analysis often adopts a partial equilibrium view, treating taxes and transfers as separate instruments. But this report embraces a general equilibrium perspective, recognizing that TCTs and taxes are deeply interconnected. By delivering redistribution directly and efficiently, TCTs free the tax system to focus on simpler, more neutral instruments like VAT for revenue generation. This reconfiguration would minimize distortions, enhance transparency, and create a more behaviorally sound and politically sustainable fiscal architecture.

Box 1.3. Toward a Smarter Tax Mix for Latin America and the Caribbean—Behavioral, Technological, and Strategic Insights for a New Fiscal Blueprint (continuation)

Together, these reforms form a coherent and adaptive tax mix that aligns fiscal policy with the region’s urgent need for investment, innovation, and job creation. They complement smarter public spending and offer a credible path toward restoring the social contract—transforming taxation from a source of friction into a catalyst for inclusive and sustained development.

Notes

a. Vuletin (2025).

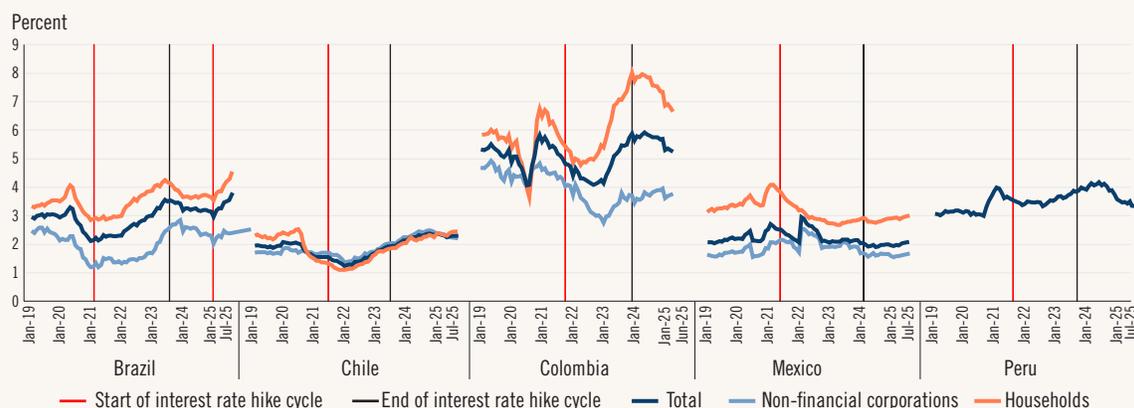
Financial Sector: Non-Performing Loans Moderate, While Credit Growth Diverges across Subregions

The monetary tightening cycle that began in 2022 has raised borrowing costs across LAC, contributing to a moderate increase in non-performing loans (NPLs). While central banks in the region have begun easing policy, the global liquidity backdrop remains challenging, with slower interest rate reductions in advanced economies limiting the pace of domestic rate cuts. This constraint could prolong financial stress for households and firms, elevating risks to credit quality. Recent data show no major deterioration, but trends remain mixed. Brazil has seen a slight uptick in NPLs, likely reflecting recent rate increases, while Colombia has experienced a modest decline, supported by stronger growth dynamics (refer to figure 1.17).

Figure 1.17.

Trends in Non-Performing Loans Warrant Continued Vigilance

Share of non-performing loans to total gross loans, LAC-5



Source: World Bank staff calculations based on national statistics.

Note: Household debt is composed of mortgages and consumption loans. Non-performing loans are loans for which the contractual payments are delinquent, defined as being overdue for more than 90 days in the case of Brazil, Chile, Mexico, and Peru, and 30 days in the case of Colombia.

Credit growth also remains uneven across the region. Most South American economies have yet to recover their pre-pandemic credit growth rates, with Argentina, Paraguay, and Uruguay as notable exceptions (refer to figure 1.18, panel a). In contrast, some countries in Central America and the Caribbean continue to exhibit robust credit expansion, consistent with stronger economic performance (refer to figure 1.18, panel b).

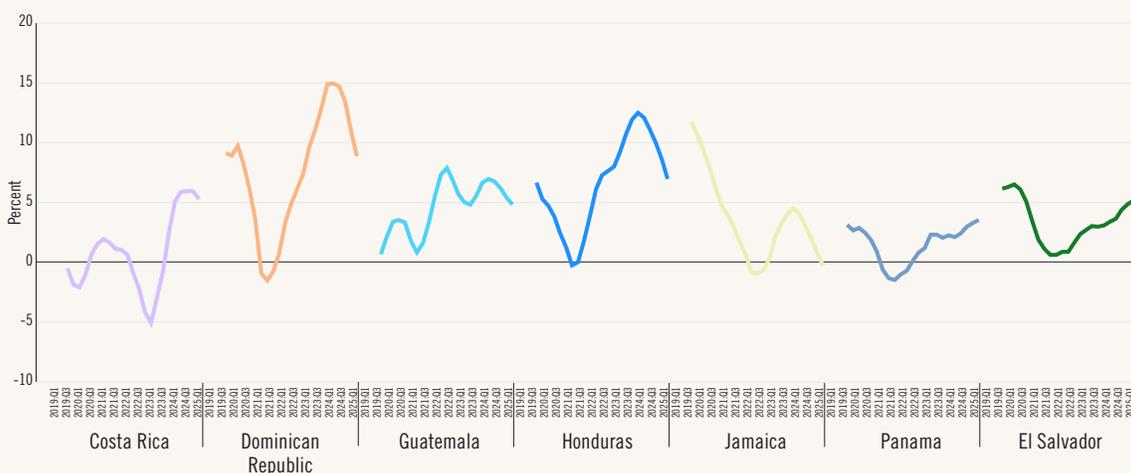
Figure 1.18.

Credit Growth Diverges among LAC Economies

Real credit growth (annual moving average)
a. South America and Mexico



b. Central America and the Caribbean



Source: World Bank staff calculations based on Haver Analytics.

Foreign Direct Investment Is Decreasing in the Region

Foreign direct investment (FDI) inflows to the region—as well as to other emerging markets and developing economies (EMDEs)—have been declining (refer to figure 1.19, panel a), partly due to heightened global uncertainty, trade frictions, and the slow materialization of nearshoring beyond a few sectors and countries (for some evidence on Mexico, refer to box 1.4). This decline over the past two years has been driven largely by Brazil and other major Southern Cone economies (refer to figure 1.19, panel b). However, several countries in the Caribbean and Central America have shown increases in FDI inflows (refer to figure 1.19, panel c). Mexico has seen FDI levels remain broadly stable—neither declining nor surging, highlighting the challenges in translating strategic positioning into sustained investment momentum.

Box 1.4.

Localized Nearshoring in Mexico: Evidence from the 2018-2020 U.S.-China Trade Tensions

Trade tensions between the United States and China from 2018 to 2020 offer valuable insights into the localized impacts of trade policy shifts on nearshoring dynamics. An ongoing study by Rodríguez-Castelán, Vázquez, and Winkler provides the first subnational evidence on how parties in third countries—specifically, Mexican municipalities—responded to the reconfiguration of global trade flows triggered by rising tariffs on Chinese goods.^a Among the key findings:

- **Export gains were concentrated in exposed municipalities.** Mexican municipalities with export baskets more concentrated in products targeted by US tariffs on China experienced significantly larger increases in exports to the United States. A 1 percent increase in exposure to these tariffs was associated with a 4.3 percent rise in local manufacturing exports. Overall, the trade tensions are estimated to have increased Mexico's manufacturing exports to the United States by 41 percent among the sampled municipalities—equivalent to 15.6 percent of Mexico's total manufacturing exports.
- **Labor market spillovers improved.** These export gains translated into improved labor outcomes. Municipalities more exposed to the trade tensions saw a 5.6 percent increase in total labor income; a 0.41 percentage-point increase in employment for semi-skilled workers; and a 0.25 percentage-point reduction in informality, particularly among unskilled and skilled workers. Spillovers to the services sector were positive, though smaller. No significant effects were observed in agriculture.
- **There is no evidence of trade deflection.** The study rules out the possibility that these gains were driven by transshipment of Chinese goods through Mexico. Municipalities more exposed to the trade tensions did not experience disproportionate increases in imports from China, suggesting genuine local production responses.
- **Migration pressures were reduced.** Interestingly, municipalities with higher exposure also attracted more working-age migrants, suggesting that nearshoring may contribute to internal labor reallocation. This is consistent with previous findings that regions that attracted more foreign direct investment (FDI) received more internal immigrants and likely saw reduced migration outflows to the United States (Aroca and Maloney 2005).^b That is, more exports from Mexico reduce pressures for outward migration.
- The study's results are robust to alternative specifications, including controls for mortality rates from the COVID-19 pandemic and initial population size.

Implications for LAC amid renewed trade uncertainty. As tariff policies evolve and the global trade architecture undergoes restructuring, the Mexican experience offers critical lessons for countries in Latin America and the Caribbean (LAC):

- **Localized gains can occur from global trade policy shifts.** Trade policy changes can generate highly localized economic benefits, particularly in regions with existing export capacity and sectoral alignment with shifting demand.
- **Strategic positioning matters.** Mexico's geographic proximity, trade agreements (specifically, the United States-Mexico-Canada Agreement, USMCA), and competitive labor costs positioned it to capitalize on nearshoring opportunities. Similar advantages could be leveraged by other LAC countries with appropriate infrastructure and policy frameworks.
- **Labor market and migration dynamics are affected.** Nearshoring can foster inclusive labor market gains, especially for semi-skilled and unskilled workers, and may influence internal migration patterns—factors that should be considered in regional development planning.
- **Timely “export-ready” policies are needed.** To benefit from nearshoring, LAC countries must proactively address bottlenecks in logistics, regulatory frameworks, and workforce skills. The Mexican case underscores the importance of being “export-ready” when global trade policy shifts occur.

Notes

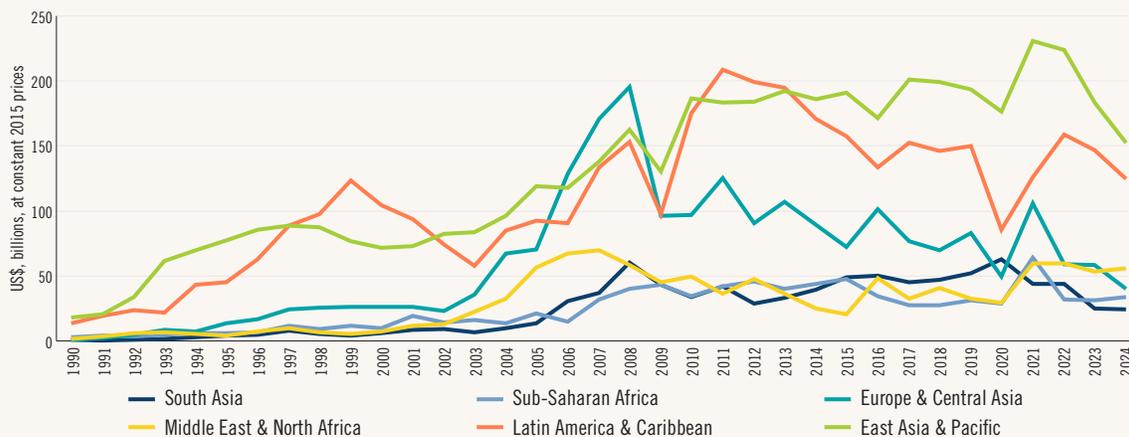
a. Rodríguez-Castelán, Vázquez, and Winkler (forthcoming).

b. Aroca and Maloney (2005).

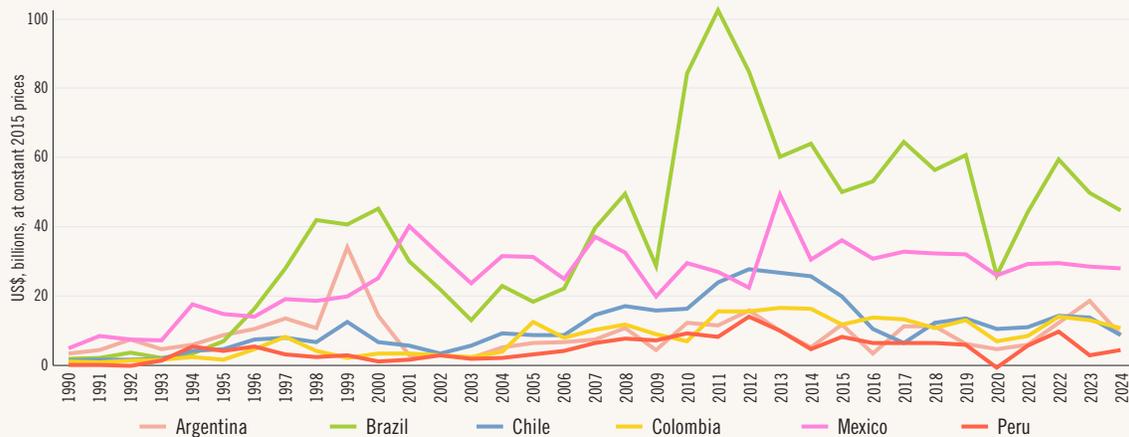
Figure 1.19.

Foreign Direct Investment to LAC is Decreasing

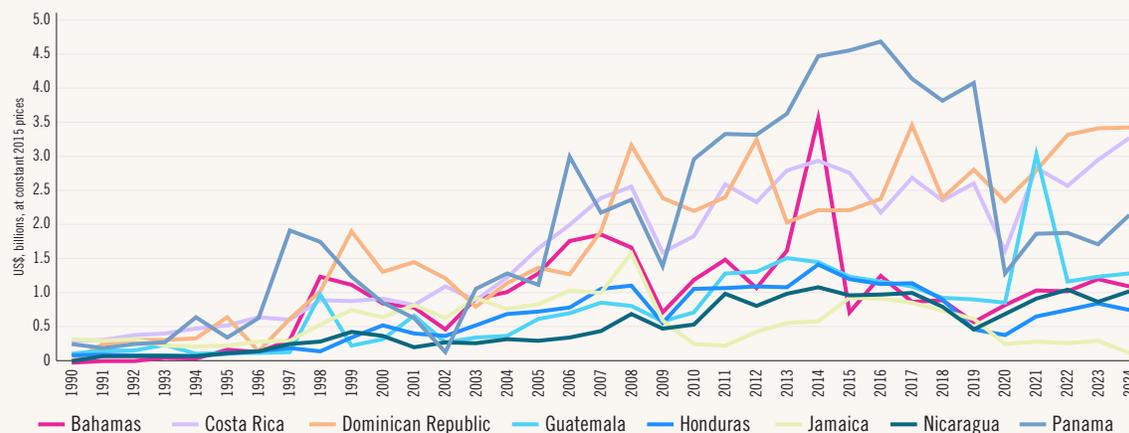
a. Total FDI inflows by region



b. Total FDI inflows by LAC-6 country



c. Total FDI inflows by Central American and Caribbean countries



Sources: World Bank staff using data from the United Nations Conference on Trade and Development (UNCTAD) and GDP data from the World Bank Macro Poverty Outlook (Annual Meetings 2025).

Note: Converted to real terms with consumer price index (CPI) from the U.S. Bureau of Labor Statistics; countries included are from the World Bank Macro Poverty Outlook list of countries. FDI = foreign direct investment; LAC = Latin America and the Caribbean.

Caribbean and Central America

Caribbean economies outpaced Latin American ones in 2024, though performance varied between tourism-dependent countries and commodity exporters (refer to table 1.1). Tourism-dependent economies have largely regained pre-pandemic GDP levels, supported by a strong recovery in tourist arrivals, though growth in the services sector is expected to moderate. Among commodity exporters, Trinidad and Tobago and Suriname experienced sharp declines in output during the pandemic due to falling commodity prices, but growth has rebounded as prices have recovered. Guyana has seen sustained, rapid GDP expansion since 2020, driven by new oil production. Beyond short-term macroeconomic dynamics, longer-term development challenges persist—particularly around productivity and labor mobility. Box 1.5 outlines a framework for how skilled migration can be harnessed to support local economic development in Central America and the Caribbean.

Public debt trajectories differ across the Caribbean and Central America. Several countries have reduced debt-to-GDP ratios through growth and fiscal discipline. Jamaica’s Economic Programme Oversight Committee (EPOC) offers a model for transparent fiscal oversight. As of January 1, 2025, Jamaica’s fiscal oversight transitioned to the newly established Independent Fiscal Commission and Advisory Committee, marking a significant institutional upgrade that enhances transparency and credibility. Barbados and Belize have also made notable progress through consolidation efforts. However, some highly indebted Caribbean countries still face challenges in achieving debt sustainability (refer to figure 1.20).

Inflation surged across the Caribbean in 2022 due to increases in global food and fuel prices, though countries with currency pegs cushioned these impacts compared to the ones which have inflation-targeting regimes. Since 2023, price normalization has helped ease inflationary pressures across the region (refer to figure 1.21).

Table 1.1.

Growth Prospects in the Caribbean Exceed the Regional Average, but Performance Remains Uneven

Real GDP growth estimates and forecasts

Country	2024	2025e
Commodity exporters		
Trinidad and Tobago	2.5	1.4
Suriname	2.8	3.2
Guyana	43.6	11.8
Tourism-dependent		
St. Vincent and the Grenadines	4.1	4.0
St. Lucia	3.9	2.6
Jamaica	-0.5	2.0
Grenada	3.7	3.8
Dominica	2.1	3.1
Belize	3.5	1.5
Barbados	4.0	2.7

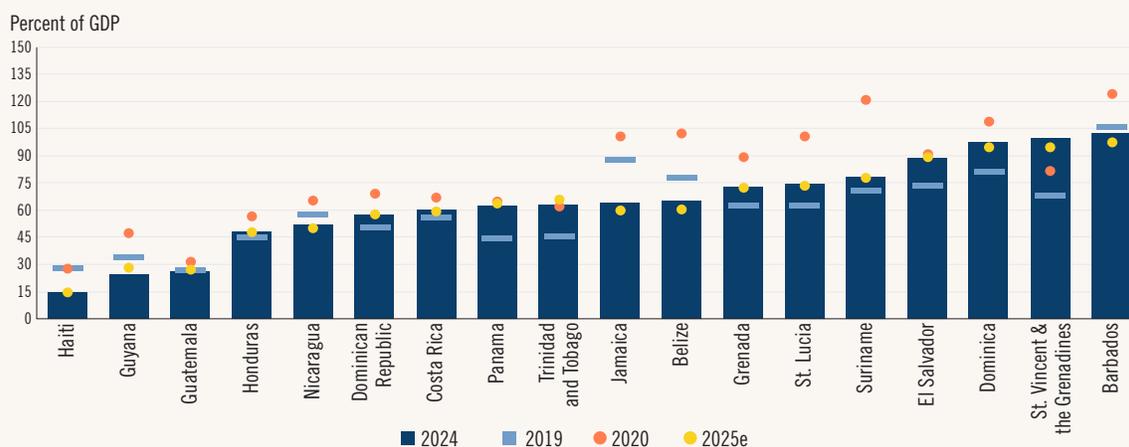
Source: World Bank Macro-Poverty Outlook (Annual Meetings 2025).

Note: The values for 2025 are based on projections (as of September 25, 2025). e = estimate.

Figure 1.20.

Public Debt Trajectories Vary across the Caribbean and Central American Countries

General government debt stock



Sources: World Bank Macro-Poverty Outlook (Annual Meetings 2025).

Note: The values for 2025 are based on projections (as of September 25, 2025). e = estimate; GDP = gross domestic product.

Box 1.5.

Harnessing Skilled Migration and Local Economic Development in Central America and the Caribbean

Central America and the Caribbean face persistent productivity challenges alongside high outmigration rates.^a Though the high number of workers seeking jobs abroad is often viewed simply as brain drain, it should probably be seen as a “feature” rather than a “bug” of small economies that can be harnessed for faster local growth. That said, there has been little careful work on how migration patterns influence local productivity and economic growth. Specifically, how might development impacts differ between Central America and the Caribbean, where skill levels of migrants differ greatly? How can policy makers use this loop to generate local growth?

A framework for skilled migration and local growth. A 2023 World Bank report outlines a framework linking skilled migration and development in the Caribbean.^b Economic shocks in destination countries influence the growth of origin countries through two main channels: local skills and local demand. The skills channel captures how opportunities abroad affect the return to education and the local skill distribution. For example, skilled migration can increase the returns to education, generating spillovers to the local skill distribution. The demand channel captures how income earned abroad can influence demand and investment. For instance, investment of remittances can multiply the effects of migrant income on local demand.

Skilled migration in the Caribbean. Evidence from the Caribbean suggests a weak skills channel driven by a low domestic skill premium, rather than barriers to schooling. The quality of education is high enough that Caribbean nurses receive job offers in the United States, where they earn more than four times as much. As a result, more than 70 percent of nurses educated in the Caribbean moved abroad. At the same time, public health care systems prevent wages from rising to compensate for the shortage in nurses. Some countries have tried to strengthen the skills channel through “bonding policies,” which subsidize the cost of education in exchange for local service. These policies have had limited success, suggesting that the bonds are mispriced. Moreover, since 1997, members of the Caribbean Community (CARICOM) have established a Skills Certificate, which allows free movement of skilled workers and effectively increases the size of the local market.

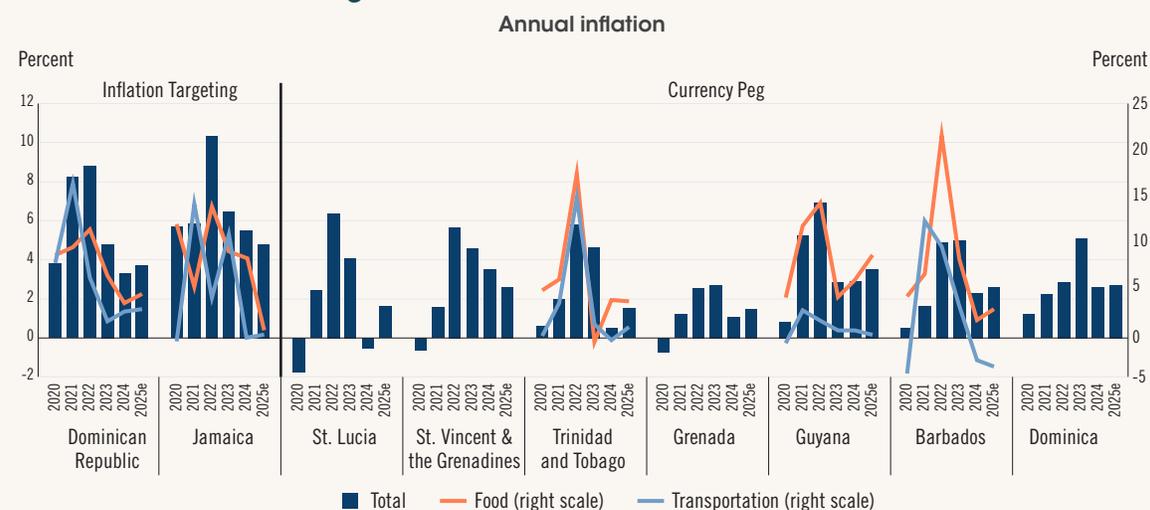
Studies also suggest a weak demand channel driven by low levels of investment of remittances and migrant entrepreneurship, rather than low levels of return migration. Many skilled migrants return to the Caribbean, but they typically exit the labor force or start businesses in the tourism sector, with limited impact on local productivity. Remittances are typically spent on necessities, limiting the potential for investment and lowering the aggregate demand multiplier. Attempts to funnel remittances into local investment through migrant savings accounts and remittance taxes have failed. Recent efforts to engage directly with migrant families by providing access to investment opportunities or business loans collateralized by remittances appear more promising.

Skilled migration in Central America. Although the framework in the 2023 World Bank report focuses on skilled migration in the Caribbean, it can also be applied to Central America. Migrants from Central America are relatively less educated on average than migrants from the Caribbean—although they still come from the middle or top of the local skill distribution (Arayavechkit, Scott, and Sousa 2025). This can weaken the skills channel because less-skilled migrants will have a smaller impact on the return to education. At the same time, economies in Central America are larger and more connected, offering more opportunities for local employment and investment. This can strengthen both the skills and demand channels. A 2025 study finds that households that receive remittances in northern Central America spend more on schooling and are more likely to be self-employed.^c This suggests that the skills and demand channels are somewhat stronger in Central America, although complimentary policies are needed to ensure that investments in education and entrepreneurship translate into higher incomes.

Notes

- a. This box is based on text contributed by Lucas Zavala, World Bank Development Economics, Trade and International Integration Unit (DECTI).
- b. Zavala (2023). The framework builds on Khanna et al. (2022).
- c. Arayavechkit, Scott, and Sousa (2025).

Figure 1.21.
Inflation Pressures Are Easing



Sources: World Bank Macro-Poverty Outlook (Annual Meetings 2025); Guyana's Bureau of Statistics; Barbados Statistical Service; International Monetary Fund (IMF); and World Bank staff calculations.

Note: The 2025 values are based on projections (as of September 25, 2025). e = estimate.

Labor Markets and Social Conditions: Recent Trends and Future Prospects

Economic Slowdown Constricts the Poverty Pathway

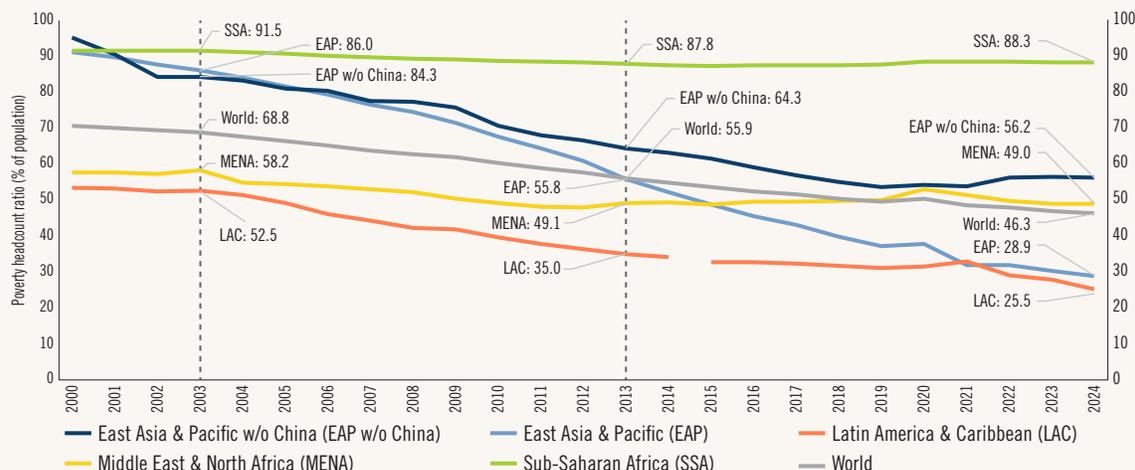
Social progress in key variables, such as monetary poverty, has historically closely followed economic performance across emerging regions. In LAC, the poverty rate experienced a significant drop of 17.5 percentage points during the 2003–13 “Golden Decade” of high commodity prices and robust growth. About one-third of this reduction was driven by redistribution, while two-thirds stemmed from economic growth, according to the April 2019 LACER.⁸ Interestingly, within the growth component, roughly one-third (or about 20 percent of the total poverty reduction) was due to trend-based, more permanent income improvements, whereas the remaining two-thirds (approximately 45 percent of the total monetary poverty reduction) were attributed to cyclical, more temporary income gains. This composition underscores the vulnerability of poverty reduction to short-term cyclical fluctuations and economic volatility, highlighting how temporary income gains can drive significant but fragile improvements in poverty outcomes.

As the externally driven 2003–13 boom faded and economic growth slowed, poverty reduction also decelerated, declining modestly by 9.5 percentage points from 2013 to 2024 (refer to figure 1.22). Conversely, regions that maintained more consistent GDP and labor productivity growth, notably East Asia and the Pacific (EAP), achieved more aggressive poverty reduction during both periods. Propelled primarily by China’s robust economic performance, EAP has since converged with LAC’s poverty rate.

Looking ahead, the recent revisions in growth forecasts for LAC countries are expected to further temper the dynamism of poverty reduction (refer to figure 1.23). In addition to these macroeconomic headwinds, the recent revision of international poverty lines based on the 2021 purchasing power parity (PPP) update has led to a statistical increase in measured poverty across LAC, even as underlying trends remain broadly unchanged (refer to box 1.6). This subdued economic outlook means that the primary engine for poverty reduction will be less potent. Compounding this challenge, limited fiscal space across many countries in the region will severely constrain the ability of governments to make major improvements via social transfers. With public debt levels remaining elevated and persistent fiscal deficits, the capacity for extensive, new, or expanded social programs is curtailed, leaving less room to cushion the impact of slower economic growth on vulnerable populations.

Figure 1.22.

While Declines in Poverty Have Slowed in LAC, They Have Continued in Some Other Emerging Regions

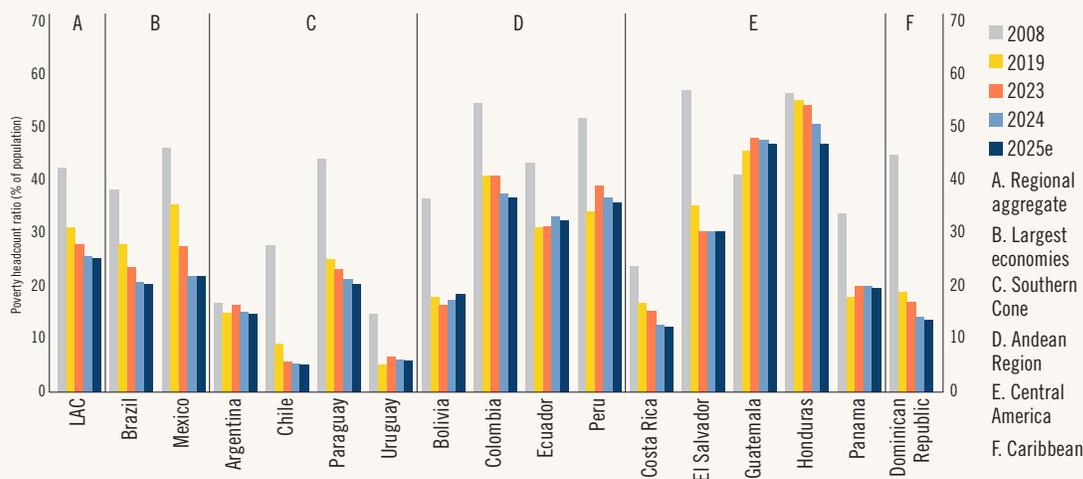


Sources: World Bank staff calculations based on Regional Poverty and Inequality Update, Latin America and the Caribbean, October 2025 (forthcoming). Data for the LAC region are drawn from the World Bank Group LAC Equity Lab, while data for other regions are sourced from the World Bank Group Poverty and Inequality Platform (PIP). Data for China are obtained from the World Bank Group Macro Poverty Outlook, last updated on September 25, 2025.

Note: The figure uses a poverty line for upper-middle-income countries of US\$8.30/day in 2021 purchasing power parity (PPP) terms. Dashed vertical lines mark the “Golden Decade” of poverty reduction for LAC. The LAC regional aggregate is based on 18 countries in the region for which microdata were available at national level. In cases where data were unavailable, values have been estimated using a combination of methods, including microsimulations, and then pooled to create regional estimates. Due to substantial methodological revisions in Mexico’s official household survey in 2016, which resulted in a discontinuity in the poverty series, a break has been introduced in the LAC-18 series from 2015 onward. For other regions, the 2024 values were estimated by the nowcasting model implemented by PIP. The estimate for East Asia and the Pacific (without China) (EAP w/o China) is derived by subtracting China’s data on the poor population and total population from the East Asia and Pacific aggregates published by PIP.

Figure 1.23.

Poverty Declines Are Slowing in Most LAC Countries



Source: World Bank Macro-Poverty Outlook (Annual Meetings 2025).

Note: The figure uses a poverty line for upper-middle-income countries of US\$8.30/day in 2021 purchasing power parity (PPP) terms. For Argentina, data have only urban coverage. For Brazil, Costa Rica, the Dominican Republic, Honduras, Mexico, and the LAC aggregate, due to survey and methodological changes, the 2008 value is not entirely comparable with the rest of the series. For Colombia, Paraguay, and Uruguay, due to survey and methodological changes, values from 2023 onward are not entirely comparable with the rest of the series. For Chile, the 2009 value is used for 2008 and the 2017 value for 2019. For Colombia, the 2022 value is used for 2023. For Guatemala, the 2006 value is used for 2008 and the 2014 value for 2019. For Mexico, the 2018 value is used for 2019 and the 2022 value for 2023. For Mexico, 2025 figures are a projection using neutral distribution (2024) with pass-through = 0.87, based on GDP per capita in constant local currency units (LCU). The LAC regional aggregate is based on 18 countries in the region for which microdata were available at national level. In cases where data were unavailable, values have been estimated using a combination of methods, including microsimulations, and then pooled to create regional estimates. Updated September 25, 2025. e = estimate. f = forecast. LAC = Latin America and the Caribbean.

Box 1.6.

Revising the Global Poverty Lines: Implications for Latin America and the Caribbean of the 2021 Purchasing Power Parity Update

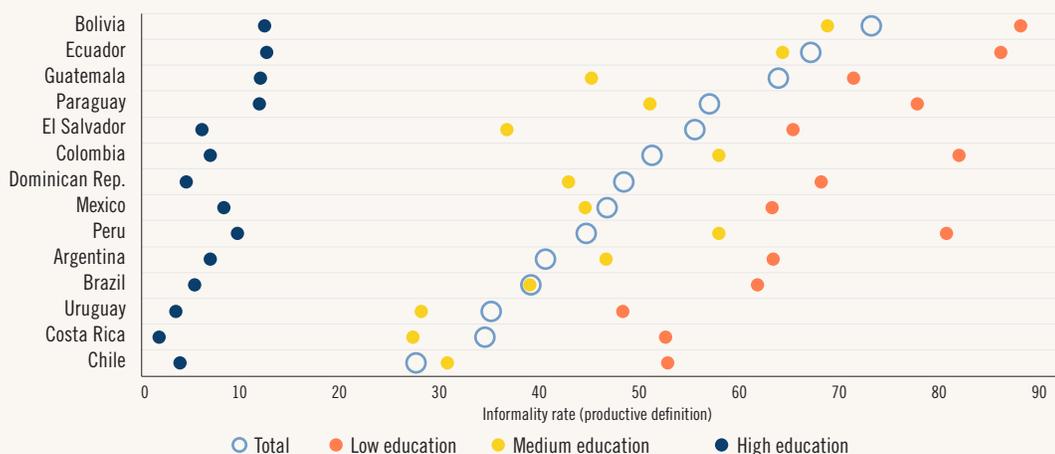
Between 2017 and 2021, the World Bank revised its international poverty lines to reflect updated purchasing power parity (PPP) rates and improved national poverty data. The new poverty thresholds—\$3.00 per day for low-income countries, \$4.20 for lower-middle-income countries, and \$8.30 for upper-middle-income countries—replace the previous daily lines of \$2.15, \$3.65, and \$6.85, respectively. These adjustments stem from the 2021 International Comparison Program (ICP) data, which captured price levels following the COVID-19 pandemic, and from enhanced household survey methodologies that better reflect actual consumption patterns.

For the Latin America and Caribbean (LAC) region, these adjustments resulted in a slightly bleaker picture. Extreme poverty, defined by the new \$3.00 threshold, rose from 3.8 percent to 5.3 percent of the population in 2023. Poverty at the upper-middle-income line increased from 25 percent to 27.9 percent. However, it is critical to remember that 97 percent of the change in LAC’s poverty rates is attributed to the revised international poverty lines rather than deteriorating economic conditions. The underlying poverty trends remain consistent, but the updated benchmarks offer a more accurate and comprehensive measure of deprivation across the region.

These constraints are particularly concerning given the high prevalence of informality in the region. A significant share of the labor force remains outside the formal sector, often due to limited educational attainment and skill levels, and low productivity in the modern sector, which limits the availability of better-quality salaried jobs (refer to figure 1.24). For many informal workers, including most of the self-employed (refer to chapter 2), informality is a desirable option given their comparative advantage as dictated by their relatively low skill levels. In fact, evidence from Mexico suggests that the self-employed value the independence and being one’s own boss at roughly the value of their earnings. Others, however, would prefer a formal salaried job but are rationed out of jobs they are qualified for by rigid labor market regulations and, as result, remains structurally dependent on public transfers for basic support—precisely at a time when governments have less fiscal room to provide it. This dual constraint underscores a more challenging environment to achieving further significant social progress in the short to medium term.

Figure 1.24.

Labor Informality Rates Remain High in LAC Countries, Especially for the Less Educated



Source: World Bank staff calculations based on LAC Equity Lab.

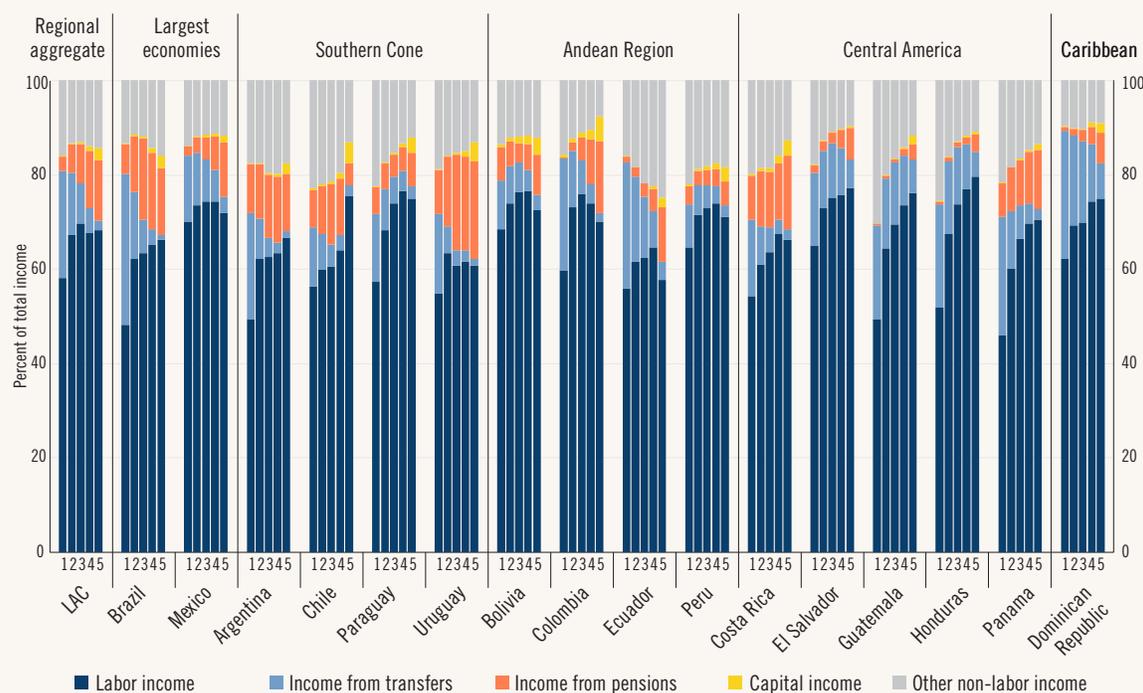
Note: Productivity-based informality is defined as the share of employment accounted for by unpaid family workers, unskilled self-employed individuals, and salaried workers in small firms. Educational attainment is classified as: Low (no education, completed primary, or incomplete secondary); Medium (completed secondary or incomplete higher education); and High (completed higher education). Most data points correspond to 2024:Q3, except for Colombia, Costa Rica, and Ecuador (2024:Q4); Bolivia and Uruguay (2024:Q2); El Salvador (2023:Q4); and Guatemala (2022:Q4).

From Jobs to Incomes: The Uneven Recovery of Labor Income in LAC

Labor income remains by far the primary source of household resources across all income quintiles, underscoring the critical role of labor market conditions in shaping overall well-being (refer to figure 1.25). While public transfers are particularly important for lower-income households—providing essential support and helping to alleviate poverty and vulnerability—pensions and capital income become increasingly relevant for higher-income groups, reflecting their broader access to diversified income streams. Ultimately, however, labor income continues to be the cornerstone of household well-being across the distribution, making inclusive and resilient labor markets essential for sustained social progress. Monitoring the evolution of major trends in labor income is therefore crucial for assessing the trajectory of key social indicators, such as monetary poverty.

Figure 1.25.

Labor Income Is the Most Important Source of Income



Source: LAC Equity Lab tabulations of SEDLAC (CEDLAS and the World Bank).

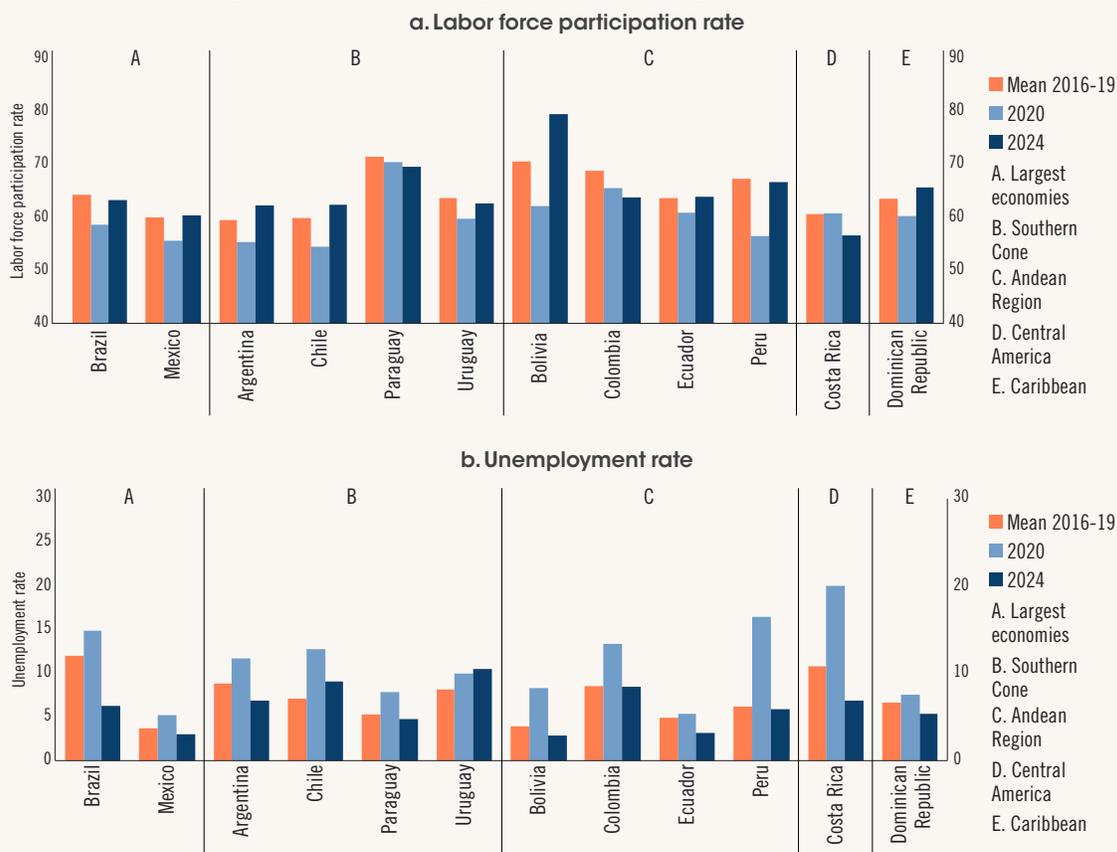
Note: Income composition is presented by income quintiles, from a low of 1 to a high of 5. Data are for 2024, except for Chile, where data are for 2022, and Bolivia, El Salvador, and Guatemala, where data are for 2023. LAC = Latin America and the Caribbean.

While key aggregate indicators of labor market quantity—namely labor force participation and unemployment—have largely returned to their pre-pandemic or long-term average levels across all LAC countries, signaling a normalization in the employment landscape (refer to figure 1.26), the quality side of the labor market tells a more sobering story. The recovery of average real individual labor income has been uneven, with only modest gains observed in several countries (refer to figure 1.27). Notably, in many of these cases, income gains have been concentrated among lower-income groups, while middle- and upper-income deciles have seen stagnation—or even declines—in real labor earnings.

Taken together, these findings underscore that while the labor market has stabilized in terms of employment levels, it has not yet delivered broad-based improvements in income. This reinforces the importance of shifting policy attention toward enhancing job quality, boosting productivity, and supporting wage growth to ensure that labor income can once again serve as a reliable engine of social progress.

Figure 1.26.

Labor Force Participation and Unemployment Are Already at about Pre-Pandemic Levels

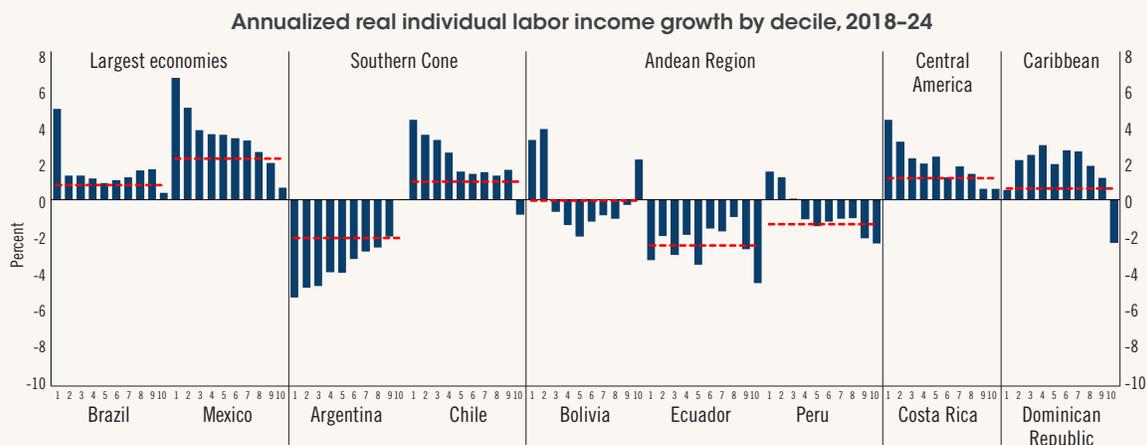


Source: LAC Equity Lab tabulations of LABLAC (CEDLAS and the World Bank).

Note: The labor force participation rate is the share of the adult population (ages 15+) participating in the labor force. The labor force includes both employed individuals and those actively seeking work (that is, the unemployed). The unemployment rate reflects the proportion of the labor force that is unemployed. In this plot, most data points are based on information from the third quarter of each year. Exceptions include Colombia, Costa Rica, and Ecuador, where data are drawn from the fourth quarter, and Bolivia, Uruguay, and the regional aggregate for LAC, where data correspond to the second quarter. From 2021 onward, due to methodological changes, reported values for Colombia and Ecuador are not fully comparable with previous years. For Paraguay, values from 2022 onward are also not fully comparable with earlier periods. For Uruguay, values for 2016–2019, 2020, and 2024 are not fully comparable with one another due to methodological changes and should be considered indicative. LAC = Latin America and the Caribbean.

Figure 1.27.

Growth in Labor Income Has Been Small and Uneven in Most Countries



Source: World Bank staff calculations based on LABLAC (CEDLAS-World Bank).

Note: Red dashed lines reflect the annualized real individual labor income growth in the total sample. For most countries, annualized real individual labor income growth is calculated using annual data from 2018 to 2024. For Argentina, data cover only urban areas. For Chile, the variation is based on quarterly data from 2018:Q4 to 2023:Q4; for Bolivia, on annual data from 2018 to 2023. For Brazil and Mexico, 2024 figures are preliminary.

More Schooling, Same Jobs: Education Glut and the Limits of Labor Market Absorption

Recent data across multiple countries in LAC reveal a striking pattern: the wage premium associated with education has declined in income deciles where educational attainment has increased most. In some countries, this erosion is most visible at the bottom of the distribution, where secondary education has expanded rapidly; in others, it is more pronounced at the top, where tertiary education has become more widespread. This trend suggests that the labor market has not kept pace with the educational progress made across the region, weakening the traditional link between schooling and upward mobility (refer to figure 1.28).

A particularly compelling case comes from Brazil, which underwent one of the fastest educational expansions in history between 1995 and 2014. A recent study by Jaume (2021) provides neat and rigorous evidence of the disconnect between rising educational attainment and labor market outcomes. Despite a dramatic increase in the share of workers with secondary and tertiary education, the occupational structure of employment remained largely unchanged. Many newly educated workers were absorbed into lower-wage, lower-complexity occupations, leading to widespread occupational downgrading across all education levels. While wages for low-educated workers rose, those for medium- and high-educated workers declined, sharply narrowing wage gaps and eroding the returns to education.

This mismatch between rising educational attainment and stagnant occupational upgrading has important implications. First, it reveals diminishing returns to further educational expansion in the absence of complementary improvements in labor demand. Second, the model used in the study shows that further increases in education—particularly at the secondary level—are likely to yield much smaller gains in wages and output unless accompanied by structural changes in the economy that expand the demand for higher-skill jobs.

These findings underscore the need for a dual policy focus: continuing to improve access and quality in education, while simultaneously fostering a more dynamic and diversified private sector capable of generating productive employment opportunities. Without this, more educated workers risk being trapped in low-productivity jobs, and the promise of education as a pathway to upward mobility and inclusive growth could remain unfulfilled.

Understanding why labor demand has not kept pace with rising educational attainment requires a deeper look into the structure and behavior of firms in the region. The next chapter explores how entrepreneurship, firm dynamics, and productivity trends shape the capacity of LAC economies to generate high-quality jobs—and what policy levers can help unlock this potential.

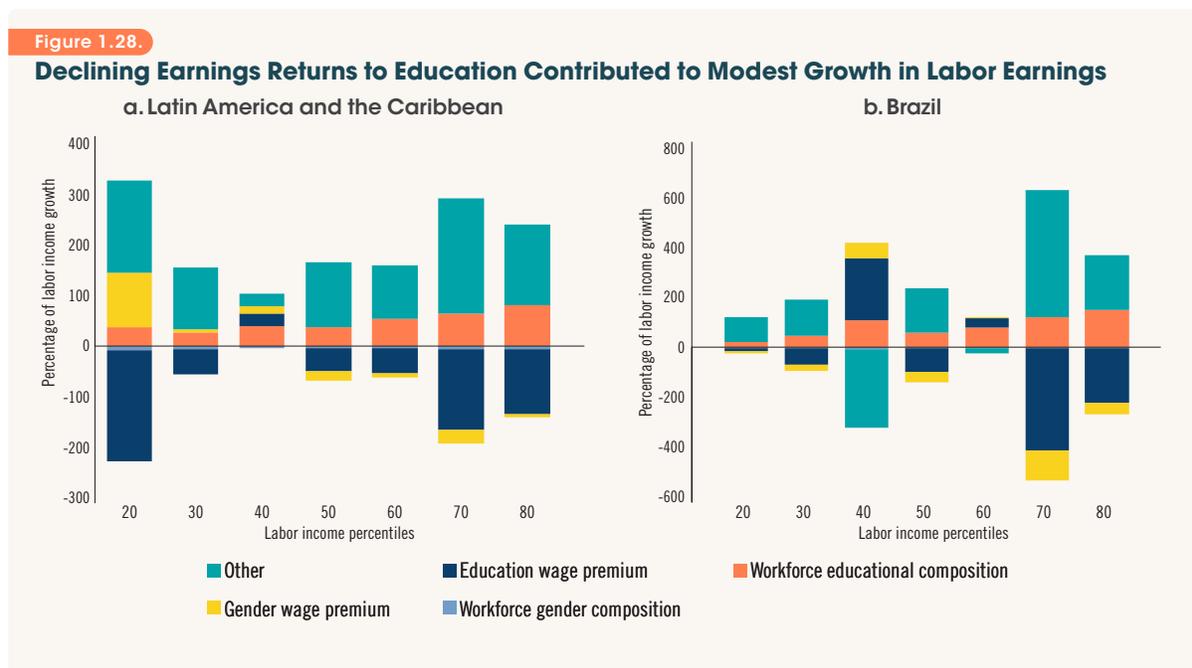
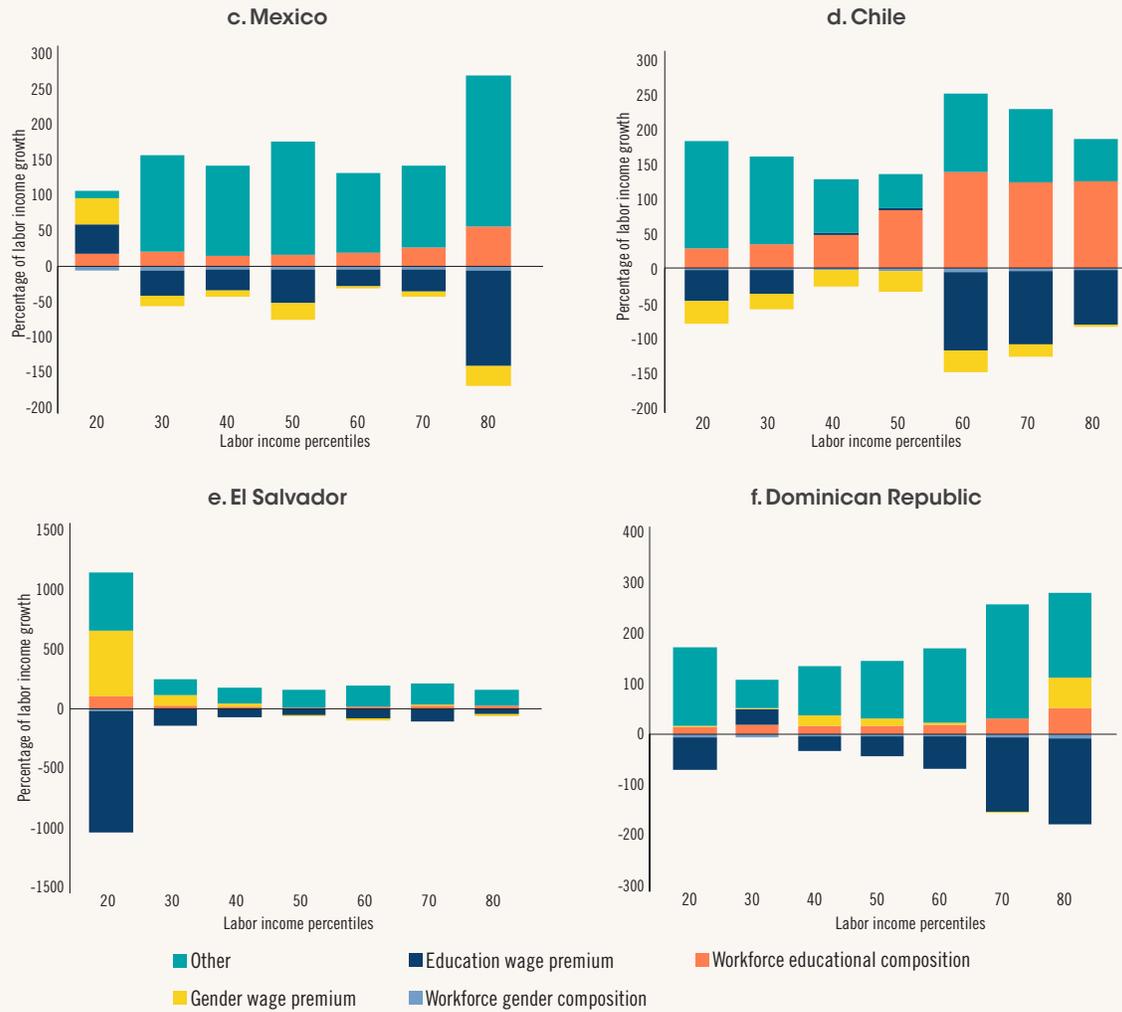


Figure 1.28. Declining Earnings Returns to Education Contributed to Modest Growth in Labor Earnings (continuation)



Source: World Bank staff calculations based on on data from LABLAC for countries with comparable data in 2016 and 2024.

Note: The figure presents the results of Oaxaca-Blinder decompositions using recentered influence functions (Rios-Avila 2020) that analyze labor income distribution changes across percentiles in Brazil, Chile, the Dominican Republic, El Salvador, and Mexico. It shows the share of growth accounted by each component. The sum of all components is equal to 100 percentage points. The analysis uses log labor income and worker characteristics (gender, education, age, sector, job type, location) to distinguish between changes in characteristics (endowments) and associated wage premiums (returns). "Other" includes factors such as age, sector, job type, location, and constant term effects. Using cross-sectional rather than longitudinal data means the results capture both workers who changed percentiles and those who did not. Sample included workers 15+ years old. Plots are ordered as follows: LAC aggregate, largest economies, Southern Cone, Central America, and the Caribbean. LAC = Latin America and the Caribbean.

References

- Arayavechkit, T., K. Scott, and L. D. Sousa. 2025. Remittances and Development: The Experience of Northern Central America. Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/099726405092540601>
- Aroca, P., and W. F. Maloney. 2005. "Migration, Trade, and Foreign Direct Investment in Mexico." *World Bank Economic Review* 19 (3): 449–72.
- Beylis, G., and N. Lozano Gracia, eds. 2025. From Resource Rich to Resource Smart: Opportunities for Latin America and the Caribbean in the Energy Transition. Washington, DC: World Bank.
- Caldara, D., M. Iacoviello, P. Molligo, A. Prestipino, and A. Raffo. 2020. "The Economic Effects of Trade Policy Uncertainty." *Journal of Monetary Economics* 109 (January): 38–59.
- Cirera, X., and W. F. Maloney. 2017. The Innovation Paradox: Developing-Country Capabilities and the Unrealized Promise of Technological Catch-up. Washington, DC: World Bank.
- Financial Times. 2025. "Trump Tracker: U.S. Tariffs." <https://www.ft.com/content/2c473393-35fb-479d-8bba-236a1a98087c>.
- Goñi, E., and W. F. Maloney. 2017. "Why Don't Poor Countries Do R&D? Varying Rates of Factor Returns across the Development Process." *European Economic Review* 94 (May): 126–47.
- Jaume, D. 2021. "The Labor Market Effects of an Educational Expansion." *Journal of Development Economics* 149 (March): 102619. <https://doi.org/10.1016/j.jdeveco.2020.102619>.
- Khanna, G., E. Murathanoglu, C. B. Theoharides, and D. Yang. 2022. "Abundance from Abroad: Migrant Income and Long-run Economic Development." NBER Working Paper 29862, National Bureau of Economic Research, Cambridge, MA.
- Malingre, V. 2025. "France Gets a Reprieve in Its Fight against the EU-Mercosur Agreement." *Le Monde*, July 4, 2025, https://www.lemonde.fr/en/economy/article/2025/07/04/france-gets-a-reprieve-in-its-fight-against-eu-mercosur-agreement_6743003_19.html.
- Maloney, W. F., X. Cirera, and M. M. Ferreyra. 2025. Reclaiming the Lost Century of Growth: Building Learning Economies in Latin America and the Caribbean. Washington, DC: World Bank.
- Riera-Crichton, D., and G. Vuletin. 2024. Public Spending Policies in Latin America and the Caribbean: When Cyclicity Meets Rigidities. Latin American Development Forum. Washington, DC: World Bank. <http://hdl.handle.net/10986/42022>.
- Rios-Avila, F. 2020. "Recentered Influence Functions (RIFs) in Stata: RIF Regression and RIF Decomposition." *Stata Journal* 20 (1): 51–94.
- Vuletin, G. 2025. Rethinking Taxation in Latin America and the Caribbean for Growth: Objectives, Behavioral Responses, and Technological Advances. Washington, DC: World Bank.
- World Bank. 2019. Latin America and the Caribbean Economic Review, April 2019. Effects of the Business Cycle on Social Indicators in Latin America and the Caribbean: When Dreams Meet Reality. Washington, DC: World Bank.
- World Bank. 2022. Latin America and the Caribbean Economic Review, October 2022. New Approaches to Closing the Fiscal Gap. Washington, DC: World Bank.
- World Bank. 2024a. Latin America and the Caribbean Economic Review, October 2024. Taxing Wealth for Equity and Growth. Washington, DC: World Bank.
- World Bank. 2024b. Regional Poverty and Inequality Update, Latin America and the Caribbean, October 2024. World Bank.
- World Bank. 2025. Macro-Poverty Outlook (Annual Meetings 2025). Washington, DC: World Bank.
- Zavala, L. 2023. "Skilled Migration and the Growth of Caribbean Nations." Washington, DC: World Bank. <https://thedocs.worldbank.org/en/doc/98431d41f23ea70df4469a9e177fda6-0370012023/original/2309-Skilled-Migration-Growth.pdf>.



Chapter 2

The Entrepreneurship Challenge in Latin America and the Caribbean

Entrepreneurs: The Drivers of Job Creation and Growth

The entrepreneur is a central but understudied figure in developing economies. Entrepreneurs, not governments, are the mobilizers of capital and the creators of jobs and value added. Moreover, since Joseph Schumpeter first delved into the study of entrepreneurship in the 1930 and 1940s,¹ entrepreneurs have been recognized as the source of innovation and development that over time increases the productivity of firms and workers, and improves standards of living. They are the individuals who identify new technologies, recognize their potential as a business in the local environment, and then take them to the market. In this process, start-ups create new and better jobs. In the United States, for instance, start-ups account for about 20 percent of total job creation, and high-growth businesses, which are disproportionately young, account for almost 50 percent.²

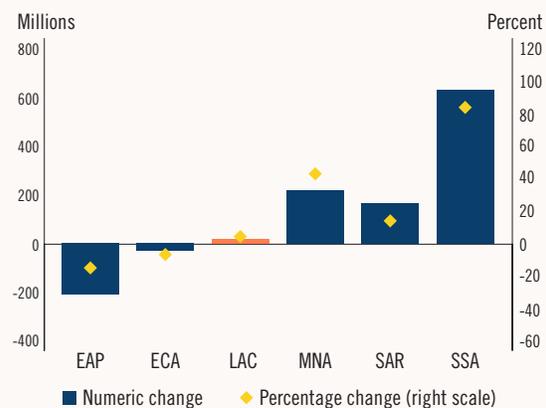
Understanding entrepreneurship is thus critical to facing the job challenge the world is facing and which has moved to the center of the World Bank agenda. Three regions will between them add more than 1 billion people to the working-age population between 2025 and 2050, while job creation has slowed, even before the overlapping crises of the past five years. Structural changes, including shifting trading patterns, climate change and the energy transition, and the development of technologies including artificial intelligence, add further uncertainty.

The working-age population in Latin America and the Caribbean (LAC) is expected to grow modestly, by just under 5 percent between 2025 and 2050, or 22 million people (figure 2.0). Several countries will still experience significant increases. Guatemala's and Honduras' working-age populations are expected to increase by over 40 percent between 2025 and 2050, for example. At the same time, 14 countries will see declining working-age populations—Brazil's working-age population alone will decline by 10 million people—and here, raising job quality through sustained productivity growth will be essential. The common denominator for both policy challenges is the need to boost private sector development: foundational investments, a business enabling environment, and mobilizing private capital, a central actor in which is the entrepreneur.

Given the dynamic and essential role of entrepreneurship, two questions emerge with respect to LAC as the region continues to face slow growth rates, stagnant earnings, and general societal discontent. First, does LAC have an entrepreneurship problem, either in terms of the density of new dynamic firms or in the enabling environment that should be supporting them?

Second, why are entrepreneurs not playing their central role in taking advantage of the higher returns offered by innovative business techniques and technologies? As one facet of the innovation paradox—where the returns to technological adoption and invention are much higher in developing countries than in advanced economies but innovation efforts are substantially lower—,³ new technologies, techniques, and markets promise large returns to entrepreneurs from LAC, but they remain importantly unexploited. This inability or unwillingness to exploit these new opportunities has led to lost industries, low productivity growth, and missed opportunities for the region. It is also a possible explanation for the “middle-income trap” explored in the 2024 World Development Report, among others.⁴

Figure 2.0.
Increase in working-age population, 2025-50



Source: World Bank staff calculations using UN Population Prospects 2024 (database); World Bank.

Note: EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East, North Africa, Afghanistan and Pakistan; SAR = South Asia; SSA = Sub-Saharan Africa. Working-age population is defined as the population aged 15-64 years. Bars show the difference in levels in the total working-age population by country group. Markers show the percentage change in the working-age population.

1 Schumpeter (1934, 1942).
2 Decker et al. (2014).
3 Refer to Cirera and Maloney (2017).
4 World Bank (2024).

Box 2.1.

Terminology Used in this Chapter

This chapter uses the terms that follow to distinguish different kinds of entrepreneurs and entrepreneurship.

- **Self-employment:** individuals who work for themselves rather than as wage employees. This category ranges from own-account workers in small “mom-and-pop” shops to owners of large, dynamic firms.
- **Own-account workers:** self-employed individuals with no employees.
- **Employer firms:** firms headed by a self-employed owner that employ at least one worker beyond the owner.
- **Employer entrepreneur:** self-employed individuals who hire at least one employee.
- **Micro firms:** businesses with 0–5 employees, including own-account workers and very small employer firms.
- **Transformational entrepreneurs:** a subset of entrepreneurs with high growth potential, with the capability of innovating and creating jobs at scale.

This chapter explores the entrepreneurial side of the innovation paradox in LAC: Why, despite ample technological opportunities, do so few entrepreneurs drive meaningful innovation, growth, and job creation? It first assesses the quantity and quality of entrepreneurial activity in the region, distinguishing between a large mass of low-growth microentrepreneurs and a smaller pool of potentially transformational firms (refer to box 2.1 for definitions of terms used in this chapter). The chapter then examines the human capital and capabilities of transformational entrepreneurs before turning to the broader enabling environment—such as access to finance, regulation, and institutional quality—that can support or hinder their development. Together, these elements provide a framework to understand the constraints on dynamic entrepreneurship in LAC and a blueprint for action to unlock their potential.

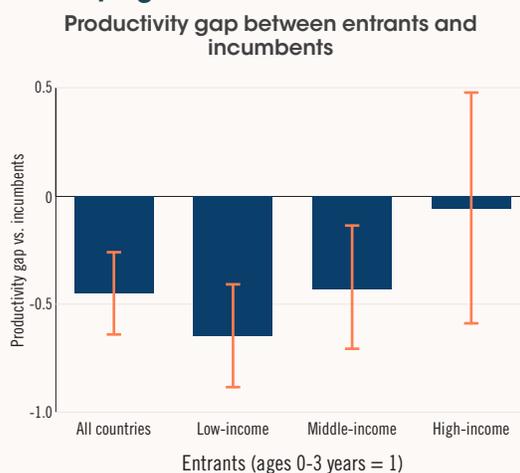
Entrepreneurship as Experimentation

While the adoption of new technologies by incumbent firms is important, the entry of new firms is a more powerful engine of productivity growth and job creation, as it fuels national learning and the vital process of creative destruction. Empirical evidence shows that the contribution of firm entry and exit to productivity growth is especially large in countries like Colombia and Chile, and job creation in the United States is disproportionately driven by new firms. This means that entrepreneurship, the activity of creating and operating new firms, plays an essential role in generating economic dynamism.

Entrepreneurship is fundamentally a process of experimentation, marked by uncertainty and risk. Its success depends not only on individuals who can identify and pursue new opportunities but also on ecosystems that support such risk-taking through enabling institutions and regulations. Developing countries appear to get less “kick” out of this process of experimentation: new firms tend to be less productive than incumbents, meaning that firm turnover does not automatically translate into productivity gains, as illustrated in figure 2.1.

Figure 2.2 identifies entrepreneurial opportunities (the lefthand panel) as flowing from the global arrival of new processes and products and firms’ ability to take

Figure 2.1.
Differences in Labor Productivity between Entrants and Incumbents Are Large in Developing Countries

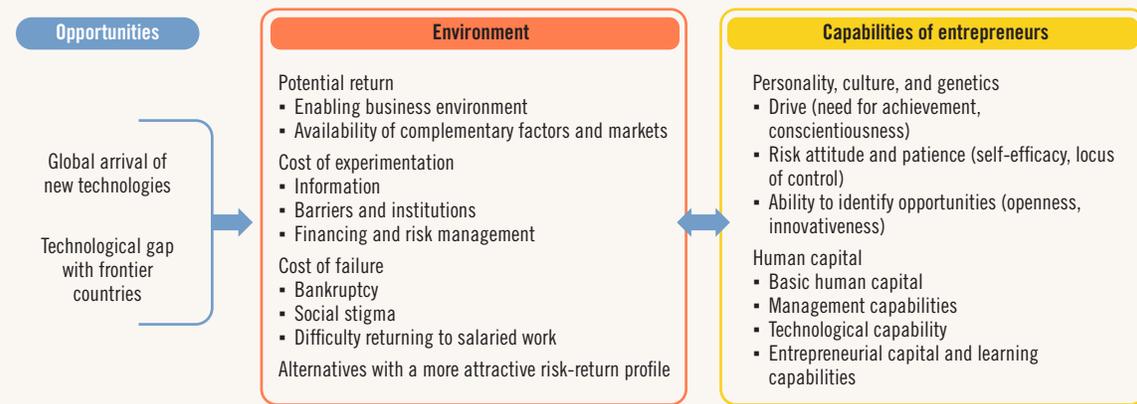


Sources: Cirera and Ding (forthcoming), based on World Bank Firm-level Adoption of Technology (FAT) survey data.

Note: The figure shows the labor productivity gap between entrants and incumbents by country income level and controlling for country-sector fixed effects. Entrants are firms between 0 and 3 years old. Their productivity level is standardized to 1.

Figure 2.2.

Drivers of Technological Adoption



Source: Cusolito and Maloney 2018.

advantage of these new technologies. Ideally, the new and more productive firms that result drive increases in productivity, growth, and job creation. However, the outcome depends on the environment—and hence the overall returns from entrepreneurship—and the underlying capabilities of entrepreneurs.

The enabling environment (the middle panel in figure 2.2) affects the return to entrepreneurship and the availability of necessary complementary factors, as well as the costs of experimentation (including ease of information flows, institutional and legal barriers or support, and financing and the ability to diversify risk) and the cost of failure (including ease of liquidation/bankruptcy, social stigma, and the difficulty of rejoining the salaried work force). Finally, the presence of alternatives with a more attractive risk-return profile—ranging from investment in low-productivity sectors, such as real estate, to rent seeking—can divert entrepreneurial energies. Without a supportive enabling environment, capable entrepreneurs will be unwilling or unable to enter the market or succeed if they do.

However, dynamism will be limited in even the best regulatory environment without capable entrepreneurs. Studies of the personal characteristics of entrepreneurs have enjoyed a resurgence, partly because of substantial increases in high-quality data at the firm level, and partly due to a twenty-first century fascination with start-up culture.⁵ This resurgence has occurred jointly with the focus on psychology and behavioral economics,⁶ and advances in the study of management quality.⁷

As the righthand panel of figure 2.2 highlights, entrepreneurial capabilities are a function of personality and culture that manifest themselves in drive and attitude toward risk and opportunities.⁸ Further, there is a spectrum of human capital that contributes to entrepreneurial effectiveness. Basic primary and secondary education, where LAC continues to badly lag, determines the pipeline for entrepreneurs and scientific talent. The fact that only about 40 percent of the population was literate in LAC's economic high performers—Argentina, Chile, and Uruguay in the 1800s and early 1900s—compared to levels of nearly 100 percent in similarly wealthy Sweden and Denmark meant that the potential density of high-quality entrepreneurs in those Nordic countries was two to three times greater: a huge lost opportunity for LAC.⁹

Beyond this foundational human capital, specific managerial capabilities and practices are needed to run a modern firm, while high levels of technological capabilities are necessary to recognize new technological opportunities. Relatedly, the capability to evaluate the risk-return profile of new projects relative to existing ones determines how local entrepreneurs will react to new information on new opportunities.¹⁰

5 Kerr, Kerr, and Xu (2018).

6 Astebro et al. (2014).

7 Bloom, Bond, and Van Reenen (2007).

8 Recent evidence suggests these factors are more malleable than previously thought. Refer to Cusolito and Maloney (2018, chapter 4).

9 Maloney, Cirera, and Ferreyra (2025).

10 Maloney and Zambrano (2021).

Quantity versus Quality of Entrepreneurship: Is LAC, in Fact, Entrepreneurial?

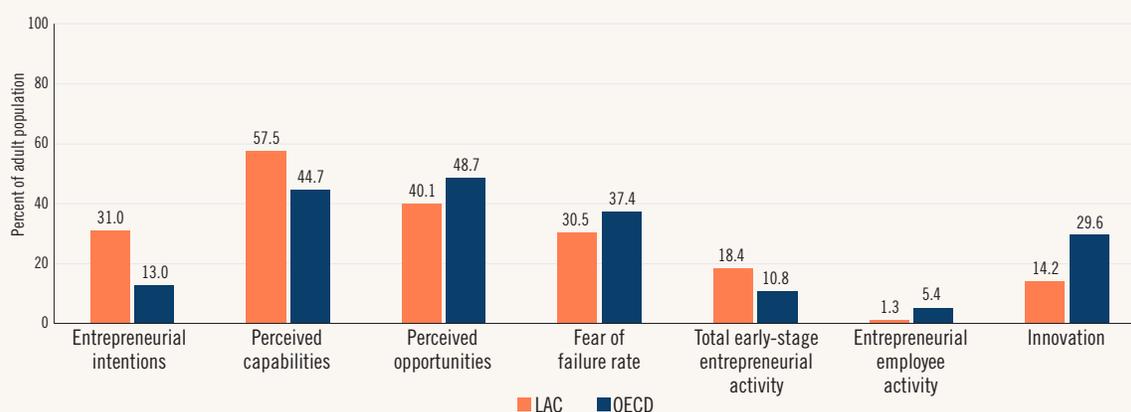
Strong Intentions to Be Entrepreneurial

LAC is a highly entrepreneurial region—at least in terms of expressed attitudes. Figure 2.3 uses Global Entrepreneurship Monitor (GEM) data¹¹ to show that, compared to the populations of member countries of the Organisation for Economic Co-operation and Development (OECD), populations in LAC countries display higher intentions to be entrepreneurial, stronger self-perceived capabilities, but slightly lower perceived opportunities to start a business in their local environment. Fear of failure, which can deter business creation, is moderately lower, indicating a relatively strong willingness to take risks. These attitudes are reflected in the relatively high levels of total early-stage entrepreneurial activity (TEA), meaning a large share of the adult population is involved in starting or running a new business.

Figure 2.3.

Entrepreneurial Intentions are Strong in LAC

Entrepreneurial attitudes and intentions



Source: World Bank staff calculations using Global Entrepreneurship Monitor (GEM) data.

Note: All variables are based on 2018 microdata. “Entrepreneurial intentions” refers to the percentage of adults aged 18–64 (excluding those already engaged in entrepreneurship) who intend to start a business within three years. “Perceived capabilities” is the percentage of adults aged 18–64 (excluding current entrepreneurs) who believe they have the skills and knowledge to start a business. “Perceived opportunities” reflects the percentage of adults aged 18–64 (excluding current entrepreneurs) who see good opportunities to start a business locally. “Fear of failure” indicates the percentage of adults aged 18–64 (excluding current entrepreneurs) who say fear of failure would prevent them from starting a business. “Total early-stage entrepreneurial activity” (TEA) measures the percentage of adults aged 18–64 who are either nascent entrepreneurs or owner-managers of new businesses. “Entrepreneurial employee activity” denotes the rate at which employees participate in entrepreneurial activities, such as creating or introducing new goods or services, or establishing a new business unit, branch, or subsidiary. “Innovation” reflects the percentage of TEA participants among adults aged 18–64 offering a product or service that is new to some customers and faces little or no competition. LAC = Latin America and the Caribbean; OECD = Organisation for Economic Co-operation and Development.

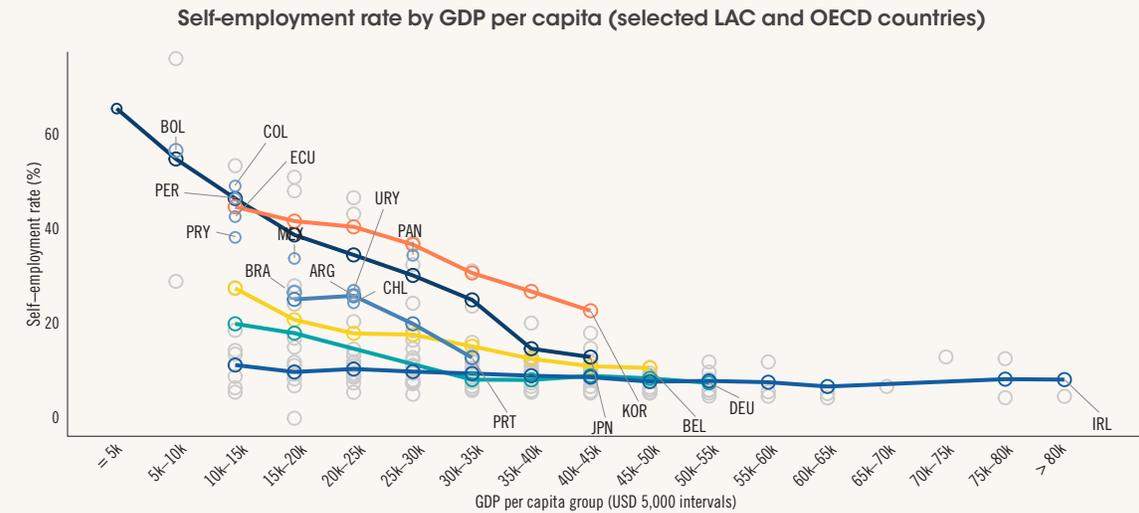
A high density of entrepreneurs for a given level of income, or high enthusiasm for entrepreneurship, could reflect great future potential growth. Conversely, it could merely indicate that the above-expected stock of entrepreneurs is relatively ineffective in generating development. Figure 2.4 compares self-employment, a common proxy for entrepreneurship,¹² in LAC with the level that advanced economies had when they were at the same income level LAC countries are now. LAC countries are broadly on the same trajectory as Japan, Korea, and Portugal were, and substantially above Germany, Belgium, and Ireland, suggesting, at first look, that it does not seem like LAC has a shortfall in the number of entrepreneurs required for rapid growth and job creation.

11 The Global Entrepreneurship Monitor (GEM) surveys the role of individuals in the entrepreneurial process through the Adult Population Survey (APS). The APS focuses on business characteristics, motivations for starting a business, actions taken to start and run a business, and attitudes related to entrepreneurship.

12 Self-employment, a commonly used measure for entrepreneurship, considers all individuals who work for themselves. This ranges from own-account workers (often owners of small “mom-and-pop” shops) to owners of large and dynamic enterprises.

Figure 2.4.

LAC Is Within the Range of Self-Employment That Advanced Economies Were When They Were at LAC's Current Income Level



Sources: World Bank staff calculations based on SEDLAC (CEDLAS-World Bank), OECD, and PWT data.
Note: Data labels use International Organization for Standardization (ISO) country codes. Dollar amounts are in U.S. dollars. LAC = Latin America and the Caribbean; OECD = Organisation for Economic Co-operation and Development. LAC's data points are from 2019.

But LAC Has a Problem with the Quality of Entrepreneurship

However, several other indicators suggest that it is important to look beyond the raw density numbers, to the quality of the entrepreneurship. First, data from the Global Entrepreneurship Monitor (displayed in figure 2.3) also suggest that, despite high levels of enthusiasm, LAC underperforms in several dimensions that the GEM considered to be linked to long-term economic transformation and productivity growth. First, entrepreneurial employee activity—which captures the rate of involvement of employees in entrepreneurial initiatives (such as developing or launching new goods or services, or setting up a new business unit, new establishment, or subsidiary)—is substantially lower in LAC, reaching only about 20 percent of the OECD average. Second, LAC entrepreneurs tend to be less innovative. The average share of early-stage entrepreneurs who report that their product or service is new to at least some customers, and that few or no competitors offer the same product, is less than half that observed in OECD countries.

Two Worlds of Entrepreneurship: A Mass of Micro Firms and a Small Pool of Potentially Transformational Firms

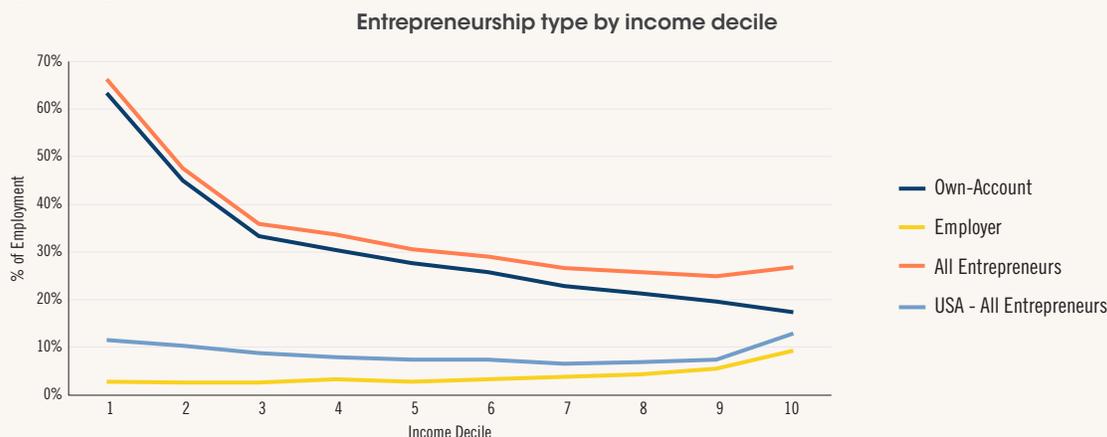
The high degree of enthusiasm for and social status of entrepreneurs, coexisting with these low outcomes and weak growth, can partly be explained by the fact that two very distinct types of entrepreneurship coexist that need to be treated separately conceptually. The first consists of a large mass of micro firms (with 0 to 5 employees), dominated by own-account workers with low education who have no employees, and that are predominantly unregistered (informal). The second type of entrepreneurship is centered in a much smaller set of more “modern” or “transformational” firms whose founders and managers are often more highly educated, and that create more jobs.

Figure 2.5 shows that most entrepreneurs in LAC are own-account workers who are concentrated in the lowest income deciles. Entrepreneurs who employ workers (“employers”) are fewer in number and more concentrated in higher income strata. This variation by income strata is not observed in the United States, for example.

Further, the vast majority of LAC’s entrepreneurs are poorly educated. Panel a of figure 2.6 shows that only at the top decile of the income distribution do more than 50 percent of entrepreneurs in LAC have more than a high school education. The vast majority have less. By contrast, in the United States, at least 60 percent of entrepreneurs have at least some college in all income strata. This is problematic because only firms with a more educated entrepreneur at the helm have the capabilities to arbitrage the technological gap and create dynamic enterprises and jobs. But it

Figure 2.5.

High Entrepreneurship in LAC Is Mostly Explained by the Abundance of Own-Account Firms, Especially at the Bottom Deciles

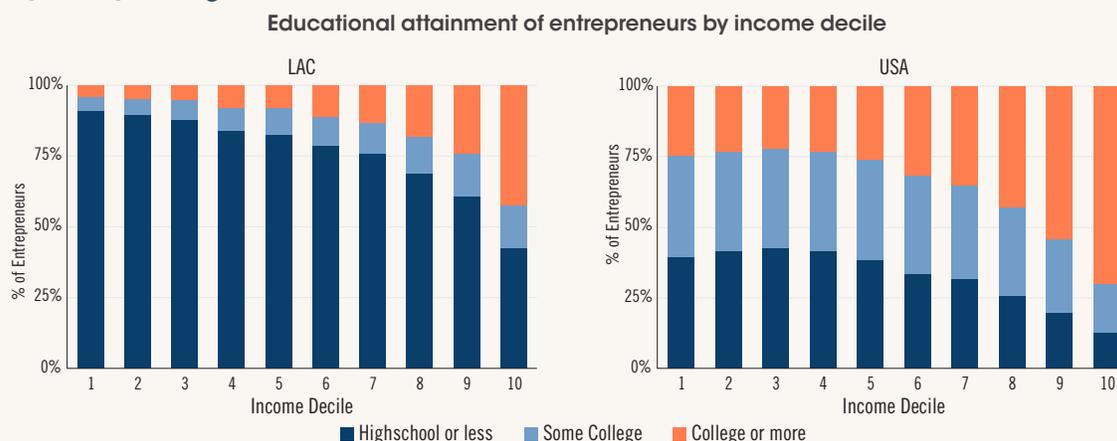


Sources: World Bank staff calculations based on SEDLAC (CEDLAS-World Bank) for 2019.

Note: “Own-account” refers to a firm with no employees. “Employer” refers to a firm that has at least 1 employee. “All entrepreneurs” refers to the total of the previous two categories. Income deciles are computed using the entire distribution of earnings, including workers. LAC = Latin America and the Caribbean; USA = United States of America. For LAC, data for 12 countries are aggregated: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, Paraguay, Uruguay.

Figure 2.6.

Entrepreneurs with Low Levels of Education Are Common across All Income Levels in LAC, but Especially among the Lower Deciles



Sources: World Bank staff calculations based on SEDLAC (CEDLAS-World Bank) (2019) for LAC and the American Community Survey (2019) accessed through IPUMS for the United States.

Note: LAC = Latin America and the Caribbean; USA = United States of America. For LAC, data for 12 countries are aggregated: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, Paraguay, Uruguay.

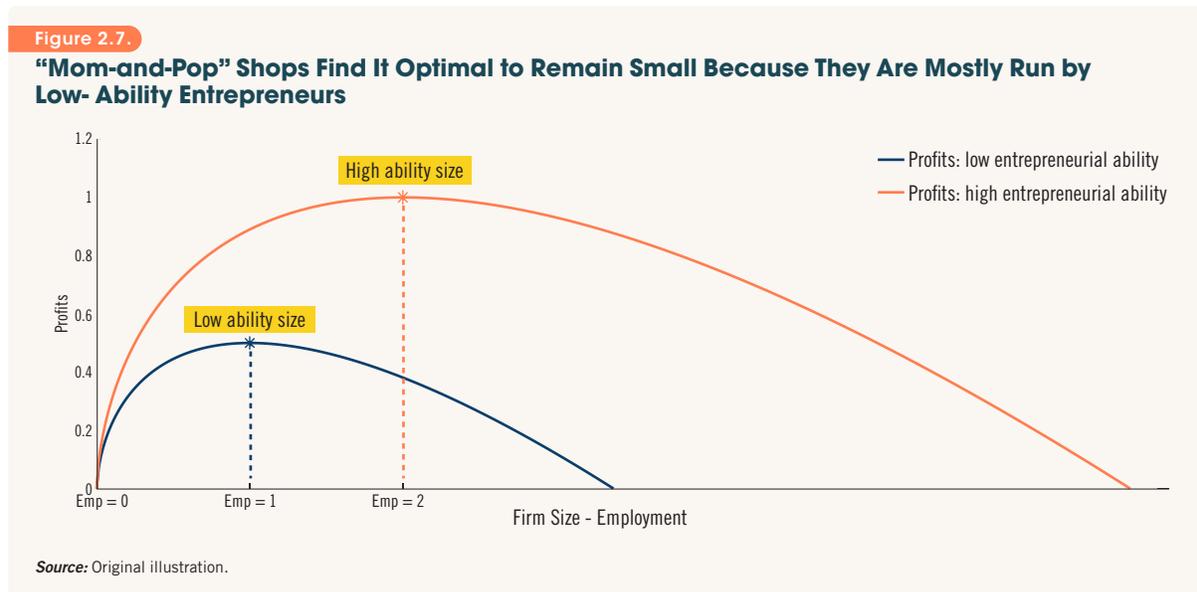
also suggests that the low productivity of workers overall is related to the high share of own-account workers and micro firms.¹³ There is also a link between the distributions of firm size and income:¹⁴ only 3 percent of the workers in the bottom earnings deciles work in businesses with more than 10 employees, compared to 62 percent in the United States and 40 percent in high-income countries in the European Union (EU).

13 In LAC, low-income workers are more likely to be self-employed, unlike in advanced economies, where high earners are often self-employed (Bhandari et al. 2024) or work in large firms (Autor et al. 2020; Karabarbounis and Neiman 2014; Kavoussi 2019; de Loecker et al. 2020).

14 Eslava et al. (2023, 2024).

LAC's Microentrepreneur Sector Is a Source of Jobs, but not Economic Dynamism

The own-account workers and micro firms in LAC tend to report little interest in expanding their businesses, and few state that they are constrained from doing so. Similar to the case in the United States,¹⁵ in Chile, only 8 percent of own-account workers report plans to hire more workers; in Mexico, the shares are even lower, with less than 1 percent of micro entrepreneurs planning to hire (2 percent of all firms with fewer than 10 employees). Consistent with low expansion plans, only 4 percent seek to contract credit, with most saying they do not need it.¹⁶ By contrast, firms with employees in both countries show stronger intentions to grow their businesses, with substantially higher shares planning to hire or invest. That is, LAC's microentrepreneurs resemble the “mom-and-pop” firms of standard microeconomic theory—small operations that rationally maximize their profits at a low output level given their low managerial ability.¹⁷ The profit function of such firms is shown in blue in figure 2.7.



Studies of their life-cycle dynamics of entry and exit are quite similar to those in the United States, with the exception that their steady state is lower.¹⁸ This pattern challenges the optimistic view popularized by Hernando de Soto; his book *The Other Path* argued that the main barrier to the growth of such firms were the high registration costs and informality more generally, and that removing obstacles to formalization would unleash the region’s entrepreneurial potential.¹⁹ In fact, the evidence suggests that reducing formalization costs might induce formalization but has little impact on growth.²⁰ Box 2.2 explores this point in the context of firms in Brazil.

In terms of the quality of jobs that own-account and micro firms offer, workers in both types of establishments generally report that their jobs are no worse than the jobs they were qualified for in the formal salaried sector. Moreover, these jobs offer amenities that salaried jobs do not have—in particular, flexibility and being one’s own boss. Although some observers²¹ have argued that microentrepreneurship largely reflects “disguised unemployment”—citing the fact that transition patterns from microentrepreneurship and unemployment into wage jobs in developing countries are more similar than those in advanced economies, the weight of evidence indicates that these very small firms provide a desirable substitute to low-skilled salaried jobs. The same data confirm earlier transitional studies that show that many people remain self-employed for long periods.²² Their transitions and earnings are more consistent with a view of microentrepreneurship being a substitute for formal salaried work—especially in low-income settings—rather than for unemployment.

15 Hurst and Pugsley (2011).
16 Cunningham and Maloney (2001); ENAMIN (2010, 2012); EME (2022).
17 Lucas (1978) models firm size as an optimizing choice tied to individual managerial skills.
18 Fajnzylber, Maloney, and Rojas (2006).
19 de Soto (1989).
20 Farias and Hsu Rocha (2025); Bruhn and McKenzie (2014).
21 Notably, Donovan, Lu, and Schoellman (2023).
22 Refer to Maloney (1999) and Bosch and Maloney (2010).

Box 2.2.

Is the Legal Status of Firms Informative about Firm Quality? Evidence from the MEI Regime in Brazil

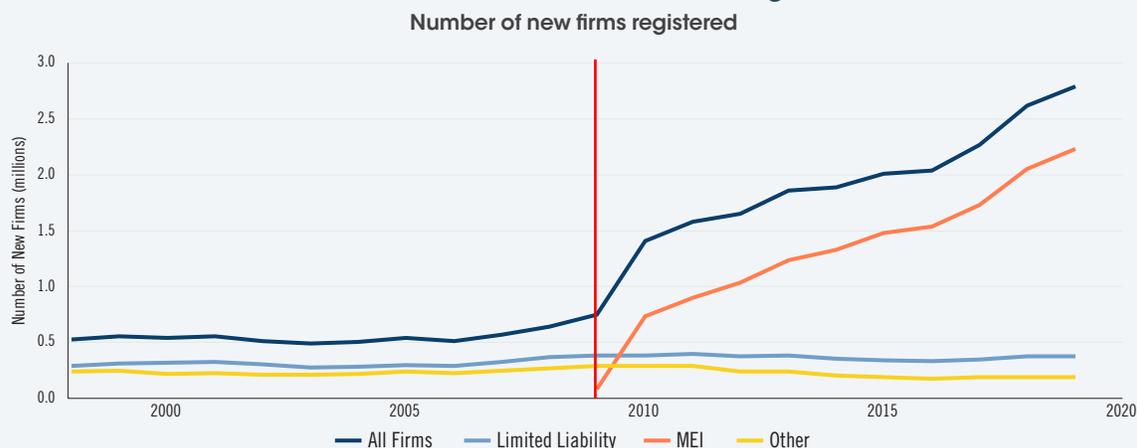
The creation of firms has been robust in Brazil over the past 15 years, even amid sluggish economic growth, weak productivity gains, and limited job creation (refer to figure B2.1.1). This apparent paradox can be explained by the expansion of the Microempendedor Individual (MEI) regime, a legal structure designed to facilitate the formalization of entrepreneurs that operate with low revenues and that hire, at most, one employee.^a

The MEI program significantly reduced formalization costs, triggering a surge in firm registration. However, it did not translate into substantial gains in firm growth or job creation.^b This outcome highlights an important policy lesson: lowering the costs of formality is not sufficient to spur dynamic entrepreneurship; other constraints may still inhibit firm expansion.

While MEIs have proliferated, swelling to account for 47 percent of legal registrations, more complex legal structures—such as limited liability companies (LLCs)—have remained stagnant since the end of the commodity boom. This divergence underscores the importance of looking beyond aggregate firm creation figures and considering the type of firms being established when assessing the contribution of entrepreneurship to economic growth and employment.

Figure B2.1.1.

Creation of MEI Firms in Brazil Has Been Robust since the MEI Regime Was Introduced



Sources: World Bank staff calculations based on Annual Report of Social Information (RAIS).

Note: The Microempendedor Individual (MEI) regime is a legal structure in Brazil designed to facilitate the formalization of entrepreneurs operating with low revenues and, at most, one employee. Limited Liability includes single-owner firms and partnerships.

Legal status is strongly associated with firm characteristics and outcomes. MEIs are significantly less likely to employ workers, and when they do, the wages they pay tend to be substantially lower than in other firms. MEIs also have lower survival rates. These patterns are consistent with evidence from a 2017 study that finds that entrepreneurs self-select into different legal forms based on their underlying capabilities and motivations.^c What is clear is that registration per se, and the access to formal credit markets and other services it implies, does not imply that firms suddenly become dynamic. Rather, registering as a MEI or as an LLC appears to serve as a signal for entrepreneurial quality.

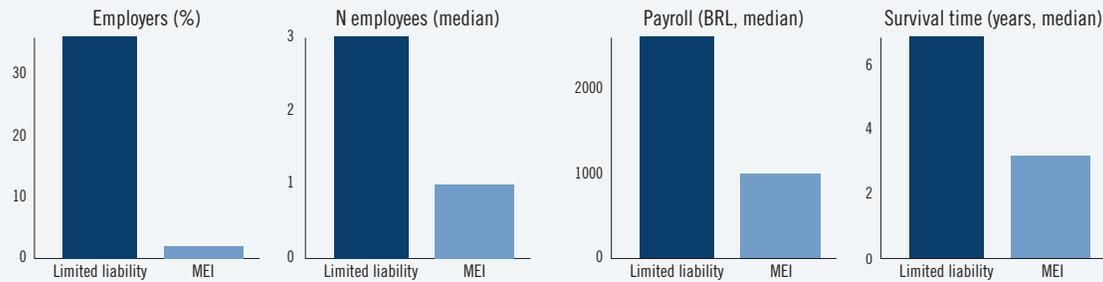
This interpretation is supported by the fact that owners of MEIs and owners of partnerships differ substantially in observable characteristics, especially those related to human capital and labor market history. In terms of education, MEI owners resemble non-entrepreneurs, with only 20 percent having completed college; by contrast, nearly half (46 percent) of partnership owners hold a college degree. MEI owners are more likely to have completed only high school. Labor market history further distinguishes the two groups. Unemployment appears to be a key driver of firm creation, particularly among MEI owners, who are more likely to have been unemployed before starting a business than both partnership owners and non-entrepreneurs. Moreover, partnership owners tend to have higher wages before establishing their firms and more prior managerial experience than MEI owners.

Box 2.2. Is the Legal Status of Firms Informative about Firm Quality? Evidence from the MEI Regime in Brazil (continuation)

Figure B2.1.2.

Limited Liability Companies in Brazil are Larger and Survive More than MEIs, Signaling Higher Productivity

Firm performance indicators for limited liability companies and MEI firms



Sources: World Bank staff calculations based on Annual Report of Social Information (RAIS).

Note: The Microempreendedor Individual (MEI) regime is a legal structure in Brazil designed to facilitate the formalization of entrepreneurs operating with low revenues and, at most, one employee. BRL= Brazilian real.

Notes

- a. Finamor et al. (2025).
- b. Farias and Hsu Rocha (2025).
- c. Levine and Rubinstein (2017).

Policies that improve managerial training or access to microfinance can improve managerial practices, job creation, and investment at micro firms if properly designed.²³ However, while these programs might improve the welfare (and earnings) of microentrepreneurs and the workers they employ (if any), they are unlikely to unleash widespread innovation or technology adoption, and productivity and output growth, because these individuals lack the necessary skills or motivation to start transformational firms.

Limiting the Global Entrepreneurship Monitor data to microentrepreneurs (as described in table 2.1) indicates that the motivations for business entry are similar across both LAC and OECD regions. About 20 percent of these microentrepreneurs enter to raise incomes and about 30 percent enter for greater independence. LAC entrepreneurs appear to be about 10 percentage points higher on entering “for necessity,” defined as either having no better choice for work or needing to maintain income. If the sample is further restricted to unskilled microentrepreneurs, necessity becomes an even more prominent cause in both regions. But these questions are ambiguous: in any sector, if there were a better choice for work, the respondent would have taken it; and maintaining income is arguably why people work, including in formal salaried jobs. This implies that at a minimum, 74 percent of OECD and 64 percent of LAC microentrepreneurs are motivated by “opportunity”—a difference in magnitude, but not of kind. From a conceptual and policy point of view, the motivations of LAC and OECD micro firms are very similar, and the equation of this group with “necessity” motivations²⁴ is only true for perhaps one third.

The share of “opportunity” microentrepreneurs in the GEM data (figure 2.8) aligns closely with motivational questions in labor market surveys that report that 50 percent to 80 percent of microentrepreneurs in Brazil, Chile, Colombia, and Mexico enter the sector for opportunity.²⁵ These findings also echo global evidence of strong preferences for self-employment even among salaried workers²⁶—exceeding 70 percent in Mexico and the Dominican Republic, while somewhat lower, at 40 percent, in the OECD.²⁷ In Mexico, willingness-to-pay estimates suggest that the additional

23 Barnejee et al. (2015); Bruhn et al. (2025); Buera et al. (2015); Campos et al. (2024); McKenzie et al. (2023).

24 Refer to Schoar (2010).

25 For example, in Brazil, the 60 percent of microentrepreneurs who say they are not seeking salaried work state this is because they prefer their current employment in micro firms. In Mexico, 66 percent of those transiting from formal salaried to informal micro firm employment report doing so for increased income and independence (Diaz et al. 2007; Fiess, et al. 2010).

26 Blanchflower et al. (2001).

27 Beylis et al. (2025).

Table 2.1.

Business Entry Motivations Are Similar across LAC and OECD

Percent of surveyed microentrepreneurs

Motive to start Enterprise	Microentrepreneurs		Unskilled Microentrepreneurs	
	LAC	OECD	LAC	OECD
Opportunity: Increase in income	18.4	23.5	22.4	20
Opportunity: Independence	30.8	27.1	26.1	25.8
Mixed motive: Combination of Opportunity and Necessity	14.7	23.6	9.7	22.7
Non-Opportunity: Necessity or Maintain Income	36.2	25.8	41.8	31.5
Total	100	100	100	100

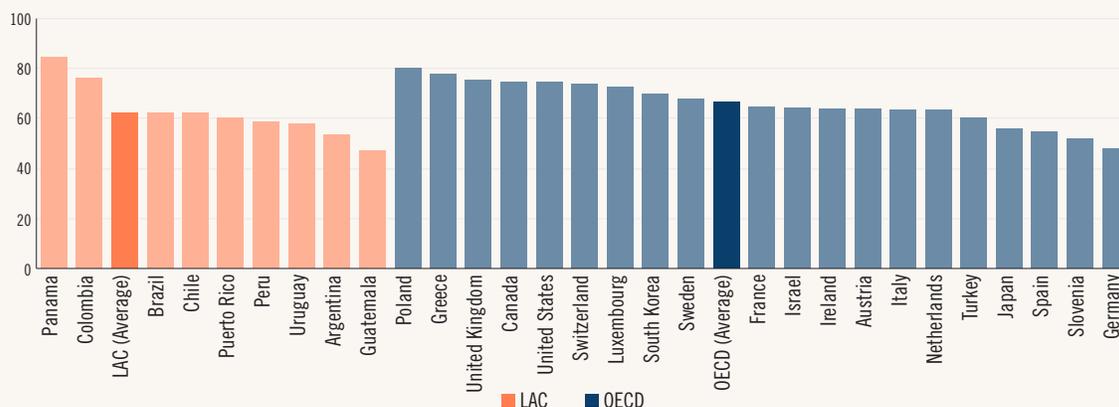
Source: Global Entrepreneurship Monitor (GEM) data.

Note: LAC = Latin America and the Caribbean; OECD = Organisation for Economic Co-operation and Development. The columns labeled “microentrepreneurs” consider only those entrepreneurs who hire fewer than 5 workers, while the columns labeled “unskilled microentrepreneurs” consider only those entrepreneurs who hire fewer than 5 workers and have high school education or less.

Figure 2.8.

Most Microentrepreneurs Choose Self-Employment for Income and Independence

Percent of surveyed microentrepreneurs who report entering for “opportunity”



Source: Global Entrepreneurship Monitor (GEM) data.

Note: LAC = Latin America and the Caribbean; OECD = Organisation for Economic Co-operation and Development. The figure considers only those entrepreneurs who hire fewer than 5 workers.

value placed on independence and being one’s own boss may equal current earnings.²⁸ The spread of universal health and pension systems in the region has further tilted incentives toward self-employment. Finally, labor market dynamics reinforce these patterns. Gross flows between formal jobs and informal self-employment—that is, formal salaried workers starting new firms—are procyclical in countries where wage rigidities are low, such as Mexico,²⁹ suggesting a majority of entrants are motivated by opportunity.³⁰

Overall, while some microentrepreneurs are seeking other opportunities (as is also the case among salaried workers), for most, this sector offers work perceived to be at least as desirable as formal jobs, with added amenities. Therefore, terms such as “precarious” or “subsistence” should be used with more precision, acknowledging that a worker’s welfare would not necessarily improve within the existing formal salaried sector; hence, “subsistence” describes those jobs equally well.

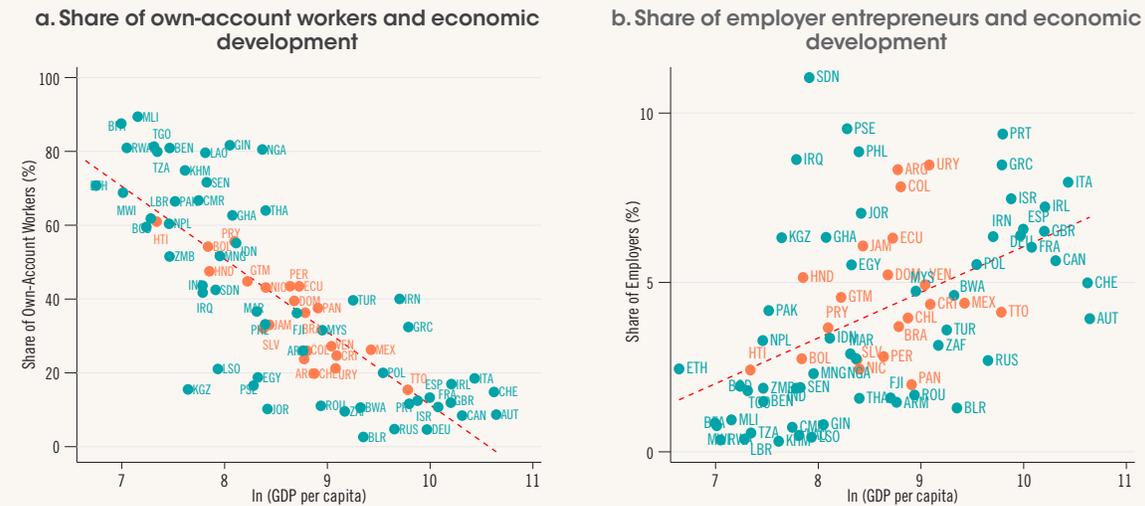
28 Beylis (2025).

29 Bosch and Maloney (2010).

30 However, they become a-cyclical or countercyclical in more rigid contexts, like Colombia (Fiess et al. 2010) where the necessity component may become more important.

Figure 2.9.

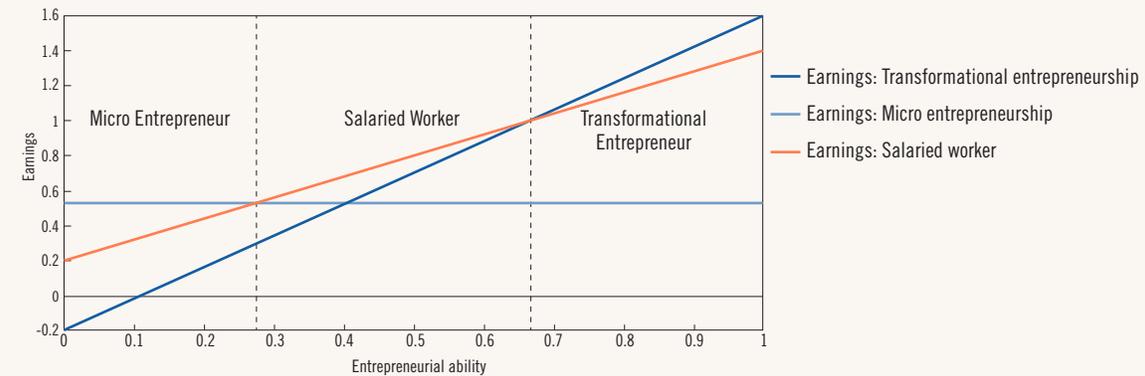
The Share of Own-Account Workers Decreases and the Share of Employer-Entrepreneurs Increases at Higher Levels of Development



Source: Update of Feng and Ren 2023.
Note: Own-account refers to independent workers who do not hire employees. “Employer entrepreneur” refers to self-employed who hire at least one employee. “Employer” includes informal micro firms with only one or two employees. Data labels use International Organization for Standardization (ISO) country codes.

Figure 2.10.

Individuals with Low Marketable Abilities Might Find in Microentrepreneurship Their Best-Paying Occupation, while Those with High Abilities Reap the Gains from Transformational Entrepreneurship



Sources: Original illustration based on Levine and Rubinstein (2020).

The share of own-account workers decreases with development (refer to figure 2.9, panel a),³¹ suggesting that the attractiveness of this type of work declines as the opportunity cost presented by increasingly attractive opportunities in the salaried sector rises. By contrast, the share of employer entrepreneurs with at least one employee increases with the level of development (refer to figure 2.9, panel b), consistent with the increasing density of these types of entrepreneurs contributing to the increase in output per worker.³²

The stylized schematics in figure 2.7 and figure 2.10 capture the elements of the preceding discussion. However, attractive own-account and microentrepreneurship may be to poorly skilled workers, salaried employment begins to become more attractive as skills rise; the share of workers starting their own firms falls while the share in salaried work expands. Those who achieve an even higher level of human capital may emerge as transformational entrepreneurs who can start and manage firms of scale that can expand, innovate, and generate employment. This logic captures that micro firm/own-account

31 Maloney (2004); Loayza and Rigolini (2011); Feng and Ren (2023); Herreño and Ocampo (2023).
 32 Allub and Erosa (2019); Feng and Ren (2023); Gu (2021).

entrepreneurs and transformational entrepreneurs are very different. The fact that a large share of the workforce in LAC works in informal microentrepreneurial activities does not mean it has latent dynamism ready to be released by improved regulations. That dynamism lies in more transformational entrepreneurs. Hence, the discussion turns to them next.

Does the Region Lack Transformational Entrepreneurs?

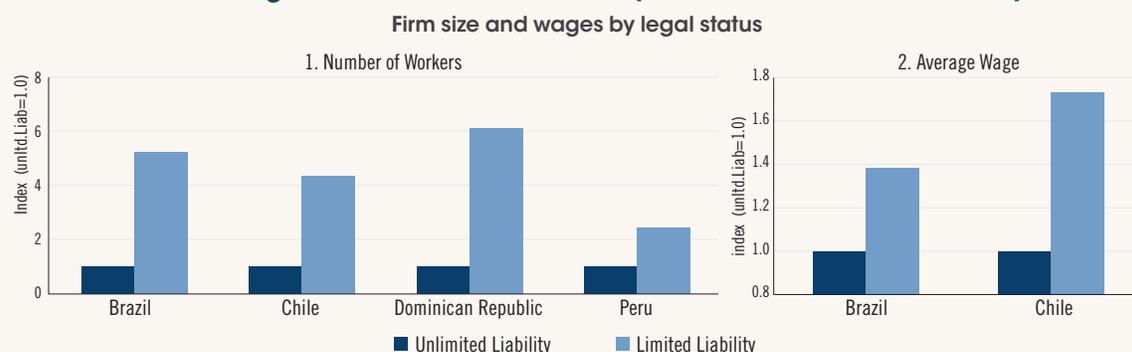
The preceding discussion raises the question of whether, despite the higher overall total early-stage entrepreneurial activity in LAC (refer to figure 2.3), the region suffers from a shortfall of transformational entrepreneurs. There are currently only imperfect ways to identify and hence measure the density of transformational entrepreneurship. The Employer measure in panel b of figure 2.9 includes firms that have grown beyond the founder but also counts informal micro firms with only one or two employees—often family members—that may not continue growing.

Limited Liability Companies (LLCs)

Recent literature shows that the choice of limited liability status is strongly correlated with high-quality entrepreneurship, suggesting that the legal form chosen at the time the firm is created is closely linked to both the characteristics of the firm—such as size and productivity—and those of the entrepreneur.³³ This legal choice to register as an LLC and incorporate a business reflects an ex ante selection: entrepreneurs with greater resources, higher skills, and more ambitious growth plans are more likely to register their firms as limited liability companies. LLCs also create more and higher-quality jobs, as measured by the average firm size and wages, than their counterparts with unlimited liability. Figure 2.11 visually demonstrates this relationship: it compares limited liability companies to unlimited liability companies in several countries and shows that LLCs, on average, hire more workers and pay them more. Furthermore, World Bank data presented in figure 2.12 highlights the global landscape of the density of registered limited liability firms. LAC, at a value of 30, falls below most other regions—well behind Europe and Central Asia (46), East Asia and Pacific (58), and especially North America (with Canada at 99).

Figure 2.11.

Firms with Different Legal Statuses Have Different Capacities to Create Good-Quality Jobs



Sources: World Bank staff calculations based on RAIS (Brazil), Longitudinal Survey of Firms (Chile), Directorio de Empresas y Establecimientos (Dominican Republic), INEGI (Mexico), VCENEC (Peru).

Note: The figure displays the ratio of average workers and payroll costs for limited liability companies (LLCs) versus unlimited liability companies (ULLCs) in selected countries. Ratios above one mean LLCs have higher averages than ULLCs.

High-Tech Firms

Taking a narrower focus on technology-based firms, the number of start-ups has increased dramatically in LAC, but their density remains low. The Inter-American Development Bank (IDB) counted 1,005 technology start-ups in LAC in 2021 that had raised more than US\$1 million each, along with a number of larger technolatinas—technology-based private companies born in LAC and owned by founders from the region,³⁴ whose total value grew from US\$7 billion to US\$221

³³ Glover and Short (2010); Herranz et al. (2015) Levine and Rubinstein (2017, 2020); Morales (2025).

³⁴ The definition of technolatinas encompasses a wide range between early-stage start-ups and well-established companies worth tens of billions of dollars with thousands of employees. Most are entrepreneur-driven digital ventures.

Figure 2.12.

LAC Has a Relatively Low Share of Limited Liability Companies (LLCs)



Sources: World Bank staff calculations based on World Bank Entrepreneurship Database.

Note: The figure presents data on limited liability companies (LLCs) as a measure of transformational entrepreneurs as a share of the working population. Regional aggregates are calculated as the total number of registered firms in each region divided by the sum of the working-age population across those countries. The LAC aggregate includes the following countries and territories: Argentina, Bolivia, Brazil, Cayman Islands, Chile, Colombia, Costa Rica, Dominica, Ecuador, El Salvador, Grenada, Jamaica, Mexico, Panama, Peru, Suriname, Trinidad and Tobago, Uruguay. LAC = Latin America and the Caribbean.

in the decade from 2010 to 2020.³⁵ LAC has also experienced a dramatic rise in unicorns—firms with capitalization of more than \$US1 billion—from 4 in 2018 to 52 in 2022. The notable increase is attributable to the rapid growth of the fintech and e-commerce sectors, which account for 58 percent of unicorns.³⁶ This growth has also been facilitated by a conducive networking environment; most LAC unicorn founders possess substantial international experience acquired through university education or employment abroad.³⁷ While this is good news, New York City alone is home to 9,000 tech start-ups worth more than US\$189 billion.³⁸ The value of LAC unicorns as a share of GDP (1.4 percent) is very low; only one other region—Sub-Saharan Africa—has a lower value.³⁹ This is perhaps especially surprising given that LAC has several hot spots that have hosted high-tech multinationals for decades; however, these locales have not been able to leverage them into a local “Silicon Valley.”

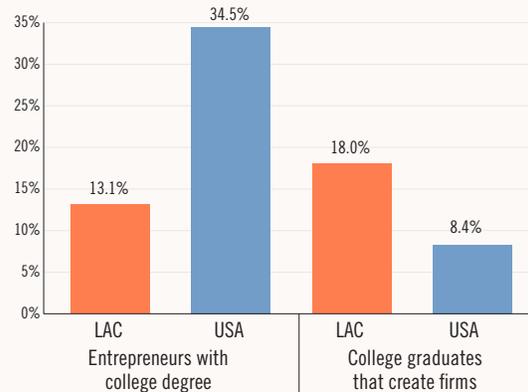
High-skilled managers

Another approach is to attempt to quantify the density of entrepreneurs with the skills required to engage in technological arbitrage and managing a modern firm. Figure 2.13 shows that LAC countries have considerably fewer entrepreneurs with a tertiary education than the United States (panel a). However, LAC’s educated workers are much more entrepreneurial; the share of educated individuals who decide to establish firms is more than twice as high as that of the United States, on average (panel b). Thus, part of the explanation for suboptimal education of entrepreneurs and managers relates to the insufficient mass of educated individuals among the population, and not by any cultural reluctance to engage in entrepreneurial activity or aversion to risk among the educated elite. It is possible however, that the tertiary education measure does not capture the additional dimensions of management ability and experience found in the United States, arguably the most advanced country in terms of management practices.

Figure 2.13.

LAC Has Few Educated Entrepreneurs, Explained by a General Lack of Educated Individuals

Occupational choice of educated individuals



Sources: For LAC, SEDLAC (CEDLAS-World Bank); for the United States, American Community Survey (accessed through IPUMS).

Note: The sample is restricted to individuals ages 18–64. LAC= Latin America and the Caribbean ; USA= United States of America. For LAC, data for 12 countries are aggregated: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay.

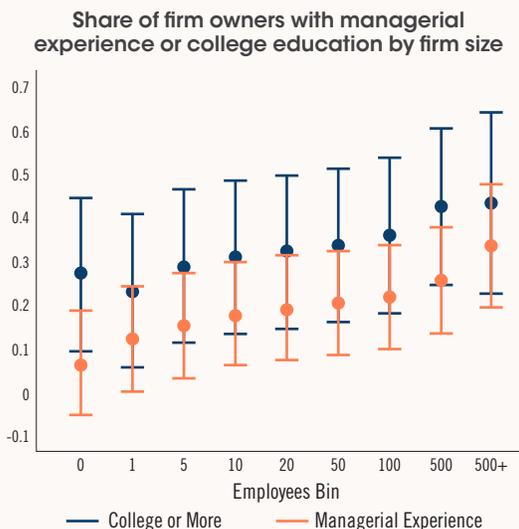
35 Peña (2021).
36 World Bank (2023); Rudolph et al. (2023).
37 Rudolph et al. (2023).
38 Teare (2022); Tech:NYC (2024).
39 Rudolph, Miguel, and Gonzalez-Urbe (2023).

Highly educated entrepreneurs and managers are more likely to be able to identify and manage more complex knowledge. Controlling for other factors, highly educated managers are more likely to have more complex organizational capital and manage firms that patent and export.⁴⁰ For instance, administrative data from Brazil show a strong positive relationship between firm size and both managerial experience and educational attainment (refer to figure 2.14). Among firms with no employees, about one-quarter of owners have a college degree and less than 10 percent have any managerial experience, while in firms with 500 or more employees, these shares rise to more than 40 percent for higher education attainment and 30 percent for managerial experience. These patterns are not simply the result of larger firms hiring more capable managers over their life cycle; firms with more educated managers grow and innovate more (refer to figure 2.15).

A forthcoming study for Brazil also finds a positive effect of an increase in higher education institutions in the number of hierarchies in firms, which is complementary to technology adoption.⁴¹

A growing literature suggests that the measured quality of management practices translates into a greater volume and higher value added of exports, more sophisticated exports, and higher productivity and growth for firms.⁴²

Figure 2.14.
Larger Firms in Brazil Have More Educated and Experienced Managers

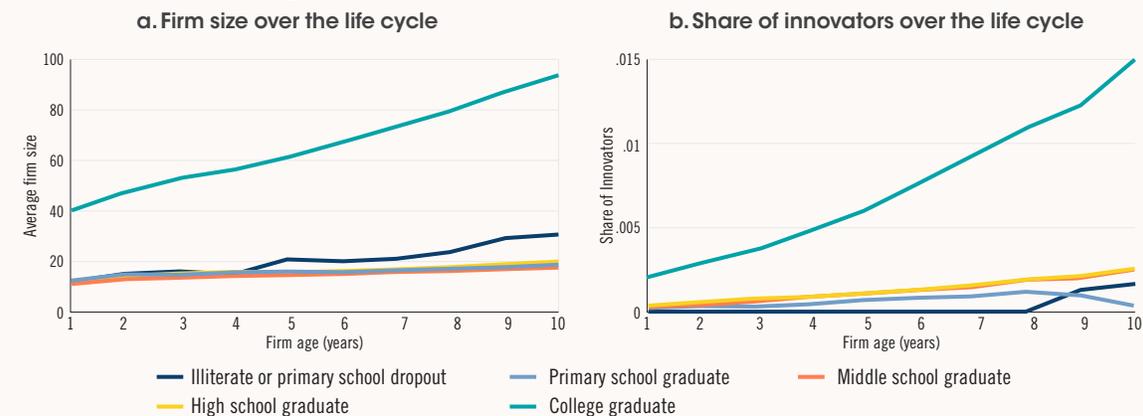


Sources: World Bank staff calculations based on the Annual Report of Social Information (RAIS).

Note: The figure displays the relationship between firm size and two key measures of entrepreneurial human capital: the likelihood that the business owner has prior managerial experience, and the likelihood that they have completed college or more. The estimates are based on a sample of firm owners in Brazil, constructed using administrative records from RAIS (Relação Anual de Informações Sociais). Both relationships are estimated controlling for industry (CNAE) and firm age.

Figure 2.15.

Highly Educated Managers Run Firms that Grow and Innovate More in Brazil



Sources: World Bank staff calculations based on data for Brazil from the RAIS (Relação Anual de Informações Sociais, Annual Social Information Report).

Note: Panel a shows firms' average size (in terms of number of workers) by top manager's education for new firms. The sample includes only new establishments with top managers. Panel b shows the share of firms that have received patents (as a proxy for innovation) among new firms by top manager's education. The sample includes only new establishments with top managers. The figure covers all firms in Brazil with an identified top manager.

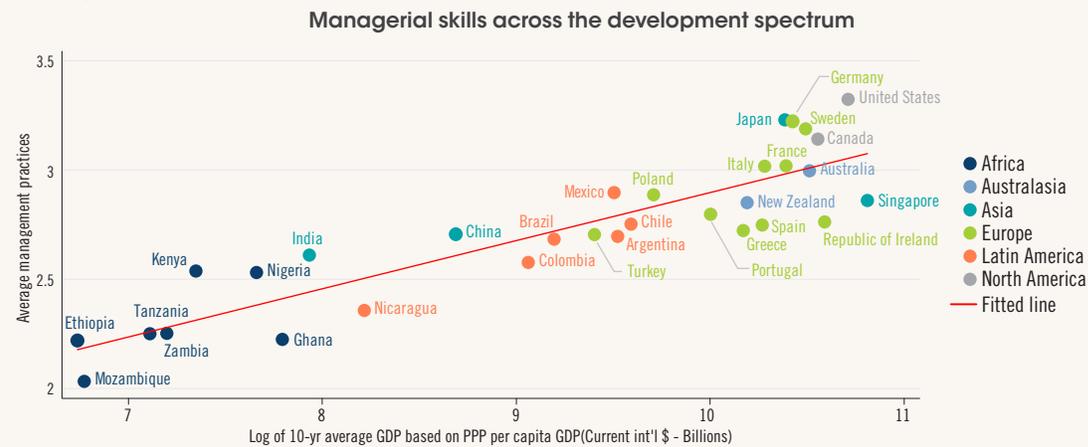
40 Refer, for example, to Bloom et al. (2021).

41 Cirera, Cruz, and Martins-Neto (forthcoming).

42 Bloom, Sadun, and Van Reenen (2012); Bloom and Van Reenen (2007); Fernandez, Iacovone, and Maloney (forthcoming); Giorelli (2019); McKenzie (2021). Various studies have shown specific channels through which improved management quality leads to improvements in innovation and productivity. For instance, in Portugal, higher-skilled entrepreneurs head faster-growing and more innovative and productive firms (Queiró 2022). More generally, better-managed firms in China, Colombia, and the United States are more likely to patent innovations and invest in more R&D, controlling for firm characteristics (Bloom et al. 2013; Cirera, Maloney, and Sarrias 2017). Better-managed firms export more and higher-quality goods to more sophisticated and more diverse markets (Bloom et al. 2021; Fernandez, Iacovone, and Maloney forthcoming). Differences in firm-embedded productivity (management practices, other intangible capital) account for one-third of the variance in output per worker across countries, Alvarez, Cravino, and Ramondo (2023) find. Relaxing barriers on multinational corporations, which tend to have higher managerial quality, in developing countries has the potential to raise developing country GDP by 12 percent, Burstein and Monge-Naranjo (2009) estimate.

Figure 2.16.

Managerial Skills Are Low in LAC



Sources: Bloom et al. 2014, based on World Management Surveys data, and World Development Indicators.
Note: Vertical axis shows country-level average management score over manufacturing firms; for every firm, an average score is computed over multiple management practices. Data years: 2004–22. GDP per capita is the average for 2012–21. LAC = Latin America and the Caribbean; PPP = purchasing power parity.

By these measures, LAC continues to lag in both management and organizational quality. In the World Management Survey, only Mexico’s scores exceed those predicted by income; Argentina, Brazil, and Chile underperform (refer to figure 2.16). A Deloitte report finds that only 17 percent of Latin American companies rate the maturity of their cost management as “high”—well below the average of the United States (50 percent) and the world (35 percent)—citing lack of strategic plans, weak liquidity, and insufficient controls.⁴³ Several recent reviews highlight the challenge of raising these capabilities.⁴⁴

Other aspects of entrepreneurial capital are harder to measure but show similar gaps. Surveys of engineers and faculty in Guadalajara, Mexico, reveal low perceived opportunities, weak risk management, and limited entrepreneurial skills: only 35 percent of engineers and 45 percent of faculty feel capable of starting a firm with their current set of skills.⁴⁵ In practice, such a lack of ability to identify and act on opportunities can mimic risk aversion. Moreover, many successful founders of billion-dollar “unicorns” around the world studied in tech hubs abroad, gaining business and networking skills. LAC lags in the share of individuals with such immersive training.⁴⁶

What Elements of the Enabling Environment Limit Transformational Entrepreneurship?

In sum, LAC does seem to have low levels of transformational entrepreneurship. But this finding begs the question of why the region’s strong entrepreneurial intentions have failed to translate into more transformational businesses and greater economic dynamism among them. What environmental factors hold back the returns to entrepreneurship and investing in better entrepreneurial skill set in LAC?

As figure 2.2 shows, there are many factors that reduce the returns from entrepreneurship, and recent World Bank volumes have examined several. Competition and Productivity Growth in Latin America and the Caribbean shows that anticompetitive forces protecting incumbents stifle entrepreneurial activity.⁴⁷ Rethinking Taxation in Latin America and the Caribbean for Growth highlights that the region has some of the highest corporate taxes in the world, which penalize entrepreneurship.⁴⁸ Reclaiming the Lost Century of Growth: Building Learning Economies in Latin America and the Caribbean⁴⁹, and recent research on LAC have shown that certain innovation subsidies strengthen incumbents at the expense of entrants, reducing

43 Deloitte (2020).
 44 McKenzie and Woodruff (2015); Cirera and Maloney (2017); Verhoogen (2023).
 45 Garcia Sanchez (2024)
 46 Refer to Maloney, Cirera, and Ferreyra (2025); Maloney and Zambrano (2021).
 47 Vostroknutova et al. (2025).
 48 Vuletin (2025).
 49 Maloney, Cirera, and Ferreyra (2025).

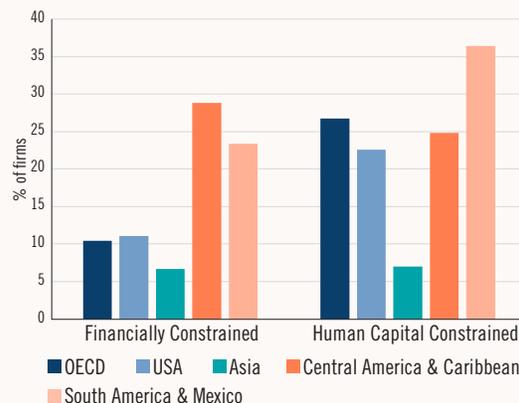
dynamism in the region.⁵⁰ Finally, the persistently low investment in infrastructure hinders the development of transformational businesses, which often require access to global markets through ports and highways, reliable access to electricity and water, and connectivity to global information systems, among other factors.

This section focuses on two particularly binding constraints: shallow financial markets that limit access to the financing required for growth; and human capital markets that make it costly for firms to hire the workers they need (on top of the lack of entrepreneurial skills and education already discussed).

To explore the impacts of these two constraints, the discussion leverages firm-level information gathered from thousands of businesses around the world, including in LAC, by the World Bank Enterprise Survey. We analyze the answers of firms to whether access to finance, or inadequately educated labor force are an obstacle to the operations of the establishment. In this sense, these questions capture if financial or human capital markets are able to satisfy the needs of existing firms, rather than a direct measure of financial or educational development. Figure 2.17 highlights that firms in LAC face more constraints than in other regions. Over a quarter of firms in LAC report being financially constrained, a share more than twice as high as that reported by firms in OECD countries (and more than three times that of Asian countries). Firms in LAC, particularly in South America and Mexico, are also more likely to be constrained in their ability to hire the workers they need to operate, than their counterparts in OECD, the United States, and specially Asian countries.⁵¹

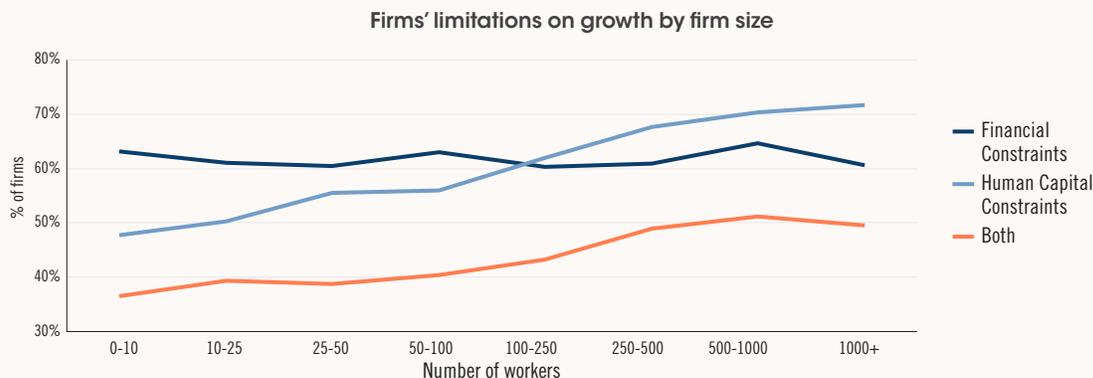
More granular analysis of firms affected by both types of limitations is possible for firms in Chile through data collected by the Longitudinal Survey of Firms in Chile (known as ELE, for its acronym in Spanish). According to this survey, almost 3 in every 4 firms report being constrained by finances or human capital, or both. Figure 2.18 shows that firms of all

Figure 2.17.
The Growth of Firms in LAC Is Limited by Insufficient Credit and Qualified Workers



Source: World Bank Enterprise Survey, last available year for each country.
Note: LAC = Latin America and the Caribbean; OECD = Organisation for Economic Co-operation and Development; USA = United States of America. OECD's average excludes members from LAC. South America & Mexico, and Central American & Caribbean include all countries considered in the World Bank Enterprise Survey database, except Haiti. Asia includes mainland China, Hong Kong (SAR, China), India, Indonesia, Malaysia, Thailand, Singapore and Vietnam. Constrained firms are those who answer that lack of funding or inadequately qualified labor force are a major or very severe obstacle to the operations of the establishment."

Figure 2.18.
Financial and Human Capital Constraints Affect Micro, Small, Medium, and Large Firms in Chile Differently



Sources: World Bank staff calculations based on Chile's Longitudinal Survey of Firms, 2014–19.
Note: "Constrained firms are those who answer that lack of financing, or workers in the quality and quantity needed is an important or very important barrier for firm growth."

50 In particular, De Souza (2023) summarizes for LAC the findings by Acemoglu et al. (2018) about innovation, reallocation, and growth.
51 These findings do not contradict previous findings about microentrepreneurs' low intentions to grow, given that these surveys focus on larger firms, and often do not consider microentrepreneurs.

sizes in Chile are similarly likely to see their growth limited by financial frictions, suggesting that financial limitations do not ease even for the largest and most successful firms. However, the inability to find enough qualified workers affects the largest firms more, as the share of firms affected by this type of constraint increases more than 20 percent across the firm size distribution.

Financial Constraints

The inability of firms to obtain the credit they need to grow is to a large extent explained by the low quality of LAC’s financial markets, reflecting persistent challenges in financial infrastructure and institutional support (refer to figure 2.19). How can governments in LAC improve the functioning of financial markets?

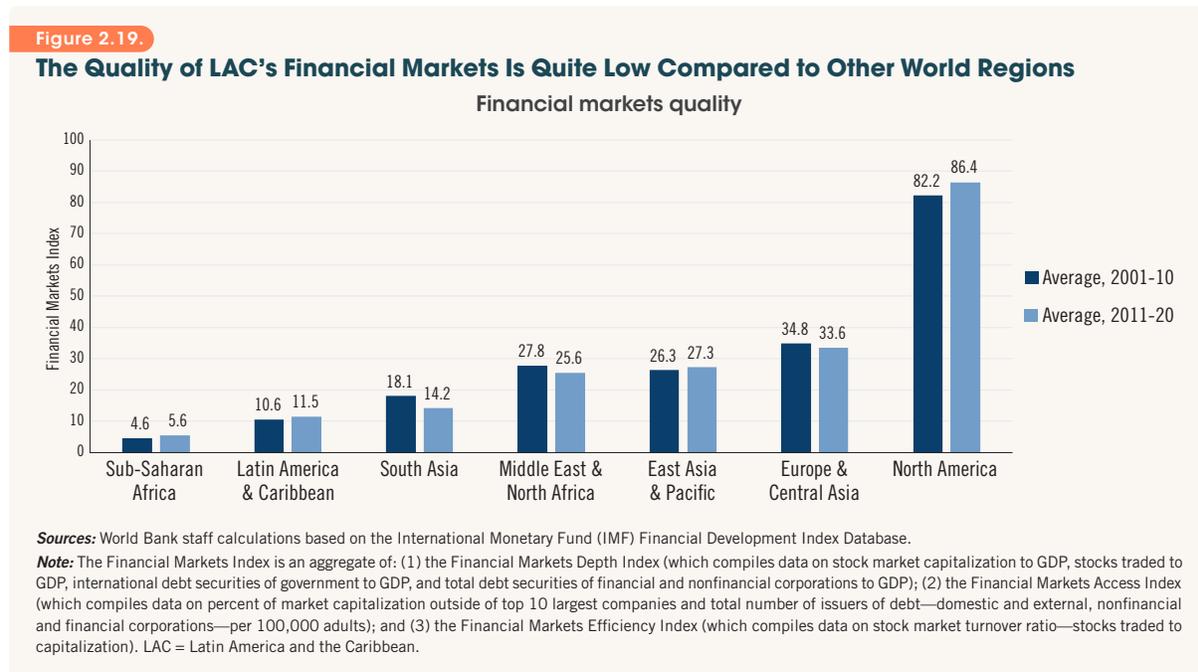


Figure 2.20 suggests three main areas that require institutional strengthening. First, for financial markets to function correctly, lenders and investors must be able to rely on the court system to enforce contracts should disputes arise. In LAC, the court system makes this process significantly costlier than in advanced economies, as enforcing contracts requires more time and resources. Reforms that pursue speeding up judicial proceedings, such as decreasing the paperwork involved, diminishing litigation time, or lowering the related monetary costs such as court or attorney’s fees, would be fruitful. For example, laws that allow creditors to take control of collateral without having to go through the court system would work in this direction.⁵²

Second, LAC countries must work on their bankruptcy framework. Well-designed bankruptcy laws provide adequate protection to entrepreneurs starting risky investments, while protecting the interests of creditors. However, in LAC countries resolving insolvency takes 75 percent longer than in advanced economies, and at the end, creditors recover 40 percent less. In addition, improving creditors’ ability to recover a higher share of their investments has proven to be an effective way to increase firm access to funding.⁵³

Third, while most countries have improved their financial information, including adopting International Financial Reporting Standards (IFRS), LAC still lags with respect to the best international practices. Similarly, there is room for improvement in strengthening creditors’ rights. Improving laws that govern collateral have proven to increase lending to firms by strengthening creditors’ rights.⁵⁴

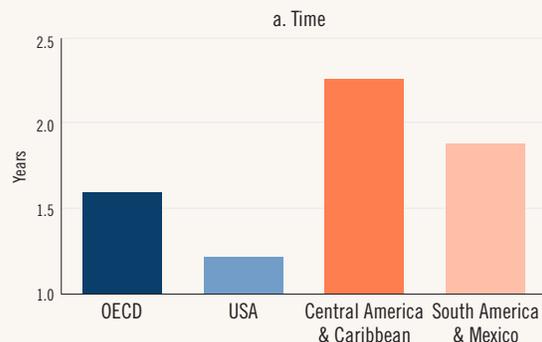
52 Calomiris et al. (2016).
53 Ponticelli and Alencar (2016); Fonseca and Van Doornik (2022).
54 Campello and Larrain (2016); Hanselman et al. (2010).

Figure 2.20.

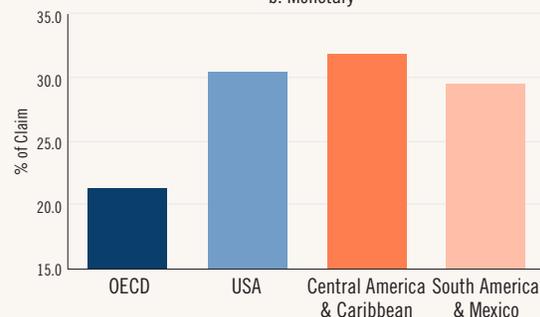
LAC's Legal System Contributes to Poor Financial Markets

Indicators of determinants of financial markets functioning

a. Cost of enforcing contracts

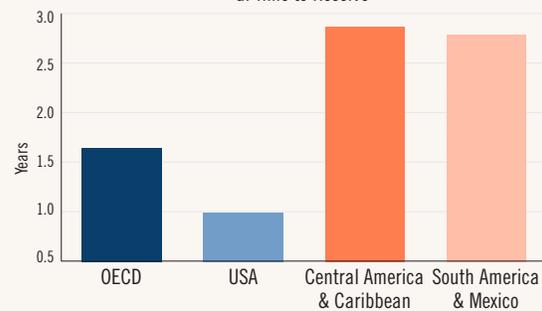


b. Monetary

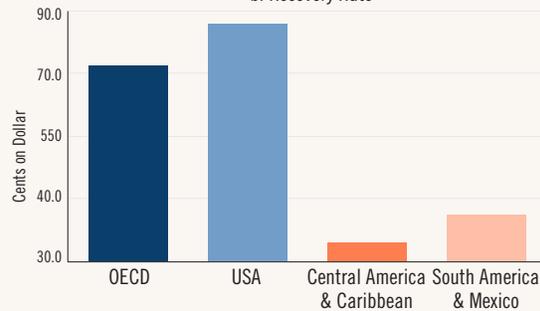


b. Cost of resolving insolvency

a. Time to Resolve

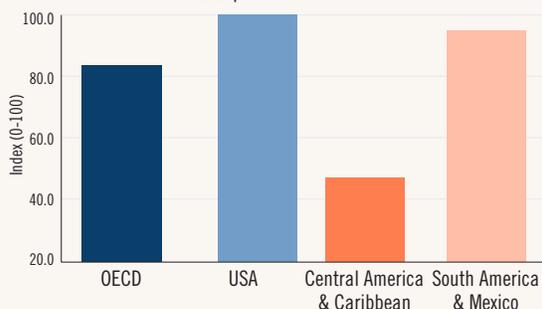


b. Recovery Rate

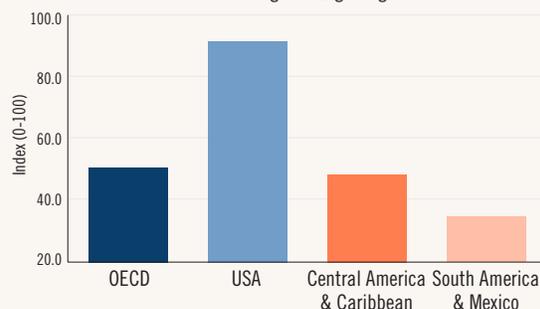


c. Credit environment

a. Depth of Credit Information



b. Strength of Legal Rights



Sources: World Bank staff calculations based on the World Bank Doing Business database (2020).

Note: OECD excludes members from LAC. South America & Mexico, and Central America & Caribbean include all countries considered in the Doing Business Database (2020), with the exception of Haiti. OECD = Organisation for Economic Co-operation and Development; USA = United States of America.

Insufficient access to credit and interest rates that are higher than in advanced economies are partially explained by market power of large financial institutions.⁵⁵ Thus, reforms aimed at fostering competition, from deregulation to the introduction of new financial technologies (fintech), should be considered.

The challenges stemming from underdeveloped financial markets in LAC extend beyond traditional lending to the very heart of innovation and entrepreneurship—namely, the availability and effectiveness of venture capital. The region's struggle to provide adequate risk capital of all stages for start-ups and innovative enterprises is not an isolated phenomenon, but rather a direct consequence of malfunctioning capital markets and weak institutional frameworks. Venture capital and

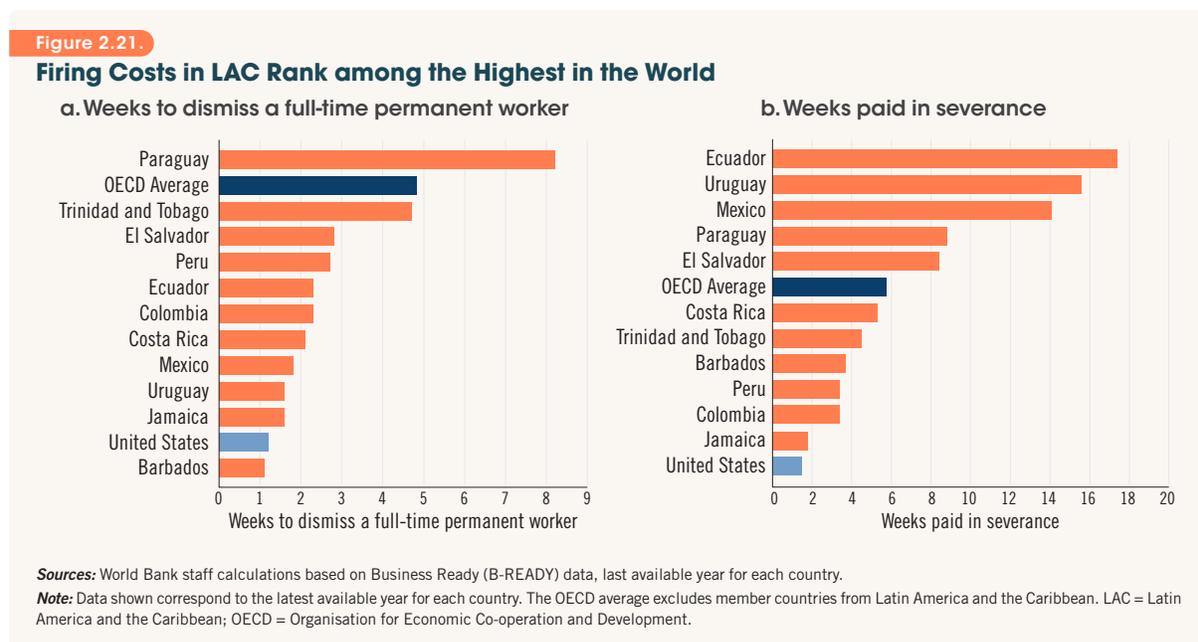
private equity in LAC remain limited, with funding still concentrated in late-stage investments. Most venture capital has been provided by external sources. Among the venture capital investments secured by the region, just 1.3 percent go to early-stage or innovative ventures.⁵⁶ This very low level is comparable only to that of Africa (0.4 percent), and well below that of emerging markets in Asia (13 percent). Barriers such as underdeveloped financial markets, volatile macroeconomic conditions, bureaucratic hurdles, and a shortage of experienced fund managers have discouraged foreign investment and skewed the region’s ventures toward safer, less technologically advanced sectors. Most investment and exit activity is clustered in Brazil and Mexico, while high-impact fields like artificial intelligence (AI) and biotech receive minimal funding. To unlock the region’s innovative potential, LAC needs broad reforms in bankruptcy procedures, financial infrastructure, and talent development. For the foreseeable future, it will remain short on the “venture management” skills—the experience of managing high-risk firms. Hence, cultivating venture capital will likely require partnerships with diaspora and foreign talent.

Human Capital Constraints

To address the scarcity of qualified human capital, governments in LAC need to work in at least two areas. First is increasing the stock of qualified workers in the economy. This includes pursuing policies with long-term horizons such as improving the quality of education in all stages, from early childhood to tertiary education,⁵⁷ as well some policies with short-term effects, such as increasing the availability and quality of short-cycle higher education program that provides workers with skills valuable to the private sector in relatively short periods of time.⁵⁸

The second area is the regulation of labor markets, which can increase the cost of hiring all sorts of workers if not properly designed. While some regulations and overhead costs, such as social security and severance payments, imposed on labor contracts serve an important social and protection role, they do increase the cost of hiring workers, decreasing the desired employment by firms. An example of this is the time it takes to dismiss a worker; although lower than the OECD average for most countries, there is ample room for improvement as they are substantially higher than in the United States (refer to figure 2.21, panel a), a major economy with historically dynamic labor markets. Similarly, the weeks paid in severance in most LAC countries are substantially higher than in the United States (refer to figure 2.21, panel b) and among the highest in the world.

One very promising route for entrepreneurial activity in LAC is digital entrepreneurship. This booming area is explored in box 2.3.



56 PitchBook data, 2023.

57 For an in-depth discussion of the relationship between quality of education and firm performance, refer to Maloney, Cirera, and Ferreyra (2025).

58 For an in-depth analysis of this type of program, refer to Ferreyra et al. (2021).

Box 2.3.

Digital Entrepreneurship in Latin America and the Caribbean

For many entrepreneurs, the flexibility and control over personal time offered by digital business models are highly appealing. Yet success is far from guaranteed: many firms struggle to scale or survive. Understanding who benefits from e-commerce, and why adoption barriers persist, is central to grasping this digital transformation.

E-commerce infrastructure platforms, such as Tiendanube in LAC and Shopify in the United States and Europe, have the potential to dramatically lower entry barriers for aspiring business owners. These platforms reduce the fixed costs and capital required to start selling online, while providing access to a much broader pool of national and international customers. They offer entrepreneurs an integrated ecosystem to easily set up and operate their online businesses—including web hosting, payment processing, logistics integration, and customer management. Moreover, by allowing entrepreneurs to own their storefronts and charging very low fees—key differences from online marketplaces—these platforms can foster market decentralization and encourage product innovation.

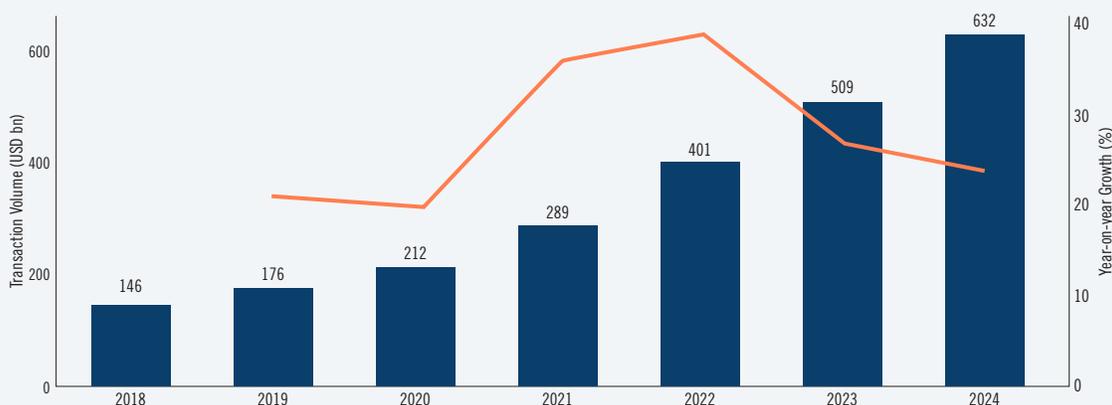
The number of entrepreneurs in LAC adopting business models based on e-commerce platforms has grown rapidly in recent years (refer to figure B2.3.1). The region now hosts about 837,000 active online stores on these platforms, with nearly three-quarters concentrated in its three largest economies: Brazil (391,000), Mexico (115,000), and Argentina (98,000).^a In per capita terms, however, Chile, Uruguay, and Argentina lead, with 381, 246, and 215 stores per 100,000 inhabitants, respectively (refer to figure B2.3.1, panel b)—underscoring the role of income, digital infrastructure, and supportive ecosystems in enabling entrepreneurship.

A user base survey performed by Tiendanube reveals striking patterns about the composition of entrepreneurs in the platform. Women make up 65 percent of entrepreneurs, half are under 35, and, in Brazil, nearly half are parents—demonstrating the potential of e-commerce platforms for enabling female entrepreneurship.^b More than one-quarter of users cite improved personal and family time as a primary benefit, and 40 percent maintain other income sources alongside their e-commerce activities. Flexibility and autonomy are among the top motivations for starting an online store. This diversity in backgrounds and motivations reflects the broad appeal and adaptability of e-commerce entrepreneurship in the region.

Figure B2.3.1.

e-commerce Is Booming in LAC

a. Continuous increases in transaction volume

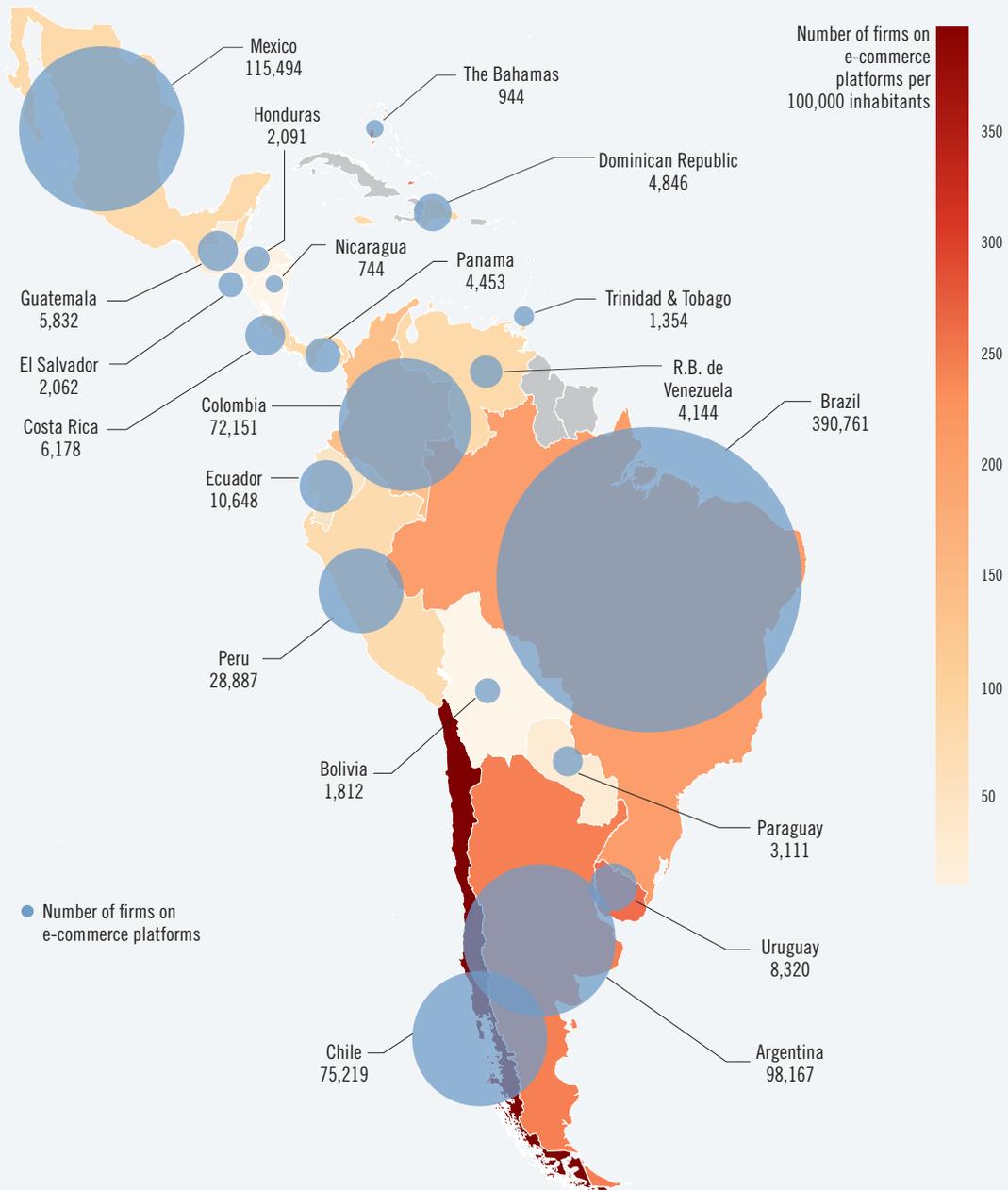


Source: PCMI Global E-Commerce Data Library.

Note: The blue bars show aggregate transaction volume (measured in billions of U.S. dollars). The orange line shows the year-on-year growth in transaction volume. Data are aggregated for 15 LAC countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Paraguay, Peru, Uruguay.

Box 2.3. Digital Entrepreneurship in Latin America and the Caribbean (continuation)

b. Widespread distribution of e-commerce businesses throughout LAC



Sources: World Bank staff calculations using data from Storeleads.

Note: The map illustrates the total number of e-commerce platforms by country, represented by the relative size of the bubbles, while the color gradient indicates the density of e-commerce platforms per 100,000 inhabitants within each country.

However, the digital world presents significant constraints to growth. While many businesses eagerly enter the e-commerce space, few manage to achieve sustained success or scale their operations. Data from Tiendanube's 2022–23 cohorts reveal that, even among a robust sample of 33,000 stores surviving at least 30 days and reaching more than US\$100 in annualized sales, longevity is far from assured: 15 percent do not last beyond six months, 20 percent to 30 percent fail within a year, and up to half close within two years. Moreover, during the first year of operations the median firm has no sales and, while some top-performing firms see revenue increases over time, these gains are highly concentrated in the top of the distribution. Business owners consistently cite limited financing (35 percent), insufficient human capital or technological know-how (25 percent), and insufficient time (22 percent) as their main challenges.

Box 2.3. Digital Entrepreneurship in Latin America and the Caribbean (continuation)

To foster growth among digital entrepreneurs, policy makers could deploy a targeted mix of interventions. Expanding access to affordable financing would address one of the most frequently cited constraints: lack of capital.^d Complementing this, investments in digital skills training and mentorship can build the human capital needed to navigate rapidly evolving e-commerce technologies and management tools.^e Emerging evidence also points to the role of behavioral frictions in limiting the performance of small firms in LAC's digital economy.^f Low-cost behavioral interventions—such as personalized reminders or planning nudges—can encourage better business practices and help entrepreneurs seize growth opportunities.

Notes

- a. Storeleads.
- b. Alhorr (2025).
- d. Banerjee and Duflo (2014); de Mel, McKenzie, and Woodruff (2009).
- e. McKenzie (2021).
- f. Ronconi (2025).

Policy Recommendations

This chapter has argued for the value of viewing LAC's growth and employment problem through the lens of a deficient entrepreneurial base. Though by global measures, levels of entrepreneurship in the region are apparently high, the actual corps of entrepreneurs with sufficient skills and access to credit and a skilled workforce is low. The vast majority of entrepreneurs are own-account workers or run micro firms with few plans to expand. Most of these very small-scale entrepreneurs report preferring these jobs to alternatives in the formal salaried sector—informal microentrepreneurship offers jobs with higher earnings than others these workers are qualified for. So the sector serves as a source of jobs as desirable as those found elsewhere in the economy. But these firms also report few plans to expand and increase employment. Though making credit available and some training can increase their incomes, they are not part of the dynamic spring of a modern economy.⁵⁹

Tackling the jobs challenge in the region by fostering entrepreneurship will require foundational investments, such as into digital technology and human capital—boosting education and managerial skills—creating a business-enabling environment by removing costly regulation to growth and barriers of entry, and mobilizing private capital through deeper financial markets and access to micro finance.

The issue is, then, how to increase the supply of transformational entrepreneurs and ensure they have the inputs they need to drive growth.

- Improving education, especially public education, at all levels is necessary to increase the pipeline of potential high-quality entrepreneurs. Improving technical education and increasing the supply of graduates in STEM (science, technology, engineering, and mathematics) is critical to enabling would-be entrepreneurs to enter high-tech fields and arbitrage high-tech opportunities.
- Beyond general education, improving entrepreneurship programs in universities as well as establishing the systems of managerial extension found commonly in the advanced economies will help raise the level of managerial practices. The less tangible aspects of management are often gained by study and work abroad, for instance, in Silicon Valley. LAC sends too few students to study abroad. Programs like Startup Chile have sought to “change the chip” in the local population by inviting foreign start-ups to base there.

59 McKenzie and Woodruff (2023).

- Policies aimed at supporting microentrepreneurship can improve welfare because they might increase the job quality of a large share of self-employed workers; however, they should not be expected to yield large gains in productivity and output growth.
- Rather than focus on increasing the creation of new firms through policies such as decreasing registration or entry costs to stimulate growth, a comprehensive approach is needed to enhance the entrepreneurial ecosystem to both support transformational entrepreneurship and remove the barriers that hinder its development. Joint effort from universities, established firms, financial institutions, and government think tanks and business promotional agencies is necessary to identify and address missing elements or eliminate distortions coherently and comprehensively. One element is improving the incubation capacity for early-stage firms, including through linkages with universities—which, in turn, need to take on the “third mission” of being partners in technological adoption with existing firms, and providing homes for start-ups.
- Two distortions in particular affect input markets crucial for transformative entrepreneurship: finance and human capital. Financial markets need to be deepened to finance projects and diversify risk. Improving the efficiency of dispute resolution and bankruptcy process to protect creditors and entrepreneurs is a promising policy direction.
- With respect to human capital, LAC not only needs to increase the availability of qualified workers in the economy, but also redesign some labor protection policies that increase the costs of hiring workers. Increasing the availability and quality of short-term programs for workers, or making the rules to hire and dismiss workers more flexible work in these directions.
- Other policy directions include lifting barriers to entering firms that stifle competition; removing distortionary subsidies (including in research and development, R&D) that may favor incumbents; reforming tax systems that often discourage high-productivity entrepreneurs; and increasing investment in public infrastructure.

This agenda is nested within the agenda for innovation and technological adoption and needs to be moved to the center if LAC is to become a more dynamic region for growth and prosperity.

References

- Acemoglu, D., U. Akcigit, H. Alp, N. Bloom, and W. Kerr. 2018. "Innovation, Reallocation, and Growth." *American Economic Review* 108 (11): 3450–91.
- Alhorr, L. 2025. "Can Digitization Help Female Entrepreneurs Transcend Their 'Glass Walls'?" Let's Talk Development Blog, April 15, 2025. World Bank, Washington, DC. <https://blogs.worldbank.org/en/developmenttalk/can-digitization-help-female-entrepreneurs-transcend-their-glas>.
- Allub, L., and A. Erosa. 2019. "Financial Frictions, Occupational Choice and Economic Inequality." *Journal of Monetary Economics* 107 (November): 63–76.
- Alvarez, V., J. Cravino, and N. Ramondo. 2023. "Firm-Embedded Productivity and Cross-Country Income Differences." *Journal of Political Economy* 131 (9): 2289–2327.
- Åstebro, T., H. Herz, R. Nanda, and R. A. Weber. 2014. "Seeking the Roots of Entrepreneurship: Insights from Behavioral Economics." *Journal of Economic Perspectives* 28 (3): 49–70.
- Autor, D., Dorn, D., Katz, L.F., Patterson, C. and Van Reenen, J., 2020. "The fall of the labor share and the rise of superstar firms." *The Quarterly Journal of Economics*, 135(2), pp.645-709.
- Banerjee, A. V., and E. Duflo. 2014. "Do Firms Want to Borrow More? Testing Credit Constraints Using a Directed Lending Program." *Review of Economic Studies* 81 (2): 572–607.
- Banerjee, A., E. Duflo, R. Glennerster, and C. Kinnan. 2015. "The Miracle of Microfinance? Evidence from a Randomized Evaluation." *American Economic Journal: Applied Economics* 7 (1): 22–53.
- Beylis, G. 2025. *From Resource Rich to Resource Smart: Opportunities for Latin America and the Caribbean in the Energy Transition*. Washington, DC: World Bank.
- Beylis, G. and Cerutti, P. (forthcoming) "The value of self-employment in Mexico".
- Bhandari, A., Kass, T., May, T.J., McGrattan, E. and Schulz, E., 2024. "On the nature of entrepreneurship" (No. w32948). National Bureau of Economic Research.
- Blanchflower, D. G., A. Oswald, and A. Stutzer. 2001. "Latent Entrepreneurship across Nations." *European Economic Review* 45 (4-6): 680–91.
- Bloom, N., Lemos, R., Sadun, R., Scur, D., & Van Reenen, J. (2014). JEEA-FBBVA Lecture 2013: The new empirical economics of management. *Journal of the European Economic Association*, 12(4), 835-876
- Bloom, N., S. Bond, and J. Van Reenen. 2007. "Uncertainty and Investment Dynamics." *Review of Economic Studies* 74 (2): 391–415.
- Bloom, N., R. Sadun, and J. Van Reenen. 2012. "Americans do IT better: US Multinationals and the Productivity Miracle." *American Economic Review* 102 (1): 167–201.
- Bloom, N., and J. Van Reenen. 2007. "Measuring and Explaining Management Practices across Firms and Countries." *Quarterly Journal of Economics* 122 (4): 1351–1408.
- Bloom, N., B. Eifert, A. Mahajan, D. McKenzie, and J. Roberts. 2013. "Does Management Matter? Evidence from India." *Quarterly Journal of Economics* 128 (1): 1–51.
- Bloom, N., K. Manova, J. Van Reenen, S. T. Sun, and Z. Yu. 2021. "Trade and Management." *Review of Economics and Statistics* 103 (3): 443–60
- Bordeu, O., G. González, and M. Sorá. 2025. "Bank Competition and Investment Costs across Space." Working paper.
- Bosch, M., and W. F. Maloney. 2010. "Comparative Analysis of Labor Market Dynamics using Markov Processes: An Application to Informality." *Labour Economics* 17 (4): 621–31.
- Bruhn, M., F. D. Kalan, N. Fraccaroli, and C. R. Ortega. 2025. "Access to Finance for MSMEs in Ecuador." Policy Research Working Paper 11121, World Bank, Washington, DC.
- Bruhn, M., and D. McKenzie. 2014. "Entry Regulation and the Formalization of Microenterprises in Developing Countries." *World Bank Research Observer* 29 (2): 186–201.
- Buera, F. J., J. P. Kaboski, and Y. Shin. 2015. "Entrepreneurship and Financial Frictions: A Macroeconomic Perspective." *Annual Review of Economics* 7 (1): 409–36.
- Burstein, A. T., and A. Monge-Naranjo. 2009. "Foreign Know-How, Firm Control, and the Income of Developing Countries." *Quarterly Journal of Economics* 124 (1): 149–95.
- Calomiris, C. W., Larrain, M., Liberti, J., & Sturgess, J. (2016). Which Creditors' Rights Drive Financial Deepening and Economic Development?. *Journal of Applied Corporate Finance*, 28(4), 53-59.
- Campello, M., and M. Larrain. 2016. "Enlarging the Contracting Space: Collateral Menus, Access to Credit, and Economic Activity." *Review of Financial Studies* 29 (2): 349–83.

- Campos, F. Moraes Leitao, M. Frese, L. Iacovone, H. C. Johnson, D. McKenzie, and M. Mensmann. 2024. "Long-Term and Lasting Impacts of Personal Initiative Training on Entrepreneurial Success." Policy Research Working Paper 10938, World Bank, Washington, DC.
- Cavalcanti, T. V., J. P. Kaboski, B. S. Martins, and C. Santos. 2021. "Dispersion in Financing Costs and Development." NBER Working Paper 28635, National Bureau of Economic Research, Cambridge, MA.
- Cirera, X., M. Cruz, and A. Martins-Neto. Forthcoming. "Higher Education Expansion and Firms Organization." Washington, DC: World Bank.
- Cirera, X., and Y. Ding. Forthcoming. "Entrants and Technology Adoption in Developing Countries." World Bank, Washington, DC.
- Cirera, X., and W. F. Maloney. 2017. *The Innovation Paradox-Developing-Country Capabilities and the Unrealized Promise of Technological Catch-Up*. Washington, DC: World Bank.
- Cirera, X., W. F. Maloney, and M. Sarrias. 2017. "Management Quality as an Input for Innovation." World Bank, Washington, DC. Unpublished.
- Cunningham, W. V., and W. F. Maloney. 2001. "Heterogeneity among Mexico's Microenterprises: An Application of Factor and Cluster Analysis." *Economic Development and Cultural Change* 50 (1): 131–56.
- Cusolito, A. P., and W. F. Maloney. 2018. *Productivity Revisited: Shifting Paradigms in Analysis and Policy*. Washington, DC: World Bank.
- Decker, R., J. Haltiwanger, R. Jarmin, and J. Miranda. 2014. "The Role of Entrepreneurship in US Job Creation and Economic Dynamism." *Journal of Economic Perspectives* 28 (3): 3–24.
- De Loecker, J., J. Eeckhout, and G. Unger. 2020. "The Rise of Market Power and the Macroeconomic Implications." *Quarterly Journal of Economics* 135 (2): 561–644.
- Deloitte. 2020. "Save-to-Transform as a Catalyst for Embracing Digital Disruption." Deloitte's Second Biennial Global Cost Survey: Cost Management Practices and Trends in Latin America. Deloitte. <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/process-and-operations/cost-management-practices-and-trends-in-latin-america.pdf>.
- De Loecker, J., Eeckhout, J. and Unger, G., 2020. "The rise of market power and the macroeconomic implications." *The Quarterly Journal of Economics*, 135(2), pp.561-644.
- De Mel, S., D. McKenzie, and C. Woodruff. 2008. "Returns to Capital in Microenterprises: Evidence from a Field Experiment." *Quarterly Journal of Economics* 123 (4): 1329–72.
- De Mel, S., D. McKenzie, and C. Woodruff. 2009. "Are Women More Credit Constrained? Experimental Evidence on Gender and Microenterprise Returns." *American Economic Journal: Applied Economics* 1 (3): 1–32.
- De Soto, H. 1989. *The Other Path: The Invisible Revolution in the Third World*. New York: Harper & Row.
- de Souza, G. 2023. "R&D Subsidy and Import Substitution: Growing in the Shadow of Protection." Federal Reserve Bank of Chicago Working Papers No. 2023-37.
- Arias Diaz, Omar S.; Bosch Mossi, Mariano; Fajnzylber, Pablo; Maloney, William F.; Mason, Andrew D.; Perry, Guillermo E.; Saavedra, Jaime. *Informality : exit and exclusion*. World Bank Latin American and Caribbean studies. Washington, DC: World Bank.
- Donovan, K., W. J. Lu, and T. Schoellman. 2023. "Labor Market Dynamics and Development." *Quarterly Journal of Economics* 138 (4): 2287–2325.
- ENAMIN. 2010. "Encuesta Nacional de Micronegocios." Secretaría del Trabajo y Previsión Social (STPS), Instituto Nacional de Estadística y Geografía (INEGI), Mexico.
- ENAMIN. 2012. "Encuesta Nacional de Micronegocios." Secretaría del Trabajo y Previsión Social (STPS), Instituto Nacional de Estadística y Geografía (INEGI), Mexico.
- EME. 2022. "VII Encuesta de Microemprendimiento." Instituto Nacional de Estadísticas, Chile.
- Eslava, M., M. Meléndez, L. Tenjo, and N. Urdaneta. 2023. "Business Size, Development, and Inequality in Latin America: A Tale of One Tail." Policy Research Working Paper 10584, World Bank, Washington, DC.
- Eslava, M., M. Melendez, G. Ulyssea, N. Urdaneta, and I. Flores. 2024. *Businesses and Inequality in Latin America*. Oxford Open Economics.
- Fajnzylber, P., W. Maloney, and G. M. Rojas. 2006. "Microenterprise Dynamics in Developing Countries: How Similar Are They to Those in the Industrialized World? Evidence from Mexico." *World Bank Economic Review* 20 (3): 389–419.
- Farias, A., and R. Hsu Rocha. 2025. "Formalizing Microentrepreneurs through Targeted Tax Systems: Evidence from Brazil." Available at SSRN 5245630.
- Feng, Y., and J. Ren. 2023. "Skill Bias, Financial Frictions, and Selection into Entrepreneurship." *Journal of Development Economics* 162 (May): 103046.
- Fernandez, J., L. Iacovone, and W. F. Maloney. Forthcoming. "Management Quality, Innovation, Risk and Export Performance: Evidence from a Matched-Production-Innovation-Export Transactions Data Set in Colombia."

- Ferreya, M. M., C. Avitabile, J. B. Álvarez, F. H. Paz, and S. Urzúa. 2017. *At a Crossroads: Higher Education in Latin America and the Caribbean*. Washington, DC: World Bank.
- Ferreya, M. M., L. I. Dinarte Diaz, S. S. Urzua Soza, and M. Bassi. 2021. *The Fast Track to New Skills : Short-Cycle Higher Education Programs in Latin America and the Caribbean*. Washington, DC: World Bank.
- Fiess, N. M., Fugazza, M., & Maloney, W. F. (2010). Informal self-employment and macroeconomic fluctuations. *Journal of Development Economics*, 91(2), 211-226.
- Finamor, L., P. Garriga, R. Morales Lema, and R. Vilarouca. 2025. Can a formalization program create dynamic entrepreneurs? Evidence from Brazil. Working Paper.
- Flabbi, Luca and Tejada, Mauricio, Are Informal Self-Employment and Informal Employment as Employee Behaviorally Distinct Labor Force States?. IZA Discussion Paper No. 16225, Available at SSRN: <https://ssrn.com/abstract=4479167>
- Fonseca, J., and B. Van Doornik. 2022. "Financial Development and Labor Market Outcomes: Evidence from Brazil." *Journal of Financial Economics* 143 (1): 550–68.
- Garcia Sanchez, J. C. 2024. "Why Guadalajara Has Not Taken Off as a Generator of Innovative Entrepreneurship? An Extended Case Study." In *Emergent Ecosystems: Overcoming Systemic Obstacles for Technology Entrepreneurship*. Washington, DC: World Bank. Unpublished.
- Giorcelli, M. 2019. "The Long-Term Effects of Management and Technology Transfers." *American Economic Review* 109 (1): 121–52.
- Glover, A. and Short, J., 2010. "Bankruptcy, incorporation, and the nature of entrepreneurial risk." In *2010 Meeting Papers* (Vol. 1010). Society for Economic Dynamics.
- Gu, J. 2021. "Financial Intermediation and Occupational Choice." *Journal of Economic Dynamics and Control* 133 (December): 104238.
- Haselmann, R., K. Pistor, and V. Vig. 2010. "How Law Affects Lending." *Review of Financial Studies* 23 (2): 549–80.
- Herranz, N., S. Krasa, and A. P. Villamil. 2015. "Entrepreneurs, Risk Aversion, and Dynamic Firms." *Journal of Political Economy* 123 (5): 1133–76.
- Herreño, J., and S. Ocampo. 2023. "The Macroeconomic Consequences of Subsistence Self-Employment." *Journal of Monetary Economics* 136 (May): 91–106.
- Hurst, E., and B. Wild Pugsley. 2011. "What Do Small Businesses Do?" NBER Working Paper 17041, National Bureau of Economic Research, Cambridge, MA.
- Karabarbounis, L., and B. Neiman. 2014. "The Global Decline of the Labor Share." *Quarterly Journal of Economics* 129 (1): 61–103.
- Kavoussi, B. 2019. "How Market Power Has Increased US Inequality." Washington Center for Equitable Growth.
- Kerr, S. P., W. R. Kerr, and T. Xu. 2018. "Personality Traits of Entrepreneurs: A Review of Recent Literature." *Foundations and Trends® in Entrepreneurship* 14 (3): 279–356.
- Levine, R., and Y. Rubinstein. 2017. "Smart and Illicit: Who Becomes an Entrepreneur and Do They Earn More?" *Quarterly Journal of Economics* 132 (2): 963–1018.
- Levine, R., and Y. Rubinstein. (2020). Selection into entrepreneurship and self-employment (No. 15143). CEPR Discussion Papers.
- Loayza, N., and J. Rigolini. 2011. "Informal Employment: Safety Net or Growth Engine?" *World Development* 39 (9): 1503–15.
- Lucas, Jr., R. E. 1978. "On the Size Distribution of Business Firms." *Bell Journal of Economics* 9 (2): 508–23.
- Maloney, W. F. 1999. "Does Informality Imply Segmentation in Urban Labor Markets? Evidence from Sectoral Transitions in Mexico." *World Bank Economic Review* 13 (2): 275–302.
- Maloney, W. F. 2004. "Informality Revisited." *World Development* 32 (7): 1159–78.
- Maloney, W. F., X. Cirera, and M. M. Ferreyra. 2025. *Reclaiming the Lost Century of Growth: Building Learning Economies in Latin America and the Caribbean*. World Bank Latin American and Caribbean Studies. Washington, DC: World Bank. <http://hdl.handle.net/10986/43280>.
- Maloney, W. F., and A. Zambrano. 2021. "Learning to Learn: Experimentation, Entrepreneurial Capital, and Development." Policy Research Working Paper 9890, World Bank, Washington, DC.
- McKenzie, D. 2021. "Small Business Training to Improve Management Practices in Developing Countries: Re-assessing the Evidence for 'Training Doesn't Work'." *Oxford Review of Economic Policy* 37 (2): 276–301.
- McKenzie, D., and C. Woodruff. 2015. "Are Bad Business Practices Holding Back Small Firms in Developing Countries?" VOXEU Column, September 21, 2015, <https://cepr.org/voxeu/columns/are-bad-business-practices-holding-back-small-firms-developing-countries>.
- McKenzie, D., and C. Woodruff, eds. 2023. "Training Entrepreneurs: Issue 3." *VoxDevLit* 1 (2): 3.
- Morales, R. 2025. "Limited Liability and Firm Dynamics." Available at SSRN 5266429.

- Peña, I. 2021. *Tecnolatinas 2021: The LAC Startup Ecosystem Comes of Age*. Washington, DC: Inter-American Development Bank.
- Ponticelli, J., and L. S. Alencar. 2016. “Court Enforcement, Bank Loans, and Firm Investment: Evidence from a Bankruptcy Reform in Brazil.” *Quarterly Journal of Economics* 131 (3): 1365–1413.
- Queiró, F. 2022. “Entrepreneurial Human Capital and Firm Dynamics.” *Review of Economic Studies* 89 (4): 2061–2100.
- Ronconi, J. P. 2025. “Planning and Performance: Experimental Evidence from Small Firms in e-Commerce.” SSRN 5352829.
- Rudolph, H. P., F. Miguel, and J. Gonzalez-Uribe. 2023. *Venture Capital in Latin America and the Caribbean*. Washington, DC: World Bank Group.
- Schumpeter, J. A. 1934. *The Theory of Economic Development*. Cambridge, MA: Harvard University Press.
- Schumpeter, J. A. 1942. *Capitalism, Socialism, and Democracy*. New York: Harper & Brothers.
- Schoar, A. (2010). The divide between subsistence and transformational entrepreneurship. *Innovation policy and the economy*, 10(1), 57-81.
- Teare, G. 2022. “Global Venture Funding and Unicorn Creation in 2021 Shattered All Records.” *Crunchbase News*. <https://news.crunchbase.com/business/global-vc-funding-unicorns-2021-monthly-recap/>.
- Tech: NYC. 2024. “NYC Tech Ecosystem Overview.”
- Verhoogen, E. 2023. “Firm-Level Upgrading in Developing Countries.” *Journal of Economic Literature* 61 (4): 1410–64.
- Vostroknutova, E., J. Sampi, C. Jooste, and J. T. Araujo. 2025. *Competition and Productivity Growth in Latin America and the Caribbean*. Washington, DC: World Bank. <http://hdl.handle.net/10986/42869>
- Vuletin, G. 2025. *Rethinking Taxation in Latin America and the Caribbean: Objectives, Behavioral Response, and Technological Advances*. Washington, DC: World Bank.
- World Bank. 2023. *Latin America and the Caribbean Economic Review, October 2023*. *Wired: Digital Connectivity for Inclusion and Growth*. Washington, DC: World Bank.
- World Bank. 2024. *World Development Report 2024: The Middle-Income Trap*. Washington, DC: World Bank.

