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SUSTAINING ENTREPRENEURSHIP IN "UNSUSTAINABLE COMMUNITIES": INFORMAL INVESTMENT RATES IN ENGLAND ACROSS THE BUSINESS CYCLE (SUMMARY)

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≈ SUMMARY ≈

**SUSTAINING ENTREPRENEURSHIP IN “UNSUSTAINABLE
COMMUNITIES”: INFORMAL INVESTMENT RATES
IN ENGLAND ACROSS THE BUSINESS CYCLE**

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Principal Topic

The relationship between a starting entrepreneur and an informal investor (family member, friend, work colleague, neighbour, or other third party) is shaped by social and economic context. This study examines the effect of community deprivation and the economic cycle on the distribution of informal investments across communities in England.

Method

The Index of Multiple Deprivation provided by the UK Department for Communities and Local Government was used to measure local deprivation in English communities of around 1,500 people (lower layer super output area). This index combines community-level measures of deprivation in household income, employment, education, health, housing and services, crime, and living environment. The propensity to be an informal investor (someone who invested in someone else's new business in the last 3 years) was calculated using the English Global Entrepreneurship Monitor database, which includes more than 13000 observations from 2007 to 2009, and 2500 in 2010, from an economic peak to an economic trough to recovery.

Results and Implications

The deprivation level of the area appears to determine the informal investment decision. Moreover, this relationship is not linear: the highest significance is observed in both the most and least deprived areas in 2008 and 2009. While the informal investor rate is quite sensitive to local deprivation, the business cycle may also have an impact at the macroeconomic level. A remarkable rise in the informal investor rate among the adult population in 2010 (2.5% versus 1.4% in 2007 and less than 1.0% in 2008 and 2009) may have been caused by structural changes occurring in the economy during this period. The worsening state of the living environment was a crucial factor in 2007: in the more deprived areas the probability of becoming an informal investor was higher. Education deprivation and barriers to housing and services, demonstrated non-linear effects on informal investment propensity; these appeared to be non-cyclical influences. Our results suggest that informal funds may be the only accessible source in the most deprived areas, while in the least deprived areas they may be a function of higher rates of successful startup.

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