

# The power of three

Together, governments, entrepreneurs and corporations can spur growth across the G20

The EY G20 Entrepreneurship Barometer 2013



Building a better  
working world



G20  
Young Entrepreneurs'  
Alliance

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# Foreword

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**Victor Sedov**

Chairman, G20 YEA Summit, Moscow 2013, and President, Center for Entrepreneurship

The G20 Young Entrepreneurs' Alliance (G20 YEA) was pleased to team with EY once again for this second Entrepreneurship Barometer that analyzes and compares entrepreneurial ecosystems in the G20 countries. The findings in this Barometer were compiled with the assistance of G20 YEA members and input from hundreds of young entrepreneurs from all G20 countries. It provides G20 Leaders and other stakeholders with valuable information and best practices on how to promote entrepreneurship, and recommendations and analysis on how to promote youth entrepreneurship and thereby ease employment issues economies are currently facing.

With the participation of EY, the G20 YEA and its member in Russia, the Center for Entrepreneurship, recently concluded the fifth G20 Young Entrepreneurs' Alliance Summit on 15-17 June 2013 in Moscow, Russia. This year, 400 young entrepreneurs from all G20 countries participated in the Summit, signing their communique that was passed on to G20 Sherpas and the B20 with recommendations on how to increase growth and job creation by advancing youth entrepreneurship via improving access to digital infrastructure; promoting entrepreneurship education, knowledge, networks and innovation skills; easing business and labor legislation; and increasing access to finance. The energy, dedication and commitment demonstrated by these young entrepreneurs to help better the world by giving G20 Leaders a roadmap on how to unleash the initiative, drive and innovation potential embodied by entrepreneurs was an inspiration.

Join us in encouraging the spirit of entrepreneurship worldwide.

# Welcome

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**Uschi Schreiber**  
Global Markets Leader  
and Global Government  
& Public Sector Leader  
EY



**Maria Pinelli**  
Global Vice Chair  
Strategic Growth  
Markets  
EY

Entrepreneurs have a vital role to play in any healthy and vibrant economy. Their contribution is now more important than ever, with countries facing some of the most challenging societal issues of our time: challenging economic conditions and high levels of unemployment. Governments, and society as a whole, are increasingly looking to entrepreneurs to kick-start their economies and provide the jobs that stimulate growth.

Entrepreneurial businesses create jobs – and on an impressive scale. Their businesses account for well over half of all employment in most G20 economies. Fostering entrepreneurship is, therefore, one of the most powerful things a country can do to create a strong foundation for growth.

They also spur innovation through the creation of new technologies, products and services. They are a driving force behind globalization; spreading ideas and more efficient processes to the multitude of markets that they serve.

The good news is that policymakers are increasingly focused on the needs of entrepreneurs. Some progress has been made, and the entrepreneurs that contributed to this research report improvements in specific areas. For example, many countries have developed programs to make it easier to set up a business. But there are still many important areas where governments, working together with the private sector and other stakeholders, urgently need to improve support for the entrepreneurial community.

## Measuring progress

Ongoing measurement is critical to help countries monitor and assess their performance at creating a strong entrepreneurial ecosystem. This is why this year we have created a new updated version of the EY G20 Entrepreneurship Barometer, the first of which was published in 2011.

Crucially, the Barometer captures the voice of the entrepreneur through an EY survey of more than 1,500 entrepreneurs across the G20. This work sees that our conclusions are firmly grounded in the experiences of real-world entrepreneurs. At the same time, we have used the best data available to help countries measure how their entrepreneurs perform today.

The Barometer shows that every G20 country has key strengths in entrepreneurship from which other nations can learn. But it also highlights many areas where the G20 nations need to do more. This represents an opportunity, as well as a challenge. By addressing some of the gaps and weaknesses in their ecosystems, countries can boost entrepreneurship and, in the process, inject new vitality into their economies. In this edition we have included more than 40 key recommendations across governments, entrepreneurs and corporations as well as drawing extensively on EY's research of more than 200 government leading practices.

There is, of course, no single path to success. Local market opportunities and different cultural perspectives shape the entrepreneurial environment. Each country has its own challenges, requiring different solutions. Nevertheless, the research conducted for this report identifies a vast range of innovative programs and initiatives that countries can learn from and adapt to their own circumstances.

**“The need to act is clear. Entrepreneurs have the power to create jobs and drive growth – but first we need to give them the tools and environment that will enable them to succeed.”**

| **Maria Pinelli**, Global Vice Chair,  
Strategic Growth Markets, EY

We are also delighted to once again work with the G20 Young Entrepreneurs' Alliance. This alliance represents the voice of young entrepreneurs. Their entrepreneurial case stories are also included to provide inspiration to tackle society's biggest issue, youth unemployment.

EY has been committed to supporting entrepreneurial businesses throughout their growth journey for more than 30 years. We believe it is essential that the entrepreneur's voice is heard if our economies are to thrive in the future. The Barometer captures their insights and provides a valuable tool for governments to foster entrepreneurship. We urge governments and the business community to embrace its conclusion so that together, we can remove the barriers to entrepreneurial success in order to build a better working world.

# Executive summary

## Introducing the EY G20 Entrepreneurship Barometer 2013

Entrepreneurs provide one of the main engines of growth in any healthy economy. They act as vital agents of change by developing new products and services, implementing more efficient production methods, and creating new business models and industries. They generate jobs, support local communities and build prosperous societies.

For all these reasons, there is growing recognition of entrepreneurs' importance across the G20. Many countries have introduced a range of programs and policy initiatives to help boost entrepreneurship. But, as this report reveals, there are still huge areas where G20 countries need to take urgent action to improve support for their entrepreneurs.

The EY G20 Entrepreneurship Barometer 2013 is designed to help leading countries benchmark their progress and performance on this vital issue. It enables each G20 nation to identify current strengths in its entrepreneurial environment, as well as the main opportunities for further development. As a result, the Barometer provides a powerful framework to help countries understand and improve the ecosystems that are vital to the success of the entrepreneurs of the future.

**"I am an innovator, I am eager to learn, I network. I think globally and make a significant impact on my communities through creating jobs and bolstering economies. I am an entrepreneur, a philanthropist,<sup>1</sup> and I never give up."**



### Why entrepreneurs matter

- ▶ **International entrepreneurs create world-leading companies.** Immigrants or their children founded 40% of Fortune 500 firms.<sup>2</sup> They also started 28% of all new US businesses in 2011, despite accounting for just 13% of the US population.<sup>3</sup>
- ▶ **They are a key source of jobs.** Across the EU as a whole, entrepreneurs supplied 67% of all jobs in 2012.<sup>4</sup> In China, they provide 75% of all jobs.<sup>5</sup> In the US, start-ups and firms less than five years old account for nearly all net job creation over the past three decades.<sup>6</sup>
- ▶ **They turn ideas and innovation into reality.** New ideas need entrepreneurs to develop and commercialize them. Entrepreneurs drive investment into important innovations and in the process also create new growth sectors: in another recent EY survey,<sup>7</sup> 74% of entrepreneurs said they had increased their workforce over the past year as a result of the company's innovations.

**"An entrepreneur is someone who sees a problem in the world and tries to solve it themselves."**

| **Jeff Hoffman**, Serial Entrepreneur, Priceline.com, uBid.com, ColorJar. Speaking at the G20 YEA Summit 2013

<sup>1</sup> Fidelity Charitable, *Entrepreneurs & Philanthropy: Investing in the Future* (Fidelity Charitable Gift Fund, 2010).

<sup>2</sup> R W Fairlie, *Open For Business: How immigrants are driving small business creation in the United States* (Partnership for a New American Economy, 2012).

<sup>3</sup> S A Ballmer et al., *The "New American" Fortune 500* (Partnership for a New American Economy, 2011).

<sup>4</sup> Ecorys, *EU SMEs in 2012: at the crossroads. Annual report on small and medium-sized enterprises in the EU, 2011/12* (ECORYS Nederland BV, 2012) p. 15.

<sup>5</sup> "China Country Profile: Small and medium-size enterprises," Ministry Of Commerce People's Republic Of China website, english.mofcom.gov.cn, accessed 3 July 2013.

<sup>6</sup> D Stangler and P Kedrosky, *Neutrality and Entrepreneurship: The Structural Dynamics of Startups, Young Firms, and Job Creation* (Ewing Marion Kauffman Foundation, 2010) p. 13.

<sup>7</sup> EY, *Global job creation: Survey of the world's most dynamic entrepreneurs* (EYGM Limited, 2013).

“Boosting entrepreneurship is one of the most powerful things policymakers can do to support the economy. By fostering the conditions in which the rapid-growth companies of the future can thrive, they will help spark innovation, create jobs and improve their long-term national growth prospects.” | **Mark Weinberger**, Global Chairman and CEO, EY

## Measurement matters

Although there have been a number of international studies on entrepreneurial ecosystems, there is still a need for better tools and data to help countries measure their performance on this issue. This report makes an important contribution to this endeavor by capturing insights from key research initiatives:

► **The EY G20 Entrepreneurship Barometer 2013.** The Barometer ranks each of the G20 countries on the level of support it provides for entrepreneurs. It does so across the five pillars that are key to any robust entrepreneurial ecosystem: access to funding, entrepreneurship culture, tax and regulation, education and training, and coordinated support.<sup>8</sup>

The Barometer captures the voice of the entrepreneur, using a survey of more than 1,500 entrepreneurs across the G20 countries. The survey captured insights from entrepreneurs into the rate of progress within each country's entrepreneurial environment, as well as to identify key enablers and barriers that either help or impede entrepreneurs.

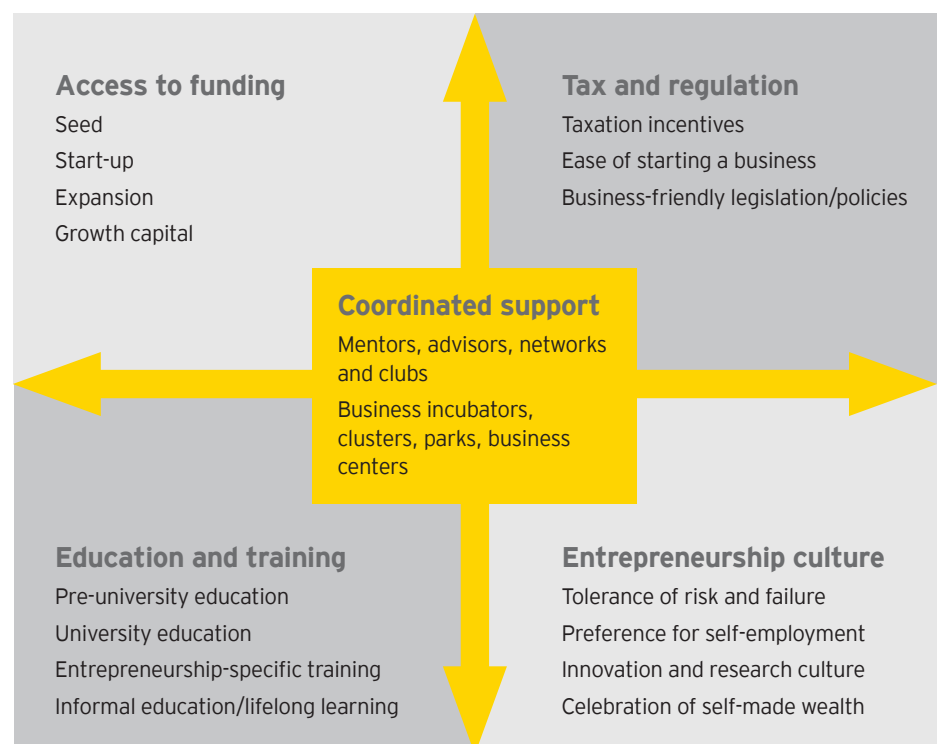
The Barometer also uses a range of quantitative indicators to measure the current level of development that each country has achieved in its ecosystem. It also features exclusive insights from more than 250 entrepreneurs, independent academics and experts, and EY partners across the G20 countries.

These quantitative and qualitative indicators are combined to provide an overall view of performance. Full details of the Barometer's methodology can be found on page 66.

- **Recognizing the best practices.** Policymakers need to learn from other countries' experiences to help them develop a practical roadmap to improve their entrepreneurial ecosystems. This is a burning issue.

The report identifies a wealth of best practices and innovative initiatives that countries can adapt to their own specific circumstances. It draws extensively on EY's research of more than 200 government leading practices, which details the most important initiatives that each G20 country has implemented to support local entrepreneurs.

The entrepreneurial development framework: five pillars that foster entrepreneurship



<sup>8</sup> Note: These areas were originally identified as being key to any entrepreneurial ecosystem at the G20 YEA Summit in Toronto, 2010.

# The EY G20 Entrepreneurship Barometer: overall results

## Rankings and scores – pillars

Ranking	Access to funding	Score	Entrepreneurship culture	Score	Tax and regulation	Score	Education and training	Score	Coordinated support	Score
1	United States	7.12	United States	7.67	Saudi Arabia	6.40	France	6.58	Russia	6.23
2	United Kingdom	6.86	South Korea	7.53	Canada	6.34	Australia	6.53	Mexico	5.89
3	China	6.75	Canada	7.45	South Korea	6.34	United States	6.50	Brazil	5.87
4	Canada	6.62	Japan	7.28	United Kingdom	6.19	South Korea	6.40	Indonesia	5.84
5	Australia	6.48	Australia	7.18	South Africa	6.10	EU	6.25	India	5.76
6	South Africa	5.95	United Kingdom	7.00	Japan	6.07	United Kingdom	5.98	China	5.75
7	Japan	5.81	Germany	6.88	Germany	5.84	Germany	5.89	Turkey	5.66
8	South Korea	5.75	EU	6.07	Australia	5.75	Argentina	5.85	South Africa	5.65
9	Brazil	5.67	France	5.68	Russia	5.65	Canada	5.81	Argentina	5.64
10	Indonesia	5.53	Russia	5.05	EU	5.48	Brazil	5.78	Germany	5.53
11	India	5.48	India	4.95	Turkey	5.45	South Africa	5.67	France	5.41
12	EU	5.41	Brazil	4.88	Indonesia	5.38	Saudi Arabia	5.66	Saudi Arabia	5.39
13	Saudi Arabia	5.25	Italy	4.67	United States	5.33	Italy	5.47	EU	5.37
14	Germany	5.23	South Africa	4.33	Mexico	5.21	Russia	5.46	South Korea	5.36
15	Russia	5.04	Turkey	4.30	France	5.12	Mexico	5.32	Australia	5.31
16	France	4.74	Argentina	4.06	China	5.07	Japan	4.72	Canada	5.29
17	Turkey	4.57	Mexico	3.96	Brazil	4.83	Turkey	4.39	United Kingdom	5.19
18	Mexico	4.42	China	3.88	Italy	4.76	China	4.35	Japan	5.04
19	Italy	4.03	Indonesia	3.80	India	4.39	Indonesia	3.88	Italy	4.97
20	Argentina	3.27	Saudi Arabia	3.38	Argentina	4.31	India	3.49	United States	4.85

## Overall country rankings

The following represents the overall ranking of the G20 countries by quartile.\*

Quartile 1 represents the countries that are leading in fostering entrepreneurship. Each of the five pillars (access to funding, entrepreneurship culture, tax and regulation, education and training, coordinated support) were weighted equally to provide an overall country ranking.

Quartile 1	Quartile 2	Quartile 3	Quartile 4
Australia	EU	Brazil	Argentina
Canada	France	China	India
South Korea	Germany	Mexico	Indonesia
United Kingdom	Japan	Russia	Italy
United States	South Africa	Saudi Arabia	Turkey

\* Note: Countries are listed in **alphabetical order** per quartile.

## About the EY Entrepreneurship Barometer model

The EY G20 Entrepreneurship Barometer 2013 introduces a model for scoring countries across the five pillars of entrepreneurship.<sup>9</sup> The purpose of this model is to help identify areas of relative strength by country and where opportunities for improvement lie.

The model is composed of qualitative information (from our survey of more than 1,500 entrepreneurs) and quantitative data based upon entrepreneurial conditions across the G20 economies. For each pillar, excluding coordinated support, this information is weighted 50-50 between qualitative

and quantitative inputs. For coordinated support, given a lack of quantitative indicators, this is based solely upon the survey responses.

The advantage of integrating both the survey results and quantitative data is the ability to provide an assessment of the current level and the trends in a G20 entrepreneurial ecosystem based upon local sentiment. To this end, official statistics (for example, on the average time taken to start a business or the tax burden) provide a baseline for each member country.

Survey information is an important complement to the baseline picture these statistics provide. Entrepreneurs' feedback on the pace of improvement or deterioration in conditions in their country's entrepreneurship ecosystem is incorporated in the model alongside the hard statistics.

<sup>9</sup> Note: As per the G20 membership, this list comprises 19 individual countries and also the European Union (EU), as an additional member. Our rankings show the performance of each country, along with an aggregate performance for the 27 EU member states.

## Mature countries provide the best ecosystems for entrepreneurship today

Mature countries lead most of the pillars of the Barometer overall. Their dominance can be explained by the fact that they start from a higher base level of development in each of the five pillars measured in the Barometer. For example, relative to most rapid-growth economies, they have deeper and more extensive funding options, stronger education systems, and a more mature and stable tax and regulatory environment. They also tend to have a more established history and culture of entrepreneurship.

## Rapid-growth markets are closing the gap

Importantly, our research shows that it is the rapid-growth economies that are making the fastest improvements to their entrepreneurial environments. This trend suggests that rapid-growth markets are working hard to close the gap with the current Entrepreneurship Barometer leaders. In doing so, they benefit from being able to learn from the successes and failures of entrepreneurial policies and approaches already implemented by mature economies. Rajiv Memani, Chair, Global Emerging Markets Committee and Country Managing Partner, India, EY, agrees, “Rapid-growth markets today recognize the pivotal role played by their entrepreneurs in sustaining high economic growth rates and are therefore increasingly taking measures to foster greater innovation and entrepreneurship.

This should further accelerate their growth prospects.” By contrast, mature economies have already often taken the basic steps to improve their entrepreneurial environments, making it harder to deliver impactful changes.

## All G20 countries have opportunities to improve

Turning to the more detailed rankings for each of the five pillars measured in the Barometer, an important point emerges: no country makes the top five rankings across every pillar. Indeed, most will find that there are one or more areas where they score relatively low and therefore have scope for improvement.

For example, the US outperforms other countries in terms of the quality of its funding environment and cultural support for entrepreneurship, but it is below average in terms of its tax and regulation environment, not least due to the complexity of its tax code. Furthermore, its entrepreneurs are largely pessimistic about whether improvements are being made on coordinated support.<sup>10</sup> In another example, Saudi Arabia is rated highly on the tax and regulatory pillar ranking, partly because of its low tax rates and its ongoing efforts to improve the local business environment. But it lags on the entrepreneurial culture ranking, largely due to the limited role private sector entrepreneurs have played in its oil-dominated economy.

## Access to funding is the top priority for global action

There is huge scope for countries to make improvements across the board in their entrepreneurial ecosystems. But one area in particular emerges as a priority. According to entrepreneurs themselves, access to funding is the single area where improvements are most urgently needed.

Seven out of ten entrepreneurs in our survey say it is difficult to obtain finance in their countries. This finding resonates strongly across the G20. But while access to funding may be the greatest concern, there are many other areas in need of attention. It is important to avoid looking at problems in isolation; instead, countries need to understand how the five pillars interrelate. Countries therefore need to focus not only on individual pillars in their ecosystem, but also on providing coordinated support across all these vital areas.

**“A range of initiatives and measures – aimed at supporting access to funding, simplifying tax and regulation, bolstering education and training, and much more – have helped to improve the entrepreneurial ecosystem in many countries. But more can be done, not least given the potential for governments to learn from each other, exchange best practices and avoid any pitfalls or unintended consequences that others have already encountered.”**

| **Uschi Schreiber**, Global Markets Leader and Global Government & Public Sector Leader, EY

<sup>10</sup> Note: When analyzing the pillar rankings, it is important to understand that the coordinated support ranking differs from the other four in its approach. The rankings for access to funding, entrepreneurial culture, tax and regulation, and education and training all combine both quantitative indicators with sentiment data derived from the survey. Due to a lack of timely comparable data to measure coordinated support, the ranking for this pillar is derived purely from the survey results, and therefore solely measures current sentiment.

# Driving progress across the five pillars of entrepreneurship: A call to action

## Access to funding

### Incentivize new sources of funding

Countries need to support the development of more innovative funding platforms, such as crowdfunding and microfinance. They also need to establish targeted venture capital funds and incentivize private sector investors to focus more on entrepreneurial businesses (through improved tax incentives, for example). For more established entrepreneurs seeking expansion capital, more could be done to incentivize non-traditional funding sources, such as corporate venturing, co-development projects and supply-chain financing.<sup>11</sup>

### Unlock bank lending

Credit guarantee schemes are a powerful way of providing finance to start-ups that lack the collateral typically required to secure a bank loan. These tools could be extended. Banks could also offer greater support by developing a different lending model for entrepreneurial businesses. Instead of demanding collateral, which young companies rarely have, for example, banks could base their lending on the ability of these entrepreneurial businesses to meet specific performance milestones.

### Combine capital with mentoring

Many of the most successful start-up schemes combine money with coaching and practical advice. There are various ways to facilitate this, not least by tapping into existing entrepreneurial networks to channel their experience to help first-time entrepreneurs. This is an area where public-private partnerships are needed, with the business community providing experienced role models and advisors, while government can provide financial support and infrastructure (for example, meeting spaces, online services) to enable these networks to take off.

### G20 entrepreneurs' views:

**70%** say that it is difficult for entrepreneurs to access funding in their country.

**Half** say improved access to funding is the most effective way to accelerate entrepreneurship.

**Almost half (46%)** of entrepreneurs that are aware of crowdfunding say that it has improved in their country.

### Top-ranked country:

US



**“In Mexico today, probably 80% of businesses start with funding from family and friends, and the remaining 20% will get some help from the government or risk capital. It’s hard to raise money for a start-up.”**

| **Pablo Gonzales**, Cafe Punta del Cielo, Mexico

<sup>11</sup> Note: Supply-chain financing allows suppliers to obtain early payment on their invoices in return for a financing charge, and it can be a way to smooth cash flow for smaller entrepreneurial businesses.

## Entrepreneurship culture

### Remove the stigma of failure

Setting up a business is inherently risky, and countries should not penalize entrepreneurs excessively if they fail. Repeat entrepreneurs who have failed once before have been shown to have a higher chance of success than those trying for the first time.<sup>12</sup> Bankruptcy laws, therefore, need to strike the right balance between protecting creditors' interests and offering entrepreneurs another chance.

### Open the door for excluded talent

Women, young people and immigrants can make a huge contribution, yet today they are often under-represented in the entrepreneurial community. Young people typically face extra hurdles in securing funding, while talented immigrants may be discouraged. Targeted strategies designed to attract each of these groups into entrepreneurship can broaden the entrepreneurial base and accelerate success.

### Showcase success

Getting local role models to participate in events and campaigns is a relatively simple and cost-effective way to help inspire a new generation of entrepreneurial talent. Businesses themselves need to emphasize the social benefits of entrepreneurship, from job creation through to innovation and broader economic growth.

**"Governments and business need to work together in partnership to celebrate entrepreneurial success and inspire a new generation of entrepreneurs. They need to promote an environment that removes the stigma of failure and showcases entrepreneurial talent."**

| **Dave Read**, EMEIA Leader, Government & Public Sector Center, EY

### G20 entrepreneurs' views:

**84%** think that raising awareness of entrepreneurs' role as job creators would significantly improve attitudes to entrepreneurship.

**Two thirds (67%)** view business failure as a negative experience, with only a quarter seeing it as an opportunity to learn.

**Only 15%** of entrepreneurs say their country has a culture that fully supports entrepreneurship.

### Top-ranked country:

US



<sup>12</sup> P A Gompers et al., "Performance Persistence in Entrepreneurship and Venture Capital," *Journal of Financial Economics*, Vol. 96, No. 1 (Elsevier B.V., 2010).

## Tax and regulation

### Target reforms and incentives for each step of the entrepreneur's journey

Policies must be designed to support early-stage and more established entrepreneurial ventures. For example, reducing the burden of indirect taxes (which often serve as fixed overhead expense), such as payroll or property taxes, would often be more helpful to early-stage businesses than reducing corporate income tax. Later on in the growth journey, simplifying rules to help companies raise equity and debt capital can help smooth their transition into the rapid-expansion phase.

### Reduce the administrative burden of tax and regulation

The sheer complexity of tax administration places a significant burden on entrepreneurs. Simplifying tax codes might be as impactful as reductions in headline tax rates, particularly for smaller businesses. Creating convenient online hubs to help busy entrepreneurs to navigate regulations can also help them get going more quickly. It is also important to create certainty and predictability; it is difficult for businesses to invest if there is doubt about whether key rules will change.

### Give entrepreneurs a voice on reform

Entrepreneurs want more of a say in defining regulation, but they lack the lobbying resources of large companies. By actively seeking out and listening to entrepreneurs through forums and other feedback mechanisms, governments can do more to ensure entrepreneurs are not overlooked and to minimize the impact of unintended consequences from new rules.

### G20 entrepreneurs' views:

**84%** want tax systems to be simplified.

**83%** say that an increase in tax incentives focused on innovation would improve the health of entrepreneurship in their country.

**38%** of entrepreneurs say that they want the ability to voice their concerns on business regulations, making this their top suggestion for how countries could improve their regulatory environment.

### Top-ranked country:

**Saudi Arabia**



**“Entrepreneurs recognise their responsibilities in paying the taxes that are due. Indirect taxes can create a significant burden on new and growing businesses that are trying to build a profitable base and any help in reducing the impact of these indirect taxes would be very welcome.”**

| **Aidan O’Carroll**, Global and EMEA Leader, Global Compliance and Reporting, Tax, EY

## Education and training

### Entrepreneurs are made not born

More than four out of five entrepreneurs in our survey believe that entrepreneurial skills can and should be taught. Schools therefore have an important role to play in equipping the potential entrepreneurs of the future with the right skills and attitudes at an early stage. Policymakers need to encourage schools to bring in role models and set up games and competitions that give students the chance to find out what it is like to run a business. Teaching entrepreneurship benefits from a more hands-on approach than with traditional academic subjects.

### Develop an integrated approach

At the university level, science and technology students with innovative ideas are often separated from the business students who could help commercialize them. Programs should target a multidisciplinary approach and create support for the entrepreneurial ideas that emerge. It is also important to give these students experience of real-world business challenges. Large corporations, philanthropists and existing entrepreneurs can make a significant contribution here: many of them contribute time or money to support educational courses, as well as business games that give young people an early experience of what it is like to be an entrepreneur.

### Encourage lifelong learning for entrepreneurs

Entrepreneurs will need to learn a whole range of managerial and business skills as they grow their businesses. The good news is that access to mentoring opportunities, peer-group clubs and other informal networks is improving in many countries, according to those entrepreneurs surveyed for this study.

### G20 entrepreneurs' views:

**84%** agree or partly agree that they need specific education to become successful entrepreneurs.

**52%** say that university and business school courses for entrepreneurship have improved in their country.

**Sharing success stories** is ranked as the most impactful way to inspire people to become entrepreneurs.

### Top-ranked country:

France



**“We all have a strong interest in ensuring that our young people are as well-equipped as possible to grow our economies. By exposing students to entrepreneurial skills and opportunities during their education, we increase their potential to create and leverage technological and business innovations.”**

| **Julia Deans**, Co-President, Canadian G20 YEA and Chief Executive Officer, Canadian Youth Business Foundation

## Coordinated support

### Coordinated support creates the foundation for entrepreneurial success

A robust ecosystem for entrepreneurship fosters strong links between the public, private and voluntary sectors. Coordination needs to take place between a range of stakeholders, including universities and research laboratories, business incubators, non-governmental organizations (NGOs), investors and existing entrepreneurs. The challenge is to ensure that these disparate stakeholders are better orchestrated for maximum effect.

### Champion entrepreneurship with united thinking

To be effective, policies to stimulate entrepreneurship need to be coordinated across government ministries responsible for business environment, tax, regulation, innovation and education. Entrepreneurs would also benefit from having their own champion in government, for example through the creation of a dedicated minister for entrepreneurship.

### Clusters can thrive with the right kind of support

Many G20 countries have high-profile projects to create clusters of entrepreneurial activity. There is an array of tools that can help create an environment in which entrepreneurial business can thrive, ranging from local economic incentives through to business parks that provide plug-and-play infrastructure combined with mentoring and advisory services.

### Business incubators can play a pivotal role

Business incubators are a powerful means of teaching and mentoring entrepreneurs, while introducing new contacts, investors and networks. Our survey shows that access to business incubators is broadly improving across the G20, but more could be done. The goal is to help businesses acquire the skills, resources and networks they need to become self-sufficient.

### G20 entrepreneurs' views:

**More than half (53%)** of entrepreneurs report some improvement in access to entrepreneur clubs and associations over the past three years, versus only 8% who saw a decline.

**Nearly half (46%)** have used entrepreneur clubs and support groups to improve skills.

**Business incubators** are a top-ranked tool for accelerating entrepreneurship, according to **36%** of entrepreneurs surveyed.

### Top-ranked country\*:

Russia



*\* Note: Coordinated-support ranking is survey-based and does not include quantitative indicators. Russia emerges as the country in which entrepreneurs perceive the most rapid improvements in coordinated support.*

**"Time has gone where entrepreneurial ecosystem stakeholders could work separately and on their own. Economic growth, business development and job creation are now the results of a joint approach regrouping governments, businesses and educational systems with innovation and globalization at its heart."**

| **Jean-Louis Grégoire**, Sherpa of the French delegation in Moscow and Managing Director of Les Journées de l'Entrepreneur

## The ecosystem's impact on business creation

Research clearly shows that countries with strong ecosystems to support entrepreneurs benefit from higher levels of business activity.

Countries that score highly on the EY G20 Entrepreneurship Barometer 2013 also perform well in terms of creating new businesses. Several countries at the top of our Barometer, including the UK, Canada and Australia, also have the highest levels of new business entry density (new registrations per 1,000 people ages 15-64). By contrast, many rapid-growth markets, such as Argentina, India, Turkey and Brazil, tend to lag mature economies both in terms of the rate of establishment of new businesses and in position across the Barometer.

The implication is clear: those countries that succeed in improving their ecosystems can expect to benefit from higher rates of business formation, as more individuals will believe the conditions are right to start a company.

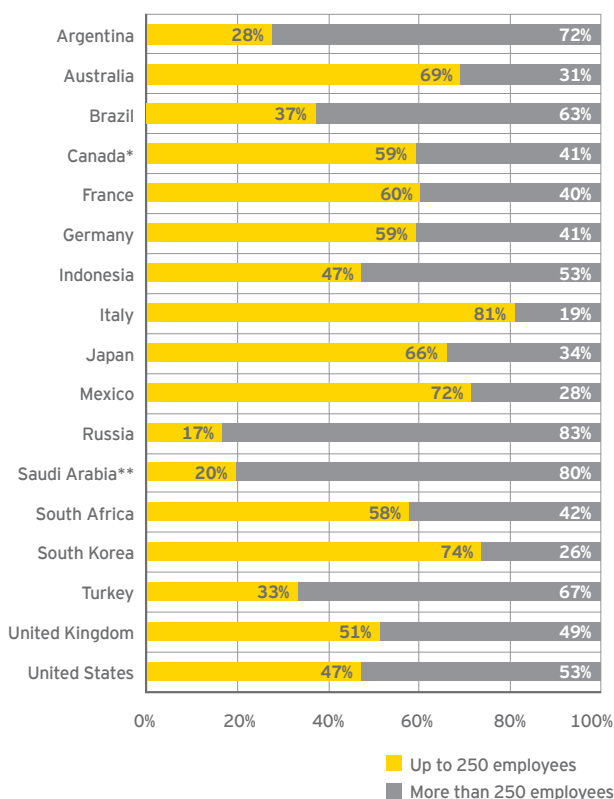
### Creation from innovation

Fundamental to the economic climate across the G20 today is the entrepreneur's role in creating jobs and stimulating recovery.

Small and medium-sized enterprises (SMEs) with fewer than 250 employees represent the majority of all businesses and employment. Across the OECD area, they account for approximately 99% of all enterprises and two-thirds of employment.<sup>13</sup>

These businesses also add jobs at about twice the rate of their larger rivals. In the EU between 2002 and 2010, 85% of total employment growth was attributable to SMEs, and SMEs have a much higher employment growth rate (1% annually) than large enterprises (0.5% a year).<sup>14</sup>

SME contribution to employment shares



\* Data for Canada up to 300 employees

\*\* Data for Saudi Arabia for up to 200 employees

Note: China, EU and India are not included in the above, as there is no available data.

Source: The World Bank, OECD, 2013

<sup>13</sup> Organisation for Economic Co-operation and Development, *Issues Paper 1: Innovative SMEs and Entrepreneurship for Job Creation and Growth* (Bologna+10 Meeting Brief, 2010).

<sup>14</sup> EIM, *Do SMEs create more and better jobs?* (EIM Business & Policy Research, 2011).

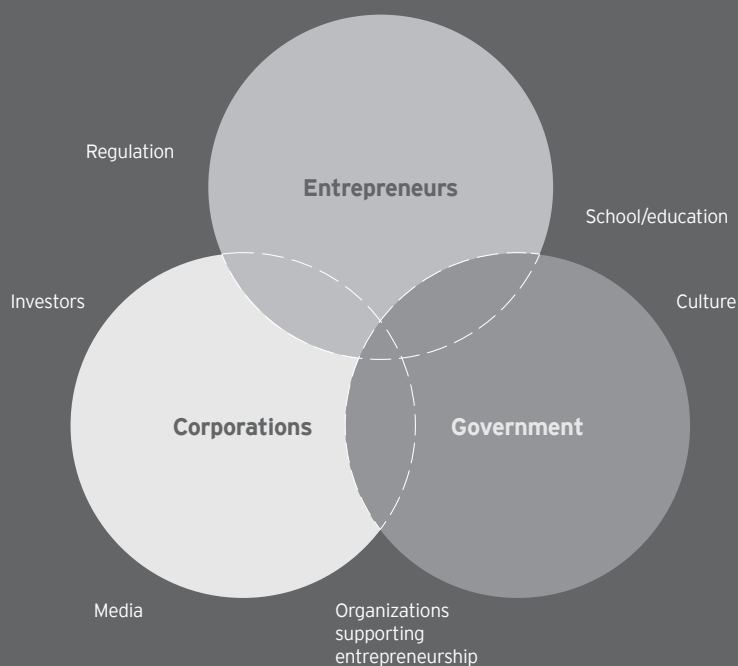
## A call to action

Entrepreneurs have a unique and vital role to play in the local community, national society and in the global economy as a whole. They are highly motivated, innovative and resourceful – qualities that enable them to overcome the sizeable barriers that confront every growing business.

We do not claim the path forward will be easy. Each G20 country has its own challenges and will need to address entrepreneurship in a local context. Creating solutions will require a concerted effort, not just from policymakers but also from private sector businesses, investors, the voluntary sectors and entrepreneurs themselves. Nevertheless, the need to act is clear. Entrepreneurs have the power to create jobs and drive growth – but first we need to give them the tools and environment that will enable them to succeed.

### | The power of three

For a thriving entrepreneurial ecosystem, governments, entrepreneurs and corporations must work together.



**“It’s no secret that unemployment is a huge problem. And entrepreneurs are the solution. The key to dealing in unemployment in South Africa is to increase the number of entrepreneurs who can create new jobs.”**

| **Lance Fanaroff**, Joint-CEO Integr8 IT, Johannesburg, South Africa



# Access to funding

Access to funding is the most important area where improvements would help entrepreneurs to succeed, according to entrepreneurs surveyed for this report. Improving access to funding is not a straightforward task, and governments can only do so much to ease conditions. But with the right policies in place, governments can play an important role in enabling the emergence of a deeper and more diverse mix of funding options to support every stage of growth.



In the EY G20 Entrepreneurship Barometer 2013, mature countries hold four of the top five positions for access to funding. The US ranks highly, thanks to its rich and diverse funding ecosystem. Financing options have historically been more limited in rapid-growth markets, but the Barometer shows that the gap is closing. China comes third in the ranking, a result that reflects the country's rapid development of a strong venture capital and private equity ecosystem. Meanwhile, more mature economies, such as Italy and France, score less well, as do rapid-growth economies Argentina and Mexico.

EY G20 Entrepreneurship Barometer 2013:  
**access to funding**

G20 country	Ranking
United States	1
United Kingdom	2
China	3
Canada	4
Australia	5
South Africa	6
Japan	7
South Korea	8
Brazil	9
Indonesia	10
India	11
EU	12
Saudi Arabia	13
Germany	14
Russia	15
France	16
Turkey	17
Mexico	18
Italy	19
Argentina	20



7/10

of entrepreneurs have found  
access to funding difficult

## Key insights

### Access to funding remains a critical barrier to entrepreneurial success

Entrepreneurs experience difficulty in accessing funding, but in some countries, the challenges are particularly formidable. In Italy and Argentina 45% and 40% of entrepreneurs, respectively, find it *very difficult* to access funding, whereas only 15% of entrepreneurs say the same in the US.

### Banks need a new lending model for entrepreneurs

Across most G20 countries, bank lending is by far the most important source of funding for entrepreneurs, but only a minority believe it is becoming more accessible. Start-ups do not have the collateral to meet traditional lending criteria. Banks need to develop “milestone” lending schemes that enable them to identify, support and benefit from the high-potential businesses of the future. Innovative approaches might include enabling the use of intellectual property as collateral to secure lending and encouraging the emergence of more specialized banks that understand the dynamics of younger businesses.

### Government funding can help close the funding gap

Entrepreneurs say the second-most important funding source after bank credit for fueling entrepreneurship is public aid and government funding. Government start-up programs are also viewed as one of the most valuable sources of help. Public money can act as a powerful catalyst, especially when delivered in partnership with the private sector.

### Innovation is required to broaden the early-stage funding ecosystem

Many entrepreneurs still rely on friends and family for early-stage funding. The emergence of crowdfunding and microfinancing show how innovation can unlock entrepreneurial opportunities, but these platforms are still in their infancy and require regulatory support to achieve scale. Almost half (49%) of young entrepreneurs surveyed noticed improvements in the availability of crowdfunding.

### Capital without mentorship is lost capital

It is important to combine funding with high-quality mentoring so that once businesses are established, they have the skills to make good on this initial investment. The combination of funding with advice and information has been key to some of the most successful programs covered in government leading practices, including the US Small Business Administration, as well as several countries' start-up programs (for example *StartUp Chile*).

### Encourage corporations to help fill gaps in the funding ecosystem

All players in the funding ecosystem need to think more creatively about how to improve access to finance. This includes providing greater access to non-traditional sources of funding. Corporate venturing enables large companies to boost their innovation pipelines while supporting entrepreneurial businesses. Other examples include joint development funding programs as well as supply chain financing initiatives that enable smaller firms to smooth their cash flows. Non-bank lenders, such as asset management firms, could also diversify their own business models by lending directly to entrepreneurs.

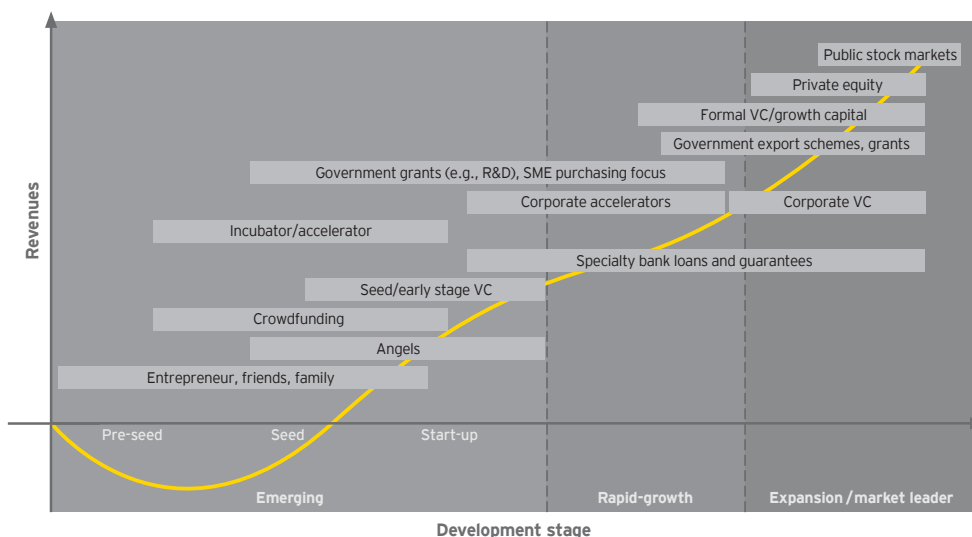
**“We need to work on supporting access to funding through the vast array of incentives available for each stage of the entrepreneurial life cycle, and develop integrated initiatives that combine practical support and mentoring with financial assistance.”**

| Alessandro Cenderello, Advisory Leader for Government & Public Sector, EY

# Financing growth: the funding ecosystem for entrepreneurs

As entrepreneurial businesses grow and develop, the sources of finance they rely on changes. It is therefore essential that governments create a range of mechanisms and institutions that provide entrepreneurs with the capital they need to support their businesses at every stage of the growth journey.

The EY guide to funding entrepreneurial businesses



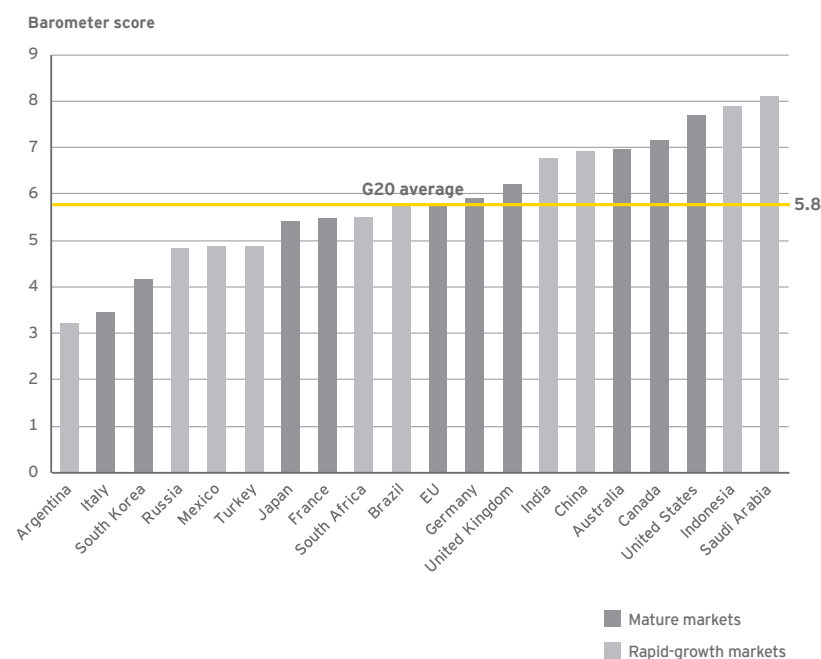
## Stage 1: emerging business

**Access to early-stage funding is starting to improve**

Companies at the seed and start-up phases struggle to raise finance. There are signs, however, that this situation is slowly improving. Across the G20 economies, entrepreneurs say that access to early-stage funding has improved over the past three years, although the pace at which this is taking place varies. Countries that perform well in providing funding for start-ups include the US, Canada and Australia, as well as, perhaps more surprisingly, Saudi Arabia and Indonesia. According to a survey by the World Economic Forum, across the G20, Saudi Arabia lags only the US on the ease of access to venture capital, with a Government scheme to guarantee 50% of certain bank loans and a corporate venture capital fund backed by Saudi Aramco, a state oil company, as some examples. In Indonesia, the Government guarantees 70% of loans in its Kredit Usaha Rakyat scheme, with lending expected to reach US\$2.9b in 2013.

Access to funding for start-ups

*Top performers in the Barometer do better at providing funding for start-ups*



Source: EY G20 Entrepreneurship Barometer 2013

Innovative forms of financing are emerging

One reason for the easing of funding constraints for start-ups is the emergence of innovative financing options. Microfinance, which provides credit to entrepreneurs who lack access to traditional bank services, has grown significantly in recent years, particularly in rapid-growth markets. Crowdfunding, which uses online platforms to facilitate small amounts of funding or donations directly from multiple investors, is a more recent phenomenon, explains Andrea Vogel, EMEA Strategic Growth Markets Leader, EY: “Crowdfunding shows how the combination of technology and innovative thinking can help overcome funding barriers for early-stage businesses. But countries need to develop supportive policies to ensure that crowdfunding reaches its full potential.” In the past several years, a number of promising services have emerged, such as *Kickstarter* and *Crowdfunder* in the US and *Crowdcube* in the UK. Between its launch in 2009 and the time of writing in June 2013, *Kickstarter* claims to have funded more than 44,000 projects, totaling more than US\$680m in pledges.<sup>15</sup> Almost half of entrepreneurs (46%) in the survey that knew about crowdfunding said it had improved in their country.

The growth of crowdfunding has caught the attention of policymakers. In the US, for example, provisions under the JumpStart our Business Startups (JOBS) Act mean that entrepreneurs are now able to accept and pool donations from multiple investors. The European Commission is also seeking to advertise the sector by creating a European network of crowdfunding platforms. Despite this support, challenges remain. As crowdfunding grows, regulators will increase their scrutiny of the sector and will seek assurance that investors are protected and there is full transparency. They will need to tread a line between

providing protection and giving the sector the flexibility it needs to thrive.

Angel investors provide an important stepping-stone

Once a business starts hiring staff and developing products and services, it typically requires additional injections of capital to reach the next stage on the growth journey. Securing this follow-on financing is a key challenge for early-stage businesses. Business angels, who typically invest between US\$25,000 and US\$500,000 in early-stage companies, provide an important source of this finance. Encouragingly, 38% of entrepreneurs in our survey think that access to business angel funding is improving. In some countries, such as Brazil, Indonesia and Germany, that trend is particularly positive.

More could be done, however, to encourage business angels to invest. Helpful policies would include tax credits or deductions for investment in entrepreneurial businesses and more favorable capital gains treatment on the sale of those businesses. Education and networks can also play an important role. Potential business angels should be able to access information about opportunities and the mechanisms of making an investment, while platforms and networks that bring angels together can create a destination for entrepreneurs wishing to seek out potential angel investors.

Angel investors compared with venture capitalists in the US

	Angel investors	Venture capitalists
Who	Wealthy individuals with a net worth over US\$1m	Professional investors
Source of funds	Use their own money for the youngest start-ups	Funds from institutions to more seasoned entrepreneurs
Size of stake	Typically between US\$10,000 and US\$50,000	US\$7m on average
Role	Usually not active in day-to-day management	Close oversight and active board member
Success rate	52% of deals usually lose money	40% eventually fail

Source: *The Boston Globe*, 2013

Cash plus mentoring: the US Small Business Administration

The Small Business Administration (SBA) is one of the oldest and most successful initiatives designed to bridge the gap between venture capital funding and small companies. It has become an increasingly important source of finance for entrepreneurial businesses in the US. In 2012, its finance programs provided US\$30.25b in loans to small businesses.

At the same time, the SBA has been streamlining and simplifying these loan programs to help create more opportunities for lenders and small businesses. These efforts, along with other loan enhancements, have resulted in nearly 1,300 lenders returning to SBA lending, many of whom had been inactive in the sector since the financial crisis.

One of the main reasons for the SBA’s success is the way it combines financial support with education. The agency’s national network of experts provides support to entrepreneurs through mentoring, training, legal advice and even assistance with securing government contracts.

<sup>15</sup> “What is Kickstarter?” *Kickstarter website*, [kickstarter.com](http://kickstarter.com), accessed 3 July 2013.

“Securing venture capital funding improves a company’s ability to access debt and other financing, creating a multiplier effect.”

| **Bryan Pearce**, Americas Director, EY Entrepreneur Of The Year™ and Venture Capital Advisory Group, EY

## Stage 2: rapid-growth

### Access to traditional bank lending remains difficult for rapid-growth companies

At the rapid-growth stage, entrepreneurs can demonstrate a market for their products or services and may already be earning revenues. In theory, more funding options should now be available, including bank loans and venture capital. Since the financial crisis, however, small companies have continued to face major hurdles in accessing funding. Banks are under pressure to boost regulatory capital, and this is encouraging them to shrink their assets by reining in lending. Perceived as being higher risk, smaller businesses are feeling the pinch of these tougher credit conditions, which remain below peak 2007 levels though they have improved steadily in recent years. On the ground, the entrepreneurs in our survey remain downbeat about the outlook for bank lending.

### Government credit guarantee schemes

At the same time as encouraging banks to shrink, G20 governments are also seeking ways to unlock bank lending as a way of stimulating growth. Credit guarantee schemes, in which the government underwrites a portion of the risk banks take in lending to entrepreneurs, have been one prominent example of this trend. Some of these schemes have been in existence for over a decade and have already had a substantial impact. Mexico, Turkey, Indonesia and South Korea also have sizeable credit guarantee programs.

Similar schemes have been launched or extended in developed markets. Since 2012, the UK’s National Loan Guarantee Scheme has helped businesses access cheaper finance by reducing the cost of bank loans by 1%. So far, the scheme has provided £2.5b (US\$3.85b) in cheaper loans to more than 16,000 businesses.

In the EU, entrepreneurs will be able to access funds through the Program for the Competitiveness of Enterprises and Small and Medium-sized Enterprises, which will run from 2014 to 2020. A budget of €2.5b (US\$3.28b) will be available, much of which will be deployed to fund entrepreneurs (in particular those willing to launch cross-border activities) through equity financing and loan facilities via banks.

Banks need to develop new lending models for entrepreneurial businesses

Many start-ups and early-stage businesses struggle to secure bank lending. One idea is that banks could develop “milestone” lending schemes that enable them to identify, support and benefit from the high-potential businesses of the future. Instead of relying on collateral so extensively, lending would be tied to other indicators of performance and future potential. Innovative approaches might also include enabling the use of intellectual property as collateral to secure lending.

This kind of shift would require banks to develop new competencies and expertise in early-stage business. For that reason, it would make sense to encourage more specialized banks to emerge (such as Silicon Valley Bank and Square 1 Bank in the US), that understand the dynamics of younger businesses. The banks might also work in parallel with early-stage venture capital to direct such loans to businesses with the highest potential for growth.

### Stimulating venture capital activity

### A challenging venture capital funding environment is showing signs of improvement

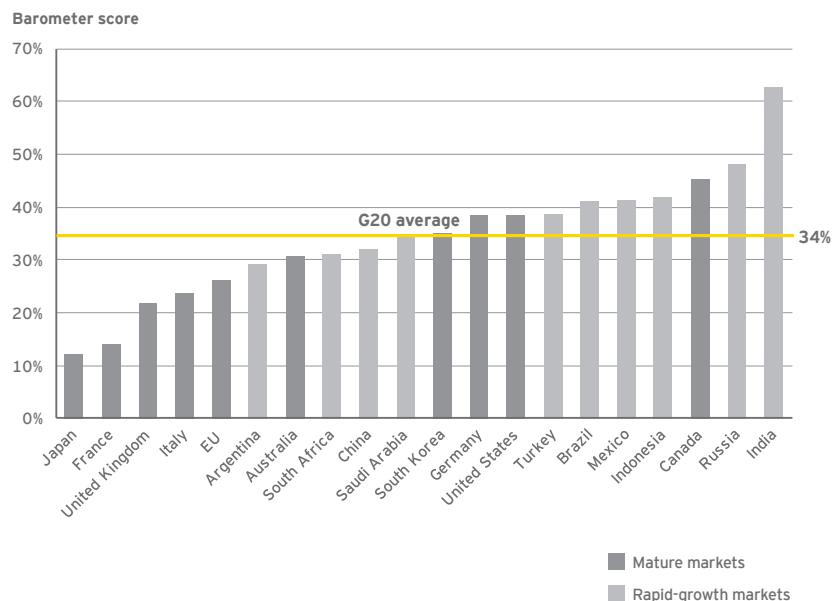
Venture capital plays a vital role in the funding ecosystem by providing growing businesses with larger injections of equity-based funding than are typically available from business angels. A strong venture capital sector is particularly desirable because it can have a “multiplier effect”: when a company secures investment from a high-quality venture capital fund, it also becomes easier to access debt and other financing.

However, as with other funding sources, accessing venture capital remains challenging. Between 2011 and 2012, global venture capital investments declined by 20%. There are signs, however, that the situation may be improving. Among our respondents, 63% of Indian, 48% of Russian, 42% of Indonesian and 41% of Brazilian entrepreneurs also think access to venture capital is getting better.

Across the G20 as a whole, an average of 34% of entrepreneurs believe access to be either greatly or somewhat improved (see chart).

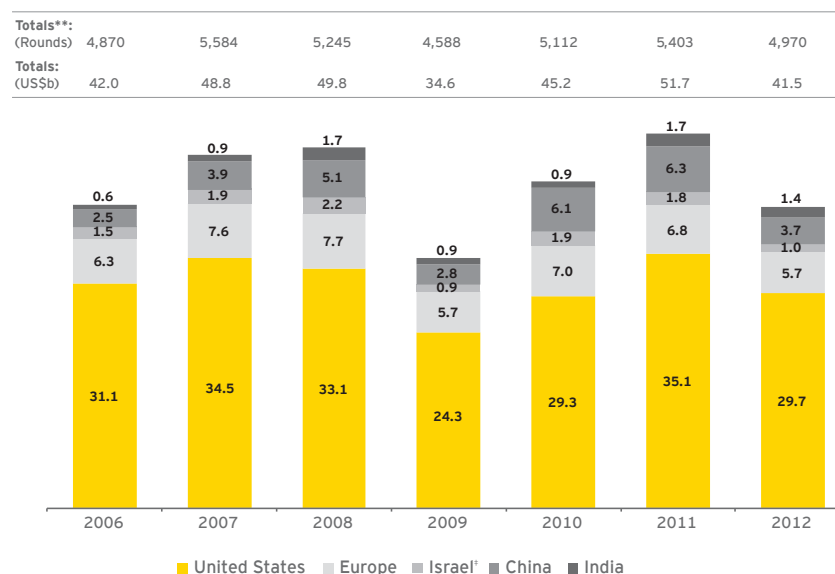
Venture capital is less established in rapid-growth markets, but some have made significant progress in this area, albeit from a low base. In India, for example, venture capital investment more than doubled from US\$600m to US\$1.4b between 2006 and 2012. Regulatory changes, including the elimination of tax on capital gains and the relaxation of rules preventing foreign investment, have been key drivers of this growth. Overall, a striking 63% of local entrepreneurs surveyed believe access to venture capital in India has improved.

Improvement in access to venture capital  
% of entrepreneurs selecting "greatly" or "somewhat" improved



Source: EY G20 Entrepreneurship Barometer 2013

Global venture capital investment by amount invested and number of rounds  
Global annual VC investment 2006-2012\*



\* Global numbers include United States, Europe, Israel, China, India

\*\* Total number of rounds includes restart

† All-site Israeli companies

Source: Dow Jones VentureSource, 2013

Almost

1,000

corporate venturing units  
worldwide

### **Governments can use tax and regulation environment to encourage venture capital investment**

Some G20 countries are taking steps to encourage greater venture capital investment. For example, European regulators are seeking to create a “passport system” that makes it easier for venture capital firms to offer partnership interests in funds throughout the EU, rather than needing to register them in every country where they want to operate.

Some governments are taking more direct action by creating government-sponsored venture capital funds to make direct investments in new enterprises. In March 2013, for example, the Australian Government pledged AU\$100m (US\$104m) to local venture capital funds, which will be matched by private sector investors. Others are considering changing regulations to allow government or pension funds to invest in venture capital assets or adapting the tax and regulatory environment to encourage investment from overseas venture capital firms.

Capital gains taxes are another important consideration for governments. Many countries, including Canada, Australia, Japan and the UK, have recognized this and put in place capital gains tax deductions to ensure that entrepreneurs are not excessively penalized on sale or exit. For example, in the UK, Entrepreneur’s Relief allows qualifying individuals to claim tax relief on gains made on the disposal of a business, or shares in the company, while Australia provides capital gains concessions to small businesses, such as the ability to discount a capital gain by 50%. In Canada, the taxable portion of capital gains and the deductible portion of capital losses is 50%. Each of these measures is designed

to drive investment into important areas for the economic growth and to ensure that entrepreneurs make more money that can be reinvested or saved.

### **A bigger role for corporate investment**

#### **Corporate investment in start-ups should be encouraged to help fill the funding gap**

Investment by corporations in new ventures, or corporate venturing, has historically accounted for around 6% to 10% of all venture capital investment globally. This form of investment helps companies to generate financial returns and gain early access to promising new technologies and intellectual property. With many companies sitting on significant reserves of cash and more hungry than ever for new ideas to enable growth, this form of investment could become even more important in the future.

*Global Corporate Venturing* has identified almost 1,000 corporate venturing units worldwide, and that number is growing.<sup>16</sup> Prominent examples include General Motors, which founded a US\$100m venture capital subsidiary in 2010. In 2013, Qualcomm Ventures, the corporate venturing unit of the US-based semiconductor company, netted a tenfold return from its investment in the Israeli traffic navigation company Waze, which sold to Google for a reported US\$1.3b.<sup>17</sup> Corporate venturing is also becoming more widespread in rapid-growth markets. In China and India, large local corporations, such as ZTE and Tata, are launching funds that will challenge the local venture capitalists and their foreign rivals.

Corporate venturing typically involves companies taking an equity stake in start-ups, but there is also a growing trend for companies to provide credit to new ventures. Dell, for example, has established a US\$100m credit financing program for venture capital- and angel-backed start-ups. The Dell fund provides financial and technological resources to encourage innovation among entrepreneurial businesses. For example, Orange and Publicis Groupe recently partnered with Iris Capital to create a major new venture capital investor with €300m available to invest in the digital economy.

Larger corporations are also supporting smaller entrepreneurial businesses through the use of supply-chain financing, which allows suppliers to receive early payment on their invoices in return for a financing charge.<sup>18</sup> These approaches can provide a win-win solution, smoothing cash flows for the smaller business while helping larger companies secure their supply chain and earn a yield in excess of what is possible from a cash account.

Governments can help to encourage corporate venturing and other investment mechanisms by contributing to an ecosystem that encourages companies to consider these options. Tax regimes that are favorable toward equity investment would provide a boost to corporate venturing, as would the creation of forums through which companies considering corporate venturing or other investment options could receive advice and support.

<sup>16</sup> “Venturers have the power to shape the future,” *Global Corporate Venturing website*, globalcorporateventuring.com, accessed 11 June 2013.

<sup>17</sup> “The Big Deal: Qualcomm’s speedy drive with Waze,” *Global Corporate Venturing website*, globalcorporateventuring.com, accessed 14 June 2013.

<sup>18</sup> EY, *Drought or drowning? Cash challenges for CFOs at both ends of the liquidity spectrum* (EYGM Limited, 2012).

### An engine for growth capital Brazil: the INOVAR program

Since its launch just over a decade ago, the INOVAR program has been critical to developing a venture capital ecosystem in Brazil. It brought together several agencies to establish a single institutional framework for developing and nurturing a venture capital investment culture in the country. Key components of the program include the INOVAR Fund Incubator, Brazil Innovation Forum, Brazil Venture Capital Investment website, INOVAR Business Prospecting and Development Framework, and the development of capacity-building and training programs for venture capital agencies.

INOVAR has been instrumental in building the skills and knowledge of the venture capital ecosystem in Brazil. It has provided training and advice for limited partners, investors, fund managers and CEOs of innovative companies. It has also helped to facilitate an increase in the investment of pension funds in private equity and venture capital. Petros, the pension fund of Petróleo Brasileiro (Petrobras, the semi-state-owned Brazilian energy company), invested in venture capital for the first time in 2005 after participating in INOVAR's funds panel.

Overall, INOVAR has facilitated more than US\$1b in investments in private equity and venture capital funds and more than US\$2b directly in companies. The program has been widely recognized as a role model for other governments that are trying to stimulate private equity and venture capital funding as part of the entrepreneurial ecosystem.

## Stage 3: expansion

Capital markets are hugely important for businesses in the expansion phase. They have the potential to help companies fuel exponential growth by providing larger amounts of capital. An IPO can help the company finance their strategic acquisitions, create opportunities to expand the business into new markets, provide exit opportunities for private equity and other investors, improve perception of the business and brand with customers and suppliers, as well as acting as an incentive to employees with stock options. Historically, companies that have completed IPOs accelerate their job creation significantly. For example, in the US more than 90% of job creation occurs among countries after they go public.<sup>19</sup>

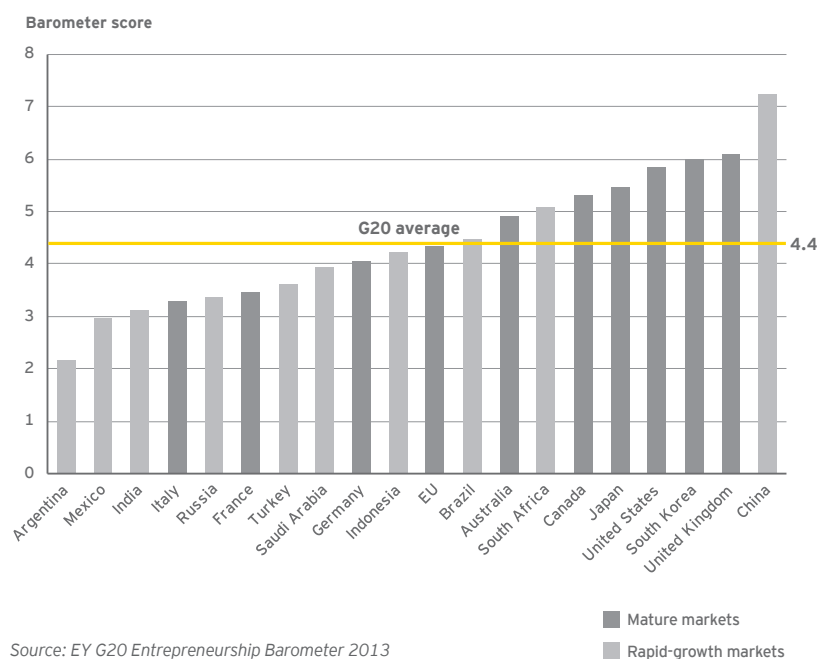
### Entrepreneurs are downbeat on IPO prospects but may be too pessimistic

Since the financial crisis, IPO markets have been sluggish and entrepreneurs in the survey were considerably more pessimistic about this type of funding than others. Only 19% of those surveyed felt that IPO market conditions were improving in their country, versus 32% who felt they were deteriorating.

Despite gloomy perceptions of IPO markets among entrepreneurs, there are signs that conditions are improving, owing to steadying global economic conditions. Recent data for IPOs in Q2

#### Access to expansion capital

*China has performed particularly strongly in providing expansion capital*



<sup>19</sup> M Kenney et al., *Post-IPO Employment and Revenue Growth for U.S. IPOs, June 1996-2010* (Kaufmann Foundation, 2012) p. 7.

show strong signs of growing confidence and momentum in the US, while the outlook for Asia and Europe is also improving. Based on EY analysis, global IPO activity by end of Q2 was up 92% in terms of deal value and increased by 27% in terms of deals numbers, compared to Q1 2013 comments Maria Pinelli – “The IPO window is reopening thanks to rising equity markets and a wave of recent megadeals, which is having an icebreaker impact on the market.” If this trend is sustained, it will help unblock an important source of funding for entrepreneurial businesses on their route to becoming market leaders.

### Junior markets have a vital role in supporting entrepreneurs

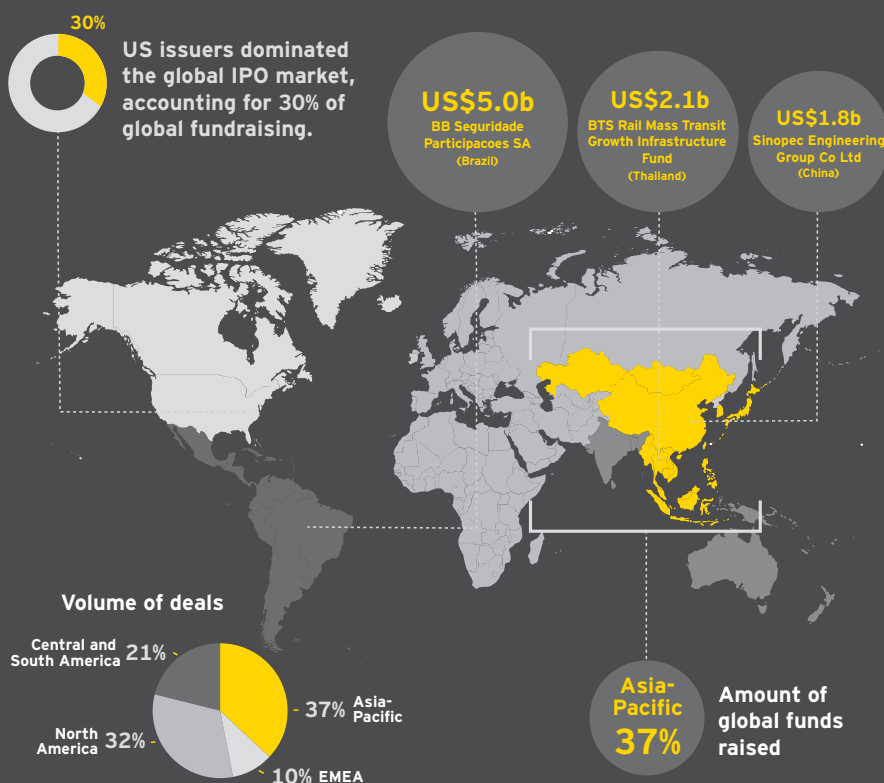
Not every company will be able to make the step from being a private company to the main stock market. Junior exchanges, such as AIM in the UK, can play an important role in bridging the gap by providing a mechanism for accessing public equity investment. Listing on a junior market can also have tax benefits and be a stepping-stone to an eventual listing on the main market.

In the last 10 years, many stock exchanges around the world, in both mature and rapid-growth markets, have established junior markets or new platforms to foster capital-raising by high-growth entrepreneurial businesses. Examples from rapid-growth markets include Mainland China’s Shenzhen ChiNext market, which was established in 2009; India’s Bombay SME platform, set-up in 2012; and South Korea’s Korea New Exchange (Konex), created in 2013. In the developed markets, one example is the introduction of the High Growth Segment (an additional segment to the Main Market) by UK’s London Stock Exchange in 2013 to assist midsized UK and European companies with

## The outlook for IPOs is improving

*IPO capital raised (% of global investment)*

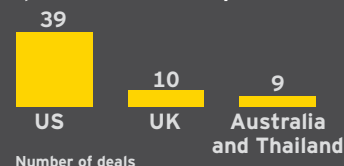
### US tops the leaderboard



### Top three exchanges by funds raised



### Top three countries by deal volume



Source: EY, Q2 2013

significant revenue growth to access public capital and to join the Premium segment of the Main Market at a later stage.

A central factor in the success of any junior market is the creation of the right environment for entrepreneurs to tap that market. To achieve this, governments must ensure that stock exchanges encourage regulation that incentivises and allows for investment in entrepreneurial companies. One example is the US JOBS Act, enacted in 2012 to give private companies greater access to capital and make it easier for emerging growth companies<sup>20</sup> (EGC) to go public on US exchanges by confidential filing and phasing in certain regulatory requirements during a five-year on-ramp period.<sup>21</sup> Another example is that European policymakers are working on better EU-wide capital market access for European companies so that they can list easily and make their shares accessible to a range of investors.

On the investors' side, regulators and governments must ensure that large institutional investors can invest in shares and debt from newly listed companies or those on junior markets. They should also promote liquidity on their capital markets and other features of well-functioning capital markets, as well as improve regulations that protect investors' interests.

### Key insight: The start-up funding journey Scott Walton, CEO, Enovex, Canada – G20 YEA 2013



#### ***Enovex is a start-up based in Atlantic Canada that is developing a new class of gas production absorbents.***

Scott Walton has been on a long – but fruitful – journey to raise money for his start-up business. He started out tapping friends and family, using this seed funding to establish a proof of concept. This enabled the firm to get a loan from the Canadian Youth Business Foundation. A few months later, Enovex was a winner of the New Brunswick Innovation Foundation business plan competition, which helped generate more funding while attracting private angel investors. To date, Enovex has raised US\$2.5m, along with an additional US\$2m of equipment and infrastructure investments.

Walton attributes the company's fundraising success to the quality of its advisory teams, which includes leading figures with proven experience as executives, entrepreneurs and engineers. "It's something a lot of companies lack, but this team has not only provided us with tremendous support and strategic guidance, but

it has also had a huge impact on our credibility with investors," says Walton.

More broadly, while recognizing that the Canadian Government is doing a good job in general in supporting entrepreneurs, Walton believes more could be done to help companies like his to raise funding. He argues that most Government programs need forward commitments, such as term sheets and investment offers from other investors, before they are even willing to make an offer. "If they were able to provide a letter of intent that we could take to investors, that would really speed up the process and help secure investment," he suggests.

Government could sometimes even take the lead on investing in projects. "If the Government could put an investment offer on the table, conditional on further investments but with all the paperwork done in advance, it would be a huge help in raising money from private investors," says Walton. "There is also great scope for the Government to allocate money to projects by matching public money with private investment on a 50-50 basis."

<sup>20</sup> Note: An EGC is defined as a company with "total annual gross revenues" of less than US\$1b in its most recently completed fiscal year.

<sup>21</sup> Note: Under the JOBS act, an EGC can submit its IPO registration statement and subsequent amendments to the SEC on a confidential basis, as well as scaled disclosures requirements (e.g., two years audited financial statements, MD&A and selected financial data to be disclosed, reduced executive compensation disclosures in IPO filings).

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## A call to action

### Government action: where to focus

- ▶ **Conduct a self-assessment of your entrepreneurial landscape.** This will help to ensure that the correct funding strategies and policy levers are in place and the right type of capital is available at every stage of the entrepreneur's life cycle.
- ▶ **Provide mentoring along with capital.** Capital without mentorship is lost capital.
- ▶ **Boost access to funding.** Encourage venture capital fund formation, support the creation of specialist banks, sponsor credit guarantee schemes and low-interest start-up loans, and encourage innovative new approaches such as crowdfunding and milestone lending.
- ▶ **Support stock markets.** Stimulate access to capital and a greater potential for exits for entrepreneurial growth companies.

### The entrepreneur perspective: key issues to consider

- ▶ **Ensure that your capital source is the right one.** Seek the right funding depending on where your company is in its life cycle.
- ▶ **Consider stock markets.** Rapid-growth entrepreneurs should assess whether the stock markets are an appropriate source of capital to scale your business.

### A corporate perspective

- ▶ **Set up a corporate venturing unit.** Support and access innovative entrepreneurial businesses through corporate venturing.
- ▶ **Trade with entrepreneurs.** Strengthen your supply chain by purchasing from entrepreneurial businesses or providing loans, trade credit or other forms of support, particularly to those in the early stages of the growth cycle.

# Entrepreneurship culture



Culture forms an important part of the entrepreneurial environment. To encourage more people to start and grow a business, a country needs a set of beliefs and customs that make entrepreneurship a valid and respected career choice. Would-be entrepreneurs also need to feel confident that they will receive support for their efforts and, if they fail, that they will not be excessively penalized or stigmatized.



Countries that prize innovation and risk-taking and that have an abundance of inspirational role models tend to inspire more individuals to start and grow new ventures. This celebration of entrepreneurial success is an important factor that helps to put the US at the top of the Barometer on entrepreneurial culture. Other mature markets, including South Korea, Canada, Japan and Australia, also score highly. In general, rapid-growth economies tend to perform less well on the Barometer.

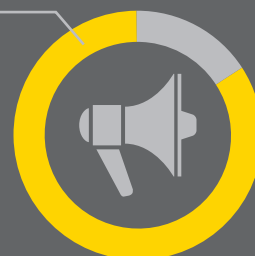
EY G20 Entrepreneurship Barometer 2013:  
**entrepreneurship culture**

G20 country	Ranking
United States	1
South Korea	2
Canada	3
Japan	4
Australia	5
United Kingdom	6
Germany	7
EU	8
France	9
Russia	10
India	11
Brazil	12
Italy	13
South Africa	14
Turkey	15
Argentina	16
Mexico	17
China	18
Indonesia	19
Saudi Arabia	20



# 84%

of entrepreneurs say that raising awareness of entrepreneurs' role as job creators would significantly improve attitudes toward entrepreneurship



## Key insights

### Greater emphasis should be placed on the benefits of entrepreneurship

To create a more positive image for entrepreneurship in society, respondents to our survey argue that there should be a stronger focus on emphasizing their impact on the broader economy. Demonstrating that entrepreneurs benefit society by helping to tackle unemployment and fostering economic growth is particularly important in countries where entrepreneurship has not traditionally been seen as a desirable career.

### Celebrating success is inspirational and effective

Half of survey respondents identify the need to improve communication around entrepreneurs' success stories as a key factor in creating a supportive entrepreneurial culture. Starting a business needs to be positioned as a valid alternative to more traditional jobs, particularly in countries where large corporations dominate the economy and as a route to success and wealth creation. To help achieve this, some government initiatives enable entrepreneurial success stories to be shared more widely between regions and countries.

### Helping entrepreneurs recover from failure removes a cultural barrier to business creation

Fear of failure remains a significant barrier to entrepreneurial activity. The cost and stigma associated with insolvency varies hugely between G20 countries. One reason the US scores highly in the Barometer is its tolerant attitude toward business failure, both from a regulatory perspective and also in terms of the lending practices of local banks and investors. When a business fails in the US, the costs of resolving insolvency are relatively low. By ensuring that insolvency regimes do not excessively penalize honest businesses that fail, while encouraging private sector lenders and investors to take a similar approach, governments can directly reduce one of the biggest barriers to entrepreneurship. This policy stance also reinforces the idea that business failure can be part of a learning process.

### Women and the young can accelerate entrepreneurship

Women have a more positive outlook on the economy than their male counterparts, and as microfinance initiatives around the world have shown, if you give them the tools they can have a major impact on business creation. The young are statistically more likely to take the risks involved in setting up a business, but there is less support for younger entrepreneurs from investors. Targeted strategies are required to help individuals within each of these groups discover their business potential.

### Migrant talent should be welcomed

Immigrant communities have a huge and well-documented impact on entrepreneurial activity. They are more likely than non-migrants to set up businesses, and the companies that they create provide significant benefits to the local economy. In the US alone, migrant entrepreneurs have created more than 500,000 jobs.<sup>22</sup> For all these reasons, it makes sense for countries to ensure that their immigration policies do not exclude this vital source of entrepreneurial talent.



**Fear of business failure is entrenched in many countries' culture: only 1 in 4 entrepreneurs see a failed business as an opportunity to learn**

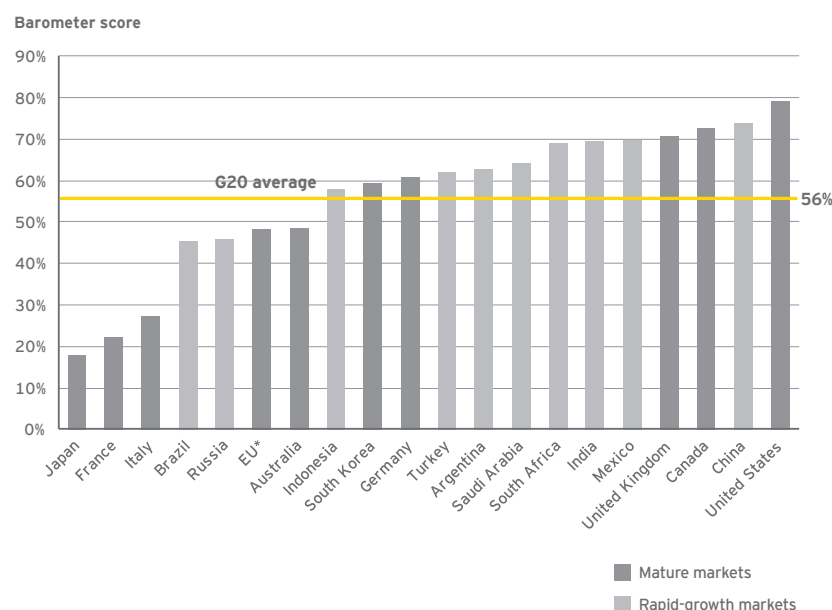
<sup>22</sup> S R Xavier et al., *Global Entrepreneurship Monitor: 2012 Global Report* (Global Entrepreneurship Research Association, 2012).

## Changing perceptions of entrepreneurship

Views of entrepreneurship vary widely across the G20 countries. In our survey, US entrepreneurs are the most positive about their country's environment for entrepreneurship, with 79% agreeing that it has a supportive culture. Entrepreneurs in China, Canada, the United Kingdom and Mexico were also very positive, with 70% or more of respondents in these countries agreeing their country's culture provides for entrepreneurship. In other countries, entrepreneurship is less established and celebrated, and many respondents complain that their country's culture is not supportive of their choice of career. For example, only 27% of entrepreneurs in Italy and 22% in France agree that their country has a culture that encourages entrepreneurship. Japan also suffers from very negative attitudes. Social attitudes change over time, however, and policymakers in many G20 countries understand the need to improve the popular perception of entrepreneurship.

Herb Engert, EY's Americas Strategic Growth Markets Leader, highlights a common error when companies expand across borders: "Western companies can become complacent when expanding into rapid-growth markets. Localization is imperative, not just in relation to products and consumer insights, but everything from research and development to the business model must be adapted to the local culture and environment."

My country has a culture that encourages entrepreneurship  
% of entrepreneurs that fully or partly agree



Source: EY G20 Entrepreneurship Barometer 2013

**"As the world becomes more globalized, it is important we take a serious view of the importance of cultural dynamism and relevance. The survey results, therefore, need to be interpreted with caution. There is a reluctance to identify problems or gaps in order to present a positive facade. Notwithstanding, South Korea is benefiting from an entrepreneurial movement which needs to be supported and nurtured to create jobs and business leaders of the future."**

| Michael Lee, G20 YEA President, South Korea

“When the Soviet Union collapsed in 1991, we had to go through the process of building up entrepreneurship and to start to really move towards development of the market economy.”

| **Alexander Ivlev**, EY's Russia Managing Director and advisor to the Russian Government on entrepreneurial issues

## Policymakers are having some success in shifting cultural attitudes

This last point resonates particularly strongly with those surveyed: highlighting the positive impact on job creation and innovation was viewed as by far the most powerful way to improve national perceptions of entrepreneurship.

Governments can play an important role in increasing a nation's celebration of entrepreneurship. For example, the work of the European Commission and the EU's Program for Competitiveness of Enterprises and SMEs includes a large number of awareness-raising activities designed to encourage a more entrepreneurial culture in member states. European SME Week is another key initiative; it aims to inspire more people, in particular the young, to consider becoming an entrepreneur. In 2012, European SME Week held 1,500 events across 37 countries in the region.

A country's entrepreneurship culture depends in large part on its history. In countries where the state has traditionally played a major role in the economy, the concept of entrepreneurship is still relatively new. Russia, for example, is still developing its culture of entrepreneurship following the 1991 collapse of the Soviet Union and the move to a market economy. Before these changes, entrepreneurs were viewed with suspicion and could even be criminalized in some cases. The structure of the economy also matters. In South Korea, for example, large conglomerates, or *chaebol*, dominate the business environment. This can stifle entrepreneurship because smaller businesses find it difficult to compete and because talented graduates automatically gravitate toward careers in *chaebol*, where they are guaranteed stability and respect from family members and peers.

Across the G20 as a whole, entrepreneurs flagged up improved communication of their community's success stories (87%), and the role they play in creating jobs (84%), as the two culture-related initiatives that would do most to change mind-sets in the coming three years.

**“At EY we have a deep commitment to promoting entrepreneurship. We have been working with entrepreneurs for over three decades, supporting them with our services and celebrating them through our Entrepreneur Of The Year program. We make this investment because we passionately believe that entrepreneurs play a crucial role in building a better working world.”**

| **Ringo Choi**, Asia-Pacific Strategic Growth Markets Leader, EY

### The National Entrepreneurship Movement, Indonesia

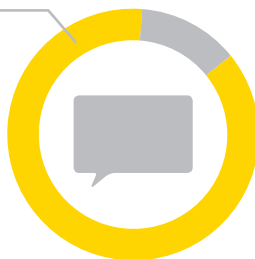
Launched in 2011, the National Entrepreneurship Movement (NEM) is a key initiative supporting the Indonesian Government's objective of increasing the number of entrepreneurs in the country by five million over the next 12 years. The program forges stronger links between new entrepreneurs, successful businesses and educational institutions through a range of training programs, exhibitions and fellowship schemes. A key strength is its multifaceted approach: the NEM coordinates support between 13 Indonesian ministries, together with the Central Bank, but

also works closely with state-owned enterprises, banks and communities in Indonesia.

Building a culture of entrepreneurship is very valuable in a country where traditional careers tend to be valued more highly. Nadya Saib, Founder of Wangsa Jelita, an Indonesian social enterprise that produces natural beauty products, has firsthand experience with this. “Indonesian culture is very conservative,” she says. “When I started my business, my family and friends didn't understand. They thought I should look for a ‘safe,’ salaried job.”

87%

of entrepreneurs believe that improving communication around success stories would improve the image of entrepreneurship



### Three characteristics of successful government programs to change cultural attitudes

- ▶ They encourage successful local business leaders to give up time to act as mentors and role models.
- ▶ They create networking opportunities so that aspiring entrepreneurs can learn from other businesses in other regions.
- ▶ They highlight entrepreneurship's vital role in the community and the broader economy, encouraging people to be proud of this career choice.

### Key Insight: Spreading the entrepreneurial culture

Alex Lim, Founder, Coollapsible, South Korea – G20 YEA 2013

*Coollapsible sells collapsible water bottles that fold into the size of a fist and can be carried in the pocket, dramatically reducing the use of disposable bottles.*

Since returning to South Korea after several years studying in the US, Coollapsible's Founder, Alex Lim, has been constantly reminded of the dramatic difference in the culture and attitudes toward entrepreneurs between these two countries. "In South Korea, the goal for young people has been to do well at university and get a job in a large company," says Lim.

Lim says the term entrepreneurship wasn't even understood by most people in South Korea until a few years ago. "In Korea, trying to start and establish your own business used to be regarded as something very radical, let alone the fact that most start-ups were mainly for

sustaining a living, not value creation," he says. But attitudes are changing: "In recent years, largely because of a wide range of Government support programs – seminars, conferences and workshops for entrepreneurs – there has been a lot more interest in entrepreneurship and new business creation. The whole scene has begun to take off."

The media also have an important role in helping to stimulate interest in entrepreneurship in South Korea, according to Lim. "Rather than focusing on executives who have made money at large Chaebol companies, for example, the media have begun to focus on stories of self-made people. But we still lack any significant examples of icons like Steve Jobs or Mark Zuckerberg, which would really make young people sit up and see that they can take the initiative and overcome risks."

## Removing the cost and stigma of failure is critical for success

As part of the efforts to create positive attitudes toward entrepreneurship, countries must also address attitudes toward risk and the cost of business failure. Among our respondents, 46% say that people and institutions in their countries view business failure as a barrier to future business projects or as a career failure. By contrast, only one-fifth see failure as a learning opportunity. This is unfortunate, especially given that the

success rate of repeat entrepreneurs, who have failed previously at a venture, is actually higher than for first-time entrepreneurs.<sup>23</sup>

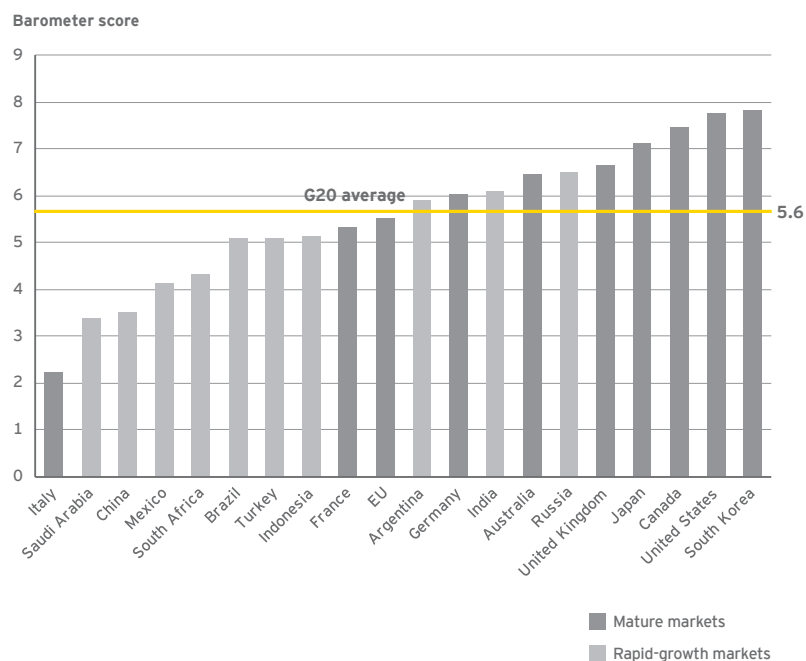
Policy can help to create a healthy tolerance for failure. Although outside the G20, Israel provides a clear example of an approach that actively encourages entrepreneurial risk. Funding from Israel's Office of the Chief Scientist (OCS) is offered "risk free" – meaning that if

the venture fails, no repayments are required.<sup>24</sup> OCS funding also requires no equity to be passed over in return for funding and does not interfere with the company's management. OCS-funded companies are only required to repay their debt if the company succeeds. Payment takes the form of modest royalties on future sales.

<sup>23</sup> P A Gompers et al., "Performance Persistence in Entrepreneurship and Venture Capital," *Journal of Financial Economics*, Vol. 96, No. 1 (Elsevier B.V., 2010).

<sup>24</sup> "Facilitating Startup Growth: Overview of Israel's OSC funding," *LexisNexis Legal Newsroom website*, lexisnexis.com, accessed 16 March 2013.

## Attitudes toward failure\*



Source: EY G20 Entrepreneurship Barometer 2013

\* A high score indicates greater tolerance and lower penalties for business failure.

## EU recommends another chance for failed entrepreneurs

Tough bankruptcy laws can also act as a brake on developing entrepreneurial culture. Research has shown that reform of personal bankruptcy laws, for example by reducing the time period after which bankrupts can be discharged from their indebtedness and make a fresh start, have a pronounced effect on increasing rates of self-employment.<sup>25</sup> As a recent report from the European Commission concludes, "A second-chance policy that enables formerly bankrupt entrepreneurs to restart may represent one of the most promising and under-exploited policy options for company creation and job growth."<sup>26</sup> The same report cites research showing that businesses set up by restarters grow faster than those set up by first-timers in terms of turnover and jobs created.

**"If the cost of failure is extremely high, then people will not become entrepreneurs. So we want to cushion the cost of failure and give people incentives to take the risk despite the fact that they're likely to fail. A lot of countries have really poor public policy when it comes to bankruptcy. If we want people to take a risk, then we have to think through what are the consequences of what would happen if they would fail for their families and for their future."**

| **Eric Ries**, a Silicon Valley entrepreneur and author recognized for pioneering the Lean Startup movement

<sup>25</sup> J Armour and D Cumming, "Bankruptcy Law and Entrepreneurship," *University of Cambridge Working Paper*, No. 300 (ESRC Centre for Business Research, 2005).

<sup>26</sup> European Commission, *A second chance for entrepreneurs: prevention of bankruptcy, simplification of bankruptcy procedures and support for a fresh start* (EU Publication Office, 2011) p. 4.



### Key insight: The right appetite for risk

Marcos Galperin, CEO, MercadoLibre, Argentina

Internet entrepreneur Marcos Galperin got his big idea while studying at Stanford University. In 1999, John Muse, Co-founder of the Hicks Muse private equity fund, was on campus as a visiting speaker. While traveling to the business school together, Galperin persuaded Muse to back an eBay-style venture in Argentina. Today, MercadoLibre is Latin America's No.1 e-commerce site, with more than 43 million users.

Galperin believes there has been a dramatic change in the entrepreneurial conditions in Argentina, with a much stronger entrepreneurial community. "But barriers remain, including the

fear of bankruptcy," he says. "Even if you have a good idea, it's much more likely that you will fail than succeed. If your company goes bankrupt, you are stigmatized by banks and the business community, by your neighbors and by society. It's a big problem."

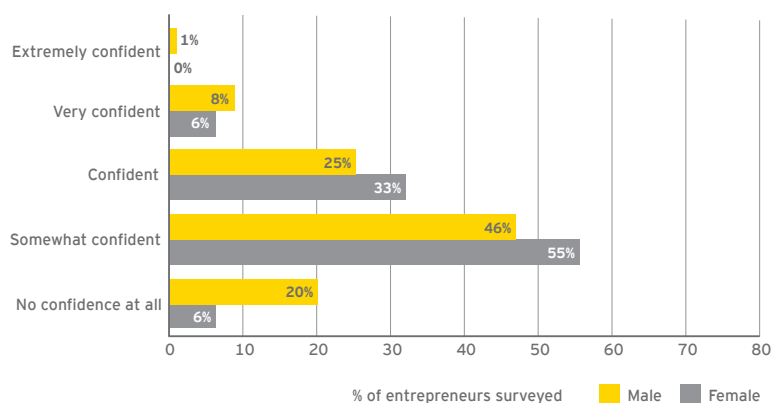
Galperin says governments seeking to promote entrepreneurship should reduce the pain of business failure. "You need to have an environment where people are willing to take risks. A company that has just started and has a small number of employees should be treated very differently from larger companies when they fail."

## Policymakers need to target support across all sections of society

Entrepreneurship must be accessible to everyone in the population. But in many countries, there are large sections of the population that lack the awareness, confidence or support needed to develop an entrepreneurial career. For example, the young are more likely to be willing to take the risks involved in becoming entrepreneurs, but it is harder for them to obtain funding according to the survey. Women have a more positive outlook on the economy than their male counterparts, and they are statistically more likely to repay loans – yet in many countries they face major cultural barriers to becoming an entrepreneur.

### Women: a confident outlook for business growth

What is your level of confidence in the economic direction of your headquarter country?



Source: EY, 2013

## The young: Argentina shows the way

Entrepreneurs under 40 in the survey report a number of specific challenges, including greater difficulties than more mature entrepreneurs in securing funding. Argentina's National Program to Support Young Entrepreneurs is a good example of how help can be targeted at this group by providing seed capital and training to young entrepreneurs. Its Godmothers initiative advocates networking between young entrepreneurs and established companies. The entire program has had significant impact, through its 3000 projects and the provision of learning to over 9000 entrepreneurs.

## Women: China sets an example

Female participants in our survey cited tailored support for women as one of the best interventions that governments could make to support women entrepreneurs. In China, for example, the Tianjin Women's Business Incubator (TWBI) helps female entrepreneurs to develop and nurture business ventures. Since being set up in 2000, TWBI has graduated 29 enterprises and provided employment to about 6,300 people.

## The unemployed: UK scheme helps unemployed people start their own business

Under the UK's New Enterprise Allowance scheme, aspiring entrepreneurs receive mentorship to help them develop a business plan, along with a Jobseeker's allowance (the UK's main unemployment benefit). If this goes well, the mentor approves the business plan and funding. Finally, the Jobseeker's allowance is withdrawn and an allowance is paid for the following 13 weeks. The total package of support could be worth up to US\$3,593 to each participant.

## Attract migrant entrepreneurs

Governments around the world need to consider their approach to attracting global talent. Immigration is a complex and politically charged issue, but it is impossible to ignore the role of international talent in entrepreneurial activity. According to the Global Entrepreneurship Monitor Global Report 2012, migrants exhibit a higher rate of entrepreneurship than non-migrants.<sup>27</sup> The study also highlights that, in the US alone, migrant entrepreneurs have created more than 500,000 jobs. Other research shows that migrants started 28% of all new US businesses in 2011, despite accounting for just 12.9% of the US population.<sup>28</sup> Immigrants also seem to be more likely to possess the drive and

risk appetite required to create successful businesses – a view supported by the fact that immigrants or their children founded 40% of Fortune 500 firms.<sup>29</sup> It is not just about attracting migrant entrepreneurs, but also moving entrepreneurship into rural areas explains Bala Vissa, Associate Professor of Entrepreneurship, INSEAD's Asia campus in Singapore – "Growth oriented entrepreneurship is largely an urban phenomenon in markets like India. This needs to be spread into rural areas as well because it would stem the flow of economic migrants to already overcrowded cities. Policymakers need to partner with start-ups like Head Held High that are pioneering this area to realize its full potential."

Prevalence of total early-stage entrepreneurial activity (TEA) of migrants vs. nationals around the world

World region	1st generation		2nd generation		Migrants
	TEA-rate (%)	% of all	TEA-rate (%)	% of all	TEA-rate (%)
US	16.4	11.7	12.3	15.9	12.9
Western Europe (with Israel)	8.2	10.7	7.9	16.1	6.1
Eastern Europe, Russia	8.0	4.7	9.9	13.3	8.2
Asia	11.7	3.9	9.8	7.5	9.4
South and Central Americas	17.1	1.5	17.5	3.5	18.8
Middle East and North Africa	10.6	1.4	12.3	4.2	9.3
Sub-Saharan Africa	31.3	1.8	30.4	3.5	26.8

Source: Global Entrepreneurship Monitor, 2012

<sup>27</sup> S R Xavier et al., *Global Entrepreneurship Monitor: 2012 Global Report* (Global Entrepreneurship Research Association, 2012).

<sup>28</sup> R W Fairlie, *Open For Business: How immigrants are driving small business creation in the United States* (Partnership for a New American Economy, 2012).

<sup>29</sup> S A Ballmer et al., *The "New American" Fortune 500* (Partnership for a New American Economy, 2011).

## Attracting and retaining talent

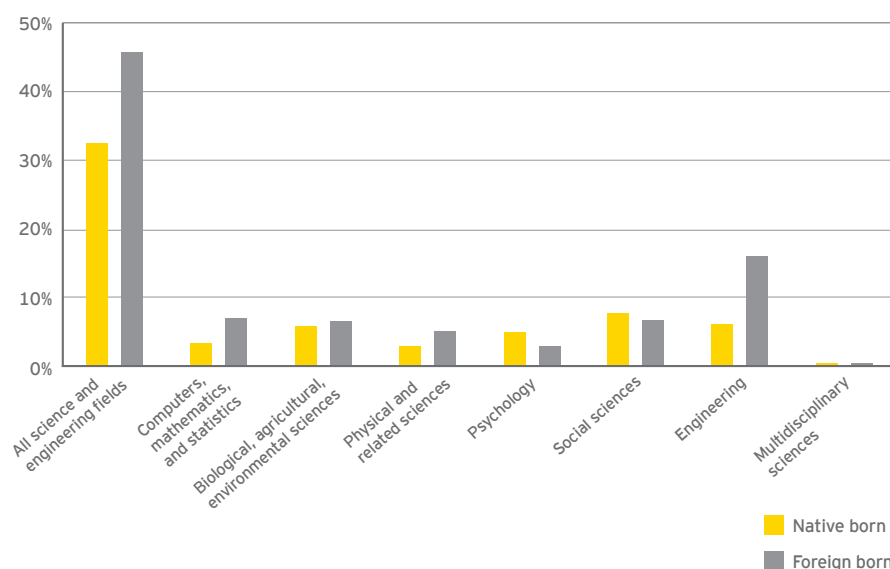
Migrants also provide a steady supply of science, engineering and technology talent that is so critical to many innovative companies. The US, for example, has traditionally attracted a large foreign-born contingent into its science and engineering workforce. In 1990, foreign-born workers made up just 11% of the US science and engineering labor force, but by 2010, this figure had risen to 21%.<sup>30</sup> More recently, however, visa requirements have tightened, making it harder for innovative companies to attract and employ the talent they need. H1-B visas, which foreign workers require in order to work in the US, are capped at 85,000 a year, including 20,000 set aside for graduates of US universities. In 2013, the limit was exceeded within five days of the application opening date.<sup>31</sup>

As the competition for international talent intensifies, several other countries have developed schemes that are designed to attract key skills and entrepreneurial talents:

- **Start-up poaching.** Canada has a strategy of combining visa reforms and the strength of its local venture capital firms. The Canadian start-up visa means transportable small businesses around the world can become targets for Canadian investors should they wish to relocate there. Venture capital funds select the immigrant entrepreneurs to invest in, and the Government assists them by granting visas on an immediate basis.

More degrees are gained by immigrants

*Percent of the population ages 25 and older with a bachelor's degree or higher by nativity and field of degree, 2010*



Source: United States Census Bureau, 2012

### ► Full-scale internationalization.

UK Trade and Investment's Global Technology Taskforce runs a program to attract international talent that can help UK businesses.

- **Reverse the brain drain.** Governments also need policies to retain homegrown talent. China, for example, is seeking to reverse an exodus of talent by offering attractive positions and incentives for people to return. The One Thousand Talents Scheme aims to attract 2,000 scholars who have been educated overseas and motivate them to return home.

<sup>30</sup> C Gambino and T Gryn, *The Foreign Born With Science and Engineering Degrees: 2010* (United States Census Bureau, 2011).

<sup>31</sup> C Chang, "Cap on H-1B visas for tech workers is reached in five days" *Los Angeles Times*, 5 April 2013.

## UK streamlines visa applications for entrepreneurs

By developing targeted strategies to advance and attract talent, policymakers can help individuals fulfill their entrepreneurial potential and, at the same time, accelerate job creation and create a powerful spur to economic growth. Doing this often involves making immigration easy for entrepreneurs and skilled talent. In the UK, the Tier 1 visa provides an accelerated stream for entrepreneurs who want to invest in the UK by setting up or taking over the management of a business. Importantly, entrepreneurs are also able to be absent from the UK for 180 days under this visa without losing their right to apply for permanent residence (this period is 90 days for other visas).

## Key insight: China's emerging entrepreneurial culture

*Xu Rong Chan, Founder, Sasseur (Shanghai) Holding Co Ltd, China*



***Initially set up as a bar in Shanghai in 1989, Sasseur expanded into cafés, bars and fashion boutiques and now encompasses several commercial shopping malls across China.***

Having built up a business from scratch over many years, Sasseur founder Xu Rong Chan has a firsthand perspective of Chinese attitudes toward entrepreneurship. "In general, young Chinese would prefer to take the Government exam, to work in Government and to have a very stable job," he explains. "But things are changing. Today, more and more young people want to become part of the new entrepreneurial culture."

He points to several reasons behind this shift. One has been the media, which have given a lot of attention to successful entrepreneurs. "This is particularly true for entrepreneurs that have been successful with internet, media or advertising companies," says Mr Xu. Furthermore, growing numbers of young graduates have been inspired

to follow in the footsteps of the founders of national internet giants, such as Alibaba or Tencent Weibo.

Despite this progress, successful entrepreneurs in China remain relatively scarce. "Young people need experienced entrepreneurs who can teach them or provide mentorship," Mr Xu says. "It is good for Chinese society to have young people willing to work harder to make money. They just need to have more skills to succeed."

The Government has been very supportive of entrepreneurship in China. It has increased the availability of small loans to businesses, offered free training and provided some tax benefits to encourage business start-ups. Although inflationary worries may slow down the rate of growth in the money supply, Mr Xu believes there are growing financing options for the emerging high-growth Chinese companies. This includes raising money abroad and tapping a growing supply of local venture capital and private equity.

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## A call to action

### Government action: where to focus

- ▶ **Promote the power and value of entrepreneurship as the engine of economic growth.** Celebrate entrepreneurs and position them as role models through marketing campaigns and events.
- ▶ **Remove the stigma of failure.** Statistics show that entrepreneurs are more likely to succeed the second time around – promote the view that failure should be viewed as a learning opportunity.
- ▶ **Create networking opportunities.** Facilitate opportunities for aspiring entrepreneurs to learn from other businesses.

### The entrepreneur perspective: key issues to consider


- ▶ **Share your story.** Communicate the benefits of entrepreneurship by publicizing successes in areas such as job creation and innovation.
- ▶ **Help the next generation of entrepreneurs.** Participate and support formal/informal collaborations and networks to develop entrepreneurs' ideas and form valuable relationships.

### A corporate perspective

- ▶ **Sponsor incubators and accelerators.** Corporations can offer sponsorships or other private programs that support entrepreneurs.
- ▶ **Recognize the contributions and success of entrepreneurs.** Highlight inspirational entrepreneurial case studies to emphasize the importance of entrepreneurs.

# Tax and regulation

Tax and regulation are key levers for improving a country's business environment. Those countries that offer favorable tax rates, simplify procedures and provide support for entrepreneurs are more likely to benefit from high numbers of start-ups. In turn, these ventures go on to become significant creators of jobs and tax revenue as they progress up the growth curve.



Low corporate income tax rates, business-friendly regulations, and the availability of good information and resources to help entrepreneurs navigate the regulatory system combine to put Saudi Arabia at the top of our rankings among the G20 for the quality of its tax and regulatory framework. For many jurisdictions, however, the tax and regulatory burden is excessively onerous and deters would-be business owners from starting a venture.

This is particularly true in rapid-growth markets, of which only Saudi Arabia, South Africa and Russia make the top 10 ranking for tax and regulation. Other major markets, including India, Brazil and China rank lower. Although these markets are making progress in developing their tax and regulatory systems, there is considerably more to be done.

EY G20 Entrepreneurship Barometer 2013:  
**tax and regulation**

G20 country	Ranking
Saudi Arabia	1
Canada	2
South Korea	3
United Kingdom	4
South Africa	5
Japan	6
Germany	7
Australia	8
Russia	9
EU	10
Turkey	11
Indonesia	12
United States	13
Mexico	14
France	15
China	16
Brazil	17
Italy	18
India	19
Argentina	20

62%

of entrepreneurs in China say  
it became easier to start a  
business in the past three years



## Key insights

### It is becoming easier to start a business in many markets

A simple, streamlined process for registering and starting a business can be a powerful tool for creating an environment that supports entrepreneurs. Overall, just over one-third of entrepreneurs (35%) believe that it has become easier to start a business in the past three years. But in China, Indonesia and Russia the figure tops 50%. Online portals and other initiatives that minimize the need to liaise with multiple regulatory agencies are particularly helpful in making it easier for entrepreneurs to take the first steps toward success.

### Tax cuts and simplification top the entrepreneurial wish list

More than half (56%) of entrepreneurs believe that decreasing the corporate income tax burden on small businesses would be one of the tax and regulatory changes that would have the greatest impact on the long-term health of entrepreneurship in their country. A similar portion (54%) think simplifying tax rules and regulations is also vitally important.

### Policymakers must target tax and regulatory reform at every stage of the growth journey

Governments need to ensure that tax and regulatory initiatives benefit younger businesses and more established ones. For example, countries that focus on delivering corporate tax rate deductions can help profitable ventures. By contrast, younger businesses that have yet to generate profits tend to be more concerned by indirect taxes, such as property or payroll taxes. Other initiatives that will help early-stage companies include incentives in the form of cash for research and development (R&D) when there is no tax liability, location incentives that offset capital investments and training credits that offset labor costs. Governments should also ensure that all businesses enjoy greater certainty around regulation to encourage more confident investment.

### Entrepreneurs want help in navigating regulation and a bigger voice in its development

Steering a path through complex regulation is a challenge for entrepreneurs at every stage of the growth journey, from incorporating a business to managing its growth across multiple jurisdictions. Policies that streamline this process are always welcome. Entrepreneurs also want more say in defining regulation, for example through a direct line of communication between entrepreneurs and regulators. By directly listening to entrepreneurs, governments can ensure new rules do not hamper entrepreneurial growth.

**“Brazilian entrepreneurs, whilst managing a fast-growing company, have the challenge of dealing with multiple taxes and their frequent changes.”**

| Luiz Mattar, TIVIT, Sao Paulo, Brazil

# Shaping tax and regulation to encourage entrepreneurship

Many G20 countries are making progress in creating a tax and regulatory framework that supports entrepreneurs, for example by reducing the cost and burden of starting a business. However, more could be done. In some cases, the perception that a country imposes high taxes still acts as a deterrent to entrepreneurial activity, and the burden of regulatory compliance can be very high for small companies. With careful planning, however, tax incentives and regulatory reforms can act as a positive spur to entrepreneurship.

## Stage 1: emerging business

### Structuring tax and regulatory incentives appropriately

Companies at the seed stage are not yet generating revenue, which means that taxes on net income are not a primary consideration. Although corporate income taxes often dominate the discussion on tax reform, there are other important tax issues, such as payroll and sales levies, as well as broader regulatory issues, which have a greater effect on business formation. If governments get it right, they will facilitate the creation of more new ventures and provide their economies with a strong foundation for future growth. Get it wrong, and they will stifle new ventures and make it very difficult to develop a broader entrepreneurial culture.

The sheer volume of regulation that entrepreneurs have to manage can be a powerful deterrent to starting a business. An August 2012 survey in the EU, for example, found that nearly three-quarters of Europeans consider it too difficult to start their own business because of administrative complexities.<sup>32</sup>

### Creating hubs for business start-ups

At the most basic level, governments need to ensure that it is relatively quick and straightforward to start a business. One way to do this is by providing online services and convenient hubs (sometimes known as one-stop shops) where entrepreneurs can access all the permits and licenses they need in a single place.

In the EU, the European Services Directive obliged countries to simplify all procedures involved in starting and carrying out a service activity, and countries are also pursuing their own approach to creating online hubs or one-stop shops:

- ▶ **France:** in 2009, an auto-entrepreneur system was set up to reduce the financial and administrative burden on small businesses. As part of this, the social charges and income tax payable by small enterprises is linked to turnover, rather than to a fixed percentage of their earnings. Participating businesses are exempt from certain local taxes for the first three fiscal years of their operation. In 2011, 290,000 of the country's 550,000 new business registrations used this system.
- ▶ **Canada:** BizPaL is an online service that simplifies the business permit and license process for entrepreneurs. Canada also deploys the OneStop Business Registry, which is an easy-to-use computer program that allows business owners to complete important Government applications efficiently.
- ▶ **Indonesia:** OSS business licensing centers provide a faster and cheaper licensing procedure so that entrepreneurs do not have to visit multiple local agencies to obtain permits. The centers aim to streamline business licensing by

integrating the authority to issue licenses, commonly located in various disparate Government offices, into one Government department. The country now has 445 such providers, covering 85% of the country.

- ▶ **Russia:** the Nizhny Novgorod region has set up a Ministry of Investment Policy (MIP), which acts as a one-stop organizational support system for entrepreneurs and investors. The initiative has significantly reduced the time and effort spent by prospective entrepreneurs in obtaining licenses, permissions and approvals. For example, to obtain land or premises, an entrepreneur deals directly with the MIP, instead of being required to liaise with more than 20 Government agencies, as before.
- ▶ **Saudi Arabia:** the Government has established Unified Centers, where entrepreneurs can, among other things, submit documentation for opening a business, pay their registration fee, join the Chamber of Commerce, register for social security insurance and register for the Department of Zakat (for religious wealth tax).

**"In countries such as Australia and Canada, establishing a business is quick and simple. It takes just two days to register a business in Australia and five in Canada."**

| **Annette Kinnett**, Managing Partner, Melbourne, EY

<sup>32</sup> European Commission, "Entrepreneurship in the EU and beyond," *Flash Eurobarometer*, N. 324 (EU Publication Office, 2012).

### Providing easy access to free advice

In addition to having a simple process for starting a business, inexperienced entrepreneurs often benefit from receiving advice about how to approach the structuring of their venture. For example, they may choose to be a sole proprietor, form a limited liability partnership or incorporate as a company.

In Australia, entrepreneurs can find advice about this and other issues through the Commercialization Australia program, which, in addition to providing funding, helps entrepreneurs review a business plan, determine suitable corporate structures and undertake a risk analysis. Such services would attract legal and professional services fees in many other countries. Commercialization Australia also offers grants for key stages of development, including proof of concept grants of up to AU\$250,000 (US\$230,950) and early-stage commercialization grants of up to AU\$2m (US\$1.84m).<sup>33</sup>

### Lowering the barriers to entry

The removal of capital requirements to start a business can also have a powerful impact on creating an environment conducive to entrepreneurship. In the past, a number of countries required entrepreneurs to have minimum capital requirements in place. In recent years, however, many countries have abolished these rules. The Japanese and Mexican governments, for example, have recently eliminated their capital requirements for limited liability companies.<sup>34</sup>

## Stage 2: rapid-growth

As they grow, companies face a barrage of licensing and registration requirements, tax rules, industry standards, and labor and employment laws, to name a few issues. For most, navigating through various levels of bureaucracy between national, regional and local governments can be a daunting task. Inexperienced entrepreneurs may be confronted by many of these issues for the first time, and because dealing with them is extremely time-consuming, they can easily be distracted from the activity that really matters – managing and growing their business.

### Managing the cash flow issues associated with indirect taxes

Value-added tax (VAT) can create serious administrative headaches and cash flow issues for the small, growing businesses, and some countries have taken steps to resolve this. Since early 2013, for example, the EU has operated a scheme under which member states can offer a cash accounting option to small businesses with a turnover of less than €2m (US\$2.62m) per year. This means that entrepreneurial businesses will be able to pay their VAT when they receive or make payments, instead of when they issue an invoice, offering an immediate cash flow benefit.

In Canada, small businesses are often allowed to pay their harmonized sales tax (HST), the local VAT equivalent in half of the country's provinces, at the end of the year, as opposed to quarterly. This greatly reduces the tax administration burden and allows for HST contributions based on the real collection of the tax, as opposed to an estimated collection based on the prior year's income.

**84%** want tax systems to be simplified

**83%** say that an increase in tax incentives focused on innovation would improve the health of entrepreneurship in their country

**50%** of entrepreneurs say that decreasing indirect tax rates would be one of a handful of measures that could accelerate long-term growth of entrepreneurship in their country

<sup>33</sup> "Funding," *Commercialisation Australia website*, [commercialisationaustralia.gov.au](http://commercialisationaustralia.gov.au), accessed 3 July 2013.

<sup>34</sup> Note: This is not reflected in the scores attributed to these countries in our model.

## R&D credits and super deductions help businesses to get established

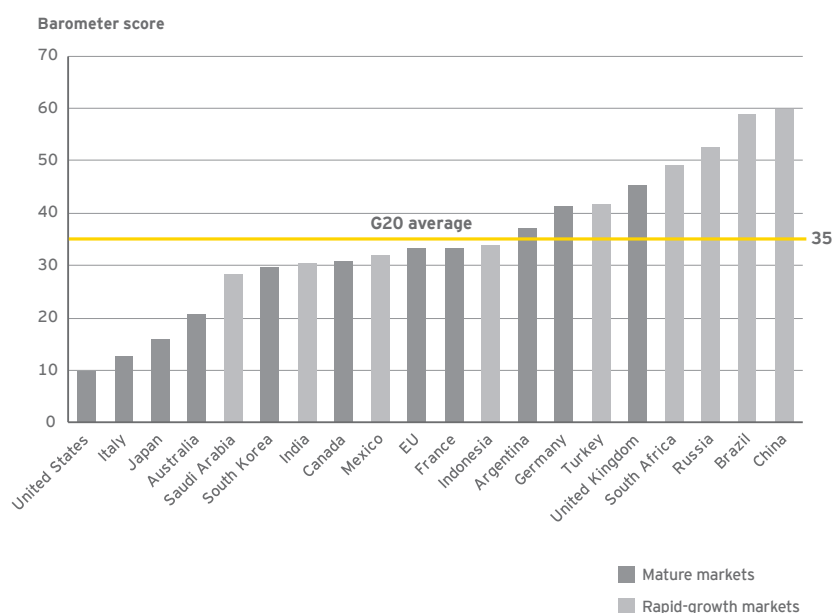
Companies at the start-up stage, particularly those in innovative high-tech sectors, need to invest in people, equipment and research. To help with the burden, a number of countries now offer R&D tax credits and tax relief on the costs associated with product development. Some will also allow companies to treat capital expenditure as immediate expenses, rather than amortizing the costs over a period of time.

Across the G20 as a whole, 35% of entrepreneurs say that the availability of innovation incentives has improved (see chart). Respondents from Brazil and China are particularly likely to have seen an improvement. And 48% say that an increase in the tax breaks focused on innovation would improve the health of entrepreneurship in their country. In the UK, for example, the Government offers R&D relief for corporation tax, under which a company with taxable income can take advantage of an R&D credit. If operating at a loss, the company may be able to claim a 10% refundable credit on qualifying R&D expenditure. This is in addition to cash grants offered through the Technology Board and from the EU, as part of its Horizon 2020 program.

Depreciation allowances can also help new businesses reduce their tax. In Australia, for example, a small business buying a vehicle – a key asset for many small businesses – can claim up to US\$5,000 as an immediate deduction and then depreciate a further 15% of the remainder in the first year. In the US, the 2012 Taxpayer Relief Act

## Improvement of innovation incentives

% of entrepreneurs saying innovation incentives have improved in the past three years in their country



Source: EY G20 Entrepreneurship Barometer 2013

extended both a provision allowing small businesses to claim an immediate deduction for up to US\$500,000 for certain capital expenditures and a 50% bonus depreciation provision for qualified property purchases, which is applicable for all businesses, including early-stage firms.

These schemes can be very valuable to entrepreneurs, so it is important to publicize them. A common problem in many countries is that tax incentives, such as R&D tax credits, are underutilized due to a lack of awareness, high administrative burdens or difficulty understanding which expenses qualify for incentives.

### Goods and services tax (GST): tax reforms in India

The GST will be an important tax-related reform for entrepreneurs. It is expected to replace all major indirect taxes in India, which can be a burden for entrepreneurial businesses in particular. GST simplifies tax regulation in this area by bringing together most of the taxes imposed on goods and services under a single umbrella. The GST is expected to be implemented after India's general elections in 2014.<sup>35</sup>

### Increased access to policymakers

Asked which single initiative would do most to improve regulation for entrepreneurs, respondents point to the ability to have a direct channel of communication with regulators. The US provides a good example of how governments are creating forums of this kind. In 2011, a White House Initiative, Startup America, set up roundtable events in numerous cities. This provided a forum for entrepreneurs and investors to discuss barriers to starting and growing

companies. The initiative resulted in a clear set of recommendations for federal agencies to eliminate regulations, such as those related to labor laws or tax codes, which are outdated or overly burdensome to entrepreneurs. In the UK, the Department for Business Innovation and Skills took a similar approach when it appointed two "entrepreneurs in residence" to provide advice and feedback on policies that affect smaller firms.

**More than a third of entrepreneurs think that opening a direct line of communication to express issues and concerns over tax regulation would improve regulation for entrepreneurs**



**"Entrepreneurs are willing to pay taxes that vary as they make profits. But paying fixed taxes, which they suffer irrespective of trading conditions, frustrates and poses problems, especially when it stunts the growth of start-ups that haven't matured to a profitable stage."**

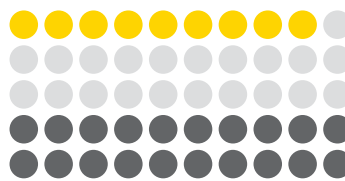
| **Chris Sanger**, Global Tax Policy Leader, EY

<sup>35</sup> A R Mishra, "PM signals GST won't be rolled out before 2014 polls," *Mint*, 28 May 2013.

Just

**18%**

of entrepreneurs surveyed say that they have seen an improvement in labor market flexibility over the past three years



Whereas

**40%**

have seen a deterioration

## Stage 3: expansion

### Entrepreneurs focus on tax reduction

**56%** of entrepreneurs believe that decreasing the corporate income tax burden will have the greatest impact on the long-term health of entrepreneurship

A key change for companies in the growth stage is that they become profitable and therefore subject to corporate tax. Entrepreneurs in our survey say that, more than anything else, they would like to see a reduction in the corporate tax burden on businesses. Additionally, other non-income taxes play a large role in an entrepreneur's return on investment.

### Governments can ease the complexity of multinational expansion

Many companies at the growth stage start to pursue expansion into overseas markets. This can be a vital step on the growth journey, but it also creates significant regulatory and taxation difficulties. Companies must think about where profits should be taxed and comply with multiple regulatory frameworks in the countries in which they operate. This can be a costly and time-consuming process that can eat into the profits generated by tapping into new geographical markets.

There is no easy solution to this problem, but some governments have tried to simplify the process and cut down on the regulatory burden. Businesses that want to expand across the EU can benefit from the EUGO Points of Single Contact. These online portals are designed to help entrepreneurs active in the service sector by setting out information about rules, regulations and formalities and allowing the completion of certain administrative procedures online. More could still be done, however. Better harmonization of tax regulations across the EU would help entrepreneurs to expand internationally.

### Tackling labor market rigidity

The economic downturn has led to very high unemployment in many markets, and from a political perspective, this has made it more difficult for governments to enact labor market reform, which would make it easier for companies to hire and fire. Evidence suggests that countries with more flexible labor markets tend to have lower unemployment in the longer term.<sup>36</sup> According to entrepreneurs, this is the single aspect of tax and regulation where progress has been most limited.

Getting the right talent in place is an issue that companies face at every stage of the journey, but it is particularly important at the growth stage, when companies are creating new positions and recruiting more quickly in relative terms than at any other point in their development. High-growth companies are important sources of employment in the economy. One study from the UK found that high-growth companies represent only 6% of all UK firms but account for more than half the

growth in jobs.<sup>37</sup> Flexible labor market policies are therefore essential to giving companies the confidence to recruit a deeper pool of potential candidates and the comfort that, should growth plans not materialize, they have the ability to scale back head count without incurring punitive costs.

In late 2012, for example, Mexico enacted major reforms to the country's restrictive and outdated labor laws.<sup>38</sup> Entrepreneurs will benefit from many of these changes, which include making it much easier to hire and fire workers. The old rules discouraged small businesses from hiring workers, so the businesses instead relied on other measures, such as the use of temporary workers. The law also introduces part-time jobs and temporary training contracts, both of which will help entrepreneurs locate and hire the talent they need to make their ventures successful.

<sup>36</sup> "Labor Market Rigidity, Unemployment, and the Great Recession," *Federal Reserve Bank of Cleveland website*, [clevelandfed.org](http://clevelandfed.org), accessed 3 July 2013.

<sup>37</sup> M Anyadike-Danes et al., *Measuring Business Growth: High-growth firms and their contribution to employment in the UK* (NESTA, 2009).

<sup>38</sup> Note: This is not reflected in the scores attributed to Mexico in our model.



### Key Insight: The tax burden | Stefano Neri, Chairman and CEO, TerniEnergia S.p.A., Italy

Stefano Neri, the Chairman and CEO of renewable energy firm TerniEnergia, says that the obstacles facing Italian entrepreneurs have become worse in recent years. The country's businesses are being held back, he says. "Companies have to bear a heavy tax burden. They pay tax at an aggressive rate in proportion to the number of employees regardless of revenue or profit. It's a serious disincentive to entrepreneurs. It makes it hard to start a company and even harder to hire people and grow."

A related issue is weakness of Government support for much-needed R&D. "We've invested large sums of money and time into our technology. At the moment there are no deductions for R&D. This also discourages outside investors from investing into Italy," he adds. "Technology-intensive companies should be allowed to reinvest into further business developments without a tax penalty."

In addition, Neri notes that high levels of administrative complexity also stifle entrepreneurship, arguing that a simpler

online, one-stop shop could be a major help to new businesses. "We need to streamline bureaucracy in Italy and consolidate all the official processes required for setting up and running a business. We have so many different administrative bodies with their own paperwork and procedures."

Despite such challenges, he remains positive about the prospects for Italian entrepreneurship ahead: "Once the need for change is recognized, it is possible that things could improve very quickly."

### Tax and regulation issues along the entrepreneurial journey



There are a multitude of tax and regulatory hurdles throughout the growth process, with the issues presented above being only a few. Indirect taxes, such as property taxes, VAT/GST/sales tax, and payroll and withholding taxes, etc., are due without regard to the level of income generated. Generally, start-ups do not start generating profit until a few years have passed, at which point an entrepreneur must pay income taxes. In order to help companies grow, most countries offer tax and non-tax incentives to encourage R&D, hiring and training, and capital expenditure.

\* Depending on national laws, an entrepreneur may opt to incorporate as a pass-through entity rather than a corporation, in which case income taxes would be paid on an individual income basis rather than at corporate rates.

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## A call to action

### Government action: where to focus

- ▶ **Reduce the indirect tax burden.** Early-stage companies would benefit significantly from relief on indirect taxes such as payroll and sales levies, which often serve as a fixed overhead expense, negatively impacting cash flow and profit and loss.
- ▶ **Simplify the tax system.** This would allow entrepreneurs to focus on what they do best: growing their business, generating jobs and driving innovation.
- ▶ **Make it easier to navigate the tax system.** Create a single platform that provides practical and easy to understand guidance
- ▶ **Give entrepreneurs a voice on regulation.** Include their input on significant regulation, ensure representation on committees and in government by creating a minister of entrepreneurship to represent their views.
- ▶ **Simplify insolvency rules.** Revise legislation to help entrepreneurs recover from failure by reducing the cost of business failure.
- ▶ **Stimulate innovation.** Improve R&D incentives such as tax credits, and publicize them effectively.

### The entrepreneur perspective: key issues to consider

- ▶ **Use tax simplification methods to improve cash flow and decrease compliance costs associated with paying taxes.** For example, a cash accounting scheme whereby entrepreneurial businesses only have to pay VAT upon receiving payment from their customers would improve cash flow.
- ▶ **Explore government resources.** Seek out and make use of government-funded resources and tools to reduce business start-up time.
- ▶ **Know your R&D incentives.** Be aware of and capitalize on investment incentives for R&D and entrepreneurship to further your business.
- ▶ **Get involved.** Be active and insert yourself into the consultation processes, particularly on proposed legislation that will impact entrepreneurs.

### A corporate perspective

- ▶ **Share your public policy experience.** Your knowledge, learnings and capabilities will benefit entrepreneurial companies.
- ▶ **Drive change.** Lobby government to incentivize corporations to invest in entrepreneurs.



# Education and training

Effective education – both in general and, especially, relating to entrepreneurship – can help economies thrive and allow entrepreneurs to become true drivers of future employment and growth. Many studies show a link between investment in education and GDP growth. Our research shows that, although countries are investing significantly in education, this is not always creating the best educational options to foster entrepreneurship.



Mature economies lead on education and training opportunities for entrepreneurs. Overall, France, Australia, the US and South Korea top the rankings from across the G20 in terms of their overall performance on education and training. This is largely because the mature economies maintain a substantial lead on basic educational input measures, such as public spending on education and enrollment levels. However, rapid-growth economies across the G20 are closing the gap in the Barometer by improving their provision of entrepreneurial education in universities and through more informal networks.

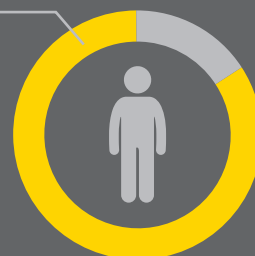
EY G20 Entrepreneurship Barometer 2013:  
**education and training**

G20 country	Ranking
France	1
Australia	2
United States	3
South Korea	4
EU	5
United Kingdom	6
Germany	7
Argentina	8
Canada	9
Brazil	10
South Africa	11
Saudi Arabia	12
Italy	13
Russia	14
Mexico	15
Japan	16
Turkey	17
China	18
Indonesia	19
India	20



84%

of entrepreneurs say students  
need access to specific  
entrepreneurship training



## Key insights

### Formal entrepreneurship education is improving across the G20

About half (52%) of entrepreneurs report an improvement in university or business school entrepreneurship courses. These are most notable at the level of universities and business schools, although smaller improvements are also seen in earlier entrepreneurship education in all but a handful of countries. Rapid-growth market respondents were more likely to see improvements over the past three years, with Indonesia and Mexico scoring very positively in this area.

### Mentoring, coaching and informal education is also getting better

More than half (53%) say their informal networks have improved in the past three years, and 48% say better mentoring opportunities are now available. This is particularly important, as these types of coaching and support networks are the most commonly relied-on mechanisms for those who start businesses, used by about 7 in 10 respondents. Again, entrepreneurs from rapid-growth countries report the fastest gains here, with South Africa and Indonesia performing particularly strongly.

### Entrepreneurs believe the skills needed to run a business can be taught

The vast majority (84%) of those surveyed say students need access to specific training to become entrepreneurs. This is an important conclusion for many of the G20 countries that focus their efforts on those in their 20s or older. The success of international programs such as the Network for Teaching Entrepreneurship (NFTE) shows the potential benefits of creating the right entrepreneurial attitudes and aspirations, as well as practical skills, from a much younger age.

### Integrating entrepreneurship education into the school environment will improve its perception

Developing entrepreneurial skills and attitudes in schools is difficult, but policies should encourage schools to introduce entrepreneurial role models and establish clubs that give students the chance to find out what it is like to run a business at an early age. Such training is not only relevant for students, but also for educators: teaching entrepreneurship requires a different approach to traditional academic subjects, with a greater emphasis on practical, hands-on exercises.



**7/10** entrepreneurs  
rely on mentoring,  
coaching and  
informal education

**One in four entrepreneurs think that entrepreneurial specific programs in schools/universities would improve the image of entrepreneurship as a career**



## The right type of education is the key to success

While there are numerous examples of well-known business personalities who did not finish formal education, research has shown that education generally makes entrepreneurs more likely to succeed. A detailed study using US labor force data found that entrepreneurs on average earn more for every year of formal education.<sup>39</sup>

In rapid-growth markets, a lack of education is a key barrier to entrepreneurship. A key role for government, then, is to ensure that a country's citizens have access to good education. This should include formal education and more specific business education targeted at business owners.

### Nurturing the entrepreneurial spirit

Educational spending alone does not necessarily lead to better outcomes, however. It is possible that certain kinds of education can in fact be a deterrent to entrepreneurship. Research conducted in the EU found that more education decreased the chances of students becoming entrepreneurs or starting a business.<sup>40</sup> It suggests that rigid, formalistic teaching can, even while inculcating specific skills, drive out attitudes conducive to innovation and risk-taking. As Randall L. Tavierne, Global Markets Leader, Strategic Growth Markets, EY, explains, "Companies that are looking for talent are beginning to move away from employing individuals with strong technical trends in preference of employing those with the right attitudinal skills."

Furthermore, the entrepreneurs in the survey were clear in the need for specifically tailored training to boost students toward becoming entrepreneurs, with 84% agreeing on the need. But this is not the sole benefit that could result from such courses: sharing the success stories of other entrepreneurs to students is also a crucial facet of improving perceptions of entrepreneurship in a country, according to our survey. Nearly 30% selected this as the single most impactful means of changing perceptions, above all else.

**"Building a critical mass of entrepreneurs is a long-term investment in human capital, and that sometimes goes against short-term political thinking. Until we have a higher level of quality education, we're going to keep on having lower levels of entrepreneurial activity."**

| **Boris Urban**, Professor of Entrepreneurship and Chair in Entrepreneurship (Lamberti Foundation) at the Wits Business School, South Africa

<sup>39</sup> M van Praag et al, "Returns for Entrepreneurs vs. Employees: The Effect of Education and Personal Control on the Relative Performance of Entrepreneurs vs. Wage Employees," *Forschungsinstitut zur Zukunft der Arbeit Discussion Paper*, No. 4628 (IZA, 2009).

<sup>40</sup> European Commission, *Effects and impact of entrepreneurship programmes in higher education* (EU Publication Office, 2012).

“Traditional schooling aims to prepare employees, rather than creative entrepreneurs. As a result, the more successful traditional schooling is ... the more it stifles creativity and the entrepreneurial spirit.”<sup>41</sup>

| **Professor Yong Zhao**, Associate Dean for Global Education at the University of Oregon

## Schools and governments need to improve the image of entrepreneurs

Entrepreneurs believe it is crucial to improve the perception of start-ups and celebrate their success. In the view of entrepreneurs across the G20, schools need to do more to share success stories (cited by one-third) and to develop specific programs at the university or business school level (29%). These initiatives should be integrated within the main curriculum so students better understand the positive and negative aspects of starting a business.

### Progress in providing education for entrepreneurs

Our survey also highlights the fact that the profile of entrepreneurship is rising in tertiary education worldwide. More than half of respondents noted an improvement in such courses at universities and business schools, far more than the percentage who saw a decline. John Bates, Fellow, Strategy and Entrepreneurship at London Business

School notes, “While entrepreneurship teaching at leading business schools was historically a marginal activity, it has certainly moved to center stage over the last decade.” This has had a positive impact in terms of the number of students now directly pursuing an entrepreneurial career straight out of business schools.

Governments can play an important role in championing entrepreneurial education at university level. One leading example is the UK’s National Centre for Entrepreneurship in Education. It aims to raise the profile of entrepreneurship and improve staff ability to teach the subject. An independent evaluation of this work showed just how valuable it can be, with a 1,100% return on money invested by the program.

### Focus on the young

Early exposure to entrepreneurship in the education syllabus helps children to develop the skills and values that will be required for entrepreneurship later in life. In some countries, schools will bring in role models and set up games and competitions that give students the chance to find out what it is like to run a business. Very often, students respond well to this because learning about entrepreneurship involves a more hands-on approach compared with some other traditional academic subjects.

NFTE, which provides programs for teaching entrepreneurship in the US and around the world, demonstrates the benefits of focusing on school-age children. Amy Rosen, President & CEO, NFTE explains, “Research shows that there is a significantly higher rate of business formation amongst young people who have gone through the NFTE program. It helps them wake up to the opportunities that are out there.” The organization runs programs in schools in socially deprived areas and integrates starting a business into the regular secondary curriculum. Third-party studies of NFTE’s work have found that its students’ interest in attending college or university increased by 32% over the course of the program, compared with a 17% decrease in the control group of non-NFTE students.

<sup>41</sup> Y Zhao, *World Class Learners: Educating Creative and Entrepreneurial Students* (Corwin, 2012).

Our survey finds that many entrepreneurs have seen positive changes in secondary education. On average, 28% report that entrepreneurial training at this level has become better in the last three years, compared with just 14% who see a deterioration. Respondents in Europe are particularly likely to report an improvement. This reflects an increased interest in entrepreneurship education over recent years, which has itself been inspired by high rates of unemployment in many European countries. Uschi Schreiber adds, “Policymakers could direct funding to establishing entrepreneurial apprenticeships and young entrepreneur networks. A young entrepreneurs’ summit in every country every year would also help promote the concept of entrepreneurship to young people leaving education.”

### **The EU and others are making entrepreneurship a compulsory subject within secondary education**

Stimulating entrepreneurship is one of the four long-term objectives of the EU’s current vision for education, called Education and Training 2020. Already in 14 out of 27 EU countries, students are taught about entrepreneurship as

an element of a compulsory subject during secondary school – most often in the social sciences. In Lithuania, Romania and Poland, a specific course in entrepreneurship is mandatory.

These efforts are too new for the outcomes to be assessed. Nevertheless, previous research shows that starting young can have a huge impact.<sup>42</sup> It reports that between 15% and 20% of students who participate in a mini-company program in secondary school go on to start their own business. For the general population, the figure is typically three to six times lower.

These efforts should not be restricted to governments. Junior Achievement, a non-governmental organization that sends volunteer entrepreneurs into schools to run extracurricular programs teaching entrepreneurial skills, as well as financial literacy, reaches more than 10 million students worldwide per year. Often the exercise is built around the students starting their own businesses. On average, the group says, alumni are 25% less likely to be unemployed and 50% more likely to start their own businesses than non-alumni.

## **Mentorships and informal training are invaluable to entrepreneurs**

Entrepreneurial education in schools and universities is important, but much of the support that entrepreneurs value most takes place in a less formal setting. Entrepreneurial meetings, clubs and informal networks are the most common support mechanisms for those who start businesses. More than half (53%) of entrepreneurs polled say the availability of these training opportunities has improved.

By providing specialized information at the point when it is needed, informal meetings, clubs and networks fulfill a vital learning need. They enable aspiring entrepreneurs to meet with more experienced business owners and create opportunities for mentoring. One excellent example of this is The European Network of Female Entrepreneurship Ambassadors, a pan-European program that introduces aspiring female entrepreneurs to successful women in business. The ambassadors raise the profile of entrepreneurship at schools, universities, community groups and the media, as well as at conferences, business networks and employment initiatives. In the first year after the program’s launch

Between

**15%-20%**

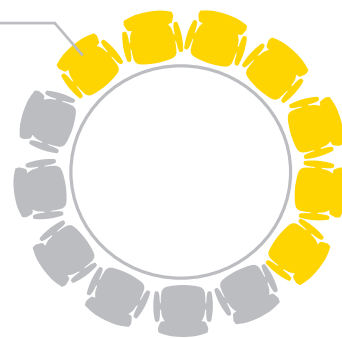
of students who participate in a mini-company program in secondary school go on to start their own business



<sup>42</sup> European Commission, “Entrepreneurship education needs to be boosted,” *Memo, Brussels 8 February 2013*, (EU Publication Office, 2013).

More than  
**50%**

of entrepreneurs say entrepreneurial conferences, informal networks and specific entrepreneurial programs have improved over the last three years



in 2009, 150 ambassadors participated in over 140 national meetings, reaching more than 7,600 participants. During that period, the ambassadors helped in the creation of 52 new female-led companies.

### **Policymakers should champion peer-to-peer networking as the most valuable support for entrepreneurs**

Mentorships offer another way to expand networks, especially those of younger entrepreneurs. In South Africa, the Ithubalentsha Micro Enterprise Program includes plans to encourage experienced entrepreneurs, business consultants, managers and retired professionals to share the benefits of their skills and experience. As this example suggests, the key to success is to involve a broad range of stakeholders, such as experienced leaders and managers from the corporate world, as well as investors and established entrepreneurs to help bring multiple perspectives to the network.

Endeavor Global, a nonprofit that supports high-impact entrepreneurs in rapid-growth markets, also demonstrates just how effective networks can be. When Endeavor launches a program in a new market, it engages local business leaders to form a board of directors to provide financial, strategic and networking support. It then selects a portfolio of high-impact entrepreneurs, supports them in tandem with the local business leaders, and uses the impact of these companies to influence policy reform and local investment. In 2011, companies started by Endeavor entrepreneurs generated US\$5b in revenue and raised US\$100m in equity capital.

Another new South African effort uses technology to bridge the gap between networks and education. The Cape Town branch of the Entrepreneurs' Organization – an international network of entrepreneurs – has set up online training. The courses were created by entrepreneurs and deal with issues directly related to start-ups, such as spotting opportunities, business planning, marketing and HR. Those completing all nine receive a Certificate in Entrepreneurship.<sup>43</sup>

### **Key Insight: Educating future entrepreneurs** *Anthony Podesta, Founder, McMillan Shakespeare Limited, Australia*



Anthony Podesta, the Founder of McMillan Shakespeare, a salary packaging firm based in Australia, is a former teacher. He is passionate about education, noting that a strong emphasis on education and training has been one of his firm's critical success factors. "If you invest in helping your employees fulfill their potential, then you give your business the leading edge," he explains.

Podesta thinks that there is considerable potential for developing entrepreneurial education in Australia. "I would like to see our schools offer content specifically for entrepreneurs or for students who may go on to become entrepreneurs," he says. "It could be something as simple as a module on entrepreneurship or a series of seminars with an entrepreneur-in-residence."

A greater focus on education might also help to dispel some unhelpful myths. "People have this image of entrepreneurs as get-rich-quick cowboys," he says. "Genuine entrepreneurs want to work hard, make long-term change and bring real benefits to people. Unless you teach people the difference, they won't know."

Podesta adds that mentoring has an essential role to play and that governments are important in facilitating this. For example, government could create a matching service to enable entrepreneurial mentors from universities or professional organizations to be embedded within companies. "At the moment, the choice for most entrepreneurs is to enroll in a business school or just go off and do their own thing," he says.

<sup>43</sup> "About," *Entrepreneurs' Organization Entrepreneurs Bootcamp website*, [eobootcamp.co.za](http://eobootcamp.co.za), accessed 28 June 2013.

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## A call to action

### Government action: where to focus

- ▶ **Embed entrepreneurial learning into the school curriculum.** Not all young people will go on to start a business, but they will learn valuable skills that lead to other positive education outcomes.
- ▶ **Support young people who chose an entrepreneurial career.** Create public programs for those who are looking to start a business and need to develop specific entrepreneurship and business skills.
- ▶ **Encourage lifelong learning for entrepreneurs.** Many of the skills that entrepreneurs need cannot be learned in a classroom. Create more opportunities for peer-to-peer learning, through mentorship programs and entrepreneur support clubs.

### The entrepreneur perspective: key issues to consider

- ▶ **Look for the educational opportunities that suit your needs.** This may range from an MBA to taking a short course to develop a specific skill or fill a knowledge gap.
- ▶ **Seek out and learn from other entrepreneurs.** Your idea may be unique, but you are more likely to succeed if you tap into the experience of others.
- ▶ **Give back to help others.** Good entrepreneurship education programs rely on input from current entrepreneurs. Mentoring also actively assists the next generation of entrepreneurs and introduces new talent into existing networks.

### A corporate perspective

- ▶ **Expand internship programs to provide more hands-on experience.** EY research shows that approximately 60% of entrepreneurs have gained skills working in a corporate environment.
- ▶ **Mentor entrepreneurs.** Encourage leaders from your corporation to provide entrepreneurs with valuable knowledge and insights.



# Coordinated support

Successful entrepreneurial countries have rich and diverse ecosystems with strong funding options, a supportive culture, a business-friendly environment and first-class education systems that encourage entrepreneurial mind-sets. They also tend to have a range of high-quality resources spanning the public, private and voluntary sectors. Governments can help orchestrate the way these disparate stakeholders come together.

Rapid-growth countries top our rankings when it comes to relative improvement in coordinated support over the past three years. Entrepreneurs in Russia, Mexico, Brazil, Indonesia and India all report strong improvements in the availability of incubators, networks and mentors although the absolute conditions for coordinated support often trail behind those in established markets. Entrepreneurs in the US, UK, Japan and other mature countries report limited improvements in comparison.

EY G20 Entrepreneurship Barometer 2013:  
**coordinated support**

G20 country	Ranking
Russia	1
Mexico	2
Brazil	3
Indonesia	4
India	5
China	6
Turkey	7
South Africa	8
Argentina	9
Germany	10
France	11
Saudi Arabia	12
EU	13
South Korea	14
Australia	15
Canada	16
United Kingdom	17
Japan	18
Italy	19
United States	20

*It is important to note that this pillar is based only on survey responses about the extent to which specific initiatives and services have **improved or deteriorated over the past three years**.<sup>44</sup> In short, it reflects the current trend across these countries, not the base level of support available.*

<sup>44</sup> Note: The ranking, therefore, represents a qualitative measure of change in these countries, given the absence of hard data in this area. This is an important distinction from the other four pillars, which reflect both current conditions and relative change based equally on both qualitative and quantitative measures.

20%

of entrepreneurs rated  
government start-up schemes  
as the most effective form of  
government-tailored support



## Key insights

### Entrepreneurs in mature markets feel that access to government start-up programs is deteriorating

Government start-up programs across the G20 are wide-ranging: cash grants, equity financing, debt financing, tax incentives, and often networking or mentorship. But many entrepreneurs report a decline in access to these programs over the past three years, despite believing that such schemes should be a top priority. As a result of intense budgetary pressures, developed countries report the greatest deterioration in access to government start-up programs, with France, the US, Australia and Italy leading the slide. Among rapid-growth markets, India and South Africa show the greatest decline, while Russia, Argentina and Mexico are improving.

### Business incubators remain extremely important

Entrepreneurs polled for this study believe business incubators have the biggest impact in improving the entrepreneurship ecosystem. Encouragingly, half of all respondents report improvements in access to incubators over the past three years. Leading the way is Russia, where one in four entrepreneurs say access to incubators has greatly improved over this period. Indeed, the country has more than 1,100 registered incubators and technology parks,<sup>45</sup> an impressive gain though plenty of scope for growth remains when compared with leading entrepreneurial environments.<sup>46</sup>

### China has stalled in a number of key areas where other BRIC nations are improving

While entrepreneurs in Brazil, Russia and India all feel relatively bullish about the gains in coordinated support in their countries, their peers in China feel that progress has slowed. Among the BRIC countries, Chinese entrepreneurs report the lowest level of improvement in key areas, such as access to incubators, educators, entrepreneurial clubs and entrepreneurial workshops.

### Entrepreneurs prioritize funding ahead of other forms of government support

One in five entrepreneurs think start-up programs are the most effective form of government-tailored support, followed by small business lending and loan guarantees. This reinforces the fact that government support relating to funding is where entrepreneurs feel most in need of help, ahead of workshops, networking programs and government-sponsored incubators. Nevertheless, there are also many forms of support that can be effective for entrepreneurs that are privately backed, such as entrepreneurial workshops, university incubators and educational initiatives, such as NFTE.

<sup>45</sup> "Minister Counsellor for Economic Affairs Stuart Dwyer at the Business Incubation Forum" *Embassy of the United States Moscow, Russia website*, [moscow.usembassy.gov](http://moscow.usembassy.gov), accessed 3 July 2013.

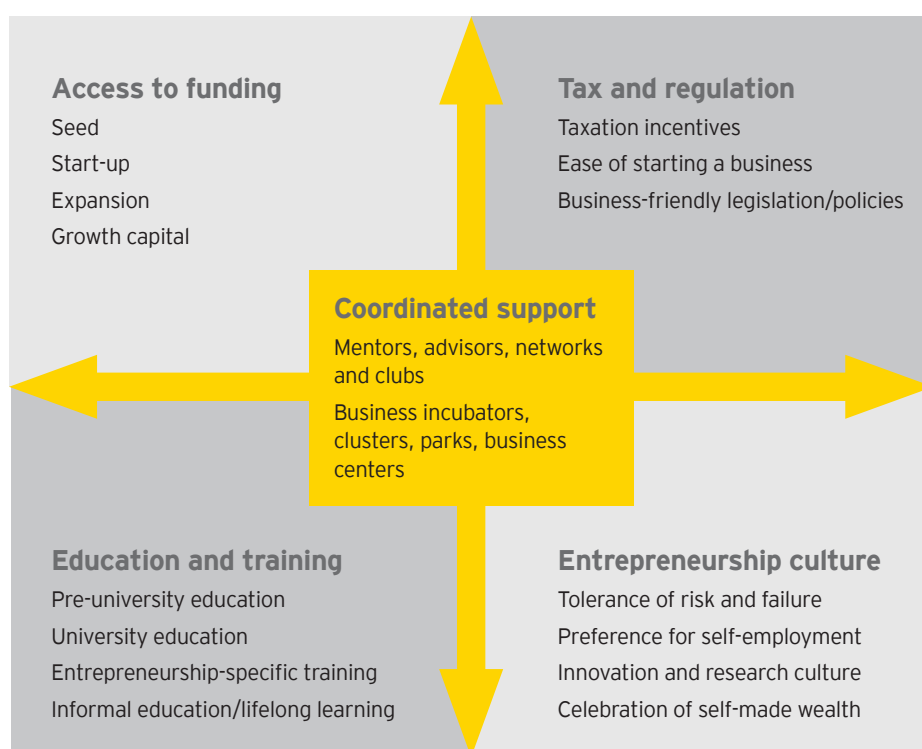
<sup>46</sup> "First Russian-American Forum on Business Incubation Was Held at MGIMO-University," *MGIMO University website*, [ip.mgimo.ru](http://ip.mgimo.ru), accessed 3 July 2013.

## Growing an integrated ecosystem

Successful entrepreneurial ecosystems comprise many essential components: access to funding, good skills, a supportive culture, a business-friendly environment and more. But to create thriving communities of young businesses, these parts must be combined into an integrated whole.

This ecosystem must serve the needs of all stages of entrepreneurship – from start-up to operation as a thriving listed company. While early-stage ventures can be supported through business incubators, for example, companies that have moved beyond the start-up phase need other types of support, such as help accessing capital markets or internationalizing their business. Along the way, support should also be in place to help link small businesses with larger, established companies.

The entrepreneurial development framework: five pillars that foster entrepreneurship



### Enabling entrepreneurs to learn from large corporations

France's SME Pact is a joint venture between OSEO (the French Government's innovation agency) and 14 business organizations. Its objective is to stimulate entrepreneurial growth by acting as a bridge between entrepreneurial businesses and large companies, through commercial contracts and R&D collaborations. Large

multinationals, such as Danone, sign the SME Pact voluntarily and commit to increasing their collaboration with entrepreneurial businesses. Encouraged by the increasing number of companies registered for the SME Pact, the initial target of 300 entrepreneurial businesses per year has now been tripled to 900.

“Countries need to bring together all the disparate, but essential, components and players in a successful entrepreneurial ecosystem, support the creation of clusters and incubators as vital catalysts, and create facilities and events that allow networking to flourish.”

| Franck Sebag, Partner, VC & IPO Leader, FraMaLux, EY

## Clusters create a thriving environment for entrepreneurs

Clustering is an important driver of entrepreneurship. The aim is to locate interconnected firms, suppliers, related industries and institutions in close proximity to one another, allowing for the easy flow of ideas, skills and support. Clustering is a natural phenomenon on which governments can capitalize to streamline investments. Typically, governments will create industry-specific policies designed to help sectors maintain or develop a long-standing competitive advantage in a city or region.

Cluster-related policies tend to focus on existing economic advantages. For example, Russia's Skolkovo Innovation Center is a large-scale initiative aimed at developing existing strengths in sectors including nuclear technology, biomedicine, IT and space technology. The initiative is also attracting major foreign companies that can hire talent, spark spin-offs and train Russian workers. Microsoft, for example, has signed an agreement to double its presence there by 2015.<sup>47</sup>

### Clusters can focus efforts to develop regional economies

Sometimes, clusters of businesses develop naturally but hit barriers that government can help to overcome. Several regional hubs or clusters are emerging or expanding within the EU, including a number of technology hubs that are gaining momentum. Some key examples include the following:

- ▶ **London's Tech Investment City Organization** has helped to develop the area known as Tech City, or “Silicon Roundabout.”
- ▶ **Berlin's Communication, Media and Creative Industries Cluster** consists of more than 27,000 companies employing more than 220,000 people.
- ▶ **Dublin's Enterprise Ireland** is a Government-sponsored organization that helps to develop Irish enterprises. It provides an extensive range of services, from funding support to export assistance, to help in boosting competitiveness and R&D incentives.

### Conditions that define a healthy ecosystem for entrepreneurs<sup>48</sup>

- ▶ The ecosystem is tailored around its own unique environment.
- ▶ It operates in an environment with reduced bureaucratic obstacles, in which government policies support the unique needs of entrepreneurs and tolerate failed ventures.
- ▶ It actively encourages and invites financiers to participate in new ventures.
- ▶ The ecosystem is reinforced, not created from scratch, by government, academic or commercial organizations.
- ▶ It is relatively free from, or is able to change, cultural biases against failure or operating a business.
- ▶ It advances successes, which in turn attract new ventures.
- ▶ The ecosystem is often supported by dialogue among various entrepreneurship stakeholders.

“An ecosystem by definition isn't owned or controlled by anybody. It's a naturally evolving system. Equally entrepreneurship and investment have occurred naturally for as long as we've had human society. One of the big lessons for policymakers is how to facilitate those naturally occurring acts without pretending that they can create them.”

| Daniel Isenberg, Professor of Entrepreneurship Practice, Babson Executive and Enterprise Education

<sup>47</sup> “Microsoft to double its presence in Russian Skolkovo by 2015,” *The Next Web website*, thenextweb.com, accessed 10 March 2013.

<sup>48</sup> D J Isenberg, “The Big Idea: How to Start an Entrepreneurial Revolution,” *Harvard Business Review*, June 2010.

**Entrepreneurs identify business incubators as the most important organizations to accelerate entrepreneurship in this area**



## Entrepreneurs rely on contacts, mentors and associations

A strong, coordinated entrepreneurship culture requires ideas, skills and capital to flow freely between businesses. Entrepreneurs polled for this Barometer use a range of support measures, including clubs, associations, workshops, support meetings, informal support and mentoring. This reflects a prevailing tendency for entrepreneurs to rely heavily on relationships with groups of people in similar businesses or those with advanced or relevant experience.

Encouragingly, our EY G20 Entrepreneurship Barometer 2013 shows that 53% of entrepreneurs report at least some improvement in access to entrepreneur clubs and associations over the past three years. This is especially true in rapid-growth markets. For instance, about 8 in 10 Brazilian entrepreneurs reported improvements. Endeavor Brazil provide one example: it has developed a network of more than

300 business leaders, consultants and other experts to support entrepreneurs. Russia, India and Mexico also report strong gains. Endeavor also highlights the potential for nonprofit groups and others to play a vital role in supporting and fostering entrepreneurship.

Networks, mentoring programs and workshops are naturally easier to facilitate when participants are all in close geographic proximity. In a self-perpetuating process, such groupings then become magnets for entrepreneurs. However, these networks become more powerful when they can draw on more established and experienced entrepreneurs who are willing to act as role models and advisors.

**73%** of entrepreneurs use or intend to use workshops and support meetings

**72%** use or intend to use entrepreneur clubs and associations

**68%** use or plan to use mentoring or informal support from other entrepreneurs



### Key Insight: Building better support

*Enrique Jacob Rocha, President, National Entrepreneur Institute, Mexico*

The Mexican Government has made a significant commitment to support the country's entrepreneurs and develop a healthy entrepreneurial ecosystem. A key component of its strategy is the Instituto Nacional del Emprendedor (National Entrepreneur Institute, or INADEM), which was established in early 2013 to develop programs to help Mexican entrepreneurs create, consolidate and grow their businesses in a coordinated and integrated manner.

INADEM's programs are designed to meet the needs of Mexican entrepreneurs and promote a stable business environment, explains Enrique Jacob Rocha, the organization's president. It provides a broad range of

activities, from generating enthusiasm for business ownership by offering early entrepreneurship education, to encouraging the exchange and sharing of successful business experiences and international best practices.

Rocha emphasizes the role INADEM will play in coordinating Government assistance. "We realize that previous Government policies were often fragmented and overlapping," he says. "Take grants, for example. We found that there were 105 programs for SME's and entrepreneurs distributed in 18 institutions. It was not easy for entrepreneurs to access these funds. INADEM will coordinate Government policies for Mexican entrepreneurs."

### Nonprofit network NEN fosters entrepreneurship in India

National Entrepreneurship Network (NEN) is an India-based nonprofit network that aims to provide critical support to start-ups and early-stage entrepreneurs through high-impact entrepreneurship education, access to mentors and experts, fast-track access to incubation and funding, and learning tools and materials. With more than 70,000 members in 30 cities, NEN partners with more than 470 top-tier academic institutes in India to help them develop strong entrepreneurship ecosystems on campus. NEN also runs the Entrepreneurship Week India, the largest entrepreneurship-awareness campaign in the country, to create a culture of entrepreneurship. Various organizations that are focusing on promoting entrepreneurship, such as SAP and TATA, have also worked with NEN.

## Universities have a key role in coordinating government-funded activity

Universities are another vital part of many entrepreneurial ecosystems. Recent research shows that the impact of university innovation increases with geographic proximity to the university.<sup>49</sup> For example, a university with a strong biotech faculty will typically correspond with greater biotech-related entrepreneurial activity nearby. An OECD study concludes that governments should enact policies that directly link university research and start-up formation. These include providing funds for joint research, facilitating technology transfer and

coordinating seed funding for university spin-offs. The more general conclusion is that government policy should allow and support knowledge transfer across organizational boundaries and that this can have a greater impact than simply investing in new businesses directly.<sup>50</sup>

### Networks of Centers of Excellence

Canada's Networks of Centers of Excellence (NCE) offers a suite of programs that mobilize the country's best research, development and entrepreneurial expertise and focus it on specific issues and strategic areas. It helps budding entrepreneurs to commercialize their research by providing them with funding and various educational courses. It also aims to increase private sector R&D and encourage greater collaboration

between academic institutions and other public and private sector organizations. Since its inception, NCE has invested about US\$1.8b in research, commercialization and knowledge translation. Those investments have leveraged US\$1.1b in contributions from industry and other partners. NCE has also helped to train more than 39,000 highly qualified personnel and create 107 spin-off companies.

<sup>49</sup> Note: Impact here refers to long-run employment, payroll per worker and employment growth in industries that are closely related to the innovative strengths of the local universities.

<sup>50</sup> Organisation for Economic Co-operation and Development, *Competitive Regional Clusters: National Policy Approaches* (OECD Policy Brief, 2007).

**One in three entrepreneurs want to see government start-up programs and business incubators improving long-term growth of entrepreneurship**



## **Incubators can help businesses, customers, suppliers and strategic partners become self-sufficient**

As many entrepreneurs discover, banks and venture capital firms invest in businesses, not just bright minds and big ideas. Business incubators help turn ideas into businesses by providing much more than office space and seed capital in return for equity. They teach and mentor entrepreneurs while introducing new contacts, investors and networks. According to those entrepreneurs polled, incubators are the support measure with the greatest chance of driving long-term growth in entrepreneurship, selected by 36% of respondents.

Incubators are especially important in rapid-growth markets, where they can fill gaps in the education and funding systems while advancing a more entrepreneurial culture. A good example is India's TREC-STEP, which is part of the Government's Science and Technology Entrepreneurs Park (STEP) program. Budding entrepreneurs enter TREC-STEP with a strong business idea but no

experience, business knowledge, team or funds. They are also often at odds with their family because Indian parents often discourage entrepreneurship in favor of "safer" occupations.

TREC-STEP has produced a number of successful entrepreneurs who are keen to give back and help more businesses. One of these, Ananth Krishnan, was at TREC-STEP for more than five years, three of which he spent sleeping on the premises. Like many, he did not have the blessing of his father when he joined and he needed a great deal of non-vocational support. He now runs a manufacturing plant employing 150 people while helping advise a new generation of entrepreneurs.<sup>51</sup> First trialed in the 1980s, there are now 14 TREC-STEP programs around India, providing a vital link between young entrepreneurs and the wider ecosystem.

## **Punching above its weight: how Israel became an incubator for entrepreneurs**

Israel's position as one of the world's most innovative and entrepreneurial economies holds a number of interesting lessons for other countries. The country has invested heavily in innovation and entrepreneurship. At one start-up for every 1,844 citizens, Israel has more fledgling businesses per capita than any other nation.<sup>52</sup>

Crucially, it also excels in incubating and growing those businesses. For example, Israel has more Nasdaq-listed corporate headquarters than Europe. It also draws international investment on an unparalleled scale in relation to the size of its population.

- ▶ In 2008, Israel received 2.5 times more venture capital investments per capita than the US.
- ▶ About 45% of Israelis go to university, one of the world's highest attendance levels.
- ▶ Israel's infrastructure supports entrepreneurship with venture capital, R&D funding, and a large number of scientists and engineers.
- ▶ Israel's informal culture de-emphasizes status and age but recognizes talent and drive.
- ▶ Immigrants boost Israel's population and its entrepreneurial talent base.

<sup>51</sup> "Science & Technology Entrepreneurs Park - India," *The World Bank YouTube Channel*, [youtube.com/WorldBank](https://www.youtube.com/WorldBank), accessed 3 July 2013.

<sup>52</sup> D Senor and S Singer, *Start-up nation: The story of Israel's economic miracle* (Twelve, 2009).

54%

of entrepreneurs use or plan to get help from corporations and non-governmental advisors



#### Key Insight: The importance of location

Scott Button, Co-Founder and CEO, Unruly Media, UK



Unruly Media has been at the heart of London's Tech City, or Silicon Roundabout, since its inception in 2006. The area has grown substantially, from 85 start-ups in 2010 to more than 300 by early 2013.<sup>53, 54</sup>

This growing ecosystem helps, says Scott Button, Co-founder and CEO of Unruly Media: "There is no doubt we have learnt from other high-tech entrepreneurs here. It has staved off some of the loneliness of a pioneer and stopped us making mistakes as we have grown. As you scale up, you face all sorts of organizational and management issues that the senior team has never seen before. You can always bring in senior managers to mitigate that, but any kind of ecosystem is extremely helpful. Being here has given us some of the benefits you get from having experienced institutional investors in the business."

Button believes that the Government can play a role in the community's continued development by raising the profile of the area and creating a stronger identity for technology entrepreneurs. "Working for a tech start-up just doesn't have the same level of status that it does in the US," says Button. "We need top talent drawn to entrepreneurship, hungry for success."

#### Key Insight: Growing a global brand

Mikael Hed, CEO, Rovio, EU



Rovio is the Finnish company behind the global phenomenon Angry Birds, one of the most successful mobile games of all time. The company's success shows how, in the digital age, an entrepreneurial business can come from almost nowhere to develop a truly international brand in a matter of months.

Since its release in 2009, Angry Birds has been downloaded over 1.7 billion times. Building on this, it has released eight other apps and an Angry Birds cartoon channel, with a 3-D feature film slated for launch in Summer 2016. Fans can now also buy a wide range of merchandise. The results of this strong brand-building strategy speak for themselves. In 2012, Rovio doubled its revenues while net profit climbed nearly 57%.

According to CEO Mikael Hed, the company's success is based on its willingness to move into new areas and markets while also building on core brands: "We didn't diversify by suddenly making an array of new games, but by staying within the brand," he explains. All this has paid off: diversifying out of the competitive app market has helped spread the company's risk. But moving into areas such as licensing and animation also represented a steep learning curve. "All the time we've been dealing with whole new areas we didn't know, and we have had to learn from the ground up. It's taught us that if you are determined enough, you can learn a new business."

**Key lessons: technology-based products can reach a global customer base rapidly, but brands need to be nurtured and developed with care if they are to endure.**

<sup>53</sup> "London's Silicon Roundabout" *Wired magazine website*, wired.co.uk, accessed 25 June 2013.

<sup>54</sup> "Hipsters Flocking to Silicon Roundabout as Bankers Fade" *Bloomberg Businessweek website*, businessweek.com, accessed 25 June 2013.

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## A call to action

### Government action: where to focus

- ▶ **Create clusters to accelerate entrepreneurship.** Nurture clusters of entrepreneurial companies in a single location to boost existing strengths, provide scale, improve productivity and enhance international visibility.
- ▶ **Build stronger links between different players in the ecosystem.** Create facilities and events that allow networking to flourish. Clubs, associations, workshops, support meetings, informal support and mentoring all help.
- ▶ **Support and improve incubators and accelerators.** They form a vital link between aspiring entrepreneurs and existing businesses, funding bodies, mentors and support agencies.

### The entrepreneur perspective: key issues to consider

- ▶ **Capitalize on networks.** Be proactive about connecting with available networks, and seek out a mentor or form a board of advisors.
- ▶ **Give back.** Share ideas, useful contacts and basic advice: it can make a huge difference.
- ▶ **Join an incubator or accelerator.** This generates exposure and feedback for the business, and that helps to build the company.
- ▶ **Choose your location carefully.** Clusters can accelerate your growth through synergies with similar firms, suppliers, research centers and universities.
- ▶ **NGOs and not-for-profits play an important role.** Look out for the different support offers from entrepreneurial organizations such as NFTE and Endeavor.

### A corporate perspective

- ▶ **Access innovation.** The creation of corporate incubator or accelerator programs can help provide entrepreneurs with access to resources, testing facilities, pilot customers and funding.
- ▶ **Connect with entrepreneurs.** Sponsoring and participating in events helps to connect a range of people to the entrepreneurial ecosystem and to your resources and knowledge.

# Methodology

For this second edition of the EY G20 Entrepreneurship Barometer, our analysis of the entrepreneurial ecosystems across the G20 countries is set against five pillars, as co-developed with the G20 Young Entrepreneurs' Alliance (YEA). These are:

- ▶ **Access to funding**
- ▶ **Entrepreneurship culture**
- ▶ **Tax and regulation**
- ▶ **Education and training**
- ▶ **Coordinated support**

Our analysis is based on five key inputs:

- ▶ Business environment indicators, or key performance indicators, of a range of variables directly influencing the entrepreneurship ecosystem in each country
- ▶ A survey of more than 1500 entrepreneurs\* across the G20 countries, which captures sentiment on the key barriers and enablers of entrepreneurship as well as the rate of improvement in G20 countries on key facets of the entrepreneurial ecosystem
- ▶ Exclusive insights from more than 250 entrepreneurs, independent academics and experts, and EY partners across the G20 countries
- ▶ Working group sessions with delegates from the G20 YEA Summit 2013
- ▶ An analysis of more than 200 leading government initiatives or practices from across the G20 countries

## Mature and rapid-growth G20 economies

Throughout our analysis, we observed marked differences between countries that benefit from a mature economy and those with rapid-growth rates or that are still developing. As a result, our analysis of the G20 countries focuses on two groups of markets:

- ▶ **Mature markets:** Australia, Canada, France, Germany, Italy, Japan, South Korea, UK, US
- ▶ **Rapid-growth markets:** Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, Turkey

This split is based on the International Monetary Fund grouping of “mature economies” and “emerging and developing economies.”

## Government leading practices

The government leading practices detailed within this report were selected by EY's global knowledge network and Strategic Growth Market professionals.

## Entrepreneurship Barometer survey

For the purpose of this study, EY surveyed more than 1,500 entrepreneurs across the G20 countries, asking them for their views about the entrepreneurial ecosystems of their countries. At least 50 responses per country were recorded. Questions were specifically related to the five pillars of entrepreneurship and how these had improved or deteriorated.

The purpose of this survey was threefold:

- ▶ First, to provide current, qualitative insights on conditions and trends in the entrepreneurial ecosystems across the G20 countries
- ▶ Second, to provide a benchmarking tool that leverages survey-based and official statistical information
- ▶ Third, to provide a “grassroots” view of the entrepreneurship ecosystem in each country, with the aim of enhancing the dialogue between entrepreneurs and policymakers

\* Our research focused on entrepreneurs in the G20 countries. Entrepreneurs were simply defined as people who own a business for the purposes of this study.

Survey respondents' demographics



## About the EY Entrepreneurship Barometer 2013 model

The EY G20 Entrepreneurship Barometer 2013 introduces a model for scoring countries across the five pillars of entrepreneurship. The purpose of this model is to help identify areas of relative strength by country and where opportunities for improvement lie.

The model is composed of qualitative information (from our survey of more than 1,500 entrepreneurs) and quantitative data based upon entrepreneurial conditions across the G20 economies. For each pillar, excluding coordinated support, this information is weighted 50-50 between qualitative and quantitative inputs. For coordinated support, given a lack of quantitative indicators, this is based solely upon the survey responses.

The advantage of integrating both the survey results and quantitative data is the ability to provide an assessment of the current level and the trends in a G20 entrepreneurial ecosystem based upon local sentiment. To this end, official statistics (for example, on the average time taken to start a business or the tax burden) provide a baseline for each member country.

Survey information is an important complement to the baseline picture these statistics provide. Entrepreneurs' feedback on the pace of improvement or deterioration in conditions in their country's entrepreneurship ecosystem is incorporated in the model alongside the hard statistics, per the method that follows.

## Methodology

The EY G20 Entrepreneurship Barometer 2013 provides country scores across the five pillars of entrepreneurship, which are in turn based on several sub-pillars, each rated on a 10-point scale.

This is a four-step process: the raw data is normalized; constituent scores are computed on a 1 to 10 scale; sub-pillar scores are calculated for both survey and hard data scores; and these scores are then combined (as a simple average) to generate a pillar score.

### Data normalization

Statistical information is adjusted by capping outliers at three standard deviations from the mean value for a given series.

For survey information, questions with five modalities are transformed by assigning a 1-5 score for each answer choice, with 5 being the most positive response and 1 being the least positive or most negative. Questions presented as a ranking are transformed by assigning a score of 3 to the choice ranked first, 2 to the choice ranked second and 1 to the choice ranked third.

### Transformation to a 1 to 10 score

We follow best practice, as per the transformation methodology in the World Economic Forum's Global Competitiveness Report, to convert the adjusted data into scores on a 1 to 10 scale. The formula used is:

$$(9 * (\text{adjusted data} - \text{minimum value}) / (\text{maximum value} - \text{minimum value})) + 1$$

For survey data, the minimum and maximum values are the minimum and maximum possible survey responses, rather than the actual minimum and maximum survey responses.

## Calculation of level and trend scores

We use a simple average of all survey-based constituents of a given pillar to generate a "trend" score for that pillar. We use a simple average of all statistical constituents of a given pillar to generate a "level" score for that pillar. The level and trend scores are then adjusted to impose a uniform mean on all scores. Each country's unadjusted level and trend scores are divided by the pillar's mean level and trend scores and then multiplied by 5.5, the midpoint of the 1-10 scale. This adjustment prevents a pillar with relatively high, or low, level or trend scores, from skewing the final score.

## Calculation of pillar scores and overall entrepreneurial ecosystem ranking

As above, we use an average of the "level" and "trend" scores for each pillar to generate an overall pillar score. We use a simple average of all "level" and "trend" pillar scores to generate an overall country ranking. The final ratio of survey data/hard statistics is 60/40, reflecting the 100% weighting of survey data in the coordinated support pillar. This forms the basis for the country rankings by quartile.

## Key indicators

The specific indicators for the Barometer model are listed as follows, with each explained in more detail in the following table. Note that hard statistics are included as a three-year average, to address year-to-year volatility.

Ecosystem component	Constituents	Data type
<b>Access to funding</b>		
Seed	Access to public aid/government funding, business angels, crowdfunding, family and friends, microfinance, suppliers, customers	Survey
Start-up	Venture capital availability	Data
	Access to venture capital, access to business angels, suppliers, customers	Survey
Growth	Domestic credit to private sector, private equity (PE) deal value	Data
	Access to PE, bank loans	Survey
Expansion	IPO amount invested, domestic credit to private sector	Data
	Access to IPOs	Survey
<b>Entrepreneurship culture</b>		
Fear of failure	Insolvency implications	Data
	Survey respondents' view of business failure	Survey
Attitude to risk	Risk tolerance	Survey
Entrepreneurship as a career choice	Survey respondents' view of entrepreneurs as drivers of employment	Survey
Celebration of self-made wealth	Survey respondents' view of celebration of self-made wealth	Survey
Innovation and research culture	R&D spending, number of scientific and technical journal articles published	Data
<b>Tax and regulation</b>		
Direct tax	Corporate tax/mandatory contributions	Data
	Tax incentives	Survey
Indirect tax	Indirect tax rate	Data
Business-friendly legislation	Start-up procedures, time to start a business, cost to start a business, paid-in minimum capital to start a business, time spent on tax issues, cost of firing, labor tax and contributions	Data
	Business regulations, labor market, IP, ease of doing business, public private partnerships	Survey
Government incentives	Public support for R&D, number of documents to export, level of infrastructure	Data
	Government innovation incentives	Survey
<b>Education and training</b>		
Pre-university education	Secondary school enrollment, public spending on education	Data
University education	Tertiary enrollment	Data
Informal education	Informal networks, mentoring, corporate engagement with start-ups	Survey
Entrepreneurship education	Vocational education in school curriculum, specific programs at universities/schools, entrepreneurship chairs at universities, coaching programs for entrepreneurs	Survey
<b>Coordinated support</b>		
Mentors	Teaming/mentoring programs, corporate and non-governmental advisors, entrepreneur workshops/support meetings, industry-specific training programs	Survey
Incubators	Business incubators, university incubators, government start-up/other programs	Survey
Networks	Entrepreneur clubs and associations, chambers of commerce, small business administrations	Survey

## Key performance indicators: sources and definitions

Measuring entrepreneurship-based macroeconomic indicators is a challenging objective, with a range of issues inherent in any such model:

- Entrepreneurship is a rich activity that involves multiple factors, such as cultural and economic factors, many of which are not tracked in a comparable manner.

- The G20 countries do not share the same definition of entrepreneurial businesses.
- Public and private organizations provide few indicators focusing on entrepreneurial activity, and when available, they typically do not cover all the G20 countries.

- Indicators with comprehensive coverage of G20 countries are often broad in scope, with no specific focus on entrepreneurship.

As a result, our analysis is confined to those indicators that are timely, robust and largely available for the G20 group of countries. The key performance indicators by pillar are listed in the table below.

Indicator	Definition	Source
<b>Access to funding</b>		
<i>Start-up funding</i>		
Venture capital availability	For entrepreneurs with innovative but risky projects, survey responses to whether venture capital is generally available (1= not true, 7= true)	World Economic Forum
<i>Growth funding</i>		
Domestic credit to the private sector (ratio to GDP)*	Financial resources provided to the private sector, including through loans, purchases of non-equity securities, and trade credits and other accounts receivable	The World Bank
Private equity deal value (ratio to GDP)	Private equity deal value in a country as a ratio to GDP	Dealogic, IMF
<i>Expansion funding</i>		
IPO amount invested (ratio to GDP)	IPO deal value in a country as a ratio to GDP	Dealogic, IMF
<b>Entrepreneurship culture</b>		
<i>Fear of failure</i>		
Resolving insolvency (% of estate)	The average cost of bankruptcy proceedings	The World Bank
<i>Innovation and research culture</i>		
R&D spending (% of GDP)	Current and capital expenditure, both public and private, on R&D, which includes basic research, applied research and experimental development	The World Bank
Scientific and technical journal articles (ratio to population)	The number of scientific and engineering articles published in the following fields: physics, biology, chemistry, mathematics, clinical medicine, biomedical research, engineering and technology, and earth and space sciences	The World Bank
<b>Tax and regulation</b>		
<i>Direct taxation</i>		
Company tax/mandatory contribution (% of company profit)	Total tax rate (including corporate tax rate, property tax, employer-paid social security contributions and other taxes) that a medium-size company must pay or withhold in a given year	The World Bank
<i>Indirect taxation</i>		
Indirect tax rate (%)	The standard VAT or GST rate for each country	EY, national agencies

<i>Business-friendly regulations</i>		
Start-up procedures (number)	Number of procedures required to start a business, including interactions to obtain necessary permits and licenses and to complete all inscriptions, verifications and notifications to start operations	The World Bank
Time to start a business (days)	The median duration that incorporation lawyers indicate is necessary to complete a procedure with minimum follow-up with government agencies and no extra payments	The World Bank
Cost to start a business (% of income per capita)	All official fees and fees for legal or professional services, if such services are required by law	The World Bank
Paid-in minimum capital to start a business (% of income per capita)	The amount of capital that the entrepreneur needs to deposit in a bank or with a notary before registration, and up to three months following incorporation, and is recorded as a percentage of the economy's income per capita	The World Bank
Time spent on tax issues (hours)	The time taken to prepare, file and pay three major types of tax and contribution: the corporate income tax; VAT or sales tax; and labor taxes, including payroll taxes and social contributions	The World Bank
Cost of redundancy dismissal (weeks of wages)	Severance pay for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in salary weeks)	The World Bank
Labor tax and contributions (% of commercial profits)	The amount of taxes and mandatory contributions on labor paid by the business	The World Bank
<i>Government incentives</i>		
Public support for R&D (% of GDP)	Publicly financed gross expenditure on R&D	OECD
Required documents to export (number)	All documents required per shipment to export goods; the measure assumes that the contract has already been agreed upon and signed by both parties	The World Bank
Infrastructure access (per 1,000 people)	Average of access to internet, mobile and passenger vehicles	EY, The World Bank
<b>Education and training</b>		
<i>Pre-university education</i>		
Public spending on education (% of GDP)	Current and capital public expenditure on education, including government spending on educational institutions (both public and private); education administration; and subsidies for private entities (students, households and other private entities)	The World Bank
Secondary-school enrollment (gross enrollment ratio)	The ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. "Secondary education" completes the provision of basic education that began at the primary level, and aims at laying the foundations for lifelong learning, and human development, by offering more subject or skill-oriented instruction, using more specialized teachers.	The World Bank
<i>University education</i>		
Tertiary enrollment (gross enrollment ratio)	The ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. "Tertiary education," whether or not to an advanced research qualification, normally requires, as a minimum condition of admission, the successful completion of education at the secondary level.	The World Bank

\* Also included in expansion funding in the Barometer model.

## Our commitment to entrepreneurship

We have been working with entrepreneurs for more than three decades.

We make this investment because we passionately believe that encouraging entrepreneurship and innovation results in economic growth and prosperity.

Our identification with entrepreneurs and high-growth companies through programs such as EY Entrepreneur Of The Year™ and Strategic Growth Forums is a cornerstone of our brand identity. We were the first professional services organization to form a highly integrated global network – Strategic Growth Markets – dedicated to serving the full spectrum of entrepreneurial, high-growth companies. We place a high value on advising these companies and provide the high levels of attention, dedication, talent and respect that many other professional services organizations reserve for their Fortune 50 clients.

► **EY Entrepreneur Of The Year** is the world's most prestigious business award for entrepreneurs. This unique award makes a difference by encouraging entrepreneurial activity among those with potential and recognizing the contribution of people who inspire others with their vision, leadership and achievement. As the first and only truly global award of its kind, Entrepreneur Of The Year celebrates those who are building and leading successful, growing and dynamic businesses, recognizing them through regional, national and global awards programs in more than 150 cities in more than 60 countries. In 2001, EY created the World Entrepreneur Of The Year Award to recognize the global impact of entrepreneurs and to honor the positive impact they have on their local communities, their countries and the world.

► **EY Strategic Growth Forums** are conducted around the world to provide leading entrepreneurs, investors, government officials, academics and top executives with the opportunity to explore strategies for growth, whether that is through financing, expanding into new markets, taking new approaches to talent or finding new ways to innovate.

The Forums are packed with dynamic speakers, topical and relevant sessions, panel discussions, networking opportunities, and inspirational entrepreneurs and executives. Well established in the US, the Palm Springs event is described by Forbes as a “must-attend” event. We now host Forums around the world.

► **With the EY Entrepreneurial Winning Women™** program, we channel our resources and convening power to help women entrepreneurs achieve the full potential they envision for their companies. The program identifies and celebrates high-potential female entrepreneurs and provides them with personalized one-on-one business insights and advice, as well as insider access to strategic networks of established entrepreneurs, executives, advisors and investors. Unlike many programs that are focused on helping women to start a business, EY's Entrepreneurial Winning Women program supports women with existing enterprises to scale up and become market leaders.

► EY has a sponsorship agreement with **Endeavor**, a not-for-profit organization that works with high-impact entrepreneurs in rapid-growth markets to improve and grow their businesses. Endeavor aims to transform rapid-growth economies and establish entrepreneurship as a leading force for sustainable economic development.

► EY extended its commitment to young entrepreneurs with the expansion of its relationship with **NFTE**. Through the Entrepreneur Of The Year program in the US, EY has provided 16 scholarships to NFTE's Youth Entrepreneur Award winners. In 2011, we extended our support by funding new scholarships in Belgium, China, Germany, India, Ireland, Israel, the Netherlands and New Zealand. The scholarships are just one of three strands of EY's involvement with NFTE. We also aim to have an EY member firm partner on every NFTE affiliate board around the world, and EY staff have the opportunity to volunteer their time to NFTE.

NFTE began as a program to prevent children from leaving school before they graduated. The aim is to improve academic performance among students who are at risk of failing or not finishing school. Working with students from disadvantaged backgrounds, the program helps them see the relevance of their studies as they learn skills in key subject areas alongside business and financial planning. The participants create business plans for their ideas and compete in classroom, citywide and national competitions. To date, NFTE has worked with nearly 400,000 young people from low-income communities in programs across the US and around the world.

► After being asked for many years, “What do market leaders do to become successful?” EY decided to research the answer. And the **Exceptional Enterprise model** (below) is the result. Through our global Entrepreneur Of The Year program, we have the privilege of working with some of the world’s most dynamic business leaders. By surveying this unique group, we have been able to clarify the common challenges and opportunities that they face, together with the secrets to their success.

► **Global Center for Entrepreneurship and Innovation.** With more than 30 years’ experience of working with many of the world’s most dynamic and entrepreneurial businesses, we understand the enablers and barriers to growth. Our Global Center for Entrepreneurship and Innovation puts our know-how, people and services at your finger-tips, helping you make the connections that move you ahead. Find out more at [ey.com/entrepreneurship](http://ey.com/entrepreneurship).

### Becoming an exceptional enterprise



## The G20 Young Entrepreneurs' Alliance

EY supports the G20 Young Entrepreneurs' Alliance (G20 YEA) in its work to demonstrate youth entrepreneurship around the world. We are very grateful to the YEA for its input in developing the EY G20 Entrepreneurship Barometer 2013 and for its ongoing work to help publicize the report's conclusions.

### About G20 YEA

The G20 YEA is a collective of leading entrepreneurially minded organizations representing the G20 countries that seek to leverage youth entrepreneurship as a powerful driver of economic renewal, job creation, innovation and social change. The Alliance was founded in 2010 as a movement to engage the G20 leaders in the cause of youth entrepreneurship, share information across borders, effect positive policy change and create a global network of young entrepreneur advocates, while building a collaborative entrepreneurial environment worldwide. Find out more at [www.g20yea.com](http://www.g20yea.com).

### The G20 Young Entrepreneurs' Alliance Summit

Annually, the G20 YEA holds the G20 YEA Summit prior to the G20 Summit of political leaders. After successful events in Toronto, Canada (June 2010); Incheon, South Korea (November 2010); Nice, France (October 2011); and Mexico City, Mexico (June 2012), the fifth G20 YEA

Summit was held in Moscow, Russia, in June 2013 and united more than 400 young entrepreneurs from across the G20 member states. The three-day forum provided the young entrepreneurs with opportunities to meet with their peers, learn best practices in growing dynamic companies, and celebrate entrepreneurship as the leading source of job and wealth creation, innovation and the well-being of all nations. The goals of the summit included:

- ▶ Leveraging the vital role entrepreneurs play in the growth, job creation, innovation and competitiveness of nations
- ▶ Identifying actions likely to promote entrepreneurship among young people and provide input for governments by recommending and assembling the best proposals within a communiqué to be endorsed by the G20 political leaders at their annual summits
- ▶ Bringing together entrepreneurs from around the world to exchange and share their experiences with the leaders of the entrepreneurial ecosystem from the 20 most important economies in the world
- ▶ Giving inspiration to current and future generations of entrepreneurs

## Outcomes of Moscow 2013 G20 YEA Summit

### Communique goal

**"Position youth entrepreneurship as an important aspect of G20 and B20 leaders' agenda as a major drive for job creation."**

### Communique requirements

- ▶ Become the voice of young entrepreneurs
- ▶ Be applicable in all G20 countries yet be specific and actionable
- ▶ Address G20 challenges in the most effective way (particularly youth employment)
- ▶ Correlate with current G20's agenda

### Communique recommendations

- ▶ Improve access to digital infrastructure and services
- ▶ Provide education to enhance knowledge, networks and innovation skills
- ▶ Make the business environment and labor legislation more supportive for entrepreneurs
- ▶ Increase access to finance for start-ups and growing enterprises



**Make your voice heard**

Join the debate

Tweet #G20ey  
[ey.com/G20ey](http://ey.com/G20ey)

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## The power of three

Together, governments, entrepreneurs and corporations can spur growth across the G20

- 1** | The EY G20 Entrepreneurship Barometer 2013 enables each G20 nation to identify the strengths in its entrepreneurial ecosystem, as well as the main opportunities for further development, and benchmark their progress and performance.
- 2** | Through five key enablers, the EY G20 Entrepreneurship Barometer 2013 analyzes entrepreneurs' perceptions, quantitative indicators and government leading practices across the G20 to provide more than 40 key recommendations across governments, entrepreneurs and corporations.
- 3** | The country profiles explore the specific entrepreneurship environments of the G20 member countries, to provide a better understanding to entrepreneurs considering international expansion.

[ey.com/G20ey](http://ey.com/G20ey)

#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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#### About EY's Strategic Growth Markets Network

EY's worldwide Strategic Growth Markets Network is dedicated to serving the changing needs of high-growth companies. For more than 30 years, we've helped many of the world's most dynamic and ambitious companies grow into market leaders. Whether working with international mid-cap companies or early-stage venture-backed businesses, our professionals draw upon their extensive experience, insight and global resources to help your business succeed. [ey.com/sgm](https://ey.com/sgm)

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