



The Power of Many

Realizing the socioeconomic potential
of entrepreneurs in the 21st century



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Introduction

As host of the 2011 G20 Young Entrepreneur Summit (YES), France might also be considered as the historical cradle of the concept of entrepreneurship, since the word *entrepreneur* first appeared in its current form in French in 1422¹. It formally took hold in English in 1852², borrowed from Richard Cantillon, an 18th century Irish-born banker based in France, who ‘rebranded’ the word to mean “*the undertaker in the economic realm whose primary role was to bear risk*”³. One and a half century later, entrepreneurship has evolved into a worldwide phenomenon, spanning from micro-entrepreneurs to visionary individuals who have created global companies in under ten years.

Following the 2008-2009 crisis, now is an appropriate time to engage in a global debate about entrepreneurship as a growth, innovation and employment engine—particularly for youth—in the economy of the 21st century.

Schumpeter’s “creative destruction” theory applies more than ever, with its emphasis on entrepreneurs’ determining role in economic growth through innovation and change (new products and new productive techniques).

Five mega-trends will impact the economy of the 21st century: the ‘great rebalancing’ brought about by globalization; the ‘productivity imperative’ characterized by the need to create more wealth for all; major constraints on resources leading to ‘pricing the planet’; the implications of the remarkable development of the ‘global grid’; and the ‘market state’, in which governments will have a major role to play in setting the conditions for sustainable and equitable growth⁴. As a result, business in the 21st century has embarked on a path towards massive and fast-paced creative destruction, in which entrepreneurs have a critical role to play.

Twenty years ago, China had barely entered the global economy, the world’s policy forum was the G7, and the World Wide Web didn’t exist. Two decades and a historic financial meltdown later, China has entered the second decade of the new century as the world’s second-largest economy, global policies are discussed in the G20, one-and-a-half billion people are online, and nearly four billion have cell phones connecting them to an ever-expanding global communications grid.

The magnitude of the recent financial crisis will have long-lasting effects that will further reinforce these mega-trends and offer increasing challenges to individuals, businesses and governments. In addition, as we have seen recently, young people in many countries are struggling to find their place and are looking for new ways to participate in economic development. It is therefore of the utmost importance that economies pursue and accelerate reforms aimed at reviving growth, productivity and employment, particularly for the benefit of youth.

In these turbulent times, entrepreneurs have a key role to play in fostering tomorrow’s growth, employment and innovation and strengthening their countries’ prosperity and social model. Therefore governments in both emerging and mature countries should adopt effective policies to support entrepreneurs’ efforts and risk-taking.

Based on a joint research project conducted by the G20 Young Entrepreneur Summit (YES) and McKinsey & Company, this report identifies the most effective initiatives to shape fertile entrepreneurial ecosystems, finance entrepreneurial growth and promote an entrepreneurial culture, in order to help entrepreneurs thrive in each type of economy. The report is based on an analysis of more than 200 initiatives that are aimed at supporting and fostering entrepreneurship by governments, national agencies, local public-sector players, professional organizations, companies or foundations. These initiatives were selected for review according to their relevance and impact, with the help of the national correspondents of the G20 YES.

We hope this report will shed some light on the paths that governments of the G20 might take to support entrepreneurs for the benefit of society as a whole.

Grégoire Sentilhes
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¹ *Dictionnaire historique de la langue française*, Alain Rey.

² *Merriam Webster dictionary*.

³ *Essais sur la nature du commerce en général*, 1755, Richard Cantillon (1680-1734), in Howard H. Stevenson, Teresa M. Amabile, “*Entrepreneurial Management: In Pursuit of Opportunity*”, in *The Intellectual Venture Capitalist: John H. McArthur and the Work of the Harvard Business School*, Harvard Business School Press, 1999.

⁴ *What happens next? Five crucibles of innovation that will shape the coming decade*, Special report from McKinsey & Company, 2011.



319 million people
(12% of the working age population) are engaged in early-stage entrepreneurial activity across the G20, with a vast majority in the BRICS countries

The US would have


1.8 million

more jobs today if businesses had continued to be launched at the 2007 rate

49%

of people have a favorable opinion of entrepreneurs (sample of nine G20 countries)

SMEs account for **52%** of GDP and **64%** of employment on average (sample of nine G20 countries, 2007)



Within 20 years,
the supply of capital
might fall short of
demand by up to

**\$2.4
trillion**

36%
of the variation
in economic
growth can be
explained by
variations in
start-up rates
(sample of ten
economies)

The conversion
rate between those
who consider
entrepreneurship
as a good career
choice and those who
actually embark on
ventures varies in a

**1 to 7
ratio,**

ranging from 3% in
Italy to 22% in Brazil

Firms less than 5
years old make up

36%

of all patenting
firms in Japan

Executive summary

Various converging factors suggest that the 21st century will be the century of the entrepreneur. Globalization and the aftermaths of the 2008 downturn have led to a simultaneous increase in uncertainty, complexity and volatility that creates a world of massive “creative destruction”.

Against this backdrop and its disruptive consequences for all economic agents, entrepreneurs will be well positioned to help G20 countries meet some of the key challenges they are facing, thanks to their agility, innovative mindset, ability to ride the wave of new technology and attract talented young professionals. They are ready to play a key role in fostering prosperity for the 21st century by being a powerful engine for global growth, innovation, and employment.

To this end, it is necessary to identify and thoroughly understand the drivers of entrepreneurship in G20 countries. When analyzing the entrepreneurial context it clearly appears that:

- The quality of the entrepreneurial context relies on three pillars (ecosystem, financing and culture), which strongly correlate with the vitality of early-stage entrepreneurs, particularly in mature economies;
- Those countries that outperform their peers on each of the three pillars enjoy the highest rate of entrepreneurial intensity.

Given the benefits that a vibrant entrepreneurial culture provides, creating an enabling context to boost this growth, innovation and employment engine can be pursued along the three major dimensions: 1) shaping fertile ecosystems, 2) financing entrepreneurship from inception to critical size, and 3) promoting an entrepreneurial culture.

On the basis of the proven practices successfully implemented in G20 countries over the recent

years, we believe that entrepreneurship would strongly benefit from G20 governments’ placing a clear focus on ten actions:

Shaping fertile ecosystems:

1. **Build strong local bases** anchored in regional development initiatives, encouraging entrepreneurs, local authorities, large companies, public and private education systems, to devise and implement synergetic strategies that build on a common ambition, sense of purpose and talent pool.
2. **Leverage a relevant talent pool** through a better alignment between the skills requirement of the local economic fabric and the education offering (primary and secondary education, vocational training, higher education, lifelong training).
3. **Foster collaboration among key actors through appropriate incentives** by entrusting universities with the mission of applied industrial research, promoting the exchange of talents among academia, research and business or encouraging cooperation between established and entrepreneurial companies.
4. **Provide enabling infrastructures**, especially by fostering public/private schemes to develop common local infrastructures (R&D centers, transportation, voice and data communication, etc.).
5. **Ensure a stable, simple and conducive regulatory environment at a regional / supranational level** to give undistorted access to larger markets while providing the opportunity to achieve critical size quickly.
6. **Offer targeted tax incentives** to promote business creation and development as well as innovation.

Financing entrepreneurship from inception to critical size:

- 7. Ensure the availability of financing for each stage of enterprise development** and support the development of domestic or regional equity markets dedicated to high-potential SMEs, in order to support the growth of entrepreneurial ventures and break the 'glass ceiling' that hinders their development.
- 8. Develop specific solutions for high risk / low qualified entrepreneur profiles** to help fight poverty, long-term unemployment and social divides in both emerging and mature economies.

Promoting an entrepreneurial culture:

- 9. Foster the development of targeted educational programs**, on a national or international level, to boost the attractiveness of entrepreneurship and endow the population with the entrepreneurial mindset.
- 10. Support proactive promotion of entrepreneurship** through associations, TV entrepreneurial contests, and global entrepreneurial business-plan competitions.

Young entrepreneurs are willing to play their full part in addressing the economic and social challenges of the decades to come. Targeted support from G20 governments for these '21st century pioneers', along the lines proposed in this report, will be a critical factor for robust economic growth and social progress.

1.

Entrepreneurs have a key role to play in the economy of the 21st century

The beginning of the 21st century provides the perfect convergence of circumstances for entrepreneurs around the globe to thrive and make their full contribution to innovation, growth and employment. Long-term global forces are defining a 'new normal' for our economies in an increasingly global market for goods, services, labor and capital (Box 1). In this complex, volatile,

multi-polar and interconnected world, the biggest challenge facing businesses is to adapt and take advantage of a global landscape in which the basis of competition is changing at increasing speed. Agile business innovators have an unprecedented opportunity to leverage their skills in a world of accelerating creative destruction.

BOX 1. UNDERSTANDING GLOBAL FORCES⁵

"I never think of the future," Albert Einstein once observed. "It comes soon enough." Most business managers and policymakers, confronted with the global forces that are shaping the business and economic landscape, assume that their ability to sculpt the future is minimal. They are right that they can do little to change a demographic trend or a widespread shift in consumer consciousness, but they can react to such forces or, even better, anticipate them to their own advantage. They may ignore these forces, but at their own peril. McKinsey has analyzed the key global trends that will define the coming era and has identified five crucibles where the stress and tension will be greatest and that thus offer the richest opportunities for companies to innovate and change:

The great rebalancing. The current decade will mark the tipping-point in a fundamental, long-term economic rebalancing that will likely leave traditional Western economies with a lesser share of global GDP in 2050 than they had in 1700. By 2020, more than half the world's GDP will be generated in developing countries. This growth will not only create a wave of new middle-income consumers but will also drive profound innovations in product design, market infrastructure, and value chains.

The productivity imperative. Developed world economies, particularly those with ageing populations, will need to generate pronounced gains in productivity to power their continued economic growth. In many cases, all of a country's future growth will need to be driven by productivity improvements. For instance, Europe needs to accelerate its rate of productivity growth by 30%, simply in order to match its past rate of GDP per capita growth. Sustaining the necessary improvements in productivity will require a step-change in investment in infrastructure in the developed world, on top of continued investment in new infrastructure in emerging markets.

The global grid. The global economy is growing ever more connected. Since 1990, trade flows have grown 1.5 times faster than global GDP. Cross-border capital flows have expanded at three times the GDP growth-rate. Information flows have increased exponentially. Complex flows of capital, goods, information and people are creating an interlinked network that spans geographies, social groups, and economies in ways that permit large-scale interactions at any moment.

Pricing the planet. Natural resources and commodities account for roughly 10% of global GDP and underpin every single sector of the economy. Rising demand for resources, constrained supplies, and changing social attitudes towards environmental protection are in collision. The next decade will see an increased focus on resource productivity, the emergence of substantial clean-tech industries and regulatory initiatives.

The market state. The often contradictory demands of driving economic growth and providing the necessary safety-nets to maintain social stability have put governments under extraordinary pressure. The state, far from withering away, is likely to play an ever-larger role over the next decade. Debt levels in OECD countries are likely to rise, on average, to 120% of GDP by 2014—up from less than 80% today. And over the next 20 years, governments will need to face up to their off-balance liabilities for pensions and health care. This will force radical reconsideration of the role of the state in many developed economies.

⁵ What happens next: Five crucibles that will shape the coming decade, McKinsey Special Report, 2011.

1.1. Entrepreneurs are well positioned to meet emerging challenges and turn them into decisive advantages

“Entrepreneurship is the recognition and pursuit of opportunity without regard to the resource you currently control, with confidence that you can succeed, with the flexibility to change course as necessary, and with the will to rebound from setbacks”⁶. If you believe that Bob Reiss’s definition is accurate, the entrepreneur is, by construction, an economic agent able to make the most of the emerging ‘new normal’ that is characterized by increased economic complexity, uncertainty and volatility. Against this backdrop, entrepreneurs can play a key role in the economy of the 21st century by leveraging their three major strengths: their agility, their ability to ride the wave of new technologies, and their distinctive value proposition for young professionals.

Agility as part of the entrepreneurial DNA

Thanks to their inherent agility, entrepreneurs will be able to cope with the accelerating pace of globalization, as well as profound instabilities in product and financial markets and the stiffening of competition. The combination of these effects will offer advantages to smart, fast-moving players with innovative business models.

The ‘great rebalancing’ trend is producing a gigantic shift in demand towards emerging economies, which induces major changes in the industrial and R&D footprint and also reduces employment opportunities in traditional industries in mature economies.

The next decade will mark the first time since the Industrial Revolution that emerging and developing economies will add more to global growth than all the advanced economies combined. In some sectors, the emerging economies’ contribution to growth will be as high as 80%. As a result,

between now and 2020, more people should escape poverty than in any other period in history, with the emergence of an additional 2 billion new consumers. Over the next ten years, GDP per capita will rise nearly five times more rapidly in emerging and developing economies than in OECD nations (Exhibit 1).

For all companies—both established multinationals and emerging-market challengers—the great rebalancing will force major readjustments in strategic focus. No longer can established companies treat emerging markets as a sideshow, and this is true not only for major corporations but also for a growing number of SMEs and entrepreneurs. Some of the most competitive mature economies, such as Germany, have built their success by enabling their SMEs to go global and take advantage of the growth of the emerged economies. Emerging markets will increasingly become the locus of growth in consumption, production, and innovation. Global leadership will increasingly depend on winning in the emerging markets first, for both large and smaller companies.

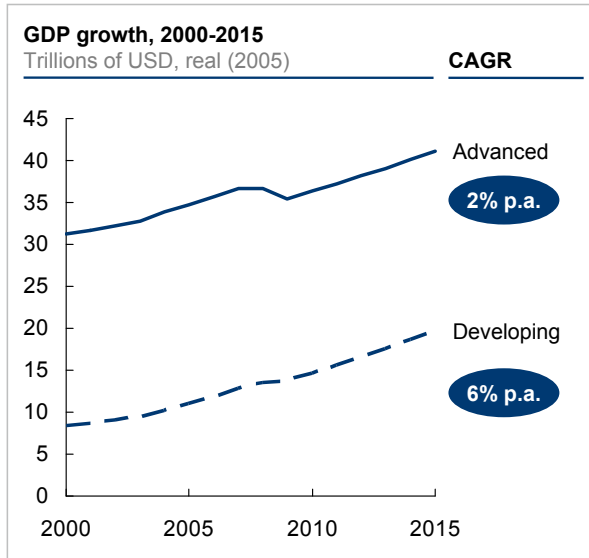
This great rebalancing is bringing about a situation of ‘hyper competition’. The resulting productivity imperative will put at a premium the ability to ‘do it smarter and cheaper’. With large companies opening their value chains to take advantage of multiple networks of suppliers and leverage product and process innovation, entrepreneurial businesses will be able to develop new business models that focus on segments with high value-added, such as high-tech components and niche services in R&D, design, marketing and distribution (Box 2).

⁶ Bob Reiss, *Low-Risk, High Reward: a Guide to Starting and Growing Your Small Business With Minimal Risk*, The Free Press, 2000.

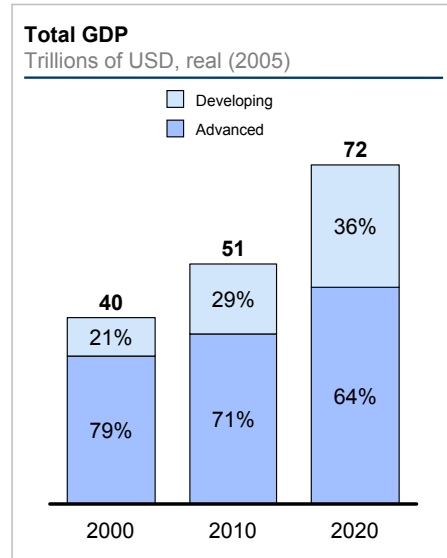
EXHIBIT 1

Advanced economies' share of global GDP is poised to keep declining

GDP growth



Share of global GDP



SOURCE: IMF; Global Insight – World Market Monitor, McKinsey & Company

BOX 2. THE OPENING OF LARGE COMPANIES' VALUE CHAINS GENERATES OPPORTUNITIES FOR NICHE PLAYERS

Manufacturers are increasingly relying on outside inputs to drive innovation. For instance, consumer goods companies such as Kraft and Procter & Gamble collaborate with external counterparts to develop new products. In the early 2000s, P&G faced a problem of rising R&D costs but a declining payoff. In response, the company created the 'Connect and Develop' open innovation program, inviting experts and small technology firms to solve technical challenges that P&G was facing. Today, half of new products have elements that originated outside the company, up from 15% in 2000⁷.

⁷ McKinsey Global Institute, *Big data: The next frontier for innovation, competition and productivity*, 2011.

Being an entrepreneur is all about the ability to seize new opportunities (Box 3). It requires great drive and flexibility and, for an organization, it means defining risk-taking as a value, being flexible in adapting to change, being able to innovate and to leverage new ideas in old systems.

Ability to ride the wave of new technologies

Their Web-savvy nature will allow young firms to make the most of the Internet's huge economic opportunities.

The accelerating pace of new technologies (Web-based technologies in particular) changes the way business operates locally and globally. For companies that can master their usage, they provide high economic-growth opportunities.

The Internet has become a major enabler of growth and performance. This applies well beyond the realm of e-business or pure Internet

players, since more than 75% of the value-added created by the Internet is in traditional industries⁸. For example, SMEs that use the Internet most intensively have, on average, enjoyed a 10% greater gain in profitability (half through revenue growth and half through cost-reductions), than those SMEs with low and medium Web-intensity (Box 4).

These figures show how the way of doing business across the globe has already been profoundly and rapidly modified by the Web. They also clearly demonstrate the importance of the competitive advantage that early adopters can reap from Internet usage, whatever their industry. Those who are able to fully leverage the Web as a catalyst for performance all along their value chain can get ahead in global competition. Furthermore, many small companies manage to use the Web in export markets as a means to compensate for their lack of reach, critical mass and footprint, relative to multinationals.

BOX 3. FROM THE SINGLE ENTREPRENEUR'S SPIRIT TO THE CORPORATE ENTREPRENEURIAL MINDSET: THE GORE-TEX COMPANY

The Gore-Tex Company is a good example of what being entrepreneurial in the long term is about. The company understood this central issue and created a real entrepreneurial organization. In his HBR article, "Building an Innovation Democracy", Gary Hamel explains the trajectory of Wilbert L. Gore, who decided to create his own company, W.L. Gore & Associates, with the idea that it would be totally different from any others he had worked in. Now, with \$2.1 billion in turnover and 8,000 employees throughout the world, the company has managed to keep this idea of being a distinctive organization on the basis of theory Y, i.e. employee self-motivation for their work. Each associate has discretionary time for half a day a week to create and work on the topic she or he enjoys. Myers, an engineer based in Arizona, coated his mountain-bike cables with the same polymer that is used in Gore-Tex fabric and thus created a guitar string, noticing that the combined materials enabled the string to hold a tone three times longer than the industry standard.

Three years later, with a team of 10 volunteers from his company, he managed to create the current global leader in guitar-strings. In a similar way, many engineers launched their own projects within the company and diversified its original activity (housing insulation) step by step to numerous others such as clothes. CEO Kelly said a project "won't go anywhere if you don't let people run with it"; it is clear that the organization would never have been so successful without this entrepreneurial ecosystem that favors innovation.

The Gore-Tex Company example shows that being an entrepreneur is not limited to starting one's own business: it is a mindset that aims to transform new ideas into successful ventures.

⁸ McKinsey Global Institute, *Internet Matters: The Net's sweeping impact on growth, jobs, and prosperity*, 2011 (survey in G8 countries plus Brazil, Russia, India, South Korea and Sweden).

This is clearly a major opportunity for entrepreneurs, who are not entangled in legacy systems and processes and can leverage their innovative mindsets to create and develop new Web-intensive business models. They can take advantage of lower barriers to enter markets with innovative products and services in the spirit of Schumpeter's "creative destruction".

For instance, the 'big data' phenomenon—the ability to collect, store and analyze huge amounts of digital information—enables technology-savvy companies to create new products and services, enhance existing ones, and invent entirely new business models (Box 5).

Distinctive value proposition in labor markets to attract young talents

With their creative approaches to employment, entrepreneurs can offer attractive job opportunities for young talents to unleash their potential, and create real chances for the youth who find it increasingly difficult to enter the labor market.

While the demographic trend is towards an ageing world population, young people in many countries are struggling to find their place in the economy and in the business world. From the "Arab spring" to the "indignados" movement in

BOX 4. WIRED SMEs CAPTURE A BROAD RANGE OF ADVANTAGES

Accelerated growth and a more accessible export market are just two of the many advantages the Internet brings to SMEs that invest in a substantial Web presence.

The McKinsey Global Institute (MGI) has created the SME Internet Maturity Index, which shows the penetration of Internet technology and its usage by employees, clients, and suppliers. On the basis of the Index, MGI ranked each of the companies in the sample according to low, medium, or high Web-intensity. Our survey of more than 4,800 SMEs in 12 countries showed that, on average, companies using the Internet with a high intensity grow twice as quickly as low Web-intensity companies. Additionally they export twice as much, and create more than twice as many jobs.

Furthermore—and not surprisingly—MGI found that those countries in which a greater proportion of SMEs have a strong presence on the Internet also have a greater contribution from the Internet to the national economy.

For example, in the United Kingdom the survey showed that about 71% of the SMEs use the Internet with high or medium intensity, and the Internet contributes about 5.4% to British GDP. In Russia, on the other hand, only about 41% of SMEs have high or medium Internet engagement, and the Internet contributes about 0.8% to Russian GDP.

BOX 5. LEVERAGING NEW TECHNOLOGIES TO CREATE INNOVATIVE SERVICES: THE EXAMPLE OF BRIGHTSCOPE⁹

After mining data from the US Department of Labor about the management fees paid by companies for retirement savings plans (known as 401k), the start-up company BrightScope discovered that small businesses were paying in excess of \$4 billion more in fees than bigger companies. Based on those data, and data from some public sources such as the Securities and Exchange Commission and the US Census Bureau, BrightScope developed and launched an online tool that allows users to rate 401k plans quantitatively, thus creating a new niche market.

⁹ McKinsey Global Institute, *Big data: The next frontier for innovation, competition and productivity*, 2011.

Spain, segments of youth are questioning the capacity of the 21st century economy to offer them the opportunity of a fulfilling and rewarding working life.

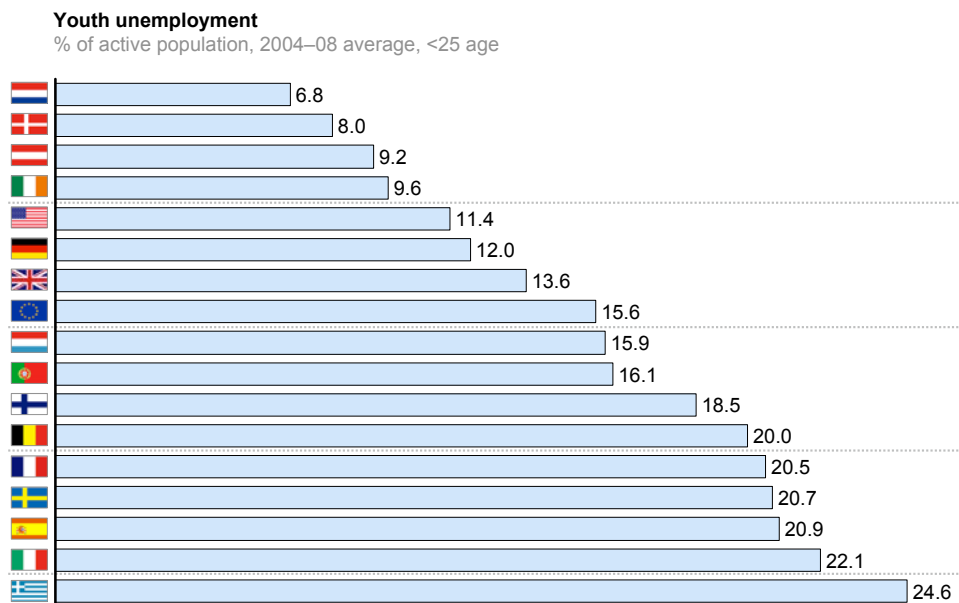
Many countries suffer from substantial unemployment in the new generation. Despite some indisputable successes, the level of youth unemployment in mature economies remains dramatically high (Exhibit 2).

Youth unemployment also affects developing and even fast-growing countries such as Turkey, Korea and Mexico (with respective youth unemployment rates of 25%, 10% and 10%). This situation appears all the more worrying, as economic recoveries no longer seem to equate with job creation, especially for mature economies such as the United States (Box 6). There is a broad consensus among global

leaders that the market economy continues to be the best engine to address these trends and to generate wealth and employment. At the same time there is a growing concern that if the fundamental issues – such as structurally high levels of youth unemployment – go unchecked, the likelihood of a systemic failure increases, endangering the social contract between governments and citizens, and in particular with the young generation. The recent crisis appears to have increased the disconnect between business leaders and large segments of the population, especially in mature countries. Further damage to the social contract would have unpredictable and most likely severely damaging implications. According to the Edelman public relations agency's 2011 Trust Barometer, trust in business is only 45% in the US and the UK, as opposed to 61% in China, 70% in India and 81% in Brazil.

EXHIBIT 2

Youth employment is a major issue in most mature countries



SOURCE: Eurostat, McKinsey analysis

BOX 6. THE EMPLOYMENT RESILIENCE TO DOWNTURNS IS WEAKENING OVER TIME

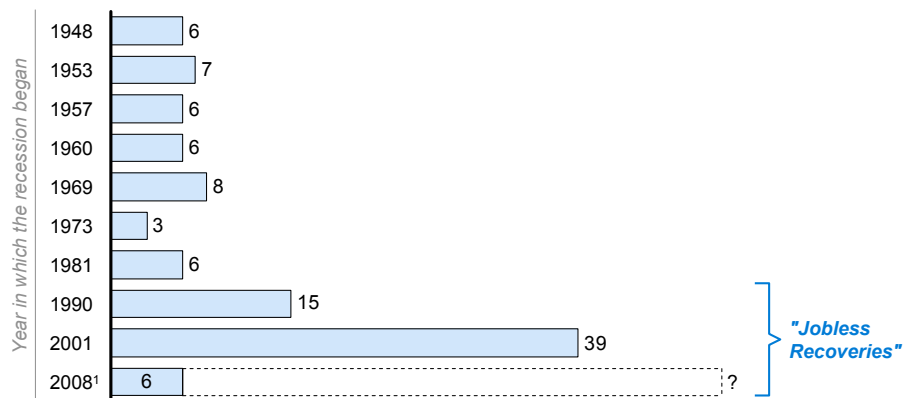
The economic crisis has reinforced long-term unemployment. The McKinsey Global Institute illustrates, through the example of the United States' economy¹⁰, how the various global crises that impacted the economy since 1973 have generated long-term unemployment.

The United States has been experiencing increasingly lengthy "jobless recoveries" from recessions in the past two decades. It took roughly six months for employment to recover to its pre-recession level after each post-war recession through the 1980s, but it took 15 months after the 1990–91 recession and 39 months after the 2001 recession.

At the recent pace of job-creation, it may take more than 60 months for employment to recover after GDP reached its pre-recession level in December 2010. Since the rate of youth unemployment is twice as high as the rate of total unemployment, the matter of the role of youth in modern societies is becoming all the more worrying.

Economic recovery no longer equates with job creation

Lag from when real GDP returns to prerecession peak to when employment returns to prerecession peak in the USA
Months



¹ The National Bureau of Economic Research estimates that the recession began in December 2007. GDP returned to its prerecession peak in December 2010

SOURCE: US Bureau of Labor Statistics; US Bureau of Economic Analysis; McKinsey Global Institute analysis

It is important to note that entrepreneurs have been relatively exempt from this public mistrust (Exhibit 3).

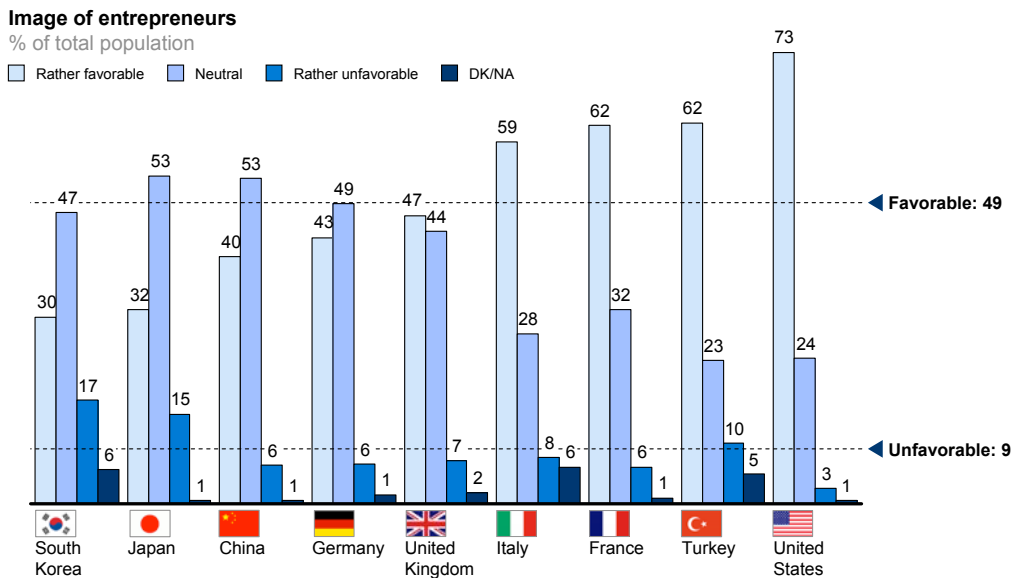
Increasing numbers of the younger generation are attracted to entrepreneurial companies, with their new codes and rules, rather than to established corporations. Entrepreneurs therefore can play a key role in hiring and developing new talent by providing a working environment that better matches young people's expectations. Entrepreneurial values around innovation, risk-taking and non-hierarchical organization can offer alternative management models and working arrangements that are appealing to young employees. Furthermore, nascent businesses can offer young

professionals a higher level of responsibility and more room for personal initiatives than traditional corporations tend to do. Entrepreneurs are also able to offer incentives – both financial (e.g., the offer of shares in the new company as part of a compensation package) and non-financial – to reward performance, and these have often proved to be effective in recruiting high-potential candidates.

These features account for the attraction that Internet start-ups exerted on highly-qualified talents in the late 1990s. Today, the entrepreneurship model still boasts an advantage when it comes to fulfilling the aspirations of creative young workers in search of highly dynamic and motivating labor conditions.

EXHIBIT 3

The image of entrepreneurs is favorable or at worst neutral



SOURCE: OECD, Entrepreneurship at a glance 2011

1.2. Entrepreneurs are a powerful engine of innovation, growth and employment

Unleashing the potential of entrepreneurs could turn out to be a win-win process as we move into the ‘new normal’. On the one hand, young and creative people willing to take risks would find environments and conditions that would help them thrive and seize the 21st century’s opportunities. On the other hand, fostering entrepreneurial projects would provide public decision-makers with a strong socioeconomic ‘return on investment’, since a vibrant entrepreneurial landscape can significantly contribute to innovation, growth and employment, and hence to the renewal of the economic fabric.

Productivity gains through innovation

For all G20 countries, whatever their GDP per capita, the real game-changers will be breakthrough innovations in products and services, processes, organizational methods and marketing techniques. Economic history shows that most productivity growth—more than two-thirds—comes from innovation. Entrepreneurs are playing an increasing role in this, either by developing innovative products and processes, or by generating new ideas that may be seized and exploited by other firms or by universities and research organizations.

As the OECD recently pointed out¹¹, *“global trends towards the knowledge economy, open innovation, global connections, non-technological innovation and the emergence of national and regional economic models and new types of social innovation have increased the importance of SMEs and entrepreneurship to innovation”*. This prompted the OECD to emphasize that *“policies to strengthen entrepreneurship and increase the innovation*

capabilities of SMEs should be one of the main planks of government innovation strategies”.

Another survey by the OECD showed¹² that firms less than five years old make up around 36% of all patenting firms in Japan, and around 25% in France, where they also account for around 23% of new patent applications.

New sources of competitiveness to nurture growth

The contribution of entrepreneurship to growth has been widely documented in economic theory since the early works of Joseph Schumpeter¹³. In Schumpeter’s view, the entrepreneur is the leading force behind the process of “creative destruction”. He brings about “new combinations” of goods, markets and production processes, thus disrupting the economy and leading it to long-run evolutionary growth.

This pioneering analysis has since been thoroughly discussed, deepened or criticized. A 2007 review¹⁴ of recent research on the “value of entrepreneurship” concluded that entrepreneurial firms “experienced higher growth in production value and labor productivity” than non-entrepreneurial firms. Indeed, of seven studies that specifically examined the impact of entrepreneurship on value-added growth, six concluded that entrepreneurship had a positive impact.

This finding is in line with the results of a survey¹⁵ conducted in 1999 by the Global Entrepreneurship Monitor. Comparison among 10 countries showed a high positive correlation between the number of business start-ups and the quarterly increase in real GDP, with approximately 36% of the variation in economic growth explained by variations in business start-up rates.

11 OECD, *SMEs, Entrepreneurship and Innovation*, 2010.

12 OECD, *Analyzing the Innovative Activity of Young Businesses across Countries using Administrative Data*, 2010.

13 J. Schumpeter, *The theory of Economic Evolution*, 1934.

14 M. van Praag and P. Versloot, *“What is the Value of Entrepreneurship? A Review of Recent Research, Small Business Economics*, 2007.

15 Global Entrepreneurship Monitor, *Executive Report*, 1999; the sample included the US, Canada, Italy, the UK, Japan, Germany, France, Denmark, Finland and Israel.

This tends to demonstrate that entrepreneurship is good for growth—an interesting conclusion, in particular for mature countries, which struggle to resume economic growth in the wake of the recent crisis

More generally, across a sample of nine G20 countries¹⁶, SMEs (including new or young enterprises) accounted, on average, for 52% of GDP in 2007, (Exhibit 4), with a striking similarity between countries as different as Mexico and the United Kingdom. Likewise, the average contribution of SMEs to employment was 64%.

The fabric of small- and medium-sized companies in a given country or region is often the basis for a thriving economy. SMEs contribute to employment, they supply goods and services to large global companies, and they bring to market innovations that are eventually shared by the larger players.

The element of growth that is “entrepreneurial”, i.e., the proportion attributable more specifically to young firms, is substantial. For example, in 2003 in France, firms less than five years old across all industries, trades and services accounted for up to 13% of all value-added generated by these sectors¹⁷.

New jobs, especially for young people willing to enter the labor market

Entrepreneurs can be part of the solution to the economic and social plague of youth unemployment, as young and high-growth businesses account for a sizeable share of job creation. According to the OECD, companies less than two years old accounted for 5% of total private-sector employment on average across a set of 11 European countries (Exhibit 5).

The figure is even more impressive for firms less than five years old, which made up 16% of total employment in industry, trade and services in France in 2003¹⁸. At the European level, in 2007, 3.8 million people were employed in new enterprises in industry, construction and services throughout the EU-27, which represents 3% of total employment in these sectors, with 38% of them in self-employment¹⁹.

Young businesses account for a large share of new jobs: in the US, job-creation from start-ups has consistently been higher than overall net job growth since 1980, which means that without start-ups, total employment would actually have decreased²⁰. More strikingly, the McKinsey Global Institute’s recent analysis of the evolution of employment in the US during the 2008-2009 crisis concluded²¹ that if businesses had continued to be launched at the 2007 rate and with the same average number of employees, the country might have had 1.8 million more jobs at the end of 2010, reducing unemployment by more than one percentage point. This finding shows the importance of business creation in tackling unemployment. What holds true for a mature economy such as the US is likely to be even more applicable in emerging economies where the economic and business fabric is less robust.

Without question, entrepreneurs can help young people find their place in the economy by creating new job opportunities in less rigid structures than most traditional companies. These young jobseekers find themselves competing with 30- to 35-year-old professionals who have proven experience. Joining start-ups can represent a launch-pad for their professional lives. This phenomenon would also contribute to the development of local economies. Furthermore, the effect of such a grounding could, for some

16 Australia, Brazil, France, Germany, Italy, Japan, Korea, the UK, and the US, for which OECD data were available.

17 DCASPL, *TPE, emploi et jeunes entreprises*, 2006.

18 DCASPL, *TPE, emploi et jeunes entreprises*, 2006.

19 Eurostat, *Key figures on European Business*, 2011.

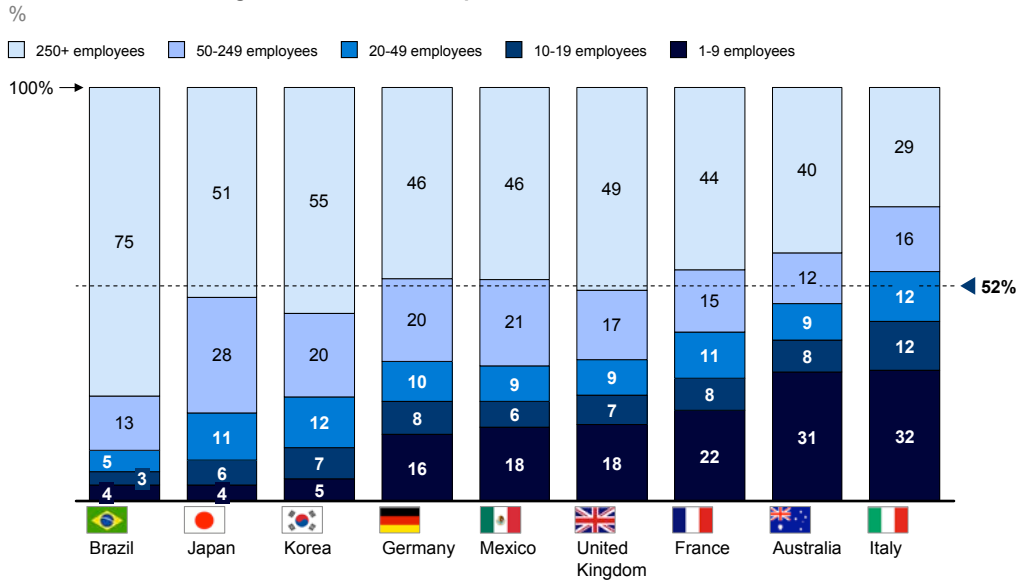
20 Kauffman Foundation, *Business Dynamics Statistics Briefing: Historically Large Decline in Job Creation from Startup and Existing Firms in the 2008–2009 Recession*, March 2011.

21 McKinsey Global Institute, *An economy that works: Job creation and America’s future*, 2011.

EXHIBIT 4

SMEs account for about half of the GDP on average

Share of GDP according to the size of the companies

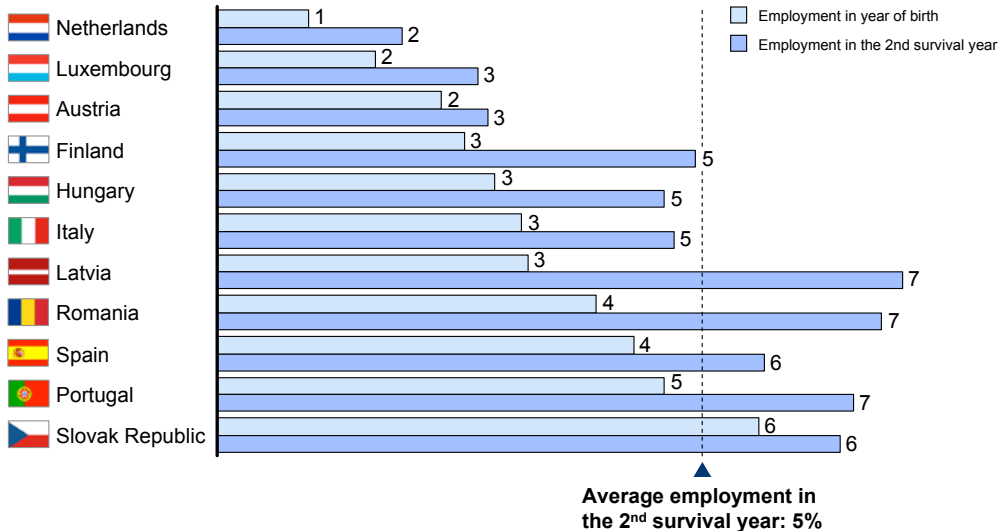


1 Is considered as a SME every company <250 employees
SOURCE: OECD, Entrepreneurship at a glance 2011

EXHIBIT 5

Companies less 2 years old represent 5% of total private sector employment on average

Employment in year of birth and in the 2nd survival year in all industries, enterprises that have survived 2 years in 2007, as a percentage of employment in the population of active enterprises



SOURCE: OECD, Entrepreneurship at a glance 2011

of them, develop their appetites and skills for becoming successful entrepreneurs themselves, thus triggering a virtuous job-creation circle.

The risk-taking proclivity, which is the entrepreneur's core trait, should prompt bolder practices regarding the profiles of people they hire, embracing those that fail to meet the selective standards of established companies or do not offer the traditional reassurances of particular academic backgrounds or prior experience.

Unsurprisingly, Arab countries recently identified entrepreneurship, and more precisely self-employment, as one of the main levers to tackle the major challenge of youth unemployment, which is recorded at 25% (Box 7).

However, if entrepreneurs are to play a key part in addressing the dramatic issue of youth unemployment, there needs to be more fluidity in labor markets to ensure better pathways or bridges for employees between young firms and more established ones. There is a concern nowadays among many G20 countries about the emerging 'dualization' in the labor markets, a split between entrepreneurial employment and more classic jobs. This effect has been highlighted by economists²² who observe that globalization has resulted in the spreading of the American model, with an 'entrepreneurial economy' arising alongside the traditional 'managed economy'.

These two economic frameworks differ in various ways. First of all, since failure is statistically a more common outcome than success in any given entrepreneurial endeavor, the 'entrepreneurial economy' typically entails less job security and a higher churn rate. Secondly, the nature or quality of jobs varies between these two models in terms of security, stability, compensation (owing both to the period required to attain the break-even for firms in the market economy and to the proportion of social-sector players amongst new ventures) and access to social benefits, especially in healthcare. The prospect of building a lifelong career in the 'entrepreneurial economy' is therefore weaker, whereas switching to a more traditional job tends to be difficult. To address this issue, bridges must be built to close the gap between these two segments of the labor market and ease the transition from entrepreneurial to established firms. A better convergence in terms of career path and working conditions could help remove these increasing barriers.

In sum, entrepreneurs have a key role to play in the economy of the 21st century. Governments of the G20 can help them make the best of their drive, their risk-taking spirit and their appetite for innovation by creating the conditions that boost the entrepreneurship engine. In return, societies where these entrepreneurs are based will reap the economic and social fruits of their development.

²² D. Audretsch, H. Grimm & C. Wessner, *Local Heroes in the Global Village. Globalisation and New Entrepreneurship Policies*, Springer Science + Media Inc.

BOX 7. THE “EDUCATION FOR EMPLOYMENT PROJECT” ADDRESSES THE ISSUE OF YOUTH UNEMPLOYMENT IN ARAB COUNTRIES²³

While the Arab world has sustained GDP growth of almost 5% a year over the decade 2000–10, this achievement is undermined by the following alarming figures:

- The Middle East suffers from the highest youth unemployment in the world, currently recorded at over 25%;
- The region’s youth-participation rates in the labor force are among the lowest globally, currently standing at around 35%, compared with the global average of 52%;
- The economic loss arising from youth unemployment exceeds \$40–50 billion annually across the Arab world, equivalent to the GDP of countries such as Tunisia or Lebanon.

According to the experts’ report issued as part of the Education for Employment Project, tackling the Arab youth unemployment challenge will require a twofold focus: the creation of employment opportunities (including self-employment), and the development and alignment of the education offering for this future job market through work-readiness training, vocational training and higher education.

Equipping students with the entrepreneurial skills required for self-employment was underlined as a key objective of work-readiness training. Within the scope of such programs, preparation for entrepreneurship and self-employment plays a prominent role: “without fostering entrepreneurship”, the report stresses, “the Arab world will not be able to create the large number of jobs required”. The experts note that at present there is a scarcity of people with even the most basic business skills, and that entrepreneurship-training programs need to address such skills in a targeted, scalable manner.

The report argues that such programs also need to reach out to rural areas, and look into combining access to (micro-) financing with entrepreneurship-related education.

Entrepreneurship has thus been identified as the main way to escape the curse of youth unemployment.

²³ IFC and Islamic Development Bank, e4e , *Education for Employment, realizing the Arab youth potential*, 2011 (based on findings from McKinsey & Company). The survey covers Algeria, Egypt, Iraq, Jordan, Morocco, Oman, Palestinian territories, Saudi Arabia and Yemen.

2.

Understanding
the drivers of
entrepreneurship

Entrepreneurship varies in its intensity across G20 countries. In 2010, the propensity of the population to be entrepreneurial, as measured by the prevalence rate of early-stage entrepreneurial activity (TEA)²⁴, ranged from 2.3% in Italy to 17.5% in Brazil. Since the TEA takes into account companies up to 3.5 years old, it measures the renewal of the entrepreneurial fabric of a country and not its full performance. It is however a very good sign of the vitality of entrepreneurship in a given country.

Part of the observed gap in early-stage entrepreneurial activity can be explained by differences in economic and demographic growth. It is therefore useful, for the purpose of analysis, to split G20 countries between two categories: mature and emerging economies²⁵.

Yet even within these groups, there are large discrepancies. Among mature economies, Japan, with a TEA of 3.3%, stands very close to Italy, while early-stage entrepreneurial activity is much more intense in the United States (7.6%) and Australia (7.8%). Likewise, among emerging economies, Russia, with a TEA of 3.9%, stands in stark contrast to other 'BRICS' countries such as South Africa (8.9%) and China (14.4%). It is therefore necessary to dig deeper in order to understand the drivers of entrepreneurship.

2.1. Assessing the three pillars of the entrepreneurial context

To create a context that promotes and supports entrepreneurship, public and private efforts should focus on building and strengthening its three pillars: **shaping fertile ecosystems, financing new ventures from inception to critical size, and infusing the population with an entrepreneurial**

culture. McKinsey has created a composite index of the quality of a country's entrepreneurial context based on existing data from recognized source (OECD, World Economic Forum, World Bank, Global Entrepreneurship Monitor). This indicator assesses the strength of these three pillars by examining their main building blocks (Exhibit 6).

Despite the incompleteness of the available data for certain countries, the scorecard of G20 economies according to our Entrepreneurial Context Index makes it possible to benchmark the entrepreneurial context of each country with its peer economies (mature economies and emerging economies)²⁶ and understand its relative strengths and weaknesses (Exhibit 7).

After detailed analysis the components of these pillars and their correlation with the prevalence of entrepreneurship, four main findings emerged:

- In most emerging countries, entrepreneurship flourishes "naturally". This is due to the influence of several factors that support entrepreneurship vitality such as overall economic growth (often driven by ambitious government policies such as in China), massive urbanization and a quickly developing middle class. However, the most entrepreneurial countries, like Brazil, China and Argentina all have in common a strong entrepreneurial mindset, suggesting that other countries in this group could boost the vitality of entrepreneurship by aggressively promoting an entrepreneurial culture.
- In mature countries, there is a strong correlation between our Entrepreneurial Context Index and the vitality of entrepreneurship (Exhibit 8).

²⁴ The TEA is the most widely used measure of entrepreneurship, produced by the Global Entrepreneurship Monitor on the basis of its annual Adult Population Survey. It evaluates the prevalence rate of early-stage entrepreneurship activity, which includes nascent entrepreneurs (those that have been paying salaries for less than three months) and new business owner-managers (those that have been paying salaries for between three and 42 months), in the country's working-age population (age 18-64).

²⁵ In this report, G20 countries with a GDP per capita over \$30,000 were considered as "mature economies" (Australia, Canada, France, Germany, Italy, Japan, United Kingdom, United States), while others were considered as "emerging economies" (Argentina, Brazil, China, India, Indonesia, Mexico, Republic of Korea, Russia, Saudi Arabia, South Africa and Turkey).

²⁶ This is because our index includes a number of components that are based on perceptions, and are therefore heavily influenced by the local context. For instance, the appreciation of the availability of venture capital is likely to be different between countries such as India and Germany, as business people will tend to compare their country with its neighbors.

EXHIBIT 6

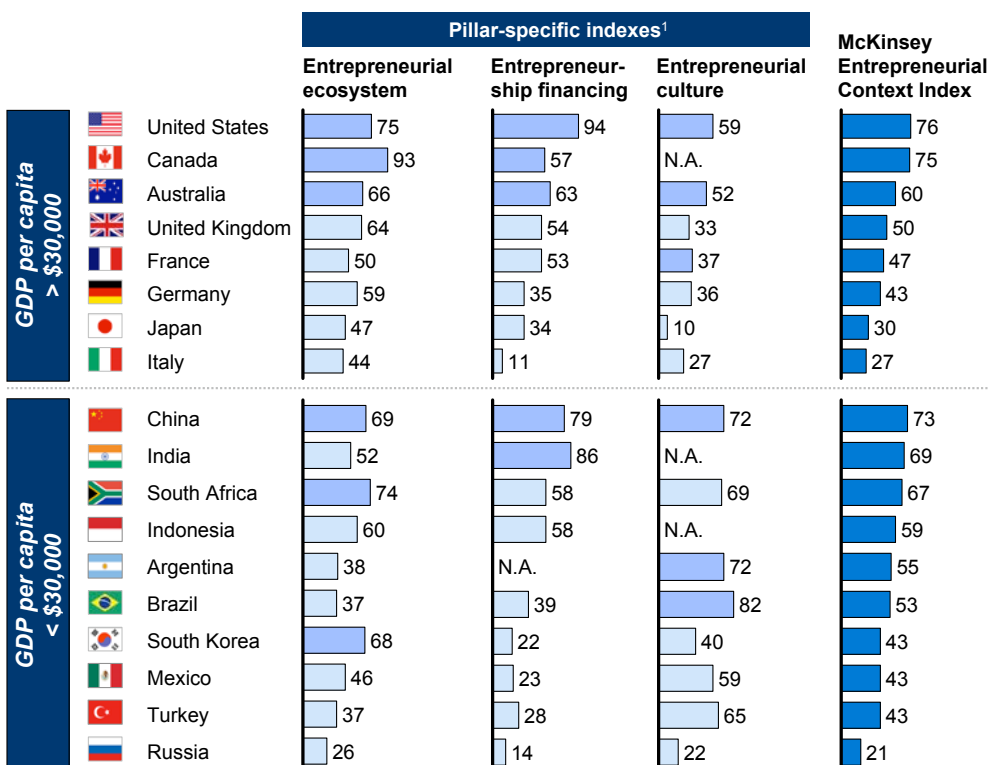
McKinsey built a composite indicator to gauge the quality of the entrepreneurial context along its three pillars

MCKINSEY ENTREPRENEURIAL CONTEXT INDEX		
Ecosystem	Financing	Culture
<ul style="list-style-type: none"> ▪ Protective and fluid environment: <ul style="list-style-type: none"> – Intellectual property protection – Ease of doing business – Judicial independence – Low level of irregular payments and bribes ▪ Quality of education <ul style="list-style-type: none"> – Quality of management schools – Overall quality of education system ▪ Burden of tax and regulation <ul style="list-style-type: none"> – Burden of government regulation – Extent and effect of taxation ▪ Collaboration <ul style="list-style-type: none"> – State of cluster development – University-industry collaboration in R&D – Administrative burden in starting a business – Number of procedures – Time required – Cost of starting a business 	<ul style="list-style-type: none"> ▪ Ease of access to loans ▪ Perception of venture capital availability ▪ Financing through local equity market ▪ Value per capita of venture capital investment ▪ Number of venture capital deals per capita 	<ul style="list-style-type: none"> ▪ Perception of personal capabilities and opportunities: <ul style="list-style-type: none"> – Perceived opportunities – Perceived capabilities ▪ Perception of entrepreneurship <ul style="list-style-type: none"> – Entrepreneurship seen as a good career choice – High social status for successful entrepreneurs ▪ Attention to entrepreneurship <ul style="list-style-type: none"> – Media attention for entrepreneurship – Role of schools in helping understand entrepreneurship ▪ Inclination to entrepreneurship: <ul style="list-style-type: none"> – Entrepreneurial intentions – Fear of failure

SOURCE: Global Entrepreneurship Monitor; World Economic Forum; Venture Expert; OECD; World Bank

EXHIBIT 7

The Entrepreneurial Context Index allows for comparisons within peer groups



¹ Each index is the average of component sub-indices normalized to 100

² Arithmetic mean of the three indicators

SOURCE: Global Entrepreneurship Monitor; World Economic Forum; Venture Expert; OECD; World Bank; McKinsey analysis

- Three mature countries outperform their peers on each of the three pillars, which translates into a higher entrepreneurial intensity. Canada, Australia and the US register the highest scores on the three pillars and the highest levels of TEA. In the other countries, entrepreneurship appears to be hindered by a less developed entrepreneurial culture, by limited financing options, or by a combination of both factors.
- When diving into the components of each pillar, it appears that mature countries could maintain or strengthen their entrepreneurial vitality by acting on the following levers: ensuring a low administrative burden to start a business; improving the availability of venture capital financing as well as the perception of availability; improving the perception of personal capabilities and opportunities; ensuring the education system introduces the youth to the issue of entrepreneurship.

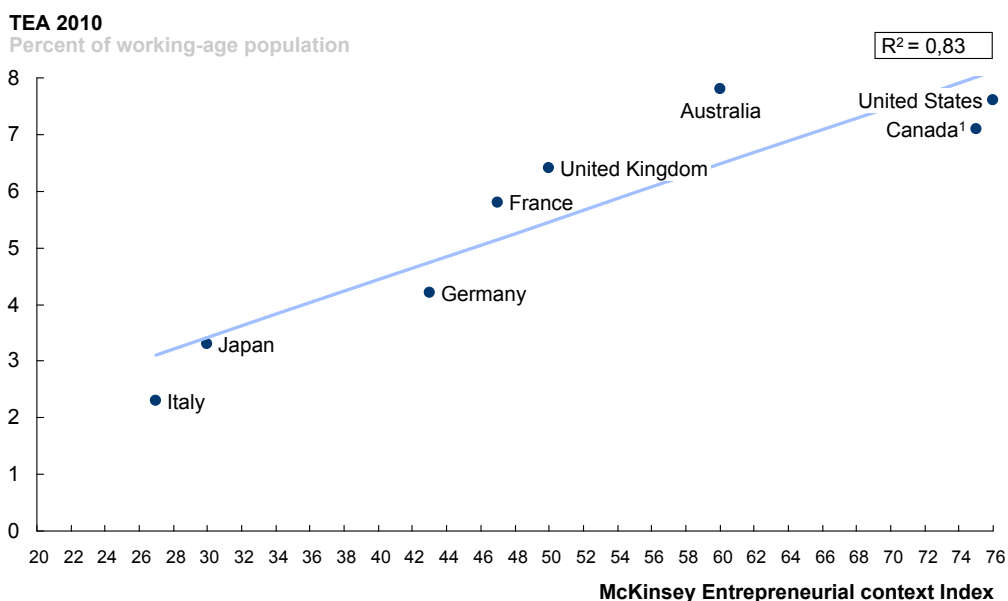
2.2. Four entrepreneurship profiles emerge within the G20, with specific growth and renewal patterns

The notion of entrepreneurship covers a range of heterogeneous realities from self-employment in traditional sectors to high-growth firms in advanced industries with dozens of employees. It is therefore crucial to assess the quality of entrepreneurship in each country, in order to gain a level of granularity in the reflection on entrepreneurship.

To evaluate this entrepreneurship “performance” in all G20 countries, we used a weighted TEA²⁷ to reflect both the intensity and the quality of entrepreneurship (i.e. the contribution of new firms to value added and employment). When combining the results to the scores from our entrepreneurial context index, four entrepreneurship profiles emerge.

EXHIBIT 8

The level of entrepreneurial intensity in mature economies highly correlates with the soundness of the entrepreneurial context



¹ Canada TEA data are for 2006 (latest available)
SOURCE: Global Entrepreneurship Monitor 2010; McKinsey

²⁷ TEA rate (taken as a 2006-2010 average to avoid peak-and-trough effects) weighted by the shares of opportunity-driven entrepreneurship and medium/high growth expectations entrepreneurship, both measured by the GEM.

In mature economies

- **“Entrepreneurial economies”**. This category (United States, Canada and Australia) is characterized by its high level of TEA (averaging 9.5% over the period 2006-2010). Moreover, this broad entrepreneurial base is predominantly made up of high and moderate growth enterprises. In these countries, entrepreneurship can be seen as one of the main drivers of the economy and of the renewal of the economic fabric. In the United States, for example, 100% of net new jobs between 1980 and 2005 were created by companies that were less than five years old²⁸. In terms of value-added, the contribution made to innovation by U.S. industrial startups outstrips that of their European counterparts almost by a factor of three (11.8% of them are R&D intensive, compared with 4.4% in Europe²⁹). Finally, 54% of the most R&D intensive companies in the U.S. are startups, as against 17% in Europe. This group of countries also fosters the rapid growth of many of their startups. In this respect, the United States is the most striking example: 15% of the top U.S. firms in Fortune 500 are less than 30 years old.

Looking at the performance of this group in terms of the Entrepreneurial Context Index, these three nations top the league of mature countries, outperform other mature economies on each of the three pillars. However, the priority for these countries is to maintain or reinforce the level of excellence they have achieved. The United States, for example, saw its TEA decrease from 10% to 7.6% between 2006 and 2010. This drop is due in large part to the drying-up of capital following the financial crisis of 2008. But this alone cannot account for the severity of the phenomenon in comparison with the other

G7 countries. It could also be explained by a relative deterioration in several components of the entrepreneurial ecosystem³⁰.

- **“Moderate, value-driven entrepreneurship”**. This entrepreneurial model (United Kingdom, France, Germany, Italy and Japan) is characterized by a lower level of TEA (averaging 4.4% over 2006-2010), but with a substantial proportion of growth companies. The ‘duality’ of entrepreneurship accounts for the fact that young companies represent a large share of employment and value-added. France exemplifies this fact: while the country’s average TEA for 2006-2010 is 4.7%, the contribution of companies less than 5 years old to value-added and to employment amounts to 13% and 16% respectively. The countries in this group either score moderately on all three pillars of our Entrepreneurship Composite Index, or strongly on one pillar and less well on the others.

In emerging economies

- **“Blooming entrepreneurship”**. This segment (China, Brazil and Argentina) is characterized by a very high average TEA (14.7% over 2006-2010). However, the make-up of this TEA rate is based on 30.7% of high-growth companies (vs. 44% for “entrepreneurial economies”). This segment is characterized by a strong Culture pillar: the three countries obtain by far the best scores in this dimension.

As far as the other factors of entrepreneurship context are concerned, while China seems to be well positioned in all three pillars, it appears that Brazil and Argentina need to focus their priorities on reinforcing the Ecosystem dimension.

28 Kauffman Institute, *Business Dynamics Statistics Briefing: Jobs Created from Business Startups in the United States*, 2009.

29 According the European Commission’s 2010 EU Industrial R&D Investment Scorecard that surveys the world’s top 1400 companies ranked by their investment in R&D.

30 McKinsey Global Institute, *An economy that works: Job creation and America’s future*, 2011.

- **“Entrepreneurship as a complementary economic engine”.** The characteristics of this group (Turkey, Mexico, South Africa, Korea, India and Russia) are contrasted. While countries in this group have either a strong TEA, but with weaknesses in growth companies and opportunity-driven

entrepreneurship or, conversely, low entrepreneurial intensity but a TEA that is high in qualitative terms. In either case, it appears that, for this group, entrepreneurship is not as strong a driver of employment and value-added as it is for the previous group.

3.

Boosting the
entrepreneurship
engine

Some 319 million people are engaged in early-stage entrepreneurship across the G20, with a vast majority in the BRICS countries³¹. It is therefore no surprise that entrepreneurship support is increasingly becoming a key plank of public policies aimed at ensuring strong and sustainable growth. This requires targeted

measures in order to bolster the three pillars of the entrepreneurial context – ecosystems, financing and culture. In this section, we highlight successful initiatives taken in G20 countries to boost entrepreneurship along these three dimensions, based on a survey we conducted with the G20 YES member organizations in each country.

G20 COUNTRIES SUPPORT THEIR ENTREPRENEURSHIP DIFFERENTLY DEPENDING ON THE MATURITY OF THEIR ECONOMIES

Conclusions of the G20 YES – McKinsey survey

McKinsey and the leaders of the G20 Young Entrepreneurs Summit jointly conducted a survey of more than 230 recent initiatives aimed at fostering entrepreneurship across the G20. The conclusions of this survey somewhat confirm ‘from the ground’ the findings drawn from McKinsey entrepreneurial context index (detailed in previous pages). Indeed, when we analyze the support initiatives actually deployed in all G20 countries to boost entrepreneurship, we observe that:

- Mature economies are mainly focused on supporting entrepreneurs with a high level of qualification in leading sectors (high-tech and other innovation-driven industries). Their priority is clearly the development of high-performance ecosystems (40% of their initiatives).
- Emerging countries support business creation with the main objective of developing self-employment within poorly-qualified people, so as to alleviate poverty. The lever they pull most is financing (39% of initiatives), and especially micro-finance.
- The two models tend to show signs of convergence with the evolution of countries’ priorities. Emerging countries begin to experiment with the same type of opportunities as their mature counterparts: as their economies become more developed, they tend to extend their focus to promoting qualified entrepreneurship through efforts to upgrade financing options and mass communication initiatives aimed at stimulating the entrepreneurial mindset. As for the richest countries, they are increasingly including self-employment support in their priorities, with a view to reducing unemployment, as shown by the examples of France (page X) and the UK (page Y). This can be seen not only as the result of new challenges linked to the recent financial crisis, but also as the reflection of more structural shifts in global economy.

The key success factors of initiatives to foster of entrepreneurship also depend on a country’s level of economic maturity. In order to foster a successful entrepreneurial base, what matters is the relevance of those initiatives to the national situation, and to the country’s specific needs.

The key success factors vary according to the level of economic development

Enabler of impact according to the topic and the level of economic development

	Ecosystem	Financing	Culture
Mature countries	<ul style="list-style-type: none"> ■ Cooperation between all actors ■ Long term investment from public sector (university, R&D, incubator...) ■ Focus on specific areas ■ Strong support (soft and hard) for all type of entrepreneurs 	<ul style="list-style-type: none"> ■ Relevant public and private networks to structure “new” financing vectors (business angels, venture capital...) ■ Long term investment from public (early stage) and private sectors (growth stage) 	<ul style="list-style-type: none"> ■ Crucial role of global events/organizations in promoting entrepreneurship ■ Role of schools in promoting entrepreneurship (still untapped in many countries) ■ High-level training for entrepreneurs
Emerging countries	<ul style="list-style-type: none"> ■ Public sector as the first lever, especially through universities ■ Cooperation among all stakeholders ■ Strong support (soft and hard) for all type of entrepreneurs ■ Large scope to address the diversity of entrepreneurs in emerging economies 	<ul style="list-style-type: none"> ■ Need for public sector to provide diversified and well-funded vehicles ■ In early emerging economies, specific tools to achieve two goals : <ul style="list-style-type: none"> – Financing “mass entrepreneurs” through a good structuring of local micro-credit – Financing “high impact entrepreneurs” through strong public intervention 	<ul style="list-style-type: none"> ■ Role of school in promoting entrepreneurship (still untapped in many countries) ■ High-level training for entrepreneurs ■ Role of mass media in early emerging economies

SOURCE: Survey among G20 YES country leaders (June 2011)

31 This estimate is based on the TEA for each country (average 2006-2010).

3.1. Shaping fertile entrepreneurial ecosystems

In order to start and develop a company, entrepreneurs need a fertile ecosystem which –while varying greatly according to the local context –features three broad components. The first component is the business environment, including the legal and regulatory framework (ease of setting up and doing business, law enforcement and dispute resolution, competition policies, etc.), along with the presence of suppliers, providers of services and other potential business partners. The second component is infrastructure, notably voice and data communications, utilities, and transportation. The last component relates to the availability of human capital, in terms of both quantity and quality, and to the alignment between the skills that are developed and the needs arising from economic activity.

The most quoted example of a fertile ecosystem is Silicon Valley in California. Home to many of the world's largest technology corporations, it is the leading hub for high-tech innovation and development, accounting for a third of all venture-capital investment in the United States. Silicon Valley has been the site of electronic innovation for over four decades, sustained by about a quarter of a million information-technology workers. It has the highest concentration of high-tech workers of any metropolitan area (nearly 30% of all private-sector employees), and the highest average high-tech salary, at USD 132,100³². Many governments have tried to replicate this model, but with limited success. According to Daniel J. Isenberg, professor of management practice at Babson College, *“there is little argument that Silicon Valley is the gold-standard entrepreneurship ecosystem”*, yet when it comes to public policies aimed at shaping fertile ecosystems, *“Valley envy is a poor guide for three reasons”*. First, *“its ecosystem evolved under a unique set of circumstances, and it is the result of a chaotic evolution that defies definitive determination of cause and effect”*. Second, *“Silicon Valley is “fed by an overabundance of technology and technical expertise” that cannot be found anywhere else*. Third, it does not only breed local ventures, but also

attracts ready-made entrepreneurs from around the globe. *“And difficult as it is to foster an ecosystem that encourages current inhabitants to make the entrepreneurial choice and then succeed at it, it is even harder to create an entrepreneur’s Mecca.”*³³

While it is impossible to come up with a standard recipe for creating fertile ecosystems, experience points to a number of ingredients that have proved critical for success.

Build strong local bases with a sense of common purpose

An ecosystem can hardly be grown off-soil. Therefore entrepreneurs and governments need to take into account the local conditions and identify competitive advantages that the ecosystem will be able to leverage. These strengths may include existing resources (natural, economic, institutional or cultural), talent pools, geographic location, or major infrastructure facilities (airport, harbor, Internet backbone, etc.).

Creating a successful ecosystem then requires the harnessing of these strengths with a sense of common purpose, so that local players pull together as a team. One example of this is the “AutoVision” program, which was devised and implemented by Volkswagen and the local government of Wolfsburg, Germany, with a view to creating an economic cluster: a concentration of companies and related institutions focused on a specific technological area (Initiative 1).

This successful initiative highlights the importance of adopting an approach that focuses on local strengths. One way for central governments to foster the emergence of ecosystems is to implement local development programs following a logic of ‘local economy’, i.e., with a view to putting local players in the lead in the development of their regions. This was the governing thought behind the EXIST program, which encouraged German regions to set up partnerships among different kinds of players in order to foster entrepreneurship (Initiative 2).

³² TechAmerica Foundation, *Cybercities 2010: The Definitive Analysis of the High-Technology Industry in the Nation’s Top 60 Cities*, 2010.
³³ Daniel J. Isenberg, *“How to start an entrepreneurial revolution”*, *Harvard Business Review*, 2010.

INITIATIVE 1. VOLKSWAGEN'S AUTOVISION PROJECT GAVE BIRTH TO AN AUTOMOTIVE CLUSTER IN WOLFSBURG (GERMANY)

In the German city of Wolfsburg, Volkswagen (VW) partnered with the local government to create a regional economic cluster dedicated to the automotive industry. The project, launched in 1998 under the codename "AutoVision", was designed to attract high-technology start-ups, suppliers and other relevant companies to Wolfsburg, where VW's headquarters and main plants are located, and thus cut local unemployment in half.

The program included the creation of an innovation campus where start-up ventures could be nurtured through a process known as tech-farming, with an annual nationwide business-plan competition to attract them to Wolfsburg. Another key element was a supplier park with a simultaneous-engineering center where suppliers' engineers could work directly with their VW counterparts to develop new cars and components. The project also relied on a human-resources agency with the intention of funneling local labor into jobs created by AutoVision.

This initiative had a powerful impact: by 2005, over 240 new businesses had been founded and more than 100 suppliers had moved to the area, with 23,000 jobs created. Since 2005, Wolfsburg also hosts the Internationale Zuliefererbörse, which has established itself as the largest automotive suppliers' trade fair in Europe.

INITIATIVE 2. THE EXIST PROGRAM PROMOTED ECONOMIC DECENTRALIZATION BY ENCOURAGING THE CREATION OF REGIONAL PARTNERSHIPS (GERMANY)

EXIST is a support program of the Federal Ministry of Economics and Technology (BMWi) aimed at improving the entrepreneurial environment at universities and research institutions and at increasing the number of technology- and knowledge-based business start-ups. Launched in 1997, the EXIST program is part of the German government's "High-tech Strategy for Germany". It has enabled regions to stimulate and support the creation of companies arising out of universities and research centers, based on the concept of "regional networks".

In practice, the Federal Ministry of Education and Research launched a competitive call inviting university regions to set up partnerships among business, scientific and political players, and submit a concrete business plan. The five regional partnerships that were selected received a total of € 21.5 million in co-financing from the federal authorities between 1998 and 2001 to feed their regional programs.

The program was a success, with some 550 companies created in the five regions³⁴. Furthermore, two of these regions have been honored as the best thematic networks for the promotion of start-ups and the growth of innovative businesses in Europe.

³⁴ OECD, *Programmes for entrepreneurship policy design and delivery and the experience of Germany: a learning model*, 2007.

Leverage a relevant talent pool by aligning the education and training offering with the requirements of the economy

In order to play their full part in the development of their ecosystem, future entrepreneurs need to acquire and develop specific skills. These include the ability to think strategically, assess risks and opportunities, leverage personal networks, motivate people and deal with unexpected issues, but also technical expertise in the specific fields and sectors in which entrepreneurship can flourish.

Creating a new breed of 'entrepreneurial athletes' thus requires leveraging the local talent pool through primary, secondary and higher education, vocational and lifelong training, and coaching. For instance, the European Commission's Small Business Act called on member states to implement entrepreneurship as a key competence in school curricula, ensure that teacher-training reflects the importance of entrepreneurship, and get the business community involved in entrepreneurship education.

More generally, entrepreneurship education has been developing in recent years, especially with the introduction of specific curricula for entrepreneurs. While North American universities are leading the way, such programs are increasingly common in other mature economies, and are now spreading to emerging economies.

Initiatives aimed at building the entrepreneurial skill-base can take many forms. For instance, Endeavor, a global NGO, aims to provide high-level strategic advice and mentoring to 'high-impact entrepreneurs' in emerging countries (Initiative 3).

Focusing on a different audience, Mumbai's NMIMS University has set up an MBA program that is designed to meet the specific education and training needs of family-business owners and managers (Initiative 4).

In addition to defining relevant university curricula and training programs, governments can also support private education initiatives. One way to achieve this objective is through public-private partnerships that are aimed at giving the impetus for the development of new programs, as shown by the National Skill Development Corporation of India (Initiative 5).

Foster collaboration among key actors through appropriate incentives

A third ingredient for the success of an ecosystem is the existence of a tight network of collaboration linking entrepreneurs, universities, research centers and large companies.

Linkages among various types of players provide an effective channel for start-up companies to gain access to markets, financing, skills and know-how. Governments can play an important

INITIATIVE 3. ENDEAVOR UNLEASHES THE POTENTIAL OF HIGH-IMPACT ENTREPRENEURS (GLOBAL NGO)

High-impact entrepreneurs hold the key to sustained economic growth in emerging markets. However, they face considerable barriers to growth, amongst them the cost of failure, the lack of role models, a limited management expertise, a lack of mentors and of trust, and a limited access to capital.

Endeavor is a global organization that aims to unleash the potential of these High-Impact entrepreneurs by providing them with an unrivaled network of seasoned business leaders who provide such key ingredients to entrepreneurial success as mentorship networks and strategic advice.

The organization has already demonstrated significant impact, with 156,000 jobs created as a result of its support of 15,780 hours of professional mentoring in 2009, 814 patents or patents pending filed by Endeavor firms and USD 3.5bn revenues generated through 506 companies.

INITIATIVE 4. THE ENTREPRENEURSHIP & FAMILY BUSINESS MBA ADDRESSES THE NEEDS OF OWNER-MANAGERS (INDIA)

Family-owned businesses play a crucial role in the economies of many economies, and especially in India, where they account for 95% of all registered firms. Most of these companies face specific management challenges, with only 13% of them surviving until the 3rd generation, and no more than 4% beyond that. Additionally, one third of family businesses disintegrates as a result of intergenerational conflict.

The Entrepreneurship and Family Business Master in Business Administration (MBA) program was developed to assist family-owned firms to move into line with professional organizations and help the businesses continue to grow while staying in the family.

This premier MBA program specifically enrolls owners and heirs of family businesses in India. Starting from just 6 students in 1999 and growing steadily to an intake of 120 students in 2011, the program is an example of a successful and consistent education and skilling initiative by the private education sector in Mumbai, India's commercial capital.

INITIATIVE 5. THE NATIONAL SKILL DEVELOPMENT CORPORATION PROMOTES VOCATIONAL TRAINING (INDIA)

The NSDC is a one-of-its-kind Public Private Partnership in India. It aims to promote skill-development in India by catalyzing the creation of large, quality, for-profit vocational institutions that contribute to the development of the country.

Launched in 2009, the NSDC plays the role of a "market-maker" by bringing financing or viability-gap funding, particularly in sectors where market mechanisms are ineffective or missing, to build scalable vocational-training initiatives. Its mandate is also to enable support systems such as quality assurance, information systems and train-the-trainer academies, either directly or through partnerships.

Its objective is to contribute significantly (about 30 per cent) to the overall target of skilling / upskilling 500 million people in India by 2022, mainly by fostering private-sector initiatives in skill-development programs and providing viability-gap funding. Between April 2010 and March 2011, more than 20,000 people were trained by NSDC partners across the 556 centers funded by the NSDC, and 25 new skill-development programs were approved.

role in this by creating incentives for large corporations to integrate better with local small- and medium-sized enterprises and to strengthen links with the local ecosystem. Many parties need to work together for this to happen, and the range of activities to make durable links includes information, know-how and hands-on support.

Developing links between business, universities and research is especially important for nurturing innovation-based ecosystems. Indeed, collaboration has become a key plank of corporate innovation strategies. According

to Eurostat³⁵, during 2006-2008 one-third of innovative enterprises in the EU-27 cooperated with other enterprises, universities or public research institutes. National figures ranged from 14% in Romania to 57% in Denmark in the EU, with Italy at 16%, Germany at 20% and France at 43%. Collaboration is especially relevant for SMEs, which are characterized by limited internal resources, and therefore tend to innovate in collaboration with other organizations, including businesses, universities and research organizations.

³⁵ Eurostat, *Science, technology and innovation in Europe*, 2011.

One way to develop such links is to entrust universities with the mission of applied industrial research. This can push them to communicate scientific priorities that may be of interest to private companies. Another lever is to promote the exchange of talents among academia, research and business, for example through multiannual programs that allow professors to take part in industrial innovation projects and industry researchers to teach in universities.

Innovation can also be promoted through collaborations between companies, and especially between small and large ones. The way Toyota trained its suppliers in its own 'Lean' methods of production, management and quality assurance is a case in point. But governments, too, can provide the impetus for the spreading of innovative practices.

While cooperation between large established corporations and smaller, innovative companies starts to develop, the collaboration and co-contracting spirit is not yet the rule, and some entrepreneurs still fear a predatory approach from larger groups, which may impede fruitful cooperation.

In the UK, the Department of Trade and Industry supported the creation of an Industry Forum by the Society of Motor Manufacturers and Traders, which brought about substantial improvement in the productivity of the sector by disseminating best practices of 'Lean' techniques and processes. The success of this initiative prompted the UK government to extend the concept, which is now operational in 14 sectors.

Public authorities can also promote collaboration by facilitating corporate networking, as shown by the Innovators Alliance in Ontario, Canada. In the

late 1990s, the Ministry of Economic Development and Trade organized a one-day forum, The Wisdom Exchange, to foster the exchange of business experience and knowledge among CEOs of high-growth companies. This has since been expanded to a full-time service organization with more than 100 members and regular events throughout the year.

Another example of a policy aimed at pushing large firms to support small and innovative business creation is the French law that promotes spin-offs (Initiative 6).

Provide enabling infrastructures

No ecosystem can thrive without the right infrastructure, both hard (e.g., real estate, transport, telecoms, IT) and soft (services, support for exports, IP protection and valorization of innovation and R&D).

Governments can work with industry representatives to identify the deficiencies that impede entrepreneurship. Infrastructure improvements do not necessarily involve huge cost: for example, creating greater regulatory certainty for private-sector infrastructure investments implies no direct costs to public finance.

Additionally, universities—in collaboration with large companies—can take the lead in building innovative and entrepreneurial ecosystems by providing a fully equipped infrastructure for new start-ups and by bringing creative people together. They can thus help accelerate the commercialization of ideas and technologies and promote entrepreneurship, as shown by the example of the Accelerator Center in Canada (Initiative 7).

INITIATIVE 6. A LAW ON SPIN-OFFS ENCOURAGES BIG COMPANIES TO SUPPORT ENTREPRENEURS (FRANCE)

In France, an innovative law allows employees to leave their company in order to create their own businesses: the spin-off principle relies on helping employees of an existing organization to become entrepreneurs. As a result of this original arrangement, more than 60% of people who create or take over a business in France are employees or former employees: 18% of these were formerly executives, 22% foremen and 60% blue-collar workers.

Usually the shift from employee to entrepreneur is the most difficult step to achieve, as the risk-taker needs support. Here the employee benefits from methodological and technical support from experts to help her or him prepare and start his project; he leaves his company within a win-win position, but the originating company can benefit from it, too, as it stands to get priority access to any innovation developed by its offshoot. The initiative provides a flexible tool for companies to manage human resources, to promote the evolution of a company's culture towards risk-taking, to increase staff flexibility, to outsource an activity or to create a network of suppliers.

Thus, two types of spin-off need to be differentiated, according to the strategy of the company. The "hot" or defensive spin-off is the first, original type, defined by overstaffing issues and sometimes layoff programs. The second type of spin-off context is much more strategic for the existing company: an offensive or "cold" spin-off, which does not aim to reduce staffing but to develop new activities that could not be developed in house.

Two recent French laws have fostered the spin-off mechanism. The first is the 1999 law on innovation and research that has enabled academics and researchers to create start-ups and register patents, thus creating an academic spin-off. The second is the "leave entrepreneurship", which has enabled employees to take leave of absence from their jobs for an extended period (up to two years) or to have a temporary part-time job.

The specificity of these laws is that the employment contract is not broken but simply bracketed. The employee has two years to get his business on track; depending on the result, he can decide whether he wants to continue with his own company or to revert to his previous job. This scheme thus encourages employees to take risks and fosters the entrepreneurial spirit.

INITIATIVE 7. THE "ACCELERATOR CENTER" PROVIDES HARD AND SOFT SUPPORT TO ENTREPRENEURS (CANADA)

The Accelerator Center is a world-renowned, award-winning center dedicated to nurturing technology entrepreneurship and providing high-potential entrepreneurs in high tech with the right support for turning their ideas into businesses. Established in 2006, it was made possible through funding from Federal and Provincial Governments, Ontario Centers of Excellence, the Regional Municipality of Waterloo, the City of Waterloo and the University of Waterloo, along with industry and academic partners.

Aptly named, the Accelerator Center is focused on accelerating the growth and success of its client companies—fledgling start-ups from a variety of technology sectors. The Center's team of advisors and mentors provide a range of support services and education programs, enabling client companies to move to market faster, create jobs and stimulate economic activity. As home to more than 25 technology start-up companies, the Accelerator Center has become the nexus for Waterloo's innovation community.

The impact of this initiative is remarkable in such a short period: client companies have received \$40 million in external funding, generated \$20 million in revenue, and created more than 400 jobs, while the Center's 200 volunteer advisors and mentors have delivered 12,000 hours of mentorship and 1,200 hours of educational services.

Ensure a smart, stable and conducive regulatory environment

The legal and regulatory environment is a major determinant of the location and development of business, as is the existence of a level-playing field for business. A key objective is to simplify and stabilize regulations affecting the entry, operation and exit of private enterprises (Exhibit 9), as exemplified by the UK government's recent decision to 'freeze' the regulation of SMEs for a 10-year period.

The approach to resolving these issues is familiar. Kiosks and one-stop shops that simplify business and title registration make company creation more efficient, and the greater transparency minimizes corruption at all levels. Single business permits enable governments to consolidate

registering businesses so that entrepreneurs need secure only one permit to own and operate a business, rather than different ones at each level of government.

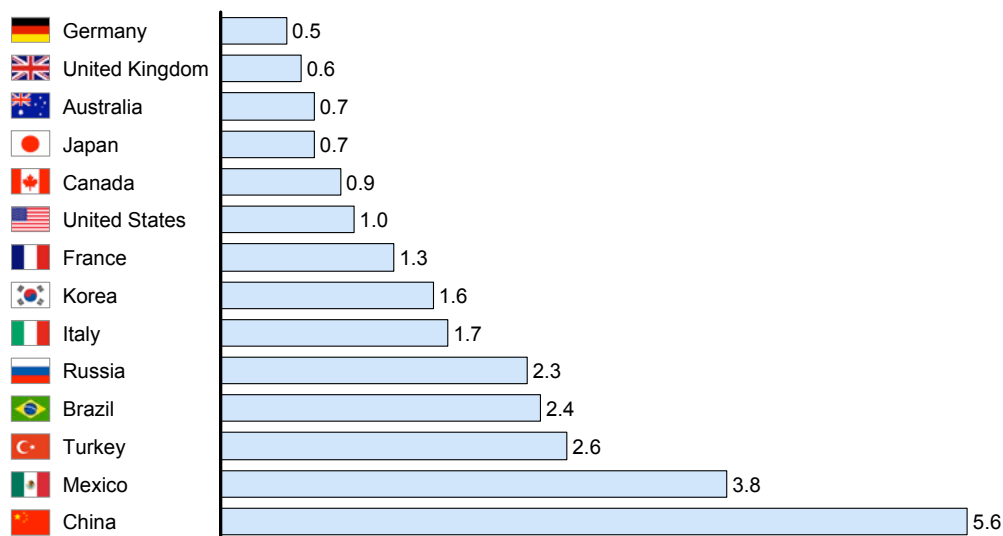
The basic steps involve adopting best practices: for business registration, for changes of ownership and closures, and for the governance of transactions. Simplifying business registration can be achieved in a short time, as shown by the Saudi experience (Initiative 8).

Many other countries have taken steps to make it easier for entrepreneurs to set up a business. In April 2010, Italy implemented the "ComUnica", which allows entrepreneurs to submit a single form to the Register of Companies at the Chamber of Commerce. This "Comunicazione Unica" (single communication) is valid for tax, social

EXHIBIT 9

Administrative burdens on startups

Index (scale from 0 to 6 from least to most restrictive)



SOURCE: OECD, Integrated Product Market Regulation indicators, 2008

INITIATIVE 8. SAUDI ARABIA ACHIEVED QUICK PROGRESS IN ESTABLISHING A BUSINESS-FRIENDLY ENVIRONMENT

Saudi Arabia has launched a broad program of reform with the goal of facilitating the creation of businesses throughout the country. It leveraged the existing indicators in the World Bank IFC Ease of Doing Business. Several reforms were implemented around these metrics with the help of the National Competitiveness Center (NCC), which enabled the country to progress significantly in the rankings.

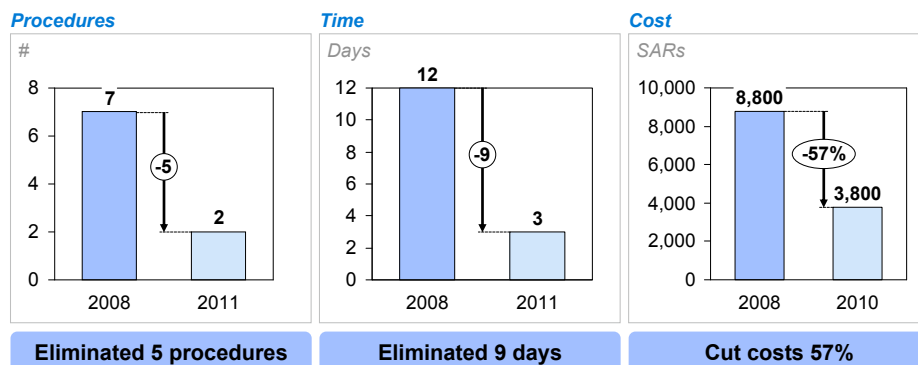
Doing Business report: A Roadmap for reform...

Government agencies in Saudi Arabia have been enacting reforms across all indicators of the report, with the NCC offering its support as necessary

- | | |
|--|--|
| <p>1 Starting a Business</p> <ul style="list-style-type: none"> ✓ Launched a one stop shop for commercial registrations, including for taxes and social insurance ✓ Reduced procedures for registering a business to four and reduced associated fees by nearly 60% | <p>5 Protecting Investors</p> <ul style="list-style-type: none"> ✓ Issued new Securities Disputes Resolution Regulations |
| <p>2 Dealing with Construction Permits</p> <ul style="list-style-type: none"> ✓ Cooperated with Riyadh Municipality to launch a one-day permit-processing center ✓ Launched Unified Center for Real Estate Projects, a single access point for requesting utilities connections ✓ Reduced number of procedures from 17 to 12 | <p>6 Paying Taxes</p> <ul style="list-style-type: none"> ✓ Introduced online payment of taxes |
| <p>3 Registering Property</p> <ul style="list-style-type: none"> ✓ Streamlined the procedure to make Saudi Arabia the easiest place in the world to register property | <p>7 Trading Across Borders</p> <ul style="list-style-type: none"> ✓ Launched a one stop shop for customs clearance at the Jeddah Islamic Port ✓ Launched Electronic Data Interchange, reduced port handling fees, and limited storage fee exemptions |
| <p>4 Getting Credit</p> <ul style="list-style-type: none"> ✓ Extended credit bureau's coverage to commercial entities ✓ Modernized Commercial Lien Act to prioritize creditors, create a central registry, allow other asset types to be used as collateral, and improve out of court settlement procedures | <p>8 Enforcing Contracts</p> <ul style="list-style-type: none"> ✓ Passed Judiciary Law in 2007 which created special commercial courts and enforcing judges ✓ Created electronic case management system ✓ Improved hiring and training processes for judges |
| | <p>9 Closing a Business</p> <ul style="list-style-type: none"> ✓ Capped the length of proceedings at 18 months ✓ Launched Amicable Settlement Committee to handle out of court insolvency proceedings |

... with a strong impact on the ease of creating a business

The creation of a one stop shop for commercial registration and reductions in associated fees has made it much easier, faster and cheaper to start a new business



Increased business registrations from 43 per week in 2008 to 72 per week in 2010

NOTE: Costs include all official costs associated with completing the procedures (e.g., incorporation fee)
SOURCE: *Doing Business 2008-2011*, World Bank/IFC, NCC analysis

security and welfare purposes. In Brazil, where entrepreneurs needed at least 128 days to launch a business, the government has implemented an individual entrepreneur law to encourage the registration of entrepreneurs who have annual revenues up to R\$36,000 (\$22,600). The effects include reduced bureaucracy, easier access to credit, and tax reductions and tax exemption for registering companies. In Russia, the government took action to increase the number of companies using a “Simplified Accounting System”.

Besides simplifying business registration, the regulatory burden can be reduced through sector-by-sector reviews, which may provide insights into those regulations that most constrain productivity and growth in each sector.

Additional priorities are the protection of intellectual property rights as a key incentive for innovation, and fighting the corruption that makes it more costly and risky for entrepreneurs to set up and develop their businesses and may prevent them from participating in public tenders.

Another way for public authorities to support SMEs and entrepreneurial firms is to make it easier for them to participate in public procurement, as the US has done since 1953 with its Small Business Act. The same approach was followed in 2008 by the EU, which is now working to upgrade this framework, with a specific focus on supporting SMEs in markets outside the EU.

Governments, especially within a regional grouping, may also adopt supranational norms and standards to allow quick access to larger markets, with a view to promoting investment and helping companies reach a critical size.

Finally, public authorities can spur business creation by modifying the legal and regulatory framework in order to open up ‘commons’ that may give rise to new, innovative products and services. Examples include ‘open data’ initiatives, which allow start-ups to carve new

niche markets by exploiting the newly-available data; the disclosure of global terrain maps by the NASA, which provides new opportunities in video-gaming; and the opening of new spectrum bands.

Offer targeted tax incentives

Tax policy can be a powerful lever for promoting business creation and development. If well designed, it can also act as a powerful catalyst for innovation, as shown by two policy measures implemented by the French government (Initiatives 9 and 10).

More generally, while the level of corporate taxation will always be a matter of public debate, uncertainty surrounding future taxes can deter entrepreneurship. Greater certainty could be encouraged by setting out long-term plans for corporation tax, which would be supportive of long-term growth.

It may also be useful to reduce tax incentives that reward past behavior without incentivizing future behavior. For example, R&D tax credits in the US are based on incremental investment over a baseline, rather than on total investment. This is less costly and creates stronger incentives to increase investment.

Administrative simplification and tax incentives can be combined to further facilitate business creation. In France, for instance, individual entrepreneurs were granted a new status, with very positive effects (Initiative 11).

One of critical actions governments and public authorities can take to support entrepreneurs is to enable the emergence and development of fertile business ecosystems. They have unique levers for steering the energy of all players in the right direction. However, there is a fine line between fostering an ecosystem and dominating it. Crossing this fine line might lead to excessive constraints and bureaucracy, which could be counterproductive and stifling.

INITIATIVE 9. THE YOUNG AND INNOVATIVE ENTERPRISE (YIE) SCHEME PROVIDES TARGETED TAX INCENTIVES (FRANCE)

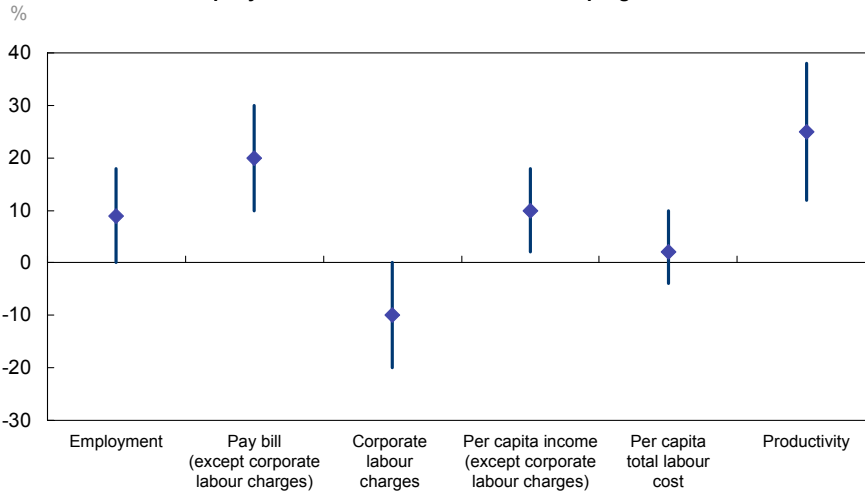
Size is a key pivotal element of company attractiveness and visibility in the labor market. It is sometimes hard for SMEs to find researchers. The “Young and Innovative Enterprise” initiative prevents big companies from draining the pool of researchers and stimulates hiring in small companies.

More precisely, it is a framework to help business development and creation. It reinforces attractiveness for investors by reducing social charges. Companies can benefit from the following fiscal advantages: tax credit for R&D expenses; a full exemption from corporate taxes for three years, and a 50% exemption for a further two years. The key success factor of this initiative are a well-focused target (young and innovative companies) and a reduction in support as times goes by, which makes the support a real early-stage accelerator and not a permanent feature.

This policy was modified to provide a progressive decrease of exemptions as the company matures.

The impact of the YIE tax break is highly positive on almost all criteria

Difference with a company which did not benefit from the YIE program



Read : Ceteris paribus, companies who benefited from the YIE tax break in 2004 or in 2005 have had an annual employment growth rate superior to similar company which did not benefit from this tax break. This gap growth is estimated to 8.4%
SOURCE: Acoss, July 2007 and Siren repertory 2003-2005 (French National Institute of Statistics), Ficus file 2003-2005

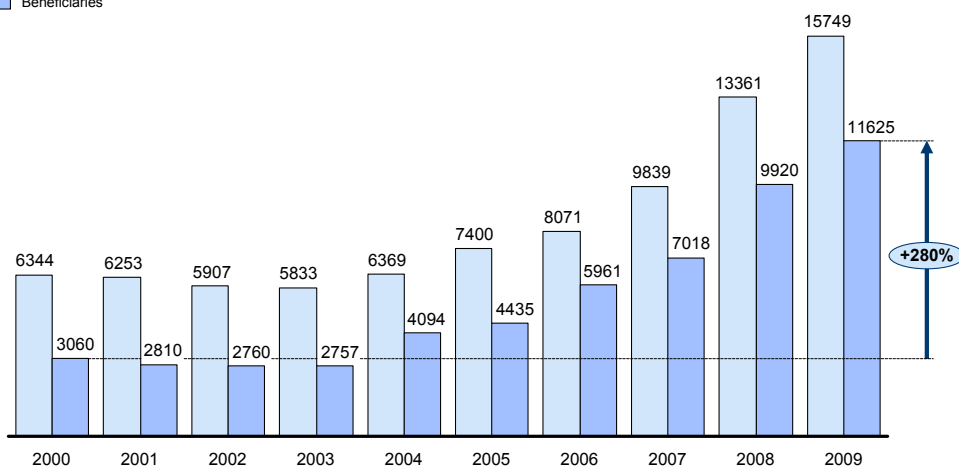
INITIATIVE 10. THE TAX CREDIT FOR RESEARCH FOSTERS R&D (FRANCE)

The "Credit d'Impôt recherche" (tax credit for research) enables companies in all sectors to benefit from tax credits on their R&D spend. It encourages research work, knowledge-transmission and knowledge-reutilization by all actors (enterprises, researchers, etc.). It was significantly developed recently, with the tax credit rate being increased to 30% for R&D expenses up to €100M, and 5% beyond €100M. This provides a framework that is conducive to business creation and development by the significant reduction of R&D costs. The increase in R&D spend was estimated at 0.13% of GDP in the medium term, with total direct expenditure on R&D expected to reach to 2.26% in 2013, compared with 2.07% of GDP in 2007. Even the recent financial crisis did not obstruct this increase, as R&D expenditure increased to 2.21% in 2009.

The number of beneficiaries of the research tax credit has increased almost fourfold in less than a decade

Number of companies

- Registrants
- Beneficiaries



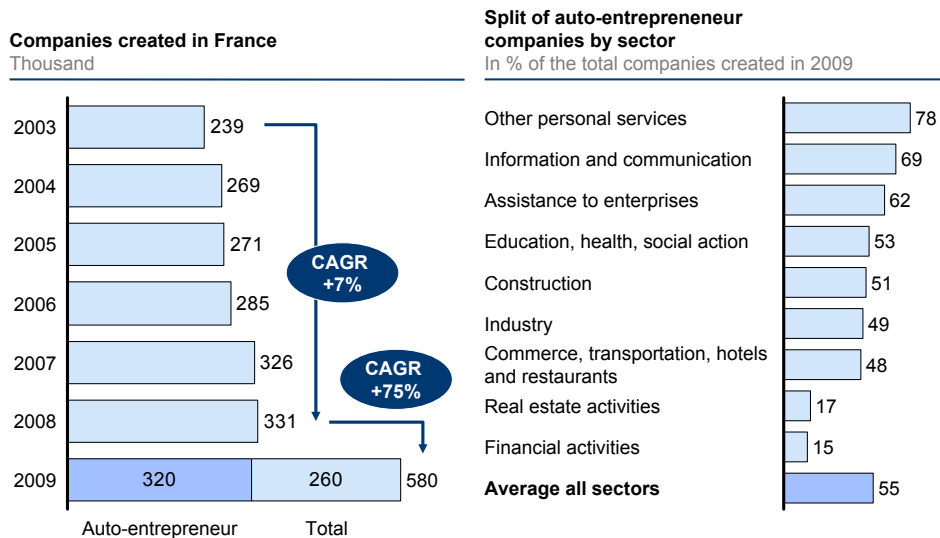
SOURCE: "The Research Tax Credit in 2009", Ministry of research

INITIATIVE 11. THE “AUTO-ENTREPRENEUR” STATUS HAS BOOSTED BUSINESS CREATION IN FRANCE

Legislation in force since 2009 provides that anyone trading on their own account can become an “auto-entrepreneur” (“individual entrepreneur”), provided that they fulfill the eligibility criteria (annual turnover must be under € 80,000 for businesses selling goods or € 32,000 for businesses selling services).

This new corporate status allows beneficiaries to pay social contributions and income tax at flat rates based on their turnover, and to be exempt from business tax for the three first years of activity. In addition, the scheme protects their homes and other personal assets not directly associated with the business. Overall, this new status significantly lowers the financial risk associated to starting a new business, thus encouraging candidates to take the plunge.

The launch of the new “auto-entrepreneur” system boosted company creation by 75% in 2009, with a strong focus on personal services



SOURCE: INSEE "La création d'entreprises en 2009 dopée par les auto-entrepreneurs"

3.2. Financing entrepreneurial growth from inception to critical size

The entrepreneurial adventure is Darwinian: facing adversity, some weaken and perish, while others adapt, build muscle, develop and prosper. Thus adaptability in overcoming obstacles through constant innovation is one of the critical conditions for success. To grow and adapt, one needs

appropriate food. Financing is the food for growth, and it needs to meet the specific needs of each stage of life, from infancy to adolescence and adulthood or, in the case of a start-up, from seed financing and venture capital to growth equity, with the capacity to go public and raise significant amounts of equity when the company is strong enough.

This is all the more important as capital may become a scarce resource in the coming decades. Demand for capital is poised to surge as emerging economies seek to fund their fast-paced development, while the supply of capital is likely to decline as Western populations age and government deficits grow. Indeed, a recent report by the McKinsey Global Institute shows³⁶ that within 20 years, the supply of capital might fall short of demand by up to \$2.4 trillion (Exhibit 10). This means that, for the first time in more than a generation, long-term capital will become scarcer and more costly.

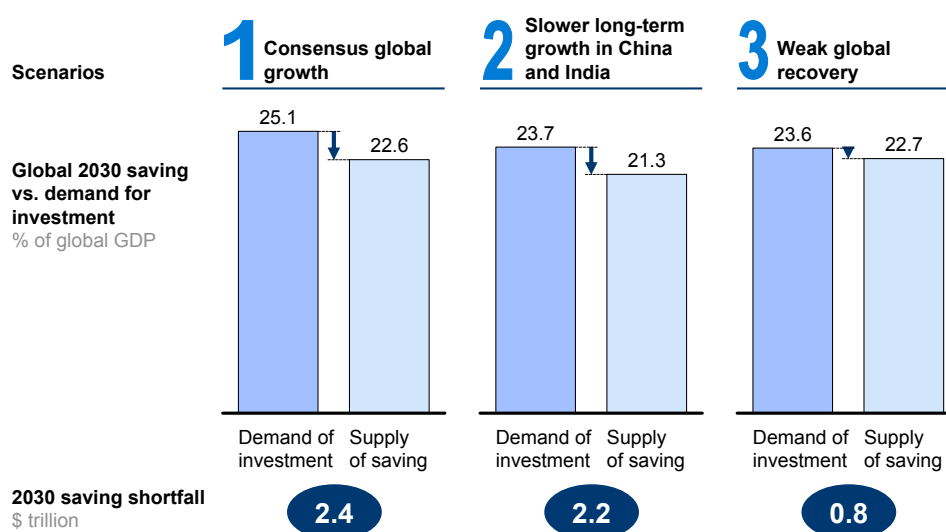
In addition, regulatory reforms launched in the wake of the financial crisis are likely to further reduce the availability of both credit and equity financing. The new “Basel III” banking regulation, which is to be implemented throughout the G20

and beyond, is expected to increase the cost of credit, mostly as a result of tougher liquidity requirements. Moreover, in the EU, the new “Solvency II” prudential framework will make it more costly for insurers to invest in corporate assets, and especially in equity, both directly or through private equity funds.

While the actual impact of these consequences is not yet clear, some observers fear that the coincidence of these two reforms may result in a double crunch—on both credit and equity. In this case, entrepreneurs will be in the front line, as their lack of track record and collateral makes them a riskier bet for lenders and investors. In any case, such regulatory and structural trends are poised to have an impact on entrepreneurs, who will most likely face increasing difficulties in accessing the credit and equity they need to start and develop

EXHIBIT 10

Macro-economic scenarios highlight a gap between savings and investment demand, which might put pressure on interest rates



SOURCE: Economist Intelligence Unit; Global Insight; McKinsey Global Economic Growth Database; Oxford Economics; World Development Indicators; MGI Capital Supply & Demand Model; McKinsey Global Institute

their businesses. It is therefore of the utmost importance to take proactive measures to ensure the availability of capital for entrepreneurs.

Financing solutions need to be tailored to the level of ambition of entrepreneurial ventures, as well as to their varying profiles.

Provide financing vectors for each development stage and support the development of domestic or regional equity markets

Entrepreneurial firms can be funded through either debt or equity financing. The former includes loans from individuals, banks or other financial institutions, along with debt instruments such as bonds and notes. However, start-up companies are often barred from debt-financing, as they do not possess a track record or sufficient collateral. Most of them therefore rely initially on the founders' savings and on money borrowed from relatives and friends as a first source of cash, which is known as 'bootstrap financing'.

When this is no longer sufficient, entrepreneurs may seek support from 'business angels'. These individual investors typically invest in a firm in return for an equity share, and many of them also provide business expertise and strategic guidance. Business angels are well positioned to serve as the patient and experienced source of money required by many early-stage businesses. This financing vector already plays an important role in the US market, where 265,000 business angels invested a total of €17.8 billion in 2007, and it is developing in the EU, where 75,000 individuals injected an estimated €3-5 billion in the same year³⁷. Yet business angels cannot fulfill all start-up companies' finance requirements; the number of angels is limited and their level of presence varies widely across countries.

The next stage for entrepreneurs is to rely on venture capital and growth equity, which are key sources of funding for young firms, especially

when they present a high potential. Private equity can cover any stage in the development of a firm, from seed to expansion stages:

- Seed stage: this is the earliest stage in the business life-cycle, when founders focus on exploring market potential, developing products and developing the business plan, before starting commercial operations.
- Start-up stage: the business has launched operations and starts to bring its products /services to the market, but its revenues are not sufficient to cover operational and development costs; therefore capital tends to be important at this stage.
- Expansion stage: the firm needs growth capital to invest in research and development and in the development of its production capacity, so as to accelerate its organic growth, or to make acquisitions in support of a buy-and-build strategy.

The availability of the different types of venture capital varies greatly across countries. It is therefore critically important that authorities in each country assess the availability of specific financing vectors for each development stage and take appropriate actions to strengthen any 'weak links' in the financing chain.

Experience shows that venture capitalists are often reluctant to invest in early-stage financing, for a number of reasons. First, early-stage businesses typically have unproven business models and management teams, and their assets are mostly intangible, which makes this type of investment more risky. In addition, the fixed costs generated by the pre-investment examination process usually represent a larger proportion of early-stage investments, as these entail smaller amounts than in later stages. As a result, early-stage financing tends to attract only a small share of private equity investment. Indeed, in 2010 the European private equity industry raised €20 billion in new funds, but

37 OECD, *Measuring Entrepreneurship, a Collection of Indicators*, 2009.

only 5% of this went to vehicles focusing on early-stage financing³⁸ (Exhibit 11).

This structural inefficiency in the venture-capital market has prompted the authorities in many countries to take actions aimed at boosting the supply of seed capital. For instance, the federal government of Russia has created a system of grants for local technology start-ups (Initiative 12). But seed finance is not the only segment of venture capital that lacks capacity to fully meet the needs of start-up companies. Therefore some governments have implemented public-private

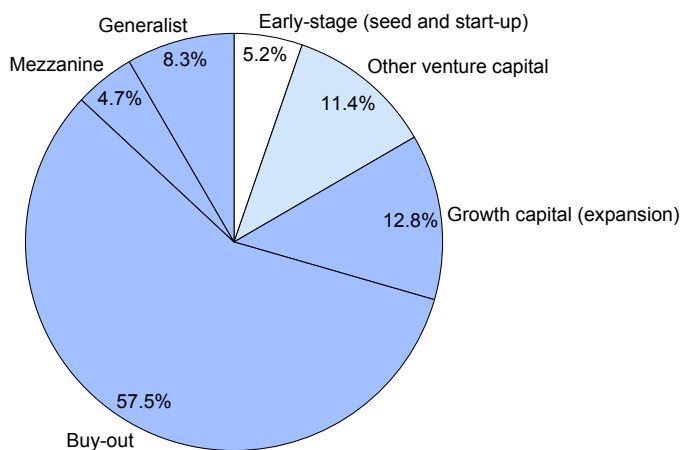
partnerships that commit public money with a view to both generating a knock-on effect in private investment and supporting the development of the local venture-capital industry. One example of this is the Russian Venture Company (Initiative 13).

The same approach can be applied to a larger part of the financing chain, as shown by the France Investissement scheme, which provides equity financing to high-growth SMEs at various stages of development, from seed finance to growth equity (Initiative 14).

EXHIBIT 11

Only 5% of European private equity is dedicated to early-stage financing

Stage focus of European private equity funds raised in 2010, by amount



Total amount: €20 billion

SOURCE: European Venture Capital Yearbook 2011

INITIATIVE 12. THE FASIE PROGRAM SUPPORTS START-UP PROJECTS THROUGH A SYSTEM OF GRANTS (RUSSIA)

The federal government's FASIE (Fund for Assistance to Small Innovative Enterprises) program aims to provide seed-funding for emerging Russian tech companies on a continuous basis. Each year FASIE provides grants to thousands of projects (8,200 are projected in 2011 alone) across 49 Russian regions. Programs are tailored to help emerging entrepreneurs through the most difficult and 'dangerous' steps of launching a tech business.

³⁸ EVCA, *European Venture Capital Association Yearbook*, 2011.

Such public-private partnerships are playing an increasing role in early-stage financing. For instance, in the UK the contribution of such schemes jumped from 2% of total early-stage deals in 2001 to 18% in 2007³⁹.

Besides supporting specific financing vehicles, another way to help companies access financing is to promote the development of capital markets dedicated to small and innovative companies, given that SMEs tend to lack access to financial markets. Within the Eurozone, where 70% of corporate financing is done through the banking

sector, only 6% of SMEs received equity financing from the market between September 2010 and September 2011, and just 2% issued debt securities, according to the European Central Bank (ECB).

Vibrant small- and mid-cap exchanges enable entrepreneurs to tap the potential of capital markets in order to raise the equity they need to fuel their companies' growth strategy—whether it entails R&D spending, geographic expansion and/or a buy-and-build strategy—without being forced to relinquish control of their businesses.

INITIATIVE 13. THE VENTURE COMPANY INJECTS PUBLIC MONEY THROUGH VENTURE CAPITAL FUNDS (RUSSIA)

In 2006 the Russian government established the Russian Venture Company (RVC), which aims to provide low-cost financing to early-stage innovative companies. Designed as a 'fund of funds', RVC organizes competitive tenders to select venture capital funds in which it will invest. These funds must invest only in innovative companies, and 80% of their capital must be dedicated to early-stage financing.

So far, RVC, which has 15 billion rubles (€ 376 million) in capital, has invested in 12 funds with total capital of 25 billion rubles. These funds have already invested 7.7 billion rubles into 67 companies. RVC has also established a seed fund (to support start-ups) and an infrastructure fund (to support companies rendering "infrastructural services" for start-ups).

INITIATIVE 14. FRANCE INVESTISSEMENT PROVIDES EQUITY FINANCING FOR SMES

The 'France Investissement' scheme was established with the aim of boosting the supply of equity financing for high-growth SMEs, especially in innovative and technology sectors.

Based on an original public-private partnership between the Fonds Stratégique d'Investissement (FSI), France's sovereign fund endowed with € 20 billion in equity, and private institutional investors, France Investissement addresses market failures in the 'upstream' segments of private-equity investment by providing seed, venture and expansion capital through a set of investment funds targeting specific sectors, such as the Innobio fund, which specializes in biotechnologies.

Besides equity financing, France Investissement also provides counseling and training to help entrepreneurs improve their skills and performance: 147 leaders have benefitted from this, with high levels of satisfaction.

France Investissement has achieved its objective: by the end of 2010, the € 2 billion invested by the FSI had been complemented with € 6 billion in private money, and € 2.5 billion had already been invested in over 900 SMEs, totaling 100,000 staff. The scheme, which was renewed for a further eight years, has become France's one-stop-shop for public SME equity financing.

39 NESTA, *Growing Big Gorillas* conference, 2007.

Additionally, such markets would allow venture capitalists and growth equity investors to divest their portfolio companies through initial public offerings (IPOs); in 2010, only 0.45% of divestments by EU venture-capital funds were via IPO⁴⁰. These investors would then be able to rotate their portfolios more efficiently, achieve better returns, and attract more capital, which would in turn increase the amount of equity available for new ventures. More broadly, vibrant financial markets should be regarded as a public good, since all economic players stand to benefit from more active trading, better research and stronger investment.

Policies aimed at promoting the development of capital markets dedicated to small and mid-sized companies may include specific regulatory regimes with robust yet simplified listing requirements, especially as regards governance and disclosure rules. This path was successfully followed by a number of pioneering countries, including the UK, whose Alternative Investment Market was created in 1995, and France, with the “Nouveau Marché” created in 1996 being replaced by Alternext (now NYSE Alternext) in 2005. Likewise, the KOSDAQ market in South Korea and the JASDAQ in Japan aimed to replicate the success of the NASDAQ, which was created in the US in the early 1970s, and quickly established itself as the preferred market for high-growth companies such as Microsoft, Intel, FedEx, Amazon and Google.

While such markets now play an important role in the financing of high-potential businesses, there is substantial room for improvement, since many SMEs are still left out of the market. One option would be to support the creation and development of larger SME marketplaces that extend beyond national borders, which would help to broaden and strengthen the investor base. This could be done at the level of regional entities or trade blocks such as the EU, the North-American Free-Trade Agreement, the Association of Southeast Asian Nations, the Southern Common Market of South America or the Gulf Cooperation Council.

Another complementary way to stimulate equity financing for entrepreneurial firms is to encourage investors to commit long-term, ‘patient’ capital. This can be achieved by implementing conducive financial regulation for long-term private and institutional investors, especially as regards accounting and prudential standards, and also by offering targeted tax incentives to individual investors. One example of the latter is the French scheme that allows taxpayers to reduce their wealth tax by up to 50% if they invest in eligible SMEs for at least 5 years.

Last but not least, governments and business organizations should also work on the demand side, by implementing programs aimed at helping entrepreneurs become ‘investment ready’. Start-up companies need to be aware of the various types of finance available, to understand which ones are most suited to their specific profile, and to devise business propositions that have what it takes to attract private investors.

Develop specific solutions for high-risk/low qualified entrepreneur profiles

The most daunting challenge faced by emerging economies is the alleviation of poverty. This requires the creation of jobs for the unemployed, most of whom are poorly qualified workers. One of the most promising approaches is the promotion of self-employment. Microfinance, as developed by Prof Mohammad Yunus in Bangladesh, has proven to be a powerful lever to support this kind of poorly qualified entrepreneur whose projects usually entail high risk as they are not supported by highly-developed business plans (Initiative 15).

The scope of microfinance is not limited to emerging countries. Indeed, it is increasingly considered to be an interesting lever to support self-employment in mature countries.

One example of this is an innovative scheme that was recently implemented by a branch of the UK’s department of employment, Jobcentre

⁴⁰ EVCA, *European Venture Capital Association Yearbook*, 2011.

INITIATIVE 15. MICROFINANCE CONTRIBUTES TO ALLEVIATING POVERTY BY IMPROVING ACCESS TO CREDIT FOR HIGH RISK ENTREPRENEURS (INDIA)

In India, people often do not have enough money to start their own businesses. In order to help them become independent and to fight unemployment, the Government of Assam, a northeastern state of India, has launched several unique self-employment programs based on micro-credit. These programs have two objectives: to assist poor, rural families living below the poverty line via self-employment, and to promote economic activity through micro-credit.

The improved quality of life of the underprivileged sections of the society was assured through availability of credit facilities at lower rates of interest than those available from other financial institutions. This facilitated people's access to finance, and more than 2 million self-help groups have been formed through these schemes, 65% of which are women's groups.

Plus, with a view to helping people move on from long-term unemployment (Initiative 16). It combines microfinance for unemployed people who want to start a business with financial allowances, and also provides non-financial support through access to business mentors.

3.3. Promoting an entrepreneurial culture to foster talents and build momentum

While countries generally celebrate their most emblematic successful entrepreneurs, few take the proactive stance towards developing a culture

of entrepreneurship that requires promoting the notions of risk and rewards, and of success and constructive failures.

Most successful entrepreneurs have gone through several failures before achieving success. Therefore, it is crucial to encourage and support risk-taking, while providing the entrepreneurs with the necessary levers and skills to mitigate risk.

Promoting an entrepreneurial culture may require specific initiatives, according to the factors that most prevent people from becoming entrepreneurs. Even in a somewhat homogenous region such as Europe, these roadblocks

INITIATIVE 16. THE NEW ENTERPRISE ALLOWANCE AIMS TO CONVERT JOB SEEKERS INTO ENTREPRENEURS (UNITED KINGDOM)

The UK government launched in early 2011 a new scheme aimed at supporting unemployed people who want to start their own business. The "New Enterprise Allowance" (NEA) is available to people who have been claiming the Jobseeker's Allowance for 26 weeks or more. Participants get access to a volunteer business mentor who offers them guidance and support as they develop their business plan and through the early months of trading.

Once applicants can demonstrate they have a viable business proposition with the potential for growth in the future, they will be able to access financial support. This will consist of a weekly allowance worth £1,274 over 26 weeks, paid at £65 a week for the first 13 weeks and £33 a week for a further 13 weeks. If they need start-up capital, they may also be able to access a loan of up to £1,000 to help with start-up costs. The total package of support could be worth up to £2,274 to each participant who starts their own business.

Even if the initiative is too recent for its outcome to be assessed, it is estimated that it could lead to the creation of 40,000 new companies within two years.

vary greatly among the constituent countries (Exhibit 12).

Each country must identify the main roadblocks along the ‘entrepreneurship funnel’, and their underlying causes, through a detailed diagnosis so as to be able to implement targeted initiatives to remove whatever impediments hamper the effective creation of new businesses.

Generally speaking, the two most important elements are determining the best means to spark people’s will and confidence to become entrepreneurs, and then helping them feel confident enough to start the journey.

Foster the development of targeted educational programs

Promoting entrepreneurship in schools appears to be a key success factor. However, the

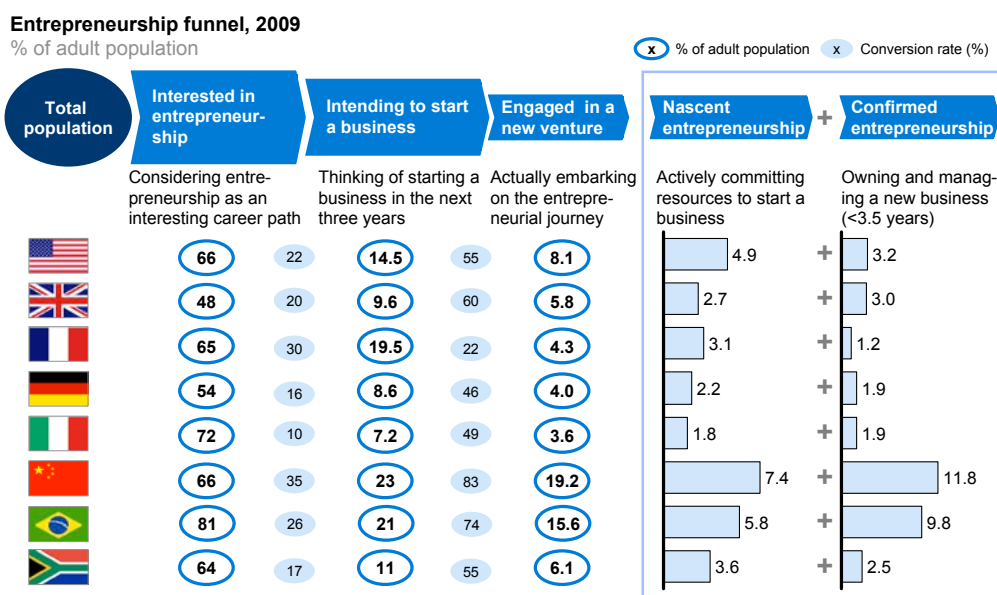
perception of school as a vector that helps young people understand and value entrepreneurship varies greatly across countries (Exhibit 13).

Some countries clearly have scope for progress in that respect. The UK, where only 48% of the total population see entrepreneurship as an interesting career choice as opposed to 72% in Italy and 65% in France, has already taken steps to address this: 90% of secondary schools now provide enterprise education for all pupils at Stage 4 (when pupils are aged between 14 and 16), and many also provide it at Stage 3 (ages 11-14).

In addition to government-led programs, private players can also play a role in promoting the entrepreneurial mindset at an early age, as shown by the works of “Junior Achievement” (Initiative 17).

EXHIBIT 12

Roadblocks appear at different stages on the path to entrepreneurship

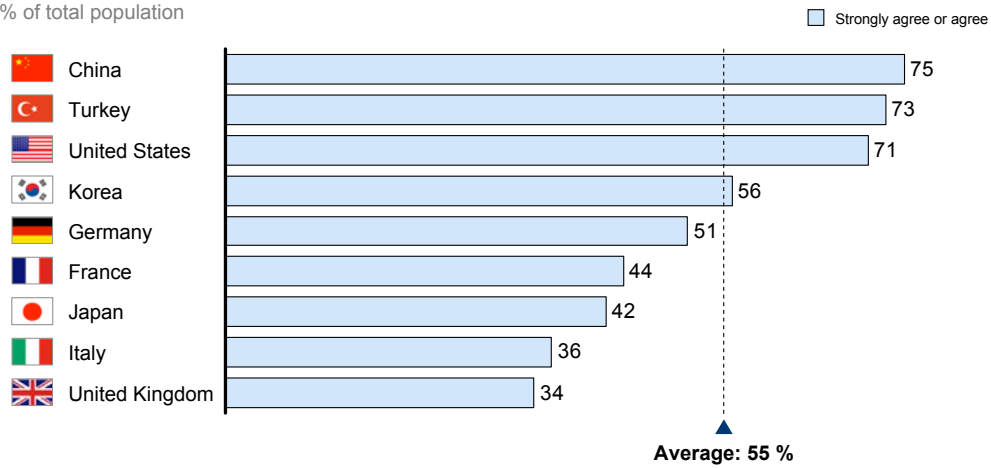


Note: Numbers may not sum due to rounding
SOURCE: *Global Entrepreneurship Monitor – Global Report 2009*; McKinsey analysis

EXHIBIT 13

Education systems do not perform equally in helping understand entrepreneurship

"School helped in understanding entrepreneurship" survey
% of total population



SOURCE: OECD, Entrepreneurship at a glance, 2011

INITIATIVE 17. "JUNIOR ACHIEVEMENT" EMPOWERS YOUNG PEOPLE TO OWN THEIR ECONOMIC SUCCESS (USA/GLOBAL)

Founded in 1919, Junior Achievement (JA) is the world's largest organization dedicated to educating school-children and students about business, economics, and free enterprise in order to improve the quality of their lives. Junior Achievement's programs focus on work-readiness, entrepreneurship and financial literacy, and teach young people important skills to help them become economically empowered. Its experiential, hands-on programs are taught by volunteers in inner cities, suburbs, and rural areas.

With 330,000 volunteers, Junior Achievement currently reaches 10 million students in 123 countries, including 4 million in the US and over 700,000 in China.

Other initiatives include such innovative approaches as Canada's Impact Microcredit Challenge, which aims to provide a practical introduction to entrepreneurship (Initiative 18).

The next step is to convert will into action, which requires helping young potential entrepreneurs to feel confident that they can succeed, encouraging them to seek out opportunities, and strengthening

their belief in their own creative capabilities (Initiative 19).

Another way to inspire self-confidence is to get young people interested in entrepreneurship involved in tailor-made competitions, as shown by the Global Student Entrepreneur Awards (Initiative 20).

INITIATIVE 18. THE "IMPACT MICROCREDIT" CHALLENGE PROMOTES ENTREPRENEURSHIP AMONG HIGH-SCHOOL STUDENTS (CANADA)

Canada's Impact Microcredit Challenge is a national competition that gives micro-loans to secondary school students, allowing them to run their own business ventures with financial and executive freedom. The project consists of a 10-day experience of an entrepreneurial adventure. High-school students from all over Canada are selected to plan and implement mini-start-up ventures with \$100 in seed-funding. They have to create their business, think about how to develop it and finally give the profits derived from their ventures to charities.

To date, Impact Microcredit has reached out to over 300 high schools across Canada, raised over \$93,000 for charities and given over \$40,000 in scholarships. Furthermore, the Microcredit competition has received significant media recognition from national newspapers, TV stations, radio shows, as well as online blogs and publications.

INITIATIVE 19. THE "GLOBAL ENTREPRENEURSHIP WEEK" CELEBRATES AND FOSTERS ENTREPRENEURSHIP (GLOBAL)

The Global Entrepreneurship Week is the world's largest event dedicated to entrepreneurship. For one week, millions of young people around the world join a growing movement to celebrate entrepreneurs and facilitate their access to strategic resources such as equity financing, human capital and innovative ideas.

Each November, the Global Entrepreneurship Week seeks to inspire people through local, national and global activities that are designed to help them explore their potential as self-starters and innovators. Students, educators, entrepreneurs, business leaders, employees, non-profit leaders, government officials and many others participate in a range of activities, from online to face-to-face, and from large-scale competitions and events to intimate networking-gatherings. Through this initiative, the next generation of entrepreneurs is inspired and begins to acquire the knowledge, skills and networks needed to grow innovative, sustainable enterprises that have a positive impact on their lives, their families and their communities.

The initiative kicked off in 2008, launched by former UK Prime Minister Gordon Brown and Carl Schramm, the president and CEO of the Ewing Marion Kauffman Foundation. Since then it has extended to 115 countries, with nearly 24,000 partner organizations planning more than 37,000 activities that directly engage more than 7 million people.

Support proactive promotion of entrepreneurship

Proactive communication from entrepreneurs, large companies, the media, governments and

politicians can play a key role in attracting some of the best talents by stressing the importance of entrepreneurship and the opportunities for self-fulfillment, as well as wealth- and job-creation (Initiatives 21 and 22).

INITIATIVE 20. “THE GLOBAL STUDENT ENTREPRENEUR AWARDS” COMPETITION (GLOBAL)

The Global Student Entrepreneur Awards (GSEA) is the premier global competition for high-school, undergraduate and graduate students who own and operate businesses while attending college or university. Its mission is to inspire students to adopt entrepreneurial behaviors by bringing global visibility to student business-owners whose companies are innovative, profitable, socially responsible, and adhere to high ethical standards.

The GSEA operates as an international series of competitions for student entrepreneurs who are attending a recognized high school, college or university, who own a for-profit business, are principally responsible for its operation, and have been generating revenue for a minimum of six consecutive months.

Nominees compete against their peers from around the world. Regional competitions are held in 25 countries and the Global Finals are held during the Global Entrepreneurship Week (GEW). Since 1998, GSEA has grown to reach 1550 nominations from 23 countries. Brent Skoda, CEO and founder of CollegeFitness.com, says: “I know that every business-owner going through this competition faces immense challenges in balancing student life and business life. I now feel that there is a community of other student entrepreneurs and member mentors that I can reach out to and rely on to share my successes and failures, and they will understand.”

INITIATIVE 21. THE “WIN IN CHINA” TV REALITY SHOW PROMOTES ENTREPRENEURSHIP (CHINA)

The Win in China - Smith Business Plan Competition is a reality-television show that gives teams of entrepreneurs from around the world the chance to compete for eight prizes valued at \$100,000, as well as cash prizes totalling \$50,000 for the top three winners. The grand prizes are all-expenses-paid trips to the Smith School’s Dingman Center for Entrepreneurship in the United States for training with Smith’s world-class professors. The training focuses on entrepreneurship, and includes individual coaching, specialized courses and presentations, and visits to local science parks and incubators. The competition’s key organizers include the Dingman Center and CCTV Win in China. The show airs on CCTV-2 to a core audience of 20,000,000, and through re-broadcast, the internet, and DVD has an extended audience of nearly 200,000,000. 2008 was the third season of Win in China. A record 150,000 entrepreneurs applied to compete.

INITIATIVE 22. “DO YOU HAVE AN IDEA?” PROMOTES THE ENTREPRENEURIAL MINDSET (TURKEY)

“Do you have an idea?” is a famous entrepreneurship award contest on Turkish TV. The objective is to promote the entrepreneurial mindset, to support new business ideas and to promote them for commercialization. The program has been running for 4 years, awarding new entrepreneurs a total of 1 million USD per year. More than 15,000 new entrepreneurs applied.

The contest is now one of the most popular TV shows in Turkey, and encourages new entrepreneurs get involved.

Enhancing the support to entrepreneurs in the G20 countries

Entrepreneurs have a key role to play in the turbulent 21st century economy by boosting innovation, growth and employment, in particular for young people. They are up to the task, bringing their passion, drive and risk-taking mindset and their will to contribute to society.

Governments, financial institutions, business associations, and public and private education systems can support entrepreneurs by implementing a set of actions to shape fertile ecosystems, to finance entrepreneurial growth with relevant vehicles from inception to critical size, and to promote an entrepreneurial culture that fosters talent and builds the required skills.

The initiatives highlighted in this document, selected from 200 initiatives identified by the members of the G20 YES network in their home countries, provide interesting examples of actions that have proven effective and that might be worth deploying within and across G20 countries.

We hope the government leaders gathering in Cannes for the G20 meeting will be alert to this call and will take the necessary decisions to support entrepreneurs around the globe for the benefit of all.

Appendix

Methodology for building the database of initiatives to support entrepreneurship

To develop the database of initiatives to support entrepreneurship, McKinsey has worked with the network of G20 YES country-leaders in 16 countries⁴¹ in the period June 10-24, 2011, to document a total of 189 public- and private-sector initiatives and government interventions or policies that have been implemented over the past five years to support entrepreneurship.

A detailed questionnaire was used to gather local information and gain a good understanding of the rationale, objectives, principles, implementation and the impact—be that qualitative or quantitative—of each initiative. Each YES country-leader also commented the initiatives he or she had selected, analyzing key enablers, key success factors and possible weaknesses.

A complementary search was launched, leveraging McKinsey’s global Knowledge Network. Analysts from six countries⁴² suggested an additional 50 initiatives, and enriched some of the G20 YES input with further information.

The McKinsey team then screened all the initiatives and scored them (high, medium or low) in terms of:

- Relevance (to the entrepreneurial ecosystem, growth or culture topics);
- Impact (e.g., new companies launched, jobs or wealth created);
- Replicability in similar countries or globally.

McKinsey decided to set aside initiatives that were too recent for their impact to be assessed. From the selected 200+ initiatives, the team progressively focused on a core set of 41 measures that more specifically nurtured our report. The most distinctive and insightful ones are detailed in boxes in the third chapter.

EXHIBIT

A balanced set of initiatives by countries and levers

Distribution of collected initiatives

Countries	Mature	21%	15%	18%
	Emerging	15%	18%	14%
		Shaping ecosystem	Financing growth	Promoting culture
		Pillars		

SOURCE: G20YES country leaders, McKinsey’s Knowledge Network, McKinsey analysis

⁴¹ Argentina, Australia, Canada, EU, France, Germany, India, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Korea, Turkey, USA.
⁴² Brazil, China, France, Indonesia, Italy, UK.

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To develop the data base of initiatives, we have worked closely with the national correspondents of the G20YES: Daniel Clarke (Enterprise Network for Young Australians), Mauro Gonzalez (Federación Argentina de Jóvenes Empresarios), Francisco José Marins Ferreira (Serviço Brasileiro de Apoio à Micro e Pequenas Empresas), Vivian Prokop (Canadian Youth Business Foundation), Rick Zou (Youth Business China), Dimitris Tsigos (YES – European Confederation of Young Entrepreneurs, EU), Christian Diehl (JCI Germany), Rahul Mirchandani (Young Indians), Christiano Todde (Giovani Imprenditori Confindustria, Italy), Kosuke Obata (JCI Japan), Michael Lee (Young Entrepreneurs' Society of Korea), Francisco Javier Ruiz Lopez (Comisión Nacional de Empresarios Jóvenes de COPAMREX, Mexico), Victor Sedov (The US Russia Center for Entrepreneurship, Russia), Innocentia Motau (National Youth Development Agency, South Africa), Abdulaziz al-Mutairi (The Centennial Fund, Saudi Arabia), Ferda Kertmelioglu (Young Businessmen Association of Turkey), Alex Mitchell (Institute of Directors, United Kingdom), Kevin Langley (Entrepreneurs' Organization, United States) and Ashraf Gazayerli (Egyptian Junior Business Association).

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