

Growing Beyond

Entrepreneurs speak out

A call to action for G20 governments

The Nice Côte d'Azur 2011
Entrepreneurship Barometer

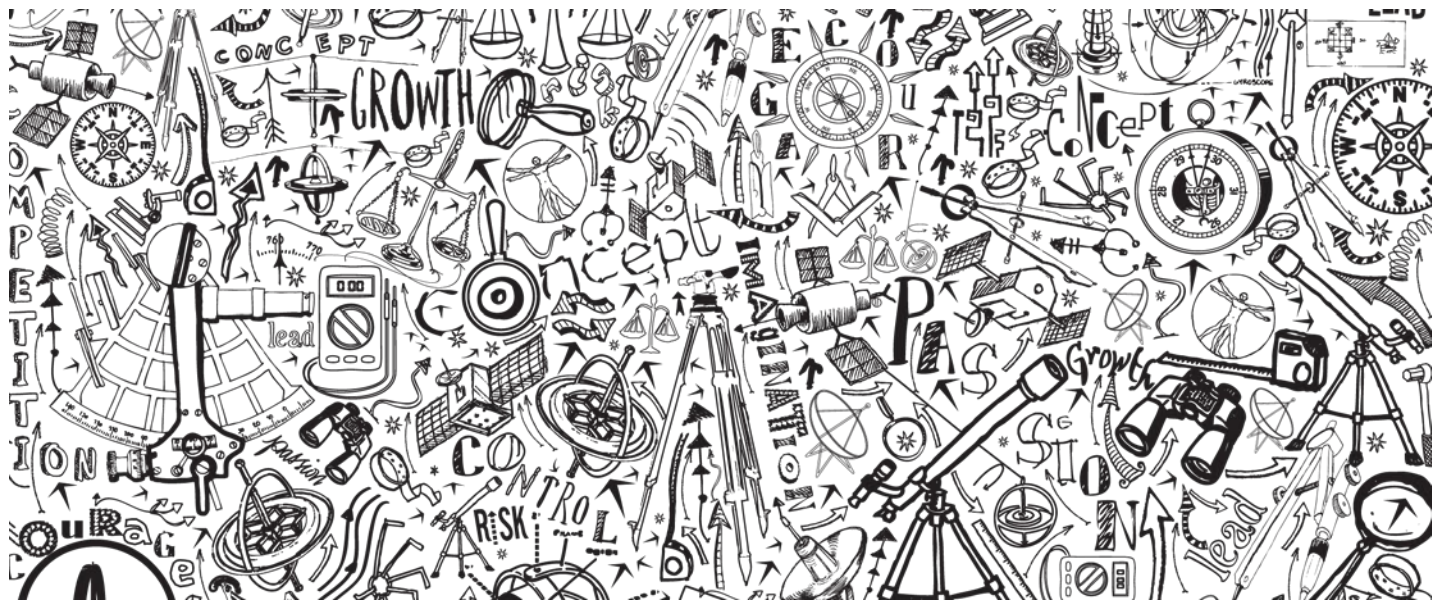
Produced for the G20 Young Entrepreneur Summit,
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Country digest

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The perception barometer

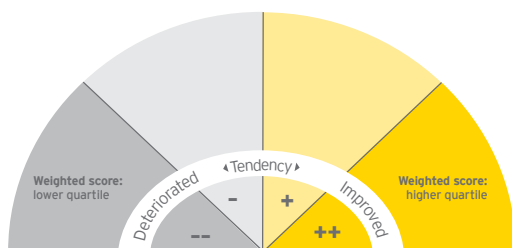
This study focuses on the entrepreneurship environment of G20 countries through the lens of five fundamental enablers: entrepreneurship culture; education and training; access to funding; regulation and taxation; and coordinated support.

Through these enablers, we explore the climate for entrepreneurs in the G20 countries and the likely direction things will take.

Our original approach is based on:

- ▶ **Quantitative economic indicators**
- ▶ **The opinions of entrepreneurs on the progress and impact of specific enablers**

Our perception barometer sums up progress as evaluated by more than 1,000 entrepreneurs during the last five years, using four score ranges.



The analysis of these indicators and opinions also highlights how entrepreneurs' perceptions may differ from the latest economic figures; a divergence that may be due to cultural bias, derivative ideas or lack of information. Red tape can also present challenges when it comes to accessing sources of funding.

These gaps in perception raise a call to action for governments to tackle these specific issues.

Viewpoint



Emre Aydın
founder, Çiçek Sepeti, Turkey

Emre Aydın founded Çiçek Sepeti in 2001 and resigned from his consulting job in 2007 to devote all his time to the fledgling company.

Ciceksepeti.com is now the largest online flower store in Turkey, and Aydın's aim is to become the country's leading online gift company.

"If the Government can show support for entrepreneurs, and make them feel that their success is instrumental to improving Turkey's economy, that will be the best encouragement we could receive.

"But to encourage innovation, the Government should also provide bureaucracy-free tax incentives for entrepreneurs, especially for those looking to work in areas where there's a lot of potential for growth, such as technology and e-marketing.

"Tax incentives can take many forms: the Government can ask for less tax, and extend the time period in which the tax needs to be paid, or they can reduce payroll taxes for start-ups. I would recommend that all tax incentives be evaluated and handed out by a competent and objective commission.

"I would also like to see experts in law, finance and marketing, as well as business people and politicians, set up organizations that can instruct and guide young entrepreneurs. An entrepreneur with no network needs this kind of support to reach more experienced mentors and to develop their ideas.

"Finally, public universities need to support young entrepreneurs in terms of R&D by setting up laboratories and research facilities."

Turkey

One of the fastest-growing and reforming countries

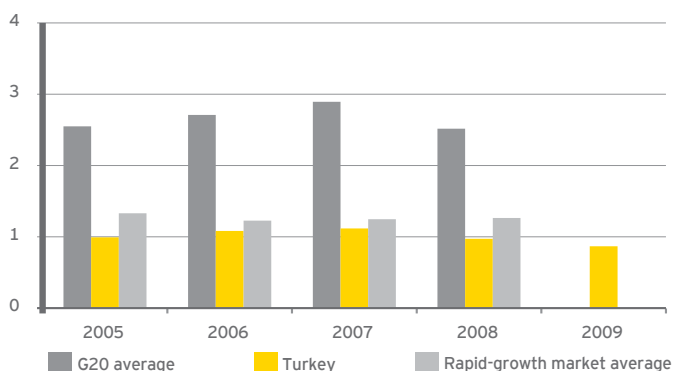
One of the fastest-growing economies in the world, Turkey has widely reformed its institutions over the past decade. This effort led to a strong, fast-improving entrepreneurial environment. In our July 2011 survey, based on 1,001 interviews of G20 entrepreneurs, Turkish respondents described their country as the most business friendly of the G20.

Despite this favorable entrepreneurship climate, new business density – a measure of new businesses registered per 1,000 people aged 15-64 – is lower than the average for the rapid-growth markets in the G20; this could be a result of traditional conglomerates, rather than small enterprises, having driven much of the growth in economic activity in Turkey.

Entrepreneurs do find it difficult to access funding in Turkey, yet this has improved markedly in recent years, according to our interviewees. The regulatory and taxation environment has also become more favorable, and the support provided to entrepreneurs is on a trajectory that shows improvement. The entrepreneurial culture in Turkey has significantly improved, and the country reportedly has many more opportunities for education and training in entrepreneurship than it did five years ago.

New business density

(new registrations per 1,000 people aged 15-64)



Source: World Bank. Data not available for US, China and Saudi Arabia.

General and specific factors influencing the entrepreneurship environment

Strengths

- ▶ High growth potential in all industries
- ▶ A highly developed entrepreneurial environment
- ▶ Rapid credit growth has fueled improvements in access to bank lending

Weaknesses

- ▶ Low protection of intellectual property (IP) rights
- ▶ The value of private equity (PE) has declined over the period

Opportunities

- ▶ Entrepreneurship is likely to continue on its trajectory of improvement as the economy realizes its high growth potential

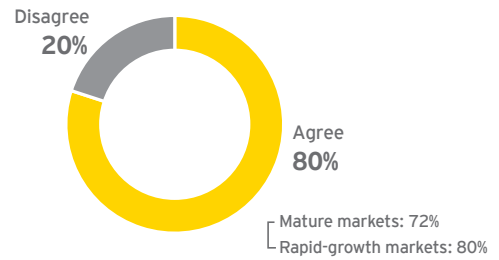
Threats

- ▶ Tighter lending rules and higher reserve requirements could cool lending growth

Encouragement grows

Turkish culture is progressively opening up to entrepreneurship. Following impressive economic growth, Turkey has developed politically and institutionally, accommodating itself better to entrepreneurship. Indeed, 80% of entrepreneurs say that Turkish culture encourages business.

Do you think that the culture of your country encourages entrepreneurship?



Source: *The Nice Côte d'Azur 2011 Entrepreneurship Barometer* by Ernst & Young.

90% are convinced that job creation by entrepreneurs greatly enhances the culture

78% of respondents pointed to the efficiency of programs promoting entrepreneurs' success stories in the media

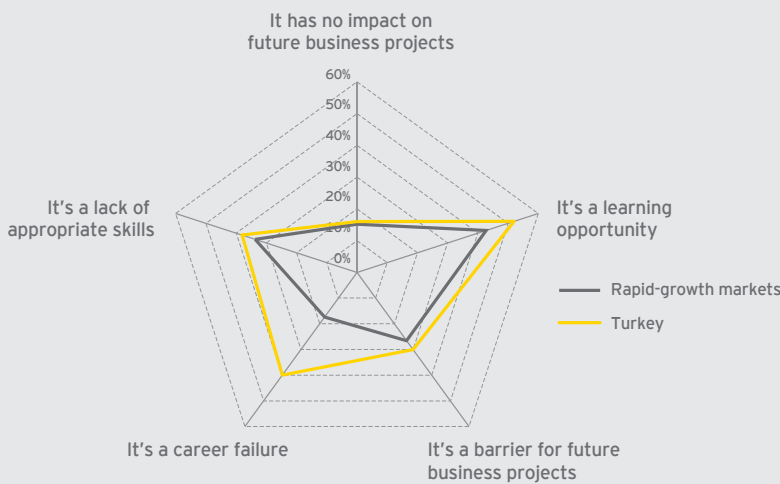
Our survey also looked at what would have particular resonance in Turkey as far as improving the entrepreneurship culture. Promoting the role of entrepreneurs in creating new jobs was viewed by most (90%) as having a high impact on the entrepreneurship culture. Employment is clearly regarded as a key factor by Turkish entrepreneurs, given over two-thirds viewed

promoting the career opportunities offered by entrepreneurship as having a high impact on the entrepreneurship culture.

A culture of innovation has been developing over the past five years on a number of metrics. The scientific and technical journal articles published has increased by 10.5% over the period, while the proportion of

researchers in research and development (R&D) is up 24%. Government spending on R&D has supported these increments, having increased as a percentage of GDP by 0.1% – a significant rise considering the high rate of GDP growth in the period.

How do you think business failure is perceived in your country by the business environment?



Source: *The Nice Côte d'Azur 2011 Entrepreneurship Barometer* by Ernst & Young.

Innovative environment	Turkey		G20 average	
	2007	Change 2005-07	2007	Change 2005-07
R&D expenditure (% of GDP) 2005-07 ¹	0.7	+0.13 p.p.	1.5	+0.14 p.p.
Scientific and technical journal articles (number of publications)	8,638	+10.5%	31,376	+6%
Researchers in R&D (per million of population) ²	680	+24%	2,340	+0.5%

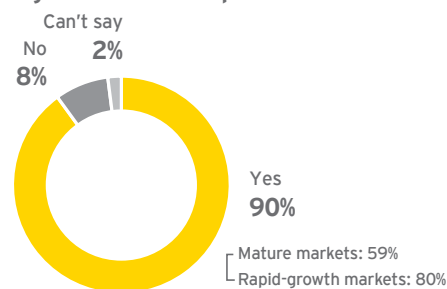
p.p.: percentage points

1. G20 average based on the 17 countries for which data is available for 2007.
 2. G20 average based on the 13 countries for which data is available for 2007.

In progress

As with other entrepreneurship enablers, improvements were reported in education and training by most of our Turkish respondents.

Do you think that students need to follow specific training to become entrepreneurs?



Source: *The Nice Côte d'Azur 2011 Entrepreneurship Barometer* by Ernst & Young.

90% of entrepreneurs underlined specific training as useful to becoming an entrepreneur

Specific entrepreneurship programs at universities were reported to have improved by 86% – as were entrepreneurship conferences and seminars. Dedicated entrepreneurship chairs at universities were seen to have improved by 82%. For two-thirds, coaching programs and training periods at school were viewed as also having improved. These observations are matched by observed outcomes: the number of

graduates in tertiary type-A and advanced research programs was up 55% between 2005 and 2008.

One example is the Applied Entrepreneurship Education Program. This program consists of a minimum of 60 hours of training and workshops, which cover the characteristics of entrepreneurship, business ideas and business plan exercises.

Applied entrepreneurship training is provided by KOSGEB and other institutions (universities, the Turkish Employment Agency (ISKUR), professional organizations and the municipality, among others). Training can be arranged for general or specific target groups (youth, women, disadvantaged groups) and is provided free of charge.

	Turkey		G20 average	
	2008	Change 2005-08	2008	Change 2005-08
Public spending on education, total (% of GDP) ³	<i>n.a.</i>	<i>n.a.</i>	4.8	+0.3 p.p.
School enrollment, secondary (% gross)	94.1	0.1 p.p.	95.9	+1.6 p.p.
School enrollment, tertiary (% gross)	38.4	+6.9 p.p.	53.5	+1 p.p.
Tertiary-type A and advanced research programs (number of graduates) ⁴	280,875	+55%	<i>n.a.</i>	8%

n.a.: data not available
p.p.: percentage points

3. According to the Ministry of National Education, Republic of Turkey, the public spending on education in Turkey was 3.13% of GDP in 2008. A 0.2 p.p. increase compare to 2005.

4. G20 average is based on 11 countries for which data is available.

Venture capital market set alive

A triple digit increase stimulated the still-young venture capital (VC) market from 2005 to 2010, reaching US\$23.1 million. However, Turkish entrepreneurs continue to encounter difficulties in accessing funding.

86% of entrepreneurs say bank lending has improved in the last five years

98% felt that private equity (PE) would impact access to funding for entrepreneurs

The funding environment for Turkish entrepreneurs is on a trajectory that shows great improvement, despite firm challenges. The majority of the Turkish entrepreneurs we talked to find it difficult to access funding for their businesses, and this applied both to start-up financing as well as to later stages of growth and expansion. Nonetheless, if we look at how the situation has progressed over the past five years, there has been an improvement reported by the majority of entrepreneurs across all different funding instruments.

Bank lending, for example, had the highest percentage (86%) reporting improvement over the period. This is in the context of a period of rapid lending growth in Turkey's banking sector, where fiscal consolidation has driven banks to replace government securities with private credit on their balance sheets. Although this has increased, the small and medium enterprise (SME) loan value as a percentage of GDP remains low by international standards, at 7.4%, compared with the G20 average of 14.1%.

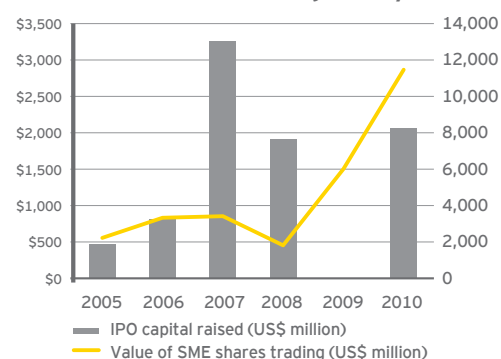
For public aid, 74% viewed this funding instrument as having improved over the last five years. This positive view reflects the government commitment to foster access to credit for SMEs. During the economic downturn, the treasury support for credit guarantees launched a €650 million scheme to enhance SMEs' credit conditions.

Over two-thirds of the Turkish entrepreneurs we talked to said that VC has improved over the period. Indeed, there have been big increases in the value of VC invested in the last five years; just US\$4 million worth in 2006, rising to US\$23 million worth in 2010.

This has been stimulated by schemes such as the Istanbul Venture Capital Initiative (iVCi), established in 2007 as Turkey's first-ever dedicated fund of funds and co-investment program. Its mission is to provide access to finance to companies by being a catalyst for the development of the VC industry through investments in independently managed funds and co-investments across a wide range of public and private shareholders. As at 31 July 2011, iVCi had signed five commitments, amounting to €80 million.

In terms of the types of funding available from the stock market, 64% saw improvement. Stock market trends give good reason for this perception. There were 13 more companies listed on the SME stock market in 2010 than there were in 2005, representing a 72% increase from 18 to 31 companies. IPO deals in the main stock market increased from just 6 in 2005 to 22 in 2010. In terms of capital volume raised, this represented an increase from US\$465 million in 2005 to US\$2,066 million in 2010.

IPO and SME shares trading, Turkey



Source: Dealogic; World Federation of Exchanges.

For business angels, 64% reported this funding instrument had shown improved access for entrepreneurs over the past five years. This view is substantiated by looking at the trend in the number of business angels networks over the period, which increased from two in 2005 to five in 2010 – a notable increase, which will have no doubt provided crucial funding for Turkish start-ups.

Looking ahead, Turkish entrepreneurs were more likely to view PE as potentially having a higher impact over the next three years than any other funding instrument.

	Turkey		Perception barometer 2005-10	G20 average		Perception barometer 2005-10
	2010	Change 2005-10		2010	Change 2005-10	
Business angels (number of networks) ⁵	5	+150%	++	n.a.	+48%	+
Venture capital (US\$m)	23.1	+478%	++	n.a.	+17%	+
SME bank loans (% of GDP) ⁶	7.4%	n.a.	++	14.1%	n.a.	+
Private equity (US\$m)	97	-54%	++	n.a.	-22%	+
SME stock markets (number of listed companies) ⁷	31	+72%	++	n.a.	+32%	+
IPOs in main stock market (number of deals)	22	+267%	++	n.a.	+12%	+
IPOs in SME stock market (number of deals)	n.a.	n.a.		n.a.	-33%	

n.a.: data not available

5. G20 average of the seven countries for which data is available through The European Trade and Association for Business Angels (EBAN).

6. G20 average of the 14 countries for which the indicator is available.

7. Only Second National Market data is available for 2010.

Great changes

Turkey has initiated significant institutional reforms, which have greatly improved the regulatory and taxation environment for entrepreneurs. In 2007, the Government implemented a very popular tax reform that reduced corporate tax rates from 30% to 20%.

72% report progress in innovation incentives

74% expect innovation incentives to become the most relevant instruments for fostering entrepreneurship over the next three years

Certainly, a view of general improvement was held by the respondents to our survey. For example, two-thirds of respondents thought labor market rigidity had eased. Likewise, two-thirds thought that business regulations had improved. Although there was no change in the number of procedures and the time required to start a business over the period, the cost to start a business declined by over 10% of per capita income. Indeed, the ease of starting a business was seen to have increased by 60% of the entrepreneurs. Moreover, the Government has plans to implement reform on the tax system to simplify it and make it fairer.

Promoting innovation is a key government priority for tackling the structural current account deficit.

However, on the issue of tax incentives, entrepreneurs were divided on whether these had improved (44%) or not (40%), even if a majority of the entrepreneurs we talked to thought innovation incentives had improved. Looking ahead, a majority of respondents considered measures to encourage innovation would have a high impact on long-term growth.

	Turkey	G20		Turkey		G20 average	
	Perception barometer 2005-10			2010	Change 2005-10	2010	Change 2005-10
Innovation incentives	++	+	Tax subsidy rate for US\$1 of R&D, SMEs – 2008	0.219	<i>n.a.</i>	0.148	<i>n.a.</i>
Tax incentives	+	+	Start-up incentives (% of GDP) 2005-08	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Ease of starting a business	+	+	Number of procedures to start a business	6	0	7.7	-1.4
			Time to start a business (days)	6	0	22.3	-18.1
			Cost to start a business (% income per capita)	17.2%	-10.2 p.p.	10.6	-9.8 p.p.
Intellectual property (IP) protection	+	+	Number of patents 2005-09 ⁸	2,732	138.4%	126,375	9.6%
Business regulation	++	+	Time spent on tax issues (hours per year)	223	-31	367.1	-72
Labor market rigidity	++	+	Cost of hiring	0.47	<i>n.a.</i>	0.3	<i>n.a.</i>
			Notice period	6.7	<i>n.a.</i>	5	<i>n.a.</i>
			Severance costs	23.1	<i>n.a.</i>	12.2	<i>n.a.</i>

n.a.: data not available
p.p.: percentage points

8. G20 average based on 12 countries and European Patent Office for which data is available in 2005 and 2009.

On its way up

The quality of support in Turkey is also getting better, say most of the entrepreneurs we talked to.

74% of respondents described cooperation between government, associations and education systems as well organized

92% depict entrepreneurs' clubs and associations as the support programs with the most impact on their long-term growth

Entrepreneurs' clubs and associations were reported to have improved by 88% of entrepreneurs – the highest in the G20. The quality of support provided by government agencies was reported to have increased by 74% of respondents. Two-thirds reported an improvement in the quality of support provided by chambers of commerce.

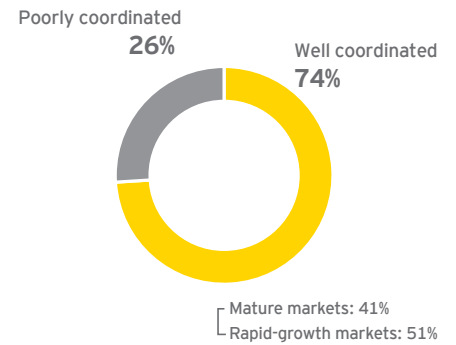
Eighty-eight percent reported that the collaboration and coordination between these organizations had improved over the last five years – the highest percentage out of any country in the G20.

One example of the support provided is the business development centers (incubators) program, which aims to increase their

productivity and efficiency to create an entrepreneur-friendly environment. These centers act as incubators. The Small and Medium Industry Development Organization (KOSGEB) provides financial support in the form of fixed expenses as well as company expenses to these centers.

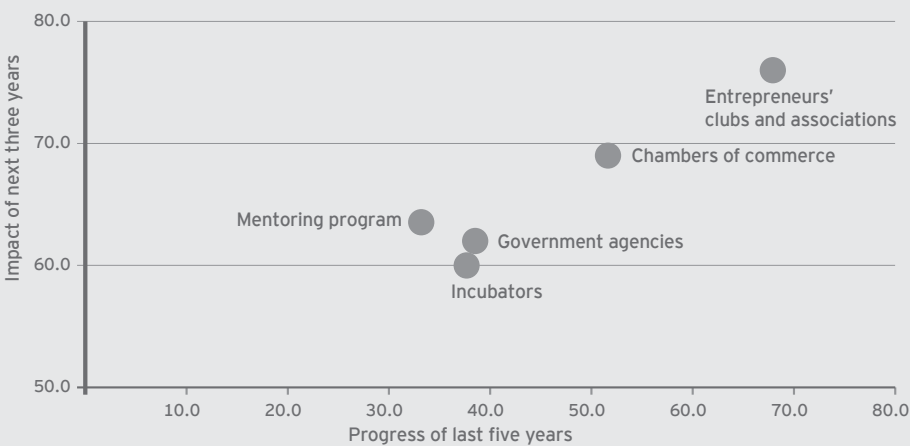
Coordination to support long-term growth was seen as well coordinated by 74% – again, the highest percentage out of any G20 country. Looking ahead to the next three years, entrepreneurs' clubs and associations were reported as likely to have a high impact on entrepreneurs' growth by the majority of the Turkish respondents.

How would you evaluate the coordination between governments, associations and education systems in your country?



Source: *The Nice Côte d'Azur 2011 Entrepreneurship Barometer* by Ernst & Young.

Coordinated support – entrepreneurs' perception of progress and future impact



Source: *The Nice Côte d'Azur 2011 Entrepreneurship Barometer* by Ernst & Young.

Selection of government leading practices

	Launch date	Main application area
Applied Entrepreneurship Education Program		
This program consists of a minimum of 60 hours of training and workshops, which cover the characteristics of entrepreneurship, business ideas and business plan exercises. Applied entrepreneurship training is provided by KOSGEB and other institutions (universities, the Turkish Employment Agency (ISKUR), professional organizations, the municipality, among others).	2010	Education and training
Istanbul Venture Capital Initiative (iVCI)		
Istanbul Venture Capital Initiative (iVCI) is Turkey's first-ever dedicated fund of funds and co-investment program. It is funded by the Small and Medium Industry Development Organization (KOSGEB), the Technology Development Foundation (TTGC), a public and private banking partnership, and the European Investment Fund (EIF). EIF is the adviser to iVCI, which benefits from the expertise of EIF, the European Union's specialized financial body for SMEs, and the risk capital arm of the European Investment Bank Group (EIB Group).	2007	Access to funding
SME export promotion support credit		
This program aims to decrease the risk for SMEs in exporting, by decreasing financial constraints. Trade loans are guaranteed for exporting SMEs, up to US\$200,000. KOSGEB, the Credit Guarantee Fund and public and private banks share two-thirds of the interest rate of the loan. The remaining one-third of the interest is carried by the ventures.	2008	Coordinated support
Women entrepreneurs' package		
This program aims to foster women entrepreneurs' networks and training, and to cover the financial needs of their businesses. The package includes targeted support loans and supplementary banking products (special rates and insurance coverage, among other things) and networking support for Turkey's Women of the Year contest.	2006	Access to funding coordinated support entrepreneurship culture
Techno Entrepreneurship Capital Support' (Teknogirişim Sermayesi Desteği)		
Launched in 2009, this program provides a subsidy of €4,779 for entrepreneurs relying on technology and innovation. Senior students at universities or graduate students that enroll in an M.S. or PhD are eligible for this program. The support (initiated by the Ministry of Industry and Science) is up to €100,000 after the establishment of the enterprise in the subsequent years within the framework of a business plan in conformity with the control of the project work plan period reports are being made in the post. Between years 2009-11, there were 1,742 applications received and 468 new business ideas have been officially approved.	2009	Access to funding
Treasury support to credit guarantees		
Launched during the economic downturn to help SMEs facing challenging credit conditions, the scheme provided financial support of US\$650 million through credit guarantee institutions. The scheme remained in effect until July 2011.	2009	Access to funding
Support for business development centers		
This program aims to increase the productivity and efficiency of business development centers to create an entrepreneur-friendly environment. These business centers act as incubators. KOSGEB provides financial support in the form of fixed expenses, as well as company expenses to these centers.	2010	Coordinated support
Support for new entrepreneurs		
The aim of this project is to provide financial support to entrepreneurs and create an environment for the development of widespread entrepreneur initiatives. KOSGEB, the founder of the project, plans to set up service call centers in 81 cities across Turkey.	2010	Access to funding
Small and Medium Industry Development Organization (KOSGEB)		
KOSGEB is one of the major organizations executing SME policy in Turkey. Before 2003, SMEs that wanted to benefit from KOSGEB support could directly apply to KOSGEB service providers and the requested support could be provided within the framework of budget availability. Today, enterprises are directed to set strategic objectives, depending on their capacity, and competitiveness, after being registered in the KOSGEB database.	2003	Coordinated support

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Growing Beyond

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