

tepaav

Economic Policy Research Foundation of Turkey

Government policies to foster entrepreneurship

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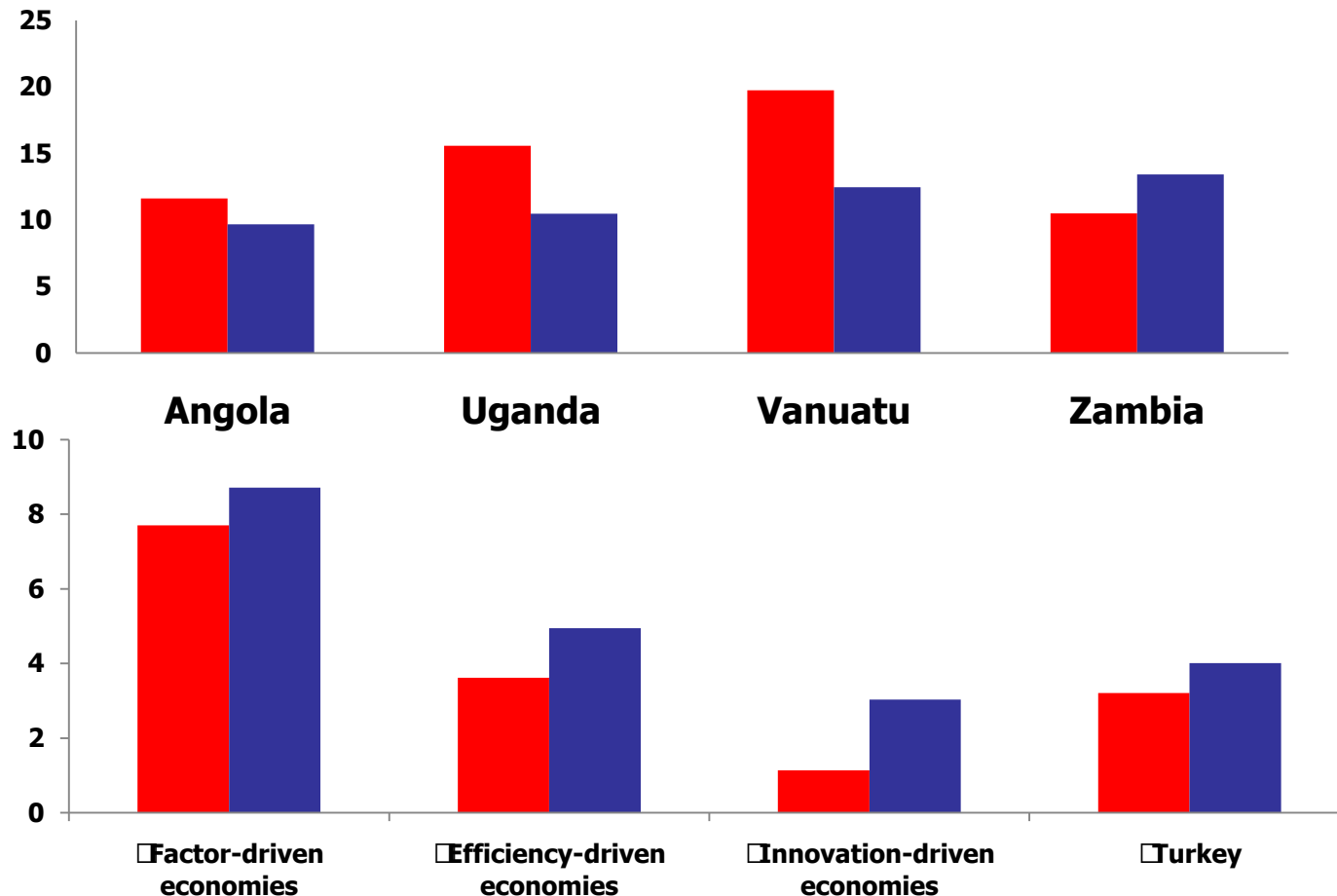
4th UN Least Developed Countries Conference
10 May 2011, Istanbul

What is our focus?

- What sort of entrepreneurship?
 - Opportunity driven entrepreneurship, not necessity-driven
 - High-potential ventures, not micro-enterprises
 - Start-up: "temporary organization searching for a repeatable and scalable business model." (Steve Blank)
- Why public policy?
 - Entrepreneurship is self-discovery of the cost structure and capability set of a location (particularly in developing nations)
 - Entrepreneurial ideas can be easily imitated, so they are typically undersupplied

Opportunity- vs. necessity-driven entrepreneurship

Early-stage entrepreneurial activity (TEA) ■ Necessity Driven



Singapore vs Jamaica

■ GDP per capita (USD)

	1965	2006
Singapore	2,650	31,400
Jamaica	2,850	4,800

■ Common features:

- British colonial rule
- Capitalist governments
- Central port

■ What did Singapore do?

- Superior infrastructure
- Strong legal system & no corruption
- Strong education
- Public subsidies to venture capital and R&D
- Active encouragement of internationally-oriented entrepreneurs

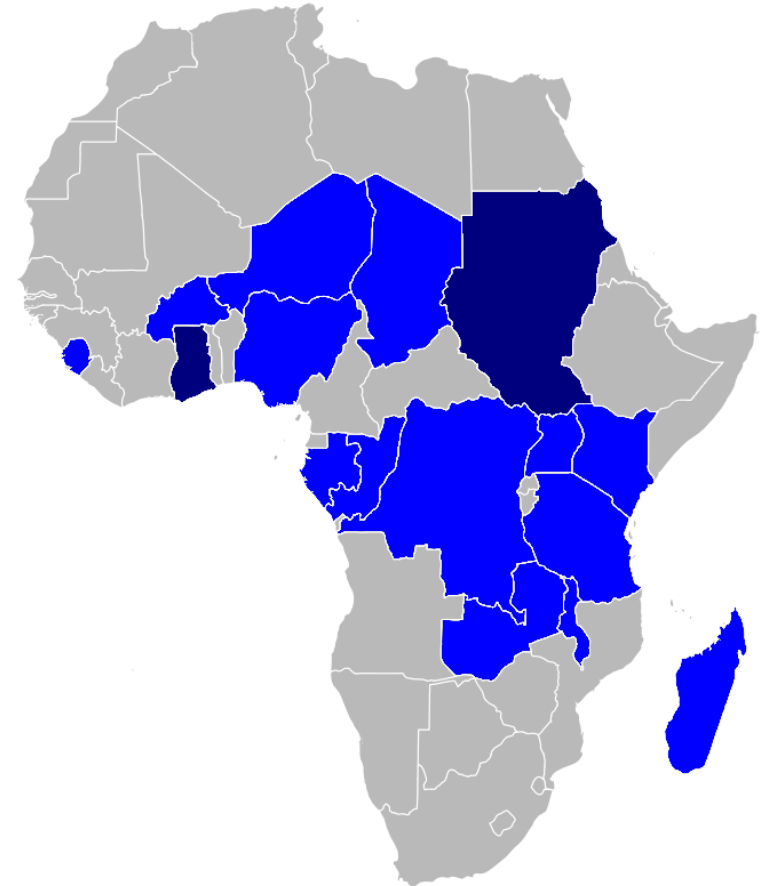
DNA of an high-impact entrepreneur

Research in MENA, South Asia & Africa

- 40% annual growth rate for the first three years
→ compare this with 4% national average
- 5+ years experience in a multi-national like P&G, Pepsi, Unilever, Toyota, or HSBC.
- Average age: 33.
- Self-financed at start-up
- Grow to the spaces adjacent to their business so that their initial company can succeed.

Celtel: A high-impact venture

- Adoption of cell phone technology to Africa
- Cash-based informal sector
→ prepaid minutes
- Microwave links between previously satellite-connected cities
- History:
 - 1998: operations began
 - 2004: \$147 mil earnings
 - 2005: sold at \$3.4 billion



Source: Josh Lerner,
Boulevard of Broken Dreams

Higher impact when backed by venture capital

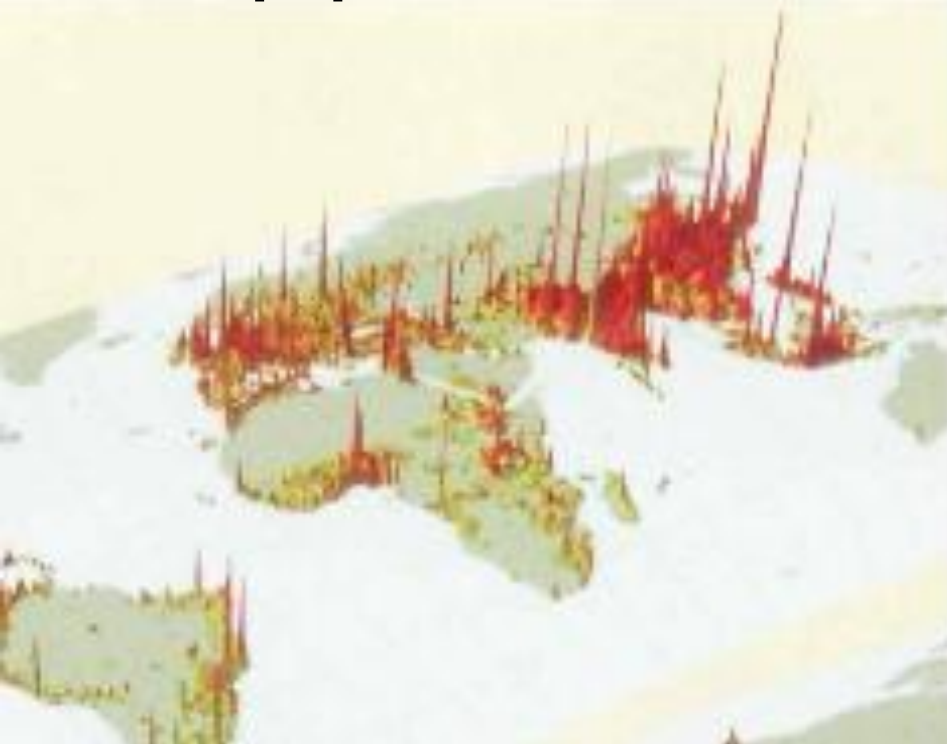
- Lingtu: makes digital maps in Beijing
 - China still considers maps as 'sensitive information'
- Gobi Partners invested in Lingtu in 2003
 - \$2 million **financing** in the first round
 - A large **network** of Gobi's portfolio firms (IBM, etc.)
 - Customers
 - Platforms
 - **Certification** for other VC funds for next rounds, including ones from the U.S: \$30 mil financing in total

Is the world flat or spiky?

■ Positive externalities to entrepreneurial activity:

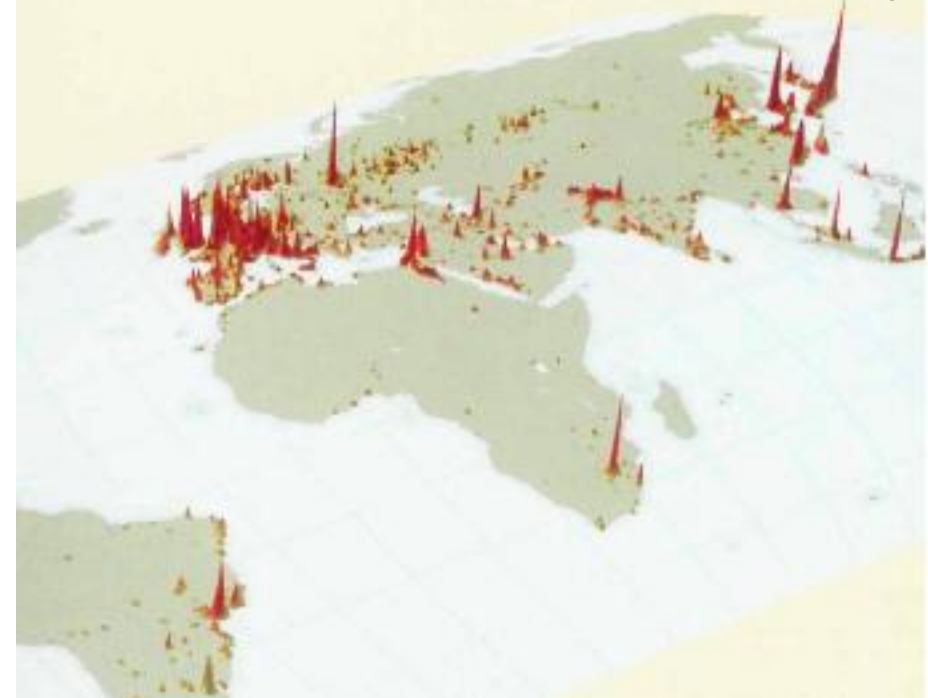
- Far easier to found a start-up when there are ten others nearby
- Investors, employees to attract, intermediaries

population



light emissions

clusters of entrepreneurial activity



The unbalanced geography of venture capital

- Location of PE/VC funds in the United States:
 - San Francisco / San Jose: 22%
 - New York City: 18%
 - Boston (mostly Kendall Sq): 7%
- Moving out of the U.S. since 1990
 - Tel-Aviv
 - Bangalore
 - Singapore, Beijing
- Carlyle is raising its first dedicated sub-Saharan Africa fund
 - Which city will be the next hub?

Cities: engine of entrepreneurial activity

- Function:
 - Connecting talented people to each other and to the world
 - Ensuring flow of creative ideas among people
- Opportunity:
 - Increasing urbanization among LDCs
 - Large capital cities: Kinshasa / D.R.Congo (10/70), Monrovia / Liberia (1/4)
- Compact cities are more conducive to entrepreneurship (Ed Gleaser)

New York City



Mumbai



Source Edward Gleaser,
Triumph of Cities

Cities also host large domestic markets for entrepreneurs

- A middle class of 360 million people in Africa (richer than 3.600 USD per capita)
 - Same size of middle class in India or China
 - Almost doubled in size since 2000
 - Internet connection: 80 mil. (2000: 4.5 mil)
 - Vehicles per 1000 people: 75 (2000: 45)
 - Well-paying private sector jobs
 - Urbanization and global consumption patterns

Source: AfDB

- Innovations for developing country middle-class can be scaled up globally
 - NarayanaHrudayalaya Hospitals in India
 - 'Henry Ford of cardiac century'

Service exports is another great opportunity

- Erzurum call-center by Turkcell
- Poor region:
 - GDP per capita: half that of Turkey
 - Operations: 40% cheaper
- Scalable operation:
 - 200 → 700 in three year
 - 2 more call-centers
- Basic needs
 - Basic ICT infrastructure
 - High school grads



Possible roles for government

- It is much easier to be an entrepreneur when there are others around
 - Entrepreneurship training centers
 - Celebrating role-models
- It is much easier to grow once you gain visibility
 - Identify high-potential entrepreneurs: business plan competitions
 - Provide visibility
 - Government support to entrepreneurs can provide certification if there is robust screening
 - Certification by venture capital is critical
 - Active involvement to attract VC

Concluding remarks

- The knowledge generated by one improvement-driven venture is likely to benefit many others
- Improvement-driven ventures cluster in creative cities
 - An opportunity for poor countries if robust metropolitan policies are adopted
- Encouraging more high-impact entrepreneurs can be as useful as large-scale reform
 - Emerging market innovation TO global markets
 - Service exports
- High-level principles of government intervention
 - Compensates for a specific market failure
 - Timing: tipping point
 - Sizing
 - Flexibility