

# Beyond disruption

Beyond disruption to new  
innovation: policy to grow  
digital entrepreneurship



Building a better  
working world

# Foreword

EY and the G20 Young Entrepreneurs' Alliance (G20 YEA) have a five-year partnership focused on shaping advice for G20 governments in the area of youth entrepreneurship and policy. Increasingly, this is centered on digital: the challenges of digital disruption, the nature of entrepreneurship in a digital-first world and the changing parameters for policy in this environment. For the 2016 G20 YEA summit, in Beijing, China, we presented our point of view in our report *Disrupting the disruptors – disrupting youth entrepreneurship with digital and data: the digital opportunity to empower young entrepreneurs for growth*. This highlighted that entrepreneurship itself is also susceptible to disruption by digital forces, and that policy needs to adapt to this transformation, to give young entrepreneurs effective support to grow and scale.

The 2017 G20 YEA summit in Berlin, with its theme of “Digital trends for future business” sets the stage for further exploration of specific policies to help young entrepreneurs shape their future. The 2017 report is a continuation of our Beijing analysis, on digital, disruption and youth entrepreneurship. This year, we look beyond disruption, to new innovation, highlighting specific, actionable policies that G20 governments can deploy, to grow digital entrepreneurship and young entrepreneurs' development of new technologies.

In this report, we present nine policy recommendations. These build on the broad issues for reform, and high-level policy areas, identified in the Digital Entrepreneurship Barometer model that was presented in last year's *Disrupting the disruptors* report. Our analysis goes deeper, to look more at the nuances in access to funding, education and business environment that policy can target. These reflect consultation with young entrepreneurs across the G20 YEA network. Through a survey<sup>1</sup> of close to 250 young entrepreneurs, and also in-depth interviews, we uncovered some critical themes and key gaps and opportunities in

policy, which we showcase in this report. Of course, we recognize that the G20 covers a diverse, dynamic group of economies and there is no “one size fits all” for proposed recommendations. However, our research does bring to light some core themes, and needs, for policymakers to address, and highlights some key, crowd-sourced best practices. We think these are valuable input for local strategies and detailed execution plans.

EY is the world leader in advising, guiding and recognizing entrepreneurs. For over 30 years, EY has worked with entrepreneurs and the leaders of fast-growth businesses to help them grow into market leaders. Our marquee program, the **Entrepreneur Of The Year**<sup>®</sup>, covers nearly 40 countries. We also run the EY Entrepreneurial Winning Women<sup>™</sup> program, which identifies high-potential women entrepreneurs and helps them to scale their businesses. This gives us a unique, bottom-up perspective on entrepreneurship and the policy alternatives that can support youth entrepreneurs in building their success. At the same time, our extensive experience with government and the public sector enables us to act as a bridge between young entrepreneurs and policymakers, and support more effective outcomes.



**George Atalla**  
EY Global Government  
& Public Sector Leader



**Bernhard Lorentz**  
EY Government & Public Sector  
Leader, Germany, Switzerland  
& Austria

<sup>1</sup> The survey and the interviews conducted represent a general overview of entrepreneurs' opinions shared; they do not constitute policy.

The G20 Young Entrepreneurs' Alliance (G20 YEA) is a network of organizations across G20 countries that promote youth entrepreneurship to drive economic renewal, job creation, innovation and social change. The Alliance has been representing approximately 500,000 young entrepreneurs. Each year, the G20 YEA brings together hundreds of the world's top young entrepreneurs to share their ideas with B20 and G20 leaders to catalyze global change.

This year, the G20 YEA will be held in Berlin, Germany on June 15 and 16. Building on the success of our previous summits in Canada, France, Mexico, Russia, Australia, Turkey and China, we are focusing on hosting a future oriented summit with and for young entrepreneurs from around the world under the theme "Digital trends for future business". We will discuss implications of driving digital trends like big data, Internet of Things, augmented and virtual reality as well as digital platforms for young entrepreneurs.

Today, the trends of digitalization are shifting societies and the commercial landscape, creating both opportunities and challenges for entrepreneurs.

A deeper understanding of how these digital trends affect young entrepreneurs, in particular, is critical to developing policy and road maps that can help empower them. We are pleased to have EY as our Knowledge Partner for the G20 YEA, and we are pleased to consider the ideas and findings in this report in our communiqué and present it to the G20 leaders.

We look forward to continuous interaction and collaboration with G20 governments to create an enabling business environment for young entrepreneurs around the world.



**Carsten Lexa**  
President, G20 YEA Germany



# Key findings

## Beyond disruption to new innovation: our major recommendations to G20 governments

### Digital skills, knowledge and entrepreneurship culture

1

#### **Establish a tandem vocational and academic education system**

Entrepreneurship and entrepreneurial thinking should be integrated with all other subject areas. Course design could also be reviewed to make it increasingly practical.

2

#### **Facilitate support and open networks**

Networks and support programs that include mentorship are a very important part of the journey to a sustainable company. Specific initiatives to boost mentorship include providing businesses with incentives to engage in mentoring schemes, and investment in a digital platform to host a “buddy system” for entrepreneurs, to support cross-border mentoring and coaching opportunities.

3

#### **Invest in the ecosystem**

Survey respondents indicate a clear need for clusters or networks. For governments, this means playing an active role in the ecosystem, for example through using digital platforms to proactively connect schools and universities with industry.

### Access to finance

4

#### **Foster the journey from early-stage to scale-up**

Scale-up financing is undoubtedly a pain point for young entrepreneurs. For government, facilitating access to early-stage financing (angel and early-stage VC) and reinforcing scale-up is important to help ensure that young entrepreneurs' journeys from early-stage to scale-up are smooth.

5

#### **Invest in digital financing infrastructure**

The survey suggests that digital platforms can be an important enabler for early-stage, young entrepreneurial firms. Government can work to complement existing fintech platforms and tools.

6

#### **Open up access to cross-border capital**

This includes breaking through regulatory barriers to foreign investment, especially tax. Exposure to new markets and best practices for young entrepreneurs is also crucial, including through a start-up mobility visa.

## Digital business environment

7

### **Fast-track access to cross-border markets for young entrepreneurs**

Government investment in a supporting body (cross-border) to help young entrepreneurs, and their investors, with international expansions and ongoing *regulatory compliance* could be an effective near-term initiative.

8

### **Consider tax reform for fast-growth, digital entrepreneurs**

Governments can evaluate, including through consultations, targeted tax concessions for young entrepreneurs. The focus here should be at least as much on tax compliance as the overall tax obligation.

9

### **Drive differential investment in digital infrastructures**

The distinct, valuable role for government is in quick, responsive investment in framework policies for digital tools and infrastructure. Governments also need to think about young entrepreneurs as the digital-first customer.



# Digital is the economy for young entrepreneurs

The digitization of the global economy and business environment is all encompassing. With widespread smartphone penetration and broadband internet connectivity, even faster computer processing power, and rapid advancements in artificial intelligence, machine learning and other powerful, digital-driven innovations, digital now clearly defines “business as usual.” For example, recent forecasts suggest that the Internet of Things market will more than double in the period 2015-20, from 15.4 billion devices to 30.7 billion. And this number is set to increase exponentially, up to more than 75 billion in 2025<sup>2</sup>.

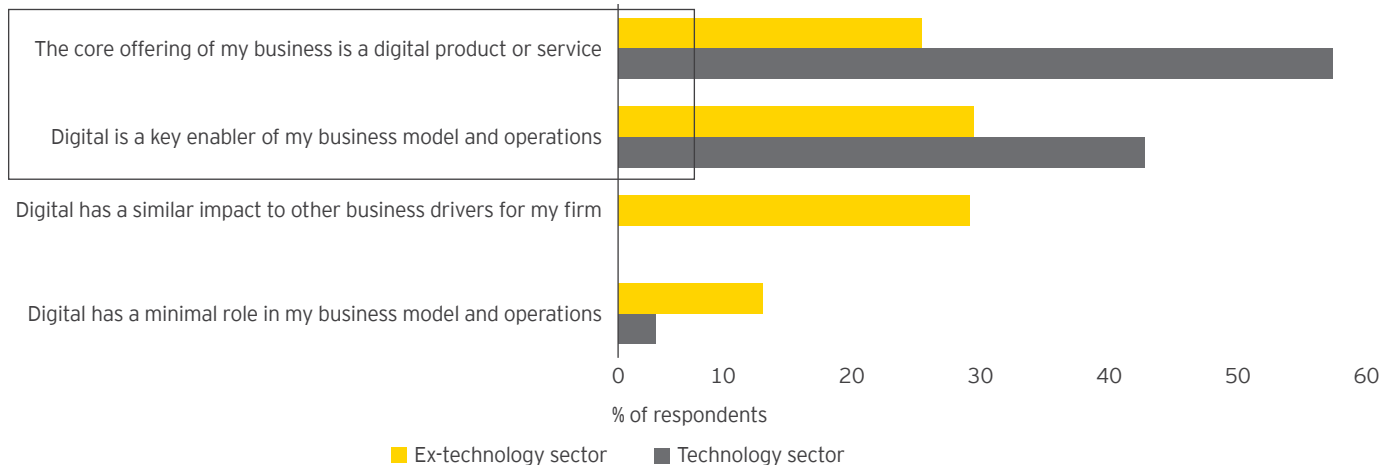
## The evolving role for digital

“In a world where technology and regulations are constantly evolving and new models are emerging, digital transformation has become inevitable for companies to remain competitive. Our services and expertise have naturally developed too: collaboration, mobility, cybersecurity and cloud transformation, followed by big data and connected objects.”

**Jean-Victor Garnier**  
CEO, EVA Group, France

For entrepreneurs, as for incumbents, this makes the theme “digital trends for future business” resonate loudly. Today’s young entrepreneurs have grown up digital, and their growing businesses are likely to be underpinned by digital technology. For example, mobile-first development or digital health are likely building blocks of a young, budding entrepreneur’s business. Our survey results are a case in point. According to our respondents, digital has significant impact on all business models, and sectors, for young entrepreneurs. This holds across younger age groups and those budding entrepreneurs still in university or school – with all viewing digital as a critical business driver. There is also some skew in the results to “digital first”, or those entrepreneurs with digital as their core offering, among the youngest age groups surveyed (less than 25 years old). Our results suggest similar attitudes irrespective of gender.

## Digital is a significant business driver for young entrepreneurs in all sectors



Source: EY, March 2017 (n=134).

<sup>2</sup> Columbus, L, “Round up of Internet of Things forecasts and market estimates, 2016”, Forbes, accessed March 2017, <https://www.forbes.com/sites/louiscolombus/2016/11/27/roundup-of-internet-of-things-forecasts-and-market-estimates-2016/#d2b698292d51>,

## High-impact policies reflect this digital-first reality for young entrepreneurs

In this environment, where digital is the economy, change is rapid, and can create heightened uncertainty and volatility for businesses. Entrepreneurs are not immune to disruption, as we saw in our 2016 G20 YEA report, *Disrupting the Disruptors*. Young entrepreneurs are navigating a digital ecosystem, approaching the challenges of growing and scaling a business with a different set of competencies, and have a distinct relationship with technology. The one constant is potential: for growth in entrepreneurship and in the development of new technologies and business models.

### Digital potential

“Digital helps us scale psychological support globally and makes it accessible to people immediately, no matter where they are.”

#### Farina Schurzfeld

CMO & co-founder @Selfapy, a digital health firm, Germany

To move beyond disruption, and foster new innovation and growth, policy needs to grasp this new reality and foster change. Differentiated, high-impact policy enables young entrepreneurs to succeed in this economy. The real lift for youth entrepreneurship, and for job creation and economic performance more broadly, is in realizing this potential. This means making the tools for success accessible to more, and more diverse, high-impact young entrepreneurs. This requires understanding of the nuances in the entrepreneurship ecosystem and identifying specific areas for refinement in policy. Policy changes need to be specific and targeted at the particular challenges or roadblocks for young entrepreneurs in a digital-driven environment.

## Digital, youth entrepreneurship and employment

“For young people to prosper in employment and economically, opportunities to integrate into the labor market and to have the right education and skills are critical. An uncertain economic outlook continues to hamper employment prospects for young people around the globe, and a lack of viable employment opportunities is also discouraging participation in the labor market. The International Labour Organization finds that a growing share of young people are neither employed, nor in education or training (NEET)<sup>3</sup>. They estimate that for some 28 countries around the globe, a quarter of people aged between 15 and 29 years old are categorized as NEET. This drives risks for skills deterioration, underemployment and discouragement.

In a digital-driven economy, entrepreneurship has an important role to play in breaking through discouragement, creating viable opportunities for employment and reinvigorating participation in the labor market. Through entrepreneurship, young people can have access to more good quality jobs. Youth entrepreneurship could also give an important lift to the economy. Findings from the OECD suggest that young people’s businesses (founders age 30 and below) of three years of age have an average growth rate that is nearly double that of businesses run by founders age over 40<sup>4</sup>.”

In the following section, we identify nine high-impact reforms to support growth in entrepreneurship and the development of new technologies and business models. From a survey of close to 250 young entrepreneurs across the G20, we provide fresh insight on young entrepreneurs’ experiences and business needs. Through our findings, we explore policies in three broad areas, corresponding to the EY/G20 YEA Digital Entrepreneurship Barometer Model (2016): digital skills and entrepreneurial education/digital knowledge base/entrepreneurship culture; access to funding; and digital business environment.

<sup>3</sup> ILO, “World Employment Social Outlook: Trends for Youth”, 2016

<sup>4</sup> OECD, “Can youth entrepreneurship work?,” *OECD Observer*, accessed April 2017, [http://oecdobserver.org/news/fullstory.php/aid/4012/Can\\_youth\\_entrepreneurship\\_work\\_.html](http://oecdobserver.org/news/fullstory.php/aid/4012/Can_youth_entrepreneurship_work_.html)

## Part 1

# Digital skills, knowledge and entrepreneurship culture



The *Disrupting the disruptors* report and Digital Barometer model (2016) highlighted that entrepreneurship culture and education are tightly linked. This hints that young entrepreneurs need exposure to formal and informal<sup>5</sup> learning through their life, to prosper in a fast-changing, digital-first economy. This year's survey expands on these headline findings, teasing out the relationship between education and digital skills, culture and coordinated support, and offers more detail on where policy could most have an impact.

Overall, youth entrepreneurship and skills development initiatives seem in the early stages in the G20, according to those surveyed. In the survey, 55%<sup>6</sup> of respondents suggested their home country did have formal entrepreneurship education (that is, specific programs or curriculum in schools or university, focused on entrepreneurship), at some level of education system. That a high proportion (more than 50%) of survey participants did not answer this question suggests that formal education schemes

are very much nascent. Those reporting education were also predominantly at the tertiary level (35%), with just over 10% reporting initiatives from elementary to secondary school, and 9% reporting initiatives at the elementary school level.

### Learning

"[The education in Germany is decent, but] it was probably more my passion to build my own company than my education that drove me towards this path of becoming an entrepreneur. I studied business in a dual study system, which was a great way to learn both on the job and from the books."

#### Farina Schurzfeld

CMO & Co-founder @Selfapy, a digital health firm, Germany

<sup>5</sup> For the purposes of this study, we consider formal education to be classroom-based learning, or delivered through a structured program (such as an internship), while informal education includes learnings through mentors, coaches and the like.

<sup>6</sup> N=79

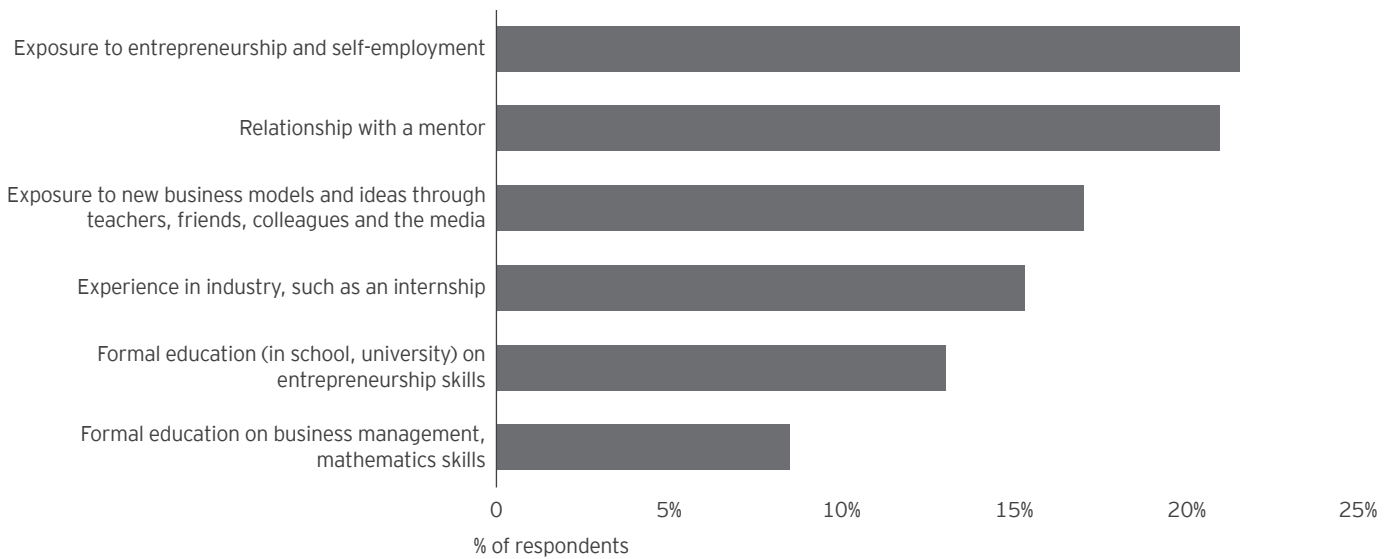


Young entrepreneurs highlighted the importance of experiential and informal learning for success in entrepreneurship. Notably, this holds consistent across those young entrepreneurs reporting the existence of formal entrepreneurship learning in their education system and the remainder of respondents who were not aware of such initiatives in their country. This emphasis held

true in the survey across the sectors. For example, it is clear in the major sector responses that exposure to entrepreneurship and a relationship with a mentor are seen as critical success factors. These are the two top-ranked education drivers for these major sectors, as for the survey overall.

### Informal exposure, access to networks, and family and friends stand out for facilitating entrepreneurship

What about your education helped you to become an entrepreneur?



Source: EY, March 2017

### This emphasis on family, friends and informal education holds across sectors in the survey



Source: EY, March 2017

## Knowledge-sharing

“[Government can] fund and help build out an online peer and mentor network to connect young entrepreneurs through the country to facilitate knowledge sharing, paired with in-person events on a regular basis throughout key cities. There are many useful networks similar to this available but are inaccessible to young entrepreneurs due to cost or are not targeted toward young entrepreneurs in early stages. This could be a collaborative effort with the country’s growing list of incubators and co-working spaces.”

**Brandon Houston**  
CEO, Switch Video, Canada

So, what is the current state of play for young entrepreneurs’ access to mentors, coaches, and “hands-on” learning in G20 countries? Encouragingly, in the survey, 83%<sup>7</sup> of respondents reported having access to digital-focused clusters or networks. This was equally reported across digital-first firms, and those viewing digital as a regular business driver. Young entrepreneurs also indicated solid access to relevant mentors, with more than half of the respondents (54%<sup>8</sup>) reporting that these mentors were accessible, compared with 20% reporting difficulty.

## Support

“[Governments can identify] which fields are growing local and globally, and create specific forums and programs for each one. Once this is done, both entrepreneur and mentors will be able to access it easily, optimizing time and resources.”

**Edgar Alvarez**  
Corporativo de Negocios Diversificados, Mexico

However, more than a quarter of respondents were neutral on their access to relevant mentors. And also 1 in 5 reported trouble accessing networks and tapping into the right mentors. A high proportion of the overall survey respondents didn’t answer this question, suggesting more could be done to have impact on young entrepreneurs. There is also something to be said for reinforcing the overall ecosystem. The results showed, unsurprisingly, that good access to networks precludes ability to find the right mentors. Entrepreneurs reporting access to digital clusters or networks are almost seven times more likely to find a relevant mentor somewhat accessible, compared with those who report finding this challenging or somewhat inaccessible<sup>9</sup>.

## Networks

“[Governments can support young entrepreneurs in accessing networks and mentors through] organizations for young entrepreneurs, and encourage more communication with entrepreneurs from other countries.”

**Huang Dinglong**  
Founder and CEO, Malong Tech, China

## Networking

“Programs that focus on developing the networking skills for young entrepreneurs and helping to facilitate these initial first connections would be highly beneficial. Speed-mentoring events that connect willing advisors and mentors to entrepreneurs are good examples of this.”

**Kelly Lovell**  
CEO, Lovell Corporation, Canada

<sup>7</sup> N=76

<sup>8</sup> N=80

<sup>9</sup> These results are consistent with other recent studies on the impact of mentorship on entrepreneurship. For example, the 2015 *Reseau Entreprendre* annual report (France) found that 92% young entrepreneurs mentored are still “alive” after 3 years and 86% after 5 years, whereas 1 start-up out of 3 will have disappeared after 3 years, when not mentored.

Formal education is an important complement. While entrepreneurs suggest clear emphasis on informal learning opportunities, survey respondents gave clear feedback on how digital and entrepreneurship education can best be taught. When asked “based on your experience, how could digital and entrepreneurship education best be taught in schools and university?” 36%<sup>10</sup> of respondents agreed that entrepreneurship and entrepreneurial thinking should be integrated into the education system for all subjects, including technology/digital-focused subjects.” This compares with agreement that entrepreneurship should be taught as a specific subject (28%), and those that thought that “digital/tech skills should be integrated into the education system for all subjects, while entrepreneurship is a specific subject area” (24%).

### Tech education

“Government should include entrepreneurship and tech education from grade one to help ingrain certain characteristics that create leaders.”

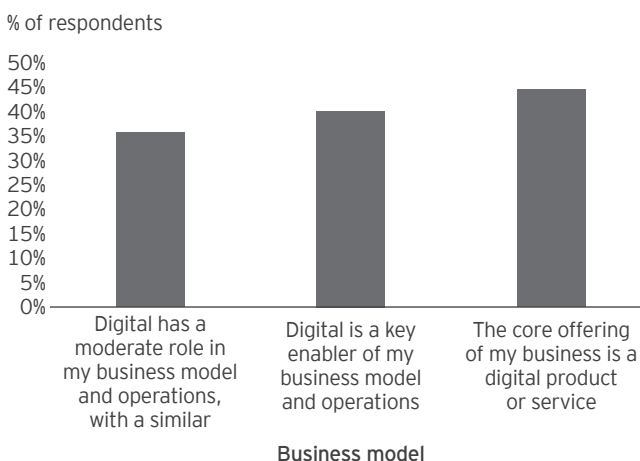
#### Naoufel Testaouni

Executive Director, MTL New Technology, Canada

Looking at responses by business model, there are consistent preferences across approaches to teach entrepreneurship and digital, and integrate the two. These preferences seem only to get stronger as firms’ use of digital in their business increases. Those firms with digital as a core offering are particularly big advocates for integrating entrepreneurship thinking throughout the education system, while treating technology as a specific subject area.

### Young entrepreneurs advocate integrating entrepreneurship through the educational system

“Entrepreneurship and “entrepreneurial thinking” should be integrated into the education system, including technology/digital-focused subjects”



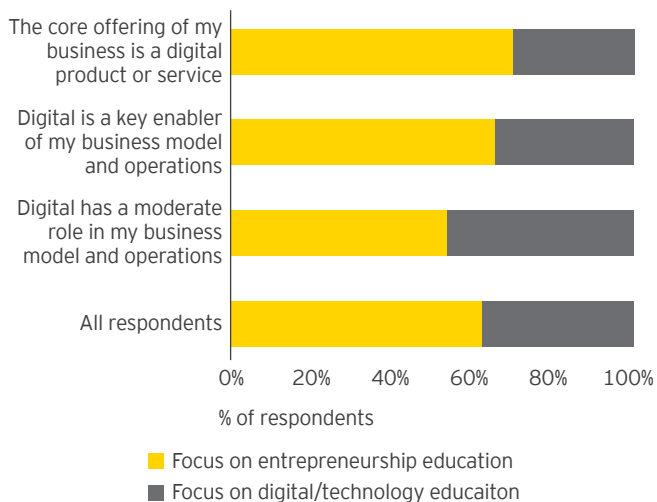
Source: EY, March 2017. N=71

In fact, when asked on key initiatives to improve formal education, young entrepreneurs expressed clear preference for entrepreneurship-focused initiatives. This reflects the key learning, from our *Disrupting the disruptors* study, that just because a young entrepreneur “grows up digital” does not mean they will have the ability to commercialize their digital skills. Young entrepreneurs surveyed suggested establishing focused entrepreneurship education initiatives, including introducing entrepreneurship education from Kindergarten to end of high school, not just at the tertiary level. Feedback also suggests that this could be done in a creative way, with keen support for introducing start up “bootcamps” for grade schools.

<sup>10</sup> N=79

## Survey results suggest focusing on entrepreneurship skills, rather than digital in formal education initiatives

Based on your experience, how could government best improve the education system?



Source: EY, March 2017

## Policy recommendations to grow youth entrepreneurship: digital skills, knowledge and entrepreneurship culture

**1. Establish a tandem vocational and academic education system** Survey respondents clearly recommend that entrepreneurship and entrepreneurial thinking should be integrated with all other subject areas. The focus here is on growing the hands-on component of entrepreneurship education. This suggests several clear priorities for policy reform. Initiatives promoting exposure to on-the-job experience, including through internships, or engagement with local entrepreneurs to come and teach in schools, could bring real-world context to classroom education. Courses could also be reviewed to make them more practical, including pitch exercise programs in high schools.

Curriculums can also be revamped, with an emphasis on growing students' competencies so that they are prepared for the current and future needs of the economy. This could include the introduction of more IT and management-related courses (including those developed through industry partnerships), and more opportunities to travel and study across borders.

- 2. Facilitate support and open networks** According to young entrepreneurs, networks and support programs that include mentorship are a very important part of their journey to creating a sustainable company. This has been a consistent theme in the EY/G20 YEA research program through the years, and the support from young entrepreneurs was also clear in this refresh of the survey. Feedback from respondents suggests some specific initiatives for government to boost mentorship, including providing businesses with incentives to engage in mentoring schemes (such as tax concessions for internships); investment in a digital platform to host a buddy system for successful entrepreneurs to connect with other students; support for cross-border mentoring and coaching opportunities for young entrepreneurs, including through grants; supporting cross-border mentoring and coaching opportunities for young entrepreneurs, including through an entrepreneurship mobility visa.
- 3. Invest in the ecosystem** The experiential and formal elements of education and skills development need to be working together to support young entrepreneurs. In particular, survey respondents indicate a clear need for clusters or networks to feed in the right expertise, and drive opportunities for young entrepreneurs to connect with mentors and create a supportive culture. For governments, this means playing an active role. For example, through using digital platforms to connect schools and universities with industry, entrepreneurs and investors. Strategic investment in cross-industry, cross-sector initiatives - through public-owned education institutions and departments of business or innovation - is important and would give government a clear, visible role.



# Access to finance: young entrepreneurs need a bridge from early to “scale-up” capital and also across borders



Young entrepreneurs undoubtedly need access to the full spectrum of financing options through their business lifecycle. Our 2016 *Disrupting the disruptors* report made clear that access to risk capital – namely angel and VC investment – and sufficient capital to scale is a major hurdle for young entrepreneurs, irrespective of their degree of digital maturity. In particular, that report, and its Digital Entrepreneurship Barometer, highlighted a specific pain point in the financing curve for scale-up financing, where young, innovative entrepreneurs have exhausted internal funds and seek early stage (angel, early stage VC) financing, then scale-up capital (starting with later stage VC).

This year's survey findings help to uncover some specific, high-impact policy changes that can promote access to risk capital and incentivize investment, including through the use of digital to drive new solutions. Young entrepreneurs' responses show that access to finance is pretty evenly balanced between those finding funding easy or hard to obtain, and this is true for early-stage (angel and early-stage VC), and also scale-up (later-stage VC), financing. For early-stage and scale-up financing alike, a relatively similar proportion of young entrepreneurs report moderate ease and moderate difficulty in securing investment. These results are also similar across developed and emerging markets, and across sectors.

### Early stage financing

“[If I had to recommend one key initiative to government it would be to] support early stage financing so that the business can get first exposure. Furthermore, involve the Chambers of Commerce to more strongly support start-ups instead of established companies.”

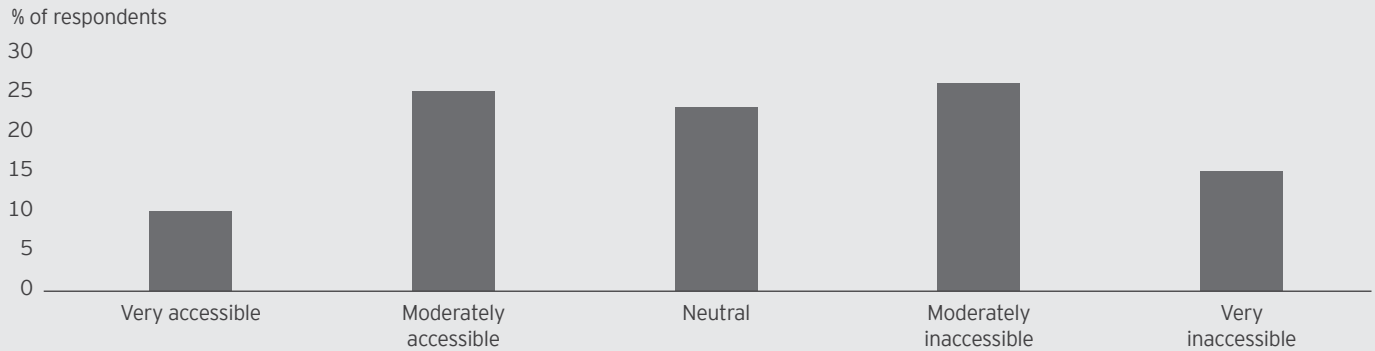
**Michael Maeder**

Partner, Ward Howell, China and Germany

The similarities between how young entrepreneurs perceive access to early stage, and then later-stage financing, is an interesting insight. Further analysis suggests that how things start out with financing for a young entrepreneur can have an important bearing on their chance for success for scale-up financing. For example, we find a conditional probability of 60% (0.58) that those young entrepreneurs who report difficulty accessing later-stage financing struggled with early-stage financing. At the same time, those entrepreneurs reporting easier access to later stage financing – conditional on also reporting easier access to early-stage financing – is also 60% (0.63). For those entrepreneurs surveyed, the odds ratio of starting out easier, and progressing to easier access to funds, compared to starting out hard and it becoming easier, are 1.7x. A lot of factors can intervene. However, the odds seem stacked for better opportunities to scale up if young entrepreneurs start out strong with early-stage financing.

## Young entrepreneurs report mixed success in accessing early-stage financing...

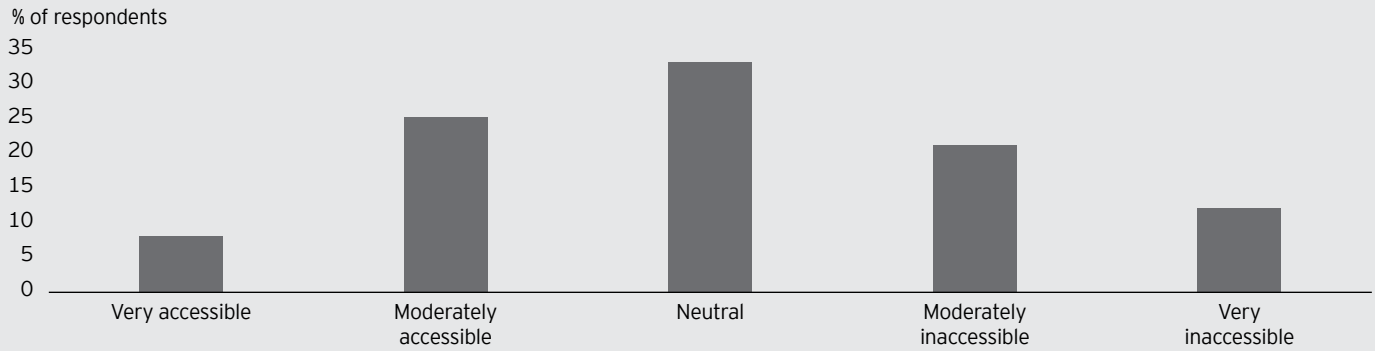
Access to early-stage finance



Source: EY, March 2017 (n=99)

## ... entrepreneurs' reported experiences in accessing later-stage VC, or scale-up financing, are also similarly distributed

Access to later-stage VC finance



Source: EY, March 2017 (n=99)

# Case study

Access to finance and digital entrepreneurship

## Interview with Farina Schurzfeld, CMO & Co-founder @ Selfapy, a Digital Health firm based in Berlin, Germany

### In your experience, how accessible is early-stage financing in your market?

That depends entirely on your personal network and track record. If you've founded before and have a matching profile for the new start up, it's comparatively easy. There's also a new batch of entrepreneurs in Berlin that made a successful exit and are now acting as angels.

### In your experience, how accessible is later-stage VC financing, or scale-up financing, in your market?

It's tricky, because health topics are intensely regulated and the entry barriers for start ups are extremely high, which causes revenue flows to grow steady but slowly. It's often risky, especially for international investors. Also, there are not many health focused VCs yet.

### What is the impact of digital on access to finance for young entrepreneurs?

I've only ever founded in digital... I would assume that digital makes it easier to get funding, as digital topics are rather sought after by investors, compared with offline.

### What could be done to encourage angel or venture capital investment in young entrepreneurs in your country?

More meet ups and opportunities to connect. Opportunities to bring together the German mittelstand and entrepreneurs to connect, exchange learnings and create investment opportunities.

### Do you face any difficulty in raising foreign capital? What are the key barriers?

Foreign investors often only invest when the company expands into that region, which sometimes doesn't make sense for the business itself. Also, the German market is seen as rather complex, regulation and thus difficult for foreign investors to judge.





For policy, this is a key reminder of the need to reinforce both stages of the financing curve. While scale-up financing is undoubtedly critical, policymakers could see significant benefit in assessing and addressing potential bottlenecks in early-stage financing. Breaking through this bottleneck seems to be a matter of better access or connectivity with angels and VC networks. And here, digital technologies can play a differential role. In the survey, respondents see digital as a key enabler for access to finance, in particular through connectivity with angel and VC investors via digital platforms (the top choice for nearly 30% of respondents), and by enabling very early-stage capital investment, such as through crowdfunding (the top choice for more than 25% of people surveyed).

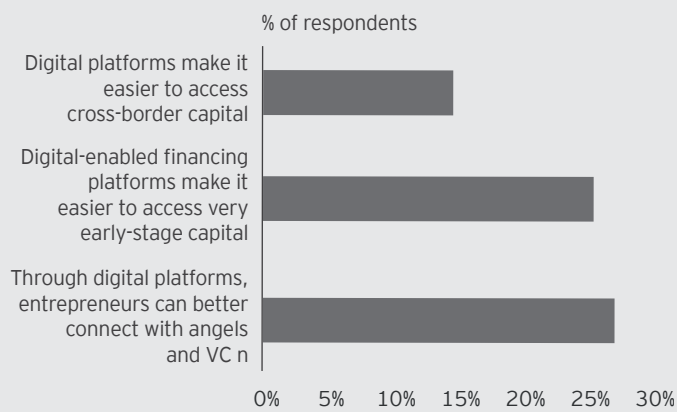
## Mid-stage

“Later-stage financing is a bit more accessible than early-stage in the digital media and technology sectors. Once you have proven traction, recurring revenues and numbers to present a case to an investor, it is easier to find funding. I think there is an important element everyone continues to miss when analyzing startup support and access to capital: the mid-stage startups. There is a critical gap between early-stage financing and later-stage financing – when you are past an idea, but don’t have impressive sales numbers yet to qualify for later-stage capital. In my experience, this gap commonly marks the make or break stage for startups and therefore should receive more attention. If startups can get over this hump, they have a significantly higher likelihood of becoming a sustainable business.”

**Kelly Lovell**

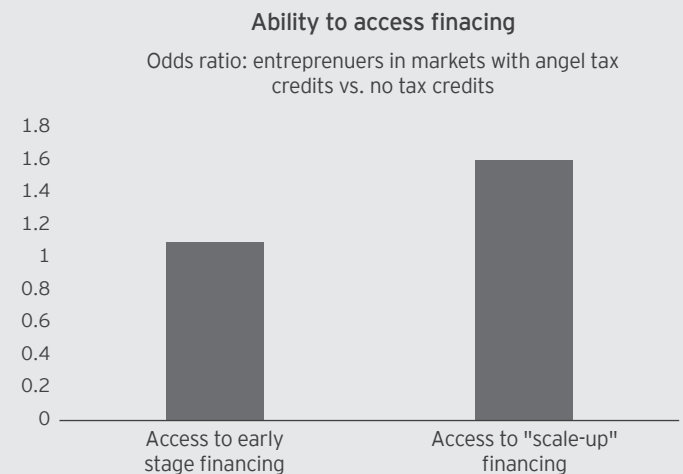
CEO, Lovell Corporation, Canada

### Young entrepreneurs see digital as a key enabler for access to finance...



Source: EY, March 2017 (n=183)

### Tax incentives for angels are crucial, and have an impact into the “scale-up” phase



Source: EY, March 2017 (n=183)

The results show where digitalization is having an impact in overcoming obstacles to access to finance for young entrepreneurs. And while it is seen as an important catalyst for growth in early-stage entrepreneurial ventures, there are still gaps as far as bridging access to scale-up or later-stage financing. Only 8% of respondents thought that “digital-enabled financing platforms are truly transforming access to finance, by making a marketplace for larger, institutional investors to invest in startups”, and 7% agreed that “digital-enabled platforms are having a broader impact on access to finance for entrepreneurs, by driving down costs for other types of financing (such as private equity).”

While the role for digital enablers could be expanded, this is not a silver bullet, and tax policy is one critical avenue for driving up access to early-stage, and scale-up, financing. Approximately 60% of survey respondents indicated that tax credits or concessions are available to angel funds in their home market. The odds of a young entrepreneur working in a market that offers a tax credit, and being able to access early-stage finance<sup>11</sup>, compared to one with no tax credit and being able to access early stage finance, is 1.1x. So, the results indicate that tax incentives are having a positive, if marginal, impact. Where tax incentives and credit structures appear really important is in the scale-up phase. The odds ratio of a respondent finding later-stage VC financing moderately accessible are significantly higher for a respondent where tax credits or incentives for angels are in place - at 1.6x for an entrepreneur reporting no access to such support.

## Scale-up

The main issue the companies are facing is scale-up. This is, from my perspective, one reason why we lack intermediate size companies. This can be explained by a low quantity of VCs and a strong risk aversion, whereas the number of interesting and promising projects is quite high.

**Jean-Victor Garnier**  
CEO, EVA Group, France

What then makes an effective tax incentive scheme? The survey results suggest tax rules and investment exits are critically important. In the survey, 12% of respondents think that for angel investment, tax credit or investment incentive rules are unclear.

A further 5% think that tax penalties for exit are a challenge. Notably, 10.4% of respondents saw credits or incentives as sufficiently large to encourage investment, while 9.8% think incentives are too low. This suggests that regulatory clarity, in addition to ensuring a competitive incentive structure, should be a key focal point for policy.

## Tax credits

“[We have access to] an investor tax credit. There are several problems with the way that the program is laid out, which limit the types of investment that qualify. This has been an issue for us because some investors are holding off on investing.”

**Tom De Haas**  
Co-Founder, Interface Fluidics Limited, Canada

This is telling for what could be done to encourage VC or angel investment. Entrepreneurs in the survey point to targeted tax incentives, in particular for angel investors, with 17% suggesting more generous credits for angels, while 15% suggest higher credits for venture capital investment. Further, a clear path to exit for prospective investors is crucial. Among entrepreneurs surveyed, 14% indicate that clarity on rules to exit investment would support their access to angel and VC funds, and 11% think that reducing or abolishing capital gains on investments held after a certain time period (for example, three years) would promote this type of investment effective. Furthermore, 10% of entrepreneurs surveyed suggest that governments relax cross-border tax and investment rules for angels and VCs investing in young entrepreneurial firms.

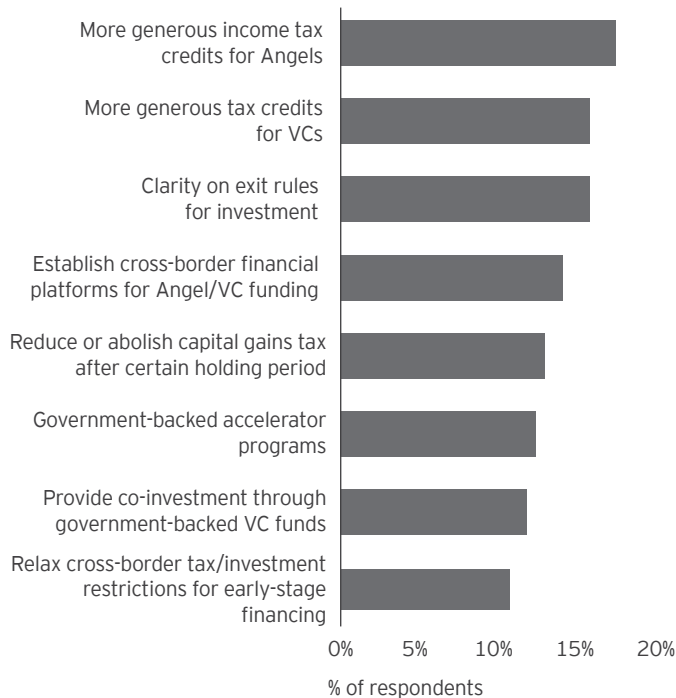
“[To better encourage angel and VC investment in young entrepreneurs, we require] better fiscal incentives, more encouragement and a hands-on approach from government to get more prepared enterprises to market.”

**Ignacio Calderón López**  
Consulting Professor on Entrepreneurship, Tecnológico de Monterrey, Mexico

<sup>11</sup> Access to early-stage finance is defined here as those respondents reporting “moderately accessible” and “very accessible” access.

Entrepreneurs also think that government has a direct role to play alongside angels and VC investors, with 12% of respondents suggesting their governments co-invest through government-backed VC funds, and 11% advocating the establishment of government-backed accelerator programs connected to angel or VC networks. Young entrepreneurs also see a role for digital in how governments could expand their support, with close to 14% of respondents suggesting that governments establish cross-border financial platforms for angel and VC funding.

**Young entrepreneurs highlight effective tax systems for angel and VC investment as critical drivers for investment**



Source: EY, March 2017

Accessing foreign investment is a further facet of financing that was prominent in the survey. Young entrepreneurs are starting and growing businesses in an environment where their customer base, brand and supplier networks are global. It is reasonable, then, to expect that a firm's investor base too could be global. With entrepreneurs operating in a world in which expertise in

one industry could cluster in one physical market (for example, in biotechnology or fintech), having access to early-stage investors with relevant expertise seems important for success. The survey also indicates that digital-first business models should be conducive to access to cross-border capital. For example, young entrepreneurs surveyed suggest that digital-first firms have value propositions that translate globally, and can be compared to global peers or benchmarks to facilitate investment.

**Cross-border connections**

“When it comes to connecting entrepreneurs to investor or market opportunities, exposure is always key. I think cross-border initiatives that involve bringing foreign investors to entrepreneurs in conferences and programs that assist entrepreneurs to travel to new countries would be an excellent step.”

**Michael Maeder**

Kelly Lovell, CEO, Lovell Corporation, Canada

**Tax and visa incentives**

“[I recommend] that to encourage foreign angel investors to look for new technology-based entrepreneurs, [governments should] give them special treatment in terms of taxations or visa exceptions that can encourage business development locally.”

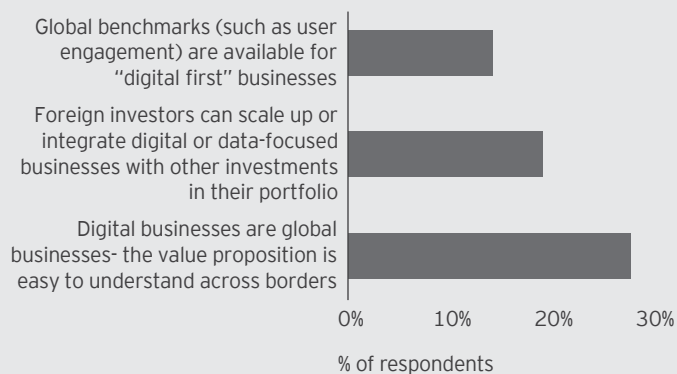
**Edgar Alvarez**

Corporativo de Negocios Diversificados, Mexico

Survey responses indicate that, despite the digitization of business, digital-first business models and markets, the reality for financing for young entrepreneurs is fragmented. Of the young entrepreneurs surveyed, more than 60% report difficulty in raising foreign capital. Tax is the big inhibitor, according to the survey. Nearly 25% of respondents identified tax complexities as the major hurdle. This surpassed macroeconomic (7%) or legal foreign investment considerations (10%) by a significant margin.

## Digital-first ventures have inherently global business models...

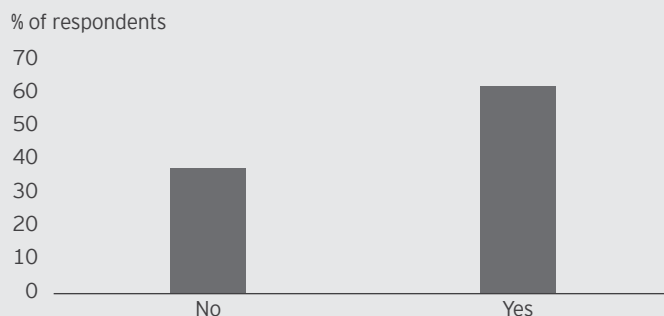
How do digital and data help access to foreign capital for young entrepreneurs?



Source: EY, March 2017

## Survey respondents suggest access to finance is yet to catch up

Do you have difficulty raising foreign capital?



Source: EY, March 2017. N=82

Those reporting difficulty in raising foreign capital, and those that don't, concur on the same recommendations to government for support in connecting with foreign investors and markets. They would like to see a major focus on taxation and education, in addition to more traditional market access activities, such as investor roadshows. This stems from the evolving nature of entrepreneurs' business models and the increasing role for digital. The recommendation for a startup mobility visa is one key discrepancy. This is largely favored by those who have been successful in raising capital in foreign markets – and is an interesting proof point for governments to consider. Mobility is also highly relevant in a world of "digital first" business, because many firms' offerings are intangible and knowledge-based. To get this transfer of skills, the opportunity to live and work in a market and have exposure is critical – maybe even more so than a specific market visit, which could have more relevance to showcase a physical product.

### Startup visa

"The main barrier for us in raising foreign capital is understanding how to navigate the complicated world of cross border trade and the tax implications. My recommendation to government would be to seek the creation of a startup visa that enables young entrepreneurs from across the G20 to do business easily with other countries."

#### Nathan Murphy

Founder and Director, JobHack, Australia

## Policy action to grow youth entrepreneurship: access to finance

1. **Foster the journey from early-stage to scale-up** Scale-up financing is undoubtedly a pain point for young entrepreneurs, and offers significant lift to entrepreneurial activity, if done right. For government, facilitating access to early-stage financing (angel and early-stage VC), and reinforcing scale-up would help to ensure that young entrepreneurs' journey from early-stage to scale-up is a smooth one. This could be achieved through:

### Early stage

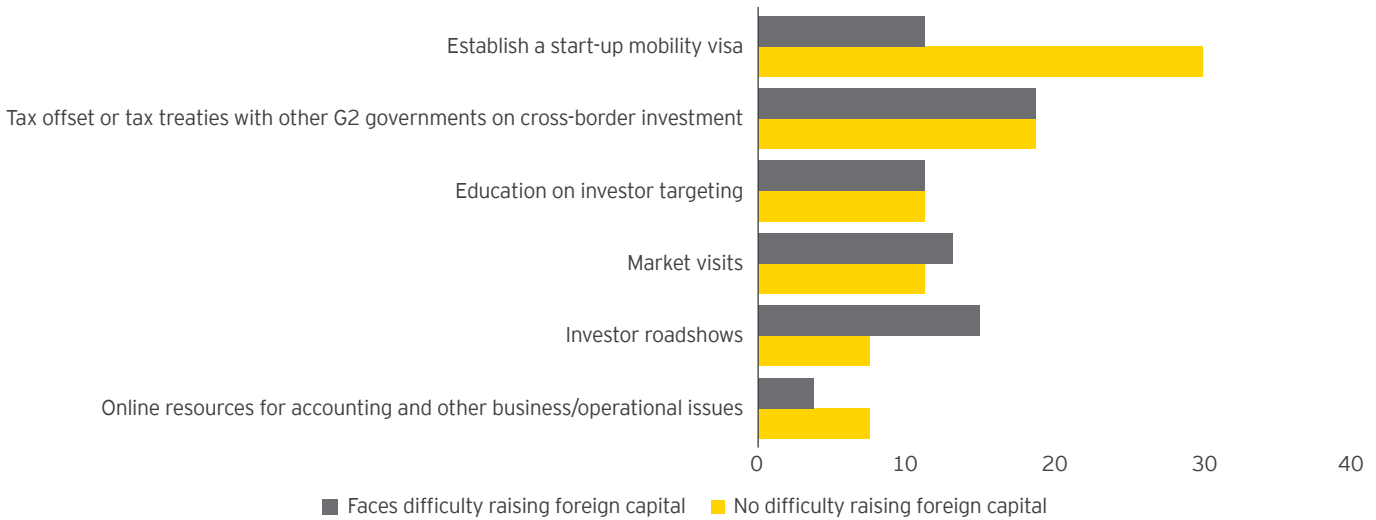
- ▶ Investment in digital financing platforms, such as network or crowdfunding platforms, to support initial investment and aid young entrepreneurs as they launch a business.
- ▶ Incentives for new entrepreneurs to act as angels (for example, through front-end tax deductions for investment).
- ▶ Increased tax incentives for angels, which could be determined through direct consultation with young entrepreneurs and angel associations.
- ▶ Government co-investment, or direct investment in early-stage ventures (for example, equity funding of US\$10k-US\$25k).

### Scale-up

- ▶ Clear rules on front-end (investment) tax deductions and back-end (capital gains tax/losses, exits) regulations, for angel and VC investment. For example, this could include CGT exemptions for investments after a pre-defined holding period.

## Young entrepreneurs favor mobility, tax concessions and education for better access to foreign capital

One key initiative you would recommend to your government to connect you with foreign investors and markets?



Source: EY, March 2017. N=81

- ▶ A consultation and pilot on regulatory reform to encourage institutional, retail and cross-border investment in young entrepreneurial firms, for example through targeted tax concessions for this class of investment. Also, government could lead by example with a small allocation of insurance or pension funds, alongside private VC.
- 2. Invest in digital financing infrastructure** The survey suggests that digital platforms can be an important enabler for early-stage, young entrepreneurial firms, if positioned effectively in policy. Solid digital infrastructure can encourage bigger pools of capital, particularly through reducing information asymmetries and risk, and promoting simple guidelines for investment. Government can work to complement existing fintech platforms and tools. This includes through supporting infrastructure (for example, education and verification tools), or through policy to help expand private sector digital platforms (such as crowdfunding and peer-to-peer lending) for finance, through streamlined regulation.
  - 3. Open up access to cross-border capital** Effective policy support is critical to overcome fragmentation in financing markets for young entrepreneurs, including access to cross-border capital. In particular, this includes breaking through

regulatory barriers to foreign investment, especially tax. Clear and competitive tax rules for foreign investment in young entrepreneurial firms, which could be developed in consultation with angel and VC networks, and young entrepreneurs, seem important. Coordination across G20 countries, where feasible, would also be effective. This would need to be accompanied by several supporting initiatives, namely investor education for foreigners considering investing in the local market, and also aftercare, including clarity on tax and accounting for foreigners.

The survey results suggest that growing cross-border investment is dependent on facilitating knowledge transfer, ideation and exposure to new markets and best practices. This could include a start-up mobility visa, which respondents indicate is a critical channel for digital-first firms to integrate with global markets and investors. This is a different focus to simply pushing out entrepreneurs' products to new markets through a trade show or roadshow. Another key initiative could involve the use of online platforms, to better connect young entrepreneurs with foreign capital. This would help to build an investment ecosystem, and be a streamlined one-stop shop for investment, including through the introduction of verification and taxation tools.

## Part 3

# Digital business environment



The need for clear guidelines on privacy and security, including data usage, quality, data rights, as well as an efficient legal and regulatory framework, were the key determinants of a competitive business environment for young, digital-first, entrepreneurs identified in the *Disrupting the disruptors* study.

“[The major legal and regulatory challenges for young entrepreneurs in the market today are] knowing what certifications and qualifications they need in a particular industry just to get a conversation with a potential client. This is especially true in industries such as cybersecurity, where many emergent systems and frameworks are being produced every day.”

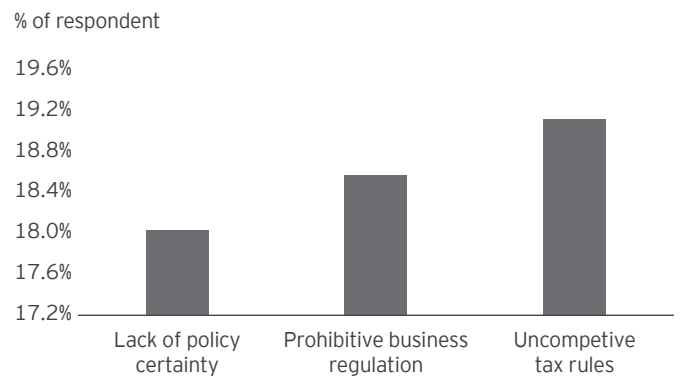
**Sem Ponnambalam**  
President, XAHIVE, Canada

In this year’s survey, the importance of foundational, framework policies were at the forefront of young entrepreneurs’ minds as they sought to push beyond disruption and drive new innovation. In fact, the top legal and regulatory challenges young

entrepreneurs in the survey identified are uncompetitive tax rules (19%), prohibitive business regulations (18.6%) and policy uncertainty (18%). These are considered far more of a concern than privacy (6.6%) or data governance (4.4%).

### Young entrepreneurs continue to highlight that getting the right foundation policies in place is critical

What are the major legal or regulatory challenges for young entrepreneurs in your market today?



Source: EY, March 2017

The results may also be an acknowledgement that digital is in everything. Young entrepreneurs are not looking for specific support for digital, but for a more effective overall business, legal and regulatory environment, which by default includes digital. In any case, the resounding message in the survey is that conditions on the ground are still creating some headaches for growth, even if, on paper, laws and regulations have become more favorable. For example, one respondent gave the example that while the time to start a new business in their country had come down 10-fold in the last decade, the operational processes to maintain a business nonetheless remain burdensome.

### Labor laws

“Young entrepreneurs in our market are lucky to be the beneficiaries of a relatively modern and digitalized legal and regulatory system. Young entrepreneurs struggle most with the education side, not understanding the key requirements of each type of entity and how to be compliant. An important role of government in supporting young entrepreneurs is updating the requirements of employment law to reflect the changing nature of labor markets from full time to gig based. The current requirements for new employers can make it difficult to make the first crucial hires in a business's growth phase.”

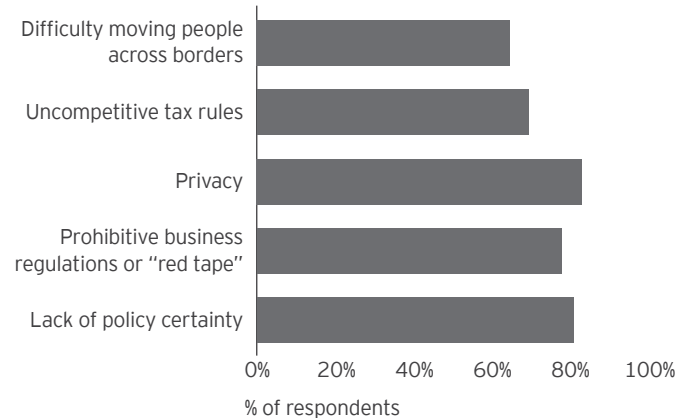
**Nathan Murphy**

Founder and Director, JobHack, Australia

Headwinds can be self-perpetuating. For example, our survey results show that among the young entrepreneurs trying to scale and access new sources of capital, nearly 80% reporting prohibitive business regulations as a barrier also report difficulty accessing foreign capital; more than 80% reporting lack of policy certainty also struggle to access foreign capital; and 70% of those reporting uncompetitive tax rules also have difficulty tapping foreign investment. The survey also suggests that clarity on regulation and taxation are critical on the entrepreneurs' side, and on the investor side, for access to capital more broadly. For example, for those respondents finding later-stage VC financing moderately inaccessible, 28% report tax rules as a headwind, and more than 20% report issues with policy uncertainty and red tape.

### The business and regulatory environment has clear spillovers through the ecosystem for young entrepreneurs

What are the major legal or regulatory barriers you see (if you also face difficulty raising foreign capital)



Source: EY, March 2017

Digital is an important counterbalance to keep business growing even where headwinds remain. For example, all respondents who thought that foreign investors can scale up or integrate digital or data-focused businesses with other investments in their portfolio also saw policy uncertainty as a big barrier. At the same time, all respondents who thought global benchmarks (such as user engagement) are available for digital first businesses also reported that prohibitive business regulations are a challenge in their market. And all who thought that digital businesses are global businesses, the value proposition is easy to understand across borders saw uncompetitive tax rules as a headwind.

Young digital entrepreneurs are also turning to digital to work around their business and tax headwinds, which gives government some hints on where to take action. For example, all respondents who agreed that digital-enabled financing platforms make it easier to access very early-stage capital view uncompetitive tax rules as their major barrier. Through digital, young entrepreneurs also indicate working to adapt to lack of policy clarity by establishing solid networks. All of those who thought entrepreneurs can better connect with angels and VCs through digital platforms also agreed that lack of policy certainty is a major legal or regulatory barrier.

Turning these headwinds into tailwinds for young entrepreneurs is a matter of getting the policy basics right. Taking an on-the-ground perspective on regulation and legislation, through the eyes of young entrepreneurs, seems important. The key will be to really drill down into what this means in a digital-first environment. For example, young entrepreneurs' demand for a streamlined business startup process could look quite different for a young, digital-first firm than for a more conventional SME. The other major observation is that it is not necessarily about less regulation, but more effective rules. For example, the top-rated regulatory change recommended in the survey is the introduction of a mobility visa for young entrepreneurs in the G20, suggesting a priority set for young people that policy will need to meet. There are nuances specific to each market that governments will need to understand, in-depth, to build this out.

### Understanding regulation

"If I had to recommend one key new initiative for government to support young entrepreneurs through streamlined regulation, it would be specialized support. This would include a young entrepreneur case manager that can be assigned to young entrepreneurs and serve as a guide for them to learn, navigate and understand regulatory systems."

**Kelly Lovell**

CEO, Lovell Corporation, Canada

## Digital business environment

POS Pulse is a digital market research firm, based in Germany. Dominic Blank, the organization's CEO, provides some insight on the importance of tailored regulatory and legal support for young, digital-first entrepreneurs.

### What are the major legal and regulatory challenges for young entrepreneurs in your market today?

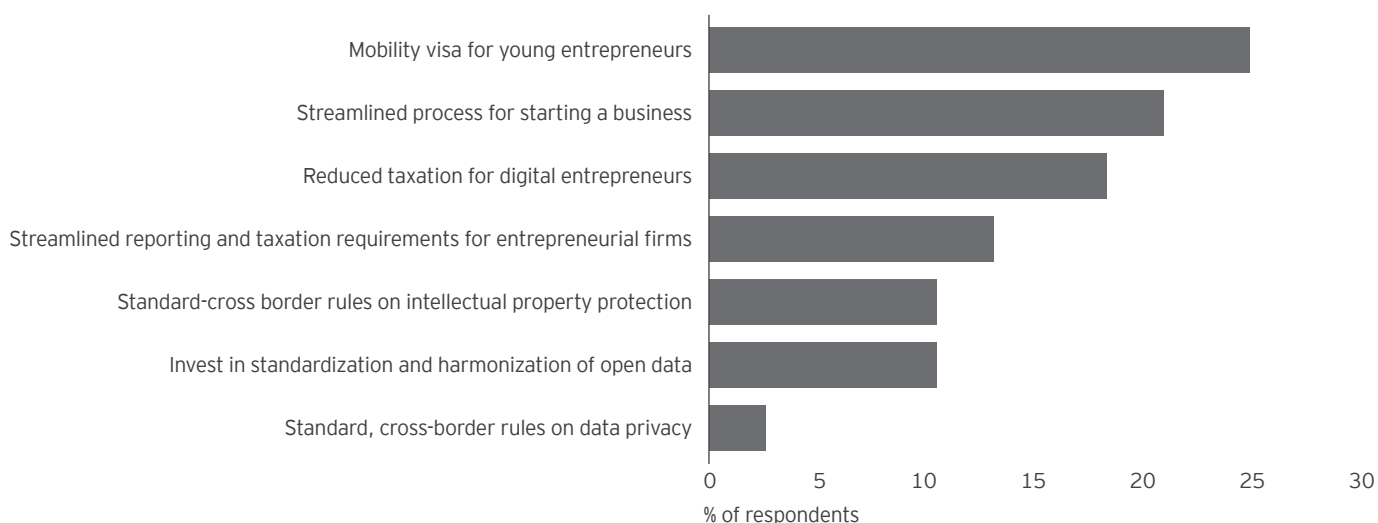
A lot of very specific regulations in all areas of business. For example, very complex and employee friendly labor law, tough data protection regulations, very expensive accounting, extremely difficult access to public money through complex processes.

### If you had to recommend one key new initiative to your government, to support young entrepreneurs through streamlined regulation, what would it be?

Either make regulation less complex or make it easier to follow. For example, it is challenging to understand data protection requirements without expensive support and at a huge cost to the company.

## Young entrepreneurs advocate streamlined, and globally-focused changes to regulation

What is one key regulatory/legal initiative you would recommend to government?



Source: EY, March 2017. N=77



## Policy action to grow youth entrepreneurship: digital business environment

- 1. Fast-track access to cross border markets for young entrepreneurs** Survey results show that barriers and stickiness across borders are key issues for young entrepreneurs in the G20. One major potential reform would be a global mobility visa for young G20 entrepreneurs. This would be a temporary work exchange visa, rather than an opportunity to establish residency. Similarly, investment in a supporting cross-border body to help young entrepreneurs, and their investors, with international expansions and ongoing regulatory compliance could be an effective near-term initiative. These reforms would be quick wins for governments, as such changes could be more immediately achievable than reforming taxation, for example, or other major in-country reforms.
- 2. Consider tax reform for fast-growth, digital entrepreneurs** Governments can also consult on and evaluate targeted tax concessions for young entrepreneurs. Importantly, this would be at the company-level, not just for their investors. It could

involve a combination of streamlined rules and concessions for companies that meet certain cap conditions for revenue or headcount. The focus here should be at least as much on tax compliance as the overall tax obligation.

- 3. Drive differential investment in digital infrastructure** Young entrepreneurs indicate that digital is not only a key part of the business model, but a powerful force to continue to strive for growth, despite conventional barriers to growth, such as tax and policy risks. The distinct, valuable role for government is in quick, responsive investment in framework policies for digital tools and infrastructure. For example, governments could establish a taskforce, which would work on a roadmap to take existing systems and regulations and adapt them to the digital environment. Governments need to think about young entrepreneurs as the digital-first customer. Even countries where this is well advanced, for example where one-stop shops are provided online for those starting and growing a business, can work to make the user experience even more intuitive and integrated with how these firms are doing business and interacting with their investors.



## About the 2017 *Beyond disruption to new innovation survey*

In March 2017, the G20 YEA and EY conducted a survey of the G20 YEA network of young entrepreneurs. The survey was distributed through G20 YEA country sherpas to the global G20 YEA network, through an online platform. A total of 243 young entrepreneurs provided responses to the survey, which included 25 questions.



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