

The power of three

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

The EY G20 Entrepreneurship Barometer 2013

Country profiles

▶ **Argentina**

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G20
Young Entrepreneurs'
Alliance

Argentina at a glance



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A critical time ahead for Argentina's entrepreneurs

Key facts

Overall Barometer ranking	Quartile 4
Population	40.76 million
GNI per capita (PPP)	US\$17,250 (2011)
GDP growth	1.9%
Exports as % GDP	22%

Source: The World Bank, INDEC, 2012



Argentina has a long way to go in its efforts to improve its entrepreneurial ecosystem. Nevertheless, there are still plenty of reasons to be optimistic. The country benefits from many strengths such as rich natural resources, a highly educated population, a diversified industrial base and a strong agribusiness sector. But in the context of entrepreneurship, what matters is the ability to put all these different resources to good use. In this regard, Argentina lags behind its G20 peers in the EY G20 Entrepreneurship Barometer 2013.

This is not to say that progress has not been made. For instance, Argentina's performance in education and training has been above average, providing its best overall result in the Barometer. Public spending on education has improved markedly from 2006 to 2009, despite considerable fiscal pressures, an impressive achievement that puts Argentina ahead of many of its G20 peers. Also, tertiary education levels are above average, helping ensure a stronger supply of talent for entrepreneurs seeking to build new businesses.

The regulatory burden facing entrepreneurs has also been reduced in recent years. For example, the time taken to start a business has improved from 2011, although it still remains above the G20 average. Elsewhere, there is much scope for improvement. For example, local entrepreneurs surveyed find themselves investing significant time understanding and filing taxes, and they also face high effective tax rates.

In addition, the recent deterioration in access to funding for Argentine entrepreneurs is an issue of particular concern. Access to funding was identified by entrepreneurs in the G20 as the single most important area in the entrepreneurial ecosystem. Unfortunately for Argentina, it is the area where the country scores lowest in the Barometer. Bank credit, initial public offerings (IPOs), private equity and venture capital all remain comparatively low, and local entrepreneurs polled for this study suggest that improvements are not happening quickly enough.

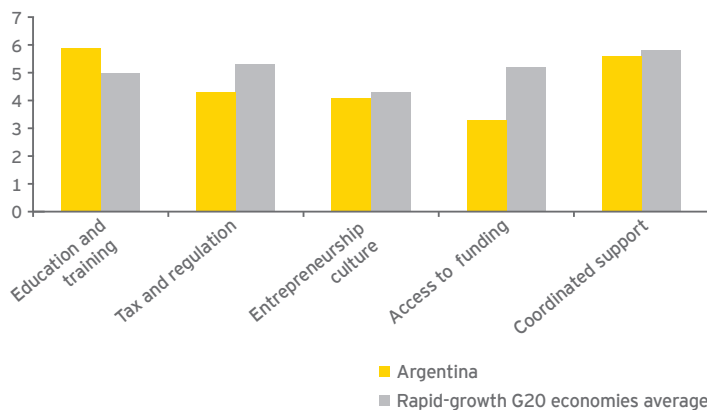
All this has had an impact on new business growth. In 2011, for example, the country reported a rise in the number of new businesses registered, but this has slowed again. Urgent action is required to address weakness in the entrepreneurial ecosystem. In particular, the country needs to improve access to funding and to lessen the tax burden if it is to enable its entrepreneurs to thrive in the years ahead.

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Argentina's pillar scores compared to rapid-growth G20 economies average



Source: EY G20 Entrepreneurship Barometer 2013

Argentina must open up more funding options for its entrepreneurs

Argentina has undeniable assets for local entrepreneurs to build on. It has an educated and creative workforce and strong commodity exports from its bountiful natural resources. But the country lags both its mature and rapid-growth G20 peers in too many areas, from the complexity of its tax system to inadequate support for entrepreneurial businesses and a scarcity of finance to help new ventures grow.

SWOT analysis

Strengths

- ▶ Enrollment in tertiary education is above G20 average.
- ▶ There are relatively high levels of self-employment (percent of total employed was 24 in 2009).¹
- ▶ Time and costs to start a business have consistently fallen in recent years.
- ▶ Argentina's technology entrepreneurs are internationally recognized for their creativity, professionalism and potential to become high-impact entrepreneurs.

Weaknesses

- ▶ An onerous tax environment creates a heavy burden for entrepreneurs.
- ▶ Capital markets in Argentina are among the smallest in the G20 countries. It is one of the lowest ranked economies in terms of private equity and venture capital funding.
- ▶ The country's foreign exchange policy inhibits the performance of entrepreneurs seeking to export or grow abroad.

Opportunities

- ▶ Economic growth has remained relatively solid, increasing potential rewards for entrepreneurs.
- ▶ There is high potential for renewable energy projects.²
- ▶ Existing local communities of entrepreneurs may provide valuable support, especially in the early stages of a new business.

Threats

- ▶ Reliance on commodity exports is excessive.³
- ▶ Salary pressures and exchange rate volatility will likely remain significant risks.
- ▶ Positive attitudes towards entrepreneurship and risk-taking may be under pressure.

¹ "Self-employed; total (% of total employed) in Argentina," *Trading Economics website*, tradingeconomics.com, accessed 10 July 2013.

² P Meisen and C R Gutierrez, *Renewable Energy Potential of Argentina* (Global Energy Network Institute, 2009).

³ M Ferchen et al., "Evaluating Latin America's Commodity Dependence on China," *Working Paper*, No. 13/05 (BBVA Research, 2013).

Only 6% of local entrepreneurs surveyed consider it easy to access funding for their business, just a quarter of the G20 average of 24%

What to watch for

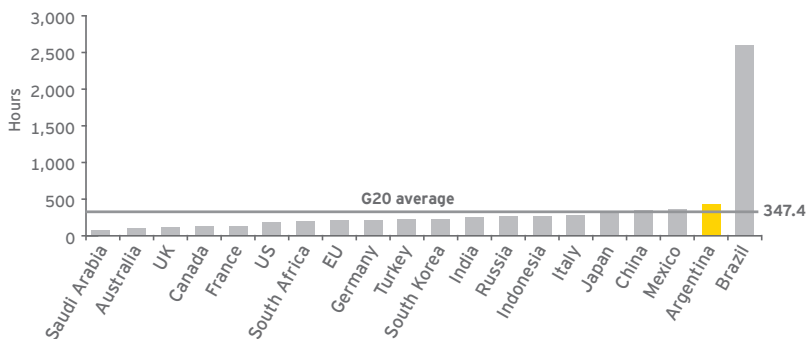
Marginal improvement amidst a challenging economic environment

Argentina has faced difficult economic challenges over the past two decades, including a huge financial crisis from 1999 to 2002, which led to the country defaulting on its foreign debts, riots and widespread unemployment.⁴ Memories of that painful time have been revived in recent months, as many companies have put their investment plans on hold due to uncertainty over the country's future.

Against this difficult economic backdrop, it is not surprising that entrepreneurs in the survey are often less optimistic than their peers in many other G20 rapid-growth markets. They see limited measurable improvement across a variety of indicators, whether on labor market rigidity, business regulations or tax incentives. As many as 37% report a deterioration in the ease of starting a business over the past three years, despite Government efforts to make improvements in this area. The country's tax system also places a higher administrative burden on entrepreneurs than in most G20 countries (although it is considerably better in this regard than its neighbor, Brazil).

Most importantly, the country needs to improve access to funding, which is the area where Argentina scores lowest in the Barometer ranking. Just 6% of local entrepreneurs polled for this report describe access to funding as easy. Banks and investors tend to focus on larger industrial companies, and it is especially hard for Argentine entrepreneurs to access finance. Capital markets remain hostile, and the regulatory burden has only slowly improved over the past decade. Perhaps unsurprisingly, a number of Government initiatives have tried to redress the balance, removing funding constraints and acting as a bridge between experienced professionals and small, growing businesses.

Time spent on tax issues



Source: The World Bank, 2010-12 average

⁴ J J Teunissen and A Akkerman, *The Crisis That Was Not Prevented: Argentina, the IMF, and Globalisation* (FONDAD, 2003).

How the government is helping

The National Fund for the Development of Small and Medium Enterprises

This fund lends to entrepreneurial businesses for medium and long-term investment projects of entrepreneurial ventures at a lower interest rate than the market. It has helped to create more than 2,500 new jobs and sustain more than 12,000 existing jobs from 2009 to 2011.

Launch date: 2000

Most relevant pillars: access to funding

My Shed

Under the My Shed program, the Government provides subsidized loans to entrepreneurial businesses for building new manufacturing plants. As much as ARS1.5m (US\$330,000) may be loaned under the scheme.

Launch date: 2012

Most relevant pillars: access to funding

National Program to Support Young Entrepreneurs

The program tries to promote the activities of young entrepreneurs by providing seed capital, training programs and the so-called "Godmothers" initiative, which is aimed at building alliances between young entrepreneurs and established companies. Since its inception, the program has had significant impact through its 3,000 projects and the provision of learning to more than 9,000 entrepreneurs.

Launch date: 2004

Most relevant pillars: access to funding, entrepreneurship culture, education and training, coordinated support

23%

of entrepreneurs surveyed in Argentina believe that their culture does not support entrepreneurship, despite reasonably high media attention

Entrepreneurial Generation Program

This scheme was implemented in Buenos Aires and is designed to promote, encourage and stimulate entrepreneurial values and skills among young people in high school. In 2012, more than 3,000 students participated. These monthly workshops, which are aimed at public and private middle school students, are composed of workshops, recreational activities, lectures and seminars by industry benchmark entrepreneurs who share their experiences.

Launch date: 2010

Most relevant pillars: education and training, coordinated support

Entrepreneurial Development Program

Also implemented in Buenos Aires, this program encourages entrepreneurial spirit and culture. It seeks to promote greater dissemination of practical and entrepreneurship culture in areas of the population not covered by public or private programs. It also aims to foster the creation and development of new sustainable business projects or management improvement initiatives in existing commercial projects. It has more than 3,000 participants annually, including entrepreneurs, business development specialists and other parties.

Launch date: 2009

Most relevant pillars: access to funding, entrepreneurship culture, education and training, coordinated support



Key insight: the right appetite for risk

Marcos Galperin, CEO, MercadoLibre, Argentina

MercadoLibre.com ("mercado libre" means "free market" in Spanish) is a website dedicated to e-commerce and online auctions. The company was established in 1999 by Marcos Galperin, before rapidly expanding to other South American countries. It is currently present in Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Mexico, Ecuador, Peru, Portugal, Panama, Uruguay and Venezuela.

Call it the power of a good idea. Internet entrepreneur Marcos Galperin got his big idea – and support – while studying in business school at Stanford University. On the way to the airport with a visiting speaker to the business school, John Muse, co-founder of the Hicks Muse private equity fund, Galperin persuaded him to back an eBay-style venture in Latin America in Argentina in 1999. Today, MercadoLibre is Latin America's No. 1 e-commerce site with 43 million registered users, and climbing. The company made an IPO in 2007.⁵

Galperin believes that there has been a dramatic change in the entrepreneurial conditions in Argentina since that time. "Today there is a much stronger entrepreneurial community, with venture capitalists, entrepreneurs and angel investors,

incubators, colleges connected to venture capital and to other entrepreneurs. This is all in dramatic contrast to 1999," he says. "I am not saying we are Silicon Valley, but it's really starting to happen here, here has been real progress: the signs are very positive."

Of course, barriers to entrepreneurship remain. The stigma of failure – and possibly even bankruptcy – if a new business fails in particular is an important one, says Galperin. "Even if you have a good idea, it's much more likely that you will fail than you will succeed," he says. "That's the story of being an entrepreneur. But if your company goes bankrupt, you are stigmatized by banks and the business community, by your neighbors, by society. It's a big problem."

Galperin believes that in order to be able to create successful businesses you not only have to make it easy for businesses to set up but also to fail. "You need to foster an environment where people who are willing to take risks and risk failure. The Government has a key role to play here. A company that has just started and has a small number of employees should be treated very differently to larger companies when they fail."

⁵ "Company profiles: MercadoLibre," *Hoovers website*, hoovers.com, accessed 20 July 2013.

Access to funding

Pillar ranking: 20

88%

of entrepreneurs surveyed in Argentina think it is difficult to access funding in the country, compared to 70% across the G20

Argentine entrepreneurs' most urgent issue

Access to funding	Argentina	G20 average	Period
IPO market activity			
IPO amount invested (% of GDP)	0.01	0.22	2009-11 average
Access to credit			
Domestic credit to private sector (% of GDP)	14.0	99.0	2008-10 average
Venture capital availability (Scale of 1=impossible to 7=very easy)	1.9	3.0	2009-11 average
M&A deal value (% of GDP)	1.9	3.4	2010-12 average

Sources: The World Bank, Dealogic, IMF, World Economic Forum

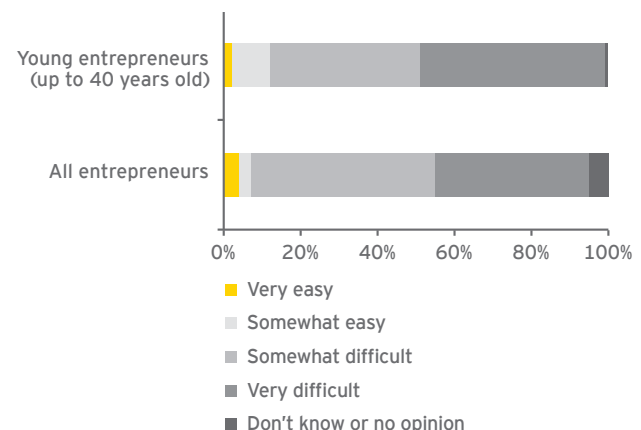
Funding conditions in Argentina compare poorly to those in the G20 more generally, and this is the single largest drag on local entrepreneurs from across the five pillars assessed in the Barometer. This is reflected both in the hard data on available funding sources and in our survey of local entrepreneurs. These results highlight the need for urgent improvements in this area, not least because this issue was flagged up as a concern in the first edition of the Barometer.

If the country's recent promising gains in international competitiveness are to be improved and sustained, then Argentina urgently needs to revitalize its capital markets. Looking at the hard data, it is clear that the availability of capital for new

entrepreneurs is very limited. For example, IPOs remain at a very low level: only one was registered in 2012, down from just two the year before, compared with an average of 32 and 58 across the G20, respectively. Venture capital is also very scarce: on a scale of 1 (impossible) to 7 (very easy), Argentina scored just 1.9, well below the G20 average. The picture is not all bleak: mergers and acquisitions (M&A) availability is slightly more promising, with M&A funds remaining active and related deal values exceeding that of a number of other countries in the G20. Nevertheless, a lack of deep and diverse funding options sharply limits the growth capital available to expanding firms.

There was only one initial public offering in Argentina in 2012; Brazil had 4 while the G20 average was 32

Entrepreneurs' view on how easy it is to access funding in Argentina



Source: EY G20 Entrepreneurship Barometer 2013

63%

of local entrepreneurs believe that Argentina offers them at least partial support

Entrepreneurship culture

Pillar ranking: 16

More investment and support needed to drive innovation

Entrepreneurship culture	Argentina	G20 average	Period
R&D spending (% of GDP)	0.5	1.6	2007-09 average
Scientific and technical journal articles (per 10,000 people)	0.9	3.3	2007-09 average
Cost of resolving insolvency (% of estate)	12.0	11.8	2010-12 average

Source: The World Bank

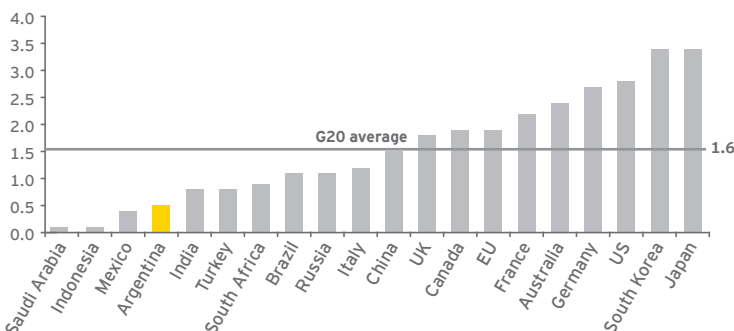
Relative to many other rapid-growth countries in the G20, Argentina already benefits from plenty of media attention on entrepreneurs and self-employment is comparatively high. This may explain why 63% of Argentina's entrepreneurs believe that their country is partly or fully supportive of entrepreneurs – a slightly higher proportion than the average of 57% across the G20.

However, other aspects of Argentina's entrepreneurship culture are much less favorable. In particular, the poor innovative environment is a big obstacle to entrepreneurship. This is reflected in relatively low research and development (R&D) spending, a low number of researchers, and a limited number of scientific and technical journal articles. On these indicators, Argentina scores poorly, even when compared to countries such as China, India and Russia. On R&D it has consistently spent about

one-third of the G20 average. The production of scientific and technical journal articles has more or less stagnated in recent years, reaching 3,655 in 2009 (the latest available year).⁶ This compares to an average of around 43,000 across the G20, more than 12,000 in Brazil and more than 22,000 in Mexico. While the G20 average is distorted by strong performances in the EU and the US, the regional comparison gives a good idea of the ground Argentina must recover.

Argentina also lags behind its G20 peers on such metrics as risk tolerance and celebration of self-made wealth. Businesses that fail in Argentina are often stigmatized by society and find it very difficult to win backing again from the banks. This is an area where policymakers could do more to encourage a culture that accepts the risk of failure as an integral part of entrepreneurship.

R&D spend (% of GDP)



Source: The World Bank, 2007-2009 average

Argentina spent only 0.5% of GDP on R&D, compared with neighbors Brazil at 1.1% and the G20 average at 1.6% (2007-09 average)

⁶ "Scientific and technical journal articles," *The World Bank website*, data.worldbank.org, accessed 20 July 2013.

Tax and regulation

Pillar ranking: 20

Argentina, with 14, has nearly double the amount of start-up procedures as the G20 average of 7.6 (2010-12 average)

The tax burden is holding entrepreneurs back

Tax and regulation	Argentina	G20 average	Period
Ease of starting a business			
Start-up procedures (number)	14.0	7.6	2010-12 average
Time to start a business (days)	26	22	2010-12 average
Cost to start a business (% of income per capita)	14.4	9.4	2010-12 average
Paid-in minimum capital to start a business (% of income per capita)	7.4	17.9	2010-12 average
Business regulations			
Time spent on tax issues (hours)	424	347	2010-12 average
Labor market rigidity			
Cost of firing (weeks of wages)	110	50	2007-09 average
Labor and tax contributions (% of commercial profits)	29.4	24.0	2012
Taxation			
Total tax rate (taxes and mandatory contributions borne by the business expressed as a share of commercial profit)	108.3	49.7	2012
Indirect tax rate (taxes collected by the company and remitted to the tax authorities)	21.0	14.2	2012

Source: The World Bank

Tax and regulation is another area where Argentina scores low in the Barometer. Government programs have attempted to reduce the regulatory burden for companies, with some minor improvements in areas such as the cost and time taken to start a new business. Businesses in Argentina spend an average of nearly 18 whole days dealing with tax issues, an administrative burden that is second only to Brazil. Simplification of the tax code and filing procedures here could act as a major spur to business growth and development.

There are other areas where tweaks in regulation could help. For example, the cost of firing, which has already been much reduced in recent years, stands at well over double the G20 average (110 weeks of wages compared to 50 across the G20 as a whole). This acts as a significant impediment to business investment and job creation, by curbing entrepreneurs' appetite for hiring more workers.

However, arguably Argentina's uncompetitive tax rates are a bigger problem. The total tax rate for 2012 actually exceeds commercial profits, in theory, (once all taxes and mandatory contributions have been included).⁷ In recent years, increased tax pressure by provincial tax authorities and the lack of inflationary adjustment at a national level have become some of the main tax constraints for local businesses. Given all this, a significant number of local entrepreneurs see a cut in the corporate income tax burden and an increase in tax incentives aimed at innovation as the initiatives with the greatest potential impact on their long-term growth.

Argentine businesses spend an average of

424 hours

on tax issues, second only to Brazil in the G20 (2010-12 average)

⁷ "Paying Taxes in Argentina," *Doing Business website*, doingbusiness.org, accessed 23 July 2013.

Education and training

Pillar ranking: 8

Argentina's tertiary enrollment at 70.0% is well above the G20 average of 53.5% and is second only to Russia, when compared against rapid-growth markets (2008-10 average)

Extend entrepreneurial education beyond the classroom

Education and training	Argentina	G20 average	Period
Public spending on education (% of GDP)	5.7	4.8	2008-10 average
Secondary school enrollment (total enrollment expressed as a percentage of the population of official secondary education age)	87.2	95.0	2008-10 average
Tertiary enrollment (total enrollment expressed as a percentage of the total population of the five-year age group following on from secondary school leaving)	70.0	53.5	2008-10 average

Source: The World Bank

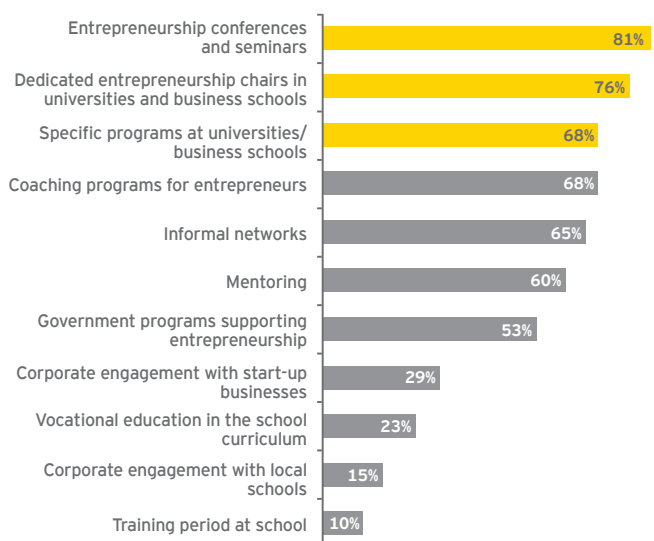
Argentina's strong public spending on education is one of its more positive contributions to entrepreneurship. In 2010, the country spent an average of 5.7% of GDP on education, well above the G20 average of 4.8%, including for mature economies. This helps explain why the country performs so strongly in this area of the Barometer.

These investments appear to be paying off. The majority of entrepreneurs surveyed, are seeing specific improvements in education at universities and business schools, and at entrepreneurship conferences and seminars. They also report improvements to coaching programs for entrepreneurship and informal education/networks – supporting the view of 90% of entrepreneurs surveyed in Argentina, who cite that students need specific training to become entrepreneurs. Nevertheless, entrepreneurship education in Argentina is largely confined to the classroom. The country scores very low on vocational education, an area which is vital to entrepreneurs across the G20.

Tertiary education levels remain impressive in comparison with other G20 countries. However, policymakers need to address a "brain drain" of talent out of the country, and high levels of unemployment. Here, more emphasis on practical training and a greater corporate engagement in education is crucial, to help encourage local entrepreneurs to form ventures locally. Another

important initiative would be to encourage greater emphasis on R&D in the private sector, which remains low relative to the G20 countries overall. Quite simply, science and technology will be crucial if Argentina is to become less dependent on commodity exports and further bolster its already vibrant set of high-tech entrepreneurs.

Proportion of entrepreneurs citing improvement in areas of education and training over the past three years



Source: EY G20 Entrepreneurship Barometer 2013

Argentina spent 5.7% of GDP on education, well above the G20 average of 4.8% (2008-10 average)

Coordinated support

Pillar ranking: 9

39%

of entrepreneurs surveyed in Argentina plan to use Government start-up programs in the next three years

Solid support for entrepreneurs

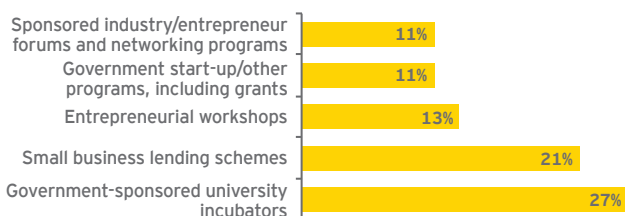
On coordinated support, Argentina registers an above average result, a promising improvement in the overall entrepreneurial ecosystem. In gauging sentiment on the ground, local entrepreneurs believe they are receiving an efficient level of support to bolster their efforts. Workshops and industry-specific training were notably above average for the G20, reinforcing the perception that an efficient level of coordinated support already exists in Argentina.

Overall, this study has found that rapid-growth economies tend to score better than mature economies on coordinated support. This underlines the positive progress many countries are making as they start to improve their local environments from a typically low base. One example of Government efforts to improve private and public support for entrepreneurs is BAITEC, the technology incubator based in Buenos Aires.⁸ It helps companies from any sector of the economy that have extensive technology usage. Companies shortlisted for incubation are usually less than 24 months old.

Most respondents think that business and university incubators are the most effective form of coordinated support. Around 20% have already used them, a figure that compares favorably with the rest of the G20. This will be an important resource going forward, with entrepreneurs singling this out as a key form of support to help them grapple with growth.

Nevertheless, there are clearly also areas for improvement. Entrepreneurs report a deterioration in access to corporate advisors and small business administrations over the past three years. They would also benefit from an increase in government start-up programs: 26% of respondents have used them in the past and they remain popular, with nearly 4 in 10 (39%) planning to use them in the next three years. Given the special role that the incubators can perform, it would also be important to extend this opportunity to a greater number of high-potential businesses in the country.

Entrepreneurs' view on top five factors of Government-tailored support that would be most effective



Source: EY G20 Entrepreneurship Barometer 2013

Entrepreneurs from Argentina rank university and business incubators as the most effective organizations for fostering entrepreneurship

⁸ "Baitec 2013," *Buenos Aires Ciudad website*, buenosaires.gob.ar, accessed 23 July 2013.

Rankings table

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

About the EY Entrepreneurship Barometer model

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

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

weighted 50-50 between qualitative and quantitative inputs. For coordinated support, given a lack of quantitative indicators, this is based solely upon the survey responses.

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

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

Full details of the Barometer's methodology can be found on page 66 in the main EY G20 Entrepreneurship Barometer 2013 report.

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

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