

The power of three

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

The EY G20 Entrepreneurship Barometer 2013

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France at a glance



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France starts hearing the call of its entrepreneurs although major obstacles remain

Key facts	
Overall Barometer ranking	Quartile 2
Population	66 million
GNI per capita (PPP)	US\$36,460
GDP growth	0.0 %
Exports as % GDP	27.0%

Source: The World Bank, 2012

France has plenty of potential as a source of innovative and competitive new ventures, but has struggled to convert this into solid support for its entrepreneurs. This is an unfortunate reality for a country of this size and at this level of development (it is the fifth largest economy in the world in terms of GDP). An important part of the problem appears to be the lack of a cultural foundation for entrepreneurship. In this area, France's entrepreneurs were much more negative than their G20 peers, according to the EY G20 Entrepreneurship Barometer 2013.

Beyond this cultural aspect, the level of taxation is perhaps the clearest obstacle, both in terms of its direct effects on entrepreneurs, and as a symbol of the country's relative unease with private enterprise. Business taxes are above the average for mature economies. And although the Government's attempt to introduce a 75% tax rate on wages above €1m has yet to be clearly defined and implemented, it has sent an unfortunate signal about the country's support for entrepreneurship.¹

On the other hand, France has clear strengths too. It scores very highly in the education and training pillar of the EY G20 Entrepreneurship Barometer 2013, due to its strong levels of public investment here. Spending on research and development (R&D) is also high, although these inputs aren't necessarily matched by the outputs. This is perhaps clearest in relation to R&D, where France underperforms in terms of the number of patents filed.

With this in mind, significant reforms to the higher education and research sectors over recent years have been welcome, although results will take some time to feed through. Similarly, on the tax front, there has been significant progress with the introduction of tax credits that subsidize the cost of R&D and, more recently, of labor.

The Government has also recently moved entrepreneurship up its agenda, in response particularly to pressure from the "pigeon movement," a group of disgruntled entrepreneurs.² In January 2013, the Government started a consultation process, which by midyear had resulted in 14 new measures to boost entrepreneurship, showing just how much progress can be made relatively quickly. All these moves are a step in the right direction towards unlocking France's undoubted entrepreneurial potential.

¹ "French taxes: Another absurdity," *The Economist website*, economist.com, accessed 15 July 2013.

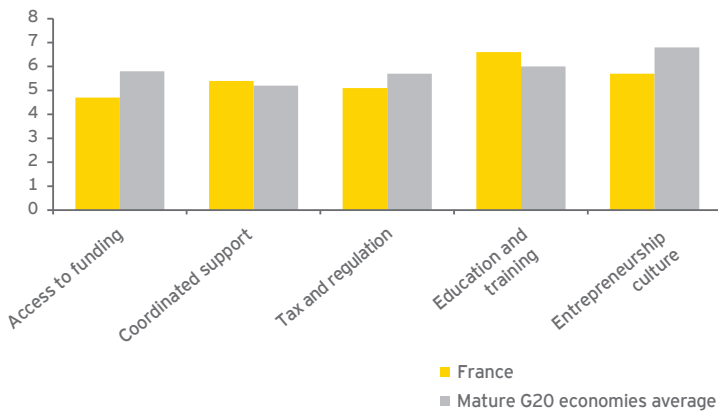
² "'Pigeon' Entrepreneurs Take Hollande Tax Protest to Web," *Bloomberg Businessweek website*, businessweek.com, accessed 13 July 2013.

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France's pillar scores compared to mature G20 economies average



Source: EY G20 Entrepreneurship Barometer 2013

A lot of France's entrepreneurial potential remains untapped

French entrepreneurs still have to push against significant headwinds in order to succeed, but there are welcome signs of a shift in government attitudes. There is a clear willingness to do more to encourage entrepreneurial dynamism, and promising moves have been made to encourage innovation in particular. Entrepreneurship would really benefit if there were a concerted effort to bring down France's high taxes – particularly labor taxes.

SWOT analysis

Strengths

- ▶ France tops our education rankings due largely to high levels of public spending.
- ▶ France has boosted its innovation incentives in recent years – with a research tax credit and special status for innovative start-ups.
- ▶ It's much easier to start a business in France than on average in the G20, in terms of the cost, time and red tape involved. The Government plans to develop an e-administration system, to further simplify administrative procedures for companies.

Weaknesses

- ▶ The vast majority of France's entrepreneurs still feel that the country could do more to encourage entrepreneurship.
- ▶ Labor costs are high and exert a significant drag on entrepreneurship.
- ▶ France's capacity to encourage and finance the development of potentially world-leading companies is weak.
- ▶ Despite some new "born global" companies, international development of French entrepreneurial businesses remains limited.

Opportunities

- ▶ The Government is increasingly aware of entrepreneurship's importance as a driver of growth and employment.
- ▶ The Government has promised increased stability for entrepreneurs with a five-year moratorium on changes to key business and investment tax rules.
- ▶ Initiatives to connect education, research and industry in clusters should help France boost the effectiveness of its R&D.
- ▶ World-leading businesses in energy, life sciences, transportation and aerospace can help stimulate small-business activity in these sectors.

Threats

- ▶ Without much better technology transfer, the potential commercial benefits of public research will not be realized as efficiently as they could be.
- ▶ Significant reductions in the tax burden are unlikely due to fiscal weakness and a lack of political will.
- ▶ The heavy tax burden faced by entrepreneurs may have an adverse effect on their drive and risk appetite.

What to watch for

Persistence needed to implement new economic plan

France's high levels of taxation are a key obstacle in the development of entrepreneurship in the country. This is particularly true of labor-related taxes and contributions, which are more than twice as high as the G20 average. Efforts to address these formed a central plank of an economic program published by the Government in late 2012.³

The Government's investment commissioner – Louis Gallois, the former CEO of EADS – had proposed a “competitiveness shock” involving a €30b reduction in payroll taxes.⁴ In the end, the Government wasn't as radical as this, introducing a smaller tax credit spread over a number of years.⁵

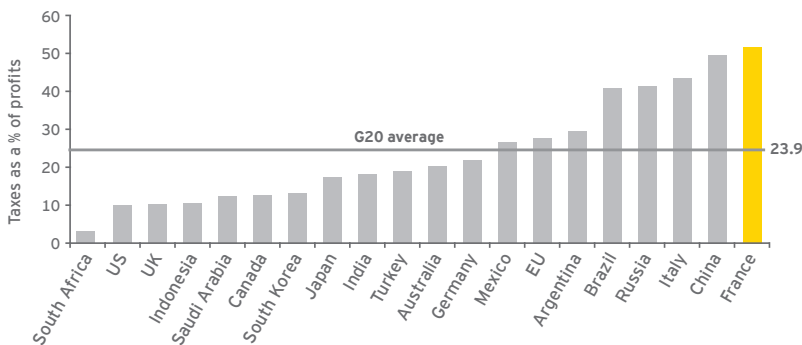
The new Tax Credit for Competitiveness and Employment (CICE) amounts to a total tax break of €20b, with a 4% credit for eligible payroll costs in 2013 rising to 6% from 2014.⁶ By default, the tax credit is deferred for a year, but entrepreneurial businesses can get an advance from the Government in 2013.

One advantage of the Government's economic plan is that rather than focusing solely on labor costs, it aims to tackle a range of barriers to enterprise in France. The program comprises a total of 35 proposals, some of which could improve the lot of French entrepreneurs.⁷ For example, in January 2013, €500m in new credit lines for small businesses was released to the successful entrepreneurial business development agency, Oseo.

One of the program's flagship institutional reforms is the creation of a Public Investment Bank (BPI), which will merge all the public bodies that currently provide funding to small business.⁸ This should streamline things for businesses, by giving them a single point of contact when applying for public funding.

Entrepreneurs will also benefit from measures being implemented from a major entrepreneurship consultation that the Government started in early 2013, the “Assises de l'entrepreneuriat.”

Labor related taxes (% of profits)



Source: The World Bank, 2012

³ “Hollande hits cautious note on labour costs,” *Financial Times website*, ft.com, accessed 16 July 2013.

⁴ “French competitiveness: Shock treatment,” *The Economist website*, economist.com, accessed 15 July 2013.

⁵ “France eases labor costs via tax credits, VAT hike,” *Reuters website*, reuters.com, accessed 18 July 2013.

⁶ “France Commits To Tax Incentives To Boost Foreign Investment,” *Tax-News website*, tax-news.com, accessed 15 July 2013.

How the government is helping

Public Investment Bank (BPI France)

France's new public investment bank merges a number of existing bodies in two broad activities: BPI France Financing (formerly OSEO) and BPI France Investment (formerly CDC Enterprises, FSI and FSI Régions). The BPI will provide loan guarantees, co-financing, direct loans and investment in capital, as well as broader business support services. It will invest €12b in entrepreneurial businesses by 2017.

Launch date: 2013

Most relevant pillar: access to funding

Competitiveness clusters

France's 71 competitiveness clusters aim to develop synergies and cooperative efforts by bringing together businesses (both large and small) in a specific region, along with research laboratories and educational establishments. Introduced in 2005, the clusters now comprise 7,200 firms, employing 760,000 people. Of these, 73% are entrepreneurial businesses, 15% are mid-sized firms and 12% are major companies.

Launch date: 2005

Most relevant pillar: coordinated support

French labor-related taxes at 51.7% of profits are over double the G20 average of 23.9% (2012)⁹

⁷ “France offers businesses €20bn tax break,” *Financial Times website*, ft.com, accessed 16 July 2013.

⁸ “France sets up a state investment bank,” *Europost website*, europost.bg, accessed 15 July 2013.

⁹ “Labor tax and contributions (% of commercial profits),” *The World Bank website*, data.worldbank.org, accessed 15 July 2013.

The French Government has just announced a tax break of

€20b

for businesses

Crédit Impôt Recherche (Research Tax Credit)

The research tax credit provides corporate tax relief for R&D expenses. It supports companies' R&D efforts and increases their competitiveness by allowing a 30% deduction on the first €100m of R&D expenditure and 5% thereafter. After its reinforcement in 2004, the number of businesses using the credit has increased by 80% since 2008, to 18,000 companies. The credit has generated total tax savings for businesses of more than €5b.

Launch date: 2004

Most relevant pillars: **access to funding, entrepreneurship culture**

Credit mediation scheme

France's credit mediation scheme was established to help entrepreneurial businesses deal with bank lending bottlenecks that emerged during the financial crisis. The entrepreneurial business submits a file to the mediator online. The bank in question is notified and has five days to reply. After a further five days, the mediator determines how the matter should be resolved. By mid-2012, the mediator had dealt with 36,000 files, with mediation succeeding in 62% of these, leading to the release of €3.7b in lending.

Launch date: 2008

Most relevant pillar: **access to funding**



Key insight: France's entrepreneurial environment

A Q&A with Jean-Luc Petithuguenin, Chairman and President, Groupe Paprec, France

Jean-Luc Petithuguenin runs one of France's top independent recycling businesses, Paprec Recycling. He took over a small paper recycling company in the Paris region in 1995, after a career at French water utility Générale des Eaux, and turned it into a market leader. The company now has more than 50 depots throughout France.

How have the incentives for entrepreneurs changed in recent years?

The French Government recently introduced a new wealth tax, which I think was a big mistake. It is meant to stop a culture of short-termism in business, but in fact it penalizes everyone who is creating wealth in the country, which many entrepreneurs are upset about. In fact, it's driving many people to do business outside of France, especially for those starting up new ventures; they are looking at whether they should incorporate in Luxembourg or the UK instead, and perhaps only then setting up a subsidiary in France.

What other implications does this hold for the entrepreneurial environment?

The current rules make entrepreneurs less likely to sell their companies, as they instead take a wait-and-see attitude, in case the rules change or are reversed. It's already happened, which in turn impacts the number of exits in the market, and also the availability of investment for start-up businesses.

What do you see as the strongest aspects of the environment for entrepreneurship in France today?

Overall, I think it's fair to say that it's a lot easier for entrepreneurs to find investors for their business today than it was 20 years ago, and this has improved positively. Compared with then, you have so much more interest from business angels and other investors. As a director of a French bank, I can also see this from that perspective too. Although there is less money available from banks after the crash, if you have a good business you can get money to help it grow.

Access to funding

Pillar ranking: 16

75%

of French entrepreneurs say access to bank loans has deteriorated in the last three years – more than double the G20 average of 33%

Bank credit is tight, but a range of initiatives should free up other sources of capital

Access to funding	France	G20 average	Period
IPO market activity			
IPO amount invested (% of GDP)	0.03	0.22	2009-11 average
Access to credit			
Domestic credit to private sector (% of GDP)	111.5	99.0	2008-10 average
Venture capital availability (Scale of 1=impossible to 7=very easy)	3.0	3.0	2009-11 average
M&A deal value (% of GDP)	2.5	3.4	2010-12 average

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

France's level of IPO investment at 0.03% of GDP is around a seventh of the G20 average which stands at 0.22% (2009-11 average)

Access to funding is a key challenge for French entrepreneurs, with just 17% considering it easy to obtain. In addition, 75% of local entrepreneurs surveyed said that access to bank loans has been deteriorating, compared to just 5% who pointed to an improvement.

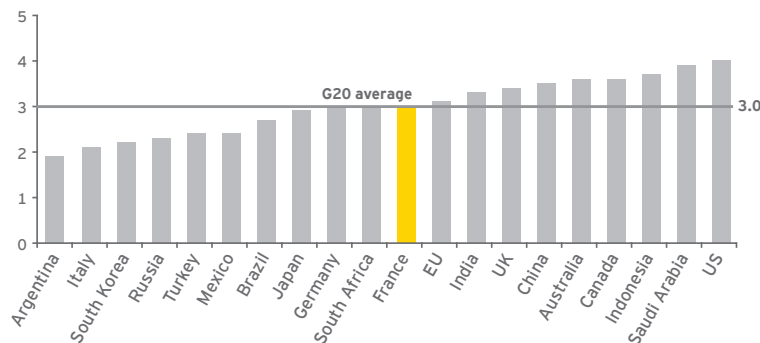
According to the OECD, the proportion of authorized loans to entrepreneurial businesses that were actually drawn down by businesses averaged 87% between 2007 and 2011, pointing to tightness in the market for entrepreneurial business bank credit in France.¹⁰ Over the same period, the entrepreneurial business share of total business short-term loans dropped from 27.1% to 22%.

Nevertheless, encouraging progress is being made on the ground. A number of successful French entrepreneurs have recently

established funds – such as Isai, Jaina and Kima Ventures – to support entrepreneurial growth and innovation. The Government has also announced the creation of a share savings plan (PEA-PME) that will encourage private investment in entrepreneurial businesses. Crowdfunding is also set to develop once a new legal framework has been put in place, and NYSE Euronext has announced the opening of a new entity, Enternext, dedicated to small companies.

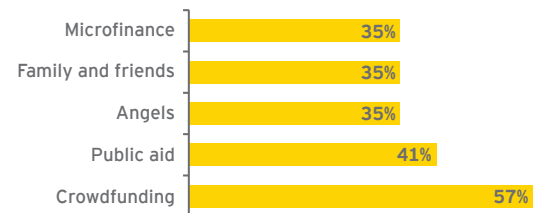
A ranking by the World Economic Forum suggests that France is in line with the international average for access to venture capital. However, the total volume of venture capital still hasn't recovered to pre-financial crisis levels.

Access to venture capital (1 = impossible, 7 = very easy)



Source: The World Bank, 2009-11 average

Proportion of entrepreneurs surveyed who noticed an improvement in these funding instruments



Source: EY G20 Entrepreneurship Barometer 2013

¹⁰ Organisation for Economic Co-operation and Development, *Financing SMEs and Entrepreneurs 2012: An OECD Scoreboard* (OECD Publishing, 2012).

Entrepreneurship culture

Pillar ranking: 9

Only

22%

of French entrepreneurs think that French culture embraces entrepreneurs: the G20 average is over 2.5 times higher than this at 57%

Welcome progress on bolstering weak cultural support for entrepreneurship

Entrepreneurship culture	France	G20 average	Period
R&D spending (% of GDP)	2.2	1.6	2007-09 average
Scientific and technical journal articles (per 10,000 people)	4.9	3.3	2007-09 average
Cost of resolving insolvency (% of estate)	9.0	11.8	2010-12 average

Source: The World Bank

France performs well on the innovation-related aspects of its entrepreneurship culture, highlighting its strong potential, but the perception of entrepreneurs on the ground is different. Just 22% of local entrepreneurs agree that the country has a culture that encourages entrepreneurship, compared to an average of 57% across the G20.

It is likely that the country's high-tax backdrop accounts for much of this negative sentiment. Furthermore, France scores poorly in the Barometer in terms of encouraging positive attitudes towards risk. The country's negative perception of business failure contributes to this strong risk aversion: 46% consider such a failure to imply a career failure, more than twice the G20 average of 21%. Nevertheless, measures are being taken to change this perception. For example, the "O40" indicator, which singles out failed businesses in the Bank of France files, is being abolished, as a positive step forward.

France performs more strongly on its innovation culture. Perhaps this is unsurprising in a country with a rich history of invention, from aspirin to the first widely produced internal combustion engine. The country's spending on R&D is well above the G20 average at 2.2% of GDP. However, this is driven far more by the public sector. The private sector, meanwhile, has a better track-record of commercializing such efforts.

As a result, there are concerns about the efficiency of French investment in innovation. The number of researchers has increased strongly over the past decade, closing a gap over neighbors Germany. But the two countries' innovation outputs, measured in terms of patent applications, remain far apart, with Germany way ahead.

Barometer scores for entrepreneurship culture components



Source: EY G20 Entrepreneurship Barometer 2013

At 2.2%, France's spending on R&D as a percentage of GDP is well above the G20 average of 1.6% (2007-09 average)

Tax and regulation

Pillar ranking: 15

The total taxes payable by French businesses amount to around 66% of profits, well above the G20 average of 50% (2012)

High taxes, particularly on labor, are the key obstacle

Tax and regulation	France	G20 average	Period
Ease of starting a business			
Start-up procedures (number)	5.0	7.6	2010-12 average
Time to start a business (days)	7	22	2010-12 average
Cost to start a business (% of income per capita)	0.9	9.4	2010-12 average
Paid-in minimum capital to start a business (% of income per capita)	0.0	17.9	2010-12 average
Business regulations			
Time spent on tax issues (hours)	132	347	2010-12 average
Labor market rigidity			
Cost of firing (weeks of wages)	32	50	2007-09 average
Labor and tax contributions (% of commercial profits)	51.7	24.0	2012
Taxation			
Total tax rate (taxes and mandatory contributions borne by the business expressed as a share of commercial profit)	65.7	49.7	2012
Indirect tax rate (taxes collected by the company and remitted to the tax authorities)	19.6	14.2	2012

Source: The World Bank

Taxation is perhaps the most high profile weak point for entrepreneurs in France. The tax rate held steady in France between 2005 and 2012, while across the EU the average rate fell from 50.3% to 43.4% over the same period. However, the new government has made some recent moves towards lowering the tax burden for businesses, most notably through a new tax credit that, in effect, reduces France's very high rates of labor-related taxes.¹¹

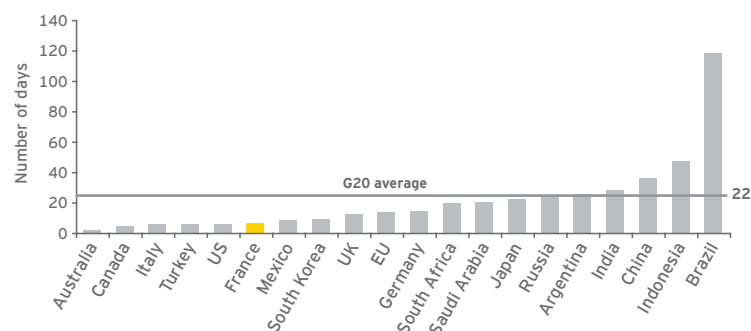
More positively, France scores particularly well in the Barometer in terms of its innovation incentives, owing to its efficient research tax credit. This provides tax relief of 30% on the first €100m of spending (rising to 50% in the first year and 40% in the second when businesses make their first claim).¹²

Furthermore, starting a business in France is a quicker and cheaper process than elsewhere in the G20. It takes 7 days, compared to a G20 average of 22, and costs 0.9% of per capita income, just one-tenth of the 9% average. Bolstering this, the entrepreneurial environment has also been improved by the introduction of the "auto-entrepreneur" system, which allows people to register a new

business online.¹³ These businesses pay lower taxes and labor-related charges. The system covers 900,000 people and half of all new businesses take advantage of it.

Despite these worthwhile initiatives, it is clear that this is an area where France needs to make improvements in its entrepreneurial environment. In this context, 51% of French entrepreneurs in the survey feel that having a direct say on regulatory issues would be the best way of improving the regulatory environment in their country versus just 38% for the G20 overall.

Time taken to start a business



Source: The World Bank, 2010-12 average

¹¹ "France eases labor costs via tax credits, VAT hike," Reuters website, reuters.com, accessed 18 July 2013.

¹² "Tax System: Best Research Tax Credit in Europe," Invest in France Agency website, invest-in-france.org, accessed 16 July 2013.

¹³ "After pigeons, "chicks" battle French entrepreneur rules," Reuters website, reuters.com, accessed 18 July 2013.

Education and training

Pillar ranking: 1

62%

of French entrepreneurs said entrepreneurship training in schools and universities had improved, compared with 51% across the G20

France invests heavily in education and is working to boost the teaching of entrepreneurship

Education and training	France	G20 average	Period
Public spending on education (% of GDP)	5.8	4.8	2008-10 average
Secondary school enrollment (total enrollment expressed as a percentage of the population of official secondary education age)	112.8	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)	54.4	53.5	2008-10 average

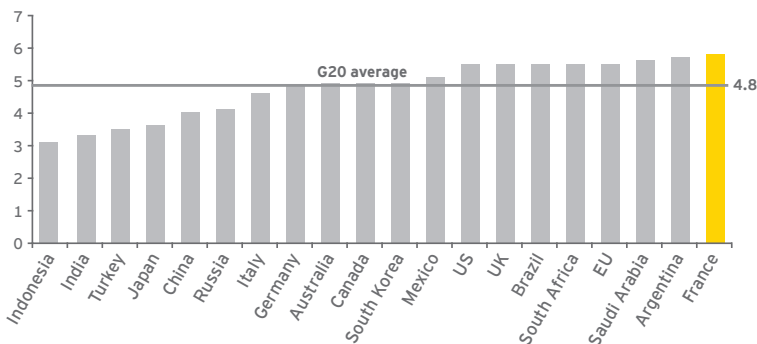
Source: The World Bank

France strongest overall performance in the Barometer is in education and training, where it ranked first overall. Public spending is well above average at 5.8% of GDP. At the tertiary level, France is ahead of the OECD average for overall attainment, but it lags behind slightly on PhDs and other advanced research programs. The share of the workforce with a tertiary-level qualification has increased steadily over the past decade, as has the proportion of people employed in research.¹⁴

Universities carry out an increasing share of French public R&D. A recent overhaul of the public research system saw the introduction of AERES, a new agency for higher education and research evaluation.¹⁵ One of France's key objectives is to improve technology transfer in the university sector, so that public research leads to the creation of more start-ups and patents.

In the survey, French entrepreneurs were positive about trends in the provision of specific entrepreneurship programs in schools and universities: 62% said they had improved over the past three years, compared to a G20 average of 51%. The Government has announced new initiatives to boost the teaching of entrepreneurial spirit in secondary schools and universities. It is also planning to create a new "entrepreneur student" status – this will allow students creating a business straight after graduation to keep various advantages associated with being a student.

Public spending on education (% of GDP)



Source: The World Bank, 2010-12 average

The French Government spent 5.8% of GDP on education – well above the G20 average of 4.8% (2008-10 average); it is also the highest in the G20

¹⁴ "Labor force with tertiary education (% of total)," *The World Bank website*, data.worldbank.org, accessed 15 July 2013.

¹⁵ "Organisation générale," *Agence d'évaluation de la recherche et de l'enseignement supérieur website*, aeres-evaluation.fr, accessed 10 July 2013.

Coordinated support

Pillar ranking: 11

Business incubation is a strength and progress is being made on mentoring

On coordinated support, France shows encouraging signs of progress. About two-thirds (66%) of French entrepreneurs said that access to incubators had improved over the past three years. A total of 25% said they currently use business incubators or had used them before, while 19% said they intended to use them. Given the importance of business incubators for entrepreneurs, this strong drive bodes well for improved support in the years ahead.

Programs to boost teaming and mentoring were also highlighted by French survey respondents as a key source of support. A total of 61% of entrepreneurs said they had either used these programs, or that they intended to. An even higher proportion (78%) had used or will use entrepreneurial workshops and support meetings. Furthermore, in 2013, the National Network for Entrepreneurial Mentoring (IME France) was established to encourage best practice in mentoring in France.

In other aspects of support, entrepreneurial clubs and associations showed more improvement over the past three years than any other form of business support. They are also the most widely used by French entrepreneurs – 65% currently use them or have used them before, and a further 24% intend to use them.

Of course, various areas hold greater room for improvement. Corporate and non-governmental advisers are less commonly used (selected by 37% of respondents), as are industry-specific training programs (32%), for example.

65%

of entrepreneurs say that access to business incubators has improved in the past three years, compared to the G20 average of 50%

78% of respondents have used or will use entrepreneurial workshops and support meetings

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.¹⁶ 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.

¹⁶ 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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