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## ENTREPRENEURSHIP IN BRAZIL

By: Sean Griffith

Bolivians, mainly members of affected indigenous groups, protested the Brazilian construction company OAS's project to build a road through a remote Bolivian indigenous territory. Meanwhile, citizens of Argentina, Paraguay, and Guyana also worry about Brazil exerting influence across their borders. These neighboring countries are not as large or as wealthy as Brazil. Additionally, Brazilian-run businesses have been buying and building on significant portions of land in those neighboring countries. Given that "big business, foreign investment, a huge consumer appetite, and the prospects of oil" dominate Brazil's booming economy it is easy to overlook the fact that Brazil is surging ahead as an entrepreneurial leader.

The spirit of entrepreneurship is alive and well in Brazil. Luiz Carlos Barboza, technical director of the Brazilian Micro-Enterprise and Small Business Support Service (SEBRAE), reports that the increase of new companies in Brazil is directly related to Brazilians' growing entrepreneurial spirit. "Currently, small and medium size-enterprises (SMEs) are responsible for 96% of the jobs in Brazil and comprise 98% of all companies in the country." Finally, 13 out of 100 Brazilian residents are involved in a start-up; and the 2007 Global Entrepreneurship Monitor named Brazil a leading entrepreneurial country.

Another mark of the rise of successful entrepreneurial companies in Brazil is that United States venture capitalists are starting to take notice. As entrepreneurship becomes more accepted as a viable career path, investment firms pour more capital into these start-ups. Additionally, failure is becoming less stigmatized, and

young Brazilians see compatriots returning from the United States, choosing to operate, instead, in Brazil.

Seeing fellow Brazilians find great financial success through start-ups is especially important for potential Brazilian entrepreneurs. A good example of an entrepreneurial role model is André Esteves, who, at 43, has amassed a fortune estimated at \$3 billion. Esteves worked his way up the ranks and eventually ran the investment bank, Pactual. “After running Pactual for four years, Mr. Esteves sold it to UBS for \$3.1 billion in what was at the time the largest deal in Brazil’s financial sector.” Surprising many, Mr. Esteves bought back UBS Pactual for \$2.45 billion in 2009— less than he had sold it for three years earlier. It was renamed BTG Pactual and continues to have high levels of growth. Such successes fuel Brazilians’ entrepreneurial spirit.

Not only are the entrepreneurs stepping up to start new businesses, forge new paths, and grow their start-ups, but the Brazilian government is also actively helping out. This support of start-ups shows Brazil’s awareness of the impact new, growing businesses have on both employment and innovation. Even though Brazilian entrepreneurs contend with difficult bureaucratic hurdles, especially significantly more red tape than exists in other Latin American countries, the government “sees them as a key engine of job growth.” (For an informative chart regarding the amount of time it takes to start a business in Brazil, as well as Doing Business 2012’s rankings of various factors of ease of conducting business in Brazil, *see* <http://www.doingbusiness.org/data/exploreeconomies/brazil>.) The government passed legislation in 2004 allowing federal university professors a temporary leave to create start-ups. Further, the government’s Financing Agency for Projects & Studies (FINEP) has launched its largest start-up-support project ever, PRIME, a program which hands out about \$65,000 to start-ups, selected by

18 incubators, focused on innovation. Incubators are groups of start-ups all housed in one building, or overseen by one supervisor, to encourage the smaller companies to work together and share ideas. This set up also allows investors to visit with and learn about several start-ups at one time. The PRIME program seeks to help 10,000 companies over four years.

Support for start-up incubators is important. According to the World Bank's sponsored Infodev partnership of aid agencies, "75 percent of companies that [are] supported by incubators are still operating three years later." Infodev is a partnership of international aid organizations housed at the World Bank and runs incubator programs in 86 countries that have generated more than 220,000 jobs since 2002. The incubator network has grown from 136 in 2000 to 400 today. International development agencies see business incubators as a spur to technology and entrepreneurship. "This can be a tool for development for jobs creation, and . . . a way to maintain the engine of economic growth." Most incubators are affiliated with universities, which also highlights the importance of public universities in governmental support of start-ups.

Ebusiness in Brazil, in particular, has seen noteworthy growth recently, and this online activity provides an opportunity for significant small business and entrepreneurial growth. (However, it is interesting that even with the rise of ebusiness, "Nasdaq does not have a single Brazilian Internet company listed, and the country's own exchange has very few." Given that many business people relate the strength and success of a business with its value on the market, it is notable that Internet companies and entrepreneurial projects have not yet attained a prominence in that area.) Ebusiness revenues from January 2011 through June 2011 were between 5.2 and 5.5 billion dollars. This six-month period's revenues are more than the revenues for the entire year of 2008, and show about 20%

growth in the sector versus the previous year's numbers from the same time period.

In this time period, four million first-time users completed an online transaction. 61% of these new users earn less than \$1,870 per month, showing that middle and lower income consumers have started to shop online. From 2006 to 2009, about 45 million members of the middle class started using the Internet. More entrepreneurs are starting businesses that combine social networking with commerce, and as smartphones become more popular, e-commerce will develop even further. Currently only 9% of the Brazilian mobile phone market consists of smartphone users compared to smartphones comprising 40% of the mobile phone market in the United States.

**BRAZIL'S MARKET, WHILE GROWING, IS NOT PERFECT. "COMING OFF A YEAR IN WHICH IT RECORDED ITS HIGHEST GROWTH IN A QUARTER CENTURY, BRAZIL IS FACED WITH RISING INFLATION, AN OVERVALUED CURRENCY AND AN INDUSTRIAL SECTOR LOSING COMPETITIVENESS TO CHEAP CHINESE IMPORTS." ADDITIONALLY, ECONOMISTS FEAR THAT A SURGE IN SPENDING, COUPLED WITH LOW INTEREST RATES, COULD LEAD TO EVEN HIGHER INFLATION. THESE CONCERNS COULD LEAD TO NEW AND INCREASED CHALLENGES FOR SMALL BUSINESSES JUST STARTING OUT. A COUNTRY WITH SUCH RAPID GROWTH AND HIGH LEVELS OF INFLATION MAY CAUSE INVESTORS TO HESITATE BEFORE CONTRIBUTING FUNDS. FOR BETTER OR FOR WORSE, BRAZIL'S ECONOMY HAS SLOWED TO ABOUT 3.5**

**PERCENT GROWTH, WHICH IS ABOUT HALF OF LAST YEAR'S GROWTH. ADDITIONALLY, RETAIL STORES HAVE REPORTED REDUCED SALES. PERHAPS THIS IS WHY THE GROWTH IN EBUSINESS AND FOCUS ON START-UPS IS SO IMPORTANT.**

Entrepreneurs can also develop ways of helping poor communities through cooperatives and associations of production workers. For example, Ashoka, a non-government organization that works in 63 countries, opened its largest office in Brazil. Because of the success of this type of entrepreneurship, and because of the demand for the products from these cooperatives, this market is growing. In this way, entrepreneurs have opened up new markets in innovative ways. (For further discussion of the various cooperatives set up to create and market handcrafts, see: <http://www.culturalexchange-br.nl/mapping-brazil/fashion/fashion-retailing-brazil/appreciation-handicrafts>)

Overall, entrepreneurs in Brazil have a productive environment for growing their start-ups. The government has provided support through legislation and grants. Venture capital firms have taken notice of start-ups as an opportunity to invest. Ebusiness is expanding dramatically throughout all spectrums of the socio-economic classes. Mostly, the country's culture is embracing and promoting a general spirit of entrepreneurship. At the same time, the government is promoting this entrepreneurial spirit by nurturing it, providing incentives, and recognizing the positive contributions entrepreneurs are making to the economy and to the country. With this much encouragement, socially and from the government, Brazil is poised to continue innovating and expanding its impact on the global economy.





## ENTREPRENEURSHIP IN TURKEY

Although Turkey is often considered an emerging market, and indeed has many positive attributes that make it an attractive place to invest and do business, it is not a hotbed of entrepreneurship; and until it receives more governmental and societal support, it will not be for quite some time. In this country, population 75,705,147, there is a tremendous amount of capital and market potential, but there are many obstacles to attracting investment and opportunities for entrepreneurship. That said, there are also enormous possibilities for entrepreneurs in Turkey, provided that some of the country's issues improve.

Turkey has a combination of economic growth and political stability that makes it an attractive place to do business. In 2010, mergers and acquisitions involving Turkish assets reached \$25.6 billion, up from \$1.1 billion a decade ago. Additionally, Turkey has begun pushing to privatize formerly state-owned industries, especially energy and telecommunications. Other state enterprises, such as Turkish Airlines, may soon be up for sale, demonstrating further opportunities for investment and financial success.

Despite this vast potential, the global market does not view Turkey as a good place for entrepreneurship. The Legatum Institute, an independent non-partisan public policy group based in London, whose research, publications, and programs attempt to advance ideas and policies in support of free and prosperous societies around the world, publishes the annual Legatum Prosperity Index to assess countries' wealth and well-being, rates Turkey's prosperity index as 75th out of 110. The Prosperity Index assesses the 110 countries that represent approximately 93% of the world's population and 97% of global GDP. The Legatum Institute also reports that Turkey's inflation is more than 6%, while the gross domestic savings rate is "low" at 14% of GDP. Because of these numbers,

Turkey is not ideal for investment as compared to other countries with smaller inflation and more domestic savings levels. The Legatum Institute places Turkey in 97th place out of 110 countries, based on unemployment rates, which are somewhere between 9.2% and 14%, depending on who is calculating. These unemployment numbers may also convince investors to spend money elsewhere.

The information is not all bad, however. The Legatum Institute also reports positive findings, including Turkey's above-average confidence in state institutions and 91% literacy rate. Additionally, while Turkey has a below-global-average rate of GDP per capita growth, at 2%, it "has a good foundation for growth." It is the 16th largest market and there is a high potential for output. Further, Turkey's gross domestic product increased by about 8% in 2011. Also relevant to Turkey's prosperity index are that currently, high-tech exports account for less than 2% of manufactured goods, and that its Heritage/WSJ Economic Freedom Index is ranked 67th out of 179. Both of these numbers may suggest great potential for future growth.

Another factor that could mean a better economic and entrepreneurial future for Turkey is that much of the population is young people. For example, each year, more than one million people reach the country's legal drinking age, leading one international company, a Europe-based spirits company named Diageo to target Turkey for an expansion of its exports, even though the country has a large Muslim population. "[L]ocal authorities encouraged foreign investment, said Andrew Morgan, president of Diageo's European operations."

A diverse industry base, a wide talent pool, a strong domestic market, and underserved neighbor markets add to the advantages of doing business in Turkey. Additionally, unlike some other countries, especially more established financial powerhouses, it only takes about six days to start a business in Turkey. Yet given these factors and the country's high level of development, only about six out of one hundred people are classified as an entrepreneur, which is

considered to be quite a low rate. Reflecting this, Turkey's rank for entrepreneurship and opportunity is estimated at 52nd in the world.

Endeavor Turkey, a Turkish website, has identified some of the obstacles to entrepreneurship in Turkey, such as the intricacies and inconsistencies of Turkish bureaucracy, the difficulties in protecting intellectual property, and the monopolies in the marketplace. Additionally, labor practices make it complicated to hire and fire people in Turkey. The Endeavor site recommends that the government take steps to reform labor laws and incentivize small business lending to spur entrepreneurship.

Along with government reforms and regulations to encourage entrepreneurship, societal views on entrepreneurship will need to change in order to create an inviting and successful atmosphere for start-ups and their leaders. "Although entrepreneurs 'by necessity' are generally respected for their work ethic, entrepreneurs 'by choice' who have other promising career options are often discouraged by their families." These social stigmas may undermine the entrepreneurship and innovation that would otherwise flourish in Turkey. Only about six in ten Turks consider their local environment to be a good one for fostering entrepreneurs and entrepreneurship. This is low in the global measurement of this variable. Currently, there are only about 80,000 female entrepreneurs versus about 1.3 million male entrepreneurs, which is also a barrier to Turkey becoming a positive and inclusive environment for continued entrepreneurial growth. This number may reflect the fact that Turkey is a Muslim country, where traditionally women have different societal and economic roles than men. By the same token, it may be more difficult for women to receive the same financial and familial support as men when starting an entrepreneurial venture.

Yet there are some additional circumstances that may be turning the tide and encouraging more entrepreneurship opportunities in Turkey. For example,

Turkish investment in Research and Development ranks in the top thirty, worldwide. Additionally, a “tidal wave” of youth, aged fifteen to twenty-four is poised to enter the labor market, in a time when there have recently been significant lay-offs. According to the Turkish Statistical Institute, 18.6% of the unemployed are in this age group. This may contribute to growing entries into entrepreneurial careers. Additionally, Turkey provides good overall access to communication technology, making it 16th in the world for access to Internet bandwidth, and 41st for number of secure-Internet servers per capita. This may spur new interest in non-traditional entrepreneurship opportunities. Even the issue of fostering a positive environment for female entrepreneurs in Turkey is improving, as demonstrated by Turkey’s hosting the Goldman Sachs Foundation-run “10,000 Women Entrepreneurs” contest and conference in February of 2010. At this conference, 100 candidates, out of 1,225 Turkish applicants, were to be selected for free entrepreneurship training and a year of “aftercare.” Aftercare, or services to provide a bridge between entrepreneurs’ in-classroom education and realizing growth of their enterprises, enables entrepreneurs to increase their incomes and offer better lives to their families. These services can be especially beneficial for women entrepreneurs, who face unique barriers, “including social values regarding their credibility as business people, cultural challenges, fewer role models, and weak networks compared to men.” Additionally, Turkey continues to integrate its economy with that of the European Union, which will foster additional growth, encouragement for entrepreneurship, and social reforms.

The Turkish government has voiced a commitment to fostering a positive environment for entrepreneurship, and has launched a series of programs designed to foster growth and support entrepreneurship. Such programs include the Applied Entrepreneurship Education Program (launched in 2010 to provides at least 60 hours of training and can be arranged for general or specific target groups, like youth, women, or disadvantaged groups), a program providing support for

business development centers, launched in 2010, the Istanbul Venture Capital Initiative, launched in 2007 to dedicate funds and co-investment opportunities to a wide range of public and private shareholders, and the treasury support of 650 million Euros for credit guarantees, launched in 2009 to enhance Small and Medium Enterprises (SMEs) conditions, to name a few. The Turkish government also implemented a tax reform to reduce corporate tax rates from 30% to 20%. Additionally, government-created institutions such as the Small and Medium Enterprises Development Organization (KOSGEB) provide support and training, so that entrepreneurs gain competence and confidence in their business skills. The KOSGEB is under the Ministry of Industry and Trade and has a primary goal of improving small and medium enterprises' "share and efficiency in [the] Turkish economy and enhanc[ing] their competitive capability."

The Turkish government also ratified the European Charter for Small Enterprises in 2002 and participated in the Multi-Annual Programme for Enterprise and Entrepreneurship. Turkey has also laid out several five-year development plans that aim to increase small and medium enterprises' access to financial markets and facilitate the usage of new communication technologies. Ultimately, the Turkish economic and manufactured goods markets are quite large and continue to grow. Additionally, while located in a region with significant political and economic upheaval, Turkey remains strong in both of these areas, giving it additional worth in the global market.

There are quite a large number of barriers to successful investment and entrepreneurship opportunities in Turkey, but there are many circumstances that are helping this country to foster better growth environments. For example, its continued relationship with the European Union and rise of a youth market demonstrate that Turkey is likely to become a better environment for this entrepreneurial investment in the near future. With increased government regulations that increase opportunities for investment and that help break the

barriers to opportunities, Turkey has the potential to become a ripe location for entrepreneurs.