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THE STATE OF ENTREPRENEURSHIP IN TURKEY

May 2013



By Mary Tracy



ABSTRACT

The efficiency-driven economy of Turkey is growing at a very fast rate, but not yet considered to be at an innovative stage. One way of getting there is having a high presence of entrepreneurship. The aim of this research is to show that with improvements in the procedures to start a business and developments within the financial sector, Turkey will abound with entrepreneurial activity. The study first defines entrepreneurship and its relationship with society and the economy. Next, the report provides a summary of the process of entrepreneurship, its barriers to entry, its necessities, and its outcomes. From this, the research seeks to evaluate if Turkey is able to support a high volume of successful entrepreneurs. The research data is predominantly from GEM, OECD, Central Bank of Turkey, and the World Bank. Throughout the analysis, the report compares Turkish entrepreneurship with that of the US, Iran, and Hungary. The findings show that based on the attitudes of Turkey's population and the growing rate of entrepreneurship, there is a high potential for entrepreneurial opportunities and advancement.

INTRODUCTION

Around the globe, entrepreneurship is growing in popularity and represented very positively in the media.¹ About two-thirds of the world sees entrepreneurship as a good career choice and almost three-quarters of the world attribute a high status to successful entrepreneurs.

Entrepreneurs have become valuable to society because of the benefits starting a new business can offer to the business owner, the employees, the consumers, and the economy. Entrepreneurship starts and accelerates economic growth as it creates new jobs, stimulates competitiveness, and establishes new sources of productivity. It provides motivation for change and progress at the personal and national level. Entrepreneurs innovate new ways to develop and apply goods and services demanded by society. New businesses sprout up when there are market failures and by filling the gap, that business benefits the entire community.

When enterprises take on a more socially impactful purpose they can provide job opportunities to those who were at an employment disadvantage and provide aid to the more neglected needs of society. Socially-driven enterprises can even influence national social-policy changes.

A nation that has a strong presence of entrepreneurship with few barriers to enter and exit reflects positively on that country's financial system. Aspiring business owners cannot succeed without a good financial system to support them.

Turkey is the third most populated country in Europe with 71.9 million residents²—72.5% of whom are living in urban areas.³ Turkey with its secular democracy, has a stable and peaceful political environment. The country is making efforts to join the European Union and continues to maintain and improve relations with countries in the Middle East and in the West. The government is stabilizing inflation, campaigning against corruption, and investing a great

¹ GEM Global Report 2012

² CDFAI, "Turkey: Current and Future Political Economic and Security Trends"

³ CIA Factbook, Turkey

deal towards infrastructure. The Turkish economy is growing at a very fast rate, at times, even faster than China and Argentina.

According to GEM researchers, Turkey is classified as an efficiency-driven economy, which means that the productivity of Turkey's goods and services is improved through increased investment in infrastructure and a business-friendly environment. This will allow enterprises to move up in value away from manufacturing and toward product design, distribution, and marketing.¹

Turkey has an interesting cultural dynamic that mixes modernity with deep seeded religiosity. In Turkey, 99.8%² of the population is Muslim, which creates unique market opportunities and demands. Muslim consumers are more susceptible to products and marketing tailed for an Islamic lifestyle. Similarly, producers are concerned with conducting *halal*, or Islamically-permissible business. Another outcome of this culture is that women are less likely to be in regular wage employment. For both men and women the figures for unemployment are relatively high, however in 2010, 9 out of 100 adults in Turkey were entrepreneurs. In 2012, there were 5 million people who were involved in starting a new business or who already owned a new business.

It will be shown that with improvements in the procedures to start a business and developments within the financial sector, Turkey can continue to flourish with entrepreneurial activity. More and more entrepreneurs can surface and succeed regardless of education level, economic background, location, or gender. In fact, women and the unemployed stand to gain the most from these advancements in entrepreneurship activity.

¹ GEM, "Entrepreneurship in Turkey 2010"

² CIA Factbook, Turkey

METHODOLOGY

In order to better understand Turkey's position under various economic and entrepreneurial questions, the study includes three countries to act as expositional comparable examples. Turkey is compared with Iran because both countries come from similar cultural and political histories. Hungary is the second comparable country because it is also a European country and has an efficiency-driven economy. Thirdly, the US acts as a comparison because it has an innovation-driven economy and the highest ranking in early-stage entrepreneurial activity as told by GEM. Furthermore, data has been obtained and analyzed from the following main sources:

The Global Entrepreneurship Monitor¹

The Global Entrepreneurship Monitor (GEM) is a global initiative that surveys and investigates entrepreneurship and economic growth. It produces globally comparable data on the entrepreneurial potential of nations as a reference for economic policy makers interested in entrepreneurship. It also evaluates entrepreneurial activity and attitudes in a nation. GEM currently surveys 69 countries from around the world with different economic stages of development.²

The Organization for Economic Co-operation and Development

The Organization for Economic Co-operation and Development (OECD) collects data in 34 countries on a variety of topics such as health, education, trade, environment, entrepreneurship, etc. It measures productivity and global flows of trade and investment as well as analyzes and compares data to predict future trends. It promotes policies that will improve the economic and

¹ While GEM defines adults to be 18-64 years old some of my calculations are done with population statistics from Address Based Population Registration System of Turkey defining adults to be 20-64 years old.

² GEM, "Entrepreneurship in Turkey 2010"

social well-being of people around the world. The OECD publishes country Factbooks, Economic Surveys, Better Policies Series, and OECD Insights Blog.¹

The Central Bank of Turkey (*Türkiye Cumhuriyet Merkez Bankası*)

The Central Bank of Turkey (TCMB) has three main responsibilities which include: to set rediscount ratios and to regulate money markets; to execute Treasury operations; to do everything in its power to protect the value of Turkish currency. TCMB conducts economic research and publishes a number of reports including Inflation, Monetary Policy, Balance of Payments, and Independent Audit Reports.²

The World Bank

The World Bank consists of 188 countries and is broken down into two institutions: the International Bank for Reconstruction and Development (IBRD) which aims to reduce poverty in middle-income and creditworthy poorer countries; and the International Development Association (IDA) which focuses exclusively on the world's poorest countries. The World Bank provides support to developing countries through policy advice, research and analysis, and technical assistance.³

¹ OECD, *About the OECD* webpage

² Central Bank of Turkey/Türkiye Cumhuriyet Merkez Bankası, *Bank Profile* webpage

³ The World Bank, *What We Do* webpage

Background and purpose of entrepreneurship

Chapter 1

Defining Entrepreneurship

Entrepreneurship has several definitions. Occupationally, an individual can either be in wage employment, unemployed, or self-employed. Self-employed individuals are called entrepreneurs.¹ Based on this definition, entrepreneurship is either measured statically with a count of self-employed individuals or measured dynamically with the rate of start-up businesses. Alternatively, the behavioral definition is that an entrepreneur is someone who identifies opportunities,² facilitates change, and innovates and coordinates production.³ In this definition, entrepreneurs start and continue to expand new businesses and are for profit; they are also placed in this category by starting enterprises within existing firms.

The process of entrepreneurship has three stages.⁴ First, there is the identification and conception, where the entrepreneur perceives opportunities in advancing wealth, power, or status. Progression through this step is especially fueled by optimism.⁵ Next, is the infancy and evaluation of the enterprise. This phase is driven by human capital, social capital, and cognition in order to produce and elaborate a business idea.⁶ This can only be surpassed by taking risk and battling entry costs and regulations. The third stage is maturity. In this, the entrepreneur must be able to adapt to new priorities, learn new skills, and shift the focus from production to the consumer.

Benefits of Entrepreneurship

Entrepreneurship carries very positive outcomes that are desirable to any society. In developing economies, entrepreneurship starts and accelerates much needed economic growth. It

¹ Wennekers and Thurik 1999

² Kirzner 1973

³ Schumpeter 1950; 1961

⁴ Naude, "Entrepreneurship in Economic Development"

⁵ Arabsheibani et al. 2000

⁶ Baptista et al. 2007 and Kanninen and Poutvaara 2007:676

provides motivation for the necessary structural transformation. In transition economies, the greatest welfare benefit comes from entrepreneurship creating new jobs. For example, during a seven-year period of economic reforms, Vietnam's private sector created 8.8 million jobs while state-owned and cooperative firms shed over 3 million workers.¹ This outcome is not exclusive to transition economies. In the US economy, almost all of the net job growth is due to start-ups.² In advanced economies, entrepreneurship also plays a role in obtaining new sources of productivity growth³ and in stimulating competitiveness. With competition comes the incentive to produce the best product at the best price for both the producer and the consumer.

Additionally, entrepreneurship is the stage for innovation development and application. Innovation not only pushes economic development, but also social development.⁴ The OECD sees new enterprises as “hotbeds of ideas and experiments, and they are able to get innovative policies adopted at the central, regional or local government levels.”⁵ Not all enterprises are primarily profit-oriented. There are entrepreneurs that start a business in order to innovatively address some of the most pressing societal problems. These types of enterprises are a part of what is called ‘social entrepreneurship.’

A social enterprise business model is driven by social concern rather than financial or market opportunities. Therefore the impacts of a social enterprise do not just reach the individual entrepreneur, but also the community-at-large. Social entrepreneurship is often financially sustainable and not a pure charity. The revenues of a social venture are reinvested in the mission of that venture as opposed to maximizing profit for shareholders. Social enterprises fill the gap when there are market failures surrounding social issues. It is inevitable that the government or a market will sometimes produce and allocate goods and services at an inadequately, resulting in a

¹ McMillan and Woodruff, “The Central Role of Entrepreneurs in Transition Economies”

² Kane, “The Importance of Startups in Job Creation and Job Destruction”

³ Naude, “Entrepreneurship in Economic Development”

⁴ Nagler, “Is Social Entrepreneurship Important for Economic Development Policies?”

⁵ OECD, “Fostering Entrepreneurship”

shortage of a needed service. Furthermore, social enterprises provide employment opportunities and job training to segments of society that are at an employment disadvantage, such as the long-term unemployed, the disabled, the homeless, at-risk youth and gender-discriminated women.¹ In the case of Grameen Bank in Bangladesh, millions of women have become employed through microfinance.² Social ventures not only uplift people by providing jobs, but also by innovating techniques to raise the standard of living by addressing problems such as HIV, mental illness, illiteracy, drug abuse, etc. One prime example is the 2000 Rolex Award for Enterprise winner, Mohammed Bah Abba of Nigeria. He took ancient technology to recreate a pot-in-pot cooler to keep perishable goods preserved for longer periods.³ His innovative thinking in keeping food fresh longer has allowed these community members to eat more and sell more, boosting nutritional and economic development.

Foundation for Entrepreneurship

Whether the priority is social impact or creation of wealth, any successful enterprise needs a strong financial system.⁴ A first prerequisite of a good financial system is a government which includes representative and transparent political institutions, an independent court system, clearly defined property rights, and finance ministers and central bankers who are exceptionally financially acute. A good financial system will also have sound public finances and public debt management. The system must set and control public expenditure priorities, raise revenues to fund these priorities, issue public debt, and ensure the confidence of investors. Money should remain stable and protected against inflation. A good financial system will have a variety of banks, both domestic and international. These banks should grant credit to entrepreneurs, playing

¹ Nagler, "Is Social Entrepreneurship Important for Economic Development Policies?"

² Grameen Bank, *About Us* webpage

³ Rolex Awards for Enterprise, *Mohammed Bah Abba* webpage

⁴ Rousseau and Sylla, "Financial Systems, Economic Growth, and Globalization"

the role of risk managers and financial intermediaries. A lot of the risk that banks manage arises from borrowing short and lending long, failing when debtors are unwilling or unable to repay on time. This results in illiquidity, as well as insolvency and repudiation.¹ A central bank is needed to stabilize domestic finances by monitoring and regulating the operations of individual. The central bank will also act as the government's bank in order to assist public finance, manage international financial transactions, and stabilize the value of the country's currency, both domestically and internationally. Lastly, a good financial system needs a well-functioning securities market to facilitate the issuance of public and private debt securities and private equity securities. Once securities are issued, trading markets provide transferability and liquidity that enhance the appeal of securities to investors, both domestic and foreign.¹

However, aspiring entrepreneurs rarely find start-up capital in banks. The successful start of an enterprise sometimes depends on social capital. Social capital is the aspect of economic partnerships that include shared values, trust, and a culture of cooperation. Entrepreneurs turn to friends and family for funding or receive credit from suppliers without any formal contract.² In developing economies, social capital is critical for poverty alleviation and sustainable human development. Social capital is notably at work in the German and Japanese economies, which have their cultures rooted in long-term relationships and the ethics of cooperation for the purposes of innovation and industrial development.

The effect of having a good financial system on entrepreneurship is highly significant. When the economic and monetary frameworks are functioning properly, savings are efficiently channeled into investments which are the direct stimulus to economic growth.³ As a catalyst to investing, financial systems evaluate prospective entrepreneurs and provide funding to those most promising. These mechanisms, when successful, lower the cost of investing in productivity

¹ Rousseau and Sylla, "Financial Systems, Economic Growth, and Globalization"

² Nagler, "Is Social Entrepreneurship Important for Economic Development Policies?"

³ International Monetary Fund, "Financial System Soundness"

enhancement. While the economy grows, the potential for innovative activity also expands.

However, distortions in the financial sector can reduce the rate of economic growth,¹ repressing the services provided by the financial system to savers, entrepreneurs, and producers; it thereby impedes innovation.

The most obstructing and common barrier to entry for entrepreneurs is the absence of credit markets, especially in transition economies.² The scarcity of credit means the opportunity cost of capital is high. With high discount rates, firms have an incentive to take current profits rather than wait for future profits. An alternate source of capital can be found in equity markets.

¹ King and Levine, "Finance, Entrepreneurship, and Growth: Theory and Evidence"

² McMillan and Woodruff, "The Central Role of Entrepreneurs in Transition Economies"

The state of entrepreneurship in Turkey

Chapter 2

Economic Background

In 2000 to 2001, Turkey experienced a historic financial crisis, its most severe recession since World War II. This crisis resulted in a substantial loss in output and weakening of the Turkish Lira. Real GDP dropped by 5.7% and year-end inflation reached 69%.¹ In the spring of 2001, the Turkish government dispatched a new Economic Program with strategic macroeconomic policies to reclaim economic stability. The Program's goal was to push economic growth at a fair rate (under low and stable inflation) and to heighten productivity and efficiency to create sustainable employment levels.² After 2002, the Turkish economy managed to achieve a high level of growth that came with a low and decreasing rate of inflation. The European Union declared Turkey to be a "proper functioning market economy."² However, there were still many obstacles to employment growth. There were high minimum wages, a high tax wedge on labor, large severance payments, and worker-skill mismatches. The excessive labor regulations stunted the capacity to create new jobs.¹

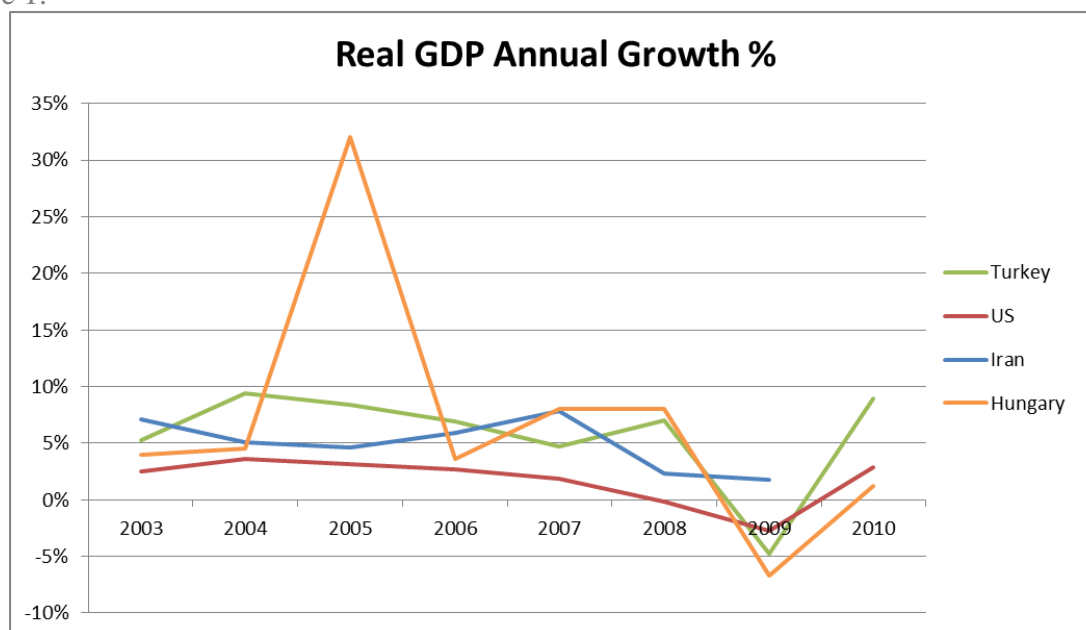
The global crisis that started in 2007 did not reach Turkey until two years later. The Turkish economy took the biggest hit in 2009.¹ Banks tightened their lending regulations and demand for loans decreased. Moreover, private consumption and investment decreased significantly. Real GDP fell by 14.3% which was worse than in any single quarter of the 2001 crisis (see Figure 1). However, real GDP jumped up 13.8%³ in 2010, making the average percentage change in GDP per capita 8.5% from 2003-2010. GDP followed a similar behavior of the US, but with more volatility and surpassing the US in 2010.

¹ Macovei, "Growth and Economic Crisis in Turkey"

² Gormez and Yigit, "The Economic and Financial Stability in Turkey: a Historical Perspective"

³ OECD, Country Statistical Profile: Turkey

Figure 1.



Source: OECD Factbook Statistics, Country Statistical Profile: Turkey

Previously 2002, the Justice and Development Party (*Adalet ve Kalkınma Partisi*) (AKP) took office in Turkey. The AKP pledged a “zero problems” initiative to improve relations with its Arab and non-Arab neighbors. These new alliances and economic ties have contributed to Turkey’s current prosperous economic state. The AKP also made a campaign against anti-corruption which contributed to Turkey’s rank of 56 out of 178 countries in the Transparency International's Corruption Perceptions Index of 2010.¹

In the first quarter of 2011, the Turkish economy grew by 11%, exceeding the growth rate of China and Argentina. The majority of the economic growth is due to the retail, financial, and construction sectors. Also, Turkey has become an important transit point for gas and oil for Europe, the Caucasus, Central Asia, and the Middle East. Inflation has been brought under control and the government is investing heavily in the country’s infrastructure. However, the current account deficit, which is above 8% of GDP and the dramatic increase in the trade deficit, is of great concern to economists.¹

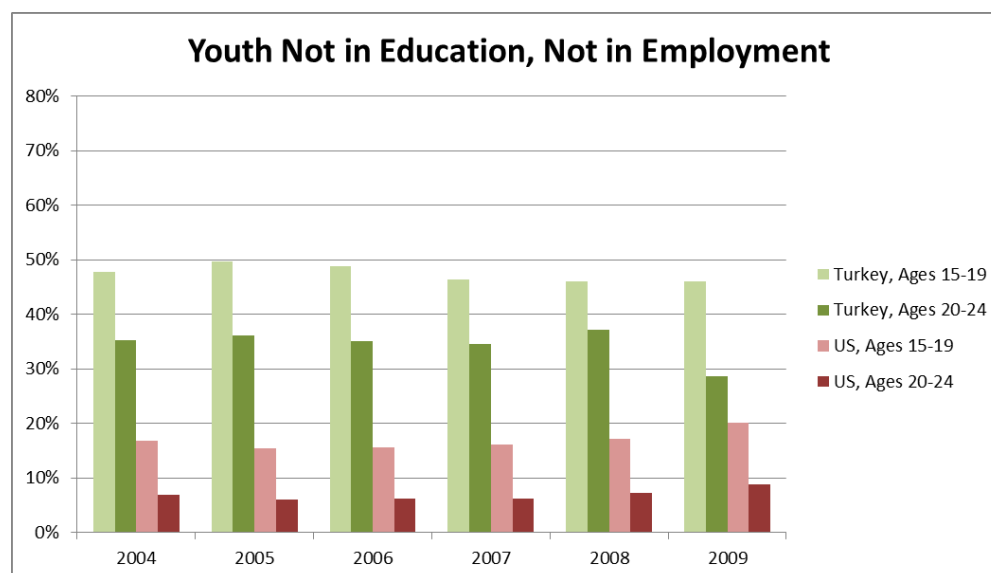
¹ CDFAI, “Turkey: Current and Future Political Economic and Security Trends”

Life in Turkey

Since 1980, the Human Development Index (HDI) of Turkey has been steadily increasing. HDI, which is calculated and published by the United Nations Development Program, measures a country's average human development based on three indicators: a long and healthy life, access to education, and a decent standard of living.¹ In 2012 Turkey ranked 90 out of 187 countries with an index of 0.722. Turkey is considered to be in the category of high human development and above the world's average.² Also in 2012, the US³, Iran⁴, and Hungary⁵ had an HDI of 0.937, 0.742, and 0.831 respectively.

Turkey spends 2.9% of GDP on public education,² which is 54% of what the US spends on education. Primary school dropout rates are relatively high in Turkey. Both expected years of schooling for children and mean years of schooling for adults are lower than those of the US, Iran, and Hungary. In fact, on average, adults 25 and older in Turkey have been in school for half of the amount of time of American adults (see Figure 2).

Figure 2.



Source: OECD Factbook Statistics, Country Statistical Profile: Turkey

¹ International Human Development Indicators, *About the Data* webpage

² International Human Development Indicators, *Turkey Country Profile* webpage

³ International Human Development Indicators, *United States Country Profile* webpage

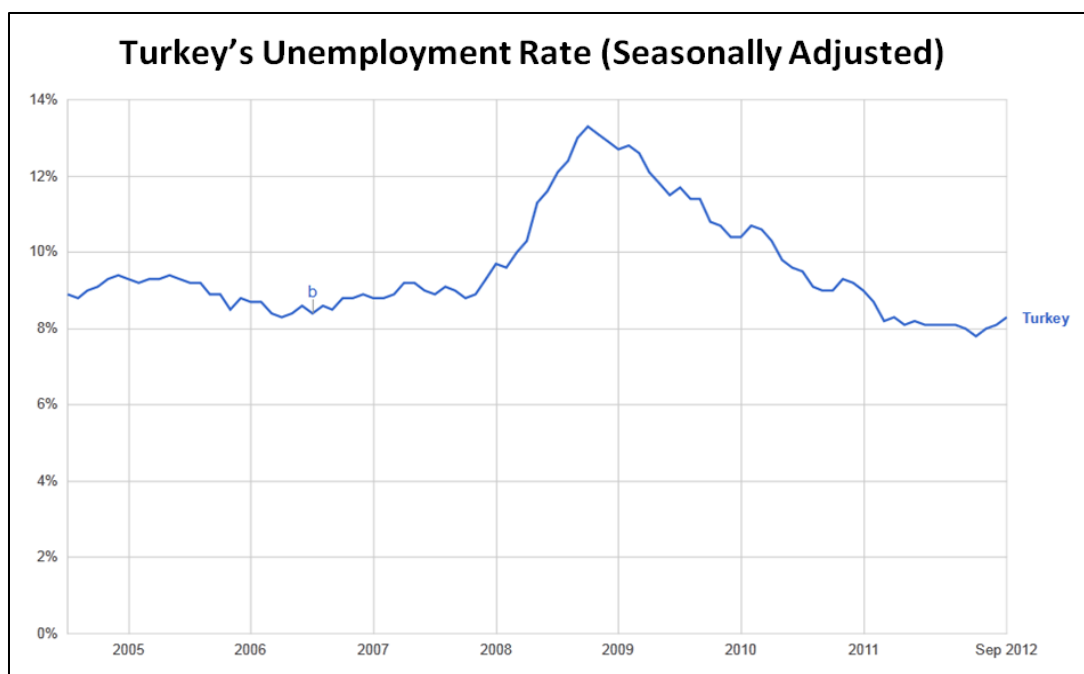
⁴ International Human Development Indicators, *Iran Country Profile* webpage

⁵ International Human Development Indicators, *Hungary Country Profile* webpage

The literacy rate of the population 15 years and older is 90.8%. As of 2013, Turkey's overall education index is 0.608, ranking Turkey 92 out of 187 countries.² There are 76 universities, 53 of which belong to the state and 23 to foundations. 95.5% of the university students are enrolled in state universities. There are 4 times more students getting bachelor's degrees than associate's degrees in higher education.¹ The most prominent business schools in Turkey are the following: Bilkent University (private); Koc University (foundation); Sabanci University (private); Istanbul University (public); Marmara University (public); Istanbul Bilgi University (private).²

In Turkey, females are more likely than males to be self-employed³. For those who work, the average time worked per person is around 36 hours per week. Unemployment has peaked to about 13% in spring 2009. Since then, it has declined to around 8% (see Figure 3 & 4).

Figure 3.



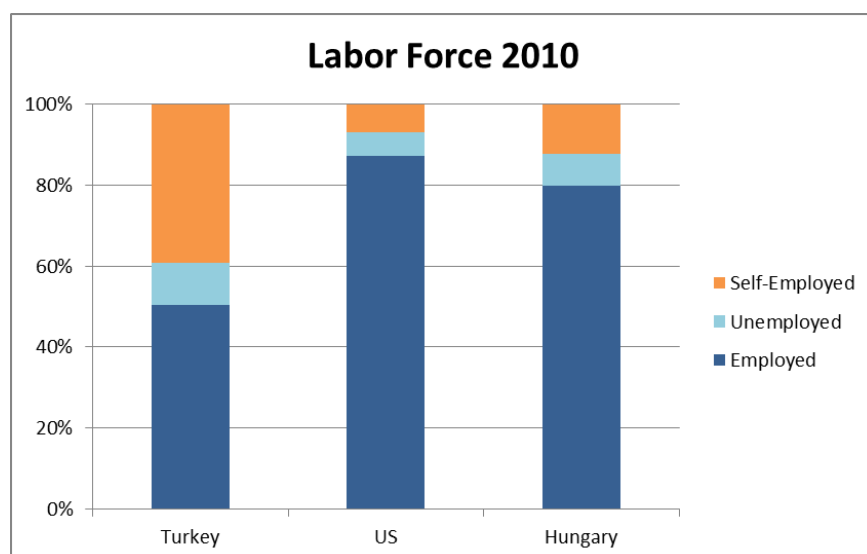
Source: Eurostat, last updated January 23, 2013

¹ The Ministry of Education Research, Planning and Coordination Board, "Turkey: Education Statistics," 2002

² Dinar Standard, *Research & Advisory* webpage

³ According to the OECD definition of self-employment which is persons who are employers, own-account workers, members of producers' co-operatives, and unpaid family workers

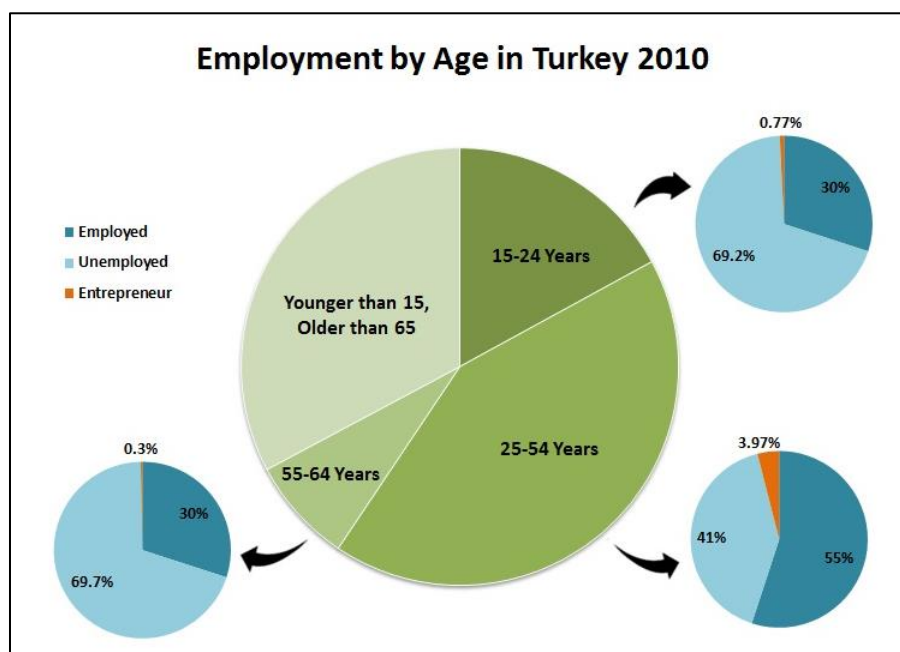
Figure 4.



Source: OECD Factbook Statistics, Country Statistical Profile: Turkey, US, Hungary

About a third of young adults and a third of senior adults are in regular employment¹ (see Figures 5). The majority of the labor force is in the 25-54 year range. The population annual growth rate for ages 25-64 is about 1.2%. Those less than 15 years old make up around one-fourth of the Turkish population.

Figure 5.

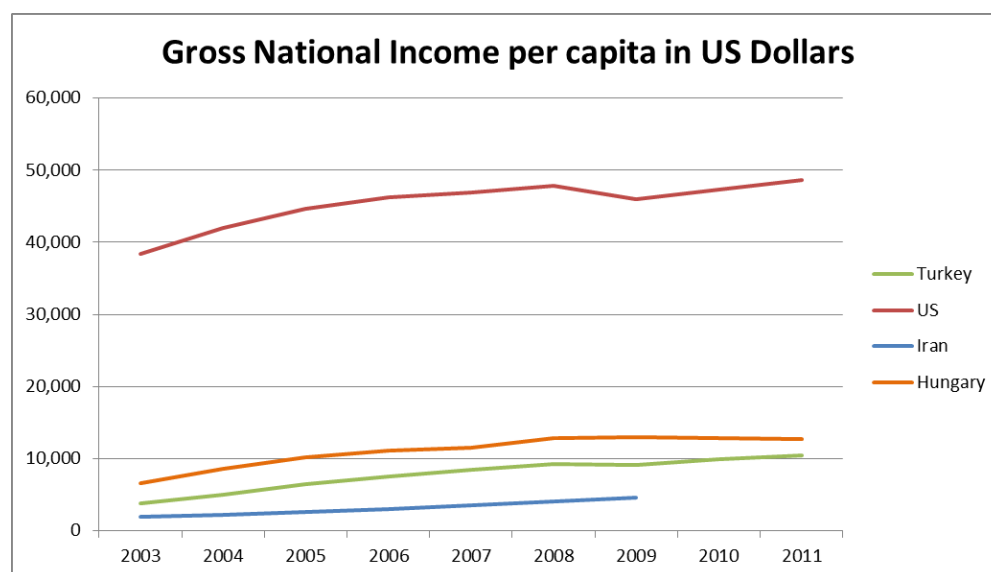


Source: OECD Factbook Statistics, Country Statistical Profile: Turkey
GEM, Entrepreneurship in Turkey 2010

¹ OECD, Country Statistical Profile: Turkey

In Turkey, the average household net-adjusted disposable income is \$10,997, which is less than half the OECD average of \$22,387. The gross national income per capita in Turkey has been increasing at an average of 13.97% per year since 2003¹ (see Figure 6). This is at a similar rate to that of the comparable countries, but well below the US' GNI. According to the Gini Index, which measures the degree of inequality in the distribution of family income, Turkey has an index of 40.2 as of 2010. A Gini Index of 0 represents perfect equality, while an index of 100 implies perfect inequality. The US has an index of 45 (as of 2007), Iran has an index of 44.5 (as of 2006), and Hungary has an index of 24.7 (as of 2002).²

Figure 6.



Source: The World Bank

Access to Capital

The Central Bank of Turkey conducts surveys distributed throughout the financial sector including the Banks' Loans Tendency Survey.³ The survey is sent to 15 banks: one public, nine private, and five foreign banks. These banks provide nearly 80% of the total loans on aggregate in the country. The survey findings show that the credit standards in giving loans to small- and

¹ OECD, Country Statistical Profile: Turkey

² CIA, *Distribution of Family Income – GINI Index* webpage

³ Central Bank of Turkey, "Banks' Loans Tendency Survey"

medium-sized enterprises (SMEs) have been tightening year to year for the past 7 years. The standards contracted considerably during the 2009 recession. Conversely, SME's demand for loans and credit lines has been increasing from year to year over the past 7 years with a notable drop in the 2009 recession. However, as demand for loans increases from year to year, the increase over time is smaller and smaller.¹

Another notable dimension in Turkey's financial sector is Islamic and interest-free banking options. Muslims make up 99.8% of Turkey's population.² *Sharia* (Islamic Law), which is drawn from the Islamic text and prophetic tradition, prohibits interest on both the lending and the borrowing side. An example of a privately-owned participation bank that offers interest-free services is Bank Asya³ which has \$8 billion in assets and 175 branches. Additionally, there is Turkey Finance Participation Bank⁴ which has \$26.1 billion in assets and 582 branches internationally. One foreign participation bank with interest-free services is Albaraka Türk Participation Bank⁵ with \$5.8 billion in assets and 130 branches.

Presence of Entrepreneurship

Turkey's average total early-stage entrepreneurial activity (TEA) rate of 8.6% is below the average rate of 11.7% for all efficiency-driven economies in the GEM research. In 2010, the frequency of entrepreneurship in the 35-54 year old population increased. In addition, more of the 55-64 year old population was involved in early stage entrepreneurial activities than in previous years. Two-thirds of those involved in entrepreneurial activity are of ages 25-44⁶ (see Figure 7).

¹ Central Bank of Turkey, "Banks' Loans Tendency Survey"

² CIA Factbook, Turkey

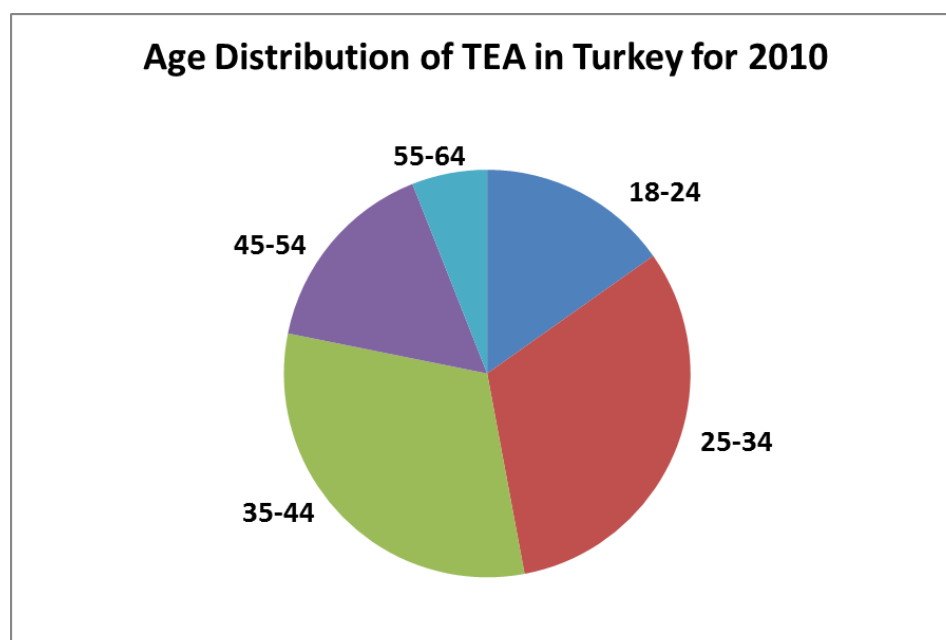
³ Bank Asya, "Annual Report 2010"

⁴ Finans Bank, "Consolidated Financial Statements 2009-2011"

⁵ Albaraka Türk, "Annual Report 2011"

⁶ GEM, "Entrepreneurship in Turkey 2010"

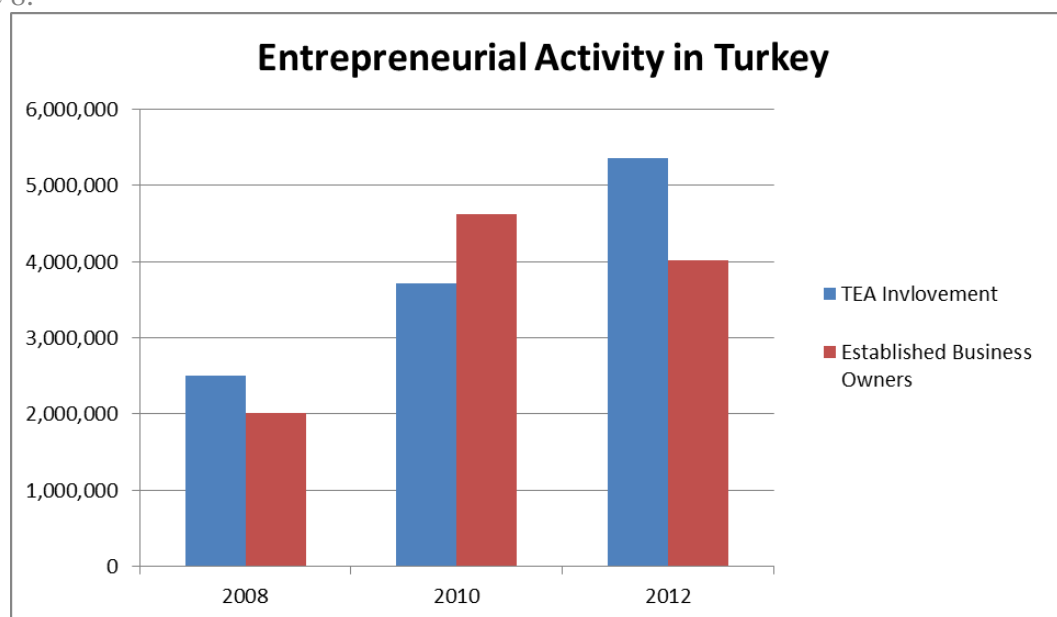
Figure 7.



Source: GEM, *Entrepreneurship in Turkey Yearly Reports*

Even though the adult population increased by an average of only 3.6% from 2008-2012, people participating in early-stage entrepreneurship increased by almost 50% and those with established businesses more than doubled¹ (see Figures 8 & 9). Compared to US, Hungary, and Iran over the past six years, Turkey has the most stable and promising TEA.

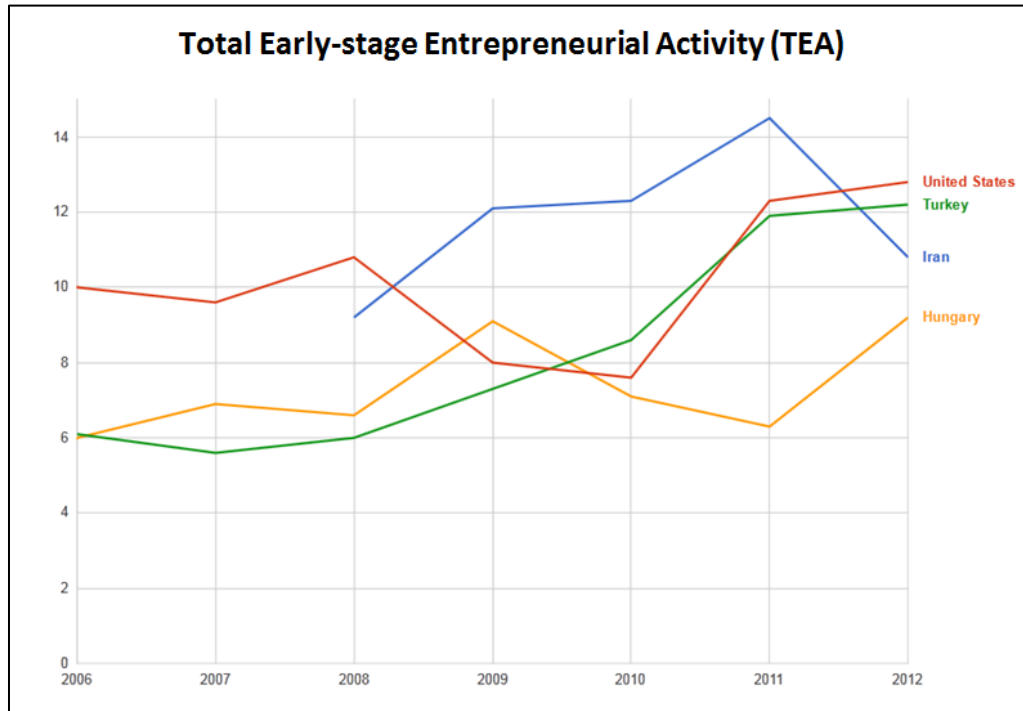
Figure 8.



Source: GEM, *Entrepreneurship in Turkey Yearly Reports*

¹ GEM, "Entrepreneurship in Turkey 2010"

Figure 9.



Source: Global Entrepreneurship Research Association (GERA), last updated February 2013

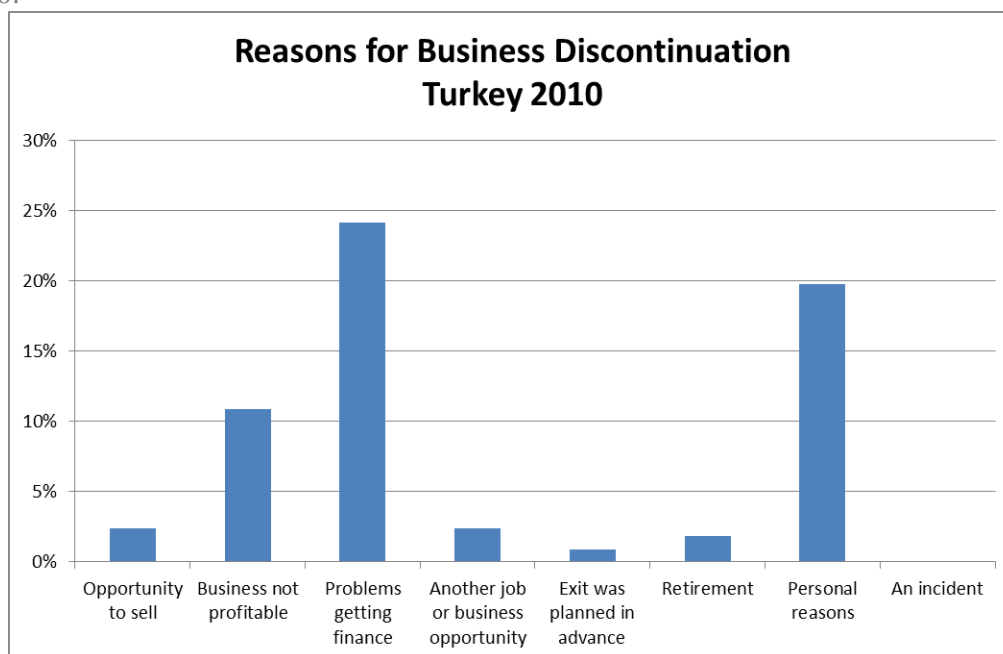
According to The World Bank, the number of new businesses registered in Turkey was growing until the 2008-2009 recession when it started to decline. From 2004 to 2009, there was an average of 48,278 new businesses registered each year.¹ Based on GEM research, from 2010 to 2012, the amount of adults making efforts to start a business grew 95%. As of 2012, there are more than 5 million adults who are involved in activities to start a new business or already own a new business that is less than 42 months old. Additionally, 4 million adults own an established business which they themselves have started and continue to manage and have been paying wages for more than 42 months.² SMEs represent more than 99% of the total number of Turkish enterprises in the manufacturing sector and provide 76.7% of the total employment. SMEs contribute to 10% of exports and constitute 26.5% of investment and 38% of value added in

¹ The World Bank, *World Development Indicators* webpage

² GEM, "Entrepreneurship in Turkey 2010"

Turkey.¹ The high rate of established business ownership is a positive indicator for a firm's ability to survive.² However, the biggest reason for a start-up business discontinuation is access to capital (see Figure 10). Many Turkish small businesses must rely on family sources rather than government loans or private institutions for financial support.

Figure 10.



Source: GEM, *Entrepreneurship in Turkey 2010 Report*

According to GEM's yearly survey of the rate and profile of entrepreneurial activity, Turkish people in the highest household income brackets are more likely than others to start a new business. While the majority of entrepreneurs come from the top third of household income, people are still starting businesses despite income bracket. Albeit, those starting businesses while below the top third of household income tend to do so out of necessity rather than opportunity. People in Turkey with a low level of education are also more likely to become self-employed out of necessity. About 40% of entrepreneurs in Turkey have not completed high school, suggesting that educational background is not preventing people from starting a business.²

¹ Karadeniz, "Entrepreneurship in Turkey and Developing Countries"

² GEM, "Entrepreneurship in Turkey 2010"

Individual Expectations

According to the annual GEM survey, the perceptions, intentions, and attitudes towards entrepreneurship in Turkey are fairly similar to the United States. However, there is a greater percentage of Turkish people that see starting a business as a good career choice and attribute a high status to successful entrepreneurs. However, there is a higher percentage of Americans that believe they have the required skills and knowledge to start a business.¹

More specifically, about three-quarters of the population attribute high status to successful entrepreneurs and two-thirds see starting a business as a good career choice (Figure 11). Over the past four years, on average, 39% of the population sees good opportunities to start a firm in the area where they live. Of those who see opportunities, 29% said that fear of failure would prevent them from starting a business (see Figure 12). Approximately half of the adult population feels that they have the required skills and knowledge to start a business. Of the population that is not already involved in entrepreneurial activity, 16% have intentions to start a business within three years (see Figure 13). Roughly two-thirds of the population says they are often exposed to stories in the public media about successful new businesses¹ (see Table 1).

Table 1.

Entrepreneurial Perceptions 2012

(% of population)	Perceived Opportunities	Perceived Capabilities	Fear of Failure**	Entrepreneurial Intentions***	Entrepreneurship as a Good Career Choice	High Status to Successful Entrepreneur	Media Attention to Entrepreneurship
Turkey	40	49	30	15	67	76	57
US	43	56	32	13	65.4*	75.9*	67.8*
Iran	39	54	41	23	60	73	61
Hungary	11	40	34	13	41	74	29

* taken from 2010 data as a place holder

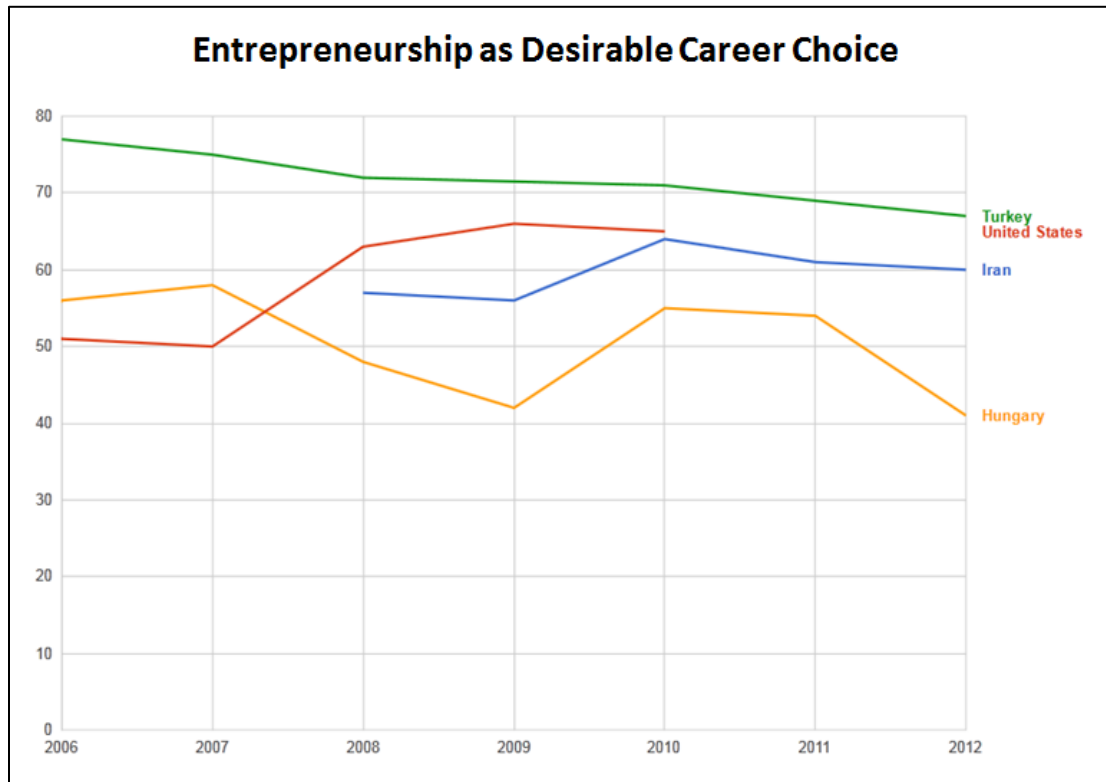
** Denominator: 18–64 age group perceiving good opportunities to start a business.

*** Denominator: 18–64 age group that is not involved in entrepreneurship activity.

Source: GEM Global Report 2012

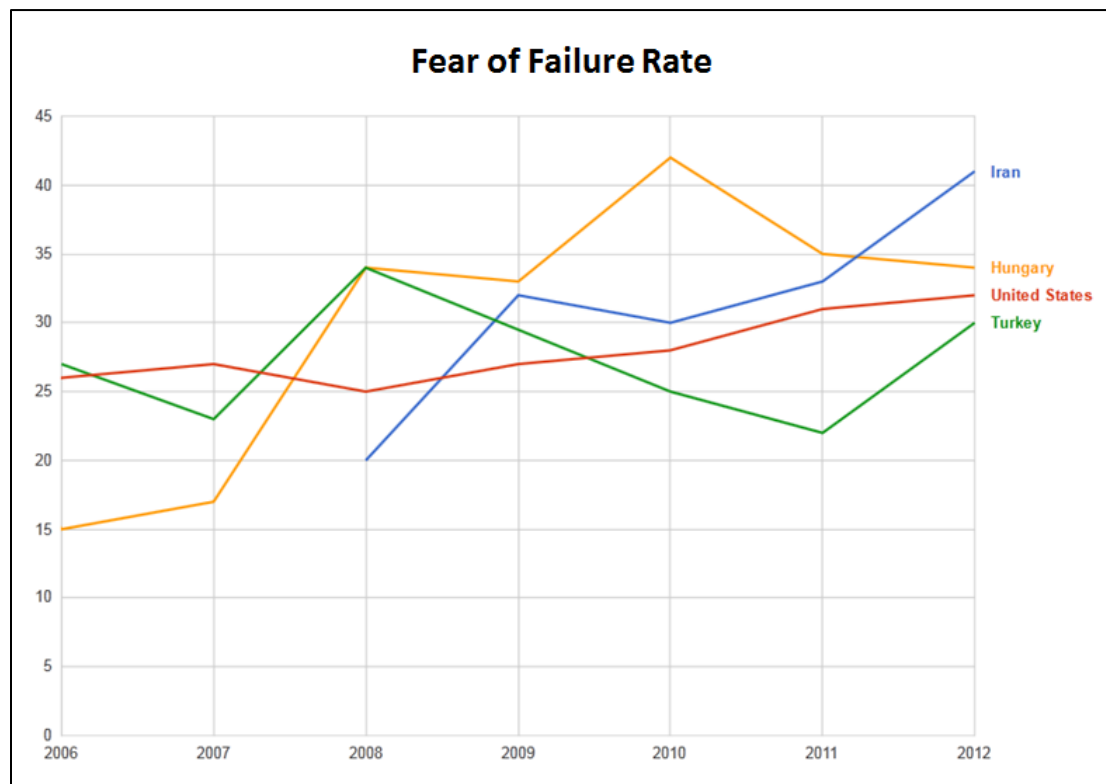
¹ GEM, “Entrepreneurship in Turkey 2010”

Figure 11.



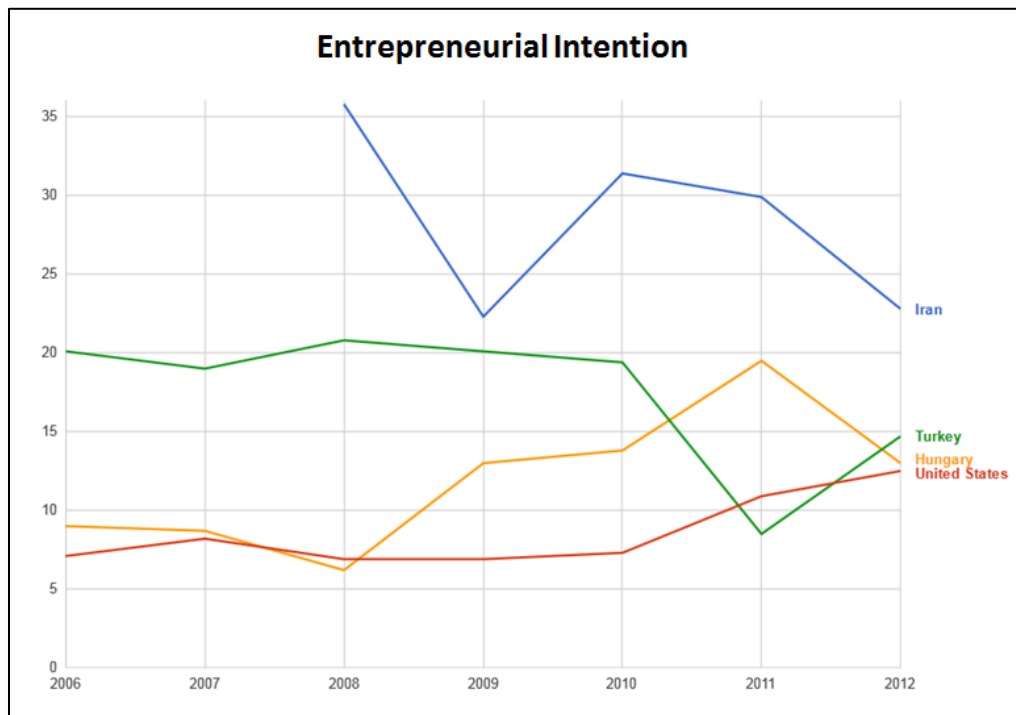
Source: Global Entrepreneurship Research Association (GERA), last updated February 2013

Figure 12.



Source: Global Entrepreneurship Research Association (GERA), last updated February 2013

Figure 13.



Source: Global Entrepreneurship Research Association (GERA), last updated February 2013

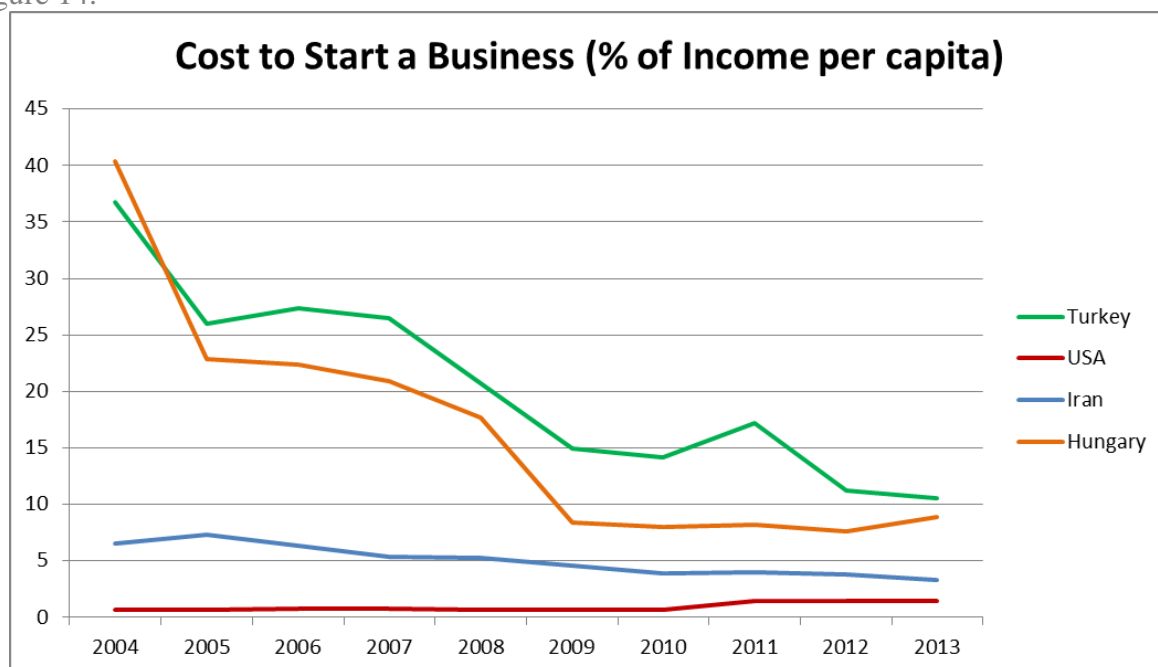
In 2011, the amount of people in Turkey with entrepreneurial intentions was cut in half while in other countries more people had intentions to start a business. In the same year, of those who had intentions in Turkey, they were more fearless in their endeavor. This is a curious behavioral shift that did not occur in any of the other comparable countries. Turkey remains on top for admiring entrepreneurship as a career, but over the past six years, that mentality has been slowly decreasing.

Barriers to Entry

In its mission to offer financial assistance in developing countries, The World Bank publishes an annual report called “Doing Business.” This report measures business regulations in 187 countries to determine the ease of doing business in that country. As of 2012, Turkey is ranked in the top 45.8% in the ease of doing and starting a business. Turkey is ranked even lower in dealing with construction permits, getting credit, paying taxes, trading across borders, and

resolving insolvency. The cost of starting a business in Turkey (based on percentage of income per capita) has been steadily declining in recent years (see Figure 14). As of 2013 it is estimated to cost \$1093.05 to start a business in Turkey while it costs \$678.30 in the United States.¹

Figure 14.



Source: The World Bank, *Doing Business Data*

All in all, the most prominent barrier to entry for Turkish entrepreneurs is lack of financial support.² Turkish small businesses have to rely on family sources rather than government loans or private institutions. Also, there are not enough government programs to promote awareness on helpful technology or tax incentives. Another obstacle is a recession. As mentioned before, during the 2008-2009 recession, the number of new businesses registered in Turkey dropped significantly.

For enterprises that trade internationally, the high cost of importing and exporting could impede expansion. As of 2011, it costs 10.1% of GDP per capita to import and 9.4% to export. In the US, it costs only 2.7% of GDP per capita to import and 2.2% to export.³

¹ The World Bank, *Doing Business 2012*

² Karadeniz, "Entrepreneurship in Turkey and Developing Countries"

³ The World Bank, *World Development Indicators* webpage

On the other hand, there are opportunities that might encourage firms to enter market. For instance, the number of international tourists continues to rise each year. Each inbound tourist spends around \$950 in contribution to the domestic economy.² Also, informal payments to public officers (bribes) decreased by more than 50% between 2004 and 2008¹ indicating a more fair business environment and less miscellaneous expenses.

Social Entrepreneurship and Examples

The conceptual understanding of a social enterprise is still unclear to the Turkish society. There is lack of awareness by the public and lack of recognition by the government. The tax regulations are the same of social endeavors as they are for commercial enterprises. However, there are forces in favor of spreading social entrepreneurship. For instance, universities are supporting social enterprises through awards, courses, and studies. Technology, including the rise of internet access and popularity of social media, has made starting enterprises and reaching out to consumer markets much easier in Turkey.

Some examples of socially-motivated institutions in Turkey include the following:



The KAMER Foundation, established in 2005, works with local communities to address the specific needs of women and families. The foundation provides counseling, daycare and various employment opportunities. The outcome of the foundation's work is to help women gain financial independence and self-respect, as well as demonstrate that women are valuable contributors to society.²



The Foundation for the Support of Women's Work was established in 1986 with its mission to support women's leadership through grassroots initiatives. The foundation offers childcare services, training programs, and microcredit.¹

¹ The World Bank, *World Development Indicators* webpage

² Turkish Philanthropy Funds, *Kamer Foundation* webpage



Buğday Association for Supporting Ecological Living is a media network for ecological production and consumption in Turkey. They started their work in the early 1990's in promoting wholesome and organic food consumption. Buğday publishes a magazine, runs a restaurant, a farm, health food stores, and organizes volunteer work on organic farms.²



In 2013, World Economic Forum's Schwab Foundation awarded Hülya Bedriya Social Entrepreneur of the Year for founding b-fit, an all-women fitness club franchise, back in 2006. The need for women's gyms was high as 80% of Turkey's gyms and exercise clubs are exclusively for men. Furthermore, co-ed gyms, few as they are, are very expensive and Turkish culture finds it inappropriate for men and women to exercise together. Today, b-fit has over 160,000 gym members, 220 gym locations, and staffs over 500 female employees. Bedriya has also enabled hundreds of women to own b-fit franchises and thus become business owners themselves.³



In 2000, an online food delivery platform called Yemek Sepeti was created in Turkey. Yemeksepeti.com provides customers with online access to around 5,000 restaurants across Turkey. In its first year, Yemek Sepeti was processing 150 orders per day; 12 years later the website processes 150,000 orders per day. Today the company employees 215 people and has expanded internationally to Russia.⁴



Sidar Sahin and Hakan Bas founded Peak Games in late 2010. This gaming company delivers culturally relevant games throughout Turkey, the Middle East, and North Africa. The company reached 10 million daily users only 270 days after its launch. By mid-2012, Peak Games had become the third largest gaming company in the world.³

¹ Kadın Emegini Değerlendirme Vakfı website: www.kedv.org.tr

² Change the World, *Buğday Association* webpage

³ Schwab Foundation for Social Entrepreneurship, *Social Entrepreneurs of the Year 2013* webpage

⁴ Endeavor Global, *High-Impact Entrepreneurship* webpage

Organizations in Support of Entrepreneurship

Third Sector Foundation of Turkey (TÜSEV)

Third Sector Foundation of Turkey was established in 1993 by Turkey's leading Chief Security Officers. The foundation is a supporting network of over 100 associations and foundations that share a vision of strengthening the legal, fiscal and operational infrastructure of the non-profit sector in Turkey.¹



The Union of Chambers and Commodity Exchanges of Turkey (TOBB)

The Union consists of five councils representing chambers of commerce, industry, industrial commerce, maritime commerce, and commodity exchanges. As the solidarity between chambers and commodity exchanges, it develops professional conformance with general interest, preserves professional discipline and ethics, and promotes honesty and confidence in the relations of all members.²



Global Entrepreneurship Program Turkey (GEP Turkey)

GEP Turkey functions under the US State Department to promote growth of entrepreneurship in Turkey. This is done by motivating and coordinating US Government, Turkish Government, and private sector programs to support entrepreneurship. GEP Turkey connects entrepreneurs with global networks and funding, offers training, and recognizes successful enterprises.³ On May 29, 2012, GEP Turkey launched Turkey's Entrepreneurship Delegation (EDEL). The delegation was organized by the US State Department, the Union of Chambers and Commodity Exchanges of Turkey (TOBB), and the Economic Policy Research Foundation of Turkey (TEPAV). The delegation served to connect entrepreneurs with investors, mentors, and other aspiring business owners.⁴



¹ www.tusev.org.tr

² www.tobb.org.tr

³ U.S. Department of State, *Global Entrepreneurship Program* webpage

⁴ U.S. Department of State, *Entrepreneurship Delegation Traveling to Turkey* webpage

European Investment Bank (EIB)

At the end of 2012, the European Investment Bank entered in a EUR 100 million agreement with the ING Bank Turkey in favor of SMEs and mid-sized companies in Turkey. ING Bank CEO Pınar Abay said:



“SMEs have a great contribution to the Turkish economy; they constitute 99% of total enterprises, 80% of employment, 57% of value added at factor cost and 45% of gross investments in tangible goods in our country. Banks in Turkey are in a key position to support the economic potential of this segment. As ING Bank, we have determined our main strategy as acting in parallel with the economic growth of Turkey. In this respect, one of our targets is to support SMEs contributing to the macroeconomic indicators in Turkey, as their long-term business partner. I believe that the loan facility granted by EIB to ING Bank in Turkey would support our SME and Commercial clientele with their investments, providing employment, improving entrepreneurship and advancing regional development, thereby contributing to Turkish economy positively.”¹

British Council Turkey Social Entrepreneurship Project

The British Council is an international organization for building trust and understanding between people of different cultures through the exchange of knowledge and ideas. It has



created partnerships with Third Sector Foundation of Turkey (TÜSEV), Kadir Has University, Youth Services Center (GSM) and Bolu Governorship. In 2012, the British Council, along with Technical Assistance for Civil Society Organizations (TACSO) and Third Sector Foundation of Turkey (TÜSEV), organized The International Social Entrepreneurship Conference. The conference brought together 143 social entrepreneurs from the Balkans, Turkey, Ukraine, Georgia, and the UK to create opportunities for the development of entrepreneurship in the region.²

¹ Europa Press Releases, “EIB bolsters entrepreneurship in Turkey with EUR 100 million in tandem with ING”

² British Council, *Turkey: Social Entrepreneurship* webpage

Endeavor Global

The mission of Endeavor Global is to catalyze long-term economic growth by selecting, mentoring, and accelerating the best high-impact entrepreneurs around the world. It helps high-impact entrepreneurs by maximizing potential, employment positions, and revenues. Endeavor Global also mitigates frequent barriers to entry such as lack of contacts and mentors, limited management expertise, and limited access to capital.¹



Schwab Foundation for Social Entrepreneurship

The Schwab Foundation has a mission to advance social entrepreneurship and to foster social entrepreneurs and promote entrepreneurial solutions and social commitment with a clear impact at the grassroots level. The awarded Social Entrepreneurs receive networking opportunities that result in increased visibility, credibility, access to finance, partnerships, policy changes, and media attention. In addition, the Foundation has offered more than 50 scholarships for executive education courses at leading universities and provides free consulting and legal support.²



¹ Endeavor Global, *Our Mission* webpage

² Schwab Foundation for Social Entrepreneurship, *About Us* webpage

Recommendations & Conclusion

Chapter 3

Construction Permits

It takes 180 days and costs 164% of income per capita to build a warehouse; both are higher than the OECD average.¹ The procedure can be simplified with a government-run Department of Buildings that would perform plan examinations, issue construction permits, inspect properties, license trades and issue certificates of occupancy. This would catalyze the miscellaneous parties involved in the process such as the Social Security Institution, the Fire Department, and the Chamber of Commerce. With a Buildings Department to encompass a bulk of the procedures, building a warehouse will take less time and less money for an expanding business.

Access to Credit

In Turkey, there is a lack of collateral and bankruptcy laws that protect the rights of borrowers and lenders. Better designed laws would expand access to credit. Credit ratings are important to notify banks and lenders how much risk a consumer carries. Information on credit scores can motivate people to maintain good credit, improve inefficiencies in the financial sector, and expand private sector lending.² In Turkey, credit information should be distributed from retailers, trade creditors, utility companies and financial institutions. A central database is needed to hold the operating collateral registry that is broken down by location, asset type, and debtors' name. Also, both private and public creditors should consider having non-possessory security rights for businesses to ensure that in the case of bankruptcy, their repayment takes precedence over unsecured creditors.

Taking into consideration that the vast majority of the Turkish population is identified as Muslim, Turkey should not let interest attached to credit loans prevent practicing Muslims—who

¹ The World Bank, *The Ease of Doing Business in Turkey: Dealing with Construction Permits*

² "The Importance of Credit Scoring for Economic Growth"

are otherwise willing and able to take the risk—from becoming entrepreneurs. There should be a greater presence of interest-free banking to bridge the gap for potential Muslim entrepreneurs to start a business. Investing is permissible in Islam because it allows the investor to share in the risk, benefiting only when the entrepreneur benefits. Therefore, additional venture capital should support individuals who are trying to avoid interest for religious reasons. A bank could be established similar to JAK Members Bank¹ in Sweden. JAK does not charge or pay interest on its loans, which are financed solely by member savings. Operational and developmental costs of the bank are paid for by membership fees and loan fees. While the philosophy behind JAK's interest-free banking is not driven by religious doctrine, it does coincide with Islamic law.

Turkey is also in a position to benefit greatly from microfinance. As of 2008, 4.16% of the population in Turkey is living on less than \$2 a day. Also as of 2010, 16.9% of Turkey is living below the poverty line.² These percentages qualify Turkey to receive the services of the global charitable microfinance organization called FINCA. FINCA's mission is to provide financial services to the world's lowest-income entrepreneurs so that they can create jobs, build assets and improve their standard of living. Another microfinance company is Grameen Bank which has loaned out \$13.3 billion since the bank's inception. However, Grameen Bank would have to customize its lending policy to be interest-free in consideration of the Muslim community. This is manageable since they have a 97.08% rate of recovery and 8,403,515 members—96% of which are female.³ An additional suggestion is to introduce a model like Kiva Microfunds which is a non-profit organization that allows people to lend money online to people in developing countries. Because this operation is investment-based, it too avoids the issue of interest.

¹ JAK Medlems Bank website: jak.se

² The World Bank, *World Development Indicators* webpage

³ Grameen Bank, Monthly Report in USD

Resolving Insolvency

It takes 3.3 years to close a business in Turkey, which is more than double that of the US. The sequence of insolvency procedures must be reevaluated. It is possible that certain procedures can be completed simultaneously and therefore take less time. This could also decrease the cost of this process, which is relatively high. The average cost of bankruptcy proceedings in Turkey is 15% of the estate's value; the OECD average cost is 9% and the US's cost is 7% of the estate's value.¹

The amount of money that claimants, such as creditors, tax authorities and employees recover from an insolvent firm is considerably low. The recovery rate of Turkey is 23.6 cents on the dollar while the OECD average recovery rate is 70.6 cents on the dollar. Turkey's low recovery rate could in part be due to depreciation on the business' assets considering it takes so long to officially close the business.

Human Capital

In Turkey, 49% of the adult population feels that they have the capability to start a business.² To improve this statistic, initiatives must be created in academia and higher education. Some initiatives include courses, programs and degrees that incentivize students to pursue an entrepreneurial career. Schools or successful businesses should offer entrepreneurial and business-related workshops and training for potential and current small business owners to enhance their skillset.

The success and innovation of SMEs does not solely rely on entrepreneurs: the labor force must have particular knowledge, experience and skills. This is why educational reforms are crucial to equip the future labor force with better skills and upgrade existing lower-skilled

¹ The World Bank, The Ease of Doing Business in Turkey: Resolving Insolvency

² GEM, "Global Report 2011"

workers. Human capital formation starts as low as the preschool level. Raising the low enrolment in preschool education will contribute positively to the future labor force. Turkey should cooperate with OECD in the Program for the International Assessment of Adult Competencies (PIAAC). Participating in this survey will help the Turkish government better understand how education and training systems can nurture skills and competencies needed for individuals to participate in society and boost the economy.¹

Furthermore, media can have a great impact on the public. With more media attention on successful entrepreneurship, people's fear of failure would decrease and their perceived opportunities would increase.

¹ OECD, "Economic Survey of Turkey 2010"

CONCLUSION

As was previously stated, entrepreneurship requires a good financial system and a good financial system has its own prerequisites. It needs sound public finances, public debt management, a functioning securities market and a central bank to stabilize domestic finances and currency.

Entrepreneurship is desirable in Turkey for a number of reasons. There is a high unemployment rate and thus many eligible people who could acquire an income by starting their own business. Furthermore, once these entrepreneurs succeed, they will have created jobs for others seeking employment. There are more women unemployed than men. Interestingly, women have higher tendencies than men to be in self-employment. Whether out of necessity or preference, women would still benefit from the scope of entrepreneurial opportunities widening. Turkey's efficiency-driven economy would benefit greatly from innovative entrepreneurs, bolstering the nation into a higher economic status. These outcomes are all the more possible because the Turkish population has a positive perception of entrepreneurship.

More and more adults are getting involved with early-stage entrepreneurship. Entrepreneurs are not being held back by level of education or income. Most of the population views entrepreneurship as a respectable and smart career move. Half of the population believes they are capable of starting their own business. Turkey already has many good examples of entrepreneurs, including those starting social enterprises. However, improvements can be made to make the situation easier for entrepreneurs. The previously mentioned recommendations will serve to expedite procedures and improve cost efficiency.

Turkey has a proactive government, a high economic growth rate, and a high involvement with international organizations that promote economic development through

entrepreneurship. All of these factors indicate a promising future for Turkey's economy and small- and medium-size enterprises.

The state of Turkey's entrepreneurship could be measured and analyzed more readily with a more regular tracking of the number of start-ups and small businesses. This data should be broken down by sector and should measure the size of the enterprise by number of employees, amount of annual revenue, and number of customers. This detail-specific data will reveal trends and behaviors of markets and consumers and help policy makers target change in order to optimize the many benefits of entrepreneurship.

Bibliography & Appendix

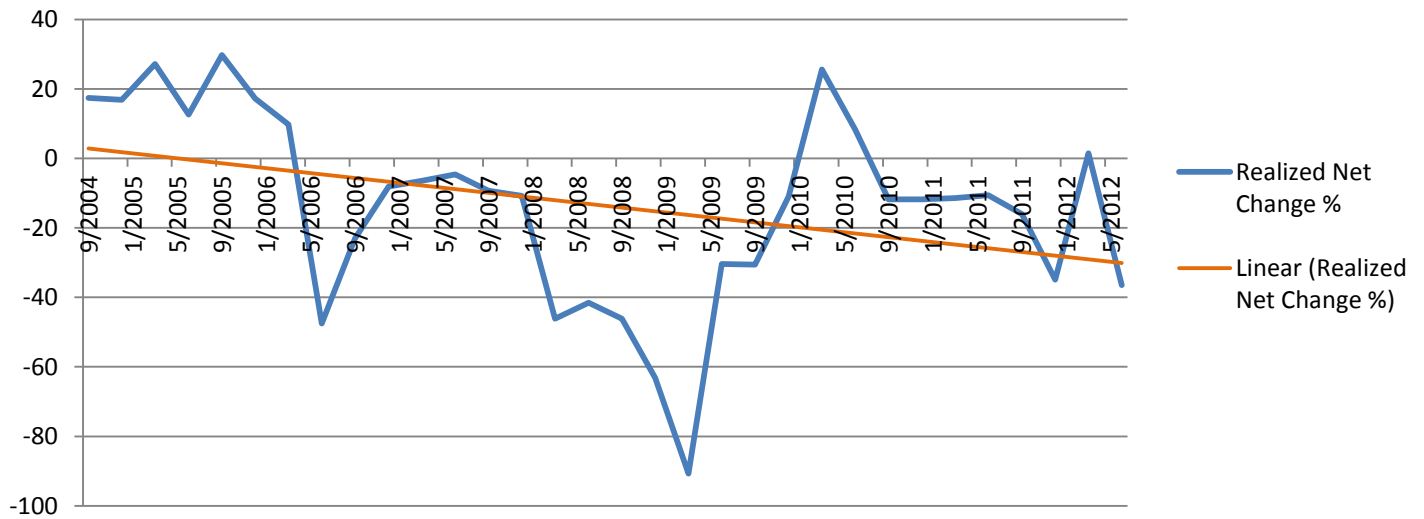
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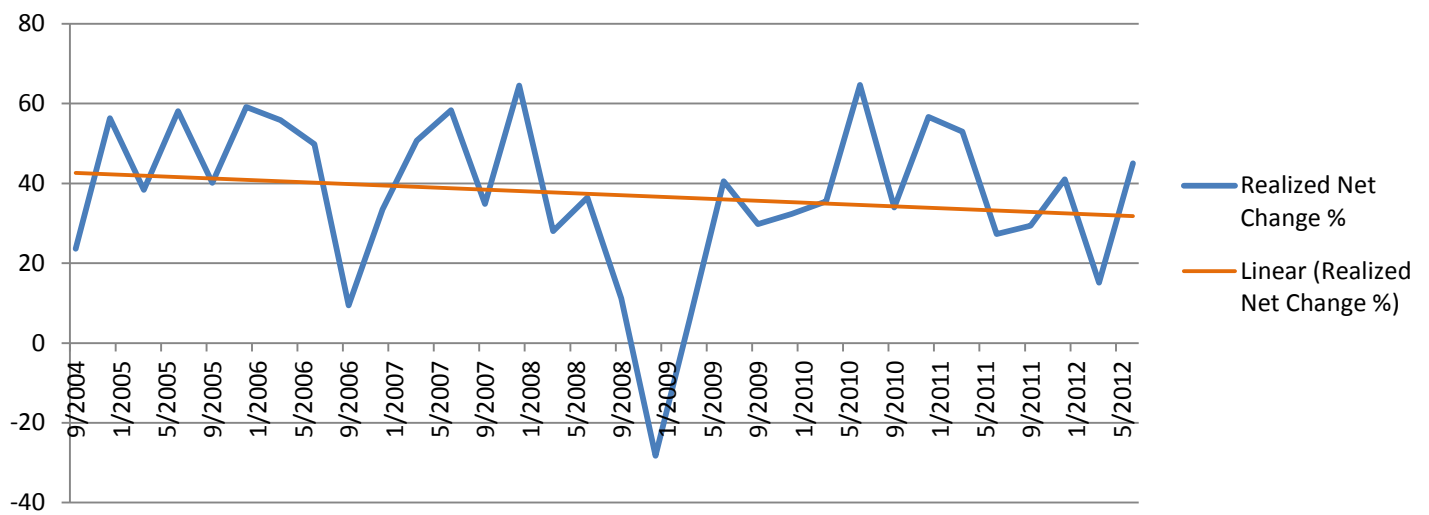
APPENDIX

Credit Standards in Turkey

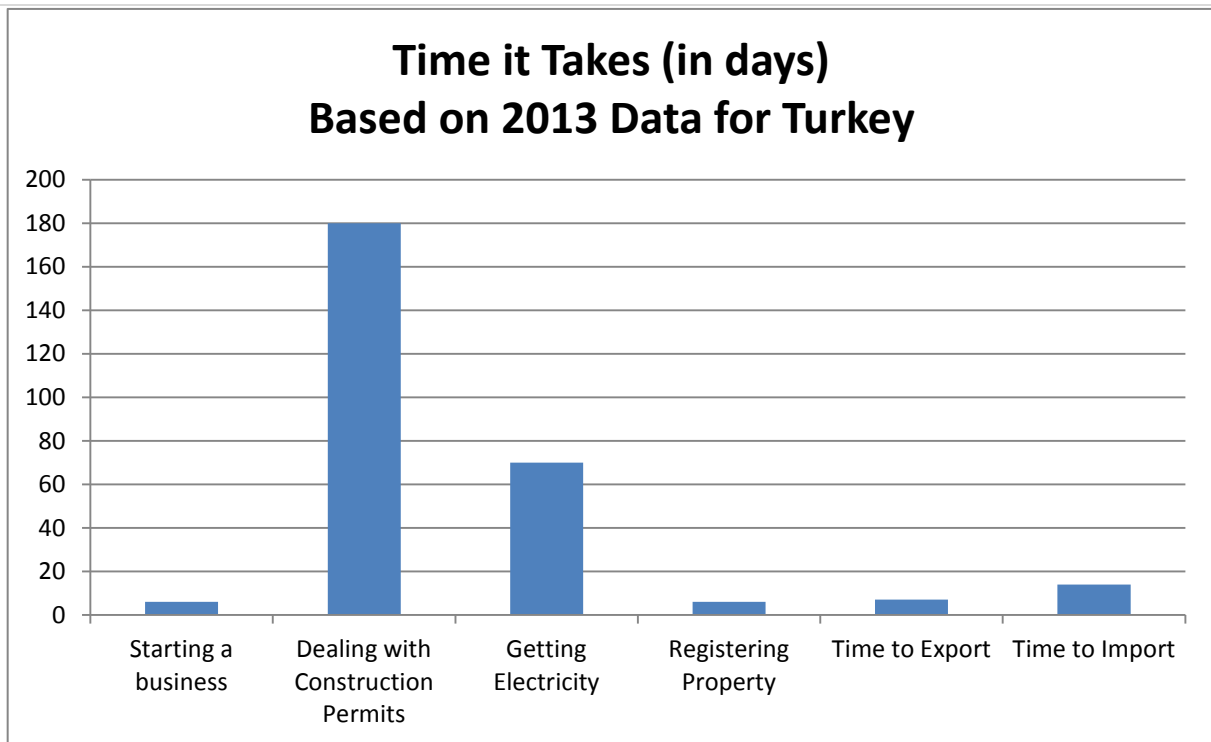


Source: Central Bank of the Republic of Turkey, Banks' Loans Tendency Survey

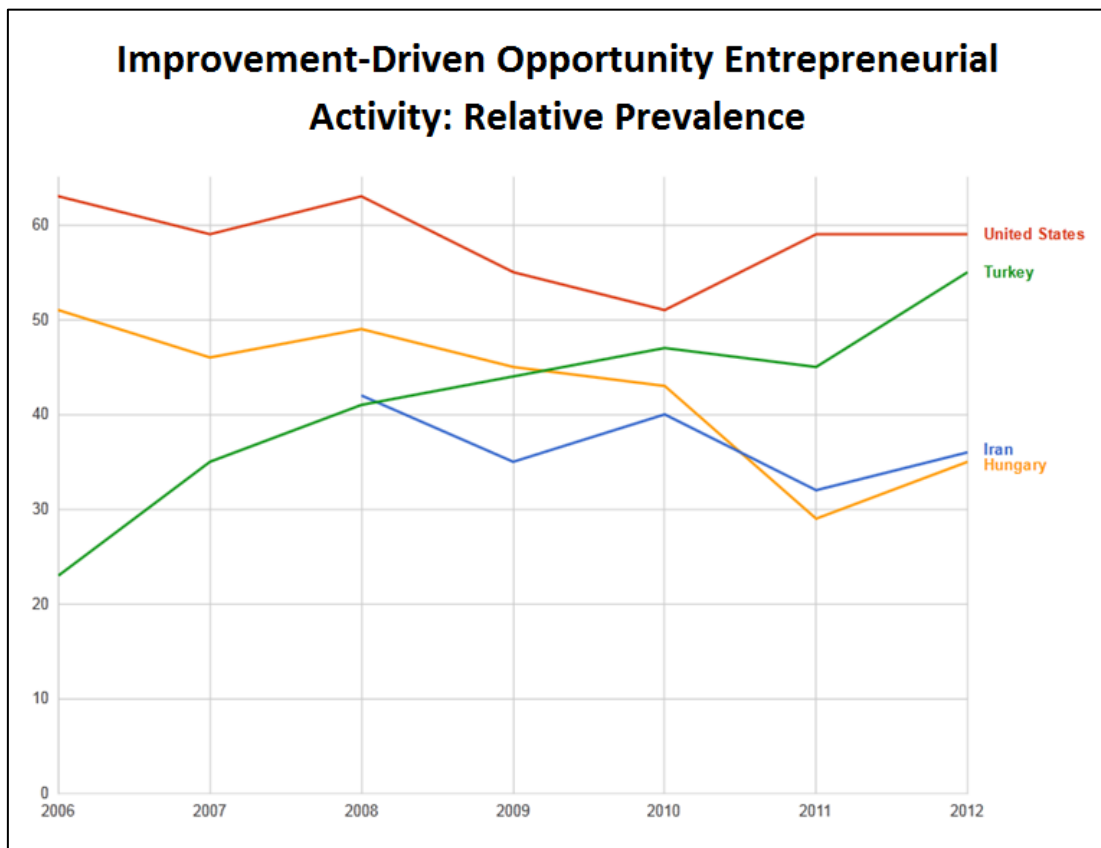
Demand for Loans and Credit Lines in Turkey



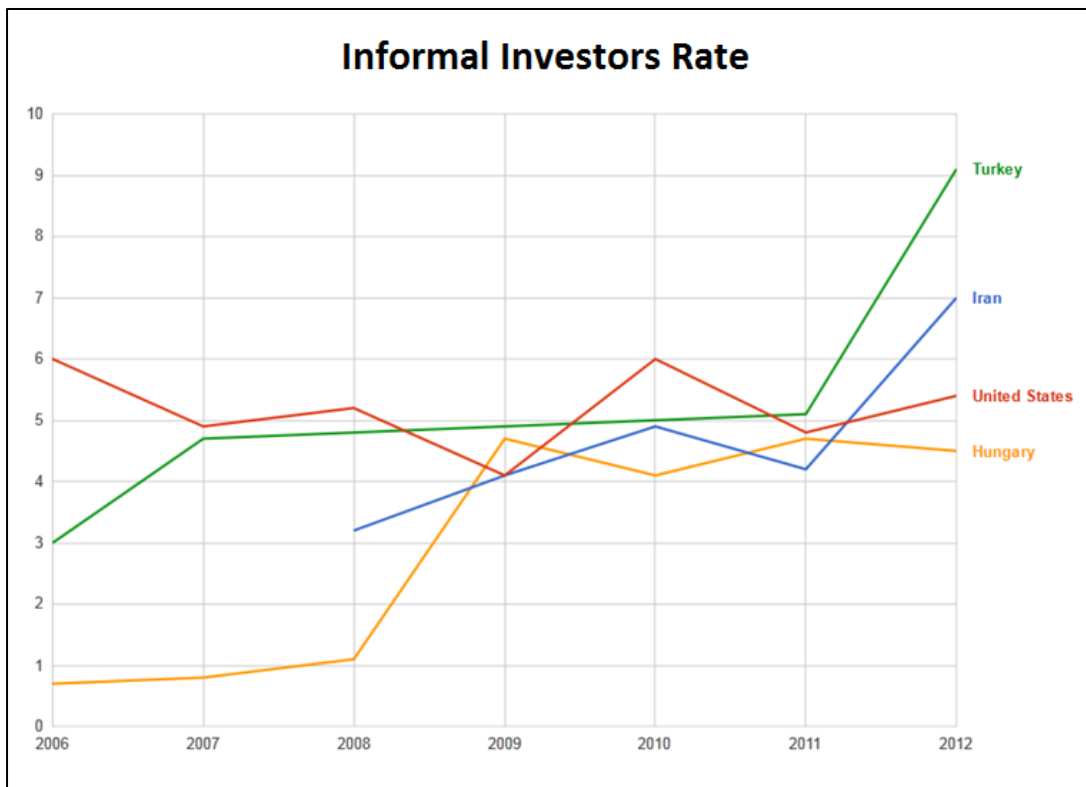
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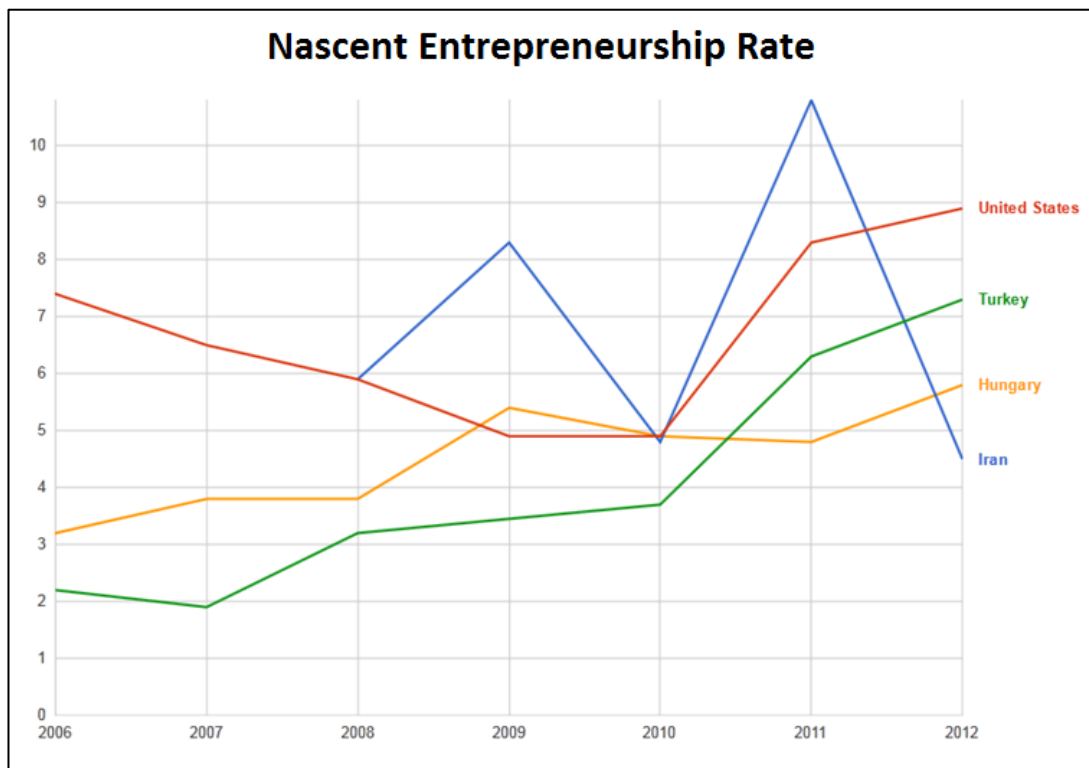
Source: The World Bank, Doing Business Data



Source: Global Entrepreneurship Research Association (GERA), last updated February 2013

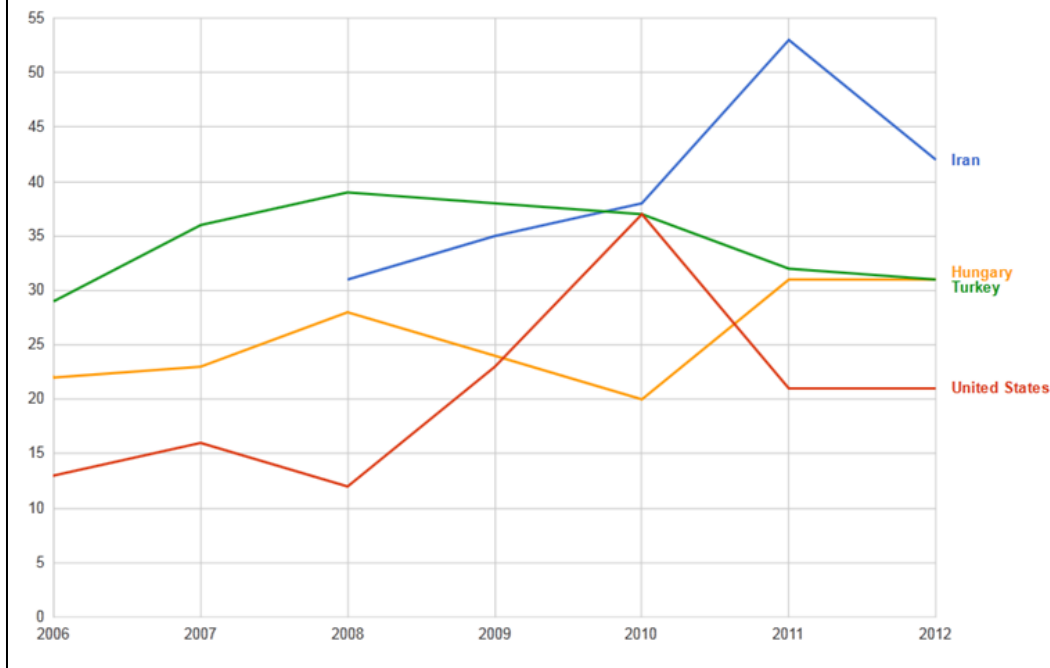


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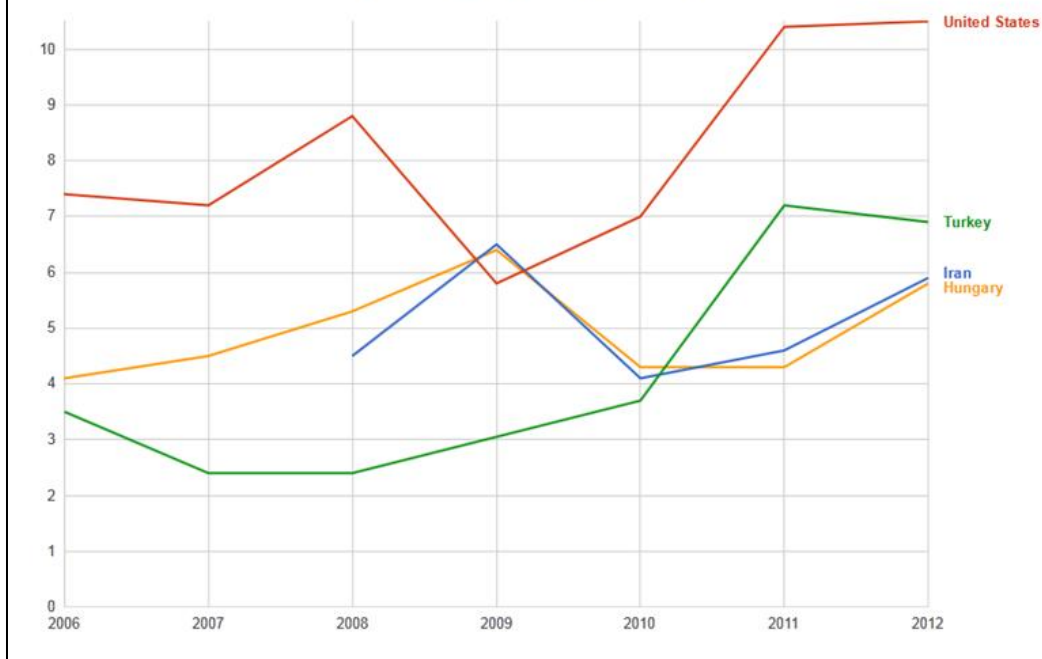
Source: Global Entrepreneurship Research Association (GERA), last updated February 2013

Necessity-Driven Entrepreneurial Activity: Relative Prevalence

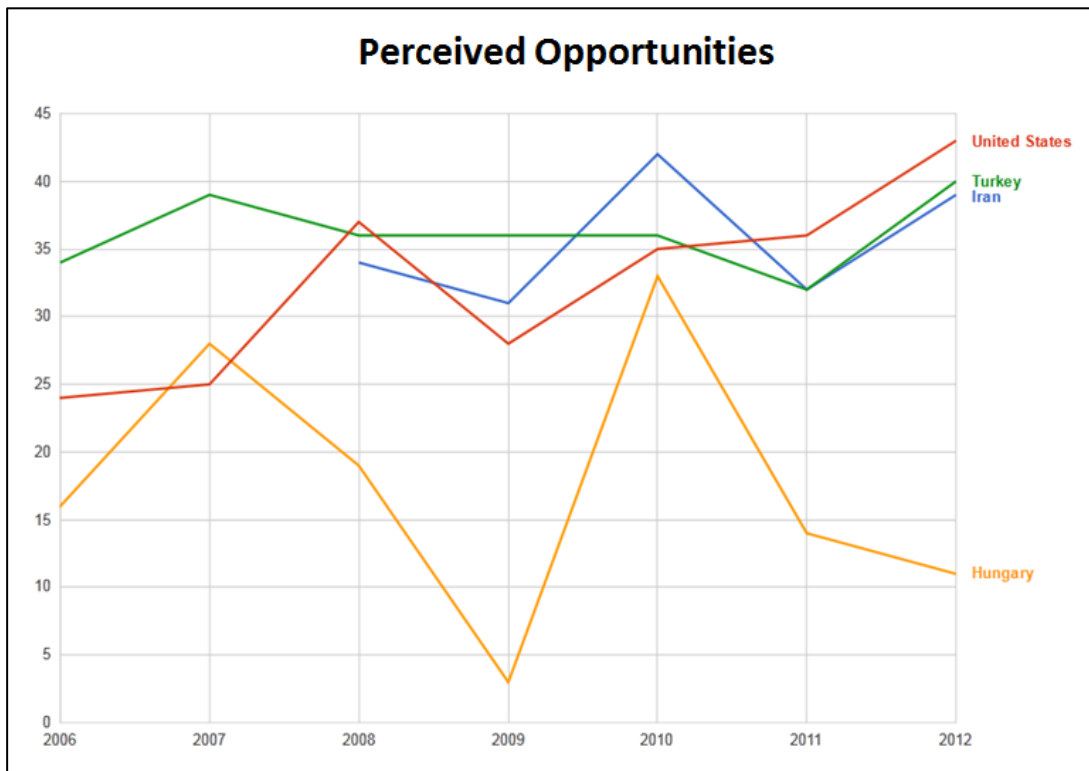


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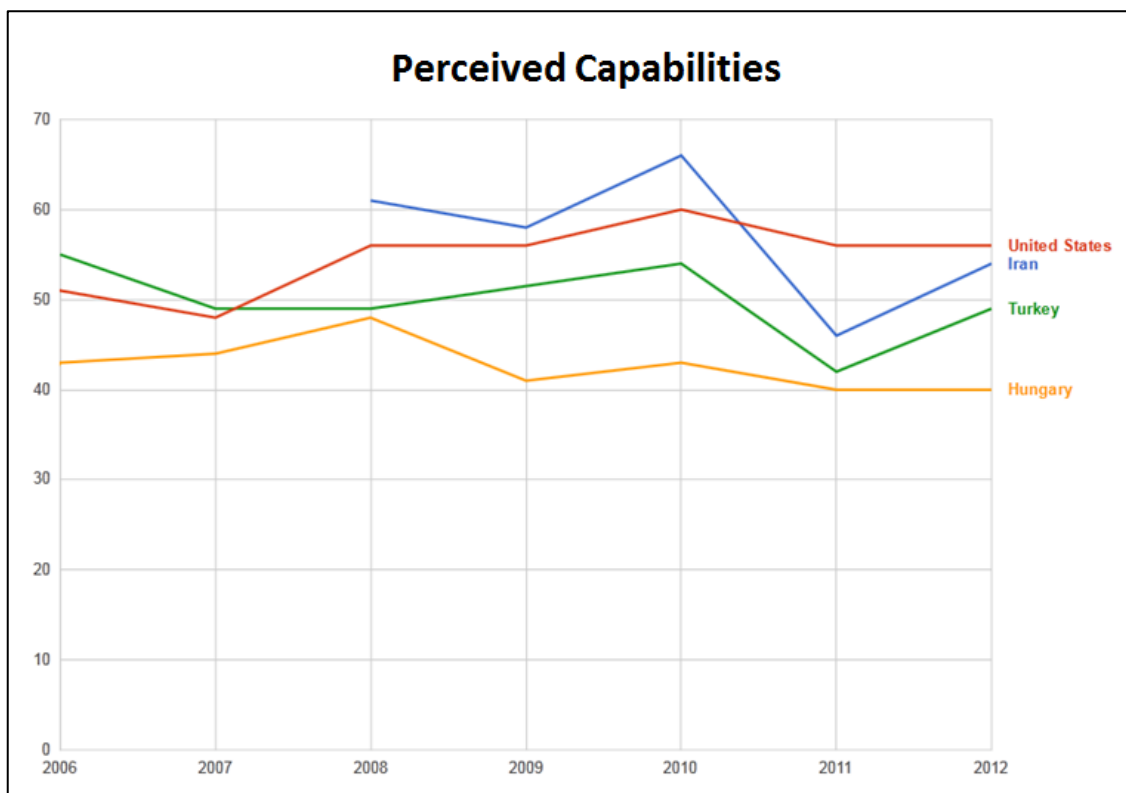
Total early-stage Entrepreneurial Activity for Female Working Age Population



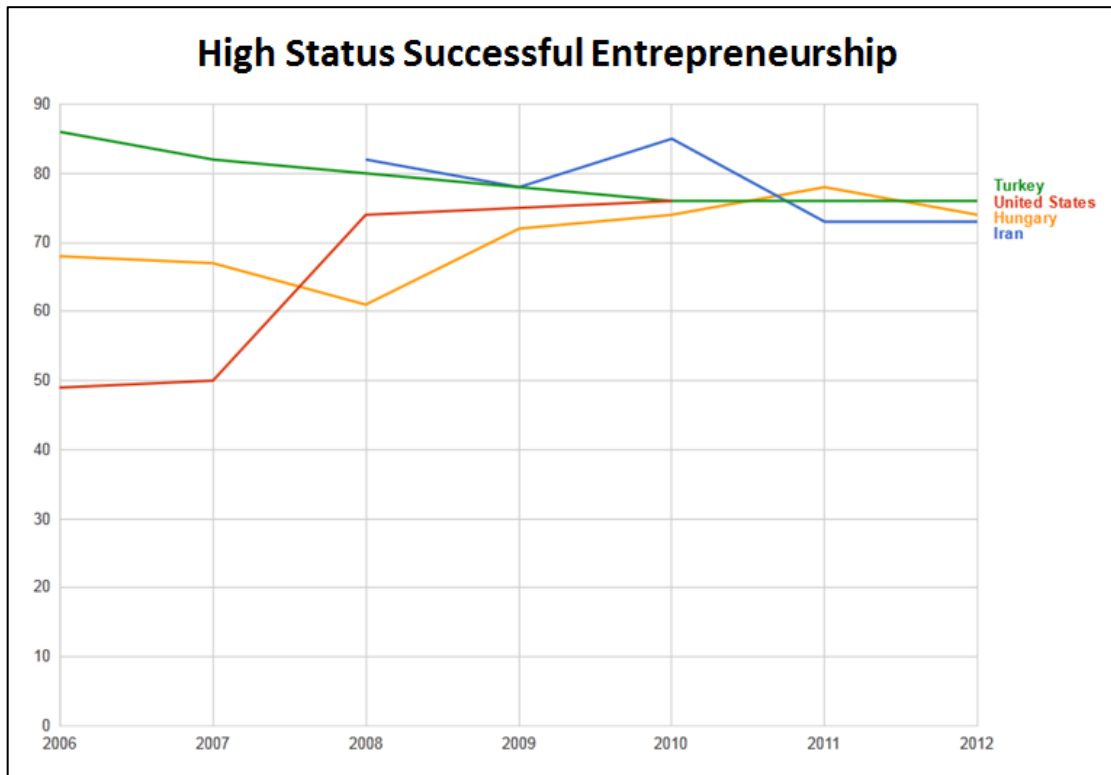
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Source: Global Entrepreneurship Research Association (GERA), last updated February 2013

Global Entrepreneurship Monitor (GEM)

Key Indicators and Definitions

ENTREPRENEURIAL ACTIVITY

Established Business Ownership Rate

Percentage of 18-64 population who are currently owner-manager of an established business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months

Improvement-Driven Opportunity Entrepreneurial Activity: Relative Prevalence

Percentage of those involved in TEA who (i) claim to be driven by opportunity as opposed to finding no other option for work; and (ii) who indicate the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income

Informal Investors Rate

Percentage of 18-64 population who have personally provided funds for a new business, started by someone else, in the past three years

Nascent Entrepreneurship Rate

Percentage of 18-64 population who are currently a nascent entrepreneur, i.e., actively involved in setting up a business they will own or co-own; this business has not paid salaries, wages, or any other payments to the owners for more than three months

Necessity-Driven Entrepreneurial Activity: Relative Prevalence

Percentage of those involved in TEA who are involved in entrepreneurship because they had no other option for work

New Business Ownership Rate

Percentage of 18-64 population who are currently a owner-manager of a new business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than three months, but not more than 42 months

Total early-stage Entrepreneurial Activity (TEA)

Percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business (as defined above)

Total early-stage Entrepreneurial Activity for Female Working Age Population

Percentage of female 18-64 population who are either a nascent entrepreneur or owner-manager of a new business (as defined above)

ENTREPRENEURIAL ATTITUDES

Entrepreneurial Intention

Percentage of 18-64 population (individuals involved in any stage of entrepreneurial activity excluded) who intend to start a business within three years

Entrepreneurship as Desirable Career Choice

Percentage of 18-64 population who agree with the statement that in their country, most people consider starting a business as a desirable career choice

Fear of Failure Rate

Percentage of 18-64 population with positive perceived opportunities who indicate that fear of failure would prevent them from setting up a business

High Status Successful Entrepreneurship

Percentage of 18-64 population who agree with the statement that in their country, successful entrepreneurs receive high status

Know Startup Entrepreneur Rate

Percentage of 18-64 population who personally know someone who started a business in the past two years

Media Attention for Entrepreneurship

Percentage of 18-64 population who agree with the statement that in their country, you will often see stories in the public media about successful new businesses

Perceived Capabilities

Percentage of 18-64 population who believe to have the required skills and knowledge to start a business

Perceived Opportunities

Percentage of 18-64 who see good opportunities to start a firm in the area where they live