THE EFFECTIVENESS OF GOVERNMENTAL GRANT MECHANISMS IN TURKEY: LINKING WITH ENTREPRENEURSHIP

Mehmet Onur PARTAL[1] **Feride GÖNEL**[2]

Gönderim tarihi: 04.11.2019 Kabul tarihi: 28.11.2020

Abstract

Small businesses play a significant role in economic development and growth in Turkey. This paper explores a rather different puzzle, which can be named as the questioning of the existence or non-existence effect of government grants on entrepreneurship. In order to boost regional development, the government allocates grants to current or prospective entrepreneurs in order to increase the number of new firms, jobs, and economic activities. However, the grant programs are now controversial since they are criticized of their effectiveness. In this paper, the effectiveness of major governmental grant mechanisms has been assessed through econometric analysis. Contrary to the expectations, the outcomes of the analysis showed that the grants provided by public institutions have insignificant effects on the stimulation of entrepreneurship, in the context of new firm establishment and new firm birth rate. Therefore, this result led to further need to search the outcomes of types and amounts of governmental grant mechanism.

Keywords: Government Grants, Entrepreneurship, Regional Development, Turkey

JEL Classification: M13, O18, R10

TÜRKİYE'DE KAMU HİBE MEKANİZMALARININ ETKİNLİĞİ: GİRİŞİMCİLİK İLE KURULAN BAĞLANTI

Öz

Küçük işletmeler, Türkiye'nin ekonomik kalkınması ve büyümesinde önemli rol oynamaktadır. Bu çalışma ile kamunun sağladığı hibe mekanizmalarının girişimcilik üzerinde var olan veya olmayan etkileri sorgulanmaktadır. Bölgesel kalkınmayı tetiklemek için girişimcilere kamu fonları aktarılmaktadır. Bu vesile ile yeni firma sayılarının, istihdamın ve ekonomik hareketliliğin artırılması hedeflenmektedir. Fakat günümüzde kamunun sağladığı hibeler verimlilik çerçevesinden bakıldığında sorgulanmaktadır. Bu makalede, ekonometrik analizler aracılığıyla Türkiye'nin öne çıkan hibe programlarının verimliliği incelenmektedir. Beklentilerin aksine, çıkan sonuçlar göstermektedir ki, dağıtılan hibelerin kurulan yeni firma sayısı ve yeni firma doğum oranına anlamlı bir etkisi bulunmamaktadır. Bu araştırma neticesinde, hibe mekanizmaların türlerine ve miktarlarına göre yeni çalışmaların yapılmasına ihtiyaç duyulduğu ortaya çıkmaktadır.

Anahtar Kelimeler: Devlet Destekleri, Girişimcilik, Bölgesel Kalkınma, Türkiye

JEL Sınıflandırması: M13, O18, R10

[1] Expert, Istanbul Development Agency, e-mail: onurpartal@hotmail.com, ORCID ID: 0000-0003-4037-0201

[2] Professor, Department of Economics, Yıldız Technical University, e-mail: gonel@yildiz.edu.tr, ORCID ID: 0000-0001-7946-9298

1. Introduction

In the last few decades, the linkage between regional development and entrepreneurship has been becoming a more important topic since public demands and services become more custom-designed. Policymakers both in the national and regional administrative levels see entrepreneurship as one of the main drivers for economic development. This positive perspective leads policymakers to help finance the projects of entrepreneurs through different ways. In the light of all these, this relationship becomes more attractive for social scientists and enriches the current literature. This paper's objective, parallel to this trend, is to discover if there is any significant relationship between entrepreneurial activities in small business for the case of Turkey and major public support mechanisms guided by public institutions on regional level.

1.1. Financing Entrepreneurship in the Context of Regional Development Efforts by Governments

The concept of regional development and/or regional economic issues has been attracting much interest in recent years. This attraction may stem from the rising popularity of decentralization policies due to regional disparities.

According to OECD[3] regional development is a broad term but can be seen as a general effort to reduce regional disparities by supporting (employment and wealth-generating) economic activities in regions. From the perspective of the European Union[4], "regions and local development" is one of the 15 major topics covered in the agenda. Under this major topic, there is a subtopic called "regional policy", which targets EU regions and cities, boosting economic growth and improving quality of life through strategic investment. The EU has also formed a committee on regional development under the European Parliament and founded the European Investment Fund to support entrepreneurship and innovation in Europe.

In order to help regions economically develop and improve living standards, entrepreneurship is mentioned as one of the major game changers not only by international institutions but also researchers. Schumpeter (1911) points out that economic processes are organic; and mechanisms of change come from within the economic system. Entrepreneurship is, therefore, one of the key elements of economic advancement; moreover, changes in the economic system are driven by innovation, which is created by entrepreneurs.

---

[3] http://www.oecd.org/cfe/regional-policy/regionaldevelopment.htm (access on Jan 15th, 2019).

[4] https://europa.eu/european-union/topics/regional-policy_en (access on Jan 15th, 2019).

According to the Cambridge Dictionary, the term "innovative" means "using new methods/ideas[5]". Therefore, innovative projects are meant to embrace new methods and/or ideas. Obviously, there is a necessity for entrepreneurs to access to finance in order to implement their innovative projects. There are various ways for an entrepreneur to find financial resources. These may be personal acquaintances, banks, investors, government funds or other resources. Attracting investors to meet the financial needs of entrepreneurs is a difficult task, and it can sometimes be more expensive since investors may demand high percentages of shares and privileges from the established business.

Almost all countries worldwide involving the Turkey allocate grants to a large portfolio of schemes which is accessible by entrepreneurs. Government grants are public subsidies offered to a recipient for business or personal purposes. The subsidy is not expected to be reimbursed, and may be used for research, business development, education or other endeavors that are anticipated to support a common cause. The grant offering typically includes conditions that must be met, such as reporting performance or results[6].

From an entrepreneurial standpoint, government grants are zero cost financing opportunities despite the tough competitiveness of application processes. However, it must be emphasized that the situation may differ from the perspective of governments. Although governments assume that the supports are efficient due to the cost savings and better utilization of resources, the empirical findings may vary. In this study, the concept used as entrepreneurship mainly concentrates on small business activities with a business model.

1.2. Turkey's Regional Development Efforts after 2000s

According to the National Dialogue on Entrepreneurship in USA, "an entrepreneur is an individual engaged in the process of starting and growing one's own business". Moving on from this point, entrepreneurship involves doing as well as knowing, taking personal and financial risk, utilizing innovation in technology or processes, marketing, and commitment to grow a business as fast as the market place allows. According to the European Union, "entrepreneurship is the mindset and process by which an individual or group identifies and successfully exploits a new idea or opportunity".

OECD (2005) defines entrepreneurship as a job creation engine that has a positive impact on local, regional and national economies. New economic trends suggest that a prevalence of SMEs that provide a constant tide of new ideas and experimentation is a source that invigorates the health of the economy as a whole.

[5] https://dictionary.cambridge.org/tr/s%C3%B6zl%C3%BCk/ingilizce/innovative (access on Jan 15th, 2019).
[6] Read more: http://www.businessdictionary.com/definition/government-grant.html