

Applicability and Readiness of Crowdfunding in Turkey

Ibrahim Ethem SANCAK, PhD

Financial Policy Advisor

Prime Ministry of Turkey

Istanbul, Turkey

Abstract

This paper discusses the applicability and readiness of crowdfunding in Turkey. Crowdfunding is an alternative financing option for entrepreneurs or businesses via deploying Internet based tools to collect funds from public or multiple individuals in the form of either donations or investments. In Turkey, since capital markets are not well-developed, banks are the dominant financial institutions and raising money via capital market instruments is not pervasive. Therefore, alternative fund raising methods are needed for starters. This paper analyses the current conditions for crowdfunding as an alternative financing method in terms of entrepreneurial culture, economic regulation, community engagement and technology. The paper also proposes some policies for potential crowdfunding applications in Turkey. Preliminary findings of this research indicate that as a new financing method, within the framework of requisite regulations, crowdfunding can be successfully implemented in Turkey. However, Turkey is not ready for this alternative financing method from the perspectives of community engagement, entrepreneurial culture and current regulations.

Keywords: Crowdfunding, Alternative Financing, Turkish Financial Markets, Financial Regulation.

JEL Codes: K22, G32, L26

Introduction

In order to fully support the real economy in a country, a variety of financing methods and possibilities must be available for entrepreneurs. Increasing the availability and number of financial tools will ease financing for entrepreneurs. Crowdfunding is an innovative financing option that can contribute positively to the real economy and financial environment. However, due to the fact that it is a financing tool that is new and unregulated, it should be closely evaluated and monitored by the regulatory and supervisory bodies to minimize drawbacks and risks associated with it.

Crowdfunding emerged during the financial crisis of 2007-2008 largely because of the difficulties faced by artisans, entrepreneurs and early-stage enterprises in raising funds (infoDev, 2013). In less than a decade, it has been implemented in many countries including Australia, the U.K., the U.S., the Netherlands and Italy (infoDev, 2013). Turkey is another country where crowdfunding has taken place mostly in the form of donations. Kickstarter is currently the world-wide market leader in pledge or donation-based crowdfunding and has channeled over 815 million USD from 4.9 million supporters with approximately 50,000 projects since 2009 (infoDev, 2013).

In an emerging economy, such as Turkey, entrepreneurs need significant amounts of new funds to support their investments or businesses. In Turkey, since capital markets are not well-developed, banks are the dominant financial institutions and raising money via capital market instruments is not pervasive. While conventional banks are the dominant financial institutions, they have limited financing capacity and they are not eager to finance different kinds of entrepreneurs and startups.

Therefore, alternative fund raising methods are necessary for starters. Crowdfunding might be a good candidate for entrepreneurs but its drawbacks and risks need to be assessed. The purpose of this research is to assess whether crowdfunding is applicable to Turkey's economic environment. To do this, there is the need to address the applicability of the method and readiness of the environment in terms of technology, community engagement, entrepreneurial culture and current regulations.

Crowdfunding is not less risky compared to traditional investment methods for the market. Since this method is based on Internet usage and utilizes web based platforms, there are some risks that are unique to it. Though the market size in countries like Turkey is very small in comparison to total loan origination globally, the pace of growth in these emerging markets suggests that crowdfunding will become a more widely accessed investment option for a wider public (Kirby & Worner, 2014). Therefore, investor protection issues, a major risk area within this framework, should be taken into serious consideration.

As a new funding mechanism, although crowdfunding may play a key role in sparking economic growth, innovation, and jobs, it is not a solution that comes without risks and challenges (infoDev, 2013). This paper tries to address some of those challenges for Turkish economy and financial markets.

This paper has been structured as follows. In the first section, I provide an overview of crowdfunding. Section II summarizes the literature. In section III, the methodology is introduced. Section IV introduces the key elements of crowdfunding. In section V, research methods are applied, findings are evaluated and some policy recommendations are proposed for Turkey and similar other countries. Finally, in the conclusion, I summarize the findings and results.

I. Crowdfunding

Crowdfunding is an Internet-enabled way for businesses or other organizations to raise money in the form of either donations or investments from multiple individuals (infoDev, 2013). Since many entrepreneurs have difficulty in raising money and capital, this method emerged as an alternative to traditional financing methods. In addition to the "crowdfunding", this method has been named as "equity crowdfunding", "hyper funding" and the raised capital has been called "crowd sourced capital" or "social capital" (Akbulak, 2012).

Crowdfunding began in Australia, followed by the U.K. and has been spreading across the world (infoDev, 2013). The passage of the Jumpstart Our Business Startups Act in 2012 in the U.S. has attracted considerable interest in crowdfunding in the country as well as in Mexico and Canada and others (infoDev, 2013). On the other side of the ocean, the European Crowdfunding Network was launched in 2012 to work on a regulatory model for Europe (infoDev, 2013). The European Commission has indicated its intentions to support crowdfunding (Ellenoff, Adler, Selengut, & DeDenato, 2014). However, it has traditionally displayed strong consumer-protectionist tendencies (Ellenoff, Adler, Selengut, & DeDenato, 2014). Currently, there are no harmonized regulations on crowdfunding at the EU level despite the fact that regulated crowdfunding activities are already in effect in some EU countries.

The estimated total global market opportunity for crowdfunding by 2025 is about \$96 billion which would represent about 1.8 times global venture capital investments (infoDev, 2013). The same estimate applies to Europe and Central Asia is \$13.8 billion.

The assessment of crowdfunding status on country level can be summed up mainly in four of the following categories (Tendulkar, 2014): 1) Exempt or unregulated through lack of definition, 2) Regulated as a collective investment scheme, intermediary or as a banking activity, 3) Prohibited, 4) Special status. Turkey falls into the first category. As a financing method, crowdfunding for equity is not regulated in many countries including Turkey, even though it is a technically useful way for entrepreneurs and investors.

A SWOT analysis on crowdfunding outlines the following weaknesses (Valanciene & Jegeleviciute, 2013): Administrative and accounting challenges, the possibility of ideas being stolen, weaker investor protection and potential for fraud and lack of advice about Internet for investors. On the other hand, crowdfunding has its own opportunities which include the existence of a niche, information society and the possibility of positive effects on a national economy (Valanciene & Jegeleviciute, 2013). The risky nature of small businesses and unsuitable legal restrictions are the anticipated main threats (Valanciene & Jegeleviciute, 2013).

Crowdfunding can be designated as a financial or non-financial activity. This is indicated in Figure 1.

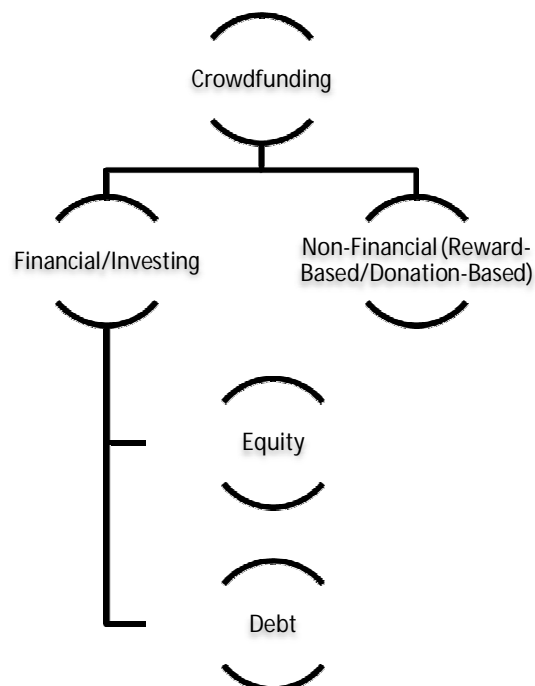


Figure 1: Classification of Crowdfunding.

Crowdfunding investing refers to raising capital by selling financial instruments related to the company's assets and/or financial performance or raising debt capital in the forms of loans, selling claims to the company's intellectual property, and selling investors' ownership shares (infoDev, 2013).

Since crowdfunding activities take place on the web, this creates transparency and more open communication by enabling investors to engage with companies over time to monitor their progress and continue to support their success as the companies grow (infoDev, 2013).

For some countries, including Turkey, crowdfunding is more meaningful and relevant, in terms of attracting capital. Savings of citizens working and living abroad, also known as remittances or referred to here as "diaspora capital", are important since a significant number of the citizens have emigrated and reside in higher income countries. Turkey has about 5 million citizens living abroad, about 80 % of them living in Germany. From prior experience, they are inclined to invest in Turkey. These citizens have investment difficulties and generally they do not have many investment opportunities. They normally would like to invest in new companies, become an angel investor, and later get periodic returns, for example dividends, as a retirement plan. Investment plans of the citizens living abroad could be identified as startups. Therefore, crowdfunding may attract a significant amount of diaspora capital and may create a win-win international financing channel for Turkey. However, these groups have had serious financial catastrophic events in the past because of their investments in so-called Turkish startups. Negative experiences in the past may evoke fear and hesitation unless new and stronger signals have been sent by the governments and regulators. Therefore, it is highly recommended that crowdfunding be under regulation and serious barriers be set for potential crowdfunding firms. One solution might be licensing some full-power brokerage firms with crowdfunding activity since they already have an institutional structure and they are already under strict regulation and supervision. Another idea might be creating a brand new structure on crowdfunding and separate crowdfunding firms as intermediaries.

Kiran (2013) proposes an implementation model for crowdfunding via addressing the broker-dealers who would set up proper crowdfunding Internet platforms. In this model, the pre-approval of the regulator is excluded from the typical capital market fund raising procedures and crowdfunding firms are exempt from some capital market regulations (Kiran, 2013). The focus of this paper is not how to apply or implement the method in Turkey, instead, to assess whether it is applicable and whether the country is ready to successfully implement the method. Despite the potential usefulness of crowdfunding as a financing method for countries, it is not a one-size-fits-all model. Each country should use crowdfunding while considering national strengths and weaknesses.

Therefore, as a policy issue, Turkish policymakers should first decide whether crowdfunding has a net wealth potential, in the short, medium and long term for Turkey. After that, Turkey should decide how to apply the method or whether or not the method is applicable in Turkey.

II. Literature

Two institutional reports cover crowdfunding in details: *infoDev* (2013) and Kirby & Worner (2014). *infoDev* (2013) sheds light on this paper in the sense that it addresses a method for researchers on crowdfunding and draws the perimeter of crowdfunding research for different countries. This paper applies the *infoDev*'s (2013) method and evaluates the results based on the criteria developed with the *infoDev* (2013). On the other hand, Kirby & Worner (2014) provide a holistic approach, evaluating crowdfunding with authors' personal viewpoint albeit under the umbrella of IOSCO which is a global standard setter in the capital market area.

Kiran (2013) evaluates the regulatory aspects of crowdfunding from the Turkish regulatory settings comparing it with the recent rules and regulations of the U.S. Kiran (2013) asserts that as a financing method, under the Turkish regulations at the time, a crowdfunding activity would fall into the realm of public offering and require the pre-approval of the regulator. Kiran (2013) also proposes a model for crowdfunding application in Turkey. Tozzi (2012) raises five unanswered questions about crowdfunding as follows: 1) What will crowdfunding intermediaries look like? 2) How will they keep bad actors out? 3) What role will state regulators play? 4) When will the rules be set? 5) Will fraud make crowdfunding radioactive? Valanciene & Jegeleviciute (2013) aim to broaden the body of knowledge about crowdfunding via applying a SWOT analysis of the concept. Valanciene & Jegeleviciute (2013) conclude that weaker investor protection and potential for fraud are two of the weaknesses of crowdfunding. Mollick (2013) addresses only reward-based and patron-based crowdfunding and informs that the rate of fraud in crowdfunding is currently low, despite the lack of significant outside vetting of projects, that may not hold true in all forms of crowdfunding. One of the findings of Mollick (2013) is that crowdfunding success appears to be linked to project quality, and that projects that signal a higher quality are more likely to be funded. This finding of the research implies a significant link to entrepreneurship and innovations which are respectively low in Turkey.

III. Methodology

This paper uses both a survey model and direct interviews to assess the applicability and readiness of crowdfunding in Turkey. In depth interviews along with a survey model developed by *info Dev*¹ were utilized. A research was carried out to discover which factors are most important for crowdfunding to be successful in a country. Under a regression model, here are the key indicators for the rise of crowdfunding ecosystems (*infoDev*, 2013): Strong social media usage, high degree of early stage entrepreneurial activity, strong friends and family funding network. The research identifies the social media penetration as the single most predictive factor for the rate of crowdfunding emergence. Based on the same research, even though the certainty of correlation is lower than the median, overburdened investor regulations or protection has been found as one of the negative factors.

Since crowdfunding is not a regulated activity in Turkey, there is no available data related to it. Similarly, there is no central data hub to assess the industry at a global level (Kirby & Worner, 2014). Therefore, a combination of the *infoDev*'s survey model and interviews are useful to conduct research in this field.

Under the model developed by *infoDev*, the applicability and readiness have been tested by deploying a high level self-assessment tool via surveys. These surveys help understand perceptions of the topic by 25 professionals.

As for the interviews, the focus group comprises of four interviewees with vast experience on the financial industry in Turkey. Since crowdfunding has both banking industry and capital market roots, I elicited interviewees in these areas. Interviewees are not only experienced finance and law people; they have been also policymakers on financial and economic issues. Applying the structured interview technique, prepared questions have been handed out to interviewees. Before handing out the forms, an informative brief about crowdfunding has been given on the topic. There are reasonable amount of academic or professional materials on crowdfunding, mostly defining the method, outlining the pros and cons of crowdfunding, depicting it in different aspects and discussing the benefits.

¹*infoDev* is a global partnership program within the World Bank Group which works at the intersection of innovation, technology, and entrepreneurship to create opportunities for inclusive growth, job creation and poverty reduction (*infoDev*, 2013).

However, this is the first one analyzing the applicability and readiness in Turkey with interviews together with the *infoDev*'s survey model. This paper focuses only on crowdfunding as a financing activity. Therefore, the research has been applied only in this respect and does not have any implication about non-financing implementations of crowdfunding.

IV. Key Elements of Crowdfunding for Turkey

The "*infoDev*" (2013) research draws the perimeter of the key elements of a robust crowdfunding ecosystem with four interlinked pillars: Entrepreneurial culture, economic regulation, community engagement and technology. The following sub-sections will evaluate the four pillars in the Turkish context.

4.1. Entrepreneurial Culture

Since crowdfunding is similar to fund raising via stock issuance, the stock market can be a good proxy for crowdfunding for Turkey. Stock market trends indicate a resistance to modern methods in Turkey. About only 13 % of 1,000 biggest industrial companies are publicly traded and the rest of them are privately held in Turkey. Moreover, the total number of publicly traded companies is less than 500. This picture is a reflection of resistance to modern financing methods. It is also an indication of reluctance to new financial instruments.

On the other hand, research and development is the bedrock of innovation and a big investment in R & D indicates a thriving and entrepreneurial industrial spirit (Muggeridge, 2015). While OECD average is higher than 2 % and Korea has about 3.5 %, Turkey has less than 1 % gross domestic spending on R&D as of 2013 (OECD, Gross domestic spending on R&D, 2015). Moreover, Turkey's patent applications are also an indication of the entrepreneurial culture. It is comparatively outlined in Table 1.

Table 1: Patent Applications Filed Under the PCT, 2006-2013.

	2006	2007	2008	2009	2010	2011	2012	2013
World	154,350	159,891	150,233	156,604	172,174	188,363	194,094	198,347
OECD - Total	144,352	148,276	138,152	140,575	151,861	163,638	167,637	171,437
European Union (28 countries)	48,443	50,808	48,205	47,803	49,384	51,100	49,953	47,766
Japan	26,743	29,011	28,088	31,001	37,124	41,734	43,618	41,207
Korea	6,426	7,257	7,186	8,728	9,546	10,819	11,258	11,438
Canada	2,995	3,038	2,618	2,696	2,931	2,940	3,081	3,157
Turkey	324	380	388	462	560	497	637	711

Source: OECD, Patents by Technology (2015).

The patent statistics related to Turkey, together with the spending on R&D, imply that entrepreneurial culture is not well-developed in Turkey. To cope with resistance and the current trends, Turkey has been trying to encourage entrepreneurship via incentives. For example, the Turkish government has developed new regulations to create an angel investor community. The law regarding the promotion of angel investments was enacted in Turkey in 2012 and the system was launched in 2013 with the secondary legislation (Treasury, 2013). Incentives might support startups.

4.2 Economic Regulations

From the regulations perspective, crowdfunding falls into the area of fund raising procedures from the public. Fund raising procedures from the public or the crowd are under strict rules and regulations in Turkey. Since the method is mostly similar to the public offering activity, capital market regulations and Turkish Commercial Code will go into effect. Pursuant to the article 2 of the Capital Market Law of 2012 numbered 6362 (CML), capital market instruments, the issue of these instruments, issuers, those who are public offerors, capital market activities, capital market institutions, exchanges and other organized markets where capital market instruments are traded, market operators, the Capital Markets Association of Turkey, the Appraisal Experts Association of Turkey, central clearing institutions, central securities depositories, the Central Registry Agency and the Capital Markets Board are subject to the provisions of the Law. Since, for crowdfunding procedures, only cash is collected and no capital market instrument is affiliated, one might allege that crowdfunding cannot be in the area of the CML scope, therefore, no capital market regulations can be applied to the method.

Responding to this matter, the article 552 of the Turkish Commercial Code orders that “*Except the related provisions of the Capital Market Law, collecting money on the purpose of establishing a company or raising capital of a company or by promising any of these actions via publicly inviting crowd or unknown people in any ways or means is prohibited.*” (TBMM, 2012). On the other hand, any action against the provision requires a criminal sanction of 6 months to 2 years imprisonment. Moreover, issuance of capital market instruments, such as bonds and stocks, without a proper approval of a prospectus is strictly forbidden. Any action against the rule requires criminal sanctions of 2 to 5 years imprisonment and judicial fines.

Economic regulations are also important from the investor protection viewpoint. Investor protection is a fundamental issue for regulatory and supervisory bodies all over the world. Since crowdfunding is directly related to the crowd and individuals mostly have small savings, they may not act as a sophisticated or professional investor. Crowdfunding investing is primarily targeted at non-accredited, non-professional investors, who may be less qualified to make informed decisions (infoDev, 2013). Thus, the potential suppliers of the funds are significantly more vulnerable to possible improper attacks. This makes the case more sensitive in terms of investor protection.

Investor protection is a multi-dimensional issue and requires mostly interference with the market. One of the dimensions relates to the judicial part of improper activities, namely criminal cases. At this stage, Turkey still does not have deterrent judicial procedures for fraudsters. Beyond that, criminal sanctions are not dissuasive for abusers. The time consuming and highly bureaucratic structures of judicial procedures coupled with the weak sanctions imply that Turkey does not have a safe environment for possible investors of crowdfunding.

Since crowdfunding is a risky investment for crowdfunders, from the regulatory and supervisory perspective, some special protective rules should be put in place. For example, in the U.S., investors’ pledges will be limited by their net worth and income (infoDev, 2013).

4.3. Community Engagement

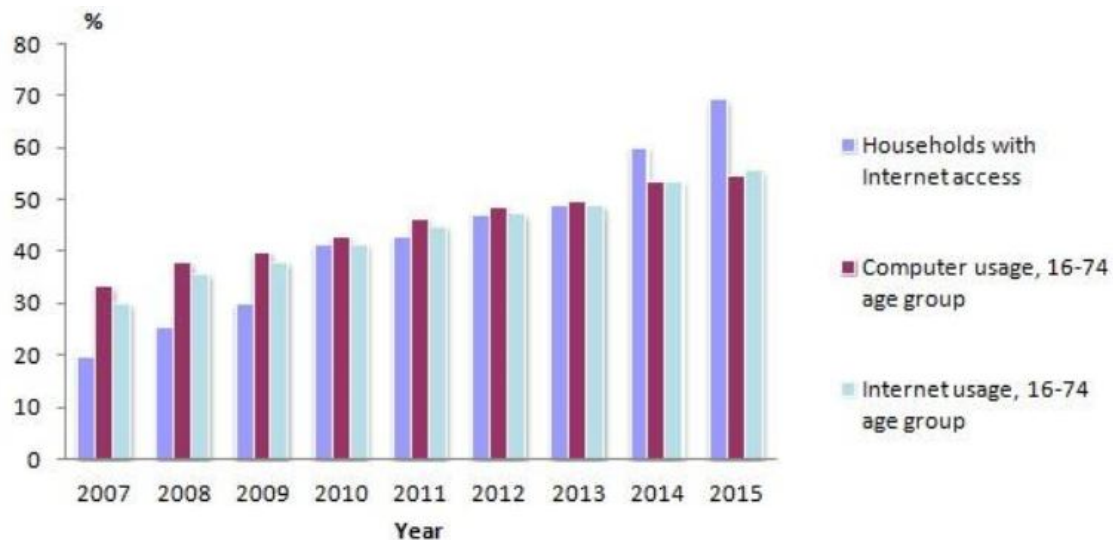
Crowdfunding investing is unlikely to grow if social networks do not exist or communities lack constellations of trust (infoDev, 2013). Community engagement for crowdfunding should comprise of social network, social vetting, startup events and culture of trust. Social groups may have internal motivations to start a social event or activity and some governmental institutions or NGOs may motivate people to come together to strengthen the culture of entrepreneurship.

It is obvious that the single most important element supporting a healthy entrepreneurial ecosystem is trust among entrepreneurs, funders and customers (infoDev, 2013). Given this, there are two major problems in Turkey. First, there were serious catastrophic events in the past about fund raising from the public, experienced especially by fraternal groups and diaspora communities mostly living in Germany or Europe. These financial catastrophic events, many of them still unresolved, seriously cast doubt on new methods like crowdfunding. Second, even though Turkey has a new and stricter anti-market abuse regime with the new Capital Market Law since the beginning of the 2013, effectively since 2014, there are still serious gaps within the judicial system and litigation in terms of investor protection and deterrence of fraud attacks. In Turkey, criminal financial cases are handled by public prosecutors based on formal applications of the regulatory authorities. Even though there are significant numbers of formal applications, it is very hard to get positive results from the perspectives of investors and regulators. This picture sends a signal to possible scammers and dares the “experienced” and bold fraudsters.

In these respects, community engagement precondition of crowdfunding seems doubtful in Turkey for the success of the method.

4.4. Technology

In terms of crowdfunding, technology means Internet access, regulated portals to facilitate the process, the ongoing communication and new services to facilitate transactions (infoDev, 2013). Since the method is based on the Internet, Internet usage and accessibility are crucial for its applicability and success. The following bar graph indicates Internet accessibility for households, computer usage of the 16-74 age group and Internet usage of the same age group in Turkey.



Graph 1: Fundamental Indicators about Information and Communication Technology (ICT) Usage in Turkey 2007-2015.

Source: TURKSTAT (2015).

The figure on households with Internet access (the left hand side bar, the highest bar in 2014 and 2015) was 55.9 % and the figure on computer usage (the middle bars) was 54.8 % in 2015/Q1 (TURKSTAT, 2015). In the same period, the Internet usage (the right-hand side bar) was higher than the figure on the computer usage due to the fact that 96.8% of households had mobile phone (incl. smart phones) in April, 2015. In the first quarter of 2015, 80.9% of Internet users participated in social networks (TURKSTAT, 2015). This figure was followed by reading online news, newspapers, news magazines (70.2 %), seeking health-related information (66.3 %), uploading self-created content to any website to be shared (62.1 %) and finding information about goods and services (59.4 %). The current levels and year by year increasing figures indicate that Internet usage ratios are well conducive to crowdfunding in Turkey.

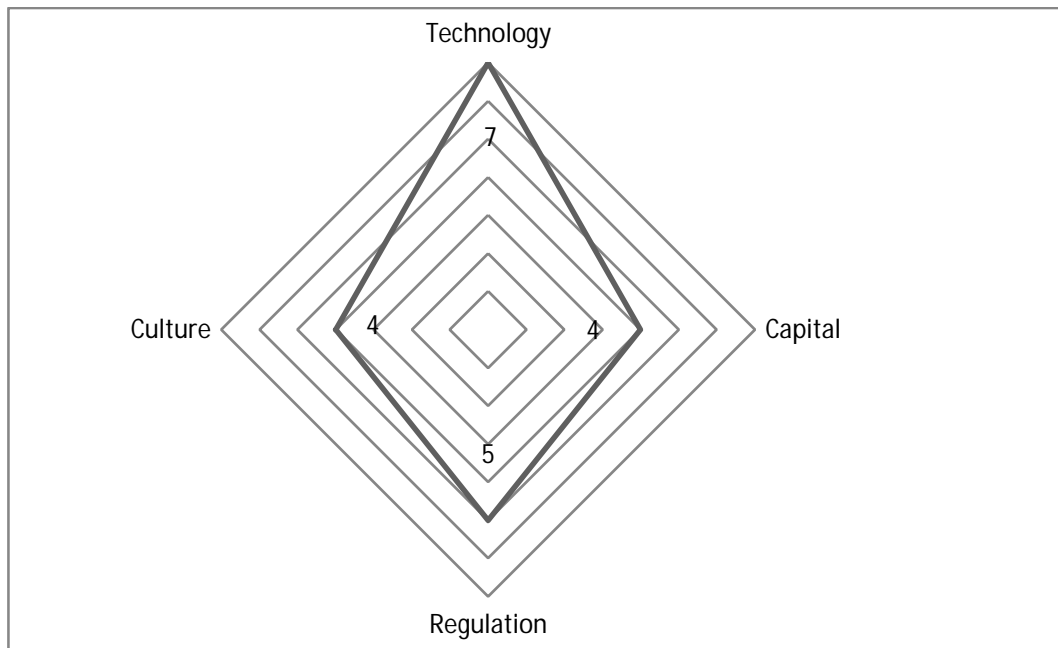
One third of the world's population has access to the Internet (infoDev, 2013). The same statistic for Turkey is much higher than the world average. In addition to the Internet usage, smartphone penetration is growing, a phenomenon that enables people to reach out more alternative investment opportunities at any point of the day. Turkey not only has high Internet access ratios but also has significantly high social network participation ratios, which are higher than 80 % as of 2015/Q1.

Internet based financing methods have greater importance than others in the years to come for Turkey and other developing countries, since compound annual growth rate of estimated Internet users is well above the rate of developed countries. More than half of current Internet users are in emerging countries like Turkey and their numbers are growing at about five times the rate in developed countries (Nottebohm, Manyika, Bughin, Chui, & Syed, 2012). This phenomenon addresses the Internet as a bigger financial platform for entrepreneurs, starters, and investors at all stages of their investments. From the competition perspective, usage of Internet platforms as financing area will be crucial for aspiring or emerging countries including Turkey.

V. Results

5.1. Survey Results: Applying an *infoDev* Model to Turkey

"*infoDev*" is a global partnership program within the World Bank Group (infoDev, 2013). *infoDev* has developed a model for testing a country's crowdfunding readiness. Under this model, the applicability and readiness have been tested by deploying a high level self-assessment tool via surveys of 25 professionals who are from different background, area of expertise and level of experience. Respondents are mostly from the Turkish financial industry with more than 15 years of work experience. Several respondents are academics who work at prominent universities in Istanbul, Turkey. Graph 2 indicates self-assessment values for technology, culture, capital and regulation.



Graph 2: Self-Assessment Values, Out of 10 for Each Category.

Source: Surveys, 25 Professionals.

The average score for readiness ranking for Turkey is 5 out of 10, which suggests a good possibility for crowdfunding success under the *infoDev* model. Based on the survey results, Turkey is in a good position of technology usage in the area of communication and social media. This perception has been in line with the official statistics. The weakest factors are culture and capital. These findings are also in line with the following interview results. However, based on the *infoDev* model, a score of 4 still means a good chance for successfully crowdfunding implementation.

5.2. Interview Results

By responding the interview questions, four finance professionals have evaluated the applicability and readiness of crowdfunding in Turkey. Interviewees are senior professionals and have vast experience on financial markets, financial regulations and supervisions. They also have country-specific expertise on Turkey. Table 2 summarizes the results.

Table 2: Summary of Interview Results.

Interviewee/ Question	Is it a potentially an effective financing method for entrepreneurs in Turkey?	Do Turkish financial regulations cover crowdfunding and allow this financial activity?	Should Turkish financial regulations be amended or the government should pass a new law?	Are current financial, legal and economic environments conducive to crowdfunding?	Does Investor protection capacity affect crowdfunding?	Is it a good financing method for small and medium sized entrepreneurs?	Are there some obstacles to implementing crowdfunding as a financing method?
A.Yavas	Yes.	No.	Yes- Amendment Required for the Banking Law.	Current financial environment seems rather restrictive.	Some.	Yes.	Yes.
Y.Akbulak	Yes.	No.	Yes- Amendment Required for the Turkish Commercial Code.	No, not much.	Yes.	Yes.	Yes.
F.Ozturk	No, not in a short period of time.	No	Yes- Amendment Required for the Turkish Commercial Code and the Capital Markets Law and a new law may be another option.	No, not much.	Yes.	Only for small sizedentrepreneurs , conditionally, yes.	Yes. Cultural, trust-related issues and protection of minority rights.
R.Ceviz	No.	No.	Yes- Amendment Required both for the Turkish Commercial Code and the Capital Markets Law.	No.	Yes.	No	Yes. Cultural and trust-related issues.

Source: Akbulak (Interview on Crowdfunding, 2015), Yavas (2015), Ozturk (2015),(Ceviz, 2015).

Abdullah Yavas, a capital market professional, with more than 25 year experience and a former director of the enforcement division of the Capital Markets Board of Turkey thinks that the high and increasing level of transaction costs in Turkish financial industry justify the potential effectiveness of crowdfunding in Turkey. He also believes that it may be much more attractive than the brick-and-wall banking structure. He points out that “By the availability of computerization and the Internet, almost all banks try to turn to be Internet banking institutions. It seems that traditional banks may be in the venture of somewhat crowdfunding.”

Another capital market professional, Yavuz Akbulak, at the time, advisor to the Chairman of the Capital Markets Board of Turkey, thinks that the crowdfunding method might be useful platform for funding of high-tech projects both in Turkey and in the rest of the world. However, as outlined in the interview (Akbulak, Interview on Crowdfunding, 2015), he points out that the capacity and amount of funds will be limited since the method itself is not conducive to financing big projects.

On the other hand, Fatih Ozturk, a former director at the Banking Regulatory and Supervisory Agency of Turkey, thinks that the method is itself useful for any financial system; however, considering the recent financial history and some catastrophic financial events, it will take time to be ready to successfully implement the method in Turkey.F.Ozturk also asserts that beyond the regulatory obstacles, there are problems arising from minority rights and investor protection capacity together with impeding cultural and trust based matters for the success of the method.

Another interviewee, R.Ceviz,points out that because of the cultural factors and some nation-wide recent catastrophic events, the method does not have a chance in Turkey.

Consolidating the interviews, the following results come out:

- Impeding cultural and trust based matters together with minority rights and investor protection capacity problems are obstacles for the potential success of the method in Turkey.
- Crowdfunding can be a potentially effective and useful financing method for entrepreneurs and startups in Turkey, but not in a short period of time.
- Current Turkish financial regulations do not cover crowdfunding and allow this financial activity.
- Turkish financial regulations should be amended or the government should pass a new law so as to enable entrepreneurs to deploy crowdfunding in a clearer legal ground.

5.3. Evaluation of Results

Table 3 combines and summarizes results of the *infoDev* model and interviews.

Table 3: Summary of the Results

Factors/Criteria	Applicability	Readiness
Technology	Yes, Strongly	Yes
Regulations	No	No
Community Engagement	Yes, Weakly	No
Entrepreneurial Culture	Yes, Weakly	No

Findings of the research indicate that as a new financing method, except regulations, crowdfunding is applicable in Turkey. However, Turkey is not ready for the method from the perspectives of community engagement, entrepreneurial culture and regulations.

5.4. Policy Recommendations

Crowdfunding has a significant potential for developing countries including Turkey. However, under the current investing culture, investor protection rules and judicial structure, it is obviously a “luxury” financing method and does not make sense for Turkey in the near future. Before putting it in effect as an alternative financing method, Turkey needs to reform some other areas and to see results of those reforms. At this stage and environment, application of crowdfunding carries the risk of hurting financial markets and potential investors, hence, it might be a dysfunctional method.

Current securities regulations in Turkey are not crafted for crowdfunding or a similar financing method. Therefore, the Capital Market Law should be amended and a separate communique explaining the rules, restrictions and the method itself will be required. Moreover, the method should be implemented under special protection policies.

As a policy recommendation for Turkey, Ergen, Lau, & Bilginoglu (2013) proposes financial education and certification of prospective investors to increase awareness of the communities. This paper supports the idea and proposes that financial literacy and financial education should cover new financing methods, including crowdfunding and others. On the other hand, since this method has cross border implications, it affects the flow of funds internationally and provides an opportunity for a more open economy. Therefore, it is highly recommended that Turkey create policies and regulations on crowdfunding to attract investors using this innovative method.

Conclusion

Crowdfunding as a financing method is emerging both in developed and developing countries and it is estimated to be a multi-billion dollar industry. Therefore, Turkey, as an emerging country, needs crowdfunding and cannot rule out this crucial method.

Results of this study indicate that crowdfunding as a financing method is applicable in Turkey, especially considering the communication technology usage of the country. Since crowdfunding is an Internet based investment activity, there are higher risks than typical investments associated with the method. Therefore, new protection provisions are required. Under the current regulatory regime, Turkish financial regulations neither allow crowdfunding as a financing method nor provide special protection policies for such methods. Thus, currently, the method is not applicable in terms of regulatory settings.

On the other hand, there are significant cultural and historical impediments to apply the method. What makes the case worse from the investor protection perspective is that the current judicial and sanctioning regime are weak and not conducive to the method. Therefore, even though the method is applicable in Turkey, the country is not ready yet in all aspects. It is obvious that applying crowdfunding in Turkey in the current settings may result in new catastrophic financial events which may hurt market integrity. Thus, it is neither the time nor the priority to open up the highly risky gates of crowdfunding in Turkey under the current conditions. But, as an alternative financing method, rules and regulations should allow entrepreneurs and startups to get the benefit of alternative methods. Having strong technological usage in Turkey, the method may be an instrumental fund raising tool in the medium and long term but not in the short run. If policy makers decide to apply the method, a comprehensive regulatory approach is needed. On top of the regulatory tools, a judicial reform is essential from the investor protection and market integrity perspectives.

Acknowledgments

The author would like to thank Izabela Antonova, Abdullah Yavas, Yavuz Akbulak, Fatih Ozturk, Resul Ceviz and Hulusi Inanoglu for their valuable contributions.

References

- Akbulak, Y. (2012, September 22). Küçük Ölçekli Finansman Yöntemi: Kitle Fonlaması (Small Scale Financing Method: Crowdfunding). Istanbul, Turkey: Dünya Gazetesi (Dunya, Financial and Economic Newspaper).
- Akbulak, Y. (2015, July 06). Interview on Crowdfunding. (I. E. Sancak, Interviewer)
- Ceviz, R. (2015, July 7). Interview on Crowdfunding. (I. E. Sancak, Interviewer)
- Ellenoff, D. S., Adler, J., Selengut, D., & DeDenato, M. (2014). Review of Crowdfunding Regulation. Brussels: European Crowdfunding Network.
- Ergen, M., Lau, J., & Bilginoglu, K. (2013). Distributed Venture Capital Financing: Crowd-funding. Retrieved from www.sanayisurasi.gov.tr: http://www.sanayisurasi.gov.tr/pdfs/dagitik-girisimci-sermayesi-kitle-fonlamasi.pdf
- infoDev. (2013). Crowdfunding's Potential for the Developing World. Retrieved May 08, 2015, from Infodev: http://www.infodev.org/infodev-files/wb_crowdfundingreport-v12.pdf
- Kiran, T. (2013). Sermaye Piyasalarında Kitle Fonlaması (Crowdfunding at Capital Markets). Ankara: SPK (Capital Markets Board of Turkey, CMB).
- Kirby, E., & Worner, S. (2014). Crowd-funding: An Infant Industry Growing Fast. Madrid: IOSCO.
- Mollick, E. (2013, August 13). The Dynamics of Crowdfunding: An Exploratory Study. *Journal of Business Venturing*, pp. 1-16.
- Muggeridge, P. (2015, July 09). Which countries spend the most on research and development? Retrieved from World Economic Forum: https://agenda.weforum.org/2015/07/which-countries-spend-the-most-on-research-and-development/?utm_content=bufferb87cd&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer
- Nottebohm, O., Manyika, J., Bughin, J., Chui, M., & Syed, A.-R. (2012). Online and upcoming: The Internet's Impact on Aspiring Countries. McKinsey.
- OECD. (2015, December 15). Gross domestic spending on R&D. Retrieved from OECD: <https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm>
- OECD. (2015, December 15). Patents by Technology. Retrieved from OECD.STAT: http://stats.oecd.org/Index.aspx?DatasetCode=PATS_IPC#
- Ozturk, F. (2015, July 09). Interview on Crowdfunding. (I. E. Sancak, Interviewer)
- TBMM.(2012). Turkish Commercial Code. Ankara: Official Gazette.
- Tendulkar, R. (2014, April). Crowdfunding: An Infant Industry Growing Fast. Retrieved December 12, 2015, from IOSCO: <https://www.iosco.org/research/pdf/Internetfinancepart1.pdf>
- Tozzi, J. (2012, November 16). Five Unanswered Questions About Crowdfunding. Retrieved from Bloomberg: <http://www.bloomberg.com/bw/articles/2012-11-16/five-unanswered-questions-about-crowdfunding>

- Treasury. (2013). Government's Policies To Promote Business Angel Investing. Retrieved from Undersecretariat of Treasury: <https://hazine.gov.tr/File/?path=ROOT%2f1%2fDocuments%2fGeneral+Content%2fA+Global+Perspective+Policies+and+Practices.pdf>
- TURKSTAT. (2015, August 18). Information and Communication Technology (ICT) Usage Survey on Households and Individuals. Retrieved December 13, 2015, from Turkish Statistical Institute: <http://www.turkstat.gov.tr/PreHaberBultenleri.do?id=18660>
- Valanciene, L., & Jegeleviciute, S. (2013). Valuation of Crowdfunding :Benefits and Drawbacks. *Economics and Management*, 39-48, 18 (1).
- Yavas, A. (2015, July 06). Interview on Crowdfunding. (I. E. Sancak, Interviewer)