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The Dilemma of the Turkish Cypriot Entrepreneur: The View from the ‘Green Line’

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Keywords: North Cyprus; Turkish Cypriots; entrepreneurship; embargo; gender issues.

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1 Introduction

North Cyprus is often described in holiday brochures as “heaven on earth”, due to its unspoiled natural beauty. Tourists adore the beautiful beaches, mountain ranges, and the slow pace of life. However, beneath that idyllic surface lay some surprises. The currency is the New Turkish Lira of Turkey, and everything is routed through Turkey: airplanes, shipping, telecommunications, the internet, the post. There are frequent power cuts, and a chronic water crisis. Economic embargoes prevent local produce flying to the markets of Western Europe. In addition there are embargoes in international sport, education, and archaeology.

The tourist might wonder if this is the only MacDonald-free zone in the world, as foreign investors are reluctant to pour money into an economy with so many restrictions. The only internationally recognized company is the HSBC bank, which arrived on the island in 2002. Even Vodaphone hides under the banner of KKTC-Telsim.

More worrying than the absence of foreign investors is the embargo on international aid. Over the last 33 years North Cyprus has failed to win any economic aid from any state or international organization. Back in 2004, as a way of thanking Turkish Cypriots for supporting the Annan plan for reunification, the EU pledged €259,000,000, as an economic package. However, this aid was blocked until June 2008, by the refusal of Greek Cypriots to allow the EU to open an administrative office in the North of Cyprus. The de-facto state of the nation also means they are not eligible to apply for loans to the International Monetary Fund of the World Bank.

While the economy is starved of infrastructure and investment, it still grows each year. Aside from national and local government employment, the linchpin of this vibrant and developing nation is its hoards of entrepreneurs and SMEs. Widely acknowledged as the driving force of any economy, the entrepreneurs in North Cyprus face unique problems, at both macro and micro levels.

The aim of this paper is to further our understanding of the current difficulties for entrepreneurs in North Cyprus, while they continue to be isolated from the world by economic and political embargoes. A recent survey of 1000 entrepreneurs in the region discovered that they are still keen to be a part of the EU, and are economically productive, despite their many economic problems and issues.

2 The Turkish Republic of Northern Cyprus : The Economy

The Turkish Republic of Northern Cyprus (TRNC) is a small, non-recognized *de-facto* state, segregated and isolated from the southern Republic of Cyprus. Partitioned in 1974, the island's ethnic communities of Greek Cypriots and Turkish Cypriots remain divided to this day, despite continuing peace talks brokered through the United Nations. The population was recently measured at 256,644, of which 99% are Turkish Cypriots, and the remaining 1% made up of other ethnic groups such as Greek Cypriots and Maronites. The area is 3,355 square kilometers (TRNC Prime Ministry, 1999).

Turkish Cypriots have developed a small and vibrant economy, despite thirty four years of isolation from the rest of the world. The economy of North Cyprus has the characteristics of a typical island economy with limited resources. It imports most of its consumables, and imports exceed exports. There is no heavy industry, very little light industry, and the economy is heavily dependent on tourism, on the higher education sector, and on continuing economic aid from Turkey. Due to the economic embargoes, TRNC cannot export its agricultural and textile products.

Table 1 Cyprus: imports and exports

	TRNC	Republic of Cyprus
2004	\$ US	\$ US
imports	415.2 million	5.258 billion
exports	49.3 million	1.094 billion

(source: index mundi, 2006)

The continuing economic embargoes have deprived the economy of any sources of foreign investment, and have made it impossible for aid agencies to operate in the region. This, as would be expected, has had a negative effect on productivity and the infrastructure. In consequence, the growth rates and per capita income lag far behind the Greek Cypriots in the south.

In fact, Turkish Cypriots have always lagged behind their Greek Cypriot neighbors. Although figures before 1960 are not available, data collected in 1961 reported that Turkish Cypriots lagged behind by 20% on per capita income (Ayres, 2004). After 1963 the gap widened, and it has been assumed that again, after 1974, the gap widened further (Ayres, 2004). In 2000 economic growth in North Cyprus was measured at 3.2 % (Ayres,

2004), falling to 2.6% in 2003 (index mundi, 2006). From 2004 to 2005 saw an average economic growth of over 10%, due to the construction boom in the region, but this has now slowed down to around (UK Trade and Investment, 2008)

Table 2 Cyprus: GDP

Year	TRNC \$ US	Republic of Cyprus \$US
1996	3,000	13,000
2000	5,996	13,155
2004	5,800	20,300
2005	9,500	21,600

(source: Ayres, 2004; index mundi, 2006)

The traditional production of Cyprus was agriculture. In 1960, on independence from Great Britain, agriculture was the largest part of the economy of Cyprus as a whole, at one third of GDP, accounting for 46% of the employment in the region. After division of the island in 1974, agriculture continued to be a major part of the economy, at 16.4% of GDP in the North in 1977. Its importance then started to decline, to 12% of GDP in 1993, and down to 7.9% of GDP in 2000 (Ayres, 2004).

Turkish Cypriots tended to work as administrators in British Colonial times, and after partition in 1974 there was a deliberate creation of a large public sector to ensure employment, and therefore income, in the region. Public-sector employment currently stands at 16.3% of GDP in the North.

Tourism and construction are both strongly-growing areas of the economy. Although tourists are mainly from Turkey, the appeal of North Cyprus as a natural and unspoiled destination is attracting older tourists who have much disposable income. Construction includes many second homes for British and other European visitors, and the ex-pat community in Kyrenia is growing.

A number of Turkish Cypriots travel across the border each day to work on the Greek side, as construction workers. This is thought to be as high as 8000 workers (Cyprus Mail, 2006), and is considered to be a major factor in the increases in GDP per capita in the North.

Limited trade, primarily in vegetables and electrical equipment, has now begun between Turkish Cypriots and Greek Cypriots, with a value of €300,000 per month by EU estimates, with half this being goods moved from North to South (Turkish Cypriot Chamber of Commerce, 2006).

As a small island economy, it is clear that there are not the full breadth and depth of job opportunities or business opportunities as in, say, a large European country. The manufacturing sector is very small, and resources are very limited. With such a small population, the domestic market is very limited.

Due to imports from Turkey and even China, it would be difficult to manufacture many items and be a profitable enterprise. Even farmers face a difficult task as imports from Turkey flood the market in times of harvest excess, and Greek Cypriots are exploiting the Green Line trade agreements and taking their own produce across.

3 The Difficulties for Entrepreneurs in Turkish Republic of Northern Cyprus (TRNC)

Turkish Cypriots are not the only people with economic embargoes set upon them, and they are not the only de-facto state with limited recognition. Taiwan and the Sahrawi Arab Democratic Republic are also not recognized as independent nations, while Kosovo is not recognized by some nations, but none of them have strong economic embargoes placed upon them. Taiwan enjoys the economic injection of nearly one million entrepreneurs (Dana, 1999). Kosovo also depends on its entrepreneurs as a base for economic activity (Solymossy, 2005).

The North Cyprus community is not geographically isolated, unlike the South Pacific islanders (Saffu, 2003), or Sámi people of the northernmost regions of the Fenno-Scandia region (Dana & Dana, 2007). Their economy also is more developed than some small European countries, such as Macedonia (Dana, 1998) or Albania (Dana, 1996).

Entrepreneurs in the small and developing countries in Europe can assist their governments in stabilizing and developing their economies. As the political climate in Europe changes, the implications for *de facto* nations, and for small new nations, both economically and socially, needs further research.

Political uncertainty remains one of the most serious factors for lack of investment in the region. In addition to this, there are many property issues that have not been resolved, and investors are reluctant to invest in

projects that could be on property to be returned to Greek Cypriot ownership at some future date.

The *push* factor for entrepreneurs is reduced by the fact the Government sector is an attractive employer, with high wages and many fringe benefits. This sector was originally enlarged to create employment after 1974, to ensure that every family had a monthly wage while the economy recovered from partition. It is heavily overstaffed, with few people gainfully employed. Recent estimates indicate that one in nine working Turkish Cypriots have a government position. Each month the government wage bill is paid by Turkey as a form of economic assistance, but this has reached a crisis point. Decisions about changes in the way payments are made to civil servants led to a general strike in July 2008,

The major challenges to the North Cyprus entrepreneur are a result of the international economic embargoes, and a lack of investment in the infrastructure of the region. The limited domestic market, while typical of many island economies, is exacerbated by the inability to export very little, and by the imports from Turkey. In addition, many Turkish Cypriots prefer to do their shopping south of the border in the Republic, straining the North Cyprus economy even further. The infrastructure in terms of transport, communication, and services has been severely neglected, with little more than maintenance carried out since 1974.

Other restraints on Turkish Cypriot entrepreneurs are financial, as bank financing is difficult to obtain. Most enterprises are funded by savings or loans from relatives. It is also difficult for the Turkish Cypriot entrepreneur to find information on enterprise development or local business matters. A total lack of investment in the region has also led to very low levels of expectation in the workforce (Güven-Lisaniler, 2004).

The sum total of all the above factors pertaining to the Turkish Cypriot community's economy is that there are severe restrictions in opportunities for entrepreneurs.

4 Additional Difficulties for Female Entrepreneurs in TRNC

Overall 9.3% of women in North Cyprus are self-employed or entrepreneurs, but this figure is out of date (TRNC Prime Ministry, 1999). It is hoped that from the very recent Population Census we will be able to get more accurate figures about the amount of female employment, and types of employment. More recent estimates put Turkish Cypriot female self-employment at 13.7% (Thompson, 2005, p.19).

In addition to all the challenges that present themselves to male entrepreneurs in Northern Cyprus, the female entrepreneur has some extra factors to consider. The female entrepreneur must be able to create and operate an enterprise within the patriarchal social norms that exist in the region, while managing the work/home conflict dilemma from which there is no escaping.

5. Empirical research

5.1 Methodology

An off-the-shelf, or template research design could not be used in the Turkish Republic of Northern Cyprus. As a developing country, there are many factors and issues that need a different approach from the typical empirical research of Western European studies. The research design needed to take into account the poor infrastructure of the region, which does not lend itself to a typical Western style mail or telephone survey. No telephone book has been published since 1994, and there are no lists of businesses or business owners. A survey was delivered to 1000 entrepreneurs in the region. The sample was created using block sampling, and the survey instrument was delivered and collected using the drop and collect methodology. Using the block sampling methodology, the researcher can select a series of “blocks”, comprising of a number of communities and sites relatively close to each other such as city blocks or groups of streets or village tracts. The drop and collect technique was selected to allow the researcher to “find” the entrepreneur, and to present the survey instrument to the entrepreneur. The survey instrument is then left with the entrepreneur to complete in their own time. The researcher then returns a week later to collect the completed questionnaire.

The initial data entered into the database from the survey instrument, was compared to the last population census information to ensure that the data were valid and that block sampling had in fact achieved its aim.

Qualitative research was carried out in order to obtain triangulation in the data. The interview questions were from a semi-structured interview plan, and the sample of 30 interviewees was reached by a random listing from a database of volunteers.

5.2 The results

The first part of the survey instrument collected demographic data from the entrepreneurs, including age, gender, marital status, residence,

nationality, parent's nationality, education completed and military service completed (for men). From the 399 collected responses, 66.2% were men, and 33.8% were women.

From the statistics, one could create a picture of the Turkish Cypriot entrepreneur as male, married, 35 to 39 years old, and with a high-school level education.

The entrepreneurs also indicated the number of businesses they owned, how long they had been an entrepreneur, and how many businesses they had sold or closed. A high majority of the entrepreneurs (76.4%) owned one business only, and had not sold or closed a business. Over a third (36.9%) had only been in business for 2 to 5 years. Only 8.5% of them had been an entrepreneur for over 20 years.

From a number of Likert scale questions on entrepreneurial perceptions, it was found that in general, the sample believed that entrepreneurship has a high status in society, and that they enjoy their work. One odd result was that the Turkish Cypriot entrepreneur has an external locus of control, against the trend of entrepreneurship research which finds that most entrepreneurs have an internal locus of control (Littunen, 2000; Thomas & Mueller, 2000).

The Turkish Cypriots attitude to risk is more in line with the body of literature, with the majority of the sample describing themselves as a risk-takers (56.7%).

The sample group was also asked about the type of enterprise they were managing. Nearly half of the sample is in retail sales of one type or another (49.6%). More women (57%) than men (45.8%) are in the retail sector.

The second largest business sector type in the region is the service sector, with nearly a quarter of all entrepreneurs surveyed (24.3%) stating that their business was in the service sector. More men than women are involved in this business sector, with over a quarter of male respondents (25.4%) and 22.2% of female respondents stating that their business is in the service sector.

The third largest TRNC business sector type is the manufacturing of goods, including agriculture and fishing, with 13% of all respondents stating that this was their chosen business sector type. Substantially more

men than women reported to be active in this sector, with 14.8% of male respondents stating this was their sector, compared to 9.6% of women.

The smallest business sector type in North Cyprus is the wholesale sector, with only 3.3% of respondents indicating this as their chosen business sector. Again, more men than women are active in this sector, with 4.2% of men stating that they are active in this business sector, compared to 1.5% of women.

Turkish Cypriots do not generally talk about their earnings or what they own. If asked about the purchase price of an item, they will exaggerate. For this reason, direct questions about company earnings would have been inappropriate. Instead, a Likert scale question about their profitability was used.

Regarding the male respondents, 48.4% of them indicated their business is “breaking even” while 49% of the female respondents indicated they are marginally profitable. Only a very small percentage of respondents indicated that they were losing money (3.1%) or making large losses (0.9%). In fact, no female respondents indicated that they were making large losses. 6.4% of respondents said their business was very profitable.

Mostly due to economic embargoes, it is likely that most entrepreneurs would have difficulty in finding products to sell, or in finding the raw materials for their manufacturing. However, most respondents indicated that it is “ok” with regard to finding their resources (35.3%). However, for both men and women, the second largest percentage group indicated it is “difficult” to find resources, with more men (31.9%) reporting difficulty than women (28.7%).

At the time the questionnaire was being prepared the Annan plan was on the agenda as part of Cyprus joining the EU. Once it was clear that reconciliation was not possible, many people had to think about how this would affect their lives. Promises were made by the EU that North Cyprus economy would be opened up and that aid would be sent to them, but none of these things have transpired. By the time the survey was administered many business people had realized that the economic situation would remain difficult, even with small amounts of exports to the Republic of Cyprus.

Surprisingly, when asked about their feelings about not achieving EU membership, the largest percentage of respondents answered “neutral”. From those who were willing to take a position, the second largest percentage group of both men and women was the “somewhat

disappointed” (men 33.0%, women 29.5%). On the Likert scale, over 50% of respondents were disappointed or very disappointed that EU membership was not achieved (54.4% men, 51.8% women).

5.3 What does existing research say about the factors that fuel self employment?

Some researchers believe the factors that fuel self-employment are the product of our enterprise culture (the pull view), while others think it is the result of globalization and restructuring economies (the push view).

Several UK studies from the 1990s suggest that many women have been forced into self-employment through economic necessity, such as Baines and Wheelock’s study into micro-businesses (1998).

Hughes (2003) suggests that except for economic changes in specific regions or after redundancy in particular occupations, generally women are attracted to entrepreneurship with pull factors. Many other researchers also have reported that women’s entrepreneurship is often motivated by social factors including creating a lifestyle for themselves as well as creating a business, integration between the social and the business (Baines & Wheelock, 1998, p.18). In our study, 2.2% of female respondents actually state “to have a social life” as the main reason for starting up their business, compared to 0.4% of men.

The push factor also has a different significance according to the country and culture in which the entrepreneur lives. Western European countries have over eighty years experience in aid to people who are not working, through social benefits or “income support”. Other countries, such as America, only give benefits to the very needy, while in Turkey there are no benefits. Turkish Cypriots follow the American model, with very low benefits for war widows, and incapacitated individuals.

The Turkish Cypriot entrepreneur is pulled into entrepreneurship (47.0% male, 50.4% female). From the female respondents, the following motivation themes were generated from the replies to the survey instrument:

From the 16 categories created, only 3 of them came from a *Push* perspective:

- for employment, couldn't get a job
- economic problems
- fed up of current job

The other 13 categories were all designated as *Pull* factors:

- family business succession
- graduated/profession
- because I enjoy it, I love it
- new niche
- for security or a comfortable life, a better future
- I am good at it, it is easy
- have experience
- wanted to be my own boss
- wanted to try it
- retired and wanted to do something
- to earn more money
- didn't want to be at home, wanted to have a social life
- wanted my own company

More men (17%) than women (11.9%) have been pushed into entrepreneurship. Within a male dominated culture where men are seen as the breadwinners of the family, it seems relevant that a larger number of men than women feel pushed into entrepreneurship.

Due to the tight employment market, many individuals are forced to seek employment in low-paid jobs or choose to do something for themselves. Government and local authority jobs are plentiful, but they are only available to the select few. Nepotism and cronyism are rife in the region. A family with no political or economic influence will not be able to join in the "grave train". Also, many jobs now require a university degree, yet over 75% of the males surveyed do not have a post-secondary education.

Yet, for all this, we can see 48% of the sample has been pulled into entrepreneurship. Note that from all the reasons given by the respondents as to why they started up a new business, no respondent indicated that they had started the business because of a crisis. However, the early female entrepreneurship research by Neider (1987) found that 38% of women started their business because of a personal crisis, such as the death of a spouse, or divorce, or their husband's bankruptcy. Interestingly, in Neider's research, none of the sample said they started their enterprise

for money, while 64% did so for personal satisfaction (Neider, 1987). In this study, only 1.5% of the female respondents indicated they were a widow, and 3% said they were divorced. From these low figures, we may deduce that the differences between Neider's study and this study are due to cultural differences. In North Cyprus, widows are amply provided for by the state, and divorce rates are very low, the *push* factor has little effect for women in this region.

Another aspect of the entrepreneur's characteristics and personality is the entrepreneur's prior exposure to entrepreneurship. Kreuger (1994) believes that entrepreneurial activity does not occur in a vacuum, but that it is deeply embedded in the cultural and social context of a region, and it is often amid a web of human networks that are both social and economic. Implicit in this is the notion that the community possesses some potential for entrepreneurial activity. Kreuger's theories are seen to be true in this study, with 27.1% of the survey respondents having a parent as an entrepreneur at some time, and 38.8% knowing an entrepreneur.

5.4 Qualitative analysis – the interviews

The 30 in-depth interviews give a picture of entrepreneurship in the region today, allowing the researcher a glimpse into the private lives of the entrepreneurs.

To highlight the narratives pertinent to this paper, we will select some of the replies about motivation, business sector choice, and the economy.

(a) Motivation

The survey instrument revealed that entrepreneurs in the region are pull-motivated rather than push-motivated, 47% of the male entrepreneurs and 50.4% of the female entrepreneurs.

An interesting result of the interviews was the revelation that six of the young Cypriot entrepreneurs were "given" their business by their parents. This is connected to the previous theme of motivation, and points to the remarkable lengths Turkish Cypriot parents go to in order to help their children.

Another recurring theme was for older entrepreneurs to continue working after taking retirement from a government job such as teaching or the health service. Three interviewees revealed this pull reason for starting up their enterprise.

Eight entrepreneurs revealed that they started their own business because they couldn't find work elsewhere.

One entrepreneur who emigrated to Australia in his youth, returned for the quiet life of his native land to farm his family's agricultural holdings, leaving behind a successful exhaust business that he had created in Sydney. A female entrepreneur who lived in the UK from the age of 3, decided to "return" to Cyprus for the lifestyle, as did others who were interviewed. Repatriating people understand that they will not be able to get government or other employment. They come prepared with money and expertise to set up their own businesses. One characteristic of the diaspora of Turkish Cypriots to the UK and Australia, particularly to London, is that they are successful entrepreneurs (Basu & Altinay, 2002).

More than half the entrepreneurs interviewed had experience before setting up their enterprise, and this was sometimes from working in the family business as they grew up.

(b) Business sector choice

Business sector choice has been identified as a gender issue in the body of literature. While a number of research studies point to no differences in starting up a business in different countries in Western Europe (Buttner & Rosen, 1988; Kolvereid, Shane & Westhead, 1993), perhaps North Cyprus can be considered to be outside the realm of Western entrepreneurship research in terms of business sector choice due to its heavily patriarchal nature and the social gender segregation of communities. In addition to its unusual social mores, while the "Cyprus Problem" continues, the North Cyprus economy will still have embargoes and difficulty in obtaining resources. These factors are very important for the nascent entrepreneur in influencing business formation, uncertainty in the business environment has a negative effect on business formation (Kolvereid et al., 1993) However, as this research study has proved, many men and women decide to and go ahead to create enterprises every day, regardless of the constrictive and unknown economy.

From the thirty entrepreneurs interviewed, eleven already had valuable work experience in the field, and wanted to continue in their chosen field with their own business. Others had a university degree and wanted to use their specialist knowledge. Sometimes this was continuing a family tradition, such as hairdressing, or farming. Six of the interviewees were given their business by their parents.

On difficulties regarding their chosen business sector, many were quick to point out the economic embargoes, and how it affects them personally.

Difficulties in the entrepreneurial role included:

- selling produce for a reasonable price
- sourcing stock
- getting payments
- dealing with sales representatives
- customers with very little disposable income
- doing paperwork

As a country with international embargoes imposed on it, sourcing stock can be very difficult. Retailers have to rely on what is available at the time. Some of the interviewees travel to Turkey to buy their stock, and get it shipped to the island in containers. This is a very expensive way to stock a retail outlet.

In the region monthly salaries are very low. Very few employees earn high wages, not even top administrators in the government or local councils earn great salaries. This leads to disposable income being low.

However, entrepreneurs also stated that their role was also easy, in that:

- they enjoy the autonomy
- they enjoy the freedom
- they are comfortable in their skills and enjoy their work
- they enjoy the social contact
- they enjoy customer satisfaction

If I was at home I would be so bored. When I get in the car in the morning, and the breeze hits me, I feel like I am going on a trip, and I love it. If I stayed home my life would be a fusion of food preparation and housework and endless visitors. No, I'd much rather come to work.

Cafeteria Proprietor, 60, Female

(c) Economy

The majority (60%) of these Turkish Cypriot entrepreneurs would have been happy for reunification to happen, and voted YES at the Annan Plan referendum, even if it meant they would have lost their homes or work places (40%), or repatriation to Turkey (6%).

I thought I would lose everything in the Annan Plan, but I still voted YES. I wanted to be in the EU.

Satellite TV system Installation Business Owner, 35, Male

The main obstacles to their businesses were seen as:

- getting new customers
- not enough customers
- customers with low disposable income
- not enough tourists/visitors
- difficulty in adapting to local conditions of work
- customer base not ready for sophisticated products
- difficulty in keeping up with technology

People are scared of doing anything; they're not shopping, not spending money. I am selling internet connection on commission, but nobody's taking it on. In nine months I've only sold 3 computers, and I've had one or two in for fixing.

Computer Parts Shop Owner, 35, Male

One of the important positive comments about the main opportunities for their businesses included an increase in tourism, as many of the businesses would benefit from growth in the tourist economy. Another related feature is the growing number of foreigners moving to live permanently on the island, for retirement and for younger people wanting a better lifestyle. This has created a housing boom, and consequently will increase the economy in all areas.

6. Conclusion

What can we learn from the study on Turkish Cypriot entrepreneurs?

First, we have a picture of a potentially thriving economic system within North Cyprus, irrespective of international embargoes or lack of EU membership. The majority of TRNC entrepreneurs are new to their

enterprise, and they are young in age. The young demographics of the *de-facto* state are conducive to increasing entrepreneurship in the future.

Second, despite the international economic embargoes, goods are imported and exported via Turkey, and a very small amount through the Green Line. Any movement to open up the barriers to imports and exports and a lifting of restrictions to trade can only help to promote economic activity in the region. In addition, funds from international bodies such as the EU, UN and World Bank should be made available to improve the infrastructure of the region, and bring it up to European standards as it has been for their Greek Cypriot neighbours.

Entrepreneurship has a positive image in the Turkish Cypriot culture, with successful role models in all areas of the economy. This positive image should be further enhanced with entrepreneurship promotion by the government.

Also, with no specific entrepreneurship education in the region, a programme of education aimed directly at nascent entrepreneurs should be established to aid them in their founding steps. In addition to this a method of disseminating further information for existing entrepreneurs should be established to help them grow their business and aim for global exports.

While this research study is in a region of very low population, the findings are relevant to many developing and transitional countries, as well as Islamic and Arab countries, or any nation with high patriarchal values and a difficult economy. New and developing nations can look towards North Cyprus as a model of an extreme economy that has managed to be successful. Policies need to be put in place to view entrepreneurship positively, with freedom for women to explore any business opportunities that they choose, supported by programmes of entrepreneurship education.

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