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## EXPERIENCE IN PROMOTION OF SME's IN TURKEY

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#### DEFINITION of SME's

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## **GENERAL POLICY FRAMEWORK**

From the establishment of the Turkish Republic in 1923 until 1980, Turkey was insulated state-directed economy. During the 1930's, development Strategies were based on rapid industrialization through State Economic Enterprises(SEE) and import substitution. During this years, priority was given to capital-intensive investments, manufacturing basic products and large public investments were realized through SEE. Main reasons for the development of SEE were the belief that rapid economic growth depended on heavy investment in large, capital-intensive industrial projects and private sector had neither the financial resources nor the technical expertise to undertake projects of this magnitude alone, so state intervention was deemed essential. Main thought behind those policies was to self-sufficiency and try to meet most of its import requirements through the revenues of agricultural exports. On those years popular phrase was 'big is beautiful'.

Until 1960's both number and role of State Economic Enterprises in Turkish Economy steadily increased. During the 1960's and 1970's, the rapid industrialization is the main issue in the development strategies of Turkish Republic. Priority was also given to capital-intensive investments as well as utilizing up-to-date technology. In these years, Turkey accomplished high economic and industrial growth rates of approximately 7% per annum while value added in industry grew at approximately 10% a year.

After 1960s, on the other hand, serious evaluations on the problems of SEE's started. The foreign exchange requirements of Turkish Republic, in 1970's, strikingly increased because of the industries are highly capital-intensive and require economies of scale. In late 1970's mainly due to the sudden increases in oil price, the consequent acceleration of the rate of inflation, inefficiencies in production and product pricing and, unprofitable administration, SEE's turned out to be a burden to economy. Today SEE's which account for some 35 percent of manufacturing value-added, continues substantial drain on the economy and contribute to high inflation.

Since 1980's, Turkey's development strategy has been based on free market economy strategy. Many structural reforms had been introduced in the general framework of Turkish Economy. Those are:

- Liberalization of foreign trade, currency and investments
- Free floating exchange rates
- Elimination of price controls
- New interest rate policy to enhance saving
- Strictly controlled government expenditures
- An open and flexible foreign investment policy

Additionally liberal economic policies were initiated by the governments after 1980's such as;

- Turkey has invested largely to build its infrastructure in telecommunications, energy, transportation network (high ways) and tourism;
- Turkey has taken necessary steps to developed its financial system and the institutional framework to developed the capital market, presented new financial instruments along

- with liberal trade policies to promote exports and remove barriers on imports;
- Turkey has established a well regarded and respected Central Bank as well as developed banking sector;
- Export promotion: the duties were abolished for imported materials used to manufacture exported products;
- Liberal import regimes; all taxes and duties on a very large list of imports to prepare Turkish Industry to meet the challenges of international competition were removed;
- Liberalization of the Exchange Control System: Realistic and flexible exchange rate policies; and
- Elimination of Quato System: More liberal foreign trade policies.

In this framework of Turkish Economy, the privatization program was initiated and was presently executed by Public Participation Administration (KOI) in order to minimize state involvement in the economy; to confine the role of the state in the economy to areas like health, basic education ,social and national security, large scale infrastructure investment and provide the suitable legal and structural environment for free enterprise to operate; to enhance the competition in the economy; to broaden and deepen the existing capital market by promoting wider share ownership; to provide efficient allocation resources, etc.

Turkey is convinced that a liberal international trade system based on the principles of free competition, non-discrimination and elimination of barriers will serve the interests and welfare of the whole global community.

In this respect, the integration of Turkey into the European Union is both important and unique since Turkey is the first and only country to implement the Customs Union before being a full member.

The Customs Union which entered into force on 1.1.1996, initially covers industrial and processed agricultural products. After the entry to the Customs Union, Turkey had eliminated all customs duties and charges having equivalent effect on imports of industrial products from the community. For Products imported into from third countries, Turkey started to apply the rates of protection specified in the Community's common customs tariff.

## **STRUCTURE AND IMPACT OF SME's IN TURKEY**

In the last decades, both developed and developing countries having different social, political and cultural structures, paid a great attention to the Small and Medium Industries which are generating significant percentages of overall production and employment. One of the key solutions proposed for developing economies which are being affected by world-wide economic activities is to support, strengthen and promote SME's.

Industrialization process has always played an effective role in the development of Turkish Economy. The key role which the small and medium scale industry plays in the economic life of Turkey has been appreciated very well and promoted not only because of their number and variety but also because of their

- involvement in every aspect of the economy;
- contribution to industrialization and regional development;
- effect on unemployment problems;
- integration support and complement of large industries;
- flexibility in manufacturing fields;
- respond to market forces;
- easy adaptation to new technologies;
- reaction readily to economic fluctuations;

- success in mobilization of untapped resources of capital and skills; and
- stability in political, economical and social structures.

It is assumed that, by supporting Small and Medium Scale Industry where capital, manpower return ratios are low as far as the economy is concerned will create more employment and thus resources will be utilized more efficiently.

According to the 1994 Census of Industry and Business Establishments, the total number of industrial establishments is 198264 and the Small and Medium Industrial establishments comprises the 197297 of them. The [Table 1](#) , gives the number and share of the Turkish small, medium and large industrial enterprises in terms of the total number of establishments, and the number of workers employed.

It is clear from the Table 1, that, Small and Medium Industrial Enterprises are predominant in Turkey, account for 99.5 % of overall manufacturing industry and 61.4 % of total employees. When the people who are not affiliated with social security organizations are taken into account , this ratio is evidently grow.

The sectoral distribution by size of firm in the Turkish manufacturing industry is given in [Table 2](#) .

Within the general manufacturing industry, the sectors which have the highest number of enterprises are given as following:

- With 29% textile, wearing apparel and leather;
- With 25% fabricated metal products;
- With 22% wood products including furniture ;
- With 11% food, beverages and tobacco; and
- The remaining sectors constitute the 13 % of the enterprises.

The highest employment is realized in the following sectors respectively:

- With 28 % textile, wearing apparel and leather;
- With 22 % fabricated metal products; and
- With 16 % food, beverages and tobacco.

The firm size-sector groups which the small industrial enterprises (1-9 workers) are highly concentrated are given as follows:

- With 27.6 %, the enterprises employing 1-9 workers in textile, wearing apparel and leather sector;
- With 23.9 %, the enterprises employing 1-9 workers in fabricated metal products;
- With 22.2 %, wood products including furniture; and
- The food, beverages and tobacco sector follows the above mentioned sectors with 10.3 %.

It is therefore a most important task to create and foster an environment that will enable small and medium industry sector to reach their full economic potential. In parallel with this, an Organization of a small and medium industry business would be the backbone of a healthy economy and prerequisite for a balanced development. It can obviously be seen that one of the key solutions proposed for developing economies is to support and strengthen the SME's.

Table 1 : Enterprises of Industry Sector in Turkey and Employees Thereto \*.

<b>SIZE CATEGORIES</b> **		<b>ENTERPRISES</b>		<b>EMPLOYMENT</b>	
<b>Number of Workers</b>		<b>Number of</b>	<b>% Of</b>	<b>Number of</b>	<b>% Of</b>
	1 - 9	188138		508759	
	10-49	6914		160376	
<b>Small</b>	1-49	195052	98.4	669135	46.3
<b>Medium</b>	50-199	2245	1.1	217429	15.1
<b>Small+Medium</b>	1-199	197297	99.5	886564	61.4
<b>Large</b>	200 +	967	0.5	559108	38.6
<b>TOTAL</b>		198264	100.00	1574005	100.00

\* Source SSI-Annual Manufacturing Industry Statistics 1994

\*\* According to Definition of KOSGEB ,Small Industry 1-49,Medium Industry 50-150,Large Industry 150 +, workers

**Table 2: Sectoral Distribution of Firms In Manufacturing Industry\***

<b>SECTORS</b>	<b>Number of Enterprises</b>	<b>%</b>	<b>Number of Employment</b>	<b>%</b>
Food, Beverages & Tobacco	22255	11.25	258777	16.91
Textile, Wearing, apprael & leather	57220	28.93	440046	28.75
Wood Products including Furniture	43794	22.14	137036	8.95
Paper	6737	3.41	54252	3.54
Chemicals	5754	2.91	114055	7.45
Non Metalic Mineral Products	7413	3.75	92193	6.02
Basic Metal Industry	2210	1.12	77501	5.06
Fabricated Metal Products	49249	24.90	342731	22.39
Other Manufacturing Industry	3143	1.59	14154	0.92
<b>TOTAL</b>	<b>197775</b>	<b>100.00</b>	<b>1530745</b>	<b>100.00</b>

## **OPERATIONAL FEATURES of SME's**

### **a. Forms of Ownership**

The most common forms of ownership in SMI segment of industry are the individual proprietorship and partnership. Joint stock companies to be found among the larger of medium enterprises are the exception and mostly, family controlled. Enterprises employing 1-9 workers which constitute the bulk of manufacturing establishments in Turkey, remain predominantly single proprietorships. Establishments employing 10-24 workers are frequently organized as partnerships and establishments with more than 25 employees are usually in the form of joint stock companies. The fact that the joint stock company provides greater access to institutional credit and continuity than individual family businesses seems to have prompted the adoption of the corporate form of business Organization among medium scale establishments in recent years.

### **b. Origin of Entrepreneurship**

Most owners of small workshops (employing up to 10 workers) originate from the shop floor. This is especially true in the metalworking, shoemaking and wood-working industries and to some degree in the garment industry. In some other branches of the textile industry, chemicals, plastics, rubber and some branches of the food industry, where the required initial investment is larger, the entrepreneur is generally a trader who has commercial acumen and has accumulated capital from wholesaling or retailing operations. In the case of medium size enterprises, entrepreneurs are usually businessmen or professionals with considerable industrial experience.

### **c. Specialization of Management Functions**

A characteristic of the small scale manufacturing sector in Turkey is the concentration of managerial and production functions in the person of the owner. The proprietor carries out all the activities-except the actual production operations-involved in running of his business. Some degree of specialization of management functions commences when the enterprise reaches the 15-20 employment bracket, depending on the industry and technology employed, and increases with the size of establishment.

### **d. Labor Skills and Training**

Entrepreneurs in traditional workshops generally start their careers through the guild system. They begin working at age 13-16 as apprentices, and after gaining experience they become journeymen. Thereafter one attains a status of master and goes into business on his own. There are no formal demarcations between successive phases of the learning process. An alternative is for somebody to complete vocational training before starting his business. Workers from larger enterprises also enter the small enterprise sector after accumulating savings and purchase machinery. The Ministry of Education has enacted a law regulating the informal training. This law mandates remuneration of the apprentices and enrolling them in social security schemes. These have been important steps to create favorable environments for informal training.

### **e. Forms of Employment**

Employment in small scale industry comprises mainly:

(i) self employed proprietors and partners in small workshops and factories;

(ii) dependent workers such as apprentices, journeymen, etc.

(iii) seasonal laborers with fixed-term contracts. In medium sized enterprises, workers are hired with work contracts. Seasonal and casual labor is also employed. Workers in larger enterprises are usually members of labor unions, have set working hours, and are covered by social security. Casual labor is recruited on the open market at daily wages for incidental work. Family members, paid or unpaid, can be found in all, but the largest individually owned enterprises. Female participation is generally low and the ready-made garment and weaving industrial branches are the main employers of female labor. Child employment is common, particularly in small industry.

As regards labor mobility, upward mobility is the basis of the apprentice system as apprentices become journeyman who, upon reaching a certain age and skill level, set themselves up as independent craftsmen/masters.

## **ORGANIZATIONAL FEATURES**

### **ORGANIZATIONS of SME's**

**TESK (Turkish Tradesmen and Craftsmen Confederation) with 2 Million registered members is the most important establishment binding together the small enterprises. The legal status of this organization was based on the;**

- Law of Unions and Associations of Petty Traders (enact. 1949)
- Law No. 507 for Petty Traders and Artisans (enact. 1964)

**These unions act to promote a variety of interests of its members as pressure groups. They are instrumental in setting up cooperatives for building industrial estates. In some instances they are involved in training their members. The unions are organized at the regional level in regional associations, which represent all crafts and professions, and act as channels of communication. At the national level, all the regional associations form TESK.**

**Federations of TESK related with Manufacturing industry are:**

- Metal Works Artisan Federation ;(Foundry works, Machining, Metal works.)
- Electricity and Electronics Technicians Tradesman and Craftsman Federation ;
- Wood Craft Artisans Federation ;

### **TOBB (Turkish Union of Chambers and Commodity Exchanges)**

**TOBB covers medium and large industrialists and small and medium enterprises and this union accommodates 700,000 members. TOBB and Chambers and Commodity Exchanges under the organization of TOBB are professional associations which qualify as public utility organizations.**

**The legal status of this Organization was based on the ;**

- Law of Chambers of Comers and Industry (enact. 1924)
- Law of Chamber of Comers, Industry, Petty Traders and Commodity Exchange (enact. 1943)

### **Table 3: Total Number of Chambers and Commodity Exchanges**

Chamber of Commerce & Industry	161
Chamber of Commerce	65
Chamber of Industry	11
Chamber of Marine Trade	2
Commodity Exchanges	86
<b>TOTAL</b>	<b>325</b>

- **The Medium And Small Enterprises Board (OKIK):** OKIK was established in 1988 under the sponsorship of the Union of Chambers (TOBB). This Advisory Board is composed of the Union of Chambers executives and large number of representatives from Government agencies. The Small- and Medium-Scale Enterprises Board has a subcommittees

Additionally, in January, 1995

- **Technology Board** was established by TOBB in order to prepare industry sector to 21st century within university-industry relationship, to direct the industry sector toward the adaptation of new technology, to inform industrialists, and to make a technology inventory, to construct technology development regions, sites and technopolices. The Technology Board established by TOBB is composed of many representatives from the Ministry of Industry and Trade, YÖK, TÜBİTAK, DPT, KOSGEB, Istanbul Technical University, Bosphorus University, Middle East Technical University, Aegean University, Nine September University, TTGV, and eleven members of Industry Chambers. The Silicon Valley Science Park is an example for the TOBB's Technology Board and the Technology Development Region Scheme was initiated by them.

## **THE INSTITUTIONAL AND POLICY FRAMEWORK**

Since the importance of small-scale enterprises has been recognized in most of the developed or developing countries, appropriate policies by the government have been considered to foster such units and some special organizations have been established. The organizational structure which directly related to the promotion of SME's in Turkey can namely be listed below:

### **Ministry of Industry and Trade**

Ministry of Industry and Trade makes studies to facilitate and encourage the activities of Small and Medium Scale Industries, prepares credit possibilities for Industrial Estates and Organized Industrial Zones, and determines the objectives for the Turkish Industrial Policy. General Directorate of Crafts, Organized Industrial Zones and Small Industrial Estates, as the name implies, gives services to develop handicrafts and help small industrialists to have their own modern workshops in Industrial Estates and to allocate the credits for infrastructures of Organized Zones, generally medium scale industrialist are located.

Patent Institutes coordinates all the activities related with the registers of patents and trademarks belonging to the industrial property rights.

### **KOSGEB ([Small and Medium Industry Development Organization](#))**

KOSGEB, a non-profit semi-autonomous Organization was established by the Government by a special [Act No:3624. in 1990](#) incorporating earlier KÜSGET (Small Industry Development Organization) and SEGEM (Industrial Training and Development Center) programs which were established as a joint project of UNIDO and Turkish Government to deliver all forms of nonfinancial services needed by the small scale industry.

**KOSGEB has embraced the experience already accumulated by KÜSGET and SEGEM and with more than 30 extension service offices with competent professional staff it continues to provide diverse technical, management and consulting services to small and medium industries. KOSGEB not only assumed responsibility for numerous functions but also developed new programs aimed at strengthening the SME's component of Turkey's industrial structure.**

**Main functions of KOSGEB:**

- Access to informative means
- Adaptation of technological developments
- Environment for entrepreneurship support
- Develop ancillary industrial relations
- Quality assurance
- Training

**All functions and activities are being carried out by the KOSGEB's so called Development Centers which are namely:**

- Sector Specific Development Centers ( Foundry, Wood Products, Plastic & Rubber)
- Consultancy and Quality Improvement Centers
- [Technology Development Centers/ Technoparks](#)
- [Information Centers](#)
- Investment Development Centers
- Market Research Centers
- Training Centers
- Common Facility Workshops (Metal, Fine Mechanics, Leather)

**Ministry of National Education**

**Organized Technical Education, Apprenticeship Training , Master Workman Training , Vocational Courses, are being carried out under the responsibility of General Directorate of Apprenticeship Training. It is mandated by law to open an apprentice training center in small industrial estates having more than 100 enterprises . Apprentices, Workers and Master workman are trained in Apprenticeship Training Centers and Training schools. The centers offers to apprentices and workers of the estate programs, which can satisfy not only the technical / theoretical requirements but also the vocational / practical needs from the part of the SME's. The branches are fitting and leveling, metal works, installation, electrical works, construction works, printing, textile , etc.....**

**MPM (National Productivity Center)**

**MPM was established in the early 1950's as a public agency in order to improve the productivity of industrial enterprises. The center provide services to individual enterprises and its activities are geared towards all enterprises without any priority.**

**TSE (Turkish Standards Institute)**

**TSE was established by a special law in order to prepare Turkish Standards and to assist the standardization of industrial products by conducting quality control. TSE may play a crucial supporting role in this connection, especially for ancillary industries.**

**[TUBITAK\(The Scientific and Technical Research Council of Turkey\)](#)**

**TUBITAK** was founded on July 24, 1963, pursuant to Act. 278. as a public research institute to conduct scientific research, to follow technological developments in other countries and collect related information, to pursue the technological developments of specific products, to conduct seminars on scientific issues, and to provide technical advice. Most of the staff of TUBITAK composed of high-level scientists. TUBITAK may play an important role by undertaking SME-related research studies through KOSGEB corresponding directly to SME requests, concentrating on pursuing new commercial technological developments and their applications, studying the Research Development Institutions in other developed countries in terms of their interaction with SMEs, and so on.

### **IGEME ([Export Promotion Center](#))**

IGEME was established to prepare reports on the development of trade in foreign markets, coordinate the business relations of national and foreign companies and organize fairs.

### **DIE ([State Institute of Statistics](#))**

DIE provides Statistical information related with SMEs. DIE has indirect help for marketing activities of SMEs both at the business planning stage and in further development stages by conducting at short intervals specially designed household surveys and processing them quickly.

New sections of Undersecretaries of the [Treasury](#) and [Foreign Trade](#) have been created for the purpose of studying the ways and means of applying state aids to SMEs,

## **FINANCIAL ORGANIZATIONS**

There is no financial institution established for the purpose of financial support to SMEs, however, the Halkbank currently bears this task.

**HALKBANK:** Halkbank was established in 1933 to act as a financial agent for petty traders, artisans and small industries. Following 1963, by which Turkey has marched into planned periods, Halkbank has begun to play a more pronounced role in giving financial support to SMEs. The source of Halkbank's credits are either domestic or foreign. The former category covers the term credits to cooperatives, industrial credits and the fund credits.

**Term Credits to Manufacturing Cooperatives :** Since 1964 Ministry of Industry and Trade and Halkbank have collaborated effectively in administering a special fund to encourage and support SMI manufacturing cooperatives. These are generally short-term and mid-terms loan, which can be classified as direct credits and credits granted through the cooperatives. Those who register with cooperatives and comply with the definition of petty trader, artisan and small enterprise are entitled to get the credits. The loans are granted for machinery and working capital and they are either directly lent by the Bank or the guarantee cooperatives do the procurement. Interest rates vary between 40-50 % and maturity period is between 1 month-5 years in varying number of installments. Halkbank has the largest share in the overall amount of credits provided for SMI's.

**Industrial Credits:** These are medium to long term credits which the Bank provides for investments with encouragement certificate from its own sources towards the cost of investment and working capital. Those who certify their inauguration, provide collateral's for the loan, enroll with the register of petty traders, artisans and small enterprises, and are equipped with a tax register are eligible for the credits. Interest rates vary between 40-85 % depending on the size of the borrowing entity.

**Fund Credits:** Ministry of Industry and Trade (MIT) is responsible for providing credits for the establishment of small industry estates and organized industrial zones. The allocations from the MIT fund is disbursed through Halkbank for the establishment of these industrial areas. Halkbank also administers credits financed through a fund jointly established by Turkish and German Governments.

**Women Entrepreneur Credits and Credit For Young Entrepreneurs:** Those credits are given to the Women Entrepreneurs and Young Entrepreneurs who would like to start up their own small sized business at home or in a shop.

**Vakıflar Bank , Industrial Investment and Credit Bank and Development Bank of Turkey** also issue special credits to Small and Medium Industrialists through various funds.

The studies related with the establishment of a Venture Capital Fund is continuing , and a pilot project related with Credit Guarantee Fund aimed alleviating the corresponding problems of SMEs has been established.

## **COOPERATIVES**

Although there are not clear lines of demarcation between small industries and petty traders and artisans, when their problems and interests are evaluated on different platforms, there are presently 3 main types of cooperatives, directly related with SME's: The Credit Guarantee Cooperatives which assist their members (mostly petty traders) to obtain credit through Halkbank, Craft Cooperatives which help their members with their financial and marketing problems and other issues. Construction Cooperatives for Small Industrial Estates and Shopping Centers.

**Credit Guarantee Cooperatives :** The only financial reserve for these cooperatives is Halkbank. The main duties of guarantee cooperatives are:

- To act as a guarantor for the loans obtained by the members
- To negotiate with the Bank for low interest loans in up-to-date sums
- To help the members solve their credit-finance problems

**Small Craft Cooperatives :** These cooperatives have been founded by small craftsmen and artisans in accordance with Law No 1163 (law on foundation of cooperatives). The duties of small craft cooperatives include:

- To provide necessary inputs of production for their members.
- To sell the products of the members, to look for local and external markets for rapid sale of these products
- To give advance payments in return for the delivered products
- To support the members to improve the quality of their products

These cooperatives and their members are generally involved in labor-intensive activities and their production is based on "putting out" trend. In this way, they create an important source for employment. Another important aspect is the sub-contracting linkages between these small producers and the large enterprises.

**Small Industrial Estate Construction Cooperatives :** The cooperatives formed by the small industrialists have become effective institutions in the Industrial Estates. Most of them are being credited by the Ministry of Industry and Trade.

## **SOCIAL SECURITY AND INSURANCE DEPARTMENTS**

**BAĞ-KUR:** Bag-kur is the Organization responsible for social security of entrepreneurs in Turkey and has almost all the entrepreneurs as members.

## **NON-GOVERNMENTAL ORGANIZATIONS**

### **TTGV (Technology Development Foundation Of Turkey)**

TTGV was established by the collaboration of private and public sectors on 1 June 1991. There are 40 founder. 300,000 US \$ for the assets of the Foundation is donated by the founders and 43,3 million US \$ obtained through the Loan Agreement between World Bank and Turkey.

Three members of the nine member Board Directors of the Foundation do hold office by appointment from , The Undersecretariat of the Treasury and Foreign Trade, KOSGEB and The Scientific and Technical Research Council of Turkey (TUBITAK). The aims of the Foundation are :

- to encourage Turkish industry to increase in real terms its investments in research and development and to carry out all activities in accordance with the requirements there of.
- to provide funds and expertise supportive of industrial technology projects to enhance technology and technological infrastructure.
- to identify technological research areas and carry out research and projects in such areas by itself or by contract to bridge the technology gap between Turkey and other nations and strengthening Turkey's position in some global trade sectors.
- to strength the ties between the Turkish industry and higher education institutions, TUBITAK and other public and private research organizations.

### **DEİK(Foreign Economic Relations Board)**

DEİK was founded in 1986 by the Union of Chambers (TOBB) , TUSIAD, the Turkish Foreign Trade Association, the Chambers of Agriculture, the Association for Foreign Capital Coordination, and Istanbul and Izmir Exporters Unions in order to participate in improving Turkey's external economic relations, and facilitating Turkey's integration with the world economy through bilateral business councils.

### **TOSYÖV (Turkish Foundation for Small And Medium Business)**

TOSYÖV was founded in Ankara on February 21, 1990 for the purpose of providing support and service to her members from Small and Medium Enterprises in Turkey. TOSYÖV has created an Organization network of 1500 registered members, 17 support associations and two branches (Istanbul, Izmir) to provide support to its members and the other SMEs. TOSYÖV offers training for the SMEs through organized conferences, panels and seminars.

Turkish Grand National Assembly SME Working Group ; studies the problems of SMEs to be prepared for the discussions at the Turkish Grand National Assembly and obtain new administrative and legal regulations and rules.

TES-AR (Turkish Artisans and Small Industry Research Institute) and MEKSA (Vocational Training and Small Industry Support Foundation) organizations are the others.

## **DEFINITION of SMEs**

There are variety of definitions adopted for SMEs in Turkey. Different agencies have set up different criteria for entitlement to their services. Chambers of Commerce&Industries, Halk Bank, The State Institute of Statistics ( DIE ), The State Planing Organization (SPO), Chamber of Industry , and KOSGEB have been using different criteria's for defining SMIs, but the main criteria are the number of persons employed and total fixed assets. There is no distinction made between the value- added and non value-added industries and between the sectors of industries.

ISO (Istanbul, Chamber of Industry) classifies the industry as

- Small-Sized Enterprises: 1-19 workers
- Medium-Sized Enterprises: 20-99 workers

KOSGEB classifies the industry into three categories based on the number of full time employees as

- Small-Sized Industrial Enterprises: 1-49 workers
- Medium-Sized Industrial Enterprises: 50-150 workers
- Large Industrial Enterprises: more than 150 workers

HALK BANK's definition on enterprise based on two criteria: number of employee and total asset. The definition of HALK BANK has been revised several times due the high inflation rates. In last revision, in 1995, 100 worker and US \$ 25.000 total asset are the upper limits for Small scale Enterprises and 250 workers and US\$ 125.000 are the upper limits for Medium Scale Enterprises .

DIE conducted research on Small and Medium -Sized Manufacturing Industry Establishments in 1991 and according to this research, annual average number of persons engaged in manufacturing Industry is used as a size of measure as;

- Micro-sized Scale Establishment 1-9 persons
- Small-sized Scale Establishment 10-49 persons
- Medium-sized Scale Establishment 50-199 persons
- Large-Sized Scale Establishment 200 + persons.

SME's, in other words, the enterprises that qualify for the state aids are defined by [Undersecretariat of Treasury](#): “Businesses that employ a maximum of 150 workers, the net value of machinery and equipment, plants, vehicles, tools and appliances, furniture and fixed inventory excluding the land and buildings recorded in their legal books and documents is at most 50 billion TL.”

[Undersecretariat of Foreigntrade](#) defines SME's as (that qualify for the state aids): “Businesses that employ a maximum of 200 workers, the net value of machinery and equipment, plants, vehicles, tools and appliances, furniture and fixed inventory excluding the land and buildings recorded in their legal books and documents is at most '2.000.000 US\$.”

The Definition of SME's differs somewhat within the countries subject to their economic structure and policies. But anyway, these do not make much differences when talked or debated about SME's.

**PROBLEMS HAMPERING THE EFFICIENCY AND GROWTH OF SMALL-MEDIUM SCALE INDUSTRY in TURKEY**

SMEs have undertaken important social and economic functions in Turkey where the economic system largely depends on free market relations. The role of Small Industries in the establishment of today's economic and social development of the country can not be overemphasized. Notwithstanding their capacity and significance in the economy they are overwhelmed with a lot of internal and external constraints which deserve attention.

The findings showed that the problems faced by SME's are not much different from the ones stated in other countries, they are more or less the same. The major problems the SME's are confronted with can be summarized as:

- *Technology Transfer*
- *Quality and Standardization*
- *Workshops and well organized worksites*
- *Lack of Innovation Systems*
- *Insufficient Financial-Credit Facilities*
- *Institutional Environment for Continuous Training*
- *Inadequate access to Information Sources*
- *Inadequate access to Market opportunities*
- *Lack of Planning and Managerial Facilities*
- *Acquisition of Raw Material*
- *Legislation and Regulatory Measures*

Major internal problems adversely affecting productivity, quality of output or services include out-of-date machinery, deficient technical and management methods, poor working conditions due to shortage of suitable factory premises and infrastructure and marketing problems. Of course, not all of these problems necessarily apply to every enterprise. Their relative importance varies with the particular industrial activity, size of establishment and the surrounding circumstances of each enterprise. KOSGEB's technical assistance programs are helpful mechanisms to rectify this situation. Infrastructure programs and establishment of industrial estates by Ministry of Industry & Trade have been partly solved the factory premises problem.

Limited access to institutional finance and technical assistance make it difficult for smaller firms to improve their operations; the incentive system appears to be biased in favor of large-scale industries and administrative complexities make it difficult for smaller firms to take advantage of such benefits.

**Inflation:** Inflation imposes the heaviest burden on SMEs and impairs their development and even their survival. Because of inflation; it becomes difficult to restore their eroding capital. In addition to this, the small entrepreneur has limited alternatives to resist inflation. The first one is to enlarge the stocks and fixed assets, the second one is to maintain larger debits. However, limited operation capitals and low turnover ratios render stock expansion difficult. It is also difficult to grow fixed capital investments due to moderate earnings, and since they possess small proprietary capitals, foreign sources are not easily accessible for them to grow debits. Even in the case of accessing external finance, interest rates are so high to eradicate the advantages of borrowing money. Under these circumstances the key solution appears to be maintaining low rates of inflation.

In addition to economic effects of inflation, there also exist socio-psychological effects on SMEs which generally serve in the final step of distribution channels and unfairly blamed for inflation by the consumers.

**Financial constraints:** Due to limited reserve of personal savings, inadequacy of the capital market and lack of venture companies in Turkey, it is very difficult for SMEs to find

investment capitals. Most of SMEs work in risky areas and they have to compete with many rivals. As a result of this, they make small profits and they have to operate with low stock turnover ratios. This increases their demand for operating capital, in other words, for short term funds. Another reason is that they generally have to charge the price of their goods by installments.

Due to above reasons, SMEs are in need of short and long term credits, however the main factor that restricts utilization of such credits is their high cost.

In Turkey, banks do not lend money accounting to the feasibility study or the work plan of the start up companies. They only lend money, if they can secure the return of the credit by guaranty. In general guaranties asked from the banks in return of credits are the biggest obstacles that entrepreneurs are facing up with. Because start up companies do not usually resources to give those guaranties to the banks and usually banks ask mortgage as guaranty.

Since the banks favor to meet the commercial credit demands, fixed capital investment funds are not easily accessible for SMEs. In addition to this, the commercial banks are reluctant to give loans to SMEs since they find them risky and majority of SMEs are not strong enough to meet the mortgage claims of credit lending banks.

Another problem concerns the securities. Since most of the SMEs do not maintain regular financial records, the commercial banks are not eager to submit guarantee letters for them in which case, the enterprise has to deposit cash into the bank. Although the guarantee cooperatives have been established to help SMEs in this respect, the amount of loans allocated for this purpose by Halkbank is quite low.

In general State incentives and credit system have been designed for large industries rather than small industries. Eligibility thresholds are set administratively at high levels and in general, projects with an investment cost more than 133000 \$ in 1st and 225000 \$ in 2nd Priority in Developing regions are only considered for a certificate of encouragement which entitle the beneficiary to a number of incentives. Halkbank sources are on the other hand, too limited to satisfy the needs of many small and medium enterprises. This is to say that SMEs are to predominantly depend on their own capitals and the share of small industry in the overall financial and fiscal incentives is only 4-5 %.

There are also some weaknesses in the legal system. Firstly, a unique definition of SMEs compromised by all the concerned organizations does not exist. This creates various complications in the implementation of financial and technical programs.

The other argument concerns tax legislation. Taxes, duties and other levies which SMEs are obliged to pay impose a very heavy financial burden on them. Excessive bureaucracy is another drawback.

**Manpower supply:** Lack of trained manpower is another weakness for SMEs. SMEs in fact have always acted as vocational training institutions where the employees are also the trainees. Economic competition and need for adaptation to technological innovations entail employment of better equipped employees. The amendment of the law on apprenticeship and vocational training and establishment of KOSGEB training centers are important steps towards managing trained manpower problem of SMEs in Turkey.

**Inputs, marketing, export and subcontracting linkages:** Inputs are provided either from the private sector, state economic enterprises or from foreign markets. Under the competitive conditions it is difficult for SMEs to reflect the increases in the value of foreign currency and input prices to their output prices, so they suffer continuous losses in their profits.

There are no policies established to protect and favor SMEs in state contracts through price tolerances, security exemption, prior notice giving etc. KOSGEB has undertaken an important mission to enhance subcontracting linkages and to integrate SMEs with large industries.

## **STATE AIDS for INVESTMENT TO SMEs**

State aids for Investment to SMEs were published on October 16 issue of the Official Gazette. There are two aspects to the incentives. First concerns the fund-based credits to be distributed through Halk Bankası and the second covers the exemptions from VAT, customs taxes, stamp and duties and the investment allowances (tax holidays).

The objectives of the Decree are explained by Undersecretariat of Treasury as follows; “Protection and encouragement, increasing the quality and standards of production or meeting the demands directed towards products development, increasing employment and competitiveness within the Customs Union in conformity with the Development and Annual Programmes of the SMEs that are likely to face economic adjustment problems to the European Union during the post-Customs Union period.”

SMEs, in other words, the enterprises that qualify for the state aids are defined by the published in State Aids Decree as follows: “Businesses that employ a maximum of 150 workers, the net value of machinery and equipment, plants, vehicles, tools and appliances, furniture and fixed inventory excluding the land and buildings recorded in their legal books and documents is at most 50 billion TL.”

However, of such businesses, the ones that operate in the services sector do not qualify. It is compulsory that they are in the manufacturing sector. The total net value of TL 50 billion of balance sheet and machinery and equipment is applicable until the end of this year. This figure will be increased every year by an increment.

### **Fund-based loans:**

- The machinery, equipment and raw material procurement of the SMEs excluding energy supply are covered by the incentives.
- Halk Bankası will provide 15 billion liras of credit for investment and 5 billion liras as operating credit in the developed regions.
- These figures are 20 billion and 5 billion liras, respectively for investment and operating credits in the Regions with Priority in Development.
- Certain portions of the investments to be made by the projects covered by the incentives have to be made out of own resources. This portion has to be at least 40 % of the investment in the developed and 30 % in the development priority regions.
- Fund-based investment credits have a grace period of 1 year and mature in 3 years. Debt servicing will start at the end of the first year and will be completed in 5 equal instalments.
- Fund-based operating loans are 1-year term credits and are repaid all at once following the 1-year grace period.
- The rate of interest of these 3-year credits with a 1-year grace period is 30 % per year for the SMEs in the developed and 20 % for the SMEs in the development priority regions.
- Instead of real estate, the machinery and equipment that are subject of the investment will be sufficient security, Furthermore, the operating credit, itself, can be accepted as a guarantee.

### **Tax incentives:**

- The VAT paid in machinery purchases shall be reimbursed to the investor. For the

- reimbursement of the VAT, the machinery must be brand-new.
- Fund-based loan transactions will be exempt from stamp and duties.
- If raw materials, machinery and equipment are imported for the realization of the project covered by the incentives, such imports will be exempt from customs taxes.

The total of the credits that will be extended to the SMEs is set at TL 5 trillion by the Decree. Halk Bankası will carry out loan transactions and the Bank officials aim at a total figure of 2000 SMEs as the beneficiaries of the scheme.

More detailed information can be obtained on-line documents from the Undersecretariat of the Treasury: [Communique relating to decree concerning state aids for investments.](#)

## **FOREIGN TRADE POLICY ( New State Aids ) for the SMEs**

Small and Medium Enterprises of Turkey constitute 99% of all enterprises while their share within total exports is about 7 to 8%. Their exports lack the benefits of a regular programs and are rather coincidental. Therefore, it seems necessary to guide SMEs to different markets through agencies and to support those firms which are prepared to make exports rather than any firm at random. The Foreign Trade Undersecretariat of Turkey (FTU) enumerates the measures to be taken in respect of SMEs. The state aids applied for SMEs is summarized in [Table 4](#);

However the new foreign trade policy of the Foreign Trade Undersecretariat will introduce new state aids ( were published on 31 July 1997 issue of the Official Gazette ) with a view to institutionalizing export-oriented industrialization and maintaining the export growth for SMEs.

SMEs, that qualify for the state aids are defined by the published in State Aids Decree as follows: “Businesses that employ a maximum of 200 workers, the net value of machinery and equipment, plants, vehicles, tools and appliances, furniture and fixed inventory excluding the land and buildings recorded in their legal books and documents is at most '2.000.000 US\$.”

State aids currently applicable to exports comprises the following eight programs:

- R&D assistance,
- environmental protection assistance,
- international certification of products,
- market survey support,
- support for setting up offices and showrooms abroad,
- support for trademark promotion activities,
- assistance relating to specialized fairs,
- support for employment of qualified staff.

The FTU has revised four of these eight programs and supplemented them with a training assistance programs to create a new package of incentives, which is accepted by the Money and Credit Board in the form of a communiqué.

The new arrangement envisages to provide systematic and objective information on potential markets, to help enterprises in their decisions to enter into new markets, to ensure an adequate promotion of their products on new markets and to support participation in international events organized for the purpose of facilitating cooperation among SMEs.

Projects developed by enterprises themselves and by market research companies on behalf of their clients as well as those directly prepared or commissioned by association of producers on

behalf of their members will be eligible for support.

**Support for market survey:** Firms participating in international events organized for the purpose of enabling cooperation among SMEs will be reimbursed for their travel costs up to \$ 500 per person and for their accommodation costs of % 70 , up to \$ 100 a day. This assistance will be limited to one person from any single firm. The maximum amount to be made available to a manufacturing company for market surveys will be \$ 15,000 in a year , subject to a \$ 7,500 limit for any individual project, whereas the maximum amount SFTC sectoral foreign trade companies or associations of manufacturers may benefit annually for their market surveys will not exceed \$50,000, which will also be subject to the same \$ 10.000 limit as above.

**Office, showroom and trademark support:** According to the new arrangement, companies engaged in industrial and commercial activities in Turkey will benefit from a partial reimbursement of costs if they set up warehouses or showrooms abroad to retail or wholesale their products under their own firm-names and trademarks. The percentages are as follows: a one-off reimbursement of 50% for costs up to \$ 20,000 incurred in purchasing fixed assets; 50% and 30% of rentals during the first and second years respectively, up to \$ 50,000 annually; and 30% and 20% of product promotion costs during the first and second years respectively up to \$ 30,000 , whether these activities are undertaken directly or through an advertisement agency.

If a company engaged in industrial and commercial operations in Turkey sets up a branch office abroad to trade in goods, the government will reimburse during the first and second years respectively 50% and 30% of that portion of rentals which does not exceed \$30,000 per year.

**Training Assistance:** The Training aids Communiqué designed to contribute to the export performance of SMEs, sectoral foreign trade companies and their shareholders envisages the reimbursement of 50% of training costs. These costs will include the following items: “The related production technique and technologies considered to be new to the company in this area, supply, production, packaging, product and environmental standards, total quality management, conditions of competition, international marketing techniques, market survey, pricing, foreign language skills in foreign trade transactions, communications, documentation, negotiation techniques, foreign trade legislation, local and foreign financing facilities, leadership, organizational management, growth, structuring, behavioral rules, labor management and encouragement, and responsibility for labor”.

The FTU proposes to review the situation of (FTSCC) Foreign Trade Share Capital Companies which have seen a decline in their numbers and in their share within the total export value. It is argued that the system introduced by the Aegean Clothing Industrialists (EGS) has proved successful in Turkey and (SFTC) Sectoral Foreign Trade Companies (Main share holders are SMEs) will be the driving force in guiding SMEs to exportation. The possibility of bringing SMEs together under the umbrella of sectoral foreign trade companies and guiding them to exportation, special state aids for this companies ,also applied in the new declare.

**Table 4: SPECIAL GOVERNMENTAL FINANCIAL SUPPORT for SMEs**

I-RESEARCH & DEVELOPMENT	Decree No	Date	INFORMATION	SUPPORT	QUANTITY	PERIOD
			Specification			

<b>A-Specific Support for projects</b>	<b>95/2</b>	<b>01.06.1995</b>			
a) ConceptDevelopment					
b) FeasibilityStudies					
(technical /economical / financial			For Specific Projects	%50 Soft Loan	3 years
c) Test and analysis laboratoryservices for product development					
d) Design					
e) Manufacturing of Prototype					
f) Pilot Plant investment					
g) Patent / Know-how					
h) After - sales Services					
<b>B-Production Development</b>	<b>95/2</b>	<b>01.06.1995</b>	Expenses of R&D, Personnel Hardware and Software	50% max. 1 Million US\$ for each project Soft Loan	3 years
a) Conceptual Design					
b) Feasibility Studies					
(technical /economical / financial)					
c) Test and analysis laboratory services for product development			Consultancy for R&D services	max. 100.000 US\$ for each product	

d) Design

e) Manufacturing of  
Prototype

R & D Services  
provided by  
TUBİTAK

f) Pilot Plant investment

g) Patent / Know-how

Material Cost

	<b>Decree no</b>	<b>Date</b>	<b>INFORMATION</b>		
			<b>Specification</b>	<b>QUANTITY</b>	<b>PERIOD</b>
<b>II-CERTIFICATION For QUALITY &amp; ENVIRONMENTAL COST</b>	<b>97/5</b>	<b>31.07.1997</b>			
a-Service cost for the conformity assessment according to international quality standards, ISO 9000				Max. 50%	
b-Marking costs for the conformity in the environmental standards,ISO 14000				Max. 50%	
c-Marking costs for the conformity in the safety standards,CE				Max. 50%	
<b>III. MARKET RESEARCH STUDIES</b>	<b>97/6</b>	<b>31.07.1997</b>	Max. 15,000US\$ Max. 7,500US\$ per project	for SMEs	yearly
Market Research			Max.50,000US\$ Max.10,000US\$ per project	for SFTCs	for one person
-Transportation					
-Accommodation			Max. 500 US\$		
			Max. 100 US\$		

**IV. COST of Offices / 97/9 31.07.1997  
Stores located abroad**

- Fixed Capital Investment		Max. 20.000 US\$	max. 50%	
- Rental Costs			max. 50%	in first year
- Cost of Promotion and Advert.		Max. 50.000 US\$	max. 30%	in second year
		Max. 30.000 US\$	max. 30%	first year
			Max. 20%	sec. year

**V-PARTICIPATION 97/3 31.07.1997  
in FAIRS**

a - For participating firm, Fair stands rental cost		Max. 8.500 US\$ Max. 10.000 US\$	Max.60- 70%	for SME's for SME's from least dev.region
b - Private Participation ,Transportation of goods		Max. 50.000 US\$	Max. 50%	every year

**Decree No      Date      SUPPORT      QUANTITY      PERIOD**  
**Specification**

**VI- 97/3 31.07.1997  
INTERNATIONAL  
TRADE**

		max.25,000 US\$	50%	
- Seminars, conferences , etc.		max 7,500 US\$	50%	for organizing firms
-for info stand,meeting rooms				

**Support by KOSGEB**

**Since  
01.01.1995**

- Fair Stands Rental Cost		~5,000 US \$	50%	Once in a year
			50%	

**- Transportation for  
fairs or business trips**

**INVESTMENT 95/5 17.10.1997  
PROMOTION**

(Weaving, garment, leather, automotive, metal works, electronics, electrical works, plastics and rubber, chemicals, wood products) by Development Bank		Credit Funds	2 Billion TL	4 years
<b>Special Financial Leasing</b>		Loan	2 Billion TL.	4 years

## Funds

### SME's investments for services

#### EXPORT PROMOTION CREDITS Provided by Turkish EXIMBANK

	SUPPORT	QUANTITY	PERIOD
- Export Credits for SME	Loan	20 Billion TL	210 days
- Credits in Foreign Currency	Loan	1 Million US\$	90 days
- Pre -Shipment Credits	Loan	80 Billion TL	120 days
- Rediscount Credits in Foreign Currency	Loan	for total project cost	90-270 days
- Performance Credits in Foreign Currency	Loan	for total project cost	3-4-9 months
- EXPORT CREDITS in LOCAL CURRENCY for new EXPORTERS	Loan	5 Billion TL.	

#### CREDITS PROVIDED by HALKBANK

Annual Repayment	Loan		
CREDITS for SMALL IND.	Loan	15 Billion TL.	3-6 Years
		30 Billion TL.	3-8 Years
CREDITS for MEDIUM IND.			
Credit with Monthly Equal Repayment			
	Loan	2,5 Billion TL	6 months
Small Industry Credits			
	Loan	10 Billion TL	6 months
Medium Industry Credits			
Credits for Small Ind.	Loan	2,5 Billion TL.	3 years
Credits for Medium Ind.	Loan	10 Billion TL.	3 years

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