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November 2012

Online at <https://mpra.ub.uni-muenchen.de/46817/>

MPRA Paper No. 46817, posted 08 May 2013 05:10 UTC

THE DEVELOPMENT OF SMES IN TURKEY

Group 2

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Abstract

SMEs have become key catalyst for economic development in Turkey. As the member of EU, SMEs in Turkey is open to borderless opportunities to trade in international market whereby it become major export to the European countries. However, the vulnerable of Turkey's economic condition and other issues have cause difficulty to the SMEs to develop. Hence, this paper will observe the SME condition, its contribution to economic development in Turkey as well as to explore the constraints, issue and challenge. Also, it critically examine the improvement of SMEs particularly the Strategy & future perspectives in short, mid and & long term. The study employs "the kobayachi's micro & macro models" as research methodology. The finding of the study shows that, by employing the Micro analysis, SMEs in Turkey is confronting critical issues such as financial bottleneck, lack of marketing and innovative activities. However, there are many policies and strategic plans were embarked to support the bright future of SMEs in Turkey by way of short, mid and long term plan.

1.0.INTRODUCTION

1.1.Background

Turkey is located at the crossroads of Europe and Asia, which makes it a country with a strategic location, in addition Turkey's growing economy and diplomatic initiatives have led to its recognition as a regional power. As a member of OECD and European Union, their average workforce and turnover are much smaller compare to other member, with the lowest fourth in OECD regions.

Small Medium Enterprises (SMEs) are companies who employed below certain limits, can stimulate economic growth within a country due to their number and the involvement of large share of the workforce. Also, it has become the public policy to decrease unemployment in developed and less developed countries. If we refers to definitions of SME by the European Union (EU), they are categorized into very small sized or micro companies which employs less than 10 workers, small sized companies

which employs between 10-50 workers, medium sized companies which employs 50 – 250 workers and large sized companies which employ more than 250 workers.

As Upper-Middle Income Country (UMC)¹ with GDP per capita \$10,444 in 2011, Turkey has constraint which makes it difficult to grow its SMEs due to several reasons, namely very unstable economic condition in the past and distorted government policies. Those reasons will not be barriers for Turkey to develop its SMEs, due the government authorities have carried out programs which support the development of SMEs for many years. With the 8.8 % unemployment rate² in Turkey, SMEs could provide more benefit in term of reducing unemployment rate, and the government should put attentive attention to develop its SMEs.

1.2.Objective of the paper

The main purpose of this study is to investigate the Development of SME in Turkey. While the objective of this paper is elaborate the following statement:

1. To observe the SME condition in term of History, contribution of the Turkish SME in the economic development, constraint on SME development and integration with the International market, also issue and challenge?
2. To examine the improvement SME particularly the Strategy & future perspectives in short, mid and & long term?

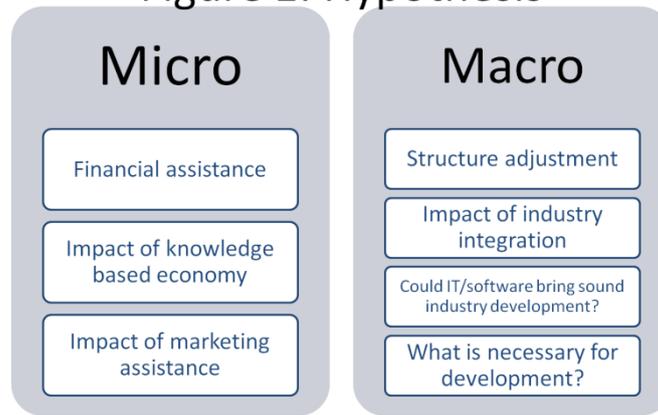
1.3.Methodology of the paper

The paper will employ critical analysis from the previous studies and the methodology of SME micro and macro model. The model was introduced by Kobayashi (1997). The micro and macro model will be depicted as follow (see figure 1) and the description will be elaborated in the next part:

¹ Worldbank, 2010

² www.turkstat.gov.tr

Figure 1: Hypothesis



SME micro model comprises of three items :

1. Financial assistance

The model found that financial assistance in SME is always helpful for the SME management. In the model there is direct finance which increases the income but gave no load to expenditure, while indirect finance increases income and the expenditure with delays.

2. Impact of knowledge based economy

The theories mentioned that knowledge has less impact compare to financial assistance and marketing assistance. Knowledge is not quite effective to enhance SME. The author recommends that government should focus on assistance on basic skill development or advance skill such as MBA course development with universities and technology institution

3. Impact of marketing assistance

The profits of SMEs rely on market share and market growth. The model stated assistance of marketing is only useful if there is an increase in market share and or market size.

While the SME macro model divided into two elements namely SME industry sector and SME sub industry sector.

Firstly, the SME industry sector focus in accumulated of GDP and how structure adjustment policy works and makes impact to GDP. Secondly, SME sub industry sector will look closely at the impact of industry adjustment to major sub industry group.

The Hypothesis from Kobayashi comprises as follow:

1. Structure adjustment

The structure adjustment within the industrial sub sector should have good impact whereas the adjustment could be successful to increase the productivity of the sector. It is a mechanism for maintaining linkage between sub sectors and large scale.

2. Impact of industry integration

If the industry integration could increase the export ratio, it may be related to the light industry ratio and the heavy industry ratio but not create linkage in this model.

In the model, it stated that many developing countries are eager to develop the integration such as industrial estate or industrial zone. Large scale integrated industry zones for textiles, machines and IT were developed in China. In other countries such as Indonesia, the Philippines, Bangladesh and Thailand, they developed export oriented industry estates and/or trading and were successful in contributing to increased exports.

3. Could IT/software bring sound industry development?

Although the theory stated that As IT/software industry does not have strong linkage with other industry sub sectors. The success of this sector is controlled by IT utility, which is telecommunication infrastructure and IT new venture ratio.

4. What is necessary for development?

Factors which give much impact to the sound development, finance or infrastructure are relied on international market and domestic production. Those things depend on the cost and distribution infrastructure.

1.4. Structure of the paper

The remaining structure of this paper will be depicted as follows:

Chapter two comprises of SME condition in term of History, contribution of the Turkish SME in the economic development, constraint on SME development and integration with the International market, also issues and challenges. **Chapter three** covers the improvement SME particularly the strategy & future perspectives in short, mid and & long term. **Chapter four** will sum up the result in the paper and discusses the policy implication. Lastly **bibliography** provides a list of all sources employ as reference materials during the writing process.

2.0. SME CONDITION

2.1. History & Contribution of the Turkish SMEs in the Economic Development

In early 1990s, Turkey has embarked one of the most important policy goals that aims to foster the small and medium sized enterprises (SME) due to the downsizing of larger firms (Isik,2005). Across the member of European Union, SME become the hot agendas for economic policy makers to stimulate the economic growth and increasing significant to them. Later on, SMEs are the most significant tools for economic development, gross domestic product and workforces in Turkey (Isik, 2005; Kaya, 2005). According to findings of the Turkish Statistical Institute for 2008, there are 3,449,795 Small and Medium-sized Enterprises, and 2,968. Large-scale Enterprises. 99.90% of all businesses are SMEs. They make up 80.57% of employment, 58.48% of value added and 59.53% of total production value (Republic of Turkey, 2010). The statistic portrays that SMEs in Turkey is growing as comparing to the data in 2004 whereby SMEs comprise 99.8 % of total establishment, 77% of total employment, 27% of value added, 38% of capital investment, approximately 10% of exports, and despite the great portion of economic contribution only 5% of bank credit in 2000 in Turkey (OECD, 2004a). See figure 2, 3 and 4 in appendix.

SMEs in turkey was verily supported by the economic, social and political positions (Kaygin et. al., 2008). Nearly every government has carried out diverse policies to shore up these enterprises (Isik, 2005). Several of policies and strategies have been developed to facilitate appropriate business environment for SMEs. The details of current and future policies and strategic plans will discuss in Chapter 3. Basically, the institutions that actively supporting SMEs in Turkey is depicted in Appendix Figure 5.

2.2. Integration with the International Market

European Union members play significant role in exposing Turkish economy to outside world in foreign trade creates stiff competition among the members state which most sophisticated consumption preferences in the world prevail. In the Turkish Industrial Strategy Document (2010, pg.37-38) proved that “

“In 2009, 46% of Turkey’s \$102 billion-exports were to the countries of the EU-27. The same year, the EU- 27 countries constituted 40% of Turkey’s overall imports. Turkey is major importer particularly in the areas of investment and intermediate goods. Despite the increase of the import share of Eastern Asian

countries, the significance of the EU-27 for investment goods continues. In addition to trade-related integration, Turkey has integrated quickly into the EU in terms of direct foreign investments. Seventy-two percent of the \$47.3 billion in direct foreign investment made in Turkey between 2003 and 2007 came from EU countries. These investments bring important opportunities for the integration of Turkish companies to the value chain in the EU. This tendency shows that Turkey is gradually becoming a natural part of the EU's industrial and service fields.”

The evolution of Turkey's SMEs integration with the international market can be summarized in the table 1.

Table 1: Turkey's SMEs and European Union Integration	
Year	Action
1963	The first statement of the collaboration between the European Economic Community (EEC) and Turkey is the ratification of the “Ankara Agreement” and it came into force on December 1964. In accordance with the objective of the establishment of a Customs Union in three stages, first Financial Protocol was already signed within the Ankara agreement, and the following years in 1970 and 1977 a second and third Financial Protocol were signed respectively.
1987	Turkey applied for full membership in 1987, the answer was given in 1989 as "it would not be useful to open accession negotiations with Turkey straight away" due to both economic and political reasons. Other issues, such as "the negative effects" of the disagreement between Turkey and Greece on Cyprus were also emphasized.
1996	The Customs Union between the EU and Turkey came into force aiming at establishing “the closest economic and political relationship between the EU and any non-member countries” (Okumus, 2002, pg.21)
1997	The next step was the Commission's declaration targeting at improvement “in communication on the further development of relations with Turkey” (Delegation of the EC to Turkey, 2005) on 15 July 1997.
1999	Finally in 1999, the announcement of Turkey as a candidate country on an equal footing with the other candidate countries was realized by the EU in the Helsinki Summit. The EC declared that "recent positive developments in Turkey, as well as its intention to continue its reform towards complying with the Copenhagen criteria, Turkey is a candidate State destined to join the Union on the basis of the same criteria as applied to the other Candidate States" (Delegation of the EC to Turkey, 2005).
2002	Turkey has made a commitment to international charters and programmes, including the Bologna Charter (OECD, 2004b).
2001	The Accession Partnership, which is “a roadmap of the priorities for Turkey in making progress towards meeting all the criteria for accession to the EU” (Delegation of the EC to Turkey, 2005) was formally adopted by the EU Council. Its objective were based on the Commission's 2000 regular report on Turkey's progress towards the EU membership is to identify the priority areas for further work within the single framework with the help of financial and technical assistance provided by the EU (Delegation of the EC to Turkey, 2005).

2002	Turkey has made a commitment to international charters and programmes including European Charter for Small Enterprises and The Business Environment Simplification Taskforce (BEST) Programme (OECD, 2004b).
2004	Eventually, after waiting 45 year, the Commission was satisfied with the compliance of Turkey with the Copenhagen political criteria; and on 17 December 2004, Turkey achieved to obtain the date to launch accession negotiations as a candidate country for the date on 3 October 2005
2001-2006	Turkey began taking part in EU policies and programs after it was accepted as a candidate country. It became a participant of the Multiannual Programme for Enterprises, Entrepreneurship and in particular Small and Medium Sized Enterprises, which was designed to develop SMEs.
2007-2013	Turkey participated in the Entrepreneurship and Innovation Program, and Competitiveness and Innovation Framework Program, which comprises the subcomponents Information and Communication Technology Policy Support Program and the Intelligent Energy Programme. With the Entrepreneurship and Innovation Program.

Sources: 1. *The flow of Turkey SMEs involvement with European Union was taken from Kaya (2005).*
2. *The table is author's own initiative.*

Exposing the Turkish economy the global competitiveness, it could not run from the economic crisis repercussion in 2001 and recent financial crisis 2008. According to the data from the 2009 World Economic Forum, Turkey ranks 61st among 133 countries on the competitiveness index. In addition, Turkish economy shrank due to adverse effect of financial crisis 2008 by an annual 6.2% in the fourth quarter of 2008. Another unfavorable development in the global economy for Turkey SMEs is to be competitive with China and India to get cheap labor. Therefore, Turkey must make improvements within the labor market, higher education and vocational training, financial markets, health-care and elementary education, macroeconomic situation and physical infrastructure (Republic of Turkey, 2010).

2.3. Constraint on SMEs' Development

Despite the shining SMEs growth in Turkey, a number of constraint suffered by the enterprises on its development. Access to finance is perceived as the most severe obstacle by SMEs in Turkey. Turkish Industrial Strategy Document stated that SMEs have difficulty in acquiring access to finance due to four main reasons:, problems arising from the credit limit given by the banking sector due to financial revamped in 2001, insufficient development of the capital market, weaknesses of SME structure, and administrative and legal obstacles to access finance.

A study showed that the primary problem that constraint full capacity production is financial impossibilities (30.3%). Then, respectively demand inadequacy (26.6%), problems related to the workers (21.5%), raw material insufficiency (9.8%), seasonal working (6.7%), energy deficiency (4.4%) and other reasons (0.7%) (Kaygin, et. al., 2008). Another survey conducted by Şeker and Correa (2010), several other indicators in the survey confirm that SMEs in Turkey are dependent on bank finance. Turkish firms are more dependent than their peers in other countries on bank finance to fund their investments in fixed assets. This is especially true for medium size firms, for which bank finance accounts for 47 percent of total funding. Muftuoglu (2009) confirmed that the main factors complicating the access of SMEs to financial resources are the lack of information and the difficulties encountered in finding sufficient collateral. Thus, he urged the need to implement an innovative models aimed at solving these problems.

Apart from that, bureaucratic constraints is another factor hampered the new business entries which the entrepreneurs claim that closure procedures of a business take 2 years in Turkey, it is a bottleneck for those entrepreneurs who want to change their area of business (Isik, 2005). Kaya (2005) added low level of environmental awareness, lack of knowledge and human resources are major constrains hindering integration of environmental concerns to on-going business practices for most of the SMEs in the world. Nevertheless, other domestic factors, which are vulnerability to unstable economic conditions, lower workforce, and turnover compared to other OECD and the EU countries might lead to problems that are more serious for Turkish SMEs (Kaya, 2005; OECD, 2004). See Table 2 of Micro Model Analysis.

2.3.1. Micro Model Analysis

Kameyama & Kobayashi figured out the Micro and Macro Model for SMEs. The analysis on Turkish SMEs' condition was most relevant to Micro Model since there is lack of study done which consistent with the hypothesis in Macro model.

Table 2: Micro Model Analysis

Hypothesis Micro Model	Kameyama & Kobayashi Findings	Turkish SMEs
1. Financial assistance	<ul style="list-style-type: none"> • Can be direct or indirect financial assistance or guarantee scheme including tax incentives to SME. • Direct finance had much 	<ul style="list-style-type: none"> • Who is providing financial assistance? • How far it impact on SMEs? • KOSGEB plays important roles in offering a wide range of measures which consists not only on low- interest

	<p>more impact toward cash flow than indirect finance for indirect finance made a big impact toward expenditure while exception occurred with delay.</p>	<p>loans, but also technical and managerial advices, training programmes and laboratory services. Between 2003-2007, 44,544 small and medium sized enterprises have benefited from KOSGEB's support schemes (Moreu, 2011).</p> <ul style="list-style-type: none"> • A study found that financial assistance as the most severe obstacle to Turkish SMEs. Several other indicators in the survey confirm that SMEs in Turkey are dependent on bank finance. (Seker & Correa, 2010)
<p>2. Impact of knowledge based economy</p>	<ul style="list-style-type: none"> • Knowledge seems to be less impacted compared with other elements such as financial assistance or marketing assistance. • In recent trends, multilateral and bilateral donor agencies prefer on advanced skill such as MBA course development with cooperation of universities and technology institutes. Besides, many developing countries prefer to focus on IT and advanced technology oriented industry development with venture capital investment style and they need skill for management more than basic accounting and management skills or primitive low technology skills development. 	<ul style="list-style-type: none"> • Moreau (2011) in his study shows that Turkish SMEs have not reached yet the status of knowledge-based, innovative, internationally competitive small firms, that are acknowledged to be the engine of growth in more developed countries. • Also, Muftuoglu (2009) argued that SMEs in Turkey is deficient research and of information about innovations. The essential to have it is perceived as vital tools for development. • In 2006, the R&D out of percentage GDP expenditure is less than 1%. (European Turkish Business Centres Network, 2010)
<p>3. Impact of marketing assistance</p>	<ul style="list-style-type: none"> • Profit of SME depends on the market share or market growth. Assistance of marketing is only useful when market share and/or market size is increased in this model. 	<ul style="list-style-type: none"> • Does marketing or promotional activities were enough? • Although Turkey is benefited from EU membership by having larger niche and new market and easy access to international market (OECD, 2004b), there is facts shows the incompetencies of SMEs in export and marketing (Republic of Turkey MITI, 2010). • Muftuoglu (2009) stated that SMEs do not have any marketing strategy and they do not allocate financial resources

		to market development measures such as advertisement, promotion, market research or sales techniques.
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2.4. Issues and Challenges

From the overall SMEs condition that have been mentioned in previous section, issues and challenges would be the main thing that require more attention from Turkish government. This section will depict issues that faced by companies in the first part and the following part will elaborate the challenge.

2.4.1. Issues in Turkey SMEs

Firstly, the main issue in Turkey’s SMEs is the unstable economic situations in the past, which cause companies to achieve modest growth in their operation. The unstable and unfavorable macroeconomic environment characterized by high inflation, deep recession and sharp upturns need to be accommodate by the government’s policies which provide sustainable growth to develop and strengthen SMEs. This action can be done through reduction and stabilization of inflation at a low level which approach European Union objectives. Those things will eliminate the inflation premium on interest rates and allow for stable real exchange rates at levels compatible with international competitiveness.

Access of financing has been an issue for SME. Due to chronic budget deficits have triggered excessive growth in money supply, high inflation and high real interest rate which absorb more into private saving. This condition leaving the banking systems have very limited for making loans and only provide loans for large companies only occasionally for small companies. And in many cases, banks in Turkey do not make loans to small company, which are estimated to obtain a very small proportion of aggregate loans to business. To overcome the banking systems inability to loans for small business, the government of Turkey has created a number of targeted investment credit programs to support of SMEs. In order to solve this situation, the government made credit available to state-owned banks (which are however moving towards privatization) and support the development of small-scale industrial estates (SSIE). The government also subsidies SMEs purchases of capital equipment through a series of tax incentives and offsets. Moreover, the improvement of SMEs financial access can be done by fostering the availability of venture capital and access to securities markets.

2.4.2. Challenges in Turkey's SMEs

Every country has its own challenge in developing its SME's such in Turkey, majority of SMEs is lack of promotion for product or service and omission of marketing. If the companies only focus with production process and not following the market activities, they direct attention to small markets and do not move together with other enterprise. (Muftuoglu, 1998). In regards to overcome the marketing problems, SMEs should not see marketing as tool that use in large companies. They should aware that good marketing can control the cost increasing feature of labour weighted production.

Secondly, there were a lack of research and planning work and lack of information. The small enterprises has a mindset of "whatever is produced can be sold" which makes it lack of strategic plans and market survey. Lack of information regarding innovation could be overcome by the SMEs by working together with universities and other research institution.

Thirdly, focus on the national system of innovation as an important determinant of innovative performance of SMEs in Turkey. Based on survey by Moreau (2005), the less innovative in Turkey's SMEs could be caused by lack of entrepreneurial capabilities or the shortcomings in Turkey's national system of innovation.

Lastly, incompetency of SMEs in export and marketing. Turkey MITI report asserted that the lack of demand has become the roots in basic marketing problems which cause the lack of understanding of the importance of demand and competition analysis and the importance of new products and supplement. Furthermore, SMEs do not have any marketing strategy and they do not allocate financial resources to market development measures namely advertisement, promotion, market research or sales techniques. The reason why Turkey's SMEs is not competitive in export is due to the lack of quality and standardization and the high price of their product.

Overall, from the above statements in issues and challenges in Turkey's SMEs, a country will benefit a lot if it can develop its SMEs very well. Increase in purchase power parity, decrease in unemployment rate and increase in GDP are benefits that would be gain if a country could develop its SMEs.

3.0. SME'S IMPROVEMENT PLANS

3.1. Background: Policies and Strategic Plans

Turkey's strong growth performance during the 2000s, averaging over 5% in the decade through 2011, rested on two developments: employment growth, which broadened and was particularly vigorous in newly emerging regions in inland Anatolia; and productivity growth, which picked up, mainly in the developed Western regions. Turkey's long-term economic performance will largely depend on previous & future policy/strategy made choice/decisions to sustain these developments:

- The Fourth Five Year Plan (1973-1983) in which the concept "small industry" was introduced. In this period, the terms "small enterprise, small and medium enterprise (SME), enterprise and entrepreneur" were not in use.
- The Sixth Plan (1990-1994), although the expression "small enterprise" was used, the objectives and incentives were targeted to the small industry sector. The services and trade sectors were not included in the incentive schemes.
- The establishment of KOSGEB "Small and Medium Sized Industry Development Administration" in 1990 which is a very important achievement including the establishment of TOSYÖV "Turkish Foundation for Small and Medium Businesses" in 1990 and KGF "Credit Guarantee Fund" in 1992 were signs of increased interest in SMEs.
- The Seventh Plan (1996-2000), the SME concept became a more distinctive concept with efforts to align SME incentives with the EU practice. In this plan it is clearly visible that the term "small and medium enterprises" replaced the former expressions "small industry" and "small enterprise".
- The Eighth Five-year (2001-2005) the concepts such as entrepreneurship, innovation and value added etc. are dealt with in a more comprehensive manner in relation with SMEs. Objectives which include "increasing the competitive capacity of SMEs", "increasing the value added created by SMEs" and "maintaining sustainable growth" are clearly stated in these plans.
- The Ninth Eight-year (2007-2013) Development Plan in which "entrepreneurship" has gained greater attention and was placed in the first place in the category of SME policies.

These developments are seen more clearly in the SME Strategy and Action Plans (KSEP 2004 and KSEP 2007-2009) with ten strategy fields of KSEP 2004 and five strategy fields of KSEP 2007-2009 present the objectives which clearly reflect the above mentioned developments in SME policies.

3.2 Strategy & Future Perspectives in "Short, Mid & Long Term"

SME Strategy and Action Plan (KSEP)-2004

The SME Strategy and Action Plan was prepared in 2004 and then it was revised to cover the period 2007-2009. After summarizing the contents of both versions, a comparative evaluation will be made below. Ten strategy fields were identified in the SME Strategy and Action Plan-2004 for the development of SMEs. These areas and related objectives are summarized below:

Strategy field 1- Education and Training for Entrepreneurship

Strategy field 2- Development of cheaper and faster processes for business start-ups

Strategy field 3 – Enactment of better laws and legislation

Strategy field 4 – Training to provide qualified personnel

Strategy field 5 – Improving on-line access and transactions via the Internet:

Strategy field 6 – Opening up to new markets

Strategy Field 7 – Improvements in taxation and financial matters

Strategy Field 8 – Development of technological and innovation capacity of SMEs:

Strategy field 9 – Informing SMEs on best practices via the internet and developing high level SME support schemes

Strategy field 10 – More effective representation of SMEs at national and international platforms

SME Strategy and Action Plan (KSEP)-2007-2009

The following objectives and strategy areas were identified in KSEP 2007-2009:

Strategy field 1 – Development of entrepreneurship

Strategy field 2 – Enterprise development

Strategy field 3 - Integration of SMEs with international markets

Strategy field 4 - Improving the business environment

Strategy field 5 – Developing the technological and innovative capacity

3.2.1 Objectives in Short Term

- Analyzing and communicating the needs for SME financing and organizing opportunities for entrepreneurs and investors (domestic and foreign) to meet/develop business relations
- Sponsoring and participating in entrepreneurship training/education programs
- Determining priority areas for improvement in the business environment (legal and regulatory environment, fiscal incentives, etc.)
- Providing more up-to-date and relevant statistics in order to benchmark, track progress and evaluate various initiatives
- Raising awareness of enterprise development programs, and the importance of innovation for economic growth
- Setting guidelines and highlighting “showcase examples” of entrepreneurship, good business practice, growing regional clusters, international linkages, etc.
- Stabilizing the General Macroeconomic Environment

3.2.2 Objectives in Mid Term

- Broadening employment opportunities by building:
 - i. a strong employment performance
 - ii. a strong job creation in emerging regions
- Revealed the comparative advantages by growing trade specialization
- Improved the low-skilled and aggregate employment rates
- Shifting employment to the formal sector: indispensable labor market reforms
- Enhance Labor productivity and degree of formalization in different sectors
- Recommended priorities for labor market and formalization reforms
- Boosting growth by promoting Medium-to-high tech sector’s productivity
- Improving education and human capital
- Modernizing the regulatory framework for doing business by improving Turkey’s position in international business environment comparisons
- Strengthening the National Innovation System

3.2.3. Objectives in Long Term

- The population projections are from the United Nations Population database. Turkey's population aged 15 and above is projected to grow by 24% between 2012 (55 million) and 2030 (70 million).
- Trend unemployment is assumed to gradually return to pre-crisis levels at a speed that depends on labor market policies and institutions. For Turkey, trend unemployment is projected to stabilize at 9.2% by 2023, as against 9.3% currently (OECD, 2012).
- Capital intensity has trended upwards in the recent past and this is projected to continue for some time, but, at a diminishing rate. The estimated capital ratio is projected to increase from 1.50 in 2012 to 1.62 in 2030.
- MFP growth in Turkey averaging 1.5% per year between 2012 and 2030 in the baseline.
- Labor force participation rate is projected to increase from the current 49% to 55% by 2030.
- Educational attainment will increase from close to 7% in 2012 to about 8.5% in 2030
- In the baseline, trend would pick up by 1.3 percentage points annually relative to the baseline over 2012-30 and potential output increase by 25% in 2030
- Lifting the average duration of schooling of the adult population to 10 years between 2012 and 2030 would increase average annual trend growth by 0.8 percentage points and the level of potential output by 15% by 2030. See Appendix Figure 6.

Turkey's structural reform agenda should be sharpened to sustain the two key sources of growth in the future:

- i. Broadening employment opportunities, notably for the low-skilled majority of the working age population
- ii. Sustaining productivity growth, notably by accelerating the shift of resources to higher productivity activities.

This agenda calls for broad-based structural reforms. According to the scenarios presented, such ambitious reforms could boost Turkey's level of output and incomes by as much as 25% relative to a baseline by 2030 (OECD, 2012).

4.0. RECOMMENDATIONS & CONCLUSION

4.1. Policy Recommendation

Since general SME and sustainable development policies and strategies for Turkey are available in a number of national and EU reports (the Lisbon targets), more specific recommendations will be presented. Institution's responsible of SME, the state, the non-governmental organizations, and the large enterprises should consider the following objectives to be included in their policies for improving the SME environment in Turkey:

- The competitive power of SMEs should be increased at the global level
- The value added created by SMEs should also be increased
- The competitive power and added value of SMEs should be increased in a sustainable way.
- The establishment of new enterprises should be facilitated and encouraged. A favorable environment should be created so that people can set up their own businesses.

This is particularly important for Turkey which has a young and healthy population. This potential can be utilized provided that the young populations are offered technical, occupational and entrepreneurship training at a satisfactory level.

- Give industry in Turkey a structure for international competition and export
- Introduce innovations in products and production methods by increasing SMEs' access to technology
- Raise the quality or standard of products
- Increase productivity
- Decrease the costs of production
- Commercialize technological knowledge
- Support production and entrepreneurship
- Enable SMEs to adapt to new and advanced technologies
- Create opportunities of investment in technology intensive areas by taking into account the decisions of the Science and Technology Higher Council
- Create job opportunities for researchers and qualified persons
- Help the transfer of technology
- Provide the technological infrastructure which will quicken the entry of foreign capital which, in turn, will provide advanced technology.

- An Innovation Policy Governance” national governments to different kinds of issues and concerns” like a strong engagement by the Ministry of Education in research and innovation for example.
- Enhancement in the Financing Enterprise Development and the Turkish private equity activity by Strengthening the supply chain of financial resources and investors
- Reduce the Informal Economy’s Negative Influence on Investments
- Promoting Innovation and Internationalization on Firm Level through Foreign Direct Investments (FDI)
- Fostering the Development of Innovative SMEs and entrepreneurial activity
- Improving the national ICT infrastructure
- Strengthening economic and political stability and rule of law
- Promoting increased awareness of and participation in EU Programs
- Actively Participating in the Policy-making Process
- Making Use of Strong Decentralized Networks to Offer Services and Catalyze Innovation throughout Turkey
- Teaming with Public Sector Organizations to Strengthen the Private Equity Markets in Turkey, particularly those targeting SMEs
- Encouraging and Initiating Joint Entrepreneurial Research Projects and Statistical Surveys with Universities and Research Centers

4.2. Conclusion

SMEs play an important role in Turkey fuelling the economic growth, providing flexibility, engaging in bridge building between Turkey and the European Union and promoting employment. However, despite this recognition, SMEs face severe framework conditions preventing them from developing sufficiently. Comparing entrepreneurial capacity in Turkey with other emerging economies, the start-up rate of new businesses is very low in Turkey and in particular in and around the urban areas. Women are likewise comparably weakly represented, in part reflecting impediments repressing their economic opportunities more generally. As in a number of other countries, innovative SMEs are particularly faced with severe challenges hampering them from sufficiently developing their economic activity. In order to promote innovation and to provide improved conditions for innovative firms in Turkey, the main obstacles identified above such as

access to finance and lack of internationalization among Turkish SMEs, should be addressed more in the future.

Like other nations around the globe, Turkey is facing both opportunities as well as challenges during its development towards the knowledge-based economy – a transformation that is shifting the focus and emphasis of the policy agenda as regards growth and competitiveness. At the same time, securing a date for EU Accession is a top priority for Turkey – a priority that will keep placing high demands on the political system, economic structures, and private sector performance for years to come.

Turkey is taking on these challenges at a time when there is a widespread perception that the economic and political structures (although seemingly fragile) are regaining stability, the informal economy remains powerful, regional development is imbalanced, and more coordination and cooperation within the public sector is required if Turkey is to manage the issues at hand.

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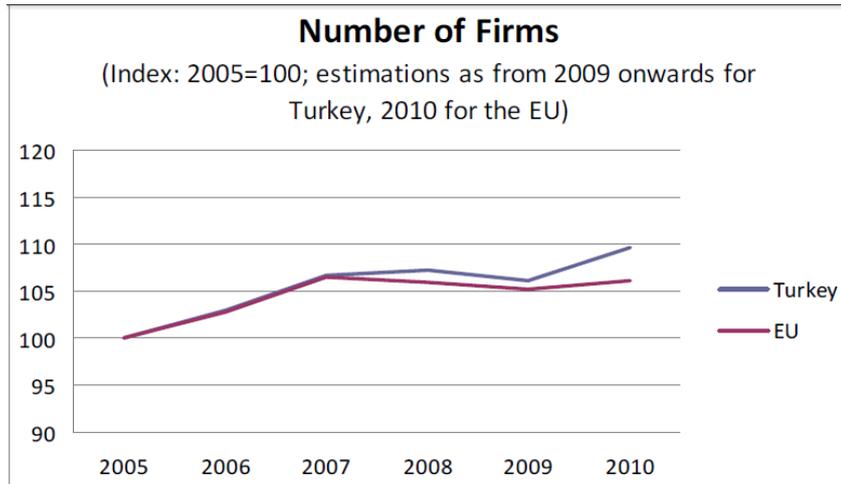
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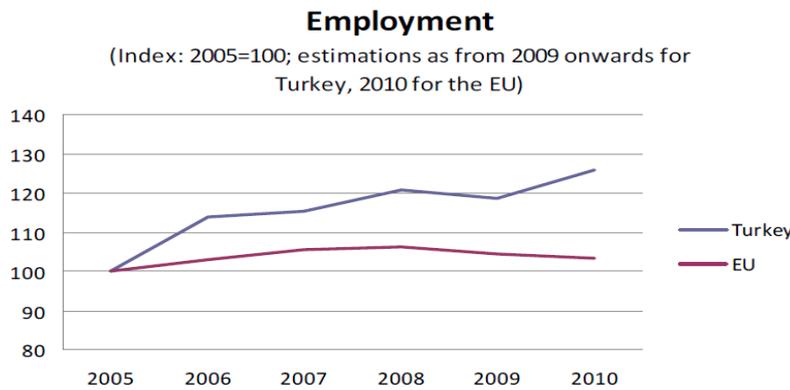
6.0. Appendix

Figure 2



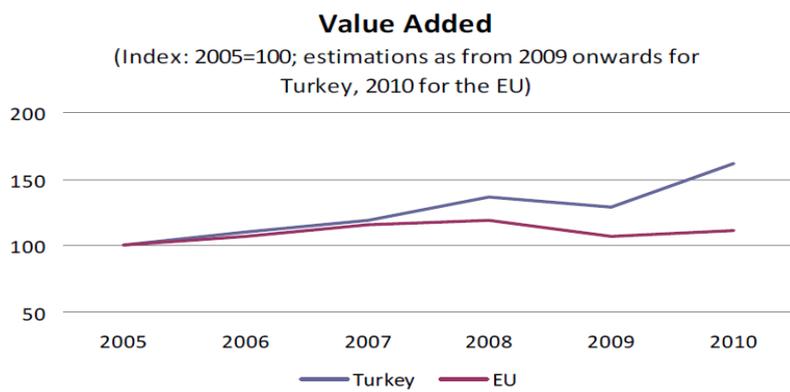
Source: European Commission SBA Fact Sheet 2011/2012

Figure 3



Source: European Commission SBA Fact Sheet 2011/2012

Figure 4



Source: European Commission SBA Fact Sheet 2011/2012

Figure 5

ACTORS	ACTIVITIES
PUBLIC	
Ministry of Industry and Trade (MoIT)	Facilitates determination of industrial policies, provides and encourages rapid and sustainable development of industry, promotes competitiveness of SMEs, holds records of the industrial enterprises.
Undersecretariat of State Planning Organisation (SPO)	Prepares long-term development plans and annual programmes, develops future-oriented strategies and policies in cooperation with related institutions.
Small and Medium Industry Development Organisation (KOSGEB)	Support mechanisms for increasing competitiveness of SMEs, encouraging entrepreneurship and innovative start-ups.
The Undersecretariat of Treasury	State aid for investments, financial transfers to public enterprises.
The Undersecretariat of Foreign Trade	Support mechanisms for improving export capacity.
Ministry of Labour and Social Security	Rules for employment, registration.
Ministry of Finance	Taxation, finance matters for enterprises.
TUBITAK	Support and policy making for R&D, scientific research, innovation activities

NGOs	
The Union of Chambers and Commodity Exchanges of TURKEY (TOBB)	Represents private sector, ensures unity and solidarity between chambers and commodity exchanges, facilitates professional work of members, promotes confidence in the relations of members with the public.
The Confederation of Tradesmen and Artisans of Turkey (TESK)	Coordinates and represents tradesmen, craftsmen chambers and the federations, takes vocational measures for its members according to national and global economic development, provides vocational training.
Vocational Training and Small Industry Supporting Foundation (MEKSA)	Aims to promote quality of workers for SMEs through vocational training at national level.
Turkish Technology Development Foundation (TTGV)	Supports technology development projects.
Turkish Foundation for Small and Medium Business (TOSYOY)	Feedback for consultation mechanisms.
MAJOR FINANCIAL INSTITUTIONS	
Banks	Credits
ISRISK, VAKIFRISK, KOBI A.S.	Venture Capital
KGF, TESKOMB	Guarantees
SME Exchange Market	

Figure 6

Table 1. Long-term growth scenarios

	Baseline	Labour market scenario	Education scenario	Combined scenario
Average potential GDP growth 2012-30, in per cent	4.4	5.0	5.2	5.7
Difference in level of potential output relative to baseline in 2030, in per cent		10	15	25
Labour force participation rate in 2030, in per cent	55	60	56	61
Average years of schooling of the adult population in 2030	8.5	8.5	10	10
Memorandum items:				
Average MFP growth 2012-30, in per cent	1.5	1.5	1.5	1.5
Average capital stock growth 2012-30, in per cent	4.9	5.2	5.4	5.8
Average population (aged 15 and above) growth 2012-30, in per cent	1.3	1.3	1.3	1.3
Structural level of unemployment in 2030, in per cent	9.2	9.2	9.2	9.2

Source: OECD estimations.