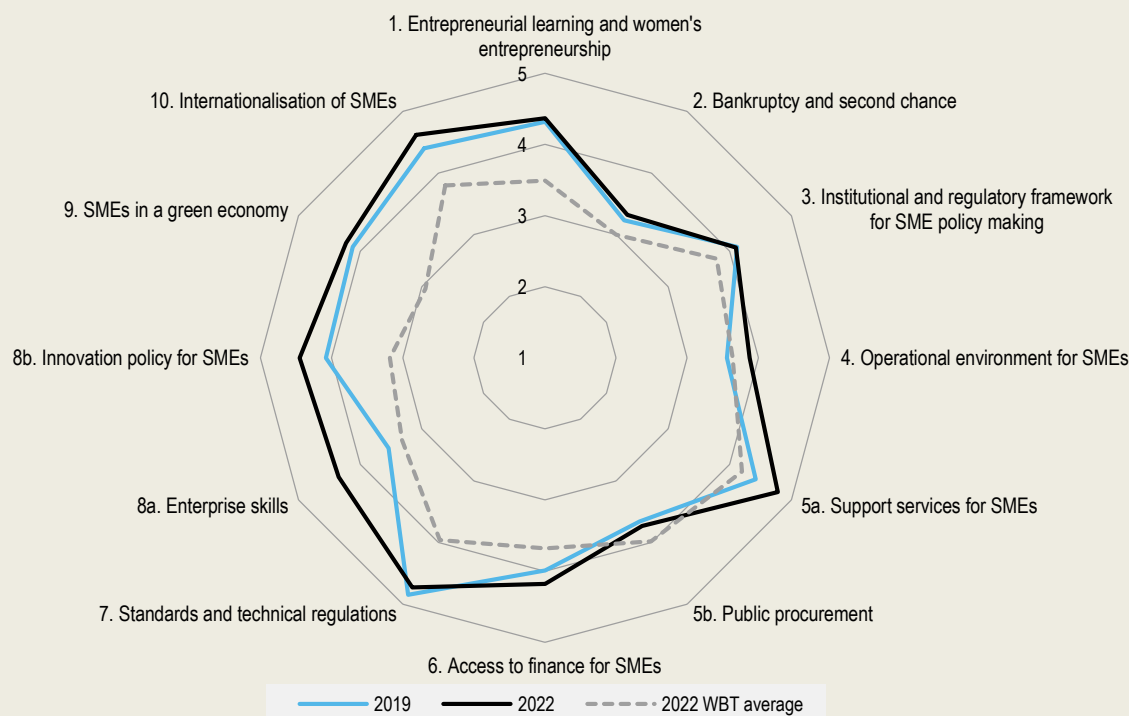


19 Turkey: Economy Profile

This chapter covers the progress made by Turkey in implementing the Small Business Act (SBA) for Europe over the period 2019-21. It starts with an overview of Turkey's economic context, business environment and status of its EU accession process. It then provides key facts about small and medium-sized enterprises (SMEs) in the Turkish economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period and suggests targeted policy recommendations.

Key findings

Figure 19.1. Small Business Act scores for Turkey (2019 and 2022)



Note: WBT: Western Balkans and Turkey.

Turkey has made progress in implementing the Small Business Act (SBA) since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2019* (Figure 19.1), and continues to reinforce an environment conducive to business and receptive to the needs of small and medium-sized enterprises (SMEs). Turkey ranks among the top three economies in almost all dimensions. The economy has achieved its highest average scores in the following areas: entrepreneurial learning and women's entrepreneurship; support services for SMEs; standards and technical regulations; enterprise skills; innovation policy; and internationalisation of SMEs, where it also outperforms the WBT average.

Main achievements

- **The development of digital government services for businesses continued at a strong pace.** The number of services available through Turkey's online portal for digital government services has increased significantly since the previous assessment. Inter-institutional co-ordination for the delivery of digital government reforms was strengthened, thanks to a more prominent role of the Digital Transformation Office of the Presidency. Significant developments have also been achieved in simplifying retail licensing, thanks to a single online entry point for applications, including business licensing. Additional reforms are underway to further streamline and digitalise licensing processes, in particular those related to investments.
- **Public business support services (BSSs) are thoroughly monitored and evaluated from the angle of effectiveness and impact.** Since the last assessment cycle, Turkey's Small and Medium Enterprises Development Organisation (KOSGEB) has formalised the monitoring and

evaluation system in place to assess the impact of all SME support programmes. The goal of establishing a formal structure for monitoring and evaluation was to identify inefficiencies in publicly provided BSSs and eliminate them accordingly. The results of undertaken assessments are envisioned to be included in future policy and BSSs design.

- **The entrepreneurial ecosystem at the national and regional levels has been further strengthened.** Both government and stakeholder financed actions have opened up diverse and accessible training opportunities targeting different themes, such as greening and digitalisation, types of entrepreneurs, including social entrepreneurs, and the different phases of SME development. Since the onset of the COVID-19 pandemic, training has been increasingly delivered on line.
- **The policy framework for SME innovation continues to be well developed,** with support programmes for innovation and research activities being strong and well targeted. Large-scale support programmes, implemented through KOSGEB and the Scientific and Technological Research Council of Turkey (TUBITAK), have boosted investments in research and development (R&D), particularly from the private sector. Support measures focus both on developing the innovation ecosystem, which is already a very lively one, as well as on building the innovation capacity of enterprises. Steps have also been taken to launch additional support aimed at stimulating collaboration between business and academia, thereby encouraging commercialisation.
- **Turkey remains the regional leader in supporting SMEs' greening transition.** Turkey's framework for environmental policies is solid and increasingly targets SMEs. Implementation of policies has been conducted at a good pace, particularly energy efficiency measures. Turkey has also consolidated inter-institutional co-ordination of green policies targeting SMEs through recently established working groups. Business associations have their own green policies and are leading the provision of advice and guidance to SMEs in this regard. Several financial incentives are available to SMEs through KOSGEB and line ministries. Other instruments, such as information-based tools, performance standards, and environmental management systems, have equally been introduced to incentivise SMEs to engage in greener practices.

The way forward

- **Develop insolvency prevention policy measures, including a fully-fledged early warning system,** as the current insolvency framework does not provide preventive measures besides the preventive concordat restructuring. The economy could implement other out-of-court settlements or implement a hybrid preventive insolvency procedure based on a pre-packaged reorganisation. The introduction of a fully-fledged early warning system could be undertaken by building on Turkey's already well-developed mentoring and advisory services to extend the programme offers to SMEs at risk of financial distress.
- **Step up efforts to improve its regulatory environment for SMEs,** mainly by ensuring the consistent use of regulatory impact assessment and public-private consultations. A framework for ensuring the consistency and quality control of both of these policy-making tools is lacking, and they are both used on an ad hoc basis. This limits the degree to which policy impacts on SMEs can be assessed and mitigated and the degree to which SMEs can be involved as stakeholders in policy making in a transparent and inclusive way.
- **Modify the national legislation on public procurement in accordance with EU principles and international good standards and 2014 EU Public Procurement Directives,** in particular by ensuring that economic operators have access to public procurement on equal footing regardless of their origin. Solutions and instruments beneficial for SMEs, such as the

wider possibility of using self – declarations and so-called self – cleaning as well as provisions concerning sustainable procurement, should be introduced.

- **Revitalise efforts to develop a more strategic approach to financial literacy.** A review of the previous action plan, as well as a comprehensive assessment of financial awareness and understanding of the broader population, and entrepreneurs, in particular, would help to identify existing shortcomings and reach agreement on priorities. A future action plan should be closely co-ordinated and implemented with all stakeholders, including the Capital Market Board (CMB), the Ministry of Education, KOSGEB and private-sector providers.
- **Develop a government-supported business-to-business matchmaking portal (B2B) to facilitate SME linkages with multinational enterprises (MNEs) and enable them to better integrate into global value chains (GVCs).** While SMEs in Turkey have wide access to information about integration into GVCs and have an array of support programmes at their disposal, they do not benefit from exposure on international markets, which would be granted by a government-run B2B marketplace. While there are private platforms available, there are no publicly funded websites, which would allow SMEs to be matched with International buyers, investors or MNEs. Facilitating SME-MNE linkages by providing a direct, government-supported channel to improve SME visibility and streamline negotiations could greatly contribute to SMEs' integration into supplier networks of Turkey-based MNEs.

Economic context and role of SMEs

Economic overview

Turkey is a service-based, upper-middle-income economy with a population of 84.7 million as of 2021, making it the largest in the Western Balkans and Turkey (WBT) region (TURKSTAT, 2022^[1]). Although the economy's nominal gross domestic product (GDP) has been relegated to two ranks since the last assessment, it remains the 19th largest economy and is the 55th largest economy for GDP per capita (World Bank, 2022^[2]). Its per capita GDP by purchasing power parity in stood at USD 28 393 in 2020 (in constant 2017 international dollars), increased by roughly USD 200 since 2019. Despite the constraining effects of the pandemic, economic activity remained strong due in part to resilient external demand (World Bank, 2022^[3]). As a result, Turkey was among the few economies globally to experience positive economic growth during the COVID-19 crisis and the only WBT economy to record an increase at 1.8% of GDP (Box 19.1). Turkey recorded the highest rebound in real GDP growth in the region after Serbia, with an 11% increase in 2021 (Box 19.1) and is projected to grow another 2.7% in 2022 (European Commission, 2022^[4]; IMF, 2022^[5]).

As is the case with all economies of the WBT region, Turkey is dominated by the services sector, accounting for 54.2% of the economy's GDP, down by roughly 2% from the previous year, and 56.6% of total employment. As of 2020, the construction sector represents 5.2% of the GDP as a result of the Turkish government's special priorities of large infrastructure projects, particularly in the transport sector, through the Build-Operate-Transfer¹ project financing model. Meanwhile, finance and insurance activities recorded the highest growth in 2020 with 23.4%, followed by culture, arts, entertainment, recreation and sports with 16.7% and information and communication with 14.4%. In contrast, as a result of the pandemic, accommodation and food service activities decreased by 35.3% in 2020 (TUIK, 2022^[6]). Comparatively, industry makes up 27.8% of GDP and 25.3% of employment, whereby the manufacturing sector accounts for 19.1% of GDP alone, followed by wholesale and retail trade with 12.4% and the repair of motor vehicles and motorcycles and the transportation and storage sector with a combined 7.9%. Agriculture accounts for approximately 6.6% of value added and 18.1% of employment, one of the highest averages in the region.

Although Turkey is the world's 10th largest agricultural producer as of 2019, the sector still experiences low productivity due to heavy reliance on small farms.

Box 19.1. Turkey's COVID-19 recovery programme

In terms of economic impact, Turkey, where distributive services and manufacturing contribute far more to GDP and employment than in the other WBT economies (a combined 63% of GDP compared to 33.5% EU average), was hit especially hard by severe disruptions to GVCs, leading to a 4.8% decrease in employment in 2020. Despite interruptions to the business environment, Turkey achieved a 1.8% GDP growth, the only economy of the WBT region to record a positive annual change in GDP that year, due in part to swiftly introducing fiscal and monetary support measures:

- **Subsidies:** The government began its short-term employment allowance programme by paying 60% of worker salaries of firms impacted by the pandemic.
- **Tax measures:** In March 2020, Turkey was quick to enact tax relief measures for businesses, including deferrals for taxpayers that were forced to temporarily suspend their activities due to COVID-19, postponement of social security payments, withholding tax reductions for tradespeople and restructured instalment plans for tax repayments. The economy also employed stark valued-added tax (VAT) cuts, as low as 1%, for hard-hit services sectors, particularly accommodation, transportation, catering, education and cultural activities.
- **Loans:** Loan moratoriums were put in place at the onset of the pandemic in March 2020, and the Central Bank introduced a programme to advance loans against investment commitments to reduce imports, increase exports and support sustainable economic growth. Working capital loans were introduced for businesses to preserve current employment levels with 36-month maturities, 6-month grace periods and a low-interest rate of 7.5%. The Banking Regulation and Supervision Agency extended the delay for classifying loans as non-performing from 90 to 180 days and increased the loan-to-value ratio on mortgage loans.
- **Credit lines:** The Credit Guarantee Fund (KGF) was quick to implement loan guarantees with low-interest rates of 4.5% and 36-month maturities for companies as well as individuals for the first time, increasing the total amount to TRY 500 billion (approximately 28.4 billion) in March 2020 and eventually doubling the limits of the KGF. The Ministry of Treasury and Finance also increased guarantee limits from TRY 12-35 million (approximately EUR 0.7-2 million) for SMEs and TRY 350 million (approximately EUR 20 million) for large enterprises.
- **Monetary policies:** Turkey's Central Bank has been active in implementing monetary measures since the start of the pandemic, intervening to limit the depreciation of the Turkish lira and fall in securities prices, moratoriums on bankruptcy proceedings and the lowering of policy rates by 8.25%, restrictions on dividend payments.
- **SMEs and targeted groups:** The SME bank (Halkbank) subsidised credits to tradespeople and craftspeople in July 2020, while principal and interest payments were postponed for agricultural producers. The Turkish Bank Association also launched a new TRY 10 billion (approximately EUR 568 million) credit line in October 2020 for tourism firms to cover wages, rents and other fixed costs, along with delayed tax filing deadlines and increased work flexibility schemes. A separate blanket package was subsequently introduced targeting SMEs with a further TRY 10 billion (approximately EUR 568 million) as well as an additional lending facility for SMEs in the export sector. The government also provided additional financial support to vulnerable populations, providing 6.3 million families with TRY 1 000 (approximately EUR 57)

and raising minimum pensions to TRY 1 500 (approximately EUR 85) while expediting bonus payments.

Although numerous short-term economic support measures helped mitigate immediate economic damage, the central structural imbalance driven by excessive domestic consumption, widening account deficits and dependence on foreign savings remains a challenge.

Sources: IMF (2021^[7]); OECD (2021^[8]); Central Bank of the Republic of Turkey (2020^[9]); Ministry of Trade (2021^[10]).

Turkey is facing severe macroeconomic instability, making it particularly vulnerable to global market volatility and geopolitical risks (World Bank, 2021^[11]). Spurred by an exchange rate crisis that began in 2018, inflation hit a record high of 61% in 2022 since 21.6% in 2003, with a 19.6% rise between 2020 and 2021 alone and 54.8% year-on-year in the first quarter of 2022 (TUIK, 2022^[6]; European Commission, 2022^[4]). Since September 2021, despite growing inflation, the central bank has cut the interest rates four times (500 basis points [bps] in total – gradually from 18% to 14%) which resulted in the depreciation of the Turkish lira – from 9.2 to the euro at the beginning of September to 19.4 at its highest on 16 December 2021. Despite the sizeable reduction in the central bank's key policy rate, commercial banks' interest rates on loans remained broadly stable in January 2022. The lira's increased volatility had a negative impact on the economic sentiment in the last months of 2021 as economic confidence took a step back from its 2021 high in September (102.4) to 97.6 in December, driven by a dive in consumer confidence as rising inflation has dented consumers' purchasing power (European Commission, 2022^[4]).

Turkey's current account balance showed a deficit of 5% in 2020, with some improvements observed in 2021 (-1.7%) (Table 19.1), reflecting a narrower merchandise trade deficit and higher net income from services due to the partial recovery in travel and tourism after the opening of borders following the first waves of the pandemic. The current account is likely to remain in deficit in 2022 since preliminary figures from the Ministry of Trade point to a widening merchandise trade deficit.

Table 19.1. Turkey: Main macroeconomic indicators (2018-22)

| Indicator | Unit of measurement | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|---|-------|-------|-------|-------|-------|-------|
| GDP growth ¹ | % year-on-year | 3.3 | 7.5 | 3.0 | 0.9 | 1.8 | 11.0 |
| National GDP ² | EUR billion | 769.6 | 760.2 | 688.9 | 673.4 | 637.1 | .. |
| GDP per capita growth ² | % year-on-year | 1.6 | 5.8 | 1.4 | -0.4 | 0.7 | .. |
| Inflation ¹ | % average | 7.8 | 11.1 | 16.3 | 15.2 | 12.3 | 19.6 |
| Government balance ¹ | % of GDP | -1.7 | -2.0 | -2.8 | -3.2 | -2.9 | .. |
| Current account balance ¹ | % of GDP | -3.1 | -4.8 | -2.8 | -0.7 | -5.0 | -1.7 |
| Exchange rate EUR/TRY ¹ | Value | 3.3 | 4.1 | 5.7 | 6.4 | 8.03 | 10.5 |
| Exports of goods and services ¹ | % of GDP | 23.0 | 25.9 | 30.2 | 32.2 | 28.5 | 34.9 |
| Imports of goods and services ¹ | % of GDP | 25.2 | 29.7 | 31.6 | 30.0 | 32.1 | 35.3 |
| Net foreign direct investment (FDI) ¹ | % of GDP | 1.2 | 1.0 | 1.1 | 0.9 | 0.6 | 0.9 |
| External debt stocks ² | % of gross national income (GNI) | 47.6 | 53.8 | 58.2 | 58.9 | 61.3 | .. |
| International reserves of the National Bank ¹ | EUR billion | 106.1 | 107.7 | 93.0 | 105.7 | 93.3 | 111.2 |
| Gross international reserves ¹ | Ratio of 12 months imports of goods and services moving average | 5.8 | 5.1 | 4.5 | 5.6 | 4.9 | 4.7 |
| Unemployment ¹ | % of total active population | 10.9 | 10.9 | 10.9 | 13.7 | 13.1 | 12.0 |

Sources: 1. European Commission (2022^[4]); 2. World Bank (2022^[12]).

The COVID-19 pandemic further exposed the deficiencies in Turkey's financial sector and monetary policies. While the government implemented strong interventionary support to mitigate the economic impact of the COVID-19 pandemic, which allowed it to avoid negative growth in GDP during 2020, its heavy reliance on credit measures further weakened the lira (European Commission, 2022^[4]). The ongoing situation in Ukraine has also had a particularly heavy effect on the Turkish lira, having lost approximately 8% of its value against the US dollar within the first three weeks of the crisis while simultaneously weakening Turkey's risk premium. These spillovers, in combination with the stark interest rate cuts from September 2021, will likely have a negative impact on the economy's 2022 growth projections, which are now as low as 1.4% (European Commission, 2021^[13]). The stark depreciation of the Turkish lira has also largely impacted the economy's government debt, which increased from 27.9% in 2017 to 39.7% at the end of 2020 and a further 2.3% to 42% in 2021 (European Commission, 2022^[4]). Likewise, the volatility of the lira in the past months may constitute a barrier to attracting sufficient capital inflows to cover the deficit and the external debt.

The COVID-19 pandemic had a major negative impact on employment. Reduced economic activity and subsequent containment measures led to an important decline in Turkish labour force participation, which decreased by 4.3% from 2018 to 2020. Moreover, while the employment rate had been improving at a constant yearly rate of 3% between 2006 and 2018, it has reached its lowest level in 2020 since 2011 at 47.5% (OECD, 2021^[14]) and remains substantially lower than the average in OECD economies, where it stands at 66% (OECD, 2022^[15]). Unemployment also reached new heights in 2020, standing at 13.2% of the total active population compared to 9.9% in 2014. Youth unemployment remains a standing structural issue in Turkey and is once again marked by a strong gender gap. Unemployment in the 15-24 age group reached 22.8% in 2021, increasing by more than 40% from 2014 and is considerably higher for young women (28.7%) than for young men (19.6%) (OECD, 2021^[16]). Moreover, sharp disparities in regional employment and unemployment rates remain to be addressed.

Turkey still faces significant skills challenges, and the inclusiveness of the labour market remains weak, despite some progress made in improving access to education (European Commission, 2021^[13]). The economy has one of the highest qualification mismatches (43%) and ranked at the bottom 20% among OECD economies for skill activation in the labour market, intensive use of skills in the workplace and innovative stimulation of skills (OECD, 2019^[17]). Moreover, the unemployment rate among people with higher education remains persistently high at 12.8% in 2020 (European Commission, 2021^[13]). Promisingly, positive developments are planned as part of the Eleventh Development Plan (2019-2023) to further align the education system with the requirements of the labour market.

Business environment trends

Despite the difficult circumstances surrounding the COVID-19 pandemic, Turkey has made some progress in enhancing its business environment. The economy has adopted assistance and financing schemes to support companies through and beyond the pandemic by increasing the establishment of technology and industrial development zones and focusing on the technological transition of enterprises. Turkey is investing in 400 product groups in the fields of machinery, computers, electronics, optics, electrical hardware, pharmaceuticals, chemistry, and transport vehicles under a technology-focused Industry Support Programme. Turkey's Ministry of Industry and Technology has also developed a virtual one-stop-shop portal for information about sector-specific investment support to facilitate both domestic and foreign direct investment. In this regard, Turkey continues to be an open economy for investment, according to the OECD FDI Regulatory Restrictiveness Index. Its score has remained unchanged since 2017 at 0.059, marginally lower than the OECD average of 0.063, indicating that the economy has low trade barriers and maintains only a handful of restrictions, notably in the air, maritime, TV and radio broadcasting, and transport sectors (OECD, 2020^[18]).

However, despite some progress, Turkey's business environment still has several key impediments and obstacles to business development, which are acknowledged in the economy's latest Economic Reform Programme (Box 19.2). Turkey's business environment is undermined by rigid regulations on product and labour markets and an intricate business support and taxation system (OECD, 2021^[8]). This complex regulatory landscape remains a severe burden for businesses, making it especially difficult for firms to enter the market and move to the formal economy. Company registration and business licensing processes are not available and centralised on line, while the legislative environment is particularly difficult for companies to navigate. Legislative complications continue to be coupled with institutional challenges, particularly regarding the judicial systems, which remain slow and heavily backlogged, hampering the effective execution of legal actions and proceedings for companies. The backsliding of Turkey's judicial system is evidenced by consistent decreases in scores on Transparency International's Corruption Perception Index since 2013. As of 2021, Turkey holds a score of 38 (out of a possible 100), a 2-point decrease since 2020 and a 12-point decrease since 2013, ranking 96th place out of a total of 180 ranked economies (Transparency International, 2022^[19]). Other institutional challenges that heavily affect a functioning business environment include weak regulations, particularly contract and intellectual property rights enforcement, as well as insolvency resolution. Delays in bankruptcy procedures and the implementation of the newly adopted concordat proceedings were emphasised due to the COVID-19 pandemic, under which a hold on pending and new proceedings was put in place. Furthermore, state influence on product markets remains high, with heavy interference in price setting and slowdown of privatisation of state-owned enterprises. Although intensive audits to investigate unfair pricing during the COVID-19 period resulted in positive outcomes, continued interference can be harmful to businesses that produce goods as it may affect their supply and demand patterns. Meanwhile, the large informal economy, estimated at 29% as of November 2021, continues to hamper the business environment despite the decline in informal jobs in sectors seriously affected by the COVID-19 pandemic, such as tourism and construction (TUIK, 2022^[20]). The implementation of the Action Plan and Strategy for the Fight Against the Informal Economy (2019-2021) continued. However, results are difficult to assess as no concrete performance indicators were set and no data were published (European Commission, 2021^[21]). According to the *OECD Economic Survey*, 60% of all informal workers are estimated to be working in micro and small businesses. While the agricultural sector consists of up to 80% of small informal businesses, only around 20% of employees are considered unregistered in manufacturing and other sectors (OECD, 2021^[8]).

Box 19.2. Economic Reform Programmes

Since 2015, EU accession candidates have been obliged to produce annual Economic Reform Programmes (ERPs) that outline clear policy reform objectives and policies necessary for participation in the economic policy co-ordination procedures of the European Union. The ERPs aim to produce concrete reforms that foster medium and long-term economic growth, achieve macroeconomic and fiscal stability and boost economic competitiveness. Since their initial launch, ERP agendas have been required to include structural reform objectives in key fundamental areas:

- public finance management
- energy and transport markets
- sectoral developments
- business environment and reduction of the informal economy
- trade-related reform
- education and skills

- employment and labour markets
- social inclusion, poverty reduction and equal opportunities.

In addition to these essential fields, and as the objectives of EU policies continue to evolve to include cross-cutting sustainable sectors, the structural reform agendas of ERPs have embraced new commitments to progressive policy reforms since the last assessment that also cover:

- green transition
- digital transformation
- research, development and innovation
- economic integration reforms
- agriculture, industry and services
- healthcare systems.

Once submitted by the governments, ERPs are assessed by the European Commission and European Central Bank, opening the door for a multilateral policy dialogue with enlargement candidates to gauge their progress and priority areas on their path to accession. Discussions and assistance on policy reforms take place through a high-level meeting between member states, EU institutions and enlargement economies, through which participants adopt joint conclusions that include economy-specific guidance for policy reform agendas.

The findings of the *SME Policy Index 2022* provide an extensive technical understanding of the progress made on business sector-related policy reforms that are key to the ERPs of the EU accession candidates at both the regional and economy-specific levels. The SBA delves into the specific barriers to progress in ten policy areas essential to applying the larger objectives of the ERPs, like boosting competitiveness and economic growth to SMEs in the region.

Source: European Commission (2021^[22]).

EU accession process

Turkey was one of the first economies, in 1959, to seek close co-operation with the European Economic Community. Turkey's formal involvement with the EU integration started with the signature of the Ankara Association Agreement on 12 September 1963 and the establishment of the Customs Union in 1995.

In 1999, Turkey was granted EU candidate status, and the accession negotiations were opened in 2005. Overall, 16² out of 35 accession negotiation chapters had been opened, with Science and Research the only one that is provisionally closed. However, following the decision of the General Affairs Council in June 2018, reiterated in June 2019, accession negotiations with Turkey were effectively frozen (European Commission, 2021^[21]).

Chapter 20: Enterprise and industrial policy has been open since March 2007. This chapter aims to strengthen competitiveness, facilitate structural changes and encourage a business-friendly environment that stimulates SMEs. Implementing the ten Small Business Act (SBA) principles is one of the chapter's main requirements. Similar to the previous SBA assessments, the findings and recommendations of the *SME Policy Index 2022* provide monitoring and guidance for Turkey and the other enlargement economies in meeting the requirements for Chapter 20 in the EU *acquis* when negotiating their accession into the European Union. According to the latest enlargement report, Turkey is moderately prepared in the area of enterprise and industrial policy, a downgrade from the previous reporting period where it was rated at a good level of preparation. Major challenges concern the compatibility of localisation and public

procurement practices with the EU industrial policy principles, the lack of transparency regarding state aid for large investments, high levels of informality, long-term financing needs of SMEs and the lack of a strong legal framework for microfinance (European Commission, 2021^[13]). Going forward, according to the enlargement report, Turkey is particularly advised to:

- remove schemes, such as local content requirements and public procurement price premiums, that are incompatible with industrial policy principles and substitute them with measures that encourage innovation effectively
- publish the results of the implementation of the industry strategy from 2019 to 2021, as well as the amounts distributed under the Industry Support Programme
- conduct an assessment study of all SME support measures for their impact and identification of gaps and overlaps (European Commission, 2021^[13]).

EU financial support

Under the Instrument for Pre-accession Assistance (IPA), EU assistance to Turkey amounted to EUR 3.2 billion over seven years (2014-20). In 2018 the European Commission proposed significantly cutting the overall indicative allocation to Turkey due to a lack of progress on key reforms. In addition, over the same period, another EUR 480 million was mobilised through EU instruments such as the European Instrument for Democracy and Human Rights and the Instrument contributing to Stability and Peace or Cross-Border Cooperation. The European Union also supports Turkey's efforts to host over 3 million refugees through the EU Facility for Refugees in Turkey. This support amounts to EUR 6 billion until 2020, and in 2021, the European Commission proposed to allocate an additional EUR 3 billion in assistance to Syrian refugees and host communities in Turkey (European Commission, 2022^[23]).

On 15 September 2021, the European Parliament adopted the new IPA III for the period 2021-27, through which the European Union will provide almost EUR 14.2 billion to support candidates and potential candidates in key political, institutional, social and economic reforms. Unlike previous IPAs, IPA III has a strategic and performance-based design without any economy-specific allocations from the onset. It clearly focuses on strengthening the rule of law, democracy, the respect of human rights and fundamental freedoms. In addition, IPA III promotes economic governance and reforms towards competitiveness, supports the implementation of the Economic and Investment Plan for the Western Balkans, supports the green and digital transition, and fosters regional integration and convergence with the European Union (European Commission, 2021^[24]). Furthermore, the European Commission stated that the new IPA III would also underpin the evolving relations with Turkey through support for fundamental rights, the good functioning of the European Union-Turkey Customs Union and the green and digital agendas (European Commission, 2021^[25]).

The European Investment Bank (EIB) has been supporting Turkey's development and integration with the European Union since 1965. It has lent over EUR 30.5 billion since the start of operations and EUR 12.3 billion between 2016 and 2019 (EIB, 2020^[26]). However, in July 2019, following the EU restrictive measures, the Council invited the EIB to review its lending activities in Turkey, notably with regard to sovereign-backed lending; therefore, no loans were signed in 2020. The European Bank for Reconstruction and Development (EBRD) focus its operations in Turkey mainly on the private sector (89% of the project portfolio) (EBRD, n.d.^[27]). In 2020, with a total amount of EUR 1.8 billion in investment, the EBRD supported the private sector as well as the public sector to finance the purchase of critical equipment needed by public hospitals in the fight against the COVID-19 pandemic (European Commission, 2021^[28]).

Turkey was not a beneficiary of the European Union's Macro-Financial Assistance distributed to other neighbourhood and enlargement partners in response to the COVID-19 pandemic. Nevertheless, the European Union mobilised EUR 133 million from existing funds to support Turkey in its pandemic response, and EU member states, financial institutions and the European Commission have also provided aid through the Team Europe initiative (European Commission, 2022^[23]).

Turkey has participated in the European Union's Competitiveness of Enterprises Small and Medium-Sized Enterprises Programme (COSME) since 2014, under which it benefited from support for entrepreneurship and entrepreneurial culture, access to finance for SMEs and access to markets (European Commission, 2021^[29]). Under the European Union's Horizon 2020 Programme, participants from Turkey received EUR 277 million in funding for research and innovation projects, and Turkey joined the new Horizon Europe Programme for 2021-27 in October 2021, giving it access to the programme's budget of EUR 91.5 billion over this period (European Commission, 2021^[30]). Under Horizon 2020, 203 Turkish SMEs received EUR 48.16 million, representing 17.16% of the total funding allocated to Turkey under the programme (European Commission, 2021^[22]).

SMEs in the domestic economy

Turkey's classification of SMEs was first enshrined in the Regulation on the Definition, Qualifications and Classifications of SMEs in 2005 and has since been amended thrice, with the last revision having been implemented in March 2022. Since the last adjustment in 2018, the upper limits for turnover and balance sheets used to determine business classes were increased from TRY 3 million (approximately EUR 170 000) to TRY 5 million (approximately EUR 284 000) for microenterprises, from TRY 25 million (approximately EUR 1.4 million) to TRY 50 million (approximately EUR 2.8 million) for small enterprises, and from TRY 125 million (approximately EUR 7 million) to TRY 250 million (approximately EUR 14 million) for medium-sized enterprises (Table 19.2). The categories conform to the EU standard definition of SMEs by employee size but continue to diverge on the other criteria concerning annual income and assets despite the recent updates.

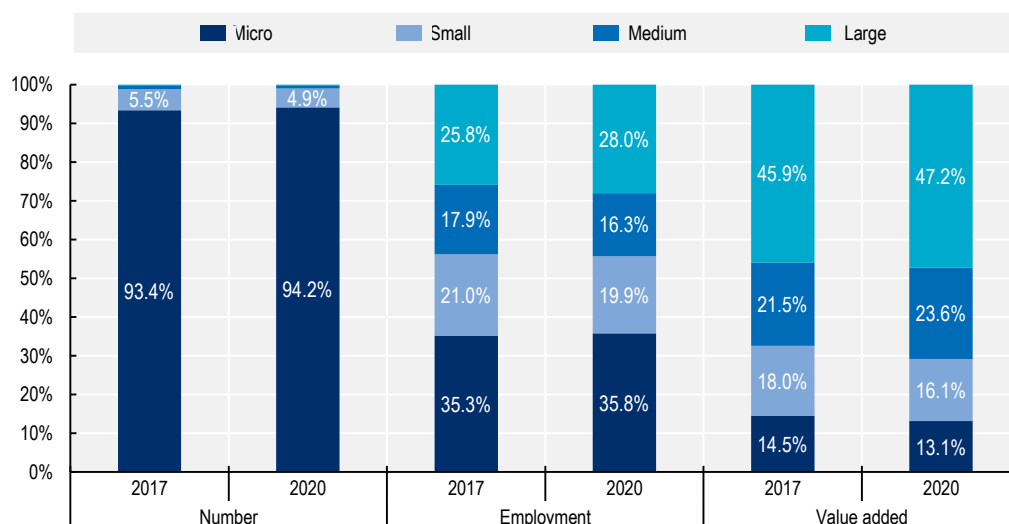
Table 19.2. Definition of micro, small and medium-sized enterprises in Turkey

| | EU definition | Turkey definition |
|-------------|--|--|
| Micro | < 10 employees = EUR 2 million turnover or balance sheet | < 10 employees ≤ TRY 5 million turnover or balance sheet |
| Small | < 50 employees = EUR 10 million turnover or balance sheet | < 50 employees ≤ TRY 50 million turnover or balance sheet |
| Medium-size | 250 employees = EUR 50 million turnover = EUR 43 million balance sheet | < 250 employees ≤ TRY 250 million turnover or balance sheet |

Source: Official Gazette of Turkey (2022^[31]).

In 2020, Turkey's roughly 3.3 million micro, small and medium-sized enterprises (MSMEs) accounted for 99.85% of all enterprises in the economy, an increase of almost 205 000 since 2017. Microenterprises accounted for 94.2% of all enterprises, while small enterprises made up 4.9%, medium enterprises 0.8% and large enterprises only 0.15% in 2020. The makeup of enterprises has remained overall stable since the last assessment, with the number of microenterprises increasing by only 1% since 2017, while small, medium and large enterprises all saw decreases of less than 1%. A similar trend was noted with regard to employment in SMEs, with microenterprises observing a 2.5% increase in employment, while small enterprises saw an approximate 1.3% decrease and medium enterprises saw a 1.5% decrease between 2017 and 2020 (Figure 19.2).

Figure 19.2. Business demography indicators in Turkey (2017-2020)



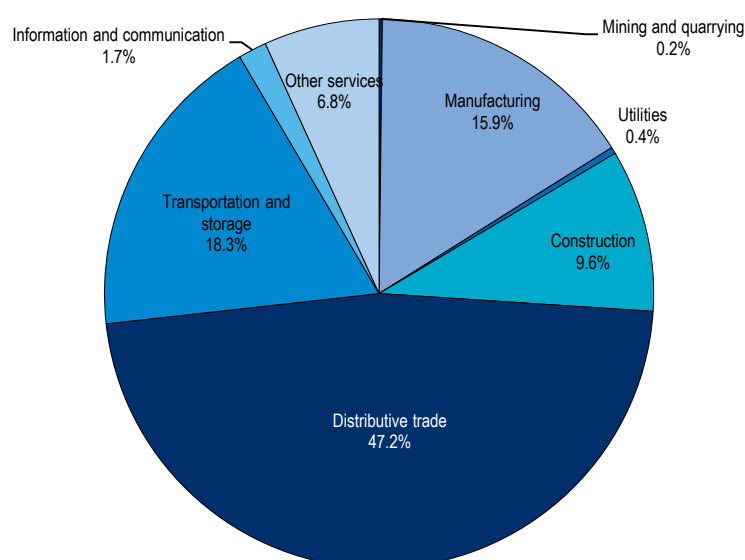
Source: TURKSTAT (2020^[32])

Due to the effects of the COVID-19 pandemic on businesses, Turkey's overall gross value added in 2020 was approximately EUR 17 billion less than in 2019, a roughly 19.2% drop. Nevertheless, MSMEs' contribution to GDP remained consistent between 2019 and 2020 at approximately 53%, only a slight decrease of about 1% since 2017. SMEs in the economy also account for roughly 36.4% of total exports, with 19.4% of exports produced by medium-sized enterprises, 13.5% by small enterprises and only 3.5% by microenterprises (TURKSTAT, 2021^[33]).

As the methodology in data collection for the sectoral distribution of SMEs in Turkey has been changed since the last assessment, the division of industries for 2020 is not directly comparable with that of 2017. Nevertheless, the distributive trade sector, which includes wholesale, retail trade, and the repair of motor vehicles and motorcycles, remains the overwhelming industry of SMEs in the economy at approximately 47%, followed by the transportation and manufacturing sectors at 18.3% and 15.9% respectively. Although the mining and utilities sectors make up a negligible part of total SME distribution, SMEs account for over 95% of the total number of enterprises in both sectors (Figure 19.3).

Micro, small and medium-sized enterprises account for 72% of total employment in Turkey, with the distributive trade and manufacturing sectors alone accounting for over 65% of total SME employment (TURKSTAT, 2021^[33]). With the exception of the mining and utilities sectors, SMEs account for the vast majority of employment in nearly all industries of Turkey, with SMEs in construction and distributive trade accounting for as much as 86% and 82% of total employment in their respective industries, while large enterprises account for less than 1% of employment in other services. Approximately 98% of all manufacturing firms have fewer than 50 employees, while large firms account for only 0.5% of employment in the sector (OECD, 2021^[8]).

Figure 19.3. Business demography indicators in Turkey (2017-2020)



Note: Agriculture excluded. The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" (E); "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.

Source: TURKSTAT (2020^[32])

Assessment

Description of the assessment process

The SBA assessment cycle was virtually launched on 7 July 2021, when the OECD team shared the electronic assessment material, comprised of questionnaires and statistical sheets, accompanied by explanatory documents.

Following the virtual launch, the Small and Medium Enterprises Development Organisation of Turkey (KOSGEB), which acts as the SBA Co-ordinator nominated by the European Commission, distributed the link to the assessment material to the appropriate ministries and government agencies and the statistical sheets to the Turkish Statistical Institute (TURKSTAT). These institutions compiled the data and documentation between July and September 2021 and completed the questionnaires. Each policy dimension was given a self-assessed score accompanied by a justification. The OECD team received the completed questionnaires and statistical data sheets on 27 September 2021 and then began an independent review. Additional information on certain elements was requested from KOSGEB.

A virtual preliminary findings meeting with Turkey was held on 11 January 2022 to present and discuss the preliminary *SME Policy Index 2022* assessment findings and initial recommendations for Turkey. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in Turkey, particularly in the post-COVID-19 context.

The meeting allowed the OECD to validate the preliminary assessment findings. The draft SME Policy Index publication and the Economy Profile for Turkey were made available to KOSGEB for their review and feedback in March 2022.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 19.3). For further details on the SME Policy Index methodology and how the scores are calculated, as well as changes in the last assessment cycle, please refer to Annex A.

Table 19.3 Description of score levels

| | |
|----------------|---|
| Level 5 | Level 4 plus results of monitoring and evaluation inform policy framework design and implementation. |
| Level 4 | Level 3 plus evidence of a concrete record of effective policy implementation. |
| Level 3 | A solid framework addressing the policy area concerned is in place and officially adopted. |
| Level 2 | A draft or pilot framework exists, with some signs of government activity to address the policy area concerned. |
| Level 1 | No framework (e.g. law, institution) exists to address the policy topic concerned. |

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

Introduction

Entrepreneurial learning raises learners' skills and develops the mindsets needed to change their lives and the world around them through entrepreneurial action for social and economic impact. It is the basis for empowering learners to know they can generate the creative ideas needed in the 21st century.

Women's entrepreneurship should be prioritised to support women's economic and social empowerment and drive improved stability and social and economic growth. It can also enable closing gender gaps in the workforce, supported by equality and gender impact analysis of policies affecting family care and social protection.

Turkey has maintained its strong focus on entrepreneurial learning and women's entrepreneurship. It continues to be one of the top performers at the regional level, with continued priority placed on both sub-dimensions. Entrepreneurial learning is evidenced within new policy design and practical implementation, featuring an innovative focus on science, technology, engineering and mathematics (STEM) and entrepreneurial learning based on social impact. Women's entrepreneurship has a strong base within the work of both government and non-government stakeholders, with a range of innovative actions evidenced at the level of implementation.

Turkey's scores have improved slightly since the previous assessment (when it scored 4.32). The economy scores highly across both sub-dimensions and, as previously mentioned, is above the regional average (Table 19.4).

Table 19.4. Turkey's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

| Dimension | Sub-dimension | Thematic block | Turkey | WBT average |
|--|---|---------------------------|--------|-------------|
| Dimension 1: Entrepreneurial learning and women's entrepreneurship | Sub-dimension 1.1: Entrepreneurial learning | Planning and design | 4.19 | 3.43 |
| | | Implementation | 4.37 | 3.51 |
| | | Monitoring and evaluation | 4.06 | 2.73 |
| | | Weighted average | 4.25 | 3.33 |
| | Sub-dimension 1.2: Women's entrepreneurship | Planning and design | 4.20 | 3.97 |
| | | Implementation | 5.00 | 3.83 |
| | | Monitoring and evaluation | 4.00 | 3.11 |
| | | Weighted average | 4.56 | 3.73 |
| Turkey's overall score for Dimension 1 | | | 4.37 | 3.49 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The COVID-19 pandemic has deepened Turkey's challenges and socio-economic inequalities, particularly impacting women and youth (UN Women, 2020^[34]). This may have had an impact on the level of progress observed. Women's entrepreneurship has advanced slightly, while entrepreneurial learning has remained stable. While new policy and practical innovations are observed across both sub-dimensions, they are accompanied by challenges of co-ordination for each of these policy areas, as they have not been clearly attributed to a national policy partnership since the end of the Entrepreneurship Council (Table 19.5).

Table 19.5. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 1

| 2019 recommendation | SME Policy Index 2022 | |
|---|---|-----------------|
| | Main developments during the assessment period | Progress status |
| Apply EU competence frameworks (EntreComp and DigComp) to align key competence developments in education across levels and parts of the education system | Through the EntreCompEurope project funded by the European Union's COSME, work is being done to build a national stakeholder and practitioner community led by the Union of Chambers and Commodity Exchanges of Turkey (TOBB) and the Government Directorate for EU Affairs within the Ministry for Foreign Affairs. ¹ This is not a formally recognised partnership, however. EntreCompEurope is also implementing online teacher training on how to develop and embed the entrepreneurship key competence, underpinned by EntreComp, into teaching, learning and assessment. ² There are multiple initiatives for digital learning, but it is not clear whether the majority of these link to DigComp. DigComp is explicit in a pilot led by the Ministry of National Education to test the SELFIE tool in work-based learning in vocational education and training (VET). ³ However, there is no visible system-level development that contextualises learning outcomes for entrepreneurial or digital competences across the different curricula of Turkish formal education and training. | Limited |
| Scale up the well-functioning eGraduate system in VET to support impact evaluation across all parts of the learning system | The eGraduate system in VET is being successfully implemented, but this innovative approach has not yet been expanded to cover other areas of education. Universities use their own systems for tracking alumni, and data are not collated at the national level. Comprehensive analysis reports using the data from the eGraduate system are produced, most recently for 2020 (Government of Turkey, 2020 ^[35]). | Limited |
| Establish system-level, compulsory provision of practical entrepreneurship experience in upper secondary, VET and higher education | The Education Vision 2023 strategy has inspired further development of school-business co-operation, with implementation still being developed. Promising initiatives, such as Denayap and the Entrepreneurs in High School projects, are expanding at both the regional and national levels. Compulsory provision of practical entrepreneurial experiences has not been established at the upper secondary level, and while Junior Achievement is delivering learning experiences across all levels of education, these are not yet accessible for all learners. The COVID-19 pandemic has created new challenges for delivering practical and entrepreneurial learning through digital learning environments, with evidence of the impact of COVID-19 on practical teaching. | Moderate |
| Check the gender sensitivity of new and existing policies affecting women's entrepreneurship | There is no clearly defined process for implementing gender sensitivity checks and no information on where or how these were carried out during this assessment period. | Limited |
| Introduce targeted, cross-sectoral evaluations of entrepreneurial learning and women's entrepreneurship policies and programmes | There is limited visible progress on this recommendation, though comprehensive insight into women's engagement in the SME Development and Support Organisation (KOSGEB)'s programmes is available through annual reports. This is limited in scope and analysis, however, and does not include actions carried out by other actors. The end of the Entrepreneurship Council, which previously oversaw the implementation of these policy areas, also poses a challenge. | Limited |

1. For more information, see www.entrecompeurope.eu.

2. For more information on the EntreCompEdu programme, see <https://entrecompeurope.eu/registration/>.

3. The SELFIE pilot involved 23 schools across 3 regions and was a collaboration between the European Training Foundation, the Joint Research Centre and the Ministry of National Education (MoNE). A report concludes, "The MoNE recognises SELFIE WBL as a valuable tool for vocational schools to evaluate and monitor their use of digital technologies in learning, teaching and assessment voluntarily. In addition, as stated in the Education Vision 2023, the MoNE intends to establish an integrated educational data warehouse. Scaling up, therefore, depends largely on whether the MoNE can integrate SELFIE WBL with existing systems to provide usable data for the warehouse. As indicated by MoNE officials in the focus groups, such policy support would require access to the full, raw data, rather than the anonymised, aggregated data, which is an essential feature of SELFIE WBL." For more information on the results of the Turkish pilot, see European Training Foundation (European Training Foundation, 2021^[36]).

Entrepreneurial learning is strongly evidenced as a cross-cutting theme within government policy

Entrepreneurial learning continues to be supported through a cross-section of policy areas, and a range of new strategies highlights the importance of entrepreneurial learning, including the Eleventh Development Plan (2019-2023) (Presidency of Turkey, 2019^[37]), providing the umbrella policy framework, with some related links seen in the Industry and Technology Strategy 2023 (Government of Turkey, 2019^[38]) and the National Artificial Intelligence Strategy (2021-2025) (Government of Turkey, 2021^[39]). The Education Vision 2023 (Government of Turkey, 2019^[40]) aims to deliver a paradigm shift in the education and training system towards a 21st-century skills model through innovative pedagogical practices with a strong emphasis on social entrepreneurship as part of the student learning experience. The National Youth Employment Strategy (Government of Turkey, 2021^[41]) was also launched during this assessment period,³ prioritising entrepreneurship as a career pathway for young people, including promoting vocational education, internships and developing an entrepreneurial culture among young people. The primary action areas to achieve these goals are entrepreneurship training via youth centres, extending KOSGEB entrepreneurship training and support to vocational high school students, and developing additional training actions within universities (Government of Turkey, 2021, pp. 64, 79-80^[41]). Complementing this national policy landscape, there is a diversity of engagement and contribution from Regional Development Agencies (RDAs) and national and local non-governmental stakeholders.

There is now an opportunity for Turkey to define lead responsibility for national co-ordination and stakeholder engagement

The Entrepreneurship Council, linked to the National Entrepreneurship Action Plan and led by KOSGEB, previously co-ordinated policy and actions related to entrepreneurship. With the end of the National Entrepreneurship Action Plan in 2020 and a new streamlining of government strategy documents, there is no national policy partnership with a clearly defined responsibility for entrepreneurial learning. Wider policy partnerships exist, for which the most relevant would be the National Education Council, a permanent council of the Ministry of Education that oversees the implementation of the Education Vision 2023. Other partnerships include those linked to the National Employment Strategy (2014-2023) and the Industry and Technology Strategy 2023, with a new technology and communications action plan to take effect in 2022.

A significant shift is taking place towards a future-focused education and training system

National policy emphasises the development of the entrepreneurial mindset and practical entrepreneurial learning, focusing on linking to digital learning and social impact. This is guided by the 2023 Education Vision (Government of Turkey, 2019^[40]), which offers an ambitious and convincing vision of an education system based on the 21st-century skills model. It prioritises using active learner-focused pedagogies with more autonomy and flexibility for schools and teachers to become learning facilitators, emphasising socio-emotional learning and skills such as self-confidence, creativity, teamwork and communication. The related Ministry of Education Strategic Plan (2019-2023) (Government of Turkey, 2019^[42]) emphasises entrepreneurship, creativity and innovation as core values of the education and training system, confirming the inclusion of the entrepreneurship key competence in the main philosophy of Turkey's education and training system.

Practical implementation of entrepreneurship continues to be primarily carried out through specific areas of the core curriculum. In primary and lower secondary levels, it is developed through compulsory project-based learning⁴ and is integrated as a cross-curricular element. In upper secondary, students can participate in an elective entrepreneurship course, while in vocational education and training, there is a compulsory entrepreneurship course for all learners.

The implementation of commitments within the Education Vision 2023 towards entrepreneurship education can be seen, with Design Skills Labs supporting experiential learning and experience-focused learning,

plus learning activities linked to social entrepreneurship being set up at multiple levels, such as designing school gardens as social and cultural entrepreneurial learning opportunities.⁵ Robotics and coding workshops are also being delivered in schools and as extracurricular activities, such as Deneyap Türkiye.⁶ Deneyap was established in 2019 to implement STEM education for 50 000 selected children over 5 years across 82 provinces nationally through 100 experimental technology workshops designed to develop skills such as entrepreneurship, creative thinking, critical thinking and problem solving. Complementing these actions, extracurricular mentoring and role model programmes are also evident⁷ at local and regional levels. At the system level, moving forward, it will be important to understand the progress and impact of these actions, though an evaluation approach is not yet found in public documents.

Supporting teachers through guidance and training will be key to further cross-curricular implementation

Through the actions outlined across the 2023 Education Vision and the Ministry of Education Strategic Plan (2019-2023), there is a strong steer at the system level towards innovative learning practices and encouraging applied learning through practical learning experiences that allow learners to apply knowledge and to practice and develop their digital and entrepreneurial competences. Such a dynamic vision takes time to transform into change at the level of the day-to-day learner experience. It will be important to understand the emerging needs and continued progress made towards this evolution, which involves significant change for learners, teachers, education leaders and regional administrations with the competence for guiding education, as well as adjustments for parents/carers and wider stakeholders.

While policy documents highlight entrepreneurial education, and it can be seen in standalone curriculum courses, there is a need for comprehensive guidance and training for teachers to upskill and bring clarity to how entrepreneurship can be practically developed as a cross-curricular key competence within specific areas of the curriculum where it is not yet widely embedded, particularly for assessment. There has been some development of guidance, but it remains limited. However, in-service teacher training is available via government channels and on an ad hoc basis via non-government sources, such as EntreCompEurope. Pre-service teacher training that addresses the entrepreneurship key competence is not yet well developed, and there is significant scope to develop this across university-based pre-service teacher training faculties.

Turkey has expanded support for entrepreneurship in career guidance for VET

Entrepreneurship careers continue to be promoted and supported for students in universities supported by KOSGEB and the Scientific and Technological Research Council of Turkey (TUBITAK) due to a network of university business incubators and government-supported technoparks. Entrepreneurship careers have also been further developed in VET, where students now have access to entrepreneurship courses as well as start-up training via KOSGEB; they are entitled to support credits to set up their businesses and can access help for key processes, such as patent applications. Through the National Youth Employment Strategy, there is an innovative commitment to support entrepreneurship development through practical education-business co-operation opportunities. The focus is on increasing creativity and entrepreneurship through school-based project competitions on focused themes, including gastronomy, cultural tourism, sports tourism and destination development, and converting these projects into practical internship opportunities supported by the Association of Turkish Travel Agencies (TÜRSAB).⁸

Support for women's entrepreneurship is well-evidenced across Turkish policy, but a need for a strong co-ordination body to oversee implementation remains

The policy landscape supporting women's entrepreneurship is linked to a range of government strategies and policies, particularly the Women's Empowerment Strategy and Action Plan (2018-2023) (Government of Turkey, 2018^[43]) set within the framework of the Eleventh Development Plan (2019-2023) (Presidency of Turkey, 2019^[37]) and with direct relevance within the KOSGEB Strategic Plan (2019-2023) (Government

of Turkey, 2019^[44]). The National Employment Strategy (2014-2023) (Government of Turkey, 2014^[45]) is also pertinent, though the most recent action plan ended in 2019. This is complemented by RDAs that provide extensive start-up support and tailored programmes for women.

However, as in entrepreneurial learning, there is no clearly defined national policy partnership responsible for the co-ordination of policy and actions related to women's entrepreneurship. The scale of implementation across Turkey, coupled with the importance of this policy area (particularly in light of the impact of COVID-19), would benefit from stronger multi-stakeholder co-ordination. The Eleventh Development Plan (2019-2023) offers an ambitious range of actions, but there is no visible mechanism to gather those involved in delivering on these actions, while the Women's Empowerment Strategy has no co-ordination body to oversee its implementation. This co-ordination role was previously the responsibility of the Entrepreneurship Council led by KOSGEB, but this is no longer active, as mentioned above.

Stakeholders are actively involved in promoting and implementing women's entrepreneurship

Non-governmental women's entrepreneurship networks are active, with the TOBB Women Entrepreneurship Council⁹ working at the national level and liaising with regional boards across 81 provinces and the Women Entrepreneurs Association (KAGIDER).¹⁰ Both organisations are primary catalysts for the diverse range of significant actions in this assessment period, involving important wider partners and addressing priority themes, including sustainability, the green economy and digitalisation. Initiatives include the My Sister project,¹¹ which develops programmes to support women's economic empowerment and entrepreneurship; the KAGIDER compass, which brings together different online training courses into a single platform;¹² the Green Business Award by KAGIDER; and the Turkey Women Entrepreneur Competition.¹³ Many initiatives collaborate with private-sector actors or corporate foundations, such as the Women First in Entrepreneurship project, launched as a collaboration between the Ministry of National Education and Vodafone,¹⁴ offering extensive learning programmes via an online portal and app. The Ticaretin Kadinlari platform¹⁵ is also available, hosted by KAGIDER and offering resources linked to a number of stakeholders.

Stakeholders have also sought to influence the procurement ecosystem through the development of a draft legislative proposal on public procurement to support and incentivise procurement by and with women-owned enterprises. Developed by KAGIDER in co-operation with the Women Employers and Industrialists Association (KAİSDER) and the Businesswomen and Executives Association of Bursa (BUIKAD), this proposal has been shared with relevant national ministries for consideration as a key tool to ensure improved access for women entrepreneurs to the public procurement marketplace.

Moving forward, the impact of the COVID-19 pandemic might prompt analysis of programming to ensure the intended impact is focused on areas of greatest need. An overarching co-ordination body could support this, particularly in light of the wide range of stakeholders and the scale of implementation.

Monitoring and evaluation is evident, but gender sensitivity checks and the availability of gender-disaggregated data could be further developed

Government-financed programmes are active in monitoring and evaluation with annual reports by KOSGEB. However, wider data are not collated, and the overall data and analysis do not provide a comprehensive picture of women's participation and contribution to the entrepreneurship ecosystem. In Turkey, this includes the potential to analyse data on access to finance via business angel investment through insights into the level of investment in the majority of women-owned enterprises and the number of female business angels registered in the Turkish register of business investors.¹⁶ There also appears to be less emphasis on gender sensitivity checks during the policy development phase, with no clear process to implement these at the policy design stage nor to ensure that associated monitoring and evaluation planning ensures important gender-disaggregated data (UN Women, 2020^[34]). Current policies do not

focus on ensuring the development of gender-sensitive policy nor on increasing the availability of relevant data, including that which would require regulatory reform, such as financial sources.

The way forward for Dimension 1

- **Identify national partnership bodies to take formal responsibility for the co-ordination of entrepreneurial learning and women's entrepreneurship.** The National Education Council could be granted formal responsibility for entrepreneurial learning. A multi-stakeholder partnership overseeing the implementation of actions relating to women's social and economic empowerment could be granted formal responsibility for women's entrepreneurship within its broader responsibilities.
- **Scale up the entrepreneur role model programme trialled through the Entrepreneurs in High School programme.** This could offer a valuable route to kick-starting stronger education-business co-operation at the level of curriculum in curriculum areas where this has not previously taken place and a channel to raise awareness and build entrepreneurial culture through direct contact with diverse entrepreneurs (Box 19.3).

Box 19.3. Entrepreneur role models through Big Ideas Wales

In Wales (United Kingdom), the Big Ideas Wales role model programme was established through Wales's first Youth Entrepreneurship Strategy in 2004. It now delivers entrepreneurial inspiration sessions to 60 000 students per year from lower and upper secondary, vocational colleges and programmes targeting those not in education, employment or training.

The programme engages entrepreneurs from diverse backgrounds and business types (including co-operatives and social enterprises) from across Wales. Each entrepreneur is trained to provide an engaging and interactive activity with learners, with an emphasis on their story and the entrepreneurial competences that have been important to their development. The pool of role models is gender-balanced, and workshops can be linked to subject areas as well as being generic. There is now a network of 300+ role models who inspire the next generation of entrepreneurs and help them on their entrepreneurial journey, working directly in their local community to share stories that feel relevant to learners. The aim is to open young people's minds to new ideas and opportunities, consider their entrepreneurial competences and help them think positively about their futures.

An impact study found that 66% of pre-16 respondents and 73% of post-16 respondents reported that the programme "helped me realise what I can achieve", while 55% of pre-16 respondents and 61% of post-16 respondents reported that the programme had "inspired me". There is a direct route to entrepreneurship careers, with the Big Ideas Wales programme actively signposting start-up support pathways and career guidance for young people. According to the impact study, 40% of pre-16 beneficiaries and 46% of post-16 beneficiaries believed the session "made me think about starting my own business".

A small-scale pilot has already been carried out in Turkey: the Entrepreneurs in High School project was successfully trialled by the TOBB Istanbul Young Entrepreneurs Board in co-operation with the Istanbul Provincial Directorate of National Education. The learning from this experience could be scaled up further, in line with the model used in Wales, with additional emphasis placed on developing the entrepreneurship key competence and opening up start-up pathways for young people.

Sources: TOBB Istanbul Genç Girişmciler Kurulu (2022^[46]) and Business Wales, Welsh Government (2022^[47]).

- **Develop innovative guidance to teachers on how to recognise learner progress and achievement in the “hard-to-reach” entrepreneurial learning outcomes developed through diverse learning contexts**, e.g. Design Skills Labs, robotic and coding workshops or activities such as those in Deneyap Türkiye. Insights could be drawn from the developments and practical training delivered through EntreCompEurope, involving TOBB and the Turkish government. This could be complemented by future-focused research into developing evidence-based guidance on effective methodologies to develop learners’ entrepreneurial competences through digital and online learning.
- **Explore how to track and evaluate the implementation and quality of entrepreneurial competences in compulsory education**, with the potential to demonstrate this through the breadth of practical entrepreneurial experiences being delivered. Turkey recently trialled the SELFIE tool and could consider developing a similar tailored national approach to understand the progress and recognition of entrepreneurial competences among educators and learners.
- **Introduce comprehensive gender sensitivity checks across policy making related to women’s entrepreneurship**, including across monitoring and evaluation planning to ensure the provision of gender-disaggregated data. A strong gender impact assessment during the policy design process can ensure that women are assured equal access, with additional measures such as family support measures or financial incentives. Ensuring gender-sensitive monitoring and evaluation can achieve a more complete understanding of women entrepreneurs’ participation in and contribution to the economy and society, supporting evidence-based public policy (Meunier, Krylova and Ramalho, 2017^[48]).
- **Enhance the level and depth of activity supporting women’s entrepreneurship in Turkey with a comprehensive online portal to bring together awareness-raising, information, networks and resources** from government and non-government organisations active at both national and regional levels. This portal could be an expanded version of the existing Ticaretin Kadinlari platform, with broader content collated from multi-stakeholder sources at the national and regional levels, including access to finance and angel investment. This would be an important means of increasing access to and visibility of the support for this career option available to women. A German portal could serve as a good example for Turkey (Box 19.4).

Box 19.4. Germany provides a national portal bringing together support for women entrepreneurs from a wide range of actors

In Germany, the Bundesweite gründerinnenagentur (BGA) is a federal agency that acts as a national one-stop-shop offering support and information on women’s entrepreneurship. It is widely regarded as the primary voice and policy lead for women’s entrepreneurship in Germany.

Established by three federal ministries, the BGA gathers offers from across the public, political, business and academic sectors for female-focused support services from all sectors and stages of business development, collating these into a centralised online portal available in six languages. This comprehensive portal² provides access to a database of trusted and evaluated advisory services, sources of financing, online training, an events calendar, regional networks and a wide range of regularly updated resources and guides on themes relevant to women entrepreneurs.

This example offers a practical demonstration of a comprehensive government-level approach to increasing access to and visibility for women’s entrepreneurship through the development of a multi-stakeholder portal collating support and services offered by government and non-government providers across Turkey. The impact of this example is evidenced through EU recognition as a model of success, national recognised as the leading voice for women’s entrepreneurship in Germany and

significant national reach achieved through advisory sessions, events, publications and website visits supporting the rise in women's entrepreneurship in Germany.

1. BGA is a joint project of the German Federal Ministry for Education and Research, the Federal Ministry for Family, Senior Citizens, Women and Youth and the Federal Ministry of Economy and Technology.

2. See <https://www.existenzgruenderinnen.de/> (accessed on 20 January 2022).

Source: BGA (2022^[49]).

Bankruptcy and second chance for SMEs (Dimension 2)

Introduction

Firms enter and exit the market as a natural part of the business cycle, and policies can ensure that such transitions occur in a smooth and organised manner. Well-developed insolvency procedures and regimes can protect both debtors and creditors, striking the right balance between both parties, for example. This is particularly relevant for smaller firms as they lack resources compared to bigger firms. Therefore, governments need to ensure that bankruptcy proceedings are efficient, ease reorganisation procedures (instead of bankruptcies) and ensure that those starting again have the same opportunities in the market they had the first time.

In Turkey, where SMEs represent an important part of the economy, effective restructuring and discharge procedures can allow entrepreneurs to reintegrate into the market. This was particularly relevant in the context of the COVID-19 pandemic, where a number of firms faced financial difficulties or were at risk of financial distress, particularly in the tourism sector (OECD, 2021^[50]).

Turkey increased its overall performance under bankruptcy and second chance since the previous assessment (from 3.23 in 2019 to 3.32 in this cycle) and is the second-best performer in the WBT region. Moreover, with a score of 3.74, Turkey is the second-best performer – after Bosnia and Herzegovina – on bankruptcy procedures (Sub-dimension 2.2) (Table 19.6).

Table 19.6. Turkey's scores for Dimension 2: Bankruptcy and second chance

| Dimension | Sub-dimension | Thematic block | Turkey | WBT average |
|---|--|--|-------------|-------------|
| Dimension 2: Bankruptcy and second chance | Sub-dimension 2.1: Preventive measures | | 3.00 | 2.74 |
| | Sub-dimension 2.2: Bankruptcy procedures | Design and implementation | 3.62 | 3.42 |
| | | Performance, monitoring and evaluation | 3.82 | 3.27 |
| | | Weighted average | 3.74 | 3.37 |
| | Sub-dimension 2.3: Promoting second chance | | 2.00 | 1.96 |
| Turkey's overall score for Dimension 2 | | | 3.32 | 3.00 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Turkey has improved its score since the 2019 assessment and performs above the regional average. The economy continued to work on insolvency prevention by introducing new support measures to SMEs (e.g. business advisory and mentoring services to improve SME financial management) during the COVID-19 pandemic under the SME Strategic Development Plan (2019-2023) (KOSGEB, 2019^[51]). The advisory services were provided by Turkey's SME Development and Support Organisation, KOSGEB, while Credit Guarantee Fund (KGF) ensured the financing of government programmes worth EUR 485 million to support loans to SMEs during the COVID-19 pandemic (Kredi Garanti Fonu, n.d.^[52]).

However, a fully-fledged early warning system, which serves as a basis for fostering a financially healthy ecosystem for SMEs and helps potentially distressed SMEs in the post-COVID-19 context, is still missing (Table 19.7). The Law on Enforcement and Bankruptcy was last amended in June 2021.¹⁷ The amendments improved implementation of the preventive concordat, allowing for temporary automatic stay

until five months¹⁸ and defined a moratorium on execution of court decisions and enforcement of creditors' claims for one year.

Shortened, simplified reorganisation proceedings for SMEs and debt discharge rules are still lacking in the legal framework on bankruptcy proceedings (Parliament of Turkey, 1932^[53]). Amidst an increasing backlog of unaddressed insolvency cases and delayed legislative reform, insolvency remains costly and lengthy (see also Dimension 6 on access to finance) (European Commission, 2021^[13]). Moreover, the law does not clearly differentiate between honest and fraudulent entrepreneurs. Second-chance programmes for SMEs do not exist, limiting the potential reintegration of honest entrepreneurs back into the economy.

Table 19.7. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 2

| 2019 recommendation | SME Policy Index 2022 | |
|---|---|-----------------|
| | Main developments during the assessment period | Progress status |
| Develop a fully-fledged early warning system | An early warning system is still missing. The government provided advisory and mentoring services to SMEs regarding their long-term sustainable growth, even though these did not directly target the prevention of bankruptcies through KOSGEB. | Limited |
| Introduce SME and entrepreneur fast-track bankruptcy proceedings into the law | During the assessment process, no simplification measures, such as fast-track procedures or reorganisation processes, have been implemented or planned. | No progress |
| Further reduce the average cost and duration of bankruptcy proceedings | No progress has been recorded in reducing the average cost of proceedings. The legal framework involves two bankruptcy jurisdictions and a number of involved implementing parties. The bankruptcy administration consists of three persons (Art. 223), whereas the concordat is supervised by a commissioner and a board of creditors. Current bankruptcy proceedings are not optimised for minimum duration or minimal cost. Procedures are digitalised at a basic level, which does not contribute to reducing costs and duration. | No progress |
| Allow automatic discharge for entrepreneurs after liquidation/preventive concordat | The current enforcement law does not allow debt discharge in a bankruptcy liquidation. | No progress |

Slight progress has been made regarding Turkey's insolvency legislative framework

Turkey's insolvency legal framework is based on the Enforcement and Bankruptcy Law from 1932, amended in November 2021, with the main novelty being the introduction of e-auctions during liquidation. The law is based on Switzerland's Debt Enforcement and Bankruptcy Act. As such, its focus is put on enforcement and bankruptcy liquidation in simple and ordinary forms; it does not cover fast-track procedures. The simple form provides for liquidating the assets of the debtor and distribution of proceeds to the creditor, a more complicated collective enforcement proceeding, while ordinary bankruptcy liquidation includes filing for bankruptcy, registering and investigating claims, etc. However, as such, the Enforcement and Bankruptcy Law is not harmonised with EU insolvency legislation, particularly in the areas of preventive measures, out-of-court restructurings, debt discharge, second chance and EU cross-border insolvency rules.

The legal framework offers two judicial reorganisation procedures: 1) restructuring by compromise upon settlement (Art. 309/m); and 2) the concordat (Art. 285). Restructuring by compromise is a hybrid procedure for reorganising the liabilities of joint-stock companies and limited liability companies. The procedure lacks an automatic stay/moratorium on the execution of court decisions and the enforcement of creditors' claims. Concordat is a reorganisation procedure that enables a debtor to restructure its debts, avoid insolvent liquidation, and has automatic stay, which debtors likely prefer. Concordat is possible if a

more favourable settlement to creditors is conceivable. It requires a double majority approval (half of the creditors representing at least two-thirds of the claims); however, the law does not protect non-secured creditors if their debts are not part of the plan. In addition, the party applying for concordat must pay a deposit and is required to submit a preliminary concordat restructuring plan proposal. This requirement supposes that the concordat plan should be drafted and discussed with creditors before its official filing at court, making it a hybrid process, similar to the restructuring by settlement procedure. The court confirmation binds all creditors, except secured creditors by a pledge on movables and/or a mortgage, and creditors with public claims within the scope of the Law on Collection of Public Credits and employees.

The public credit registry and the private registry credit bureau manage the exchange of credit information among financial institutions. Positive and negative credit information is stored in the system. An entrepreneur can be deleted from these credit databases five years after full discharge. The information from the Credit Registration Office (KKB) can be potentially used as an early warning tool for assessing SMEs' financial status (Credit Registration Office, 2022^[54]). However, this would need to be provided free of charge and guarantee that SMEs could access it anonymously, as per EU Directive 2019/1023, allowing SMEs to conduct self-assessments (EU Parliament, 2019^[55]).

The National Judiciary Informatics System (UYAP) was established as part of the Turkish e-government system and aims to reduce the time and cost of court processes, as well as increase the transparency of the judiciary system. The system gathers enforcement and bankruptcy data, but these are not differentiated or aggregated.¹⁹ The latest data show a negative trend in the average duration of bankruptcy and insolvency proceedings (Table 19.8).

Table 19.8. Number and duration of bankruptcies and reorganisations in Turkey (2017-21)

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|-----------|-----------|-----------|-----------|-----------|
| Number of bankruptcies and reorganisations finalised on a yearly basis | 6 673 290 | 7 677 020 | 7 457 018 | 6 259 964 | 4 523 997 |
| Average duration of bankruptcy and insolvency proceedings (in days) | 880 | 871 | 923 | 1 280 | .. |

Source: UYAP Information System (2022^[56]).

Moreover, following the 2021 amendments, the legal framework introduced e-auctions during liquidation via the UYAP system. The process of sales of the asset could be initiated by the debtor or the creditor, which was not previously the case. However, some shortcomings are yet to be addressed, such as the fact that the debtor's consent is not sought to grant sales authorisation. In addition, the appraisal costs, which are to be paid for each sales request, and the open-end electronic sale procedure with no time restriction could potentially increase the length and cost of bankruptcy and insolvency proceedings.

Preventive measures are yet to be implemented

Extraordinary provisional measures,²⁰ introduced in April 2019 within the Framework Agreements on Financial Restructuring, aim to limit the potential increase of non-performing loans until 2023. Bank loans could be partially or fully converted into equity participation in special purpose companies and investment funds established in accordance with the measure. As of 2021, 410 companies initiated the process, while 249 have successfully concluded their agreements, recovering a total debt of TRY 78 billion (approximately EUR 4.4 billion).²¹

Regarding regular preventive measures, no major progress has been recorded since the last assessment. An early warning system is still absent in Turkey. However, during the reporting period and the COVID-19 pandemic, solvent SMEs have been offered a range of advisory and mentoring services, both by the government and international development co-operation partners. These services aimed at increasing

SMEs' competitiveness and improving their financial management, and they indirectly contributed to preventing SMEs' insolvency.

Programmes to promote second chance among failed entrepreneurs are still lacking

Similarly to the 2019 assessment, second-chance programmes that would encourage or ensure the possibility of reintegration of honest entrepreneurs into the economy have not been promoted. On a positive note, the SME Strategic Development Plan (2019-2023) highlights the importance of second-chance policies. However, no concrete measures have been implemented or included in the SME Strategic Development Plan's action plan. Furthermore, the legal framework does not distinguish honest from fraudulent bankruptcies or define honest entrepreneurs.

The way forward for Dimension 2

- **Develop insolvency prevention policy measures, including a fully-fledged early warning system.** The Turkish insolvency framework does not provide preventive measures besides the preventive concordat restructuring. The economy could implement other out-of-court settlement, similar to the alternative debt settlement implemented in North Macedonia (Government of North Macedonia, 2014^[57]) or implement a hybrid preventive insolvency procedure based on a pre-packaged reorganisation, as in Serbia²² (Serbian Bankruptcy Supervision Agency, 2014^[58]). Moreover, the economy should implement a fully-fledged early warning system. One option would be to build on Turkey's already well-developed mentoring and advisory services to extend the programme offers to SMEs at risk of financial distress (see Box 14.5).

Box 19.5. Early warning systems in the European Union

Early warning tools may include different instruments: alert mechanisms when the debtor has not made certain types of payments; advisory services provided by public or private organisations; and incentives under national law for third parties with relevant information about the debtor, such as accountants, tax and social security authorities, to flag to the debtor a negative development.

In the European Union, there are two competing models for early warning systems:

1. **Self-assessment tool:** Creating tools for SMEs and entrepreneurs to anonymously assess their economic situation. The self-test tool can be a simple software application on a public website. SMEs and entrepreneurs have only to enter basic financial data about their business. The application will produce a preliminary diagnostic with recommendations for remediation actions, like searching for a specific business advisory or mentoring support service. The application conducts a financial ratios diagnostic analysis. The quality of the diagnostic analysis depends on the quantity and quality of the data intake by the entrepreneur.

This model is useful as a quick financial health check and should be complemented with a business advisory support service by a public institution or access to a commercial or professional association.
2. **Intervention mechanism:** This includes a series of steps to remedy the distress situation under external supervision. The mechanism is based on an early warning signal triggered for the SME, identification of problematic areas causing financial distress and reporting to company management with recommendations to take remedial measures. The process to remedy the identified issues then follows through a series of interventions by different actors, aiming to avoid company insolvency. The process can include:

- A company bookkeeper or external auditor spots an observation that may lead to financial distress. The early warning mechanism can be built on an obligation of the bookkeeper or auditor to inform the company's management of the issue.
- If management does not take action to remedy the situation, there may be subsequent communications with the board or even at the shareholders' meeting.
- If there is no adequate reaction of the enterprise organs, the mechanism can prompt the intervention of outside bodies, such as special mediation or even trigger a special preventive measure court procedure.
- Finally, if there is no intervention, the system may provide for creditors' actions related to the use of alternative dispute resolution.

Public creditors can play a significant role in an early warning system as they can identify a delay in tax and social security payments – a warning that enterprises are experiencing financial difficulties. Information on late payments should be carefully used together with diagnostic analysis, as companies tend to pay only public debt to avoid early warning detection mechanisms.

Source: IMF (IMF, 2021^[59])

- **Introduce international cross-border insolvency rules** allowing for seamless participation in international insolvencies and protection of foreign creditors' rights in local bankruptcy procedures. This will lead to Turkey's better integration with its international partners.
- **Introduce simplified bankruptcy proceedings for SMEs.** SMEs have smaller scales of business and simpler operations. It is thus recommended to consider admissibility to short-track proceedings for SMEs with a maximum debt of EUR 1 million at the time of filing of bankruptcy. Only SMEs as debtors should be able to file for bankruptcy reorganisations. Requirements for restructuring plans should also be simplified. Administrative proceedings should be financially affordable for SMEs, and procedures should be simplified, e.g. there is no need for a creditors' committee. Simplified and fast-track procedures are particularly relevant in the aftermath of COVID-19 as they could allow for a quicker reintegration of businesses into the economy and save social payments that might result from potential unemployment (see Box 19.6).

Box 19.6. US Bankruptcy Code Subchapter V: Small Business Reorganisation

In 2019, the United States adopted a new subchapter of its Bankruptcy Law, which regulates the Small Business Reorganisation Act (SBRA), where "small-business debtor" is broadly defined as a "person engaged in commercial or business activities that has aggregated non-contingent liquidated secured and unsecured debts as of the date of the filing of the petition in an amount not more than USD 2 725 620; exclusion from this rule is available for businesses with aggregated debt of up to USD 7.5 million due to COVID-19 Interim measures."

The new legislation comes at the time of COVID-19 to strike a balance between formal Bankruptcy Liquidation (Chapter 7) and Bankruptcy Reorganisation (Chapter 11) proceedings for small-business debtors. The act lowers costs and streamlines the plan confirmation process to better enable small businesses to survive bankruptcy and retain control of their operations. The US SBRA significantly simplifies the court proceeding and places a maximum of three or five years of disposable income to be paid under the confirmed plan throughout the life of the plan's implementation. Initial statistics show that two-thirds of all filed Chapter 11 formal Court Reorganisations were transferred to SBRA filings. Initial data confirm that 80% of all filed plans are confirmed in 120 days.

Main principles

- No one but the debtor engaged in a non-publicly traded business activity (except if it complies with the aggregated debt level threshold defined in the law) can file a petition for small business reorganisation.
- No US trustee quarterly fees are paid.
- No exclusions in the proceeding: the debtor must file a plan within 90 days.
- No creditor committees: Creditor committees will not be appointed in Subchapter V cases unless ordered by the Bankruptcy Court for cause.
- No competing plans: The debtor has the exclusive right to file a plan, which must be filed within 90 days from the date of the bankruptcy petition unless extended for cause.
- No absolute priority: The debtor need not comply with the “absolute priority rule”, which generally prohibits the owners from retaining equity unless all creditors are paid in full. A plan may be confirmed over the objection of one or more impaired classes of creditors. In order to obtain confirmation through a “cram down”¹, a debtor need only demonstrate that the plan is fair and equitable, does not unfairly discriminate and provides for the debtor’s contribution of all of its projected disposable income.
- No disclosure statements: Disclosure statements are not required, although the plan must include information typically found in a disclosure statement, including a summary of historical operations, liquidation analysis and projections demonstrating an ability to make payments under the plan.
- No enforcement is allowed against the implementation of a cram down or a non-consensual confirmed plan, until the court case file is not closed (between three and five years from the plan confirmation).
- The debtor is in possession of its business, and the bankruptcy administrator only assists in assessing the viability of the business and facilitates the development of a consensual plan to reorganise the business.
- The appointed bankruptcy administrators have strong business qualifications and include lawyers, restructuring consultants and financial advisers with diverse backgrounds in such areas as business, law, accounting, turnaround management and mediation.
- Deferral of administrative expense payments: Administrative expenses that typically must be paid upon the effective date of the plan may be deferred over the life of the plan for up to five years.
- Discharge provisions: If the plan is confirmed with the consent of all affected creditors, the debtor will receive a discharge of its debts upon plan confirmation. For plans confirmed through “cram down”, the discharge will take effect when all of the payments called for under the plan are made.
- Residential mortgage modification: The SBRA authorises a small-business debtor to modify a residential real estate mortgage to the extent that proceeds from the loan were used to fund the business, a form of relief previously unavailable under the Bankruptcy Code.

1. A cram down is the imposition of a bankruptcy reorganisation plan by a court despite any objections by certain classes of creditors. A cram down involves the debtor changing the terms of a contract with a creditor with the help of the court. This provision reduces the amount owed to the creditor to reflect the fair market value of the collateral that was used to secure the original debt.

Source: Bonapfel (Bonapfel, 2021^[60])

Institutional and regulatory framework for SME policy making (Dimension 3)

Introduction

A strong institutional and regulatory framework is the basis for SME policy making. SMEs are often disproportionately affected by regulatory changes and pay a higher price for legislative compliance, given their limited resources compared to larger companies. Policy makers should therefore consider the unique needs of SMEs when designing policies that impact the private sector, especially given the importance of SMEs for the economy in terms of employment, value added and business demographics.

For a large economy like Turkey, where SMEs represent 99.8% of all enterprises, and 41.3% of all value added, applying the think small first principle is highly relevant when designing economic policies. Given the high impact of the COVID-19 pandemic on SMEs, and the persistently high level of regulatory burden in Turkey, designing policies around the needs of SMEs is especially important (TURKSTAT, 2021^[33]).

Turkey's performance in this dimension has remained largely the same since the previous assessment, as its institutional framework for SME policies was already strong (Table 19.9).

Table 19.9. Turkey's scores for Dimension 3: Institutional and regulatory framework for SME policy making

| Dimension | Sub-dimension | Thematic block | Turkey | WBT average |
|---|--|------------------------------------|-------------|-------------|
| Dimension 3: Institutional and regulatory framework for SME policy making | Sub-dimension 3.1: Institutional framework | Planning and design | 4.60 | 4.28 |
| | | Implementation | 4.75 | 3.96 |
| | | Monitoring and evaluation | 4.65 | 3.81 |
| | | Weighted average | 4.69 | 4.03 |
| | Sub-dimension 3.2: Legislative simplification and regulatory impact analysis | Planning and design | 4.40 | 3.84 |
| | | Implementation | 3.60 | 3.47 |
| | | Monitoring and evaluation | 3.25 | 2.95 |
| | | Weighted average | 3.77 | 3.48 |
| | Sub-dimension 3.3 : Public-private consultations (PPCs) | Frequency and transparency of PPCs | 3.24 | 4.00 |
| | | Private sector involvement in PPCs | 4.25 | 3.92 |
| | | Monitoring and evaluation | 3.24 | 3.10 |
| | | Weighted average | 3.64 | 3.79 |
| Turkey's overall score for Dimension 3 | | | 4.10 | 3.79 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Turkey has begun implementing the KOSGEB Strategic Plan (2019-2023), which constitutes the main policy framework for the development of SMEs. Efforts to combat the informal economy among SMEs have also continued. Overall, the implementation of the policy recommendations has progressed strongly. However, no progress has been made in improving the use of regulatory impact analysis (RIA) and PPCs, which both lack frameworks to ensure their effective and consistent use (Table 19.10).

Table 19.10. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 3

| 2019 recommendation | SME Policy Index 2022 | |
|--|--|-----------------|
| | Main developments during the assessment period | Progress status |
| Improve the quality of legislative simplification actions | Turkey has continued implementing its Reduction of Bureaucracy and Simplification of Legislation (BAMS) initiative but has not yet improved its monitoring and evaluation. Objectives related to improving the business environment that are part of the Plan for Tackling the Informal Economy are monitored through the tax administration's annual reports. | Moderate |
| Enforce the effective application of regulatory impact analysis (RIA) | While a framework for RIA exists and RIA is being conducted on a case-by-case basis for some legislation, a mechanism to ensure its consistent use has not yet been developed. | Limited |
| Introduce a formal requirement to conduct public-private consultations (PPCs) and enforce their effective application | While PPCs are conducted in Turkey for some legislation and policies (such as the SME policy framework or the Eleventh Development Plan), a formal requirement to conduct consultations with stakeholders is still lacking. As such, no mechanism exists to ensure the consistent use of PPCs and measure the level of stakeholder engagement. | Limited |

The implementation of SME policies and policies to reduce the share of the informal economy has continued

Turkey has made changes to the institutional framework of its SME policies since the last assessment. The main objectives and orientations of previous strategic documents, such as the last SME Strategy (2015-2018), were integrated into the KOSGEB Strategic Plan (2019-2023). The KOSGEB Strategic Plan provides a comprehensive SME policy framework and is aligned with overarching documents, such as the Eleventh Development Plan (2019-2023) and sectoral strategies, such as the Medium-Term Programme for 2020-2022, the Industry and Technology Strategy 2023, and the 2023 Turkey Export Strategy Action Plan, which also set goals related to the development of SMEs. The KOSGEB Strategic Plan (2019-2023) contains measures related to promoting innovation in SMEs, exports, supporting and promoting entrepreneurship, and supporting skills development and inter-SME collaboration. The Strategic Plan has a robust monitoring framework, as goals and activities are monitored through KOSGEB's annual activity report. Implementation of the Strategic Plan is advancing well, since as of 2021, 89% of its targets were achieved, and 78% of performance indicators were satisfied (KOSGEB, 2021^[61]). Outside of KOSGEB's framework, the implementation of SME policies is monitored by the Presidency.

Regarding efforts to combat the informal economy, Turkey adopted its Strategy and Action Plan for Tackling the Informal Economy (2019-2022), in continuity with the previous Programme for Reducing the Informal Economy (2014-2018). Implemented under the leadership of the Revenue Administration, this policy framework is centred on five objectives: 1) raising voluntary compliance; 2) increasing audit capacity; 3) reviewing legislation; 4) developing inter-institutional data sharing; and 5) raising awareness on the importance of countering the informal economy across society. Regarding SMEs, the Action Plan focuses on increasing voluntary compliance by providing incentives for compliant and timely taxpayers, as well as raising awareness on the importance of fair competition through educational activities and consultancy services, co-ordinated by KOSGEB. While providing a comprehensive set of goals and actions to reduce informality, concrete performance indicators against which progress can be measured are lacking (European Commission, 2021^[62]). KOSGEB has made efforts to raise awareness on the importance of fighting the informal economy through providing 400 trainings since 2019, as well as consultancy services to entrepreneurs. To strengthen auditing capacity and data sharing between institutions, a joint project co-funded by EU Instrument for Pre-Accession Assistance funds was approved in 2019 and was approximately 40% complete as of February 2021 (Revenue Administration, 2020^[63]).

Efforts to improve the business environment have been focused on the digitalisation of procedures, and there is less focus on SMEs

Given that the KOSGEB Strategic Plan (2019-2023) covers its own strategic orientations and priorities for support to SMEs, it does not contain a framework for legislative simplification with the aim of improving the business environment for SMEs, an element that the previous SME strategy had. As mentioned previously, reviewing legislation is part of the Revenue Administration's Plan for Tackling the Informal Economy, with objectives focusing on identifying and amending legislation causing informality (Revenue Administration, 2019^[64]).

The BAMS initiative, launched in 2014, is ongoing. Previously under the responsibility of the Prime Minister's Office, with the introduction of the presidential system in October 2019, the initiative was placed under the responsibility of the Digital Transformation Office of the Presidency, with an increased emphasis on continuing the digitalisation of procedures for businesses.

Despite an established framework, RIA is not being conducted to inform the design of policies in a systemic manner

Guidelines for conducting RIA have existed in Turkey since 2007 and include the assessment of SME aspects when relevant. However, the RIA threshold remains the same as in the previous assessment (an expected impact of at least TRY 30 million (approximately EUR 1.7 million)), therefore excluding a large share of legislation from the RIA requirement. Moreover, in practice, as outlined in the OECD *Regulatory Policy Outlook*, RIA is not being conducted for primary legislation and is only conducted for subordinate legislation on an ad hoc basis, at the discretion of the Presidency (OECD, 2021^[65]).

The lack of effective and consistent use of RIA is a detriment to evidence-based policy making in Turkey and negatively affects the degree to which the government can measure the expected impacts on SMEs when designing policies. RIAs that are conducted are not shared with stakeholders, nor are they publicly available, limiting government transparency and accountability.

The SME agency allows for the representation and engagement of SMEs; however, a framework for the consistent and inclusive use of public-private consultations is lacking

SMEs in Turkey are primarily engaged in the policy-making process through KOSGEB. SMEs can be represented through business associations, whose presence in KOSGEB's General Assembly covers a wide array of sectors and branches of activity. KOSGEB also proactively engages the business community when developing policies or taking decisions. For instance, when developing its Strategic Plan (2019-2023), feedback from stakeholders was integrated through a survey; more than 76% of respondents were SMEs.

While SMEs are primarily engaged through KOSGEB's framework, and the business community is consulted regularly (for the development of major policy documents such as the Eleventh Development Plan), these consultations take place on an ad hoc basis and do not constitute a framework for the regular conduct of PPCs in the policy-making process. Such a framework is lacking in Turkey, as there are no formal requirements to engage stakeholders in PPCs at any stage of the policy-making or legislative process (European Commission, 2021^[62]; OECD, 2021^[65]). The absence of a framework affects the level of consistency and accessibility of PPCs to the business community, as there is no guarantee that businesses will be invited and represented in PPCs openly and inclusively, as participants in PPCs are invited at the discretion of the institutions. This also limits the government's accountability to businesses due to the absence of regular and transparent monitoring of consultations where stakeholders' comments are revealed to the general public.

The way forward for Dimension 3

- **Ensure and enforce the effective application of regulatory impact analysis.** There is significant room for improvement in ensuring the effective use of RIA in Turkey's policy-making process. The Presidency, as the primary centre-of-government institution, should establish a quality control mechanism through which it can ensure the consistency and quality of RIA conducted by different line ministries. The next step would be to establish regular monitoring and evaluation of RIA done by different line ministries, which the Presidency can report on, to identify the main areas on which to focus efforts to improve quality and capacity.
- **Develop a framework for public-private consultations and ensure their consistent application.** Turkey should establish a mandatory legal framework for conducting PPCs in its policy-making and legislative processes. Such a framework should make conducting PPCs a mandatory part of these processes and establish criteria for the duration, inclusiveness and transparency of PPCs. A centre-of-government institution can then be given the role of co-ordinating and ensuring the effective conduct of PPCs by different line ministries. Establishing a central online portal listing all ongoing PPCs as well as reports on past PPCs would greatly improve their accessibility and transparency.

Operational environment for SMEs (Dimension 4)

Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which SMEs must navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government. Complex requirements imposed on businesses have adverse impacts on SMEs' ability to operate, take advantage of market opportunities efficiently and grow.

For an economy like Turkey, where SMEs make up the vast majority of businesses and produce the largest share of value added to the economy, increasing the availability of digital services for SMEs, including business registration and licensing, as well as improving the efficiency of administrative procedures, including tax compliance procedures, will be key to improving the operational environment by saving time and resources.

Turkey's performance in delivering digital government services has improved since the last assessment (when it was 3.92), chiefly driven by the increased availability of digital government services and strengthening of inter-institutional co-ordination (Table 19.11). While limited progress has been achieved regarding company registration, Turkey's performance in business licensing has increased (from 2.43 in 2019 to 3.45 in 2022).

Table 19.11. Turkey's scores for Dimension 4: Operational environment for SMEs

| Dimension | Sub-dimension | Thematic block | Turkey | WBT average |
|---|---|--|-------------|-------------|
| Dimension 4: Operational environment for SMEs | Sub-dimension 4.1: Digital government services for SMEs | Planning and design | 4.75 | 4.28 |
| | | Implementation | 4.20 | 3.33 |
| | | Monitoring and evaluation | 3.00 | 2.48 |
| | | Weighted average | 4.07 | 3.40 |
| | Sub-dimension 4.2: Company registration | Planning and design | 3.60 | 4.42 |
| | | Performance | 3.60 | 3.93 |
| | | Monitoring and evaluation | 4.00 | 4.06 |
| | | Weighted average | 3.76 | 4.18 |
| | Sub-dimension 4.3: Business licensing | License procedures | 3.66 | 3.88 |
| | | Monitoring and streamlining of license system | 3.23 | 3.73 |
| | | Weighted average | 3.45 | 3.80 |
| | Sub-dimension 4.4: Tax compliance procedures for SMEs | SME tax compliance and simplification procedures | No scores | |
| | | Monitoring and evaluation of SME-specific tax measures | | |
| Turkey's overall score for Dimension 4 | | | 3.88 | 3.64 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Throughout the current assessment period, Turkey advanced the development and availability of digital government services through the government's online portal. Institutional co-ordination and political legitimacy of digitalisation reforms were strengthened by reorganising responsibilities, giving a more prominent role to the Digital Transformation Office of the Presidency. Limited developments have been noted in optimising company registration since the last assessment. While one-stop shops for company

registration are available across Turkey, the process is not yet fully available on line. Guidelines for business licensing are clear but not yet centralised on an online portal. Important progress has nevertheless been achieved in simplifying retail licensing, thanks to a single online entry point for applications. Reforms are underway to further streamline licensing processes, in particular those related to investments. While taxes on labour income represent a high tax burden for self-employed workers, they can benefit from two simplified tax regimes that reduce their tax burden and their tax compliance costs. There are only limited tax simplification measures for SMEs, although the development of digital services for tax purposes has decreased tax compliance costs (Table 19.12).

Table 19.12. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 4

| 2019 recommendation | SME Policy Index 2022 | |
|---|---|-----------------|
| | Main developments during the assessment period | Progress status |
| Continue implementing a digital authentication system or e-signatures to widen the range of e-services | The use of e-signatures for digital services has not yet been fully established due to delays in rolling out electronic ID cards. However, the government has put in place other means for ensuring access to digital services requiring a high level of security, such as signing in using a bank account. | Moderate |
| Make the company registration process fully on line | No progress has been achieved in further digitalising the company registration process. | No progress |
| Continue to centralise the licensing process through PERBIS | Retail business licensing was greatly simplified with the establishment of the PERBIS platform in 2019 (with its pilot project in 2018). The portal is a single online entry point for various applications and is fully operational. | Strong |
| Improve the monitoring and evaluation of simplified tax regimes | The Turkish Revenue Administration conducts a Taxpayer Satisfaction Survey every two years, but an in-depth evaluation of the simplified tax regimes is lacking. The survey could be complemented with a more in-depth analysis of the effective tax burden that SMEs face using business tax returns data. | Limited |

The policy framework for digital government reforms has been reorganised, and inter-institutional co-ordination strengthened

Turkey completed the implementation of its National E-Government Strategy (2016-2019), the primary policy document for developing digital government services. As a result, progress has been made in increasing the availability and use of digital government services (the share of enterprises with ten or more employees using digital services has already risen to more than 90% by 2017) and the interoperability of government data (Ministry of Development, 2018^[66]). With the expiration of this strategy, objectives for developing digital government were integrated into Turkey's Development Plan, a much broader strategic document. Currently, the implementation of the Eleventh Development Plan (2019-2023) is monitored and co-ordinated through the Presidency's annual work programmes.

Turkey's Eleventh Development Plan (2019-2023) contains measures and objectives related to further developing digital government services. Measures include continuing the digitalisation of existing public services and ensuring their accessibility through the government portal, as well as focusing on "user-oriented service delivery" (Presidency of Turkey, 2019^[37]). Focusing on user-oriented service delivery is particularly important, as the needs of businesses should be kept in mind when designing digital government services, rather than simply seeking to transpose existing services into a digital format. While the Eleventh Development Plan (2019-2023) sets targets and objectives for digital reform policies, it does not set a concrete action plan or a set of activities that can be monitored (the activities and goals are later articulated through the Presidency's annual work programmes).

The Eleventh Development Plan (2019-2023) also contains measures related to strengthening Turkey's governance structure for digitalisation reforms and improving its efficiency (Presidency of Turkey, 2019^[37]). A Digital Transformation Office was established in July 2018 within the Presidency of the Republic, with the goal of steering digital transformation efforts in line with the presidential system of government introduced in 2018. The Digital Transformation Office co-ordinates the digital government reform efforts of public institutions and plays a leading role in several projects, including in the development of the government service portal, together with Turksat – Turkey's communications satellite operator, driving the digitalisation of public services and strengthening the political legitimacy for the horizontal steering of these processes. Once a month, the Digital Transformation Office convenes Digital Turkey meetings with stakeholders from the public and private sectors to define priorities, adopt solutions and assign tasks to individual institutions. Despite its effectiveness in co-ordinating the work of institutions, this highly vertical approach runs the risk of creating an over-reliance on central initiatives, with most institutions lacking their own digital government strategies. The Digital Transformation Office is currently working on a new Digital Transformation Strategy for 2022, which should set a broad strategic vision for the digital transformation of the economy.

Implementation and availability of digital services for businesses have advanced, but monitoring and evaluation could be improved

Turkey has had a functioning online portal for digital services since 2008 (<https://www.turkiye.gov.tr>), which serves as a one-stop-shop for digital services for citizens and businesses. The number of services on the portal is increasing, having almost doubled since 2018, with around 3 000 services available in 2018 and 6 390 in 2022.

Among the key services for businesses that can be fully completed on line are declaring and paying taxes and social security contributions (SSCs), certain services related to the cadastre as well as applying for SME support programmes. Turksat manages the online portal and ensures the basis for the delivery of digital government services according to common standards, in co-ordination with the relevant institutions. However, despite recognising the need to design and deliver services according to users' needs, the predominant approach thus far has been to concentrate on migrating services to the online government portal. In this regard, there is room for improvement regarding the overall service design culture in some institutions.

Monitoring and evaluation of business satisfaction with available digital services is conducted through surveys carried out by individual administrations (for example, the Turkish Revenue Administration for measuring satisfaction with digital services for filing taxes and KOSGEB for measuring satisfaction with SME support programmes and related services). However, these surveys are periodic, and while they measure user satisfaction at a given point in time for a given service, they do not allow the government to paint a comprehensive picture of satisfaction with digital services across different administrations. Statistics on the use of services are collected. However, there is room for improvement regarding the differentiation of users (businesses vs citizens and, in particular, SMEs vs larger companies) and the collection of production-related data such as usage patterns. The development of the Electronic Public Information Management System (KAYSIS) is a strong positive step toward the development of a continuous, agile and iterative system for the performance monitoring of services. KAYSIS collects data on service use and delivery times.

The key enablers of digital government services are being progressively strengthened, with significant room for improvement regarding open data

Turkey's online portal for digital services also serves as an interoperability platform for government institutions and allows for the exchange of data between institutions. However, more could be done to promote the exchange of data between public institutions, in line with a more general framework to develop a data-driven public sector, which is currently absent.

The rollout of electronic ID cards, facilitating access to electronic signatures by citizens and businesses, which was initially planned for completion by 2020, has been delayed and is now slated for 2022. Turkey has also made strides in developing a federated identity²³ model, where users can sign in and complete services requiring a similar level of security using several means, such as their personal citizen number, mobile signature or signing in using their bank account. While such a model presents advantages in terms of allowing for the use of digital identities across borders, it is mainly useful for individuals in their capacity as natural persons. Therefore, care should be given not to alienate businesses, especially SMEs (for whom the lines between personal and professional use are often blurred) when further developing the digital identity system.

In the area of open data, Turkey is lagging behind other WBT economies, as it has not yet established an open data portal and is currently working on establishing the necessary legal framework, as envisaged in the Eleventh Development Plan (2019-2023). The adoption of standards for open data publishing (annotation, formatting, updating) is essential for allowing its reuse by businesses for the creation of innovative products and services. More broadly, a framework for building a data-driven public sector is needed to establish a broader vision and context to make the most out of Turkey's potential for embracing open data.

Company registration processes are clear and well-designed, albeit not available on line

Limited progress has been achieved since the last assessment in optimising Turkey's company registration framework. Entrepreneurs can register their companies in 238 trade registry directorates located in chambers of commerce, which constitute one-stop-shops. All company registration-related administrative processes (setting up a new company, opening a branch, commercial pledges, liquidations and amendments on articles of association) are stored in the electronic Central Commercial Registration System (MERSIS), which is supervised by the Ministry of Trade. However, company registration has not yet been fully digitalised; entrepreneurs must be physically present at the Trade Registry Directorate to register their company, pay the relevant fees and get a MERSIS identification number. In addition, all companies must complete the company's tax registration at the tax office and register employees with social security at the social security institution at different windows. They receive a specific identification number for each procedure. Limited liability companies and corporate foundations must deposit 0.04% of their capital at the Competition Authority (Investment Office, n.d.^[67]).

The time required to start a business remains similar to that of the previous assessment. According to the World Bank's *Doing Business* report, seven days and seven procedures are required to start a business in Turkey (World Bank, 2020^[68]). Costs for company registration remain high, at 6% of income per capita, but are lower than in the previous assessment (10.6%) (World Bank, 2020^[68]).

Monitoring and evaluation mechanisms of company registration are in place and under the responsibility of the trade registry directorates, supervised by the Ministry of Trade. Relevant statistics are publicly available on the number of entities in terms of company size and sector of activity and take enterprises' feedback into account (through the Presidency's Communication Centre [CIMER]). Monitoring at the local level is also undertaken by the Turkish Municipalities Union.

Information on business licences is clear but lacks a centralised approach

The Regulation on Business Licensing serves as written guidance on the procedure and relevant rates of obtaining a licence. While licensing procedures are clear, there is no centralised portal that provides entrepreneurs access to all licences. The overall process remains fragmented, as each ministry and municipality is responsible for issuing licences according to their competences. Nevertheless, retail business licensing has been greatly simplified with the establishment of the PERBIS platform, which started as a pilot project in 2018 and became fully operational in 2019. The platform serves as a centralised Retail Information System, creating a single online entry point for various applications, including business

licensing. The number of licences stored on the platform should be increased twofold by 2023 as compared to 2018, when it was 70.

Delays in obtaining a licence can be costly to entrepreneurs as they add uncertainty and additional costs to much-needed business transactions. According to the latest data available, 17 days are required to obtain an import licence, 18 for an operating licence and 25 for a construction permit, the first one being higher than the WBT average (11, 24 and 72 days, respectively) (World Bank, 2019^[69]).

Turkey plans to undertake a number of reforms related to business permits and licences in line with the Eleventh Development Plan (2019-2023). First, processes carried out by public institutions for permits and licences and documents and fees required for their application will be reviewed and rationalised in compliance with the cost-recovery principle. Additional reforms are planned to facilitate the licensing process related to investments. In this regard, an information system should be introduced to be established to ensure fast, user-friendly, cost-effective processes for business licensing for investments. To enhance co-ordination and information sharing when issuing licences, co-ordination units should be established in relevant ministries and will provide regular contact with the Presidency Investment Office. In addition, data collection and studies have been initiated to prepare sectoral investment road maps to guide investors on the licensing procedures.

Turkey introduced a comprehensive set of tax measures to mitigate the impact of the COVID-19 crisis and to support the economic recovery

The measures that were introduced to mitigate the impact of the COVID-19 crisis and to support the economic recovery were available to all businesses, including SMEs. The filing and payment of the personal income tax (PIT), corporate income tax (CIT), SSCs and VAT were deferred (Ministry of Treasury and Finance, 2020^[70]). Penalties for late tax payments could be paid in 18 instalments. Turkey has temporarily reduced its VAT rate on products such as food and beverages, passenger transportation, and maintenance and repair activities. Overall, these measures are broadly aligned with the measures taken in economies around the world, except for the reduction in VAT rates, which in most other economies mainly targeted products related to dealing with the pandemic.

Taxes on labour income put a high tax burden on self-employed workers

Self-employed entrepreneurs are subject to a progressive PIT rate schedule, with rates ranging from 15% to 40%. In addition, the self-employed pay SSCs at a rate of 34.5% levied on their gross income (but not less than the minimum wage) up to a ceiling of 7.5 times the minimum wage (IBFD, 2021^[71]). The high burden created by the PIT and SSCs could incentivise self-employed workers to under-declare their income or to operate fully in the informal sector. This puts tax revenues under pressure and creates a tax-induced competitive advantage for tax cheaters. It requires strong tax enforcement strategies from the Turkish Revenue Administration and a solid tax compliance culture among the self-employed. To the extent that self-employed entrepreneurs do not contribute or contribute less than what they should, they will be entitled to lower social protection and replacement income (e.g. low pensions) in the future.

The PIT and employer SSCs incentives are available to SMEs and large businesses. Since 2016, start-ups with a manager younger than 29 years old are granted a three-year PIT exemption up to a maximum of TRY 75 000 (approximately EUR 4 250). In addition, R&D allowances that are granted to businesses that introduce new technology are not included in taxable personal income (IBFD, 2021^[71]). There are multiple incentive schemes in place that lower PIT rates or employer SSCs, which reduce the tax burden in case employers hire workers with a service contract, for instance. Also, self-employed entrepreneurs can benefit in certain cases from tax (including SSC) reductions.

Businesses benefit from a reduction in their corporate or PIT rate when they pay their liabilities on time

The standard CIT rate in 2021 was 25% and is set to decrease to 23% in 2022 and 20% from 2023 onwards. Since 2018, businesses that have paid their taxes on time for the previous three years can benefit from a 5% reduction in their CIT liabilities (i.e. they pay 95% of their CIT or PIT – within the PIT, it only applies to personal business income – liabilities they should have paid without this tax incentive), provided that the amount of the reduction does not exceed TRY 2 million (approximately EUR 113 000) annually for 2022 (IBFD, 2021^[72]). This measure aims to stimulate and reward tax compliance. The CIT incentive does not apply to businesses that operate in the banking, pensions and insurance sector nor to investment funds.

Self-employed workers can benefit from two simplified tax regimes

Small businesses are exempt from income tax and VAT if they meet a number of conditions. In 2022, businesses with annual purchases below TRY 200 000 (approximately EUR 13 000), sales below TRY 320 000 (approximately EUR 18 000) and gross business revenue below TRY 100 000 (approximately EUR 5 600) are exempt from income tax and VAT, but only if their annual rental costs are below TRY 16 000 (approximately EUR 900) within a metropolitan area or TRY 10 000 (approximately EUR 560) elsewhere. In addition, taxpayers that earn commercial income can, if they meet certain conditions, benefit from a simplified accounting/ bookkeeping system. Finally, tradespeople and artisans without a permanent establishment and who do not operate a commercial or industrial business activity are exempt from PIT.

The tax system creates an incentive for businesses to incorporate

As labour income is taxed at relatively high rates, owner-managers of closely held corporations would want to receive their remuneration in the form of lower-taxed capital income instead of higher-taxed labour income. While labour income is taxed at high SSCs and under the PIT, capital income is taxed at the CIT rate, and the after-tax profits that are distributed are taxed at a withholding tax rate of 15% (IBFD, 2021^[72]). This differential tax treatment results in a significant tax-induced incentive for businesses to incorporate, which comes at a significant tax revenue cost for the government. As corporations face higher non-tax costs than unincorporated businesses, the tax-induced incorporation incentive may create additional costs for SMEs. Turkey could consider rebalancing the tax burden for unincorporated and incorporated SMEs, for instance, by lowering the PIT and SSCs.

There are only limited tax simplification measures

In 2021, the standard VAT rate was 18%, and there were two reduced VAT rates of 8% and 1%. As there is no quantitative threshold for mandatory registration for VAT, all businesses, except those that are explicitly exempt, are, in principle, VAT liable (IBFD, 2021^[72]). For instance, businesses with a PIT exemption, which is subject to the simplified tax regime, and farmers benefit from a VAT exemption. Economies around the world often exempt small businesses from VAT according to a quantitative threshold, as compliance costs associated with VAT could be burdensome.

Simplified tax administration procedures and the development of e-services for tax purposes have decreased tax compliance costs for SMEs

There are several simplified tax administration procedures for self-employed entrepreneurs, but not for incorporated SMEs. Self-employed entrepreneurs that fall under the lump-sum tax regime are not required to keep books, file a tax return or make PIT prepayments. SMEs subject to the CIT must make quarterly tax prepayments like other businesses.

Turkey has developed e-services for tax purposes (Tax Communication Center, 2017^[73]), which can significantly decrease tax compliance costs for SMEs. E-filing for PIT purposes is possible for all businesses. The electronic signature that is used to file tax returns on line is free of charge only for SMEs. The Turkish Revenue Administration introduced a mobile SME-specific app.

The way forward for Dimension 4

- **Improve monitoring and evaluation systems for digital government services.** Turkey should look to better measure the use of government services available through the online portal by continuously developing monitoring mechanisms for individual services, which could be done through the expansion of the KAYSIS system. To go a step further, production-related data (such as usage patterns) could be collected to gather information on users' overall experience when using digital services. Data should be disaggregated by size class of enterprises, allowing for the measurement of SME-specific satisfaction and usage patterns to identify whether SMEs experience particular difficulties in using digital services that larger companies do not.
- **Fully digitalise the company registration process.** Turkey should digitalise and integrate company registration as an online service, which would regroup all the required procedures. It would save time and reduce costs for entrepreneurs and improve access for smaller firms operating at a distance from the Registry's offices. Electronic registration also improves transparency and information sharing and makes it easier to introduce new online services later on.
- **Centralise all business licences under one portal, following the model of PERBIS.** A single online entry point for all licences would increase transparency, speed up processes, help carry out effective monitoring and streamlining, and lower administrative burdens and costs for SMEs. This could also be achieved by integrating licensing services on the government digital services portal.
- **Encourage businesses to grow by reducing the tax burden of unincorporated SMEs under the regular regime and assessing the potential hurdles to growth that the simplified tax regimes create for SMEs.** Information campaigns on the available tax incentives targeted at SMEs could ensure increased take-up.
- **Develop a strategy to ease tax administration procedures for SMEs by assessing the remaining hurdles,** including for VAT, for instance, through business surveys. Turkey could evaluate whether it wants to introduce additional measures to facilitate VAT compliance for SMEs. It could also evaluate whether the current bookkeeping rules for incorporated SMEs lead to high compliance costs and whether they could be simplified. Turkey could also assess to which extent digital services could be further developed to facilitate tax compliance for SMEs and other businesses.

Support services for SMEs (Dimension 5a)

Introduction

SMEs are more prone than larger companies to suffer from a lack of managerial and technical skills, suboptimal technology, limited access to markets and information, and a lacking entrepreneurial skillset, which can hinder their growth. Business support services (BSSs) provided or supported by the government – ranging from general information and advice to training, mentoring and technical services – seek to address these challenges, thus providing a tool to boost SME productivity. While the COVID-19 pandemic had negative effects on the provision of BSSs across the globe, particularly those involving direct contact with SMEs, it also provided an opportunity to reduce the cost of participation for SMEs by moving part of the activities on line.

BSSs play a crucial role in Turkey, which boasts over 3 million SMEs.²⁴ Facing increasing competition, SMEs need accessible and targeted BSSs to engage in innovative activities and boost their skills development. Comprehensive support, which should include both financial and non-financial measures available to SMEs, has proven most effective in ensuring high productivity and, thus, growth of Turkish SMEs. SMEs were particularly vulnerable to the effects of the COVID-19 pandemic; continuous, far-reaching support to ensure their viability and development is of great importance.

Turkey remains a regional leader in providing both public and private BSSs (Table 19.13). Since the last assessment cycle, during which Turkey scored 4.42, the economy improved under both sub-dimensions, outperforming its regional peers. This improvement is partially due to numerous new strategies emphasising public SME support and their successful implementation. Turkey also introduced a formalised system to assess the impact of support provided and thus advanced in monitoring and evaluation.

Table 19.13. Turkey's scores for Dimension 5a: Support services for SMEs

| Dimension | Sub-dimension | Thematic block | Turkey | WBT average |
|--|--|---------------------------|-------------|-------------|
| Dimension 5a: Support services for SMEs | Sub-dimension 5a.1: BSSs provided by the government | Planning and design | 5.00 | 4.17 |
| | | Implementation | 4.86 | 4.24 |
| | | Monitoring and evaluation | 4.33 | 3.88 |
| | | Weighted average | 4.80 | 4.15 |
| | Sub-dimension 5a.2: Government initiatives to stimulate private BSSs | Planning and design | 5.00 | 4.63 |
| | | Implementation | 4.70 | 4.21 |
| | | Monitoring and evaluation | 4.60 | 3.84 |
| | | Weighted average | 4.77 | 4.26 |
| | Turkey's overall score for Dimension 5a | | 4.78 | 4.20 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Turkey's strategic framework for BSS provision is well developed, containing a variety of support programmes implemented through an array of parallel strategies. The economy moderately advanced in creating a roadmap to streamline support by establishing a new monitoring and evaluation system to ensure programme comparability. Similarly, considerable progress has been observed in reviewing the support available to SMEs, as the monitoring and evaluation system is structured and formalised, facilitating beneficiaries' feedback collection and the ability to identify any possible inefficiencies. SMEs in the economy are supported both through public and private BSSs, with the latter being at the centre of

new programmes prioritising the establishment of business incubators and accelerators. In addition, Turkey amplified its co-financing support for SMEs and introduced dedicated BSS programmes to assist SMEs in overcoming the COVID-19 pandemic (Table 19.14).

Table 19.14. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 5a

| 2019 recommendation | SME Policy Index 2022 | |
|--|--|-----------------|
| | Main developments during the assessment period | Progress status |
| Improve the evaluation of support programmes' (long-term) effectiveness by conducting regular impact analyses | In 2019, Turkey introduced a formalised monitoring and evaluation system, which entails structured feedback collection from beneficiaries and an elaborate methodology to successfully monitor the provided BSSs' outcome and impact. | Strong |
| Consolidate and streamline the SME support measures | Although complementarity and coherence of SME support programmes are emphasised by the government, room for improvement remains. Due to the sheer size of the economy and the number of programmes available, it is a challenge to evaluate all of them together and ensure comparability to streamline SME support. Turkey's SME Development and Support Organisation, KOSGEB, has a new formalised monitoring and evaluation system that serves as a good basis for starting the work on identifying inefficiencies in BSS programmes and consolidating SME support. | Moderate |
| Stagger the reimbursement of funds under co-financing programmes | The government increased the co-financing threshold to 90% in some programmes; however, it is still contingent on presenting extensive documentation, which can be prohibitive to microenterprises. For BSSs approved by KOSBEG, SME beneficiaries can only apply for support payments upon the completion of the support programme. | Moderate |

With a strong institutional framework for public BSSs, their uptake significantly increased, exceeding cautiously set targets

The government provision of BSSs in Turkey is well-regulated and benefits from a comprehensive legal and strategic framework. There is a number of strategies that govern promoting entrepreneurship and supporting SMEs: the KOSGEB Strategy Plan (2019-2023), the Eleventh Development Plan (2019-2023), the Medium-Term Programme (2020-2022), the Industry and Technology Strategy 2023, and the 2023 Turkey Export Strategy Action Plan. All strategies include measurable targets, provide a list of measures and an implementation timeline to achieve set SME support goals, and are based on stakeholder analysis.

The institutional framework is strong, with KOSGEB as the main body responsible for implementing SME support goals, with assistance from the Ministry of Trade, the Ministry of Industry and Technology and TUBITAK. KOSGEB's support²⁵ ranges from training to technical assistance for SMEs at every stage of development. Chambers of commerce provide consulting services, while the Ministry of Trade offers additional training and technical support initiatives. The regulatory structure for public provision of BSSs is comprehensive and has a wide, across-economy reach with 26 development agencies²⁶ throughout Turkey and Investment Support Offices within their purview.

Turkey has well-developed systems in place, which allow for regular and consistent assessments of SMEs' training needs. Regular research of the supply and demand for BSSs among SMEs is systematic, formalised and regulated by KOSGEB's Information Management and Decision Support Department. The department is tasked with establishing a framework to carry out studies on SME needs relating to training and support services, as well as to survey regional institutions on their capacity to collaborate and support SMEs. There is evidence of the results of these analyses being translated into future support programme design.

Owing in part to the aforementioned assessments of the demand and training needs of SMEs, KOSGEB has seen an increase in the uptake of its BSS programmes. The number of supported SMEs in 2020 was 65 359, which more than doubled the planned number of 30 853 for that year. The goal for 2021 was set at 39 862 SMEs and was exceeded by 47.5% (KOSGEB, 2021^[74]). The current prediction for 2022 is set to 37 838; however, given Turkey's developed infrastructure for the public provision of BSSs, it is expected to be exceeded again, pointing to a conservative method of setting strategic targets. (KOSGEB, 2021^[75]).

KOSGEB formalised its monitoring and evaluation of governmental BSSs programmes

Public BSSs are thoroughly monitored and evaluated from the angle of effectiveness and impact, although any policy adjustments made on the basis of such evaluation are not communicated to the public. Since the previous assessment, KOSGEB established a formalised mechanism for assessing the impact of all support programmes. The legal structure of the system starts with project design guidelines, encompassed in the Support Programme Design Directive, which sets the basic characteristics of support schemes and their target beneficiaries. It is followed by the Support Programme Monitoring and Evaluation Directive and Guidelines document, which dictates stages and aspects subject to evaluation. The new mechanism also defines the scope of sources of data collection through interviews, focus groups, surveys and case studies. The goal of establishing a formal structure for monitoring and evaluation was to identify inefficiencies in publicly provided BSSs and streamline the support accordingly. The results of assessments are intended to be included in future policy and BSS design.

The mechanism has already been implemented to evaluate five of KOSGEB's support programmes. The results of the assessments were then submitted to policy makers in charge of designing support programmes to be used in future BSS planning in order to improve its quality and better target it to SME needs. In addition, all development agencies are obliged to prepare an assessment report of implemented initiatives, which is publicly available on their website after each support programme closes.

By reinforcing its institutional framework for supporting private BSS provision, Turkey has positioned itself as the leader in the region

The entrepreneurship ecosystem has been steadily improving since the last assessment cycle. Private BSS provision is encouraged and supported by the Turkish government through new strategic documents such as Strategy Plan for 2020-2024. With the latter, the Ministry of Industry and Technology envisages strengthened infrastructure support, regional co-operation, competitiveness and access to finance for BSSs. The goal is to develop entrepreneurship with increased capacity for growth and integration into global markets as well as improve the business environment, conducive to research, innovation and co-operation between industrial enterprises, technology suppliers and other stakeholders, shifting to a higher-technology economy (Ministry of Industry and Technology, 2020^[76]). The strategy has measurable performance indicators, including a target for the establishment of Digital Transformation Centres and Technology Development Zones (TDZs), which aim to provide a conducive physical infrastructure for newly established entrepreneurs and SMEs to engage in training and technology transfers. TDZs are envisaged to be formed in collaboration with KOSGEB, TUBITAK and relevant RDAs.

By reinforcing the ecosystem for entrepreneurship and the provision of private BSSs, Turkey has positioned itself as a leader in the region, strengthening the infrastructure for SMEs at early stages of development.

Though the government has amplified its co-financing mechanisms for SMEs, they do not require the use of accredited consultants

SMEs in Turkey have a variety of co-financing mechanisms available to them, which can be used to enlist the assistance of private-sector consultants. Since the last assessment cycle, KOSGEB's programmes, which focus on improving SME competitiveness, allow for a 60% co-financing threshold, compared to 50%

in the last assessment cycle. In addition, if an SME fulfils predefined conditions,²⁷ that threshold can be increased up to 100%. KOSGEB is also co-financing the services related to technological incubator projects²⁸ with a 75% support rate. The RDAs have their own co-financing schemes, which provide for hiring private-sector consultants. The amounts vary depending on the agency, though they range between TRY 40 000 (approximately EUR 2 300) to TRY 90 000 (approximately EUR 5 100).²⁹

Despite developed co-financing mechanisms, with proper quality assurance systems provided by the Observation and Assessment Unit, little emphasis is put on ensuring the high quality of private BSSs. The co-financing support is not contingent on using the services of officially accredited consultants, which can leave room for suboptimal quality of support services rendered and limit the scope of monitoring private-sector consultants, which is crucial to ensure fair competition and a viable market of private BSSs. KOSGEB can provide access to a database of technical consultants, who need to fulfil education and experience requirements to be included, but the process is not formalised.

The way forward for Dimension 5a

- **Make financial support contingent on the use of accredited private-sector consultants.** Introducing this quality assurance mechanism would increase the quality of services provided privately and could contribute to improving outcomes for and the satisfaction of SME beneficiaries.
- **Intensify transparency efforts in reporting, monitoring and evaluation.** Though the monitoring mechanisms are well developed in Turkey, this practice could be effectively scaled up. A step further would be to make all information available to the public, such as the adjustments made based on the independent review of provided BSSs. This would increase transparency efforts and enhance the public's trust in government services and their efficiency.

Public procurement (Dimension 5b)

Introduction

Easy access to public procurement markets for SMEs and increasing their participation can boost competition by ensuring equal treatment and open access, thus promoting inclusive growth. Policy makers should therefore take into account the unique needs of SMEs, as they are disproportionately affected by complex procedures and often discouraged by the effort needed to take part in these procedures, all for an outcome which is unsure.

The use of the Electronic Public Procurement Platform significantly increased in Turkey during the COVID-19 pandemics. The circular *Impact of the COVID-19 Pandemic on Public Procurement Contracts* allowed time extension and contract termination of public procurement contracts based on force majeure related provisions increasing the flexibility of public procurement procedures.

Turkey scored 3.73 on this dimension (Table 19.15), which is lower than the average score in the region. It is, however, slightly higher than its score in the last assessment (3.66).

Table 19.15. Turkey's scores for Dimension 5b: Public procurement

| Dimension | Thematic block | Turkey | WBT average |
|---|---------------------------|-------------|-------------|
| Dimension 5b: Public procurement | Planning and design | 3.63 | 4.16 |
| | Implementation | 3.92 | 4.15 |
| | Monitoring and evaluation | 3.40 | 3.27 |
| Turkey's overall score for Dimension 5b | | 3.73 | 3.98 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

There have not been any major changes in the regulatory framework or in public procurement in Turkey since the last assessment. The legislative framework covering public procurement consists of the Public Procurement Law (PPL) (Public Procurement Authority, 2020^[77]), adopted in 2002 and modified numerous times ever since; the Public Procurement Contract Law; and a comprehensive set of secondary and tertiary legislation. The Eleventh Development Plan (2019-2023) lists some general activities to support SMEs. The recommendations made in the last assessment were only partially implemented, and further alignment of national legislation with EU rules is needed (Table 19.16).

Table 19.16. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b

| 2019 recommendation | SME Policy Index 2022 | |
|--|---|-----------------|
| | Main developments during the assessment period | Progress status |
| Further align national legislation with EU rules and international best practice | No changes in the national legislation have been implemented to align with the provisions of the 2014 EU Public Procurement Directives. There is no equal treatment of foreign bidders due to the application of various types of domestic preferences. | No progress |
| Reduce the administrative burden of participating in public procurements | The Electronic Public Procurement Platform facilitates access to information and participation in procurement procedures. The administrative burden of participating in public procurement has been reduced. Economic operators may submit a self-declaration as proof of their qualifications together with their bids when e-procurement is used. Only the best and second-best tenderers are then required to submit additional documents that cannot be verified on line prior to the | Moderate |

| 2019 recommendation | SME Policy Index 2022 | |
|---|---|-----------------|
| | Main developments during the assessment period | Progress status |
| | contract award decision. The public procurement legislation prohibits the contracting authority from requesting documents or setting selection criteria that impede competition. Certain documents may not be requested by contracting authorities if the contract value is below a certain threshold. | |
| Focus on correctly implementing amended public procurement provisions by providing consultation assistance and training both to contracting authorities and economic operators, especially SMEs | The Public Procurement Authority (PPA) organises seminars dedicated to SMEs. For example, it organised the “Seminar on Recent Developments on Public Procurement for SMEs” in co-operation with the Turkish Union of Chambers and Exchange Commodities in November 2020. An e-learning platform – the EKAP Academy – is also available on the PPA’s website. | Moderate |
| Constantly monitor and analyse obstacles faced by SMEs in accessing public procurement markets, including the costs of accessing legal protection in public procurement (fees paid to independent review bodies to challenge a contracting authority’s decision) | According to information provided by the Turkish authorities, the PPA analyses, in particular, SMEs’ difficulties in meeting selection criteria and applying for higher-value contracts. | Moderate |

Public procurement is a strategic tool to increase domestic production

Turkey’s main strategic document, the Eleventh Development Plan (2019-2023), states that “to increase domestic production in priority sectors, the public procurement system will be used as a leverage”³⁰ and “domestic production will be improved through public procurement and regulations”.³¹ The Eleventh Development Plan (2019-2023) also intends to increase domestic value added in the information and communications technology (ICT) sector “through public procurements and provisions incorporated into the authorisation contracts signed by the government with private operators.” Accordingly, the scale and qualifications of the services required by public institutions are associated with the conditions to be satisfied by the firms that can provide these services, and a sound competitive environment should be established to allow for the development of SMEs and start-ups.³² Regarding specific activities related to public procurement, the document mentions, among others: the elaboration of standard guidelines, an emphasis on the quality of services, alternative methods of procurement for commonly consumed material groups (in the health sector), online publication of procurement opportunities, improvement of procurement, the establishment of an electronic platform, consolidation of demand and joint procurement.

The regulatory framework, although compliant with basic EU standards, allows for domestic preferences

When awarding contracts, contracting authorities are obliged to respect the general principles of transparency, competition, equal treatment, reliability, confidentiality, public supervision, and appropriate and prompt fulfilment of needs with the efficient use of resources.³³ Contrary to the EU fundamental principles of non-discrimination and equal treatment for all economic operators, the PPL allows for preferential treatment of domestic suppliers and products. Preferential treatment is harmful for foreign companies, regardless of their size, both large and SMEs alike. Foreign SMEs might be particularly affected by provisions that exclude them from public procurement procedures, and in particular for smaller value contracts.

The PPL provides for the following types of domestic preferences:³⁴ the right to exclude foreign suppliers from public procurement procedures below a certain threshold;³⁵ a margin of price preference applied in favour of domestic suppliers in public procurement procedures for works or services;³⁶ a margin of price preference applied in favour of bidders who offer domestic goods in procurement procedures;³⁷ and the possibility (or obligation) of requiring that some or all of the products offered in the public procurement are of Turkish origin.

Large procurement contracts can be divided into smaller lots to encourage SME access to the public procurement market

The PPL foresees the customary tools for facilitating SMEs' access to public procurement. For instance, public contracts may be divided into smaller lots to facilitate the participation of SMEs. Access to public procurement is open to natural or legal persons, as well as to groups of economic operators (joint ventures) formed by natural or legal persons. The PPL provides more detailed rules on requirements that must be satisfied by these groups. Joint participation by suppliers may take the form of either a business partnership or a consortium; the difference is that members of a business partnership carry out the whole business jointly and have equal rights and responsibilities, while members of a consortium separate their rights and responsibilities according to their field of expertise, to carry out relevant parts of the business. Business partnerships may participate in any kind of procurement. However, if different types of expertise are needed, the contracting authorities should indicate in the tender documents whether or not a consortium is allowed to submit a tender.

The PPL specifies what types of documents must be submitted by economic operators as proof that they are able to perform the contract. The purpose of these documents is to demonstrate their economic, financial, professional and technical qualifications. The PPL also defines conditions under which economic operators are deemed to be ineligible and should be excluded from public procurement procedures. The tender documents (and notices or invitations relating to procurement or pre-qualification) prepared by the contracting authority should state what requirements and documents economic operators need to supply to prove their qualifications. The public procurement legislation prohibits the contracting authority from requesting documents or setting selection criteria that impede competition. Certain documents may not be requested by the contracting authority if the value of the contract is below a certain threshold.

Contractors can choose their subcontractors freely; however, they have to submit the subcontractors' names to the contracting authority for confirmation. According to the general procurement specifications, subcontractors cannot undertake all of the work covered by the contract (subcontracts cannot amount to 100% of the contract).

The administrative burden of participating in public procurement has been reduced

Economic operators may submit a self-declaration of their qualifications together with their bid when e-procurement is used. Only the best and second-best ranked tenderers are then required to submit additional documents that cannot be verified on line prior to the contract award decision. However, there is still room for reducing administrative burdens. Under the EU Public Procurement Directives, evidence of their qualifications and other supporting documents could be required only from bidders whose offers are evaluated as the most advantageous (first ranked bidders); all bidders should only need to submit a self-declaration with their offer, confirming that they satisfy the requirements imposed by the contracting authority and will provide documentary evidence when the contracting authority demands it.

According to information provided by the Turkish authorities, the current practice in Turkey is that such documents are required from both the first and the second-ranked bidder. This can probably be explained by the risk that the winner withdraws from signing the contract, and the second-best bidder is kept as a reserve contractor ready to sign the contract instead. However, a compromise seems to be possible, such

as letting the contracting authorities decide, in concrete circumstances, what documents to request and from which economic operators, with due respect to the principle of equal treatment.

The institutional set-up supports contracting authorities and economic operators in conducting procurement activities

The Public Procurement Authority (PPA, n.d.^[78]), established in 2002, is responsible for implementing public procurement rules, disseminating information about procurement opportunities, monitoring the application of the procurement rules and providing training on public procurement,³⁸ in addition to its role as the public procurement review body.³⁹ The PPA also operates the e-procurement system (EKAP, n.d.^[79]). Although it is linked to the Ministry of Finance, the PPA is administratively and financially autonomous in exercising its duties. It provides training for both the contracting authorities and economic operators. It also organises seminars dedicated to SMEs. For example, it organised the Seminar on Recent Developments on Public Procurement for SMEs in co-operation with the Turkish Union of Chambers and Exchange Commodities in November 2020.

An e-learning platform called the EKAP Academy is available on the PPA's website.

Provisions on procurement review allow economic operators to challenge the decision of a contracting authority

The public procurement review procedures are composed of three stages: 1) a complaint is submitted to the contracting authority;⁴⁰ 2) an appeal is submitted to the PPA;⁴¹ and 3) an appeal is submitted to the administrative court against the PPA's decision.⁴² Review is available for candidates, tenderers or potential tenderers who claim to have suffered, or are likely to suffer, a loss of right or damage due to unlawful procedures or actions within the tendering process.⁴³ In compliance with EU requirements, complaints to the contracting authorities, in principle, must be submitted no later than ten days from the date on which the proceeding or action subject to the complaint was realised or should be realised, and in any case, before the contract is signed. The standstill period runs from the date on which the notice is first published. The period for applications regarding provisions on pre-qualification, or requirements that are not provided in the procurement notice, in turn, runs from the purchasing date of the related document. The appeal application fee payable to the PPA depends on whether the value of the procurement in question reaches the specific threshold specified in the PPL.⁴⁴

A separate department in the PPA deals with appeal applications. Elaborate administrative routines have been put in place to secure the independence and integrity of the PPA as the review body and to resolve any conflict with its other functions (regulatory, monitoring and advisory).

The way forward for Dimension 5b

- **Modify the national legislation on public procurement to align with EU principles and international best practices and align it with the 2014 EU Public Procurement Directives.** In particular:
 - Ensure that economic operators have access to public procurement on an equal footing regardless of their origin, which means removing preferential treatment for domestic bidders.
 - Provide solutions and instruments that facilitate SMEs' participation in public procurement, such as a greater possibility of using a self-declaration as preliminary evidence that the tenderer fulfils the requirements to participate in the tender (Box 19.7) and so-called self-cleaning, as well as provisions concerning sustainable procurement.
- **Further reduce the administrative burden of participating in public procurement.** For example, evidence of qualifications and other supporting documents should only be required from bidders whose offers were evaluated as the most advantageous (first-ranked bidders). All bidders

should only need to submit a self-declaration with their offer, confirming that they satisfy the requirements imposed by the contracting authority and will provide documentary evidence when the contracting authority demands it. Alternatively, it could be left up to the contracting authorities to decide, in concrete circumstances, what documents to request and from which economic operators, with due respect to the principle of equal treatment.

Box 19.7. Self-declarations in the EU Public Procurement Directives: European Single Procurement Document

Economic operators participating in public procurement procedures in EU member states can prove compliance with exclusion and qualification (selection) criteria by means of self-declarations. Self-declarations are submitted with tenders or requests to participate, in principle, instead of certificates issued by public authorities or third parties. Certificates, statements and other means of proof – supporting documents – are then required only from the bidder to whom the contracting authority has decided to award the contract.

In EU member states, at least above the thresholds of application of the Public Procurement Directive, this self-declaration takes the form of the European Single Procurement Document (ESPD). Contracting authorities are obliged to accept ESPDs from economic operators as preliminary proof that the economic operator fulfils the following conditions:

- a) is not in a situation in which economic operators should or may be excluded
- b) meets the relevant selection criteria that have been set by the contracting authority
- c) where applicable, fulfils the objective rules and criteria that have been set by the contracting authority for the purposes of short-listing (in the case of a multi-stage procedure).

The ESPD has a form established by the European Commission and is obligatory for EU member states in procurement covered by the EU Public Procurement Directive. The ESPD consists of a formal statement by the economic operator that relevant grounds for exclusion do not apply and/or that the relevant selection criterion is fulfilled, and the economic operator should provide the relevant information as required by the contracting authority. The ESPD should also identify the public authority or third party responsible for establishing the supporting documents and contain a formal statement to the effect that the economic operator will be able, upon request and without delay, to provide those supporting documents.

The possibility of using self-declarations should encourage the participation of economic operators, and in particular SMEs, by reducing the costs related to their participation in public procurement. Instead of evaluating numerous documents contracting authorities only need to verify that self-declarations are submitted by all of the participants of the procedure – bidders submitting tenders (in an open procedure) or candidates submitting requests for participation in two-stage procedures (for example, a restricted procedure) to decide whether they should be excluded or admitted to the procedure. Self-declarations and information included therein should be sufficient for the contracting authority to decide whether a given bidder (candidate) should be excluded or admitted to the public procurement procedure.

Sources: European Commission (2016^[80]; n.d.^[81]; 2017^[82]).

Access to finance for SMEs (Dimension 6)

Introduction

Access to credit remains fundamental for achieving economic growth, allowing companies to expand their operations and invest in technology to gain in efficiency and productivity. However, the availability and affordability of credit are typically strongly correlated with firm size, meaning that smaller companies typically find it more difficult to access funding. Targeted and well-designed policy measures can encourage and complement private-sector provision of financing, where such market failures exist.

The COVID-19 pandemic has exacerbated credit constraints for small businesses and brought access to finance to a sudden halt. The crisis required a swift short-term targeted policy response to shore up firm finances without, however, losing sight of more long-term measures to provide sustainable financing opportunities for small businesses.

Against this background, Turkey remains the strongest performer in this dimension and has further improved its score to 4.18, up slightly from 3.99 in 2019 (Table 19.17). This increase is largely the result of strong performance in access to bank financing and further efforts to provide equity-based finance opportunities for early-stage companies and via capital markets.

Table 19.17. Turkey's scores for Dimension 6: Access to finance for SMEs

| Dimension | Sub-dimension | Thematic block | Turkey | WBT average |
|---|---|--|--------|-------------|
| Dimension 6: Access to finance for SMEs | Sub-dimension 6.1: Legal and regulatory framework | Creditor rights | 4.00 | 4.27 |
| | | Registers | 4.60 | 4.63 |
| | | Credit information bureaux | 4.80 | 4.37 |
| | | Banking regulations | 5.00 | 4.09 |
| | | Stock market | 4.00 | 3.23 |
| | | Weighted average | 4.48 | 4.20 |
| | Sub-dimension 6.2: Bank financing | Bank lending practices and conditions | 3.90 | 3.23 |
| | | Credit guarantee schemes | 3.60 | 2.61 |
| | | Weighted average | 3.79 | 2.98 |
| | Sub-dimension 6.3 : Non-bank financing | Microfinance institutions | 2.30 | 3.37 |
| | | Leasing | 4.00 | 3.24 |
| | | Factoring | 4.00 | 2.71 |
| | | Weighted average | 3.42 | 3.09 |
| | Sub-dimension 6.4: Venture capital ecosystem | Legal framework | 5.00 | 2.73 |
| | | Design and implementation of government activities | 4.90 | 2.57 |
| | | Monitoring and evaluation | 4.30 | 1.47 |
| | | Weighted average | 4.81 | 2.40 |
| | Sub-dimension 6.5: Financial literacy | Planning, design and implementation | 3.20 | 2.83 |
| | | Monitoring and evaluation | 2.30 | 1.19 |
| | | Weighted average | 3.02 | 2.50 |
| Turkey's overall score for Dimension 6 | | | 4.18 | 3.68 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Some progress has been made to improve access to finance for SMEs. Further improvements have been made to an already robust legal and regulatory framework, which now prioritises pay-outs to secured

creditors. However, amidst an increasing backlog of unaddressed insolvency cases and delayed legislative reform, insolvency remains costly and lengthy, thereby increasing creditors' risk aversion (European Commission, 2021^[62]). Progress has been made in improving the availability of credit information. Turkey's credit bureau, the KKB, has commenced collecting information from non-financial service providers, including arrears from telecommunication providers, which will help more businesses build a credit history. Credit has grown strongly since the last assessment, despite a temporary deceleration in 2019, which was supported by a significant expansion of subsidised credit lines, large-scale guaranteed loans and financial support programmes for SMEs. While this credit impulse has helped to weather the impact of the COVID-19 pandemic, long-term finance opportunities, however, continue to remain limited. Non-bank financial instruments are available and used across the economy, while efforts have been stepped up further to develop venture capital and crowdfunding, with various state-supported and private venture capital funds in operation. Lastly, efforts to promote financial literacy remain somewhat uncoordinated amid a limited strategic approach.

Table 19.18 provides an overview of the key actions undertaken in response to the recommendations made in the previous assessment.

Table 19.18. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 6

| 2019 recommendation | SME Policy Index 2022 | |
|--|---|-----------------|
| | Main developments during the assessment period | Progress status |
| Strengthen the legal framework for secured creditors to increase predictability and effectiveness | Some progress has been made to prioritise pay-outs to secured creditors; however, enforcement of creditor rights remains limited amid ineffective insolvency resolution. Legislation to improve insolvency procedures is delayed and lacks consultation with private-sector stakeholders. | Limited |
| Foster the availability of long-term financing | While efforts have focused on ensuring liquidity and access to finance during times of economic crisis, Turkey's reliance on credit as a key mitigation measure has resulted in an increased risk appetite and market-undercutting lending practices, particularly of state-owned banks. In contrast, access to long-term financing has remained limited. | Limited |
| Expand the coverage of the credit bureau (KKB) | The KKB now includes information on arrears from telecommunication providers. This is a positive first step in expanding the source of data collected to assess the creditworthiness of companies, beneficial in particular to those with a limited credit history or collateral. | Moderate |

A robust legal and regulatory framework supports access to finance, but bottlenecks in enforcing creditor rights remain unaddressed

Access to finance is embedded in a well-developed legal and regulatory framework in Turkey, adhering to Basel II and III core principles. Some progress has been made to strengthen the rights of secured creditors since the last assessment, which are now given absolute priority over other claims, such as labour or taxes. However, restructuring and enforcement continue to be lengthy, with proceedings taking five years on average (World Bank, 2020^[83]). The situation has been exacerbated by the COVID-19 pandemic, which has further stalled insolvency procedures. While out-of-court mediation is promoted, the backlog remains significant, and legislation to improve insolvency procedures is behind schedule (European Commission, 2021^[62]).

In 2018, a unified, fully accessible online collateral registry was established, which allows pledges on existing movable or immovable collateral to be extended to future products, proceeds and replacements of the original collateral, thereby greatly supporting SME credit applications. In addition, progress has been made in enhancing the credit information available via the KKB, which continues to cover around 80% of Turkey's population (World Bank, 2020^[83]) and now also includes arrears from telecommunication providers. This makes Turkey the first and only WBT economy to leverage data from retail and utility

providers, helping enterprises with a limited credit history to evidence their creditworthiness. The Bank Association of Turkey, which runs the KKB, also continues to operate a Risk Centre, which collects risk-related information on borrowers for regulatory purposes and also offers risk analysis services to individuals.

Turkey has a well-developed capital market, operated via Borsa Istanbul, and market capitalisation more than quadrupled between 2010 and 2021 to nearly TRY 2.2 billion (approximately EUR 124 million) (BSAKA, 2020^[84]). Following amendments to the Capital Market Law and restructuring of the stock exchange, the market segment for SMEs was reformed and merged with a segment for larger companies in 2020, the BISTSubMarket, aimed at low capitalised firms between TRY 40 million and TRY 70 million (approximately EUR 2.3-5.1 million), underlining the increasing importance of capital market finance for SMEs. At the end of 2021, 39 companies had been listed on the BISTSubMarket. Existing opportunities for investors beyond initial public offerings, however, remain limited.

Financial intermediation has expanded significantly, in particular through state-owned banks, but lending remains volatile

Traditional bank lending continues to dominate SME finance, accounting for 87% of financial sector assets in 2020 and growing (European Commission, 2021^[62]). Following a sharp decline in credit in 2019 amidst market turbulences, credit growth rebounded strongly in 2020 and 2021, with private-sector credit growing by more than 34% (IMF, 2021^[85]), while overall credit accounted for 66% of GDP (European Commission, 2021^[62]). Rapid credit expansion, particularly via state-owned banks, has been a key vehicle in the government's response to the COVID-19 pandemic, accounting for nearly one-fifth of the government's entire stimulus package. This credit impulse, alongside regulatory measures including a temporary loan repayment moratorium and lowered reserve requirements, has ensured financial market stability, but concerns over increasing risk exposure, particularly of state-owned banks, have increased. Non-performing loans had declined to below 4% in mid-2021, but ongoing restructuring and impairment discretion limit a full assessment of non-performing loans.

SME access to finance has long been supported through multiple SME support programmes implemented by KOSGEB and large-scale guarantees offered via Turkey's credit guarantee fund, KGF.

In 2019, the authorities launched a new economic incentive package, IVME, providing EUR 4.5 million of subsidised credit lines via three state-owned banks. It is overseen both by public and private sector shareholders and backed by government funding of approximately TRY 5 billion (approximately EUR 283 million) annually. After significant expansion in 2017, following the introduction of the portfolio guarantee mechanism, overall volumes of extended guarantees dropped somewhat in 2018 and 2019, before rebounding in 2020 to TRY 163 billion (approximately EUR 9.3 billion), providing guarantees to over 280 000 SMEs (KGF, 2021^[86]). Guarantees are typically offered in the amount of 80% of the total loan, but in response to the pandemic, the decision was taken to double KGF's credit limit to TRY 50 million (approximately EUR 2.8 million) and extend the fund's mandate to households.

Turkey's comprehensive and scalable policy support has helped create relatively favourable conditions for SME lending and continuously deepening financial intermediation. However, the continuous dependency of the availability of finance on broader macroeconomic trends, coupled with limited support measures to ensure long-term finance opportunities, underlines the remaining vulnerabilities of the sector.

Alternative sources of finance are available, and significant efforts have been made to provide start-up financing

Non-bank finance opportunities are present at large across Turkey, offering a viable alternative source of finance. Leasing and factoring markets are among the most advanced in the region, and some amendments to the legal framework have further consolidated these types of financial instruments since the last assessment. Spurred by the overall credit growth, both leasing and factoring have continued to

grow. At the end of 2020, leasing accounted for 1% of total financial market assets and factoring 0.7% (BRSA, 2020^[87]). While this is a somewhat lower market share than in 2017 (1.5% and 1.2%, respectively), both segments have continued to grow strongly in absolute terms in recent years, in excess of 20%. In contrast, microfinance remains nascent amid limited regulation for this type of finance. Microcredit is mainly offered by non-governmental organisations in less developed regions of Turkey, suggesting that it may not be a suitable financial tool in an otherwise relatively mature financial industry.

Further progress has been made in providing equity-finance opportunities for early-stage companies, and previous efforts to develop a local market for venture capital are beginning to reap their benefits. Venture capital investments have increased steadily since 2017, from USD 77 million to USD 143 million in 2020 (Invest in Turkey, 2021^[88]). In 2021, investment volumes increased to unprecedented levels to more than USD 1.2 billion, largely driven by significant investments in two early-stage Turkish companies.⁴⁵ In 2020, furthermore, Turkey introduced amendments to the legal framework governing venture capital in consultation with venture capital fund managers, expanding the definition of venture companies and thereby encouraging more venture companies to register in Turkey.

There are also several financial support schemes in place to boost venture capital activity. Under the Turkish Investment Initiative, the Istanbul Venture Capital Initiative (iVCi),⁴⁶ which was initially established in 2007, has now been fully allocated and has leveraged over EUR 1.5 billion in third-party capital, while the Turkish Growth and Innovation Fund, established in 2016, continues to invest EUR 200 million, co-financed by the European Investment Fund, the Turkish Treasury, KOSGEB and the Industrial Development Bank of Turkey. In 2019, under the Turkey Development Fund, two new state-backed funds (Regional Development Fund and Technology and Innovation Fund), amounting to TRY 750 million (approximately EUR 43 million), were launched in succession to the “fund of funds”⁴⁷ model of the Turkish Investment Initiative. The Technology and Innovation Fund aims to invest in technology ventures and new-generation start-ups, especially those operating in Turkey’s widespread technoparks (see Dimension 8b for further discussion), while a Regional Development Fund supports SMEs with high innovation potential.

Historically, Turkey has had a very active network of business angels. However, following record-high investments in 2017 and 2018, overall angel investments halved in 2019, likely linked to economic turbulences during that year. Nevertheless, Turkish business angels financed 80 projects, totalling EUR 21 million in investments (EBAN, 2020^[89]).

Lastly, progress has also been made in establishing a platform for crowdfunding. With support of the EBRD, new crowdfunding legislation entered into force in late 2019 and strengthened further in 2020 and 2021, which enabled and now regulates both equity- and debt-based crowdfunding in addition to the previously existing reward-based model. Operating under the supervision of the CMB, a new unified crowdfunding platform was launched in April 2021, raising TRY 35.87 million (approximately EUR 2 million) until February 2022. Lastly, in 2021, Turkey introduced legislation explicitly banning the use of crypto assets for payment purposes.

Efforts to promote financial literacy need to be revitalised

Progress in enhancing financial literacy has been mixed. Turkey does not have a dedicated strategy for financial literacy, and an action plan implemented by the CMB on Financial Education and Financial Consumer protection between 2014 and 2017 has ended without a successor document or impact evaluation. Nevertheless, the CMB continues to implement several training courses, though plans to launch a dedicated e-learning platform have not yet materialised. Entrepreneurs can also access training via KOSGEB’s e-Akademi,⁴⁸ which among others, covers topics such as financial management. The digital nature of this training enables accessibility even in less urban areas of Turkey; there is, however, no information available on outreach and impact. Private-sector associations, such as the Banks Association of Turkey or the Financial Literacy and Inclusion Association, also offer some training. In a dedicated financial literacy section of the Finance and Banking portal (<https://egitimportalı.tbb.org.tr>), the Banks

Association of Turkey offers guidance on financing and e-learning opportunities through a downloadable application. Lastly, while the economy's Eleventh Development Plan (2019-2023) includes some provisions for financial awareness-raising and aims to incorporate the topic into the national curriculum, current efforts are limited to the distribution of some materials targeting primary and secondary schools.

The way forward for Dimension 6

- **Tackle the increasing backlog of insolvency cases to provide certainty to secured creditors.** Rights between debtors and creditors need to be better balanced, while insolvency procedures need to be accelerated and costs reduced. Measures could include further promoting out-of-court settlements or introducing hybrid models where a court could intervene at points of key decision making, with a view to providing simpler and faster solutions to businesses and banks. Legal reform could reduce the maximum stay for creditors and introduce more flexibility in the treatment between creditors. In addition, in close co-ordination between relevant ministries and the regulator, efforts should be made to increase the courts' capacity to deal with insolvency cases.
- **Stimulate long-term financing opportunities for SMEs.** Despite significant credit growth, the availability of long-term debt financing has stagnated. As temporary measures introduced due to COVID-19 are phased out, the focus should shift from providing short-term capital to cover operational costs to measures encouraging lenders to provide longer-term investments.
- **Revitalise efforts to develop a more strategic approach to financial literacy.** A review of the previous action plan, as well as a comprehensive assessment of financial awareness and understanding of the broader population, and entrepreneurs, in particular, would help to identify existing shortcomings and reach agreement on priorities. A future action plan should be closely co-ordinated and implemented with all stakeholders, including the CMB, the Ministry of Education, KOSGEB and private-sector providers.

Standards and technical regulations (Dimension 7)

Introduction

Access to the European Single Market is conditional upon compliance with EU regulations and directives, which due to the New Approach Directives, also increasingly rely on conformity to European standards. While standards and technical regulations can enable trade by defining (minimum) criteria for products and processes, they may also represent a barrier to trade, particularly for SMEs. To lower these barriers, WBT economies need to have a national quality infrastructure (QI) system that is accessible and supportive of SMEs. At the same time, the recognition of an economy's procedures and institutions by the relevant EU QI bodies and associations requires a high level of alignment with the *acquis*.

The EU-27 receives 41% of Turkey's exports and is, therefore, its greatest trading partner (Eurostat, 2021^[90]). For comparison, Turkey's other big trading partners, the United Kingdom and the United States, receive 6.6% and 6% of Turkish exports, respectively (International Trade Centre, 2021^[91]). Hence, like the other WBT economies, the alignment of its QI legislation and harmonisation with the *acquis* is very important for Turkey's economy. Furthermore, having one of the most developed QI systems among all WBT economies is also a source of regional competitiveness for Turkey, as firms enjoy the full range of certification services in their home market, and Turkey also exports QI services to Western Balkan economies.

Turkey retains the highest score in the region in this dimension (Table 19.19). Its score has remained almost the same as in the previous assessment (4.73 in 2022 versus 4.78 in 2019). Turkey's QI system performs well in all dimensions, as it has an above-average score almost across the board. Despite already having a comprehensive QI system, Turkey has further improved access to standardisation (Sub-dimension 7.3), which is an area where many other WBT economies still fall short.

Table 19.19. Turkey's scores for Dimension 7: Standards and technical regulation

| Chapter 15. Dimension | Sub-dimension | Thematic block | Turkey | WBT average |
|--|---|---|-------------|-------------|
| Dimension 7: Standards and technical regulations | Sub-dimension 7.1: Overall co-ordination and general measures | – | 5.00 | 3.90 |
| | Sub-dimension 7.2: Harmonisation with the EU <i>acquis</i> | Technical regulations | 5.00 | 4.38 |
| | | Standards | 4.73 | 3.77 |
| | | Accreditation | 5.00 | 3.89 |
| | | Conformity assessment | 4.71 | 4.22 |
| | | Metrology | 3.77 | 4.13 |
| | | Market surveillance | 5.00 | 3.96 |
| | | Weighted average | 4.70 | 4.06 |
| | Sub-dimension 7.3: SME access to standardisation | Awareness-raising and information | 4.60 | 3.88 |
| | | SME participation in developing standards | 4.50 | 3.21 |
| | | Financial support to SMEs | 4.60 | 3.57 |
| | | Weighted average | 4.57 | 3.55 |
| Turkey's overall score for Dimension 7 | | | 4.73 | 3.96 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Key developments in this dimension include the transposition of the newest EU market surveillance legislation (1020/2019) into national law and new legislation on technical regulation and product safety. Furthermore, the information provision about government support programmes was further improved through the creation of a new platform that allows searching programmes by geographic area, government institution and keyword (Ministry of Industry and Technology, 2021^[92]).

The sole recommendation from the 2019 assessment regarded incorporating education on standardisation in national education curricula (Table 19.20). While the Turkish Standards Institution's (TSE) overall training activities increased before the COVID-19 pandemic (by 18% from 2018 to 2019), there was no progress in incorporating education about standards into the national curricula. While training targeted at firms and associations is, of course, important, incorporating basic knowledge about standards into more basic forms of education can have broader effects in the long term as it reaches much wider segments of the population.

Table 19.20. Turkey's implementation of the SME Policy Index's 2019 recommendation for Dimension 7

| 2019 recommendation | SME Policy Index 2022 | |
|--|--|-----------------|
| | Main developments during the assessment period | Progress status |
| Streamline education on standardisation in national curricula as a starting point for raising awareness of standards and standardisation | There has been no progress yet on this recommendation. | No progress |

There is an elaborate web presence for exporters and a wide array of support programmes

Like all other WBT economies, Turkey's harmonisation process with the *acquis* is governed by the National Plan for EU Accession, which was most recently updated in July 2021 (Ministry of Foreign Affairs, 2021^[93]). The chapter on free movements of goods includes a detailed list of all legislation to be adopted or updated, along with the envisioned year of adoption and the responsible institution. Such a plan, which unfortunately does not exist in all WBT economies, allows for good monitoring of the harmonisation process.

In terms of information access on standards and technical regulations for SMEs that want to export, various web pages exist with relevant information, such as the sites of the Turkish Exporters Assembly (TIM), the Turkish Chamber of Commerce and most recently, the Easy Export Platform hosted by the Ministry of Trade. While these websites provide very important practical advice and helpful trade statistics, they lack information related to conformity assessment procedures and technical regulations. Combining this information with some basic information about the Turkish QI and providing links to the above-mentioned pages, as is done, for example, by the Serbian Ministry of Economy (Serbian Ministry of Economy, 2021^[94]), would further improve information access for exporters seeking information about compliance with international or European standards and regulations.

Horizontal quality infrastructure legislation is fully harmonised with the acquis

Turkey introduced a new regulation on technical regulation and product safety that entered into force in March 2021 and further aligns the Turkish legislation with the *acquis* (Ministry of Trade, 2020^[95]). The law adopts the EU standard that the responsibility of the manufacturer is not only towards the consumer but

against all third parties (Yavuz, 2021^[96]). With these new additions, Turkey is the only WBT economy whose horizontal QI legislation is fully aligned with the *acquis*.

In the area of standardisation, there have been few new developments, as Turkey continues with a very high adoption rate (above 99%) of European standards (CEN-CENELEC, 2021^[97]) and an aligned legislative framework. In 2020, TSE published 1 859 standards, which is around 10% less than in 2019 (TSE, 2020^[98]; 2021^[99]). Training activities also fell, from 1 315 in 2019 to 715 in 2020, which can be primarily attributed to the COVID-19 pandemic (TSE, 2020^[98]). In 2021, 207 international standards were translated into Turkish, compared to 50 in 2020. This large increase in translations considerably improves access to standards for SMEs, as the non-availability of standards in the local language is a barrier for many SMEs in the region.

In the area of accreditation, Turkey has, by far, the most comprehensive system among all WBT economies, as the national accreditation institution, TURKAK is a multilateral-agreement signatory with the European Co-operation on Accreditation in all nine accreditation fields. Having such a wide array of internationally recognised accreditation services has led TURKAK to also export its accreditation services to Western Balkan economies. TURKAK was also admitted to the mutual recognition of data agreement of the OECD Good Laboratory Practices Working Group in February 2020, which further underlines its capacities (European Commission, 2021^[62]). As a response to the COVID-19 pandemic, TURKAK has also offered remote inspections.

Conformity assessment services were also fully operational during the COVID-19 pandemic, and the number of accredited conformity assessment bodies increased by 25%, from 1 580 in 2018 to 1 980 in 2021. Furthermore, Turkey updated its conformity assessment regulation in May 2021 (Ministry of Commerce, 2021^[100]), fully aligning it with the *acquis*. TSE, which in addition to its function as a standardisation institute, also acts as a conformity assessment body, has introduced remote audit and inspection activities in accordance with international best practices and guidelines from the International Accreditation Forum.

While metrology services continued without interruption during the pandemic, this was also the area with the least progress, which also explains the slightly lower score in this category (Table 19.19). The latest Metrology Strategy covered the period 2015-18 and has not been renewed since then. The National Metrology Institute TUBITAK UME is a member of all the relevant international metrology associations (WELMEC, the European Association of National Metrology Institutes [EURAMET], the International Bureau of Weights and Measures). While TUBITAK UME participates in the development of digital calibration certificates at EURAMET, there have not been any concrete advancements with respect to the digitisation of legal metrology services.

Turkey adopted the framework regulation on market surveillance in July 2021, which aligns national law with the European Union's latest Market Surveillance Regulation 1020-2019 (Ministry of Trade, 2021^[101]). This law is very important as it harmonises the legislative base in the area of electronic commerce, which is a growing trade segment that also offers great export opportunities for SMEs. Turkey is the only WBT economy that has aligned its legislation with Regulation 1020-2019. However, market surveillance checks decreased by 32% in 2020 compared to 2019. Furthermore, as surveillance remains very limited with regard to e-commerce and the share of fines on unsafe products decreased from 31% in 2019 to 26% in 2020, the European Commission has raised concerns about the enforcement of product safety legislation (European Commission, 2021^[62]).

SMEs' access to standardisation

Turkey stands out in terms of awareness raising about standards, as it offers the widest array of online and offline information and activities among all WBT economies. TSE maintains a regularly updated news section on its website that is divided into region-specific sections. It also publishes a magazine, which requires registration to access. To raise further awareness about standardisation, TSE initiated a new

product in January 2019, providing 11 seminars in 11 different cities in Turkey and hosting 2 international standardisation conferences specifically targeting SMEs. Furthermore, TSE offers sector-specific brochures that present its services and the type of international standards that TSE certifies in this sector (TSE, 2021^[102]).

On the other hand, activities to incentive the participation of SMEs in the development of standards remain very limited. While holding committee meetings on line may have lowered some barriers to participation, TSE does not offer any specific discounts for committee participants or financial support for SMEs that wish to participate in standards development but do not have the resources to do so (for an example, see Box 19.9). As SMEs constitute 99.8% of all firms in Turkey and comprise 64.5% of total turnover and 56.3% of total exports (TOBB, 2021^[103]), it is very important to take their knowledge and experience into account to ensure their participation.

Companies seeking financial support to implement provisions required by international, European or national standards can find a wide array of financial support programmes in Turkey. Examples include export loans by the Turkish Eximbank, the Ministry of Commerce's support programme for exporting SMEs or the international accelerator support programme by the SME support agency, KOSGEB. To further assist firms in finding the right support programmes, the Ministry of Industry and Technology established a new platform that allows users to filter programmes by institution and region as well as by keyword search (Box 19.8).

Box 19.8. A search engine with all government support programmes

All WBT economies have some form of (export) support programme that assists firms, either financially or through some in-kind services, in meeting the requirements of international standards or regulations. However, these projects are offered by a large array of institutions, such as ministries, special agencies, business or trade associations, or projects directly managed by international development co-operation partners. It is, therefore, often very difficult for firms to even be aware of all the programmes and lines of support that exist.

To address this information access challenge, the Turkish Ministry of Industry and Technology has developed a website that lists 257 government support programmes across different agencies and which allows users to search for these programmes through keyword searches as well as through institutional or geographic filters. Each search entry contains the name of the programme, a status indicator showing whether the programme is still active or not, application deadlines and dates, as well as a direct link to key documents that describe the programme. Users can share this information via email or social media, and there is also a direct contact form to ask questions or send comments about the programme. The possibility to filter the different support programmes by institution or region makes this a very useful tool, as firms can quickly identify which support programme may be relevant for them. The second success factor of this platform is its direct embedment of documents, which lowers the search costs for firms, as they have the key information directly available on the platform without having to browse the respective agency's webpage. Hence, while having some upfront set-up costs, once in place, such a platform greatly reduces search costs and improves the visibility of government support programmes, particularly for agencies or institutions whose websites are not so frequently visited by firms.

Source: Ministry of Industry and Technology (2021^[104]).

The way forward for Dimension 7

- **Foster the participation of SMEs in standards development through a specific programme or support line.** Due to the importance of SMEs to the Turkish economy, more efforts could be made to ensure their participation in standards development. As SMEs often face difficulties freeing up personnel to attend committee meetings, standardisation institutions can help create associations that represent their interests in national and international standards meetings. For example, in Germany, the standards body DIN founded the SME commission KOMMIT, which represents the interest of German SMEs in standard-related questions (DIN, 2021^[105]). Furthermore, firms that participate in technical committee meetings can receive financial support (Box 19.9).

Box 19.9. Remunerating SMEs to participate in technical committee meetings: Germany's WIPANO programme

To increase the participation of SMEs in the development of standards, Germany's Ministry for Economic Affairs expanded its WIPANO programme to pay an allowance to SMEs that participate in national, European or international committee meetings. There is a lump-sum amount of EUR 1 000 for participation in a national committee meeting and EUR 2 000 and EUR 3 000 for participation in European or international committee meetings, respectively. Support is restricted to companies that have never, or at least not in the last three years, participated in a technical committee meeting.

As SMEs form the backbone of the German economy (and of many other economies), the German Ministry for Economic Affairs considers this support part of Germany's industrial strategy. SMEs that participate in such meetings can shape the standardisation landscape of tomorrow and benefit from a valuable exchange at the technological frontier with experts, competitors and researchers. As such, exchanges may very well benefit domestic innovation, as such incentive payments can also be worthwhile investments for other governments seeking to increase the participation of their SMEs in standards development.

As the Turkish economy is also highly reliant on SMEs, introducing mechanisms to increase their participation in technical committees would be beneficial for both the economy and its SMEs. SMEs participating in technical committees benefit from the knowledge exchange with their immediate peers as well as with larger corporations. At the same time, the standard body benefits from incorporating SMEs' knowledge into new or updated standards, making them better suited to the needs of SMEs.

Source: DKE (2021^[106]).

Enterprise skills (Dimension 8a)

Introduction

SMEs, the cornerstone of job creation, provide a significant share of employment, with two out of three employed people working for an SME, acting as an engine for social development and economic growth. Yet to drive growth and reduce the tendency for start-ups to result in lower-paying jobs, SMEs need to invest in skills, digitalisation and innovation to boost productivity and higher paid employment. However, they need additional support to do so, as they may lack the resources and capacity to invest in training for managers and employees. They can be supported by relevant government-financed training, however, to close skills gaps and upskill the workforce. This is emphasised when it comes to greening businesses, for example, where the opportunity for sustainability in SMEs may be limited by a lack of awareness and skills or potential costs of actions for greening. Supporting SMEs through developing enterprise skills can create far-reaching impacts for families, local communities and economies.

Turkey is the top performer in the enterprise skills dimension, scoring 4.35, which represents an increase since the previous assessment period when it scored 3.54 (Table 19.21). This improvement reflects the ongoing emphasis in the economy on developing the entrepreneurship ecosystem (European Commission, 2021^[107]) and the creation of a strong ecosystem approach to providing a broad range of support and training relevant to this dimension.

Table 19.21. Turkey's scores for Dimension 8a: Enterprise skills

| Dimension | Thematic block | Turkey | WBT average |
|---|---------------------------|-------------|-------------|
| Dimension 8a: Enterprise skills | Planning and design | 4.17 | 2.86 |
| | Implementation | 4.74 | 3.85 |
| | Monitoring and evaluation | 3.67 | 2.67 |
| Turkey's overall score for Dimension 8a | | 4.35 | 3.32 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The strong ecosystem at the national and regional levels continued to develop through this assessment period, supported by a renewed emphasis on support for entrepreneurship and SMEs within the Eleventh Development Plan (2019-2023) (Presidency of Turkey, 2019^[37]). There was an increase in the strength and depth of provision across the sector. At the same time, the scale of implementation across the economy renders it challenging to provide a coherent picture of all government and non-government actions taking place at the national or regional levels. The challenges of the COVID-19 pandemic have had an impact, changing the landscape of SME training and support toward online provision and increasing the focus on supporting businesses towards digitalisation. The theme of social entrepreneurship also comes through more strongly through expanded provision developed during this assessment period, echoing the educational priority based on this through the Education Vision 2023 (Government of Turkey, 2019^[40]) across compulsory education and training (Table 19.22)

Table 19.22. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 8a

| 2019 recommendation | SME Policy Index 2022 | |
|---|--|-----------------|
| | Main developments during the assessment period | Progress status |
| Improve co-ordination in the supply of SME skills training | Steps have been made to support improved skills intelligence, including drawing data from existing sources such as KOSGEB and ISKUR (Turkish Employment Agency). However, more efforts in mapping and analysing current provision would be needed to ensure focused and efficient provision. | Moderate |
| Introduce targeted, cross-sectoral evaluation of short- and medium-term results and the long-term impact of SME skills' support policies and programmes | There is evidence of strengthened commitment to in-depth data and analysis on the labour market and SME skills programmes by KOSGEB and ISKUR, but potential remains to consolidate this further at the system level. Moving forward, this should be strongly linked to the new Geleceğin Becerileri programme (Skills Gap Reduction Accelerator programme). | Moderate |
| Co-ordinate efforts by government and policy partners to exchange good practice on SME skills development | There are examples of practice exchange actions, but these are not implemented systematically on an annual or biannual basis. | Limited |

There is strong policy and ecosystem support for SME skills development

There is a strong ecosystem of SME skills support and training in Turkey, supporting the drive towards increased entrepreneurship and innovation, which is central to the vision of the Eleventh Development Plan (2019-2023) and continued economic growth. This established support continues from the last assessment period and has expanded since 2019 with a broad range of sector commitments to support SMEs and entrepreneurship through the Eleventh Development Plan (2019-2023) (Presidency of Turkey, 2019^[37]). This is translated into action through a range of national and regional strategic plans, most notably the KOSGEB Strategic Plan (2019-2023) (Government of Turkey, 2019^[44]) and RDA strategies. Other relevant policy areas contribute with actions linked to Ministry of National Education and Ministry of Labour strategies (Government of Turkey, 2014^[45]), smart specialisation, which is led at the regional level,⁴⁹ as well as the National Artificial Intelligence Strategy (2021-2025), which highlights SME skills, labour market skills matching and digital transformation. Strong institutional capacity driving implementation is centred on KOSGEB, the government agency leading entrepreneurship support, with wider implementation through ISKUR (Turkish Employment Agency), the Ministry of Industry and Technology and TÜBİTAK TÜSSİDE (Turkish Industry Management Institute). This is complemented by a range of non-governmental actors, particularly TOBB, TESK (Turkey Tradespeople and Artisans Confederation), TURKONFED (Turkish Enterprise and Business Confederation) and TOSYOV (Turkish Small and Medium-Sized Enterprises Self-employed Persons and Managers Foundation),⁵⁰ alongside business support organisations, technoparks, R&D centres, educational institutions and non-governmental organisations. At the regional level, there is a network of development agencies that drive localised support and training solutions for the needs of their regions. This creates a depth of organisational engagement at the national and regional levels, offering multiple entry points to financial and technical support as well as practical training solutions for SMEs.

Skills intelligence is being transformed toward an enhanced system-level framework

While there has been a recognisable emphasis on the practical use of skills intelligence data for policy evidence and design, there are new efforts to prepare a system-level skills intelligence framework through the Geleceğin Becerileri programme,⁵¹ launched in June 2021. This is a Skills Gap Reduction Accelerator Programme linked to a World Economic Forum initiative with cross-government leadership from the

Ministry of Labour and Social Security, the Ministry of National Education, the Ministry of Industry and Technology, and supported by the Istanbul Development Agency. Ambitious, it aims to map and realise the skills needed for the future of the labour market to provide evidence-based skills needs and skills anticipation insights to inform policy and decision making; support existing employees and the unemployed through upskilling and reskilling programmes; and establish financing models for lifelong learning. This new programme offers a channel to build on the portfolio of skills intelligence actions in Turkey that have continued from the previous assessment period, including regular training needs analyses by ISKUR⁵² and data collection from key agencies such as KOSGEB, TÜBİTAK, TESK and TOBB. Bringing together data and making links across the ecosystem is central to the programme design. Through its multi-stakeholder co-operation approach, the programme has the potential to close skills gaps and improve understanding of how training supply across different providers maps to labour market demands and SME skills. This offers an opportunity to upgrade the evaluation of SME skills programmes to a cross-government system-level approach to provide a comprehensive evidence base that can contribute to the Geleceğin Becerileri programme.

A diverse range of SME skills support and training exists at national and regional levels

Start-up training is financed primarily via KOSGEB and TÜBİTAK, who operate government-financed programmes accessible to wider stakeholders, including RDAs. Implementation of training delivery is led by actors across the ecosystem, from government organisations, including KOSGEB, ISKUR and RDAs, to wider actors, particularly business network organisations at national and regional levels. The diversity and strength of the ecosystem and the government financing open up a wide range of training opportunities. For start-ups and founders, it covers different categories of entrepreneurs,⁵³ sectors and support for different phases of SME development, including growth,⁵⁴ investment readiness and internationalisation. The themes supported through training and advice stretch from sustainability,⁵⁵ green economy, resource efficiency⁵⁶ and circular economy to intellectual property and employees' digital competences. Practice-sharing actions at the national level are not widespread,⁵⁷ with no online repositories of national practices; this is an opportunity for Turkey to showcase innovative actions and improve quality and scale delivery through promoting insight across providers.

Online training for enterprise skills was already well developed in Turkey, but during the COVID-19 pandemic, this provision evolved and expanded to adapt to changing needs. KOSGEB provides online SME training via e-akademi,⁵⁸ newly launched as the portal through which KOSGEB will develop its web-based training offers. KOSGEB now actively seeks to expand the range of training available, including bringing in training available via other agencies. This includes a commitment to offering training in English and Arabic, which will open up access to migrant entrepreneurs, of which there is a large population in Turkey who can benefit. While this is a valuable training portal, KOSGEB could explore directing users to a broader-based information resource that provides primary sources of SME support and training available at national and regional levels as well as key platforms or networks that support the diversity of entrepreneurs and SMEs in Turkey. This would increase accessibility, with the potential for tangible impact on levels of entrepreneurship and innovation, including women and youth, who were particularly adversely affected during the pandemic (UN Women, 2020^[34]).

There is good evidence of guidance and support for social entrepreneurship and co-operatives. The digital platform of the Turkey Social Entrepreneurship Network project was launched in 2020 and is an active hub for entrepreneur stories, information, access to training and networking.⁵⁹ KOSGEB has included social entrepreneurship as an eligible category for access to the entrepreneurship financial support programme⁶⁰ and is also raising awareness through training for regional actors on COSME funds for social economy missions.⁶¹ Practical training is available at the regional level but is not accessible in all regions of Turkey.⁶²

Digitisation of SMEs is a strong feature within SME support and training provision

The digitalisation of SMEs is strongly represented across policy and implementation and has been significantly ramped up with new programmes and funding during the COVID-19 pandemic. Policy prioritises this area as part of the Eleventh Development Plan (2019-2023) and part of a wider strategy, particularly the National Artificial Intelligence Strategy (2021-2025) (Government of Turkey, 2021^[39]).

Alongside the main delivery of training for SMEs linked to digitalisation, there are also a number of specific initiatives that address digitalisation in different ways. Digitalisation as a tool for resilience and business contingency is the focus of a programme by the United Nations Development Programme (UNDP) called The Digital Way,⁶³ which is being launched in 2022 and aims to develop a matching platform providing training and business mentoring across pilot regions, in collaboration with RDAs. The COVID-19 Resilience and Response Project saw work with UNDP to mitigate the impact of the pandemic on fragile sectors – including 25 region-based fragile sector analyses and training for SMEs in these sectors. The COVID-19 Resilience and Response Project is funded by the Government of Japan and initiated by the UNDP.⁶⁴

As a large-scale flagship initiative announced through the Eleventh Development Plan (2019-2023),⁶⁵ innovation centres and model factories are being set up across Turkey. These aim to boost innovation, digitalisation and the entrepreneurship ecosystem by supporting SMEs in the manufacturing sector in pivoting towards lean and technology-oriented approaches.⁶⁶ This is carried out under the co-ordination of the Ministry of Industry and Technology's General Directorate of Strategic Research and Efficiency, and work is taking place to actively grow this project through expanding the KOSGEB-led trainer pool in 2022.⁶⁷

To widen access to digitalisation technologies for SMEs and provide bespoke pathways, TOBB has collaborated with Visa Turkey on the SMART SME Platform.⁶⁸ This digital transformation platform supports the digitalisation processes of SMEs in Turkey across all aspects. It offers access and a shopfront to a wide range of digitalisation solutions to enable SMEs to match their needs, alongside guidance, training and access to the D3A Digital Transformation Maturity Assessment by TÜBİTAK TÜSSİDE.⁶⁹ These examples of innovative action on digitalisation can offer inspiration at the regional level as potential channels to address specific barriers to SME digitalisation.

The way forward for Dimension 8a

- **Improve the system-level evaluation of all government-led or government-financed SME skills programmes**, allowing for a comprehensive understanding of the impact of government funding on SME skills development and SME performance, and include this as part of the skills intelligence co-ordinated through the Geleceğin Becerileri programme. This should include gender and age-disaggregated data across all areas of data collection and analysis. Enhanced evaluation can provide a better understanding of the lasting impact of government investment and provide intelligence on how to refine and consolidate training offers across multiple providers.
- **Establish national opportunities for SME support and skills training providers to exchange practices to increase quality**, develop new collaborations between providers and disseminate the results of impact evaluation. Explicit inclusion of social entrepreneurship training can support this sector to be scaled up nationally and, in line with the priorities of the Education Vision 2023, a focus on education-business co-operation across all levels of education and training could be highlighted within training practices. This could include an awards scheme led by KOSGEB and link the Turkish entries to the European Enterprise Promotion Awards.⁷⁰

Innovation policy for SMEs (Dimension 8b)

Introduction

Innovation and building a knowledge-based economy is a priority for Turkey, and globally. Recognising the link between innovation and productivity and its contribution to higher value-added economic output and competitiveness, policy makers have increasingly focused on creating an innovation ecosystem, typically with a strong focus on start-ups. However, equal attention must also be given to enhancing innovation capacity at the firm level.

Reflecting its size and economic maturity relative to the Western Balkan economies, Turkey has long outperformed the other economies of the region in this area. Since the last assessment, Turkey has further progressed in this dimension, increasing its overall score from 4.08 in 2019 to 4.45 in 2022, well ahead of the runner-up, Serbia, and the WBT average (Table 19.23). Improvements have been made, in particular in the policy framework and government institutional support services for innovation, and there is increased support for business-academia collaboration.

Table 19.23. Turkey's scores for Dimension 8b: Innovation policy for SMEs

| Dimension | Sub-dimension | Thematic block | Turkey | WBT average |
|---|---|---|-------------|-------------|
| Dimension 8b: Innovation for SMEs | Sub-dimension 8b.1: Policy framework for innovation | Strategic approach | 4.60 | 3.81 |
| | | Implementation of innovation policy | 4.44 | 3.31 |
| | | Co-ordination of innovation policy | 5.00 | 3.30 |
| | | Weighted average | 4.60 | 3.46 |
| | Sub-dimension 8b.2: Government institutional support services for innovative SMEs | Incubators and accelerators | 4.71 | 3.27 |
| | | Technology extension services for established SMEs | 3.67 | 2.14 |
| | | Weighted average | 4.30 | 2.82 |
| | Sub-dimension 8b.3: Government financial support services for innovative SMEs | Direct financial support | 4.88 | 3.81 |
| | | Indirect financial support | 3.60 | 2.26 |
| | | Weighted average | 4.37 | 3.19 |
| | Sub-dimension 8b.4: SMEs and research institution collaboration and technology transfer | Innovation voucher schemes and co-operative grants | 4.20 | 2.85 |
| | | Institutional infrastructure for business-academia co-operation | 4.60 | 2.99 |
| | | Intellectual property rights | 4.33 | 3.05 |
| | | Weighted average | 4.39 | 2.95 |
| Turkey's overall score for Dimension 8b | | | 4.45 | 3.18 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The 2021 European Innovation Scoreboard⁷¹ categorised Turkey as an “emerging” innovator, down from “moderate” in previous years, largely owing to lower results of the Enterprise Innovation Survey (European Commission, 2021^[13]). Overall, however, Turkey has a well-developed strategic framework for innovation, even though the finalisation of key documents is still pending. Large-scale support programmes, implemented through Turkey's SME Development and Support Organisation, KOSGEB and TUBITAK, have boosted investments in R&D, particularly from the private sector, accounting for 1.06% of GDP in 2020, but falling well short of the government's objective of 1.8% by 2023. Support measures focus both on developing the innovation ecosystem as well as on building the innovation capacity of enterprises. However, despite some progress, support continues to focus on regions with more mature innovation

systems, thereby increasing the gap between urban hubs and less developed regions in Turkey. Lastly, steps have also been taken to launch additional support aimed at stimulating collaboration between business and academia, thereby encouraging commercialisation. However, these efforts have yet to bear fruit.

Table 19.24 provides an overview of the specific actions undertaken in response to the recommendations for this dimension made in the previous assessment.

Table 19.24. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b

| 2019 recommendation | SME Policy Index 2022 | |
|---|---|-----------------|
| | Main developments during the assessment period | Progress status |
| Scale up financial support for private-sector R&D activities | R&D investments have gradually increased in recent years, with the majority of investments now provided by the private sector. However, R&D expenditure still falls well short of the government's target of 1.8% of GDP by 2023. | Moderate |
| Refocus the location of technology development centres (TEKMERS) | Since the last assessment, the TEKMERs have been restructured, and seven new ones have been established. However, except for the new TEKMER in Bitlis, they are all located in the urban hubs in Turkey's most developed areas. | Limited |
| Encourage technology transfer and commercialisation | TUBITAK launched two new programmes in 2020 for Patent- and Order-based R&D projects and an initiative for a new support scheme for centres of excellence, including technology transfer. However, despite these and other long-existing initiatives to stimulate technology transfer and collaboration between research R&D institutes and the industry, little progress has been made to increase patenting and commercialisation. No progress has been made in reforming the legal framework for intellectual property protection, which could help encourage researchers to share their developments. | Moderate |

The policy framework for SME innovation is well developed, with effective implementation mechanisms in place

Turkey has a well-developed policy framework supporting innovation, which is featured prominently in various key strategic documents, including the Eleventh Development Plan (2019-2023), as a priority for the economy's economic development. The previous Innovation Strategy expired in 2016, and work on developing a new Science, Technology and Innovation Strategy only commenced in 2019 and is not expected to be finalised until 2022. In addition, technology development is covered under the Industry and Technology Strategy 2023, which includes aspects such as digital transformation and high technology. Implementation of this strategy is progressing well, supported by a set of strategic action plans. An action plan for national research and innovation capacity is also in place.

Smart specialisation strategies have been formulated in some regions. With support from the European Union, co-ordination has increased at the national and regional levels, and five regions – Bursa sub-region, Izmir, Kocaeli, Konya and Manisa – have registered on the European Union's Joint Research Centre's Smart Specialisation Platform.⁷²

Co-ordination of innovation policy remains somewhat complex. The Ministry of Industry and Technology formally oversees the design and implementation of innovation policy, while the Science, Technology, and Innovation Policy Council, established in 2018 under the new presidential structure, has the mandate to lead Turkey's innovation policy design, co-ordination and monitoring and to become an effective and centralised advisory body. As such, the council has also overseen the development of the forthcoming Science, Technology and Innovation Strategy.

Two agencies are responsible for implementing innovation policy: 1) KOSGEB, focused on SME development and supporting innovation activity within enterprises; and 2) TUBITAK, which supports R&D activities. Companies of all sizes, as well as research institutes, are eligible to benefit from these support programmes, but some programmes specifically target SMEs and start-ups. Both KOSGEB and TUBITAK

are fully funded by government resources and are fully staffed and operational, with large outreach in the regions.

Turkey has a very lively ecosystem for start-ups and innovation, though distribution of support remains somewhat uneven across regions

As of the end of 2020, over 80 public and private incubators existed across Turkey, many of which are located in dedicated TDZs, often offering both incubation space and advisory support. Following some restructuring of its technology development centres (TEKMER) initiative, KOSGEB has established seven new TEKMERs since 2019 across the urban regions around Ankara, Istanbul, Izmir and one in Bitlis. Progress has also been made to expand the network of TDZs, which is now operational throughout 49 regions of Turkey. As of early 2021, there were 87 such TDZs, compared to 81 during the previous assessment. Of these, 73 are fully operational, hosting over 6 200 tech firms and offering incubation, but also R&D opportunities and some technology transfer services. New legislation brought forward in 2021 has further enabled TDZs to offer incubation services outside of their current zones, which is expected to further boost the ecosystem in the medium term. An example of a very successful start-up incubation centre targeting newly established technology companies is shown in Box 19.10. KOSGEB also runs a support programme to develop international incubation centres in Turkey, aimed at promoting Turkish technology to international markets and the domestic tech space.

In addition, Turkey has attracted several accelerators, the number of which has increased to nearly 70 in 2021, compared to 48 in 2018, and which focus on specific industries within the ICT sector, particularly e-gaming. Nevertheless, some accelerators are increasingly shifting their focus to internationalisation and scaling, suggesting an increasing maturity of Turkey's start-up space. TUBITAK also continues to implement its BIGG acceleration programme, in operation since 2012, which supports idea-stage start-ups. In 2019 and 2020, over 560 and 530 enterprises, respectively, benefited from the programme, for a total of TRY 200 000 (approximately EUR 10 000) each.

Turkey's innovation ecosystem is comprehensive and also targets innovative companies beyond the initial start-up stage. However, while efforts are concentrated in areas with the greatest absorption capacity and demand, it remains fragmented throughout the regions.

Box 19.10. Turkey's TIM-TEB StartUp House

The Turkish Exporters Assembly (TIM) partnered with the Turk Ekonomi Bankası (TEB) to create a start-up incubation centre targeting newly established entrepreneurs. The TIM-TEB StartUp House provides tailored assistance to technology start-ups aiming to further develop and expand their operations. Specialised experts help SMEs in streamlining their operations, supporting innovation and boosting their competitiveness domestically and abroad. Entrepreneurs have tailored training and advisory services at their disposal across the economy. Start-ups in Turkey have access to a broad network of TIM-TEB incubation centres, as they are currently present in ten cities: Istanbul, Izmir, Denizli, Gaziantep, Edirne, Bursa, Konya, Mersin, Trabzon and Erzurum.

TIM-TEB StartUp House identified key obstacles faced by start-ups in Turkey, which include a lack of resources in small cities for start-ups to develop, lower value-added of commercialised technology products and services, a small number of potential investors and low uptake and awareness of government programmes. The StartUp House aims to assist companies in overcoming these hurdles by offering comprehensive entrepreneurship services and innovative solutions.

The project, launched in 2015, is an example of a sound public-private partnership, receiving over TRY 131 million (approximately EUR 7 million) of public funding for its participants. Start-ups can also

be advised on accessing financial support from the government, as well as generating more investment from private entities.

The TIM-TEB StartUp House supports 20% of all technology start-ups in Turkey, becoming one of the leading incubation centres within the economy. In the first four years of operations, the centre supported over 935 entrepreneurs, who, to date, have created a total of 7 209 jobs across Turkey. Furthermore, the StartUp House contributed to the entrepreneurial learning of students, with approximately 5 000 students attending training programmes.

Source: The Turkish Exporters Assembly and Turk Ekonomi Bankasi (2021^[108]).

Direct and indirect financial support for innovation continues to be strong and targeted

Both KOSGEB and TUBITAK offer large-scale financial support schemes to support enterprise innovation and R&D, amounting to over EUR 70 million since 2019, while the RDAs also provide some assistance for innovative SMEs. Support programmes offer a range of instruments, including co-financing grants for start-ups and more established SMEs engaged in innovation, and for early-stage ideas development, R&D activities, and commercialisation. Programme grants vary significantly depending on the maturity of the innovation, and all programmes require co-financing by the beneficiaries.

For example, under the Technological Investment Support Programme, KOSGEB has awarded over EUR 12 million to 3 600 SMEs to support investments in the commercialisation of innovative projects. TUBITAK has provided nearly EUR 60 million in grants to support SMEs and R&D institutes. Furthermore, to help mitigate the impact of the COVID-19 pandemic, TUBITAK launched two specific calls under the umbrella of its SME R&D start-up support programme, offering financial support to an additional 48 projects. To date, this has resulted in the commercialisation of eight supported projects. Both KOSGEB's and TUBITAK's methodologies foresee a competitive, merit-based selection process, evaluated by an independent committee of national experts. However, despite the size of the financial support schemes, independent performance and impact assessments remain limited.

In addition to direct financial support, numerous measures exist to provide indirect financial incentives for innovation and research activities. For example, companies receiving public support for R&D activities can benefit from deductions in corporate and personal income taxation, while companies and their employees based in the TDZs are fully exempt – this regulation has been extended to cover remote working during the COVID-19 pandemic. In addition, 50% of insurance premiums for R&D staff are covered by the state budget. Innovation is also supported via public procurement, which provides purchase guarantees for technology transfer and foresees a compulsory use of local medium- and high-tech industrial products. While procurement is an important tool to encourage innovation and R&D, Turkey's public procurement regulation is not fully aligned with internationally recognised best practices around state aid and EU industrial policy principles because it favours domestic suppliers.

Private-sector investment in R&D is increasing alongside better linkages between academia and the business community

Investment in R&D, particularly by the private sector, has further increased in recent years, from 0.86% of GDP in 2014 to 0.95% in 2017 and 1.06% in 2019, when approximately two-thirds of R&D investments were made by the private sector. While this is a very positive trend, overall investments are below the government's target of 1.8% by 2023, and further efforts are needed to stimulate collaboration between R&D institutes and the private sector to maximise the impact of those support mechanisms already in place.

There is no dedicated innovation voucher or competitive collaboration grant programme in place, but TUBITAK runs several programmes to stimulate collaboration between research and the industry and has launched several new schemes since the previous assessment to support knowledge transfer and the commercialisation of research and patents, as well as the development of innovative clusters. TUBITAK's Support Programme for University-Industry Co-operation provides co-financing for industry-academia collaboration, with a focus on commercialisation. SMEs are especially encouraged to use this service and receive a grant for 75% of the cost, up to a maximum of TRY 1 million (approximately EUR 56 000). This work is supported by the University-Industry Co-operation Centres Platform, established in 2007, which promotes university-industry collaboration and technology transfer. A related online portal run by the Ministry of Industry and Technology to provide information on available support for R&D and facilitate interaction between researchers, entrepreneurs and investors, remains largely inactive. In addition, TUBITAK launched two new programmes in 2020, both for Patent- and Order-based R&D projects, as well as a Support Programme for the Centre of Excellence, whose aim is to establish specialised high-technology hubs and a Technology Transfer Support Programme.

There are numerous technology transfer offices operating throughout the economy, while the TDZs are expected to also expand their services in this area.

Turkey has long recognised the critical role innovation and R&D plays in the economy's export performance. Against this background, TIM, whose aim is to support and inform evidence-based trade policy and support the competitiveness of Turkish exports in international markets, has established an Innovation and Entrepreneurship Academy aimed at providing support and development opportunities for innovative entrepreneurs and start-ups with export potential (Box 19.11).

Lastly, Turkey's legal framework for intellectual property rights does not currently encourage researchers to commercialise their innovations by guaranteeing an adequate split of royalties between the individual researcher and the organisation filing the patent. In addition, tax exemptions on income obtained via intellectual property rights are limited to corporations. On a positive note, an innovative idea owner can benefit from KOSGEB's intellectual property rights support by establishing a sole proprietorship without being a company and can also commercialise the product with the R&D and Innovation Support Programme and the SME TechnoInvestment Support Programme.

Box 19.11. Increasing business-academia collaboration: Turkey's Focused InoSuit Program

As part of the Innovation and Entrepreneurship Academy, the Focused InoSuit Program aims to facilitate university-industry co-operation with the objective to increase innovation management competence, strengthen the innovation management infrastructure, and design and adopt institutional innovation systems at the firm level. Specifically, it aims at:

1. building institutional innovation systems
2. creating strategic, organisational and cultural infrastructure as well as instructions, which would cultivate the processes and results of innovation
3. executing innovation projects in products, processes, organisational settlements or marketing activities
4. enabling innovative works and investments
5. enabling innovation management competency to make increase export figures
6. strengthening university-industry co-operation on the subject of innovation management
7. deepening the experience of universities on scientific knowledge, research and practice on the subject of innovation management.

The programme offers support tailored to the level of innovation competency of individual beneficiary firms, ranging from innovation management competences foundations and initial transformation to export leadership with innovation.

For a monthly fee, beneficiaries are assigned a dedicated InoSuit mentor, typically from within academia, who provides support over a period between 5 and 22 months (depending on the focus and level of innovation competency of the firm). Focus areas include the development of a baseline assessment and road map, the development of a vision and direction of innovation systems and infrastructure within the company, and defining innovation processes and strategies. In addition, support is provided to build relevant human resource capacity and infrastructure and build an innovation project portfolio.

Both beneficiary companies and selected mentors are required to regularly provide updates and conduct reporting, thereby increasing TIM's knowledge management and monitoring and evaluation capacity in this area.

Source: TIM (2021^[109]).

The way forward for Dimension 8b

- **Complete the strategic policy framework.** Timely completion of the new National Science, Technology and Innovation Strategy, including an action plan, will complement the existing framework and provide clear objectives, targets and timelines for Turkey's strategic framework for innovation. In addition, a coherent and well co-ordinated approach to establishing smart specialisation strategies would maximise complementarity of efforts and leverage existing interregional linkages.
- **Rebalance the geographic focus of support measures.** Conducting a mapping of the support programmes implemented by KOSGEB, TUBITAK, and the regional development centres could help identify gaps in geographic coverage and potential overlap. While the restructuring of KOSGEB's TEKMERs has been a welcome step to maximise resources and a first step in gradually phasing out activities in Turkey's most developed regions, efforts should be stepped up further to support less mature innovation ecosystems. Within this context, regional smart specialisation could help address the outstanding gaps.

SMEs in a green economy (Dimension 9)

Introduction

Since SMEs, on aggregate, have a significant environmental footprint (small firms account for 50% of greenhouse gas [GHG] emissions in the world (ITC, 2021^[110])), it is essential that the governments of the WBT region include them in their environmental considerations to achieve the net-zero goal for GHG emissions. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges. Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions by greening their products, services, and processes. New green markets, such as the circular economy, can also create new business opportunities for SMEs. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as SMEs face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021^[111]).

For a fast-growing economy with rapidly increasing GHG emissions like Turkey, boosting economic growth that does not come at an environmental cost is particularly pertinent, especially in the post-COVID-19 context. The pandemic has put additional pressure on Turkish SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well-coordinated and targeted financial and technical support will be required to overcome challenges in adopting sustainable practices.

With a score of 4.23, Turkey is the regional frontrunner in this dimension (Table 19.25). Its performance has slightly improved since the previous assessment (when it was 4.12), in particular thanks to improved co-ordination of green policies targeting SMEs.

Table 19.25. Turkey's scores for Dimension 9: SMEs in a green economy

| Dimension | Sub-dimension | Thematic block | Turkey | WBT average |
|--|--|---------------------------|--------|-------------|
| Dimension 9: SMEs in a green economy | Sub-dimension 9.1: Framework for environmental policies targeting SMEs | Planning and design | 4.87 | 3.87 |
| | | Implementation | 4.15 | 2.81 |
| | | Monitoring and evaluation | 4.00 | 2.47 |
| | | Weighted average | 4.34 | 3.06 |
| | Sub-dimension 9.2: Incentives and instruments for SME greening | Planning and design | 3.80 | 3.06 |
| | | Implementation | 4.75 | 3.02 |
| | | Monitoring and evaluation | 3.10 | 2.12 |
| | | Weighted average | 4.14 | 2.85 |
| Turkey's overall score for Dimension 9 | | | 4.23 | 2.94 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Turkey's framework for environmental policies is solid and increasingly targets SMEs. Implementation of policies has been conducted at a good pace, particularly energy efficiency measures. In line with previous recommendations (Table 19.26), Turkey has consolidated inter-institutional co-ordination of green policies targeting SMEs through recently established working groups. Business associations have their own green policies and are leading the provision of advice and guidance to SMEs in this regard. As in the last assessment, several financial instruments are available to SMEs through KOSGEB, line ministries and international development co-operation partners. Other instruments, such as information-based tools,

performance standards, and environmental management systems, incentivise SMEs to engage in greener practices. Green public procurement measures, however, remain scarce.

Table 19.26 Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 9

| 2019 recommendation | SME Policy Index 2022 | |
|--|--|-----------------|
| | Main developments during the assessment period | Progress status |
| Ensure appropriate inter-organisational co-ordination to avoid potential overlaps in certain areas and a lack of action in others | To co-ordinate the work of the several ministries involved in green policies, a Green Reconciliation Working Group was established in 2020. The Working Group is mandated to harmonise Turkey's policies with the European Commission's Green Deal. KOSGEB also established a specific working group for Turkish SMEs in September 2021, focusing on the effects of the green economy and energy and environmental issues. Moreover, the National Energy Efficiency Action Plan Monitoring and Guidance Board was established in December 2019 to co-ordinate energy efficiency measures and comprises all relevant line ministries. | Strong |
| Start evaluating the effectiveness of SME greening policies on the ground | While all strategies are regularly monitored, an overall impact analysis of SME greening policies and programmes has not been carried out. Nevertheless, a national Lifecycle Assessment Database was developed in 2020 to evaluate the environmental impacts of the products and services produced in Turkey. Promisingly, the Eleventh Development Plan (2019-2023) envisages regular and improved collection, monitoring and evaluation processes of environmental data and its effective use in decision-making processes. | Limited |

Green policies targeting SMEs have been increasingly integrated into various strategic documents, and implementation has been conducted at a good pace

While green policies have not been integrated into the new SME-related KOSGEB Strategic Plan (2019-2023), the framework of environmental policies targeting SMEs is solid in Turkey. The overarching Eleventh Development Plan (2019-2023) and the Medium-Term Programme (2022-2024) emphasise the importance of green growth and the role of SMEs in the green economy. In addition, the Green Deal Action Plan 2021, the Climate Change Strategy (2017-2023) and the National Energy Efficiency Action Plan (2017-2023) aim to enhance SME greening in Turkey through awareness-raising activities, allocation of funds and supporting SME energy efficiency. The Industry and Technology Strategy 2023 envisages green and clean industrial production, with a special focus on the circular economy (Box 19.12).

Box 19.12. SMEs and the circular economy in Turkey

When it comes to achieving objectives regarding the circular economy, SMEs are important in making their business operations more circular and contributing to the innovation that can strengthen circularity across economies. As the circular economy is gaining momentum in Turkey, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

The circular economy framework is advanced in Turkey. Turkey has been making progress by aligning almost completely with waste-related EU directives and reducing municipal and hazardous waste. Most strategies adopted since the last assessment emphasise zero waste and the transition to a circular economy. In addition to the Industry and Technology Strategy 2023, the Eleventh Development Plan (2019-2023) emphasises waste management and the circular economy. The New Economy Programme (2021-2023) also puts zero-waste practices at the forefront of its environmental perspective.

Overall, the promotion of circular economy concepts is quite advanced compared to other WBT economies. The newly established Green Reconciliation Working Group is responsible for raising awareness on environmental topics, including waste management and recycling. A circular economy workshop specifically targeted at SMEs was organised in 2021 by KOSGEB within the frame of the COSME Turkey project and gathered 238 participants, 115 of whom were SMEs. Business associations are also involved in providing advice and guidance to SMEs in this regard. In this context, TIM has been co-implementing the Zero Waste Project¹ since 2017, which aims to reduce waste by recycling and repurposing through evaluating waste capacities and creating a waste inventory of enterprises under a common platform.

In addition, a national Lifecycle Assessment Database² was developed to assess the manufacturing industry's current environmental performance with internationally recognised performance indicators. An Industry Registry Information System to establish an "Economically Valuable Waste Monitoring System" is being created to save and recover natural resources and reduce the production of waste through the optimisation of their management cycle. To improve water efficiency, an SME water footprint has been calculated since 2021 on a basin basis, in the context of the study on Turkey's Water Footprint assessment, due in 2023.

SMEs in Turkey have access to several instruments and incentives for their circular transition. Financial and technical support that aims to boost eco-innovation and resource efficiency, such as through Green Organised Industrial Zones (OIZs) (Box 19.13), is expected to provide an impetus to advancing the circular economy in Turkey. Moreover, waste performance standards should incentivise SMEs to adopt greener practices.

1. The Zero Waste project was established in Turkey by the first lady, Emine Erdoğan, in 2017. The project added EUR 2 billion to the Turkish economy due to a large amount of material and food saved from reducing waste. The goals of the Zero Waste project in Turkey are to reduce waste by recycling by-products of agricultural activities and repurposing hazardous waste.

2. The Developing National Lifecycle Assessment Database project is carried out by TÜBİTAK's Marmara Research Centre and Boğaziçi University. It aims to establish a Life Cycle Assessment Database of industrial energy and water supply processes. Some of its key objectives are establishing an effective information processing infrastructure, assessing the current data state and producing strategies to complete missing data.

Sources: (OECD, 2021^[111]); (OECD, 2019^[112])

All planned activities were implemented during the assessment period, and funds were mainly provided from the government budget. Awareness-raising on SME greening measures, such as resource efficiency, eco-labelling and waste management, has been carried out through activities, forums and fairs⁷³ and is planned to be scaled up in line with the Green Deal Action Plan. Moreover, SMEs have been provided with a variety of support to improve their energy efficiency, in line with the National Energy Efficiency Action Plan and the Industry and Technology Strategy 2023. In this regard, substantial financial support was provided to SMEs to achieve energy savings (see the section below on financial initiatives); energy-efficient engines were promoted to SMEs; and increased energy efficiency has advanced in industrial zones as part of the Development of the Green Organised Industrial Zones Framework for Turkey Project (Box 19.13). Activities to support eco-innovation are also ongoing, particularly with the establishment of model factories, which provide manufacturing SMEs with an opportunity to combine hands-on experience with theoretical training to promote sustainable methods of production and innovation centres, which will provide guidance on entrepreneurship, innovation and digitalisation.⁷⁴

Box 19.13. Green Organised Industrial Zones in Turkey

In addition to energy management units in Organised Industrial Zones reported in the previous assessment, work to increase energy efficiency and environmental sustainability has been carried out in Turkey within the context of the Development of the Green Organised Industrial Zones Framework for Turkey Project. The project, which started in 2020, is implemented by the Ministry of Industry and Technology and funded by the World Bank (in the amount of EUR 275 million).

At the time of writing, 18 of the 346 OIZs across 81 cities were transformed into green zones, in line with circular economy principles. OIZs were established to provide all infrastructural necessities (such as energy supplies, solid waste elimination facilities and water purification systems) to industrial enterprises with an annual energy consumption of below 1 000 tonnes of oil. They contribute to more than one-third of Turkey's exports and employ 2.1 million workers – approximately one-third of total industrial employment in the economy.

Along with investments in green infrastructure, green OIZs will directly benefit the private sector, particularly SMEs, in scaling up clean production, resource and energy efficiency. The project will support investments in OIZs innovation centres, including model factories, to demonstrate new technologies and new practices, skills upgrading, standards and testing services for SMEs. Programmes that link firms in the OIZs to local universities and research institutes will also be introduced to help them introduce or commercialise eco-innovative ideas. Special focus will be put on clean production in the textile and leather industries, which consume large quantities of water. Moreover, promotion and technical assistance on the use of eco-labels will be provided.

Sources: Information provided by the Government of Turkey; World Bank (2021^[113]).

All strategies are regularly monitored, and evaluation mechanisms exist, although an impact analysis of SME greening policies has not been conducted. While the collection of specific SME greening data is lacking in Turkey, the Eleventh Development Plan (2019-2023) envisages regular and improved collection, monitoring and evaluation processes of environmental data and its effective use in decision-making processes.

Progress has been achieved in co-ordinating SME green policies through a whole-of-government approach, with a prominent role given to business associations

The Ministry of Commerce, in co-operation with other line ministries, is in charge of developing SME greening policies and the national SME agency, KOSGEB, is the main body implementing greening measures.

Given the abundance of policies and programmes available to SMEs for their greening efforts, important progress was achieved in enhancing appropriate inter-organisational co-ordination among the various bodies responsible for these actions through specific working groups. A Green Reconciliation Working Group was established in February 2020 to enhance co-ordination and harmonise Turkey's policies with the European Commission's Green Deal. The Working Group is mandated to accompany the private sector with the different tools and instruments available for their greening transition. It met several times in 2021, with the participation of business associations; its main result being the drafting of the Green Deal Action Plan for the 2021-2024 period. Moreover, KOSGEB established an SME-specific Working Group in September 2021, focusing on the green economy, energy and environmental issues. Along with the

establishment of the Working Group, KOSGEB personnel⁷⁵ have been trained on international environmental policy, in particular on the European Commission's Green Deal.⁷⁶ Since its creation, the Working Group has prepared a roadmap for KOSGEB Green Deal Studies by taking into account relevant strategic and legislative changes announced within the scope of the Green Deal, focusing on the circular economy and clean and safe energy issues.

As recommended in the previous cycle, effective co-ordination of programmes and monitoring of policies on energy efficiency has been achieved with the establishment of the National Energy Efficiency Action Plan Monitoring and Guidance Board in December 2019. Institutions in charge of implementing the National Energy Efficiency Action Plan have been regularly trained to ensure proper co-ordination (some 17 trainings were held with 205 representatives from 37 institutions during 2019-20⁷⁷).

The Ministry of Industry and Technology has increasingly given development agencies a central role in promoting SME greening measures by announcing in 2020 that their focus should be on resource efficiency for the following two years. During this period, development agencies in Turkey informed and trained businesses in their region on energy efficiency measures, water management and clean production.⁷⁸

The Turkish government regularly consults the private sector when developing SME greening strategies. On top of guidance on complying with environmental regulations provided by government authorities and KOSGEB, SMEs can benefit from advice and guidance on carrying out green practices from business associations. There is a number of business associations in Turkey that have their own policies (including on greening aspects) and are increasingly becoming leaders in the provision of information-based tools to SMEs for their greening measures (see the section below on information-based instruments).

A range of financial initiatives are available to support SMEs in their greening efforts in Turkey

As in the last assessment, SMEs in Turkey have access to a broad range of financial support for their greening efforts, particularly to improve energy efficiency and invest in eco-innovation, through KOSGEB, line ministries and international development co-operation partners.

KOSGEB provides financial support, along with trainings and technical assistance to SMEs. Under KOSGEB's Enterprise Development Support Programme, in line with the Energy Efficiency Law, specific support on energy efficiency is provided to SMEs, which covers up to 70% of consultancy, analysis and training costs (up to EUR 7 500). Moreover, eco-innovation projects are supported under KOSGEB's R&D Innovation Support programme. For instance, one of the projects it supported in 2021 (for the amount of EUR 9 500) aimed at developing bioplastics to improve production efficiency.

The Ministry of Energy and Natural Resources has an energy efficiency grant programme for establishments that consume more than 500 tonnes of oil equivalent (toe) per year. The programme offers a 30% grant up to EUR 95 400 per project.⁷⁹ Moreover, within the scope of the Efficiency Improvement Project Support Programme, conducted from 2009 to 2020, EUR 2.3 million was provided for 306 projects, achieving financial savings of EUR 7.7 million and energy savings of 72 000 toe.

The Ministry of Industry and Technology has also provided financial subsidies to the private sector (SMEs and larger companies) for green investments since 2012. Within the scope of the Investment Incentive System, SMEs can benefit from VAT exemption, customs duty exemption, tax deduction and interest support. For investment loans, up to a EUR 90 000 interest share is covered by the ministry.⁸⁰

As in the last assessment, international development co-operation partners and banks also support energy efficiency projects for SMEs through the Turkish Small and Mid-Size Sustainable Energy Financing Facilities (TurSEFF and MidSEFF) launched by the EBRD with support from the EIB and the European Commission. By 2021, TurSEFF had supported over 2 000 projects (360 in 2021), generating 671 MW of renewable energy. Through the MidSEFF programme, which ended in 2020, 1 515 MW of renewable

energy was created through the 80 projects supported. The subsequent Green Economy Financing Facility Turkey programme was launched in 2022 in the amount of EUR 50 million.

While information-based instruments on green practices are widespread in Turkey, the impact of other non-financial tools remains rather limited

SMEs are increasingly provided with information-based tools for their greening efforts, with business associations playing a leading role in this regard (Box 19.12). For instance, the Business Council for Sustainable Development (SKD Turkey), comprised of 13 private-sector entities, has a platform that enables interaction and partnership among enterprises of all sizes, particularly on the transition to a low-carbon economy and resource efficiency. TIM has also been active in developing and promoting greening measures for SMEs through several programmes. TIM runs several (digital) mentoring and training programmes on the minimisation of waste, the acquisition of energy from waste, the development of waste management business models for exporters and corporate carbon footprints. TIM's Ecological Export Academy facilitates partnership and best-practice exchange between firms.

Eco-labels and environment management systems (EMS) are legislated in Turkey and promoted by KOSGEB. For example, the Green Deal Action Plan 2021 has a special target that aims to put into practice the environment label system, along with newly introduced criteria. In this regard, TIM provides technical assistance on environmental certifications (in particular, for the Renewable Energy Resource Guarantee System). Nevertheless, there are no aggregate data on the number of green certificates attributed to SMEs.

In the WBT region, Turkey stands out for its regulatory instruments, in particular, its performance standards, which set requirements for recycling and should incentivise SMEs to adopt greener practices. The Regulation on Packaging Waste Control, which introduced performance standards for packaging waste management in 2017, was revised in 2021. The amended regulation stipulates that until 2026, 70% of glass, 55% of plastic, 60% of metal, 75% of paper and 25% of wood should be recycled by the manufacturer. Increased percentages are also planned for 2031 (Government of Turkey, 2021^[114]).

Green public procurement policies were planned to be introduced in the last assessment with the promotion of goods and services with a minimum energy efficiency rating. However, no activities have been undertaken, and this option has been insufficiently used in practice.

The way forward for Dimension 9

- **Strengthen evaluation tools to ensure efficient implementation of SME greening policies, green certification and support programmes.** Turkey would need to improve its approach to monitoring the impact of different measures and tools to support the greening of SMEs. Cross-sectoral and systematic evaluation of greening measures targeting SMEs would help identify bottlenecks hindering SME greening and assess the impact of the financial support programmes offered by different institutions. Moreover, evaluation mechanisms will be necessary to ensure the efficiency of green certification awarding procedures. To ensure appropriate evaluation of measures, Turkey should also improve SME-specific greening data collection (on energy efficiency, green products, EMS and beneficiaries of public support measures). The recently formed working groups could be entrusted with these tasks in co-operation with TURKSTAT.
- **Introduce green public procurement measures to impose direct supply chain pressure on environmentally friendly goods and services.** Introducing green public procurement measures would boost the demand for resource-efficient, durable, recyclable, repairable products and promote new business models that offer functionalities and services instead of selling products. By using their purchasing power to choose goods and services with lower environmental impact, Turkish public authorities can help drive down the costs of such purchases and make them more affordable (OECD, 2021^[111]). In order to reach SMEs to enter the public market, green public procurement needs to be designed to address certain barriers that may limit their participation

(such as dividing contracts into lots by default, encouraging larger firms to form partnerships with smaller suppliers and increasing access to relevant information on green purchasing policy) (see Dimension 5a on public procurement for SMEs). Green public procurement can be used as a tool to further promote and implement SMEs' green practices, as seen in Denmark (Box 19.14).

Box 19.14. The Danish model of green public procurement

As part of Denmark's 2018 circular economy strategy, several initiatives were developed to promote green purchasing:

- **The Forum on Sustainable Procurement:** A national knowledge-sharing network where procurers from public and private organisations can keep updated on best practices, methods and tools for green procurement through a website, newsletters and various events.
- **The Partnership for Green Public Procurement:** A collaboration between frontrunner municipalities, regions and other public organisations committed to making extra efforts in partnership with other organisations to reduce the environmental impact of their procurement actions and drive the market in a greener direction.

These two initiatives appointed a joint secretariat for procurement to ensure co-ordination. Soon after, an additional task force on green procurement was developed to focus on the circular economy and has expanded to target – in addition to public institutions – private enterprises, including SMEs. Moreover, the Ministry of Environment established an annual event on green purchasing called the Green Procurement Week.

One of the main initiatives developed by the task force on green procurement was the creation of an online portal called “The Responsible Procurer”, where procurers can find green criteria ready to copy and paste into tender documents for a number of product areas and total-cost-of-ownership tools for selected product areas.

The Danish government is set to prepare a number of new total cost and lifecycle tools and incorporate costs or revenues from waste management and resale into existing and new tools.

Sources: Ministry of Environment of Denmark (European Commission, 2021^[62]) and OECD (2020^[115]).

Internationalisation of SMEs (Dimension 10)

Introduction

Expansion into foreign markets and SME internationalisation are key factors in boosting SME productivity and competitiveness on a global scale. Supporting export promotion, sustainable integration into global value chains and opening digital sales channels need to be supported through concrete policy actions and enhanced governmental support. With such support, SMEs can broaden their reach, improve productivity, and introduce innovative practices.

With over 3 million SMEs,⁸¹ the key challenge faced by the government in Turkey is increasing the productivity and absorption capacity of SMEs, as well as their competitiveness, in order to successfully integrate into the global market. The COVID-19 pandemic has put an additional strain, particularly on SMEs; therefore, a broad range of well-coordinated policies is required to boost SMEs' internationalisation and productivity.

Turkey established itself as a leader in the region, outperforming the Western Balkan economies under all sub-dimensions (Table 19.27). The economy also improved its score since the last assessment cycle, when it scored 4.40. Due to a number of strategic documents and their successful implementation, the economy performed particularly well in the area of export promotion and promoting the use of e-commerce. Since the last assessment cycle, Turkey has improved under almost all sub-dimensions; however, there is still room for improvement in monitoring and evaluation, especially in the area of SME integration into GVCs.

Table 19.27. Turkey's scores for Dimension 10: Internationalisation of SMEs

| Dimension | Sub-dimension | Thematic block | Turkey | WBT average |
|--|--|---------------------------|-------------|-------------|
| Dimension 10: Internationalisation of SMEs | Sub-dimension 10.1: Export promotion | Planning and design | 5.00 | 4.61 |
| | | Implementation | 4.93 | 4.24 |
| | | Monitoring and evaluation | 4.56 | 3.65 |
| | | Weighted average | 4.88 | 4.23 |
| | Sub-dimension 10.2: Integration of SMEs into global value chains | Planning and design | 4.11 | 3.88 |
| | | Implementation | 4.79 | 3.57 |
| | | Monitoring and evaluation | 3.00 | 2.70 |
| | | Weighted average | 4.23 | 3.49 |
| | Sub-dimension 10.3: Promoting the use of e-commerce | Planning and design | 5.00 | 3.62 |
| | | Implementation | 4.75 | 3.15 |
| | | Monitoring and evaluation | 5.00 | 3.29 |
| | | Weighted average | 4.88 | 3.32 |
| | Turkey's overall score for Dimension 10 | | 4.62 | 3.80 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Turkey has advanced considerably in the area of SME internationalisation, particularly in terms of export promotion and e-commerce. The government has successfully implemented numerous SME support programmes and amplified their monitoring and evaluation. With multiple strategies in parallel, Turkey places a clear focus on shifting the economy's exports into higher value-added positions and integrating

domestic SMEs into supplier bases of MNEs operating in Turkey through an array of capacity-building projects and financial support. The economy made progress in implementing the last cycle's recommendations (Table 19.28), particularly in the area of raising awareness about available SME support, which in turn led to an increase in uptake. Furthermore, by introducing an enhanced monitoring and evaluation system for all SME support programmes, which formalises the process of feedback collection, Turkey has advanced in implementing improved evaluation measures and impact assessment tools.

Table 19.28. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 10

| 2019 recommendation | SME Policy Index 2022 | |
|---|--|-----------------|
| | Main developments during the assessment period | Progress status |
| Reform customs services by considering the needs of SMEs | Turkey has a Single Window System in place for streamlining customs procedures. Since the last assessment cycle, the Ministry of Trade introduced an amendment to the Customs Regulation, further facilitating procedures for transit regimes (Ministry of Trade, 2021 ^[116]). However, while the cost and time for exports and imports were reduced, SMEs remain without adequate support, such as information help desks for keeping up with current legislation. | Limited |
| Improve the flow of information and increase awareness of support programmes among SMEs, especially for export promotion | Turkey made progress in improving the flow of information about available support, as available on the Ministry of Industry and Technology's online portal at https://www.yatirimadestek.gov.tr/ . The portal contains a question-and-answer feature, which allows SMEs to directly pose a question and receive an answer from the experts from the Investment Support Offices. In addition, the website encompasses a list of investment incentives and an automated informative tool on support available to SMEs and potential investors. Additional information can be found on KOSGEB's website. Limited progress has been made in raising awareness about current programmes and direct B2B matching between MNEs and SMEs. | Moderate |
| Introduce better evaluation through measures that also assess the impact and effectiveness of its programmes | Turkey made some progress in creating a formalised structure for SME feedback collection during the support programme implementation. The structure entails a formalised system to survey support beneficiaries through interviews and focus groups. Nevertheless, there is limited advancement in the area of evaluation and assessment of projects' impact in the area of GVC programmes. | Moderate |

Turkey developed a broad range of export promotion programmes while maintaining its strong regulatory framework

Turkey has a well-developed strategic framework for export promotion. It is defined by both its obligations under the World Trade Organisation and the Customs Union between Turkey and the European Union. Turkey is implementing multiple strategies in parallel: the Ministry of Economics' Strategic Plan (2018-2022), the Eleventh Development Plan (2019-2023), the KOSGEB Strategic Plan (2019-2023) and the 2023 Turkey Export Strategy and Action Plan. As a consequence, it has numerous export promotion programmes in place that are successfully implemented by ministries and government agencies.

Since the last assessment cycle, there has been a shift in the strategic focus of the KOSGEB Strategy Plan (2019-2023) to include establishing a guidance and technical consultancy system for SMEs to encourage institutionalisation and intensified branding of Turkish exports (KOSGEB, 2019^[78]). The strategies consistently highlight Turkey's strategic commitment to increasing and expanding the economy's exports. The Eleventh Development Plan (2019-2023), for example, sets a target of USD 226.6 billion in exports by 2023 (Presidency of Turkey, 2019^[37]).

Export promotion falls within the purview of the Ministry of Trade's General Directorate of Exports, TIM,⁸² and KOSGEB. All bodies assist SMEs in their export promotion efforts by implementing support programmes. Since the last assessment cycle, the government has implemented multiple programmes,⁸³

with focus ranging from SME export preparation, boosting international competitiveness, foreign market research to assistance in branding, as well as international trade fair participation, support in the digitalisation of operations and foreign market expansion (Box 19.15).

Box 19.15. SME Export Mobilisation Training Programme in Turkey

TIM is an umbrella organisation for 61 export associations and over 100 000 exporters across 27 sectors. Within the framework of the SME Export Mobilisation Training Programme, TIM organises capacity-building activities with the goal of encouraging SMEs in the region to export their products and services. The programme consists of a series of training modules for SMEs to learn about starting to export, boosting their export capacity and available support and financing. The SME Export Mobilisation Training Programme was inaugurated in 2019, and since then, TIM has organised 17 trainings for SMEs with 3 designated target groups: newly established enterprises aiming to develop their operations, more mature SMEs intending to export and SMEs with the goal to expand their exports further.

As a result of the SME Export Mobilisation Training Programme, 37 000 companies started exporting their products and services to 147 countries and regions. Catering to three distinctive groups of SMEs at different stages of development, the Programme provides tailored support adapted to SMEs' needs. The latest training in Eskişehir was focused on the defence and aviation sectors. The city became one of the leaders in the region, exporting USD 924 million in the first months of 2021. Its defence and aviation exports amounted to USD 246 million in the first months of 2021, increasing by 12% compared to the same period in 2020. The five most exported products of Eskişehir are turbo-jets, plastic products, magnesite, aircraft and helicopter parts, and iron and steel materials.

Source: The Turkish Exporters Assembly (OECD, 2021^[8]).

Export promotion support programmes have been consistently meeting and even slightly exceeding their set targets. Under the Turquality programme, which aims to increase the global visibility of Turkish brands and therefore increase the export volume, the total number of supported brands amounted to 289 in 2019, slightly exceeding the 280 target. Additionally, the target of 46 UR-GE projects – supporting the development of international competitiveness – was exceeded by 56.5% to amount to 72. The target of 2 100 exporters supported through trade fair participation was met. Between 2020 and 2021, 653 SMEs were supported through KOSGEB's International Market Support Programme, which aims to enhance the trade openness of Turkish SMEs and improve their export capacity. Some 70% of the funding available for export promotion activities and SME integration into GVCs is within the structure of the International Market Support Programme (OECD, 2021^[117]).

Moreover, the Central Bank of the Republic of Turkey (CBRT) introduced a dedicated loan scheme – the Advanced Loans Against Investment Commitment – to increase exports and reduce imports. The loans of a maximum maturity of ten years and with favourable interest rates of 150 basis points below the policy interest rate will be managed by the Investment and Development Bank of Turkey. In 2021, CBRT also started extending export and foreign exchange earning services rediscount credits against Turkish lira denominated bills in addition to its existing foreign exchange (FX) rediscount credits programme.

The government continues to improve the positioning of SMEs in GVCs and foment MNE-SME linkages⁸⁴

Turkey supports SMEs in their integration into GVCs through the Directive on Supporting Certificates of Market Access and Supporting the Improvement of International Competitiveness Programme. Both

initiatives are linked to the Eleventh Development Plan (2019-2023), the 2023 Turkey Export Strategy and Action Plan and the new Foreign Direct Investment Strategy (2021-2023). The strategies governing GVCs integration are consistent in aiming for the higher positioning of Turkish SMEs within value chains as well as a shift to higher value-added activities through establishing MNE-SME linkages and integrating SMEs into large enterprises' suppliers' networks by improving the quality and capacity of the SME supplier base. Turkey emphasised the importance of technology, with the government consistently increasing the support payments to medium-high and high-tech enterprises to promote higher value-added Turkish exports. However, the share of SMEs in high and medium technology segments is limited, compared to 56.9% of SMEs active in lower technology manufacturing (European Commission, 2021^[107]).

The government adopted the Foreign Direct Investment Strategy (2021-2023)⁸⁵ (Presidency of Turkey, 2021^[118]) that includes policies aiming to improve the supplier base in Turkey. The strategy envisages creating a programme for Turkey-based MNEs and their SME suppliers to assist in the SMEs' R&D projects and provide them with co-financing opportunities. Furthermore, the strategy aims to establish dedicated platforms to improve MNE-SME co-operation and stimulate joint venture projects. As one of the bodies responsible for implementation, KOSGEB increased its budget⁸⁶ dedicated for that purpose, illustrating an increased commitment to SME integration into GVCs.

Within the framework of the Foreign Direct Investment Strategy (2021-2023), the government plans to promote SMEs' integration into GVCs through increased participation in MNE supplier networks by focusing on upgrading the quality of the supplier base in Turkey and therefore incentivise Turkey-based MNEs to search for domestic SME suppliers. The newly implemented Global Supply Chain Entry Support Programme grants support for machinery and software procurement, training, consultancy services, certification, and standardisation for SMEs in the manufacturing sector to upgrade their production facilities, improve their competitiveness and assist them in adhering to international standards. The latter is particularly important in the context of Turkey, which has a Customs Union agreement with the European Union.

In addition to shifting the exports to high-technology areas and improving the suppliers' base quality across the economy, while promoting intensified MNE-SME linkages, Turkey's New Economy Programme envisages reduced import dependency. Coupled with the trade protection measures⁸⁷ introduced during the COVID-19 crisis, this commitment to reducing import dependence may conflict with Turkish ambition to deepen international integration of the economy. While having potential short-term benefits (in terms of domestic production and employment), these policies risk having a negative impact on further integration into global production networks (due to increasing the cost of participation in GVCs) (OECD, 2021^[8]).

GVC programmes' effectiveness varies and demonstrates a need for facilitated SME outreach to MNEs

KOSGEB's GVCs programmes, though well targeted, do not enjoy a high uptake, missing 2021 targets. In 2021, there was an almost twofold drop in the number of SMEs that collaborated with large enterprises as a result of KOSGEB's projects passing from 100 in 2020 to 56 in 2021, while the set target was 132 (KOSGEB, 2022^[119]). Although Turkey's efforts to include the stakeholders, the private sector and potential support beneficiaries in the programmes' design process are worth noting, the information on GVC integration can be found through a variety of websites (Ministry of Trade, KOSGEB and the Investment Support Offices), instead of a centralised portal dedicated to SMEs aiming to collaborate with MNEs. While KOSGEB's website offers relevant information about SME integration into GVCs, it does not provide a B2B marketplace for SMEs to gain additional exposure and match them to relevant Turkey-based suppliers. There are currently no government-coordinated B2B portals to directly match SMEs with potential investors.

While feedback collection from GVC programme beneficiaries has advanced, monitoring and evaluation mechanisms could be improved

In February 2019, the government introduced a formal framework for feedback collection – the KOSGEB SME Guidance and Technical Consultancy Services Regulation – containing guidelines for analysing the current SME landscape, identifying and solving outstanding issues, and developing skills and competencies to successfully compete in domestic and international markets. KOSGEB conducts regular visits to survey and interview potential SME support beneficiaries about their support needs and suggestions on the programmes available to them, which further strengthens the feedback collection system. This structure can contribute to designing more targeted, efficient and effective support measures for SMEs.

In addition, GVC integration activities are subject to an independent budgetary review by the Supreme Court of Public Accounts on an annual basis. Furthermore, KOSGEB presents the results of its programmes in activity and performance reports. However, monitoring and evaluation from the angle of programme effectiveness seems to be lacking from the reviews conducted by the Supreme Court of Public Accounts, while KOSGEB's reporting does not cover the information on the real impact of undertaken projects, thus limiting the information flow and lowering the transparency and accountability within the economy. The government collects data on SME integration into GVCs with limited information on its availability. In publicly available reports, KOSGEB publishes information on the number of SMEs that started collaborating with larger enterprises. How these SMEs actually perform after having integrated into the supplier networks of MNEs, and whether the collaboration is beneficial for them is not communicated in the report.

Turkey's strong framework and broad support for e-commerce facilitate the achievement of ambitious strategic goals

Turkey has a fairly well-developed strategic framework for e-commerce promotion, which is linked to the Eleventh Development Plan (2019-2023). The government has set a legal and strategic framework for e-commerce, e-payments and consumer protection, in line with EU Directives. Within the Ministry of Trade, the E-Commerce Directorate was established and entrusted with implementing e-commerce and e-payment programmes. SMEs have access to continuous support through the Programme to Support Market Research and Market Entry.

The Eleventh Development Plan (2019-2023) envisages a target of a 10% ratio of e-commerce in the retail market by 2023 (Presidency of Turkey, 2019^[37]). In 2018, that ratio stood at 4.5%. In 2019 and 2020, it increased to 7% and 15.7%, respectively, exceeding the plan's 2023 target. Similarly, the target was exceeded in the first months of 2021, with the e-commerce ratio reaching 17.6% (Ministry of Trade, 2021^[120]).

The government also plans for the e-commerce transaction volume to reach TRY 300 billion (approximately EUR 17 billion) in 2023. Since the previous assessment, the e-commerce transaction volume raised from TRY 136 billion in 2019 (approximately EUR 7.6 billion) to TRY 226.2 billion (approximately EUR 13 billion) in 2020. Furthermore, the Eleventh Development Plan (2019-2023) aims for the percentage of online shopping to reach 43% in 2023. In 2019, it amounted to 34.1% and 36.5% in 2020, thus well on track to achieve the target, given the general increase in online commerce.

At the peak of the COVID-19 pandemic, approximately 40% of the population used the e-commerce sales channel to purchase goods and services, which illustrates that Turkey is well-versed in e-commerce practices that have a cross-economy outreach and the e-payment infrastructure to do so. The Eleventh Development Plan (2019-2023) also envisages 5 000 websites with the Trust Stamp in 2023. At the time of writing,⁸⁸ there were 76 websites with the Trust Stamp; thus, to achieve its goal, Turkey needs to accelerate and amplify its efforts to raise awareness among online businesses.

SMEs in Turkey have access to a variety of e-commerce support programmes; the E-Commerce Academy grants them training opportunities in the area of search engine optimisation, global online marketing, social media marketing, cyber security and managing a digital sales channel, among others. Since the last assessment cycle, in accordance with Decree 2573, e-commerce membership fees for participation in the B2B online marketplace are subsidised for up to two years for a maximum of three different platforms. The Ministry of Trade provides SMEs with a 60% reimbursement of e-commerce annual membership fees, advertising and promotional material expenses, access to market reports from international databases, 50% reimbursement of virtual trade fair participation, training services for e-export and grants for e-commerce-related activities. To combat the negative effects of the COVID-19 pandemic, the government extended the timeline of approved support projects for another six months.

The way forward for Dimension 10

- **Strengthen efforts to effectively monitor and evaluate the impact of SME global value chain activities and their impact.** While GVC programmes in Turkey are monitored, evaluated, and subject to an independent review, data on their real impact on SME performance and expansion is missing. Placing emphasis on the impact assessment of GVC programmes and SME activity after the support programmes have ceased would give KOSGEB and the government a broader insight into potential inefficiencies of the programmes and their viability, allowing for improvements and modifications to better suit both the SMEs and their MNE collaborators. The recently implemented KOSGEB monitoring system is a solid basis for a comprehensive impact assessment of GVC programmes. Analysing support given to SMEs in their efforts to integrate into GVCs to ensure comparability between the programmes and measure their effectiveness for SMEs could contribute to better streamlining support provided.
- **Develop a business-to-business matchmaking portal or directory to connect multinational enterprises to their potential SME suppliers more effectively.** While SMEs in Turkey have wide access to information about GVC integration support and have an array of support programmes at their disposal, they do not benefit from exposure in international markets, which would be granted by a government-run B2B marketplace. The government should create a consolidated portal, available free of charge, granting SMEs global exposure while linking them directly to an interested MNE (see Box 19.16 for a relevant example from Korea). The government should ensure that SMEs, by presenting their offer on the platform, could be directly matched to an MNE, which has predefined their demand for particular suppliers prior to registering on the platform. Facilitating SME-MNE linkages by providing a direct channel for negotiations, supported by the government, could greatly contribute to SME integration into Turkey-based MNEs' supplier networks.

Box 19.16. A B2B matchmaking platform in Korea

The Korea Trade-Investment Promotion Agency (KOTRA) introduced a BuyKorea platform, a global marketplace operated by the agency that reports to the government. Potential buyers can post inquiries about specific products through the website, ensuring they will get an answer directly from the supplier, eliminating the need for an intermediary and lowering transaction costs. The buyers can also directly request a quote from the companies featured on the portal. Furthermore, the website features the latest trade news, information on trade shows and industry trends, making it a one-stop-shop for potential investors and buyers.

The platform is accessible to large enterprises and individual customers alike, and payment is enabled by PayPal or a credit card, which further facilitates cross-border transactions. At the time of assessment, the portal contained offers of 260 000 Korean products (including semi-transformed products, parts and

components, semiconductors) available for purchase from an estimated 50 000 sellers. The products are divided into easily accessible categories, making the portal user-friendly, and granting facilitated global exposure to Korean SME suppliers. Their products reach an estimated 3.4 million buyers. The platform is available free of charge in English and Korean. Registration is required for buyers and suppliers alike.

While Turkey provides broad and comprehensive support to SMEs aiming to integrate into GVCs and the information on available programmes is well diffused, the economy lacks a centralised B2B portal to facilitate direct linkages between SME suppliers and MNEs. Turkey could leverage KOSGEB's expertise and platform to create a government-run B2B marketplace, available free of charge, to showcase Turkish products for exports and potential suppliers for interested investors. The platform would be in line with Turkey's branding programmes, as it could include a number of Turquality products, gaining international exposure.

Source: KOTRA and buyKUROEA (2021^[121]).

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Notes

1. A build-operate-transfer (BOT) contract is a model used to finance large projects such as infrastructure projects developed through public-private partnerships. The BOT refers to the initial concession by a public entity to a private firm to both build and operate the project. After a set time frame, pre-define in the contract, e.g. 30 years, the control of the project/infrastructure is returned to the public entity.
2. Opened accession negotiation chapters: Free Movement of Capital; Company Law; Intellectual Property Law; Information Society and Media; Food Safety, Veterinary and Phytosanitary Policy; Taxation; Statistics; Enterprise and Industrial Policy; Trans-European Networks; Environment; Consumer and Health Protection; Financial Control; Regional Policy and Co-ordination of Structural Instruments; Economic and Monetary Policy; Financial and Budgetary Provisions.
3. The National Youth Employment Strategy Action Plan consists of 13 concrete targets and 109 measures across 3 main policy objectives: strengthening education-business co-operation; increasing the employment of NEETs; and focusing on future jobs.
4. See the following:

Primary and lower secondary: Seen in: 1) the Production, Distribution and Consumption Unit within the Social Studies course, a compulsory course at the basic education level, where the guidance states, “While this learning area is being studied, it should be ensured that the students acquire skills such as cooperation, innovation, entrepreneurship and research with the value of responsibility” (see <http://mufredat.meb.gov.tr/ProgramDetay.aspx?PID=354>); 2) in the introductory part of the compulsory Science course at the basic education level, learners are asked to create strategies and use promotional tools to market a product in order to develop entrepreneurship skills, e.g. students can prepare newspaper, Internet, television advertisements or shoot short films for promotional purposes (see <http://mufredat.meb.gov.tr/ProgramDetay.aspx?PID=325>, accessed on 15 January 2022).

Upper secondary: Seen in the elective Entrepreneurship course, which is a one-hour lesson per week (see <http://mufredat.meb.gov.tr/ProgramDetay.aspx?PID=788>).

Vocational education: Seen in: 1) the fifth learning unit of the Vocational Development Workshop course curriculum, called Entrepreneurial Ideas, Business Establishment and Execution. This takes place in 9th grade for two hours per week (see <http://meslek.eba.gov.tr/?p=OgreTim-Programi&tur=mtal&sinif=9>); 2) the Ahi Culture and Entrepreneurship course, compulsory for one hour per week in 12th grade framework curriculum.

5. This is also a commitment in the Ministry of Education Strategic Plan (2019-2023), Action 3.3, though more detail is required.
6. For more information, see <https://www.deneyapturkiye.org/>.
7. Junior Achievement Turkey runs e-talks by entrepreneur role models via Zoom (<https://www.gencbasari.org/duyuru>), and a project introducing entrepreneur role models into schools is ongoing, though impact information is limited (see www.istanbulggk.org/girisimciler-liselerde-projesi/ and www.istanbulggk.org/girisimciler-liselerde-2020-odulleri-sahiplerini-buldu/).
8. For more information, see <https://www.tursab.org.tr/tursab-akademi>.
9. For more information, see <https://www.tobb.org.tr/TOBBKadinGirisimcilerKurulu/Sayfalar/AnaSayfa.php>.
10. For more information, see <https://kagider.org/>.
11. For more information, see <https://kizkardesim.net/>.
12. For more information, see <https://kagider.org/tr/projeler/kagider-pusula>.
13. For more information, see <https://kagider.org/tr/projeler/turkiyenin-kadin-girisimcisi-yarismasi>.
14. For more information, see <https://turkiyevodafonevakfi.org.tr/en/projects/other-projects/women-first-in-entrepreneurship/>.
15. For more information, see <https://www.ticaretinkadinlari.com/>.
16. For more information, see <https://melekyatirimcilar dernegi.org/business-angels-law-of-turkey/>.
17. The Law on Enforcement and Bankruptcy was amended at the end of 2018, July 2019, July 2020 and June 2021.
18. Article 287: The extension is three months temporary, plus two months exceptional extension.
19. The data gathered and published at UYAP does not differentiate between enforcement cases and bankruptcy cases. Thus for 2021, the report shows: 8 017 753 opened cases and 7 657 120 closed, leaving 22 571 596 unresolved cases. For 2020, there were 6 342 827 reported opened cases, 6 259 964 closed and 22 196 090 pending (UYAP Information System, 2022^[56]) The data show a 28% increase of opened enforcement cases and bankruptcy cases, a 22% increase in closed cases and a minor change in the backlog of 22 million pending unresolved cases. While in 2020, the number of opened cases was 1.3% more than the closed cases, in 2021 it grew 3 times to a 4.7% higher number of opened cases compared to resolved cases, which a 1.6% increase in pending unresolved enforcement and bankruptcy cases.
20. The measures provided for extending the maturities of loans, loans refinancing, providing additional loans, deducting the principal, interest, default interest, delay penalties and dividends and any other receivables arising from the loan relationship, including banks to give up partially or completely, to reduce collateral, to receive principal, interest or dividends.
21. The most affected economic sectors that restructured their debt in 2019 were energy (90%) and tourism (5%). In 2020, manufacturing (28%), construction (21%), transport (9.65%) and tourism (9.51%). In 2021, construction (17%), manufacturing (16%), tourism (13.65%) and energy (13.41%) (The Turkish Exporters Assembly and Turk Ekonomi Bankasi, 2021^[108]).
22. The Insolvency Law of Serbia, Article 158, provides for pre-packaged hybrid bankruptcy reorganisation plans.
23. A federated digital identity system allows users to connect to different platforms using different digital identity management systems, thanks to attributes that are scattered across these systems.

24. According to the *Small and Medium Enterprises Statistics, 2020* published by TURKSTAT on 28 October 2021, there are 3 295 995 SMEs in Turkey (TURKSAT, 2020^[32]).
25. KOSGEB is implementing a variety of support programmes, including the Entrepreneurship Training, the Traditional Entrepreneur Support Programme (conditional on completing the training) to the Advanced Entrepreneur Support Programme and the Business Plan Reward Support Programme. Additionally, it provides financial support through the SME Finance Support Programme.
26. The main goal of development agencies is to develop and advance the institutional and technical capacity of SMEs while increasing their competitiveness and innovation capacity domestically and internationally.
27. The special conditions include winning the dedicated KOSGEB SME and Entrepreneurship awards, fitting into defined scopes of other KOSGEB's projects or areas of work, such as certification, employment support, female entrepreneurship support or domestic goods production support.
28. İŞGEM and TEKMER programmes.
29. For more information, see <https://www.trakyaka.org.tr/tr/44109/2021-Yili-Teknik-Destek-Programlari-Ilanj>; <https://izka.org.tr/2021-yili-teknik-destek-programi/> and <https://zafer.gov.tr/tr-tr/Faaliyetler/Proje-Destekleme/Ge%C3%A7mi%C5%9F-Destek-Programlar%C4%B1/Teknik-Destek-Programlar%C4%B1/2021-TD>.
30. Eleventh Development Plan, Article 324.
31. Eleventh Development Plan, Article 377.
32. Eleventh Development Plan, Article 468.
33. PPL, Article 5.
34. PPL, Article 63.
35. The value of the threshold is set in Article 8 of the PPL.
36. The first two types of preferences are related to the origin (seat) of an economic operator (bidder); the other two concern the origin of the goods.
37. A price advantage of up to 15% should be provided in favour of Turkish bidders in services and works, and to bidders (both domestic and foreign) offering Turkish products where the supply of goods is involved. Foreign bidders can also benefit from the price advantage if they obtain a domestic goods certificate for items they produce in Turkey, or offer products with a domestic goods certificate. Where tenders are found to be equal at the evaluation stage, preference may be given to the supplier whose offer contains more Turkish content. Compulsory domestic preferences (a price advantage of up to a maximum of 15%) are applied when purchasing medium- and high-technology products. In 2015, the Ministry of Industry and Technology adopted a list of these products. The list is updated in January of each year based on opinions in the sector, and is reported to the PPA.
38. PPL, Article 53.
39. PPL, Article 56.
40. PPL, Article 55.
41. PPL, Article 56.
42. PPL, Article 57.

43. PPL, Article 54.
44. PPL, Article 53.
45. In 2021, Getir, a delivery service provider, raised over USD 978 million in funding, while Dream Games, a mobile game start-up, raised USD 205 million.
46. iVCi was Turkey's first-ever dedicated fund of funds and co-investment programme. Investors in iVCi were KOSGEB, the Technology Development Foundation of Turkey, the Development Bank of Turkey, Garanti Bank, the National Bank of Greece Group and the European Investment Fund. iVCi has acted as a catalyst for the development of the venture capital market in Turkey. By leveraging on the European Investment Fund's experience, iVCi has provided access to finance to Turkish companies through investments in independently managed funds and co-investments. iVCi has now successfully completed its investment period, having fully committed to ten portfolio funds and leveraged over EUR 1.5 billion in third-party capital.
47. A Fund of Funds (FOF) is an investment vehicle where a fund invests in a portfolio composed of shares of other funds rather than investing directly in [stocks](#), [bonds](#), or other securities. The strategy of investing in a fund of funds aims to achieve broad diversification and asset allocation where investors can get broader exposure with reduced risks compared to investing directly in securities (Corporate Finance Institute, 2022^[124])
48. See KOSGEB Distance Education and Learning Management System at <https://lms.kosgeb.gov.tr/>.
49. For more information on the smart specialisation approach driven at the regional level in Turkey, see <https://s3platform.jrc.ec.europa.eu/turkey>.
50. See:
 TOBB – Union of Chambers and Commodity Exchanges of Turkey, <https://www.tobb.org.tr/>
 TESK – Turkey Tradespeople and Artisans Confederation, <https://www.tesk.org.tr/>
 TURKONFED – Turkish Enterprise and Business Confederation, <https://turkonfed.org/>
 TOSYOV – Turkish Small and Medium-Sized Enterprises Self-employed Persons and Managers Foundation, <https://tosyov.org.tr/> and <https://tosyovakademi.org.tr/>.
51. For more information, see <https://www.geleceginbecerileri.com/en/gelecegin-becerileri-programi/>.
52. For more information on the 2020 labour market research developed by ISKUR, see <https://media.iskur.gov.tr/45570/turkiye.pdf>, which is complemented by a range of regional level intelligence. See, for example:
 Niğde: <https://media.iskur.gov.tr/45193/nigde.pdf>
 Kırşehir: <https://media.iskur.gov.tr/45182/kirsehir.pdf>
 Kırıkkale: <https://media.iskur.gov.tr/45180/kirikkale.pdf>
 Aksaray: <https://media.iskur.gov.tr/45136/aksaray.pdf>.
53. The Entrepreneur Trainee Academy supports entrepreneurial internships for aspiring entrepreneurs at leading companies and is led by the TOBB Istanbul Young Entrepreneurs Board. See www.istanbulggk.org/girisimci-stajyer-akademisi/.
54. The “I Can Manage my Business” programme was launched in 2019 with the support of 27 banks in Turkey and as a collaboration with TÜRKNFED, the UNDP and Visa Turkey. The aim of the project is to support SMEs in gaining the knowledge and skills they need to realise their growth

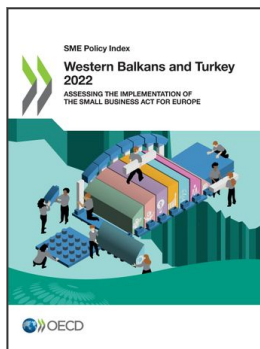
- potential. For more information, see <https://www.visa.com.tr/visa-everywhere/social-impact/i-can-manage-my-business/about-the-project.html>.
55. For example, via a programme by Ahiler Development Agency that addresses sustainable development within the manufacturing sector. For more information, see İmalat Sanayiinde Verimlilik ve Kurumsallaşma Mali Destek Programı at <https://www.ahika.gov.tr/destekler/destek-programlari-arsivi>.
 56. For example, via a resource efficiency training led by the Bebka Development Agency; see <https://www.bebka.org.tr/haber/bebkadan-yenilenebilir-enerji-ve-kaynak-verimliliği-semineri-730>.
 57. The Turkish Women Entrepreneurs Physical/Online Network Program and the Export Academy Program of the Ministry of Commerce were selected as good practice examples by the SheTrades platform. See <https://www.shetrades.com/outlook/good-practices/0>.
 58. For more information, see <https://lms.kosgeb.gov.tr/>.
 59. For more information, see <https://www.sosyalgirisimcilikagi.org/>.
 60. See available support via KOSGEB at <https://en.kosgeb.gov.tr/site/tr/genel/destekdetay/7210/entrepreneurship-training> and ISTKA at https://www.istka.org.tr/media/132422/%C4%B0stka_2021_g%C4%B0r.pdf.
 61. For more information, see <https://cosme.kosgeb.gov.tr/sosyal-ekonomi-misyonlari-cagrisi-egitimi-gerceklestirildi/>.
 62. See information on the Ahiler Social Entrepreneurship training at <https://www.ahika.gov.tr/assets/upload/dosyalar/ahika-2021-sogep-bilgilendirme-toplantisi-sunumu.pdf> and the OKA Social Innovation Summer School final report at <https://oka.ka.gov.tr/assets/upload/dosyalar/sosyal-inovasyon-yaz-okulu-final-raporu-38-80.pdf>.
 63. For more information, see <https://www.tr.undp.org/content/turkey/en/home/projects/smes-through-digitalization.html>.
 64. For more information, see <https://www.tr.undp.org/content/turkey/en/home/projects/COVID-19-response.html>.
 65. This work is carried out in collaboration with UNDP and supported by EU funding. See <https://www.tr.undp.org/content/turkey/en/home/projects/applied-sme-capability-building-center--model-factory-.html> and <https://www.tr.undp.org/content/turkey/en/home/presscenter/pressreleases/2021/02/UNDP-Model-Fabrika-ve-Yenilik-Merkezleri.html>.
 66. For more information, see <https://www.tr.undp.org/content/turkey/en/home/presscenter/pressreleases/2021/02/UNDP-Model-Fabrika-ve-Yenilik-Merkezleri.html>.
 67. For more information, see <https://www.kosgeb.gov.tr/site/tr/genel/detay/8139/model-fabrika-egitmeni-yetistirme-programi>.
 68. For more information, see <https://www.visa.com.tr/visa-everywhere/social-impact/i-can-manage-my-business/about-the-project.html>.
 69. For more information on TÜBİTAK TÜSSİDE, the Turkish Industry Management Institute established to conduct R&D in management sciences, see <https://tusside.tubitak.gov.tr/>, and on the D3A study, see <https://www.akilikobi.org.tr/tubitak-d3a/#>.

⁷⁰ For more information, see <https://ec.europa.eu/docsroom/documents/45256>. The European Enterprise Promotion Awards is led by KOSGEB. Information is lacking, however, on how it is implemented and whether practices submitted are also shared at the national level.

71. The annual European Innovation Scoreboard provides a comparative assessment of research and innovation performance of the countries of the European Union and its regional neighbours. It allows policy makers to assess the relative strengths and weaknesses of national research and innovation systems, track progress, and identify priority areas to boost innovation performance. See the regional chapter on Innovation for SMEs (Dimensions 8b) for further information.
72. See <https://s3platform.jrc.ec.europa.eu/where-we-are>.
73. For instance, the Energy Efficiency Forum and Fair is organised every year by the Ministry of Energy and Natural Resources.
74. Following model factories in Ankara, Bursa, Konya, Kayseri provinces, innovation centres and model factories are now operational in Izmir, Mersin and Gaziantep under the Turkey Resilience Project in Response to Syria Crisis (TRP), implemented by the UNDP in co-operation with the Ministry of Industry and Technology, and with funding from the European Union. Aiming to boost innovation, digitalisation, entrepreneurship ecosystems and productivity in manufacturing, the centres will ensure a technology-oriented transformation of the local manufacturing industry, improve competitiveness and prepare enterprises for the new industrial revolution to trigger sustainable growth.
75. The Working Group is comprised of KOSGEB personnel working in the Departments of Technology, Innovation and Indigenization; European Union and Foreign Relations; Project Management and the Directorates of Izmir, Bursa (West Bursa), Istanbul (IMES).
76. The training was held in July 2021 within the scope of the COSME Turkey Project. Presentations on the Paris Agreement, the United Nations Sustainable Development Agenda and the Green Deal were conveyed to the participants.
77. This measure was undertaken as part of the IPA Technical Assistance for Enhancement of Institutional Capacity in Energy Efficiency programme.
78. For instance, the Firat Development Agency has provided preliminary energy audits to four SMEs in Malatya, four SMEs in Elazig and two SMEs in Bingöl to encourage them to engage in energy efficiency measures.
79. Conditions for 2022 are available at <https://enerji.gov.tr/duyuru-detay?id=191>.
80. For instance, investments for energy efficiency projects designed to save energy in manufacturing industry plants with a minimum 500 toe of annual energy consumption by at least 20% on the baseline, with a simple payback period of five years or shorter are allowed to benefit from VAT exemption, customs duty exemption, land allocation and loan interest rate support up to 5%.
81. According to the *Small and Medium Enterprises Statistics, 2020* published by TURKSTAT on 28 October 2021, there are 3 295 995 SMEs in Turkey (TURKSAT, 2020^[32]).
82. TIM is an umbrella organisation of the Exporters Associations based on Turkish Joint Stock Company of The Union of Exporters of Live Animal. It was established by the decision of the Council of Ministers and falls within the framework of the Law No. 5910 Turkish Exporters Assembly and Law on the Establishment and Duties of Exporters Associations.
83. SME Export Preparation Loans from Turkexim Bank and the Ministry of Trade, Report Purchase Support, Supporting the Development of International Competitiveness Programme, Foreign Market Research Support, Branding And TURQUALITY® Support, Overseas Business Trip

Support, Supporting Digital Activities in Market Entry and KOSGEB's International Market Support Programme.

84. This assessment focuses on the MNE-SME linkages formed by integrating local SMEs into supplier networks of MNEs operating in Turkey.
85. The Strategy aims to increase Turkey's share in the global foreign direct investment (FDI) flows to 1.5% as of 2023 by increasing its performance in terms of the quality FDI profiles, which are defined as "investments supporting technological transformation, employment and current account balance".
86. The budget increased from TRY 610 434 000 (approximately EUR 34 million) in 2019 to TRY 776 087 000 (approximately EUR 44 million) in 2020.
87. As a response to the COVID-19 pandemic, Turkey introduced additional customs duties of 2-50% on a range of goods to protect domestic industries from the impact of the COVID-19 crisis. The surcharges rose to 17%, affecting countries with which Turkey does not have a free trade agreement (OECD, 2021^[8]).
88. 8 March 2022; see <http://www.guvendamgasi.org.tr/guvendamgasialan.php>.



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