

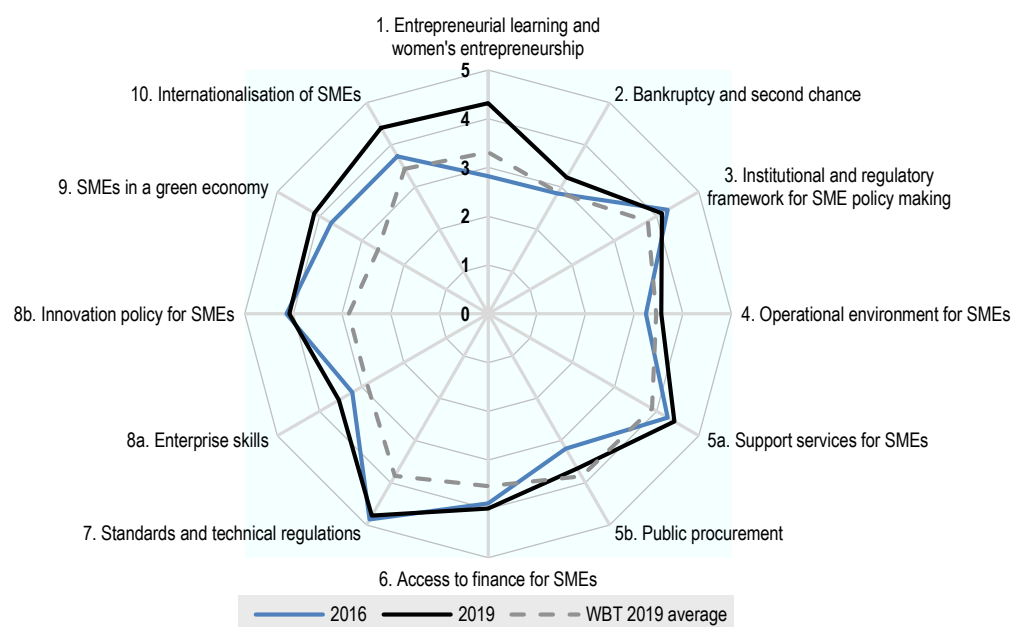
Chapter 19. Turkey: Small Business Act profile

This chapter covers in depth the progress made by Turkey in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Turkey's economic context, business environment and status of its EU accession process. It then provides some key facts about 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.

The full version of this chapter is available at <https://doi.org/10.1787/g2g9fa9a-en>.

Key findings

Figure 19.1. Small Business Act scores for Turkey (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (entrepreneurial learning and women's entrepreneurship) and Dimension 8a (enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology

Turkey has made progress in implementing the Small Business Act since publication of the *SME Policy Index: Western Balkans and Turkey 2016* (Figure 19.1). The economy's main strength lies in offering a comprehensive set of support measures to SMEs, especially with a view to increasing their exports. Significant fiscal stimulus measures introduced since 2016 have also fuelled financing to SMEs and given them the opportunity to scale up.

The main achievements that have helped Turkey boost its performance in this assessment are as follows:

Entrepreneurship training is now widespread in the economy. Following the protocols signed by the SME Development and Support Organisation (KOSGEB) with the Turkish Employment Agency, the Ministry of National Education and other organisations, entrepreneurship courses have increased rapidly in number and now cover all of Turkey's 81 provinces. Successful completion of this training is a requirement to qualify for KOSGEB's Entrepreneurship Support Programme, which has further boosted demand.

Bank lending to SMEs has been significantly expanded through the Credit Guarantee Fund. In 2017, the Turkish government increased the size of its Credit Guarantee Fund – which guarantees loans to SMEs that could not otherwise get credit – to TRY 250 billion (about EUR 45 billion). Growth in lending to SMEs has surged, significantly easing their access to finance.

Access to finance for SMEs with limited fixed asset collateral has improved. In 2017, the new law on Movable Pledges in Commercial Transactions entered into force, allowing for the possibility to pledge a variety of movable assets in commercial transactions. The pledged movables falling under the scope of the law can now also be registered on line. SMEs operating in manufacturing are particularly well placed to benefit from this law.

New fiscal measures could stimulate the private sector's research and development activities. An extensive support package for research and development (R&D) and innovation-related activities was introduced in 2016, providing various tax incentives to enterprises. Given that government funding of private sector R&D stands at only 0.07% of gross domestic product (GDP), this package may bring this expenditure closer to the OECD average of 0.1%.

The Standardisation Strategy paves the way for SME involvement in standardisation. Adopted in 2017, Turkey's first ever strategy on standardisation outlines how the process could be enhanced, in particular by increasing stakeholder engagement. A variety of measures are expected to enhance SMEs' awareness of the standards' benefits and boost SME participation in developing them.

The newly introduced concordat regime enables viable firms to restructure and avoid bankruptcy. Following amendments to the Enforcement and Bankruptcy Law in March 2018, the government introduced concordat proceedings which allow the debts of those facing bankruptcy to be reconstructed. This development is expected to improve the survival rate of SMEs in the long term.

Assistance to SMEs in integrating into global markets via e-commerce has gained traction. In 2017, the Ministry of Economy decided to provide financial support to enterprises for e-commerce website membership, and signed agreements with major global e-commerce platforms. This may encourage more SMEs to participate in global e-commerce markets by selling and buying on line.

Priority areas

Turkey's intensive efforts to provide financial and technical assistance to SMEs have yet to be accompanied by systematic evaluations of their economic efficiency and to ensure public accountability. More attention should be paid to creating favourable regulatory conditions, since SMEs' unique needs are not entirely mainstreamed in policy making.

The assessment identifies seven priority areas in which Turkey should intensify its activities:

- **Make better use of evaluation in the policy cycle.** Building on previous attempts, Turkey needs to embark on a systematic evaluation of the efficiency and efficacy of its various SME support measures. Given the large and growing amount of state aid funnelled to SMEs, the optimal use of public resources needs to be ensured.
- **Continue consolidating and streamlining SME support measures.** In 2018, 14 public institutions offered more than 90 support programmes to benefit SMEs. With such a large number of measures available both at national and local level, it is important to continue efforts to avoid overlaps and create further synergies among public institutions so as to increase the programmes' impact.

- **Enforce the systematic use of regulatory impact analysis and assess the implications of regulations for SMEs.** Despite the existing legal framework, regulatory impact analysis (RIA) is not conducted regularly, and comprehensive impact analyses that look at the effects of policy proposals on SMEs are not observed. Expanding RIA to the whole regulatory process, while taking SMEs' interests into account at an early stage of policy making, would further improve the regulatory environment.
- **Improve engagement with SMEs in policy making.** There is no evidence that consultations are open to enterprises in Turkey. The planned online legislative participation portal could be an important milestone in systematically collecting SMEs' views on new regulatory proposals – making the business environment more SME-friendly.
- **Streamline business licence and permit applications by creating one integrated authority to issue them.** Although the current Central Commercial Registration System allows for easy business registration, it lacks a centralised application process for the various licences and permits. One single co-ordination body would simplify the process so that enterprises do not need to visit several different public institutions to obtain permits.
- **Reduce the administrative burden on SMEs when participating in public procurement.** The documentation requirements for procurement procedures need to be reduced and aligned with the 2014 EU Public Procurement Directives. Only tender winners should be required to produce documents proving that they fulfil the selection criteria, to allow more SMEs to submit bids.
- **Improve ease of a second chance for honest bankrupt entrepreneurs.** The lack of automatic discharge, and the ensuing need to re-apply in court, is highly biased against honest bankrupt entrepreneurs who wish to start a new business. The time period between liquidation and formal debt cancellation should be as short as possible, to allow failed entrepreneurs to make a fresh start quickly.

Economic context and role of SMEs

Economic overview

Turkey is an upper-middle income economy and the world's 17th largest economy in terms of nominal gross domestic product (GDP). It is also 64th largest for its nominal GDP per capita (World Bank, 2018^[1]).¹ With a population of 81 million in 2017, Turkey is the largest economy in the WBT region.²

Turkish GDP continues to catch up with the more advanced OECD economies. Real GDP growth averaged 5.7% over 2013-17. At 7.4% in 2017 (Table 19.1), Turkey's annual real GDP growth was among the fastest worldwide, exceeding both market expectations and official projections (OECD, 2018^[2]).

In 2017, demand was stimulated by expansionary fiscal measures and the Credit Guarantee Fund. Established in 1993, this fund has been extended into 2018 with an injection of TRY 55 billion (Turkish lira; EUR 9.9 billion) of fresh capital aimed at easing firms' access to finance. Total consumption accounted for over two-thirds of growth in this period. However, strong demand has resulted in high consumer price inflation, averaging 11.1% in 2017 (Table 19.1). In addition to high inflation, a widening current account deficit points to Turkey's macroeconomic imbalances. Despite progress in recent years, income and wealth inequalities remain high compared to OECD high-income economies. Regional inequalities loom large despite constant growth, and the economy remains one of the OECD members with the widest disparities in gross value added between the best and worst-performing regions. This highlights the need for structural transformation, especially in the eastern regions, to help them catch up with income and productivity levels in the rest of the economy (OECD, 2016^[3]).

Turkey's economy is dominated by industry and services, while the agricultural sector contributes to about 6.1% of GDP and accounts for 20.7% of total employment (World Bank, 2018^[4]; Republic of Turkey, 2018^[5]). The manufacturing sector concentrates 13.6% of all enterprises, and focuses mainly on low- and medium-technology products. However, the tradable sector has improved its performance in many areas over the past decade: the share of medium-to-high and high-technology goods in total manufactured exports reached 39% in 2017, up from 26% in 2012 (OECD, 2018^[2]). Passenger car exports expanded by 13% and car part and component exports by 22% in 2017, illustrating Turkey's progress in transitioning to medium-to-high technology manufacturing (OECD, 2018^[2]). On the other hand, the economy remains dependent on imports – especially of primary goods – representing almost one-quarter of GDP in 2017 (Table 19.1). The negative trade balance is expected to worsen due to only modest growth in exports alongside increasing private domestic demand (EC, 2018^[6]). Given the limited impact of government incentives to increase savings, and the fact that private consumption continues to put sizeable pressure on external imbalances, the challenge is to expand the export base to bolster competitiveness, especially in goods with high-technology content. This is particularly relevant for exports to the euro area, which are relatively high-tech and which have been increasing (EC, 2018^[6]).

Foreign direct investment (FDI) inflows and international reserves currently remain low by international comparison. Notably, the inflow of FDI declined from 2.1% of GDP in 2015 to 1.3% in 2017 (Table 19.1). A similar trend can be seen in international reserves, decreasing by 1 percentage point to fall to 5.5% in 2017 (Table 19.1). With a negative net international investment position of 53.5% and gross external debt of 53.3% of GDP as of 2017, Turkey's net foreign liabilities are among the highest of the large emerging market

economies, and are expected to further deteriorate in 2018 (OECD, 2018^[2]; EC, 2017^[7]; EC, 2018^[8]). In this deteriorating investment climate, the sharp depreciation of the Turkish lira, which pushed up the economy's debt ratio, also resulted in an upsurge in borrowing costs for the large number of non-financial firms carrying high foreign currency debt (OECD, 2018^[2]). Meanwhile, rising inflation expectations led to mounting nominal interest rates, and hindered investment among Turkish companies (OECD, 2018^[2]). As well as increasing the economy's risk premia, these trends exacerbated exchange rate volatility and depreciation. Although the latter has contributed to the trade balance by enhancing the competitiveness of Turkish exports, much of the competitiveness gains were reversed due to unanchored inflation expectations and nominal wage growth emanating from double-digit headline and core inflation figures recorded since August 2017, well above the official target of 5% (EC, 2018^[6]; OECD, 2018^[2]).

Following a series of interventions that proved inadequate to re-anchor expectations and thus avoid substantial currency depreciation, the Central Bank took more decisive action and tightened its effective funding rate by 500 basis points from April 2018 to June 2018 (OECD, 2018^[2]). Yet in August 2018 alone, the lira depreciated by 34% against the dollar, though it has been regaining ground since early September (EC, 2018^[8]). Following the Central Bank interest rate hikes and the government's three-year New Economic Programme, the lira appreciated by 15% against the dollar up to November 2018, and seemed to be becoming less volatile.

While an ambitious downward trajectory for inflation is set out in Turkey's Economic Reform Programme (see Box 19.1), reaching consistently lower rates will be challenging given the high capacity utilisation, increasing employment and wage growth, far exceeding nominal GDP growth. A combination of well-anchored inflation expectations, low money growth, declining energy prices and an appreciating currency would be necessary to achieve lower inflation (EC, 2018^[6]).

In addition to the plunging currency, surging inflation and build-up of liabilities, ad-hoc budgetary measures in both expenditures and revenues since 2016 have destabilised public finances (EC, 2018^[6]). Alongside a string of new consumption, investment and employment incentives, the government has expanded loan guarantees, which are now among the highest in the OECD as a share of GDP (OECD, 2018^[2]). Overall, the fiscal stimulus measures have significantly weakened the economy's macroeconomic stability, leading to an increase in the budget deficit in the first half of 2018 to TRY 46.1 billion (EUR 8.3 billion) (EC, 2018^[6]; EC, 2018^[8]). Even the 18.2% increase in fiscal revenues in the first six months of 2018, particularly in corporate income tax and domestic value-added tax (VAT) (EC, 2018^[8]), has not been enough to re-establish the budget balance.

Stimulated by new employment incentives, 1.6 million net new jobs were created in 2017 (OECD, 2018^[9]). Labour force participation increased by 1 percentage point to reach 58% in the 15-64 age group. However, in spite of dynamic job creation and a labour force growing over 3% every year, the economy's working age population employment rate remains the lowest in the OECD at 51.5%, with a significant share of the female population never entering the labour market (OECD, 2018^[2]; OECD, 2018^[10]). As a long-standing structural issue, the level of female participation in the Turkish labour market remains significantly low – at 33.5% compared to 72.4% for men, according to the International Labour Organization (ILO, 2018^[11]). On the other hand, the rate of unemployment has increased by 27.6%, from 8.7% of the total active population in 2013, to 11.1% in 2017, well above the OECD average of 5.8% (Table 19.1) (EC, 2018^[8];

OECD, 2018^[2]). Another structural issue yet to be addressed is the sharp disparities in regional employment and unemployment rates, substantially higher than that of other OECD countries. Meanwhile youth unemployment increased by 1.2 percentage points up to 20.8 in 2017, considerably more for young women (up 2.4 percentage points to 26.1%) than young men (up 0.4 percentage points to 17.8%), reflecting once again the wide gender gap in the labour market (EC, 2018^[6]). Although the share of 15-29 year-olds not in employment, education or training (NEET) fell by 14 percentage points from 2008 to 2016, it still remains the highest in the OECD: at about 28%, the rate is twice the OECD average of 14%.

Turkey faces challenges in making productive use of its human capital (EC, 2018^[6]). While higher labour force participation is associated with lower levels of productivity (as those with lower productivity enter the labour market), the unemployment rate remains persistently high among more highly educated people. Enhancing competitiveness through a more inclusive and better-skilled labour force will be key to achieving sustainable and inclusive growth. Turkey should give a higher priority to enacting active labour market policies to introduce structural reforms, alongside improving the synergy among its social, education and labour market policies (OECD, 2015^[12]; EC, 2018^[6]).

Informality in the labour market remains high despite an increase in monitoring and soft measures: in 2017 the proportion of unregistered workers increased by 0.5 percentage points to 34.0% (29.2% for men and 44.6% for women) and 22.1% in the non-agricultural sector. The number of unregistered Syrian workers is estimated at between 700 000 and 800 000 (EC, 2018^[6]).

Table 19.1. Turkey: Main macroeconomic indicators (2013-18)

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth	% year-on-year	8.5	5.2	6.1	3.2	7.4	6.2**
Inflation	% average	7.5	8.9	7.7	7.8	11.1	14.2***
Government balance	% of GDP	0.1	0.1	1.3	-1.3	-2.0	-0.8**
Current account balance	% of GDP	-7.8	-4.7	-3.8	-3.8	-5.6	-6.4**
Exchange rate EUR/TRY	Value	2.6	2.9	3.0	3.3	4.2	5.5***
Exports of goods and services	% of GDP	22.3	23.8	23.3	22.0	24.8	24.7**
Imports of goods and services	% of GDP	28.1	27.6	26.0	24.9	29.3	30.0**
Net FDI	% of GDP	1.4	1.4	2.1	1.6	1.3	1.1**
External debt	% of GDP	41.1	43.5	46.7	47.8	53.3	..
Gross international reserves	Ratio of 12 months imports of goods moving average	6.2	6.4	6.4	6.4	5.5	5.1**
Unemployment	% of total active population	8.4 ³	10.1	10.5	11.1	11.1	10.3**
National GDP	EUR billion	714.3	703.4	773.0	780.2	753.9	..

Note: ** average of 1st and 2nd quarter; *** average of 1st, 2nd and 3rd quarter.

Sources: EC (2018^[8]), “EU candidate countries’ and potential candidates’ economic quarterly (CCEQ): 3rd quarter 2018”, https://ec.europa.eu/info/sites/info/files/economy-finance/tp028_en.pdf;

EBRD (2018^[13]), *Transition Report 2018-2019: Work in Transition*, <https://2018.tr-ebird.com/countries/#/>;

OECD (2018^[2]), *OECD Economic Surveys: Turkey 2018*, <http://dx.doi.org/10.1787/888933798504>;

Eurostat (2018^[14]), *Eurostat (database)*, <https://ec.europa.eu/eurostat/web/national-accounts/data/database>.

Business environment trends

The business environment in Turkey has deteriorated slightly since the last assessment, despite progress in some respects. This raises several challenges to the further development of the Turkish economy. The business environment is significantly hampered by the large informal economy, which constitutes 26.8% of Turkish GDP and prevents a level playing field that ensures fair competition between companies (EC, 2018^[15]). The high level of informality is closely linked to the burdensome regulatory setting, which raises the costs of operating in the formal sector (OECD, 2018^[2]). The significant shortcomings and inflexibility of institutional and regulatory frameworks continue to lead many firms to operate semi-formally (OECD, 2018^[2]). To overcome this “informality trap”, the government has recently expanded financial incentives to formal businesses, such as social security contribution cuts for new employees and corporate tax allowances for up to 55% of eligible investment costs, but it is yet to undertake reforms addressing the underlying causes of informality and semi-formality (OECD, 2018^[2]). In the meantime, strong nominal increases in the official minimum wage as a result of soaring inflation might aggravate informality in the economy.

Other major impediments are the burden of bureaucratic procedures, especially in the areas of resolving insolvency, dealing with construction permits and paying taxes (EC, 2018^[6]). Nevertheless, Turkey has shown commitment to bringing its framework for doing business closer to international good practice by taking significant steps in this direction. Registering property has been made easier by lowering the costs of transferring property, while the credit information system has been improved through the adoption of a new law on personal data protection (World Bank, 2018^[16]). Parliament has also adopted a new law to simplify procedures for accessing infrastructure, telecommunications and municipal services (OECD, 2018^[2]). With a view to improving the business environment, the government also plans to eliminate differences between the central administration and local government in the processes involved in opening a business and obtaining an operating licence, and to reduce the number of approvals and documents required (EC, 2018^[6]).

Creating a conducive business and investment environment will depend on the successful implementation of these, alongside further reforms signalled in Turkey’s Economic Reform Programme (see Box 19.1) for 2018-20. Its Business and Investment Climate Improvement Programme emerges as a priority, built on the four pillars of: 1) improving bureaucratic procedures; 2) improving judiciary processes; 3) facilitating investment location support; and 4) improving business governance and the investment climate at regional level (Republic of Turkey, 2018^[5]). It is important to note that as well as administrative and legal reforms, improving the business environment will hinge on mitigating the deteriorating economic situation. The soaring inflation rates and plummeting lira, coupled with energy price hikes, increase the cost of doing business, especially for SMEs.

Box 19.1. Economic Reform Programmes

Since 2015, all European Union (EU) candidate countries and potential candidates are obliged to prepare Economic Reform Programmes (ERPs). ERPs prepare the enlargement countries for their future participation in the EU’s economic policy co-ordination procedures. They also play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness and improve

conditions for inclusive growth and job creation.

The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda. The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

- public finance management
- energy and transport markets
- sectoral development
- 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.

The European Commission and the European Central Bank then assess these seven programmes. This forms the basis for a multilateral economic policy dialogue involving enlargement countries, EU Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting in which participants adopt joint conclusions that include country-specific policy guidance reflecting the most pressing economic reform needs.

The findings of the Small Business Act assessment for the Western Balkans and Turkey provide the analytical background and guidance to the seven EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and in developing structural reform measures to overcome them.

Source: EC (2018^[17]), *Economic Reform Programmes: Western Balkans and Turkey*, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf>.

The World Bank's *Doing Business 2019* (2018^[18]) ranks Turkey 43 out of 190 economies for ease of doing business, an improvement of 26 places since the last assessment. Turkey is one of ten economies showing the most notable improvement in performance on the *Doing Business* indicators and is the second-best performer in the WBT region. Table 19.2 outlines the recent reforms affecting the ease of doing business in Turkey.

Table 19.2. Recent business reforms in Turkey

	Reforms making it easier to do business	Reforms making it harder to do business
Doing Business 2019	<p>Starting a business was made easier by removing the paid-in minimum capital requirement and by eliminating the notarisation of company documents and legal books.</p> <p>Dealing with construction permits was made easier by increasing the transparency of building regulations by publishing on line all the pre-application requirements for obtaining a construction permit. Turkey also strengthened construction quality control by imposing stricter qualification requirements for professionals in charge of approving architectural plans.</p> <p>Access to credit was made easier by extending the security interest to products, proceeds and replacements of the original collateral; secured creditors are now given absolute</p>	<p>Turkey made registering property more expensive by increasing the costs of transferring property.</p>

	<p>priority over other claims, such as labour and tax, both outside and within bankruptcy proceedings. Turkey also improved access to credit information by reporting data on arrears from telecommunications companies.</p> <p>Paying taxes was made easier by improving the online portal for filing and paying taxes.</p> <p>For trading across borders, Turkey reduced the time and cost of exports and imports through various initiatives, including expanding the functionalities of the national trade single window, enhancing the risk management system and lowering customs brokers' fees.</p> <p>Turkey made enforcing contracts easier by publishing judgments rendered at all levels in commercial cases and by introducing financial incentives for mediation.</p> <p>Resolving insolvency was made easier with the introduction of post-commencement credit, improving voting arrangements in reorganisation and granting creditors greater participation in the proceedings.</p>	
Doing Business 2018	<p>Registering property was made easier by reducing mortar dues (property transfer registration fees) from 4% to 3%.</p> <p>Getting credit was made easier by adopting a new law on secured transactions that establishes a unified collateral registry and allows out-of-court enforcement of collateral. Turkey also improved its credit reporting system by adopting a new law on personal data protection.</p>	<p>Resolving insolvency was made more difficult by suspending applications for the postponement of bankruptcy procedures.</p>
Doing Business 2017	<p>Starting a business was made easier by allowing new companies to automatically receive a potential tax identification number online through the Central Registration Recording System.</p> <p>Paying taxes was made easier by introducing electronic invoicing and electronic bookkeeping. At the same time, however, Turkey also increased the rate of transaction tax applicable on checks.</p>	None

Note: Only reforms which had either a positive or a negative impact on conducting business were considered.
Source: Adapted from the World Bank (2018^[19]) *Business Reforms in Turkey*, www.doingbusiness.org/en/reforms/overview/economy/turkey.

EU accession process

Turkey has been closely linked to the EU since the Ankara Association Agreement in 1964 and the establishment of the Customs Union in 1995. In 1999, Turkey was granted EU candidate status; accession negotiations started in 2005. As of October 2018, 16 out of 35 accession negotiation chapters had been opened, with Science and Research the only one that is provisionally closed. Under the prevailing conditions, no new chapters are being considered for opening (EC, 2018^[20]). However, the enhanced political dialogue between the EU and Turkey continues, and developing closer economic ties remains a shared priority (EC, 2018^[20]).

Enterprise and Industrial Policy, Chapter 20 of the EU-Turkey negotiation process, has been open since March 2007. This chapter aims to foster competitiveness, facilitate structural change and promote a business-friendly environment. Implementing the ten SBA principles is one of the chapter's main requirements. The findings and recommendations of the *SME Policy Index: Western Balkans and Turkey 2019* provide monitoring and guidance for Turkey and the other enlargement countries in meeting the requirements for Chapter 20 in the *acquis* when negotiating their accession into the EU.

The European Commission's latest enlargement report on Turkey found the economy to have a good level of preparation in the area of enterprise and industrial policy (EC,

2018^[20]). Some progress has been made in the legal framework for doing business as well as in access to finance, as pointed out in the 2016 SME Policy Index findings (OECD, 2016^[22]). However, the economy has yet to address significant shortcomings: combating widespread informality, improving the long-term financing opportunities of SMEs and developing the legal framework for microfinance. Going forward, Turkey is particularly advised to:

- improve policy compliance following the results of the SBA report
- focus on measuring the impact of policy tools.

EU financial support

Over EUR 9 billion of EU financial assistance has been planned for Turkey from 2007 to 2020 through the Instrument for Pre-accession Assistance (IPA). While the EC has proposed significantly cutting the overall indicative allocation to Turkey for the 2018-20 period on the basis of a performance and progress review in 2017, total EU financial assistance to the economy remains substantial (EC, 2018^[23]). IPA I (for 2007 to 2013) allocated EUR 4.58 billion in total; with significant amounts earmarked for projects fighting the informal economy, growing the entrepreneurship ecosystem to increase youth employment and developing employee capacity. IPA II (for 2014 to 2020) allocates EUR 4.49 billion in total; 7.7% is dedicated to competitiveness and the innovation sector, while 9.7% is budgeted for education, employment and social policies (European Court of Auditors, 2018^[24]). Compared to IPA I, IPA II gives a higher priority to innovation, while reducing infrastructure funding support (EC, 2018^[23]).

The Turkish economy benefits from numerous EU-funded support programmes. These include Horizon 2020, the biggest EU research and innovation programme to date; as well as Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME); and Employment and Social Innovation (EaSI). These programmes address SME development, competitiveness and innovation by supporting the development of adequate labour market policies, facilitating access to finance, fostering internationalisation and enhancing innovative entrepreneurship support for start-ups and SMEs.

Since the mid-1990s, the European Investment Bank (EIB) has been supporting Turkey's development and integration with the EU; it has lent over EUR 28.6 billion since 2000 (EIB, 2018^[25]). A key focus of the bank's investments has been SME support: SMEs have accounted for about 54% of the total EIB financing in Turkey, which reached close to EUR 2.1 billion in 2014 (EIB, 2015^[26]).

SMEs in the national economy

Turkey's classification of SMEs is defined by SME legislation that entered into force in 2005 and was first amended in 2012 and then again in June 2018. The law distinguishes between micro, small and medium-sized enterprises on the basis of employment and turnover, or on the basis of the balance sheet. The employment size definition is in line with that of the EU. SMEs can choose to meet either the turnover or balance sheet limits (Table 19.3).

Table 19.3. Definition of micro, small and medium-sized enterprises in Turkey

	EU definition	Turkey definition
Micro	< 10 employees ≤ EUR 2 million annual turnover or balance sheet	< 10 employees ≤ TRY 3 million turnover or balance sheet
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees ≤ TRY 25 million turnover or balance sheet
Medium-sized	< 250 employees ≤ EUR 50 million turnover or ≤ EUR 43 million balance sheet	< 250 employees ≤ EUR 50 million turnover or ≤ TRY 125 million balance sheet

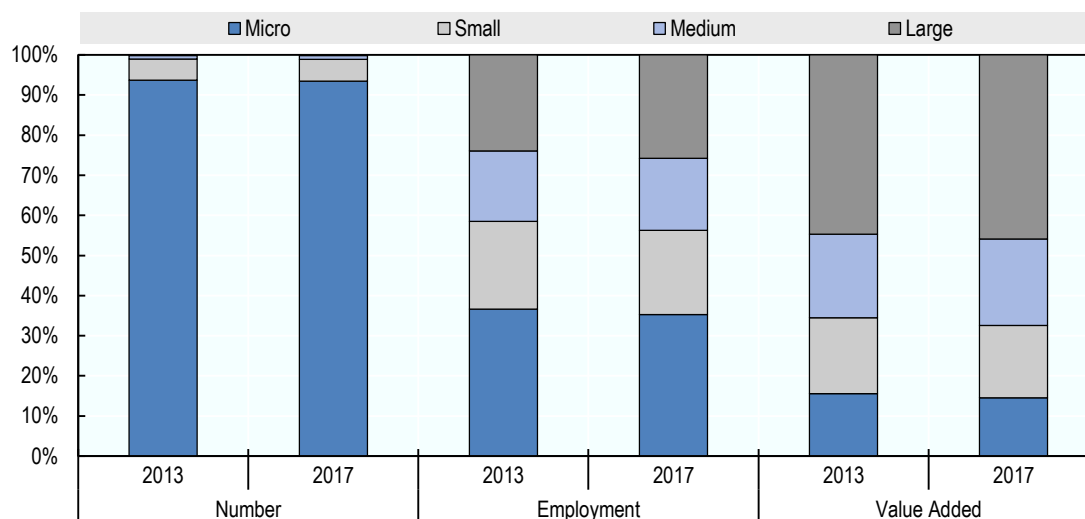
Note: Exchange rate will be adjusted at the final stage.

Source: Official Gazette no 2018/11828 (2018).

According to data from 2017, SMEs constitute 99.8% of Turkish businesses – around 3 095 000 enterprises (EC, 2017^[27]). In 2017, micro enterprises continued to make up the overwhelming majority of Turkish firms at 93.4%; small firms represented only 5.5% of all enterprises and medium-sized firms 0.9% (Figure 19.2). In Turkey, SMEs contribute to 74.2% of total business sector employment, and account for 54.1% of total value added of the business sector. Notably, SMEs contribute the lowest share to value added in the WBT region alongside Serbia (55%), as in the previous assessment. Despite the considerable number of successful SMEs that have emerged, small firms' overall productivity levels amount to only 20% of those of Turkey's large companies (OECD, 2018^[2]). For more information on the key financial indicators for SMEs in Turkey, see Table 19.A.1.

In 2016 new business registrations reached 106 453, 7% lower than in 2015; while de-registrations decreased by 2% to 45 903 in the same year (EC, 2017^[27]). While SMEs are vital for the Turkish economy at large, their geographical distribution is highly concentrated. There are sharp disparities between the top and lower-performing regions for number of SMEs, new businesses registered and the entrepreneurship environment for SMEs. For instance, the number of SMEs per 1 000 inhabitants is 41.6 in the provinces of Van, Muş, Bitlis, Hakkari, while it is 87.6 in the provinces of Antalya, Isparta and Burdur (OECD, 2016^[3]). The Turkish Statistical Institute is not currently collecting SME-related statistics at NUTS-II (Nomenclature of Territorial Units for Statistics) or NUTS-III level.³

The share of businesses owned by women in Serbia is not known, as the Turkish Statistical Institute does not collect data on this indicator as part of its structural business statistics.

Figure 19.2. Business demography indicators in Turkey (2013 and 2017)

Note: Agriculture excluded.

Source: Turkish Statistical Institute (2018).

Most Turkish SMEs (36.5%) operate in distributive trade (Figure 19.3). This is followed by other services (27.3%), transportation and storage (14.8%), manufacturing (12.6%), construction (7.3%), information and communication (1.3%), utilities (0.3%) and mining and quarrying (0.2%). Despite representing relatively few companies, manufacturing remains of key importance as it accounts for up to 30% of total value added (EC, 2017^[27]). Among the manufacturing sectors, machinery industry is particularly dominated by small family-run enterprises; in 2013, SMEs accounted for 99.6% of the total labour force employed in machinery enterprises, of which micro enterprises alone accounted for 79% (OECD, 2016^[3]).


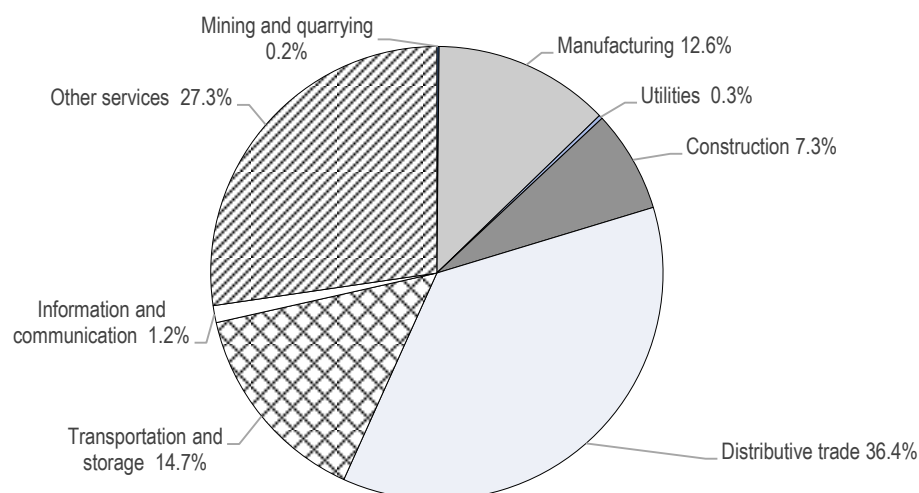
StatLink  <http://dx.doi.org/10.1787/888933937945>

Figure 19.3. Sectoral distribution of SMEs in Turkey (2017)

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: Adapted from Turkish Statistical Institute data 2018.

Assessment and recommendations

Process

The Small Business Act (SBA) assessment cycle was launched in Turkey with a kick-off meeting in Ankara on 26 September 2017. The meeting was organised in co-operation with the SME Development and Support Organisation (KOSGEB) operating under the Ministry of Industry and Technology. KOSGEB acts as the SBA Co-ordinator, nominated by the European Commission, and is responsible for implementing the SBA principles.⁴

During the meeting, the new assessment framework (see Figure 19.1 for details) was presented to the line ministries and public institutions which were expected to contribute to the information-collection process. The two documents making up the assessment framework – the questionnaire and statistical data sheet – were explained in depth to the participants, directing particular attention to the newly added questions and indicators.

Following the launch event, KOSGEB distributed the questionnaire to the appropriate counterparts in the ministries and government agencies, and sent the statistical sheet to the Turkish Statistical Institute (TUIK). From September 2017 to January 2018, the necessary data and documentation were compiled, subsequent to which the questionnaire was completed. In so doing, a score for each policy dimension was assigned, by providing an accompanying justification. The completed questionnaires and statistical data sheet were sent to the OECD team on 12 January 2018 for review.

The review of the inputs by the OECD and partner institutions revealed the need for additional information on certain elements. These were requested from KOSGEB, which sent back the updated statistical data on 1 February 2018.

Meanwhile, an independent assessment was also conducted by the OECD and its partner organisations. This was based on inputs from a team of local experts in Turkey, who collected data and information and conducted interviews with key public and civil society stakeholders, as well as with SME representatives.

Following the completion of the government self-assessment and independent assessment, a reconciliation meeting was organised by the OECD and the European Bank for Reconstruction and Development (EBRD) in Ankara on 10 April 2018. The meeting aimed to close any remaining information gaps in the questionnaire, while also providing an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies, and what else can be done across different policy areas to improve their performance and competitiveness in Turkey. For the two policy dimensions (entrepreneurial learning and women's entrepreneurship, and enterprise skills) whose assessment was led by the European Training Foundation (ETF), similar meetings took place in Ankara on 13-15 March 2018.

The reconciliation meeting allowed the assessment findings to be consolidated. The OECD and its partner organisations decided on the final scores under each policy dimension presented in this report. The preliminary findings and scores were subsequently presented to SBA Co-ordinators at a meeting in Paris on 14 July 2018. The draft SME Policy Index publications and the SBA Assessment profile of Turkey were made available to the Turkish government for their review and feedback during August-October 2018.

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 19.4).

For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

Table 19.4. 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)

Turkey is one of the top performers in the WBT region for both entrepreneurial learning and women's entrepreneurship. This is borne out by its continuing first position on Dimension 1 with a total score of 4.32 (Table 19.5). Turkey has maintained its leading position in the region since 2016, when its assessment results were more modest (Figure 19.1), and has demonstrated good progress in both policy areas.

Table 19.5. 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	4.45	3.73
		Implementation	4.55	3.61
		Monitoring and evaluation	4.00	2.57
		Weighted average	4.38	3.43
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	5.00	3.57
		Implementation	4.43	3.16
		Monitoring and evaluation	2.60	2.37
		Weighted average	4.17	3.12
	Turkey's overall score for Dimension 1		4.32	3.31

State of play and key developments

Entrepreneurial learning

Entrepreneurial learning is an integral part of Turkish government policy, promoting a strong entrepreneurship culture, steering the entrepreneurship ecosystem and contributing to the competitive power of the economy. Both the Tenth Development Plan and the Turkish Entrepreneurship Strategy and Action Plan 2015-2018 provide an overarching policy framework for specific regulations and support measures for lifelong entrepreneurial learning in formal education and non-formal learning. Along with health, justice and safety, education is one of Turkey's top policy priorities. Turkey's recently launched 2023 Education Vision structures the government's actions around equipping the new generation of young people, as well as adults, with scientific and critical thinking; developing a culture of questioning and research; and promoting key competences that comprise knowledge, skills and universal values essential for the competitive economy, democratic information society and sustainable development (MEB, 2018^[28]).

These government actions are co-ordinated by the Entrepreneurship Council, which includes ministries, public organisations and non-government organisations (NGOs). The council provides a formal platform for the national policy partnership, supported by the SME Development and Support Organisation (KOSGEB) in its co-ordinator role. The council is also in charge of policy monitoring and evaluation. The Entrepreneurship Strategy and Action Plan has ten actions for entrepreneurial learning; these are implemented by the Ministry of National Education (MoNE). KOSGEB, the Council of Higher Education (YÖK) and other organisations, and form part of the annual progress

reporting. The Entrepreneurship Council's provision of strong, formal policy co-ordination and an oversight structure at policy level is an asset; however, given its size and the fact that it meets annually, it is important to establish a more flexible co-ordination mechanism below this top level. That would allow the main stakeholders with a specific interest in promoting entrepreneurial learning or women's entrepreneurship to collaborate in the interim.

The government aims to include entrepreneurship in the curricula at all levels of education, launch entrepreneurship projects at schools, implement an "entrepreneurial school" concept and organise school entrepreneurship clubs. At the national level, entrepreneurship is widely promoted through the media and a variety of contests and awards. Entrepreneurship as a key competence is addressed at system level in different forms and throughout the formal education system. Entrepreneurial learning is now guided by the 2023 Education Vision and regulated by a whole range of strategy and implementation documents. These include the Turkish Lifelong Learning Strategy Document and Action Plan 2014-2018, the Strategic Plan of the Ministry of National Education 2015-2019, and the Education Vision 2023. It is supported by cross-sectoral agreements such as the Applied Entrepreneurship Training Co-operation Protocol between KOSGEB and MoNE's Directorate General of Vocational Technical Training. The adoption of the Education Vision 2023 is an important policy development, reflecting the most up-to-date strategic thinking and aiming to equip Turkey's youth with modern competences. It helps motivate youth to find solutions to community problems through support for social entrepreneurship. Over 2018-23, support for social entrepreneurship programmes will include preparing small-scale pilots, large-scale pilots, economy-wide pilots, monitoring, evaluation and improving.

At system level, the entrepreneurship key competence is embedded in the main philosophy of education programmes and constitutes a cross-curricular element in the primary and lower secondary education curricula. Entrepreneurship is also offered as an optional subject at upper secondary level, and is a compulsory subject in vocational and technical education. The cross-curricular concept is based on the integrated learning outcomes approach and is also applied to developing students' digital key competence, for instance in the Information Technology and Software Curriculum (Grades 1-4 of primary school) in the 2018-19 academic year. Higher education follows a cross-curricular model promoted through the KOSGEB Practical Entrepreneurship Course, with many years of successful implementation across the university system. More than 150 000 students benefited from this course in 2017-18; its graduates are also eligible to apply for the KOSGEB New Entrepreneur Grant. The Entrepreneurship Foundation offers fellowship programmes to university students and supports training and mentoring for young entrepreneurs.

The new 2023 Education Vision sets high targets for teacher orientation. It recognises the importance of teachers' role in preparing their students for the competitive world and offers them more power and support. The vision announces a "paradigm shift": changing teachers' mindsets and equipping them to facilitate a competence-based education process, to act as "learning guides" and to apply innovative active teaching and learning methods (Çengel, 2018^[29]).

Support for teachers' development of the entrepreneurship key competence is now widely offered through in-service teacher training programmes, organised both at system level and as demand-based training. These programmes benefit from support by different stakeholders, including a co-operation protocol between the Ministry of National

Education, the Ministry of Industry and Technology and the Scientific and Technological Research Council of Turkey (TÜBİTAK), to train a group of teachers in innovation and entrepreneurship. Some university education faculties offer an entrepreneurship course in pre-service teacher training, following an agreement between individual universities and KOSGEB. However, preparing Turkey's large teaching workforce to meet the challenges of establishing a competence-based learning environment remains a major objective for the near future.

Co-operation between enterprises and education institutions is key to providing practical entrepreneurship experience and a major driver influencing graduates' future entrepreneurial career choices. Co-operation practices range from entrepreneurship projects and role models in high schools provided by Junior Achievement Turkey, to incubation centres and technoparks in Turkish universities supported by KOSGEB and TÜBİTAK. Both the Entrepreneurship Strategy and Action Plan and the Vocational and Technical Education Strategy (2014-2018) provide incentives to the private sector to engage with vocational and technical schools, including private ones, within and beyond organised industrial zones. Moreover, practical entrepreneurship experience is now featured in vocational education and training (VET) internships in companies, and MoNE co-operates with the provinces to promote both entrepreneurial initiatives and access to start-up funding for students who have successfully completed apprenticeship training. This cross-sectoral policy approach to entrepreneurial learning is demonstrated in the National Employment Strategy and Action Plan 2017-2019, supporting project-based innovation and entrepreneurship through education system actions and Active Labour Market Programmes. While entrepreneurship careers are currently more vigorously targeted at university graduates, making entrepreneurship a viable choice within VET career guidance remains an important objective.

The Turkish government closely monitors the actions that support entrepreneurial learning but evaluating the impact of its policies on the career satisfaction of those leaving education remains a system-level challenge in Turkey. This has led to the newly established Initial Vocational and Technical Education E-Graduate tracking system that looks, among other things, at links between education system learning outcomes and the skills applied by VET graduates in both waged employment, and self-employment or entrepreneurship careers. It represents good practice both within the Turkish policy environment and among WBT economies (Box 19.2).

Box 19.2. Turkey's E-Graduate Monitoring Portal

Turkey has a well-developed system for collecting labour market data, including a skills mismatch analysis system. It tracks the employability of VET students and the market's needs for VET skills through its E-School integrated information system. This publicly funded web-based data management system monitors, collects, analyses, reports and disseminates data on student enrolment, attendance, assignments, examination entries, grades and report cards, as well as information on workplace/work-based learning. E-School is widely used by stakeholders.

The E-Graduate system, managed by the Ministry of National Education (MoNE), monitors the transition from VET to work and includes data on the school types of VET graduates year of graduation, whether they went on to higher education, their work sectors, the relationship between the subject studied and work field, and remuneration⁵. MoNE's Situation Assessment Studies, which track student achievement in grades/subjects, are used to compare regions, schools and programmes, and to inform policy development and international surveys. In 2016-17, the Turkish Statistical Institute launched the Official Statistical Programme to integrate VET work-based learning data for monitoring purposes.

Source: MoNE (2018_[30]), *E-Graduates website*, <https://emezun.meb.gov.tr>.

Women's entrepreneurship

Support for women's entrepreneurship is well articulated in Turkish policies as an integral component of women's economic empowerment and other related policies. This includes programmes under the Tenth Development Plan (2014-2018) for improving labour market effectiveness and increasing female labour force participation and employment, which envisage comprehensive support measures to women entrepreneurs. Seen by the Turkish government as a cross-sectoral policy issue, women's entrepreneurship is directly addressed in the Women's Strengthening Strategy and Action Plan (2018-2023) in which women are given priority in support for innovation, productivity, employment and growth. These documents outline specific actions to stimulate women's engagement in entrepreneurship in the sector of information and communication technologies, and to ensure availability of counselling and guidance for women entrepreneurs on business development. Measures to facilitate women's access to state support are planned and budgeted, with KOSGEB in charge of implementation.

Two other key government action plans also foresee a set of measures for supporting women's entrepreneurship: the Entrepreneurship Strategy and Action Plan (2015-2018) and National Employment Strategy and Action Plan (2017-2019). The latter seeks to reduce women's informal employment, among other actions. As part of the Entrepreneurship Strategy and Action Plan, the government is also promoting and expanding the Woman Entrepreneurship Ambassadors Project run by the Women Entrepreneurs Association of Turkey (KAGIDER); training needs analyses of woman entrepreneurs by the Women Entrepreneurs' Council; and analysis of women's entrepreneurship issues by the Ministry of Labour, Social Services and Family. The Entrepreneurship Strategy and Action Plan also aims to develop and implement a sustainable support system for women entrepreneurs in Turkey. These highlight the government's substantial efforts to build a comprehensive policy support framework for

women entrepreneurs – among other special target groups – that would ensure long-term, sustainable results and promote cross-sectoral policy linkages.

The Entrepreneurship Council is strongly promoting women's entrepreneurship, implemented through non-formal partnerships involving both government and non-government organisations ranging from ministries, KAGIDER, the Union of Chambers and Commodity Exchanges of Turkey (TOBB), the Women's Entrepreneurship Board, and the Turkey Business Women Association, to Vodafone Turkey and the Turkey ICT Foundation. Many partners are engaged in awareness raising and promotion, including the Ministry of Labour, Social Services and Family, KOSGEB and TOBB. The Confederation of Turkish Tradesmen and Craftsmen (TESK) has run entrepreneurship training for women as part of EU projects funded by the Instrument for Pre-accession Assistance (IPA) and also through close co-operation with KOSGEB. Since 2012, 645 women have been certified as entrepreneurs. Women were also given entrepreneurship training by the TESK ADAPTESK project funded by IPA. One awareness-raising action by KOSGEB envisages organising annual contests for successful women entrepreneurs. Partners also share good practice in women's entrepreneurship; one example is the organisation of International Women in Business Meetings by the TÜRKONFED Women in Business Commission, in partnership with its member associations and international organisations (UN Women and the United Nations Development Programme, UNDP). The government has also engaged major international support, including from the EBRD through its Finance and Advice for Women in Business Programme funded by the EU and the Republic of Turkey. The European Union; the Turkish Ministry of Labour, Social Services and Family; and the Turkish Employment Agency (İŞKUR) are supporting the programme for women entrepreneurs with EUR 38 million for credit enhancement, advice to small businesses and technical assistance for partner banks.

According to KOSGEB, women's participation in the government-supported entrepreneurship programmes is increasing, with the share of women attendees at KOSGEB's entrepreneurship training reaching 47%. Women also made up 47% of the 40 000 people who attended entrepreneurship training programmes organised in co-operation with İŞKUR under the Entrepreneurship Support Programme.

The government – through KOSGEB – monitors and evaluates the implementation of all programmes under the Entrepreneurship Strategy and Action Plan. It consolidates progress reports and presents them to the Entrepreneurship Council once a year. While the monitoring data are published in the Annual Activity Reports, access to evaluation results is confined to the data and analysis under the overall framework of the Entrepreneurship Strategy and Action Plan implementation, and in a number of programme-based reports (e.g. the EBRD's Finance and Advice for Women in Business Programme).

The way forward for Dimension 1

Despite excellent progress on implementation and building a strong policy environment for entrepreneurial learning, the challenge is still to develop a vision shared by all key stakeholders with the primary focus on teacher capacity and the availability of practical entrepreneurship experience to enhance learners' entrepreneurship key competences. Teacher capacity remains a challenge given the large size of the teaching workforce, especially in pre-service training.

Similarly, in women's entrepreneurship, a consolidated vision is needed to refine the national concept; systematise types of support; and improve the targeting, effectiveness and efficiency of programmes aimed at women entrepreneurs. The government's current efforts to attract women into male-dominated sectors should be fully supported and should include additional measures to stimulate enterprise growth and internationalisation, with a specific focus on women.

The following steps are a priority for this dimension:

- **Apply EU competence frameworks (EntreComp and DigComp) to align key competence developments in education across levels and parts of the education system.** At the operational level, create institutional platforms (expert or practitioner networks and groups) and take action to achieve specific policy objectives. For instance, key competence learning outcomes should be integrated in all subject areas; learners should experience a smooth transition between levels of education and different parts of the learning system, linked to the progression model of the EU key competence frameworks; the teaching methodology and design of the learning process in primary, general secondary, VET, higher education and in non-formal learning should be aligned; and a multi-stakeholder system should be set up to consolidate data sources and actions so as to anticipate skills needs, including entrepreneurial skills and competences.
- **Scale up the well-functioning e-Graduate system in VET to support impact evaluation across all parts of the learning system** (higher education, SME training, etc.). As noted in the previous assessment, it will be important to consolidate the available statistical data for evidence-based policy making.
- **Establish system-level, compulsory provision of practical entrepreneurship experience in upper secondary, VET and higher education.** For this, Turkey should provide the regulatory conditions to encourage co-operation between schools and the private sector, and set up system-level measures to support co-operation between schools and companies to provide practical entrepreneurship experience for all students at upper secondary, VET and higher education levels.
- **Check the gender sensitivity of new and existing policies affecting women's entrepreneurship.** This will require establishment of regulatory provisions and stronger policy partnerships and institutional networks tasked with policy analysis, leading to recommendations for policy makers on ensuring policies and implementation measures are gender sensitive across all policy domains.
- **Introduce targeted, cross-sectoral evaluation of entrepreneurial learning and women's entrepreneurship policies and programmes.** This should include analysing the impact of government investment in skills and competence development, and ensuring high-quality statistical evidence is available, covering all related support actions and relevant sources of funding. The government should also ensure that results are open to the general public by publishing evaluation reports on line.

Bankruptcy and second chance for SMEs (Dimension 2)

As a result of newly introduced restructuring mechanisms, Turkey has improved its performance in this dimension since the 2016 assessment from 2.85 to 3.23 (Figure 19.1). It is performing above the regional average of 2.87 (Table 19.6).

Table 19.6. 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		2.86	2.39
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.98	3.71
		Performance, monitoring and evaluation	3.00	2.46
		Weighted average	3.59	3.21
	Sub-dimension 2.3: Promoting second chance		2.16	1.93
Turkey's overall score for Dimension 2			3.23	2.87

According to the latest Financing SMEs and Entrepreneurs 2018 scoreboard, the number of bankruptcies (at court verdict) increased by 105.6% between 2015 and 2016 (OECD, 2018^[31]).

State of play and key developments

Preventive measures and bankruptcy procedures

The insolvency regime is primarily governed by the Enforcement and Bankruptcy Law, enacted in 2004. The Turkish Commercial Code, Code of Obligations, Code of Civil Procedure and the Banking Act also govern some aspects of the insolvency system. Although the bankruptcy legislation does not apply to public organisations covered by the Public Financial Management and Control Law No. 5018, it applies to revolving fund enterprises of public organisations.

Until 2018, the Turkish legal framework proposed two main options: bankruptcy resulting in liquidation and postponement of bankruptcy. The latter was a stipulation enabling an insolvent company to avoid liquidation if its financial situation could be improved. Due to its nature, this mechanism could not be considered either as an out-of-court settlement or a debt restructuring scheme.⁶ Thus, according to private sector interviews, it was mainly used by debtors as a tool to threaten creditors and to gain time as the postponement could be extended for up to seven years.⁷ Applications to postpone bankruptcy were introduced in 2003, suspended in 2016 and resumed as of March 2018.

As bankruptcy postponement was not serving its intended purpose, the legislature made a new amendment to the Enforcement and Bankruptcy Law in March 2018.⁸ The amendment introduces “concordat restructuring”, a reorganisation scheme under the jurisdiction of commercial courts. Therefore, the process cannot be qualified as a pre-bankruptcy out-of-court settlement. Following these changes to the legal framework, two main proceedings are now available for distressed companies:

1. **Bankruptcy** resulting in liquidation, which can be initiated in three different proceedings: 1) ordinary bankruptcy, where a creditor initiates a bankruptcy proceeding against a debtor for debt collection purposes; 2) special bankruptcy, where a creditor

holding a negotiable instrument (e.g. cheque, bond) can initiate special bankruptcy proceedings; and 3) direct bankruptcy, where a creditor or a debtor can file for bankruptcy.

2. **Concordat restructuring** where a debtor who is currently unable to pay their debts – or likely to be unable to do so in the future – can conclude an agreement with creditors to restructure, reschedule or reduce the debt. Following the debtor's application, the specific restructuring agreements must be signed within two years. The approval of the agreement requires a double majority: half of the creditors representing at least two-thirds of the claims. The restructuring is subject to the ability of the company to repay its debts following restructuring. However, non-preferential creditors are not protected and the debtor can get rid of his or her debts by paying what is agreed in the concordat. If the requirements are not met, the reorganisation is refused by the court, resulting in liquidation.

According to Article 206 of the Enforcement and Bankruptcy Law, following the court's decision secured creditors are able to seize their collateral after reorganisation (no automatic stay) and they are paid first out of the proceeds of a bankrupt firm's liquidation. The law also stipulates that tax debts take priority over any other debts during bankruptcy. It gives top priority to the receivables of employees, including indemnities. There are restrictions; for instance creditor consent should be sought when a borrower files for reorganisation.

Bankruptcy decisions are published in the Trade Registry Gazette and the courts inform the relevant chamber of industry or commerce. However, following the decision, removal from the bankruptcy register and from the national credit blacklist is not automatic. The owner of the company needs to apply to the court, and the court informs all related bodies about closing the bankruptcy case including the Trade Register Office, the Banks Association of Turkey, chambers of commerce and/or trade, and the Capital Markets Board.

The public credit registry and the private registry credit bureau manage the exchange of credit information among financial institutions. Information on positive and negative credit is stored in the system. An entrepreneur can be deleted from these credit databases five years after full discharge.

Turkey has also established a National Judiciary Informatics System (UYAP) as an e-government initiative (see “Digital government services for enterprises” in Section Operational environment for SMEs (Dimension 4)) to reduce the time and cost of court processes, as well as increase the transparency of the judiciary system. As a central network project, UYAP encompasses all courts, public prosecutor services, prisons, other judicial institutions and other government departments in Turkey. Users and administrations can follow all the steps through the online system.

However, despite measures to lower the time and cost of resolving court cases, Turkey remains the poorest performer on resolving insolvency in the WBT region according to World Bank *Doing Business* indicators (World Bank, 2018^[18]). In 2018, it took five years to resolve a case on average, compared to 3.3 years in 2015 (this was partly the result of the suspension of bankruptcy⁹ between July 2016 and March 2018). Insolvency procedures cost 14.5% of the debtor's estate.¹⁰ Major expenses include government charges at 4.5% and attorney fees at about 5% of the total expenses; the fees of administrators, auctioneers, accountants and other professionals involved in the insolvency proceedings make up the rest of the expenses. The recovery rate has fallen by

almost half, from 27.9 cents on one owed dollar in 2015 to 15.3 cents in 2018. It should be added that Turkey is the only economy in the WBT region where the recovery rate has fallen (World Bank, 2018^[18]).

The national SME Development and Support Organisation (KOSGEB) – as well as chambers of industry and commerce, banks and development agencies located in NUTS II regions – disseminate information on the government support available for entrepreneurs experiencing difficulties. Turkey is currently the only economy with websites or call centres for entrepreneurs concerned about their business failing; these are run by KOSGEB.

The economy's bankruptcy early warning infrastructure is poorly developed. The current system identifies companies when they are already distressed based on five financial indicators: 1) credits transferred to non-performing loans; 2) late or delinquent credit payments; 3) levy on immovable and movable assets; 4) cancelled cheques; and 5) protested bills.

Promoting second chance

There are no civic or economic consequences or restrictions are imposed during the period of bankruptcy that might prevent entrepreneurs from having a fresh start. However, according to private sector interviews, the government does not have an information campaign on promoting second chances. No public measures exist at local or regional level. There are also no training courses for entrepreneurs on starting afresh, and no information on second chance procedures on the government website.

Second chance is mentioned under the Turkish Entrepreneurship Strategy and Action Plan. The action plan aims to facilitate a second chance for bankrupt entrepreneurs but the strategy does not provide details on specific measures to achieve this.

The way forward for Dimension 2

Turkey can further improve its legal framework for bankruptcy and second chance policies in the following ways:

- **Develop a fully fledged early warning system:** SME owners tend to underestimate their financial difficulties and resist taking action to alleviate hardships. Turkey should consider introducing a system which would convince entrepreneurs to initiate recovery measures at an early stage. This might take different forms, but should include certain features. First, it should devise procedures to screen for early signs of SMEs in financial difficulties. Second, the identified SMEs should be approached and advised on objectively assessing their financial situation, as well as on the different recovery options available to them. Once better informed, SMEs would be able to take the necessary steps at an earlier stage, increasing their chance of survival. Early warning mechanisms created by EU Member States could offer a blueprint for Turkey (Box 19.3).
- **Introduce SME and entrepreneur fast-track bankruptcy proceedings into the law.** In the current system entrepreneurs need to file for bankruptcy in order to liquidate their business. However, bankruptcies, involving lower debt amounts, should not be governed by creditor committees and reorganisation plans should not be required to meet the current complicated standards designed for larger, more complex bankruptcies. Setting a turnover or debt threshold below which

entrepreneurs can apply for fast-track procedures will lower the administrative burden and case backlog.

- **Further reduce the average cost and duration of bankruptcy proceedings.** There is a strong correlation between average cost and duration of bankruptcy proceedings. Therefore stricter rules should be enforced for managing bankrupt estates, as well as the fees and awards paid to bankruptcy administrators. For instance, setting a time limit on the period in which fees are paid to bankruptcy administrators would provide additional incentives for a quick resolution of bankruptcy cases, and reduce their costs.
- **Allow automatic discharge for entrepreneurs after liquidation.** Providing clear rules for an automatic discharge would allow bankrupt entrepreneurs to efficiently re-integrate as soon as the judiciary decision is taken.

Box 19.3. Early Warning Europe

The international project Early Warning Europe (EWE) was developed with the objective of promoting SMEs' growth across Europe by assisting them during financially difficult periods. In 2016, Early Warning Europe applied for funding through Europe's Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) programme and obtained almost EUR 5 million. The first wave of the project ran for three years and focused on setting up a full-scale early warning mechanism in Poland, Italy, Greece and Spain.

The consortium is comprised of 15 partners in 7 countries including mentor partners Early Warning Denmark, TEAM U in Germany, Dyzo in Belgium, authority partners such as the Danish Business Authority, the regional government of Madrid and the Polish Agency for Enterprise Development, as well as EU-level associations such as the, European Small Business Alliance, Eurochambres and SME United. The Early Warning Europe project is financed by COSME and aims to provide assistance to businesses and entrepreneurs in trouble, as well as those who wish to better anticipate problems. The project builds new best practice and draws on existing experience from these 15 organisations. Currently, five new EU Member States are in the process of joining the EWE community, and several others have expressed their interest. EWE is open to all COSME countries, and the expansion in phases gives access to the early warning mechanisms foreseen in the upcoming EU Directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures.

The consortium is composed of three groups of organisations: 1) mentor organisations with substantial experience in providing support to companies in distress; 2) national or regional organisations that intend to implement early warning mechanisms; and 3) organisations that are responsible for supporting the pan-European communication and dissemination activities of the project.

Through EWE, entrepreneurs can receive help from consultants to get a clear overview of the company, identify the areas which are causing problems, and propose further remedial activities. The second step of the restoration process is collaboration with a mentor. Mentors work closely with the entrepreneur providing expertise, knowledge and support to get the enterprise back on the right track. Alternatively, they can guide companies toward a quick, organised closure when this is the best option for the company. This also contributes greatly to the company owner's chances of a second start and reduces the loss

for the owner, the creditors and society as a whole.

Independent evaluations show a highly positive impact on society of the Early Warning system in terms of jobs saved and savings for the public treasuries. Evaluations show a general saving of 20% for the public treasuries on company closures under the Early Warning mechanism, a high level of job preservation and significantly better first-year turnover and growth after the Early Warning intervention.

An innovative element of the project is the introduction of artificial intelligence and the processing of big data in detecting early signs of distress in companies. Early Warning Europe has developed a data model that identifies the probability of distress in companies in Poland, Italy, Greece and Spain based on publicly accessible data, allowing the network partners to proactively assist companies that may not otherwise realise their problems before it is too late.

Currently the project has the support of more than 500 mentors. The support provided is impartial, confidential and free-of-charge. In the first wave, EWE provided support to 3 500 companies in distress in Poland, Spain, Italy and Greece. In its second wave (2017-19) the project will support the establishment of early warning mechanisms in five additional EU Member States, with the ultimate goal of establishing early warning mechanisms in all EU Member States.

Source: Early Warning Europe (2018^[32]), *Early Warning Europe website*, www.earlywarningeurope.eu/.

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

With a score of 4.12, Turkey is one of the best performers in this dimension (Table 19.7). Its SME policy framework is quite advanced, with a comprehensive SME strategy in place that is being carried out according to plan. However, Turkey's performance has partially deteriorated in this cycle compared to 2016 due to a slight stagnation in the area of public-private consultations (Figure 19.1).

Table 19.7. 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	4.47	4.06
		Implementation	4.73	4.06
		Monitoring and evaluation	4.52	3.92
		Weighted average	4.61	4.03
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	4.49	4.00
		Implementation	3.60	3.25
		Monitoring and evaluation	3.25	3.23
		Weighted average	3.80	3.47
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	3.27	3.86
		Private sector involvement in PPCs	4.33	4.26
		Monitoring and evaluation	3.77	2.73
		Weighted average	3.79	3.79
Turkey's overall score for Dimension 3			4.12	3.79

State of play and key developments

Institutional framework

The SME Strategy (2015-2018) is a well-developed, comprehensive document that is aligned with the national development strategy, the Tenth Development Plan (2014-2018). The key objectives of the SME Strategy revolve around export promotion and internationalisation, enhancing innovation and facilitating access to finance. Its measurable targets comprise: 1) increasing SME exports to USD 150 billion; 2) increasing the number of exporting SMEs to 60 000; 3) increasing the share of SMEs in commercial R&D expenditures to 33%; and 4) creating 3 million new jobs in SMEs. The Eleventh Development Plan was being prepared at the time of writing, with the Presidency's Annual Work Plan announced in October 2018 outlining the key actions to be carried out until the end of 2019. It builds on the Tenth Development Plan, including the same overarching targets across various policy areas (Box 19.4).

Box 19.4. SME policies in the Presidency's 2019 Annual Work Plan

The main goal for SME policies in the 2019 Work Plan is to improve SME entrepreneurship while fostering competitiveness, thereby boosting their contribution to economic growth. The plan is to improve the business environment by developing the capacities of all the actors operating in it. Support will be provided primarily to those enterprises that appeal to global markets, with the potential for fast growth and capacity for innovation in terms of products, operation model and marketing strategies. The main objectives in the area of entrepreneurship and SMEs for 2019 are:

- Improve the structure and functioning of technology development zones to foster co-operation between universities and industry, and scale up joint R&D and innovation activities between enterprises.
- Increase the institutional capacities and co-operation levels of all institutions and organisations providing services and support in the entrepreneurship ecosystem. Professional organisations with public legal personality will be restructured to bolster their contribution to the economy and support entrepreneurship.
- Increase the number and quality of incubators, business development centres and accelerators, ensuring that they deliver efficient services. To this end, support mechanisms will be developed collaboratively by the public sector, business and NGOs.
- Prioritise women's, youth and social entrepreneurship in the criteria for providing entrepreneurial and SME support, while emphasising the capacity for growth, innovation, productivity and employment growth, and co-operation. During implementation, monitoring and evaluation processes will be upgraded and impact analyses undertaken to measure the actual contribution to the economy.
- Strengthen SMEs' R&D, innovation and export capacities to boost internationalisation levels. Support will be provided for better organising and clustering SMEs, both among themselves and in collaboration with large enterprises, universities and research centres.
- Develop organised industrial zones, technology development zones, small industrial sites and industrial districts. To bolster the quality of their services, their institutionalisation and efficient administration will be ensured.
- Develop access to venture capital, business angel investments, credit guarantee funds, micro credit and capital market opportunities to broaden finance for new enterprises and SMEs (Development Plan).

Source: (Resmi Gazete, 2018^[33]), <http://www.resmigazete.gov.tr/eskiler/2018/10/20181027M1-1.pdf>

As noted in the previous assessment, the leading SME implementation agency is the Turkish SME Development and Support Organisation (KOSGEB), affiliated to the Ministry of Industry and Technology. KOSGEB's General Assembly consists of government representatives as well as organisations representing the business sector and civil society. Its Executive Board also includes high-level representatives from the public and private sector. KOSGEB is a well-resourced SME agency, covering a wide range of SME supporting projects and programmes. Its regional offices give it a presence in all 81 of Turkey's provinces.

The SME strategy is monitored twice a year, at the end of January and the end of July. The organisations responsible for implementing the strategy submit their Target Progress Reports to KOSGEB, whose Strategy Development and Financial Services Department is responsible for overall monitoring. According to KOSGEB, 65 of the SME Strategy Action Plan's actions were in progress at the beginning of 2018, with 27 actions completed as of November 2018.

In 2018, Turkey amended the definition of SMEs, increasing the upper limit of annual net sales or financial balance sheet items to TRY 125 million (around EUR 22.5 million) from the previous TRY 40 million (around EUR 7.2 million). This resulted in about 9 000 additional enterprises qualifying as SMEs, i.e. those employing fewer than 250 employees, leaving only approximately 10 000 enterprises classified as large enterprises.

The **informal economy** is addressed by the Programme for Reducing the Informal Economy (2014-2018) as part of the Tenth Development Plan, published by the Revenue Administration in 2015. The programme aims to reduce both the informal economy's share of GDP and the share of informal employment in the non-agricultural sector by 5 percentage points. The programme's main actions include: 1) promoting voluntary regulatory compliance and improving the level of regulatory compliance; 2) strengthening the audit capacity of the responsible institutions and legislation review; 3) increasing awareness of the informal economy's harmful nature in the private sector and in society as a whole; and 4) improving inter-agency data sharing on the informal economy and enhancing overall inter-institutional co-operation in this area.

Legislative simplification and regulatory impact analysis

Legislative simplification in Turkey is part of the SME strategy. Business-related legislation with an impact on SMEs is being reviewed and simplified under the strategic target of "protecting SMEs in the process of improving the business and investment environment". However, to date no information on the proportion of legislation reviewed or simplified as part of the SME strategy has been made publicly available.

The Prime Minister's Office launched the Reduction of Bureaucracy and Simplification of Legislation (BAMS) initiative in 2014. To date, BAMS has resulted in 348 amendments to business-related regulations, the elimination of 3 148 documents from various application processes, and the digitalisation of a number of business-related services. BAMS also saw 406 business-related documents digitalised and the SME Information System commissioned in February 2018 (for more information on e-government, see Section Operational environment for SMEs (Dimension 4) on the operational environment for SMEs).

Measures aimed at simplifying legislation were also included in the Action Plan of the Programme for Reducing the Informal Economy (2014-2018). These mainly relate to facilitating transactions and operations in the taxation process. According to the progress report, by the end of 2015 all transactions in the taxation process had been revised and necessary amendments made. No new actions have been introduced or conducted since.

In Turkey, regulatory impact analysis is conducted for some business-related legislation. As of July 2018, the main institution in charge of RIA is the Presidency Organisation, which took over this task from the Office of the Prime Minister. The RIA Guide underlines the need to examine impacts on SMEs as part of the analysis. According to the Regulation on Legislation Preparation, a full RIA is formally required for business-related legislation whose probable annual effects are above TRY 30 million (around

EUR 5.4 million). A partial assessment is required for draft legislation which falls below this threshold. However, as a previous OECD study showed, in practice RIA is not conducted regularly, and even those draft laws with expected impacts over the TRY 30 million threshold lacked appropriate impact analyses (OECD, 2017^[34]). The same study also showed that there was no evidence of a systematic review of policy proposals against set government priorities or of quality control of the RIAs carried out by ministries initiating the legislation (OECD, 2017^[34]).

The RIA threshold was changed during the reference period. It had been set at TRY 10 million (around EUR 1.8 million) then raised to the current level in 2016. This change is expected to reduce the already relatively low frequency of RIA in Turkey. Finally, as for the last assessment, no RIAs are made publicly available on line.

Public-private consultations

Public-private consultations (PPCs) are still not formally required in Turkey. As in the previous assessment cycle, there are no legal or regulatory frameworks in place that define the general principles or procedures for conducting PPCs. While the RIA Guide encourages consultation with all related stakeholders, it is not mandatory. To date there is also no centralised online portal that lists all ongoing PPCs in Turkey, and participants' views in PPCs are not made public. Nevertheless, the National E-government Strategy (2016-2019) stipulates the introduction of a Legislative Participation Portal, to monitor legislative work conducted by the government and collect stakeholders' views on these legislative developments. It is not clear, however, whether this portal will act as an online PPC platform once it is established.

Private sector engagement is strongest in Turkey when developing new strategies and action plans. For instance, a wide group of stakeholders was consulted during preparation of the SME Strategy and the Entrepreneurship Strategy. Turkey also has councils designed to facilitate consultations with interested parties. For instance, the Entrepreneurship Council was established in 2012 and consists of public, private and academic representatives chaired by the Minister of Trade. It meets at least once a year to develop entrepreneurship through various initiatives. However, the same pattern is not observed for consultations on legislation. In 2017, only 40% of draft primary laws and 20% of draft subordinate laws were open to consultation. Like some other WBT economies, Turkish laws are predominantly adopted without any PPCs. In 2016, 83% of all laws were adopted this way, which is the highest share in the region, followed by the Republic of North Macedonia at 70% and Serbia at 65% (OECD, 2017^[34]). An example of good practice is the technical sectorial committees established and chaired by the Ministry of Industry and Technology, with private sector association and business members. Consultations usually take place in these committees before technical legislation is adopted.

Private sector participation in PPCs is mostly indirect, occurring through the Union of Chambers and Commodity Exchanges and other business associations and chambers according to their area of work. When it comes to monitoring PPCs, no government body is responsible for overseeing the consultation process.

The way forward for Dimension 3

Turkey has established a solid institutional and regulatory framework for SMEs. Going forward, it should place more emphasis on the following points:

- **Improve the quality of legislative simplification actions.** In Turkey, legislative simplification has been undertaken as part of a variety of initiatives and strategies. The SME strategy includes regulatory review and its actions are being implemented. However, there are no records of the share of legislation that has been reviewed, simplified or eliminated as part of the strategy. During the assessment period, Turkey's efforts under the BAMS initiative mostly revolved around digitalising public services. Therefore the government is recommended to pursue a continuous and systematic legislative review process, with regular data collection and monitoring of its effects. The business sector needs to be an integral part of the process. Denmark's Business Forum could serve as a good practice example (Box 19.5).

Box 19.5. Denmark's Business Forum for Better Regulation

The Business Forum for Better Regulation was launched by the Danish Minister for Business and Growth in 2012. Its objective is to ensure that business regulation is renewed in close dialogue with the business community by identifying those areas that businesses perceive as the most burdensome, and proposing simplification measures. These measures might include changing rules, introducing new processes or shortening processing times. The forum's definition of a burden is broad and includes compliance costs and adaptation costs ("one-off" costs related to adapting to new and changed regulation), as well as administrative burdens.

Members of the business forum comprise industry and labour organisations, businesses, and experts in regulation simplification. They are invited by the Ministry for Business and Growth either in their personal capacity or as a representative of an organisation. The forum meets three times a year to decide which proposals to send to the government. So far, its proposals have covered 13 themes, ranging from the employment of foreign workers to barriers to growth. Interested parties can also submit proposals for potential simplifications through the forum's website. All the information on meetings and the resulting initiatives is available on line.

Proposals from the Business Forum are subject to a "comply or explain" principle, meaning that the government must either implement the proposed initiatives or justify why it has not done so. As of October 2016, 603 proposals had been sent to the government, of which 191 have been fully implemented to date and 189 partially implemented. The cumulative annual reduction in burden of some initiatives has been estimated at DKK 790 million (Danish crowns, or EUR 106 million). Information on the progress of the implementation of all proposals is available through the forum's website. The results are updated three times a year. The Business Forum publishes annual reports on its activities, while the Danish Minister for Business and Growth sends annual reports on the activities of the Business Forum to the Danish parliament.

Sources: OECD (2017^[35]), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy*; Business Forum for Better Regulation (2018^[36]); Business Forum for Better Regulation website, www.enklerleger.dk.

- **Enforce the effective application of RIA.** As stated above, RIA is conducted for some legislation in Turkey, but inconsistently, and it only assesses budgetary impact. It seems that RIA is not fully recognised as a regulatory review mechanism or a tool for improved government decision making. Turkey therefore

needs to improve the quality of RIA analysis and rigorously fulfil its quality control function in practice. The President's Office, as the responsible institution, is encouraged to step up its efforts to improve RIA and ensure that ministries proposing new legislation perform RIA appropriately. The government is also recommended to enhance the analytical depth of full RIA, in particular by ensuring that the impacts on SMEs are properly evaluated. RIA findings should also be made available on line.

- **Introduce a formal requirement to conduct PPCs in Turkey and ensure their effective implementation.** Currently, there is no formal requirement to conduct PPCs in Turkey, although the government does usually gather private sector inputs on the strategies and action plans that affect them. No centralised online portal for PPCs has been established, and more than 80% of laws are adopted without any consultation. The government therefore needs to institutionalise the consultation mechanism and increase the frequency and transparency of PPCs. In particular, when private sector inputs are sought, it needs to ensure that the relevant stakeholders are informed about how their inputs have been taken into account, and if not, the reasons why. The Legislative Participation Portal should serve as a centralised online PPC platform, and should be well designed and consistently used. An example from the Slovak Republic could be used as a blueprint (Box 19.6).

Box 19.6. Tools to foster public consultations: The Slovak Republic's government consultation portal

In the Slovak Republic, public consultations are required for every legislative proposal submitted to the government. All legislative drafts and their accompanying impact analyses are automatically published on the government portal at the same time that they enter the inter-ministerial comment procedure. The portal provides a single access point to comment on legislative proposals and non-legislative drafts (e.g. concept notes, green or white papers). It seeks to ensure easier orientation and searches of legislative materials to make it easier to evaluate the inter-ministerial consultation process, and to support compliance with legislative rules and time limits.

Public authorities and members of the general public can comment on the legislative drafts and the accompanying material. All comments submitted are visible on the website. The deadline for comments is usually 15 working days. The general public can also access all final legislation through the government portal. Written comments can be submitted by the public either as individual comments or as "collective comments", to which individuals or organisations can signal their support. Whenever a comment receives support from 500 individuals or organisations, ministries are obliged to provide written feedback on the comment, either taking it into consideration in the legislative proposal or explaining why it has not been taken into account. The feedback provided is then part of the dossier submitted to the government for discussion.

Virtually all legislative proposals are adjusted following the consultation process. The number of comments received varies significantly for different legislative proposals. Accompanying impact analyses of the legislative proposal are also updated on the basis of comments received. Following each consultation process, a summary of comments received together with the reasoning for their inclusion or non-inclusion is published on

the portal.

Source: OECD (2017^[35]), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy* www.oecd.org/governance/regulatory-policy/public-consultation-best-practice-principles-on-stakeholder-engagement.htm; Ministry of Justice (2018^[37]), Slov-Lex, www.slov-lex.sk.

- **Analyse the impact of the revised SME definition.** There is no unique, universally accepted definition of SMEs. Although the definition of SMEs seems mainly relevant for statistical purposes, its real importance lies in assessing SMEs' broader contribution to the economy, and subsequently in devising strategies and support programmes for them. Before amending the SME definition in Turkey, KOSGEB sought views from various private sector and public organisations. However, there is no evidence that consideration had been given to how the changes in SME definition would broadly affect SMEs or the public support programmes targeting them. Therefore, KOSGEB is encouraged to analyse the potential impact of the new SME definition, in terms of the practical difficulties and administrative burdens likely to be faced by micro and small enterprises in particular, as well as on the final beneficiaries of existing support programmes.

Operational environment for SMEs (Dimension 4)

Turkey has succeeded in its efforts to improve the operational environment for SMEs since the 2016 assessment (Figure 19.1). This progress is reflected in its score, which has improved from 3.12 to 3.56, slightly above the regional average of 3.4 (Table 19.8)

Table 19.8. 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 enterprises	Planning and design	4.72	4.07
		Implementation	4.20	3.47
		Monitoring and evaluation	2.47	2.05
		Weighted average	3.92	3.29
	Sub-dimension 4.2: Company registration	Design and implementation	4.00	4.48
		Performance	3.17	3.72
		Monitoring and evaluation	3.40	3.59
		Weighted average	3.59	3.97
	Sub-dimension 4.3: Business licensing	Licence procedures	3.16	3.67
		Monitoring and streamlining of licence system	1.69	3.18
		Weighted average	2.43	3.43
	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			3.56	3.45

Note: A new sub-dimension 4.4 on tax compliance procedures for SMEs was added at the request of the assessed economies, to better reflect the complexity of the overall picture of the operational environment for SMEs, however, as it is a pilot analysis this sub-dimension has not been included in the scoring.

State of play and key developments

Digital government services for enterprises

Since the 2016 assessment, Turkey has made considerable progress in integrating digital government into public administration reforms.

In 2016, the Turkish government adopted the National E-Government Strategy and Action Plan (2016-2019), co-ordinated by the Ministry of Transport, Maritime Affairs and Communications. The strategy outlines the roadmap for digital government services and ensures continuity from the previous e-government strategy (2015-18). Four strategic targets have been established, in line with the previous strategy: 1) ensuring the efficiency and sustainability of the e-government ecosystem; 2) implementing common systems for infrastructure and administrative services; 3) achieving e-transformation in public services; and 4) enhancing use, participation and transparency.

As part of this strategy, the services offered by the e-government portal established in 2008 (<https://www.turkiye.gov.tr/>) have proliferated. The portal is designed to provide citizens and enterprises with a single access point for electronic services. It also functions as an interoperability system, allowing public sector agencies to interact with each other. Turkey also belongs to the European Interoperability Framework, which supports the economy's efforts in establishing a fully functional interoperability network.

As of February 2016, the portal included more than 1 400 services from 216 different agencies, as well as information about administrative procedures and links to the services provided directly through each public agency's website. There are over 26 million registered users.

In 2016, to widen the use and the range of electronic services, the Turkish government started to replace its non-electronic ID cards with electronic ones (e-IDs). The government expects to finish the replacement process by the end of 2020. By then the objective is to increase electronic authentication capacity for e-government services and update electronic service platforms to enable the use of e-IDs.

The system for filing tax returns on line is now fully operational. According to the 2017 ICT Technology Usage in Enterprises Survey, carried out by TUIK, 53.5% of all enterprises declared their VAT on line (TUIK, 2017^[38]). The same survey also found that 55.8% of all enterprises filed their social security returns on line. Pensions are paid through the social security funds online payment system and some cadastre processes are carried out through the national portal.

There is no specific legislation yet for including e-government policies in public administration. Each ministry is responsible for their own domain according to their competences. However, to close this legislative gap, in September 2016 the government adopted the Regulation on the Procedures and Principles Concerning Conducting e-Government Services.¹¹ This regulation aims to establish common binding principles for public institutions on digital services.

Despite Turkey announcing its interest in open government in September 2016, the Steering Committee of the Open Government Partnership has designated the economy as “inactive” because the government did not engage with the committee and has failed to deliver an action plan since 2014. As result, in 2017 Turkey was withdrawn from the partnership.

Open government data (OGD) is part of the 2016-19 National E-Government Strategy and Action Plan under the strategic aim of “enhancing usage, participation and transparency”. The planned actions cover a broad range of services such as developing an open data sharing portal, transforming public data into open data and sharing data, and developing a public investment and realisation monitoring portal. The strategy mentions developing actions to promote the reuse of OGD for economic value creation. One of the targets specified in the document is as follows: “Open data will be used to increase efficiency and create economic value with new products/services”. However, evidence shows that the appropriate legislation is lacking. According to the results of the OECD Open Government Data Survey 3.0, Turkey reported the absence of formal requirements stating the obligation of public sector organisations to anonymise data before publication. (OECD, 2018^[39]).

The government uses surveys, conducted and assessed by TUIK as part of the Satisfaction in Life Survey, to collect information about the use, satisfaction with and effectiveness of e-government services. As a result, Turkey is one of the few WBT economies to collect data on satisfaction with public services and provide them in electronic format (Turkstat, 2017^[40]). However, the entire survey is only available on request and after approval. The metadata is not provided in machine-readable format nor via a centralised web portal, but can be only acquired on a CD-ROM (Turkstat, 2017^[41]). In addition there is no evidence that the administration makes adjustments based on the survey results or that there are any follow-up measures.

Business registration and licensing

Turkey offers one-stop shops for online company registration through the Central Commercial Registration System (MERSIS). However, this process is not yet fully digital; the entrepreneur must be physically present. Registration cannot be done at a single window – entrepreneurs are required to complete different steps at different windows in the same location.

Three company identification numbers are used during the registration process: 1) tax number (or tax identification number); 2) social security number; and 3) trade register number. All company types have to conduct a similar process. They have to register at the tax office, trade registry office and social security administration. For limited liability companies and corporate foundations, the companies have to deposit 0.04% of their capital at the Competition Authority.

Between 2016 and 2018, Turkey slightly increased the time needed to register a business by one day. At present, it takes seven days to complete the overall company registration process, including obtaining compulsory licences for standard business activities – this is the third quickest in the WBT region. However, the economy has the third highest cost of starting a business in the WBT region, at 10.6% of income per capita, after Bosnia and Herzegovina and Albania (World Bank, 2018^[18]).

The Regulation on Business Licensing¹² serves as written guidance on the procedure of obtaining a licence. Each ministry and municipality is responsible for issuing licences according to their competences. All decisions about whether or not to grant a licence are documented in writing. However, evidence shows that the information collected for a licence is not systematically shared with other authorities,¹³ so that entrepreneurs have to submit the same information for different processes. Thus, the licensing fees¹⁴ do not comply with the cost-recovery principle.¹⁵

The economy still does not digitally assign officials responsible for granting the licence. Turkey is planning to simplify the licensing procedure by introducing the *perakende bilgi sistemi* (PERBIS) platform. This already exists as a pilot and will serve as a centralised system for business licence applications, creating a single entry point for various applications. It is expected to start operating in the first quarter of 2019.

Evidence shows there is no generic law for applying the silence-is-consent¹⁶ principle in Turkey. Only one reference is made to it under Article 96 of the Enforcement and Bankruptcy Act, which states that the silence-is-consent principle is to be used in most areas of the public administration. However, the article stipulates that the meaning of the principle changes according to the area of implementation, i.e. silence does not always mean accepting the claims. There is no evidence that the principle has been adopted in other policy areas.

Tax compliance procedures for SMEs

Turkey has a single replacement tax regime for SMEs which brings together several elements. SMEs, unincorporated businesses which have an annual revenue of less than TRY 148 000 (around EUR 26 600) and an annual rental cost of less than TRY 7 400 (around EUR 1 300) in 2018 are subject to the single replacement tax regime called *basit usul vergisi*. This regime, aimed at micro businesses, was first introduced in 1998 to encourage the formalisation of businesses by simplifying tax compliance requirements.

A presumptive tax scheme exists for income taxation of unincorporated businesses, which is calculated on the basis of annual revenue and costs of renting (or imputed rental value if the entrepreneur owns the business property). Those eligible under the *basit usul vergisi* regime are not required to prepare withholding tax returns or to pay advanced tax. Moreover, their sales of goods and services are exempt from VAT, and they can deduct a standard amount of TRY 8 000 (around EUR 1 400) from their annual revenue. These businesses are also exempt from bookkeeping, and they are only required to complete a special tax return and submit it to the Tax Administration.

There are no tax incentives schemes for SMEs for other taxes. No information is available on the existence of any assessment of the effective tax burden imposed by presumptive tax regimes, or whether the tax scheme encourages businesses to remain small.

The way forward for Dimension 4

Despite progress in the operational environment, some challenges remain. The following steps should be considered:

- **Continue implementing digital authentication system or e-signatures** to widen the range of e-services. E-signatures or digital authentication allow users to complete all processes on line and save time rather than having to be physically present, as required by the current system. The government needs to continue implementing the digital authentication system by replacing current IDs with eIDs to allow SMEs to complete procedures on line.
- **Make the company registration process fully on line.** This will give the government an overview of the registration process and improve its efficiency. It will save time and reduce both the cost and the number of required procedures.
- **Continue to centralise the licensing process through PERBIS.** This single co-ordination body will increase transparency, speed up processes, help carry out effective monitoring and streamlining, and lower administrative burdens and costs for SMEs.
- **Improve the monitoring and evaluation of simplified tax regimes.** The government should ensure the effective tax burden on SMEs is being properly monitored. More efficient monitoring would help deepen the analysis of the impact of various taxes imposed on SMEs and help government strike an effective balance for taxation policy.

Support services for SMEs (Dimension 5a)

As in the 2016 SME Policy Index assessment, Turkey achieved the highest score (4.42) of the seven assessed economies for its business support services (BSSs) for SMEs (Table 19.9). Indeed, it achieved the highest score in both the first sub-dimension (4.39) – support services provided by the government – and the second sub-dimension (4.44) – government initiatives to stimulate private services – outperforming the WBT sub-dimension averages of 3.63 and 4.14 respectively.

Table 19.9. Scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 5a: Business support services for SMEs	Sub-dimension 5a.1: Business support services provided by the government	Planning and design	4.11	3.84
		Implementation	4.58	3.68
		Monitoring and evaluation	4.36	3.19
		Weighted average	4.39	3.63
	Sub-dimension 5a.2: Government initiatives to stimulate private business support services	Planning and design	5.00	4.67
		Implementation	4.29	3.85
		Monitoring and evaluation	4.00	4.07
		Weighted average	4.44	4.14
	Turkey's overall score for Dimension 5a		4.42	3.89

State of play and key developments

Turkey has a well-developed and extensive landscape of public BSSs for SMEs. Public sector provision of BSSs has a broad geographical reach and is varied, providing different forms of services for SMEs in different sectors and at different stages of their development. In addition to private sector providers or chambers of commerce, 14 public institutions provided more than 90 support programmes to benefit SMEs in 2018. KOSGEB is Turkey's dedicated public institution for providing BSSs to SMEs; other major public BSS providers include the Ministry of Industry and Technology, the Ministry of Trade, the Scientific and Technological Research Council of Turkey (TÜBİTAK), Turkey's 26 development agencies, enterprise development centres (İŞGEMs) and technology development centres (TEKMERs). KOSGEB provides its services through a total of 198 physical offices and 92 field offices, 78 representative offices and 28 technology transfer offices (TTOs) across Turkey's 81 provinces.

At the time of writing, two major strategy documents have framed BSS provision in Turkey: the Entrepreneurship Strategy (2015-2018) and the SME Strategy (2015-2018). Both were founded on the 2023 vision for Turkey and its Tenth Development Plan, and both are accompanied by action plans detailing the responsible institution(s), the implementation timeline and performance indicators for each measure. Unlike the SME Strategy action plan, the Entrepreneurship Strategy action plan includes measurable targets, facilitating monitoring. Both strategies were drafted by dedicated working groups from KOSGEB, following the International Organization for Standardization (ISO) 9000 standards to assure stakeholder input. To develop the SME Strategy, the KOSGEB Working Group conducted an Internet-based survey in which 3 697 SMEs participated and which helped identify challenges and priorities for designing BSSs. KOSGEB's

actions are based on its 2016-2020 Strategic Plan, which also benefitted from stakeholder analysis via an Internet-based survey on KOSGEB's BSSs, to which 864 respondents provided feedback, 728 of which them SMEs. The strategic plan also includes measurable performance indicators for each action.

In 2017, KOSGEB had a total budget of about TRY 2 092 million (around EUR 504 million) and 1 210 employees, of whom 646 were SME experts (KOSGEB, 2018^[42]). In the same year, KOSGEB provided three main types of support service to SMEs: 1) 11 support programmes under the KOSGEB Support Programmes Regulation (ranging from training, R&D and innovation support, to promotion and marketing and accelerator programmes); 2) the Support to SMEs' Bank Loan Interests programme; and 3) the Laboratory Services programme (technical support). KOSGEB also co-ordinates Turkish SMEs' participation in the EU COSME programme.

According to data provided by KOSGEB for this assessment, more than 1.4 million SMEs – about 45% of all Turkish SMEs – were included in its database at the time of writing, as having been either informed about or applying to KOSGEB's BSSs. KOSGEB data received for this assessment also indicated that 18.6% of all SMEs in Turkey had used one of KOSGEB's publicly (co-)financed BSSs for general information, training, consulting and mentoring, or support to participate in a trade fair in 2017. This figure is considerably higher than in the six Western Balkan economies, where only 3.3% of SMEs on average used such publicly (co-)funded BSSs.

In 2017, 289 937 SMEs – or 9.4% of Turkish SMEs – used KOSGEB's Support to SMEs' Bank Loan Interests programme. This programme has mostly benefitted micro enterprises, which accounted for 92.4% of its beneficiaries in 2017 (KOSGEB, 2018^[42]). Other popular programmes were KOSGEB's Applied Entrepreneurship training, its co-financing support as part of its General Support programme and its New Entrepreneur Support programme. Provided under the KOSGEB Support Programmes Regulation, in 2017 these programmes' beneficiaries were mostly micro enterprises (60.3%) and small enterprises (23.1%) (KOSGEB, 2018^[42]).

The Applied Entrepreneurship training is free of charge and offers a minimum of 46 hours of theoretical training and 24 hours of workshops, on topics such as business plan development, market analysis and entrepreneurial skills. These courses have a wide geographical reach since they are carried out by a range of institutions and organisations across Turkey, including municipalities, professional associations, higher education institutions and development agencies. Those who complete the training are eligible to apply for KOSGEB's New Entrepreneur Support programme. In 2017, 217 291 SMEs or entrepreneurs benefitted from the course, corresponding to about 7% of all Turkish SMEs (KOSGEB, 2018^[42]).

KOSGEB operates co-financing schemes under its General Support and New Entrepreneur Support programmes. The three-year General Support programme offers co-financing for 15 types of support, including consultancy and training. There is an upper limit for each type of support; for consultancy the limit is TRY 22 500 (about EUR 4 000) and for training it is TRY 20 000 (about EUR 3 600). The co-financing rate for all types of support is 50%, 60% or 70% of admissible costs, depending on the region the SME is registered in; the programme provides more support to SMEs in less developed regions, mostly in Turkey's eastern and southeastern provinces. In KOSGEB's New Entrepreneur Support programme the co-financing rate is also determined by region. KOSGEB also offers more favourable co-financing rates for women entrepreneurs, disabled entrepreneurs and other specific or vulnerable categories. In 2017, 35 071 SMEs

(1.1% of all Turkish SMEs) used support from the General Support programme and 15 544 (0.5%) used the New Entrepreneurship programme (KOSGEB, 2018^[42]).

For quality assurance, the private sector providers used for KOSGEB's co-financing schemes must be consultants certified by the Turkish Vocational Qualifications Authority or universities accredited by this authority.

Turkey's public institutions regularly monitor their BSS provision. Since its adoption in 2003, Turkey's Public Financial Management and Control Law regulates, among other things, financial auditing practices for public institutions. Following this law, KOSGEB's BSS provision is regularly audited internally by KOSGEB's monitoring unit, while Turkey's State Aids Monitoring and Supervision Board audits the programmes externally. KOSGEB publishes detailed annual performance reports, which are publicly available on its website. The performance reports detail the number of beneficiaries for each support programme and their location. They also quantify the actions implemented under KOSGEB's 2016-2020 Strategic Plan and its annual work programmes. After they have received support, each beneficiary needs to answer a questionnaire and provide information on the quality of the service received. Since SMEs need to register in KOSGEB's database to apply for support, it is possible to measure the impact of the support programmes they have received on some of the basic indicators SMEs need to provide, such as their balance sheet or the number of exports.

KOSGEB's website allows SMEs to register for its database in order to apply for various BSS programmes. Unlike other economies in the region, KOSGEB's webpage provides centralised information on BSS programmes from all public institutions, searchable by support category, support type and institution. It also provides a link to a new online training platform (kobikampus.kosgeb.gov.tr), which is supported by KOSGEB and provides online training on various topics ranging from marketing and sales to the environment and safety.

The way forward for Dimension 5a

A wide range of BSSs provided by many public institutions and private sector providers are available to SMEs in Turkey. SMEs' uptake of these services has been fairly high compared to the other six assessed economies, which indicates that the services on offer respond well to SMEs' needs. In order to further improve its BSSs, Turkey could consider the following:

- **Improve the evaluation of support programmes' (long-term) effectiveness by conducting regular impact analyses.** In 2018, the Ministry of Industry and Technology undertook a pilot impact analysis of KOSGEB's Design Support scheme, one of the 15 co-financing programmes under KOSGEB's General Support programme. One main finding was that the firms would still have embarked on their project even if KOSGEB's support had not been available. Therefore, KOSGEB should conduct regular impact analyses of all support schemes, and continue only those that are most needed by Turkish SMEs. KOSGEB has a dedicated department for monitoring and evaluation that has mainly dealt with the design of its planned support programmes so far. Going forward, this unit should carry out regular evaluation studies of the ongoing support programmes.
- **Consolidate and streamline the SME support measures.** In 2018, 14 public institutions offered more than 90 support programmes to benefit SMEs. With

such a large number of measures available both at national and local level, it is important to avoid overlaps and create further synergies among public institutions so as to increase the programmes' impact.

- **Stagger the reimbursement of funds under co-financing programmes**
Currently, SMEs can claim reimbursement for support services from KOSGEB's co-financing programmes by presenting invoices and receipts. However, this might deter micro and small companies with scarce resources from applying. Instead, KOSGEB could provide a first tranche of funding when an SME is officially accepted in the scheme, and a second tranche after successfully completing the project. KOSGEB could also consider tailoring the co-financing support according to enterprise size, thus co-financing a higher percentage of costs for micro and small companies.

Public procurement (Dimension 5b)

Turkey obtained a weighted score of 3.66 (Table 19.10) for this dimension. While this is a worse result than in 2016 (Figure 19.1), it should be noted that changes in the assessment framework mean that 2019 and 2016 scores are not directly comparable.

Table 19.10. Scores for Dimension 5b: Public procurement

Dimension	Thematic block	Turkey	WBT average
Dimension 5b: Public procurement	Policy and regulatory framework	3.90	3.92
	Implementation	3.57	4.05
	Monitoring and evaluation	3.57	3.24
Turkey's overall score for Dimension 5b		3.66	3.84

State of play and key developments

The legislative framework covering public procurement consists of the Public Procurement Law (PPL), adopted in 2002 and changed many times up until April 2015; the Public Procurement Contract Law; and a comprehensive set of secondary and tertiary legislation. When awarding contracts, the 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.

An exception to the principle of equal treatment for all suppliers is that the PL provides for preferential treatment of domestic economic operators. There are two types of domestic preferences in the PPL: 1) the right to exclude foreign suppliers from public procurement procedures; and 2) a margin of preference applied in favour of domestic suppliers in evaluating tenders. In the first case, contracting authorities may decide that foreign economic operators will not be allowed to participate in a given procurement procedure (this is left to their discretion). In the second, 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 Public Procurement Authority (PPA).

In accordance with the principle of transparency, public procurement notices are published in the Public Procurement Bulletin and on the Electronic Procurement Platform (EKAP) maintained by the PPA. Contracting authorities should provide detailed information about a given procurement procedure in the tender documents, which should contain the minimum content specified in the PPL. The PPL envisages the usual tools for facilitating SME access to public procurement. For instance, public contracts may be divided into smaller lots to enhance SME participation. Access to public procurement is open to natural or legal persons, as well as groups of economic operators (joint ventures) formed by natural or legal persons. The PPL provides more detailed rules on the

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 tender documents whether or not a consortium is allowed to submit tenders.

The PPL specifies what types of document must be submitted by economic operators in order to prove they are able to perform the contract in question. The purpose of these documents is to demonstrate their economic, financial, professional and technical qualifications. The PPL also defines the 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 authorities should state what requirements and documents economic operators need to supply in order to prove their qualifications.

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

The Public Procurement Authority, established in 2002, is responsible for implementing public procurement rules, disseminating information about procurement opportunities, monitoring of application of procurement rules and provision of trainings on public procurement, in addition to its role as the public procurement review body. It also operates the e-procurement system, EKAP. Members of the PPA board are appointed by the Council of Ministers following proposals by the Ministry of Treasury and Finance. The PPA provides training for both the contracting authorities and economic operators; however, no distinction is made between SMEs and other economic operators.

The review of decisions taken by contracting authorities concerning contracts falling within the scope of the PPL takes place in three stages: 1) complaint applications, submitted to the contracting authority concerned; 2) appeal applications, submitted to the PPA; and 3) appeals to the administrative court against PPA decisions. Legal standing (or access to review) is offered to “candidates, tenderers or potential tenderers” who claim to have suffered, or are likely to suffer, a loss of rights or damage due to unlawful procedures or actions within the tendering process. Complaints to the contracting authorities, in principle, may be submitted no later than ten days from the date on which the proceeding or action subject to the complaint has been realised or should be realised, and before the contract is signed. The period for complaint applications on the issues covered in the procurement notice starts from the date on which the notice is first published; the period for applications regarding provisions on pre-qualification, or requirements which are not provided in the procurement notice, should start to run from the purchasing date of the related document.

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

The way forward for Dimension 5b

Turkey has established a solid institutional and regulatory framework for public procurement. Going forward, it should place more emphasis on the following points:

- **Further align national legislation with EU rules and international good practice.** In particular:
 - ensure that economic operators have access to public procurement on equal footing regardless of their origin
 - complete the implementation of the 2014 EU Public Procurement Directives, in particular those provisions relating to facilitating SME access to the public procurement market.
- **Reduce the administrative burden of participating in public procurements.** Evidence of qualifications and other supporting documents should only be required from bidders whose offers were evaluated to be the most advantageous. The bidders should only need to submit a 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.
- **Focus on correctly implementing amended public procurement provisions** by providing consultation assistance and training both to contracting authorities and economic operators, especially SMEs; contracting authorities in particular should be trained in how to take SMEs' specific needs into consideration.
- **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 in order to challenge contracting authority decisions).

Access to finance for SMEs (Dimension 6)

Already the strongest-performing economy covered in this report, Turkey has further improved its score on access to finance, from 3.89 to 3.99 (Figure 19.1 and Table 19.11). Part of this improvement is driven by methodological changes leading to the removal of savings and loan associations from the non-bank financing instruments assessment framework. However, there have also been real improvements in the financing environment for SMEs – mainly surrounding the legal and regulatory framework, venture capital and financial literacy.

Table 19.11. Scores for Dimension 6: Access to finance

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 6: Access to finance	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	3.56	4.20
		Registers	4.42	4.58
		Credit information bureaus	4.51	4.55
		Banking regulations	5.00	3.79
		Stock market	4.35	2.93
		Weighted average	4.31	4.14
	Sub-dimension 6.2: Bank financing	Banking lending practices and conditions	3.61	2.92
		Credit guarantee schemes	3.44	2.30
		Weighted average	3.55	2.67
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	2.33	3.57
		Leasing	3.33	2.84
		Factoring	3.50	2.45
		Weighted average	3.06	2.95
	Sub-dimension 6.4: Venture capital	Legal framework	4.67	2.32
		Design and implementation of government activities	4.91	2.48
		Monitoring and evaluation	4.33	1.48
		Weighted average	4.71	2.22
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	3.45	2.44
		Monitoring and evaluation	2.33	1.19
		Weighted average	3.22	2.19
	Turkey's overall score for Dimension 6		3.99	3.53

State of play and key developments

Legal and regulatory framework

Overall Turkey has a comprehensive legal framework for access to finance. However, the formal legal framework for secured transactions has room for further improvement. According to the World Bank's *Doing Business* report (World Bank, 2018^[18]), Turkey scores 7 out of 12 on the “strength of legal rights index”, which looks at creditor rights and collateralisation, compared to an average of 9 in the WBT region. Some improvements have been made since the previous assessment, including legislative changes stipulating that secured creditors are paid before taxes, thus strengthening creditors' position in insolvency cases. Restructurings and enforcements through court proceedings tend to be lengthy. For example, insolvency proceedings can take five years and the recovery rate is very low (14.7 cents on the dollar compared to 58 cents on

average in the EU) (World Bank, 2017^[43]; World Bank, 2018^[18]). No simplified or fast track in court proceedings exist for liquidation or reorganisation (for more information see Section Operational environment for SMEs (Dimension 4)).

There have been some positive developments regarding registers for pledges over movable assets. A new law on pledges over movable assets was passed in October 2016 and entered into force in January 2017. It allows for non-possessory pledges in commercial transactions – a major change from the previous legal regime. It is possible to establish a pledge over individual assets rather than all movable assets within a commercial enterprise as a whole. The law also allows pledges over prospective movables and future receivables and expands the list of parties allowed to enter into pledge agreements. These changes are a positive step towards making the registration process less cumbersome and are particularly important for small businesses, as they may not have sufficient fixed assets to pledge.

Turkey has one credit registry bureau, the Credit Bureau of Turkey (KKB), which covers over 80% of the population. The KKB also operates the Risk Center, established in 2013 to collect risk information for regulatory purposes and provide risk analysis services. However, it does not collect information from sources such as retailers or utility companies. Having a formal record of such information linked to a credit check would allow more individual and small entrepreneurs to build a credit history without having had access to a bank loan.

The Basel core principles have been fully implemented, including Basel III requirements. In addition, banks are required to disclose the risks of foreign exchange borrowing to their clients. To curb the weakening of the Turkish lira, Decree No. 32 came into effect in May 2018, prohibiting foreign currency lending to individuals and unhedged borrowers, and banning foreign-currency indexed loans.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Bank lending has further expanded since the last assessment, with an annual credit growth of 9-21% since 2015. SMEs have also benefitted from this expansion in absolute terms – with SME lending almost doubling to TRY 693 billion in August 2018 from 389 billion in 2015 – even though their overall share in total loans has slightly declined, to around one-third of business loans (OECD, 2018^[31]). One key driver for this has been the Credit Guarantee Fund, the KGF, which massively increased its operations thanks to significant Treasury backing. In 2017, guarantees of around TRY 200 billion (about EUR 36 billion) were extended under the scheme, compared to TRY 5 billion in 2016. The disbursement of these funds was aided by the introduction of a portfolio guarantee mechanism which moved away from loan-by-loan approvals of guarantees, making the scheme scalable and more efficient for banks. In addition, KOSGEB has a range of support programmes, some of which have a subsidised lending element (see Section 0 on business support services for a description of different programmes). All of this has contributed to relatively favourable conditions for SMEs to access financing. Bank coverage in rural areas and less developed regions remains sparse, but mobile banking is increasingly helping to include the rural population in the formal banking sector.¹⁷ However, long-term financing remains an issue. While the availability of bank credit has improved in recent years, continued access will be highly dependent on macroeconomic developments. Future challenges to the lending environment may stem from a higher cost of lending, shorter tenors available in the market and foreign exchange market volatility.

Non-bank financing options provide a viable alternative to bank lending in Turkey. The leasing and factoring markets are some of the most advanced in the region, with penetration levels at close to 1% and 6% respectively, nearing average levels in the EU. While the leasing markets in most of the region are dominated by vehicle leasing, machinery and equipment leasing across a range of sectors makes up more than 70% of total leasing activities in Turkey,¹⁸ reflecting a larger market and more manufacturing capacity in the economy overall. On the other hand, microfinance only exists at the level of smaller projects, mainly run by NGOs in less developed regions of Turkey. While the lack of a legal framework may contribute to this absence, the small loan amounts offered by microfinance may not be appropriate for the majority of businesses in the economy, which instead rely on banks for their financing needs.

Turkey has a number of initiatives to support start-ups and companies in their growth stage. Business angels, for instance, are very active and have significantly increased their investments to become one of the most active markets in Europe. According to data from the European Business Angel Network, Turkey's financiers have invested a total of EUR 52 million in 354 projects, putting it in fifth place behind the United Kingdom, Germany, France and Spain. There have also been attempts by the Treasury to develop the venture capital (VC) fund environment. A "fund of funds" approach under the Turkish Investment Initiative¹⁹ is poised to be replaced by a new, more direct, mechanism. A proposal is in preparation to allow the Treasury to invest up to TRY 2 billion (about EUR 364 million) directly into VC funds for SME investments. However, while investment capital may be present in the economy, there is still the question of how realistic an exit from an equity investment is. Borsa Istanbul has a low capitalisation market targeted at smaller companies and partners with institutions such as KOSGEB to encourage listings. However, exit opportunities beyond initial public offerings are rare, as only a few strategic investors scan the market for potential targets and the sell-side industry focuses mostly on the larger companies in the economy.

Finally, crowdfunding is emerging as a new financing tool for start-ups. In a major legislative change, Turkey is looking to establish a legislative and regulatory framework for crowdfunding which will allow for the introduction of an equity-based model in addition to existing grant or reward-based systems. As a result, this type of financing should become more attractive. Secondary legislation to govern crowdfunding activities and, importantly, provide clear rules and mechanisms to protect investors, is currently being drafted by the Capital Markets Board of Turkey with assistance from the EBRD. A sound legal framework will contribute to the governance and regulation of crowdfunding activities in Turkey, allowing it to act as an alternative funding source for start-ups, SMEs and unlisted companies. However, the appetite of investors in the VC and start-up space overall may be subdued in the future by a more difficult macroeconomic environment.

Financial literacy

Entrepreneurs in Turkey can access training for financial literacy through dedicated agencies – KOSGEB being one of them. Notably, KOSGEB runs an online platform for training called SME Campus,²⁰ which also covers financial education. Rather than being of a general nature, these courses are tailored to the needs of businesses, something rare in the region, and contributing to Turkey's improved scores on this sub-dimension. However, evaluations of the population's financial literacy have all been carried out by outside organisations, such as Standard & Poor and the OECD, and the extent to which these are taken into account in policy making is unclear. In addition, financial education is not mandatory in the school curriculum.

The way forward for Dimension 6

Turkey could build on its strong performance in ensuring SMEs have access to finance with the following recommendations:

- **Strengthen the legal framework for secured creditors** to increase predictability and effectiveness. This includes the enforcement mechanism, which appears to be inflexible and slow. The introduction of out-of-court restructuring could help ease the pressure on courts while providing a more practical and fast-track solution for businesses and banks. In addition, further reforms to the secured transactions framework could improve legal certainty and flexibility, for example by clarifying the coverage of the assignment of receivables and by introducing concepts such as a floating charge or a security trustee.
- **Foster the availability of long-term financing.** While banks have generally expanded their products to SMEs with the support of government subsidies and credit guarantees, loans often cover only the short to medium term. Access to long-term funding remains challenging for SMEs and steps should be taken to foster an environment that is conducive to banks providing longer tenors.
- **Expand the coverage of the credit bureau (KKB).** Collecting information from a broader range of sources, such as retailers and utility companies, could help clients that have not had a previous bank loan build their credit history.

Standards and technical regulations (Dimension 7)

With an overall score of 4.78 (Table 19.12), Turkey remains the regional leader in this policy dimension, alongside Serbia. Since the last assessment, Turkey has made further progress in the areas of standardisation and metrology, and it stands out among its peers for providing financial support to SMEs to implement standards and for SME participation in standardisation.

Table 19.12. Scores for Dimension 7: Standards and technical regulations

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	3.12
	Sub-dimension 7.2: Harmonisation with the EU <i>acquis</i>	Technical regulations	5.00	3.87
		Standardisation	4.75	3.97
		Accreditation	5.00	4.53
		Conformity assessment	4.80	3.65
		Metrology	5.00	4.47
		Market surveillance	5.00	4.43
		Weighted average	4.93	4.15
	Sub-dimension 7.3: SME access to standardisation	Awareness raising and information	4.33	4.24
		SME participation in developing standards	3.50	2.57
		Financial support to SMEs	3.80	2.39
		Weighted average	3.88	3.07
	Turkey's overall score for Dimension 7			4.78

State of play and key developments

Overall co-ordination and general measures

The Directorate-General for Product Safety and Inspection within the Ministry of Trade is the government body designated to co-ordinate overall quality infrastructure policy. The National Action Plan for the EU Accession (2016-2019) represents the overarching policy document guiding the transposition of the EU *acquis* in this area.

The Ministry of Trade hosts a website that provides information on technical regulations and barriers to trade. It contains information on CE (*Conformité Européenne*) marking, newly adopted technical regulations in the EU and international markets for each product group. The ministry has also established a single point of contact for providing guidance, practical information and assistance on all aspects of exporting to the EU Single Market. This contact point in Turkey allows exporters to consult the Ministry of Trade experts by phone, on line and via a mobile phone application. It also allows them to find the pertinent forms for exports and to reach Turkey's trade representatives abroad.

*Harmonisation with the EU *acquis**

All quality infrastructure institutions are operational, adequately staffed and actively co-operate with European and international institutions. Following the Customs Union agreement with the EU that came into effect in 1995, Turkey has made progress in aligning its regulations with the EU *acquis* on the free movement of goods.

As of August 2018, Turkey had adopted a total of 23 662 European standards as national ones. It has harmonised around 98% of the standards developed by the European Committee for Standardization (CEN) and 94% of those of the European Committee for Electrotechnical Standardization (CENELEC). The new National Standardisation Strategy and Action Plan (2017-2020) was co-ordinated by the Ministry of Industry and Technology. The action plan consists of four targets to improve the standardisation system: 1) strengthening the standardisation infrastructure; 2) ensuring the effective participation of all relevant stakeholders in the standardisation process and increasing the use of the standard; 3) increasing participation in the global arena; and 4) preparing specific standards for products using new technology and improving work safety guidelines. The national standards body, the Turkish Standards Institute (TSE), is fully operational, and 62 of its 1 658 employees are tasked with preparing standards. The TSE also performs conformity assessments that serve to partially finance its standardisation activities. Currently, it is the only national standards body in the WBT region that does not rely on public funding. In 2018, a number of articles in the standardisation law were revised. The TSE is a full member of the CEN/CENELEC and the European Telecommunications Standards Institute. It is also a member body of the International Organization for Standardization and a full member of the International Electrotechnical Commission.

To make Turkey's participation in international standards organisations more inclusive, the TSE has established 129 national mirror technical committees. Based on voluntary membership, these committees help to formulate Turkey's position in developing international standards. The TSE's activities in education about standardisation stand out in the WBT region. Its education department organises target-group specific activities to address current and future stakeholders and raise the general awareness of standards and standardisation. These include co-operation with four universities, lectures in high schools and quarterly child-friendly cartoons to introduce them to the world of standards and standardisation in a playful way.

The national Turkish Accreditation Agency (TURKAK) is fully operational and currently employs 150 personnel. Like the TSE, it relies completely on its own revenues. There are currently 1 580 accredited conformity assessment bodies (CABs) in Turkey, and they are easily accessible via the TURKAK website.²¹ Thanks to the Customs Union, 49 of Turkey's CABs have obtained notified body status in the European Union's New Approach Notified and Designated Organisations information system.²² This represents a significant increase from the 30 notified CABs in 2016. TURKAK's advisory board, consisting of 92 government and non-government members, is designated to monitor and evaluate TURKAK activities and propose measures for improvement. TURKAK is a full member of the European co-operation for Accreditation (EA) and a signatory to the EA Multilateral Agreement (EA MLA), covering the greatest number of accreditation scopes in the WBT region;²³ only the scope of validation and verification now remains. It is also a full member of the International Laboratory Accreditation Co-operation (ILAC), and is also an ILAC Mutual Recognition Agreement (EA MRA) signatory and a member of the International Accreditation Forum. These recognition agreements allow products and services to be accepted across national borders without the need for additional conformity assessment procedures in the export markets, thereby facilitating access to new markets for SMEs and removing technical barriers to trade.

TÜBİTAK National Metrology Institute (TÜBİTAK UME) is responsible for metrology in Turkey. With 281 employees in 2017 (compared to 254 the year before), it has increased the number of national and international measurement comparisons as well as

the types of calibration and tests. TÜBİTAK UME is an associate member of the European Co-operation of Legal Metrology and a full member of the European Association of National Metrology Institutes. It is also one of the founder members of the International Bureau of Weights and Measures (BIPM) and a member of the International Organisation of Legal Metrology. Since 2018, TÜBİTAK UME and the BIPM have been running a joint training initiative that gives opportunities to scientific and technical staff from BIPM member states or associates to conduct research for a period of one to three months in TÜBİTAK UME's laboratories. The initiative, which aims to support emerging metrology systems, is due to continue until 2019. To further its network of international co-operation, TÜBİTAK UME also signed a total of 34 memorandums of understanding (MoUs) with national metrology institutes. In 2017, it signed an MoU with the Institute of Metrology of Bosnia and Herzegovina for the purpose of initiating co-operation between the two institutions in scientific and legal metrology. The co-operation includes developing legal metrology services in the areas of agriculture, environment and medical devices in line with the EU legislation, as well as joint research projects.

Market surveillance (MS) activities in Turkey are conducted by several ministries, with the Ministry of Trade assigned as the co-ordinating body. Co-ordination is envisaged through two mechanisms: the Market Surveillance Co-ordination Board and the Market Surveillance and Product Safety Assessment Board. According to the 2017 annual report, overall spending on market surveillance fell by 1% in 2017; however, this followed a 30% increase in 2016 (EC, 2018^[20]). Although the number of inspectors increased by 4.1% in 2017, this did not lead to an increase in the number of audited products, which fell by 24% in the same year. Inspections carried out by market surveillance authorities detected 47% fewer non-compliant or unsafe products in 2017, mainly reflecting the lower number of inspections. Turkey submits its annual market surveillance programme to the European Commission. As a candidate economy, Turkey does not participate in the EU Rapid Alert System (RAPEX), but the necessary administrative and technical infrastructure has been established through the notification system for dangerous products. The Ministry of Trade serves as the national contact point for all market surveillance authorities and a national MS database is in place to collect information about unsafe and non-compliant products in the Turkish market.

SME access to standardisation

The TSE provides monthly journals, both on line and as hard copies, to raise awareness about standards and standardisation. It also organises training events on implementing standards. However, practical guides and case studies on the benefits of standardisation are not available on the TSE website. Direct dialogue between the TSE and SMEs is also rather sporadic and limited.

Turkey envisages a number of concrete measures to improve SME access to standardisation in the new National Standardisation Strategy and Action Plan (2017-2020). The following actions are planned to ensure the effective participation of all relevant stakeholders in the standardisation process and to increase the use of standards: 1) preparing a dictionary of standardisation terminology; 2) establishing a reward system for contributions to standardisation; 3) evaluating and monitoring the work of technical committees; 4) preparing promotional materials on the benefits of using standards; and 5) organising seminars and workshops. In addition, the TSE signed a co-operation protocol with the Union of Chambers and Commodity Exchanges of Turkey on

organising regular sector-specific meetings that aim to increase SME involvement in individual sectors in the technical committees. Moreover, a new project also plans to modernise the TSE's technical infrastructure to enable remote participation in technical committee meetings.

In terms of financial support, Turkey offers standards at reduced prices for SMEs. Under its General Support programme, KOSGEB provides co-financing support for implementing product standards and specific management system standards. The support programme also includes reimbursing the costs of certification, test analysis and calibration. In 2017, 1 213 SMEs benefitted from the programme, and a total of 7 829 have benefitted since 2010. While reimbursement rates range from 50% to 70% of the incurred cost (depending on the region where the SME is registered), conformity assessment costs are fully reimbursed. The upper support limit of the programme is set at TRY 30 000 (about EUR 5 400).

The way forward for Dimension 7

Turkey has the most advanced quality infrastructure system in the WBT region. However, it could consider the following recommendations for further improvements:

- **Streamline education on standardisation in national curricula** as a starting point for raising awareness of standards and standardisation. Current practice in the WBT region involves fragmented activities that are not guided by a clear strategy. While Turkey is the only exception, it could improve its standardisation education further by embedding standardisation topics into relevant courses and academic programmes at secondary and tertiary levels. Co-operation among national standardisation bodies and academic institutions needs to facilitate the exchange of experience and expertise, including teacher training programmes. Co-operation could also extend to organising practical classes to improve the skills required in standardisation processes.

Enterprise skills (Dimension 8a)

Turkey, together with Serbia, is the top performer on enterprise skills for policy implementation, with a score of 3.54 (Table 19.13), and ranks second after Serbia in the dimension overall with a score of 3.95.

Table 19.13. Scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	Turkey	WBT average
Dimension 8a: Enterprise skills	Planning and design	3.33	3.38
	Implementation	4.06	2.83
	Monitoring and evaluation	3.00	2.29
	Weighted average	3.54	2.87
Turkey's overall score for Dimension 8a		3.54	2.87

State of play and key developments

Turkey has solid institutional capacity for providing SME support due to its specialist government agency dedicated to entrepreneurship support, KOSGEB, which oversees, initiates and leads the whole range of SME skills development programmes.

Turkey addresses the issue of skills intelligence in a multi-faceted way, and the framework is based on involving the key agencies and on regular data collection. During the assessment period, the institutional framework for entrepreneurship support was strengthened by the establishment of two new departments under the Directorate General for R&D Incentives. The recently reorganised Ministry of Industry and Technology now hosts the Department of Science, Technology and Industry Education, and the Department of the 4th Industrial Revolution. The first is responsible for identifying existing skills and companies' training needs, and developing new training and support services in this area based on identified needs (e.g. project management, R&D, technology and innovation management, and information technologies management). These benefit from KOSGEB support. The latter department is in charge of digital transformation in industry in response to the goals of the 4th Industrial Revolution. It focuses on enhancing SMEs' digital skills, including taking short-term, mid-term and long-term actions to strengthen the infrastructure and processes for education, training and data communication; developing technology and innovation infrastructure; encouraging national technology suppliers; supporting the digital transformation of SMEs through the production value chain, and so on. These latest developments demonstrate an overall stronger focus on skills for SMEs and, in particular, on digital skills and competences in the SME policy support agenda.

Comprehensive data are collected on the supply of training services by the key providers (e.g. KOSGEB and TÜBİTAK). Participant satisfaction data are also gathered – for example, KOSGEB evaluates training quality through participant evaluation forms; this information is then used to inform the design and improvement of new training programmes for SMEs.

The National SME Strategy and Action Plan 2015-2018 specifically reinforces the importance of labour market demand analysis, including SME skills intelligence, for the design of training programmes. İŞKUR's provincial branches, the Vocational Education Board and Sector Committees have an important role in the analysis of SMEs' training in Turkey. The Ministry of Labour and Social Services and Family is working on the Adult Skills Strategy document, with the participation of different institutions. Adult skills were

assessed recently under the Programme for the International Assessment of Adult Competencies (PIAAC), with the report was published in June 2016. While not addressing specific SME skills directly, the report was an important part of the skills intelligence framework. Overall, a large volume of data is regularly collected, identifying great progress in the use of skills intelligence analysis for ensuring the quality and relevance of training supply. It is also important to mention that individual level SME training data are collected in a format disaggregated by the sex of participants, providing additional value for designing gender sensitive support programmes.

SME training programmes are numerous and diverse enough to cover different categories of entrepreneurs and support different phases of enterprise development. Training programmes are organised by public organisations (KOSGEB, İŞKUR, regional development agencies, etc), NGOs (chamber of commerce and trades, Confederation of Turkish Tradesmen and Craftsmen or TESK, etc.), incubation centres, organised industrial zones, and so on. KOSGEB supports an online training platform (<http://kobikampus.kosgeb.gov.tr>) offering 35 training programmes to SMEs for free. Along with general start-up training programmes, the government supports pre-start-up entrepreneurship training and mentorship services provided by the Turkish Employment Agency to increase employment and create new jobs. There are specialised start-up programmes for young entrepreneurs (e.g. TÜBİTAK's Individual Young Entrepreneurs Support), and for women entrepreneurs (e.g. TESK in co-operation with KOSGEB). Programmes supporting green skills and the circular economy are under the special attention of the government in the context of the National Waste Management and Action Plan 2016-2023 prepared by the Ministry of Environment and Urbanisation, and under the Turkey Energy Efficiency Support for SMEs programme implemented by KOSGEB.

Growth and internationalisation of SMEs remain areas of priority support. A good example is TÜBİTAK's technology-based entrepreneurship programme, called Individual Young Enterprise (BIGG), that includes providing mentoring, consulting and training services to entrepreneurs with the potential to go international. Internationalisation is also part of KOSGEB's General Support Programme. This includes the International Incubation Centre and Acceleration Support Programme to support the foundation of incubation centres and the participation of enterprises in acceleration programmes. Its specific goals include publicising technological products and the R&D activities conducted in the economy to the international market, increasing exports, and ensuring that domestic technology-intensive start-up enterprises take their place among the developed entrepreneurship ecosystem. The Supporting the Development of International Competitiveness programme run by DG Exports covers promotion, training, market analysis, study visits and trade missions and other internationalisation-related activities.

SME growth and internationalisation will continue to be priorities as Turkey moves forward with adapting the smart specialisation²⁴ approach into the results-oriented programmes which all regions must develop from 2019 onwards. For more information on support for SME internationalisation, please see Section Operational environment for SMEs (Dimension 4).

The way forward for Dimension 8a

The Turkish government has further improved its targeting of SME training programmes, which are now specifically dedicated to different categories of SMEs and individual entrepreneurs. Institutional implementation structures are in place and there is major investment in meeting tomorrow's challenges for the SME sector in terms of skills and

competences, including innovation and R&D capacity of entrepreneurial human capital, digital skills and digital market support systems, internationalisation, support to value chains, etc. Training needs analysis in the SME sector has also received new impetus during this assessment period. The government might now consider consolidating its efforts in some areas where progress has been more modest:

- **Improve co-ordination in the supply of SME skills training.** In the area of SME skills, more effort could be made to analyse the current supply of training by type of demand and to consolidate the training offer by linking different suppliers and programmes. For example, in the area of SME internationalisation, a window of opportunity is open to make the programmes more comprehensive, and supply more effective and efficient, by improving co-ordination among providers and support opportunities.
- **Introduce targeted, cross-sectoral evaluation of short- and medium-term results and the long-term impact of SME skills' support policies and programmes.** System- and programme-level evaluation of measures dedicated to SME skills' development, including the impact of government investment and the quality of statistical evidence, need to be the government's focus in the immediate future.
- **Co-ordinate efforts by government and policy partners to exchange good practice on SME skills development.** More could be achieved to highlight good practices in SME training and apply good-practice approaches so as to enhance the quality of policies and improve the quality of training.

Innovation policy for SMEs (Dimension 8b)

Turkey is the top performer in the WBT region for its design and implementation of innovation policy for SMEs. With a score of 4.10 (Table 19.14), Turkey scores close to OECD best practice (5) and significantly higher than the next best WBT economies – North Macedonia (3.35) and Serbia (3.33). However, Turkey has stagnated since the last assessment, when it scored 4.14 on innovation policy (Small Business Act scores for Turkey (2016 and 2019)).

Table 19.14. Scores for Dimension 8b: Innovation policy for SMEs

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 8b: Innovation policy for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	4.60	3.46
		Co-ordination of innovation policy	5.00	2.97
		Implementation of innovation policy	3.57	3.04
		Weighted average	4.17	3.15
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	4.43	2.99
		Technology extension services for established SMEs	3.00	1.74
		Weighted average	3.86	2.49
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	4.80	3.76
		Indirect financial support	3.44	1.38
		Weighted average	4.26	2.81
	Sub-dimension 8b.4: SME and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	3.00	2.52
		Institutional infrastructure for industry-academia co-operation	4.60	2.72
		Intellectual property rights	4.50	3.00
		Weighted average	3.94	2.70
Turkey's overall score for Dimension 8b			4.08	2.86

State of play and key developments

Policy framework for innovation

A number of strategic documents recognise the importance of innovation policy in Turkey, including the current SME Strategy 2015-2018 and the Tenth Development Plan 2014-2018. A new development plan is being drafted and a national Science and Technology Innovation (STI) Strategy 2017-2023 is also planned. The Supreme Council for Science and Technology co-ordinates innovation policy. The council is preparing a report on the implementation of the previous STI strategy, which ended in 2016. There are two relevant implementing agencies – TÜBİTAK and KOSGEB – both running a number of programmes to support SME innovation. The Directorate General for Industry and Productivity within the Ministry of Industry and Technology conducts regular independent evaluations of existing programmes, including those by TÜBİTAK and KOSGEB. The evaluation covers selected programmes, not all of them systematically. KOSGEB focuses entirely on enterprise support programmes whereas TÜBİTAK supports R&D activities, but companies are also eligible to apply for their grants.

Government institutional support services for innovative SMEs

Business incubation in Turkey is supported through a number of government programmes. Since the late 1990s, KOSGEB has established more than 20 technology development centres (TEKMERS) in co-operation with universities that act as incubators, providing physical space and also advisory services. However, TEKMERs are currently being restructured, and many were not operating at the time of writing. There are no government programmes to support private sector incubators, but SMEs in these incubators are individually eligible for support from TÜBİTAK and KOSGEB.

KOSGEB finances office space, staff and acceleration services for two international incubators recently established in the United States. Company owners have to be Turkish citizens to reside and qualify for support in these incubators, but this instrument is also expected to attract international partners, based on similar programmes run by Singapore and Malaysia.

The BIGG acceleration programme has been supported by TÜBİTAK since 2012. So far almost 1 000 companies have been established through this programme. In 2018, 30 agencies were given finance to support entrepreneurs with training, mentoring, incubation, networking and other types of support. In the second phase of the programme, entrepreneurs are provided with finance of up to TRY 150 000 (around EUR 27 000). In 2018, there were 3 323 applicants for the programmes and 1 438 received support in the first phase. Of these, 146 were selected for financing in the second phase.

Technology extension services in Turkey are offered either by technology park management companies or through technology transfer offices. Of 81 technology development zones (TDZs) in 54 provinces, 21 are under construction and 60 are now operating. These host more than 5 000 innovative start-ups and companies, who are provided with incubation services (under Law No. 4691, Law on Technology Development Zones) by the Ministry of Industry and Technology as well as by the TDZ managing companies. SMEs can receive funding for these services through KOSGEB's R&D, Innovation and Industrial Application Support Programme.

In TDZs, the number of companies at the incubation phase has to be at least 10% of the total number hosted. Companies under incubation receive a 50% reduction in rent, and those supported by TÜBİTAK or KOSGEB programmes receive an additional 25% reduction.

Government financial support services for innovative SMEs

At the national level, both TÜBİTAK and KOSGEB offer financial support to private sector research, development and innovation (RDI) activities through the R&D and Innovation Support Programme and the R&D Start-up Funding Programme for SMEs. There are also development agencies at NUTS-II level which design and implement financial support programmes for innovative SMEs according to regional needs.

Depending on the programme, companies can receive anywhere between EUR 100 000 to EUR 300 000 per project, depending on the stage of innovation development. In all the programmes at least 25% of the total budget is co-financed by beneficiaries. Projects are selected through competitive calls for proposals, and proposals are evaluated and chosen by selection committees which include agency, private sector and academic representatives.

Companies that receive public support for RDI activities are eligible for a number of tax incentives, including corporate income and personal income tax deductions. According to the Law on Technology Development Zones, companies based in TDZs are exempt from corporate income tax on the profits resulting from their software development and R&D activities, and the R&D personnel working in those companies are exempt from all income taxes until the end of 2023.

The Programme for Supporting the Research and Development Activities Law states that half of the insurance premium for R&D staff is to be covered by the Ministry of Treasury and Finance for five years. Finally, all innovation and R&D expenditures made by beneficiaries are subject to discounted corporate tax in technology centres, R&D centres, public institutions and bodies, R&D and innovation projects supported by foundations established by law or international funds, and in pre-competition co-operation projects. The wages of R&D and design personnel in these organisations are partially exempt from income tax – 90% of the income for those with a PhD degree and 80% for others.

SME innovation is also encouraged through public procurement. Since 2005, in order to foster R&D-based procurement methods, Turkey has run the Public Institutions Research and Development Projects Support Programme. The programme has been designed to fulfil the R&D needs of public institutions via dedicated calls for projects by universities, industry and public research institutes. In 2013, public procurement was also used to stimulate innovation in SMEs under the Programme and Action Plan for Technology Development and Domestic Production through Public Procurement prepared under the Tenth Development Plan 2014-2018. However, public procurement procedures under this programme are not entirely compliant with the EU *acquis*, since they give preference to domestic operators (see Section Operational environment for SMEs (Dimension 4) on public procurement).

TÜBİTAK also invites public institutions to determine needs that could be addressed by R&D projects, and Technological Product Certificates are given to innovative companies that participate in public tenders. Although not providing any direct advantages to SMEs in public procurement, these certificates can be used as a substitute for work completion certificates required in tenders.

Finally, there are no impact assessments, evaluation studies or studies of the state of play for any type of procurement for innovation.

SME and research institution collaboration and technology transfer

During the reference period, the Public-University-Industry Co-operation (PUI) Strategy and Action Plan (2015-2018) continued to be carried out by the Ministry of Industry and Technology in order to improve synergy and collaboration among the stakeholders in the R&D and innovation ecosystem.²⁵ Under this strategy, an online portal (www.kusip.gov.tr) was established in 2016 to raise awareness of public funds and to enhance interaction between enterprises and academia. In 2017, academic staff were granted the right to establish companies and engage in the commercial activities of companies established already as part of the TDZs. In the long term, this may facilitate collaboration, and hence technology transfer, between the private sector and academia. There are no innovation voucher schemes for SMEs in Turkey, but business-academia collaboration is funded through TÜBİTAK's University-Industry Collaboration Support Programme. Business funding for R&D performed by higher education institutions is one indication of R&D collaboration between these two sectors. In 2015, business funded about 15% of higher education R&D in Turkey, the highest share among OECD

countries, demonstrating a strong collaboration between the two sectors (OECD, 2017^[44]). This collaboration is further strengthened through the strong network of technology parks and technology transfer offices that are located across the countries, described above.

The way forward for Dimension 8b

Turkey has increased government R&D expenditure by 80% since 2008 (OECD, 2017^[44]). The economy's efforts to boost RDI are visible in a number of performance indicators that show an increase in publications, international co-inventions and foreign value-added content in exports. Nonetheless, Turkey is still a moderate innovator compared to the performance of EU Member States (EC, 2018^[45]).

Going forward, Turkey needs to address the following challenges:

- **Scale up financial support for private sector R&D activities.** Despite the large increase in government R&D expenditure in the past decade in Turkey, private sector R&D funded by the government amounts to only 0.07% of GDP, which is rather low compared to the average for OECD economies of 0.1% (OECD, 2017^[46]). The government could benefit from revisiting the existing mix of direct and indirect funding and evaluating existing programmes. This would ensure it has an appropriate mix of effective policies prior to scaling up its efforts to boost innovation in SMEs.
- **Refocus the location of TEKMERs.** In the last decade, Turkey has developed a strong network of incubators and accelerators providing financial support and various mentorship to entrepreneurs. TEKMERs' catalytic role cannot be overlooked. Currently, 28 TEKMERs across the country are being restructured into incubation centres. In this process, KOSGEB is encouraged to gradually phase out its direct involvement in establishing incubators in those provinces like Istanbul and Ankara with an already mature innovation ecosystem. Instead, it might scale up its support in the least developed regions of Turkey where innovation infrastructure is still in its infancy.
- **Encourage technology transfer and commercialisation.** Turkey has fewer triadic patents²⁶ per million inhabitants than the majority of OECD economies (OECD, 2018^[47]). There are currently no financing instruments available to boost research institutions' patenting activities or to encourage technology commercialisation by guaranteeing researchers a certain percent of royalties or similar incentives. Neither are there tax incentives for intellectual property revenues. Turkey could benefit from considering one of these instruments, or a mix, to boost patenting activity and to further commercialise technologies. Even though technology transfer offices are widely available throughout the economy, their capacities and effectiveness could be evaluated to ensure they are providing the right set of services to both researchers and companies.

SMEs in a green economy (Dimension 9)

With a score of 4.12, Turkey is the regional leader in this dimension (Table 19.15). Its performance has improved since the previous cycle (3.72 in 2016; see Figure 19.1), indicating the government's continuous efforts in promoting and supporting better environmental performance among SMEs.

Table 19.15. 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	3.81
		Implementation	3.80	2.56
		Monitoring and evaluation	4.00	2.12
		Weighted average	4.16	2.85
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	3.67	2.32
		Implementation	4.75	2.76
		Monitoring and evaluation	3.00	1.72
		Weighted average	4.08	2.42
Turkey's overall score for Dimension 9			4.12	2.61

State of play and key developments

Framework for environmental policies targeting SMEs

SME greening in Turkey is covered in a number of national strategic documents: the SME Strategy and Action Plan (2015-2018), Tenth Development Plan (2014-2018), National Climate Change Action Plan (2011-2023), National Energy Efficiency Action Plan (2017-2023), Turkish Industrial Strategic Document (2015-2018), Turkish Entrepreneurship Strategy (2015-2018), and Productivity Strategy (2015-2018).

In the SME strategy the key greening focus is promoting eco-efficient products, services and processes, as well as eco-innovation. Under Target 2 – Supporting innovative SMEs on product, service and business model innovation – the SME strategy sets out activities to support the commercialisation of SME projects in the areas of advanced and environmental technologies.

As in the previous assessment cycle, the national SME agency KOSGEB is the main body implementing SME greening measures. Through its General Support Programme, it supports SME greening projects both financially and non-financially, with the main emphasis on energy efficiency. SMEs are provided with a variety of support to improve energy efficiency, from guiding documents and online advice to direct financial assistance as part of the KOSGEB support programme. An additional measure for enhancing energy efficiency in Turkish SMEs is increasing the quality and quantity of energy efficiency consultancy companies through government subsidies to consultancy services in energy efficiency for SMEs.

All the planned activities are being implemented, the budget has been mobilised and funds are mainly provided from the government budget. Monitoring is also conducted regularly, both of the achievement of strategic objectives and the efficiency of the implementation body. An impact analysis of the SME greening policies and programmes, however, has not been done yet.

Energy efficiency is also at the core of other programmes and projects. Energy management units (EMUs) have been established in Turkey's Organised Industrial Zones with the aim of providing direct mentoring support to interested companies operating in the zones. Information dissemination and promotional activities are also planned as core EMU activities (Box 19.7).

Box 19.7. Enhancing SME energy efficiency in Turkey: Creating energy management units in special industrial zones

As part of the Energy Efficient Industry Project, the Turkish government has formed energy management units in special economic zones (known As Organised Industrial Zones or OIZs). These units were established to provide services to industrial enterprises with an annual energy consumption of below 1 000 tonnes of oil (as per the Energy Efficiency Law No. 5627).

The project is implemented by the Energy Efficiency Association in partnership with the Ministry of Energy and Natural Resources of Turkey and the Organised Industrial Zones Higher Institution. The project aims to enhance energy efficiency in SMEs in the OIZs by raising awareness, promoting a culture of efficiency among staff and introducing small-scale changes in the industry (reducing electricity/water consumption and achieving savings through simple modifications of certain parts of the manufacturing process). To develop the expertise to establish energy management units, the government has co-operated with the local office of the Japan International Cooperation Agency and other partners.

For the last couple of years, energy efficiency has become more pronounced in Turkey; a growing number of SMEs are benefitting from the programmes and savings are being achieved.

Sources: Büttner, H. (2014^[48]), *Organised Industrial Zones in Turkey - SWOT analysis*, www.linkedin.com/pulse/20141020214614-114102137-organized-industrial-zones-in-turkey-swot; KOSGEB (2015^[49]), *SME Strategy and Action Plan 2015-2018, Energy Efficient Industry*, <http://enerjiverimlisanayi.com/en/icerik/projemiz/41>; Invest in Turkey (2018^[50]), *Investment Zones*, www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/SpecialInvestmentZones.aspx

Furthermore, training and mentoring are offered by the Global Cleantech Innovation Programme (GCIP) to young entrepreneurs and SMEs working in clean technologies (environment and energy). The GCIP is conducted by the United Nations Industrial Development Organization, the Global Environment Facility and TÜBİTAK, with the aim of developing an entrepreneurship ecosystem in the field of clean technologies. Since its establishment in 2014, the GCIP has offered training and mentoring to around 80 projects mainly in the areas of waste management, water efficiency and renewable energy.

The Turkish government regularly consults the private sector when developing environmental policies, SME greening strategies and action plans. The government also co-operates with business associations and local councils to deliver environmental guidance to SMEs. The Turkish Union of Chambers and Commodity Exchanges is one of the most active business associations, providing input to the development of environmental policies for SMEs. Due to the local character of the environmental projects KOSGEB implements, it systematically co-operates with local chambers of commerce

and industry. NGOs and business associations are also present at the workshops, training courses and meetings organised as part of SME greening projects, often providing direct technical support along with KOSGEB experts.

Incentives and instruments for SME greening

One of the key goals of SME greening is to improve SMEs' energy efficiency. To this end, KOSGEB provides financial support to companies via different programmes. One of them – the Efficiency Increasing Programme – is run in co-operation with the Ministry of Energy and Natural Resources' Directorate, General Renewable Energy. Companies with energy consumption above a certain threshold can apply to the programme and their energy efficiency projects are supported by up to 30%, within a limit of TRY 1 million (around EUR 180 000). Another programme is the Voluntary Agreements, under which the government covers 20% of companies' energy costs, up to TRY 200 000 annually (around EUR 36 000), on the condition that they reduce their energy costs by 10% of their five-year consumption average. KOSGEB also provides financing for SME energy efficiency audits and for consultancy and training costs under the General Support Programme. Support covers 50%, 60% or 70% of the costs, depending on the region, up to TRY 75 000 (around EUR 13 500). KOSGEB also provides financing for energy efficiency projects under the SME Development Support Programme, which covers between 60% and 80% of project costs.

In the WBT region, Turkey stands out for its regulatory instruments for SME greening. These are performance standards – requirements for recycling material used for packaging. In 2017, the government introduced the Regulation on Packaging Waste Control, which stipulates what percentage of each material used by the manufacturer should be recycled: 54% of glass, plastic, metal and paper. Authorised organisations and municipalities collect and recycle the packaging waste. Companies should be a member of these authorised organisations and pay membership fees to reuse the recycled materials.

Government authorities in Turkey offer guidance to SMEs on complying with environmental regulations and carrying out green practices, mainly through dedicated websites and brochures. KOSGEB endeavours to achieve this under its General Support Programme, which also provides financial support to SMEs to acquire ISO 14001: it covers 50% of the cost of certificates (application and file examination, inspection and audit) and the test and analysis documents, up to USD 25 000 per document.

KOSGEB also audits firms to ensure they comply with the environmental procedures and rules specified for each sector according to risk level. It also promotes the use of environmental management systems in SMEs through environmental audits. While a ISO 14001 certificate is not mandatory, if a company has one it is highly likely to pass the audit process.

Chambers and sectoral associations (e.g. the Istanbul Chamber of Industry) organise awards to recognise good environmental practices. KOSGEB awards the Environmentally Friendly SME of the Year as one of its annual entrepreneurship awards.

Energy efficiency is also supported by donors and banks through the Turkish Small and Mid-Size Sustainable Energy Financing Facilities (TurSEFF and MidSEFF) launched by the EBRD, with support from the EIB in 2010 and the European Commission in 2011. The facilities provide loans to private sector borrowers through several Turkish banks for small-scale and mid-size investments in SME energy efficiency, renewable energy,

waste-to-energy and industrial energy efficiency (TurSEFF, 2018^[51]; MidSEFF, 2018^[52]). By 2018, TurSEFF had supported over 1 000 projects, generating 502 MW of renewable energy. MidSEFF has helped to create 1 200 MW of renewable energy by financing 61 projects.

Finally, green public procurement policies are being introduced in Turkey by promoting goods and services with a minimum energy efficiency rating. However, this is still at an early stage.

The way forward for Dimension 9

Turkey has put great effort into promoting and supporting SME greening, putting a range of measures and actions in place. Going forward, Turkey should pay particular attention to the following points:

- **Ensure appropriate inter-organisational co-ordination** to avoid potential overlaps in certain areas and a lack of action in others. Given the abundance of policies and programmes on SME greening in Turkey, it is essential to ensure effective co-ordination among the various bodies implementing support programmes. This particularly applies to projects for enhancing energy efficiency, since a number of different bodies are responsible for these actions. The government is therefore advised to ensure effective collaboration among KOSGEB, the Ministry of Energy and Natural Resources and other ministries and bodies in charge of implementing SME greening measures in order to create synergies among them.
- **Start evaluating the effectiveness of SME greening policies on the ground.** SME greening measures are regularly monitored; KOSGEB produces annual reports on activities of both the SME Strategy and General Support Programme; but there has not yet been any impact analysis of the SME greening policies. Given the advanced stage of programmes and activities for SME greening in Turkey, it is now essential to assess the real impact of these initiatives to ensure their full effectiveness.

Internationalisation of SMEs (Dimension 10)

Turkey is the strongest performer of the WBT economies in providing support for internationalising SMEs. With a rise in its score from 3.73 in 2016 to 4.40 (Figure 19.1), Turkey remains the regional leader across the board, having sustained its support for export promotion and developed effective programmes to support integration into global value chains and uptake of e-commerce (Table 19.16).

According to TUIIC data received for this assessment, the share of exports by SMEs in Turkey slightly deteriorated from 59.2% to 56.2% between 2013 and 2017. At the same time, the total value of SME exports increased by 15.4% between 2013 and 2017. A separate study by the OECD found that Turkey still lags behind most comparable countries in terms of exported value added per capita and that export market shares, especially when measured in value added terms, have not grown at the same rate as its strong overall economic performance (Ziemann and Guérard, 2017^[53]).

The cost of border compliance for exports stood at USD 376 in 2017, significantly above both OECD (USD 164) and EU averages (USD 85) (World Bank, 2018^[54]). Likewise, the border compliance cost for imports, at USD 655, dwarfs the averages of the OECD (USD 137) and EU (USD 29) (World Bank, 2018^[54]). These figures have remained constant over the assessed period.

Table 19.16. 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	4.86
		Implementation	4.76	4.24
		Monitoring and evaluation	3.43	3.01
		Weighted average	4.57	4.18
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	4.60	3.58
		Implementation	4.71	3.08
		Monitoring and evaluation	2.33	1.76
		Weighted average	4.20	2.97
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	5.00	3.45
		Implementation	4.50	2.26
		Monitoring and evaluation	3.50	1.36
		Weighted average	4.45	2.44
Turkey's overall score for Dimension 10			4.40	3.43

State of play and key developments

Export promotion

Turkey has several export promotion programmes as a result of numerous communiqués and parallel national strategies, with the Directorate General (DG) of Exports of the Ministry of Trade running 14 programmes. Export promotion activities are covered by the SME Strategy and Action Plan 2015-2018; the Export Strategy 2023; and the Industrial Strategy of 2015-2018, which also foresees financial support for export-oriented SMEs.

In 2018, the Ministry of Economy also launched the e-export strategy, which aims to increase exports through e-commerce (Ministry of Economy, 2018^[55]).

In developing new legislation and programmes, formal consultation with the private sector is directed through exporters' unions, chambers of industry or the ministry. Informal consultation also takes place through DG Exports, which maintains close contact with SMEs and integrates their suggestions into programme designs and updates.

The Ministry of Trade is the primary government body responsible for export promotion, while KOSGEB, the Turkish Exporters Assembly, regional exporters and Türk Eximbank also support export promotion in various capacities.²⁷

Services offered by Turkey's export promotion programmes for SMEs include trade information and commercial intelligence, economy representation at major trade fairs, marketing support, product development, and training. KOSGEB provides support to SMEs in these areas through several programmes, namely its General Support Programme, the International Incubation Centre and Acceleration Support Programme. Under its General Support Programme, KOSGEB funds SMEs' international trips and promotional activities at a rate of 50-60% or up to TRY 10 000 (around EUR 1 800).²⁸ KOSGEB's International Incubation Centre and Acceleration Support Programme also supports SMEs in the form of financing office space abroad, staff, acceleration services and foreign business trips.²⁹

Broadly, the Ministry of Trade classes export promotion programmes into three phases: preparation, marketing and branding. Programmes for the preparation phase, such as the Supporting the Development of International Competitiveness (UR-GE) programme, aim to enhance SMEs' capacity for better export performance.³⁰ Turkey supported around 185 projects under the UR-GE programmes between 2011 and 2016, in which the benefitting umbrella organisations each had around 15 companies.³¹ During the assessed timeframe, this scheme was amended by adopting a broader definition of the activities that it could support (EC, 2017^[27]). Other DG Exports programmes include Participation in Trade Fairs Organised Abroad, Market Research and Access to Markets, International Branding and the TURQUALITY project, which particularly aims to promote the Made in Turkey label abroad. The budget for DG Exports totalled TRY 989.5 million (around EUR 238.4 million) in 2017.

The Ministry of Trade plans to establish 25 new export support offices across 16 provinces with proven export potential (Ministry of Trade, 2018^[56]).³² This initiative, if implemented, will significantly broaden support coverage and target export mobilisation through e-exports and e-commerce.

As for trade financing, Turkey's fully state-owned export credit agency, Türk Eximbank, offers credit lines, such as Export Preparation Credit for SMEs, which provide them with lower interest rates. Turkish SMEs can benefit from a broad range of products and services across three categories: short-term export credits, medium- to long-term export credits and credits for services earning foreign currency. SMEs involved in manufacturing and exporting can also apply for the Credit Guarantee Fund and obtain letters of intent and export credit insurance. Türk Eximbank provides financing on commercial terms and in accordance with the OECD Arrangement on Officially Supported Export Credits (Türk Eximbank, 2018^[57]).

The World Bank granted Turkey USD 250 million through the Innovative Access to Finance project between 2014 and 2018, which offers access for SMEs and export-oriented enterprises to longer-term Islamic finance, and factoring for SMEs. This project

is intermediated by the Industrial Development Bank of Turkey and participating banks and factoring companies (World Bank, 2014^[58]).

The SME beneficiaries of the export promotion programmes of KOSGEB and Türk Eximbank are not made public. While DG Exports makes the list of beneficiary umbrella organisations public, it does not disclose the names of the individual SMEs benefitting.

Export promotion programme activities are monitored through the Ministry of Trade's annual activity reports, while financial auditing is done by DG State Aid (T.C. Sayıştay Başkanlığı, 2018^[59]). However, there are no independent reviews of the export promotion programmes.

Meanwhile, despite the broad range of programmes and services available to SMEs in support of export promotion, SMEs cite a low awareness of available programmes and confusion regarding eligibility criteria due to frequent regulatory and legislative changes. To address this perception problem, Turkey developed the Nudge project in 2017 using behavioural economics in order to design policy mechanisms that will increase the uptake of its export promotion subsidies among SMEs (see Box 19.8).

Box 19.8. Nudge Turkey: Designing user-friendly policies for exporting SMEs through behavioural economics

Nudge Turkey was established in 2017 with funding from the British Embassy in Turkey. A Behavioural Insights Team from the United Kingdom provided consultancy support and Ernst & Young Turkey managed the implementation.

Challenges

The major goal of this project was to increase public support use, particularly by SMEs. A number of different programmes exist in Turkey that support firms to export. However, the analysis of Nudge Turkey, which is an official department within the Ministry of Trade, showed that only 86% of registered exporters which were eligible for at least one type of public support had not received any support. The median export value of those which did not receive a public support was below USD 30 000 in 2017, and the median number of employees was 8 in 2016, which indicates that public support are used by large companies which are familiar with the processes and have the necessary resources to manage the application process. Meanwhile SMEs, which need financial support the most, have remained largely unreached.

Scope

Nudge Turkey began with face-to-face interviews with exporters based in Ankara who had never received a public support, in order to find out why these firms had not applied. The results indicated that 73% had heard of at least one of the public supports, 77% did not know how to apply and 43% had heard positive feedback about the support. Most importantly, 62% believed that even if they applied, they would not receive the support.

For this last group, the reasons included being unable to complete the application process due to either complex procedures or insufficient resources, and concerns that the total subsidy budget may not be sufficient for all applications.

The project, in collaboration with the Behavioural Insights Team, designed an intervention to increase awareness of the available public support programmes and to encourage SMEs to apply. It aimed to address SMEs' cognitive biases when applying for

the subsidies, indicated by their identified concerns and prejudices. A randomised contrail trial was carried out, and different e-mails containing behavioural messages were sent to 30 000 firms who did not apply to public support programme before. The preliminary results indicate that the messages, using behavioural economics principles, increased applications by more than 20% relative to the control group.

Nudge Turkey launched a new website (kolaydestek.gov.tr) in March 2018 to provide information to SMEs. It explains the application process using infographics with a few steps, rather than referring to sophisticated legislation; provides direct downloads of application documents, and gives direct contact details of experts for each public support programme. Finally, there are nine different animations, summarising the incentives, as well as a video that features the Minister of Trade addressing firms' concerns as identified through the interviews. Since the website's launch, more than 140 000 users have visited it.

Project completion and future initiatives

The team is currently seeking new intervention areas for better policies in Turkey by running randomised control trials. Nudge Turkey has published its first official guide in Turkish titled *Senin Kararın mı?* (Is it your Decision?) on behaviourally informed public policies.

Source: Based on information provided by the Ministry of Trade of Turkey.

Integration into global value chains

The Ministry of Trade directly supports SMEs' integration into global value chains (GVCs) through two primary initiatives, the Directive on Supporting Certificates of Market Access and the programme Supporting the Improvement of International Competitiveness, both managed by the Ministry of Trade and implemented by the Turkish Exporters' Assembly.

The Directive on Supporting Certificates of Market Access was widened over the assessed period to cover companies' expenses for participating in global value chains (EC, 2017^[27]). Its targets are in line with the SME Strategy and the Tenth Development Plan.³³ With a budget of TRY 1.44 billion (around EUR 260 million) over 2018-2022, the Turkish Exporters Assembly, which implements the project, provides project-based financial support for SMEs' procurement of machinery, equipment, training, consultancy and software, customer visits and certification-test analysis, to a maximum of 50% of costs and USD 1 million per beneficiary. As this programme was only implemented in 2017, data on its results are not yet available. The companies which have qualified as beneficiaries of the programme will be audited annually by the Ministry of Trade in order to evaluate their performance. The results of this monitoring will not be made publicly available.

The UR-GE programme (Supporting the Development of International Competitiveness), also provides strong support for SME integration into GVCs, exemplified by the success of its footwear cluster support project. The strategic design and implementation of this programme, arranging training and advisory activities in line with needs analysis findings, led to a foreign trade surplus for the region's footwear sector. Meanwhile, KOSGEB indirectly contributes to these efforts through a wide range of supporting activities under the Enterprise Europe Network.³⁴

SMEs are systematically informed about programme activities through ongoing seminars, while up-to-date information is disseminated through intermediaries such as chambers, cluster management teams and exporter unions. KOSGEB also offers a support line (via phone or Internet) that enterprises can contact to obtain detailed information and to voice opinions and suggestions.

The Supreme Court of Public Accounts reviews the programmes' expenditures on an annual basis, and their activities are monitored and published in publicly available annual reports. However, the SME beneficiaries of the programmes are not made public.

Alongside these ongoing programmes, KOSGEB's recently designed Internationalisation Support Programme specifically aims to support SME integration in global value chains by in various areas, from software and hardware; test, analysis and certification; and service procurement support, for instance at a rate of 75% and maximum value of TRY 300 000 (around EUR54 000) per beneficiary.³⁵

Despite these efforts, Turkey's participation in global value chains remains below its potential. An OECD study found that this is due to "institutional features that hamper efficient allocation of capital and labour, obstacles inherent in bilateral trade agreements and entry regulations, underdeveloped human capital and insufficient investment in innovation, R&D and knowledge-based capital" (Ziemann and Guérard, 2017^[53]).

Promoting the use of e-commerce

Individuals' use of e-commerce (as measured by online purchases in the last 12 months) in Turkey (25%) remained significantly below the EU average (60%) in 2018 (Eurostat, 2018^[14]). Similarly, only 9% of Turkish SMEs sold online (at least 1% of turnover) in 2018, while on average 17% of SMEs did so in the EU (Eurostat, 2018^[14]).³⁶ However, during this assessment period, Turkey took a more proactive approach and has introduced support for SMEs' uptake of e-commerce.

The Ministry of Trade's DG Exports provides ongoing support to SMEs through the Programme to Support Market Research and Market Entry, which is linked to the Tenth Development Plan and the SME Strategy and Action Plan. Under this programme, DG Exports sponsors 80% of their membership fees for e-commerce sites/portals for a period of three years. SMEs apply for membership through umbrella organisations (such as chambers of commerce, exporter unions), which then apply to the ministry on their behalf in groups of at least 250 member companies. The budget from government sources allocated to activities promoting e-exports is TRY 33.8 million (around EUR 6.1 million) between 2018 and 2022.

Government efforts aside, the Turkish Enterprise and Business Confederation has initiated a project called Digital Anatolia. It aims to enhance awareness of digital opportunities by promoting interaction between digitalisation professionals and SMEs through meetings across the economy (OECD, 2018^[2]). The project, which broadly aims to stimulate digital transformation, could also have positive effects on SMEs' e-commerce uptake.

Legal frameworks for e-payments and consumer protection are in place, and efforts to increase the effectiveness of consumer protection in e-commerce have propelled Turkey to the forefront globally for generating trust in the digital environment. Turkey has championed clear and comprehensive regulations for online consumer protection, most notably through its presidency of the International Consumer Protection and Enforcement Network (ICPEN) in 2017-2018.³⁷

Turkey's Ministry of Trade has developed a Trust Stamp in Electronic Commerce, which entered into force in 2017. Verified and audited e-commerce sites may display the mark if they meet criteria defined by the Communiqué on the Trust Stamp in E-Commerce, such as data protection; awareness of e-commerce and payment systems regulations; clear information about company operators; and effective communication methods for customer demands and complaints. Recently the Ministry of Trade and the Turkish Union of Chambers and Commodity Exchanges signed a protocol allowing the latter to provide the Trust Stamp to SMEs.

Turkey is also making headway in developing statistics on e-commerce. In the last quarter of 2017, the Ministry of Customs and Trade launched an e-commerce information platform to register and record all e-commerce activities in order to develop statistics.

The way forward for Dimension 10

Turkey can further improve its efforts to support the internationalisation of SMEs in the following ways:

- **Reform customs services by considering the needs of SMEs.** The cost and time involved for both exports and imports have remained stubbornly high during the assessment period. Burdensome customs requirements present challenges to trading internationally, especially to SMEs, and the situation is further exacerbated by the frequent legislative changes which Turkish SMEs cannot keep up with. Introducing information help desks and more training for customs brokerage firms may partially address SMEs' customs facilitation needs.
- **Improve the flow of information and increase awareness of support programmes** among SMEs, especially for export promotion. Turkey could consider consolidating its channels of communication with SMEs by using those already in place. Intermediaries, such as chambers of commerce and industry and cluster management teams, could play effective roles in these endeavours. Likewise, Turkey could also leverage its online platform to register and engage SMEs in e-commerce in a more targeted and informative manner.
- **Introduce better evaluation** through measures that also assess the impact and effectiveness of its programmes. In order to provide a measure of success, Turkey could consider introducing a customer relationship management system to get feedback from SMEs.

Conclusions

Turkey's efforts in drawing on a broad array of public policy tools to foster SMEs' competitiveness are commendable. No other economy in the region has such an extensive set of programmes and initiatives. But, before further scaling up support to SMEs, Turkey needs to undertake a comprehensive evaluation of its existing policy tools. This is needed to ensure that public resources are allocated to those programmes that address the most pressing needs and have the greatest impact.

The biggest challenge for Turkey is that the regulatory conditions needed for a level playing field for SMEs are still not entirely in place. Apart from the preparation process for national strategies, policy making does not usually engage a wide-ranging group of stakeholders, including SMEs. Legislation is adopted without giving much consideration

to its potential effects on SMEs. Mainstreaming SMEs' needs in policy making should now be Turkey's main priority.

Notes

¹ Calculation made based on World Bank data for 2017.

² The WBT region refers to the six pre-accession Western Balkan economies (Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, and Serbia) and Turkey. Unless otherwise specified, reference to the “region” in this publication implies these seven economies.

³ The NUTS classification (Nomenclature of Territorial Units for Statistics) is a hierarchical system for dividing up the economic territory. For more information see Eurostat (2018^[70]). The 12 NUTS I, 26 NUTS II and 81 NUTS III subdivisions of Turkey are officially refereed as regions, sub-regions and provinces respectively.

⁴ In EU countries, SME envoys are appointed by the national government to report on the uptake of the SBA and to promote SMEs interests through government bodies. Such SME envoys do not exist in pre-accession countries.

⁵ The Monitoring of Graduates of Vocational and Technical Secondary Education Institutions (E-Graduate) 2017 Report can be found at url: <http://emezun.meb.gov.tr/document/2017Emezun%20Raporu.pdf>

⁶ According to an article published by INSOL Europe, 3 524 companies applied to postpone bankruptcy between 2009 and 2014. However, of the applicants who were granted a postponement, only 2% were subsequently able to recover from insolvency. The remaining 98% of postponement recipients were ultimately declared bankrupt, despite the court's postponement decision (Cetinkaya, 2016^[71]).

⁷ The seven years could comprise two years for judicial processes; a one-year postponement (initial court decision); and four years of extension (based on trustee reports).

⁸ Law 7101.

⁹ Statutory Decree No. 669, published on 31 July 2016.

¹⁰ A debtor's estate is the property that creditors can take when the debtor is in bankruptcy.

¹¹ See www.resmigazete.gov.tr/eskiler/2016/09/20160903-2.htm.

¹² The Regulation on Business Licensing No. 2005/9207, issued in the Official Gazette of 8 October 2005.

¹³ Institutions need to sign bilateral protocols among themselves to be able to share information. There is no centralised approach.

¹⁴ According to Article 81 of the Municipal Revenues Law, licensing fees vary between TRY 0.1 and TRY 1 per square metre, according to the type of the business. The upper limit is TRY 5 000, even if its total area exceeds 5 000m².

¹⁵ The cost recovery principle is defined as the method of recovering an expenditure which a business takes on. In other words, it is simply recovering the costs of any given expense.

¹⁶ The “silence-is-consent” principle gives legislative protection to the applicant: if public authorities fail to answer a request within a prescribed timeframe, then “consent” to the request is automatically conferred.

¹⁷ According to the Turkish Banking Association, business customers for mobile banking have grown by nearly 260% since December 2015, to reach nearly one million active business customers as of June 2018.

¹⁸ EBRD calculations based on BDDK (Banking Regulation and Supervision Agency) statistics, as of June 2018.

¹⁹ Two funds of funds were launched under the Turkish Investment Initiative: the Istanbul Venture Capital Initiative in 2007 and the Turkish Growth and Innovation Fund in 2016.

²⁰ See kobikampus.kosgeb.gov.tr.

²¹ These include 853 testing laboratories, 127 calibration laboratories, 25 medical laboratories, 225 inspection bodies, 61 product certification bodies, 87 management system certification bodies, 206 certification bodies for individuals and 8 proficiency testing providers.

²² Notification takes place when a member state informs the commission and the other member states that a body fulfilling the relevant requirements has been designated to carry out conformity assessment according to a directive.

²³ These include testing, calibration, inspection, product certification, management systems certification, certification of individuals and proficiency testing providers.

²⁴ Smart specialisation originated in the EU as a concept for stimulating innovation-driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services and, ultimately, economic growth. Human capital, knowledge dissemination and transfer, as well as support to entrepreneurship are all key elements in successful implementation of smart specialisation strategies. For more information, please see Chapter 12 on enterprise skills and Box 13.1 in Chapter 13 on innovation policy for SMEs.

²⁵ There are three essential pillars to the actions in the plan: 1) a working group of 96 PUI representatives (mostly academics) across Turkey, in which each member is responsible for the ecosystem in a city; 2) City PUI Planning and Improvement Councils, which consist of local authorities and are responsible for systematic co-ordination of PUI activities in cities; and 3) an online portal (www.kusip.gov.tr) dedicated to raising awareness of public funds and enhancing interaction among stakeholders.

²⁶ A triadic patent family is defined as a set of patents registered in various countries (i.e. patent offices) to protect the same invention. Triadic patent families are a set of patents filed at three of these major patent offices: the European Patent Office, the Japan Patent Office, and the United States Patent and Trademark Office (OECD, 2018^[74]).

²⁷ The DG Exports of the Ministry of Trade has primary responsibility, while KOSGEB implements programmes which are SME-specific. The Turkish Exporters Assembly and Türk Eximbank also provide financial and technical support in export promotion.

²⁸ Recent amendments have broadened the opportunities for funding in this scope, as subsidies for the organisation of sectoral international fairs in Turkey may now cover the participants' expenses in addition to the organisational costs of the fair. "Participants" are defined as companies established according to the Turkish Commercial Code that are members of an exporters' union (EC, 2017^[27]).

²⁹ In 2016, two international incubators were established in the United States, for which KOSGEB finances office space, staff and acceleration services. The Middle East Technical University established the Technopolis incubator in San Francisco. Meanwhile, Starcamp, located in Palo Alto, has started activities in partnership with technoparks and universities. Within the scope of the International Incubation Center and Acceleration Support Programme, USD 3.85 million has been

allocated to support the establishment of incubation centres and USD 60 000 towards support for enterprises' participation in international accelerators.

³⁰ The Improvement of International Competitiveness Programme provides grant finance to SME umbrella organisations to be used toward promotion, training, market analysis, study visits, trade missions and other activities relating to internationalisation.

³¹ Umbrella organisations here include chambers of industry, technological parks and organised industrial zones.

³² In 2017, the 16 provinces generated USD 53.6 billion in exports, amounting to one-third of Turkey's exports.

³³ Turkey is currently in the process of developing the 11th Development Plan (2019-2030) which will include further measures to support integration into global value chains. The plan is being developed by a specialist commission which works on logistics, e-commerce and integrating SMEs into GVCs.

³⁴ Through the Enterprise Europe Network, KOSGEB helps to provide SMEs with consulting, mentoring and business-to-business services.

³⁵ The types of support included under the programme are employment support, software and hardware support, publicity support, foreign fair and travel support, test, analysis and certification support, and service procurement support.

³⁶ The Eurostat indicator refers to SMEs, excluding in the financial sector, employing between 10 and 249 employees.

³⁷ The International Consumer Protection and Enforcement Network is a worldwide network of more than 60 consumer protection authorities at which the EC, OECD, and the United Nations Conference on Trade and Development have observer status.

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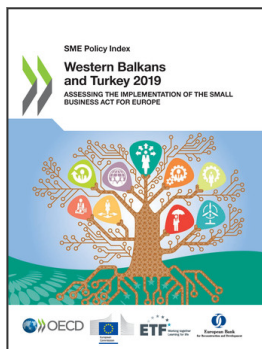
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Annex 19.A. OECD Scoreboard Indicators

Annex Table 19.A.1. Scoreboard for Turkey

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt											
Outstanding business loans, SMEs	TRY million	76 521	84 605	83 271	125 468	162 803	199 743	271 421	333 278	388 749	420 539
Share of SME outstanding loans	% of total outstanding business loans	40.14	33.8	31.7	35.52	35.47	37.77	37.94	37.67	35.34	32
Government loan guarantees, SMEs	TRY million	53	285	565	939	1 123	1 114	1 061	1 392	1 641	5 318
Government guaranteed loans, SMEs	TRY million	75	403	791	1 302	1 622	1 553	1 467	1 888	2 334	7 188
Direct government loans, SMEs	USD million	552	842	997	855	1 174	928	2 632	1 709	1 764	1 749
Non-performing loans, SMEs	% of all SME loans	3.62	4.79	7.64	4.49	3.1	3.17	3.12	3.27	3.92	4.9
Non-bank finance											
Venture and growth capital	TRY thousands	13 676	854	6 316	47 553	373 204	110 097	335 549	124 397	135 308	343 192
Venture and growth capital (growth rate)	%, year-on-year growth rate	..	- 93.76	639.58	652.9	684.82	-70.5	204.78	-62.93	8.77	153.64
Leasing and hire purchases	TRY million	11 661	14 385	11 066	10 711	15 112	17 154	24 957	29 485	36 718	44 022
Factoring and invoice discounting	TRY million	6 223	5 610	8 351	12 370	14 213	16 328	20 096	24 715	24 994	31 027

Source: OECD (2018^[31]), *Financing SMEs and Entrepreneurs 2018: An OECD Scoreboard*, https://doi.org/10.1787/fin_sme_ent-2018-en.



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