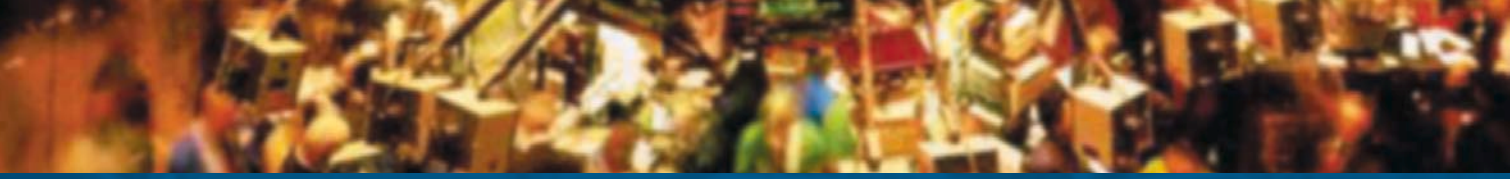

A Framework for the Development and Financing of Dynamic Small and Medium Sized Enterprises in Turkey

OECD

CENTRE FOR PRIVATE SECTOR DEVELOPMENT ISTANBUL

ISTANBUL STOCK EXCHANGE

A Framework for the Development and Financing of Dynamic Small and Medium Sized Enterprises in Turkey

July 2005

About the OECD Centre for Private Sector Development ("OECD Istanbul Centre")

The OECD Centre for Private Sector Development in Istanbul provides a platform for co-operation between the OECD and transition or emerging economies on private sector development policies through its approach to policy dialogue and exchange of experiences and the development of best practices for economic reforms.

Since its foundation in January 1994, the OECD Istanbul Centre has held over 150 workshops and working group meetings, bringing together more than 5,000 senior officials and policy makers from Central Asia, Caucasus, Black Sea, Central, Eastern and South Eastern European countries, as well as Mongolia, the Russian Federation and the Middle East and North Africa.

The OECD Istanbul Centre has a stakeholder-oriented management structure that includes all those involved in the Centre's work (donors, partner countries, international institutions, non-governmental organisations and private sector participants).

The OECD Istanbul Centre's mission is to promote sustainable economic development through private sector development in our partner countries.

Its core activity areas are Foreign Direct Investment, Enterprise Development, Financial Sector Development and Rule of Law and Governance.

The Centre's programme objectives are to:

- Support market economy reforms in the Black Sea, Caucasus and Central Asia.
- Share experiences among countries in the pursuit of the reform process.
- Provide advice to help create a favourable environment for both domestic and foreign investment.

The Turkish International Co-operation Agency is the main sponsor organisation of the OECD Istanbul Centre. In addition, the Istanbul Stock Exchange has been the key partner for the Centre's activities.

PREFACE

Starting a business or expanding an existing one in today's environment brings opportunities but also challenges. New technologies and better access to global markets provide increased business opportunities. At the same time increased competition, insistence on quality and unremitting pressure for lower costs, just to mention a few issues, represent major challenges for businesses worldwide. Small and medium-sized enterprises often lack scale, financial resources and the capacity to handle complex business management issues. SMEs are a vital source of new jobs, exports and economic contribution in all countries. Ensuring the growth of this sector remains a challenge for policy makers.

The Istanbul Stock Exchange (ISE) and the Organisation for Economic Co-operation and Development (OECD) started a project in 2002, organising a series of workshops and consultations to explore and review the current business support system in Turkey with a specific focus on small and medium-sized companies, which look for ways to dynamically expand their businesses, hence the term "dynamic SMEs" or "dSMEs". The meetings were designed to attract active participation from all parts of the Turkish support system and related stakeholders, including senior managers of representative dSMEs. In addition, national and international experts have been consulted and comparisons with international good practice in this field have been conducted. As an outcome of this process and after analysis of the current situation a framework has been proposed for the development and financing of dSMEs in the Turkish context. It is hoped that this publication will enrich the ongoing discussion in Turkey. Although this document is primarily aimed at policy makers dealing with SMEs in the broadest sense it can be also useful reading for academic staff, students and private sector representatives.

The report is published under the responsibility of the Istanbul Stock Exchange and the OECD Istanbul Centre for Private Sector Development. I would like express my gratitude to the ISE and sincere thanks for their effective collaboration on this important project.

Rainer Geiger
Deputy Director, Directorate for Financial and Enterprise Affairs, OECD
Chairman of the OECD Istanbul Centre for Private Sector Development

FOREWORD

In 2002, the Istanbul Stock Exchange (ISE) and the OECD embarked upon a project with the aim of creating a model for supporting and developing the young and dynamic start-ups and small and medium-sized enterprises in Turkey.

We wanted to find out, for Turkey, how we could help more SMEs (SMEs contribute up to 70 % of the industrial employment but only 30 % of industrial output) to develop into larger and more successful enterprises. But more than that, we wanted to discover and devise ways to stimulate dynamic and innovative entrepreneurship in Turkey so that the firms that are established will provide the innovative drive to ensure an environment for continued economic development in the future.

We looked at the success stories both inside Turkey and in those countries that showed important growth in their productive capacity. We held numerous meetings and workshops with the young entrepreneurs of Turkey as well as a number of national and international experts who brought their worthy experiences and expertise into the project.

We hope that this publication will enhance the on-going policy discussions among policy makers, and policy development by showing the way towards practical implementation, and that it will be studied by entrepreneurs with an interest in enterprise development, academic staff, and students.

At various meetings we had strong participation from members of the Federation of Euro-Asian Stock Exchanges (FEAS) and thus, we hope that this publication will be used by FEAS member countries beyond Turkey's borders since many countries in the region are grappling with similar issues. Overall, the analysis and assessments in this report provide valuable insights into key issues confronting dynamic SME owners and managers, as well as challenges for policy makers. On behalf of the Istanbul Stock Exchange, I would like to express my gratitude to the OECD and thanks to all for their constructive co-operation on this project.

Osman Birsen
Chairman, Istanbul Stock Exchange
President, FEAS

ACKNOWLEDGEMENTS

This framework guide is published by the OECD and the Istanbul Stock Exchange (ISE) as a follow-up to the project "Enterprise Development and Finance" within the framework of the OECD Centre for Private Sector Development, Istanbul. During an extended period the project brought together extensive and practical case experience from Turkey and other OECD member countries as well as numerous transition and emerging economies and these were discussed and reviewed at a series of meetings in Istanbul. This review work was complemented by an analysis of a wide range of international and Turkish experience and engagement with practitioners. It resulted in recommendations for further policy development and proposals for action.

The publication presented here provides a basis for further discussion on this important topic for policy makers in Turkey but also in other countries.

The main authors of this report are Paul Bradstock, advisor to the OECD/ISE for this project, and John Thompson from OECD (section on finance). The publication draws on meetings with experts from OECD countries including Turkey, international institutions and private sector representatives. The publication has benefited from input by Engin Göksu (OECD), Declan Murphy (OECD), Martin Forst (OECD), Aril Seren (ISE), Mr Huseyin Erkan (ISE), Murat Bolat (ISE), Cigdem Celikbilek, (ISE), Mr. Johan Mekkes (Investment Development Agency for Northern Netherlands), Dr. Peter Heydebreck (Inno AG), Mr. William O'Brien (Enterprise Ireland), Mr. Olavi Ankö (Ministry of Industry and Trade, Finland), Mr. Diarmuid O'Conghaile (National Competitiveness Council, Forfas), Mr. Jorn Volker Koch (European Commission to Turkey), Mr. Cemil Arikan (Sabanci University, Turkey), Dr. Halil Sariaslan (Capital Markets Board of Turkey), Mr. Ferdi Miskbay (Turkish Foundation for Technological Development), Mr. Faruk Eczacibasi (Eczacibasi Holdings), Mr. Mehmet Sami (Ata Investments), Mr. Naci Akin (TOBB), Mr. Tugrul Tekbulut (Logo Business Solutions), Dr. Emre Alkin (Turkish Exporters Assembly, TIM), Ms Zeynep Tura (Tangram Management Consultancy), Mr. Demir Yener (Yener Global Finance), Dr. Dilek Cetindamar (Sabanci University, Turkey) and KOSGEB. The final editing and printing preparations were undertaken by Geraldine Daly and Georgiana Pop (OECD).

There were numerous meetings during the course of this project and highly valuable contributions have been received from a great many participants, too many for individual mention. Their contributions are reflected in this document and the authors wish to record their gratitude for all the willing help and advice that they have received.

TABLE OF CONTENTS

TABLES

BOXES

LIST OF ACRONYMS AND ABBREVIATIONS

CMB	Capital Market Board
dSME	dynamic Small and Medium Enterprise
EBRD	European Bank for Reconstruction and Development
EIF	European Investment Fund
EU	European Union
EUREKA	Pan-European network for market-oriented, industrial R&D.
EICC	Euro Info Communication Centres in Turkey
ISE	Istanbul Stock Exchange
ITP	TTGV Industrial Technology Programme
KGF	Credit Guarantee Fund Inc
KOBI-NET	KOSGEB and EICC Information Intranet for SMEs
KOSGEB	Small and Medium Industry Development Organisation
M&A	Mergers and Acquisitions
MEKSA	Foundation for the Promotion of Vocational Training and Small Industry
OECD	Organisation for Economic Cooperation and Development
SBIC	Small Business Investment Company (USA)
SBIR	Small Business Innovation Research (USA)
SBS	Small Business Service (UK)
SMART	Small Firms Merit Award for Research and Technology (UK)
SME	Small and medium Enterprise
SPO	Undersecretariat of State Planning Organisation
TAEK	Turkish Atomic Energy Corporation
TDP	TTGV Technology Development Programme
TDZ	Technology Development Zone
TESK	Confederation of Tradesmen and Artisans of Turkey
TOBB	Turkish Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges
TOSYOV	Turkish Foundation for Small and Medium Business
TTGV	Turkish Technology Development Foundation
TUBITAK	Scientific and technical Research Council of Turkey
TUBITAK-TIDEB	Technology Monitoring and Evaluation Board of TUBITAK
TUSIAD	Turkish Industrialists' and Businessmen's Association
UFT	Undersecretariat for Foreign Trade
USAMP	University-Industry Joint Research Centres Programme
VC	Venture Capital
YASED	Foreign Investors Association of Turkey
YOK	Turkish Institution of Higher Education

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

Turkey is moving fast to capture the benefits of an enterprise culture and to stimulate the dynamic small and medium enterprise sector though starting from a low base due to past instabilities in the macroeconomic and political environment. In 2004 Turkey hosted the Second OECD Conference of Ministers responsible for Small and Medium Enterprises (SMEs) and issued a Strategy and Action Plan for SMEs by its State Planning Organisation (SPO). The economic situation in Turkey has been described and discussed in the OECD's Economic Survey (October 2004) and in the same year the OECD also published a detailed discussion of Issues and Policies regarding SMEs in Turkey.

As a next step, this report attempts to develop a practical framework for the development and financing of dynamic small and medium enterprises (dSMEs) as an important subset of the SME sector of Turkey's economy is developed. The report is in two parts, Chapter 1 outlines the environment for dynamic Small and Medium Enterprises in Turkey and provides information about current Turkish activities to promote the entrepreneurial sector; in Chapter 2 the proposed framework, while taking account of the present system of supports and policies to promote SMEs in Turkey, indicates by reference to good practices in other countries how the Turkish system could be developed.

Throughout, recommendations are offered as to how the Turkish system could be enhanced in some areas and adapted in others according to the framework and these are reproduced below.

Good governance and the right of access to high quality information emerged as key principles in the development of the framework. Government must set the structures, which are conducive to innovation and enterprise. Recommendations for consideration and action are as follows:

1. Regulation and Law

1. Encourage the development of institutional structures and private sector organisations to effectively represent the SME's interest (e.g. appoint a Small Business Champion[1]).
2. Promote the integration of SMEs into the formal economy.
3. Encourage SMEs to follow sound accounting procedures, in conformity with international standards.
4. While protecting employees, suppliers, and customers insolvency laws should not impose harsh consequences on entrepreneurs in cases of honest failures.
5. Encourage the development of sound governance practices for SMEs including the protection of minority shareholders.
6. Review the laws and procedures governing intellectual property and facilitate SME access to Intellectual Property Rights (IPR) data bases.

2. Education

7. Develop education and training for innovation and enterprise.
8. Encourage universities to run entrepreneurship courses for students and for existing as well as potential entrepreneurs.

9. Develop entrepreneurship associations with universities.
10. Allow academics to provide services to SMEs whilst retaining an academic career.
11. Promote university internships at SMEs.

3. Establishing Phase of New SMEs

12. Facilitate and speed up the process of company formation/expansion and ensure that Chambers of Commerce/Industry act to encourage and guide the process.
13. Introduce business planning as a necessary (obligatory) tool for innovative small company formation and to support access to professional bodies, funds, credits, and other resources.
14. Introduce a scheme for protection of business ideas that can be implemented at the business planning stage.
15. Introduce accredited consultants at an affordable cost to the entrepreneur to assist with all aspects of business planning. Introduce affordable university-based courses for consultants and business managers which focus on innovation and entrepreneurship in SMEs.
16. Regulate for independently audited accounts to make available reliable basic company and financial data annually.
17. Regulate for all company financial transactions (other than minor items of petty cash) to be via bank accounts such as a current account, payroll account, and credit card account.

4. Information Flows

18. Improve accessibility of information for SMEs.
19. Establish a map of information flows between support agencies and SMEs.
20. Co-ordinate and make information available via a single point of access for SMEs, e.g. via e-bulletins from a special chapter in Chambers of Commerce and Industry.
21. Promote the business use of personal computers and the Internet for access to information (and for basic financial accounting and e-commerce).

5. Technology

22. Improve access to technology.
23. Review the regulations defining ownership and rights over intellectual property resulting from state funded research and development in order to widen access for exploitation by entrepreneurs including the research staff themselves.
24. Set up a system of international scouting for relevant technologies by attaching specialists to the Turkish embassies and consulates, and to the import/export associations. Ensure positive linkage to innovative enterprises.

6. Financial Framework

25. Provide a suitable overall framework for financing SMEs.
26. Make the expansion of the capacity of the formal financial system to provide financing to SMEs an explicit aim of the overall financial reform that is under way at this time. In particular the banking system must be further encouraged to change its pattern from lending to government and established enterprises to the support of the middle market.
27. Encourage Turkish entrepreneurs to operate more transparently in order to have enlarged recourse to the formal market. In doing so, positive inducements, mainly the prospect of obtaining concrete benefits, by using the formal markets, should be emphasized.

28. Observe the principle of "risk sharing." Use official funds only in partnership with businesses, universities or international organisations. After the preliminary stages of firm development, commit government funds only when private investors are willing to commit funds.
29. Be careful about policies that provide access to low cost funding but lead to lower rates of return for investors. Projects should be selected by their ability to generate earnings in a competitive market.

7. Early Stage Finance

30. Implement policies to ease financing for early start-ups.
31. Increase awareness among entrepreneurs of the range of financing options available through official programmes, private investors and banks.
32. Coordinate the activities of those supplying funds with the activities of those supplying consulting and other support programmes.
33. Create special public funds through which public sector entities can make equity investments in dSMEs in partnership with private investors.
34. Facilitate the development of business angel networks, mainly by providing infrastructure support.

8. Venture Capital

35. Implement policies to ease financing for venture capital.
36. Develop necessary investment vehicles. Assess whether existing legal forms for venture capital investment need improvement.
37. Facilitate access to institutional capital. Increase institutional savings as part of the overall financial reform. Assess whether existing regulations on institutional investors discourage investment in venture capital. Adapt regulations on institutional investors to permit investment in venture capital, if investment is compatible with prudent investment management.
38. Utilise special instruments designed to facilitate investment in venture capital. Assess whether existing structures for Risk Capital Investment Partnerships and Trusts need to be improved.
39. Facilitate investment by foreign venture capital firms.
40. Develop exit vehicles. Review rules for listing on main board of exchange and on special board for small companies. Proceed with programmes to develop a special board for growth companies. Facilitate possibilities of Turkish SMEs to list on other markets.
41. Review regulations concerning mergers & acquisitions (M&A) to determine whether obstacles are present that inhibit trade sales. Review regulations to determine whether policies discourage foreign acquisition of domestic companies.
42. Set up a single national Venture Capital Association to lobby and further inform the Government, investors, and commerce about the benefits and the operation of venture capital markets.

NOTE

1. The US Small Business Administration defines a small business champion as "An individual who promotes small business above and beyond the call of their professional duties and responsibilities. This may include: volunteering time and services to small business interests and groups, and advocating the cause of small business in the legislative process". Also see section 1.1 in the chapter 2 of this document.

Chapter I

THE BACKGROUND

1. Definitions

1.1. Innovation

According to the European Union (EU) definition "Innovation"[2] consists of the successful production, assimilation and exploitation of novelty in the economic and social spheres.

The importance of innovation for the economy is that it helps companies conquer new markets and stave off competition. Innovation comes in many different forms, ranging from an invention arising from scientific research to efforts to adapt production procedures, tap new markets, use new organisational approaches, and/or create new marketing concepts.

1.2. Dynamic Small and Medium Enterprises (dSMEs)

The EU categorises (2003) Small and Medium Enterprises (SMEs)[3] according to the Table 1:

Table 1. **SME Categories**

Enterprises Category	Headcount	Turnover Euro millions	Or Balance Sheet Total Euro millions
Medium-sized	<250	<50	<43
Small	<50	<10	<10
Micro	<10	<2	<2

For the purpose of this document dynamic small and medium enterprises (dSMEs) are defined as a particular subset of SMEs: they have 5-50 employees, a turnover less than Euro 10 million and they are positively ambitious for growth. They actively seek to exploit innovation for growth and competitive advantage. A dSME is distinguished from other micro and small enterprises by the intent of the entrepreneur who runs it and the scope for growth. Note that innovation is not limited to manufacturing but embraces the wider economic and social spheres. A dSME is as likely to be found in services, tourism, retailing and other services as it is in manufacturing and production. In present times it is likely that a dSME will embrace technology or innovative methods in the process of delivering its product or service to the market.

1.3. Entrepreneurship

According to the National Dialogue on Entrepreneurship in the USA[4] "an entrepreneur is an individual engaged in the process of starting and growing one's own business". Entrepreneurship involves doing as well as knowing, taking personal and financial risk, utilising innovation in technology or processes, marketing, and commitment to grow a business as fast as the market place allows. According to the EU, "Entrepreneurship is the mindset and process by which an individual or group identifies and successfully exploits a new idea or opportunity".[5]

Entrepreneurship is a job creation engine that has a positive impact on local, regional and national economies. New economic trends suggest that a prevalence of dSMEs that provide a constant tide of new ideas and experimentation is a source that invigorates the health of the economy as a whole.

2. Objectives

In a simple model - small private enterprises are born because of the drive of individual entrepreneurs. A supportive national framework, that values entrepreneurship, provides a business friendly environment and various state policies and supports to mitigate risk in order to encourage further private sector involvement along the stages of growth of the enterprises. Many enterprises continue to develop privately and make a contribution to the economy by creating jobs and wealth. A few continue to grow and may eventually become publicly listed entities. Alternatively other companies may acquire these enterprises. In either case, the process of enterprise creation makes a substantial contribution to the national economy. It is clear that the role of stock exchanges as the final step in this transition from private to public ownership is vital. It is at the pinnacle of the investment ladder that the enterprise has scaled during its growth. The Istanbul Stock Exchange foresaw that the health of the Turkish economy (and of the stock exchange) is dependent on the quality and quantity of new enterprises entering and growing in the economy. Together with the OECD it initiated the debate leading to this document, which outlines a framework for the encouragement of dSMEs in Turkey. The document aims to serve a dual purpose:

- To influence economic policy in Turkey, and
- To offer an example to developing and transition economies in Eurasia and elsewhere.

The document though primarily aimed at policy makers in Turkey should also be of great interest to members of the Federation of Euro-Asian Stock Exchanges as well as to other economic policy makers and private sector groups in transition economies.

3. Rationale

DSMEs play a significant role in the economies of industrialised nations. This is true in developing as well as transition economies. dSMEs are not only important in terms of the services and goods produced but also in the number of jobs provided. dSMEs are key to the development of technology and knowledge based economies. They play a vital role in bringing innovation to the market place. dSMEs offer a way of building new economic growth, increasing international competitiveness and creating new jobs[6].

Box 1: The Role of SMEs in Job Creation[7]

As President Bush noted in his first press conference following the election 2004:

"…70 percent of the new jobs in America are created by small businesses. I understand that. And I have promoted during the course of the last four years one of the most aggressive, pro-entrepreneur, small business policies …And so in a new term, we will make sure the tax relief continues to be robust for our small businesses. We'll push legal reform and regulatory reform because I understand the engine of growth is through the small business sector."

According to the OECD SME Outlook in 2002, in Turkey, SMEs account for 99.5% of firms, 61.1% of employment and 27.3% of value added. However, despite its importance for the national economy, the SME sector continues to face challenges in its further development with particular difficulties in raising investment and growth finance and in achieving success in export markets. Table 2 of international SME performance indicates the depth of these weaknesses in comparison with other countries.

The challenges for Turkey highlighted by Table 2, note particularly the poor performance in investments and loans for SMEs coupled with a low share of exports, may in part be due to the lack of a sufficiently skilled and educated workforce and of an innovative and entrepreneurial culture. In considering how to respond to these challenges it is useful to further segment the SME sector. Although the EU definition offers segmentation by size into medium, small and micro firms, the sector considered in this document is

Table 2. **Characteristics of SMEs in Selected Countries**

Share of SMEs of total:	USA	Japan	UK	South Korea	Turkey
Enterprises	97.2	99.4	96.0	97.8	98.8
Employment	50.4	81.4	36.0	61.9	45.6
Production	36.2	52.0	25.1	34.5	37.7
Exports	32.0	38.0	22.7	20.2	8.0
Investments	38.0	40.0	29.5	35.7	6.5
Loans extended	42.7	50.0	27.2	46.8	3.5

Source: TUSIAD, Entrepreneurship in Turkey, December 2002

differentiated principally by intent. It is the intent to assimilate innovation and the ambition to grow which typically characterises the dSME. Factors such as: size of enterprise (micro, small or medium-sized); its stage of development, e.g. whether it is already established and growing or in the early stages of starting up, whether supplying products or services; and whether based on innovation, technological or procedural, or simply in the pursuit of conventional business may also be considered in characterising, the dSME. Though many SME issues may have common policy solutions it is important to recognise that the challenges facing dSMEs are particularly acute in precisely those areas of weakness identified in Table 2, namely access to finance and success in export markets, and also include issues, such as the ability to interact with the research base and to recruit skilled people, each of which need to be addressed specifically.

According to The Turkish State Institute of Statistics 1998-2000, 29.4% (24.6% in 95/97) of manufacturing firms and 38.5% (48.2% in 95/97) of service firms were classified as innovative.[8] International comparisons are not easily made due to different definitions of what constitutes an innovative firm. However, these surveys confirm and highlight lack of access to investment as a major obstacle to innovation. According to the Turkish Prime Ministry State Planning Organisation[9] "***When the current practices as well as the policies and programmes….are compared with the norms of the* EU *and developed countries, it is seen that Turkey's* SME *support system does not have the capacity to meet the needs of enterprises, and that insufficient resources and lack of sufficient institutional capacity constitute a significant obstacle….to develop and support* SMEs.**"

After extensive consultation with all relevant parties in Turkey and calling upon international expertise and examples of good practice, a framework has been constructed for the development and financing of dSMEs in the Turkish context. Over the life of this project there have been a number of significant developments in the Turkish system for SME support, many along lines identified in the course of the project. Indeed the period has been one of accelerating change in Turkey. In part this has been driven by international interactions, for example, with the European Union, International Monetary Fund and the World Bank. A number of reports and recommendations have been published. In particular, The SME Strategy and Action Plan (January 2004) published by the Republic of Turkey Prime Ministry State Planning Organisation and the Small and Medium-sized Enterprises in Turkey Issues and Policies Report published by OECD to coincide with the Ministerial Conference on SMEs held in Istanbul in June 2004 address the issues of support and promotion of SMEs more generally.

Though much has been done to support SMEs in the manufacturing sector based on a sound understanding of practices in other countries, less attention has been paid to the potential of innovative enterprises in other sectors such as in services, tourism and retailing to create jobs and economic growth.

Whilst individual policy changes that address general areas of weakness are to be welcomed, there is a danger that too many piecemeal policies result in cumbersome and complex procedures that are confusing to all actors and especially to the entrepreneurs and innovative enterprises. Nevertheless, this document argues that there is a need for specific policies to address the dynamic small enterprise sector because of its high importance to economic development. Ideally the framework proposed in this document would be implemented as an integrated whole.

4. Outline of the Present System of Support for Dynamic Small and Medium Enterprises (dSMEs) in Turkey

Turkey has established a business support infrastructure for dSMEs, though targeted principally at the manufacturing sector, which includes KOSGEB (Small and Medium Sized Industry Development Organization), TTGV (Technology Development Foundation of Turkey), TUBITAK (Scientific and Technical Research Council of Turkey), the Chambers of Commerce and Industry, KGF (Credit Guarantee Fund) and Halk Bank among others.

Membership of a Chamber of Commerce is mandatory. Company formation and registration is carried out at a Chamber of Commerce. Every city in Turkey has a Chamber of Commerce and a Chamber of Industry. In some of the smaller cities the chambers are merged together. The Chambers represent business and enterprise through professional committees and committees representing specific sectors. TOBB is the national Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges. TOBB membership comprises 363 chambers representing 1.2 million companies, while TISK with more than 2.7 million members, is the Turkish Confederation of Employer Associations.

Pilot EU supported agencies such as the Abigem Business Centre and the Innovation Relay Centre in Izmir have been opened. The Innovation Relay Centre exemplifies collaboration between different support agencies; in Izmir the partners are Ege University Science and Technology Centre, the Aegean Chamber of Industry, the Izmir Ataturk Organised Industrial Region, and KOSGEB.

In addition, Turkey is an EU candidate country that endorsed the European Charter for Small Enterprises. This means that Turkey is taking part in reporting on the steps on implementation of the Charter.[10]

4.1. KOSGEB

The Ministry of Industry and Trade SME Development Organisation, KOSGEB established in 1990, acts as a provider of consultancy services and as a technology supplier to SMEs in Turkey. KOSGEB operates a wide range (more then 20 major schemes) of support for SMEs, some in the form of grants and others in the form of repayable interest free loans to cover a proportion of the cost of approved projects. In 2003 KOSGEB's overall expenditure amounted to approximately $85 million, $18 million in grant aid and $67 million in credits. Repayment periods were 8, 18, or 24 months and included a 4-6 months payment holiday. Typical interest rates on credit are about WPI (Wholesale Price Index) + (3 to 5) % depending upon the protocols signed with the banks. Also, KOSGEB provides Export Credit Support up to $100,000 at "zero interest rate" and a payback period of 6 months. About 10,000 SMEs are said to have benefited from such KOSGEB Supports.[11]

KOSGEB also operates the Ministry of Industry and Trade Technology R&D Support programme set up in 2003. KOSGEB is active in 22 of the 81 Turkish cities and operates 26 Enterprise Development Centres, 10 Technology Development Centres (TEKMER), and 10 laboratories to provide materials testing for industry to international standards.

In January 2003, KOSGEB began a major re-organisation based on a principle of "continuous change" in developing its services. KOSGEB reports that in this process:

- The productivity and efficiency of the existing KOSGEB supports have been analysed
- Best practices aiming to serve SMEs by equivalent organisations in developed countries have been studied
- Recommendations from 600 SME-related organisations in Turkey have been taken into consideration.

In consequence, KOSGEB now takes responsibility for the following functions for SMEs:

- To develop their technological skills
- To improve training and access to and use of information
- To provide appropriate financial mechanisms
- To improve their management infrastructure.

To help accomplish this, KOSGEB has introduced a service policy that includes:

- Providing qualified and readily available services to SMEs to help them produce goods and services in accordance with high quality standards, at low prices utilising advanced technologies
- Assistance to tackle obstacles that SMEs might confront while competing in the global market
- Increasing substantially the number of support programmes, more than 20 schemes
- Reducing and simplifying bureaucratic procedures
- The Euro Info Correspondence Centre (EICC) and KOBI-Net described later have also been established under the aegis of KOSGEB in order to make high quality relevant information available to small enterprises over the Internet.

Other specific programmes managed by KOSGEB include:

4.1.1. *Technology Development Zones*

A Technology Development Zone (TDZ) is established in Turkish law as a site (or Technopark) where commercial exploitation of innovation contributes to the economic development of a region. In the TDZ, the academic, economic and social structures of a university or an R&D Centre (or an institute with high-tech innovative companies that develop a technology, software or innovate a technological advancement into commercial product or service) all function in close proximity to each other. It is a prerequisite of establishing a TDZ that a university or a high tech institute or an R&D Centre is on the site or in the vicinity of the site to be built. A further condition is that an adequate number of industrial establishments already exist or are to be founded in close proximity.

In a TDZ, incentives to innovate include:

- Income generated by university staff allocated to work in the zone is exempt from all witholdings (such as income tax and the University Fund);
- University staff, with the approval of the board of directors of the university, may hold shares in enterprises that commercially utilise the results of their work and they may take part in the management of such enterprises.

Other TDZ incentives include:

- The state may contribute to the costs related to the physical building of the site including land and infrastructure up to a value not exceeding the funds appropriated within the ministry for this purpose.
- The managing company of the site is exempted from all kinds of taxes and duties.
- No charge for discarded water if a water purification plant is on site
- Incomes generated by companies which produce software are not subject to any income or corporate tax for a period of five years from the start of operations. The Government may extend this period for up to ten years for selected technologies and products. Currently this is extended to Dec.31, 2013.
- The wages of R&D staff, researchers and software developers, are exempt from income tax for a period of ten years from the date of establishment of the zone.
- All grants and donations to individuals or companies in the zone are tax exempt.

4.1.2. *Technoparks*

A Technopark is a specific example of a TDZ. It is generally of smaller area, located on a university campus, intended to encourage the growth of innovative enterprises. The owners of a Technopark, which may be a university, may offer to provide consultancy and technical services to the tenant companies. Consultancy services may include assistance in specialised fields of business such as technology, production management, marketing, and legal and accounting; technical services may include secretarial and communication, photocopy, computers (PCs) and various filing and reporting systems, software packages, library, laboratory and workshop facilities, display areas, patent catalogues, access to databases and international information banks.

The TDZ Law also provides for health and social services in technoparks.

Additionally technoparks established according to this law enjoy the benefits of:

- Incentives applied to regions which have been given priority for development,
- Incentives for purchase or import of equipment, laboratory supplies and workshop tools and raw materials for R&D
- Tax deductions or exceptions against income, corporate or customs taxes out of income generated from the R&D activity. They may also enjoy low credit rates, donations and grants.

Out of the 16 TDZ's already established in Turkey, 4 are operative. There are 4 further applications pending and the Ministry of Industry and Trade is aiming at 20-25 altogether. Two of these zones are built within "organized industry zones" in Gebze and Eskisehir. The rest are within the universities. According to Ministry statistics there are 166 innovative firms in these zones employing 1473 R&D staff. Out of these 166 firms, 85 are focused in IT, 33 in defence, 22 in electronics and the rest in other areas. The ministry has resources allocated (approx. 2 million USD) for the building of the physical infrastructure of the zones for the year 2005.

Although only a relatively short period of time has elapsed since the application of the law on TDZs, there appear to be problems to initiate new zones and bring them into operation. The General Manager of the Marmara Teknokent A.S. which is the operating company of the TUBITAK –MAM Technology Free Zone and Technology Development Zone commented on problems experienced by the TDZs in a press interview on 21 May 2004 citing a lack of funding due to restrictions on the way the operators are allowed to function. He claimed that the law is too prescriptive on the charters of the companies and receiving only rental income, the operators are not able to make plans for development.

The Ministry lists some related projects on its web site as part of the work plan for 2004. This includes a project to monitor the work done on the existing TDZ's aiming to complete the work in 2004. A further project, which has been submitted for funding by the EU, to commence July 2005 if approved, provides for a system (including an IT infrastructure) to be set up by March 2006 to allow continuous monitoring, surveillance and evaluation of the effectiveness of these zones.

4.1.3. KOBI-NET

KOSGEB established KOBI-NET as an information network for SMEs; it operates as an Intranet which has attracted 12,000 enterprises as members so far. Twenty institutions such as unions, associations, banks, foundations and chambers provide information via KOBI-NET. KOBI-NET is now operating as a service of the KOSGEB Euro Info Correspondence Centre (EICC) also providing information about the programmes and standards promoted by DG Enterprise, EU.

4.2. TTGV

TTGV, the Turkish Technology Development Foundation, is an independent non-profit organisation established jointly by the private and public sectors. It manages both national and foreign funds (World Bank) for R&D support to enterprises in the form of interest free repayable loans of up to 50% of project cost to a maximum of $2M. In particular three programmes have been funded: The Technology Development Programme 1991-1998 (TDP); the Industrial Technology Project 1999-2004 (ITP); and the R&D Programme 1995-Undersecretariat for Foreign Trade (UFT). Table 3 outlines the current cumulative position from start-up in 1991. Table 3 summarises the supports provided by TTGV over its life until September 2004.

Among the accomplishments TTGV lists are:

- Establishment of four Technology Service Centres.
- Partnership in two venture capital funds, Is Girisim & Turkish Private Equity Fund (TPEF) set up by the International Finance Corporation.

- Technical and financial support to two technoparks, Bilkent Cyberpark in Ankara and ITÜ Arı Teknokent in Istanbul, where TTGV plans to set up incubators/innovation centres to build strong interaction between industry and universities
- Implementation of a program to offer technical support services including training and consultancy to more than 1250 SMEs
- Launch of a start-up pilot programme, TTGV Girisim Fonu, in 2004
- Gaining experience in the establishment and management of equity funds.

Table 3. **TTGV Programmes**

As of 15.09.2004	TDP	UFT	ITP	TOTAL
Number of Project Application	272	309	653	1234
Number of Project Supported	84	82	242	408
Completed	84	73	125	157
In Progress	0	0	110	0
Terminated	0	3	0	3
Withdrawn by Company	0	6	7	6
Committed Amount (M$)	45	30	72	147
Disbursed Amount (M$)	39	19	36	94

Source: TTGV

TTGV reports that it intends to deepen and expand its existing support programmes and to introduce additional ones in order to support development of potential high-growth enterprises with a strong business focus on technology development and innovation (i.e. dSMEs). Accordingly TTGV will introduce new supports to help commercialization of prototype level products, intellectual properties and innovations, and creation of new start-ups from institutional research including those in the universities. TTGV will develop and introduce support schemes to spur further collaboration and cooperation for technology development and innovation among enterprises, including helping the development of pre-competitive consortia and through supply-chain structures. TTGV's intends its supports to be organized as a complementary continuum where enterprises will continue to receive successive TTGV supports as their capabilities and skills develop along with the growth of the enterprise. TTGV's outreach will be improved to include regional extensions in collaboration with other support organisations of a complimentary nature such as TUBITAK-TIDEB (see below) and KOSGEB.

4.3. TUBITAK / TIDEB

TUBITAK, the Scientific and Technical Research Council of Turkey (1983), which functions under the aegis of the Prime Minister, set up the Technology Monitoring and Evaluation Board (TIDEB) in 1995 as a result of a Government Decree, the "Industrial R&D Grant Programme", to provide grant support for industrial R&D projects. TIDEB was established with the mission to create and disseminate an industrial R&D culture and to strengthen industrial R&D ability with the use of support programmes in accordance with National Science and Technology Policy. The Board also implements: the pan European network for market-oriented, industrial R&D - EUREKA[12] programme in Turkey; the university-industry joint research centres programme (USAMP): and activities to increase awareness of innovation such as brokerage events and technology award programmes (together with TTGV and TUSIAD). It assists the Government in the implementation of its R&D tax exemption program and R&D investment incentives. TIDEB also plans supportive studies to enhance technology development capability and devises policies to increase cooperation between universities and industry.

4.3.1. TUBITAK-TIDEB

TUBITAK-TIDEB works with the Undersecretariat of Foreign Trade (UFT), to provide grants to industrial R&D projects according to the Government Decree of June 1, 1995. TUBITAK-TIDEB serves as the referee institution (implementing agency), while the UFT provides funding, which accrues to the firms at a rate of up to 60% of R&D expenditures.

DEB evaluates monitors and assesses the research projects of industrial establishments aimed at developing new products, improved production methods and innovative technology.

The Industrial R&D Grant Programme conducted by TUBITAK-TIDEB and UFT received considerable interest, as is reflected in the increase of the number of yearly project applications from 121 in year 1995 to 418 in 2003 (expected to be 500 in 2004). Furthermore, the total number of companies that have been supported increased from 23 in 1995 to 1225 in 2004, and the total budget of projects supported exceeded $1.2 billion. Table 4 summarises the current position.

Table 4. **TUBITAK-TIDEB Industrial R&D Grant Programme**

	Total (1995- 2004)
Estimated budget of projects	$1,2 Billion
Projects proposed	2833
% Of projects proposed by SMEs	56%
Companies taking part	1225
SME companies taking part	79%
Projects assessed	2483
Projects approved	2078
Projects completed	1076
Average duration of projects	21 months
Grants	$178 M
Grants to SMEs	30%

As of September 2004

4.3.2. *University-Industry Joint Research Centres* (TUBITAK-USAMP)

This programme was launched by TÜBITAK-TIDEB in 1996 with the aim of initiating and fostering university-industry cooperation, giving priority to research meeting the needs of the industry. TUBITAK and the participating firms jointly fund the centres. Currently there are six centres in operation.

The purposes of the programme are:

- To utilize resources in areas of research adopted by the industrialists in such a way as to encourage cooperation between universities and industry
- To direct research being carried out at universities toward industrial and technological developments, thus achieving accumulation of information in these areas
- To educate and train graduates in areas of industrial research
- To increase the research potential of the university by employing mostly Masters or PhD students at the Centre, and
- To ensure sustainability for cooperation between universities and industry by creating centres which can become self-sufficient with funds obtained from industrialists and other sources.

4.4. Halk Bank and KGF (Credit Guarantee Fund)

Halk Bank, a state bank became the main supporting bank for SMEs by making loans available at low interest rates and under conditions that take into account the size of the enterprise. There are favourable conditions for women and young entrepreneurs. Halk Bank also provides loans from international funds such as the German KFW Incentive Fund, and funds allocated by the World Bank for specific purposes.

Halk Bank holds the guarantee liability fund for guarantees issued by the Credit Guarantee Fund (KGF), which was established in 1991, though it granted its earliest guarantee on 1st July, 1994. KGF is a

Table 5. **Distribution of Halk Bank Loans**

Year	Fund Number	Million Euro	Industrial Number	Million Euro
1999	-	686	26074	172
2000	-	742	26849	153
2001	37492	560	14191	26
2002	33567	19	18873	72

Source: Halk Bank (Adapted)

joint stock company with 6 public and semi-public institutional shareholders (TOBB, TESK, TOSYOV, MEKSA, KOSGEB & HALKBANK) offering guarantees to small and medium enterprises for up to 70% or 80% of the loan depending on the size of the loan.

Table 6. **Distribution of SME Incentive Certificates by Year**
(adapted from Turkish Treasury Data April 2003)

Year	SMEs	Investment Loans Million Euro	Working capital loans Million Euro	Total Loans Million Euro	Fixed Investment	Employment
1997	1,550	92	18	110	176	14,974
1998	1,171	54	13	67	114	12,117
1999	1,695	58	38	96	131	10,222
2000	1,229	38	26	64	85	5,587
2001	246	4	3	7	14	674
2002	390	14	6	20	46	1,498
2003	147	6	2	8	20	517

Tables 5 and 6 show a marked decrease in loans and investment in SMEs (from an initially low base pre 2000) to exceptionally low levels from 2001 to the present date indicating the severe impact of the 2001 economic crisis.

Halk Bank has diversified into more commercial areas and is slated for privatisation in the near term. It is doubtful that the bank now fulfils its original objectives. Also KGF only guaranteed credits for loans in cooperation with Halk Bank at the outset under the conditions in table 7.

Table 7. **Credit Guarantee Conditions**

Membership of TOBB or TESK
Fewer than 250 employees
80% guarantee up to Euro 200,000 maximum
70% guarantee over Euro 200,000 up to Euro 400,000 maximum
8 year maturity maximum
Fee 3% pa
Reduced to 2 % pa for non cash credits

However, KGF has recently (November 2004) entered into an agreement with the European Investment Fund (EIF) to benefit from the Multi Annual Programme – SME Guarantee Facility. EIF and KGF will share the credit risk equally for investment loans of duration 3 or more years to SMEs employing less than 100 people. This agreement is expected to make Euro 14 million of credit available for investments before the end of 2006.

This agreement should also help to widen access to credit guarantees and banking facilities for SMEs through the private banking sector in line with good practice in other countries.

Box 2. Small Business Loan Guarantee Scheme, United Kingdom.[15]

The Small Firms Loan Guarantee Scheme is operated by the Small Business Service, SBS (the UK Government Agency responsible for providing support to small businesses). It guarantees loans from banks and other financial institutions for small firms that have viable business proposals but who have tried and failed to get a conventional loan because of a lack of security.

Loans are available for periods of between two and ten years, in sums from £5,000 to £100,000 (£250,000 if the business has been trading for more than two years). SBS guarantees 70% of the loan (85% if the business has been trading for more than two years). In return for the guarantee, the borrower pays SBS a premium of 2% per year on the outstanding amount of the loan. The commercial aspects of the loan are matters between the borrower and the lender. To be eligible the business must be a UK company with an annual turnover no more than £3 million (£5 million if it is a manufacturing business). Loans are available for most business purposes although there are some restrictions. Loans are also available to eligible businesses involved in exporting, but the loans cannot be used to reduce the cost of products, or the cost of exporting. Applications are made direct to one of the lenders that participate in the Scheme.

5. Comments on the Turkish System of Support for Dynamic Small and Medium Enterprises (dSMEs)

The preceding section indicates that the support of dynamic small and medium enterprises (dSMEs) in Turkey has been delegated to KOSGEB, TTGV and TUBITAK who have sought out and installed many good practices. However, the extent of penetration of these programmes into small firms, in particular firms other than those engaged in manufacturing, and their overall effectiveness have yet to be properly evaluated by any external bodies. It should also be noted that dynamism and innovation are not limited to manufacturing; dynamism and innovation in service, retail and tourism are equally important to a healthy modern economy. These sectors are not generally included in the supports for business provided by KOSGEB, etc. The relatively low penetration may partly be due to the newness of some of the support schemes and the relatively small number of projects completed so far in relation to the overall size of the sector. There remains a perception of overly heavy bureaucracy and of some reluctance to make the operation of the support application and processes fully transparent.

This is exacerbated by a gap in the gathering and analysis of data to measure the effectiveness of these programmes. The SPO Turkish Action Plan identifies the need to develop a statistical database for SMEs and to harmonise definitions and the gathering of data with EU norms. Turkey has yet to install an effective monitoring and evaluation system which is independent of the service delivery.

In developing its programmes to support dSMEs Turkey will need to be able to answer such questions as: what are the perceptions in industry and among taxpayers, how effective are the programmes, where are the major gaps? Is there a general awareness of the programmes or are they limited to a select few? Are the supports too prescriptive and overly controlled? Is enough done to give entrepreneurs the incentive to grow business in the formal economy while providing sufficient freedom of action?

In recent decades, banking services for SMEs in Turkey appear to have been provided largely by Halk Bank. During the period of high inflation private sector banking found lending to the State and related entities to be a more secure business than offering services for the SME sector. However, as the economy stabilises, private banks should come to see that services to SMEs, and in particular to innovative and dynamic enterprises can also generate good business; there is evidence that this is now beginning to happen.

In the detailed consultations that the OECD and the Istanbul Stock Exchange undertook representatives of the dynamic small enterprise sector identified weaknesses in the existing system of support for SMEs as in the Table 8:

Table 8. **Weaknesses in the System of Support for Dynamic Small and Medium Enterprises Identified by Private Sector Representatives in Turkey**

Insufficient support mechanisms	Rigid eligibility criteria. Most SMEs fall outside the scope of existing support mechanisms
Information on support mechanisms not available	Although much information exists at different support establishments, it is only available through personal contact and the Internet, which for the majority only offers slow, unreliable connection as yet.
Unable to benefit from supports even when known about	Insufficient knowledge of how to apply for the benefit. Concern that business ideas will be stolen. Unable to utilise consultancy (because of cost of consultation relative to the size of enterprise).
Unable to obtain bank loans	Non-transparency. Poor accounting and auditing. High-risk premiums. Insufficient collateral. Cronyism. Reluctance of banks to fund cash flow in SMEs.
Unable to obtain equity financing	Non-transparency. Low number of private equity funds. Low number of venture capital funds. Uninformed on the SME markets of stock exchange. Low amount of institutional savings.
Taxation too high to allow build up of capital	High corporation taxes. High taxes on dividends. Choice between tax evasion by non-transparency and ability to accumulate capital compounded by high penalties.

According to the World Bank[14] Turkey does not have a tax integration structure to avoid the double taxation of income earned from equity investments (dividends and capital gains). Tax integration structures are important to prevent such double taxation. With a corporate tax rate of 33% and a personal tax rate of 45%, this can yield a total tax rate of up to 63% on fully distributed income from equity investments.

Universities are being encouraged to engage in innovation and entrepreneurship particularly in the Technology Development Zones, Technoparks, and in Technology Incubators. However, the property aspects of these projects are tending to predominate over the innovation objectives in these early times. This is unfortunate but not unusual. Many science parks and Innovation Centres in Europe found it was necessary in practice to put "real estate" business objectives ahead of economic development aims until they had achieved commercial viability and only then to revert to the aim of promoting and prioritising innovation.

There is an understandable pressure to solve the problems of support by direct intervention, for example in the complex certification system for loans in Turkey. It should be apparent that in the long term stimulating a vibrant private sector provision of services brings the double benefit of competitive supply for SMEs and the generation of a new economic sector in business services.

All the recent reports identify stability to be key in creating an environment for economic growth in Turkey, whose potential for substantial growth is unquestionable. According to the OECD[15], economic growth in Turkey has been caught in a vicious circle by three traps: low confidence in political and macroeconomic stability, poor governance and shortcomings in government funded services, and a (resulting, to avoid punitive taxes) weight of business, almost half of all employment, outside the formal system.

In the OECD/ISE discussions two key principles emerged, the principles of good governance and of ready access to high quality information. These were considered fundamental to any framework for the support of dSMEs.

Transparency and good corporate governance are recognised to be the cornerstones of a healthy and competitive economy that is able to interact fully in world commercial and financial markets. World markets and global investors expect that enterprises that are ambitious for growth, that need to attract financial and other support, will operate in a fair and transparent way. Family ownership and the misconception and lack of clarity of the benefits of private equity and of operating through the formal financial markets have lead to reluctance to cede any aspect of control. Lack of knowledge or recognition of good governance exacerbates the problem. A detailed discussion of the role of private equity for dSMEs follows in section 11; however, the comments (Box 3, below) of a senior manager of a corporate finance firm serve to highlight the reasons for poor penetration of private equity in Turkey.

Box 3. Reasons for Poor Penetration of Private Equity in Turkey

"Lack of effective corporate governance, management information systems, and management accounting standards. Ownership and management are intermingled.

Different sets of accounting books are kept for tax, banking, and management purposes.

In certain industries a proportion of sales are unregistered.

It is hard to evaluate past performance of companies due to high inflation, volatility, poor bookkeeping, and inter-company transactions."

The reluctance of Turkish small and medium enterprises to enter the formal system is of major concern. It is due to a combination of factors that includes the history of political and macroeconomic instability, an unstable and unpredictable corporation tax system with high effective rates of tax and social security for full time employees, and a lack of confidence that the formal system will deliver compensating benefits.

To be clear about the benefits of operating in an open and transparent way within the formal system an essential component is to ensure that relevant information and advice is readily accessible to the enterprises. It is not clear that, in the past, agencies and intermediary organisations in Turkey have acted to ensure that fast and easy access to a range of advice and consultancy services and that a ready flow of high quality information is made available to all SMEs at affordable cost.

The 2004 Turkish SME Strategy and Action Plan - SPO identifies the need to improve the Turkish system of support for SMEs under 10 fields of strategy. The framework of support for the dynamic small enterprise presented in the following chapter is amplified by discussion based on good practices drawn from other countries. This framework is intended to complement and expand on the topics that have been outlined in the SPO's SME Action Plan.

NOTES

2. Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the regions, http://europa.eu.int/comm/regional_policy/innovation/pdf/library/lisbon_strategy.pdf

3. http://europa.eu.int/comm/enterprise/enterprise_policy/sme_definition/index_en.htm

4. http://publicforuminstitute.org/nde/

5. EM5765/03 COM(03) 27 - European Commission Green Paper: Entrepreneurship in Europe

6. For a detailed analysis see "High-Growth SMEs and Employment", OECD, 2002. The results found here show that about 8-10% of the population of growing companies were characterised as high-growth.

7. Source USA National Dialogue on Entrepreneurship (NDE) News 12/11/2004

8. Source www.die.gov.tr/ - The Result of Technological Innovation Activity Survey in Service Sector, published 27/01/2004 and The Result of Technological Innovation Activity Survey in Manufacturing Industry third Quarter 2003 published 6/01/2004.

9. SME Strategy and Action Plan, Prime Ministry State Planning Organisation of Turkey, January 2004

10. see "Charter Implementation Report 2003, http://europa.eu.int/comm/enterprise/enlargemtn/charter/index.htm and European Charter for Small Enterprises http://europa.eu.int/comm/enterprise/enterprise_policy/charter/index.htm

11. www.kosgeb.gov.tr

12. www.eureka.be

13. www.dti.gov.uk

14. World Bank Country Study Chapter 4 Developing Securities Markets pp. 53-54

15. OECD Economic Survey - Turkey 2004

Chapter 2

THE FRAMEWORK

In this chapter a framework for the support and development of dynamic small and medium enterprises is described. It draws heavily from both the current Turkish experience and recognised good practices in other countries. Table 9 lists the key components of the framework. Sections 1 to 4 of the chapter follow the order as listed in the table. Good practice examples are highlighted in the boxes.

Table 9. **Key Components of a Framework for the Support and Encouragement of dSMEs**

Policies	Practices
Regulation and Law	A voice for SMEs in Government
Company specific	A strong formal sector Governance Insolvency provisions Minority shareholder protection Intellectual property clearly defined
State Aids	Private/public partnership
Infrastructure	Competitive supplies
Culture and Talent	Entrepreneurship is valued Education and Training Innovation Strategy Technology Strategy
Supports and Services	Business friendly administration Access to information
Education and Industry Interface	Technology transfer Business incubation Consultants, Mentors & Professional services Networks and Clusters
Finance and Taxation	Financing Ladder Business Angels Venture Capital Institutional savings Exit vehicles

Two key principles, the principles of good governance and the right to have ready access to high quality information, emerged throughout the ISE/OECD seminars and discussions. The former is bound up with the problems of Turkey's large unregulated and informal economy while the latter points to the nature of relationships between entrepreneurs and the administration. See the discussion in the Company Specific section of the overall framework below. An over-riding aim should be to encourage an open and transparent business environment in which dSMEs can grow and thrive. This may be achievable by enforcement but is more likely to succeed through a process of education & public awareness and appropriate encouragement & incentives.

1. Regulation and Law

Dynamic SMEs lead the way in job creation and economic development. A great many aspects of national policy impinge on the development of dSMEs. A broad range of mutually supportive policies is needed to create an environment that is conducive to entrepreneurship and the establishment and growth of dSMEs.

These include sound fiscal and monetary policies to maintain a stable macroeconomic environment and structural policies to determine the economic framework in which a business operates.[16]

Box 4. USA President's Small Business Agenda[17]

Every new business starts with an idea for a better product or process. These ideas become reality only when confident entrepreneurs are willing to take economic risks. Small businesses are the heart of the American economy because they drive innovation – new firms are established on the very premise that they can do a better job. For innovative small businesses, adequate performance is never good enough and excellence is an endless pursuit. These dynamic companies also drive the job creation process. In fact, small and young companies create two thirds of the net new jobs in our economy, and they employ half of all private-sector workers. Entrepreneurship has become the path to prosperity for many Americans, including minorities and women.

The role of government is not to create wealth, but to create an environment where entrepreneurs can flourish. The President believes that low taxes and clear, sensible regulations are essential to helping all 25 million small businesses in America. Equally important, the President believes we must work to ensure that employees of small businesses have access to high-quality health care and reliable pensions. And for those small businesses that deal with the federal government, the contracting process should be fair, open, and straightforward.[18]

1.1. A Voice for SMEs in Government

It is easier for large corporate enterprises to interact with governments than it is for small enterprises to make their needs and interest known and legislation can sometime inadvertently create barriers to small business success. Some governments have addressed this problem by setting up an agency specifically to represent and safeguard the interest of small businesses. Some appoint a respected business manager to lead such an agency. For example the Small Business Administration in the USA has the mission to "***maintain and strengthen the nation's economy by aiding, counseling, assisting and protecting the interest of small businesses… facilitate the environment necessary for America's small businesses to succeed, measuring performance by small business success.***" Both the Administrator and Deputy Administrator of the SBA appointed by President Bush have substantial track records as business entrepreneurs. Similarly a Chief Executive recruited from the business sector heads the Small Business Service in the UK.

Box 5: Small Business Service in the United Kingdom

Mission Statement

The Small Business Service (SBS) is an agency of the Department of Trade and Industry. We have a simple vision - we want the UK to be the best place in the world to start and grow a business. We are working with the rest of government to deliver this vision.

We aim to:

Champion a culture that prizes and fosters enterprise, and help businesses start and develop as their capabilities grow.

Make sure that government support services (including access to finance) are accessible, relevant and of high quality. Make special efforts to release the enterprise of ethnic minority groups, women entrepreneurs and others who have such potential to contribute to UK business.

Our Chief Executive … works closely with the Parliamentary Under-Secretary of State for Small Business.

The SBS Strategy Board advises Ministers on our targets and performance and supports the Executive Team of the SBS.

The Small Business Council (SBC) … advises on the concerns of small businesses and reports on the effects that government policy has on them.

Table 10 highlights the key points on the nature of dialogue.

Table 10. **The Nature of Dialogue**

Inefficient	Efficient
Individual cases	Clusters
Ad hoc complaints	Comprehensive vision
Operational level	Strategy
Laundry lists	Priorities
Anecdotal evidence	Data and analysis
Concessions	Shared responsibility
Conflict	Partnership

Source: Kenneth Lanza, Director Europe, USAID, during the Conference on Entrepreneurship and Employment in South East Europe, Bucharest 2004.

There is a perception that Turkey is too often working on the left side of table 10. It would be part of a business champion's role to build and promote the case for dSMEs in Turkey.

It would be part of the responsibilities of a business champion with access to Ministers supported by a department for SMEs, such as KOSGEB, to redress the balance by efficiently building and promoting the case for SMEs.

A business champion for SMEs should:

- Have ready access to government ministers.
- Demonstrate a personal track record of entrepreneurial and SME business success.
- Demonstrate an understanding and deep concern for the SME sector.
- Have the respect of the SME community.
- Head up an agency offering support to SMEs (such as KOSGEB).
- Be able to articulate and promote the case for SMEs.

1.2. Company Specific Policies

1.2.1. *Encouraging registration and the formal sector*

Overbearing bureaucracy, regulatory and administrative burdens, complex corporate taxation and social security regimes impinge negatively on enterprises. Indeed, these may drive enterprises into the informal sector in the attempt to avoid such burdens. This appears to be the case presently in Turkey, where 37% of private sector employment, excluding agriculture, is estimated to be unregistered[19]. Not only does this introduce competitive imbalances between the formal and informal sectors but it also reinforces a low value added, low wage economy. The costs of registering form a trap for unregistered activities which tends to entrench many small enterprises in the low productivity sector.

While enforcement clearly must play a part in bringing unregistered enterprise into the formal economy, it is also important to clearly demonstrate the benefits for individuals and enterprises to register, for example in access to state aids, business supports for technology and export, high quality information and networks and indeed in recourse to the judicial system to protect commercial interests and intellectual property rights. A period of amnesty for enterprises to register, for example at a reduced rate of corporate taxes, could prove effective.

In an official communication to the Istanbul Stock Exchange in response to their inquiries, the Turkish Ministry of Finance confirmed that in 2002 the proportion of corporation tax was 9.5% of the total tax income and that 585,981 companies were liable for corporate tax. Of this total corporate tax income, below are the percentage figures of corporate tax paid by Turkish companies:

- the first 10 pay 33.2% (that is the 10 largest Turkish corporate tax payers)
- the first 100 pay 55.6%

- the first 500 pay 70.4%
- the first 1000 pay 75.52%

Box 6. The Vicious Circle of Non-registration[20]

Enterprises, that pay taxes in full, compete with other enterprises that evade taxes and thus have lower direct costs. In an economy without effective tax discipline, success in evading taxes without being caught becomes a major determinant of business success, diverting management from genuinely productive activity.

Informality hampers productivity in various ways. Business needs to operate in a framework of property rights and enforcement of contracts, which is often not available in the informal economy. In EU accession countries, "***informality comes at a cost too -this includes the need to stay small, uncertainty about prospects for the future, the absence of safety nets, the inability to tap formal credit channels and, more generally, the various types of* SME *assistance programmes available to the private sector***" (Belev, 2003).

Low tax receipts lead to pressure to raise tax rates. This, in turn, reinforces the incentive to move activities into the informal sector, leading to a vicious circle. "***The vicious circle of high tax and regulation burdens causes growth of the shadow economy, additional pressure on public finance resulting in higher tax rates, which, in turn, increases the incentives to evade taxes and to escape in the shadow economy and so on***" (Enste, 2003); "***The informal economy -dodging taxes and social contributions while taking advantage of public goods and services -increases the budget deficit and is an immediate cause of higher taxes and social contributions which are a heavy burden on lawful activities***" (Marc and Kudatgobilik, 2003); "***Black activities... [undermine] the tax base, which, ceteris paribus, means that an unchanged level of public expenditure will necessitate higher taxes...nobody wants to be 'the last idiot in the street' who keeps on paying his taxes regardless of the fact that everyone else is cheating***" (Pedersen, 1999).

The clear implication is that the majority of institutions, that is the smaller firms, generate less than 2.5% of the total tax income and suggests that for a time the tax rate for small and medium enterprises could be substantially reduced incurring at once only low cost penalty but with a goal of eventually bringing all enterprise into the formal fiscal system.

1.2.2. *Governance*

In a globally competitive environment the need for open, honest and transparent management of enterprise becomes increasingly apparent. In the world at large the case of some large corporations has come

Box 7. White Paper on Corporate Governance in South East Europe[21]

The OECD and the World Bank Group have combined their efforts to create and support Roundtables on Corporate Governance where national policy-makers, regulators and market participants can share experiences and debate corporate governance policies and reform. Today, such Roundtables meet in Russia, Asia, Eurasia, Latin America and South East Europe.

The Roundtables address both general corporate governance issues, and matters of specific concern to their respective regions. Each Roundtable employs the OECD Principles of Corporate Governance as a framework for developing a regional white paper or comparative paper on corporate governance. The Roundtables have helped to increase awareness, identify areas where reform is needed and build solid regional coalitions for that reform. They have also contributed to building capacities, especially in the area of enforcement.

The South East Europe Corporate Governance Roundtable has enjoyed strong, high level support from the governments and market participants in the region. An outgrowth of its debates is this White Paper on Corporate Governance in South East Europe. The White Paper features a unique set of recommendations to improve corporate governance practices and the supporting institutional framework in South East Europe.

under public scrutiny and disapprobation in recent times and rightly so since to a large extent they set the example. Dynamic enterprises dSMEs with ambition to grow will soon need to interface with international commerce for competition, collaboration and investment. By adopting and promoting international standards of reporting and behaviour governments arm their enterprises with the characteristics needed to compete internationally.

Much is achieved through sound accounting and auditing practice. The International Accounting Standards Board is currently addressing the problem of appropriate standards for SMEs.

Box 8. Statement by IASB Chairman June 2004[22]

"In most countries, many or even all entities have a legal obligation to prepare financial statements that conform to a required set of accounting principles that are generally accepted in that country. Those statutory financial statements are normally filed with a government agency and are available to creditors, suppliers, employees, government and others. The great majority of those entities are small or medium-sized entities—no matter how you define 'small' or 'medium-sized'. Few countries require those entities to prepare financial statements that comply with the full requirements of the IASB's standards developed primarily for use in international capital markets. Consequently the IASB is looking for ways to simplify its standards for use by SMEs. At the same time, it will take care to adhere to the basic concepts that underlie those standards."

Those concepts include the reporting annually of independently audited basic company data. This could be further facilitated by the mandated use of business bank accounts for company transactions including payroll accounts as well as all transactions in the working capital of a company. See also section 3.2 below.

1.2.3. *Insolvency*

In a dynamic and fast growing economy it is natural to experience some failures. Honest failures could occur for example due to the application of a new technology that fails to realise the market promise that had been envisaged by an entrepreneur despite their best endeavours or perhaps is overtaken by other technology that provides a marketing advantage. The consequences of failure can be a serious barrier to entrepreneurship especially in a community, which is intolerant of failure and exacts a high price in social stigma and loss of status from the responsible individuals. Building and managing a successful business is a skill but it is also influenced by circumstances and luck. Entrepreneurs may learn business skills in courses run by various institutions and by working for others but at the end they hone the necessary skills in practice in their own business. Some investors say that an entrepreneur who has experienced failure is more likely to be successful the second time around. In any event, regulations regarding insolvency, whilst needing to protect vulnerable parties such as suppliers and customers, should also mitigate the consequences for those entrepreneurs whose business failure can be seen to have been due in the end to circumstances which were beyond their control.

1.2.4. *Protection for Minority Shareholders*

Investments in dSMEs, including investment as both private equity and formal venture capital, are often made as a minority shareholding, often as a mix of ordinary and convertible preference shares. The point is that generally investors prefer not to be in control in the sense of outright or majority ownership. Nevertheless their rights as minority shareholders to be consulted, to receive proper and regular information, to benefit from pre-emption agreements, to nominate board members, and so forth, will be of serious concern to them when deciding whether or not to invest in a dSME. Poorly regulated protection of minority shareholding will act as a major barrier to investment in dynamic and innovative firms. The Capital Markets Board of Turkey (CMB) published a set of guiding principles on corporate governance in 2003, which mainly address publicly held joint stock companies but clearly also set standards for all others to follow. However,

this does not emphasize the rights (listed above) that would support and encourage minority shareholders in dSMEs.

1.2.5. *Intellectual Property* (IP)

The protection of inventions, designs, copyright and trademarks, is another important area of regulation which is crucial to the successful growth of the dSME sector. Often the only asset in a dSME start-up situation is its intellectual property. To make this asset tangible requires state intervention in the form of patents and other legal instruments. Once these "rights" are properly established they form assets that the dSME can use as collateral to raise working capital and to win investment.

Box 9. Legally Defined Intellectual Property Rights in the United Kingdom

Protection	Scope	Property Right	Conditions	Time Period
Copyright	Creative works: 2-dimensional materials, sound, video, film, computer code	• arises automatically • is free • belongs to the originator unless assigned		70 years after the death of the author
Design Right	Shape and configuration of 3-dimensional articles	• arises automatically • is free		5 years
Registered Design	Outward appearance of an article	• must be registered • typically takes 6 months from application	• must be novel • must not have been publicly disclosed	5 years, can be renewed in 5 year blocks
Trade Marks	Graphical signs or packaging which distinguishes goods or services	• must be registered • typically takes 18 months from application	• can already be in use	10 years, can be renewed every 10 years
Patents	Novel products or processes with industrial application	• must be registered in the country where protection is required • typically takes 3 years from application	• must be novel • must not have been publicly disclosed	20 years

Entrepreneurs feel particularly vulnerable in the very early stages of setting up their business. On the one hand they need to talk about their ideas with many different people from administrators of business and professional institutions to banks and investors and on the other they want to maintain secrecy until they are securely established. A form of protection such as a legally binding confidentiality agreement can assist in resolving this dilemma.

Several legal instruments have been constructed to protect IP. To use these, the individual or company first needs to define the idea or process and claim ownership of it. Ownership of IP is regulated by individual countries through legislation that confers rights on the registered owner for a period of time. For example, in the UK, patents, copyrights, design rights and trademarks are all defined and can be protected in law.

Once Intellectual Property Rights (IPR) have been established, most forms can be bought, sold, or licensed. This is particularly relevant with the use of patents. Patents are relatively the most expensive and most time-consuming form of IP protection. However, they are also the most comprehensive in terms of legal protection. The decision to use patents to protect IP is crucially dependent on the speed of technological change, the activities of competitors, the ease of reverse engineering, the ease of policing and the ability to pursue infringement.

In the dSME sector that depends on innovation arising from research and development that has been funded by the state, a further problem arises as to ownership of intellectual property. Clarity at the outset about who has the right to exploit and benefit from ideas leading to innovation will obviate the otherwise complex negotiations, which can delay commercialisation substantially. The significance of the Baye-Dole Act (1980) in the USA, the Thatcher government (1980s) removal of the state monopoly to exploit IPR in the UK and the Allegre Laws on Innovation (1999) in France cannot be over estimated. In each case these laws empower universities and other state funded research institutions and individuals employed in those institutions to exploit intellectual property and to retain the rewards of doing so.

No country, however highly it invests in its knowledge base, can generate all the IPR it may need to develop its economy. Most technologies will be acquired from elsewhere and conversely technologies developed within a country may find their major application in external markets. Thus, there will be benefit in adherence to international norms of IPR. Regrettably no global or even EU wide patent has yet emerged though there is considerable continuing effort to find a way of establishing a single EU patent that will cover all member countries.

Most countries have a patents office where information about individual patents can be accessed. This can avoid duplication of work and wasted expenditure but it can also be a source of useful ideas – not all IPR is already commercially exploited and a search of IPR databases can stimulate innovation.

Box 10. Access to IPR Databases in Germany[23]

INSTI (stimulating innovation in German industry by means of scientific and technical information), Germany.

The INSTI project is managed by the Institut der Deutschen Wirtschaft Köln (Institute of Industry and Commerce) and funded by the Federal Ministry of Education, Science, Research and Technology (BMBF).

One main objective is to increase the use of patent and scientific-technical databases in order to avoid duplicated work by two or more companies on the same new product, or wasted expenditure. The databases can also be used to find up-to-date information on technical development, and development in specific fields, check the general patent situation and analyse the market.

Inventors, SMEs and scientists are also encouraged to approach INSTI if they require specific patent information or training in using the patent databases. They can also receive information on the patent system, trademarks, and costs of patents and assessments of potential legal protection for new products.

If they want to bring new products to the national or international market or search for business opportunities and partners they can use the "INSTI-Innovationsbörse", an electronic database run by The Business GmbH, one of the INSTI Partners. The can also share experiences with other innovators through the INSTI Inventors Clubs.

In Germany, the INSTI federal scheme aims to increase knowledge of the patent system so as to accelerate the conversion of research and development results into marketable products. It operates a searchable patents database and also provides information and training on legal protection for new products.

1.3. State Aids

Most governments step in to compensate for market failure, to give incentives for new modes of behaviour in commerce, industry and the professions, to introduce new ways of building the economy. The underlying objective is usually to intervene for a limited period of time until market conditions obviate the need for further intervention. The intervention aims to stimulate private sector involvement. This is often best achieved through public/private partnerships where the State either mitigates the commercial risk or buys specified services for the target enterprises.

Grants for the growing business are one form of state aid. They may be available on a national or international basis, for all early stage businesses or targeted at particular sectors.

In order to attract funding, or even gain an audience with potential investors, SMEs have to demonstrate the credibility and robustness of their proposal. For example, not only must the product or process be shown to be technically sound, and the intellectual property legally defensible, but there must also be a definite and quantifiable market for the product or process. This "due diligence" often requires a significant amount of research, planning, and administration, which can be a heavy overhead for an SME with limited time or financial resources

Government initiatives, such as the UK SMART scheme, have been used to address these issues on two fronts. First, through the provision of grants at a level below the realm of traditional venture finance, and second, through the indirect "badge of credibility" that these awards give, which enables SMEs to attract further funding.

Box 11. SMART Award United Kingdom

Small Firms Merit Awards for Research & Technology (SMART), United Kingdom.[24]

SMART, a scheme run by the UK Small Business Service, awarded grants to individuals and SMEs to develop technologically innovative products or processes. The awards are banded, with a typical award being £45,000 for a feasibility study and up to £150,000 for a demonstration project. Exceptional awards of up to £450,000 are sometimes made. The recipients of these grants had to demonstrate that their proposals were both technically novel, and had a clear market focus. In this way, the UK government influences and assists some SMEs towards being at the leading edge of technology and towards a focus on bringing innovations to commercial profitability.

SMART became a well-known brand in the UK, but with a reputation for having a rigorous application process. This means that in addition to the direct resource benefits of receiving a SMART award, SMEs were then in a stronger position to apply for further funding since they were able to demonstrate that a certain level of 'due diligence' had been done.

Another important example comes from the USA, where the Small Business Investment Company Programme (SBIC) is a tool used by federal government to actively involve the venture capital sector in funding small and medium enterprises.

Box 12. Small Business Investment Company Programme (SBIC)[25]

This is a programme run in the US by the Small Business Administration. Established in 1958, the programme aims to help small businesses access equity finance at a level traditionally lower than the realm of venture capitalists. This is accomplished through the licensing of private investment companies. Funds of between $15m and $100m are lent at favourable rates from the federal government to the SBIC licensed investment company, which must be matched by a minimum of $5m from other private sources. The profit-motivated SBIC then takes equity, or offers long-term loans, to innovative SMEs, and offers additional management support as needed. Tax revenue arising from successful investments by the SBICs more than covers the costs of the programme.

1.4. Infrastructure

The accessibility of efficient modes of transport internally and internationally is undoubtedly one of the factors for success of business. Reliable, uniformly and fairly priced utilities are also influential factors. Many countries have sought to achieve this supportive infrastructure by privatising the generation and supply of utilities and ensuring that there is competition among suppliers. In the 21st Century it may be that the information and communication flows that are facilitated by information technology (IT) will prove to be the most important factor for economic growth and global business. At present this implies the need for access to broadband and low cost computing for all enterprise – and also in order to generate a computer literate workforce for the future, access to the Internet and its use across the curriculum in schools.

Summing Up

Regulation and Law

1. Encourage the development of institutional structures and private sector organisations to effectively represent the SME's interest (e.g. appoint a Small Business Champion).
2. Promote the integration of SMEs into the formal economy.
3. Encourage SMEs to follow sound accounting procedures, in conformity with international standards.
4. While protecting employees, suppliers, and customers insolvency laws should not impose harsh consequences on entrepreneurs in cases of honest failures.
5. Encourage the development of sound governance practices for SMEs including the protection of minority shareholders.
6. Review the laws and procedures governing intellectual property and facilitate SME access to Intellectual Property Rights (IPR) data bases.

2. Culture and Talent

The culture of a country determines the extent to which the latent talents of its peoples are drawn out and encouraged or suppressed. Similarly the success of a dSME sector in an economy is influenced by the way in which the prevailing culture deals with entrepreneurship, innovation and technology. These are the key facets that drive dynamism in the economy. They are strongly interrelated and many overlapping issues occur; however, there is merit in considering them independently in order to ensure that an overall strategy to build dynamic and medium enterprises (dSMEs) in the economy covers all issues.

2.1. Entrepreneurship

Entrepreneurs are people who take personal risks to create businesses – they spot business opportunities and act to realise the benefits. Entrepreneurs are not usually conventional business managers and vice versa. Entrepreneurs can be but do not need to be the primary innovators, who conceive of and implement new ideas. Entrepreneurs provide the impetus in nearly all business start-ups. They weigh the risks and hardships

of starting out in business, including the stigma of failure, forfeiting their security of employment and associated welfare benefits, and the demands on leisure time, against the potential rewards of wealth creation and the satisfaction gained from growing their own business ventures. Some entrepreneurs build a company to the stage where they can realise their investment in it, via a sale or other means, then build another company, and another, and so on. These "serial entrepreneurs" rarely become part of the long term, operations team within a company; they get satisfaction out of the business creation process and seek to repeat the experience. Serial entrepreneurs may also invest some of their personal wealth in other start-ups, assuming the role of "business angels" who provide equity finance so that the dSMEs in which they invest are able to develop to the point where they can attract venture capital finance.

Many societies are wary of entrepreneurs because of the risk-taking aspects that they represent. If an entrepreneur's business fails, it may hurt stakeholders such as customers, investors, suppliers and employees. On the other hand, successful entrepreneurs are often highly regarded for the employment and economic wealth that they create. Many countries have examples of successful entrepreneurs that have subsequently become renowned philanthropists, giving generously to the societies where their businesses developed and matured. They also serve as powerful role models for the next generation of potential entrepreneurs. Some people believe that entrepreneurs are born and not made. It is true that some individuals do seem to possess an innate capacity that makes them more adept at entrepreneurship. However, as with other latent talents, it is increasingly recognised that the culture of the society people operate within can also play a major role in determining whether they will become entrepreneurs.

The education system can serve to reinforce the message that entrepreneurs are valuable, and valued, members of society. It is an important conduit to change attitudes. Many universities and business schools across Europe now offer entrepreneurship courses, as part of their degree programmes, and entrepreneurship is increasingly becoming part of the curriculum in primary and secondary schools.

Schemes such as Young Enterprise in the UK promote a vision ***"that all young people will have the opportunity to gain personal experience of how business works, understand the role that it plays in providing employment and creating prosperity, and be inspired to improve their own prospects and the competitiveness of the* UK".**

Box 13. Young Enterprise, United Kingdom.[26]

Young Enterprise is a national education charity whose mission is to inspire and equip young people to learn through enterprise. It was founded in 1963 by the late Sir Walter Salomon, based on the American Junior Achievement Programmes, which he observed whilst visiting the US. Sir Walter recognised the need to balance classroom learning with a practical education in business and commerce. Young Enterprise currently operates six different programmes, for age groups from 5 to 25 years old. The participating students work in teams to set up and run their own businesses, which sell products that they make. The students learn about business structure and operations and the businesses compete against each other for an annual award, before being liquidated by their founders. Young Enterprise currently involves over 76,000 students, 2,600 schools, colleges and universities and 11,000 volunteers from business, with an additional 2,000 businesses providing funding support.

Genc Basari[27] represents Turkey as a member of the European Junior Achievement movement (JA-YE)[28], which promotes young enterprise principles in Europe. It is currently undergoing some restructuring and clearly has the opportunity to contribute to the major challenges facing Turkey in the longer term.

Turkey has not yet participated in international assessments of entrepreneurship such as that carried out by the Global Entrepreneurship Monitor. However during 2002, TUSIAD commissioned work at Sabanci University to provide a critical assessment of entrepreneurship in Turkey making comparisons with international data across a range of issues; see Box 13.

Box 14. Extract from Entrepreneurship in Turkey[29]

In terms of social, cultural and political environment:

- Most of the entrepreneurs believe that the public perceives entrepreneurs as opportunistic people. However, survey results show that people wish to be entrepreneurs in Turkey. In addition, managers in Turkey see themselves as more entrepreneurial than managers in South Africa and Mexico.
- Turkish people appreciate 'statism' in the economy. The number of people saying that ownership of SMEs should be publicly held has been more than the number of people saying it should be privately held. A similar result is observed in the attitude towards the responsibility of an individual being either to the individual himself/herself or to the public.
- Though competition is perceived as a good thing in general, the number of people thinking competition as a bad thing is at the highest level in Turkey among compared countries.
- While choosing a job, people in Turkey are risk-averse.
- Even though being risk-averse, Turkish people show better performance than English, South Korean and Mexican people in terms of their approach to hard work and innovation.
- Turkish people do not expect a long-term positive economic effect from basic research. Neither the cooperation among industries nor the cooperation between universities and private sector is well developed in Turkey.

In terms of incentives and support mechanisms:

- No governmental strategy exists for the development of entrepreneurship.
- Education on entrepreneurship has been a very recent and quite limited phenomenon.
- Supporting institutions for entrepreneurs are quite limited. The existing ones do not have satisfactory human and capital resources.
- The number of consultancy firms serving entrepreneurs is very limited.
- The coverage of entrepreneurship in the popular media is lacking.
- There are a few awards for entrepreneurs but they are not enough to construct a cultural change that will appreciate entrepreneurs.

A healthy dSME sector is dependent on empowering the culture for enterprise and the recognition by all parts of the community of the importance of enterprise for its economic health. Talented and entrepreneurial people need to be valued by the community. Society should aim to develop entrepreneurs, to hone their skills and to encourage them to act in an open and transparent way. Policies to influence and develop an entrepreneurial culture include:

- Raising public awareness through public relations and the media.
- Education and training for entrepreneurship from early education onwards.
- Incentives and supports specifically targeted to entrepreneurs.

2.2. Education and Training

Turkey's plans to address education and training for entrepreneurship[30], which include adding entrepreneurship into the high school and university curricula and encouraging provision of training for entrepreneurs in a variety of ways including the use of IT and distance learning at an early stage.

Universities have a major role to play in the development of an innovative enterprising economy. They educate and train the people who are most likely to become successful entrepreneurs able to compete in the global knowledge based economies. The concepts of innovation and entrepreneurship can be taught at all levels in the education system and are relevant in all disciplines. Well-managed interaction between business and academia is beneficial to all parties, students, researchers and managers alike. Internship

programmes offer an excellent means to introduce bright students to the challenges of industry and for industry to sample at first hand potential future employees.

Box 15. Management Training

The OECD has conducted research on government supported SME management training schemes based on case studies in six OECD countries (Canada, Finland, Germany, Japan, the United Kingdom and United States). The following recommendations emerged for SME management training "best practice":

Governments should engage more systematically in programme evaluation.

Differentiate between training for start-ups and counselling for established SMEs.

Teach management skills such as flexibility and teamwork needed in the current business environment.

Target training to specific groups of managers, such as new entrepreneurs or exporters.

Provide training at local levels and reasonable times for small-firm managers.

Make greater use of electronic delivery of training through the Internet.

Foster entrepreneurship through the general educational system.

Source: Management Training for SMEs, OECD, 2002

Box 16. Knowledge Transfer Partnerships, United Kingdom[31]

The Teaching Company Scheme (TCS) is a UK government programme, and is a way in which it helps to build links between companies and higher education. It facilitates the placement of graduates from a UK Higher Education institution or research organisation in companies seeking to develop innovative projects, which are strategically important to their business. The graduates carrying out this work are supervised by staff from the company as well as their sending institution, with placements typically lasting two to three years.

The benefits for the sending institution include the development of business awareness by their staff, with a corresponding ability to relate research to business needs. The company also benefits through the relationships built up with research institutions, as well as the results of the work itself. For the graduates, building and demonstrating competence in commercially relevant areas are a key attraction. Typically around 70% are offered permanent positions in their 'host' company on completion of the programme.

TCS is funded by a grant to the higher education research institution, and the company also contributes towards costs. Government expenditure on TCS measured £18m in 2000, predominantly distributed through the Department of Trade and Industry and the UK Research Councils. This finance helped to place 703 graduates in that same year, with over half attached to small businesses.

In 2003 TCS was replaced by Knowledge Transfer Partnerships (KTP) which are managed under contract (i.e. commercially) to the Department of Trade and Industry by Momenta Ltd. The essence of the scheme remains the same.

High profile business awards and competitions can be an effective way to bring innovators, academics, and business and fund managers together. They also promote awareness among the public at large and help to build the culture for enterprise. A highly successful fair for entrepreneurs is run annually in Oxford in the UK. Venturefest[32] includes a major business competition, which is run by the Said Business School of the University of Oxford but also brings together all the local and national agencies that work to promote innovation and entrepreneurship in the area.

Summing up

Education

1. Develop education and training for innovation and enterprise.
2. Encourage universities to run entrepreneurship courses for students and for existing as well as potential entrepreneurs.
3. Develop entrepreneurship associations with universities.
4. Allow academics to provide services to SMEs whilst retaining an academic career.
5. Promote university internships at SMEs.

2.3. Innovation

Innovation occurs when an idea is applied in business to enhance productivity and profit. The idea may be simple, for example, a more efficient way of doing something in the business process. At the other extreme, it may be a cutting edge scientific discovery that has commercial applications. The essential point is that innovation is applicable to all businesses and, indeed, it should be a strategic imperative for them. Innovation is broader and more vital than just developments in technology; it is the process that maintains and enhances a business's competitive advantage and fuels its growth.

Innovators are creative people – people who introduce and implement new ideas. They are found at all levels in societies but particular concentrations of innovative people occur in the research and development departments of organisations in both the public and private sectors. These people are not necessarily risk takers (such as entrepreneurs) and they can be employed and managed in a systematic way. However, systematic management does not preclude the pursuit of individual interests and some of the world's most dramatic innovations have been triggered by curiosity driven scientific research.

A national strategy for innovation sets the framework in which both public and private agents may act in an integrated manner. A top-level innovation strategy identifies the role for different government agencies, and other organisations and intermediaries. A key part of innovation strategy is to build a scientific infrastructure, to determine the level of investment in the country's science base. Another important part of a national innovation strategy is a definition of the way intellectual property and know-how generated in state funded laboratories and universities may be developed, protected, and commercially exploited.

In Turkey "The Science and Technology Board", a body established in 1980, is the institution responsible for policy formation on science, technology and innovation. Its members are the prime minister and other ministers (Defence, Economy, Education, Health, Forests, Agriculture, Industry and Trade, Energy and Natural Resources), Head of YOK (The Institution of Higher Education), Head of State Planning Organization, Undersecretaries of Treasury and Foreign Trade, Head of TUBITAK and one of his assistants, Head of TAEK (Turkish Atomic Energy Institution), General Manager of Turkish Radio and Television, Head of The Union

Box 17. University Challenge Fund, United Kingdom[33]

In 1998 the UK government, together with the Wellcome Trust and the Gatsby Charitable Foundation, assembled a fund of £45m to assist universities in turning research projects into viable businesses.This fund has since been increased to £60m. It operates by enabling universities to establish seed funds of between £1m and £5m each, which can be used to invest up to £250,000 at a time into commercialisation projects. The funds aim to: allow winning universities ready access to seed-fund capital to turn the results of research into potential new businesses and/or products; catalyse the activity in seed funding of high technology, an area still not well served by the UK Venture Capital industry; educate UK universities in the investment process and bring the financial community closer to universities; and provide stimulus to entrepreneurial activities in the university sector.

of Chambers of Commerce and Industry, and one representative of the universities. Although this Board has made some resolutions towards the formation of a "National Innovation Strategy" the applications of these resolutions has not been very consistent and the work is ongoing.

An enterprise's capacity to generate or absorb and exploit innovation relies on the ability of the people it employs. Education and training are also keys to this issue and all that has been discussed in paragraph above applies equally to innovation. One aspect of enabling higher education institutions to develop and support an environment for innovation is providing finance that can be directed towards the funding of ideas with commercial potential. The University Challenge Fund in the UK provides a practical example of how such financial resources can be gathered, administered, and directed.

2.4. Technology

A national technology strategy may be separately defined. It identifies which technologies are important to the economy and how academic research departments and industry may interact to develop and apply new technologies. It implies a deep knowledge of the strengths and opportunities for Turkish enterprise and of how technologies could enhance Turkish competitiveness in international markets.

Box 18. The Example of Small Countries[34]

Much can be learned through the lens of small countries (such as Finland, Ireland, and Israel) that have often adapted policy from the leading exemplars. For example, Finland has separated technology and innovation policies into two semi-autonomous agencies of government TEKES (a national technology agency and Sitra the Finnish national fund for research and development). These have operated since the early 80s and Finland is regularly rated towards the top of international league tables for innovation and technology. TEKES supplements direct funding of science and technology with strategic funding of new technologies, helping to build an international technology property base for the future. Sitra recycles capital gains to exploit the resulting IP portfolio, working in particular with technology transfer companies located in science parks in Finland.

Few countries can be totally self-sufficient in technology so interaction with international sources of technology must also play an important part in the strategy. It also implies a level of educational achievement such that Turkish entrepreneurs are able to select, negotiate and acquire appropriate technologies in both national and international markets.

Access to and exchange of technology may also be facilitated through cross border cooperation of technoparks, which are represented for example on the International Association of Science Parks. DG Enterprise, part of the European Commission, in the PAXIS and Gate to Growth programmes is funding a number of studies to draw good practice and benchmarks from the regions. And much information is available through the Europa[35] web site.

3. Supports and Services for dSMEs

The OECD[36] has published a comprehensive description and commentary on current SME-specific policies in Turkey. An important question is 'why the services being supplied by government (including KOSGEB) are not more readily available in the private sector'. There is a danger that entrepreneurialism will be constrained by too prescriptive an approach to supports. There is no good reason to believe that any government has established a mechanism and a track record of successfully identifying which specific businesses to support. Nevertheless, governments can encourage dSMEs by simplifying administration, ensuring the availability of high quality information, promoting high standards and by mitigating risk. A service that government can usefully supply is to seek out and document examples of good practice and recognised benchmarks from other countries and make these available as part of the information service.

3.1. Business Friendly Administration and Regulation

Establishing the company:

Desirable improvements to the Turkish system for company start-up could include changes to: reduce over bearing bureaucracy and bureaucratic expenses; promote a sound business planning approach; and ensure good accounting practice.

The main components of a framework for establishing dSME are:

1. Simple procedure for business start-up.
2. Business planning.
3. Sound accounting and banking practice.
4. Protection of business ideas.
5. Business mentors and consultants.

There remains a perception that the process of setting up business in Turkey is overly bureaucratic. Although recently the Chambers of Commerce and Industry have streamlined their procedures, many stages and hurdles for the entrepreneur remain, which often take several weeks of effort to complete, and they are accompanied by relatively high fees and expenditures[37]. Motivated by the need to improve inward investment into Turkey, YASED[38] has already argued for key reforms to the procedures for the establishment of new companies, for example in proposing to reduce substantially the 19 phases covering a period of 2.5 months needed to establish a company in Turkey in the past.

A good test of bureaucracy is to ask whether the bureaucracy associated with the creation of enterprise provides encouragement and guidance. A sound system will lead entrepreneurs through the processes of business formation, help them to understand and prepare for the regulations that have to be met, and introduce them to recognised good practices. In other words the bureaucracy should act as a springboard for the creation of new enterprises, and not as a brake[39].

Box 19. The Business Plan

An early essential step in establishing a company is for the entrepreneur to get into a position where he can describe the proposed business to potential investors and other supporters. They will want to see how the business will use the funds, when it will break even, when it will turn to profit, how it will grow, and most importantly, how they will get their money back with interest. The entrepreneur will, therefore, develop a plan for the business and the business plan will be an essential tool in his search for investors and supporters.

The Business Plan typically opens with an executive summary and then has five distinct sections:

i) The description of the business sets out the business objectives, products, legal structure and location.
ii) The marketing plan identifies customers and competitors and includes pricing strategies and a plan for promoting and delivering products and services.
iii) The financial plan includes a budget for start-up costs and an operating budget with a balance sheet, an income statement and cash flow projections. It should also address the accounting system and inventory control system that the business will use.
iv) The management plan introduces the management team and relates their background or business experience to the new business. It will set out their duties and identify their strengths but it should also include plans to compensate for any lack of skills e.g. by hiring additional personnel. When listing current personnel needs and duties, the management plan should include the general terms of employment that will be offered (salaries, benefits, holidays etc).
v) Supporting financial statements and other documents.

The need for an entrepreneur to produce a business plan before establishing the enterprise is a good discipline; it forces the entrepreneur to consider all the factors that will be necessary to establish a sustainable growing business at the outset. It can serve many purposes. It may be used to support applications for funding or credits; it will guide how markets will be approached, how a management team will be established, and the facilities that will be needed, and so on. It is a valuable management tool. It may help to identify which of the state supported projects are appropriate for the enterprise, and with which of the professional bodies the company should be affiliated. However, it is important to recognise that a business plan must be dynamic, able to respond to real circumstances, and that it will need to be adjusted and developed periodically, and probably quite frequently in the early stages, in the light of those circumstances.

Good accounting and banking practices are fundamental to the success of an innovative enterprise that has ambition to grow, because they provide hard data on which the many supporting agencies, which will be necessary as the business expands, will base their decisions to invest time and resources.

Many entrepreneurs are nervous about making public their ideas for new business. They fear that someone will steal their idea. Some start-up dSMEs will be based on intellectual property that has been clearly defined and protected through the legal system for intellectual property protection, e.g. patents law,

Box 20. CONNECT Mentoring Network[40]

UCSD CONNECT is the globally recognized, university-based public benefits organization fostering entrepreneurship in the San Diego, USA region by catalyzing, accelerating, and supporting the growth of the most promising technology and life sciences businesses.

Founded in 1985 at the urging of San Diego's business community, UCSD CONNECT is widely regarded as the nation's most successful regional program linking high-technology and life science entrepreneurs with the resources they need for success: technology, money, markets, management, partners, and support services. Part of the University of California, San Diego (UCSD), CONNECT has a dual role in accelerating growth: it provides added value and delivers targeted, high-level expertise to San Diego's technology business community by teaming up with the region's most prominent industry-specific organizations and individuals, and by partnering with world-class UCSD resources, such as the School of Medicine, Jacobs School of Engineering, San Diego Super Computer Center, and Scripps and Salk Institutes.

CONNECT's services are tailored to meet the varying needs of San Diego entrepreneurs at all stages of their business life cycles and growth. Since its inception, CONNECT has assisted more than 800 technology companies. Its programmes serve as a catalyst for the development and exchange of ideas, a forum to explore new business avenues and partnerships, and an opportunity to network with peers.

CONNECT's success is directly attributable to the generous, unfailing support of its friends and supporters. Its multifaceted network of business and university resources form the platform for its award-winning programmes and events. The active, hands-on participation by its premier partners, vendors, and providers from the areas of high technology, life sciences, law, accounting, investment banking, marketing, and communications brings invaluable expertise. The business professionals and capital providers who serve as CONNECT management fellows and form its various committees round out CONNECT's circle of resources. The result is an energetic, resource-rich environment for developing and testing ideas, pursuing personal growth and professional development, and exploring innovative business opportunities.

Because of its success, the CONNECT model has been replicated in other cities and countries, including Scotland, Denmark, Norway, and Sweden.

CONNECT is entirely self-supporting and receives no funding from the university or the state of California. It is supported through membership dues, course fees, and corporate underwriting for specific programmes.

but the opportunity for most dSMEs is not likely to be a patentable new technology. More often it will be a novel application of some well-established technology or a new route to market. There is need for formal protection at the earliest stage of discussion to give comfort to the entrepreneur to enable confidential discussions to take place with bureaucrats and professional advisers.

Access to high quality information and advice will be a truly valuable aid when establishing a new enterprise. Much information can be provided over the Internet as is further discussed in 3.3 below. Entrepreneurs learn best from other experienced people who have personal and practical experience of starting and growing a business. Many established business managers are prepared to share experience; many older, perhaps even early retired, experienced people are prepared to provide support in a business mentoring capacity. It is also the case that most start-up enterprises are not able to afford the cost of professional consultancy at the outset. This instance of market failure suggests that there is a role for local and regional administrations and business support agencies to build supportive networks for entrepreneurs where tacit knowledge and business experience can be tapped through a process of mentoring and consulting.

3.2. A Framework for Business and Regulatory Supports of dSMEs

One comprehensive set of proposals, which arose during the course of the project and consultations, and which may have merit at the present time, bearing in mind the current practices that have evolved, is to require that a new enterprise presents a business plan and nominates an accountant (registered with the Chamber) when they make formal application to the Chamber of Commerce/Industry to form the business. As part of the application and registration process, the Chamber would provide free of charge some assistance with drafting the business plan and with protection of the intellectual property, design rights, know-how, etc. Consultants who would be employed to assist in this way would hold suitable qualifications and would be registered with the Chamber. Following the good practices in other countries, an audit of the annual accounts of a limited liability company would be carried out by an external accountant (who may be approved by the TURMOB-Union Of Chambers Of Certified Public Accountants Of Turkey) and accredited consultants would be available to guide and advise the entrepreneur through the regulations and various formative stages at low cost. Again following practice in other countries, regulation would ensure that company transactions are registered and transparent by specifying that business financial transactions take place through mandatory banking facilities, for example, via a current account, payroll account, and a credit card account.

See also Table 18, which offers a schematic representation of these proposals.

These proposals have certain attractions and certain limitations. The need to set out the business case imposes a healthy business discipline and the resulting plan is valuable in supporting applications for funding to banks, credit guarantee funds and business angels. Assistance in the early stages with the complex business of protecting valuable ideas can free up the obstacle many encounter through their fear of piracy of their intellectual property. Universities could be encouraged to run regular courses on business administration for the continuing professional development (CPD) of business advisers and consultants. These courses could also be open to entrepreneurs in existing as well as newly establishing businesses thus helping to raise the general level of managerial skill. Mandatory use of bank accounts could help to ensure open and simple accounting practice. Banks could be encouraged to provide further guidance to their clients again raising the general level of skill.

On the other hand, care should be taken to avoid an overly prescriptive approach. It is perilous to assume that there is greater understanding and management competence in the bureaucracy and banking system than among entrepreneurs. It would be undoubtedly preferable to implement the ideas contained in these proposals through education, encouragement, properly designed incentives, and the provision of readily accessible and high quality information. However, because of the patterns of behaviour that have developed during the past periods of economic instability, it may be considered necessary to introduce regulation for a few years until a new pattern of behaviour is established, when the regulation could be progressively relaxed and more flexibility allowed back into the system. [41]

Summing up

Establishing the New Enterprise

During registration to establish a dSME:

1. Facilitate and speed up the process of company formation/expansion and ensure that Chambers of Commerce/Industry act to encourage and guide the process.
2. Introduce business planning as a necessary (obligatory) tool for innovative small company formation and to support access to professional bodies, funds, credits, and other resources.
3. Introduce a scheme for protection of business ideas that can be implemented at the business planning stage.
4. Introduce accredited consultants at affordable cost to the entrepreneur to assist with all aspects of business planning. Introduce affordable university-based courses for consultants and business managers, which focus on innovation and entrepreneurship in SMEs.
5. Regulate for independently audited accounts to make available certain basic company and financial data annually.
6. Regulate for all company financial transactions (other than minor items of petty cash) to be via bank accounts such as a current account, payroll account, and credit card account.

3.3. Access to Information (both before and after establishment)

There are many sources of information that are relevant to the dSME. There exists a plethora of information about regulation, training, environmental issues, technology, markets, business supports, funding, grants and credits available, and so on, that the entrepreneur needs to access. These information flows, almost all of which are available over the Internet, are not harmonised and co-ordinated but emanate from a variety of sources including but not limited to the Union of Chambers, KOSGEB, universities, TTGV, Capital Markets Board, the EU, etc. It is recommended that one co-ordinating body be identified to map information flows among the regulators, support agencies, professional bodies, etc. This body would regularly gather together data from all those relevant sources in order to edit it and issue it as well qualified information. An e-bulletin, containing relevant links, would be the best delivery medium to dSMEs. In view of the wide distribution and mandated membership requirements for all business, this is a role that might best be undertaken by the Chambers of Commerce and Industry locally and co-ordinated by TOBB. However, dissemination of information and advice should not rely exclusively on the Internet but should also be available in printed copy. A free telephone hotline, to respond more immediately to requests for information on dSME issues even if only to guide people to the electronic and printed information, would enhance the service.

The increasing use of personal computers and the Internet offers access to countless qualified and unqualified sources of information. In the proposed new framework dSMEs are encouraged to utilise information technology both to access information and to operate accounting software for the management of their enterprise. As a support mechanism, certain standard hardware and software packages could be promoted to all newly forming enterprises at the time of application. As part of the special dSME registration process Chamber of Commerce and or KOSGEB could issue free of charge a web site, e-mail and e-signature facilities to newly registering dSME's.

Once the use of the Internet for information and management accounting has become routine, the introduction of e-commerce, buying and selling over the Internet, becomes a feasible next step. The major banks have already introduced services and platform technologies to enable e-commerce in Turkey.

The importance of opening access to information is recognised in the SME Strategy and Action Plan - SPO under the heading 'Informing SMEs on best practices via the Internet and developing high level SME support schemes'.

Summing up

Information Flows

1. Improve accessibility of information for dSMEs:
2. Establish the map of information flows between support agencies and dSMEs.
3. Co-ordinate and make information available via a single point of access for dSMEs, eg via e-bulletins from a special chapter in Chambers of Commerce and Industry.
4. Promote the business use of personal computers and the Internet for access to information, for basic financial accounting and eventually for e-commerce.

3.4. Education and Industry Interface

3.4.1. *Technology Transfer*

Technology transfer (and knowledge transfer) is an essential tool in the innovation process for dSMEs. A firm may identify the need or opportunity for a particular technology to enhance its business. Adopting such a technology may simply entail the purchase of an item of equipment, such as a machine tool or a computer that will enhance the firm's productivity. Alternatively, it might entail entering into a licence and royalty agreement with a technology provider to confer the right for the firm to exploit a specific technology. Both are examples of technology transfer.

Owners of technology, such as public and private research laboratories, have four basic ways of exploiting that technology: they may chose to keep it secret; they may teach or offer consultancy about it; they may license it to others in return for royalty payments; or they may create a company (a spin-out) specifically to exploit the technology and market opportunity. In the latter scenario, they may be able to invest the intellectual property in the new company, so providing an asset that the company can offer as collateral. Or they may negotiate with the new company to enter into an exclusive licence agreement to exploit the technology and receive in return royalty income as well as an equity share in the company.

In Germany, the Steinbeis Foundation is a powerful "IP intermediary" and offers a unique model for technology transfer, particularly at the consultancy end of the technology transfer spectrum. It operates centres

Box 21. The Steinbeis Foundation, Germany[42]

The Steinbeis Foundation was established in 1971 with an endowment of DM30M to create a bridge between science and the economy in Baden Wurttemberg. It was the brainchild of Professor Dr Johann Lohn and Dr Lothar Späth, a past Minister President of Baden Wurttemberg. It is named after Ferdinand von Steinbeis, a pillar of the Wurttemberg economy in the 19th Century. Although the Steinbeis headquarters are in Stuttgart it now operates centres across Germany, with a particularly strong concentration of centres in Baden Wurttemberg, Bavaria and Nordrhein Westfalen.

In 1999, through its commercial wholly owned subsidiary company, Steinbeis GmbH, it managed 21,000 projects (turnover DM164M) involving over 10,000 firms and 3,600 academics with about 405 technology centres in its network, partners in 36 countries and a Steinbeis autonomous university in Berlin. It is a unique and important model for technology transfer, targeting small and medium enterprises.

The essence of the Steinbeis model is that it operates as a framework (legal and administrative) in which, under contract, the scientific community can solve practical problems faced by firms. It offers a quality-controlled system to promote the use of research results, expertise and cutting edge facilities and to provide holistic solutions to real problems. Steinbeis is independent but closely allied to regional government and operates without subsidy on a commercial basis. The headquarters team is efficient (11 people, cost 9% of turnover). Its services are grouped in five sectors: consultancy – face to face technology transfer, applied R&D, international technology transfer, training, and evaluations – technology and markets.

throughout Germany, which target SMEs, providing a legal, administrative and marketing framework to enable academics, including scientists and engineers, to work under contract to solve practical problems in small firms. Steinbeis operates on a commercial basis and is highly successful. See Box 19.

Licensing is a route that is more often used for technology transfer. It has the advantage that in the transaction the roles of research and commerce are distinct. Often the licensee will seek further development from the research department so the licensor wins both royalty and research grant income. The Licensing Executives Society (LES) is an umbrella organisation for IP intermediaries. Founded in the USA in 1965, it is the official body for licensing professionals and seeks to promote standards among its members in the transfer and licensing of IP. It also aims to promote licensing to the business community and the public. The LES now has national societies in most countries around the world.

Box 22. The Licensing Executives Society International[43]

The Licensing Executives Society International is the umbrella organisation for 27 national and regional societies, each composed of members who are engaged in the profession of licensing and other aspects of transferring or profiting from intellectual property. The LES is business-oriented and has over 10,000 individual members that include management representatives from large, medium and small companies, scientists, engineers, academics, governmental officials, lawyers, patent and trademark attorneys and consultants.

The formal objectives of LES International are:

- To function as a non-profit professional society encouraging high professional standards among individuals engaged in the transfer and licensing of technology and industrial or intellectual property rights.
- To assist its members in improving their skills and techniques in licensing through self-education, the conduct of special studies and research, the sponsorship of educational meetings, the publication of statistics, reports, articles and other material, and the exchange of ideas related to domestic and foreign licensing.
- To inform the public, international bodies, governmental bodies, and the business community concerning the economic significance of licensing and the high professional standards of those engaged in the licensing profession.
- To make available to its members the latest, most accurate, information on licensing.

LES International is strictly non-political and is free to grow by the creation of member societies throughout the world irrespective of politics or the state of technology development. In 2000 LES International was incorporated as LES International Inc. It has a Board of Delegates that is responsible for the conduct of the affairs of the LES family and for dealing with the interface between LES International and various international bodies, the supervision of the publication of the journal *les Nouvelles*, the provision of funds, support, and other assistance to Member Societies

Establishing a spinout company is the route with highest risk and commensurate potentially highest reward. The formal operation of an active policy for spinout companies in universities and government research organisations is a very recent phenomenon and one that is being established very quickly in many countries in Europe. The EU Gate to Growth Programme[44] seeks to share best practice on technology transfer and research based high technology incubation. Some universities and government laboratories have set up companies to exploit their IP. The University of Oxford in the UK offers a particular example of good practice based on a recent record of spinning out about 40 companies that have achieved a combined valuation of more than £2 Billion. Oxford set up Isis Innovation Ltd[45] in 1988 as a wholly owned subsidiary company of the University specifically to assist academics to protect and exploit their (and the university's) IP. Isis provides researchers with commercial advice, funds patent applications and legal costs, facilitates access to investment through business angels and university seed funds, and negotiates licence and spinout company agreements.

Summing up

Technology

1. Improve access to technology
2. Review the regulations defining ownership and rights over intellectual property resulting from state funded research and development in order to widen access for exploitation by entrepreneurs including the research staff themselves.
3. Set up a system of international scouting for relevant technologies by attaching specialists to the Turkish embassies and consulates, and to the import/export associations. Ensure positive linkage to innovative enterprises.

3.4.2. E*ntrepreneurship Centres*

So much is expected of universities in present times that it is sometimes easy to overlook the fact that the main output of universities is educated people and the results of research. In the interaction with industry, people who have business as well as technological skills will be valued all the more highly. Many universities have created a business school to educate the business leaders of the future. A current trend is to extend entrepreneurship training across the wider curriculum so that all graduates have some knowledge of the way businesses are managed.

In the Netherlands, Twente University pioneered the Temporary Entrepreneurial Positions Programme (TOP). It provides a one-year course for graduates to create knowledge-intensive companies and was set up to counter the recession in the textiles industry - an innovative response by the university to economic decline in the region. See Box 21 below.

Box 23. The Temporary Entrepreneurial Positions Programme (TOP), Netherlands.[44]

The TOP Programme was created by Twente University in 1984 as part of the university's input to economic regeneration policy, which was responding to the recession in the textiles industry. Twente University has been an important actor in the change from a mono-discipline (textiles, 1970) to a multi-disciplinary economy (knowledge-based, 2000). TOP provides a one-year course for graduates and industry personnel to start a knowledge-based business. It aims to create 15 companies per year and the success of the Programme can be seen from the fact that it has resulted in 170 new companies since 1984 (of which 93 are consultancy and 77 are production companies), with an estimated 1500-2000 new jobs. TOP alumni form a network of entrepreneurs.

Topspin International is a consultancy business that commercially exploits the know-how developed in the TOP Programme. Its clients are universities and regions in other countries and it has also built up a global network of associates – experts in technology transfer and entrepreneurship.

There are echoes of this model in other European countries. Junge Innovatoren is a Federal German scheme that pays 50% of an entrepreneur's salary whilst a technology business is being developed in a university laboratory. It is adapted to fit regional circumstances. For example, in the Ruhr Gebiet, ZENIT GmbH operates it as the Innovative Personnel Transfer Programme (IPT). In the Universidad de Barcelona, Spain, the business school and the technology transfer department interact in a programme which they title 'the Quasi-Enterprise Scheme'[47] which acts both as a business training ground for postgraduates and as a spinout mechanism for enterprise based on the University's IP.

3.5. Business Incubation

Business incubation is a process; it encompasses all the facets of preparation and management that are required for the successful establishment of a new enterprise to the point at which the enterprise can be

considered to be self-sustaining. This process is usually associated with a physical building where new enterprises are housed. This is sometimes called an incubator or innovation centre. The National Business Incubation Association (NBIA), USA neatly summarises the role of physical incubators in enterprise development: ***"Business incubation is a dynamic process of business enterprise development. Incubators nurture young firms, helping them to survive and grow during the start-up period when they are most vulnerable. Incubators provide hands-on management assistance, access to financing and orchestrated exposure to critical business or technical support services. They also offer entrepreneurial firms shared office services, access to equipment, flexible leases and expandable space — all under one roof."*** Physical incubators (Innovation Centres) often create a vibrant business community where many entrepreneurs can learn from each other and be more successful as a result. These incubators often attract entrepreneurs who are looking for their next opportunity and can often provide a matchmaking service linking people with people, or people with ideas.

The National Business Incubator Association[48] (NBIA), America's national organisation for business incubation, is just one of a growing band of representative bodies that incubators can join. These representative organisations operate on a regional, national and international scale. They generally aim to raise standards in the incubation industry, to represent the industry at regional and national government level and to deliver government programmes through member incubators.

Box 24. The National Business Incubation Association (NBIA), USA.[49]

The National Business Incubation Association (NBIA), in the United States, is a leading organization for the advancement of business incubation and entrepreneurship. It provides thousands of professionals with information, education, advocacy and networking resources with the aim of bringing excellence to the process of assisting early-stage companies. There are now over 900 incubation programmes in the United States, as compared to 12 in 1980.

NBIA offers professional development activities and specialized training to help business professionals create and administer effective incubation programmes. The Association's public awareness activities educate entrepreneurs, public sector leaders, corporations and investors on the benefits of business incubation. NBIA conducts research and produces publications on developing and managing effective programmes. It tracks relevant legislative initiatives and maintains a speakers' bureau and referral service.

NBIA creates partnerships with leading private-sector and public-sector entities to further the interests of the incubation industry and its members who include incubator staff, business assistance professionals, economic development professionals, university research park managers, corporate joint venture partners, industry consultants, venture capital investors, educational institutions and people exploring feasibility of business incubation for their communities.

There are a number of national and international bodies in Europe. UK Business Incubation (UKBI) is the UK's national organisation for business incubation, and is joined by the European BIC Network (EBN) and the Science Park & Innovation Centre Expert (SPICE) Group at an international level.

Box 25. National and International Business Incubation Associations

UK Business Incubation (UKBI)

UKBI was launched in 1998 with the support of the Treasury and the Department of Trade and Industry (DTI) to act as a catalyst in encouraging the growth and development of business incubation in the UK. UKBI is a not for profit organisation with public and private sector supporters that include the Small Business Service, the Prudential Assurance Company, HSBC Bank, Aston University and Aston Science Park.

Box 25. National and International Business Incubation Associations (*cont.*)

UKBI has developed a membership network of over 220 incubators and incubation programmes. It represents the incubation industry's interests and works closely with Government and Regional Development Agencies on policy issues such as knowledge transfer, clusters and business support. It also delivers government programmes, such as the DTI's Internet Incubator Fund and the South West Regional Development Agency's Business Incubation South West Network.

The organisation's other objectives are to spread good practice and network knowledge and to improve the quality of business incubation. To this end it runs regional events and an annual two-day national conference that draws together the incubator members. Its series of skills workshops include topics such as developing incubation programmes, technology transfer and university incubation, overcoming the barriers to finance for client businesses and corporate venturing. UKBI also provides access to a range of information and research through its web site, publications and newsletter.

In summary, UKBI aims to provide what incubators and organisations require in order to achieve their aims of project development and business creation.

www.ukbi.co.uk

European BIC Network (EBN)

EBN is a networking association for Business & Innovation Centres (BICs) in Europe. It is a membership driven association, which provides technical assistance in the development of new and existing BICs. By bringing together over 160 European BICs, EBN is able to monitor and maintain a quality standard, and represent the interests of BICs at EU, national, and regional levels.

EBN was established by the European Commission with the specific aim of promoting the development and diversification of regional economies. It attempts to bridge the gap between SMEs, public authorities, and private organisations concerned with regional development using BICs.

Through its work in bringing together a large number of BICs, EBN is able to identify good practice, and provide qualitative and quantitative measures of success.

www.ebn.be

The Science Park & Innovation Centre Expert (SPICE) Group

The SPICE Group is an international networking organisation made up of individuals concerned with innovation, regional development, entrepreneurship, business co-operation, and technology transfer. It has a particular emphasis on the role of science parks and innovation centres, and members are drawn from private industry, banks, and governmental institutions. The main activities of the group are:

- Identifying and sharing good practice (regional development policy, science park/innovation centre management, SME management)
- promoting the establishment of international, national, and regional networks
- developing training programmes (regional development policy, science park/innovation centre management, SME management)
- researching the role of culture in regional development

Established as an Innovation Centres in Eastern and Central Europe (ICECE) working group in 1991, the self-financing SPICE Group now has members in 29 countries, and has organised over 70 conferences, workshops, and training events in Europe, Central Asia, Russia, the CIS, and the USA. Publications include a regular newsletter and a trade association directory.

www.spice-group.de

Within the broad description of business incubation and business incubators given above, there is a wide range of types of incubators. These differ in terms of their ownership, aim, entrance and exit criteria, and measurement of success. A typology is presented below, although typically incubators may encompass elements of several of these.

Table 11. **Types of Incubators**[50]

Type	Stakeholders	Aim	Entrance Criteria	Exit Criteria	Success Criteria
Academic / Higher Education Institution (HEI)	HEI technology transfer department Economic development officials Politicians	Commercialise HEI research Build HEI-industry links Develop entrepreneurial talent	HEI source Technology intensive Net jobs potential Complements HEI programmes	None Ramped rent Time limit	Return on investment Publicity for HEI
Corporate	Large company / organisation Shareholders	Commercialise research Maximise profits	Corporate source Innovation not core to business	Growth performance Independence	Return on investment Client as new partner / supplier for core business
Venture Capital	Venture Capital firm	Support product development / company growth	High growth potential Exit strategy	Optimum (equity) investment exit conditions	Maximum investment revenue
Property	Property developer Non-profit organisation Public agency	Maximise rental income Loss leader / supplier of businesses for science park Utilise vacant facilities Job creation	Ability to pay rent	None	Stable rental income Build market for further services Local economic development
Consultancy / Virtual	Consultancy firm Economic development agency	One component of support package to clients	Sound business plan Client for other business support services	Profitability Management support no longer required	Return on investment Revenue from services Local economic development
Social	Economic development agency Non-profit organisation	Job creation Social inclusion Local economic growth	Complement existing clients Jobs potential No other options	None Ramped rent Time limit	Job creation Diversification of local economy Tax revenue

Other important ways in which incubators differ include being sector specific (eg biotechnology), and the revenue model used. Incubators may rely on a 'flat' rental model – with a standard price per square foot per month, a 'ramped' rental model – with a price per square foot per month which rises the longer a client stays, or an equity model – a proportion of the company is taken as equity by the incubator. Incubators using each of these revenue streams often supplement their income by charges for additional services. One special case is the 'virtual' incubator. The provision of services, information, and support by electronic means initially appears to offer a number of benefits. The Internet is indeed powerful and capable of delivering valuable information and services to entrepreneurs. There are, however, two important missing ingredients

in virtual incubation. One is the vital proximal chemistry between people that helps to build a business; the other is the actual physical agglomeration that acts as a magnet for all manner of service providers, investors and, indeed, customers. Virtual incubators are typically run by VCs to allow for direct financing of start-ups. On the other hand a virtual extension to a real incubator does have obvious advantages. Indeed even within an incubator the use of local intranets can be highly valuable in promoting interaction, especially on technical issues, between the client companies.

There are examples where incubators have delivered services online, with one of earliest and most successful of these being the BarcelonaNETactiva[51] project in Spain.

GorillaPark is an example of a network of virtual incubators, which boomed during 2000/2001 with 15 sites, but has since focussed on building its business in 4 European sites and one in the US.

Box 26. GorillaPark[52]

GorillaPark is a pan-European network of investment-based business accelerators. Launched in January 2000 by the same entrepreneur behind Tornado Insider (the European news and web portal for internet start-ups), the first office was located in Amsterdam. Further offices were then opened in London, Munich, Paris, Stockholm, and a 'launching office' in Silicon Valley.

In exchange for 25% equity, clients receive €500,000 and business assistance through a demanding 8 step programme, which aims to foster them from incorporation to IPO within 2 years. Support includes access to state-of-the-art high tech infrastructure, plus guidance from a network of experienced senior executives.

Despite the working expectation that 50% of its clients will not survive the course, GorillaPark is not short of projects or financiers willing to enter into the high risk/reward equation. GorillaPark itself has benefitted from this aggressive approach, attracting $74m of investment in three separate investment rounds during 2000/2001. However, GorillaPark has yet to make an exit from the deals made with its clients.

In the UK, Oxiflex is a further example of a scheme, which enables entrepreneurs to access the benefits of innovation centres without taking physical space in them.

Box 27. Oxiflex, UK.[53]

Oxiflex is a suite of services offered by Oxford Innovation Ltd to entrepreneurs in South East England. These services are identical to those offered through its network of innovation centres, but without the property component. The benefits to entrepreneurs are a telephone answering service, a mailing address and post handling, the use of conference room and office equipment, along with consultancy and access to business networks. The package is marketed as being particularly suitable for clients who may decide to rent physical space in the innovation centre, within the next few months.

Business Incubators often play a role in helping foreign companies to start-up in a new country. The foreign companies value both the flexibility of premises and the fact that there is an established contact network that they can easily access. As well as playing a role of welcoming foreign companies to a country, incubators can play a very significant role in helping their indigenous tenant companies to consider export opportunities.

3.5.1. *Innovation Centres, Science Parks and Technopoles*

Innovation centres are premises that provide premises on flexible terms to early stage companies but, unlike serviced offices, they also provide business support that is tailored to meet the needs of innovative

Box 28. Examples of Innovation Centres in Europe

Forum Nord

Forum Nord is a modern, fully equipped innovation centre that houses about 40 new firms (IT & electronics) with a few from the dot.com sector. The founders are engineers (usually 28 to 40 years old) who were previously employed in the large corporations located in Barcelona. The Centre has seven staff with four funded by the City of Barcelona and three funded by the Region of Catalonia. A further eight to eighteen staff work with the Centre from time to time depending on the need for training and other short term programmes.

Josep Marques (Director, Forum Nord) identified three factors behind FN's success:

- "Coffee to coffee networking" - managed internal networking generating a climate of mutual support and trust that offers scope for informal consultancy and inter company trading
- 3 year lets at commercial rents (buildings funded by the European Union and Barcelona Activa SA)
- rapidly growing networks for venture capital in Barcelona linked to the universities and polytechnic

On the other hand, there is no policy to encourage tenants to vacate.

The Cibernarium shares the same building and is a substantial IT and new media training resource that offers experienced trainers and networked equipment.

www.barclonaactiva.es

Oxford Innovation Ltd

Oxford Innovation Ltd runs a network of 11 innovation centres with centres in Oxfordshire, London, Portsmouth, Thames Valley and the Cotswolds. These offer serviced offices and laboratories on short term licences – typically 1 month, plus business support services and access to business networks. Entrance criteria are applied, which are that new clients must have a national or international perspective, be planning for growth, and 'fit' with the existing clients.

Clients using these innovation centres cite the key benefits as being the professional image it gives them (switchboard, reception, post handling, conference room), and the access to business networks (sharing expertise, and inter-trading). The flexibility to expand (or contract), and move within the centres is also often highlighted as a very useful facility.

Oxford Innovation does not normally take equity in the companies that use its innovation centres, but employs a ramped rent model. This not only allows the company to offer a very competitive rate for new customers, but also drives growth as a priority for their clients. The longer companies stay in the centre, the more they have to pay. The typical length of stay is between 18 months and 2 years.

www.oxin.co.uk

The Oxford BioBusiness Centre, UK.

Oxfordshire BiotechNet Ltd runs the Oxford BioBusiness Centre, Littlemore, which is a specialised business incubator for early stage biotechnology businesses. The Centre is regarded as pioneering because it offers a unique combination of offices and fitted out laboratory space on short-term licences, plus access to shared equipment and mentoring support.

The Oxford BioBusiness Centre opened in 1998 and was supported by the DTI's Biotechnology Mentoring and Incubator Challenge Award Scheme. It currently houses 12-15 companies - a mixture of Oxford University spinout companies and spin-offs from established biotech ventures.

www.biotechnet.co.uk

start-ups. Some innovation centres are located on science parks or technopoles, and are often situated at the entrance to them. The companies may then "graduate" to space on the science parks as they grow. In Spain, Barcelona Activa SA (a wholly-owned subsidiary of Barclona city that is charged with local development) manages an innovation complex consisting of Forum Nord, a business innovation centre and the Cibernarium, an innovative new media and IT training centre.

In Germany there are some 200 technology centres or incubators, covering different sectors and over 60 are located in North Rhine Westphalia (NRW). That means that in addition to incubators in all the major cities nearly every medium-sized town also has its own technology centre.

Box 29. SEEDA Enterprise Hubs[54]

In the UK, the South East England Development Agency (SEEDA) introduced the concept of the "Enterprise Hub"in 1999, as part of its overall objective to promote the economic growth of the South East of England. The idea is that each Enterprise Hub is a business-led network that acts as a catalyst in the creation of strong links with centres of research and technology and of incubator space for local start-ups. Enterprise Hubs will also provide better access to mentoring support and to capital, though joining or creating networks of Business Angels and venture capitalists.

An area within the South East region is designated as an Enterprise Hub if it provides incubator space for new businesses, strong links with venture capitalists and an affiliated university research department. Each Enterprise Hub has a Hub Champion (a successful businessman) supported by a group of ambitious entrepreneurs. There is also a Hub Director whose job it is to implement their decisions. There are currently 19 existing and planned Enterprise Hubs. SEEDA also opened six Enterprise Gateways in 2003. Enterprise Gateways aim to foster entrepreneurial activity across a wider range of business sectors.

3.6. Consultants, Mentors and Professional Services

Mentors are people that entrepreneurs can turn to for practical and strategic advice and contacts. They may include accountants, lawyers, serial entrepreneurs, innovation centre staff and the founders and managers of other companies. Mentors may be available on site (e.g. staff and fellow entrepreneurs in an innovation centre) or recommended to entrepreneurs in an informal way, via contacts that have already used the mentors' services (legal, financial, professional, and serial entrepreneurs). They may provide ad hoc advice on a specific problem or enter into a longer-term relationship where they support the entrepreneur in dealing with specific aspects of the business. In many countries (examples include Syntens in the Netherlands, Business Link in the UK) formal mentoring systems have been created with the aim of reducing the haphazard nature of access to mentors (see Box 18 on the Connect network). These mentoring networks are sometimes accessed through innovation centres, although they may also be available to companies that are not resident in the centres. Under normal market conditions consulting, mentoring and professional services are provided by the private sector in a competitive environment. However, particularly at start-up most dSMEs are not able to afford the full cost of these services and governments intervene by subsidising those costs. This provides an opportunity for government to impose standards by only subsidising such services that are provided by accredited consultants who can demonstrate an appropriate level of qualification. The EU State Aid regulation has in some cases created a problem by driving the creation of government agencies rather than encouraging and moderating private sector provision for business services. In the long run, the benefits to the economy of an active and competent private sector system of supports for business are manifold.

3.7. Networks and Clusters

Encouraging the growth of networks and clusters can also reduce start-up and early growth stage risks as companies in clusters have many more opportunities open to them. If a company's first idea for a product or service is not very successful, then opportunities to supply other products and services are likely to emerge.

Networks are powerful reducers of risk both because of the business trust and confidence that they can help to build up and because of the information sharing that happens within them. Networking is the most effective way to promote new ideas and change how people react to business opportunities. By networking, people can share new concepts, learn from successes and failures, establish new alliances, become more aware of trends, etc. Successful networks are always based on a facilitator that may be an individual or an organisation. The facilitator should be seen to be independent and free of undeclared, commercial interests. Networking situations need to be regular and more than just a meeting ground. They must offer incentives to persuade busy managers and entrepreneurs to devote time to them. This is often achieved by, for example, structuring meetings around topics that are relevant to the businesses and by inviting well–known and respected speakers.

A business cluster is essentially a larger and sector specific form of network. Professor Michael Porter defined it as a ***"geographic concentration of interconnected companies and institutions in a particular field"*** and is credited with defining how business clusters enhance economic success.[55] Porter showed how intense competition between firms to satisfy local demand could lead to global leadership in specific economic sectors, for example, financial services in London, textiles in Italy, electronics in Japan, etc. Clusters, which are often dominated by small firms, stimulate innovation and competitiveness and attract institutional and commercial support that builds up the infrastructure needed for continued success. Many countries are now developing policies to encourage regional cluster formation. The European Union has published a report on Regional Clusters In Europe[56], which draws on experience across Europe and America. Clusters play a crucial role in the gestation of new businesses, particularly in scientific or technology specific areas. An entrepreneur within a cluster will typically have a much better range of contacts, will know that the skills are available to recruit the people he or she needs to grow the business and will also find that the professionals and business support organisations in the area are more aware of the issues of that particular cluster. Bank managers and lawyers who for example have never before seen a biotechnology company are unlikely to be of much help to a biotechnology start-up. However, those that operate within an established cluster will be able to appreciate the business potential even if they do not fully understand the science and technology.

Clusters can also link with networks of trust. This means that an entrepreneur starting a new business within a cluster will often have a pre-established credibility with many of those that he or she must deal with as they get the new venture up and running.[57]

Box 30. Motorsport in Oxfordshire, UK[55]

Banbury, a town in rural Oxfordshire, is the centre of a world-leading cluster of motor sport companies. 25 companies within a radius of 35 miles employ nearly 9,000 people in Formula 1 and other high performance automobile design and manufacturing.

In 1996 a European Union funded economic study was undertaken following the closure of a major US airbase and consequent loss of jobs in the area. The study focused on establishing the underlying strengths of the area and resulted in the creation of the Oxfordshire Motorsport Forum. The Forum identified a shortage of engineers and technicians and set up a task force, comprising representatives from industry, education and the business support agencies, to find solutions to this problem. The task force instigated actions: to develop graduate engineers for the Motorsport industry in collaboration with the regional university; to develop technicians with an range of skills through a bespoke Motorsport Modern Apprenticeship at a local further education college; and to develop industry/schools contacts to enthuse children to take up an engineering career by setting up an exciting, national schools competition where students would build and race scale models of racing cars.

Although they have global reputations Motorsport companies are generally small or medium sized and do not have the spare capacity to initiate these sort of actions. By working together with support organisations such Oxford Innovation Ltd (www.oxin.co.uk) and the Training and Enterprise Council the task force found the necessary resources to convert ideas into actions.

The Competitiveness Institute[58] is an international association of agencies that seek to promote economic development through cluster policies.

The Oxfordshire Motorsport Forum offers a cluster case study with valuable lessons.

Supply chains are a particular form of clustering, though not necessarily geographical but where companies have strong linkages to larger corporation. An obvious example is the motor industry where the component parts of a car are sourced from many independent firms. The lead corporation generally owns the brand and is responsible for marketing. It exerts a major influence on its suppliers and through its purchasing power is able to strongly influence their behaviour, specifically encouraging innovation in both product and process.

4. Finance

4.1. General Observations on the Financing of dSME's

4.1.1. *Overall financial reform*

Financing for potential high growth companies (dSMEs), especially those embodying new technology, is a gap that needs to be filled in the case of Turkey. It is clearly in the country's interest to have a pattern of economic development that is balanced between large and small firms and to have some industries with strong positions in advanced technology sectors. The lack of appropriate financing is an obstacle to the achievement of both these aims.

Turkey already has a very large indigenous SME sector that generates a considerable share of national income and employment. (See Table 2 in Chapter 1.) However, the SME sector in its present form is largely an informal sector with many family owned and controlled firms and with heavy reliance on informal channels of finance. This sector receives relatively small amounts from the established financial system, i.e. commercial banks and the established capital market, which tends to channel resources to larger enterprises and the public sector. Meanwhile, many SMEs face limited access to external financing.

Turkish SMEs tend to have relatively low investment per worker. SMEs account for almost half of all employment in Turkey, but for only about 6 per cent of investment and less than 4 per cent of total bank loans.[60] In other words while SMEs are significant they tend to be clustered in low value added pursuits with few possibilities to expand or to gain access to advanced technology. The OECD has recognised the need to encourage all Turkish SMEs to move from the informal sector to the formal sector.[61]

In the recent financial crisis Turkey has experienced a sharp contraction of the amount of financial resources extended to SMEs. The commercial banks have been squeezed for lendable funds and also have experienced rising loan delinquencies. As a result, SME lending has been cut back sharply.[62] Halk Bank the institution that is theoretically specialised in SME lending has experienced a real contraction in lending; and lending to SMEs receiving special certificates to qualify for specialised programmes has also declined.[63] Thus it is an important task facing the country to raise the overall volume of lending to SMEs as well as to pursue policies to assist targeted categories of SMEs.

The Turkish financial system is segmented into a formal financial sector that provides resources to a narrow segment of the economy and a larger informal sector that supports a broad range of activities, with a sharp separation between these two sectors. SMEs rely on informal finance, partly because on balance the larger banks and the capital market are structured to favour larger enterprises or state entities. With few prospects of access to external finance, the incentives to seek funding through the formal financial system are not strong. Additionally, more transparent operating and disclosure practices would expose the firm to more official scrutiny and/or higher taxation. As a result, many entrepreneurs conclude that their interests are better served by remaining in the informal system. The OECD has also recognised the need to encourage the banking system to shift its focus from lending to the government sector and a restricted number of privileged

enterprises to one of support for broader sectors of the economy including SMEs[64]. It is encouraging to note that in a workshop at the OECD Istanbul Centre in 2004, the first tangible evidence of renewed bank interest in SMEs as clients was provide by Garanti Bank.

There would be advantages to the economy as a whole if a larger proportion of companies were to go through the procedures associated with formal finance, such as preparation of reliable accounts, presentation of business plans to investors and exposure to financial institutions. The result would be an enlarged "deal flow" for providers of finance at various stages in the growth cycle of the firm. The dividing line between all SMEs and those with exceptional growth potential is not always sharp.

The formal markets can assist family owned firms with commonly encountered problems such as expansion, capital restructuring or succession. However, it will only be possible to convince Turkish firms to use formal channels if they are convinced that by doing so they are able to gain access to capital on terms that are no less advantageous than those available through informal channels. Potential high growth firms, which are registered as such, and having fulfilled the requirements set, will be able to utilise the formal market.

Informal finance is well suited to certain kinds of SME, especially those owned by individuals or families with modest possibilities for expansion and/or with strong cash flows. To the degree that such firms eventually seek access to external financing, they usually are suitable for financing from banks, based upon their own cash flow or collateral.

Dynamic high growth companies (dSME's) typically are high risk/high return ventures with untested outputs that require external financial support for a prolonged period and they must convince outside investors of the prospects for the firm. By their very nature high growth companies must rely on external finance. Indeed, unless the financial system is capable of meeting the specific needs of dSMEs in obtaining external sources of finance, the system will have a serious gap. Such firms are difficult to value and involve higher than average risk. While the investor must assume any risk inherent in the project in which he invests, investment in high growth SMEs requires a general confidence in the framework in which risk is assumed. External sources of finance depend upon reliable legal and institutional structures to protect the rights of outside investors as well as high levels of transparency to persuade the investor of the prospects for the investment project.

It is beyond the scope of this document to make recommendations for overall reforms to the Turkish financial system. However, reflecting the long period of macroeconomic instability and crisis in the banking system that Turkey has experienced in the past few years, major structural changes are under way at this time. One of the concerns that should be addressed as the reform goes forward should be the limited capability of the formal financial system to meet the needs of critical parts of the economy. This recommendation has been made in the past two OECD Economic Surveys of Turkey.

In general greater recourse to the formal system should be fostered through positive incentives including tax exemptions that encourage SMEs to use the formal system voluntarily. Any attempt to foster greater use of formal channels through direct compulsion could well diminish the substantial amount of entrepreneurial activity that is found in Turkey. Even with an expanded range of options many, if not most, firms may still conclude that they are better off by continuing to use informal channels. Nevertheless an expansion of the range of options available should work to the benefit of all.

Several studies of the Turkish tax system have found that high rates of income taxation and double taxation of income from equity investment (i.e. dividends and capital gains) provide strong incentives to keep operation in the "grey economy". It would clearly be helpful to have a review of the tax system that stimulates investment through formal channels. There may be persuasive arguments as well for granting additional fiscal incentives for investment in SMEs, but the overall rationalisation of the tax system to remove distortions would probably be the most efficient fiscal stimulus to formal investment in SMEs.

4.1.2. D*iversity of financing sources and the "financing ladder"*

In order to have a system of intermediation that enhances overall flexibility in the economy, it is important to have a range of options for firms with specific needs. Experience shows that sources of financing for all firms tend to evolve according to the nature of the firm and over the life cycle of the firm. Most SMEs initially depend upon informal financing raised by the entrepreneur or his/her friend's family and business or academic associates before turning to outside sources of finance. Table 12 lists the range of options for external finance that are available to SMEs seeking funding through formal channels.

Table 12. **External Sources of SME Financing**

	Positive cash flow	Collateral	High return	High risk
Banks	Yes	Yes	-	No
Non-Bank Financial Institutions	Yes	-	-	No
Government Programmes	Usually	Usually	-	Sometimes
Equity	-	-	Yes	Yes
Credit Guarantee Funds	Yes	-	-	No

For companies that wish to operate as closely held concerns in order to provide an adequate income for the owners and a small number of employees, limited recourse to external finance may be sufficient. Most of those firms that have recourse to external finance will use traditional sources such as bank finance, non-bank financial institutions (such as those that offer quasi-banking services such as factoring, leasing, etc) or government guaranteed loan programmes.

Unlike traditional SMEs which depend on informal channels or a narrow range of classic financing vehicles (e.g. bank loans, government guarantees), high growth SMEs require a range of financing vehicles that will enable them to progress upward in the financing ladder. Investments will be made in start-ups because the entrepreneur sees the possibility of raising funds from business angels or venture capitalists at later stages of the life of the firm. Venture capitalists can only operate when the prospect exists of exit through public listing or private sale. The absence of such vehicles will pose a serious obstacle to the formation of high growth SMEs.

4.2. The Design of Official Support Programmes for High Growth Companies

As noted in the preceding section, Turkey experienced a sharp contraction in the volume of officially supported financial assistance to SMEs during the recent crisis. The country is now in the process of restructuring its entire range of support programmes for SMEs. In formulating its SME Strategy and Action Plan, the government proposes a number of measures to improve the coherence of programmes to assist SMEs. [65] Most governments have identified dSMEs as a priority sector and therefore have developed a range of policies to provide support to these firms. Because programmes have often evolved piecemeal over a long period and in response to a variety of pressures, the totality of programmes may not be coherent and may leave gaps and imbalances. It is important to assess the overall incentives facing targeted firms in order to have a coherent set of strong incentives and a full range of services. In addition to the support of market infrastructure (science parks, improvement of information flows, enhanced training, etc.) support programmes usually include direct financial support in which the authorities provide some funding through debt, equity or grants and extend support through the tax system so that investors in the targeted activity obtain tax benefits. This section suggests some tests that may be applied to various support programmes in judging their usefulness to the targeted enterprises.

Many countries extend financing directly to target SMEs in the form of debt or equity investment, guarantees or subsidies. Direct financial support mostly takes the form of grants, loans and loan guarantees. A crucial precept guiding policy is that programmes should be designed with careful attention to incentives.

Insofar as possible, the responsibility for selection of projects should remain with private sector participants. Where the authorities provide direct financial support, there should be a sharing of risks, in which the public sector is willing to accept a considerable part of the risk of the project alongside private investors. In this context, it is worth emphasizing the requirement for private investors to put some of their own funds at risk as a precondition for government support. There may be some justification for limiting the rate of return to public sector investors. Nevertheless, the public sector should at least recover its own investment with a moderate rate of profit, even if private investors are allowed to keep most of the upside.

Many programmes aim to provide large amounts of funds at sub-market rates. There are grounds for being cautious about such policies. There may be some justification for a policy of providing finance at below market levels, if there is clear evidence that risk premiums are excessive. At the same time, this consideration must be balanced against the need to require the private investor to accept part of the risk of any project. Any policy of accepting projects with low rates of return may have the effect of driving returns to levels that are too low to be of interest for private sector suppliers of capital. Because of their higher than average risk, high-risk projects are of interest to private investors only if they offer the prospect of very high returns.

Many countries give preferential tax treatment to investments in recognised SME promotions schemes. Benefits typically include an immediate tax deduction for credit and relief from capital gains taxes for such investments held for stipulated periods. One of the attractions of investing in such companies for high net worth individuals should be the opportunity to invest capital in recognised channels on terms that are as favourable as those of informal investment.

Summing up

Financial Framework

Measures to provide a suitable overall framework for financing dSMEs

1. Make the expansion of the capacity of the formal financial system to provide financing to SMEs an explicit aim of the overall financial reform that is under way at this time. In particular the banking system must be encouraged to change its pattern from lending to government and established enterprises to the support of the middle market.[66]
2. Encourage Turkish entrepreneurs to operate more transparently in order to have enlarged recourse to the formal market. In doing so, positive inducements, mainly the prospect of obtaining concrete benefits by using the formal markets, should be emphasized rather than regulatory constraints.
3. Observe the principle of "risk sharing." Use official funds only in partnership with businesses, universities or international organisations. After the preliminary stages of firm development, commit government funds only when private investors are willing to commit funds.
4. Be careful about policies that provide access to low cost funding but lead to lower rates of return for investors. Projects should be selected by their ability to generate earnings in a competitive market.

4.3 Access to Equity Finance along the "Financing Ladder"

DSMEs tend to progress through a distinctive life cycle. Like all other SMEs, these firms normally begin by raising funds from family, friends, and close associates, sometimes supplemented by grants from government, foundations, universities or industry or special facilities such as seed capital funds. In later phases the financing patterns of high growth innovative firms diverge from those of other SMEs.

Table 13 outlines the typical sources of equity finance for fast growth enterprises as they progress through their life cycle. Following initial funding from family and friends, and possibly grants, the enterprise may obtain funding successively from informal equity investment, such as "business angels" before moving on to formal venture capital. The entire process will reach its culmination when the firm "exits" as a mature company through an IPO or a trade sale.

Table 13. **Hypothetical Equity Cycle for New High-growth Companies**

Stage	Suppliers of Funds	Products	Preconditions
Pre-Venture Capital Informal Finance	Fiends And Family Government Universities Seed Funds Grants	Informal Arrangements	Supportive Environment For Entrepreneurs, Good Links Between Research And Enterprise, Deal Flow Of Projects With Growth Potential
Early Stage Investment	Fiends And Family Government Universities Seed Funds Banks Business Angels	Working Capital Long Term Loans, Guarantees Informal Equity Common Stock	Environment Conducive To Risk- Taking Large Deal Flow
Formal Venture Capital	Institutional Investors High Net Worth, Individuals Foundations & Endowments Financial Institutions Corporates Government	Venture Capital Long Term Loans Mezzanine finance Common & preferred stock	Accounts & Reporting Transparency Appropriate Legal Structures Neutral Tax Environment
Exit Trade Sales IPO's	Institutional Investors Individual	Bonds Equities Mergers & Aquisitions	Capital Market Infrastructure Framework For FDI

Investment at any stage of the life cycle is frequently available only on the condition that there is some potential for the firm to advance to the next stage. Thus, providers of early stage funding are more likely to respond positively to business plans when they believe the proposal has the capability of attracting support of business angels. Business angels in turn will be encouraged if they believe that the project is a good candidate for venture capital financing. This process is explicit in the venture capital process in which it is accepted that equity will be injected in to the firm in successive rounds, with the objective of realising an exit through a trade sale or an IPO. Without such "exit vehicles" venture capital cannot function. More generally, when gaps appear at any point in the funding continuum, the capability of the system to support the emergence of high potential firms is lessened. A "funding gap" will serve as an impediment to the development of dSMEs.

One general characteristic of high growth firms is that they are ill suited for debt finance, at least until the middle or later stages of their life cycle. Such firms rarely generate sufficient cash flow to service debt and their risk is too high to be suitable candidates for debt finance. Instead they will usually progress through several stages of equity finance. Those providing funds often use the prospect of future injections of equity as a monitoring tool. In high-risk equity, the investor operates by investing in a portfolio of firms in the knowledge that there is a significant possibility that individual firms will not be successful and the investment in them will be lost. At the same time, the very high returns on a small number of companies in the portfolio who prove to be highly successful will be sufficient to compensate the investor for individual losses. Such a system obviously needs a high degree of transparency and a high degree of confidence that the outside investor will be protected. Additional tax benefits will be instrumental in both internal and external new equity.

The fact that innovative companies are not well suited for debt finance does not imply that banks have no role to play in assisting innovative firms. At certain phases of its life cycle, a firm may be an appropriate candidate for bank financing due to its cash flow, the quality of some of its assets or its collateral. When a dynamic firm enters a phase of expansion equity finance rather than direct loans from banks may be the best solution. In order to maintain contact with dynamic companies, banks often form subsidiaries to provide

equity finance to emerging companies. Bank-affiliated subsidiaries can work with other providers of equity capital to assist the company to raise funds from other sources. Banks have a strong interest in being present in this market sector, since these companies represent an important source of revenue for future commercial and/or investment banking operations. "Mezzanine finance", which combines some elements of debt and equity investment, is often used in the later stages of growth of dynamic companies.

The following sections provide some suggestions concerning ways in which it is possible to support dSMEs at critical points along the financing ladder. The discussion does not follow this progression precisely, since some providers of funds will be active at more than one stage of the cycle. The recommendations for support of SMEs at various stages of the financing ladder are divided into two broad groups 1) early stage financing and business angels where programmes and procedures to support SMEs tend to be relatively less structured and 2) venture capital and formal listing when financing techniques are more clearly defined and where each participant in the process has an increasingly well defined role.

4.3.1. *Early Stage Finance*

At early stages new enterprises typically rely on family and friends and close associates in business or university research facilities. Usually, the company has no financial statements and no track record, and hence financing from traditional sources is scarce. Funds provided by governments as grants or through seed capital funds can be partnered with other suppliers of early stage funding such as those supplied by universities, endowments and local authorities. Funds are mostly used for development of product prototypes and feasibility studies. Government programmes that make grants available to encourage very early stage applied research leading up to proof of concept, can be effective at this stage. Grants that have been vetted by governments or universities sometimes give a "badge of credibility" to an enterprise seeking outside capital.

Box 31. Small Business Innovation Research (SBIR), USA.[67]

Started in 1982, these two US schemes are run by the National Science Foundation (NSF) - part of the federal government - and aim to support science and/or engineering research projects. Under SBIR, ten federal departments and agencies are required to reserve a proportion of their R&D funds for award to small businesses. SBIR is a key instrument used by the US government to promote and influence the growth of SMEs.

The programme is coordinated by the US Small Business Administration, although the individual departments are responsible for making the awards. Awards are judged according to the degree of novelty, technical merit, and commercial potential.

There are two bands under which funds are awarded:
- Phase I (up to $100,000 over 6 months) - exploring technological idea or feasibility study
- Phase II (up to $750,000 over 2 years) - performing R&D and evaluating commercial potential. Only Phase I winners are considered for Phase II awards.

Although the SBIR scheme specifically excludes the funding of projects once the product or process has reached market, it creates the conditions for commercial investment.

The Small Business Technology Transfer (STTR) programme is similar to the SBIR, but requires the significant intellectual involvement of university researchers who remain primarily employed at their research institution.

Numerous programmes are found in Turkey. Certain official support is available for firms that receive a "state aid certificate" indicating that they are eligible for access to special government programmes. Certain funds are available from government grants as well as from funds provided by international organisations. Turkey does not have an institution specifically dedicated to SME finance, but Halk Bank fulfils many related functions. Halk Bank administers some of these programmes, at times using guarantees from the Credit Guarantee

Fund. KOSGEB, the official institution charged with SME promotion maintains a number of programmes to provide early stage finance. Support for Research and Development is provided by TUBITAK and the Technology Development foundation of Turkey, which distributes grants from the government as well as some programmes funded by the EU and the World Bank. See section 6.

At several places in this document, it has been stressed that due to the diverse financing needs of SMEs it is advisable to have a wide range of financing vehicles tailored to their needs. However, a review of support mechanisms in Turkey reveals that they are concentrated in loans or in grants. Very few, if any, programmes to foster equity investment by the public authorities in dSMEs are found. This would appear to be a fairly serious gap in the total range of financing options, not only in early stage financing but in later stages such as formal venture capital as well. One form of public support for emerging SMEs that is conspicuously absent is public venture capital funds. Such funds exist in several OECD countries at this time and usually will only invest in firms that receive equity investment from other sources, such as business angels or venture capital. TTGV has made some investments of this nature, but their size is very small. The case in favour of broadening such investment is strong. The small amount of official equity capital becomes probably a more serious gap in later stages such as the stage of investment by business angels or venture capitalists than in the early stages of SME formation

As mentioned in the previous section the volume of such support has declined sharply in recent years. It is now an objective of the Action Plan - SPO to increase the volume of support, but also to target official support more effectively in order to further the objective of the overall programme of SME support.

Such financing support can often be combined with other forms of support, such as consulting support in preparing business plans and otherwise advancing the idea from the stage of abstract research to that of commercial viability. KOSGEB also provides some consulting services at this stage. The first phase of the enterprise formation process finishes with the completion of a business plan on the basis of which it is possible to seek outside financing.

4.3.2. *Business Angels*[68]

For those firms that survive the early stages of development, the next step up the ladder is to the "seed" phase. In this phase, a financing vehicle with immense potential is "business angels", i.e. private individuals who invest in unquoted dSMEs. In the United Kingdom it has been suggested that this form of finance becomes effective when the funds to be raised are EUR 75,000 to 200,000 equivalent. In Turkey the threshold would probably be substantially less.

Business angels represent the first level on which the entrepreneur is obliged to deal with persons outside the immediate circle of friends and colleagues. The entrepreneur must persuade a profit–oriented outside investor of the potential of the project. Of course, transparency and the ability to engage in enforceable contracts are crucial, given the low level of formality. Business angels act as a bridge between the earliest forms of informal investment, where it is nearly impossible to separate the act of providing capital from other aspects of starting and managing a company, and the later phases of the life of a company where the separation of functions becomes increasingly sharp. Business angels are active both in companies that are destined to remain as medium-sized enterprises with modest growth potential as well as the prospective high growth companies that will qualify for venture capital. Business angels offer advice and coaching to the founders of business. The technical expertise of the founder of an innovative company often finds a good match in the business acumen of a business angel. Business angels thrive in the environment of incubators and science parks that are part of the proposed support framework for dSME development. Indeed, one of the attractions of such facilities is their ability to place entrepreneurs in contact with prospective investors as well as "mentoring" support.

Business angels can implant broader visions in the thinking of the entrepreneurs, thus converting companies that had only conceived of themselves as having limited growth prospects into venture capital candidates. They may also assist in coping with challenges that are typically faced by owner manager SMEs

such as access to capital for expansion and succession. In the Turkish case, business angels may be able to persuade companies that have been operating as family owned concerns with informal finance of the benefits of tapping formal sources of finance.

Some start-up companies may remain with business angels throughout their entire life cycle while others eventually turn to venture capital finance for all or part of their requirements. Business angels work in co-operation with the formal venture capital sector by seeking out and screening new projects, thereby raising the number of start-ups and increasing the deal flow for venture capital companies. The presence of a well-regarded business angel in a deal may be an attraction to venture capitalists.

Business angels tend to have less structured procedures than venture capitalists. They sometimes accept common stock rather than preferred stock, which is the preferred vehicle of venture capitalists. They will accept a wider variety of exit vehicles and tend to be more '"patient", i.e. willing to accept longer-term investments than venture capitalists.

An important advance aiding the effectiveness of business angels in the past two decades has been the improvement of channels to share information and to provide a means of introduction and contact between SMEs and potential investors. Business Angels Networks (BANs) have the potential to mobilise substantial pools of informal venture capital that were formerly fragmented and invisible, to stimulate demand for equity finance that would otherwise have been latent, and to facilitate investments by creating communication channels.

The matching of investors and entrepreneurs operates in different ways such as computer matching, investment newsletters/magazines, investor forums and fairs. Many BANs utilise the Internet and databases intensively and some are nearly exclusively Internet based. There are national BANs, but many tend to operate on a regional or sub national level. Some of these networks are sponsored by local financial institutions that hope to gain exposure to attractive deals or by local governments wishing to assist local entrepreneurs. BANs may also be sponsored by banks, stock exchanges or venture capital associations. In addition to nationally and regionally organised BAN there are sectoral BAN for biotech, Internet, media etc.

Many analysts conclude that it is very difficult for BANs to generate enough revenue to cover their own infrastructure costs. Thus, it has been suggested that the support for the infrastructure of BANs is one of the most effective ways in which public policy can be used to promote informal investments.[69] Experience suggests that Business Angels Networks are a very cost-effective way in which national or sub-national governments, sometimes in partnership with either non-profit organisations and agencies or private sector organisations, can remove many of the financial and managerial problems encountered by new and recently founded businesses, and technology-based firms. However, care must be taken to ensure that such introduction services form part of a broad package of support measures including through support of science parks and incubators as well as possible direct official equity participation.

One important prerequisite for an effective business angel sector is the possibility for business angels to realise value through exits. These exits can take the form of a final exit, such as a trade sale or IPO, or

Box 32. The Oxfordshire Investment Opportunity Network (OION), UK.[70]

The Oxfordshire Investment Opportunity Network (OION) 1994 was one of the first business angel networks to be established in the UK. It has achieved an unrivalled reputation in the south east of England as a source of finance for technology businesses. It is structured as a private non-profit company but aims to recover costs from sponsorship, membership and success fees. The Network links prospective investors ("business angels") with entrepreneurs seeking early stage funding of £100,000 up to £5,000,000. OION holds monthly investment meetings so that pre-selected entrepreneurs can present their businesses and funding requirements to registered investors.

OION is one of the business support services provided by Oxford Innovation Ltd, the UK's leading operator of innovation centres.

through sales to other investors, especially venture capitalists and other forms of private equity. Some countries provide incentives in the form of tax deduction or credits for investment in specific sectors such as companies with the potential for high growth as well as favourable treatment for capital gains from such investments.

There are reasons to be relatively optimistic about the prospects for business angels in Turkey, provided that the appropriate policy environment is in place. There is a large supply of entrepreneurs with a considerable volume of investment in informal channels. The challenge is to encourage Turkish entrepreneurs to operate through more formal mechanisms and to create the right incentives for both entrepreneurs seeking capital and those with capital to invest to make and accept investments made by persons other than the founders of the firm.

It is often argued that support of BAN infrastructure is one of the most effective policy instruments to support SME finance. Additionally, many observers have concluded that a BAN cannot be successful without support of infrastructure. The authorities, on both national and local levels can provide such infrastructure by making meeting rooms, secretarial support and organisational and communications facilities available to enable BANs and venture capitalists to gain exposure to deal flow.

There is a very close synergy between infrastructure support and access to finance in the case of business angels. Facilities such as science parks, techno-parks and incubators generate micro clusters where business services can be provided and where contact can be maintained with researchers as well as potential suppliers of finance. Because of the need to maintain close ties to innovative entrepreneurs and the supporting research, high tech business angels and venture capital firms, as well as the entrepreneurs they finance, innovative enterprises tend to be concentrated in certain geographic areas near universities and other research facilities. These facilities can be useful in providing a platform for communications between entrepreneurs and potential suppliers of capital, such as business angels and venture capitalists. In addition, contacts are maintained with other sources of deal flow such as universities, government investment promotion agencies, financial institutions, lawyers and consultants.

Business angels can work with the other participants in the model being proposed for Turkey such as consultants, lawyers and IT specialists. The business angel will contribute his own capital as well as his business experience in assisting the new entrepreneur. As the pool of experienced business angels grows larger, there will be many who have experience in bridging the informal and formal phases of business formation and who will have developed a network of contacts with other providers of finance.

In preceding sections, it was stressed that due to the diverse financing needs of SMEs it is advisable to have a wide range of financing vehicles tailored to their needs. However, a review of support mechanisms in Turkey reveals that they are concentrated in loans or in grants. Very few, if any, programmes to foster equity investment by the public authorities in dSMEs are found. This would appear to be a fairly serious gap in the total range of financing options, not only in early stage financing but in later stages such as formal venture capital as well. One form of public support for emerging SMEs that is conspicuously absent is public venture capital funds. Such funds exist in several OECD countries at this time and usually will only invest in firms that receive equity investment from other sources, such as business angels or venture capital. TTGV has made some investments of this nature, but their size is very small. The case in favour of broadening such investment is strong. The small amount of official equity capital becomes probably a more serious gap in later stages such as the stage of investment by business angels or venture capitalists than in the early stages of SME formation.

Summing up

Early Stage Finance

Policies to ease financing for early stage SMEs

1. Increase awareness among entrepreneurs of the range of financing options available through official programmes, private investors and banks.

2. Coordinate the activities of those supplying public funds with the activities of those supplying consulting and other support programmes.
3. Create or expand special funds through which public sector entities make equity investments in dSMEs in partnership with universities foundations and endowments as well as with private investors.
4. Facilitate the development of business angel networks, mainly by providing infrastructure support.

4.3.3. *Venture Capital*

Venture capital is a precisely structured system for providing unlisted equity finance to new dynamic companies. It is the final transitional stage between the less organised financial sector and the traditional capital markets, which are dominated by established publicly listed companies and subject to full capital markets regulation. Venture capital tends to be most developed when earlier stage financing generates a large deal flow and the possibility for "exit" is present. At this time both conditions are absent in Turkey.

By acting as a catalyst for research, entrepreneurship and disciplined finance, venture capital has proven to be a powerful tool to stimulate the economic application of research and to shorten product development cycles. In venture capital, the separation of function that first appeared when entrepreneurs approached business angels becomes more distinct, with different parties providing entrepreneurship, technical skills, business skills and capital. The venture capitalists screen potential deals, raise funds, structure appropriate financing and monitor performance. The form of investment favoured by venture capitalists is convertible preferred equity, which can be converted into common stock at later stages of the cycle and used as a means of exiting and realising value. Only a small fraction of business plans submitted to venture capital companies are accepted. Of those accepted, it is expected that a substantial number will fail, most will produce acceptable results and a very few will produce extraordinary rates of return.

Venture capital investments typically proceed through several stages from "seed" before production has begun, through "early stage" and through one or more "expansion" or "development" rounds. See Table 14.

Table 14. **Stages of Venture Capital Finance**

Phases	
Preparatory	Pre-seed
Early Stage Start-up	Seed
Expansion	Various rounds
Late Stage Mezzanine	
Exit Trade Sale Initial Public Offering	Management Buy Out

By investing in stages, venture capitalists increase their control over the company. Each stage offers the venture capitalist the possibility to re-evaluate the investment and/or to re-negotiate arrangements. At the end of the process the venture capitalist aims to realise a return on the investment through "exit", either from a trade sale or an IPO.

There is a close connection between venture capital and private equity. The expression "venture capital" is used in this text to mean formal private equity financing of new companies; venture capital is considered to be a sub-category of "private equity."[71]

The main forms of private investment are venture capital as discussed and various forms of "buy-out" and other financial restructuring operations. In all forms of private equity, the degree of involvement by investors (especially general partners) is much higher than in publicly traded companies. Owing to the need for close control by owners during a period of corporate restructuring, the owners of the company must act in concert, sometimes in ways that would not be permitted under laws governing publicly owned companies, and must rely only on informal communication with management and entrepreneurs, rather than on public disclosure. The investment remains illiquid and valuation remains indeterminate for a considerable period. The investor's goal is to hold the company for a limited time, while performing certain financial or operating restructuring and eventually to exit. Because of the need to satisfy institutional investors, venture capital tends to be rigorous in terms of the rate of return expected and the time for which the investment is held. On average, the period from the initial start-up investment through exit is about seven years.

It is frequently observed that the levels of development of venture capital vary considerably among OECD countries and regions. The OECD identifies six reasons to explain the variation in the provision of venture capital among countries and regions and suggests conditions that taken as a whole favour the development of vibrant venture capital industries.[72]

1. High levels of entrepreneurship and informal investment, reflecting a favourable overall economic and social climate and infrastructure;
2. Appropriate pools of savings and flexible regulation of institutional investment that facilitate the investment in risk capital;
3. Appropriate legal structures for venture capital;
4. Presence of exit vehicles, including functioning M&A markets and access to public equity markets suited to high growth companies;
5. Taxation policies that encourage entrepreneurship or venture capital and
6. Other government policies.

The venture capital fund brings together venture capitalists who are general partners, and passive investors who are limited partners. The partnership has a definite life after which it terminates. The venture capital firm will normally have a number of investments at various points of the investment cycle. Thus, venture capital provides for high growth companies to gain access to institutional forms of savings. The largest suppliers of capital (passive investors) for this sector are institutional investors, but banks (acting through specialised subsidiaries for VC equity investment), non-financial companies, and government sometimes provide capital as well. (See Table 15)

Table 15. **Typical sources of funds for Venture Capital**

Bank (subsidiaries that offer venture capital to present and prospective clients)
Investment Banks
Institutional Funds especially Pension Funds
Collective Investment Schemes
Industry (subsidiaries use venture capital to access research and identify acquisition candidates.)
Foundations and Endowment Funds
High Net Worth Individuals
Foreign Investors
Government – through fund of funds

4.4. Prospects for Venture Capital in Turkey

The effort to develop venture capital poses a more fundamental challenge in Turkey than that of developing BANs, where a large pool of home-grown entrepreneurs already is present. In fact many relatively advanced countries have experienced problems in building active venture capital industries. However, as was emphasised at the outset, it is extremely desirable to develop venture capital as part of the total ladder of financing.

Using the OECD analysis of conditions that favour development of venture capital cited above, the following points highlight some ways in which the government can foster the development of venture capital.

4.4.1. *Develop Efficient Vehicles for Investment in Venture Capital*

In many countries the lack of appropriate legal vehicles represents an impediment to the development of venture capital. The private equity partnership as found in the United States and the United Kingdom has been highly efficient of this purpose, but this is specific to the Anglo-American legal system. Equivalent mechanisms must be found for other countries that are compatible with their own legal systems. Most countries may need to experiment for several years to find a suitable legal structure. The European Venture Capital Association (EVCA) recommend for example that the legal vehicle should avoid exposing investors to double taxation and management charges and carried interest should be exempt of value added taxes.

Box 33. Limited Liability Partnerships (LLPs), UK

Limited Liability Partnerships (LLPs) were introduced in the UK in April 2001. Unlike partnerships, they enjoy the commercial benefits that come from being a separate legal entity and their members benefit from the protection of limited liability. They can also, unlike partnerships, create and issue debentures and give floating charges over assets including book debts – making it potentially easier to finance the business. At the same time, LLPs can operate with the organisational flexibility of partnerships and are taxed as such. Members are taxed on the profits of the LLP rather than the two-stage taxation of a limited company (company profits taxed and then shareholders' income taxed). The trade off for limited liability status is a statutory requirement of disclosure similar to that for private limited companies.

In earlier years Turkey adopted legislative measures to stimulate risk capital. Turkey created Risk Capital Investment Partnerships and Funds, which enjoy significant tax benefits. However, the size of the Turkish VC sector remains very small and few attempts have been made to structure deals. Thus, it is difficult to determine whether deficiencies in the legal framework for venture capital investing represent a serious obstacle to the development of the venture capital sector.

Policy recommendations by the European Venture Capital Association indicate that the legal vehicle should not expose investors to double taxation and should not be subject to value added tax on management charges or carried interest.

4.4.2. *Encourage Institutional Savings*

The shortage of institutional savings represents a major obstacle to the growth of the Turkish venture capital industry. The domestic institutional investor sector in Turkey is extremely small by international comparison. Savings are private, not institutionalized, apart from housing co-operatives and investment funds by banks. The assets of all institutional investors amount to only 4 per cent of GDP by far the smallest share of any OECD country (See Table16).

Since the venture capital sector uses funds raised from institutional investors, the lack of institutional savings in Turkey is a serious handicap. Indeed, it is a serious impediment to the development of the entire capital market. In addition, the prudential regulations that apply to pension funds and insurance companies in many countries often make it difficult or impossible for them to invest in unlisted equity.

Institutional savings and retirement funds form an investment reserve that fuels growth of the economy by investment in wealth generating enterprises. The bulk of such funds is usually invested in low risk securities. Moreover, pension fund investment is subject to regulation to protect the interests of prospective

Table 16. **Financial Assets of Institutional investors in OECD countries as a percentage share of GDP**

Turkey	**4.44**
Slovak Republic	7.19
Poland	9.65
Mexico	11.7
Hungary	14.27
Czech Republic	15.14
Greece	27.45
Norway	46.53
Portugal	51.87
Spain	61.86
Austria	75.69
Korea	77.22
Germany	80.99
Finland	81.91
Italy	93.96
Japan	94.67
Denmark	103.23
Belgium	109.02
Iceland	113.64
Canada	115.81
Australia	129.73
France	131.84
Sweden	153.55
United Kingdom	190.88
Netherlands	190.94
United States	191.01
Switzerland	232.66
Luxembourg	4337.2

pensioners, increasingly, it is becoming accepted practice for such funds to invest a small percentage of their total assets in alternative asset classes, including venture capital funds. A relaxation of the regulations may be required to permit such investments to be made, and precedence to guide fund trustees will need to be established. In the UK, for example it is now customary for local government pension funds to invest up to 5% of their fund in the local dSME sector. In view of the extremely low level of institutional savings in Turkey, even if Turkish institutions were to follow such norms they would not be able to make a significant contribution to SME finance without a significant rise in institutional savings. Nonetheless, it is advisable to review regulations to permit such investment. If Turkey manages to increase institutional savings, it should be able to invest those savings in their most productive uses.

Scrutiny of data[73] on mutual funds and pension funds in Turkey indicates that these institutions are investing in equity to some degree. While these institutions may be authorized to invest in companies on second tier or growth exchanges, it is unclear whether they would be permitted to invest in unlisted equity. In any case, given the extremely small amount of institutional savings and given the fact that institutional investors only place small shares of total assets in "alternative asset classes", Turkish institutions do not have a great capacity to provide large scale finance to the venture capital sector at this time.

One useful form of institutional investment that is particularly relevant to high growth SMEs consists of special investment instruments tailored to investment by individuals in venture capital. Many countries in Europe have introduced such instruments, usually with tax deductions and mitigation of capital gains taxes that encourage investment in unlisted equity or companies listed on special exchanges for newer companies. Examples are Venture Capital Trusts in the United Kingdom or Fonds Communs de Placement en Innovation in France. These funds can also invest in companies listed on second tier or "growth" exchanges. These funds usually enjoy the same tax advantages as direct investment in innovative companies as described above. Apparently there are two Venture Capital Trust Companies in Turkey founded by Vakıfbank and Isbank; Vakıf Girisim shares are listed on the stock exchange while Is Risk is planning to go public.

4.4.3. *Introduce Fiscal Incentives to Promote Equity Investment in* SMEs

As mentioned in section 4.1.1, the most serious fiscal distortion in the Turkish system is that high rates of taxation and double taxation of investment income encourage businesses to avoid formal channels and operate in the "grey economy. "Accordingly, the highest priority should be to level the playing field by reducing marginal tax rates and simplifying tax codes.

At present tax relief is available for investors who invest in recognised venture capital funds. This measure is capable of supporting enterprises that reach the stage of formal venture capital, but provides no benefit to SMEs that do not have access to formal venture capital. The tax system should make comparable tax relief available for investors in schemes such as business angels.

Investors in Turkish venture capital funds receive a tax deduction at the time of investment and are eligible for tax relief for long term investments. This is in line with international practice.

At the same time, it is important to adopt a careful approach to tax incentives. Tax benefits that are not very precisely targeted can have the effect of attracting funds into the sector merely as a means of tax avoidance without commensurate benefits on the real side of the economy. [74]

4.4.4. *Attract Foreign Venture Capital*

Most countries in Southern Europe and transition countries in Central Europe have encountered shortages of institutional savings and venture capital skills similar to Turkey. As a result, foreign venture capital firms provide most funding. At this time, it is estimated that total dedicated funds in the Turkish VC market amount to about $250 million. Nearly all are offshore funds, as local regulatory and tax rules are untested and international investors often prefer to deal through offshore funds. While this may not be the optimal situation in the long run, a significant presence of foreign venture capitalists can assist in launching an indigenous industry, which can become self-sustaining as domestic sills and institutional savings gain critical mass.

Encouraging foreign venture capital firms to augment their presence in Turkey should be a priority in improving the financing prospects of dSMEs. By exposing the Turkish market to the practices of foreign venture capitalists rigidities in the system can be identified and Turkish venture capital firms can align their practices with international norms. Any regulations that may inadvertently discriminate against foreign investors in venture capital should be reviewed.

At this time, Turkey has two competing venture capital associations. This makes it difficult to arrive at common positions and to engage in dialogue with international partners. A unification of these bodies would be useful.

4.5. Exit Vehicles

Venture capital needs exit vehicles to thrive. Most venture capital operations end with trade sales (including management buy-outs or management buy-ins). Due to the very small volume of deals in Turkey, it is difficult to ascertain whether any impediments to merger and acquisition activity impede investment in venture capital.

One likely source of exits is the purchase of Turkish companies by foreign strategic investors. This is phenomenon is closely tied to foreign direct investment (FDI). Data reveals that FDI flows to Turkey are much smaller than those to other OECD countries at comparable levels of development. It is therefore desirable for turkey to review its system of incentives for FDI in order to enable Turkish companies to develop strategic links with foreign investors.

Only a small amount of venture capital deals ever exit through the IPO route in any country. Since the "tech" market crash of 2000 the number of IPOs has contracted in most markets. Nevertheless, the prospect

of eventually exiting through an IPO has value in building aspirations among entrepreneurs and also assists in valuing both listed and unlisted companies.

There already exists a Second National Market at the Istanbul Stock Exchange that is tailored to the needs of smaller companies with less stringent listing requirements albeit with more frequent reports. However, interest in obtaining listings on that board on the part of companies is reportedly not great. Furthermore, a new exchange specialized in innovative companies is planned. Among the problems that frequently inhibit progress of second tier exchanges are the lack of a natural investor base, lack of liquidity of listing companies and lack of information and research coverage of listed companies. A comprehensive plan to develop such an exchange would bring about a reasonable range of exit vehicles in order to allow new companies to gain access to the full range of investment options.

In addition it should be noted that many exchanges specially tailored to innovative or high technology companies that were formed in the later 1990s have closed, or many of their listed stocks have become illiquid. Thus, it is not obvious that the formation of a specialised market for such shares is the best solution for Turkey. It may be equally efficient for Turkish firms to be listed in offshore "growth" markets.

More exits take place through "trade sales", i.e. acquisition through a strategic buyer rather than through an IPO (public offering). Thus any barriers to domestic mergers and acquisitions represent diminution of the possibilities for exits. Similarly, the capability to attract foreign direct investment (FDI) is a crucial measure of the opportunities for exit via a sale to foreign strategic investors. In this context, it should be pointed out that Turkey has an extremely low volume of FDI, much lower than countries in comparable income categories. The low level of FDI was cited as a structural impediment to adjustment in the most recent OECD Survey of Turkey.[75]

Table 17. **SME and Technology Related Market Requirements for the Istanbul Stock Exchange (ISE)**

Second National Market of the ISE	New Economy Market of the ISE
SMEs with growth potential	Technology Companies (telecommunications, information and computer technology, media, etc.
Must be registered with the Capital Markets Board	Must be registered with the Capital Markets Board
No quantitative admission criteria for the ISE	No quantitative admission criteria for the ISE
Stocks not fulfilling National Market listing requirements are admitted	

Summing Up

Venture Capital

Policies to ease financing for venture capital:

1. Develop necessary investment vehicles. Assess whether existing legal forms for venture capital investment need improvement.
2. Facilitate access to institutional capital. Increase institutional savings as part of the overall financial reform. Assess whether existing regulations on institutional investors discourage investment in venture capital. Adapt regulations on institutional investors to permit investments in venture capital, if investment is compatible with prudent investment management.
3. Utilise special instruments designed to facilitate investment in venture capital. Assess whether existing structures for Risk Capital Investment Partnerships and Trusts need to be improved.
4. Facilitate Investment by foreign venture capital firms.
5. Develop exit vehicles. Review rule for listing on main board of exchange. Proceed with programmes to develop a special board for growth companies Facilitate possibilities of SMEs to list on other growth markets.

6. Review regulations concerning mergers & acquisitions (M&A) to determine whether obstacles are present that inhibit trade sales. Review regulations to determine whether policies discourage foreign acquisition of domestic companies.

7. Set up a single national VC Association to lobby and educate the Government, investors, and commerce about the benefits and the operation of venture capital markets.

NOTES

16. 2nd OECD Ministerial Conference on SMEs, Istanbul 2004

17. www.whitehouse.gov

18. The US Small Business Administration, http://www.sba.gov/financing/basics/smallbusinessagenda.html

19. OECD Economic Survey - Turkey 2004, pp145-151

20. ibid

21. White Paper on Corporate Governance in South East Europe, OECD, June 2003

22. Source IASB Press release June 2004

23. www.insti.de (includes an English version)

24. www.businessadviceonline.org/smart

25. www.sba.gov/INV/overview.html

26. www.young-enterprise.org.uk

27. www.gencbasari.org

28. www.ja-ye.org

29. TUSIAD, 2002, Turkiye' de Girisimcilik, Istanbul

30. SME Strategy and Action Plan SPO January 2004

31. www.ktponline.org.uk/

32. www.venturefest.com

33. www.dti.gov.uk/ost/ostbusiness/unichal.htm

34. Entrepreneurship and Innovation in Europe, The Oxford Trust

35. http://europa.eu.int/

36. Small and Medium-sized Enterprises in Turkey Issue and Policies OECD 2004 Chapter 3

37. Doing Business in 2005, Removing Obstacles to Growth, http://rru.worldbank.org/doingbusiness

38. www.yased.org

39. The Forum for Entrepreneurship and Enterprise Development (FEED), launched jointly by OECD and UNIDO for transition economies published two publications which could be of particular interest also for Turkey; "Entrepreneurship and Enterprise Development in Transition Economies – Policy Guidelines and Recommendations", OECD and UNIDO (1999) and "Effective Policies for Small Business – A Guide for the Policy Review Process and Strategic Plans for Micro, Small and Medium Enterprise Development, OECD and UNIDO (2004)

40. www.connect.org

41. See "Helping Business Start up – A 'good practice' Guide for Business Support Organisations", European Commission, Enterprise Directorate-General, 2002

42. www.stw.de

43. www.lesi.org

44. www.gate2growth.com

45. www.isis-innovation.com

46. www.topspin.org

47. Entrepreneurship and Innovation in Europe, The Oxford Trust

48. Business Incubation, International Case Studies, OECD,1999, p.p. 149

49. www.nbia.org

50. Adapted from UKBI Impact Assessment Study 1999/2000

51. www.barcelonanetactiva.com

52. www.gorillapark.com

53. www.oxin.co.uk

54. www.seeda.co.uk

55. The Competitive Advantage of Nations, Michael E Porter, 1990; Clusters and the new economics of competition, 1998).

56. Final Report of the Enterprise Group on Networks and Clusters, Europa, EU

57. Networks, Partnerships, Clusters and Intellectual Property Rights: Opportunities and Challenges for Innovative SMEs in a Global Economy, OECD 2004

58. www.competitiveness.org

59. Source Oxford Innovation Ltd, Oxford UK

60. TUSIAD, Entrepreneurship in Turkey, December 2002

61. OECD Survey of Turkey 2004

62. SME strategy and Action Plan page 37.

63. Ibid pp 18-20.

64. This is one of the main conclusions of the OECD Survey of Turkey 2001-02. See especially pages 105-109.

65. Ibid 44-45.

66. The need to inject greater flexibility in the banking sector in order to service the informal economy has been highlighted in OECD Reports. In particular, see Economic Survey Turkey, 2001-02, especially pp 65-112.

67. www.eng.nsf.gov/sbir/

68. European Business Angels Network, http://www.eban.org/

69. (1999) Public Policy and the development of the Informal Venture Capital Market: UK experience and lessons for Europe. In K. Cowling (ed.) Industrial Policy in Europe: Theoretical Perspectives and Practical Propositions, London Routledge.

70. www.oion.co.uk

71. Other categories of private equity transactions are "buy-out" or "buy-in" operations involving restructuring of mature companies. The expression "venture capital" is used in the United States to mean formal private equity financing of new companies; venture capital is considered to be a sub-category of "private equity." In the United Kingdom and in some other European countries, "venture capital" is used to mean all private equity operations, including buy-outs. The EU defines "risk capital" to mean all private equity as well as "growth" equity markets. See John Thompson "Risk Capital in OECD Countries: Recent Developments and Structural Issues" OECD Financial Market Trends (82) June 2002.

72. Ibid.

73. Data provided by ISE November 2004

74. It may be advisable to perform an overall assessment of the impact of tax policy on investment in dSMEs. Thus the OECD produced an assessment of tax policy on foreign direct investment (FDI) which drew many conclusions that are relevant for investment in the SME sector. See "Tax Policy Assessment and Design In Support Of Direct Investment: A Study of Countries in South East Europe." OECD Centre for Tax Policy and Administration in Co-operation with the Investment Compact Team, OECD Directorate for Financial and Enterprise Affairs. December 2002

75. Economic Survey Turkey, 2004, especially pp 142-145.

REFERENCES

Entrepreneurship and Innovation in Europe, The Oxford Trust, 2000

Final Report of the Enterprise Group on Networks and Clusters, Europa, EU

K. Cowling (ed.) Industrial Policy in Europe: Theoretical Perspectives and Practical Propositions, London Routledge.

IASB Press release June 2004

Impact Assessment Study, 1999/2000, UKBI

National Dialogue on Entrepreneurship, USA, News 12/11/2004

OECD Economic Surveys, Turkey, 2004

OECD Economic Surveys, Turkey, 2001-02

OECD SME Outlook 2002

OECD Second Ministerial Conference on SMEs, Istanbul 2004, Background Reports

OECD Small and Medium-sized Enterprises in Turkey, Issue and Policies, 2004

The Result of Technological Innovation Activity Survey in Service Sector, Turkey, published 27/01/2004

The Result of Technological Innovation Activity Survey in Manufacturing Industry third Quarter 2003 Turkey, published 6/01/2004.

The Competitive Advantage of Nations, Michael E Porter, 1990; Clusters and the new economics of competition, 1998)

TUSIAD, Entrepreneruship in Turkey, 2002

Sabanci University Nov 2002

SME Strategy and Action Plan Turkey, SPO January 2004

World Bank Country Study Developing Securities Markets Chapter 4 pp53-54

Best Practices for the Development of Stock Exchanges in Transition Economies, Federation of Eur0-Asian Stock Exchanges

Benchmarking Business Angels, BEST Report No 1 2003, Enterprise Directorate, EU

LINKS

www.businessadviceonline.org/smart

www.biotechnet.co.uk

www.barcelonanetactiva.com/

www.competitiveness.org/

www.connect.org/

www.die.gov.tr/

www.dti.gov

www.dti.gov.uk/ost/

www.ebn.be/

www.eng.nsf.gov/sbir/

www.eureka.be/

http://europa.eu.int/

www.gate2growth.com

www.gencbasari.org/

www.gorillapark.com/

www.isis-innovation.com/

www.insti.de/

www.ja-ye.org/

www.kosgeb.gov.tr/

www.ktponline.org.uk/

www.lesi.org/

www.nbia.org

www.oion.co.uk/

www.oxin.co.uk/

www.publicforuminstitute.org/nde/

www.sba.gov/inv/overview.html

www.sbs.gov.uk

www.seeda.co.uk/

www.spice-group.de

www.stw.de/

www.topspin.org/

www.tusiad.org/

www.ukbi.co.uk

www.venturefest.com/

www.whitehouse.gov/

www.young-enterprise.org.uk/

www.yased.org

Table 18 (*refer to section* 3.1). **A Schematic Summary of Proposal for Turkey**

Dynamic Small Enterprise		**Bank**	**Supportive Institutions**
During foundation: Projects Investment capital Working capital Accounting software		Mandatory at Foundation: Bank is selected by the enterprise Current Account is opened Payroll Account is opened Bank Credit Account (provision for enterprises with insufficient collateral through Credit Guarantee Fund) Credit Card Account for business expenses	Chamber of Commerce- sub-sector division Membership of Professional Associations (Lobbying) Accounting Firm Audit Firm Membership of Environmentalist Institutions. Membership of Corporate Government. Association. Business and Management Consultants (Abigem) Business Development Centers KOSGEB membership (access to e-bulletins) Technoparks, universities R&D: Prototype Patent Courses/Seminars: Technology, Managment, Marketing
In every enterprise: PC Web Site e-mail address e-signature	Info & Comm. network	(Amendment to the new banking law) e-bulletins	
Bank credit Incubation Angel capital Venture capital Public offering	Finance	Bank credits granted based on the project Premium payments to the Guarantee Fund Public offering + Consulting incentives	Credit Guarantee Firms (Capital by Banks) KOSGEB-TEKMER-Incubation Registered Angel Firm Venture Capital Firm (with Credit Guarantee Firm) Membership of KOTEDER
Tax exemptions: Small enterprises, Angel and Venture Capital, Credit Guarantee Fund, Corporate tax and income tax exempts to SME's			