

## Entrepreneurship

### IMPROVING THE FRAMEWORK CONDITIONS FOR SMALL AND MEDIUM-SIZED ENTERPRISES

- ▶ Small and medium-sized enterprises (SMEs) are a key part of Turkey's economy. The value-added created by SMEs increased by around 6% in the post-crisis period and employment in SMEs grew by around 9%.
- ▶ Turkey's SME agency has a sound SME strategy and coordinates an extensive range of business development services. It is also working towards improving SME's access to finance.
- ▶ Turkey has recently enacted reforms to its company registration and insolvency procedures, which were costly and complex in comparison to other OECD countries. The effectiveness of these measures needs to be evaluated and further steps taken if necessary to stimulate business development. There is a need to monitor financial sector stability given the significant expansion in credit to SMEs in recent years.

#### What's the issue?

SME policy in Turkey has been strengthened in recent years. In particular, progress has been made in the institutional framework for SME development, standardisation, technical regulation and support services for SMEs. In all of these areas, Turkey is now the best performing country in the OECD's SME Policy Index. Moreover, a strong SME strategy is in place and a steering committee has been established to monitor and evaluate the activities of Turkey's SME agency.

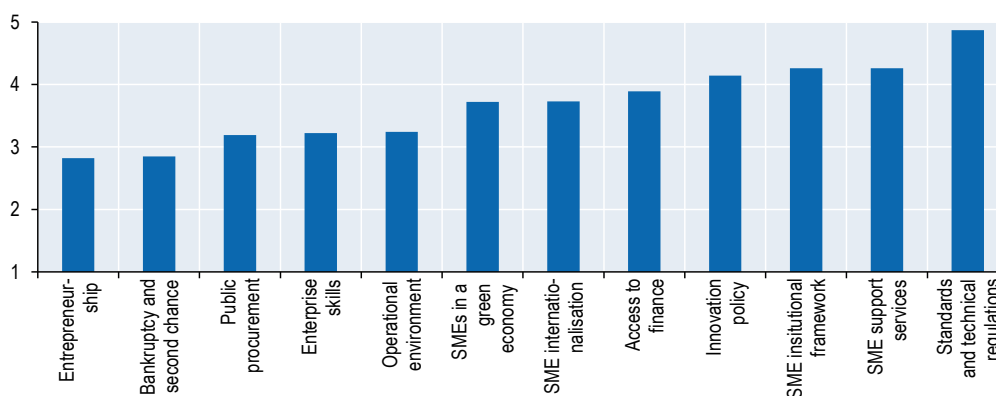
Turkey has room to do better, however (see Figure). In 2016, Turkey, has taken steps to reform the insolvency procedure and facilitate company formation, including a system to register online. Both procedures were considered as complex and costly (as, for example, illustrate by the

recovery rate of liquidations, standing 18.7% compared to an average of 73.0 for high-income countries in 2015) and, pending of the effectiveness of these recent reform efforts, further action may be welcome.

Although restarters usually experience faster growth than newly established companies and have higher survival rates, second chance among entrepreneurs is not promoted in Turkey. Informal market activity remains high (the share of unregistered firms in the total number of firms is estimated at 31%, compared to the OECD average of 18%), in part due to bureaucracy, red tape, and rigid employment regulations, and has been recognised by SMEs as one of the major obstacles for doing business in Turkey. However, precautions are taken to prevent informal market activity.

#### Turkey has room to further improve SME policy in a number of areas

SME Policy Index, from 1 (worst performance) to 5 (best performance), 2015



Note: The areas in which Turkey is not yet the best performing country are highlighted in red. The entrepreneurship component comprises entrepreneurial learning and female entrepreneurship.  
 Source: OECD/EU/EBRD/ETF/SEECEL (2016), SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe, OECD Publishing.

Also the public procurement system can be improved, since currently contract thresholds (above which procurement procedures cannot be closed to foreign economic operators) are twice that of the EU and there is no law that regulates late payments to contractors.

Access to external financing also constitutes a major challenge for many SMEs, especially those in less developed regions and those operating in the informal economy. A relatively high proportion of small businesses are completely excluded from access to bank credit and alternative sources of finance such as micro-finance or capital markets are generally underdeveloped. Late and non-payments of invoices also represent a considerable strain on the cash flow of Turkish SMEs.

The government has introduced an extensive set of measures to help SMEs in need of financing, mainly via interest rate subsidies, loan guarantees and direct lending. In recent years, the government has especially been active in promoting the diversification of financing options for its SME sector. Notable examples include the introduction of a regulatory framework for leasing and factoring in 2012, the introduction of a new law facilitating the pledge of movable assets, generous tax incentives and a conducive legal support for the business angel industry, both introduced in 2013, and the commitment of the Turkish Treasury to inject more than TRY 2 billion in a fund of funds for the venture capital industry between 2015 and 2018. In addition, the Turkish Government has introduced measures to support the creation and development of specialised vehicles for small and mid-sized stocks on the Istanbul stock exchange, and introduced a dedicated fund of funds and co-investment programme in order to stimulate the venture capital industry.

Even though many SMEs face difficulties in accessing credit, inflation-adjusted credit to SMEs almost tripled between 2009 and 2014. This increase, which was partly to strong competition in the banking sector and foreign entry, seems to have benefited only a selected group of SMEs and is potentially risky for Turkey's financial sector. The country has witnessed an increase in both SME bankruptcies and SME non-performing loans since 2014, although from relatively low numbers. The latter are estimated to have increased to 4.4% of all SME loans in the first quarter of 2016, up from 3.4% in 2014.

## Why is this important for Turkey?

SMEs account for 73.5% of employment in Turkey (compared to 63% for the OECD area), and more than half of value added and exports. They are thus essential to create jobs for a growing labour force and to boost productivity, growth and competitiveness. They are also relevant for helping to absorb and integrate the influx of refugees that Turkey is currently facing.

## What should policy makers do?

- ▶ Introduce regulatory impact analysis and SME tests.
- ▶ Closely monitor and evaluate the recent measures to streamline business registration procedures and the newly introduced online company registration.
- ▶ Ensure full implementation of the Programme of Reducing the Informal Economy and further step up actions to target this issue.
- ▶ Better match business development services with SMEs' needs.
- ▶ Improve the public procurement system by reducing the contract thresholds and establishing a law on late payments to contractors.
- ▶ Reform insolvency procedures, in particular to allow for the restructuring of viable businesses in distress, for example through (out-of-court) debt restructuring negotiations.
- ▶ Carefully monitor financial sector stability and, if necessary, take action to prevent a "hard landing" of the credit boom, using monetary policy tightening, countercyclical fiscal measures and appropriate macro-prudential policies.
- ▶ Develop a programme to improve financial capabilities of entrepreneurs and business owners within the National Strategy for Financial Education.
- ▶ Examine the cost efficiency of the policy measures intended to stimulate non-bank sources of financing, in particular the recently introduced tax incentives to angel investors.



## Further reading

G20/OECD (2015), *High-Level Principles on SME Financing*. <https://www.oecd.org/finance/G20-OECD-High-Level-%20Principles-on-SME-Financing.pdf>

OECD/EU/EBRD/ETF/SEECCEL (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, OECD Publishing. <http://dx.doi.org/10.1787/9789264254473-en>

OECD (2016), *Financing SMEs and Entrepreneurs 2016: An OECD Scoreboard*, OECD Publishing. [http://dx.doi.org/10.1787/fin\\_sme\\_ent-2016-en](http://dx.doi.org/10.1787/fin_sme_ent-2016-en)