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D03477



Distr.  
LIMITED

ID/WG.93/20  
4 August 1971

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

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Meeting on Promotion of Small  
Industries in the RCD Countries  
Tehran, Iran, 11 - 17 April 1971

THE SMALL INDUSTRY FINANCING IN TURKEY <sup>1/</sup>

by

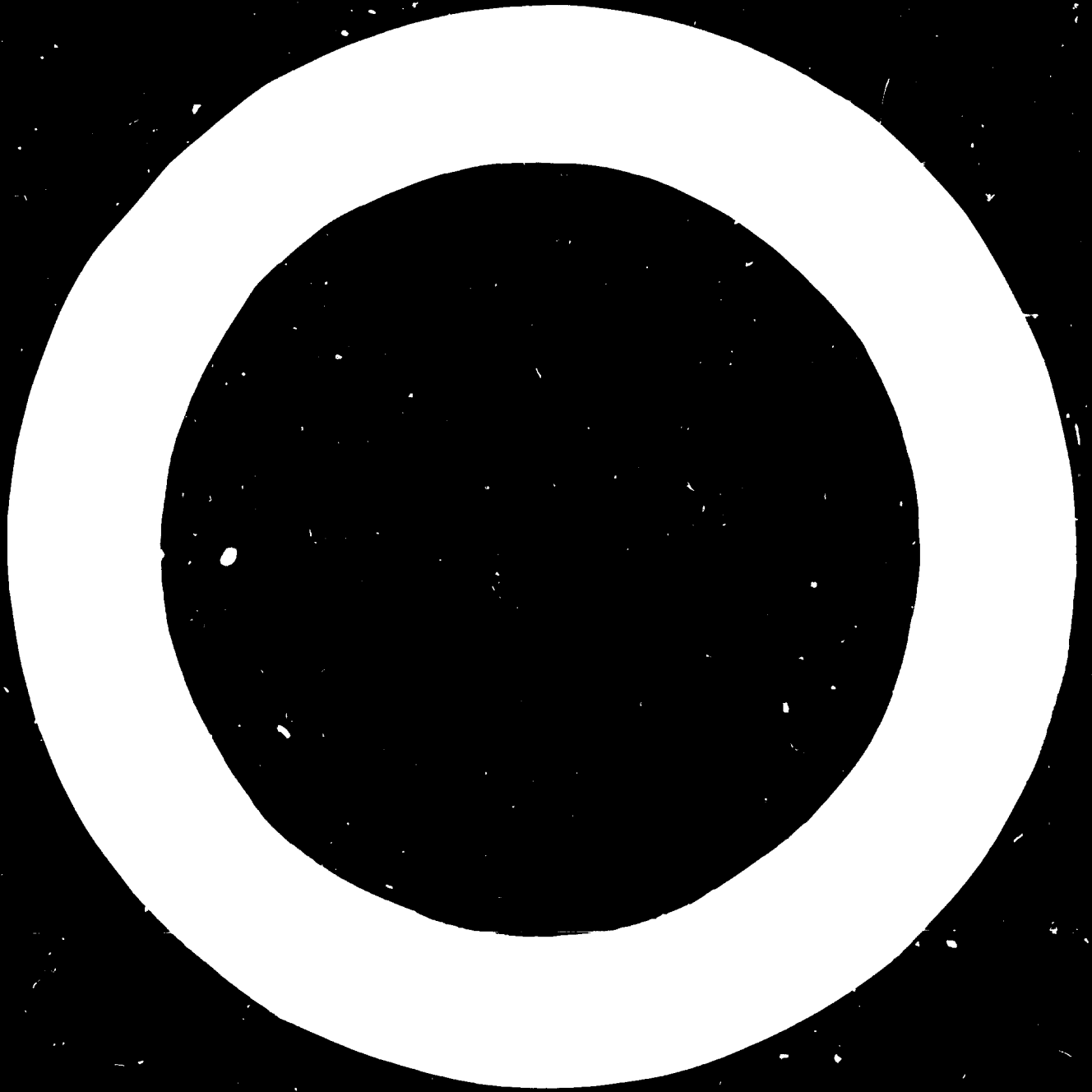
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id:71-5463

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THE SMALL INDUSTRY FINANCING  
IN TURKEY

1. The banking system in Turkey consists of 46 banks, other than the Central Bank, of which 41 are national and 5 are foreign companies. These banks have branches of about 3,000. The main credit source of the system is saving accounts. The own resources of the banks are insufficient.

2. The tools which are used by the Government for the allocation of the bank funds in accordance with the targets of the Five Year Plans and the annual programs are the encouraging measures. The interest rates and the rates of all kinds of benefits and commissions which can be charged by the banks are determined by the Government.

3. The commercial banks in Turkey are operating in mixed banking system, every bank can deal with all kinds of banking operations, because of unspecialisation. Even the banks, which were established to work particularly in certain sectors, such as, Bank of Agriculture and Halk Bank ( People's Bank )

4. In Turkey, as a result of the early stage of economic development, the banking system has channelized its funds to domestic trade which involves mostly agricultural activities and import. The trade and import activities are generally financed by the short term, usually three month credits. In the last years a new operation branch, that is the medium term lending activities, has come out as a result of the development of the industrial and export sectors. This new credit demand was not significant in the beginning, and it was met through the short term commercial credits of the commercial banks which were renewed at every three month periods. These credits which were used to achieve investments or to meet the needs for medium term operation capital, were lost their liquidity for the banks, and after each renewing turn to have the characteristics of the long term credits for the entrepreneurs.

5. The medium term credit is a new subject both for the banking system and the entrepreneurs. The reason is that the entrepreneurs did not need the medium term credits for a long period. Also, the Central Bank law does not permit to rediscount the commercial or industrial origin bonds with a term longer than three months (exception was for the agriculture and small industry origin bonds, nine months). The limits of interest rates for medium term credit is undetermined in

the general interest rate system. And there is a spread out opinion that the medium term credit interest rate should be cheaper than the rate of the short terms.

6. In 1970's the economic and industrial development which has reached to a rapid process spread the requirements of reorganization of banking and credit system. The main causes of the reorganization requirement were based mainly on the changes in the structure of industry (increased in value added, big size projects, competitive market, decreasing profit margins and increasing amortisation rates) and the concepts of entrepreneurship.

7. The distribution of the total credits of the banking system is given below. The credits which are channalized to small business through Halk Bank was 2,8 percent of total credits of the banking system in 1969.

But in the following table, the figure about the small business credits does not represent the real and total credit amount which is used by small entrepreneurs. It is beleived that there is a certain amount of credit flow from the banking system to small entrepreneurs, partly from domestic and foreign trade credits and industrial credits and partly from " other credits " which are less than 25000 TL.

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 Distribution of the total bank credits among the sectors (%)

	1967	1968	1969
1. Agricultural credits	22,84	26,01	26,01
2. Industrial and mining	27,44	29,75	30,24
a. Industry	23,23	26,21	26,67
b. Mining	1,87	,85	,77
c. Small business and industry	2,34	2,69	2,80
3. Energy	4,62		
4. Construction	8,16	6,99	6,20
a. Housing	7,26	6,20	3,23
b. Others	,90	,79	2,97
5. Local administrations-Municipal.	5,60	5,62	4,86
6. Foreign trade	10,22	10,08	9,98
a. Export	4,05	3,34	3,55
b. Import	6,17	6,74	6,43
7. Domestic trade	8,60	10,27	10,71
8. Other credits (generally less than 25 000 TL.)	12,52	11,28	12,00
Total	100,00	100,00	100,00
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Total bank credits (billion TL.)	25,1	28,8	34,6

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8. Halk Bank, which is a specialized credit institution to finance small businessman, craftsmen and small industrialists was set up at 1938. The bank has a statute of state economic enterprise. It is a full service bank, according to general



tendency in the banking system, it also deals with other credits and banking activities besides the small business finance. As the banking system has a mixed character, other credit institutions also finance small businessmen and industrialists through commercial and industrial credit schemes. For instance a small industrialist has the possibility to apply both to industrial development banks, Halk Bank, and commercial banks for his needs.

The present net sources of the Bank are as follows:

Million TL.	200	paid capital and reserves
	700	rediscount credit obtained from the Central Bank
	600	deposits
	225	other Government funds
	125	the pledged assets of the credit guaranteed coops.
	1850	total

9. The bank has 202 branches all over the country. Beside these branches bank can reach to smaller communities through credit guarantee cooperatives. There were 465 credit guarantee cooperatives at the end of 1970.

10. As it was mentioned above, the bank gives both commercial and professional credits. But the share of commercial credits in the total credits is quite small and in reality the bank feels necessity to operate in that area for to compensate the risks and the losses of the professional

credits with the profitable commercial credits, and to attract institutional and personal savings of certain well to-do groups.

11. The distribution of the total credits are shown below:

- (1) Commercial credits
- (2) Professional credits
  - (a) Through credit guarantee coops
  - (b) Direct credits to customers
    - (i) To small businessmen
      - Short term credits ( up to 9 months )
      - Credits for working capital
      - Investment Credits
      - Credits for drivers to buy a new taxi cap.
    - (ii) To small industrialists
      - Medium term credits for machinery and machine tools
      - Medium and long term investment credit
      - Credits for handicraft coops.
    - (iii) For industrial estates
      - Credits for industrial estates
      - Credits for small industry development parks.

12. The breakdown of the total credits are as follow :

Million TL.	1 450	Professional credits
	775	credits through credit guarantee coops.
	650	medium term credits
	25	others
	400	commercial credits
	1 850	total

13. The credits which are given to the members through credit coops. has all kinds of tax and stamp duty exemptions. With a new credit policy, a subsidy is granted to banks for credits to preferential sectors raises the yield on these relative to the yield on normal credits, making loans to preferential sectors more attractive for the banks. The subsidy is granted to the banks on the understanding that they do not have recourse to rediscount facilities. On the other hand the subsidies paid to borrowers in the sectors deemed eligible for promotion help to lower cost of the credit considerably.

14. Credits extend by Halk Bank to small businessmen, craftsmen and small industrialist have privileged to operate in the most encouraged activities among preferential credits. So, since 1938 the lowest interest rates have been applied to those credits together with the agricultural credits.

15. At the present, the interest rates related to Halk Bank are as follow:

Interest payable on deposits	
Demand deposits	% 3
Term deposits	4-9
Central Bank discount rates	
Preferential bills	7,5
Other bills	9
Middle term bills	9
Interest on credits	
Interest on credits	11,5
Preferential credits	10,5
Agricultural credits	
Halk Bank's professional credits	
Preferential industrial sectors	
Middle term credits	12

Interest subsidy to Halk Bank's credits is as follow:

Interest rates	10,5	12
Subsidies		
To the bank	1,3	2
To the borrower	1,5	1,5
The costs of money		
To the bank	11,8	14
To the borrower	9,0	10,5

16. Comparing the free interest rates in the nonbanking-unorganized credit market, the rates which are applied by Halk Bank are very favorable. As it is very difficult to have the real figure of the total credit demand in that sector, it can be guessed that especially the credit demands of craftsmen and small industrialists are answered quite substantially. But the main gap appears and the demand pressure is high from the small businessmen side.

17. The only trouble for small businessmen, for craftsmen, and for small industrialist is how to find a guarantee and/or collateral which will be asked by the bank for the credit operation.

Although with a special law, a privilege granted regarding the operation of liens on movables, to only these borrowers in their credit relations with the Halk Bank. They generally have trouble to find enough guarantee and/or collateral to cover their risks.

18. Credit guarantee cooperatives were organized in the model of similar type of societies in Switzerland. The societies's function is only to act as guaranters of the loans taken by the members from Halk Bank.

The first credit guarantee cooperative was established in 1951. Today the number of cooperatives reach 465 and they have 200 000 members. The paid up capital of the cooperatives is about 120 million TL. and the total credit limits of their members in Halk Bank is about 850 million TL.

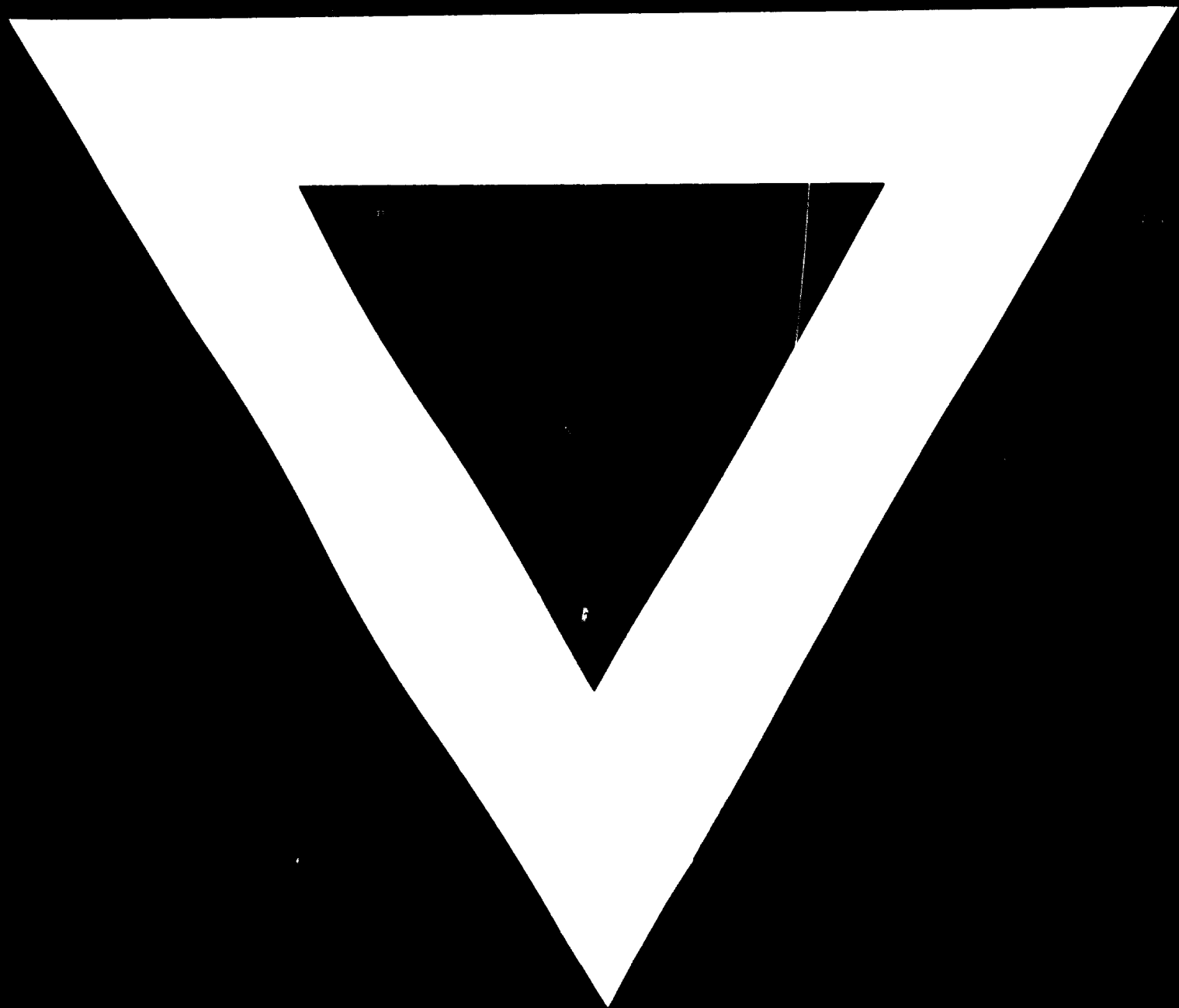
19. The cooperatives have right to charge yearly 3 % commission when they give guarantee to their members, to cover both their administrative expences and risks.

20. The problem which appears parallel to the development in the small industry, in the cooperatives is the contrast between the nature of the credit needs of the two group of members, which one of them represents the services and the other manufacturers.

The traders get always the majority and so the management in the cooperatives. And the bank oblige to answer two different kinds of credit demand in the same system. It looks that very soon, it will be an obligation to sepa<sup>e</sup>rathe service and manufacturer groups in two different kind cooperatives and it will give the possibility to channelize more funds to small industry, according to the specific needs and its nature.

April, 1971





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